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Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 [Japanese GAAP]

May 13, 2022

Company name: RAIZNEXT Corporation
Stock exchange listing: Tokyo Stock Exchange
Stock exchange code: 6379
URL: https://www.raiznext.co.jp/
Representative: Teruhiko Mouri, Representative Director, President
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Phone: +81-45-415-1111
Scheduled date of annual general meeting of shareholders: June 23, 2022
Scheduled date of commencing dividend payments: June 24, 2022
Scheduled date of filing annual securities report: June 23, 2022
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual financial results briefing session: Scheduled (for securities analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2022	129,832	(11.0)	10,982	5.7	11,270	5.8	7,748	5.5
March 31, 2021	145,914	3.8	10,386	3.4	10,657	4.1	7,344	(40.1)

(Note) Comprehensive income: Fiscal year ended March 31, 2022: ¥8,755 million [(2.5)%]
Fiscal year ended March 31, 2021: ¥8,982 million [(23.7)%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2022	143.04	-	10.2	11.4	8.5
March 31, 2021	135.58	-	10.5	10.8	7.1

(Reference) Share of profit (loss) of entities accounted for using equity method:
Fiscal year ended March 31, 2022: ¥- million
Fiscal year ended March 31, 2021: ¥- million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	100,781	79,342	78.0	1,450.39
As of March 31, 2021	97,121	73,890	75.0	1,344.96

(Reference) Equity: As of March 31, 2022: ¥78,563 million
As of March 31, 2021: ¥72,853 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2022	11,157	(2,225)	(2,849)	12,835
March 31, 2021	8,591	(1,101)	(7,170)	6,686

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
March 31, 2021	-	0.00	-	55.00	55.00	2,979	40.6	4.3
March 31, 2022	-	0.00	-	58.00	58.00	3,141	40.5	4.1
Fiscal year ending March 31, 2023 (Forecast)	-	0.00	-	58.00	58.00		49.9	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	70,000	2.4	5,300	(10.6)	5,400	(10.9)	3,550	2.2	65.53
Full year	136,000	4.9	9,400	(14.4)	9,600	(14.8)	6,300	(18.7)	116.31

*** Notes:**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None

Newly included: companies (Company name:)

Excluded: companies (Company name:)

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatement: None

(3) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):
March 31, 2022: 54,168,053 shares
March 31, 2021: 54,168,053 shares

2) Number of treasury shares at the end of the period:
March 31, 2022: 666 shares
March 31, 2021: 425 shares

3) Average number of shares outstanding during the period:
Fiscal year ended March 31, 2022: 54,167,504 shares
Fiscal year ended March 31, 2021: 54,167,745 shares

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2022	121,204	(11.5)	10,083	7.1	10,592	6.5	8,619	30.0
March 31, 2021	136,896	5.1	9,415	12.1	9,943	11.8	6,630	(42.7)

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2022	159.13	-
March 31, 2021	122.40	-

Notes on non-consolidated operating results

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	96,375	73,457	76.2	1,356.12
As of March 31, 2021	90,026	68,128	75.7	1,257.74

(Reference) Equity: As of March 31, 2022: ¥73,457 million
As of March 31, 2021: ¥68,128 million

* These consolidated financial results are outside the scope of audit by certified public accountants or audit firms.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Fiscal Year Ended March 31, 2022

In a continuation from last fiscal year the economy of Japan for the fiscal year ended March 31, 2022, remained in a difficult situation due to the impact of COVID-19, but there were signs of economic improvement as thorough infection prevention measures and vaccinations were promoted and socioeconomic activities began to normalize. However, the outlook remains uncertain due to the re-spread of COVID-19 infections caused by the emergence of variants, the situation in Ukraine, and other factors.

Regarding the Company's business environment, in the petroleum industry refining capacity has been reduced and operations have been adjusted due to a structural decline in demand, primarily caused by the shift to more fuel-efficient vehicles, and in addition product demand has been sluggish due to the impact of COVID-19.

Also, in the petrochemical and general chemical industries, while some signs of a recovery in demand have been seen, overall, the situation of sluggish product demand has continued due to the prolonged impact of COVID-19.

Although prices of certain materials used in construction work, such as stainless steel, soared due to the situation in Ukraine, inventories in Japan were secured and there were no problems with securing materials in the fiscal year ended March 31, 2022.

However, going forward there are concerns about longer delivery times and other matters if the situation in Ukraine is prolonged.

Under these circumstances, the previous fiscal year was a strong year for the maintenance field with many regular repairs related to petroleum and petrochemicals, but since there were few such regular repairs in the fiscal year ended March 31, 2022, there was a decrease in new contracts and net sales of completed construction contracts for the full year.

In terms of revenue, in addition to a larger amount of construction work than initially expected for remodeling and renovation, etc., revenue increased as a result of our efforts to enhance the profitability of individual construction projects by reducing direct construction costs and expenses, improving operating efficiency, and other measures.

For the Company group's consolidated performance, new contracts were 141,229 million yen (down 1.3% YoY), net sales of completed construction contracts were 129,832 million yen (down 11.0% YoY), operating profit was 10,982 million yen (up 5.7% YoY), ordinary profit was 11,270 million yen (up 5.8% YoY), and profit attributable to owners of parent was 7,748 million yen (up 5.5% YoY).

For the Company's non-consolidated performance, new contracts were 132,209 million yen (down 1.3% YoY), net sales of completed construction contracts were 121,204 million yen (down 11.5% YoY), operating profit was 10,083 million yen (up 7.1% YoY), ordinary profit was 10,592 million yen (up 6.5% YoY), and profit was 8,619 million yen (up 30.0% YoY).

Breakdown of new contracts by construction type (Unit: Million yen)

New contracts		Previous FY (FY ended Mar. 31, 2021)	Current FY (FY ended Mar. 31, 2022)	YoY	Percentage change
	Maintenance	101,210	90,167	(11,043)	(10.9)%
	Engineering	41,885	51,062	9,176	21.9%
Engineering work		143,095	141,229	(1,866)	(1.3)%

Breakdown of net sales of completed construction contracts by construction type (Unit: Million yen)

Net sales of completed construction contracts		Previous FY (FY ended Mar. 31, 2021)	Current FY (FY ended Mar. 31, 2022)	YoY	Percentage change
	Maintenance	101,364	87,032	(14,332)	(14.1)%
	Engineering	44,438	42,679	(1,759)	(4.0)%
Engineering work		145,803	129,711	(16,091)	(11.0)%
Other business		111	121	9	8.6%
Total		145,914	129,832	(16,081)	(11.0)%

(Note) “Other business” refers to real estate leasing, insurance agency business, etc.

(2) Overview of Financial Position for the Fiscal Year Ended March 31, 2022

Total assets as of the end of the fiscal year ended March 31, 2022 increased 3,659 million yen from the end of the previous fiscal year to 100,781 million yen. This was mainly due to an increase of 6,152 million yen in cash and deposits and an increase of 3,078 million yen in notes receivable, accounts receivable from completed construction contracts and contract assets, despite a decrease of 6,156 million yen in costs on construction contracts in progress.

Total liabilities as of the end of the fiscal year ended March 31, 2022 decreased 1,793 million yen from the end of the previous fiscal year to 21,438 million yen. This was mainly due to a decrease of 1,689 million yen in retirement benefit liability.

Total net assets as of the end of the fiscal year ended March 31, 2022 increased 5,452 million yen from the end of the previous fiscal year to 79,342 million yen. This was mainly due to an increase of 4,769 million yen in retained earnings and an increase of 1,230 million yen in remeasurements of defined benefit plans, despite a decrease of 313 million yen in valuation difference on available-for-sale securities.

(3) Overview of Cash Flows for the Fiscal Year Ended March 31, 2022

The consolidated balance of cash and cash equivalents as of the end of the fiscal year ended March 31, 2022 increased 6,148 million yen (92.0% of the previous year) from the end of the previous fiscal year to 12,835 million yen.

(Cash flows from operating activities)

Cash flows from operating activities increased 2,565 million yen YoY to an inflow of 11,157 million yen. The major outflows were a decrease in accrued consumption taxes of 1,259 million yen and income taxes paid of 1,051 million yen. The major inflow was profit before income taxes of 11,316 million yen.

(Cash flows from investing activities)

Cash flows from investing activities decreased 1,123 million yen YoY to an outflow of 2,225 million yen. This was mainly due to purchase of property, plant and equipment and intangible assets of 2,949 million yen.

(Cash flows from financing activities)

Cash flows from financing activities increased 4,320 million yen YoY to an outflow of 2,849 million yen. The major outflow was dividends paid of 2,978 million yen.

(Reference) Trends in cash flows-related indicators

	FY ended Mar. 31, 2020	FY ended Mar. 31, 2021	FY ended Mar. 31, 2022
Equity-to-asset ratio (%)	67.3	75.0	78.0
Equity-to-asset ratio based on fair value (%)	66.8	66.7	57.6
Years of debt redemption (years)	-	0.0	0.0
Interest coverage ratio (times)	-	109.7	466.7

(Notes) Equity-to-asset ratio: Equity / Total assets
Equity-to-asset ratio based on fair value: Total market value of shares / Total assets
Years of debt redemption: Interest-bearing liabilities / Cash flow
Interest coverage ratio: Cash flow / Interest paid

* The indicators were calculated using consolidated financial figures.
* The total market value of shares was calculated by multiplying the closing price at the end of the fiscal year by the number of issued shares (excluding treasury shares) on that day.
* Operating cash flow is used for cash flow.
  Operating cash flow is the figure of net cash provided by (used in) operating activities recorded in the consolidated statement of cash flows. Interest-bearing liabilities include all liabilities recorded on the consolidated balance sheet for which interest is paid. Interest paid is the interest expenses shown in the consolidated statement of cash flows.
* The years of debt redemption and the interest coverage ratio for the fiscal year ended March 31, 2020 are not shown due to negative operating cash flow.

(4) Forecast for the Next Fiscal Year

For the next fiscal year (ending March 31, 2023), although the economy is expected to pick up as socioeconomic activities move toward normalization, there are concerns about rising raw material prices and supply-side constraints due to the situation in Ukraine and other factors, and the situation is expected to remain uncertain.

Net sales are expected to recover in the next fiscal year and increase from the fiscal year ended March 31, 2022, which saw a decrease in net sales due to a lower number of regular repairs. However, new contracts in the next fiscal year are expected to decrease from the fiscal year ended March 31, 2022, which saw a higher number of new contracts due to several large construction orders.

We continuously strive to increase new contracts of maintenance-related works for routine maintenance and remodeling and renovation. We also make efforts to secure new contracts for plants manufacturing high-performance products, such as general chemicals and electronic materials, and for fields related to renewable energy.

Based on such a business environment, our group formulated the Second Mid-Term Business Plan "RAIZNEXT SYNERGY POWER" (FY2021−FY2024) last year.

(5) Basic Policy on Profit Distribution and Dividends for This and Next Fiscal Years

(Basic Policy)

Our group's business is based on maintenance and engineering services for plants in the petroleum, petrochemical, general chemical, and other industries. Our industry revolves around the acquisition of new contracts, meaning that we are easily affected by fluctuations in private capital investment.

Given the nature of our business, we believe that we can increase our corporate value if we build a stable management foundation by strengthening our corporate structure in anticipation of changes in the business environment and future business developments, which in turn will help secure future benefits for our shareholders, customers, business partners, employees, and other stakeholders.

With this understanding, we position profit distribution to shareholders as the most management issue, and we believe that dividend measures should be implemented in line with earnings. As such, we aim to ensure a consolidated dividend payout ratio of 40% or more, paying full attention to dividend continuity and stability.

(Dividend for the fiscal year ended March 31, 2022)

The year-end dividend for the fiscal year ended March 31, 2022 is scheduled to be 58 yen per share.

(Dividend for the next fiscal year)

The year-end dividend for the next fiscal year is scheduled to be 58 yen per share.

2. Basic Stance Concerning Choice of Accounting Standards

For the time being, the Group's policy is to prepare its consolidated financial statements under Japanese GAAP in consideration of period comparability and inter-company comparability of consolidated financial statements.

The Group will take into consideration various circumstances in Japan and overseas and will adopt IFRS as appropriate.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Unit: Million yen)

	Previous FY (As of March 31, 2021)	Current FY (As of March 31, 2022)
Assets		
Current assets		
Cash and deposits	6,722	12,875
Notes receivable, accounts receivable from completed construction contracts	58,599	–
Notes receivable, accounts receivable from completed construction contracts and contract assets	–	61,677
Electronically recorded monetary claims – operating	971	1,691
Costs on construction contracts in progress	7,708	1,551
Other	1,488	591
Allowance for doubtful accounts	(8)	(8)
Total current assets	75,481	78,379
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,042	10,271
Accumulated depreciation	(6,151)	(6,272)
Buildings and structures, net	3,891	3,999
Machinery, equipment and vehicles	5,210	5,105
Accumulated depreciation	(4,483)	(4,402)
Machinery, equipment and vehicles, net	727	702
Tools, furniture and fixtures	1,844	1,806
Accumulated depreciation	(1,548)	(1,530)
Tools, furniture and fixtures, net	296	276
Land	8,245	8,378
Leased assets	36	44
Accumulated depreciation	(22)	(28)
Leased assets, net	14	15
Construction in progress	89	1,341
Total property, plant and equipment	13,264	14,713
Intangible assets		
Other	1,078	1,251
Total intangible assets	1,078	1,251
Investments and other assets		
Investment securities	4,927	4,329
Shares of subsidiaries and associates	736	736
Retirement benefit asset	0	–
Long-term prepaid expenses	7	7
Deferred tax assets	1,248	1,027
Other	550	498
Allowance for doubtful accounts	(173)	(163)
Total investments and other assets	7,297	6,435
Total non-current assets	21,640	22,401
Total assets	97,121	100,781

(Unit: Million yen)

	Previous FY (As of March 31, 2021)	Current FY (As of March 31, 2022)
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts	11,351	10,589
Electronically recorded obligations - operating	172	139
Short-term borrowings	9	9
Income taxes payable	343	2,823
Advances received on construction contracts in progress	777	649
Provision for loss on construction contracts	320	233
Provision for warranties for completed construction	311	106
Provision for bonuses	2,007	2,057
Provision for bonuses for directors (and other officers)	8	9
Other	3,921	2,561
Total current liabilities	19,225	19,180
Non-current liabilities		
Long-term borrowings	20	10
Deferred tax liabilities	123	113
Provision for retirement benefits for directors (and other officers)	91	11
Retirement benefit liability	3,598	1,909
Other	172	213
Total non-current liabilities	4,006	2,258
Total liabilities	23,231	21,438
Net assets		
Shareholders' equity		
Share capital	2,754	2,754
Capital surplus	11,845	11,845
Retained earnings	56,291	61,060
Treasury shares	(0)	(0)
Total shareholders' equity	70,890	75,659
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,483	1,169
Deferred gains or losses on hedges	0	–
Foreign currency translation adjustment	5	30
Remeasurements of defined benefit plans	473	1,703
Total accumulated other comprehensive income	1,962	2,904
Non-controlling interests	1,036	778
Total net assets	73,890	79,342
Total liabilities and net assets	97,121	100,781

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Unit: Million yen)

	Previous FY (From April 1, 2020 to March 31, 2021)	Current FY (From April 1, 2021 to March 31, 2022)
Net sales of completed construction contracts	145,914	129,832
Cost of sales of completed construction contracts	129,499	112,084
Gross profit on completed construction contracts	16,415	17,748
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	528	464
Employees' salaries and allowances	1,345	1,520
Employees' bonuses	212	488
Provision for bonuses	281	360
Directors' bonuses	130	139
Provision for bonuses for directors (and other officers)	6	21
Retirement benefit expenses	141	107
Provision for retirement benefits for directors (and other officers)	17	5
Legal welfare expenses	381	486
Welfare expenses	239	302
Repair and maintenance expenses	293	276
Stationery expenses	96	77
Communication and transportation expenses	157	256
Power utilities expenses	26	31
Advertising expenses	43	87
Entertainment expenses	43	33
Donations	0	0
Rent expenses on land and buildings	78	99
Depreciation	398	400
Taxes and dues	352	421
Insurance expenses	85	98
Fee expenses	315	385
Amortization of goodwill	36	36
Research and development expenses	132	85
Miscellaneous expenses	684	578
Total selling, general and administrative expenses	6,029	6,765
Operating profit	10,386	10,982
Non-operating income		
Interest income	5	6
Dividend income	139	142
Rental income	94	88
Foreign exchange gains	41	41
Other	109	120
Total non-operating income	389	399
Non-operating expenses		
Interest expenses	78	23
Rental expenses	14	12
Compensation expenses	–	13
Other	25	62
Total non-operating expenses	118	112
Ordinary profit	10,657	11,270

(Unit: Million yen)

	Previous FY (From April 1, 2020 to March 31, 2021)	Current FY (From April 1, 2021 to March 31, 2022)
Extraordinary income		
Gain on sale of non-current assets	1	0
Gain on sale of businesses	–	200
Reversal of provision for retirement benefits for directors (and other officers)	9	–
Total extraordinary income	11	200
Extraordinary losses		
Loss on sale of non-current assets	1	0
Loss on retirement of non-current assets	11	6
Loss on valuation of investment securities	5	–
Loss on sale of investment securities	–	32
Loss on sale of shares of subsidiaries and associates	–	115
Total extraordinary losses	18	153
Profit before income taxes	10,649	11,316
Income taxes – current	1,474	3,716
Income taxes – deferred	1,759	(212)
Total income taxes	3,234	3,503
Profit	7,415	7,813
Profit attributable to non-controlling interests	71	64
Profit attributable to owners of parent	7,344	7,748

Consolidated Statement of Comprehensive Income

(Unit: Million yen)

	Previous FY (From April 1, 2020 to March 31, 2021)	Current FY (From April 1, 2021 to March 31, 2022)
Profit	7,415	7,813
Other comprehensive income		
Valuation difference on available-for-sale securities	931	(313)
Deferred gains or losses on hedges	3	(0)
Foreign currency translation adjustment	12	25
Remeasurements of defined benefit plans, net of tax	619	1,230
Total other comprehensive income	1,567	941
Comprehensive income	8,982	8,755
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,909	8,690
Comprehensive income attributable to non-controlling interests	73	64

(3) Consolidated Statement of Changes in Equity
Previous FY (from April 1, 2020 to March 31, 2021)

(Unit: Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,754	11,845	51,818	(0)	66,417
Changes during period					
Dividends of surplus			(2,870)		(2,870)
Profit attributable to owners of parent			7,344		7,344
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					–
Total changes during period	–	–	4,473	(0)	4,472
Balance at end of period	2,754	11,845	56,291	(0)	70,890

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	553	(3)	(7)	(146)	397	1,004	67,819
Changes during period							
Dividends of surplus					–		(2,870)
Profit attributable to owners of parent					–		7,344
Purchase of treasury shares					–		(0)
Net changes in items other than shareholders' equity	929	3	12	619	1,565	32	1,597
Total changes during period	929	3	12	619	1,565	32	6,070
Balance at end of period	1,483	0	5	473	1,962	1,036	73,890

Current FY (from April 1, 2021 to March 31, 2022)

(Unit: Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,754	11,845	56,291	(0)	70,890
Changes during period					
Dividends of surplus			(2,979)		(2,979)
Profit attributable to owners of parent			7,748		7,748
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					–
Total changes during period	–	–	4,769	(0)	4,768
Balance at end of period	2,754	11,845	61,060	(0)	75,659

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	1,483	0	5	473	1,962	1,036	73,890
Changes during period							
Dividends of surplus					–		(2,979)
Profit attributable to owners of parent					–		7,748
Purchase of treasury shares					–		(0)
Net changes in items other than shareholders' equity	(313)	(0)	25	1,230	941	(258)	683
Total changes during period	(313)	(0)	25	1,230	941	(258)	5,452
Balance at end of period	1,169	–	30	1,703	2,904	778	79,342

(4) Consolidated Statement of Cash Flows

(Unit: Million yen)

	Previous FY (From April 1, 2020 to March 31, 2021)	Current FY (From April 1, 2021 to March 31, 2022)
Cash flows from operating activities		
Profit before income taxes	10,649	11,316
Depreciation	756	749
Amortization of goodwill	36	36
Increase (decrease) in allowance for doubtful accounts	(12)	(8)
Increase (decrease) in provision for warranties for completed construction	(0)	(205)
Increase (decrease) in provision for loss on construction contracts	(168)	(86)
Increase (decrease) in provision for bonuses	(914)	49
Increase (decrease) in provision for bonuses for directors (and other officers)	4	0
Increase (decrease) in retirement benefit liability	101	103
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(5)	(3)
Interest and dividend income	(144)	(149)
Interest expenses and loss on sale of notes receivable – trade	78	23
Foreign exchange losses (gains)	47	(47)
Loss (gain) on sale of non-current assets	0	(0)
Loss (gain) on sale of investment securities	–	14
Loss (gain) on valuation of investment securities	5	–
Loss (gain) on sale of shares of subsidiaries and associates	–	102
Loss on retirement of non-current assets	11	6
Decrease (increase) in trade receivables	(4,311)	1,704
Decrease (increase) in costs on construction contracts in progress	4,400	45
Increase (decrease) in trade payables	(1,340)	(548)
Increase (decrease) in advances received on construction contracts in progress	598	(126)
Increase (decrease) in accrued consumption taxes	1,275	(1,259)
Loss (gain) on sale of businesses	–	(200)
Other, net	1,685	564
Subtotal	12,752	12,083
Interest and dividends received	144	149
Interest paid	(78)	(23)
Income taxes paid	(4,227)	(1,051)
Net cash provided by (used in) operating activities	8,591	11,157
Cash flows from investing activities		
Payments into long-term time deposits	(4)	(4)
Proceeds from withdrawal of long-term time deposits	55	–
Purchase of property, plant and equipment and intangible assets	(1,070)	(2,949)
Proceeds from sale of property, plant and equipment and intangible assets	8	1
Purchase of investment securities	(9)	(16)
Proceeds from sale of investment securities	–	133
Loan advances	(0)	(0)
Proceeds from collection of loans receivable	1	0
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	–	382
Proceeds from sale of businesses	–	215

(Unit: Million yen)

	Previous FY (From April 1, 2020 to March 31, 2021)	Current FY (From April 1, 2021 to March 31, 2022)
Other, net	(83)	11
Net cash provided by (used in) investing activities	(1,101)	(2,225)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(4,231)	170
Repayments of long-term borrowings	(20)	(9)
Purchase of treasury shares	(0)	(0)
Dividends paid	(2,871)	(2,978)
Dividends paid to non-controlling interests	(40)	(24)
Other, net	(6)	(5)
Net cash provided by (used in) financing activities	(7,170)	(2,849)
Effect of exchange rate change on cash and cash equivalents	(1)	66
Net increase (decrease) in cash and cash equivalents	317	6,148
Cash and cash equivalents at beginning of period	6,368	6,686
Cash and cash equivalents at end of period	6,686	12,835

(5) Notes to the Consolidated Financial Statements

(Notes on premise of a going concern)

Not applicable.

(Significant matters that serve as the basis for preparation of the consolidated financial statements)

1. Scope of consolidation

Number of consolidated subsidiaries: 10

Names of consolidated subsidiaries:

Shinko Sogo Service Co., Ltd.
Shinko Machinery Service Co., Ltd.
Ikeda Kiko Co., Ltd.
Tokai Engineering & Construction Co., Ltd.
Toshin Seisakusyo Co., Ltd.
Kounan Tsusho Co., Ltd.
Keihin Kako Co., Ltd
Kashima Engineering Co., Ltd
PT. SHINKO PLANTECH
Wuxi Xinggao Engineering Technology Limited Company

N.S. Engineering Co., Ltd. and Tasaka Tekko Kensetsu Co., Ltd. were excluded from the scope of consolidation during the fiscal year ended March 31, 2022 due to the sale of shareholdings.

2. Application of equity method

Names, etc. of affiliated companies not accounted for by the equity method

Number of affiliated companies: 4

Names of main companies:

Ibaraki Nikko Kensetsu Co., Ltd.
JX Nippon Mining & Metals Plant Saganoseki Co., Ltd.
FUTABA MANUFACTURING CO., LTD.
Saikai Engineering Services Co., Ltd.

Reason for exclusion from the scope of consolidation

The affiliated companies not accounted for by the equity method are excluded from the scope of consolidation as the impact of the exclusion of each of them in terms of profit (amount corresponding to equity) and retained earnings (amount corresponding to equity), etc. is minimal on the consolidated financial statements, and their overall materiality is insignificant.

3. Fiscal years, etc. of consolidated subsidiaries

Consolidated subsidiaries Ikeda Kiko Co., Ltd., PT. SHINKO PLANTECH, and Wuxi Xinggao Engineering Technology Limited Company have their closing date on December 31, and Shinko Sogo Service Co., Ltd., Shinko Machinery Service Co., Ltd., Tokai Engineering & Construction Co., Ltd., Toshin Seisakusyo Co., Ltd., Kounan Tsusho Co., Ltd., Keihin Kako Co., Ltd, and Kashima Engineering Co., Ltd have their closing date on March 31. In preparing the consolidated financial statements, financial statements for the individual companies as of their closing dates are used. Adjustments necessary for consolidation are made for material transactions that occurred from the next day of such closing dates to March 31, the consolidated closing date.

4. Accounting policies

(1) Valuation standards and methods for significant assets

a) Securities

Bonds held to maturity

Stated at amortized cost (straight-line method)

Other securities

Securities other than shares, etc. without a market price

Market value method based on market prices, etc. on the closing date of the fiscal year

(Valuation differences are reported directly as a component of net assets and the cost of securities sold is calculated using the moving average method)

Shares, etc. without a market price

Stated at cost using the moving average method

b) Derivative transactions

Stated at market value.

c) Inventory assets

Costs on construction contracts in progress

Stated at cost using the specific identification method

(2) Depreciation and amortization methods for significant assets

a) Property, plant and equipment (excluding leased assets)

Declining balance method is applied. However, the straight-line method is applied to buildings (excluding their attached facilities), as well as facilities attached to buildings and structures acquired on or after April 1, 2016.

The principal useful lives of property, plant and equipment are as follows:

Buildings and structures	2 to 55 years
Machinery, equipment and vehicles	2 to 12 years

b) Intangible assets (excluding leased assets)

Straight-line method is applied.

In addition, straight-line method is applied based on the estimated useful life within the Company (5 years) for software for internal use.

c) Leased assets

Leased assets from finance lease transactions where ownership is not transferred

Leased assets from finance lease transactions where ownership is not transferred are depreciated by the straight-line method over the lease terms with no residual value.

(3) Accounting standards for significant allowance and provisions

a) Allowance for doubtful accounts

To prepare for potential credit losses from accounts receivable such as completed construction contracts, allowance for doubtful accounts is recorded based on past experience for general receivables and on an estimated uncollectable amount for specific doubtful receivables where individual recoverability is considered.

b) Provision for loss on construction contracts

To prepare for potential losses on construction contracts, potential losses on undelivered construction works at the end of the current fiscal year are estimated and recorded where the amount of the construction can be reasonably estimated.

c) Provision for warranties for completed construction

To prepare for potential expenses arising from guarantee for defects, etc. related to completed construction, aside from the amount based on past results of construction expenses for warranties to net sales of completed construction contracts in the past fiscal years, the estimated amount for specific constructions is recorded where construction expenses for warranties are anticipated to occur.

d) Provision for bonuses

To provide for the payment of bonuses for employees, the estimated payment amount for the current fiscal year is recorded.

e) Provision for bonuses for directors (and other officers)

For consolidated subsidiaries, to provide for the payment of Directors' bonuses, the estimated payment amount for the current fiscal year is recorded.

f) Provision for retirement benefits for directors (and other officers)

For consolidated subsidiaries, to prepare for the payment of retirement benefits for directors and other officers, the amount payable at the end of the fiscal year is recorded in accordance with internal rules.

(4) Accounting treatment for retirement benefits

(i) Method for attributing estimated retirement benefits into periods

To calculate retirement benefit obligations, the straight-line attribution method is used to allocate the estimated retirement benefits to the period up to the end of the current fiscal year.

(ii) Actuarial difference and treatment for past service costs

Past service costs are recognized by the straight-line method over a certain period within the average remaining service period of employees (5 years) at the time of its occurrence.

The resulted actuarial differences are each recognized in the following fiscal year by the straight-line method over a certain period within the average remaining service period of employees (1 to 11 years) at the time of its occurrence.

(5) Accounting standards for net sales of completed construction contracts and cost of sales of completed construction contracts

(i) Construction work where the progress of the fulfillment of performance obligations can be reasonably estimated

Revenue is recorded on the basis of performance obligations being satisfied over a certain period.

The progress is measured by comparing the accumulated amount of costs incurred at the end of the current fiscal year with the estimated total cost until the construction is completed (input method).

(ii) Construction work where the progress of the fulfillment of performance obligations cannot be reasonably estimated

Cost recovery method

(iii) Maintenance work where the construction period is short

Revenue is recorded at the time when the performance obligations are fully satisfied.

(6) Hedge accounting

(i) Hedge accounting

Deferred hedge accounting is applied.

However, the shortcut method ("*furiate-shori*") is applied to forward exchange transactions that satisfy the criteria thereof.

(ii) Hedging instruments and hedged items

Hedging instruments Forward exchange transactions

Hedged itemsForward transactions denominated in foreign currencies

(iii) Hedging policies

In accordance with the Company's internal control system regulating derivative transactions, derivative transactions are conducted to hedge the risks of fluctuating exchange rates of forward transactions denominated in foreign currencies.

(iv) Assessment of hedge effectiveness

For forward exchange transactions, as the hedging instruments and hedged items involve the same currencies and with the same due dates, the assessment of their hedge effectiveness is omitted.

(7) Scope of funds in the consolidated statement of cash flows

The scope of funds consists of cash on hand, readily available deposits that can be withdrawn at any time, and short-term investments which can be readily convertible to cash or cash equivalents with maturities of three months or less from the date of acquisition and bear only an insignificant risk of changes in value.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards have been applied from the beginning of the fiscal year ended March 31, 2022. Revenue is recognized when the control of promised goods or services is transferred to the customer at the amount expected to be received in exchange for such goods or services.

The main changes due to the application of Accounting Standard for Revenue Recognition, etc. are as follows:

Revenue recognition for construction contracts

For construction contracts involving engineering work, the percentage-of-completion method had previously been applied for construction contracts if the outcome could be estimated reliably and the completed-contract method was applied to other contracts. From the fiscal year ended March 31, 2022, for contracts where performance obligations are satisfied over a certain period, revenue is recognized in accordance with the progress of the construction, while the cost recovery method is applied to construction work where the progress of the fulfillment of performance obligations cannot be reasonably estimated.

On the other hand, for maintenance work where the construction period is short, revenue is recognized at the time when the performance obligations are fully satisfied, instead of applying the cost recovery method.

Accounting Standard for Revenue Recognition, etc. is applied in accordance with the transitional treatment stipulated in the proviso to Paragraph 84 of Accounting Standard for Revenue Recognition. The cumulative impact of retrospectively applying this new accounting policy to periods prior to the beginning of the fiscal year ended March 31, 2022 is reflected as an adjustment to retained earnings at the beginning of the fiscal year ended March 31, 2022, with this new accounting policy applied to the beginning balance of the fiscal year ended March 31, 2022.

As a result, compared with the previous accounting policy, net sales of completed construction contracts and cost of sales of completed construction contracts each increased by 1,746 million yen in the fiscal year ended March 31, 2022. There was no impact on the beginning balance of retained earnings for the fiscal year ended March 31, 2022.

With the application of Accounting Standard for Revenue Recognition, etc., "notes receivable, accounts receivable from completed construction contracts" presented under "current assets" in the consolidated balance sheet for the fiscal year ended March 31, 2021 are included in "notes receivable, accounts receivable from completed construction contracts and contract assets" from the fiscal year ended March 31, 2022. Moreover, in accordance with the transitional treatment stipulated in Paragraph 89-2 of Accounting Standard for Revenue Recognition, figures for the fiscal year ended March 31, 2021 are not reclassified based on the new presentation method. In accordance with the transitional treatment stipulated in Paragraph 28-15 of "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), disaggregation of revenue from contracts with customers for the fiscal year ended March 31, 2021 is not presented.

(Application of Accounting Standard for Fair Value Measurement)

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and other standards have been applied from the beginning of the fiscal year ended March 31, 2022. The new accounting policy stipulated by Accounting Standard for Fair Value Measurement and other standards will be prospectively applied in accordance with the transitional treatment stipulated in Paragraph 19 of Accounting Standard for Fair Value Measurement and Paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). This has no impact on the consolidated financial statements for the fiscal year ended March 31, 2022.

(Segment information, etc.)

[Segment information]

This information has been omitted as the Group's only reportable segment is engineering work and "Other" does not have material significance in the consolidated business performance of the Group. "Other" includes businesses such as real estate leasing, insurance agency business, and other services.

[Related information]

Previous FY (from April 1, 2020 to March 31, 2021)

1. Information by product and service

   This information is omitted because net sales from engineering work account for more than 90% of the net sales on the consolidated statement of income.

2. Information by geographical area

   (1) Net sales

   This information is omitted because net sales to external customers in Japan account for more than 90% of the net sales on the consolidated statement of income.

   (2) Property, plant and equipment

   This information is omitted as the amount of property, plant and equipment located in Japan accounts for more than 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

(Unit: Million yen)

Customer name	Net sales	Related segment
ENEOS Corporation	60,708	Engineering work

Current FY (from April 1, 2021 to March 31, 2022)

1. Information by product and service

   This information is omitted because net sales from engineering work account for more than 90% of the net sales on the consolidated statement of income.

2. Information by geographical area

   (1) Net sales

   This information is omitted because net sales to external customers in Japan account for more than 90% of the net sales on the consolidated statement of income.

   (2) Property, plant and equipment

   This information is omitted as the amount of property, plant and equipment located in Japan accounts for more than 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

(Unit: Million yen)

Customer name	Net sales	Related segment
ENEOS Corporation	44,730	Engineering work

[Information concerning impairment loss of non-current assets by reportable segment]

Not applicable.

[Information concerning amortization of goodwill and balance of unamortized goodwill by reportable segment]

Previous FY (from April 1, 2020 to March 31, 2021)

This information is omitted as it does not have material significance.

Current FY (from April 1, 2021 to March 31, 2022)

This information is omitted as it does not have material significance.

[Information concerning gain on bargain purchase by reportable segment]

Previous FY (from April 1, 2020 to March 31, 2021)

Not applicable.

Current FY (from April 1, 2021 to March 31, 2022)

Not applicable.

(Per share information)

The basis for calculation of net assets per share and basic earnings per share is as follows:

Previous FY (As of March 31, 2021)		Current FY (As of March 31, 2022)	
Net assets per share	1,344.96 yen	Net assets per share	1,450.39 yen
(Basis for calculation)		(Basis for calculation)	
Total net assets on consolidated balance sheet	73,890 million yen	Total net assets on consolidated balance sheet	79,342 million yen
Net assets for common shares	72,853 million yen	Net assets for common shares	78,563 million yen
Breakdown of difference		Breakdown of difference	
Non-controlling interests	1,036 million yen	Non-controlling interests	778 million yen
Number of common shares issued	54,168,053 shares	Number of common shares issued	54,168,053 shares
Number of common shares held in treasury shares	425 shares	Number of common shares held in treasury shares	666 shares
Number of common shares used for calculating the amounts of net assets	54,167,628 shares	Number of common shares used for calculating the amounts of net assets	54,167,387 shares

Previous FY (From April 1, 2020 to March 31, 2021)		Current FY (From April 1, 2021 to March 31, 2022)	
Basic earnings per share	135.58 yen	Basic earnings per share	143.04 yen
Diluted earnings per share are not presented because diluted shares did not exist.		Diluted earnings per share are not presented because diluted shares did not exist.	
(Basis for calculation)		(Basis for calculation)	
Profit attributable to owners of parent on consolidated statement of income	7,344 million yen	Profit attributable to owners of parent on consolidated statement of income	7,748 million yen
Profit attributable to owners of parent for common shares	7,344 million yen	Profit attributable to owners of parent for common shares	7,748 million yen
Major breakdown of amount not attributable to ordinary shareholders		Major breakdown of amount not attributable to ordinary shareholders	
Not applicable.		Not applicable.	
Average number of common shares outstanding during the period	54,167,745 shares	Average number of common shares outstanding during the period	54,167,504 shares

(Significant subsequent events)

Not applicable.