TOYO KANETSU K.K.

TKK Report 2021
Financial Section

(Fiscal year ended March 31, 2021)

80th ANNIVERSARY

This material is the Financial Section of the TKK Report 2021, the integrated report published by Toyo Kanetsu K.K. that summarizes the financial information for the Company's fiscal year 2020 (Apr. 2020 to Mar. 2021).

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Analysis of Operating Environment and Results

During the fiscal year under review, the Japanese economy appeared to partially recover after rapidly worsening due to the impact of COVID-19. The economic outlook is uncertain, however, as new waves of infections occurred toward the end of the fiscal year.

Against that backdrop, the Logistics Solutions Business benefitted from strong demand for automated equipment from logistics facilities as we worked to overcome labor shortages and handle higher volumes of goods for co-ops, which were facing increased demand from consumers staying home during the pandemic. On the other hand, the business experienced falling demand for baggage handling systems for airports, reflecting the drop in travel during the pandemic.

At the same time, the Plant & Machinery Business met brisk orders for maintenance services at oil refineries in Japan, but orders for new facility construction remained extremely sluggish both in Japan and overseas. Anticipated orders in emerging countries, especially, were seriously affected by the pandemic, as capital investment plans were and continue to be significantly delayed, scaled down, or reconsidered. With the end of the pandemic now in sight, enquiries about projects have increased, but their construction periods remain uncertain.

Given this business environment, net sales for the current fiscal year were ¥43,617 million (down 6.2% year on year). Due to improvements of profitability in the Logistics Solutions Business, the Company's consolidated operating profit was ¥2,623 million (up 1.2%) while ordinary profit was ¥3,053 million (up 2.8%). Profit attributable to owners of parent came to ¥1,777 million (up 3.5%). The main factors underlying this result were a gain on sales of investment securities and an impairment loss in the Plant & Machinery Business. In addition, orders received decreased 10.8% to ¥42,158 million.

● Logistics Solutions Business

Sales were recorded mainly for airport equipment projects and warehouse automated equipment projects incorporating our Multishuttle warehouse system for co-ops, retailers, and manufacturers. Operating profit grew mainly due to the improved profitability of large projects resulting from improved project management, as well as increased maintenance projects and cost cutting.

As a result, consolidated net sales in this business decreased by 5.7% to ¥27,239 million, while operating profit increased by 11.7% year on year to ¥3,140 million due to the strengthening of project management and orders received declined by 15.6% year on year to ¥30,616 million.

● Plant & Machinery Business

As difficult market conditions persisted, orders received by this business fell mainly due to fewer large orders in Japan and overseas, with the exception of one new order to construct an LPG tank in Malaysia together with the Company's subsidiary, Toyo Kanetsu (Malaysia) Sdn. Bhd. Nevertheless, a steady stream of orders for oil refinery maintenance in Japan contributed to sales. Subsidiaries in other countries continued to pursue orders for steel structures other than tanks, but results ended up below those of the previous fiscal year due to the impact of COVID-19. Reflecting these circumstances, and despite the Company's efforts to further reduce costs, operating losses increased again.

As a result, consolidated net sales in this business decreased 1.5% year on year to ¥9,800 million, and an operating loss of ¥602 million was posted (compared with ¥305 million in the previous fiscal year), while orders received decreased 6.5% to ¥9,262 million.

● Other Businesses

Efforts were focused mainly on leveraging the specializations of each subsidiary to develop sales for industrial machinery, general construction and environmental surveys, etc. Consolidated net sales decreased 14.4% year on year to ¥6,577 million. Operating profit decreased 10.4% to ¥789 million, and orders received rose 116.3% to ¥2,279 million.

Business Risks

Toyo Kanetsu's risk management system includes a risk management officer—appointed from among the directors who oversee the risk management of the Company and the Group—as well as a Group-wide risk management department, under the command of the risk management officer who identifies risks and monitors evaluations and results. Important risks are regularly reviewed after considering changes in the business environment and the status of risk responses, and we strive to ensure that effective risk countermeasures are being quickly implemented.

Out of all the risks that could affect our business activities, some that would have a significant impact are shown below. However, this is not an exhaustive list of risks related to the Group and there are risks that are difficult to foresee. Forward-looking statements in the text are based on assessments as of March 31, 2021, the date of the fiscal year ended.

(1) Impact of climate change

The TKK Group places great importance on the promotion of ESG management and the international goals set out in the SDGs and Paris Agreement. Especially, we recognize that "respond[ing] to changes in the business environment caused by climate change" is one of our most material management issues.

Growing awareness of global environmental issues and the transition to a low-carbon or decarbonized society are accelerating the shift to clean energy. Accordingly, the Company's operating environment could become unfavorable due to declining demand for tanks used to store LNG, crude oil, and other fossil fuels. Recognizing these trends, and with the goal of helping achieve a low-carbon society, the Group is applying our technologies to develop large-scale storage containers for liquid hydrogen, and drawing on our strengths to proactively build and supply increasingly needed equipment and infrastructure for storing and using hydrogen and ammonia as fuel. To this end, Toyo Kanetsu has joined the Japan Hydrogen Association and the Clean Fuel Ammonia Association, and endorsed the Japan Business Federation's Challenge Zero initiative. We are also recognized as a company taking on the Zero Emissions Challenge sponsored by Japan's Ministry of Economy, Trade and Industry.

In addition, the Group recognizes that public trust could be lost if we or one of our subsidiaries causes an environmental accident or disaster. To mitigate this risk, we have acquired and periodically renew our ISO 14001 certification, and we have established and actively implement a compliant environmental management system in accordance with our environmental policies.

(2) Risks related to the execution of projects

In the Logistics Solutions Business, project management and the ability to execute operations are becoming increasingly important. This is because the role of distribution centers in the supply chain is growing with the expansion of the e-commerce market and more outsourcing of logistics operations, and because there is a tendency for distribution centers to grow larger in line with the streamlining of logistics operations and the consolidation of bases.

For these reasons, we carefully manage delivery deadlines from sales proposals through to construction and strive to reduce costs and workloads by standardizing processes and improving productivity. We also established a system for executing sustainable projects and increased the number of companies using this system.

However, unexpected costs could be incurred due to various factors, such as shortened construction periods due to unexpected changes in construction plans under pressure to reduce delivery times and delivery deadline adjustments due to carrying out multiple large projects simultaneously within a certain time period. Moreover, some of the core products provided by this business segment include products purchased from specific overseas business partners. The execution of projects could be affected if these products cannot be purchased consistently due to changes in the business policies and environment of our business partners, demand and supply fluctuations, or due to natural disasters, accidents, and so on.

The Plant & Machinery Business repairs storage tanks, mainly at oil refineries in Japan. Our ability to execute these projects could be negatively affected if there is a shortage of construction workers, if the purchase price of materials and equipment rises sharply, or if the skills of site managers and foremen are passed down too slowly. Therefore, we have taken steps to improve ties with subcontractors and suppliers, have set up a stable construction organization, and have established a new company to hire and train construction site personnel. Furthermore, we have set up a centralized organization led by a team of experts to collect information and manage all stages of new tank installation projects, from receiving orders through to construction work, in order to execute projects more quickly and efficiently.

The TKK Group conducts some operations in overseas markets, primarily in the Plant & Machinery Business. Further, our consolidated subsidiary in Indonesia works on local construction projects and processes steel materials, including steel used for storage tanks. Our local subsidiary in Malaysia maintains baggage handling equipment at local airports and maintains equipment at local petrochemical plants. These overseas operations carry inherent risks, as stated below, and the TKK Group's business results and financial position could be adversely affected by these risks.

(1) Unexpected changes in laws and regulations
(2) Political and economic instability
(3) Difficulties in securing human resources
(4) Tax system revisions that could be unfavorable to the TKK Group
(5) Social disorder due to terrorism, war, epidemics, disasters, or other factors.

In addition, when working on a project, we take out product liability insurance for that project, and to ensure quality, the Group has established internal regulations and put in place a quality management system to strengthen quality control. We have also established a system that enables a quick response to quality problems by placing the department responsible for quality control directly under the president. However, in the unlikely event of serious quality complaints or problems with a product, not only would profits from the project deteriorate due to repair costs and indemnification, this could also lead to a decline in the Group's social reputation, which could adversely affect our business results and financial position.

(3) Impact on securing and developing human resources

The TKK Group recognizes that securing and developing human resources are two of our most important issues, and that any drain of human resources and increasing recruitment costs could affect our business activities.

Therefore, we have broadened our hiring practices to recruit a more diverse range of employees and worked hard to improve employee retention by creating a comfortable workplace environment and being flexible, through numerous initiatives. For example, we have created an action plan to promote women's participation and advancement in the workplace, and we have implemented programs to train and promote female employees to management positions. We also allow employees to choose staggered working hours, are working to improve the rate of taking paid leave, and encourage male employees to take childcare leave.

In addition, we have established a technical training center as a Group-wide facility for handing down and improving skills, as well as for training young engineers with a view to retaining them in the future.

(4) Impact of intensifying competition for orders

The TKK Group's main businesses are order based, exposing us to severe competition for orders, so unreasonable downward pressure on profitability could adversely affect our business results and financial position. Further, customer policies and plans, changes in the business environment of the industry, and industry restructuring could affect our ability to obtain orders.

In response to these risks, in the Logistics Solutions Business we are expanding our customer areas in Japan and overseas, and providing optimal solutions by flexibly introducing outside technologies, while at the same time promoting in-house production and standardized products to strengthen price competitiveness. We are taking on other initiatives, such as revamping our internal systems, to further improve the efficiency of our operations.

In the Plant & Machinery Business, as the severe business environment drags on, we are improving and developing our core technology for tank EPC (engineering, procurement, construction) contracts, and are working to obtain orders by taking advantage of our superior quality, as well as expanding our business domains through overseas subsidiaries.

Further, given the tough competition for orders, the TKK Group has established a management vision, Innovative Solutions for Logistics & Energy, with the aims of sustainably improving corporate value and contributing to social development. For this reason, we are working on technological developments in collaboration with domestic and overseas companies that have state-of-the-art technology as well as collaborations with startups leveraging our corporate venture capital (CVC), and joint research with universities and research institutions.

However, as the lifecycle of products and technologies becomes shorter and shorter, any delays in meeting market requests could result in a decline in the Group's competitiveness, adversely affecting our business results and financial position over the medium to long term.

On a consolidated basis, the Group owns both tangible and intangible fixed assets, and continually monitors financial performance as a means to forecast when it may be difficult to secure returns on investments in these assets. If we determine that these assets are less profitable or cannot generate sufficient cash flow due to significant changes in the operating environment or business situation, we might record an impairment loss on the assets, which could negatively affect our consolidated financial results and financial condition.

(5) Risks related to the launch of new businesses

For a long time, the TKK Group has been developing two main business segments: Logistics Solutions and Plant & Machinery. So far, these two businesses have underpinned the Group's earnings in a complementary way, but we recognize that fluctuations in the environmental surrounding these businesses are large and the volatility of earnings is high.

To mitigate this risk, we are pursuing opportunities to establish a third main business segment through all available means, including mergers, acquisitions, setting up corporate venture capital, and collaborations with startups. If, however, a lengthy amount of time is taken to launch a third mainstay business segment, the Group's business results and financial position could be negatively affected.

(6) Impact on occupational health and safety

The TKK Group considers safety to be our highest priority. Under our Occupational Safety and Health Policy, we strive to ensure and improve the health and safety of our employees by acquiring and renewing OHSAS 18001 and ISO 45001 certifications, establishing a supervisory department directly under the president, holding group safety meetings, conducting on-site patrols, and maintaining and improving safety systems, including at partner companies.

However, in the event of problems or an accident, even though countermeasures have been taken, they could not only interfere with plant operations and customer service, but could also lead to compensation for damages, criminal penalties, administrative punishment, and the loss of social trust, which could affect our business activities and financial position.

(7) Compliance risks

The TKK Group operates in the field of social infrastructure, a field that cannot exist without the trust of society. We recognize that compliance with laws and regulations is one of the most important fundamentals of trusted business operations.

Therefore, in addition to putting in place an organizational structure, such as of setting up the Compliance Committee and appointing supervisors, the Company has established regulations, including TKK Group Charter of Corporate Behavior and we are promoting initiatives to maintain compliance, such as ensuring all Group directors and employees are fully informed of their social responsibility and public mission.

However, in the unlikely event that laws and regulations in Japan or overseas are violated, large surcharges and damages could occur, which would not only adversely affect the Group's business results and financial position but would also reduce the public's trust in the Group and affect our business continuity.

(8) Risks related to natural disasters, epidemics, etc.
To prepare for fires, earthquakes, large-scale natural disasters, and epidemics, the TKK Group has written a business continuity plan (BCP) manual, and we have taken all necessary steps for business continuity, such as establishing a contact system, building up stockpiles of emergency supplies, conducting seismic reinforcement work, and setting up shelters at major manufacturing and development bases in Japan.

However, serious physical injury caused by a greater-than-expected disaster could have a significant impact not only on the health of employees but also on the operation of our plants, and although appropriate coverage is taken out through non-life insurance, the direct and indirect damage and recovery costs could be larger than anticipated, which would adversely affect our business results and financial position.

The TKK Group recognizes that the impact of the global spread of COVID-19, which began in 2020, poses risks at many levels. In response to the pandemic, the Group has issued infection prevention guidelines, compiled a manual for dealing with practical situations, and put measures in place to prevent the spread of infection. Human resource systems were updated to allow remote working and encourage paid days off, and improvements were made to IT systems, such as electronic application systems and cloud storage, to facilitate the changes in workplace conditions.

(9) Impact of information security and maintaining the information infrastructure

The TKK Group handles, while doing business, a range of confidential information, including customer and technical information. To strengthen the management of this information, we have organized the Information Security Committee to thoroughly communicate the importance of information security, for instance through employee education, and to implement security measures for information systems.

However, cyberattacks, including via computer viruses, could interfere with the functioning of these information systems, and if confidential information were lost or leaked, it could damage the Group's reputation for reliability and affect business activities.

Moreover, while the Group aims to transform the business model through IT, including by automating and streamlining operations through robotic process automation (RPA), and by introducing business standardization systems, if we lag behind in these digital transformation (DX) initiatives, we will not be able to establish a competitive advantage and could lose out on business opportunities.

(10) Risks related to market trends
The TKK Group's core businesses could be affected by market trends, such as the following:

In the Logistics Solutions Business, we supply products and systems mainly for the retail, wholesale, and co-op industries. We also provide baggage handling systems, primarily to airports in Japan. Consequently, this business segment could be affected if investments in logistics facilities slow due to a lower volume in logistics as a result of a recession or declining birthrate and aging population or trends in demand for air travel. We are therefore intensifying our business operations using AI and IoT technologies.

In the Plant & Machinery Business, we supply tanks for LNG plants and refineries, as well as perform maintenance on existing crude oil tanks, etc. This segment's results could be adversely affected due to a plant owner discontinuing, postponing, or making major revisions to investment plans due to global economic trends. Other factors that could affect business results are the economic and social conditions of oil and gas producing and consuming countries; trends in energy and environmental policies in each country; trends in crude oil and LNG prices; and other factors. We are therefore strengthening initiatives that improve the profitability of maintenance projects, in this way establishing a business structure that is resistant to fluctuations in orders and that secures a stable source of income.

In addition, risks such as the following are possible due to a deterioration of the economic environment:

a) Fluctuations in foreign exchange rates

The TKK Group's business activities include the overseas manufacture of products, sales of materials, and construction work, and transactions that are mainly conducted in U.S. dollars. Currently, we view the risk of fluctuations in foreign exchange rates as low because foreign currency-denominated transactions and the amount of assets held in foreign currencies are relatively small, but the unexpected fluctuation could adversely affect the Group's business results and financial position in the future.

b) Fluctuations in interest rates

To establish credit for trade receivables and to acquire fixed assets, the TKK Group secures funding from financial institutions that consider the balance of short- and long-term purchasing ratios. Although low interest rates have continued due to large-scale monetary easing, etc., funding costs could increase if interest rates rise, which could adversely affect the Group's performance and financial position.

c) Valuation of securities held

The TKK Group holds market value securities. We revalue stock prices on the last day of the fiscal year, and if the stock prices were to fall significantly, this could adversely affect the Group's performance and financial position.

Consolidated financial statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheet

(Millions of yen)

		Previous fiscal period (As of March 31, 2020)		Current fiscal period (As of March 31, 2021)
Assets				
Current assets				
Cash and deposits	*1	11,507	*1	7,413
Notes and accounts receivable - trade		15,413		13,489
Investments in leases		937		550
Merchandise and finished goods		27		57
Work in process		5,179		6,732
Raw materials and supplies		1,977		2,523
Other		435		863
Allowance for doubtful accounts		(16)		(13)
Total current assets		35,461		31,616
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	*3	4,218	*3	4,142
Machinery, equipment and vehicles, net	*3	1,016	*3	716
Tools, furniture and fixtures, net	*3	364	*3	284
Land	*3, *4	10,568	*3, *4	10,122
Construction in progress		253		356
Other, net		20		18
Total property, plant and equipment	*2	16,442	*2	15,641
Intangible assets		381		481
Investments and other assets				
Investment securities		8,013		9,909
Deferred tax assets		45		42
Retirement benefit asset		38		452
Other		889		847
Allowance for doubtful accounts		(286)		(227)
Total investments and other assets		8,699		11,024
Total non-current assets		25,523		27,147
Total assets		60,985		58,764

(Millions of yen)

		Previous fiscal period (As of March 31, 2020)		Current fiscal period (As of March 31, 2021)
Liabilities				
Current liabilities				
Notes and accounts payable - trade		919		1,091
Short-term borrowings	*3	7,849	*3	3,620
Current portion of long-term borrowings	*3	619	*3	8
Accrued expenses		4,763		3,778
Income taxes payable		553		914
Advances received		2,790		2,354
Provision for bonuses		267		259
Provision for loss on order received		241		30
Provision for warranties for completed construction		389		348
Other		455		681
Total current liabilities		18,848		13,086
Non-current liabilities				
Bonds payable		–		1,000
Long-term borrowings	*3	4,488	*3	4,580
Deferred tax liabilities		1,520		2,138
Deferred tax liabilities for land revaluation	*4	1,095	*4	1,095
Retirement benefit liability		152		107
Asset retirement obligations		235		230
Other		40		41
Total non-current liabilities		7,534		9,193
Total liabilities		26,382		22,280
Net assets				
Shareholders' equity				
Share capital		18,580		18,580
Capital surplus		1,273		1,273
Retained earnings		15,224		16,148
Treasury shares		(2,355)		(2,933)
Total shareholders' equity		32,722		33,068
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		2,666		3,937
Deferred gains or losses on hedges		0		9
Revaluation reserve for land	*4	106	*4	106
Foreign currency translation adjustment		(729)		(833)
Remeasurements of defined benefit plans		(165)		195
Total accumulated other comprehensive income		1,878		3,415
Non-controlling interests		1		0
Total net assets		34,602		36,484
Total liabilities and net assets		60,985		58,764

(ii) Consolidated statement of income and comprehensive income

(Millions of yen)

		Previous fiscal year (From April 1, 2019 to March 31, 2020)		Current fiscal year (From April 1, 2020 to March 31, 2021)
Net sales		46,518		43,617
Cost of sales	*1	37,355	*1	34,369
Gross profit		9,162		9,247
Selling, general and administrative expenses	*2, *3	6,570	*2, *3	6,623
Operating profit		2,591		2,623
Non-operating income				
Interest income		9		14
Dividend income		277		259
Foreign exchange gains		5		–
Subsidy income		34		104
Reversal of allowance for doubtful accounts		0		84
Other		125		113
Total non-operating income		452		576
Non-operating expenses				
Interest expenses		59		59
Bond issuance costs		–		23
Commission for purchase of treasury shares		1		17
Foreign exchange losses		–		37
Other		13		11
Total non-operating expenses		74		147
Ordinary profit		2,970		3,053
Extraordinary income				
Gain on sale of non-current assets		0		9
Gain on sale of investment securities		578		913
Other		–		65
Total extraordinary income		579		989
Extraordinary losses				
Loss on valuation of investment securities		673		73
Impairment losses		–	*4	1,047
Loss on disaster		39		13
Other		48		15
Total extraordinary losses		761		1,149
Profit before income taxes		2,788		2,892
Income taxes - current		759		1,199
Income taxes - deferred		311		(83)
Total income taxes		1,070		1,115
Profit		1,717		1,777
Profit attributable to				
Profit attributable to owners of parent		1,717		1,777
Loss attributable to non-controlling interests		(0)		(0)
Other comprehensive income				
Valuation difference on available-for-sale securities		44		1,271
Deferred gains or losses on hedges		0		9
Foreign currency translation adjustment		30		(104)
Remeasurements of defined benefit plans, net of tax		(104)		360
Total other comprehensive income	*5	(29)	*5	1,536
Comprehensive income		1,688		3,313
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		1,688		3,314
Comprehensive income attributable to non-controlling interests		(0)		(0)

(iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	18,580	1,273	14,549	(1,077)	33,324
Changes during period					
Dividends of surplus			(903)		(903)
Profit attributable to owners of parent			1,717		1,717
Purchase of treasury shares				(1,416)	(1,416)
Disposal of treasury shares			(138)	138	–
Net changes in items other than shareholders' equity					
Total changes during period	–	–	675	(1,277)	(602)
Balance at end of period	18,580	1,273	15,224	(2,355)	32,722

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	2,621	–	106	(759)	(61)	1,907	1	35,234
Changes during period								
Dividends of surplus								(903)
Profit attributable to owners of parent								1,717
Purchase of treasury shares								(1,416)
Disposal of treasury shares								–
Net changes in items other than shareholders' equity	44	0	–	30	(104)	(29)	(0)	(29)
Total changes during period	44	0	–	30	(104)	(29)	(0)	(631)
Balance at end of period	2,666	0	106	(729)	(165)	1,878	1	34,602

Current fiscal year (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	18,580	1,273	15,224	(2,355)	32,722
Changes during period					
Dividends of surplus			(853)		(853)
Profit attributable to owners of parent			1,777		1,777
Purchase of treasury shares				(583)	(583)
Disposal of treasury shares				5	5
Net changes in items other than shareholders' equity					
Total changes during period	–	–	924	(578)	345
Balance at end of period	18,580	1,273	16,148	(2,933)	33,068

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	2,666	0	106	(729)	(165)	1,878	1	34,602
Changes during period								
Dividends of surplus								(853)
Profit attributable to owners of parent								1,777
Purchase of treasury shares								(583)
Disposal of treasury shares								5
Net changes in items other than shareholders' equity	1,271	9	–	(104)	360	1,536	(0)	1,536
Total changes during period	1,271	9	–	(104)	360	1,536	(0)	1,882
Balance at end of period	3,937	9	106	(833)	195	3,415	0	36,484

(iv) Consolidated statement of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities		
Profit before income taxes	2,788	2,892
Depreciation	718	776
Impairment losses	–	1,047
Increase (decrease) in allowance for doubtful accounts	(9)	(61)
Increase (decrease) in retirement benefit liability	(195)	(39)
Decrease (increase) in retirement benefit asset	139	94
Increase (decrease) in provision for loss on order received	120	(211)
Increase (decrease) in provision for warranties for completed construction	(165)	(41)
Interest and dividend income	(287)	(273)
Interest expenses	59	59
Loss on disaster	39	13
Foreign exchange losses (gains)	(17)	97
Loss (gain) on valuation of investment securities	673	73
Loss (gain) on sale of investment securities	(578)	(913)
Loss (gain) on sale of non-current assets	6	(9)
Loss on retirement of non-current assets	(18)	4
Decrease (increase) in trade receivables	7,865	1,865
Decrease (increase) in investments in leases	562	370
Decrease (increase) in inventories	(1,221)	(2,134)
Decrease (increase) in advance payments to suppliers	1	(228)
Increase (decrease) in trade payables	(3,428)	(785)
Increase (decrease) in advances received	769	(436)
Other, net	(287)	(54)
Subtotal	7,533	2,104
Interest and dividends received	287	273
Interest paid	(67)	(62)
Payments associated with disaster loss	(24)	(28)
Income taxes paid	(772)	(804)
Net cash provided by (used in) operating activities	6,955	1,482
Cash flows from investing activities		
Payments into time deposits	(166)	(102)
Proceeds from withdrawal of time deposits	118	102
Purchase of non-current assets	(1,424)	(1,131)
Proceeds from sale of non-current assets	4	11
Purchase of investment securities	(250)	(470)
Proceeds from sale and redemption of investment securities	878	1,238
Other, net	27	12
Net cash provided by (used in) investing activities	(812)	(338)

(Millions of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	–	(4,229)
Proceeds from long-term borrowings	480	100
Repayments of long-term borrowings	(514)	(619)
Proceeds from issuance of bonds	–	1,000
Purchase of treasury shares	(1,566)	(583)
Proceeds from disposal of treasury shares	149	5
Proceeds from share issuance to non-controlling shareholders	0	–
Dividends paid	(901)	(850)
Net cash provided by (used in) financing activities	(2,351)	(5,176)
Effect of exchange rate change on cash and cash equivalents	1	(59)
Net increase (decrease) in cash and cash equivalents	3,793	(4,093)
Cash and cash equivalents at beginning of period	7,609	11,402
Cash and cash equivalents at end of period	* 11,402	* 7,309

Notes

Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of the Company and its domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. The accounts of overseas consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

Significant accounting policies for preparation of the consolidated financial statements

1. Disclosure of scope of consolidation

Number of consolidated subsidiaries: 10 companies
Names of major consolidated subsidiaries are omitted since those names are described in "TKK Group Companies."

2. Disclosure about application of the equity method

Not applicable

3. Disclosure about fiscal years, etc. of consolidated subsidiaries

Of the Company's consolidated subsidiaries, Kankyo Research Institute Inc., Toyo Kanetsu Corporate Venture Investment Partnership, Toyo Kanetsu Corporate Venture Fund II, PT Toyo Kanetsu Indonesia, Toyo Kanetsu Singapore Pte. Ltd. and Toyo Kanetsu (Malaysia) Sdn. Bhd. have a closing date of December 31. In preparation of the consolidated financial statements, their financial statements as of December 31 are used. However, for major transactions that occurred between that date and the consolidated balance sheet date, the necessary adjustments are made in the consolidated financial statements.

4. Disclosure of accounting policies

(1) Accounting policy for measuring significant assets
(i) Securities
a) Held-to-maturity bonds: Stated at amortized cost (straight-line method)
b) Available-for-sale securities

Available-for-sale securities with available fair market values are stated at fair value based on the market price or the like on the consolidated balance sheet date (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving-average method).

Available-for-sale securities without available fair market value are valued at cost determined by the moving-average method.

(ii) Derivatives
Derivatives are valued at fair value.

(iii) Inventories
a) Finished goods: Primarily, at cost using the first-in first-out method
(The value on the balance sheet is written down to reflect a decline in profitability.)
b) Work in process: Primarily, at cost using the specific identification method
(The value on the balance sheet is written down to reflect a decline in profitability.)
c) Raw materials: Primarily, at cost using the weighted-average method
(The value on the balance sheet is written down to reflect a decline in profitability.)

(2) Accounting policy for depreciation of significant assets

(i) Property, plant and equipment

The Company and its domestic consolidated subsidiaries use the declining-balance method, and overseas consolidated subsidiaries use the straight-line method in accordance with provisions of accounting standards in their respective countries.

However, the Company and its domestic consolidated subsidiaries use the straight-line method to depreciate buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The estimated useful lives of major items are as follows:

Buildings and structures	2 to 57 years
Machinery and equipment	2 to 17 years

(ii) Intangible assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the estimated useful life as internally determined (5 years).

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To cover losses from bad debts for trade receivables, loans receivable and others, an allowance for doubtful accounts is provided based on historical experience of bad debts for general receivables. For specific receivables such as highly doubtful receivables, the collectibility is individually considered and the estimated amount of uncollectible accounts is provided as the allowance.

(ii) Provision for bonuses

To pay bonuses to employees, out of the estimated amount to be paid in the following fiscal year, an amount attributable to the current fiscal year is recorded.

(iii) Provision for loss on order received

To make provision for losses on orders received, as for existing construction, for which an amount of loss can be reasonably estimated at the end of the current fiscal year, an expected amount of loss in future is recorded as the provision.

(iv) Provision for warranties for completed construction

To cover costs of warranty against defects and after-sales service for completed construction, an amount is recorded based on the historical loss rate as well as consideration of an amount for individual construction that is expected to incur in future at the end of the current fiscal year.

(4) Method of accounting for retirement benefits

(i) Method of attributing estimated retirement benefits to periods

For the purpose of attributing estimated retirement benefits over the period up to the end of the current fiscal year in the calculation of retirement benefit obligations, the benefit formula method is applied.

(ii) Method of amortizing actuarial gain or loss and past service cost

Past service costs are recorded as an expense in the year they are incurred.

With regard to actuarial gain or loss, the amount is amortized by the straight-line method over a certain term within the average remaining service period of the eligible employees (5 years) for each applicable fiscal year, and expensed from the year following the year in which the gain or loss is recognized.

(5) Accounting policies for significant revenues and expenses

(i) Recognition of revenues and costs of completed construction contracts

The percentage-of-completion method is applied to construction showing certainty of performance on the progress made up until the end of the current fiscal year (the cost-to-cost method is applied to estimate the extent of progress toward completion), and the completed-contract method is applied to other construction.

(ii) Standards for recognition of revenues and expenses related to finance lease transactions

Sales and costs are recognized at the time of receiving lease payments.

(6) Accounting policy for hedging

(i) Method of hedge accounting

In principle, the deferral accounting is applied. The allocation method is applied to forward foreign exchange contracts that meet requirements thereof, and the exceptional treatment is applied to interest rate swaps that meet requirements thereof.

(ii) Hedging instruments and hedged items

Hedging instruments: .... Forward foreign exchange contracts, Interest rate swaps
Hedged items:..................... Forecast transactions denominated in foreign currencies and borrowings

(iii) Hedging policy

In accordance with the "Rules on Handling of Derivative Transactions" established by the Company, the Company and its consolidated subsidiaries (collectively, the "Group") do not enter into any derivative transaction for speculative purposes but use derivative transactions only to hedge exchange rate fluctuation risk and interest rate fluctuation risk.

(iv) Method of assessing the hedging effectiveness

The Group confirms effectiveness by comparing and examining cash flows of hedging instruments and hedged items in advance. However, the Group omits assessment of effectiveness on interest rate swaps to which the exceptional treatment is applied.

(7) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents include cash in hand, readily available deposits and short-term investments with maturities of three months or less from the purchase date whose value is not subject to significant fluctuation risk.

(8) Other significant information for preparation of the consolidated financial statements

Accounting policy for consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of taxes.

Notes - Significant accounting estimates

(Revenue recognition by the percentage-of-completion method)

(1) Amount recognized in the consolidated statement of income for the current fiscal year
Net sales: ¥8,445 million

(2) Information on the content of significant accounting estimates related to identified items

In the application of the percentage-of-completion method, the Group records net sales based on the progress rate calculated as the proportion of construction cost incurred corresponding to value of work done at the end of the current fiscal year to the total amount of estimated cost of construction work.

The estimated amount of total cost of construction work has been determined on the basis of management's best estimate and judgments based on past experience and available information collected as well as individual work specifications. However, changes to original estimates may occur due to price fluctuations in the market, changes to specifications, natural disasters and others, and such changes may have a significant effect on the amount recognized in the consolidated statement of income for the next fiscal year.

Notes - Changes in accounting policies

Not applicable

Notes - New accounting standards to be applied

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 26, 2021)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued "Revenue from Contracts with Customers" in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied at the start of the fiscal year beginning on April 1, 2021.

(3) Effects of application of the accounting standard, etc.

The impact of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements is currently under evaluation.

Notes - Changes in presentation

1. Application of the "Accounting Standard for Disclosure of Accounting Estimates"

The Group has applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, issued on March 31, 2020) from the consolidated financial statements related to the end of the current fiscal year, and provided a note on significant accounting estimates in the consolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso in paragraph 11 of the accounting standard, the content related to the previous fiscal year has not been described in this note.

2. Consolidated statement of income

"Subsidy income" and "reversal of allowance for doubtful accounts" that were included in "other" under non-operating income until the previous fiscal year have been presented separately from the current fiscal year since the significance of the amount has increased.

In addition, "commission for purchase of treasury shares" that was included in "other" under non-operating expenses until the previous fiscal year has been presented separately from the current fiscal year since the significance of the amount has increased.

In the previous fiscal year, "subsidy income" was ¥34 million, "reversal of allowance for doubtful accounts" was ¥0 million, and "commission for purchase of treasury shares" was ¥1 million.

Notes - Additional information

1. Accounting estimates in association of the spread of COVID-19

With regard to the impact of COVID-19, although under the current situation, it is difficult to predict how it will spread in the future and when the spread will end, the Group thinks at present that impact on accounting estimates for recoverability of deferred tax assets and others will be limited.

However, if the timing of when the spread of COVID-19 will come to an end and its impact on economic environment change, the financial position and operating results may be affected.

2. Transaction of granting the Company's own shares to Directors, etc. through a trust

The Company has introduced a performance-linked share-based compensation using a trust for Directors (excluding Directors who are Audit and Supervisory Committee Members and outside Directors), and Managing Officers who are not Directors and other Executive Officers in a higher rank (hereinafter collectively referred to as "Directors, etc.") from the previous fiscal year, for the purpose of increasing the incentive to improve the Company's medium- to long-term performance and enhance the corporate value more than ever by clarifying the linkage between remuneration of Directors, etc., and the Company's medium- to long-term performance and stock value, and sharing profits and risks resulting from the linkage with stock price between Directors, etc. and shareholders.

To the accounting treatment for this trust agreement, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, issued on March 26, 2015) is applied correspondingly.

(1) Outline of transaction

Money is entrusted to a trust designated by the Company (hereinafter referred to as the "Trust"), which acquires shares of the Company. Points are given to each Director, etc. at the end of each fiscal year of the medium-term business plan in accordance with the Share Delivery Regulations established by the Company's Board of Directors, and shares of the Company are delivered through the Trust in a certain period during the tenure of the Director, etc. specified in the Regulations for the Provision of Shares for the Performance-linked Share-based Remuneration Plan for officers, or at the time of retirement of the Director, etc. in the number corresponding to the number of points accumulated by then.

(2) The Company's shares remaining in the Trust

Shares of the Company remaining in the Trust have been recorded at the book value in the Trust (excluding the amount of incidental costs) as treasury shares in net assets. The book value and number of these treasury shares for the previous fiscal year were ¥149 million and 84,400 shares, respectively, and for the current fiscal year were ¥144 million and 81,200 shares, respectively.

Notes - Consolidated balance sheet

*1. The following amounts have been restricted by a bank in return for its issuing a bank guarantee, which was provided by the Company:

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Cash and deposits	¥2 million	¥1 million

*2. Accumulated depreciation of property, plant and equipment are as follows:

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
	¥11,542 million	¥11,774 million

*3. Assets pledged and liabilities secured

Assets pledged and liabilities secured as collateral are as follows:

Assets pledged

	Previous fiscal year (As of March 31, 2020)		Current fiscal year (As of March 31, 2021)	
Buildings and structures	¥300 million	[¥300 million]	¥267 million	[¥267 million]
Machinery, equipment and vehicles	0	[0]	0	[0]
Tools, furniture and fixtures	0	[0]	0	[0]
Land	5,458	[5,458]	5,458	[5,458]
Total	5,759	[5,759]	5,726	[5,726]

Liabilities secured as collateral

	Previous fiscal year (As of March 31, 2020)		Current fiscal year (As of March 31, 2021)	
Short-term borrowings	¥1,670 million	[¥1,670 million]	¥939 million	[¥939 million]
Long-term borrowings (including current portion of long-term borrowings)	1,980	[1,980]	1,980	[1,980]
Total	3,650	[3,650]	2,919	[2,919]

In the above table, figures in brackets present mortgages on factory foundation and the relevant debts. The amounts of land are after revaluation.

*4. In accordance with the "Act on Revaluation of Land" (Act No. 34 promulgated on March 31, 1998), the Company revalues its land for business use and, as for the valuation difference, records an amount equivalent to tax relating to the valuation difference as "deferred tax liabilities for land revaluation" in the liabilities section and an amount after deducting said amount as "revaluation reserve for land" in the net assets section.

- Method of revaluation – The Company revalues the land by the calculation method where a value based on the assessed value of fixed asset tax set forth in Article 2, Item 3 and road rating set forth in Article 2, Item 4 of the "Order for Enforcement of the Act on Revaluation of Land" (Cabinet Order No. 119 promulgated on March 31, 1998) is reasonably adjusted.
- Date of revaluation – March 31, 2002

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Difference between the year-end value of revaluated land and the book value after the revaluation	¥(2,511) million	¥(2,479) million

Notes - Consolidated statement of income and comprehensive income

*1. Provision for loss on order received included in cost of sales

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
	¥133 million	¥(211) million

*2. Major components of selling, general and administrative expenses are as follows:

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Salaries and allowances	¥1,913 million	¥1,975 million
Bonuses	395	458
Provision for bonuses	137	133
Retirement benefit expenses	171	215
Provision of allowance for doubtful accounts	(9)	(5)

*3. Total of research and development expenses included in general and administrative expenses and manufacturing costs for the period

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
	¥541 million	¥597 million

*4. Impairment losses

Previous fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

Current fiscal year (From April 1, 2020 to March 31, 2021)

The Company recorded impairment losses on the following asset groups.

(1) Outline of asset groups on which impairment losses were recognized

Location	Use	Type
Chiba Plant (Kisarazu, Chiba)	Assets for Machinery & Plant Business	Machinery and other assets
Head Office (Koto-ku, Tokyo)	Same as above	Software and other assets
PT Toyo Kanetsu Indonesia (Batam, Indonesia)	Same as above	Land, machinery, buildings and other assets
Toyo Kanetsu (Malaysia) Sdn. Bhd. (Bintulu, Malaysia)	Same as above	Land, machinery, buildings and other assets

(2) Circumstances leading to recognition of impairment losses

For asset groups of which cash flows arising from operating activities continued, or were expected to continue, to be negative, the carrying amount was reduced to the recoverable amount, and the reduced amount was recorded as impairment losses in extraordinary losses.

(3) Amount of impairment losses and breakdown of the amount by type of major non-current assets

Type	Amount (Millions of yen)
Land	620
Machinery, equipment and vehicles	292
Buildings and structures	100
Tools, furniture and fixtures	18
Intangible assets	14
Total	1,047

(4) Method of grouping assets

In principle, the Group's assets for business use are grouped on the basis of the business, and the Group's idle assets are grouped by each asset. In addition, as for Head Office and Chiba Plant, the assets are grouped as commonly used assets.

(5) Method of calculating the recoverable amount

The recoverable amount of this asset group is measured at value in use, and the amount calculated by discounting future cash flows at weighted average cost of capital of 5.32% is applied.

*5. Reclassification adjustments and tax effects relating to other comprehensive income

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Valuation difference on available-for-sale securities:		
Amount recorded during the period	¥64 million	¥1,832 million
Reclassified amount	–	–
Pre-adjustment of tax effect	64	1,832
Tax effect amount	(19)	(561)
Valuation difference on available-for-sale securities	44	1,271
Deferred gains or losses on hedges:		
Amount recorded during the period	0	13
Reclassified amount	–	–
Pre-adjustment of tax effect	0	13
Tax effect amount	(0)	(4)
Deferred gains or losses on hedges	0	9
Foreign currency translation adjustment:		
Amount recorded during the period	30	(104)
Reclassified amount	–	–
Pre-adjustment of tax effect	30	(104)
Tax effect amount	–	–
Foreign currency translation adjustment	30	(104)
Remeasurements of defined benefit plans, net of tax:		
Amount recorded during the period	(164)	417
Reclassified amount	14	101
Pre-adjustment of tax effect	(149)	518
Tax effect amount	45	(158)
Remeasurements of defined benefit plans, net of tax	(104)	360
Total other comprehensive income	(29)	1,536

Notes - Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2019 to March 31, 2020)

1. Matters concerning class and total number of issued shares, and class and number of treasury shares

(Thousands of shares)

	Number of shares at beginning of period	Number of shares increased in period	Number of shares decreased in period	Number of shares at end of period
Issued shares				
Common shares	9,323	–	–	9,323
Total	9,323	–	–	9,323
Treasury shares				
Common shares (Notes 1, 2, and 3)	283	675	84	874
Total	283	675	84	874

(Notes) 1. The number of treasury shares of common shares includes shares of the Company held by the benefit trust for officers (– thousand shares at beginning of period, 84 thousand shares at end of period).

2. Total number of treasury shares of common shares increased by 675 thousand shares because of an increase due to acquisition of treasury shares based on a resolution by the Board of Directors of 589 thousand shares, an increase due to acquisition of shares of the Company by the trust of 84 thousand shares, and an increase due to purchase of shares less than one unit of 1 thousand shares.

3. Total number of treasury shares of common shares decreased by 84 thousand shares due to a disposal of treasury shares to the benefit trust for officers based on a resolution by the Board of Directors.

2. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 27, 2019	Common shares	¥903 million	¥100	March 31, 2019	June 28, 2019

(2) Dividends whose record dates are in the current fiscal year but whose effective dates fall in the next fiscal year

Resolution	Class of shares	Total dividends	Source of dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 26, 2020	Common shares	¥853 million	Retained earnings	¥100	March 31, 2020	June 29, 2020

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 26, 2020 includes dividends on shares of the Company held by the benefit trust for officers of ¥8 million.

Current fiscal year (From April 1, 2020 to March 31, 2021)

1. Matters concerning class and total number of issued shares, and class and number of treasury shares

(Thousands of shares)

	Number of shares at beginning of period	Number of shares increased in period	Number of shares decreased in period	Number of shares at end of period
Issued shares				
Common shares	9,323	–	–	9,323
Total	9,323	–	–	9,323
Treasury shares				
Common shares (Notes 1, 2, and 3)	874	273	3	1,144
Total	874	273	3	1,144

(Notes) 1. The number of treasury shares of common shares includes shares of the Company held by the benefit trust for officers (84 thousand shares at beginning of period, 81 thousand shares at end of period).

2. Total number of treasury shares of common shares increased by 273 thousand shares because of an increase due to acquisition of treasury shares based on a resolution by the Board of Directors of 269 thousand shares and an increase due to purchase of shares less than one unit of 4 thousand shares.

3. Total number of treasury shares of common shares decreased by 3 thousand shares due to a disposal of treasury shares to the benefit trust for officers based on a resolution by the Board of Directors.

2. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 26, 2020	Common shares	¥853 million	¥100	March 31, 2020	June 29, 2020

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 26, 2020 includes dividends on shares of the Company held by the benefit trust for officers of ¥8 million.

(2) Dividends whose record dates are in the current fiscal year but whose effective dates fall in the next fiscal year

Resolution	Class of shares	Total dividends	Source of dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 29, 2021	Common shares	¥949 million	Retained earnings	¥115	March 31, 2021	June 30, 2021

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 29, 2021 includes dividends on shares of the Company held by the benefit trust for officers of ¥9 million.

Notes - Consolidated statement of cash flows

* Reconciliation of ending balance of cash and cash equivalents with account balances per balance sheet

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash and deposits	¥11,507 million	¥7,413 million
Time deposits with maturity over 3 months	(102)	(102)
Restricted deposits	(2)	(1)
Cash and cash equivalents	11,402	7,309

Notes - Leases

(Borrower)

Operating lease transactions

Future lease payments under non-cancelable operating leases

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Within 1 year	¥27 million	¥65 million
Over 1 year	65	213
Total	93	279

(Lender)

Finance lease transactions

(1) The components of investments in leases

Current assets

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Lease payments receivable	¥925 million	¥524 million
Estimated residual value	65	48
Amount equivalent to interest income	(53)	(69)
Investments in leases	937	502

(2) Amounts expected to be collected on lease payments receivable of investments in leases after consolidated balance sheet date

Current assets

(Millions of yen)

	Previous fiscal year (As of March 31, 2020)					
	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Investments in leases	401	332	159	31	–	–

(Millions of yen)

	Current fiscal year (As of March 31, 2021)					
	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Investments in leases	332	159	31	–	–	–

Notes - Financial instruments

1. Status of financial instruments

(1) Policy on treatment of financial instruments

The Group raises funds necessary to run its business smoothly by borrowing from banks. In the case where the Group has temporary surplus funds, it invests them only in safe financial instruments.

The Group uses derivative transactions to hedge various risks described in (2) in accordance with the “Rules on Handling of Derivative Transactions” established by the Company and has a policy not to enter into any speculative transaction.

(2) Content and risks of financial instruments and risk management system therefor

The Group’s notes and accounts receivable - trade are subject to credit risk of its customers, and its certain receivables denominated in foreign currencies are subject to exchange rate fluctuation risk. The Group mitigates the credit risk of its customers by periodically confirming whether there is any overdue receivable using an aging schedule and other documents and the exchange rate fluctuation risk such as by borrowing in foreign currencies as needed.

The Company’s securities are subject to credit risk of its investees, but the Company invests surplus funds in safe financial instruments with high ratings through prescribed internal procedures.

The Group’s investment securities are subject to credit risk of its investees and market price fluctuation risk. They are equity securities of listed companies with which the Group has business relationships, most of which are categorized as available-for-sale securities, and the Group periodically ascertains the fair value thereof.

The Group’s notes and accounts payable - trade and accrued expenses are subject to liquidity risk, and its certain payables denominated in foreign currencies are subject to exchange rate fluctuation risk. The Group mitigates the liquidity risk by periodically preparing a schedule of cash receipts and disbursements and other documents and the exchange rate fluctuation risk by forward exchange contracts and other means as needed.

Of borrowings and bonds payable, short-term borrowings are primarily for daily business transactions, and bonds payable and long-term borrowings are primarily for temporary advances on large-scale projects. Variable-rate borrowings are subject to interest rate fluctuation risk, and the Group uses interest rate swaps as hedging instruments for respective contracts for most of the long-term borrowings in order to hedge the fluctuation risk of the interest rates to be paid and fix interest expenses. The Group limits interest rate swaps to those to which the exceptional treatment can be applied and omits assessment of hedge effectiveness thereon. The Group mitigates the liquidity risk by periodically preparing a schedule of cash receipts and disbursements and other documents.

The Group executes and manages derivative transactions in accordance with the Company’s Rules on Handling of Derivative Transactions and, when using derivatives, enters into transactions with financial institutions with high ratings to mitigate credit risk. Please see “Accounting policy for hedging” of “Disclosure of accounting policies” in “Significant accounting policies for preparation of the consolidated financial statements” described previously for the hedging instruments, hedging policy, method of assessing the hedging effectiveness and other information on hedge accounting.

(3) Supplementary explanation concerning fair values of financial instruments

Fair values of financial instruments comprise values based on market prices and reasonably measured values where market prices are unavailable. As several variable factors are incorporated in calculating the relevant fair value, the resulting amount may vary depending on the different preconditions employed. In addition, the contract amounts of derivative transactions, mentioned in “Notes - Derivatives” in Notes, should not be considered indicative of the sizes of the market risks involved in the derivative transactions.

2. Fair values of financial instruments

Carrying amounts on the consolidated balance sheet, fair values and differences therebetween of the financial instruments as of March 31, 2020 and 2021, are as shown below. However, financial instruments whose fair values are deemed to be extremely difficult to determine are not included therein (Note 2).

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	11,507	11,507	–
(2) Notes and accounts receivable - trade	15,413		
Allowance for doubtful accounts (*)	(0)		
	15,413	15,413	–
(3) Securities	–	–	–
(4) Investment securities	6,728	6,728	–
Total assets	33,649	33,649	–
(1) Notes and accounts payable - trade	919	919	–
(2) Short-term borrowings	7,849	7,849	–
(3) Accrued expenses	4,763	4,763	–
(4) Long-term borrowings (including within 1 year)	5,107	5,197	90
Total liabilities	18,638	18,729	90
Derivatives			
(1) Those not qualifying for hedge accounting	–	–	–
(2) Those qualifying for hedge accounting	0	0	–
Total derivatives	0	0	–

(*) Amounts of allowance for doubtful accounts separately included in notes and accounts receivable - trade are excluded.

Current fiscal year (As of March 31, 2021)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	7,413	7,413	–
(2) Notes and accounts receivable - trade	13,489		
Allowance for doubtful accounts (*)	–		
	13,489	13,489	–
(3) Securities	–	–	–
(4) Investment securities	8,425	8,425	–
Total assets	29,329	29,329	–
(1) Notes and accounts payable - trade	1,091	1,091	–
(2) Short-term borrowings	3,620	3,620	–
(3) Accrued expenses	3,778	3,778	–
(4) Bonds payable	1,000	1,009	9
(5) Long-term borrowings (including within 1 year)	4,588	4,677	89
Total liabilities	14,078	14,177	99
Derivatives			
(1) Those not qualifying for hedge accounting	–	–	–
(2) Those qualifying for hedge accounting	–	–	–
Total derivatives	–	–	–

(*) Amounts of allowance for doubtful accounts separately included in notes and accounts receivable - trade are excluded.

(Notes) 1. Calculation method of fair values of financial instruments and matters concerning securities and derivatives

Assets

(1) Cash and deposits and (2) Notes and accounts receivable - trade

Because these accounts are settled in a short period, their fair values approximate their book values. Therefore, the fair values are based on the book values.

(3) Securities

Because this account has a short-term maturity, its fair value approximates its book value. Therefore, the fair value is based on the book value.

(4) Investment securities

Fair value of this account is based on the price on exchanges, the price provided by counterparty financial institutions or other prices. Please refer to "Notes - Securities" for the notes.

Liabilities

(1) Notes and accounts payable - trade, (2) Short-term borrowings and (3) Accrued expenses

Because these accounts are settled in a short period, their fair values approximate their book values. Therefore, the fair values are based on the book values.

(4) Bonds payable

Fair value of this account is determined at the present value derived by discounting the total amount of principal and interest at the interest rate reflecting the remaining period and credit risk of said bond.

(5) Long-term borrowings (including within 1 year)

Fair value of this account is determined by discounting the total amount of principal and interest at the interest rate available for a similar borrowing. Fair values of long-term borrowings with variable rates, to which the exceptional treatment for the interest rate swap is applied, are determined by discounting the total amount of principal and interest accounted for with the relevant interest rate swaps at the reasonably estimated interest rates applied to similar borrowings.

Derivatives

Please refer to "Notes - Derivatives" in Notes.

2. "Assets (4) Investment securities" do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥1,483 million) because there is no market price and their future cash flows cannot be estimated and accordingly it is extremely difficult to ascertain their fair values.

3. Projected redemption amounts for monetary claims and securities with maturities after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash	11,455	–	–	–
Notes and accounts receivable - trade	15,413	–	–	–
Securities	–	–	–	–
Investment securities				
Held-to-maturity bonds	–	–	–	–
Available-for-sale securities	–	–	–	–
Total	26,868	–	–	–

Current fiscal year (As of March 31, 2021)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash	7,386	–	–	–
Notes and accounts receivable - trade	13,489	–	–	–
Securities	–	–	–	–
Investment securities				
Held-to-maturity bonds	–	–	–	–
Available-for-sale securities	–	–	–	–
Total	20,875	–	–	–

4. Scheduled repayment amounts of bonds payable, long-term borrowings and other interest-bearing liabilities

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Long-term borrowings	8	–	1,700	2,480

Current fiscal year (As of March 31, 2021)

(Millions of yen)

	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Bonds payable	–	–	–	–
Long-term borrowings	–	1,700	2,480	400

Notes - Securities

1. Held-to-maturity bonds

Previous fiscal year (As of March 31, 2020)
Not applicable

Current fiscal year (As of March 31, 2021)
Not applicable

2. Available-for-sale securities (securities classified as other securities under Japanese GAAP)

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

	Type	Carrying amount on the consolidated balance sheet	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost	(1) Stocks	5,828	2,000	3,828
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	5,828	2,000	3,828
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	899	1,067	(168)
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	899	1,067	(168)
Total		6,728	3,068	3,659

(Note) “Available-for-sale securities” in the above table do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥1,284 million) because there is no market value and accordingly it is extremely difficult to ascertain their fair values.

Current fiscal year (As of March 31, 2021)

(Millions of yen)

	Type	Carrying amount on the consolidated balance sheet	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost	(1) Stocks	8,425	2,943	5,482
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	8,425	2,943	5,482
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	–	–	–
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		8,425	2,943	5,482

(Note) “Available-for-sale securities” in the above table do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥1,483 million) because there is no market value and accordingly it is extremely difficult to ascertain their fair values.

3. Available-for-sale securities that were sold

Previous fiscal year (From April 1, 2019 to March 31, 2020)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	878	578	–
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	878	578	–

Current fiscal year (From April 1, 2020 to March 31, 2021)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	1,238	913	–
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	1,238	913	–

4. Securities subject to the recognition of impairment loss

In the previous fiscal year, impairment loss of ¥451 million (shares in available-for-sale securities: ¥451 million) was recognized on securities. In the current fiscal year, there were no securities on which impairment loss was recognized.

In the treatment for impairment loss, impairment loss is recognized in principle when the fair market value at the period-end decreased by 50% or more compared with the acquisition cost, and impairment loss is recognized to the extent of the amount considered necessary in light of materiality of the amount, recoverability and other factors when the fair market value at the period-end decreased by approximately 30 to 50%.

Notes - Derivatives

1. Derivative transactions to which hedge accounting is not applied

   Not applicable

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Allocation method for forward exchange contract	Forward exchange contract Buy contract Euro	Accounts payable - trade	627	–	628	Fair value is calculated based on the price provided by counterparty financial institutions or other prices.
Total			627	–	628	

Current fiscal year (As of March 31, 2021)

Not applicable

(2) Interest rates

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Exceptional treatment of interest rate swaps	Interest rate swap transactions Receive variable, pay fixed	Long-term borrowings	3,200	2,700	(Note)	(Note)

(Note) The fair value of interest rate swaps that are accounted for using exceptional treatment is included in that of corresponding long-term borrowings, as those interest rate swaps are treated as an adjustment to long-term borrowings as hedged items.

Current fiscal year (As of March 31, 2021)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Exceptional treatment of interest rate swaps	Interest rate swap transactions Receive variable, pay fixed	Long-term borrowings	2,700	2,700	(Note)	(Note)

(Note) The fair value of interest rate swaps that are accounted for using exceptional treatment is included in that of corresponding long-term borrowings, as those interest rate swaps are treated as an adjustment to long-term borrowings as hedged items.

Notes - Retirement benefits

1. Summary of retirement benefit plans adopted

The Company and certain consolidated subsidiaries have defined benefit corporate pension plans as defined benefit plans, and certain consolidated subsidiaries have a small and medium sized enterprise retirement allowance cooperative plan and lump-sum retirement plans.
In addition, the Company and certain consolidated subsidiaries have defined contribution corporate pension plans.
The Company and certain consolidated subsidiaries participate in Nihon Sangyo Kikai Kougyo Kigyonenkin Kikin (pension fund of Japan industrial machinery manufacturers). For this fund, since the amount of pension plan assets corresponding to contributions by the respective companies cannot be reasonably calculated, the fund is accounted for similar to defined contribution plans.

2. Defined benefit plans

(1) Reconciliation between beginning balance and ending balance of retirement benefit obligations

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Beginning balance of retirement benefit obligations	¥3,428 million	¥3,350 million
Service cost	193	192
Interest expenses	16	15
Unrecognized net actuarial gain or loss	27	(20)
Retirement benefits paid	(318)	(156)
Past service cost	–	(13)
Other	2	(6)
Ending balance of retirement benefit obligations	3,350	3,361

(2) Reconciliation between beginning balance and ending balance of pension plan assets

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Beginning balance of pension plan assets	¥3,403 million	¥3,235 million
Expected return on plan assets	42	37
Unrecognized net actuarial gain or loss	(136)	397
Amount of employer contribution	240	232
Retirement benefits paid	(317)	(187)
Other	3	(8)
Ending balance of pension plan assets	3,235	3,707

(3) Retirement benefit obligations and pension plan assets at the end of the fiscal year and reconciliation of retirement benefit liability and retirement benefit asset on consolidated balance sheet

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Retirement benefit obligations under funded system	¥3,350 million	¥3,361 million
Pension plan assets	(3,235)	(3,707)
	114	345
Retirement benefit obligations under unfunded system	–	–
Net amount of assets and liabilities stated in the consolidated balance sheet	114	345
Retirement benefit liability	152	107
Retirement benefit asset	(38)	(452)
Net amount of assets and liabilities stated in the consolidated balance sheet	114	345

(4) Retirement benefit expenses and components thereof

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Service cost	¥193 million	¥192 million
Interest expenses	16	15
Expected return on plan assets	(42)	(37)
Amortization of net actuarial gain or loss	15	101
Amortization of past service cost	–	(13)
Retirement benefit expenses pertaining to defined benefit plans	183	258

(5) Remeasurements of defined benefit plans on consolidated statement of income and comprehensive income

The components of remeasurements of defined benefit plans (before tax effects deduction) are as follows:

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Past service cost	¥– million	¥– million
Actuarial gains and losses	(149)	518
Total	(149)	518

(6) Remeasurements of defined benefit plans on consolidated balance sheet

The components of remeasurements of defined benefit plans (before tax effects deduction) are as follows:

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Unrecognized past service cost	¥– million	¥– million
Unrecognized net actuarial gain or loss	232	(280)
Total	232	(280)

(7) Pension plan assets

(i) Major components of pension plan assets

Ratio of major components for total pension plan assets is as follows:

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Bonds	30%	28%
Shares	27	33
General account	33	30
Other	11	9
Total	100	100

(ii) Method of establishing expected long-term rates of return on plan assets

In order to determine the expected long-term rates of return on plan assets, the current and forecast distribution of plan assets and the current and expected future long-term rates of return from the diverse assets that comprise the plan assets are taken into consideration.

(8) Matters relating to the basis for actuarial calculations

Main basis for actuarial calculations

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Discount rate	0.25%	0.25%
Expected long-term rates of return on pension plan assets	1.00%	1.00%

3. Defined contribution plans

The required contribution from the Company and its consolidated subsidiaries into the defined contribution pension plans was ¥83 million in the previous fiscal year and ¥81 million in the current fiscal year.

4. Multi-employer plan

The required contribution amount to the corporate pension fund plan under the multi-employer plan, which is accounted for in the same manner as a defined contribution plan, was ¥95 million in the previous fiscal year and ¥103 million in the current fiscal year.

(1) Funded status of multi-employer plan

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Plan assets	¥11,138 million	¥11,573 million
Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve	21,406	21,129
Net amount	(10,268)	(9,557)

(2) Group’s proportion of total contributions to plan

Previous fiscal year 7.51% (From April 1, 2019 to March 31, 2020)

Current fiscal year 7.69% (From April 1, 2020 to March 31, 2021)

(3) Supplementary explanation

Major factors for the net amount in (1) above are the balance of past service liabilities (¥10,889 million as of March 31, 2019 and ¥9,946 million as of March 31, 2020) and surplus amount (¥622 million as of March 31, 2019 and ¥389 million as of March 31, 2020) for pension financing calculation.

The principal and interest of past service liabilities in this plan are amortized equally over 10 years and 6 months, and the Group recorded special contributions applied to such amortization (¥67 million as of March 31, 2019 and ¥73 million as of March 31, 2020) as expenses in the consolidated financial statements.

The proportions in (2) above are not consistent with the proportions actually funded by the Group.

Notes - Share options, etc.

Not applicable

Notes - Tax effect accounting

1. Significant components of deferred tax assets and liabilities

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Deferred tax assets		
Tax loss carry-forward (Note)	¥206 million	¥122 million
Accrued business tax	46	57
Retirement benefit liability	114	32
Provision for bonuses	81	79
Allowance for doubtful accounts	94	74
Provision for loss on order received	74	9
Loss on valuation of investment securities	246	225
Loss on valuation of investments in capital	181	203
Impairment loss	136	393
Depreciation	39	56
Asset retirement obligations	72	70
Other	227	244
Deferred tax assets subtotal	1,520	1,569
Valuation reserve for tax loss carry-forwards (Note)	(206)	(122)
Valuation reserve for the total of deductible temporary differences, etc.	(784)	(940)
Valuation reserve subtotal	(991)	(1,062)
Total deferred tax assets	528	506
Deferred tax liabilities		
Revaluation reserve for land	1,095	1,095
Valuation difference on available-for-sale securities	989	1,550
Reserve for tax purpose reduction entry of non-current assets	871	866
Retirement benefit asset	77	138
Other	65	47
Total deferred tax liabilities	3,100	3,698

(Note) Amounts of tax loss carry-forwards and related deferred tax assets by carry-forward period

Previous fiscal year (As of March 31, 2020)

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carry-forwards (*)	–	–	84	30	91	–	206
Valuation reserve	–	–	(84)	(30)	(91)	–	(206)
Deferred tax assets	–	–	–	–	–	–	–

Current fiscal year (As of March 31, 2021)

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carry-forwards (*)	–	71	2	5	42	–	122
Valuation reserve	–	(71)	(2)	(5)	(42)	–	(122)
Deferred tax assets	–	–	–	–	–	–	–

(*) Tax loss carry-forwards represent the amount multiplied by the statutory effective tax rate.

2. Main components causing significant differences between the statutory effective tax rate and the actual effective tax rate after application of tax effect accounting

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Statutory effective tax rate	30.62%	30.62%
Adjustments		
Increase/decrease in valuation reserve	4.14	6.30
Expenses not deductible for income tax purposes, such as entertainment expenses	2.72	0.73
Income not included for income tax purposes, such as dividends received	(0.52)	(0.46)
Per capita levy of inhabitant taxes	1.18	1.14
Effect of differences in tax rates applicable to subsidiaries from tax rate applicable to the Company	1.10	3.64
Retained earnings of overseas subsidiaries	0.22	(1.03)
Tax credits	(0.29)	(2.17)
Other	(0.78)	(0.20)
Actual effective tax rate	38.40	38.56

Notes - Changes in presentation

“Tax credits” that was included in “other” in the previous fiscal year has been presented separately from the current fiscal year due to the increased significance. To reflect this change in presentation, notes for the previous fiscal year have been reclassified.

Consequently, (1.07)% that was presented in “other” in the previous fiscal year has been reclassified into (0.29)% of “tax credits” and (0.78)% of “other.”

Notes - Asset retirement obligations

Of asset retirement obligations, items recorded on the consolidated balance sheet

a) Outline of asset retirement obligations
The asset retirement obligations of the Group are obligations in certain facilities for rent under the Ordinance on Prevention of Asbestos Hazards.

b) Calculation method for determining asset retirement obligation amount
The amount of asset retirement obligations was calculated assuming an estimated period of use of 31 years from acquisition, and using a discount rate of 2.2%.

c) Increase (decrease) in total asset retirement obligations

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Beginning balance	¥224 million	¥235 million
Increase due to change in estimates	14	–
Decrease due to settlement of asset retirement obligations	(3)	(4)
Ending balance	235	230

Notes - Real estate for lease, etc.

The Company and certain subsidiaries rent out a space such as in their business places as well as land mainly for rental housing and buildings in the Tokyo metropolitan area and other areas. Rental profit related to the real estate for rent, etc. for the previous fiscal year was ¥268 million (rent income is recorded in net sales, and rent expenses are recorded in cost of sales). Rental profit related to the real estate for rent, etc. for the current fiscal year was ¥286 million (rent income is recorded in net sales, and rent expenses are recorded in cost of sales).
Carrying amounts on the consolidated balance sheet, changes during period for the previous and current fiscal years and fair values of the real estate for rent, etc. are as follows:

(Millions of yen)

		Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Carrying amount on the consolidated balance sheet			
	Balance at beginning of period	4,615	4,818
	Increase (decrease) during period	203	(71)
	Balance at end of period	4,818	4,746
Fair value at end of period		3,267	3,299

(Notes) 1. Carrying amount on the consolidated balance sheet is calculated by subtracting accumulated depreciation and impairment loss from acquisition cost.

2. The increase (decrease) during period for the previous fiscal year primarily consist of an increase in rentable space (¥230 million) and a decrease due to depreciation (¥27 million). The increase (decrease) during period for the current fiscal year primarily consist of a decrease in rentable space (¥62 million) and a decrease due to depreciation (¥9 million).

3. Fair value of property whose amount has significance at the end of the period is an amount based on a value investigation report by an external real property appraiser, and that of other property whose amount has little significance is an amount based on an index which is believed to reflect a market value appropriately.

Notes - Segment information, etc.

[Segment information]

1. Description of reportable segments

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors of the Company to make decisions about resource allocation and assess their performance.
The Group develops comprehensive business strategies and engages in business activities for respective products and service of divisions by product and service in the Company.
Accordingly, the Company is comprised of segments by product and service, and its reportable segments consist of “Logistics Solutions Business” and “Plant & Machinery Business.”
“Logistics Solutions Business” develops, designs, builds and executes construction works of, material handling systems focusing on sorting, picking and conveying systems and provides maintenance services and other operations for these systems. “Plant & Machinery Business” designs, builds, and executes construction works of, storage tanks for LNG, LPG, crude oil and other gas and liquid and provides maintenance services and other operations for these tanks.

2. Method of measurements of sales, profit (loss), asset, and other items for each reportable segment

The accounting procedures for the reporting operating segments are nearly the same as those stated in “Significant accounting policies for preparation of the consolidated financial statements.” Profits of the reportable segments are based on operating profit. Intersegment transactions are based on actual transaction amounts.

3. Disclosure of sales, profit (loss), asset, and other items for each reportable segment

Previous fiscal year (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable segments			Other (Note)	Adjustment	Total
	Logistics Solutions Business	Plant & Machinery Business	Total			
Sales						
Sales to external customers	28,887	9,950	38,837	7,680	–	46,518
Transactions with other segments	–	–	–	133	(133)	–
Total	28,887	9,950	38,837	7,813	(133)	46,518
Segment profit (loss)	2,812	(305)	2,506	880	(795)	2,591
Segment assets	28,005	12,262	40,267	12,689	8,028	60,985
Other items						
Depreciation	411	90	502	198	17	718
Increase in property, plant and equipment, and intangible assets	796	101	898	459	27	1,385

(Note) "Other" includes the Life & Work Environmental Business (building construction business, manufacturing and sales of industrial facilities and equipment, inspection, measurement and analysis of asbestos), real estate rental operations, leasing operations, etc.

Current fiscal year (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Reportable segments			Other (Note)	Adjustment	Total
	Logistics Solutions Business	Plant & Machinery Business	Total			
Sales						
Sales to external customers	27,239	9,800	37,039	6,577	–	43,617
Transactions with other segments	–	–	–	151	(151)	–
Total	27,239	9,800	37,039	6,729	(151)	43,617
Segment profit (loss)	3,140	(602)	2,538	789	(703)	2,623
Segment assets	25,742	11,194	36,937	12,423	9,403	58,764
Other items						
Depreciation	459	79	538	218	19	776
Increase in property, plant and equipment, and intangible assets	478	44	523	345	428	1,297

(Note) "Other" includes the Life & Work Environmental Business (building construction business, manufacturing and sales of industrial facilities and equipment, inspection, measurement and analysis of asbestos), real estate rental operations, leasing operations, etc.

4. Differences between total amounts for reportable segments and amounts in the consolidated financial statements and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

Profit	Previous fiscal year	Current fiscal year
Reportable segments total	2,506	2,538
Profit of "other"	880	789
Corporate expenses (Note)	(795)	(700)
Other adjustments	–	(3)
Operating profit in the consolidated financial statements	2,591	2,623

(Note) Corporate expenses mainly represent expenses related to administrative divisions such as the general affairs division, which are not attributable to the reportable segments.

(Millions of yen)

Asset	Previous fiscal year	Current fiscal year
Reportable segments total	40,267	36,937
Assets of "other"	12,689	12,423
Corporate assets (Note)	8,052	9,441
Other adjustments	(23)	(37)
Total assets in the consolidated financial statements	60,985	58,764

(Note) Corporate assets mainly represent assets related to divisions managing cash and deposits, investment securities and other assets of the Company, which are not attributable to the reportable segments.

[Information associated with reportable segments]

Previous fiscal year (From April 1, 2019 to March 31, 2020)

1. Information for each product and service

(Millions of yen)

	Material handling system equipment, etc.	Storage tank, etc.	Maintenance services of storage tanks	Other	Total
Sales to external customers	28,887	2,288	7,661	7,680	46,518

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
44,194	2,284	39	46,518

(Note) Sales are classified by country or region on the basis of construction sites.

(2) Property, plant and equipment

(Millions of yen)

Japan	Southeast Asia	Oceania	Total
15,690	709	42	16,442

3. Information for each of main customers

This information has been omitted since sales to a specific customer account for less than 10% of net sales in the consolidated statement of income and comprehensive income.

Current fiscal year (From April 1, 2020 to March 31, 2021)

1. Information for each product and service

(Millions of yen)

	Material handling system equipment, etc.	Storage tank, etc.	Maintenance services of storage tanks	Other	Total
Sales to external customers	27,239	1,085	8,715	6,577	43,617

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
42,159	1,416	40	43,617

(Note) Sales are classified by country or region on the basis of construction sites.

(2) Property, plant and equipment

(Millions of yen)

Japan	Southeast Asia	Oceania	Total
15,593	7	40	15,641

3. Information for each of main customers

This information has been omitted since sales to a specific customer account for less than 10% of net sales in the consolidated statement of income and comprehensive income.

[Disclosure of impairment loss on non-current assets for each reportable segment]

Previous fiscal year (From April 1, 2019 to March 31, 2020)
Not applicable

Current fiscal year (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Reportable segments		Other	Adjustment	Total
	Logistics Solutions Business	Plant & Machinery Business			
Impairment losses	–	1,047	–	–	1,047

[Amortization and unamortized balance of goodwill for each reportable segment]

Previous fiscal year (From April 1, 2019 to March 31, 2020)
Not applicable

Current fiscal year (From April 1, 2020 to March 31, 2021)
Not applicable

[Gain on bargain purchase for each reportable segment]

Previous fiscal year (From April 1, 2019 to March 31, 2020)
Not applicable

Current fiscal year (From April 1, 2020 to March 31, 2021)
Not applicable

[Information associated with related parties]

Subsidiaries and others

1. Related party transactions

   Not applicable

2. Notes concerning the parent company or important affiliated companies

   Not applicable

Notes - Per share information

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Net assets per share	¥4,095.51	¥4,461.06
Basic earnings per share	¥195.87	¥212.41

(Notes) 1. The amount of diluted earnings per share is not provided because there are no potential shares.

2. In the calculation of "net assets per share," shares of the Company held by the benefit trust for officers are included in treasury shares deducted from the total number of shares issued at the end of the fiscal year (84 thousand shares in the previous fiscal year, 81 thousand shares in the current fiscal year).
   In addition, in the calculation of "basic earnings per share" and "diluted earnings per share," such shares are included in treasury shares deducted in the calculation of the average number of shares during the period (51 thousand shares in the previous fiscal year, 82 thousand shares in the current fiscal year).

3. The basis for calculation for basic earnings per share is as follows:

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Profit attributable to owners of parent	¥1,717 million	¥1,777 million
Profit not relating to common shareholders	–	–
Profit attributable to owners of parent pertaining to common shares	1,717	1,777
Average number of shares during the period	8,770 thousand shares	8,368 thousand shares

Notes - Significant events after reporting period

Acquisition of a company, etc. through acquisition of shares

The Company resolved at the Board of Directors meeting held on March 23, 2021 to acquire all issued shares of Eco Analysis Corporation, and acquired all the shares as of April 30, 2021 under a share transfer agreement concluded with FUJITSU LIMITED.

1. Outline of the business combination

(1) Name of the acquired entity and its line of business

Name of the acquired entity: Eco Analysis Corporation

Line of business: Maintenance and management/checking/repair/data analysis of environmental equipment and measurement instruments
Environmental research (living environment/natural environment), environmental assessment, environmental monitoring, sale of systems and environmental measuring instruments/reagents

(2) Major reason why the business combination was conducted

Eco Analysis Corporation has supported environmental infrastructure over 50 years since its foundation through maintenance and management of environmental measuring instruments for which the said company boasts industry-leading performance and share, research on living environment and natural environment, system solutions including a telemeter system that measures environmental data remotely, as well as environmental assessment on disaster prevention monitoring and renewable energy, aiming to contribute to health and building of a bright future.

As efforts to realize a decarbonized society are beginning in earnest in the face of occurrence of extreme weather and disaster due to climate change, and others, constant needs for environmental conservation have been growing. Thus, the Company has brought in Eco Analysis Corporation for the Group to achieve a better society and further strengthen and expand the business development in the environmental field by providing a variety of solutions to environmental issues while integrating technologies and know-how in the Group.

(3) Date of the business combination
April 30, 2021

(4) Legal form of the business combination
Acquisition of shares

(5) Name of the company after the business combination
There is no change.

(6) Ratio of voting rights acquired
100%

(7) Major grounds for determination of the acquiring entity
This is because the Company acquired the shares in exchange for cash.

2. Acquisition cost of the acquired entity and breakdown of consideration by type

Since the Company has a duty of confidentiality in accordance with provisions of the share transfer agreement, the information is not disclosed.

3. Details and amount of major acquisition-related expenses

They are yet to be determined at this time.

4. Amount, cause, amortization method and amortization period of goodwill arising

They are yet to be determined at this time.

5. Amount of assets accepted and liabilities assumed on the date of the business combination, and their major components

They are yet to be determined at this time.

(v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of bonds payable

Company name	Type of bond	Date of issuance	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Toyo Kanetsu K.K.	1st Series of Unsecured Bonds	September 25, 2020	–	500	0.39	None	September 24, 2027
Toyo Kanetsu K.K.	2nd Series of Unsecured Bonds	March 25, 2021	–	500	0.41	None	March 24, 2028
Total	–	–	–	1,000	–	–	–

(Note) Projected redemption amounts for five years after the consolidated balance sheet date are as follows:

(Millions of yen)

Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
–	–	–	–	–

Annexed consolidated detailed schedule of borrowings

Classification	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Average interest rate (%)	Repayment due
Short-term borrowings	7,849	3,620	0.374	–
Current portion of long-term borrowings	619	8	1.475	–
Long-term borrowings (excluding current portion)	4,488	4,580	0.793	Between 2024 and 2026
Total	12,956	8,208	–	–

(Notes) 1. In calculating the average interest rate, the weighted average interest rate on the ending balance of borrowings, is shown.

2. Repayment of long-term borrowings (excluding the current portion) scheduled within five years after the consolidated balance sheet date is as follows:

(Millions of yen)

Classification	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Long-term borrowings	–	1,700	2,480	400

Annexed consolidated detailed schedule of asset retirement obligations

A schedule of asset retirement obligations has been omitted since matters to be stated in the schedule are stated as notes prescribed in Article 15-23 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

(2) Other information

Quarterly information for the current fiscal year

(Cumulative period)	First quarter (Cumulative) (From April 1, 2020 to June 30, 2020)	Second quarter (Cumulative) (From April 1, 2020 to September 30, 2020)	Third quarter (Cumulative) (From April 1, 2020 to December 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Net sales (Millions of yen)	9,798	20,178	31,344	43,617
Profit before income taxes (Millions of yen)	727	1,130	2,054	2,892
Profit attributable to owners of parent (Millions of yen)	465	736	1,359	1,777
Basic earnings per share (Yen)	55.08	87.14	161.36	212.41

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	55.08	32.06	74.28	51.05

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 29, 2021

To the Board of Directors of
Toyo Kanetsu K.K.

GYOSEI & CO.
Tokyo Office

Designated Partner
Engagement Partner
Certified Public Accountant Takayuki Nakagawa (seal)

Designated Partner
Engagement Partner
Certified Public Accountant Akira Mishima (seal)

Audit of Financial Statements

Audit Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying consolidated financial statements of Toyo Kanetsu K.K. (the "Company"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statements of income and comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the fiscal year from April 1, 2020 to March 31, 2021, and significant accounting policies for preparation of the consolidated financial statements, other notes, and annexed consolidated detailed schedules, all expressed in Japanese yen.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries (the "Group") as of March 31, 2021, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Basis for Audit Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Appropriateness of the amount of impairment losses recorded	
Description of key audit matters and reason for determining the matter	How we addressed the matter in our audit
The consolidated group of Toyo Kanetsu K.K. (hereinafter referred to as the “Company Group”) is mainly engaged in planning, design, building, execution of construction works and sale of machinery and plants, and has developed business activities including related maintenance as Plant & Machinery Business since its inception. In identifying whether there is any indication of impairment on non-current assets, the Company Group considers that businesses such as Logistics Solutions Business and Plant & Machinery Business are the basis and the smallest unit that generates independent cash flows, and that non-current assets related to Plant & Machinery Business are one of asset groups. Plant & Machinery Business continues to face a harsh business environment with a declining trend in investments in oil and gas related facilities on the back of the worldwide trend of decarbonization, and accelerated elimination and consolidation of refineries in Japan. Amid this situation, as stated in notes in “Notes - Consolidated statement of income and comprehensive income” and “Notes -Segment information, etc.,” ¥1,047 million of impairment losses on the asset group related to Plant & Machinery Business were recorded in the consolidated statement of income and comprehensive income for the current fiscal year. The estimated period of future cash flows used to measure impairment losses shall be remaining economic useful life and is a period of 10 years or more. Because major assumptions established to calculate future cash flows involve management’s judgment, there is uncertainty in the amount recorded in the consolidated financial statements. In addition, the outlook is unclear in view of the business environment currently faced by the Company Group, and the degree of uncertainty is becoming higher. Due to the above factors, we have judged that appropriateness of the amount of impairment losses arising from non-current assets of the asset group related to Plant & Machinery Business is a key audit matter.	In examining appropriateness of the amount of impairment losses recorded, we mainly implemented the following audit procedures. (1) Assessment of internal control We assessed design of internal control related to measurement of impairment losses on non-current assets, and effectiveness of the operational status. (2) Assessment of reasonableness of the estimate of future cash flows To verify reasonableness of major assumptions used to estimate future cash flows and the estimated amount of future cash flows, we mainly implemented the following procedures. - We inspected materials related to the business plan, and asked the person responsible for the Plant & Machinery Business division that formulated the business plan about grounds for major assumptions and the method of calculating future cash flows. - We analyzed the cause of unachieved targets in actual results in relation to past business plans, and examined whether the cause was taken into account appropriately in the estimation of future cash flows. - We conducted sensitivity analysis on major assumptions and others (analysis to assess impact of changes in them on future cash flows), and examined whether uncertainty was incorporated appropriately in future cash flows. - With regard to results of appraisal used to calculate net selling value of certain land, we examined appropriateness of the degree of professional competence of the appraiser and appropriateness of the appraisal method, and assessed credibility of the appraisal results. (3) Assessment of reasonableness of the discount rate With regard to the discount rate used to calculate value in use, we mainly implemented the following procedures. - We assessed appropriateness of the method of calculating the discount rate in light of requirements of accounting standards and others. - We assessed reasonableness of the application of input parameters (risk-free rate, beta value, market risk premium).

2. Consideration of the estimate of total cost of construction work by the percentage-of-completion method	
Description of key audit matters and reason for determining the matter	How we addressed the matter in our audit
As stated in the "Notes - Significant accounting estimates," net sales recorded by the percentage-of-completion method in the consolidated statement of income and comprehensive income for the current fiscal year by the consolidated group of Toyo Kanetsu K.K. (hereinafter referred to as the "Company") is ¥8,445 million. Most of the amount was recorded in the Company's Logistics Solutions Business. Therefore, for auditing purposes, there is significance of the amount in it. In the application of the percentage-of-completion method, the Company recorded net sales based on the progress rate calculated as the proportion of construction cost incurred corresponding to value of work done at the end of the current fiscal year to the total amount of estimated cost of construction work. The estimated amount of total cost of construction work has been determined on the basis of management's best estimate and judgments based on past experience and available information collected as well as individual work specifications, and changes to original estimates may occur due to price fluctuations in the market, changes to specifications, natural disasters and others. Therefore, for auditing purposes, there is qualitative significance in it. Due to the above factors, we have judged that the estimate of total cost of construction work used by the Company to recognize revenue by the percentage-of-completion method in Logistics Solutions Business is a key audit matter.	In examining appropriateness of the estimate of total cost of construction work by the percentage-of-completion method, we mainly implemented the following audit procedures. (1) Assessment of internal control We assessed design of internal control related to estimation of total cost of construction work, and effectiveness of the operational status. (2) Assessment of reasonableness of the estimate of total cost of construction work With regard to the estimate of total cost of construction work as at the end of the current fiscal year, we mainly implemented the following audit procedures. - We directly asked the person responsible for the division that estimates total cost of construction work questions to understand the overview of the construction work, and examined consistency between the description of the work understood and major components of the total cost of construction work. - We checked materials supporting estimation of cost of construction work such as quotations received from subcontractors and suppliers of products against components of the total cost of construction work, and examined appropriateness of the estimated amount of the total cost of construction work. - With regard to total cost of construction work for which the cost rate was estimated to be lower in light of past records, we asked questions about reasons why the cost rate was estimated to be lower in light of past results, and examined reasonableness of the estimate. - With regard to construction works that were completed or delivered in the current fiscal year, we compared the estimated amount of total cost of construction work with the actual amount, verified appropriateness of the estimate of total cost of construction work as at the end of the previous fiscal year ex post facto, and checked whether there was any matter to be taken into account in examining appropriateness of the estimated amount of total cost of construction work as at the end of the current fiscal year.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of the Group's ability to continue as a going concern, and for disclosing matters related to going concern, as applicable in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to designing and operating the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Consider, in making those risk assessments, internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.

- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the consolidated financial statements or, if such notes are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate whether the overall presentation of the consolidated financial statements and the notes thereto are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the notes thereto, and whether the consolidated financial statements represent the underlying transactions and accounting events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

We determine which of the matters discussed with the Audit and Supervisory Committee were of most significance in the audit of the consolidated financial statements of the current fiscal year and therefore are the key audit matters, and describe the matters in the auditor's report. However, we do not describe such a matter, if law or regulation precludes public disclosure about the matter, or if in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit of Internal Control

Audit Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan, we have audited management's report on internal control of the Company as of March 31, 2021.

In our opinion, the management's report on internal control referred to above, which represents that the internal control over financial reporting of the Company as of March 31, 2021 was effective, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Audit Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under the auditing standards for internal control over financial reporting are further described in the "Auditor's Responsibilities for the Audit of the Report on Internal Control" section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting, and for the preparation and fair presentation of the report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing and verifying the design and operation of effective internal control over financial reporting.

There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Audit of the Report on Internal Control

Our responsibilities are to obtain reasonable assurance about whether the report on internal control is free from material misstatement, and to issue a report on audit of internal control that includes our opinion on the report on internal control based on our internal control audit from an independent point of view.

In accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures in order to obtain audit evidence regarding the evaluation results for internal control over financial reporting in the report on internal control. The audit procedures for internal control auditing selected and applied depend on the auditor's judgment, including the significance of effects on the reliability of financial reporting.

- Evaluate disclosures on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluate the overall presentation of the report on internal control.

- Obtain audit evidence that is sufficient and appropriate regarding the results of the assessment of internal control over financial reporting in the report on internal control. We are responsible for the direction, supervision and performance of the audit of the report on internal control. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the internal control audit, results of the internal control audit, significant identified deficiencies in internal control that should be disclosed, results of their correction, and other matters required by auditing standards for internal control.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Conflicts of Interest

Our firm and its engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Corporate Data

Date of Establishment	May 16, 1941
Common Stock	¥18,580 million
Authorized Shares	297,000,000
Capital Stock Issued	9,323,074
Number of Shareholders	11,612
Security Traded	Tokyo Stock Exchange, First Section
Transfer Agent and Registrar	The Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Annual Meeting	The annual meeting of shareholders is normally held in June in Tokyo, Japan

Directory

Head Office

11-1, Minamisuna 2-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3333 Fax: +81-3-5857-1952
URL: https://www.toyokanetsu.co.jp/global/

Logistics Solutions Systems Business

Tel: +81-3-5857-3126 Fax: +81-3-5857-3185

Plant & Machinery Business

Tel: +81-3-5857-3109 Fax: +81-3-5857-3173

Osaka Sales Office

1-9-2, Senrioka-Higashi, Settsu, Osaka 566-0011, Japan
Tel: +81-72-645-2520 Fax: +81-72-645-2532

Chiba Plant

2 Tsukiji, Kisarazu, Chiba 292-0835, Japan
Tel: +81-438-36-7161 Fax: +81-438-36-8211

Domestic Subsidiaries

Toyo Kanetsu Builtec K.K.

11-1, Minamisuna 2-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-3640-5164 Fax: +81-3-6800-3156
URL: http://www.web-tkb.com

Toyo Service System K.K.

11-1, Minamisuna 2-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3200 Fax: +81-3-5857-3171
URL: https://www.toyoservice.co.jp

Toyo Koken K.K.

11-1, Minamisuna 2-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3161 Fax: +81-3-5857-3198
URL: https://www.toyokoken.co.jp/en

Kankyo Research Institute Inc.

6-22, Okadomachi, Hachioji-shi, Tokyo 192-0054, Japan
Tel: +81-42-627-2810 Fax: +81-42-627-2820
URL: http://www.kankyo-research.co.jp/

Eco Analysis Corporation

84, Takedakitamitsuguicho, Fushimi-ku, Kyoto-shi, Kyoto
612-8419, Japan
Tel: +81-75-643-0341 Fax: +81-75-644-0645
URL: http://www.kankyou-keisoku.co.jp/

Overseas Subsidiaries

PT Toyo Kanetsu Indonesia

(Jakarta Head Office)
Midplaza Building 1, 8th Floor, Jl. Jend. Sudirman Kav. 10-11,
Jakarta 10220, Indonesia
Tel: +62-21-570-7805 / 7739 Fax: +62-21-570-3950
URL: http://www.pttki.com/

Toyo Kanetsu Singapore Pte. Ltd.

16 Ayer Rajah Crescent, #03-04 Tempco Technominium,
3rd Floor, Singapore 139965
Tel: +65-6776-2393 Fax: +65-6773-1703

Toyo Kanetsu (Malaysia) Sdn. Bhd.

Sublot 51, 1st Floor, Medan Jaya Commercial Centre,
97000 Bintulu, Sarawak, Malaysia
Tel: +60-86-338-122 Fax: +60-86-338-123

TOYO KANETSU K.K.

Contact

TOYO KANETSU K.K.
Corporate Planning Department
Corporate Division

TEL: +81-3-5857-3333 FAX: +81-3-5857-3170
E-MAIL: tkkreport@toyokanetsu.co.jp
URL: https://www.toyokanetsu.co.jp/global/