TOYO KANETSU K.K.

TKK Report 2020
Financial Section

(Fiscal year ended March 31, 2020)

This material is the Financial Section of the TKK Report 2020, the integrated report published by Toyo Kanetsu K.K. that summarizes the financial information for the Company's fiscal year 2019 (Apr. 2019 to Mar. 2020).

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Analysis of Operating Environment and Results

Although Japan's economy continued on a moderate recovery in the fiscal year under review, helped by improvements in employment and income, the outlook for the economy remained uncertain due to such factors as trade friction between the US and China and the effects of a consumption tax hike. In addition, since the beginning of 2020, the global spread of COVID-19 has had a marked impact on economies, sparking concerns about an economic downturn.

In the Logistics Solutions Business, demand for automated equipment remained strong, backed by an increase in the volume of goods for e-commerce and co-ops as well as labor shortages. However, uncertainty has grown due to the spread of COVID-19. On the other hand, for baggage handling systems for airports, aggressive capital investment ahead of the 2020 Tokyo Olympics and Paralympics has run its course and demand for capital investment is expected to make a sudden turn and decline in the future.

In the Plant & Machinery Business, the business environment is becoming increasingly tough, due in part to a recent decline in crude oil prices (to abnormal levels) due to the influence of COVID-19, leading to significant restraints in capital investment in oil- and gas-related markets that have lost their remaining strength. This happened just as negotiations to adjust production in oil-producing countries had stalled, despite some countries moving to resume investment in oil- and gas-related equipment in anticipation of increased energy demand expected from the economic and population growth of emerging nations.

Given this business environment, net sales for the current fiscal year were ¥46,518 million (up 2.9% year on year). Due to improvements of profitability in the Logistics Solutions Business, the Company's consolidated operating profit was ¥2,591 million (up 84.3%) while ordinary profit was ¥2,970 million (up 67.7%). Profit attributable to owners of parent came to ¥1,717 million (up 67.5%). In addition, orders received rose 9.1% to ¥47,241 million.

● Logistics Solutions Business

Sales were recorded mainly for airport equipment projects and warehouse automated equipment projects incorporating our Multishuttle warehouse system for e-commerce, co-ops, and retail. Operating profit grew mainly due to improved profitability from large-scale projects strengthened by project management, more maintenance operations, and decreases in expenses.

As a result, consolidated net sales in this business decreased 1.3% year on year to ¥28,887 million, while operating profit increased 47.4% to ¥2,812 million, and orders received grew 19.0% to ¥36,283 million.

● Plant & Machinery Business

While the demanding business environment has prevented us from receiving orders for new, large-scale tank projects, maintenance projects for refineries in Japan contributed to stable sales, and we worked to increase sales by contracting for processing of steel products other than tanks at overseas subsidiaries. In addition to higher sales, operating losses were reduced by a reversal of the allowance for construction projects recorded in the past fiscal years, as well as the effects of in-depth cost reduction and other actions.

As a result, consolidated net sales in this business increased 18.1% year on year to ¥9,950 million, and an operating loss of ¥305 million was posted (compared with ¥12,21 million in the previous fiscal year), while orders received decreased 13.4% to ¥9,903 million.

● Other Businesses (including Life & Work Environmental Business)

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 increased 2.5% year on year to ¥7,680 million. Operating profit decreased 20.6% to ¥880 million, and orders received decreased 22.7% to ¥1,053 million.

Business Risks

Toyo Kanetsu's risk management system includes a risk management officer—appointed from among the directors who oversees 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.

We recognize that the effects of the spread of COVID-19, which emerged in 2020, pose a significant risk to our company on many fronts. For our business results, the impact in the fiscal year ended March 31, 2020 was limited. In the fiscal year ending March 31, 2021, however, there is a downside risk to business performance due to the cancellation or delay of some projects that were ordered as well as delays in the supply of parts purchased overseas. In addition, constraints on oil- and gas-related capital investments, based on an observed decrease in energy demand, and lower demand for airport-related equipment due to a sharp drop in the number of air travelers could adversely affect the Group's business results over the medium to long term. In the Logistics Solutions Business, on the other hand, we believe that there are opportunities for business expansion, including from the growth and strong adoption of online shopping after the end of COVID-19 as well as the progress of mechanization and automation to avoid crowds within logistics operations. Therefore, in response to new social patterns, we will provide next-generation solutions that are effective for ensuring social distancing as a countermeasure against infection. Moreover, while the Group has thoroughly adopted ways to curb the spread of infection, our highest priority will be to continue to put the safety of our employees and their families and other stakeholders first. For this reason, we have begun to develop systems and environments that enable diverse workstyles—while improving productivity—as we promote digital management with a view to preventing infection. On the financial side, we will prepare for contingencies, while making careful investment decisions and ensuring that we have enough capital on hand for our needs.

Forward-looking statements in the text are based on assessments as of June 26, 2020, the date of submission of the Company's Annual Securities Report (Japanese).

(1) Risks related to global economic and energy market trends, etc.

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 maintenance operations using AI and IoT technologies as well as expanding overseas, mainly in Southeast Asia.

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 appreciation of the yen 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.

(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. 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 or due to natural disasters, accidents, and so on.

In the Plant & Machinery Business, we repair storage tanks, mainly at refineries in Japan. We have established a stable construction system while strengthening cooperation with partner companies, but if there were a shortage of construction workers or if the purchase price of materials and equipment were to jump, this could affect business results of this business segment.

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 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).

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.

(4) 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.

That is why we are pursuing the possibility of creating a third mainstay business segment to add to Logistics Solutions and Plant & Machinery by taking all conceivable steps, such as M&As, setting up corporate venture capital (CVC), and collaboration with startups.

However, if these strategic investments do not achieve our initial expectations or develop the expected synergies or do not lead to the launch of new businesses, the Group's business results and financial position could be affected over the medium to long term.

(5) 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.

We are identifying business opportunities amid increasing worldwide environmental awareness and the transition to a low-carbon and decarbonized society. We are also using our technologies to develop large liquid hydrogen tanks and we are participating in biomass power generation. In these ways, we are promoting environmental initiatives. Also, based on our environmental policy, we have acquired and updated ISO 14001 certification, and we actively operate and maintain an environmental management system.

However, if the impact of climate change becomes more serious in the future, the decrease in demand for LNG and crude oil tanks due to a shifting energy mix could adversely affect the Company's business environment. Environmental issues, such as soil, air, water, and marine pollution caused by the Group, could lead to a decrease in social trust.

(6) 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.

(7) 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 strive to retain employees by creating a comfortable workplace environment after revamping our personnel system to improve and revitalize our employees. We have also formulated an action plan to promote women's participation and advancement in the workplace, and we take on initiatives to foster and appoint female managerial candidates, as well as to promote staggered work hours and to improve the rate of taking paid leave.

(8) 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 certification, 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.

(9) 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 emergency stockpiles, 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.

(10) 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.

Consolidated financial statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheet

(Millions of yen)

		Previous fiscal period (As of March 31, 2019)		Current fiscal period (As of March 31, 2020)
Assets				
Current assets				
Cash and deposits	*1	7,666	*1	11,507
Notes and accounts receivable - trade		23,267		15,413
Investments in leases		1,499		937
Merchandise and finished goods		38		27
Work in process		4,252		5,179
Raw materials and supplies		1,670		1,977
Other		534		435
Allowance for doubtful accounts		(22)		(16)
Total current assets		38,906		35,461
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	*3	3,321	*3	4,218
Machinery, equipment and vehicles, net	*3	1,021	*3	1,016
Tools, furniture and fixtures, net	*3	310	*3	364
Land	*3, *4	10,556	*3, *4	10,568
Construction in progress		622		253
Other, net		12		20
Total property, plant and equipment	*2	15,845	*2	16,442
Intangible assets		357		381
Investments and other assets				
Investment securities		8,671		8,013
Deferred tax assets		63		45
Retirement benefit asset		332		38
Other		868		889
Allowance for doubtful accounts		(289)		(286)
Total investments and other assets		9,646		8,699
Total non-current assets		25,850		25,523
Total assets		64,756		60,985

(Millions of yen)

		Previous fiscal period (As of March 31, 2019)		Current fiscal period (As of March 31, 2020)
Liabilities				
Current liabilities				
Notes and accounts payable - trade	*5	1,570	*5	919
Short-term borrowings	*3	7,849	*3	7,849
Current portion of long-term borrowings	*3	514	*3	619
Accrued expenses		7,534		4,763
Income taxes payable		659		553
Advances received		2,020		2,790
Provision for bonuses		227		267
Provision for loss on order received		121		241
Provision for warranties for completed construction		555		389
Other		870		455
Total current liabilities		21,922		18,848
Non-current liabilities				
Long-term borrowings	*3	4,627	*3	4,488
Deferred tax liabilities		1,267		1,520
Deferred tax liabilities for land revaluation	*4	1,095	*4	1,095
Retirement benefit liability		358		152
Asset retirement obligations		224		235
Other		27		40
Total non-current liabilities		7,599		7,534
Total liabilities		29,522		26,382
Net assets				
Shareholders' equity				
Share capital		18,580		18,580
Capital surplus		1,273		1,273
Retained earnings		14,549		15,224
Treasury shares		(1,077)		(2,355)
Total shareholders' equity		33,324		32,722
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		2,621		2,666
Deferred gains or losses on hedges		–		0
Revaluation reserve for land	*4	106	*4	106
Foreign currency translation adjustment		(759)		(729)
Remeasurements of defined benefit plans		(61)		(165)
Total accumulated other comprehensive income		1,907		1,878
Non-controlling interests		1		1
Total net assets		35,234		34,602
Total liabilities and net assets		64,756		60,985

(ii) Consolidated statement of income and comprehensive income

(Millions of yen)

		Previous fiscal year (From April 1, 2018 to March 31, 2019)		Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales		45,188		46,518
Cost of sales	*1	38,194	*1	37,355
Gross profit		6,994		9,162
Selling, general and administrative expenses	*2, *3	5,588	*2, *3	6,570
Operating profit		1,406		2,591
Non-operating income				
Interest income		12		9
Dividend income		302		277
Foreign exchange gains		–		5
Other		136		160
Total non-operating income		452		452
Non-operating expenses				
Interest expenses		49		59
Foreign exchange losses		19		–
Other		17		14
Total non-operating expenses		87		74
Ordinary profit		1,771		2,970
Extraordinary income				
Gain on sales of non-current assets		36		0
Gain on sales of investment securities		74		578
Gain on bargain purchase		87		–
Disaster donations		46		–
Other		1		–
Total extraordinary income		246		579
Extraordinary losses				
Loss on valuation of investment securities		237		673
Loss on disaster		159		39
Other		20		48
Total extraordinary losses		418		761
Profit before income taxes		1,599		2,788
Income taxes - current		748		759
Income taxes - deferred		(173)		311
Total income taxes		574		1,070
Profit		1,025		1,717
Profit attributable to				
Profit attributable to owners of parent		1,025		1,717
Loss attributable to non-controlling interests		(0)		(0)
Other comprehensive income				
Valuation difference on available-for-sale securities		(374)		44
Deferred gains or losses on hedges		–		0
Foreign currency translation adjustment		(83)		30
Remeasurements of defined benefit plans, net of tax		(66)		(104)
Total other comprehensive income	*4	(523)	*4	(29)
Comprehensive income		501		1,688
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		501		1,688
Comprehensive income attributable to non-controlling interests		(0)		(0)

(iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2018 to March 31, 2019)

(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	15,750	(1,397)	34,207
Changes during period					
Dividends of surplus			(930)		(930)
Profit attributable to owners of parent			1,025		1,025
Reversal of revaluation reserve for land			26		26
Purchase of treasury shares				(1,004)	(1,004)
Cancellation of treasury shares			(1,323)	1,323	–
Net changes in items other than shareholders' equity					
Total changes during period	–	–	(1,201)	319	(882)
Balance at end of period	18,580	1,273	14,549	(1,077)	33,324

	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	2,995	–	133	(676)	5	2,458	0	36,666
Changes during period								
Dividends of surplus								(930)
Profit attributable to owners of parent								1,025
Reversal of revaluation reserve for land								26
Purchase of treasury shares								(1,004)
Cancellation of treasury shares								–
Net changes in items other than shareholders' equity	(374)	–	(26)	(83)	(66)	(550)	0	(550)
Total changes during period	(374)	–	(26)	(83)	(66)	(550)	0	(1,432)
Balance at end of period	2,621	–	106	(759)	(61)	1,907	1	35,234

Current 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

(iv) Consolidated statement of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before income taxes	1,599	2,788
Depreciation	728	718
Gain on bargain purchase	(87)	–
Increase (decrease) in allowance for doubtful accounts	(3)	(9)
Increase (decrease) in retirement benefit liability	(13)	(195)
Decrease (increase) in retirement benefit asset	4	139
Increase (decrease) in provision for loss on order received	(62)	120
Increase (decrease) in provision for warranties for completed construction	(25)	(165)
Interest and dividend income	(315)	(287)
Interest expenses	49	59
Disaster donations	(46)	–
Loss on disaster	159	39
Foreign exchange losses (gains)	72	(17)
Loss (gain) on valuation of investment securities	237	673
Loss (gain) on sales of investment securities	(74)	(578)
Loss (gain) on sales of non-current assets	(31)	6
Loss on retirement of non-current assets	8	(18)
Decrease (increase) in trade receivables	(13,749)	7,865
Decrease (increase) in investments in leases	272	562
Decrease (increase) in inventories	(419)	(1,221)
Decrease (increase) in advance payments - trade	95	1
Increase (decrease) in trade payables	3,714	(3,428)
Increase (decrease) in advances received	1,621	769
Other, net	(134)	(287)
Subtotal	(6,400)	7,533
Interest and dividends received	314	287
Interest paid	(50)	(67)
Disaster donations received	46	–
Payments associated with disaster loss	(159)	(24)
Income taxes paid	(449)	(772)
Net cash provided by (used in) operating activities	(6,698)	6,955
Cash flows from investing activities		
Payments into time deposits	–	(166)
Proceeds from withdrawal of time deposits	–	118
Proceeds from sales and redemption of securities	500	–
Purchase of non-current assets	(1,080)	(1,424)
Proceeds from sales of non-current assets	375	4
Purchase of investment securities	(717)	(250)
Proceeds from sales and redemption of investment securities	74	878
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(427)	–
Other, net	(40)	27
Net cash provided by (used in) investing activities	(1,315)	(812)

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	3,217	–
Proceeds from long-term borrowings	2,000	480
Repayments of long-term borrowings	(38)	(514)
Purchase of treasury shares	(1,004)	(1,566)
Proceeds from disposal of treasury shares	–	149
Proceeds from share issuance to non-controlling shareholders	1	0
Dividends paid	(926)	(901)
Net cash provided by (used in) financing activities	3,249	(2,351)
Effect of exchange rate change on cash and cash equivalents	(45)	1
Net increase (decrease) in cash and cash equivalents	(4,810)	3,793
Cash and cash equivalents at beginning of period	12,420	7,609
Cash and cash equivalents at end of period	*1 7,609	*1 11,402

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 notes and accounts receivable - trade, 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 - 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 31, 2020)
- "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.

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, issued by Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

With regard to "sources of estimation uncertainty," which is required to be disclosed in paragraph 125 of International Accounting Standard (IAS) 1 "Presentation of Financial Statements" (hereinafter referred to as "IAS

1") issued by the International Accounting Standards Board (IASB) in 2003, in order to oblige requests to consider requiring that those sources of estimation uncertainty to be treated as information that is highly useful to users of financial statements and disclosed in the form of note information in the Japanese GAAP as well, the ASBJ developed and issued the Accounting Standard for Disclosure of Accounting Estimates (hereinafter referred to as the "Accounting Standard").

The ASBJ's basic policy for the development of the Accounting Standard is to present the principle (disclosure purpose) instead of enhancing individual notes, and place the onus on entities to determine the specific information to be disclosed according to the disclosure purpose, while referring to the provision of paragraph 125 of IAS 1 in the development.

(2) Scheduled date of application

This ASBJ statement will be applied at the end of the fiscal year ending March 31, 2021.

Notes - Additional information

(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 second quarter, 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 at the end of the current fiscal year were ¥149 million and 84,400 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, 2019)	Current fiscal year (As of March 31, 2020)
Cash and deposits	¥2 million	¥2 million

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

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
	¥11,094 million	¥11,542 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, 2019)		Current fiscal year (As of March 31, 2020)	
Buildings and structures	¥336 million	[¥336 million]	¥300 million	[¥300 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	5,795	[5,795]	5,759	[5,759]

Liabilities secured

	Previous fiscal year (As of March 31, 2019)		Current fiscal year (As of March 31, 2020)	
Short-term borrowings	¥1,670 million	[¥1,670 million]	¥1,670 million	[¥1,670 million]
Long-term borrowings (including current portion of long-term borrowings)	1,980	[1,980]	1,980	[1,980]
Total	3,650	[3,650]	3,650	[3,650]

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, 2019)	Current fiscal year (As of March 31, 2020)
Difference between the year-end value of revaluated land and the book value after the revaluation	¥(2,537) million	¥(2,511) million

Notes - Consolidated statement of income and consolidated statement of comprehensive income

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
¥(56) million	¥133 million

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

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Salaries and allowances	¥1,702 million	¥1,913 million
Bonuses	289	395
Provision for bonuses	147	137
Retirement benefit expenses	147	171
Provision of allowance for doubtful accounts	(1)	(9)

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

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
	¥543 million	¥541 million

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

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Valuation difference on available-for-sale securities:		
Amount recorded during the period	¥(555) million	¥64 million
Reclassified amount	–	–
Pre-adjustment of tax effect	(555)	64
Tax effect amount	181	(19)
Valuation difference on available-for-sale securities	(374)	44
Deferred gains or losses on hedges:		
Amount recorded during the period	–	0
Reclassified amount	–	–
Pre-adjustment of tax effect	–	0
Tax effect amount	–	(0)
Deferred gains or losses on hedges	–	0
Foreign currency translation adjustment:		
Amount recorded during the period	(83)	30
Reclassified amount	–	–
Pre-adjustment of tax effect	(83)	30
Tax effect amount	–	–
Foreign currency translation adjustment	(83)	30
Remeasurements of defined benefit plans, net of tax:		
Amount recorded during the period	(90)	(164)
Reclassified amount	(30)	14
Pre-adjustment of tax effect	(120)	(149)
Tax effect amount	54	45
Remeasurements of defined benefit plans, net of tax	(66)	(104)
Total other comprehensive income	(523)	(29)

Notes - Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2018 to March 31, 2019)

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 (Note 2)	9,703	–	380	9,323
Total	9,703	–	380	9,323
Treasury shares				
Common shares (Notes 1 and 2)	401	262	380	283
Total	401	262	380	283

(Notes) 1. Total number of treasury shares of common shares increased by 262 thousand shares due to purchase of treasury shares based on a resolution by the Board of Directors of 261 thousand shares and purchase of shares less than one unit of 1 thousand shares.

2. Total number of issued shares decreased by 380 thousand shares and the number of treasury shares of common shares decreased by 380 thousand shares due to cancellation of treasury shares 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 28, 2018	Common shares	¥930 million	¥100	March 31, 2018	June 29, 2018

(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 27, 2019	Common shares	¥903 million	Retained earnings	¥100	March 31, 2019	June 28, 2019

Current 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.

Notes - Consolidated statement of cash flows

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

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash and deposits	¥7,666 million	¥11,507 million
Time deposits with maturity over 3 months	(54)	(102)
Restricted deposits	(2)	(2)
Cash and cash equivalents	7,609	11,402

Notes - Leases

(Borrower)

Operating lease transactions

Future lease payments under non-cancelable operating leases

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Within 1 year	¥20 million	¥27 million
Over 1 year	57	65
Total	77	93

(Lender)

Finance lease transactions

(1) The components of investments in leases

Current assets

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Lease payments receivable	¥1,526 million	¥925 million
Estimated residual value	86	65
Amount equivalent to interest income	(113)	(53)
Investments in leases	1,499	937

(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, 2019)					
	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	600	401	332	160	31	–

(Millions of yen)

	Current 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	–	–

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, short-term borrowings are primarily for daily business transactions, 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, 2019 and 2020, 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, 2019)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	7,666	7,666	–
(2) Notes and accounts receivable - trade	23,267		
Allowance for doubtful accounts (*)	–		
	23,267	23,267	–
(3) Securities	–	–	–
(4) Investment securities	7,414	7,414	–
Total assets	38,347	38,347	–
(1) Notes and accounts payable - trade	1,570	1,570	–
(2) Short-term borrowings	7,849	7,849	–
(3) Accrued expenses	7,534	7,534	–
(4) Long-term borrowings (including within 1 year)	5,141	5,232	90
Total liabilities	22,095	22,186	90
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.

Current 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.

(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) 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 ¥1,284 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, 2019)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash	7,630	–	–	–
Notes and accounts receivable - trade	23,112	155	–	–
Securities	–	–	–	–
Investment securities				
Held-to-maturity bonds	–	–	–	–
Available-for-sale securities	–	–	–	–
Total	30,742	155	–	–

Current 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	–	–	–

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

Previous fiscal year (As of March 31, 2019)

(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	619	8	–	1,700

Current 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

Notes - Securities

1. Held-to-maturity bonds

Previous fiscal year (As of March 31, 2019)
Not applicable

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

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

Previous fiscal year (As of March 31, 2019)

(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	5,731	1,880	3,850
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	5,731	1,880	3,850
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	1,682	1,937	(254)
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	1,682	1,937	(254)
Total		7,414	3,818	3,595

(Note) “Available-for-sale securities” in the above table do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥1,257 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, 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.

3. Available-for-sale securities that were sold

Previous fiscal year (From April 1, 2018 to March 31, 2019)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	74	74	–
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	74	74	–

Current 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	–

4. Securities subject to the recognition of impairment loss

In the current fiscal year, impairment loss of ¥451 million (shares in available-for-sale securities: ¥451 million) was recognized on securities.

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, 2019)

Not applicable

Current 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	

(2) Interest rates

Previous fiscal year (As of March 31, 2019)

(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	3,680	3,200	(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, 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.

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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Beginning balance of retirement benefit obligations	¥3,493 million	¥3,428 million
Service cost	187	193
Interest expenses	16	16
Unrecognized net actuarial gain or loss	6	27
Retirement benefits paid	(301)	(318)
Past service cost	35	–
Other	(9)	2
Ending balance of retirement benefit obligations	3,428	3,350

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

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Beginning balance of pension plan assets	¥3,567 million	¥3,403 million
Expected return on plan assets	42	42
Unrecognized net actuarial gain or loss	(61)	(136)
Amount of employer contribution	178	240
Retirement benefits paid	(310)	(317)
Other	(12)	3
Ending balance of pension plan assets	3,403	3,235

(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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Retirement benefit obligations under funded system	¥3,426 million	¥3,350 million
Pension plan assets	(3,403)	(3,235)
	23	114
Retirement benefit obligations under unfunded system	2	–
Net amount of assets and liabilities stated in the consolidated balance sheet	25	114
Retirement benefit liability	358	152
Retirement benefit asset	(332)	(38)
Net amount of assets and liabilities stated in the consolidated balance sheet	25	114

(4) Retirement benefit expenses and components thereof

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Service cost	¥187 million	¥193 million
Interest expenses	16	16
Expected return on plan assets	(42)	(42)
Amortization of net actuarial gain or loss	(31)	15
Amortization of past service cost	35	–
Retirement benefit expenses pertaining to defined benefit plans	165	183

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

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

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Past service cost	¥– million	¥– million
Actuarial gains and losses	(120)	(149)
Total	(120)	(149)

(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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Unrecognized past service cost	¥– million	¥– million
Unrecognized net actuarial gain or loss	94	232
Total	94	232

(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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Bonds	28%	30%
Shares	32	27
General account	31	33
Other	9	11
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 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, 2019)	Current fiscal year (As of March 31, 2020)
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 ¥81 million in the previous fiscal year and ¥83 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 ¥93 million in the previous fiscal year and ¥95 million in the current fiscal year.

(1) Funded status of multi-employer plan

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Plan assets	¥10,534 million	¥11,138 million
Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve	21,965	21,406
Net amount	(11,431)	(10,268)

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

Previous fiscal year 7.37% (From April 1, 2018 to March 31, 2019)

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

(3) Supplementary explanation

Major factors for the net amount in (1) above are the balance of past service liabilities (¥11,851 million as of March 31, 2018 and ¥10,889 million as of March 31, 2019) and surplus amount (¥420 million as of March 31, 2018 and ¥622 million as of March 31, 2019) 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 (¥66 million as of March 31, 2018 and ¥67 million as of March 31, 2019) 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, 2019)	Current fiscal year (As of March 31, 2020)
Deferred tax assets		
Tax loss carry-forward (Note)	¥400 million	¥206 million
Accrued business tax	52	46
Retirement benefit liability	109	114
Provision for bonuses	69	81
Allowance for doubtful accounts	95	94
Provision for loss on order received	37	74
Loss on valuation of investment securities	246	246
Loss on valuation of investments in capital	112	181
Impairment loss	137	136
Depreciation	62	39
Asset retirement obligations	68	72
Other	247	227
Deferred tax assets subtotal	1,640	1,520
Valuation reserve for tax loss carry-forwards (Note)	(121)	(206)
Valuation reserve for the total of deductible temporary differences, etc.	(715)	(784)
Valuation reserve subtotal	(837)	(991)
Total deferred tax assets	802	528
Deferred tax liabilities		
Revaluation reserve for land	1,095	1,095
Valuation difference on available-for-sale securities	970	989
Reserve for tax purpose reduction entry of non-current assets	876	871
Other	159	143
Total deferred tax liabilities	3,101	3,100

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

Previous fiscal year (As of March 31, 2019)

(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 (*)	–	–	–	90	31	278	400
Valuation reserve	–	–	–	(90)	(31)	–	(121)
Deferred tax assets	–	–	–	–	–	278	278

Current 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	–	–	–	–	–	–	–

(*) 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, 2019)	Current fiscal year (As of March 31, 2020)
Statutory effective tax rate	30.62%	30.62%
Adjustments		
Increase/decrease in valuation reserve	0.70	4.14
Expenses not deductible for income tax purposes, such as entertainment expenses	1.75	2.72
Income not included for income tax purposes, such as dividends received	(0.91)	(0.52)
Per capita levy of inhabitant taxes	2.57	1.18
Effect of differences in tax rates applicable to subsidiaries from tax rate applicable to the Company	2.39	1.10
Retained earnings of overseas subsidiaries	(1.66)	0.22
Other	0.47	(1.07)
Actual effective tax rate	35.93	38.40

Notes - Business combinations, etc.

Transactions, etc. under common control

Absorption-type merger of a subsidiary

The Company merged Toyo Kanetsu Solutions K.K., a wholly owned subsidiary of the Company, by an absorption-type merger as of April 1, 2019.

1. Outline of transaction
   (1) Name of parties to the business combination and their line of business

Surviving entity by absorption Line of business	Toyo Kanetsu K.K. Manufacturing and sales of various kind of storage tanks
Absorbed entity by absorption Line of business	Toyo Kanetsu Solutions K.K. Manufacturing, sales and maintenance of material handling system equipment

   (2) Date of the business combination
   April 1, 2019
   (3) Legal form of the business combination
   Absorption-type merger, in which Toyo Kanetsu K.K. is the surviving company and Toyo Kanetsu Solutions K.K. is the absorbed company.
   (4) Name of the company after the business combination
   Toyo Kanetsu K.K.
   (5) Other matters concerning the outline of transaction
   The Company decided to carry out an absorption-type merger of Toyo Kanetsu Solutions K.K. in order to strive for further increases of the entire group’s corporate value by sharing intellectual property from the Group’s primary businesses, the Plant & Machinery Business and the Logistics Solutions Business,

appropriately allocating human resources, and effectively using shared assets.

2. Overview of accounting treatment conducted

The acquisition was accounted for as a transaction under common control based on “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on September 13, 2013), and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on September 13, 2013).

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 from 2.2%.

c) Increase (decrease) in total asset retirement obligations

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Beginning balance	¥321 million	¥224 million
Increase due to change in estimates	–	14
Decrease due to settlement of asset retirement obligations	(97)	(3)
Ending balance	224	235

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 ¥458 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 ¥268 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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Carrying amount on the consolidated balance sheet			
	Balance at beginning of period	5,424	4,615
	Increase (decrease) during period	(809)	203
	Balance at end of period	4,615	4,818
Fair value at end of period		3,089	3,267

(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 a decrease in rentable space (¥439 million), a decrease due to sales of real estate (¥335 million) and a decrease due to depreciation (¥34 million). The increase (decrease) during period for the current fiscal year primarily consist of an increase in rentable space (¥230 million) and a decrease due to depreciation (¥27 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, liability, 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, 2018 to March 31, 2019)

(Millions of yen)

	Reportable segments			Other (Note)	Adjustment	Total
	Logistics Solutions Business	Plant & Machinery Business	Total			
Sales						
Sales to external customers	29,274	8,421	37,696	7,492	–	45,188
Transactions with other segments	–	–	–	745	(745)	–
Total	29,274	8,421	37,696	8,237	(745)	45,188
Segment profit (loss)	1,907	(1,221)	686	1,108	(389)	1,406
Segment assets	31,326	10,405	41,732	13,129	9,894	64,756
Other items						
Depreciation	352	153	505	179	43	728
Increase in property, plant and equipment, and intangible assets	549	107	657	289	4	950

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

Current 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 building construction business, manufacturing and sales of industrial facilities and equipment, real estate rental operations, leasing operations, inspection, measurement and analysis of asbestos, etc. and other operations.

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	686	2,506
Profit of "other"	1,108	880
Corporate expenses (Note)	(389)	(795)
Other adjustments	–	–
Operating profit in the consolidated financial statements	1,406	2,591

(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	41,732	40,267
Assets of "other"	13,129	12,689
Corporate assets (Note)	9,955	8,052
Other adjustments	(60)	(23)
Total assets in the consolidated financial statements	64,756	60,985

(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, 2018 to March 31, 2019)

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	29,274	2,168	6,253	7,492	45,188

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
42,312	2,700	176	45,188

(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
15,102	698	44	15,845

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, 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.

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)
Not applicable

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

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)
Not applicable

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

[Gain on bargain purchase for each reportable segment]

Previous fiscal year (From April 1, 2018 to March 31, 2019)
As a result of making Kankyo Research Institute Inc. a subsidiary, the Company recorded gain on negative goodwill of ¥87 million as extraordinary income.
This gain on negative goodwill is not related to any specific reportable segment, and is included in "other."

Current fiscal year (From April 1, 2019 to March 31, 2020)
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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net assets per share	¥3,897.68	¥4,095.51
Basic earnings per share	¥112.80	¥195.87

(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 (– thousand shares in the previous fiscal year, 84 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 (– thousand shares in the previous fiscal year, 51 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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit attributable to owners of parent	¥1,025 million	¥1,717 million
Profit not relating to common shareholders	–	–
Profit attributable to owners of parent pertaining to common shares	1,025	1,717
Average number of shares during the period	9,092 thousand shares	8,770 thousand shares

Notes - Significant events after reporting period

Not applicable

(v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable

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	¥7,849	0.379	–
Current portion of long-term borrowings	514	619	0.916	–
Long-term borrowings (excluding current portion)	4,627	4,488	0.793	Between 2021 and 2026
Total	12,990	12,956	–	–

(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 balance sheet date is as follows:

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	¥8 million	¥– million	¥1,700 million	¥2,480 million

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, 2019 to June 30, 2019)	Second quarter (Cumulative) (From April 1, 2019 to September 30, 2019)	Third quarter (Cumulative) (From April 1, 2019 to December 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales (Millions of yen)	7,882	20,501	32,394	46,518
Profit before income taxes (Millions of yen)	328	1,123	2,043	2,788
Profit attributable to owners of parent (Millions of yen)	205	682	1,258	1,717
Basic earnings per share (Yen)	22.86	76.03	141.89	195.87

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	22.86	53.27	66.19	54.42

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 26, 2020

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, 2020, 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, 2019 to March 31, 2020, 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, 2020, 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.

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.

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 over financial reporting of the Company as of March 31, 2020.

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, 2020 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	9,309
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

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Toyo Koken K.K.

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TOYO KANETSU K.K.

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