MKK

Annual Report 2020

For the year ended March 31, 2020

MITSUBISHI KAKOKI KAISHA, LTD.

Profile

Since its establishment in 1935 as a manufacturer of chemical plant equipment, Mitsubishi Kakoki Kaisha, Ltd. (MKK) has met the diversified needs of industries in the fields of energy, chemicals, foodstuffs, pharmaceuticals, air purification, and water and waste treatment. As an integrated engineering corporation, MKK has greatly contributed to the promotion of industrial prosperity.

MKK is furthering societal change by promoting the efficient use of resources and energy, the ongoing development of fine chemicals, and the refining of biotechnological and environmental technologies.

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Financial Highlights (Consolidated)

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31

For the year ended March 31	Millions of yen 2020	2019	2018	Thousands of U.S. dollars* 2020
Net sales	**¥45,062**	¥38,179	¥32,336	**$414,061**
Income before income taxes and non-controlling interests	**2,689**	1,646	2,407	**24,708**
Profit attributable to owners of parent	**1,860**	1,110	2,949	**17,095**
Orders received	**62,639**	49,693	38,469	**575,569**

As of March 31				
Total assets	**¥48,545**	¥46,217	**¥44,355	**$446,063**
Net assets	**21,259**	22,326	22,197	**195,344**
Backlog of orders	**57,784**	40,207	28,697	**530,962**

Summary of Sales by Product* **	**Net Sales**			**Orders Received**		
	Millions of yen		Thousands of U.S. dollars*	Millions of yen		Thousands of U.S. dollars*
	2020	2019	**2020**	**2020**	2019	**2020**
Engineering	**¥31,624**	¥25,925	**$290,582**	**¥51,081**	¥36,429	**$469,367**
Machinery	**13,438**	12,254	**123,478**	**11,557**	13,264	**106,202**
Total	**¥45,062**	¥38,179	**$414,061**	**¥62,639**	¥49,693	**$575,569**

* U.S. dollar amounts have been translated from yen, for convenience only, at ¥108.83=U.S. $1, the approximate rate of exchange prevailing on March 31, 2020.

** As the Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc., from the beginning of the fiscal year ended March 31, 2019, figures stated for the fiscal years ended March 31, 2018 reflect retroactive adoption thereof.

***As a result of the reorganization within the Group carried out on April 1, 2019, the construction business of Yokkaichi Factory and Kashima Factory of the Company hitherto included in the Machinery business has been regrouped into the Engineering business from the fiscal year ended March 31, 2020. Segment information in reference to the previous fiscal year has been prepared on the basis after the regrouping.

Report to Our Stockholders

Business Environment and Business Results

During the fiscal year ended March 31, 2020, the Japanese economy maintained a moderate recovery path, reflecting robust private-sector capital investment along with continuously solid consumer spending on the back of ongoing improvements in the employment and personal income environment. However, it suffered a sharp downturn toward the end of the fiscal year due to the spread of the novel coronavirus (COVID-19) and associated economic stagnation in Japan and overseas, in addition to increasing uncertainty due to factors including the prolonged trade friction between the U.S. and China.

Under these circumstances, the Mitsubishi Kakoki Kaisha, Ltd. (MKK) Group formulated a new three-year medium-term business plan (covering the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2022) to improve performance by developing business activities under key policy initiatives including securing orders, cost improvements, initiatives for next-generation growth sectors, increased business efficiency and expense curtailments, with a view to securing operating income, which is our most important issue. In addition, a reorganization was implemented within the Group to further strengthen the maintenance business and promote the optimization of management resources.

As a result, the total value of orders received on a consolidated basis during the fiscal year increased 26.1% compared to the previous fiscal year, to ¥62,639 million, because of an increase in the value of orders in Engineering Operations.

Net sales increased 18.0% compared to the previous fiscal year, to ¥45,062 million, reflecting an increase in the value of orders received in the previous fiscal year.

In terms of profit and loss, operating income was ¥2,222 million (versus ¥1,097 million in the previous fiscal year) and ordinary income was ¥2,412 million (versus ¥1,267 million in the previous fiscal year). This was due to factors including higher gross profit resulting from an increase in net sales, and a fall in selling, general and administrative expenses, mainly estimated design expenses.

In addition, we recorded extraordinary profit from gains on sales of investment securities, which resulted in profit attributable to owners of parent of ¥1,860 million (versus ¥1,110 million in the previous fiscal year).

On a non-consolidated basis, during the fiscal year under review MKK received orders amounting to ¥46,541 million (up 18.4% year on year) and recorded net sales of ¥31,928 million (up 9.3% year on year), operating income of ¥1,108 million (versus ¥440 million in the previous fiscal year), ordinary income of ¥1,455 million (versus ¥869 million in the previous fiscal year) and net income of ¥1,261 million (versus ¥941 million in the previous fiscal year).

In determining its period-end dividend, MKK took into consideration factors including its performance for the fiscal year under review, the Company's assessment of future operating conditions and its financial position. On this basis, the Company has declared a period-end dividend of ¥60.00 per share, increased by 10.00 yen per share compared to the previous fiscal year.

Issues Facing the Group

In view of the rapid contraction of economic activities of both corporate and individual levels amid the further spread of COVID-19 around the world with no end in sight at present, the situation of the Japanese economy is expected to remain unprecedentedly challenging.

Under this circumstance, the Group will pay close attention to the business environment surrounding the Company, while engaging in its business operation in line with the three basic policies under the three-year medium-term business plan: 1) Becoming a corporate entity centered on growth businesses with differentiated technologies, 2) Giving profit indicators top priority and establishing a highly stable earnings structure, and 3) Improving consolidated profitability by promoting

Groupwide management.

The specific challenges to be addressed in the future are as follows.

1. Securing operating income

The Group will remain committed to securing orders and implementing cost improvements, with a view to securing operating income, which is our most important issue. Given the immeasurable economic impact of the spread of COVID-19, a fall in capital expenditure along with associated changes in the order receiving environment are expected to be inevitable. We will respond to such changes by: (i) stimulating potential customer needs through fine-tuned sales activities; (ii) engaging selectively in commercially viable construction business opportunities, focused on exploiting the technologies for which we have inherent strength and a successful track record; (iii) striving to acquire orders for important projects, development and acquisition of new customers and businesses; and (iv) further strengthened efforts on maintenance and after-sales service. In addition, we will be committed more than ever to rigorous process control, delivery date management, and quality control with respect to undelivered portions of projects on hand as well as construction in progress, in an effort to improve and ensure profitability in construction.

2. Promotion of next-generation growth sectors

We will continue investments in research and development for developing equipment geared to clean energy, usage and application of biogas, and marine environment-protection regulations for ships, as next-generation growth sectors, while further upgrading new products and engaging in initiatives for new sectors of business. In the sector of clean energy, we will remain committed to research and development for generating hydrogen through electrolysis of water by utilizing renewable energies such as wind power and solar power, in addition to existing hydrogen generator that utilizes city gas currently available in the market, as well as for hydrogen power generation, as our initiative for materializing a "hydrogen-based society." As for the usage and application of biogas, we will remain committed to activities to prove the commercial viability of the "high efficiency digestion system," along with an initiative for its diffusion and distribution on a wider scale. As for equipment complying with marine environment-protection regulations for ships, we will be responding adequately to customer needs and market trends for SOx (sulfur oxides) Scrubber Systems.

3. Strengthening of corporate structure

We will continue pursuing policies to strengthen our corporate structure through Group-wide business efficiency, indirect cost reductions and enhancement of the Group's financial structure. At the same time, we will be committed to enhancing productivity and reinforcing initiatives for business continuity in the event of an emergency, by further promoting measures for work-style reform, as well as revitalizing the organization through further promotion of performance and competency based on the new human resources system launched in the previous fiscal year. In addition, we will continue to engage in important measures in terms of securing and enhancement of staff and human resources that are necessary for business implementation, formulation of human resource development programs, and the succession of technologies and skills.

In addition to the above, as a corporate group engaged in manufacturing and engineering, we pledge to focus even more effort on ensuring safety in all our business endeavors. At the same time, we aim to be trusted by the wider community, and to that end will work continuously to ensure full compliance with laws and regulations, and to operate appropriately our internal control system in conformity with the stipulations of the Japanese Companies Act and Financial Instruments and Exchange Act. We will also work to further enhance our corporate governance.

I sincerely request the continued support and encouragement of our stockholders in our ongoing efforts.

June 26, 2020

高木紀一

Toshikazu Takagi
President

Review of Operations

Engineering Operations

In Engineering Operations, in addition to attempts to identify customer needs and increase business inquiries, MKK sought to secure orders for a wide variety of plants and equipment to private sector customers as well as individually tailored sewage treatment equipment, mainly to public authorities. We also attempted to expand and enhance technologies related to clean energy and biogas which are positioned as our growth sectors under the medium-term business plan, and development of plant business in overseas.

Orders received increased 40.2% over the previous fiscal year's ¥36,429 million, to ¥51,081 million. This was a result of an acquisition of a large chemical engineering plant project in a market overseas. We also concluded contracts for various plants and equipment with private-sector customers as well as for individually tailored sewage-treatment equipment with public authorities in the domestic market, and there was an increase in plant-maintenance engineering.

Net sales increased 22.0% from the previous fiscal year's ¥25,925 million, to ¥31,624 million.

Machinery Operations

In Machinery Operations, we worked to secure orders through the expansion of sales of Mitsubishi Oil Purifiers, which are a mainstay product, as well as the cultivation of projects for various types of standalone machinery. With regard to systems that comply with marine environment-protection regulations for ships, designated as one of our growth sectors, we continued to promote product development and market launch.

Orders received decreased 12.9% over the previous fiscal year's ¥13,264 million, to ¥11,557 million. This was due to a year-on-year decrease in new business of SOx Scrubber Systems complying with marine environment-protection regulations for ships, as well as a decline associated with the transfer of the beginning balance of orders received for the construction business of Yokkaichi Factory and Kashima Factory, from the Machinery business to the Engineering business following the reorganization within the Group carried out on April 1, 2019. Meanwhile, figures remained almost flat year on year in both Mitsubishi Oil Purifiers, which are a mainstay product, as well as various types of standalone machinery.

Net sales increased 9.7% from the previous fiscal year's ¥12,254 million, to ¥13,438 million.

	2020	2019
Orders Received		
Engineering (%)	**81.5**	73.3
Machinery (%)	**18.5**	26.7
Total (millions of yen)	**¥62,639**	¥49,693
Net Sales		
Engineering (%)	**70.2**	67.9
Machinery (%)	**29.8**	32.1
Total (millions of yen)	**¥45,062**	¥38,179

Major Products of MKK Group

Engineering

Town Gas Production Plant, ICI Naphtha Reforming Plant, CRG (Catalytic Rich Gas) Plant, SNG (Substitute Natural Gas) Plant, LNG Satellite Plant/LNG Vaporizer, Coke Oven Gas Desulfurization Plant, Coke Oven Gas Treating Plants, Coal Gasification Plants, Petroleum Related Plant, Sulfur Recovery/Tail Gas Processing Plant, Thermal Cracking Plant, Hydrodesulfurization Plant, Hydrogen Plant, Cryogenic Air Separation Plant, Supercritical Fluid Extraction System, Chromatographic Separation System, Detergent Plant, Pharmaceutical Plant, Glucose Plant, Superpure Chemical Plant (EL grade), Cultivation/Fermentation Plant, Ultra Filtration Membrane Plant, Reverse Osmosis Membrane Plant, Sulfuric Acid Plant, Methanol/Formalin Synthesis Plant, Hydrogen Generation Plant, Nitrogen Generation Plant, CO Separation/Refining Plant, Resin Plant, Butanol Plant, Synthetic Glycerin Plant, Propylene Glycol Plant, Phenol Plant, Engineering Plastics Plant, Food Processing Plant, Meat Processing Plant, Thawing Equipment, Continuous Edible Oil Extraction Plant, Edible Oil Refining Plant, Soy Bean Albumin Plant, Microwave Heating Sterilizer, Industrial Waste Treatment Plant, Sewage Treatment Plant, Agricultural/Fishery Waste Water Treatment Facilities, Leachate Treatment Facilities for Final Waste Disposal Plants, Industrial Waste Water Treatment Plant, Recycled Water Utilization Plant, Desalination Plant, Waste Oil Treatment Plant, Flue Gas Desulfurization Plant, Flue Gas NOx Removal Plant, Sludge Processing Plant, Water-Permeable Brick Plant (Sewage Sludge), Municipal Solid Waste Incineration Plant, Industrial Waste Incineration Plant, Deodorizing Facilities

Machinery

Oil Purifier (SJ and OP), Centrifugal Separator, Dryer, Filter, Young Filter (conforming to GMP), Schneider Filter (Rolling Mill Coolant Oil Filter), Belt Dehydrator, Mixer, Cleaners, Concentrator, Strainer, Seawater Intake Screening Equipment, Heat Exchanger, Tower, Vessel, Ballast Water Treatment System, SOx Scrubber System

Independent Auditor's Report

The Board of Directors
Mitsubishi Kakoki Kaisha, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Mitsubishi Kakoki Kaisha, Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for 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 of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation 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 the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives 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. 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.

As part of an audit 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, 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 and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting 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 disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 26, 2020

/s/ Kanji Tako
Designated Engagement Partner
Certified Public Accountant

/s/ Yukiyasu Yamakawa
Designated Engagement Partner
Certified Public Accountant

Consolidated Balance Sheet

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2020

Assets	Millions of yen 2020	2019	Thousands of U.S. dollars (Note 3) 2020
Current assets:			
Cash and bank deposits (Notes 16 and 17)	**¥ 9,263**	¥ 4,078	**$ 85,118**
Notes and accounts receivable, trade (Notes 8 and 17)	**18,378**	19,312	**168,877**
Electronically recorded monetary claims (Notes 8 and 17)	**1,394**	1,379	**12,809**
Finished goods	**871**	834	**8,011**
Work in process	**1,879**	2,023	**17,268**
Raw materials and supplies	**797**	717	**7,330**
Other assets	**1,216**	1,364	**11,173**
Allowance for doubtful accounts	**(11)**	(31)	**(106)**
Total current assets	**33,789**	29,681	**310,482**
Property, plant and equipment (Notes 5 and 6)**:**			
Buildings and structures, net	**2,650**	2,801	**24,354**
Machinery, equipment and vehicles, net	**628**	659	**5,775**
Land	**1,426**	1,426	**13,103**
Other, net	**290**	254	**2,665**
Total property, plant and equipment	**4,995**	5,141	**45,899**
Intangible assets	**224**	192	**2,066**
Investments and other assets:			
Investment securities (Notes 6, 7, 17 and 18)	**7,485**	9,998	**68,783**
Deferred tax assets (Note 21)	**1,883**	1,049	**17,309**
Other assets	**229**	237	**2,104**
Allowance for doubtful accounts	**(63)**	(81)	**(582)**
Total investments and other assets	**9,535**	11,203	**87,615**
Total assets	**¥48,545**	¥46,217	**$446,063**

See accompanying “Notes to Consolidated Financial Statements.”

Liabilities and Net Assets	Millions of yen **2020**	2019	Thousands of U.S. dollars (Note 3) **2020**
Current liabilities:			
Notes and accounts payable, trade (Note 17)	**¥ 8,188**	¥ 7,624	**$ 75,242**
Electronically recorded obligations (Note 17)	**2,597**	2,193	**23,863**
Short-term borrowings (Notes 6 and 17)	**—**	500	**—**
Current portion of long-term debt (Notes 6 and 17)	**1,600**	—	**14,701**
Accrued income taxes	**617**	495	**5,678**
Advances received	**2,072**	406	**19,041**
Accrued bonuses	**748**	640	**6,877**
Accrued bonuses to directors	**24**	22	**222**
Provision for warranties on completed construction	**836**	891	**7,686**
Provision for losses on construction contracts	**214**	130	**1,974**
Other current liabilities	**1,688**	1,163	**15,518**
Total current liabilities	**18,588**	14,068	**170,805**
Long-term liabilities:			
Long-term debt (Notes 6 and 17)	**1,700**	3,300	**15,620**
Provision for disposal of PCB	**2**	1	**18**
Provision for executive compensation BIP Trust	**48**	18	**445**
Liability for retirement benefits (Note 20)	**6,772**	6,313	**62,228**
Other long-term liabilities	**174**	190	**1,600**
Total long-term liabilities	**8,697**	9,822	**79,914**
Total liabilities	**27,285**	23,891	**250,719**
Shareholders' equity:			
Common stock	**3,956**	3,956	**36,359**
Capital surplus	**4,200**	4,200	**38,593**
Retained earnings	**13,001**	11,537	**119,468**
Treasury stock	**(591)**	(125)	**(5,431)**
Total shareholders' equity	**20,567**	19,568	**188,989**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**2,666**	4,191	**24,503**
Deferred gains (losses) on hedges	**(7)**	0	**(69)**
Foreign currency translation adjustments	**(252)**	(245)	**(2,319)**
Accumulated remeasurements of defined benefit plans (Note 20)	**(1,756)**	(1,187)	**(16,140)**
Total accumulated other comprehensive income	**650**	2,758	**5,972**
Non-controlling interests	**41**	—	**382**
Total net assets (Note 15)	**21,259**	22,326	**195,344**
Total liabilities and net assets	**¥48,545**	¥46,217	**$446,063**

Consolidated Statement of Operations

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	**2020**
Net sales	**¥45,062**	¥38,179	**$414,061**
Cost of sales (Notes 11 and 12)	**37,523**	31,219	**344,787**
Gross profit	**7,539**	6,959	**69,273**
Selling, general and administrative expenses (Note10)	**5,316**	5,862	**48,851**
Operating income	**2,222**	1,097	**20,422**
Non-operating income:			
Interest	**1**	1	**15**
Dividends	**310**	286	**2,857**
Other	**72**	12	**663**
Non-operating expenses:			
Interest	**40**	39	**369**
Commission paid	**33**	35	**310**
Loss on foreign exchange	**72**	3	**670**
Other	**48**	50	**443**
Ordinary income	**2,412**	1,267	**22,165**
Extraordinary income:			
Gain on sales of investment securities (Note 13)	**276**	378	**2,543**
Income before income taxes and non-controlling interests	**2,689**	1,646	**24,708**
Income taxes: (Note 21)			
Current	**704**	551	**6,475**
Deferred	**82**	(20)	**755**
Net income	**1,902**	1,115	**17,477**
Profit attributable to non-controlling interests	**41**	4	**382**
Profit attributable to owners of parent	**¥ 1,860**	¥ 1,110	**$ 17,095**

See accompanying "Notes to Consolidated Financial Statements."

Consolidated Statement of Comprehensive Income

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	**2020**
Net income	**¥ 1,902**	¥1,115	**$17,477**
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	**(1,524)**	(862)	**(14,006)**
Deferred gains (losses) on hedges	**(7)**	(0)	**(71)**
Foreign currency translation adjustments	**(7)**	(9)	**(64)**
Remeasurements of defined benefit plans	**(569)**	31	**(5,228)**
Total other comprehensive income (Note 14)	**(2,108)**	(841)	**(19,371)**
Comprehensive income	**¥ (206)**	¥ 274	**$ (1,893)**
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	**¥ (247)**	¥ 269	**$ (2,275)**
Comprehensive income attributable to non-controlling interests	**¥ 41**	¥ 4	**$ 382**

See accompanying "Notes to Consolidated Financial Statements."

Consolidated Statement of Changes in Net Assets

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2020

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2018	¥3,956	¥4,202	¥10,564	¥(125)	¥18,598	¥5,053	¥ 0	¥(235)	¥(1,218)	¥3,599	¥—	¥22,197
Changes during the year:												
Dividends of surplus			(395)		(395)					—		(395)
Net profit attributable to owners of parent			1,110		1,110					—		1,110
Change in ownership interest of parent due to transactions with non-controlling interests		(2)			(2)					—		(2)
Change of scope of consolidation			257		257					—		257
Purchase of treasury stock				(0)	(0)					—		(0)
Net changes in items other than those in shareholders' equity					—	(862)	(0)	(9)	31	(841)	—	(841)
Total changes during the year	—	(2)	972	(0)	969	(862)	(0)	(9)	31	(841)	—	128
Balance at April 1, 2019	3,956	4,200	11,537	(125)	19,568	4,191	0	(245)	(1,187)	2,758	—	22,326
Changes during the year:												
Dividends of surplus			**(395)**		**(395)**					**—**		**(395)**
Net profit attributable to owners of parent			**1,860**		**1,860**					**—**		**1,860**
Purchase of treasury stock				**(471)**	**(471)**					**—**		**(471)**
Disposal of treasury stock		**(0)**		**6**	**5**					**—**		**5**
Transfer from retained earnings to capital surplus		**0**	**(0)**		**—**					**—**		**—**
Net changes in items other than those in shareholders' equity					**—**	**(1,524)**	**(7)**	**(7)**	**(569)**	**(2,108)**	**41**	**(2,066)**
Total changes during the year	**—**	**—**	**1,464**	**(465)**	**999**	**(1,524)**	**(7)**	**(7)**	**(569)**	**(2,108)**	**41**	**(1,067)**
Balance at March 31, 2020	**¥3,956**	**¥4,200**	**¥13,001**	**¥(591)**	**¥20,567**	**¥2,666**	**¥ (7)**	**¥(252)**	**¥(1,756)**	**¥ 650**	**¥ 41**	**¥21,259**

Thousands of U.S. dollars (Note 3)

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2019	$36,359	$38,593	$106,010	$(1,156)	$179,806	$38,509	$ 1	$(2,254)	$(10,912)	$25,344	$ —	$205,150
Changes during the year:												
Dividends of surplus			**(3,632)**		**(3,632)**					**—**		**(3,632)**
Net profit attributable to owners of parent			**17,095**		**17,095**					**—**		**17,095**
Purchase of treasury stock				**(4,331)**	**(4,331)**					**—**		**(4,331)**
Disposal of treasury stock		**(5)**		**56**	**50**					**—**		**50**
Transfer from retained earnings to capital surplus		**5**	**(5)**		**—**					**—**		**—**
Net changes in items other than those in shareholders' equity					**—**	**(14,006)**	**(71)**	**(64)**	**(5,228)**	**(19,371)**	**382**	**(18,989)**
Total changes during the year	**—**	**—**	**13,458**	**(4,275)**	**9,183**	**(14,006)**	**(71)**	**(64)**	**(5,228)**	**(19,371)**	**382**	**(9,806)**
Balance at March 31, 2020	**$36,359**	**$38,593**	**$119,468**	**$(5,431)**	**$188,989**	**$24,503**	**$(69)**	**$(2,319)**	**$(16,140)**	**$ 5,972**	**$382**	**$195,344**

See accompanying "Notes to Consolidated Financial Statements."

Consolidated Statement of Cash Flows

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	**2020**
Cash flows from operating activities			
Income before income taxes and non-controlling interests	**¥2,689**	¥1,646	**$24,708**
Depreciation and amortization	**573**	564	**5,271**
Increase (decrease) in allowance for doubtful accounts	**(37)**	46	**(343)**
Increase (decrease) in accrued bonuses	**108**	111	**994**
Increase (decrease) in accrued bonuses to directors	**2**	10	**19**
Increase (decrease) in provision for warranties on completed construction	**(55)**	766	**(508)**
Increase (decrease) in provision for losses on construction contracts	**84**	84	**775**
Increase (decrease) in provision for disposal of PCB	**1**	(15)	**9**
Increase (decrease) in provision for executive compensation BIP Trust	**30**	9	**279**
Increase (decrease) in liability for retirement benefits	**(360)**	(907)	**(3,315)**
Interest and dividends income	**(312)**	(288)	**(2,872)**
Interest expense	**40**	39	**369**
Loss (gain) on sales of investment securities	**(276)**	(378)	**(2,543)**
Decrease (increase) in notes and accounts receivable, trade	**933**	(3,941)	**8,574**
Decrease (increase) in inventories	**(15)**	(181)	**(141)**
Decrease (increase) in advance payments	**175**	(112)	**1,611**
Increase (decrease) in notes and accounts payable, trade	**946**	1,780	**8,700**
Increase (decrease) in advances received	**1,663**	9	**15,285**
Other, net	**644**	784	**5,919**
Subtotal	**6,833**	27	**62,791**
Interest and dividends received	**312**	288	**2,872**
Interest paid	**(40)**	(39)	**(370)**
Income taxes paid	**(595)**	(1,141)	**(5,467)**
Net cash provided by (used in) operating activities	**6,510**	(865)	**59,826**
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment	**0**	—	**3**
Purchases of property, plant and equipment and intangible assets	**(515)**	(962)	**(4,736)**
Proceeds from sales of investment securities	**611**	555	**5,621**
Purchases of investment securities	**(9)**	(9)	**(89)**
Payment for long-term loans receivable	**(5)**	(4)	**(47)**
Collection of long-term loans receivable	**3**	3	**32**
Other, net	**(9)**	1	**(90)**
Net cash provided by (used in) investing activities	**75**	(416)	**694**
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	**(500)**	500	**(4,594)**
Repayments of lease obligations	**(12)**	(21)	**(112)**
Cash dividends paid	**(395)**	(395)	**(3,632)**
Dividends paid to non-controlling interests	**—**	(34)	**—**
Purchase of subsidiaries' shares that do not result in scope of consolidation	**—**	(29)	**—**
Purchase of treasury stock	**(471)**	(0)	**(4,331)**
Proceeds from sales of treasury stock	**5**	—	**50**
Net cash provided by (used in) financing activities	**(1,373)**	19	**(12,619)**
Effect of exchange rate changes on cash and cash equivalents	**(28)**	(19)	**(263)**
Increase (decrease) in cash and cash equivalents	**5,184**	(1,281)	**47,638**
Cash and cash equivalents at beginning of the year	**4,077**	4,951	**37,470**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**—**	407	**—**
Cash and cash equivalents at end of the year (Note 16)	**¥9,262**	¥4,077	**$85,109**

See accompanying "Notes to Consolidated Financial Statements."

Notes to Consolidated Financial Statements

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Mitsubishi Kakoki Kaisha, Ltd. (the "Company") and its consolidated subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Figures are rounded down to the nearest million yen and the nearest thousand dollars.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly by the Company. All significant intercompany balances and transactions have been eliminated in consolidation. As of March 31, 2020, the number of consolidated subsidiaries was 4 (5 in 2019).

Consolidated subsidiary Ryoka Works Co., Ltd. has been excluded from the scope of consolidation from the fiscal year ended March 31, 2020, as it ceased to exist following the absorption-type merger with the surviving company, Kakoki Plant & Environment Engineering Co., Ltd.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or loss. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Consolidated subsidiaries, MKK Asia Co., Ltd. and MKK Europe B.V. are consolidated using their financial statements as of their fiscal year end, which falls on December 31 and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

(c) Securities

Other securities with market quotations are stated at fair value based on market prices on the balance sheet date (Unrealized gains/losses on these securities are included in net assets, net of applicable income taxes and costs of the securities are determined by the period-average method).

Other securities without market quotations are stated at cost determined by the period-average method.

(d) Derivatives

Derivatives are stated at fair value.

(e) Inventories

Finished goods, raw materials and supplies are valued at cost, determined by the moving-average method. Work in process is valued at cost determined by the specific identification method. The book value is written down based on any decline in profitability.

(f) Depreciation and amortization

Property, plant and equipment (excluding leased assets) are depreciated by the declining-balance method. However, buildings (excluding attached facilities) acquired on and after April 1, 1998 and attached facilities and other non-building structures acquired on and after April 1, 2016 are depreciated by the straight-line method.

Principal estimated useful lives are presented as follows:

Buildings and structures	31 to 50 years
Machinery, equipment and vehicles	4 to 9 years

Intangible assets are amortized by the straight-line method. Internal-use software is amortized over the useful life of 5 years.

Leased assets are depreciated by the straight-line method, in which the lease term is used as the useful lives with a residual value of zero.

(g) Allowance for doubtful accounts

Provision is made for doubtful accounts in preparation for possible losses on accounts receivable and loans based on historical default rates. Regarding receivables whose recoverability is deemed doubtful, additional provision is made in the expected uncollectible amounts, considering the specific circumstances.

(h) Accrued bonuses

Accrued bonuses are provided for the future payment of employees' bonuses in the amount attributable to the fiscal year.

(i) Accrued bonuses to directors

Accrued directors' bonuses are provided for the future payment of directors' bonuses.

(j) Provision for warranties on completed construction

Provision for warranties on completed construction is provided for future estimated repair costs which may be required for completed construction after delivery of plants, estimated based on past experience over the latest two years.

(k) Provision for losses on construction contracts

Provision for losses on construction contracts is provided based on an estimate of the total losses which can be anticipated in respect of construction projects on which are expected to generate losses and losses can reasonably be estimated.

(l) Provision for disposal of PCB

Provision is made in preparation for expenditures on disposal of polychlorinated biphenyl (PCB) and at the amount of such expenses expected to be incurred.

(m) Provision for executive compensation BIP Trust

This provision is calculated based on the estimated amount of shares to be paid, corresponding to the number of points allocated to executives in accordance with the stock issuance provisions, in preparation for the future payment of the Company's shares to executives.

(n) Accounting method for retirement benefits

1) Periodic allocation method for projected retirement benefits
   In the calculation of the retirement benefit obligation, projected retirement benefits are allocated to the period up to the end of the fiscal year under review according to the straight-line standard.
2) Amortization method for actuarial gain or loss and past service cost
   Past service cost is amortized by the straight-line method over 13 years, which is the average of the remaining years of service of employees at the time of its recognition.
   Actuarial gain or loss is amortized proportionately by the straight-line method over 11 to 13 years, which is the average of the remaining years of service of employees at the time of its recognition in the fiscal year following the fiscal year in which the gain or loss is recognized.

(o) Methods for recognizing revenues and expenses

1) Construction contracts have been accounted for based on the percentage of completion method, if the outcome of the

construction contracts can be estimated reliably (the percentage of completion is estimated based on costs).
2) For other construction contracts, the completed-contract method is applied.

(p) Standard for converting important foreign currency assets and liabilities into Japanese yen

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statement of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

(q) Hedge accounting

Forward foreign exchange contracts which meet certain criteria are accounted for by the "allocation method" which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract is executed under "Special accounting treatment."

Hedging instruments and hedged items are as follows:

Foreign exchange forward contracts for imports and exports

Interest rate swaps for interest on borrowings

Hedging policies:

Derivative transactions are strictly limited to transactions backed by actual demand, aiming to mitigate currency fluctuations risks on transactions for imports and exports as well as interest rate fluctuation risks on future interest payments.

Hedge effectiveness evaluation method:

Evaluation of hedge effectiveness is not carried out for interest rate swaps as the special accounting treatment is used. Hedge effectiveness of foreign exchange forward contracts is not evaluated as the substantial terms and conditions of the hedging instruments and hedged items are the same.

(r) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(s) Consumption taxes

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

(t) Accounting standards issued but not yet effective

1. Accounting Standard and Implementation Guidance on Revenue Recognition

On March 31, 2020, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

In May 2014, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) issued "Revenue from Contracts with Customers," converged guidance on recognizing revenue in contracts with customers (IFRS 15, issued by the IASB, and Topic 606, issued by the FASB). IFRS 15 applies to annual reporting periods beginning on or after January 1, 2018, and Topic 606 applies to annual reporting periods beginning after December 15, 2017.

Accordingly, the ASBJ developed a comprehensive accounting standard for revenue recognition and implementation guidance.

As a basic policy with regard to the ASBJ's development of Accounting Standard for Revenue Recognition, from the viewpoint of comparability between financial statements, the ASBJ incorporated the basic principles of IFRS 15, and for any items to be considered from the perspective of historical accounting practices under Japanese GAAP, the ASBJ also included alternative accounting treatments which do not impair comparability with IFRS 15.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

2. Accounting Standard and Implementation Guidance for Fair Value Measurement, Accounting Standard for Measurement of Inventories, Accounting Standard for Financial Instruments, and Implementation Guidance on Disclosures about Fair Value of Financial Instruments

The ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), and "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10) on July 4, 2019, as well as "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) on March 31, 2020.

(1) Overview

With a view to enhancing the comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively the "Accounting Standard, etc. for Fair Value Measurement") were developed, setting out guidance, etc. on the method for measuring fair value. The Accounting Standard, etc. for Fair Value Measurement shall be adopted for the fair value of the following items.

· Financial instruments in the "Accounting Standard for Financial Instruments"
· Inventories held for trading purposes in the "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised, whereby notes were additionally required to specify the breakdown, etc. by the level of fair value of financial instruments.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standards and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of these accounting standards and implementation guidance on its consolidated financial statements.

3. "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020).

(1) Overview
This accounting standard is intended to provide principles and the outline of procedures of the accounting treatment adopted, when specific provisions of the relevant accounting standards are not clarified.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

4. "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020).

(1) Overview
This accounting standard is intended to disclose information that contributes to the understanding of users of financial statements about the nature of the accounting estimates used for the items recorded in the financial statements for the current fiscal year that involve risk of having significant impact on financial statements for the next fiscal year.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

2. Changes in Presentation

(Consolidated statement of operations)
"Loss on removal of non-current assets" separately presented under "non-operating expenses" for the previous fiscal year has been included in "other" from the fiscal year ended March 31, 2020, as it accounted for 10% or less of total non-operating expenses. In addition, "loss on foreign exchange" included in "other" under "non-operating expenses" for the previous fiscal year has been separately presented from the fiscal year ended March 31, 2020, as it exceeded 10% of total non-operating expenses. The consolidated financial statements for the previous fiscal year have been reclassified in order to reflect these changes in the presentation method.

As a result, ¥28 million ($262 thousand) presented in "loss on removal of non-current assets" under "non-operating expenses" in the consolidated statement of operations for the previous fiscal year has been reclassified as "other." In addition, ¥26 million ($240 thousand) presented in "other" under non-operating expenses has been reclassified as ¥3 million ($34 thousand) of "loss on foreign exchange" and ¥22 million ($205 thousand) of "other."

(Consolidated statement of cash flows)
"Foreign exchange gains (losses)" separately presented under "cash flows from operating activities" for the previous fiscal year have been included in "other, net" from the fiscal year ended March 31, 2020, as the amount became insignificant. The consolidated financial statements for the previous fiscal year have been reclassified in order to reflect this change in the presentation method.

As a result, negative ¥6 million ($62 thousand) presented in "foreign exchange gains (losses)" under "cash flows from operating activities" in the consolidated statement of cash flows for the previous fiscal year has been reclassified as "other, net."

3. Additional Information

(Impact of COVID-19 on accounting estimates)
Due to the spread of COVID-19, there are delayed work processes and postponements in work schedules in some areas, caused by restrictions on movement of people and logistic stagnation. For the fiscal year under review, accounting estimates have been made taking into account a decrease in net sales and an increase in costs due to the impact of COVID-19 in terms of the measurement of property, plant and equipment and deferred tax assets and others.

However, as there are concerns over second and third waves of COVID-19, the Company cannot exclude the possibility of staff engaged at our affiliated factories and engineering sites becoming infected. Therefore, depending on the future course of events, COVID-19 may have an impact on the financial results of the Company, due to factors such as further restrictions on movement and impacts that may lead to work schedule postponements for existing or planned work, as well as a potential reduction, postponement, or discontinuance of capital expenditure and maintenance work for customers associated with the anticipated recession.

4. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥108.83=U.S.$1, the approximate rate of exchange prevailing at March 31, 2020. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

5. Accumulated Depreciation

Accumulated depreciation of property, plant and equipment as of March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Accumulated depreciation	**¥11,588**	¥11,191	**$106,478**

6. Short-Term Borrowings and Long-Term Debt

At March 31, 2020 and 2019, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Debt with collateral	**¥—**	¥395	**$—**
Debt without collateral	**—**	105	**—**
	¥—	¥500	**$—**

At March 31, 2020 and 2019, long-term debt and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Debt with collateral	**¥ 800**	¥ 800	**$ 7,350**
Debt without collateral	**2,500**	2,500	**22,971**
	¥3,300	¥3,300	**$30,322**

Note: The weighted-average interest rate on long-term borrowings was 1.2%.

The assets pledged as collateral for long-term debt of ¥800 million ($7,350 thousand) at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Property, plant and equipment	**¥1,463**	¥1,519	**$13,449**
Investment securities	**4,937**	6,879	**45,366**
	¥6,400	¥8,399	**$58,816**

7. Investment Securities of Non-consolidated Subsidiaries and Affiliates

Investment securities of non-consolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Investment securities (shares of or capital contributions to non-consolidated subsidiaries and affiliates)	**¥178**	¥178	**$1,635**

8. Notes Maturing at Fiscal Year-end, Electronically Recorded Monetary Claims, and Obligations

Regarding the accounting treatment of notes maturing at fiscal year-end, payment processing is performed on the clearing date. As the Company's previous fiscal year-end fell on a holiday for financial institutions, the amounts maturing at the end of the fiscal year were included in the corresponding balances.

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Notes and accounts receivable, trade	**¥—**	¥161	**$—**
Electronically recorded monetary claims	**¥—**	¥ 15	**$—**

9. Overdraft and Commitments

The Company has concluded overdraft agreements and loan commitment line agreements with seven banks in order to ensure efficient procurement of operating funds. The balances of unused commitment under these agreements as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Total overdrafts and loan commitment lines	**¥5,300**	¥7,300	**$48,699**
Amount utilized	**—**	500	**—**
Balance available	**¥5,300**	¥6,800	**$48,699**

10. Selling, General and Administrative Expenses

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2020**	2019	**2020**
Sales commissions	**¥ 279**	¥ 157	**$ 2,565**
Estimated design expenses	**855**	1,308	**7,857**
Advertising expenses	**51**	43	**476**
Provision of allowance for doubtful accounts	**—**	46	**—**
Directors' compensations	**365**	326	**3,361**
Provision for Management Board Incentive Plan Trust	**37**	9	**341**
Employees' salaries and allowances	**1,289**	1,399	**11,846**
Provision of accrued bonuses	**175**	161	**1,616**
Provision of accrued bonuses to directors	**24**	22	**222**
Retirement benefit expenses	**134**	193	**1,237**
Traveling and transportation expenses	**224**	217	**2,062**
Rent expenses	**165**	166	**1,520**
Depreciation	**91**	90	**840**
Research and development costs	**249**	305	**2,296**
Other	**1,371**	1,414	**12,605**
Total selling, general and administrative expenses	**¥5,316**	¥5,862	**$48,851**

11. Provision for Losses on Construction Contracts Included in Cost of Sales

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2020**	2019	**2020**
	¥84	¥84	**$775**

12. Loss on Valuation of Inventories Included in Cost of Sales

The carrying value of inventories was written down due to a deterioration in profitability. The following loss on valuation of inventories was included in cost of sales for the years ended March 31, 2020 and 2019.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2020**	2019	**2020**
	¥41	¥11	**$385**

13. Gain on Sales of Investment Securities

Details of the gain on sales of investment securities are as follows.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2020**	2019	**2020**
Other securities	**¥276**	¥378	**$2,543**

14. Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2020**	2019	**2020**
Reclassification adjustment and tax effect on other comprehensive income			
Unrealized gain (loss) on available-for-sale securities:			
Amount accrued during the year	**¥(1,910)**	¥ (878)	**$(17,551)**
Amount due to reclassification adjustment	**(276)**	(378)	**(2,543)**
Before adjustment for tax effect	**(2,186)**	(1,257)	**(20,094)**
Amount of tax effect	**662**	395	**6,087**
Unrealized gain (loss) on available-for-sale securities	**(1,524)**	(862)	**(14,006)**

Deferred gains (losses) on hedges:			
Amount accrued during the year	**(11)**	(0)	**(102)**
Amount due to reclassification adjustment	**—**	—	**—**
Before adjustment for tax effect	**(11)**	(0)	**(102)**
Amount of tax effect	**3**	0	**31**
Deferred gains (losses) on hedges	**(7)**	(0)	**(71)**
Foreign currency translation adjustments:			
Amount accrued during the year	**(7)**	(9)	**(64)**
Remeasurements of defined benefit plans:			
Amount accrued during the year	**(1,031)**	(333)	**(9,475)**
Amount due to reclassification adjustment	**211**	378	**1,943**
Before adjustment for tax effect	**(819)**	44	**(7,531)**
Amount of tax effect	**250**	(13)	**2,303**
Remeasurements of defined benefit plans	**(569)**	31	**(5,228)**
Total other comprehensive income	**¥(2,108)**	¥ (841)	**$(19,371)**

15. Net Assets

Information regarding changes in net assets for the years ended March 31, 2020 and 2019 is as follows:

(1) Shares issued and outstanding / Treasury stock

For the year ended March 31, 2020

Types of shares	Number of shares at March 31, 2019	Increase	Decrease	Number of shares at March 31, 2020
	Thousands of shares			
Shares issued:				
Common stock	**7,913**	**—**	**—**	**7,913**
Treasury stock:				
Common stock (Notes 1 and 2)	**52**	**275**	**2**	**325**

Notes:

1. The increase in the number of common shares of treasury stock was attributable to an increase of 214 shares due to demand for the acquisition of shares of less than one trading unit; an increase of 220,000 shares due to the acquisition of treasury stock based on a resolution of the Board of Directors; and the acquisition of 55,100 shares of the Company's shares through the executive compensation BIP Trust.
2. A decrease of 2,992 shares of treasury stock was due to the delivery and sale of the Company's shares through the executive compensation BIP Trust.
3. The number of common shares of treasury stock includes the Company's shares held by the executive compensation BIP Trust (44,400 shares as of the beginning of the fiscal year and 96,508 shares as of the end of the fiscal year under review).

For the year ended March 31, 2019

Types of shares	Number of shares at March 31, 2018	Increase	Decrease	Number of shares at March 31, 2019
	Thousands of shares			
Shares issued:				
Common stock	7,913	—	—	7,913
Treasury stock:				
Common stock (Notes 1 and 2)	52	0	—	52

Notes:

1. Of the 10 shares in common shares of treasury stock was due to the acquisition of shares of less than one trading unit.
2. The number of common shares of treasury stock includes the Company's shares held by the executive compensation BIP Trust (44,400 shares as of the end of the fiscal year under review).

(2) Dividends

1) Dividends paid

For the year ended March 31, 2020

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Source of dividends	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2019	**Common stock**	**¥395**	**$3,632**	**Retained earnings**	**¥50.0**	**$0.46**	**March 31, 2019**	**June 28, 2019**

Note: In accordance with a resolution passed at the annual general meeting of shareholders on June 27, 2019, total dividends include ¥2 million ($20 thousand) in dividends on the Company's shares held by the executive compensation BIP Trust.

2) Dividends paid with the cut-off date in the year ended March 31, 2020 and the effective date in the year ending March 31, 2021

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Source of dividends	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2020	**Common stock**	**¥461**	**$4,237**	**Retained earnings**	**¥60.0**	**$0.55**	**March 31, 2020**	**June 29, 2020**

Note: In accordance with a resolution passed at the annual general meeting of shareholders on June 26, 2020, total dividends include ¥5 million ($53 thousand) in dividends on the Company's shares held by the executive compensation BIP Trust.

(3) Shareholder's equity

The Corporation Act of Japan (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus and retained earnings be transferred to the capital reserve and the legal reserve, respectively until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the board of directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

16. Supplementary Cash Flow Information

Cash and cash equivalents as of March 31, 2020 and 2019 are reconciled to the accounts reported in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Cash and bank deposits	**¥9,263**	¥4,078	**$85,118**
Time deposits with maturities of more than three months	**(1)**	(1)	**(9)**
Cash and cash equivalents	**¥9,262**	¥4,077	**$85,109**

17. Financial Instruments

(1) Overview

1) Policies for financial instruments

The Mitsubishi Kakoki Group manages surplus funds through short-term deposits. The Group relies on borrowings from banks and other financial institutions for fund procurement. The Group uses derivative transactions for the purpose of mitigating the risks of interest rate fluctuations and currency fluctuations and does not enter into derivative transactions for speculative purposes.

2) Types of financial instruments and related risks

As trade receivables, notes and accounts receivable and electronically recorded monetary claims are exposed to credit risks of customers.

Shares classified as investment securities are principally the shares of companies with which the Company has business relationships, and are subject to the risk of market fluctuations.

Notes and accounts payable and electronically recorded obligations, which are trade payables of the Group, have payment due dates within one year.

Trade receivables and payables denominated in foreign currencies are subject to the risk of fluctuations in exchange rates.

Borrowings consist mainly of funds procured as its working capital. The Group has signed a loan commitment agreement with six banks and an overdraft agreement with one bank for procuring working capital efficiently in the form of short-term borrowings. Borrowings with variable interest rates are exposed to the risks of interest rate fluctuations. The trade payables and loans payable mentioned above are subject to liquidity risk.

3) Risk management for financial instruments

a) Management of credit risk (risk of contractual default or similar by business partners)

The Group applies due date management and outstanding balance management on an individual contract/order basis. Also, in accordance with the Group's credit management regulations, the Group protects against credit risk by investigating the creditworthiness of customers, both on the occasion of initial transactions with a new customer and in relation to continuous transactions.

As the Group limits its choice of partners for derivative transactions to financial institutions with high credit ratings, the Group believes that credit risk of derivatives is insignificant.

b) Management of market risk (risk of fluctuations in exchange rates, interest rates, etc.)

The Group enters into forward foreign exchange contracts to hedge against the risk of losses on trade receivables and payables denominated in foreign currencies as a result of fluctuations in exchange rates. In addition, for certain long-term borrowings (loans payable), the Group uses interest-rate swaps to hedge against the risk of fluctuations in interest rates by locking-in the interest expenses. For investment securities, the Group conducts regular assessments of their market value.

In conducting and managing derivative transactions, in accordance with the internal regulations specifying the authority to conduct such transactions, the head of the unit responsible for handling such transactions must first obtain approval from the officer responsible for handling settlements.

c) Liquidity risk (risk of inability to make payment on the due date)

The Group makes provisions against liquidity risk by various means, including ensuring that all Group companies prepare cash flow plans on a monthly basis.

4) Supplemental explanation of the estimated fair value of financial instruments

The notional amounts of derivatives in note 19 are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Estimated fair value of financial instruments

Carrying value of financial instruments on consolidated balance sheet as of March 31, 2020 and 2019 and estimated fair value are as presented below. Financial instruments for which it is extremely difficult to determine the fair value are not included in the following table (Refer to (Note 2) below).

	Millions of yen		
As of March 31, 2020	Carrying value	Fair value	Difference
(1) Cash and bank deposits	**¥ 9,263**	**¥ 9,263**	**¥ —**
(2) Notes and accounts receivable, trade	**18,378**	**18,378**	**—**
(3) Electronically recorded monetary claims	**1,394**	**1,394**	**—**
(4) Investment securities	**7,280**	**7,280**	**—**
Total assets	**36,316**	**36,316**	**—**
(5) Notes and accounts payable, trade	**8,188**	**8,188**	**—**
(6) Electronically recorded obligations	**2,597**	**2,597**	**—**
(7) Current portion of long-term debt	**1,600**	**1,603**	**3**
(8) Long-term debt	**1,700**	**1,710**	**10**
Total liabilities	**14,085**	**14,099**	**13**
(9) Derivative transactions	**¥ (10)**	**¥ (10)**	**¥ —**

As of March 31, 2020	Thousands of U.S. dollars Carrying value	Fair value	Difference
(1) Cash and bank deposits	**$ 85,118**	**$ 85,118**	**$ —**
(2) Notes and accounts receivable, trade	**168,877**	**168,877**	**—**
(3) Electronically recorded monetary claims	**12,809**	**12,809**	**—**
(4) Investment securities	**66,898**	**66,898**	**—**
Total assets	**333,703**	**333,703**	**—**
(5) Notes and accounts payable, trade	**75,242**	**75,242**	**—**
(6) Electronically recorded obligations	**23,863**	**23,863**	**—**
(7) Current portion of long-term debt	**14,701**	**14,735**	**33**
(8) Long-term debt	**15,620**	**15,712**	**91**
Total liabilities	**129,428**	**129,553**	**125**
(9) Derivative transactions	**$ (100)**	**$ (100)**	**$ —**

As of March 31, 2019	Millions of yen Carrying value	Fair value	Difference
(1) Cash and bank deposits	¥ 4,078	¥ 4,078	¥—
(2) Notes and accounts receivable, trade	19,312	19,312	—
(3) Electronically recorded monetary claims	1,379	1,379	—
(4) Investment securities	9,792	9,792	—
Total assets	34,564	34,564	—
(5) Notes and accounts payable, trade	7,624	7,624	—
(6) Electronically recorded obligations	2,193	2,193	—
(7) Short-term borrowings	500	500	—
(8) Long-term debt	3,300	3,329	29
Total liabilities	13,618	13,647	29
(9) Derivative transactions	¥ 0	¥ 0	¥—

(Note 1)
Methods to determine the estimated fair value of financial instruments, securities and derivative transactions

(1) Cash and bank deposits, (2) Notes and accounts receivable, trade, and (3)Electronically recorded monetary claims
Book values are used because they are settled regularly over the short term (less than one year) and fair value approximates book value.
The allocation method is applied to the accounting of trade receivables in foreign currencies that were hedged by foreign exchange contracts (see Note 19). The fair values of these trade receivables are converted by applying the corresponding foreign exchange contracts.

(4) Investment securities
The fair value of investment securities is based on quoted market prices.
In addition, for information on securities classified by holding purpose, please refer to Note 18.

(5) Notes and accounts payable, trade, and (6) Electronically recorded obligations
Book values are used because they are settled regularly over the short term (less than one year) and fair value approximates book value. The allocation method is applied to the accounting of trade payables in foreign currencies that were hedged by forward foreign exchange contracts (see Note 19). The fair values of these trade payables are calculated by combining them with the corresponding exchange contracts.

(7) Current portion of long-term debt and (8) Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate assumed for similar borrowings. A special accounting treatment is applied to a long-term debt with a variable interest rate. The fair value of long-term debt under the special accounting treatment is based on the present value of the total of principal and interest under the special accounting treatment discounted by a reasonably estimated interest rate applied to similar borrowings.

(9) Derivative transactions
Please refer to Note 19.

(Note 2)
Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unlisted stocks	**¥205**	¥205	**$1,884**

Because no quoted market price is available and predicting future cash flow requires excessive costs, it is extremely difficult to determine the fair value. The above unlisted stocks are not included in the preceding table.

(Note 3)
The maturities of long-term debt are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	**¥1,600**	**$14,701**
2022	**200**	**1,837**
2023	**1,000**	**9,188**
2024 and thereafter	**500**	**4,594**
	¥3,300	**$30,322**

18. Securities

(1) Information regarding securities classified as other securities

Other securities

As of March 31, 2020	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**¥6,303**	**¥2,094**	**¥4,208**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**977**	**1,380**	**(402)**
Total	**¥7,280**	**¥3,475**	**¥3,805**

Note: Unlisted stocks (carrying value of ¥27 million) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine their fair value.

As of March 31, 2020	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**$57,916**	**$19,246**	**$38,670**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**8,981**	**12,684**	**(3,702)**
Total	**$66,898**	**$31,930**	**$34,967**

Note: Unlisted stocks (carrying value of $249 thousand) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine their fair value.

As of March 31, 2019	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥9,247	¥3,134	¥6,112
Securities whose acquisition cost exceeds their carrying value:			
Stock	545	665	(120)
Total	¥9,792	¥3,800	¥5,992

Note: Unlisted stocks (carrying value of ¥27 million) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine their fair value.

(2) Sales of securities classified as other securities and the aggregate gain for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2020**	2019	**2020**
Aggregate gain Stock	**¥276**	¥378	**$2,543**
Sales Proceeds	**¥611**	¥555	**$5,621**

19. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2020 and 2019.

Derivatives to which hedge accounting is applied
Currency-related transactions

	Millions of yen			
	Notional amount			
As of March 31, 2020	Maturing within one year	Maturing after one year	Fair value	Unrealized gain (loss)
Principal Method				
Forward foreign exchange contracts, accounted for as part of accounts receivable and payable				
Sell				
USD	**¥ 56**	**¥—**	**¥ (2)**	**¥ (2)**
Buy				
Euro	**164**	**—**	**(3)**	**(3)**
Buy				
SGD	**¥130**	**¥14**	**¥ (4)**	**¥ (4)**
Total	**¥351**	**¥14**	**¥(10)**	**¥(10)**
Allocation Method				
Forward foreign exchange contracts, accounted for as part of accounts receivable				
Sell				
USD	**¥ 69**	**¥—**	**¥ —**	**¥ —**

Notes:
1. Calculation of fair value
   Fair value is calculated based on the prices presented by financial institutions.
2. Forward foreign exchange contracts and other hedging arrangements subject to the allocation method are accounted for together with the hedged trade accounts receivables. Accordingly, the fair value of the derivatives is included in the fair value of the hedged trade accounts receivable.

	Thousands of U.S. dollars			
	Notional amount			
As of March 31, 2020	Maturing within one year	Maturing after one year	Fair value	Unrealized gain (loss)
Principal Method				
Forward foreign exchange contracts, accounted for as part of accounts receivable and payable				
Sell				
USD	**$ 521**	**$ —**	**$ (24)**	**$ (24)**
Buy				
Euro	**1,508**	**—**	**(31)**	**(31)**
Buy				
SGD	**$1,198**	**$134**	**$ (44)**	**$ (44)**
Total	**$3,227**	**$134**	**$(100)**	**$(100)**
Allocation Method				
Forward foreign exchange contracts, accounted for as part of accounts receivable				
Sell				
USD	**$ 636**	**$ —**	**$ —**	**$ —**

For the year ended March 31, 2019

As of March 31, 2019	Millions of yen			
	Notional amount			
	Maturing within one year	Maturing after one year	Fair value	Unrealized gain (loss)
Principal Method				
Forward foreign exchange contracts, accounted for as part of accounts receivable				
Buy				
SGD	¥90	¥29	¥ 0	¥ 0
Total	¥90	¥29	¥ 0	¥ 0
Allocation Method				
Forward foreign exchange contracts, accounted for as part of accounts receivable				
Sell				
USD	¥36	¥—	¥—	¥—

Notes:
1. Calculation of fair value
 Fair value is calculated based on the prices presented by financial institutions.
2. Forward foreign exchange contracts and other hedging arrangements subject to the allocation method are accounted for together with the hedged trade accounts receivables. Accordingly, the fair value of the derivatives is included in the fair value of the hedged trade accounts receivable.

Interest-related transactions

As of March 31, 2020	Millions of yen			
	Notional amount			
	Maturing within one year	Maturing after one year	Fair value	Unrealized gain (loss)
Interest rate swaps hedging long-term borrowings, accounted for by the special accounting treatment:				
Receive/floating and pay/fixed	**¥1,000**	**¥1,500**	**¥—**	**¥—**

Note: Because interest rate swaps subject to the special treatment are accounted for with long-term debt, which is hedged, the fair value is included with that of the long-term debt.

As of March 31, 2020	Thousands of U.S. dollars			
	Notional amount			
	Maturing within one year	Maturing after one year	Fair value	Unrealized gain (loss)
Interest rate swaps hedging long-term borrowings, accounted for by the special accounting treatment:				
Receive/floating and pay/fixed	**$9,188**	**$13,782**	**$—**	**$—**

As of March 31, 2019	Millions of yen			
	Notional amount			
	Maturing within one year	Maturing after one year	Fair value	Unrealized gain (loss)
Interest rate swaps hedging long-term borrowings, accounted for by the special accounting treatment:				
Receive/floating and pay/fixed	¥—	¥2,500	¥—	¥—

Note: Because interest rate swaps subject to the special treatment are accounted for with long-term debt, which is hedged, the fair value is included with that of the long-term debt.

20. Retirement Benefit Plans

For the year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(1) Summary of the Retirement Benefit Plans Adopted

The Company and its consolidated subsidiaries maintain corporate pension fund plans and lump-sum payment plans as defined benefit plans, and defined contribution pension plans as contribution benefit plans. In addition, there are instances when supplemental severance payments are made at the time of employee retirement.

The savings-type corporate pension fund plans as defined benefit plans provide a lump-sum payment or annuity according to the participation period.

The non-savings-type lump-sum payment plans provide a salary as a retirement benefit and a lump-sum payment according to the service period.

(2) Defined Benefit Plans

1) The changes in the retirement benefit obligation for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Beginning balance of retirement benefit obligation	**¥13,343**	¥13,112	**$122,610**
Service cost	**499**	494	**4,589**
Interest cost	**56**	55	**516**
Actuarial gain or loss	**482**	135	**4,433**
Payment of retirement benefit	**(698)**	(587)	**(6,416)**
Past service cost	**87**	132	**805**
Ending balance of retirement benefit obligation	**¥13,771**	¥13,343	**$126,539**

2) The changes in plan assets for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Beginning balance of pension plan assets	**¥7,030**	¥5,847	**$64,602**
Expected return on plan assets	**245**	204	**2,256**
Realized actuarial gain or loss	**(460)**	(65)	**(4,235)**
Contributions from employer	**661**	1,517	**6,080**
Payment of retirement benefit	**(478)**	(473)	**(4,394)**
Ending balance of pension plan assets	**¥6,998**	¥7,030	**$64,311**

3) Statement of reconciliation between the funded status of the plans and the amounts recognized in the consolidated balance sheets for the Company's and the consolidated subsidiaries' defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Funded retirement benefit obligations	**¥9,122**	¥8,838	**$83,825**
Pension plan assets	**(6,998)**	(7,030)	**(64,311)**
	2,123	1,808	**19,513**
Unfunded retirement benefit obligations under the non-savings type	**4,648**	4,504	**42,714**
Net liability for retirement benefits in the consolidated balance sheet	**6,772**	6,313	**62,228**
Liability for retirement benefits	**6,772**	6,313	**62,228**
Net liability for retirement benefits in the consolidated balance sheet	**¥6,772**	¥6,313	**$62,228**

4) Retirement benefit expenses and breakdown

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Service cost	**¥499**	¥494	**$4,587**
Interest cost	**56**	55	**516**
Expected return on plan assets	**(245)**	(204)	**(2,256)**
Amortization of actuarial gain or loss	**194**	373	**1,787**
Amortization of past service cost	**16**	5	**155**
Retirement benefit expenses for the defined benefit plans	**¥521**	¥724	**$4,791**

5) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Actuarial gain or loss	**¥(749)**	¥172	**$(6,882)**
Past service cost	**(70)**	(127)	**(649)**
Total	**¥(819)**	¥ 44	**$(7,531)**

6) Accumulated remeasurements of defined benefit plans

The components of accumlated remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unrecognized actuarial gain or loss	**¥2,331**	¥1,582	**$21,427**
Unrecognized past service cost	**198**	127	**1,823**
Total	**¥2,530**	¥1,710	**$23,251**

7) Items related to pension plan assets

a) The ratio of major categories to the aggregate plan assets is as follows.

	2020	2019
Bond	**49.4%**	49.6%
Stock	**19.5%**	31.1%
General account	**11.0%**	14.7%
Other	**20.1%**	4.6%
Total	**100.0%**	100.0%

b) Method of determination of the rate of the long-term expected return on plan assets

In the determination of the rate of the long-term expected return on pension plan assets, the current and expected allocation of pension plan assets is considered in addition to the rate of the current and future expected long-term return on various assets constituting the pension plan assets.

8) Items related to basis of actuarial calculation

Basis of major actuarial calculation as of the end of the fiscal years ended March 31, 2020 and 2019.

	2020	2019
Discount rate	**0.3–0.5%**	0.3–0.5%
Long-term expected return on plan assets	**3.5%**	3.5%
Expected rate of salary increase	**7.7%**	7.7%
Expected rate of election of lump-sum payment	**27.0%**	27.0%

Note: Certain subsidiaries adopted a simplified method in the calculation of their retirement benefit obligations.

(3) Defined Contribution Pension Plan

The amount of contributions required to the defined contribution plans of the Company and its consolidated subsidiaries was ¥39 million ($363 thousand) for the year ended March 31, 2020.

21. Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Deferred tax assets			
Liability for retirement benefits	**¥ 2,068**	¥ 1,928	**$ 19,003**
Accrued expenses	**266**	266	**2,449**
Provision for warranties on completed construction	**255**	272	**2,349**
Accrued bonuses	**227**	195	**2,090**
Loss on valuation of inventories	**80**	68	**743**
Provision for losses on construction contracts	**65**	36	**600**
Accrued business tax	**48**	44	**450**
Accrued social insurance premiums for bonuses	**36**	32	**339**
Asset retirement obligations	**36**	36	**339**
Loss on valuation of golf memberships	**29**	29	**272**
Loss on devaluation of investment securities	**24**	30	**220**
Allowance for doubtful accounts	**23**	34	**211**
Equipment for testing and research	**22**	36	**203**
Provision for Management Board Incentive Plan Trust	**14**	5	**136**
Other	**39**	88	**365**
Total	**3,240**	3,108	**29,771**
Valuation allowance	**(216)**	(256)	**(1,993)**
Offsets deferred tax liabilities	**(1,139)**	(1,802)	**(10,474)**
Total	**¥ 1,883**	¥ 1,049	**$ 17,309**

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	**(1,138)**	(1,801)	**(10,464)**
Other	**(1)**	(1)	**(9)**
Total	**(1,139)**	(1,802)	**(10,474)**
Set-off against deferred tax assets	**1,139**	1,802	**10,474**
Total	**—**	—	**—**
Deferred tax assets, net	**¥ 1,883**	¥1,049	**$ 17,309**

Breakdown of major items that caused the difference where a significant difference existed between the statutory effective tax rate and the burden rate of corporate taxes, etc., after applying tax effect accounting.

As of March 31, 2020

The reconciliation between the statutory and effective tax rate for the year ended March 31, 2020 has been omitted because the difference was less than 5% of statutory tax rate.

	As of March 31, 2019
Effective statutory tax rate	30.6%
(Reconciliation)	
Items such as entertainment expenses permanently non-deductible	1.8%
Items such as dividend income permanently non-taxable	(0.9)%
Inhabitant tax on per capita basis	1.3%
Tax credits	(1.0)%
Decrease in end of period deferred tax assets due to change in tax rate	1.0%
Increase (decrease) in valuation allowance	0.1%
Deduction of loss carried forward	(0.9)%
Difference tax years applied to foreign subsidiaries	(0.6)%
Other	0.9%
Effective tax rates	32.3%

22. Business Combinations

Transactions under common control, etc.

On April 1, 2019, the Group carried out the following reorganization between the Company, Kakoki Plant & Environment Engineering Co., Ltd., and Ryoka Works Co., Ltd.

1. Outline of the transaction

(1) Names of the companies involved in the combinations or businesses subject to the combinations and the description of such businesses

1) Absorption-type company split of Ryoka Works Co., Ltd.

- Successor company in the absorption-type company split: The Company

• Business subject to the absorption-type company split: Business of selling oil purifiers of Ryoka Works Co., Ltd.

2) Absorption-type merger of Ryoka Works Co., Ltd. by Kakoki Plant & Environment Engineering Co., Ltd.
   • Surviving company in the absorption-type merger: Kakoki Plant & Environment Engineering Co., Ltd.
   • Non-surviving company in the absorption-type merger: Ryoka Works Co., Ltd.

3) Business subject to the absorption-type company split, including the construction of Yokkaichi Factory and Kashima Factory of the Company
   • Successor company in the absorption-type company split: Kakoki Plant & Environment Engineering Co., Ltd.
   • Business subject to the absorption-type company split: Business concerning the construction of Yokkaichi Factory and Kashima Factory of the Company and after-sales service that is part of the Plant Project Business

(2) Date of the business combination
April 1, 2019

(3) Legal form of the business combination
1) Absorption-type company split in which the business of sales of the Company's oil purifiers of Ryoka Works Co., Ltd. (a company subject to the absorption-type company split) is transferred to the Company (a successor company in the absorption-type company split)
2) Absorption-type merger in which Ryoka Works Co., Ltd. (a non-surviving company) is absorbed by Kakoki Plant & Environment Engineering Co., Ltd. (a surviving company) (the name of the company after the business combination: Kakoki Plant & Environment Engineering Co., Ltd.)
3) Absorption-type company split in which business concerning the construction of Yokkaichi Factory and Kashima Factory of the Company (a company subject to the absorption-type company split) and after-sales service that is part of the Plant Project Business are transferred to Kakoki Plant & Environment Engineering Co., Ltd. (a successor company in the absorption-type company split)

(4) Other matters concerning the outline of the transaction
The Company carried out the transaction as part of the reorganization within the Group to further strengthening the Maintenance Business and promote the optimization of management resources in the Group with the aim of stabilizing earnings and strengthening profitability of the Group as a whole.

2. Outline of the accounting treatment
The business combination is accounted for as a transaction under common control pursuant to the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of January 16, 2019).

23. Segment Information
For the year ended March 31, 2020

(1) Overview of reportable segments
The reportable segments of the Group are the "Engineering" business and the "Machinery" business for which discrete financial information is available, and whose operating results are regularly reviewed by the Board of Directors to make decisions regarding the allocation of management resources and to assess performance.

Reportable segments constitute business segments classified by products. Business segments handling the same types of products are combined into a single reportable segment.

The "Engineering" business includes: City gas and petroleum-related plants, a variety of chemical engineering plants, hydrogen generation plants, sewage treatment equipment, industrial effluent treatment equipment, diverse water treatment equipment and related products.

The "Machinery" business includes: oil purifiers, a variety of separators and filtration machinery, seawater screening facility, mixers and related products.

As a result of the reorganization within the Group carried out on April 1, 2019, the construction business of Yokkaichi Factory and Kashima Factory of the Company hitherto included in the Machinery business has been regrouped into the Engineering business from the fiscal year ended March 31, 2020.

Segment information in reference to the previous fiscal year has been prepared on the basis after the regrouping.

(2) Calculation method for net sales, income or loss, assets and other items by reportable segment
The accounting policies used for reportable business segments are the same as the accounting policies stated in Note 1.

Segment income is measured according to operating income.

(3) Information on net sales, income or loss, assets and other items by reportable segment
For the year ended March 31, 2020

	Millions of yen		
	Reportable segments		
	Engineering	Machinery	Total
Net sales			
(1) Sales to third parties	**¥31,624**	**¥13,438**	**¥45,062**
(2) Inter-segment sales and transfers	—	—	—
Total	**¥31,624**	**¥13,438**	**¥45,062**
Segment income (Operating income)	**¥ 1,199**	**¥ 1,023**	**¥ 2,222**
Segment assets	**¥15,022**	**¥14,817**	**¥29,840**
Other items			
Depreciation and amortization	**¥ 125**	**¥ 447**	**¥ 573**
Increase in property, plant and equipment and intangible assets	**¥ 120**	**¥ 352**	**¥ 472**

	Thousands of U.S. dollars		
	Reportable segments		
	Engineering	Machinery	Total
Net sales			
(1) Sales to third parties	**$290,582**	**$123,478**	**$414,061**
(2) Inter-segment sales and transfers	—	—	—
Total	**$290,582**	**$123,478**	**$414,061**
Segment income (Operating income)	**$ 11,020**	**$ 9,401**	**$ 20,422**
Segment assets	**$138,040**	**$136,152**	**$274,192**

Other items			
Depreciation and amortization	**$ 1,156**	**$ 4,114**	**$ 5,271**
Increase in property, plant and equipment and intangible assets	**$ 1,108**	**$ 3,235**	**$ 4,344**

For the year ended March 31, 2019

	Millions of yen		
	Reportable segments		
	Engineering	Machinery	Total
Net sales			
(1) Sales to third parties	¥25,925	¥12,254	¥38,179
(2) Inter-segment sales and transfers	—	—	—
Total	¥25,925	¥12,254	¥38,179
Segment income (loss) (Operating income (loss))	¥ (147)	¥ 1,245	¥ 1,097
Segment assets	¥17,847	¥13,306	¥31,153
Other items			
Depreciation and amortization	¥ 129	¥ 435	¥ 564
Increase in property, plant and equipment and intangible assets	¥ 395	¥ 560	¥ 956

(4) Adjustments for segment assets

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Total segment assets	**¥29,840**	¥31,153	**$274,192**
Corporate assets (note)	**18,704**	15,063	**171,871**
Total assets reported on consolidated balance sheets	**¥48,545**	¥46,217	**$446,063**

Note: Corporate assets mainly represent cash and bank deposits, investment securities and other assets not allocable to the reportable segments.

[Related Information]
1. Information by products and services
For the year ended March 31, 2020

	Millions of yen		
	Engineering	Machinery	Total
Sales to third parties	**¥31,624**	**¥13,438**	**¥45,062**

	Thousands of U.S. dollars		
	Engineering	Machinery	Total
Sales to third parties	**$290,582**	**$123,478**	**$414,061**

For the year ended March 31, 2019

	Millions of yen		
	Engineering	Machinery	Total
Sales to third parties	¥25,925	¥12,254	¥38,179

2. Information by geographical areas
(1) Net sales
For the year ended March 31, 2020

Millions of yen			
Japan	Asia	Other areas	Total
¥38,782	**¥5,446**	**¥833**	**¥45,062**

Thousands of U.S. dollars			
Japan	Asia	Other areas	Total
$356,357	**$50,043**	**$7,660**	**$414,061**

For the year ended March 31, 2019

Millions of yen			
Japan	Asia	Other areas	Total
¥32,259	¥5,236	¥682	¥38,179

Note: Net sales data is based on the location of customers and classified into country or region.

(2) Property, plant and equipment
This information is omitted as the amount of property, plant and equipment in Japan exceeds 90% of the amount of property, plant and equipment recorded in the consolidated balance sheet.

3. Information related to impairment losses on non-current assets for each reportable segment
For the year ended March 31, 2020
None.

For the year ended March 31, 2019
None.

24. Amounts Per Share

For the years ended March 31	Yen 2020	Yen 2019	U.S. dollars 2020
Net income			
Basic	**¥238.57**	¥141.28	**$2.19**

As of March 31	Yen 2020	Yen 2019	U.S. dollars 2020
Net assets	**¥2,795.96**	¥2,840.15	**$25.69**

Notes:

1. Diluted adjusted net income per share is not indicated, as no potentially dilutive shares exist.
2. The Company introduced a performance-linked compensation plan for executives. When calculating net assets per share, the Company's shares held by the executive compensation BIP Trust are included in treasury stock, which is excluded from the number of shares outstanding at the end of the fiscal year. When calculating net income per share, these shares are included in treasury stock, which is excluded from calculations of the average number of shares during the fiscal year. As of March 31, 2019, the number of shares of treasury stock held by the trust at fiscal year-end was 44,400 shares and as of March 31, 2020 it was 96,508 shares and the average number of shares of treasury stock held by the trust was 44,400 shares during the fiscal year ended March 31, 2019, and it was 88,157 shares during the fiscal year ended March 31, 2020.
3. The bases for calculation are as follows:

(1) Basic net income per share

For the years ended March 31	Thousands of shares 2020	Thousands of shares 2019
Weighted average number of shares for basic net income	**7,798**	7,861

As of March 31	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Profit attributable to owners of parent	**¥1,860**	¥1,110	**$17,095**
Profit attributable to owners of parent attributable to shares of common stock	**¥1,860**	¥1,110	**$17,095**

(2) Net assets per share

As of March 31	Thousands of shares 2020	Thousands of shares 2019
The number of shares of common stock used for the calculation of net assets per share	**7,588**	7,861

As of March 31	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Total net assets	**¥21,259**	¥22,326	**$195,344**
Amount deducted from total net assets	**41**	—	**382**
(Non-controlling interests)	**41**	—	**382**
Net assets attributable to shares of common stock	**¥21,217**	¥22,326	**$194,962**

Board of Directors and Executive Officers

(As of June 26, 2020)

Board of Directors

President

Toshikazu Takagi

Directors

Masao Nakamura
In charge of Machinery Business Division

Toshikazu Tanaka
In charge of Administrative Division
and In charge of Planning Division

Yutaka Kato
Division Director, Plant Project Business Division
and General Manager, Plant Engineering Project Control Office
and In charge of Hydrogen & Energy Project Center

Toshiyuki Ikuma
In charge of Environmental Engineering Business Division

Masaaki Kusunoki

Hiroshi Kanki

Satoru Yamanouchi
Director, Audit and Supervisory Committee Member
(Full-time)

Kazuya Yamaguchi
Director, Audit and Supervisory Committee Member
(Full-time)

Takuzo Funayama
Director, Audit and Supervisory Committee Member

Tomohiro Kikkawa
Director, Audit and Supervisory Committee Member

Executive Officers

Masahiko Saito

Shigeyuki Masaki

Shiro Yajima

Fuminori Deguchi

Masaharu Misawa

Corporate Information

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Branch Offices
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Fukuoka
Naha

Works
Kawasaki
Yokkaichi
Kashima

Overseas Offices
Malaysia
Taiwan
Indonesia

Subsidiaries
Kakoki Plant & Environment Engineering Co., Ltd.
Kakoki Trading Co., Ltd.
MKK Asia Co., Ltd. (Kingdom of Thailand)
MKK Europe B.V. (Kingdom of the Netherlands)
Ryoka Mechanical Technology (Shanghai) Co., Ltd. (People's Republic of China)

Established: May 1, 1935
Capital: ¥3,956,975,000
Stock issued: 7,913,950 shares
Number of stockholders: 7,714
Employees: 485

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