MKK

Annual Report 2021

For the year ended March 31, 2021

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

	Millions of yen			Thousands of U.S. dollars*
For the year ended March 31	**2021**	2020	2019	**2021**
Net sales	**¥48,753**	¥45,062	¥38,179	**$440,374**
Income before income taxes and non-controlling interests	**3,581**	2,689	1,646	**32,354**
Profit attributable to owners of parent	**2,511**	1,860	1,110	**22,689**
Orders received	**31,609**	62,639	49,693	**285,519**

As of March 31				
Total assets	**¥51,837**	¥48,545	¥46,217	**$468,228**
Net assets	**25,286**	21,259	22,326	**228,405**
Backlog of orders	**40,640**	57,784	40,207	**367,090**

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*
	2021	2020	**2021**	**2021**	2020	**2021**
Engineering	**¥36,796**	¥31,624	**$332,364**	**¥21,309**	¥51,081	**$192,483**
Machinery	**11,957**	13,438	**108,010**	**10,299**	11,557	**93,035**
Total	**¥48,753**	¥45,062	**$440,374**	**¥31,609**	¥62,639	**$285,519**

* U.S. dollar amounts have been translated from yen, for convenience only, at ¥110.71=U.S. $1, the approximate rate of exchange prevailing on March 31, 2021.

Report to Our Stockholders

Business Environment and Business Results

During the fiscal year ended March 31, 2021, the Japanese economy found itself in an extremely challenging position, as economic conditions experienced a sharp downturn due to restrictions and voluntary restraints on social and economic activities following a state of emergency declared in April of last year in response to the spread of the novel coronavirus (COVID-19). Although there were signs of recovery in some areas as economic activities resumed after the declaration was lifted, harsh economic conditions continued to prevail due to weak personal consumption and continued caution of private-sector companies toward capital investment reflecting the future uncertainties, as the state of emergency was declared once again in January of this year amid a COVID-19 resurgence.

Under these circumstances, the Mitsubishi Kakoki Kaisha, Ltd. (MKK) Group, in the second year of its three-year medium-term business plan (covering the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2022), sought to improve performance by securing orders and improving costs, as well as by developing business activities under key policy initiatives, including promoting initiatives for next-generation growth sectors and strengthening our corporate structure, in line with the medium-term business plan's framework, with a view to securing operating income, which is our most important issue.

The total amount of orders received on a consolidated basis during the fiscal year decreased 49.5% compared to the previous fiscal year, to ¥31,609 million. This was due to a decline in orders received both in the Engineering and the Machinery businesses, as a result of cancellations and postponements of anticipated projects amid an increasingly severe order receiving environment as corporate profits and business conditions deteriorated and companies took a cautious attitude toward capital investment, in response to the repeated resurgence of COVID-19, in addition to our failure to secure contracts amid intensifying competition to receive orders.

Net sales increased 8.2% compared to the previous fiscal year, to ¥48,753 million, due to an increase in the Engineering business associated with the progress in the undelivered potions of projects on hand, reflecting the substantial increase in orders received in the previous fiscal year.

In terms of income and loss, operating income was ¥2,745 million (versus ¥2,222 million in the previous fiscal year) and ordinary income was ¥2,939 million (versus ¥2,412 million in the previous fiscal year). This was due to higher gross profit resulting from an increase in net sales. In addition, we recorded extraordinary income from gain on sales of investment securities, and also recorded extraordinary loss from impatient loss, which resulted in profit attributable to owners of parent of ¥2,511 million (versus ¥1,860 million in the previous fiscal year). As for the impact of COVID-19, despite some postponements in work schedules and other disruptions caused by movement restrictions and logistics jams, there was no major impact on income and loss for the fiscal year under review.

On a non-consolidated basis, during the fiscal year MKK received orders amounting to ¥22,999 million (down 50.6% year on year) and recorded net sales of ¥36,104 million (up 13.1% year on year), operating income of ¥1,598 million (versus ¥1,108 million in the previous fiscal year), ordinary income of ¥2,198 million (versus ¥1,455 million in the previous fiscal year) and net income of ¥2,129 million (versus ¥1,261 million in the previous fiscal year).

In determining its period-end dividend, MKK took into consideration factors including its performance for the fiscal year, the Company's assessment of future operating conditions and its financial position. On this basis, the Company has declared a period-end dividend of ¥70.00 per share, increased by ¥10.00 per share compared to the previous fiscal year.

Issues Facing the Group

The outlook for the Japanese economy remains uncertain, as the state of emergency was declared for the third time in April of this year with another spike in COVID-19 cases caused by the emergence of new variants. There are also concerns about companies' continued caution toward capital investment, and future economy is expected to remain unpredictable.

Under these circumstances, the Group will pay close attention to the business environment, while taking necessary counter-infection measures and engaging in its business operations in the final year of its three-year medium-term business plan, in line with the three basic policies of the 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 crucial issue. Given the significant decline in orders received in the fiscal year ended March 31, 2021, it will become imperative that we secure projects on hand by responding to inquiries and engaging in order receiving activities that consider expanding future sales and profits. To this end, we will continue to select and engage in commercially viable construction business opportunities, focused on exploiting the technologies for which we have inherent strength and a successful track record while gauging risks and construction income and loss, and striving to acquire orders for important projects and the development and acquisition of new customers and projects. In addition, we will also make further strengthened efforts on maintenance and after-sales service that have relatively high investment priority. As for undelivered portions of projects on hand and construction in progress, we will be committed more than ever to rigorous process control, delivery date management, and quality control 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. In the sector of clean energy, attention to hydrogen is increasing with the government's policy to achieve a carbon-free society by 2050. We will remain committed to research and development for generating and storage of hydrogen through electrolysis of water, in addition to existing hydrogen generator that utilizes city gas and LP 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 well as working on PR activities for each local government. As for equipment complying with marine environment-protection regulations for ships, we will be responding adequately to future market trends and customer needs from a medium- to long-term perspective.

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. As the future remains uncertain due to the impact of the COVID-19 pandemic, we will work toward flexible organizational management by practicing risk control, which will enable us to envision various events and to prevent or mitigate their impact at an early stage, while enhancing productivity and promoting diversity through measures for further work-style reforms. We will also strive to firmly establish and improve the performance- and competency-driven human resources system based on a role rank system, in an effort to revitalize the organization and foster next-generation human resources. Furthermore, following the completion and the start of operations of a new oil purifier production plant in 2012, we will study the possibility of resuming a reconstruction project of the Kawasaki Works, while at the same time consolidating three locations of the offices with headquarters functions, which are currently spread across the Kawasaki area, into two locations, to enhance business efficiency, strengthen our management system and reinforce our recruiting of human resources.

Additionally, through continuous investments into next-generation growth sectors and other business activities based on the medium-term business plan, the Group, as a corporate group engaged in manufacturing and engineering that contribute to a low-carbon and recycling-based society, will further increase its commitment to ensuring safety, while contributing to the achievement of the SDGs through promoting business activities from the standpoint of ESG. 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 Corporation Act of Japan 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 29, 2021

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Toshikazu Tanaka
President

Review of Operations

Engineering Operations

In Engineering Operations, in addition to attempts to identify customer needs, 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 implemented various researches and demonstration tests 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 decreased 58.3% over the previous fiscal year's ¥51,081 million, to ¥21,309 million. This was a result of cancellations and postponements of anticipated projects due to the impact of the COVID-19 pandemic, in addition to our failure to secure contracts amid the intensifying competition to receive orders, despite our efforts in order-receiving activities under an order-receiving plan that took into account construction-execution risks, following an increase of orders received at the beginning of the fiscal year. Orders received saw an especially steep decline in a variety of plants and equipment for private sector customers.

Net sales increased 16.4% from the previous fiscal year's ¥31,624 million, to ¥36,796million, reflecting the increase in orders received in the previous fiscal year and the progress in orders already received.

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 equipment complying 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 10.9% over the previous fiscal year's ¥11,557 million to ¥10,299 million. This was due to the cancellations and postponements of anticipated projects due to the harsh conditions of the shipbuilding and the marine transportation industries as well as the impact of the COVID-19 pandemic, in addition to our failure to secure contracts amid the intensifying competition to receive orders. Meanwhile, although figures remained almost flat year on year for Mitsubishi Oil Purifiers, orders for equipment complying with marine environment-protection regulations for ships and various types of standalone machinery decreased.

Net sales decreased 11.0% from the previous fiscal year's ¥13,438 million, to ¥11,957 million, reflecting decrease in orders received in the previous fiscal year and the current fiscal year.

	2021	2020
Orders Received		
Engineering (%)	**67.4**	81.5
Machinery (%)	**32.6**	18.5
Total (millions of yen)	**¥31,609**	¥62,639
Net Sales		
Engineering (%)	**75.5**	70.2
Machinery (%)	**24.5**	29.8
Total (millions of yen)	**¥48,753**	¥45,062

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, 2021, and the consolidated statements of income, 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, 2021, 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.

Key Audit Matters

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

Estimate of total cost under the percentage of completion method	
Description of Key Audit Matter	Auditor's Response
Mitsubishi Kakoki Kaisha, Ltd. and its consolidated subsidiaries record sales based on the percentage of completion method for construction contracts for which the outcome can be reliably estimated for the progress achieved by the end of the fiscal year.	We performed the following audit procedures to assess the adequacy of estimate of total cost under the percentage of completion method, among others.

Of net sales of ¥48,753 million recognized for the fiscal year, net sales recorded by the Company based on the percentage of completion method were ¥12,662 million, or 26%. As described in Note 1(s) (Significant Accounting Estimates) to the consolidated financial statements, net sales accounted for based on the percentage of completion method are measured based on the progress of construction by using the cost to cost method. The progress of construction work is calculated based on the proportion of the actual cost incurred by the end of the fiscal year against the estimated total cost of construction. Since the construction work is highly specific in nature and completed based on instructions from customers, it is difficult to develop a uniform standard for calculating the total estimated cost. Therefore, estimates require certain assumptions and judgment to be made by the construction manager who has knowledge and experience of construction work. In addition, since construction is generally undertaken over long-term periods, there is a possibility that construction costs will be revised or adjustments made to the specifications in the course of the construction, and therefore it is difficult to perform a timely and appropriate review of the total estimated costs. In particular, considering the scale and complexity of the construction done by the Company, the uncertainty of the total cost estimate is high and involves subjective judgment by the construction manager. Accordingly, we have determined that the estimate of total cost under the percentage of completion method is a key audit matter due to the significance of the balance, estimates, judgements and the degree of uncertainty for the fiscal year.	(1) Evaluation of internal controls We evaluated the design and operating effectiveness of the following internal controls of the Company concerning the total cost estimate. ・ Control to ensure the reliability around the preparation of the report on the status of individual construction work (the project status report), which is the basis of the total cost estimate and the approval by the construction manager. ・ System through which the total cost estimate is reviewed in a timely manner in accordance with the status of the work, the actual cost incurred or any change in specification from the customer. ・ System for timely and appropriate monitoring of the profit or loss and the progress of construction by the construction cost management department responsible for the reliability of construction cost. (2) Evaluation of reasonableness of estimated total cost In light of various factors, such as construction contract amount, construction profit or loss, construction specifications, status of construction, we identified and selected those construction projects for which there is a relatively high degree of uncertainty in terms of the total cost estimate and performed the following procedures. ・ We compared the estimated total cost with the project status report, which is the basis of the calculation, and assessed whether the estimated cost was consistent with the contract terms and whether it was calculated by aggregating costs for each type of construction and also whether there were any abnormal adjustments made to the project status report due to future uncertainty.

	• We compared the estimated total cost with the initial estimated total cost and made inquiries about the progress of the construction and the status of the estimated total cost with the construction manager. We evaluated the consistency of the answers by comparing with the construction schedule, the estimates from subcontractors and the status of expenses. • We inspected the construction site and examined the consistency between the actual construction, total cost estimate and the progress of construction. • We evaluated the process for determining the estimated total cost by comparing the initial estimated total cost with the actual total cost.

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.

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

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, 2021 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 29, 2021

/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, 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
Assets	**2021**	2020	**2021**
Current assets:			
Cash and bank deposits (Notes 16 and 17)	**¥ 7,047**	¥ 9,263	**$ 63,661**
Notes and accounts receivable, trade (Note 17)	**23,388**	18,378	**211,261**
Electronically recorded monetary claims (Note 17)	**1,346**	1,394	**12,158**
Finished goods	**829**	871	**7,490**
Work in process	**1,688**	1,879	**15,251**
Raw materials and supplies	**791**	797	**7,151**
Other assets	**1,611**	1,216	**14,558**
Allowance for doubtful accounts	**(13)**	(11)	**(123)**
Total current assets	**36,690**	33,789	**331,409**
Property, plant and equipment (Notes 5 and 6)**:**			
Buildings and structures, net	**2,449**	2,650	**22,121**
Machinery, equipment and vehicles, net	**663**	628	**5,988**
Land	**1,426**	1,426	**12,880**
Other, net	**248**	290	**2,242**
Total property, plant and equipment	**4,786**	4,995	**43,232**
Intangible assets	**309**	224	**2,795**
Investments and other assets:			
Investment securities (Notes 6, 7, 17 and 18)	**8,666**	7,485	**78,278**
Deferred tax assets (Note 21)	**1,220**	1,883	**11,021**
Other assets	**225**	229	**2,039**
Allowance for doubtful accounts	**(60)**	(63)	**(548)**
Total investments and other assets	**10,051**	9,535	**90,790**
Total assets	**¥51,837**	¥48,545	**$468,228**

See accompanying "Notes to Consolidated Financial Statements."

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2020	**2021**
Current liabilities:			
Notes and accounts payable, trade (Note 17)	**¥ 9,787**	¥ 8,188	**$ 88,403**
Electronically recorded obligations (Note 17)	**2,079**	2,597	**18,787**
Current portion of long-term debt (Notes 6 and 17)	**200**	1,600	**1,806**
Accrued income taxes	**1,046**	617	**9,450**
Advances received	**1,072**	2,072	**9,690**
Accrued bonuses	**736**	748	**6,656**
Accrued bonuses to directors	**17**	24	**155**
Provision for warranties on completed construction	**1,168**	836	**10,554**
Provision for losses on construction contracts	**196**	214	**1,777**
Other current liabilities	**1,465**	1,688	**13,241**
Total current liabilities	**17,771**	18,588	**160,525**
Long-term liabilities:			
Long-term debt (Notes 6 and 17)	**3,100**	1,700	**28,001**
Provision for disposal of PCB	**—**	2	**—**
Provision for executive compensation BIP Trust	**94**	48	**849**
Liability for retirement benefits (Note 20)	**5,430**	6,772	**49,052**
Other long-term liabilities	**154**	174	**1,393**
Total long-term liabilities	**8,779**	8,697	**79,297**
Total liabilities	**26,550**	27,285	**239,822**
Shareholders' equity:			
Common stock	**3,956**	3,956	**35,741**
Capital surplus	**4,200**	4,200	**37,937**
Retained earnings	**15,052**	13,001	**135,964**
Treasury stock	**(591)**	(591)	**(5,339)**
Total shareholders' equity	**22,618**	20,567	**204,303**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**3,899**	2,666	**35,224**
Deferred gain (loss) on hedges	**5**	(7)	**47**
Foreign currency translation adjustments	**(241)**	(252)	**(2,181)**
Accumulated remeasurements of defined benefit plans (Note 20)	**(1,064)**	(1,756)	**(9,619)**
Total accumulated other comprehensive income	**2,598**	650	**23,470**
Non-controlling interests	**69**	41	**630**
Total net assets (Note 15)	**25,286**	21,259	**228,405**
Total liabilities and net assets	**¥51,837**	¥48,545	**$468,228**

Consolidated Statement of Operations

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2020	**2021**
Net sales	**¥48,753**	¥45,062	**$440,374**
Cost of sales (Notes 10 and 11)	**40,734**	37,523	**367,934**
Gross profit	**8,019**	7,539	**72,440**
Selling, general and administrative expenses (Note 9)	**5,274**	5,316	**47,643**
Operating income	**2,745**	2,222	**24,796**
Non-operating income:			
Interest	**1**	1	**14**
Dividends	**281**	310	**2,543**
Gain on foreign exchange	**44**	—	**404**
Other	**6**	72	**60**
Non-operating expenses:			
Interest	**37**	40	**340**
Commission paid	**51**	33	**469**
Litigation expenses	**24**	—	**225**
Loss on foreign exchange	**—**	72	**—**
Other	**25**	48	**234**
Ordinary income	**2,939**	2,412	**26,550**
Extraordinary income:			
Gain on sales of investment securities (Note 13)	**712**	276	**6,433**
Extraordinary loss:			
Impairment loss (Note 12)	**69**	—	**629**
Income before income taxes and non-controlling interests	**3,581**	2,689	**32,354**
Income taxes: (Note 21)			
Current	**1,229**	704	**11,104**
Deferred	**(188)**	82	**(1,702)**
Net income	**2,540**	1,902	**22,951**
Profit attributable to non-controlling interests	**28**	41	**261**
Profit attributable to owners of parent	**¥ 2,511**	¥ 1,860	**$ 22,689**

See accompanying "Notes to Consolidated Financial Statements."

Consolidated Statement of Comprehensive Income

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2020	**2021**
Net income	**¥2,540**	¥1,902	**$22,951**
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	**1,233**	(1,524)	**11,137**
Deferred gain (loss) on hedges	**12**	(7)	**115**
Foreign currency translation adjustments	**10**	(7)	**98**
Remeasurements of defined benefit plans	**691**	(569)	**6,247**
Total other comprehensive income (Note 14)	**1,948**	(2,108)	**17,599**
Comprehensive income	**¥4,489**	¥ (206)	**$40,551**
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	**¥4,461**	¥(247)	**$40,295**
Comprehensive income attributable to non-controlling interests	**¥ 28**	¥ 41	**$ 255**

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, 2021

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 gain (loss) on hedges	Foreign currency translation adjustments	Accumulated remeasure-ments of defined benefit plans	Total accumulated other com-prehensive income	Non-controlling interests	Total net assets
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
Changes during the year:												
Dividends of surplus			**(461)**		**(461)**					—		**(461)**
Net profit attributable to owners of parent			**2,511**		**2,511**					—		**2,511**
Purchase of treasury stock				**(0)**	**(0)**					—		**(0)**
Net changes in items other than those in shareholders' equity					—	**1,233**	**12**	**10**	**691**	**1,948**	**28**	**1,976**
Total changes during the year	—	—	**2,050**	**(0)**	**2,050**	**1,233**	**12**	**10**	**691**	**1,948**	**28**	**4,027**
Balance at March 31, 2021	**¥3,956**	**¥4,200**	**¥15,052**	**¥(591)**	**¥22,618**	**¥ 3,899**	**¥ 5**	**¥(241)**	**¥(1,064)**	**¥ 2,598**	**¥69**	**¥25,286**

Thousands of U.S. dollars (Note 4)

	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 gain (loss) on hedges	Foreign currency translation adjustments	Accumulated remeasure-ments of defined benefit plans	Total accumulated other com-prehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2020	$35,741	$37,937	$117,439	$(5,339)	$185,780	$24,087	$ (68)	$(2,280)	$(15,866)	$ 5,871	$375	$192,027
Changes during the year:												
Dividends of surplus			**(4,165)**		**(4,165)**					—		**(4,165)**
Net profit attributable to owners of parent			**22,689**		**22,689**					—		**22,689**
Purchase of treasury stock				**(0)**	**(0)**					—		**(0)**
Net changes in items other than those in shareholders' equity					—	**11,137**	**115**	**98**	**6,247**	**17,599**	**255**	**17,855**
Total changes during the year	—	—	**18,524**	**(0)**	**18,523**	**11,137**	**115**	**98**	**6,247**	**17,599**	**255**	**36,378**
Balance at March 31, 2021	**$35,741**	**$37,937**	**$135,964**	**$(5,339)**	**$204,303**	**$35,224**	**$ 47**	**$(2,181)**	**$ (9,619)**	**$23,470**	**$630**	**$228,405**

See accompanying "Notes to Consolidated Financial Statements."

Consolidated Statement of Cash Flows

Mitsubishi Kakoki Kaisha, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2020	**2021**
Cash flows from operating activities			
Income before income taxes and non-controlling interests	**¥3,581**	¥2,689	**$32,354**
Depreciation and amortization	**575**	573	**5,195**
Impairment loss	**69**	—	**629**
Loss on valuation of inventories	**(114)**	41	**(1,030)**
Increase (decrease) in allowance for doubtful accounts	**(0)**	(37)	**(5)**
Increase (decrease) in accrued bonuses	**(11)**	108	**(102)**
Increase (decrease) in accrued bonuses to directors	**(6)**	2	**(62)**
Increase (decrease) in provision for warranties on completed construction	**331**	(55)	**2,998**
Increase (decrease) in provision for losses on construction contracts	**(18)**	84	**(162)**
Increase (decrease) in provision for disposal of PCB	**(2)**	1	**(18)**
Increase (decrease) in provision for executive compensation BIP Trust	**45**	30	**411**
Increase (decrease) in liability for retirement benefits	**(344)**	(360)	**(3,115)**
Interest and dividends income	**(283)**	(312)	**(2,564)**
Interest expense	**37**	40	**340**
Loss (gain) on sales of investment securities	**(712)**	(276)	**(6,433)**
Decrease (increase) in notes and accounts receivable, trade	**(4,979)**	933	**(44,981)**
Decrease (increase) in inventories	**353**	(15)	**3,194**
Decrease (increase) in advance payments	**(280)**	175	**(2,533)**
Increase (decrease) in notes and accounts payable, trade	**1,107**	946	**10,006**
Increase (decrease) in advances received	**(1,004)**	1,663	**(9,069)**
Other, net	**(358)**	602	**(3,235)**
Subtotal	**(2,013)**	6,833	**(18,182)**
Interest and dividends received	**283**	312	**2,564**
Interest paid	**(38)**	(40)	**(350)**
Income taxes paid	**(826)**	(595)	**(7,464)**
Net cash provided by (used in) operating activities	**(2,594)**	6,510	**(23,434)**
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment	**0**	0	**8**
Purchases of property, plant and equipment and intangible assets	**(475)**	(515)	**(4,297)**
Proceeds from sales of investment securities	**1,316**	611	**11,887**
Purchases of investment securities	**(9)**	(9)	**(86)**
Payment for long-term loans receivable	**(0)**	(5)	**(0)**
Collection of long-term loans receivable	**4**	3	**44**
Other, net	**(5)**	(9)	**(48)**
Net cash provided by (used in) investing activities	**831**	75	**7,508**
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	**—**	(500)	**—**
Proceeds from long-term loans payable	**1,600**	—	**14,452**
Repayments of long-term loans payable	**(1,600)**	—	**(14,452)**
Repayments of lease obligations	**(16)**	(12)	**(150)**
Cash dividends paid	**(461)**	(395)	**(4,165)**
Purchase of treasury stock	**(0)**	(471)	**(0)**
Proceeds from sales of treasury stock	**—**	5	**—**
Net cash provided by (used in) financing activities	**(477)**	(1,373)	**(4,316)**
Effect of exchange rate changes on cash and cash equivalents	**25**	(28)	**230**
Increase (decrease) in cash and cash equivalents	**(2,215)**	5,184	**(20,011)**
Cash and cash equivalents at beginning of the year	**9,262**	4,077	**83,663**
Cash and cash equivalents at end of the year (Note 16)	**¥7,046**	¥9,262	**$63,652**

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 (the "Group") 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, 2021, the number of consolidated subsidiaries was 4 (4 in 2020).

Kakoki Plant & Environment Engineering Co., Ltd. changed its trade name to Mitsubishi Kakoki Advance, Ltd. on November 1, 2020.

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 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Consumption taxes

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

(s) Significant Accounting Estimates

(1) Estimation of progress in construction based on the percentage of completion method

1) The amount recorded in the consolidated financial statements for the fiscal year under review

Net sales accounted for based on the percentage of completion method: ¥15,666 million

2) Other information that helps users of consolidated financial statements to better understand the details of accounting estimates

The Company and its consolidated subsidiaries adopt the percentage of completion method for the construction contracts for which the outcome can be reliably estimated for the progress achieved by the end of the fiscal year under review.

Net sales accounted for based on the percentage of completion method are measured based on the progress of construction by using the cost to cost method. The progress of construction work is calculated based on the proportion of the actual cost incurred by the end of the fiscal year under review against the estimated total cost of construction.

Since the construction work is highly specific in nature and completed based on instructions from customers, it is difficult to develop a uniform standard for calculating the total estimated cost. Therefore, estimates require certain assumptions and judgment to be made by the construction manager who has knowledge and experience of construction work. In addition, since construction is generally undertaken over long-term periods and the estimated total cost of construction up to completion may be affected by factors such as additional expenses for various construction works and changes in specification along with the progress of construction work, the estimates and assumptions are reviewed on an ongoing basis.

The Company and its consolidated subsidiaries have firmly established a system for continuously verifying and evaluating the appropriateness of the estimated total cost of construction, based on the report on the status of individual construction work prepared each month (project status report). Accordingly, the Company and its consolidated subsidiaries believe that net sales are recognized adequately based on the appropriate progress of construction work. However, if reviews and adjustments to the estimated total cost of construction become necessary due to unexpected reasons, the amount of net sales to be recognized in the consolidated financial statements for the next fiscal year may be affected.

(2) Measurement of provision for warranties on completed construction

1) The amount recorded in the consolidated financial statements for the fiscal year under review

Provision for warranties on completed construction: ¥1,168 million

2) Other information that helps users of consolidated financial statements to better understand the details of accounting estimates

In order to be prepared for potential expenditures for the follow-up construction work under warranties to be carried out after the delivery of a construction project, the Company and its consolidated subsidiaries recognize a provision for warranties on completed construction at an expected amount of expenditure for the follow-up construction work under warranties, as determined by the average rate of actual occurrence of the follow-up construction work under warranties against net sales of the latest two years, adding necessary adjustments for the future estimated repair costs, etc.

Since the estimated total cost of the follow-up construction work under warranties as the basis for estimating the expected expenditure for future estimated repairs, etc., is likely to be affected by additional expenses for various construction works along with the progress of construction work, the estimates and assumptions are reviewed on an ongoing basis.

The Company and its consolidated subsidiaries have firmly established a system for appropriately verifying and evaluating the handling of the follow-up construction work under warranties, as well as expected expenses at the Steering Committee the Company holds on a monthly basis. Accordingly, the Company and its consolidated subsidiaries believe that provision for warranties on completed construction is recognized based on the appropriate estimated total cost of construction. However, if reviews and adjustments to the estimated total cost of construction become necessary due to unexpected reasons, the amount of provision for warranties on completed construction to be recognized in the consolidated financial statements for the next fiscal year may be affected.

(3) Measurement of provision for losses on construction contracts

1) The amount recorded in the consolidated financial statements for the fiscal year under review
Provision for losses on construction contracts: ¥196 million

2) Other information that helps users of consolidated financial statements to better understand the details of accounting estimates

In order to be prepared for the potential loss associated with a construction project undelivered at the end of the fiscal year under review, which is likely to generate reasonably determinable loss due to the estimated total cost of construction exceeding the contract amount, the Company and its consolidated subsidiaries recognize a provision for losses on construction contracts at the amount of loss expected to be incurred in the next fiscal year and thereafter.

Since the estimated total cost of construction up to completion may be affected by factors such as additional expenses for various construction work and changes in specification along with the progress of construction work, the estimates and assumptions are reviewed on an ongoing basis.

The Company and its consolidated subsidiaries have firmly established a system for continuously verifying and evaluating the appropriateness of the estimated total cost of construction, based on the report on the status of individual construction work prepared each month (project status report). Accordingly, the Company and its consolidated subsidiaries believe that provision for losses on construction contracts is recognized based on the appropriate estimated total cost of construction. However, if reviews and adjustments to the estimated total cost of construction become necessary due to unexpected reasons, the amount of provision for losses on construction contracts to be recognized in the consolidated financial statements for the next fiscal year may be affected.

(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 On March 26, 2021 "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.

2. Changes in Presentation

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

The Company has adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the consolidated financial statements as of the end of the fiscal year ended March 31, 2021. Accordingly, notes on the significant accounting estimates are stated in the consolidated financial statements.

(Consolidated statement of cash flows)

"Loss on valuation of inventories" included in "Other, net" under "Cash flows from operating activities" for the previous fiscal year has been separately presented from the fiscal year ended March 31, 2021, as the amount became significant. 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, ¥644 million ($5,819 thousand) presented in "Other, net" under "Cash flows from operating activities" in the consolidated statement of cash flows for the previous fiscal year has been reclassified as "Loss on valuation of inventories" of ¥41 million ($379 thousand) and "Other, net" of ¥602 million ($5,439 thousand).

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 bottlenecks. For the fiscal year under review, accounting estimates such as evaluation of property, plant and equipment and deferred tax assets have been made, based on the assumption that the impact of COVID-19 will continue for some time into the next fiscal year. However, COVID-19 may have an impact on the financial results of the Group for the next fiscal year and thereafter, due to factors such as the prolonged period for containing the spread of infections.

4. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in Japanese yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥110.71=U.S.$1, the approximate rate of exchange prevailing at March 31, 2021. 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, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Accumulated depreciation	**¥11,927**	¥11,588	**$107,737**

6. Long-Term Debt

At March 31, 2021 and 2020, 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	**2021**	2020	**2021**
Debt with collateral	**¥ 500**	¥ 800	**$ 4,516**
Debt without collateral	**2,800**	2,500	**25,291**
	¥3,300	¥3,300	**$29,807**

Note: The weighted-average interest rate on long-term borrowings was 1.0%.

The assets pledged as collateral for long-term debt of ¥500 million ($4,516 thousand) at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2021**	2020	**2021**
Property, plant and equipment	**¥1,362**	¥1,463	**$12,302**
Investment securities	**6,599**	4,937	**59,607**
	¥7,961	¥6,400	**$71,910**

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	**2021**	2020	**2021**
Investment securities (shares of or capital contributions to non-consolidated subsidiaries and affiliates)	**¥178**	¥178	**$1,607**

8 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2021**	2020	**2021**
Total overdrafts and loan commitment lines	**¥5,300**	¥5,300	**$47,872**
Amount utilized	**—**	—	**—**
Balance available	**¥5,300**	¥5,300	**$47,872**

9. Selling, General and Administrative Expenses

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2021**	2020	**2021**
Sales commissions	**¥ 170**	¥ 279	**$ 1,537**
Estimated design expenses	**826**	855	**7,469**
Advertising expenses	**35**	51	**319**
Directors' compensations	**348**	365	**3,150**
Provision for Management Board Incentive Plan Trust	**45**	37	**411**
Employees' salaries and allowances	**1,321**	1,289	**11,932**
Provision of accrued bonuses	**181**	175	**1,640**
Provision of accrued bonuses to directors	**17**	24	**155**
Retirement benefit expenses	**150**	134	**1,359**
Traveling and transportation expenses	**97**	224	**881**
Rent expenses	**161**	165	**1,459**
Depreciation	**97**	91	**881**
Research and development costs	**362**	249	**3,278**
Other	**1,457**	1,371	**13,164**
Total selling, general and administrative expenses	**¥5,274**	¥5,316	**$47,643**

10. 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	**2021**	2020	**2021**
	¥(18)	¥84	**$(162)**

11. 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 31,2021 and 2020.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2021**	2020	**2021**
	¥(114)	¥41	**$(1,030)**

12. Impairment Loss

In the fiscal year ended March 31, 2021, the MKK Group recorded an impairment loss on the asset group shown below.

Location	Name	Use	Type
Kawasaki, Kanagawa Pref.	Head office, sales office	Shared assets	Property, plant and equipment and intangible assets

For the fiscal year under review, the Company has resolved to relocate its Sales Office (Kawasaki, Kanagawa). Accordingly, the book value of non-current assets with no prospective use has been reduced to the recoverable amount, and the amount of reduction is recorded as "impairment loss" (¥69 million, $629 thousand).

The recoverable amount is measured at its value in use, which is calculated at an amount equivalent to the depreciation up to the scheduled date of relocation.

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	**2021**	2020	**2021**
Other securities	**¥712**	¥276	**$6,433**

14. Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2021**	2020	**2021**
Reclassification adjustment and tax effect on other comprehensive income			
Unrealized gain (loss) on available-for-sale securities:			
Amount accrued during the year	**¥2,486**	¥(1,910)	**$22,464**
Amount due to reclassification adjustment	**(712)**	(276)	**(6,433)**
Before adjustment for tax effect	**1,774**	(2,186)	**16,030**
Amount of tax effect	**(541)**	662	**(4,893)**
Unrealized gain (loss) on available-for-sale securities	**1,233**	(1,524)	**11,137**
Deferred gain (loss) on hedges:			
Amount accrued during the year	**18**	(11)	**166**
Amount due to reclassification adjustment	**—**	—	**—**
Before adjustment for tax effect	**18**	(11)	**166**
Amount of tax effect	**(5)**	3	**(51)**
Deferred gain (loss) on hedges	**12**	(7)	**115**
Foreign currency translation adjustments:			
Amount accrued during the year	**10**	(7)	**98**
Remeasurements of defined benefit plans:			
Amount accrued during the year	**712**	(1,031)	**6,433**
Amount due to reclassification adjustment	**284**	211	**2,566**
Before adjustment for tax effect	**996**	(819)	**8,999**
Amount of tax effect	**(304)**	250	**(2,752)**
Remeasurements of defined benefit plans	**691**	(569)	**6,247**
Total other comprehensive income	**¥1,948**	¥(2,108)	**$17,599**

15. Net Assets

Information regarding changes in net assets for the years ended March 31, 2021 and 2020 is as follows:

(1) Shares issued and outstanding / Treasury stock

For the year ended March 31, 2021

	Thousands of shares			
Types of shares	Number of shares at March 31, 2020	Increase	Decrease	Number of shares at March 31, 2021
Shares issued:				
Common stock	**7,913**	**—**	**—**	**7,913**
Treasury stock:				
Common stock (Note 1)	**325**	**0**	**—**	**325**

Notes:
1. The increase in common shares of treasury stock was due to the acquisition of 37 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 (96,508 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, 2020

	Thousands of shares			
Types of shares	Number of shares at March 31, 2019	Increase	Decrease	Number of shares at March 31, 2020
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 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).

(2) Dividends

1) Dividends paid

For the year ended 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**	**$4,165**	**Retained earnings**	**¥50.0**	**$0.54**	**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 ($52 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, 2021 and the effective date in the year ending March 31, 2022

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 29, 2021	**Common stock**	**¥537**	**$4,859**	**Retained earnings**	**¥70.0**	**$0.63**	**March 31, 2021**	**June 30, 2021**

Note: In accordance with a resolution passed at the annual general meeting of shareholders on June 29, 2021, total dividends include ¥6 million ($61 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, 2021 and 2020 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	**2021**	2020	**2021**
Cash and bank deposits	**¥7,047**	¥9,263	**$63,661**
Time deposits with maturities of more than three months	**(1)**	(1)	**(9)**
Cash and cash equivalents	**¥7,046**	¥9,262	**$63,652**

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, 2021 and 2020 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, 2021	Carrying value	Fair value	Difference
(1) Cash and bank deposits	**¥ 7,047**	**¥ 7,047**	**¥—**
(2) Notes and accounts receivable, trade	**23,388**	**23,388**	**—**
(3) Electronically recorded monetary claims	**1,346**	**1,346**	**—**
(4) Investment securities	**8,461**	**8,461**	**—**
Total assets	**40,243**	**40,243**	**—**
(5) Notes and accounts payable, trade	**9,787**	**9,787**	**—**
(6) Electronically recorded obligations	**2,079**	**2,079**	**—**
(7) Current portion of long-term debt	**200**	**201**	**1**
(8) Long-term debt	**3,100**	**3,107**	**7**
Total liabilities	**15,167**	**15,175**	**8**
(9) Derivative transactions	**¥ 7**	**¥ 7**	**¥—**

	Thousands of U.S. dollars		
As of March 31, 2021	Carrying value	Fair value	Difference
(1) Cash and bank deposits	**$ 63,661**	**$ 63,661**	**$—**
(2) Notes and accounts receivable, trade	**211,261**	**211,261**	**—**
(3) Electronically recorded monetary claims	**12,158**	**12,158**	**—**
(4) Investment securities	**76,425**	**76,425**	**—**
Total assets	**363,506**	**363,506**	**—**
(5) Notes and accounts payable, trade	**88,403**	**88,403**	**—**
(6) Electronically recorded obligations	**18,787**	**18,787**	**—**
(7) Current portion of long-term debt	**1,806**	**1,819**	**12**
(8) Long-term debt	**28,001**	**28,064**	**63**
Total liabilities	**136,998**	**137,074**	**76**
(9) Derivative transactions	**$ 67**	**$ 67**	**$—**

	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)	¥—

(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.

(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
	2021	2020	**2021**
Unlisted stocks	**¥205**	¥205	**$1,852**

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
2022	**¥ 200**	**$ 1,806**
2023	**1,000**	**9,032**
2024	**500**	**4,516**
2025 and thereafter	**1,600**	**14,452**
	¥3,300	**$29,807**

18. Securities

(1) Information regarding securities classified as other securities

Other securities

	Millions of yen		
As of March 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**¥7,952**	**¥2,307**	**¥5,645**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**508**	**573**	**(65)**
Total	**¥8,461**	**¥2,880**	**¥5,580**

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.

	Thousands of U.S. dollars		
As of March 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**$71,835**	**$20,840**	**$50,994**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**4,589**	**5,179**	**(590)**
Total	**$76,425**	**$26,020**	**$50,404**

Note: Unlisted stocks (carrying value of $244 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.

	Millions of yen		
As of March 31, 2020	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.

(2) Sales of securities classified as other securities and the aggregate gain for the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2021**	2020	**2021**
Aggregate gain Stock	**¥ 712**	¥276	**$ 6,433**
Sales Proceeds	**¥1,316**	¥611	**$11,887**

19. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2021 and 2020.

Derivatives to which hedge accounting is applied
Currency-related transactions

	Millions of yen			
	Notional amount			
As of March 31, 2021	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 payable				
Buy USD	**¥ 49**	**¥10**	**¥3**	**¥3**
Buy Euro	**46**	**—**	**2**	**2**
Buy SGD	**¥ 30**	**¥—**	**¥1**	**¥1**
Total	**¥126**	**¥10**	**¥7**	**¥7**

Note: Calculation of fair value
Fair value is calculated based on the prices presented by financial institutions.

	Thousands of U.S. dollars			
	Notional amount			
As of March 31, 2021	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 payable				
Buy USD	**$ 447**	**$91**	**$32**	**$32**
Buy Euro	**421**	**—**	**21**	**21**
Buy SGD	**$ 271**	**$—**	**$13**	**$13**
Total	**$1,140**	**$91**	**$67**	**$67**

	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 SGD	¥ 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.

Interest-related transactions

	Millions of yen			
	Notional amount			
As of March 31, 2021	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	**¥—**	**¥2,800**	**¥—**	**¥—**

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

	Thousands of U.S. dollars			
	Notional amount			
As of March 31, 2021	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	**$—**	**$25,291**	**$—**	**$—**

	Millions of yen			
	Notional amount			
As of March 31, 2020	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 accounting 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, 2021 (from April 1, 2020 to March 31, 2021)

(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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Beginning balance of retirement benefit obligation	**¥13,771**	¥13,343	**$124,390**
Service cost	**520**	499	**4,701**
Interest cost	**22**	56	**200**
Actuarial gain or loss	**(206)**	482	**(1,860)**
Payment of retirement benefit	**(610)**	(698)	**(5,518)**
Past service cost	**—**	87	**—**
Other	**(12)**	—	**(112)**
Ending balance of retirement benefit obligation	**¥13,485**	¥13,771	**$121,801**

2) The changes in plan assets for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Beginning balance of pension plan assets	**¥6,998**	¥7,030	**$63,218**
Expected return on plan assets	**244**	245	**2,208**
Realized actuarial gain or loss	**506**	(460)	**4,572**
Contributions from employer	**781**	661	**7,057**
Payment of retirement benefit	**(464)**	(478)	**(4,196)**
Other	**(12)**	—	**(112)**
Ending balance of pension plan assets	**¥8,054**	¥6,998	**$72,749**

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
	2021	2020	**2021**
Funded retirement benefit obligations	**¥8,712**	¥9,122	**$78,699**
Pension plan assets	**(8,054)**	(6,998)	**(72,749)**
	658	2,123	**5,950**
Unfunded retirement benefit obligations under the non-savings type	**4,771**	4,648	**43,102**
Net liability for retirement benefits in the consolidated balance sheet	**5,430**	6,772	**49,052**
Liability for retirement benefits	**5,430**	6,772	**49,052**
Net liability for retirement benefits in the consolidated balance sheet	**¥5,430**	¥6,772	**$49,052**

4) Retirement benefit expenses and breakdown

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Service cost	**¥520**	¥499	**$4,701**
Interest cost	**22**	56	**200**
Expected return on plan assets	**(244)**	(245)	**(2,208)**
Amortization of actuarial gain or loss	**267**	194	**2,413**
Amortization of past service cost	**16**	16	**153**
Retirement benefit expenses for the defined benefit plans	**¥582**	¥521	**$5,260**

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, 2021 and 2020 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Actuarial gain or loss	**¥979**	¥(749)	**$8,846**
Past service cost	**16**	(70)	**153**
Total	**¥996**	¥(819)	**$8,999**

6) Accumulated remeasurements of defined benefit plans

The components of accumulated remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Unrecognized actuarial gain or loss	**¥1,364**	¥2,331	**$12,329**
Unrecognized past service cost	**181**	198	**1,639**
Total	**¥1,546**	¥2,530	**$13,969**

7) Items related to pension plan assets

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

	2021	2020
Bond	**43.4%**	49.4%
Stock	**20.5%**	19.5%
General account	**13.0%**	11.0%
Other	**23.1%**	20.1%
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, 2021 and 2020.

	2021	2020
Discount rate	**0.1–0.2%**	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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
The amount of contributions required to the defined contribution plans	**¥49**	¥39	**$447**

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 realized or settled.

(1)The significant components of deferred tax assets and liabilities at March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2021**	2020	**2021**
Deferred tax assets			
Liability for retirement benefits	**¥ 1,657**	¥ 2,068	**$ 14,975**
Accrued expenses	**415**	266	**3,753**
Provision for warranties on completed construction	**357**	255	**3,224**
Accrued bonuses	**224**	227	**2,029**
Accrued business tax	**66**	48	**596**
Provision for losses on construction contracts	**60**	65	**543**
Loss on valuation of inventories	**45**	80	**414**
Asset retirement obligations	**36**	36	**333**
Accrued social insurance premiums for bonuses	**36**	36	**331**
Loss on valuation of golf memberships	**29**	29	**267**
Equipment for testing and research	**29**	22	**267**
Provision for Management Board Incentive Plan Trust	**28**	14	**259**
Impairment loss	**24**	5	**221**
Loss on devaluation of investment securities	**24**	24	**217**
Allowance for doubtful accounts	**22**	23	**206**
Other	**20**	34	**185**
Total	**3,080**	3,240	**27,828**
Valuation allowance	**(176)**	(216)	**(1,598)**
Offsets deferred tax liabilities	**(1,683)**	(1,139)	**(15,208)**
Total	**¥ 1,220**	¥ 1,883	**$ 11,021**

As of March 31	Millions of yen 2021	2020	Thousands of U.S. dollars 2021
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	**¥(1,680)**	¥(1,138)	**$(15,179)**
Other	**(3)**	(1)	**(29)**
Total	**(1,683)**	(1,139)	**(15,208)**
Set-off against deferred tax assets	**1,683**	1,139	**15,208**
Total	**—**	—	**—**
Deferred tax assets, net	**¥ 1,220**	¥ 1,883	**$ 11,021**

(2)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

For the years ended March 31, 2020 and 2021
The reconciliation between the statutory and effective tax rate for the years ended March 31, 2020 and 2021 has been omitted because the difference was less than 5% of statutory tax rate.

22. Segment Information

For the year ended March 31, 2021

(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.

(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, 2021

	Millions of yen		
	Reportable segments		
	Engineering	Machinery	Total
Net sales			
(1) Sales to third parties	**¥36,796**	**¥11,957**	**¥48,753**
(2) Inter-segment sales and transfers	**—**	**—**	**—**
Total	**¥36,796**	**¥11,957**	**¥48,753**
Segment income (Operating income)	**¥ 1,877**	**¥ 867**	**¥ 2,745**
Segment assets	**¥22,342**	**¥12,914**	**¥35,256**
Other items			
Depreciation and amortization	**¥ 137**	**¥ 437**	**¥ 575**
Increase in property, plant and equipment and intangible assets	**¥ 179**	**¥ 345**	**¥ 524**

	Thousands of U.S. dollars		
	Reportable segments		
	Engineering	Machinery	Total
Net sales			
(1) Sales to third parties	**$332,364**	**$108,010**	**$440,374**
(2) Inter-segment sales and transfers	—	—	—
Total	**$332,364**	**$108,010**	**$440,374**
Segment income (Operating income)	**$ 16,957**	**$ 7,839**	**$ 24,796**
Segment assets	**$201,807**	**$116,651**	**$318,458**
Other items			
Depreciation and amortization	**$ 1,243**	**$ 3,951**	**$ 5,195**
Increase in property, plant and equipment and intangible assets	**$ 1,622**	**$ 3,116**	**$ 4,738**

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

(4) Adjustments for segment assets

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2021**	2020	**2021**
Total segment assets	**¥35,256**	¥29,840	**$318,458**
Corporate assets (note)	**16,581**	18,704	**149,770**
Total assets reported on consolidated balance sheets	**¥51,837**	¥48,545	**$468,228**

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, 2021

	Millions of yen		
	Engineering	Machinery	Total
Sales to third parties	**¥36,796**	**¥11,957**	**¥48,753**

	Thousands of U.S. dollars		
	Engineering	Machinery	Total
Sales to third parties	**$332,364**	**$108,010**	**$440,374**

For the year ended March 31, 2020

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

2. Information by geographical areas
(1) Net sales
For the year ended March 31, 2021

Millions of yen			
Japan	Asia	Other areas	Total
¥41,361	**¥6,626**	**¥766**	**¥48,753**

Thousands of U.S. dollars			
Japan	Asia	Other areas	Total
$373,598	**$59,854**	**$6,922**	**$440,374**

For the year ended March 31, 2020

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

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, 2021
Impairment losses on non-current assets of ¥69 million ($629 thousand) represent assets not allocated to reportable segments

For the year ended March 31, 2020
None.

23. Amounts Per Share

	Yen		U.S. dollars
For the years ended March 31	**2021**	2020	**2021**
Net income			
Basic	**¥331.01**	¥238.57	**$2.99**

	Yen		U.S. dollars
As of March 31	**2021**	2020	**2021**
Net assets	**¥3,322.97**	¥2,795.96	**$30.02**

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 Directors and Executive Officers. 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, 2020, the number of shares of treasury stock held by the trust at fiscal year-end was 96,508 shares and as of March 31, 2021 it was 96,508 shares and the average number of shares of treasury stock held by the trust was 88,157 shares during the fiscal year ended March 31, 2020, and it was 96,508 shares during the fiscal year ended March 31, 2021.
3. The bases for calculation are as follows:

(1) Basic net income per share

	Thousands of shares	
For the years ended March 31	**2021**	2020
Weighted average number of shares for basic net income	**7,588**	7,798

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2021**	2020	**2021**
Profit attributable to owners of parent	**¥2,511**	¥1,860	**$22,689**
Profit attributable to owners of parent attributable to shares of common stock	**¥2,511**	¥1,860	**$22,689**

(2) Net assets per share

	Thousands of shares	
As of March 31	**2021**	2020
The number of shares of common stock used for the calculation of net assets per share	**7,588**	7,588

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2021**	2020	**2021**
Total net assets	**¥25,286**	¥21,259	**$228,405**
Amount deducted from total net assets	**69**	41	**630**
(Non-controlling interests)	**69**	41	**630**
Net assets attributable to shares of common stock	**¥25,216**	¥21,217	**$227,774**

Board of Directors and Executive Officers

(As of June 29, 2021)

Board of Directors

President

Toshikazu Tanaka

Directors

Masao Nakamura
In charge of Machinery Business Division

Yutaka Kato
In charge of Plant Project Business Division and In charge of Hydrogen & Energy Project Center

Toshiyuki Ikuma
In charge of Environmental Engineering Business Division

Masahiko Saito
In charge of Administrative Division and In charge of Planning 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

Shigeyuki Masaki

Shiro Yajima

Fuminori Deguchi

Masaharu Misawa

Koichi Hayashi

Corporate Information

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Branch Offices
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Fukuoka
Naha

Works
Kawasaki
Yokkaichi
Kashima

Overseas Offices
Malaysia
Taiwan
Indonesia

Subsidiaries
Mitsubishi Kakoki Advance, 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: 11,304
Employees: 507

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Printed in Japan