RESULTS OF OPERATIONS (OVERVIEW)

The results for the fiscal year ended March 31, 2021

Accounting estimates and underlying assumptions

The consolidated financial statements of the Taikisha Group are prepared in accordance with accounting standards generally accepted in Japan. In preparing the consolidated financial statements, some accounting estimates that affect the amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period are made in accordance with the accounting standards.

Please refer to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 2. Summary of significant accounting policies, (13) Significant accounting estimates" for important items of accounting estimates and underlying assumptions.

In addition, please refer to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 2. Summary of significant accounting policies, (16) Additional information" for the effects of the spread of COVID-19.

Due to the uncertain nature of estimates, actual results may change from these estimates.

Earnings Overview

For the fiscal year, the global economy fell into an economic recession due to the impact of the COVID-19 pandemic. For the first quarter, the governments of each country implemented restrictions on economic activities as emergency response measures, including lockdowns, the suspension of business operations, and travel restrictions. As a result, the global economy deteriorated significantly. From the second quarter, signs of recovery were visible as economic activities resumed. Subsequently, owing to widespread COVID-19 vaccine rollouts, financial support provided by each country's government and so on, economies worldwide are on a recovery track.

Among the market environments of the Taikisha Group, in the domestic market, while the building HVAC sector saw the impact on capital investments due to the state of emergency declaration in the first quarter, it subsequently moved towards recovery. Meanwhile, in the industrial HVAC sector, due to the impact of economic deterioration and growing uncertainty over the future outlook, each manufacturer continued to move with caution with regard to capital investments. Overseas, both in the industrial HVAC sector and the automobile paint finishing sector, manufacturers continued to stay in the correction phase regarding capital investments.

Under such circumstances, in order to achieve medium- to long-term growth, the Taikisha Group has been promoting the following initiatives.

Firstly, as an initiative aimed at expanding our overseas business domain through capital alliances, on July 30, 2020, the Company invested in Nicomac Clean Rooms Far East LLP (currently Nicomac Taikisha Clean Rooms Private Limited, hereinafter "Nicomac") and made it a consolidated subsidiary. Nicomac is an India-based company that manufactures and sells panels for clean rooms. In the Indian market, for which medium- to long-term growth can be expected, the Company aims to strengthen our responsiveness towards India's clean room construction market centering on environments for manufacturing medical equipment where high-performance HVAC systems are required, by integrating Nicomac's high-quality panel manufacturing and installation technologies with the Company's HVAC system technologies.

The business results of Nicomac for the first and second quarters are not included in the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income for the fiscal year because the deemed acquisition date of Nicomac was September 30, 2020.

Secondly, as part of our efforts to expand the business domain based on our core business, the Company established a wholly-owned subsidiary Vege-factory Co., Ltd., to provide one-stop solutions from construction of the plant to the production and sales of vegetables, with the aim of further expanding and enhancing our domain in the plant factory business. With the establishment of this subsidiary, the Taikisha Group aims to build a new brand as a comprehensive agricultural business operator that handles even the production and sales of vegetables.

In addition, as an initiative aimed at enhancing the Company's added value, in the paint finishing sector, the Company jointly developed the automobile paint finishing system "i-ESTA100TE," which realizes a "100% coating efficiency", with TOYOTA AUTO BODY CO., LTD.

Compared to an about 70% coating efficiency of traditional coaters, which atomize the paint with aerodynamics, the new electrostatic atomizing paint finishing system does not use air. Instead, it only uses the power of static electricity to coat the atomized paint and paint particles onto the automobile body. As a result, it realizes a 100% coating efficiency, which has traditionally been deemed difficult, simplifies the equipment and reduces the energy used, thereby enabling a reduction of the environmental burden.

Given such circumstances, consolidated orders received decreased 11.7% year-on-year to ¥200,469 million, due to decreased orders both in Japan and overseas. This includes orders received overseas, which decreased 13.7% year-on-year to ¥88,328 million.

Consolidated net sales of completed construction contracts decreased 10.1% year-on-year to ¥202,548 million, due to the decrease in sales both in Japan and overseas. This includes consolidated net sales of completed construction contracts overseas, which decreased 0.3% year-on-year to ¥92,791 million.

In regard to profits, gross profit on completed construction contracts decreased ¥3,666 million year-on-year to ¥34,027 million, operating income decreased ¥3,749 million year-on-year to ¥11,690 million, ordinary income decreased ¥3,703 million year-on-year to ¥12,287 million, and profit attributable to owners of parent decreased ¥853 million year-on-year to ¥8,279 million.

Earnings by reportable segment (including intersegment transactions) are as follows.

Green Technology System

Consolidated orders received decreased compared to the previous year, mainly due to decreases overseas, such as in Southeast Asia including Thailand, and the impact of the industrial HVAC sector in Japan experiencing a reactionary drop from a large-scale construction contract that was received in the previous year. The consolidated net sales of completed construction contacts decreased compared to the previous year, mainly due to decreases both in the building HVAC sector and the industrial HVAC sector in Japan, and decreases overseas in Southeast Asia including Thailand.

As a result, consolidated orders received decreased 15.6% year-on-year to ¥135,518 million. The breakdown is orders received for building HVAC of ¥45,910 million which decreased 3.9% year-on-year and orders received for industrial HVAC of ¥89,607 million which decreased 20.5% year-on-year. Consolidated net sales of completed construction contracts decreased 14.8% year-on-year to ¥134,058 million. The breakdown is sales for building HVAC of ¥40,952 million which decreased 25.5% year-on-year and sales for industrial HVAC of ¥93,106 million which decreased 9.1% year-on-year. Segment profit (ordinary income) decreased ¥2,701 million year-on-year to ¥11,192 million.

Paint Finishing System

Consolidated orders received decreased compared to the previous year, due to a decrease in orders received in regions such as North America. The consolidated net sales of completed construction contracts increased compared to the previous year, mainly due to an increase overseas in regions such as North America and Europe, though sales in Japan decreased.

As a result, consolidated orders received decreased 2.2% year-on-year to ¥64,951 million and consolidated net sales of completed construction contracts increased 0.7% year-on-year to ¥68,497 million. Segment profit (ordinary income) decreased ¥1,903 million year-on-year to ¥911 million.

Financial Condition

Assets

As of March 31, 2021, current assets decreased 2.1% year-on-year to ¥165,387 million. This is mainly due to decrease in cash and deposits of ¥5,566 million, securities of ¥1,500 million and costs on uncompleted construction contracts of 1,281 million despite increase in notes receivable, accounts receivable from completed construction contracts and other of ¥4,686 million.

Non-current assets increased 36.7% year-on-year to ¥63,468 million. This is mainly due to increase in investment securities of ¥8,288 million, net defined benefit asset of ¥3,930 million and goodwill of ¥3,328 million.

As a result, total assets increased 6.3% year-on-year to ¥228,855 million.

Assets by reportable segment are as follows.

Green Technology System

As of March 31, 2021, current assets increased 7.0% year-on-year to ¥77,770 million. This is mainly due to increase in cash and deposits of 2,786 million and notes receivables, accounts receivable from completed construction contracts and other of ¥1,565 million.

Non-current assets increased 50.7% year-on-year to ¥32,837 million. This is mainly due to increase in investment securities of ¥5,910 million, goodwill of ¥3,419 million and customer-related assets of ¥1,389 million.

As a result, total assets increased 17.1% year-on-year to ¥110,608 million.

Paint Finishing System

As of March 31, 2021, current assets increased 2.0% year-on-year to ¥51,644 million. This is mainly due to increase in notes receivable, accounts receivable from completed construction contracts and other of ¥3,455 million and costs on uncompleted construction contracts of ¥1,250 million

Non-current assets increased 17.2% year-on-year to ¥16,340 million. This is mainly due to increase in investment securities of ¥2,066 million and deferred tax assets of ¥456 million.

As a result, total assets increased 5.2% year-on-year to ¥67,985 million.

Liabilities

As of March 31, 2021, current liabilities decreased 7.5% year-on-year to ¥86,919 million. This is mainly due to decrease in in notes payable, accounts payable for construction contracts and other of ¥5,573 million and provision for warranties for completed construction of ¥361 million.

Non-current liabilities increased 81.2% year-on-year to ¥15,625 million. This is mainly due to increase in deferred tax liabilities of ¥4,324 million and long-term loans payable of ¥2,816 million.

As a result, total liabilities decreased 0.0% year-on-year to ¥102,544 million.

Net assets

As of March 31, 2021, total net assets increased 11.9% year-on-year to ¥126,311 million. This is mainly due to increase in valuation difference on available-for-sale securities of ¥5,860 million, retained earnings of ¥4,859 million and accumulated remeasurements of defined benefit plans of ¥2,718 million despite decrease in foreign currency translation adjustment of ¥610 million.

Cash flows

Cash and cash equivalents (collectively, "Cash") as of March 31, 2020 and 2021 were ¥58,846 million and ¥50,670 million respectively. Compared to the previous year, it decreased ¥8,175 million.

Cash flows from operating activities

Cash provided by operating activities for the years ended March 31, 2020 and 2021 totaled ¥21,386 million and ¥973 million respectively. Cash increased mainly due to the recording of profit before income taxes and a decrease in inventories and so on which more than offset outflows such as account payable-trade paid.

Cash flows from investing activities

Cash used in investing activities for the year ended March 31, 2020 and 2021 totaled ¥877 million and ¥6,913 million respectively. Cash decreased mainly due to purchase of investment in capital of subsidiaries resulting in change in scope of consolidation and purchase of property, plant and equipment and intangible assets outweighed proceeds from sales of property, plant and equipment and intangible assets, although increased due to proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Cash used by financing activities for the year ended March 31, 2020 and 2021 totaled ¥11,475 million and ¥1,435 million respectively. Cash decreased mainly due to decrease in cash dividends paid and cash dividends paid to non-controlling interests, although increased due to proceeds from long-term loans payable outweighed repayments of long-term loans payable.

Business and Other Risks

Major risk factors that may significantly affect the financial condition, business performance and cash flows of the Taikisha Group, as recognized by senior management, are noted below.

Forward-looking statements in this section are based on judgments made by the Taikisha Group as of March 31, 2021.

Risk of Changes in Private Capital Investment

Changes in the environment for orders received may significantly affect sales and profit in the Taikisha Group's businesses. In the Green Technology System Division, this may be caused by delays in redevelopment projects in Japan, decreases in capital investment in the manufacturing industry, or a reduction in investment by Japanese companies overseas. In the Paint Finishing System Division, this may be caused by decreases in capital investment due to continued shrinkage of domestic manufacturing by Japanese automobile manufacturers or a downturn in automobile sales around the world, or changes to investment fields due to the spread of CASE (Connected, Autonomous/Automated, Shared, Electric). The Taikisha Group's business performance and other results may be affected by a decrease in the amount of orders received due to these factors.

In response, Green Technology System Division will work to further strengthen cost-competitiveness in Japan, by expanding its customer base and promoting cost reduction initiatives, while overseas it will work to strengthen its sales structure targeting local as well as European and US companies, and promote initiatives to increase orders from Japanese manufacturers in collaboration with sales team in Japan. Paint Finishing System Division will leverage automation technology to expand from the 4-wheel and 2-wheel vehicle markets into other industries, aiming to expand its automation business.

Risk Associated with Large-Scale Disasters

The Taikisha Group's business performance and other results may be affected by losses sustained due to natural disasters, such as earthquakes, tsunamis, wind or water damage, or a global spread of infections and other diseases in regions where the Taikisha Group does business. Furthermore, in the case of large-scale, widespread natural disasters, the Taikisha Group's business performance and other results may be affected not only by the direct damage to property and people, but also by the long-term impact on customers' business activities and the larger economic climate.

In order to prepare for the possible occurrence of unforeseen disasters, accidents or events in Japan or overseas, the Taikisha Group has established a basic policy for crisis management and constructed a crisis management system. Should a crisis occur, it will be classified into one of three levels depending on its impact on personal safety and business continuity. Crisis countermeasures will be implemented based on these levels.

Risk Associated with the Spread of COVID-19

There is a risk that the Taikisha Group's business performance and other results may be affected by the impact of damages to employees, as well as delays in the procurement of construction materials and stoppages to construction works due to the spread of COVID-19 that first became apparent in early 2020.

Crisis countermeasures of the highest level have been implemented in response to COVID-19, a crisis task force has been established headed by the President and composed of Chief General Managers and Chief Executives, and measures are carried out to respond to the crisis for the entire Taikisha Group, such as recommendation of work at home, staggered working hours, allowing commute by cars which lowers risk while commuting, reconsideration of company events and business activities in order to prevent infections, and correspondence for infected people.

Risk Associated with Overseas Business and the Management and Control of Overseas Subsidiaries and Associates

Unforeseen changes in laws and regulations, political instability and other factors in the overseas regions where the Taikisha Group operates could affect its business results. The Taikisha Group may sustain losses due to fluctuations in exchange rates pertaining to the payments and collections for foreign currency construction contracts. In addition, exchange rates could affect the Taikisha Group's business performance and other results because the financial statements of overseas subsidiaries and associates are translated into Japanese yen in preparing the consolidated financial statements. Furthermore, the Taikisha Group's business performance and other results may be affected by a deterioration in the results of overseas subsidiaries and associates, such as the failure to achieve business plan targets, due to the occurrence of problems that could not be predicted, or for which risk countermeasures could not be implemented.

In response, the Taikisha Group collects information on political, economic and statutory changes in the overseas regions in which it operates, and strives to control country risks and overseas legal and regulatory risks. The Taikisha Group implements forward exchange contracts and other instruments to hedge currency risks arising from payments and collections for foreign currency construction contracts, in order to avoid risk as much as possible. It will also enhance the governance structure of its overseas subsidiaries and associates.

Risk Associated with Technological Development

Should the Taikisha Group experience delays in the development of systems to meet increasing customer needs, such as energy saving, enhanced environmental measures and automation, its technological competitiveness will be reduced. Then, its business performance and other results may be affected by the resulting loss of opportunities to receive orders, as well as deterioration in customer trust and corporate reputation.

In response, the Taikisha Group endeavors to solve social issues through the development and demonstration of technologies aimed at reducing environmental impact, as well as automation technologies. To this end, the Taikisha Group will engage in themes that anticipate social needs, by leveraging information and communication technologies and strengthening initiatives across the Group.

Risk Associated with Human Resources

Construction and equipment installation work, the Taikisha Group's business field, is heavily reliant on human resources. In Japan, the Taikisha Group's business results may be affected by inability to build the operational structures required to achieve medium- to long-term plans, with the shortage in skilled and experienced engineers due to the aging population and delays in personnel development. Overseas, long-term business development may also be affected if the core human resources necessary to guide the localization of the Taikisha Group's businesses cannot be secured, due to factors such as delays in the development of local staff and employee turnover.

In response, the Taikisha Group will work to enhance employees' technical skills and develop human resources, by improving their basic technical capabilities through training, as well as on-site practical instruction. At the same time, it will endeavor to secure human resources, leveraging information technology to increase productivity, promote work style reforms, and create attractive workplaces.

Overseas, the Taikisha Group will strive to secure and develop core human resources, and promote localization, through the introduction of a global personnel system.

Legal and Regulatory Compliance Risk

The Taikisha Group's business fields are subject to a range of legal restrictions, including the Construction Business Act, the Antimonopoly Act, and the Labor Standards Act. The Taikisha Group's business performance and other results may be affected by restrictions placed upon its business activities, if any of these laws and regulations are violated by the actions of its officers or employees.

In response, the Taikisha Group will endeavor to create a corporate culture and mechanisms to prevent rule violations. It will engage in continuing implementation and follow-up of its compliance education program, in order to maintain and increase employee awareness of legal and regulatory compliance.

Risk of Serious Accidents and Quality Defects

In the event of serious accidents during construction, or serious defects such as quality deficiencies, the Taikisha Group's social credit would be damaged, and its business results may be affected. The Taikisha Group makes warranty contracts with customers guaranteeing construction against defects for fixed period of time after completion of construction. The Taikisha Group allocates a provision for warranties for completed construction to cover repair costs based on previous warranty experience. However, these costs still could potentially exceed the balance of the provision, affecting the Taikisha Group's business performance and other results.

In response, the Taikisha Group is improving safety awareness and level by utilizing IT technology such as digital signage, and instructing partner companies to create detailed work procedure diagrams at work procedure study meetings. Plus, Taikisha Group strives to strengthen the management system and takes all possible measures for safety and health management at construction sites. In addition, Taikisha Group is working to prevent quality defects by reviewing the construction management system and promoting the introduction of IT in construction management.

Risk of Changes in Material Prices and Unit Labor Costs

Sharp rises in material prices and unit labor costs could affect the Taikisha Group's business performance and other results if the Taikisha Group is unable to reflect them to contract prices.

In response, the Taikisha Group endeavors to control the risk of changes in material prices and unit labor costs through measures such as identifying reasonable costs for each region when it receives orders, and hedging the risk of price fluctuations in contracts.

Risk Associated with the Leakage of Confidential Information

Cyber-attacks are becoming increasingly sophisticated, diverse, and devious each year. If confidential information, such as personal information or customer information, is leaked through these cyber-attacks, the intentional, dishonest actions of an employee, or other means, the Taikisha Group's business performance and other results may be affected by the results of this leak, such as loss of credit and liability for compensation payments.

In response, the Taikisha Group is working to prevent the leakage of confidential information by strengthening IT security, enhancing internal rules, and conducting thorough employee education.

Subsidiaries and associates

Taikisha Group consists of Taikisha Ltd., 44 subsidiaries, and 4 associates. Taikisha Ltd., 4 subsidiaries and 1 associate are domiciled in Japan, and 40 subsidiaries and 3 associates are domiciled overseas.

CONSOLIDATED BALANCE SHEETS

Taikisha Ltd. and its Consolidated Subsidiaries
As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
Assets	2020	2021	2021
Current assets:			
Cash and deposits (Notes 3, 7 and 9)	¥57,626	¥52,059	$470,195
Notes receivable, accounts receivable from completed construction contracts and other (Notes 3 and 9)	96,726	101,413	915,943
Securities (Notes 7, 9 and 10)	3,500	2,000	18,063
Costs on uncompleted construction contracts (Note 3)	3,097	1,816	16,402
Raw materials and supplies	358	679	6,134
Other	7,979	8,068	72,878
Allowance for doubtful accounts (Note 9)	(329)	(649)	(5,870)
Total current assets	168,958	165,387	1,493,745
Non-current assets:			
Property, plant and equipment			
Buildings and structures	8,632	8,035	72,578
Machinery, vehicles, tools, furniture and fixtures (Notes 3 and 8)	11,002	11,720	105,855
Land	2,038	1,772	16,011
Other	703	553	4,998
Accumulated depreciation.	(11,884)	(11,931)	(107,763)
Total property, plant and equipment	10,493	10,150	91,679
Intangible assets			
Goodwill (Note 14 and 18)	755	4,084	36,889
Customer-related assets (Note 14)	–	1,389	12,552
Other	2,824	2,976	26,885
Total intangible assets	3,580	8,450	76,326
Investments and other assets			
Investment securities (Notes 3, 9 and 10)	24,388	32,677	295,135
Deferred tax assets (Note 13)	655	1,026	9,267
Net defined benefit asset (Note 12)	5,181	9,111	82,296
Other	2,187	2,100	18,967
Allowance for doubtful accounts	(55)	(48)	(439)
Total investments and other assets	32,357	44,866	405,226
Total non-current assets	46,430	63,468	573,231
Total assets	¥215,389	¥228,855	$2,066,976

The accompanying notes are an integral part of these financial statements.

Liabilities and Net assets	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Current liabilities:			
Notes payable, accounts payable for construction contracts and other (Notes 3 and 9)	¥57,623	¥52,050	$470,110
Short-term loans payable (Notes 9 and 21)	6,460	6,588	59,510
Income taxes payable (Note 9)	1,481	1,607	14,519
Advances received on uncompleted construction contracts	14,342	14,200	128,257
Provision for warranties for completed construction	836	475	4,296
Provision for loss on construction contracts (Note 3)	289	403	3,642
Provision for directors' bonuses	116	63	575
Other (Note 21)	12,772	11,528	104,126
Total current liabilities	93,924	86,919	785,035
Non-current liabilities:			
Long-term loans payable (Notes 9 and 21)	1,952	4,769	43,078
Deferred tax liabilities (Note 13)	4,497	8,821	79,675
Provision for directors' retirement benefits	51	40	370
Provision for share-based remuneration for directors	109	171	1,544
Net defined benefit liability (Note 12)	1,706	1,507	13,611
Other (Note 21)	305	315	2,846
Total non-current liabilities	8,622	15,625	141,124
Total liabilities	¥102,546	¥102,544	$926,159
Net assets:			
Shareholders' equity			
Capital stock			
Authorized: 100,000,000 shares			
Issued: 35,082,009 shares as of March 31, 2020 35,082,009 shares as of March 31, 2021	¥6,455	¥6,455	$58,302
Capital surplus	5,058	5,058	45,687
Retained earnings	90,842	95,701	864,361
Treasury shares, at cost — 1,013,573 shares as of March 31,2020	(2,593)	–	–
1,013,823 shares as of March 31,2021	–	(2,594)	(23,435)
Total shareholders' equity	99,762	104,620	944,915
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	8,376	14,237	128,590
Deferred gains or losses on hedges (Note 11)	(0)	(3)	(29)
Foreign currency translation adjustment	372	(237)	(2,149)
Accumulated remeasurements of defined benefit plans	(302)	2,416	21,826
Total accumulated other comprehensive income	8,447	16,412	148,238
Non-controlling interests	4,633	5,277	47,664
Total net assets	112,843	126,311	1,140,817
Total liabilities and net assets	¥215,389	¥228,855	$2,066,976

Per share data :	Yen 2020	Yen 2021	U.S. dollars
Net assets	¥3,176.25	¥3,552.69	$32.09

Basis of calculation	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars
Total net assets	¥112,843	¥126,311	$1,140,817
Amounts to be deducted from net assets (Non-controlling interests)	(4,633)	(5,277)	(47,664)
Net assets applicable to common shares	108,209	121,033	1,093,153
Number of common shares as of the year-end (thousands of shares)	34,068	34,068	34,068

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Consolidated Statements of Income			
Net sales of completed construction contracts	¥225,378	¥202,548	$1,829,379
Cost of sales of completed construction contracts (Note 4)	187,683	168,521	1,522,050
Gross profit on completed construction contracts	37,694	34,027	307,329
Selling, general and administrative expenses:			
Directors' compensations	894	870	7,863
Employees' salaries and allowances	8,911	8,538	77,120
Provision for directors' bonuses	116	63	575
Retirement benefit expenses (Note 12)	534	560	5,059
Provision for directors' retirement benefits	15	12	117
Provision for share-based remuneration for directors	109	61	556
Correspondence and transportation expenses	1,227	823	7,438
Provision of allowance for doubtful accounts	(62)	201	1,816
Rents	1,539	1,603	14,483
Depreciation	1,947	2,084	18,829
Amortization of goodwill (Note 4)	92	638	5,764
Other	6,928	6,878	62,123
Total selling, general and administrative expenses (Note 4)	22,254	22,336	201,743
Operating income	15,439	11,690	105,586
Non-operating income:			
Interest income	358	291	2,630
Dividend income	635	593	5,356
Dividend income of insurance	124	145	1,310
Real estate rent	109	100	909
Other	221	483	4,370
Total non-operating income	1,450	1,613	14,575
Non-operating expenses:			
Interest expenses	174	173	1,569
Sales discounts	160	101	921
Rent expenses on real estates	23	27	246
Foreign exchange losses	385	330	2,981
Provision of allowance for doubtful accounts	4	213	1,932
Share of loss of entities accounted for using equity method	74	65	587
Other	75	104	944
Total non-operating expenses	898	1,016	9,180
Ordinary income	15,991	12,287	110,981
Extraordinary income:			
Gain on disposal of non-current assets (Note 4)	58	618	5,589
Gain on sales of investment securities (Note 10)	447	–	–
Gain on step acquisitions	–	61	559
Total extraordinary income	506	680	6,148
Extraordinary losses:			
Loss on disposal of non-current assets (Note 4)	83	425	3,839
Impairment loss (Note 17)	97	359	3,246
Loss on sales of investment securities (Note 10)	0	–	–
Loss on valuation of investment securities (Note 10)	0	0	0
Amortization of goodwill (Note 4)	455	–	–
Total extraordinary losses	637	784	7,085
Profit before income taxes	15,860	12,184	110,044
Income taxes-current	4,636	3,755	33,918
Income taxes-deferred	1,560	(243)	(2,197)
Total income taxes	6,197	3,512	31,721
Profit	9,663	8,671	78,323
Profit attributable to non-controlling interests	530	392	3,544
Profit attributable to owners of parent	¥9,132	¥8,279	$74,779

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Consolidated Statements of Comprehensive Income			
Profit	¥9,663	¥8,671	$78,323
Other comprehensive income:			
Valuation difference on available-for-sale securities	(3,465)	5,860	52,932
Deferred gains or losses on hedges	0	(3)	(29)
Foreign currency translation adjustment	147	(546)	(4,932)
Remeasurements of defined benefit plans	(891)	2,758	24,912
Share of other comprehensive income of entities accounted for using equity method	(16)	6	62
Total other comprehensive income (Note 5)	(4,225)	8,076	72,945
Comprehensive income	¥5,437	¥16,748	$151,268
Comprehensive income attributable to :			
Owners of parent	¥5,001	¥16,245	$146,723
Non-controlling interests	436	503	4,545

	Yen		U.S. dollars
Per share data:			
Profit attributable to owners of parent	¥268.07	¥243.03	$2.19
Cash dividends	¥100.00	¥90.00	$0.81

	Millions of yen		Thousands of U.S. dollars
Basis of calculation			
Profit attributable to owners of parent	¥9,132	¥8,279	$74,779
Profit attributable to owners of parent for common shares	9,132	8,279	74,779
Average number of common shares (thousands of shares)	34,068	34,068	34,068

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Taikisha Ltd. and its Consolidated Subsidiaries

For the year ended March 31, 2020	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥6,455	¥7,244	¥84,984	¥(2,476)	¥96,208	¥11,842	¥(0)	¥164	¥572	¥12,578	¥4,862	¥113,649
Changes of items during the period												
Dividends of surplus (Note 6)			(3,274)		(3,274)							(3,274)
Profit attributable to owners of parent			9,132		9,132							9,132
Purchase of treasury shares (Note 6)				(450)	(450)							(450)
Disposal of treasury shares (Note 6)		116		333	449							449
Purchase of shares of consolidated subsidiaries		(2,303)			(2,303)							(2,303)
Net changes of items other than shareholders' equity						(3,465)	0	208	(874)	(4,131)	(229)	(4,360)
Total changes of items during the period	–	(2,186)	5,858	(117)	3,553	(3,465)	0	208	(874)	(4,131)	(229)	(806)
Balance at the end of current period	¥6,455	¥5,058	¥90,842	¥(2,593)	¥99,762	¥8,376	¥(0)	¥372	¥(302)	¥8,447	¥4,633	¥112,843

For the year ended March 31, 2021	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥6,455	¥5,058	¥90,842	¥(2,593)	¥99,762	¥8,376	¥(0)	¥372	¥(302)	¥8,447	¥4,633	¥112,843
Changes of items during the period												
Dividends of surplus (Note 6)			(3,420)		(3,420)							(3,420)
Profit attributable to owners of parent			8,279		8,279							8,279
Purchase of treasury shares (Note 6)				(0)	(0)							(0)
Net changes of items other than shareholders' equity						5,860	(3)	(610)	2,718	7,965	644	8,609
Total changes of items during the period	–	–	4,859	(0)	4,858	5,860	(3)	(610)	2,718	7,965	644	13,468
Balance at the end of current period	¥6,455	¥5,058	¥95,701	¥(2,594)	¥104,620	¥14,237	¥(3)	¥(237)	¥2,416	¥16,412	¥5,277	¥126,311

For the year ended March 31, 2021	Thousands of U.S. dollars											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	$58,302	$45,687	$820,475	$(23,428)	$901,036	$75,658	$(1)	$3,365	$(2,728)	$76,294	$41,846	$1,019,176
Changes of items during the period												
Dividends of surplus (Note 6)			(30,893)		(30,893)							(30,893)
Profit attributable to owners of parent			74,779		74,779							74,779
Purchase of treasury shares (Note 6)				(7)	(7)							(7)
Net changes of items other than shareholders' equity						52,932	(28)	(5,514)	24,554	71,944	5,818	77,762
Total changes of items during the period	–	–	43,886	(7)	43,879	52,932	(28)	(5,514)	24,554	71,944	5,818	121,641
Balance at the end of current period	$58,302	$45,687	$864,361	$(23,435)	$944,915	$128,590	$(29)	$(2,149)	$21,826	$148,238	$47,664	$1,140,817

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash flows from operating activities:			
Profit before income taxes	¥15,860	¥12,184	$110,044
Depreciation and amortization	2,167	2,362	21,341
Amortization of goodwill	548	638	5,764
Increase (decrease) in allowance for doubtful accounts	(100)	304	2,749
Increase (decrease) in provision for warranties for completed construction	50	(400)	(3,618)
Increase (decrease) in provision for loss on construction contracts	(112)	114	1,035
Increase (decrease) in provision for directors' retirement benefits	(11)	(10)	(94)
Increase (decrease) in provision for share-based remuneration for directors	109	61	556
Increase (decrease) in net defined benefit liability	(242)	(97)	(879)
Interest and dividend income	(993)	(884)	(7,986)
Interest expenses	174	173	1,569
Gain on step acquisitions	–	(61)	(559)
Share of (profit) loss of entities accounted for using equity method	74	65	587
Loss (gain) on disposal of non-current assets	24	(193)	(1,750)
Loss (gain) on sales of investment securities	(447)	–	–
Loss on valuation of investment securities	0	0	0
Decrease (increase) in notes and accounts receivable-trade	7,852	(4,096)	(37,001)
Decrease (increase) in inventories	(311)	1,050	9,486
Decrease (increase) in accounts receivable-other	205	(16)	(151)
Increase (decrease) in notes and accounts payable-trade	2,054	(6,558)	(59,238)
Increase (decrease) in advances received on uncompleted construction contracts	(193)	(209)	(1,893)
Increase (decrease) in accrued consumption taxes	748	423	3,824
Increase (decrease) in deposits received	452	(550)	(4,969)
Increase (decrease) in accrued expenses	(104)	(29)	(269)
Other, net	(1,251)	(622)	(5,626)
Subtotal	26,555	3,645	32,922
Interest and dividend income received	993	884	7,986
Interest expenses paid	(170)	(173)	(1,572)
Income taxes paid	(5,992)	(3,382)	(30,547)
Net cash provided by (used in) operating activities	21,386	973	8,789
Cash flows from investing activities:			
Payments into time deposits	(3,199)	(4,071)	(36,775)
Proceeds from withdrawal of time deposits	4,067	3,023	27,308
Purchase of property, plant and equipment and intangible assets	(2,086)	(2,270)	(20,505)
Proceeds from sales of property, plant and equipment and intangible assets	44	824	7,442
Purchase of investment securities	(5)	(14)	(133)
Proceeds from sales of investment securities	499	–	–
Proceeds from redemption of investment securities	0	0	6
Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation (Note 7)	–	(4,290)	(38,754)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 7)	–	311	2,815
Contingent consideration payments for shares of subsidiaries	(131)	–	–
Payments of long-term loans receivable	(61)	(54)	(494)
Collection of long-term loans receivable	50	49	444
Purchase of insurance funds	(0)	(0)	(3)
Proceeds from maturity of insurance funds	–	1	10
Purchase of long-term prepaid expenses	(19)	(20)	(189)
Other, net	(37)	(400)	(3,618)
Net cash provided by (used in) investing activities	(877)	(6,913)	(62,446)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(4,959)	565	5,109
Proceeds from long-term loans payable	1,378	4,601	41,558
Repayments of long-term loans payable	(1,569)	(2,814)	(25,424)
Repayments of lease obligations	(62)	(100)	(906)
Repayments to non-controlling shareholders	(133)	–	–
Net decrease (increase) in treasury shares	(0)	(0)	(7)
Cash dividends paid	(3,273)	(3,418)	(30,876)
Cash dividends paid to non-controlling interests	(536)	(267)	(2,418)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,316)	–	–
Net cash provided by (used in) financing activities	(11,475)	(1,435)	(12,964)
Effect of exchange rate change on cash and cash equivalents	(48)	(799)	(7,222)
Net increase (decrease) in cash and cash equivalents	8,985	(8,175)	(73,843)
Cash and cash equivalents at beginning of period	49,861	58,846	531,487
Cash and cash equivalents at end of period (Note 7)	¥58,846	¥50,670	$457,644

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2020 and 2021

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements are prepared based on the accounts maintained by Taikisha Ltd. (the "Company") and its consolidated subsidiaries (collectively, the "Companies") 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, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain amounts in the prior fiscal year's financial statements are reclassified to conform to the changes made for the latest fiscal year.

The accounts of the consolidated financial statements presented herein are expressed in Japanese yen by rounding down to the nearest million. The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto are translated from the original Japanese yen into U.S. dollars on the basis of ¥110.72 to US$1, the rate of exchange prevailing at March 31, 2021, and are then rounded to the nearest thousand. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts are or can be converted, realized or settled in U.S. dollars at this or any other rate.

2. Summary of significant accounting policies

(1) Scope of consolidation

During the consolidated fiscal year ended March 31, 2021, Nicomac Clean Rooms Far East LLP (hereinafter "Nicomac") has been included in the scope of consolidation because the Company acquired the equity of Nicomac and made it a subsidiary of the Company. After becoming a subsidiary of the Company, Nicomac changed its form of organization from a Limited Liability Partnership (LLP) to an incorporated company, and its company name to Nicomac Taikisha Clean Rooms Private Limited.

During the consolidated fiscal year ended March 31, 2021, Geico S.p.A., a consolidated subsidiary of the Company, acquired additional shares of its associate subject to the equity method J-PM Systems GmbH and made it a subsidiary. Furthermore, J-PM Systems GmbH acquired shares of Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and Software Automation Concepts d.o.o., and made them subsidiaries. Therefore, the above companies have been included in the scope of consolidation. In addition, J-PM Systems GmbH has changed its company name to Geico Taikisha GmbH, and Software Automation Concepts d.o.o. has changed its company name to Geico Taikisha Controls d.o.o.

During the consolidated fiscal year ended March 31, 2021, Vege-factory Co., Ltd., a newly established company, has been included in the scope of consolidation.

During the consolidated fiscal year ended March 31, 2021, Beijing Wuzhou Taikisha Equipment Co., Ltd., a consolidated subsidiary of the Company, has been excluded from the scope of consolidation because it was absorbed in an absorption-type merger by another consolidated subsidiary of the Company, WuZhou Taikisha Engineering Co., Ltd.

The consolidated financial statements include the accounts of the Company and all significant subsidiaries listed below as of March 31, 2021:

Domestic subsidiaries

San Esu Industry Co., Ltd.
Nippon Noise Control Ltd.
Tokyo Taikisha Service Ltd.
Vege-factory Co., Ltd.

Overseas subsidiaries

TKS Industrial Company
Encore Automation LLC (subsidiary of TKS Industrial Company)
Taikisha Canada Inc. (subsidiary of TKS Industrial Company)
Taikisha de Mexico, S.A. de C.V. (subsidiary of TKS Industrial Company)
Taikisha Mexicana Service S.A. de C.V. (subsidiary of Taikisha de Mexico, S.A. de C.V.)
Taikisha do Brasil Ltda.
Taikisha (Singapore) Pte. Ltd.
Taikisha (Thailand) Co., Ltd.
Taikisha Trading (Thailand) Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Thaiken Maintenance & Service Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Token Interior & Design Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
TKA Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
BTE Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Token Myanmar Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Taikisha Engineering (M) Sdn. Bhd.
P.T. Taikisha Indonesia Engineering
P.T. Taikisha Manufacturing Indonesia
Taikisha Philippines Inc.
Taikisha Vietnam Engineering Inc.
Taikisha (Cambodia) Co., Ltd.
Taikisha Myanmar Co., Ltd.
Taikisha Lao Co., Ltd.
Wuzhou Taikisha Engineering Co., Ltd.
Tianjin Taikisha Paint Finishing System Ltd.
Taikisha Hong Kong Limited
Taikisha (Taiwan) Ltd.
Taikisha Korea Ltd.
Taikisha Engineering India Private Ltd.
Nicomac Taikisha Clean Rooms Private Limited
Geico S.p.A.
J-CO America Corporation (subsidiary of Geico S.p.A.)
J-CO Mexico, S. de R.L. de C.V. (subsidiary of Geico S.p.A.)
Geico Brasil Ltda. (subsidiary of Geico S.p.A.)
Geico Paint Shop India Private Limited (subsidiary of Geico S.p.A.)
Geico Painting System (Suzhou) Co., Ltd. (subsidiary of Geico S.p.A.)
"Geico Russia" LLC (subsidiary of Geico S.p.A.)
Geico Taikisha GmbH (subsidiary of Geico S.p.A.)
Process Solution Partner GmbH (subsidiary of Geico Taikisha GmbH)
Process Solution Partner Rus LLC (subsidiary of Process Solution Partner GmbH)
Geico Taikisha Controls d.o.o. (subsidiary of Geico Taikisha GmbH)

(2) Application of the equity method

Name of associates subject to the equity method

During the consolidated fiscal year ended March 31, 2021, FreDelish Co., Ltd., a new company established through a joint capital investment, has been included in the scope of application of the equity method.

As stated in "(1) Scope of consolidation", during the consolidated fiscal year ended March 31, 2021, J-PM Systems GmbH has been excluded from the scope of application of the equity method because it has become a consolidated subsidiary.

FreDelish Co., Ltd.

Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd.

Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.

Name of associates not subject to the equity method

The associate not subject to the equity method is excluded from the scope of application of the equity method because even if it is excluded from the scope of application of the equity method, it has minor impact on net income (proportionate to equity holdings), retained earnings (proportionate to equity holdings), etc., in the consolidated financial statements.

Makiansia Engineering (M) Sdn. Bhd.

(3) Fiscal year for consolidated subsidiaries

The balance sheet date of all domestic consolidated subsidiaries as well as Taikisha Engineering India Private Ltd., Nicomac Taikisha Clean Rooms Private Limited and Geico Paint Shop India Private Limited is March 31, which is the same as that of the Company. The balance sheet date of Taikisha Myanmar Co., Ltd. and Token Myanmar Co., Ltd is September 30. The balance sheet date of the other overseas consolidated subsidiaries is December 31.

In preparing the consolidated financial statements, for consolidated subsidiaries whose balance sheet date is December 31, the Company uses each subsidiary's financial statements as of December 31. For Taikisha Myanmar Co., Ltd., the Company uses provisional financial results as of March 31, for Token Myanmar Co., Ltd. and Geico Paint Shop India Private Limited., the Company uses provisional financial results as of December 31, which is the balance sheet date of their parent companies, Taikisha (Thailand) Co., Ltd. and Geico S.p.A., respectively.

For the subsidiaries with the balance sheet date of December 31, certain adjustments are made, where appropriate, in preparing the consolidated financial statements to reflect material transactions during the period from their fiscal year end to March 31.

(4) Valuation of significant assets

Held-to-maturity debt securities

Held-to-maturity debt securities are determined by the amortized cost method. Discounts and premiums are amortized by the straight-line method.

Shares of associates

Shares of associates are stated at cost, determined by the moving average method.

Available-for-sale securities

Available-for-sale securities with fair value are stated at fair value based on the market prices at the end of fiscal year. Valuation difference is reported as a separate item in net assets at net-of-tax amount. The cost of securities sold is stated at cost, determined by the moving average method.

Available-for-sale securities without fair value are stated at cost using the moving average method.

Derivatives

Derivative instruments are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

Inventories

Costs on uncompleted construction contracts are stated at cost using specific identification method. Raw materials and supplies are stated at cost determined by the moving average method. The cost method (the amounts stated in the balance sheets are calculated by writing down the book value based on the decline in profitability) is used as a valuation standard.

(5) Depreciation method for principal depreciable assets

Property, plant and equipment (excluding leased assets)

The Companies mainly calculate depreciation by the declining-balance method, while the straight-line method is applied to buildings, excluding facilities attached to buildings, acquired on or after April 1, 1998, and is applied to facilities attached to buildings and structures, acquired on or after April 1, 2016. Certain overseas consolidated subsidiaries apply the straight-line method. The useful lives and residual values of depreciable assets are estimated in accordance with the Corporate Tax Act.

Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method. However, computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years. Customer-related assets are amortized by the straight-line method over the effective period of 10 years.

Leased assets

Leased assets under finance leases that do not transfer ownership of the leased assets to the lessee are depreciated by the straight-line method over the lease period with a residual value of zero.

(6) Standards of accounting for principal allowance and provisions

Allowance for doubtful accounts

In order to prepare for losses due to bad debts such as accounts receivable from completed construction contracts and other, the allowance for doubtful accounts is provided at the estimated amount of uncollectable debt. For receivables classified as "normal", it is provided based on a historical default ratio. For receivables classified as "doubtful" etc., it is provided based on individual assessment on the probability of collection.

Provision for warranties for completed construction

In order to prepare for the costs of repairs for damages related to completed construction work for which the Companies are responsible, the provision is provided based on past warranty experience.

Provision for loss on construction contracts

In order to prepare for future losses related to the construction contracts in process, the provision is provided based on estimated amount which will probably be incurred and which can be reasonably estimated.

Provision for directors' bonuses

In order to prepare for directors' bonuses, the provision is provided based on the estimated payment of the fiscal year.

Provision for directors' retirement benefits

In order to prepare for directors' retirement benefits, domestic consolidated subsidiaries recognize the provision for accrued retirement benefits to directors at 100 percent of the amount required by their internal policies for retirement benefits.

Provision for share-based remuneration for directors

In order to prepare for share-based remuneration to executive directors upon their retirements, the estimated amount of provision for share-based obligation as of the fiscal year end is provided based on the regulation of share-based remuneration for directors.

(7) Retirement and pension plans

(Method of attributing the projected benefit obligations to periods of service)
In calculating the retirement benefit obligations, the benefit formula basis is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year.

(Actuarial differences)
Actuarial differences are amortized using the straight-line method over a certain period of time (10 years) within the average remaining service period of employees from the following fiscal year of accrual.

(Prior service costs)
Prior service costs are amortized using the straight-line method over a certain period of time (10 years) within the average remaining service period of employees from the fiscal year of accrual.

(Simplified method for small companies)
Certain overseas consolidated subsidiaries apply the simplified method to calculate net defined benefit liability and retirement benefit expenses, where retirement benefit obligations are assumed to be equal to the benefits payable of the fiscal year.

(8) Sales and cost recognition

Sales of completed construction contracts and cost of sales of completed construction contracts

The percentage-of-completion method is applied for construction work for which the completion of a certain percentage of the entire work is reliably recognizable by the fiscal year end (percentage of completion is estimated by the cost-to-cost method). The completed-contract method is applied for the other construction contracts.

(9) Hedge accounting

Method of hedge accounting

Hedging instruments are valued at fair value and accounted for using the deferral method of accounting.

As permitted under the accounting principles generally accepted in Japan, when forward foreign exchange contracts meet certain conditions for hedge accounting, accounts receivable and payable covered by these contracts are translated using the contract rates of these forward foreign exchange contracts. The unrealized gains or losses on the accounts receivable and payable resulting from the difference between the spot foreign exchange rate and contract rate are deferred and amortized over the term of the contract.

With regard to interest rate swaps and interest rate caps which meet certain requirements, the Companies use the special treatment. The special treatment is net amounts to be paid or received under the interest rate swap contracts and interest rate cap contracts added to or deducted from the interest on liabilities for which the contracts are executed.

Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts, non-deliverable forwards (NDF), interest rate swaps and interest rate caps

Hedged items: Foreign currency receivables, foreign currency payables, future transactions in foreign currency and interest-rate trading for loans payable

Hedging policy

The Companies use forward exchange contracts not for the purpose of speculation but for hedging future risks of fluctuation of foreign currency exchange rates.

The Companies use interest rate swaps and interest rate caps not for the purpose of speculation but for hedging future risks of fluctuation of interest rates.

Assessment of hedge effectiveness

As forward exchange contracts in the same currency are used for forward exchange transactions, the correlation to subsequent exchange rate fluctuations is completely ensured. Accordingly, evaluation of hedge effectiveness is omitted.

For interest rate swaps and interest rate caps, the judgment on whether to apply special treatment is used instead of an evaluation of the effectiveness of hedging.

(10) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which are easily convertible into cash and represent a minor risk of fluctuation in value.

(11) Amortization method and period for goodwill

Goodwill is amortized by the straight-line method over the effective period within 20 years. However, an immaterial goodwill is recognized as expenses in the fiscal year of accrual.

(12) Accounting for consumption taxes

At the Company and its domestic consolidated subsidiaries, transactions subject to consumption tax and local consumption tax are recorded at amounts exclusive of consumption taxes.

(13) Significant accounting estimates

Estimates of construction progress based on percentage of completion method

(1) Amounts recorded in the consolidated financial statements

	Millions of yen	Thousands of U.S. dollars
Net sales of completed construction contracts	¥172,277	$1,555,974

(2) Contents of the significant accounting estimates

In the Taikisha Group, of the construction contracts as of the consolidated fiscal year end, revenue is recorded based on the percentage of completion method if the construction progress can be reasonably estimated for specific construction contracts and so on that satisfy certain requirements.

The construction progress is measured by comparing the cost incurred as of the fiscal year end with the total estimated cost based on the working budget for the construction contract until its completion.

Regarding the total estimated cost for the construction contract until its completion, the Taikisha Group shall review the estimates and assumptions continuously because they may change in line with the progress.

The total estimated cost is calculated based on various types of information, including the details of the construction contract and so on, the specifications, and the actual cost incurred in similar contracts in the past, for each contract. In particular, regarding projects undertaken by the Taikisha Group, specifications of the contract and details of the work are determined based on the customer's requests, and the details of each contract differ greatly from other contracts. If hindrances to the project's progress that were not foreseen at the initial stage of the contract occur, additional assessments and estimates may be required in response to the altered conditions and the extent of each component in the emergency response.

In addition, the total estimated cost may increase due to factors such as soaring prices of equipment and materials as a result of global circumstances.

As the predictions of such assumptions come with a high level of uncertainty depending on changes in each individual project's conditions, if there is a material impact on the total estimated cost and as a result the actual figure differs greatly from the estimate, there may be an impact on the amount of revenue in the consolidated financial statements in future periods.

Valuation of goodwill and intangible assets

(1) Amounts recorded in the consolidated financial statements

	Millions of yen	Thousands of U.S. dollars
Goodwill	¥4,084	$36,889
Customer-related assets	¥1,389	$12,552

(2) Contents of the significant accounting estimates

The Taikisha Group judges the necessity of the recognition and measurement of an impairment regarding goodwill and customer-related assets as of the consolidated fiscal year-end by verifying whether there is indication of the impairment or not.

For performing the recognition and measurement of impairment, assumptions will be set regarding future cash flows and discount rate based on the business plan.

These assumptions are determined at the discretion of management based on the best estimates. However, as they may be affected by the results of fluctuations of uncertain economic conditions in the future and so on, if they are necessary to be reviewed, there may be a material impact on the consolidated financial statements.

(14) Accounting standards issued but not yet adopted

"Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No. 29, March 31, 2020)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Guidance No. 30, March 26, 2021)

(Overview)

The Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published these accounting standards based on IFRS 15 "Revenue from Contracts with Customers" published in May 2014.

From a standpoint of comparability between financial statements which is one of the benefits of ensuring consistency with IFRS 15, the basic policy of the ASBJ in developing accounting standards for revenue recognition is incorporating the basic principles of IFRS 15 as a starting point. Also, these standards regulate to add alternative accounting treatments not to lose comparability if there is a matter which is necessary to consider the business practice which have been conducted in Japan.

(Application date)

The accounting standard and the guidance are expected to be applied from the beginning of the fiscal year starting on or after April 1, 2021.

(Impact of the application of the accounting standards)

The impact of the application of the accounting standard and the guidance are in process of assessment at the time when the consolidated financial statements are prepared.

"Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Statement No. 30, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Guidance No. 31, July 4, 2019)

"Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan Statement No. 10, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (Accounting Standards Board of Japan Guidance No. 19, March 31, 2020)

(Overview)

In order to improve comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as "Accounting Standard for Fair Value Measurement etc.") have been developed and guidance regarding how to calculate fair value is stipulated. "Accounting Standard for Fair Value Measurement etc." is applied on the following fair value.

Financial Instruments in "Accounting Standard for Financial Instruments"

Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised and note items such as breakdown by fair value level of financial instruments have been stipulated.

(Application date)

The accounting standards and the guidance are expected to be applied from the beginning of the fiscal year starting on or after April 1, 2021.

(Impact of the application of the accounting standards)

The impact of the application of the accounting standards and the guidance are in process of assessment at the time when the consolidated financial statements are prepared.

(15) Changes in presentations

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

"Accounting Standard for Disclosure of Accounting Estimates" (Accounting Standards Board of Japan Statement No. 31, March 31, 2020) has been applied from the consolidated fiscal year ended March 31, 2021 and notes of significant accounting estimates are stated in the consolidated financial statements.

However, notes of significant accounting estimates for the previous fiscal year are not stated in accordance with the transitional treatment stipulated in the supplementary provision of paragraph 11 of the accounting standard.

(16) Additional information

Application of "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts"

At the occasion of the 100th anniversary since its foundation, the Company introduced an ESOP (Employee Stock Ownership Plan) (the "Plan"), an incentive program granting the stocks of the Company to its employees to motivate them toward improving the Company's stock prices and financial results by enhancing the linkage of stock prices and financial results and sharing economic effects with shareholders.

(Overview of transaction)

The Plan has a scheme according to which shares of the Company are awarded for each period to the eligible employees in accordance with the Stock Granting Regulations set forth in advance by the Company. The Company grants predetermined points to employees and later awards the Company's shares, which corresponds to the total number of accumulated points granted, after the lapse of a predetermined period. The Company's shares to be awarded to the employees shall be acquired by a trust bank from the Company through an allocation to a third party using funds that have been contributed to the trust and separately managed as a trust estate.

Although "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts" (Practical Issues Task Force No. 30, March 26, 2015) has been applied, the previously applied method is continued for accounting.

(Matters regarding the Company's own shares held by the trust)

The book value of the Company's own shares held by the trust was ¥256 million for the previous fiscal year, and ¥245 million (US$2,217 thousand) for the fiscal year. The Company's own shares held by the trust are not reported as treasury shares under shareholders' equity.

The number of shares held at the end of fiscal year-end was 137 thousand for the previous fiscal year and 132 thousand for the fiscal year. The average number of shares held during the year was 139 thousand for the previous fiscal year and 132 thousand for the fiscal year. The number of shares held at the end of fiscal year and the average number of shares held during the year are not included in the number of treasury shares to be deducted in calculating per-share information.

Introduction of the Board Benefit Trust (BBT)

The Company has introduced the "Board Benefit Trust (BBT)" as its performance-linked and share-based compensation plan (hereinafter referred to as the "Plan") for the Company's Board Members (excluding Outside Board Members) (hereinafter referred to as the "Board Members"), starting from the second quarter, pursuant to the resolution of the 74th Ordinary General Shareholders' Meeting held on June 27, 2019.

The purpose of the Plan is to promote the motivation of Board Members in contributing to the improvement of business performance and corporate value over the medium to long term by making the linkage between their compensation and the Company's business performance and shareholder value even clearer and having Board Members share not only the benefits from higher stock prices, but also the risk of a drop in stock prices, with shareholders.

The gross method has been used for the accounting treatment under the Plan in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts" (Practical Issues Task Force No. 30 of March 26, 2015).

(1) Overview of transactions

The Plan is a scheme whereby money contributed by the Company is used as financial resources to acquire the Company's shares through a trust (the trust established under the Plan shall be hereinafter referred to as the "Trust"), and the Company's shares and money in the amount of monetary equivalence of the Company's shares measured at fair value (hereinafter referred to as "the Company's Shares, etc.") are provided to Board Members through the Trust in accordance with the "Share Benefit Regulations for Directors" stipulated by the Company.

The time when the Company's Shares, etc. are provided to Board Members shall be, in principle, the date of the retirement from the Company.

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

The Company recognizes its own shares remaining in the Trust as treasury shares under the category of net assets, using the carrying amount in the Trust (excluding the amount of ancillary expenses). The carrying amount of such treasury shares is ¥449 million for the previous fiscal year and ¥449 million (US$4,064 thousand) for the fiscal year, and the number of such shares is 136,400 for the previous fiscal year and 136,400 for the fiscal year.

(Effects of the spread of COVID-19)

The future outlook of the world economy and of the Taikisha Group's market environment are on a recovery trend due to widespread vaccine rollouts, financial support provided by each country and such, though they remain uncertain because it is difficult to estimate when the COVID-19 pandemic will end and how large its impact on domestic and foreign economies will be.

Under these circumstances, accounting estimates for the valuation of fixed assets including goodwill and so on are performed based on the assumption that capital investment will recover compared to the fiscal year ended March 2021 mainly in North America, Europe and China where overseas affiliates are located.

3. Notes of consolidated balance sheets

(1) The information of associates

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Investment securities	¥545	¥531	$4,798

(2) Pledged assets

Assets pledged as collateral for loans payable of subsidiaries and associates

As of March 31, 2020	Millions of yen	
Pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥185	¥283
Machinery, vehicles, tools, furniture and fixtures	¥9	¥15

As of March 31, 2021	Millions of yen		Thousands of U.S. dollars	
Pledged assets	Book value	Liabilities covered by pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥177	¥264	$1,603	$2,386
Machinery, vehicles, tools, furniture and fixtures	¥11	¥5	$101	$49

Assets pledged as collateral for security deposits at subsidiaries and associates

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥57	¥57	$522

Assets pledged as collateral for overdraft facilities of subsidiaries and associates

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥18	¥17	$155

(3) Guarantee obligations

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.	265	177	1,603

(4) Commitment lines

For efficient procurement of the operating funds, the Company has lending commitment contracts with four dealing banks. Lending commitment amounts are as follows:

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Total amount of lending commitment	¥5,000	¥5,000	$45,159
Borrowing execution balance	–	–	–
Net	¥5,000	¥5,000	$45,159

(5) Endorsed notes

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Endorsed notes	¥22	¥26	$242

(6) Provision for loss on construction contracts

Following amounts of provision for loss on construction contracts are offset from the amounts of costs on uncompleted construction contracts.

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Provision for loss on construction contracts	¥4	¥–	$–

4. Notes of consolidated statements of income

(1) Research and development expenses

Research and development expenses included in selling, general and administrative expenses are as follows.

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
General and administrative expenses	¥1,105	¥1,122	$10,142

(2) Gain on disposal of non-current assets

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥0	¥166	$1,500
Machinery, vehicles, tools, furniture and fixtures	54	17	157
Land	3	435	3,932
Total	¥58	¥618	$5,589

(3) Loss on disposal of non-current assets

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥54	¥355	$3,212
Machinery, vehicles, tools, furniture and fixtures	12	5	54
Software	16	62	568
Long-term deposits	0	0	5
Total	¥83	¥425	$3,839

(4) Provision for loss on construction contracts

Provision for loss on construction contracts included in cost of sales of completed construction contracts are as follows.

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Provision for loss on construction contracts	¥228	¥353	$3,194

(5) Amortization of goodwill

For the year ended March 31, 2020

One-time amortization of goodwill is recorded based on the provisions of Paragraph 32 of “Practical Guidelines on Capital Consolidation Procedures in Consolidated Financial Statements” (Accounting Systems Committee Report No. 7, Final Amendment of November 28, 2014, The Japanese Institute of Certified Public Accountants).

For the year ended March 31, 2021

Not applicable.

5. Notes of consolidated statements of comprehensive income

(1) Reclassification adjustments and tax effects for other comprehensive income

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Valuation difference on available-for-sale securities			
Net gains (losses) arising during the period	¥(4,402)	¥8,302	$74,982
Reclassification adjustments	(447)	–	–
Before tax effects	(4,850)	8,302	74,982
Tax effects	1,384	(2,441)	(22,050)
Valuation difference on available-for-sale securities	(3,465)	5,860	52,932
Deferred gains or losses on hedges			
Net gains (losses) arising during the period	0	(4)	(41)
Reclassification adjustments	–	–	–
Before tax effects	0	(4)	(41)
Tax effects	(0)	1	12
Deferred gains or losses on hedges	0	(3)	(29)
Foreign currency translation adjustment			
Net gains (losses) arising during the period	147	(546)	(4,932)
Foreign currency translation adjustment	147	(546)	(4,932)
Remeasurements of defined benefit plans			
Net gains (losses) arising during the period	(1,105)	3,913	35,347
Reclassification adjustments	(151)	55	501
Before tax effects	(1,256)	3,969	35,848
Tax effects	365	(1,210)	(10,936)
Remeasurements of defined benefit plans	(891)	2,758	24,912
Share of other comprehensive income of entities accounted for using equity method			
Net gains (losses) arising during the period	(16)	6	62
Other comprehensive income	¥(4,225)	¥8,076	$72,945

6. Notes of consolidated statements of changes in net assets

(1) The number of issued shares

For the year ended March 31, 2020	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	35,082,009	–	–	35,082,009

For the year ended March 31, 2021	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	35,082,009	–	–	35,082,009

(2) The number of treasury shares

For the year ended March 31, 2020	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	1,013,293	136,680	136,400	1,013,573

(Note1) The number of treasury shares increased by 280 shares because of purchase of shares less than one unit (*) and increased by 136,400 because of an acquisition by Custody Bank of Japan, Ltd. (Trust E account) for the purpose of Board Benefit Trust (BBT). The number of treasury shares decreased by 136,400 because of a disposal to Custody Bank of Japan, Ltd. (Trust E account).

(Note2) The number of treasury shares as of the fiscal year end includes 136,400 shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets of the Board Benefit Trust (BBT).

(*) The unit share is a specified number of shares which are treated as one purchasing lot and entitled to one voting right. One unit share consists of 100 shares.

For the year ended March 31, 2021	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	1,013,573	250	–	1,013,823

(Note1) The number of treasury shares increased by 250 shares because of purchase of shares less than one unit (*).

(Note2) The number of treasury shares as of the fiscal year end includes 136,400 shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets of the Board Benefit Trust (BBT).

(*) The unit share is a specified number of shares which are treated as one purchasing lot and entitled to one voting right. One unit share consists of 100 shares.

(3) Dividends

Dividends paid

For the year ended March 31, 2020

Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders (June 27, 2019)	Common shares	¥2,248	¥66.00	March 31, 2019	June 28, 2019
Board of directors (November 11, 2019)	Common shares	¥1,026	¥30.00	September 30, 2019	November 29, 2019

(Note) Dividends on November 29, 2019 includes dividends of ¥4 million (US$38 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

For the year ended March 31, 2021

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual general meeting of shareholders (June 26, 2020)	Common shares	¥2,394	$22,001	¥70.00	$0.64	March 31, 2020	June 29, 2020
Board of directors (November 10, 2020)	Common shares	¥1,026	$9,268	¥30.00	$0.27	September 30, 2020	November 27, 2020

(Note1) Dividends on June 29, 2020 includes dividends of ¥9 million (US$88 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

(Note2) Dividends on November 27, 2020 includes dividends of ¥4 million (US$37 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

Dividends with a shareholders' cut-off date during the fiscal year but an effective date subsequent to the fiscal year

For the year ended March 31, 2020

Resolution approved by	Type of shares	Paid from	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders (June 26, 2020)	Common shares	Retained earnings	¥2,394	¥70.00	March 31, 2020	June 29, 2020

(Note) Dividends total includes dividends of ¥9 million (US$88 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

For the year ended March 31, 2021

Resolution approved by	Type of shares	Paid from	Amount		Amount per share		Shareholders' cut-off date	Effective date
			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual general meeting of shareholders (June 29, 2021)	Common shares	Retained earnings	¥2,052	$18,536	¥60.00	$0.54	March 31, 2021	June 30, 2021

(Note) Dividends total includes dividends of ¥8 million (US$74 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

7. Notes of consolidated statements of cash flows

(1) Cash and cash equivalents

The reconciliation between amounts of cash and cash equivalents reported in the consolidated statement of cash flows and amounts of cash and deposits reported in the consolidated balance sheet are as follows:

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥57,626	¥52,059	$470,195
Securities	3,500	2,000	18,063
Sub total	61,126	54,059	488,258
Time deposits over three months	(2,280)	(3,389)	(30,614)
Cash and cash equivalents	¥58,846	¥50,670	$457,644

(2) Details of assets and liabilities of the company which is included in the scope of consolidation because of acquisition of shares

For the year ended March 31, 2020
Not applicable.

For the year ended March 31, 2021
Details of assets and liabilities at time of consolidation commencement of Nicomac Clean Rooms Far East LLP (hereinafter "Nicomac") which is included in the scope of consolidation because of acquisition of equity as well as the relation between the acquisition cost of equity and the expenditures (net) are as follows. After becoming a subsidiary, Nicomac changed its form of organization from a Limited Liability Partnership (LLP) to an incorporated company, and its company name to Nicomac Taikisha Clean Rooms Private Limited.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥755	$6,821
Non-current assets	1,608	14,531
Goodwill	3,432	31,000
Current liabilities	(297)	(2,689)
Non-current liabilities	(498)	(4,501)
Non-controlling interests	(407)	(3,682)
Foreign currency translation adjustment	(92)	(835)
Acquisition cost of equity	4,500	40,645
Cash and cash equivalents	(209)	(1,891)
Net : Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation	¥(4,290)	$(38,754)

Geico S.p.A., a consolidated subsidiary of the Company, acquired additional shares of its associate subject to the equity method J-PM Systems GmbH and made it a subsidiary. Furthermore, J-PM Systems GmbH acquired shares of Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and Software Automation Concepts d.o.o., and made them subsidiaries.

Details of assets and liabilities at time of consolidation commencement of J-PM Systems GmbH, Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and Software Automation Concepts d.o.o. as well as the relation between the acquisition cost of shares and the expenditures (net) are as follows. In addition, J-PM Systems GmbH has changed its company name to Geico Taikisha GmbH, and Software Automation Concepts d.o.o. has changed its company name to Geico Taikisha Controls d.o.o.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,533	$13,853
Non-current assets	249	2,253
Goodwill	424	3,833
Current liabilities	(1,569)	(14,173)
Non-current liabilities	(215)	(1,948)
Shareholdings before the acquisition	31	286
Non-controlling interests	(15)	(143)
Foreign currency translation adjustment	5	50
Gain on step acquisitions	(62)	(569)
Acquisition cost of shares	381	3,442
Cash and cash equivalents	(444)	(4,014)
Third-party allotment	(248)	(2,243)
Net : Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	¥311	$2,815

(3) Details of major non-cash transactions
Not applicable.

8. Lease transaction

(1) Finance lease transaction

As lessee

Details of leased assets

The leased assets are mainly office equipment and vehicles in Japan and production equipment and vehicles overseas. The account title which the Companies use is "Machinery, vehicles, tools, furniture and fixtures".

Depreciation method

Depreciation is calculated by the straight-line method over the lease period with a residual value of zero.

Impairment loss

There is no impairment loss allocated to the leased assets.

(2) Operating lease transaction

As lessee

The amounts of outstanding future lease payments under non-cancelable operating leases are as follows:

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Due within one year	¥292	¥283	$2,563
Due over one year	712	650	5,871
Total	¥1,004	¥933	$8,434

9. Financial instruments

(1) Status of financial instruments

Policies on financial instruments

The Companies invest its temporary surplus funds in financial assets that are highly secure and procure its short-term working capital in the form of borrowings from banks. The Companies utilize derivatives only to hedge their exposure to the risks as described below and do not enter into such transactions for speculative purposes.

Description of financial instruments, related risks and risk management system

Notes receivable, accounts receivable from completed construction contracts and other, which are trade receivables, are exposed to the credit risk of the respective customers. As for the credit risk of customers, the Companies' management system allows us to monitor the credit standing of major customers on a timely basis based on the maturity and balance control by customer. Meanwhile, trade receivables denominated in foreign currencies, which originate from global business operations, are exposed to the risk of exchange rate fluctuations and are partly hedged by utilizing forward exchange contracts.

Although being exposed to the risk of fluctuations in market price, stocks included in the category of investment securities are those of companies with which the Companies have business relations and are continuously monitored through regular checks of their fair value and financial positions of the issuers.

Notes payable, accounts payable for construction contracts and other, which are trade payables, generally mature within one year. While some of them are denominated in foreign currencies for the purpose of importing equipment and raw materials, etc. and are exposed to the risk of exchange rate fluctuations, the amounts of those items are invariably less than the balance of accounts receivable from completed construction contracts, which are similarly denominated in foreign currencies.

Income taxes payable are imposed on the taxable income of the Companies for the fiscal year, and they all mature within one year.

Both short-term and long-term loans payable are fund-raising means associated with business transactions. Short-term loans payable with variable interest rates are exposed to the risk of interest-rate fluctuations. However, long-term loans payable, which are procured at fixed interest rates, in principle, are hedged against interest-rate fluctuation risk.

Derivative transactions consist of forward exchange contracts and NDFs aimed at hedging the risk of fluctuations in exchange rates for exports and imports in the course of ordinary business operations, as well as interest rate swaps aimed at hedging the risk of fluctuations in the interest rates for loans payable. Forward exchange contracts and NDFs are executed and managed in accordance with the relevant guideline regarding foreign exchange control issued by the Chief Executive of the Administrative Management Headquarters. This guideline clearly stipulates regulations for the management policies on derivative transactions, the regulating division and department in charge of risk management, purposes of use, scope of utilization and reporting system. As for interest rate swaps, only those that meet the requirements for the application of special treatment are executed. Derivative transactions are executed only with financial institutions with high credit ratings to reduce the credit risk.

Although trade payables and loans payable are exposed to liquidity risk, the Companies strive to control the liquidity risk such as by having each Group company prepare a monthly cash management plan.

Supplementary explanation of fair values of financial instruments

Derivative transactions in "(2) Fair value of financial instruments" below are not indicative of the actual market risk involved in derivative transactions but nominal contract amounts or estimated amounts based on certain assumptions.

(2) Fair value of financial instruments

The following table shows the book values and fair values of financial instruments and any differences. Certain financial instruments for which it is extremely difficult to determine the fair value are not included (see Note 2 below).

As of March 31, 2020	Millions of yen		
	Book value	Fair value	Difference
Cash and deposits	¥57,626	¥57,626	¥–
Notes receivable, accounts receivable from completed construction contracts and other	96,726		
Allowance for doubtful accounts (*1)	(301)		
	96,424	96,399	(24)
Securities and Investment securities (*2)	26,907	26,907	–
Total Assets	180,958	180,933	(24)
Notes payable, accounts payable for construction contracts and other	57,623	57,598	(24)
Short-term loans payable	6,460	6,460	–
Income taxes payable	1,481	1,481	–
Long-term loans payable	1,952	1,951	(0)
Total Liabilities	67,519	67,493	(25)
Derivatives	¥9	¥9	¥–

(*1) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.
(*2) "Securities and Investment securities" for which it is deemed extremely difficult to determine the fair value are not included in the table above.

As of March 31, 2021	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	¥52,059	¥52,059	¥–	$470,195	$470,195	$–
Notes receivable, accounts receivable from completed construction contracts and other	101,413			915,943		
Allowance for doubtful accounts (*1)	(436)			(3,939)		
	100,977	100,963	(13)	912,004	911,883	(121)
Securities and Investment securities (*2)	33,710	33,710	–	304,468	304,468	–
Total Assets	186,747	186,734	(13)	1,686,667	1,686,546	(121)
Notes payable, accounts payable for construction contracts and other	52,050	52,042	(8)	470,110	470,036	(74)
Short-term loans payable	6,588	6,588	–	59,510	59,510	–
Income taxes payable	1,607	1,607	–	14,519	14,519	–
Long-term loans payable	4,769	4,795	26	43,078	43,313	235
Total Liabilities	65,016	65,034	17	587,217	587,378	161
Derivatives	¥(5)	¥(5)	¥–	$(47)	$(47)	$–

(*1) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.
(*2) "Securities and Investment securities" for which it is deemed extremely difficult to determine the fair value are not included in the table above.

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

Assets

Cash and deposits

Since deposits are settled within a short period of time, the book value approximates the fair value. Therefore, the book value is used as the fair value.

Notes receivable, accounts receivable from completed construction contracts and other

The fair value of these assets is determined based on the present value calculated by applying discount rates, which take into account the remaining period prior to maturity and the credit risk, for receivables individually segmented by certain duration.

Securities and investment securities

As for the calculation of the fair value of these assets, stocks are based on the prices traded at the stock exchange, whereas bonds are based on the present value calculated by applying discount rates, which take into account the remaining period prior to maturity, the yield of government bonds and other.

See 10. "Securities" for note on securities by purpose of holding.

Liabilities

Notes payable, accounts payable for construction contracts and other and short-term loans payable

The fair value of these liabilities is determined based on the present value calculated by applying discount rates, which take into account the remaining period prior to maturity or repayment and the credit risk, for payables individually segmented by certain duration.

Income taxes payable

As these liabilities are settled within a short period of time, the book value approximates the fair value. Therefore, the book value is used as the fair value.

Long-term loans payable

With regard to floating rate loans, the book value approximates the fair value because the market interest rate is reflected in the interest rate within a short period of time and the credit risk did not fluctuate significantly after borrowing. Therefore, the book value is used as the fair value. With regard to fixed rate loans, the fair value is determined based on the present value of the total principal and interest discounted by an interest rate to be applied to similar new loans.

Derivative transactions

See 11 "Derivative transactions"

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

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Available-for-sale securities			
Non-listed stocks	¥975	¥961	$8,687
Non-listed foreign bonds	¥5	¥4	$44

Securities classified under this category have no market prices and estimating future cash flows would likely necessitate enormous costs. Accordingly, it is deemed extremely difficult to measure the fair value, and they are not included in "Securities and investment securities" above.

(Note 3) Redemption schedule for monetary receivables and securities with maturities

As of March 31, 2020	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥57,626	¥–	¥–	¥–
Notes receivable, accounts receivable from completed construction contracts and other	86,081	10,639	5	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	3,500	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	5	–	–
Total	¥147,207	¥10,644	¥5	¥–

As of March 31, 2021	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥52,059	¥–	¥–	¥–
Notes receivable, accounts receivable from completed construction contracts and other	89,681	11,714	17	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	2,000	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	4	–	–
Total	¥143,741	¥11,719	¥17	¥–

As of March 31, 2021	Thousands of U.S. dollars			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	$470,195	$–	$–	$–
Notes receivable, accounts receivable from completed construction contracts and other	809,986	105,802	155	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	18,063	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	44	–	–
Total	$1,298,244	$105,846	$155	$–

(Note 4) Redemption schedule for long-term loans payable, lease obligations and other interest-bearing debts

As of March 31, 2020	Millions of yen					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥4,075	¥–	¥–	¥–	¥–	¥–
Long-term loans payable	2,384	1,523	402	25	0	–
Lease obligations	50	37	27	21	14	10
Total	¥6,511	¥1,561	¥429	¥46	¥14	¥10

As of March 31, 2021	Millions of yen					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥4,787	¥–	¥–	¥–	¥–	¥–
Long-term loans payable	1,801	1,568	1,145	820	743	492
Lease obligations	77	63	28	21	9	3
Total	¥6,666	¥1,631	¥1,174	¥841	¥753	¥495

As of March 31, 2021	Thousands of U.S. dollars					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	$43,236	$–	$–	$–	$–	$–
Long-term loans payable	16,274	14,166	10,346	7,408	6,713	4,445
Lease obligations	702	573	259	196	90	31
Total	$60,212	$14,739	$10,605	$7,604	$6,803	$4,476

10. Securities

(1) Held-to-maturity debt securities

As of March 31, 2020
Not applicable.

As of March 31, 2021
Not applicable.

(2) Available-for-sale securities

As of March 31, 2020

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥21,030	¥8,560	¥12,469
Securities whose book value does not exceed their acquisition cost			
Money trusts	1,000	1,000	–
Stocks	2,377	2,778	(401)
Bonds			
Other	2,500	2,500	–
Total	¥26,907	¥14,839	¥12,067

As of March 31, 2021

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥31,686	¥11,306	¥20,379
Securities whose book value does not exceed their acquisition cost			
Money trusts	1,000	1,000	–
Stocks	24	34	(9)
Bonds			
Other	1,000	1,000	–
Total	¥33,710	¥13,340	¥20,369

As of March 31, 2021

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	$286,182	$102,118	$184,064
Securities whose book value does not exceed their acquisition cost			
Money trusts	9,032	9,032	–
Stocks	222	308	(86)
Bonds			
Other	9,032	9,032	–
Total	$304,468	$120,490	$183,978

(3) Available-for-sale securities sold

For the year ended March 31, 2020

	Millions of yen		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	¥499	¥447	¥0
Total	¥499	¥447	¥0

For the year ended March 31, 2021
Not applicable.

(4) Securities with impairment loss

For the years ended March 31, 2020

The "acquisition cost" in the tables above is the book value after deducting impairment losses. Impairment loss of ¥0 million is recognized on Available-for-sales of securities with fair value in the fiscal year. The Companies recognize an impairment loss when the fair value of stocks falls 50% or more compared with the acquisition cost and there is no evidence to indicate that the fair value will recover to the book value within one year. When the fair value falls by 30% or more but less than 50% compared with the acquisition cost, the Companies recognize a necessary amount of impairment loss after considering the market prices in the past year and the possibility of recovery.

For the years ended March 31, 2021

The "acquisition cost" in the tables above is the book value after deducting impairment losses. The Companies recognize an impairment loss when the fair value of stocks falls 50% or more compared with the acquisition cost and there is no evidence to indicate that the fair value will recover to the book value within one year. When the fair value falls by 30% or more but less than 50% compared with the acquisition cost, the Companies recognize a necessary amount of impairment loss after considering the market prices in the past year and the possibility of recovery.

11. Derivative transactions

(1) Derivative transactions to which the hedge accounting method is not applied
Currency-related transactions

As of March 31, 2020

		Millions of yen			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥139	¥–	¥(3)	¥(3)
	U.S. dollars	26	–	(0)	(0)
	Euros	27	–	(0)	(0)
	Sell				
	Yen	64	–	1	1
	U.S. dollars	323	–	12	11
	Total	¥582	¥–	¥9	¥9

(Note) Estimated fair value is provided by financial institutions.

As of March 31, 2021

		Millions of yen			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥232	¥–	¥(10)	¥(10)
	U.S. dollars	15	–	(0)	(0)
	Euros	10	–	(0)	(0)
	Chinese Yuan	127	–	6	6
	Sell				
	U.S. dollars	64	–	3	3
	Total	¥451	¥–	¥(0)	¥(0)

(Note) Estimated fair value is provided by financial institutions.

As of March 31, 2021

		Thousands of U.S. dollars			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	$2,101	$–	$(93)	$(93)
	U.S. dollars	141	–	(6)	(6)
	Euros	99	–	(0)	(0)
	Chinese Yuan	1,152	–	62	62
	Sell				
	U.S. dollars	584	–	30	30
	Total	$4,077	$–	$(7)	$(7)

(2) Derivative transactions to which the hedge accounting method is applied

Currency-related transactions

As of March 31, 2020

Hedging method	Transaction type		Main hedged items	Contract amount	Over one year	Fair value
				Millions of yen		
Method in principle	Forward exchange contracts					
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	¥127	¥24	¥(0)
		Euros	Accounts receivable from completed construction contracts (forecast)	231	–	2
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	162	–	(1)
			Total	¥520	¥24	¥(0)

(Note) Calculation method of the fair value: Based on the prices and other data submitted by counterparty financial institutions.

As of March 31, 2021

Hedging method	Transaction type		Main hedged items	Contract amount	Over one year	Fair value
				Millions of yen		
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	¥555	¥26	¥26
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	281	–	(18)
		Euros	Accounts receivable from completed construction contracts (forecast)	156	–	(9)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	209	–	(3)
			Total	¥1,202	¥26	¥(4)

(Note) Calculation method of the fair value: Based on the prices and other data submitted by counterparty financial institutions.

As of March 31, 2021

Hedging method	Transaction type		Main hedged items	Contract amount	Over one year	Fair value
				Thousands of U.S. dollars		
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	$5,014	$238	$243
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	2,544	–	(170)
		Euros	Accounts receivable from completed construction contracts (forecast)	1,410	–	(85)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	1,891	–	(28)
			Total	$10,859	$238	$(40)

Interest-related transactions

As of March 31, 2020

Hedging method	Transaction type	Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	¥338	¥215	(Note)

(Note) Because interest rate swaps qualified for the special treatment are accounted for as part of hedged long-term loans payable, the fair value thereof is included in the fair value of the corresponding long-term loans payable.

As of March 31, 2021

Hedging method	Transaction type	Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	¥2,763	¥2,524	(Note)

(Note) Because interest rate swaps qualified for the special treatment are accounted for as part of hedged long-term loans payable, the fair value thereof is included in the fair value of the corresponding long-term loans payable.

As of March 31, 2021

Hedging method	Transaction type	Main hedged items	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	$24,961	$22,804	

12. Retirement and pension plans

(1) Overview

The Company and its domestic consolidated subsidiaries apply defined benefit plans and defined contribution plans.

The overseas consolidated subsidiaries, which apply retirement benefit plan, apply defined benefit or defined contribution plans.

The defined benefit plans consist of outside funded defined benefit pension plans and lump-sum retirement payment plans. A retirement benefit trust is set up in certain outside funded defined benefit pension plan.

Certain overseas consolidated subsidiaries, which apply lump-sum retirement payment plans, apply simplified method for calculating projected benefit obligations.

(2) Defined benefit plan (except simplified method)

Reconciliation of beginning and ending balances for projected benefit obligations

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Projected benefit obligations at the beginning of current period	¥18,071	¥18,133	$163,782
Service costs	1,252	1,258	11,365
Interest costs	48	57	518
Actuarial differences accrued in the current period	(176)	(989)	(8,940)
Benefits paid	(1,298)	(948)	(8,568)
Past service costs accrued in the current period	172	–	–
Foreign currency translation	63	(69)	(631)
Projected benefit obligations at the end of current period	¥18,133	¥17,441	$157,526

Reconciliation of beginning and ending balances for pension assets

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Pension assets at the beginning of current period	¥22,841	¥21,830	$197,165
Expected return on pension assets	502	467	4,224
Actuarial differences accrued in the current period	(1,155)	2,928	26,452
Contributions from employers	832	859	7,761
Benefits paid	(1,193)	(843)	(7,622)
Foreign currency translation	1	0	4
Pension assets at the end of current period	¥21,830	¥25,242	$227,984

Reconciliation of projected benefit obligations, pension assets, net defined benefit liability, and net defined benefit asset in the consolidated balance sheets

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded projected benefit obligations	¥16,817	¥16,177	$146,116
Pension assets	(21,830)	(25,242)	(227,983)
Sub total	(5,012)	(9,064)	(81,867)
Unfunded projected benefit obligations	1,316	1,263	11,409
Net amount of liabilities and assets in the consolidated balance sheets	(3,696)	(7,801)	(70,458)
Net defined benefit liability	1,484	1,310	11,838
Net defined benefit asset	5,181	9,111	82,296
Net amount of liabilities and assets in the consolidated balance sheets	¥(3,696)	¥(7,801)	$(70,458)

Retirement benefit expenses

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service costs	¥1,252	¥1,258	$11,366
Interest costs	48	57	518
Expected return on pension assets	(502)	(467)	(4,224)
Amortization of actuarial differences	(145)	32	289
Amortization of past service costs	41	12	113
Retirement benefit expenses of defined benefit plans	¥693	¥892	$8,062

Remeasurements of defined benefit plans

Details of remeasurements of defined benefit plans before tax effect adjustments are as follows.

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Past service costs	¥(135)	¥19	$178
Actuarial differences	(1,121)	3,949	35,670
Total	¥(1,256)	¥3,969	$35,848

Accumulated remeasurements of defined benefit plans

Details of accumulated remeasurements of defined benefit plans before tax effect adjustments are as follows.

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized past service costs	¥(135)	¥(115)	$(1,046)
Unrecognized actuarial differences	(349)	3,600	32,517
Total	¥(484)	¥3,484	$31,471

Pension assets

Composition ratio of pension assets is as follows.

As of March 31, 2020 and 2021

	2020	2021
Debt securities	32%	27%
Stocks	28	34
Cash and deposits	4	3
General account of life insurance	31	27
Other	5	9
Total	100%	100%

(Note) For the previous fiscal year, 13% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan. For this fiscal year, 16% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan.

Expected long-term return rate on pension asset is determined by considering current and anticipated future portfolio of pension assets, and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

Assumptions and policies used to calculate projected benefit obligations

As of March 31, 2020 and 2021

	2020	2021
Discount rates (weighted average)	0.3%	0.3%
Expected long-term return rates on pension assets (weighted average)	2.5%	2.5%

(3) Defined benefit plan calculated by simplified method

Reconciliation of beginning and ending balances for net defined benefit liability by the simplified method

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net defined benefit liability at the beginning of current period	¥229	¥221	$2,000
Retirement benefit expenses	19	17	157
Benefits paid	(12)	(37)	(340)
Contributions to the plan	(9)	(9)	(86)
Foreign currency translation	(6)	2	25
Other	2	1	17
Net defined benefit liability at the end of current period	¥221	¥196	$1,773

Reconciliation of projected benefit obligations, pension assets and net defined benefit liability in the consolidated balance sheets

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded projected benefit obligations	¥81	¥71	$650
Pension assets	(68)	(59)	(539)
Sub total	13	12	111
Unfunded projected benefit obligations	208	183	1,662
Net amount of liabilities and assets in the consolidated balance sheets	221	196	1,773
Net defined benefit liability	221	196	1,773
Net amount of liabilities and assets in the consolidated balance sheets	¥221	¥196	$1,773

Retirement benefit expenses

Retirement benefit expenses calculated by the simplified method are ¥19 million for the previous fiscal year and ¥17 million (US$157 thousand) for this fiscal year.

(4) Defined contribution plans

Required contribution amount for defined contribution plans is ¥318 million for the previous fiscal year and ¥317 million (US$2,866 thousand) for this fiscal year.

13. Tax effect accounting

(1) Significant components of deferred tax assets and liabilities

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets			
Allowance for doubtful accounts	¥53	¥123	$1,112
Provision for warranties for completed construction	196	133	1,205
Provision for loss on construction contracts	75	89	812
Net defined benefit liability	337	231	2,093
Employees' pension trust, investment securities	310	322	2,917
Provision for directors' retirement benefits	22	14	128
Accrued enterprise tax etc.	122	104	940
Accrued bonuses	2,214	1,724	15,573
Loss on valuation of investment securities	121	121	1,095
Loss on valuation of golf club membership	56	56	509
Valuation difference on available-for-sale securities	123	2	26
Foreign tax credit carried forward	173	164	1,482
Tax loss carried forward (Note2)	1,564	1,138	10,283
Other	887	1,555	14,049
Sub total	6,261	5,782	52,224
Valuation allowance for tax loss carried forward (Note2)	(1,461)	(889)	(8,030)
Valuation allowance for total of deductible temporary differences, etc.	(785)	(997)	(9,005)
Sub total (Note1)	(2,247)	(1,886)	(17,035)
Total deferred tax assets	4,013	3,896	35,189
Deferred tax liabilities			
Net defined benefit assets	(1,661)	(2,790)	(25,206)
Valuation difference on available-for-sale securities	(3,814)	(6,135)	(55,415)
Retained earnings of consolidated overseas subsidiaries	(2,040)	(2,039)	(18,418)
Other	(338)	(726)	(6,558)
Total deferred tax liabilities	(7,855)	(11,691)	(105,597)
Net deferred tax assets liabilities	¥(3,841)	¥(7,795)	$(70,408)

(Note1) Valuation allowance decreased by ¥361 million. This decrease is mainly due to decrease in valuation allowances for tax loss carryforwards of ¥402 million in TKS Industrial Company which is consolidated subsidiary of the Company.
(Note2) Total of tax loss carried forward and its deferred tax assets, by carryforward expiration date.

As of March 31, 2020

	Millions of yen						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (a)	¥0	¥14	¥0	¥1	¥3	¥1,544	¥1,564
Valuation allowance	(0)	(14)	(0)	(1)	(1)	(1,444)	(1,461)
Deferred tax assets	¥–	¥–	¥–	¥0	¥2	¥99	(b) ¥102

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.
(b) With regard to the ¥1,564 million tax loss carried forward (the result of multiplication by the effective statutory tax rate for each tax-paying entity), ¥102 million in deferred tax assets have been recorded. This total of ¥102 million in deferred tax assets relates mainly to tax loss carried forward at consolidated subsidiaries TKS Industrial Company of ¥99 million. At TKS Industrial Company, the tax loss carried forward arose from the recording of a loss before income taxes for the period ended December 31, 2017. Deferred tax assets relating to the tax loss carried forward are deemed recoverable based on likely future taxable income.

As of March 31, 2021

	Millions of yen						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (a)	¥69	¥9	¥9	¥1	¥3	¥1,046	¥1,138
Valuation allowance	(7)	(9)	(9)	(1)	(1)	(860)	(889)
Deferred tax assets	¥62	¥–	¥–	¥–	¥1	¥185	(b) ¥249

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.
(b) With regard to the ¥1,138 million (US$10,283 thousand) tax loss carried forward (the result of multiplication by the effective statutory tax rate for each tax-paying entity), ¥249 million (US$2,253 thousand) in deferred tax assets have been recorded. This total of ¥249 million (US$2,253 thousand) in deferred tax assets relates mainly to tax loss carried forward at consolidated subsidiaries TKS Industrial Company of ¥185 million (US$1,677 thousand). At TKS Industrial Company, the tax loss carried forward arose from the recording of a loss before income taxes for the period ended December 31, 2017. Deferred tax assets relating to the tax loss carried forward are deemed recoverable based on likely future taxable income.

	Thousands of U.S. dollars						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward	$629	$84	$82	$9	$30	$9,449	$10,283
Valuation allowance	(69)	(84)	(82)	(9)	(14)	(7,772)	(8,030)
Deferred tax assets	$560	$–	$–	$–	$16	$1,677	$2,253

(2) The reconciliation between the effective statutory tax rate and the actual tax rate after the application of tax effect accounting

As of March 31, 2020 and 2021

	2020	2021
Effective statutory tax rate	30.62%	30.62%
Adjustment		
Expenses not deductible permanently	1.57	1.90
Income not taxable permanently	(0.88)	(1.88)
Inhabitant tax on per capita basis, etc.	0.50	0.67
Increase (Decrease) in valuation allowance	7.13	(2.34)
Difference in effective statutory tax rate between the Company and consolidated subsidiaries	(2.57)	(3.18)
Special tax deductions	(0.87)	(1.27)
Retained earnings of consolidated overseas subsidiaries	2.14	(0.01)
Withholding tax on dividends from overseas related companies	0.53	1.32
Amortization of goodwill	0.83	1.60
Other	0.07	1.40
Actual tax rate after the application of tax effect accounting	39.07%	28.83%

Change in presentation methods

"Withholding tax on dividends from overseas related companies", included in "Other" in the previous fiscal year, has become material and is therefore reclassified and presented as a separate line item in the current fiscal year. To reflect this change in presentation, some items above in the previous fiscal year are reclassified.

As a result, 0.6% presented as "Other" in the previous fiscal year is reclassified to "Withholding tax on dividends from overseas related companies" of 0.53% and to "Other" of 0.07%.

14. Business combination

(1) Business combination by acquisition

The Board of Directors of the Company resolved on July 22, 2020 that Nicomac Clean Rooms Far East LLP (India, hereinafter "Nicomac") to become a subsidiary of the Company by way of contribution, concluded an investment contract on the same date. Then the Company made Nicomac a consolidated subsidiary of the Company when acquired the equity on July 30, 2020. Nicomac has changed its form of organization from a Limited Liability Partnership (LLP) to an incorporated company on January 23, 2021 as the effective date.

Overview of business combination

Name and business description of acquired company

Name Nicomac Clean Rooms Far East LLP

Business description Manufacturing, installation and design for Cleanroom

(Main reason of the business combination)

Nicomac is a manufacturer and marketer of clean room panels and manufactures and sells high quality panels to Indian pharmaceutical manufacturers as its main customers.

Under the basic policy of the Mid-Term Business Plan, "solidify the Company's position in the global market", and the direction of the plan, "expand business domains", in the Indian market, which is expected to grow economically in the medium to long term, the Company aims to strengthen its ability to respond to the Indian clean room construction market, by combining Nicomac's panel manufacturing and installation technologies with air conditioning system technologies of the Company, mainly in the pharmaceutical manufacturing environment, which requires high performance air conditioning systems.

(Date of business combination)

July 30, 2020 (Deemed acquisition date is September 30, 2020.)

(Legal form of business combination)

Acquisition of equity with considerations paid by cash

(Acquired company's name after acquisition)

Nicomac has changed its name to Nicomac Taikisha Clean Rooms Private Limited on February 17, 2021.

(Ratio of acquired voting rights)

74%

(Main reason for determination of the acquirer)

The Company acquired the equity with considerations paid by cash.

Period in which the acquired company's business performance is recognized in the consolidated financial statements

From October 1, 2020 to March 31, 2021

Breakdown of the acquisition cost

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash	¥4,500	$40,645
Acquisition cost		¥4,500	$40,645

Details and amount of major acquisition-related cost

Advisory fee and so on ¥266 million (US$ 2,404 thousand)

Amount of goodwill, reason for recognition and amortization method and amortization period

(Amount of goodwill)

¥3,432 million (US$ 31,000 thousand)

(Reason for recognition)

It is recognized mainly due to prospective earning power expected from future business development.

(Amortization method and period)

Straight-line method over 10 years

Amounts and major breakdown of assets acquired and liabilities assumed at the date of acquisition

	Millions of yen	Thousands of U.S. dollars
Current assets	¥755	$6,821
Non-current assets	1,608	14,531
Total assets	2,364	21,352
Current liabilities	297	2,689
Non-current liabilities	498	4,501
Total liabilities	¥796	$7,190

Amounts and amortization period of the acquisition cost allocated to intangible assets other than goodwill

Customer-related assets ¥1,395 million (US$ 12,601 thousand)
Amortization period 10 years

Estimated amount of impact on the consolidated statement of income for the fiscal year and its calculation method, assuming that the business combination was completed at the beginning of the fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥751	**$6,792**
Operating income	(194)	**(1,758)**
Ordinary income	(173)	**(1,567)**
Profit before income taxes	(160)	**(1,452)**
Profit attributable to owners of parent	¥(152)	**$(1,381)**

(Calculation method of the estimate amount)

The estimate amount of the impact indicates the difference between net sales as well as income information calculated on the assumption that the business combination was completed at the beginning of the fiscal year and net sales as well as income information on the consolidated statement of income of the fiscal year of the acquirer. In addition, the estimate amount of impact takes into account the amortization amount of goodwill and intangible assets other than goodwill deemed to have been generated on the beginning date of the fiscal year.

Furthermore, no audit certificate has been given to this notes.

(2) Business combination by acquisition

The Board of Directors of the Company resolved on September 8, 2020 that Geico S.p.A., a consolidated subsidiary of the Company, additionally acquires 26% of shares of its associate subject to the equity method J-PM Systems GmbH and make it a subsidiary. Plus, Geico S.p.A. acquires 19% of shares by underwriting a capital increase through third-party allotment. As a result, ratio of shareholdings of J-PM Systems GmbH by Geico S.p.A. is risen to 70%. Furthermore, J-PM Systems GmbH acquires 100% of shares of Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and 70% shares of Software Automation Concepts d.o.o., and make them subsidiaries. The above companies have been included in the scope of consolidation because these share acquisition was completed on September 16, 2020.

Overview of business combination

Name and business description of acquired company

Name J-PM Systems GmbH(Germany)
Business description Sales in painting equipment, construction management, engineering, and consulting

Name Process Solution Partner GmbH(Germany)
Business description Sales in electrical control devices (including programming), construction, engineering and consulting

Name Process Solution Partner Rus LLC(Russia)
Business description Sales in electrical control devices (including programming), construction, engineering and consulting

Name Software Automation Concepts d.o.o.(Croatia)
Business description Sales in electrical control devices (including programming), construction, engineering and consulting

(Main reason of the business combination)

To promote business expansion in the European market, especially in the German customer market where investment is expected in the medium to long term, the Company decided to make J-PM Systems GmbH, an equity-method affiliate of our consolidated subsidiary Geico S.p.A., headquartered in Germany, an automobile painting equipment engineering company, a subsidiary. Furthermore, by investing in three companies, Process Solution Partner GmbH, Process Solution Partner Rus LLC, and Software Automation Concepts d.o.o., which are engaged in the electrical control design business, the Company aims to expand the scope of our business through collaborated with other group companies and aims to strengthen our business development capabilities by leveraging our strengths.

(Date of acquisition)

September 16, 2020 (Deemed acquisition date is September 30, 2020.)

(Legal form of business combination)

Acquisition of shares with considerations paid by cash and acquisition of shares by underwriting a capital increase through third-party allotment

(Acquired company's name after acquisition)

J-PM Systems GmbH

J-PM Systems GmbH has changed its name to Geico Taikisha GmbH on September 16, 2020.

Software Automation Concepts d.o.o.

Software Automation Concepts d.o.o. has changed its name to Geico Taikisha Controls d.o.o. on September 16, 2020.

Only the above two companies have changed their names.

(Ratio of acquired voting rights)

Geico Taikisha GmbH

Percentage of shares held before the business combination	25%
Percentage of shares additionally purchased on the business combination date	26%
Percentage of shares by underwriting a capital increase through third-party allotment	19%
Percentage of shares held after the business combination	70%

Process Solution Partner GmbH

Percentage of shares held before the business combination	–%
Percentage of shares additionally purchased on the business combination date	100%
Percentage of shares held after the business combination	100%

Process Solution Partner Rus LLC

Percentage of shares held before the business combination	–%
Percentage of shares additionally purchased on the business combination date	100%
Percentage of shares held after the business combination	100%

Geico Taikisha Controls d.o.o.

Percentage of shares held before the business combination	–%
Percentage of shares additionally purchased on the business combination date	70%
Percentage of shares held after the business combination	70%

(Main reason for determination of the acquirer)

The Company acquired the shares with considerations paid by cash and acquired the shares by underwriting a capital increase through third-party allotment.

Period in which the acquired company’s business performance is recognized in the consolidated financial statements

The acquired company’s business performance from October 1st to December 31, 2020 is recognized in the consolidated financial statements because the deemed acquisition date of the acquired company is September 30, 2020 and the difference between the consolidated balance sheet date and balance sheet date of the acquired company does not exceed 3 months.

Breakdown of the acquisition cost

		Millions of yen	Thousands of U.S. dollars
Fair value of shares held immediately before the business combination on the acquisition date		¥31	$283
Consideration for additional acquisition	Cash	375	3,392
Acquisition cost		¥406	$3,675

The difference between acquisition cost of the acquired company and the total cost of shares acquisition transactions

Gain on step acquisitions ¥61 million (US$ 556 thousand)

Details and amount of major acquisition-related cost

Advisory fee and so on ¥28 million (US$ 259 thousand)

Amount of goodwill, reason for recognition and amortization method and amortization period

(Amount of goodwill)

¥424 million (US$ 3,833 thousand)

(Reason for recognition)

Since the acquisition cost exceeded the net amount allocated to the assets acquired and the liabilities assumed, the excess amount is recorded as goodwill.

(Amortization method and period)

It is amortized in a lump sum when accrued because the amount is immaterial.

Amounts and major breakdown of assets acquired and liabilities assumed at the date of acquisition

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,533	$13,853
Non-current assets	249	2,253
Total assets	1,783	16,106
Current liabilities	1,569	14,173
Non-current liabilities	215	1,948
Total liabilities	¥1,784	$16,121

Estimated amount of impact on the consolidated statement of income for the fiscal year and its calculation method, assuming that the business combination was completed on the beginning of the fiscal year

The estimated amount of impact is omitted because the amount is immaterial.

14. Asset retirement obligations

The Companies are under the term of rental agreements for head offices etc. and have obligations for restitution on their leaving. The obligations are recognized by way of decreasing deposits.

15. Segment information

(1) Overview of reportable segment

The reportable segment of the Companies is components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies establish their divisions for types of construction equipment and each division plans the comprehensive domestic and foreign strategies and do business based on the strategies. Therefore, the Companies are composed of segment for types of construction equipment based on the divisions. The Companies have two reportable segments "Green Technology System Division" and "Paint Finishing System Division".

"Green Technology System Division" mainly designs, manages and constructs building HVAC for office buildings, and industrial HVAC for manufacturing facilities and laboratories. This division also produces and sells related equipment.

"Paint Finishing System Division" mainly designs, manages and constructs automobile paint plants and sells related equipment.

(2) Calculation method of sales and profits or losses, assets or liabilities and others

The accounting treatment of reportable segment is almost the same as the one disclosed in "2. Summary of significant accounting policies".

The profit of reportable segment is the amount on the basis of ordinary income. Internal profits and transfer amounts between the segments are calculated based on the market price.

(3) Sales and profits or losses, assets or liabilities and others by reportable segment

For the year ended March 31, 2020

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥157,374	¥68,003	¥225,378	¥–	¥225,378
Intersegment	3	3	6	(6)	–
Total	157,378	68,006	225,384	(6)	225,378
Segment profit	13,893	2,814	16,708	(716)	15,991
Segment assets	94,453	64,595	159,048	56,341	215,389
Other items					
Depreciation and amortization	739	1,447	2,187	(19)	2,167
Amortization of goodwill	–	548	548	–	548
Interest income	175	187	363	(5)	358
Interest expenses	1	155	157	17	174
Share of profit (loss) of entities accounted for using equity method	–	(74)	(74)	–	(74)
Investments in associates accounted for using equity method	–	545	545	–	545
Increase in property, plant and equipment, intangible assets	¥510	¥1,038	¥1,548	¥701	¥2,250

(Note 1) The amounts of Adjustments are as follows.

Adjustments of Segment profit of minus ¥716 million include non-allocatable common profits of minus ¥720 million and other adjustment of ¥3 million. Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.

Adjustments of Segment assets of ¥56,341 million are elimination of receivable and payable etc., of minus ¥2,742 million and non-allocatable common assets which are not allocated to any reportable segments of ¥59,083 million. Non-allocatable common assets are mainly cash and deposits, securities, property, plant and equipment, intangible assets, and net defined benefit asset, etc., which are not attributed to any reportable segment.

Adjustments of Increase in property, plant and equipment, intangible assets of ¥701 million are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and software, etc., which are not attributed to any reportable segment.

The allocation method of assets for reportable segment is different from that of related income and expenses.

(Note 2) Segment profit is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2021

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥134,051	¥68,497	¥202,548	¥–	¥202,548
Intersegment	6	0	7	(7)	–
Total	134,058	68,497	202,555	(7)	202,548
Segment profit	11,192	911	12,103	183	12,287
Segment assets	110,608	67,985	178,593	50,261	228,855
Other items					
Depreciation and amortization	863	1,508	2,371	(8)	2,362
Amortization of goodwill	170	467	638	–	638
Interest income	147	147	295	(4)	291
Interest expenses	3	161	165	8	173
Share of profit (loss) of entities accounted for using equity method	(0)	(64)	(65)	–	(65)
Investments in associates accounted for using equity method	13	517	531	–	531
Increase in property, plant and equipment, intangible assets	¥5,483	¥1,693	¥7,176	¥383	¥7,560

(Note 1) The amounts of Adjustments are as follows.
Adjustments of Segment profit of ¥183 million (US$1,662 thousand) include non-allocatable common profits of ¥184 million (US$1,662 thousand) and other adjustment of minus ¥0 million (minus US$0 thousand). Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.
Adjustments of Segment assets of ¥50,261 million (US$453,955 thousand) are elimination of receivable and payable etc., of minus ¥2,797 million (minus US$25,268 thousand) and non-allocatable common assets which are not allocated to any reportable segments of ¥53,059 million (US$479,223 thousand). Non-allocatable common assets are mainly cash and deposits, securities, property, plant and equipment, intangible assets, and net defined benefit asset, etc., which are not attributed to any reportable segment.
Adjustments of Increase in property, plant and equipment, intangible assets of ¥383 million (US$3,461 thousand) are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and software, etc., which are not attributed to any reportable segment.
The allocation method of assets for reportable segment is different from that of related income and expenses.
(Note 2) Segment profit is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2021

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	$1,210,727	$618,652	$1,829,379	$–	$1,829,379
Intersegment	59	5	64	(64)	–
Total	1,210,786	618,657	1,829,443	(64)	1,829,379
Segment profit	101,085	8,235	109,320	1,662	110,981
Segment assets	998,993	614,028	1,613,021	453,955	2,066,976
Other items					
Depreciation and amortization	7,796	13,624	21,420	(79)	21,341
Amortization of goodwill	1,539	4,225	5,764	–	5,764
Interest income	1,335	1,337	2,671	(42)	2,630
Interest expenses	34	1,461	1,495	74	1,569
Share of profit (loss) of entities accounted for using equity method	(1)	(586)	(587)	–	(587)
Investments in associates accounted for using equity method	120	4,678	4,798	–	4,798
Increase in property, plant and equipment, intangible assets	$49,527	$15,294	$64,820	$3,461	$68,281

16. Related information in regard to segment information

(1) Information by product and service

For the year ended March 31, 2020

This item is omitted because similar information is disclosed in "15. Segment information"

For the year ended March 31, 2021

This item is omitted because similar information is disclosed in "15. Segment information"

(2) Sales by region

For the year ended March 31, 2020

Millions of yen

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥132,348	¥14,707	¥19,619	¥21,727	¥12,252	¥1,759	¥8,698	¥14,263	¥225,378

(Note) Sales are classified to the countries or regions based on their customers' location.

For the year ended March 31, 2021

Millions of yen

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥109,757	¥19,697	¥16,267	¥19,072	¥13,319	¥2,649	¥5,488	¥16,296	¥202,548

(Note) Sales are classified to the countries or regions based on their customers' location.

For the year ended March 31, 2021

Thousands of U.S. dollars

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
$991,308	$177,903	$146,924	$172,256	$120,299	$23,925	$49,575	$147,189	$1,829,379

(3) Property, plant and equipment by region

For the year ended March 31, 2020

Millions of yen

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥5,047	¥484	¥216	¥577	¥1,560	¥2,114	¥491	¥10,493

For the year ended March 31, 2021

Millions of yen

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥4,758	¥515	¥208	¥506	¥1,794	¥1,818	¥548	¥10,150

For the year ended March 31, 2021

Thousands of U.S. dollars

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
$42,974	$4,655	$1,887	$4,578	$16,206	$16,426	$4,953	$91,679

(4) Sales information by main customer

For the year ended March 31, 2020

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

For the year ended March 31, 2021

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

17. Impairment loss by reportable segment

Impairment loss of the non-current assets by reportable segment

For the year ended March 31, 2020

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate (Note)	Total
Impairment loss	¥0	¥97	¥97	¥0	¥97

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2021

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate (Note)	Total
Impairment loss	¥156	¥–	¥156	¥202	¥359

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2021

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Impairment loss	$1,414	$–	$1,414	$1,832	$3,246

18. Amortization and balance of goodwill

(1) Amortization and balance of goodwill by reportable segment

For the year ended March 31, 2020

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	¥–	¥755	¥755	¥–	¥755

(Note) Amortization of goodwill is omitted because it is already disclosed in the "15. Segment information".

For the year ended March 31, 2021

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	¥3,419	¥665	¥4,084	¥–	¥4,084

(Note) Amortization of goodwill is omitted because it is already disclosed in the "15. Segment information".

For the year ended March 31, 2021

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	$30,882	$6,007	$36,889	$–	$36,889

(2) Gain on negative goodwill by reportable segment

For the year ended March 31, 2020
Not applicable.

For the year ended March 31, 2021
Not applicable.

19. Related party transactions

For the year ended March 31, 2020
Not applicable.

For the year ended March 31, 2021
Not applicable.

20. Details of bonds

No applicable.

21. Details of loans

As of March 31, 2021	Millions of yen		Thousands of U.S. dollars		
	Beginning balance	Ending balance	Ending balance	Average interest rate (%)	Maturity
Short-term loans payable	¥4,075	¥4,787	$43,236	1.995	–
Current portion of long-term loans payable	2,384	1,801	16,274	1.075	–
Current portion of lease obligations	50	77	702	–	–
Long-term loans payable (excluding current portion)	1,952	4,769	43,078	1.257	December 2022 to May 2030
Lease obligations (excluding current portion)	110	127	1,148	–	July 2022 to July 2026
Total	¥8,574	¥11,563	$104,438	–	–

(Note 1) The "Average interest rate" is the weighted average interest rate for the ending balance of loans etc.

(Note 2) The average interest rates on lease obligations are not presented because interest equivalents in the total lease obligation are allocated to expenses every year by the straight-line method.

(Note 3) The annual repayment schedules of long-term loans payable and lease obligations (excluding current portion) subsequent to March 31, 2021 are as follows.

	Millions of yen			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	¥1,568	¥1,145	¥820	¥743
Lease obligations	¥63	¥28	¥21	¥9

	Thousands of U.S. dollars			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	$14,166	$10,346	$7,408	$6,713
Lease obligations	$573	$259	$196	$90

22. Details of asset retirement obligations

This item is omitted because asset retirement obligations represented less than 1% of total assets at the beginning of this fiscal year and at the end of this fiscal year, respectively.

23. Significant subsequent events

Not applicable.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Taikisha Ltd.,

Opinion

We have audited the consolidated financial statements of Taikisha Ltd. and its 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 a summary of significant accounting policies and other explanatory information, all expressed in Japanese Yen.

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 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 our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Reasonableness of estimates of total costs for construction contracts in applying percentage of completion method	
Description of Key Audit Matter	Auditor's Response
The main businesses of Taikisha Group (hereinafter referred to as "the Group") are the "Green Technology System Business" and "Paint Finishing System Business". In "Green Technology System Business" the Group mainly designs, manages and constructs building HVAC for office buildings, and industrial HVAC for manufacturing facilities and laboratories. It also produces and sells peripheral equipment. In "Paint Finishing System Business" the group mainly designs, manages and constructs automobile paint plants and sells related equipment. As described in "Estimates of construction progress based on percentage of completion	We performed the following audit procedures principally to evaluate the reasonableness of estimate of total costs of construction, which is a premise for revenue from construction contracts based on the percentage of completion method. · We evaluated the design and operational effectiveness of internal controls over estimates of total construction costs. · We identified the contracts in which the uncertainty of the working budget is relatively high by analyzing the correlation between the order amount and the working budget, as well as the profit margin related with contract.

method" in (13) "Summary of significant accounting estimates" under Note 2. "Summary of significant accounting policies", in the Group, of the construction contracts as of the consolidated fiscal year end, revenue is recorded based on the percentage of completion method if construction progress can be reasonably estimated for construction contracts that meet certain conditions. Construction progress is measured by dividing the cumulative cost of construction incurred as of the fiscal year end with the total estimated cost of construction until completion. The Group recorded net revenue of ¥ 172,277 million based on the percentage of completion method on a consolidated basis for the fiscal year. Though the total estimated cost is based on the working budget for each construction contract, there is a possibility that costs, such as material and labor costs, may fluctuate after the start of construction depending upon condition of the construction site and price negotiation with the main contractors. Therefore, as estimates of total costs are considered highly uncertain, we determined this matter as a key audit matter.	· For the identified construction contracts, we examined the reasonableness of estimates of the working budget by comparing the latest estimate of working budget close to the end of the fiscal year with the original estimates of the working budget and investigating the reason of fluctuation. · We examined whether there was any over or underrun of the working budget by confirming the latest purchase order for the contract before acceptance. · We communicated with the auditors of the significant components and reviewed the interoffice audit deliverables prepared by them.

2. Consolidation of Nicomac Clean Rooms Far East LLP through the acquisition of its equity	
Description of Key Audit Matter	Auditor's Response
As described in Notes 14. "Business combination" to the consolidated financial statements, on July 30, 2020, the Group acquired a 74% of equity in Nicomac Clean Rooms Far East LLP (India, hereinafter referred to as "Nicomac") with consideration of ¥4,500 million paid in cash, resulting in Niacmac becoming a consolidated subsidiary. As a result of this business combination transaction, the Group recognized goodwill of ¥3,432 million and customer-related intangible assets of ¥1,395 million in the consolidated financial statements. Since the Group has expanded its business overseas extensively, the valuation of intangible assets arising from the acquisition of foreign companies is important for investors to understand the consolidated financial statements. Therefore, with respect to the acquisition of Nicomac to make it a consolidated subsidiary, we determined it	We performed the following audit procedures principally to consider whether the accounting treatment for the acquisition of equity and the consolidation of Nicomac were properly reflected in the consolidated financial statements. · We obtained an understanding of the transaction overview by reviewing the minutes and other documents of the board meeting, principal contracts and other relevant documents. · We examined that the significant data and assumptions used in the valuation of the customer-related assets as of the date of the business combination were reasonable by comparing the customer attrition rate and EBIT (earnings before interest and taxes) with the results of Nicomac's historical sales data.

necessary to ensure that the accounting treatment for the acquisition of the equity is appropriate. Specifically, we determined that a particularly significant audit area was the appropriateness of the amount of the customer-related assets, which the Group valued using the results of an external expert's valuation, and the appropriateness of Nicomac's balance sheet as of the date of the business combination, which affected the amount of goodwill. As described above, we determined this matter to be a key audit matter.	· We communicated with the auditor of Nicomac and reviewed the interoffice audit deliverables prepared by them.

Responsibilities of Management and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan and for 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, including whether the use of the disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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.
- 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 & supervisory board 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 & supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, 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 & supervisory board, 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.

Convenience Translation

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

The engagement partners on the audit resulting in this independent auditor's report are Hiroaki Kagami, Kenji Oka and Daisuke Miyanohara.

A & A Partners

June 29, 2021