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Our View of Penalty Charges Resulting from Reassessment by Tax Authorities

According to the Group's "Consolidated Financial Results for the Three Months Ended June 30, 2021 (IFRS) (Q2 FY ending December 2021)" released on August 12, 2021, the Group has recorded income tax expenses of 1,726 million yen for our consolidated subsidiary in this second quarter. Here are the details of this matter followed by our views on it.

1. Circumstances leading to reassessment

As a result of tax audits conducted between January 2020 and June 2021, anti-tax haven rules were applied to three foreign subsidiaries of the Cryogenic Industries Group acquired in August 2017 (Cryogenic Industries AG, Cryogenic Industries Ltd., and Cosmodyne Packaged Plants Ltd.), and on July 8, 2021, we received a notice of reassessment for the 2018 business income amount of NIKKISO INTERNATIONAL Co., Ltd., the parent company of those foreign subsidiaries.

*Anti-tax haven rules

In order to prevent tax avoidance through the use of foreign subsidiaries, income from foreign subsidiaries that meets certain conditions is deemed to be the income of the parent company in Japan, and its sum is taxed in Japan.

2. Our view

In this case, the Company has not intentionally engaged in tax avoidance, and the tax authorities are aware of this. There is a difference of opinion between us and the tax authorities. Our view is that the aggregate income of the foreign subsidiaries subject to this reassessment consisted of dividend income between the foreign subsidiaries carried out prior to their acquisition, which was subject to formal taxation under the anti-tax haven rules even though the foreign subsidiaries did not generate taxable income, and that the necessary exemptions to eliminate such formal taxation were not applied.

3. Outlook for the future

The Group will first pay any penalty charges arising from such reassessment, but then assert its legitimacy, including by filing an examination request. We will immediately notify you of any further matters that should be disclosed.