Consolidated Financial Statements
and
Non-Consolidated Financial Statements

OYO Corporation
and Consolidated Subsidiaries

Year ended December 31, 2021
with Independent Auditor’s Report

5.【Financial information】

1. Basis of preparation of the consolidated financial statements and non-consolidated financial statements.

(1) The consolidated financial statements of the Company are prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (the Ministry of Finance Ordinance No. 28, 1976).

In the current fiscal year (from January 1, 2021 to December 31, 2021), the consolidated financial statements have been prepared in accordance with the revised Regulations for the Consolidated Financial Statements due to the proviso to Article 3, Paragraph 1 of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Revision of the Regulations on Terminology, Forms, and Preparation Methods of Financial Statements, etc. ("Revised Cabinet Office Ordinance", the Cabinet Office Ordinance No. 46, June 12, 2020).

(2) The non-consolidated financial statements of the Company are prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements, etc." ("Regulations for Non-Consolidated Financial Statements", the Ministry of Finance Ordinance No. 59, 1963). In the current fiscal year (from January 1, 2021 to December 31, 2021), the non-consolidated financial statements have been prepared in accordance with the revised Regulations for Non-Consolidated Financial Statements due to the proviso to Article 3, Paragraph 1 of the Revised Cabinet Office Ordinance. The Company is eligible to submit special financial statements, and prepares its financial statements in compliance with the provisions of Article 127 of the Regulations for Non-Consolidated Financial Statements.

2. Audit certification

The consolidated financial statements for the current fiscal year (from January 1, 2021 to December 31, 2021) and non-consolidated financial statements for the current fiscal year (from January 1, 2021 to December 31, 2021) were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Ensuring appropriateness of the consolidated financial statements

The Company is committed to ensuring the appropriateness of the consolidated financial statements. In particular, the Company joined the Financial Accounting Standards Foundation to develop a more comprehensive understanding of accounting standards and enhance its systems appropriately to respond to changes in accounting standards.

1. 【Consolidated Financial Statements】
(1) 【Consolidated financial statements】
① 【Consolidated balance sheets】

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	29,970	29,851
Notes and accounts receivable-trade	*1,2 1,517	*1,2 1,534
Accounts receivable-completed operations	*1 21,415	*1 22,647
Lease receivables and investment assets	3,822	3,858
Short-term investment securities	922	1,649
Costs on uncompleted services	713	-
Merchandise and finished goods	776	924
Work in process	841	1,035
Raw materials and supplies	1,999	2,594
Other	*3 597	*3 699
Allowance for doubtful accounts	(26)	(26)
Total current assets	62,549	64,768
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	13,654	13,936
Accumulated depreciation	(9,171)	(9,489)
Accumulated impairment loss	(2)	(7)
Buildings and structures, net	4,480	4,439
Machinery, equipment and vehicles	6,943	7,419
Accumulated depreciation	(5,650)	(6,037)
Accumulated impairment loss	(220)	(236)
Machinery, equipment and vehicles, net	1,072	1,145
Tools, furniture and fixtures	1,656	1,723
Accumulated depreciation	(1,544)	(1,593)
Accumulated impairment loss	(6)	(15)
Tools, furniture and fixtures, net	105	113
Land	*4 5,886	*4 5,825
Lease assets	531	409
Accumulated depreciation	(312)	(218)
Lease assets, net	219	190
Construction in progress	32	177
Total property, plant and equipment	11,797	11,892
Intangible assets		
Software	851	800
Software in progress	25	165
Goodwill	83	-
Other	66	35
Total intangible assets	1,026	1,001

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Investments and other assets		
Investment securities	*5 5,627	*5 4,723
Long-term loans receivable	23	26
Net defined benefit asset	1,766	1,913
Deferred tax assets	49	81
Real estate for investment	534	534
Accumulated depreciation	(232)	(241)
Real estate for investment, net	301	292
Other	*3 1,275	*3 1,440
Allowance for doubtful accounts	(370)	(478)
Total investments and other assets	8,671	7,998
Total noncurrent assets	21,496	20,892
Total assets	84,045	85,661

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	*2 573	*2 539
Accounts payable-operating	1,662	1,652
Short-term loans payable	93	171
Lease obligations	1,420	1,372
Provision for product warranties	106	121
Provision for stock benefits	325	-
Income taxes payable	718	673
Advances received on uncompleted contracts	397	346
Provision for bonuses	142	147
Provision for loss on orders received	182	3
Other	5,014	4,973
Total current liabilities	10,638	10,001
Noncurrent liabilities		
Lease obligations	2,637	2,653
Net defined benefit liability	1,845	1,857
Provision for stock benefits	49	224
Deferred tax liabilities	576	653
Deferred tax liabilities for land revaluation	*4 280	*4 262
Other	195	202
Total noncurrent liabilities	5,584	5,855
Total liabilities	16,223	15,856

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Net assets		
Shareholders' equity		
Capital stock	16,174	16,174
Capital surplus	15,077	13,863
Retained earnings	40,136	42,204
Treasury stock	(1,820)	(2,049)
Total shareholders' equity	69,567	70,192
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,303	1,120
Revaluation reserve for land	*4 (2,902)	*4 (2,942)
Foreign currency translation adjustment	(621)	864
Remeasurements of defined benefit plans	193	161
Total accumulated other comprehensive income	(2,027)	(795)
Non-controlling interests	282	407
Total net assets	67,822	69,804
Total liabilities and net assets	84,045	85,661

② 【Consolidated statements of income and consolidated statements of comprehensive income】

【Consolidated statements of income】

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net sales	49,608	*1 51,675
Cost of sales	*2,*3 33,972	*2,*3 34,573
Gross profit	15,635	17,102
Selling, general and administrative expenses		
Directors' compensations	786	798
Salaries and allowances	5,144	5,525
Provision for bonuses	55	51
Provision for stock benefits	73	80
Legal welfare expenses	809	845
Retirement benefit expenses	163	183
Traveling and transportation expenses	290	289
Rent expenses	473	501
Depreciation	357	378
Research and development expenses	*4 1,427	*4 1,454
Amortization of goodwill	125	16
Provision of allowance for doubtful accounts	125	2
Other	3,280	3,308
Total selling, general and administrative expenses	13,112	13,435
Operating income	2,522	3,666
Non-operating income		
Interest income	106	32
Dividends income	87	92
Equity in earnings of affiliates	29	55
Grant income	178	142
Insurance and dividends income	84	78
Rent of real estate	53	51
Reversal of allowance for doubtful accounts	43	60
Other	95	61
Total non-operating income	680	574

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Non-operating expenses		
Interest expenses	11	9
Foreign exchange losses	9	9
Provision of allowance for doubtful accounts	7	3
Rent cost of real estate	14	13
Loss on retirement of noncurrent assets	5	12
Loss on cancellation of leases	-	11
Other	6	2
Total non-operating expenses	55	61
Ordinary income	3,147	4,179
Extraordinary income		
Gain on sales of noncurrent assets	*5 25	*5 97
Gain on sales of investment securities	7	23
Total extraordinary income	33	120
Extraordinary loss		
Loss on sales of investment securities	1	-
Impairment loss	*6 350	*6 138
Total extraordinary loss	352	138
Profit before income taxes	2,828	4,161
Income taxes-current	1,084	1,170
Income taxes-deferred	48	107
Total income taxes	1,133	1,277
Profit	1,694	2,883
Profit (Loss) attributable to non-controlling interests	(86)	17
Profit attributable to owners of parent	1,781	2,866

【Consolidated statements of comprehensive income】

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Profit	1,694	2,883
Other comprehensive income		
Valuation difference on available-for-sale securities	(456)	(182)
Foreign currency translation adjustment	(737)	1,501
Remeasurements of defined benefit plans	18	(31)
Total other comprehensive income (loss)	*1 (1,175)	*1 1,287
Comprehensive income	519	4,171
(Breakdown)		
Comprehensive income attributable to owners of parent	612	4,138
Comprehensive income (loss) attributable to non-controlling interests	(93)	32

③ 【Consolidated statements of changes in net assets】

Prior fiscal year (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity total
Balance at the beginning of the Year	16,174	15,077	39,096	(1,826)	68,521
Changes during the year					
Dividends from surplus			(846)		(846)
Profit attributable to owners of parent			1,781		1,781
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock				6	6
Cancellation of treasury stock					-
Reversal of revaluation reserve for land			105		105
Change in ownership interest of parent due to transactions with non-controlling interests					-
Net changes in items other than shareholders' equity					
Total changes during the year	-	-	1,039	6	1,046
Balance at the end of year	16,174	15,077	40,136	(1,820)	69,567

(Millions of yen)

	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the Year	1,760	(2,797)	107	175	(753)	389	68,157
Changes during the year							
Dividends from surplus							(846)
Profit attributable to owners of parent							1,781
Purchase of treasury stock							(0)
Disposal of treasury stock							6
Cancellation of treasury stock							-
Reversal of revaluation reserve for land							105
Change in ownership interest of parent due to transactions with non-controlling interests							-
Net changes in items other than shareholders' equity	(456)	(105)	(729)	18	(1,273)	(107)	(1,380)
Total changes during the year	(456)	(105)	(729)	18	(1,273)	(107)	(334)
Balance at the end of year	1,303	(2,902)	(621)	193	(2,027)	282	67,822

Current fiscal year (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity total
Balance at the beginning of the Year	16,174	15,077	40,136	(1,820)	69,567
Changes during the year					
Dividends from surplus			(838)		(838)
Profit attributable to owners of parent			2,866		2,866
Purchase of treasury stock				(2,096)	(2,096)
Disposal of treasury stock		22		739	761
Cancellation of treasury stock		(1,128)		1,128	-
Reversal of revaluation reserve for land			39		39
Change in ownership interest of parent due to transactions with non-controlling interests		(108)	(0)		(108)
Net changes in items other than shareholders' equity					
Total changes during the year	-	(1,214)	2,067	(228)	625
Balance at the end of year	16,174	13,863	42,204	(2,049)	70,192

(Millions of yen)

	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the year	1,303	(2,902)	(621)	193	(2,027)	282	67,822
Changes during the year							
Dividends from surplus							(838)
Profit attributable to owners of parent							2,866
Purchase of treasury stock							(2,096)
Disposal of treasury stock							761
Cancellation of treasury stock							-
Reversal of revaluation reserve for land							39
Change in ownership interest of parent due to transactions with non-controlling interests							(108)
Net changes in items other than shareholders' equity	(182)	(39)	1,486	(31)	1,232	124	1,357
Total changes during the year	(182)	(39)	1,486	(31)	1,232	124	1,982
Balance at the end of year	1,120	(2,942)	864	161	(795)	407	69,804

④ 【Consolidated statements of cash flows】

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	2,828	4,161
Depreciation and amortization	1,192	1,118
Impairment loss	350	138
Amortization of goodwill	125	16
Increase (decrease) in provision for bonuses	1	4
Interest and dividend income	(193)	(125)
Interest expenses	11	9
Equity in (earnings) losses of affiliates	(29)	(55)
Loss (gain) on sale of investment securities	(6)	(23)
Decrease (increase) in notes and accounts receivable-trade	1,643	(516)
Decrease (increase) in inventories	(426)	(636)
Decrease (increase) in costs on uncompleted services	39	-
Increase (decrease) in notes and accounts payable trade	(216)	(87)
Increase (decrease) in advances received on uncompleted contracts	(77)	(59)
Other	706	(569)
Subtotal	5,948	3,376
Interest and dividend income received	234	144
Interest expenses paid	(11)	(9)
Income taxes paid	(1,246)	(1,204)
Net cash provided by (used in) operating activities	4,925	2,307
Cash flows from investment activities		
Payments into time deposits	(5,344)	(5,486)
Proceeds from withdrawal of time deposits	5,467	5,472
Purchase of short-term investment securities	(300)	-
Proceeds from sales of short-term investment securities	300	23
Purchase of property, plant and equipment and intangible assets	(893)	(1,101)
Proceeds from sales of property, plant and equipment and intangible assets	385	212
Purchase of investment securities	(13)	(94)
Proceeds from sale of investment securities	47	58
Contingent consideration payments of shares of subsidiaries	(28)	(29)
Collection of loans receivable	1	4
Other	362	51
Net cash provided by (used in) investing activities	(15)	(888)

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cash flows from financing activities		
Proceeds from short-term loans payable	-	163
Repayments of short-term loans payable	(7)	(101)
Repayments of lease obligations	(112)	(114)
Proceeds from sales of treasury stock	6	0
Purchase of treasury stock	(0)	(1,604)
Cash dividends paid	(846)	(838)
Dividends paid to non-controlling interests	(18)	(9)
Other	-	(0)
Net cash provided by (used in) financing activities	(979)	(2,504)
Effect of exchange rate change on cash and cash equivalents	(210)	399
Net increase (decrease) in cash and cash equivalents	3,719	(685)
Cash and cash equivalents at beginning of the year	20,565	24,285
Cash and cash equivalents at end of the year	*1 24,285	*1 23,599

【Notes】

(Significant accounting policies to the consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 25

Names of major consolidated subsidiaries:

OYO CORPORATION U.S.A.
KINEMETRICS, INC.
GEOMETRICS, INC.
GEOPHYSICAL SURVEY SYSTEMS, INC.
ROBERTSON GEOLOGGING LTD.
NCS SUBSEA,INC.
FONG CONSULT PTE.LTD.
FC INSPECTION PTE.LTD.
NS ENVIRONMENTAL SCIENCE CONSULTANT CORPORATION
OYO RESOURCES MANAGEMENT CORPORATION
TOUHOKU BORING CO., LTD.
OCEAN ENGINEERING CORPORATION
KOEI CONSULTANT CO., LTD.
OYO SEISMIC INSTRUMENTATION CORPORATION
OYO GEO-MONITORING SERVICE CORPORATION
NANKYU GEO TECHNICS CORPORATION
OYO GEOTECHNICAL SERVICE CORPORATION
KCS CO., LTD.
OYO RMS CORPORATION

(Note) OYO INTERNATIONAL CORPORATION, which was a consolidated subsidiary, was eliminated through an absorption-type merger with the Company as the surviving company on April 1, 2021, and has therefore been excluded from the scope of consolidation from the current fiscal year.

(2) Names of major non-consolidated subsidiaries

Major non-consolidated subsidiary:

SIGMA KOGYO CO., LTD.

(Reason for excluding from the scope of consolidation)

This unconsolidated subsidiary is small; and the total assets, net sales, net income and loss (amount corresponding to each company's equity), and retained earnings (amount corresponding to each company's equity) of the subsidiary have no significant impact on the consolidated financial statements.

2. Application of the equity method

(1) Number of affiliates accounted for under the equity method: 5

Names of major affiliates

IRIS INSTRUMENTS SAS
ENGINEERING & RISK SERVICES CORPORATION

(2) Non-consolidated subsidiaries and affiliates not accounted for under the equity method

Name of major non-consolidated subsidiaries:

SIGMA KOGYO CO., LTD.

The Company excluded this non-consolidated subsidiary because it had little impact on the consolidated financial statements and had no impact overall, considering net income and loss for the year (amount corresponding to each company's equity) and retained earnings (amount corresponding to each company's equity).

3. Fiscal year-end, etc. of consolidated subsidiaries

The year-end closing date for consolidated subsidiaries is the same as the consolidated year-end closing date.

4. Accounting policies

(1) Valuation standards and methods for significant assets

(a) Securities

Available-for-sale securities

Securities with fair market value

Stated at fair value based on the quoted market price as of the year-end closing date with any changes in unrealized gains or losses, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method.

Securities without fair market value

Stated at cost determined by the moving average method.

(b) Derivatives

Stated at fair value.

(c) Inventory assets

Merchandise/products/raw materials/work in process

Stated at cost using the weighted-average method (balance sheet amounts are determined by writing down the book values based on decrease in profitability). The lower of cost or market method, cost being determined by the first-in-first-out method, is used by major consolidated subsidiaries.

(2) Depreciation method of significant depreciable assets

(a) Property, plant and equipment (excluding lease assets) and real estate for investment

For buildings (excluding structures attached to buildings) of the Company and its domestic consolidated subsidiaries, the straight-line method is used; and for other property, plant equipment, the declining balance method is used. For overseas subsidiaries, the straight-line method is used.

Major useful lives are as follows:

Buildings and structures:	2 - 50 years
Machinery, equipment and vehicles:	2 - 15 years

(b) Intangible assets (excluding lease assets)

Straight-line method

Software for internal use is amortized over the expected available period (5 - 10 years).

(c) Lease assets

The straight-line method is adopted mainly with a residual value of zero and the lease period deemed equal to the service life of the asset.

(3) Accounting for significant allowances and provisions

(a) Allowance for doubtful accounts

To prepare for expected losses from bad debts, the Company and its domestic consolidated subsidiaries estimate uncollectible amounts for normal receivables based on the historical experience and for certain specific receivables such as doubtful accounts receivables, based on the individual probability of recovery. Overseas consolidated subsidiaries estimate uncollectible amounts for certain receivables, such as doubtful accounts receivables, based on the individual probability of recovery.

(b) Provision for bonuses

At the Company and its consolidated subsidiaries, to prepare for payment of bonuses to employees, a provision for bonuses is provided based on the expected amount of payment.

(c) Provision for loss on orders received

At the Company and its domestic consolidated subsidiaries, to prepare for future losses on contracts for orders received,

a provision for losses on orders received is provided based on the future losses anticipated at the end of the current fiscal year and the amount of foreseeable losses that can reasonably be estimated.

(d) Provision for product warranties

At the Company and its certain consolidated overseas subsidiaries, to prepare for estimated warranty costs, a provision for product warranties is provided based on historical experience of free-of-charge repairs of products.

(e) Provision for stock benefits

In order to provide for grants of shares of the Company to directors and employees of the Group in accordance with the director stock benefit regulations and stock benefit regulations, a provision for stock benefits is provided based on the estimated stock benefit obligations as of the end of the current fiscal year.

(4) Accounting method for retirement benefits

(a) Method of attributing the estimated retirement benefits to periods

In calculating retirement benefit obligations, the benefit formula method of attributing estimated retirement benefits to periods has been applied until the end of the current fiscal year.

(b) Amortization method of actuarial gain or loss and past service cost

Actuarial gain or loss is amortized in the fiscal year following the year in which the gain or loss is incurred by the straight-line method over periods (5 years) which are shorter than the average remaining service periods of the employees. Past service cost is amortized by the straight-line method over periods (5 years) which are shorter than the average remaining service periods of the employees.

(5) Accounting for significant revenues and expenses

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (Implementation Guidance No. 30, March 26, 2021) have been applied.

The following summarizes the major performance obligations of the Group’s principal businesses and the time at which revenue is recognized. For any businesses, the Company allocates the transaction price to performance obligations based on the independent sales price calculated using an adjusted market valuation approach, an approach that adds margins to expected costs, and other factors. Consideration for the transaction does not include a significant financing component as it is primarily received by within one year after satisfaction of performance obligations. In addition, there are no material variable consideration for which amount of consideration could change.

Details of major performance obligations in major businesses and the time at which revenue is recognized are as follows.

(a) Revenue Recognition for Geo-engineering Services Contracts

In Geo-engineering Service Contracts, the Company conducts data collection/analysis/design/consulting, such as machine boring, road facilities inspection (tunnels, etc.), slope observation, landslide countermeasure design, analysis of water quality, soil and odor, marine surveys such as offshore boring associated with the installation of offshore windfarms. The Company has identified these services that it provides in this area as performance obligations.

Geo-engineering Services are based on a method in which revenue is recognized over time as the Company satisfies the performance obligations to transfer the goods or services to the customer, as the Company recognizes the certainty of the outcome with respect to the portion of progress and control over the goods or services is transferred to the customer over a period of time.

The method used to estimate the degree of progress related to the satisfaction of performance obligations is primarily based on the cost-based input method.

In addition, if the Company is unable to reasonably estimate the degree of progress related to the satisfaction of performance obligations, the Company applies the cost-recovery method.

(b) Revenue Recognition for Merchandise Sales (Mainly Measuring Instrument Sales)

In merchandise sales, the Company manufactures, sells, and provides maintenance services for geophysical survey equipment such as seismic observation and monitoring equipment and non-destructive inspection equipment, as well as monitoring systems using equipment. The Company has identified the operations that it provides with respect to these operations as performance obligations.

Of merchandise sales, domestic sales are recognized at the time of delivery because control over the goods is transferred to the customer at the time of delivery.

In addition, revenue from overseas sales is recognized at a point in time when performance obligations are satisfied.

(c) Revenue recognition for license sales

In license sales, the Company sells licenses for land information systems, operational management systems, various analysis software, and other products, and conducts consignment sales of systems. The Group has identified the operations it provides as performance obligations.

Revenue from license sales is recognized over a certain period of time when the nature of the license, such as cloud services, represents access rights, and revenue is recognized upon delivery, if the nature of the license, such as software delivery, is a right of use.

(6) Significant hedge accounting method

(a) Hedge accounting method

Deferral hedge accounting is adopted.

(b) Hedging instruments and hedged items

Hedging instruments: forward-exchange contracts
Hedged items: accounts payable-trade

(c) Hedging policy

In order to reduce risks of exchange rate fluctuations, hedges are used to cover liabilities.

(d) Method of assessing hedge effectiveness

An assessment of hedge effectiveness is omitted because the relationship between the hedging instruments and hedged items is direct.

(7) Amortization of goodwill

Goodwill is amortized by the straight-line method over 10 years.

(8)Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents on the consolidated statement of cash flows included cash on hand, bank deposits that could be withdrawn at any time, and low-risk short-term investments easily convertible to cash maturing within three months from the date of acquisition.

(9) Other significant items regarding preparation of the consolidated financial statements

Accounting for consumption tax
All amounts exclude consumption tax.

(Significant Accounting Estimates)

(Revenue Recognition by estimating the degree of progress related to the satisfaction of performance obligations of Geo-engineering Services Contracts of the Company)

(1)Amount recorded in the consolidated financial statements for the current fiscal year

Net sales 13,601 million yen

(Note)The above amount includes the Geo-engineering Service Contracts for which the degree of progress related to the satisfaction of performance obligations of the Geo-engineering Service Contracts can be reasonably estimated, and for which the full performance obligation has not been satisfied as of the end of the current fiscal year.

(2)Other information to help users of the consolidated financial statements understand the contents of accounting estimates

(a)Calculation methods for amount recorded in the consolidated financial statements for the current fiscal year

Net sales related to Geo-engineering Service Contracts is calculated in a manner that recognizes revenue over time as performance obligations are satisfied.
The method used to estimate the degree of progress related to the satisfaction of performance obligations is primarily based on the cost-based input method, which is the ratio of incurred costs to total estimated costs.
In addition, if the Company is unable to reasonably estimate the degree of progress related to the satisfaction of performance obligations, revenue is recognized to the extent related costs incurred.

(b)Major assumptions used in the calculation of amount in the consolidated financial statements for the current fiscal year

Estimates of the total costs of Geo-engineering Services are calculated by accumulating detailed information with objective prices, such as quotes obtained from subcontractors and internally approved standard unit prices; however, estimates of the total costs of Geo-engineering Services are key assumptions because they involve judgments based on expert knowledge and experience in Geo-engineering Services.

(c)Effect on the consolidated financial statements for the following fiscal year

Geo-engineering Services are highly individual in nature and carried out in accordance with fundamental specifications and work details instructed by customers.

In some cases, the contract content of Geo-engineering Services is changed from the original contract based on the agreement with the customer during the work period, or changes in the estimated person-hours and subcontract cost due to the facts that become known after the work starts. In such cases, due to changes in the estimate of the total cost of the work, changes in the degree of progress related to the satisfaction of the performance obligations may affect amount of revenue recognized in the consolidated financial statements for the following fiscal year.

(Change in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

The Company adopted the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, March 31, 2020) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (Implementation Guidance No. 30, March 26, 2021) from the beginning of the current fiscal year, and will recognize revenue at amount when the control of promised goods or services is transferred to customers, which is expected to be received in exchange for those goods or services.

This has resulted primarily in the following changes in revenue recognition.

(1) Revenue Recognition for Geo-engineering Services Contracts

Previously, the percentage-of-completion method was used for construction (Geo-engineering Service) for which the outcome was deemed certain for a portion of progress, and the completed-contract method was used for construction (Geo-engineering Service) for which the degree of progress could be estimated. However, for all construction works, as the performance obligations are satisfied, the method of recognizing revenue over time has been introduced.

In addition, the Company uses the cost-based input method primarily to estimate the degree of progress related to the satisfaction of performance obligations.

For Geo-engineering Service Contracts for which progress cannot be estimated, revenue is recognized using a cost recovery method.

(2) Revenue Recognition for Merchandise Sales (Mainly Measuring Instrument Sales)

Previously, for domestic transactions, revenue was recognized at the time of shipment, but it is now recognized at the time of delivery, when control over the goods is transferred to the customer.

With respect to the application of the revenue recognition accounting standards, the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition is applied. The cumulative effect of the retrospective application of the new accounting policy prior to the beginning of the current fiscal year is reflected in the beginning balance of "Retained earnings" for the current fiscal year, and a new accounting policy is applied from the beginning of the current fiscal year.

However, the new accounting policy has not been applied retrospectively to contracts for which the method set forth in paragraph 86 of the Accounting Standard for Revenue Recognition has been applied and substantially all revenue amounts have been recognized in accordance with previous treatment prior to the beginning of the current fiscal year.

As a result, "Net sales" and "Cost of sales" decreased by 112 million yen and 97 million yen, respectively, and "Gross profit," "Operating income," "Ordinary income" and "Profit before income taxes" each decreased by 15 million yen for the current fiscal year. The impact on the beginning balance of "Retained earnings" for the current fiscal year is immaterial.

In accordance with the transitional treatment set forth in paragraph 89-3 of the Revenue Recognition Accounting Standard, notes on revenue recognition for the prior fiscal year are omitted.

(Unapplied accounting standards)

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Summary

In order to improve the comparability with the provisions of international accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (“Accounting Standards for Fair Value Measurement”) have been established. These standards were developed and provided guidance on how to calculate fair value. Accounting Standards for Fair Value Measurement are applied to the fair value of the following items:

- Financial instruments in the “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes in “Accounting Standard for Valuation of Inventories”

In addition, the “Guidance on Disclosures about Fair Value of Financial Instruments” was revised to provide notes on the breakdown of fair value of financial instruments by level.

(2) Expected date of application

The accounting standards will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of application

The impact of applying the accounting standards on the consolidated financial statements is currently being evaluated.

(Change in presentation)

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The “Accounting Standard for the Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied to the consolidated financial statements as of the end of the current fiscal year, and significant accounting estimates have been disclosed in the consolidated financial statements.

However, notes for the prior fiscal year are omitted in accordance with the transitional treatment provided in the proviso of paragraph 11 of the Accounting Standard for the Disclosure of Accounting Estimates.

(Consolidated statements of income)

“Reversal of allowance for doubtful accounts”, which was previously included in “Other” under “Non-operating income” in the prior fiscal year, has been presented separately from the current fiscal year because it exceeded 10/100 of the total amount. In order to reflect this change in presentation, the Company reclassified the consolidated statement of income for the prior fiscal year.

As a result, “Other” in “Non-operating income” in the amount of 139 million yen in the consolidated statement of income for the prior fiscal year was reclassified as 43 million yen in “Reversal of allowance for doubtful accounts”, and 95 million yen in “Other.”

(Consolidated statements of cash flows)

In the prior fiscal year, “Refund of income taxes” in “Cash flows from operating activities” were presented separately. However, as the amount was immaterial for the current fiscal year, it was included in “Income taxes paid” from the current fiscal year. To reflect this change in presentation, the consolidated financial statements for the prior fiscal year were reclassified.

As a result, “Income taxes paid” in the amount of (1,299) million yen and “Refund of income taxes” in the amount of 53 million yen in “Cash flows from operating activities” in the consolidated statements of cash flows for the prior fiscal year was reclassified as (1,246) million yen in “Income taxes paid.”

(Additional information)

(Board Benefit Trust)

The Company has introduced the “Board Benefit Trust (BBT)” as directors’ remuneration from June 2, 2014 based on the resolution at the General Meeting of Shareholders held on March 26, 2014. Based on the resolution at the General Meeting of Shareholders held on March 27, 2018 and March 26, 2021, it was determined to continue the scheme and partially revise it. Also, the Company introduced the Stock Granting Trust (J-ESOP) on the same day to enhance the motivation and morale of employees towards improved stock price and business performance, by elevating linkages between the stock price and business performance of the Company and treatment of the employees, and also to promote achievement of the target in the mid-term business plan and further increase the corporate value of the Company. It is partially revised and continued. (Hereinafter, the “System.”)

(1) Outline of transaction

In introducing the System, the Company established anew the “Director stock benefit regulations” (Hereinafter, “Director benefit regulations”) and “Stock benefit regulations” (Hereinafter, “Benefit regulations”).
The Company has entrusted funds to a trust bank to enable the prior purchase of the Company stock to be granted in the future based on the established director stock benefit regulations and benefit regulations (Hereinafter, “the Trust”).
The Board Benefit Trust (BBT) is a program in which points are awarded to directors based on the director benefit regulations, and stock is granted to the directors according to the points accumulated. Also, the Stock Granting Trust (J-ESOP) is a program in which points are awarded based on the Benefit regulations according to the business performance of the Company and each subsidiary for each fiscal year, and stock is granted to the employees based on the number of points accumulated.

(2) Shares of the Company held by the Trust

Shares of the Company held by the Trust are included in treasury stock in the net assets section of the consolidated balance sheets based on their book value (excluding associated expenses). The book value and the corresponding number of shares of the Company totaled 515 million yen and 345,086 shares, respectively, as of the end of the prior fiscal year, and 738 million yen and 544,944 shares, respectively, as of the end of the current fiscal year.

(Assumption of the impact of the COVID-19 in development of accounting estimates)

With regard to COVID-19, the economy resumed due to the lifting of restrictions, mainly in the U.S. and Europe, where vaccination progressed, but the number of cases due to a new variant, the Omicron variant, has been increasing since then. In Japan as well, the state of emergency declaration was lifted at the end of September 2021, and signs of recovery in economic activity began to appear. Since then, however, the number of cases stocks due to new variants has expanded, and the pandemic is now in its sixth wave.
In light of these circumstances, the Company has made accounting estimates such as recoverability of deferred tax assets and impairment of noncurrent assets based on the assumption that the impact of the COVID-19 on the global economy and the Japanese economy may continue until the second half of 2022. As the impact of the COVID-19 on economic activity is highly uncertain, changes in the above assumptions could affect the Company’s financial position and results of operations in future periods.

(Consolidated balance sheets)

※1. Amounts of “Notes receivable-trade,” ”Accounts receivable-trade” and “Accounts receivable-completed operations” arising from contracts with customers are as follows:

	Current fiscal year (As of December 31, 2021)
Notes receivable-trade	120 million yen
Accounts receivable-trade	1,413 million yen
Accounts receivable-completed operations	4,611 million yen

※2. Treatment of trade notes maturing at the end of the fiscal year

Trade notes maturing at the end of the fiscal year are settled on the clearance date. The following notes are outstanding at the end of the fiscal year, as the maturity date fell on a business holiday for financial institutions.

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Notes receivable-trade	3 million yen	8 million yen
Notes payable-trade	9 million yen	8million yen

※3. Pledged assets and secured liabilities

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Current assets' Other	1 million yen	– million yen
Investments and other assets' Other	155 million yen	187 million yen
Total	156 million yen	187 million yen

(Prior fiscal year)

Within the limit of the letter of credit (2,277 million yen), the Company provides the restricted deposits of its US consolidated subsidiaries in the amount of 156 million yen as securities under the asset-based loan system of the United States of America.

(Current fiscal year)

Within the limit of the letter of credit (2,530 million yen), the Company provides the restricted deposits of its US consolidated subsidiaries in the amount of 172 million yen as securities under the asset-based loan system of the United States of America. Furthermore, within the issuance of the letter of credit from the subsidiary of its US consolidated subsidiaries to outside the U.S., the Company also provides the restricted deposits of its US consolidated subsidiaries in the amount of 15 million yen as securities.

※4. Revaluation of land

Land for business operations was revalued in accordance with the Land Revaluation Law (Law No. 34 issued on March 31, 1998) and a revaluation reserve for land was recorded under net assets.

Revaluation method

Land value is calculated on the basis of taxable amounts for land value tax along with reasonable adjustments, in accordance with Article 2, Item 4 of the Enforcement Ordinance relating to the Land Revaluation Law (Cabinet Order No. 119 issued on March 31, 1998). Also, part of the value of land is calculated on the basis of the approved values of noncurrent assets, stated in Article 2, Item 3, with reasonable adjustments.

Revaluation date: December 31, 2001

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
The difference between the fair value of the land at the end of the period of the revaluation and the book value after the revaluation:	(251) million yen	(256) million yen
The difference related to real estate for rent out of this:	(47) million yen	(57) million yen

※5. Non-consolidated subsidiaries and affiliates

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Investment securities (stock)	786 million yen	836 million yen

The amounts of investment in joint ventures included above were 771 million yen in the prior fiscal year and 821 million yen in the current fiscal year.

(Consolidated statements of income)

※1 Revenue from contracts with customers

In "Net sales," revenues from contracts with customers and other revenues are not distinguished.
Amounts of "Revenue from Contracts with Customers" is presented in the "Notes to Consolidated Financial Statements (Revenue Recognition) (1) Disaggregation of Revenue from Contracts with Customers."

※2. Loss on valuation of inventories

Inventories at the end of the year were stated after a reduction of book value due to a decline in profitability and the loss on valuation of inventories included in cost of sales was as follows:

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cost of sales	147 million yen	64 million yen

※3. Provision for loss on orders received included in cost of sales

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cost of sales	21 million yen	6 million yen

※4. Research and development expenses included in general and administrative expenses and manufacturing costs

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
General and administrative expenses	1,427 million yen	1,454 million yen

※5 .The components of gain on sales of noncurrent assets are as follows

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Land	25 million yen	97 million yen

※6. Impairment loss

Prior fiscal year (January 1, 2020 to December 31, 2020)

The Group recognized impairment loss on the following assets.

Location	Use	Type	Impairment loss
Texas, U.S.A.	For research projects	Machinery and equipment	217 million yen
		Intangible assets (Other)	62 million yen
California, U.S.A.	For equipment manufacturing and sales	Software, etc.	57 million yen
Singapore	For research projects	Vehicles, etc.	12 million yen

The Group groups business assets in accordance with its management accounting categories, which are organized so that income and expenses can be continuously monitored, while idle assets not directly used in business operations are grouped individually.
For the assets indicated above, because of the decline of profitability due to the deterioration in the market, the book value was reduced to the recoverable amount and the write-down of 280 million yen (2,626 thousand US dollars), 57 million yen (539 thousand US dollars), and 12 million yen (161 thousand Singapore dollars) were recognized as impairment losses. For Machinery, etc., in Texas, U.S.A., the recoverable amount is calculated based on the net selling price, which is the appraised value by professionals. For vehicles, etc., in Singapore, the recoverable amount is calculated based on the net selling price, and the recoverable amount is the net selling price minus the expected disposal cost. For intangible assets (Other) in Texas, U.S.A., software, etc., in California, the recoverable amounts are measured as value in use, and the future cash flows are discounted at 17.0% and 14.5%, respectively.

Current fiscal year (From January 1, 2021 to December 31, 2021)
The Group recognized impairment loss on the following assets.

Location	Use	Type		Impairment loss
Singapore	For research projects	Vehicles, etc.		14 million yen
	Other	Goodwill		100 million yen
		Intangible assets (Other)		23 million yen

The Group groups business assets in accordance with its management accounting categories, which are organized so that income and expenses can be continuously monitored, while idle assets not directly used in business operations are grouped individually.
Goodwill arising from the acquisition of shares of FONG CONSULT PTE.LTD., a consolidated subsidiary, was written down to the recoverable amount because estimated cash flows were less than initially projected and the difference, amounting to 138 million yen (1,696 thousand Singapore dollars), was recognized as an impairment loss under extraordinary loss.
The recoverable amount is estimated at value in use, which is the amount calculated based on future cash flow discounted at a rate of 11.5%.

(Consolidated statements of comprehensive income)

※1. Reclassification adjustments and tax effects related to each component of other comprehensive income

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Valuation difference on available-for-sale securities:		
Amount arising during the current fiscal Year	(651) million yen	(239) million yen
Reclassification adjustment	(6) million yen	(23) million yen
Amount before tax effect	(658) million yen	(262) million yen
Tax effect	201 million yen	80 million yen
Valuation difference on available-for-sale securities	(456) million yen	(182) million yen
Foreign currency translation adjustment:		
Amount arising during the current fiscal year	(737) million yen	1,516 million yen
Reclassification adjustment	- million yen	- million yen
Amount before tax effect	(737) million yen	1,516 million yen
Tax effect	- million yen	(15) million yen
Foreign currency translation adjustment:	(737) million yen	1,501 million yen
Remeasurements of defined benefit plans:		
Amount arising during the current fiscal Year	133 million yen	46 million yen
Reclassification adjustment	(107) million yen	(92) million yen
Amount before tax effect	26 million yen	(45) million yen
Tax effect	(8) million yen	14 million yen
Remeasurements of defined benefit plans	18 million yen	(31) million yen
Total other comprehensive income	(1,175) million yen	1,287 million yen

(Consolidated statements of changes in net assets)

Prior fiscal year (From January 1, 2020 to December 31, 2020)

1. Type and number of shares issued and type and number of treasury stock

	Number of shares at January 1, 2020	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at December 31, 2020
Issued shares				
Common stock	27,582,573	-	-	27,582,573
Total	27,582,573	-	-	27,582,573
Treasury stock				
Common stock (Notes)1,2	1,468,641	256	4,396	1,464,501
Total	1,468,641	256	4,396	1,464,501

(Notes) 1 The number of common stock of treasury stock at the beginning of the current fiscal year and at the end of the current fiscal year includes 349,482 shares and 345,086 shares of the Company held by Custody Bank of Japan, Ltd.(Trust Account), respectively.

2 Outline of reasons for the change

Breakdown of increase in the number is as follows:

Increase due to purchase of less than standard unit 256 shares

Breakdown of decrease in the number is as follows.

Decrease due to demand for sale by Custody Bank of Japan, Ltd. (Trust Account) 4,396 shares

2. Subscription rights to shares and treasury stock subscription shares

Not applicable.

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 27, 2020 General meeting of shareholders	Common stock	423	16.00	December 31, 2019	March 30, 2020
August 12, 2020 Board meeting	Common stock	423	16.00	June 30, 2020	September 23, 2020

(Notes) 1 The total amount of dividends resolved by the General Meeting of Shareholders of March 27, 2020 includes 5 million yen of dividends distributed to treasury stock held by Trust & Custody Services Bank, Ltd. (Trust Account) (currently renamed; Custody Bank of Japan, Ltd. (Trust Account)).

2 The total amount of dividends resolved by the Board of Directors of August 12, 2020 includes 5 million yen of dividends distributed to treasury stock held by Custody Bank of Japan, Ltd. (Trust Account).

(2) Dividends for which the settlement date was within the current fiscal year but the effective date in the following fiscal year

Resolution	Type of shares	Total dividend (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
March 26, 2021 General meeting of shareholders	Common stock	423	Retained earnings	16.00	December 31, 2020	March 29, 2021

(Note) The total amount of dividends resolved by the Board of Directors of March 26, 2021 includes 5 million yen of dividends distributed to treasury stock held by Custody Bank of Japan, Ltd. (Trust Account).

Current fiscal year (From January 1, 2021 to December 31, 2021)

1. Type and number of shares issued and type and number of treasury stock

	Number of shares at January 1, 2021	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at December 31, 2021
Issued shares				
Common stock (Notes)1	27,582,573	-	918,200	26,664,373
Total	27,582,573	-	918,200	26,664,373
Treasury stock				
Common stock (Notes)2,3	1,464,501	1,507,550	1,482,476	1,489,575
Total	1,464,501	1,507,550	1,482,476	1,489,575

(Notes) 1 As a result of a resolution of the Board of Directors' meeting held on February 12, 2021, 918,200 shares of treasury stock were cancelled based on Article 178 of the Companies Act on February 26, 2021.

2 The number of shares of common treasury stock at the beginning of the current fiscal year and at the end of the current fiscal year includes 345,086 shares and 544,944 shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account).

3 Outline of reasons for the change

Breakdown of increase in the number is as follows.

Increase due to purchase under Board meeting Resolution	1,123,000 shares
Increase due to purchase by Custody Bank of Japan, Ltd.(Trust Account)	382,000 shares
Increase due to purchase of less than standard unit	2,550 shares

Breakdown of decrease in the number is as follows.

Decrease due to cancellation of treasury stock	918,200 shares
Decrease due to contribution to Custody Bank of Japan, Ltd.(Trust Account)	382,000 shares
Decrease due to demand for sale by Custody Bank of Japan, Ltd. (Trust Account))	182,142 shares
Decrease due to demand for sale of less than standard unit	134 shares

2. Subscription rights to shares and treasury stock subscription shares

Not applicable.

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 26, 2021 General meeting of shareholders	Common stock	423	16.00	December 31, 2020	March 29, 2021
August 11, 2021 Board meeting	Common stock	414	16.00	June 30, 2021	September 21, 2021

(Notes) 1 The total amount of dividends resolved by the General Meeting of Shareholders of March 26, 2021 includes 5 million yen of dividends distributed to treasury stock held by Custody Bank of Japan, Ltd. (Trust Account) .

2 The total amount of dividends resolved by the Board of Directors of August 11, 2021 includes 8 million yen of dividends distributed to treasury stock held by Custody Bank of Japan, Ltd. (Trust Account).

(2) Dividends for which the settlement date was within the current fiscal year but the effective date in the following fiscal year

Resolution	Type of shares	Total dividend (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
March 25, 2022 General meeting of shareholders	Common stock	771	Retained earnings	30.00	December 31, 2021	March 28, 2022

(Note) The total amount of dividends resolved by the General Meeting of Shareholders of March 25, 2022 includes 16 million yen of dividends distributed to treasury stock held by Custody Bank of Japan, Ltd. (Trust Account).

(Consolidated statements of cash flows)

※1. The relationship between the year-end balance of cash and cash equivalents and amounts in the consolidated balance sheets

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cash and deposits	29,970 million yen	29,851 million yen
Short-term investment securities	922 million yen	1,649 million yen
Total	30,892 million yen	31,501 million yen
Time deposits with maturities of more than 3 months	(5,684) million yen	(6,251) million yen
Stock and debt securities with redemption period exceeding 3 months	(922) million yen	(1,649) million yen
Cash and cash equivalents	24,285 million yen	23,599 million yen

2. Significant noncash transactions

(1) The amount of assets and liabilities related to finance lease transactions

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Amount of assets and liabilities related to finance lease transactions	46 million yen	89 million yen

(Lease transactions)

1. Finance lease transactions (lessee)
Lease transactions which stipulate the transfer of ownership of leased assets to the lessee
(a) Lease assets
Property, plant and equipment
Primarily consists of equipment for analysis and measurement (Tools, furniture and fixtures) for geo-engineering and consultation services.
(b) Depreciation method for lease assets
Described in Significant accounting policies “4. Accounting policies, item (2) Depreciation method of significant depreciable assets.”

2. Operating lease transactions
Unearned lease payments for noncancellable operating lease transactions

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Due in 1 year or less	125	152
Due after 1 year	307	206
Total	433	358

3. Sublease transactions in the consolidated balance sheets are recorded inclusive of tax on interest

(1) Lease receivables and investment assets

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Current assets	3,822	3,858

(2) Lease obligations

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Current liabilities	1,324	1,289
Noncurrent liabilities	2,494	2,534

(Financial instruments)

1. Accounting policies

(1) Policy for financial instruments

The Group funds business investments and short-term operations with its own resources, in principle. The Group invests surpluses in highly rated financial instruments. The Group enters into derivative transactions to hedge future risks of exchange rate fluctuations, but does not engage in speculative trading.

(2) Types of financial instruments and related risks

Operating receivables, such as notes and accounts receivable-trade and accounts receivable-completed operations, are exposed to credit risks in relation to customers; and trade receivables denominated in foreign currencies are exposed to exchange rate fluctuation risks. The Company uses derivative transactions (currency swaps and forward-exchange contracts) to hedge part of its operating receivables.

Short-term investment securities and investment securities are mainly highly-rated bonds, investment trusts and stock of the companies with which the Group has business relationships; and these are exposed to market-price fluctuation risks.

Operating payables, such as notes and accounts payable-trade and accounts payable-operating, are mostly payable within one year or less. Trade payables denominated in foreign currencies are exposed to exchange fluctuation risks. The Company uses derivative transactions (currency swaps and forward-exchange contracts) to hedge part of its operating payables.

Derivative transactions are currency swaps and forward-exchange contracts for foreign currency in order to avoid exchange rate fluctuations. Regarding the hedging instruments, hedged items and hedging policy and method of measuring hedge effectiveness, refer to the information described in “4. Accounting policies, (6) Significant hedge accounting method”.

(3) Risk management for financial instruments

(a) Credit risk (risks related to customers’ contract delinquency) management

In accordance with the Company’s business management policy, the Company regularly monitors its customers' financial situations and controls record dates and outstanding balances per customer for operating receivables. The Company applies a similar management system to its consolidated subsidiaries.

For short-term investment securities and investment securities, the Company selects highly rated financial instruments, in accordance with its securities policy. Accordingly, the credit risk is insignificant.

For derivative transactions, the Company limits counterparties to highly rated financial institutions. Accordingly, the credit risk is minimal.

(b) Market risk (exchange rate/interest rate fluctuations) management

The Company hedges against the exchange fluctuations utilizing currency swaps and forward-exchange contracts for part of its operating payables and receivables denominated in foreign currencies.

For short-term investment securities and investment securities, the Company regularly monitors market conditions and the fair values of its securities. The Company also intermittently reviews its status of its shareholdings, considering its relationships with the companies.

For enforcement and management of derivative transactions, the Company follows the Company's rules with regard to decision-making authority and the maximum limit for transactions, and the fund management division conducts the transactions with the approval of the person in charge of decision-making.

The Company applies a similar management system to its consolidated subsidiaries.

(c) Liquidity risk (risk of not being able to complete payment before due date) management

The responsible division of the Company creates and reviews fund management plans on a timely basis and manages the liquidity risk by keeping funds on hand.

The Company applies a similar management system to its consolidated subsidiaries.

(4) Supplementary explanation on fair values of financial instruments

Fair value of financial instruments is defined as the market-based price and the price reasonably calculated when there is no market price available. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in the note "Derivative transactions" are not necessarily indicative of the market risk regarding the derivative transactions.

2. Fair value of financial instruments

The book values on the consolidated balance sheets, fair value and the difference between them are shown in the following table. The following table does not include items for which the calculation of fair value is not readily determinable (See Note 2 below).

Prior fiscal year (As of December 31, 2020)

	Book value on consolidated balance sheets (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	29,970	29,970	-
(2) Notes and accounts receivable-trade	1,517	1,517	-
(3) Accounts receivable-completed operations	21,415	21,415	-
(4) Short-term investment securities and investment securities			
Available-for-sale securities	5,524	5,524	-
Total assets	58,427	58,427	-
(1) Notes and accounts payable-trade	573	573	-
(2) Accounts payable-operating	1,662	1,662	-
(3) Income taxes payable	718	718	-
Total liabilities	2,954	2,954	-

Current fiscal year (As of December 31, 2021)

	Book value on consolidated balance sheets (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	29,851	29,851	-
(2) Notes and accounts receivable-trade	1,534	1,534	-
(3) Accounts receivable-completed operations	22,647	22,647	-
(4) Short-term investment securities and investment securities			
Available-for-sale securities	5,238	5,238	-
Total assets	59,272	59,272	-
(1) Notes and accounts payable-trade	539	539	-
(2) Accounts payable-operating	1,652	1,652	-
(3) Income taxes payable	673	673	-
Total liabilities	2,865	2,865	-

(Notes) 1. Method of calculating the fair value of financial instruments and matters related to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable-trade, (3) Accounts receivable-completed operations

As these instruments are settled within a short term and their fair values and book values are nearly equal, their book values are assumed as their fair values.

(4) Short-term investment securities and investment securities

The fair value of stocks is determined by their price on stock exchanges and the fair value of bonds and investment trusts is determined by the prices indicated by the dealers or financial institutions. For information on securities classified by holding purpose, please refer to the note “Securities”.

Liabilities

(1) Notes and accounts payable-trade, (2) Accounts payable-operating, (3) Income taxes payable

Since these instruments are settled within a short term and their fair value and book value are nearly equal, their book value is assumed as their fair value.

2. The book value on the consolidated balance sheet of the financial instruments for which fair value is extremely difficult to determine

(Millions of yen)

Classifications	December 31, 2020	December 31, 2021
Investments in a limited partnership	0	0
Unlisted bonds	22	-
Unlisted stocks	216	297
Stocks of subsidiaries and affiliates	786	836

These instruments do not have market prices and it is extremely difficult to determine fair value. Accordingly, they were not included in “(4) Short-term investment securities and investment securities”.

3. Redemption schedule of receivables and securities with maturities

Prior fiscal year (As of December 31, 2020)

	Due within 1 year (Millions of yen)	Due after 1 year through 5 years (Millions of yen)	Due after 5 years through 10 years (Millions of yen)	Due after 10 years (Millions of yen)
Cash and deposits	29,956	-	-	-
Notes and accounts receivable-trade	1,517	-	-	-
Accounts receivable-completed operations	21,415	-	-	-
Short-term investment securities and investment securities				
Available-for-sale securities with maturities				
1. Bonds				
(1) Government bonds/local authority bonds, etc.	-	-	-	-
(2) Corporate bonds	22	-	-	-
(3) Others	900	750	-	-
2. Others	0	81	-	-
Total	53,811	831	-	-

Current fiscal year (As of December 31, 2021)

	Due within 1 year (Millions of yen)	Due after 1 year through 5 years (Millions of yen)	Due after 5 years through 10 years (Millions of yen)	Due after 10 years (Millions of yen)
Cash and deposits	29,839	-	-	-
Notes and accounts receivable-trade	1,534	-	-	-
Accounts receivable-completed operations	22,647	-	-	-
Short-term investment securities and investment securities				
Available-for-sale securities with maturities				
1. Bonds				
(1) Government bonds/local authority bonds, etc.	-	-	-	-
(2) Corporate bonds	-	-	-	-
(3) Others	1,650	-	-	-
2. Others	0	82	-	-
Total	55,671	82	-	-

4. Repayment schedule of lease obligations due after the balance sheet date.

Prior fiscal year (As of December 31, 2020)

	Within one year (Millions of yen)	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)	Due after 5 years (Millions of yen)
Lease obligations	1,420	1,053	732	501	281	68

Current fiscal year (As of December 31, 2021)

	Within one year (Millions of yen)	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)	Due after 5 years (Millions of yen)
Lease obligations	1,372	1,050	783	551	251	17

(Securities)

1. Available-for-sale securities

Prior fiscal year (As of December 31, 2020)

	Type	Book value on the consolidated balance sheets (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Investments with book values on the consolidated balance sheets exceeding acquisition cost	(1) Stocks	3,649	1,766	1,882
	(2) Bonds			
	(a) Government bonds/local authority bonds, etc.	-	-	-
	(b) Corporate bonds	-	-	-
	(c) Others	450	450	0
	(3) Others	-	-	-
	Sub total	4,099	2,216	1,882
Investments with book values on the consolidated balance sheets not exceeding acquisition cost	(1) Stocks	-	-	-
	(2) Bonds			
	(a) Government bonds/local authority bonds, etc.	-	-	-
	(b) Corporate bonds	-	-	-
	(c) Others	1,198	1,200	(1)
	(3) Others	226	248	(22)
	Sub total	1,424	1,448	(23)
Total		5,524	3,664	1,859

(Note) Unlisted stocks and unlisted bonds (book value on the consolidated balance sheet: 239 million yen) do not have market prices, and it is extremely difficult to determine the fair values. Accordingly, these securities are not included in the above table, “Available-for-sale securities”.

Current fiscal year (As of December 31, 2021)

	Type	Book value on the consolidated balance sheets (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Investments with book values on the consolidated balance sheets exceeding acquisition cost	(1) Stocks	3,362	1,744	1,618
	(2) Bonds			
	(a) Government bonds/local authority bonds, etc.	-	-	-
	(b) Corporate bonds	-	-	-
	(c) Others	200	200	0
	(3) Others	-	-	-
	Sub total	3,562	1,944	1,618
Investments with book values on the consolidated balance sheets not exceeding acquisition cost	(1) Stocks	-	-	-
	(2) Bonds			
	(a) Government bonds/local authority bonds, etc.	-	-	-
	(b) Corporate bonds	-	-	-
	(c) Others	1,449	1,450	(0)
	(3) Others	227	248	(21)
	Sub total	1,676	1,698	(21)
Total		5,238	3,642	1,596

(Note)Unlisted stocks (book value on the consolidated balance sheet: 297 million yen) do not have market prices, and it is extremely difficult to determine the fair values. Accordingly, these securities are not included in the above table, “Available-for-sale securities”.

2. Available-for-sale securities sold

Prior fiscal year (From January 1, 2020 to December 31, 2020)

Type	Sales price (Millions of yen)	Total gains on sales (Millions of yen)	Total losses on sales (Millions of yen)
(1) Stocks	8	0	1
(2) Bonds			
(a) Government bonds/local authority bonds, etc.	-	-	-
(b) Corporate bonds	-	-	-
(c) Others	-	-	-
(3) Others	37	7	0
Total	46	7	1

Current fiscal year (From January 1, 2021 to December 31, 2021)

Type	Sales price (Millions of yen)	Total gains on sales (Millions of yen)	Total losses on sales (Millions of yen)
(1) Stocks	58	23	-
(2) Bonds			
(a) Government bonds/local authority bonds, etc.	-	-	-
(b) Corporate bonds	-	-	-
(c) Others	-	-	-
(3) Others	-	-	-
Total	58	23	-

(Retirement benefits)

1. Description of retirement benefit plans provided by the Company

The Company and certain domestic consolidated subsidiaries have established a contract-type defined pension plan (Cash Balance Plan) and retirement lump-sum payment plan as a defined benefit-type program.
The other domestic subsidiaries and overseas subsidiaries adopt a defined contribution program such as the Smaller Enterprise Retirement Allowance Mutual Aid System.

Defined contribution pension plans have been established by the Company and certain consolidated subsidiaries.
In some cases, an additional retirement allowance, which is not included in the retirement benefit obligation, mathematically calculated in accordance with retirement benefit accounting, may be paid out at retirement of the employees.
Also, with respect to defined benefit pension plan and lump-sum retirement allowance plan operated by certain domestic consolidated subsidiaries, the net defined benefit liability and retirement benefit expenses are calculated by a compendium method.

2. Defined benefit plan

(1) Changes in the retirement benefit obligations at beginning of the year and end of the year
(Excluding plans for which a compendium method is applied stated in (3))

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Retirement benefit obligations at beginning of the year	6,106	5,902
Service cost	276	276
Interest cost	15	20
Actuarial gain or loss	(93)	96
Retirement benefits paid	(403)	(382)
Retirement benefit obligations at end of the year	5,902	5,912

(2) Changes in plan assets at beginning of the year and end of the year
(Excluding plans for which a compendium method is applied stated in (3))

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Plan assets at beginning of the year	5,793	5,799
Expected return on plan assets	115	115
Actuarial gain or loss	40	142
Contribution by the Company	133	139
Retirement benefits paid	(283)	(257)
Plan assets at end of the year	5,799	5,941

(3) Changes in net defined benefit liability calculated using a compendium method at beginning of the year and end of the year (net)

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net defined benefit liability at beginning of the year (net)	(16)	(23)
Retirement benefits expenses	24	27
Retirement benefits paid	(22)	(17)
Contribution to the system	(9)	(14)
Net defined benefit liability at end of the year (net)	(23)	(28)

(4) Reconciliation of retirement benefit obligations and plan assets at end of the year and net defined benefit liability and net defined benefit asset provided on the consolidated balance sheets

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Funded projected benefit obligations	4,197	4,205
Plan assets	(5,963)	(6,119)
	(1,766)	(1,913)
Unfunded projected benefit obligations	1,845	1,857
Net liability/asset for projected benefit obligations in the consolidated balance sheets	78	(56)
Net defined benefit liability	1,845	1,857
Net defined benefit asset	(1,766)	(1,913)
Net liability/asset for projected benefit obligations in the consolidated balance sheets	78	(56)

(Note) Including plans for which a compendium method is adopted.

(5) Retirement benefit expenses

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Service cost	276	276
Interest cost	15	20
Expected return on plan assets	(115)	(115)
Amortization of actuarial gain or loss	(107)	(92)
Other	5	2
Retirement benefit expenses calculated by compendium method	24	27
Retirement benefit expenses related to defined benefit plans	99	118

(6) Remeasurements of defined benefit plans included in other comprehensive income

The breakdown of remeasurements of defined benefit plans (before tax effect) is as follows.

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Actuarial gain or loss	(107)	(92)
Total	(107)	(92)

(7) Remeasurements of defined benefit plans included in accumulated other comprehensive income

The breakdown of accumulated remeasurements of defined benefit plans (before tax effect) is as follows.

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Unrecognized actuarial gain or loss	(279)	(233)
Total	(279)	(233)

(8) Matters related to plan assets

(a) Major breakdown of plan assets

Ratios of asset classes to total plan assets by major classification are as follows.

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Bonds	58 %	56 %
Stocks	22 %	24 %
General accounts	2 %	3 %
Others	18 %	17 %
Total	100 %	100 %

(b) Method of determining long-term expected rates of return on plan assets

In order to determine the long-term expected rates of return on plan assets, the Company considers the present and anticipated allocation of plan assets and the present and expected long-term rates of return on plan assets in the future from various assets that constitute the plan assets.

(9) Actuarial assumptions

Major actuarial assumptions

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Discount rates	0.05 % ～0.6 %	0.3%～0.6%
Long-term expected rates of return on plan assets	2.0 %	2.0%

3. Defined contribution pension plans

Required contributions by the Company and its consolidated subsidiaries to defined contribution pension plans were 337 million yen for the prior fiscal year and 354 million yen for the current fiscal year.

(Tax effect accounting)

1. Significant components of deferred tax assets and liabilities

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Deferred tax assets		
Net operating loss carryforwards	141 million yen	100 million yen
Net defined benefit liability	484 million yen	523 million yen
Allowance for doubtful accounts	153 million yen	103 million yen
Provision for bonuses	52 million yen	54 million yen
Enterprise tax payable	60 million yen	66 million yen
Loss on valuation of securities	12 million yen	12 million yen
Loss on valuation of inventories	189 million yen	242 million yen
Revaluation reserve for land	1,082 million yen	1,082 million yen
Others	1,083 million yen	1,172 million yen
Deferred tax assets: Sub total	3,261 million yen	3,358 million yen
Valuation allowance for net operating loss carry forwards (Note2)	(133) million yen	(76) million yen
Valuation allowance for deductible temporary differences	(2,100) million yen	(2,261) million yen
Valuation allowance (Note1)	(2,233) million yen	(2,338) million yen
Deferred tax assets: Total	1,027 million yen	1,020 million yen
Deferred tax liabilities		
Balance of investments (valuation difference of noncurrent assets)	(221) million yen	(230) million yen
Revaluation reserve for land	(280) million yen	(262) million yen
Valuation differences on assets received by merger	(133) million yen	(133) million yen
Valuation difference on available-for-sale securities	(556) million yen	(476) million yen
Retained earnings of overseas subsidiaries	(116) million yen	(134) million yen
Net defined benefit assets	(454) million yen	(535) million yen
Other	(73) million yen	(83) million yen
Deferred tax liabilities: Total	(1,836) million yen	(1,856) million yen
Net deferred tax liabilities	(808) million yen	(835) million yen

(Note) 1. Net operating loss carryforwards and related deferred tax assets expire as follows:

Prior fiscal year (As of December 31, 2020)

	Within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years	Total
Net operating loss carryforwards (a)	11	4	2	3	24	95	141 million yen
Valuation allowance	(11)	(4)	(2)	(3)	(24)	(87)	(133) million yen
Deferred tax assets	–	–	–	–	–	8	8 million yen (b)

(a) Net operating loss carryforwards is the amount obtained by multiplying by the statutory tax rate.

(b) Valuation allowance is not recognized for the portion of net operating loss carryforwards deemed recoverable based on estimated future taxable income.

Current fiscal year (As of December 31, 2021)

	Within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years	Total
Net operating loss carryforwards (a)	3	1	0	3	3	87	100 million yen
Valuation allowance	(3)	(1)	0	(3)	(3)	(64)	(76) million yen
Deferred tax assets	–	–	–	–	–	23	23 million yen (b)

(a) Net operating loss carryforwards is the amount obtained by multiplying by the statutory tax rate.

(b) Valuation allowance is not recognized for the portion of net operating loss carryforwards deemed recoverable based on estimated future taxable income.

2. The reconciliation between the effective tax rate reflected in the consolidated statements of income and the statutory tax rate is as follows:

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Statutory effective tax rate in Japan	30.6 %	- %
(Reconciliation)		
Permanently non-deductible entertainment and other expenses	0.6 %	- %
Permanently non-taxable dividends and other income	(1.3) %	- %
Per-capita inhabitant tax	3.4 %	- %
Equity in earnings of affiliates	(0.3) %	- %
Valuation allowance	6.5 %	- %
Effect of tax deduction	(3.0) %	- %
Amortization of goodwill	1.4 %	- %
Others	2.2 %	- %
Effective tax rates	40.1 %	- %

(Note) The reconciliation between the effective tax rate reflected in the consolidated statement of income and the statutory tax rate for the current fiscal year was omitted as the difference is less than 5% of the statutory tax rate.

(Business Combinations, etc.)

(Absorption-type merger of a consolidated subsidiary)

On April 1, 2021, the Company merged with OYO INTERNATIONAL CORPORATION, a wholly owned subsidiary, in accordance with a resolution of the Board of Directors' meeting held on December 17, 2020.

1. Outline of transaction

(1)Name and description of business of the company involved in the combination

Company name OYO INTERNATIONAL CORPORATION

Overseas construction consulting services (Earthquake disaster prevention, Groundwater development, Infrastructure development, etc.)

(2)Date of business combination

April 1, 2021

(3)Legal form of business combination

OYO INTERNATIONAL CORPORATION was dissolved through an absorption-type merger with the Company as the surviving entity.

(4)Consideration for Merger

There was no monetary consideration, etc. for shares and other in the Merger because the Company owned all of issued shares of OYO INTERNATIONAL CORPORATION.

(5)Status of assets and liabilities assumed

The Company has assumed all of the assets, liabilities and the rights and obligations of OYO INTERNATIONAL CORPORATION in the merger Effective date.

(6)Other

By absorbing and merging OYO INTERNATIONAL CORPORATION, the Company expects to integrate management and streamline its overseas business development.

2. Summary of accounting treatment to be implemented

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the transaction is accounted for as a transaction under common control.

(Asset retirement obligations)

The Company recognizes the obligations of properly restoration at the end of a tenancy agreement as asset retirement obligations.

For asset retirement obligations at the end of the current fiscal year, instead of calculating liabilities, the Company reasonably estimated the amount of deposits unlikely to be returned at the end of the tenancy agreements and has included this portion in the current fiscal year as an expense.

(Rental real estate)

The Company and certain of its consolidated subsidiaries own apartment buildings (including land) in Ibaraki Prefecture and other regions.

Income or loss from rental of these properties during the prior fiscal year totaled 34 million yen (Rental income has principally been included in non-operating income and rental expenses in non-operating expenses).

Income or loss from rental of these properties during the current fiscal year totaled 32 million yen (Rental income has principally been included in non-operating income and rental expenses in non-operating expenses).

The book value for this rental real estate as stated in the consolidated balance sheets, the amount of increase/decrease during the current fiscal year and fair value were as follows:

(Millions of yen)

		Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Book value in the consolidated balance sheets	Balance at the beginning of the fiscal year	581	571
	Increase/decrease during the fiscal year	(9)	(92)
	Balance at the end of the fiscal year	571	479
Fair value at the end of the year		550	459

(Notes) 1. The book value in the consolidated balance sheets represented acquisition cost less accumulated depreciation.

2. The amount of decrease during the prior fiscal year was mainly due to depreciation (9 million yen). The amounts of decrease during the current fiscal year were mainly due to sales (82 million yen) and depreciation (9 million yen).

3. Each fair value at the end of the current fiscal year was calculated by the Company on the basis of the real estate appraisal standards by outside estate surveyors for main properties and on the indexes that were considered to be reflecting the market price such as land assessments for other properties.

(Revenue Recognition)

(1) Disaggregation of revenue from contracts with customers

The Group consists of four reportable segments: “Infrastructure Maintenance, Management, and Renovation,” “Natural Disaster Prevention and Mitigation,” “Environment,” and “Natural Resources and Energy.”

Revenue of the Group is divided into and recognized within four categories; “Government,” “Local government,” and “Private and other” for each customer classification in Japan, and “Overseas”" for sales outside Japan.

The relationship between revenues from goods or services broken down by classification of customers in Japan and overseas sales and the four reportable segments is as follows:

(Millions of yen)

Revenue from contracts with customers	50,275
Other revenue	1,400
Total	51,675

(Millions of yen)

		Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Internal elimination	Total
Japan	Government	4,192	4,263	2,507	257	-	11,220
	Local government	3,186	2,487	2,808	2	-	8,484
	Private and other	6,189	3,168	4,674	6,717	(762)	19,987
Overseas		4,019	2,506	4	4,053	-	10,583
Total		17,587	12,425	9,995	11,029	(762)	50,275

(2) Information to understand revenues
As the same information has been described in "Significant accounting policies, 4. Accounting policies, (5) Accounting for significant revenues and expenses," this note has been omitted.

(3) Information to understand the amount of revenues for the current and following fiscal year.
(a)Balance of Contract Assets and Contract Liabilities
The beginning and ending balances of trade receivables, contract assets and contract liabilities recorded from contracts with customers of the Company and its consolidated subsidiaries for the current fiscal year are as follows:
In the consolidated balance sheets, trade receivables are included in "Notes and accounts receivable-trade" and "Accounts receivable-completed operations", contract assets are included in "Accounts receivable-completed operations," and contract liabilities are included in "Advances received on uncompleted contracts" and "Other."

(Millions of yen)

	Current fiscal year (From January 1, 2021 to December 31, 2021)	
	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year
Accounts receivable-trade	5,622	6,145
Contract assets	17,849	18,036
Contract liabilities	569	653

The change in contract assets was primarily due to revenue recognition (increase in contract assets) and reclassification to trade receivables (decrease in contract assets).
The change in contract liabilities was primarily due to advances received (an increase in contract liabilities) and revenue recognition (decrease in contract liabilities).
Of the revenue recognized during the current fiscal year, the amount, which was included in contract liabilities as of the beginning of the current fiscal year, was 587 million yen and the amount related to performance obligations satisfied in prior periods was not material.

(b)Transaction price allocated to the remaining performance obligations
Outstanding performance obligations as of the end of the fiscal year are as follows:

(Millions of yen)

	Due in 1 year or less	Due after 1 year	Total
The current fiscal year	18,911	6,594	25,506

(Segment information)
【Segment information】

1. Outline of reportable segments
The reportable segments of the Company are, among the Group's business units, those for which separate financial information can be obtained and that are regularly reviewed by the Board in order to decide the distribution of resources and to assess business performance.

An outline of the segments is as follows.

<Infrastructure Maintenance, Management, and Renovation>

This segment mainly provides solution services to support the renovation and maintenance of social infrastructure. The main services include services related to surveying, diagnostics, and maintenance of social infrastructure managed by national and local governments, construction of maintenance and management systems, surveying and design services for maintenance for resilient infrastructure, development and sales of non-destructive inspection products and construction, installation, and renovation of monitoring systems.

<Natural Disaster Prevention and Mitigation>

This segment mainly provides solution services and systems that reinforce society and businesses against natural disasters (earthquakes/tsunami, volcanic disasters, heavy rainfall, landslides, and others). The main services include surveying and design for restoration of affected areas following natural disasters, damage simulations involving earthquakes, tsunami, fires, and others that are related to disaster prevention for national and local governments, surveys, damage projection, and countermeasure consulting for natural disaster risk related to business continuation plans for corporations, construction, installation, and renovation of monitoring services related to natural disasters such as seismometer networks and forest fire monitoring.

<Environment>

This segment provides solution services and systems to support conservation of the social environment and to reduce the burden on the earth's environment. The main services are consulting for surveys and measures to protect the social environment concerning waste treatment, soil and groundwater contamination and asbestos, surveying and consulting for the natural environment, such as measures against global warming and conservation of biodiversity, and construction, installation, and renovation of environment monitoring systems.

<Natural Resources and Energy>

This segment provides solution services to support development, conservation, and resource and energy efficiency. The main component is advanced geological survey consulting for constructing power plants, development and surveying of methane hydrate, support of renewable energy such as geothermal and earth thermal energy, development and sales of resource analysis, and 3D subsea exploration services and systems.

2. Calculation method of net sales, income and loss, assets and other items
The accounting method for reportable business segments is the same as is described in "Significant accounting policies." Income for reportable segments is based on operating income. Segment assets are not disclosed since they are not subject to a determination of management resource allocation or evaluation of business results. Inter-segment sales or transfers are based on actual market prices.

(Application of Accounting Standard for Revenue Recognition)
As stated in "Changes in Accounting Policies," the Company has applied the revenue recognition accounting standards from the beginning of the current fiscal year, and changed the accounting method for revenue recognition. As a result, the method of measuring income or loss in business segments has been changed in the same manner.
As a result of this change, compared with the previous method, in the current fiscal year, "Net sales" decreased by 12 million yen, while "Segment income" increased by 1 million yen in "Infrastructure Maintenance, Management, and Renovation," "Net sales" decreased by 35 million yen and "Segment income" decreased by 6 million yen in "Natural Disaster Prevention and Mitigation," "Net sales" increased by 26 million yen, while, "Segment income" decreased by 4 million yen in "Environment, and "Net sales" decreased by 92 million yen and "Segment income" decreased by 5 million yen in "Natural Resources and Energy."

3. Information on net sales, income or loss, assets and other items per reportable segment

Prior fiscal year (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segments					Adjustment (Note 1)	Book value on consolidated financial statements (Note 2)
	Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Total		
Net sales							
Sales to third parties	18,734	13,225	9,347	8,301	49,608	-	49,608
Inter-segment sales or transfer	599	45	40	28	714	(714)	-
Total	19,333	13,271	9,387	8,329	50,322	(714)	49,608
Segment income (loss)	1,007	860	962	(335)	2,495	27	2,522
Other items							
Depreciation and amortization	417	216	231	327	1,192	-	1,192
Amortization of goodwill	13	-	-	111	125	-	125
Equity in earnings (loss) of affiliates	(0)	-	-	30	29	-	29

(Notes) 1. An adjustment of 27 million yen in the segment income (loss) was due to the elimination of inter-segment revenues.
2. Segment income (loss) was adjusted by the amount of operating income (loss) as stated on the consolidated statements of income.
3. Segment assets are not disclosed since they are not subject to a determination of management resource allocation or evaluation of business results. However, depreciation is allocated to each business segment based on a reasonable distribution basis.

Current fiscal year (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable segments					Adjustment (Note 1)	Book value on consolidated financial statements (Note 2)
	Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Total		
Net sales							
Sales to third parties	18,359	12,366	9,932	11,017	51,675	-	51,675
Inter-segment sales or transfer	628	58	62	12	762	(762)	-
Total	18,988	12,425	9,995	11,029	52,438	(762)	51,675
Segment income	1,026	540	981	1,118	3,667	(0)	3,666
Other items							
Depreciation and amortization	427	222	231	238	1,119	(0)	1,118
Amortization of goodwill	16	-	-	-	16	-	16
Equity in earnings of affiliates	14	-	-	41	55	-	55

(Notes) 1. An adjustment of (0) million yen in the segment income was due to the elimination of inter-segment revenues.
2. Segment income was adjusted by the amount of operating income as stated on the consolidated statements of income.
3. Segment assets are not disclosed since they are not subject to a determination of management resource allocation or evaluation of business results. However, depreciation is allocated to each business segment based on a reasonable distribution basis.

【Related information】

Prior fiscal year (From January 1, 2020 to December 31, 2020)

1. Breakdown by product and service
   Details are omitted because identical information is disclosed in the segment information section.

2. Breakdown by area
(1) Net sales

(Millions of yen)

Japan	United States	Others	Total
41,304	3,078	5,225	49,608

(Note) Net sales are based on the location of customers and are classified by geographic proximity.

(2) Property, plant and equipment
The information is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Breakdown by customer

(Millions of yen)

Name of the customer	Net sales	Relevant segment
Ministry of Land, Infrastructure, Transport and Tourism	6,672	Infrastructure Maintenance, Management, and Renovation; Natural Disaster Prevention and Mitigation; Environment; and Natural Resources and Energy

Current fiscal year (From January 1, 2021 to December 31, 2021)

1. Breakdown by product and service
   Details are omitted because identical information is disclosed in the segment information section.

2. Breakdown by area
(1) Net sales

(Millions of yen)

Japan	the United States	Others	Total
41,092	4,664	5,919	51,675

(Note) Net sales are based on the location of customers and are classified by geographic proximity.

(2) Property, plant and equipment

(Millions of yen)

Japan	the United States	Others	Total
10,664	1,107	120	11,892

3. Breakdown by customer

Name of the customer	Net sales	Relevant segment
Ministry of Land, Infrastructure, Transport and Tourism	6,976	Infrastructure Maintenance, Management, and Renovation; Natural Disaster Prevention and Mitigation; Environment; and Natural Resources and Energy

【Information about impairment loss of noncurrent assets per reportable segment】

Prior fiscal year (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Eliminations or corporate	Total
Impairment loss	12	-	-	338	-	350

Current fiscal year (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Eliminations or corporate	Total
Impairment loss	138	-	-	-	-	138

【Information about amortization of goodwill and unamortized balance per reportable segment】

Prior fiscal year (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Eliminations or corporate	Total
Amortization during the year	13	-	-	111	-	125
Balance at the end of the year	83	-	-	-	-	83

Current fiscal year (From January 1, 2021 to December 31, 2021) (Millions of yen)

	Infrastructure Maintenance, Management, and Renovation	Natural Disaster Prevention and Mitigation	Environment	Natural Resources and Energy	Eliminations or corporate	Total
Amortization during the year	16	-	-	-	-	16
Balance at the end of the year	-	-	-	-	-	-

【Information about gain on negative goodwill per reportable segment】

Not applicable.

【Related-party information】

Related-party transactions

Current fiscal year (From January 1, 2021 to December 31, 2021)

Transactions between the filing party of these consolidated financial statements and related parties

Type	Name	Location	Common stocks or equity contributions	Business description	Percentage of ownership (%)	Relationship with related-parties	Transaction	Amount (Millions of yen)	Account name	Balance at the end of year (Millions of yen)
Major shareholder	Fukada Geological Institute, a public foundation	Bunkyo-ku, Tokyo	-	Research projects	9.88	-	Purchase of treasury stock	1,199	-	-

(Notes) 1. The shares of treasury stocks were purchased in accordance with a resolution of the Board of Directors' meeting dated February 12, 2021 through Tokyo Stock Exchange Off-Auction Own Share Repurchase Trading (ToSTNeT-3). The transaction prices are based on the closing price on February 12, 2021.

2. Due to the above transactions, Fukada Geological Institute, a public foundation, is no longer a related party.

(Per share information)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net assets per share	2,585.94 yen	2,756.63 yen
Earnings per share	68.20 yen	112.92 yen

(Notes) 1. Fully diluted net income per share is not stated as no residual securities exist.

2. With respect to the remaining shares of the Company held by the trust, which are recorded as treasury stock in shareholders' equity, the shares included in treasury stock are deducted in determining the average number of shares during the period in the calculation of net income per share. Also, the shares included in treasury stock are deducted from the total number of outstanding shares at the end of the fiscal year in the calculation of net assets per share.
The number of outstanding shares of treasury stock at the end of the fiscal year that were deducted in the calculation of net assets per share was 345,086 shares in the prior fiscal year and 544,944 shares in the current fiscal year. The average number of shares of the treasury stock during the period that were deducted in the calculation of net income per share was 347,844 shares in the prior fiscal year and 434,624 shares in the current fiscal year..

3. The basis for the calculation of net income per share is as follows:

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Earnings per share		
Profit attributable to owners of parent (Millions of yen)	1,781	2,866
Net income not attributable to common shareholders (Millions of yen)	-	-
Profit attributable to owners of parent related to common stock (Millions of yen)	1,781	2,866
Average number of shares outstanding (share)	26,115,389	25,384,765

(Significant subsequent events)

Not applicable.

⑤【Consolidated supplementary schedules】
【Schedule of corporate bonds 】
Not applicable.

【Schedule of borrowings】

Classification	Balance at January 1, 2021 (Millions of yen)	Balance at December 31, 2021 (Millions of yen)	Average interest rate (%)	Period of repayment
Short-term loans payable	93	171	3.95	-
Long-term loans due for repayment within one year	-	-	-	-
Lease obligations due for repayment within one year	1,420	1,372	1.89	-
Long term loans (excluding those due for repayment within one year)	-	-	-	-
Lease obligations (excluding those due for repayment within one year)	2,637	2,653	1.86	2023-2029
Other interest-bearing liabilities	-	-	-	-
Total	4,150	4,197	-	-

(Notes) 1. The average interest rate is calculated on the basis of year-end interest rate and balance.
2. The following table shows the aggregate amounts of scheduled repayment of lease obligations (excluding the ones due for repayment within one year) for 5 years subsequent to December 31, 2021.

	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)
Lease obligations	1,050	783	551	251

【Schedule of asset retirement obligations】
Disclosure is omitted because the amount of asset retirement obligations is immaterial.

(2) 【Other】
Quarterly information for the current fiscal year

Cumulative	1st quarter	2nd quarter	3rd quarter	Current fiscal year
Net sales (Millions of yen)	13,328	24,232	37,662	51,675
Profit before income taxes (Millions of yen)	2,097	2,430	3,220	4,161
Quarterly (current) profit attributable to owners of parent (Millions of yen)	1,442	1,694	2,218	2,866
Earnings per share (Yen)	56.57	66.62	87.28	112.92

Each quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly earnings per share (Yen)	56.57	9.92	20.64	25.63

2. 【Non-consolidated financial statements】

(1) 【Non-consolidated financial statements】

① 【Non-consolidated balance sheets】

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	15,030	14,062
Notes receivable-trade	*1 86	*1 62
Accounts receivable-completed operations	17,375	18,128
Accounts receivable-trade	225	199
Short-term investment securities	900	1,649
Costs on uncompleted services	542	-
Merchandise and finished goods	298	334
Work in process	104	80
Raw materials and supplies	271	278
Prepaid expenses	146	175
Other	282	160
Total current assets	35,263	35,131
Noncurrent assets		
Property, plant and equipment		
Buildings	3,145	3,046
Structures	71	67
Machinery and equipment	586	549
Vehicles	5	2
Tools, furniture and fixtures	31	42
Land	4,034	3,951
Lease assets	45	30
Construction in progress	18	116
Total property, plant and equipment	7,939	7,809
Intangible assets		
Software	820	724
Software in progress	5	85
Other	8	8
Total intangible assets	833	818
Investments and other assets		
Investment securities	4,840	3,886
Stocks of subsidiaries and affiliates	12,786	12,786
Long-term loans receivable	60	32
Other	2,204	2,515
Allowance for doubtful accounts	(42)	(203)
Total investments and other assets	19,848	19,016
Total noncurrent assets	28,622	27,643
Total assets	63,886	62,775

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Liabilities		
Current liabilities		
Accounts payable-operating	1,372	1,193
Accounts payable-trade	46	33
Accounts payable-other	2,686	2,501
Income taxes payable	377	400
Accrued expenses	369	359
Advances received on uncompleted contracts	201	202
Deposits payable	316	368
Provision for bonuses	107	112
Provision for loss on orders received	182	3
Provision for product warranties	14	18
Provision for stock benefits	325	-
Other	76	36
Total current liabilities	6,075	5,228
Noncurrent liabilities		
Provision for retirement benefits	1,803	1,781
Provision for stock benefits	49	224
Deferred tax liabilities	232	264
Deferred tax liabilities for land revaluation	280	262
Other	72	73
Total noncurrent liabilities	2,437	2,607
Total liabilities	8,512	7,836

(Millions of yen)

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Net assets		
Shareholders' equity		
Capital stock	16,174	16,174
Capital surplus		
Legal capital surplus	4,043	4,043
Other capital surplus	10,422	9,316
Total capital surplus	14,465	13,359
Retained earnings		
Legal retained earnings	488	488
Other retained earnings		
General reserve	23,307	23,307
Retained earnings brought forward	4,358	5,480
Total retained earnings	28,153	29,275
Treasury stock	(1,820)	(2,049)
Total shareholders' equity	56,973	56,760
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,303	1,120
Revaluation reserve for land	(2,902)	(2,942)
Total valuation and translation adjustments	(1,599)	(1,821)
Total net assets	55,373	54,938
Total liabilities and net assets	63,886	62,775

② 【Non-consolidated statements of income】

(Millions of yen)

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net sales	28,591	29,417
Cost of sales	20,129	20,202
Gross profit	8,462	9,214
Selling, general and administrative expenses	*1 6,924	*1 7,350
Operating income	1,537	1,864
Non-operating income		
Interest and dividends income	*2 456	*2 478
Insurance and dividends income	77	71
Rent of real estate	*2 76	*2 73
Other	*2 69	*2 30
Total non-operating income	681	652
Non-operating expenses		
Interest expenses	0	0
Provision of allowance for doubtful accounts	7	3
Rent cost of real estate	24	23
Loss on cancellation of leases	-	11
Other	2	1
Total non-operating expenses	36	40
Ordinary income	2,183	2,476
Extraordinary income		
Gain on sales of noncurrent assets	*3 25	*3 97
Gain on sales of affiliate's stocks	-	10
Gain on sales of investment securities	-	23
Other	-	10
Total extraordinary income	25	141
Extraordinary loss		
Loss on valuation of affiliates' stock	63	-
Loss on sales of investment securities	0	-
Total extraordinary loss	64	-
Profit before income taxes	2,144	2,618
Income taxes-current	554	602
Income taxes-deferred	62	95
Total income taxes	616	697
Profit	1,527	1,920

【Breakdown of cost of sales】
A. Cost of sales for geo-engineering services

Classification	Notes	Prior fiscal year (From January 1, 2020 to December 31, 2020) Amount (Millions of yen)		Ratio (%)	Current fiscal year (From January 1, 2021 to December 31, 2021) Amount (Millions of yen)		Ratio (%)
Materials cost			908	4.6		521	2.7
Labor cost			6,084	31.3		6,379	32.9
Subcontract cost			9,393	48.3		9,309	48.2
Overhead cost							
Transportation expenses		912			899		
Report preparation cost		50			56		
Depreciation		360			372		
Other		1,743	3,067	15.8	1,795	3,124	16.2
Total cost for geo-engineering services			19,454	100.0		19,334	100.0
Costs on uncompleted services at beginning of the year			249			-	
Total			19,703			19,334	
Costs on uncompleted services at the end of the year			376			-	
Cost of sales for geo-engineering services			19,327			19,334	
Provision for loss on orders received			21			6	
Reversal of provision for loss on orders received			-			20	
Cost of sales for geo-engineering services during the year			19,348			19,320	

(Notes) 1. Method of cost accounting is Job order cost accounting.
※ 2. As discussed in "Notes (Change in accounting policies)" below, the Company adopted the Accounting Standard for Revenue Recognition from the beginning of the current fiscal year. Consequently, "Costs on uncompleted services at beginning of the year" for the current fiscal year decreased by 376 million yen.

B. Cost of sales for measuring instruments

Classification	Note	Prior fiscal year (From January 1, 2020 to December 31, 2020) Amount (Millions of yen)		Prior fiscal year Ratio (%)	Current fiscal year (From January 1, 2021 to December 31, 2021) Amount (Millions of yen)		Current fiscal year Ratio (%)
Finished goods at beginning of the year			303			298	
Cost of purchased goods during the year			420			518	
Cost of products manufactured during the year							
Materials cost		335		53.5	308		53.3
Labor cost		197		31.6	183		31.7
Overhead cost		93		14.9	86		15.0
Total manufacturing costs		626		100.0	578		100.0
Work in process at the beginning of the year		75			104		
Total		701			683		
Transfer to other accounts	※2	103			72		
Work in process at the end of the year		104	494		80	530	
Total			1,218			1,347	
Transfer to other accounts	※3		138			131	
Finished goods at the end of the year			298			334	
Cost of sales for measuring instruments during the year			780			881	

(Notes) 1. Method of cost accounting is group process costing

※ 2. Transfer to other accounts

	Prior fiscal year	Current fiscal year
Research and development expenses (Selling, general and administrative expenses)	45 million yen	13 million yen

※ 3. Transfer to other accounts

	Prior fiscal year	Current fiscal year
Transfer to cost of geo-engineering services	138 million yen	72 million yen

C. Reconciliation of cost of sales for geo-engineering services, cost of sales for measuring instruments and cost of sales

Classification	Note	Prior fiscal year (From January 1, 2020 to December 31, 2020) Amount (Millions of yen)	Current fiscal year (From January 1, 2021 to December 31, 2021) Amount (Millions of yen)
Cost of sales for geo-engineering services		19,348	19,320
Cost of sales for measuring instruments		780	881
Cost of sales		20,129	20,202

③【Non-consolidated statements of changes in net assets】

Prior fiscal year (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Shareholders' equity							
						Other retained earnings		Total retained earnings
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	
Balance at the beginning of the year	16,174	4,043	10,422	14,465	488	23,307	3,572	27,367
Changes during the year								
Dividends from surplus							(846)	(846)
Net income							1,527	1,527
Purchase of treasury stock								
Disposal of treasury stock								
Cancellation of treasury stock								
Reversal of revaluation reserve for land							105	105
Net changes in items other than shareholders' equity								
Total changes during the year	-	-	-	-	-	-	786	786
Balance at the end of year	16,174	4,043	10,422	14,465	488	23,307	4,358	28,153

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			
	Treasury stock	Shareholders' equity total	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	Total net assets
Balance at the beginning of the year	(1,826)	56,180	1,752	(2,797)	(1,044)	55,136
Changes during the year						
Dividends from surplus		(846)				(846)
Net income		1,527				1,527
Purchase of treasury stock	(0)	(0)				(0)
Disposal of treasury stock	6	6				6
Cancellation of treasury stock		-				-
Reversal of revaluation reserve for land		105				105
Net changes in items other than shareholders' equity			(449)	(105)	(555)	(555)
Total changes during the year	6	792	(449)	(105)	(555)	237
Balance at the end of year	(1,820)	56,973	1,303	(2,902)	(1,599)	55,373

Current fiscal year (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity							
						Other retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of the year	16,174	4,043	10,422	14,465	488	23,307	4,358	28,153
Changes during the year								
Dividends from surplus							(838)	(838)
Net income							1,920	1,920
Purchase of treasury stock								
Disposal of treasury stock			22	22				
Cancellation of treasury stock			(1,128)	(1,128)				
Reversal of revaluation reserve for land							39	39
Net changes in items other than shareholders' equity								
Total changes during the year	-	-	(1,105)	(1,105)	-	-	1,122	1,122
Balance at the end of year	16,174	4,043	9,316	13,359	488	23,307	5,480	29,275

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			
	Treasury stock	Shareholders' equity total	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	Total net assets
Balance at the beginning of the year	(1,820)	56,973	1,303	(2,902)	(1,599)	55,373
Changes during the year						
Dividends from surplus		(838)				(838)
Net income		1,920				1,920
Purchase of treasury stock	(2,096)	(2,096)				(2,096)
Disposal of treasury stock	739	761				761
Cancellation of treasury stock	1,128	-				-
Reversal of revaluation reserve for land		39				39
Net changes in items other than shareholders' equity			(182)	(39)	(222)	(222)
Total changes during the year	(228)	(212)	(182)	(39)	(222)	(434)
Balance at the end of year	(2,049)	56,760	1,120	(2,942)	(1,821)	54,938

【Notes】

(Significant accounting policies)

1. Valuation method and standards for securities

(a) Stocks of subsidiaries and affiliates

Stated at cost determined by the moving average method.

(b) Available-for-sale securities

Securities with fair market value

Stated at fair value based on the quoted market price as of the year-end closing date with any changes in unrealized gains or losses, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method.

Securities without fair market value

Stated at cost determined by the moving average method.

2. Valuation method and standards for derivatives

Stated at fair value.

3. Valuation method and standards for inventories

(a) Merchandise/products/raw materials/work in process

Stated at cost using weighted-average method (balance sheet amounts are determined by writing down the book values based on decrease in profitability).

(b) Supplies

Last cost method (balance sheet amounts are determined by writing down the book values based on decreased profitability).

4. Depreciation method of noncurrent assets

(a) Property, plant and equipment (excluding lease assets) and real estate for investment

The straight-line method is used for buildings (except structures attached to buildings), and the declining balance method is used for other property, plant and equipment.

Major useful lives are defined as follows:

Buildings:	2 – 50 years
Machinery and equipment:	2 – 7 years

(b) Intangible assets (excluding lease assets)

Straight-line method

Software for internal use is amortized over the expected available period (5 -10 years).

(c) Lease assets

The straight-line method is adopted mainly with a residual value of zero and the lease period deemed equal to the service life of the asset.

(d) Long-term prepaid expenses

Straight-line method

5. Accounting standards for provisions

(a) Allowance for doubtful accounts

To prepare for expected losses from bad debts, the Company estimates uncollectible amounts for normal receivables based on the historical experience and for certain specific receivables, such as doubtful accounts receivables, based on the individual probability of recovery.

(b) Provision for bonuses

To prepare for the payment of bonuses to employees, a provision for bonuses is provided based on the expected amount of payment.

(c) Provision for retirement benefits

To prepare for payment of employees' retirement allowances, a provision is provided based on the anticipated projected benefit obligation and pension assets at the end of the current fiscal year.

Actuarial gain or loss is amortized in the fiscal year following the year in which the gain or loss is incurred by the straight-line method over periods (5 years) which are shorter than the average remaining period of the employees.

(d) Provision for loss on orders received

To prepare for future losses on contracts for orders received, a provision for loss on orders received is provided based on the future losses anticipated at the end of the current fiscal year and the amount of foreseeable losses that can reasonably be estimated.

(e) Provision for product warranties

To prepare for estimated warranty costs, a provision for product warranties is provided based on historical experience of free-of-charge repairs of products.

(f) Provision for stock benefits

In order to provide for grant of shares of the company to employees according to the stock benefits regulations, it is provided based on the estimated stock benefit obligations as of the end of the current fiscal year.

6. Accounting standards for revenue and expenses

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (Implementation Guidance No. 30, March 26, 2021) have been applied.

The following summarizes the major performance obligations of the Group’s principal businesses and the time at which revenue is recognized. For any businesses, the Company allocates the transaction price to performance obligations based on the independent sales price calculated using an adjusted market valuation approach, an approach that adds margins to expected costs, and other factors. Consideration for the transaction does not include a significant financing component as it is primarily received by within one year after satisfaction of performance obligations. In addition, there is no material variable consideration for which the amount of consideration could change.

Details of major performance obligations in major businesses and the time at which revenue is recognized are as follows.

(1) Revenue Recognition for Geo-engineering Services Contracts

In Geo-engineering Service Contracts, the Company conducts machine boring, road facilities inspection (tunnels, etc.), slope observation, landslide countermeasure design, analysis of water quality, soil and odor, marine surveys such as offshore boring associated with the installation of offshore wind power plant, data collection, analysis, design, consulting. The Company has identified these services provided by the Company in this area as performance obligations.

Geo-engineering Services are based on a method in which revenue is recognized over time as the Company satisfies the performance obligations to transfer the goods or services to the customer, as the Company recognizes certainty of outcome with respect to the portion of progress and transfers control over the goods or services to the customer over a period of time.

The method used to estimate the degree of progress related to the satisfaction of performance obligations is primarily based on the cost-based input method.

In addition, if the Company is unable to reasonably estimate the degree of progress related to the satisfaction of performance obligations, the Company applies the cost-recovery method.

(2) Revenue Recognition for Merchandise Sales (Mainly Measuring Instrument Sales)

In merchandise sales, the Company manufactures, sells, and provides maintenance services for geophysical survey equipment such as seismic observation and monitoring equipment and non-destructive inspection equipment, as well as monitoring systems using equipment. The Company has identified the operations provided by the Company with respect to these operations as performance obligations.

Of merchandise sales, domestic sales are recognized at the time of delivery because control over the goods is transferred to the customer at the time of delivery.

In addition, revenue from overseas sales is recognized at a point in time when performance obligations are satisfied.

(3) Revenue recognition for license sales

In license sales, the Company sells licenses for land information systems, operational management systems, various analysis software, and other products, and conducts consignment sales of systems. The Group has identified the operations it provides as performance obligations.

Revenue from license sales is recognized over a certain period of time when the nature of the license, such as cloud services, represents access rights, and revenue is recognized upon delivery, if the nature of the license, such as software delivery, is a right of use.

7. Hedge accounting method

(a) Hedge accounting method

Deferral hedge accounting is adopted.

(b) Hedging instruments and hedged items

Hedging instruments: forward-exchange contracts

Hedged items: accounts payable-trade

(c) Hedging policy

In order to reduce risks of exchange rate fluctuations, hedges are used to cover liabilities.

(d) Method of assessing hedge effectiveness

An assessment of hedge effectiveness is omitted because the relationship between the hedging instruments and hedged items is direct.

8. Other significant accounting policies

Accounting of consumption tax

All figures exclude consumption tax.

(Significant Accounting Estimates)

(Revenue Recognition by estimating the degree of progress related to the satisfaction of performance obligations of Geo-engineering Services Contracts)

(1)Amount recorded in financial statements for the current fiscal year

Net sales 13,635 million yen

(Note)The above amount includes the Geo-engineering Service Contracts for which the degree of progress related to the satisfaction of performance obligations of the Geo-engineering Service Contracts can be reasonably estimated, and for which the full performance obligation has not been satisfied as of the end of the current fiscal year.

(2)Other information that helps users of the financial statements understand the contents of accounting estimates

As the same information has been described in "5. Financial information, 1. Consolidated Financial Statements, (1)Consolidated financial statements, Notes (Significant Accounting Estimates) (Revenue Recognition by estimating the degree of progress related to the satisfaction of performance obligations of Geo-engineering Services Contracts of the Company)(2)Other information to help users of the consolidated financial statements understand the contents of accounting estimates", this note has been omitted.

(Change in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

The Company adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (Implementation Guidance No. 30, March 26, 2021) from the beginning of the current fiscal year, and will recognize revenue at amount when the control of promised goods or services is transferred to customers, which is expected to be received in exchange for those goods or services.
This has resulted primarily in the following changes in revenue recognition.

(1) Revenue Recognition for Geo-engineering Services Contracts

Previously, the percentage-of-completion method was used for construction (Geo-engineering Service) for which the certainty of outcomes was recognized for the portion of progress, and the completed-contract method was used for construction (Geo-engineering Service) for which the degree of progress cannot be estimated. However, for all construction works, as the performance obligations are satisfied, the method of recognizing revenue over time has been introduced.
In addition, the Company uses the cost-based input method primarily to estimate the degree of progress related to the satisfaction of performance obligations.
For Geo-engineering Service Contracts for which progress cannot be estimated, revenue is recognized using a cost recovery method.

(2) Revenue Recognition for Merchandise Sales (Mainly Measuring Instrument Sales)

Previously, domestic transactions were principally subject to shipment standards, but at the time of delivery, revenue is recognized as control over the goods is transferred to the customer.

With respect to the application of the revenue recognition accounting standards, the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition is applied. The cumulative effect of retrospective application of a new accounting policy prior to the beginning of the current fiscal year is adjusted to Retained earnings at the beginning of the current fiscal year, and a new accounting policy is applied from the beginning of current the fiscal year. However, the new accounting policy has not been applied retrospectively to contracts for which the method set forth in paragraph 86 of the Accounting Standard for Revenue Recognition has been applied and substantially all revenue amounts have been recognized in accordance with previous treatment prior to the beginning of the current fiscal year.
As a result, Net sales and Cost of sales decreased by 129 million yen and 114 million yen, respectively, and Gross profit, Operating income, Ordinary income and Profit before income taxes decreased by 15 million yen for the current fiscal year. The impact to the balance of Retained earnings on Balance at the beginning of the current fiscal year is immaterial.

(Change in presentation)

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

The "Accounting Standard for the Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied to the financial statements as of the end of the current fiscal year, and significant accounting estimates have been noted in the financial statements.

However, the note regarding to the prior fiscal year has been omitted in accordance with the transitional treatment provided in the proviso of paragraph 11 of the Accounting Standard for the Disclosure of Accounting Estimates.

(Additional information)

As the same information has been described in “5. Financial information, 1. Consolidated Financial Statements, (1)Consolidated financial statements, Notes (Business Combinations, etc.)”, this note has been omitted.

(Non-consolidated balance sheet)

※ 1 .Trade notes maturing at the end of the fiscal year are settled on the clearance date. The following outstanding notes maturing at the end of the fiscal year were included in the corresponding accounts as the maturity date fell on a business holiday for financial institutions.

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Notes receivable-trade	1 million yen	8 million yen

2. Guarantee obligation

A consolidated subsidiary’s loans payable is guaranteed as follows.

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
FONG CONSULT PTE. LTD.	93 million yen	171 million yen

(Non-consolidated statements of income)

※ 1. Among selling expenses and general and administrative expenses, major cost items, amounts and their approximate ratios are as follows.

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Salaries and allowances	3,178 million yen	3,523 million yen
Provision for bonuses	44 million yen	40 million yen
Retirement benefit expenses	95 million yen	106 million yen
Depreciation	234 million yen	240 million yen
Approximate ratio		
Selling expenses	57 %	58 %
General and administrative expenses	43 %	42 %

※ 2. Income or loss related to transactions with subsidiaries and affiliates

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Dividends income	362 million yen	380 million yen
Other non-operating income including real estate rent	45 million yen	42 million yen

※ 3. The components of gain on sales of noncurrent assets are as follows.

	Prior fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Land	25 million yen	97 million yen

(Securities)

Prior fiscal year (As of December 31, 2020)

Stocks of subsidiaries or affiliates (12,736 million yen of subsidiary stocks and 49 million yen of affiliate stocks on the balance sheets) do not have market prices, and it is extremely difficult to determine fair value. Accordingly, their fair values were not disclosed.

Current fiscal year (As of December 31, 2021)

Stocks of subsidiaries or affiliates (12,737 million yen of subsidiary stocks and 49 million yen of affiliate stocks on the balance sheets) do not have market prices, and it is extremely difficult to determine fair value. Accordingly, their fair values were not disclosed.

(Tax effect accounting)

1. Significant components of deferred tax assets and liabilities

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Deferred tax assets		
Provision for bonuses	37 million yen	39 million yen
Enterprise tax payable	36 million yen	47 million yen
Loss on valuation of securities	12 million yen	12 million yen
Provision for retirement benefits	471 million yen	500 million yen
Revaluation reserve for land	1,082 million yen	1,082 million yen
Valuation differences on assets received by merger	51 million yen	49 million yen
Other	542 million yen	449 million yen
Deferred tax assets : Sub total	2,234 million yen	2,182 million yen
Valuation provision	(1,345) million yen	(1,326) million yen
Deferred tax assets: Total	889 million yen	856 million yen
Deferred tax liabilities		
Valuation difference on available-for-sale	(556) million yen	(476) million yen
Prepaid pension cost	(371) million yen	(451) million yen
Revaluation reserve for land	(280) million yen	(262) million yen
Valuation differences on assets received by merger	(133) million yen	(133) million yen
Other	(60) million yen	(60) million yen
Deferred tax liabilities: Total	(1,402) million yen	(1,384) million yen
Net deferred tax liabilities	(513) million yen	(527) million yen

2. The reconciliation between the effective tax rate reflected in the non-consolidated statements of income and the statutory tax rate is as follows:

	Prior fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Statutory effective tax rate in Japan	30.6 %	30.6 %
(Reconciliation)		
Permanently non-deductive entertainment and other expenses	0.1 %	0.3 %
Dividends and other income permanently included in gross profit	(5.4) %	(4.7) %
Per-capita inhabitants tax	3.5 %	2.9 %
Valuation provision	0.9 %	(0.8) %
Tax deduction	(1.1) %	(0.8) %
Effect on merger of a consolidated subsidiary	-	(1.2) %
Other	0.2 %	0.4 %
Effective tax rate	28.8 %	26.7 %

(Business combinations)

As the same information has been described in “5. Financial information, 1. Consolidated Financial Statements, (1)Consolidated financial statements, Notes (Business Combinations, etc.)”, this note has been omitted.

(Significant subsequent events)

Not applicable.

④【Non-consolidated supplementary schedules】

【Schedule of tangible non-current assets】

Type of assets	Balance at January 1, 2021 (Millions of yen)	Increase in the current fiscal year (Millions of yen)	Decrease in the current fiscal year (Millions of yen)	Depreciation / amortization for the current fiscal year (Millions of yen)	Balance at December 31, 2021 (Millions of yen)	Accumulated depreciation or amortization for the current fiscal year (Millions of yen)
Property, plant and equipment						
Buildings	3,145	64	0	163	3,046	6,945
Structures	71	4	-	8	67	709
Machinery and equipment	586	176	0	213	549	2,815
Vehicles	5	-	0	2	2	85
Tools, furniture and fixtures	31	29	0	17	42	305
Land	4,034 [(2,692)]	-	82 [57]	-	3,951 [(2,750)]	-
Lease assets	45	3	-	18	30	30
Construction in progress	18	116	18	-	116	-
Total Property, plant and equipment	7,939	394	101	423	7,809	10,892
Intangible assets						
Software	820	100	-	197	724	1,131
Software in progress	5	85	5	-	85	-
Other	8	0	-	-	8	-
Total intangible assets	833	186	5	197	818	1,131

(Note) From current fiscal year, figures in square brackets in the "Balance at January 1, 2021," " Decrease in the current fiscal year" and "Balance at December 31, 2021" columns indicate amounts outstanding as a revaluation reserve for land (before tax).

【Schedule of provisions】

Classification	Balance at January 1, 2021 (Millions of yen)	Increase in the current fiscal year (Millions of yen)	Decrease in the current fiscal year (Millions of yen)	Balance at December 31, 2021 (Millions of yen)
Allowance for doubtful accounts	42	165	3	203
Provision for bonuses	107	112	107	112
Provision for loss on orders received	182	6	185	3
Provision for product warranties	14	18	14	18
Provision for stock benefits	374	179	329	224

(2)【Details of major assets and liabilities】

Statement has been omitted since consolidated financial statements are prepared.

(3)【Other】

① Events arising after the balance sheet date

Not applicable.

② Lawsuits

Not applicable.

Independent Auditor’s Report

The Board of Directors
OYO Corporation

Opinion

We have audited the accompanying consolidated financial statements of OYO Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

<table>
<tr><td colspan="2">Revenue recognized over time as performance obligations are satisfied for Geo-engineering Services in OYO Corporation</td></tr>
<tr><td>Description of Key Audit Matter</td><td>Auditor’s Response</td></tr>
<tr><td>As described in Significant accounting policies to the consolidated financial statements, 4. Accounting policies, (5) Accounting for significant revenues and expenses, the Company and its consolidated subsidiaries apply a method of recognizing revenue over time as performance obligations are satisfied for Geo-engineering Services.

The cost-based input method is primarily used as the method for estimating progress towards satisfaction of a performance obligation.</td><td>We mainly performed the following audit procedures in considering the adequacy of estimates of the total cost of Geo-engineering Services using the method of recognizing revenue over time as performance obligations are satisfied for Geo-engineering Services in OYO Corporation.

(1) Evaluation of internal controls

We evaluated the Company’s following internal controls related to estimates of the total cost of Geo-engineering Services.</td></tr>
</table>

In addition, as described in Significant accounting estimates in the notes to the consolidated financial statements, among the Geo-engineering Services contracts in which progress towards the satisfaction of performance obligations under such contracts can be reasonably estimated, OYO Corporation's Net sales related to Geo-engineering Services Contracts wherein performance obligations were not completely satisfied as of the end of the current fiscal year were 13,601 million yen, accounting for 26% of Net sales of 51,675 million yen for the current fiscal year. Among revenue recognized using the method of recognizing revenue over time as performance obligations are satisfied, revenue from Geo-engineering Services contracts for which progress towards the satisfaction of performance obligations under such contracts can be reasonably estimated is measured based on the progress towards the satisfaction of the performance obligation, and such progress is determined based on the ratio of actual costs incurred to the estimated total costs of Geo-engineering Services up to the end of the fiscal year. Geo-engineering Services are highly individual in nature and carried out in accordance with fundamental specifications and work details instructed by customers. Estimates of the total cost of Geo-engineering Services require judgment based on specialized knowledge of and experience in Geo-engineering Services, and involve uncertainty. Further, the content of Geo-engineering Services Contracts may potentially be modified based on agreement with the customer throughout the work period and there may be changes in work-hour estimates and fluctuations in components such as subcontract costs due to certain facts coming to light after the start of implementation, thus making timely and appropriate revisions of the total cost of Geo-engineering Services highly complex. Based on the above, we determined the estimates of the total cost of Geo-engineering Services in calculating Net sales and progress towards the satisfaction of performance obligations are of most significance for the fiscal year ended December 31, 2021 and, accordingly, that this is a key audit matter.	・Control to ensure reliability of profit plans by requiring that profit plans (plan to manage profits of each contract) upon which estimates of the total cost of Geo-engineering Services are based are prepared by personnel in charge with specialized knowledge, and that necessary approvals have been obtained for the profit plans ・System to confirm that each of the elements of the total cost of Geo-engineering Services is accumulated and calculated in detail based on objective prices such as third party quotations and internally approved standard unit prices ・System for revising estimates of the total cost of Geo-engineering Services in a timely manner in accordance with factors such as the status of implementation of the Geo-engineering Services and actual costs incurred, or changes in specifications as instructed by customers ・System through which the personnel in charge of profit management, who are responsible for the reliability of costs, can monitor both the management of profit and loss on Geo-engineering Services and progress towards completion in a timely and appropriate manner (2) Evaluation of the adequacy of estimates of the total cost of Geo-engineering Services We identified Geo-engineering Services involving a relatively high degree of uncertainty over estimates of the total cost of Geo-engineering Services in light of factors such as Net sales of Geo-engineering Services and the status of implementation, and performed the following procedures. ・We agreed estimates of the total cost of Geo-engineering Services to the profit plan upon which the estimates are based, and considered whether the total cost of Geo-engineering Services was calculated by accumulating each of the elements of the total cost and whether the profit plan includes unclear reconciling items. ・We inspected supporting documents that could confirm whether there were changes to the content of the Geo-engineering Services, considered whether the impact of changes in work-hour estimates and fluctuations in subcontract costs were reflected in estimates of the total cost of Geo-engineering Services in a timely manner, and made inquiries of relevant personnel as necessary.

	・ We evaluated the process for estimating the total cost of Geo-engineering Services by comparing advance estimates of the total cost of Geo-engineering Services with the actual amounts or revised estimates.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

・ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

・ Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

・ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

・ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 25, 2022

/s/Kyoji Ito
Designated Engagement Partner
Certified Public Accountant

/s/Kenji Fujita
Designated Engagement Partner
Certified Public Accountant

(Notes) 1. The above is a digitization of the text contained in the original copy of the Independent Auditor's Report, which is in custody of the Company.
2. XBRL data is not included in the scope of the audit

Independent Auditor's Report

The Board of Directors
OYO Corporation

Opinion

We have audited the accompanying non-consolidated financial statements of OYO Corporation, which comprise the non-consolidated balance sheet as at December 31, 2021, and the non-consolidated statements of income and changes in net assets for the year then ended, and notes to the non-consolidated financial statements.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of OYO Corporation as at December 31, 2021, and its non-consolidated financial performance 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 Non-consolidated Financial Statements section of our report. We are independent of the entity in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Revenue recognized over time as performance obligations are satisfied for Geo-engineering Services

Description is omitted because it is the same as the description of key audit matter stated in the auditor's report of the consolidated financial statements.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the entity's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-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 non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the entity'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 entity'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 non-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 entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

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

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

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

Our firm and its designated engagement partners do not have any interest in the entity which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 25, 2022

/s/Kyoji Ito
Designated Engagement Partner
Certified Public Accountant

/s/Kenji Fujita
Designated Engagement Partner
Certified Public Accountant

(Notes) 1. The above is a digitization of the text contained in the original copy of the Independent Auditor's Report, which is in custody of the Company.
2. XBRL data is not included in the scope of the audit