

This is a transcript of the explanation of Takuma Co., Ltd. that was announced on May 25, 2022.

<Speakers>

Takuma Co., Ltd., the President and Representative Director and CEO, Hiroaki Nanjo

Management Principles

Management Principles



- In 1912, founder Tsunekichi Takuma invented the first boiler in Japan using purely Japanese technology.
- He founded the company in 1938 with the founding spirit "Serve society through boiler manufacturing". The Management Principles of the Takuma Group are found in this founding spirit, which entails contributing to the world through the goods and services we create.
- This approach, which also translates to sustainability, remains at the core of our business activities today.



Founder
Tsunekichi Takuma

Founding Spirit
"Serve society
through boiler
manufacturing"

▼

**Management
Principles**

Serving the country, in other words, contributing to the society through business activities including the manufacture and sale of and services related to boilers

*This was the mission statement of Takuma (Takuma Boiler Manufacturing Co., Ltd. at that time) established by founder Tsunekichi Takuma, who was one of the ten great inventors of Japanese during the period of Meiji and Taisho.

Takuma will strive for social contribution, corporate value enhancement, long-term corporate development and the satisfaction of all stakeholders by providing goods and services that are needed and recognized as valuable in society.

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Hiroaki Nanjo: We would like to introduce Takuma. Our company was founded in 1938 by Tsunekichi Takuma, who in 1912 invented Japan's first boiler-based purely on domestic technology.

Our principle was based on the spirit of "Kikan Hokoku," which means serving society through boiler manufacturing. Inheriting this idea of "Kikan Hokoku," which also applies to sustainability today, our group has developed its business activities based on the management principle of contributing to the world through the goods and services we create. We contribute to society by creating products needed by the world and recognized as valuable by the world.

Currently, we provide products and services mainly in the fields of environment and energy, such as municipal solid waste treatment plants, biomass power plants, and

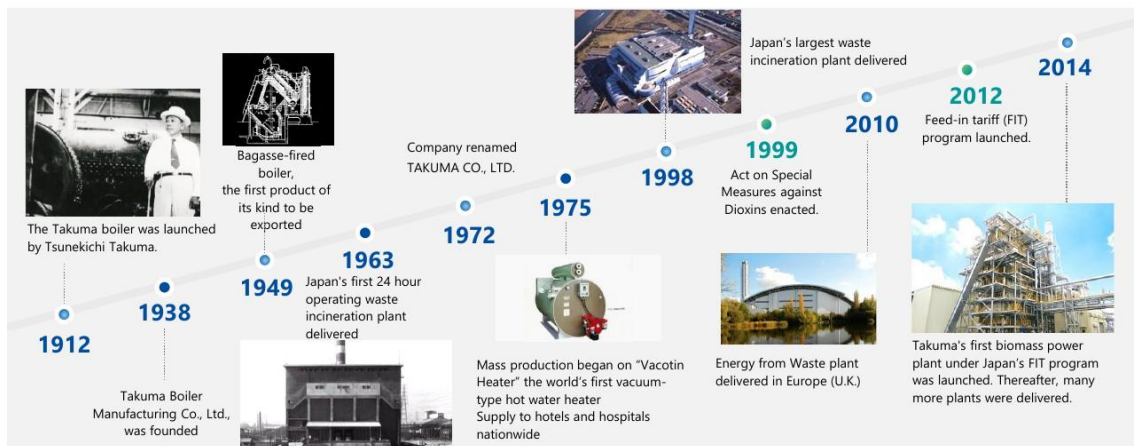
water treatment plants. We believe that our technologies and services are required for the sustainable development of society.

History

History

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- In 1912, founder Tsunekichi Takuma invented a boiler using purely Japanese technology, and in 1938, he founded Takuma as a boiler manufacturing company. While improving boiler technology, the Company cultivated combustion and water treatment technologies and utilized them in waste incineration. In 1963, the Company delivered Japan's first 24 hour operating waste incineration plant and expanded its business as a manufacturer of environmental facilities.
- Since then, the Company has provided technologies and services for solving customer and societal challenges, primarily in the field of environmental/energy plants.



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Our company has its roots in the invention of the purely domestic boiler by Tsunekichi Takuma. And when our company was founded in 1938, we were involved in the manufacture of boilers. As we continued to improve our technology, we developed combustion technology and water treatment technology. In 1963, we delivered Japan's first 24 hour operating waste incineration plant.

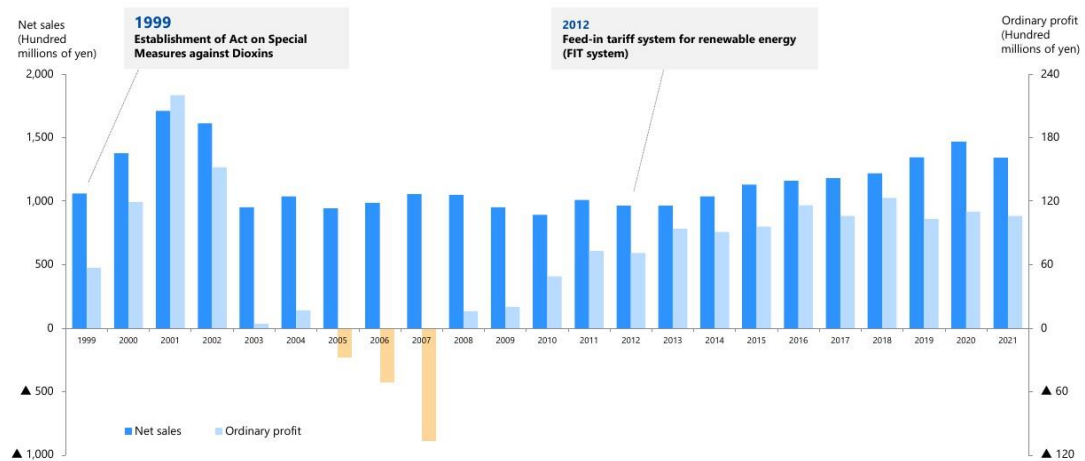
Since then, we have developed technologies for environmental conservation and energy utilization and have provided products and services that meet the needs of customers and society at the time.

Performance Trends

Performance Trends



- A significant amount of renewal/remodeling work on municipal solid waste treatment plants was concentrated in the period up to around the year 2000. We developed our overseas business to make up for the diminished demand following this work, but we still recorded a significant loss.
- In the latter half of the 2000s, we focused on establishing its footing in Japan and after-sales service, which would provide its earnings base. Demand for biomass power plants also increased rapidly, restoring stability to both net sales and profits.



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Our business performance in recent years has changed like this. With the establishment of the Act on Special Measures against Dioxins in 1999, renewal and remodeling of municipal solid waste treatment plants were concentrated around 2000. In the following few years, the demand for construction decreased due to a backlash, so we expanded overseas in the mid-2000s to capture a new market, but we ended up recording a significant loss.

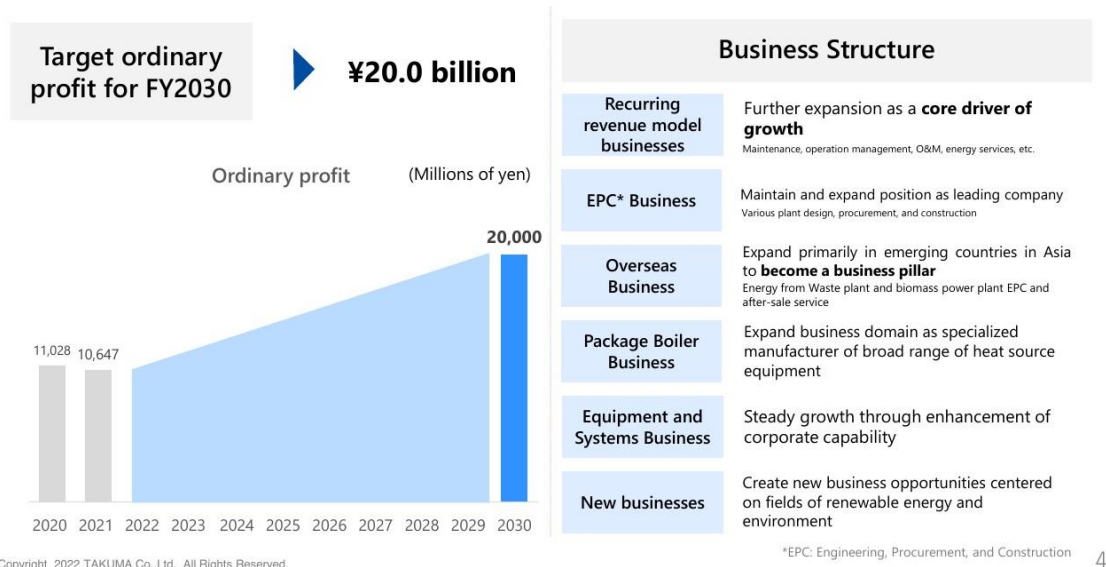
Since the late 2000s, we have shifted our focus on establishing its footing in Japan as demand for municipal solid waste treatment plants has recovered. And, we focused on after-sales service which is our base revenue. The introduction of the FIT system in 2012 led to a sharp increase in demand for biomass power plants. As a result, both sales and ordinary income have recovered to the point where they are stable.

Long-Term Vision towards 2030 (Vision 2030)

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We aim to maintain our role of being an indispensable presence in society as a leading company in the field of renewable energy utilization and environmental protection by promoting ESG management together with customers and society for sustainable growth.



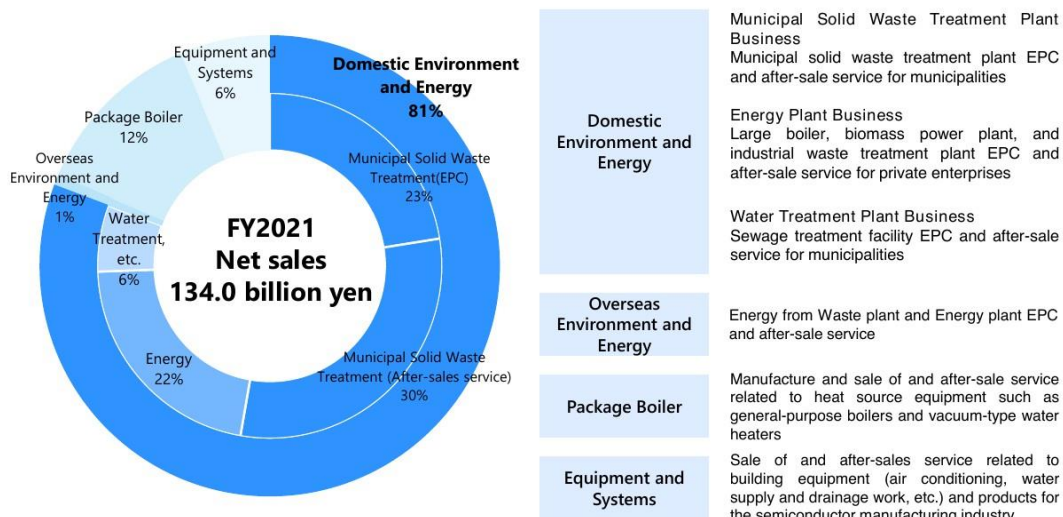
Our group's Vision 2030 is a long-term vision for the company's future by 2030. We promote ESG management aimed at sustainable growth together with its customers and society and seek to remain an indispensable part of society as a leading company, focusing on the use of renewable energy and environmental protection. We aim to achieve an ordinary income of 20 billion yen in fiscal 2030 by maintaining and expanding our current business with recurring revenue model businesses such as maintenance and operation management after plant delivery as growth drivers.

Business Segment

Business Segment



- Out of our four segments, the Domestic Environment and Energy Business accounts for roughly 80% of net sales. Profits were also driven by this business.
- Out of these net sales, the Municipal Solid Waste Treatment Plant Business accounts for around 60%, the Energy Plant Business 30%, and the Water Treatment Plant Business 10%.



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To realize our long-term vision, we are currently operating in four segments: Environment and Energy (Domestic/Overseas), Package Boiler, and Equipment and Systems. And, Domestic Environment and Energy Business account for approximately 80% of net sales. This business also drives profits.

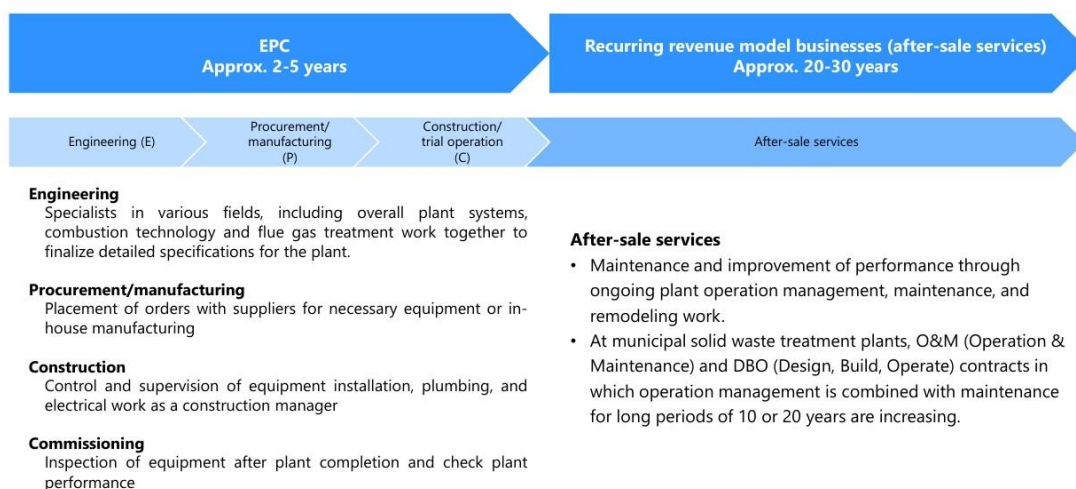
Approximately 60% of the net sales of this business are from municipal solid waste treatment plants, including waste treatment plants for local governments; 30% from energy plants business, including biomass power plants for private companies; and 10% from water treatment plants business and other businesses. These businesses focus on the engineering, procurement, and construction of plants (EPC) and after-sales services.

Business Model (Domestic Environment and Energy Business)

Business Model (Domestic Environment and Energy Business)

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- Plants delivered by the Company are required to operate in a stable manner long term for 20 and 30 years as important infrastructure that supports regional waste treatment and supplies electricity and heat.
- By constructing plants that operate in a stable manner long term and providing ongoing after-sale services, we will support the administrative services and business activities of our customers and build relationships of trust.



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I would like to provide an overview of EPC and after-sales service business models in the Domestic Environment and Energy Business.

In addition to supporting local waste disposal, the plants supplied by our company are essential infrastructure for providing electricity and heat and must operate stably for an extended period, 20 and 30 years. We will build technically reliable plants, and after delivery, we will continuously conduct plant operation management, maintenance, and remodeling, maintain and improve performance, and achieve stable operation. We will support our customers' administrative services and business activities over the long term and build relationships of trust.

It takes approximately two to five years to build a plant and deliver it to a customer. After the contract is signed, the entire plant is designed, the necessary equipment is ordered from a supplier or manufactured at our plant, and then transported to the construction site.

As construction managers, we supervise the installation of equipment, piping, electrical work, and construction plants. In the test run after completion of the plant, each equipment and facility is inspected to ensure that they operate as planned, and then

the plant's overall performance is checked. We will deliver the product to the customer after confirming the version of the product.

After that, we will continue to provide after-sales services such as operation management, maintenance, and remodeling work. In municipal solid waste treatment plant business, from the standpoint of utilizing the private sector, orders are increasing in operation & maintenance (O&M) business and the Design, Build, Operate (DBO) business in which operation management is combined with maintenance for long periods of 10 or 20 years are increasing.

Illustration of Recording of Net Sales/Order Backlog in DBO Business

Illustration of Recording of Net Sales/Order Backlog in DBO Business

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- The EPC portion is recorded as sales according to progress on the project. More tends to be recorded in the latter half of a project as construction progresses.
- The O&M portion is recorded as orders when contracts are signed, and after plants are completed, they are recorded as net sales over the business period.



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This shows the illustration recording of net sales and order backlog, frequently asked. DBO operations are broadly divided into EPC and O & M. At the time of the contract, EPC records the total amount of the contract as orders proceeds. Since the construction period is approximately two to five years, the portion that has not yet been recorded in net sales at the end of the period, that is, the amount obtained by subtracting the net sales for those years from the order amount is recognized as the order backlog.

In the case of O & M, the total contract amount over the contract period is recorded as orders amount at the time of the contract and then recorded as net sales over the business period from the day the plant is completed and starts operation. Therefore, the order amount and the order backlog also include the amount for 10 and 20 years.

When local construction is in progress, EPC sales tend to increase toward the latter half of the project.

Financial Data (Quarterly)

Financial Data (Quarterly)



In the core business of municipal solid waste treatment plants, the amount of each order is substantial, so the amount of orders received fluctuates depending on the timing of the contract when looking at the data by quarter.

(Millions of yen)

Orders received	E 3/2020 (FY2019)				E 3/2021 (FY2020)				E 3/2022 (FY2021)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	27,511	42,731	25,424	53,164	77,308	41,625	37,885	31,745	35,531	56,602	16,322	83,789
Domestic Environment and Energy	20,293	36,105	19,032	47,724	69,700	33,822	32,347	24,722	28,658	48,896	9,241	78,070
Overseas Environment and Energy	694	106	264	287	221	174	(5)	493	231	164	1,115	525
Package Boiler	5,012	4,807	4,523	3,583	4,978	4,937	3,871	3,738	5,063	4,276	4,070	3,421
Equipment and Systems	1,570	1,805	1,733	1,682	2,602	2,830	1,868	2,866	1,664	3,381	1,900	1,972
Backlog												
Total	332,181	343,416	335,713	345,315	390,334	393,896	396,549	387,152	395,571	420,052	401,929	445,304
Domestic Environment and Energy	321,651	332,693	325,547	337,322	379,819	381,937	386,058	377,143	383,408	406,554	388,058	433,351
Overseas Environment and Energy	898	866	641	733	713	375	138	427	534	364	1,247	1,457
Package Boiler	5,455	5,430	5,257	3,928	5,694	6,406	5,948	4,521	6,391	6,316	6,054	4,852
Equipment and Systems	4,353	4,545	4,401	3,453	4,372	5,471	4,701	5,348	5,440	6,930	6,588	5,676

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The following are quarterly financial data. The amount of orders received varies from quarter to quarter depending on the timing of the contract because the amount of each order is substantial, for the core business of municipal solid waste treatment plants.

Financial Data (Quarterly)

Financial Data (Quarterly)



As for net sales, much work is delivered at the end of the fiscal year, and progress and deliveries tend to increase going into the fourth quarter, so net sales tend to be higher in the fourth quarter.

(Millions of yen)

Net sales	E 3/2020 (FY2019)				E 3/2021 (FY2020)				E 3/2022 (FY2021)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	26,269	31,496	33,127	43,562	32,289	38,063	35,232	41,142	27,112	32,122	34,445	40,413
Domestic Environment and Energy	20,933	25,064	26,178	35,948	27,203	31,705	28,225	33,637	22,393	25,749	27,738	32,777
Overseas Environment and Energy	321	137	490	195	241	512	231	204	124	335	231	315
Package Boiler	3,429	4,831	4,696	4,912	3,212	4,225	4,329	5,165	3,192	4,351	4,333	4,622
Equipment and Systems	1,720	1,612	1,877	2,631	1,682	1,732	2,638	2,219	1,572	1,891	2,243	2,884
Operating profit												
Total	1,261	2,469	2,378	3,492	2,217	3,609	2,533	2,114	1,045	1,893	2,368	4,622
Domestic Environment and Energy	1,858	2,508	2,644	3,609	2,776	3,766	2,405	2,528	1,610	1,981	2,384	4,931
Overseas Environment and Energy	(65)	(46)	(67)	(24)	(53)	43	(63)	(67)	(98)	12	(55)	(77)
Package Boiler	(83)	390	214	445	(97)	137	269	331	(129)	239	331	231
Equipment and Systems	53	122	85	124	95	197	479	105	169	155	241	91
Operating margin												
Total	4.8%	7.8%	7.2%	8.0%	6.9%	9.5%	7.2%	5.1%	3.9%	5.9%	6.9%	11.4%
Domestic Environment and Energy	8.9%	10.0%	10.1%	10.0%	10.2%	11.9%	8.5%	7.5%	7.2%	7.7%	8.6%	15.0%
Overseas Environment and Energy	-20.2%	-33.6%	-13.7%	-12.3%	-22.0%	8.4%	-27.3%	-32.8%	-79.0%	3.6%	-23.8%	-24.4%
Package Boiler	-2.4%	8.1%	4.6%	9.1%	-3.0%	3.2%	6.2%	6.4%	-4.0%	5.5%	7.6%	5.0%
Equipment and Systems	3.1%	7.6%	4.5%	4.7%	5.6%	11.4%	18.2%	4.7%	10.8%	8.2%	10.7%	3.2%

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In terms of net sales, the fourth quarter tends to be larger than the other quarters due to the tendency for more construction projects to be due at the end of the fiscal year and the tendency for more progress and deliveries toward the fourth quarter. I would appreciate it if you could refer to it.

Finally, we at the Takuma Group will strive to become a great partner for our customers and contribute to the realization of a sustainable society by implementing ESG management through ideas and proactive efforts as a leading company.

We aim to enhance corporate value by growing sustainably alongside our customers and society, and to satisfy all stakeholders such as customers, shareholders, employees and business partners who trust us. We look forward to your continued support and encouragement.