

Year ending December 31, 2017

Second Quarter of FY2017 Non-Consolidated Financial Results

August 8, 2017

(All financial information herein has been prepared in accordance with accounting principles generally accepted in Japan. This document is an English translation from the original Japanese-language document. This translation is not subject to auditing standards in the U.S.)

Listed company name: Original Engineering Consultants Co., Ltd. Stock listing: Tokyo Stock Exchange, Second Section

Code number: 4642 (URL <http://www.oec-solution.co.jp>)

Representative: Title President & Representative Director Name: Nobuhiko Suga
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Planned date of submitting quarterly earnings report: August 10, 2017

Date of scheduled payment of dividends: –

Quarterly earnings supplementary explanatory documents: None

Quarterly earnings presentation: None

(Amounts less than ¥1 million are truncated)

1. NON-CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER OF FY 2017

(January 1, 2017 to June 30, 2017)

(1) Non-Consolidated Operating Results (accumulated) (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six-month period ended June 30, 2017	3,268	–	655	–	653	–	544	–
Six-month period ended June 30, 2016	–	–	–	–	–	–	–	–

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2017	81.44	–
Six-month period ended June 30, 2016	–	–

Although the Company disclosed consolidated financial results for the second quarter of FY 2016, the Company is disclosing non-consolidated financial results from the first quarter of FY 2017. Therefore, operating results (accumulated) for the second quarter of FY 2016 and year-on-year changes are not shown.

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2017	6,916	5,147	74.4
As of December 31, 2016	6,073	4,652	76.6

(Reference) Shareholders' equity: As of June 30, 2017: ¥5,145 million As of December 31, 2016: ¥4,651 million

2. DIVIDENDS

(Record date)	Dividends per share				
	End of first quarter	Interim	End of third quarter	Fiscal year-end	Full year
	Yen	Yen	Yen	Yen	Yen
FY 2016	–	0.00	–	8.00	8.00
FY 2017	–	0.00			
FY 2017 (Forecast)			–	10.00	10.00

(Note) Revision to the recently announced forecast of dividends: None

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY 2017 (January 1, 2017 to December 31, 2017)

(Percentages represent changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	5,800	3.8	550	-3.4	550	-6.0	425	2.9	63.55

(Note) Revision to the recently announced forecast of results: None

With the transition toward a non-consolidated company from the first quarter of the FY 2017, forecasts of non-consolidated financial results are shown.

*NOTES

(1) Application of accounting treatment unique to preparation of quarterly non-consolidated financial statements:

None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatements:

(i) Changes in accounting policies in accordance with revision of accounting standards: None

(ii) Changes in accounting policies other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatements: None

(3) Number of outstanding shares (Common stock)

(i) Number of shares outstanding at end of period, including treasury stock

As of June 30, 2017: 7,796,800 shares As of December 31, 2016: 7,796,800 shares

(ii) Number of shares of treasury stock at end of period

As of June 30, 2017: 1,108,135 shares As of December 31, 2016: 1,109,267 shares

(iii) Average number of shares outstanding for each period (cumulative second quarter)

As of June 30, 2017: 6,687,944 shares As of June 30, 2016: 6,687,287 shares

* These quarterly financial results are outside the scope of quarterly reviews.

Note regarding forecasts and forward-looking statements

The Company has not modified its forecast of the results for fiscal 2017, which it announced on February 10, 2017. The forecasts presented above are based on information available to the Company at the present time, and, accordingly, actual results may differ from any expressed future performance herein due to various factors.

For matters relating to results forecasts, please refer to “(3) Explanation Regarding Future Forecasts such as Forecasts of Results” on page 5.

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1. QUALITATIVE INFORMATION REGARDING SECOND QUARTER FINANCIAL RESULTS

(1) Explanation Regarding Business Results

According to the Bank of Japan's Tankan survey in June 2017, the diffusion index (DI) for major manufacturing firms advanced five percentage points from the March 2017 survey to 17 percentage points, and that for major non-manufacturing firms it also advanced three percentage points from the previous survey to 23 percentage points. The DI for small and medium-sized enterprises improved for both manufacturing and non-manufacturing industries, with the DI for small and medium-sized manufacturers advancing two percentage points from the previous survey to seven percentage points, and that of non-manufacturers improving three percentage points to seven percentage points. The forecasted DI for the three months ahead dropped two percentage points for major manufacturers and five percentage points for major non-manufacturers, indicating that companies are cautious about future business conditions reflecting uncertainty over the overseas economy.

Under the above-mentioned economic conditions, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), with which the Company has a close business relationship, drew up a budget for fiscal 2017. The totals earmarked for "disaster prevention and safety subsidies" and "general social infrastructure development subsidies" were roughly on the same levels as fiscal 2016. The total amount of the sewerage works expenses budget of ordinance-designated cities across Japan and Tokyo's special wards increased 2.4% from fiscal 2016.

According to a provisional calculation of the Cabinet Office, Japan's water and sewerage infrastructure assets amount to approximately ¥130 trillion, which indicates that the water and sewerage infrastructure stock is the second largest infrastructure stock in the country by sector after the road infrastructure stock. While water supply systems have been established in nearly all areas, the pipeline renewal rate for water supply facilities is 0.79% (as of the end of fiscal 2013). If all the pipelines were to be renewed, it will take approximately 130 years. The demand for renewal of pipelines that are being used over their statutory useful life (40 years) is reaching its peak. While sewerage systems have not been built in some areas, there still is room for new orders for the establishment of related facilities, but such orders are decreasing overall. However, as with water supply facilities, given that many facilities, which were established rapidly during the high-growth period, are reaching the end of their useful life each year, it is necessary to maintain and renew these infrastructure assets, which are indispensable for ensuring a safe, secure, and cultural living environment. In addition, there are growing new needs, including flood control measures, for protecting human lives and assets from localized torrential rain and earthquakes that have recently been occurring frequently, anti-seismic measures such as building quake-resistant toilet facilities, and sewerage system reinforcement measures for building tsunami-resistant facilities.

The Company, in this operating environment, worked aggressively to win orders mainly in the water supply field, particularly for services related to asset management in line with the Water Supply Division, Ministry of Health, Labour and Welfare's new water supply vision that focuses on the key words of "safety, strength, sustainability, collaboration and challenge". In the sewerage field, the Company pursued orders in line with the seven major themes set by the Sewerage and Wastewater Management Department of MLIT: Strengthening earthquake recovery and reconstruction support and implementing national measures for safety and peace of mind; early reduction of areas lacking sewerage infrastructure; promoting water environmental management; improving facilities management and operations; strengthening sewerage management; promoting measures to achieve a low-carbon, recycling-oriented society; and, promoting international water businesses through globalization and private-public initiatives. We also made efforts to obtain orders for services related to support by the Ministry of Internal Affairs and Communications for introducing local public enterprise-based accounting into small-scale water supply and sewerage operations, in accordance with the Local Public Enterprise Act, as well as sewerage operations management strategy formulation operations and others. In overseas markets, the Company worked aggressively to win orders by tapping into projects in emerging nations through public-private partnerships.

With regard to the OEC's internal organization, the Company strove to improve revenue by boosting productivity and reducing costs based on measures such as creating an organization focusing on the "Era of Maintenance and Management;" promoting "Work-style Reforms" for the purpose of improving long work hours and enhancing productivity; facilitating communication and information sharing between different levels; rapid course correction of management issues based on confirming management benchmarks by departments on an as-needed basis; appropriate budget management for order-received projects; process management; outsourcing management; upgrading the skills of in-house engineers; securing and fostering young human resources who will lead the next generation; and, expanding external networks.

As a result, orders received during the cumulative second quarter under review amounted to ¥2,473 million, and net sales amounted to ¥3,268 million. Operating income amounted to ¥655 million, and ordinary income amounted to ¥653 million. Profit amounted to ¥544 million.

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totalling ¥2,314 million during the quarter under review. Sales by the department was ¥3,051 million.

[Information Processing Department]

In the Information Processing Department, orders received amounted to ¥158 million. Sales by the department was ¥217 million.

(2) Explanation Regarding Financial Position

Cash and cash equivalents stood at ¥4,247 million at the end of the cumulative second quarter of the accounting period under review. Significant factors contributing to this change include the posting of profit before income taxes for the quarter and increases in notes and accounts receivable—trade.

The main factors contributing to changes in cash flows during the cumulative second quarter under review were as follows:

(Cash flows from operating activities)

Net cash provided in operating activities amounted to ¥1,824 million. Significant items within this figure included profit before income taxes for the quarter of ¥653 million, a decrease in notes and accounts receivable—trade of ¥885 million and an increase in advances received on uncompleted contracts of ¥431 million.

(Cash flows from investing activities)

Net cash provided by investing activities amounted to ¥180 million.

Significant factors contributing to this change included proceeds from redemption of investment securities of ¥200 million.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥64 million.

Significant factors contributing to this change included cash dividends paid amounting to ¥54 million.

The Company prepared consolidated quarterly financial statements for the previous consolidated cumulative second quarter. Therefore, as quarterly financial statements have not been prepared, year-on-year comparison analysis is not presented.

(3) Explanation Regarding Future Forecasts such as Forecasts of Results

The Company has not changed its financial results forecast, which was announced on February 10, 2017, but will promptly release a revised forecast when any correction is needed after examining various factors.

2. QUARTERLY FINANCIAL STATEMENTS AND PRIMARY NOTES

(1) Quarterly Balance Sheets

	FY 2016 (as of December 31, 2016)	2Q under review (as of June 30, 2017)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,022,855	4,963,202
Accounts receivable—completed operation	1,571,580	685,720
Costs on uncompleted services	12,622	6,883
Deferred tax assets	136,739	127,654
Other	272,064	78,467
Total current assets	5,015,861	5,861,928
Noncurrent assets		
Property, plant and equipment	356,330	349,374
Intangible assets	119,486	117,075
Investments and other assets	582,000	588,438
Total noncurrent assets	1,057,818	1,054,889
Total assets	6,073,679	6,916,817

	FY 2016 (as of December 31, 2016)	2Q under review (as of June 30, 2017)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable—operating	223,309	122,312
Lease obligations	19,832	20,775
Income taxes payable	89,189	120,540
Advances received on uncompleted contracts	215,306	647,110
Provision for bonuses	35,129	53,041
Provision for loss on order received	20,527	17,104
Other	426,785	429,574
Total current liabilities	1,030,078	1,410,459
Noncurrent liabilities		
Provision for retirement benefits	250,255	223,907
Provision for share benefit	18,018	16,820
Lease obligations	48,292	42,282
Asset retirement obligations	46,889	47,502
Deferred tax liabilities	19,027	20,253
Other	8,400	8,400
Total noncurrent liabilities	390,882	359,165
Total liabilities	1,420,961	1,769,624
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,886,615	2,886,615
Retained earnings	1,295,639	1,786,246
Treasury stock	-670,434	-669,954
Total shareholders' equity	4,604,820	5,095,907
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	46,610	49,998
Total valuation and translation adjustments	46,610	49,998
Subscription rights to shares	1,287	1,287
Total net assets	4,652,717	5,147,192
Total liabilities and net assets	6,073,679	6,916,817

(2) Quarterly Statements of Operations

(Cumulative Second Quarter)

	Cumulative second quarter under review (from January 1, 2017 to June 30, 2017)
Category	Amount (thousand yen)
Contracts completed	3,268,651
Cost of completed work	2,013,716
Gross profit	1,254,935
Selling, general and administrative expenses	599,635
Operating income	655,299
Non-operating income	
Interest income	120
Dividend income	3,085
Contribution received for operations performed by dispatched employees	3,210
Other	4,094
Total non-operating income	10,510
Non-operating expenses	
Interest expenses	996
Expenses for securities transactions	8,657
Foreign exchange losses	2,077
Other	355
Total non-operating expenses	12,088
Ordinary income	653,722
Profit before income taxes for the quarter	653,722
Income taxes—current	99,972
Income taxes—deferred	9,085
Total income taxes	109,057
Profit for the quarter	544,664

(3) Quarterly Statements of Cash Flows

	Cumulative second quarter under review (from January 1, 2017 to June 30, 2017)
Category	Amount (thousand yen)
Cash flows from operating activities	
Profit before income taxes for the quarter	653,722
Depreciation and amortization	36,369
Increase/decrease in provision for bonuses	17,912
Increase/decrease in provision for loss on order received	-3,423
Increase/decrease in provision for share benefit	-1,198
Increase/decrease in provision for retirement benefits	-26,347
Interest and dividends income	-3,206
Interest expenses	996
Increase/decrease in notes and accounts receivable—trade	885,859
Increase/decrease in costs on uncompleted services	5,738
Increase/decrease in notes and accounts payable—trade	-100,996
Increase/decrease in advances received on uncompleted contracts	431,804
Other	-19,339
Subtotal	1,877,892
Interest and dividends income received	3,208
Interest expenses paid	-996
Compensation income	10,000
Income taxes paid	-66,046
Net cash provided by (used in) operating activities	1,824,056

	Cumulative second quarter under review (from January 1, 2017 to June 30, 2017)
Category	Amount (thousand yen)
Cash flows from investing activities	
Increase/decrease in time deposits	-31
Purchase of property, plant and equipment	-4,477
Proceeds from redemption of investment securities	200,000
Purchase of intangible assets	-14,467
Payments for lease and guarantee deposits	-676
Proceeds from collection of lease and guarantee deposits	690
Other payments	-4,163
Other proceeds	3,982
Net cash provided by (used in) investing activities	180,856
Cash flows from financing activities	
Purchase of treasury stock	-33
Repayments of lease obligations	-10,441
Cash dividends paid	-54,057
Net cash used in financing activities	-64,532
Effect of exchange rate change on cash and cash equivalents	-65
Net increase/decrease in cash and cash equivalents	1,940,315
Balance of cash and cash equivalents at beginning of the year	2,306,994
Balance of cash and cash equivalents at the end of the quarter	4,247,310

(4) Notes Regarding the Quarterly Financial Statements

(Matters Affecting the Assumption of a Going Concern)

No applicable items.

(Notes Regarding Significant Changes in Shareholders' Equity)

No applicable items.

(Additional information)

(Implementation guidance on recoverability of deferred tax assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the first quarter of the fiscal year under review.

(Segment Information)

[Segment Information]

Cumulative second quarter under review (from January 1, 2017 to June 30 2017)

Since the Company's business operations comprising engineering consulting and related services are conducted within a single business segment, segment information is omitted.