

Year ending December 31, 2018

Second Quarter of FY2018 Non-Consolidated Financial Results

August 8, 2018

(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
Contact person: Title Director & General Manager of Financial Affairs Division Name: Kaoru Kira Tel: (03) 6757-8800

Planned date of submitting quarterly earnings report: August 9, 2018

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 2018

(January 1, 2018 to June 30, 2018)

(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, 2018	3,656	11.9	919	40.3	913	39.8	598	9.9
Six-month period ended June 30, 2017	3,268	–	655	–	653	–	544	–

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2018	89.31	88.71
Six-month period ended June 30, 2017	81.44	–

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, year-on-year changes for the second quarter of FY 2017 are not shown.

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2018	8,191	6,102	74.5
As of December 31, 2017	7,006	5,584	79.7

(Reference) Shareholders' equity: As of June 30, 2018: ¥6,102 million As of December 31, 2017: ¥5,583 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 2017	–	0.00	–	12.00	12.00
FY 2018	–	0.00			
FY 2018(Forecast)			–	14.00	14.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY 2018 (January 1, 2018 to December 31, 2018)
(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	6,400	2.3	900	-11.1	900	-11.5	570	-41.4	85.22

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

*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: Yes

(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, 2018: 7,796,800 shares As of December 31, 2017: 7,796,800 shares

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

As of June 30, 2018: 1,061,965 shares As of December 31, 2017: 1,107,735 shares

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

As of June 30, 2018: 6,699,483 shares As of June 30, 2017: 6,687,944 shares

* The summary of quarterly financial results is not subject to quarterly reviews by certified public accountants or audit corporations.

Note regarding forecasts and forward-looking statements

The Company has not modified its forecast of the results for fiscal 2018, which it announced on February 9, 2018.

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 2018, the diffusion index (DI) for major manufacturing firms dropped three percentage points from the March 2018 survey to 21 percentage points, and that for major non-manufacturing firms, it advanced one percentage point from the previous survey to 24 percentage points. The DI for small and medium-sized manufacturers dropped one percentage point from the previous survey to 14 percentage points, and that of non-manufacturers dropped two percentage points to eight percentage points. The forecast DI for the next three months is unchanged for major manufacturers and is down three percentage points for major non-manufacturers, which indicates that many companies are concerned about further increases in labor shortages and are cautious about the business outlook.

Under the above-mentioned economic conditions, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), with which the Company has a close business relationship, has drawn up a budget for fiscal 2018. The totals earmarked for "disaster prevention and safety subsidies" and "general social infrastructure development subsidies" are on the same levels as fiscal 2017. The total amount of the sewerage works expenses budget of ordinance-designated cities across Japan and Tokyo's special wards increased 1.3% from fiscal 2017.

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. Among these, most of the population has access to water supplies, with the total length of water pipes reaching around 660,000 kilometers across Japan. However, the national average annual rate of renewing water pipes is as low as 0.76%, which means that it will take almost 130 years to renew all of these pipes. The statutory useful life of water pipes is 40 years, but they are expected to deteriorate further due to the slow progress of renewing the water pipes infrastructure, much of which was built during the high-growth period. Therefore, renewing aged water pipes has become an important issue for stable supplies of safe water.

Meanwhile, 90.4% of the population of Japan has access to sewage treatment facilities (as of the end of 2016), but only 78.3% has access to sewers, which means nearly 12 million people still live without access to sewage treatment facilities; promoting sewage services needs to be accelerated. While the need to construct new facilities is on the decrease, a great number of water and sewage facilities that were rapidly built during the high-growth period are reaching the ends of their useful lives every year; maintenance and renewal of these infrastructure assets, which are indispensable for ensuring a safe, secure, and culturally strong living environment, are in demand. In addition, new needs are growing for flood control measures to protect human lives and assets from localized torrential rainfalls, which have occurred frequently in recent years, anti-seismic measures such as quake-resistant toilet facilities, and measures for reinforcing water and sewerage systems to make them tsunami resistant.

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 pursues 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 make 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 works aggressively to win orders by tapping into projects in emerging nations through public-private partnerships.

With regard to its internal structures, the Company has made efforts to distribute profits to employees and increase revenue, by boosting productivity and reducing costs through the following measures: creating an organization

focused on the “Era of Maintenance and Management;” facilitating communication and information sharing between different levels; correcting management issues promptly by occasionally checking management benchmarks by department; conducting appropriate budget management, process control, and outsourcing management for orders received for projects; upgrading in-house engineers’ skills; securing and fostering young employees who will lead the next generation; redressing the issue of long working hours and promoting a suitable management with the aim of becoming a “pioneer company in working-style reforms;” introducing internal programs and office environment where each employee can work dynamically and flexibly according to his/her own circumstances; and, expanding external networks.

As a result, orders received during the cumulative second quarter under review amounted to ¥2,122 million, a decrease of 14.2% compared with the same quarter of the previous fiscal year, and net sales increased 11.9%, to ¥3,656 million. Operating income amounted to ¥919 million, an increase of 40.3% compared with the same quarter of the previous fiscal year, and ordinary income increased 39.8%, to ¥913 million. Profit amounted to ¥598 million, an increase of 9.9% compared with the same quarter of the previous fiscal year.

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totalling ¥1,904 million during the quarter under review, a decrease of 17.7% compared with the same quarter of the previous fiscal year. Sales by the department increased 12.5%, to ¥3,432 million.

[Information Processing Department]

In the Information Processing Department, orders received increased 37.8% compared with the same quarter of the previous fiscal year, to ¥218 million. Sales by the department increased 3.4%, to ¥224 million.

(2) Explanation Regarding Financial Position

Cash and cash equivalents stood at ¥5,476 million at the end of the cumulative second quarter of the accounting period under review, an increase of ¥2,677 million compared with the end of the previous fiscal year. Significant factors contributing to this change include the posting of profit before income taxes for the quarter and decreases 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 ¥3,010 million (provided ¥1,824 million in the same quarter of the previous fiscal year). Significant items within this figure included profit before income taxes for the quarter of ¥913 million, and a decrease in notes and accounts receivable—trade of ¥1,577 million.

(Cash flows from investing activities)

Net cash used by investing activities amounted to ¥258 million (provided ¥180 million in the same quarter of the previous fiscal year).

Significant factors contributing to this change included payments for purchase of investment securities of ¥200 million.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥74 million (used ¥64 million in the same quarter of the previous fiscal year).

Significant factors contributing to this change included cash dividends paid amounting to ¥81 million, and proceeds from exercise of share options of ¥18 million.

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

The Company has not changed its financial results forecast, which was announced on February 9, 2018, 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 2017 (as of December 31, 2017)	2Q under review (as of June 30, 2018)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,514,747	6,192,349
Accounts receivable—completed operation	2,106,765	528,778
Deferred tax assets	161,649	37,752
Other	55,167	61,241
Total current assets	5,838,330	6,820,121
Noncurrent assets		
Property, plant and equipment	387,376	411,917
Intangible assets	112,514	118,358
Investments and other assets	668,319	841,022
Total noncurrent assets	1,168,210	1,371,298
Total assets	7,006,540	8,191,419

	FY 2017 (as of December 31, 2017)	2Q under review (as of June 30, 2018)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable—operating	263,748	101,412
Lease obligations	24,150	24,631
Income taxes payable	135,729	210,534
Advances received on uncompleted contracts	295,722	850,697
Provision for bonuses	36,120	54,157
Provision for loss on order received	17,315	10,199
Other	324,980	544,369
Total current liabilities	1,097,767	1,796,002
Noncurrent liabilities		
Provision for retirement benefits	197,051	168,519
Provision for share benefit	25,252	24,652
Lease obligations	45,585	42,430
Asset retirement obligations	48,097	48,442
Other	8,400	8,400
Total noncurrent liabilities	324,386	292,445
Total liabilities	1,422,154	2,088,447
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,886,615	2,878,404
Retained earnings	2,214,757	2,731,966
Treasury stock	-669,783	-641,740
Total shareholders' equity	5,524,589	6,061,631
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	58,509	40,673
Total valuation and translation adjustments	58,509	40,673
Subscription rights to shares	1,287	667
Total net assets	5,584,386	6,102,972
Total liabilities and net assets	7,006,540	8,191,419

(2) Quarterly Statements of Operations

(Cumulative Second Quarter)

	Previous cumulative second quarter (from January 1, 2017 to June 30, 2017)	Cumulative second quarter under review (from January 1, 2018 to June 30, 2018)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,268,651	3,656,618
Cost of completed work	2,013,716	2,096,150
Gross profit	1,254,935	1,560,468
Selling, general and administrative expenses	599,635	641,216
Operating income	655,299	919,252
Non-operating income		
Interest income	120	1,497
Dividend income	3,085	3,463
Insurance income	-	1,000
Commission fee	1,215	1,215
Contribution received for operations performed by dispatched employees	3,210	-
Other	2,879	1,966
Total non-operating income	10,510	9,141
Non-operating expenses		
Interest expenses	996	1,048
Expenses for securities transactions	8,657	5,988
Loss on valuation of investment securities	-	3,991
Foreign exchange losses	2,077	3,514
Other	355	246
Total non-operating expenses	12,088	14,788
Ordinary income	653,722	913,604
Profit before income taxes for the quarter	653,722	913,604
Income taxes—current	99,972	181,696
Income taxes—deferred	9,085	133,612
Total income taxes	109,057	315,309
Profit for the quarter	544,664	598,295

(3) Quarterly Statements of Cash Flows

	Previous cumulative second quarter (from January 1, 2017 to June 30, 2017)	Cumulative second quarter under review (from January 1, 2018 to June 30, 2018)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes for the quarter	653,722	913,604
Depreciation and amortization	36,369	40,412
Increase/decrease in provision for bonuses	17,912	18,037
Increase/decrease in provision for loss on order received	-3,423	-7,116
Increase/decrease in provision for share benefit	-1,198	-599
Increase/decrease in provision for retirement benefits	-26,347	-28,531
Interest and dividends income	-3,206	-4,960
Interest expenses	996	1,048
Increase/decrease in notes and accounts receivable—trade	885,859	1,577,987
Increase/decrease in costs on uncompleted services	5,738	-48
Increase/decrease in notes and accounts payable—trade	-100,996	-162,335
Increase/decrease in advances received on uncompleted contracts	431,804	554,975
Other	-19,339	210,510
Subtotal	1,877,892	3,112,984
Interest and dividends income received	3,208	4,959
Interest expenses paid	-996	-1,048
Compensation income	10,000	-
Income taxes paid	-66,046	-106,148
Net cash provided by (used in) operating activities	1,824,056	3,010,747

	Previous cumulative second quarter (from January 1, 2017 to June 30, 2017)	Cumulative second quarter under review (from January 1, 2018 to June 30, 2018)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Increase/decrease in time deposits	-31	-
Purchase of property, plant and equipment	-4,477	-27,037
Proceeds from redemption of investment securities	200,000	-
Purchase of intangible assets	-14,467	-24,927
Payments for lease and guarantee deposits	-676	-4,674
Proceeds from collection of lease and guarantee deposits	690	102
Purchase of investment securities	-	-200,000
Other payments	-4,163	-3,585
Other proceeds	3,982	2,038
Net cash provided by (used in) investing activities	180,856	-258,083
Cash flows from financing activities		
Purchase of treasury stock	-33	-29
Repayments of lease obligations	-10,441	-12,750
Proceeds from exercise of share options	-	18,900
Cash dividends paid	-54,057	-81,085
Net cash used in financing activities	-64,532	-74,966
Effect of exchange rate change on cash and cash equivalents	-65	-126
Net increase/decrease in cash and cash equivalents	1,940,315	2,677,571
Balance of cash and cash equivalents at beginning of the year	2,306,994	2,798,825
Balance of cash and cash equivalents at the end of the quarter	4,247,310	5,476,396

(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)

Previous cumulative second quarter (from January 1, 2017 to June 30, 2017)

1. Dividend payouts

Resolution	Class of shares	Total amount (¥ thousand)	Amount per share (¥)	Base date	Effective date	Source of dividend
Ordinary shareholders' meeting on March 30, 2017	Common stock	54,057	8.00	December 31, 2016	March 31, 2017	Retained earnings

(Note) The total amount of dividend payouts based on a resolution of the Ordinary Shareholders' Meeting on March 30, 2017 includes dividends of ¥557 thousand for Company shares held by Mizuho Trust & Banking Co., Ltd. (ESOP trust account).

2. Dividends whose base date falls in the cumulative second quarter but whose effective date is after the end of the cumulative second quarter

No applicable items.

Cumulative second quarter under review (from January 1, 2018 to June 30, 2018)

1. Dividend payouts

Resolution	Class of shares	Total amount (¥ thousand)	Amount per share (¥)	Base date	Effective date	Source of dividend
Ordinary shareholders' meeting on March 29, 2018	Common stock	81,085	12.00	December 31, 2017	March 30, 2018	Retained earnings

(Note) The total amount of dividend payouts based on a resolution of the Ordinary Shareholders' Meeting on March 29, 2018 includes dividends of ¥817 thousand for Company shares held by Trust & Custody Services Bank, Ltd.

2. Dividends whose base date falls in the cumulative second quarter but whose effective date is after the end of the cumulative second quarter

No applicable items.

(Changes in Accounting Policies)

(Application of "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions")

The Company adopted the "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions" (ASBJ PITF No. 36, January 12, 2018; "PITF No.36") effective from April 1, 2018, and now accounts for transactions granting employees and others stock acquisition rights with vesting conditions in accordance with the "Accounting Standard for Share-Based Payment and its Implementation Guidance" (ASBJ Statement No. 8, December 27, 2005).

However, in compliance with transitional arrangements as set forth in (3) of Paragraph 10 of the PITF No. 36, transactions granting employees and others stock acquisition rights that were made before the date of adoption of PITF No. 36 are recorded using the previous accounting method.

(Additional information)

(Application of "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions")

Transactions granting employees and others stock acquisition rights made before the date of adoption of the "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions" (ASBJ PITF No. 36, January 12, 2018; "PITF No. 36") are accounted for using the previous accounting method in accordance with (3) of Paragraph 10 of the PITF No. 36.

1. Overview of stock acquisition rights with vesting conditions

(1) Details of stock acquisition rights with vesting conditions

	Resolution of Board of Directors meeting on March 13, 2015
Status and number of eligible persons	Director of the Company: 6 Executive Officer of the Company: 5
Number of stock options by class of shares (Note) 1	Common stock 93,500 shares
Date of grant	March 31, 2015
Vesting conditions	(Note) 2
Requisite service period	From July 1, 2014 to June 30, 2016
Exercise period	From April 7, 2015 to March 31, 2020

(Note)

1. The number of stock options is translated into the number of shares.
2. Conditions for exercising stock acquisition rights
 - 1) A holder of stock acquisition rights may exercise his/her stock acquisition rights only when ordinary income for FY2017 is ¥550 million or more. To determine ordinary income, the figures stated in the consolidated statements of operations (or statements of operations if the consolidated statements of operations are not prepared) included in the securities report of the Company shall be used. If any significant change is made to the ordinary income to be referenced as a result of applying International Financial Reporting Standards (IFRS), etc., separate information/data to be referenced shall be reasonably determined by the Board of Directors.
 - 2) In the event that the closing price (including the indicative price) of ordinary transactions of shares of common stock of the Company at the Financial Instruments Exchange where shares of the Company are listed falls below 30% of the exercise price even momentarily between the date of the allotment of stock acquisition rights (“allotment date”) and the end of the exercise period, a holder of stock acquisition rights must exercise all of his/her remaining stock acquisition rights by the end of the exercise period at the price calculated by multiplying the exercise price by 0.9; provided, however, that the following cases shall be excluded:
 - (a) Where material misstatements are found in information disclosed by the Company;
 - (b) Where it is found that the Company does not properly disclose important facts that it should in compliance with laws and regulations, or the rules of the Financial Instruments Exchange where the shares of the Company are listed;
 - (c) Where the Company is delisted, goes bankrupt, or any other significant changes are made to its going-concern status as of the allotment date; or
 - (d) Where there are other acts/activities in which the Company can be considered objectively to harm the trust of the holders of stock acquisition rights.
 - 3) The stock acquisition rights may not be exercised if exercise would create an excess in the total number of issued and outstanding shares of the Company over the total number of shares authorized at the time.
 - 4) A single stock acquisition right may not be exercised in part.
 - 5) A holder of stock acquisition rights must maintain his/her position as a director, corporate auditor, or employee of the Company or its subsidiaries when he/she exercises his/her rights, unless he/she resigns as a director or corporate auditor when his/her term of office expires, or an employee retires after reaching mandatory retirement age, or there are any other justifiable reasons acknowledged by the Board of Directors of the Company.
 - 6) Stock acquisition rights may not be inherited.
 - 7) In the event that a holder of stock acquisition rights causes serious damage to the Company and if the Board of Directors of the Company decides to deny the exercise of stock acquisition rights by the holder of stock acquisition rights in whole or in part, such stock acquisition rights may not be exercised.
 - 8) Other conditions on exercise shall be as stipulated in an agreement on the allotment of stock acquisition rights to be entered between the Company and a holder of stock acquisition rights, in accordance with a resolution of a Board of Directors meeting.

(2) Size of stock acquisition rights with vesting conditions and its changes

The target shares of stock acquisition rights are stock options that existed during the cumulative second quarter under review, and the number of stock options is translated into the number of shares.

(i) Number of stock options

	FY2015 stock options
Before vested (shares)	-
As of end of previous fiscal year	93,500
Granted	-
Expired	-
Vested	-
Unvested outstanding	93,500
After vested (shares)	-
As of end of previous fiscal year	93,500
Vested	93,500
Exercised	45,000
Expired	-
Unexercised outstanding	48,500

(ii) Unit price information

	FY2015 stock options
Strike price (yen)	420
Average share price at exercise (yen)	840

2. Summary of accounting methods used

When stock acquisition rights are issued, the amount paid in for such issuance is recorded as stock acquisition rights under net assets.

When stock acquisition rights are exercised and new shares are issued, the amount paid in for the issuance of the stock acquisition rights and the amount paid in for the exercise of the stock acquisition rights are reclassified as capital stock and legal capital surplus. When stock acquisition rights expire, an amount equivalent to the expired stock acquisition rights is included in income for the period when such expiration is final.

(Segment Information)

[Segment Information]

Previous cumulative second quarter (from January 1, 2017 to June 30 2017) and cumulative second quarter under review (from January 1, 2018 to June 30 2018)

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