

Year ending December 31, 2019

## Second Quarter of FY2019 Non-Consolidated Financial Results

August 7, 2019

(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 <https://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, 2019

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 2019

(January 1, 2019 to June 30, 2019)

(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, 2019	3,745	2.4	865	-5.9	852	-6.7	562	-5.9
Six-month period ended June 30, 2018	3,656	11.9	919	40.3	913	39.8	598	9.9

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2019	93.28	93.03
Six-month period ended June 30, 2018	89.31	88.71

### (2) Non-Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2019	7,548	5,560	73.7
As of December 31, 2018	7,675	6,098	79.5

(Reference) Shareholders' equity: As of June 30, 2019: ¥5,560 million As of December 31, 2018: ¥6,098 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 2018	–	0.00	–	14.00	14.00
FY 2019	–	0.00			
FY 2019 (Forecast)			–	16.00	16.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY 2019 (January 1, 2019 to December 31, 2019)  
(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	6,300	0.7	650	-35.2	600	-35.9	340	-42.7	57.61

(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: 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, 2019: 7,796,800 shares As of December 31, 2018: 7,796,800 shares

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

As of June 30, 2019: 2,026,265 shares As of December 31, 2018: 1,026,965 shares

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

As of June 30, 2019: 6,035,291 shares As of June 30, 2018: 6,699,483 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 2019, which it announced on February 8, 2019.

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 6.

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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 2019, the diffusion index (DI) for major manufacturing firms dropped five percentage points from the March 2019 survey to seven percentage points, and that for major non-manufacturing firms, it advanced two percentage points from the previous survey to 23 percentage points. The DI for small and medium-sized manufacturers dropped seven percentage point from the previous survey to minus one percentage point, and that of non-manufacturers dropped two percentage points to 10 percentage points. The forecast DI for the next three months is unchanged for major manufacturers and is down six percentage points for major non-manufacturers, which indicates that many companies are concerned about uncertainties in overseas economies 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 the budget for fiscal 2019. The totals earmarked for "disaster prevention and safety subsidies" and "general social infrastructure development subsidies" are almost at the same levels as in fiscal 2018. The total amount of the sewerage works expenses budget of ordinance-designated cities across Japan and Tokyo's special wards also was almost at the same level as in fiscal 2018, although the amount increased or decreased depending on the city. In addition, a total of ¥340 billion is appropriated for the sewerage works as emergency response measures based on the "Three-year emergency response plan for disaster prevention, disaster mitigation, and building national resilience" for critical infrastructure over the three-year period from the second supplementary budget for fiscal 2018 to fiscal 2020.

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 0.75%, 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, 90.9% of the population of Japan has access to sewage treatment facilities (as of the end of 2017), but only 78.8% 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 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 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

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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 ¥1,995 million, a decrease of 6.0% compared with the same quarter of the previous fiscal year, and net sales increased 2.4%, to ¥3,745 million. Operating income amounted to ¥865 million, a decrease of 5.9% compared with the same quarter of the previous fiscal year, and ordinary income decreased 6.7%, to ¥852 million. Profit amounted to ¥562 million, a decrease of 5.9% 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 totaling ¥1,767 million during the quarter under review, a decrease of 7.2% compared with the same quarter of the previous fiscal year. Sales by the department increased 0.2%, to ¥3,437 million.

[Information Processing Department]

In the Information Processing Department, orders received increased 4.1% compared with the same quarter of the previous fiscal year, to ¥227 million. Sales by the department increased 37.2%, to ¥308 million.

## **(2) Explanation Regarding Financial Position**

### 1) Status of Assets, Liabilities and Net Assets

#### (Current assets)

Current assets for the first six months under review amounted to ¥5,979 million (down 4.0% from the end of the previous fiscal year). The main factors contributing to this change included an increase in cash and deposits due to receipt of payment for operations and a decrease in accounts receivable-completed operation.

#### (Noncurrent assets)

Noncurrent assets for the first six months under review stood at ¥1,569 million (up 6.1% from the end of the previous fiscal year). The main factors contributing to this change included an increase in investments and other assets as a result of acquiring investment securities.

#### (Current liabilities)

Current liabilities for the first six months under review stood at ¥1,759 million (up 33.1% from the end of the previous fiscal year). The main factors contributing to this change included increases in income taxes payable, advances received on uncompleted contracts due to the receipt of payment for operations, and other due to the posting of accrued expenses for summer bonuses.

#### (Noncurrent liabilities)

Noncurrent liabilities for the first six months under review stood at ¥227 million (down 10.5% from the end of the previous fiscal year). The main factors contributing to this change included a decrease in provision for retirement benefits.

#### (Net assets)

Net assets for the first six months under review amounted to ¥5,560 million (down 8.8% from the end of the previous fiscal year). The main factors contributing to this change included an increase in treasury stock due to purchase through a tender offer, despite an increase in retained earnings.

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## 2) Status of Cash Flows

Cash and cash equivalents stood at ¥4,753 million at the end of the first six months under review. Significant factors contributing to this change included the posting of profit before income taxes for the quarter, decreases in notes and accounts receivable—trade, and purchase of treasury stock through a tender offer.

The main factors contributing to changes in cash flows during the first six months under review were as follows:

### (Cash flows from operating activities)

Net cash provided in operating activities amounted to ¥2,249 million (decreased 25.3% compared with the same quarter of the previous fiscal year). The main factor contributing to this change was the posting of profit before income taxes for the quarter and a decrease in accounts receivable—trade.

### (Cash flows from investing activities)

Net cash used by investing activities amounted to ¥123 million (decreased 52.0% compared with the same quarter of the previous fiscal year). This is mainly due to the acquisition of investment securities.

### (Cash flows from financing activities)

Net cash used in financing activities amounted to ¥1,107 million (increased 1,378.0% compared with the same quarter of the previous fiscal year). Significant factors contributing to this change included the purchase of treasury stock through a tender offer and the payment of cash dividends.

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

The Company has not changed its financial results forecast, which was announced on February 8, 2019, 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 2018 (as of December 31, 2018)	2Q under review (as of June 30, 2019)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	4,452,537	5,469,747
Accounts receivable—completed operation	1,685,356	430,507
Other	58,076	78,747
Total current assets	6,195,970	5,979,002
Noncurrent assets		
Property, plant and equipment	423,624	406,850
Intangible assets	128,506	129,548
Investments and other assets	927,495	1,032,903
Total noncurrent assets	1,479,626	1,569,302
Total assets	7,675,596	7,548,304

	FY 2018 (as of December 31, 2018)	2Q under review (as of June 30, 2019)
Category	Amount (thousand yen)	Amount (thousand yen)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable—operating	192,854	77,640
Lease obligations	22,954	22,620
Income taxes payable	131,450	322,756
Advances received on uncompleted contracts	535,610	655,680
Provision for bonuses	38,912	59,204
Provision for loss on order received	12,593	5,772
Other	387,918	616,185
<b>Total current liabilities</b>	<b>1,322,294</b>	<b>1,759,859</b>
<b>Noncurrent liabilities</b>		
Provision for retirement benefits	138,302	117,959
Provision for share benefit	24,695	24,396
Lease obligations	34,204	29,534
Asset retirement obligations	48,836	49,151
Other	8,400	6,720
<b>Total noncurrent liabilities</b>	<b>254,439</b>	<b>227,761</b>
<b>Total liabilities</b>	<b>1,576,733</b>	<b>1,987,621</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	1,093,000	1,093,000
Capital surplus	2,875,303	2,875,303
Retained earnings	2,726,952	3,194,438
Treasury stock	-623,560	-1,623,260
<b>Total shareholders' equity</b>	<b>6,071,695</b>	<b>5,539,480</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	26,733	20,768
<b>Total valuation and translation adjustments</b>	<b>26,733</b>	<b>20,768</b>
Subscription rights to shares	433	433
<b>Total net assets</b>	<b>6,098,862</b>	<b>5,560,682</b>
<b>Total liabilities and net assets</b>	<b>7,675,596</b>	<b>7,548,304</b>



**(2) Quarterly Statements of Operations**

Cumulative Second Quarter

	Previous cumulative second quarter (from January 1, 2018 to June 30, 2018)	Cumulative second quarter under review (from January 1, 2019 to June 30, 2019)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,656,618	3,745,229
Cost of completed work	2,096,150	2,229,345
Gross profit	1,560,468	1,515,883
Selling, general and administrative expenses	641,216	650,648
Operating income	919,252	865,234
Non-operating income		
Interest income	128	144
Interest on securities	1,369	3,325
Dividend income	3,463	3,893
Gain on valuation of investment securities	–	7,988
Insurance income	1,000	–
Commission fee	1,215	1,215
Other	1,966	2,024
Total non-operating income	9,141	18,591
Non-operating expenses		
Interest expenses	1,048	1,250
Expenses for securities transactions	5,988	29,542
Loss on valuation of investment securities	3,991	–
Foreign exchange losses	3,514	614
Other	246	356
Total non-operating expenses	14,788	31,764
Ordinary income	913,604	852,061
Extraordinary loss		
Loss on retirement of noncurrent assets	–	1,121
Total extraordinary loss	–	1,121
Profit before income taxes for the quarter	913,604	850,940
Income taxes—current	181,696	293,038
Income taxes—deferred	133,612	-5,051
Total income taxes	315,309	287,987
Profit for the quarter	598,295	562,953

**(3) Quarterly Statements of Cash Flows**

	Previous cumulative second quarter (from January 1, 2018 to June 30, 2018)	Cumulative second quarter under review (from January 1, 2019 to June 30, 2019)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes for the quarter	913,604	850,940
Depreciation and amortization	40,412	40,875
Increase/decrease in provision for bonuses	18,037	20,292
Increase/decrease in provision for loss on order received	-7,116	-6,820
Increase/decrease in provision for share benefit	-599	-299
Increase/decrease in provision for retirement benefits	-28,531	-20,343
Interest and dividends income	-4,960	-7,363
Interest expenses	1,048	1,250
Increase/decrease in notes and accounts receivable—trade	1,577,987	1,254,849
Increase/decrease in costs on uncompleted services	-48	-7,848
Increase/decrease in notes and accounts payable—trade	-162,335	-115,214
Increase/decrease in advances received on uncompleted contracts	554,975	120,069
Other	210,510	219,674
Subtotal	3,112,984	2,350,061
Interest and dividends income received	4,959	7,367
Interest expenses paid	-1,048	-1,250
Income taxes paid	-106,148	-107,080
Net cash provided by (used in) operating activities	3,010,747	2,249,098

	Previous cumulative second quarter (from January 1, 2018 to June 30, 2018)	Cumulative second quarter under review (from January 1, 2019 to June 30, 2019)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Purchase of property, plant and equipment	-27,037	-690
Purchase of intangible assets	-24,927	-23,687
Payments for lease and guarantee deposits	-4,674	-1,136
Proceeds from collection of lease and guarantee deposits	102	686
Purchase of investment securities	-200,000	-100,333
Other payments	-3,585	-3,338
Other proceeds	2,038	4,650
Net cash provided by (used in) investing activities	-258,083	-123,849
Cash flows from financing activities		
Purchase of treasury stock	-29	-1,000,000
Repayments of lease obligations	-12,750	-12,529
Proceeds from exercise of share options	18,900	-
Cash dividends paid	-81,085	-95,467
Net cash used in financing activities	-74,966	-1,107,997
Effect of exchange rate change on cash and cash equivalents	-126	-71
Net increase/decrease in cash and cash equivalents	2,677,571	1,017,179
Balance of cash and cash equivalents at beginning of the year	2,798,825	3,736,554
Balance of cash and cash equivalents at the end of the quarter	5,476,396	4,753,734

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### **(3) Notes Regarding the Quarterly Financial Statements**

(Matters Affecting the Assumption of a Going Concern)

No applicable items.

(Notes Regarding Significant Changes in Shareholders' Equity)

The Company, based on the resolution of the Board of Directors meeting held on November 5, 2018, purchased treasury stock. As a result, the total amount of treasury stock held by the Company increased by ¥1,000,000,000 during the first six months under review to ¥1,623,260,000 at the end of the first six months under review.

(Segment Information)

[Segment Information]

Previous cumulative second quarter (from January 1, 2018 to June 30 2018) and cumulative second quarter under review (from January 1, 2019 to June 30 2019)

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

(Additional Information)

(Application of Partial Amendments to the Accounting Standard for Tax Effect Accounting)

The Company has applied the "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the period under review. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under noncurrent liabilities.