

Year ending December 31, 2020

Year ending December 31, 2020 Second Quarter of FY2020 Non-consolidated Financial Results

August 5, 2020

(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 submission date of quarterly earnings report: August 6, 2020
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 2020 (January 1, 2020 to June 30, 2020)

(1) Non-Consolidated Operating Results (cumulative) (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, 2020	3,632	-3.0	694	-19.8	662	-22.2	431	-23.4
Six-month period ended June 30, 2019	3,745	2.4	865	-5.9	852	-6.7	562	-5.9

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2020	74.18	74.14
Six-month period ended June 30, 2019	93.28	93.03

(2) Non-consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2020	7,493	5,748	76.7
As of December 31, 2019	7,007	5,506	78.6

(Reference) Shareholders' equity: As of June 30, 2020: ¥5,748 million As of December 31, 2019: ¥5,506 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 2019	-	0.00	-	30.00	30.00
FY 2020	-	0.00	-	-	-
FY 2020 (Forecast)	-	-	-	32.00	32.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY 2020 (January 1, 2020 to December 31, 2020)

(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	1.0	800	-0.1	800	-2.0	470	-2.4	81.11

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

* NOTES

(1) Application of accounting treatment unique to the 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, 2020: 7,796,800 shares As of December 31, 2019: 7,796,800 shares

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

As of June 30, 2020: 1,975,103 shares As of December 31, 2019: 2,003,465 shares

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

As of June 30, 2020: 5,814,503 shares As of June 30, 2019: 6,035,291 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 2020, which it announced on February 7, 2020. The forecasts presented above are based on information available to the Company at the present time, and, accordingly, actual results may differ from any future performance expressed 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 4.

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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 2020, the diffusion index (DI) for major manufacturing firms dropped 26 percentage points from the March 2020 survey to minus 34 percentage points, and that for major non-manufacturing firms dropped 25 percentage points from the previous survey to minus 17 percentage points. The DI for small and medium-sized manufacturers dropped 30 percentage points from the previous survey to minus 45 percentage points, and that of non-manufacturers dropped 25 percentage points to minus 26 percentage points. The forecast DI for the next three months is minus 27 percentage points for major manufacturers and minus 14 percentage points for major non-manufacturers. Despite the lifting of the state of emergency declared in response to the COVID-19 pandemic, the number of companies that are concerned about the economic outlook is increasing sharply as the world faces an unprecedented crisis and there is no end in sight to the pandemic.

Despite the above-mentioned economic conditions, the overall budget for public works projects of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), with which the Company has a close business relationship, for fiscal 2020 was approved by the Cabinet meeting. The totals earmarked for "disaster prevention and safety subsidies" and "general social infrastructure development subsidies" are almost at the same level as in fiscal 2019, or at 96% of the previous year's level. Separately from this, a total of ¥29,659 million, an increase of 90% from the previous fiscal year, is earmarked for the budget for expenses related to sewerage works, including individual subsidies for flood control measures. 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 670,000 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 pipe is 40 years, but they are expected to deteriorate further due to the slow progress in renewing the water pipe infrastructure, much of which was built during the high-growth period. Therefore, renewing aged water pipes has become an important issue for the stable supply of safe water.

Meanwhile, 91.4% of the population of Japan has access to sewage treatment facilities (as of the end of FY2018), but only 79.3% has access to sewers, which means nearly 11 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 end 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 thus in demand. In addition, needs are growing for flood control measures to protect human lives and assets from localized torrential rainfall and large typhoons, 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.

Amid the COVID-19 pandemic, the effectiveness of hand and finger disinfection as well as hand washing and gargling as measures to prevent infection has been widely recognized in Japan. As a precondition, since, generally, tap water in Japan is effectively disinfected with chlorine and other chemicals, it is unlikely that people will become infected with COVID-19 from appropriately chlorinated tap water. In addition, according to the latest findings related to COVID-19, it is becoming clear that viral genes may exist in wastewater in communities where infection is occurring. Therefore, it has been reported that wastewater-based epidemiology may be useful in judging COVID-19's penetration into specific communities, epidemic situation, molecular epidemiology, and when the epidemic will end. According to the World Health Organization (WHO), although data has not been obtained yet, COVID-19 has a lower survival rate in the environment compared to an enteric virus and may be fully eliminated/inactivated with the current water purification and sewage treatment processes. Amid the COVID-19 pandemic, which has no sign of ending, the

water and sewage businesses in Japan, which are primarily owned and operated by local governments, are regarded as one form of essential work and the core of public health that is controlling the rise in the number of infected persons, which remains extremely low compared to other countries.

The Company, in this operating environment, has been working aggressively to win orders mainly in the water supply field, particularly for services related to asset management in line with the Water Supply Division of the 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 operations including sewerage operations management strategy formulation operations. In overseas markets, the Company has been working to win orders by tapping into projects in emerging nations through public-private partnerships.

With regard to its internal work environment, the Company has provided 90 percent of its employees with smartphones and notebook PCs and created an office environment in which a free address system and a wireless LAN system are available to introduce a telework environment, allowing employees to work anywhere not only in the office but also outside the office. The Company has worked to distribute profits to employees and increase revenue by boosting productivity and reducing costs through the following measures: facilitating prompt information-sharing between different levels, on which the Company has worked to raise awareness internally; speedily responding to departmental issues by checking management benchmarks by department when necessary; conducting appropriate budget management, process control, progress management, and outsourcing management for orders received for projects; upgrading in-house engineers' skills; securing and fostering young employees who will lead the next generation; reducing overtime to comply with the revised Labor Standards Act; promoting health management; utilizing internal systems, such as a staggered working hours system and promoting the use of paid leave, that allow each employee to work flexibly according to his/her own circumstances.

During the quarter under review, the government declared a state of emergency in all prefectures in response to a sharp increase in the number of persons infected with COVID-19 in Japan. The Company has continued its business operations while giving due consideration to employees' safety and security by developing and applying "special work arrangements" for "special alert prefectures" and other prefectures and implementing infection prevention measures in each prefecture according to COVID-19 infection risks. In addition, since the telework environment has been in place and everyone is familiar with remote work, the Company has implemented measures to maintain productivity without employees coming to their respective offices.

While the Company has paid close attention to the status of budget execution by each local government during the period, budgets have largely been executed as planned. However, the government's requests to stay home and restrict movement between prefectures have caused face-to-face discussions with customers and field studies to be postponed and/or restricted.

As a result, orders received during the cumulative second quarter under review amounted to ¥2,421 million, an increase of 21.4% compared with the same quarter of the previous fiscal year, and net sales decreased 3.0%, to ¥3,632 million. Operating income amounted to ¥694 million, a decrease of 19.8% compared with the same quarter of the previous fiscal year, and ordinary income decreased 22.2%, to ¥662 million. Profit amounted to ¥431 million, a decrease of 23.4% 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 ¥2,260 million during the quarter under review, an increase of 27.9% compared with the same quarter of the previous fiscal year. Sales by the department

decreased 3.6%, to ¥3,312 million.

In the Information Processing Department, orders received decreased 29.0% compared with the same quarter of the previous fiscal year, to ¥161 million. Sales by the department increased 3.9%, to ¥319 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 ¥6,100 million (up 9.6% from the end of the previous fiscal year). The main factors contributing to this change included an increase in cash and deposits due to the 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 ¥1,392 million (down 3.2% from the end of the previous fiscal year). The main factors contributing to this change included a decrease in investments and other assets as a result of a decline in the stock market.

(Current liabilities)

Current liabilities for the first six months under review stood at ¥1,568 million (up 19.7% 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 others due to the posting of accrued expenses for summer bonuses.

(Noncurrent liabilities)

Noncurrent liabilities for the first six months under review stood at ¥175 million (down 7.0% 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 ¥5,748 million (up 4.4% from the end of the previous fiscal year). The main factors contributing to this change included an increase in retained earnings.

2) Status of Cash Flows

Cash and cash equivalents stood at ¥4,633 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 and decreases in notes and accounts receivable—trade.

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 ¥1,832 million (decreased 18.5% 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 in investing activities amounted to ¥49 million (decreased 60.2% compared with the same quarter of the previous fiscal year). This was mainly due to the purchase of property, plant and equipment and intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥177 million (decreased 84.0% compared with the same quarter of the previous fiscal year). The main factor contributing to this change was 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 7, 2020, 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 2019 (as of December 31, 2019)	2Q under review (as of June 30, 2020)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,743,180	5,349,470
Accounts receivable—completed operation	1,750,203	670,581
Other	75,139	80,511
Total current assets	5,568,523	6,100,563
Noncurrent assets		
Property, plant and equipment	434,503	432,879
Intangible assets	125,755	139,272
Investments and other assets	878,330	820,514
Total noncurrent assets	1,438,589	1,392,666
Total assets	7,007,113	7,493,230

	FY 2019 (as of December 31, 2019)	2Q under review (as of June 30, 2020)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable—operating	170,388	91,669
Lease obligations	22,205	22,783
Income taxes payable	230,950	263,843
Advances received on uncompleted contracts	344,578	496,413
Provision for bonuses	40,302	71,106
Provision for loss on order received	9,044	10,643
Provision for share benefit	12,707	12,513
Other	481,108	599,987
Total current liabilities	1,311,285	1,568,961
Noncurrent liabilities		
Provision for retirement benefits	94,782	80,464
Provision for share benefit	15,226	14,839
Lease obligations	22,928	24,185
Asset retirement obligations	49,467	49,769
Other	6,720	6,720
Total noncurrent liabilities	189,125	175,979
Total liabilities	1,500,410	1,744,940
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,876,083	2,865,729
Retained earnings	3,112,909	3,368,059
Treasury stock	-1,610,179	-1,587,352
Total shareholders' equity	5,471,813	5,739,436
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	34,510	8,853
Total valuation and translation adjustments	34,510	8,853
Subscription rights to shares	378	-
Total net assets	5,506,702	5,748,289
Total liabilities and net assets	7,007,113	7,493,230

(2) Quarterly Statements of Operations

Cumulative Second Quarter

	Previous cumulative second quarter (from January 1, 2019 to June 30, 2019)	Cumulative second quarter under review (from January 1, 2020 to June 30, 2020)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,745,229	3,632,679
Cost of completed work	2,229,345	2,284,797
Gross profit	1,515,883	1,347,882
Selling, general and administrative expenses	650,648	653,556
Operating income	865,234	694,325
Non-operating income		
Interest income	144	119
Interest on securities	3,325	50
Dividend income	3,893	4,280
Dividends from silent partnerships	-	6,108
Gain on valuation of investment securities	7,988	-
Commission fee	1,215	1,215
Foreign exchange gains	-	128
Other	2,024	2,620
Total non-operating income	18,591	14,522
Non-operating expenses		
Interest expenses	1,250	741
Expenses for securities transactions	29,542	5,782
Loss on valuation of investment securities	-	39,455
Foreign exchange losses	614	-
Other	356	162
Total non-operating expenses	31,764	46,142
Ordinary income	852,061	662,705
Extraordinary loss		
Loss on retirement of noncurrent assets	1,121	966
Total extraordinary loss	1,121	966
Profit before income taxes for the quarter	850,940	661,739
Income taxes—current	293,038	236,957
Income taxes-deferred	-5,051	-6,562
Total income taxes	287,987	230,394
Profit for the quarter	562,953	431,344

(3) Quarterly Statements of Cash Flows

	Previous cumulative second quarter (from January 1, 2019 to June 30, 2019)	Cumulative second quarter under review (from January 1, 2020 to June 30, 2020)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes for the quarter	850,940	661,739
Depreciation and amortization	40,875	48,694
Increase/decrease in provision for bonuses	20,292	30,804
Increase/decrease in provision for loss on order received	-6,820	1,598
Increase /decrease in provision for share benefit	-299	-580
Increase/decrease in provision for retirement benefits	-20,343	-14,317
Interest and dividends income	-7,363	-10,559
Interest expenses	1,250	741
Increase/decrease in notes and accounts receivable—trade	1,254,849	1,079,621
Increase/decrease in costs on uncompleted services	-7,848	3,069
Increase/decrease in notes and accounts payable—trade	-115,214	-78,719
Increase/decrease in advances received on uncompleted contracts	120,069	151,835
Other	219,674	151,152
Subtotal	2,350,061	2,025,080
Interest and dividends income received	7,367	10,563
Interest expenses paid	-1,250	-741
Income taxes paid	-107,080	-202,127
Net cash provided by (used in) operating activities	2,249,098	1,832,774

	Previous cumulative second quarter (from January 1, 2019 to June 30, 2019)	Cumulative second quarter under review (from January 1, 2020 to June 30, 2020)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Purchase of property, plant and equipment	-690	-6,445
Purchase of intangible assets	-23,687	-37,657
Payments for lease and guarantee deposits	-1,136	-2,774
Proceeds from collection of lease and guarantee deposits	686	759
Purchase of investment securities	-100,333	-100,000
Proceeds from redemption of investment securities	-	100,000
Other payments	-3,338	-4,552
Other proceeds	4,650	1,393
Net cash provided by (used in) investing activities	-123,849	-49,276
Cash flows from financing activities		
Purchase of treasury stock	-1,000,000	-36
Repayments of lease obligations	-12,529	-12,530
Proceeds from exercise of share options	-	11,550
Cash dividends paid	-95,467	-176,194
Net cash provided by (used in) financing activities	-1,107,997	-177,211
Effect of exchange rate change on cash and cash equivalents	-71	-27
Net increase/decrease in cash and cash equivalents	1,017,179	1,606,258
Balance of cash and cash equivalents at beginning of the year	3,736,554	3,027,137
Balance of cash and cash equivalents at the end of the quarter	4,753,734	4,633,396

(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)

No applicable items.

(Segment Information)

Previous cumulative second quarter (from January 1, 2019 to June 30, 2019) and cumulative second quarter under review (from January 1, 2020 to June 30, 2020)

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