

Year ending December 31, 2022

Year ending December 31, 2022 Second Quarter of FY2022 Non-consolidated Financial Results

August 3, 2022

(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

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Financial Affairs Division

Planned submission date of quarterly earnings report:

August 4, 2022

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 FIRST HALF OF FY2022 (January 1, 2022 to June 30, 2022)

(1) Non-Consolidated Operating Results (year to date)

(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, 2022	3,416	-1.9	591	-4.8	594	-10.8	382	-12.0
Six-month period ended June 30, 2021	3,481	-4.2	621	-10.5	665	0.4	434	0.7

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2022	65.29	-
Six-month period ended June 30, 2021	74.39	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2022	7,727	6,089	78.8
As of December 31, 2021	7,099	5,914	83.3

(Reference) Shareholders' equity: As of June 30, 2022: ¥6,089 million As of December 31, 2021: ¥5,914 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
FY2021	-	0.00	-	32.00	32.00
FY 2022	-	0.00			
FY2022 (forecast)			-	32.00	32.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY2022 (January 1, 2022 to December 31, 2022)
(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	3.1	630	9.4	630	0.7	380	1.0	64.87

(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: 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, 2022: 7,796,800 shares As of December 31, 2021: 7,796,800 shares

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

As of June 30, 2022: 1,938,573 shares As of December 31, 2021: 1,938,573 shares

(iii) Average number of shares outstanding for each period (first half)

As of June 30, 2022: 5,858,227 shares As of December 31, 2021: 5,840,816 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 results for fiscal 2022, which it announced on February 4, 2022. 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 3.

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1. QUALITATIVE INFORMATION REGARDING FIRST HALF FINANCIAL RESULTS

(1) Explanation Regarding Business Results

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 720,000 kilometers across Japan. However, the national average annual rate of renewing water pipes is as low as 0.68%, 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 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.

In the sewerage field, 92.1% of the population of Japan has access to sewage treatment facilities (as of the end of FY2020), but only 80.1% has access to sewers, which means nearly 9,900,000 people still live without access to sewage treatment facilities; promoting sewerage services needs to be accelerated. While the need to construct new facilities is on the decrease, a great number of water and sewerage 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, measures for reinforcing water and sewerage systems to make them tsunami resistant, and initiatives to create "green innovation sewerage systems" in line with a shift to a decarbonized and recycling-oriented society.

Out of Japan's national budget for FY2022, passed and enacted in March 2022, the total amount to be allocated to "General Social Infrastructure Development," including the water and sewerage budget, which is closely connected with the business of the Company, is a national expenditure of ¥1,381.3 billion. This amount is broken down to ¥800.9 billion for disaster prevention and safety subsidies and ¥580.3 billion for general social infrastructure development subsidies. Since where subsidies will be spent is left to the discretion of local government, the allocated amount dedicated to water and sewerage operations is not known. On the other hand, the total of sewerage operational costs in ordinance-designated cities with a large budget across the country and the Tokyo metropolitan area is ¥620.2 billion, an increase of 1.4% from the beginning of the previous year.

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 the domestic market, we are doubling down on sales activities to cultivate new fields and customers, based on our long track record, while capturing project orders that have high order-repeat rates through offering fine-tuned technological proposals and flexible customer service. We do this on the back of our superiority resulting from an accumulated knowledge of the status of facility development and operational issues in local public entities who are our existing customers. In overseas markets, the Company has been working to win orders by tapping into projects in emerging nations through public-private partnerships.

On the other hand, with regard to its internal work environment, the Company has provided 90% of its employees with smartphones and notebook PCs and created an office environment with free address (no assigned

seating). So, employees can work at home and outside the office using a teleworking environment. On top of this, 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 and chatting 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. These allow each employee to work flexibly according to his/her own circumstances.

During the period under review, the number of people infected with COVID-19 has been on a decreasing trend due to an increase in the vaccination rate and the weakening of the virus, and the number of people with a serious illness has also decreased, resulting in fewer requests from the government and other organizations to refrain from taking action. Under such social situation, the flow of people from large cities where many of our engineering staff reside to regions where many of our customers are situated has become smoother, and this makes their meetings and discussions much easier. With regard to overseas projects, travel to countries where the coronavirus screening process has been relaxed has been resumed. On the other hand, compared with the same quarter of the previous fiscal year, orders placed by local governments as customers tended to be slightly slower. In addition, net sales and operating income decreased slightly from the same period of the previous fiscal year as the Company reorganized the Engineering Department and updated the internal budget management system in order to strengthen its internal production system, coupled with a delay in the progress of a project to be carried over to the fiscal year-end.

As a result, orders received during the first six months of the fiscal year under review amounted to ¥2,383 million, a decrease of 6.1% compared with the same period of the previous fiscal year. Contracts completed posted ¥3,416 million (2Q of FY2021: ¥3,481 million). Operating income amounted to ¥591 million (2Q of FY2021: ¥621 million), and ordinary income was ¥594 million (2Q of FY2021: ¥665 million). Profit stood at ¥382 million (2Q of FY2021: ¥434 million).

As a result of adopting the accounting standard for revenue recognition, for the first six months of the fiscal year under review, contracts completed and cost of completed work increased ¥45 million and ¥1 million, respectively, and operating income, ordinary income and profit grew ¥43 million, respectively.

Results by operating division were as follows.

Engineering Consultant Department

The Engineering Consultant Department received orders totaling ¥2,118 million during the first six months of the fiscal year under review, a decrease of 2.4% compared with the same period of the previous fiscal year. Contracts completed by the department were ¥3,100 million (2Q of FY2021: ¥3,219 million).

Information Processing Department

In the Information Processing Department, orders received decreased 28.2%, compared with the same period of the previous fiscal year, to ¥264 million. Contracts completed by the department amounted to ¥315 million (2Q of FY2021: ¥262 million).

(2) Explanation Regarding Financial Position

1) Status of Assets, Liabilities and Net Assets

(Current assets)

Current assets for the second quarter under review amounted to ¥6,356 million (up 9.1% 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 second quarter under review stood at ¥1,371 million (up 7.7% 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 acquisition of investment securities.

(Current liabilities)

Current liabilities for the second quarter under review stood at ¥1,477 million (up 48.6% 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 second quarter under review stood at ¥160 million (down 15.8% from the end of the previous fiscal year). The main factors contributing to this change included decreases in provision for retirement benefits and lease obligation.

(Net assets)

Net assets for the second quarter under review amounted to ¥6,089 million (up 3.0% from the end of the previous fiscal year). The main factors contributing to this change included an increase in retained earnings by the posting of a profit.

2) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) stood at ¥4,967 million at the end of the first six months under review, an increase of 75.1% from the end of the previous fiscal year.

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 ¥2,487 million (increased 12.3% compared with the same period 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 ¥148 million (increased 63.1% compared with the same period of the previous fiscal year). The main factor contributing to this change was the acquisition of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥208 million (decreased 0.5% compared with the same period 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 4, 2022, 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

	FY2021 (as of December 31, 2021)	2Q under review (as of June 30, 2022)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,552,478	5,683,915
Accounts receivable—completed operation	2,202,044	-
Accounts receivable—completed operation and contract assets	-	590,271
Other	71,707	82,517
Total current assets	5,826,230	6,356,704
Noncurrent assets		
Property, plant and equipment	492,423	468,476
Intangible assets	130,567	129,330
Investments and other assets	650,508	773,233
Total noncurrent assets	1,273,498	1,371,040
Total assets	7,099,729	7,727,745

	FY2021 (as of December 31, 2021)	2Q under review (as of June 30, 2022)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable–operating	240,019	70,915
Lease obligations	33,699	33,106
Income taxes payable	141,001	234,325
Advances received on uncompleted contracts	116,730	473,961
Provision for bonuses	40,137	70,562
Provision for loss on orders received	20,290	21,146
Provision for share benefit	14,076	14,076
Other	387,812	559,090
Total current liabilities	993,767	1,477,184
Noncurrent liabilities		
Provision for retirement benefits	38,678	21,042
Provision for share benefit	18,245	18,005
Lease obligations	77,640	65,146
Asset retirement obligations	49,789	50,057
Other	6,720	6,720
Total noncurrent liabilities	191,074	160,972
Total liabilities	1,184,841	1,638,156
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,874,232	2,874,232
Retained earnings	3,499,411	3,661,084
Treasury stock	-1,569,735	-1,569,735
Total shareholders' equity	5,896,907	6,058,581
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	17,979	31,007
Total valuation and translation adjustments	17,979	31,007
Total net assets	5,914,887	6,089,588
Total liabilities and net assets	7,099,729	7,727,745

(2) Quarterly Statements of Operations

First Half

	Previous first half (from January 1, 2021 to June 30, 2021)	First half under review (from January 1, 2022 to June 30, 2022)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,481,466	3,416,257
Cost of completed work	2,203,350	2,157,266
Gross profit	1,278,116	1,258,990
Selling, general and administrative expenses	656,687	667,143
Operating income	621,428	591,847
Non-operating income		
Interest income	52	53
Interest on securities	1,200	1,750
Dividend income	3,083	3,376
Dividends from silent partnerships	2,226	-
Gain on sales of investment securities	1,240	-
Gain on redemption of investment securities	38,545	-
Commission fee	1,215	1,215
Foreign exchange gains	1,111	2,644
Other	3,612	5,282
Total non-operating income	52,287	14,322
Non-operating expenses		
Interest expenses	1,689	1,431
Expenses for securities transactions	5,957	6,091
Loss on valuation of investment securities	-	4,191
Other	441	352
Total non-operating expenses	8,088	12,066
Ordinary income	665,627	594,103
Extraordinary income		
Reversal of provision for warranties for completed construction	1,067	-
Total extraordinary income	1,067	-
Extraordinary loss		
Loss on retirement of noncurrent assets	596	0
Total extraordinary loss	596	0
Profit before income taxes for the quarter	666,098	594,103
Income taxes—current	235,364	207,016
Income taxes-deferred	-3,757	4,599
Total income taxes	231,606	211,615
Profit	434,491	382,487

(3) Quarterly Statements of Cash Flows

	Previous first half (from January 1, 2021 to June 30, 2021)	First half under review (from January 1, 2022 to June 30, 2022)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes for the quarter	666,098	594,103
Depreciation and amortization	57,166	54,324
Increase/decrease in provision for bonuses	30,935	30,425
Increase/decrease in provision for loss on orders received	5,694	2,638
Increase /decrease in provision for share benefit	-709	-239
Increase/decrease in provision for retirement benefits	-12,937	-17,636
Interest and dividends income	-6,562	-5,179
Interest expenses	1,689	1,431
Increase/decrease in notes and accounts receivable–trade	1,457,851	1,566,638
Increase/decrease in costs on uncompleted services	313	-887
Increase/decrease in notes and accounts payable–trade	-165,799	-169,103
Increase/decrease in advances received on uncompleted contracts	196,330	357,230
Other	109,799	185,382
Subtotal	2,339,869	2,599,126
Interest and dividends income received	6,562	5,180
Interest expenses paid	-1,689	-1,431
Payment of warranties for completed construction	-35,632	-
Income taxes paid	-93,181	-115,416
Cash flows from operating activities	2,215,928	2,487,458

	Previous first half (from January 1, 2021 to June 30, 2021)	First half under review (from January 1, 2022 to June 30, 2022)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Purchase of property, plant and equipment	-5,424	-19,486
Purchase of intangible assets	-19,670	-22,663
Payments for lease and guarantee deposits	-1,035	-4,210
Proceeds from collection of lease and guarantee deposits	257	337
Purchase of investment securities	-310,000	-100,000
Proceeds from sales of investment securities	100,862	-
Proceeds from redemption of investment securities	146,040	-
Other payments	-3,717	-3,777
Other proceeds	1,621	1,267
Cash flows from investing activities	-91,066	-148,533
Cash flows from financing activities		
Repayments of lease obligations	-20,428	-17,404
Cash dividends paid	-188,817	-190,736
Cash flows from financing activities	-209,246	-208,141
Effect of exchange rate change on cash and cash equivalents	348	642
Net increase/decrease in cash and cash equivalents	1,915,963	2,131,426
Balance of cash and cash equivalents at beginning of the year	2,660,092	2,836,362
Balance of cash and cash equivalents at the end of the quarter	4,576,055	4,967,789

(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.

(Changes in Accounting Policies)

(Application of Accounting Standards for Revenue Recognition)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, referred to as "Accounting Standard for Revenue Recognition" from the beginning of the fiscal year under review, and recognizes revenue in the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to a customer.

Previously, the Company had applied the percentage-of-completion method to operations for which the certainty of results was recognized in the progress portion, and the completed-construction method to other operations. However, we changed the method to recognize revenue over a certain period of time as the performance obligation is satisfied. We estimate the progress in the fulfilment of performance obligations using the input method based on costs incurred.

With respect to the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment set forth by Paragraph 84, proviso of the Accounting Standard for Revenue Recognition, the cumulative effect should retrospectively apply the new accounting policy prior to the beginning of the fiscal year under review, and add to or subtract from retained earnings at the beginning of the fiscal year under review, and then the new accounting policy is applied to such balance at the beginning of the fiscal year under review.

As a result, for the first six months of the fiscal year under review, contracts completed and cost of completed work increased ¥45,131 thousand and ¥1,782 thousand, respectively, and operating income, ordinary income and profit increased ¥43,348 thousand, respectively. In addition, the effect of retained earnings on the balance at the beginning of the fiscal year under review is immaterial.

As a result of adopting the Accounting Standard for Revenue Recognition, "Accounts receivable—completed operation," which was presented in "Current assets" in the balance sheet for the previous fiscal year, was included in "Accounts receivable—completed operation and contract assets" from the first quarter of the fiscal year under review. We did not restate the previous fiscal year using a new presentation method in accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition. In addition, in accordance with the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Statements (ASBJ Statement No. 12, March 31, 2020), we did not present detailed information on revenues from contracts with customers for the first three months of the previous fiscal year.

(Application of Accounting Standards for Calculation of Fair Value)

The Company has applied the "Accounting Standard for Calculation of Fair Value" (ASBJ Statement No. 30, July 4, 2019; hereinafter, referred to as "Fair Value Accounting Standard") from the beginning of the fiscal year under review, and will apply the new accounting policies provided by the Fair Value Accounting Standards prospectively in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). This application has no impact on the quarterly financial statements.

(Segment Information)

Previous first half (from January 1, 2021 to June 30, 2021) and first half under review (from January 1, 2022 to June 30, 2022)

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