

Year ending December 31, 2024

Non-consolidated Financial Results for First Half (Interim Period) FY2024 (Year Ending December 31, 2024)

August 7, 2024

(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, Standard Market
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 semiannual earnings report: August 7, 2024

Date of scheduled payment of dividends: —

Earnings supplementary explanatory documents: None

Earnings presentation: None

(Amounts less than ¥1 million are truncated)

1. NON-CONSOLIDATED FINANCIAL RESULTS FOR THE FIRST HALF (INTERIM PERIOD) OF FY2024 (January 1, 2024, to June 30, 2024)

(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	%
Interim period ended June 30, 2024	3,999	6.9	872	11.1	883	10.7	669	28.4
Interim period ended June 30, 2023	3,740	9.5	785	32.7	798	34.5	521	36.3

	Profit per share-basic	Profit per share-diluted
	Yen	Yen
Interim period ended June 30, 2024	113.54	—
Interim period ended June 30, 2023	88.71	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
Interim period ended June 30, 2024	8,757	7,028	80.3
As of December 31, 2023	7,886	6,493	82.3

(Reference) Shareholders' equity: As of June 30, 2024: ¥7,028 million As of December 31, 2023: ¥6,493 million

2. DIVIDENDS

(Record date)	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Fiscal year-end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2023	—	0.00	—	32.00	32.00
FY2024	—	0.00	—	—	—
FY2024 (forecast)	—	—	—	32.00	32.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY2024 (January 1, 2024, to December 31, 2024)

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

	Net sales		Operating income		Ordinary income		Profit		Profit per share-basic
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	6,700	1.0	700	-9.5	710	-9.9	450	-5.7	76.35

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

* NOTES

(1) Application of accounting treatment unique to the preparation of semiannual 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, 2024: 7,796,800 shares As of December 31, 2023: 7,796,800 shares

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

As of June 30, 2024: 1,902,933 shares As of December 31, 2023: 1,902,933 shares

(iii) Average number of shares outstanding for each period (interim period)

As of June 30, 2024: 5,893,867 shares As of June 30, 2023: 5,875,917 shares

* The summary of financial results for the first half (interim period) of the fiscal year is not subject to reviews by certified public accountants or audit corporations.

* Note regarding forecasts and forward-looking statements

The Company has not modified its forecasts of results for fiscal 2024, which it announced on February 5, 2024. 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 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 in the country by sector after that of roads. Among these, the penetration rate of water supplies is 98.3% as of March 31, 2022, with the total length of water pipes reaching around 740,000 kilometers across Japan. However, the national average annual rate of renewing water pipes is as low as 0.64%, which means that it will take about 130 years to renew all of these pipes. The statutory useful life of water pipes is 40 years, and much of the stock was built during the high-growth period of the 1970s. There are issues such as aging infrastructure, slow progress in making water pipes earthquake-resistant (with the earthquake-resistance conformity rate of key water pipes at the end of fiscal 2022 being 42.3%), and a decrease in water charges received due to a declining population and other factors. Further, many water utilities operators are of a small scale with a vulnerable management foundation, resulting in insufficient provision for systematic renewal. Water supply maintenance and management administration, which had been under the purview of the Ministry of Health, Labour and Welfare for many years, was transferred to the Ministry of Land, Infrastructure, Transport and Tourism for management and maintenance of the infrastructure and to the Ministry of Environment for water quality and hygiene in April 2024. As a result, the fiscal 2024 budget requests that water projects include the establishment of a new project to promote the integrated efficiency and strengthening of infrastructure of water and sewerage systems to support integrated measures for water supply and sewerage, and the expansion of project survey costs regarding water infrastructure improvement.

In the sewage field, the number of people with access to sewage treatment facilities is 92.9% in Japan (as of the end of FY2022), but only 81.0% have access to sewers, which means nearly 8.8 million people still live without access to wastewater treatment plants. Therefore, it is necessary to accelerate the spread of sewage treatment. 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 cultural life, 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 FY2024, passed and enacted in March 2024, the total amount to be allocated to "General Social Infrastructure Development," including the water and sewage budget, which is closely connected with the business of the Company, is a national expenditure of ¥1,361.3 billion. This amount is broken down to ¥856.3 billion for disaster prevention and safety subsidies and ¥505.1 billion for general social infrastructure development subsidies. Among them, the national budget for the sewerage system is unofficially announced as about ¥476.9 billion in total, roughly at the same level as ¥477.2 billion for the previous fiscal year.

In this operating environment, with the themes set by the Water Supply and Sewerage Group of the Ministry of Land, Infrastructure, Transport and Tourism in mind, the Company pursues orders for services related to asset management in line with the new water supply vision in the water supply field, and those in line with seven major themes in the sewerage field. These are: strengthening earthquake recovery and reconstruction support and implementing national measures for safety and peace of mind; promptly reducing areas lacking sewerage infrastructure; promoting water environmental management; improving facility 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.

One of the themes for the quarter under review is the full-scale promotion of "Water PPP" (public-private partnerships) advocated by the government. In Japan, with the backdrop of a declining population, local governments, except for some municipalities such as ordinance-designated cities with large populations and those in their surrounding areas, are seeing a decline in the number of employees in charge of water supply and sewerage projects and are experiencing difficulty in securing sufficient budgets. Under these circumstances, the government is promoting concession projects (which establish the right to operate a facility for the private sector while maintaining the ownership of the facility in the public sector) in water supply, sewerage, and industrial water supply. However, a

concession which is supposed to be “partial privatization” is generally understood as “privatization,” causing such concession to be avoided by water utilities which are particularly allergic to privatization.

With this background, on June 2, 2023, the government approved the PPP/PFI Promotion Action Plan (revised in 2023) to newly establish a public-private partnership aimed at gradually shifting to concession projects in water supply, sewerage and industrial water supply as an integrated management and renewal system, and define it together with concession projects as “Water PPP.” The Action Plan considers water supply, sewerage, and industrial water supply as priority areas, and sets an ambitious target of realizing 100 water supply projects, 100 sewerage projects, and 25 industrial water supply projects, a total of 225, over 10 years from fiscal 2022 to fiscal 2031, with national subsidies planned. In response to such development, the Company is working to secure orders for services related to both schemes of “renewal support type,” a scheme that supports local governments in renewing infrastructure by formulating renewal plans and construction management (CM), and “renewal implementation type,” a scheme where entities maintain, manage and renew infrastructure in an integrated manner as a system to integrally optimize maintenance, management and renewal, under the Water PPP which is being strongly promoted by the government.

Summarizing our efforts to win orders in the domestic market, we are doubling down on sales activities to cultivate new fields and customers. We are doing so 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. Specifically, the Company is providing the following internal systems which focus on the perspective of the employees: 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 well-being management; utilizing internal systems, such as a staggered working hours system; and promoting the use of maternity/parental leave systems and paid leave, as well as a custom-made work system which enables each employee to work from a place according to his/her own circumstances. In our internal business management system, we have digitized the approval function for each business workflow, from receiving an order for design work, starting the project, preparing and changing the execution budget, and completing the project, thereby accelerating budget management and reducing printing. Through these efforts, we are striving to improve productivity and reduce costs, and to increase employee returns and earnings.

During the interim accounting period under review, we successfully managed the peak business season of the fiscal year-end of government offices, when in a typical year many contracts are to be delivered. Our business activities progressed smoothly overall, including securing orders for projects for the new fiscal year, production activities for projects won in the new fiscal year, overseas projects, training for new employees, training for skill upgrading, and formulating the medium-term management plan.

As a result, orders received during the interim accounting period under review amounted to ¥3,192 million, an increase of 14.3% compared with the same period of the previous fiscal year. Contracts completed posted ¥3,999 million (up 6.9% year on year). Operating income amounted to ¥872 million (up 11.1% year on year), and ordinary income was ¥883 million (up 10.7% year on year). Profit stood at ¥669 million (up 28.4% year on year).

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totaling ¥2,870 million during the interim accounting period under review, an increase of 14.0% year on year. Contracts completed by the department were ¥3,690 million (up 6.2% year on year).

[Information Processing Department]

In the Information Processing Department, orders received increased 17.3%, compared with the same period of

the previous accounting period, to ¥322 million. Contracts completed by the department were ¥309 million (up 17.0% year on year).

(2) Explanation Regarding Financial Position

(i) Status of Assets, Liabilities and Net Assets

(Current assets)

Current assets for the interim accounting period under review amounted to ¥7,153 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 interim accounting period under review amounted to ¥1,604 million (up 20.5% 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 purchase of investment securities and an increase in fair value of investment securities held.

(Current liabilities)

Current liabilities for the interim accounting period under review stood at ¥1,643 million (up 27.1% 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 others due to the posting of accrued expenses for summer bonuses.

(Noncurrent liabilities)

Noncurrent liabilities for the interim accounting period under review stood at ¥84 million (down 14.8% from the end of the previous fiscal year). The main factor contributing to this change included a decrease in lease obligation.

(Net assets)

Net assets for the interim accounting period under review amounted to ¥7,028 million (up 8.3% from the end of the previous fiscal year). The main factors contributing to this change included an increase in retained earnings due to the posting of a profit.

(ii) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) stood at ¥5,449 million at the end of the interim accounting period under review, an increase of 66.9% from the end of the previous fiscal year.

The main factors contributing to changes in cash flows during the interim accounting period under review were as follows:

(Cash flows from operating activities)

Net cash provided in operating activities amounted to ¥2,529 million (up 6.8% compared with the previous interim accounting period). The main factors contributing to this change were the posting of profit before income taxes and a decrease in accounts receivable-trade.

(Cash flows from investing activities)

Net cash used by investing activities amounted to ¥139 million (¥81 million provided in the previous interim accounting period). The main factor contributing to this change was the purchase of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥207 million (down 0.2% compared with the previous interim accounting period). The main factor contributing to this change was the payment of cash dividends.

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

For the interim accounting period under review, orders received, contracts completed, operating income, ordinary income and profit increased 14.3%, 6.9%, 11.1%, 10.7% and 28.4%, respectively, compared with the previous

interim accounting period. The driving factors include the higher-than-expected number of orders for design work for large water pipe infrastructure, for which there is steady demand for renewal; orders for flood control-related work, for which there is a growing need; and the fact that design and construction projects that span multiple fiscal years progressed smoothly during the quarter under review and were able to be recorded as completed work.

However, in the third quarter, the number of actual workdays tends to be fewer than that of other quarters due to a combination of summer vacations, internal training, a testing period for the most challenging national technical qualification, which is highly important to improve order-taking and production activities, and participation in and preparation for technical research presentations by industry associations and other organizations, which lead to higher operational quality. In addition, our fiscal year-end is December, but the contract construction period for most of the orders we receive is concentrated in February to March, which is in the second half of the fiscal year for local governments. For hundreds of orders that are in the middle of their construction period, month-end financial information is collected and used to finalize our full-year financial statements. Accordingly, there are currently a lot of uncertainties regarding the quarterly reporting of each business performance, and therefore the earnings forecast announced on February 5, 2024, has not been changed at this time.

Going forward, we will closely examine various situations over time, and will promptly disclose information when a clear outlook is confirmed.

2. INTERIM FINANCIAL STATEMENTS AND PRIMARY NOTES

(1) Non-consolidated Interim Balance Sheet

	FY2023 (as of December 31, 2023)	Interim accounting period under review (as of June 30, 2024)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,981,339	6,165,162
Accounts receivable—completed operation and contract assets	2,495,744	890,450
Other	77,623	97,777
Total current assets	6,554,707	7,153,390
Noncurrent assets		
Property, plant and equipment	389,828	371,774
Intangible assets	122,590	121,642
Investments and other assets	819,148	1,111,027
Total noncurrent assets	1,331,567	1,604,444
Total assets	7,886,274	8,757,835

	FY2023 (as of December 31, 2023)	Interim accounting period under review (as of June 30, 2024)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable–operating	375,176	100,220
Lease obligations	31,789	29,929
Income taxes payable	182,852	333,439
Advances received on uncompleted contracts	162,428	381,587
Provision for bonuses	42,723	75,636
Reserve for shareholder benefits	8,789	-
Provision for loss on orders received	21,443	7,851
Provision for share benefit	15,516	15,196
Other	452,804	700,122
Total current liabilities	1,293,524	1,643,983
Noncurrent liabilities		
Provision for share benefit	22,369	21,729
Lease obligations	26,440	12,019
Asset retirement obligations	50,869	51,145
Total noncurrent liabilities	99,679	84,894
Total liabilities	1,393,204	1,728,877
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,874,232	2,874,232
Retained earnings	3,980,823	4,459,252
Treasury stock	-1,541,231	-1,541,231
Total shareholders' equity	6,406,823	6,885,252
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	86,246	143,705
Total valuation and translation adjustments	86,246	143,705
Total net assets	6,493,070	7,028,957
Total liabilities and net assets	7,886,274	8,757,835

(2) Non-consolidated Interim Statements of Operations

	Previous interim accounting period (From January 1, 2023, to June 30, 2023)	Interim accounting period under review (From January 1, 2024, to June 30, 2024)
Category	Amount (thousand yen)	Amount (thousand yen)
Net sales of contracts completed	3,740,141	3,999,415
Costs of completed contracts	2,266,890	2,414,892
Gross profit	1,473,251	1,584,522
Selling, general and administrative expenses	687,864	712,289
Operating income	785,386	872,232
Non-operating income		
Interest income	43	48
Interest on securities	2,500	750
Dividend income	3,786	4,591
Commission fee	1,215	877
Gain on investments in silent partnerships	280	999
Gain on sale of investment securities	-	254
Gain on valuation of investment securities	8,179	5,492
Foreign exchange gains	1,905	2,612
Other	4,162	3,348
Total non-operating income	22,071	18,975
Non-operating expenses		
Interest expenses	1,096	690
Expenses for securities transactions	7,263	6,213
Other	288	395
Total non-operating expenses	8,648	7,300
Ordinary income	798,810	883,907
Extraordinary income		
Reversal of provision for construction warranty	635	-
Total extraordinary income	635	-
Extraordinary loss		
Loss on valuation of golf club membership	800	-
Total extraordinary loss	800	-
Profit before income taxes	798,645	883,907
Income taxes—current	266,797	302,348
Income taxes—deferred	10,573	-87,604
Total income taxes	277,371	214,743
Profit	521,274	669,164

(3) Non-consolidated Interim Statement of Cash Flows

	Previous interim accounting period (From January 1, 2023, to June 30, 2023)	Interim accounting period under review (From January 1, 2024, to June 30, 2024)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes	798,645	883,907
Depreciation and amortization	71,334	50,950
Increase (decrease) in provision for bonuses	30,865	32,913
Increase (decrease) in provision for shareholder benefits	—	-8,789
Increase (decrease) in provision for loss on orders received	-9,455	-13,592
Increase (decrease) in provision for share benefit	-639	-959
Increase (decrease) in provision for retirement benefits	-2,797	—
Decrease (increase) in prepaid pension costs	-6,593	-39,896
Interest and dividends income	-6,330	-5,390
Interest expenses	1,096	690
Decrease (increase) in notes and accounts receivable—trade	1,490,306	1,605,293
Decrease (increase) in costs on uncompleted contracts	-7,868	-5,602
Increase (decrease) in notes and accounts payable—trade	-285,626	-274,956
Increase (decrease) in advances received on uncompleted contracts	223,539	219,158
Other	274,791	237,233
Subtotal	2,571,266	2,680,960
Interest and dividends income received	6,330	5,383
Interest expenses paid	-1,096	-690
Payment of warranties for completed construction	-59,364	—
Income taxes paid	-148,494	-155,848
Cash flows from operating activities	2,368,642	2,529,804

	Previous interim accounting period (From January 1, 2023, to June 30, 2023)	Interim accounting period under review (From January 1, 2024, to June 30, 2024)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Purchase of property, plant and equipment	-6,586	-16,686
Purchase of intangible assets	-20,594	-21,250
Payments for lease and guarantee deposits	-804	-2,784
Proceeds from collection of lease and guarantee deposits	219	730
Purchase of investment securities	-100,000	-200,000
Proceeds from sale of investment securities	—	462
Proceeds from redemption of investment securities	210,000	100,000
Proceeds from withdrawal of investments in silent partnerships	1,116	2,602
Other payments	-3,880	-3,924
Other proceeds	2,350	1,266
Cash flows from investing activities	81,820	-139,585
Cash flows from financing activities		
Repayments of lease obligations	-16,765	-16,281
Cash dividends paid	-190,734	-190,734
Cash flows from financing activities	-207,500	-207,016
Effect of exchange rate change on cash and cash equivalents	449	614
Net increase (decrease) in cash and cash equivalents	2,243,410	2,183,816
Balance of cash and cash equivalents at beginning of the year	3,026,208	3,265,199
Balance of cash and cash equivalents at the end of the interim period	5,269,619	5,449,015

(4) Notes regarding the Non-consolidated Interim Financial Statements

(Matters Affecting the Assumption of a Going Concern)

Not applicable.

(Notes regarding Significant Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Previous interim accounting period (from January 1, 2023, to June 30, 2023) and interim accounting period under review (from January 1, 2024, to June 30, 2024)

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

(Significant Subsequent Events)

Transfer of noncurrent assets

The Company had resolved on the transfer of noncurrent assets at the meeting of its Board of Directors held on February 13, 2024, and entered into a real estate sales agreement dated August 6, 2024.

1. Reason for the transfer

To improve asset efficiency and financial strength through effective use of management resources.

2. Details of the transferred assets

Location	3426-39 Tonyamachi, Utsunomiya, Tochigi Prefecture
Types of assets	Land (2,790 m ²), building (1,522.97 m ²)
Use before the transfer	Our own office

3. Timeline for the transfer

(i) Date of resolution of the Board of Directors:	February 13, 2024
(ii) Date of transfer agreement:	August 6, 2024
(iii) Delivery date of the asset to be transferred:	December 2024 (scheduled)

4. Transfer price

The transfer price is not disclosed due to an agreement with the transferee.

5. Overview of the transferee

The transferee is not disclosed due to an agreement with the transferee. The transferee has no capital, personnel or business relationship with the Company and does not constitute a related party.

6. Impact on financial results

As a result of the transfer of the relevant noncurrent assets, the Company plans to record a gain on sale of noncurrent assets of ¥25 million as an extraordinary gain in the fourth quarter of the fiscal year ending December 2024.