

Year ending December 31, 2021

## Year ending December 31, 2021 Second Quarter of FY2021 Non-consolidated Financial Results

August 4, 2021

(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

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Planned submission date of quarterly earnings report: August 5, 2021

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 2021 (January 1, 2021 to June 30, 2021)

#### (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, 2021	3,481	-4.2	621	-10.5	665	0.4	434	0.7
Six-month period ended June 30, 2020	3,632	-3.0	694	-19.8	662	-22.2	431	-23.4

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2021	74.39	-
Six-month period ended June 30, 2020	74.18	74.14

#### (2) Non-consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2021	7,597	5,959	78.4
As of December 31, 2020	7,022	5,699	81.2

(Reference) Shareholders' equity: As of June 30, 2021: ¥5,959 million As of December 31, 2020: ¥5,699 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 2020	-	0.00	-	32.00	32.00
FY 2021	-	0.00			
FY 2021 (Forecast)			-	32.00	32.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY 2021 (January 1, 2021 to December 31, 2021)  
(Percentages represent changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	6,400	2.0	680	2.3	680	5.0	430	14.5	73.63

(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, 2021: 7,796,800 shares As of December 31, 2020: 7,796,800 shares

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

As of June 30, 2021: 1,955,241 shares As of December 31, 2020: 1,956,441 shares

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

As of June 30, 2021: 5,840,816 shares As of June 30, 2020: 5,814,503 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 2021, which it announced on February 5, 2021. 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 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.

In the sewerage field, 91.7% of the population of Japan has access to sewage treatment facilities (as of the end of FY2019), but only 79.7% has access to sewers, which means nearly 10,480,000 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, and measures for reinforcing water and sewerage systems to make them tsunami resistant.

Out of Japan's national budget for FY2021, passed and enacted in March 2021, 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 ¥1,467 billion. This amount is broken down to ¥837.6 billion for disaster prevention and safety subsidies and ¥629.5 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, but the amount of the related budget, though unofficially announced, is expected to grow a little, compared with the previous fiscal year. 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 ¥612.1 billion, a decrease 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) and wireless LAN to provide a telework environment, allowing employees to work anywhere not only in the office but also

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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. These allow each employee to work flexibly according to his/her own circumstances.

During the quarter under review, the impact of COVID-19 has stayed in Japan and overseas. In response, the Company has continued its business activities while giving due consideration to employees' safety and security by taking infection-preventive measures, such as having employees work from home and using staggered working hours. 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.

During the period from April, in which the fiscal period of government agencies started, the budget execution of local governments, which was related to the Company, was underway as scheduled, leading our activities for capturing project orders to progress as expected. However, mainly due to the impacts of declarations of a state of emergency and quasi-emergency measures pursuant to the Act on Special Measures against COVID-19, progress in operational work has been hampered and construction schedules have been postponed. This was because on-site research and in-person meetings, which are difficult to conduct online, fell behind schedule in the face of a number of difficulties including restrictions on comings and goings from large cities where many of our engineering staff reside to regions where many of our customers are situated. In addition, we have been in the situation where we are not allowed to go overseas to proceed with overseas projects, causing difficulty for our business.

As a result, orders received during the first six months under review amounted to ¥2,538 million, an increase of 4.8% compared with the same period of the previous fiscal year. Net sales decreased 4.2% to ¥3,481 million. Operating income amounted to ¥621 million, a decrease of 10.5% compared with the same period of the previous fiscal year, and ordinary income increased 0.4% to ¥665 million. Profit amounted to ¥434 million, an increase of 0.7% compared with the same period of the previous fiscal year.

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totaling ¥2,170 million during the first six months under review, a decrease of 4.0% compared with the same period of the previous fiscal year. Sales by the department decreased 2.8%, to ¥3,219 million.

[Information Processing Department]

In the Information Processing Department, orders received increased 128.2%, compared with the same period of the previous fiscal year, to ¥368 million. Sales by the department decreased 18.1%, to ¥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 ¥6,057 million (up 8.3% 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 ¥1,539 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 ¥1,422 million (up 29.8% from the end of the previous fiscal year). The main factors contributing to this change included increases in income taxes payable, advances

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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 ¥215 million (down 4.9% 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 second quarter under review amounted to ¥5,959 million (up 4.6% 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 ¥4,576 million at the end of the first six months under review, an increase of 72.0% 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 ¥2,215 million (increased 20.9% 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 ¥91 million (increased 84.8% compared with the same period of the previous fiscal year). The main factor contributing to this change was the acquisition, sale and redemption of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥209 million (increased 18.1% 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 5, 2021, 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 2020 (as of December 31, 2020)	2Q under review (as of June 30, 2021)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,376,196	5,292,165
Accounts receivable—completed operation	2,145,471	687,620
Other	71,090	78,020
Total current assets	5,592,758	6,057,807
Noncurrent assets		
Property, plant and equipment	497,331	489,095
Intangible assets	131,361	127,492
Investments and other assets	800,994	923,209
Total noncurrent assets	1,429,687	1,539,797
Total assets	7,022,446	7,597,604

	FY 2020 (as of December 31, 2020)	2Q under review (as of June 30, 2021)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable—operating	267,263	101,464
Lease obligations	35,161	34,300
Asset retirement obligations	-	272
Income taxes payable	116,224	263,414
Advances received on uncompleted contracts	147,743	344,073
Provision for bonuses	39,973	70,908
Provision for loss on order received	11,583	17,277
Provision for share benefit	11,288	10,772
Other	467,335	580,397
Total current liabilities	1,096,572	1,422,880
Noncurrent liabilities		
Provision for retirement benefits	64,556	51,618
Provision for share benefit	20,134	19,166
Lease obligations	84,670	87,569
Asset retirement obligations	50,070	50,062
Other	6,720	6,720
Total noncurrent liabilities	226,152	215,137
Total liabilities	1,322,724	1,638,018
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,865,729	2,865,729
Retained earnings	3,312,171	3,557,845
Treasury stock	-1,575,325	-1,574,551
Total shareholders' equity	5,695,575	5,942,023
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,145	17,562
Total valuation and translation adjustments	4,145	17,562
Total net assets	5,699,721	5,959,586
Total liabilities and net assets	7,022,446	7,597,604

**(2) Quarterly Statements of Operations**

## Cumulative Second Quarter

	Previous cumulative second quarter (from January 1, 2020 to June 30, 2020)	Cumulative second quarter under review (from January 1, 2021 to June 30, 2021)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,632,679	3,481,466
Cost of completed work	2,284,797	2,203,350
Gross profit	1,347,882	1,278,116
Selling, general and administrative expenses	653,556	656,687
Operating income	694,325	621,428
Non-operating income		
Interest income	119	52
Interest on securities	50	1,200
Dividend income	4,280	3,083
Dividends from silent partnerships	6,108	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	128	1,111
Other	2,620	3,612
Total non-operating income	14,522	52,287
Non-operating expenses		
Interest expenses	741	1,689
Expenses for securities transactions	5,782	5,957
Loss on valuation of investment securities	39,455	-
Other	162	441
Total non-operating expenses	46,142	8,088
Ordinary income	662,705	665,627
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	966	596
Total extraordinary loss	966	596
Profit before income taxes for the quarter	661,739	666,098
Income taxes—current	236,957	235,364
Income taxes-deferred	-6,562	-3,757
Total income taxes	230,394	231,606
Profit for the quarter	431,344	434,491

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

	Previous cumulative second quarter (from January 1, 2020 to June 30, 2020)	Cumulative second quarter under review (from January 1, 2021 to June 30, 2021)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes for the quarter	661,739	666,098
Depreciation and amortization	48,694	57,166
Increase/decrease in provision for bonuses	30,804	30,935
Increase/decrease in provision for loss on order received	1,598	5,694
Increase /decrease in provision for share benefit	-580	-709
Increase/decrease in provision for retirement benefits	-14,317	-12,937
Interest and dividends income	-10,559	-6,562
Interest expenses	741	1,689
Increase/decrease in notes and accounts receivable—trade	1,079,621	1,457,851
Increase/decrease in costs on uncompleted services	3,069	313
Increase/decrease in notes and accounts payable—trade	-78,719	-165,799
Increase/decrease in advances received on uncompleted contracts	151,835	196,330
Other	151,152	109,799
Subtotal	2,025,080	2,339,869
Interest and dividends income received	10,563	6,562
Interest expenses paid	-741	-1,689
Payment of warranties for completed construction	-	-35,632
Income taxes paid	-202,127	-93,181
Net cash provided by (used in) operating activities	1,832,774	2,215,928

	Previous cumulative second quarter (from January 1, 2020 to June 30, 2020)	Cumulative second quarter under review (from January 1, 2021 to June 30, 2021)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Purchase of property, plant and equipment	-6,445	-5,424
Purchase of intangible assets	-37,657	-19,670
Payments for lease and guarantee deposits	-2,774	-1,035
Proceeds from collection of lease and guarantee deposits	759	257
Purchase of investment securities	-100,000	-310,000
Proceeds from sales of investment securities	-	100,862
Proceeds from redemption of investment securities	100,000	146,040
Other payments	-4,552	-3,717
Other proceeds	1,393	1,621
Net cash provided by (used in) investing activities	-49,276	-91,066
Cash flows from financing activities		
Purchase of treasury stock	-36	-
Repayments of lease obligations	-12,530	-20,428
Proceeds from exercise of share options	11,550	-
Cash dividends paid	-176,194	-188,817
Net cash provided by (used in) financing activities	-177,211	-209,246
Effect of exchange rate change on cash and cash equivalents	-27	348
Net increase/decrease in cash and cash equivalents	1,606,258	1,915,963
Balance of cash and cash equivalents at beginning of the year	3,027,137	2,660,092
Balance of cash and cash equivalents at the end of the quarter	4,633,396	4,576,055

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**(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 first six months (from January 1, 2020 to June 30, 2020) and first six months under review (from January 1, 2021 to June 30, 2021)

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