

Year ending December 31, 2023

## Non-consolidated Financial Results for First Half of FY2023 (Year Ending December 31, 2023)

August 9, 2023

(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 quarterly earnings report: August 10, 2023

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 FY2023 (January 1, 2023 to June 30, 2023)

#### (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, 2023	3,740	9.5	785	32.7	798	34.5	521	36.3
Six-month period ended June 30, 2022	3,416	-1.9	591	-4.8	594	-10.8	382	-12.0

	Profit per share for the quarter	Profit per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2023	88.71	-
Six-month period ended June 30, 2022	65.29	-

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

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2023	8,240	6,506	79.0
As of December 31, 2022	7,598	6,153	81.0

(Reference) Shareholders' equity: As of June 30, 2023: ¥6,506 million As of December 31, 2022: ¥6,153 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
FY2022	-	0.00	-	32.00	32.00
FY2023	-	0.00			
FY2023 (forecast)			-	32.00	32.00

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

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY2023 (January 1, 2023, to December 31, 2023)

(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	6,500	0.2	650	-12.1	660	-11.8	400	-3.8	68.08

(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 issued shares (common stock)

(i) Number of issued shares at end of period, including treasury stock

As of June 30, 2023: 7,796,800 As of December 31, 2022: 7,796,800

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

As of June 30, 2023: 1,920,633 As of December 31, 2022: 1,921,033

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

As of June 30, 2023: 5,875,917 As of June 30, 2022: 5,858,227

\* 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 2023, which it announced on February 7, 2023. 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 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 730,000 kilometers across Japan. However, the national average annual rate of renewing water pipes is as low as 0.67%, 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 their aging rate is expected to keep increasing 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, 92.6% of the population of Japan has access to sewerage treatment facilities (as of the end of FY2021), but only 80.6% has access to sewers, which means nearly 9,300,000 people still live without access to sewerage 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 FY2023, passed and enacted in March 2023, 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 ¥1,361.0 billion. This amount is broken down to ¥818.6 billion for disaster prevention and safety subsidies and ¥542.4 billion for general social infrastructure development subsidies. Among them, the national budget for the sewerage system is unofficially announced as about ¥477.2 billion in total. 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 ¥624.6 billion, an increase of 2.3% from the beginning of the previous fiscal 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 (MHLW) 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 Ministry of Land, Infrastructure, Transport and Tourism (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

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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: 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 paid leave, by which each employee can work flexibly according to his/her own circumstances. In this fiscal year, we further improved the program of our internal business management system to digitize the approval function of each business workflow from receiving an order for design work, starting the project, preparing and changing the working budget, and then completing the project, thereby accelerating the budget management. Through these efforts, we are striving to improve productivity and reduce costs, and to increase employee returns and earnings.

During the fiscal quarter under review, the government downgraded COVID-19's legal status under the Infectious Diseases Act to Category 5, the same group as seasonal influenza. Since the working environment in the Company is not one where people are encouraged to wear masks all the time, most of our employees work in a state similar to that before the spread of COVID-19, which is conducive to communication. In customer service, face-to-face consultations and on-site surveys are now conducted without a hitch, and remote consultations are increasingly used depending on the situation to improve efficiency. In addition, industry associations, which have functions such as exchanging opinions with ordering organizations to support improvements in the working environment and treatment of employees, have normalized activities for the first time in four years. Opportunities are also increasing for interactive communication with MHLW and MLIT, which are in charge of the water and sewerage business, as well as industry associations that are involved in the construction and maintenance of water and sewage facilities and are associated with the industry group to which the Company belongs. With regard to overseas projects, restrictions on entry/exit to and from Japan and in the target countries have been lifted, and it is now possible to travel to those countries.

As a result, orders received during the first six months of the fiscal year under review amounted to ¥2,793 million, an increase of 17.2% compared with the same period of the previous fiscal year. Contracts completed posted ¥3,740 million (up 9.5% year on year). Operating income amounted to ¥785 million (up 32.7% year on year), and ordinary income was ¥798 million (up 34.5% year on year). Profit stood at ¥521 million (up 36.3% year on year).

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totaling ¥2,519 million during the first six months of the fiscal year under review, an increase of 18.9% compared with the same period of the previous fiscal year.

Contracts completed by the department were ¥3,475 million (up 12.1% year on year).

[Information Processing Department]

In the Information Processing Department, orders received increased 3.7%, compared with the same period of the previous fiscal year, to ¥274 million. Contracts completed by the department were ¥264 million (down 16.3% year on year).

## **(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 ¥6,892 million (up 12.4% 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 ¥1,347 million (down 8.1% from the end of the previous fiscal year). The main factors contributing to this change included a decrease in investments and other assets

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as a result of redemption of investment securities.

(Current liabilities)

Current liabilities for the second quarter under review stood at ¥1,623 million (up 23.4% 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 ¥110 million (down 14.5% 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 ¥6,506 million (up 5.7% 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.

2) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) stood at ¥5,269 million at the end of the first six months under review, an increase of 74.1% 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 ¥2,368 million (down 4.8% 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 and a decrease in accounts receivable–trade.

(Cash flows from investing activities)

Net cash provided in investing activities amounted to ¥81 million (¥148 million used in the same period of the previous fiscal year). The main factor contributing to this change was the redemption of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥207 million (down 0.3% 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**

For the six months under review, orders received, contracts completed, operating income, ordinary income and profit increased 17.2%, 9.5%, 32.7%, 34.5% and 36.3%, respectively, compared with the same period of the previous fiscal year. 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 renewals; 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, national qualification testing dates, which affect order-taking activities, and 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 7, 2023, has not been changed at this time.

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

## 2. QUARTERLY FINANCIAL STATEMENTS AND PRIMARY NOTES

### (1) Quarterly Balance Sheets

	FY2022 (as of December 31, 2022)	2Q under review (as of June 30, 2023)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	3,742,336	5,985,753
Accounts receivable–completed operation and contract assets	2,301,975	811,669
Other	87,481	94,754
Total current assets	6,131,793	6,892,178
Noncurrent assets		
Property, plant and equipment	444,478	413,588
Intangible assets	128,404	125,824
Investments and other assets	893,647	808,557
Total noncurrent assets	1,466,530	1,347,970
Total assets	7,598,324	8,240,148

	FY2022 (as of December 31, 2022)	2Q under review (as of June 30, 2023)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable–operating	433,918	148,291
Lease obligations	32,846	33,365
Income taxes payable	174,711	296,103
Advances received on uncompleted contracts	195,043	418,583
Provision for bonuses	41,336	72,201
Provision for loss on orders received	17,378	7,923
Provision for share benefit	14,796	14,156
Other	404,958	632,497
Total current liabilities	1,314,989	1,623,122
Noncurrent liabilities		
Provision for retirement benefits	2,797	-
Provision for share benefit	18,310	18,310
Lease obligations	51,445	41,948
Asset retirement obligations	50,325	50,597
Other	6,720	-
Total noncurrent liabilities	129,598	110,856
Total liabilities	1,444,588	1,733,979
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,874,232	2,874,232
Retained earnings	3,694,204	4,024,743
Treasury stock	-1,555,708	-1,555,388
Total shareholders' equity	6,105,728	6,436,587
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	48,007	69,581
Total valuation and translation adjustments	48,007	69,581
Total net assets	6,153,735	6,506,168
Total liabilities and net assets	7,598,324	8,240,148

**(2) Quarterly Statements of Operations**

First Half

	Previous first half (from January 1, 2022 to June 30, 2022)	First half under review (from January 1, 2023 to June 30, 2023)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,416,257	3,740,141
Cost of completed work	2,157,266	2,266,890
Gross profit	1,258,990	1,473,251
Selling, general and administrative expenses	667,143	687,864
Operating income	591,847	785,386
Non-operating income		
Interest income	53	43
Interest on securities	1,750	2,500
Dividend income	3,376	3,786
Commission fee	1,215	1,215
Gain on investments in silent partnerships	-	280
Gain on valuation of investment securities	-	8,179
Foreign exchange gains	2,644	1,905
Other	5,282	4,162
Total non-operating income	14,322	22,071
Non-operating expenses		
Interest expenses	1,431	1,096
Expenses for securities transactions	6,091	7,263
Loss on valuation of investment securities	4,191	-
Other	352	288
Total non-operating expenses	12,066	8,648
Ordinary income	594,103	798,810
Extraordinary income		
Reversal of provision for warranties for completed construction	-	635
Total extraordinary income	-	635
Extraordinary loss		
Loss on retirement of noncurrent assets	0	-
Loss on valuation of golf club membership	-	800
Total extraordinary loss	0	800
Profit before income taxes	594,103	798,645
Income taxes—current	207,016	266,797
Income taxes-deferred	4,599	10,573
Total income taxes	211,615	277,371
Profit	382,487	521,274

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

	Previous first half (from January 1, 2022 to June 30, 2022)	First half under review (from January 1, 2023 to June 30, 2023)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Profit before income taxes	594,103	798,645
Depreciation and amortization	54,324	71,334
Increase (decrease) in provision for bonuses	30,425	30,865
Increase (decrease) in provision for loss on orders received	2,638	-9,455
Increase (decrease) in provision for share benefit	-239	-639
Increase (decrease) in provision for retirement benefits	-17,636	-2,797
Decrease (increase) in prepaid pension costs	-	-6,593
Interest and dividends income	-5,179	-6,330
Interest expenses	1,431	1,096
Decrease (increase) in notes and accounts receivable–trade	1,566,638	1,490,306
Decrease (increase) in costs on uncompleted services	-887	-7,868
Increase (decrease) in notes and accounts payable–trade	-169,103	-285,626
Increase (decrease) in advances received on uncompleted contracts	357,230	223,539
Other	185,382	274,791
Subtotal	2,599,126	2,571,266
Interest and dividends income received	5,180	6,330
Interest expenses paid	-1,431	-1,096
Payment of warranties for completed construction	-59,364	
Income taxes paid	-115,416	-148,494
Cash flows from operating activities	2,487,458	2,368,642

	Previous first half (from January 1, 2022 to June 30, 2022)	First half under review (from January 1, 2023 to June 30, 2023)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Purchase of property, plant and equipment	-19,486	-6,586
Purchase of intangible assets	-22,663	-20,594
Payments for lease and guarantee deposits	-4,210	-804
Proceeds from collection of lease and guarantee deposits	337	219
Purchase of investment securities	-100,000	-100,000
Proceeds from redemption of investment securities	-	210,000
Proceeds from withdrawal of investments in silent partnerships	-	1,116
Other payments	-3,777	-3,880
Other proceeds	1,267	2,350
Cash flows from investing activities	-148,533	81,820
Cash flows from financing activities		
Repayments of lease obligations	-17,404	-16,765
Cash dividends paid	-190,736	-190,734
Cash flows from financing activities	-208,141	-207,500
Effect of exchange rate change on cash and cash equivalents	642	449
Net increase (decrease) in cash and cash equivalents	2,131,426	2,243,410
Balance of cash and cash equivalents at beginning of the year	2,836,362	3,026,208
Balance of cash and cash equivalents at the end of the quarter	4,967,789	5,269,619

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

(Matters Affecting the Assumption of a Going Concern)

Not applicable.

(Notes Regarding Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the fiscal year under review, and decided to apply the new accounting policies provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional treatments provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. The application of this implementation guidance has no impact on the quarterly financial statements.

(Segment Information)

Previous first half (from January 1, 2022 to June 30, 2022) and first half under review (from January 1, 2023 to June 30, 2023)

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