

Year ending December 31, 2016

Second Quarter of FY2016 Consolidated Financial Results

August 10, 2016

(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 <http://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 Annual General Meeting of Shareholders: August 10, 2016

Date of scheduled payment of dividends: –

Quarterly earnings supplementary explanatory documents: None

Quarterly earnings presentation: None

(Amounts less than ¥1 million are truncated)

1. CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER OF FY 2016

(January 1, 2016 to June 30, 2016)

(1) Consolidated Operating Results (accumulated)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six-month period ended June 30, 2016	3,241	5.5	702	28.5	693	28.0	581	18.2
Six-month period ended June 30, 2015	3,072	1.8	546	-7.4	541	-8.3	491	-5.0

(Note) Comprehensive income: Six-month period ended June 30, 2016: ¥524 million (3.8%) Six-month period ended June 30, 2015: ¥505 million (-0.9%)

	Net income per share for the quarter	Net income per share-diluted for the quarter
	Yen	Yen
Six-month period ended June 30, 2016	86.90	–
Six-month period ended June 30, 2015	73.53	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2016	6,500	4,852	74.6	725.40
As of December 31, 2015	5,579	4,368	78.3	653.00

(Reference) Shareholders' equity: As of June 30, 2016: ¥4,851 million

As of December 31, 2015: ¥4,366 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 2015	–	0.00	–	6.00	6.00
FY 2016	–	0.00			
FY 2016 (Forecast)			–	8.00	8.00

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

3. FORECAST OF CONSOLIDATED RESULTS FOR FY 2016 (January 1, 2016 to December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	5,500	1.3	450	-10.7	450	-9.7	330	-25.3	49.35

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

*NOTES

(1) Changes in the scope of consolidation for significant subsidiaries during the consolidated cumulative second quarter under review: None

(2) Application of accounting unique to preparation of quarterly consolidated financial statements: None

(3) 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

(4) Number of outstanding shares (Common stock)

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

As of June 30, 2016: 7,796,800 shares As of December 31, 2015: 7,796,800 shares

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

As of June 30, 2016: 1,109,267 shares As of December 31, 2015: 1,109,667 shares

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

As of June 30, 2016: 6,687,287 shares As of June 30, 2015: 6,687,133 shares

* Disclosure regarding the status of implementation of quarterly review procedures

At the time of disclosure of this quarterly financial results report, the review procedures for the quarterly consolidated financial statements pursuant to the Financial Instruments and Exchange Act were being carried out.

Note regarding forecasts and forward-looking statements

The Company has not modified its forecast of the consolidated results for fiscal 2016, which it announced on February 10, 2016. The forecasts presented above are based on information available to the Company at the present time, and, accordingly, actual results may differ from any expressed future performance herein due to various factors.

For matters relating to results forecasts, please refer to “(3) Explanation Regarding Future Forecasts such as Forecasts of Consolidated Results” on page 5.

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1. QUALITATIVE INFORMATION REGARDING SECOND QUARTER CONSOLIDATED FINANCIAL RESULTS

(1) Explanation Regarding Business Results

According to the Bank of Japan's Tankan survey in June 2016, the diffusion index (DI) for major companies remained unchanged from the March 2016 survey at 6 percentage points and that of non-manufacturers fell 3 percentage points to 19 percentage points. The DI for small and medium-sized manufacturers dropped 1 percentage point from the previous survey to minus 5 percentage points and that for non-manufacturers declined 4 percentage points to 0 percentage points.

In the business outlook for the following three-month forecast, the DI for major manufacturers will remain unchanged, while that for non-manufacturers will drop 2 percentage points. This indicates that a growing number of companies are cautious about the outlook for business conditions in Japan and overseas amid a heightened sense of uncertainty about the prospects for domestic and overseas economies.

Under the above-mentioned economic conditions, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), with which the Company has a close business relationship, has requested the same combined total budget for FY2016 covering "subsidy for promoting reconstruction and disaster prevention" and "general subsidy for developing social infrastructure" as the budget for FY2015. In addition, the combined total of sewerage treatment facilities operation and maintenance expenses of ordinance-designated cities and Tokyo's 23 wards increased 1.8% from the previous year. 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. Water supply systems have been established in nearly all areas, while sewerage systems have not been built in some areas. As a result, there is still scope for new orders for establishing related facilities, but orders are decreasing overall. However, given that many water and sewerage facilities, which were established at a rapid pace during the high economic growth period, are reaching the ends of their useful lives every year, it is necessary to maintain and renew these infrastructure assets, which are indispensable for ensuring a safe, secure, and cultural living environment. At the same time, there are increasing new needs for measures to prevent flooding and protect human lives and assets from localized torrential rain, which have been occurring in recent years, measures to prepare for potential earthquake damage by means such as installing earthquake-resistant toilet facilities, and reinforcement works on sewerage facilities to make them tsunami resistant.

The OEC Group, in this operating environment, worked aggressively to win orders mainly in the water supply field, particularly for services related to asset management in line with the Water Supply Division, 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 OEC Group pursued 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 ensuring safety and peace of mind; reducing the number of areas lacking sewerage infrastructure in a timely way; promoting water environmental management; improving facilities management and operation; strengthening sewerage management; promoting measures to realize a low-carbon, recycling-oriented society; and promoting international water businesses through globalization and private-public initiatives. In addition, we are providing aid for reconstruction work to recover from damage caused by earthquakes that hit the Kumamoto area in April 2016. In addition, the OEC Group also made efforts to obtain orders for services relating to support by the Ministry of Internal Affairs and Communications for the introduction of local public enterprise-based accounting into small-scale water supply and sewerage operations in accordance with the Local Public Enterprise Act. In overseas markets, the Company worked aggressively to win orders by tapping into projects in emerging nations through public-private partnerships.

With regard to the OEC Group's internal organization, the Group strove to improve revenue by taking measures such as organizing with an eye to the "Era of Maintenance and Management", revitalization of communication and information sharing between different levels, rapid course correction of management issues based on confirmation of management benchmarks by department on an as-needed basis, appropriate budget management and process management for order-received projects, upgrading of the skills of in-house engineers and expansion of external networks to improve productivity and cut costs.

As a result, consolidated orders received during the consolidated cumulative second quarter under review amounted to ¥2,027 million, a decrease of 7.1% compared with the same quarter in the previous fiscal year, and net sales increased 5.5%, to ¥3,241 million. Operating income amounted to ¥702 million, an increase of 28.5% compared with the same quarter in the previous fiscal year, and ordinary income increased 28.0%, to ¥693 million. Net income attributable to owners of parent amounted to ¥581 million, an increase of 18.2% compared with the same quarter in the previous fiscal year.

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totalling ¥1,787 million during the quarter under review, a decrease of 11.3% compared with the same quarter in the previous fiscal year. Sales by the department increased 6.9%, to ¥2,959 million.

[Information Processing Department]

In the Information Processing Department, orders received increased 43.0% compared with the same quarter in the previous fiscal year, to ¥240 million. Sales by the department decreased 6.7%, to ¥281 million.

(2) Explanation Regarding Financial Position

Cash and cash equivalents increased ¥2,129 million compared with the end of the previous fiscal year, to stand at ¥4,104 million at the end of the second quarter of the consolidated accounting period under review. Significant factors contributing to this change included a decrease in notes and accounts receivable—trade, the posting of income before income taxes for the quarter, and an increase in advances received on uncompleted contracts.

The main factors contributing to changes in cash flows during the consolidated cumulative second quarter under review were as follows:

(Cash flows from operating activities)

Net cash provided in operating activities amounted to ¥2,228 million, compared with net cash provided by operating activities totalling ¥2,141 million in the same quarter in the previous fiscal year. Significant items within this figure included income before income taxes for the quarter of ¥691 million, a decrease in notes and accounts receivable—trade of ¥1,203 million and an increase in advances received on uncompleted contracts of ¥405 million.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥46 million, compared with net cash provided by investing activities of ¥382 million in the same quarter in the previous fiscal year. Significant factors contributing to this change included expenditures for purchasing property, plant and equipment of ¥13 million and expenditures for purchasing intangible assets of ¥29 million.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥47 million, compared with net cash used by financing activities of ¥27 million in the same quarter in the previous fiscal year. The main item was cash dividends paid amounting to ¥40 million.

(3) Explanation Regarding Future Forecasts such as Forecasts of Consolidated Results

The Company has not changed its forecast of the consolidated results for fiscal 2016, which it announced on February 10, 2016, but will promptly release a revised forecast when any correction is needed.

2. MATTERS RELATING TO SUMMARY INFORMATION (NOTES)

(1) Changes in the Scope of Consolidation for Significant Subsidiaries during the Consolidated Cumulative Second Quarter under Review

No applicable items.

(2) Application of Accounting Unique to Preparation of Quarterly Consolidated Financial Statements

No applicable items.

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements

(Application of Accounting Standard for Business Combinations, etc.)

Effective from the first quarter of the fiscal year under review, the Company has adopted “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013). Accordingly, the Company changed the presentation of net income and other related items and the presentation of minority interests to non-controlling interests. To reflect this change in presentation, accounts have been reclassified in the consolidated financial statements for the previous consolidated cumulative second quarter and the previous consolidated fiscal year.

(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Following the revision of the Corporate Tax Act, the Company has adopted “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (Practical Issues Task Force No. 32, June 17, 2016) since the beginning of the second quarter of the fiscal year under review. Accordingly, the company has changed the depreciation method for buildings and accompanying facilities and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. The impact of this change is immaterial.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) Quarterly Consolidated Balance Sheets

	FY 2015 (as of December 31, 2015)	2Q under review (as of June 30, 2016)
Category	Amount (thousand yen)	Amount (thousand yen)
Assets		
Current assets		
Cash and deposits	2,690,589	4,820,147
Accounts receivable—completed operation	1,686,808	483,258
Costs on uncompleted services	2,738	15,219
Deferred tax assets	123,982	122,713
Other	34,469	50,455
Total current assets	4,538,588	5,491,794
Noncurrent assets		
Property, plant and equipment	325,144	343,380
Intangible assets	86,643	103,656
Investments and other assets		
Other	629,123	561,853
Total investments and other assets	629,123	561,853
Total noncurrent assets	1,040,911	1,008,890
Total assets	5,579,499	6,500,684

	FY 2015 (as of December 31, 2015)	2Q under review (as of June 30, 2016)
Category	Amount (thousand yen)	Amount (thousand yen)
Liabilities		
Current liabilities		
Accounts payable—operating	202,593	81,120
Lease obligations	12,665	15,673
Income taxes payable	52,525	123,088
Advances received on uncompleted contracts	223,178	628,962
Provision for bonuses	18,545	37,172
Provision for loss on order received	38,544	18,454
Other	337,610	443,228
Total current liabilities	885,662	1,347,701
Noncurrent liabilities		
Lease obligations	24,519	36,057
Deferred tax liabilities	24,096	1,485
Net defined benefit liability	214,327	200,006
Provision for share benefit	9,202	9,030
Asset retirement obligations	45,273	45,606
Other	8,400	8,400
Total noncurrent liabilities	325,819	300,586
Total liabilities	1,211,482	1,648,287
Net assets		
Shareholders' equity		
Capital stock	1,093,000	1,093,000
Capital surplus	2,886,615	2,886,615
Retained earnings	927,950	1,468,501
Treasury stock	-670,605	-670,434
Total shareholders' equity	4,236,959	4,777,682
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	54,170	2,571
Remeasurements of defined benefit plans	75,599	70,856
Total valuation and translation adjustments	129,769	73,427
Subscription rights to shares	1,287	1,287
Total net assets	4,368,017	4,852,397
Total liabilities and net assets	5,579,499	6,500,684

(2) Quarterly Consolidated Statements of Operations and Comprehensive Income

(Quarterly Consolidated Statements of Operations)

(Consolidated Cumulative Second Quarter)

	Previous consolidated cumulative second quarter (from January 1, 2015 to June 30, 2015)	Consolidated cumulative second quarter under review (from January 1, 2016 to June 30, 2016)
Category	Amount (thousand yen)	Amount (thousand yen)
Contracts completed	3,072,103	3,241,633
Cost of completed work	1,946,357	1,942,305
Gross profit	1,125,746	1,299,328
Selling, general and administrative expenses	579,195	597,088
Operating income	546,550	702,239
Non-operating income		
Interest income	891	412
Dividend income	2,662	2,751
Contribution received for operations performed by dispatched employees	2,517	3,003
Other	3,186	2,846
Total non-operating income	9,258	9,012
Non-operating expenses		
Interest expenses	366	636
Expenses for securities transactions	13,333	9,276
Foreign exchange losses	—	6,957
Other	337	781
Total non-operating expenses	14,037	17,652
Ordinary income	541,771	693,599
Extraordinary loss		
Loss on retirement of noncurrent assets	355	2
Impairment loss	—	2,434
Total extraordinary loss	355	2,437
Income before income taxes for the quarter	541,416	691,162
Income taxes—current	66,677	108,841
Income taxes-deferred	-16,962	1,226
Total income taxes	49,714	110,067
Net income for the quarter	491,701	581,094
Net income attributable to owners of parent	491,701	581,094

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Second Quarter)

	Previous consolidated cumulative second quarter (from January 1, 2015 to June 30, 2015)	Consolidated cumulative second quarter under review (from January 1, 2016 to June 30, 2016)
Category	Amount (thousand yen)	Amount (thousand yen)
Net income for the quarter	491,701	581,094
Other comprehensive income		
Valuation difference on available-for-sale securities	26,040	-51,599
Remeasurements of defined benefit plans, net of tax	-12,186	-4,742
Total other comprehensive income	13,853	-56,342
Comprehensive income for the quarter	505,555	524,752
Comprehensive income attributable to:		
Comprehensive income attributable to owner of the parent company	505,555	524,752
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

	Previous consolidated cumulative second quarter (from January 1, 2015 to June 30, 2015)	Consolidated cumulative second quarter under review (from January 1, 2016 to June 30, 2016)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from operating activities		
Income before income taxes for the quarter	541,416	691,162
Depreciation and amortization	25,690	30,774
Increase/decrease in provision for bonuses	-85	18,627
Increase/decrease in provision for loss on order received	2,628	-20,089
Increase/decrease in net defined benefit liability	-11,439	-14,321
Interest and dividends income	-3,554	-3,163
Interest expenses	366	636
Loss/gain on sales and retirement of noncurrent assets	355	2
Impairment loss	—	2,434
Increase/decrease in notes and accounts receivable—trade	1,129,259	1,203,549
Increase/decrease in costs on uncompleted services	11,554	-12,481
Increase/decrease in notes and accounts payable—trade	-86,230	-121,472
Increase/decrease in advances received on uncompleted contracts	477,141	405,784
Other	100,788	85,638
Subtotal	2,187,892	2,267,082
Interest and dividends income received	3,181	3,204
Interest expenses paid	-366	-636
Income taxes paid	-49,548	-41,595
Income taxes refund	307	—
Net cash provided by (used in) operating activities	2,141,466	2,228,054

	Previous consolidated cumulative second quarter (from January 1, 2015 to June 30, 2015)	Consolidated cumulative second quarter under review (from January 1, 2016 to June 30, 2016)
Category	Amount (thousand yen)	Amount (thousand yen)
Cash flows from investing activities		
Increase/decrease in time deposits	300,141	–
Purchase of investment securities	-749	-4,592
Purchase of property, plant and equipment	-987	-13,311
Proceeds from redemption of investment securities	100,298	–
Purchase of intangible assets	-16,170	-29,479
Payments for lease and guarantee deposits	-1,408	-1,214
Proceeds from collection of lease and guarantee deposits	676	–
Other payments	-3,643	-3,572
Other proceeds	4,493	5,560
Net cash provided by (used in) investing activities	382,650	-46,609
Cash flows from financing activities		
Cash dividends paid	-26,748	-40,543
Repayments of lease obligations	-2,529	-7,145
Purchase of treasury stock	-30,002	–
Proceeds from disposal of treasury shares	30,002	–
Proceeds from issuance of subscription rights to shares	1,287	–
Net cash used in financing activities	-27,990	-47,688
Effect of exchange rate change on cash and cash equivalents	342	-4,276
Net increase/decrease in cash and cash equivalents	2,496,468	2,129,479
Balance of cash and cash equivalents at beginning of the year	1,366,221	1,974,880
Balance of cash and cash equivalents at the end of the quarter	3,862,690	4,104,360

(4) Notes Regarding the Quarterly Consolidated 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)

[Segment Information]

Previous consolidated cumulative second quarter (from January 1, 2015 to June 30, 2015) and consolidated cumulative second quarter under review (from January 1, 2016 to June 30 2016)

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