

Year ended December 31, 2018 **FY 2018 Non-consolidated Financial Results** February 8, 2019

(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: March 26, 2019

Planned filing of a financial report: March 26, 2019

Date of scheduled payment of dividends: March 27, 2019

Earnings supplementary explanatory documents: None

Earnings presentation: None

(Amounts less than ¥1 million are truncated)

1. NON-CONSOLIDATED FINANCIAL RESULTS FOR FY 2018 (January 1, 2018 to December 31, 2018)

(1) Non-consolidated Operating Results

(Percentages represent year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit | |
|------------------------------------|-------------|------|------------------|------|-----------------|------|-------------|-------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY 2018 ended December 31, 2018 | 6,257 | 0.0 | 1,003 | -0.9 | 936 | -8.0 | 593 | -39.0 |
| FY 2017 ended December 31, 2017 | 6,256 | 12.0 | 1,012 | 77.8 | 1,017 | 73.8 | 973 | 135.6 |

| | Profit per share-basic | Profit per share-diluted | Return on equity | Ordinary income to total assets | Operating margin |
|------------------------------------|------------------------|--------------------------|------------------|---------------------------------|------------------|
| | Yen | Yen | % | % | % |
| FY 2018 ended December 31, 2018 | 88.26 | 87.83 | 10.2 | 12.8 | 16.0 |
| FY 2017 ended December 31, 2017 | 145.50 | 145.16 | 19.0 | 15.6 | 16.2 |

(Reference) Gain (loss) on investment by equity method: FY 2018: ¥- million FY 2017: ¥- million

(2) Non-consolidated Financial Position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|-------------------------|--------------|-------------|----------------------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of December 31, 2018 | 7,675 | 6,098 | 79.5 | 900.82 |
| As of December 31, 2017 | 7,006 | 5,584 | 79.7 | 834.66 |

(Reference) Shareholders' equity: As of December 31, 2018: ¥6,094 million As of December 31, 2017: ¥5,583 million

(3) Non-consolidated Cash Flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at the end of the period |
|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Million yen | Million yen | Million yen | Million yen |
| FY 2018 ended December 31, 2018 | 1,459 | -440 | -81 | 3,736 |
| FY 2017 ended December 31, 2017 | 434 | 133 | -75 | 2,798 |

2. DIVIDENDS

| (Record date) | Dividends per share | | | | | Total dividend amount (Full year) | Payout ratio | Ratio of dividends to net assets |
|--|----------------------|----------|----------------------|-----------------|-----------|-----------------------------------|--------------|----------------------------------|
| | End of first quarter | Interim | End of third quarter | Fiscal year-end | Full year | | | |
| FY 2017 ended December 31, 2017 | Yen - | Yen 0.00 | Yen - | Yen 12.00 | Yen 12.00 | Million yen 81 | % 8.2 | % 1.4 |
| FY 2018 ended December 31, 2018 | Yen - | Yen 0.00 | Yen - | Yen 14.00 | Yen 14.00 | Million yen 95 | % 15.9 | % 1.6 |
| FY 2019 ending December 31, 2019 (Forecast) | Yen - | Yen 0.00 | Yen - | Yen 16.00 | Yen 16.00 | Million yen | % 27.8 | % |

3. FORECAST OF NON-CONSOLIDATED RESULTS FOR FY 2019 (January 1, 2019 to December 31, 2019)

(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 | 6,300 | 0.7 | 650 | -35.2 | 600 | -35.9 | 340 | -42.7 | 57.61 |

*NOTES

(1) 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

(2) Number of outstanding shares (Common stock)

- (i) Number of shares outstanding at end of period, including treasury stock
 - As of December 31, 2018: 7,796,800 shares
 - As of December 31, 2017: 7,796,800 shares
- (ii) Number of shares of treasury stock at end of period
 - As of December 31, 2018: 1,026,965 shares
 - As of December 31, 2017: 1,107,735 shares
- (iii) Average number of shares outstanding for each period
 - As of December 31, 2018: 6,721,703 shares
 - As of December 31, 2017: 6,688,330 shares

* The summary of financial results is not subject to audit by certified public accountants or audit corporations.

Note regarding forecasts and forward-looking statements

The business results forecasts presented are based on information available to the Company at the present time and are subject to potential risks and uncertainty. Accordingly, actual results may differ significantly from any expressed future performance herein due to various factors.

For matters relating to results forecasts, please refer to "1. SUMMARY OF BUSINESS RESULTS," "(4) Future Outlook" on page 5 of the Attachment.

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1. SUMMARY OF BUSINESS RESULTS

(1) Summary of Business Results for Current Period

According to the Bank of Japan's Tankan survey in December 2018, the diffusion index (DI) for major manufacturing firms was unchanged from the September 2018 survey of 19 percentage points, and that for major non-manufacturing firms, it advanced two percentage points from the previous survey to 24 percentage points. The DI for small and medium-sized manufacturers remained the same level as in the previous survey of 14 percentage points, and that of non-manufacturers advanced one percentage point to 12 percentage points. The forecast DI for the next three months dropped four percentage points for major manufacturers and is down four percentage points for major non-manufacturers, which indicates that many companies are concerned about increases in labor shortages and are cautious about the business outlook.

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 drawn up a budget for fiscal 2018. The totals earmarked for "disaster prevention and safety subsidies" and "general social infrastructure development subsidies" are on the same levels as in fiscal 2017. The total amount of the sewerage works expenses budget of ordinance-designated cities across Japan and Tokyo's special wards increased 1.3% from fiscal 2017.

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 660,000 kilometers across Japan. However, the national average annual rate of renewing water pipes is as low as 0.76%, which means that it will take almost 130 years to renew all of these pipes. The statutory useful life of water pipes is 40 years, but they are expected to deteriorate further due to the slow progress in renewing the water pipes infrastructure, much of which was built during the high-growth period. Therefore, renewing aged water pipes has become an important issue for stable supplies of safe water.

Meanwhile, 90.9% of the population of Japan has access to sewage treatment facilities (as of the end of FY2017), but only 78.8% has access to sewers, which means nearly 12 million people still live without access to sewage treatment facilities; promoting sewage services needs to be accelerated. While the need to construct new facilities is decreasing, 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 culturally strong living environment, are thus in demand. In addition, there is growth in new needs for flood control measures to protect human lives and assets from localized torrential rainfalls, 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.

The Company, 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 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 overseas markets, the Company has been working to win orders by tapping into projects in emerging nations through public-private partnerships.

With regard to its internal structures, the Company has made efforts to distribute profits to employees and increase revenue, by boosting productivity and reducing costs through the following measures: creating an organization focused on the "Era of Maintenance and Management;" facilitating communication and information sharing between different levels; correcting management issues promptly by occasionally checking management benchmarks by department; conducting appropriate budget management, process control, and outsourcing management for orders received for projects; upgrading in-house engineers' skills; securing and fostering young employees who will lead the next generation; redressing the issue of long working hours and promoting suitable management with the aim of becoming a "pioneer company in working-style reforms;" introducing internal programs and office environment where each employee can work dynamically and flexibly according to his/her own circumstances; and expanding external networks.

As a result, the non-consolidated orders received during the fiscal year under review amounted to ¥5,382 million, a decrease of 17.8% compared with the previous fiscal year. The main causes for the decrease in orders received are considered as follows. Services related to large-scale implementation of local-public enterprise-based accounting which takes long work periods decreased although it had been increasing in recent years. Order placement of scheduled projects was put off due to natural disasters including the West Japan Flood, which

happened in July. On the other hand, net sales amounted to ¥6,257 million, a 0.0% increase from the previous fiscal year. Operating income amounted to ¥1,003 million, a decrease of 0.9% compared with the previous fiscal year, and ordinary income decreased 8.0% to ¥936 million mainly because of a loss on valuation of available-for-sale securities due to a drop in stock market prices and a loss on sales of IPO stock of a leading telecommunications company, which the Company had acquired as solicited by the industry's largest securities company. Profit amounted to ¥593 million, a decrease of 39.0% compared with the previous fiscal year.

Results by operating division were as follows.

[Engineering Consultant Department]

The Engineering Consultant Department received orders totaling ¥5,056 million during the fiscal year under review, a decrease of 17.9% compared with the previous fiscal year. Sales by the department decreased 0.1%, to ¥5,871 million.

[Information Processing Department]

In the Information Processing Department, orders received decreased 16.9% compared with the previous fiscal year, to ¥325 million. Sales by the department increased 1.9%, to ¥385 million.

(2) Summary of Financial Position for Current Period

Cash and cash equivalents stood at ¥3,736 million at the end of the fiscal year under review. Significant factors contributing to this change included the posting of profit before income taxes, and decreases in notes and accounts receivable.

Main factors contributing to changes in cash flows during the fiscal year under review were as follows.

(Cash flows from operating activities)

Net cash provided in operating activities amounted to ¥1,459 million.

The main factor contributing to this change was the posting of profit before income taxes and a decrease in accounts receivable.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥440 million.

This is mainly due to ¥501 million spent for the acquisition of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥81 million.

The main item was cash dividends paid amounting to ¥81 million.

(3) Summary of Cash Flows for Current Period

| | FY 2017 | FY 2018 |
|--|---------|---------|
| Shareholders' equity ratio (%) | 79.7 | 79.5 |
| Shareholders' equity ratio on a market value basis (%) | 66.1 | 80.2 |
| Interest-bearing debt to cash flow ratio (years) | 0.16 | 0.04 |
| Interest coverage ratio (times) | 224.54 | 758.75 |

Ratio formula:

Shareholders' equity ratio: Shareholders' equity / total assets

Shareholders' equity ratio on a market value basis: Market capitalization / total assets

Interest-bearing debts to cash flow ratio (years): Interest-bearing liabilities / cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / interest payments

Notes:

1. Market capitalization is calculated by multiplying the share price at end of period by the number of shares outstanding at end of period (excluding treasury stock).
2. Cash flows in these indicators refer to net cash from operating activities as stated in the Non-consolidated Statements of Cash Flows. Interest-bearing liabilities are all liabilities presented on the Non-consolidated Balance Sheets that are subject to interest expenses. Interest payments are those stated in the Non-consolidated Statements of Cash Flows.

(4) Future Outlook

The national budget for disaster prevention and safety subsidies allocated to operating expenses of local governments and social infrastructure improvement subsidies is expected to remain at the same level. In light of such external environmental business factors affecting orders, the Company's target project budget is likely to be guaranteed. However, the majority of orders are placed through price competitive auction, which leads to an increase in competition among firms, fluctuation of bidding prices, and an increase in sales cost since orders are customization-oriented. Hence, the Company anticipates a continuing harsh environment for achieving sales order and profit targets.

The Company, meanwhile, has achieved a year-on-year increase in productivity both on an individual employee level and on an organizational level through company-wide awareness reforms aimed at achieving the objectives of every employee working with a sense of management and establishing an organization with an open culture which have been consistently pursued under the present management structure, and the provision of pleasant working conditions and a good in-house system. In response to the aging of technical resources, it is important to pass on their techniques and secure the next generation of human resources. Accordingly, under the leadership of the top management, the Company will work to solve management issues by implementing a new graduate recruitment program in collaboration with younger employees, and actively recruiting mid-career workers. Furthermore, the Company will aim to obtain sustainable orders and increase revenue by offering high-quality services meeting customer needs and thereby making a contribution to the development of water and sewage infrastructure business, which is vital for increasing customer satisfaction and indispensable for social life.

Water supply and sewerage budgets, the Company's main business target, are expected to place emphasis on, for example, building water supply and sewerage facilities in areas without them; measures related to earthquakes, floods, and disaster prevention; programs to address an aging infrastructure; support services to reinforce operating foundations; and enhancing the vitality of local communities. Hence, the Company will aggressively carry out sales programs to meet such needs and strengthen its production system. At the same time, the Company will, in consideration of profitability, engage in the overseas water-related business, mainly in emerging Asian countries, where economic development is remarkable and demand for water supply and sewerage infrastructure is expected to grow.

In the fiscal year ending December 31, 2019, the Company forecasts orders to increase 11.5%, to ¥6,000 million, and net sales to increase 0.7%, to ¥6,300 million. Operating income is forecast to decrease 35.2%, to ¥650 million, and ordinary income to decrease 35.9%, to ¥600 million. Profit is forecast to decrease 42.7%, to ¥340 million.

2. BASIC POLICY FOR THE SELECTION OF ACCOUNTING STANDARDS

The Company's stakeholders are mostly domestic shareholders, creditors and business partners, and hence the Company does not have much necessity to procure funds from overseas. Considering these, the Company applies the Japanese accounting standards.

3. FINANCIAL STATEMENTS AND KEY NOTES

(1) Non-consolidated Balance Sheets

| | FY 2017 (as of December 31, 2017) | FY 2018 (as of December 31, 2018) |
|--|--------------------------------------|--------------------------------------|
| Category | Amount (thousand yen) | Amount (thousand yen) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,514,747 | 4,452,537 |
| Accounts receivable—completed operation | 2,106,765 | 1,685,356 |
| Costs on uncompleted services | - | 1,320 |
| Prepaid expenses | 29,060 | 32,616 |
| Deferred tax assets | 161,649 | 31,141 |
| Advances receivable from group affiliates | 214 | 216 |
| Other | 44,893 | 55,586 |
| Allowance for doubtful accounts | -19,000 | -31,663 |
| Total current assets | 5,838,330 | 6,227,111 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings, net | 160,732 | 194,788 |
| Structures, net | 0 | 0 |
| Tools, furniture and fixtures, net | 15,090 | 27,681 |
| Land | 150,015 | 150,015 |
| Lease assets, net | 61,537 | 51,138 |
| Total property, plant and equipment | 387,376 | 423,624 |
| Intangible assets | | |
| Leasehold right | 3,321 | 3,321 |
| Software | 98,485 | 116,788 |
| Lease assets | 6,996 | 4,685 |
| Telephone subscription right | 3,711 | 3,711 |
| Total intangible assets | 112,514 | 128,506 |
| Investments and other assets | | |
| Investment securities | 312,253 | 531,807 |
| Shares of subsidiaries and associates | 52,313 | 50,000 |
| Long-term loans receivable from employees | 8,287 | 10,948 |
| Insurance funds | 60,973 | 64,529 |
| Guarantee deposits | 135,393 | 147,133 |
| Long-term prepaid expenses | 589 | 2,132 |
| Deferred tax assets | 71,937 | 63,231 |
| Other | 28,769 | 28,769 |
| Allowance for doubtful accounts | -2,200 | -2,200 |
| Total investments and other assets | 668,319 | 896,353 |
| Total noncurrent assets | 1,168,210 | 1,448,484 |
| Total assets | 7,006,540 | 7,675,596 |

| | FY 2017 (as of December 31, 2017) | FY 2018 (as of December 31, 2018) |
|---|--------------------------------------|--------------------------------------|
| Category | Amount (thousand yen) | Amount (thousand yen) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable—operating | 263,748 | 192,854 |
| Lease obligations | 24,150 | 22,954 |
| Accounts payable - other | 55,947 | 88,352 |
| Accrued expenses | 144,805 | 151,718 |
| Income taxes payable | 135,729 | 131,450 |
| Accrued consumption taxes | 33,352 | 39,799 |
| Advances received on uncompleted contracts | 295,722 | 535,610 |
| Deposits received | 90,876 | 102,940 |
| Provision for bonuses | 36,120 | 38,912 |
| Provision for loss on order received | 17,315 | 12,593 |
| Asset retirement obligations | - | 5,107 |
| Total current liabilities | 1,097,767 | 1,322,294 |
| Noncurrent liabilities | | |
| Lease obligations | 45,585 | 34,204 |
| Provision for share benefit | 25,252 | 24,695 |
| Provision for retirement benefits | 197,051 | 138,302 |
| Long-term accounts payable - other | 8,400 | 8,400 |
| Asset retirement obligations | 48,097 | 48,836 |
| Total noncurrent liabilities | 324,386 | 254,439 |
| Total liabilities | 1,422,154 | 1,576,733 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,093,000 | 1,093,000 |
| Capital surplus | | |
| Legal capital surplus | 2,171,308 | 2,171,308 |
| Other capital surplus | 715,307 | 703,995 |
| Total capital surpluses | 2,886,615 | 2,875,303 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings brought forward | 2,214,757 | 2,726,952 |
| Total retained earnings | 2,214,757 | 2,726,952 |
| Treasury stock | -669,783 | -623,560 |
| Total shareholders' equity | 5,524,589 | 6,071,695 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 58,509 | 26,733 |
| Total valuation and translation adjustments | 58,509 | 26,733 |
| Subscription rights to shares | 1,287 | 433 |
| Total net assets | 5,584,386 | 6,098,862 |
| Total liabilities and net assets | 7,006,540 | 7,675,596 |

(2) Non-consolidated Statements of Operations

| | FY 2017 (from January 1, 2017 to December 31, 2017) | FY 2018 (from January 1, 2018 to December 31, 2018) |
|---|---|---|
| Category | Amount (thousand yen) | Amount (thousand yen) |
| Contracts completed | 6,256,438 | 6,257,188 |
| Cost of completed work | 3,986,812 | 3,953,174 |
| Gross profit | 2,269,625 | 2,304,013 |
| Selling, general and administrative expenses | 1,257,380 | 1,300,381 |
| Operating income | 1,012,245 | 1,003,632 |
| Non-operating income | | |
| Interest income | 260 | 4,397 |
| Dividend income | 6,384 | 7,190 |
| Contribution received for operations performed by dispatched employees | 3,210 | - |
| Insurance income | 3,000 | 1,000 |
| Commission fee | 2,430 | 2,430 |
| Other | 6,514 | 3,681 |
| Total non-operating income | 21,799 | 18,699 |
| Non-operating expenses | | |
| Interest expenses | 1,934 | 1,923 |
| Expenses for securities transactions | 11,650 | 24,337 |
| Loss on sales of available-for-sale securities | - | 20,886 |
| Loss on valuation of available-for-sale securities | - | 35,735 |
| Foreign exchange losses | 891 | 2,692 |
| Other | 2,191 | 524 |
| Total non-operating expenses | 16,668 | 86,100 |
| Ordinary income | 1,017,376 | 936,231 |
| Extraordinary loss | | |
| Loss on retirement of noncurrent assets | 30 | 1,038 |
| Total extraordinary loss | 30 | 1,038 |
| Profit before income taxes | 1,017,345 | 935,192 |
| Income taxes—current | 164,360 | 189,722 |
| Income taxes-deferred | -120,190 | 152,188 |
| Total income taxes | 44,169 | 341,910 |
| Profit | 973,175 | 593,281 |

**(3) Non-consolidated Statements of Changes in Net Assets
FY 2017 (from January 1, 2017 to December 31, 2017)**

(Thousand yen)

| | Shareholders' equity | | | | | |
|--|----------------------|-----------------------|-----------------------|-----------------------------------|-------------------------|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | |
| | | Legal capital surplus | Other capital surplus | Total capital surpluses | Other retained earnings | Total retained earnings |
| | | | | Retained earnings brought forward | | |
| Balance at the beginning of current period | 1,093,000 | 2,171,308 | 715,307 | 2,886,615 | 1,295,639 | 1,295,639 |
| Changes of items during the period | | | | | | |
| Dividends of surplus | | | | | -54,057 | -54,057 |
| Profit | | | | | 973,175 | 973,175 |
| Purchase of treasury stock | | | | | | |
| Disposal of treasury stock | | | | | | |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | - | - | - | - | 919,118 | 919,118 |
| Balance at the end of current period | 1,093,000 | 2,171,308 | 715,307 | 2,886,615 | 2,214,757 | 2,214,757 |

| | Shareholders' equity | | Valuation and translation adjustments | | Subscription rights to shares | Total net assets |
|--|----------------------|----------------------------|---|---|-------------------------------|------------------|
| | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance at the beginning of current period | -670,434 | 4,604,820 | 46,610 | 46,610 | 1,287 | 4,652,717 |
| Changes of items during the period | | | | | | |
| Dividends of surplus | | -54,057 | | | | -54,057 |
| Profit | | 973,175 | | | | 973,175 |
| Purchase of treasury stock | -33 | -33 | | | | -33 |
| Disposal of treasury stock | 684 | 684 | | | | 684 |
| Net changes of items other than shareholders' equity | | | 11,899 | 11,899 | | 11,899 |
| Total changes of items during the period | 651 | 919,769 | 11,899 | 11,899 | - | 931,668 |
| Balance at the end of current period | -669,783 | 5,524,589 | 58,509 | 58,509 | 1,287 | 5,584,386 |

FY 2018 (from January 1, 2018 to December 31, 2018)

(Thousand yen)

| | Shareholders' equity | | | | | |
|--|----------------------|-----------------------|-----------------------|-------------------------|-----------------------------------|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | |
| | | Legal capital surplus | Other capital surplus | Total capital surpluses | Other retained earnings | Total retained earnings |
| | | | | | Retained earnings brought forward | |
| Balance at the beginning of current period | 1,093,000 | 2,171,308 | 715,307 | 2,886,615 | 2,214,757 | 2,214,757 |
| Changes of items during the period | | | | | | |
| Dividends of surplus | | | | | -81,085 | -81,085 |
| Profit | | | | | 593,281 | 593,281 |
| Purchase of treasury stock | | | | | | |
| Disposal of treasury stock | | | -11,312 | -11,312 | | |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | - | - | -11,312 | -11,312 | 512,195 | 512,195 |
| Balance at the end of current period | 1,093,000 | 2,171,308 | 703,995 | 2,875,303 | 2,726,952 | 2,726,952 |

| | Shareholders' equity | | Valuation and translation adjustments | | Subscription rights to shares | Total net assets |
|--|----------------------|----------------------------|---|---|-------------------------------|------------------|
| | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance at the beginning of current period | -669,783 | 5,524,589 | 58,509 | 58,509 | 1,287 | 5,584,386 |
| Changes of items during the period | | | | | | |
| Dividends of surplus | | -81,085 | | | | -81,085 |
| Profit | | 593,281 | | | | 593,281 |
| Purchase of treasury stock | -29 | -29 | | | | -29 |
| Disposal of treasury stock | 46,252 | 34,940 | | | -853 | 34,086 |
| Net changes of items other than shareholders' equity | | | -31,776 | -31,776 | | -31,776 |
| Total changes of items during the period | 46,222 | 547,105 | -31,776 | -31,776 | -853 | 514,475 |
| Balance at the end of current period | -623,560 | 6,071,695 | 26,733 | 26,733 | 433 | 6,098,862 |

(4) Non-consolidated Statements of Cash Flows

| | FY 2017 (from January 1, 2017 to December 31, 2017) | FY 2018 (from January 1, 2018 to December 31, 2018) |
|--|---|---|
| Category | Amount (thousand yen) | Amount (thousand yen) |
| Cash flows from operating activities | | |
| Profit before income taxes | 1,017,345 | 935,192 |
| Depreciation and amortization | 74,716 | 84,245 |
| Increase /decrease in allowance for doubtful accounts | 19,000 | 12,663 |
| Interest and dividends income | -6,644 | -11,588 |
| Interest expenses | 1,934 | 1,923 |
| Loss on retirement of property, plant and equipment | 30 | 1,038 |
| Loss (gain) on sales of investment securities | - | 20,886 |
| Loss (gain) on valuation of investment securities | - | 35,735 |
| Increase/decrease in notes and accounts receivable—trade | -535,184 | 421,408 |
| Increase/decrease in costs on uncompleted services | 12,622 | -1,320 |
| Increase/decrease in notes and accounts payable—trade | 40,438 | -70,893 |
| Increase/decrease in advances received on uncompleted services | 80,416 | 239,888 |
| Increase/decrease in provision for bonuses | 991 | 2,792 |
| Increase/decrease in provision for loss on order received | -3,212 | -4,721 |
| Increase /decrease in provision for share benefit | 7,233 | -556 |
| Increase/decrease in provision for retirement benefits | -53,203 | -58,749 |
| Other | -119,534 | 27,693 |
| Subtotal | 536,950 | 1,635,638 |
| Interest and dividends income received | 6,644 | 11,589 |
| Interest expenses paid | -1,934 | -1,923 |
| Compensation income receivable | 10,000 | - |
| Proceeds from insurance income | - | 1,000 |
| Income taxes paid | -117,231 | -186,952 |
| Net cash provided by (used in) operating activities | 434,429 | 1,459,351 |

| | FY 2017 (from January 1, 2017 to December 31, 2017) | FY 2018 (from January 1, 2018 to December 31, 2018) |
|---|---|---|
| Category | Amount (thousand yen) | Amount (thousand yen) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | -39,248 | -47,170 |
| Purchase of intangible assets | -28,002 | -54,057 |
| Purchase of investment securities | - | -501,040 |
| Proceeds from sales of investment securities | - | 180,113 |
| Proceeds from redemption of investment securities | 200,000 | - |
| Payments for lease and guarantee deposits | -2,004 | -13,347 |
| Proceeds from collection of lease and guarantee deposits | 1,654 | 1,078 |
| Other | 719 | -5,730 |
| Net cash provided by (used in) investing activities | 133,119 | -440,154 |
| Cash flows from financing activities | | |
| Repayments of lease obligations | -21,605 | -26,011 |
| Purchase of treasury stock | -33 | -29 |
| Proceeds from exercise of share options | - | 26,040 |
| Cash dividends paid | -54,057 | -81,085 |
| Net cash used in financing activities | -75,697 | -81,087 |
| Effect of exchange rate change on cash and cash equivalents | -20 | -380 |
| Net increase/decrease in cash and cash equivalents | 491,831 | 937,729 |
| Balance of cash and cash equivalents at beginning of the year | 2,306,994 | 2,798,825 |
| Balance of cash and cash equivalents at end of the year | 2,798,825 | 3,736,554 |

(5) Notes regarding the Non-consolidated Financial Statements

(Matters Affecting the Assumption of a Going Concern)

No applicable items.

(Changes in Accounting Policies)

(Application of “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions”)

The Company adopted the “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions” (ASBJ PITF No. 36, January 12, 2018; “PITF No.36”) effective from April 1, 2018, and now accounts for transactions granting employees and others stock acquisition rights with vesting conditions in accordance with the “Accounting Standard for Share-Based Payment and its Implementation Guidance” (ASBJ Statement No. 8, December 27, 2005).

However, in compliance with transitional arrangements as set forth in (3) of Paragraph 10 of the PITF No. 36, transactions granting employees and others stock acquisition rights that were made before the date of adoption of PITF No. 36 are recorded using the previous accounting method.

(Changes in Presentation)

(Changes related to the presentation of profit and loss statement)

In the previous fiscal year, “Interest income” was included in the “Interest and dividend income” item under “non-operating income.” However, since the amount of interest income exceeds 10/100 of total non-operating income, “interest income” is shown as a separate line item in the current fiscal year. In order to reflect such changes in presentation, the reclassification of accounts has been made to the financial statements for the previous fiscal year.

As a result, 6,644,000 yen, which was recorded in the “Interest and dividend income” item under “non-operating income” in the profit and loss statement for the previous fiscal year, has been reclassified into 260,000 yen under “Interest income” and 6,384,000 yen under “Dividend income.”

(Additional Information)

(Application of “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions”)

Transactions granting employees and others stock acquisition rights made before the date of adoption of the “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions” (ASBJ PITF No. 36, January 12, 2018; “PITF No. 36”) are accounted for using the previous accounting method in accordance with (3) of Paragraph 10 of the PITF No. 36.

1. Overview of stock acquisition rights with vesting conditions

(1) Details of stock acquisition rights with vesting conditions

| | |
|--|---|
| | Resolution of Board of Directors meeting on March 13, 2015 |
| Status and number of eligible persons | Director of the Company: 6 Executive Officer of the Company: 5 |
| Number of stock options by class of shares (Note) 1 | Common stock 93,500 shares |
| Date of grant | March 31, 2015 |
| Vesting conditions | (Note) 2 |
| Requisite service period | From July 1, 2014 to June 30, 2016 |
| Exercise period | From April 7, 2015 to March 31, 2020 |

(Note)

1. The number of stock options is translated into the number of shares.
2. Conditions for exercising stock acquisition rights
 - 1) A holder of stock acquisition rights may exercise his/her stock acquisition rights only when ordinary income for FY2017 is ¥550 million or more. To determine ordinary income, the figures stated in the consolidated statements of operations (or statements of operations if the consolidated statements of operations are not prepared) included in the securities report of the Company shall be used. If any significant change is made to the ordinary income to be referenced as a result of applying International Financial Reporting Standards (IFRS), etc., separate information/data to be referenced shall be reasonably determined by the Board of Directors.
 - 2) In the event that the closing price (including the indicative price) of ordinary transactions of shares of common stock of the Company at the Financial Instruments Exchange where shares of the Company are listed falls below 30% of the exercise price even momentarily between the date of the allotment of stock acquisition rights

(“allotment date”) and the end of the exercise period, a holder of stock acquisition rights must exercise all of his/her remaining stock acquisition rights by the end of the exercise period at the price calculated by multiplying the exercise price by 0.9; provided, however, that the following cases shall be excluded:

- (a) Where material misstatements are found in information disclosed by the Company;
 - (b) Where it is found that the Company does not properly disclose important facts that it should in compliance with laws and regulations, or the rules of the Financial Instruments Exchange where the shares of the Company are listed;
 - (c) Where the Company is delisted, goes bankrupt, or any other significant changes are made to its going-concern status as of the allotment date; or
 - (d) Where there are other acts/activities in which the Company can be considered objectively to harm the trust of the holders of stock acquisition rights.
- 3) The stock acquisition rights may not be exercised if exercise would create an excess in the total number of issued and outstanding shares of the Company over the total number of shares authorized at the time.
 - 4) A single stock acquisition right may not be exercised in part.
 - 5) A holder of stock acquisition rights must maintain his/her position as a director, corporate auditor, or employee of the Company or its subsidiaries when he/she exercises his/her rights, unless he/she resigns as a director or corporate auditor when his/her term of office expires, or an employee retires after reaching mandatory retirement age, or there are any other justifiable reasons acknowledged by the Board of Directors of the Company.
 - 6) Stock acquisition rights may not be inherited.
 - 7) In the event that a holder of stock acquisition rights causes serious damage to the Company and if the Board of Directors of the Company decides to deny the exercise of stock acquisition rights by the holder of stock acquisition rights in whole or in part, such stock acquisition rights may not be exercised.
 - 8) Other conditions on exercise shall be as stipulated in an agreement on the allotment of stock acquisition rights to be entered between the Company and a holder of stock acquisition rights, in accordance with a resolution of a Board of Directors meeting.

(2) Size of stock acquisition rights with vesting conditions and its changes

The target shares of stock acquisition rights are stock options that existed during the fiscal year under review, and the number of stock options is translated into the number of shares.

(i) Number of stock options

| | FY2015 stock options |
|-----------------------------------|----------------------|
| Before vested (shares) | - |
| As of end of previous fiscal year | 93,500 |
| Granted | - |
| Expired | - |
| Vested | 93,500 |
| Unvested outstanding | - |
| After vested (shares) | - |
| As of end of previous fiscal year | - |
| Vested | 93,500 |
| Exercised | 62,000 |
| Expired | - |
| Unexercised outstanding | 31,500 |

(ii) Unit price information

| | FY2015 stock options |
|---------------------------------------|----------------------|
| Strike price (yen) | 420 |
| Average share price at exercise (yen) | 872 |

2. Summary of accounting methods used

When stock acquisition rights are issued, the amount paid in for such issuance is recorded as stock acquisition rights under net assets.

When stock acquisition rights are exercised and new shares are issued, the amount paid in for the issuance of the stock acquisition rights and the amount paid in for the exercise of the stock acquisition rights are reclassified as capital stock and legal capital surplus. When stock acquisition rights expire, an amount equivalent to the expired stock acquisition rights is included in income for the period when such expiration is final.

(Segment Information)

Segment Information

Previous fiscal year (January 1 to December 31, 2017) and fiscal year under review (January 1 to December 31, 2018)

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

(Profit and Loss under Equity Method)

All group affiliates owned by the Company are deemed insignificant group companies by earnings and surplus standards, and therefore their figures are not shown.

(Per Share Information)

| | FY 2017 (from January 1, 2017 to December 31, 2017) | FY 2018 (from January 1, 2018 to December 31, 2018) |
|--------------------------|---|---|
| Net assets per share | ¥834.66 | ¥900.82 |
| Profit per share | ¥145.50 | ¥88.26 |
| Diluted profit per share | ¥145.11 | ¥87.83 |

Note: 1. The basis for calculating profit per share and diluted profit per share is as follows:

| | FY 2017 (from January 1, 2017 to December 31, 2017) | FY 2018 (from January 1, 2018 to December 31, 2018) |
|---|---|---|
| Profit per share | | |
| Profit for the period (thousand yen) | 973,175 | 593,281 |
| Amount not attributed to common shareholders (thousand yen) | - | - |
| Profit attributable to owners of parent attributed to common stock (thousand yen) | 973,175 | 593,281 |
| Average number of common stock outstanding for the period (shares) | 6,688,330 | 6,721,703 |
| | | |
| Diluted profit per share | | |
| Profit adjustment (thousand yen) | - | - |
| Increase in number of common stock (shares) | 18,198 | 32,950 |
| (of which the amount of subscription rights to shares)(shares) | 18,198 | 32,950 |
| Overview of dilutive shares not included in the calculation of diluted profit per share because of their anti-dilutive effect | - | - |

Note: 2. The basis for calculation of net assets per share is as follows:

| | FY 2017 (from January 1, 2017 to December 31, 2017) | FY 2018 (from January 1, 2018 to December 31, 2018) |
|---|---|---|
| Net assets for the period (thousand yen) | 5,584,386 | 6,098,862 |
| Deduction amount from total net assets (thousand yen) | 1,287 | 433 |
| (of which the amount of subscription rights to shares)(thousand yen) | (1,287) | (433) |
| Net assets attributed to common stock (thousand yen) | 5,583,099 | 6,098,428 |
| Closing number of common stock used in the calculation of net asset per share (shares) | 6,689,065 | 6,769,835 |

The Company's shares held in trust that are recognized as treasury stock within shareholders' equity are included in the treasury stock deducted from the calculation of the average number of shares outstanding during the period, used for calculating profit per share (68,848 shares as of December 31, 2017; 67,005 shares as of December 31, 2018).

The Company's shares held in trust that are recognized as treasury stock within shareholders' equity are included in the treasury stock deducted from the number of shares outstanding at end of the period, used for calculating "net assets per share" (68,100 shares as of December 31, 2017; 49,300 shares as of December 31, 2018).

(Significant Subsequent Events)

(Stock repurchase through a tender offer)

At the board of directors meeting of the Company held on November 5, 2018, the Company resolved to implement a stock repurchase in accordance with the provisions of Article 156, Paragraph 1 of the Companies Act (Law No. 86, 2005 as amended) that is applied mutatis mutandis pursuant to the provisions of Article 165, Paragraph 3 of the same act and the provisions of articles of incorporation of the Company, and the Company further decided a tender offer as the specific method of the stock repurchase as below.

1. Purpose of the tender offer

The Company, in light of the recent trend of its strong business performance, considers that shareholder returns will continue to be one of the top priority management issues of the Company as well as further improvement of capital efficiency. For this reason, the Company decided to implement a shareholder returns by further repurchasing its stock.

If a market purchase were to be chosen as the way of the stock repurchase, the volume of stock that the Company could acquire at one time at market price would be limited given the current trading volume of the Company's shares at the Second Section of the Tokyo Stock Exchange. For this reason, the Company has determined that a tender offer is the most suitable as the specific method for the stock repurchase because the Company is expected to achieve a sizable volume of stock repurchase by setting the tender offer price by adding premiums to the market price of the Company's stock. The Company also took into consideration matters including equality among the shareholders of the Company, transparency in transactions, and the current status of market transactions.

This way the Company believes to contribute to improvement of earnings per share (EPS) and the return on equity (ROE) of the Company, which should lead to returning the Company's profits to the shareholders.

For more details, please refer to the following documents: "Announcement of a stock repurchase through a tender offer" released on November 5, 2018, "(Revision) Partial revision of the announcement of a stock repurchase through a tender offer" on December 5, 2018 and "Announcement of the result of the stock repurchase through a tender offer and the end of the tender offer period" on January 25, 2019.

2. Details of the board of directors' resolution

| | |
|---|--|
| (1) Class of shares to be acquired | Common stock |
| (2) Total number of shares to be acquired | Up to 1,000,100 shares |
| (3) Total acquisition cost | Up to 1,000,100,000 yen |
| (4) Acquisition period | Starting on December 6, 2018 and ending on February 28, 2019 |

3. Outline of the tender offer

| | |
|--|--|
| (1) Tender offer period | Starting on December 6, 2018 and ending on January 24, 2019 (30 business days) |
| (2) Tender offer price | 1,000 yen per share |
| (3) Number of shares to be offered | 1,000,000 shares |
| (4) Announcement date of tender offer commencement | December 6, 2018 |
| (5) Commencement date of settlement | February 18, 2019 |

4. The Company's shares scheduled to be acquired

| | |
|---|-------------------|
| (1) Class of shares to be acquired | Common stock |
| (2) Total number of shares to be acquired | 1,000,000 shares |
| (3) Total acquisition cost | 1,000,000,000 yen |

Note: The amount in the above does not include the TOB agent fees and other expenses.

| | |
|---------------------------------|-------------------|
| (4) Scheduled acquisition date: | February 18, 2019 |
|---------------------------------|-------------------|