

SECURITIES REPORT

(Report under Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

Fiscal Year (57th Term)

(from January 1, 2019 to December 31, 2019)

CTI Engineering Co., Ltd.

21-1, Nihombashi-hamacho 3-chome, Chuo-ku, Tokyo

57th Term (from January 1, 2019 to December 31, 2019)

SECURITIES REPORT

1. This securities report is the one obtained by attaching the table of contents to the paginating data on the securities report compiled under Article 24, Paragraph 1 of the Financial Instruments and Exchange Act, which was submitted through the Electronic Disclosure for Investors' Network (EDINET) stipulated in Article 27-30-2 of the Act, and by outputting and printing the data.
2. This report does not include documents attached to the securities report submitted using the method mentioned above, but the audit reports are inserted at the end of this report.

(The above-mentioned audit reports are omitted from the English translation.)

CTI Engineering Co., Ltd.

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Document submitted	Securities report
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Date of submission	March 27, 2020
Fiscal Year	57th term (from January 1, 2019 to December 31, 2019)
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Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Part 1: CORPORATE INFORMATION

CHAPTER 1: GENERAL

1. Changes in Major Management Indices

(1) Consolidated management indices of the Company

Fiscal year		53rd term	54th term	55th term	56th term	57th term
Fiscal year-end		December 2015	December 2016	December 2017	December 2018	December 2019
Sales amount	(million yen)	40,220	42,033	49,301	58,443	62,649
Ordinary profit	(million yen)	2,734	2,433	2,500	3,167	4,397
Net income attributable to owners of the parent	(million yen)	1,633	1,447	1,615	1,893	2,808
Comprehensive income	(million yen)	1,891	1,259	2,237	1,299	3,766
Net assets	(million yen)	23,816	24,793	26,885	27,810	30,929
Total assets	(million yen)	43,937	42,644	49,444	50,854	59,013
Net assets per share	(yen)	1,675.40	1,746.31	1,881.01	1,950.54	2,169.53
Net income per share	(yen)	115.51	102.37	114.22	133.94	198.59
Net income per share after adjustment of potential shares	(yen)	—	—	—	—	—
Net worth ratio	(%)	53.9	57.9	53.8	54.2	52.0
Profit ratio of net worth	(%)	7.2	6.0	6.3	7.0	9.6
Price earnings ratio	(times)	10.75	10.18	10.08	11.59	11.38
Cash flow from operating business activities	(million yen)	1,613	-201	2,834	1,873	4,798
Cash flow from investment activities	(million yen)	-1,766	-163	-6,857	-1,475	-1,051
Cash flow from financial activities	(million yen)	-196	-683	-739	-76	-545
Closing balance of cash and cash equivalents	(million yen)	12,310	11,244	6,515	6,722	9,873
Number of employees (plus average number of temporary employees)	(persons)	1,855 (499)	1,886 (504)	2,826 (817)	2,932 (883)	3,012 (919)

- Notes:
1. Sales amount does not include consumption tax.
 2. Net income per share after adjustment of potential shares is not entered because no potential shares have been issued.
 3. The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018), etc. have been applied from the beginning of the 57th term. Accordingly, the major management indices for the 56th term are stated after retrospectively applying the above accounting standards, etc.

(2) Non-consolidated Management Indices of the Company

Fiscal year		53rd term	54th term	55th term	56th term	57th term
Fiscal year-end		December 2015	December 2016	December 2017	December 2018	December 2019
Sales amount	(million yen)	33,734	34,256	35,440	36,768	41,068
Ordinary profit	(million yen)	2,513	2,465	2,643	2,821	3,942
Net income	(million yen)	1,520	1,545	1,609	1,778	2,629
Capital stock	(million yen)	3,025	3,025	3,025	3,025	3,025
Number of outstanding shares	(shares)	14,159,086	14,159,086	14,159,086	14,159,086	14,159,086
Net assets	(million yen)	23,608	24,923	26,528	27,852	30,583
Total assets	(million yen)	38,498	38,762	41,386	43,667	48,687
Net assets per share	(yen)	1,669.52	1,762.55	1,876.06	1,969.72	2,162.91
Cash dividend per share (Interim dividend per share)	(yen)	20.00 (-)	20.00 (-)	22.00 (-)	25.00 (-)	35.00 (-)
Net income per share	(yen)	107.54	109.27	113.81	125.76	185.99
Net income per share after adjustment of potential shares	(yen)	-	-	-	-	-
Net worth ratio	(%)	61.3	64.3	64.1	63.8	62.8
Profit ratio of net worth	(%)	6.4	6.4	6.3	6.5	9.0
Price earnings ratio	(times)	11.55	9.54	10.11	12.34	12.15
Dividend payout ratio	(%)	18.6	18.3	19.3	19.9	18.8
Number of employees (plus average number of temporary employees)	(persons)	1,399 (441)	1,450 (449)	1,511 (448)	1,574 (462)	1,633 (491)
Total shareholder return (Comparative indicator: TOPIX Net Total Return Index)	(%) (%)	81.9 (112.1)	70.2 (112.4)	78.7 (137.4)	106.4 (115.5)	154.6 (136.4)
Highest stock price	(yen)	1,576	1,240	1,238	1,758	2,295
Lowest stock price	(yen)	1,055	753	983	1,134	1,335

- Notes:
1. Sales amount does not include consumption tax.
 2. Net income per share after adjustment of potential shares is not entered because no potential shares have been issued.
 3. The highest and lowest stock prices are those recorded on the First Section of the Tokyo Stock Exchange.
 4. The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018), etc. have been applied from the beginning of the 57th term. Accordingly, the major management indices for the 56th term are stated after retrospectively applying the above accounting standards, etc.

2. Chronology

Date	Outline
April 1963	Established “Kensetsu Giken KK” in Ginza-nishi (Ginza 3-chome at present), Chuo-ku, Tokyo to conduct engineering consulting business
April 1963	Started business at the Head Office and Osaka Office in Minami-ku (Chuo-ku at present), Osaka at the same time as company establishment
February 1964	Changed trading name to “KK Kensetsu Gijutsu Kenkyujo (= CTI Engineering Co., Ltd.)”
December 1964	Registered at the Ministry of Construction as a construction consultant (No. 39-133)
June 1967	Opened Fukuoka Liaison Office (Fukuoka Office at present) in Fukuoka-shi, Fukuoka
April 1969	Moved the Head Office to Nihombashi-koamicho, Chuuo-ku, Tokyo
September 1973	Moved the Head Office to Nihombashi-honcho, Chuo-ku, Tokyo
January 1975	Opened Overseas Project Office (Overseas Department at present) in the Head Office to increase the number of oversea project orders
April 1976	Opened Sendai Liaison Office (Tohoku Office at present) in Sendai, Miyagi
September 1976	Opened Nagoya Liaison Office (Chubu Office at present) in Nakamura-ku, Nagoya
April 1977	Opened Hiroshima Liaison Office (Chugoku Office at present) in Hiroshima-shi, Hiroshima
July 1980	Opened Okinawa Liaison Office (Okinawa Office at present) in Urazoe-shi, Okinawa
April 1983	Opened Niigata Liaison Office (Hokuriku Office at present) in Niigata-shi, Niigata and Takamatsu Liaison Office (Shikoku Office at present) in Takamatsu-shi, Kagawa
December 1983	Established “CTI Chousasekkei KK” (CTI AURA Co., Ltd. at present) to be exclusively engaged in construction management projects
June 1988	Opened Sapporo Liaison Office (Hokkaido Office at present) in Chuo-ku, Sapporo
July 1989	Opened Front Department to be in charge of hydraulic model experiments for dams, rivers and erosion control
April 1991	Opened Tokyo Office (Tokyo Head Office at present) in Nihombashi-honcho, Chuo-ku, Tokyo in preparation for larger-scale business
April 1994	Opened CM Headquarters in the Head Office to participate in “Construction Management (CM)” business acting as an agent in construction projects ranging from planning and design through to selection of constructor and construction control
June 1994	Registered over-the-counter stock with the Japan Securities Dealers Association
August 1996	Changed organization of the Front Dept. and opened Tsukuba Research Center in Tsukuba-shi, Ibaraki
October 1996	Stock listed on the Second Section of the Tokyo Stock Exchange
March 1999	Established CTI Engineering International Co., Ltd. to isolate overseas operations making it independent of other operations
April 1999	Assigned the goodwill of the overseas division to the CTI Engineering International
June 1999	Stock listed on the First Section of the Tokyo Stock Exchange
December 1999	Established Management Techno Co., Ltd. to be exclusively engaged in management businesses
April 2000	Opened Management Business Department to be in charge of management business
April 2003	CTI Academy Co., Ltd. (CTI Frontier Co., Ltd. at present) was established to specialize in training, the conducting of seminars, and other businesses.
May 2005	In the company’s 60th year of operations, the head office was relocated to Nihombashi Hamacho, Chuo-ku, Tokyo.
June 2006	On June 1, 2006, the Fukuoka Association of Land Readjustment transferred its commercial operations to the Company’s wholly owned subsidiary, Fukuoka Land Readjustment Co., Ltd. (Newly founded and started operation on June 1, 2006) (presently Japan Urban Engineering Co., Ltd.)
January 2008	Established Wuhan CTI-CRSRI Engineering & Environment Co., Ltd. to implement environmental consulting services with Changjiang River Scientific Research Institute
October 2010	The Company’s wholly owned subsidiary, Chi-ken Sogo Consultants Co., Ltd., absorbed the construction consultant business of SUMIKO CONSULTANTS CO., LTD. (presently Sumiko Resources Exploration & Development Co., Ltd.) and started operations.
March 2014	Established CTI Myanmar Co., Ltd. to implement engineering consulting services jointly with Duwun Export & Import Co., Ltd.
June 2015	Environmental Research & Solutions CO., LTD., started its operations as the Company’s wholly owned subsidiary by way of a share transfer from UNITIKA LTD.
November 2015	NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. started operations as the Company’s wholly owned subsidiary by way of a share transfer in the form of an incorporation-type company split.
June 2017	Waterman Group Plc started operations as the Company’s wholly owned subsidiary by way of a takeover bid.

3. Business Contents

The Company's group consists of CTI Engineering Co., Ltd. (hereinafter "the Company") and other subsidiaries (hereinafter collectively "the Group") all of which are engaged in engineering consulting business related to public works for rivers, dams, roads, environment and information, etc. In the settlement of the current term, the Company has twenty-five consolidated subsidiaries and no affiliates carried by the equity method.

Descriptions of the Group's businesses, including the Company and other related companies, are shown as follows.

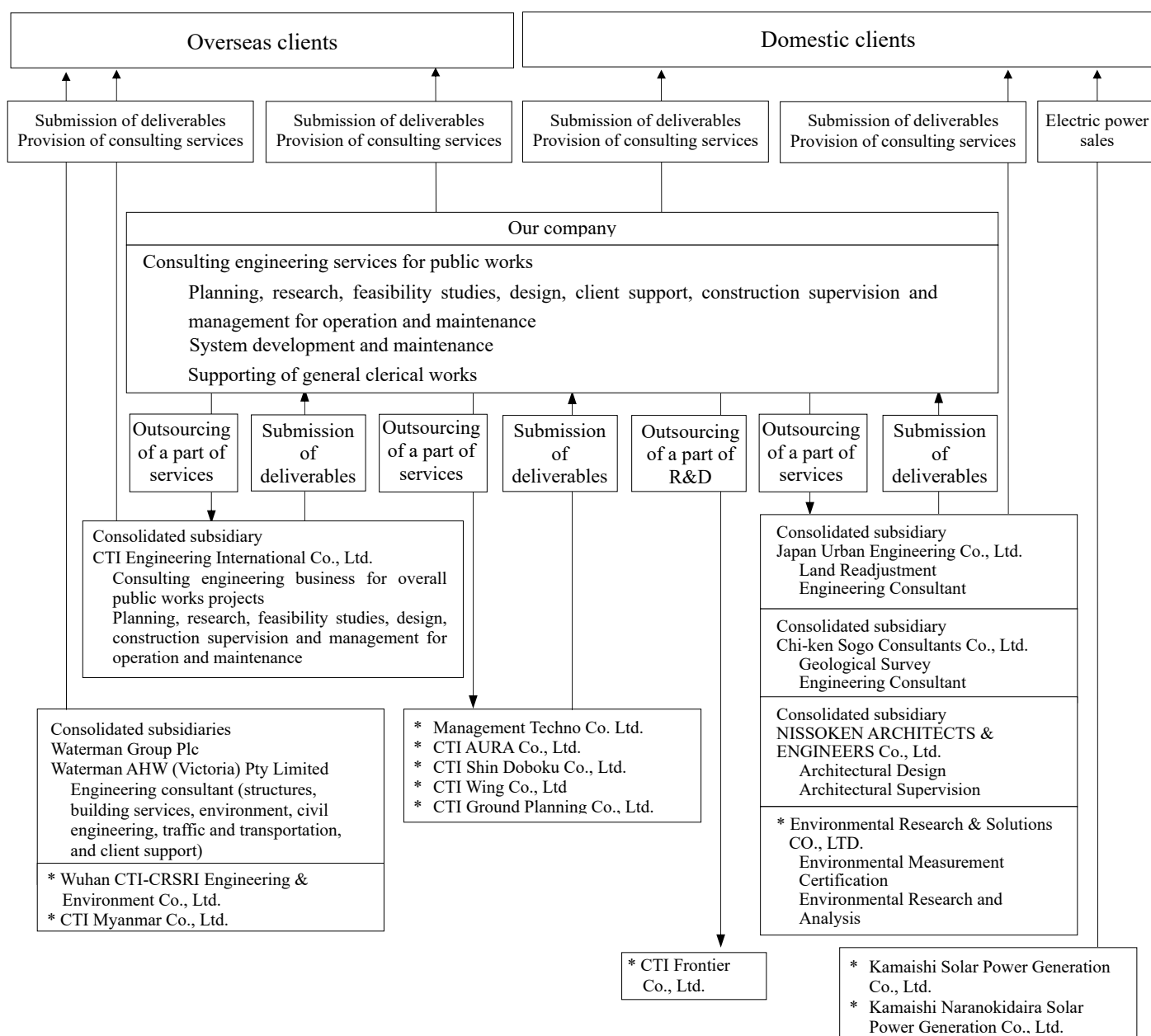
(i) Domestic consulting engineering business

The Company's major domestic consulting engineering services include planning, research, feasibility studies, design, client support, construction supervision, management for operation and maintenance for public works in Japan as well as incidental system development, maintenance and supporting of general clerical works, land readjustment works, geological survey works, and architectural design and supervision. The Company is mainly in charge of all of these operations, except for land readjustment works, geological survey works, and architectural design and supervision. The Company's subsidiary Japan Urban Engineering Co., Ltd. is in charge of land readjustment works. The Company's subsidiary Chi-ken Sogo Consultants Co., Ltd. is in charge of geological survey works. The Company's subsidiary NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. is in charge of architectural design and supervision.

(ii) Overseas consulting engineering business

The Company's major overseas consulting engineering services include project finding, formulation of master plans, planning, research, feasibility studies, design, construction supervision and management for operation and maintenance for overall public works projects, as well as building-related operations including structural design and facilities and equipment design. The Company is in charge of consulting engineering services together with its subsidiaries CTI Engineering International Co., Ltd. and Waterman Group Plc. The Company's subsidiaries Waterman Group Plc and Waterman AHW (Victoria) Pty Limited are in charge of building-related operations.

The above description is shown in the business chart on the next page.



Note: Companies marked with asterisks are excluded from the scope of consolidation due to a lower degree of importance concerning scale.

4. Situation of Consolidated Subsidiaries

Company name	Address	Capital	Major business contents	Voting right ratio (indirect ratio) (%)	Relation contents
CTI Engineering International Co., Ltd.	Koto-ku, Tokyo	100 million yen	Overseas consulting engineering	70.0	Receives orders for engineering consulting services in overseas markets.
Waterman Group Plc (Note)	London, UK	3.3 million pounds	Overseas consulting engineering	100.0	Mainly receives direct orders for consulting engineering services and building-related operations in the UK.
Waterman AHW (Victoria) Pty Limited (Note)	Melbourne, Australia	7.6 million Australian dollars	Overseas consulting engineering	51.0 (51.0)	Mainly receives direct orders for building-related operations in Australia.
Japan Urban Engineering Co., Ltd.	Chuo-ku, Tokyo	100 million yen	Domestic consulting engineering	100.0	Receives orders for engineering consulting services from the Company. In addition, directly receives orders for land readjustment works, from local governments.
Chi-ken Sogo Consultants Co., Ltd.	Arakawa-ku, Tokyo	100 million yen	Domestic consulting engineering	100.0	Receives orders for engineering consulting services from the Company. In addition, directly receives orders for geological survey works, from local governments.
NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd.	Shibuya-ku, Tokyo	100 million yen	Domestic consulting engineering	100.0	Directly receives orders for architectural design and supervision.

Note: These companies are specified subsidiaries of the Company.

5. Situation of Employees

(1) Consolidation basis

As of December 31, 2019

Segment name	Number of employees (persons)
Domestic consulting engineering business	1,911 (544)
Overseas consulting engineering business	1,101 (375)
Total	3,012 (919)

Note: "Number of employees" shows the number of regular workers. For temporary employees, the average number of additional temporary workers during the year is shown in ().

(2) Non-consolidation basis

As of December 31, 2019

Number of employees (persons)	Age on average (years old)	Average length of employment (years)	Average yearly wage (yen)
1,633 (491)	43.21	13.23	8,420,740

Notes: 1. "Number of employees" shows the number of regular workers. For temporary employees, the average number of additional temporary workers during the year is shown in ().
2. The average yearly wage contains bonus and extra wages.

(3) Situation of labor union

At the submitting company, a labor union has been organized as follows:

- (i) Name: Labor Union of CTI Engineering
- (ii) Umbrella organization: National Federation of Construction Engineering Worker's Unions for Japan
- (iii) Number of union members: 965 (as of December 31, 2019)
- (iv) Other: There is no matter in particular to be mentioned, and labor-management relations are maintained in a stable manner based on mutual trust.

CHAPTER 2: BUSINESS SITUATION

1. Management Policy, Business Environment, and Our Tasks Ahead, etc.

Matters related to the future stated herein were decided as of the end of the current consolidated fiscal year.

(1) Basic management policy of the Company

CTI Engineering Co., Ltd. has played its part in enhancing social capital with the company policies of integrity and technology ever since the Civil Engineering Research Institute, the predecessor of the Company, was founded in 1945.

Japan now faces a variety of social issues, including natural disasters, a declining population, and an ageing infrastructure. Overseas, Japan is also expected to contribute to improving infrastructure.

Based on the Group's business philosophy to "contribute to a progressive, safe, pleasant, and prosperous living environment through the Group's globally recognized professional expertise and technical capabilities," the CTI Group will contribute to disaster preparedness, countering global environmental issues, establishing a safe and secure society, and improving global infrastructure while reinforcing the customer trust we have accumulated so far.

(2) Target management indices

The Group targets sales of 65,000 million yen, operating income of 4,400 million yen, ordinary profit of 4,500 million yen, and net income attributable to owners of the parent of 2,900 million yen, as management indices for the fiscal year ending December 31, 2020.

(3) Management strategy

The Group formulated the CTI Group's medium- to long-term vision "CLAVIS 2025" in 2015 and set the Group's target business scale at 60,000 million yen. In 2018, mainly due to a growing domestic need for building national resilience and an expansion in overseas business with the addition of Waterman Group Plc to the Group, the Group early achieved the target business scale of "CLAVIS 2025."

Accordingly, amid ongoing changes to the business environment, the Group partly revised "CLAVIS 2025" in January 2019 to expand domestic business, further promote business on a global scale, set higher targets, and strengthen cooperation with Waterman Group Plc.

1) Basic policy

Strong growth in an age of drastically changing infrastructure with lofty aspirations for society and a commitment to challenges in technology.

2) Targeted business scale (revised in 2019)

Targets for fiscal 2025 are sales of 85,000 million yen (60,000 million yen in Japan and 25,000 million yen overseas) and operating income of 6,000 million yen.

3) Direction

i) Multi-infrastructure company

* Gain an accurate understanding of the demand as infrastructures diversify in the future covering a wide scope of infrastructures ranging from architectural/urban and social/public systems to cater to various needs including not only research, planning, and design but also management, maintenance and operation, and the provision of information.

ii) Global company

- * Further expand overseas operation in order to contribute in a global scale.
- * Establish group companies in the major countries of the world where engineers of various nationalities, not to mention those of Japan, can expand their presence globally.

iii) Active company

- * Maintain and evolve management that exploits engineers and technology as resources.
- * Strengthen technology management (management that links technology to profit efficiently) and thereby enhance the efficiency of management.
- * Aim to be a company where employees play active roles towards their targets as a driving force for company growth.

(4) Business environment and our tasks ahead

Steady public works spending is expected to continue, with budget allocated mainly to strengthen measures for disaster prevention, disaster mitigation, etc. focused on hydrologic engineering, and to revise response measures for ageing infrastructure in the initial budget for fiscal 2020, as well as in the Three-year Emergency Response Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience, which enters its third year in fiscal 2020. Specifically, the effect and importance of hydrologic engineering have been widely recognized in society, where the business environment requires the Group to perform a key role to develop social capital.

In light of this business environment, the Group will address the following priority tasks under the slogan of “CTI Group-wide initiatives for business structure reform” in the Business Plan for the 58th Term, the second fiscal year of the Medium-term Business Plan 2021, with a view to becoming a *multi-infrastructure company* by expanding business domains driven by inter-Group cooperation within Japan. Overseas, the Group aims to expand its business fields and business volume by promoting closer inter-Group cooperation with a core focus on CTI Engineering International Co., Ltd. and Waterman Group Plc. Moreover, the Group will provide high-quality technical services by promoting the reform of its in-house system to stimulate employee motivation and accelerate employee growth.

- 1) Expanding businesses by further promoting inter-Group cooperation
- 2) Improving the work environment mainly by increasing productivity
- 3) Introducing a new personnel system to stimulate employee motivation
- 4) Strengthening risk management

All of our employees and executives will continue to make concerted efforts with their utmost energy to carry out CTI Engineering’s social mission as a construction consultant with an important role in the security and safety of Japan’s citizens.

2. Business Risks

(Domestic business risks)

The Group’s business depends greatly on public works, so its business performance may be affected by public works trends.

(Overseas business risks)

In the event of unforeseeable amendments to legal systems or the emergence of unexpected situations in the political and economic environments in the countries and regions where the Group is to develop business in the future, the business performance of the Group may be affected.

3. Analysis of Financial Conditions, Business Performance and Cash Flow by the Management

(1) Outline of business performance, etc.

The outline of the Group's financial conditions, business performance and cash flow (hereinafter, "business performance, etc.") for the current consolidated fiscal year is as follows.

1) Business performance

During the current consolidated fiscal year, the Japanese economy showed signs that its slowdown is coming to a halt, with the last-minute purchase demand for personal consumption before the consumption tax hike, measures to mitigate the tax hike backlash effect, and high levels of performance maintained by nonmanufacturing industries, though performance levels in the manufacturing industry and export levels deteriorated. The global economy, meanwhile, continued to require a close watch over the US-China trade friction and Brexit.

The business environment surrounding the Group remained steady, buoyed by supporting factors such as many requests received for the implementation of disaster assessments, etc. of natural disasters in recent years that were both intense and wide-ranging, strengthened measures for disaster prevention and disaster mitigation, and works to promote measures against ageing infrastructure in the National Resilience Plan.

Under these circumstances, the Company has worked to increase orders received for disaster prevention and disaster mitigation, its mainstay area, while endeavoring to expand business both in quality and quantity throughout the Group by positioning maintenance and management, client support, comprehensive management, Private Finance Initiative (PFI)/Public Private Partnership (PPP), total urban development, etc. as growth areas, and by positioning local governments and private companies as growth markets, under the Medium-term Business Plan 2021 launched in 2019. The Company has also accelerated personnel exchange, sales cooperation, collaboration at times of disaster, etc. among the group companies in order to further strengthen Group cooperation. In addition, the Company has implemented labor-saving measures using Artificial Intelligence (AI)/Robotic Process Automation (RPA), has further improved its project management systems, and has made full-fledged operation of remote working with a view to improving the productivity of the entire Group.

The Company also made united efforts for disaster recovery from damages inflicted by the typhoon Hagibis in October 2019 to fulfill its social mission as a construction consultant that enhances social capital.

As a consequence, orders received of the Group during this consolidated fiscal year were 70,718 million yen, a YoY increase of 17.6%. Meanwhile, income from completed services was 62,649 million yen, a YoY increase of 7.2%, and ordinary profit increased by 38.9% YoY to 4,397 million yen. Net income attributable to owners of the parent increased by 48.3% YoY to 2,808 million yen.

Results by reportable segment of the Group were as follows.

i) Domestic consulting engineering business

Orders received for domestic consulting engineering business increased by 6.7% YoY to 48,806 million yen, income from completed services increased by 11.2% YoY to 45,537 million yen, and segment income increased by 38.9% YoY to 3,832 million yen.

ii) Overseas consulting engineering business

Orders received for overseas consulting engineering business increased by 52.1% YoY to 22,021

million yen, income from completed services decreased by 2.1% YoY to 17,233 million yen, and segment income increased by 58.3% YoY to 441 million yen.

2) Financial conditions

At the end of the current consolidated fiscal year, the Group's total assets totaled 59,013 million yen, an increase of 16.0% compared to the end of the previous fiscal year. The major items were increases in cash and bank deposits, notes receivable and completed work receivables, and prepaid expenses for uncompleted services.

Total liabilities at the end of this consolidated fiscal year were 28,083 million yen, an increase of 21.9% compared to the end of the previous fiscal year. The major items were increases in advances received from uncompleted services and lease obligations.

At the end of the current consolidated fiscal year, net assets totaled 30,929 million yen, an increase of 11.2% compared to the end of the previous fiscal year. This was mainly because profit surplus increased due to net income attributable to owners of the parent.

3) Cash flow

At the end of the current consolidated fiscal year, cash and cash equivalents (funds) increased by 3,151 million yen YoY, to a total of 9,873 million yen.

Net cash provided by operating activities was 4,798 million yen, a YoY increase of 156.1%. This was mainly because net income before income tax of 4,302 million yen offset an increase in prepaid expenses for uncompleted services of 2,192 million yen.

Net cash used for investment activities was 1,051 million yen, a YoY decrease of 28.7%. The major items were payments for acquisition of tangible fixed assets of 566 million yen and payments for acquisition of intangible fixed assets of 343 million yen.

Net cash used for financial activities was 545 million yen, a YoY increase of 612.9%. This was mainly because repayments of lease obligations of 374 million yen and dividend payments of 353 million yen offset a net increase in short-term borrowings of 240 million yen.

4) Results of production, orders received and sales

1) Production results

Segment name	Current consolidated fiscal year (From January 1, 2019 to December 31, 2019) (million yen)	Change from the same term in previous year (%)
Domestic consulting engineering business	45,493	11.3
Overseas consulting engineering business	17,156	-2.4
Total	62,649	7.2

Notes: 1. The amounts are calculated according to the sales prices.

2. The amounts represent sales to outside customers and do not include inter-segment transactions and transfers.

2) Order receiving results

Segment name	Current consolidated fiscal year (From January 1, 2019 to December 31, 2019)			
	Orders received (million yen)	Change from the same term in previous year (%)	Orders in hand (million yen)	Change from the same term in previous year (%)
Domestic consulting engineering business	48,746	6.7	49,707	7.0
Overseas consulting engineering business	21,971	52.1	17,577	37.7
Total	70,718	17.6	67,285	13.6

Notes: 1. The amounts are calculated according to the sales prices.

2. The amounts represent sales to outside customers and do not include inter-segment transactions and transfers.

3) Sales results

Sales results for the current consolidated fiscal year by segment are as follows.

Segment name	Current consolidated fiscal year (From January 1, 2019 to December 31, 2019) (million yen)	Change from the same term in previous year (%)
Domestic consulting engineering business	45,493	11.3
Overseas consulting engineering business	17,156	-2.4
Total	62,649	7.2

Notes: 1. The amounts are calculated according to the sales prices.

2. The amounts represent sales to outside customers and do not include inter-segment transactions and transfers.

3. Sales results by major client and ratios to the total sales results

Client	Previous consolidated fiscal year (From January 1, 2018 to December 31, 2018)		Current consolidated fiscal year (From January 1, 2019 to December 31, 2019)	
	Amount (million yen)	Ratio (%)	Amount (million yen)	Ratio (%)
National Government of Japan	19,323	33.1	21,979	35.1

(2) Analysis and review of business performance, etc. from the management's viewpoint

Matters related to the future stated herein were determined by the Group as of the date this report was submitted.

1) Important accounting policies and estimates

The accompanying consolidated financial statements of the Group were prepared on the basis of accounting principles generally accepted in Japan. When preparing the consolidated financial statements, the management is required to select and apply accounting policies and to make estimates that impact the reported amounts and the disclosure of assets/liabilities and revenues/expenses.

Though the management makes these estimates reasonably in consideration of past results and the current status of operations, actual results may differ from these estimates because of uncertainties inevitable in estimates. Important accounting policies applied in the consolidated financial statements of the Group are described in CHAPTER 5: STATUS OF ACCOUNTING, 1. Consolidated Financial Statements and Other Materials, (1) Consolidated Financial Statements, Basic Important Matters for Preparation of Consolidated Financial Statements.

2) Analysis of business performance, etc.

With regard to the business performance of the Group for the current consolidated fiscal year, please refer to CHAPTER 2: BUSINESS SITUATION, 3. Analysis of Financial Conditions, Business Performance and Cash Flow by the Management, (1) Outline of business performance, etc., 1) Business performance.

The Group recorded orders received, sales, ordinary profit and net income attributable to owners of the parent of 70,718 million yen, 62,649 million yen, 4,397 million yen and 2,808 million yen, respectively, for the consolidated fiscal year, all of which were the highest ever. As a result, the Group early achieved the business scale of 70,000 million yen targeted in the Group's Medium-term Business Plan 2021, and therefore performance for the current consolidated fiscal year is considered to be favorable.

This is mainly credited to three factors: the domestic consulting engineering business remaining steady based on the growing demand for building national resilience in Japan, significant recovery of orders received in CTI Engineering International Co., Ltd., and steady levels of orders received by Waterman Group Plc and other consolidated subsidiaries.

3) Analysis of financial conditions

With regard to financial conditions for the current consolidated fiscal year, please refer to CHAPTER 2: BUSINESS SITUATION, 3. Analysis of Financial Conditions, Business Performance and Cash Flow by the Management, (1) Outline of business performance, etc., 2) Financial conditions.

Total assets totaled 59,013 million yen, an increase of 16.0% compared to the end of the previous fiscal year, total liabilities were 28,083 million yen, an increase of 21.9% compared to the end of the previous fiscal year, and net assets totaled 30,929 million yen, an increase of 11.2% compared to the end of the previous fiscal year.

This mainly resulted from the increased assets and liabilities associated with the expanded business scale of the Group, because orders received increased for the Group as a whole through its initiatives to

grow into a multi-infrastructure company with a global presence, as exemplified by the addition of Waterman Group Plc.

4) Analysis of capital resources and fund liquidity

With regard to cash flow at the end of the current consolidated fiscal year, please refer to CHAPTER 2: BUSINESS SITUATION, 3. Analysis of Financial Conditions, Business Performance and Cash Flow by the Management, (1) Outline of business performance, etc., 3) Cash flow.

Though total assets have increased as a result of the Group's expanded business scale, the Group is proceeding with the investments necessary for business expansion, enhanced productivity, and operational efficiency basically within the range of its own funds while ensuring liquidity on hand.

The main uses of the Group's working capital are operating expenses such as cost of services and selling, general and administrative expenses. The main uses of funding for investment are mergers and acquisitions and capital investment to achieve medium-to-long-term growth.

Due to the nature of our services, consignment fee income tends to concentrate in the second quarter and the balance of cash on hand tends to drop in the first quarter. Accordingly, the Group may partially procure working capital by short-term borrowings from financial institutions according to funding demand in the first quarter.

4. Important Agreements Related to Management

Not applicable.

5. Research and Development

The Group develops business both in Japan and abroad and carries out research and development necessary for its business.

Investment areas are divided into business development (strategic research, international research, research for the commercialization and development of new business areas), research in national land and culture, technology development, and human resources development.

During the current consolidated fiscal year, the Group invested a total of 995 million yen, mainly in the domestic consulting engineering business to carry out research and study on the following major subjects. Research and investigation expenses by segment consisted of 990 million yen for domestic consulting engineering business and 5 million yen for overseas consulting engineering business.

- 1) Strategic research (research on the practical application of AI, the development of Building Information Modeling (BIM)/Construction Information Modeling (CIM), and investment in cooperation with Waterman)
- 2) International research (international business promotion)
- 3) Research for the commercialization and development of new business areas (services for the provision of weather information, etc., general energy services, commercialization of comprehensive entrustment to the private sector, etc., detection of uncontrolled sewage flows, genetic technology, tunnel inspection robots, compound business fields for urban communities and architecture, commercialization of traffic-oriented urban development focused on automated driving, commercialization of on-demand mobility services, etc.)
- 4) Research in national land and culture (study on regional mobility, study for restoring plankton nets, study on dam restoration, study on landscape design, basic plans for a moon base, etc.)
- 5) Technological research and development (technology for providing good-tasting water, a cloud-type flood disaster prevention system, 3D technology for large river facilities, valuation models for driftwood and its prevention structures, research on the development of a river management platform, research on territory management for regional revitalization, measures for urban space renovation, upgraded inspections using robots and ICT technology, the provision of disaster alert information, research on debris-flow detection equipment, the development of air purification technology, the development of disaster management technology, etc.)
- 6) Human resources development (training inside or outside of the company, dispatch of employees with full-time jobs to graduate school, dispatch for overseas training, etc.)

CHAPTER 3: FACILITIES & EQUIPMENT

1. Outline of Investment into Facilities and Equipment

The total amount of capital investment for the current consolidated fiscal year was 566 million yen. The amounts of capital investment by segment were as follows.

(Domestic consulting engineering business)

There were no capital investments or sales or dispositions of facilities or equipment that had significant impacts on production capabilities in the current consolidated fiscal year.

(Overseas consulting engineering business)

There were no capital investments or sales or dispositions of facilities or equipment that had significant impacts on production capabilities in the current consolidated fiscal year.

2. Major Facilities and Equipment

Major facilities and equipment of the Group are as shown below.

(1) Company submitting the report

As of December 31, 2019

Establishment (location)	Segment name	Business line	Book value (million yen)						Number of employees (persons)
			Buildings and structures	Machinery and delivery equipment	Land (area: m ²)	Lease assets	Other	Total	
Head Office (Chuo-ku, Tokyo)	Domestic consulting engineering business	General administration facilities	16	—	—	0	68	85	125 (2)
Tokyo Head Office (Chuo-ku, Tokyo)	Domestic consulting engineering business	Office	96	—	—	7	52	156	469 (158)
Tokyo Head Office Saitama Office (Urawa-ku, Saitama)	Domestic consulting engineering business	Office	666	0	772 (1,978)	0	44	1,484	81 (62)
Research Center Tsukuba (Tsukuba-shi, Ibaraki)	Domestic consulting engineering business	Office and laboratory facilities	220	3	1,937 (50,605)	2	9	2,173	55 (18)
Yono Dormitory (Chuo-ku, Saitama)	Domestic consulting engineering business	Welfare facilities	159	—	820 (1,565)	—	0	980	— (—)
Kyushu Office (Chuo-ku, Fukuoka)	Domestic consulting engineering business	Office	416	0	1,025 (1,136)	0	50	1,493	168 (26)
CTI Keihanna Bldg. (Seikacho, Souraku-gun, Kyoto)	Domestic consulting engineering business	Office and environmental research and analysis facilities	702	3	121 (4,660)	—	4	832	— (—)
CTI Okazaki Bldg. (Okazaki-shi, Aichi)	Domestic consulting engineering business	Office and environmental research and analysis facilities	207	—	109 (1,200)	—	1	318	— (—)

Notes: 1. Land area of Research Center Tsukuba includes the area of 14,895 m² leased from a party other than the consolidated company.

2. The Company leases the CTI Keihanna Bldg. and CTI Okazaki Bldg. to Environmental Research & Solutions CO., LTD., a non-consolidated subsidiary of the Company.

3. The number of temporary employees is given in () with the average additional number during the year.

(2) Subsidiaries in Japan

Not applicable.

(3) Subsidiaries out of Japan

Not applicable.

3. New Construction or Removal Plan for Equipment

(1) Construction of major equipment

There are no plans to construct any major equipment.

(2) Removal of major equipment

There are no plans to remove any major equipment.

CHAPTER 4: STATUS OF THE COMPANY

1. Status of Shares

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of shares to be issued (shares)
Common stock	40,000,000
Total	40,000,000

(ii) Number of shares issued

Class	Issued shares as of the end of the fiscal year (shares) (December 31, 2019)	Issued shares as of the date for submission (shares) (March 27, 2020)	Listed stock exchanges or securities dealers association at which the Company's stock is registered	Details
Common stock	14,159,086	14,159,086	Tokyo Stock Exchange First Section	Number of shares in one voting unit: 100 shares
Total	14,159,086	14,159,086	—	—

(2) New share subscription acquisition rights, etc.

(i) Stock option system

Not applicable.

(ii) Rights plan

Not applicable.

(iii) Other new share subscription acquisition rights, etc.

Not applicable.

(3) Current status of moving strike stock options, etc.

Not applicable.

(4) Change in total number of shares issued and capital stock

Date	Increase/decrease in the total number of shares issued (shares)	Total number of shares issued (shares)	Increase/decrease in capital (million yen)	Capital (million yen)	Increase/decrease in capital reserve (million yen)	Capital reserve (million yen)
February 19, 1999 (Note)	1,287,189	14,159,086	—	3,025	—	4,122

Note: Increase due to stock splits at a ratio of 1 for 1.1 shares

(5) Shareholders

As of December 31, 2019

As of December 31, 2019

Category	Distribution of shares (Number of shares per unit: 100 shares)								Shares below a unit (shares)
	Government and local public entities	Financial institutions	Financial instruments firm	Other corporations	Foreign corporations etc.		Individuals etc.	Total	
					Other than Individuals	Individuals			
Number of shareholders (persons)	–	29	31	78	89	7	2,746	2,980	–
Number of shares held (units)	–	37,523	3,606	17,962	18,063	208	63,986	141,348	24,286
Shareholding ratio (%)	–	26.5	2.6	12.7	12.8	0.1	45.3	100.0	–

- Notes: 1. Among treasury stocks (18,959 stocks), 189 units are counted as “Individuals etc.” and 59 shares are counted as “Shares below a unit” in the table above.
2. “Other corporations” and “Shares below a unit” in the table above include 41 units of shares and 72 shares held by the Securities Custody and Transfer Organization respectively.

(6) Major shareholders

As of December 31, 2019

Name	Address	Number of shares held (thousand)	Ratio of the number of shares held against the number of shares issued (excluding treasury stock) (%)
CTI Engineering Employees' Stock-sharing Association	21-1, Nihombashi-hamacho 3-chome, Chuo-ku, Tokyo	1,228	8.7
The Master Trust Bank of Japan, Ltd. (trust account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	568	4.0
Japan Trustee Services Bank, Ltd. (trust account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	436	3.1
Yasumitsu Shigeta	Minato-ku, Tokyo	396	2.8
MUFG Bank, Ltd.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	371	2.6
Mitsubishi UFJ Trust and Banking Corporation (Standing proxy: The Master Trust Bank of Japan, Ltd.)	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo (11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo)	354	2.5
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, N.A., Tokyo Branch)	PALISADES WEST 6300, BEE CAVE ROAD BUILDING ONE AUSTIN TX 78746 US (27-30, Shinjuku 6-chome, Shinjuku-ku, Tokyo)	328	2.3
Sumitomo Life Insurance Company (Standing proxy: Japan Trustee Services Bank, Ltd.)	18-24, Tsukiji 7-chome, Chuo-ku, Tokyo (8-11, Harumi 1-chome, Chuo-ku, Tokyo)	300	2.1
HIKARI POWER LIMITED	1-16, Roppongi 4-chome, Minato-ku, Tokyo	279	2.0
Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	269	1.9
Total	—	4,533	32.0

Note: 568 thousand shares held in The Master Trust Bank of Japan, Ltd. (trust account) and 434 thousand shares held in Japan Trustee Services Bank, Ltd. (trust account) are shares related to trust services.

(7) Voting rights

(i) Issued shares

As of December 31, 2019

Category	Number of shares (shares)	Number of voting rights (votes)	Details
Nonvoting shares	—	—	—
Shares with limited voting rights (Treasury stocks, etc.)	—	—	—
Shares with limited voting rights (Other)	—	—	—
Shares with complete voting rights (Treasury stocks, etc.)	(Treasury stock) Common stock 18,900	—	—
Shares with complete voting rights (Other)	Common stock 14,115,900	141,159	—
Shares below a unit	Common stock 24,286	—	—
Total number of shares issued	14,159,086	—	—
Voting rights of total shareholders	—	141,159	—

- Notes: 1. “Shares with complete voting rights (other)” include 4,100 shares (41 votes) registered in the name of the Japan Securities Depository Center, Inc.
2. “Shares below a unit” include 59 treasury stocks held by the Company.

(ii) Treasury Stocks, etc.

As of December 31, 2019

Name of owners	Address of owners	Number of shares held in its own name (shares)	Number of shares held disguised ownership (shares)	Total number of shares held (shares)	Ratio of the shares held against the total number of shares issued (%)
CTI Engineering Co., Ltd.	21-1, Nihombashi-hamacho 3-chome, Chuo-ku, Tokyo	18,900	—	18,900	0.1
Total	—	18,900	—	18,900	0.1

(8) Contents of shareholding system for executives and employees

The Company approved at the Board of Directors’ meeting held on September 25, 2018 to introduce an incentive plan (hereinafter, the “Plan”) to deliver the Company’s shares to executives and employees (hereinafter, “Employees, etc.”) of its consolidated subsidiary Waterman Group Plc and some of its subsidiaries. This was intended for Waterman Group Plc and some of its subsidiaries to motivate their Employees, etc. to enhance the stock price, business results and their morale. Subsequently, Waterman Group Plc resolved at its Board of Directors’ meeting held on January 8, 2019 to introduce the Plan.

1) Outline of the Plan

Under the Plan, Waterman Group Plc and some of its subsidiaries are to establish a trust using funds they contributed. The trust is to acquire the Company’s shares in securities markets using the entrusted funds and will separately administer the shares as trust assets. The Plan will deliver shares to the Employees, etc. without consideration through the trust, as well as grant them the right to acquire the shares with consideration.

2) Total number of shares that the Employees, etc. of Waterman Group Plc and some of its subsidiaries are to acquire

11,000 shares

3) Scope of persons entitled to receive beneficiary rights and other rights under the Plan

The Employees, etc. of Waterman Group Plc and some of its subsidiaries, provided that they satisfy the beneficiary requirements

2. Acquisition of Treasury Stocks

Class of Shares Acquisition of ordinary shares in accordance with Article 155, Item 7 of the Companies Act.

(1) Acquisition of shares by resolution at a General Shareholders Meeting
None.

(2) Acquisition of shares by resolution at a Board of Directors Meeting
None.

(3) Items not related to resolutions at a General Shareholders Meeting or Board of Directors Meeting

Category	Number of Shares	Total Price (Yen)
Treasury stock acquired in this fiscal year	122	183,629
Treasury stock acquired in this period	32	79,648

Note: Treasury stock acquired in this period does not include shares acquired that were less than one transaction unit from March 1, 2020 to the date of the submission of this Securities Report.

(4) Disposal and holding of acquired treasury stock

Category	This Fiscal Year		This Period	
	Number of Shares	Total Amount Received on Divestiture (Yen)	Number of Shares	Total Amount Received on Divestiture (Yen)
Treasury stock acquired by public subscription	—	—	—	—
Treasury stock extinguished	—	—	—	—
Treasury stock acquired due to transfers from mergers, share swaps and company split-offs	—	—	—	—
Other	—	—	—	—
Held Treasury Stock	18,959	—	18,991	—

Note: Treasury stock acquired in this period does not include shares acquired that were less than one transaction unit from March 1, 2020 to the date of the submission of this Securities Report.

3. Dividend Policy

The Company determines dividends by resolution at a General Shareholders Meeting. While the Company's Articles of Incorporation, pursuant to Article 454, Paragraph 5 of the Companies Act, allow payment of interim dividends, as a general rule, dividends are paid once a year.

In determining dividends, while considering returns to investors, it is critical to maintain an appropriate level of internal reserves to ensure stable operations, as a construction consultancy engaged in operations of a highly public nature. Internal reserves are for future use to ensure the necessary funds for business expansion, to execute new operations systems for future public works which are predicted to expand, and for priority investment in new fields of technology related to the environment, urban planning and new energy.

As in the past, based on a stable dividend policy, the Company will continue to provide returns on shareholder investment with the aim of attaining a targeted dividend payment ratio of 30% for the mid- to long-term.

Note: In respect of the dividend for the record date, December 31, 2019, it was resolved at the 57th Ordinary General Shareholders Meeting held on March 26, 2020 to pay a dividend of 35 yen per share (total dividend payment amount: 494 million yen).

4. Corporate Governance

(1) Outline of corporate governance

1) Basic policy of corporate governance

The Company has formulated the Code of Corporate Conduct to realize its business philosophy to “contribute to a progressive, safe, pleasant and prosperous living environment through the Group's globally recognized professional expertise and technical capabilities,” and has fulfilled its social mission based on a corporate culture defined by the keywords integrity and technology. It is the Company's basic policy to continue improving and strengthening corporate governance in order to realize decision-making that is not only transparent and fair, but also swift and decisive, in further pursuit of sustainable corporate growth and increased corporate value over the medium to long term.

2) Implementation of corporate governance measures

i) Outline of the corporate governance system and reasons for employing the system

a. Outline of the corporate governance system

The Company has opted to become a company with a Board of Auditors with enriched statutory auditing functions. In addition, the Company has established a Nomination & Compensation Advisory Committee made up of independent External Directors as its principal members in order to enhance managerial transparency and fairness. The Company has also established an Executive Officer system to reinforce the Board of Directors' functions of making decisions and supervising business execution, in order to improve its managerial efficiency including accelerating decision-making.

Furthermore, with a view to strengthening the governance of the entire Group, the Company established a Governance Management Headquarters in April 2019 to develop and promote governance.

* Board of Directors

The Board of Directors consists of 12 Directors (including 2 External Directors), as stated in “(2) Executive Management” as of the date of the submission of this Securities Report. The Board is chaired by Tetsumi Nakamura, President & Managing Director, and resolves matters stipulated in the Regulations of the

Board of Directors, as well as matters prescribed in laws and regulations and the Articles of Incorporation. With regard to decisions on other business execution, necessary and appropriate authority in accordance with duties of the Managing Directors or Executive Directors is determined in the Authority Regulations or other internal regulations.

Mr. Shuichi Ikebuchi, External Director, made comments and suggestions at the Board of Directors Meetings based on the knowledge and viewpoint accumulated as a disaster prevention expert. Ms. Fumiko Kosao, External Director, made comments and suggestions at the Board of Directors Meetings based on the knowledge and viewpoint accumulated as an experienced Certified Public Tax Accountant.

*** Nomination & Compensation Advisory Committee**

The Company has established the Nomination & Compensation Advisory Committee, an advisory body to the Board of Directors consisting of External Directors Shuichi Ikebuchi and Fumiko Kosao, Chairman & Managing Director Kazuo Murata, and President & Managing Director Tetsumi Nakamura. The Committee is chaired by External Director Shuichi Ikebuchi, held 4 to 5 times a year in response to consultations from the Board of Directors, deliberates matters related to the personnel affairs, compensation, etc. of Directors and Auditors, reports the results of deliberations to the Board of Directors, and thereby endeavors to enhance managerial fairness and transparency and strengthen the independence and objectivity of the functions of the Board of Directors as well as its accountability.

*** Management Meeting**

The Company holds a regular Management Meeting, an advisory body to the President & Managing Director consisting of Managing Directors, Chiefs of the Head Office and representatives of business establishments, etc., once a month in principle. The Management Meeting is chaired by President & Managing Director Tetsumi Nakamura, and holds substantive discussion on matters necessary for the business execution in response to consultations from the President & Managing Director prior to deliberations at the Board of Directors Meetings. The Management Meeting also decides subjects of discussion and agenda items to be reported to the Board of Directors in a flexible manner to enhance managerial efficiency.

*** Executive Officers' Meeting**

The Company has an Executive Officers' Meeting, consisting of the President & Managing Director and Executive Officers, held once a month in principle. At the Executive Officers' Meeting, which is chaired by President & Managing Director Tetsumi Nakamura, the Executive Officers are made fully aware of the decisions reached at the Board of Directors Meetings, and exchange reports in response to the instructions from the President & Managing Director and on the status of their business execution to promote mutual cooperation. Through these initiatives, the Executive Officers' Meeting operates to strengthen the Board of Directors' functions of making decisions and supervising business execution, in order to improve its managerial efficiency including accelerating decision-making.

*** Group Management Meeting**

The Company holds a Group Management Meeting 4 times a year (every quarter) as an advisory body to the President & Managing Director consisting of Managing Directors, the Presidents of consolidated subsidiaries, Directors responsible for supervising consolidated subsidiaries, etc. The Group Management Meeting is chaired by President & Managing Director Tetsumi Nakamura, deliberates and reports matters necessary for Group management, and thereby functions to strengthen cooperation in Group management.

* Board of Auditors Meetings

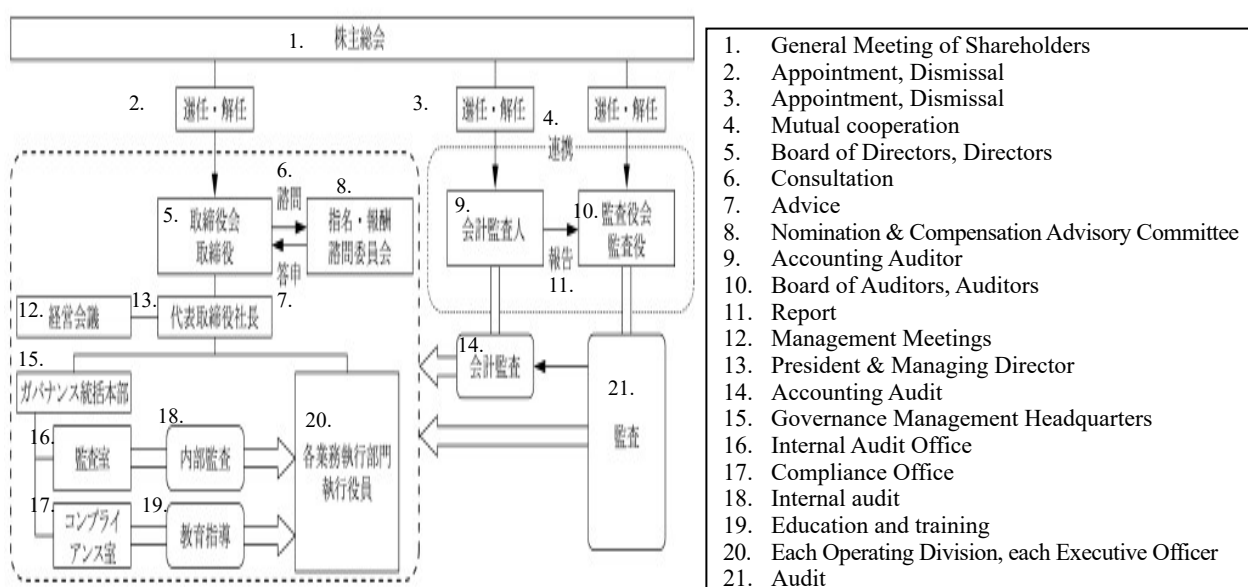
The Board of Auditors Meetings consists of 4 Auditors (including 2 External Auditors), as stated in “(2) Executive Management” as of the date of the submission of this Securities Report, and is held once a month in principle. The Board of Auditors Meetings is chaired by Statutory Auditor Koichi Saito, and appropriately fulfills its functions of operational and financial auditing from the perspective of fiduciary duties to shareholders. The Board of Auditors also exercises its authority from the viewpoint of the Group’s sustainable growth and increased corporate value, and conducts active and aggressive activities to audit the Board of Directors and the management team. External Auditors Yasuro Tanaka and Go Ishikawa report on the audits they conducted, actively pose questions to other Auditors, and give opinions at the Board of Auditors Meetings based on the knowledge and viewpoints they have accumulated as experienced lawyers.

b. Reasons for employing the system

At the Company, the Board of Directors consisting of 12 Directors, including 2 External Directors, makes decisions on the execution of important business and supervises the business execution of Directors and Executive Officers, and 4 Auditors, including 2 External Auditors, ensure independence from the executive Directors to audit Directors’ duties in cooperation with the Accounting Auditor and the internal audit department. This system is intended to strengthen the objective and neutral monitoring function over management from an external standing and ensures appropriateness of business operations. The Company also reinforces the Board of Directors’ functions of making decisions and supervising business execution, and has introduced an Executive Officer system to accelerate decision-making and strives to improve managerial efficiency.

The Company has adopted the current system because it believes that it can ensure the transparency of management, maintain and strengthen fairness, and make swift and decisive decisions through the above system.

The roles of the various bodies within the Company are as shown below.



ii) Other matters related to corporate governance

a. Internal control system

The Group's business philosophy is to "contribute to a progressive, safe, pleasant and prosperous living environment through the Group's globally recognized professional expertise and technical capabilities." The Company recognizes that the development and operation of an appropriate system for business execution under this business philosophy is an important responsibility of management that leads to increased corporate value. Accordingly, the Company has established systems to ensure appropriateness of business operations as follows.

1) System to ensure that the execution of duties by Directors and employees complies with laws, regulations, and the Articles of Incorporation

The Company clarifies matters that the Group's Directors and employees should observe in executing their duties, enhances the compliance system and the business management system, and improves them mainly by monitoring. Specifically, the Company shall have no relationship whatsoever with antisocial forces or organizations that threaten the order and safety of society, adopt a resolute stance to unreasonable demands, and reject them. Moreover, the Company enhances the whistleblowing system in accordance with the Regulations for Handling Whistleblowing, in order to prevent any illegal or unfair practices, early detect and rectify them, and prevent recurrence.

2) System concerning the storage and management of information on the execution of duties by Directors

Directors strive for transparency in corporate governance, and develop an information management system for the management of documents and other information relating to business execution in accordance with the Information Security Policy and other internal regulations, and appropriately disclose, store, abolish and manage the system.

3) Rules concerning management of risk of loss and other systems

The Company strengthens the risk management system to minimize risk occurrence and establishes a system that enables the Company to respond swiftly and appropriately in the event of risks. Moreover, the Company collects information for each of the subsidiaries to strengthen the risk management system.

4) System to ensure the efficient execution of duties by Directors

The Company clarifies duties and authority assigned to Directors such as decision-making on operations, supervisory functions, and the segregation of business execution, holds the Board of Directors Meeting and the Management Meeting regularly (once a month), respectively, and makes decisions through adequate discussions. Business plans are reviewed regularly to confirm results for brush ups. The Company establishes internal control systems designed to enhance the cooperation and coordination of each business establishment and division. In operating the subsidiaries, the Managing Dept. and relevant departments in the Head Office of the Company actively assists the subsidiaries to ensure efficient business execution.

5) System to ensure appropriateness of operations by the Group (including a system for reporting on the execution of duties by Directors, etc. of subsidiaries to the Company)

The Company establishes a management system covering the Group based on basic policies such as the business philosophy and management strategy of the Group. In addition, the Directors of subsidiaries report important managerial matters to the Company and obtain prior approval from the Company, as necessary, in accordance with the Regulations on the Management of Subsidiaries.

6) Employees who assist the duties of Auditors in the event that the Auditors request the appointment of

such employees

If Auditors request the appointment of employees to assist them with their duties, the Company shall consult with the Auditors, select appropriate employees in consideration of their qualifications, and obtain consent from the Auditors with regard to such personnel transfers.

- 7) Independence of the employees in the preceding item from Directors, and ensuring the effectiveness of the instructions from Auditors

Employees appointed to assist Auditors shall not be subject to directions given by Directors. When these employees concurrently hold other positions, they shall not be subject to directions given by Directors while they assist the duties of Auditors. In addition, the Company shall obtain consent from Auditors with regard to the personnel reassignment, evaluation, reward and punishment, etc. of these employees.

- 8) System for reporting by Directors and employees to Auditors, systems for other reporting to Auditors, and the system to ensure that persons who report to Auditors are not treated disadvantageously on the grounds of such reporting

When any event that significantly affects the Company's management has occurred or is likely to occur, Directors and employees of the Group shall report it to the Auditors each time. The Company determines the matters to be reported to Auditors in advance through discussion between Directors and Auditors, and establishes an internal system related to reporting. In addition, it is not allowed to treat Directors and employees disadvantageously on the grounds that they reported to Auditors.

- 9) Matters related to procedures for the prepayment or redemption of expenses arising from the execution of duties by Auditors, and policies for the handling of other expenses or liabilities arising from the execution of their duties

With regard to expenses, etc. arising from the execution of duties by Auditors, such expenses, etc. are promptly paid to Auditors, including prepayments, and any liabilities are settled, unless Directors prove that such expenses, etc. are not required for the execution of duties by the Auditor.

- 10) Other systems for ensuring effective audits by Auditors

Directors and Auditors recognize the necessity of developing the auditing environment (cooperation with the internal audit department, etc.) and other matters to ensure the effectiveness of audits by Auditors, and confirm them through discussion as necessary to secure a system for implementation.

b. Improvement of the risk management system

The Company sets forth provisions on the thorough implementation of risk management in the Code of Corporate Conduct, continuously checks expected risks, and manages them. In addition, the Company stipulates the actions the Company should take in the event of an emergency in the Regulations for the Operation of Emergency Headquarters, in order to resolve the emergency in an appropriate manner in the early stages, and restore trust in the Company.

c. Improvement of a system to ensure the appropriateness of business operations at subsidiaries

The Company establishes the Regulations on the Management of Subsidiaries and assigns a person responsible for supervising Group companies. In addition, the Group Management Meeting, operational meetings, and liaison meetings are held between Group companies and the Company to share information and strengthen mutual cooperation.

iii) Agreements set forth in Article 427, Paragraph 1 of the Companies Act (Liability Limitation Agreements)

The Company has entered into a liability limitation agreement with each of its 2 External Directors and 2 External Auditors. The maximum liability limit under the agreement is 5,000,000 yen or the amount provided by applicable laws, whichever is greater.

iv) Election and dismissal of Directors

The fixed number of Directors is 12 without necessary qualifications. The Company sets forth in its Articles of Incorporation that resolutions for the election of Directors shall be adopted by a majority vote of the shareholders present who hold one third or more of the total number of voting rights of shareholders with voting rights. The Company also sets forth in its Articles of Incorporation that resolutions for the election of Directors shall not be by cumulative voting. In addition, the Company has not amended the requirements for resolutions to dismiss Directors set forth in the Companies Act.

v) Resolutions set forth in Article 309, Paragraph 2 of the Companies Act (Special Resolutions)

The Company sets forth in its Articles of Incorporation that the resolutions set forth in Article 309, Paragraph 2 of the Companies Act may be adopted by two thirds or more of the votes of the shareholders present who hold one third or more of the total number of voting rights of shareholders with voting rights. This provision is set forth to ensure that the Company avoids any situation in which it is unable to propose resolutions at a General Shareholders Meeting because a quorum is not present.

vi) Matters set forth to be resolved by a Board of Directors Meeting in lieu of resolutions at a General Shareholders Meeting, and the reason therefor

The Company sets forth in its Articles of Incorporation that the distribution of surplus set forth in Article 454, Paragraph 5 of the Companies Act shall be determined by resolution at a Board of Directors Meeting. This provision is set forth because, in order to distribute surplus as set forth in Article 454, Paragraph 5 of the Companies Act, the said article requires the Company to stipulate in its Articles of Corporation that such distribution of surplus may be made by a resolution at a Board of Directors Meeting.

(2) Executive management

1) Executives

Male: 15 persons Female: 1 person (Ratio of female Directors and Auditors: 6.3 %)

Board member position / Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Chairman & Managing Director	Kazuo Murata	September 26, 1951	April 1978 April 1997 April 1999 April 2001 March 2003 April 2004 March 2006 April 2009 March 2010 March 2011 April 2011 March 2013 March 2019	Joined CTI Engineering General Manager, Water Resources Div. V, Water Resources Dept. Tokyo Office Chief, Water Resources Dept., Tokyo Office Deputy Branch Administrator, Tokyo Head Office Director, Member of the Board and Chief of Headquarters Quality Management Dept. General Manager of Management Planning Dept. and Deputy Chief of Management Div. Managing Director, General Manager of Management Dept. Principal, Kyushu Office and Okinawa Office Director, Managing Executive Officer Senior Managing Executive Officer Principal, Tokyo Head Office President & Managing Director Chairman & Managing Director (present post)	1	64
Vice Chairman & Managing Director	Asao Yu	January 17, 1955	April 1979 April 1997 March 2003 March 2005 April 2005 March 2006 April 2009 March 2010 March 2011 March 2013 April 2013 March 2016 March 2017 March 2019	Joined CTI Engineering General Manager Technology Div., Nagoya Branch Office, Tokyo Office Deputy Branch Administrator, Tokyo Head Office Director & Member of the Board Deputy Administrator, Tokyo Head Office General Manager, Management Planning Dept. Principal, Chubu Office Executive Officer Director, Managing Executive Officer, Principal, Osaka Head Office Senior Managing Executive Officer Principal, Tokyo Head Office Executive Officer & Vice President Managing Director (present post) & Chief, Corporate Planning Dept. Vice Chairman (present post)	1	35
President & Managing Director	Tetsumi Nakamura	March 4, 1957	April 1979 April 2002 April 2006 April 2009 March 2010 April 2011 March 2013 March 2015 March 2016 April 2017 March 2018 March 2019	Joined CTI Engineering General Manager, Water Resources Dept., Tokyo Head Office Deputy Branch Administrator, Tokyo Head Office Deputy Administrator, Tokyo Head Office Executive Officer Principal, Tohoku Office Director Principal, Kyushu Office and Okinawa Office Managing Executive Officer Principal, Tokyo Head Office Senior Managing Executive Officer President & Managing Director (present post)	1	24

Board member position / Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Executive Officer, Vice President & Managing Director / Principal, Tokyo Head Office	Kazuhiro Terai	February 28, 1956	April 1981 April 1999 April 2003 April 2007 March 2012 April 2012 March 2013 April 2013 March 2016 April 2017 March 2018 March 2019 April 2019	Joined CTI Engineering General Manager, Environmental Measures Div., Headquarters Environment Dept., Osaka Office General Manager, Management Business Division Deputy Branch Administrator, Tokyo Head Office Executive Officer Deputy Administrator, Tokyo Head Office Director Chief, Headquarters Management Dept. Managing Executive Officer Principal, Osaka Head Office Senior Managing Executive Officer Executive Officer, Vice President & Managing Director (present post) Principal, Tokyo Head Office (present post)	1	22
Senior Managing Executive Officer & Director / Chief, Planning & Business Development Headquarters	Tatsuya Nishimura	August 9, 1959	March 1985 April 2004 April 2010 March 2015 April 2015 March 2017 April 2017 March 2019 April 2019	Joined CTI Engineering General Manager, Water Management & Research Div., Tokyo Head Office Deputy Branch Administrator, Chubu Office Executive Officer Deputy Administrator, Tokyo Head Office Managing Executive Officer Principal, Tohoku Office Director, Senior Managing Executive Officer (present post) Chief, Planning & Business Development Headquarters (present post)	1	18
Managing Executive Officer & Director / Principal, Kyushu Office and Okinawa Office	Jun Hirose	December 10, 1956	April 1980 April 2005 April 2008 March 2013 April 2013 April 2014 March 2017 April 2017 March 2019 April 2019	Joined CTI Engineering General Manager, Water Resources Div., Chubu Office Deputy Branch Administrator, Chubu Office Executive Officer Deputy Administrator, Tokyo Head Office Deputy Chief, Headquarters Management Dept., General Manager, Personnel Div., Headquarters Management Dept. Managing Executive Officer (present post) Principal, Chubu Office Director (present post) Principal, Kyushu Office and Okinawa Office (present post)	1	17
Managing Executive Officer & Director / Chief, Governance Management Headquarters	Tsutomu Akiba	July 7, 1957	April 1980 April 2004 April 2006 April 2010 March 2013 April 2013 March 2015 March 2017 April 2017 March 2019 April 2019	Joined CTI Engineering General Manager, Road & Transportation Engineering Div., Tokyo Head Office Deputy Branch Administrator, Tohoku Office Deputy Chief, Headquarters Business Development Dept. Executive Officer Principal, Chubu Office Principal, Tohoku Office Managing Executive Officer (present post) Principal, Kyushu Office and Okinawa Office Director (present post) Chief, Governance Management Headquarters (present post)	1	21

Board member position / Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Managing Executive Officer & Director / Principal, Osaka Head Office	Hiroshi Kiuchi	July 9, 1958	April 1981 April 2005 April 2011 March 2015 April 2015 November 2015 March 2017 March 2019 April 2019	Joined CTI Engineering General Manager, Water Resources Div., Osaka Head Office Deputy Branch Administrator, Osaka Head Office Executive Officer Deputy Administrator, Tokyo Head Office President & Managing Director, NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. Managing Executive Officer, CTI Engineering (present post) Director (present post) Principal, Osaka Head Office (present post)	1	15
Managing Executive Officer & Director / Chief, Headquarters Engineering Dept.	Yoshiaki Nanami	January 2, 1960	July 2017 November 2017 March 2018 March 2019	Retired from Director-General, Shikoku Regional Development Bureau, Ministry of Land, Infrastructure, Transport and Tourism Joined CTI Engineering, Executive Manager Executive Officer, Deputy Chief, Headquarters Engineering Dept. Director, Managing Executive Officer, Chief, Headquarters Engineering Dept. (present post)	1	2
Executive Officer & Director / Chief, Headquarters Management Dept.	Naoto Suzuki	November 22, 1961	April 1991 May 1991 April 2006 April 2011 April 2012 March 2017 April 2017 March 2020	Retired from Yachiyo Engineering Co., Ltd. Joined CTI Engineering General Manager, Road & Transportation Engineering Div., Osaka Head Office General Manager, Sales & Marketing Division, Osaka Head Office Deputy Branch Administrator, Osaka Head Office Executive Officer (present post) Deputy Chief, Headquarters Management Dept., General Manager, Personnel Div., Headquarters Management Dept. Director (present post), Chief, Headquarters Management Dept. (present post)	1	2
Director	Shuichi Ikebuchi	July 5, 1943	February 1979 April 1996 May 1999 October 2004 April 2007 April 2013 March 2017	Professor, Disaster Prevention Research Institute, Kyoto University Chief, Water Resources Research Center, Disaster Prevention Research Institute, Kyoto University Director, Disaster Prevention Research Institute, Kyoto University Director and General Manager, Research Institute, Meteorological Engineering Center, Inc. Professor Emeritus, Kyoto University; Research Advisor, Foundation of River & Watershed Environment Management Research Fellow, The River Foundation (present post) Director, CTI Engineering (present post)	1	—
Director	Fumiko Kosao	April 17, 1954	April 1973 July 1997 July 2011 July 2014 August 2015 June 2016 March 2017 June 2017	Employed by National Tax Agency Teacher, Tokyo Training Center, National Tax College District Director, Gyoda Tax Office, Kantoshinetsu Regional Taxation Bureau District Director, Nihonbashi Tax Office Registered as Certified Public Tax Accountant (present post) Auditor, TOBISHIMA CORPORATION (present post) Director, CTI Engineering (present post) Outside Director, METAWATER Co., Ltd. (present post)	1	—

Board member position / Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Statutory Auditor	Koichi Saito	December 14, 1959	April 1982 April 2009	Joined CTI Engineering General Manager, Water Resources Div., Tohoku Office	2	4
			April 2014 April 2017 March 2019	Manager, Secretariat Office Deputy Branch Administrator, Tohoku Office Statutory Auditor (present post)		
Auditor	Shujiro Ozono	January 26, 1958	April 1982 April 2003	Joined CTI Engineering Manager, Geology Center, Headquarters Business Promotion Dept.	3	7
			April 2006	General Manager, Geo-environment Div., Tokyo Head Office		
			April 2013 April 2015	Senior Engineer, Tokyo Head Office Manager, Internal Audit Office and Manager, Compliance Office		
			March 2017 March 2019	Statutory Auditor Auditor (present post)		
Auditor	Yasuro Tanaka	February 9, 1946	April 1971 April 1981 April 1985	Appointed as Assistant Judge Judge of Tokyo District Court General Manager, Training Div., United Nations Asia and Far East Institute for the Prevention of Crime and the Treatment of Offenders	2	—
			April 1994 February 2003	General Judge of Tokyo District Court Director of Morioka District and Domestic Relations Courts		
			February 2005 March 2009	General Judge of Tokyo High Court Director of Sapporo High Court		
			February 2011 April 2011	Registered as attorney (present post) Professor at the Meiji University Graduate School of Law		
			March 2015	Auditor, CTI Engineering (present post)		
Auditor	Go Ishikawa	July 8, 1968	April 1995 July 1998 September 2008	Registered as attorney (present post) Partner, Kakimoto Law Office Partner, Kasumigaseki Law & Accounting Office	2	—
			March 2011 February 2012	External Auditor, Mediaflag Inc. (currently Impact HD Inc.) Outside Auditor, ALTECH CO., LTD. (present post)		
			March 2015	Senior Partner, SAKURADADORI PARTNERS (present post)		
			March 2016 April 2016	External Director, Mediaflag Inc. (currently Impact HD Inc.) (present post) Deputy Chairman, Dai-Ichi Tokyo Bar Association		
			March 2019	Auditor, CTI Engineering (present post)		
Total						231

- Notes: 1 From March 26, 2020 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2021.
- 2 From March 26, 2019 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2022.
- 3 From March 24, 2017 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2020.
- 4 Directors, Shuichi Ikebuchi and Fumiko Kosao, are External Directors.
- 5 Auditors, Yasuro Tanaka and Go Ishikawa, are External Auditors.

- 6 To ensure that the Company fully satisfies all conditions set forth under applicable laws a reserve auditor was appointed pursuant to Article 329-3 of the Companies Act. The history of that auditor is as stated below.

Name	Date of Birth	History		Term of office (Note no.)	No. of shares held (Thousand)
Setsuko Yufu	March 28, 1952	April 1981 January 2002 September 2016	Registered as attorney (present post) Senior Partner, Atsumi & Usui Law Office (currently Atsumi & Sakai) (present post) Member of the 16th Council on Antimonopoly Policy of the Japan Fair Trade Commission (JFTC) (present post)	1	—

- Notes: 1 From March 26, 2019 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2022.
- 2 The reserve auditor, Setsuko Yufu, satisfies requirements as an External Auditor.

2) External Directors/Auditors

There are no human relationships, financial relationships, business relationships, or other interests between the Company and the 2 External Directors.

At present, the 2 Directors appointed as External Directors are 1 academic and 1 Certified Public Tax Accountant. The Company appointed the academic to take advantage of his rich experience and broad knowledge in the civil engineering field and appointed the Certified Public Tax Accountant to make use of her specialized expertise and professional ethics.

There are no human relationships, financial relationships, business relationships, or other interests between the Company and the 2 External Auditors.

At present 2 Auditors are legal practitioners who have been appointed as External Auditors. The appointment of legal practitioners, with their high level of expertise and professional ethics, means that advice can be actively provided at an early stage of the decision-making process and ensures that the audit process is extremely thorough. In addition, the External Auditors supervise the Company's management from an independent position and objective point of view, give appropriate advice and opinions inside and outside the Board of Directors, and thereby appropriately perform their duties. Accordingly, the Company believes that the independence of these External Auditors is steadfastly maintained. In addition, the Company concluded a corporate lawyer agreement with one of the External Auditors.

Of the 4 Auditors, 2, or half of the total, are External Auditors. The Company considers this number appropriate for the supervision of its management.

The Company strengthens its corporate governance through the participation of the External Directors in management and reinforces the Board of Directors' functions of decision-making and supervision of the execution of duties through the introduction of the Executive Officers system. In addition, the Company has reinforced the subjective and neutral functions of management supervision from outside by electing 2 External Auditors out of the 4 Auditors. Furthermore, the 2 External Auditors attended almost all of the Board of Auditors Meetings, and we believe that we have established a structure essential for corporate governance wherein the subjective and neutral functions of management supervision from outside are fully operating. The Company thus adopts the present structure.

Although the Company has no standard or policy on the election of independent External Directors/Auditors, the Company mainly adheres to the Standard of Judgment on the independence of independent directors/auditors set by Tokyo Stock Exchange, Inc. and has reported Mr. Shuichi Ikebuchi, Ms. Fumiko Kosao, and Mr. Yasuro Tanaka as independent directors/auditors to the exchange.

3) Mutual cooperation between supervision or audits by External Directors/Auditors and internal audits, external audits, and financial audits, and relationship with the internal control department

The Company has 2 External Directors and 2 External Auditors (4 Auditors in total) as of the date of the submission of this Securities Report. External Directors and External Auditors attend a regular Board of Directors Meeting held once a month and an extraordinary Board of Directors Meeting, to supervise the execution of duties by Directors.

In addition, External Auditors hold a quarterly reporting meeting with the Accounting Auditor, as described in (3) below, grasp auditing activities and exchange information, and regularly stage an opinion-exchange meeting for the planning and execution of audits. External Auditors exchange information and

opinions as appropriate with the Internal Audit Office, which is the internal audit department, about the planning and results of audits of the Company and Group companies.

(3) Status of audits

1) External audits

The Company adopts an auditors system, and 4 members, including 2 internal Auditors and 2 External Auditors, assume the office of Auditor. Auditors of the Company exchange information with Auditors of the consolidated subsidiaries to promote mutual understanding with a view to improving the internal control system within the Group and consolidated management. Auditors hold a quarterly reporting meeting with the Accounting Auditor to grasp auditing activities and exchange information, and to regularly stage an opinion-exchange meeting for the planning and execution of audits. In addition, Auditors attend some of the audits to support the execution of efficient financial audits by the Accounting Auditor. Auditors exchange information and opinions as appropriate with the Internal Audit Office, which is the internal audit department, about the planning and results of audits of the Company and Group companies.

Auditors of the Company and consolidated subsidiaries, the Compliance Office, and Internal Audit Office hold a joint meeting periodically to strive to exchange opinions by reporting to one another on auditing plans, auditing activities, and audit results, and thereby strengthen the cooperation of the three parties.

2) Internal audits

Internal audits are performed by the Internal Audit Office that has the authority to request additional personnel as required. At present, the Internal Audit Office staff is comprised of 2 Audit officers and 4 assisting staff members. Specifically, planned internal comprehensive operational audits are performed annually on all divisions and departments within the Company. The Internal Audit Office regularly holds a meeting to exchange information with Auditors and the Accounting Auditor in pursuit of mutual cooperation.

3) Financial audits

i) Name of the audit corporation

Deloitte Touche Tohmatsu LLC

ii) Certified Public Accountants (CPAs) who perform audits

Kenichiro Okamoto, Designated Limited Liability Partner, Engagement Partner

Katsumi Takizawa, Designated Limited Liability Partner, Engagement Partner

iii) Composition of the Auditor's support staff

The Auditor's support staff relating to the Company's financial audits consists of 4 CPAs and 16 other staff members.

iv) Policy and reasons for selecting the audit corporation

When selecting the Accounting Auditor, the Board of Auditors comprehensively evaluates the auditing system within the candidate audit corporation, including its quality control system, the status of execution of auditing services in the previous fiscal year, the level of auditing compensation, etc. in consideration of the development status of the system for ensuring the appropriate performance of the Accounting Auditor's

duties under Article 131 of the Regulation on Corporate Accounting. As a result of such evaluation, the Board of Auditors has judged it appropriate to reappoint Deloitte Touche Tohmatsu LLC.

If there is difficulty for the Accounting Auditor to execute its duties or the Board of Auditors determines it necessary to dismiss or not reappoint the Accounting Auditor, the Board of Auditors shall submit a proposal for the dismissal or non-reappointment of the Accounting Auditor to the general meeting of shareholders.

If the Accounting Auditor is deemed to fall under any of the items of Article 340, Paragraph 1 of the Companies Act, the Accounting Auditor shall be dismissed by the Board of Auditors with the unanimous approval of Auditors.

v) Evaluation of the audit corporation by Auditors and the Board of Auditors

Auditors and the Board of Auditors of the Company evaluate the execution status of auditing services upon confirming with the Accounting Auditor and related internal departments at each auditing phase, including the conclusion of the auditing agreement, the formulation of the auditing plan, and the evaluation of internal control relating to financial statements and financial reporting, in accordance with the evaluation items under the *Practical Guidelines for Auditors, etc. regarding the Evaluation and Selection Criteria of Accounting Auditor* issued by the Accounting Committee of the Japan Audit & Supervisory Board Members Association.

As a result, Auditors and the Board of Auditors find no reasons for disqualification in any of the evaluation items and have judged that the status of the execution of duties by the Accounting Auditor is appropriate and fair in consideration of the status of the entire Group.

4) Auditing compensation, etc.

i) Compensation for auditing CPAs, etc.

Category	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for auditing services (million yen)	Compensation for non-auditing services (million yen)	Compensation for auditing services (million yen)	Compensation for non-auditing services (million yen)
The Company	44	22	53	10
Consolidated subsidiaries	–	–	–	–
Total	44	22	53	10

The non-auditing services provided to the Company consisted of guidance and advice on the accounting standard for revenue recognition and guidance and advice on internal control over financial reporting of overseas subsidiaries.

ii) Compensation for the same network (Deloitte) as auditing CPAs, etc. (excluding i))

Category	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for auditing services (million yen)	Compensation for non-auditing services (million yen)	Compensation for auditing services (million yen)	Compensation for non-auditing services (million yen)
The Company	–	–	–	–
Consolidated subsidiaries	–	8	–	2
Total	–	8	–	2

The non-auditing services provided to consolidated subsidiaries consisted of guidance and advice on internal control over financial reporting and tax accounting and related services.

iii) Other important compensation

Not applicable.

iv) Policy for decisions regarding auditing compensation

Determined by the Company in consideration of the number of days for the audit.

v) Reasons why the Board of Auditors agreed to compensation, etc. for the Accounting Auditor

The Board of Auditors agreed to the auditing compensation upon reviewing the method for computing the amount of auditing compensation, as well as the status of auditing for the previous fiscal year and details on the changes of the audit plan for the current fiscal year, etc., judged that the auditing compensation was appropriate with reasonable compensation unit price and audit hours.

(4) Executives' compensation, etc.

1) Policies regarding the determination of the amount of compensation, etc. for executives and the method for computing such amounts

Compensation for Directors other than External Directors consists of fixed compensation (monthly compensation) as a consideration for the execution of their duties and bonuses linked to the consolidated results for the relevant fiscal year. Compensation for External Directors consists of fixed compensation

(monthly compensation) only, from the viewpoint of their roles and independence. With regard to the fixed compensation for Directors, the Company appropriately calculates monthly compensation according to a predetermined table of executive monthly compensation standards. With regard to the performance-linked compensation (bonuses), the Company sets a standard amount according to the consolidated results for the relevant fiscal year and sets a specific amount for each Director within the compensation limit after the President & Managing Director evaluates each Director's contributions, and thereupon the Board of Directors makes a resolution through deliberations at the Nomination & Compensation Advisory Committee.

The Company positions the performance-linked compensation (bonuses) as an incentive for increasing short-term performance and has chosen net income before income tax for the current fiscal year as an indicator appropriate for that purpose. The said indicator for the current fiscal year was targeted at 3,550 million yen, while the actual performance amounted to 4,302 million yen.

2) Resolutions for executive compensation, etc. at the general meeting of shareholders

The Ordinary General Meeting of Shareholders held on March 27, 2014 resolved the limit of annual Directors' compensation of 400 million yen (excluding salaries for Directors who serve concurrently as employees) with 11 Directors at the conclusion of the said General Meeting.

The Ordinary General Meeting of Shareholders held on March 30, 1994 resolved the limit of annual Auditors' compensation of 80 million yen with 3 Auditors at the conclusion of the said General Meeting.

3) The total amount of compensation, etc. by category of executive, the total amount of compensation, etc. by classification, and the number of covered executives

Category of executive	Total amount of compensation, etc. (million yen)	Amount of compensation, etc. by classification (million yen)			The number of covered executives (persons)
		Basic compensation	Performance-linked compensation (Bonuses)	Retirement benefits	
Directors (excluding External Directors)	303	265	37	—	13
Auditors (excluding External Auditors)	31	31	—	—	3
External Directors and Auditors	29	26	—	2	5

4) Activities of the Nomination & Compensation Advisory Committee to determine the amount of executives' compensation, etc.

The Board of Directors determines the amount of executives' compensation, etc. after receiving a report from the Nomination & Compensation Advisory Committee (of 2 External Directors and 2 Managing Directors). For the fiscal year ended December 31, 2019 the Nomination & Compensation Advisory Committee was held 6 times, and for the fiscal year ending December 31, 2020 the Committee was held on January 24, 2020, to deliberate on the compensation for Directors.

- 5) The total amount, etc. of consolidated compensation, etc. for a person whose compensation totals 100 million yen or more

No executive in the Company has received a total consolidated compensation, etc. of 100 million yen or more, so description is omitted.

- 6) Significant salaries (including bonuses) for the portion of services performed by employees concurrently serving as Directors

Not applicable.

(5) Holding of shares

1) Criteria and basic policy for the classification of investment stock

The Company classifies investment stock into two types, stock held for the purpose of yielding profit through changes in stock value and receiving dividends as those held for pure investment, and the other as stock held for purposes other than pure investment (cross-shareholdings).

2) Investment stock held for purposes other than pure investment

i) The shareholding policy and method for verifying the rationality of holdings, and details of verification of the appropriateness of holding per individual issue by the Board of Directors, etc.

The Company holds stock for purposes other than pure investment only if the Company deems it to be necessary strategically for the purposes of establishing, maintaining, and strengthening favorable relationships with business partners, etc. for the Group's sustainable growth and increased corporate value over the medium to long term.

The Company's Board of Directors of the Company verifies its cross-shareholdings for economic rationality over the medium to long term and future forecasts per individual issue every year, and confirms the necessity and rationality of holding them. If the necessity and rationality of holding an issue is not confirmed through such verification, the Company sells the relevant issue of stock in an appropriate and suitable manner.

ii) Number of issues and total book value on the balance sheet

	Number of issues (Issues)	Total book value on the balance sheet (million yen)
Non-listed stock	10	159
Stock other than the above	30	2,605

(Issues for which holdings increased during the current fiscal year)

	Number of issues (Issues)	Total acquisition cost relating to the number of shares increased (million yen)	Reason for the increased number of shares held
Non-listed stock	2	50	Acquired as capital alliance for promoting new business.
Stock other than the above	—	—	—

(Issues for which holdings decreased during the current fiscal year)

Not applicable.

iii) Information on the number of shares and book value on the balance sheet, etc. per specified investment stock and deemed holding stock

Specified Investment Stock

Issuer name	Current consolidated fiscal year	Previous consolidated fiscal year	Purpose of holding, quantitative effect of holding (Note 1), and reason for the increased number of shares held	Holding of the Company's stock
	Number of shares (shares)	Number of shares (shares)		
	Book value on balance sheet (million yen)	Book value on balance sheet (million yen)		
Mitsubishi UFJ Financial Group, Inc.	145,000	145,000	To maintain and continue stable business relations	Yes (Note 2)
	86	77		
The Chiba Bank, Ltd.	30,000	30,000	To maintain and continue stable business relations	Yes (Note 2)
	18	18		
Dai-ichi Life Holdings, Inc.	2,600	2,600	To maintain and continue stable business relations	Yes (Note 2)
	4	4		
T&D Holdings, Inc.	38,400	38,400	To maintain and continue stable business relations	Yes (Note 2)
	53	49		
Mizuho Financial Group, Inc.	81,000	81,000	To maintain and continue stable business relations	No
	13	13		
SHO-BOND Holdings Co., Ltd.	47,000	23,500	To expand business	Yes (Note 2)
	213	191		
RAITO KOGYO CO., LTD.	265,100	265,100	To expand business	Yes
	419	387		
COMSYS Holdings Corporation	15,392	15,392	To expand business	Yes
	48	41		
JAPAN FOUNDATION ENGINEERING CO., LTD	134,000	134,000	To expand business	Yes
	54	42		
NITTO CONSTRUCTION CO., LTD.	68,200	68,200	To expand business	Yes
	58	43		
KAWADA technologies, inc.	12,000	12,000	To expand business	Yes (Note 2)
	80	85		
Yokogawa Bridge Holdings Corp.	21,700	21,700	To expand business	Yes
	43	35		
Ube Industries, Ltd.	19,040	19,040	To expand business	Yes (Note 2)
	45	42		
E・J Holdings Inc.	60,340	60,340	To maintain a good relationship	Yes
	103	60		

Issuer name	Current consolidated fiscal year	Previous consolidated fiscal year	Purpose of holding, quantitative effect of holding (Note 1), and reason for the increased number of shares held	Holding of the Company's stock
	Number of shares (shares)	Number of shares (shares)		
	Book value on balance sheet (million yen)	Book value on balance sheet (million yen)		
NJS CO., LTD.	50,000	50,000	To maintain a good relationship	Yes
	90	79		
Oriental Consultants Holdings Co., Ltd.	57,200	57,200	To maintain a good relationship	Yes
	165	106		
Kawasaki Geological Engineering Co., Ltd.	9,400	9,400	To maintain a good relationship	Yes
	18	18		
ASIA AIR SURVEY CO., LTD.	102,000	102,000	To maintain a good relationship	Yes
	94	76		
Founder's Consultants Holdings Inc.	37,510	34,100	To maintain a good relationship	Yes
	38	22		
CHODAI CO., LTD.	105,000	105,000	To maintain a good relationship	Yes
	137	72		
Wesco Holdings Inc.	180,000	180,000	To maintain a good relationship	Yes
	89	59		
OYO Corporation	98,500	98,500	To maintain a good relationship	Yes
	150	109		
OHBA CO., LTD.	186,000	186,000	To maintain a good relationship	Yes
	164	120		
IDEA Consultants, Inc.	81,900	81,900	To maintain a good relationship	Yes
	249	79		
NIPPON ENGINEERING CONSULTANTS CO., LTD.	100,000	100,000	To maintain a good relationship	Yes
	75	56		
NIPPON KOEI CO., LTD.	231	231	To maintain a good relationship	No
	0	0		
Maezawa Kasei Industries Co., Ltd.	36,000	36,000	To smoothly perform business operations	Yes
	43	38		
UCHIDA YOKO CO., LTD.	3,200	3,200	To smoothly perform business operations	Yes
	23	8		
ARIAKE JAPAN Co., Ltd.	1,829	1,829	To smoothly perform business operations	No
	14	13		
ICHINEN HOLDINGS Co., Ltd.	1,800	1,800	To smoothly perform business operations	Yes
	2	2		

Notes: 1. Though the quantitative effect of holding is difficult to describe, the Board of Directors verifies the economic rationality over the medium to long term and future forecasts per individual issue every year in order to confirm

- the necessity and rationality of holding them.
2. The Company's stock is held by Group companies of the issuers whose stock is held by the Company.

Deemed Holding Stock

Not applicable.

iv) Investment stock held for the purpose of pure investment

Not applicable.

v) Investment stock, for which the holding purpose was changed from pure investment to other purposes during the current fiscal year

Not applicable.

vi) Investment stock, for which the holding purpose was changed to pure investment from other purposes during the current fiscal year

Not applicable.

CHAPTER 5: STATUS OF ACCOUNTING

1. Preparation of the Consolidated Financial Statements and Non-consolidated Financial Statements

(1) The Company's consolidated financial statements are prepared in accordance with the "Regulations on the terminology, forms and method of preparation of consolidated financial statements" (Ordinance of Ministry of Finance No. 28 of 1976).

(2) The Company's non-consolidated financial statements are prepared in accordance with the "Regulations on the terminology, forms and method of preparation of financial statements" (Ordinance of Ministry of Finance No. 59, 1963).

The non-consolidated financial statements have been prepared pursuant to the provisions of Article 127 of the Regulations for Non-consolidated Financial Statements because the Company is a company submitting financial statements that have been prepared in accordance with special provision.

2. Audit Report

In accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the current consolidated fiscal year (from January 1, 2019 to December 31, 2019) and the non-consolidated financial statements for the current fiscal year (from January 1, 2019 to December 31, 2019) of the Company were audited by Deloitte Touche Tohmatsu LLC.

[The abovementioned audit reports, which are inserted at the end of the Japanese original, are omitted from the English translation.]

3. Special Approach to Ensure the Propriety of Consolidated Financial Statements, etc.

The Company has taken a special approach to ensure the propriety of consolidated financial statements, etc. Specifically, in order to develop a system to enable the Company to appropriately understand the details of accounting standards, and precisely cope with changes, etc. in accounting standards, etc., the Company has joined the Financial Accounting Standards Foundation and endeavors to collect information aggressively.

1. Consolidated Financial Statements and Other Materials

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Assets		
Current assets		
Cash and bank deposits	6,722	9,873
Notes receivable and completed work receivables	7,042	8,407
Prepaid expenses for uncompleted services	16,323	17,658
Other	974	986
Allowance for doubtful accounts	-378	-585
Total current assets	30,684	36,341
Fixed assets		
Tangible fixed assets		
Buildings and structures	5,809	6,043
Accumulated depreciation	-3,148	-3,200
Buildings and structures, net	2,661	2,843
Machinery and transportation equipment	1,361	1,156
Accumulated depreciation	-1,197	-1,002
Machinery and transportation equipment, net	164	153
Land	4,816	4,816
Lease assets	288	286
Accumulated depreciation	-133	-130
Lease assets, net	155	156
Right-of-use assets	-	1,643
Accumulated depreciation	-	-303
Right-of-use assets, net	-	1,340
Construction in progress	-	57
Other	1,699	1,873
Accumulated depreciation	-1,297	-1,425
Other, net	402	447
Total tangible fixed assets	8,200	9,815
Intangible fixed assets		
Lease assets	11	16
Goodwill	4,545	4,391
Other	768	853
Total intangible fixed assets	5,325	5,262
Investments and other assets		
Investment securities	*1 3,631	*1 4,327
Long-term loans receivable from subsidiaries and affiliates	625	558
Deferred tax assets	805	886
Net defined benefit asset	498	594
Other	*1 1,188	*1 1,349
Allowance for doubtful accounts	-105	-123
Total investments and other assets	6,644	7,593
Total fixed assets	20,169	22,671
Total assets	50,854	59,013

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Liabilities		
Current liabilities		
Accounts payable	2,292	2,587
Short-term borrowings	759	1,000
Lease obligations	63	371
Accrued income taxes	955	1,244
Advances received from uncompleted services	11,776	13,224
Reserve for bonuses	1,056	1,628
Reserve for bonuses to directors	194	142
Allowance for losses in operations	88	100
Other	4,216	4,707
Total current liabilities	21,403	25,007
Fixed liabilities		
Long-term accounts payable	20	14
Lease obligations	110	1,279
Provision for warranties for completed operation	373	568
Deferred tax liabilities	42	47
Net defined benefit liability	925	960
Asset retirement obligations	163	201
Other	5	4
Total fixed liabilities	1,640	3,076
Total liabilities	23,043	28,083
Net assets		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus	4,122	4,122
Profit surplus	20,650	22,870
Treasury stock	-12	-12
Total shareholders' equity	27,786	30,006
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	800	1,255
Foreign currency translation adjustment	-217	-96
Remeasurements of defined benefit plans	-788	-487
Total accumulated other comprehensive income	-205	671
Non-controlling interests	229	252
Total net assets	27,810	30,929
Total liabilities and net assets	50,854	59,013

(ii) Consolidated Profit and Loss Account and Consolidated Statements of Comprehensive Income
Consolidated Profit and Loss Account

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Sales	58,443	62,649
Cost of sales	43,049	45,321
Gross profit	15,393	17,327
Selling, general and administrative expenses	*1 *2 12,347	*1 *2 13,060
Operating income	3,046	4,267
Non-operating revenues		
Interest earned	43	13
Dividend earned	58	67
House rent earned	50	90
Insurance dividends earned	10	10
Other	29	30
Total non-operating revenues	192	212
Non-operating expenses		
Interest expense	10	52
Commission paid	19	2
Foreign exchange losses	35	23
Other	6	3
Total non-operating expenses	71	81
Ordinary profit	3,167	4,397
Extraordinary gain		
Subsidy income	75	-
Gain on sales of investment securities	17	-
Other	0	-
Total extraordinary gain	92	-
Extraordinary loss		
Loss from fixed assets disposal	*3 18	*3 6
Unrealized loss on investment securities	23	0
Loss on valuation of investments in capital of subsidiaries and affiliates	50	-
Allowance for doubtful accounts	88	54
Loss on liquidation of subsidiaries and affiliates	-	25
Other	0	7
Total extraordinary loss	180	95
Net income before income tax	3,078	4,302
Corporation tax, inhabitants taxes and enterprise tax	1,294	1,769
Deferred income taxes etc.	-144	-352
Total income taxes	1,150	1,416
Net income	1,928	2,885
Net income attributable to non-controlling interests	34	77
Net income attributable to owners of the parent	1,893	2,808

Consolidated Statements of Comprehensive Income

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Net income	1,928	2,885
Other comprehensive income		
Other valuation difference on available-for-sale securities	-143	455
Foreign currency translation adjustment	-585	110
Remeasurements of defined benefit plans, net of tax	99	315
Total other comprehensive income	* 1 -629	* 1 880
Comprehensive Income	1,299	3,766
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	1,294	3,684
Comprehensive income attributable to non-controlling interests	5	81

(iii) Statement of Fluctuations in Consolidated Shareholders' Equity
Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)

(million yen)

	Shareholders' equity				
	Capital	Capital surplus	Profit surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	3,025	4,122	19,068	-12	26,203
Changes of items during the period					
Dividends from surplus			-311		-311
Net income attributable to owners of the parent			1,893		1,893
Acquisition of treasury stock				-0	-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)					
Total changes of items during the period	—	—	1,582	-0	1,582
Balance at the end of current period	3,025	4,122	20,650	-12	27,786

(million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Other valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	943	344	-893	394	287	26,885
Changes of items during the period						
Dividends from surplus						-311
Net income attributable to owners of the parent						1,893
Acquisition of treasury stock						-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)	-143	-561	104	-599	-58	-658
Total changes of items during the period	-143	-561	104	-599	-58	924
Balance at the end of current period	800	-217	-788	-205	229	27,810

Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)

(million yen)

	Shareholders' equity				
	Capital	Capital surplus	Profit surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	3,025	4,122	20,650	-12	27,786
Cumulative effects of changes in accounting policies			-234		-234
Restated balance	3,025	4,122	20,416	-12	27,551
Changes of items during the period					
Dividends from surplus			-353		-353
Net income attributable to owners of the parent			2,808		2,808
Acquisition of treasury stock				-0	-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)					
Total changes of items during the period	—	—	2,454	-0	2,454
Balance at the end of current period	3,025	4,122	22,870	-12	30,006

(million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Other valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	800	-217	-788	-205	229	27,810
Cumulative effects of changes in accounting policies						-234
Restated balance	800	-217	-788	-205	229	27,575
Changes of items during the period						
Dividends from surplus						-353
Net income attributable to owners of the parent						2,808
Acquisition of treasury stock						-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)	455	120	301	876	22	899
Total changes of items during the period	455	120	301	876	22	3,354
Balance at the end of current period	1,255	-96	-487	671	252	30,929

(iv) Consolidated Cash Flow Statement

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Cash flow from operating activities		
Net income before income tax	3,078	4,302
Depreciation and amortization	590	963
Amortization of goodwill	257	243
Increase (decrease) in allowance for doubtful accounts	100	119
Increase (decrease) in net defined benefit liability	124	77
Decrease (increase) in net defined benefit asset	202	309
Increase (decrease) in reserve for bonuses	187	569
Increase (decrease) in reserve for bonuses to directors	107	-54
Increase (decrease) in allowance for losses in operations	5	12
Increase (decrease) in provision for warranties for completed operation	99	181
Increase (decrease) in long-term accounts payable	-	-5
Interest and dividend earned	-102	-81
Interest payable	10	52
Foreign exchange loss (gain)	19	31
Unrealized loss (gain) on investment securities	23	0
Loss (gain) on sales of investment securities	-17	-
Loss on valuation of investments in capital of subsidiaries and affiliates	50	-
Loss (gain) from fixed assets disposal	18	6
Decrease (increase) in sales account	-1,281	102
Decrease (increase) in prepaid expenses for uncompleted services	-607	-2,192
Decrease (increase) in other current assets	91	-115
Increase (decrease) in account payable	152	293
Increase (decrease) in advances received from uncompleted services	-537	915
Increase (decrease) in other current liabilities	198	735
Increase (decrease) in other fixed liabilities	-44	-0
Other	4	6
Subtotal	2,731	6,473
Received interest and dividend	105	84
Interest payment	-10	-52
Payment of corporation income tax etc.	-952	-1,706
Cash flow provided by operating activities	1,873	4,798

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Cash flow from investment activities		
Payments for acquisition of tangible fixed assets	-926	-566
Payments for acquisition of intangible fixed assets	-399	-343
Payments for acquisition of investment securities	-111	-53
Proceeds from sales of investment securities	22	0
Repayments for loans	-110	-65
Income from loan collection	108	83
Subsidies received	-	75
Other payments	-74	-182
Other proceeds	17	-
Cash flow used for investment activities	-1,475	-1,051
Cash flow from financial activities		
Net increase (decrease) in short-term borrowings	370	240
Acquisition of treasury stock	-0	-0
Repayments of lease obligations	-66	-374
Dividend payments	-310	-353
Dividends paid to non-controlling interests	-63	-58
Purchase of shares in subsidiaries not resulting in change in scope of consolidation	-6	-
Cash flow used for financial activity	-76	-545
Effect in fluctuation of exchange rate for cash and cash equivalents	-114	-49
Increase (decrease) in cash and cash equivalents	207	3,151
Opening balance of cash and cash equivalents	6,515	6,722
Closing balance of cash and cash equivalents	*1 6,722	*1 9,873

Notes:

Basic Important Matters for Preparation of Consolidated Financial Statements

1. Consolidation range

(1) Number of consolidated subsidiaries: 25

Names of the major consolidated subsidiaries:

CTI Engineering International Co., Ltd.
Waterman Group Plc
Waterman AHW (Victoria) Pty Limited
Japan Urban Engineering Co., Ltd.
Chi-ken Sogo Consultants Co., Ltd.
NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd.

(2) Number of non-consolidated subsidiaries: 11

Names of the non-consolidated subsidiaries:

Environmental Research & Solutions CO., LTD.
CTI Frontier Co., Ltd.
Management Techno Co., Ltd.
Kamaishi Solar Power Generation Co., Ltd.
Kamaishi Naranokidaira Solar Power Generation Co., Ltd.
CTI AURA Co., Ltd.
CTI Shin Doboku Co., Ltd.
CTI Wing Co., Ltd.
CTI Ground Planning Co., Ltd.
Wuhan CTI-CRSRI Engineering & Environment Co., Ltd.
CTI Myanmar Co., Ltd.

(3) Reason why the non-consolidated subsidiaries are excluded from consolidation range

All of these non-consolidated subsidiaries are small and their total assets, sales, net income or loss, surplus and other of the current term do not largely influence the consolidated financial statements.

2. Application of equity method

(1) Number of non-consolidated subsidiaries and affiliates to which the equity method is applied

The equity method is not applied to any non-consolidated subsidiary.

(2) Non-consolidated subsidiaries and affiliates to which the equity method is not applied

Environmental Research & Solutions CO., LTD., CTI Frontier Co., Ltd., Management Techno Co., Ltd., Kamaishi Solar Power Generation Co., Ltd., Kamaishi Naranokidaira Solar Power Generation Co., Ltd., CTI AURA Co., Ltd., CTI Shin Doboku Co., Ltd., CTI Wing Co., Ltd., CTI Ground Planning Co., Ltd., Wuhan CTI-CRSRI Engineering & Environment Co., Ltd., CTI Myanmar Co., Ltd., Sogo Setsubi Consulting Co., Ltd., and SAPPORO NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. have only a slight influence on the consolidated net income or loss and the profit surplus respectively, and do not have much importance as a whole. Therefore, they are excluded from the application range of the equity method.

(Sogo Setsubi Consulting Co., Ltd. and SAPPORO NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. are affiliates of NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd.)

3. Fiscal year of the consolidated subsidiary

The fiscal year of some consolidated subsidiaries of Waterman Group Plc ends on either March 31 or June 30. In preparing the consolidated financial statements, the financial statements of the above-mentioned consolidated subsidiaries based on the provisional settlement of accounts implemented as of December 31, the consolidated closing date, have been used.

The fiscal year of the other consolidated subsidiaries ends on the consolidated closing date.

4. Accounting standard for application of accounting policies to foreign subsidiaries

The Revised Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18 issued on June 28, 2019) has been applied, and necessary adjustment has been made to the overseas subsidiaries upon the settlement of consolidated accounts.

5. Accounting policy

(1) Valuation base and valuation method of important assets

1) Securities

Held-to-maturity securities

Amortized cost method.

Available-for-sale securities

- With fair value

Calculated on the market value method based upon stock market prices as of the fiscal year-end.

(Unrealized gains or losses have been dealt with according to the direct capital imputation method, while value of products sold has been calculated according to the moving average method.)

- With no fair value

Cost method by moving average method.

2) Inventories

Prepaid expenses for uncompleted services -- Cost method by job cost system

(2) Depreciation and amortization method of important depreciable assets

1) Tangible fixed assets (excluding lease assets and right-of-use assets) -- Declining balance method.

However, the straight-line method is adopted for the buildings (excluding the facilities attached to them) acquired on and after April 1, 1998 and the facilities attached to buildings and structures acquired on and after April 1, 2016.

Further, the average life expectancy is as set forth below.

Buildings: 17 – 50 years

The straight-line method is adopted for right-of-use assets.

2) Intangible fixed assets (excluding lease assets) -- Straight-line method.

For software for internal use, the straight-line method based on the usable period in the Company (5 years) is adopted.

3) Lease assets

Straight-line method using the lease period as the service life and considering the residual value to be zero.

(3) Standards for translation of assets and liabilities denominated in foreign currencies into yen

Monetary debts and credits denominated in foreign currencies are translated into yen based on the spot exchange rate in the foreign exchange market on the consolidated balance sheet date, and the foreign exchange gains and losses resulting from the translation are recognized in the consolidated profit and loss account.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen based on the spot exchange rate in the foreign exchange market on the consolidated balance sheet date, while revenue and expenses are translated into yen based on the average exchange rate for the consolidated fiscal year. The differences resulting from the translation are included in foreign currency translation adjustment and non-controlling interests under net assets.

(4) Entry standard of important reserves and allowances

1) Allowance for doubtful accounts

To prepare for any loss by bad debts, in respect of ordinary credit, for the loan loss ratio as regards credit designated as being in danger of becoming irrecoverable, the possibility of each item being recovered is considered and the amount deemed irrecoverable is recorded.

2) Reserve for bonuses

To prepare for bonus payment to employees, the Company enters the reserve for bonuses according to the estimated payment amount standard.

3) Reserve for bonuses to directors

Calculated on forecasted payment amount to prepare for bonus payments to Directors.

4) Allowance for losses in operations

Calculated according to the forecasted losses due to uncompleted services at the end of current consolidated fiscal year in preparation for future losses related to ordered works.

5) Allowance for compensation for completed work

Calculated according to the forecasted compensation for completed work at the end of current consolidated fiscal year in preparation for future payment of compensation related to completed work.

(5) Accounting treatment of retirement benefits obligations

1) Periodic allocation of retirement benefits forecast

When computing retirement benefits obligations, the benefit formula standard is applied for allocation of the retirement benefits forecast to the periods until the end of current consolidated fiscal year.

2) Expense disposal of accounting disparity

As regards the accounting disparity, expenses shall be disposed of from the next consolidated fiscal year by the fixed amount method that shall use a predetermined number of years (5 years) within the average remaining employment period for those employees that were employed at the time of its occurrence.

3) Adoption of the simplified method in SMEs

When computing net defined benefit liability and retirement benefit costs, some consolidated subsidiaries adopt the simplified method wherein retirement benefits obligations are forecasted payment amount, assuming that all employees terminate their services as of the balance sheet date for their own convenience.

(6) Entry standard of important revenues and expenses

Sales are recognized by the completed-contract method. However, the revenues and expenses of construction contracts whose percentages of completion up to the end of this consolidated fiscal year can be reliably estimated are recognized by the percentage-of-completion method (the percentage of completion is computed at the cost incurred as a percentage of the estimated total expenses).

(7) Method and period for amortization of goodwill

Goodwill is amortized equally over a certain number of years within a maximum period of 20 years based on an estimation of the duration of the effect of goodwill.

(8) Range of fund in the consolidated cash flow statement

The fund (cash and cash equivalents) in the consolidated cash flow statement comprises cash in hand, bank deposit which can be withdrawn at any time and short-term investment which can be easily realized and takes only a low risk about value fluctuation and for which the refund date comes within 3 months from the acquisition date, and overdrafts (negative cash equivalents) used in a similar way to cash equivalents in fund management.

(9) Other important matters for preparation of the consolidated financial statements

Accounting treatment of consumption tax
Tax exclusion method is adopted.

(New Accounting Pronouncements)

The establishment or amendment of major accounting standards, etc. issued up to December 31, 2019 but not yet applied are as follows.

1. Accounting standards, etc. for revenue recognition

- * “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 issued on March 30, 2018)
- * “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Outline

These accounting standards, etc. are comprehensive accounting standards for revenue recognition. Revenue is to be recognized by applying the five steps below.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Planned date for application

The Company plans to apply these accounting standards, etc. from the beginning of the consolidated fiscal year ending December 31, 2022.

(3) Effect of the application of these accounting standards, etc. on financial statements

The effect is under examination at the time of preparation of the consolidated financial statements for the current consolidated fiscal year.

(Changes in Accounting Policies)

Overseas consolidated subsidiaries have applied IFRS 9 “Financial Instruments,” IFRS 15 “Revenue from Contracts with Customers,” and IFRS 16 “Leases,” effective from the current consolidated fiscal year. In applying these accounting standards, the cumulative effect of the application is recognized at the beginning of application, as permitted for transitional measures.

1. IFRS 9 “Financial Instruments”

The Company has reviewed the classification and method for the measurement of financial instruments and recognizes impairment losses in financial assets using the expected credit loss model. The effect of the application of this accounting standard on the consolidated financial statements is immaterial.

2. IFRS 15 “Revenue from Contracts with Customers”

The Company recognizes revenue at the time of transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The effect of the application of this accounting standard on the consolidated financial statements is immaterial.

3. IFRS 16 “Leases”

In principle, the Company recognizes assets and liabilities for all leases in which the Company is a lessee. As a result, profit surplus at the beginning of the current consolidated fiscal year decreased by 151 million yen.

In addition, in the consolidated balance sheet at the end of the current consolidated fiscal year, “Right-of-use assets” under “Tangible fixed assets” increased by 1,643 million yen, “Accumulated depreciation” of right-of-use assets decreased by 303 million yen, “Right-of-use assets, net” increased by 1,340 million yen, “Lease obligations” under “Current liabilities” increased by 307 million yen, and “Lease obligations” under “Fixed liabilities” increased by 1,164 million yen.

The effect of the application of this accounting standard on the consolidated profit and loss account and information per share for the current consolidated fiscal year is immaterial. In the consolidated cash flow statement for the current consolidated fiscal year, the net outflow of cash flow from operating activities decreased by 293 million yen and the net outflow of cash flow from financial activities increased by 293 million yen.

(Changes in Presentation Method)

(Changes resulting from the application of the Partial Amendments to Accounting Standard for Tax Effect Accounting)

The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018) have been applied from the beginning of the current consolidated fiscal year, and the presentation method has been changed to classify deferred tax assets under investments and other assets.

As a result, in the consolidated balance sheet for the previous consolidated fiscal year, 420 million yen out of the 439 million yen of “Deferred tax assets” under “Current assets” are included in “Deferred tax assets” under “Investments and other assets,” and the remaining 18 million yen was offset against “Deferred tax liabilities” under “Fixed liabilities.”

Total assets decreased by 18 million yen, due to the offsetting of “Deferred tax assets” and “Deferred tax liabilities.”

(Notes on Consolidated Balance Sheet)

*1 For non-consolidated subsidiaries and affiliates:

	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Investment securities (stock)	827 million yen	827 million yen
“Other” in investments and other assets	0	0

*2 Warranty for liabilities

Warranty for liabilities of the Group’s employees borrowed from financial institutions:

	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Employees	21 million yen	26 million yen

(Notes on Consolidated Profit and Loss Account)

*1 Major items and amounts among selling, general and administrative expenses are as follows:

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Wages and allowances	4,215 million yen	4,268 million yen
Bonuses	639	642
Transferred reserve for bonuses	253	403
Reserve for bonuses to directors	73	78
Retirement benefits expenses	277	300
Research and investigation expenses	1,026	995
Allowance for doubtful accounts	27	116

*2 The research and investigation expenses included in selling, general and administrative expenses are as follows:

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
	1,026 million yen	995 million yen

*3 Loss from fixed assets disposal can be broken down as follows:

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Buildings and structures in tangible fixed assets	11 million yen	4 million yen
Other tangible fixed assets	5	1
Other intangible fixed assets	1	1
Total	18	6

(Notes on Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments to net income and related tax effect of other comprehensive income

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Other valuation difference on available- for-sale securities		
Amount recognized in the period	-201 million yen	646 million yen
Reclassification adjustments to net income	11	-
Before tax-effect adjustment	-189	646
Amount of tax effects	46	-190
Other valuation difference on available- for-sale securities	-143	455
Foreign currency translation adjustment		
Amount recognized in the period	-585	110
Before tax-effect adjustment	-585	110
Foreign currency translation adjustment	-585	110
Remeasurements of defined benefit plans, net of tax		
Amount recognized in the period	-295	-18
Reclassification adjustments to net income	446	466
Before tax-effect adjustment	151	448
Amount of tax effects	-52	-133
Remeasurements of defined benefit plans, net of tax	99	315
Total other comprehensive income	-629	880

(Statement of Fluctuations in Consolidated Shareholders' Equity)

Previous Consolidated Fiscal Year (From January 1, 2018 to December 31, 2018)

1. Issued shares

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	14,159,086	—	—	14,159,086

2. Treasury stock

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	18,566	271	—	18,837

Note: The increase in the amount of treasury stock of 271 shares was due to acquisition of shares constituting less than one transaction unit.

3. New share subscription acquisition rights

Not applicable.

4. Dividends

(1) Dividend payment amount

Resolution	Type of Share	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 27, 2018	Common stock	311	22	December 31, 2017	March 28, 2018

(2) Within shares held on the record date of this consolidated fiscal year, the “effective date” will fall on the next consolidated fiscal year.

Resolution	Type of Share	Source of Dividends	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 26, 2019	Common stock	Profit surplus	353	25	December 31, 2018	March 27, 2019

Current Consolidated Fiscal Year (From January 1, 2019 to December 31, 2019)

1. Issued shares

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	14,159,086	—	—	14,159,086

2. Treasury stock

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	18,837	122	—	18,959

Note: The increase in the amount of treasury stock of 122 shares was due to acquisition of shares constituting less than one transaction unit.

3. New share subscription acquisition rights

Not applicable.

4. Dividends

(1) Dividend payment amount

Resolution	Type of Share	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 26, 2019	Common stock	353	25	December 31, 2018	March 27, 2019

(2) Within shares held on the record date of this consolidated fiscal year, the “effective date” will fall on the next consolidated fiscal year.

Resolution	Type of Share	Source of Dividends	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 26, 2020	Common stock	Profit surplus	494	35	December 31, 2019	March 27, 2020

(Notes on Consolidated Cash Flow Statement)

*1 Relation between the closing balance of the cash and cash equivalents and the amounts for items described on the Consolidated Balance Sheet

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Cash and bank deposit account	6,722 million yen	9,873 million yen
Cash and cash equivalents	6,722	9,873

(Notes on Lease Arrangements)

1. Financial lease transactions (Lessee side)

Finance lease transactions of which ownership is not transferred to the lessee

(1) Lease assets

1) Tangible fixed assets

Mainly office appliances (other)

2) Intangible fixed assets

Software (other)

(2) Depreciation and amortization method for lease assets

The method is outlined in “(2) Depreciation and amortization method of important depreciable assets of 5. Accounting policy” in Basic Important Matters for Preparation of Consolidated Financial Statements.

(Notes on Financial Instruments)

1. Items Related to Financial Instruments

(1) Policy of financial instruments

With regard to fund management, the Group's policy is to invest temporary surplus funds in highly secure financial assets only and does not engage in speculative transactions such as derivative financial instruments.

(2) Details and risks of financial instruments and the risk management system

Notes receivable and completed work receivables as trade receivables are exposed to customer credit risks. If, with regard to those risks, the Group receives no payment after a due date has passed, it will investigate the reasons and make the results known to related persons in-house, and the relevant department will then handle the matter appropriately, in accordance with the Rules on Management of Contract Duties and the Outline of the Handling of Contracts.

Marketable securities and investment securities that mainly consist of investment trusts and shares are exposed to the risk of volatility in market prices. In the case of securities with fair value, the Group assesses their fair value on a regular basis.

(3) Supplementary explanation on matters related to the fair value, etc. of financial instruments

The fair value of financial instruments includes the value based on market prices or a reasonably calculated value for those without market prices. Because the calculation of the value entails variable factors, the value may fluctuate if different preconditions, etc. are applied.

2. Items Related to the Fair Value, etc. of Financial Instruments

The book value on the consolidated balance sheet, the fair value, and the difference between them are stated as follows. The table below does not include any financial instrument whose fair value is deemed to be considerably difficult to recognize.

Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)

	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and bank deposits	6,722	6,722	—
(2) Notes receivable and completed work receivables	7,042	7,042	—
(3) Investment securities			
1) Held-to-maturity securities	719	692	-27
2) Available-for-sale securities	1,959	1,959	—
Total	16,444	16,417	-27

Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)

	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and bank deposits	9,873	9,873	—
(2) Notes receivable and completed work receivables	8,407	8,407	—
(3) Investment securities			
1) Held-to-maturity securities	716	718	1
2) Available-for-sale securities	2,605	2,605	—
Total	21,603	21,604	1

Note 1. Items related to the methods for calculating the fair value of financial instruments and securities

Assets

(1) Cash and bank deposits

Cash and bank deposits are reported in book value because the fair value is almost equal to the book value due to the relatively short period of accounts settlement.

(2) Notes receivable and completed work receivables

Notes receivable and completed work receivables are reported in book value because the fair value is almost equal to the book value due to the relatively short period of accounts settlement.

(3) Investment securities

With regard to the fair value of investment securities, shares are recorded according to prices on stock exchanges, and bonds and notes are recorded according to prices on exchanges or prices quoted by financial institutions. With regard to items related to securities classified by purposes of holding, please see the Notes on Marketable Securities.

Liabilities

Not applicable.

Note 2. Book value on the consolidated balance sheet of financial instruments whose fair value is deemed to be considerably difficult to recognize

(million yen)

Account title	Previous Consolidated Fiscal Year As of December 31, 2018	Current Consolidated Fiscal Year As of December 31, 2019
Non-listed shares	952	1,005

Because non-listed shares have no market prices and their future cash flows cannot be estimated, their fair value is deemed to be considerably difficult to recognize. Accordingly, non-listed shares are not included in (3) Investment securities.

Note 3. Predicted redemption value after the settlement date of the consolidated accounts for monetary credits and securities that have reached maturity

Previous Consolidated Fiscal Year (as of December 31, 2018)

	Within 1 year (million yen)	Over 1 year but within 5 years (million yen)	Over 5 years but within 10 years (million yen)	Over 10 years (million yen)
Cash and bank deposits	6,722	—	—	—
Notes receivable and completed work receivables	7,042	—	—	—
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	—	219	500
Total	13,765	—	219	500

Current Consolidated Fiscal Year (as of December 31, 2019)

	Within 1 year (million yen)	Over 1 year but within 5 years (million yen)	Over 5 years but within 10 years (million yen)	Over 10 years (million yen)
Cash and bank deposits	9,873	—	—	—
Notes receivable and completed work receivables	8,407	—	—	—
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	—	216	500
Total	18,281	—	216	500

(Notes on Marketable Securities)

1. Held-to-maturity securities

Previous Consolidated Fiscal Year (as of December 31, 2018)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
Those whose fair value exceeds the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	219	223	3
	(3) Other	—	—	—
	Subtotal	219	223	3
Those whose fair value does not exceed the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	500	468	-31
	(3) Other	—	—	—
	Subtotal	500	468	-31
Total		719	692	-27

Current Consolidated Fiscal Year (as of December 31, 2019)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
Those whose fair value exceeds the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	216	219	2
	(3) Other	—	—	—
	Subtotal	216	219	2
Those whose fair value does not exceed the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	500	498	-1
	(3) Other	—	—	—
	Subtotal	500	498	-1
Total		716	718	1

2. Available-for-sale securities

Previous Consolidated Fiscal Year (as of December 31, 2018)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Acquisition Cost (million yen)	Difference (million yen)
Those whose amount recorded on the consolidated balance sheet exceeds the acquisition cost	(1) Shares	1,740	625	1,114
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	1,740	625	1,114
Those whose amount recorded on the consolidated balance sheet does not exceed the acquisition cost	(1) Shares	219	255	-36
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	219	255	-36
Total		1,959	880	1,078

Current Consolidated Fiscal Year (as of December 31, 2019)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Acquisition Cost (million yen)	Difference (million yen)
Those whose amount recorded on the consolidated balance sheet exceeds the acquisition cost	(1) Shares	2,543	810	1,733
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	2,543	810	1,733
Those whose amount recorded on the consolidated balance sheet does not exceed the acquisition cost	(1) Shares	62	70	-8
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	62	70	-8
Total		2,605	880	1,724

3. Held-to-maturity securities sold during the consolidated fiscal year

Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)

Not applicable.

Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)

Not applicable.

4. Available-for-sale securities sold during the consolidated fiscal year

Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)

	Sales amount (million yen)	Total gain on sales (million yen)	Total loss on sales (million yen)
Shares	22	17	—

Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)

	Sales amount (million yen)	Total gain on sales (million yen)	Total loss on sales (million yen)
Shares	0	—	—

5. Securities written down

Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)

In the current consolidated fiscal year, the Group wrote down 23 million yen in investment securities.

Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)

Not applicable.

(Notes on Derivatives Transactions)

The Group did not use any derivative transactions, and therefore, there is no applicable information.

(Notes on Retirement Benefits)

1. Outline of the current retirement benefits system

The Company and its consolidated subsidiaries adopt funded and unfunded defined benefit systems or a defined contribution system in order to appropriate them for employees' retirement benefits.

The Company and some consolidated subsidiaries joined the defined benefit-type corporate pension fund (jointly established). Because the fund is a multi-employer system and thus an amount of pension assets corresponding to the Company's contribution cannot be reasonably computed, the Company carries out the accounting treatment in the same manner used for the defined contribution system.

The system was transferred from a former employees' pension fund after approval was received for the return of past obligations for a part of an employees' pension fund administered on behalf of the government. An additional amount to be borne resulting from the return is not expected to accrue.

A defined benefit corporate pension system and lump sum retirement benefits system held by some consolidated subsidiaries computes net defined benefit liability and retirement benefits costs using the simplified method.

In the case of the retirement of present employees, there are cases where a retirement amount not subject to net defined benefit liability is paid.

The Company also has a retirement benefits trust.

2. Defined Benefit System (excluding the systems using the Simplified Method)

(1) Reconciliation of opening and closing balance of retirement benefits obligations

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Balance of retirement benefit obligations at the beginning of year	13,267	13,728
Labor costs	940	1,011
Interest costs	41	41
Accounting disparity	99	107
Retirement benefits paid	-620	-424
Balance of the retirement benefit obligations at the end of year	13,728	14,464

(2) Reconciliation of opening and closing balance of pension assets

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Balance of pension assets at the beginning of year	13,253	13,490
Expected operating profit	265	269
Accounting disparity	-195	88
Contribution from employer	697	725
Retirement benefits paid	-530	-367
Balance of the pension assets at the end of year	13,490	14,207

(3) Reconciliation of the ending balance of retirement benefits obligations and pension assets, and the net defined benefit liability and the net defined benefit asset included in the consolidated balance sheets

	(million yen)	
	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Funded retirement benefits obligations	13,001	13,660
Pension assets	-13,490	-14,207
	-488	-547
Unfunded retirement benefits obligations	727	804
Net amount of relevant liabilities and assets on the consolidated balance sheets	238	257
Net defined benefit liability	727	804
Net defined benefit asset	-488	-547
Net amount of relevant liabilities and assets on the consolidated balance sheets	238	257

(4) Retirement benefits costs and related accounting items

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Labor costs	940	1,011
Interest costs	41	41
Expected operating profit	-265	-269
Cost disposal amount arising from accounting disparity	446	466
Retirement benefits costs under the defined benefit system	1,163	1,249

(5) Remeasurements of defined benefit plans, net of tax

The breakdown of items (before tax effect adjustment) included in remeasurements of defined benefit plans, net of tax is as follows:

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Accounting disparities	151	448
Total	151	448

(6) Remeasurements of defined benefit plans

The breakdown of items (before tax effect adjustment) included in remeasurements of defined benefit plans is as follows:

	(million yen)	
	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Previously unrecognized accounting disparities	-1,152	-703
Total	-1,152	-703

(7) Matters regarding pension assets

1) Major breakdown of pension assets

The percentages of major asset types that account for the total pension assets are as follows:

	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Domestic bonds	11 %	11 %
Domestic stocks	1	9
Foreign bonds	2	6
Foreign stocks	1	9
Life insurance general accounts	54	54
Other	31	11
Total	100	100

Note: Total pension assets include a retirement benefit trust established for the corporate pension system (10% for the previous and current consolidated fiscal years).

2) Method for setting the long-term expected operating profit percentage

To determine the long-term expected operating profit percentage on pension assets, the current and projected distribution of pension assets, as well as the current and anticipated long-term yield rates of various assets that constitute the pension assets, are taken into account.

(8) Matters regarding the assumptions for actuarial calculations

Key assumptions for actuarial calculations

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Discount percentage	Primarily 0.3%	Primarily 0.3%
Long-term expected operating profit percentage	2.0%	2.0%

3. Defined Benefit System using the Simplified Method

(1) Reconciliation of opening and closing balance of net defined benefit liability using the Simplified Method

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
	(million yen)	
Balance of net defined benefit liability at the beginning of year	238	188
Retirement benefits costs	83	39
Retirement benefits paid	-20	-18
Contribution to systems	-113	-100
Net amount of relevant benefit liability and asset	188	108
Net defined benefit liability	198	155
Net defined benefit asset	-9	-47
Net amount of relevant benefit liability and asset	188	108

(2) Reconciliation of the ending balance of retirement benefits obligations and pension assets, and the net defined benefit liability and the net defined benefit asset included in the consolidated balance sheets

	(million yen)	
	Previous Consolidated Fiscal Year (as of December 31, 2018)	Current Consolidated Fiscal Year (as of December 31, 2019)
Funded retirement benefits obligations	838	833
Pension assets	-649	-725
	188	108
Unfunded retirement benefits obligations	—	—
Net amount of relevant liabilities and assets on the consolidated balance sheets	188	108
Net defined benefit liability	198	155
Net defined benefit asset	-9	-47
Net amount of relevant liabilities and assets on the consolidated balance sheets	188	108

(3) Retirement benefit costs

Retirement benefit costs calculated using the simplified method

Previous Consolidated Fiscal Year 83 million yen

Current Consolidated Fiscal Year 39 million yen

4. Defined Contribution System

The required amounts of contribution to the defined contribution system of consolidated subsidiaries

Previous Consolidated Fiscal Year 143 million yen

Current Consolidated Fiscal Year 183 million yen

5. Multi-employer System

The required amounts of contribution to the multi-employer system, a system whose accounting treatment is carried out in the same manner as the defined contribution system, were 330 million yen for the previous consolidated fiscal year and 342 million yen for the current consolidated fiscal year.

(1) The latest savings in the multi-employer system

1) Japan Civil Engineering Consultants Corporate Pension Fund

	(million yen)	
	Previous Consolidated Fiscal Year (as of March 31, 2018)	Current Consolidated Fiscal Year (as of March 31, 2019)
Pension assets	79,656	81,513
Sum of the actuarial obligations and minimum actuarial reserve based on pension finance computation	63,109	63,462
Balance	16,547	18,050

2) Surveying & Design Enterprises Multi Employers Pension Fund

	(million yen)	
	Previous Consolidated Fiscal Year (as of March 31, 2018)	Current Consolidated Fiscal Year (as of March 31, 2019)
Pension assets	62,253	61,293
Sum of the actuarial obligations and minimum actuarial reserve based on pension finance computation	47,292	46,751
Balance	14,961	14,542

(2) Percentage of total salaries of the Group to the overall system under the multi-employer system

1) Japan Civil Engineering Consultants Corporate Pension Fund

Previous Consolidated Fiscal Year 7.93% (from April 1, 2017 to March 31, 2018)

Current Consolidated Fiscal Year 8.06% (from April 1, 2018 to March 31, 2019)

2) Surveying & Design Enterprises Multi Employers Pension Fund

Previous Consolidated Fiscal Year 0.42% (from April 1, 2017 to March 31, 2018)

Current Consolidated Fiscal Year 0.42% (from April 1, 2018 to March 31, 2019)

(3) Supplementary explanation

1) Japan Civil Engineering Consultants Corporate Pension Fund

The major reasons for the balance described in (1) above were the balance of pre-existing employment obligations based on the calculation of pension finance (7,900 million yen for the previous consolidated fiscal year and 5,432 million yen for the current consolidated fiscal year) and surplus brought forward (-24,447 million yen for the previous consolidated fiscal year and -23,482 million yen for the current consolidated fiscal year).

The pre-existing employment obligations under this system are amortized by the annuity repayment method over 15 years, and a special premium (220 million yen for the previous consolidated fiscal year and 229 million yen for the current consolidated fiscal year) was amortized in the consolidated financial statements.

Additionally, the percentage described in (2) above was not identical to the Group's actual percentage.

2) Surveying & Design Enterprises Multi Employers Pension Fund

Major reason for the balance described in (1) above was surplus brought forward (-14,961 million yen for the previous consolidated fiscal year and -14,542 million yen for the current consolidated fiscal year).

Additionally, the percentage described in (2) above was not identical to the Group's actual percentage.

(Stock Options)

Not applicable.

(Tax Effect Accounting)

1. Breakdown by major cause of deferred tax assets and deferred tax liabilities generation

	Previous Consolidated Fiscal Year (as of December 31, 2018)		Current Consolidated Fiscal Year (as of December 31, 2019)	
Deferred tax assets				
Accrued enterprise tax	70	million yen	83	million yen
Allowance for losses in operations	29		36	
Reserve for bonuses	299		480	
Social insurance premiums for bonuses	43		73	
Net defined benefit liability	530		501	
Long-term accounts payable	6		4	
Unrealized loss on securities	62		62	
Asset retirement obligations	51		53	
Loss brought forward	281		199	
Other	347		445	
Subtotal	1,723		1,940	
Allowance account	-583		-528	
Total deferred tax assets	1,140		1,412	
Deferred tax liabilities				
Net defined benefit asset	37	million yen	62	million yen
Tangible fixed assets	30		29	
Other valuation difference on available-for-sale securities	278		469	
Liability adjustment account	28		12	
Other	2		—	
Total	376		573	
Net of deferred tax assets	763	million yen	838	million yen

2. Breakdown by major item of causes leading to any material difference between the legal effective tax rate and the bearing rate of corporation tax or the like after application of tax effect accounting

	Previous Consolidated Fiscal Year (as of December 31, 2018)		Current Consolidated Fiscal Year (as of December 31, 2019)	
Legal effective tax rate	30.86	%	30.62	%
(Adjustment)				
No entry of loss from entertainment expense etc.	0.94		1.04	
Per capita inhabitant tax	3.11		2.33	
No entry of profit from dividends earned, etc.	-0.15		-0.06	
Special tax credit of experiment and research expenses	-0.71		-0.86	
No entry of loss from bonuses to directors	0.28		0.23	
Amortization of goodwill	2.59		1.73	
Increase/decrease in allowance account	2.21		-0.49	
Other	-1.77		-1.61	
Bearing rate of corporation tax or the like after application of tax effect accounting	37.36		32.93	

(Segment Information)

Segment Information

1. Outline of reportable segments

The reportable segments of the Group are defined as operating segments within the Group whose discrete financial information is available and is reviewed by the Board of Directors regularly in order to decide the allocation of management resources and assess results.

The Group assesses results by each company constituting the Group, and the Group companies are classified into those that mainly engage in operations in Japan and those that mainly engage in operations overseas.

Accordingly, the two reportable segments of the Group are “Domestic consulting engineering business” and “Overseas consulting engineering business.”

2. Method for computing the amounts of sales, profit (loss), assets and other items by reportable segments

The accounting method for the reported business segments conforms to the accounting policies applied for preparation of the consolidated financial statements.

Income by reportable segment is based on operating income. Inter-segment revenue and transfers are based on prevailing market prices.

3. Information on the amounts of sales, profit (loss), assets and other items by reportable segments

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018)

(million yen)					
	Domestic consulting engineering business	Overseas consulting engineering business	Total	Adjustments (Note 1)	Book value on the consolidated financial statements (Note 2)
Sales					
Sales to outside customers	40,871	17,572	58,443	—	58,443
Inter-segment sales or transfers	72	38	110	-110	—
Total	40,943	17,610	58,554	-110	58,443
Segment income	2,759	278	3,038	8	3,046
Segment assets	38,036	13,484	51,520	-666	50,854
Other items					
Depreciation	445	145	590	—	590
Amortization of goodwill	—	257	257	—	257

Notes: 1. Adjustments to inter-segment sales or transfers (-110 million yen), adjustments to segment income (8 million yen), and adjustments to segment assets (-666 million yen) are attributable to inter-segment eliminations.

2. Segment income is reconciled with operating income in the consolidated profit and loss account.

3. The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018) have been applied from the beginning of the current consolidated fiscal year. Accordingly, segment assets for the previous consolidated fiscal year are stated after retrospectively applying the above accounting standard, etc.

Current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

(million yen)

	Domestic consulting engineering business	Overseas consulting engineering business	Total	Adjustments (Note 1)	Book value on the consolidated financial statements (Note 2)
Sales					
Sales to outside customers	45,493	17,156	62,649	—	62,649
Inter-segment sales or transfers	43	77	120	-120	—
Total	45,537	17,233	62,770	-120	62,649
Segment income	3,832	441	4,273	-5	4,267
Segment assets	43,697	16,104	59,802	-789	59,013
Other items					
Depreciation	538	425	963	—	963
Amortization of goodwill	—	243	243	—	243

Notes: 1. Adjustments to inter-segment sales or transfers (-120 million yen), adjustments to segment income (-5 million yen), and adjustments to segment assets (-789 million yen) are attributable to inter-segment eliminations.

2. Segment income is reconciled with operating income in the consolidated profit and loss account.

Relevant Information

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018)

1. Information by products and services

The same information is disclosed in Segment Information, and is omitted here.

2. Information by areas

(1) Sales

Japan	Asia	Europe		Other	Total
		UK	Other than UK		
40,808	2,268	12,239	1,195	1,931	58,443

Notes: 1. Sales are classified based on areas in which the Group renders it services.
 2. Method of classification of country or region, and major countries or regions that belong to each region
 1) Method of classification of country or region: based on geographic proximity
 2) Countries or regions that belong to classifications other than Japan
 Asia: Philippines, China, Myanmar, etc.
 Europe other than UK: Ireland, etc.
 Other: Australia, etc.

(2) Tangible Fixed Assets

The amounts of tangible fixed assets located in Japan make up over 90% of the amount of tangible fixed assets in the Consolidated Balance Sheet, and are omitted here.

3. Information by major customers

Name of customer	Sales	Name of the relevant segment
National government of Japan	19,323	Domestic consulting engineering business

Current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

1. Information by products and services

The same information is disclosed in Segment Information, and is omitted here.

2. Information by areas

(1) Sales

Japan	Asia	Europe		Other	Total
		UK	Other than UK		
45,541	1,876	12,191	1,258	1,781	62,649

Notes: 1. Sales are classified based on areas in which the Group renders it services.
 2. Method of classification of country or region, and major countries or regions that belong to each region
 1) Method of classification of country or region: based on geographic proximity
 2) Countries or regions that belong to classifications other than Japan
 Asia: Philippines, China, Myanmar, etc.
 Europe other than UK: Ireland, etc.
 Other: Australia, etc.

(2) Tangible Fixed Assets

Japan	Asia	Europe		Other	Total
		UK	Other than UK		
8,141	—	1,453	175	44	9,815

Notes: 1. Tangible fixed assets are classified based on the locations of the assets.
 2. Method of classification of country or region, and major countries or regions that belong to each region
 1) Method of classification of country or region: based on geographic proximity
 2) Countries or regions that belong to classifications other than Japan
 Asia: Philippines, China, Myanmar, etc.

Europe other than UK: Ireland, etc.
Other: Australia, etc.

3. Information by major customers

(million yen)

Name of customer	Sales	Name of the relevant segment
National government of Japan	21,979	Domestic consulting engineering business

Impairment losses on fixed assets by reportable segments

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018) and current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

Not applicable.

Amortized amount and unamortized balance of goodwill by reportable segments

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018)

(million yen)

	Domestic consulting engineering business	Overseas consulting engineering business	Corporate/elimination	Total
Amortization of goodwill in the current period	—	257	—	257
Balance at the end of the current period	—	4,545	—	4,545

Current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

(million yen)

	Domestic consulting engineering business	Overseas consulting engineering business	Corporate/elimination	Total
Amortization of goodwill in the current period	—	243	—	243
Balance at the end of the current period	—	4,391	—	4,391

Gain on negative goodwill by reportable segments

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018)

Not applicable.

Current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

Not applicable.

Information on related parties

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018)

(1) Transaction between the company submitting consolidated financial statements and the related parties

Not applicable.

Current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

(1) Transaction between the company submitting consolidated financial statements and the related parties

Not applicable.

(Notes on Investment and Rental Property)

Previous consolidated fiscal year (from January 1, 2018 to December 31, 2018) and current consolidated fiscal year (from January 1, 2019 to December 31, 2019)

There are no significant investment or rental properties to be stated, so the statement is omitted.

(Information per Share)

	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Net assets per share	1,950.54 yen	2,169.53 yen
Net income per share	133.94 yen	198.59 yen

Notes: 1. Net income per share after adjustment of potential shares is not stated because the Company has issued no potential shares.

2. Basis of calculation of net income per share:

Item	Previous Consolidated Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Consolidated Fiscal Year (from January 1, 2019 to December 31, 2019)
Net income attributable to owners of the parent (million yen)	1,893	2,808
Amounts not belonging to ordinary shareholders (million yen)	—	—
Net income attributable to owners of the parent related to common shares (million yen)	1,893	2,808
Average number of common shares for the entire fiscal year (shares)	14,140,442	14,140,155

(Significant Subsequent Event)

Not applicable.

(v) Supplemental Specifications for Consolidated Financial Statements

Corporate bonds specification

Not applicable.

Specifications about borrowings

Category	Current term opening balance (million yen)	Current term closing balance (million yen)	Average rate (%)	Repayment deadline
Short-term borrowings	750	1,000	0.5	—
Long-term borrowings to be repaid within 1 year	9	—	—	—
Lease obligations to be repaid within 1 year	403	371	—	—
Long-term borrowings except those to be repaid within 1 year	—	—	—	—
Lease obligations except those to be repaid within 1 year	1,429	1,279	—	2021 to 2028
Other Interest-bearing Liabilities	—	—	—	—
Total	2,591	2,650	—	—

Notes: 1. In respect of the average interest ratio, balance at the end of the term such as outstanding borrowings are set forth at a weighted average percentage.

2. Because lease obligations are reported in the consolidated balance sheet in the amount before deducting assumed interest payments included in total lease payments, the average interest ratio of the lease obligations is not set forth.

3. Overseas consolidated subsidiaries have applied IFRS 16 “Leases” from the beginning of the current consolidated fiscal year. The current term opening balance and current term closing balance of “Lease obligations to be repaid within 1 year” and “Lease obligations except those to be repaid within 1 year” include the balance after the application of the above accounting standard.

4. The amount scheduled to be repaid for lease obligations (except those to be repaid within one year) within 5 years after the consolidated closing date is as follows.

Category	Over 1 year but within 2 years (million yen)	Over 2 years but within 3 years (million yen)	Over 3 years but within 4 years (million yen)	Over 4 years but within 5 years (million yen)
Lease obligations	317	276	245	218

Specifications about asset retirement obligations

The amount of asset retirement obligations at the beginning and end of the current consolidated fiscal year is no more than one hundredth of the total amount of liabilities and net assets at the beginning and end of the current consolidated fiscal year, respectively. The Company has nothing to be described here.

(2) Other

Quarterly financial information for the current consolidated fiscal year

(Cumulative period)	Three months ended March 31, 2019	First half ended June 30, 2019	Nine months ended September 30, 2019	Current consolidated fiscal year
Sales (million yen)	11,333	32,465	46,231	62,649
Net income before income tax (million yen)	111	2,711	3,448	4,302
Net income attributable to owners of the parent (million yen)	52	1,707	2,163	2,808
Net income per share (yen)	3.71	120.76	152.97	198.59

(Fiscal period)	First quarter from January 1, 2019 to March 31, 2019	Second quarter from April 1, 2019 to June 30, 2019	Third quarter from July 1, 2019 to September 30, 2019	Fourth quarter from October 1, 2019 to December 31, 2019
Net income per share (yen)	3.71	117.05	32.21	45.62

2. Non-consolidated Financial Statements and Other Materials

(1) Non-consolidated Financial Statements

(i) Non-consolidated Balance Sheet

(million yen)

	Previous Fiscal Year (as of December 31, 2018)	Current Fiscal Year (as of December 31, 2019)
Assets		
Current assets		
Cash and bank deposits	4,530	7,104
Notes receivable	13	35
Completed work receivables	2,017	2,026
Prepaid expenses for uncompleted services	12,796	14,080
Advance payment	148	167
Short-term loans	*1 1,493	*1 1,704
Other	202	163
Total current assets	21,202	25,282
Fixed assets		
Tangible fixed assets		
Buildings	4,810	5,031
Accumulated depreciation	-2,461	-2,490
Buildings, net	2,349	2,541
Structures	757	757
Accumulated depreciation	-592	-604
Structures, net	165	153
Machinery and equipment	242	242
Accumulated depreciation	-233	-235
Machinery and equipment, net	9	6
Furniture and fixtures	1,154	1,275
Accumulated depreciation	-855	-945
Furniture and fixtures, net	299	330
Land	4,787	4,787
Lease assets	195	182
Accumulated depreciation	-85	-82
Lease assets, net	109	99
Construction in progress	-	57
Total tangible fixed assets	7,721	7,977
Intangible fixed assets		
Leasehold	16	16
Software	690	779
Telephone rights	22	22
Right of using special facilities	0	0
Lease assets	0	0
Other	0	0
Total intangible fixed assets	730	818
Investments and other assets		
Investment securities	2,787	3,481
Shares in subsidiaries and affiliates	7,905	7,905
Investments	89	83
Long-term loans	*1 625	*1 558
Long-term prepaid expenses	23	33
Deferred tax assets	302	456
Lease and guarantee deposit	819	973
Prepaid pension cost	1,539	1,215
Other	8	6
Allowance for doubtful accounts	-88	-106
Total investments and other assets	14,012	14,609
Total fixed assets	22,464	23,405
Total assets	43,667	48,687

(million yen)

	Previous Fiscal Year (as of December 31, 2018)	Current Fiscal Year (as of December 31, 2019)
Liabilities		
Current liabilities		
Accounts payable for services	*1 1,944	*1 2,044
Lease obligations	40	39
Accounts payable	374	459
Accrued income taxes	860	1,138
Accrued consumption taxes	227	586
Accrued expenses	901	1,003
Advances received from uncompleted services	8,812	9,729
Deposits received	817	667
Revenue received in advance	12	12
Reserve for bonuses	900	1,337
Reserve for bonuses to directors	27	37
Allowance for losses in operations	18	34
Total current liabilities	14,936	17,089
Fixed liabilities		
Long-term accounts payable	12	7
Lease obligations	74	63
Reserve for retirement benefits	668	786
Asset retirement obligations	116	152
Other	5	4
Total fixed liabilities	878	1,013
Total liabilities	15,814	18,103
Net assets		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus		
Capital reserve	4,122	4,122
Total capital surplus	4,122	4,122
Profit surplus		
Profit reserve	176	176
Other profit surplus		
General reserve	8,700	8,700
Profit surplus brought forward	11,039	13,316
Total profit surplus	19,916	22,192
Treasury stock	-12	-12
Total shareholders' equity	27,051	29,328
Valuation and translation differences		
Other valuation difference on available-for-sale securities	800	1,255
Total valuation and translation adjustment	800	1,255
Total net assets	27,852	30,583
Total liabilities and net assets	43,667	48,687

(ii) Non-consolidated Profit and Loss Account

(million yen)

	Previous Fiscal Year (from January 1, 2018 to December 31, 2018)		Current Fiscal Year (from January 1, 2019 to December 31, 2019)	
Sales	*1	36,768	*1	41,068
Cost of sales	*1	25,997	*1	28,742
Gross profit		10,771		12,326
Selling, general and administrative expenses	*2	8,090	*2	8,707
Operating income		2,681		3,619
Non-operating revenues				
Interest earned	*1	18	*1	16
Dividend earned	*1	61	*1	176
Interest from securities		4		4
Rent earned	*1	52	*1	93
Insurance dividends earned		10		10
Other		25		31
Total non-operating revenues		171		331
Non-operating expenses				
Interest expense		1		0
Commissions paid		19		2
Foreign exchange losses		6		3
Other		3		2
Total non-operating expenses		31		9
Ordinary profit		2,821		3,942
Extraordinary gain				
Subsidy income		75		-
Gain on sales of investment securities		17		-
Other		1		-
Total extraordinary gain		93		-
Extraordinary loss				
Loss from fixed assets disposal	*3	14	*3	6
Unrealized loss on shares in subsidiaries and affiliates		23		-
Loss on valuation of investments in capital of subsidiaries and affiliates		50		-
Allowance for doubtful accounts		88		54
Loss on liquidation of subsidiaries and affiliates		-		25
Other		0		3
Total extraordinary loss		177		91
Net income before income tax		2,737		3,850
Corporation tax, inhabitants tax and enterprise tax		1,138		1,566
Deferred income taxes etc.		-179		-345
Total income taxes		959		1,220
Net income		1,778		2,629

Cost Specifications for Completed Services

		Previous Fiscal Year (from January 1, 2018 to December 31, 2018)			Current Fiscal Year (from January 1, 2019 to December 31, 2019)		
Category	Note No.	Amount (million yen)		Ratio (%)	Amount (million yen)		Ratio (%)
I Labor cost							
1. Salaries		8,777			9,225		
2. Bonuses		1,691			1,761		
3. Provision of reserve for bonuses		640			948		
4. Retirement benefits expense		872			916		
5. Other		2,073	14,056	51.6	2,223	15,074	50.2
II Amount paid to subcontractors			9,353	34.3		10,692	35.6
III Expenses							
1. Traveling expenses		1,043			1,068		
2. Printing and copying expenses		365			372		
3. Expendables cost		368			400		
4. Rents		1,070			1,345		
5. Depreciation		157			134		
6. Provision of allowance for losses in operations		6			16		
7. Other		813	3,825	14.1	922	4,259	14.2
Current general business expenses			27,235	100.0		30,026	100.0
Opening prepaid expenses for uncompleted services			11,558			12,796	
Total			38,794			42,822	
Closing prepaid expenses for uncompleted services			12,796			14,080	
Current cost of completed services			25,997			28,742	

(Footnote) Cost accounting is according to the job order costing method.

(iii) Statement of Fluctuations in Shareholders' Equity
Previous Fiscal Year (from January 1, 2018 to December 31, 2018)

(million yen)

(million yen)

	Shareholders' equity						
	Capital	Capital surplus		Profit reserve	Profit surplus		Total profit surplus
		Capital reserve	Total capital surplus		Other profit surplus	Profit surplus brought forward	
					General reserve		
Balance at the beginning of current period	3,025	4,122	4,122	176	8,700	9,572	18,449
Changes of items during the period							
Dividends from surplus						-311	-311
Net income						1,778	1,778
Acquisition of treasury stock							
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)							
Total changes of items during the period	—	—	—	—	—	1,467	1,467
Balance at the end of current period	3,025	4,122	4,122	176	8,700	11,039	19,916

(million yen)

	Shareholders' equity		Valuation and translation differences		Total net assets
	Treasury stock	Total shareholders' equity	Other valuation differences on available-for-sale securities	Total of valuation and translation differences	
Balance at the beginning of current period	-12	25,585	943	943	26,528
Changes of items during the period					
Dividends from surplus		-311			-311
Net income		1,778			1,778
Acquisition of treasury stock	-0	-0			-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)			-143	-143	-143
Total changes of items during the period	-0	1,466	-143	-143	1,323
Balance at the end of current period	-12	27,051	800	800	27,852

Current Fiscal Year (from January 1, 2019 to December 31, 2019)

(million yen)

	Shareholders' equity						
	Capital	Capital surplus		Profit surplus			
		Capital reserve	Total capital surplus	Profit reserve	Other profit surplus		Total profit surplus
					General reserve	Profit surplus brought forward	
Balance at the beginning of current period	3,025	4,122	4,122	176	8,700	11,039	19,916
Changes of items during the period							
Dividends from surplus						-353	-353
Net income						2,629	2,629
Acquisition of treasury stock							
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)							
Total changes of items during the period	—	—	—	—	—	2,276	2,276
Balance at the end of current period	3,025	4,122	4,122	176	8,700	13,316	22,192

(million yen)

	Shareholders' equity		Valuation and translation differences		Total net assets
	Treasury stock	Total shareholders' equity	Other valuation differences on available-for-sale securities	Total of valuation and translation differences	
Balance at the beginning of current period	-12	27,051	800	800	27,852
Changes of items during the period					
Dividends from surplus		-353			-353
Net income		2,629			2,629
Acquisition of treasury stock	-0	-0			-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)			455	455	455
Total changes of items during the period	-0	2,276	455	455	2,731
Balance at the end of current period	-12	29,328	1,255	1,255	30,583

Notes:

Important Accounting Policy

1. Valuation base and method for securities

(1) Held-to-maturity securities

Amortized cost method.

(2) Shares in subsidiaries and affiliates

Cost method according to moving average method.

(3) Available-for-sale securities

* With fair value

Calculated on the market value method based upon stock market prices as of the fiscal year-end. (Unrealized gains or losses have been dealt with according to the direct net assets imputation method, while value of products sold has been calculated according to the moving average method.)

* With no fair value

Cost method according to moving average method.

2. Valuation base and method for inventories

Prepaid expenses for uncompleted services -- Cost method by job cost system

3. Depreciation of fixed assets

(1) Tangible fixed assets (excluding lease assets) -- Declining balance method

However, straight-line method is applied to the buildings (excluding the facilities attached to them) acquired on and after April 1, 1998 and the facilities attached to buildings and structures acquired on and after April 1, 2016. Further, the average life expectancy is as set forth below.

Buildings: 17 – 50 years

(2) Intangible fixed assets (excluding lease assets) -- Straight-line method

For software for internal use, the straight-line method based on the usable period in the Company (5 years) is adopted.

(3) Lease assets

Straight-line method using the lease period as the service life and considering the residual value to be zero.

4. Standards for translation of assets and liabilities denominated in foreign currencies into yen

Monetary debts and credits denominated in foreign currencies are translated into yen based on the spot exchange rate in the foreign exchange market on the balance sheet date, and the foreign exchange gains and losses resulting from the translation are recognized in the profit and loss account.

5. Accounting for allowances and reserves

(1) Allowance for doubtful accounts

In respect of ordinary credit, for the loan loss ratio as regards credit designated as being in danger of becoming irrecoverable, the possibility of each item being recovered is considered and the amount deemed irrecoverable is recorded to prepare for possible loss caused by bad debts.

(2) Reserve for bonuses

To prepare for bonus payment to employees, the Company enters the reserve for bonuses according to the estimated payment amount standard.

(3) Reserve for bonus to directors

Calculated on forecast payment amount to prepare for bonus payments to Directors.

(4) Allowance for losses in operations

Calculated according to the forecasted losses due to uncompleted services at the end of fiscal year in

preparation for future losses related to ordered works.

(5) Reserve for retirement benefits

To prepare retirement benefits for employees, these were recorded based upon the obligations to pay retirement benefits and the forecast amount of pension assets as at the end of this consolidated accounting year.

1) Periodic allocation of retirement benefits forecast

When computing retirement benefits obligations, the benefit formula standard is applied for allocation of retirement benefits forecast to the periods until the end of current fiscal year.

2) Expense disposal of accounting disparity

As regards the accounting disparity, expenses shall be disposed of from the next fiscal year by the fixed amount method that shall use a predetermined number of years (5 years) within the average remaining employment period for those employees that were employed at the time of its occurrence.

6. Entry standard of important revenues and expenses

Sales are recognized by the completed-contract method. However, revenues and expenses of construction contracts whose percentages of completion up to the end of this fiscal year can be reliably estimated are recognized by the percentage-of-completion method (the percentage of completion is computed at the cost incurred as a percentage of the estimated total expenses).

7. Other important accounting policies as bases for the preparation of financial statements

(1) Accounting treatment of consumption taxes

Tax exclusion method is adopted.

(2) Accounting treatment of retirement benefits

The accounting treatment of unrecognized accounting disparities relating to retirement benefits is different from the accounting treatment of unrecognized accounting disparities relating to retirement benefits in the consolidated financial statements.

(Changes in Presentation Method)

(Notes on Non-consolidated Balance Sheet)

“Membership” (500 million yen for the current fiscal year) under “Investments and other assets,” which was presented separately in the previous fiscal year, is included in “Other” effective from the current fiscal year due to diminished significance in amount.

(Changes resulting from the application of the Partial Amendments to Accounting Standard for Tax Effect Accounting)

The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018) have been applied from the beginning of the current fiscal year, and the presentation method has been changed to classify deferred tax assets under investments and other assets.

As a result, in the non-consolidated balance sheet for the previous fiscal year, 302 million yen out of the 409 million yen of “Deferred tax assets” under “Current assets” are included in “Deferred tax assets” under “Investments and other assets,” and the remaining 107 million yen was offset against “Deferred tax liabilities” under “Fixed liabilities.”

Total assets decreased by 107 million yen, due to the offsetting of “Deferred tax assets” and “Deferred tax liabilities.”

(Notes on Balance Sheet)

*1 Assets and liabilities for subsidiaries and affiliates

The amount of monetary claims and monetary debts for subsidiaries and affiliates other than those presented separately is as follows:

	Previous Fiscal Year (as of December 31, 2018)	Current Fiscal Year (as of December 31, 2019)
Shot-term monetary claims	1,518 million yen	1,801 million yen
Shot-term monetary debts	308	364
Long-term monetary claims	625	559

2 Warranty for liabilities

Warranty for liabilities of the following employees borrowed from financial institutions:

	Previous Fiscal Year (as of December 31, 2018)	Current Fiscal Year (as of December 31, 2019)
Employees of the Company	20 million yen	23 million yen
Employees of CTI Engineering International Co., Ltd.	0	2

(Notes on Profit and Loss Account)

*1 Total amount of turnover of operating transactions and transactions other than operating transactions, with subsidiaries and affiliates

	Previous Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Fiscal Year (from January 1, 2019 to December 31, 2019)
Turnover of operating transactions		
Sales	37 million yen	147 million yen
Subcontractor cost	1,851	1,958
Other operating transactions	155	125
Turnover of transactions other than operating transactions	80	228

*2 The percentage of expenses included in selling expenses is approximately 33% for the previous year and 31% for the current fiscal year, and the percentage of expenses included in general and administrative expenses is 67% for the previous fiscal year and 69% for the current fiscal year.

Major items and amounts among selling, general and administrative expenses are as follows:

	Previous Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Fiscal Year (from January 1, 2019 to December 31, 2019)
Wages and allowances	2,772 million yen	2,830 million yen
Transferred reserve for bonuses	219	339
Reserve for bonuses to directors	27	37
Retirement benefits expenses	212	250
Depreciation and amortization	124	162
Research and investigation expenses	1,007	978

*3 Loss from fixed assets disposal can be broken down as follows:

	Previous Fiscal Year (from January 1, 2018 to December 31, 2018)	Current Fiscal Year (from January 1, 2019 to December 31, 2019)
Buildings	7 million yen	4 million yen
Furniture and fixtures	5	1
Software	1	1
Total	14	6

(Notes on Securities)

The fair value of shares in subsidiaries and affiliates is not stated, as these shares have no market value and their fair value is considered difficult to recognize.

The book value on the balance sheet for shares in subsidiaries and affiliates whose fair value is deemed to be considerably difficult to recognize is as follows.

	(million yen)	
	Previous Fiscal Year (as of December 31, 2018)	Current Fiscal Year (as of December 31, 2019)
Shares in subsidiaries	7,905 million yen	7,905 million yen

(Notes on Tax Effect Accounting)

1. Breakdown by major cause of deferred tax assets and deferred tax liabilities generation

	Previous Fiscal Year (as of December 31, 2018)	Current Fiscal Year (as of December 31, 2019)
Deferred tax assets		
Accrued enterprise tax	67 million yen	79 million yen
Allowance for losses in operations	5	10
Reserve for bonuses	275	409
Social insurance premiums for bonuses	40	59
Reserve for retirement benefits	204	277
Long-term accounts payable	3	2
Unrealized loss of securities	62	62
Asset retirement obligations	35	36
Other	168	217
Subtotal	864	1,155
Allowance account	-197	-207
Total	667	948
Deferred tax liabilities		
Prepaid pension cost	62	-
Tangible fixed assets	23	22
Other valuation difference on available-for-sale securities	278	469
Total	365	491
Net of deferred tax assets	302 million yen	456 million yen

2. Breakdown by major item of causes leading to any material difference between the legal effective tax rate and the bearing rate of corporation tax or the like after adoption of tax effect accounting

	Previous Fiscal Year (as of December 31, 2018)		Current Fiscal Year (as of December 31, 2019)	
Legal effective tax rate	30.86	%	30.62	%
(Adjustment)				
No entry of loss from entertainment expense etc.	0.23		0.16	
Per capita inhabitant tax	3.05		2.23	
No entry of profit from dividend earned etc.	-0.22		-0.96	
Special tax credit of experiment and research expenses	-0.79		-0.96	
No entry of loss from bonuses to directors	0.31		0.22	
Increase/decrease in allowance account	1.78		0.27	
Other	-0.18		0.12	
Bearing rate of corporation tax or the like after application of tax effect accounting	35.04		31.70	

(Significant Subsequent Event)

Not applicable.

(iv) Supplemental specifications

Specifications of tangible fixed assets and other

Type of assets	Opening balance (million yen)	Increase during the year (million yen)	Decrease during the year (million yen)	Depreciation or amortization in the current term (million yen)	Closing balance (million yen)	Accumulated depreciation or amortization (million yen)
Tangible fixed assets						
Buildings	2,349	315	4	118	2,541	2,490
Structures	165	—	—	11	153	604
Machinery and equipment	9	—	—	2	6	235
Furniture and fixtures	299	157	1	125	330	945
Land	4,787	—	—	—	4,787	—
Lease assets	109	42	—	52	99	82
Construction in progress	—	57	—	—	57	—
Total tangible fixed assets	7,721	573	5	311	7,977	4,358
Intangible fixed assets						
Leasehold	16	—	—	—	16	—
Software	690	267	1	177	779	—
Telephone rights	22	—	—	—	22	—
Right of using special facilities	0	—	—	0	0	—
Lease assets	0	—	—	0	0	—
Other	0	—	—	0	0	—
Total intangible fixed assets	730	267	1	178	818	—

Specifications of allowances and reserves

Category	Opening balance (million yen)	Increase during the year (million yen)	Decrease during the year (million yen)	Closing balance (million yen)
Allowance for doubtful accounts	88	106	88	106
Reserve for bonuses	900	1,337	900	1,337
Reserve for bonuses to directors	27	37	27	37
Allowance for losses in operations	18	34	18	34
Reserve for retirement benefits	668	169	51	786

(2) Details of major assets/liabilities

The Company prepares consolidated financial statements, so the description is omitted here.

(3) Other

Not applicable.

CHAPTER 6: SHAREHOLDER RELATED INFORMATION

Fiscal year	January 1 to December 31
Ordinary general meeting of shareholders	In March
Record date	December 31
Record date of dividends from surplus	June 30, December 31
Unit of shares	100 shares
Purchase of shares below one unit of shares	
Place of purchase	(Special Account) Stock Transfer Agency Division Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	(Special Account) Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Service office	—
Service charge for purchase	Free of charge
Media of public notice	The Company's notices are published on its website. However, where due to unforeseen circumstances website publication is not possible, notices will be published in the Nihon Keizai Shimbun. The Company's website for public notices is as follows: http://www.ctie.co.jp/
Privilege to shareholders	None

CHAPTER 7: REFERENCE MATERIAL

1. Parent Company Information

The Company has no parent company.

2. Other References

The Company submitted the following documents in the period from the beginning of the current fiscal year to the date of the submission of this Securities Report.

(1) Securities Report, its accompanying documents, and confirmation note

Fiscal year (56th fiscal year) (from January 1, 2018 to December 31, 2018)	Submitted to the director of the Kanto Local Finance Bureau on March 27, 2019.
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(2) Internal Control Report

Submitted to the director of the Kanto Local Finance Bureau on March 27, 2019.

(3) Quarterly Report and confirmation note

(First quarter of 57th fiscal year) (from January 1, 2019 to March 31, 2019)	Submitted to the director of the Kanto Local Finance Bureau on May 13, 2019.
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(Second quarter of 57th fiscal year) (from April 1, 2019 to June 30, 2019)	Submitted to the director of the Kanto Local Finance Bureau on August 9, 2019.
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(Third quarter of 57th fiscal year) (from July 1, 2019 to September 30, 2019)	Submitted to the director of the Kanto Local Finance Bureau on November 14, 2019.
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(4) Extraordinary Report

The Extraordinary Report subject to the provisions of Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.	Submitted to the director of the Kanto Local Finance Bureau on March 27, 2019.
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Part 2: SURETY COMPANY INFORMATION

Not applicable.