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Consolidated Financial Results for the Six Months Ended June 30, 2022 [Japanese GAAP]



August 9, 2022

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 9621
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 Scheduled date of filing quarterly securities report: August 10, 2022
 Scheduled date of commencing dividend payments: —
 Availability of supplementary explanatory materials on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled (for analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended June 30, 2022 (January 1, 2022 - June 30, 2022)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Sales		Operating income		Ordinary profit		Net income attributable to owners of the parent	
Six months ended	million yen	%	million yen	%	million yen	%	million yen	%
June 30, 2022	41,844	—	5,462	—	5,601	—	3,796	—
June 30, 2021	35,222	9.8	3,565	34.2	3,627	33.7	2,355	31.1

(Note) Comprehensive income: Six months ended June 30, 2022: 4,262 million yen [-%]
 Six months ended June 30, 2021: 3,137 million yen [187.5%]

	Net income per share	Net income per share after adjustment of potential shares
Six months ended	yen	yen
June 30, 2022	268.52	—
June 30, 2021	166.56	—

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan [ASBJ] Statement No. 29, March 31, 2020) and other standards from the beginning of the three-month period ended March 31, 2022. Figures for the period under review reflect these accounting standards. Accordingly, changes from the previous corresponding period are not presented.

(2) Consolidated Financial Position

	Total assets	Net assets	Net worth ratio
	million yen	million yen	%
As of June 30, 2022	76,478	45,859	59.7
As of December 31, 2021	71,880	38,820	53.8

(Reference) Net worth: As of June 30, 2022: 45,678 million yen
 As of December 31, 2021: 38,672 million yen

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the three-month period ended March 31, 2022. Figures for the period under review reflect these accounting standards.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2021	–	0.00	–	60.00	60.00
Fiscal year ending December 31, 2022	–	0.00			
Fiscal year ending December 31, 2022 (Forecast)			–	60.00	60.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022 (January 1, 2022 - December 31, 2022)

(% indicates changes from the previous corresponding period.)

	Sales		Operating income		Ordinary profit		Net income attributable to owners of the parent		Net income per share
Full year	million yen	%	million yen	%	million yen	%	million yen	%	yen
	78,000	–	6,400	–	6,500	–	4,300	–	304.11

(Note) Revision to the financial results forecast announced most recently: None

- * The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the fiscal year ending December 31, 2022. Figures for the consolidated financial results forecast above reflect these accounting standards. Accordingly, changes from the previous corresponding period are not presented.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: None

(Changes in specified subsidiaries resulting in changes in scope of consolidation):

Newly included: – (), Excluded: – ()

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(Note) For details, please see “2. Quarterly Consolidated Financial Statements and Principal Notes, (3) Notes to Quarterly Consolidated Financial Statements, (Changes in accounting policies)” on page 8 of the Attachments.

(4) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

June 30, 2022: 14,159,086 shares

December 31, 2021: 14,159,086 shares

2) Total number of treasury shares at the end of the period:

June 30, 2022: 19,468 shares

December 31, 2021: 19,335 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

Six months ended June 30, 2022: 14,139,707 shares

Six months ended June 30, 2021: 14,139,868 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

Consolidated financial results forecast made in this document contains forward-looking statements about the future performance of the Company, which are based on the information available to the Company as of the date of release of this document. As such, various factors could cause actual results to differ materially from those discussed in the forward-looking statements.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

CTI Engineering Co., Ltd. (hereinafter the “Company”) has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the three-month period ended March 31, 2022.

In 2021, the Company formulated its management strategy, the CTI Group medium- to long-term vision SPRONG 2030, and its first step, the Medium-term Business Plan 2024. In the fiscal year ending December 31, 2022, the first year of the Medium-term Business Plan 2024, the Company is working on its initiatives with a focus on the four priority agenda items below, under the slogan of “Steadily conducting business structural reform and promoting sustainability management with production system reform as the main pillar.”

- (1) Steady promotion of production system reform
- (2) Promotion of business structural reform through greater cooperation among Group companies
- (3) Strengthening of corporate governance
- (4) Promotion of sustainability management

With regard to the business environment that the CTI Group finds itself in, the domestic consulting engineering business remained as robust as it was in the previous three-month period, on the back of the bolstering of government-led projects for disaster prevention/mitigation and the promotion of measures to build national resilience for the maintenance of aging infrastructure. The overseas consulting engineering business, on the other hand, has begun to see signs of social and economic activities being normalized in the Asian and the British markets in the form of lifting COVID-19 restrictions or otherwise.

As a result of the above, orders received by the Group during the period under review increased by 10.1% year-on-year to 52,785 million yen (47,959 million yen for the corresponding period of the previous year). Meanwhile, sales amounted to 41,844 million yen (35,222 million yen for the corresponding period of the previous year), which is equivalent to 53.6% of the sales forecast for the fiscal year ending December 31, 2022. Ordinary profit amounted to 5,601 million yen (3,627 million yen for the corresponding period of the previous year), or 86.2% of the full-year forecast for ordinary profit, and net income attributable to owners of the parent was 3,796 million yen (2,355 million yen for the corresponding period of the previous year), or 88.3% of the full-year forecast for net income attributable to owners of the parent.

From the third quarter of the current fiscal year, the Company expects its labor and associated costs to increase, in line with more aggressive talent acquisition due to business expansion and rising wages. Other trends that warrant special attention include soaring energy prices as the situation in Ukraine prolongs and persistent inflation.

(2) Explanation of Financial Position

(Assets)

At the end of the period under review, the Group’s total assets totaled 76,478 million yen, an increase of 4,598 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in “notes receivable, completed work receivables and contract assets” and decreases in “notes receivable and completed work receivables” and “prepaid expenses for uncompleted services” following the application of the Revenue Recognition Standard, etc., while “cash and bank deposits” increased.

(Liabilities)

Total liabilities at the end of the period under review were 30,618 million yen, a decrease of 2,441 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in “contract liabilities” and a decrease in “advances received from uncompleted services” following the application of the Revenue Recognition Standard, etc., as well as a decrease in “reserve for bonuses.”

(Net assets)

Net assets at the end of the period under review totaled 45,859 million yen, an increase of 7,039 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in the opening balance of

profit surplus following the application of the Revenue Recognition Standard, etc., as well as the posting of net income attributable to owners of the parent.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The Company has not revised its consolidated financial results forecast released on February 14, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes
(1) Quarterly Consolidated Balance Sheet

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2021)	Six Months Ended June 30, 2022 (as of June 30, 2022)
Assets		
Current assets		
Cash and bank deposits	20,527	36,084
Notes receivable and completed work receivables	9,804	-
Notes receivable, completed work receivables and contract assets	-	16,540
Prepaid expenses for uncompleted services	17,345	145
Other	965	1,101
Allowance for doubtful accounts	-456	-517
Total current assets	48,187	53,354
Fixed assets		
Tangible fixed assets		
Land	4,816	4,798
Other, net	4,881	5,263
Total tangible fixed assets	9,698	10,062
Intangible fixed assets		
Goodwill	4,208	4,347
Other	758	656
Total intangible fixed assets	4,967	5,004
Investments and other assets		
Other	9,150	8,163
Allowance for doubtful accounts	-123	-106
Total investments and other assets	9,027	8,056
Total fixed assets	23,693	23,123
Total assets	71,880	76,478
Liabilities		
Current liabilities		
Accounts payable	2,302	1,593
Short-term borrowings	900	990
Accrued income taxes	1,831	1,942
Advances received from uncompleted services	14,268	-
Contract liabilities	-	13,437
Reserve for bonuses	2,843	1,024
Reserve for bonuses to directors	215	96
Allowance for losses in operations	118	61
Provision for warranties for completed operation	198	174
Other	6,686	6,432
Total current liabilities	29,365	25,755
Fixed liabilities		
Long-term borrowings	-	222
Provision for warranties for completed operation	776	791
Net defined benefit liability	1,002	1,101
Asset retirement obligations	241	270
Other	1,673	2,477
Total fixed liabilities	3,694	4,863
Total liabilities	33,059	30,618

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2021)	Six Months Ended June 30, 2022 (as of June 30, 2022)
Net assets		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus	3,610	3,609
Profit surplus	29,861	36,453
Treasury stock	-13	-14
Total shareholders' equity	36,484	43,074
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	1,414	1,367
Foreign currency translation adjustment	391	857
Remeasurements of defined benefit plans	381	378
Total accumulated other comprehensive income	2,187	2,603
Non-controlling interests	148	181
Total net assets	38,820	45,859
Total liabilities and net assets	71,880	76,478

(2) Quarterly Consolidated Profit and Loss Account and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Profit and Loss Account
Six Months Ended June 30, 2022

(million yen)

	Six Months Ended June 30, 2021 (from January 1, 2021 to June 30, 2021)	Six Months Ended June 30, 2022 (from January 1, 2022 to June 30, 2022)
Sales	35,222	41,844
Cost of sales	25,117	29,058
Gross profit	10,104	12,785
Selling, general and administrative expenses	6,539	7,323
Operating income	3,565	5,462
Non-operating revenues		
Interest earned	6	7
Dividend earned	34	37
Foreign exchange gains	19	71
House rent earned	46	19
Other	44	35
Total non-operating revenues	150	171
Non-operating expenses		
Interest expense	26	27
Rental expenses	27	-
Loss related to impropriety	32	-
Other	2	4
Total non-operating expenses	88	32
Ordinary profit	3,627	5,601
Extraordinary gain		
Gain on sale of non-current assets	-	0
Gain on investments in investment partnerships	2	-
Total extraordinary gain	2	0
Extraordinary loss		
Loss from fixed assets disposal	17	2
Loss on sale of investment securities	-	1
Unrealized loss on investment securities	24	-
Impairment loss	-	17
Other	0	-
Total extraordinary loss	41	21
Net income before income tax	3,588	5,579
Income taxes	1,208	1,759
Net income	2,379	3,820
Net income attributable to non-controlling interests	24	23
Net income attributable to owners of the parent	2,355	3,796

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended June 30, 2022

(million yen)

	Six Months Ended June 30, 2021 (from January 1, 2021 to June 30, 2021)	Six Months Ended June 30, 2022 (from January 1, 2022 to June 30, 2022)
Net income	2,379	3,820
Other comprehensive income		
Other valuation difference on available-for-sale securities	87	-46
Foreign currency translation adjustment	587	492
Remeasurements of defined benefit plans, net of tax	82	-3
Total other comprehensive income	757	442
Comprehensive income	3,137	4,262
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	3,111	4,212
Comprehensive income attributable to non-controlling interests	26	50

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the three-month period ended March 31, 2022. The Company now recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for such a good or service.

As a result of this application, revenue from contracts expected to satisfy performance obligations over time is recognized over time by estimating progress towards satisfaction of performance obligations and revenue from contracts expected to satisfy performance obligations at a point in time is recognized when performance obligations are satisfied, whereas the completed-contract method was previously applied to the recording of sales, except for construction work the outcome of whose activity is deemed certain during the course of the activity, to which the percentage-of-completion method was previously applied.

Progress toward satisfaction of performance obligations is estimated using the ratio of actual costs to estimated total costs (input method). Furthermore, revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress toward satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment as set forth in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to profit surplus at the beginning of the three-month period ended March 31, 2022, with the new accounting policies applied from the beginning balance. In addition, applying the method stipulated in proviso (1) to Paragraph 86 of the Revenue Recognition Standard, contract modifications that occurred prior to the beginning of the three-month period ended March 31, 2022 were accounted for based on the terms of the contract after reflecting all contract modifications, with the cumulative impact adjusted to profit surplus at the beginning of the three-month period ended March 31, 2022.

As a result, for the period under review, sales and the cost of sales increased by 7,073 million yen and 4,331 million yen, respectively, while operating income, ordinary profit, and net income before income tax each increased by 2,741 million yen. The opening balance of profit surplus also showed an increase of 3,650 million yen.

Following the application of the Revenue Recognition Standard, etc., "notes receivable and completed work receivables," which were previously presented under "current assets" on the Consolidated Balance Sheet for the previous fiscal year, are now included in "notes receivable, completed work receivables and contract assets" beginning in the three-month period ended March 31, 2022, and "advances received from uncompleted services," which were previously presented under "current liabilities," are now included under "contract liabilities" beginning in the three-month period ended March 31, 2022. In accordance with the transitional treatment as set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified based on the new presentation method.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard") and other standards from the beginning of the

three-month period ended March 31, 2022, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment as set forth in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This does not affect the quarterly consolidated financial statements.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)
(Calculation of tax expenses)

The Company calculates tax expenses by multiplying net income before income tax for the period under review by a reasonably estimated effective tax rate for net income before income tax for the fiscal year ending December 31, 2022 after the application of tax effect accounting.

(Additional information)

The impact of the spread of COVID-19 on the overall performance of the Group is negligible.

Because of the difficulty in foreseeing when the COVID-19 pandemic will end, the Company makes accounting estimates such as impairment of fixed assets, including goodwill, based on the information available at the time of the preparation of consolidated financial statements, on the assumption that the impacts of the pandemic will linger at least until the end of the current fiscal year.