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Consolidated Financial Results for the Six Months Ended June 30, 2023 [Japanese GAAP]

August 14, 2023

Company name: CTI Engineering Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9621
URL: https://www.ctie.co.jp/
Representative: Tetsumi Nakamura, Representative Director and President, CEO
Contact: Naoto Suzuki, Director, Managing Executive Officer, serving as the Chief of Administration Headquarters
Phone: +81-3-3668-4125
Scheduled date of filing quarterly securities report: August 14, 2023
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, 2023 (January 1, 2023 – June 30, 2023)

(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, 2023	47,623	13.8	7,166	31.2	7,287	30.1	5,289	39.3
June 30, 2022	41,844	–	5,462	–	5,601	–	3,796	–

(Note) Comprehensive income: Six months ended June 30, 2023: 6,505 million yen [52.6%]
Six months ended June 30, 2022: 4,262 million yen [–%]

	Net income per share	Net income per share after adjustment of potential shares
Six months ended	yen	yen
June 30, 2023	379.67	–
June 30, 2022	268.52	–

(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 previous fiscal year. Figures for the fiscal year ended December 31, 2022 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, 2023	81,234	51,851	63.6
As of December 31, 2022	73,296	47,719	64.8

(Reference) Net worth: As of June 30, 2023: 51,673 million yen
As of December 31, 2022: 47,520 million yen

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, 2022	–	0.00	–	100.00	100.00
Fiscal year ending December 31, 2023	–	0.00			
Fiscal year ending December 31, 2023 (Forecast)			–	100.00	100.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 - December 31, 2023)

(% indicates changes from the previous corresponding period.)

	Sales		Operating income		Ordinary profit		Net income attributable to owners of the parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	87,000	4.2	8,500	6.0	8,600	4.4	6,300	7.2	453.30

(Note) Revision to the financial results forecast announced most recently: Yes

* For the consolidated financial results forecast, please see “Notice of Revision to Financial Results Forecast” released on August 14, 2023.

*** 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, 2023:	14,159,086 shares
December 31, 2022:	14,159,086 shares

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

June 30, 2023:	294,532 shares
December 31, 2022:	19,478 shares

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

Six months ended June 30, 2023:	13,931,628 shares
Six months ended June 30, 2022:	14,139,707 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

On August 14, 2023, CTI Engineering Co., Ltd. (hereinafter the "Company") released a statement, "Inappropriate transaction and its impact on the company's results," in relation to an employee's inappropriate subcontracting transactions. The Company hereby expresses its deepest apologies to stakeholders for any inconvenience this may have caused.

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 61st term, the second year of the Medium-term Business Plan 2024, while the Company will continue working to address issues, it will focus in particular on the following priority agenda items with the aim of achieving the goals of the Medium-term Business Plan 2024.

(1) Promotion of business structural reform
(2) Promotion of production system reform
(3) Strengthening 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 robust, 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. It is also expected that social demands related to disaster risk, promotion of digital transformation (DX), and carbon neutrality will further increase. In the overseas consulting engineering business, the Asian market is gradually improving from the upheaval of the COVID-19 pandemic. Meanwhile, the UK and Australian markets require continued monitoring as conditions for order intake remain unstable due to economic trends such as the high inflation rate and rising wages.

As a result of the above, orders received by the Group during the period under review increased by 11.6% year-on-year to 58,923 million yen (52,785 million yen for the corresponding period of the previous year). Meanwhile, sales amounted to 47,623 million yen (41,844 million yen for the corresponding period of the previous year), which is equivalent to 54.7% of the sales forecast for the fiscal year ending December 31, 2023. Ordinary profit amounted to 7,287 million yen (5,601 million yen for the corresponding period of the previous year), or 84.7% of the full-year forecast for ordinary profit, and net income attributable to owners of the parent was 5,289 million yen (3,796 million yen for the corresponding period of the previous year), or 84.0% of the full-year forecast for net income attributable to owners of the parent.

(2) Explanation of Financial Position

(Assets)

At the end of the period under review, the Group's total assets totaled 81,234 million yen, an increase of 7,938 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in "cash and bank deposits," while "notes receivable, completed work receivables and contract assets" decreased.

(Liabilities)

Total liabilities at the end of the period under review were 29,383 million yen, an increase of 3,806 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in "contract liabilities," while "accounts payable" and "reserve for bonuses" decreased.

(Net assets)

Net assets at the end of the period under review totaled 51,851 million yen, an increase of 4,131 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in "profit surplus" resulting from the posting of "net income attributable to owners of the parent," which offset a decrease due to acquisition of treasury stock.

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

The Company has revised its consolidated financial results forecast for the fiscal year ending December 31, 2023, released on February 14, 2023. For details, please see “Notice of Revision to Financial Results Forecast” released on August 14, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheet

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2022)	Six Months Ended June 30, 2023 (as of June 30, 2023)
Assets		
Current assets		
Cash and bank deposits	22,589	35,923
Notes receivable, completed work receivables and contract assets	25,979	19,574
Prepaid expenses for uncompleted services	165	131
Other	1,298	1,258
Allowance for doubtful accounts	-500	-562
Total current assets	49,532	56,325
Fixed assets		
Tangible fixed assets		
Land	4,787	4,787
Other, net	5,111	5,401
Total tangible fixed assets	9,899	10,189
Intangible fixed assets		
Goodwill	4,058	4,480
Other	600	531
Total intangible fixed assets	4,658	5,011
Investments and other assets		
Other	9,311	9,813
Allowance for doubtful accounts	-106	-106
Total investments and other assets	9,204	9,707
Total fixed assets	23,763	24,908
Total assets	73,296	81,234
Liabilities		
Current liabilities		
Accounts payable	2,992	1,808
Short-term borrowings	1,190	890
Accrued income taxes	2,801	2,326
Contract liabilities	4,547	9,478
Reserve for bonuses	3,240	2,004
Reserve for bonuses to directors	233	95
Allowance for losses in operations	84	77
Provision for warranties for completed operation	82	1
Other	6,511	8,634
Total current liabilities	21,684	25,317
Fixed liabilities		
Long-term borrowings	201	181
Provision for warranties for completed operation	574	654
Net defined benefit liability	1,161	1,200
Asset retirement obligations	258	262
Other	1,696	1,767
Total fixed liabilities	3,891	4,065
Total liabilities	25,576	29,383

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2022)	Six Months Ended June 30, 2023 (as of June 30, 2023)
Net assets		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus	3,535	3,534
Profit surplus	38,531	42,407
Treasury stock	-14	-939
Total shareholders' equity	45,079	48,028
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	1,338	1,504
Foreign currency translation adjustment	606	1,689
Remeasurements of defined benefit plans	496	452
Total accumulated other comprehensive income	2,441	3,645
Non-controlling interests	198	177
Total net assets	47,719	51,851
Total liabilities and net assets	73,296	81,234

(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, 2023

(million yen)

	Six Months Ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	Six Months Ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Sales	41,844	47,623
Cost of sales	29,058	32,235
Gross profit	12,785	15,388
Selling, general and administrative expenses	7,323	8,221
Operating income	5,462	7,166
Non-operating revenues		
Interest earned	7	14
Dividend earned	37	42
Foreign exchange gains	71	74
House rent earned	19	20
Other	35	27
Total non-operating revenues	171	179
Non-operating expenses		
Interest expense	27	24
Commission for acquisition of treasury stock	-	24
Other	4	8
Total non-operating expenses	32	58
Ordinary profit	5,601	7,287
Extraordinary gain		
Gain on sale of non-current assets	0	27
Total extraordinary gain	0	27
Extraordinary loss		
Loss from fixed assets disposal	2	15
Loss on sale of investment securities	1	-
Impairment loss	17	-
Other	-	0
Total extraordinary loss	21	16
Net income before income tax	5,579	7,299
Income taxes	1,759	2,000
Net income	3,820	5,298
Net income attributable to non-controlling interests	23	8
Net income attributable to owners of the parent	3,796	5,289

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended June 30, 2023

(million yen)

	Six Months Ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	Six Months Ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Net income	3,820	5,298
Other comprehensive income		
Other valuation difference on available-for-sale securities	-46	165
Foreign currency translation adjustment	492	1,086
Remeasurements of defined benefit plans, net of tax	-3	-44
Total other comprehensive income	442	1,207
Comprehensive income	4,262	6,505
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	4,212	6,493
Comprehensive income attributable to non-controlling interests	50	12

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Based on a resolution of the Board of Directors meeting held on February 14, 2023, the Company repurchased its own shares, resulting in an increase of 999 million yen (298,600 shares) in treasury stock during the period under review.

Meanwhile, the Company disposed of its own shares for restricted stock remuneration based on a resolution of the Board of Directors meeting held on April 28, 2023, resulting in a decrease of 75 million yen (23,586 shares) in treasury stock during the period under review.

After an increase due to purchase of shares below a unit was taken into account, treasury stock was 939 million yen (294,532 shares) as of June 30, 2023.

(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, 2023 after the application of tax effect accounting.

(Changes in accounting policies)

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

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Standard Implementation Guidance") from the beginning of the period under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard Implementation Guidance in accordance with the transitional treatment as set forth in Paragraph 27-2 of the Fair Value Measurement Standard Implementation Guidance. This does not affect the quarterly consolidated financial statements.