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Consolidated Financial Results for the Nine Months Ended September 30, 2022 [Japanese GAAP]



November 10, 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: November 11, 2022
 Scheduled date of commencing dividend payments: —
 Availability of supplementary explanatory materials on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Nine Months Ended September 30, 2022 (January 1, 2022 - September 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	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended September 30, 2022	61,446	—	6,513	—	6,689	—	4,516	—
September 30, 2021	51,602	8.8	5,003	31.1	5,065	29.8	3,255	26.5

(Note) Comprehensive income: Nine months ended September 30, 2022: 4,841 million yen [-%]
 Nine months ended September 30, 2021: 4,142 million yen [77.2%]

	Net income per share	Net income per share after adjustment of potential shares
	yen	yen
Nine months ended September 30, 2022	319.40	—
September 30, 2021	230.20	—

(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 September 30, 2022	71,951	46,437	64.3
As of December 31, 2021	71,880	38,820	53.8

(Reference) Net worth: As of September 30, 2022: 46,234 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
Fiscal year ended December 31, 2021	yen –	yen 0.00	yen –	yen 60.00	yen 60.00
Fiscal year ending December 31, 2022	–	0.00	–		
Fiscal year ending December 31, 2022 (Forecast)				100.00	100.00

(Note) Revision to the forecast for dividends announced most recently: Yes

- * For the forecast for dividends, please see “Notice of Revision to Financial Results Forecast and Dividend Forecast” announced today, November 10, 2022.

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
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	82,000	–	7,700	–	7,900	–	5,300	–	374.83

(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 and Dividend Forecast” announced today, November 10, 2022.
- * 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.

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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 a positive turnaround in the business environment as social and economic activities are increasingly 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 4.4% year-on-year to 70,459 million yen (67,503 million yen for the corresponding period of the previous year). Meanwhile, sales amounted to 61,446 million yen (51,602 million yen for the corresponding period of the previous year), which is equivalent to 74.9% of the sales forecast for the fiscal year ending December 31, 2022. Ordinary profit amounted to 6,689 million yen (5,065 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 4,516 million yen (3,255 million yen for the corresponding period of the previous year), or 85.2% of the full-year forecast for net income attributable to owners of the parent.

Factors that warrant continued special attention include soaring energy prices as the situation in Ukraine prolongs, persistent inflation, and the change of government in the United Kingdom.

(2) Explanation of Financial Position

(Assets)

At the end of the period under review, the Group’s total assets totaled 71,951 million yen, an increase of 71 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 25,513 million yen, a decrease of 7,546 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.

(Net assets)

Net assets at the end of the period under review totaled 46,437 million yen, an increase of 7,617 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

For the consolidated financial results forecast for the fiscal year ending December 31, 2022 and other related information, the Company has revised the financial results forecast and dividend forecast announced on February 14, 2022. For details, please see “Notice of Revision to Financial Results Forecast and Dividend Forecast” released today, November 10, 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)	Nine Months Ended September 30, 2022 (as of September 30, 2022)
Assets		
Current assets		
Cash and bank deposits	20,527	28,985
Notes receivable and completed work receivables	9,804	-
Notes receivable, completed work receivables and contract assets	-	19,007
Prepaid expenses for uncompleted services	17,345	203
Other	965	1,461
Allowance for doubtful accounts	-456	-512
Total current assets	48,187	49,146
Fixed assets		
Tangible fixed assets		
Land	4,816	4,787
Other, net	4,881	5,127
Total tangible fixed assets	9,698	9,915
Intangible fixed assets		
Goodwill	4,208	4,172
Other	758	626
Total intangible fixed assets	4,967	4,798
Investments and other assets		
Other	9,150	8,197
Allowance for doubtful accounts	-123	-106
Total investments and other assets	9,027	8,090
Total fixed assets	23,693	22,805
Total assets	71,880	71,951
Liabilities		
Current liabilities		
Accounts payable	2,302	1,718
Short-term borrowings	900	1,340
Accrued income taxes	1,831	927
Advances received from uncompleted services	14,268	-
Contract liabilities	-	8,356
Reserve for bonuses	2,843	3,292
Reserve for bonuses to directors	215	147
Allowance for losses in operations	118	47
Provision for warranties for completed operation	198	140
Other	6,686	4,763
Total current liabilities	29,365	20,735
Fixed liabilities		
Long-term borrowings	-	211
Provision for warranties for completed operation	776	809
Net defined benefit liability	1,002	1,135
Asset retirement obligations	241	272
Other	1,673	2,349
Total fixed liabilities	3,694	4,778
Total liabilities	33,059	25,513

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2021)	Nine Months Ended September 30, 2022 (as of September 30, 2022)
Net assets		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus	3,610	3,608
Profit surplus	29,861	37,173
Treasury stock	-13	-14
Total shareholders' equity	36,484	43,793
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	1,414	1,376
Foreign currency translation adjustment	391	688
Remeasurements of defined benefit plans	381	375
Total accumulated other comprehensive income	2,187	2,441
Non-controlling interests	148	203
Total net assets	38,820	46,437
Total liabilities and net assets	71,880	71,951

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

(million yen)

	Nine Months Ended September 30, 2021 (from January 1, 2021 to September 30, 2021)	Nine Months Ended September 30, 2022 (from January 1, 2022 to September 30, 2022)
Sales	51,602	61,446
Cost of sales	36,780	43,571
Gross profit	14,821	17,875
Selling, general and administrative expenses	9,818	11,362
Operating income	5,003	6,513
Non-operating revenues		
Interest earned	10	10
Dividend earned	54	62
Foreign exchange gains	0	74
House rent earned	70	29
Other	56	47
Total non-operating revenues	191	223
Non-operating expenses		
Interest expense	38	41
Rental expenses	40	-
Loss related to impropriety	32	-
Other	17	6
Total non-operating expenses	129	47
Ordinary profit	5,065	6,689
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	74	-
Impairment loss	-	17
Other	0	0
Total extraordinary loss	91	21
Net income before income tax	4,976	6,667
Income taxes	1,693	2,109
Net income	3,282	4,558
Net income attributable to non-controlling interests	27	42
Net income attributable to owners of the parent	3,255	4,516

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended September 30, 2022

(million yen)

	Nine Months Ended September 30, 2021 (from January 1, 2021 to September 30, 2021)	Nine Months Ended September 30, 2022 (from January 1, 2022 to September 30, 2022)
Net income	3,282	4,558
Other comprehensive income		
Other valuation difference on available-for-sale securities	265	-37
Foreign currency translation adjustment	470	326
Remeasurements of defined benefit plans, net of tax	123	-5
Total other comprehensive income	859	283
Comprehensive income	4,142	4,841
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	4,088	4,769
Comprehensive income attributable to non-controlling interests	53	72

(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 6,924 million yen and 4,958 million yen, respectively, while operating income, ordinary profit, and net income before income tax each increased by 1,966 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.