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Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]



February 14, 2023

Company name: NJS Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2325
 URL: <https://www.njs.co.jp/>
 Representative: Masaaki Murakami, President & Chief Executive Officer
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 Scheduled date of general shareholders' meeting: March 28, 2023
 Scheduled date of commencing dividend payments: March 29, 2023
 Scheduled date of filing securities report: March 30, 2023
 Availability of supplementary explanatory materials on annual financial results: None
 Schedule of annual financial results briefing session: Yes (for institutional investors and analysts)

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2022	19,231	(0.4)	1,934	(29.9)	2,012	(29.6)	1,726	(10.5)
December 31, 2021	19,315	1.9	2,758	11.7	2,859	14.0	1,929	13.3

(Note) Comprehensive income: Fiscal year ended December 31, 2022: ¥1,900 million [0.5%]
 Fiscal year ended December 31, 2021: ¥1,891 million [13.5%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2022	181.03	—	7.8	7.2	10.1
December 31, 2021	202.40	—	9.3	10.8	14.3

(Reference) Equity in earnings of affiliated companies: Fiscal year ended December 31, 2022: ¥ – million
 Fiscal year ended December 31, 2021: ¥ – million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards since the beginning of the fiscal year under review, and the figures related to the fiscal year ended December 31, 2022 are based on figures after applying these accounting standards.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	28,178	23,082	81.7	2,413.81
As of December 31, 2021	27,516	21,505	78.0	2,250.65

(Reference) Equity: As of December 31, 2022: ¥23,030 million
 As of December 31, 2021: ¥21,455 million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards since the beginning of the fiscal year under review, and the figures as of December 31, 2022 are based on figures after applying these accounting standards.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2022	1,953	(1,256)	(866)	13,980
December 31, 2021	227	(551)	(556)	13,460

2. Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 31, 2021	–	30.00	–	35.00	65.00	621	32.1	3.0
December 31, 2022	–	35.00	–	40.00	75.00	717	41.4	3.2
December 31, 2023 (Forecast)	–	40.00	–	40.00	80.00		–	

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.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
First six months	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	21,350	11.0	2,650	37.0	2,730	35.6	1,800	4.2	188.66

* Notes:

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

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

Newly included: –

Excluded: – (Company name: –)

(2) 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

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the year (including treasury shares):

December 31, 2022: 10,048,000 shares

December 31, 2021: 10,048,000 shares

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

December 31, 2022: 506,909 shares

December 31, 2021: 515,209 shares

3) Average number of shares during the year:

Fiscal year ended December 31, 2022: 9,538,548 shares

Fiscal year ended December 31, 2021: 9,532,833 shares

(Reference) Summary of Non-consolidated Financial Results**1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022 - December 31, 2022)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2022	16,859	(3.4)	1,841	(29.9)	1,922	(29.0)	1,497	(18.1)
December 31, 2021	17,459	18.9	2,626	15.5	2,709	16.4	1,827	15.3

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2022	157.03	—
December 31, 2021	191.74	—

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards since the beginning of the fiscal year under review, and the figures related to the fiscal year ended December 31, 2022 are based on figures after applying these accounting standards.

(2) Non-consolidated Financial Position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
December 31, 2022	26,532	21,677	81.7	2,271.98
December 31, 2021	26,651	20,892	78.4	2,191.61

(Reference) Equity: As of December 31, 2022: ¥21,677 million

As of December 31, 2021: ¥20,892 million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards since the beginning of the fiscal year under review, and the figures as of December 31, 2022 are based on figures after applying these accounting standards.

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

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

Forward-looking statements, such as performance forecasts, made in this document are based on information currently available to the Company and certain assumptions deemed reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results, etc., may differ significantly due to various factors. For the assumptions for financial results forecast, etc., please refer to “(4) Future Outlook” under “1. Overview of Operating Results, etc.” on page 4 of the attached document.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year under Review

During the fiscal year under review (the year ended December 31, 2022), the world economy continued to be uncertain largely because of the state of COVID-19 infections and the Russian invasion of Ukraine, as indicated by soaring energy/food prices, rising inflation, and increasing interest rates and the resulting economic slowdown. Meanwhile, the effects of climate change are becoming increasingly serious as seen in major flooding in Brazil and Pakistan and heat waves and droughts in India and the United States. To address these, the creation of a loss and damage fund was agreed upon at the COP27 summit, with Japan announcing ¥150 trillion of GX (green transformation) investment over the next 10 years. There is a growing awareness that environmental efforts are essential even under uncertain economic conditions.

Concerning the water supply and sewerage business in Japan, while its importance is increasing as the business that keeps communities safe from the spread of COVID-19 and the progress of climate change, it faces many challenges including aging facilities, intensifying disasters, declining population, and decarbonization. In addition to maintaining infrastructure facilities, a broad range of efforts are needed such as reinforcing disaster countermeasures, enhancing management efficiency, and reducing carbon dioxide emissions.

As a “solution partner for water and environment business,” the NJS Group (the “Group”) is advancing initiatives for preserving healthy water and environment and building a sustainable society in the four fields, namely, consulting, software, inspection, and operation. In the fiscal year under review, in terms of the organizational structure, the Group founded Confrontier, Co. Ltd., a company aiming for the development of decarbonizing materials, established the Regional & Energy Development Department, and incorporated Suido Asset Service Co., Ltd. (SAS) and Fuyo Consultant Co., Ltd., into the Group. On the technological front, the Group developed a drone to run on water and an underwater drone, which enable the investigation of facilities in service, and built a new base of operations especially for inspection business, the NX Haneda Building.

As a result, for the fiscal year under review, the Group posted consolidated orders received of ¥18,448 million (up 1.4% year on year) and net sales of ¥19,231 million (down 0.4% year on year).

In terms of profits, the Group primarily strived for active investment in human resources and IT as well as technological development, then posted operating profit of ¥1,934 million (down 29.9% year on year), ordinary profit of ¥2,012 million (down 29.6% year on year), and profit attributable to owners of parent of ¥1,726 million (down 10.5% year on year).

Additionally, the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the fiscal year under review. Details are as stated in “3. Consolidated Financial Statements and Principal Notes (5) Notes to Consolidated Financial Statements (Changes in accounting policies) and (Segment information, etc.).”

Operating results by segment are as follows.

[Domestic operations]

In domestic operations, we have been engaged in research and design projects for the reconstruction of aging infrastructure facilities; disaster response projects; inspection services to raise the efficiency of inspections and surveys of infrastructure; and PPP services and operations to promote public-private collaborative projects, etc.

As a result, orders received were ¥17,088 million (up 2.9% year on year), net sales were ¥16,724 million (up 3.5% year on year), and operating profit was ¥2,199 million (down 11.4% year on year).

[Overseas operations]

In overseas operations, we promoted projects to develop water-related infrastructure in the emerging countries of Asia, the Middle East, and Africa. In the fiscal year under review, delays in large projects and increases in outsourcing expenses resulted in an operating loss.

As a result, orders received were ¥1,360 million (down 13.6% year on year), net sales were ¥2,289

million (down 21.9% year on year), and operating loss was ¥364 million (operating profit of ¥181 million in the previous fiscal year).

(2) Overview of Financial Position for the Fiscal Year under Review

At the end of the fiscal year under review, total assets amounted to ¥28,178 million, up ¥662 million from the end of the previous fiscal year, mainly due to an increase of ¥519 million in cash and deposits, an increase of ¥2,088 million in notes, accounts receivable-completed operation and contract assets (notes and accounts receivable-completed operation in the previous fiscal year), a decrease of ¥2,768 million in costs on service contracts in progress under current assets, an increase of ¥429 million in property, plant and equipment associated with the construction of NX Haneda Building and the new consolidation of subsidiaries, and an increase of ¥264 million in intangible assets through software development and the occurrence of goodwill.

At the end of the fiscal year under review, total liabilities amounted to ¥5,096 million, down ¥914 million from the end of the previous fiscal year, mainly due to decreases of ¥468 million in contract liabilities (advances received on service contracts in progress in the previous fiscal year) and ¥364 million in retirement benefit liability.

At the end of the fiscal year under review, net assets amounted to ¥23,082 million, up ¥1,576 million from the end of the previous fiscal year, mainly due to an increase of ¥1,412 million in retained earnings after deducting dividends paid from profit attributable to owners of parent. As a result, the equity ratio was 81.7%.

(3) Overview of Cash Flows for the Fiscal Year under Review

Status of cash flows

At the end of the fiscal year under review, the balance of cash and cash equivalents amounted to ¥13,980 million, up ¥519 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Funds provided by operating activities were ¥1,953 million (an inflow of ¥227 million in the previous fiscal year).

This is mainly attributable to profit before income taxes of ¥2,550 million and a ¥2,847 million decrease in costs on service contracts in progress, offsetting an increase of ¥2,032 million in notes, accounts receivable-completed operation and contract assets (notes and accounts receivable-completed operation in the previous fiscal year), a decrease of ¥586 million in contract liabilities (advances received on service contracts in progress in the previous fiscal year), and income taxes paid of ¥991 million.

(Cash Flows from Investing Activities)

Funds used in investing activities were ¥1,256 million (an outflow of ¥551 million in the previous fiscal year).

This is mainly attributable to purchases of property, plant and equipment of ¥724 million, purchases of intangible assets of ¥277 million, and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥248 million.

(Cash Flows from Financing Activities)

Funds used in financing activities were ¥866 million (an outflow of ¥556 million in the previous fiscal year).

This is mainly attributable to dividends paid of ¥668 million and purchase of shares of subsidiaries not resulting in change in scope of consolidation of ¥193 million.

(Reference) Trends in cash flow indicators

Indicator	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022
Equity ratio (%)	71.8	75.6	78.5	78.0	81.7
Equity ratio at fair value (%)	61.3	67.7	75.8	67.0	68.9
Cash flow vs. interest-bearing debt (years)	0.0	0.1	0.0	0.0	0.0
Interest coverage ratio (times)	10,683.5	295.9	16,652.9	4,759.4	102,929.7

(Note) All indicators are calculated based on financial figures on a consolidated basis as follows.

(1) Equity ratio: Equity/Total assets

(2) Equity ratio at fair value: Market capitalization/Total assets

Market capitalization is calculated based on the number of shares issued excluding treasury shares.

(3) Cash flow vs interest-bearing debt: Interest-bearing debt/Cash flows from operating activities

(4) Interest coverage ratio: Cash flows from operating activities/Interest payment

(4) Future Outlook

In the year ending December 31, 2023, in addition to continued expansion expected in business related to rehabilitation of aging and deteriorating infrastructure facilities, countermeasures against intensifying disasters, and enhancement of management efficiency, operations are expected to increase in reduction of greenhouse gas emissions, energy- issues, and circular economy including recycling of resources such as sludge. In response, the Group will maintain the health of infrastructure and improve its efficiency as well as create new value of infrastructure by providing a wide range of technologies and services in consulting, software, inspection, and operation. We will strive to increase corporate value through active development of technologies and services, effective use of digital technology, and solution business throughout the lifecycle.

With regard to the consolidated financial results forecast for the year ending December 31, 2023, the Group is forecasting orders received of ¥21,000 million (up 13.8% year on year), net sales of ¥21,350 million (up 11.0% year on year), operating profit of ¥2,650 million (up 37.0% year on year), ordinary profit of ¥2,730 million (up 35.6 % year on year), and profit attributable to owners of parent of ¥1,800 million (up 4.2 % year on year).

Furthermore, the impact of the spread of COVID-19 on the Group's financial results is minimal as of the present, but we will continue to monitor trends and promptly make an announcement if we determine that the financial results forecast needs to be revised.

2. Basic Policy on Selection of Accounting Standards

The Group's policy is to prepare its consolidated financial statements based on accounting standards generally accepted in Japan (J-GAAP). The Group will appropriately deal with the future application of International Financial Reporting Standards upon monitoring various developments in Japan and overseas.

3. Consolidated Financial Statements and Principal Notes

(1) Consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	13,460,637	13,980,087
Notes and accounts receivable-completed operation	3,316,142	—
Notes, accounts receivable-completed operation and contract assets	—	5,404,355
Costs on service contracts in progress	4,489,659	1,720,956
Other	459,626	466,568
Allowance for doubtful accounts	(25,944)	(30,032)
Total current assets	21,700,121	21,541,934
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,443,587	3,042,881
Accumulated depreciation	(1,533,416)	(1,605,913)
Buildings and structures, net	910,171	1,436,967
Machinery and equipment	131,215	138,014
Accumulated depreciation	(118,426)	(122,711)
Machinery and equipment, net	12,788	15,302
Vehicles	20,869	25,425
Accumulated depreciation	(17,794)	(19,141)
Vehicles, net	3,075	6,284
Tools, furniture and fixtures	423,003	605,824
Accumulated depreciation	(303,587)	(441,664)
Tools, furniture and fixtures, net	119,416	164,159
Land	1,446,831	1,447,464
Construction in progress	148,500	—
Total property, plant and equipment	2,640,782	3,070,179
Intangible assets		
Goodwill	—	110,752
Software	430,807	581,089
Telephone subscription right	18,366	22,008
Other	48	4
Total intangible assets	449,222	713,854
Investments and other assets		
Investment securities	1,255,384	1,241,524
Long-term time deposits	127,237	153,765
Deferred tax assets	749,161	628,236
Other	645,128	885,997
Allowance for doubtful accounts	(50,952)	(56,669)
Total investments and other assets	2,725,960	2,852,853
Total non-current assets	5,815,966	6,636,886
Total assets	27,516,087	28,178,821

(Thousands of yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - operating	1,140,954	1,384,059
Current portion of long-term borrowings	2,856	1,436
Income taxes payable	611,599	334,641
Advances received on service contracts in progress	720,984	—
Contract liabilities	—	252,984
Provision for bonuses	659,995	770,541
Provision for share awards for directors (and other officers)	14,170	—
Provision for loss on orders received	28,374	49,800
Provision for loss compensation	78,800	—
Other	1,574,417	1,446,417
Total current liabilities	4,832,152	4,239,880
Non-current liabilities		
Long-term accounts payable - other	39,809	13,149
Long-term borrowings	1,436	—
Retirement benefit liability	898,727	534,451
Provision for retirement benefits for directors (and other officers)	25,505	36,186
Provision for share awards for directors (and other officers)	26,140	39,503
Deferred tax liabilities	7,879	38,952
Asset retirement obligations	108,178	120,809
Other	70,651	73,433
Total non-current liabilities	1,178,329	856,486
Total liabilities	6,010,482	5,096,367
Net assets		
Shareholders' equity		
Share capital	520,000	520,000
Capital surplus	300,120	276,555
Retained earnings	21,061,671	22,473,675
Treasury shares	(806,724)	(792,470)
Total shareholders' equity	21,075,066	22,477,761
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	442,578	442,797
Foreign currency translation adjustment	(38,757)	(16,593)
Remeasurements of defined benefit plans	(23,877)	126,435
Total accumulated other comprehensive income	379,943	552,639
Non-controlling interests	50,595	52,053
Total net assets	21,505,605	23,082,454
Total liabilities and net assets	27,516,087	28,178,821

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Net sales	19,315,097	19,231,835
Cost of sales	11,740,404	11,705,743
Gross profit	7,574,693	7,526,091
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	306,230	281,249
Salaries and allowances	1,339,583	1,494,886
Bonuses	341,704	376,818
Provision for bonuses	250,177	278,596
Retirement benefit expenses	61,509	78,590
Provision for share awards for directors (and other officers)	18,473	14,731
Provision for retirement benefits for directors (and other officers)	2,921	4,481
Legal and other welfare expenses	262,566	390,635
Travel and transportation expenses	91,936	130,806
Rent expenses	244,599	274,268
Depreciation	53,815	92,891
Provision of allowance for doubtful accounts	1,144	—
Amortization of goodwill	—	7,910
Research and development expenses	641,153	618,401
Other	1,200,068	1,547,122
Total selling, general and administrative expenses	4,815,885	5,591,389
Operating profit	2,758,808	1,934,701
Non-operating income		
Interest income	10,717	9,200
Dividend income	29,917	26,297
Reversal of allowance for doubtful accounts	21,460	—
Foreign exchange gains	27,272	20,914
Other	11,108	22,851
Total non-operating income	100,475	79,263
Non-operating expenses		
Interest expenses	47	18
Loss on cancellation of insurance policies	—	1,042
Other	—	65
Total non-operating expenses	47	1,126
Ordinary profit	2,859,235	2,012,838
Extraordinary income		
Gain on sale of non-current assets	27	—
Insurance claim income	59,000	—
Settlement income	40,627	468,061
Gain on step acquisitions	—	73,309
Total extraordinary income	99,655	541,370
Extraordinary losses		
Loss on sale and retirement of non-current assets	4,424	2,548
Loss on sale of investment securities	—	1,068
Loss on valuation of investment securities	25,165	—
Provision for loss compensation	78,800	—
Total extraordinary losses	108,390	3,616
Profit before income taxes	2,850,500	2,550,592
Income taxes - current	863,024	729,497
Income taxes - deferred	56,026	92,847

(Thousands of yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Total income taxes	919,050	822,345
Profit	1,931,449	1,728,247
Profit attributable to non-controlling interests	1,975	1,457
Profit attributable to owners of parent	1,929,474	1,726,789

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Profit	1,931,449	1,728,247
Other comprehensive income		
Valuation difference on available-for-sale securities	(69,998)	218
Foreign currency translation adjustment	38,226	22,164
Remeasurements of defined benefit plans, net of tax	(7,898)	150,313
Total other comprehensive income	(39,669)	172,696
Comprehensive income	1,891,780	1,900,943
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,889,804	1,899,485
Comprehensive income attributable to non-controlling interests	1,975	1,457

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	520,000	300,120	19,706,015	(806,551)	19,719,583
Changes during period					
Dividends of surplus			(573,819)		(573,819)
Profit attributable to owners of parent			1,929,474		1,929,474
Purchase of treasury shares				(172)	(172)
Increase in consolidated subsidiaries - non-controlling interests					—
Net changes in items other than shareholders' equity					—
Total changes during period	—	—	1,355,655	(172)	1,355,482
Balance at end of period	520,000	300,120	21,061,671	(806,724)	21,075,066

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	512,576	(76,984)	(15,979)	419,613	18,619	20,157,816
Changes during period						
Dividends of surplus						(573,819)
Profit attributable to owners of parent						1,929,474
Purchase of treasury shares						(172)
Increase in consolidated subsidiaries - non-controlling interests					30,000	30,000
Net changes in items other than shareholders' equity	(69,998)	38,226	(7,898)	(39,669)	1,975	(37,693)
Total changes during period	(69,998)	38,226	(7,898)	(39,669)	31,975	1,347,788
Balance at end of period	442,578	(38,757)	(23,877)	379,943	50,595	21,505,605

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	520,000	300,120	21,061,671	(806,724)	21,075,066
Cumulative effects of changes in accounting policies			(58,132)		(58,132)
Restated balance	520,000	300,120	21,003,539	(806,724)	21,016,934
Changes during period					
Dividends of surplus			(669,451)		(669,451)
Profit attributable to owners of parent			1,726,789		1,726,789
Disposal of treasury stock possession of stock ownership plan trust				14,254	14,254
Change in scope of consolidation			412,798		412,798
Change in ownership interest of parent due to transactions with non-controlling interests		(23,564)			(23,564)
Net changes in items other than shareholders' equity					—
Total changes during period	—	(23,564)	1,470,136	14,254	1,460,826
Balance at end of period	520,000	276,555	22,473,675	(792,470)	22,477,761

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	442,578	(38,757)	(23,877)	379,943	50,595	21,505,605
Cumulative effects of changes in accounting policies						(58,132)
Restated balance	442,578	(38,757)	(23,877)	379,943	50,595	21,447,473
Changes during period						
Dividends of surplus						(669,451)
Profit attributable to owners of parent						1,726,789
Disposal of treasury stock possession of stock ownership plan trust						14,254
Change in scope of consolidation						412,798
Change in ownership interest of parent due to transactions with non-controlling interests						(23,564)
Net changes in items other than shareholders' equity	218	22,164	150,313	172,696	1,457	174,154
Total changes during period	218	22,164	150,313	172,696	1,457	1,634,980
Balance at end of period	442,797	(16,593)	126,435	552,639	52,053	23,082,454

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	2,850,500	2,550,592
Depreciation	218,646	270,656
Amortization of goodwill	—	7,910
Interest and dividend income	(40,634)	(35,498)
Interest expenses	47	18
Foreign exchange losses (gains)	(14,249)	(15,098)
Settlement income	(40,627)	(468,061)
Loss (gain) on step acquisitions	—	(73,309)
Loss (gain) on sale of investment securities	—	1,068
Loss (gain) on valuation of investment securities	25,165	—
Loss (gain) on sale and retirement of non-current assets	4,397	2,548
Decrease (increase) in notes and accounts receivable-completed operation	(1,937,941)	—
Decrease (increase) in notes, accounts receivable-completed operation and contract assets	—	(2,032,222)
Decrease (increase) in costs on uncompleted services	(426,054)	2,847,600
Decrease (increase) in accounts payable-operating	507,271	223,995
Increase (decrease) in advances received on service contracts in progress	(217,680)	—
Increase (decrease) in contract liabilities	—	(586,830)
Increase (decrease) in accrued consumption taxes	(141,005)	(118,169)
Increase (decrease) in allowance for doubtful accounts	(141,944)	8,042
Increase (decrease) in provision for bonuses	161,224	75,951
Increase (decrease) in retirement benefit liability	(202,632)	(250,277)
Other, net	156,502	30,983
Subtotal	760,987	2,439,902
Interest and dividends received	42,291	36,687
Interest paid	(47)	(18)
Settlement received	40,627	468,061
Income taxes refund	12,255	—
Income taxes paid	(629,093)	(991,231)
Net cash provided by (used in) operating activities	227,020	1,953,400
Cash flows from investing activities		
Proceeds from cancellation of time deposits	351,413	(327,088)
Payments into time deposits	(302,686)	304,150
Purchase of property, plant and equipment	(460,209)	(724,415)
Proceeds from sale of property, plant and equipment	27	—
Purchase of intangible assets	(239,794)	(277,894)
Purchase of investment securities	(3,600)	(1,800)
Proceeds from redemption of investment securities	100,000	—
Proceeds from sale of investment securities	—	10,187
Purchase of shares of subsidiaries and associates	—	(5,000)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(248,503)
Payments of leasehold and guarantee deposits	(3,392)	(3,611)
Proceeds from refund of leasehold and guarantee deposits	13,513	12,626
Other, net	(6,571)	5,027
Net cash provided by (used in) investing activities	(551,299)	(1,256,321)
Cash flows from financing activities		
Purchase of treasury shares	(172)	—
Dividends paid	(573,338)	(668,768)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(193,920)
Other, net	16,555	(3,603)

(Thousands of yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Net cash provided by (used in) financing activities	(556,955)	(866,292)
Effect of exchange rate change on cash and cash equivalents	(1,309)	15,925
Net increase (decrease) in cash and cash equivalents	(882,544)	(153,287)
Cash and cash equivalents at beginning of period	14,343,181	13,460,637
Cash and cash equivalents from newly consolidated subsidiaries at the beginning of the year	—	672,736
Cash and cash equivalents at end of period	13,460,637	13,980,087

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition and other standards)

The Group 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 fiscal year under review. Accordingly, revenue in the amount expected to be received in exchange for goods or services is recognized when control of the promised goods or services is transferred to the customer.

As a result, while the Group had previously applied the completed contract method, starting from the fiscal year under review, the Group has changed its method so that in cases where the control of the goods and services is transferred to the customer over a period of time, revenue is recognized over a period of time as the performance obligation to transfer the goods and services to the customer is fulfilled. Additionally, for work for which estimates of the progress rate toward fulfillment of obligations cannot reasonably be made but the costs incurred are expected to be recovered, the cost recovery method is applied. It should be noted that in cases where the period from the commencement of the transaction stated in the contract to the point at which the performance obligations are completely fulfilled is extremely short, an alternative treatment is applied and instead of the recognition of revenue over a period of time, revenue is recognized at the point in time when the performance obligations are completely fulfilled.

In applying the Revenue Recognition Standard and other standards, the Group has complied with the transitional treatment set forth in the proviso to Paragraph 84 of the Revenue Recognition Standard. As such, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the fiscal year under review has been added to or subtracted from the beginning balance of retained earnings, and the application of the new accounting policy starts from that point. However, the Group applied the method provided for in Paragraph 86 of the Revenue Recognition Standard and did not retroactively apply the new accounting policy to contracts under which almost all revenue had been recognized in accordance with the previous treatment before the beginning of the fiscal year under review.

As a result, for the fiscal year under review, net sales and cost of sales increased by ¥834 million and ¥824 million, respectively, while operating profit, ordinary profit, and profit before income taxes each increased by ¥10 million. Additionally, the beginning balance of retained earnings decreased by ¥58 million.

Due to the application of the Revenue Recognition Standard and other standards, starting from the fiscal year under review, “Notes and accounts receivable—completed operation,” which was presented under “Current assets” in the consolidated balance sheet for the previous fiscal year, is included in and presented as “Notes, accounts receivable—completed operation and contract assets,” and “Advances received on service contracts in progress,” which was presented under “Current liabilities” in the consolidated balance sheet for the previous fiscal year, is included in and presented as “Contract liabilities.” Furthermore, starting from the fiscal year under review, “Decrease (increase) in notes and accounts receivable-completed operation,” which was presented under “cash flows from operating activities” in the consolidated statements of cash flows for the previous fiscal year, is included in and presented as “Decrease (increase) in notes, accounts receivable-completed operation and contract assets,” and starting from the consolidated statements of cash flows for the fiscal year under review, “Increase (decrease) in advances received on service contracts in progress” thereunder is included in and presented as “Increase (decrease) in contract liabilities.” In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Standard, no reclassification has been made to conform to the new presentation for the previous fiscal year. Additionally, in accordance with the transitional treatment prescribed in Paragraph 89-3 of the Revenue Recognition Standard, the Group has not presented disaggregated information on revenue from contracts with customers for the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement and other standards)

The Group has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter the “Fair Value Measurement Standard”) and other standards from the beginning of the fiscal year under review. In accordance with the transitional treatment stipulated 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), the Group will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard and other standards. This change has had no impact on the consolidated financial statements.

(Additional information)

(Accounting estimates related to the impact of the spread of the COVID-19 infection)

The Group’s accounting estimates, including impairment accounting for non-current assets and the realizability of deferred tax assets, are based on the information available at the time of the preparation of the consolidated financial statements. Regarding the impact of the spread of COVID-19, although it is difficult to accurately predict matters, such as when the pandemic is resolved, our accounting estimates are based on the assumption that business will gradually recover.

With regard to the impact of COVID-19 on the Group’s financial results, we do not consider that it has a significant impact on accounting estimates.

(Adoption of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system)

The Company and some of its domestic consolidated subsidiaries do not apply Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) to items revised under the non-consolidated taxation system in connection with the transition from the consolidated taxation system to the group tax sharing system established under the “Act on the Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020) due to the application of Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force Report No. 39, March 31, 2020), and instead apply the pre-revision income tax law provisions to the amount of deferred tax assets and deferred tax liabilities.

Starting from the beginning of the following fiscal year, the Group will apply “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Issues Task Force Report No. 42, August 12, 2021), which provides for the accounting and disclosure of corporate tax and local corporate tax as well as tax effect under the group tax sharing system.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Group's reportable segments are units composing the Group for which separate financial information is available and are the subject of regular review by the Board of Directors to determine the allocation of management resources and evaluate performance.

The Group, as a solution partner for water and environment business, engages primarily in the construction consultancy business. Business activities are conducted in Japan mainly by the Company and its domestic subsidiaries in Japan, and overseas mainly by the Company's Global Business Division and local subsidiaries in India and America, respectively. The Company's consolidated subsidiaries, as independent business units, propose business strategies and develop business activities on their own.

Therefore, the Group consists of two reportable segments classified according to region and customer, namely, "Domestic Operations" and "Overseas Operations."

2. Method of calculating amounts of net sales, profit (loss), assets, liabilities and other items by reportable segment

The accounting of business segments reported are generally the same as stated in "Significant basis of preparing consolidated financial statements."

Profits of reportable segments are amounts based on operating profit.

Inter-segment sales and transfers are based on prevailing market prices.

3. Information on net sales, profit (loss), assets, liabilities and other items by reportable segment and disaggregation

For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Thousands of yen)

	Reportable segment			Others (Note 1)	Total	Adjustments (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Domestic operations	Overseas operations	Total				
Net sales							
Net sales to outside customers	16,156,541	2,930,952	19,087,494	227,603	19,315,097	—	19,315,097
Inter-segment net sales or transfers	—	1,500	1,500	—	1,500	(1,500)	—
Total	16,156,541	2,932,452	19,088,994	227,603	19,316,597	(1,500)	19,315,097
Segment profit	2,483,780	181,465	2,665,246	94,116	2,759,363	(554)	2,758,808
Segment assets	22,382,861	3,487,647	25,870,508	1,862,560	27,733,069	(216,981)	27,516,087
Other items							
Depreciation	171,454	5,811	177,265	41,380	218,646	—	218,646
Amortization of goodwill	—	—	—	—	—	—	—
Unamortized balance of goodwill	—	—	—	—	—	—	—
Increases in property, plant and equipment and intangible assets	789,806	9,893	799,700	8,022	807,722	—	807,722

(Notes) 1. "Others" consist of businesses that are not included in the reportable segments, mainly the real estate leasing business.

2. Details of adjustments are as follows:

(1) Adjustment of segment profit is based on intersegment eliminations.

- (2) Adjustment of segment assets is based on intersegment eliminations.
 3. Segment profit is adjusted with operating profit in the consolidated financial statements.

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Reportable segment			Others (Note 1)	Total	Adjustments (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Domestic operations	Overseas operations	Total				
Net sales							
Water supply systems	4,644,475	1,310,146	5,954,621	—	5,954,621	—	5,954,621
Sewerage systems	11,565,480	238,448	11,803,928	—	11,803,928	—	11,803,928
Environmental systems and others	507,834	735,373	1,243,208	—	1,243,208	—	1,243,208
Revenue from contracts with customers	16,717,790	2,283,967	19,001,758	—	19,001,758	—	19,001,758
Other revenue	—	—	—	230,076	230,076	—	230,076
Net sales to outside customers	16,717,790	2,283,967	19,001,758	230,076	19,231,835	—	19,231,835
Intersegment net sales or transfers	6,347	5,446	11,794	—	11,794	(11,794)	—
Total	16,724,137	2,289,414	19,013,552	230,076	19,243,629	(11,794)	19,231,835
Segment profit (loss)	2,199,498	(364,296)	1,835,202	103,434	1,938,636	(3,934)	1,934,701
Segment assets	22,719,317	3,853,793	26,573,110	1,822,692	28,395,803	(216,981)	28,178,821
Other items							
Depreciation	230,394	8,347	238,741	40,768	279,509	—	279,509
Amortization of goodwill	7,910	—	7,910	—	7,910	—	7,910
Unamortized balance of goodwill	110,752	—	110,752	—	110,752	—	110,752
Increases in property, plant and equipment and intangible assets	1,391,386	14,397	1,405,784	900	1,406,684	—	1,406,684

(Notes) 1. “Others” consist of businesses that are not included in the reportable segments, mainly the real estate leasing business.

2. Details of adjustments are as follows:

(1) Adjustment of segment profit (loss) is based on intersegment eliminations.

(2) Adjustment of segment assets is based on intersegment eliminations.

3. Segment profit (loss) is adjusted with operating profit in the consolidated financial statements.

4. Matters related to changes in reportable segments

As stated in (Changes in accounting policies), the Group applied the Revenue Recognition Standard and other standards from the beginning of the fiscal year under review, and changed the method of accounting in connection with the recognition of revenue. Accordingly, the Group changed the method of calculating the profit or loss of its business segments.

As a result of this change, for the fiscal year under review, net sales in “Domestic operations” increased by ¥474 million and segment profit increased by ¥10 million, while in “Overseas operations,” net sales increased by

¥360 million and segment loss decreased by ¥0 million, compared to the previous method.

[Related information]

For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

1. Information by product and service

(Thousands of yen)

	Water Supply	Sewerage	Environmental/Other	Total
Net sales to outside customers	6,442,271	11,641,171	1,231,654	19,315,097

2. Information by region

(1) Net sales

(Thousands of yen)

Japan	Asia & Oceania	Africa	Middle East	Central & South America	North America	Total
16,384,145	1,652,787	50,324	1,184,807	42,547	485	19,315,097

(Note) Net sales are based on the location of the customer and classified according to country or region.

(2) Property, plants and equipment

The amount of property, plants and equipment located in Japan is not presented as it exceeds 90% of the property, plants and equipment recorded on the consolidated balance sheet.

3. Information by major customer

(Thousands of yen)

Name of customer	Net sales	Related segment
Japan Sewage Works Agency	3,098,972	Domestic Operations

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

1. Information by product and service

(Thousands of yen)

	Water supply	Sewerage	Environmental/Other	Other	Total
Net sales to outside customers	5,954,621	11,803,928	1,243,208	230,076	19,231,835

2. Information by region

(1) Net sales

(Thousands of yen)

Japan	Asia & Oceania	Africa	Middle East	Central & South America	North America	Total
16,947,867	1,881,167	69,565	333,234	—	—	19,231,835

(Note) Net sales are based on the location of the customer and classified according to country or region.

(2) Property, plants and equipment

The amount of property, plants and equipment located in Japan is not presented as it exceeds 90% of the property, plants and equipment recorded on the consolidated balance sheet.

3. Information by major customer

(Thousands of yen)

Name of customer	Net sales	Related segment
Japan Sewage Works Agency	2,801,255	Domestic Operations

[Information on impairment loss on non-current assets by reportable segment]

For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

Not applicable.

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

Not applicable.

[Information on amortization and unamortized balance of goodwill by reportable segment]

For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

Not applicable.

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

Notes are omitted as similar information is included in the segment information.

[Information on gain on negative goodwill by reportable segment]

For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

Not applicable.

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

Not applicable.

(Per share information)

	For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)	For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)
Net assets per share	2,250.65	2,413.81
Basic earnings per share	202.40	181.03

- (Notes) 1. Diluted earnings per share is not provided as there were no potential shares.
2. The basis for the calculation of net assets per share is as follows. Furthermore, the Company's shares held in the board benefit trust are included in the treasury shares to be deducted in the calculation of total number of shares issued as of the end of the fiscal year and average number of shares during the fiscal year for the purpose of calculating net assets per share and basic earnings per share.

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Total net assets (Thousands of yen)	21,505,605	23,082,454
Amounts deducted from total net assets (Thousands of yen)	50,595	52,053
(Non-controlling interests (Thousands of yen))	(50,595)	(52,053)
Net assets attributable to shares of common stock (Million yen)	21,455,010	23,030,401
Number of shares of common stock used to calculate net assets per share (Thousand shares)	9,532	9,541

3. The basis for the calculation of basic earnings per share is as follows.

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Profit attributable to owners of parent (Thousands of yen)	1,929,474	1,726,789
Amount not attributable to common shareholders (Thousands of yen)	—	—
Profit attributable to owners of parent relating to common shares (Thousands of yen)	1,929,474	1,726,789
Average number of common shares during the period (Thousand shares)	9,532	9,538

(Significant subsequent events)

Not applicable.