Innovating for a Wise Future

For **FY2020**

Annual Shareholders Newsletter

From July 1, 2020 to June 30, 2021

Creating systems that advance society by integrating human, physical, and intangible resources.



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Top Message

To Our Shareholders

Based on our engineering knowledge, we will engage ourselves in solving the issues of society and aim for sustainable growth.

I would like to extend my heartfelt gratitude to our shareholders for their continued support and understanding for our business. In presenting the shareholders newsletter for FY2020 of the Company, I would like to offer a few words.

As we strive to solve various issues and challenges that face society and to aim for sustainable growth as an entity, our founding spirit—"Create a future society full of wisdom, together with our stakeholders, by utilizing our technologies based on engineering knowledge and by disseminating them throughout society"-is at the heart of our Thought (philosophy), "Innovating for a Wise Future."

Since the days of its incorporation, the Company has worked on advanced technologies and business challenges, making the best of its engineering knowledge which integrates academic and empirical knowledge. While maintaining a solid foundation of expertise in the structural design of buildings, in 1961 we adopted computers which were still rare in Japan, and continue to expand our businesses into diversified areas such as ground analysis and environmental analysis of the surroundings, support for utilizing IT in architectural and manufacturing industries, providing solutions in the information and communications

area, simulation and decision making support for the development of social systems, as well as IoT/IoE services for home applications provided in recent years. In each business domain, we focus on leveraging the experience curve effects and have thus far accumulated engineering expertise and steadily enhanced the value we add to our solutions.

In the Engineering Consulting business, performance was driven mainly by repeated orders from blue-chip enterprises in the residential/construction industries with their aggressive motivation for investment to introduce advanced information technologies and enhance competitiveness, and orders for structural design services that contribute to building a safe and secure society. In order to provide high quality added values, we have been reducing the occurrence of unprofitable projects through systematic initiatives to ensure quality.

In the Product Service business, sales continued to expand steadily for cloud-based email delivery services, 3D digitalization solutions, and cloud services for room entry and exit management that were launched in recent years. Sales of CAE software for designers, which realizes period shortening and cost reduction in product development, and particle-based fluid simulation software were also robust.

Shareholder Returns

Basic Policy on Profit Distribution

The Company recognizes that returning profits to its shareholders is an important management issue, and makes it a basic policy to pay continuous and stable dividends while taking into account the needs for internal reserves for the strengthening of management base and future business development, thereby setting dividend payout ratio of approximately 50% as targets.



2017 (FY2016)

Enhancing value through investments

While working to maintaining steady growth of our core businesses, we have made continued investments with a view toward future growth. In the recent years, we are actively engaged in the development of new businesses, particularly with overseas partners.

RemoteLOCK, a cloud service for room entry and exit management by U.S.-based LockState, Inc., which we launched in 2016, has shown steady growth in the sales as a business adding new values to buildings and homes in the IoT era. Going forward, we are aiming to expand our business further as a provider of access control platform that can be linked with various devices and services. Also, the sales of a new wearable device for NavVis, a 3D digitalization solution for large-scale facilities by NavVis GmbH, a German company with which we have had business alliance since 2015, are rising, as we expand the business as services to support the creation of smart factories with digital twins and remote servicing and management of facilities.

Collaboration with other companies and academia-industry cooperation

The Company is working aggressively with overseas partners. Steady expansion of sales and profit was achieved with the adoption of a subscription-type business model for Twilio SendGrid, the cloud-based email delivery service which Twilio, Inc. of the United States started to provide in 2013. We are also working to develop the base of operations for 3MA, a next-generation nondestructive testing device developed by Europe's largest research organization Fraunhofer-Gesellschaft, to be offered as a solution to improve the quality and productivity of products.

As for joint research and cooperative activities with universities and research institutions, we are promoting RiverCast, a real-time flood prediction system developed jointly with the University of Tokyo, as a service to support early decision-making of evacuation and the operation of facilities and construction sites near rivers. The research and development results of the core technology used in

this service have been published in Scientific Reports (online), a general scientific journal published by Nature Publishing Group, and was selected Top 100 in Physics as one of the most downloaded papers in the year, along with recognition as an excellent cited thesis.

Participation of diverse "collaborative professional" and offering growth opportunities

To drive our business activities, it is of utmost importance to recruit and develop collaborative professionals.

On the recruitment front, both new-graduate and midcareer hires are supported by proactive recruitment activities continued in Japan and overseas.

We also continue our overseas recruitment activities that started in Singapore in 2014, and have 39 foreign nationals working with us, accounting for about 6% of all colleagues as of the end of FY2020. The participation of collaborative professional with various cultural and economic experiences allows us to combine the diverse values within the Company, leading to the vitalization of organization and development of new businesses.

Also, in addition to internal transfers and external training programs, we provide our colleagues with diverse growth opportunities by offering various scenes within or outside the Company to demonstrate their full potentials, including dispatching to governmental agencies and other external research institutions.

Looking ahead, we will continue to commit ourselves to enhancing corporate value by providing customers with solutions that benefit the society.

Therefore, we ask our shareholders for their continued support going forward.

Shota Hattori Representative Executive Officer and Chairman

Tamon Watanabe Representative Executive Officer and President

& Haller 渡邊太門

AK Radio Design

Joint venture company "AK Radio Design" launches operation for the local 5G market

The Company and Anritsu Corporation (headquarter in Atsugi-shi, Kanagawa, President Hirokazu Hamada) jointly established AK Radio Design Co., Ltd., and began operation on July 1, 2021.

In the recent years, companies and local governments are considering the adoption of local 5G based on 5G technologies in order to build exclusive high-speed wireless network environments for certain areas, buildings or premises. Upon installation of the system, a radio station license must be obtained and expertise and know-hows such as area designing and assessment of survey are essential, and in the actual operation, professional experience is required for example, in monitoring network interference and optimizing the network according to number of terminals.

The newly established AK Radio Design combines KKE's simulator products and analytic services based on its engineering knowledge with Anritsu's communication measurement equipment and measurement services based on their measurement and analysis technologies, to offer one-stop services from simulation to actual assessment to operators considering the establishment of local 5G.



- Simulation of radio wave propagation necessary for local 5G area design
- · Consulting on adjustment of interference, area verification and design





From left, President Hamada of Anritsu, President Katahira and Director Hamada of AK Radio Design, President Hattori of KKE (titles at the time of the signing ceremony for the establishment of the company)

Solution

Measurement services

local 5G installation sites

· Support for benchmarking of base

station equipment and terminals



Lab visit & usage services

- Promotion of understanding on the use · Assessment of interference, on-site area survey, assessment of base station of local 5G and quality assurance performance, assessment of network at measures by utilizing Anritsu 5G LAB
 - Creation of demonstration testing environment and opportunities using actual local 5G environment





Services

offerec

General Manager of Communication Engineering Department of KKE and Director of AK Radio Design Takashi Hamada

"We aim to offer consulting services with high added value through an integrated solution that combines the neasurements using Anritsu's measurement equipment and KKE's simulation which is our strength."



Started offering 3MA non-destructive testing device developed by Fraunhofer Institute for Nondestructive Testing IZFP

The Company started the sales of 3MA, a non-destructive magnetic testing device developed by Fraunhofer Institute for Nondestructive Testing IZFP in Germany (German name Fraunhofer IZFP, located in Saarbrücken, Germany, Executive Director Mr. Randolf Hanke; hereinafter, "IZFP").

As the working population in Japan continues to decrease, the manufacturing industry is facing the issue of improving productivity while trying to respond to higher demands for quality. For example, in the production process for automobiles and industrial machines, companies test the hardness and tensile strength of materials for quality control, and normally these tests are conducted by sampling the products in mass production and destroy them for testing. The harder companies try carefully to ensure quality by increasing the number of products to be picked for testing, they spend a huge amount of material costs, man-hours, and time. 3MA is a method to determine the quality of products without destroying them, and allows companies to dramatically reduce the

cost and time required with conventional destructive testing. Moreover, by collaborating 3MA with industrial robots, it will allow testing of all products within the production process without inhibiting productivity.

Outlook of 3MA business utilizing KKE's technologies Based upon its expertise on material mechanics and production processes, the Company will support the establishment of 3MA non-destructive testing process mainly through the provision of sales and technical support of 3MA and consigned measurement services to manufacturers in Japan. Also, by combining it with our accumulated element technology such as data analysis/machine learning, and sensing, we will develop more advanced measurement technologies and provide analysis consulting utilizing the testing data, thereby support customers achieve smart manufacturing and realize both guality and productivity.

Commemoration webinar was held

On July 8, 2021, we held a webinar commemorating the release. Since the 3MA device was delivered from IZFP in February this year, the 3MA Business Section in the Next Generation Business Development Department has been aggressively promoting measurement trials for mainly important customers of automobile OEM manufacturers and their components and materials suppliers. This webinar was held in an aim to announce the launch of our 3MA business for the Japanese market.

On the day of the webinar, we invited Dr. Bernd Wolter, the lead developer of 3MA at IZFP to deliver a keynote speech. Our Company introduced five case studies in Japan.

Having been well prepared with many case studies, we received over 30 questions in response to Dr. Wolter's







keynote speech and our domestic case studies, and also many questions in the questionnaire after the webinar.

At the end, over 150 people signed up and were able to have about 120 viewers. The questionnaire after the webinar showed that many customers were interested and "will consider implementation." We will continue to carry out our promotional activities vigorously.



Topics

Case study on the use of NavVis for investigating inside the buildings at Fukushima Daiichi Nuclear Power Station

NavVis, our 3D digitalization solution for large-scale facilities is used for the investigation inside the buildings at Fukushima Daiichi NPS.

In the "Progress Status of the Mid-and-Long-Term Roadmap toward Decommissioning of TEPCO Holdings Fukushima Daiichi Nuclear Power Station" released on June 24, 2021 by Tokyo Electric Power Company Holdings, Inc., photos showing the acquisition of point cloud data inside the Unit 3 Reactor Building at Fukushima Daiichi NPS using the wearable measurement device, NavVis VLX was introduced.

NavVis is a solution that can rapidly produce highquality 3D mapping of large-scale buildings. In September 2020, the Company launched the domestic sales of NavVis VLX a mapping device that can be worn on the body. The device facilitates the measurement of complex spaces such as construction sites as well as pipe & duct shafts and mechanical equipment in factories and plants.

In this case, for the decommissioning of Fukushima Daiichi NPS, while it is important to verify the condition of the disaster-stricken site, the high radiation dose of the area poses various issues, for example, people cannot enter the site frequently, and the only certain people can enter the site.



Wearable mapping device NavVis VLX



Measurement inside the reactor building

If they have a system that can produce three-dimensional mapping of the site in a speedy and accurate manner, anyone could remotely verify the condition of the site and formulate plans for decommissioning. Base on this idea, we introduced NavVis VLX to be used in the actual investigation inside the reactor buildings.

The recent investigation using NavVis VLX demonstrated that it can create 3D digitalization of the inside of the buildings, and in addition, we were able to confirm the validity in relation to the following points:

- Using the point cloud data obtained, we can determine the widths, heights, and other dimensions of the corridors, which will be extremely effective in planning for the anticipated unmanned operations inside the buildings using robots and drones.
- It is effective in determining the secular changes of facilities by obtaining point cloud data continuously over time.



Birdseye view of the point cloud data

We will continue to determine the effective use of data, and strive to develop and expand this solution so that it can be used for many other applications including the use in maintaining and servicing critical infrastructure facilities such as those in this case study.

(Images are from the materials released by Tokyo Electric Power Company Holdings, Inc.)

We made a donation to Ozu Town in Kumamoto Prefecture under the corporate Furusato Nozei hometown tax donation program

The Company made a donation to Ozu Town in Kumamoto Prefecture under the corporate Furusato Nozei hometown tax donation program, and on June 23, 2021, a testimonial granting ceremony was held at Ozu Town Office. At the ceremony, in addition to exchanging catalogs and testimonial, we had an active discussion with Town Mayor Hideki Kanada on regional revitalization projects and activation of Ozu Town.

Our relationship with Kumamoto began in 1960 when we became in charge of the structural design of the

Kumamoto Castle Tenshukaku (castle towers) reconstruction project. In 1986, under the Technopolis plan proposed by the then Ministry of International Trade and Industry and with the support of Morihiro Hosokawa, then Governor of Kumamoto Prefecture, we established Kumamoto Kozo Keikaku Engineering in Ozu Town as our software development base. Even after more than thirty years, the Company still considers Kumamoto as an important data pool base, and has many staff working there.

Looking ahead, we will strive to enhance corporate value as a "knowledge-intensive company" with diverse collaborative professionals in the rich land of Kumamoto.



We renewed our corporate website 2

Our corporate website was renewed on July 1, 2021. The new website now features interviews with faculty of universities whom we work with in our academia-industry cooperation activities and other new content on our technological initiatives for the future. We have also renewed and expanded many of the content including our corporate history and investor relations. Under the concept of "Present KKE to our diverse stakeholders in a comprehensive way," we will operate the website to

provide information of value. Please visit our new site.





URL: https://www.kke.co.jp/

Interview

My job of thinking together with customers and supporting their success is rewarding.

Manager of SBD Engineering Department Kaoru Watanabe



Watanabe joined KKE in 2019 as mid-career hire, building upon his past experience in working to improve the quality of manufacturing

Currently, he leads the Company's simulation technologies designed for manufacturers as Manager of SBD Engineering Department. We interviewed Watanabe on the opportunities provided by KKE and future outlooks.

What is your background?

Before joining KKE, I was with a chemical manufacturer where I worked on projects of plant design and production technologies. In my previous job, we used the fluid simulation software and structural analysis software handled by KKE in improving the quality of manufacturing in the actual fields. We sometimes consulted KKE when we faced difficulties, and KKE was a great adviser for me at that time. I joined KKE in 2019, hoping to participate in projects in the position of supporting the challenges of customers going forward.

What kind of work are you engaged in 6 now?

From August 2021, I serve as Manager of SBD Engineering Department and concurrently as Manager of Technical Simulation Team of the same Department. At my department, we provide fluid-based, powder, and structural simulation technologies to support the manufacturing of customers mainly in the manufacturing industry. In addition to selling simulation software products, we also engage in the development of iGRAF which is KKE's original powder analysis software, and also provide consulting services utilizing these software products

I also like participating in projects to tackle the challenges of



Powder simulation that Watanabe handles

customers, so I try to handle each project carefully and work with customers as a team to resolve issues. The process of exploring solutions for difficult issues and resolving the challenges together with customers is an enjoyable job since I can build upon my past job experience in manufacturing. By leading our customers' projects to success, we are seeing more customers seeking our advice on a continuous basis. Being asked to work on another project is a huge motivation in our job. We hope to increase the number of projects in which we not only seek for short-term results, but also engage in longterm relationships with customers.

You joined KKE as mid-career hire. 6 What kind of a workplace is KKE?

I feel that KKE offers each one of us the opportunity to demonstrate our potentials. Even for me, I was appointed the lead point of contact for a customer's project as soon as I joined the Company, which gave me the opportunity to deal face-toface with the customer's issues. To become engaged in the challenges of many customers, I think it is important not just to have detailed knowledge on a single technology, but to take interest in various technologies. I wish to deepen my skills, and at the same time try out new things without setting a limit on what I can do.

What are your goals looking ahead?

To date, the Company has mainly been focusing on providing simulation-based technologies, but going forward, we want to consider ways to offer new values that combine KKE's measurement technology and other new technologies. My previous job was driven on both measurement and simulation, so I hope I can utilize this experience. KKE is also pursuing the development of technologies to assimilate experimental and simulation data, so in collaboration with our in-house engineers, we are aiming to introduce new values to the world. I wish to create a team that can think out of the box and constantly take on challenges.

Trends in Staff Data

Since its founding, KKE has been aggressively recruiting diverse collaborative professionals regardless of gender, nationality, or background in an effort leading to the vitalization of organization and development of new businesses. Here we illustrate the staff data of the last three years.











Financial Highlights



Segment Review

Engineering Consulting



Business performance was driven by system development services for residential and construction industries. Structural design consulting and information and communication technology consulting services were also robust. As a result, net sales amounted to ¥9,937 million (compared to ¥10,241 million for the previous fiscal year), and gross profit was ¥5,730 million (compared to ¥6,076 million for the previous fiscal year).

Product Service



Sales of radio propagation analysis software, CAE software for designers and particle-based fluid simulation software remained robust. Also, cloud-based email delivery service by Twilio, Inc. (USA), 3D digitalization solutions by NavVis GmbH (Germany), and cloud service for room entry and exit management by LockState, Inc. (USA) steadily expanded sales. As a result, net sales amounted to ¥3,694 million (compared to ¥3,190 million for the previous fiscal year), and gross profit was ¥1,501 million (compared to ¥1,284 million for the previous fiscal year).





Financial Data

Balance Sheet (Summary)

(Unit: Thousand yen)

	FY2019	FY2020	
	(AS OF JUNE 30, 2020)	(As of June 30, 2021)	
(Assets)			
Current assets	5,824,136	6,069,787	
Cash and deposits	2,014,232	2,120,171	
Notes receivable-trade	46,914	8,470	
Accounts receivable-trade	1,905,482	1,691,315	
Work in process	678,208	601,633	
Other	1,179,298	1,648,197	
Fixed assets	9,108,011	9,478,745	
Tangible assets	5,119,390	5,442,900	
Intangible assets	430,377	374,300	
Investments and other assets	3,558,243	3,661,544	
Total assets	14,932,147	15,548,533	
(Liabilities)			
Current liabilities	4,483,191	3,951,583	
Accounts payable-trade	282,458	324,094	
Long-term borrowings due within one year	694,332	512,839	
Other	3,506,401	3,114,649	
Long-term liabilities	4,184,101	4,440,552	
Corporate bonds	250,000	150,000	
Long-term borrowings	1,637,839	1,802,872	
Lease obligations	12,130	7,719	
Provision for retirement benefits	2,066,986	2,223,466	
Provision for directors' retirement benefits	40,000	20,540	
Provision for share-based compensation	93,561	138,103	
Asset retirement obligations	83,583	97,850	
Total liabilities	8,667,292	8,392,135	
(Net Assets)			
Shareholders' equity	6,259,169	7,023,541	
Capital stock	1,010,200	1,010,200	
Capital surplus	1,159,926	1,325,209	
Retained earnings	4,760,673	5,453,772	
Treasury stock	(671,629)	(765,639)	
Valuation and translation adjustments	5,685	132,855	
Total net assets	6,264,855	7,156,397	
Total liabilities and net assets	14,932,147	15,548,533	

Balance Sheet Highlights

- Total assets increased 4.1% year on year to ¥15,548 million.
- Total liabilities decreased 3.2% year on year to ¥8,392 million.
- Total net assets increased 14.2% year on year to ¥7,156 million.

Income Statement Highlights

• Net sales were ¥13,631 million. Operating income came to ¥1,718 million and ordinary income came to ¥1,764 million. As a result of recording gain on sales of shares of subsidiaries and associates, etc. as extraordinary income, net income came to ¥1,330 million, all exceeding the announced earnings forecasts.

Changes in Z-score^{*} ('00/6-'21/6)



*Indicator of financial health. Calculated as a total of five indicators including pressure of short-term cash flow, asset efficiency, accumulated earnings, weight of debt burden, and total assets turnover

Income Statement (Summary)

(Unit: Thousand yen)

	FY2019 (From July 1, 2019 to June 30, 2020)	FY2020 (From July 1, 2020 to June 30, 2021)
Net sales	13,432,312	13,631,122
Cost of sales	6,071,331	6,398,473
Gross profit	7,360,981	7,232,649
SGA expenses	5,505,744	5,514,351
Operating income	1,855,237	1,718,297
Non-operating income	19,792	94,158
Non-operating expenses	77,886	47,801
Ordinary income	1,797,143	1,764,655
Extraordinary income	—	127,030
Extraordinary losses	109,082	68,123
Net income before taxes	1,688,060	1,823,561
Income taxes-current	458,324	512,321
Income taxes-deferred	24,900	(19,522)
Net income	1,204,836	1,330,761

Cash Flow Statement (Summary) (Unit: Thousand yen)

	FY2019 (From July 1, 2019 to June 30, 2020)	FY2020 (From July 1, 2020 to June 30, 2021)
Cash flows from operations	1,419,061	1,469,755
Cash flows from investments	(731,027)	(683,171)
Cash flows from financing	(25,497)	(680,576)
Effect of exchange rate change on cash and cash equivalents	146	(67)
Net increase (decrease) in cash and cash equivalents	662,681	105,939
Cash and cash equivalents at the beginning of FY	1,351,550	2,014,232
Cash and cash equivalents at the end of FY	2,014,232	2,120,171





- Capital Ratio

- Return on Equity (ROE)



Corporate Profile / Stock Information

Corporate Data (As of June 30, 2021)

Name:	KOZO KEIKAKU ENGINEERING Inc.
Date of Establishment:	May 6, 1959
Accounting Term:	June
Listed on:	Tokyo Stock Exchange (JASDAQ Standard)
Line of Business:	Engineering Consulting Product Service

Locations:

Head Office:	4-38-13 Hon-cho, Nakano-ku, Tokyo 164-0012, Japan
Central Office:	4-5-3 Chuo, Nakano-ku, Tokyo 164-0011
Nakanosakaue Annex:	Sumitomo Nakanosakaue Building 5Fl., 10Fl. 1-38-1 Chuo, Nakano-ku, Tokyo 164-0011
Nagoya Branch Office:	JP TOWER NAGOYA 25Fl. 1-1-1 Meieki, Nakamura-ku, Nagoya, Aichi 450-6325
Osaka Branch Office:	Midosuji MTR Bldg. 5Fl. 3-6-3 Awaji-cho, Chuo-ku, Osaka 541-0047
Fukuoka Branch Office:	JRJP Hakata Bldg. 8Fl. 8-1 Hakataekichuogai, Hakata-ku, Fukuoka-shi, Fukuoka 812-0012
Kumamoto Office:	1315 Muro, Ozu-machi, Kikuchi-gun, Kumamoto 869-1235
Shanghai Rep. Office:	Shanghai World Financial Center, 15Fl. No. 100 Century Avenue, Pudong New Area, Shanghai, 200120, China
KKE SINGAPORE PTE. LTD.:	600 North Bridge Road, #14-01 Parkview Square, Singapore 188778

Share Status (As of June 30, 2021)

Total number of authorized shares:21,624,000 sharesTotal number of outstanding shares:5,500,000 sharesNumber of shareholders:4,530

Composition of Shareholders (As of June 30, 2021)



Additional Information

Fiscal year:	From July 1 to June 30 of the following year
Annual meeting of shareholders:	Every September
Record dates for dividends:	March 31, June 30, September 30 and December 31
Record date:	June 30
Administrator of shareholder registry & Special account management institution:	Mitsubishi UFJ Trust and Banking Corporation
Contact information for the above:	Stock Transfer Agency Division, Mitsubishi UFJ Trust and Banking Corporation 1-1 Nikkocho, Fuchu-shi, Tokyo (Mailing address) Stock Transfer Agency Division, Mitsubishi UFJ Trust and Banking Corporation P.O. Box No. 29 Shin-Tokyo Post Office, 137-8081 TEL: 0120-232-711 (Toll free)
Method of public notice:	By electronic public notice
URL where public notice is posted:	https://www.kke.co.jp/en/ (However, public notice is posted on the Nihon Keizai Shimbun in the event that electronic public notice is unavailable due to accident or other unavoidable reasons.)