



February 21, 2008

FYE June 2008
Midterm Financial Results

KOZO KEIKAKU ENGINEERING Inc.

Note pertaining to this data:

Results forecasts appearing in this material are prepared based on the information available as of the date of publication. Actual results may differ from forecast figures due to factors such as uncertainties in the economic environment.

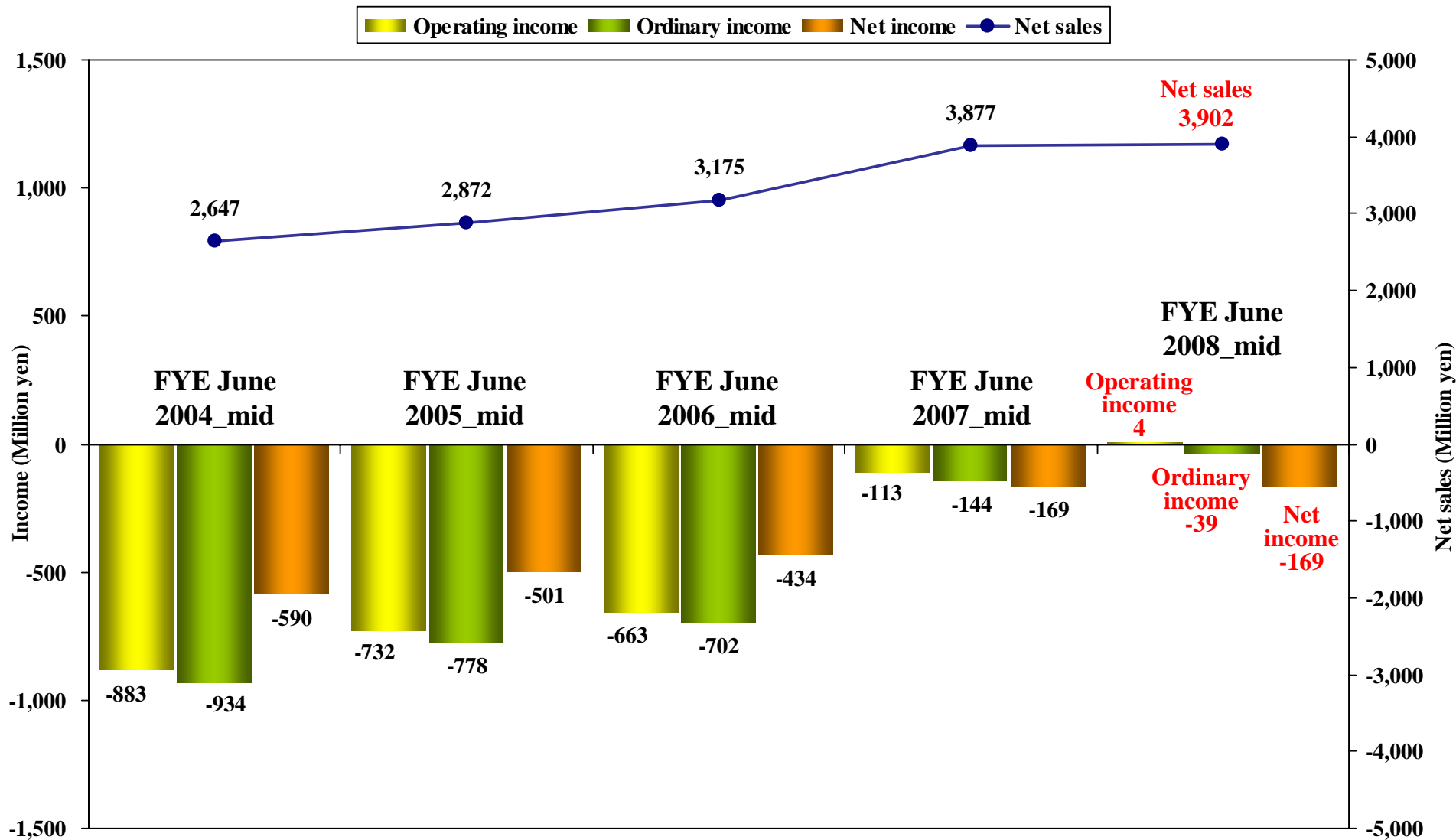
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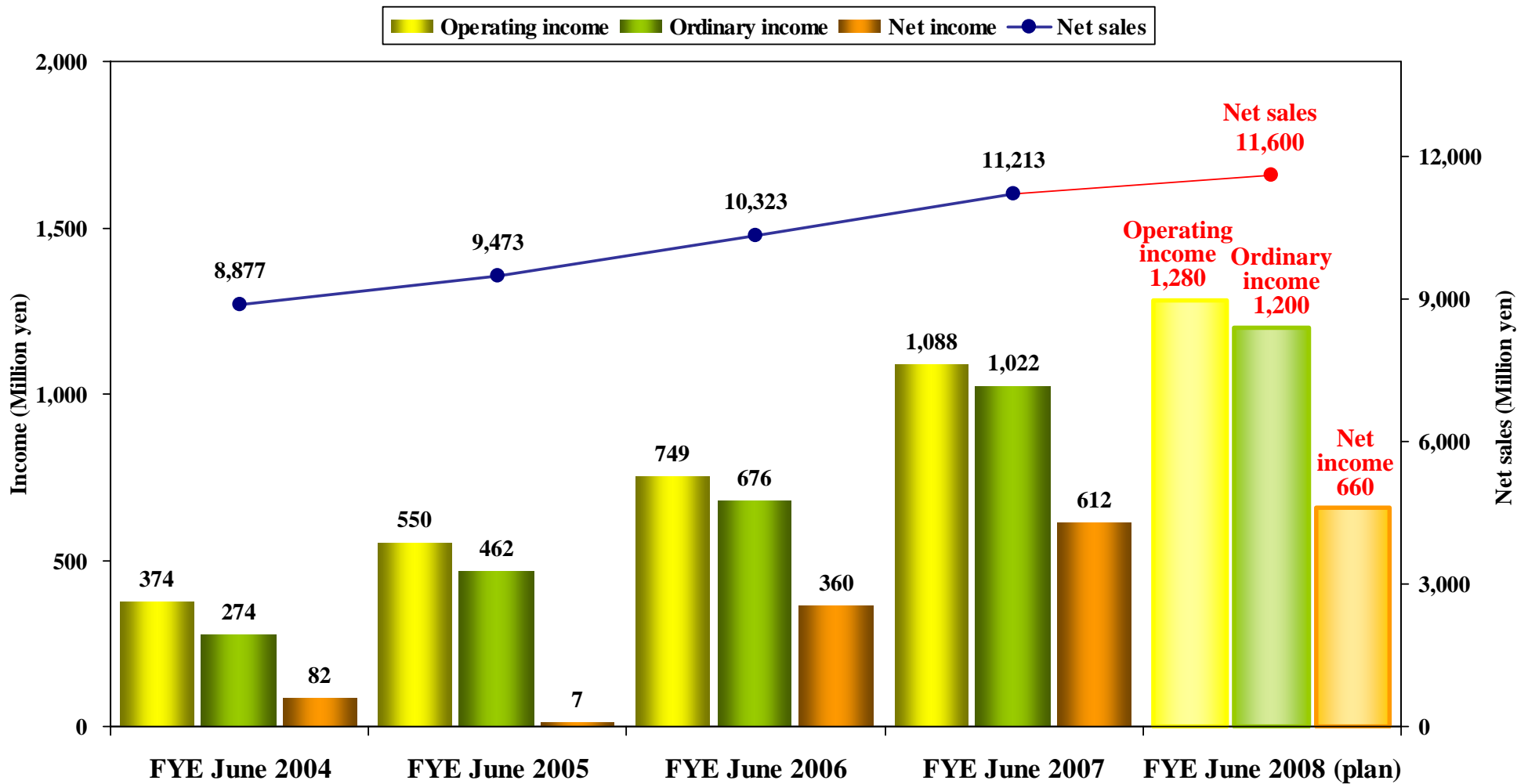
(Note) Fractions under one million yen are omitted in the figures in this material.

1. Midterm Financial Results

Changes in Midterm Financial Results



(Reference) Changes in Full-Term Financial Results and Fiscal Year Plans



Factors in Changes in First-Half And Second-Half Results

■ Seasonal changes in net sales and cost of sales

- **Delivery deadlines for projects are concentrated in March, the closing month for customers. This seasonal factor had an impact.**
- **Approximately 70% of annual net sales are recorded in the second half of each year.**
- # **The progress of projects in process or carried over is internally managed with generated intellectual value (GIV) and GIV earnings.**

■ Posting of SGA expenses throughout the fiscal year

- **SGA expenses comprise slightly less than 30% of total expenses of the Company, which has heavy investments in personnel, sales and new projects.**
- **SGA expenses squeezed first-half results as they are not linked to changes in net sales.**

For the reasons stated above, first-half results were below the second-half figures. In fact, first-half results usually show a loss, but in the first half under review, the Company achieved profitability on an operating income basis for the first time since it was established.

Financial Highlights

(Million yen)

	Midterm FYE June 2007	Midterm FYE June 2008	Change from previous FY	Rate of change
Orders	5,888	5,885	-3	-0.1%
Net sales	3,877	3,902	24	0.6%
Operating income	-113	4	118	-
Ordinary income	-144	-39	104	-
Net income	-169	-169	0	-

**Orders and net sales were close to their levels in the previous year.
Operating income and ordinary income improved substantially.**

- **Major factors in the higher operating income and ordinary income**
 - **Decrease in the number of unprofitable projects**
 - **Sustained focus on operations with high added value**

During the interim period under review, the Company registered as an extraordinary loss the ¥228 million required or likely to be required to respond to the issue of earthquake resistance data falsification by a structural design subcontractor, which came to light in October 2007.

■ Course of events

An investigation conducted by the authorities found that first-class registered architect, Koichi Endo, of Fujiken Jimusho, which had been providing structural designing work on behalf of the Company for a condominium scheduled for construction in Yokohama City, had deliberately falsified data entered in structural calculation sheets and disguised the condominium's earthquake resistance level.

Following the revelation of the problem, the Company cooperated in the investigation by the authorities and responded sincerely and speedily to customers, attaching the highest priority to resolving the issue.

Extraordinary Loss Associated with Earthquake Resistance Data Falsification (2)

■ Breakdown of extraordinary loss associated with earthquake resistance data falsification

Expenses for activities to date: ¥163 million

Estimated expenses for future activities: ¥65 million

Total: ¥228 million

- **The majority of the expenses are associated with the re-inspection of properties in which Koichi Endo of Fujiken Jimusho, the person who falsified the earthquake resistance data, was involved (including relevant internal personnel costs).**

The extraordinary loss posted includes all expenses assumed at the time it was recorded.

■ Effects on full-term financial results

- **Are commitment of internal labor to re-inspect properties linked to their earthquake resistance data falsification.**
- **Orders have been substantially curbed to establish a system within the division to prevent any recurrence.**

A major cause for the slump in midterm results

- **The full-term forecast incorporated a decline in structural design-related operations (which account for approximately 10% of total net sales) from the initial plan for the fiscal year.**
- **The Company has tended to depend on the second half for results.**
- **Orders in hand and the order backlog performed favorably, compared with the same period in the previous year.**

The decline in structural design-related operations has the potential to recover on a full-term basis.

■ Preventing a recurrence

- **We take a serious view of the inadequate subcontracting and quality control in structural design operations. We have analyzed the causes, and are taking a comprehensive set of actions to prevent the recurrence of data falsification.**
- **We established a committee including outside experts to deal with the issue immediately after it emerged, and have developed a Company-wide response, including action to prevent a recurrence, sales measures and steps to restore our credibility.**

The Company has already received from the committee recommendations on identifying the causes of the problem and on actions for improvement. Based on these recommendations, the Company is now stepping up reforms of structural design operations so that it never repeats the mistakes.

■ Measures to prevent a recurrence

- **The Company established the Structural Problem Reform Committee, and is addressing the issues.**

- (i) **Quality control:** clarification of quality reviews and the checking processes, and changes to the awareness of persons involved
- (ii) **Labor control:** adequate human resource management by improving the accuracy of the labor estimate
- (iii) **Selective order receipts:** develop and execute order judgment criteria (that take into consideration factors such as technical details, human resources and profitability)

- **Appoint a special mission manager to manage the Structural Design Division on a full-time basis**

- * **Immediately after the falsification was revealed, the Company decided to discontinue package subcontracting, which led to this problem.**

■ Our management slogan:

“Continually offer first-class customer satisfaction with first-class quality and technologies.”

- **The Company has been committed to establishing quality control systems from early in its system development and technical consulting operations.**
- **The Company will position comprehensive quality control as a company-wide activity within the internal control system scheduled for introduction in the following fiscal year, and will enable such control to function as its original system of checks and balances.**
- **Learning from this problem, employees are united in recognizing the social responsibilities of the Company as a comprehensive engineering company, and are committed to restoring trust as quickly as possible and to continuing their activities to raising corporate value.**

We humbly ask our shareholders and investors for their continued support.

Financial Statements

P/L: Improvements in Operating Income and Ordinary Income

Net sales growth (up ¥24 million) x gross profit rate improvement (up 3.2%)

Profitability on an operating income basis (from negative ¥113 million to ¥4 million)

Causes

Improvement in project profitability and decrease in the number of unprofitable projects

(Million yen)

Segment	Net sales		Gross profit		Gross profit rate	
	FY June 2007 midterm	FY June 2008 midterm	FY June 2007 midterm	FY June 2008 midterm	FY June 2007 midterm	FY June 2008 midterm
Engineering Consulting	1,167	1,094	317	193	27.2%	17.7%
System Solution	1,669	1,825	477	757	28.6%	41.5%
Products Service	1,041	983	* 177	* 317	17.1%	32.2%
Total	3,877	3,902	1,131	1,267	29.2%	32.4%

* Selling expenses for the Sales Division are added to the cost of sales to calculate gross profit for the segment.

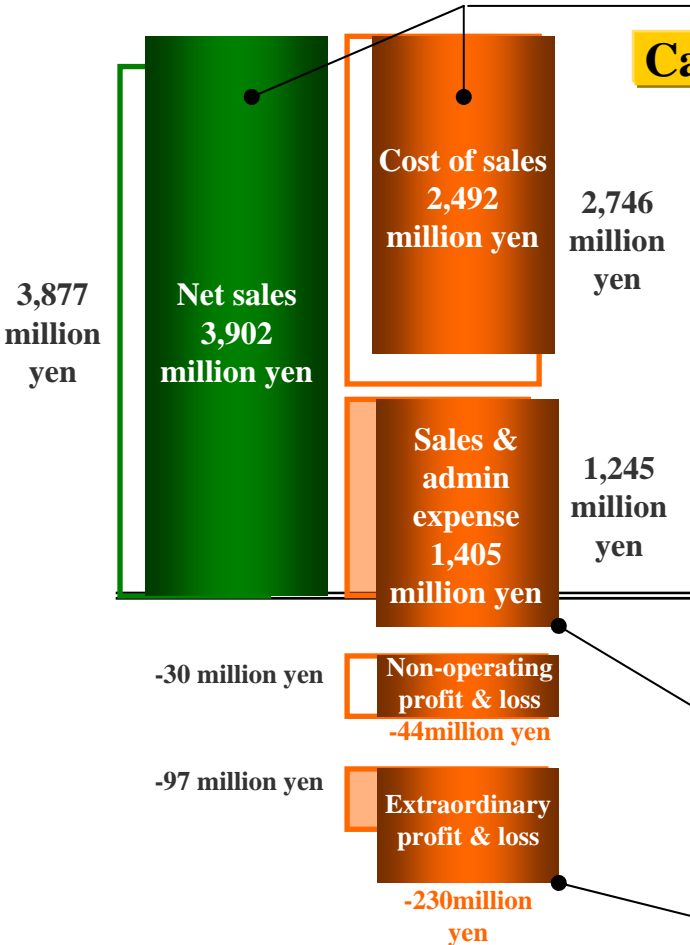
SGA expenses: up ¥160 million

Staff changes: Cost Division: - 6 persons

Sales Division: + 18 persons

Expenses associated with earthquake resistance data falsification and addition to reserve: ¥228 million in total

* Expenses required or expected to be required to respond to the issue of earthquake resistance data falsification by a contractor handling structural design operations on behalf of the Company, which came to light in October 2007



B/S: Improvements in Interest-bearing Liability Ratio and Capital Adequacy Ratio

(Million yen)

Slight increase in liabilities (+65)

Decrease in interest-bearing liabilities	(-188)
Increase in advances received	(+85)
Increase in accounts payable	(+115)
Allowance for expenses associated with earthquake resistance data falsification	(+65)

11,072 million yen

7,948 million yen

**Assets
11,414 million yen**

**Debts
8,014 million yen**

**Net worth
3,399 million yen**

Decrease in interest-bearing liability ratio

46.4% 43.4%

Improvement in capital adequacy ratio

28.2% 29.8%

(Million yen)

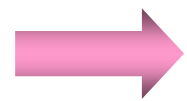
Increase in total assets (+341)

Increase in accounts receivable	(+128)
Increase in goods in process	(+195)
Increase in deferred tax assets	(+195)
Decrease in fixed assets	(-79)
Decrease in cash and deposits	(-165)

(Million yen)

Increase in net assets (+275)

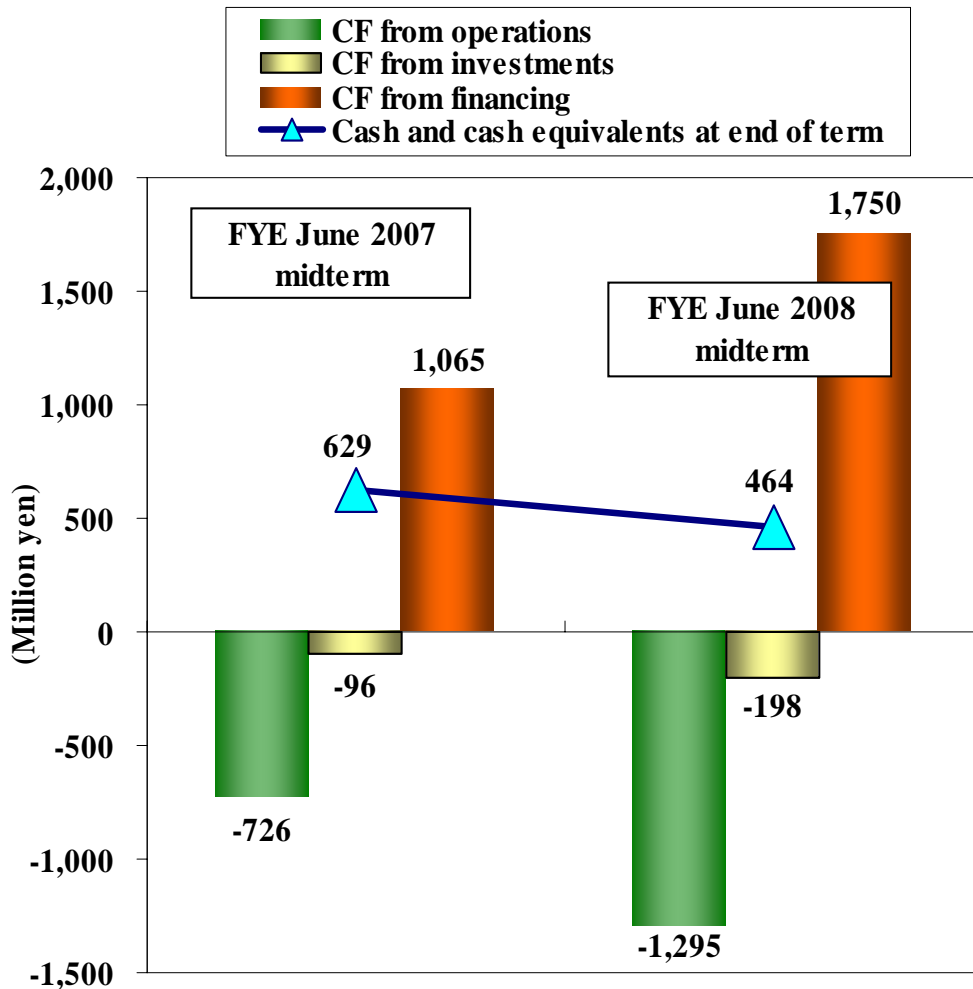
Increase in retained earnings brought forward	(+499)
Increase in treasury stock	(-89)
Decrease in program and other reserves	(-60)
Decrease in valuation and translation differences	(-53)



CF: Increase in Cash Outflow from Operations



Increases in performance-linked adjustments, goods in process and taxes paid



Breakdown of major items (Million yen)

CF from operations: -1,295	Year-on-year change: -568
- Interim net loss before taxes	-270
- Depreciation and amortization	141
- Increase in inventory	-861
- Decrease in notes and accounts receivable	734
- Decrease in accrued expenses payable	-639
- Corporation and other taxes paid	-368
CF from investments: -198	Year-on-year change: -102
- Acquisition of investment securities	-79
- Acquisition of fixed assets	-105
CF from financing: 1,750	Year-on-year change: +684
- Net increase in loans payable	1,967
- Dividends paid	-176
- Acquisition of treasury stock	-59

2. Midterm Financial Results by Segment

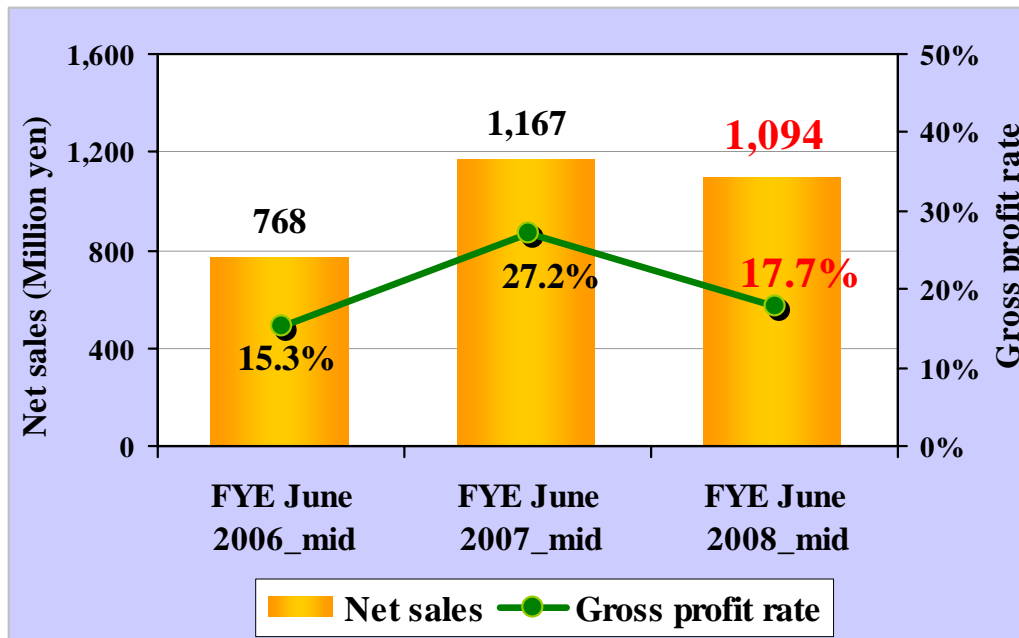
Segment (1) Engineering Consulting

Million yen

	FYE June 2006_mid	FYE June 2007_mid	FYE June 2008_mid	Rate of change
Orders	1,659	2,320	2,156	-7.1%
Net sales	768	1,167	1,094	-6.2%
Cost of sales	650	849	900	6.0%
Gross profit (margin)	117 (15.3%)	317 (27.2%)	193 (17.7%)	-39.1%

- ❖ Disaster prevention, earthquake resistance and numeric analysis
- ❖ Design of architectural structures
- ❖ Consultation to support marketing and decision-making
- ❖ Simulation of manufacturing and logistics operations
- ❖ Requirement definitions and basic reviews for software development

Decreases in orders, net sales and gross profit rate



- Consulting services for analysis related to disaster prevention and earthquake resistance did well, thanks to rising demand for workpieces other than buildings.
- The reduction in operating labor hours for structural design operations following the issue of earthquake resistance data falsification by a subcontractor and a more selective approach to accepting orders to increase quality and precision both produced an impact.

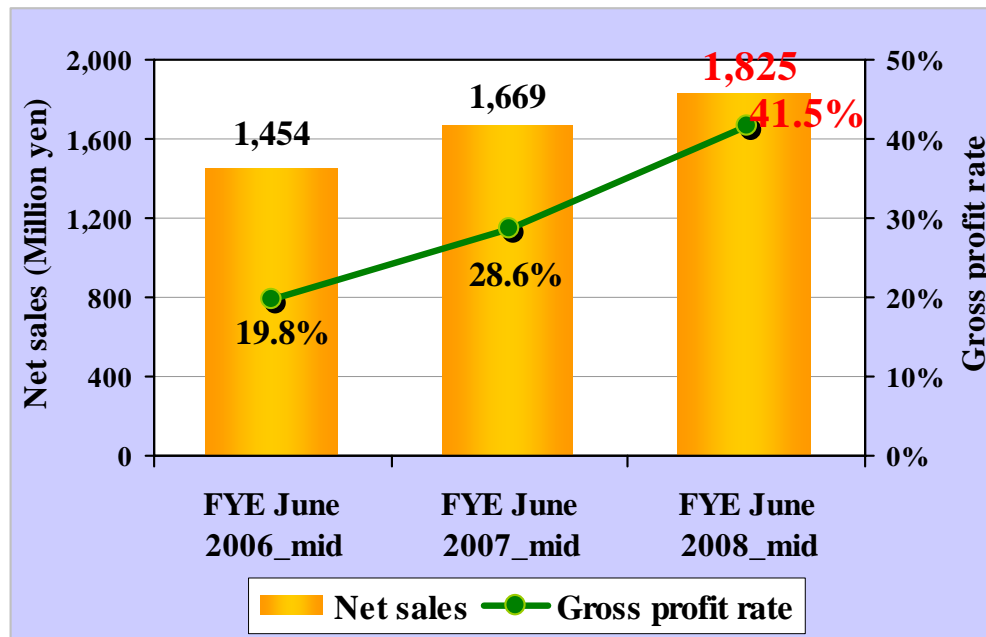
Segment (2) System Solutions

Million yen

	FYE June 2006_mid	FYE June 2007_mid	FYE June 2008_mid	Rate of change
Orders	2,599	2,521	2,663	5.6%
Net sales	1,454	1,669	1,825	9.3%
Cost of sales	1,166	1,191	1,068	-10.4%
Gross profit (margin)	288 (19.8%)	477 (28.6%)	757 (41.5%)	58.5%

- ❖ Mobile communications and mobile network communications systems
- ❖ Sales and design support systems for manufacturers
- ❖ Structural designing support systems
- ❖ Multimedia solutions

Orders, net sales and gross profit rate increased



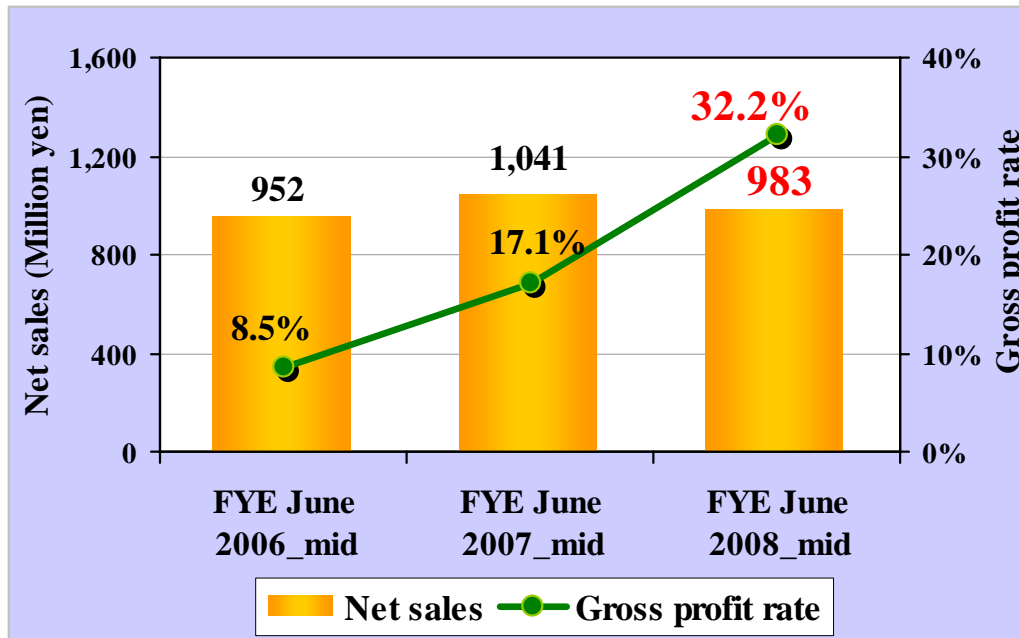
- Projects for customers in the telecommunications business (telecommunications carriers) continued to perform strongly.
- The number of unprofitable projects decreased.

Segment (3) Product Service

Million yen

	FYE June 2006_mid	FYE June 2007_mid	FYE June 2008_mid	Rate of change
Orders	1,023	1,046	1,065	1.8%
Net sales	952	1,041	983	-5.6%
Cost of sales	872	863	666	-22.7%
Gross profit (margin)	80 (8.5%)	177 (17.1%)	317 (32.2%)	78.3%

* Cost of sales for the segment includes selling expenses for the Sales Division.

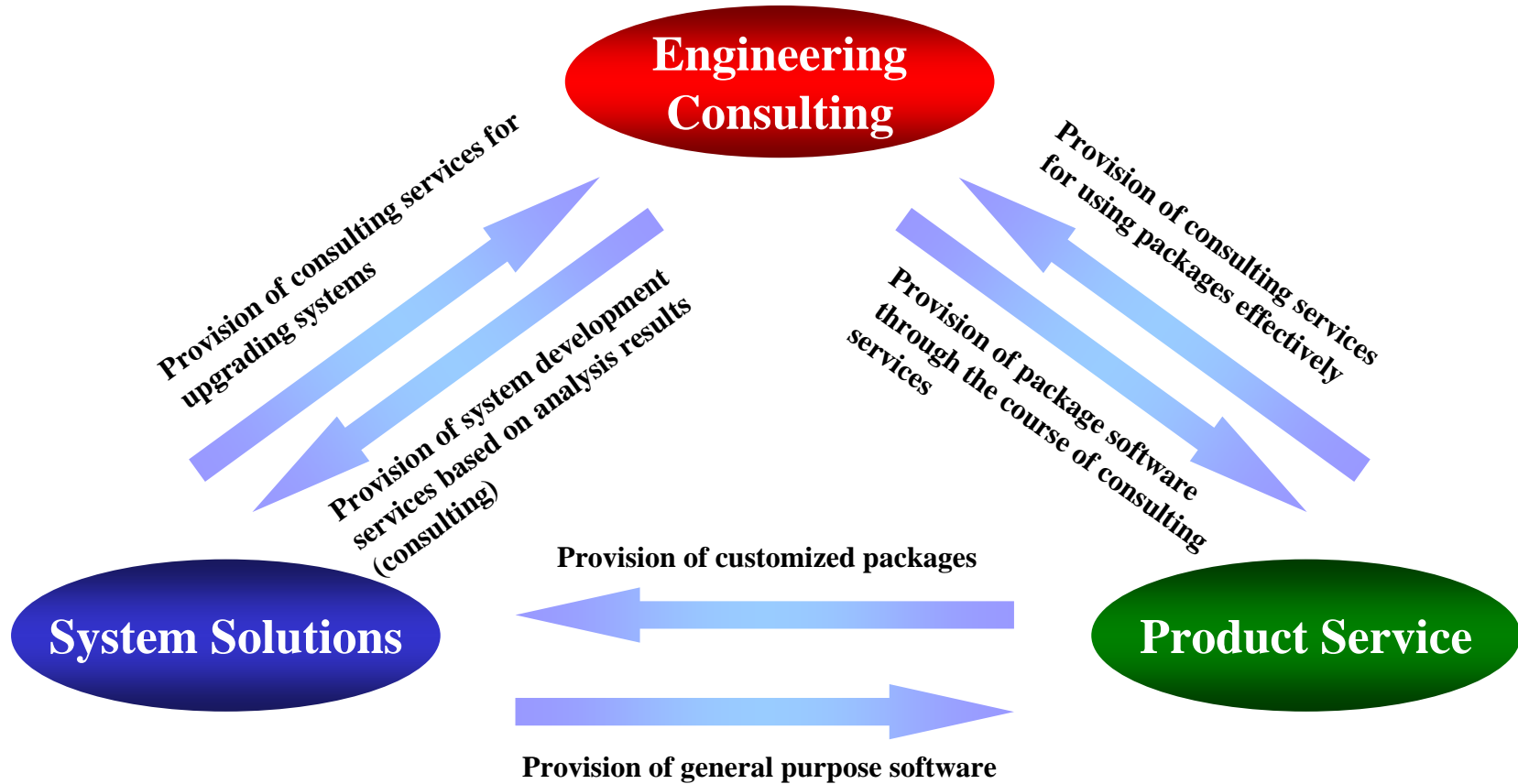


- ❖ CAE software for designers
- ❖ Simulation software for telecommunications companies
- ❖ Package software for structural analysis and earthquake resistance studies
- ❖ Software for supporting marketing and decision-making

Orders stayed unchanged, net sales decreased, and gross profit rate improved.

- Net sales declined, but the gross profit rate improved, as a result of the withdrawal from less profitable businesses in the first half.
- Orders were strong for almost all products.

Synergy Among the Three Business Segments

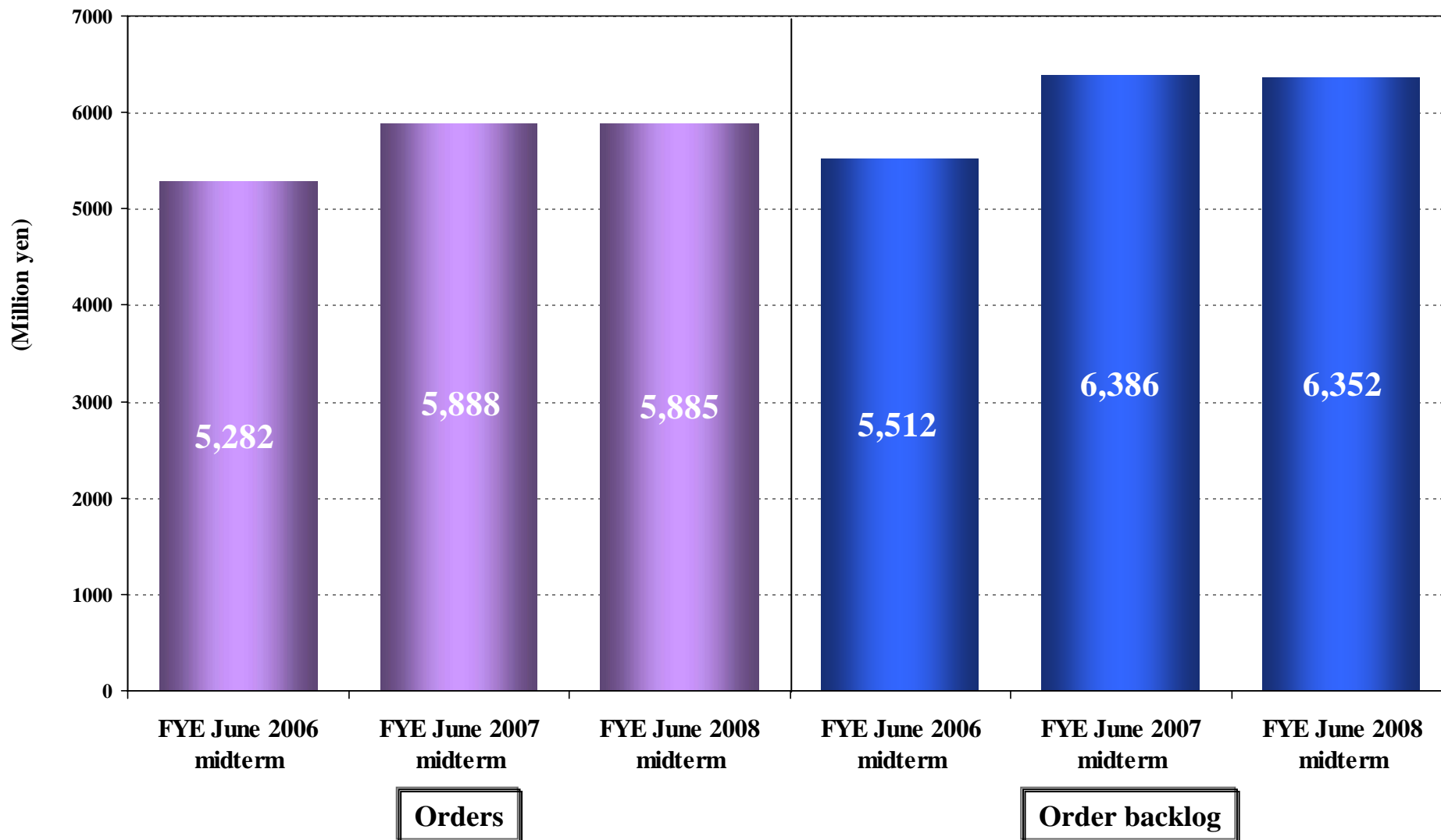


3. Results Forecast for FYE 2008

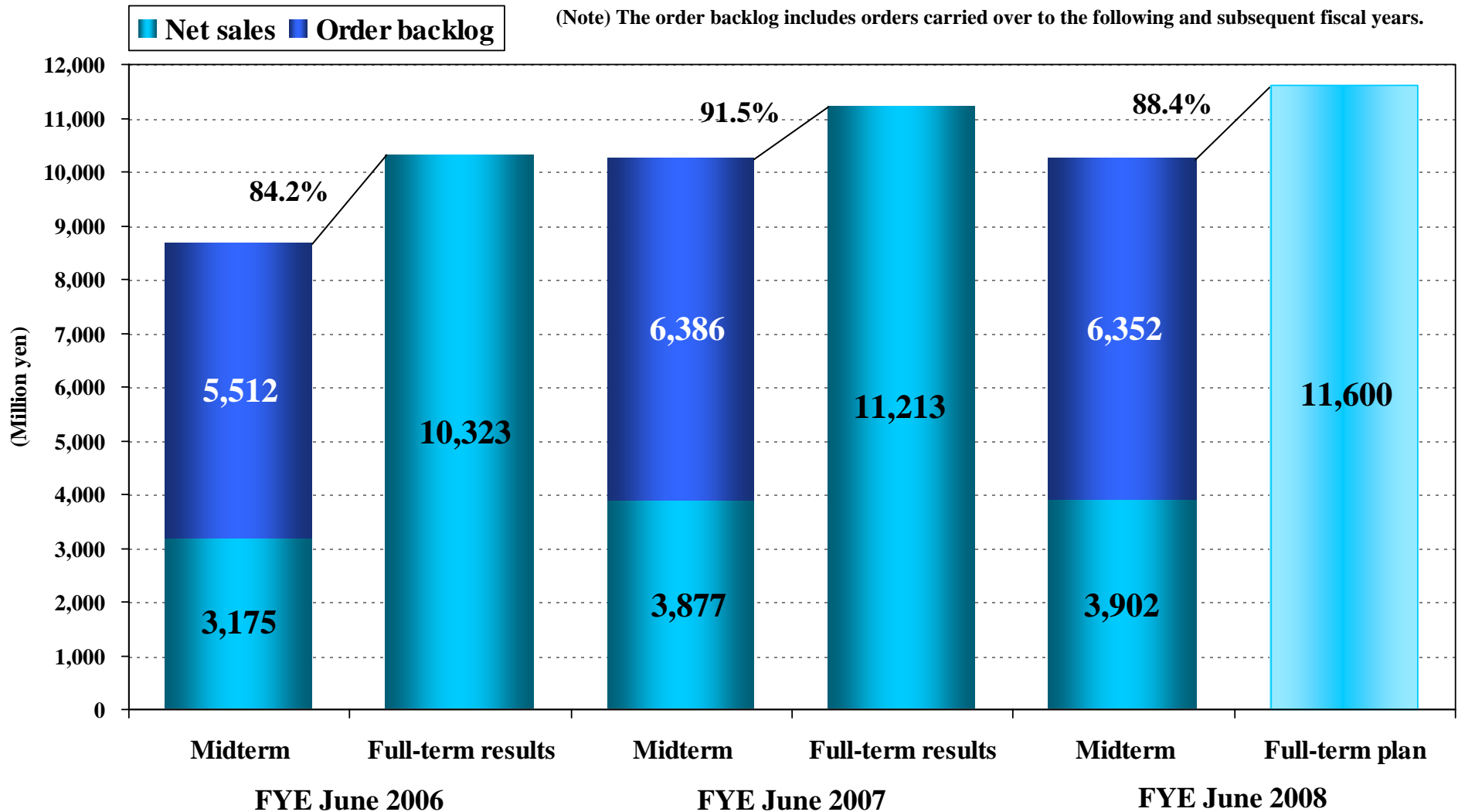
Results at the Midterm Point

- **Changes in orders and the order backlog at the midterm point**
- **Orders at the midterm point against full-term net sales**
- **Progress to the midterm point against full-term net sales**
- **Changes in GIV and GIV earnings**

Changes in Orders and the Order Backlog - Midterm

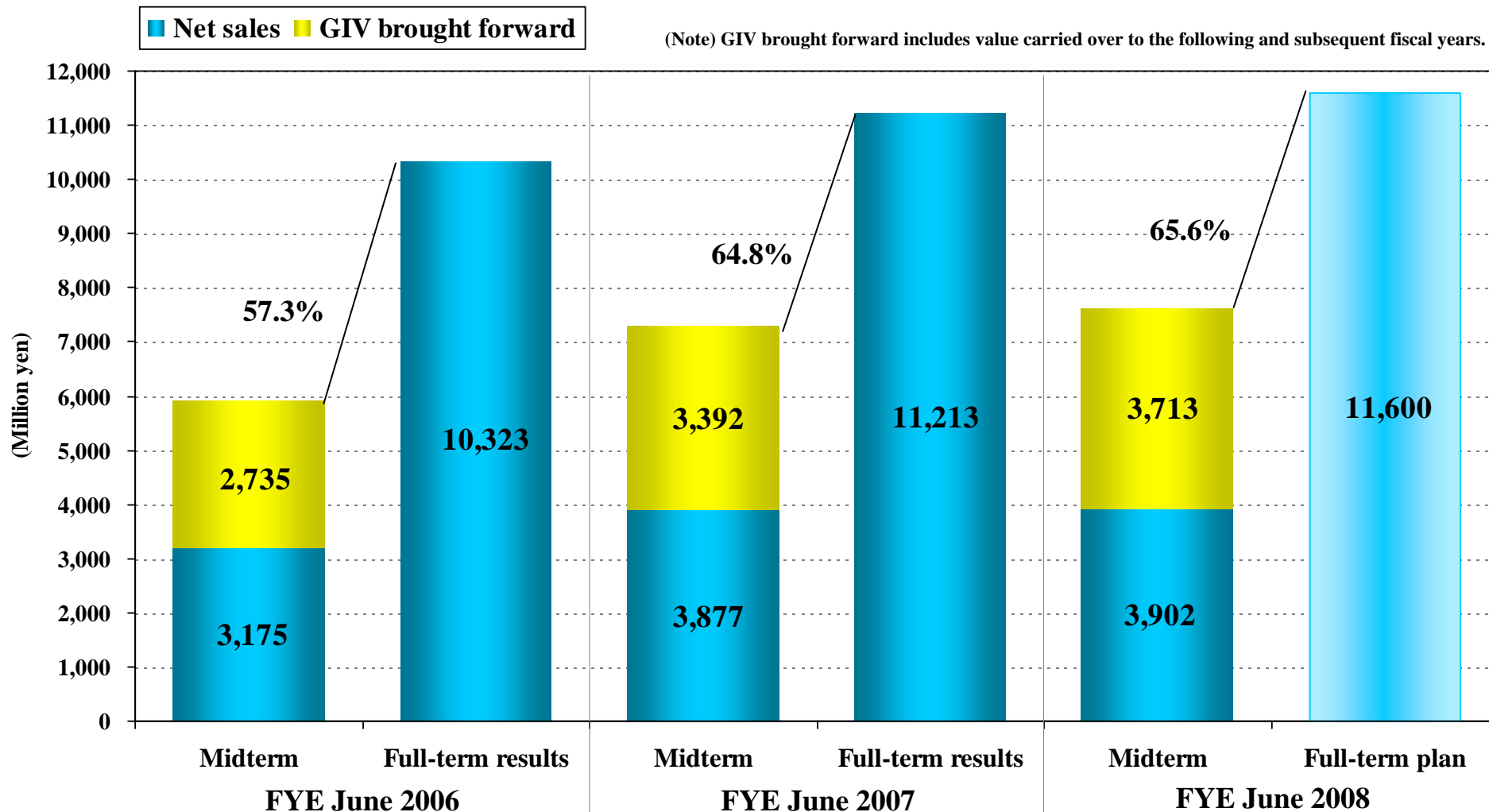


Orders - Midterm Against Full-term Net Sales



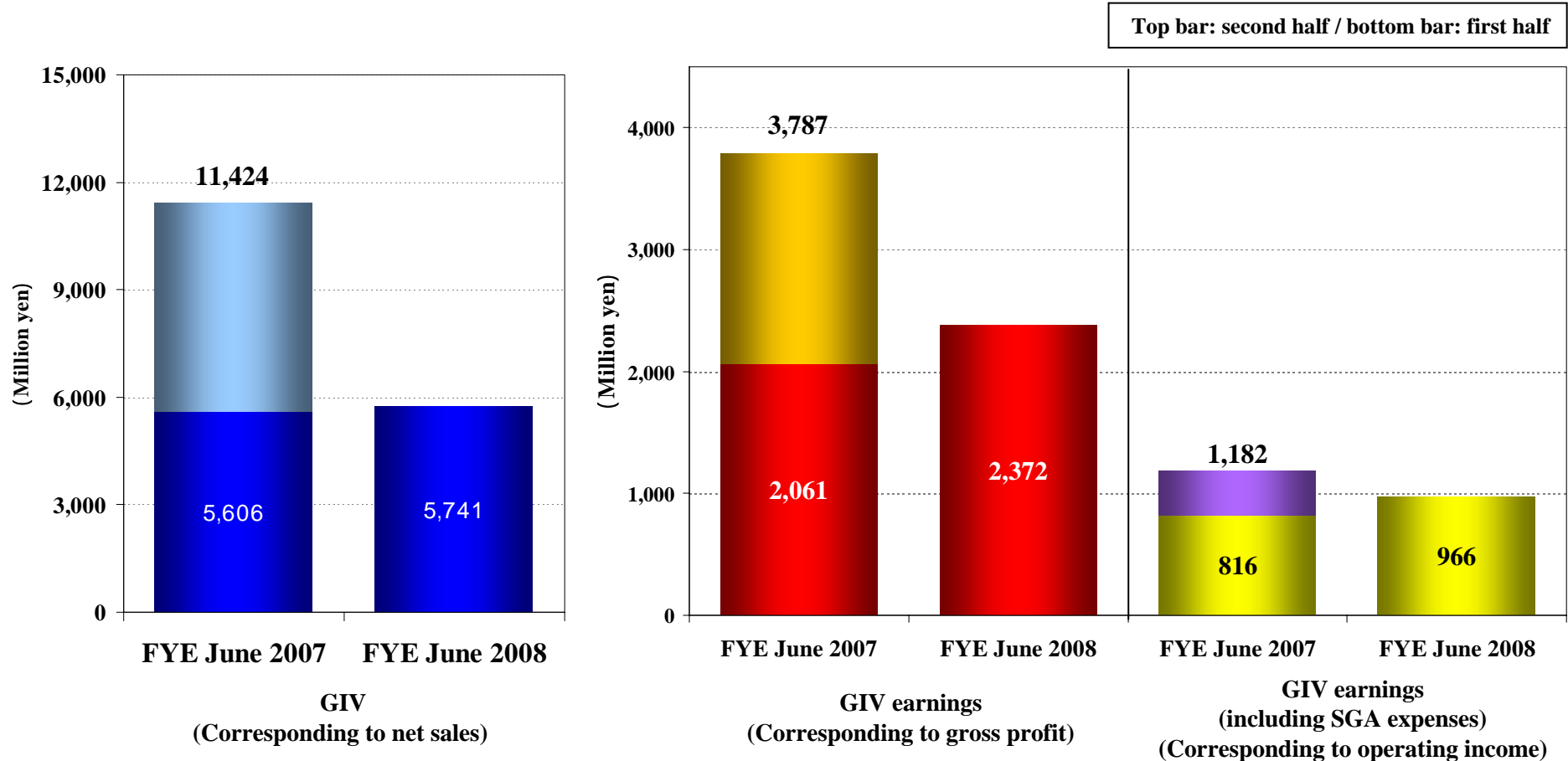
Progress to the Midterm Point Against Full-Term Net Sales

The Company discloses information on a percentage of completion basis, an internal index for managing, forecasting and reviewing results obtained by converting the degree of progress into money. This reflects the fact that the Company has projects that involve a long time from order receipt to sales, including those for developing software.



Comparison of GIV and GIV Earnings at the Midterm Point

Income-squeezing factors, including rising expenses associated with the degradation of large projects involved systems for major building material manufacturers, existed in the second half of the previous fiscal year. No such factor is presently assumed for the second half of the current fiscal year.



Our GIV earnings forecast at this point is calculated on the basis of planned personnel expenses. Changes in personnel expenses may cause such earnings at the end of the fiscal year to differ from the forecast, because we adopt a system that links salaries to our performance in the fiscal year in question.

Full-Term Results Forecast Using the Crystal Ball Software

Full-term results are forecast using the risk analysis software Crystal Ball, a product we handle.

- **Traditional results forecast**

A one-point forecast based on accumulation of maximum value, etc.

Probability of scenario emergence and its impact are unknown.

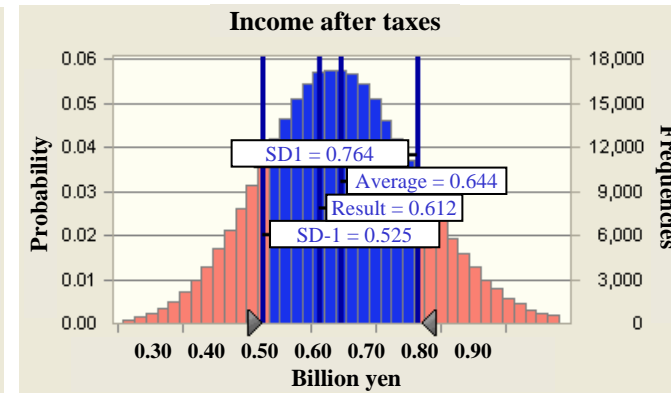
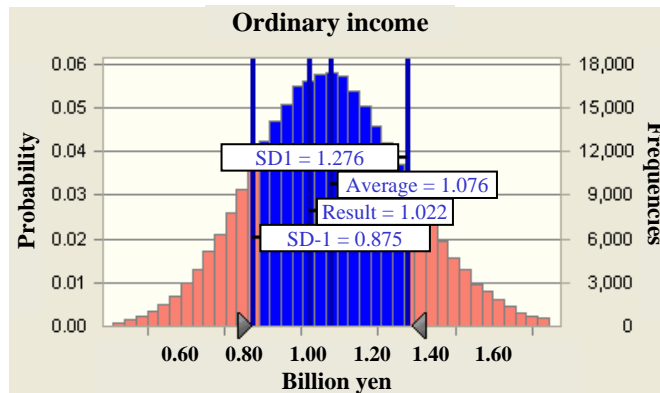
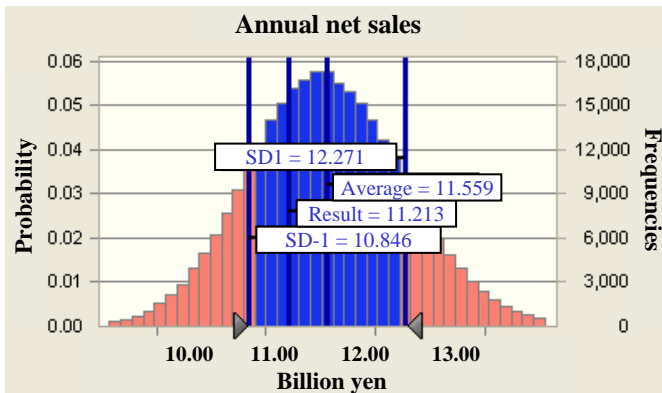
- **Results forecast based on risk analysis**

A probability distribution is established for each item expected to change.

The Monte Carlo simulation is used to forecast the range of final results and risk impact, etc.

Verification of Full-Term Results Forecast at the Midterm Point of FYE June 2007

[Frequency Distribution]



(Billion yen)

	Plan	Full-term forecast range at the midterm point	Results
Net sales	10.80	10.84 - 11.55 - 12.27	11.21
Ordinary income	0.95	0.87 - 1.07 - 1.27	1.02
Income after taxes	0.55	0.52 - 0.64 - 0.76	0.61

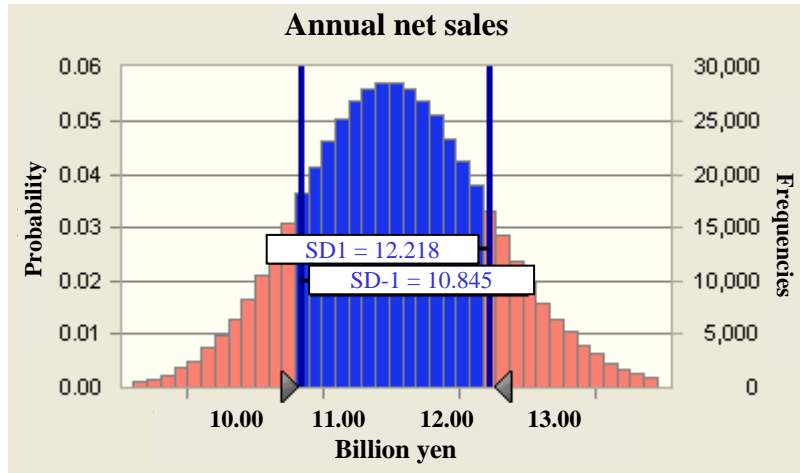
Full-term results are forecast by taking the following variable factors into consideration.

Fluctuating parameters are established on the basis of results for the past three years, etc.

- **Changes in second-half net sales forecast against midterm order backlog**
- **Changes in second-half gross profit rate forecast (changes in second-half gross profit rate predicted on the basis of GIV profit rate for the first half)**
- **Changes in second-half net sales against second-half order receipt forecast**
- **Changes in personnel expenses due to the performance-linked salary system**

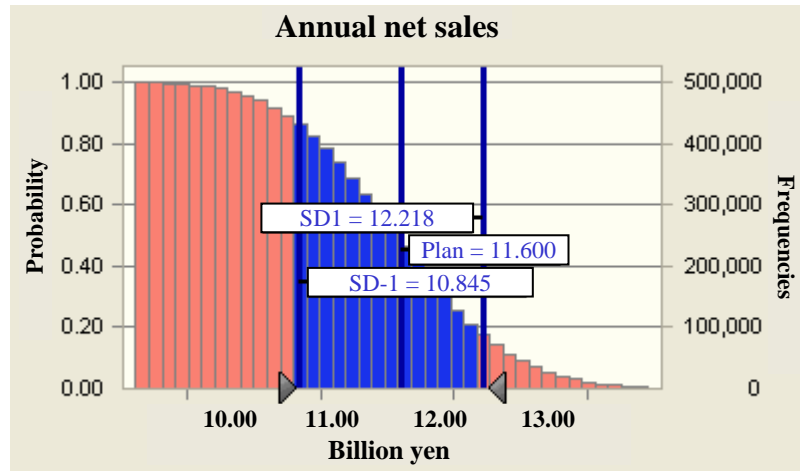
Net sales forecast (FYE June 2008)

[Frequency Distribution]



Trial frequency	500,000
Average	115.31
Median	115.15
Mode	-
Standard deviation	6.87
Variance	47.14
Skewness	0.14247
Kurtosis	7.9
Coefficient of variance	0.05954
Lower limits	85.76
Higher limit	151.09
Average standard error	0.01

[Reversal-Cumulative Frequency Distribution]

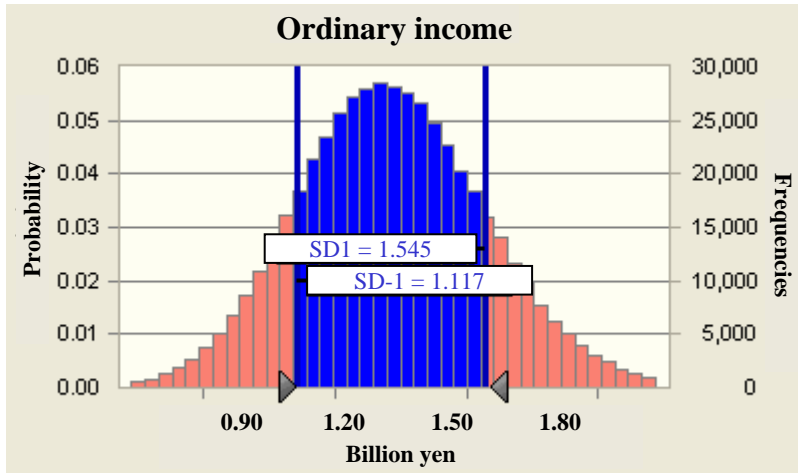


(Billion yen)

	Plan	Forecast results	
		Average	1 range
Net sales	11.6	11.53	10.85 - 12.22

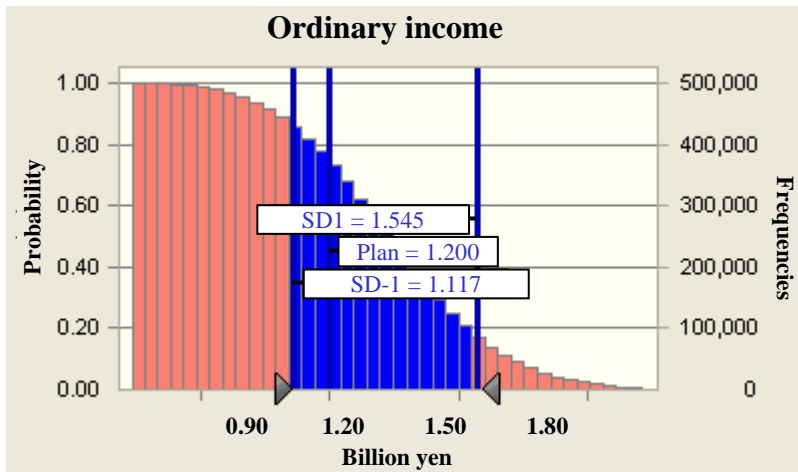
Ordinary Income Forecast (FYE June 2008)

[Frequency Distribution]



Trial frequency	500,000
Average	13.31
Median	13.24
Mode	-
Standard deviation	2.14
Variance	4.58
Skewness	0.1947
Kurtosis	7.92
Coefficient of variance	0.16082
Lower limits	3.78
Higher limit	24.19
Average standard error	0

[Reversal-Cumulative Frequency Distribution]

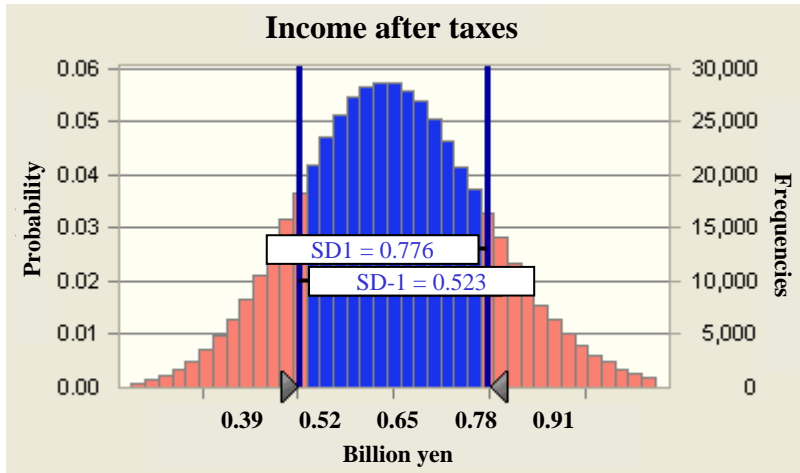


(Billion yen)

	Plan	Forecast results	
		Average	1 range
Ordinary income	1.20	1.33	1.12 - 1.55

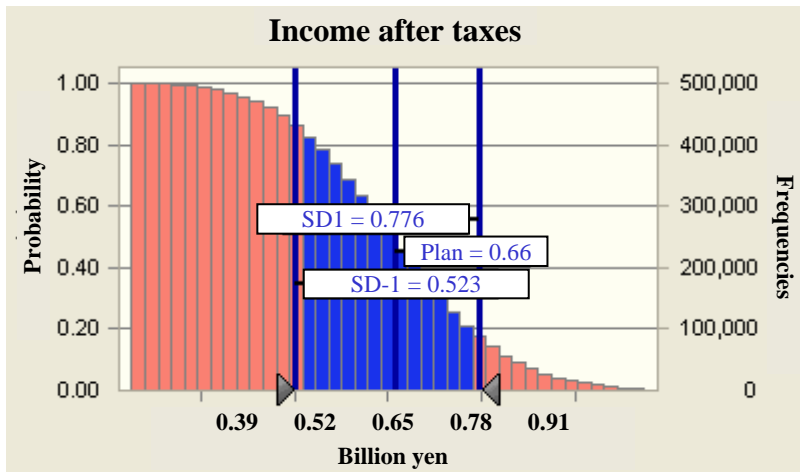
After-Tax Income Forecast (FYE June 2008)

[Frequency Distribution]



Trial frequency	500,000
Average	6.5
Median	6.45
Mode	-
Standard deviation	1.27
Variance	1.61
Skewness	0.1947
Kurtosis	7.92
Coefficient of variance	0.19542
Lower limits	0.84
Higher limit	12.95
Average standard error	0

[Reversal-Cumulative Frequency Distribution]

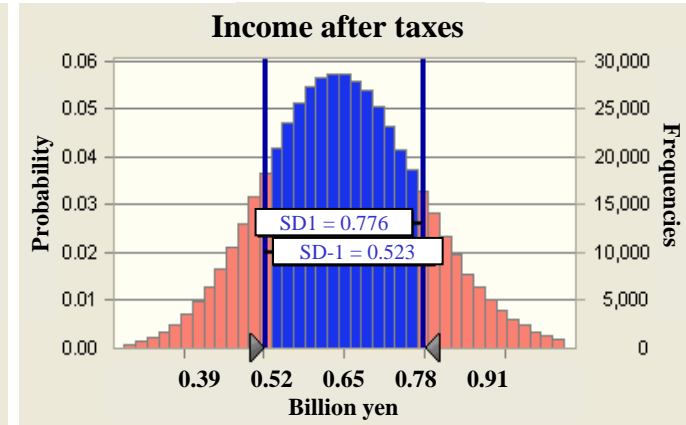
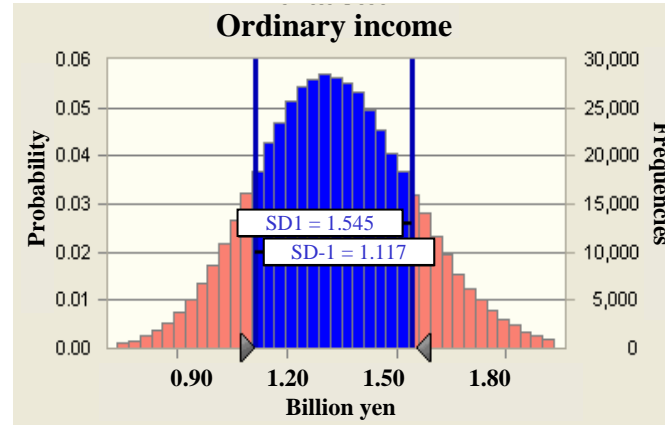
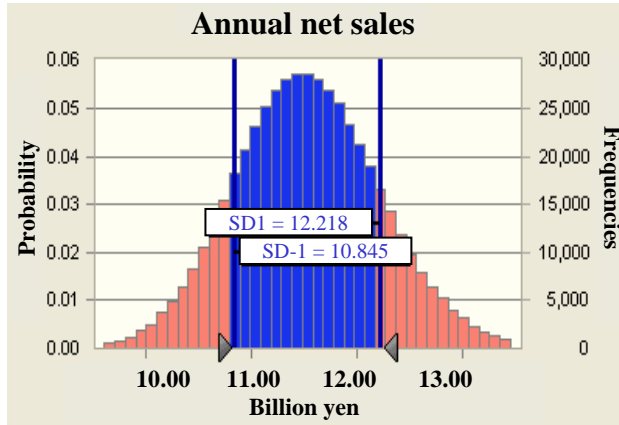


(Billion yen)

	Plan	Forecast results	
		Average	1 range
Net income	0.66	0.65	0.53 - 0.78

Full-Term Forecast at the Midterm Point of FYE June 2008 - Summary

[Frequency distribution]



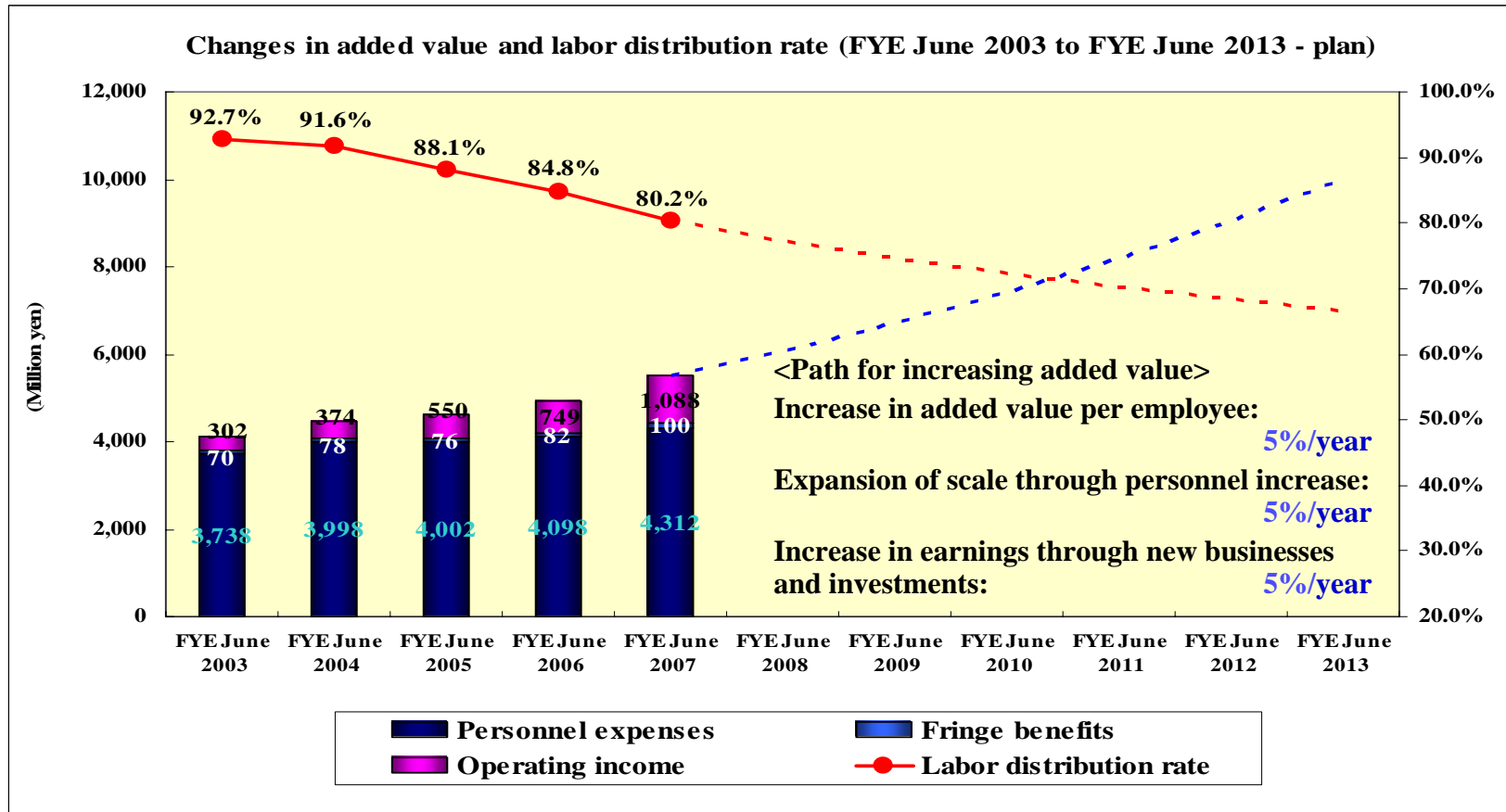
(Billion yen)

	Plan	Full-term forecast range at the midterm point
Net sales	11.60	10.85 - 11.53 - 12.22
Ordinary income	1.20	1.12 - 1.33 - 1.55
Income after taxes	0.66	0.53 - 0.65 - 0.78

4. Management for Sustaining Growth as an Intellectual Technology Company

Management Policies for Increasing Added Value

Increase added value and ensure appropriate distribution to stakeholders.



Specific targets for increasing added value in the future (midterm management plan) are now being developed.

Characteristics of a Knowledge Technology Company

- **Manpower is the source of value. (Personnel expenses account for approximately 50% of expenses.)**
- **Capable of offering higher added value with a combination of the knowledge and technologies owned by organizations and individuals**
- **Personnel investment for growth is extremely important.**

Recruitment in the 21st Century - Breakdown of New Employees

(Recruitment since FYE June 2001)

	Number of recruited employees	Recruited					Retired				
		Men		Women		Total recruitment	Men		Women		Total retirements
		Graduate school	University	Graduate school	University		Graduate school	University	Graduate school	University	
New graduates (Including those scheduled to join the Company in April 2008)	184	89	22	26	19	156	11	3	8	6	28
Mid-career employees	52	19	15	5	2	41	8	1	1	1	11
Total	236	108	37	31	21	197	19	4	9	7	39

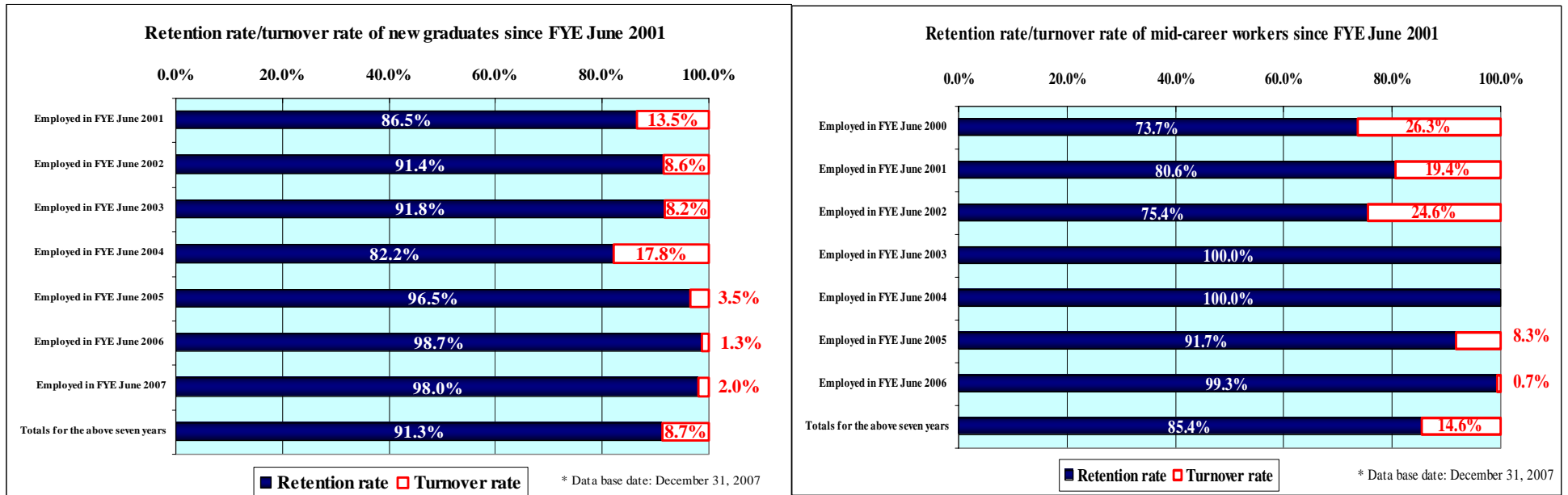
(Figures for retired employees are as of December 31, 2007.)

Women and account for approximately 30% and employees with post-graduate qualifications approximately 70% of new employees during the period.

According to IT Press Club report (2008, Vol. 4 No. 1), women and graduate school graduates account for slightly less than 25% and slightly more than 25% of new employees in the IT industry.

Labor Mobility in the 21st century - Turnover Rate

Turnover rate is calculated on the basis of actual against expected employee retention.



Expected retention averages 3.5 years (the turnover rate averages 8.7%) during the period. The turnover rate at the Company is about one-third of the average turnover rate for all companies of 30% in three years.

During the period, the Company employed 236 persons, and 197 of them were retained as of December 31, 2007 (including employees whose retention had not been confirmed).

Activities for Employing New Graduates

We conducted screening ahead of schedule in the current fiscal year. Activities for employing new graduates are progressing steadily.

(Figures for the current year are figures as of February 15.)

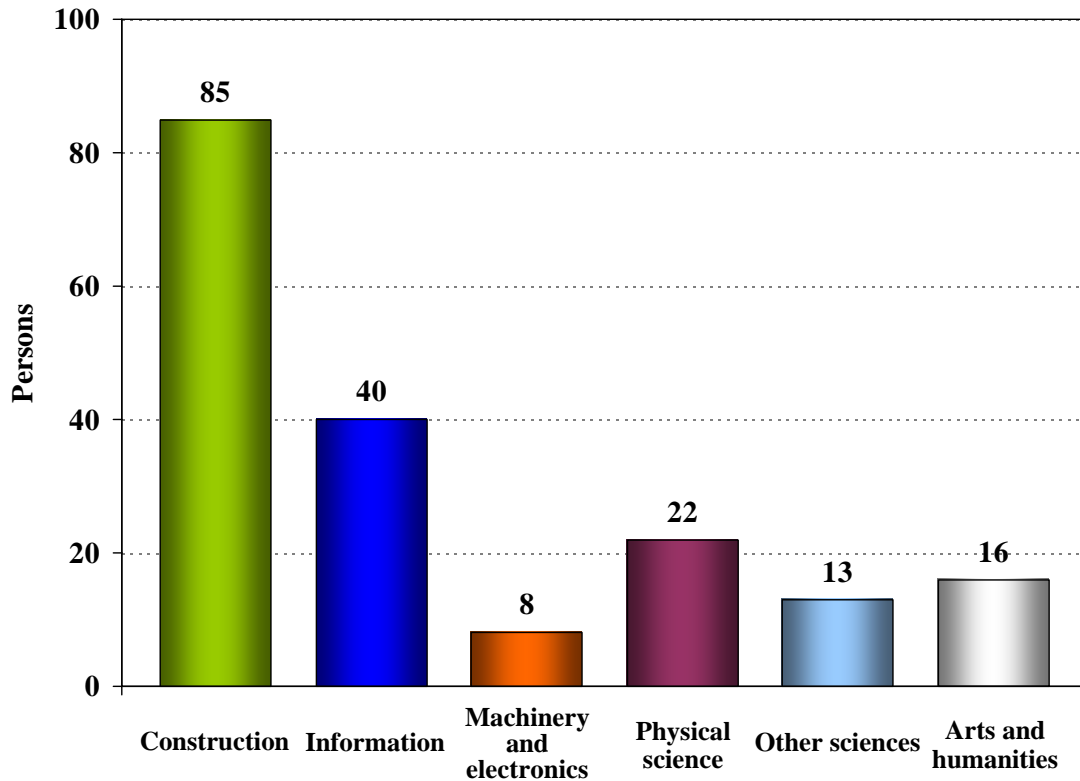
(Persons)

	Current year (up to February 15)	Previous year (up to February 28)	Results for the previous year
Applicants	2237	2305	2892
Participated in seminar	283	558	558
Participated in company information session	514	354	667
Participated in first interview	122	52	392
Passed first interview	74	25	184
Participated in second interview	45	-	143
Passed second interview	23	-	69
Participated in third interview	-	-	63
Passed third interview	-	-	39
Accepted	-	-	23

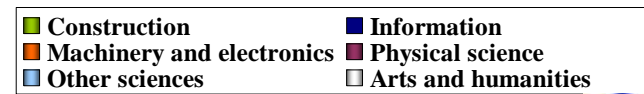
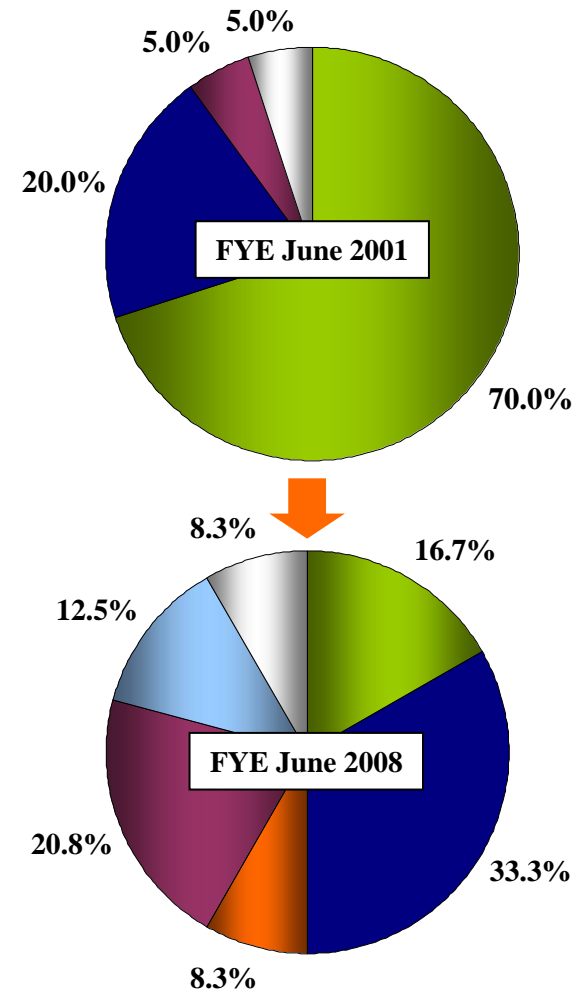


Diversity of New School Graduates Employed

The majors of 184 new school graduates employed
(from FYE June 2001 to FYE June 2008)



Diversification of majors
(comparison of FYE June 2001 majors with FYE June 2008 majors)



Additional Activities

- **Periods spent on activities other than normal duties (exchanges within the Company, external activities, studies and training, etc.)**
- **Approximately 20% of total labor hours are used for the following types of additional activities.**

- **Industry-academic-government cooperation (results for FYE 2007)**
 - **Joint research with universities and related bodies (19 cases)**
 - **Doctoral course studies without taking a leave of absence (6 cases)**
 - **Central government committee activities (5 cases)**
 - **Activities as directors of academic societies and related bodies (9 persons/12 bodies)**
 - **Activities as committee members and research members at academic societies and related bodies (51 persons/38 organizations in total)**
 - **Activities as lecturers at universities and other schools (14 persons/11 schools)**
 - **Presentation of research papers (29 papers in Japan/1 paper overseas)**
 - **Writing and translation of books (8 cases)**

Investment in Human Resource Development (results for FYE 2007)

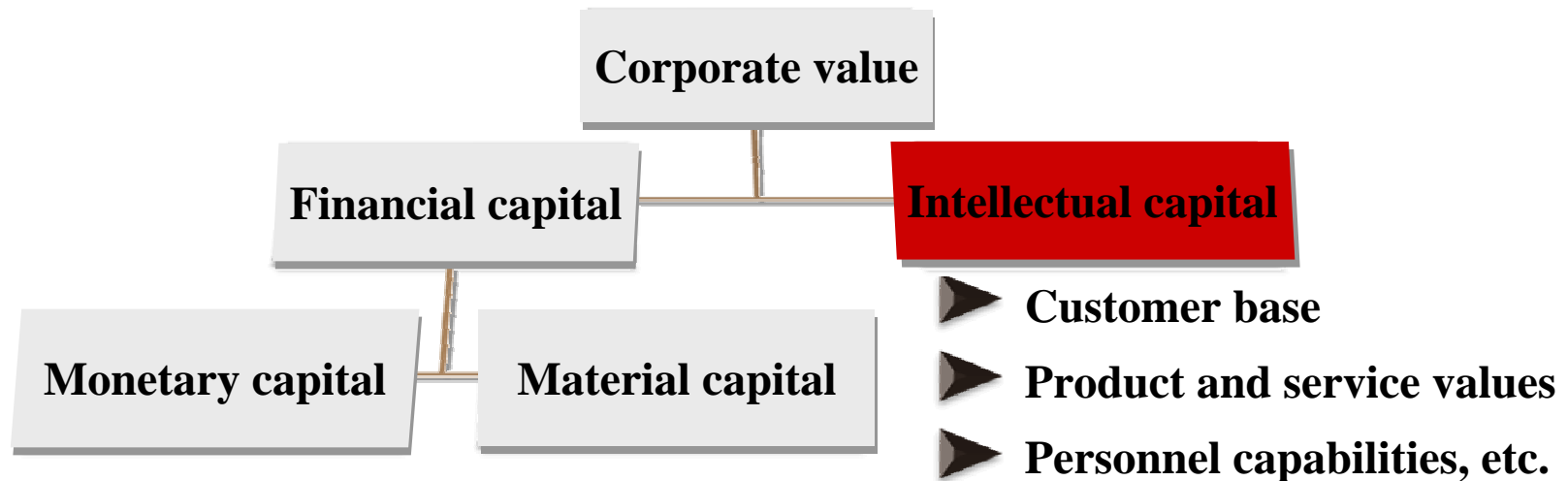
- **Annual expenditures on external bodies
(universities, academic societies and related bodies)**
Approximately ¥50 million
- **Education and training expenditures**
Approximately ¥60 million
- **Book expenditures**
Approximately ¥10 million

Per-capita personnel development investment is at a high level of approximately ¥200,000 per year.

According to *Strategic Investment in Human Resources Development*, published by the Sanno Institute of Management, per-capita training expenses are approximately ¥50,000 at Japanese companies and ¥100,000 at their Western counterparts.

Improvement and Expansion of Invisible Intellectual Capital

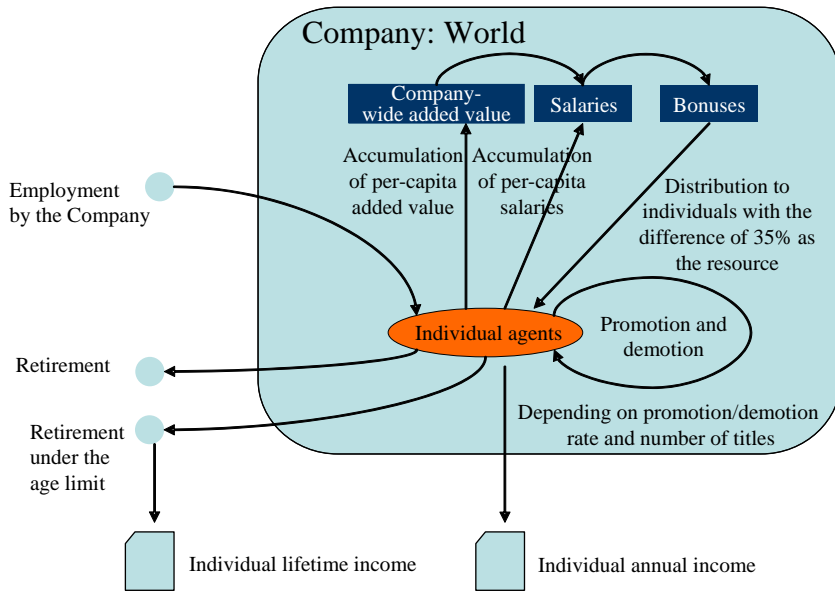
- Invisible intellectual capital -



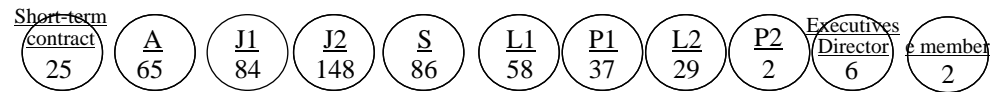
The Company has hired just less than 200 employees since the beginning of the 21st century (accounting for approximately one-third of its entire workforce). They are making a major contribution to growth by generating invisible intellectual capital and operations with high added value.

Sustainable management

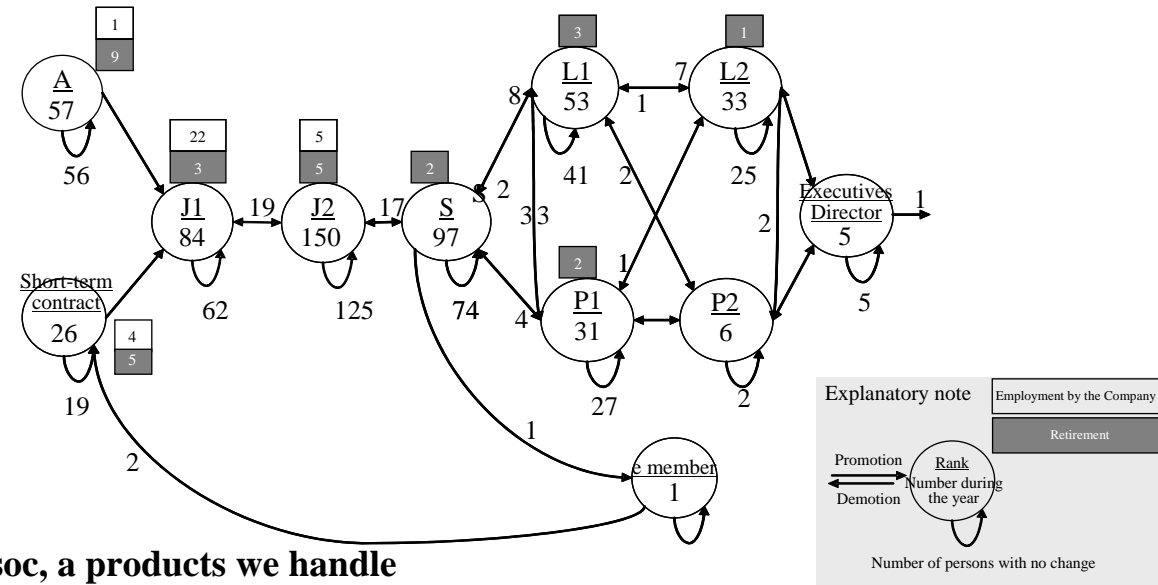
- Increase added value and distribute it properly among stakeholders.
- Steady investment in personnel is the source of growth. (No speculative investment is involved.)
- Emphasize the organizational climate and control organizational fluctuations.
- Avoid judgments based entirely on short-term perspectives. (Carry out long-term organizational simulations.)



Personnel by rank at the end of the previous year



Changes by the end of the current fiscal year



Long-term organizational simulation using artisoc, a products we handle

Growth as an Intellectual Technology Company

At 3.5%, Japan's ratio of science and technology research expenses to GDP was the highest among major countries in fiscal 2005. Japan's science and technology research outlets increased 5.4% year on year, to the highest level ever.

Source: Fiscal 2006 Study on Science and Technology Research, published by the Ministry of Internal Affairs and Communications

Japan has been addressing issues that the rest of the world will face going forward. This experience could make Japan a future model for the world.

Hiroshi Komiyama, president of the University of Tokyo

News Releases at a Glance

August 03, 2007

KKE VISION 2007 to Be Held on September 11

August 16, 2007

KKE Develops i-Caps, an Air Cargo Loading Simulation System with Nippon Cargo Airlines

August 20, 2007

Rental Service Launched for Luminocam, a Simplified Luminance Measurement Tool, in Response to New Technical Guidelines Set by Illuminating Engineering Institute of Japan

September 12, 2007

Three-Dimensional Seismic Isolation System Developed and Commercialized in Joint Project with Two Other Companies Employed in Actual Building in World's First Seismic Isolation Project

September 18, 2007

Client Viewing Guidelines (On-Screen Edition) Published, the First Outcome of Joint Study on Customer-Friendly Specifications Statements and Agreement Methods; Study Group Benefits from Participation of Three Additional Companies

October 01, 2007

KKE Begins Domestic Sales of SCOPE, a Tool for Introducing Quantification Techniques to Software Requirements Management; Offers Powerful Support for Measurement and Management of Functional Scales

October 16, 2007

KKE Markets Tsunagaridge, a Schedule Linkage Solution Developed for E Sales Manager And Cybozu Garoon 2

November 12, 2007

KKE Launches Buying Behavior Measurement Service Using Video Sensor System

December 13, 2007

Mitaka City Introduces MBO SYSTEM, a Web-Based Personnel Appraisal Package; KKE Looks to Expand Sales to Local Governments

**Thank you very much for taking the
time to attend today's briefing.**

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