

FYE June 2014 First Half

# Financial Results

# Agenda

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Note pertaining to this data:

- In principle, monetary amounts included in this document are rounded down to the nearest million yen.
- The forward-looking statements included in this document, such as those about future performance, are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. Actual business performance and other results may differ materially from forward-looking statements due to diverse factors.
- The names of companies, systems, and products included in this document are, as a general rule, trademarks or registered trademarks of companies, including KOZO KEIKAKU ENGINEERING Inc.

# 1

## Overview of Financial Results

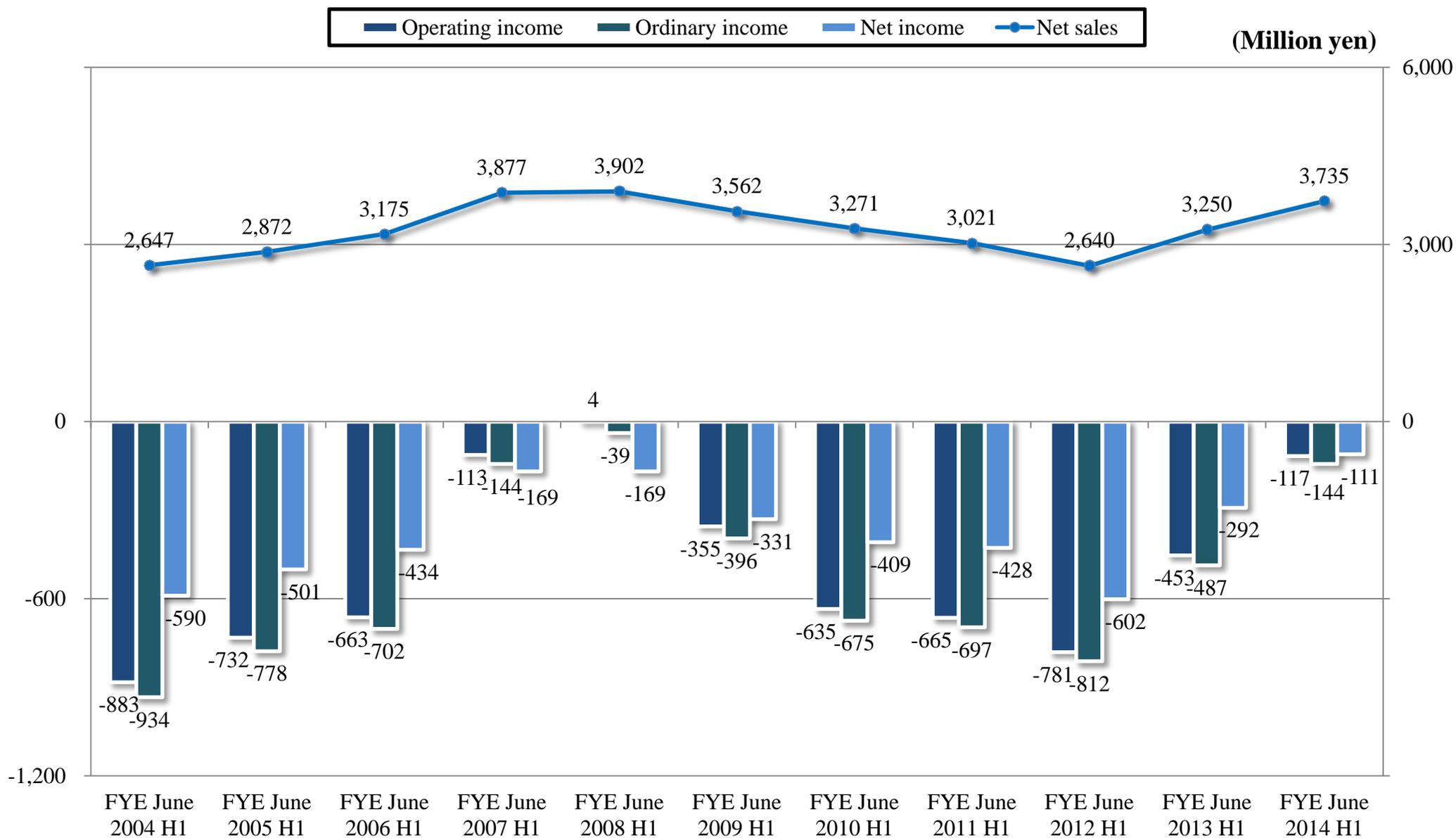


# Financial Highlights

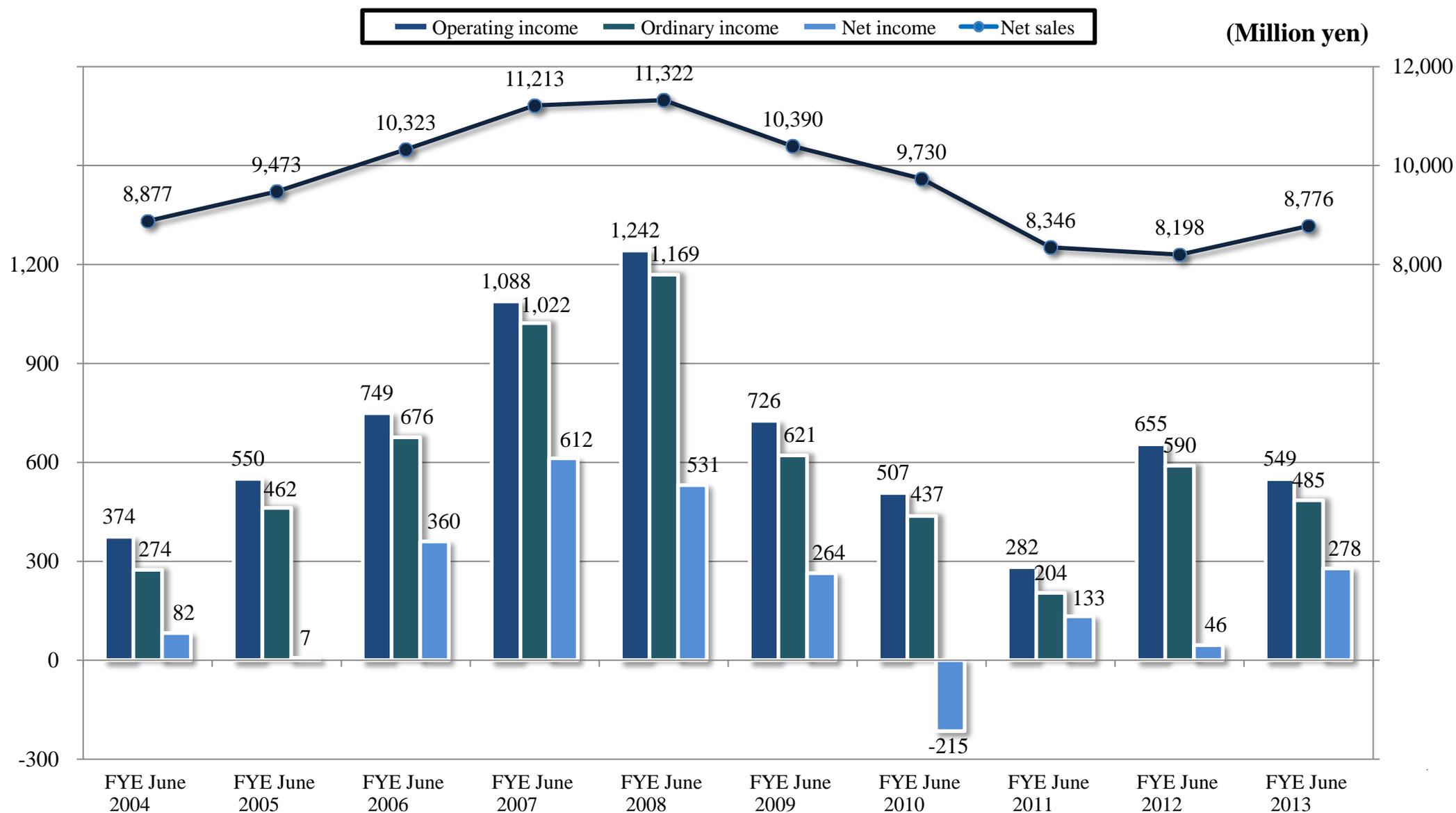
(Million yen)

	FYE June 2013 H1	FYE June 2014 H1	Year-on-year change (rate of change)
<b>Net sales</b>	3,250	3,735	484 (14.9%)
<b>Operating income (loss)</b>	-453	-117	335 (-)
<b>Ordinary income (loss)</b>	-487	-144	343 (-)
<b>Net income (loss)</b>	-292	-111	180 (-)

# Trends in First-Half Results



# Trends in Full-Year Results



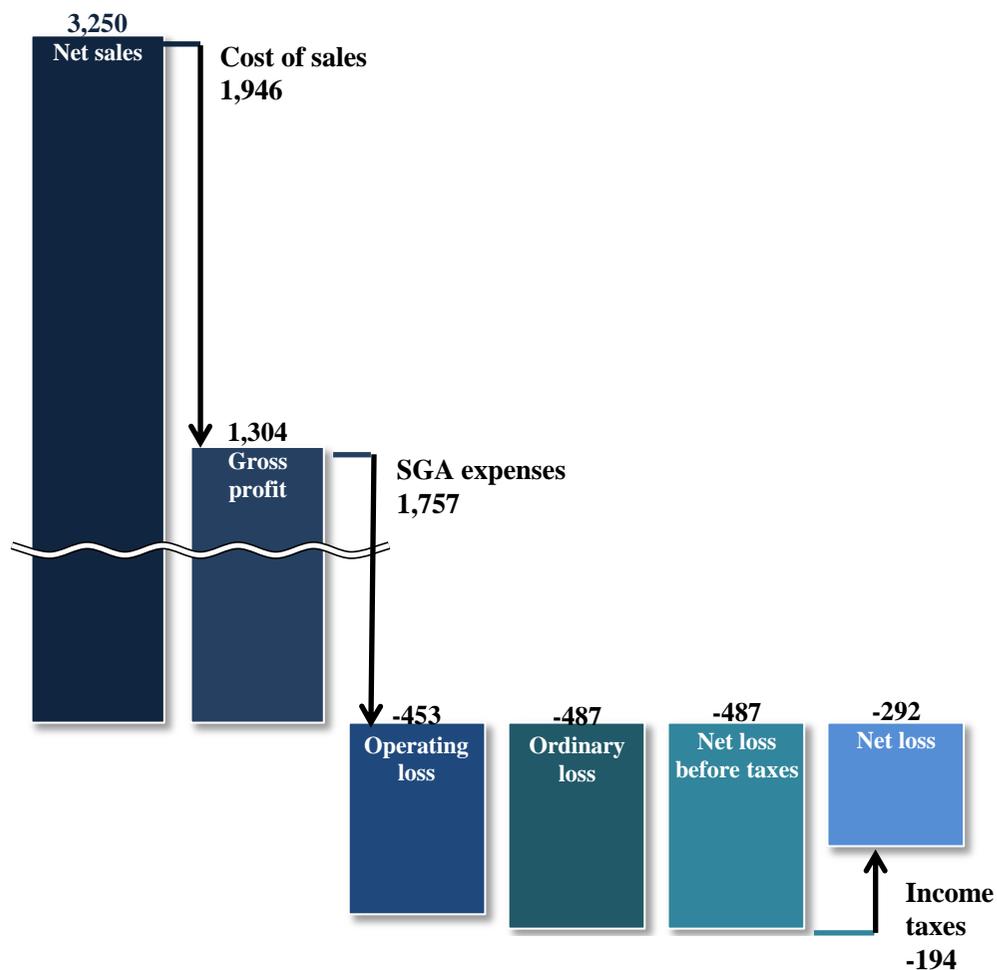
# FYE June 2014 H1 Income Statement Highlights

(Million yen)

	FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year-on-year change
<b>Net sales</b>	3,250	3,735	484
Cost of sales	1,946	2,115	169
<b>Gross profit (loss) (Gross profit rate)</b>	1,304 (40.1%)	1,619 (43.4%)	315
SGA expenses	1,757	1,736	-20
<b>Operating income (loss) (Operating income rate)</b>	-453 (-13.9%)	-117 (-3.1%)	335
Non-operating profit & loss	-34	-27	7
<b>Ordinary income (loss) (Ordinary income rate)</b>	-487 (-15.0%)	-144 (-3.9%)	343
Extraordinary profit & loss	-0	-11	-11
<b>Net income (loss) before taxes</b>	-487	-156	331
Income taxes	-194	-44	150
<b>Net income (loss) (Net income rate)</b>	-292 (-9.0%)	-111 (-3.0%)	180

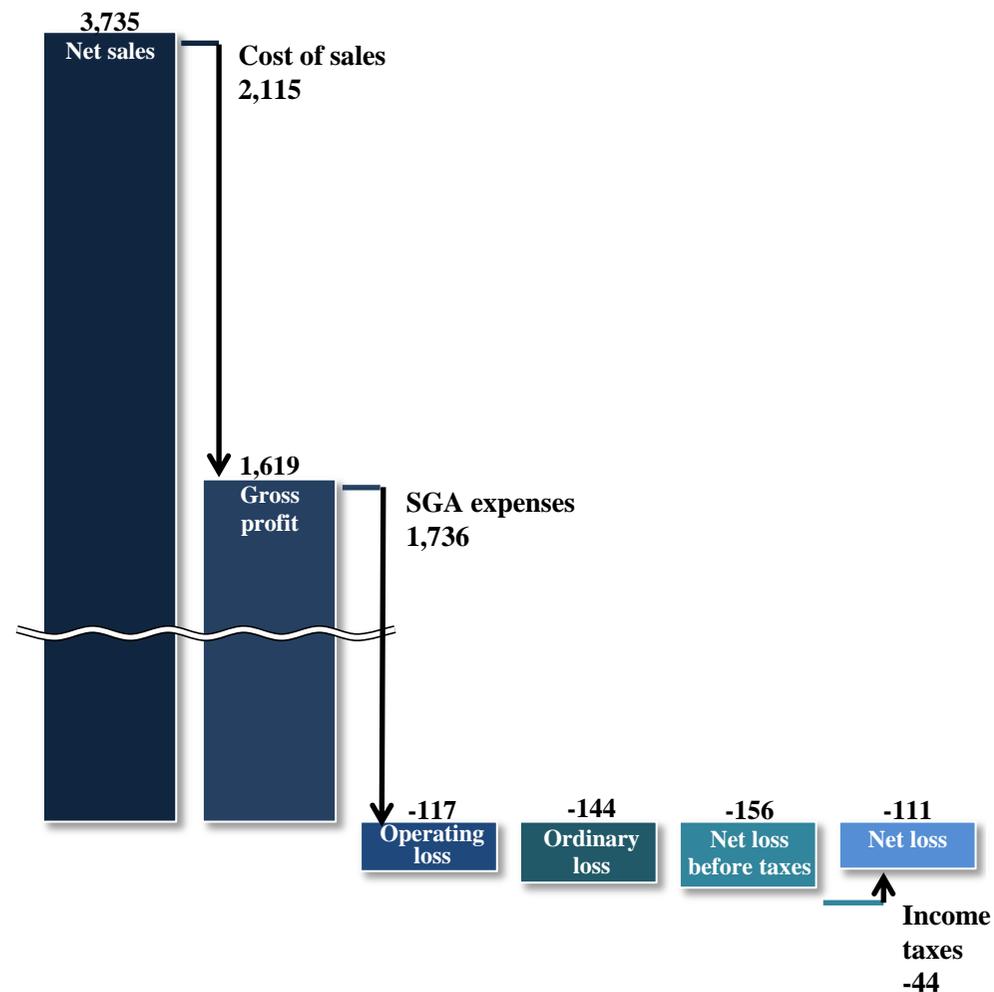
# FYE June 2014 H1 Change in Profit and Loss

## FYE June 2013 (55th term) H1



## FYE June 2014 (56th term) H1

(Million yen)



# FYE June 2014 H1 Highlights of Balance Sheet

(Million yen)

		FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year-on- year change
<b>Current assets</b>		3,155	3,738	583
	Cash and deposits	458	618	159
	Notes and accounts receivable	1,107	1,441	334
	Goods in process	769	922	153
<b>Fixed assets</b>		7,028	6,978	-49
	Property, plant and equipment	5,603	5,539	-63
	Intangible assets	378	369	-9
<b>Total assets</b>		10,183	10,717	534

		FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year-on- year change
<b>Total liabilities</b>		6,907	7,227	319
<b>Current liabilities</b>		4,601	5,310	709
	Short-term borrowings*	3,145	3,325	180
	Accrued expenses	116	126	10
<b>Long-term liabilities</b>		2,306	1,916	-389
	Long-term borrowings	943	484	-459
<b>Total net assets</b>		3,275	3,490	214
<b>Total liabilities and net assets</b>		10,183	10,717	534

\* Long-term borrowings due within one year are included in short-term borrowings.

# FYE June 2014 H1 Financial Position

## B/S in H1 of FYE June 2013 (55th term)

Total assets: 10,183

Liabilities + Net assets: 10,183

<b>Current assets</b> 3,155		<b>Current liabilities</b> 4,601	
Cash and deposits	458	Short-term borrowings	2,280
Accounts receivable	1,107	Long-term borrowings due within one year	865
Goods in process	769	Accrued expenses	116
<b>Fixed assets</b> 7,028		<b>Long-term liabilities</b> 2,306	
Property, plant and equipment	5,603	Long-term borrowings	943
Intangible assets	378	<b>Net assets</b> 3,275	
		Retained earnings 1,594	

Interest-Bearing Debt  
4,137

## B/S in H1 of FYE June 2014 (56th term)

Total assets: 10,717 (Million yen)

Liabilities + Net assets: 10,717

<b>Current assets</b> 3,738		<b>Current liabilities</b> 5,310	
Cash and deposits	618	Short-term borrowings	2,990
Accounts receivable	1,441	Long-term borrowings due within one year	335
Goods in process	922	Accrued expenses	126
<b>Fixed assets</b> 6,978		<b>Long-term liabilities</b> 1,916	
Property, plant and equipment	5,539	Long-term borrowings	484
Intangible assets	369	<b>Net assets</b> 3,490	
		Retained earnings 1,938	

Interest-Bearing Debt  
3,840

## Change in assets (534)

(Million yen)

- **Increase in current assets (583)**
  - Increase in cash and deposits (159)
  - Increase in accounts receivable (334)
  - Increase in goods in process (153)
- **Decrease in fixed assets (-49)**
  - Decrease in property, plant and equipment (-63)
  - Decrease in intangible assets (-9)

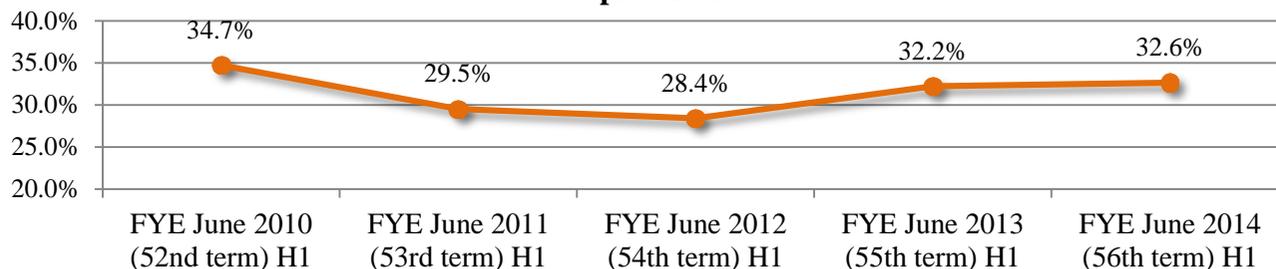
## Change in liabilities (319)

- **Increase in current liabilities (709)**
  - Increase in short-term borrowings (710)
  - Decrease in long-term borrowings due within one year (-530)
  - Increase in accrued expenses (10)
- **Decrease in long-term liabilities (-389)**
  - Decrease in long-term borrowings (-459)

## Change in net assets (214)

- **Increase in retained earnings (343)**

Capital ratio



# FYE June 2014 H1 Cash Flow Statement Highlights

(Million yen)

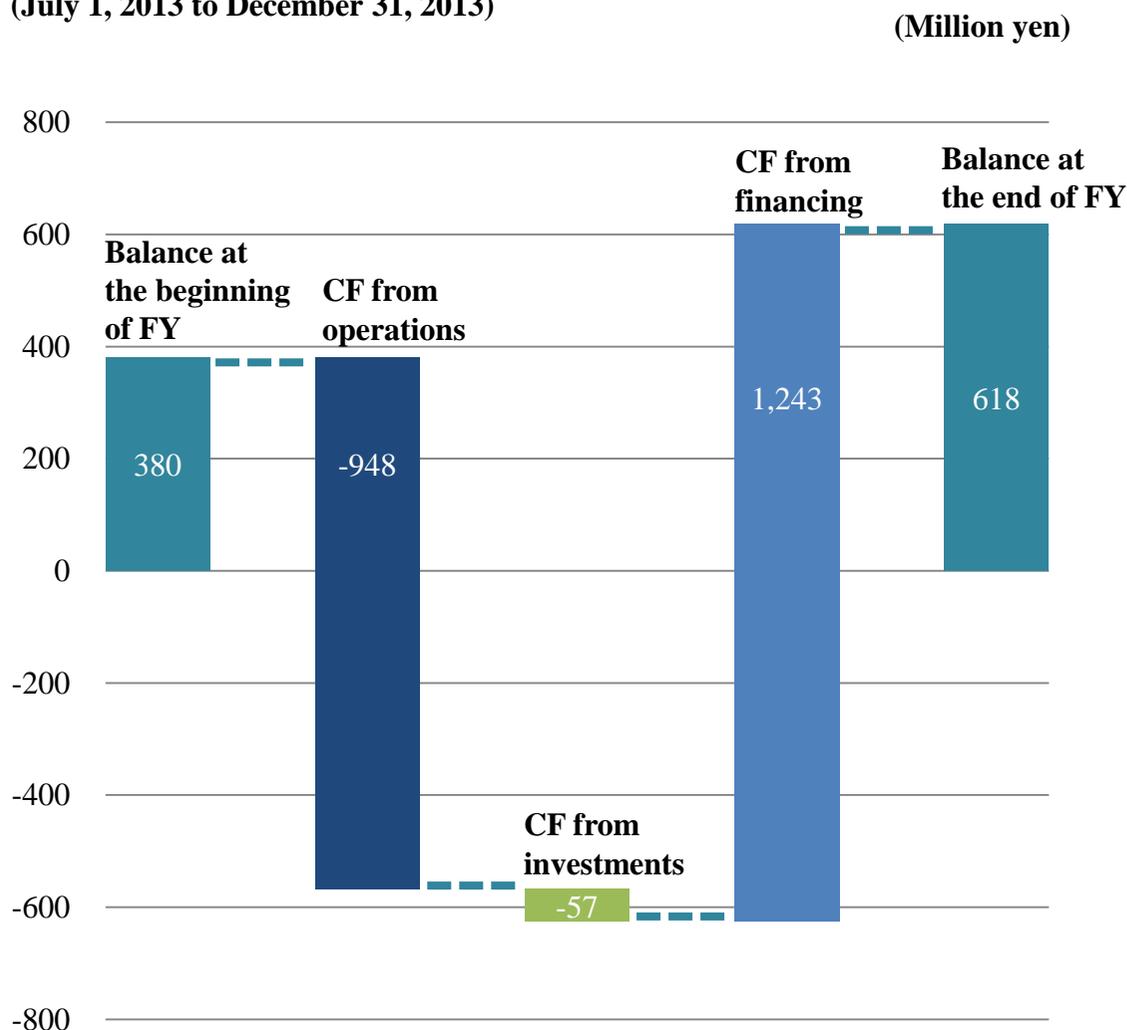
	FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1
Balance at the beginning of FY	551	380
CF from operations	-450	-948
CF from investments	-295	-57
Free CF	-746	-1,005
CF from financing	654	1,243
Balance at the end of FY	458	618

# FYE June 2014 H1 Cash Flow Breakdowns

(Million yen)

## C/F in H1 of FYE June 2014 (56th term)

(July 1, 2013 to December 31, 2013)



## Major components of CF from operations

● Net loss before taxes	-156
● Increase in reserve for bonuses	193
● Decrease in accounts receivable	135
● Increase in inventories	-492
● Decrease in accrued expenses	-304
● Corporation and other taxes paid	-345

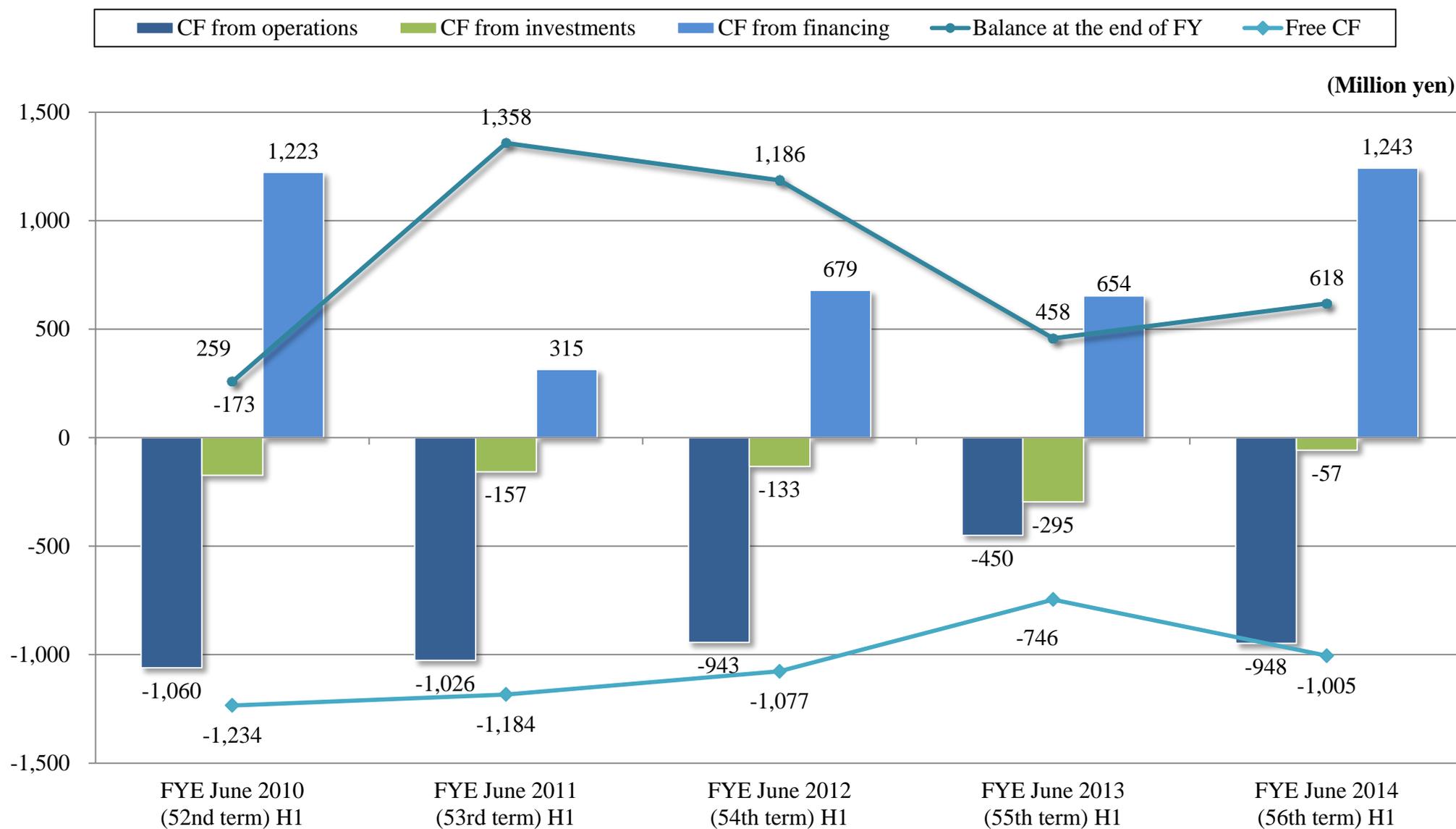
## Major components of CF from investments

● Purchase of property, plant and equipment	-8
● Purchase of intangible assets	-30

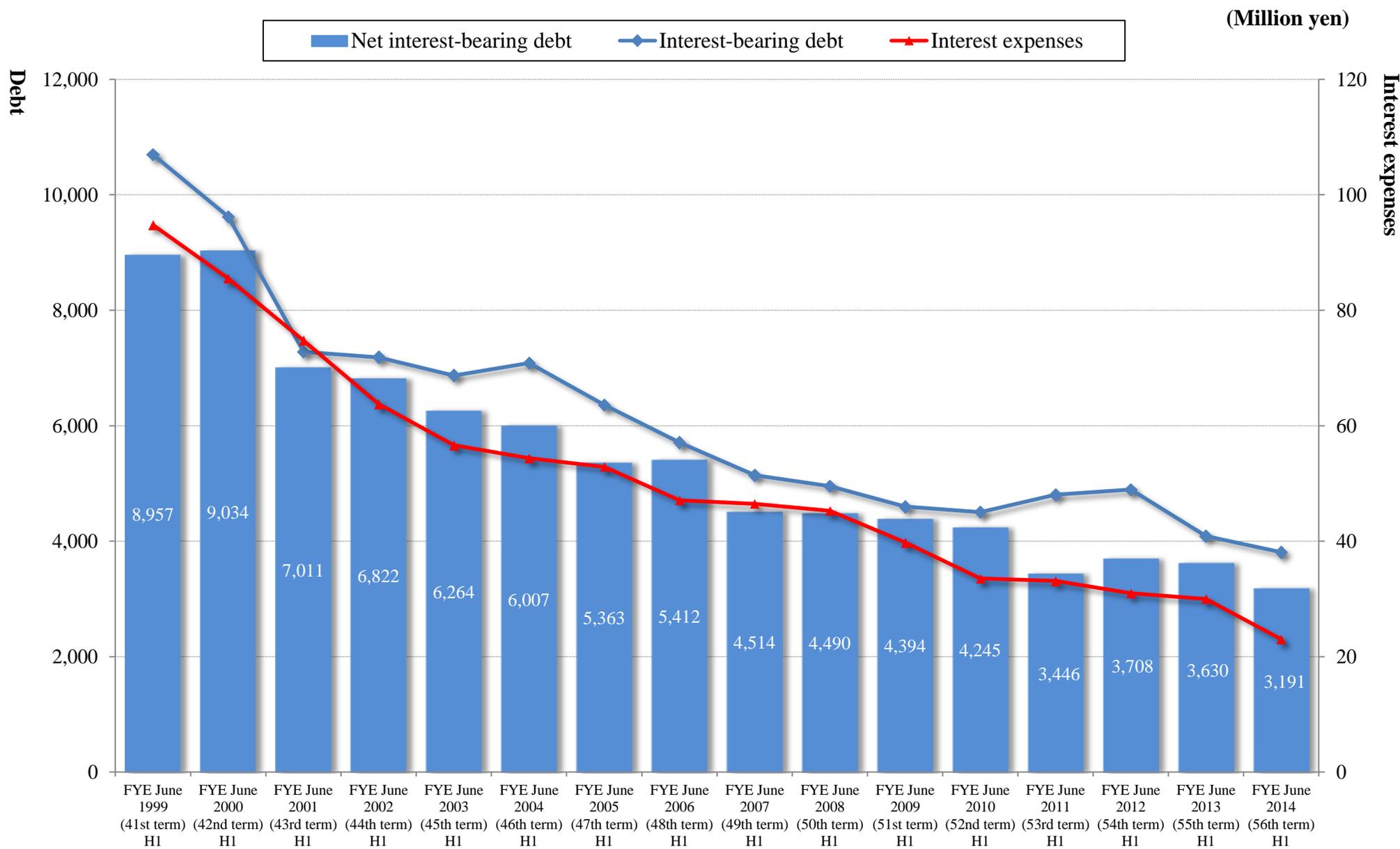
## Major components of CF from financing

● Net increase in short-term borrowings	1,700
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# First-Half Cash Flows in the Last Five Fiscal Years



# Changes in Net Interest-Bearing Debt and Interest Expenses

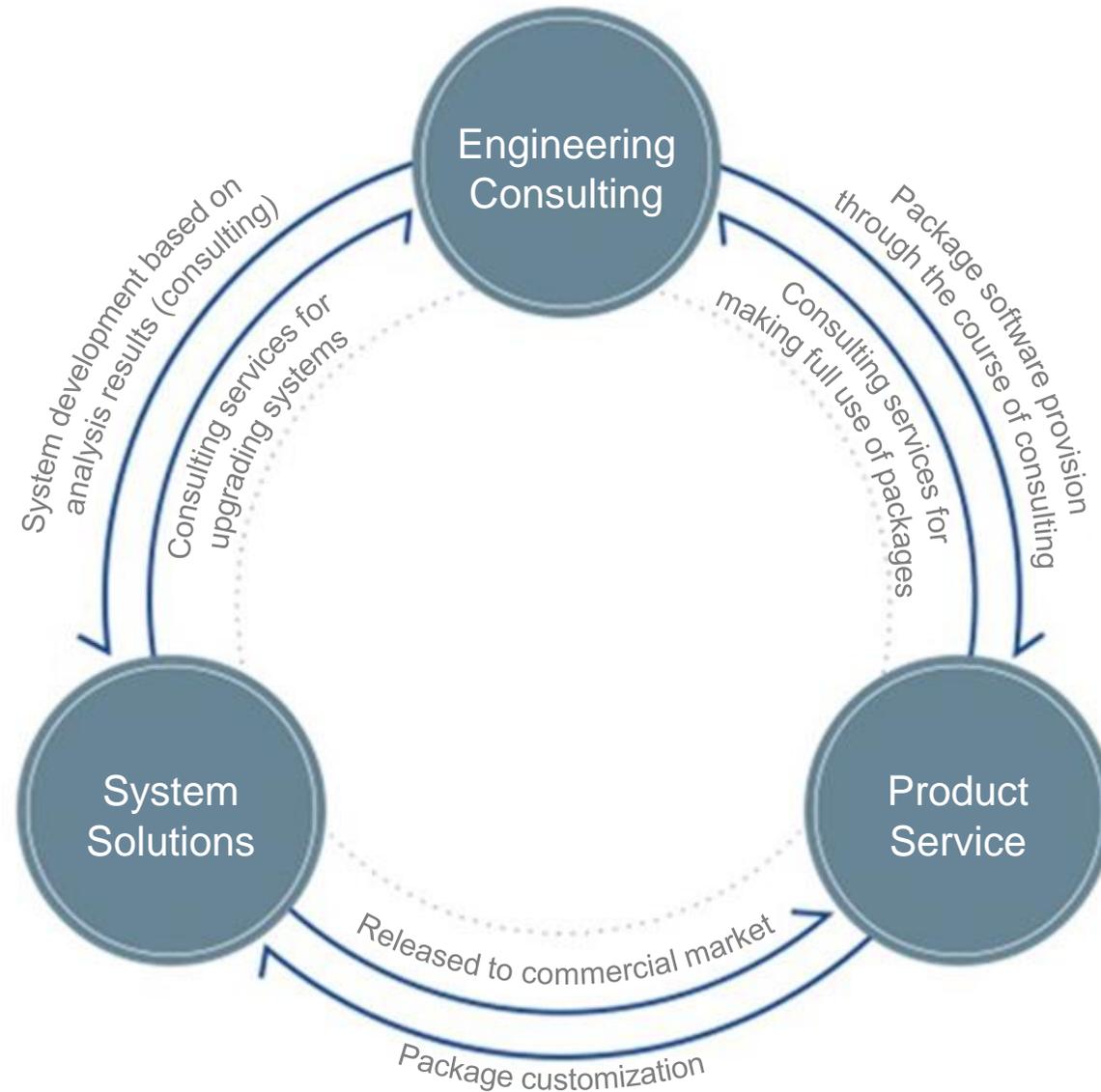


# 2

## Results by Segment

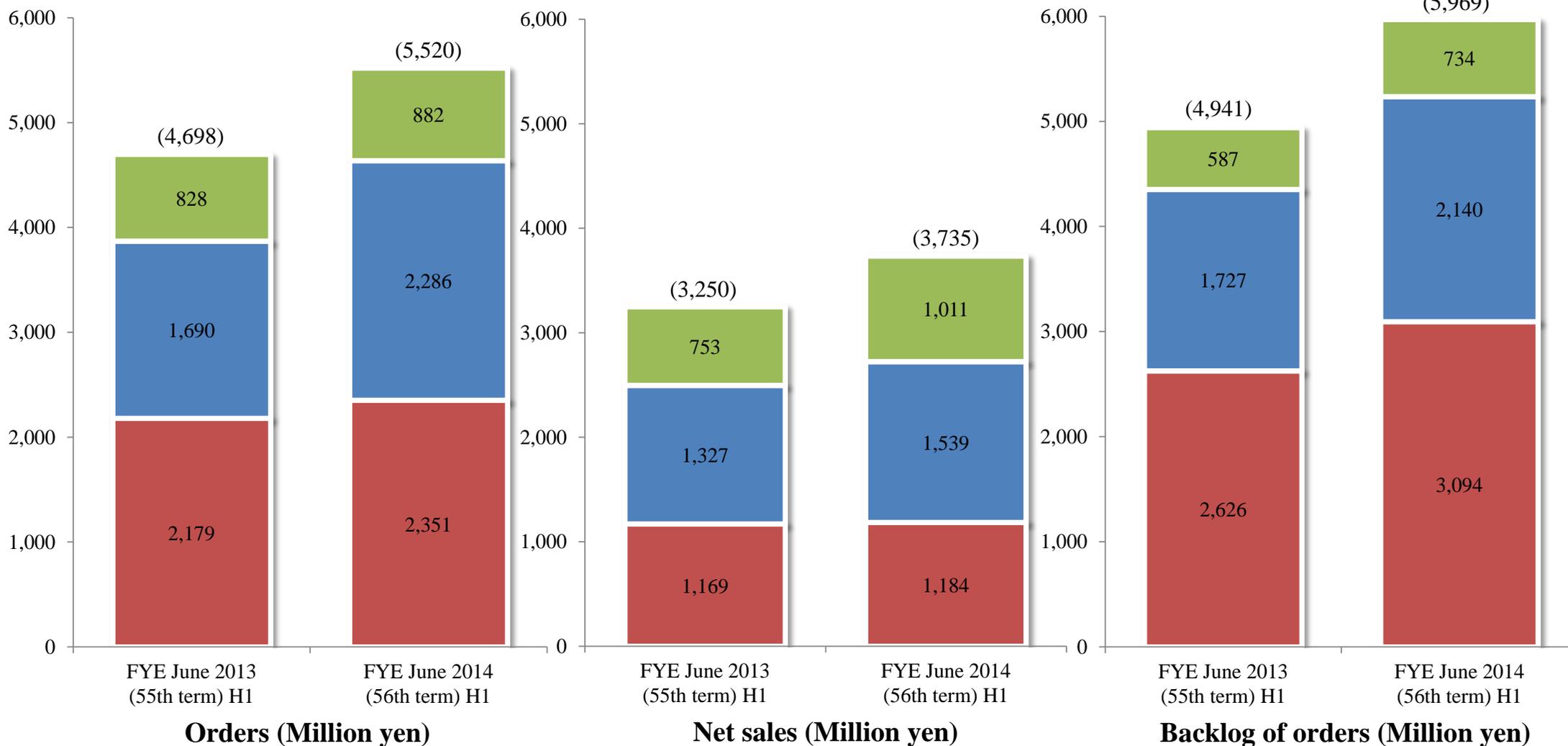


# Synergy Produced by Three Business Segments



# Orders, Net Sales, and Backlog of Orders by Segment

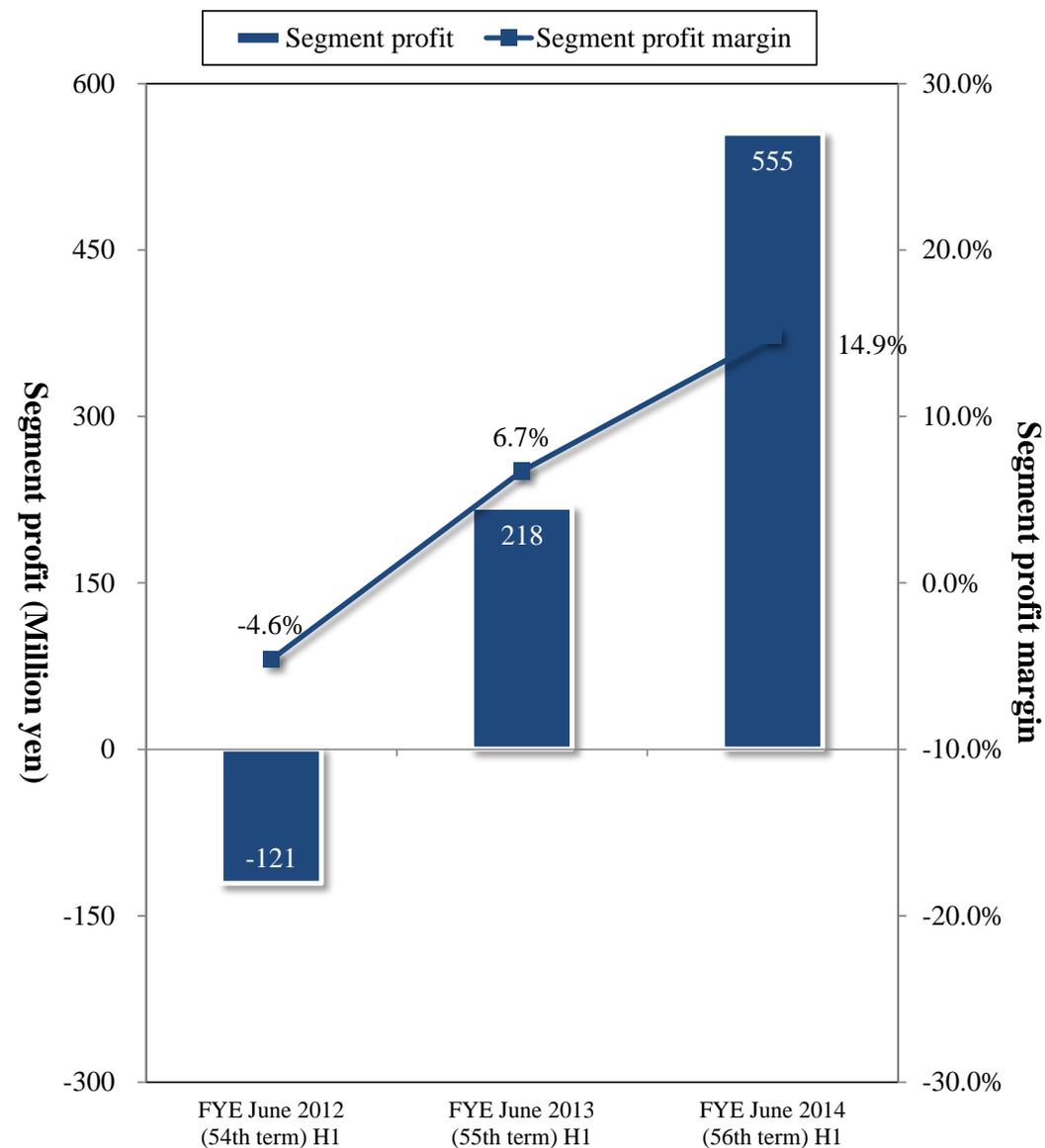
- Engineering Consulting
- System Solutions
- Product Service



# Total of the Three Business Segments

(Million yen)

	FYE June 2012 (54th term) H1	FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year on year
Orders	4,056	4,698	5,520	17.5%
Net sales	2,640	3,250	3,735	14.9%
Segment profit (margin)	-121 (-4.6%)	218 (6.7%)	555 (14.9%)	153.9%
Backlog of orders	4,443	4,941	5,969	20.8%



# (1) Engineering Consulting

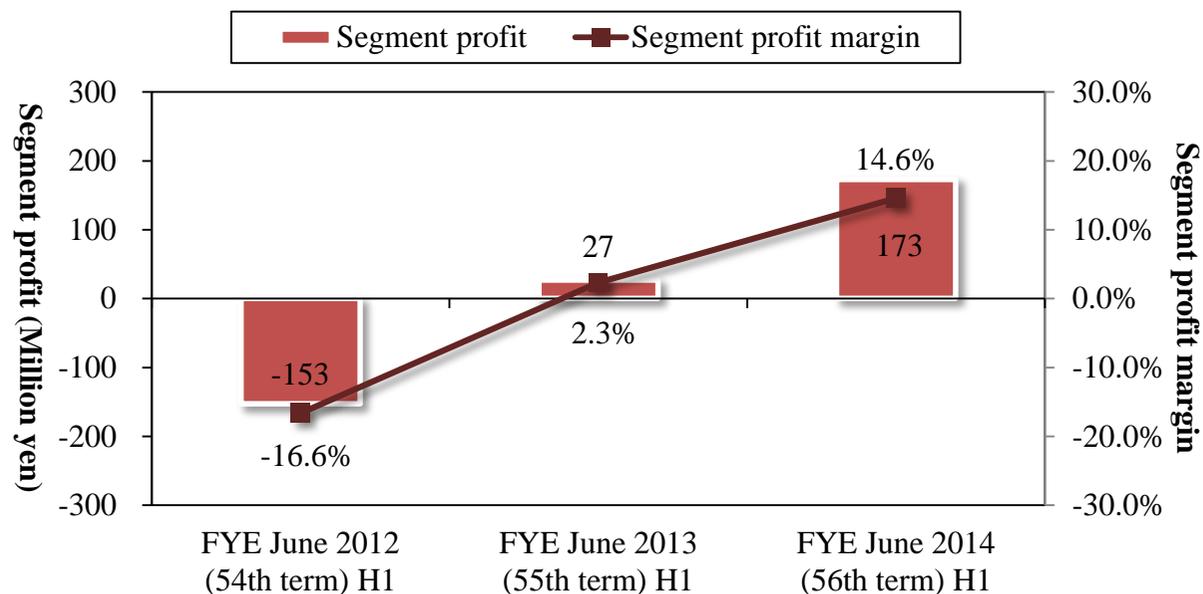
(Million yen)

	FYE June 2012 (54th term) H1	FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year on year
Orders	1,891	2,179	2,351	7.9%
Net sales	922	1,169	1,184	1.3%
Segment profit (margin)	-153 (-16.6%)	27 (2.3%)	173 (14.6%)	536.4%
Backlog of orders	2,468	2,626	3,094	17.8%

- ◆ Consultation on disaster prevention, earthquake resistance, and environment assessment analysis
- ◆ Structural design of buildings
- ◆ Requirement definitions and basic reviews for software development
- ◆ Simulation for manufacturing and logistics business
- ◆ Marketing consulting and risk analysis
- ◆ Multi-agent simulation

## Analysis of results

- Consultation on
  - supporting structural calculations of buildings
  - supporting development of a safe, secure society,
  - disaster prevention
 performed well.



## (2) System Solutions

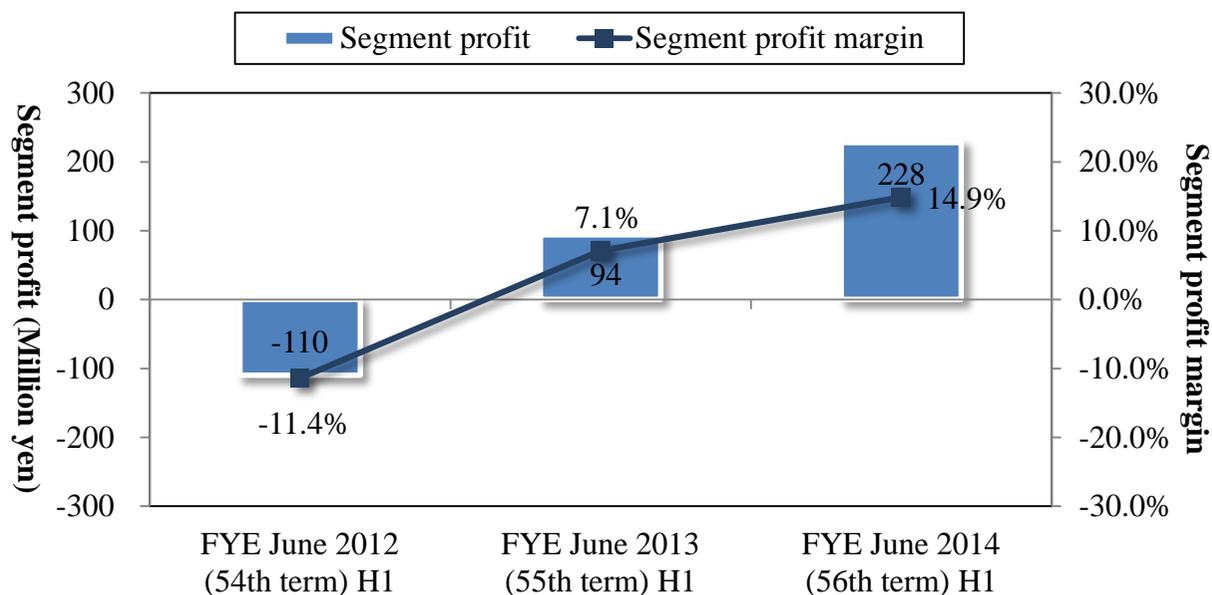
(Million yen)

	FYE June 2012 (54th term) H1	FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year on year
Orders	1,368	1,690	2,286	35.3%
Net sales	971	1,327	1,539	16.0%
Segment profit (margin)	-110 (-11.4%)	94 (7.1%)	228 (14.9%)	142.5%
Backlog of orders	1,633	1,727	2,140	23.9%

- ◆ Structural design support systems
- ◆ Mobile communication, mobile network communication systems
- ◆ Bus service solution systems
- ◆ Sales and design support systems for manufacturing industry
- ◆ Optimization, logistics systems

### Analysis of results

- System development for major house builders and household equipment manufacturers performed well.

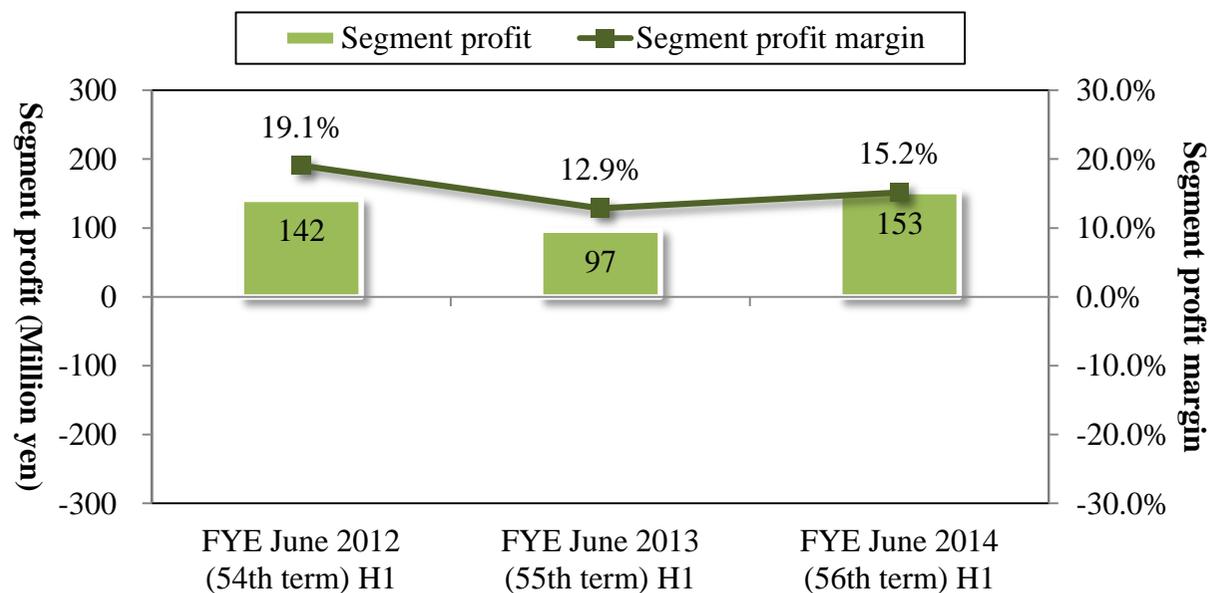


### (3) Product Service

(Million yen)

	FYE June 2012 (54th term) H1	FYE June 2013 (55th term) H1	FYE June 2014 (56th term) H1	Year on year
Orders	795	828	882	6.4%
Net sales	746	753	1,011	34.2%
Segment profit (margin)	142 (19.1%)	97 (12.9%)	153 (15.2%)	58.1%
Backlog of orders	341	587	734	25.0%

- ◆ Software for structural analysis and earthquake resistance study
- ◆ Network simulation software
- ◆ Radio wave propagation and electromagnetic wave analysis software
- ◆ CAE software for designers in manufacturing industry
- ◆ Software for supporting marketing and decision-making
- ◆ Statistical analysis software and image recognition software
- ◆ Consulting
- ◆ Education and training



#### Analysis of results

- Sales of
  - CAE software for designers
  - risk management solutions for manufacturers
  - network communication simulators
 performed well.

# 3

Forecast for Fiscal Year Ending June 30, 2014



# Outlook for Fiscal Year Ending June 2014

- **Economic environment** → There are signs of recovery, but optimism is not allowed.
- **Industries that the Company deals with** → Uncertainty about the future cannot be denied due in part to the expected decline in demand as a reaction to the tax hike.



Building a strong earnings structure through thorough quality control

- Ensuring the quality of final deliverables in all businesses
- Improving accuracy in our estimates when receiving orders and selecting orders to be received



Expanding the engineering consulting business, where we can earn higher profits by providing unique technologies

- Getting back to the basics of engineering
- Shifting to businesses with high added value



Expanding management resources

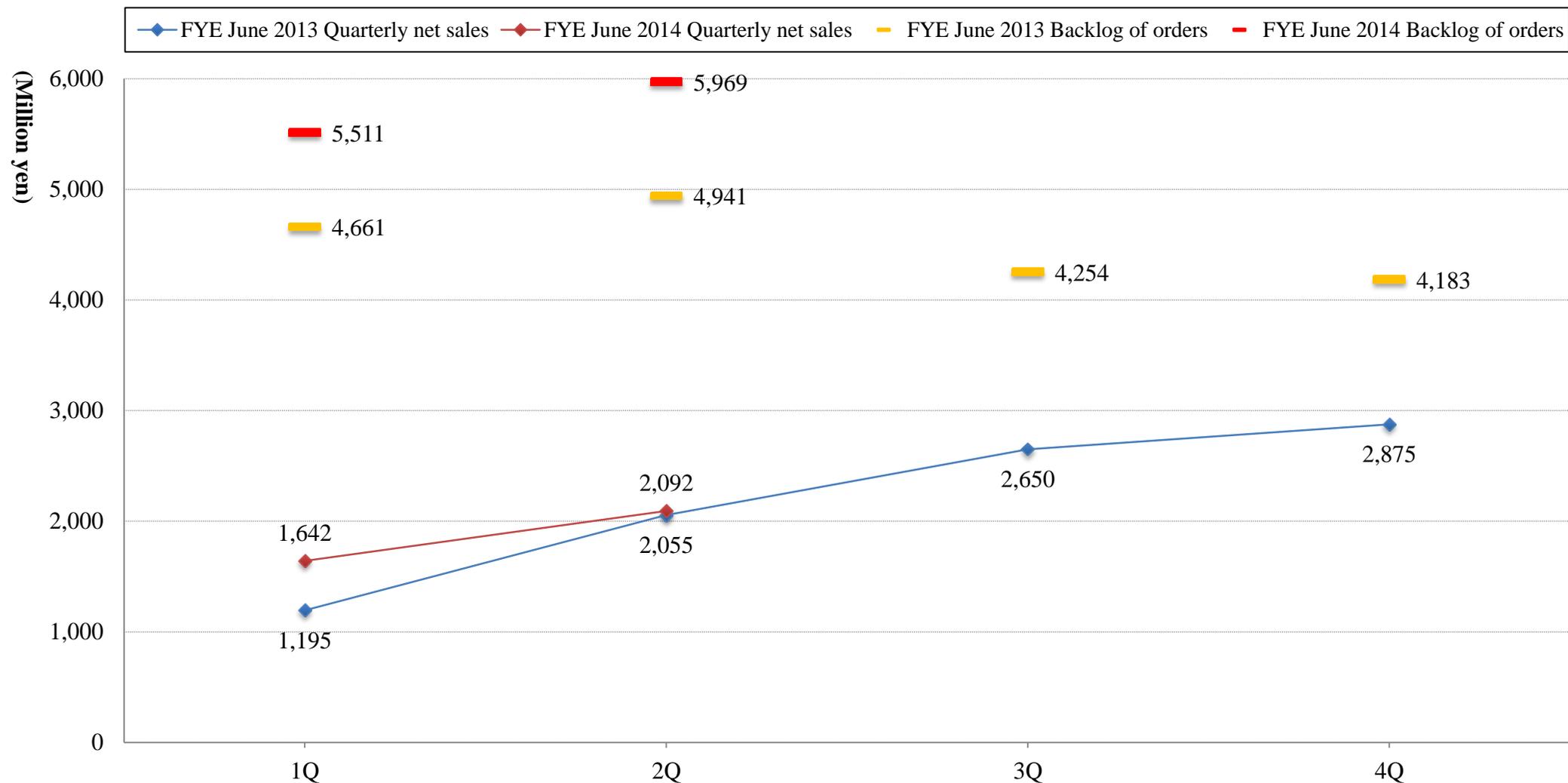
- Promoting equal alliances with a variety of companies, including overseas companies
- Hiring and cultivating professionals



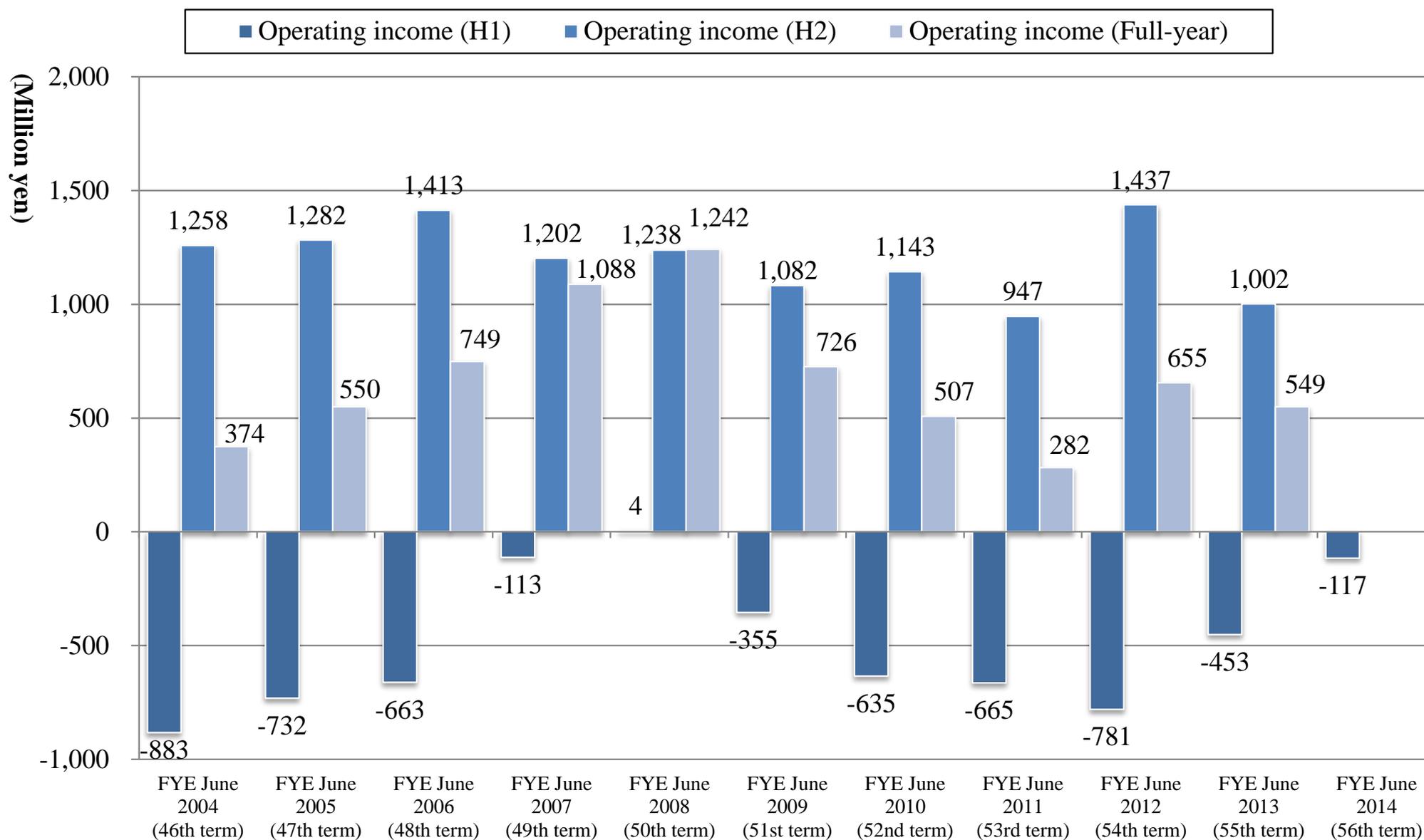
High customer satisfaction  
&  
Enhancement of added value

# Net Sales and Backlog of Orders

## Changes in quarterly net sales and backlog of orders



# Changes in First-Half and Second-Half Operating Income

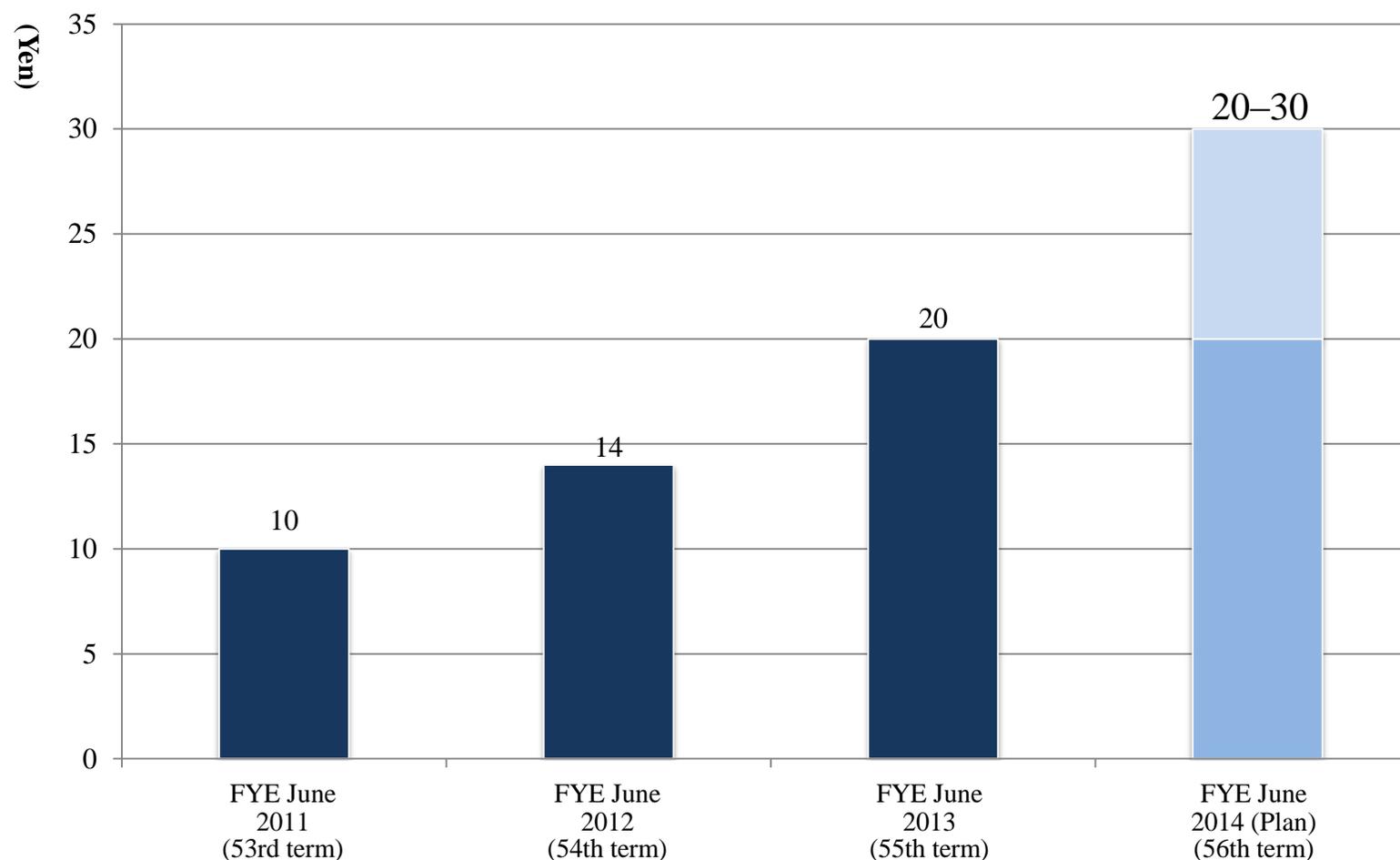


## Basic Policy on Distribution of Profits

- We consider the distribution of profits to the shareholders a key management issue.
- Our basic policy is to continue to distribute stable dividends, taking into account the strengthening of the financial base and retained earnings for business development.
- Under the basic policy, we determine dividends for each fiscal year, considering an amount that can be distributed.

# Forecast of a Dividend per Share (Fiscal Year Ending June 2014)

## Forecast of a Dividend per Share



\*The Company considers the distribution of profits to the shareholders to be a key management issue. Its basic policy is to continue to distribute stable dividends, taking into account the strengthening of the financial base and retained earnings for business development.

# 4

## Management Policies for the Medium and Long Terms



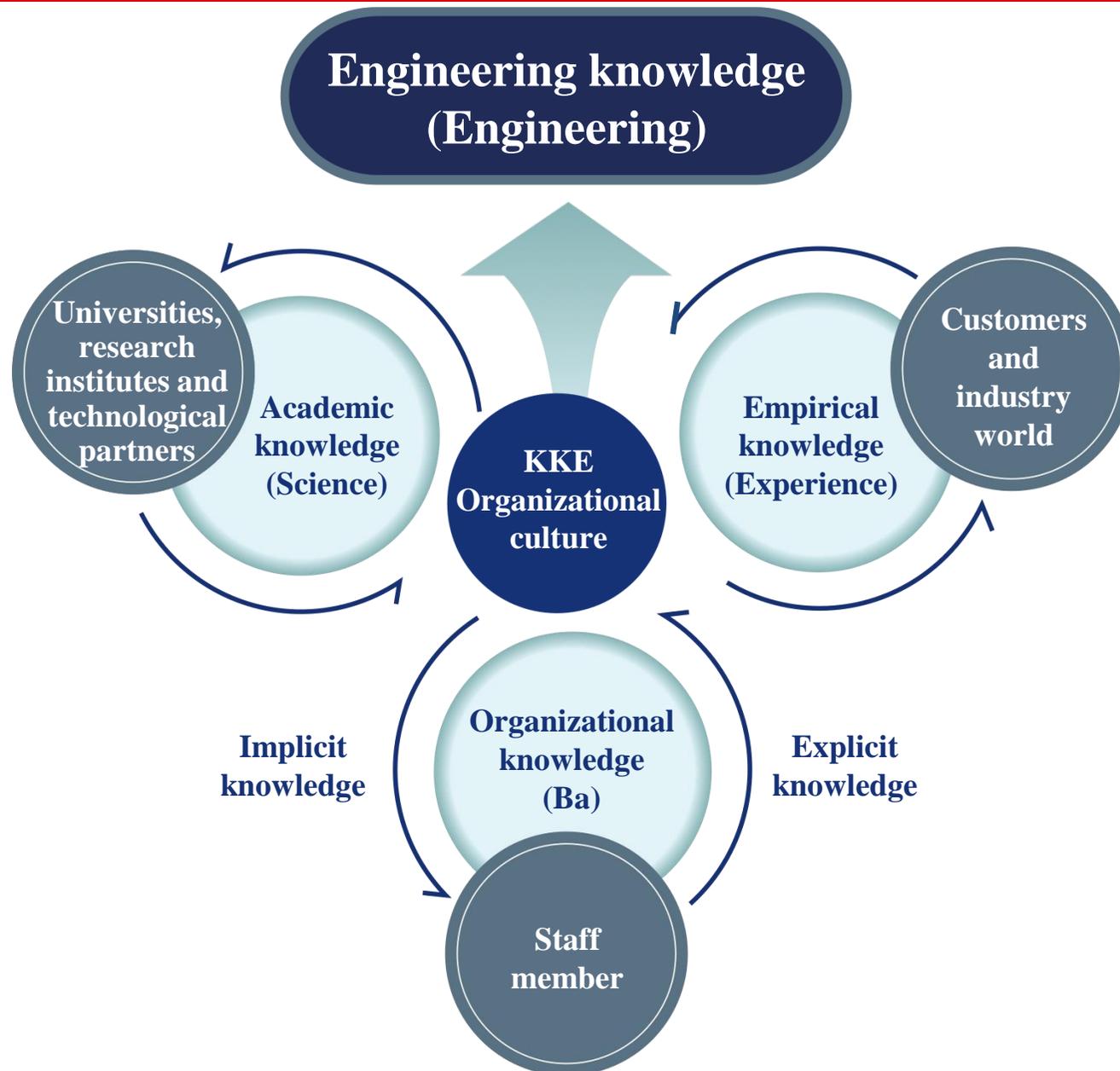
## Our Ideal (Mission)



# Professional Design & Engineering Firm

An organization to create high added value  
through unique solutions based on engineering  
approaches inspired by a combination of  
academic and empirical knowledge

# KKE's Characteristics (Vision)



# Three Principles for Action (To Become a Professional Design & Engineering Firm)

Prioritized management with limited resources

- 1 *Collaboration:*** Always have a board vision.

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Cooperate with partners both within and outside the Company.
- 2 *Feedback:*** Use the PDCA cycle.

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Learn even from failure to enhance the strength of the organization.
- 3 *Speed:*** Stay ahead of the evolution of information technology.

---

Act promptly as members of the organization.

# Five I's to Enhance Added Value (Attitude)

## I ntelligent

Engage to business based on compensation for knowledge and social contribution

## I ndependent

Establish an environment with totally unrestricted, free thinking

## I nterdisciplinary

Integrate and fuse diverse academic fields

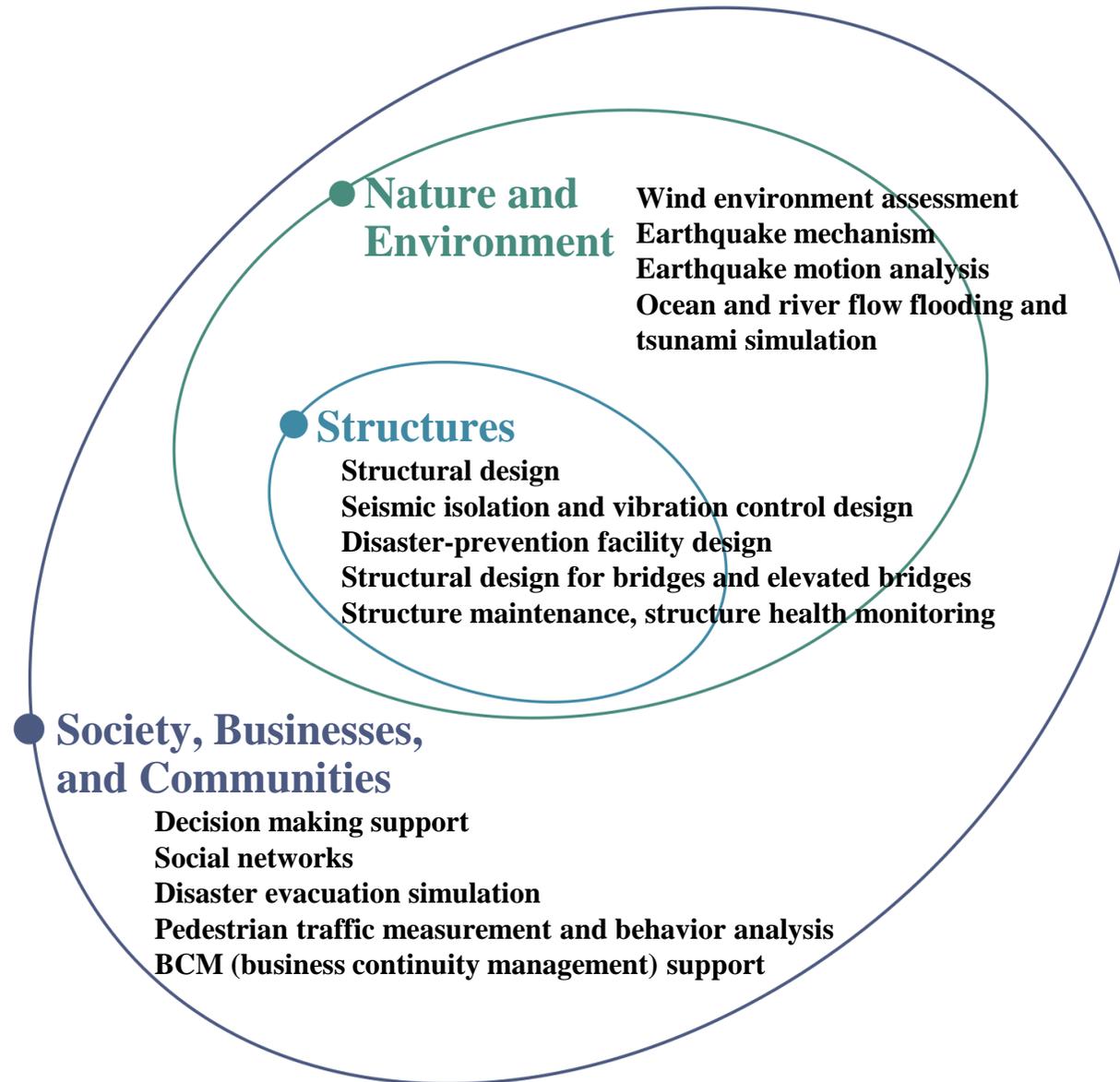
## I nnovative

Have the structure, culture, and DNA to challenge new ideas

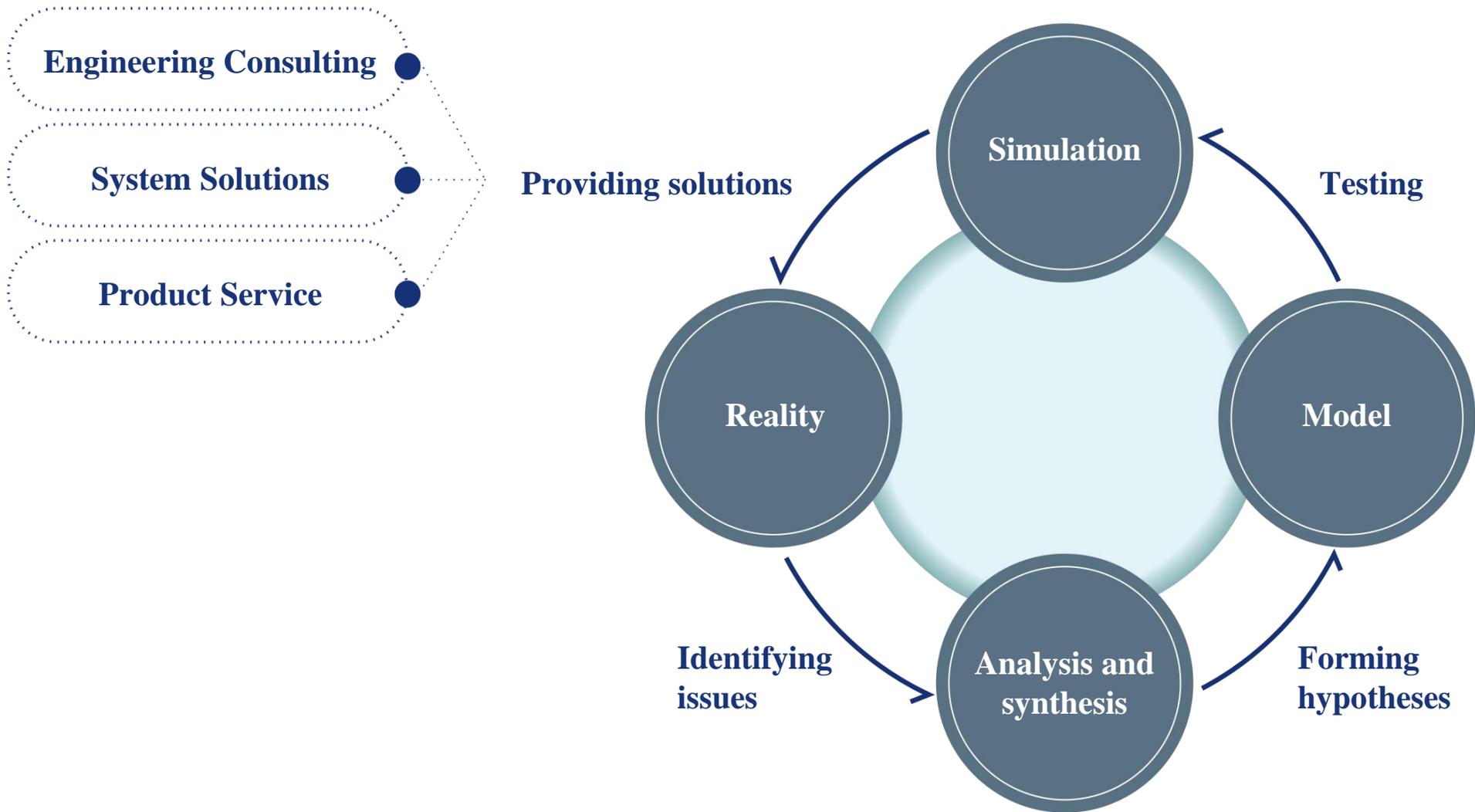
## I nternational

Create alliances with overseas partners with different knowledge

# Expanding Business Domains



# Engineered Approach (Modeling and Simulation)



# Scenarios for Increasing Added Value

1. | By investing in business development



2. | Through employee growth



3. | By increasing the number of employees (associates)



\*The Company defines added value as operating income plus personnel costs, which are resources distributable to stakeholders.

# Response to Stakeholders of the Company



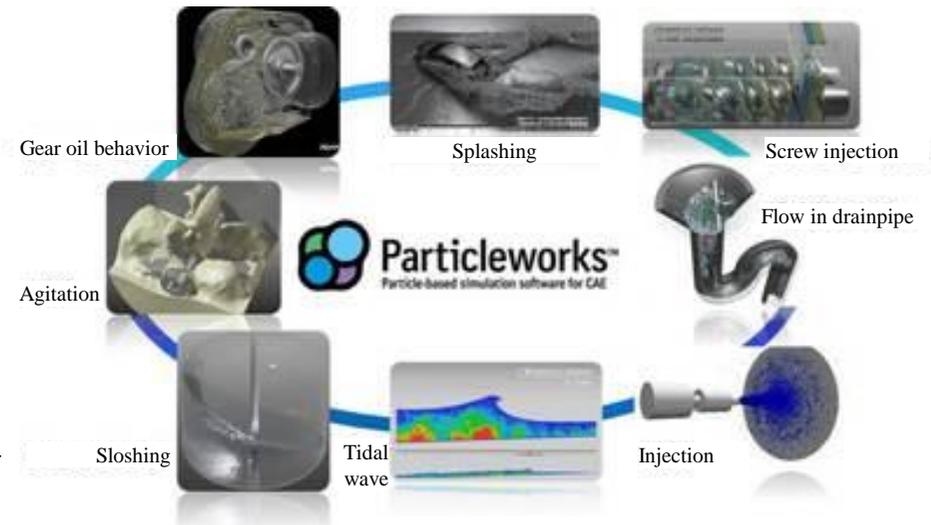
# Increasing Added Value by Investing in Business Development (1)

## Prometech Software, Inc.

Provides solutions based on “Moving Particle Semi-implicit method,” a fluid simulation theory devised by Professor Seiichi Koshizuka of School of Engineering of the University of Tokyo

### “*Particleworks*”, computational fluid dynamics software

- The first commercial fluid analysis software in the world to use MPS method
- Enables to analyze difficult physical phenomena that the conventional method (the mesh method) cannot analyze.



## Capital and business alliance with the Company formed on October 29, 2012

### Creating a wide range of synergies, including personnel exchanges

- Dispatching of two external directors
- Gaining new customers, including pharmaceutical and cosmetics manufacturers
- Applies to the disaster prevention business, which the Company has been developing
- Collaboration with software that the Company has been providing

# Increasing Added Value by Investing in Business Development (2)

SiteView image sensor software from Vitracom AG of Germany + Data analysis technologies of KKE

**“People Counter,” a system for counting visitors in retail stores, shopping centers, and other facilities**  
**Supports optimize the store environment by purchase rate, integrating with POS data**

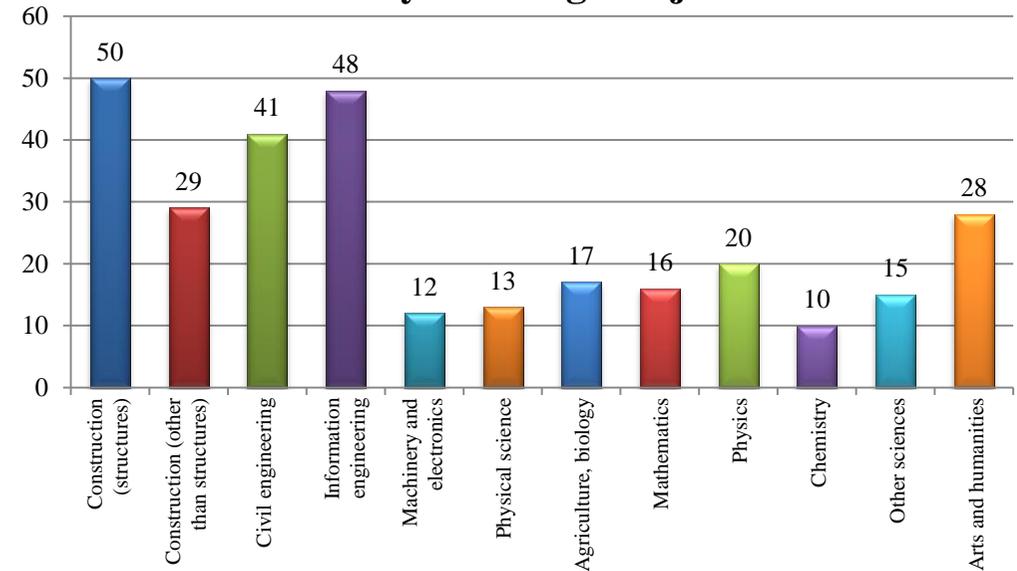
**Website of the People Counter**  
[http://www4.kke.co.jp/p\\_counter/index.html](http://www4.kke.co.jp/p_counter/index.html)



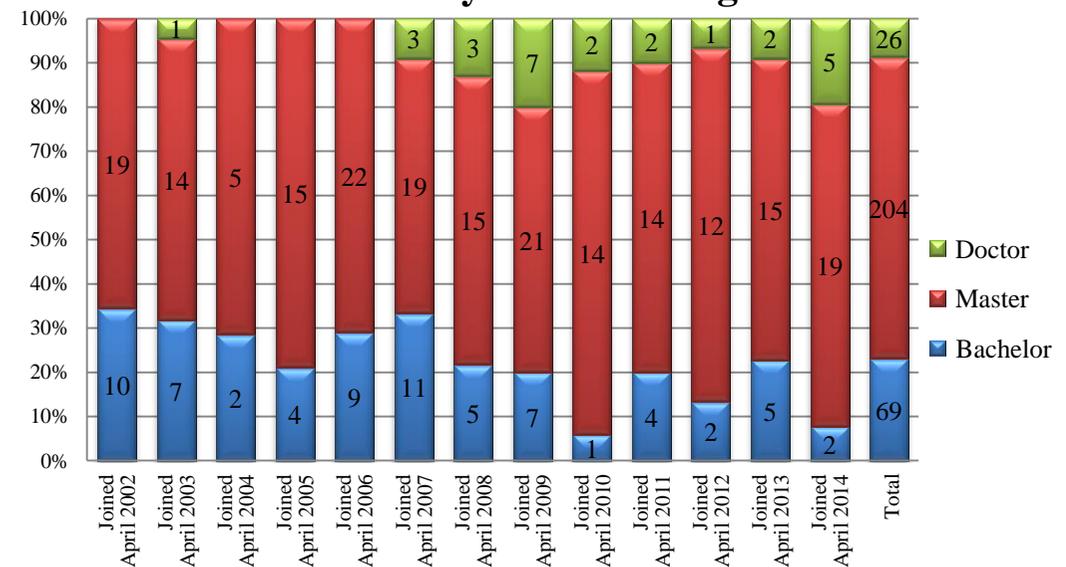
# Increasing Added Value by Increasing the Number of Employees (1)

Top 20 universities (breakdown of those who joined the Company from April 2002 to April 2013)	Number of people
Tokyo Institute of Technology	28
Kyoto University	20
The University of Tokyo	18
Kyushu University	18
Waseda University	16
Kumamoto University	10
Tokyo University of Science	10
University of Tsukuba	9
Keio University	8
Nagoya University	6
Tokyo University of Agriculture and Technology	6
Yokohama National University	5
Saitama University	5
Chuo University	5
Hosei University	5
Nihon University	5
Tohoku University	4
Japan Advanced Institute of Science and Technology	4
Toyohashi University of Technology	4
Saga University	4

### University or college majors

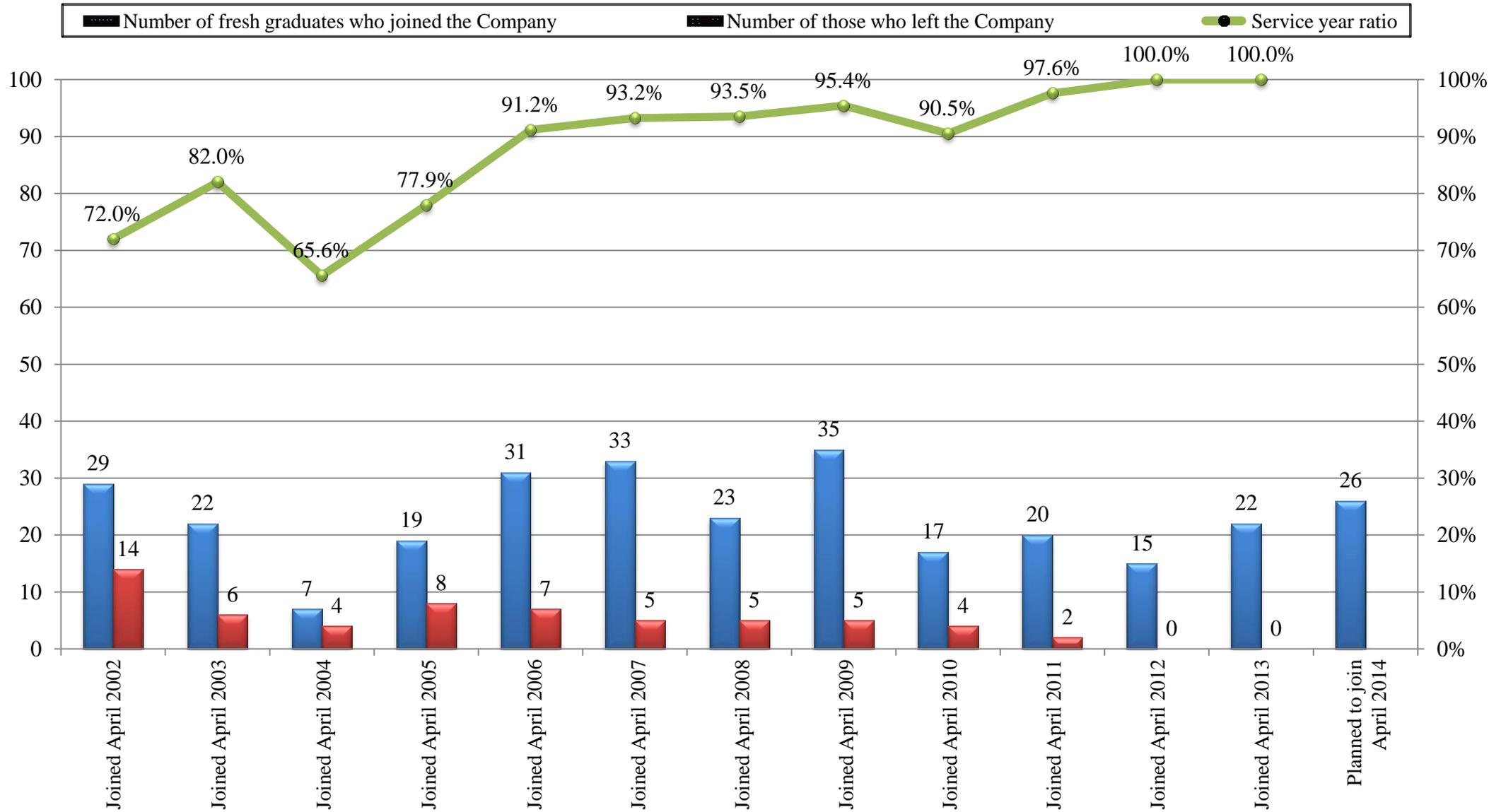


### Breakdown by academic degree



# Increasing Added Value by Increasing the Number of Employees (2)

## Service year ratio of those who joined the Company as fresh graduates



# 5

## Business Topics



# Toward Realization of Better Society and Increase of Added Value

## *Public*

Participating in establishment of systems and rules as an engineering technology consulting firm

## *Local*

Helping solve issues which are specific to particular regions (disasters, traffic, etc.) by cooperating with people in the field

## *Global*

Providing solutions to support Japanese companies expand overseas operations

# Public (1) Research on International Standardization of Radiocommunication Technologies

## MIC

International standardization of radiocommunication technologies on millimeter and submillimeter waveband, etc.

## KKE

- Participating in conferences for international standardization and supporting create papers contributed to the conferences
- Holding meetings for exchange of opinions between related people in Japan
- Survey of commercially available literatures, questionnaires, demand forecasting

Technologies related to telecommunications and data analysis technologies accumulated by the Company

Suggested a report on fact-finding surveys in the world concerning millimeter waveband or above, which is deemed promising  
Prevented usage of wavebands which could be inconvenient for Japan  
Surveys on manufacturers, market sizes, forecast of demand, and others

World Radiocommunication Conference 2012

Number of participants:

Approx. 3000, including 83 delegates from Japan



# Public (2) Institutional Design of Wind Turbine Generation Facilities

## Track record and evaluations as an engineering technology consulting firm

- **Results of past projects**
  - **Designed approx. 300 wind power generation facilities in Japan, including offshore facilities**
- **Technological capability and organizational strength which enable to undertake a wide range of tasks**
  - **Analyses (on wind and vibration), structural design, acquisition of evaluation and ministerial approval, and on-site supervision**
- **Enhancing competitiveness through collaborations with overseas manufacturers**
  - **Alstom, Vestam, Siemens, GE, etc.**
- **Industry-academia partnership**
  - **Continual presentation of research papers and committee and working group activities at Architectural Institute of Japan and Japan Society of Civil Engineers**
  - **The University of Tokyo, Tokyo Institute of Technology, Nihon University, Mie University**



Port of Akita

- **Research project on the utilization of unused energy in fiscal 2013, Ministry of Economy, Trade and Industry**  
(Research on safety confirmations related to supporting objects of wind power generation facilities)
- ➔ **April 1, 2014: Promulgation and enforcement of a standard for wind power generation facilities**

# Local (1) Consultations for Supporting the Formulation of Disaster Prevention Plans



(Source: Results of simulations for estimating evacuation time, the government of Kyoto Prefecture)

Kyoto

Aomori

Kamakura-shi

Kamisui-shi

Fukui

Sakai-shi

Mie

Shiga

Kumamoto-shi

- Support for formulation of evacuation plan for emergency of nuclear power plant
- Support for formulation of tsunami evacuation plan
- Support for formulation of evacuation plan for debris flood and river flood

- Multilateral evaluations can be made by combining multiple technologies owned by KKE.
  - Visualizing the statuses of disaster and damages in time series
  - Simulating evacuation behaviors reflecting geographical characteristics and the characteristics of individuals
  - Evacuation time estimate (ETE)
- Capable for applying to every kind of disaster.

(Tsunami evacuation plan from the official website of Kamakura-shi)  
 県想定南関東津波(由比ガ浜地区)



※動画の画面をダブルクリックすると、全画面で表示されます。

## Local (2) Opening of a New Office in Nakano

### Opened a new office in Nakano-ku, on January 2014

- Located in Nakano Central Park
- Aim to create new businesses and to promote community-based operations of existing businesses, in response to an offer from the government of Nakano-ku.

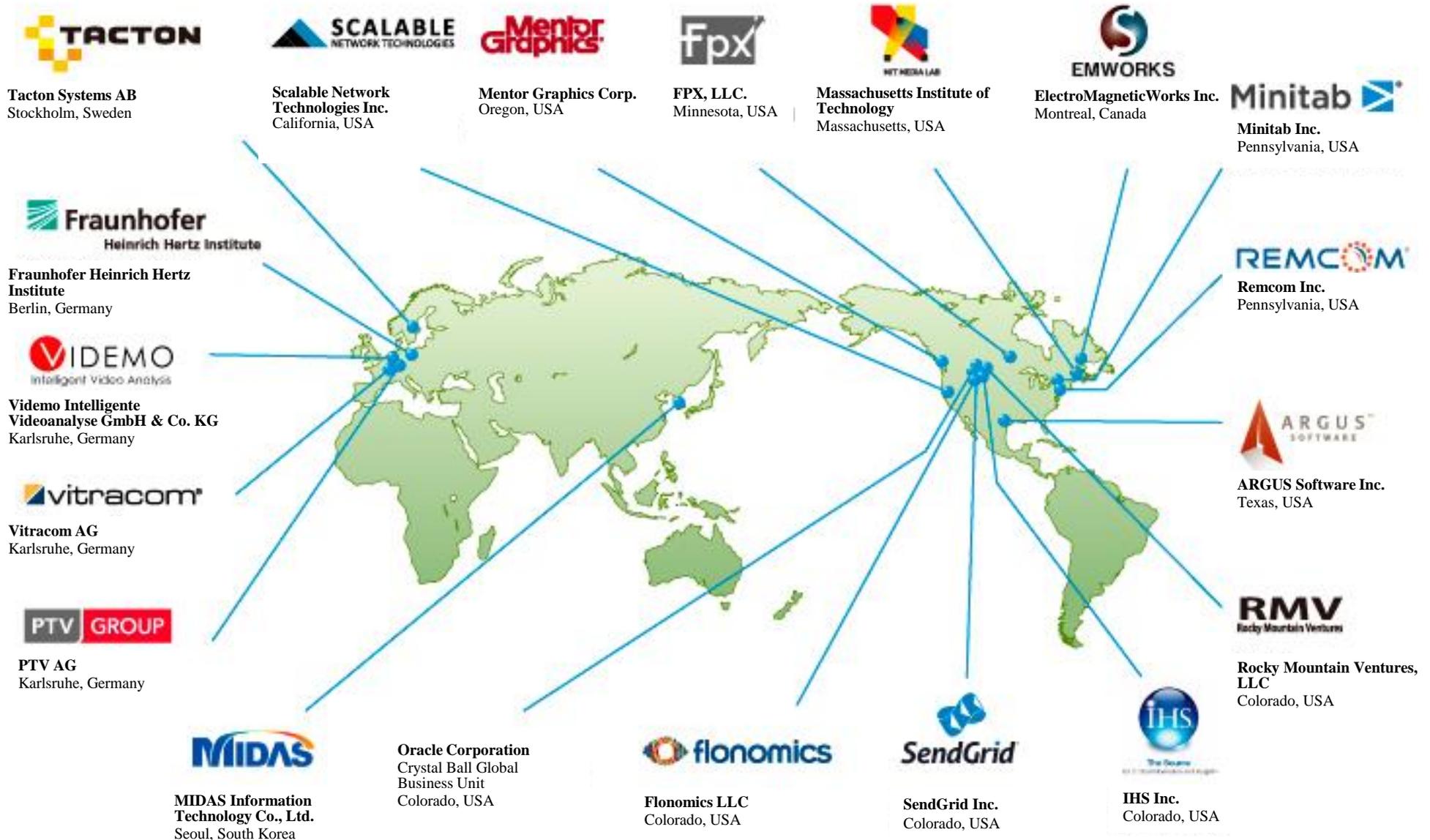


Exterior view



Office

# Global (1) Alliances with Overseas Partners



# Global (2) SendGrid Inc.



## SendGrid Inc.

- A cloud-based e-mail infrastructure that has been growing rapidly since its foundation in 2009
- Currently transmits more than ten billion e-mails (approx. 2% of all e-mails transmitted in the world) every month



Started providing services in Japan from December 2013



Held a seminar commemorating the partnership at Roppongi Hills

## PTV AG



the mind of movement

- Provides a comprehensive traffic simulation software, used by more than 3000 users from 100 countries in the world
- Used in detailed traffic studies of 2012 Summer Olympic Games in London

### Example: Simulation to ease crowd within station



A video showing this simulation is available for viewing at: <http://www.youtube.com/user/KKEPTV>

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

We look forward to your continued support and guidance.

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