



February 22, 2007

FYE June 2007  
**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 performance results may differ from forecasted figures due to uncertainties such as the economic environment.

# Agenda

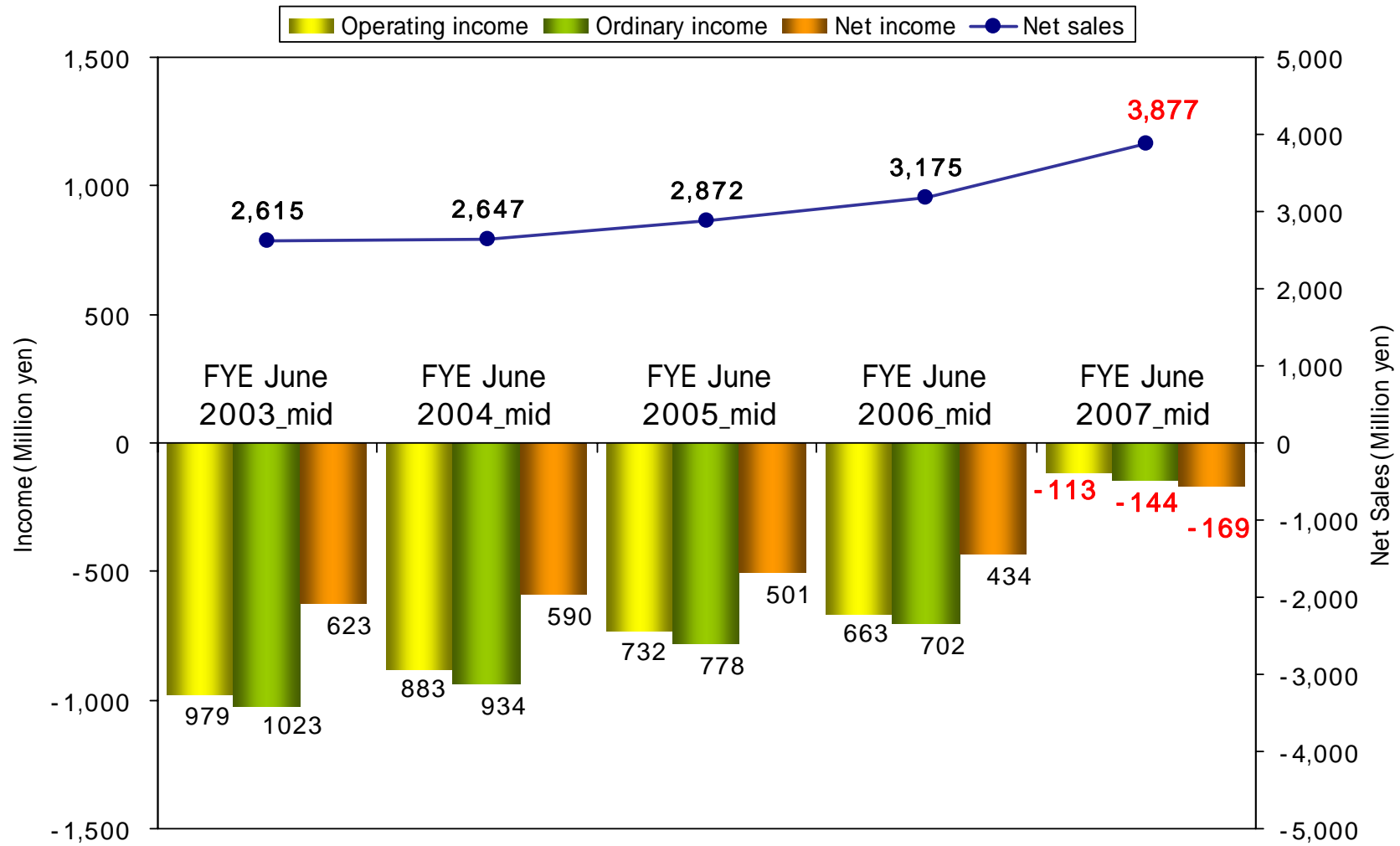
Note: All monetary figures in this document are rounded down to the nearest million yen.

1. Outline of Midterm Financial Results 2
2. Results Forecast for FYE June 2007 18

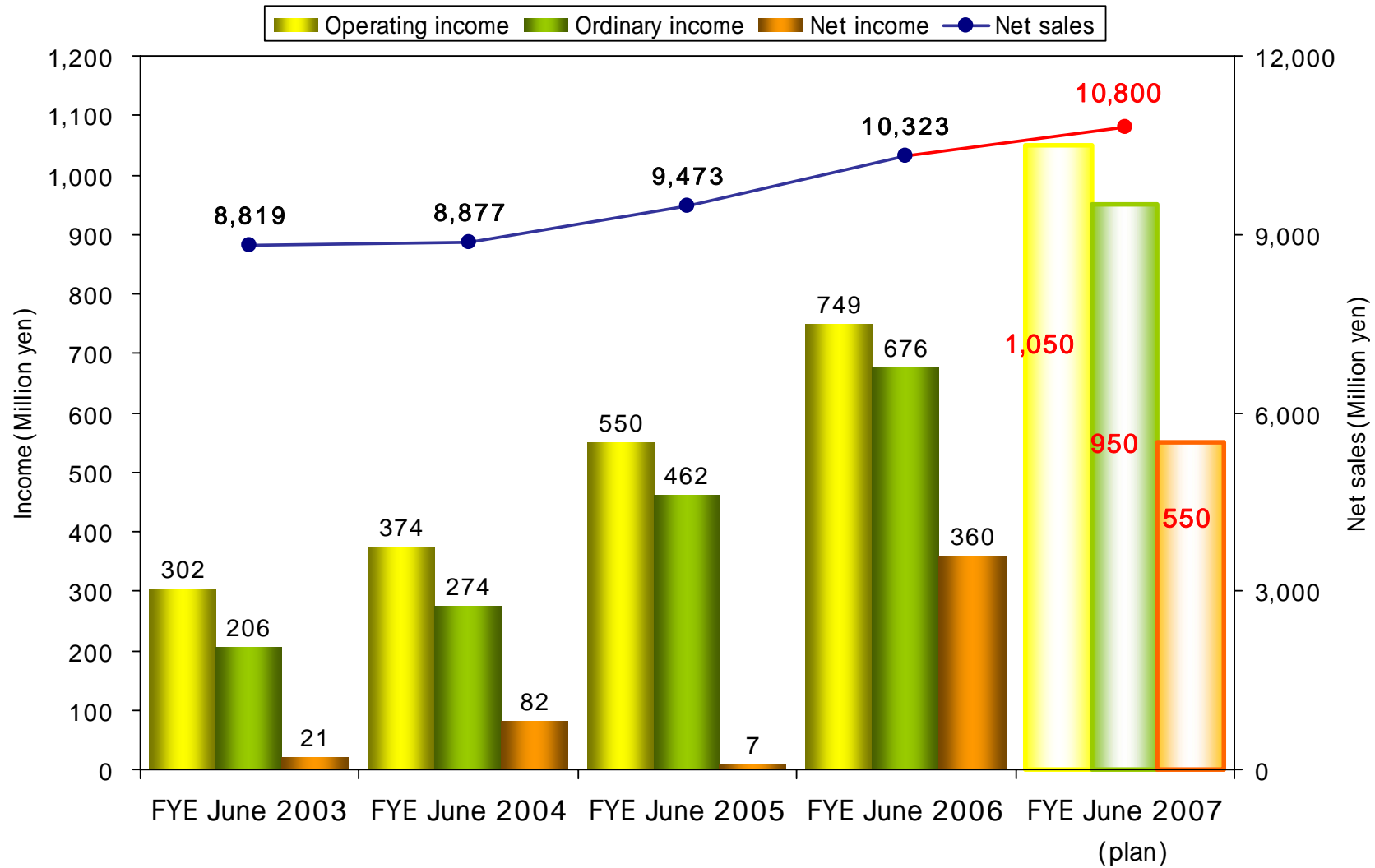
Note : Fractions under one million yen are omitted in the figures in this material.

# 1.Outline of Midterm Financial Results

# Midterm Performance Since 2003



# <Reference> Full Term Performance Since 2003



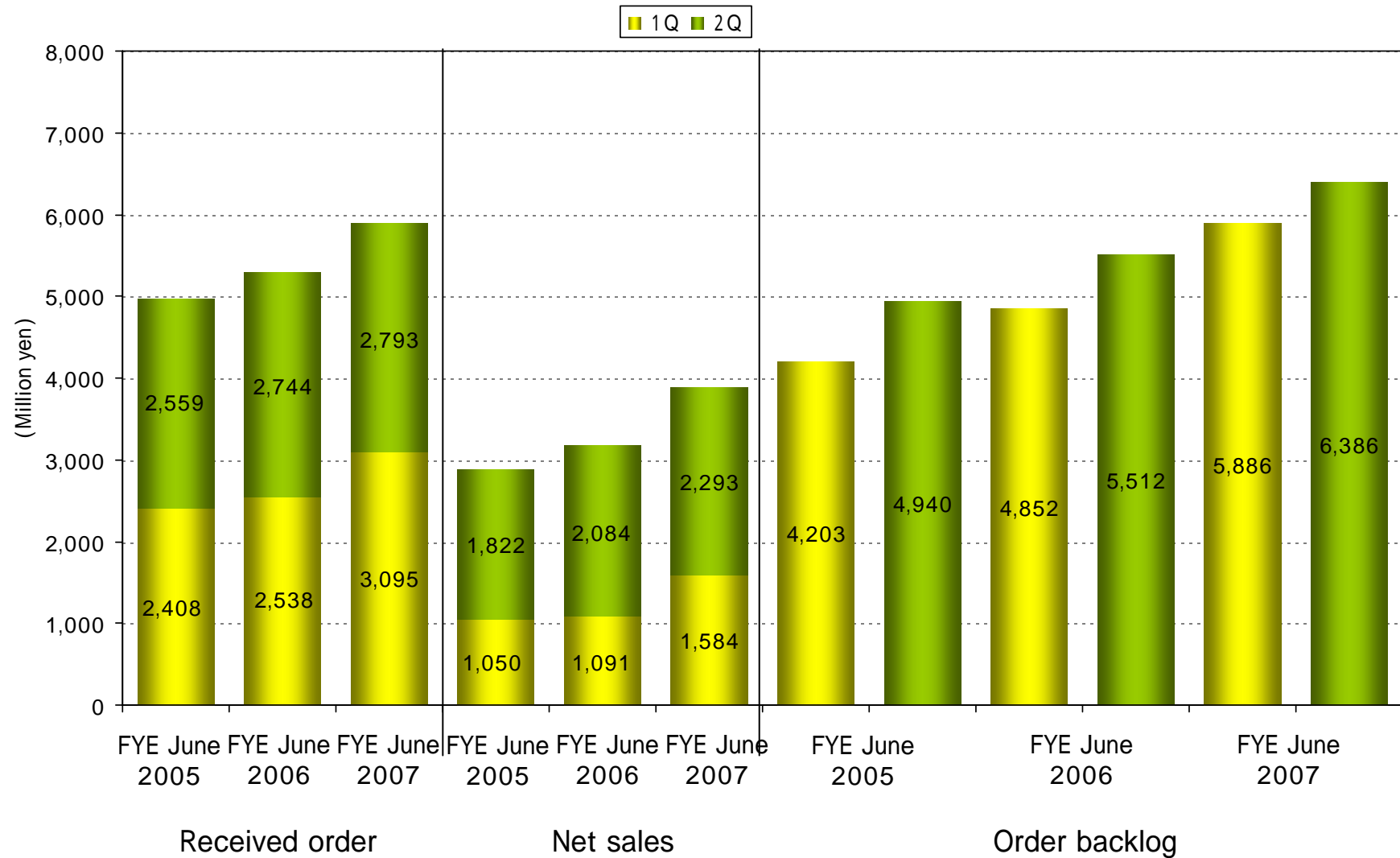
# Financial High Lights

(Million yen)

	Midterm FYE June 2006	Midterm FYE June 2007	Change from previous FY	Rate of change
Received order	5,282	5,888	605	11.5%
Net sales	3,175	3,877	702	22.1%
Operating income	-663	-113	549	-
Ordinary income	-702	-144	558	-
Net income	-434	-169	264	-

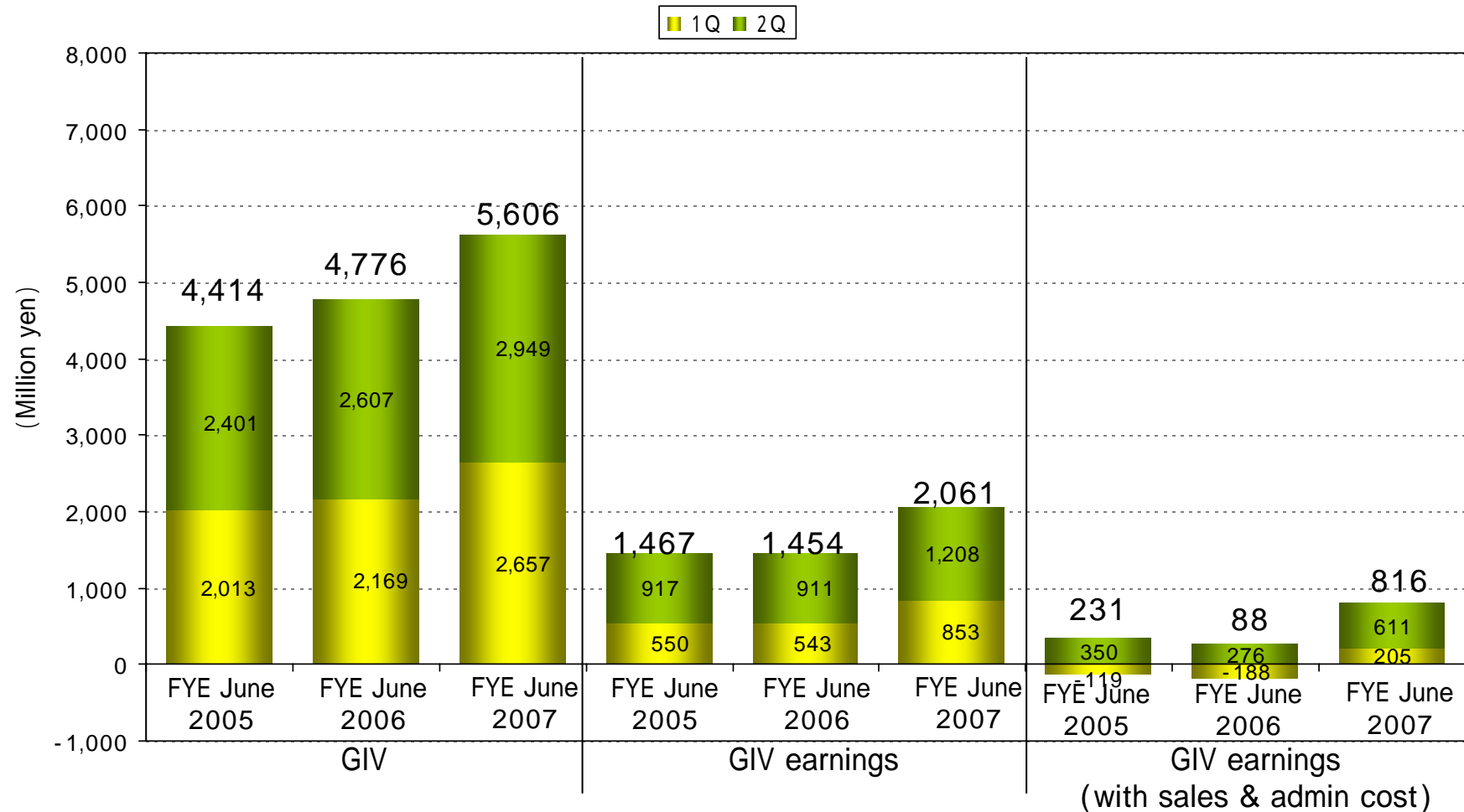
- Contributing factors for received order and net sales:
  - Recovery in customers' motivation to invest and impact of earthquake resistance deception in construction sector.
  - Reinforcement of proposal sales force.
  
- Contributing factors for increase in incomes:
  - High profitable order resulting from reinforcement of proposal sales force.
  - Selective order accepting because of big amount of order.
  - Improvement of operation ratio by increase in order.
  - Decrease of unprofitable projects (Efforts to obey ISO standard and improvement of project management skill)
  - Decrease of burden due to withdrawal from unprofitable business.

# Transition of Received Orders, Net Sales and Order Backlog



# Transition of Generated Intellectual Value (GIV)

KKE has projects that tend to take a several months from order booking to the time the sale is accounted, and quantifies the progress of projects by converting it into a monetary amount to effectuate monthly performance management and conducts plan and result tracing.



Note: Due to our implementation of a salary system that operates in conjunction with our performance earnings may fluctuate at the end of the fiscal year due to a change in personnel cost.

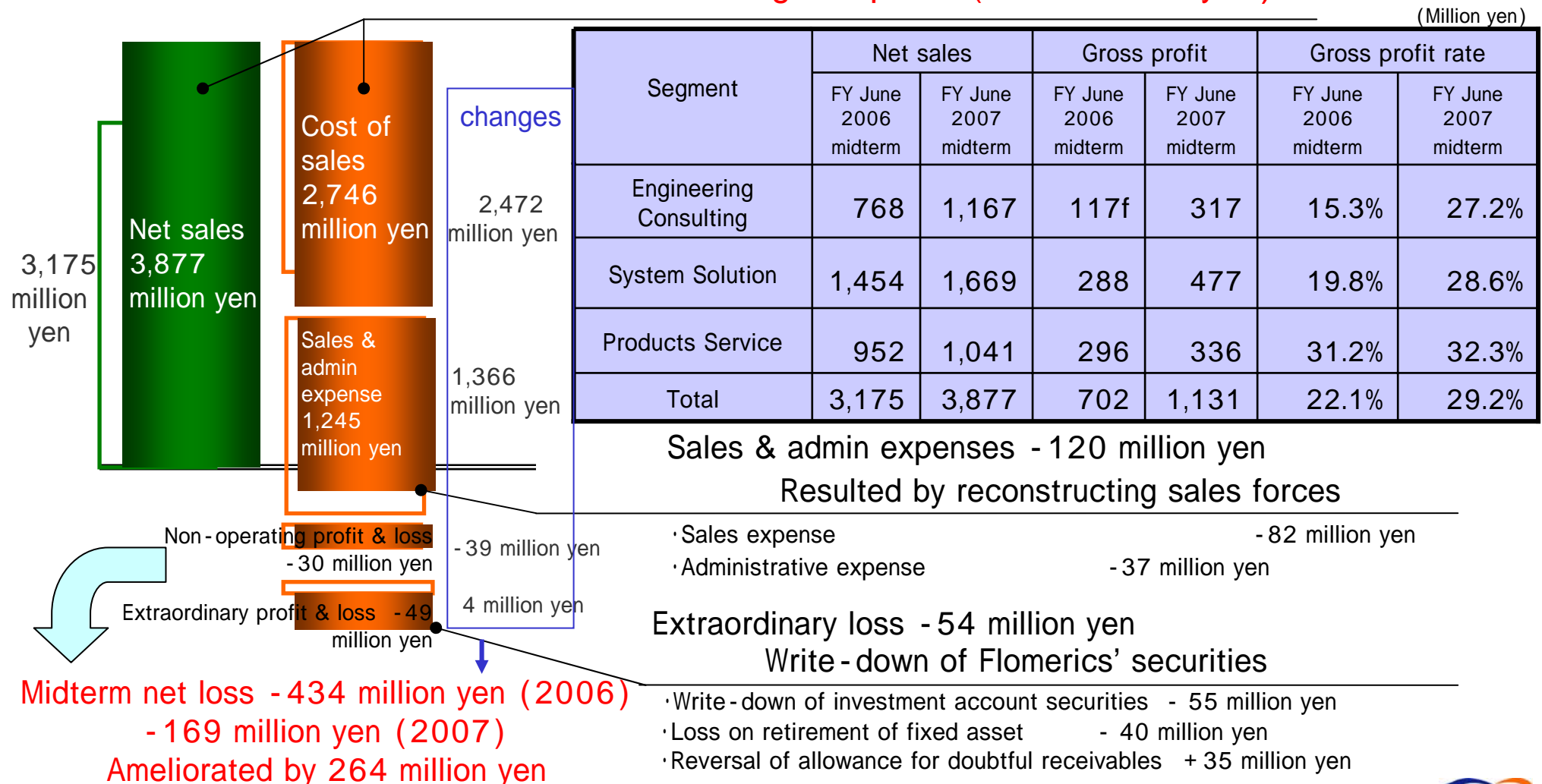


# Financial Statements

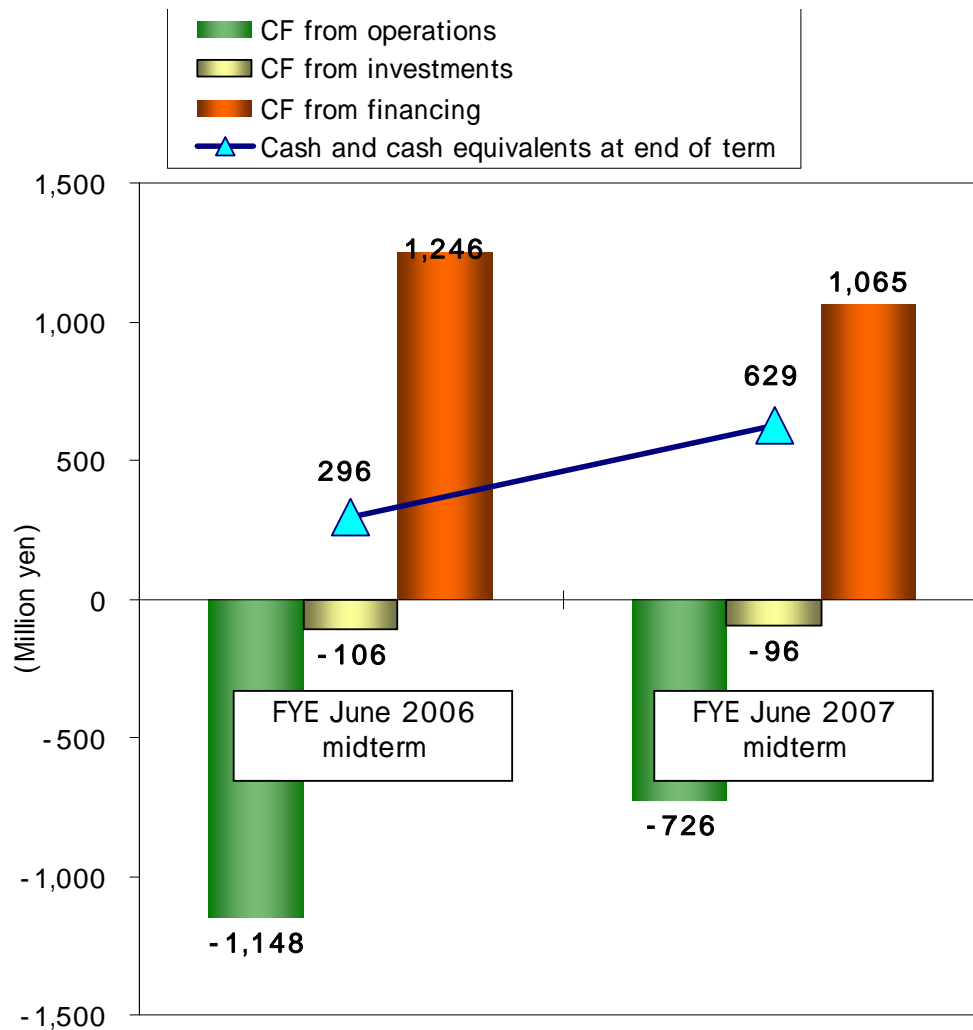
# P/L Improvement on Mid-term Net Loss (Comparison over the same period last year)

Growth of net sales(+702 million yen) × Increase of gross profit rate (+7.1%)

**Increase of gross profit (+428 million yen)**



# Cash Flows – Promotion of Financial Soundness



## Breakdown of cash flow

Cash flow from operations: -¥726 million

Year-over-year basis +421 million yen

- Net loss before taxes -¥194 million  
(change +¥503 million)
- Depreciation charges ¥146 million
- Increase in inventories -¥803 million
- Decrease in accounts receivable ¥894 million
- Decrease in outstanding expenses -¥470 million
- Decrease in allowance for bad debt -¥51 million
- Amount paid for corporate income tax -¥238 million

Cash flow from investments: - ¥96 million

Year-over-year basis +9 million yen

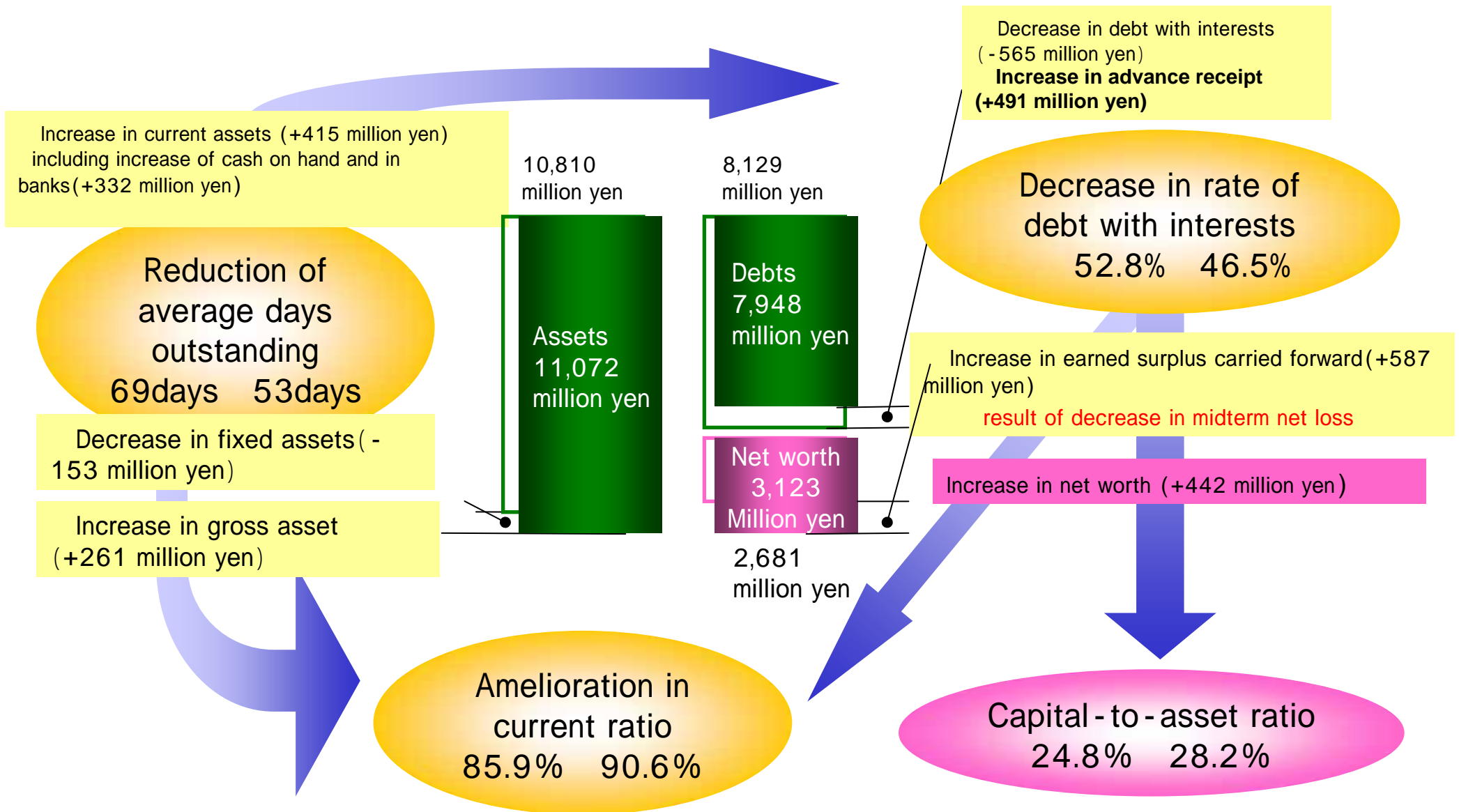
- Acquisition of investment securities - ¥148 million
- Acquisition of fixed assets -¥61 million
- Cancellation of insurance deposit etc. ¥89 million

Cash flow from financing: ¥1,065 million

Year-over-year basis - 181 million yen

- Increase in debt ¥1,177 million  
(change - ¥35 million)
- Payment of dividends - ¥105 million

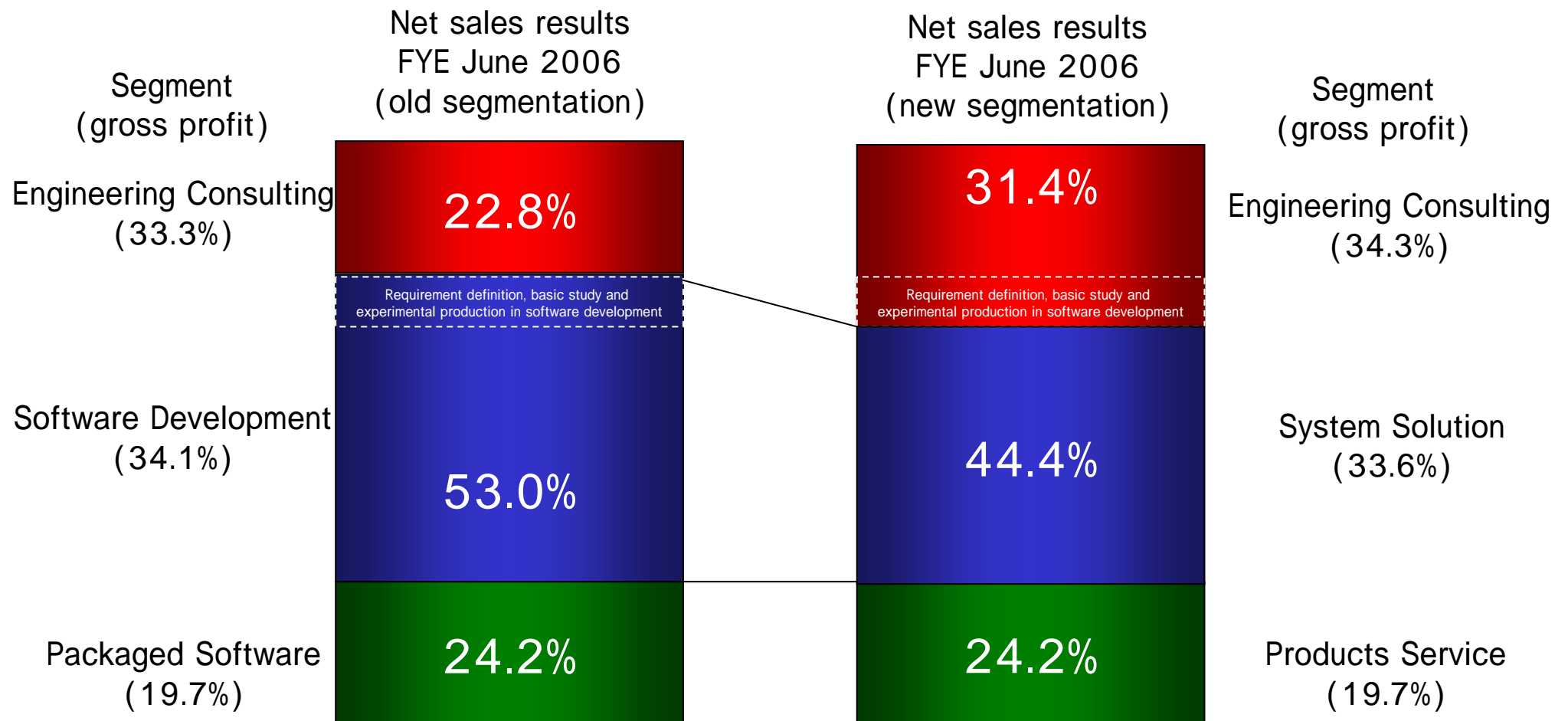
# Balance Sheet – Cycle of Financial Soundness



## Breakdown by Segment

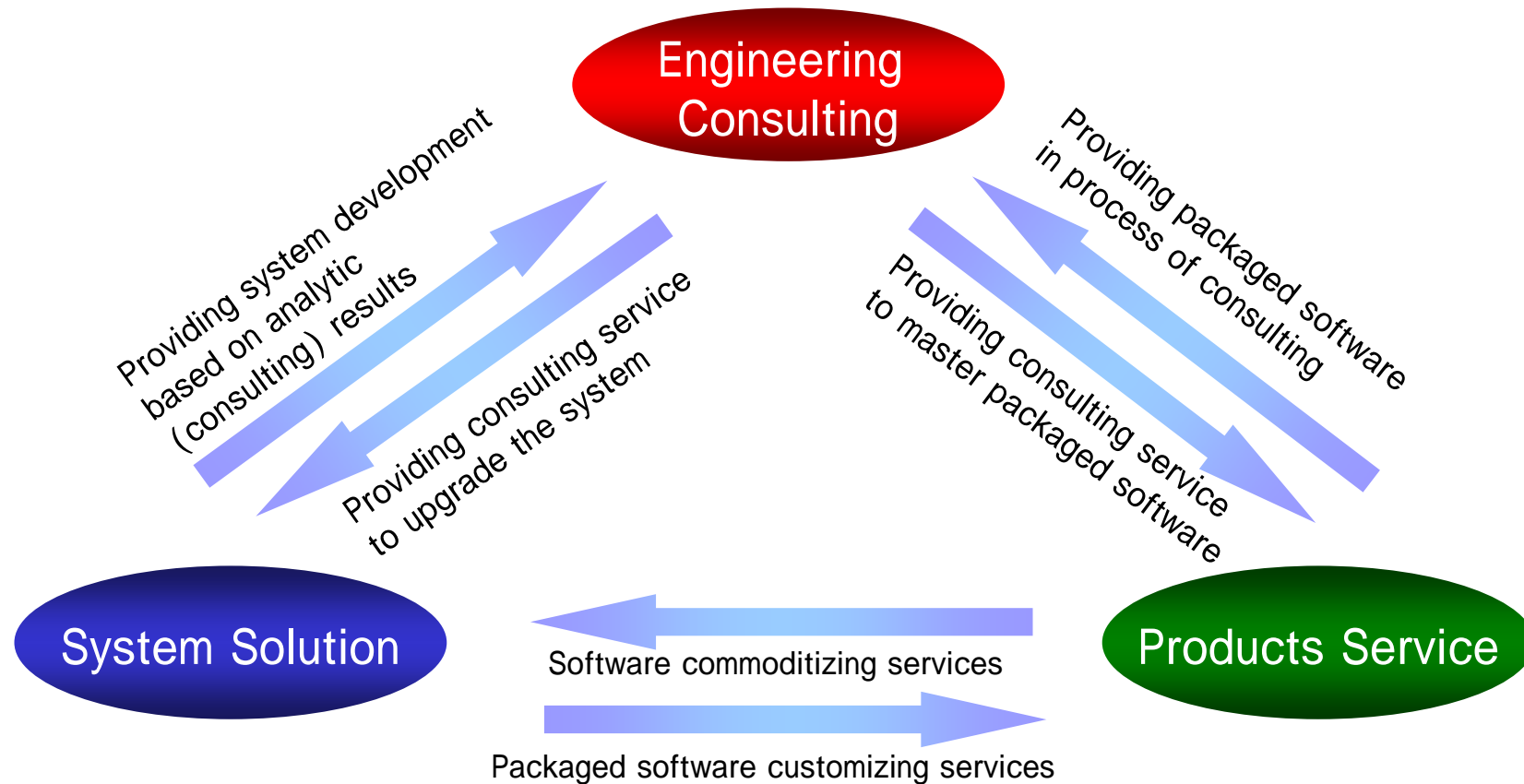
# Change of Segmentation and Designation

The company reclassified upstream operations in software development, such as requirement definition, basic study and experimental production into engineering consulting and changed designations of segment.



In the packaged software and products service segment, cost of sales includes its sales / administrative expenses.

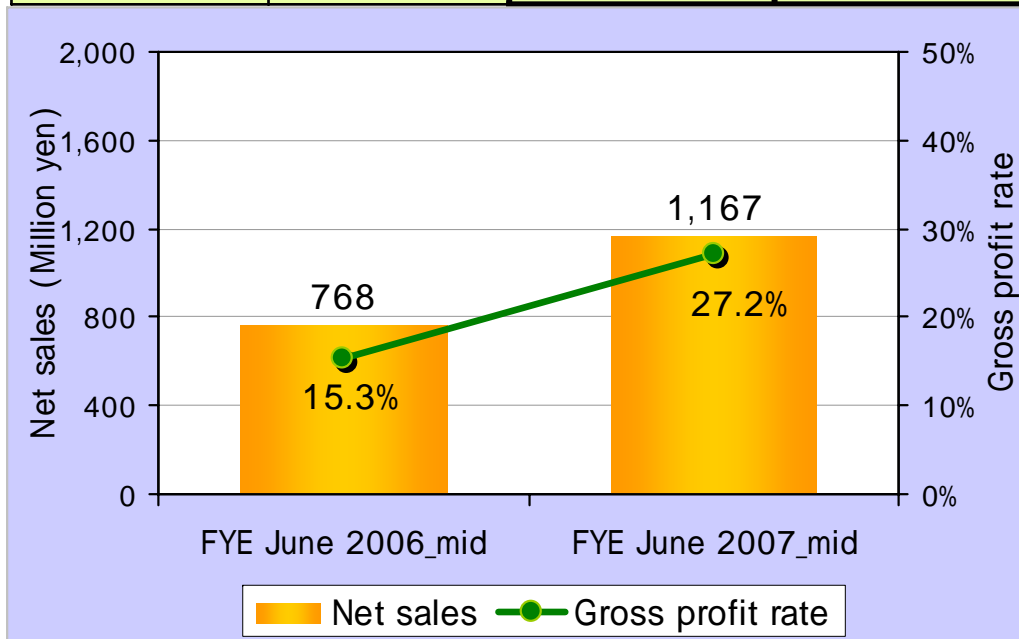
# Three Ways to Provide Services



# Segment Engineering Consulting

Million yen

	FYE June 2006_mid	FYE June 2007_mid	Rate of change
Net sales	768	1,167	51.9%
Cost of sales	650	849	30.6%
Gross profit (margin)	117 (15.3%)	317 (27.2%)	169.9%



- ❖ Disaster prevention, anti-earthquake, numerical analysis
- ❖ Architectural structure design
- ❖ Marketing / decision-making support consulting
- ❖ Production / logistics simulating solutions
- ❖ Requirement definition and basic study in software development

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Sales and Gross profit were largely ameliorated

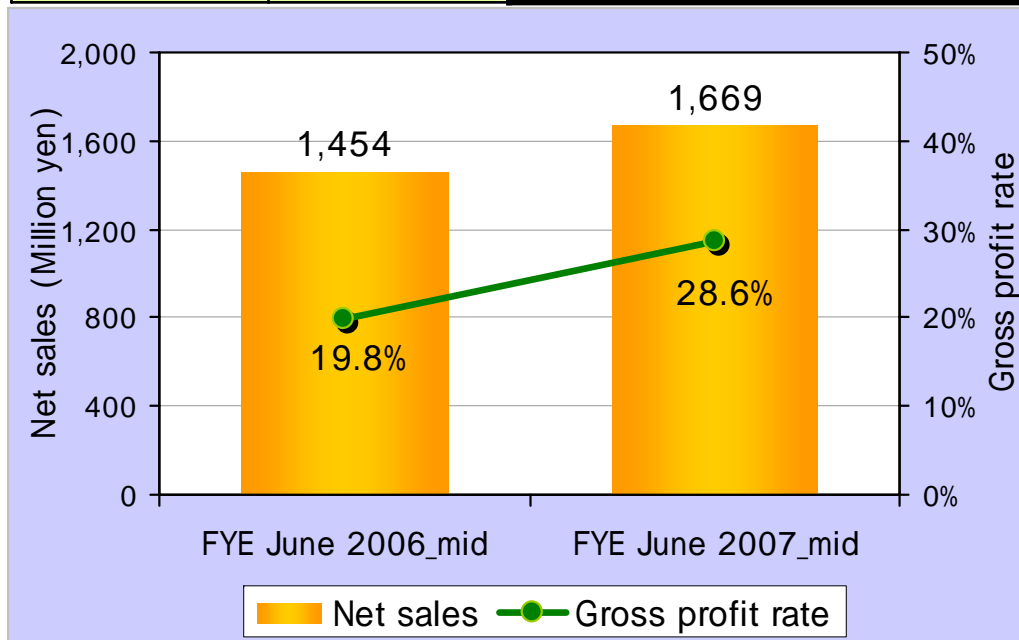
- Architectural structure design and numerical analysis consulting run in high gear.
- Effect by disposal of underperforming business such as architectural design.
- As we had a lot of short-term projects, increase of orders is directly linked to increase of sales
- Improvement of operation ratio due to increase of orders



# Segment System Solution

Million yen

	FYE June 2006_mid	FYE June 2007_mid	Rate of change
Net sales	1,454	1,669	14.8%
Cost of sales	1,166	1,191	2.1%
Gross profit (margin)	288 (19.8%)	477 (28.6%)	65.8%



- ❖ Mobile telecoms, mobile network communications system
- ❖ Sales/design support systems for manufacturing
- ❖ Multimedia solution
- ❖ Support systems for structural design

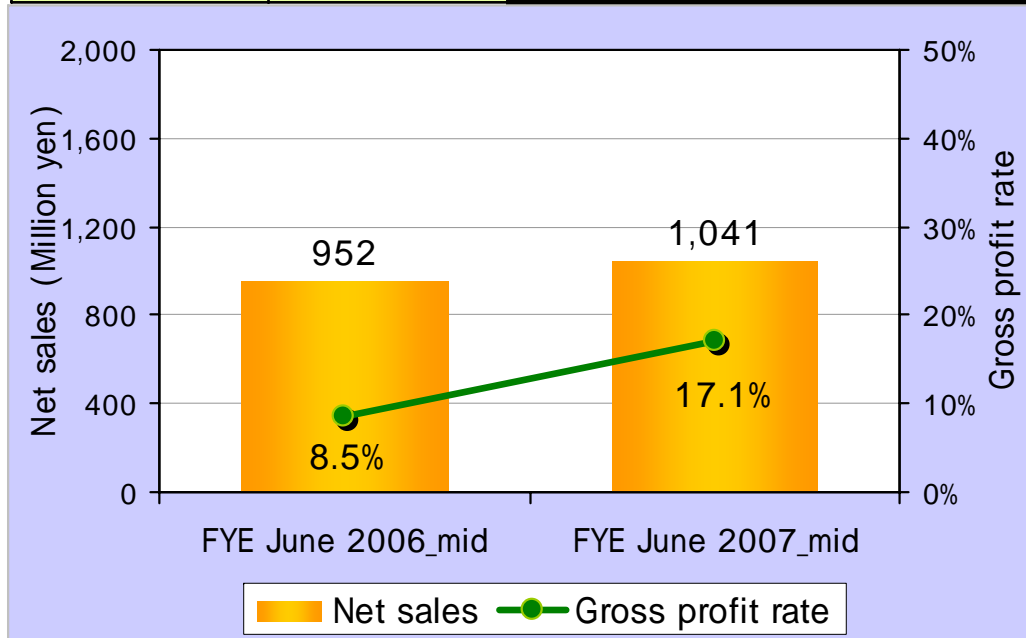
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Sales and Gross profit were largely ameliorated

- Projects in telecom sector are the growth engines.
- Diminution of projects leaving no margin
- Transition from less profitable projects to more profitable ones under the favorable order situation.

# Segment Products Service

Million yen

	FYE June 2006_mid	FYE June 2007_mid	Rate of change
Net sales	952	1,041	9.3%
Cost of sales	872	863	- 1.0%
Gross profit (margin)	80 (8.5%)	177 (17.1%)	120.7%



- ❖ CAE software for designers
- ❖ Structural analysis / anti-earthquake inspection software
- ❖ Marketing / decision-making support software
- ❖ Simulation software for telecom sector

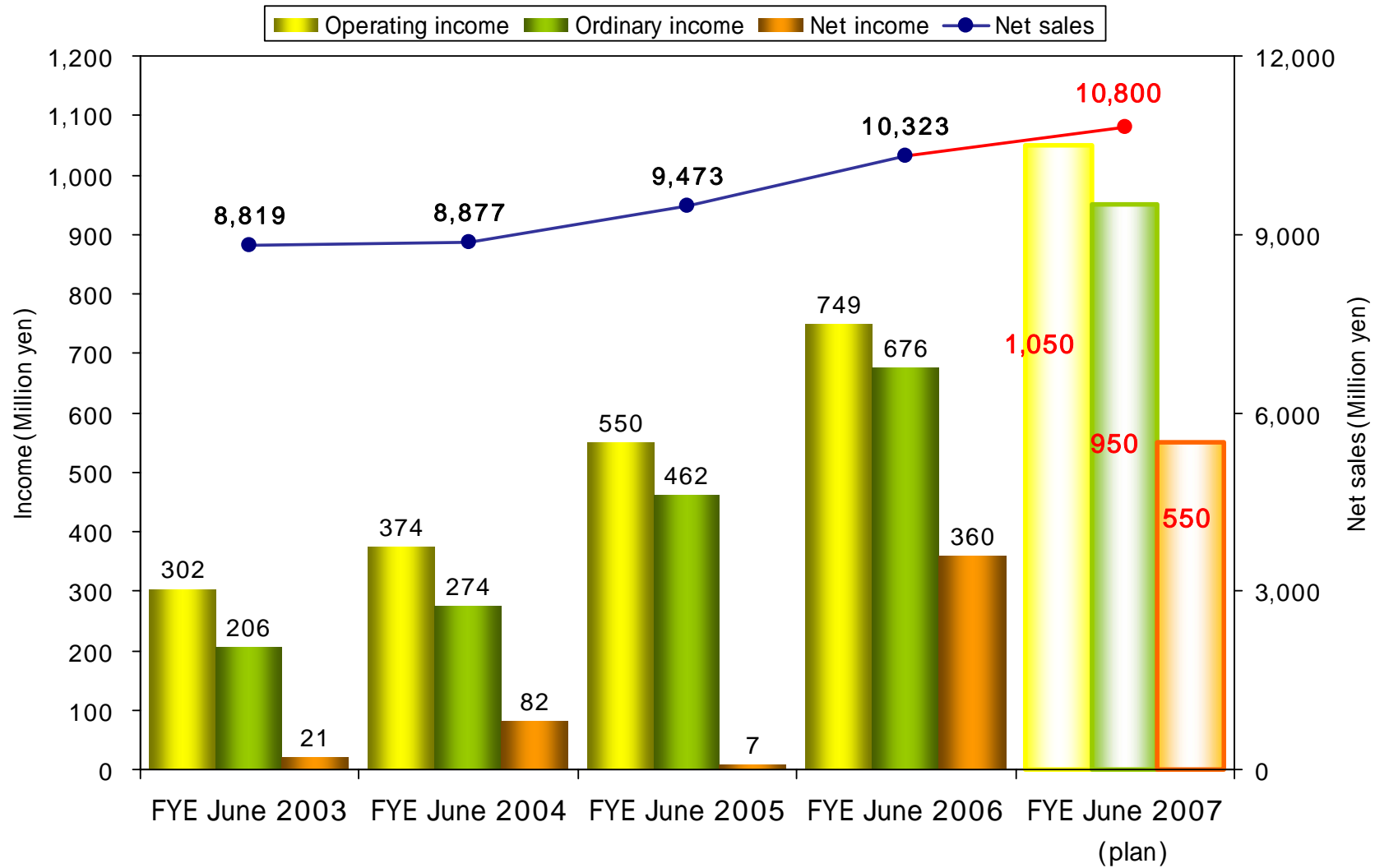
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Sales and Gross profit were largely ameliorated

- Sales of EFD. Lab of COSMOS series, support software for designer in manufacturing sector and are strong.
- Sales of QualNet, network simulator for research institution are favorable.
- Segment profit rate is ameliorated by withdrawal from architectural & civil engineering CAD software which was less profitable.

In the packaged software and Products service segment, cost of sales includes its sales / administrative expenses.

## 2.Results Forecast for FYE June 2007

# Full Term Performance Since 2003



## Factors of Continual Increase in Profit for 5 years

Full term operating profit was ameliorated from 300 million yen to 1 billion yen (plan for FYE June 2007) by five years

### Factors

- Differentiated position was established in structural design, anti-earthquake and earthquake resistant consulting.
- Client's esteem with high level technology and success of sales expansion to the same business company in the wireless communication sector.
- Sales of support software for manufacturing were good.
- Expansion of marketing / decision - making support business.

# Endeavor for Growth

- Internal institutional design  
(Objective management, result-based management, distributed autonomous organization, profit sharing for stakeholders.)
- Rethinking and awareness for achievement  
(Reforming management accounting, introducing departmentalism for profit margin, midterm business plan on a rolling basis)
- Strengthen sales forces  
(Establishing sales unit, reinforcing planning proposal ability, shifting competitive human resource to sales unit)
- Diminution of unprofitable projects by implementing ISO.
- Hiring excellent human resources, shadow work and change to thinking organization.

# Results Forecast for FYE June 2007

Sales Plan is 10.8 billion yen. 7 billion of sales is needed in the second half of the year to attain this.

Estimated risk factors:

- Change of the second-half sales rate in 6.3 billion yen of order outstanding.
- Change in the amount of received orders in the second half and recorded sales in the current term.
- Change in payroll because of the wage coupled with business performance.
- Effect of investment projects for future

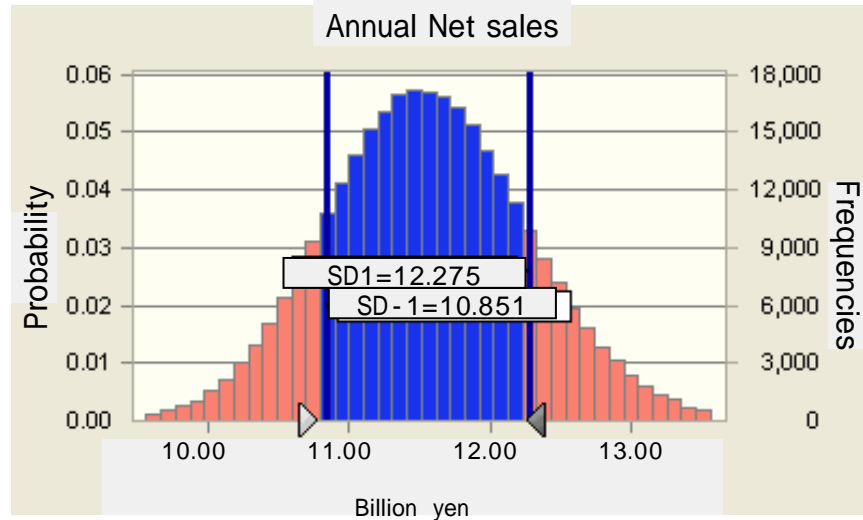
Because of these risks, conclusive forecast is difficult at this time.

Implementing risk analysis

(past three-year results are used in defining individual variable parameters)

# Net Sales Forecast

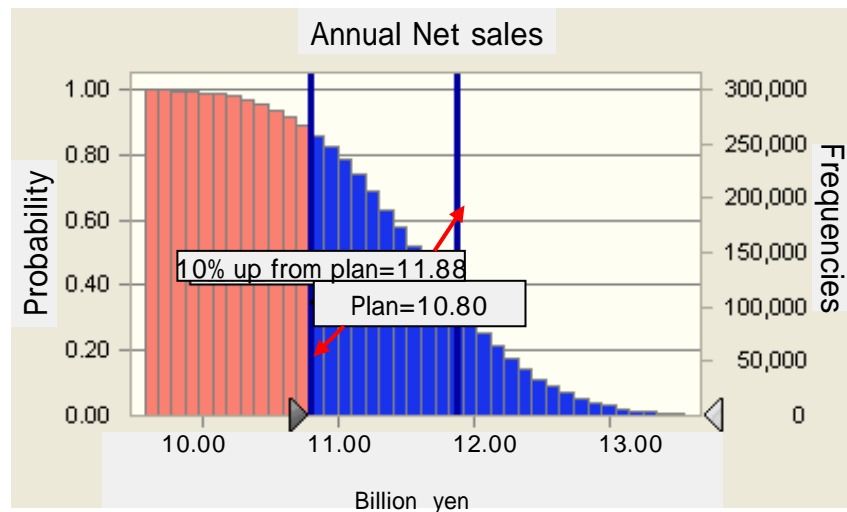
【Frequency distribution】



Trial frequency	300,000
Average	11.563
Median	11.546
Mode	---
Standard deviation	7.12
Variance	50.71
Skewness	0
Kurtosis	3.03
Coefficient of variance	0.06159
Lower limits	8.781
Higher limit	15.032
Average standard error	0.01

(billion yen)

【Reversal-Cumulative Frequency distribution】

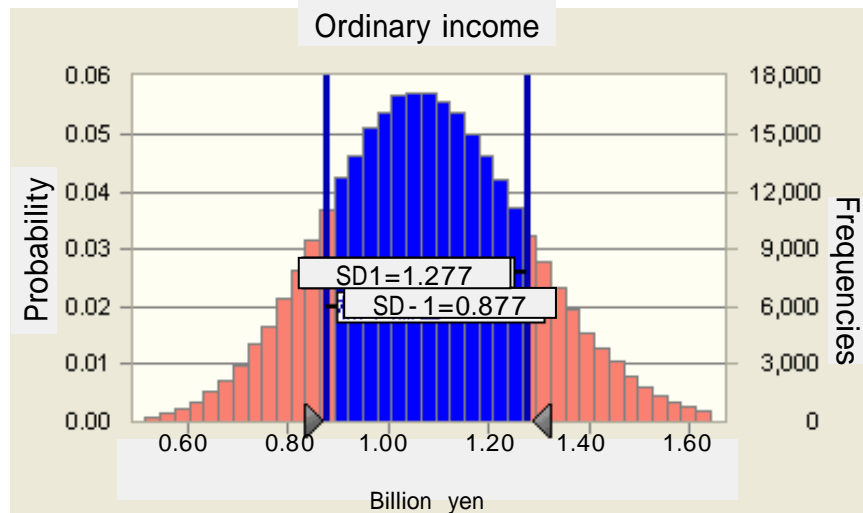


	plan	Forecast results	
		average	1 range
Net sales	10.80	11.56	10.85 ~ 12.28



# Ordinary Income Forecast

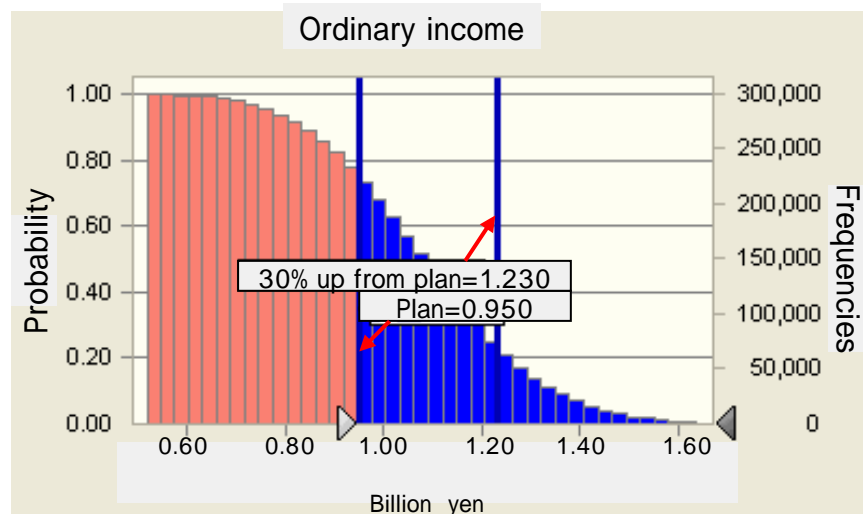
[Frequency distribution]



Trial frequency	300,000
Average	1.077
Median	1.072
Mode	---
Standard deviation	2
Variance	4.01
Skewness	0
Kurtosis	3.05
Coefficient of variance	0.18599
Lower limits	0.223
Higher limit	2.142
Average standard error	0

(billion yen)

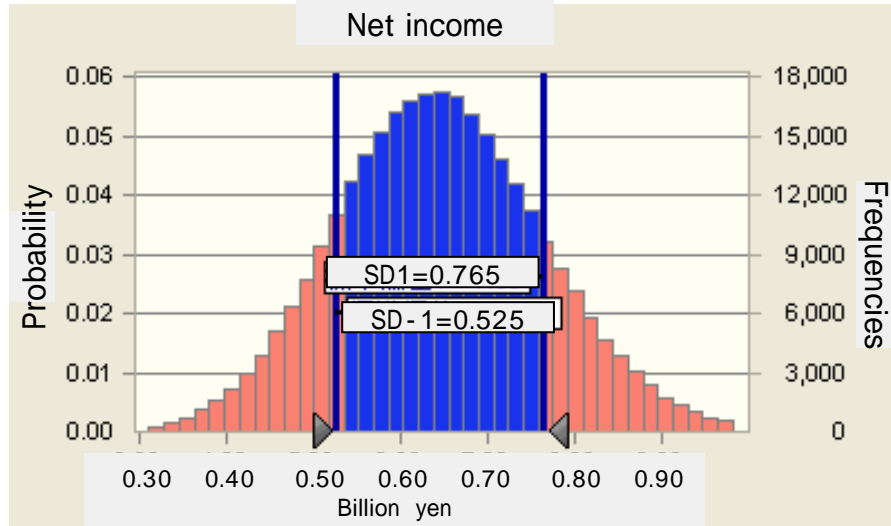
[Reversal-Cumulative Frequency distribution]



	plan	Forecast results	
		average	1 range
Ordinary income	0.95	1.08	0.88 ~ 1.28

# Net Income Forecast

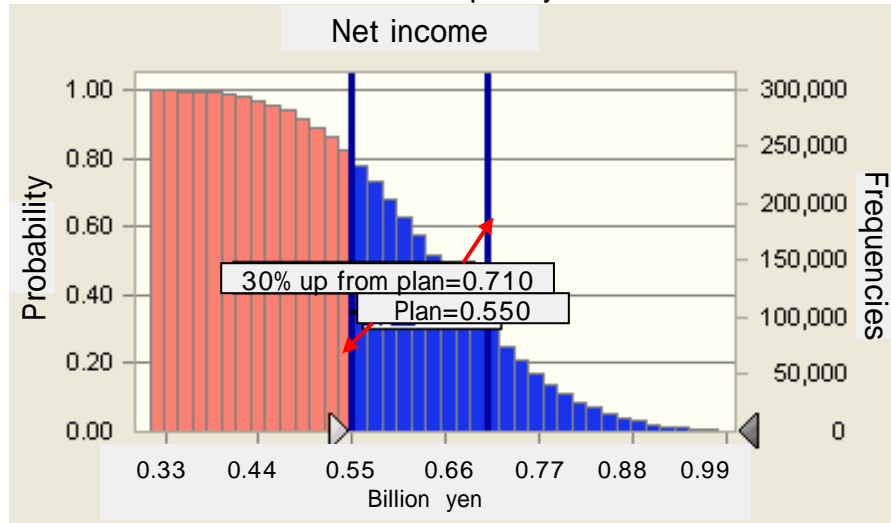
【Frequency distribution】



Trial frequency	300,000
Average	0.645
Median	0.642
Mode	- - -
Standard deviation	1.2
Variance	1.43
Skewness	0
Kurtosis	3.05
Coefficient of variance	0.18535
Lower limits	0.145
Higher limit	1.279
Average standard error	0

(billion yen)

【Reversal-Cumulative Frequency distribution】



	plan	Forecast results	
		average	1 range
Net income	0.55	0.65	0.53 ~ 0.77

## Challenges for the Future and its Directions

- Fostering investment mind for further growth
- Reconstitution of company's culture
- Prevention of bureaucracy (anti - precedent)
- Measurement and shadow work go together
- Hiring more producer - type personnel
- Make the stage for employees who joined us in this five years