

August 16, 2013

FYE June 2013

# Financial Results

<b>1. Overview of Financial Results</b>	<b>3</b>
<b>2. Results by Segment</b>	<b>16</b>
<b>3. Forecast for Fiscal Year Ending June 30, 2014</b>	<b>23</b>
<b>4. Management Policies for the Medium and Long Terms</b>	<b>31</b>
<b>5. Business Topics</b>	<b>49</b>

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 are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. The Company makes no warranty as to the achievability of forward-looking statements.
- 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



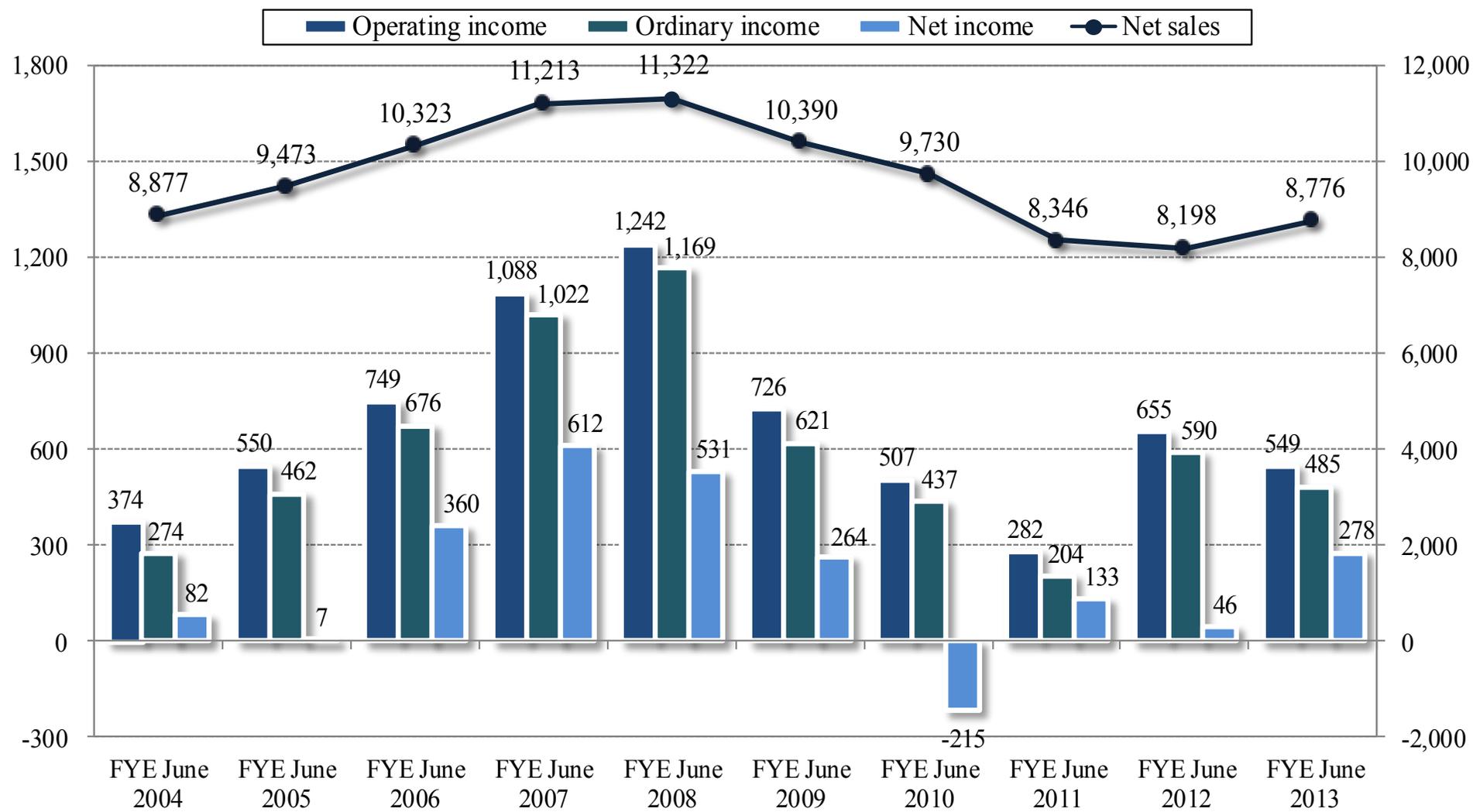
# Financial Highlights

(Million yen)

	FYE June 2012	FYE June 2013		Change from plan (rate of change)	Change from previous FY (rate of change)
		Target*	Results		
Net sales	8,198	9,000	8,776	-223 (-2.5%)	578 (7.1%)
Operating income	655	750	549	-200 (-26.7%)	-106 (-16.2%)
Ordinary income	590	670	485	-184 (-27.5%)	-104 (-17.7%)
Net income	46	360	278	-81 (-22.6%)	232 (503.7%)
Dividends	14 yen per share	20 yen per share	20 yen per share		

\* The targets are results forecasts announced on August 13, 2012.

# Trends in Results



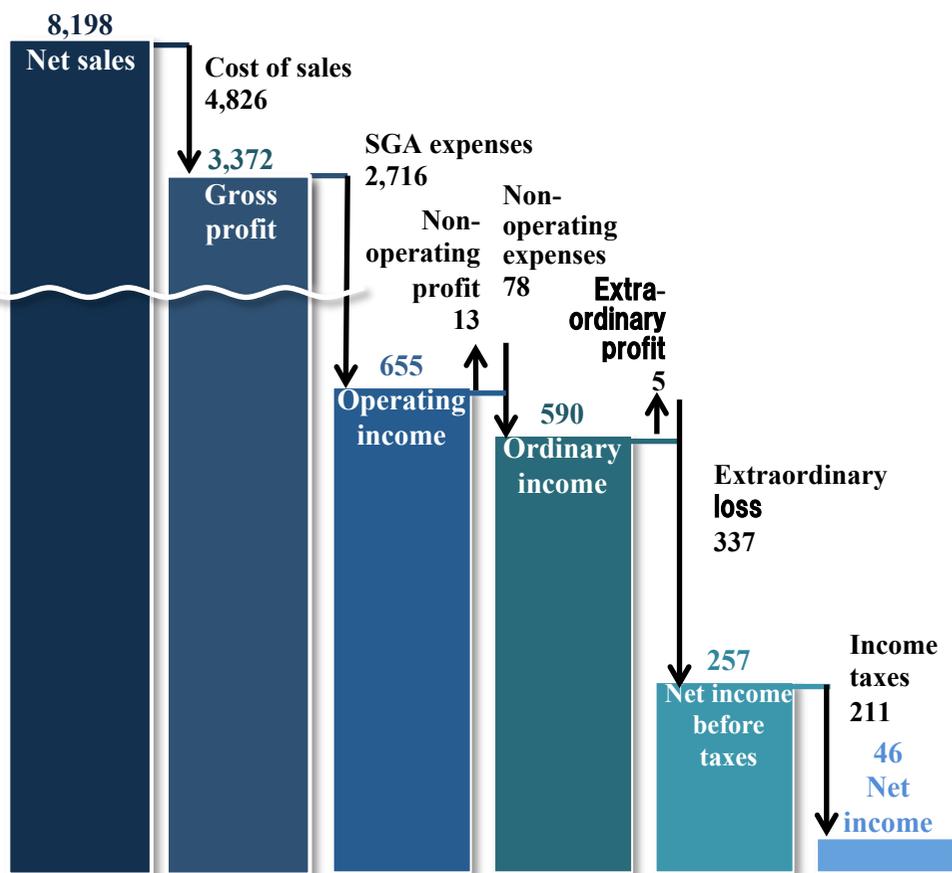
# Income Statement Highlights

(Million yen)

	FYE June 2012	FYE June 2013	Change from previous FY
<b>Net sales</b>	8,198	8,776	578
Cost of sales	4,826	4,787	-39
<b>Gross profit (Gross profit rate)</b>	3,372 (41.1%)	3,989 (45.5%)	617
SGA expenses	2,716	3,440	723
<b>Operating income (Operating income rate)</b>	655 (8.0%)	549 (6.3%)	-106
Non-operating profit & loss	-65	-63	1
<b>Ordinary income (Ordinary income rate)</b>	590 (7.2%)	485 (5.5%)	-104
Extraordinary profit & loss	-332	0	332
<b>Net income before taxes</b>	257	485	227
Income taxes	211	206	-4
<b>Net income (Net income rate)</b>	46 (0.6%)	278 (3.2%)	232

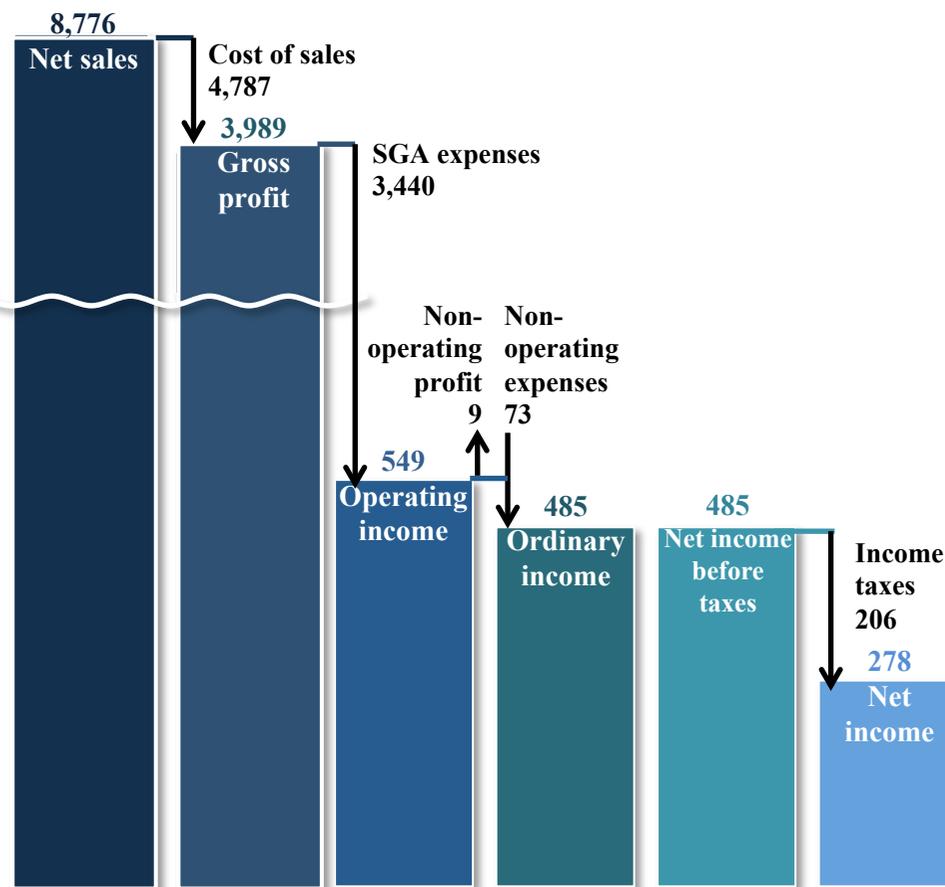
# Change in Profit and Loss

**FYE June 2012**



**FYE June 2013**

(Million yen)



- Net sales and net income rose from a year ago.

# Highlights of Balance Sheet

(Million yen)

	FYE June 2012	FYE June 2013	Year-on- year change
<b>Current assets</b>	2,594	2,771	177
Cash and deposits	551	380	-170
Accounts receivable	1,034	1,227	193
Goods in process	373	431	57
<b>Fixed assets</b>	6,802	7,035	233
Investments and other assets	768	1,053	285
<b>Total assets</b>	9,396	9,807	411

	FYE June 2012	FYE June 2013	Year-on- year change
<b>Total liabilities</b>	5,615	6,127	511
<b>Current liabilities</b>	3,515	4,127	611
Short-term borrowings*	2,425	1,900	-525
<b>Long-term liabilities</b>	2,100	1,999	-100
Long-term borrowings	785	609	-175
<b>Total net assets</b>	3,780	3,680	-100
<b>Total liabilities and net assets</b>	9,396	9,807	411

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

# Financial Position

## B/S in fiscal year ended in June 2012

Total assets: 9,396

<b>Current assets</b> 2,594	<b>Current liabilities</b> 3,515
Cash and deposits 551	Short-term borrowings 1,380
Accounts receivable 1,034	Long-term borrowings due within one year 1,045
Goods in process 373	Advances received 364
	Accrued expenses 98
<b>Fixed assets</b> 6,802	<b>Long-term liabilities</b> 2,100
Investment securities 96	Long-term borrowings 785
	<b>Net assets</b> 3,780
	Retained earnings 1,972
	Treasury stock -243

## B/S in fiscal year ended in June 2013

Total assets: 9,807

<b>Current assets</b> 2,771	<b>Current liabilities</b> 4,127
Cash and deposits 380	Short-term borrowings 1,290
Accounts receivable 1,227	Long-term borrowings due within one year 610
Goods in process 431	Advances received 761
	Accrued expenses 430
<b>Fixed assets</b> 7,035	<b>Long-term liabilities</b> 1,999
Investment securities 304	Long-term borrowings 609
	<b>Net assets</b> 3,680
	Retained earnings 2,165
	Treasury stock -542

Interest-Bearing Debt  
3,268

Interest-Bearing Debt  
2,548

(Million yen)

## // Change in assets (411)

### ● Increase in current assets (177)

Decrease in cash and deposits	(-170)
Increase in accounts receivable	(193)
Increase in goods in process	(57)

### ● Increase in fixed assets (233)

Increase in investment securities	(208)
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## // Change in liabilities (511)

### ● Increase in current liabilities (611)

Decrease in short-term borrowings	(-90)
Increase in advances received	(397)
Increase in accrued expenses	(332)

### ● Decrease in long-term liabilities (-100)

Decrease in long-term borrowings	(-175)
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## // Change in net assets (-100)

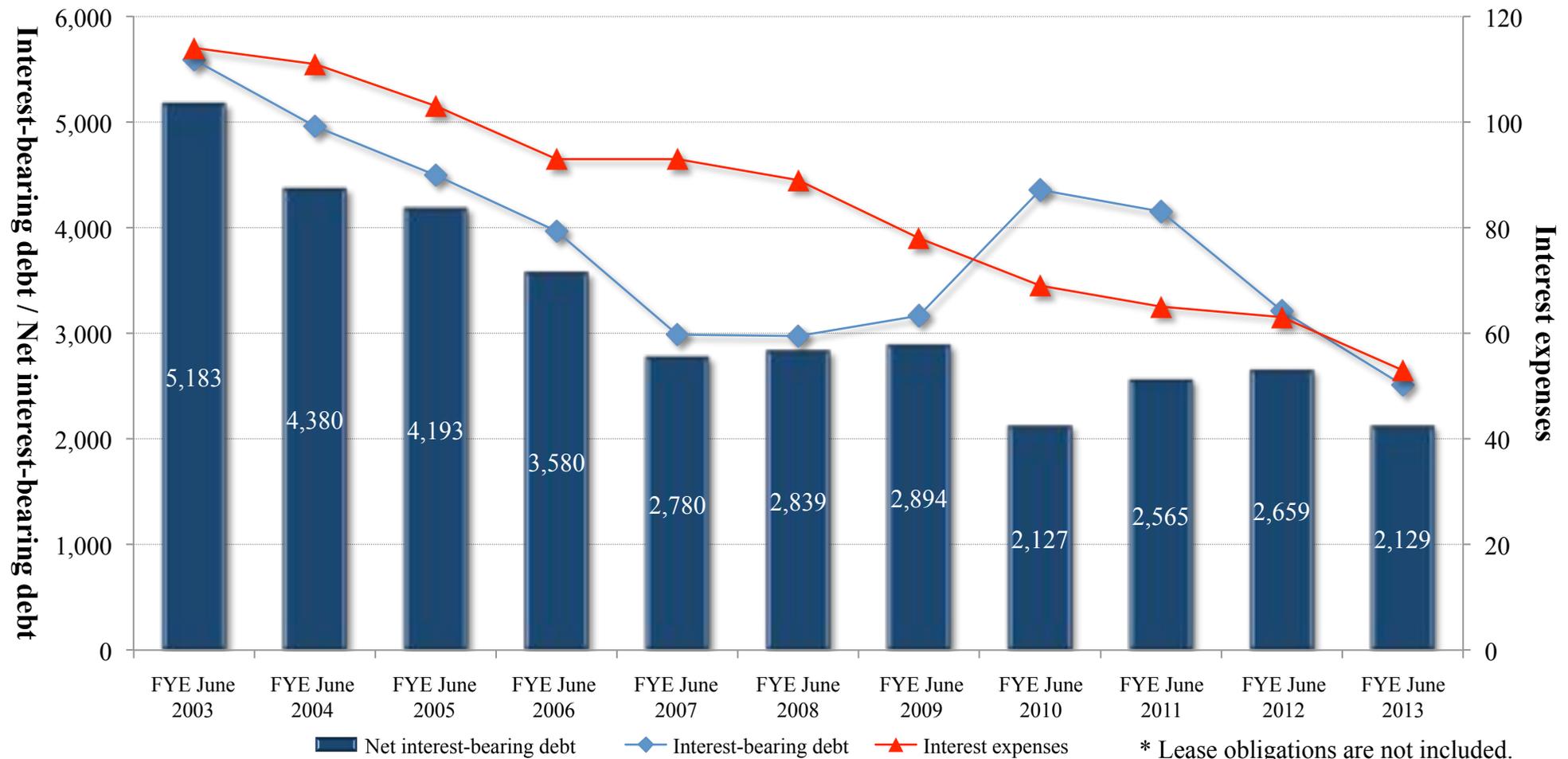
Increase in retained earnings	(193)
Increase in treasury stock	(-298)

Interest-bearing debt was reduced significantly, reflecting a reduction in borrowings.

# Changes in Net Interest-Bearing Debt and Interest Expenses

## Changes in Net Interest-Bearing Debt and Interest Expenses

(Million yen)



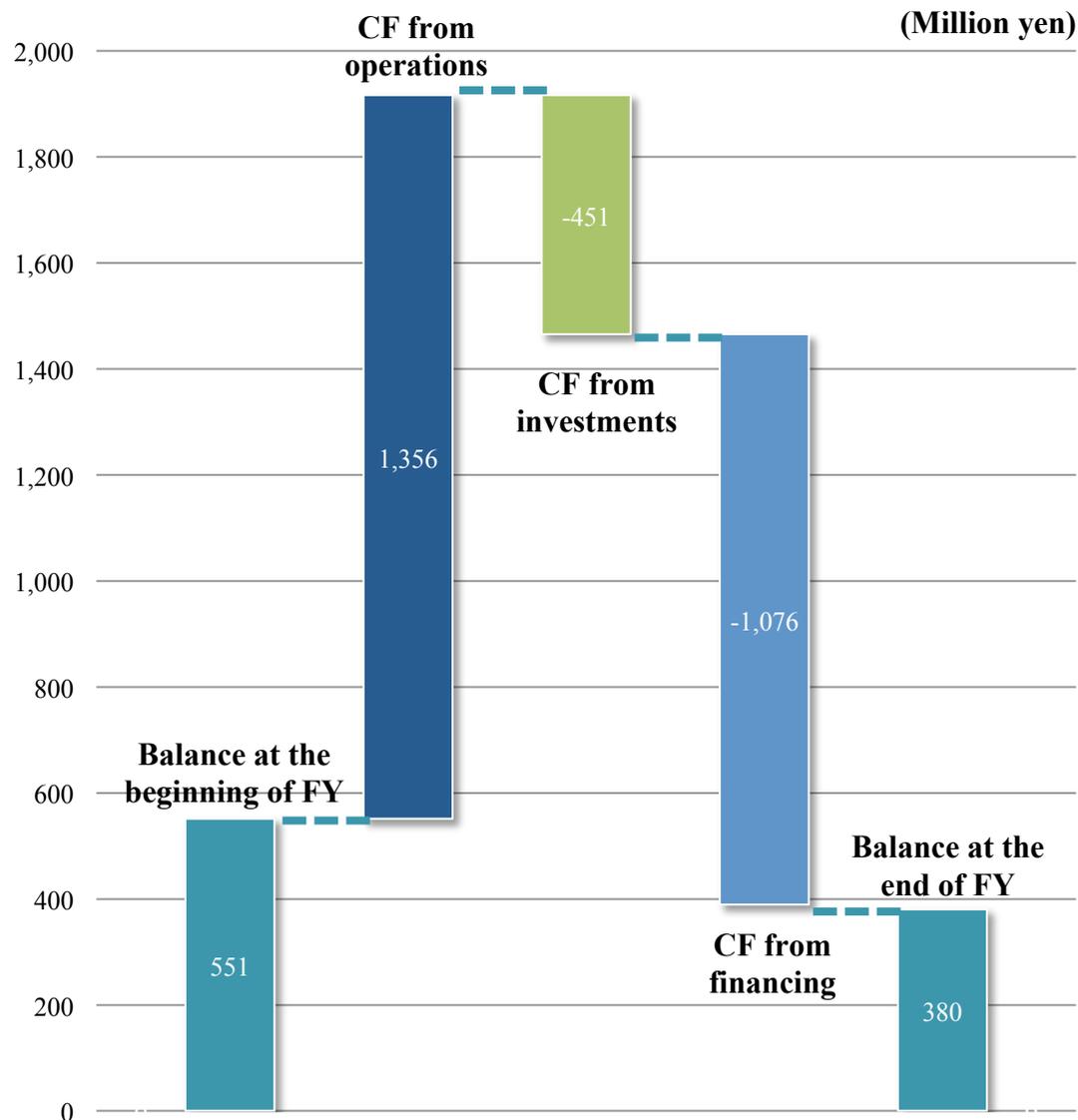
# Cash Flow Statement Highlights

(Million yen)

	FYE June 2012	FYE June 2013
Balance at the beginning of FY	1,584	551
CF from operations	162	1,356
CF from investments	-161	-451
Free CF	0	905
CF from financing	-1,033	-1,076
Balance at the end of FY	551	380

# Cash Flow Breakdowns

## C/F in fiscal year ended in June 2013



(Million yen)

### CF from operations (1,356)

● Net income before taxes	485
● Depreciation and amortization	243
● Decrease in accounts receivable	200
● Increase in inventories (-)	-56

### CF from investments (-451)

● Purchase of stocks of subsidiaries and affiliates	-200
● Purchase of intangible fixed assets	-140

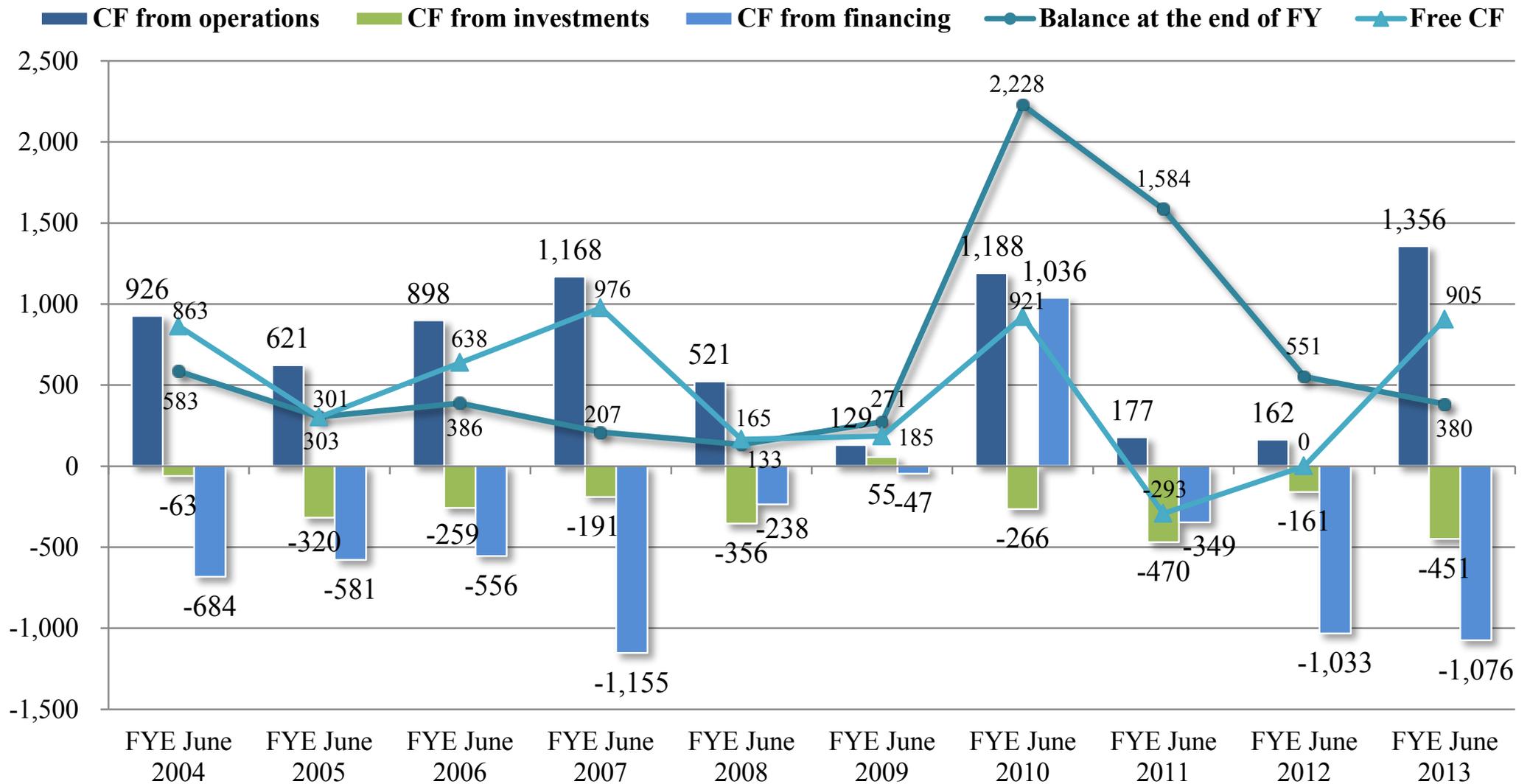
### CF from financing (-1,076)

● Net decrease in short-term borrowings	-90
● Net decrease in long-term borrowings	-610

Free cash flows: 905 million yen (0 million yen a year ago)  
Interest coverage ratio: 26.4 (2.7 a year ago)

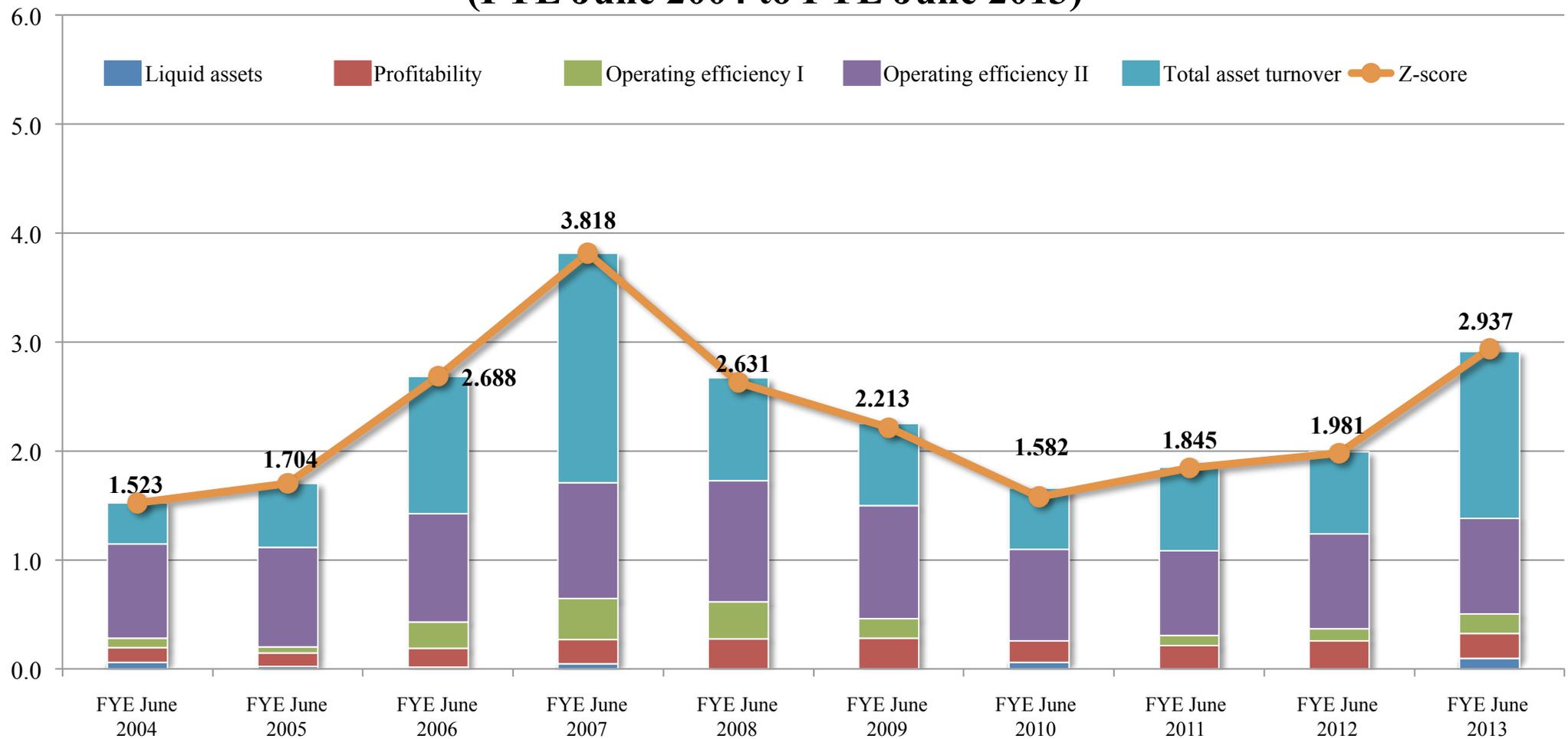
# Cash Flows for the Past Ten Years

(Million yen)

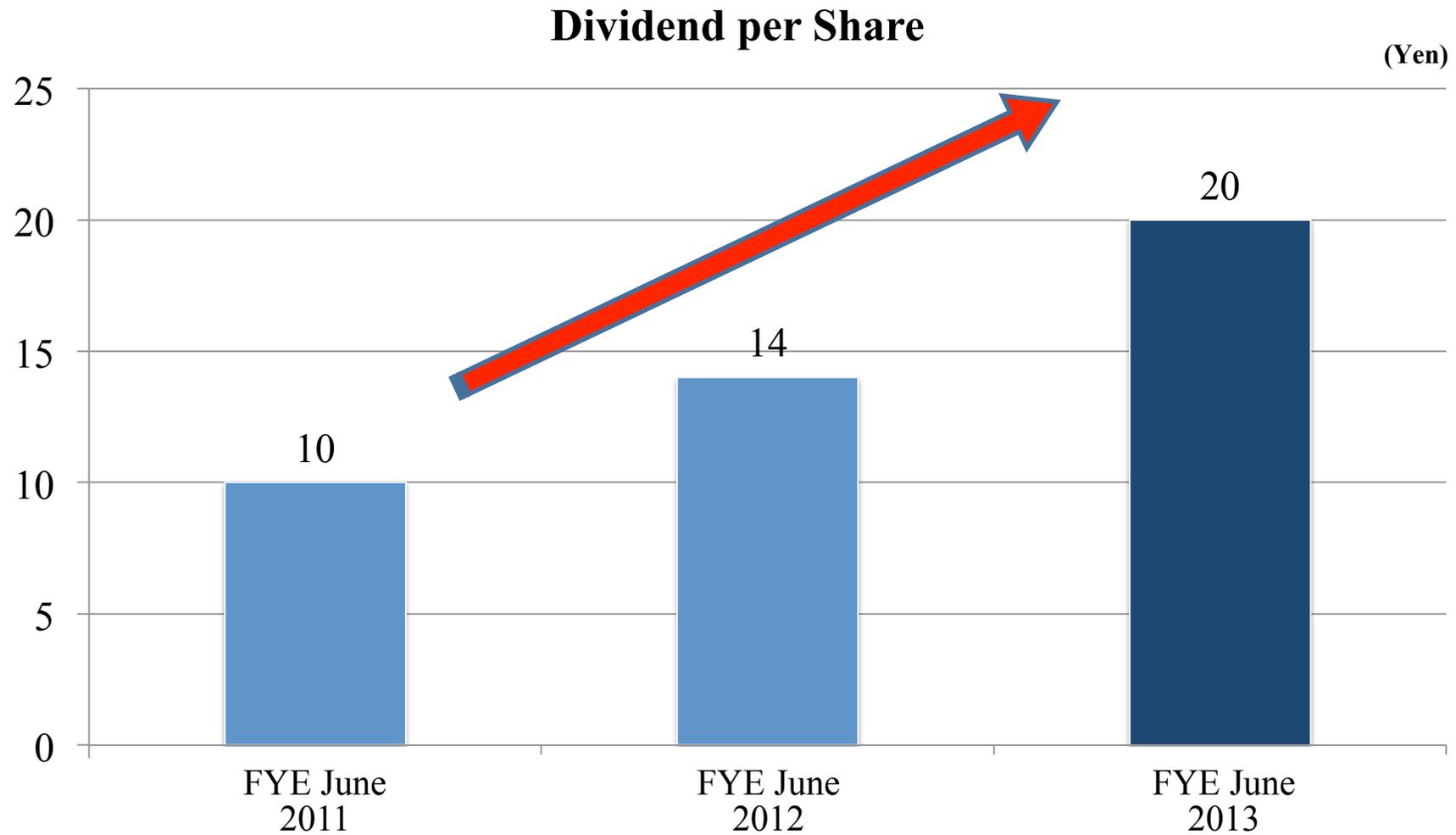


# Trends in Z-Score (Fiscal Year Ended June 2004 to Fiscal Year Ended June 2013)

## Trends in Z-Score (FYE June 2004 to FYE June 2013)



# Trends in a Dividend per Share (Fiscal Year Ended June 2011 to Fiscal Year Ended June 2013)



\* 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.

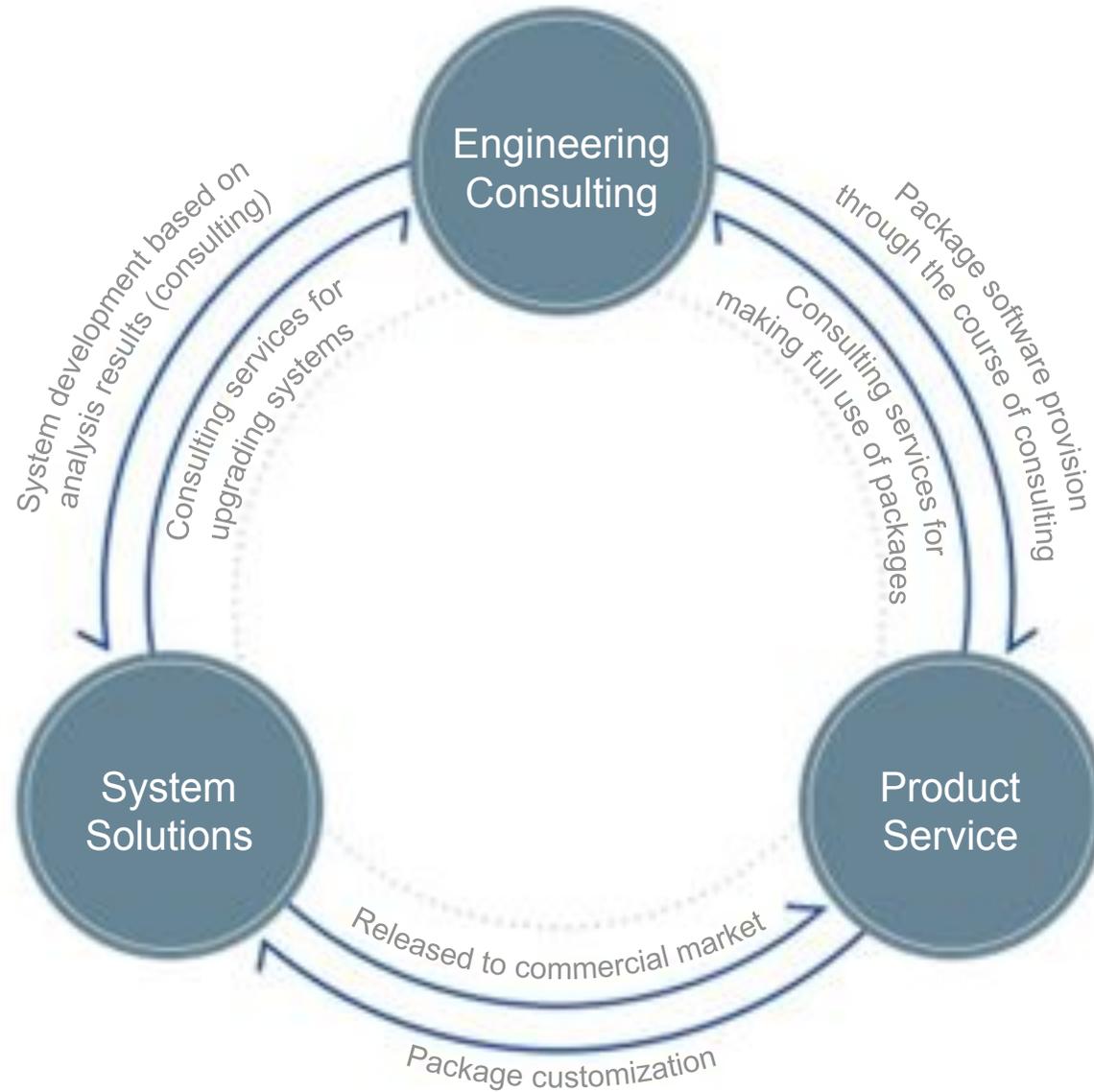


# 2

## Results by Segment



# Synergy Produced by Three Business Segments

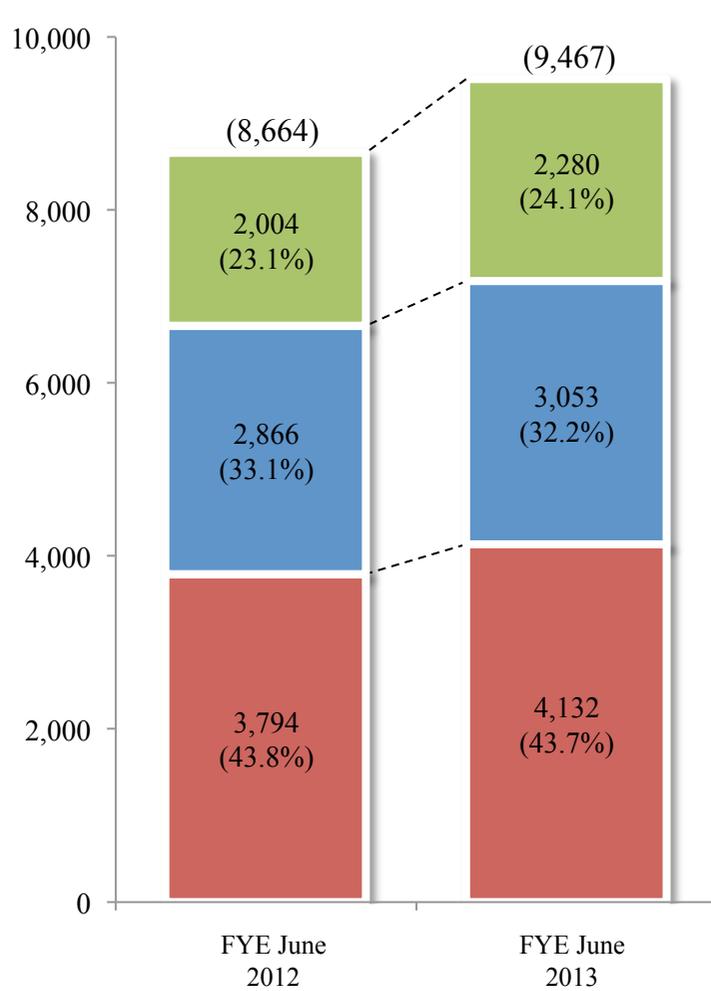


# Overview of Results by Business Segment

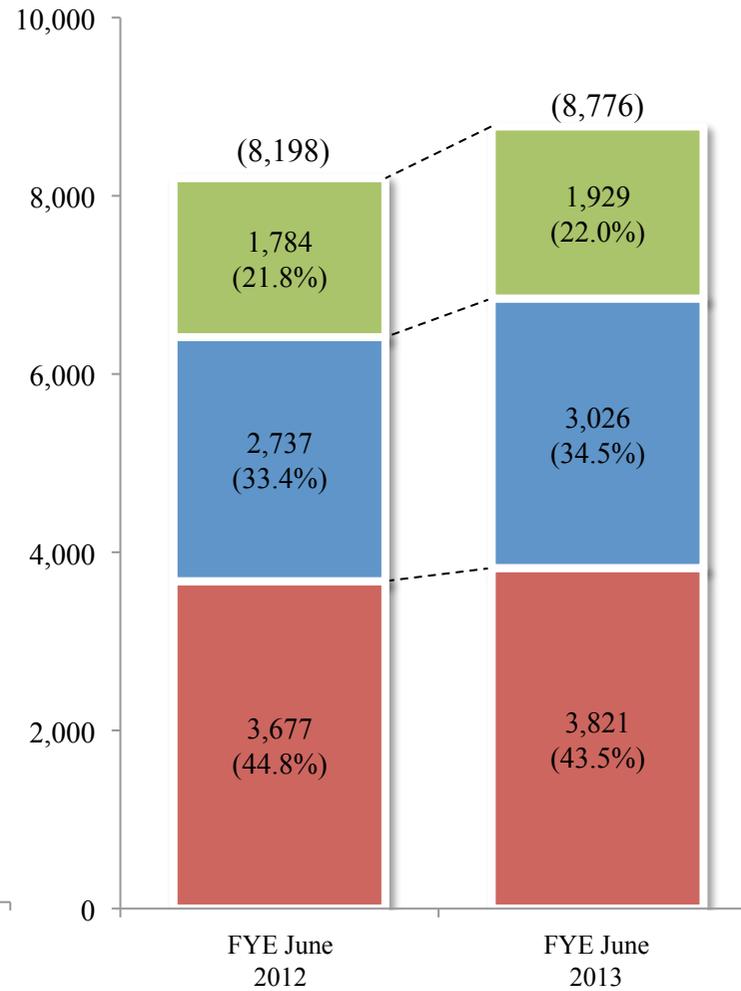
(Million yen)

Segment	Business descriptions	Net sales and breakdown	
		FYE June 2012	FYE June 2013
<b>Engineering Consulting</b>	<ul style="list-style-type: none"> <li>□ Consultation on disaster prevention, earthquake resistance, and environment assessment analysis</li> <li>□ Structural design of buildings</li> <li>□ Requirement definitions and basic reviews for software development</li> <li>□ Simulation for manufacturing and logistics business</li> <li>□ Marketing consulting and risk analysis</li> <li>□ Multi-agent simulation</li> </ul>	3,677 (44.8%)	3,821 (43.5%)
<b>System Solutions</b>	<ul style="list-style-type: none"> <li>□ Supporting system on structural design</li> <li>□ Mobile communication, mobile network communication systems</li> <li>□ Bus service solution systems</li> <li>□ Sales and design support systems for the manufacturing industry</li> <li>□ Optimization, logistics systems</li> </ul>	2,737 (33.4%)	3,026 (34.5%)
<b>Product Service</b>	<ul style="list-style-type: none"> <li>□ Construction structural analysis and earthquake resistance study software</li> <li>□ Network simulation software</li> <li>□ Radio wave propagation and electromagnetic wave analysis software</li> <li>□ CAE software for designers in the manufacturing industry</li> <li>□ Software for supporting marketing and decision-making</li> <li>□ Statistical analysis software and vision research software</li> <li>□ Consulting</li> <li>□ Education and training</li> </ul>	1,784 (21.8%)	1,929 (22.0%)
<b>Total</b>		8,198 (100.0%)	8,776 (100.0%)

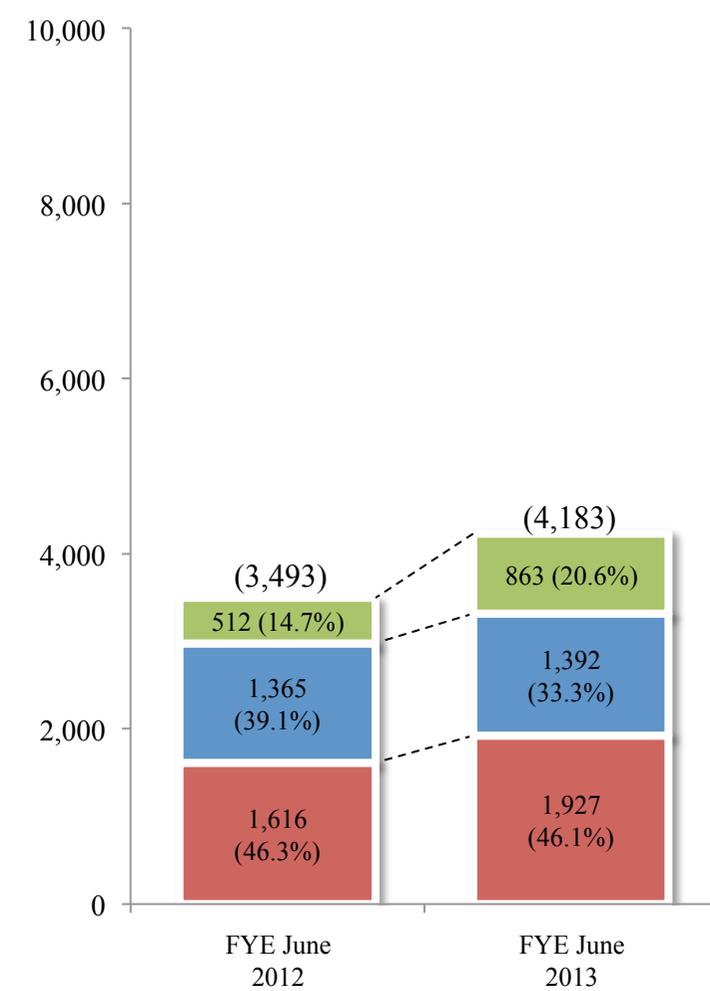
# Orders, Net Sales, and Backlog of Orders by Segment



**Orders (Million yen)**



**Net sales (Million yen)**



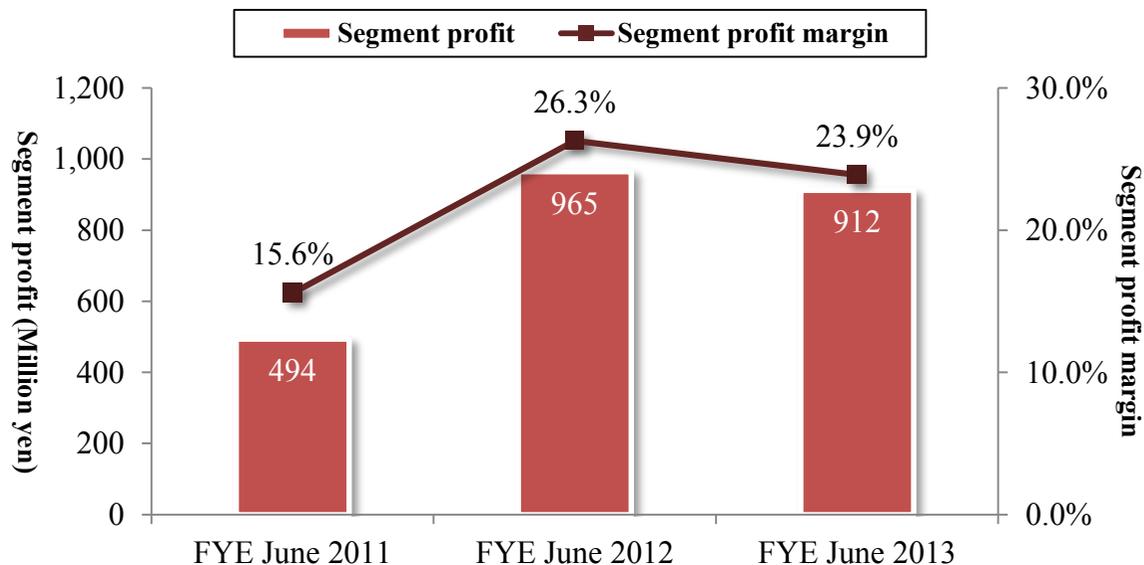
**Backlog of orders (Million yen)**

# Segment (1) Engineering Consulting

(Million yen)

	FYE June 2011	FYE June 2012	FYE June 2013	Year on year
Orders	3,516	3,794	4,132	8.9%
Net sales	3,159	3,677	3,821	3.9%
Segment profit (margin)	494 (15.6%)	965 (26.3%)	912 (23.9%)	-5.5%
Backlog of orders	1,499	1,616	1,927	19.2%

- ◆ 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

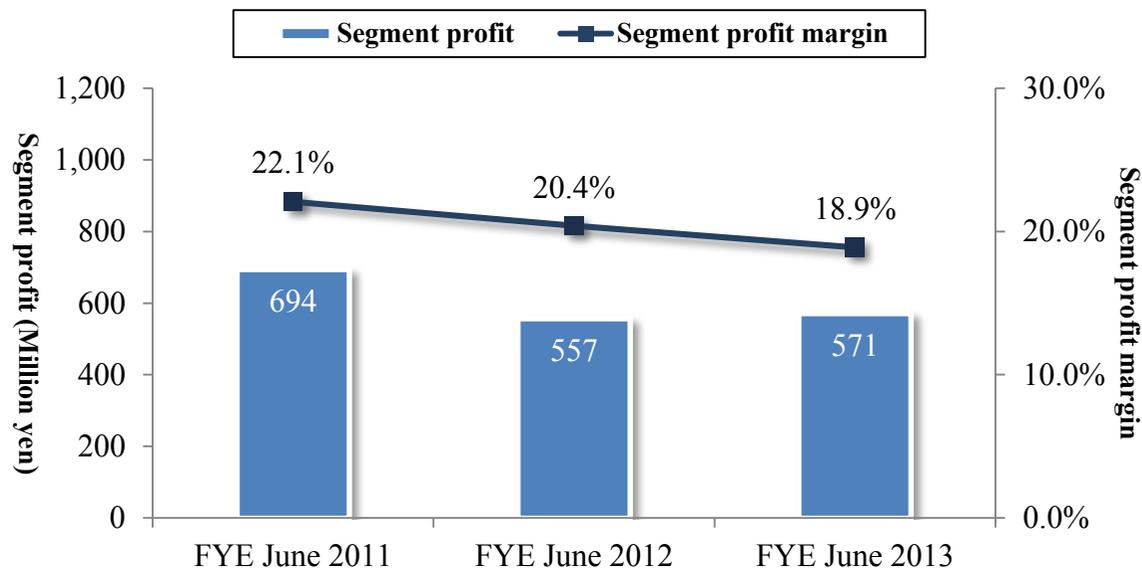
- Consultation on disaster prevention and earthquake resistance analysis performed well.
- Large structure design projects increased.

# Segment (2) System Solutions

(Million yen)

	FYE June 2011	FYE June 2012	FYE June 2013	Year on year
Orders	3,156	2,866	3,053	6.5%
Net sales	3,147	2,737	3,026	10.6%
Segment profit (margin)	694 (22.1%)	557 (20.4%)	571 (18.9%)	2.5%
Backlog of orders	1,235	1,365	1,392	2.0%

- ◆ Supporting system on structural design
- ◆ Mobile communication, mobile network communication systems
- ◆ Bus service solution systems
- ◆ Multimedia solution systems
- ◆ Sales and design support systems for the manufacturing industry
- ◆ Optimization, logistics systems



## Analysis of results

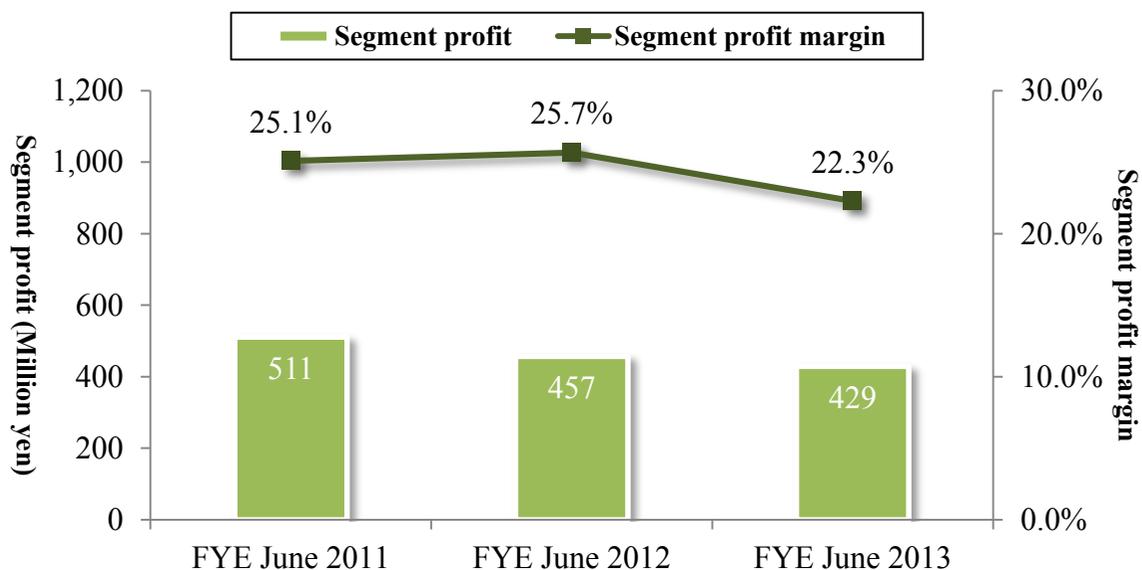
- System development for a major housing construction company performed well.
- System development for a household equipment manufacturer and a major telecommunications carrier did well.

# Segment (3) Product Service

(Million yen)

	FYE June 2011	FYE June 2012	FYE June 2013	Year on year
Orders	2,043	2,004	2,280	13.8%
Net sales	2,039	1,784	1,929	8.1%
Segment profit (margin)	511 (25.1%)	457 (25.7%)	429 (22.3%)	-6.1%
Backlog of orders	292	512	863	68.6%

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



## Analysis of results

- Sales of integrated fluid analysis software using the particle method, risk analysis and decision support software, and a construction structural analysis program were solid.
- In addition to products, consulting, education, and training contributed to sales.

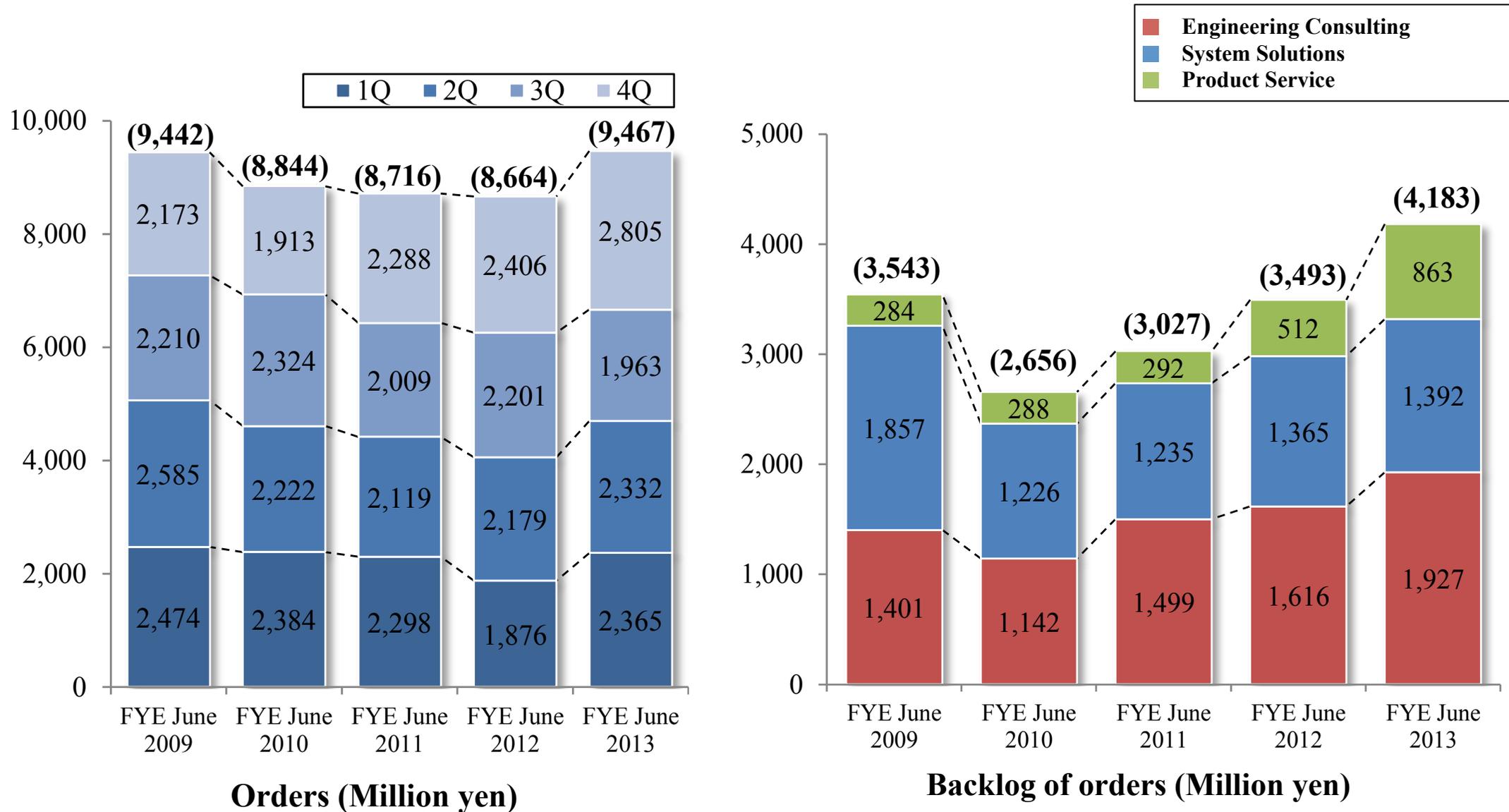


3

Forecast for Fiscal Year Ending June 30, 2014



# Orders and Backlogs of Orders at Fiscal Year Ends



# Outlook for Fiscal Year Ending June 2014

- **Economic environment** → There are signs of recovery, but optimism is not allowed.
- **Industries that KKE deals with** → The outlook remains uncertain.



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 our 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

# Key Initiatives (1) Thorough Quality Control

- **A Quality Assurance Center to build an organized quality control system**
- **Maintaining and bolstering the internal administrative system**
- **Supporting staff members to enhance their skills**

## Setting up a Quality Assurance Center

- Ensuring the quality of final deliverables and enhancing the quality in all businesses
- Enhancing quality control in each stage of the process from the sales proposal to the final stage

## Maintaining and bolstering the internal administrative system

- Handling confidential information properly
- Providing education for the employees to raise their awareness of compliance

## Supporting staff members to enhance their skills

- Supporting education for ensuring good quality in projects
- Supporting education for enhancing added value in projects

# Key Initiatives (2) Expansion of Engineering Consulting

## Structures

Examining quake resistance, vibration control, and seismic isolation of structures



Structural analysis for wind farm



## Nature and Environment

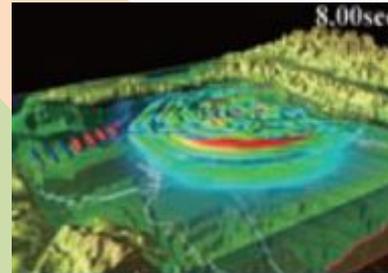
### Nature and environment

- Earthquake motion analysis
- Flooding and tsunami analysis
- Liquefaction analysis
- Landslide disasters impact analysis

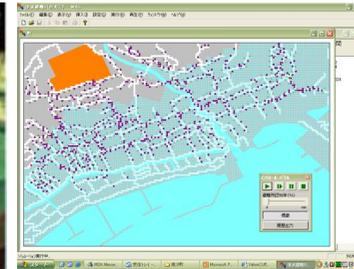
### Structures

- Examination of quake resistance, vibration control, and seismic isolation of structures
- 3D seismic isolation system
- Earthquake resistant evaluation for bridge
- Seismic analysis for dams
- Structural analysis for wind farm

### Earthquake motion analysis



### Tsunami analysis



### Liquefaction analysis



### Society, businesses, and communities

- Disaster evacuation simulation
- Decision making support
- Pedestrian traffic measurement and behavior analysis
- Data analysis
- Environmental measurement and energy monitoring systems
- Infrastructure preventive maintenance

## Society, Businesses, and Communities

### Tsunami evacuation simulation



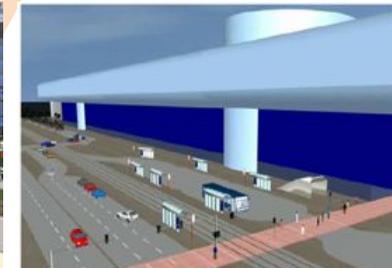
### Energy monitoring and measurement



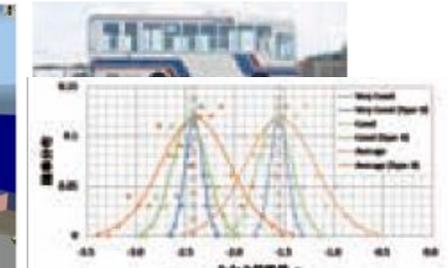
### Smart city



### Smart mobility



### Infrastructure preventive maintenance



# Key Initiatives (3) Expansion of Management Resources

## Promoting alliances

- Promoting alliances on an equal footing with universities, research institutions, and a variety of companies, including overseas companies with unique technologies, making the most of the advantages of an independent organization

## Hiring human resources

- Hiring excellent human resources that can work in global businesses

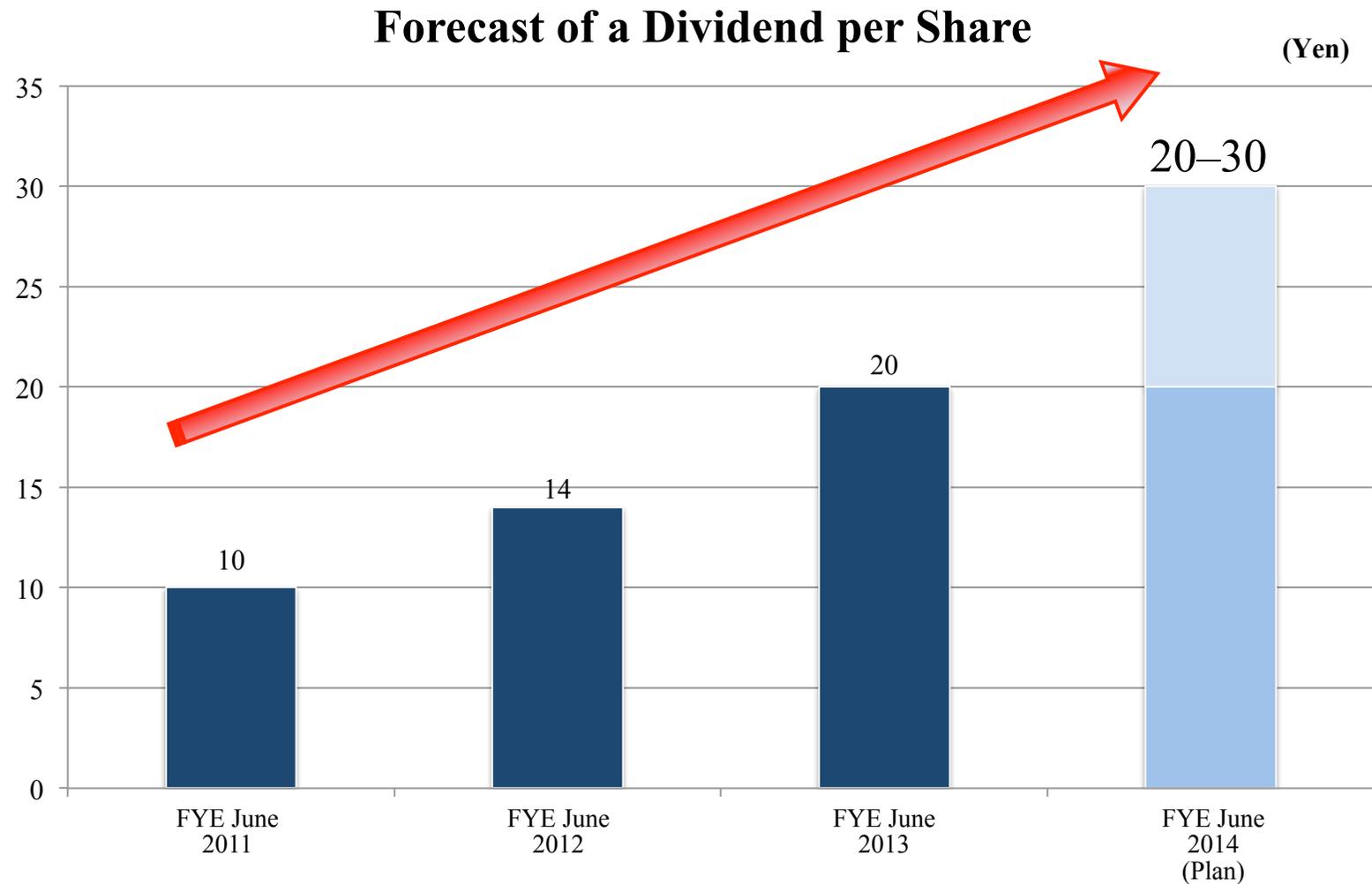
## Cultivating human resources

- Cultivating a variety of professionals, including engineers, managers, and marketers, who can respond to changes in the economic environment appropriately and in a timely manner

# 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)



\* 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

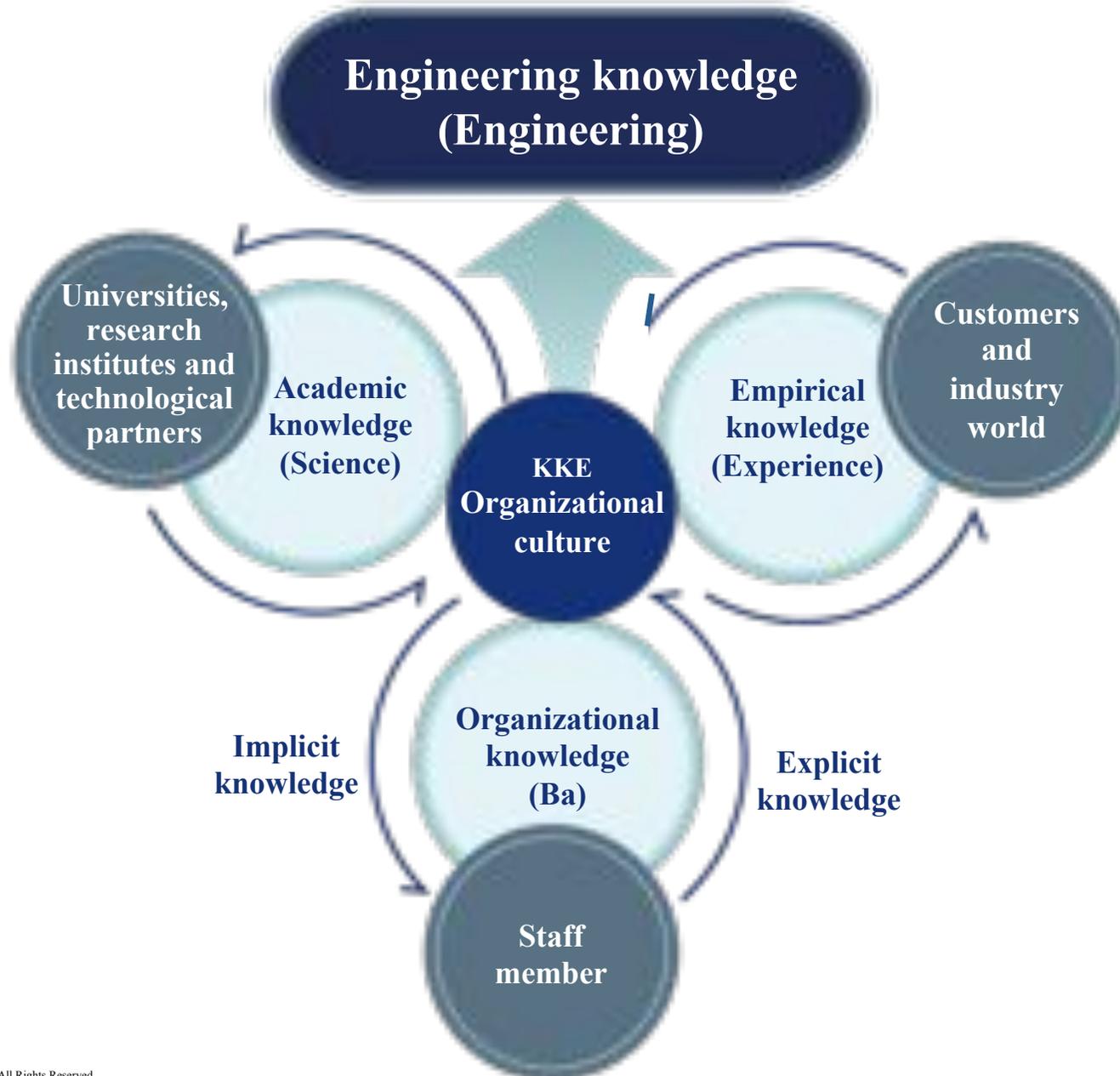
## Management Policies for the Medium and Long Terms



## 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 (A circle of knowledge)



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

- 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.

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Act promptly as members of the organization.

# Five I's to Enhance Added Value

## 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

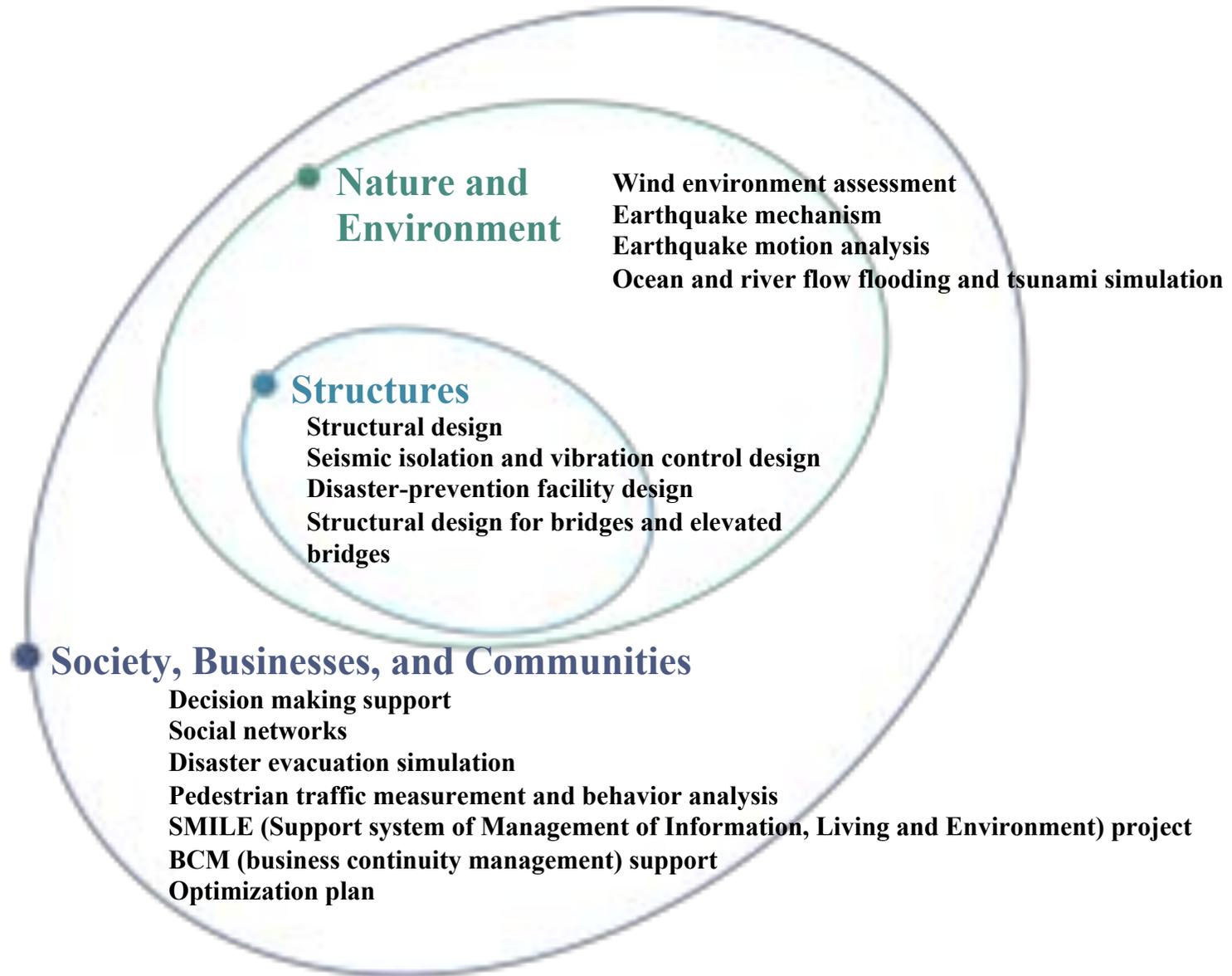
## I nnovative

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

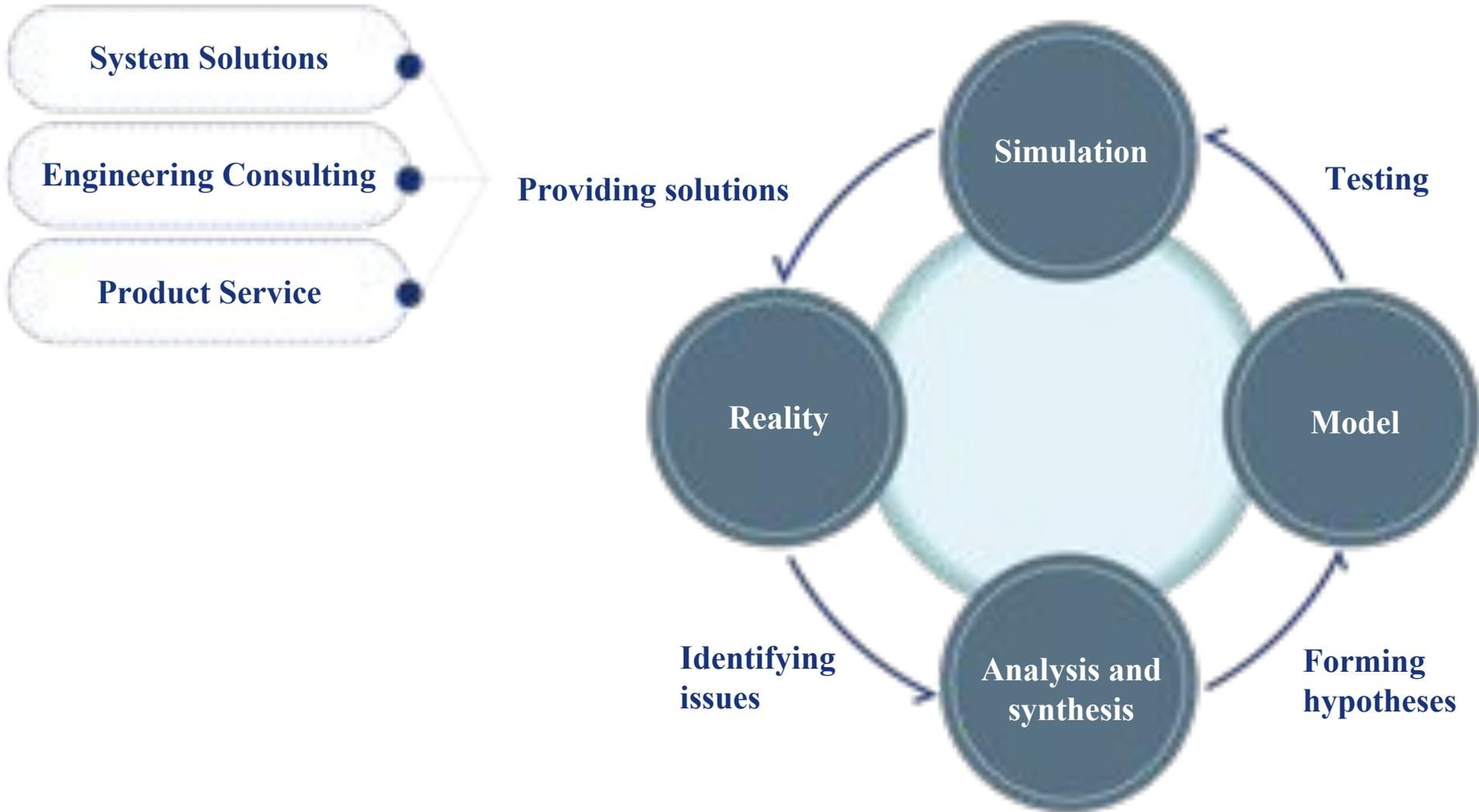
## I nternational

Create alliances with overseas partners with different knowledge

# Expanding Business Domains



# Engineered Approach and Solution Types



# Appropriate Distribution of Added Value



# Scenarios for Increasing Added Value

1. ~~Increasing added value by investing in business development~~



2. ~~Increasing added value through employee growth~~



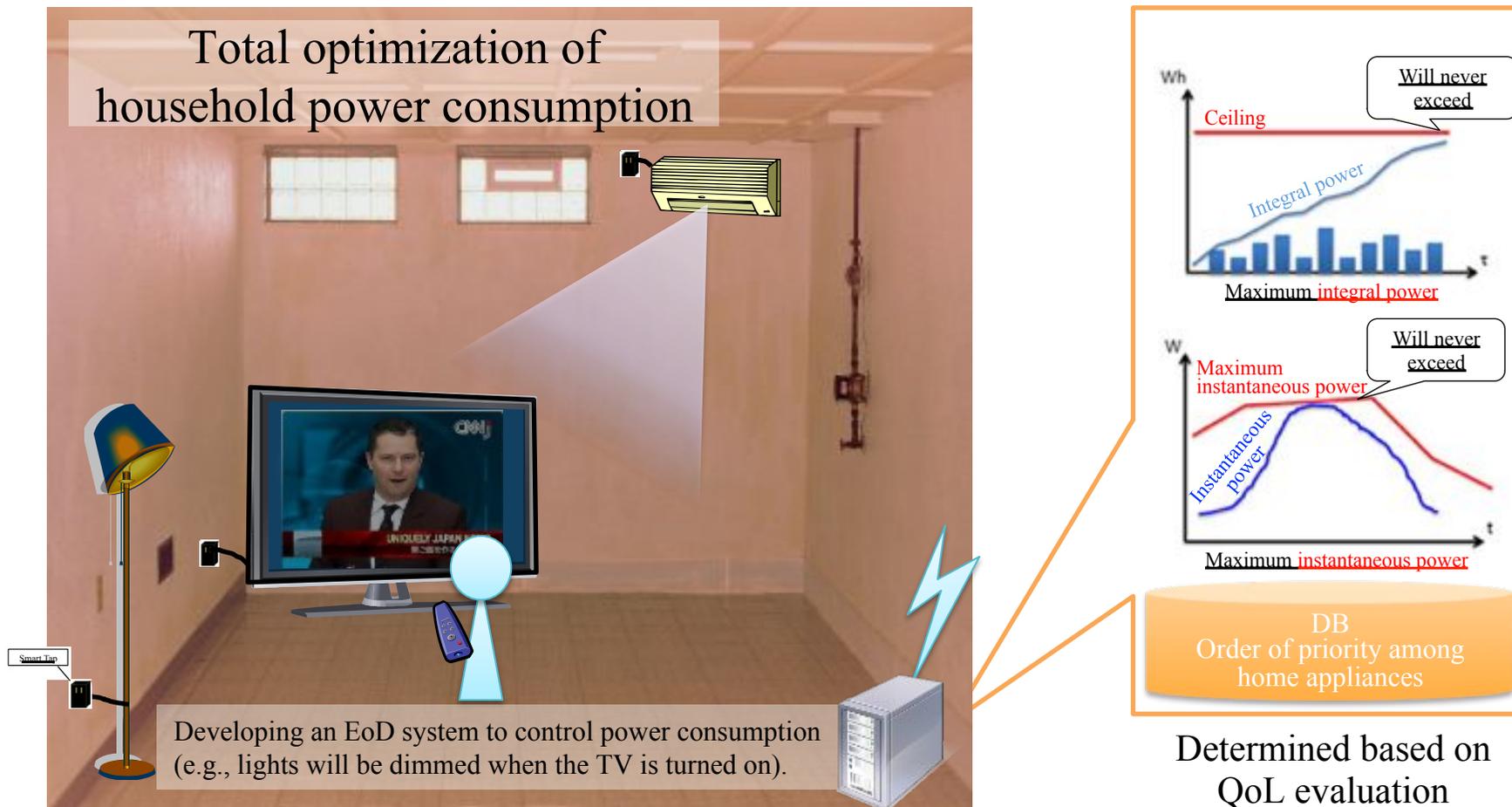
3. ~~Increasing added value by increasing the number of employees (associates)~~



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

## Developing an “Energy on Demand(EoD)” system

Saving power and increasing comfort by controlling the power consumption of home appliances in order of priority



## Business development using recommendation technology “Visual NAVI Recommendations”



Belle Maison Moving Search

# Increasing Added Value by Investing in Business Development (3)

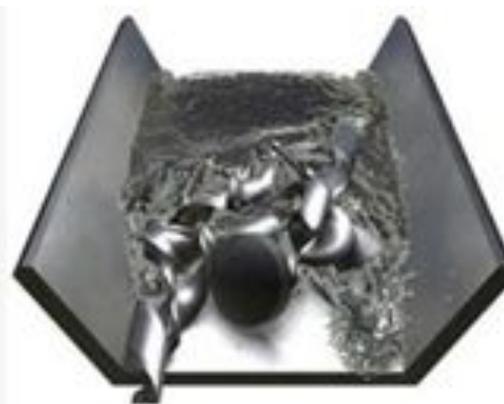
- **Capital and business alliance formed on October 29, 2012**
  - Company name: Prometech Software, Inc.
  - Established: October 29, 2004
- **Creating a wide range of synergies, including personnel exchanges**
  - **Gaining new customers, including pharmaceutical and cosmetics manufacturers**
  - **Applies to the disaster prevention business, which the Company has been developing**

Particleworks v4.0, integrated fluid analysis software using Moving Particle Simulation(MPS) method

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



Analysis of liquid-solid mixtures



Analysis of debris flow

Phenomena that the particle method is good at analyzing

Free surface flow

Breakers

Stirring flow

Kneading flow

Particulate flow

Fluid-rigid body coupling flow

# Increasing Added Value by Investing in Business Development (4)

Alliances with overseas partners account for around 15% of the company's sales.



# Increasing Added Value through Employee Growth (1)

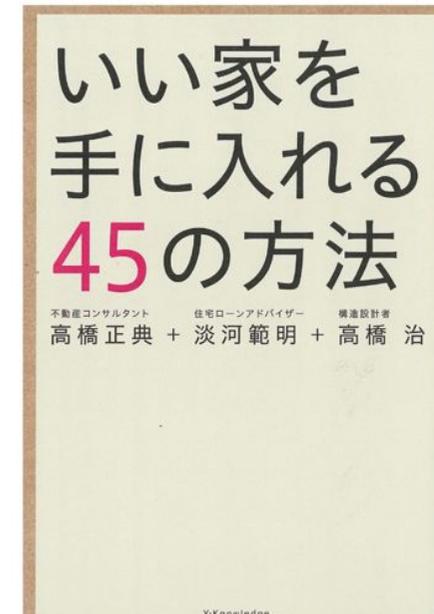
- Research paper presented to the Society of Chemical Engineers, Japan
  - Research paper:** “Comparison of numerical analysis based on MPS method with experiments of the flow in a mixing tank”
  - Summary:** Stirring flows were analyzed using the particle method, and the flows were visualized. A new kind of stirring machine was used.
  - Authors:** Tsuyoshi Yamada, SBD Marketing & Sales Dept., Kozo Keikaku Engineering, Ms. Aya Tanaka, Shiseido
- Activities at the Manufacturing Management Research Center at the University of Tokyo
  - Symposium presentation “IT and Monozukuri: Complexity of Artifacts and Control Structure among Mechanical, Electric, and Software Sub-systems”
    - Title:** “Controlling increasingly complex social systems using IT”
    - Speaker:** Shota Hattori, President & CEO, Kozo Keikaku Engineering
  - Presentation at the 103rd consortium meeting
    - Title:** How to plan products using IT
    - Speaker:** Kayoko Kimura, Executive Managing Director, Kozo Keikaku Engineering

# Increasing Added Value through Employee Growth (2)

## Osamu Takahashi

Chief Engineer, Deputy General Manager of the Quality Assurance Center

- Membership in outside committees
  - Managing Committee for Vibration Research Committee on Structures, Architectural Institute of Japan
  - Technology Committee, The Japan Society of Seismic Isolation
  - Response Control SC, Japan Structural Consultants Association
  - Technology Committee, The Japan Society of Seismic Isolation
- Coauthor of the book *Iie wo teniireru 45 no hoho* [45 ways to obtain a good house] (January 25, 2013)
  - The other coauthors are Mr. Masanori Takahashi and Mr. Noriaki Ogo (X-Knowledge)
- Published papers
  - Eight papers have been presented at annual meetings of the Architectural Institute of Japan. (He is the coauthor of some of these.)



Reported in NHK's *Tomorrow*  
(April 27, 2013)



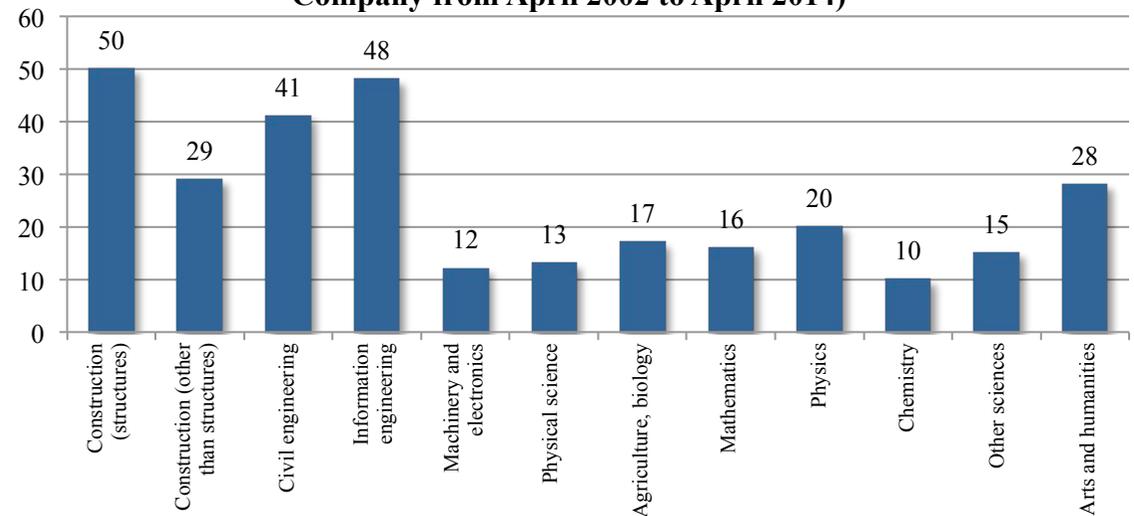
# Increasing Added Value by Increasing the Number of Employees (1)

Top 20 universities (breakdown of those who joined the Company from April 2002 to April 2014)	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
Osaka University	7
Nagoya University	6
Tokyo University of Agriculture and Technology	6
Tokyo Metropolitan University (*1)	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
Sophia University	4
Doshisha University	4
Ritsumeikan University	4

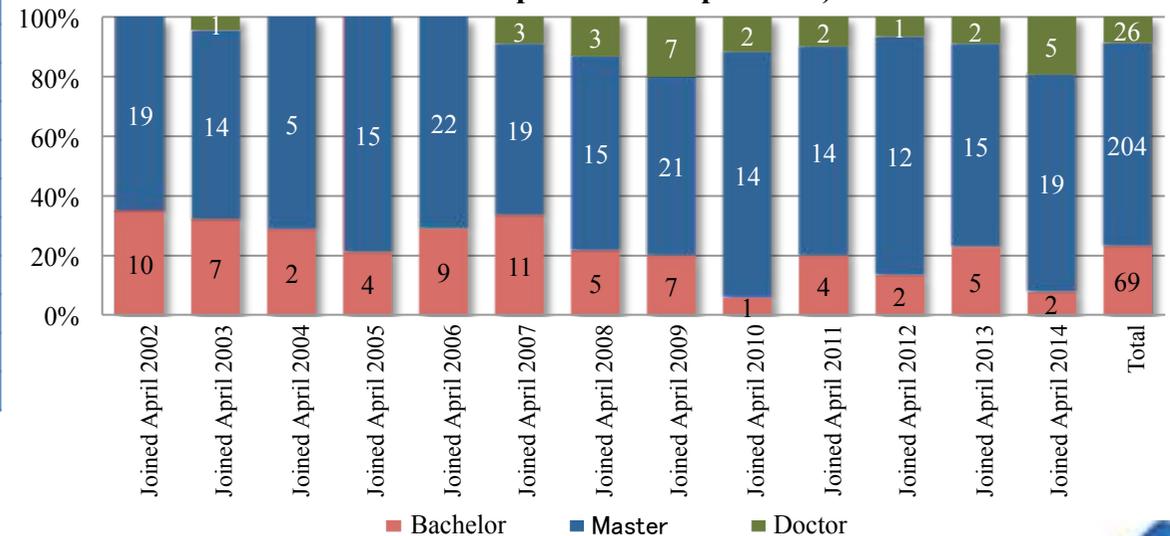
\*1 Sum of the number from Tokyo Metropolitan University and Tokyo Metropolitan Institute of Technology

\*2 Numbers include the number of prospective employees

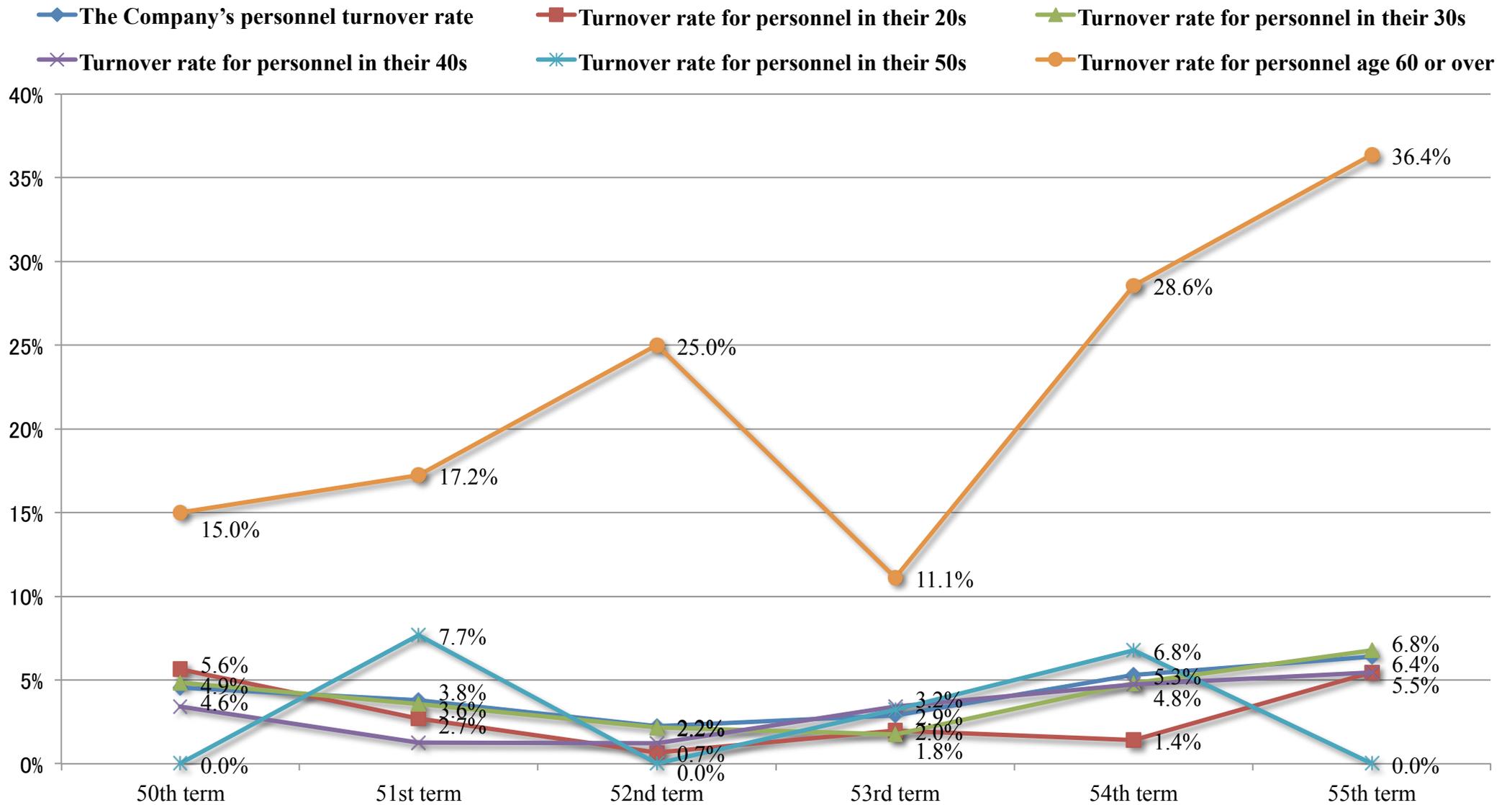
University or college majors (breakdown of those who joined the Company from April 2002 to April 2014)



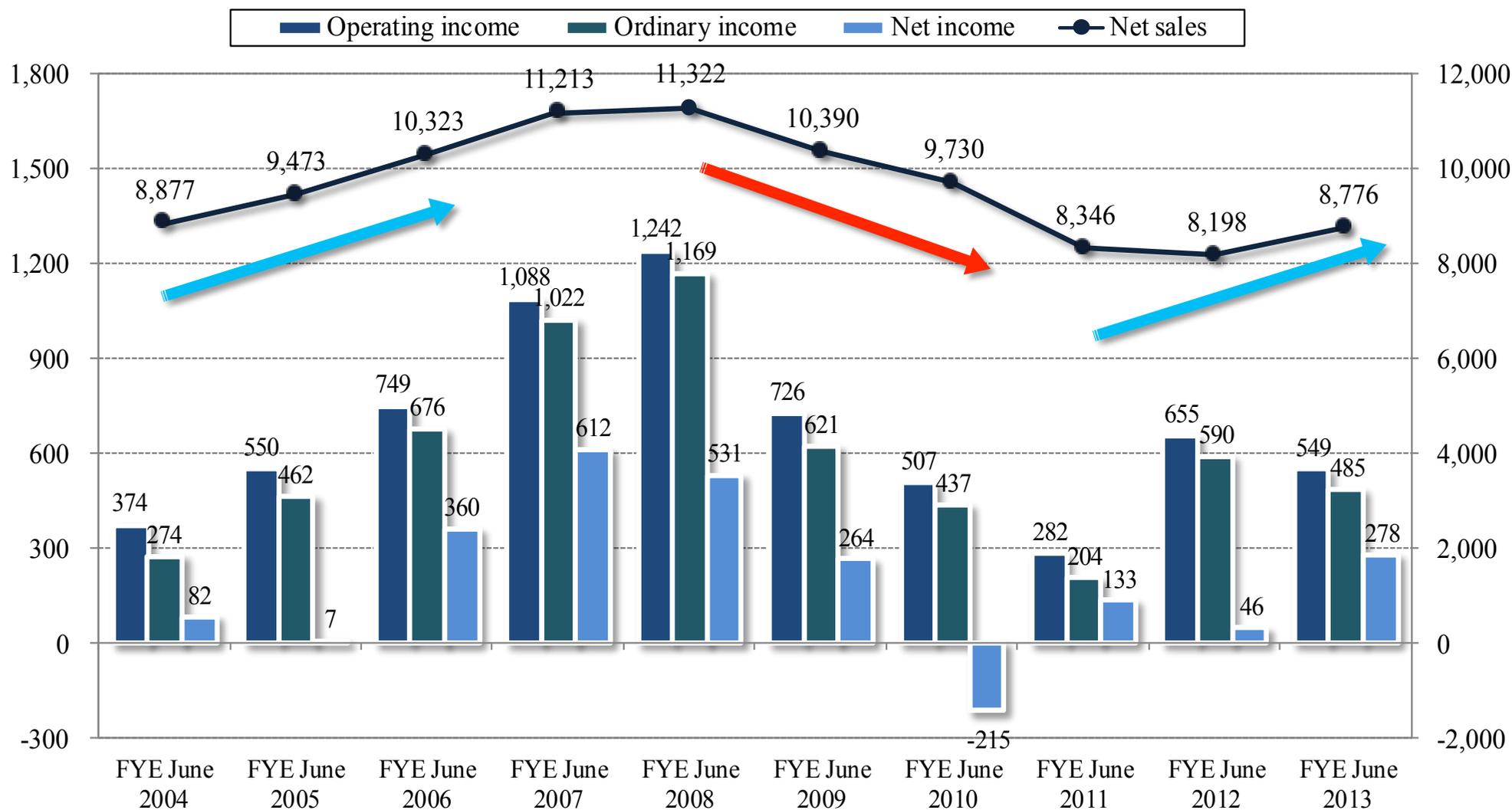
Breakdown by academic degree (those who joined the Company from April 2002 to April 2014)



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



# Changes in Results





5

Business Topics



# Direction as a Professional Design & Engineering Firm

## As a technology consulting firm

- **Providing parts for technical issues and ideas for integrated systems**
- **A company with a great deal of experience, including failures**

## Providing cutting-edge solutions and services in response to future needs

- **Secure and safe solutions:** Providing comprehensive support for prevention, restoration, and reconstruction
- **Smart business:** Smart houses, smart city, smart mobility
- **Consensus-building business:** Taking a variety of approaches to help solve complicated social problems

## Creating goods, materials, and services that will sell worldwide

- **Providing solutions to help Japanese companies develop overseas operations**
- **Planning designs, marketing, and goods and services**



**Mr. Takeo Hoshi**

## ■ Date and place

**Date: October 17(Thursday) and October 18(Friday), 2013**

**Place: Hilton Tokyo (Nishi-Shinjuku)**

## ■ Keynote speech (Day Two)

**Professor at Stanford Business School**

**Outside director at Union Bank of California**

**Dr. Hoshi Takeo (Doctor of Economics)**

Coauthor of *Naniga nihonno keizaiseicho wo tometanoka* [What stopped Japan's economic growth?] and *Corporate Financing and Governance in Japan* (awarded the Nikkei Prize for Excellent Books in Economic Science)

## Day One: Technical Session

**Maintenance, the environment and energy, structure, design, manufacturing, communications**

**Expert lectures at overseas partners**

## Day Two: General Session

**Lectures on innovation and disaster mitigation by leading experts are planned.**



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

We look forward to your continued support and guidance.

**Contact:**

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