

KEYWARE TIMES

Annual Report 2016
Year Ended March 31, 2016
51st Term Business Report

➤ Feature

Medium-Term Management Plan: Progress and Future Initiatives



KEYWARE
SOLUTIONS

Keyware Solutions Inc.
TSE 2nd Section Stock Code: 3799

IT can create it.



Towards the achievement of the medium-term management plan, we strive for sustainable growth of our business and to increase our corporate value.

President & CEO

Masahiro Inoue

Results for fiscal year to March 2016

Dear Stakeholders,

In the fiscal year to March 2016, the Japanese economy had a moderate recovery in the first half, but in the second half the slowing of growth in China and other developing countries together with the advance of yen appreciation cast a shadow on the economic recovery. Under these conditions, the Group was able to make large reductions in costs from unprofitable projects and improve profits over the previous fiscal year by tackling as an organization the critical issue of preventing the occurrence of unprofitable projects. However, sales fell over the previous fiscal year due to the

drop-off period in system replacement by existing government and transportation clients.

Results for the fiscal year to March 2016 include orders of ¥16,368 million (a year-over-year increase of ¥384 million or +2.4%), sales of ¥15,988 million (¥393 million decrease or -2.4%), operating income of ¥63 million (¥60 million increase), and net income attributable to parent shareholders of ¥66 million (compared to a ¥78 million loss in the previous fiscal year).

In consideration of the year's financial results, we have decided to pay a year-end cash dividend of five yen per share.

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Initiatives and Results

As the basic direction of the three-year Medium-term Management Plan 2015, our Group strives for "Improving profitability and increasing stability of existing businesses" "diversifying the portfolio," and "solidifying and innovating the business structure." In the system development business, in addition to preserving our strengths and promoting initiatives to shift

resources to the types of business and work where it can demonstrate value added, we are proceeding to cultivate new customers in the system integration business by leveraging ERP packages. And in the frontier business (new ventures), we are undertaking initiatives in the domains of agriculture ICT, and medicine and health care and achieving steady results.

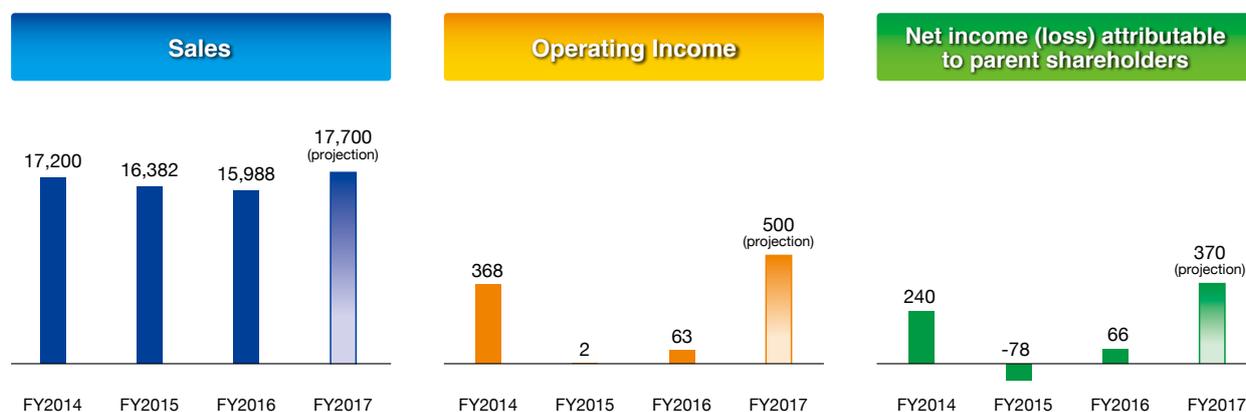
Towards the fiscal year to March 2017

In the information services industry, while we are looking forward to business opportunities in the demand for infrastructure for the 2020 Tokyo Olympics and Paralympics and in making use of IoT (the Internet of Things), we also face an increasingly competitive business environment as the result of the spread of cloud services and other developments. The Keyware Group will

continue to steadily execute each initiative in accordance with the basic direction in the Medium-Term Management Plan 2015 as we push forward with the entire company acting as one on achieving the full-year earnings forecast.

For these efforts, we would like to request the continued support of our shareholders and investors.

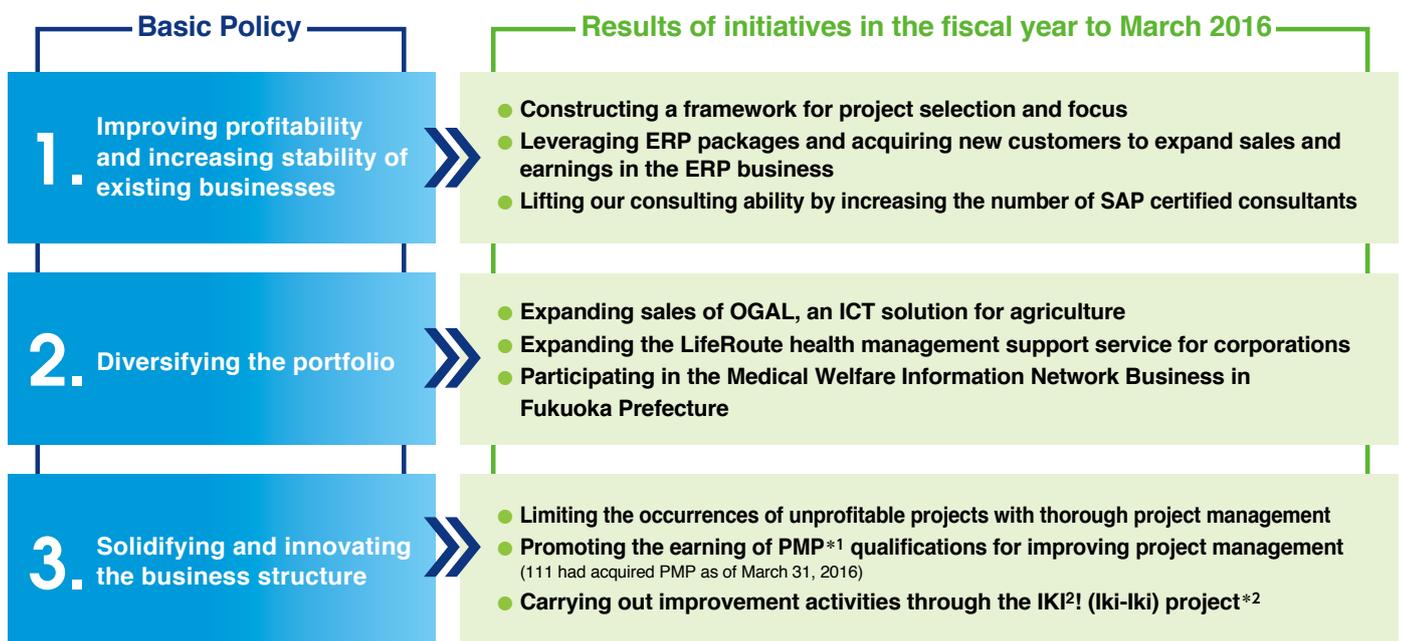
Highlights of consolidated business performance (Unit: million yen, rounded down)



Medium-Term Management Plan:

Progress and Future Initiatives

Although we were behind plan in the fiscal year to March 2016, the first year of the Medium-Term Management Plan 2015, we are advancing the growth steps as a result of steady progress in each initiative. In the second year and after, while making efforts to speed up plan execution, we will push forward towards the enhancement of our existing businesses and the creation of new ventures in our aim to achieve the medium-term management plan with certainty.



*1 Qualifications certifying professional status in project management; program is certified by the Project Management Institution (PMI), a U.S. non-profit organization
 *2 Short for the "Innovate Keyware! Initiative," a project for the improvement of business activities by employees in which each and every employee reviews the work that they undertake, identifies issues and points for improvement, and then considers, discusses, and acts toward their resolution.

Medium-Term Management Plan 2015



*Plan values for the second year were revised in light of the first year's progress.

Future Critical Activities

We intend to achieve the plan by advancing critical measures on the following points

1. Improving profitability and increasing stability of existing businesses

Restructuring the sales system towards order expansion

- Changing the sales system from a per-customer system to strategic units for channels and end users
 - ▶ Speeding up decision-making and making sales operations more efficient
 - ▶ Expanding large-scale orders and continuing projects

Clarifying the system integration (SI) strategy

- Spinning off the ERP Division from the former SI Division. Clarifying strategy and augmenting its promotion.

ERP Solutions Business*1

▶ Responding to the needs of large-scale projects using ERP packages such as SAP, Bizf, and IFS

IT Solutions Business*2

▶ Expansion of prime type business*3

Strategic use of the platform business*4

- Combining cutting edge technology with business systems
 - ▶ Expanding the order domain and the value for the customer

***1 ERP Solutions Division:**
Expanding the system construction business using an integrated business package (ERP) that supports a corporation's core business processes such as order management, sales management, inventory control, production control, and accounting.

***2 IT Solutions Division:**
Expanding the outsourcing business that brings together at one stop the full process from grasping the customer's business and proposing solutions for their challenges, to planning, development, and operation and maintenance.

***3 Prime type business:**
Keyware classifies business focused on contract development for corporations that support social infrastructure as "partner type business," and business that primarily covers corporations and government agencies as "prime type business."

***4 Platform business:**
An outsourcing business that builds and operates general infrastructure operations, including a base network and servers for software operations.

***5 VSC (virtual support center):**
A process that dynamically recombines the operation details of the applicable party, not from their business processes but from their current state, into something of higher value added.

2. Diversifying the portfolio

Nurturing of new businesses

- Continual promotion of the agriculture ICT and health care domains
- Start of the VSC*5 consulting service using an implementation support model that seeks to expand profits through leveraging



3. Solidifying and innovating the business structure

Promoting work-life balance, energizing human assets and organizations

- Promoting the reduction of overtime
- Promoting active participation by women
- Further implementation of the IKI² project



Advertising-related products

Delivery of Advertising Handling System to Japan Post Communications Co., Ltd. of the Japan Post Group

After receiving an order from Japan Post Information Technology Co., Ltd., we delivered the Advertising Handling System for Japan Post Communications, which does the planning and sales of advertising media at post offices. This system supports the reception/sale of applications to the post office for advertising media such as posters and pamphlets, and the posting and removal of such advertising. Japan Post Communications, which started operations in August 2015, is realizing greater efficiency in the handling of ads and enhanced sales support.



Delivery of Transit Advertising System developed for Keio Agency Inc.

A Transit Advertising System developed for Keio Agency was sold and delivered to Fuji Xerox Tokyo Co., Ltd. The system is for advertising agencies that handle the posting of ads inside train stations and on train cars. It has been delivered to seven railroad operators.

Health-care-related products

Release of the LifeRoute-CP health management support service in "Care Palette," ND Software Co., Ltd.'s software for nursing home operators

After measuring the applicable vital data such as temperature and blood pressure with a measuring system, the data can be sent automatically to the CarePalette by merely passing a card with an embedded chip through a dedicated reader. The system realized a reduction in transcription errors at the nursing home and makes data entry more efficient.



My Number products

Providing "Personal Information Vault," a solution for handling My Number, to local governments

Keyware is supplying an "information protection vault" solution that enables the safe and secure management of important data. The Information Protection Vault is not just a product for management of electronic data. It is an effective solution for preventing information leaks and improper use of personal and confidential information such as those related to the My Number national ID system by enabling the complete recording of access history, history of modifications and deletions, system change history, etc.

Implementation examples **A system for delivering notebooks to those with physical impairments**
(Okinawa and Miyagi Prefectures)

Chizaisoko® supplied by Jimco Corporation was used to build the Information Protection Vault.

Social and Environmental (CSR) Activities

Keyware Group considers the involvement in social and environmental activities an essential corporate social responsibility. Keyware will strive to realize a prosperous society and healthy environment while maintaining amicable communications with all of the individuals who live and work in our local communities. More information about Keyware Group's CSR activities is available on the company website.

<http://www.keyware.co.jp/english/csr/index.html>



Exhibiting at Events

We are introducing products and solutions at various events and seminars. Seminar and event information can be viewed on our website.

Exhibitions http://www.keyware.co.jp/seminar/index.html	
August 26, 2015 [Sendai]	■ Seminar for handling My Number
September 30 to October 2, 2015 [Tokyo Big Sight]	■ eDocument Japan 2015: 53rd Document Information Management Show
September 30 to October 2, 2015 [Tokyo Big Sight]	■ Digital Health Days 2015
October 14, 2015 [Shinjuku]	■ Complete printing and retention management of important documents!! Seminar for My Number measures
October 14 to 16, 2015 [Makuhari Messe]	■ 2nd Next Generation Agriculture Expo
November 18, 2015 [IBM Innovation Center]	■ Notes Partner Solutions Seminar & Notes Consortium: 20th annual open seminar*



2nd Next Generation Agriculture Expo

* Sponsored by Keyware Service Inc.

■ Consolidated Balance Sheet

	Previous fiscal year ended March 31, 2015	Current fiscal year ended March 31, 2016
(Assets)		
Current assets	5,533	6,158
Fixed assets	4,040	3,805
Tangible fixed assets	127	117
Intangible fixed assets	1,094	917
Investments and other assets	2,818	2,770
Total assets	9,574	9,963

POINT: Assets

Assets at the end of the fiscal year increased by ¥389 million to ¥9,963 million yen despite factors including a decrease in redemption of marketable securities and lower depreciation of core systems, due to a large increase in accounts receivable.

(Liabilities)		
Current liabilities	2,878	3,318
Fixed liabilities	901	804
Total liabilities	3,780	4,122

POINT: Liabilities

Liabilities at the end of the fiscal year increased by ¥342 million to ¥4,122 million yen mainly due to factors including an increase in short-term loans payable and funds procurement using long-term loans payable.

(Net assets)		
Shareholders' equity	5,598	5,699
Accumulated other comprehensive income	195	140
Total net assets	5,793	5,840
Total liabilities and net assets	9,574	9,963

POINT: Net assets

Net assets at the end of the fiscal year rose ¥47 million to ¥5,840 million mainly due factors including the recording of net income. As a result, the ownership equity ratio was 58.6% at the end of the fiscal year.

■ Consolidated Income Statements

	Previous fiscal year April 1, 2014 to March 31, 2015	Current fiscal year April 1, 2015 to March 31, 2016
Net sales	16,382	15,988
Cost of sales	13,870	13,317
Gross profit	2,511	2,670
Selling, general and administrative expenses	2,509	2,607
Operating income	2	63
Ordinary income	65	128
Net income (loss) attributable to parent shareholders	-78	66

POINT: Net sales

Sales decreased by ¥393 million year over year to ¥15,988 million. Although an aggressive push for the acquisition of new projects was made, the drop-off phase in system replacement for existing customers in government and transportation reduced sales.

POINT: Operating income

Operating income improved ¥60 million year over year to ¥63 million due to a deep drop in costs from unprofitable projects resulting from company-wide efforts to prevent the occurrence of unprofitable projects.

■ Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2014 to March 31, 2015	Current fiscal year April 1, 2015 to March 31, 2016
Cash flows from operating activities	192	-606
Cash flows from investing activities	-45	105
Cash flows from financing activities	101	404
Decrease or increase in cash and cash equivalents	247	-96
Balance of cash and cash equivalents at the beginning of year	734	981
Balance of cash and cash equivalents at the end of year	981	885

POINT: Consolidated cash flow

Net cash used in operating activities resulted from a large increase in trade receivables despite recording a profit in net income before income taxes. Net cash provided by investment activities resulted from the redemption of securities and other activities. Net cash provided by financing activities resulted from fundraising through short- and long-term loans payable. As a result, cash and cash equivalents at the end of the fiscal year was down ¥96 million year over year to ¥885 million.

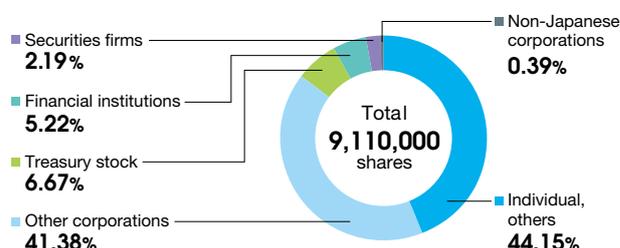
■ Stock Information

Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	3,417

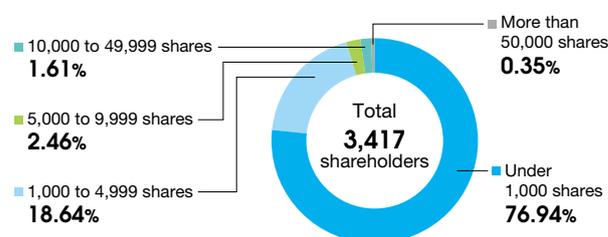
Major stockholders

NEC Corporation
 JR East Information Systems Company
 Hewlett-Packard Japan, Ltd.
 Sumitomo Mitsui Banking Corporation
 Sumitomo Life Insurance Company

Distribution of shareholders



Distribution by number of shares held



Notes for Shareholders

Fiscal year	April 1 to March 31
Date of general meeting of the shareholders	Every June
Shareholder registration date	Regular general meeting of the shareholders and fiscal year-end dividend: March 31 Interim dividend : September 30 If another date is necessary, the prescribed date notified in advance.
Shareholder's register manager and administrator of special account	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Shareholder's register manager administration office	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
[Contact and postal address]	2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited
[Phone]	(Toll-free in Japan) 0120-782-031
[Internet website URL]	http://www.smtb.jp/personal/agency/index.html
Method of public notice	Electronic public notice on Keyware website
Listing exchange	Tokyo Stock Exchange, Second Section

■ Company Profile

Trade name	Keyware Solutions Inc.
Address	5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan
Representatives	Chairman of the Board Masaru Murakami President & CEO Masahiro Mita
Date of establishment	May 1965
Capital	1,737 million
Net sales	15,988 million (Consolidated, year ended March 31, 2016)
Employees	1,079 (Consolidated, as of March 31, 2016)
Certifications	Registered as a Quality Management Systems Company Firm Permitted to use the JIPDEC Privacy Mark Registered as an Information Security Management Systems Company Registered as an Environmental Management Systems Company

■ Executives

Chairman of the Board	Masaru Murakami
President & CEO	Masahiro Mita
Director	Kazufumi Kawamukai
Director	Keiichi Endo
Director	Shinichi Arakawa
Director	Seiichi Takao
Auditor	Takao Shimada
Auditor	Hiroshi Takita
Auditor	Shinjiro Okazaki



Head Office

* Director Seiichi Takao is an Outside Director as provided in Article 2 Clause 15 of the Companies Act.

* Auditors Hiroshi Takita and Shinjiro Okazaki are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.

* Auditor Hiroshi Takita is an Independent Corporate Officer not at risk of conflict of interest with general shareholders that must be reported to the Tokyo Stock Exchange.

Internet IR Information

<http://www.keyware.co.jp/english/ir/index.html>

Keyware Solutions aims to distribute timely and easy-to-follow information to shareholders and investors, and endeavors to improve its IR activities by enriching its company website.

Keyware IR english

Search

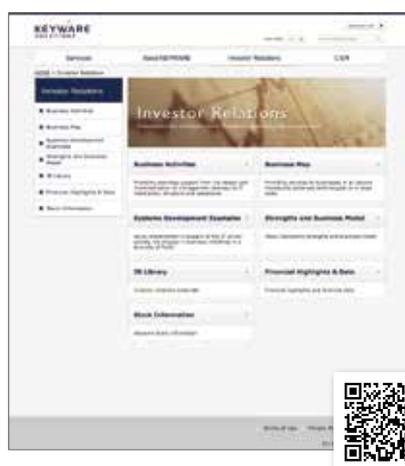
English language site

In English language site, information is provided in order to generate a deeper understanding of the operations of Keyware Group.



<http://www.keyware.co.jp/english/index.html>

IR Information



<http://www.keyware.co.jp/english/ir/index.html>

Results briefing (video dissemination)

A video of the results briefing is disseminated together with the results briefing documentation. The information contains explanations concerning the business report and future strategies of Keyware.



http://www.cmstream.com/ir/keyware201605_vfE7J8Ny/

KEYWARE
SOLUTIONS

Keyware Solutions Inc.

5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan
Corporate Planning Division, Public Relations & Investor Relations Office

<http://www.keyware.co.jp>

