

# KEYWARE TIMES

Annual Report 2012  
Year Ended March 31, 2012  
47th Term Business Report

➤ **Keyware works here, too!**

For healthy and secure living—  
Serving efficiency at the forefront of medial care.

➤ **Feature**

Future Development of Keyware—  
An interview with Masahiro Mita, Keyware's new president



**KEYWARE**  
SOLUTIONS

Keyware Solutions Inc.

TSE 2nd Section Stock Code: 3799

IT can create it.

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>Keyware works here, too!

## For healthy and secure living—Serving efficiency at the forefront of medial care.

Diabetes, stroke, heart disease, hyperlipemia, high blood pressure, overweight—these afflictions are commonly referred to as lifestyle-related diseases. The cause is in most cases wrong eating habits, stress, smoking, alcohol consumption, and other habits.

For diabetes, the most common lifestyle-related disease, there are 8.9 million patients in Japan, which rises to 22.1 million if potential patients are included. The primary condition for the successful treatment of diabetes is an improved lifestyle, and staying with it is essential. Patients measure and manage their blood glucose levels themselves, in addition to body weight, food intake, and hours of exercise. Doing so is considered effective for making lasting improvements, and patients who share their measurements with medical institutions can be provided with appropriate treatment and guidance.



Shiroishi Kyoritsu Hospital provided Keyware the opportunity to introduce Medlas-SMBG.

In almost all cases, the treatment of lifestyle-related diseases takes time. Maintaining the body's natural resistance to disease is therefore considered essential, which has given rise to a fitness and health food boom. The same notion has also connected to a growing number of medical institutions that emphasize preventive medicine and lifestyle improvements.

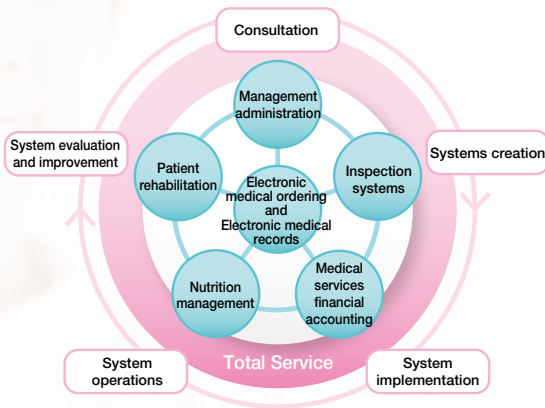
Specified medical corporation Seibindo Shiroishi Kyoritsu Hospital, located in Shiroishi town, Kishima district, Saga prefecture, seeks to provide "patient centered medical care". It emphasizes preventive medicine, health enhancement, and regional integrated medical care, strengthening the cooperation between medical care and nursing care.

Historically, the blood glucose levels that patients measure and write down used to be manually entered into electronic medical records by the doctors and nurses of Shiroishi Kyoritsu Hospital. However, with the yearly rising trend in patients using blood glucose self-monitoring devices<sup>\*1</sup>, manual data entry turned into a significant burden on the hospital's doctors and nurses.

Keyware had the opportunity through manufacturers of blood glucose self-monitoring devices to introduce to Shiroishi Kyoritsu



“There is more time for conversations with patients.”



Hospital the “Medlas-SMBG<sup>\*2</sup>”, Keyware blood glucose self management system. The hospital was impressed with system content, implementation cost, and the cost-benefit analysis, and decided to adopt “Medlas-SMBG”.

“Medlas-SMBG” can be installed independent of any particular manufacturer of blood glucose self-monitoring devices. After installation, system operation is based on network connections made from the individual blood glucose self-monitoring devices. The benefits from using the system involve not only lower system implementation cost but also a reduced work load on doctors, nurses, and medical technologists who need no longer spend time on manual data entries of blood glucose self-management files into electronic medical records. Moreover, since the system is Web based, it can be used in any location if there is a network-connected terminal. This made it possible to operate the system also through terminals placed at outpatient treatment rooms, hospital wards, examination rooms, dialysis rooms, and distribution centers.

On the measurement data screen, the blood glucose control range, measurement weekday, measurement time, and measurement before or after meals can be set for each patient. Since distinctive titles can be specified as patient attributes, for example, the title “dialysis patient”, also condition-based searches and data extraction have become possible. Unlike is the case with Web printing, ledger sheets are printable in standard ledger format, which helps raise the efficiency of medical examinations.

More than anything else, doctors and nurses agree that “there is more time for contact with patients and more room for listening to patients, which enables delivering differentiated medical care and nursing care.”

Based on its electronic medical ordering and electronic medical record system, Keyware provides comprehensive total service programs from medical care solution consultations to system creation, implementation, operation, and evaluation and improvement.

By aiding medical care operations, Keyware will continue to work for healthy and secure living.

\*1 Blood glucose self-monitoring device refers to a kind of measuring instrument that allows patients to take their own blood glucose measurements in the same way as personal body weight or body temperature measurements.

\*2 SMBG is short for Self-Monitoring of Blood Glucose.

## Message from the President

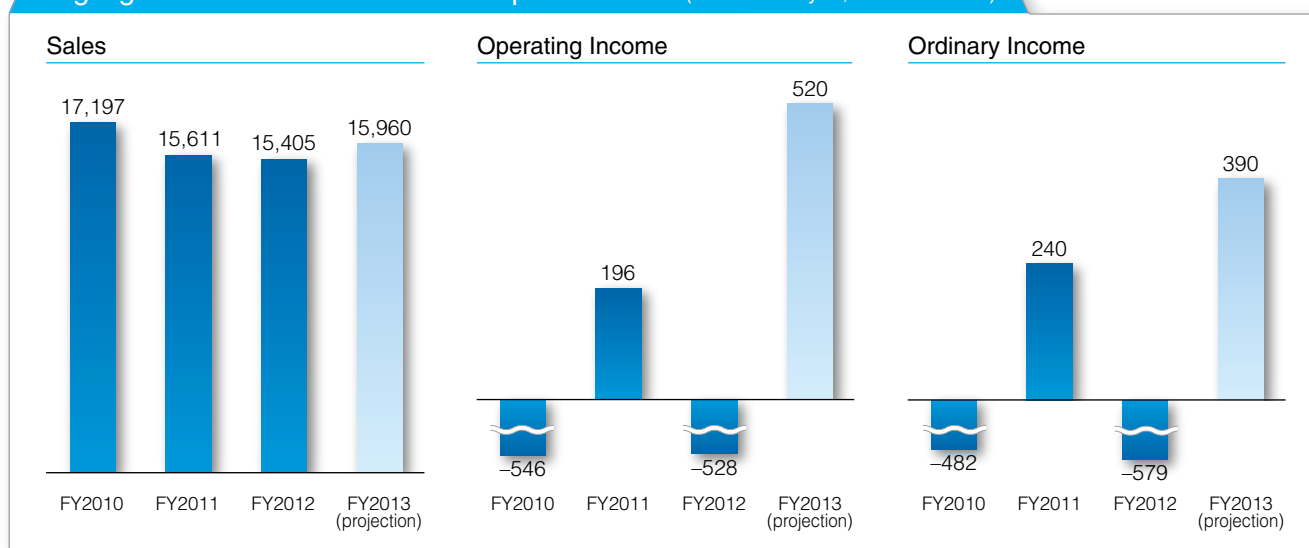


My name is Masahiro Mita. As of January 1, 2012, I serve as the president and CEO of Keyware.

After assuming office as president, as our first task we implemented various reforms, starting with a review of personnel and remuneration systems, based on our judgment that radical business restructuring is indispensable if we are to generate steady earnings and growth also in today's unchanged difficult business environment. Moreover, as a new business guideline, we defined a "Three Frontiers" strategy that calls for advances into regions in Japan where we have as yet no offices, the development of new business fields, and, building on innovative ideas, the creation of new services and business models.

Based on new frameworks, we will persist in our efforts to keep Keyware attractive to shareholders and investors and will do our utmost to develop the operations of the Company.

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



As to the business results for the fiscal year to March 2012, Keyware Group acquired new orders worth ¥15,802 million (up ¥1,118 million, or 7.6%, compared with the year earlier), with sales revenue of ¥15,405 million (down ¥205 million, or 1.3%, compared with the year earlier), despite concerted company-level efforts, as users held back with IT investments in the face of an uncertain economic outlook, while big-ticket orders were in decline. Earnings marked an operating loss of ¥528 million (compared with operating income of ¥196 million the year earlier), with an ordinary loss of ¥579 million (compared with ordinary income of ¥240 million the year earlier). These were strongly affected by customer orders at lower unit prices and a fall-off in the Group's operating ratio, even though order receipts above plan provided the basis for input cost and operating cost reductions as well as measures to prevent loss-making projects. In addition, extraordinary loss of

¥512 million (compared with extraordinary loss of ¥279 million the year earlier) was posted, reflecting the cost of fundamental structural business reform in the 4th quarter. As a result, the Group reported a net loss for the period of ¥1,154 million (compared with a net loss of ¥76 million the year earlier).

The adverse operating environment is expected to continue. However, in addition to our efforts to date to bring about qualitative changes, we aim to generate business growth through the rapid and accurate implementation of our new business policy, "Three Frontiers" strategy.

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

President & CEO

*Masahiro Iwata*

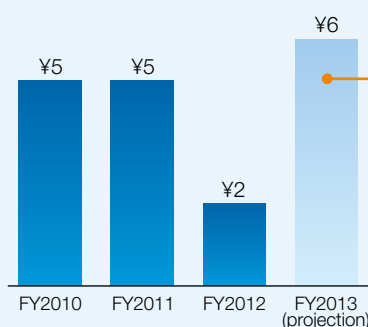
## Dividends

### Implementation of result-linked dividends based on net income

#### Basic policies

Following a review of the dividend policy in effect until the fiscal year to March 2012, which considered the consolidated return on equity ratio and dividend on equity ratio, beginning with the fiscal year to March 2013, dividends will be implemented based on net income so as to furnish shareholders with appropriate earnings distribution consistent with the result for the period.

#### Annual per-share dividend amounts over time



Per-share dividend for fiscal year to March 2013 (projection)

Annual dividend:  
Year-end dividend of ¥6

\* Since dividends are linked to the net income at the end of the year, an interim dividend will not be paid.

# Future Development of Keyware



We have made fundamental structural business reform in order to be a company with competitive strength to flexibly cope with changing operating environment.

We will return to our growth trajectory with the new organization structure and the indomitable spirit of pioneer.

## Career profile

|      |  |
|------|--|
| 1985 | Joined NEC Corporation   |
| 2002 | Joined Keyware Solutions Inc.  |
| 2004 | Appointed Head of Corporate Planning Office  |
| 2005 | Appointed Director and Executive Officer, Head of Corporate Planning Office          |
| 2008 | Appointed Director and Managing Executive Officer, Head of Corporate Planning Office |
| 2009 | Appointed Director and Managing Executive Officer, Head of Sales Operations Unit     |
| 2012 | Appointed President and CEO  |

## Q 1

### What is Keyware's operating environment like?

**A** In information systems, the transition from “making” to “using” is occurring.

Although the domestic economy is experiencing a mild recovery, high raw materials prices and the strong yen are making for an increasingly uncertain outlook. In the information service industry, of which Keyware Group is a part, users continue to hold back with IT investments. At the same time, users' requirements of information systems are undergoing significant change.

This change relates to a transition from “making” to “using”. As typified by the use of cloud computing\*, user companies are progressively shifting to business management

formats that involve no own IT assets.

With the operating environment as harsh as it is, quick economic recovery cannot be expected; additionally, users' requirements of information systems are rapidly changing. Given these conditions, companies whose main business is the provision of software—and that includes Keyware Group—are called upon to serve as important partners in aiding the computerization of user companies for the entire system life cycle. The Group strongly reaffirms the necessity for a major changeover of business to meet these needs.

\* Cloud computing: Technical arrangements that enable the use of software and services via the Internet. The name is derived from the cloud pictogram used to represent the Internet.

## Q 2

### What is Keyware's fundamental structural business reform which have been implemented?

**A** We have made fundamental structural business reform, specifically the revision of personnel and remuneration systems in order to boost our competitive strength and to return to our growth trajectory as soon as possible, as well as advances in new business areas, or "Frontiers".

Launched in the year before the last, Keyware Group has been promoting a 3-year medium-term management plan dubbed "Q Curve 2015" and worked to stabilize the Group's earnings platforms, including through exhaustive cost cutting efforts.

However, in order to generate steady earnings in today's continued adverse operating environment, we found fundamental structural business reform indispensable, and implemented a series of radical reforms, specifically a revision of personnel and remuneration systems.

This includes advances into new business areas (Frontiers), which accounts for an

important part of our reform initiative in order to strengthen competitiveness and return to our growth trajectory as quickly as possible. In more detail, the three Frontiers are comprised of a "Geographic and Physical Frontier", which means domestic advances into areas where we as yet have no offices, as well as advances overseas; a "Business Frontier", which related to the development of new business fields and the expansion of business areas based on our accumulated technology and business expertise; and a "Frontier of Conception and Expression", which concerns the creation of new services and business models built on innovative ideas.

#### Content of Keyware's Structural Business Reform

| 1  | 2  | 3   | 4  | 5  |
|--|--|---|--|--|
| Personnel and remuneration system reform targeting enhanced productivity and profitability | Mastery of new technologies to ensure competitive strength | Reallocation of management resources and personnel reduction through retirement promotion | Headquarters relocation to enhance business efficiency and reduce operating expenses | Advances into new business areas (Frontiers) |

# Future Development of Keyware

## Q 3 What are Keyware's business policies for the future?

A In addition to the three qualitative changes implemented to date, we will work on rapid and consistent business development based on our "Three Frontiers" strategy.

Starting with the fiscal year to March 2013, we will work on rapid and consistent business development based on our "Three Frontiers" strategy of "Geographic and Physical Frontier", "Business Frontier", and "Frontier of Conception and Expression".

Moreover, given the adverse operating

environment and based on the implementation of fundamental structural business reform, we will revise our "Q Curve 2015" and are currently formulating a 3-year medium-term management plan launching in the fiscal year to March 2013. The plan will be made public upon completion.







4

## What is the current implementation status of the “Three Frontiers” strategy?

A

As we are promoting strategy diffusion, results are gradually beginning to show.

1

### Geographic and Physical Frontier

In April 2012 we established our Tohoku branch in Sendai city. The office will function as a business and development hub for Keyware Group in the Tohoku region. At the same time, in the IT field, where Keyware has its strengths, with our limited means we will help rebuild the Tohoku region.

Moreover, occasioned by the transfer of our headquarters function to our Hachimanyama office in Tokyo’s Setagaya-ku at the end of June 2012, we regard also the Setagaya area a new market and have started to make new inroads.

2

### Business Frontier

We are proactively developing the distribution and service industries as new business fields, which to date we have not particularly emphasized.

We are also strongly promoting our application development for all types of smart devices\*. For a start, beginning in July 2012, we will launch “Healthy Body Compass – LifeRoute”, a health management support services for Android powered terminals intended for users with a strong interest in health related topics.



3

### Frontier of Conception and Expression

We are working to strengthen relationships with existing customers and increase our business chances, for example, by actively offering proposals on how to use high-performance smart devices in combination with existing systems in order to strengthen sales and marketing and raise business efficiency.

Moreover, to enable all Keyware employees to judge and act independently and thereby help generate new business initiatives, we have added a “Frontier Challenge” assessment item to the Keyware personnel assessment system, and in this way work to foster a corporate culture that is open to challenging new Frontiers.

\* Smart devices: Multi-functional terminals that include not just a calculator but a broad array of applications for a diversity of uses. The term is often used as collective name for smart phones and tablet-type terminals.

**Current assets** A

Current assets increased ¥288 million compared with the end of the previous fiscal year to ¥5,028 million. Cash and deposits declined while notes and accounts receivable-trade increased.

**Fixed assets** B

Fixed assets declined ¥554 million compared with the end of the previous fiscal year to ¥4,120 million. Influencing factors included the disposal of software without asset value, an impairment loss on goodwill, and sales of investment securities.

**Current liabilities** C

Current liabilities gained ¥1,216 million compared with the end of the previous fiscal year to ¥3,392 million. Influencing factors included an increase in short-term loans payable, provisioning for bonuses due to the revision of personnel and remuneration systems, and higher advances received on maintenance contracts.

**Fixed liabilities** D

Fixed liabilities decreased ¥321 million compared with the end of the previous fiscal year to ¥412 million mainly due to the scheduled redemption of long-term loans payable.

**Net assets** E

Net assets declined ¥1,161 million compared with the end of the previous fiscal year to ¥5,343 million (equity ratio: 58.4%) mainly due the net loss charged for the period.

**Consolidated Balance Sheet**

|   | Previous<br>fiscal year<br>ended March 31, 2011 | Current<br>fiscal year<br>ended March 31, 2012 |
|---|---|--|
| (Assets)                                |   |  |
| A Current assets                        | 4,739   | 5,028  |
| B Fixed assets                          | 4,675   | 4,120  |
| Tangible fixed assets                   | 225   | 165  |
| Intangible fixed assets                 | 1,324   | 928  |
| Investments and other assets            | 3,125   | 3,027  |
| <b>Total assets</b>                     | <b>9,415</b>                                    | <b>9,149</b>                                   |
| (Liabilities)                           |   |  |
| C Current liabilities                   | 2,176   | 3,392  |
| D Fixed liabilities                     | 733   | 412  |
| <b>Total liabilities</b>                | <b>2,909</b>                                    | <b>3,805</b>                                   |
| (Net assets)                            |   |  |
| Shareholders' equity                    | 6,506   | 5,333  |
| Accumulated other comprehensive income  | -1  | 10   |
| E <b>Total net assets</b>               | <b>6,505</b>                                    | <b>5,343</b>                                   |
| <b>Total liabilities and net assets</b> | <b>9,415</b>                                    | <b>9,149</b>                                   |

## Consolidated Income Statements

|   | Previous fiscal year<br>April 1, 2010 to<br>March 31, 2011 | Current fiscal year<br>April 1, 2011 to<br>March 31, 2012 |
|---|--|---|
| <b>F</b> Net sales                              | 15,611   | 15,405  |
| Cost of sales                                   | 12,670   | 13,071  |
| Gross profit                                    | 2,940  | 2,334   |
| Selling, general and administrative expenses    | 2,744  | 2,863   |
| <b>G</b> Operating income or operating loss (-) | 196  | -528  |
| Ordinary income or ordinary loss (-)            | 240  | -579  |
| <b>H</b> Net loss                               | -76  | -1,154  |

### Net sales **F**

Net sales declined ¥205 million compared with a year earlier to ¥15,405 million as user companies continued to hold back with IT investments despite signs of an economic upturn in the second half of the fiscal year.

### Operating income or loss **G**

An operating loss of ¥528 million resulted mainly due to a decline in new order receipts caused by customer orders' lower unit prices, reduced operating rates, and the cost of implemented structural business reform measures.

### Net loss **H**

A net loss of ¥1,154 million resulted for the period, mainly due to the extraordinary loss from the cost of business structure reform measures implemented at the end of the period under review such as personnel cuts by solicitation for retirement and the relocation of headquarters operations, as well as an impairment loss on goodwill and the sale of investment securities.

### Consolidated cash flow **I**

Due to the net loss posted for the period, cash flow from operating activities marked a net cash outflow, as did cash flow from investing activities and financing activities. Consolidated cash and cash equivalents at the end of the period totaled ¥965 million, which was ¥274 million less than the end of the previous fiscal year.

## Consolidated Statement of Cash Flows

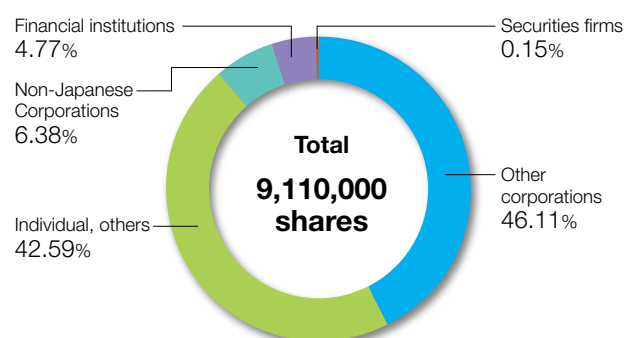
|   | Previous fiscal year<br>April 1, 2010 to<br>March 31, 2011 | Current fiscal year<br>April 1, 2011 to<br>March 31, 2012 |
|---|--|---|
| Cash flows from operating activities                          | -70  | -108  |
| Cash flows from investing activities                          | -147   | -97   |
| Cash flows from financing activities                          | 354  | -68   |
| Decrease or increase in cash and cash equivalents             | 136  | -274  |
| Balance of cash and cash equivalents at the beginning of year | 1,103  | 1,240   |
| Balance of cash and cash equivalents at the end of year       | 1,240  | 965   |

## Stock Information (as of March 31, 2012)

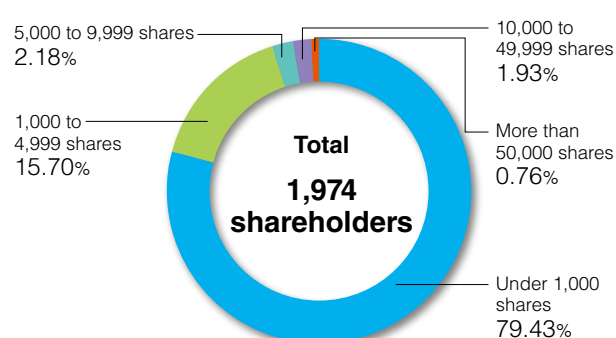
|                    |            |
|--------------------|------------|
| Authorized shares  | 36,440,000 |
| Outstanding shares | 9,110,000  |
| Shareholders       | 1,974      |

| Major shareholders                    | Shares held | Shareholding ratio (%) |
|---------------------------------------|-------------|------------------------|
| NEC Corporation                       | 3,190,000   | 35.02                  |
| Keyware Solutions' employees holdings | 906,300     | 9.95                   |
| Masayuki Okada                        | 607,500     | 6.67                   |

### ■ 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: March 31  
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] Stock Transfer Agency Department  
Sumitomo Mitsui Trust Bank, Limited  
1-10 Nikko-cho, Fuchu-shi, Tokyo 183-8701

[Phone] (Toll-free in Japan) 0120-176-417

[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 (as of June 26, 2012)

|                       |  |
|-----------------------|--|
| Trade name            | Keyware Solutions Inc.   |
| Address               | 5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan  |
| Representatives       | President & CEO Masahiro Mita  |
| Date of establishment | May 1965   |
| Capital               | 1,737 million yen  |
| Net sales             | ¥15,405 million (Consolidated, year ended March 31, 2012)  |
| Employees             | 1,154 (Consolidated, as of March 31, 2012)   |
| Major stockholders    | NEC Corporation<br>JR East Japan Information Systems Company<br>Hewlett-Packard Japan, Ltd.<br>Sumitomo Mitsui Banking Corporation<br>Sumitomo Life Insurance Company  |
| Certifications        | Registered as a Quality Management Systems Company<br>Firm Permitted to use the JIPDEC Privacy Mark<br>Registered as an Information Security Management Systems Company<br>Registered as an Environmental Management Systems Company |



Headquarters

### Executives

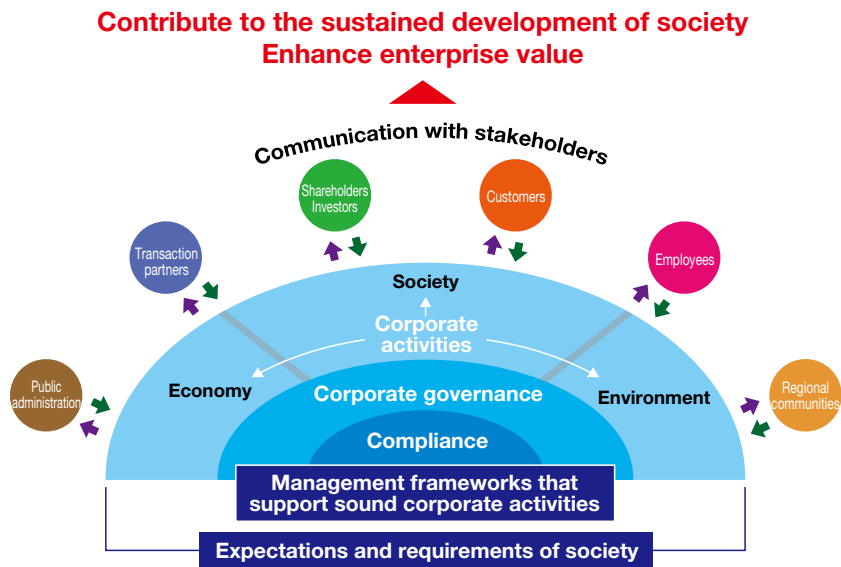
|                 |                    |   |
|-----------------|--------------------|---|
| President & CEO | Masahiro Mita      |   |
| Directors       | Shigetoshi Yako    |   |
|                 | Masaru Murakami    |   |
|                 | Takao Shimada      |   |
|                 | Kazufumi Kawamukai |   |
|                 | Koji Tanaka        |   |
|                 | Yasuyuki Nakae     | * Director Yasuyuki Nakae is an Outside Director as provided in Article 2 Clause 15 of the Companies Act.   |
| Auditors        | Kazuo Yamada       |   |
|                 | Atsuyoshi Utsugi   | * Auditors Hiroshi Takita and Atsushi Ito are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.   |
|                 | Hiroshi Takita     | * 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. |
|                 | Atsushi Ito        |   |



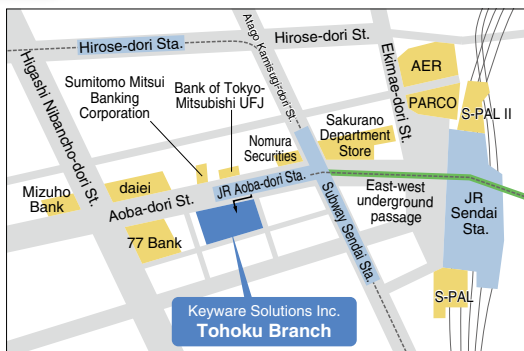
## Social and Environmental (CSR) Activities

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.



## Establishment of the Tohoku Branch



Our Tohoku branch, established in Sendai city in Miyagi prefecture, took up operations on April 2 this year. The branch will function as Keyware's hub for sales, marketing, and development activities in the Tohoku region. Additionally, in the IT field, where Keyware has its strengths, it will also serve for helping rebuild the Tohoku region after the Great East Japan Earthquake.



## Internet IR Information

### “Results briefing (video content)”

A video with the results briefing for fiscal year to March 2012 has been posted for viewing on the investor relations page of the Keyware website.



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

### “English language site” **NEW**

Aiming to provide highly transparent information and ease of use, we have renewed our English website.



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

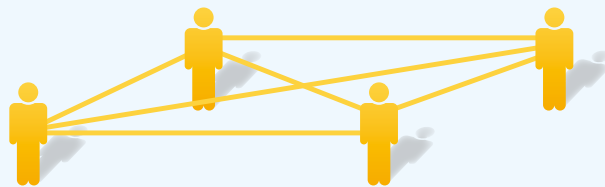
## Know and Learn! Application skills for the ICT 8

### «The spreading of social media»

“Social media” are media that let users disseminate and shape information, such as daily updated diary-type “Blogs”, or the short-message posting service “Twitter”, as well as “Facebook”, which has been making headlines of late. Together with the diffusion of smart phones and tablets, social media have been becoming widespread as a new type of media.

During the Great East Japan Earthquake, Twitter was widely used for information gathering and for checking on the safety of

family and friends, the reason being that Twitter mostly worked when neither phones nor e-mail were operational immediately after the disaster. Social media will continue to exert their significant influence in the world. Superior skills to extract the knowledge sought out of the mass of information and the ability to use social media work intelligently will be essential.





**Keyware Solutions Inc.**

5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan  
Corporate Administrative Unit, Corporate Planning Office,  
PR & IR Department

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

\* On June 26, 2012, we relocated our headquarters.



JUSE-NA-034  
JUSE-EG-266  
Registrations JUSE-IR-001

\* The company names and product names listed are trademarks or registered trademarks of their respected owners.