

KEYWARE TIMES

Annual Report 2013
Year Ended March 31, 2013
48th Term Business Report

➤ **Keyware works here, too!**

Corporate management support through the creation of backbone systems optimized at company-level

➤ **Feature | Top Level Interview**

Keyware, a company in constant evolution



KEYWARE
SOLUTIONS

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

IT can create it.

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➤ Keyware works here, too!

Corporate management support through the creation of backbone systems optimized at company-level

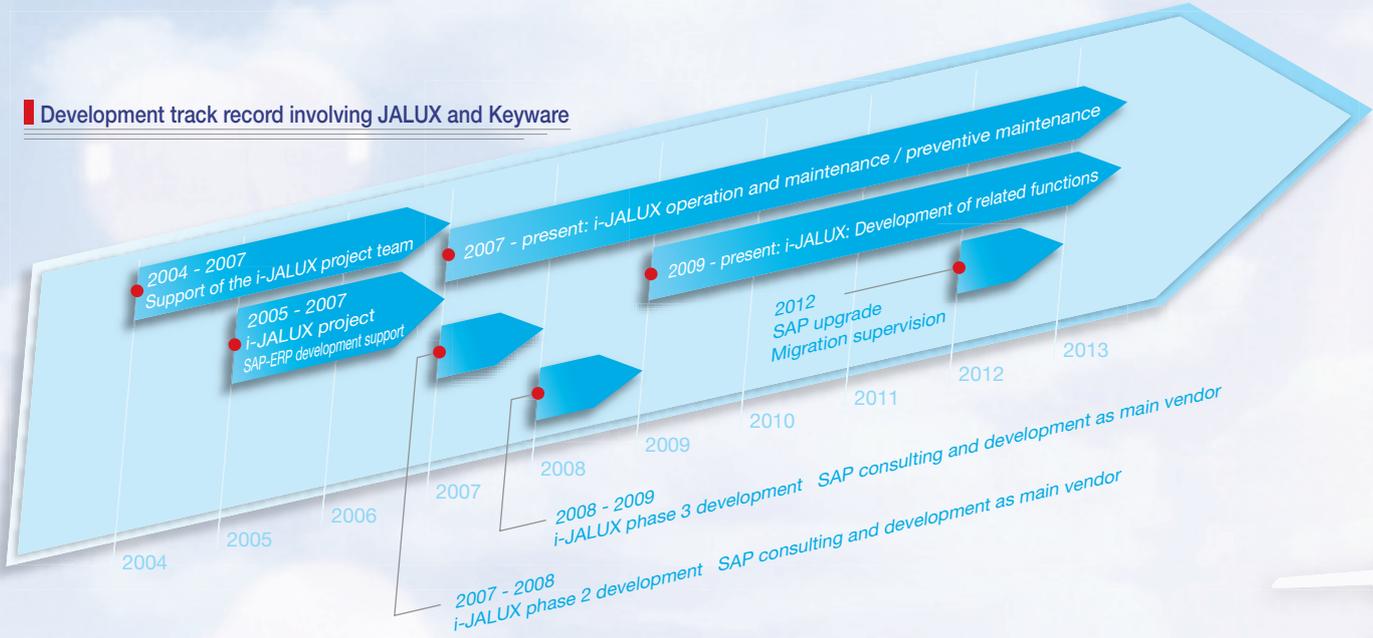
Corporate information systems today are facing sweeping change. Amid transforming business environments, specifically regarding globalization, required today for accelerating the speed of business, raising efficiency, and increasing added value are no longer the former systems once introduced for raising business efficiency by individual functions and units. Instead, backbone systems able to connect with management strategies and permit the integrated management of operations and information at the overall organization level, i.e., systems that enable “company level optimization,” have become indispensable.

One of the cases where Keyware has been aiding the company level optimization of backbone systems is JALUX, which has made “Contributing to Tomorrow” its corporate philosophy. JALUX has since its founding 51 years ago been operating as a trading company handling a wide scope of products and services for customers from corporations to general consumers. With defined core business areas in Aviation, Airports, and Food,

JALUX is engaged in a diverse range of businesses from handling aircraft parts and materials to the BLUE SKY operations of airport shops at 25 airports in Japan, as well as mail order, food and wine import, and insurance and real estate operations. Moreover, in recent years JALUX has proactively expanded the scope of its operations, including the establishment of branch office in western Japan and a representative office in Yangon.

This business structure raised the need for information system enhancements at the overall organization level. In order to achieve company level system optimization, a transition was initiated in 2002 from the previous backbone system to a new backbone system named i-JALUX. However, this process revealed a number of problems. In particular, given the diversity of JALUX business operations, since each function area had introduced systems with different specifications, the integrated use of information from each function area could not be achieved with the existing system environment. The main key to the problem therefore concerned the





question of how to interlink the existing systems.

Beginning in 2004, Keyware participated from the planning stage of i-JALUX, initially as IT coordinator in the role of a problem solver, aiding the production of a development plan and supporting the internal project team of JALUX. Subsequently, as development vendor Keyware launched the new backbone system, strictly keeping to the development schedule until the system was actually taken into operation. During this process, Keyware’s capabilities were highly rated with regard to Keyware’s track record and experience, grasp of the current system status, and smooth handover with the JALUX internal project team. Currently, Keyware has continuing contracts for the operations, maintenance, and improvement work of the SAP^(Note 1) ERP^(Note 2) and has been commissioned also for SAP upgrades and migration^(Note 3).

Keyware will continue to enhance the information system of JALUX and will propose system creation and introduction aligned with management strategies while continuing to cooperate with the various organization units in shared project advancement, consistent with the stance emphasized by Keyware from the development stage. Moreover, Keyware will continue to respond flexibly to business development for the future and support the creation of an uncomplicated IT infrastructure that is easy to use for everyone.

Note 1: SAP is a major vendor of ERP package software established in Waldorf, Germany.
 Note 2: ERP is short for Enterprise Resource Planning. An information system package (referred to as integrated business package) for the support of corporate backbone functions such as order receipt and sales management, inventory management, production management, and accounting.
 Note 3: Migration is the work involved in the transfer and conversion of systems and data.

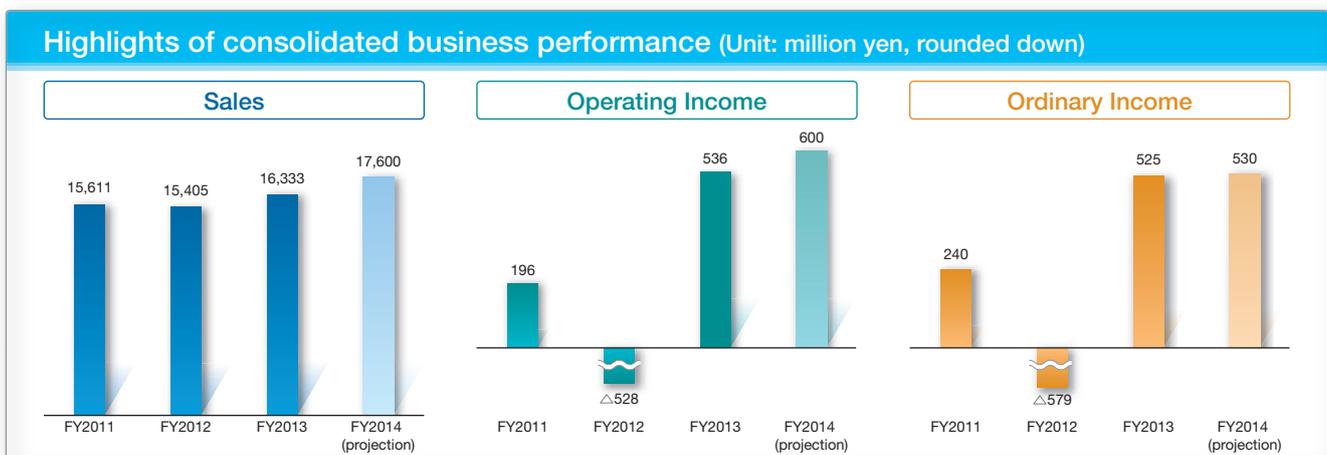
Message from the President



Dear Stakeholders,

The IT market is headed for big changes, brought on by the rapid diffusion of cloud computing and smart devices. Moreover, although the domestic economy has been on a moderate recovery track, budgets for IT investment cannot be expected to grow much, given the trend of expenses being kept in check by the use of cloud systems, among other factors. At the same time, development unit prices continue to fall as development projects shrink in scope and due to the intense competition among software development service providers. Companies that have software development services as a core business, including the Group, must therefore transform their business structures based on the structural changes in the IT market by creating new products and services.

The Group has reacted flexibly to the changing operating environment by carrying out drastic business restructuring at the end of the last business year and by devising its 3-year medium-term management plan “3



Frontiers!” (a Geographical and Spatial Frontier, a Business Frontier, and a Concept and Ideas Frontier), which started in the fiscal year to March 2013. With the new plan as the pillar of the Group’s strategy, we have been working to acquire new customers and widen our business fields. As a result of these developments, business results for the fiscal year to March 2013 surpassed original projections, posting sales revenues of ¥16,333 million (up 6.0% compared with the year earlier) with operating income of ¥536 million (compared with a loss of ¥528 million the year earlier), attaining the plan for the full fiscal year, and with a net result in the black for the first time in five years.

As to specific measures in the period under review, in April 2012, Keyware established its Tohoku Branch in Sendai city, Miyagi prefecture. As a new business site for sales and development, the branch will work to tap demand in this region. Moreover, it will also liaise with the City of Sendai and Tohoku University, which is located there, and will work on the creation of IT services that can

contribute to the reconstruction effort after the Great East Japan Earthquake. Furthermore, efforts have been made to create of a corporate culture where employees need to engage in transforming their ideas and concepts and proactively take up the challenges of entering new business fields. We have already started to make inroads into the logistics field and are working on developing applications for smartphones, and in this way are making steady progress in the qualitative and quantitative transformation of the business structure. With this first year of the medium-term management plan as a stepping stone, we will further strengthen our business platform towards a growth stage marked by sustained and stable high income.

The Group remains committed to becoming an enterprise trusted by its stakeholders and offering prospects of growth, and toward this goal will persist in aspiring to new heights.

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

President & CEO

Masahiro Iwata

Dividends

Implementation of results-linked dividend payments commensurate with the net result

Basic policies

Beginning with the fiscal year to March 2013, Keyware will implement results-linked dividend payments commensurate with the net result in order to provide shareholders with appropriate earnings distributions that reflect periodic business results.

Annual per-share dividend amounts over time



Per-share dividend for fiscal year to March 2014 (projection)

Annual dividend: Year-end dividend of ¥10

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

Keyware reacts flexibly to the structural changes in the IT market by using its 3-frontier strategy as the foundation for developing new business fields. With the strategy's results as a stepping stone, the Group will make big strides toward a full-scale growth stage with sustained high income.



Q1

What activities and results can Keyware report for the fiscal year to March 2013?

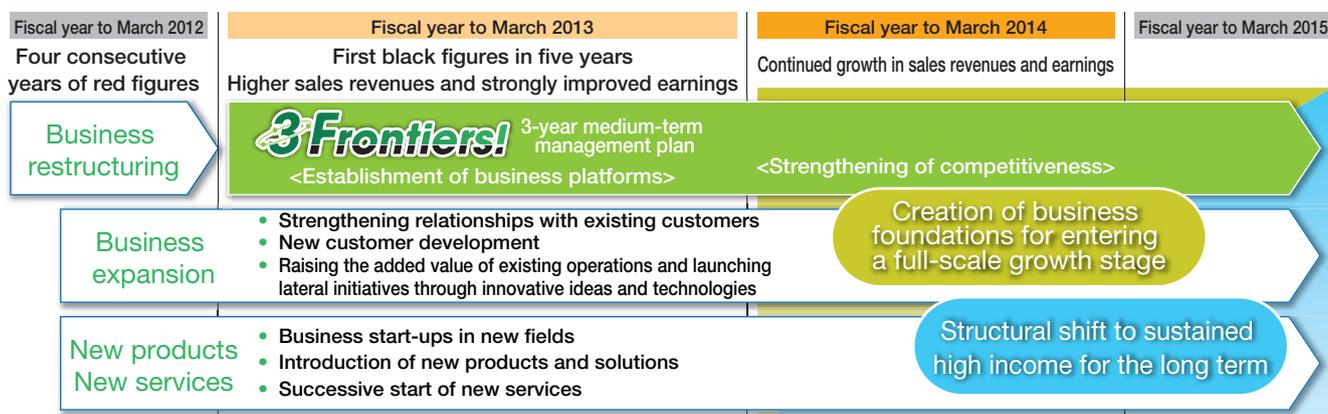
A1

With our medium-term management plan "3 Frontiers!" (which started in the year under review) as the strategic foundation, we implemented business operations based on the three different business types of Partner Type Business, Prime Type Business, and Service Type Business. As a result, we attained our plan for the full fiscal year and returned to black figures for the first time in five years.

One factor behind the improved performance is an increase in order receipts due to strategic sales and marketing, which includes framework proposals. We also enforced project management

and worked to prevent loss-making projects. These efforts also connected to enhancing earnings. Moreover, we used our accumulated technology expertise and industry and business knowledge for making inroads into logistics and service industries, perfecting our ERP packages, and developing smartphone applications, among other steps to widen our business fields that have been showing steady results. In the period under review, we have been able to create solid frameworks for advancing to a growth stage marked by sustained high earnings.

Second year of the medium-term management plan: Using the plan attainment of the first year as a stepping stone for creating a platform for sustained growth



Q2

What new activities regarding the Partner Type Business can Keyware report?

A2

The Partner Type Business is the business foundation of the Group. This business type relates to large projects for the medium and long terms, centered on the development of information systems to support social infrastructure. Orders come from five major customers^(Note). We have been in this business field for approximately 50 years, which has resulted in an accumulation of highly advanced technology capabilities and industry and business expertise, earning us the high praise and confidence of customers.

Leveraging this track record, in the period under review we placed special emphasis on sales activities surrounding framework

proposals. Unlike before, when we received orders as projects emerged at customers, we now structure specific frameworks and let ourselves be commissioned with the individual framework implementations. Or we offer proposals and let ourselves be commissioned with partial functions of customers' package software. As a result, we are able to increase order receipts for projects with superior profitability and continuity, which has greatly contributed to stabilizing our business operations. We will continue to further strengthen our relationships with existing customers and in this way aim to achieve stable order receipts.

Q3

What new activities regarding the Prime Type Business can Keyware report?

A3

The Prime Type Business builds on our skills and expertise accumulated in the Partner Type Business and involves aiding business operations through full support for customers' information systems from the top level, including business consulting. In order to respond to customers' wide-ranging requirements, the Group holds available a broad line-up of products such as ERP package software and EC site building package software. For example, in the period under review, the Group strengthened its cooperation with NTT Data Bizintegral Corporation and has further broadened its service range so as to enable customers to choose themselves

optimal solutions consistent with the scale of their business. Having

the Group commissioned with creating and restructuring information systems, complete and over the long term, connects also to stabilizing the Group's business operations. For the future, we are working on concepts to enhance earnings by launching services using cloud computing, consistent with the growing number of customers, so as to reduce the price that customers have to pay for our service and to lower our own cost of service provision.



President Nakayama of NTT Data Bizintegral Corporation at Keyware

Note: Keyware's five major customers: Specified customers who together account for 60 percent of the Group's order receipts (NEC and its affiliates, NTT affiliates, JR and its affiliates, HP Japan, and Mitsubishi Corp. and its affiliates).

Q4

What services and products for consumers will Keyware offer?

A4

As a Service Type Business we have been working on the development of applications using smartphones to enable the creation and provision of new solutions and services for consumers. We have already come to market with the “Health and Body Compass - LifeRoute,” a health management support service for android-type terminals, and the “Secure Curtain,” a smartphone application for the prevention of information leakage. Through these consumer-oriented services, we are seeking to increase the Keyware brand

recognition across a wider stratum of the population and in this way make the connection to new customer acquisition.

These activities will continue. However, despite our expanding scope of products and services, our fundamental stance remains unchanged. Holding fast to our firmly established foundation of contributing to the creation of social infrastructure systems over the long term, we will continue to spread the Keyware brand name across an ever wider range.

Smartphone application products

Health and Body Compass - Life Route

This service enables users to manage and enhance their lives by using smartphones for recording their daily health measurement data and nutritional information and for status checks using graphs and life logs.



Smartphone information leakage prevention application “Secure Curtain”

This application shields users from smartphone data leakage by detecting and warning users in advance of unauthorized access and unauthorized Wi-Fi based eavesdropping.



Q5 What is the outlook for Keyware?

A5 We will take an aggressive approach in engaging in new technologies and in meeting the needs of new industries, and proactively work on new customer development and on making inroads into new business fields. We will gradually raise the percentage weightings of the Prime Type Business and the Service Type Business. Initially, in the two years until the last year of the medium-term management plan, we will aim to raise sales revenues by 10.2% and operating income by 42.9% compared with the fiscal year to March 2013.

Notably, beginning with the fiscal year to March 2013, Keyware will implement results-linked dividend payments commensurate with the net result, so as to provide shareholders with appropriate earnings distributions that reflect periodic business results. In order to also provide shareholders in the future with prolific dividends, we will continue in our efforts to achieve sustained high income from operations.

In the two years ahead

Fiscal year to March 2013 -
fiscal year to March 2015

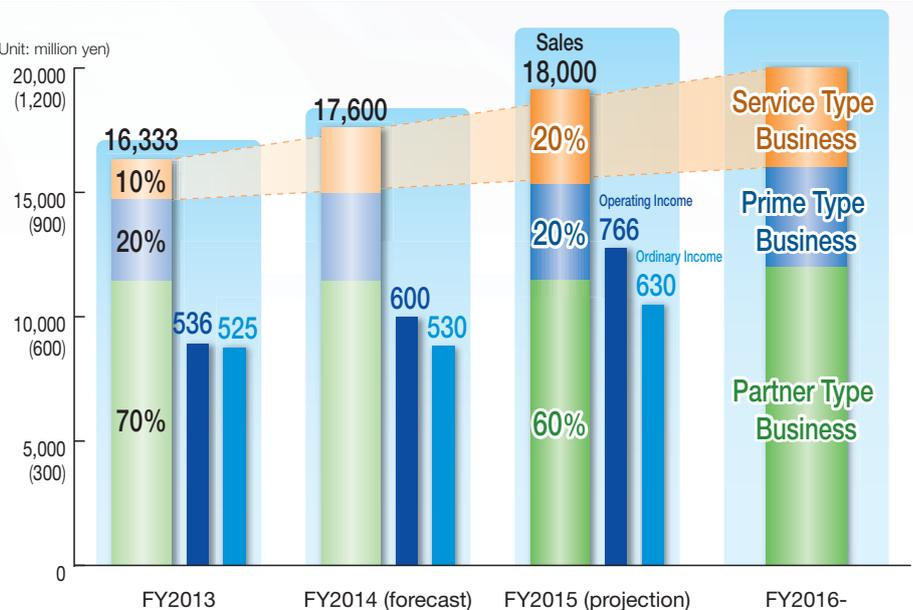
Centered on an expansion of the Service Type Business, plans call for 10.2% higher sales revenues and 42.9% higher operating income



3-Frontier strategy

(Unit: million yen)

Implementation policies	
Promotion of Partner Type Business	→ Strengthen relationships with existing customers
Promotion of Prime Type Business	→ Support customers' business management
Promotion of Service Type Business	→ Create new services and products



Current assets A

Current assets increased ¥755 million from the year earlier to ¥5,784 million, mainly reflecting higher accounts receivable and deferred tax assets.

Fixed assets B

Fixed assets decreased ¥29 million from the year earlier to ¥4,091 million, mainly reflecting goodwill amortization and software disposals.

Current liabilities C

Current liabilities decreased ¥400 million from the year earlier to ¥2,992 million, mainly reflecting repayment of short-term bank loans.

Fixed liabilities D

Fixed liabilities increased ¥696 million from the year earlier to ¥1,108 million, mainly reflecting new long-term bank loans.

Net assets E

Net assets increased ¥430 million from the year earlier to ¥5,774 million. Main factors were a reduction from the acquisition of treasury stock and an increase from the recognition of net income for the period.

Consolidated Balance Sheet

	Previous fiscal year ended March 31, 2012	Current fiscal year ended March 31, 2013
(Assets)		
A Current assets	5,028	5,784
B Fixed assets	4,120	4,091
Tangible fixed assets	165	154
Intangible fixed assets	928	836
Investments and other assets	3,027	3,100
Total assets	9,149	9,875
(Liabilities)		
C Current liabilities	3,392	2,992
D Fixed liabilities	412	1,108
Total liabilities	3,805	4,100
(Net assets)		
Shareholders' equity	5,333	5,757
Accumulated other comprehensive income	10	16
E Total net assets	5,343	5,774
Total liabilities and net assets	9,149	9,875

Consolidated Income Statements

	Previous fiscal year April 1, 2011 to March 31, 2012	Current fiscal year April 01, 2012 to March 31, 2013
F Net sales	15,405	16,333
Cost of sales	13,071	13,341
G Gross profit	2,334	2,991
Selling, general and administrative expenses	2,863	2,454
H Operating income or operating loss (-)	-528	536
Ordinary income or ordinary loss (-)	-579	525
Net income or net loss (-)	-1,154	583

Net sales **F**

Sales revenues increased ¥927 million from the year earlier to ¥16,333 million. Although the major user corporations continued to hold back with IT investments, the systems development division actively promoted proposals for users in telecommunications, financial services, and media, and the comprehensive services division did the same for users in transportation and infrastructure creation.

Gross profit **G**

The gross profit increased ¥657 million from the year earlier to ¥2,991 million, reflecting higher sales revenues and effects from the business restructuring implemented at the end of the previous fiscal year.

Operating income **H**

Operating income marked ¥536 million, reflecting the effects of the business restructuring implemented at the end of the previous fiscal year as well as ongoing cost reduction efforts, which lowered SG&A expenses by ¥408 million compared with the year earlier.

Consolidated cash flow **I**

Cash and cash equivalents totaled ¥638 million, which was ¥326 million less than in the year earlier. Main factors with respect to operating activities were income from pretax earnings for the period and expenditure from higher sales receivables; with respect to financing activities income from long-term bank loans; and with respect to investing activities expenditure for the acquisition of intangible assets.

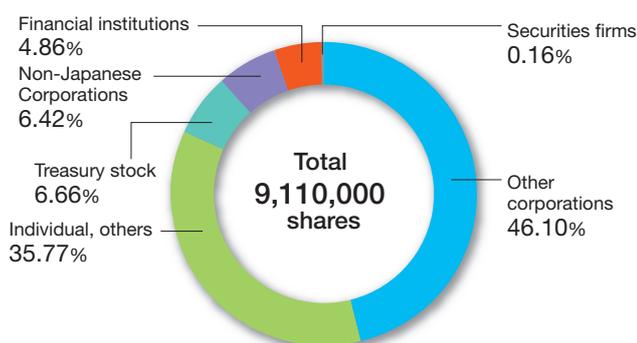
Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2011 to March 31, 2012	Current fiscal year April 01, 2012 to March 31, 2013
Cash flows from operating activities	-108	-448
Cash flows from investing activities	-97	-119
Cash flows from financing activities	-68	240
Decrease or increase in cash and cash equivalents	-274	-326
Balance of cash and cash equivalents at the beginning of year	1,240	965
Balance of cash and cash equivalents at the end of year	965	638

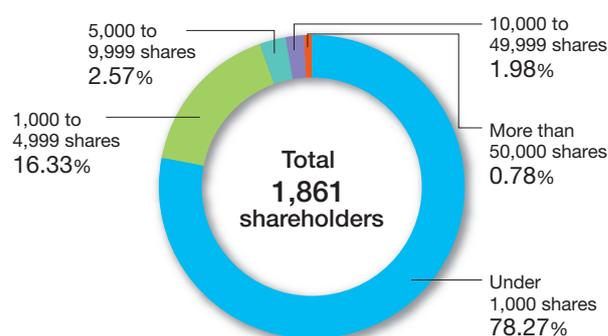
Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	1,861

- Major stockholders
- NEC Corporation
 - JR East Japan 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: 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] 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

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
Net sales	¥16,333 million (Consolidated, year ended March 31, 2013)
Employees	1,087 (Consolidated, as of March 31, 2013)
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



Headquarters

Executives

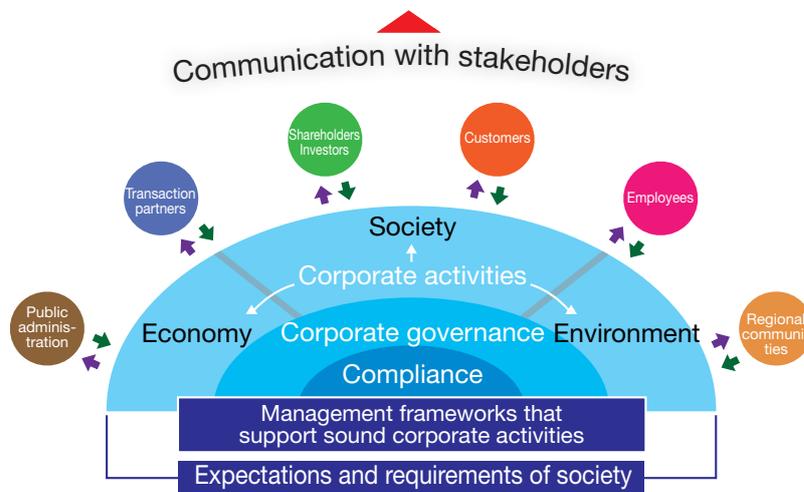
President & CEO	Masahiro Mita	
Directors	Masaru Murakami	
	Shigetoshi Yako	
	Takao Shimada	
	Kazufumi Kawamukai	
	Koji Tanaka	
	Kazuhiro Takada	* Director Kazuhiro Takada and Fumiyasu Hirano are Outside Directors as provided in Article 2 Clause 15 of the Companies Act.
	Fumiyasu Hirano	
Auditors	Kazuo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



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.

Contribute to the sustained development of society
Enhance enterprise value



NEWS

The Keyware Group companies websites (Japanese) have been renewed. Keyware Group continues in its efforts to provide site content consistent with stakeholders' information requirements.

Keyware Service Inc.



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

Keyware Hokkaido Inc.



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

Keyware Nishinippon Inc.



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

Keyware Kyusyu Inc.



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



Internet IR Information

“English language site”



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

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

“Results briefing (Japanese video content)”



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

A video of the results briefing is disseminated together with other materials. The information contains easy-to-follow explanations concerning the business report and future strategies of Keyware.

Know and Learn! Application skills for the ICT 10

Net-based elections and Big Data

With the ban on net-based elections scheduled to be removed beginning with the Upper House election in July, the role of Big Data has come into focus. Big Data, simply put, means the flood of information on the Internet. In the U.S. the Obama administration aggregated opinion surveys and information from the Internet as Big Data for the presidential election in 2012, which was considered a revolution in election data analysis.

The multiple layering of data analyses enables obtaining a more differentiated picture of the concerns and preferences of voters by specific regions and age brackets. This makes the Internet an instrument both for candidates to disseminate their election platforms and for aggregating information about voters. Along with the direction that an election is taking, depending on how Big Data is used, this two-way character of the Internet looks poised to progress to enable the easy information dissemination by any player.



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-PA-004
JUSE-EQ-006
Registrations JUSE-IR-001