

KEYWARE TIMES

Annual Report 2014
Year Ended March 31, 2014
49th Term Business Report

➤ Keyware works here, too!

“Instant correct news and data”

Support for systems that must not stop

➤ Feature 1

Strengthening management frameworks for further growth

➤ Feature 2

Communicating our operations to customers:

An introduction to the business of Keyware



KEYWARE
SOLUTIONS

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

IT can create it.

Contents

- 1 Keyware works here, too!
- 3 Message from the President
- 5 **Feature 1** Strengthening management frameworks for further growth
- 7 **Feature 2** Communicating our operations to customers: An introduction to the business of Keyware

- 9 Financial Statements (Summary)
- 11 Stock Information
- 12 Company Profile
- 13 Door to Keyware



➤ Keyware works here, too!

“Instant correct news and data” Support for systems that must not stop

In recent years, information and communication systems have been growing increasingly advanced and diversified, and reliance on information as a driving force of society has been spreading at an unprecedented speed. At the same time, globalization and the proliferation of smart devices have been accelerating the increase in the volume and diversity of information content. Along with these developments, corporations' constantly developing information systems need to be looked after. Keyware has been offering flexible responses to public and business environments and providing corporations with optimal system solutions.

As an example, take Jiji Press Ltd., a news service provider that has entered in contracts with some 140 media including TV stations and newspapers for the simultaneous provision of incessant streams of latest news from a variety of fields such as politics, the economy, society,

and sports. The news provided by Jiji Press are used in newspapers and broadcasts, as well as on information sites on the web, to be directly communicated also to a general readership. At the same time, while maintaining a network of foreign correspondents at 28 overseas branch offices at locations such as New York, London, Moscow, Sydney, Beijing, and Hanoi, Jiji Press in cooperative arrangements with international news services such as Thomson Reuters and APF* disseminates news (data) collected in large amounts over wire networks from all over the world. Recipients of these disseminations are not limited to Japan but extend to the overseas bases of Japanese corporations. Also, Jiji Press serves as a conduit between Japan and the rest of the world through its English real-time global news disseminations to overseas media about a diverse range of topics covering current affairs in Japanese politics, business, and society.



Jiji Press Building
(Head Office)

In addition to the information dissemination to media outlets, Jiji Press has a second business mainstay in news services for professional users in finance, economics, and politics at financial institutions and public sector agencies. This service is concerned with the dissemination of highly specialized news related to developments in financial and securities markets, policy bills at central government agencies, and trends in administrative affairs at local governments. These news are instantaneously communicated to market participants in securities and foreign exchange markets, and can have a significant impact on the economy and the general public in Japan and overseas through the large price movements that may follow in their wake.

Keyware has for over 20 years been involved with the systems for those market related news and data that Jiji Press provides to financial institutions and securities brokers, commodities traders, and business corporations. Specifically, Keyware has provided the system development, operations, and maintenance, as well as the implementation tasks which all of this requires, of the dedicated terminals that customers

contracting with Jiji Press use for receiving foreign currency and interest rate data and other news and information. Currently, with web-based information dissemination becoming the mainstream, Keyware is working on the development of systems for gathering market information and a part of the systems for providing customers with that news and market information.

Obviously, news and market information require speed and accuracy. Ensuring both and keeping information dissemination services running around the clock each day of the year without disruption are mission critical requirements for the systems of Jiji Press. Naturally, news dissemination modes and information systems will keep advancing as time goes on. Based on the wealth of accumulated expertise at the disposal of Keyware, and using the latest in IT technology and conceptual flexibility, we will continue striving to develop new full-featured services and in so doing provide support to our customers.

*AFP is the French abbreviation for Agence France-Presse, a news service company based in France.



Message from the President



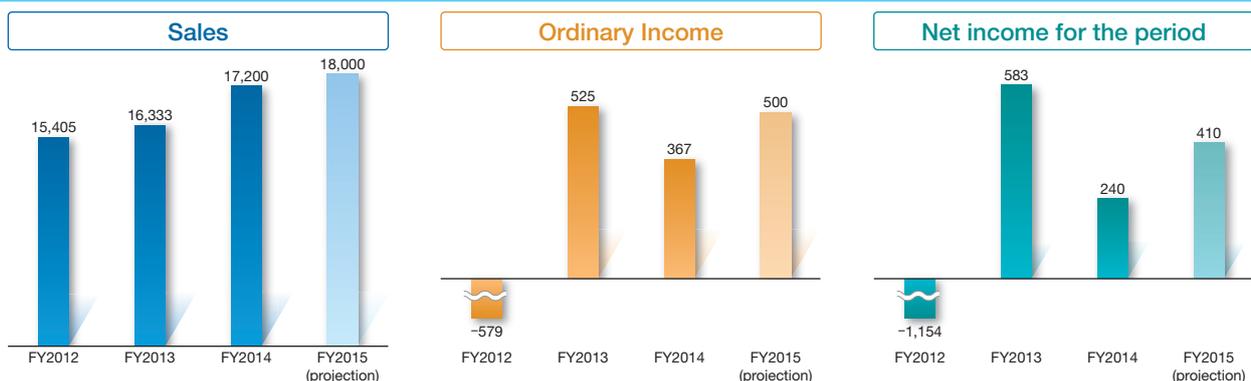
Dear Stakeholders,

The Japanese economy in the fiscal year to March 2014 staged a moderately paced recovery that was aided by policy measures instituted by the current government, resulting in monetary relaxation by the Bank of Japan and expanded public works, among others, accompanied by a correction of the strong yen and a pronounced rise in share prices.

In step with this slow-paced recovery of the domestic economy, the information services industry has been seeing improvements in the operating environment, even though the competition for new orders has been turning intense as cloud services are entering the mainstream.

In this environment, Keyware Group has been able to increase sales revenues thanks to a stable flow of orders in connection with ongoing or new projects from existing customers. In spite of this, however, the intensely competitive environment has been weighing down the profitability of Keyware's operations, and a number of projects yielded less than expected. As a result, although sales revenues for the fiscal year to March 2014 increased ¥867 million (up 5.3% compared

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



with the year-earlier period) to ¥17,200 million, operating income declined ¥168 million (down 31.3% compared with the year-earlier period) to ¥368 million, and net income fell ¥342 million (down 58.7% compared with the year-earlier period) to ¥240 million.

Based on the Group’s 3-year medium-term management plan “3 Frontiers!,” which relates to three frontier strategies comprised of a Geographical and Spatial Frontier, a Business Frontier, and a Concept and Ideas Frontier, Keyware Group is currently implementing policies aimed at expanding its business fields and developing new operations in areas that promise both growth and high income.

Under the current medium-term management plan, which ends in the fiscal year to March 2015, the Group will continue to work toward the attainment of the goals of the 3-frontier strategy. At the same time, with a view to the next medium-term business plan starting with the fiscal year to March 2016, measures will be promoted to further strengthen the Group’s business platforms.

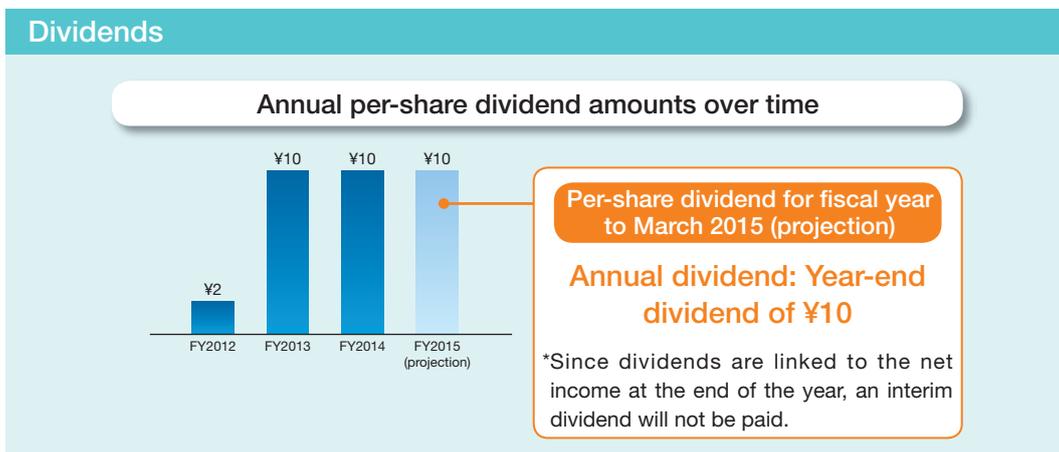
Specifically, in April 2014 we implemented organizational reforms with the objective of clarifying task execution, strengthening

marketing power, and improving strategic attributes and flexibility in product development. In staff deployment, we deployed line support staff as a cross-divisional organization engaged in coordination and support in close cooperation with product development and project teams. And in order to contain unprofitable projects and improve earnings, we strengthened project management frameworks. Through these and other measures, we created frameworks to enable the efficient execution of operations. Furthermore, in order to discharge the corporate social responsibilities of Keyware, the CSR Promotion Office was established.

Through these and other efforts, we will keep striving to win the trust and confidence of all stakeholders of Keyware Group and aspire to become a company that holds out a promise of growth.

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

President & CEO

Implementation of organizational reform with a view to future growth.

Based on the new structure, efforts continue to realize the medium-term management plan.

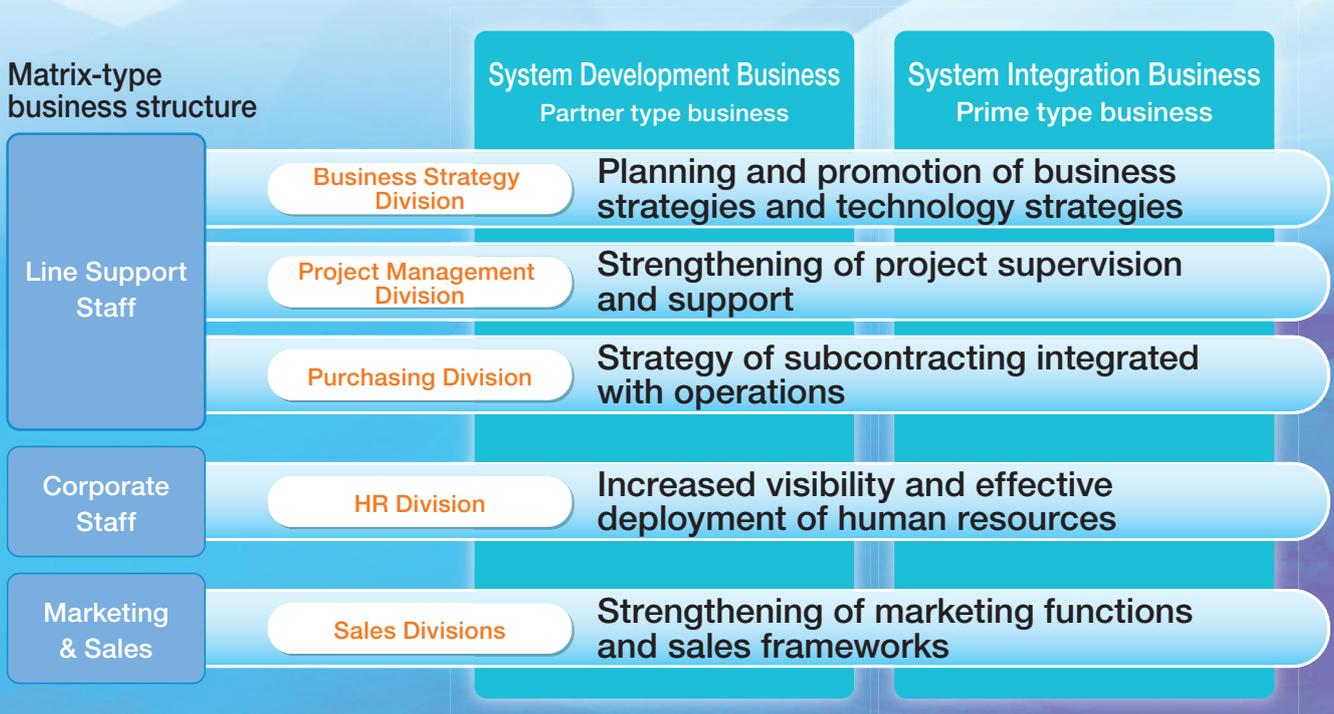


The fiscal year to March 2015, which is the final year of the current medium-term management plan, coincides with the drafting of the new medium-term management plan. Selected as the start date for compiling the new plan was April 1, 2014, the date the organizational reform went into effect. Based on the new organization structure, this date marks the beginning of efforts aiming at significant future accomplishments based on the 3 frontiers proposed by the “3 Frontiers!” current medium-term management plan.

Organizational reform Key points

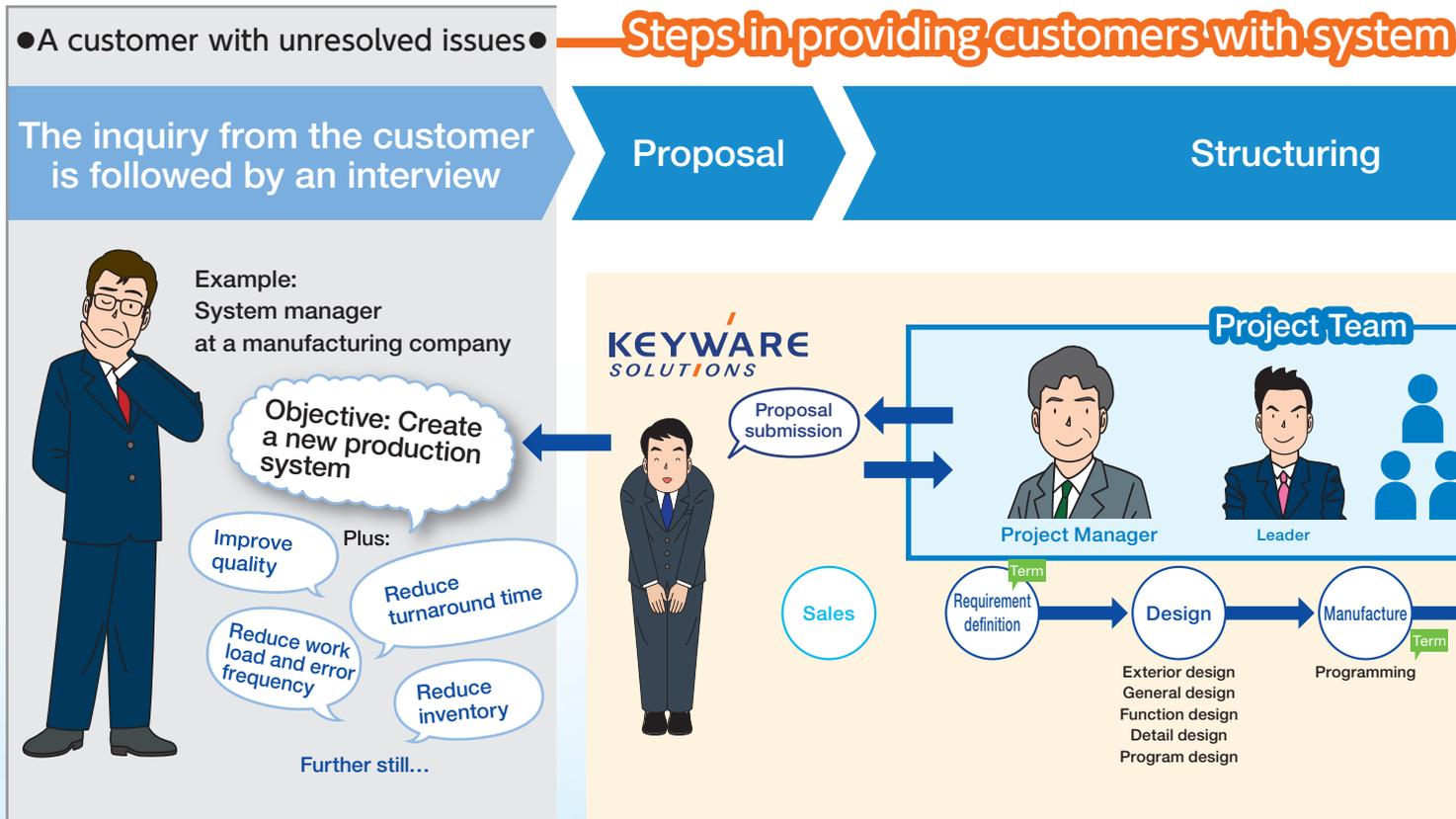
The aim of the organizational reform is to clarify task execution, to strengthen business promotion capabilities, and to achieve robust business platforms and further growth by reinforcing company-level cross-sectional functions (a matrix-type business structure) and individual sections.

- Clarification of authorities and responsibilities of executive officers
- Organizational reform to promote the sharing of skills and expertise among different organization units and to increase functionality and strategic attributes
 Examples: New deployment of “Line support staff”
 Strengthening of the functions of the human resources department
- Strengthening of marketing functions and sales frameworks
 Example: Newly established “Sales Promotion Division”
- Efforts surrounding operations for new services



Our core business: System development

Through system development, Keyware offers optimized solutions and services consistent with customers' problem issues and requirements, such as improving business efficiency and increasing competitive strength.



Pick Up Project team support members
Training of human resources

Keyware has among its employees many engineers actively engaged in projects who combine a diversity of IT skills with industry-specific expertise across a wide range, such as government agencies, forwarding, communications, finance, medical services, logistics and manufacturing. Keyware has been maintaining full-featured training programs in order to raise human resources highly specialized and equipped with the capabilities to appropriately respond to change.

Pick Up Strengths and special focus of system development at
(Competitive strength of Keyware in system development)

Project management	Industry-sector and operational expertise	Latest solutions	Technology capabilities
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Explanation of terms Requirement definition: Functions to be enabled by the system and clarification of specifications Programming: Writing and transposing the program that controls



Information Systems

Information systems = Critically important infrastructure for customers' company management

Strengthening of business platforms

- Increase operating efficiency
- Reduce costs
- Improve quality
- Strengthen competitiveness

development services

Delivery, operations, support

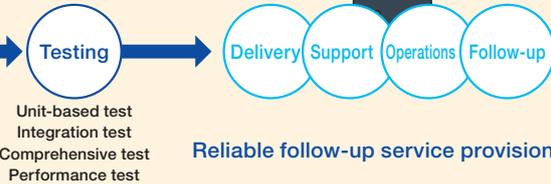
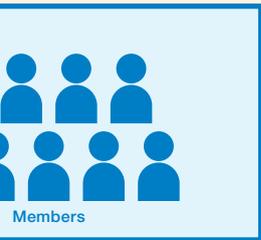
● Customer after system introduction ●

System introduction lets customers increase added value and competitive strength

Increase in income
Increase in sales

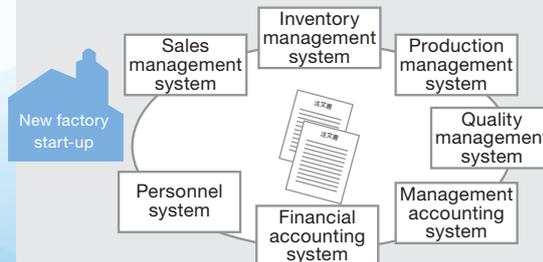


System ready for stable operations by the customer



- Improvement of operating efficiency
- Acceleration of decision making through increased visibility of the information required for business management
- Improved services and quality gains for customers

<Overall optimized structure and operation>



Keyware

Quality

Support capabilities

Pick Up

Making or breaking customer satisfaction:

The performance of the project manager

In addition to team member selection and external negotiations, the project manager has the overall responsibility for the project, including quality management, cost management, and turnaround time management.

Keyware implements training to increase project management capabilities and in order to enforce risk management provides a fully-fledged management office for third-party product management, and a diversity of other measures for the strengthening of project management.

the processing by the computer (orders and procedures) into code comprehensible to the computer using a language like Java, etc.

Consolidated Balance Sheet

	Previous fiscal year ended March 31, 2013	Current fiscal year ended March 31, 2014
A (Assets)		
Current assets	5,784	5,433
Fixed assets	4,091	3,990
Tangible fixed assets	154	134
Intangible fixed assets	836	988
Investments and other assets	3,100	2,867
Total assets	9,875	9,424

Assets

A

Assets decreased ¥451 million compared with the end of the previous fiscal year. Main factors were a fall in trade accounts receivable due to the factoring of trade receivables and a valuation loss on investment securities.

A (Assets)

Liabilities

B

Liabilities decreased ¥441 million compared with the end of the previous fiscal year. Main factors were higher provisioning for bonus payments following the introduction of a bonus system at a subsidiary, and a decline in short-term borrowings.

B (Liabilities)

B (Liabilities)		
Current liabilities	2,992	2,418
Fixed liabilities	1,108	1,240
Total liabilities	4,100	3,659

Net assets

C

Net assets decreased ¥10 million compared with the end of the previous fiscal year to ¥5,764 million (reflecting an equity ratio of 61.2%). The decline was mainly due to the recognition as treasury stock of shares of the Employee Stockholders' Association held in an ESOP trust ("ESOP Trust"), eclipsing the net income recognized for the period.

C (Net assets)

C (Net assets)		
Shareholders' equity	5,757	5,740
Accumulated other comprehensive income	16	24
Total net assets	5,774	5,764
Total liabilities and net assets	9,875	9,424

Consolidated Income Statements

	Previous fiscal year April 1, 2012 to March 31, 2013	Current fiscal year April 1, 2013 to March 31, 2014
D Net sales	16,333	17,200
Cost of sales	13,341	14,293
E Gross profit	2,991	2,907
F Selling, general and administrative expenses	2,454	2,538
Operating income	536	368
Ordinary income	525	367
Net income	583	240

Net sales**D**

Net sales increased ¥867 million compared with the year-earlier period mainly due to stable new order receipts from existing customers.

Gross profit**E**

Gross profit declined ¥84 million compared with the year-earlier period due a decline in profitability caused by the intensely competitive environment and income lower than expected from a number of projects.

**Selling, general and
administrative expenses****F**

Selling, general and administrative expenses increased ¥83 million compared with the year-earlier period mainly due to forward-looking strategic investments, etc., including personnel training.

Consolidated cash flow**G**

Net cash provided by operating activities resulted from a decline in trade accounts receivable and an increase in provisioning for bonuses.

Net cash used in investing activities and financing activities resulted respectively from expenditures for facility investments associated with backbone-system renewal and a reduction in short-term borrowings as well as the acquisition of own stock held in the ESOP trust.

As a result, cash and cash equivalents totaled ¥734 million (which is ¥95 million higher than cash and cash equivalents at the end of the previous fiscal year).

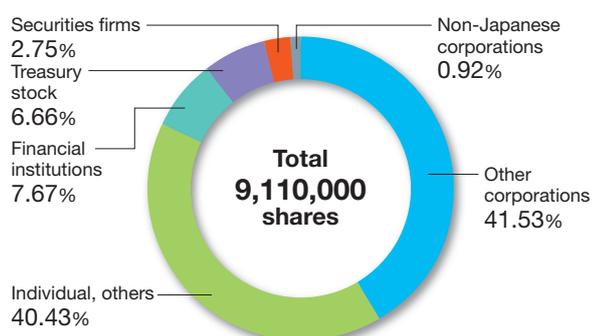
G Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2012 to March 31, 2013	Current fiscal year April 1, 2013 to March 31, 2014
Cash flows from operating activities	-448	1,200
Cash flows from investing activities	-119	-233
Cash flows from financing activities	240	-871
Decrease or increase in cash and cash equivalents	-326	95
Balance of cash and cash equivalents at the beginning of year	965	638
Balance of cash and cash equivalents at the end of year	638	734

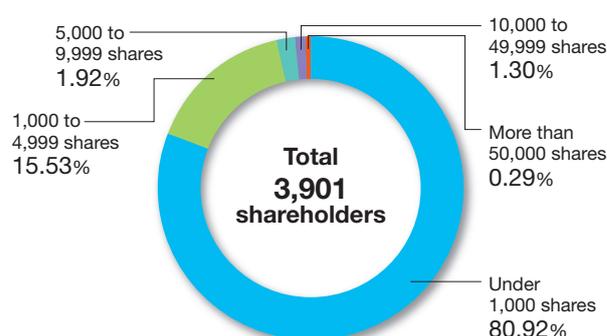
Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	3,901

- 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	Chairman Masaru Murakami President & CEO Masahiro Mita
Date of establishment	May 1965
Capital	¥1,737 million
Net sales	¥17,200 million (Consolidated, year ended March 31, 2014)
Employees	1,044 (Consolidated, as of March 31, 2014)
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

Chairman	Masaru Murakami	
President & CEO	Masahiro Mita	
Senior Managing Director	Shigetoshi Yako	
Managing Director	Takao Shimada	
Director	Kazufumi Kawamukai	
Director	Kazuhiro Takada	
Auditor	Kazuo Yamada	
Auditor	Atsuyoshi Utsugi	* Director Kazuhiro Takada is an Outside Director as provided in Article 2 Clause 15 of the Companies Act.
Auditor	Atsushi Ito	* Auditors Atsushi Ito and Hiroshi Takita are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.
Auditor	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.



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.



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



Presentations at events

Keyware has been giving presentations of Keyware products and solutions at various kinds of events and seminars. Information concerning events and seminars is available from the Keyware website.

Previous exhibitions		http://www.keyware.co.jp/seminar/index.html
May 14 – 16, 2014	5th Cloud Computing Expo Japan (Spring) at Tokyo Big Sight	
April 11 – 13, 2014	The International Technical Exhibition of Medical Imaging 2014 (ITEM2014) at Pacifico Yokohama	
March 4 – 7, 2014	Security Show 2014 at Tokyo Big Sight	
March 4 – 7, 2014	NFC & Smart World 2014 at Tokyo Big Sight	
November 13 – 14, 2013	Computerization Local Authorities at Tokyo Big Sight	





Internet IR Information

“English language site”



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

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 12

The expanding world of cloud computing

“Cloud” has become an often-encountered term today. An everyday example is web mail or the world of social media such as Facebook, with services such as video or photo-sharing. Likewise, in the corporate sector a growing number of companies are proactively adopting a range of cloud services.

“Cloud” is short for cloud computing. Before cloud computing, a PC in order to be usable needed to have software and data. With cloud

computing the software and data are located on a network server and services can be used over the network.

Data storage over the internet provides security and makes maintenance unnecessary. Cloud computing, which requires nothing more than a terminal with network connectivity, will continue to extend its reach both for business and personal use.



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>



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JUSE-EG-006
Registrations JUSE-IR-001

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