

# KEYWARE TIMES



Annual Report 2015  
Year Ended March 31, 2015  
50th Term Business Report

➤ **Keyware works here, too!**

Supporting research on cultivation technologies to realize next generation agriculture at "Ichigo Farm" in Watari Town

➤ **Feature 1**

Looking back on our first 50 years and ahead to our next 50 years

➤ **Feature 2**

Start of the Medium-Term Management Plan 2015



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

IT can create it.

---



➤ Keyware works here, too!

## Supporting research on cultivation technologies to realize next generation agriculture at "Ichigo Farm" in Watari Town

The Tohoku region's number one strawberry-producing center is Miyagi Prefecture. Watari Town along the Pacific coast in the southern part of the prefecture has a climate well-suited to growing strawberries with ample sunlight, even in winter, and free-draining sandy soil. Strawberries grown here have a reputation for being large and sweet. "Mou Ikko (one more piece)" and other varieties are shipped out nationwide from Miyagi Prefecture, and Watari Town accounted for 40% of the prefecture's total production.

The Great East Japan Earthquake completely changed this strawberry town. The tsunami, triggered by the earthquake, pushed far across the plains, flooding over 90% of the strawberry fields. Farmland was buried under debris, and the strawberries and growing houses were

almost completely wiped out. When the debris was finally removed over six months later, another ordeal was waiting. Seawater had seeped not just into the soil, but the groundwater as well, inflicting damage on account of the salt. As many of the town's strawberry farmers used soil cultivation techniques to produce strawberries, they suffered a huge blow with the soil unusable.

Even so, the people of Watari Town could never relinquish their hope of restoring strawberry production. They picked themselves up after these calamities and committed themselves to rebuilding the best strawberry-producing district in Tohoku with the slogan "The Revival of Strawberries is the Revival of Watari." Farmers decided to use a reconstruction grant from the national government to construct



Left: Greenhouses equipped with advanced equipment  
 Right: Cultivation in free-standing benches

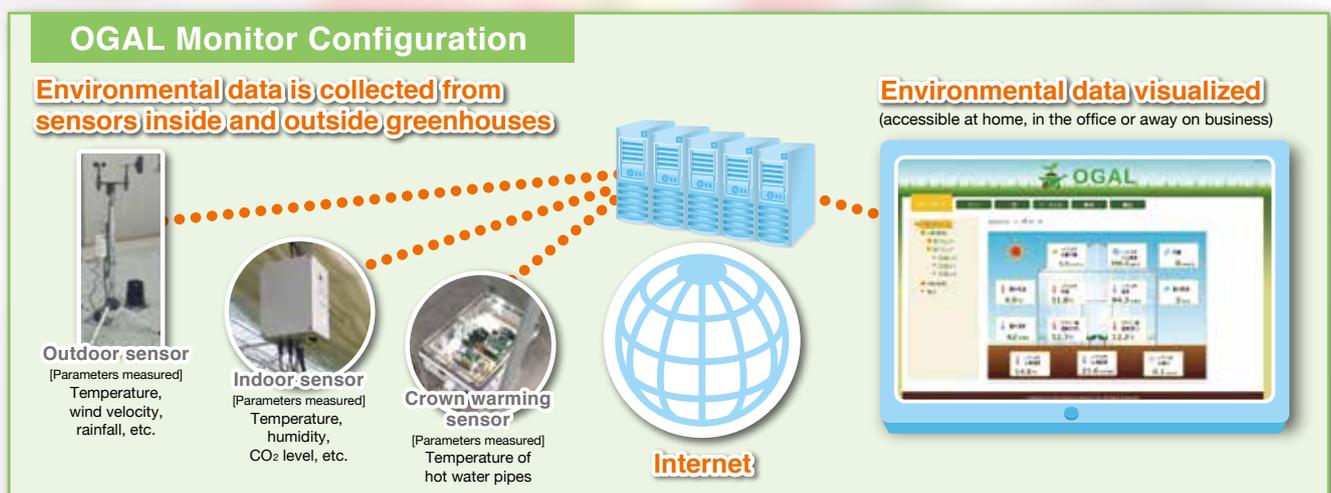
"Watari Town Strawberry Farm Complex," which would comprise large greenhouses and a sorting area. The complex was completed in September 2013.

However, there were also issues to be addressed before strawberry production could be restarted. Cultivation was converted from the previous soil method to a new method of cultivation in free-standing benches, on which planters are arranged at a height of one meter and infused with nutrients. Therefore, it was necessary to accumulate specific cultivation expertise, differing from that employed before the disaster.

Inside the complex, the town constructed "Ichigo (strawberry) Farm," a facility where research would be conducted on new cultivation techniques. Keyware provided the facility with OGAL Monitor, an ICT solution for agriculture, to support the acquisition of this new know-how. OGAL Monitor uses sensors to

automatically collect environmental data on field temperature, humidity and carbon dioxide levels, and may be monitored remotely using a computer or smartphone. The town studied cultivation techniques based on the data acquired from this system. The result was an improved method of carbon dioxide application, which stimulated strawberry growth and reduced fuel costs.

With an eye on the next 50 years, Keyware is committed to developing new business in the field of smart agriculture. We will continue to support research on new cultivation techniques to realize quality crops, improved yields and energy-savings, as well as the early extension of these techniques into regional areas. We will contribute the revitalization of Watari Town's strawberry production and the Tohoku region.





**This year Keyware Group marked its 50th founding anniversary. With a view to the Group's next 50 years, we will continue to strive to attain the goals of our new medium-term management plan.**

President & CEO

*Masahiro Inoue*

Dear Stakeholders,

The Japanese economy in the fiscal year to March 2015 staged a moderate recovery, attended by yen depreciation and rising share prices on the back of the Bank of Japan's policy of monetary easing and increased public works spending, both reflecting economic stimulus measures initiated by Japan's current government.

In the information services industry, positive signs emerged such as rising information technology investment thanks to robust earnings seen at Japan's major corporations. Even so, however, the environment remains adverse, with intense pressure on earnings amid severe competition mainly due to the diffusion of cloud services.

In this operating environment, multiple unprofitable project propositions since the second half of the previous fiscal year caused Keyware Group order opportunity losses,

resulting in a fall in new orders with sales below the year-earlier level.

Although earnings benefited from rigorous project management and input cost control, leading to strongly improved results in the second half, these gains could not cover the effects from unprofitable and low-margin projects in the first half of the fiscal year.

As a result of these developments, new order receipts in the fiscal year to March 2015 posted ¥15,983 million (-¥651 million, or -3.9%, compared with the year earlier), with sales of ¥16,382 million (-¥818 million or -4.8%), operating income of ¥2 million (-¥366 million, or -99.4%), and a net loss of ¥78 million (compared with net income of ¥240 million in the previous fiscal year). Regrettably, in consideration of the adverse financial results, a year-end dividend at the end of the fiscal year to March 2015 is not proposed. For the fiscal year to March 2016 a year-end dividend of ¥10 per share is projected.



Keyware has created a special website to commemorate the company's 50th founding anniversary.

The website traces Keyware Group's 50-year history.

A brief presentation of our past is provided on pages 5 and 6 of this edition of "KEYWARE TIMES."

<http://www.keyware.co.jp/50th/index.html>

Keyware Group marks 50th founding anniversary

On May 11, 2015, Keyware Group marked its 50th founding anniversary, thanks to the support and goodwill of all stakeholders of Keyware Group, especially shareholders, investors, customers, and partnering companies. On this occasion, we would like to express our heartfelt gratitude.

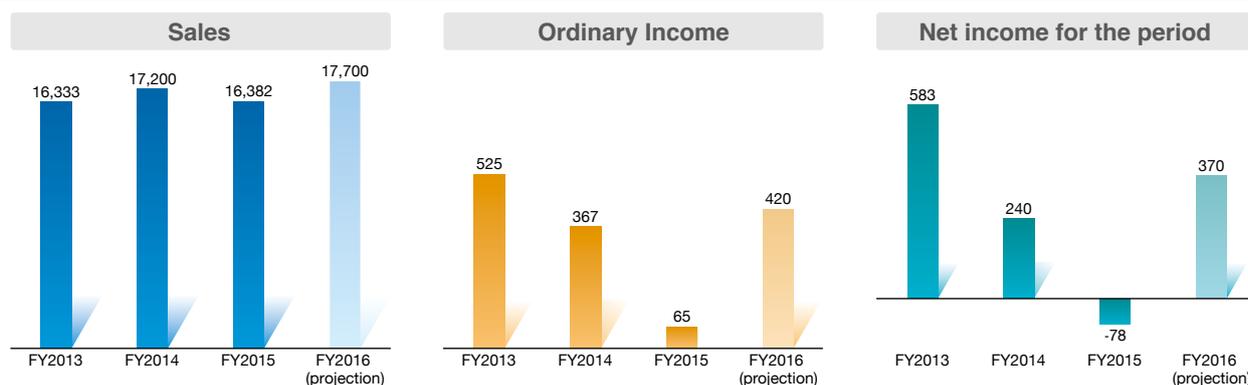
Since our founding in 1965, the dawn of the computer age, Keyware Group has been developing in big strides in step with information technology, and has contributed to the creation of information systems supporting social infrastructures in a diversity of fields such as government agencies, forwarding, communications, finance, medical services, logistics, and manufacturing. Today, building on the diversified industrial and operational know-how acquired through the Group's vast track record, Keyware Group provides also integrated services covering the width from consulting to the implementation, structuring, and running of IT solutions, and continues to enhance new service programs corresponding to diversifying business requirements amid rapidly evolving IT environments.

In April 2015, Keyware Group launched as its new 3-year medium-term management plan the Medium-Term Management Plan 2015, which started in the fiscal year to March 2016. The Medium-Term Management Plan 2015 calls for enhancing and steadying earnings at existing operations, and developing new business operations ("Frontier Businesses") in order to diversify the Group's business portfolio. Additionally, we will work to upgrade and innovate the Group's management platforms in order to realize our business strategies.

This medium-term management plan is meant to be the first 3-year medium-term management plan for the coming 50-year period, and as such marks an important starting point. The Group will stand together in joint efforts to attain the objectives of the medium-term management plan, with a view to achieving sustained business growth and steady enterprise value enhancement over the coming 50 years.

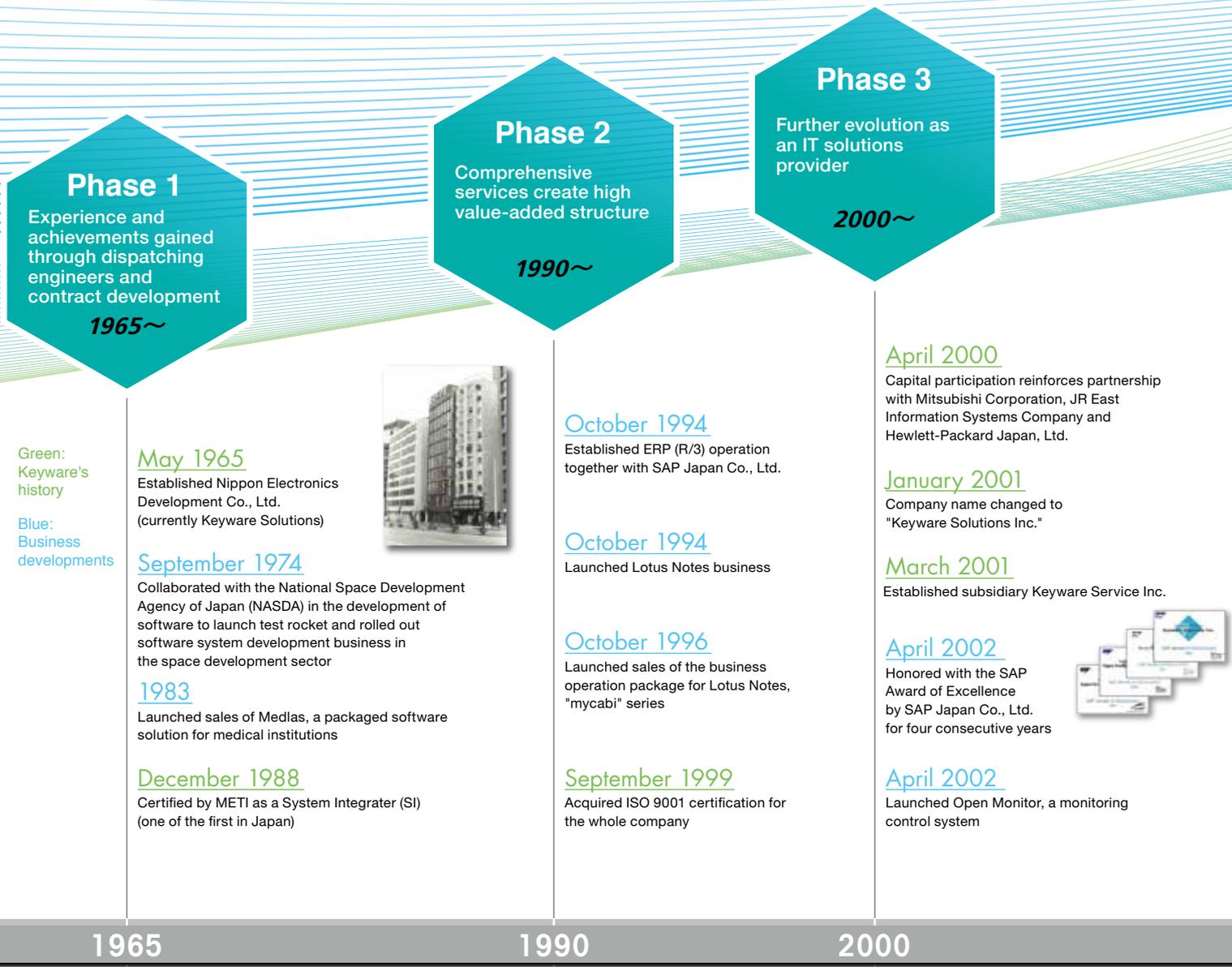
For these endeavors, we sincerely request the continued support and goodwill of our shareholders and investors.

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



# Looking back on our first 50 years and ahead to our next 50 years

Since our founding, Keyware Group has contributed to the construction of information systems supporting social infrastructure in conjunction with changes taking place in information technology. In the future as well, we will create new value as the ICT society evolves, and contribute to the development of a richer and more convenient society.



IT changes

Age of information processing

Age of decentralized client servers

Internet universality

Age of software development

Age of increased networking and outsourcing

For our next 50 years,  
we will continuously  
create new value as  
the ICT society evolves

2015~

Start of the Medium-Term  
Management Plan 2015

Phase 4

Actively committed to  
the new IT era

2003~

April 2003

Established subsidiaries Keyware  
Hokkaido Inc., Keyware Nishinippon Inc.,  
and Keyware Kyusyu Inc.

June 2006

Launched Thin Client Solutions

June 2006

Keyware's shares listed on the JASDAQ  
system Capital raised to ¥1,737 million

March 2008

Keyware's shares listed on the second  
section of the Tokyo Stock Exchange



April 2008

Creva Systems Co., Ltd. reorganized into subsidiary

March 2009

Honored with the TSE Disclosure New Face Award  
(Fiscal 2008)

February 2010

Concluded special agreement with  
NTT DATA INTRAMART CORPORATION  
for Biz|(biz integral) solutions sales

November 2010

Honored with the Excellent Project Partner's Award  
of the Autumn 2010 Bizintegral Award

June 2011

Launched IFS Applications, an ERP packaged  
software by IFS Japan K.K.

April 2012

Established Tohoku Branch

May 2013

Honored with the Sales Partner's  
Award of the Spring 2013 Bizintegral Award

March 2015

Launched OGAL series, ICT solutions for agriculture

April 2015

Established the Sapporo Branch, Osaka Branch,  
and Fukuoka Branch

May 2015

50th founding anniversary

2003

2010

2015

Age of mobile and cloud computing

Age of SNS and big data

A 3-year plan that takes a good look at the next 50 years

# Medium-Term Management Plan 2015

Fiscal year to March 2016 through fiscal year to March 2018

In the business environment facing Keyware, we see firm conditions arising for modernizing IT systems over the short- to medium-term as a result of such events as the upcoming introduction of the My Number national ID system and the increase in the consumption tax as well as the 2020 Tokyo Olympics and Para-Olympics. These challenges carry with them the risk of a chronic shortage in IT talent. Over the long term, we foresee that the employment of social networking, cloud environments, and mobile devices will change the vision of business and bring about the birth of new trends creating new business opportunities even for existing businesses.

Under these conditions, in order to realize sustainable growth over the next 50 years, Keyware Group will start its Medium-Term Management Plan 2015, our new three-year plan that goes into effect in the fiscal year to March 2016, which is the 50-year juncture in our company history.

## Plan Targets

Under the basic policies of "making a stable set of existing businesses with improved profitability," "diversifying the portfolio," and "solidifying and innovating the business structure," we aim for net sales of ¥19,000 million, operating income of ¥1,000 million, and operating profit margin of 5.3% in the fiscal year to March 2018.



Basic Policy

1

Making a stable set of existing businesses with improved profitability

Business strategy

**System Development Business**

▶▶▶ From customer alignment to work and field alignment

- Preserving our field-specific strengths, expanding businesses with high value added
- Reviewing project proposals and shifting resources to highly profitable projects

**System Integration Business**

▶▶▶ Expanding sales and profits in ERP business

- Expand the SAP business and promote use of Biz[(biz integral) and IFS
- Promote coordination with consulting firms
- Pursue new endeavors derived from the My Number system
- Promote coordination with other companies

Basic Policy

2

Diversifying the portfolio

Business strategy

**Frontier business (new businesses)**

Smart agriculture



Health care and medical



Combine with new technologies to create new business opportunities

Basic Policy

3

Solidifying and innovating the business structure

Business strategy

**Enhance the horizontal project function**

- Build a solid project management foundation
- Accurate cost control → strengthening the organizational structure across the company

**Employee "Active-Up"**

- Participatory employee business improvement activities → IKI<sup>2</sup>!(Iki-Iki) project
- Better work-life balance

## Assets

**A**

Assets increased ¥150 million compared with the previous fiscal year-end to ¥9,574 million mainly due to higher cash and deposits and increased intangible fixed assets associated with the renewal of main systems.

## Consolidated Balance Sheet

	Previous fiscal year ended March 31, 2014	Current fiscal year ended March 31, 2015
<b>A (Assets)</b>		
Current assets	5,433	5,533
Fixed assets	3,990	4,040
Tangible fixed assets	134	127
Intangible fixed assets	988	1,094
Investments and other assets	2,867	2,818
<b>Total assets</b>	<b>9,424</b>	<b>9,574</b>

## Liabilities

**B**

Liabilities increased ¥121 million compared with the previous fiscal-year end to ¥3,780 million mainly due to an increase in short-term borrowings that exceeded a fall in fixed liabilities from the repayment of long-term debt.

**B (Liabilities)**

Current liabilities	2,418	2,878
Fixed liabilities	1,240	901
<b>Total liabilities</b>	<b>3,659</b>	<b>3,780</b>

## Net assets

**C**

Net assets increased ¥28 million compared with the end of the previous fiscal year to ¥5,793 million due to adjustments associated with the application of retirement benefit accounting at an equity-method affiliate.

**C (Net assets)**

Shareholders' equity	5,740	5,598
Accumulated other comprehensive income	24	195
<b>Total net assets</b>	<b>5,764</b>	<b>5,793</b>
<b>Total liabilities and net assets</b>	<b>9,424</b>	<b>9,574</b>

## Consolidated Income Statements

	Previous fiscal year April 1, 2013 to March 31, 2014	Current fiscal year April 1, 2014 to March 31, 2015
<b>D</b> Net sales	17,200	16,382
Cost of sales	14,293	13,870
Gross profit	2,907	2,511
Selling, general and administrative expenses	2,538	2,509
<b>E</b> Operating income	368	2
Ordinary income	367	65
Net income or loss for the period	240	-78

**Net sales****D**

Sales decreased ¥818 million compared with the year earlier to ¥16,382 million, reflecting order opportunity losses due to unprofitable propositions continuing from the second half of the previous fiscal year.

**Operating income****E**

Operating income declined ¥366 million from the previous fiscal year to ¥2 million. Although rigorous project management, input cost control, and operating expense reductions connected to strongly improved earnings in the second half, these gains could not cover the effects from unprofitable and low-margin projects in the first half of the fiscal year.

**F** Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2013 to March 31, 2014	Current fiscal year April 1, 2014 to March 31, 2015
Cash flows from operating activities	1,200	192
Cash flows from investing activities	-233	-45
Cash flows from financing activities	-871	101
Decrease or increase in cash and cash equivalents	95	247
Balance of cash and cash equivalents at the beginning of year	638	734
Balance of cash and cash equivalents at the end of year	734	981

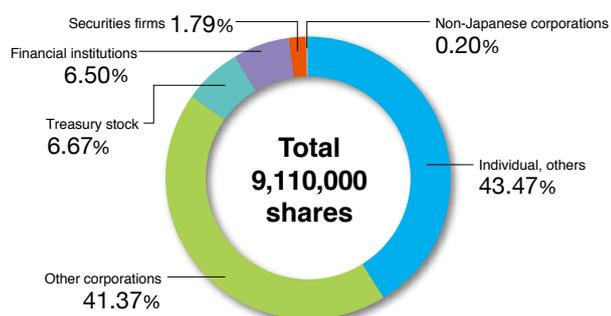
**Consolidated cash flow****F**

Net cash provided by operating activities was mainly due to income before income taxes and increased accrued consumption tax. Net cash used by investing activities was mainly due to expenditures for the acquisition of intangible fixed assets associated with the renewal of main systems. Net cash provided by financing activities was mainly due to increased short-term borrowing. As a result, cash and cash equivalents at the end of the fiscal year under review totaled ¥981 million, which was ¥247 million higher than in the previous fiscal year.

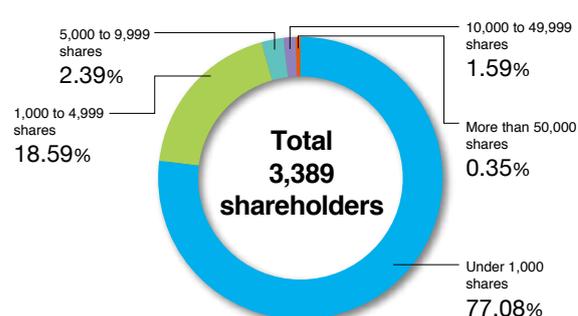
Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	3,389

- 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]	<a href="http://www.smtb.jp/personal/agency/index.html">http://www.smtb.jp/personal/agency/index.html</a>
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 of the Board Masaru Murakami President & CEO Masahiro Mita
Date of establishment	May 1965
Capital	1,737 million
Net sales	16,382 million (Consolidated, year ended March 31, 2015)
Employees	1,084 (Consolidated, as of March 31, 2015)
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



Head Office

## Executives

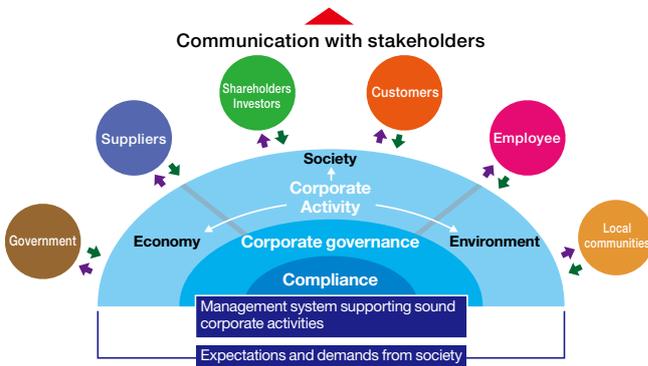
Chairman of the Board	Masaru Murakami	
President & CEO	Masahiro Mita	
Director	Kazufumi Kawamukai	
Director	Keiichi Endo	
Director	Shinichi Arakawa	
Director	Seiichi Takao	
Auditor	Atsuyoshi Utsugi	* Director Seiichi Takao is an Outside Director as provided in Article 2 Clause 15 of the Companies Act.
Auditor	Takao Shimada	* Auditors Atsushi Ito and Hiroshi Takita are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.
Auditor	Atsushi Ito	
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.

Contribute to society's sustainable development and improve corporate value



More information about Keyware Group's CSR activities is available on the company website. <http://www.keyware.co.jp/csr/index.html>



## TOPICS

Keyware Group participated in planning the Agri-Platform Consortium, which was established by the Keio Research Institute at SFC with the aims of having agricultural ICT more widely adopted and developing standards for agricultural data, and we also appeared in the joint press conference held in March 2015.



We will contribute to the Consortium's activities through the provision of OGAL, an agriculture ICT solution.



## New Branch Offices

In April 2015, branch offices were opened in Sapporo, Osaka and Fukuoka. These offices will operate as sales hubs to address demand for systems in municipalities around the country, and raise the sales capacity of our entire group by collaborating with regional group companies.



## Internet IR Information

### "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>

### Results briefing (video dissemination)

A video of the results briefing is disseminated together with the results briefing documentation.

The information contains easy-to-follow explanations concerning the business report and future strategies of Keyware.



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

## Know and Learn! Application skills for the ICT 14

### "IoT (Internet of Things)"

IoT is a concept in which networks are created of the various things around us to produce valuable services. IoT is an abbreviation of the "Internet of Things."

By attaching sensors to "things," their status at remote locations can be checked online and these remotely-located "things" can be controlled.

An example of an IoT application is a system for collecting temperature, humidity

and other environmental data from sensors mounted at a farm, and enabling these parameters to be monitored by computer or smartphone. Moreover, IoT application has also begun with disaster prevention measures using sensors set along roadways to ascertain traffic conditions so that weather, river levels and other elements can be monitored. Our lives will become more convenient and safer in the future.



**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>



QMS, EMS, ISMS JUSE-PA-034  
Registrations JUSE-FA-288  
JUSE-IR-001

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