

KEYWARE TIMES

Annual Report 2017
52nd Term Business Report
Year Ended March 31, 2017

>Feature

Initiatives for the fiscal year to March 2018

>Keyware Up Close

- Renewal and start of supply of Medlas-BR pathological examination system
- Establishment of the Iter Corporation joint venture



KEYWARE
SOLUTIONS

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

IT can create it.



We will promote profitability improvements in existing businesses and initiatives towards new fields as we aim to achieve sustainable business growth and raise corporate value.

President & CEO

Results for fiscal year ended March 2017

Dear Stakeholders,

During the fiscal year ended March 31, 2017, despite the mild recovery in the Japanese economy, the sense of future uncertainty continued as concerns arose over political trends in Europe and America and the Chinese economy decelerated. Under these conditions, the Keyware Group undertook efforts to raise profitability in existing businesses and to create new business ventures. In addition, it strove for solidifying and innovating the business structure through such means as improving employees' skills and thorough practice of project management. However, plan reviews at our client companies caused projects to be delayed or frozen, and we had to forgo orders that did not fit the timing of building a development structure. Consequently, net sales were lower than in the previous fiscal year. At the profit level, however, as a result of reductions in SG&A expenses and

other efforts, recorded profits were greater than in the previous fiscal year.

In this environment, the Keyware Group was able to bring in orders worth ¥14,926 million for the fiscal year (down ¥1,441 million or 8.8% from the previous fiscal year), and to achieve net sales of ¥15,373 million (down ¥615 million or 3.8%), operating income of ¥90 million (up ¥27 million or 43.3%), and net income attributable to the parent company of ¥91 million (up ¥25 million or 37.9%). For the year ending March 31, 2018, which is the final year of Medium-Term Management Plan 2015, as a result of analyzing our current status, with great regret we amended the earnings forecast values from the original plan.

As for dividends, in consideration of the year's financial results, we have paid a year-end dividend of five yen per share.

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Towards the fiscal year ending March 2018

As a result of ICT technologies including IoT and fintech, the future demand for IT investment for creating new business opportunities is expected to stick to a steady growth trend.

In this type of business environment, we aim for development of high-value-added business by focusing on the types of businesses and services in the System Development Business for which our Group possesses the requisite skills and expertise. As concrete initiatives in this area, we established a Financial Systems Division and strengthened our structure for expanding our domain of business in the financial sector. We foresee a recovery in demand for large outsourcing projects from existing customers, and in response to this demand, we intend to enhance training of technical experts and business partner alliances, which we will link to gaining orders.

With the intent of expanding the SI Business, we are moving ahead on strengthening the structure of the ERP business, which continues to have high demand prospects. In addition, we

aim to advance our distribution and services business, including wholesale, retail, and hotels.

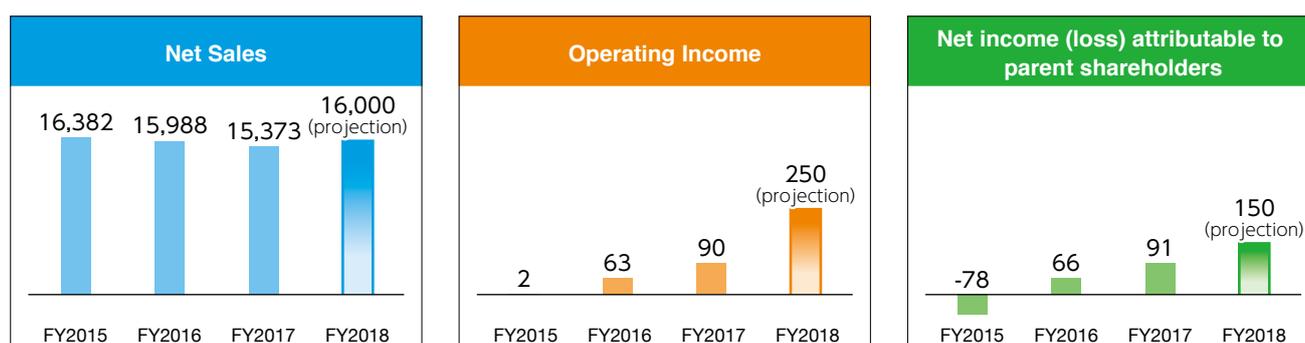
In new businesses, we are promoting the VSC business, a consulting service for productivity improvement, in addition to the fields of agricultural ICT and medicine and health care and will incorporate them into the diversification of our profit foundation.

In May 2017, a joint venture called Iter Corporation was established by four listed companies. We are also moving forward on fintech-related technology to provide new value through the development and provision of new solutions and services.

From here on, our Group will aim as one for sustainable business growth and further improvement to corporate value through vigorous efforts. For these efforts, we would like to request the continued support of our shareholders and investors.

Highlights of consolidated business performance

(Unit: million yen, rounded down)



- Initiatives for the fiscal year to March 2018 -

In accordance with the basic direction of the Medium-Term Management Plan 2015, we are moving ahead on initiatives for achieving our earnings forecasts.



System Development Business

1 Preserving strengths in designated businesses and services, and expanding high-value-added business

- Expanding the domain of the financial business
- Expanding the introduction of solutions in our areas of strength and proven track record
 - Growing orders in advertising management systems for ad agencies
 - Focusing on private demand for video surveillance technology

Setting up the Financial Systems Division

Strengthening the system for order expansion

Advancing the use of new channels and nurturing technical experts

2 Towards order expansion through proactive solutions in large-scale outsourcing projects

- Securing and nurturing technical experts in consideration of needed skills and timing
- Enhancing partner alliances
- Towards the realization of improved quality and higher margins through in-depth project management

Putting in place the Directory Services Development Division

Receiving orders for large-scale communications projects this fiscal year

Striving to accomplish large-scale, short-term solutions

■ SI Business

- 1 Growing the ERP business*¹**
 - Through greater investment in training, strengthen specialized skills and increase the number of certified consultants
- 2 Improving profitability through selection and focus**
 - Focus resources allocated to small projects onto large projects
- 3 Raising the profitability of distribution & service business**
 - Expand projects, concentrating on wholesale, retail, and hotels, and lift profit margins
- 4 Cultivating new customers**
 - Capture demand for converting processes to IT by strengthening the VSC*², a consulting service for productivity improvement

■ New Businesses

- 1 Continual promotion of the agriculture ICT and medical & health care domains**
 - Start provisioning of “services for passing down skills of expert farmers” *³
- 2 Enhancing VSC productivity improvement consulting services**
 - Expand focus on financial and retail fields
 - Increase the number of consultants



■ Solidifying and innovating the business structure

- 1 Exercising control over unprofitable projects**
 - Further enhancement through greater supervision and control of cross-organizational projects
- 2 Re-energizing the organization**
 - Business improvement activities on an employee participation model: IKI² Project
 - Promotion of workstyle innovation



*1 **ERP (enterprise resource planning) business:** A business that builds systems using an integrated business package (ERP package) that supports a corporation's core business processes such as order management, sales management, inventory control, production control, and accounting.

*2 **VSC (Virtual Support Center):** A process for taking low-value-added, white-collar services (marketing, sales, purchasing, human resources, finance, accounting, management, etc.) and dynamically recombining them into high-value-added services. Can be applied regardless of the type of work or service.

*3 **Services for passing down skills of expert farmers:** Brings AI to agriculture through a consulting and implementation support service for visualization of cultivation skills held by farmers for growing high-value-added crops and for spreading these skills and methods within the growing area. AI agriculture promotes innovations in social systems which change the "work" in "farmwork" by applying knowledge in information science, including artificial intelligence, to the agricultural sector. The initiative comes from a series of ideas advocated by Associate Professor Atsushi Shinjo of Keio University.

Medical Care

Renewal and start of supply of Medlas-BR pathological examination system

- Realizing improved convenience and control of introduction costs through use of a web browser -

Medlas-BR is a pathological examination system for top-rated medical institutions in sample tracking and case retrieval, which supports all of the following services in pathological examination systems: histological diagnosis, cytological diagnosis, autopsy, loan management, statistics, and others. For over 20 years since we started offering the system, it has been adopted by a large number of medical institutions.

The current update achieves improved convenience and control of introduction costs for pathological examination business through adoption of web browser support and open source.



From QR codes on a smartphone



<Product introduction site>

http://www.keyware.co.jp/english/services/sol_medical.html

Brand-New Business

Establishment of the Iter Corporation joint venture

Offering new services based on financial technology and ICT (information and communications technology)

On May 10, 2017, Iter Corporation was founded as a joint venture by four listed companies: Japan Investment Adviser Co., Ltd., PCI Holdings, INC., INTERTRADE Co.,Ltd., and Keyware Solutions Inc.

The venture aims to provide new value to the financial sector by leveraging financial sector know-how and the alliance network of Japan Investment Adviser Co., Ltd., by combining the ICT expertise and experience of each company, and by offering new fintech-based services that bring together the fields of finance and ICT.



From the left: Intertrade President Takahiro Ozaki; Keyware Solutions President and CEO Masahiro Mita; PCI Holdings President and CEO Toyomi Amano; and Japan Investment Adviser President, CEO and Director Naoto Shiraiwa (Photo credit: Nihon Securities Journal)

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/english/csr/index.html>



Know and Learn! Application skills for the ICT 15

Caution against using a slouching posture when viewing smartphone

When we operate a smartphone, we do so with a forward lean, bending our necks far enough to place a large stress on our bones. A common sight on a train is someone bending to an angle as low as 60 degrees, as shown on the right. This corresponds to exerting 27 kg of pressure on your body, equivalent to the weight of a third grade student.

So that this does not lead to a deterioration in health, it is essential when using a smartphone to always be mindful to hold it in front of your face. It is also helpful to lean on the sofa to support your neck.



Consolidated Balance Sheet

	Previous fiscal year ended March 31, 2016	Current fiscal year ended March 31, 2017
(Assets)		
Current assets	6,158	5,534
Fixed assets	3,805	3,578
Tangible fixed assets	117	114
Intangible fixed assets	917	790
Investments and other assets	2,770	2,673
Total assets	9,963	9,113

POINT: Assets

Assets at the end of the fiscal year fell by ¥849 million year over year to ¥9,113 million. The major reasons include decreases resulting from the collection of accounts receivable and depreciation of core systems.

(Liabilities)		
Current liabilities	3,318	2,526
Fixed liabilities	804	771
Total liabilities	4,122	3,297

POINT: Liabilities

Liabilities at the end of the fiscal year fell by ¥825 million year over year to ¥3,297 million. Long-term loans payable increased, while short-term loans payable decreased.

(Net assets)		
Shareholders' equity	5,699	5,792
Accumulated other comprehensive income	140	23
Total net assets	5,840	5,816
Total liabilities and net assets	9,963	9,113

POINT: Net assets

Net assets at the end of the fiscal year decreased by ¥24 million year over year to ¥5,816 million. Although a net profit was recorded for the period, there was a decrease in other comprehensive income. As a result, the shareholders equity ratio became 63.8%.

Consolidated Income Statements

	Previous fiscal year April 1, 2015 to March 31, 2016	Current fiscal year April 1, 2016 to March 31, 2017
Net sales	15,988	15,373
Cost of sales	13,317	12,963
Gross profit	2,670	2,409
Selling, general and administrative expenses	2,607	2,318
Operating income	63	90
Ordinary income	128	142
Net profit attributable to parent shareholders	66	91

POINT: Net sales

Net sales declined by ¥615 million year over year to ¥15,373 million. The major positive contributor was a healthy trend in finance, communications, ERP, and distribution systems, but this could not make up for the end of existing projects in government, public service, and transportation.

POINT: Operating income

Operating income increased by ¥27 million year over year to ¥90 million. Although gross margin fell due to a decline in net sales, thorough project management and efforts to reduce SG&A expenses improved results.

Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2015 to March 31, 2016	Current fiscal year April 1, 2016 to March 31, 2017
Cash flows from operating activities	-606	1,034
Cash flows from investing activities	105	-48
Cash flows from financing activities	404	-714
Decrease or increase in cash and cash equivalents	-96	271
Balance of cash and cash equivalents at the beginning of year	981	885
Balance of cash and cash equivalents at the end of year	885	1,156

POINT: Consolidated cash flow

In operating activities, there was an inflow of ¥1,034 million due to the recording of a profit in net income before income taxes and a reduction in accounts receivable. In investment activities, there was an outflow of ¥48 million due to such factors as acquisition of intangible fixed assets. In financing activities, there was an outflow of ¥714 million. While there was an increase in long-term loans payable, there was also a decrease in short-term loans payable. As a result, cash and cash equivalents at the end of the fiscal year was down ¥271 million year over year to ¥1,156 million.

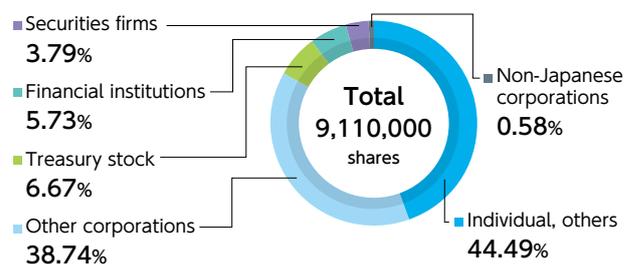
Stock Information

Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	3,024

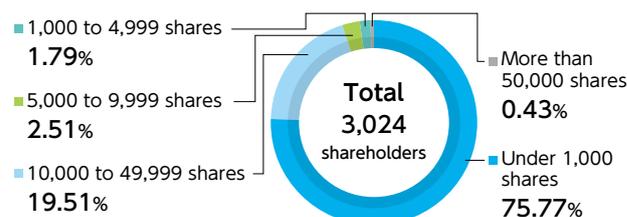
Major stockholders

NEC Corporation
 Sumitomo Life Insurance Company
 JR East Information Systems Company
 Sumitomo Mitsui Banking Corporation

Distribution of shareholders



Distribution by number of shares held



Notes for Shareholders

Fiscal year	April 1 to March 31
Date of general meeting of the shareholders	Every June
Shareholder registration date	Regular general meeting of the shareholders and fiscal year-end dividend: Every March 31 Interim dividend: Every 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

Procedures concerning shares of stock

Notification and inquiry for address change

If you wish to use an account at a securities company, you will not be able to perform the procedures at Sumitomo Mitsui Trust Bank. Instead, please contact a trading securities company. Shareholders who do not use a securities company account should please contact the phone number listed on the left.

Payment of dividends payable

Please apply to Sumitomo Mitsui Trust Bank, which is the administrator of the shareholder register.

About the statement of dividends

The Statement of Dividends, which is sent upon the payment of cash dividends also serves as the Notification of Dividends in accordance with the Act on Special Measures Concerning Taxation. The Notification of Dividends that you receive should be used to confirm the amount of payment and as materials for your annual tax declaration. Any questions on the proceeds in the shareholder's Notification of Payment, based on the method for proportional allocation of shares, should be addressed to the trading securities company.

Company Profile

Trade name	Keyware Solutions Inc.
Address	5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan
Date of establishment	May 1965
Capital	1,737 million
Sales	15,373 million (Consolidated, year ended March 31, 2017)
Employees	1,078 (Consolidated, as of March 31, 2017)
Certifications	Registered as a Quality Management Systems Company Firm Permitted to use the JIPDEC Privacy Mark Registered as an Information Security Management Systems Company Registered as an Environmental Management Systems Company

Executives

Chairman of the Board	Masaru Murakami
President & CEO	Masahiro Mita
Director	Shinichi Arakawa
Director	Seiichi Takao
Director	Nobuyuki Sawada
Director	Katsutoshi Okada
Director	Isao Takano
Auditor	Takao Shimada
Auditor	Hiroshi Takita
Auditor	Shinjiro Okazaki



Head Office

* Directors Katsutoshi Okada and Isao Takano are Outside Directors as provided in Article 2 Clause 15 of the Companies Act.

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

* Director Katsutoshi Okada and Auditor Hiroshi Takita are independent director/auditor who do not have the potential to cause conflicts of interest against general shareholders, the designation of which is required by the Tokyo Stock Exchange.

Internet IR Information

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

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

Keyware IR english

Search

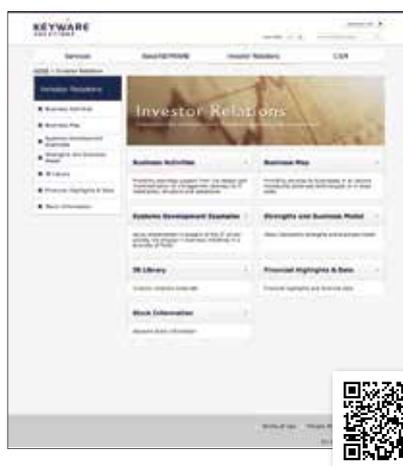
English language site

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



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

IR Information



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

Results briefing (video dissemination)

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



http://www.cmstream.com/ir/keyware201705_Q7bV45gF

KEYWARE
SOLUTIONS

Keyware Solutions Inc.

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

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



QMS, EMS, ISMS JUSE-PA-034
Registrations JUSE-FD-268
JUSE-IR-001

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