

KEYWARE TIMES

Annual Report 2018

53rd Term Business Report
Year Ended March 31, 2018

Keyware works here, too! | Fujisaki Co., Ltd.

Promoting workstyle innovation at a well-established department store, contributing to improved productivity through IT



KEYWARE
SOLUTIONS

Keyware Solutions Inc.

TSE 2nd Section Stock Code: 3799

IT can create it.

Message from the President



We will aim to achieve sustainable business growth and raise corporate value.

President & CEO

Masahiro Mita

Dear Stakeholders,

During the fiscal year ended March 31, 2018, Keyware Group undertook efforts to achieve the goals in our basic policy, namely stabilizing and raising profitability in existing businesses, diversifying the business portfolio, and solidifying and innovating the business structure. In order to expand orders in existing businesses, we promoted proactive sales activities to deepen our relationship with existing customers and strengthen alliances with new business partners. We aimed to improve profitability through activities to secure more profitable orders while controlling unprofitable projects. With an eye on diversifying our business portfolio, we promoted our new business, the Virtual Support Center (VSC)*, which provides consulting services for those who wish to

improve their productivity, in addition to businesses in areas such as agriculture ICT and medical & health care. In order to foster a lively company culture, we strove to solidify and innovate our business structure by promoting business improvement activities on an employee participation model.

As a result of these initiatives, each business recorded solid results. For the consolidated fiscal year ended March 31, 2018, Keyware Group was able to bring in orders of ¥17,010 million (up ¥2,084 million or 14.0% from the previous fiscal year) and to achieve net sales of ¥16,752 million (up ¥1,379 million or 9.0%) and operating income of ¥409 million (up ¥318 million or 351.4%), showing strong year-over-year improvement. Net profit attributable to parent shareholders was

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¥204 million (up ¥112 million or 122.4%) due to the impact of booking impairment losses on goodwill as extraordinary losses. As for dividends, in consideration for the year's financial results, we have paid a year-end dividend of eight yen per share.

For the fiscal year ending March 31, 2019, we expect that in addition to continual system renewal demand from existing customers, IT investment demand will increase due to developments in new technologies, such as AI, IoT, and fintech to improve productivity as workstyle innovation and labor shortages continue.

In this type of business environment, Keyware Group aims to secure and execute large outsourcing projects from existing customers by constructing a

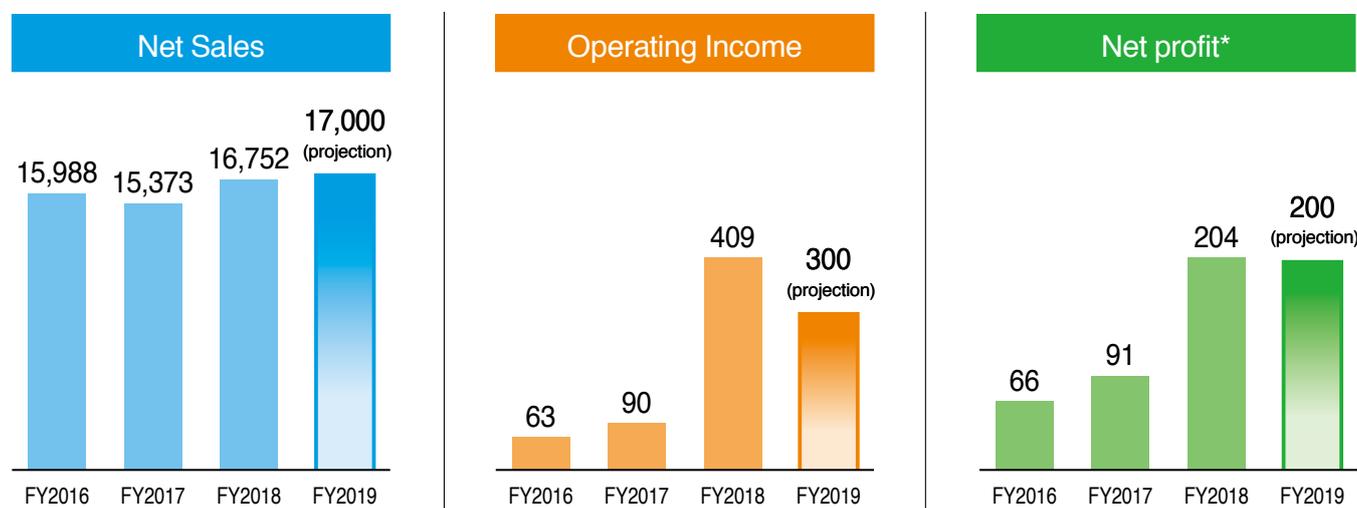
development system through cooperation between each group company and business partner. We will strive to secure new customers by utilizing various package solutions and offering IT consulting services. In addition to promoting outsourcing, we will strive to improve operational efficiency and raise development productivity in order to strengthen our profit base. Furthermore, we will make investments to train employees in new technologies and accelerate initiatives aimed at improving the rewarding nature of work in order to achieve sustainable growth.

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

* Virtual Support Center (VSC): A consulting service which improves customer productivity by shifting operations from low-value-added to high-value-added, primarily for white-collar departments such as sales

Highlights of consolidated business performance

(Unit: million yen, rounded down)



* Refers to net profit attributable to parent shareholders.



Keyware works here, too!

Promoting workstyle innovation at a well-established department store, contributing to improved productivity through IT



**Fujisaki Co., Ltd.
Main Building**

Established in 1819 in Sendai City, Miyagi Prefecture, Fujisaki is a well-established department store boasting 200 years of history. It operates stores in the Tohoku region, primarily around Sendai City, and records the highest sales of any department store in this region.

Fujisaki Co., Ltd. a well-established department store known for willingly serving the Tohoku region, has since its establishment maintained an unchanging doctrine of “serving customers who live in the Tohoku region.”

Fujisaki prioritizes communication and trust with its customers and has continued to maintain a hospitable nature unique to department stores through face-to-face sales and detailed services. At the same time, Fujisaki has executed initiatives which constantly combine tradition with innovation, such as new businesses in collaboration with local businesses or universities, or efforts to strengthen its e-commerce site.

Now facing the grand milestone of its 200th anniversary, Fujisaki has begun an initiative to improve operation efficiency through IT. Fujisaki strongly feels the need to innovate the workstyle of its employees to allow them to focus more on detailed, face-to-face customer service, a critical element of department stores.

Upon hearing Fujisaki's thoughts and issues in current operations, Keyware proposed the use of RPA* in background administrative tasks.

RPA is gaining attention as a new technology which can contribute to higher labor productivity by automatizing fixed tasks that had been done by hand, such as inputting, transcribing, or checking data, and by conducting such tasks more accurately and quicker than people.

As a first step in this initiative, RPA will automatize the fixed tasks of inputting and tallying product information for the summer and year-end gift-giving seasons. Fujisaki has noted that a major issue in its department stores is that employees are unable to

* Abbreviation for Robotic Process Automation

spend enough time interacting with customers and making face-to-face sales, critical activities for the company, as all product name and number registration is conducted by hand, which requires a large number of staff during peak periods.

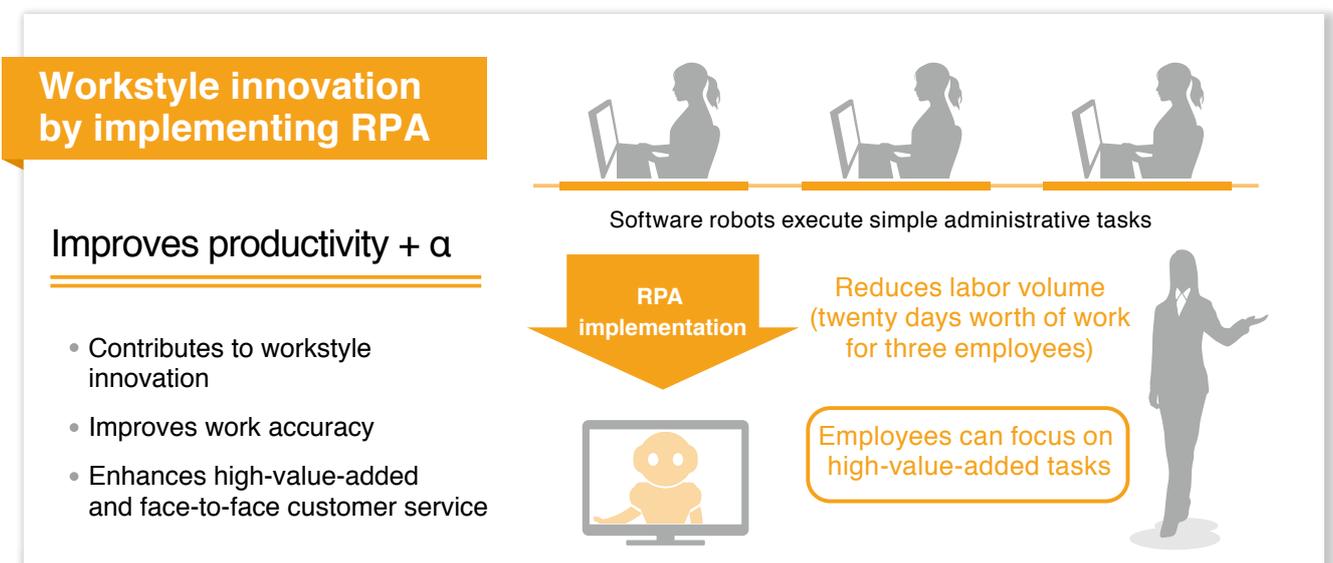


Fujisaki seasonal gifts sales scene

Aiming to implement RPA, Keyware began by taking stock and analyzing each and every task. It developed rules and determination standards necessary in order for software robots to automatically process paperwork. Thanks to the help of Fujisaki, it was able to implement this software within the short period of just three months.

After implementation, Keyware expects to reduce labor volume (twenty days worth of work for three employees) compared to when this work was done by hand. It expects that this saved time and labor to be spent on customer service. Fujisaki plans to continue to expand the use of RPA into corporate department operations, such as materials drafting and management operations support, and promote innovation in internal workstyles.

Keyware predicts that movement to improve productivity by allowing software robots to execute fixed tasks which had required a lot of time and labor will further accelerate in the future. Keyware will accurately pinpoint customer needs and further expand its solutions which utilize RPA.



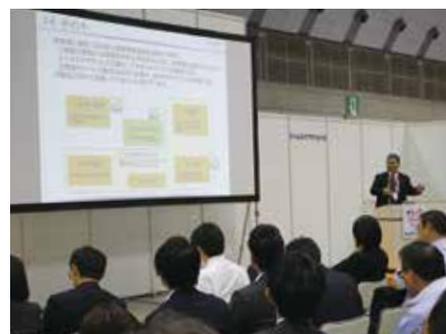
»» IT Event

■ Introduced “Personal Health Record Solution LifeRoute” at HealthCare IT 2018

Keyware opened an exhibit at HealthCare IT 2018, an event held at Tokyo Big Sight in April 2018.

In recent years, there have been rising needs from companies and local governments for solutions which manage the health of employees and residents. Keyware introduced the services of “Personal Health Record Solution LifeRoute” which records and manages individual health information. In addition to displaying the usable devices, it

held a session entitled “Personal Health Record Solution LifeRoute: A healthcare solution which utilizes alliances with cutting-edge health management companies and local medical institutions.” Many representatives from local governments and healthcare-related companies which are involved in health businesses attended the session.



Session

»» Seminar

■ Held seminars on cutting-edge themes such as Cloud ERP, RPA, and workstyle innovation

Keyware holds seminars on various themes in order to introduce its cutting-edge solutions and services. Many companies attend these seminars every time.

Keyware plans to hold seminars in the future which focus on the newest topics and themes which meet the needs of its customers.



“Raising corporate value through workstyle innovation seminar”

Major seminars held between October 2017 and March 2018

- Raising corporate value through workstyle innovation - seminar Improve productivity through IT
- Automating fixed tasks seminar - Experience the much-rumored RPA!
- Create real-time management with Cloud ERP to win post-2020 (Joint seminar with NEC Corporation)

CSR activities - working with communities

Keyware Group has conducted monthly cleanings of the area surrounding its main office in order to contribute to efforts to enhance the natural beauty of the regional society and create a town which is easy to live in. In November and December 2017, around 200 officers and employees participated in cleaning the fallen leaves of zelkova trees in the surrounding area twice a week for a total of 12 times.

Keyware Group plans to continue promoting activities which contribute to its society in order to treasure the connection between it and its local community.



Cleaning fallen leaves



Keyware issues the “CSR Report” every year. Please view this report from the Company website (Japanese only).

▶ <https://www.keyware.co.jp/about/csr/report-index.html>

Know and Learn!

Application skills for the ICT 17

Quickly receive emergency notices during disasters with L-Alert

“L-Alert” is the disaster information sharing system promoted by the Ministry of Internal Affairs and Communications which gathers regional disaster-related information from local public organizations and transmits this information to residents at once using assorted media. One can quickly receive emergency notices about evacuation orders/instructions, evacuation sites, meteorological information, and natural disaster information for typhoons, landslides, and floods through the television, radio, or Internet. “Area Mail” and “Emergency News Mail” can be sent to cell phones and smart phones for those in the area facing risks of disaster. Please confirm service and means of usage with your telecommunications provider.



Financial Statements (Summary)

Unit: million yen, rounded down

Consolidated Balance Sheet

| | Previous fiscal year ended March 31, 2017 | Current fiscal year ended March 31, 2018 |
|--|--|---|
|--|--|---|

(Assets)

| | | |
|------------------------------|--------------|--------------|
| Current assets | 5,534 | 6,457 |
| Fixed assets | 3,578 | 3,339 |
| Tangible fixed assets | 114 | 106 |
| Intangible fixed assets | 790 | 472 |
| Investments and other assets | 2,673 | 2,760 |
| Total assets | 9,113 | 9,797 |

POINT: Assets

Current assets were ¥6,457 million, up ¥922 million year over year due to increases in cash and deposits, and accounts receivable. Fixed assets were ¥3,339 million, down ¥239 million year over year due to impairment of goodwill and depreciation of core systems.

(Liabilities)

| | | |
|--------------------------|--------------|--------------|
| Current liabilities | 2,526 | 3,062 |
| Fixed liabilities | 771 | 687 |
| Total liabilities | 3,297 | 3,749 |

POINT: Liabilities

While long term loans payable decreased with repayments, liabilities were ¥3,749 million, up ¥452 million year over year due to increase in short term loans payable.

(Net assets)

| | | |
|---|--------------|--------------|
| Shareholders' equity | 5,792 | 6,010 |
| Accumulated other comprehensive income | 23 | 36 |
| Total net assets | 5,816 | 6,047 |
| Total liabilities and net assets | 9,113 | 9,797 |

POINT: Net assets

Net assets were ¥6,047 million, up ¥230 million year over year due to booking net profit. As a result, shareholders equity ratio became 61.7%.

Consolidated Income Statements

| | Previous fiscal year April 1, 2016 to March 31, 2017 | Current fiscal year April 1, 2017 to March 31, 2018 |
|---|---|--|
| Net sales | 15,373 | 16,752 |
| Cost of sales | 12,963 | 13,985 |
| Gross profit | 2,409 | 2,767 |
| Selling, general and administrative expenses | 2,318 | 2,357 |
| Operating income | 90 | 409 |
| Ordinary income | 142 | 465 |
| Net profit attributable to parent shareholders | 91 | 204 |

POINT: Net sales

Net sales were ¥16,752 million, up ¥1,379 million year over year due to the expansion of sales in government, medical, and finance and securing large contracts in transportation and communications.

POINT: Operating income

Operating income was ¥409 million, up ¥318 million year over year due to higher sales and improved GPM.

POINT: Consolidated cash flow

In operating activities, there was a positive cash flow of ¥551 million due to booking a profit in net income before income taxes as well as booking depreciation expenses and impairment losses on goodwill. In investment activities, there was a negative cash flow of ¥64 million due to such factors as acquisition of intangible fixed assets. In financing activities, there was a negative cash flow of ¥52 million due to increase in short term loans payable and repayments of long term loans payable. As a result, the balance of cash and cash equivalents at the end of the fiscal year became ¥1,590 million, up ¥433 million year over year.

Consolidated Statement of Cash Flows

| | Previous fiscal year April 1, 2016 to March 31, 2017 | Current fiscal year April 1, 2017 to March 31, 2018 |
|---|---|--|
| Cash flows from operating activities | 1,034 | 551 |
| Cash flows from investing activities | -48 | -64 |
| Cash flows from financing activities | -714 | -52 |
| Decrease or increase in cash and cash equivalents | 271 | 433 |
| Balance of cash and cash equivalents at the beginning of year | 885 | 1,156 |
| Balance of cash and cash equivalents at the end of year | 1,156 | 1,590 |

Stock Information

| | |
|--------------------------|------------|
| Authorized shares | 36,440,000 |
| Outstanding shares | 9,110,000 |
| Shareholders | 3,358 |

● Major shareholders

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

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**
Please contact the securities company which you use. Shareholders who do not use a securities company account should contact the phone number listed above for Sumitomo Mitsui Trust Bank.
- **Receipt of dividends payable**
Please apply to Sumitomo Mitsui Trust Bank, which is the administrator of the shareholder register.

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 | 16,752 million (Consolidated, year ended March 31, 2018) |
| Employees | 1,072 (Consolidated, as of March 31, 2018) |
| 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

| | | | |
|-----------------|------------------|---------|------------------|
| President & CEO | Masahiro Mita | Auditor | Takao Shimada |
| Director | Shinichi Arakawa | Auditor | Hiroshi Takita |
| Director | Seiichi Takao | Auditor | Shinjiro Okazaki |
| Director | Nobuyuki Sawada | | |
| Director | Hiroaki Yamamoto | | |
| Director | Katsutoshi Okada | | |
| Director | Isao Takano | | |

* 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

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

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

English language site

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



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

IR Information



<https://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.



https://www.cmstream.com/ir/keyware201805_reByQ1F/index2.php

Keyware Solutions Inc.

5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan
Corporate Planning Division, Public Relations & Investor Relations Office
<https://www.keyware.co.jp>



JUSE-RA-034
QMS, EMS, ISMS JUSE-EG-266
Registrations JUSE-IR-001

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