

KEYWARE TIMES

Annual Report 2019

54th Term Business Report
Year Ended March 31, 2019

Special Feature I Interview with the Director
highlighting how Line Support
Staff initiatives can achieve
performance growth



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 Iwata

Dear Stakeholders,

During the fiscal year ended March 31, 2019, Keyware Group experienced a continued favorable order environment due to systems renewal demand from existing customers and IT investment demand from new customers. In this type of business environment, the Keyware Group cooperated with each group company and business partner, focused on large outsourcing project orders from existing customers, and strove to secure new customers through proposal activities utilizing IT consulting and various package solutions. Furthermore, we aimed to improve profitability through initiatives concentrating personnel resources on select focused regions, promoting orders of outsourcing projects and controlling unprofitable projects through project management. In order to boost medium-to-long term corporate value and generate sustainable growth, we took efforts to develop personnel who can innovate, such as generating new businesses, as well technicians who are capable of handling cutting-edge technologies. We also strove to construct a workplace environment aimed at workstyle innovation.

As a result of these initiatives, for the consolidated fiscal year ended March 31, 2019, the Keyware Group was able to bring in orders of ¥17,639 million (up ¥628 million or 3.7% from the previous fiscal year) and to achieve net sales of ¥17,561 million (up ¥809 million or 4.8%), operating income of ¥320 million (down ¥89 million or 21.8%), and net profit attributable to parent shareholders of ¥344 million (up ¥139 million or 68.3%) As for dividends, we have paid a year-end dividend of 12 yen per share, up 4 yen compared with the previous year.

For the fiscal year ending March 31, 2020, we expect that in addition to continual system renewal demand from existing customers, IT investment demand will be solid as companies attempt to improve productivity to respond to workstyle innovation and

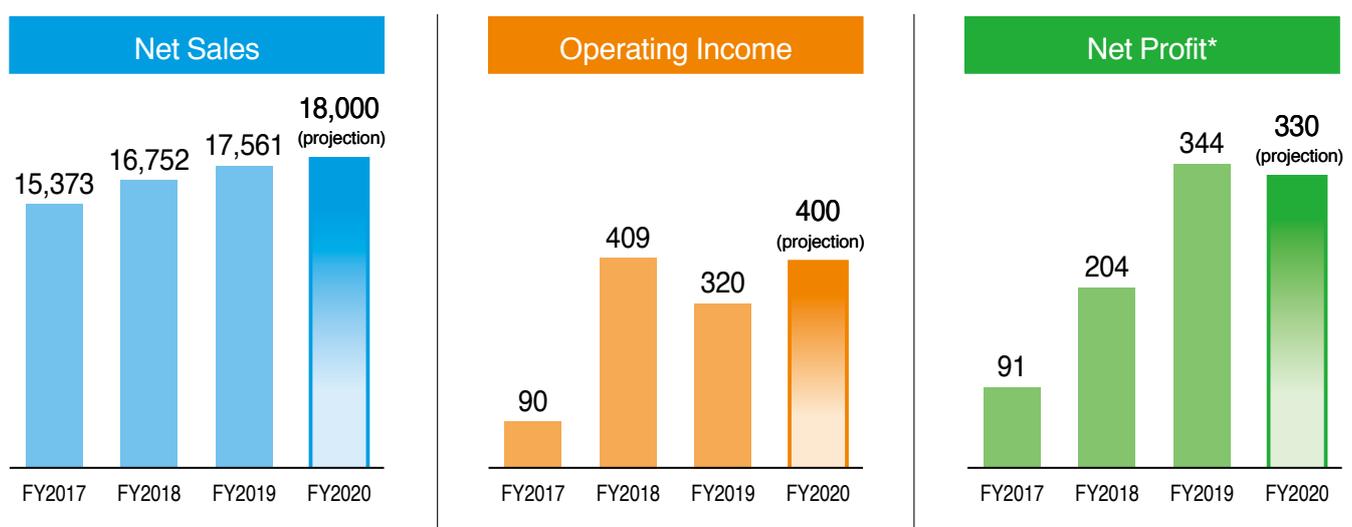
labor shortages. On the other hand, the labor shortage of IT technicians has become an issue for the industry as a whole.

In this type of business environment, Keyware Group will undertake efforts to achieve the goals in our core policy, namely expanding our foundational businesses and raising profitability, generating and developing new businesses, and improving the rewarding nature of work for employees. Aiming for higher profitability, we will strive to strategically secure personnel resources to proactively tap into customer demand, as well as control unprofitable projects by strengthening project management. In addition, we established a new IoT & Cloud System Division in April 2019. Our aim was to further develop our IoT solutions and services which utilize monitoring control technologies, a strength for our company. We will lay the groundwork for various systems and a workplace environment in which each employee can exercise their talents and work comfortably.

The Keyware Group will continue to aim to achieve sustainable growth and further raise corporate value. 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)



* Refers to net profit attributable to parent shareholders.

Interview with the Director highlighting how Line Support Staff initiatives can achieve performance growth

Aiming to improve earnings and expand businesses through support across business departments.

Q Please tell us the work responsibilities of Line Support Staff.

They are part of a department that provides support across business departments. While closely interacting with sales departments, business departments and development projects, they support profitability improvements of organizations and projects as well as system quality improvements.

This department is comprised of three divisions. One is the Project Management Division, which handles risk management and quality management of projects. Another is the Business Strategy Division, which supports the planning and execution of strategies of the business department. Lastly is the Purchasing Division, which procures IT equipment, software, and technicians from business partners.



Q Please tell us about the role of Line Support Staff in performance growth.

In System Development and System Integration Business, two foundational businesses for our company, the stable securing of a large number of highly skilled technicians is key to business expansion. In order to achieve this, we are aiming to strengthen cooperation with business partners to secure both high quality and a high quantity of technicians required for development projects.

Furthermore, it is extremely important to control unprofitable projects to boost profitability. While such projects are decreasing in both number and monetary amount compared to a few years ago, we are now even more rigorously investigating the appropriateness of projects from various perspectives, such as project scale, process, and amount, in order to dwindle the number of unprofitable projects to zero. Through this process, we believe that we can secure both profitability and quality in projects. In addition, we are aiming to increase

the accuracy of budget management and implement thorough project management by developing an information foundation which will be provided to each business department to establish the framework and know-how which can be utilized in project management.

Q Please tell us about the specific initiatives for this year.

In order to control unprofitable projects, the Project Management Division monitors projects and will aim for early detection of problems and risk mitigation. In recent years, the division has also gathered examples and know-how of “agile development,” a concept which has gained attention as being able to significantly shorten development time compared with previous systems development methods. We will develop a structure so that sites can quickly adapt to this development method.

The Business Strategy Division will support the achievement of business plans through the PDCA cycle*, as well as accelerate initiatives that concentrate resources on comparatively profitable projects. In these few years, we have strove to clarify which areas should receive special attention in the future and which areas are most profitable. Based on this, the Company has developed a system to consider and decide which areas to concentrate personnel across the entire company. The division will support each business department in matters such as issue organization and measure proposals in order to execute this strategy.

The Purchasing Division maintains a policy of responding accurately to customer needs, further increasing the number of orders received, continuing to strengthen cooperation with business partners, and increasing the number of technicians with the skills and know-how to match customer requests.

Through these initiatives, we will ensure we reach the performance targets for this year as well as achieve medium-to-long-term business growth and improved profitability.



Director and Corporate Officer in charge of Line Support Staff

Nobuyuki Sawada

* PDCA cycle: One method of continuously improving operations Abbreviation of Plan, Do, Check, and Action

Keyware Up Close

Introducing business expansion and initiatives of the Keyware Group



Group Company Introduction Vol.1

Keyware Service Inc.



President & CEO **Norihiro Takeno**

Company Profile

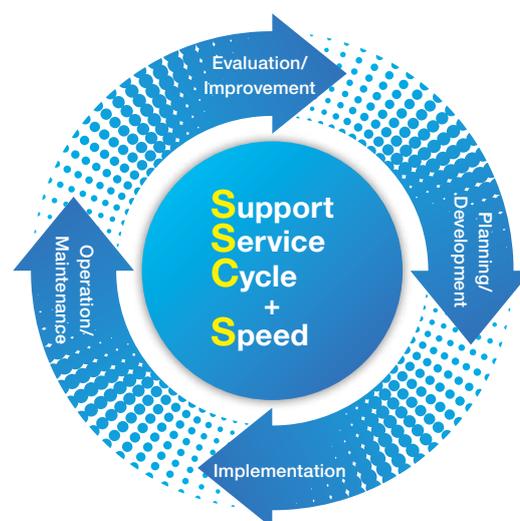
Location : Setagaya-ku, Tokyo
Net sales : 1,356 million yen
(Year ended March 31, 2019)
Employees : 69 (as of March 31, 2019)

Main Businesses

- Operations services
- Infrastructure solutions
- Front solutions

Keyware Service Inc. operates a business specialized for the IT support services field. In addition to the Keyware Group, it has worked with the major manufacturer Sler to provide IT system construction, operations and maintenance services. The Company provides an all-in-one service, including design, implementation, development, operations, and maintenance of PCs, servers, networks, and information-related products to standard offices. It especially boasts significant results in the implementation and operation of IBM's "Notes/Domino"* as a front solution. In recent years, it has also focused on providing solutions related to the Microsoft's cloud services Office 365 and supporting operational efficiency improvements and the establishment of workstyle innovations.

Since the Company's founding, its business concept has promoted "Support, Service, Cycle (SSC)" to provide services linked to the life cycle of customer's information systems. Recently, a pillar of "Speed" has been added to renew its concept as "SSC + S." We will even more swiftly respond to customer business needs as it executes its business in a speedy manner.



Business concept "SSC + S"

* Systems software which shares information inside the organization, constructs applications, and supports improvements in productivity.

As of May 31, 2019, this software is sold by IBM.

TOPIC
Held joint seminars among four companies focused on workstyle innovations

Currently, many companies are accelerating initiatives to boost productivity as they aim to achieve workstyle innovations. This seminar introduced participants to effective solutions for automation and bringing operations in-house to boost productivity, such as “Web Performer,” a web application automatic generation tool of Canon IT Solutions Inc., “ASTERIA Warp,” a data linkage middleware by Asteria Corporation, and the RPA tool “NEC Software Robot Solution.” Many people from companies and local governments participated in this seminar, making it a great success.

**The prescription for workplace innovation!
Seminar on automation and in-house operations, means to improve true productivity**

- November 27, 2018 in Fukuoka
- March 15, 2019 in Tokyo

Main organizer:Keyware Solutions Inc.
Co-sponsors:Canon IT Solutions Inc.,
Asteria Corporation, NEC Corporation, Keyware Kyushu Inc.(only for Fukuoka seminar)


Know and Learn!
Activating skills for the ICT era 19
Our future transformed by 5G, the next generation mobile communications system

5G is the standard for the next generation of mobile communications. This technology is extremely high speed, large capacity, ultra low latency, and capable of a large number of simultaneous connections. Communications speeds are said to be approximately 100 times that of the current standard, 4G. This technology is expected to be utilized in various areas and accelerate the spread of IoT, which connects various things to the Internet, while making long-distance medical treatments in which doctors can treat patients remotely as well as driverless automobiles a reality. 2019 is said to be the first year of 5G. Many expect that the introduction of 5G will change our lives and society by making them more convenient and rich.



Financial Statements (Summary)

Unit: million yen, rounded down

Consolidated Balance Sheet

	Previous fiscal year	Current fiscal year
	ended March 31, 2018	ended March 31, 2019

(Assets)

Current assets	6,385	6,432
Fixed assets	3,375	3,342
Tangible fixed assets	106	99
Intangible fixed assets	472	393
Investments and other assets	2,797	2,849
Total assets	9,761	9,774

POINT: Assets

While cash and deposits decreased and fixed assets fell due to depreciation, assets were ¥9,774 million, up ¥13 million year over year due to increase in accounts receivable and inventories.

(Liabilities)

Current liabilities	3,062	3,049
Fixed liabilities	651	428
Total liabilities	3,713	3,478

POINT: Liabilities

While accounts payable increased, liabilities were ¥3,478 million, down ¥235 million year over year due to decrease in repayments of long term loans payable.

(Net assets)

Shareholders' equity	6,010	6,286
Accumulated other comprehensive income	36	9
Total net assets	6,047	6,296
Total liabilities and net assets	9,761	9,774

POINT: Net assets

Net assets were ¥6,296 million, up ¥249 million year over year mainly due to booking net profit. As a result, shareholders equity ratio became 64.4%.

Consolidated Income Statements

	Previous fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2018 to March 31, 2019
Net sales	16,752	17,561
Cost of sales	13,985	14,833
Gross profit	2,767	2,727
Selling, general and administrative expenses	2,357	2,407
Operating income	409	320
Ordinary income	465	399
Net profit attributable to parent shareholders	204	344

POINT: Net sales

Net sales were ¥17,561 million, up ¥809 million year over year due to strong performance for government, medical, finance, ERP, and distribution.

POINT: Operating income

While profit rose due to higher net sales, operating income was ¥320 million, down ¥89 million year over year due to some unprofitable projects.

Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2018 to March 31, 2019
Cash flows from operating activities	551	102
Cash flows from investing activities	-64	-126
Cash flows from financing activities	-52	-392
Decrease or increase in cash and cash equivalents	433	-416
Balance of cash and cash equivalents at the beginning of year	1,156	1,590
Balance of cash and cash equivalents at the end of year	1,590	1,174

POINT: Consolidated cash flow

In operating activities, there was a positive cash flow of ¥102 million due to booking a profit in net income before income taxes despite the increase in accounts receivable. In investment activities, there was a negative cash flow of ¥126 million due to such factors as acquisition of intangible fixed assets and investment securities. In financing activities, there was a negative cash flow of ¥392 million due to repayments of long term loans payable. As a result, the balance of cash and cash equivalents at the end of the fiscal year became ¥1,174 million.

Stock Information

Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	3,020

● 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]	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan
[Phone]	(Toll-free in Japan) 0120-782-031
[Internet website URL]	https://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 yen
Sales	17,561 million yen (Consolidated, year ended March 31, 2019)
Employees	1,095 (Consolidated, as of March 31, 2019)
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
Director	Shinichi Arakawa
Director	Seiichi Takao
Director	Nobuyuki Sawada
Director	Hiroaki Yamamoto
Director	Toshikazu Ogawa
Director	Katsutoshi Okada
Director	Tomomi Iwasaki
Director	Makiko Noda

Auditor	Takao Shimada
Auditor	Shigeo Sasahara
Auditor	Hiroshi Takita
Auditor	Kenji Endo

* Directors Katsutoshi Okada, Tomomi Iwasaki and Makiko Noda are Outside Directors as provided in Article 2 Clause 15 of the Companies Act.

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

* Directors Katsutoshi Okada, Makiko Noda 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/pir/?conts=keyware_201905_rK8c

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