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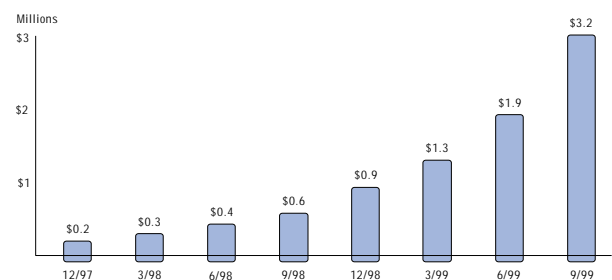
KEYNOTE SYSTEMS IS THE LARGEST PROVIDER OF INTERNET PERFORMANCE MEASUREMENT, DIAGNOSTIC AND CONSULTING SERVICES TO COMPANIES THAT OPERATE E-COMMERCE WEB SITES. THE COMPANY MEASURES, ASSURES, AND HELPS IMPROVE THE QUALITY OF SERVICE OF E-COMMERCE WEB SITES AROUND THE WORLD.

HEADQUARTERED IN SAN MATEO, CALIFORNIA, KEYNOTE MAINTAINS A GLOBAL NETWORK OF MORE THAN 300 MEASUREMENT COMPUTERS THAT ARE CONNECTED TO THE MAJOR INTERNET BACKBONES FROM OVER 110 STATISTICALLY SELECTED LOCATIONS ACROSS 50 METROPOLITAN AREAS WORLDWIDE. SHARES IN THE COMPANY'S STOCK ARE TRADED ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "KEYN." KEYNOTE CAN BE FOUND ON THE INTERNET AT www.keynote.com.

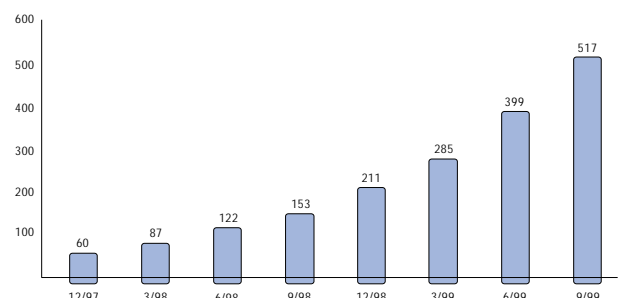
Imagine a shopper clicked onto your web site at the exact instant you began reading this sentence. If you haven't managed to satisfy her expectations—through rapid response, clear design, and reliable functionality—by the time you've finished reading *this* sentence, she will have clicked away to another destination. Probably for good.

KEYNOTE SYSTEMS helps companies measure the speed and reliability of their e-commerce web sites, identifying ways in which they can improve the quality of their service and gain competitive advantage. This report describes our market opportunity, and how well we **MEASURED UP** in our first year as a public company.

QUARTERLY REVENUE GROWTH



QUARTERLY CUSTOMER GROWTH





UMANG GUPTA Chairman of the Board and Chief Executive Officer

FELLOW SHAREHOLDERS

I am pleased to report to you that in the fiscal year ended September 30, 1999, Keynote Systems' financial and operational performance exceeded the goals we set for ourselves. During the course of the year, we strengthened and consolidated our leadership position in the emerging market of e-commerce quality of service measurement. We accomplished this by providing our customers with accurate, unbiased data on the performance of their web sites from multiple points around the globe.

For fiscal year 1999, our revenues were \$7.3 million, an increase of 373% over fiscal 1998. Net loss for the year was \$7.1 million, or \$1.54 per share, compared to a net loss for fiscal 1998 of \$2.9 million, or \$1.10 per share.

A YEAR OF SUSTAINED GROWTH

As e-commerce web sites grow in complexity to meet escalating user demands and competitive pressures, companies need a way to benchmark their sites' performance, and ultimately, improve their quality of service. Keynote helps e-businesses do that.

Keynote supplies crucial measurements—such as the time it takes a user to download a web page or successfully complete a transaction from multiple locations on the Internet—and recommends ways to improve performance and reliability, providing a unique and valuable service to a rapidly growing market.

Although you'll find a more detailed explanation of our mission and a fuller accounting of our progress later in this report, I want to share with you here several highlights of our success over the past twelve months.

Expanding our resources In 1999, we demonstrated to our customers that we could scale our technology and business infrastructure to meet the exploding demands of Internet activity. For example, by the end of December 1999, we increased the number of measurement computers in our global network to over 300, while at the same time significantly strengthening our backend data collection systems. This more powerful and reliable network allows us to collect and deliver measurement data to our customers around the clock, with reliability exceeding 99.7%.

In the areas of sales and marketing, we increased our headcount by over 400% to match the explosive growth in our customer base and revenues. We also added many talented people to what is already a great management team—one that I feel extremely privileged to work with every day.

In addition, I am pleased to report that we completed a very successful initial public offering in 1999, which has provided us with capital to fund future growth and expansion.

Broadening our service offerings In fiscal 1999, the Company both expanded its services and introduced new initiatives to increase our brand awareness. New services included Keynote *Transaction Perspective*[™] for measuring business-critical e-commerce transactions such as buying a book or purchasing an airline ticket, our *Lifeline*[™] service for small- to medium-sized businesses, and performance consulting services from our newly formed Professional Services group.

To increase the awareness of our brand, we devoted more attention and resources to our various public measurement services. These efforts encompassed the publication of our various Keynote Internet Performance indices and the sponsorship of special events, such as the industry's first annual Global Internet Performance Conference. We also published several significant Internet performance studies and formed strategic alliances with highly visible and important Internet infrastructure companies, including VeriSign and Network Solutions.

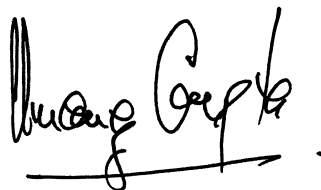
GOALS FOR THE COMING YEAR

In 1999, we demonstrated the potential and efficacy of our business model. In the year 2000, the Company intends to take full advantage of the momentum we're experiencing in the e-commerce infrastructure market.

Our long-term mission is to improve the quality of e-business worldwide. To accomplish this, we intend to commit significant resources to develop new services that enhance our current position as the "Internet Performance Authority," expand our sales and service infrastructure globally and enter new market segments that go beyond website performance measurement.

Looking ahead, I am optimistic that our plans and strategies will allow me to report positive results to you twelve months from now. On behalf of the entire management team, I want to thank you—our shareholders, customers, partners, and employees—for your support.

Sincerely,

A handwritten signature in black ink, appearing to read "Umang Gupta". The signature is stylized and includes a horizontal line underneath the name.

Umang Gupta
Chairman of the Board and Chief Executive Officer

Today, the efficiency of a company's E-COMMERCE operations depends first and foremost on a fast, compelling, and satisfying user experience.

The technology with which to accurately measure this user experience is now available, and the companies that use this technology wisely, will not only survive, but prosper.

WHY CUSTOMERS



Measure

Keynote computers take web site performance readings for customers as often as every fifteen minutes from the major Internet backbone installations located throughout the world.



Compare

Customers can use their data to compare the performance of their web sites to that of industry and competitive benchmarks.

need KEYNOTE



Diagnose

Customers can use Keynote performance ratings to pinpoint the source of problems, from content or server issues to design and infrastructure concerns.



Assure

Keynote measurements allow customers to ensure that their users reach their site all the time, and that quality of service benchmarks are achieved.



Improve

When problems are identified, customers can implement both design and technology solutions to improve the performance of their web site. And, Keynote's Professional Services group can recommend the best course of action.

THE NEED TO KNOW

GIVEN THAT A WEB PAGE DOESN'T DOWNLOAD INSTANTLY, EVEN WITH THE FASTEST T-1 CONNECTION, THE QUESTION ARISES: WHAT IS AN ACCEPTABLE TIME FOR A USER TO WAIT? HOW LONG WILL HE DRUM HIS FINGERS ON THE DESKTOP BEFORE HE GIVES UP AND CLICKS AWAY TO ANOTHER SITE?

PUT ANOTHER WAY, HOW **fast** IS FAST ENOUGH?

These are questions that all companies with a web presence are compelled to answer. But until recently, answers could be found only through anecdotal information—a dissatisfied caller to the Customer Center, for example—or from isolated performance data on traffic logs.

Today, nearly three-fourths of online shoppers dump their shopping baskets before completing their transactions—with the result that almost \$4.4 billion was lost last year alone from unhappy online customers. The need for clear, unambiguous, and accurate performance data has never been greater.

At Keynote, we provide a global service that measures, assures, and improves the quality of service of e-commerce web sites. Our service is built upon an extensive network of strategically located measurement computers that are connected to the major Internet backbones of the world. These computers collect data in dozens of metropolitan areas worldwide. A sophisticated operations center in San Mateo, California collects, analyzes, and disseminates Internet performance and availability data. Together, these proprietary systems deliver reliable, accurate data about the performance and availability of web sites as experienced by users around the world.

The Company's major service offering is Keynote *Perspective*, which gives companies with large e-commerce sites measurement data on their web site performance taken continuously at customer-specified intervals from multiple cities around the globe.



Performance Measurement Keynote measures web site performance on a non-stop, continuous basis using measurement computers and software agents connected to the Internet from major cities across the globe. Currently, the Company takes more than 16 million measurements each day of thousands of e-commerce sites from over 50 major metropolitan areas.

In May 1999, we launched *Transaction Perspective*, which measures the performance and availability of multi-page interactive e-commerce transactions such as buying merchandise, selling stock, or making travel reservations. In July, we introduced *Lifeline*, affording small and mid-size companies an easy and economical way to gauge the performance and availability of their web sites. And just this last December, we announced *Consumer Perspective*,™ a unique service offering that collects performance measurement data over 56K dialup connections, DSL, and cable modems.

Keynote also supplies leading business publications with Internet performance indices of business and consumer web sites. These indices, which are supplied free of charge as a public service, have assumed the industry's cachet for authoritative, independent, and unbiased Internet measurement data.

How fast is fast enough? By measuring every aspect of a company's web-site performance—by allowing that company to know exactly what its consumers encounter online—Keynote affords businesses the opportunity not only to design a more satisfying user experience, but also to acquire a true competitive e-commerce advantage.

A NEW PERFORMANCE STANDARD

THE WORLD OF E-COMMERCE CONTINUES TO GROW. THE NUMBER OF INTERNET USERS IS NOW EXPECTED TO REACH HALF A BILLION BY 2003, AN INCREASE OF MORE THAN 250% OVER A FIVE-YEAR PERIOD, WITH COMMENSURATE GROWTH IN E-COMMERCE FROM \$50 BILLION TO \$1.3 TRILLION.

We are now in the phase of e-commerce development in which a mere presence on the Web is no longer enough. Each new advance in technology and site design raises the bar for consumers' expectations. Today, a satisfying user experience means guaranteeing a consistently high quality of service online, including fast download times and transactions.

That means seeing your web site as your customer sees it.

The Keynote solution is unique in that it provides companies with a comprehensive, independent, and unbiased set of performance measurements that mirror their customers' actual experience. Companies then use this information to implement design or technology initiatives that can significantly enhance the performance of their web sites. Superior online operations yield increased revenues, improved customer satisfaction and retention, reduced support costs and competitive favor in the marketplace.

Our customers realize the importance of these benefits and have overwhelmingly selected Keynote as their supplier of choice for performance and availability metrics. Keynote customers, in fact, represent 39% of the Media Metrix top 500 web sites—and a full 80% of the top 50. In addition to market share, the Company also enjoys strong market awareness through the publication of Internet performance indices such as our Keynote Business 40 and Keynote Consumer 40—lists of critical performance data on the top sites in the world. This year, we intend to further reinforce this awareness with a major marketing campaign designed to secure our reputation as the industry's sole, objective "Internet Performance Authority."



Data Collection Keynote's Operations Center in San Mateo, California collects and analyzes data about web site quality of service, including content download and e-commerce transaction performance and availability.

What's behind the Keynote measurement solution? At its core is powerful technology that combines distributed measurements with centralized reporting and analysis functions. Our computers around the world replicate the experience of users accessing web sites through standard web browsers, and our proprietary software collects and translates that data into statistically accurate, easy-to-understand performance and availability analyses.

The Company's success has also been accelerated by the rapid adoption by e-commerce companies of Internet-based infrastructure services. Specifically, by providing a service that requires no special customer software, hardware or support investment—we make it extremely easy and affordable for our customers to use our solutions. What's more, Keynote's measurement services are all structured around a compelling subscription-based business model, which provides customers with the ability to purchase our services on a pay as you go basis, and also helps increase the visibility of our revenue stream.

THE MEASURE OF SUCCESS

A SUCCESSFUL INTERNET COMPANY IS MORE THAN JUST A STRONG IPO AND HEALTHY FIRST-YEAR REVENUE GROWTH. IT IS ONE THAT ALSO HAS A REASONED APPROACH TO FUTURE EXPANSION AND PROFITABILITY. TO THAT END, WE HAVE ARTICULATED A MULTI-STEP STRATEGY TO CONTINUE TO BUILD THE BUSINESS AND SOLIDIFY OUR LEADERSHIP POSITION IN OUR MARKET.

We intend to increase our market penetration through a wide range of efforts, including introducing an array of new services, expanding our U.S. sales organization; opening our European sales operations; continuing to promote our Keynote performance indices in the public media; and actively developing co-marketing relationships with suppliers of complementary services.

Additionally, we plan to expand our brand awareness with a variety of general and targeted marketing campaigns that will include the kind of sponsorship we provided last year for the industry's highly successful first annual Global Internet Performance Conference.

The Company currently has significant partner relationships for co-marketing our services with companies such as VeriSign and Network Solutions, and we will seek to increase the number of these alliances—as well as bundle our services with select ISPs and ASPs—as we move forward. In addition, we intend to pursue relationships with major consulting firms in order to encourage the recommendation of our services to their customers.



Reporting and Analysis Keynote's systems automatically deliver performance data to customers via alarms and daily summary reports, while detailed graphical analysis and diagnostics enable customers to pinpoint and solve problems directly from their web browser.

E-commerce is expanding globally. To take advantage of this, we plan to increase our international reach through a newly formed European sales and service organization, and through partnerships in Latin America, Asia and the Pacific Rim.

We also intend to embrace new Internet content and delivery technologies, by providing a comprehensive way to measure the impact of streaming audio and video, multi-casting, Internet telephony, and more.

We have an ambitious agenda in a market positioned for high growth. We are confident that we will measure up.

MEASURING the future

We are all participating in a dramatic and profound societal shift. The Internet has enabled us to change the way we interact with people, with organizations, with events.

What we don't know is what the Internet—and its current public face, the web site—will look like five years into the future.

We do know, however, that the Internet continues to increase global business communication and commerce, and that e-business will only grow in importance.

At Keynote, we will always be there to help improve the quality of e-business worldwide.

CORPORATE INFORMATION

MANAGEMENT TEAM

Umang Gupta
Chairman and
Chief Executive Officer

Gene Shklar
Vice President of Public Services

Roger Higgins
Vice President of Strategic
and International Sales

Thomas C. Roll
Vice President of US Sales

Don Aoki
Vice President of Engineering

Lloyd Taylor
Vice President of Operations

Marty Salazar
Vice President
of Professional Services

John Flavio
Vice President of Finance
and Chief Financial Officer

Marlene Williamson
Vice President of Marketing

DIRECTORS

Umang Gupta
Chairman and
Chief Executive Officer,
Keynote Systems, Inc.

Gene Shklar
Vice President of Public Services,
Keynote Systems, Inc.

David Cowan
Managing General Partner
of Bessemer Venture Partners

Stratton Sclavos
President, Chief Executive Officer
of VeriSign, Inc.

Mark Leslie
Chairman and
Chief Executive Officer
of VERITAS Software
Corporation

CORPORATE INFORMATION

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Stock Profile
The common stock of the
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Nasdaq National Market
under the symbol "KEYN."

Investor Relations
Inquiries regarding the
Company financial information
should be directed to:

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