

# KEYWARE TIMES

Annual Report 2010  
Year Ended March 31, 2010  
45th Term Business Report

➤ **Keyware works here, too!**

## How is Station Advertising Managed?

Introducing the Transit Advertising Systems,  
a package software offering total support for the transit advertising business.

➤ **Feature**

## Towards a Corporate Structure of Sustained High Profitability



**KEYWARE**  
SOLUTIONS

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

IT can create it.

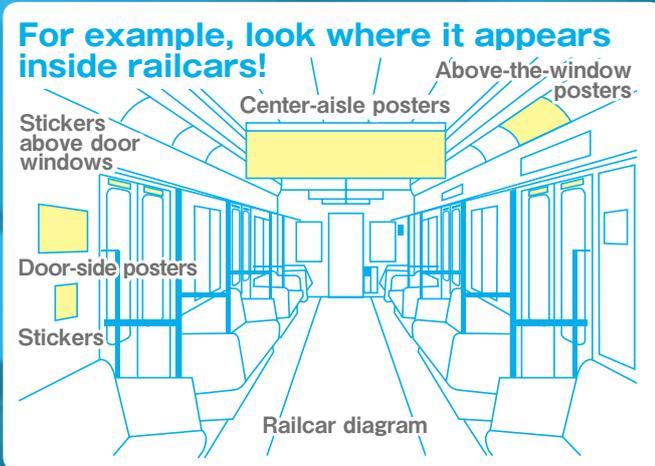


➤Keyware works here, too!

# How is Station Advertising Managed?

In Japan, large numbers of people use trains, buses, and other forms of public transit as modes for commuting to work or school. Haven't you seen the so-called "transit advertising" found in railcars or inside train stations while on the move?

Since transit advertising is viewed repeatedly by large numbers of people, it has a high retention effect in memory, and has a higher visual effect and behavioral stimulus effect than television, newspapers, or other media, characteristics that have attracted the attention of corporations. On the other hand, the major advertising agencies that handle these advertisements are overwhelmed by the unique character of this medium, crying that "There are too many ads to post! Please make the operation less tedious and burdensome!" The agencies try to handle the many difficulties by establishing special divisions or affiliate companies devoted just to transit advertising. Into this environment, Keyware has stepped in to help major advertising agencies and marketing management companies respond to



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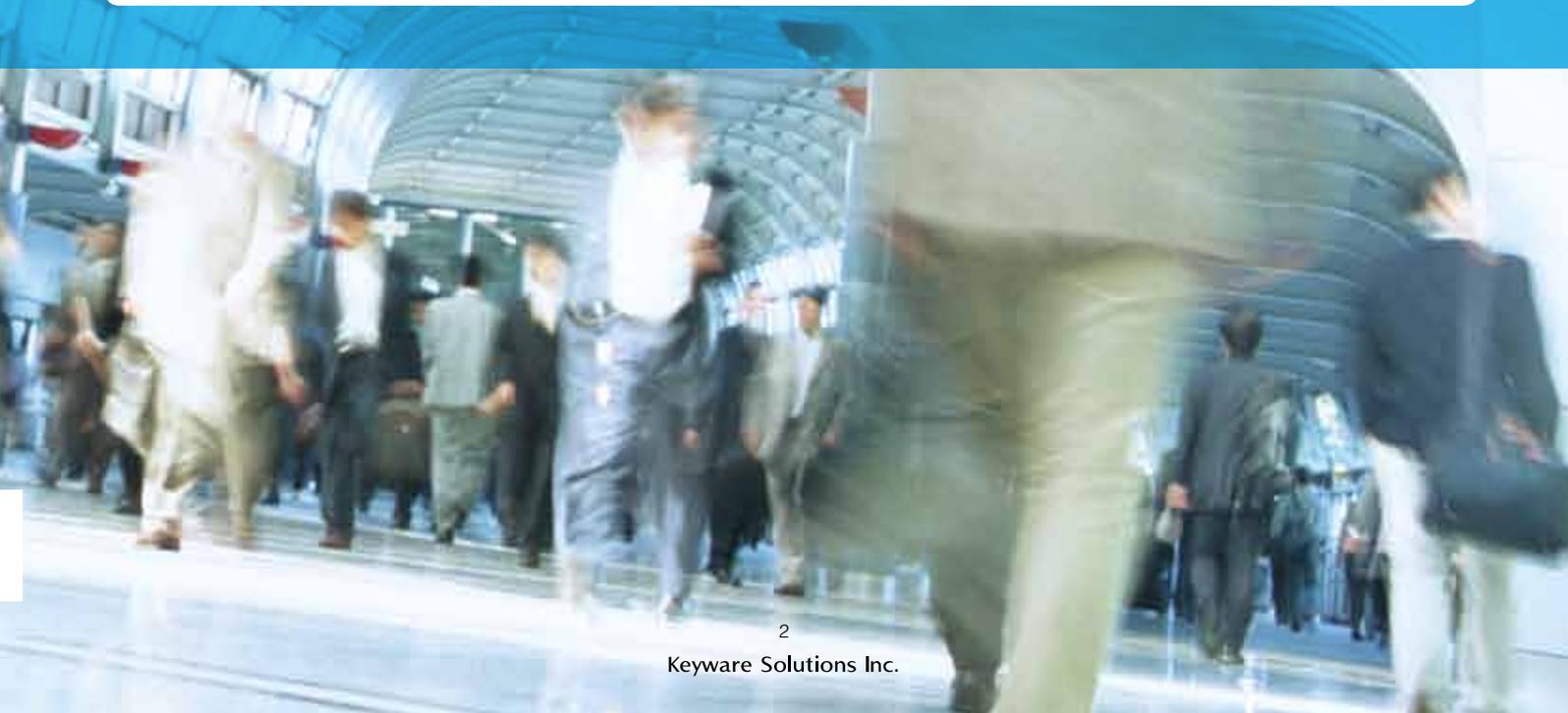
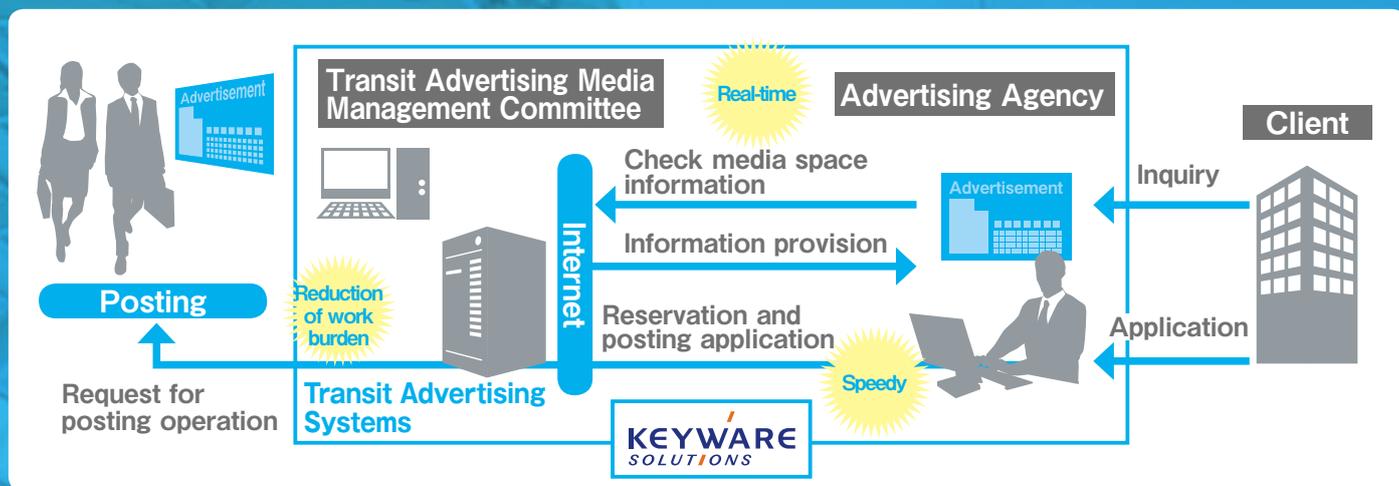
the diverse needs of consumers with sales of Transit Advertising Systems.

For example, the Odakyu Line is a large-scale commuter line with a total of 70 stations in Tokyo and Kanagawa, carrying an average of 1.96 million passengers per day. With introduction of the Keyware system, Odakyu Agency Inc. has eliminated the telephone and fax queries that used to take up so much time and manpower, making specific information checks in real-time and speedy reservations possible. The result has been a big boost in

the company's operations efficiency and in its advertisement media utilization rates, as well as a reduction in the amount of tedious work and in management costs.

"The product in this poster looks delicious!"  
 "I'd sure like to go there..."

Keyware is the active force working behind the scenes to bring you the transit advertising providing important information to enrich your daily lives. We will continue actively working to bring in our system, toward realization of a prosperous society.



To all the Shareholders of Keyware, I would like to offer my best wishes to you for increasing health and prosperity.

Beginning with this issue, we are pleased to present you this brochure under the title KEYWARE TIMES with a renewed structure, in an effort to provide readers with easy-to-understand information on the Group's activities and to better familiarize readers with the Group. In the fiscal year to March 2010, concerns over a double-dip recession receded, but the upturn proved not enough for an economic recovery. For the information services industry, the



President & CEO *Tetsuji Nakashima*

operating environment was difficult as corporations continued to hold back with capital investment.

In this setting, the Group persisted in its efforts to enhance the efficiency of business operations through organizational restructuring and further fixed-cost reduction such as personnel expenses. These efforts, however, were unable to offset a decline in sales revenue. As a result, the Group missed its original earnings targets. Moreover, regrettably a year-dividend will not be paid.

Difficult conditions are expected to continue also in the current fiscal year. At the same time, however, we believe that this challenging environment holds growing opportunities for increasing new orders, given that user corporations if they are to prevail in the competition must have IT driven management systems for realizing business strategies by enhancing and streamlining internal business processes and through internal infrastructure maintenance. Using the Group's top-level expertise covering the entire information systems life cycle, the Group will push forward and secure earnings by strengthening its cooperation with existing customers and providing new services such as cloud computing.

We request your continued support.

## Financial review for the fiscal year to March 2010

In the period under review, utilization rates and new order prices came under downward pressure from reduced IT investment of local governments and corporations, a decline in large-scale items, and postponements of a number of development projects, as well as extended time horizons for contract executions and increased in-house

development by customer corporations. Moreover, lingering effects from projects with sub-par profitability brought opportunities losses for new orders. As a result of these developments, for the fiscal year under review, consolidated orders totaled 16,482 million yen, with sales of 17,197 million yen, and an operating loss of 546 million yen.

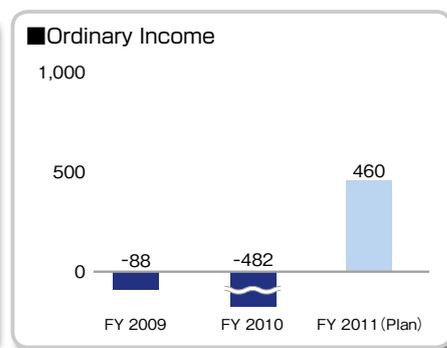
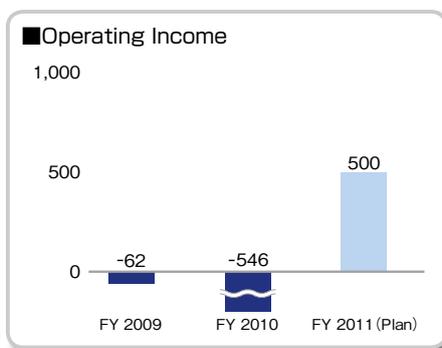
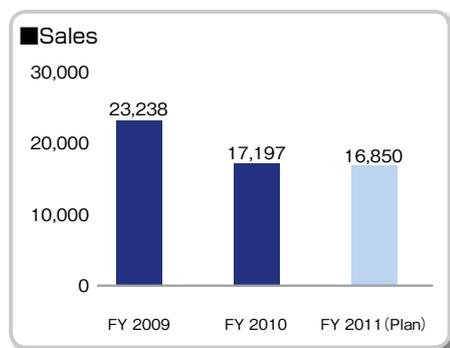
## Outlook for the current fiscal year

We expect orders from user corporations to remain under pressure also in the current fiscal year. However, the Company will reinforce its earnings structure by enhancing the efficiency of business operations through sustained rigorous project profitability management at each group company and through the pursuit of productivity enhancements, as well through fixed-cost reductions and reductions in selling and administrative expenses.

We will promote Systems Development with the focus on industry sectors where the Company has particular strength (such as public agencies, communications, financial services, broadcasting,

and transportation) and in areas where the Company has own-developed software packages such as related to medical applications and intellectual property. Moreover, we expect solid conditions for Integrated Service, i.e., the Company's superior expertise in ERP and groupware delivered to customers integrated with consulting services. Moreover, by melding the Company's experience and expertise in ERP and outsourcing services on the one hand and its IT infrastructure technology and server database design and building technology on the other hand, the Company is looking to create platforms for cloud computing and IFRS-ready ERP solutions.

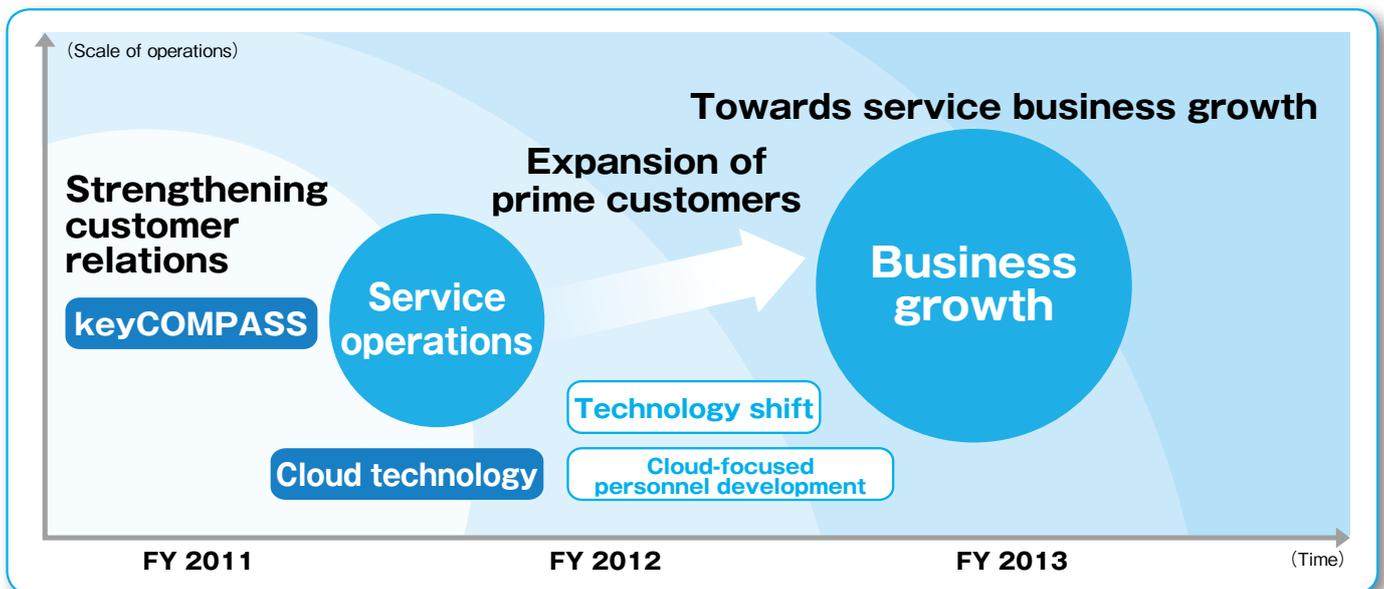
### ■ Highlights of consolidated business performance (Unit: million yen, rounded down)



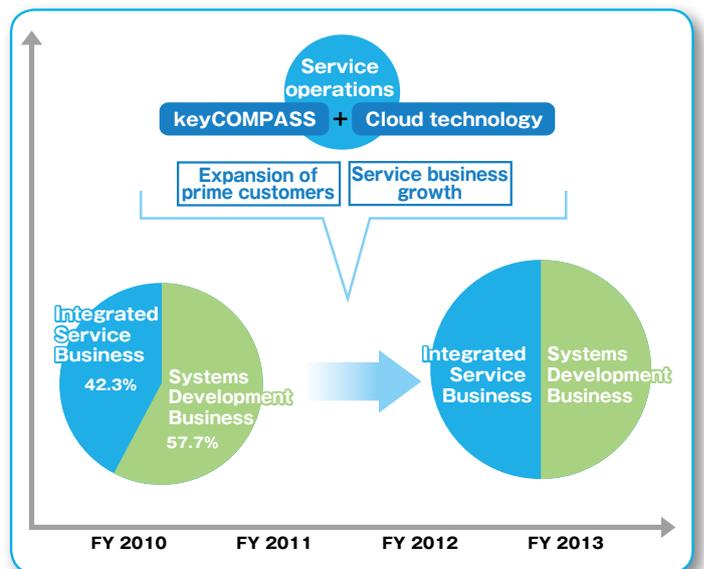
# Towards a Corporate Structure of Sustained High Profitability

## Medium and long-term growth strategy

Predicated on its business model "keyCOMPASS\*," the Company aims to increase the number of customers and expand service operations by strengthening customer relations and through cloud-focused personnel development and technology shifts.



Despite the outlook for the systems development market overall to continue to shrink, the growth potential of the industry is considered high, predicated on the diffusion of new technologies such as cloud computing and virtual computing and due to existing factors that promote IT investment. The Company will implement technology shifts to accommodate this change in the corporate environment and pursue gains in earning power and efficiency, and in this way increase enterprise value.



\*The Company's business model "keyCOMPASS" begins with management and system consultations and provides optimized services for each phase of the entire system life cycle of construction, installation, and operation.



## Management strategies for the current fiscal year

Since its founding in 1965, the Company has been engaged in the construction of systems in segments close to social infrastructure (platforms that support civic life and economic activity), for which the Company has earned the trust and confidence of many customers, with a 45-year track record to look back on.

Aiming at further advances, the Company will implement structural business reforms and this fiscal year embarks on the following management strategies as stepping stones to a shift in corporate structure enabling sustained high profitability.

### POINT 1

#### Enforcement of project management to address last year's loss factors

The Company will further enhance productivity and quality through the acquisition of new technologies, and strengthen project monitoring through a project management office.

### POINT 2

#### Streamlining human resources and raising profitability

Through its New Career Challenge System\* the Company will streamline human resources, and through cost reductions centered on further cuts in fixed-costs will work to stabilize its earnings base and profitability surrounded by a difficult operating environment.

\*The New Career Challenge System, in order to promote the effective use and revitalization of human resources, is designed to support employees who on their own account take on new job opportunities. The cost associated with the usage and implementation of the system were recognized as an extraordinary loss in the fiscal year ended March 2010 and have not effect on the results of the current fiscal year.

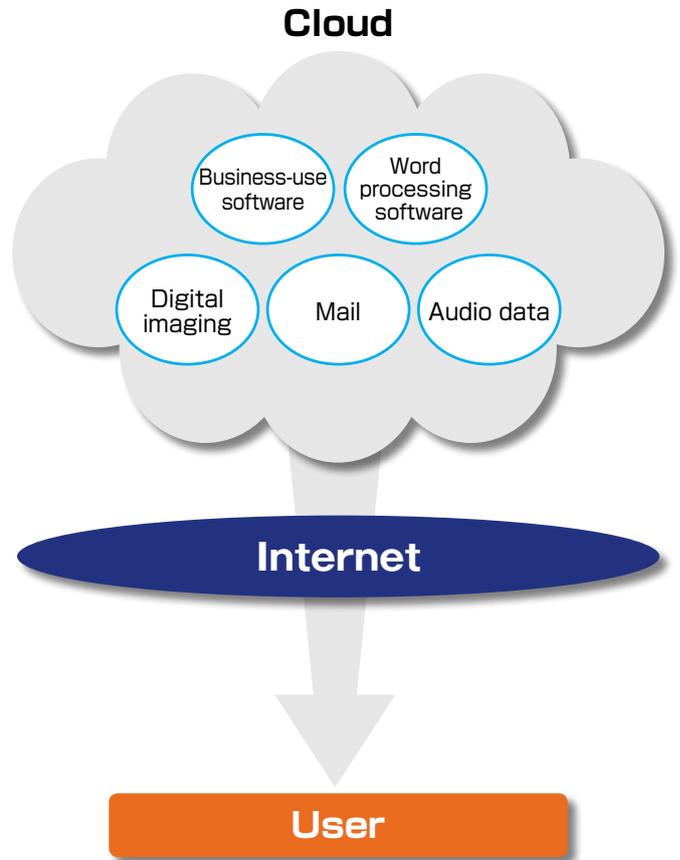
### POINT 3

#### Strengthening the Integrated Service Business

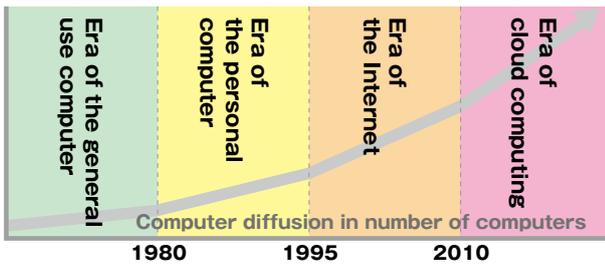
The Company will strengthen customer relations based on its business model "keyCOMPASS," promote staff development related to cloud computing, and implement technology shifts. In this way, we will increase the number of customers and expand services operations.

# What is Cloud Computing?

Cloud computing is a collective term for arrangements enabling the use of a range of software applications and services over the Internet. The name originates from the fact that in illustrations the Internet is routinely represented as a cloud. Users can now access a variety of services over the Internet and need no longer own and manage hardware and software. Given high availability and extendibility of the service, cloud computing has started diffusing widely from individuals to businesses.



Changes in the computer-driven society



For example **Smartphones** For convenient personal use

Smartphones are a class of terminals that are able to always link to networks, save information on the Internet such as personal schedules, address books, and mail, and let the user access latest information at all times in the same way as PCs or other terminals.

For example **IT systems** Holding a range of advantages for corporations and associations

### Reduced cost burden for user corporations

Since user corporations no longer need to have own computer systems, the cost of system maintenance and system operation can be reduced.

### Shortened development periods

Combining various types of pre-built software enables developing the needed system while significantly cutting system development time. Moreover, increasing or decreasing the number of software licenses is made easy.

### Efficient usage

Compared with conventional information systems that use multiple servers for data processing, cloud computing automatically assigns operations to idle servers to consolidate the number of data-accumulating servers, and in this way enables enhancing usage efficiency.

## ■ Performance for Strengthening the Integrated Service Business

### Bid for Renewal of Network Systems for Independent Administrative Entities

We went beyond the barriers between business divisions and group companies, and took charge of specialty sectors to construct seamless systems, and won large-scale orders.

### Presenting Start for Next-Generation Business Platform “Biz J (Integral)”

We have signed a partner contract with NTT Data BizIntegral Corporation and NTT Data Intramart Corporation for the next-generation business platform “Biz J (Integral)”.

### Introduction of Joint-Use Telework Platform to Public Administrations

A Joint-Use Telework Platform based on Keyware’s Hybrid ThinClient Solutions and that can be used by entities in either the public or private sector has been introduced to the public administration in Moroyama-machi of Iruma-gun in Saitama.

Even corporations or groups that would have trouble setting up independent facilities can use applications on existing terminals without needing to set up dedicated ThinClient terminals, enabling work in a telework environment even while rearing children. The new service based on ICT (information communications technology) is attracting the attention of public administrations. Keyware intends to utilize this introduction as a springboard toward strengthening business with other public administrations.

#### Exhibition Schedule

#### 1st Education IT Solutions Expo July 8 (Thu) to 10 (Sat), 2010 Tokyo Big Site

We are showcasing an example of the Joint-Use Telework Platform based on Hybrid ThinClient Solutions, showing the details of a parent-and-child learning environment and platform introduced to the public administration of Moroyama-machi.

## ■ Marketing Activities for Corporate Management Utilizing IT

### Exhibitions & Events

Keyware actively seeks appearances in events and exhibitions, and holds regular seminars, etc., to win recognition of our new products and new technologies by as many customers as possible.

#### Examples of a Recent Exhibition & Event

- Possibilities for activity trail and Blu-Ray archiving in the J-SOX era
- 2009 Patent Information Fair & Conference
- Seminar introducing technique for smooth operation in the Lotus Notes environment
- New PATAS Orientation—Introduction of New PATAS & Activity Example

## ■ Presenting New Products and Services for the Current Generation

### Start of Hybrid ThinClient Mobile Access Key Sales

Operates in combination with Hybrid ThinClient to enable secure access to an in-house ThinClient environment merely by insertion of a USB key into an existing personal computer. Enables use of the work environment from anywhere.



\*ThinClient: In a company’s information system, general name for the system managing applications software, files, and other resources on the server side, and allowing just the minimum level of functions on computers (clients) used by employees.

\*Platform: The type of OS, environment, and settings, etc., that form the foundation for operating applications software.

**Consolidated  
Balance Sheets  
(Assets)**

 Previous fiscal year  
ended March 31, 2009

 Current fiscal year  
ended March 31, 2010

**A Current assets**

Current assets decreased 1,836 million yen on the year to 4,549 million yen. This was due to decreased cash and deposits, lower trade receivables from reduced sales, and reduced work in progress.

	Previous fiscal year ended March 31, 2009	Current fiscal year ended March 31, 2010
<b>A</b> Current assets	6,386	4,549
Fixed assets	4,688	4,740
Tangible fixed assets	249	210
Intangible fixed assets	1,366	1,336
Investments and other assets	3,072	3,193
Total assets	11,075	9,290

**B Current liabilities**

Current liabilities decreased 517 million yen on the year to 1,730 million yen. This was mainly due to lower trade payables and a drop in the current portion of long-term debt due to contractual repayment.

**(Liabilities)**

<b>B</b> Current liabilities	2,248	1,730
Fixed liabilities	1,214	924
Total liabilities	3,462	2,654

**(Net assets)**
**C Net assets**

Net assets decreased 976 million yen on the year to 6,636 million yen, reflecting payment of dividends and the net loss reported for the period.

Shareholders' equity	7,620	6,629
Valuation and translation adjustments	-8	7
<b>C</b> Total net assets	7,612	6,636
Total liabilities and net assets	11,075	9,290

■ Consolidated Income Statements	Previous fiscal year	Current fiscal year
	April 1, 2008 to March 31, 2009	April 1, 2009 to March 31, 2010
Net sales	23,238	17,197
Cost of sales	19,510	14,663
<b>D</b> Gross profit	3,728	2,534
<b>E</b> Selling, general and administrative expenses	3,791	3,080
Operating loss	-62	-546
Ordinary loss	-88	-482
<b>F</b> Net loss	-404	-854

■ Consolidated Statement of Cash Flows	Previous fiscal year	Current fiscal year
	April 1, 2008 to March 31, 2009	April 1, 2009 to March 31, 2010
<b>G</b> Cash flows from operating activities	1,985	446
Cash flows from investing activities	-539	-324
Cash flows from financing activities	-793	-681
Decrease or increase in cash and cash equivalents	653	-559
Balance of cash and cash equivalents at the beginning of year	1,009	1,662
Balance of cash and cash equivalents at the end of year	1,662	1,103

## **D** Gross profit

Despite efforts to lower the cost of sales by cutting executive pay and reviewing operating expense plans, gross profit declined due to a number of projects with sub-par profitability, while a drop in order receipts caused more idle capacity instances.

## **E** Selling, general and administrative expenses

SG&A expenses could be reduced significantly by 710 million yen on the year thanks to executive pay cuts and reviews of operating expense plans.

## **F** Net loss

The Company recognized restructuring costs associated with personnel reductions under the New Career Challenge System, resulting in a loss of 854 million yen for the period.

\*The New Career Challenge System, in order to promote the effective use and revitalization of human resources, is designed to support employees who on their own account take on new job opportunities.

## **G** Cash flows from operating activities

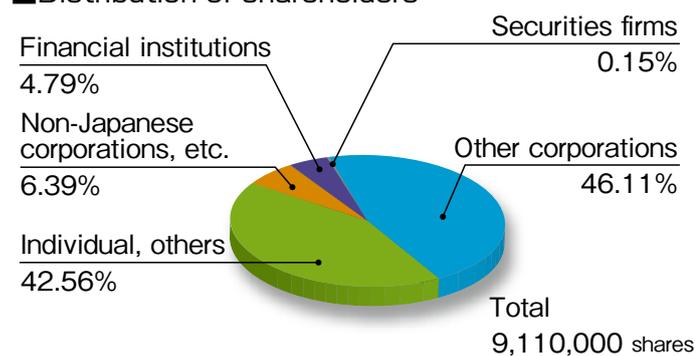
Operating cash flow totaled 446 million yen, which was 1,539 million yen less than a year earlier, as cash inflows from the collection of trade receivables and inventory trimming were offset by an increased pre-tax loss and a decline in trade notes and accounts payable.

# Stock Information (as of March 31, 2010)

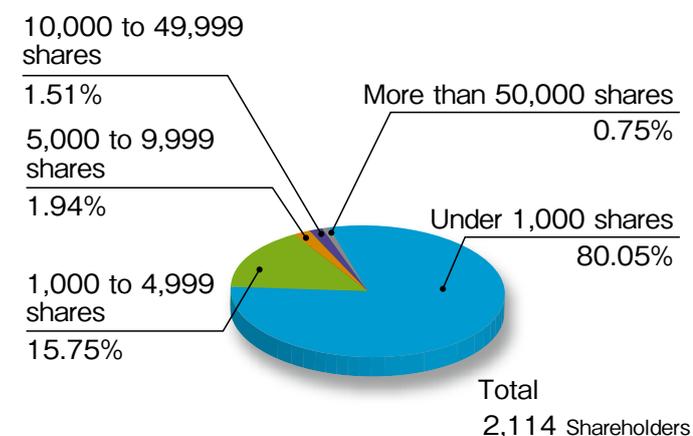
Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	2,114

Major Shareholders	Shares held	Shareholding ratio(%)
NEC Corporation	3,190,000	35.02
Keyware Solutions' employees holdings	940,400	10.32
Masayuki Okada	607,500	6.67

## ■ 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 Trust and Banking Company, Limited  
4-5-33 Kitahama, Chuo-ku, Osaka

### ■ Shareholder's register manager administration office

Stock Transfer Agency Department  
Sumitomo Trust and Banking Company, Limited  
2-3-1 Yaesu, Chuo-ku, Tokyo

### 【Contact and postal address】

Stock Transfer Agency Department  
Sumitomo Trust and Banking Company, Limited  
1-10 Nikko-cho, Fuchu-shi, Tokyo 183-8701

### 【Phone】

(Toll-free in Japan) 0120-176-417

### 【Internet website URL】

<http://www.sumitomotrust.co.jp/STA/retail/service/daiko/index.html>

### ■ Newspaper of public notice

Nihon Keizai Shimbun

### ■ Listing exchange

Tokyo Stock Exchange, Second Section

- **Trade name**  
Keyware Solutions Inc.
- **Address**  
3-1-13, Shinjuku, Shinjuku-ku, Tokyo 160-8422, Japan  
(8F, Keio Shinjuku Oiwake Bldg.)
- **Representatives**  
Chairman Hiroshi Hattanda  
President & CEO Tetsuji Nakashima
- **Date of establishment**  
May 1965
- **Capital**  
1,737 million yen
- **Net sales**  
17,197 million yen (as of fiscal year 2010)
- **Employees**  
1,334 (as of March 31, 2010)
- **Major stockholders**  
NEC Corporation  
JR East Japan Information Systems Company  
Hewlett-Packard Japan, Ltd.  
Sumitomo Mitsui Banking Corporation  
Sumitomo Life Insurance Company
- **Certifications**  
Ministry of Economy, Trade and Industry Systems Integration  
Registration System  
Ministry of Economy, Trade and Industry Specific Systems  
Operating Firm Certification System  
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  
CMMI Appraisal (Transportation Division Level 3)

## Executives

■ <b>Chairman</b>	Hiroshi Hattanda
■ <b>President &amp; CEO</b>	Tetsuji Nakashima
■ <b>Director</b>	Shigetoshi Yako Masaru Murakami Masahiro Mita Takao Shimada Tadashi Higashino
■ <b>Auditors</b>	Makoto Kimoto Kazuo Yamada Shotaro Okanishi Hiroshi Takita

\*Director Tadashi Higashino is an Outside Director as provided in Article 2 Clause 15 of the Companies Act.

\*Auditors Shotaro Okanishi and Hiroshi Takita are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.

\*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.



Headquarters (Rental)



Hachimanyama Branch (Rental)

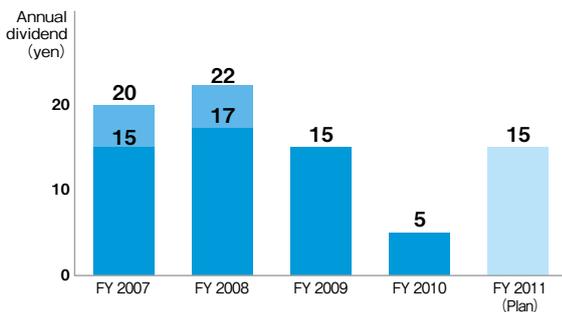
# Door to Keyware Communication Space



## Returns to Shareholders

The Company aims to pay stable dividends and proactively return earnings to shareholders.

Dividends variation over time and dividend forecast



\*The stated amount includes the regular dividend for the fiscal year to March 2007 and a special dividend commemorating the listing on the JASDAQ market.

The stated amount includes the regular dividend for the fiscal year to March 2008 and a special dividend commemorating the listing on TSE 2nd section.

## Social and Environmental (CSR) Activities

At Keyware Group, we recognize that efforts to encourage and support social and environmental contribution activities are a significant social responsibility of our firm. 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.

### ■ Social positioning of Keyware Group



\*Stakeholders: A collective term used for those who a company needs to consider when conducting business activity.

## High marks in the Nihon Keizai Shimbun “Environmental Management Survey”

In the 13th Nihon Keizai Shimbun “Environmental Management Survey” published in December 2009, the Company was elected 17th in the “Telecommunications and Services” category of non-manufacturing industries. (The Company ranked 5th among software companies in this category.)

The survey ranks corporations that stand out for their environmental efforts based on the responses on the survey form returned by each company. The survey has been conducted by the Nihon Keizai Shimbun annually since 1997.

## Internet IR Information

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

Visitors to Keyware's website can view our “Shareholder Communications” and other information for investors that summarize the latest news on the Company's activities, along with various other reports. Visitors can download these reports in PDF format from the Company's website, and request other documents.



We invite you to access our company website and open the “IR Information” page.

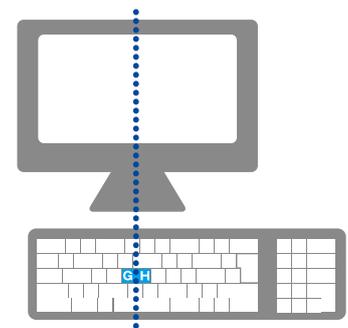
## Know and Learn!

### Application skills for the IT 4

## Correct Keyboard Position Reduces Fatigue

Personal computer operation over long periods leads to eye fatigue and stiff shoulders. In addition to staring at the display monitor for too long, operator stance and position when using the keyboard or mouse can also be a cause of fatigue.

For example, placement of the keyboard should be positioned by considering the finger default positions, so that the center of the display falls between the G and H keys, which will eliminate unnatural or distorted body posture. Since merely changing the keyboard position can reduce the burden on the body and increase work efficiency, go ahead and give it a try.



**KEYWARE**  
SOLUTIONS

**Keyware Solutions Inc.**

3-1-13, Shinjuku, Shinjuku-ku, Tokyo 160-8422, Japan  
(8F, Keio Shinjuku Oiwake Bldg.)

Corporate Planning Office IR Department

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



JUSE-PA-034  
JUSE-FC-266  
Registrations JUSE-IR-001

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