

KEYWARE TIMES

Annual Report 2011
Year Ended March 31, 2011
46th Term Business Report

➤ **Keyware works here, too!**

“Smart” times have arrived also
for study materials.

➤ **Feature**

Aiming for qualitative change:
Results and actions

Progress in our 3-year medium-term management plan



KEYWARE
SOLUTIONS

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

IT can create it.

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➤ Keyware works here, too!

“Smart” times have arrived also for study materials.



Photo: Moroyama-machi

Moroyama Town. You may have heard of it. Moroyama Town is a town of 39,000 residents in the south-western part of Saitama prefecture. Embedded in lush nature and with plenty of fruit orchards, it is known for its locally grown citrons. Incidentally, it is also Japan’s first municipality to produce e-teaching materials.

Under the heading “Basic study for parents and children in Moroyama,” the town’s official website offers electronic learning materials free of charges. From learning and exercises materials for Japanese kana characters, the

Roman alphabet, and basic arithmetic, starting in July 2007, content production of basic education usable also for home study includes Japanese, math, English, and social studies. Today with over 8,600 contents listed titles, the site has attracted considerable attention.

When in October 2010 the Ministry of Internal Affairs and Communications launched a project for regional job creation related to information and communications technology (ICT), Moroyama Town was made a part of it on the merits of its proactive efforts in e-learning. Through this project, the Ministry of Internal Affairs and Communications seeks to promote the use of ICT applications in public services (e.g., education, welfare, nursing care) and local industries (e.g., tourism, local specialty goods), hoping that the use of local human resources will lead to job creation, help resolve regional problems, and contribute to regional economic development.

In the field of digitization of education, along

with promoting the deployment of ICT technicians and digital contents production staff and encouraging training as education digitization coordinators, the Project also supports efforts to create the environments necessary of the digitization of education.

How does this relate to Keyware? Keyware provided iPads and interactive whiteboards for the third-graders of the two elementary schools of Moroyama Town and created a system to enable lessons that involve software and digital study materials interactively operated by students and instructors. Keyware also provide an environment enabling the use of Windows-based study contents using iPad.

Since teaching based on e-learning allows students to watch their instructors work in a mobile information environment and communicate a sensation of change, students' curiosity is



roused and concentration heightened, which increases learning motivation.

Keyware Group will continue to help using ICT applications to enhance day-to-day convenience, stimulate regional activities, and create employment.

Information and communications technology (ICT) is helpful in many ways when it comes to quickly ensuring regional safety and security and maintaining and enhancing regional communal services. Moreover, in local industries that use local resources, for example, tourism or local special products, ICT has the power to help realize a region's potential to the maximum degree. How? By fully activating regional resources and people to create regional added value, increase sales, and enhance productivity, through local brand creation and by establishing sales and communication channels between producers and consumers.

Message from the President

We would like to convey our deepest sympathy to the victims of the Great East Japan Earthquake along with our sincere wishes for a speedy recovery.

Keyware Group has been implementing a 3-year medium-term management plan, *Q Curve**1 2015, scheduled to end in the fiscal year to March 2013. Under this plan, the period until March 2013 is dedicated to establishing a platform for marked growth after that time. Hence, the emphasis of our efforts during these 3-years will be on the creation of new businesses and human resources development. At the same time, we will be looking to implement three objectives of “qualitative change.” The first involves a qualitative change in business content, that is, an expansion of the comprehensive services business and a transition to service provision-based operations. The second concerns a qualitative shift in customer relations to position ourselves as customers’ prime partner in IT. The third calls for a qualitative shift in human resources, specifically reinforcing human resources development to increase consultants and personnel for upstream processes.

In the first year of our medium-term management plan, the year to March 2011, we succeeded in

developing new business fields and new transaction partners among the affiliates of our Big 5 Customers*2 and through our proactive participation from the proposal stage were able to establish activities leading to order receipts. As a reward, we were able to strengthen our relationship with existing customers to the effect of a 5% increase in the Group’s annual customer satisfaction survey. Moreover, through the expansion of our Integrated Service Business and by accelerating the shift to cloud computing and service provision-based operations, we were able to increase the number of customers, ensure stable sales, and create a diversity of opportunities for offering proposals for solution. We also launched new business initiatives in collaboration with other companies, developed a cloud computing system in a Group-wide effort, and established a service site.

In the second year, the period to March 2012, we will establish the service provision-based operations and cloud computing operations as businesses, accelerate the qualitative shift by capturing the demand from our Big 5 Customers for social infrastructure systems related to post-disaster rebuilding efforts, and lay the groundwork for future growth. Currently we are also working on a concept in cooperation with various companies for offering the Group’s package software as cloud computing services.

We remain committed to meeting the expectations of our shareholders and sincerely request shareholders’ continued support.

President & CEO

Tetsuji Nakashima

*1 Q Curve: The “Q” of “Q Curve” carries multiple meanings, alluding to Quality, Quest, and the Quickening of our efforts and activities; however, it also refers to a sharp curve, as the phrase sounds like the Japanese phrase, “kyu-kaabu”, which has the same meaning.

*2 Big 5 Customers: Specific customers who together account for about 60% of annual Group revenue (NEC and its affiliates, NTT affiliates, JR and its affiliates, Hewlett-Packard Japan, and Mitsubishi Corporation and its affiliates)



Financial review for the fiscal year to March 2011

The operating environment of the information services industry, of which the Group is a part, has been under intense pressure from continued weak IT investment by user industries due to the prolonged recession. In this environment, the Group worked to enhance profitability and generate profits, aiming at qualitative development. The Group reported net sales of ¥15,611 million (down 9.2% on the year), operating income of

¥196 million (up ¥742 million on the year), and ordinary income of ¥240 million (up ¥722 million on the year). After extraordinary loss from out-of-court dispute settlement and including the effects of the first time application of the Accounting Standard for Asset Retirement Obligations, the Group reported a net loss of ¥76 million for the period (reflecting an improvement of ¥778 million on the year).

Actions this fiscal year

Expectations are for user industries to cut back further on IT investment given the effects from the Great East Japan Earthquake and the electricity shortages caused by the Fukushima nuclear power plant accident. Amid these adverse circumstances, based on the Group's new organization structure

implemented in April, the Group will work to further enhance quality and customer satisfaction, establish service provision-based operations and cloud computing operations as businesses, and proactively engage in increasing the number of prime users.

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



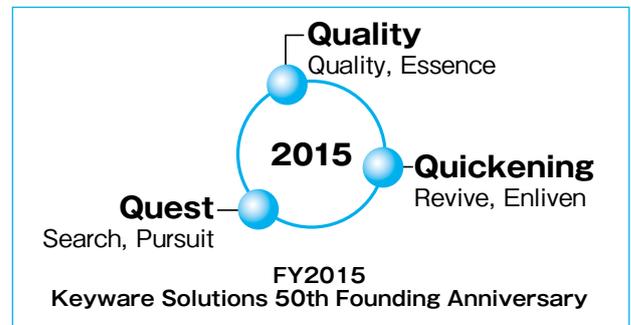
- We are currently monitoring the prospective effects of the Great East Japan Earthquake on customers' IT investment and other facilities investment, and will release earnings estimates as soon as disclosure data become available.

Aiming for qualitative change:

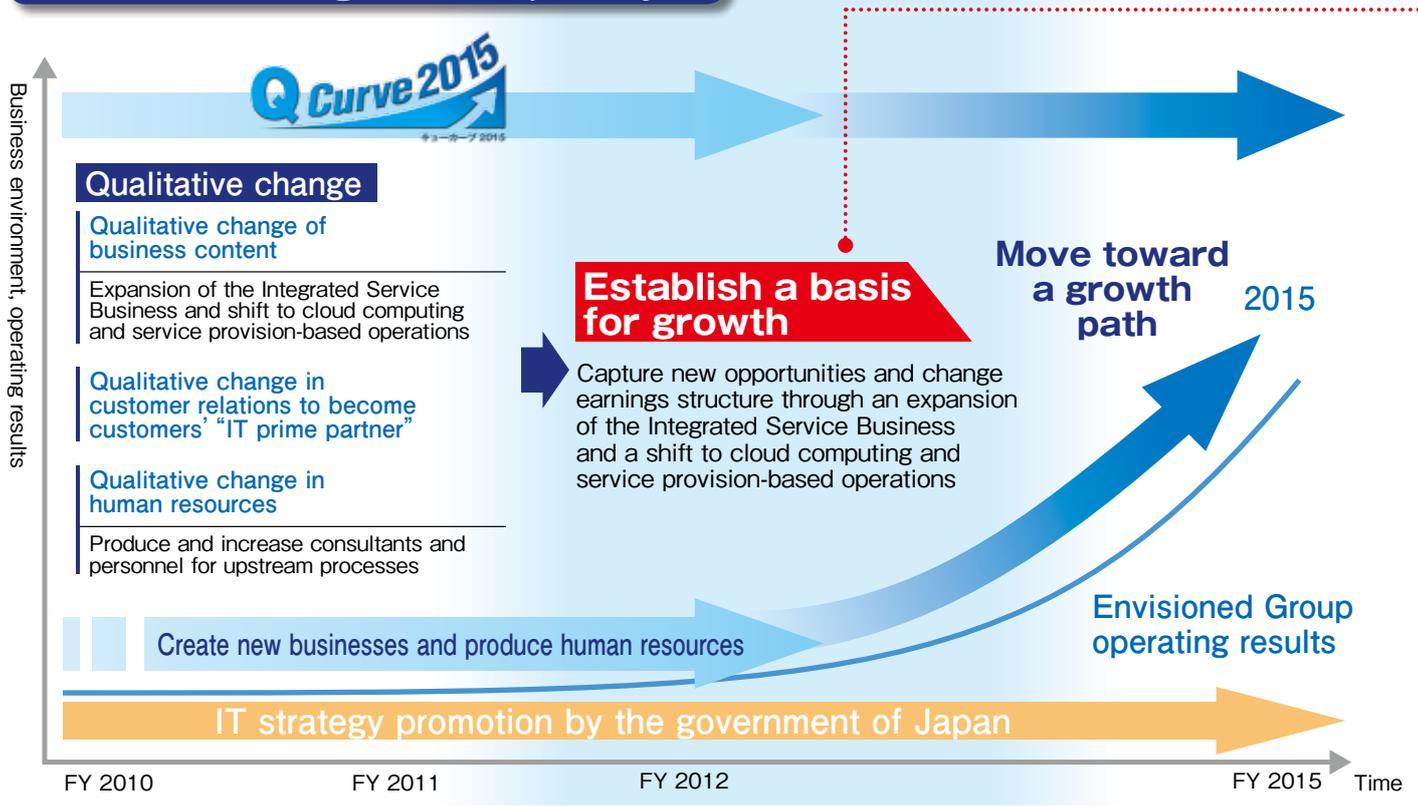
The 3-year period of this medium-term management plan is dedicated to qualitative changes aimed at a steep growth curve further in the years ahead by 2015, the year of the 50th anniversary of the founding of Keyware. To that end, the plan focuses throughout on quality and technology and proposes to raise the attractiveness of the Company by increasing enterprise value.

Slogan

Along with the progress in information and communications technology (ICT) and in preparation for the coming age of cloud computing, the Group aims to reform its earnings structure and undergo qualitative transformation into a company equipped with the competitive strength to deal with the requirements of the times.



Medium-term growth trajectory



The 3-Year Medium Term Management Plan

Attainment status of the management plan

Based on a new organization structure implemented in April, the Group will work to further enhance quality and customer satisfaction, establish service provision-based operations and cloud computing operations as businesses, and proactively engage in increasing the number of prime users.

Establish a basis for growth

Results Implemented - to be continued

- 1 Strengthen the relation with existing customers
- 2 Expand the Integrated Service Business
- 3 Accelerate the shift to cloud computing and service provision-based operations

Actions Start of active implementation

- 1 Further improve quality and raise customer satisfaction
- 2 Establish service provision-based operations and cloud computing operations as businesses
- 3 Increase the number of prime users

Continue with qualitative change



Organization reform



Steadily implement qualitative change

In the first year of the medium-term management plan, the fiscal year to March 2011, we strengthened the relationships with our Big 5 Customers and established activities leading to order receipts. In relation to the expansion of the Integrated Service Business and the acceleration of the shift to cloud computing operations and service provision-

based operations, we increased the number of customers, worked to achieve stable sales, and created opportunities for diverse solution propositions. We also launched new business initiatives in collaboration with other companies, developed a cloud computing system in a Group-wide effort, and established a service site.

Basic strategies

Main results

Reinforce relations with existing customers

Develop new transaction partners among the divisions and affiliates of our Big 5 Customers

Through active involvement from the proposal stage on, establish activities leading to order receipts

A survey result of the Company showed an average 5% improvement in customer satisfaction rating

Expand Integrated Service Business

Increased customers, ensured stable sales, created opportunities to propose different kinds of solutions

- From NTT Data Systems Corporation (the current NTT Data Business Systems Corporation) assumed operation for the thin-client product "GO-Global" and related solutions

New business initiatives in collaboration with other companies

- Proposal to customers and introduction of solutions using BizJ (Biz Integral) of NTT Data Bizintegral Corporation
- Through joint operations with Oracle Japan, introduction of the Oracle Exadata Database Machine and start-up of consulting service operations

Accelerated shift to cloud computing and service provision operations

In a Group-level effort, developed a cloud-type computing system and established service sites

- Development and sales of templates in cooperation with SAP for smartphone applications (Android, iPhone, iPad)
- Establishment of a cloud-type site "Value Pocket for mE (mobile contents service)"
- Establishment of health service site "LEANBODY.JP" for perfect body shaping
- Cloud-enabled different commercial package software applications, specifically medical related instances (development in progress)





Actions in Fiscal Year to March 31, 2012

Speedy business initiatives through continued qualitative change

In the second year to March 2012, we will establish service provision-based operations and cloud related operations as businesses. Additionally, by capturing social infrastructure demand mostly from Big 5 Customers in

connection with the restoration of disaster damaged installations, we will accelerate qualitative transformation and keep on building platforms for further growth.

1
Further improvements in quality and customer satisfaction

2
Establishment of service provision-based operations and cloud related operations as businesses

3
Increase in the number of prime users



Actions of the Group

- Service provision-based operations and cloud related operations as focus areas for resource allocation and expansion
- Capture social infrastructure demand mostly from Big 5 Customers in connection with restoration of disaster damage

Example of an initiative

Contract and start of service operations related to an initiative of "Support Project for Single Parent Households in Setagaya" that provides opportunities to work from home

Through cooperation with various companies, enabled the Group's commercial package software to be used for cloud-based services

A Current assets

Current assets increased ¥189 million compared with the end of the previous fiscal year to ¥4,739 million. While inventories declined, cash and deposits and trade payables rose.

B Fixed assets

Non-current assets fell ¥65 million compared with the end of the previous fiscal year to ¥4,675 million as an increase in property, plant, and equipment due to the first-time application this fiscal year of the Accounting Standard for Asset Retirement Obligations was outpaced by goodwill amortization and disposal of investment securities.

C Current liabilities

Current liabilities increased ¥446 million compared with the end of the previous fiscal year to ¥2,176 million as a drop in accounts payable was eclipsed by an increase in short-term loans payable.

D Fixed liabilities

Noncurrent liabilities decreased ¥190 million compared with the end of the previous fiscal year to ¥733 million as the newly recognized asset retirement obligations were less than scheduled settlement of long-term loans payable.

E Net assets

Net assets fell ¥130 million compared with the end of the previous fiscal year to ¥6,505 million (marking an equity ratio of 69.1%) due to interim dividends paid and the net loss reported for the period.

Consolidated Balance Sheet (Assets)

	Previous fiscal year ended March 31, 2010	Current fiscal year ended March 31, 2011
A Current assets	4,549	4,739
B Fixed assets	4,740	4,675
Tangible fixed assets	210	225
Intangible fixed assets	1,336	1,324
Investments and other assets	3,193	3,125
Total assets	9,290	9,415

(Liabilities)

C Current liabilities	1,730	2,176
D Fixed liabilities	924	733
Total liabilities	2,654	2,909

(Net assets)

Shareholders' equity	6,629	6,506
Accumulated other comprehensive income	7	-1
E Total net assets	6,636	6,505
Total liabilities and net assets	9,290	9,415

Consolidated Income Statements	Previous fiscal year April 1, 2009 to March 31, 2010	Current fiscal year April 1, 2010 to March 31, 2011
F Net sales	17,197	15,611
Cost of sales	14,663	12,670
G Gross profit	2,534	2,940
H Selling, general and administrative expenses	3,080	2,744
Operating income or operating loss (-)	-546	196
Ordinary income or ordinary loss (-)	-482	240
I Net loss	-854	-76

F Net sales

Net sales fell ¥1,585 million on the year to ¥15,611 million as the uncertain economic outlook caused municipalities and corporations to curb IT investment.

G Gross profit

Despite the drop in sales, the gross profit margin improved markedly by 4.1 percentage points compared with a year earlier due to efforts to reduce input costs.

H Selling, general and administrative expenses

SG&A expenses declined ¥336 million from a year earlier to ¥2,744 million. This was due to cuts in directors' compensations and employee salaries and efforts to reduce operating expenses.

I Net loss

Despite a return to black figures at the operating and ordinary income levels thanks to efforts to reduce input costs and SG&A expenses, the Group reported a net loss for the period due to the prior-year effects from asset retirement obligations recognized for first time this fiscal year as well as an extraordinary loss from an out-of-court settlement of a dispute surrounding conflicting views related to the use of a software license.

Consolidated Statement of Cash Flows	Previous fiscal year April 1, 2009 to March 31, 2010	Current fiscal year April 1, 2010 to March 31, 2011
Cash flows from operating activities	446	-70
Cash flows from investing activities	-324	-147
Cash flows from financing activities	-681	354
Decrease or increase in cash and cash equivalents	-559	136
Balance of cash and cash equivalents at the beginning of year	1,662	1,103
Balance of cash and cash equivalents at the end of year	1,103	1,240

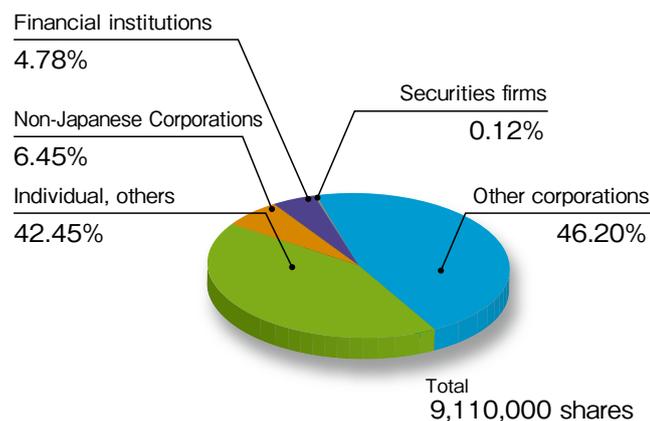
J Consolidated cash flows

The Group experienced net cash outflows from operating activities and investing activities, while financing activities resulted in a net cash inflow from an increase in short-term loans payable. Cash and cash equivalents at the end of the period totaled ¥1,240 million. This was ¥136 million more than a year earlier.

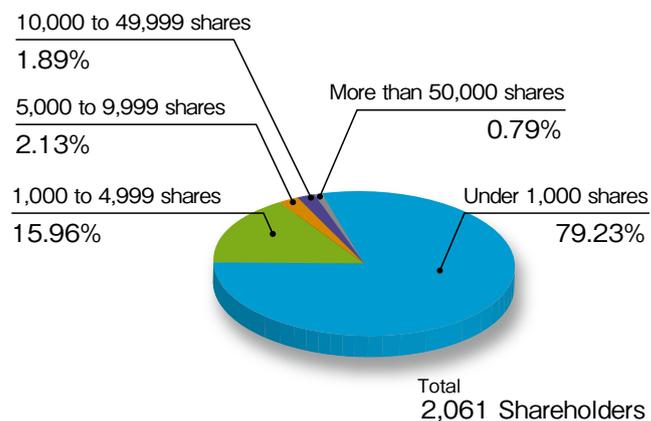
Stock Information (as of March 31, 2011)

		Major Shareholders	Shares held	Shareholding ratio (%)
Authorized shares	36,440,000	NEC Corporation	3,190,000	35.02
Outstanding shares	9,110,000	Keyware Solutions' employees holdings	830,600	9.12
Shareholders	2,061	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

Company Profile (as of March 31, 2011)

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	¥15,611 million (Consolidated, Year Ended March 31, 2011)
Employees	1,204
Major stockholders	NEC Corporation JR East Japan Information Systems Company Hewlett-Packard Japan, Ltd. Sumitomo Mitsui Banking Corporation Sumitomo Life Insurance Company
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 CMMI Appraisal (Transportation Division Level 3)



Headquarters
(Rental)



Hachimanyama Branch
(Rental)

Executives (As of June 23, 2011)

Chairman	Hiroshi Hattanda	
President & CEO	Tetsuji Nakashima	
Director	Shigetoshi Yako	
	Masaru Murakami	
	Masahiro Mita	
	Takao Shimada	
	Yasuyuki Nakae	
Auditors	Makoto Kimoto	※Director Yasuyuki Nakae is an Outside Director as provided in Article 2 Clause 15 of the Companies Act.
	Kazuo Yamada	※Auditors Shotaro Okanishi and Hiroshi Takita are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.
	Shotaro Okanishi	
	Hiroshi Takita	※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.



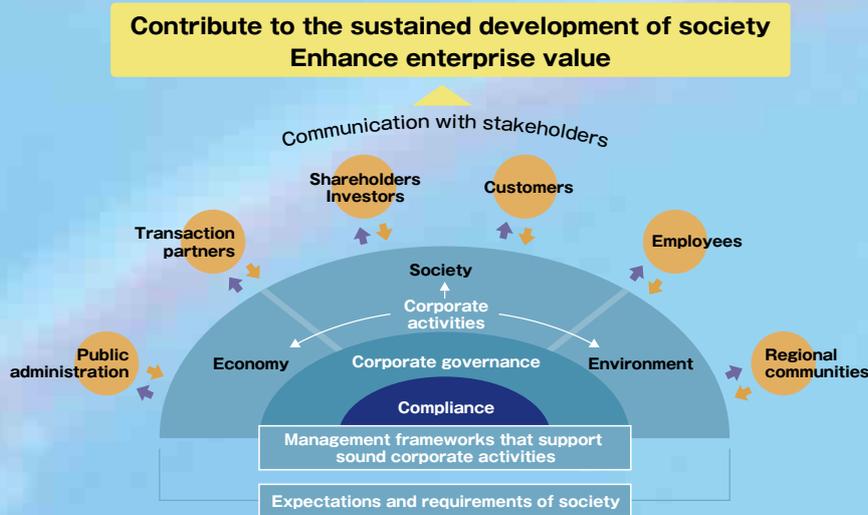
Door to Keyware

Communication Space

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.



In the Environment Management Survey of the Nihon Keizai Shimbun, the ranking of the Company improved from last year.

In the results announcement for the 14th Environment Management Survey of the Nihon Keizai Shimbun, the Company was awarded the 14th rank in the corporate ranking for non-manufacturing industries in the main category "Telecommunications and Services," improved from the 17th rank a year earlier (In the sub-category "Information Services" included in the

main category, the Company took the 3rd rank, improved from the 5th a year earlier). This survey, which has been conducted annually since 1997 by the Nihon Keizai Shimbun, ranks corporations in the order of excellence of their environment management efforts, based on their responses on the survey form.

Dividend for FY March 2012

The Company considers returning profits to shareholders a management issue of high priority, predicated on the Company's basic policies of ensuring a sound financial basis for corporate operations and maintaining stable dividends over time. Currently, until it becomes

clear how the Great East Japan Earthquake of March 11, 2011, will affect operating results, no decisions have been made concerning the dividend for FY March 2012. An announcement will be made as soon as prospective dividend information for disclosure becomes available.

<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 ICT6

「Energy conservation also for mobile phones」

The electric power shortfalls feared for this summer call for energy conservation efforts where ever possible. Mobile phones are one instance within our immediate reach where we can and should save electric power.

First, a lot of electric power is used up by the display. Brightness and the time until the display turns dark again can be adjusted. Let's change both settings to the necessary minimum. Second, as long as power is switched on, every three to five second the phone sends a signal to base for geo-positioning. This is how the battery loses its

charge without the phone's owner noticing. This charge depletion can be reduced by switching the phone off when it is not in use at all.

Off late, stores have started selling small chargers with a built-in hand-operated power generator, combined with a flash light and AM/FM radio receiver. Mobile phones are valuable tools in emergencies for obtaining information, establishing the safety of others, and letting others know that are unharmed. Let's make sure our phone does all this when we need it.





Keyware Solutions Inc.

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(8F, Keio Shinjuku Oiwake Bldg)
Corporate Planning Office PR & IR Department

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



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Registrations JUSE-IR-001

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