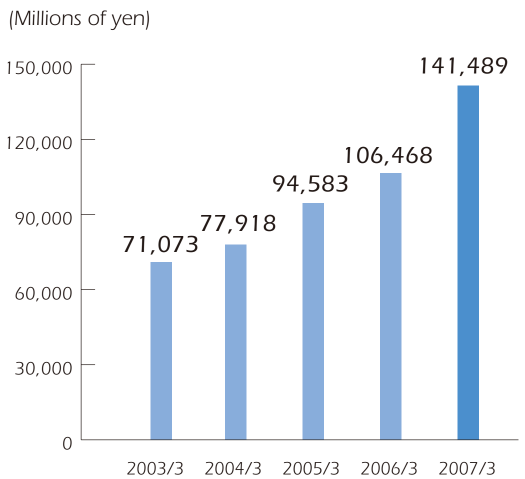
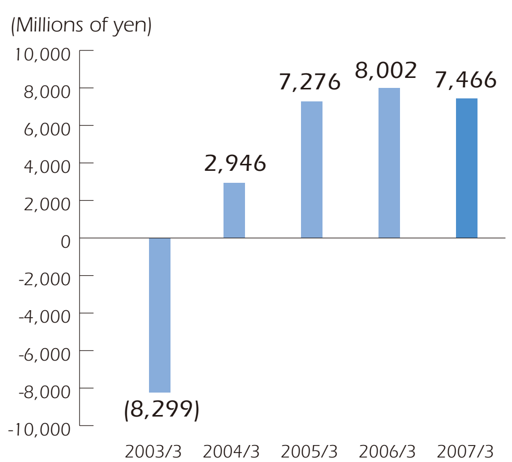
Financial Statements
Management's Discussion and Analysis

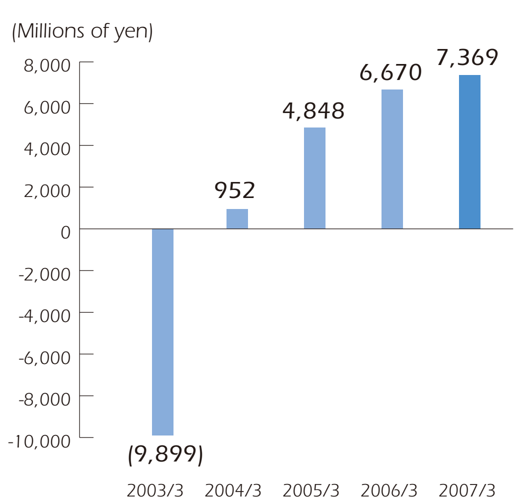
Net sales



Operating income



Net income



Operating Results

Net Sales, Operating Income and Net Income

During the fiscal year ended 31 March 2007, the Japanese economy experienced a moderate but consistent recovery mainly reflecting brisk demand in the private sector and supported by favorable corporate performance, which improved the employment and income environment, thereby contributing to household budgets. However, concerns over interest rates and high raw material prices linger and have dampened any optimistic views. Although companies review in-house resources and tend to aggressively outsource operations other than their core operations for improved efficiency, once such a contract period ends, such companies request us to reconsider the service content and prices. Due to the rapid dissemination of broadband access, the IT environment supporting individual consumers and families has become increasingly sophisticated on a global scale. Having expanded rapidly, mobile phones, which also function as digital cameras, electronic money and videophones, have directly connected companies and consumers, enriching that relationship, and have become an important channel for communications.

Given this, net sales and operating income in the IT Services for companies (BtoB) for the year under review largely exceeded those of a year earlier. In the IT Services for individual consumers (BtoC), an operating loss of approximately ¥1.5 billion was posted due to increased up-front investment, mainly in transcosmos' subsidiaries such as Ask.jp. However, the loss was smaller than initially expected. In the corporate venture capital business, net sales, which included a gain on sales of investment securities held, increased year over year.
As a result, net sales and profit for the year under review, which was also the first year of the Medium-Term Business Plan announced in May 2006, were higher than initially targeted. Consolidated net sales for the year ended 31 March 2007, rose ¥35,021 million, or 32.9% from a year earlier, to ¥141,489 million. Although consolidated operating income was down ¥536 million, or 6.7%, to ¥7,466 million, income before income taxes and minority interests increased ¥3,106 million, or 29.5%, to ¥13,611 million. Consolidated net income advanced ¥699 million, or 10.5%, to ¥7,369 million.

By region, in Japan, IT Services progressed favorably, resulting in an increase in net sales to ¥123,620 million, up ¥18,815 million, or 18.0%, year over year. Operating income declined ¥3,397 million, or 23.7%, to ¥10,940 million. In the United States, net sales jumped ¥4,289 million, or 516.8%, to ¥5,119 million. Operating income was ¥2,177 million compared with an operating loss of ¥64 million for the previous fiscal year. In Asia, net sales surged ¥11,918 million to ¥12,751 million leveraged mainly by an increase in the number of consolidated subsidiaries. Operating income soared ¥1,210 million, or 486.0%, to ¥1,459 million.

Segment Information

IT Services(Computer service)
In the IT Services, net sales increased ¥33,358 million, or 33.4% from a year earlier, to ¥133,217 million and operating income rose ¥1,362 million, or 15.0%, to ¥10,464 million, owing to continued favorable orders received mainly in the Marketing Chain Management Services and an increase in the number of consolidated subsidiaries.

Corporate Venture Capital Business
In the Corporate Venture Capital Business, net sales increased ¥1,664 million, or 25.2%, to ¥8,273 million as a result of selling more investment securities held compared with the previous year. Operating income declined ¥1,473 million, or 27.2%, to ¥3,933 million, due to a decrease in profit on sales and a loss posted on the valuation of investment securities.

Financial Position

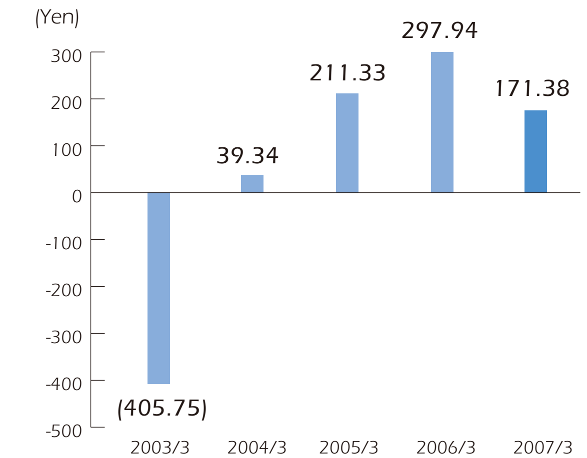
Assets, Liabilities and Net Assets

Total assets increased 9.2% from the end of the previous fiscal year to ¥96,381 million.
Current assets increased 6.8% year over year to ¥61,791 million. The increase was mainly due to a rise in accounts receivable related to the expansion in net sales. Fixed assets rose 13.7% to ¥34,589 million owing to an increase in tangible and intangible fixed assets held by newly consolidated subsidiaries.

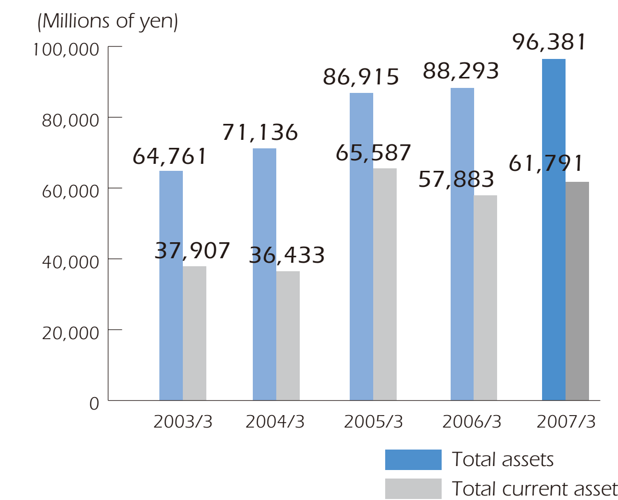
Total liabilities increased 47.3% from the end of the previous fiscal year to ¥37,311 million. Current liabilities rose 27.9% year over year to ¥24,261 million, mainly due to an increase in transcosmos' income taxes payable. Non-current liabilities surged 105.1% to ¥13,050 million primarily due to transcosmos' long-term bank loans.

Total net assets decreased 6.2% from the end of the previous fiscal year to ¥59,070 million, mainly due to a decrease in unrealized gains on marketable securities and investment in securities, together with the additional repurchase of treasury stock. Net assets per share decreased from ¥1,380.51 to ¥1,232.42, due to an increase of 24,397,023 shares issued as the result of a 2-for-1 stock split conducted on 1 April 2006. The equity ratio was 54.5% compared with 66.1% for the previous consolidated fiscal year.

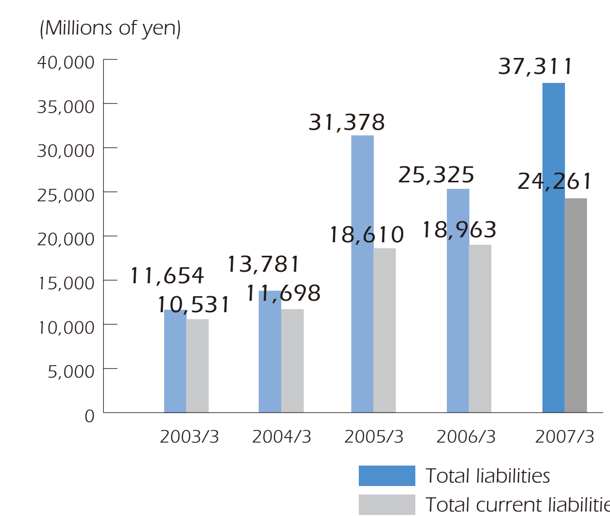
Net income per share



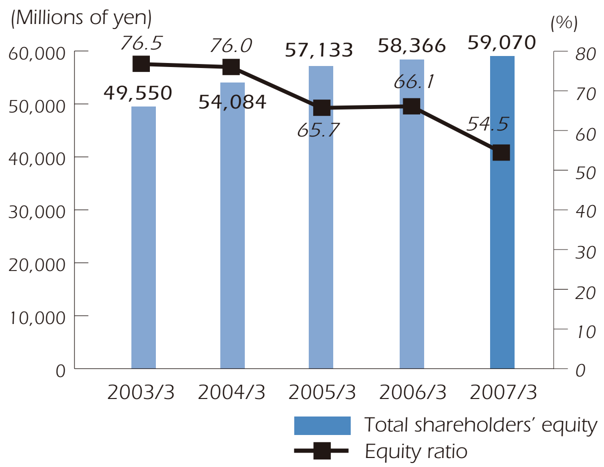
Total assets
Total current assets



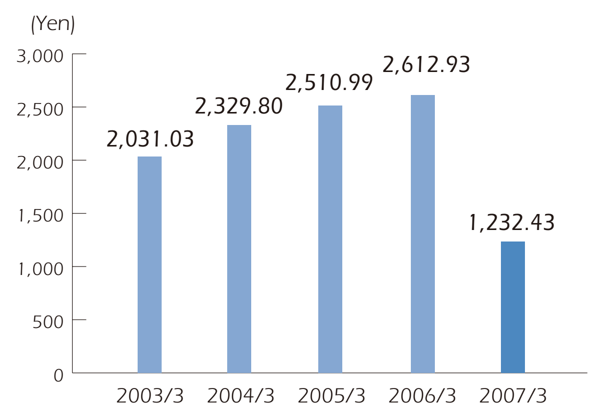
Total liabilities
Total current liabilities



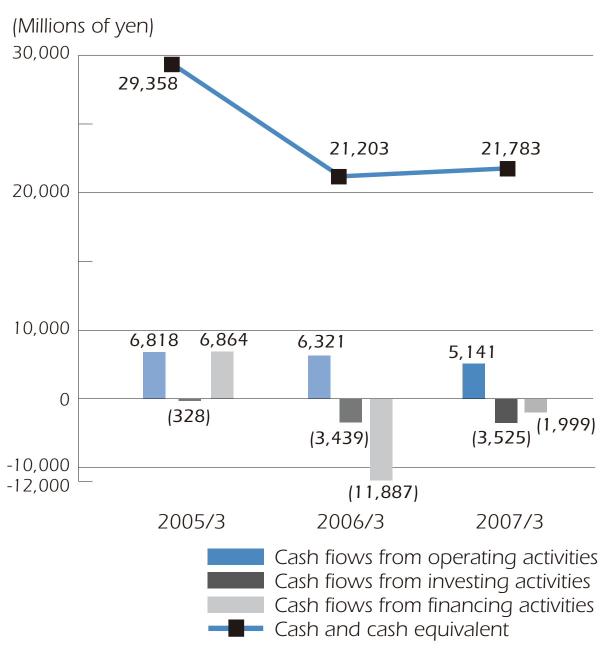
Total stockholders' equity
Equity ratio



Total stockholders' equity per share



Cash flow



Cash Flows

Net cash provided by operating activities was ¥5,141 million, down ¥1,180 million from the end of the previous fiscal year. The decline was mainly attributable to a ¥9,708 million loss on investments in unconsolidated subsidiaries and affiliates and a ¥5,336 million decrease in notes and accounts receivable despite an increase in income before income taxes.

Net cash used in investing activities amounted to ¥3,525 million, an ¥86 million increase compared with the previous fiscal year. Despite an increase in proceeds from sale of investments in affiliates, expenses for the purchase of intangible non-current assets and increased security deposits paid, and proceeds from sale of investments securities decreased.

Net cash used in financing activities was ¥1,999 million, a decrease of ¥9,888 million compared with the end of the previous fiscal year. The decline was mainly attributable to proceeds from long-term bank loans and largely decreased expenses for the repurchase of treasury stock.

As a result, cash and cash equivalents including effect of exchange rate changes on March 31, 2007, were ¥21,783 million, up ¥580 million from March 31, 2006.

Five-Year Summary

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen (except per share data)					Thousand of U.S. dollars*1 (except per share data)
For the years ended 31 March	**2007**	2006	2005	2004	2003	**2007**
Net sales	**¥ 141,489**	¥ 106,468	¥ 94,583	¥ 77,918	¥ 71,073	**$ 1,198,151**
Gross profit	**34,079**	28,261	23,600	18,866	7,943	**288,587**
Operating income	**7,466**	8,002	7,276	2,946	(8,299)	**63,219**
Net income	**7,369**	6,670	4,848	952	(9,899)	**62,405**
Net income per share	**171.4**	297.9	211.3	39.3	(405.7)	**1.45**

CONSOLIDATED BALANCE SHEETS

	Millions of yen					Thousand of U.S. dollars
At 31 March	**2007**	2006	2005	2004	2003	**2007**
Total current assets	**¥ 61,791**	¥ 57,883	¥ 65,587	¥ 36,433	¥ 37,907	**$ 523,255**
Total current liabilities	**24,261**	18,963	18,610	11,698	10,531	**205,441**
Total non-current liabilities	**13,050**	6,362	12,768	2,083	1,123	**110,508**
Total net assets*2	**59,070**	58,366	57,133	54,084	49,550	**500,215**

NON-CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen (except per share data)					Thousand of U.S. dollars (except per share data)
For the years ended 31 March	**2007**	2006	2005	2004	2003	**2007**
Net sales	**¥ 109,822**	¥ 95,252	¥ 82,483	¥ 65,360	¥ 57,389	**$ 929,990**
Gross profit	**23,914**	24,448	18,894	14,662	11,045	**202,509**
Operating income	**5,428**	8,693	6,254	4,268	2,514	**45,962**
Net income	**7,503**	4,707	3,126	3,360	(23,281)	**63,534**
Basic net income per share	**174.5**	210.2	136.2	140.6	(954.3)	**1.48**
Cash dividends per share	**40.0**	70.0	40.0	30.0	10.0	**0.34**
Weighted average number of shares (in thousands)	**43,001**	22,376	22,926	23,805	24,396	

NON-CONSOLIDATED BALANCE SHEETS

	Millions of yen					Thousand of U.S. dollars
At 31 March	**2007**	2006	2005	2004	2003	**2007**
Total current assets	**¥ 35,161**	¥ 34,039	¥ 46,563	¥ 19,955	¥ 16,553	**$ 297,748**
Total current liabilities	**17,835**	15,130	14,264	9,637	7,711	**151,029**
Total non-current liabilities	**12,182**	5,205	12,046	2,156	1,190	**103,161**
Total net assets*2	**53,898**	56,919	60,341	57,552	51,784	**456,409**

Notes:
(*1) U.S. dollar amounts are translated from yen, solely for convenience of the reader, at the rate of ¥118.09 = U.S.$1.
(*2) Effective from the year ended March 2007, the Company adopted a new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan). As for details, please refer to Note 2.

Consolidated Balance Sheets

At 31 March 2007 and 2006	Millions of yen				Thousands of U.S. dollars (Note 3)	
		2007		2006		2007
ASSETS						
Current Assets:						
Cash and time deposits (Note 8)	¥	**21,325**	¥	21,803	$	**180,581**
Securities (Note 4)		**704**		325		**5,959**
Investments in securities for operating purposes (Note 4)		**12,179**		15,956		**103,131**
Notes and accounts receivable (Note 23) : Third parties		**22,871**		16,903		**193,680**
Unconsolidated subsidiaries and affiliates		**30**		25		**254**
		22,901		16,928		**193,934**
Less: allowance for doubtful accounts		**(293)**		(277)		**(2,484)**
		22,608		16,651		**191,450**
Work and software in progress and merchandise (Note 5)		**1,366**		624		**11,566**
Deferred tax assets (Note 16)		**188**		56		**1,593**
Other current assets		**3,421**		2,468		**28,975**
Total current assets		**61,791**		57,883		**523,255**
Investments and Advances:						
Investments in securities (Note 4)		**1,035**		5,243		**8,768**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 4)		**5,201**		6,440		**44,042**
Investments in other securities of unconsolidated subsidiaries and affiliates (Note 4)		**398**		—		**3,373**
Investments in affiliates (Note 4)		**282**		45		**2,392**
Long-term loans receivable		**802**		1,076		**6,791**
Other investments		**1,680**		964		**14,220**
Less: allowance for doubtful accounts		**(394)**		(356)		**(3,338)**
Total investments and advances		**9,004**		13,412		**76,248**
Property and equipment, at cost less accumulated depreciation (Note 6,8 and 11)		**11,351**		8,398		**96,123**
Leasehold deposits (Note 7)		**4,470**		2,978		**37,856**
Software (Note 11)		**3,168**		1,738		**26,824**
Intangibles and other		**351**		401		**2,972**
Deferred tax assets (Note 16)		**2,590**		2,822		**21,930**
Prepaid pension costs (Note 9)		**1,519**		444		**12,860**
Goodwill (Notes 11 and 22)		**2,137**		217		**18,096**
Total assets	¥	**96,381**	¥	88,293	$	**816,164**

At 31 March 2007 and 2006	Millions of yen				Thousands of U.S. dollars (Note 3)	
		2007		2006		2007
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Short-term debt (Note 8)	¥	**1,149**	¥	15	$	**9,729**
Current portion of long-term debt (Note 8)		**91**		2,000		**766**
Accounts payable (Note 23) :						
Third parties		**9,285**		8,059		**78,629**
Unconsolidated subsidiaries and affiliates		**121**		14		**1,022**
		9,406		8,073		**79,651**
Income taxes payable (Note 16)		**4,069**		293		**34,459**
Accrued bonuses for employees		**2,799**		2,474		**23,706**
Advances received from customers		**545**		404		**4,615**
Other current liabilities		**6,202**		5,704		**52,515**
Total current liabilities		**24,261**		18,963		**205,441**
Non-Current Liabilities:						
Bonds (Note 8)		**5,414**		5,171		**45,846**
Long-term debt (Note 8)		**7,282**		29		**61,664**
Deferred tax liabilities (Note 16)		**70**		965		**589**
Security deposits received		**11**		11		**95**
Reserve for retirement benefits (Note 9)		**254**		133		**2,149**
Other non-current liabilities		**19**		53		**165**
Total non-current liabilities		**13,050**		6,362		**110,508**
Commitments and Contingent Liabilities (Notes 14)						
Net assets (Note 17 and 20) :						
Stockholders' Equity :						
Common stock (Note 21) :						
Authorized : 150,000,000 shares at 31 March 2007 and 90,088,176 shares at 31 March 2006 Issued : 48,794,046 shares at 31 March 2007 and 24,397,023 shares at 31 March 2006		**29,066**		29,066		**246,134**
Capital surplus		**23,081**		23,218		**195,450**
Retained earnings		**8,576**		2,768		**72,626**
Treasury stock, at cost :						
6,157,473 and 2,060,902 shares at 31 March 2007 and 2006, respectively		**(15,815)**		(10,291)		**(133,926)**
Total stockholders' equity		**44,908**		44,761		**380,284**
Valuation and translation adjustments:						
Unrealized gains on marketable securities and investments in securities		**2,303**		8,633		**19,505**
Foreign currency translation adjustments		**5,335**		4,972		**45,180**
Total valuation and translation adjustments		**7,638**		13,605		**64,685**
Minority interests		**6,524**		4,602		**55,246**
Total net assets		**59,070**		62,968		**500,215**
Total liabilities and net assets	¥	**96,381**	¥	88,293	$	**816,164**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

For the years ended 31 March 2007, 2006 and 2005	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	**2007**
Net sales (Note 18)	**¥ 141,489**	¥ 106,468	¥ 94,583	**$1,198,151**
Cost of sales	**107,410**	78,207	70,983	**909,564**
Gross profit	**34,079**	28,261	23,600	**288,587**
Selling, general and administrative expenses (Note 10)	**26,613**	20,259	16,324	**225,368**
Operating income	**7,466**	8,002	7,276	**63,219**
Non-operating Income (expenses):				
Interest income	**125**	59	126	**1,060**
Interest expense	**(174)**	(26)	(40)	**(1,476)**
Bond issuance cost	**—**	—	(66)	**—**
Dividend income	**5**	3	88	**42**
Gain on sale/disposal of investments in securities	**1,259**	3,155	621	**10,657**
Loss on sale/disposal of investments in securities	**(187)**	(1)	(2)	**(1,583)**
Loss on disposal of property and equipment	**(847)**	(185)	(372)	**(7,168)**
Loss on impairment of fixed assets	**(4,056)**	(970)	—	**(34,348)**
Gain on sale/disposal of investments in affiliates	**9,708**	1,640	1,394	**82,208**
Reversal of allowance for doubtful accounts	**28**	4	6	**237**
Write-downs of investments in affiliates	**(560)**	(102)	(7)	**(4,740)**
Equity in loss of unconsolidated subsidiaries and affiliates	**(661)**	(1,249)	(401)	**(5,601)**
Gain on subsidy accounts	**180**	50	80	**1,526**
Development grant	**172**	—	—	**1,453**
Gain on change in retirement benefit plan	**773**	—	—	**6,548**
Foreign exchange losses	**—**	(154)	(101)	**—**
Write-downs of marketable securities and investments in securities	**(257)**	—	(150)	**(2,179)**
Gain on issuance of shares to investees	**385**	581	546	**3,260**
Loss on issuance of shares to investees	**(2)**	(475)	(247)	**(19)**
Write-downs of golf club memberships	**—**	(11)	(28)	**—**
Amortization of goodwill	**—**	(58)	(809)	**—**
Gain on sale of businesses	**—**	—	125	**—**
Other income	**751**	670	465	**6,364**
Other expenses	**(497)**	(428)	(539)	**(4,203)**
Total non-operating income (expenses)	**6,145**	2,503	689	**52,038**
Income before income taxes and minority interests	**13,611**	10,505	7,965	**115,257**
Income taxes (Note 16)				
Current	**4,117**	108	161	**34,865**
Deferred	**2,157**	3,585	2,993	**18,263**
	7,337	6,812	4,811	**62,129**
Minority interests in net income (loss) of consolidated subsidiaries	**32**	(142)	37	**276**
Net income (Note 20)	**¥ 7,369**	¥ 6,670	¥ 4,848	**$ 62,405**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets

For the year ended 31 March 2007		Millions of yen							
	Number of shares of common stock in issue (Note 12)	Common stock	Capital surplus	Retained earnings (Note 12)	Treasury stock, at cost (Note 12)	Unrealized gains on marketable securities and investments in securities	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at 31 March 2006	24,397,023	¥ 29,066	¥ 23,218	¥ 2,768	¥ —	¥ —	¥ —	¥ —	¥ 55,052
Reclassified balance as of 31 March 2006	—	—	—	—	(10,291)	8,633	4,972	4,602	7,916
Implementation of stock split (a-two-for-one)	24,397,023								
Directors' bonuses	—	—	—	(3)	—	—	—	—	(3)
Cash dividends	—	—	—	(1,564)	—	—	—	—	(1,564)
Increase in retained earnings due to increase in number of consolidated subsidiaries	—	—	—	7	—	—	—	—	7
Decrease in retained earnings due to increase in number of consolidated subsidiaries	—	—	—	(1)	—	—	—	—	(1)
Net income for the year ended 31 March 2007	—	—	—	7,369	—	—	—	—	7,369
Acquisition of treasury stock	—	—	—	—	(5,794)	—	—	—	(5,794)
Disposition of treasury stock	—	—	(137)	—	270	—	—	—	133
Other changes	—	—	—	—	—	(6,330)	363	1,922	(4,045)
Balance at 31 March 2007	48,794,046	¥ 29,066	¥ 23,081	¥ 8,576	¥ (15,815)	¥ 2,303	¥ 5,335	¥ 6,524	¥ 59,070

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings (Note 12)	Treasury stock, at cost (Note 12)	Unrealized gains on marketable securities and investments in securities	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at 31 March 2006	$ 246,134	$ 196,611	$ 23,441	$ —	$ —	$ —	$ —	$ 466,186
Reclassified balance as of 31 March 2006	—	—	—	(87,143)	73,105	42,100	38,972	67,034
Directors' bonuses	—	—	(25)	—	—	—	—	(25)
Cash dividends	—	—	(13,241)	—	—	—	—	(13,241)
Increase in retained earnings due to increase in number of consolidated subsidiaries	—	—	56	—	—	—	—	56
Decrease in retained earnings due to increase in number of consolidated subsidiaries	—	—	(10)	—	—	—	—	(10)
Net income for the year ended 31 March 2007	—	—	62,405	—	—	—	—	62,405
Acquisition of treasury stock	—	—	—	(49,072)	—	—	—	(49,072)
Disposition of treasury stock	—	(1,161)	—	2,289	—	—	—	1,128
Other changes	—	—	—	—	(53,600)	3,080	16,274	(34,246)
Balance at 31 March 2007	$ 246,134	$ 195,450	$ 72,626	$ (133,926)	$ 19,505	$ 45,180	$ 55,246	$ 500,215

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity

For the years ended 31 March 2006 and 2005	Number of shares of common stock in issue	Millions of yen Common stock	Capital surplusl	Retained earnings
Balance as at 31 March 2004	24,397,023	¥ 29,066	¥ 22,622	¥ (6,902)
Increase in capital surplus due to merger with a consolidated subsidiary	—	—	69	—
Loss on sale of treasury stock	—	—	(25)	—
Directors' bonuses	—	—	—	(16)
Cash dividends	—	—	—	(696)
Increase in retained earnings due to decrease in number of affiliates accounted for by the equity method	—	—	—	48
Decrease in retained earnings due to merger of consolidated subsidiaries	—	—	—	(64)
Decrease in retained earnings due to merger with a consolidated subsidiary	—	—	—	(69)
Net income for the year ended 31 March 2005	—	—	—	4,848
Balance at 31 March 2005	24,397,023	¥ 29,066	¥ 22,666	¥ (2,851)
Gain on sale of treasury stock	—	—	552	—
Directors' bonuses	—	—	—	(3)
Cash dividends	—	—	—	(910)
Increase in retained earnings due to increase in number of consolidated subsidiaries	—	—	—	734
Increase in retained earnings due to decrease in number of affiliates accounted for by the equity method	—	—	—	59
Increase in other earned surplus	—	—	—	195
Decrease in retained earnings due to increase in number of consolidated subsidiaries	—	—	—	(674)
Decrease in retained earnings due to decrease in number of affiliates accounted for by the equity method	—	—	—	(452)
Net income for the year ended 31 March 2006	—	—	—	6,670
Balance at 31 March 2006	24,397,023	¥ 29,066	¥ 23,218	¥ 2,768

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended 31 March 2007, 2006 and 2005	Millions of yen 2007	2006	2005	Thousands of U.S. dollars (Note 3) 2007
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ **13,611**	¥ 10,505	¥ 7,965	$ **115,257**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**2,083**	978	1,004	**17,639**
Loss on impairment of fixed assets	**4,056**	970	—	**34,348**
Amortization of goodwill	**168**	(26)	800	**1,420**
Amortization of intangible assets	**1,217**	553	452	**10,306**
Increase in accrued bonuses for employees	**286**	189	152	**2,423**
Reversal of allowance for doubtful accounts	**34**	17	38	**284**
(Decrease)/Increase in reserve for retirement benefits	**(1,011)**	28	254	**(8,565)**
Accrued interest and dividend income	**(130)**	(63)	(224)	**(1,102)**
Accrued interest expense	**174**	26	40	**1,476**
Foreign exchange losses	**2**	154	146	**15**
Equity in loss of unconsolidated subsidiaries and affiliates	**661**	1,249	401	**5,601**
Gain on sale/disposal of investments in securities, net	**(1,072)**	(3,155)	(3,114)	**(9,074)**
Gain on sale of investments in unconsolidated subsidiaries and affiliates,net	**(9,708)**	(1,621)	(1,375)	**(82,208)**
Write-downs of investments in affiliates	**560**	102	7	**4,739**
Gain on dilution of equity interest	**(383)**	(105)	(299)	**(3,241)**
Loss on investments in partnerships	—	—	225	—
Write-downs of golf club memberships	—	11	28	—
Loss on disposal of property and equipment	—	—	372	—
Write-downs of investments in securities for operating purposes	—	—	25	—
Loss on disposal of property and equipment	**847**	185	—	**7,168**
Increase in notes and accounts receivable	**(5,336)**	(324)	(942)	**(45,182)**
Increase in investments in securities for operating purposes	**(2,699)**	(3,697)	—	**(22,858)**
Write-downs of investments in securities for operating purposes	**894**	8	150	**7,573**
Decrease in investment in securities for operating purposes	—	—	545	—
(Increase)/Decrease in work and software in progress and merchandise	**(505)**	18	3	**(4,274)**
Increase/(Decrease) in accounts payable	**945**	(149)	(44)	**7,999**
Other, net	**809**	1,012	(432)	**6,858**
Subtotal	**5,503**	6,865	6,177	**46,602**
Interest and dividends received	**185**	50	251	**1,569**
Interest paid	**(177)**	(51)	(41)	**(1,500)**
Income taxes refunded	—	6	511	—
Income taxes paid	**(370)**	(549)	(80)	**(3,137)**
Net cash provided by operating activities	¥ **5,141**	¥ 6,321	¥ 6,818	$ **43,534**

Financial Statements

Consolidated Statements of Cash Flows (continued)

For the years ended 31 March 2007, 2006 and 2005	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Cash flows from investing activities:				
Deposit of long-term time deposits	¥ **(153)**	¥ (15)	¥ (75)	$ **(1,292)**
Withdrawal of long-term time deposits	**959**	—	—	**8,118**
Purchases of marketable securities	—	—	(3,000)	—
Proceeds from sale of marketable securities	—	—	3,200	—
Purchases of property and equipment	**(4,106)**	(3,918)	(1,070)	**(34,770)**
Purchases of intangibles	**(2,529)**	(928)	(838)	**(21,411)**
Purchases of investment in securities	**(233)**	(175)	(782)	**(1,976)**
Proceeds from sale of investments in securities	**1,962**	3,302	3,432	**16,611**
Proceeds from repayment of investments in securities	—	500	—	—
Purchase of investments in affiliates	**(5,516)**	(4,209)	(1,624)	**(46,712)**
Proceeds from sale of investments in affiliates	**10,491**	4,231	776	**88,844**
Payments for sale of investments in subsidiaries resulting in change in scope of consolidation	—	—	(26)	—
Purchases of investment in subsidiaries resulting in change in scope of consolidation (Note 13)	**(924)**	(1,782)	—	**(7,827)**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 13)	—	—	149	—
Purchases of other investments and guarantee deposits	**(4,677)**	(1,070)	(1,194)	**(39,605)**
Proceeds from sale of other investments and guarantee deposits	**1,201**	625	724	**10,172**
Net cash used in investing activities	**(3,525)**	(3,439)	(328)	**(29,848)**
Cash flows from financing activities:				
Proceeds from short-term bank loans	**405**	15	320	**3,429**
Repayment of short-term bank loans	**(448)**	(512)	(1,231)	**(3,795)**
Repayment of long-term bank loans	**(2,225)**	(460)	(34)	**(18,847)**
Proceeds from long-term bank loans	**7,000**	—	—	**59,277**
Proceeds from issuance of bonds	—	—	9,934	—
Repurchases of treasury stock	**(5,795)**	(10,121)	(1,589)	**(49,072)**
Proceeds from sale of treasury stock	**133**	212	40	**1,128**
Proceeds from stock issuance to minority interests	**510**	168	140	**4,315**
Repayment of bonds	—	(180)	—	—
Payments for capital reduction to minority interests	—	—	(18)	—
Cash dividends paid	**(1,564)**	(910)	(696)	**(13,240)**
Dividends paid to minority interests	**(15)**	(99)	(2)	**(125)**
Net cash (used in) provided by financing activities	**(1,999)**	(11,887)	6,864	**(16,930)**
Effect of exchange rate changes on cash and cash equivalents	**8**	376	102	**66**
Net (decrease)/increase in cash and cash equivalents	**(375)**	(8,629)	13,456	**(3,178)**
Cash and cash equivalents at beginning of year	**21,203**	29,358	15,183	**179,548**
Increase due to increase in consolidated subsidiaries	**955**	474	719	**8,088**
Cash and cash equivalents at end of year	¥ **21,783**	¥ 21,203	¥ 29,358	$ **184,458**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(1) Basis of presentation

transcosmos inc. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile. The Company and all consolidated subsidiaries are referred to herein as the "Group." The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

As permitted, amounts of less than one million yen have been rounded to the nearest thousand.

(2) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the parent company and all subsidiaries over which it exerts substantial control either through majority ownership of voting stock and/or by other means.

All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (other than subsidiaries as defined above) whose decision-making and control over their own operations are significantly affected in various ways by the Group are accounted for by the equity method. Investments in 23 and 21 affiliates have been accounted for by the equity method for the years ended 31 March 2007 and 2006, respectively.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

Certain overseas subsidiaries are consolidated on the basis of fiscal periods ending 31 December, which differs from the balance sheet date of the Company; however, all necessary adjustments between the fiscal year end of these overseas subsidiaries and that of the Company have been made, thus enabling them to report financial results equivalent to those as of and for the consolidated fiscal year end.

All assets and liabilities of subsidiaries are revalued at fair value on acquisition and, if applicable, the excess cost over the underlying net assets at the respective dates of acquisition is presented as goodwill and amortized over a period of five or ten years on a straight-line basis.

The Company had 71 and 56 subsidiaries as of 31 March 2007 and 2006, respectively. The accompanying consolidated financial statements include the accounts of the Company and 59 of its subsidiaries for the year ended 31 March 2007; 49 subsidiaries for the year ended 31 March 2006. The remaining subsidiaries, whose combined assets, net sales and net income in the aggregate were not significant in relation to those of the consolidated financial statements of the Company, have been excluded from consolidation.

(3) Foreign currency translation

Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the exchange rates in effect at each balance sheet date if not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting exchange gain or loss is recognized as other income or expense.

Assets and liabilities, and revenue and expense accounts of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date. Translation adjustments are presented as foreign currency translation adjustments and minority interests in the consolidated balance sheets.

(4) Cash and cash equivalents

Cash on hand and in banks, and all highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash and cash equivalents.

(5) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(6) Work and software in progress and merchandise

Work and software in progress are stated at cost, which is determined on an individual project basis. Merchandise is primarily stated at cost, using the average cost method.

(7) Property, plant and equipment, and depreciation

Property, and equipment is recorded at cost. Depreciation of property, and equipment is principally computed by the declining balance method over the estimated useful lives of the respective assets. However, buildings (excluding leasehold improvements) acquired on or after 1 April 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their respective estimated useful lives. Depreciation of certain equipment of the Company's call center is computed using the straight-line method, based on the estimated useful lives of the respective assets.

Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

Depreciation expense of overseas consolidated subsidiaries is principally computed using the straight-line method.

(8) Leases

Non-cancelable leases are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(9) Intangible assets and amortization

Intangible assets, including capitalized computer software costs, are amortized by the straight-line method over their respective estimated useful lives. Computer software intended for internal use is amortized over an estimated useful life of 5 years, and computer software developed for sales purposes is amortized over a period of 3 years.

(10) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. The level of the provision is based on the historical experience with write-offs plus an estimate of specific probable doubtful accounts determined by a review of the collectibility of individual receivables.

(11) Reserve for retirement benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the pension fund assets.

Prior service cost is amortized as incurred by the straight-line method over a period (5 years) which is shorter than the average remaining years of service of the employees participating in the plans.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, primarily by the straight-line method, over a period (5 years) which is shorter than the average remaining years of service of the employees participating in the plans.

(12) Derivative financial instruments

The Company and certain consolidated subsidiaries have entered into various derivative transactions in order to manage certain risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred and included, net of the applicable income taxes, in net assets directly.

(13) Income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(14) Reclassifications

Certain amounts the prior year's financial statements have been reclassified to conform to the 2007 presentation. These changes had no impact on net income or net cash flows previously reported.

2. Changes in Accounting Policies

(1) Effective the year ended 31 March 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended 31 March 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of stockholders' equity.

Total stockholders' equity under the previous method of presentation amounted to ¥52,546 million ($444,969 thousand) 31 March 2007.

(2) Effective the year ended 31 March 2007, the Company has adopted a new accounting standard for business combinations, a new accounting standard for business divestitures and the related implementation guidance.

(3) Effective the year ended 31 March 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' and statutory auditors' bonuses. The effect of the adoption of this standard was to decrease both operating income and income before income taxes and minority interests by ¥16 million ($135 thousand) from the amounts which would have been recorded under the previous method.

(4) Until the year ended 31 March 2005, the Company considered the evaluation, development and promotion of intellectual property related to internet technology ventures as sources of competitiveness. The Company decided to clearly position investment in those ventures as a core business within the organization, and to strengthen the workforce as a corporate venture business to pursue profit and benefit from the synergies with the information service business effective April 2005. As a result, investments in securities of ¥13,814 million were reclassified to investments in securities for operating purposes, and non-current deferred tax liabilities of ¥4,941 million were reclassified to current deferred tax liabilities on 1 April 2005. In addition, sales of investments in securities resulting from the Corporate Venture Capital business, which had been presented as non-operating income (expense) at net amounts in prior years, are included in sales and cost of sales at gross amounts effective the year ended 31 March 2006. As a result, net sales, cost of sales, gross profit and operating income increased by ¥6,149 million, ¥225 million, ¥5,924 million and ¥5,924 million, respectively, and commission expense (SG&A), gain on sales of investments in securities (non-operating income), dividend income (non-operating income) and loss on investment in partnerships (non-operating expense) decreased by ¥11 million, ¥5,915 million, ¥25 million and ¥ 6 million, respectively, for the year ended 31 March 2006 as compared with the amounts which would have been recorded under the previous method.

(5) On 9 August 2002, the Business Accounting Council in Japan issued an "accounting standard for impairment of fixed Aassets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the consolidated statement of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use. The Group adopted this standard effective the year beginning 1 April 2005. As a result of this adoption, income before income taxes decreased by ¥970 million for the year ended 31 March 2006.

3. United States Dollar Amounts

Solely for the convenience of the reader, the accompanying consolidated financial statements for the year ended 31 March 2007 have been presented in U.S. dollars by translating all yen amounts at ¥118.09 = U.S.$1.00, the exchange rate prevailing on 31 March 2007. This translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

4. Securities

Information regarding marketable securities classified as other securities with quoted market prices at 31 March 2007 and 2006 is summarized as follows:

(1) Other securities with quoted market prices

	Millions of yen		
	31 March 2007		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Stock	¥ 1,053	¥ 4,688	¥ 3,635
Securities whose acquisition cost exceeds their carrying value: Stock	152	131	(21)
Total	¥ 1,205	¥ 4,819	¥ 3,614

	Millions of yen		
	31 March 2006		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Stock	¥ 1,924	¥ 15,055	¥ 13,131
Securities whose acquisition cost exceeds their carrying value: Stock	825	695	(130)
Total	¥ 2,749	¥ 15,750	¥ 13,001

	Thousands of U.S. dollars (Note 3)		
	31 March 2007		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Stock	$ 8,921	$ 39,699	$ 30,778
Securities whose acquisition cost exceeds their carrying value: Stock	1,286	1,107	(179)
Total	$ 10,207	$ 40,806	$ 30,599

(Note) In the event that a decline in the value of marketable securities is 30% or more and is considered other than temporary, the acquisition cost is written down to fair value.

(2) Sales of securities classified as other securities with quoted market prices and the related aggregate gain and loss for the years ended 31 March 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Sales proceeds	¥ 7,931	¥ 9,425	$ 67,165
Aggregate gain	6,244	9,129	52,879
Aggregate loss	(187)	(1)	(1,583)

(3) Other securities without quoted market prices as of 31 March 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Investment in securities:			
Unlisted stocks	¥ 7,520	¥ 4,341	$ 63,677
Money market account	704	323	5,958
Investments in limited partnerships	794	1,107	6,729
	¥ 9,018	¥ 5,771	$ 76,364

5. Work and Software in Progress

"Work and software in progress" represents the accumulated costs of uncompleted work for software development, data processing and other work under contract with customers.

6. Property and Equipment

Property and equipment as of 31 March 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Buildings and structures	¥ 6,632	¥ 4,859	$ 56,158
Cars and vehicles	71	50	604
Equipment, furniture and fixtures	10,788	8,059	91,357
	17,491	12,968	148,119
Less: accumulated depreciation	(7,552)	(5,890)	(63,951)
	9,939	7,078	84,168
Land	1,407	1,135	11,914
Construction in progress	5	185	42
	¥ 11,351	¥ 8,398	$ 96,124

7. Leasehold Deposits

Leasehold deposits as of 31 March 2007 and 2006 are deposits paid to lessors in connection with leases of buildings and office space, computers and related equipment. Lessors in Japan require large amounts of leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not earn interest and are generally returnable only after the lease is terminated.

8. Short-term and Long-term Debt

(1) Short-term bank loans as of 31 March 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Unsecured bank loans (at average interest rates of 5.0% and 1.7% at 31 March 2007 and 2006, respectively)	¥ 1,149	¥ 15	$ 9,729

(2) Long-term debt as of 31 March 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Unsecured long-term bank loans, due 2008 to 2014 (at an average interest rate of 2.3% excluding current portion)	¥ 7,372	¥ 2,029	$ 62,430
Unsecured zero coupon convertible bonds due on 20 March 2008 (*1), issued by the Company	5,171	5,171	43,789
Unsecured bonds, issued by a subsidiary (FromSoftware, Inc.):			
0.42% bonds due on 24 July 2008	15	—	127
0.85% bonds due on 20 July 2007	20	—	169
0.77% bonds due on 26 March 2010	108	—	915
0.88% bonds due on 27 February 2009	100	—	847
	12,786	7,200	108,277
Less: current portion	90	2,000	767
	¥ 12,696	¥ 5,200	$ 107,510

(*1) The ¥10,000 million Zero Coupon Convertible Bonds (the "Bonds," whose terms shall, unless specified otherwise, include stock acquisition rights incorporated in the Bonds) of transcosmos inc. due 2008 were issued in denominations of ¥1,000,000 each, with stock acquisition rights.

The Bonds are exercisable during the period from 6 July 2004 to 6 June 2008 (unless the Bonds are previously redeemed or purchased and cancelled) and entitle the bearer to acquire fully-paid and non-assessable shares of common stock of the Company at a conversion price of ¥2,205 ($19) per share.

The aggregate annual maturity of long-term debt subsequent to 31 March 2007 is as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2008	¥ 156	$ 1,325
2009	5,355	45,350
2010	108	914
2011	52	440
2012	7,037	59,589
2013 and thereafter	78	659
Total	¥ 12,786	$ 108,277

(3) Assets pledged as collateral for short-term bank loans, long-term debt and certain other current liabilities of up to a maximum amount of ¥620 million ($5,247 thousand) at 31 March 2007 are summarized as follows:

	31 March 2007	
	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 482	$ 4,082
Land	269	2,277
	¥ 751	$ 6,539

(4) Guarantees on advertising

A bank deposit of ¥1 million ($8 thousand) as of 31 March 2007 and 2006 was pledged as collateral for guarantees on advertising transactions.

9. Retirement Benefit Plans

(1) Overview of retirement benefits

The Company and certain subsidiaries have defined benefit pension plans, defined contribution pension plans and a lump-sum payment plan.

Certain employees may be entitled to additional special retirement benefits (which have not been provided for) based on the conditions under which termination occurs.

Effective 1 March 2007, a certain portion of a defined benefit pension plan was transferred to a defined contribution pension plan. As a result of this change, prepaid pension costs increased by ¥773 million and a gain on termination was recognized. The transfer of funds from the defined benefit pension plan to the defined contribution pension plan was completed on 25 August 2007.

(2) Retirement benefit obligation

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of 31 March 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Retirement benefit obligation	¥ (2,734)	¥ (3,723)	$ (23,155)
Plan assets at fair value	5,956	5,393	50,435
Fund surplus	3,222	1,670	27,280
Unrecognized actuarial gain	(1,957)	(1,358)	(16,569)
Net amount	1,265	312	10,711
Prepaid pension costs	1,519	445	12,860
Reserve for retirement benefits	¥ (254)	¥ (133)	$ (2,149)

	31 March 2007	
	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligation	¥ 1,501	$ 12,709
Amount of assets transferred to the defined benefit pension plans	(1,179)	(9,985)
Unrecognized actuarial differences	451	3,824
Increase in prepaid pension costs	¥ 773	$ 6,548

(3) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Service cost	¥ 614	¥ 380	$ 5,199
Interest cost	35	33	296
Expected return on plan assets	(160)	(42)	(1,356)
Amortization of actuarial (gain) loss	(167)	32	(1,411)
Net pension expense	322	403	2,728
Gain on return of substitutional portion of employee pension fund	773	—	6,548
Retirement benefit (gain) expense	¥ (451)	¥ 403	$ (3,820)

(4) Assumptions used in the calculation of the above information are summarized as follows:

	31 March	
	2007	2006
Discount rates	1.0%	1.0%
Expected rates of return on plan assets	3.0%	1.0%
Method of attributing projected benefit obligation to periods of service	Straight-Line method	Straight-Line method
Amortization of prior service cost	5 years	5 years
Amortization of actuarial differences	5 years	5 years

10. Selling, General and Administrative Expenses and R&D Expenses

The major components of selling, general and administrative expenses for the years ended 31 March 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Allowance for doubtful accounts	¥ 187	¥ 51	$ 1,586
Advertising expense	1,007	1,046	8,528
Executive remuneration	760	597	6,435
Salaries and bonuses	10,354	7,541	87,680
Accrued bonuses for employees	566	464	4,795
Recruiting	778	1,178	6,592
Office rent	1,572	1,193	13,315
Depreciation expense	828	690	7,010

R&D expenses, included in selling, general and administrative expenses and cost of sales, for the years ended 31 March 2007 and 2006 amounted to ¥309 million ($2,616 thousand) and ¥259 million, respectively.

11. Loss on Impairment of Fixed Assets

The Company and certain consolidated subsidiaries recognized a loss on impairment of fixed assets, goodwill and other non-current assets due to the facts that recovery to fair value was not deemed probable. The following table summarizes loss on impairment of fixed assets for the year ended 31 March 2007:

Description	Impaired asset	Millions of yen	Thousands of U.S. dollars
A netsuite, business royalties	Long-term prepaid expenses	¥ 886	$ 7,502
WebMK business, intellectual property rights	Long-term prepaid expenses	¥ 12	$ 100
News content delivery business	Goodwill	¥ 939	$ 7,949
A search site administration business specializing in online shopping	Goodwill	¥ 592	$ 5,009
A search site administration business	Furniture and fixtures	¥ 145	$ 1,232
	Software	17	147
	Long-term prepaid expenses	42	354
	Goodwill	352	2,981
	Total	¥ 556	$ 4,714
An internet movie delivery business for online shopping	Goodwill	¥ 204	$ 1,728
Database construction and administration business	Buildings and structures	¥ 8	$ 64
	Furniture and fixtures	10	89
	Software	39	330
	Goodwill	119	1,009
	Total	¥ 176	$ 1,492
Content community administration business for online shopping	Goodwill	¥ 171	$ 1,452

Description	Impaired asset	Millions of yen	Thousands of U.S. dollars
An affiliated advertisement business	Goodwill	¥ 152	$ 1,286
An internet-related service business	Furniture and fixtures	¥ 20	$ 170
	Software	81	687
	Goodwill	15	122
	Total	¥ 116	$ 979
Other	Buildings and structures	¥ 4	$ 36
	Furniture and fixtures	24	208
	Software	74	625
	Goodwill	150	1,268
	Total	¥ 252	$ 2,137

Method of asset grouping

All assets other than corporate assets are classified into business units.

Method of calculation of the recoverable amounts

The recoverable amounts of assets in the business units were computed based on value in use.

12. Supplementary Information for Consolidated Statement of Changes in Net Assets

(1) Total number of shares issued

	Shares			
Class of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock	24,397,023	24,397,023	—	48,794,046

The increase in the number of shares issued to 48,794,046 was due to the implementation of a two-for-one stock split.

(2) Treasury stock

	Shares			
Class of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock	2,060,902	4,202,009	105,438	6,157,473

Outline of reasons for changes

Increase:

A two-for-one stock split	2,060,902 shares
Repurchases of treasury stock	2,140,800 shares
Redemption of odd-lot shares	307 shares

Decrease:

Exercise of stock options	105,400 shares
Sale of odd-lot shares	38 shares

(3) Distributions

1. Payment of dividends

		Millions of yen Yen	Yen		
Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Annual general meeting of stockholders held on 29 June 2006	Common stock	¥1,564 ($13,240 thousand)	¥70 ($0.59)	31 March 2006	29 June 2006

2. Dividends with an effective date falling in the following fiscal year but whose record date was in the current fiscal year

			Millions of yen Yen	Yen		
Resolution	Class of shares	Source of distribution	Total amount of dividends	Dividends per share	Record date	Effective date
Annual general meeting of stockholders held on 26 June 2007	Common stock	Retained earnings	¥1,705 ($14,442 thousand)	¥40 ($0.34)	31 March 2007	27June 2007

13. Supplementary Cash Flow Information

(1) The following table represents a reconciliation of cash and cash equivalents at 31 March 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Cash and time deposits	¥ 21,324	¥ 21,803	$ 180,581
Securities	704	325	5,959
	22,028	22,128	186,540
Time deposits with maturities exceeding three months	(245)	(925)	(2,082)
Cash and cash equivalents	¥ 21,783	¥ 21,203	$ 184,458

(2) The assets and liabilities of subsidiaries newly consolidated through additional purchases of shares are summarized as follows:

Inwoo Tech, Inc.

	As of 30 June 2006	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 876	$ 7,418
Non-current assets	1,164	9,857
Goodwill	299	2,531
Current liabilities	(856)	(7,248)
Non-current liabilities	(238)	(2,016)
Minority interests in subsidiaries	(464)	(3,925)
Net deficit resulting from application of the equity method	(161)	(1,366)
Acquisition cost	620	5,251
Cash and cash equivalents	(273)	(2,314)
Payments for purchases of shares	¥ 347	$ 2,937

Become Japan Corporation

	As of 30 June 2006	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 571	$ 4,834
Non-current assets	98	833
Goodwill	591	5,009
Current liabilities	(14)	(121)
Minority interests in subsidiaries	(131)	(1,109)
Net deficit resulting from application of the equity method	(631)	(5,347)
Acquisition cost	484	4,099
Cash and cash equivalents	(318)	(2,694)
Payments for purchases of shares	¥ 166	$ 1,405

FromSoftware, Inc.

	As of 30 September 2006	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 464	$ 3,926
Non-current assets	1,347	11,406
Goodwill	498	4,221
Current liabilities	(1,430)	(12,109)
Non-current liabilities	(414)	(3,506)
Acquisition cost	465	3,938
Cash and cash equivalents	(230)	(1,948)
Payments for purchases of shares	¥ 235	$ 1,990

OneXeno Limited

	As of 31 March 2007	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 154	$ 1,304
Non-current assets	18	156
Goodwill	37	313
Current liabilities	(36)	(306)
Minority interests in subsidiaries	(47)	(394)
Net deficit resulting from application of the equity method	(6)	(53)
Acquisition cost	120	1,020
Cash and cash equivalents	(117)	(992)
Payments for purchases of shares	¥ 3	$ 28

CinemaNow Japan, Inc.

	As of 31 March 2007	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 895	$ 7,579
Non-current assets	174	1,478
Goodwill	369	3,124
Current liabilities	(57)	(484)
Minority interests in subsidiaries	(377)	(3,192)
Net deficit resulting from application of the equity method	(5)	(45)
Acquisition cost	999	8,460
Cash and cash equivalents	(826)	(6,993)
Payments for purchases of shares	¥ 173	$ 1,467

(3) The following is a summary of the assets which were acquired as a result of a business transfer:

CSK Marketing Corporation

	As of 30 June 2006	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 13	$ 115
Non-current assets	586	4,960
Total assets	¥ 599	$ 5,075

14. Lease Transactions

(1) The Group leases certain equipment, furniture and fixtures. Pro forma information pertinent to the lease contracts of the Group which do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis as of 31 March 2007 and 2006 is summarized as follows:

	Millions of yen		
	31 March 2007		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings	¥ 40	¥ 30	¥ 10
Cars and vehicles	9	3	6
Furniture and fixtures	1,166	663	503
Software	287	181	106
Total	¥ 1,502	¥ 877	¥ 625

	Millions of yen		
	31 March 2006		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings	¥ 40	¥ 23	¥ 17
Cars and vehicles	6	4	2
Furniture and fixtures	1,457	893	564
Software	384	214	170
Total	¥ 1,887	¥ 1,134	¥ 753

	Thousands of U.S. dollars		
	31 March 2007		
	Acquisition cost	Accumulated Depreciation	Net book value
Buildings	$ 340	$ 257	$ 83
Cars and vehicles	80	26	54
Furniture and fixtures	9,878	5,615	4,263
Software	2,427	1,531	896
Total	$ 12,725	$ 7,429	$ 5,296

(2) Depreciation expense, lease rental expense and interest expense which have not been reflected in the consolidated statements of income for the years ended 31 March 2007 and 2006 are presented as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Depreciation expense	¥ 399	¥ 409	$ 3,381
Lease rental expense	438	377	3,710
Interest expense	20	12	166

Depreciation is computed by applying the straight-line method over the estimated useful lives of the respective assets assuming that the Company guarantees a nil residual value at the end of each lease term.

(3) The following is a schedule of future minimum lease payments subsequent to 31 March 2007 under finance leases accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Due within one year	¥ 315	¥ 319	$ 2,673
Due after one year	325	427	2,750
	¥ 640	746	$ 5,423

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15. Derivatives and Hedging Activities

The Company and its consolidated subsidiaries primarily utilize comprehensive forward foreign exchange contracts to hedge their exposure to foreign exchange fluctuation relating to their receivables and payables denominated in foreign currencies. The Company and its consolidated subsidiaries also utilize interest-rate swaps to manage the risks of interest-rate fluctuation and to equalize their financial costs for each fiscal year with regard to short- term and long-term debt at variable interest rates.

As a matter of policy, the Company and its consolidated subsidiaries do not speculate in derivatives which are subject to significant market value fluctuation. The Company and its consolidated subsidiaries do not anticipate any credit risk resulting from non-performance by any of the counterparties because all are financial institutions with high credit ratings. The Company and its consolidated subsidiaries have established internal rules for entering into and monitoring derivative transactions which prescribe the managers' duties and the management of these positions. Derivatives are controlled by the Financial Section, which has established an internal control system to supervise the procedures and transaction limits.

As of 31 March 2007 and 2006, the outstanding forward foreign exchange and interest-rate swap contracts are summarized as follows:

	Millions of yen		
	31 March 2007		
	Contractual value or notional principal amount Total	Fair value	Unrealized gain (loss)
Foward foreign exchange contracts	¥ 562	¥ 570	¥ 8
Interest-rate swap contracts	200	(15)	(15)

	Millions of yen		
	31 March 2006		
	Contractual value or notional principal amount Total	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts	¥ 750	¥ 748	¥ 2

	Thousands of U.S. dollars		
	31 March 2007		
	Contractual value or Notional principal amount Total	Fair value	Unrealized gain (loss)
Foward foreign exchange contracts	$ 4,761	$ 4,832	$ 71
Interest-rate swap contracts	1,694	(124)	(124)

16. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which, in the aggregate, resulted in a statutory tax rates of approximately 40.69% for the years ended 31 March 2007 and 2006. Overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities as of 31 March 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Deferred tax assets:			
Accrued bonuses	¥ 1,133	¥ 961	$ 9,592
Accrued enterprise tax	334	74	2,830
Gain on sale of investments in affiliates eliminated upon consolidation	2,317	2,279	19,622
Write-downs of golf club memberships	155	179	1,315
Tax loss carried forward	7,769	9,431	65,788
Allowance for doubtful accounts	1,439	531	12,188
Write-downs of investments in affiliates	6,346	298	53,736
Write-downs of marketable securities	1,980	241	16,765
Write-downs of investments in securities	164	48	1,393
Loss on impairment of fixed assets	663	—	5,613
Prepaid pension costs	(618)	—	(5,233)
Other	666	484	5,639
Gross defferd tax assets	22,348	14,526	189,248
Valuation allowance	(18,185)	(8,557)	(153,955)
Total deferred tax assets	4,163	5,969	35,253
Deferred tax liabilities:			
Unrealized gain on marketable securities and investments in securities	1,455	4,610	12,318
Total deferred tax liabilities	1,455	4,610	12,318
Net deferred tax assets	¥ 2,708	¥ 1,359	$ 22,935

A reconciliation between the statutory tax rate and the effective tax rates for the years ended 31 March 2007 and 2006 is as follows:

	31 March	
	2007	2006
Statutory tax rate	40.69%	40.69%
Valuation allowance	(1.27)	(7.51)
Tax rate differences of overseas subsidiaries	(2.09)	(1.73)
Non-deductible items (entertainment expenses, etc.)	2.30	2.25
Inhabitant's taxes per capita	0.52	0.50
Equity in loss of unconsolidated subsidiaries and affiliates	1.98	4.84
Cash dividends eliminated upon consolidation	0.18	0.40
Gain or loss on issuance of shares by investees	(1.14)	(0.41)
Loss on disposal of goodwill	8.01	–
Unrecognized profits of subsidiaries	(1.08)	(1.25)
Other	(2.00)	(2.62)
Effective tax rates	46.10%	35.16%

17. Stockholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the stockholders. Both the legal reserve and additional paid-in capital may be used to eliminate of or reduce a deficit by resolution of the Board of Directors. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on 1 May 2006. The Law provides that amounts from additional paid-in capital and retained earnings may be distributed to the stockholders at any time by resolution of the stockholders or by the Board of Directors, if certain provisions are met subject to the extent of the applicable sources of such distributions. The Law further provides that amounts equal to 10% of such distributions be transferred to the capital reserve included in additional paid-in capital or the legal reserve included in retained earnings based on the applicable sources of such distributions until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

18. Segment Information

(1) Business Segment Information

The business segment information of the Group for the years ended 31 March 2007 and 2006 is summarized as follows:

	For the year ended 31 March 2007				
	Millions of yen				
	Computer service	Corporate Venture capital	Total	Elimination or unallocatable amounts	Consolidated
Net Sales:					
Sales to external customers	¥ 133,217	¥ 8,273	¥ 141,490	¥ —	¥ 141,490
Inter-segment sales/transfers	44	—	44	(44)	—
Total	133,261	8,273	141,534	(44)	141,490
Operating expenses	122,797	4,340	127,137	6,887	134,024
Operating income	¥ 10,464	¥ 3,933	¥ 14,397	¥ (6,931)	¥ 7,466
Total assets	¥ 66,870	¥ 17,845	¥ 84,715	¥ 11,666	¥ 96,381
Depreciation	2,982	51	3,033	267	3,300
Loss on impairment of fixed assets	4,056	—	4,056	—	4,056
Capital expenditure	5,813	292	6,105	661	6,766

	For the year ended 31 March 2006				
	Millions of yen				
	Computer service	Corporate Venture capital	Total	Elimination or unallocatable amounts	Consolidated
Net Sales:					
Sales to external customers	¥ 99,859	¥ 6,609	¥ 106,468	¥ —	¥ 106,468
Inter-segment sales/transfers	17	—	17	(17)	—
Total	99,876	6,609	106,485	(17)	106,468
Operating expenses	90,774	1,203	91,977	6,489	98,466
Operating income	¥ 9,102	¥ 5,406	¥ 14,508	¥ (6,506)	¥ 8,002
Total assets	¥ 54,190	¥ 23,275	¥ 77,465	¥ 10,828	¥ 88,293
Depreciation	1,193	9	1,202	329	1,531
Loss on impairment of fixed assets	100	—	100	870	970
Capital expenditure	4,585	6	4,591	613	5,204

	For the year ended 31 March 2007				
	Thousands of U.S. dollars				
	Computer service	Corporate Venture capital	Total	Elimination or unallocatable amounts	Consolidated
Net Sales:					
Sales to external customers	$ 1,128,096	$ 70,055	$ 1,198,151	$ —	$ 1,198,151
Inter-segment sales/transfers	378	—	378	(378)	—
Total	1,128,474	70,055	1,198,529	(378)	1,198,151
Operating expenses	1,039,862	36,747	1,076,609	58,322	1,134,931
Operating income	$ 88,612	$ 33,308	$ 121,920	$ (58,700)	$ 63,220
Total assets	$ 566,263	$ 151,113	$ 717,376	$ 98,788	$ 816,164
Depreciation	25,250	438	25,688	2,257	27,945
Loss on impairment of fixed assets	34,348	—	34,348	—	34,348
Capital expenditure	49,226	2,471	51,697	5,600	57,297

(*1) The Company and its consolidated subsidiaries operate principally in the following two business segments:

Business segment:	Major activities:
Computer service	Data processing, data entry, software development and sale of equipment
Corporate venture capital	Venture capital investment

(*2) The amounts of operating expenses included in the column "elimination or unallocatable amounts" were ¥6,979 million ($59,102 thousand) and ¥6,510 million ($55,124 thousand) for the years ended 31 March 2007 and 2006, respectively, which include expenses primarily charged to the administration department.

(*3) The amounts of total assets included in the column "elimination or unallocatable amounts" were ¥11,869 million ($100,509 thousand) and ¥11,070 million ($93,740 thousand) as of 31 March 2007 and 2006, respectively, which include surplus working funds (cash and bank deposits), long-term investment funds (investments in securities) and other assets attributable to the administrative department.

(*4) As described in Note 2 (3), effective the year ended 31 March 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' and statutory auditors' bonuses. As a result of the adoption of this standard, operating expenses in the column "elimination or unallocatable amounts" increased by ¥16 million ($135 thousand) and operating income in the same column decreased by the same amount as compared with the amounts which would have been recorded under the previous method.

(2) Geographic Segment Information

Segment information classified by geographic area (inside and outside Japan) for the years ended 31 March 2007 and 2006 is summarized as follows:

	For the year ended 31 March 2007					
	Millions of yen					
	Japan	U.S.A.	Asia	Total	Elimination or unallocatable amounts	Consolidated
Net Sales:						
Sales to external customers	¥ 123,620	¥ 5,119	¥ 12,751	¥ 141,490	¥ —	¥ 141,490
Inter-segment sales/transfers	101	356	1,133	1,590	(1,590)	—
Total	123,721	5,475	13,884	143,080	(1,590)	141,490
Operating expenses	112,781	3,298	12,425	128,504	5,520	134,024
Operating income	¥ 10,940	¥ 2,177	¥ 1,459	¥ 14,576	¥ (7,110)	¥ 7,466
Total assets	¥ 63,147	¥ 8,948	¥ 13,095	¥ 85,190	¥ 11,191	¥ 96,381

	For the year ended 31 March 2006					
	Millions of yen					
	Japan	U.S.A.	Asia	Total	Elimination or unallocatable amounts	Consolidated
Net Sales:						
Sales to external customers	¥ 104,805	¥ 830	¥ 833	¥ 106,468	¥ —	¥ 106,468
Inter-segment sales/transfers	102	97	396	595	(595)	—
Total	104,907	927	1,229	107,063	(595)	106,468
Operating expenses	90,569	991	980	92,540	5,926	98,466
Operating income (loss)	¥ 14,338	¥ (64)	¥ 249	¥ 14,523	¥ (6,521)	¥ 8,002
Total assets	¥ 57,252	¥ 11,817	¥ 8,420	¥ 77,489	¥ 10,804	¥ 88,293

	For the year ended 31 March 2007					
	Thousands of U.S. dollars					
	Japan	U.S.A.	Asia	Total	Elimination or unallocatable amounts	Consolidated
Net Sales:						
Sales to external customers	$1,046,829	$ 43,345	$ 107,977	$ 1,198,151	$ —	$ 1,198,151
Inter-segment sales/transfers	858	3,020	9,590	13,468	(13,468)	—
Total	1,047,687	46,365	117,567	1,211,619	(13,468)	1,198,151
Operating expenses	955,041	27,931	105,212	1,088,184	46,748	1,134,932
Operating income	$ 92,646	$ 18,434	$ 12,355	$ 123,435	$ (60,216)	$ 63,219
Total assets	$ 534,737	$ 75,771	$ 110,888	$ 721,396	$ 94,768	$ 816,164

(*1) The amounts of operating expenses included in the column "elimination or unallocatable amounts" were ¥6,979 million ($59,102 thousand) and ¥6,510 million ($55,124 thousand) for the years ended 31 March 2007 and 2006, respectively, which include expenses primarily charged to the administration department.

(*2) The amounts of total assets included in the column "elimination or unallocatable amounts" were ¥11,869 million ($100,509 thousand) and ¥11,070 million ($93,740 thousand) as of 31 March 2007 and 2006, respectively, which include surplus working funds (cash and bank deposits), long-term investment funds (investments in securities) and other assets attributable to the administrative department.

(*3) The segment "Asia" represents China and South Korea for the years ended 31 March 2007 and 2006.

(*4) As described in Note 2.(3), effective the year ended 31 March 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' and statutory auditors' bonuses. As a result of the adoption of this standard, operating expenses in the column "elimination or unallocatable amounts" increased by ¥16 million ($135 thousand) and operating income in the same column deceased by the same amount as compared with the amounts which would have been recorded under the previous method.

(3) Overseas Sales

	For the year ended 31 March 2007			
	Millions of yen			
	U.S.A.	Asia	Others	Total
Sales:				
Overseas sales	¥ 5,594	¥ 12,176	¥ 471	¥ 18,241
Consolidated net sales	—	—	—	141,490
Overseas sales as a percentage of consolidated net sales	4.0%	8.6%	0.3%	12.9%

	For the year ended 31 March 2007			
	Thousands of U.S. dollars			
	U.S.A.	Asia	Others	Total
Sales:				
Overseas sales	$ 47,370	$ 103,110	$ 3,983	$ 154,463
Consolidated net sales	—	—	—	1,198,151
Overseas sales as a percentage of consolidated net sales	4.0%	8.6%	0.3%	12.9%

(*1) Main countries in each category

(1)U.S.A. .................U.S.A.
(2)Asia ....South Korea and China
(3)Other ....Netherlands, Singapore, U.K., France and Ireland

(*2) Overseas sales consists of export sales of the Company, domestic consolidated subsidiaries and overseas consolidated subsidiaries (other than exports to Japan).

(*3) As overseas sales constituted less than 10% of the consolidated total for the year ended 31 March 2006, the corresponding disclosure of overseas sales information has been omitted.

19. Related Party Transactions

The following table summarizes the total amount of transactions entered into with related parties for the year ended 31 March 2007:

(1) Key management personnel

Management personnel	Relationship	% of owned voting rights (*3)	Transactions	Thousands of yen
Koji Funatsu	Chairman and Representative Director of the Company	0.1%, directly owned	Exercise of stock options	¥12 ($99 thousand)
Toshikazu Tanizawa	Vice Chairman and Director of the Company	0.0%, directly owned	Exercise of stock options	¥3 ($28 thousand)
Shojiro Takashima	Vice President and Director of the Company	0.0%, directly owned	Exercise of stock options	¥4 ($37 thousand)
Koichi Iwami	Vice President and Director of the Company	–	Exercise of stock options	¥1 ($10 thousand)
Shozo Okuda	A special advisor of the Company	0.7%, directly owned	Payment of advisory fees (*1)	¥3 ($23 thousand)
HM Kosan, Ltd.	–	(*2)	Leasing of the Company's residence (*2)	¥6 ($49 thousand)

Transaction terms and policies for determination of transaction terms, etc.

(*1) The transaction represents payment for an advisory contract entered into with Shozo Okuda who is a younger brother of Koki Okuda, Representative Director, Group CEO and founder of the Company.

(*2) The transaction was conducted on an arm's-length basis under an agreement entered into between third parties. The transaction amount excludes consumption taxes. In addition, the voting rights of HM Kosan, Ltd. were wholly owned by the immediate family (stockholders of the Company) of Koki Okuda, Representative Director, Group CEO and founder of the Company.

(*3) Percentages of owned voting rights have been rounded down.

(2) Affiliates

	% of owned voting rights (*3)	Transactions	Thousands of yen
CyberSource K.K., agency for collection of bills	48.3%, directly owned	Agency transactions for remittances of payments from credit card companies	¥3,589 ($30,367 thousand)

20. Amounts Per Share

Basic net income per share is computed based on the net income available for distribution to the stockholders of common stock and the weighted-average number of share of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the stockholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock acquisition rights and the conversion of convertible bonds.

The amounts per share of net assets have been computed based on the net assets available for distribution to the stockholders of common stock and the number of shares of common stock outstanding at the year end.

Amounts per share for the years ended 31 March 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Basic net income per share	¥ 171.4	¥ 297.9	$ 1.5
Net assets per share	1,232.4	2,612.9	10.4
Diluted net income per share	161.1	270.1	1.4

The basis for the calculations of basic and diluted net income per share for the years ended 31 March 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March		31 March
	2007	2006	2007
Net income	¥ 7,369	¥ 6,670	$ 62,405
Less: Net income not available to common stockholders:			
Bonuses to directors	—	(3)	—
Net income available to common stockholders:	7,369	6,667	62,405
Effect of potential dilution related to stock options	(0)	(12)	(1)
Net income available to common stockholders for computation of diluted net income per share	¥ 7,369	¥ 6,655	$ 62,404

	Shares	
Weighted-average number of outstanding shares of common stock	43,001,291	22,376,126
Effect of dilutive securities	2,751,360	2,261,858
Weighed-average number of shares of common stock for computation of diluted net income per share	45,752,651	24,637,984

21. Stock Acquisition Rights

At 31 March 2007, the Company had the following stock option plans approved by the stockholders in accordance with the Law:

	2005 plan	2004 plan	2003 plans	2002 plan	2001 plan
Date of approval by stockholders	1 August 2005	2 August 2004	1 August and 24 September 2003	3 December 2002	1 August 2001
Grantees	12 officers, 391 employees and an advisor of the Group	16 officers, 325 employees and an advisor of the Group	39 officers, 183 employees and 4 advisors of the Group	42 officers, 173 employees and 4 advisors of the Group	30 officers and 63 employees of the Group
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	295,600	266,800	282,000 and 2,000	289,000	227,000
Exercise price (yen)	¥ 2,270	¥ 1,611	¥1,171 and ¥1,453	¥ 833	¥ 2,083
Exercise price (U.S. dollars)	$ 19	$ 14	$ 10 and $ 12	$ 7	$ 18
Exercisable period	1 July 2007 - 30 June 2011	1 July 2006 - 30 June 2010	1 July 2005 - 30 June 2009	1 July 2004 - 30 June 2008	1 July 2003 - 30 June 2007
Non-vested (number of shares):					
Outstanding at the beginning of the year	295,600	—	—	—	—
Granted during the year	—	—	—	—	—
Forfeited during the year	25,800	—	—	—	—
Vested during the year	—	—	—	—	—
Outstanding at the end of the year	269,800	—	—	—	—
Vested (number of shares):					
Outstanding at the beginning of the year	—	266,800	227,200 and 2,000	212,200	149,000
Vested during the year	—	—	—	—	—
Exercised during the year	—	27,200	6,400	54,200	—
Forfeited during the year	—	14,000	10,400	2,600	—
Outstanding at the end of the year	—	225,600	210,400 and 2,000	155,400	149,000
Weighted-average market price (yen)	—	¥ 2,752	¥ 3,042	¥ 2,823	—
Weighted-average market price (U.S. dollars)	—	$ 23	$ 26	$ 24	—

22. Business Combinations and Business Divestiture

Application of purchase method

<Partial acquisition of CSK Marketing Corporation>

(1) Summary of acquisition:
- Name of acquired company CSK Marketing Corporation
- Business acquired Call center operation
- Purpose of the acquisition Expansion of the Company's call center operation and increase in number of local service related employees
- Acquisition date 1 June 2006
- Classification under the Corporation Law (the "Law") Business transfer

(2) Period, for which the operating results of CSK Marketing Corporation are included in the accompanying consolidated financial statements:
- From 1 June 2006 to 31 March 2007

(3) The acquisition cost:
- Acquisition cost ¥628 million ($5,314 thousand)
- Cash paid ¥628 million ($5,314 thousand)

(4) Goodwill recognized:
- Amount: ¥203 million ($1,721 thousand)
- Goodwill recognized presents the future earnings power of the Group through business development.
- Amortization period 5 years on a straight-line basis.

(5) Fair value of the assets and liabilities of CSK Marketing Corporation at the acquisition date are summarized as follows:

	As of 31 March 2007			
	Millions of yen		Thousands of U.S. dollars	
Buildings and construction	¥	90	$	766
Furniture and fixtures		289		2,445
Goodwill		203		1,721
Others		17		143
Total assets		599		5,075
Expendable supplies		29		239
Total	¥	628	$	5,314

Business transfers within the Group

<Partial business transfer from Business Process Service co., LTD>

(1) Summary of business transfer:

- Name of the company from which the business is being transferred: Business Process Service co., LTD (a wholly- owned subsidiary)
- Business transferred: Outsourcing services of e-trace and administrative operations
- Purpose of the transfer: Recognition of business process solution services in the Group
- Transfer date: 29 September 2006
- Classification under the Law: Business transfer

<Spinoff of a business from APPLIED TECHNOLOGY CO., LTD>

(1) Summary of spinoff of a business:

- Name of the spun-off company: TransCosmos Technologies Inc. (a wholly-owned and newly established subsidiary)
- Business spun off: A system integration business section
- Purpose of the transaction: Reconstruction of a core business related to a bridge system engineering ring to "tie Asian development with the needs of Japanese customers." In this connection, the Company established a wholly- owned subsidiary, TransCosmos Technologies Inc.
- Date of spinoff: 1 January 2007
- Classification under the Law: Spinoff from APPLIED TECHNOLOGY CO., LTD and establishment of a new company, TransCosmos Technologies Inc.

(2) Classification of the system integration business section in business segment information:
Classified under the computer service segment

23. Effect of Bank Holiday on 31 March 2007

As financial institutions in Japan were closed on 31 March 2007, ¥9 million ($78 thousand) of trade notes receivable maturing on 31 March 2007, were settled on the following business day in April and accounted for accordingly.

Report of Independent Auditors

The Board of Directors
transcosmos, inc.

We have audited the accompanying consolidated balance sheet of transcosmos inc. and consolidated subsidiaries as of 31 March 2007 and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of transcosmos inc. and consolidated subsidiaries for the years ended 31 March 2006 and 2005 were audited by other auditors whose report dated 29 June 2006 expressed an unqualified opinion on those financial statements and included explanatory paragraphs that disclosed a change in method of accounting for investments in securities of the Corporate Venture Capital business and the segmentation of its industry segment and the adoption of a new accounting standard for impairment of fixed assets as discussed in Note 2(4) and (5) to the accompanying consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of transcosmos inc. and consolidated subsidiaries at 31 March 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in "Changes in Accounting Policies," effective 1 April 2006, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

26 June 2007

Ernst & Young ShinNihon

Non-Consolidated Balance Sheets

At 31 March 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2007
ASSETS			
Current Assets:			
Cash and time deposits	¥ **8,416**	¥ 7,956	$ **71,270**
Investments in securities for operating purposes	**7,102**	11,529	**0,139**
Notes and accounts receivable:			
Third parties	**17,477**	12,773	**147,995**
Subsidiaries and affiliates	**165**	127	**1,395**
	17,642	12,900	**149,390**
Less: allowance for doubtful accounts	**(84)**	(34)	**(708)**
	17,558	12,866	**148,682**
Short-term loans receivable from subsidiaries	**151**	300	**1,280**
Work and software in progress and merchandise	**128**	135	**1,088**
Merchandise	**1**	11	**8**
Prepaid expenses	**627**	525	**5,307**
Deferred tax assets	**154**	—	**1,302**
Other current assets	**1,024**	717	**8,672**
Total current assets	**35,161**	34,039	**297,748**
Investments and Advances:			
Investments in securities	**474**	1,391	**4,017**
Investments in and advances to subsidiaries and affiliates	**32,538**	26,573	**275,538**
Stock purchase warrants from subsidiaries	**—**	3	**—**
Investments in other securities of subsidiaries and affiliates	**1,456**	—	**12,333**
Long-term loans receivable from subsidiaries	**6,685**	10,790	**56,608**
Other investments	**231**	201	**1,964**
Less: allowance for doubtful accounts	**(3,523)**	(3,466)	**(29,833)**
Total investments and advances	**37,863**	35,492	**320,627**
Property and equipment, at cost, less accumulated depreciation	**3,756**	2,939	**31,803**
Leasehold deposits	**2,734**	2,222	**23,154**
Deferred charges, intangibles and other	**2,515**	1,452	**21,299**
Other non-current assets to subsidiaries and affiliates	**144**	144	**1,218**
Deferred tax assets	**223**	531	**1,890**
Prepaid pension costs	**1,519**	435	**12,860**
Total assets	¥ **83,915**	¥ 77,254	$ **710,599**

The accompanying notes are an integral part of the financial statements.

At 31 March 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2007
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current portion of long-term debt	¥ **—**	¥ 2,000	$ **—**
Accounts payable:			
Third parties	**6,003**	5,550	**50,839**
Subsidiaries and affiliates	**1,000**	668	**8,467**
	7,003	6,218	**59,306**
Income taxes payable	**3,652**	211	**30,926**
Deferred tax liabilities	**—**	248	**—**
Accrued expenses	**2,955**	2,490	**25,025**
Accrued bonuses for employees	**2,568**	2,326	**21,748**
Other current liabilities	**1,657**	1,637	**14,024**
Total current liabilities	**17,835**	15,130	**151,029**
Non-Current Liabilities:			
Bonds	**5,171**	5,171	**43,789**
Long-term debt	**7,000**	—	**59,277**
Other non-current liabilities	**11**	34	**95**
Total non-current liabilities	**12,182**	5,205	**103,161**
Total liabilities	**30,017**	20,335	**254,190**
Net assets:			
Stockholders' Equity Common stock: (Note 5) Authorized 150,000,000 shares at 31 March 2007 and 90,088,176 shares at 2006 Issued 48,794,046 shares at 31 March 2007 and 24,397,023 shares at 2006	**29,066**	29,066	**246,134**
Additional paid-in capital	**—**	15,069	**—**
Other capital surplus	**23,081**	8,149	**195,450**
Retained earnings	**15,506**	9,570	**131,312**
Treasury stock, at cost, 6,157,473 and 2,060,902 shares at 31 March 2007 and 2006, respectively	**(15,815)**	(10,291)	**(133,926)**
Total stockholders' equity	**51,838**	51,563	**438,970**
Valuation and translation adjustments:			
Unrealized gains on marketable securities and investment in securities	**2,060**	5,356	**17,439**
Total net assets	**53,898**	56,919	**456,409**
Total liabilities and net assets	¥ **83,915**	¥ 77,254	$ **710,599**

The accompanying notes are an integral part of the financial statements.

Financial Statements

Non-Consolidated Statements of Income

For the years ended 31 March 2007, 2006 and 2005	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	**2007**
Net Sales	**¥ 109,822**	¥ 95,252	¥ 82,483	**$ 929,990**
Cost of Sales	**85,908**	70,804	63,589	**727,481**
Gross profit	**23,914**	24,448	18,894	**202,509**
Selling, general and administrative expenses	**18,487**	15,755	12,640	**156,547**
Operating income	**5,428**	8,693	6,254	**45,962**
Non-operating income/(expenses):				
Interest income	**79**	30	43	**668**
Interest expense	**(145)**	(26)	(36)	**(1,232)**
Dividend income	**60**	99	43	**511**
Bond issuance cost	**—**	—	(66)	**—**
Loss on disposal of merchandise	**—**	(25)	(4)	**—**
Loss on impairment of fixed assets	**(898)**	(870)	—	**(7,602)**
Loss on sale/disposal of property and equipment	**(97)**	(137)	(101)	**(819)**
Loss on sale/disposal of investment in securities	**(187)**	—	—	**(1,583)**
Write-down of marketable securities and investment in securities	**(72)**	—	(150)	**(609)**
Write-down of investment in affiliates	**(817)**	(727)	(560)	**(6,916)**
Write-down of golf club memberships	**—**	(11)	(28)	**—**
Gain on sale/disposal of investment in securities	**331**	149	545	**2,803**
Gain on sale/disposal of investment in affiliates	**8,971**	796	0	**75,964**
Gain on subsidy account	**174**	—	—	**1,470**
Gain on change in retirement benefits plan	**773**	—	—	**6,548**
Foreign exchange losses	**—**	(62)	—	**—**
Gain on dissolution of subsidiary	**173**	1	33	**1,461**
Bad debt expense	**—**	—	(1,008)	**—**
Other, income	**357**	485	140	**3,025**
Other, expenses	**(994)**	(198)	(192)	**(8,413)**
Total non-operating income (expenses)	**7,708**	(496)	(1,341)	**65,276**
Income before income taxes	**13,136**	8,197	4,913	**111,238**
Income taxes				
- Current	**3,472**	37	41	**29,403**
- Deferred	**2,161**	3,453	1,746	**18,301**
Net income	**¥ 7,503**	¥ 4,707	¥ 3,126	**$ 63,534**
	Yen			U.S. dollars
Per share:				
Basic net income per share	**¥ 174.48**	¥ 210.2	¥ 136.2	**$ 1.48**
Cash dividends	**¥ 40**	¥ 70.0	¥ 40.0	**$ 0.34**
Weighted average number of shares (in thousands)	**43,001**	22,376	22,926	

The accompanying notes are an integral part of the financial statements.

Non-Consolidated Statement of Changes in Net Assets

For the year ended 31 March 2007

	Number of shares of common stock in issue	Millions of yen: Common stock	Additional paid-in capital	Other capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on marketable securities and investment in securities	Total
Balance at 31 March 2006	**24,397,023**	**¥ 29,066**	**¥ 15,069**	**¥ 8,149**	**¥ 9,570**	**—**	**—**	**¥ 61,854**
Reclassified balance as of March 31, 2006	—	—	—	—	—	¥ (10,291)	¥ 5,356	(4,935)
Implementation of stock spilt (two-for-one)(Note 5)	24,397,023	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(1,564)	—	—	(1,564)
Transfer from Additional paid-in capital to Other capital surplus	—	—	(15,069)	15,069	—	—	—	—
Directors' bonuses	—	—	—	—	(3)	—	—	(3)
Acquisition of treasury stock	—	—	—	—	—	(5,794)	—	(5,794)
Disposal of treasury stock	—	—	—	(137)	—	270	—	133
Net income for the year ended 31 March 2007	—	—	—	—	7,503	—	—	7,503
Other changes	—	—	—	—	—	—	(3,296)	(3,296)
Balance at 31 March 2007	**48,794,046**	**¥ 29,066**	**¥ —**	**¥ 23,081**	**¥ 15,506**	**¥ (15,815)**	**¥ 2,060**	**¥ 53,898**

	Number of shares of common stock in issue	Thousands of U.S. dollars (Note 3): Common stock	Additional paid-in capital	Other capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on marketable securities and investment in securities	Total
Balance at 31 March 2006		**$ 246,134**	**$ 127,607**	**$ 69,004**	**$ 81,043**	**—**	**—**	**$ 523,788**
Reclassified balance as of March 31, 2006		—	—	—	—	$ (87,143)	$ 45,353	(41,790)
Cash dividends		—	—	—	(13,240)	—	—	(13,240)
Transfer from Additional paid-in capital to Other capital surplus		—	(127,607)	127,607	—	—	—	—
Directors' bonuses		—	—	—	(25)	—	—	(25)
Acquisition of treasury stock		—	—	—	—	(49,072)	—	(49,072)
Disposal of treasury stock		—	—	(1,161)	—	2,289	—	1,128
Net income for the year ended 31 March 2007		—	—	—	63,534	—	—	63,534
Other changes		—	—	—	—	—	(27,914)	(27,914)
Balance at 31 March 2007		**$ 246,134**	**$ —**	**$ 195,450**	**$ 131,312**	**$ (133,926)**	**$ 17,439**	**$ 456,409**

Non- Consolidated Statements of Changes in Stockholder's Equity

For the years ended 31 March 2006 and 2005

	Number of shares of common stock in issue	Common stock	Additional paid-in capital	Other capital surplus	Legal reserve	General reserve	Retained earnings
Balance at 31 March 2004	**24,397,023**	**¥ 29,066**	**¥ 15,000**	**¥ 7,623**	**¥ —**	**¥ —**	**¥ 3,360**
Increase in additional paid-in capital due to merger with a consolidated subsidiary	—	—	69	—	—	—	—
Loss on sale of treasury stock	—	—	—	(26)	—	—	—
Cash dividends	—	—	—	—	—	—	(696)
Directors' bonuses	—	—	—	—	—	—	(14)
Net income for the year ended 31 March 2005	—	—	—	—	—	—	3,126
Balance at 31 March 2005	**24,397,023**	**¥ 29,066**	**¥ 15,069**	**¥ 7,597**	**¥ —**	**¥ —**	**¥ 5,776**
Gain on sale of treasury stock	—	—	—	552	—	—	—
Cash dividends	—	—	—	—	—	—	(910)
Directors' bonuses	—	—	—	—	—	—	(3)
Net income for the year ended 31 March 2006	—	—	—	—	—	—	4,707
Balance at 31 March 2006	**24,397,023**	**¥ 29,066**	**¥ 15,069**	**¥ 8,149**	**¥ —**	**¥ —**	**¥ 9,570**

The accompanying notes are an integral part of the financial statements.

Notes to the Non-Consolidated Financial Statements

1. Basis of Presenting the Non-Consolidated Financial Statements

Accounting principles

The accompanying non-consolidated financial statements have been prepared from accounts maintained by transcosmos inc. (the "Company"). The Company has maintained their accounts in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from those of International Financial Reporting Standards.

Certain items presented in the non-consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The statements of cash flows is required to be prepared in the consolidated financial statements for the years ended 31 March 2007, 2006 and 2005.

2. Accounting Principles and Practices Employed by the Company

Accounting principles and practices employed by the Company in preparing the non-consolidated financial statements, and which have significant effects thereon, are explained in Note 2 of the Notes to the Consolidated Financial Statements. Therefore, the non-consolidated financial statements should be read in conjunction with such notes.

3. United States Dollar Amounts

The Company maintains accounting records in yen. The U.S. dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars at a rate of ¥118.09=US$1. The inclusion of such U.S. dollar amounts is solely for convenience of the reader and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at ¥118.09=US$1 or any other rate.

4. Additional Paid-in Capital, Legal Reserve and Retained Earnings

The Japanese Commercial Code provided that an amount equivalent to at least 10% of certain cash disbursements as appropriations of retained earnings with respect to each fiscal year be appropriated as legal reserve until the total amount of additional paid-in capital and legal reserve equals to 25 per cent of the stated capital.

5. Stockholders' equity

On 1 April 2006, the Company made a stock split by way of a free share distribution at rate of 2 shares for each outstanding share, and 24,397,023 shares of common stock with no par value were issued to stockholders of record on 31 March 2006.

Stated capital was not changed as a result of this stock split.
The starting date of the dividend computation for the stock split was set on 1 April

Investor Information

As of 1 July 2007

CORPORATE INFORMATION

Name
transcosmos inc.

Head Office
3-25-18, Shibuya, Shibuya-ku, Tokyo 150-8530 Japan

Incorporated
18 June 1985

Capital
¥29,065,968,631

Employees
10,356(group), 7,520(parent) (as of 31 March 2007)

Major Banks
Sumitomo Mitsui Banking Corporation
Mizuho Corporate Bank, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

STOCK INFORMATION

Accounting Year-end
31 March

Month of General Stockholders' Meeting
June

Issued Common Stocks
48,794,046

Number of Stockholders
22,559 (as of 31 March 2007)

Stock Exchange Listing
Tokyo Stock Exchange

Auditing Corporation
Ernst & Young ShinNihon

OFFICERS

Founder & Group CEO	Koki Okuda
Chairman & CEO	Koji Funatsu
Executive Vice Chairman	Osamu Goto
President & COO	Masataka Okuda
Executive Vice President	Koichi Iwami Shojiro Takashima
Senior Managing Director	Masakatsu Moriyama Shinichi Nagakura
Member, Board of Director	Taiki Yoshioka Kichiro Takao Yoko Kamiyama
Corporate Executive Officer	Masaaki Muta Hiroshi Kaizuka Nobuhiko Fujimoto Masayuki Tada Yoichi Kawano
Corporate Senior Officer	Kunio Shimofusa Masatoshi Kouno Tsutomu Kawase Tsunetaka Miyaryo Hiroyuki Morita Kazuhiko Yamaki Yasuhiro Hayami Koji Okamoto Hirofumi Inoue Kazuhiro Shimizu Kimihide Okino Kazuhiro Umemura Akira Miyake
Corporate Officer	Hiroyuki Uchimura Keisuke Yoshida Kenshi Matsubara Yutaka Kojima Yoshihiro Uematsu Shunji Hidaka Yuichiro Kubo Masato Ogino Masatoshi Araki Hiroyuki Kohara
Standing Auditor	Mitsuo Ishii
Auditor	Teruyuki Hiiro Kazushi Watanabe Toshiaki Nakamura