



<http://www.trans-cosmos.co.jp>

## The Marketing Chain Management Company

ANNUAL REPORT 2002



## PROFILE

Client satisfaction is the true value of our company. Our commitment: Providing truly user-oriented outsourcing services.

Trans Cosmos has been a pioneer in Japan's information-processing outsourcing business since its inception in 1966. We have consistently worked to raise the level of satisfaction among our client companies by combining outstanding people with the latest in information technology to deliver high value-added services. IT investments become meaningful only after new systems have been used over an extended period and start contributing to increased productivity. In our business, we set up a value chain that creates a cycle of dynamic improvement. Because highly skilled people staff our outsourcing services, not only are IT systems used effectively, but problems that arise in the course of day-to-day operations also get resolved. Our people work closely with our clients to generate effective solutions.

As technology has advanced, so have we. We started out working on large mainframes, then moved to client/server systems, then PCs; now we're just as familiar with Internet-based systems. But regardless of platform, the importance of the business practices we have developed and refined over the years remains undiminished. Our 36 years of IT and customer-service outsourcing experience enable us to provide exceptional guidance for technology deployments and business-process innovations alike.

Now in the 21st century, with the arrival of broadband, the Internet is poised to become a new lifeline that consumers use routinely. Trans Cosmos will continue to contribute in this transforming economy with our strongest-still yet area—providing IT support to end-users under outsourcing arrangements with client companies.

## The Marketing Chain Management Company

Marketing-chain management is the service model we have developed out of our extensive experience, for transforming the way we conceptualize and practice marketing in the 21st century. Thanks to a rapid succession of changes in our technological milieu—the arrival of the Internet, its extension by broadband, and the use of the Internet as an integral part of corporate infrastructure—companies can at last communicate directly with consumers.

We are pioneers in offering true marketing-chain management services based on our ability to synchronize real-time marketing activities with direct communication between businesses and consumers through our call and contact centers. We consider Trans Cosmos to be “the marketing-chain management company” and have adopted that as our corporate slogan.

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# FINANCIAL HIGHLIGHTS

## CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31	Millions of Yen (except per share data)			Thousands of U.S. Dollars* (except per share data)		Percent Change
	2002	2001	2000	2002	2002/2001	
Net sales	¥70,232	¥87,711	¥48,882	\$527,069	-19.9%	
Gross profit	(894)	26,228	13,638	(6,709)	—	
Operating income	(14,173)	12,821	4,665	(106,364)	—	
Net income	(17,612)	4,205	1,391	(132,172)	—	
Net income per share	¥ (721.9)	¥ 172.6	¥ 59.9	\$ (5.42)	—	

## CONSOLIDATED BALANCE SHEETS

March 31	Millions of Yen			Thousands of U.S. Dollars		Percent Change
	2002	2001	2000	2002	2002/2001	
Total current assets	¥51,421	¥69,005	¥58,194	\$385,899	-25.5%	
Total current liabilities	10,945	19,068	11,459	82,139	-42.6%	
Total long-term liabilities	3,139	3,875	1,641	23,557	-19.0%	
Total shareholders' equity	64,321	79,552	68,164	482,709	-19.1%	

## NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31	Millions of Yen (except per share data)			Thousands of U.S. Dollars* (except per share data)		Percent Change
	2002	2001	2000	2002	2002/2001	
Net sales	¥54,514	¥49,626	¥39,386	\$409,110	+9.9%	
Gross profit	10,821	10,494	8,794	81,208	+3.1%	
Operating income	4,036	4,016	3,566	30,289	+0.5%	
Net income	316	2,562	2,319	2,371	-87.7%	
Net income per share	¥ 13.0	¥ 105.2	¥ 99.9	\$ 0.10	-87.6%	
Cash dividends per share	¥ 20.0	¥ 20.0	¥ 20.0	\$ 0.15	—	
Weighted average number of shares (thousand)	24,362	24,362	23,210	24,362	—	

## NON-CONSOLIDATED BALANCE SHEETS

March 31	Millions of Yen			Thousands of U.S. Dollars		Percent Change
	2002	2001	2000	2002	2002/2001	
Total current assets	¥20,968	¥29,028	¥32,542	\$157,358	-27.8%	
Total current liabilities	7,230	11,977	5,861	54,259	-39.6%	
Total long-term liabilities	3,250	3,636	292	24,390	-10.6%	
Total shareholders' equity	75,531	76,241	72,876	566,837	-0.9%	

\*U.S. dollar amounts are translated from yen, solely for convenience, at the rate of ¥133.25=U.S.\$1.



Chairman, President & CEO  
KOKI OKUDA

#### Basic management policy

Trans Cosmos has been a pioneer in the field of data processing outsourcing since its founding in 1966. Adopting a customer first approach, we have sought to raise the level of customer satisfaction by creating an organization that combines the best IT personnel with the latest technology to deliver high quality services. Top-flight IT personnel gives us the ability to respond precisely to the needs of our customers, and by maintaining a steady focus on current trends, we have found technologies ideally suited to client companies. We will continue to refine our business, work to expand globally, and pursue our ultimate goal of bringing people and technology together. Our logo incorporates the phrase People & Technology to reflect our commitment to bringing user-friendly technology closer to our daily lives.

On the basis of this management policy as well as our action guidelines, we seek to expand our business as a comprehensive and independent information services company with a view to contributing to the increasingly sophisticated, diverse, and global information society, and to winning the confidence and meeting the expectations of our shareholders, client companies, employees, and other stakeholders.

#### Basic policy on profit distribution

Returning profits to shareholders is a priority issue at Trans Cosmos. Our basic policy is to pay a dividend that is fair to past, present, and future shareholders in light of current

advances in information systems and changes in the business environment, establishing a framework to develop new services and technologies from a global perspective, and maintaining and enhancing the Company's competitive strength.

Based on this policy, we plan to pay a dividend of ¥20 per share in March 2002 fiscal year.

#### Medium-term business strategy

The rapid spread of broadband services, forecasted to reach nearly 10 million households within the year, is revolutionizing corporate marketing. Companies and consumers are now directly connected via the internet and segment-specific video commercials and interactive communications have become commonplace. We developed our corporate vision for the upcoming five years and chose our slogan—The Marketing Chain Management Company—in light of this environment. We aim to achieve future growth and development by positioning marketing chain management as a core service. With real-time analysis of customer information gathered at call and contact centers and prompt and continuous feedback on corporate marketing activities, marketing chain management delivers an unprecedented ability to measure the results of sales promotion expenditures and thereby contribute to expanding sales and reducing costs at client companies.

Our corporate vision statement classifies the Company's service domains into the broad categories of "marketing contact centers" for connecting client companies and customers and "back office support" for assisting companies with day-to-day data processing operations. The vision statement establishes four business domains: the 1) marketing chain management business, 2) call and contact center business, 3) back office support and data solutions business, and 4) engineering solutions business. The statement also establishes the 5) consulting business and 6) systems integration business to add value to the previous four businesses, and the 7) IT training business and 8) IT personnel business to ensure a stable supply of highly skilled IT personnel. We will draw on the expertise and experience in business operations and outsourcing that we have gained over the years to assist client companies in managing and developing their business.

#### Business targets

Based on the foregoing measures, we look for annual sales growth of 20% or higher and an improvement in the gross

profit margin. We are working to increase return on equity (ROE) and target a ratio of ordinary income to sales of at least 10% and net income per share of ¥200 in the near-term.

#### Current challenges

Over the next five years, the Trans Cosmos Group will focus on marketing outsourcing such as internet-based corporate advertising, public relations, sales promotion, and sales support while at the same time improving current after-sales services at call centers. We will combine these elements to implement the new concept of "marketing chain management." By understanding and responding in real-time to the needs of our clients and their customers, we hope to maximize our contribution to expanding sales and reducing costs at client companies.

Marketing chain management is the key to future growth and development at Trans Cosmos. This new solutions concept brings together the Company's entire range of past experiences to create a marketing revolution. The emergence of the internet and spread of broadband services is changing the business environment as these become an essential part of business infrastructure. Information technology has given companies the ability to communicate directly with consumers. In this environment, the Trans Cosmos Group is a leader in providing services that synchronize real-time marketing activities with direct communication between companies and consumers to achieve marketing chain management. Hence our slogan, The Marketing Chain Management Company.

We believe that growth of the Trans Cosmos Group on the basis of this concept will serve to enhance shareholder value as well as to contribute to the betterment of society.

#### Measures to improve corporate governance

Responding swiftly and accurately to new demands created by the growing sophistication and diversity of information systems requires management that develops and implements new strategies on an ongoing basis.

Trans Cosmos regards each business division as a single corporate entity under the direction of a general manager. This organization enables the swift implementation of business strategy and tactics.

General managers of business divisions are generally executives at the level of director or higher. We find the management structure appropriate because it establishes a mission for each director for each fiscal year and clarifies their

responsibility for achieving targets.

The Corporate Strategy Division formulates a medium- to long-term company-wide management vision, and critical management decisions are made by executives at a level of vice-president or higher that have the representative authority of the CEO.

Trans Cosmos appoints a fair number of directors that have a wealth of experience at other companies, which serves to invigorate the Corporate Executive Committee. However, we believe the Committee requires further reform in order to improve corporate governance and to achieve fair and transparent management.

Trans Cosmos introduced a stock option plan last year in an effort to enhance enterprise value by creating a common set of interests between directors and shareholders. At the same time, we abolished executive retirement allowances with a view to increasing transparency and creating a stronger link between executive salaries and business performance.

Trans Cosmos also appointed two corporate advisors in an effort to strengthen auditing functions.

In these endeavors, We look forward to the continued support of our shareholders.

Koki Okuda  
Chairman, President & CEO  
Trans Cosmos, Inc.

# TRANS COSMOS AT A GLANCE

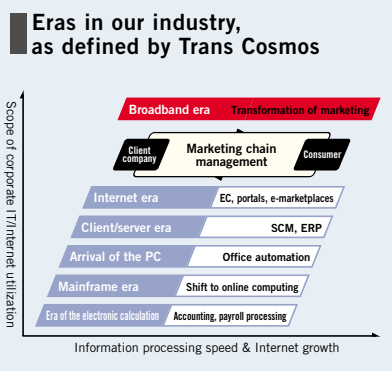
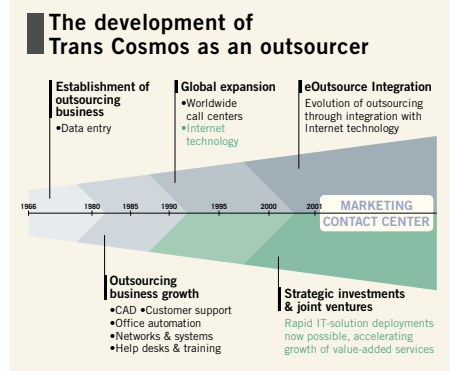
Built on 36 years of growth and experience:  
Trans Cosmos' advanced marketing contact centers

## The scope of Trans Cosmos businesses

Our comprehensive outsourcing services for managing business/consumer interactions range from consulting, systems integration, and back-office support, to marketing contact centers.

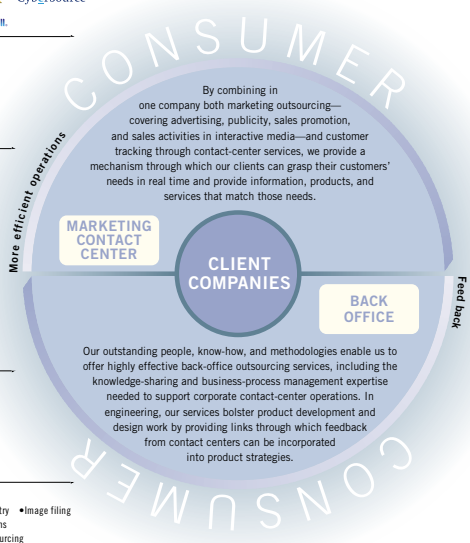
Trans Cosmos Group is aggressively expanding its marketing outsourcing services in support of Internet-based advertising, publicity, sales promotion, and sales activities, while further enhancing our existing contact-center-based after-sales service business. By putting the two together, we are able to achieve an entirely new concept in service—what we call "Marketing

Chain Management." We make a maximal contribution to our clients' sales growth and cost savings by rapidly assessing the needs of our clients and their end-users, using this information to provide real-time marketing solutions, and responding to end-users through our contact center operations—which also have our back-office support services behind them.



## Trans Cosmos' service domain

<b>Marketing chain management business</b> IManage, DoubleClick, JStream, NetRatings, NetMik, CybrSource, % marketswitch, macromill.
<b>Contact-center business</b> NUANCE, ASK JEEVES, TransCosmos C.R.M., PRIMUS.
<b>IT training business</b> IT training business, IT personnel business, Systems integration business, Consulting business.
<b>Engineering solutions business</b> C3, 3D modeling, System management, Customization support, Development contracting, Network support, On-site training, Rapid prototyping.
<b>Back-office support/data solutions business</b> SENDMAIL, Peregine, QuickSupport, CybrSource, PRIMUS, 3easy.
<b>Back-office support services</b> Security management, Asset management, Maintenance management, Product sales, Problem management, Infrastructure management, Help desks, Education and training, Consulting, Linking contact-center systems to other systems.
<b>Data solution services</b> Data entry, Image entry, Image filing, Audio and video solutions, Business-process outsourcing.



<b>IT Manage, Inc.</b> A services provider working to enhance clients' profitability and development of multi-location businesses through the extension and productivity-boosting reuse of technology and knowledge with a competitive advantage.	<b>% marketswitch</b> Markets only the products best suited for individual target customers using one-to-one marketing-optimization technology that maximizes returns.	<b>Marketswitch Japan KK</b> Provides assistance in the construction, implementation, and operational support of the CAD/CAM/CAE/PDM/ERP systems indispensable to the manufacturing sector, as well as practical product design, beginning with the product conceptualization and schematic design phases.	<b>C-Three Inc.</b> Provides assistance in the construction, implementation, and operational support of the CAD/CAM/CAE/PDM/ERP systems indispensable to the manufacturing sector, as well as practical product design, beginning with the product conceptualization and schematic design phases.
<b>JStream</b> Rich-content delivery services over broadband, including streaming and download.	<b>CybrSource</b> E-commerce site operator. Provides a stored-value service using sales-promotion and small-sum transaction-settlement tools.	<b>Sandmail</b> Provides email-system operations, including functions such as central management of email distribution systems, server monitoring, and email-system settings through easy-to-use Japanese-language GUIs, as well as log reporting.	<b>Peregine Systems</b> Makes the centralized management of asset data a reality. Enables TCO analysis and the formation of IT investment strategies by pegging asset data saved in discrete files to the associated assets.
<b>NetRatings</b> Researches Internet-user trends. Covers personal information access times, and information users obtain. Analyzes viewer rating statistics.	<b>Nuance</b> Developer and marketer of voice-recognition software for telephone applications. Software increases the efficiency of call-center work and helps lower total costs by automating telephone- and question-answering.	<b>QuickSupport</b> Makes possible the seamless operation of help-desk services spanning email and the Web as well conventional phone-based help desks.	<b>TechnoBouquet Inc.</b> A specialist in business process outsourcing. Covers all associated areas from the building of databases to the operation of call centers.
<b>DoubleClick Japan Inc.</b> Internet advertising delivery and management service. Distributes ads to targeted user segments.	<b>Ask Jeeves Japan Co., Ltd.</b> Contributes to raising customer satisfaction and enhancing the efficiency of customer support services by swiftly guiding consumers to the answers to their questions on corporate Web sites.	<b>Primus Knowledge Solutions, K.K.</b> Develops troubleshooting and knowledge-assisted software and at the same time builds systems for building up, searching, and sharing knowledge in order to provide efficient, high-quality contact center support services.	<b>Teasy</b> A provider of training systems. Uses the comprehensive management of distance- and group-learning to give customers access to business-process training as well as the means to improve their employees' IT literacy.

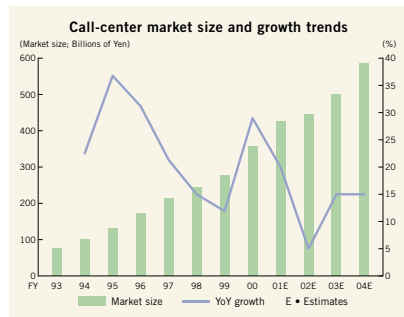
## The call-center business

Call centers are one of Trans Cosmos' leading lines of business. What follows is 1) an analysis of the call-center market by Deutsche Securities and 2) a discussion of Trans Cosmos' strategy in this market.

### I. Deutsche Securities' market analysis

#### Market scale

Reliable public statistics on the scale of the call-center market are unavailable. A Ministry of Economy, Trade, and Industry (METI) survey estimated the market at ¥148.2 billion in 2000. A Nihon Ryutsu Sangyo Shimbum (a weekly journal for non-store retailing sector) survey estimated that the sales of only the top 30 companies in the segment amounted to ¥260 billion. Deutsche Securities applied its own analytical methods to the Nihon Ryutsu Sangyo Shimbum statistics to arrive at an estimate of ¥350 billion for the total market in fiscal year 2001. Deutsche Securities' estimates are of outsourced call-center services only and thus include neither call centers that companies operate on their own behalf nor merchandise sales made through call centers.



#### Evolution of the business

Outsourced secretarial services for small businesses and sole proprietors were the precursors of today's call-center business. The first big boost came with the December 1985 launch of toll-free numbers (called "Free Dial" in Japan), which rapidly drove growth of mail-order services. Further growth in demand for call-center services came from the telecoms sector. In the later half of the 1980s Many new common carriers (NCCs) outsourced the task of taking new applications over the phone,

and then mobile-phone operators did the same in the later half of the 90s. Since 2000, call-center services for financial institutions have been shifting to a multiple-channel approach that includes email and Web-based customer interfacing and incorporating customer-relationship management (CRM) [systems], thus driving growth further. In telecoms, Deutsche Securities estimates that "Myline" applications, telemarketing calls, and other non-routine demand sources contributed some ¥40 billion industry-wide from the second half of FY01 through the first half of FY02.

#### Medium- to long-term growth potential

Despite an anticipated FY03 year/year dip in reaction to FY02's one-off "Myline" demand bubble, Deutsche Securities believes call centers have strong medium- to long-term growth potential. Although financial institutions and users in distribution and retailing are moving toward 24x7 service on the Web, many call centers still close down in the evenings. Even among those that do not shut down, many do not have enough agents on hand and are unable to handle the high call volumes in the busy evening hours, meaning that many calls go unanswered. As consumer lifestyles diversify, demand for 24x7 call-center services will only continue to grow.

A large reserve of potential demand growth also lies in the business-to-business area. Most large corporations have large numbers of their own sales people, as well as employees of sales subsidiaries, dealers, and stores. There is little reason why employees need be assigned basic tasks as responding to product inquiries from such far-flung internal and external sales people. Though some business-to-business tasks such as these are being assigned to specialized agents, for the most part this potential market remains untapped. Deutsche Securities considers it highly likely that such tasks will soon be subject to outsourcing.

Deutsche also believes the manufacturing and utilities sectors will generate the greatest demand growth over the medium term.

Source: "Call Center Business Report," March 26, 2002, Deutsche Securities, Tokyo Branch, IT Service (by Naeshi Nema and Takashi Oya)

### II. Trans Cosmos' call-center strategy

#### Background

Trans Cosmos has provided its clients with help-desk services since its inception in 1966, passing through many stages of technology from mainframe and office mainframe computers to client/server systems. Personal computers (PCs) proliferated in offices during the client/server era, and also began to rapidly penetrate the consumer market from the late 80s. Trans Cosmos saw an opportunity to enter the call-center market by extending to consumers the kind of help-desk services it had long provided to corporations. The company began by extending its technical support know-how to consumers, initially only in PCs, but then also in peripherals. With the arrival of the Internet, the company also began providing network support on behalf of ISPs. Trans Cosmos now enjoys a strong advantage over competitors in technical-support outsourcing based on the path it took in entering the field.

#### Positioning within the call-center industry

Trans Cosmos did not initially define itself primarily as a call-center operator. Rather, call-center sales grew naturally out of the process of extending corporate help-desk services to end-user consumers in the form of technical support lines. The company is currently third in Japan in sales from call-center operations and enjoys an overwhelming advantage in the field of technical support for computers, peripherals, and ISPs. Looking ahead, the company plans to further expand its market share by branching out beyond technical support, adding new marketing-support services for the fields of finance, telecoms, medicine, pharmacy, and distribution.

#### Competitive differentiations and factors behind rapid growth

Trans Cosmos' strength lies in its ability to creatively combine people and technology to deliver high value-added services. Because a high percentage of the company's work is in technical support, roughly half of all employees have been given specific training in this area. The high proportion of trained full-time employees adds to the company's ability to

provide high-quality service, though it also has a slightly negative effect on the cost-competitiveness of its services. To make up for this, Trans Cosmos minimizes costs by bringing together optimal combinations of skilled personnel and leading-edge technology while raising customer satisfaction. For example, the company is aggressively deploying leading-edge technologies in voice recognition and Web-based self-support to both cut costs and increase added-value by automating aspects of call-center functions. This creates a solution in which technology can handle routing inquiries fully automatically, reserving agents' time for responding to specialized or non-routine inquiries. Since 1995, Trans Cosmos has actively invested in relevant advanced technologies under development in the United States, and adopts technologies—such as Web-based self-support systems—it deems capable of making its call centers more efficient and effective.

#### Challenges and earnings growth strategy

To grow sales, Trans Cosmos streamlined its resource deployments by clearly defining its core business domains and restructuring based on those definitions. While continuing to expand sales in its strength area of technical support, the company also plans to expand sales in new marketing-support services for fields such as finance, telecoms, and distribution.

To boost earnings, Trans Cosmos is shifting from a personnel structure heavily weighted toward long-term employees toward greater use of contract and part-time employees in cases in which such arrangements still fully meets client needs. The company also plans to avoid a price war by aggressively introducing new technologies into call-centers and raising value added, while boosting gross margins through measures such as personnel-portfolio adjustments and reductions of the cost of goods sold.

## I. Results of Operations

### 1. FY March 2002 highlights

#### Overview of FY March 2002 results

Japan's economy continued to show no signs of recovery in FY3/02. Private sector financing was more restrained as bad loans in the banking sector came under renewed scrutiny, and adding to weak capital investment, deflationary concerns depressed consumer spending and stock prices. Moreover, the previously robust US economy slowed in the wake of the 9/11 terrorist attacks. Japan's stock market stagnated with the Nikkei average dipping below the ¥10,000 level. Private sector capital investment declined and industrial orders and consumer spending slumped.

In this economic climate, IT-related investment stagnated from 2H, creating a difficult business environment for the Company's main IT outsourcing business.

Trans Cosmos provides a complete range of outsourcing services to client companies through the six businesses under the jurisdiction of the Business Strategy Division. The customer relationship management (CRM) business assists client companies in the area of customer services, the corporate business solutions (CBS) business provides back office support, the data solutions (DS) business helps convert analog data into a digital format, the engineering solutions (ES) business assists with product development and design, the systems integration (SI) business develops systems suited to the operations of client companies, and the consulting business provides services based on a wealth of past achievements.

In the CRM business, the CRM Department II was established in FY3/02 to provide marketing support services. This business achieved annual growth of over 20% by moving into the new areas of finance and IT to supplement its traditional strength in technical support. The ES business achieved annual growth of nearly 17% on a strong performance by 3D design support services for the automotive industry. The Business Development Division proposed measures to help affiliated companies boost sales and competitiveness and to create synergies between Trans Cosmos and its affiliates.

FY3/02 marked the first year of the broadband era as rapidly declining prices for xDSL and other services made broadband access available to general consumers. These changes in the IT environment sparked a marketing revolution by establishing a direct link between companies and consumers. Previous marketing activities, especially those targeted at mass audiences, were characterized by an indirect relationship between consumers and companies. This made it difficult to gauge the cost effectiveness of marketing expenditures and to reflect consumer reaction in the next round of marketing. Broadband has removed these constraints and opened the possibility for call and contact centers to provide centralized management of customer information.

To meet the challenges of the new era, Trans Cosmos announced broadband advertising solutions in December 2001. The new service combines customer information management and a one-to-one marketing platform to help

optimize the process of increasing customer loyalty in terms of targeting and acquiring new customers and in maintaining and nurturing current customers.

Looking at the venture capital segment, sales and operating income received a substantial boost in FY3/01 as the strong US stock market in 1H prompted the aggressive sale of operating investment securities. In FY3/02, however, the segment reported an operating loss as a result of an ¥18,743 million loss on valuation of operating investment securities—mainly unlisted stocks of US companies—due partly to the rapid decline in the US stock market.

Under the foregoing circumstances, consolidated sales totaled ¥70,232 million, a decline of ¥17,479 million or 19.9% YoY.

The information services segment reported sales growth but a decline in operating income. The venture capital segment reported a sales decline and operating loss on stock valuation losses. This resulted in a consolidated operating loss of ¥14,173 million, a sharp decline of ¥26,994 million YoY.

Extraordinary losses included a loss on valuation of investment securities involving domestic stocks with little prospect of a recovery in prices, and a business restructuring loss for the closure or liquidation of affiliates. This resulted in a consolidated net loss of ¥17,612 million, a decline of ¥21,817 million YoY.

#### (Results by segment)

On strong sales in the CRM and ES businesses, the information services segment reported sales of ¥66,157 million, an increase of ¥6,233 million or 10.4% YoY, and operating income of ¥8,188 million, an increase of ¥1,323 million or 19.3% YoY.

Incurring stock valuation losses, the venture capital segment reported sales of ¥4,075 million, a decline of ¥23,712 million or 85.3% YoY, and an operating loss of ¥18,537 million, a decline of ¥28,734 million YoY.

#### (Results by region)

Domestic sales totaled ¥65,279 million, an increase of ¥6,574 million or 11.2% YoY, on strong sales in the CRM and ES businesses. Operating income totaled ¥8,340 million, an increase of ¥924 million or 12.5% YoY.

In the US, stock valuation losses in the venture capital segment resulted in sales of ¥4,711 million, a decline of ¥24,164 million or 83.7% YoY, and an operating loss of ¥13,141 million, a decline of ¥23,410 million YoY.

In Asia, despite sales of ¥242 million, an increase of ¥111 million or 84.7% YoY, stock valuation losses in the venture capital segment resulted in an operating loss of ¥5,628 million, a decline of ¥5,354 million YoY.

Years ended March 31,	Millions of Yen			Yen
	Sales	Operating income	Net income	EPS
2002	¥ 70,232	¥ (14,173)	¥ (17,612)	¥ (721.9)
2001	87,711	12,821	4,205	172.6
Change	¥ -17,479	¥ -26,994	¥ -21,817	¥ -894.5
Percent change	-19.9%	—	—	—

## 2. FY March 2003 forecast

The outlook on Japan's economy in 1H FY3/03 is clouded by concerns over deflationary conditions and sluggish consumer spending and capital investment. Looking at the global economy, however, the US economy is recovering faster than expected following the terrorist attacks. The decline in Japanese exports is bottoming and production is showing signs of improvement thanks to inventory adjustments, especially in the IT sector. The domestic economy is expected to pick up in 2H, driven by higher exports on a recovery in the US economy.

Given this economic environment, we expect that client companies will be pressed to cut SG&A expense and other costs, leading to higher demand for outsourcing as a way to reduce costs and expand sales. We see a growing trend toward outsourcing call and contact center administration as well as back office operations—work that had previously been handled in-house or by group companies—to specialized companies equipped with the latest technology and staffed by highly experienced personnel.

In 1H, however, we forecast lower demand as prices for personal computers move higher on a spike in liquid crystal and semiconductor prices caused by higher costs for procuring materials from overseas due to the weak yen. As Trans Cosmos provides a high proportion of technical support services, we are concerned that sales may decline for call and contact center administration and other related services. Nevertheless, given trends toward a higher rate of outsourcing, deregulation in all industries, and heightened emphasis on customer satisfaction, we expect the markets for call and contact center services and back office support services to see double-digit annual growth from 2H. At the same time, we must improve our proposal and

technical capabilities to better respond to harsh industry conditions that include falling service prices and intensifying competition. Trans Cosmos aims to raise profit margins by delivering high value-added services.

For the Trans Cosmos Group to seize the business opportunities available in this deflationary environment, we must strengthen our organization as a marketing chain management company and secure the personnel and advanced technology required to meet the solutions needs of our customers. In an effort to create a high profit structure, we implemented organizational changes on April 1, 2002 and are working to cut costs company-wide and improve our gross profit margin. In the call and contact center business, we look to increase sales and raise the proportion of technology-driven marketing support services. In the back office support business, we look to enhance administrative services as well as development-related support. We also seek to capitalize on synergies between Trans Cosmos and affiliated companies, launch the marketing chain management business, and provide support in expanding sales at call and contact centers.

The venture capital segment sustained valuation losses in FY3/02, primarily for unlisted shares of US companies. Going forward, we will sell off operating investment securities of companies that are not expected to produce synergies with our business. Our policy is to prudently sell listed shares upon review of stock market conditions and unlisted shares after searching for a business partner. Nevertheless, we will continue to hold shares and invest in new business development of companies that we expect to produce synergies with our business.

## II. Financial position

Consolidated total assets at year-end were down ¥23,985 million YoY at ¥79,907 million. Current assets were down ¥17,584 million YoY at ¥51,421 million, due mainly to a ¥16,073 million decline in operating investment securities owing to impairment write-down, partial sale, and lower unrealized gains. Investments and Advances were down ¥9,645 million YoY at ¥14,490 million, due to loss on write down of investments in securities and affiliates. Current liabilities were down ¥8,123 million YoY at ¥10,945 million on a decline in interest-bearing debt. Long-term liabilities were down ¥736 million YoY at ¥3,139 million. Shareholders' equity was down ¥15,231 million YoY at ¥64,321 million, due to an ¥18,215 million YoY decline in consolidated retained earnings on a net loss of ¥17,612 million, and to a lower gain on valuation of other securities.

Despite year-end interest-bearing debt of approx. ¥3.3 billion, the Company has adequate funds, with the balance of cash and cash equivalents at approx. ¥13.7 billion.

### Consolidated cash flows at the fiscal year-end

Cash and cash equivalents totaled ¥13,784 million, a decline of ¥6,997 million YoY, due to a reduction in interest-bearing debt and efforts to improve funding efficiency by reducing liquidity on hand through the establishment of commitment lines with financial institutions.

### (Cash flows from operating activities)

Net cash used in operating activities totaled ¥1,610 million, declining YoY due to the substantial sale of operating investment securities in FY3/01.

### (Cash flows from investing activities)

Net cash provided by investing activities totaled ¥783 million, due mainly to the withdrawal of time deposits and sale of investment securities to cover other investment expenditures.

### (Cash flows from financing activities)

Net cash used in financing activities totaled ¥8,712 million, due mainly to the repayment of borrowings and redemption of commercial paper.

Capital investment totaled ¥1,174 million in FY3/02 as the Company made aggressive forward investment to enhance its capabilities in providing system development and system administration services for call and contact centers. Investments included the founding of Customer Interaction Center Korea Inc. as a joint venture with South Korea's DACOM Corporation and the establishment of contact centers in Shinjuku, Tokyo and Miyazaki.

Trans Cosmos is not currently planning any major investments or expenditures in FY3/03, and our financial position should remain virtually unchanged from FY3/02. We do plan to continue capital investment in call and contact centers as this business expands.

We also do not anticipate at this time any events that would significantly impact cash flow.