trans cosmos
people & technology

www.trans-cosmos.co.jp

The Marketing Chain Management Company

trans cosmos
people & technology

The Marketing Chain Management Company

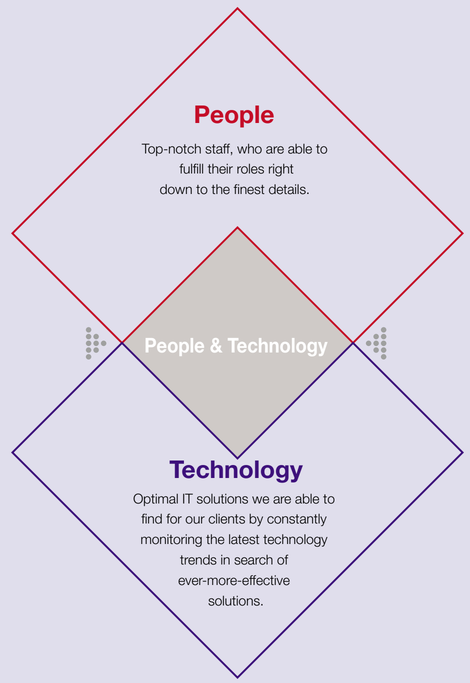
Annual Report 2006

Year ended March 31, 2006

Profile

The Marketing Chain Management Company

"Marketing Chain Management" is the name we at **transcosmos** have given to the outsourcing services model we developed to propel us forward as we move into the 21st century. An amalgamation of **transcosmos**' years of experience and accumulated expertise, Marketing Chain Management promises to revolutionize marketing. Considering the current trend that the Internet has become indispensable to our daily lives and businesses, we support customers to synchronize real-time marketing opportunities with the contact and call centers that enable companies and consumers to communicate directly with one another.



Corporate philosophy

Client satisfaction is the true value of our company, and the growth of each of our employees creates the value that shapes our future.

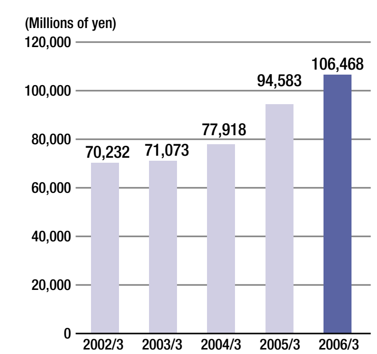
- **Commitment to our clients**
- **Commitment to our employees**
- **Commitment to society and our shareholders**

Contents

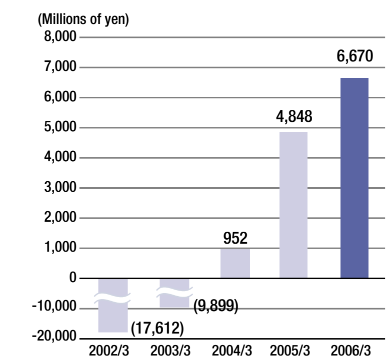
FY 2006 Highlights

- Consolidated **Net Sales** grew 12.6% to **¥106,468** million.
- Consolidated **Operating Income** grew 10.0% to **¥8,002** million.
- Consolidated **Net Income** grew 37.6% to **¥6,670** million.
- Consolidated **Total Assets** were **¥88,293** million.
- Consolidated **Total Shareholders' Equity** was **¥58,366** million.
- **Net Income per Share** grew to **¥297.94**.
- **Cash Dividends per Share** grew to **¥70**.

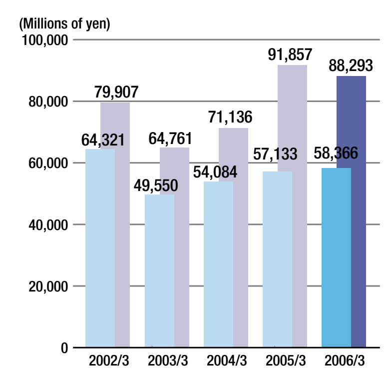
■ Net sales



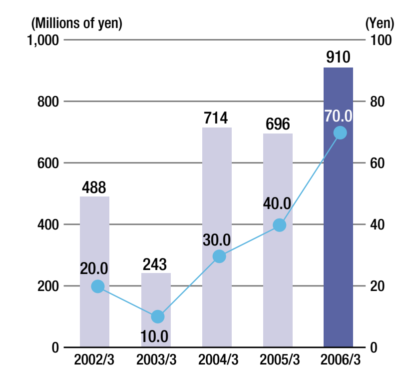
■ Net income



■ Total assets
■ Total shareholders' equity



■ Total cash dividends
■ Cash dividends per share



transcosmos at a Glance

The **transcosmos** group's business segments

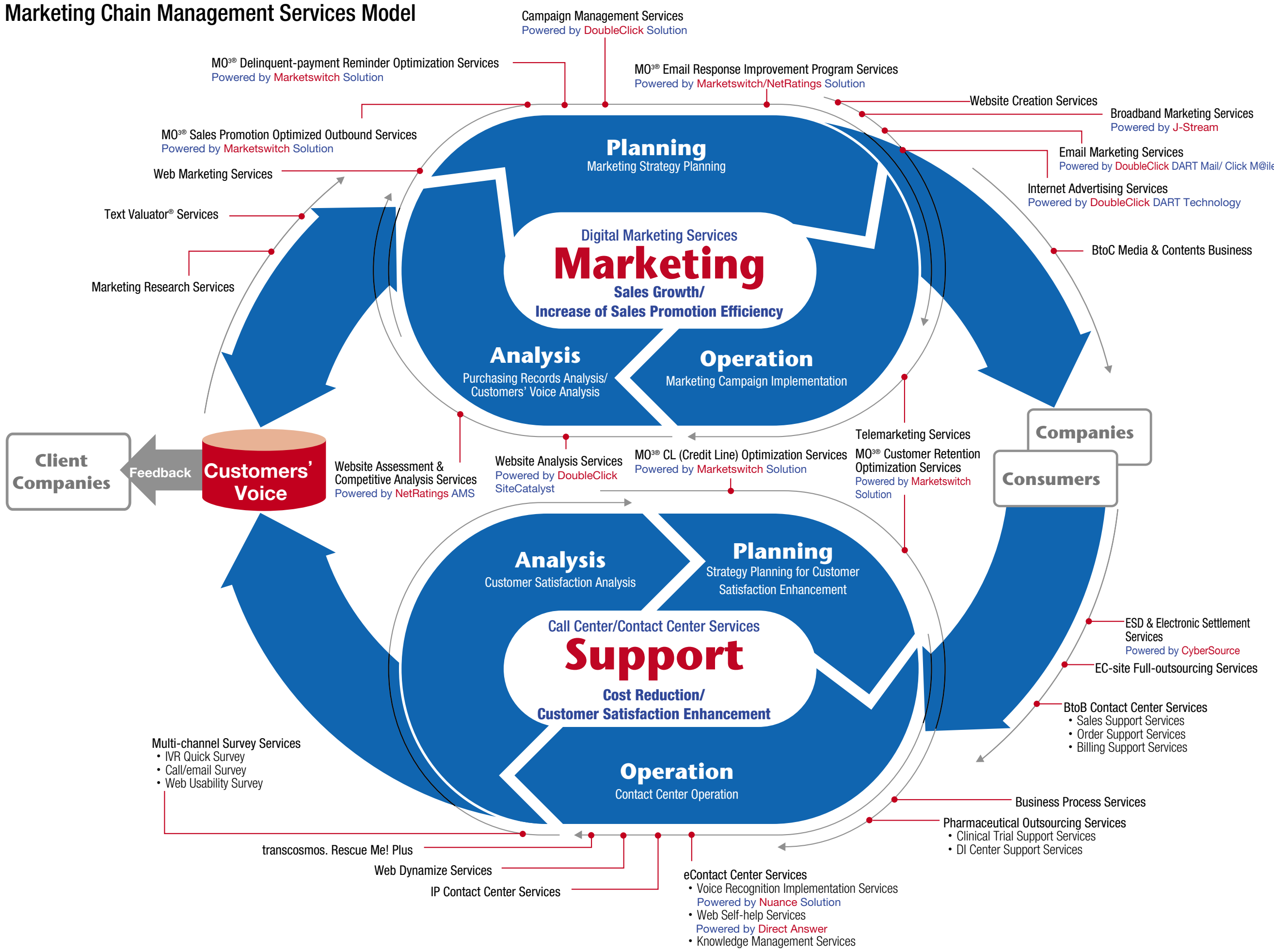
- IT Services Business
  - Marketing Chain Management Services
    - Digital Marketing Services
    - Call Center/Contact Center Services
  - Support Desk Services
  - Engineering Solutions Services
  - China Offshore Development Services
- Corporate Venture Capital Business

To meet newly emerging demand for services, the Company is continually adding new service menus that respond to the needs of its client companies.

IT Services Business

Marketing Chain Management Services

Marketing Chain Management Services Model



The spread of broadband services to general consumers gives them direct connections to businesses, forcing major changes in marketing. In the marketing chain management services business, the Company's digital marketing services and call center/contact center services work together to directly link its client companies with consumers, optimizing communication between client companies and the potential customers and prospects they are targeting. This enhances product and service recognition and comprehension, which contributes to the conversion of prospects into new customers.

Digital Marketing Services

transcosmos offers a full suite of digital marketing services tailored to every need of its client companies, including Web site assessment and competitive analysis using the latest Internet technology, the creation of interactive Web sites based on survey data and consumer opinions, online promotions using consumer databases, the planning and proposal of digital campaigns and promotions, and e-mail marketing.

Call Center/Contact Center Services

The defining characteristics of **transcosmos**' services are reliable operations based on an exacting management of processes that links the use of technology and optimally educated and trained human resources, together with the expertise accumulated over 40 years of successful operation. The use of multiple contact channels, including telephone, fax, e-mail, and VoIP, allows the reduction of costs through maximum automation of operations. This also allows agents to answer difficult questions, and to shift to cross-selling using consumer databases. The synergies realized by these multiple contact channels contribute to the enhancement of the quality of customer support that **transcosmos**' corporate clients can provide and to the growth of sales.

Support Desk Services

Bringing to bear its impressive experience and service menus specialized by operation and industry, **transcosmos** offers client companies support for the establishment, diffusion, and stabilization of strategic systems to increase sales (by enhancing marketing efficiency and avoiding opportunity loss), and backbone systems for raising profitability (by enhancing operational efficiency and reducing costs).

To increase the return on IT investments, the Company offers one-stop services that support the stable operation of core operations, as well as swift response and resolution when problems emerge.

Engineering Solutions Services

Using advanced CAD, CAM, CAE, and PDM technologies, **transcosmos** provides powerful and comprehensive engineering support for its client companies' development and design activities.

The Company provides capable on-site engineers to support the development and operation of back office systems, including backbone systems. Focusing on systems development, from off-the-shelf to open source systems, **transcosmos** can handle a wide range of business applications in every phase, from defining the requirements to the design, manufacturing, testing and operation of the systems.

China Offshore Development Services

The information-systems development work requested by each of **transcosmos**' business divisions and affiliates within Japan is performed by Japanese speaking systems engineers who can serve as a bridge between Japanese clients and Chinese engineers and by Chinese engineers with expertise in cutting-edge IT technology. These meet the needs of client companies with integrated systems development that runs the gamut from initial design and development, to maintenance. This allows the Company to offer information-systems development for Japanese clients at the same high quality as domestic work, but at lower cost.

Corporate Venture Capital Business

In the corporate venture capital business, the Company is seeking to strengthen marketing chain management services by investing primarily in venture companies that are in the digital marketing services and customer support service fields, and which have new technology and new business models. It is also conducting new business development in these fields.

The Company's investments can be broadly divided into two categories. The first type is majority investment, which has the objective of continuously expanding the consolidated earnings of the **transcosmos** group. The second type is minority investment, which has two aims. The first is pursuing synergies and collaboration with **transcosmos**' services while maintaining a relatively small equity interest. The second is the realization of profits through the deliberate sale of **transcosmos**' equity interest.

Message from the Chairman

Chairman & CEO, **transcosmos** inc.

Koji Funatsu

Operating Results

In the fiscal year ended March 31, 2006, the Japanese economy had to adjust to soaring crude-oil prices and growing risks, including those associated with overseas economic trends. Despite this, the recovery of corporate earnings and growth in capital investment, chiefly in the manufacturing industries, ushered in both expansion and qualitative improvements in employment. This created a growth cycle linked to rising income in the household sector, and drove an ongoing recovery led by domestic demand. Businesses are reevaluating their in-house resources, and taking bold steps to outsource operations that are outside their core fields. As the time approaches for renewal of IT services contracts, client companies are looking for a growing number of improvements in service content and cost. At the same time, however, there has for some time been high demand for added value IT services that offer speed and sales growth, cost reductions, and a higher level of customer satisfaction, and this represents an opportunity for **transcosmos** to expand its business.

The organic connection between **transcosmos**' two business domains—the IT services businesses and the corporate venture capital business—enables it to offer services that precisely meet the needs of client companies. In the IT services businesses in particular, **transcosmos** offers the following services: (1) digital marketing services, which offer comprehensive support for the development of corporate Websites, Internet advertising, and other effective promotion activities; (2) multichannel accessible contact center services (telephone/e-mail, Web) that make maximum use of information received from consumers; (3) support desk services that maximize management efficiency in the comprehensive management and employment of corporate systems; (4) engineering solutions services that support the development and design aspects of a company's manufacturing operations; (5) system solution services, which provide a broad range of support for corporate systems; and (6) offshore development services in China, which provide the high-quality, low-cost systems client companies need, covering phases from planning through initial design, development, and system maintenance.

In the fiscal year under review, net sales in the digital marketing services business rose 15.9% to ¥15,899 million, showing growth that makes it one of **transcosmos**' most important services. Looking forward, **transcosmos** has established the goals of building the number-one Website development system in Japan and of building one of the top-two Internet-advertising sales systems in the industry. Total net sales in the IT services businesses increased 13% (¥11,463 million) year-on-year to ¥99,859 million.

The key to **transcosmos**' consistency in offering its client companies the best possible services is the way the Company stays abreast of the latest technological developments, both in Japan and overseas, and incorporates them into its own IT services businesses.

In the corporate venture capital business, the effects of unrealized capital gains resulting from the accomplishment of IPOs in which the Company is invested, as well as the planned sales of these assets, are reflected in consolidated performance. However, it is an important principle that companies in which **transcosmos** invests must generate synergies with its businesses. As a result of partial sales of securities holdings, which exceeded that of the previous fiscal year, net sales for the corporate venture capital business in fiscal 2006 increased 6.8% to ¥6,609 million.

As a result of the foregoing, consolidated net sales for the fiscal year under review rose 12.6% to ¥106,468 million, and consolidated operating income grew 10.0% to ¥8,002 million. Consolidated net income jumped 37.6% to ¥6,670 million, primarily due to gains on sales of investment securities.

Medium- and Long-Term Strategy

transcosmos has introduced a medium-term business plan for fiscal 2007 and beyond, establishing the management goals of ¥220.0 billion in consolidated net sales and ¥16.0 billion in consolidated operating income by fiscal 2010. Guided by the corporate slogan, "Marketing Chain Management Services," the entire **transcosmos** group is working to attain these goals through growth not just in Japan, but in Asia and other markets as well.

With the increasing popularity of broadband access, the Internet is more often employed as business infrastructure (B-to-B). As a communications tool, the Internet is linking businesses and consumers (B-to-C) more directly than ever before. This phenomenon has resulted in the emergence of a Consumer-Led, Communication-Centered Society, characterized by the direct communication of information from consumers to businesses and society, in addition to the traditional one-way communication of information from businesses. Given these circumstances, while continuing to expand its existing B-to-B business, the **transcosmos** group established a B-to-C Business Strategy Division in September 2005 to launch an all-out effort in the B-to-C business, and is reinforcing its services to consumers through aggressive formation of alliances with capable media enterprises and content holders.

* The Marketing Chain Management Service concept

An outsourcing service that supports the acquisition of new customers by optimizing communications with potential customers and prospects, while providing broader knowledge and deeper understanding of products and services.

Return of Profits to Shareholders

transcosmos regards the return of profits to shareholders as one of its most important management issues. The Company's policy is to distribute dividends as appropriate in light of its consolidated performance. A dividend of ¥70 per share was declared on March 31, 2006, up ¥30 per share from a year earlier.

Corporate Governance

transcosmos adheres to its Basic Management Philosophy, Management Goals, and Code of Conduct to ensure compliance with applicable laws and regulations, as well as sound and transparent corporate activities. These written commitments articulate **transcosmos**' corporate ethics and expectations for employee conduct, as well as the basic thinking that supports the group's corporate governance. **transcosmos** is engaged in building systems and implementing appropriate measures that will earn the trust of stockholders, client companies, employees, and the public, deliver sustainable growth that reflects the interests of all stakeholders, and generate increased corporate value over the medium and long term.

In accordance with the measures outlined in the recently adopted medium-term business plan, the term of office for directors has been reduced from two years to one, and two more outside directors have been added to the board. The new structure of the board, with nine internal directors and three outside directors, will allow the highly independent outside directors to exercise strong and effective management oversight. In addition to this, corporate governance has been strengthened through the implementation of an internal controls system, together with thorough training in compliance via an E-learning system. Through adoption of the auditor system, **transcosmos** has built a system of corporate governance that is in step with its actual business activities. The Group CEO & Founder and the Company CEO, who are responsible for important management decisions and oversight of the execution of operations, and the COO, who is responsible for overall control and execution of operations, form the core of the management structure. These officers are committed to flexible and rational decision-making, and to mutual oversight.

The **transcosmos** group will continue striving to deepen the confidence of all stakeholders by conducting itself in a way that contributes to both industry and the broader society.

Medium-Term Business Plan (Fiscal 2007-2010)

This is the last year of the five-year plan inaugurated in the fiscal year ended March 2002. transcosmos has drawn up a new four-year medium-term business plan, to run through fiscal 2010, with the objectives of heightening awareness of its corporate slogan, "Marketing Chain Management Services," throughout the group, and achieving vigorous expansion not only in Japan, but also in Asia and other places overseas.

Mission statements in the medium-term business plan

1. Seize the number-one position in the digital marketing industry

- Maintain Japan's largest Web development system
- Build Japan's largest marketing system for Internet advertising

2. Become Japan's largest global IT outsourcer

- Maintain Japan's largest Asia-centered overseas outsourcing system
- Generate 10% of total net sales overseas

3. Establish a B-to-C business

- Establish a B-to-C business through business alliances based on solid relationships of trust with influential media firms and content holders

Financial targets (unit : yen)

Marketing Chain Management Service Business Domain

Marketing chain management services are proprietary services developed by transcosmos that foster direct communication between corporations and consumers through digital marketing services (which provide comprehensive support ranging from the development of corporate Websites to Internet advertising and other effective promotion activities); and multichannel accessible call center/contact center services (telephone/e-mail/Web) that make maximum use of information received from consumers organically. The business process (BP) business is a new addition to the medium-term business plan.

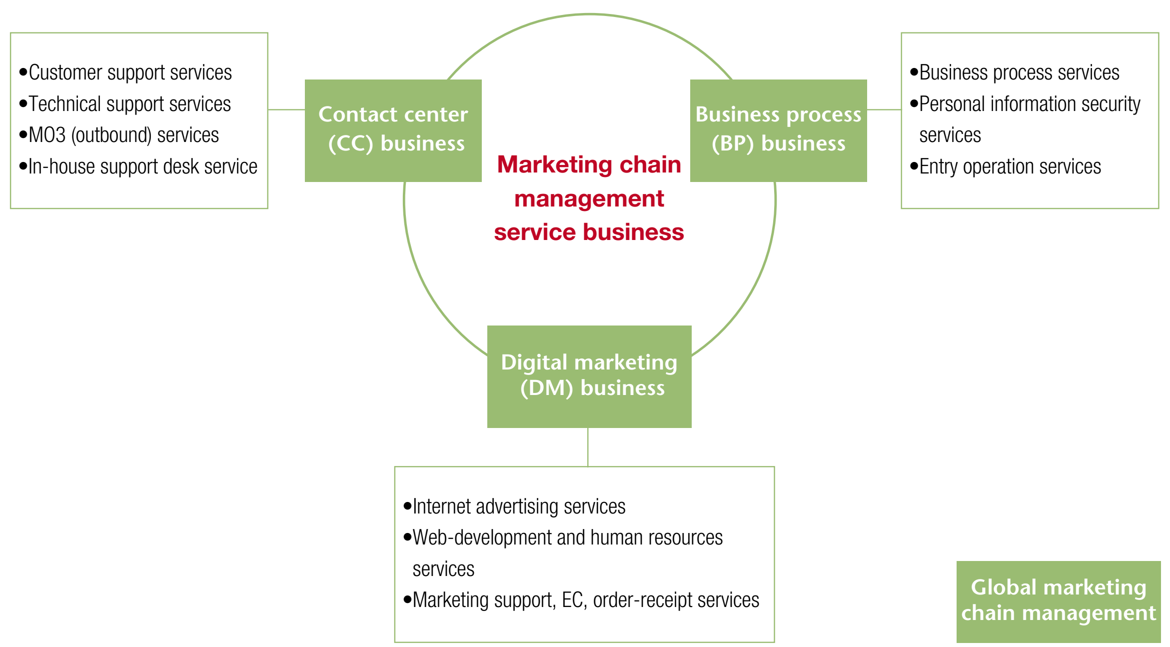
•Overview of the BP business

The BP business involves comprehensive proposals to client companies for consigned operations involving the diagnosis, design, construction, and implementation of business processes, primarily in connection with client companies' data entry operations.

•Reason for adding the BP business

The Law concerning the Protection of Personal Information, which came into effect on April 1, 2005, represents a major business opportunity for **transcosmos**. Through its ability to generate proposals for the reengineering of systems and business processes, the Company can increase the corporate value of client companies. **transcosmos** shifts the business strategies of client companies to the level of execution, providing strong leverage as a partner in building a company that can not only survive but succeed.

Business domain of the MCM service business



Growth strategy for the MCM service business through the fiscal year ending March 31, 2010:

With the advance of digital technology, corporate responses to communications from their customers are becoming increasingly interactive

Rapid expansion of the digital marketing business
- •Growing sales of Internet advertising services
- •Expansion of Japan' largest Web development service
- •Moving forward with the development of new DM services

Heightening competitiveness in the contact center service business
- •Strengthening cost competitiveness through the expansion of regional bases
- •Expanding services in the financial and communications industries
- •Vigorous expansion of customer analysis services

Expansion of the new MCM market
- •Promotion of financial BP services
- •Enter overseas (Asia) MCM market
- •Pursue M& A and Partner strategy

Number one outsourcer in the customer communication (MCM service) domain

Non-Consolidated net income for the fiscal year ending March 31, 2009: ¥160.8 billion.

Digital Marketing Services

Through its digital marketing services, the Company offers seamless marketing services that link client companies with consumers and their customers. These include the development of interactive Websites based on consumer opinions, and Internet advertising services optimized to meet the needs of each client company.

Main initiatives

1. Marketing Internet advertising services

As one of the top Internet advertising companies in the industry, **transcosmos** is doing all it can to strengthen its advertising agency business, and to step up its expansion in the digital media domain.

2. Expanding Japan's largest Web development services

To expand Japan's largest Web development/human resources business, the Company has set a target of building a network of 1,000 Web human resources by fiscal 2010 through the promotion of outsourced Web development services and corporate Web human resources services.

3. Developing new MCM services such as marketing support, EC full outsourcing, and order processing center services

The Company implements marketing promotion and support for corporations offering unified marketing support, EC full outsourcing, and order processing center services in retail stores, using the telephone, and on the Web.

Marketing fields

Website Creation
In order to improve functions, services, and brand value sought by client companies, **transcosmos** produces complete renewal projects, and builds websites based on a strategic perspective.

Digital Campaign and Promotion
transcosmos develops plans for digital campaigns and promotions that utilize the Internet and mobile, allowing for easier consumer response compared with conventional mass marketing methods. This service offers total support for client company needs, and includes implementation of campaigns and promotions, as well as assessment of their effectiveness.

Website Assessment and Competitive Analysis
transcosmos ascertains trends in website usage through log analysis and visitor rates for client company sites, and then evaluates site usability and content. We can also investigate trends at competing companies or in the entire industry.

Email Marketing
transcosmos provides seamless email marketing services, from overall planning and the provision of high function distribution engines to operational services such as content production, distribution operations, inbound email handling and reporting.

Call Center/Contact Center Services

The strength of transcosmos' call center/contact center services lies in compiling customer opinions from multiple contact channels into one consumer database, and providing the results of analysis of that data to client companies. The Company also automates operations as far as technology allows–enabling human resources to be shifted to cross-selling through use of the consumer database–and increases added value by adding outbound marketing and other sales expansion functions.

Main initiatives

1. Strengthening cost competitiveness through accelerated development of regional bases

Using the momentum created by the April 2006 establishment of the Naha Marketing Chain Management Center (MCM Naha) in Okinawa Prefecture and the July establishment of the Sendai Marketing Chain Management Center (MCM Sendai) in Miyagi Prefecture, the Company shifted call centers out of major metropolitan areas into outlying regions, including Sapporo and Fukuoka. The Company is planning to increase the ratio of call centers located in outlying regions from the current 35% to 60%, and to reduce personnel expenses by increasing the number of call center workers in outlying regions to 7,000.

Accelerate engagement with target industries

Target industries for fiscal 2010 include the financial, communications, mail-order and direct sales industries, and the Company will further strengthen its position in the contact center service industry.

Main service strategies by industry and type of business

Finance	
Banks:	Engage in direct banking outbound operations
Securities:	Build an organization of 1,000 licensed securities brokers
Insurance:	Foster candidates for the non-life insurance broker license, aiming to become No. 1 in the mutual insurance market
Credit cards:	Win outbound request-for-payment operations through MO3 services
Communications	
Fixed:	Inbound/outbound operations related to changes from fixed-line telephones to FTTH
Mobile:	Entry into mobile information centers and expansion
ISP:	Provide contract protection services to increase market share
Other:	Begin IP telephone support operations
Mail-order and direct sales	
Mail-order sales:	Develop information operations at regional bases
B-to-B:	Develop consumer-specific sales promotions based on consumer database analysis
Television:	Promotion and support of program-tied direct sales

Fiscal 2010 net sales targets by industry and type of business

Industry/Type of Business	FY2005	FY2010
1. Manufacturing I (PCs/peripherals/consumer electronics/software)	27%	20%
2. Finance (banks/insurance/securities/credit cards)	16%	25%
3. Communications (fixed/mobile/ISP)	12%	20%
4. Mail-order and direct sales	5%	12%
5. Manufacturing II (automobiles/pharmaceuticals/food/cosmetics)	3%	5%
6. Public sector	3%	6%

*Figures are market shares in indicated industries

2. Designate the financial, communications, mail-order and direct sales industries as target industries, and expand services

Maintain and expand orders in the technical support domain, where the Company is strong, and also designate as target industries the financial, communications, mail-order and direct sales industries where its competitors are strong, and strive to maximize orders in those fields.

3. Accelerate development of outbound services through customer analysis services

In outbound services, offer an optimum mix of all operations and functions that corporate clients need for their communications with customers to maximize their performance.

Business Process Services

The Company provides comprehensive consigned business process (BP) services primarily in the area of data entry, which was transcosmos' core business at its founding. Beginning with the generation of corporate information, transcosmos' services cover all stages from digitization to use, protection and final disposition.

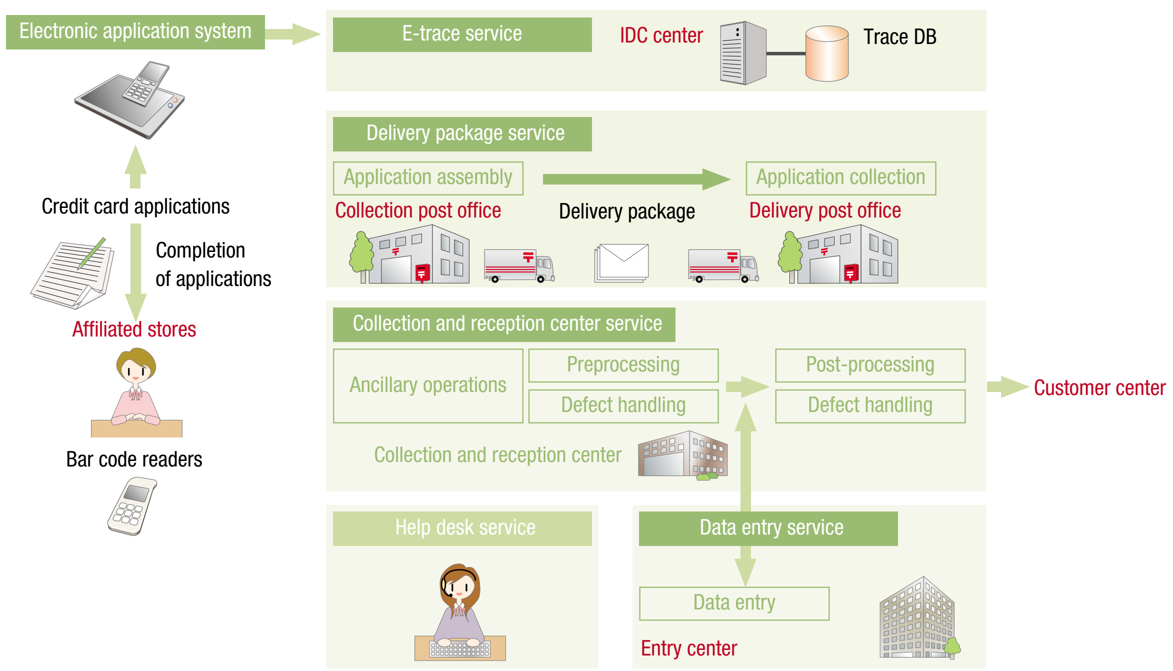
Main initiatives

1. Accelerate the development of services designed to assist the financial industry in complying with Japan's Law concerning the Protection of Personal Information

The Company is accelerating the provision of comprehensive services to the financial industry, covering everything from receipt of applications through personal information management and data entry.

Accelerate personal information security services for the financial industry

Offer business process solutions covering all phases from receipt of applications to management of personal information, and including data input



2. Enhance cost competitiveness and business process capabilities in China and Japan's outlying regions

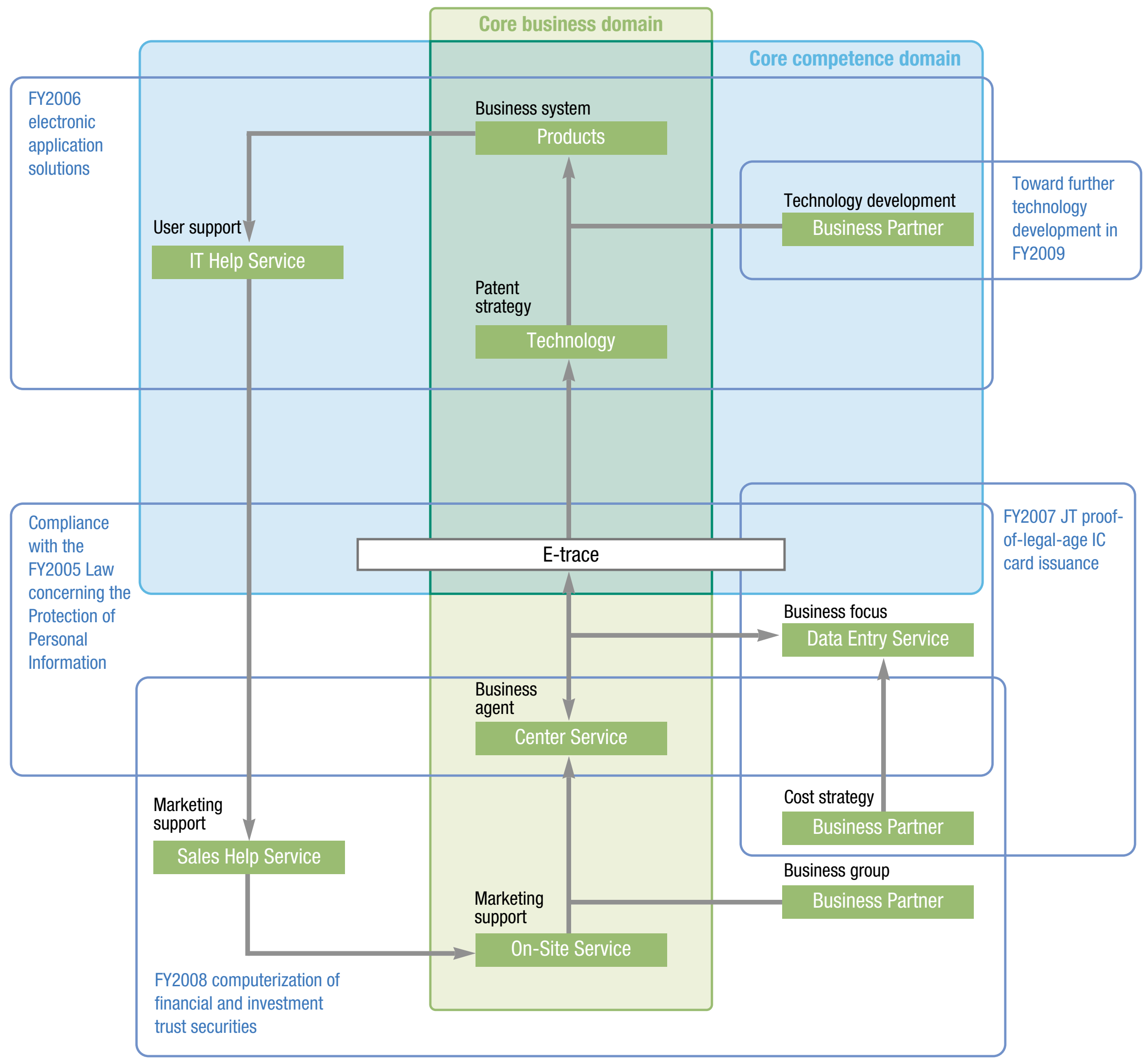
transcosmos Information System (Shanghai), established in February 2005, offers Japanese data entry services related to applications, point cards, and other documents. Using the cost benefits of this offshore operation, the Company is able to differentiate itself from its competition by offering inexpensive, precise data entry services.

3. Establish a leading position in the BPO market by strengthening partner strategy

Business process services have a large effect on the efficiency of a company's management. The market potential, therefore, is extremely high. The Company is projecting the potential needs for personnel, accounting, and other back office and procurement operations. In anticipation of future expansion in this market, **transcosmos** is strengthening its partner strategy with a view to increasing business process efficiency in each industry, and is accelerating the development (investment) in the building of new BP services.

Expand the business strategy and implement the partner strategy

In response to the expansion of the BPO market, strengthen the partner strategy with a view to increasing the efficiency of business processes by industry and type of business, and accelerate the development of BP services



Four-year Business Plan

Global Marketing Chain Management Services

Marketing chain management services are growing in Japan, and transcosmos is seeking to become the leading MCM service company in Asia by expanding operations and forging alliances in China and Korea.

Main initiatives

1. Vigorously expand in the Chinese market by leveraging partner strategy

With Shanghai Wicresoft Co., Ltd. (a joint venture founded in Shanghai by the venture capital firm, Shanghai Alliance Investment Co., Ltd., and Microsoft Corporation of the United States) as its partner, **transcosmos** inaugurated contact center services in China in 2006, and plans to expand these operations from their present 60 seats to 1,200 seats in 2008. In addition, **transcosmos** will be entering the Chinese Internet-advertising-related market, targeting the Internet advertising agency and Web design businesses, concentrating its resources in its partner strategy and other company strategies.

2. Become the top outsourcer in the Korean market

transcosmos seeks to become the top outsourcer in the Korean contact center market.

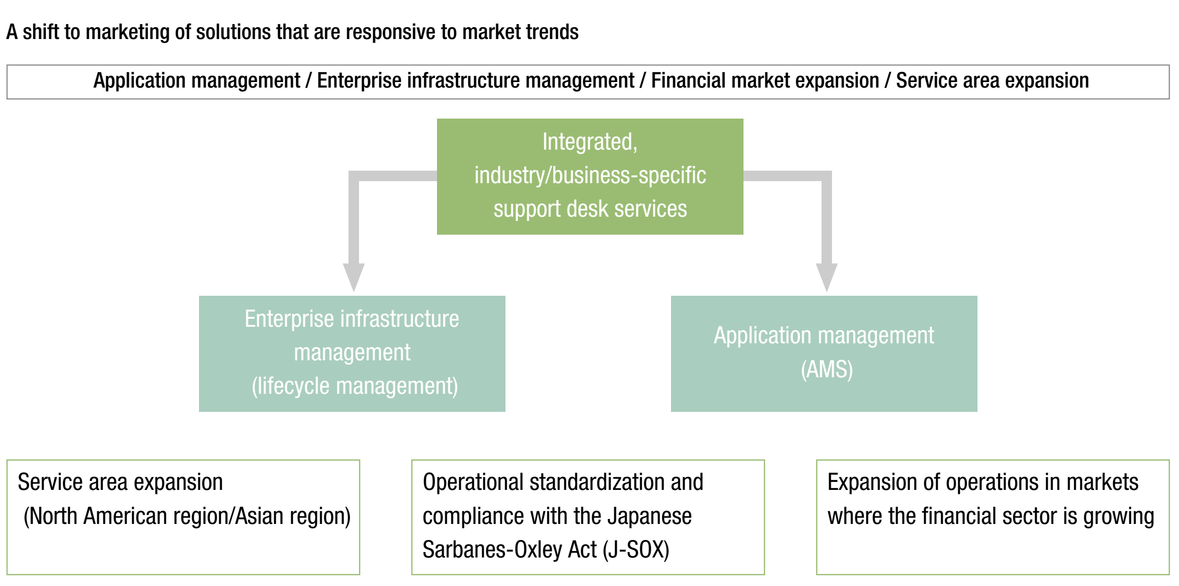
3. Promote the services of the transcosmos group in Asian markets other than Japan, China, and Korea, through provision of unified MCM services

Through common pursuit of the partnership strategy and other strategies, the Company is striving to expand MCM services (which are growing in Japan) in China and Korea as well.

Support Desk Service Domain

transcosmos realizes the establishment and consistent application of strategic systems used to increase sales (enhance marketing efficiency and reduce opportunity loss) and core systems used to increase profits (boost operational efficiency and cut costs) within client companies, through strong management performance and industry/business specific services.

In-house support desk services



Main initiatives

1. Develop application management services that include support for application maintenance

Develop processes that improve the productivity of the IT business division and reduce operating costs, through the optimization of the application environment and implementation of a continuous improvement cycle.

2. Accelerate and intensify the development of industry/business specific services

Specific systems employed vary according to the client company's industry and business. **transcosmos** is using its 40 years of knowledge and experience in support desk operations to develop services for a broad range of client companies.

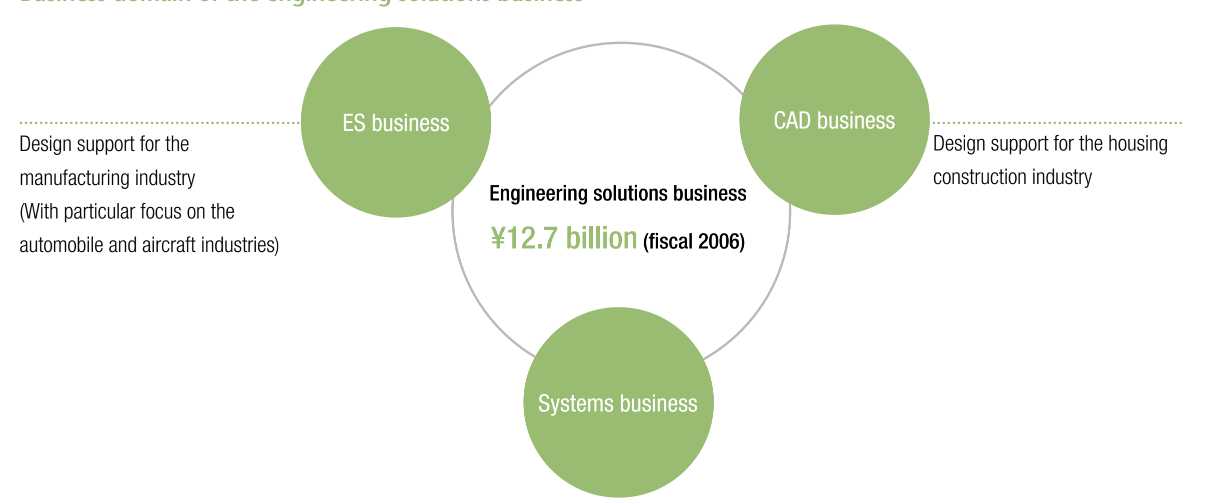
3. Develop lifecycle support services ranging from the procurement of IT assets to their disposal

In addition to client companies, **transcosmos** works with group companies and affiliated firms to tie together various types of data on IT assets that had previously been handled individually, to achieve integrated asset management. Management of assets from procurement through disposal enables TCO analysis and the use of information in an IT asset strategy.

Engineering Solution Service Business Domain

Today, client companies in manufacturing must display high-speed, high-quality, low-cost development and design operations if they are to survive and beat the competition. Because of this trend, it has become customary for companies to outsource all or a portion of their development and design operations. As a technology provider, transcosmos employs sophisticated CAD/CAM/CAE/PDM technology to meet client companies' needs for total development and design functions.

Business domain of the engineering solutions business



transcosmos' engineering solutions services include onsite support for the building and operation of back office systems including core systems, in addition to design support for the manufacturing industry (with particular emphasis on the automobile and aircraft industries) in the ES business, and design support for the housing construction industry in the CAD business.

Main initiatives

1. Accelerate manufacturing support for the transport equipment industry with regard to all of Asia

2. Establish the number-one system for providing engineering solutions in Japan, Korea, and China

China Offshore Development Service Business Domain

With regard to the orders for information systems development received primarily from large Japanese information systems companies and **transcosmos**' various business divisions and affiliates in Japan, **transcosmos** Information Creative (China) Co., Ltd., participates in the preliminary design and establishment of features in Japan, and detailed design, building, implementation, and testing performed in China. Also in China, **transcosmos** Information Creative offers total system solution services ranging from the building of infrastructure for Japanese firms with operations in China to support for systems development and use. When **transcosmos** Information Creative was established, it started operations with 20 new graduates of local universities, primarily Nankai University and Tianjin University, and has grown to employ over 600 engineers today.

As a second base of operations, the Company plans to build a 32,000m^2 facility on a 20,000m^2 site in the Guangzhou Software Park, with the support of the Guangzhou City Government. Accordingly, the Company plans by 2009 to increase the number of its engineers in Tianjin to 1,200 and the number in Guangzhou to 800.

Main initiatives

1. Establish an organization in China that has 2,000 engineers at three faculties

2. Become the number one offshore development firm in China

B-to-C Media Service Business Domain

In an environment where the consumer-driven communications society has become established, **transcosmos** is expanding its existing B-to-B business. Together with this, the Company established a B-to-C Business Strategy Headquarters in September 2005 to facilitate its full-scale entry into additional B-to-C businesses. The **transcosmos** group is strengthening its consumer services by forming alliances with prominent media firms and content holders both in Japan and overseas.

B-To-C media service business integrates all of group's capabilities

Enhance collective strength by making services compatible with Web 2.0 and aggressively seeking alliances with prominent media firms and content holders.

Main initiatives

1. Aggressively seek alliances with prominent media firms and content holders
2. Make existing services Web 2.0 compatible
3. Vigorously invest in the development of cutting-edge Internet technology

Corporate Venture Capital Business Domain

transcosmos supports the marketing activities of its client companies through outsourcing services. To achieve customer satisfaction, it is essential to rapidly and continuously introduce new services that employ the latest Internet technology. A corporate venture capital business that can uncover, study, and commercialize new services at a high speed is inextricably linked to our Company's outsourcing service business.

Basic investment philosophy

The creation of business synergies with invested firms–investment in business development is the fundamental principle

transcosmos' strategy is to invest in unlisted firms that have services and technology that can be thought to contribute to marketing chain management services, and then growing together.

Expansion of latent profit resulting from the IPOs of invested companies, and a planned exit strategy

Since this is considered a business, it is the Company's fundamental policy to sell when the invested company conducts an IPO. However, the Company's response can differ according to the market environment and relationship with the invested company. It is also a fundamental principle to reinvest the gains on the sale.

Main initiatives

1. Import technology and services from invested companies in the U.S. to Japan

2. Expand joint operations and dealing of invested companies in Japan with the **transcosmos** group

Invested companies in Japan and overseas are able to license superior technology to the **transcosmos** group, when **transcosmos** can agree on terms with the management of invested companies, or establish a joint venture in Japan.

Network

transcosmos group

JAPAN

Marketing chain management
- DoubleClick Japan Inc.
- J-Stream Inc.
- NetRatings Japan Inc.
- Marketswitch Japan KK
- CyberSource KK
- BPS Inc.

Call Center/Contact Center Operation Services
- transcosmos CRM Okinawa Inc.
- transcosmos CRM Sapporo Inc.
- transcosmos CRM Miyazaki Inc.
- transcosmos CRM Wakayama Inc.
- Wakayama Planet KK

E-business sites
- Ask.jp Co., Ltd.
- Shockwave Entertainment, Inc.
- Forecast Communications Inc.
- NetMile, Inc.
- Listen Japan, Inc.
- Fujisan Magazine Service Co., Ltd.
- Arekao Inc.
- CinemaNow Japan Inc.
- DIGITAL GOLF Inc.

Consulting/System Integration/System Engineering Services
- Skylight Consulting, Inc.
- Applied Technology Co., Ltd.

USA

Service Development Company
- Transcosmos Investments & Business Development, Inc.
- TEAM LAB BUSINESS DEVELOPMENT Inc.

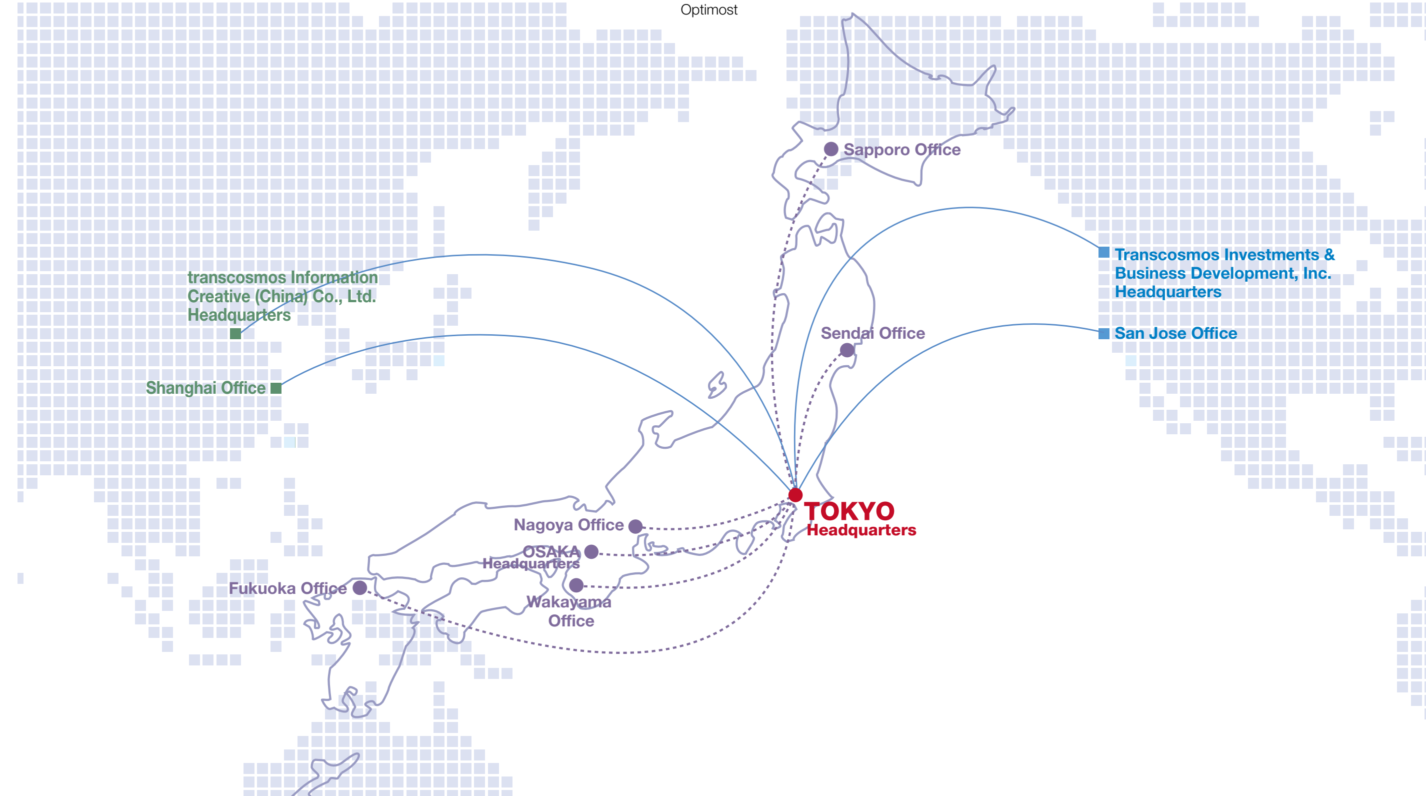
Service Company
- transcosmos America Inc.

Strategically Associated Companies
- DoubleClick Inc.
- NetRatings, Inc.
- Donnerwood Media, Inc.
- Pheedo, Inc.
- Audioblog, Inc.
- Multiply, Inc.
- Become, Inc.
- Optimost

ASIA

China
- transcosmos Information Creative (China) Co., Ltd., Tianjin Headquarters
- transcosmos Information Creative (China) Co., Ltd., Shanghai Office
- transcosmos Information system (Shanghai) Co., Ltd.
- Onexeno Limited
- transcosmos design development Co., Ltd.
- Qingdao Zuki Industrial Design Co., Ltd.

South Korea
- transcosmos Engineering Korea Inc.
- CIC Korea, Inc.
- Inwoo Tech, Inc.



Offices

Headquarters

Headquarters

3-25-18, Shibuya, Shibuya-ku, Tokyo 150-8530 Japan
Tel: +81-3-4363-1111 Fax: +81-3-4363-0111

Offices

Osaka Headquarters

Shin Asahi Bldg., 2-3-18 Nakanoshima, Kita-ku, Osaka, 530-0005 Japan
Tel: +81-6-6202-7601 Fax: +81-6-6202-7610

Sapporo Office

Sumitomo Shoji Sapporo Bldg., 1-6 Kitaichijo-Higashi, Chuo-ku, Sapporo, 060-0031 Japan
Tel: +81-11-271-0259 Fax: +81-11-232-0180

Sendai Office

9F Daiwa Shoken Sendai Bldg., 2-8-13 Chuo, Aoba-ku, Sendai, 980-0021 Japan
Tel: +81-22-293-3255 FAX: +81-22-293-3181

Nagoya Office

Hirokoji Bldg., 2-3-6 Sakae, Naka-ku, Nagoya, 460-0008 Japan
Tel: +81-52-223-1238 Fax: +81-52-223-1239

Wakayama Office

Wakayama Nisseki Kaikan Bldg., 2-1-22 Fukiage, Wakayama, 640-8137 Japan
Tel: +81-73-432-1831 Fax: +81-73-432-1832

Fukuoka Office

Sumitomo Seimei Hakata-eki Higashi Bldg., 1-13-9 Hakataeki-Higashi, Hakata-ku, Fukuoka, 812-0013 Japan
Tel: +81-92-473-1267 Fax: +81-92-475-1625

Principal Subsidiaries

J-Stream

Japan's largest streaming video provider, also engaged in Podcast portal operations.

http://www.stream.co.jp/

DoubleClick

Delivers world standard Internet advertising.

http://www.doubleclick.co.jp/

listenJapan

Music download sales from world's largest database of artists.

http://listen.jp/

arekao

A shopping navigator blog for women that allows the selection and purchase of the best products.

http://arekao.jp/

Shockwave Entertainment

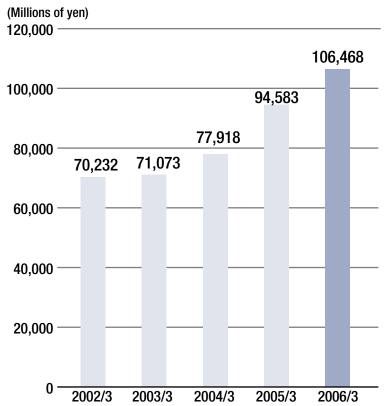
Specialized game and animation portal.

http://jp.shockwave.com/

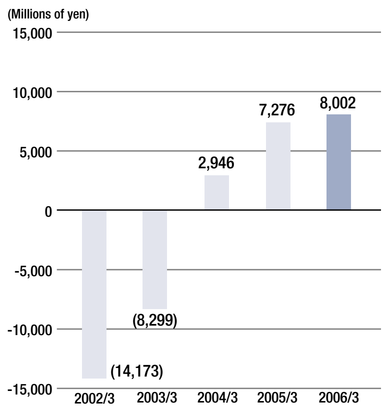
Financial Statements

Management's Discussion and Analysis

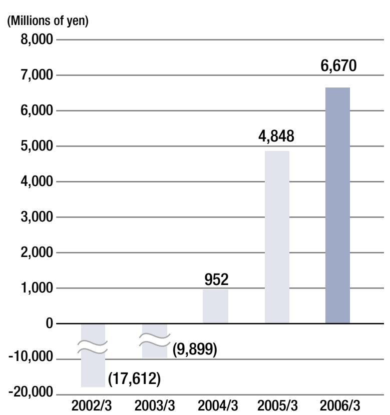
Net sales



Operating income



Net income



Operating Results

In April 2005, the Company adopted a new accounting method for the sale of marketable securities. For purposes of comparison, figures given below for the previous fiscal year have been recalculated according to the new categories, which include a newly created corporate venture capital business segment.

Net Sales, Operating Income and Net Income

In the fiscal year ended March 31, 2006 (fiscal 2006), consolidated net sales rose ¥11,885 million, or 12.6% year-on-year, to ¥106,468 million. One major factor in this growth was the 15.2% revenue growth of marketing chain management services, the Company's core IT services. This, in turn, resulted from the expansion of net sales in digital marketing and other related services, which continued from the previous fiscal year. In addition, the Company implemented a change in the accounting method for net sales and cost of sales of its investment operations and corporate venture capital business that requires these figures to be posted in their entirety. (Until the previous fiscal year, only the net amount had been posted as non-operating income or expenses.)

For these same reasons, consolidated operating income jumped ¥726 million, or 10.0% year-on-year, to ¥8,002 million.

Income of ¥3,154 million from the sale of investment in securities brought consolidated net income up by ¥1,822 million, or 37.6% year-on-year, to ¥6,670 million.

With regard to extraordinary losses, beginning in fiscal 2006, the Company posted losses on impairment of fixed assets.

Turning to performance by region, net sales from operations in Japan rose ¥14,423 million, or 16.0% year-on-year, to ¥104,805 million, and operating income jumped ¥4,122 million, or 40.4%, to ¥14,338 million. This was primarily because the corporate venture capital business sold a portion of its securities exceeding the previous fiscal year's amount, and the IT services businesses turned in a healthy performance. In the US, net sales plunged ¥2,594 million, or 75.8%, to ¥830 million, and an operating loss of ¥64 million was posted (compared to operating income of ¥1,452 million in the previous fiscal year). In Asia, net sales edged up ¥56 million, or 7.2%, to ¥833 million, but operating income fell ¥384 million, or 60.7%, to ¥249 million.

Segment Information

IT Services Businesses

Orders received were strong in the IT services businesses, as in the previous term, and particularly in that business's core operation, marketing chain management services. As a result, net sales increased by ¥11,463 million, or 13.0% year-on-year, to ¥99,859 million, and operating income rose ¥702 million, or 8.4%, to ¥9,102 million.

Corporate Venture Capital Business

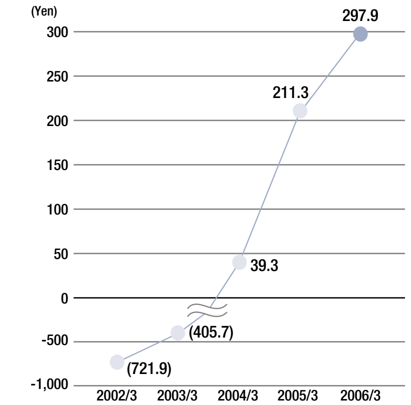
As a result of the sale of a portion of its securities exceeding last fiscal year's amount, net sales in the corporate venture capital business increased ¥422 million, or 6.8% year-on-year, to ¥6,609 million. Operating income surged ¥1,507 million, or 38.7%, to ¥5,406 million.

Financial Position

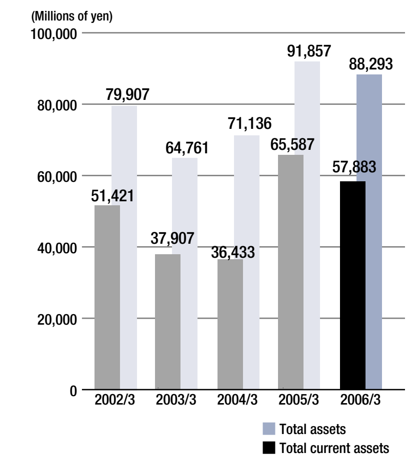
Assets, Liabilities and Shareholders' Equity

Consolidated total assets as of March 31, 2006, were ¥88,293 million, down ¥3,564 million from a year earlier. Current assets declined ¥7,704 million in comparison to the end of the previous fiscal year, to ¥57,883 million, and fixed assets were reduced by ¥4,141 million to ¥30,411 million. The primary reason for this was the conversion of marketable securities in the Company's corporate venture capital business from investment in securities (fixed assets) to investment in securities for operating purposes (current assets). The current portion of long-term bank loans and accounts payable both increased, which resulted in an increase of ¥353 million in current liabilities, to ¥18,963 million. The conversion of bonds and the reduction of long-term bank loans along with other factors resulted in a ¥6,406 million decline in non-current liabilities, to ¥6,362 million. Stockholders' equity grew ¥1,233 million to ¥58,366 million after an increase of ¥5,619 million in retained earnings, growth in foreign currency translation adjustments of ¥614 million, and purchase of treasury stock in the amount of ¥5,632 million.

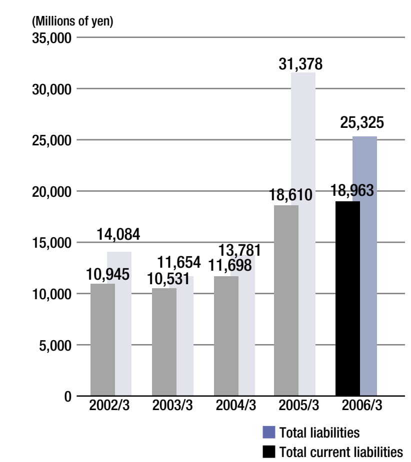
Net income per share



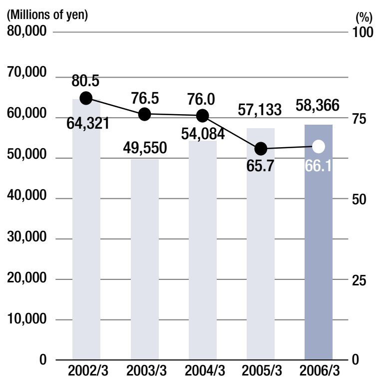
Total assets
Total current assets



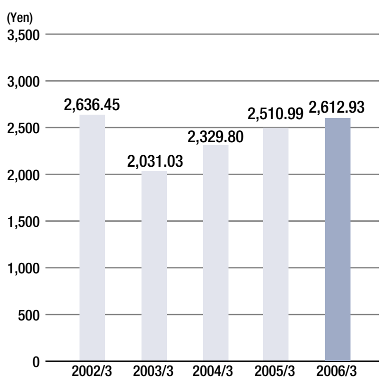
Total liabilities
Total current liabilities



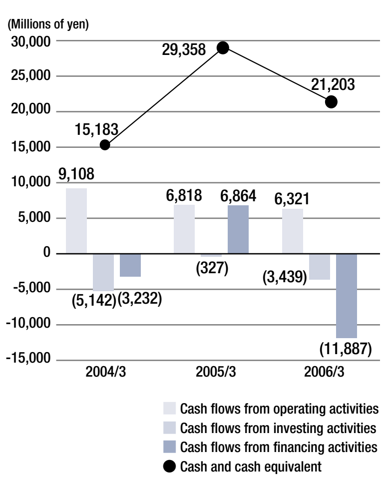
Total shareholders' equity
Equity ratio



Total shareholders' equity per share



Cash flows



Cash Flows

Net cash provided by operating activities declined ¥497 million to ¥6,321 million. Principal factors included increases in non-cash items such as income before income taxes, a loss on impairment of fixed assets, and loss on sale of investment in unconsolidated subsidiaries and affiliates, together with a decline in cash and cash equivalents due to an increased use of funds for operational investment securities resulting from substantial investments in the corporate venture capital business, and a decline in proceeds from refund of income taxes and increase in income taxes paid.

Net cash used in investing activities increased ¥3,111 million from the previous fiscal year to ¥3,439 million. This was principally the result of a substantial increase in investments in tangible fixed assets at the consolidated subsidiary Trans Cosmos C.R.M Okinawa, including the construction of a call-center facility and acquisition of shares in affiliates.

This fiscal year saw net cash used in financing activities of ¥11,887 million, in contrast to the previous fiscal year's net cash provided by financing activities of ¥6,864 million. This was due to proceeds from the previous fiscal year's bond issue, and this fiscal year's substantial increase in expenses for purchase of treasury stock.

As a result of the foregoing, cash and cash equivalents at the end of the fiscal year, including foreign exchange gains, declined by ¥8,155 million year-on-year to ¥21,203 million.

Forward-Looking Statements

This annual report contains statements regarding future performance including business plans, performance projections, and strategic forecasts. Those statements are based on management's assessment of information currently available to **transcosmos**. Therefore, changes in the operating environment may cause actual results and progress in management strategies to differ from the forecasts made in this report.

Financial Summary

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen (except per share data)					Thousands of U.S. dollars (except per share data)
For the years ended 31 March	**2006**	2005	2004	2003	2002	**2006**
Net sales	**¥ 106,468**	¥ 94,583	¥ 77,918	¥ 71,073	¥ 70,232	**$ 906,343**
Gross profit	**28,261**	23,600	18,866	7,943	(894)	**240,578**
Operating income	**8,002**	7,276	2,946	(8,299)	(14,173)	**68,117**
Net income	**6,670**	4,848	952	(9,899)	(17,612)	**56,779**
Net income per share	**297.94**	211.3	39.3	(405.7)	(721.9)	**2.54**

CONSOLIDATED BALANCE SHEETS

	Millions of yen					Thousands of U.S. dollars
At 31 March	**2006**	2005	2004	2003	2002	**2006**
Total current assets	**¥ 57,883**	¥ 65,587	¥ 36,433	¥ 37,907	¥ 51,421	**$ 492,745**
Total current liabilities	**18,963**	18,610	11,698	10,531	10,945	**161,431**
Total non-current liabilities	**6,362**	12,768	2,083	1,123	3,139	**54,159**
Total shareholders' equity	**58,366**	57,133	54,084	49,550	64,321	**496,857**

NON-CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen (except per share data)					Thousands of U.S. dollars (except per share data)
For the years ended 31 March	**2006**	2005	2004	2003	2002	**2006**
Net sales	**¥ 95,252**	¥ 82,483	¥ 65,360	¥ 57,389	¥ 54,514	**$ 810,865**
Gross profit	**24,448**	18,894	14,662	11,045	10,821	**208,123**
Operating income	**8,693**	6,254	4,268	2,514	4,036	**74,004**
Net income	**4,707**	3,126	3,360	(23,281)	316	**40,074**
Net income per share	**210.2**	136.2	140.6	(954.3)	13.0	**1.79**
Cash dividends per share	**70.0**	40.0	30.0	10.0	20.0	**0.60**
Weighted average number of shares (in thousand)	**22,376**	22,926	23,805	24,396	24,362	**—**

NON-CONSOLIDATED BALANCE SHEETS

	Millions of yen					Thousands of U.S. dollars
At 31 March	**2006**	2005	2004	2003	2002	**2006**
Total current assets	**¥ 34,039**	¥ 46,563	¥ 19,955	¥ 16,553	¥ 20,968	**$ 289,768**
Total current liabilities	**15,130**	14,264	9,637	7,711	7,230	**128,800**
Total non-current liabilities	**5,205**	12,046	2,156	1,190	3,250	**44,305**
Total shareholders' equity	**56,919**	60,341	57,552	51,784	75,531	**484,542**

Note: U.S. dollar amounts are translated from yen, solely for convenience of the reader, at the rate of ¥117.47 = U.S.$1.

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

At 31 March 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
ASSETS			
Current Assets:			
Cash and time deposits (Note 4)	**¥ 21,803**	¥ 28,904	**$ 185,602**
Marketable securities (Note 5)	**325**	529	**2,769**
Investment in securities for operating purposes	**15,956**	16,741	**135,828**
Notes and accounts receivable:			
Third parties	**16,903**	14,764	**143,890**
Unconsolidated subsidiaries and affiliates	**25**	57	**212**
	16,928	14,821	**144,102**
Less: allowance for doubtful accounts	**(277)**	(192)	**(2,354)**
	16,651	14,629	**141,748**
Work and software in progress and merchandise (Note 6)	**624**	590	**5,308**
Income taxes receivable	**—**	6	**—**
Deferred tax assets (Note 13)	**56**	2,233	**474**
Other current assets	**2,468**	1,955	**21,016**
Total current assets	**57,883**	65,587	**492,745**
Investments and Advances:			
Investment in securities (Note 5)	**5,243**	1,573	**44,635**
Investment in and advances to unconsolidated subsidiaries and affiliates	**6,440**	7,194	**54,824**
Investments in affiliates	**45**	-	**382**
Long-term loans receivable	**1,076**	1,043	**9,158**
Other investments	**964**	238	**8,206**
Less: allowance for doubtful accounts	**(356)**	(352)	**(3,028)**
Total investments and advances	**13,412**	9,696	**114,177**
Property and equipment, at cost, less accumulated depreciation (Note 7)	**8,398**	5,117	**71,493**
Security deposits (Note 8)	**2,978**	2,273	**25,354**
Intangibles and other	**2,139**	1,822	**18,205**
Deferred tax assets (Note 13)	**2,822**	6,885	**24,023**
Prepaid pension costs (Note 10)	**444**	477	**3,783**
Negative goodwill	**217**	-	**1,845**
	¥ 88,293	¥ 91,857	**751,625**

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

At 31 March 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2005**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 9)	**¥ 15**	¥ 400	**$ 124**
Current portion of long-term bank loans (Note 9)	**2,000**	65	**17,026**
Accounts payable:			
Third parties	**8,059**	5,773	**68,608**
Unconsolidated subsidiaries and affiliates	**14**	26	**115**
	8,073	5,799	**68,723**
Income taxes payable	**293**	440	**2,494**
Deferred tax liabilities	**—**	5,053	**—**
Accrued bonuses for employees	**2,474**	2,264	**21,058**
Advances received from customers	**404**	334	**3,443**
Other current liabilities	**5,704**	4,255	**48,563**
Total current liabilities	**18,963**	18,610	**161,431**
Non-Current Liabilities:			
Bonds (Note 9)	**5,171**	10,180	**44,020**
Long-term bank loans (Note 9)	**29**	2,390	**248**
Deferred tax liabilities (Note 13)	**965**	0	**8,217**
Security deposits received	**11**	17	**95**
Reserve for retirement benefits (Note 10)	**133**	8	**1,128**
Negative goodwill	**—**	145	**—**
Other non-current liabilities	**53**	28	**451**
Total non-current liabilities	**6,362**	12,768	**54,159**
Minority Interests in Subsidiaries	**4,602**	3,346	**39,178**
Commitments and Contingent Liabilities (Notes 11)			
Stockholders' Equity:			
Common stock:			
Authorized 90,088,176 shares at 31 March 2006 and 2005			
Issued 24,397,023 shares at 31 March 2006 and 2005	**29,066**	29,066	**247,433**
Capital surplus	**23,218**	22,666	**197,649**
Retained earnings	**2,768**	(2,851)	**23,565**
Unrealized gains on marketable securities and investment in securities	**8,633**	8,553	**73,490**
Foreign currency translation adjustments	**4,972**	4,358	**42,323**
	68,657	61,792	**584,460**
Treasury stock			
At cost, 2,060,902 and 1,645,055 shares at 31 March 2006 and 2005, respectively	**(10,291)**	(4,659)	**(87,603)**
Total stockholders' equity	**58,366**	57,133	**496,857**
	¥ 88,293	¥ 91,857	**$ 751,625**

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

Consolidated Statements of Operations

For the years ended 31 March 2006, 2005 and 2004

	Millions of yen			Thousands of U.S.dollars (Note 3)
	2006	2005	2004	**2005**
Net Sales (Note 15)	**¥ 106,468**	¥ 94,583	¥ 77,918	**$ 906,343**
Cost of Sales	**78,207**	70,983	59,052	**665,765**
Gross profit	**28,261**	23,600	18,866	**240,578**
Selling, General and Administrative Expenses	**20,259**	16,324	15,920	**172,461**
Operating income	**8,002**	7,276	2,946	**68,117**
Non-operating Income (Expenses):				
Interest income	**59**	126	148	**503**
Interest expense	**(26)**	(40)	(29)	**(219)**
New shares issuance cost	**—**	—	(3)	**—**
Bond issuance cost	**—**	(66)	—	**—**
Dividend income	**3**	88	15	**29**
Gain on sale/disposal of investment in securities	**3,155**	621	641	**26,861**
Loss on sale/disposal of investment in securities	**(1)**	(2)	(25)	**(6)**
Loss on disposal of property and equipment	**(185)**	(372)	(302)	**(1,574)**
Loss on impairment of fixed assets	**(970)**	—	—	**(8,261)**
Gain on sale/disposal of investment in affiliates	**1,640**	1,394	32	**13,961**
Write-down of investment in affiliates	**(102)**	(7)	(179)	**(868)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(1,249)**	(401)	(175)	**(10,632)**
Gain on subsidy accounts	**50**	80	—	**426**
Foreign exchange losses	**(154)**	(101)	(1,202)	**(1,313)**
Loss on investment in partnerships	**—**	—	(294)	**—**
Write-down of marketable securities and investment in securities	**—**	(150)	(296)	**—**
Gain on issuance of shares by investees	**581**	546	32	**4,944**
Loss on issuance of shares by investees	**(475)**	(247)	(0)	**(4,047)**
Write-down of golf club memberships	**(11)**	(28)	(21)	**(94)**
Amortization of goodwill	**(58)**	(809)	—	**(498)**
Head office relocation expense	**—**	—	(828)	**—**
Gain on sale of business	**—**	125	—	**—**
Other, income	**674**	471	340	**5,734**
Other, expenses	**(428)**	(539)	(487)	**(3,641)**
Total Non-operating Income (Expenses)	**2,503**	2,968	(2,633)	**21,306**
Income before income taxes and minority interests in subsidiaries	**10,505**	7,965	313	**89,423**
Income Taxes (Note 13)				
- Current	**108**	161	140	**922**
- Refund	**—**	—	(853)	**—**
- Deferred	**3,585**	2,993	270	**30,519**
	6,812	4,811	756	**57,982**
Minority interests in net income of subsidiaries	**(142)**	—	—	**(1,203)**
Minority interests in net loss of subsidiaries	**—**	37	196	**—**
Net income	**¥ 6,670**	¥ 4,848	¥ 952	**$ 56,779**
	Yen			U.S. dollars (Note 3)
Per Share:				
Net income	**¥ 297.94**	¥ 211.3	¥ 39.3	**$ 2.54**
Cash dividends	**¥ 70.0**	¥ 40.0	¥ 30.0	**$ 0.60**
Weighted average number of shares (in thousands)	**22,376**	22,926	28,804	

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

Consolidated Statements of Stockholders' Equity

For the years ended 31 March 2006, 2005 and 2004

		Millions of yen		
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings
Balance at 31 March 2003	24,397,023	¥ 29,066	¥ 30,623	¥ (15,854)
Directors' bonuses	—	—		(1)
Decrease due to additional consolidation of subsidiaries	—	—		(0)
Transfer from capital surplus to retained earnings	—	—	(8,001)	8,001
Net loss for the year ended 31 March 2004	—	—	—	952
Balance 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 consolidation of subsidiaries accounted for by the equity method	—	—	—	734
Increase in retained earnings due to decrease in number of affiliates accounted for by the equity method	—	—	—	59
The amount of others earned surpluses increase	—	—	—	195
Decrease in retained earnings due to increase in number of consolidation of subsidiaries accounted for by the equity method	—	—	—	(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
		Thousands of U.S. dollars (Note 3)		
Balance at 31 March 2005		$ 247,433	$ 192,953	$ (24,268)
Gain on sale of treasury stock	—	—	4,696	—
Directors' bonuses	—	—	—	(26)
Cash dividends	—	—	—	(7,747)
Increase in retained earnings due to increase in number of consolidation of subsidiaries accounted for by the equity method	—	—	—	6,248
Increase in retained earnings due to decrease in number of affiliates accounted for by the equity method	—	—	—	
The amount of others earned surpluses increase	—	—	—	9
Decrease in retained earnings due to increase in number of consolidation of subsidiaries accounted for by the equity method	—	—	—	(5,740)
Decrease in retained earnings due to decrease in number of affiliates accounted for by the equity method	—	—	—	(3,852)
Net income for the year ended 31 March 2006	—	—	—	56,779
Balance at 31 March 2006		$ 247,433	$ 197,649	$ 23,565

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

Consolidated Statements of Cash Flows

For the years ended 31 March 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2006
Cash Flows from Operating Activities:				
Net income/(loss) before income taxes	¥ **10,505**	¥ 7,965	¥ 313	$ **89,423**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	**978**	1,004	823	**8,323**
Amortization of excess cost of investments over equity in net assets in consolidated subsidiaries	**(26)**	800	39	**(219)**
Loss on disposal of property and equipment	**185**	—	—	**1,574**
Amortization of intangible assets	**553**	452	318	**4,711**
Accrued interest and dividend income	**(63)**	(224)	(163)	**(532)**
Accrued interest expense	**26**	40	29	**219**
Foreign exchange losses	**154**	146	1,199	**1,313**
Loss on impairment of fixed assets	**970**	—	—	**8,261**
New shares issuance cost	**—**	—	3	**—**
Bond issuance cost	**—**	66	—	**—**
Write-down of investment in affiliates	**102**	7	179	**868**
Equity in earnings of unconsolidated subsidiaries and affiliates	**1,249**	401	175	**10,632**
Dilution gain from change in equity interest	**(105)**	(299)	(32)	**(897)**
(Gain)/loss on sale of investment in unconsolidated subsidiaries and affiliates, net	**(1,621)**	(1,375)	(32)	**(13,796)**
Gain on sale/disposal of investment in securities, net	**(3,155)**	(3,114)	(616)	**(26,855)**
Reversal of bad debt expense	**17**	38	140	**144**
Increase/(decrease) in reserve for retirement benefits	**28**	254	290	**239**
Write-down of investment in securities	**8**	150	296	**70**
Loss on investments in partnerships	**—**	225	294	**—**
Write-down of golf club memberships	**11**	28	21	**94**
Loss on disposal of property and equipment	**—**	372	302	**—**
Write-down of investment in securities for operating purposes	**—**	25	148	**—**
Increase in accrued bonuses for employees	**189**	152	445	**1,611**
Increase in notes and accounts receivable	**(324)**	(942)	(1,534)	**(2,760)**
Increase in investment in securities for operating purposes	**(3,697)**	—	—	**(31,469)**
Decrease in investment in securities for operating purposes	**—**	545	210	**—**
Decrease in work and software in progress and merchandise	**18**	3	45	**149**
(Decrease)/increase in accounts payable	**(149)**	(44)	159	**(1,271)**
Other, net	**1,012**	(498)	2,064	**8,607**
Sub total	**6,865**	6,177	5,115	**58,439**
Interest and dividends received	**50**	251	234	**425**
Interest paid	**(51)**	(41)	(33)	**(430)**
Income taxes refunded	**6**	511	3,970	**49**
Income taxes paid	**(549)**	(80)	(178)	**(4,673)**
Net cash provided by operating activities	¥ **6,321**	¥ 6,818	¥ 9,108	$ **53,810**

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

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2005
Cash Flows Used in Investing Activities:				
Deposit of long-term time deposits	¥ **(15)**	¥ (75)	¥ —	$ **(124)**
Withdrawal of long-term time deposits	**—**	—	17	**—**
Payments for purchase of marketable securities	**—**	(3,000)	(200)	**—**
Proceeds from sale of marketable securities	**—**	3,200	—	**—**
Payments for purchase of property and equipment	**(3,918)**	(1,070)	(1,396)	**(33,351)**
Payments for purchase of investment in securities	**(175)**	(782)	(521)	**(1,494)**
Proceeds from sale of investment in securities	**3,302**	3,432	983	**28,112**
Proceeds from repayment of investment in securities	**500**	—	—	**4,256**
Payments for purchase of investment in affiliates	**(4,209)**	(1,624)	(3,563)	**(35,832)**
Proceeds from sale of investment in affiliates	**4,231**	776	—	**36,014**
Payments for sale of investment in subsidiaries resulting in change in scope of consolidation (Note 14)	**—**	(26)	—	**—**
Payments for purchase of investment in subsidiaries resulting in change in scope of consolidation	**(1,782)**	—	—	**(15,172)**
Proceeds from purchase of investment in subsidiaries resulting in change in scope of consolidation (Note 14)	**—**	149	—	**—**
Payments for purchase of intangibles	**(928)**	(838)	(820)	**(7,902)**
Payments for purchase of other investments	**(1,070)**	(1,194)	(1,552)	**(9,105)**
Proceeds from sale of other investments	**625**	724	1,910	**5,320**
Net cash used in investing activities	**(3,439)**	(328)	(5,142)	**(29,278)**
Cash Flows from(used in) Financing Activities:				
Proceeds from short-term bank loans	**15**	320	—	**124**
Repayment of short-term bank loans	**(512)**	(1,231)	(100)	**(4,360)**
Proceeds from long-term bank loans	**—**	—	2,000	**—**
Repayment of long-term bank loans	**(460)**	(34)	(2,068)	**(3,913)**
Proceeds from issuance of bonds	**—**	9,934	—	**—**
Payments for repurchase of treasury stock	**(10,121)**	(1,589)	(3,134)	**(86,158)**
Proceeds from sale of treasury stock	**212**	40	—	**1,804**
Proceeds from stock issuance to minority interests	**168**	140	91	**1,426**
Proceeds from repayment of bonds	**(180)**	—	—	**(1,532)**
Payments for capital reduction to minority interests	**—**	(18)	(13)	**—**
Cash dividends paid	**(910)**	(696)	—	**(7,747)**
Dividends paid to minority interests	**(99)**	(2)	(8)	**(837)**
Net cash provided by/(used in) financing activities	**(11,887)**	6,864	(3,232)	**(101,193)**
Effect of exchange rate changes on cash and cash equivalents	**376**	102	(421)	**3,204**
Net increase in cash and cash equivalents	**(8,629)**	13,456	313	**(73,457)**
Increase due to increase in consolidated subsidiaries	**474**	719	34	**4,031**
Cash and cash equivalents at beginning of year	**29,358**	15,183	14,836	**249,921**
Cash and cash equivalents at end of year	¥ **21,203**	¥ 29,358	¥ 15,183	**180,495**

Reconciliation of cash and time deposits in the consolidated balance sheets to cash and cash equivalents at end of year in the consolidated statements of cash flows

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2006
Cash and time deposits	¥ **21,803**	¥ 28,904	¥ 13,218	$ **185,602**
Marketable securities	**325**	529	2,165	**2,769**
	22,128	29,433	15,383	**188,371**
Time deposits period exceeding three months	**(925)**	(75)	(200)	**(7,876)**
Cash and cash equivalents	¥ **21,203**	¥ 29,358	¥ 15,183	**180,495**

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

Notes to the Consolidated Financial Statements

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts maintained by transcosmos inc., (the "Company") and its consolidated subsidiaries. The Company and its domestic consolidated subsidiaries have 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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from those of International Financial Reporting Standards.

The accounts of 14 overseas consolidated subsidiaries, Transcosmos Investments & Business Development, Inc., EGI Fund Management Company L.L.C., EGI Fund Management Company 2 L.L.C., transcosmos America Inc., Career Incubation USA Inc., Access Markets International Partners, Inc. (incorporated in the USA), transcosmos Information Creative (China) Co., Ltd., transcosmos Information system (Shanghai) Co., Ltd., transcosmos MCM Shanghai Co., Ltd., transcosmos Information Creative Holdings, Shine Harbour Ltd. (incorporated in China), and IBR Inc., CIC Korea, Inc., APPLIED TECHNOLOGY KOREA, INC. (incorporated in Korea) are based on their accounting records maintained in conformity with accounting principles and practices generally accepted in their respective countries. Although certain differences exist in the accounting principles employed by the overseas subsidiaries, no adjustments have been made to their accounts in order to conform to the accounting principles in the generality accepted in Japan consolidated financial statements.

Certain items presented in the 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.

2. Summary of Significant Accounting Policies

(1) Basis of Consolidation

The Company had 56 subsidiaries (majority-owned companies) as of 31 March 2006 (42 as of 31 March 2005 and 44 as of 31 March 2004). The consolidated financial statements include the accounts of the Company and 49 of its subsidiaries for the year ended 31 March 2006 (35 for the year ended 31 March 2005 and 39 for the year ended 31 March 2004).

The remaining 7 (7 for 2005 and 5 for 2004) subsidiaries, whose combined assets, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Company have been excluded from consolidation.

The Company and all of its consolidated subsidiaries use a year ending 31 March, except for Transcosmos Investments & Business Development, Inc., EGI Fund Management Company L.L.C., EGI Fund Management Company 2 LLC., transcosmos America Inc., En Compass Group K.K., transcosmos Information Creative (China) Co., Ltd., Listen Japan, Inc., Career Incubation USA Inc., Atom Shock Wave K.K., IBR Inc., Applied Technology Co., Ltd., Ask.jp Co., Ltd., transcosmos Information system (Shanghai) Co., Ltd., transcosmos MCM Shanghai Co., Ltd., CIC Korea, Inc., transcosmos Information Creative Holdings, Shine Harbour Ltd., Access Markets International Partners, Inc., APPLIED TECHNOLOGY KOREA, INC., which use a year ending on 31 December. The accounts of those subsidiaries have been consolidated based on the result of operations and account balances for such a fiscal year and necessary adjustments have been made for any material transactions that occurred between the various fiscal year ends. When consolidated financial statements are made, financial statements based on the provisional settlement of account that executed it in the consolidation day present provinces are used on each 30 April, 30 June, and 30 September the fiscal year of Band Wagon, Inc., FLEX International Co., Ltd., and Career Incubation Inc.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in the net assets of such subsidiaries. The difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiaries is deferred and amortized over 5 or 10-year period on a straight-line basis. In the event that an unexpected difference occurs between the cost of an investment and the amount of underlying equity in the net assets of these subsidiaries, the consolidation adjustments account is reduced accordingly.

An adjustment is made to the calculation of depreciation to eliminate unrealized profits on depreciable assets sold among the Companies.

(3) Accounting for Investment in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to investments in 21 affiliates for the year ended 31 March 2006 (two unconsolidated subsidiaries and 19 affiliates for the year ended 31 March 2005 and three unconsolidated subsidiaries and 16 affiliates for the year ended 31 March 2004). The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost.

(4) Securities (including investments in securities for operating purposes)

Securities held by the Company and its subsidiaries are, under the accounting standard for financial instruments, classified into two categories:

Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. Cost of sales is determined by the moving-average method.

Available-for-sale securities for which market quotations are unavailable are stated at cost, determined by the moving-average method.

In the past, the Company have positioned the evaluation, development and promotion of know-how 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 information service business from April 2005. As a result, investment in securities of ¥13,814 million ($117,599 thousand) were reclassified to investment in securities for operating purposes, and non-current deferred tax liabilities of ¥4,941 million ($42,066 thousand) were reclassified to current deferred tax liabilities on 1 April 2005. In addition, sales of investment in securities resulting from Corporate Venture Capital business, which have been presented as non-operating income (expense) at net amount in prior years, are included in sales and cost of sales at gross amount effective for the year ended 31 March 2006. As a result, net sales, cost of sales, gross profit and operating income increased by ¥6,149 million ($52,346 thousand), ¥225 million ($1,918 thousand), ¥5,924 million ($50,428 thousand) and ¥5,924 million ($50,428 thousand), respectively, and commission expense (SG&A), gain on sale of investment in securities (non-operating income), dividends income (non-operating income) and loss on investment in partnerships (non-operating expense) decreased by ¥11 million ($93 thousand), ¥5,915 million ($50,355 thousand), ¥25 million ($209 thousand) and ¥6 million($53 thousand), respectively, as compared with prior year.

(5) Inventories

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

(6) Property and Equipment

Depreciation expense for the Company and domestic subsidiaries is principally computed using the declining-balance method, at rates based on the estimated useful lives of the assets. Depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), which were acquired on or after 1 April 1998, is computed using the straight-line method.

Depreciation expense for foreign subsidiaries is principally computed using the straight-line method.

Depreciation for certain equipment of the Company's call center is computed using the straight-line method, based on the estimated useful lives of the related assets.

(7) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases that do not substantially transfer the risks and rewards of ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(8) Amortization of Intangible Assets

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over 5 years, and software for sales purposes is amortized based on estimated sales quantities over 3 years with minimum annual amortization of one-third of the total amortization.

(9) Amortization of Deferred Charges

Bond issuance costs are charged to income as incurred.

(10) Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided against potential losses on collection at an amount measured by a historical bad debt ratio, plus an amount deemed necessary to cover possible losses estimated on an individual account basis.

(11) Accrued Bonuses for Employees

Accrued bonuses for employees are determined by certain consolidated subsidiaries based on the estimated bonuses to be paid to employees.

(12) Reserve for Retirement Benefits

The reserve for retirement benefits as of year end, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences are amortized on a straight-line basis over the period of 5 years from the following year in which they arise.

(13) Hedge Accounting

All derivatives are stated at fair value. Gains and losses arising from changes in the fair value of derivatives designated as "hedging instruments" are deferred as an asset or liability.

The derivatives designated as hedging instruments by the Company are principally spot forward exchange contracts to reduce exposure to foreign exchange fluctuations in respect of future transactions denominated in foreign currencies, and interest rate swap agreements to reduce exposure interest rate fluctuations in respect of bank loans.

The Company has a policy to utilize the above hedging instruments in order to reduce exposure to fluctuations in foreign exchange rates and interest rates, based on the Company's internal policies.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains and losses on the hedging instruments and the related items from the commencement of the hedges.

(14) Accounting for Consumption Tax

In Japan, consumption tax is imposed at a flat rate of 5 per cent on all purchases of goods and services for domestic consumption (with certain exemptions). The consumption tax imposed on the Group's domestic sales to customers is withheld by the Group at the time of sale and is subsequently paid to the national government. The consumption tax withheld upon sale and the consumption tax paid by the Group on purchases of goods and services is not included in the related amounts in the consolidated statements of operations.

(15) Translation of Foreign Currency Financial Statements

Translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is done using the exchange rates prevailing at their balance sheet dates, with the exception of stockholders' equity, which is translated using historical rates. Revenue and expense accounts are translated using the current exchange rate prevailing at the balance sheet dates.

The difference in yen amounts arising from the use of different rates is presented as "foreign currency translation adjustments" in stockholders' equity, except for the portion attributable to minority stockholders, which is included in "minority interests in subsidiaries".

(16) Appropriation of Retained Earnings

Under the Commercial Code of Japan and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors is required to be approved at the shareholders' meeting which must be held within three months after the end of each fiscal year. The appropriations charged to retained earnings in each fiscal year as reflected in the consolidated financial statements represent those which were approved at the shareholders' meeting during that year and were applicable to the immediately preceding fiscal year.

(17) Income Taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

Income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(18) Net Income / (Loss) Per Share

The computation of net income/(loss) per share is based on the weighted average number of shares of common stock outstanding. Cash dividends per share shown in the consolidated statements of operations are the amounts applicable to the respective years.

(19) Accounting Standard for Impairment of Fixed Assets

On 9 August 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". 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 Companies adopted this standard with effective in the year ended 31 March 2006. As a result of this adoption, income before income taxes decreased by 970 million yen.

(20) Reclassifications

Certain amounts for the prior year have been reclassified to conform to the presentation for 2006. These changes had no impact on net income/ (loss) or net cash flows previously reported.

3. United States Dollar Amounts

The Company maintains accounting records in yen. The U.S. dollar amounts included in the consolidated financial statements for the year ended 31 March 2006 and notes thereto represent the arithmetical results of translating yen to U.S. dollars on a basis of ¥117.47=US$1, the approximate effective rate of exchange prevailing at 31 March 2006. 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 ¥117.47=US$1 or any other rate.

4. Collateral

A deposit of ¥1 million ($9 thousand) as of 31 March 2006 and 2005 was pledged as collateral for guarantees on advertising transactions.

5. Marketable Securities and Investment in Securities

(1) The cost, book value and unrealized gain or loss on available-for-sale securities with market quotations as of 31 March 2006 and 2005 are as follows:

	Millions of yen 31 March 2006		
Description	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Fair market value exceeds acquisition cost			
Equity securities	¥ 1,924	¥ 15,055	¥ 13,131
Fair market value does not exceed acquisition cost			
Equity securities	825	695	(130)
Total	¥ 2,749	¥ 15,750	¥ 13,001

	Millions of yen 31 March 2005		
Description	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Fair market value exceeds acquisition cost			
Equity securities	¥ 1,202	¥ 15,459	¥ 14,257
Fair market value does not exceed acquisition cost			
Equity securities	102	96	(6)
Total	¥ 1,304	¥ 15,555	¥ 14,251

	Thousands of U.S. dollars (Note 3) 31 March 2006		
Description	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Fair market value exceeds acquisition cost			
Equity securities	$ 16,376	$ 128,163	$ 111,787
Fair market value does not exceed acquisition cost			
Equity securities	7,027	5,919	(1,108)
Total	$ 23,403	$ 134,082	$ 110,679

(Note) The acquisition cost of available-for-sale securities with market quotations as of 31 March 2005 is presented at the amount net of write-down of ¥3 million ($26 thousand), respectively.

In the event that a decline in the value of the available-for-sale securities is 30% or more and is considered other than temporary, the acquisition cost is written down to fair value.

(2) Available-for-sale securities sold:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Proceeds from sale of available-for-sale securities	¥ 9,425	¥ 13,448	$ 80,231
Realized gain	9,129	5,304	77,717
Realized loss	(1)	(4)	(6)

(3) The book value of major securities without market quotations as of 31 March 2006 and 2005 is as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Unlisted stocks	¥ 4,341	¥ 1,988	$ 36,957
Money Marketing Account	323	529	2,748
Investment in limited partnerships	1,107	770	9,423
	¥ 5,771	¥ 3,287	$ 49,128

6. 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.

7. Property and Equipment

Property and equipment as of 31 March 2006 and 2005 is summarized as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Buildings and structures	¥ 4,859	¥ 3,418	$ 41,362
Cars and vehicles	50	9	428
Equipment, furniture and fixtures	8,059	4,855	68,600
	12,968	8,282	110,390
Less: accumulated depreciation	(5,890)	(4,478)	(50,137)
	7,078	3,804	60,253
Land	1,135	1,311	9,660
Construction in progress	185	2	1,580
	¥ 8,398	¥ 5,117	$ 71,493

8. Security Deposits

Security deposits as of 31 March 2006 and 2005 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.

9. Short-term and Long-term Debt

(1) Short-term bank loans as at 31 March 2006 and 2005 are as follows:

	Millions of yen 31 March		Thousands of U.S. dollars(Note 3) 31 March
	2006	2005	2006
Unsecured bank loans (average interest rate of 5.0 per cent 2006 and 1.7 per cent 2005)	¥ 15	¥ 400	$ 124

(2) The outstanding bank overdrafts and loan commitments contracted as at 31 March 2006 and 2005 are as follows:

	Millions of yen 31 March		Thousands of U.S. dollars(Note 3) 31 March
	2006	2005	2006
Credit facilities	¥ 10,000	¥ 10,000	$ 85,128
Used	—	—	—
Unused	¥ 10,000	¥ 10,000	$ 85,128

(3) Long-term debt as of 31 March 2006 and 2005 is as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Unsecured	¥ 2,029	¥ 2,455	$ 17,274
Long-term bank loans, due 2007 to 2009 (average interest rate of 2.2 per cent excluding current portion)			
tranccosmos Inc.			
Zero coupon convertible bonds due on 20 March 2008(*1)	5,171	10,000	44,020
Applied Technology Co., LTD			
1.17 per cent, unsecured bonds, due on 20 June 2008	—	100	—
0.41 per cent, unsecured bonds, due on 25 August 2008	—	160	—
0.68 per cent, unsecured bonds, due on 10 September 2008	—	80	—
	7,200	12,795	61,294
Less : Current portion	2,000	225	17,026
	¥ 5,200	¥ 12,570	$ 44,268

(*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.

Summary
1) Payment date: 21 June 2004
2) Due of redemption: 20 June 2008
3) Convertible price: Initially ¥4,410 per share
4) Convertible term: After 6 July 2004 up to and including 6 June 2008.

The aggregate annual maturity of long-term debt subsequent to 31 March 2006 is as follows:

	Millions of yen 31 March	Thousands of U.S. dollars (Note 3) 31 March
	2006	2006
Year ending 31 March		
Within one year	¥ 2,000	$ 17,026
Over two years up to three years	5,200	44,268
Total	¥ 7,200	$ 61,294

10. Retirement Benefit Plan

The reserve for retirement benefits as of 31 March 2006 and 2005 is analyzed as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Projected benefit obligations	¥ (3,723)	¥ (3,431)	$ (31,693)
Plan assets	5,393	4,304	45,908
	1,670	873	14,215
Unrecognized actuarial differences	(1,358)	(404)	(11,560)
	312	469	2,655
Prepaid pension costs	445	477	3,783
Reserve for retirement benefits	¥ (133)	¥ (8)	$ (1,128)

Net pension expense related to retirement benefits for the years ended 31 March 2006 and 2005 is as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Service costs	¥ 380	¥ 397	$ 3,232
Interest costs	33	30	280
Expected return on plan assets	(42)	(39)	(355)
Amortization of actuarial differences	32	215	270
Amortization of unrecognized prior service costs	—	—	—
Net pension expense	403	603	3,428
Gain on return of substitutional portion of employee pension fund	—	—	—
	¥ 403	¥ 603	$ 3,428

(Note: The above amounts are deducted from the amount of employees' donations to the business annuity fund or employees' pension fund.)
Assumptions used in the calculation of the above information are as follows:

	31 March	
	2006	2005
Discount rate	1.0%	1.0%
Expected rate of return on plan assets	1.0%	1.0%
Method of attributing projected benefits to periods of service	Straight Line-basis	Straight Line-basis
Amortization of unrecognized prior service costs	5 years	5 years
Amortization of unrecognized actuarial differences	5 years	5 years

11. Lease Transactions

The Group leases certain equipment, furniture and fixtures. Pro forma information pertinent to the lease contracts of the Group which do not transfer the ownership of the leased assets to the lessees on an “as if capitalized” basis for the years ended 31 March 2006 and 2005 is as follows:

	Millions of yen 31 March 2006		
	Acquisition cost	Accumulated Depreciation	Net leasehold property
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

	Millions of yen 31 March 2005		
	Acquisition cost	Accumulated depreciation	Net leasehold property
Buildings	¥ 18	¥ 5	¥ 13
Cars and Vehicles	6	3	3
Furniture and Fixtures	1,423	938	485
Software	309	155	154
Total	¥ 1,756	¥ 1,101	¥ 655

	Thousands of U.S. dollars (Note 3) 31 March 2006		
	Acquisition cost	Accumulated depreciation	Net leasehold property
Buildings	$ 342	$ 201	$ 142
Cars and Vehicles	50	34	15
Furniture and Fixtures	12,404	7,604	4,800
Software	3,273	1,819	1,454
Total	$ 16,069	$ 9,658	$ 6,411

Future minimum lease payments under finance leases, including interest expense thereon as of 31 March 2006 and 2005 are as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Due within one year	¥ 319	¥ 342	$ 2,714
Due after one year	427	341	3,636
	¥ 746	¥ 683	$ 6,350

Depreciation expense, lease rental expense and interest expense which are not reflected in the consolidated statements of operations for the years ended 31 March 2006 and 2005 are as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Depreciation expense	¥ 409	¥ 433	$ 3,483
Lease rental expense	377	408	3,213
Interest expense	12	15	102

12. Derivatives and Hedging Activities

The Company utilizes derivative financial instruments, including forward exchange contracts to reduce exposure to fluctuations in foreign exchange rates. The Company also utilizes interest rate swaps to reduce exposure to fluctuations in the interest rate of bank loans. The Company holds derivative financial instruments within the specific purposes of the transactions. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company is exposed to certain market risks arising from its forward exchange contracts and from interest rate swap agreements.

As of 31 March 2006 and 2005, the outstanding forward exchange contracts are as follows:

	Millions of yen 31 March			
	2006			2005
	Contractual value or Notional principal amount Total	Fair value	Valuation gain(loss)	Contractual value or Notional principal amount Total
Forward exchange contracts ...	¥ 750	¥ 748	¥ (2)	¥ —

	Thousands of U.S. Dollars (Note 3) 31 March			
	2006			2005
	Contractual value or Notional principal amount Total	Fair value	Valuation gain(loss)	Contractual value or Notional principal amount Total
Forward exchange contracts ...	¥ 6,385	¥ 6,371	¥ (14)	¥ —

13. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory income tax rates of approximately 40.69 per cent for the years ended 31 March 2006 and 2005, respectively. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

The difference between the effective tax rate and statutory tax rate for the years ended 31 March 2003 is not presented because of the net loss in that year.

According to the Act for Partial Revision of Local Tax Law passed 31 March 2003, the statutory effective tax rate used for calculation of deferred tax assets and liabilities relating to temporary differences for the year ended 31 March 2003 has changed.

The effect of the adoption of the new standard for 2003 was immaterial.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities as of 31 March 2006 and 2005 are summarized as follows:

	Millions of yen 31 March		Thousands of U.S. dollars (Note 3) 31 March
	2006	2005	2006
Deferred tax assets:			
Accrued bonuses	¥ 961	¥ 880	$ 8,180
Accrued enterprise tax	74	116	626
Gain on sale of investment in affiliates eliminated upon consolidation	2,279	2,337	19,398
Write-down of golf club memberships	179	157	1,524
Capital losses carried forward	9,431	10,367	80,281
Allowance for doubtful accounts	531	200	4,523
Loss on liquidation of investment in affiliates	298	388	2,540
Write-down of marketable securities	241	464	2,052
Write-down of investment in securities	48	329	405
Other	484	339	4,125
	14,526	15,577	123,654
Valuation allowance	(8,557)	(5,844)	(72,842)
Total deferred tax assets	5,969	9,733	50,812
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	4,610	5,668	39,241
Gain on capital reduction	—	—	—
Other	—	—	—
Total deferred tax liabilities	4,610	5,668	39,241
Net deferred tax assets	¥ 1,359	¥ 4,065	$ 11,571

Reconciliation between the statutory income tax rate and effective income tax rate as of 31 March 2006 is as follows:

	31 March 2006
Statutory income tax rate	40.69%
Valuation allowance	(7.51)
Tax rate difference of subsidiaries in foreign countries	(1.73)
Non-deductible items (entertainment expenses, etc.)	2.25
Inhabitant taxes per capita	0.50
Equity in earnings of unconsolidated subsidiaries and affiliates	4.84
Cash dividends eliminated upon consolidation	0.40
Gain or loss on issuance of shares by investees	(0.41)
Unrecognized profits of subsidiaries	(1.25)
Other	(2.62)
Effective income tax rate	35.16%

14. Supplementary Cash Flow Information

(1) The assets and liabilities of subsidiaries newly consolidated through the additional purchase of shares are as follows:

Band Wagon, Inc.	As of 30 September 2005 Millions of yen	As of 30 September 2005 Thousands of U.S. dollars
Current assets	¥ 14	$ 117
Non-current assets	2	21
Goodwill	9	77
Current liabilities	(4)	(37)
Minority interests in subsidiaries	(6)	(51)
Acquisition cost	15	127
Cash and cash equivalents	(8)	(71)
Payments for purchase of shares	¥ 7	$ 56

Ask.jp Co., Ltd.	As of 31 December 2005 Millions of yen	As of 31 December 2005 Thousands of U.S. dollars
Current assets	¥ 679	$ 5,781
Non-current assets	287	2,440
Current liabilities	(544)	(4,632)
Negative goodwill	(88)	(745)
Minority interests in subsidiaries	(178)	(1,516)
Net deficit pickup by equity method	926	7,881
Acquisition cost	1,082	9,209
Cash and cash equivalents	(497)	(4,232)
Payments for purchase of shares	¥ 585	$ 4,978

Abacus Japan, Inc.	As of 31 December 2005 Millions of yen	As of 31 December 2005 Thousands of U.S. dollars
Current assets	¥ 36	$ 305
Non-current assets	90	768
Goodwill	140	1,193
Current liabilities	(66)	(561)
Acquisition cost	200	1,705
Cash and cash equivalents	(17)	(143)
Payments for purchase of shares	¥ 183	$ 1,562

CIC Korea, Inc	As of 31 December 2005 Millions of yen	As of 31 December 2005 Thousands of U.S. dollars
Current assets	¥ 1,715	$ 14,598
Non-current assets	2,471	21,031
Goodwill	259	2,209
Current liabilities	(1,130)	(9,622)
Non-current liabilities	(121)	(1,028)
Minority interests in subsidiaries	(667)	(5,677)
Net deficit pickup by equity method	(1,255)	(10,680)
Acquisition cost	1,272	10,831
Cash and cash equivalents	(507)	(4,320)
Payments for purchase of shares	¥ 765	$ 6,511

FLEX International Co., Ltd.	As of 31 December 2005 Millions of yen	As of 31 December 2005 Thousands of U.S. dollars
Current assets	¥ 800	$ 6,812
Non-current assets	49	416
Goodwill	10	82
Current liabilities	(200)	(1,704)
Non-current liabilities	—	
Minority interests in subsidiaries	(33)	(280)
Net deficit pickup by equity method	—	—
Acquisition cost	626	5,326
Cash and cash equivalents	(383)	(3,260)
Payments for purchase of shares	¥ 243	$ 2,066

15. Segment Information

(1) Industry Segment Information

The Company and its subsidiaries operate principally in the following two industry segments:

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

The segment information of the Group for each of the two years in the year ended 31 March 2006 classified by industry segments is summarized as follows:

	For the year ended 31 March 2006 Millions of yen				
	Computer service	Corporate Venture capital	Total	Elimination or unallocatable amounts	Consolidated
Sales:					
Sales to outside 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 profit or loss	9,102	5,406	14,508	(6,506)	8,002
Assets	¥ 54,190	¥ 23,275	¥ 77,465	¥ 10,828	¥ 88,293
Depreciation	1,193	9	1,202	329	1,531
Impairment of fixed assets	100	—	100	870	970
Capital expenditure	4,585	6	4,592	613	5,204

	For the year ended 31 March 2005 Millions of yen				
	Computer service	Corporate Venture capital	Total	Elimination or unallocatable amounts	Consolidated
Sales:					
Sales to outside customers	¥ 88,396	¥ 6,187	¥ 94,583	¥ —	¥ 94,583
Inter-segment sales/transfers	12	—	12	(12)	—
Total	88,408	6,187	94,595	(12)	94,583
Operating expenses	80,008	2,288	82,296	5,011	87,307
Operating profit or loss	8,400	3,899	12,299	(5,023)	7,276
Assets	¥ 46,171	¥ 19,611	¥ 65,782	¥ 21,133	¥ 86,915
Depreciation	1,007	2	1,009	447	1,456
Capital expenditure	1,595	—	1,596	312	1,908

	For the year ended 31 March 2006 Thousands of U.S. dollars				
	Computer service	Corporate Venture capital	Total	Elimination or unallocatable amounts	Consolidated
Sales:					
Sales to outside customers	$ 850,081	$ 56,262	$ 906,343	$ —	$ 906,343
Inter-segment sales/transfers	142	—	142	(142)	—
Total	850,223	56,262	906,485	(142)	906,343
Operating expenses	772,738	10,243	782,981	55,245	838,226
Operating profit or loss	77,485	46,019	123,504	(55,387)	68,117
Assets	$ 461,308	$ 198,138	$ 659,446	$ 92,179	$ 751,625
Depreciation	10,153	76	10,229	2,805	13,034
Impairment of fixed assets	851	—	851	7,410	8,261
Capital expenditure	39,032	55	39,087	5,217	44,304

(Note 1) The amounts of operating loss included in the column “elimination or unallocatable amount” are ¥6,510 million ($55,415 thousand) and ¥5,356 million for the years ended 31 March 2006 and 2005, respectively, which include expenses mostly charged to the administration department.

(Note 2) The amounts of assets included in the column “elimination or unallocatable amount” are ¥11,070 million ($94,235 thousand) and ¥35,143 million for the years ended 31 March 2006 and 2005, respectively, which include surplus liquid assets (cash and securities), long-term investment funds (investment in securities and long-term deposits) and other assets which are attributable to the administrative department.

(Note 3) As described in Summary of Significant Accounting Policies (4), the amounts of Corporate venture capital segment of the company have been restated for the year ended 31 March 2005, in conformity with change of accounting policy that sales transactions of Corporate venture capital business of the company have been presented as sales and operating expenses at gross amount.
The effect of this change was to increase net sales and operating profit for the corporate venture capital segment by ¥6,149 million ($52,346 thousand) and ¥5,924 million ($50,428 thousand), respectively, for the year ended 31 March 2006 as compared with the corresponding amounts which would have been recorded if the previous method had been followed.
The change did not affect the figures of the computer service segment.

(2) Geographic Segment Information

Segmented information classified by geographic area (inside and outside Japan) for the years ended 31 March 2006 and 2005 is summarized as follows:

	For the year ended 31 March 2006 Millions of yen					
	Japan	U.S.A.	Asia	Total	Elimination or unallocatable amounts	Consolidated
Sales:						
Sales to outside 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 profit or losses	¥ 14,338	¥ (64)	¥ 249	¥ 14,523	¥ (6,521)	¥ 8,002
Assets	¥ 57,251	¥ 11,817	¥ 8,420	¥ 77,489	¥ 10,804	¥ 88,293

	For the year ended 31 March 2005					
	Millions of yen					
	Japan	U.S.A.	Asia	Total	Elimination or unallocatable amounts	Consolidated
Sales:						
Sales to outside customers	¥ 90,382	¥ 3,424	¥ 777	¥ 94,583	¥ —	¥ 94,583
Inter-segment sales/transfers	120	79	304	503	(503)	—
Total	90,501	3,503	1,081	95,085	(503)	94,583
Operating expenses	80,286	2,051	448	82,785	4,521	87,307
Operating profit or losses	¥ 10,216	¥ 1,452	¥ 633	¥ 12,300	¥ (5,024)	¥ 7,276
Assets	¥ 59,456	¥ 5,446	¥ 1,864	¥ 66,766	¥ 21,149	¥ 86,915

	For the year ended 31 March 2006					
	Thousands of U.S. dollars					
	Japan	U.S.A.	Asia	Total	Elimination or unallocatable amounts	Consolidated
Sales:						
Sales to outside customers	$ 892,188	$ 7,064	$ 7,091	$ 906,343	$ —	$ 906,343
Inter-segment sales/transfers	868	824	3,372	5,064	(5,064)	—
Total	893,056	7,888	10,463	911,407	(5,064)	906,343
Operating expenses	770,998	8,438	8,344	787,779	50,447	838,226
Operating profit or losses	$ 122,058	$ (550)	$ 2,119	$ 123,628	$ (55,511)	$ 68,117
Assets	$ 487,371	$ 100,599	$ 71,681	$ 659,650	$ 91,975	$ 751,625

(Note 1) The amounts of operating loss included in the column "elimination or unallocatable amount" are ¥6,510 million ($55,415 thousand) and ¥5,356 million for the years ended 31 March 2006 and 2005, respectively, which include expenses mostly charged to the administration department.

(Note 2) The amounts of assets included in the column "elimination or unallocatable amount" are ¥11,070 million ($94,235 thousand) and ¥35,143 million for the years ended 31 March 2006 and 2005, respectively, which include surplus working funds (cash and securities), long-term investment funds (investment in securities and long-term deposits) and other assets which are attributable to the administrative department.

(Note 3) As described in Summary of significant Accounting policies (4), the amounts of the Japan segment have been restated for the year ended 31 March 2005, in conformity with change of accounting policy that sales transactions of Corporate venture capital business have been presented as the sales and operating expense at gross amount.
The effect of this change was to increase net sales and operating profit for the Japan segment by ¥6,149 million ($52,346 thousand) and ¥5,924 million ($50,428 thousand), respectively, for the year ended 31 March 2006 as compared with the corresponding amounts which would have been recorded if the previous method had been followed.
The change did not affect the figures of the computer service segment.

The change did not affect the figures of the U.S.A and Asia segment.

(Note 4) The segment "Asia" represents China and Korea for the year ended 31 March 2006 and 2005.

(3) Sales outside Japan

No material sales outside Japan for the Group for the years ended 31 March 2006 and 2005 are noted.

16. Related Party Transactions

No material transactions entered by the directors of the Group for the years ended 31 March 2006 and 2005 are noted.

17. Net Income (Loss) and Dividends Per Share

Net income (loss) per share shown for each year in the consolidated statements of operations is based on the weighted average number of shares of common stock outstanding during each year. No diluted effect on net loss per share for the year ended 31 March 2003 is disclosed since the Company has issued neither bonds with subscription warrants nor convertible bonds.

Effective from the year ended 31 March 2003, the Company and its subsidiaries applied Financial Accounting Standard No.2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No.4 "Implementation Guidance for Accounting Standards for Earnings per share" issued by Accounting Standards Board of Japan on 25 September 2002.

The basis for the calculation of net loss per share for the years ended 31 March 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	31 March		31 March
	2006	2005	2006
Net income	¥ 6,670	¥ 4,848	$ 56,779
Less: Components not pertaining to common shareholders			
Bonuses to directorss	(3)	(3)	(26)
Net income pertaining to common stock	6,667	4,845	56,753
Effect of potential dilution related to stock options	(12)	(13)	(103)
Net income pertaining to common shareholders for computation of diluted net income per share	¥ 6,655	¥ 4,832	$ 56,650
Weighted average outstanding shares of common stock (shares)	22,376,126	22,926,257	—
Effect of dilutive securities(shares)	2,261,858	1,885,983	—
Weighed-average shares for diluted earning per shares computation (shares)	24,637,984	24,812,240	—

By applying the current method, the amounts of net income per share for the years ended 31 March 2006 and 2005 are calculated as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	31 March		31 March
	2006	2005	2006
Net income per share	¥ 297.9	¥ 211.3	$ 2.5
Net assets per share	2,612.9	2,511.0	22.2
The diluted effect on net income per share	270.1	194.8	2.3

Cash dividend per share shown for each year in the consolidated statements of operations represent dividends declared as applicable to the respective years, rather than those paid in the respective years.

18. Subsequent Events

Significant events subsequent to 31 March 2006 are as follows:

(1) The appropriation of retained earnings of the Company for the year ended 31 March 2006, which was approved by the Board of Director on 29 May 2006, is as follows:

	Millions of yen
Appropriations:	
Cash dividends (¥70 per share)	¥ 1,564
Bonuses to directors	3
Total	¥ 1,567

(2) Stock Split

On 1 April 2006 the Company implemented a 2-for-1 split of its shares of common stock pursuant to a resolution approved at a meeting of the Board on Directors held on 14 February 2006. As a result, the number of shares of the Company's common stock in issue increased to 24,397,023 shares, from the 48,794,046 shares in issue as of 31 March 2006. If the stock split had gone into effect during the years ended 31 March 2006 and 2005, net income per share and the diluted effect on net income per share and the amount per share of net assets would have been 148.97 and 135.05 and 1,306.46 in 2006 and 105.66 and 97.38 and 1,255.50 in 2005, respectively.

(3) On 23 May 2006 Board of Directors determined the acquisition of the treasury stock for the purpose of executing the flexible capital policy corresponding to the environmental change, and on 29 June 2006 General Stockholders' Meeting approved as follows.

1) Summary of the acquisition

① Type of shares to be acquired
Common stock

② Maximum number of shares to be acquired
2,200 Thousand shares (4.5% of the all issued stocks)

③ Maximum amount of acquired
5,800 million yen

④ Schedule
From 26 May 2006 to 31 August 2006

(4) On 22 May 2006 and 29 May 2006 Board of Directors determined the Company is decision to issue stock acquisition rights for the purpose of enhancing or improving the corporate value and the common interests of shareholders, as a part of the rights plan using a scheme of stock acquisition rights and trust (hereinafter referred to as "Trust-type Rights Plan").

1. Terms and numbers of the offered stock acquisition rights

75,000,000 Stock Acquisition Rights with the terms set out below.

(1) Number of shares to be acquired upon exercise of the Stock Acquisition Rights
The number of shares in the Company to be acquired upon exercise of one Stock Acquisition Right shall be one share.

(2) The amount of properties to be contributed upon exercise of the Stock Acquisition Rights
Contributions upon exercise of the Stock Acquisition Rights are to be in cash, and the amount per share in the Company of properties to be contributed upon exercise of the Stock Acquisition Rights (hereinafter referred to as the "Exercise Price") shall be (i) the amount obtained by multiplying the arithmetic mean of the closing price (including quotations) of common shares of the Company in regular trading at the Tokyo Stock Exchange for each trading day (excluding the days on which trades are not made) of the month immediately prior to the month to which the date (hereinafter referred to as the "Exercise Date") on which each of the Stock Acquisition Rights is exercised belongs (provided, however, that adjustment shall be applied appropriately if the Company's board of directors recognizes that a stock split and reverse stock split or any other events that require the Exercise Price to be adjusted occurs in the month immediately prior to the month to which the Exercise Date belongs) (hereinafter referred to as the "Market Price") by three (3) (with any fraction of a yen after such calculation to be rounded up to the nearest whole yen) prior to the date (hereinafter referred to as the "Exercise Price Change Date") immediately following the date on which a person becomes a Specified Large Holder (defined in (4)1)(i) below) and (ii) the amount obtained by multiplying the Market Price by three ten-thousandths (3/10,000) (with any fraction of a yen after such calculation to be rounded up to the nearest whole yen) on and after the Exercise Price Change Date.

(3) Exercise Period of the Stock Acquisition Rights
The exercise period of the Stock Acquisition Rights begins on Tuesday, July 18, 2006 and ends on Tuesday, June 30, 2009; provided, however, that if the Company acquires the Stock Acquisition Rights in accordance with the provisions in (7)1) and 2) below, the exercise period for the Stock Acquisition Rights with respect to that acquisition ends on the day immediately prior to the relevant acquisition date. In addition, if a Trigger Event (defined in (4)2) below; hereinafter the same.) occurs from and including Thursday, January 1, 2009 to and including Tuesday, June 30, 2009, the exercise period shall extend for 6 months from the date on which the Trigger Event occurs; provided, further, that if the final day of the exercise period falls on a holiday for the payment place for the cash payable upon exercise, the final day will become the preceding business day.

(4) Conditions for exercise of the Stock Acquisition Rights

1) The terms below are defined as follows.

(i) "Specified Large Holder" means a person who is a holder (including any person who is included in a "holder" under Article 27-23(3) of the Securities and Exchange Law) of share certificates, etc. (as defined in Article 27-23(1) of the Securities and Exchange Law; the same applies hereinafter unless otherwise provided for) issued by the Company and whose holding ratio of share certificates, etc. (as defined in Article 27-23(4) of the Securities and Exchange Law; the same applies hereinafter) in respect of such share certificates, etc. is at least 20% (including any person who is deemed to fall under the above by the Company's board of directors).

(ii) "Public Announcement" means a state in which information is available to a large number of people, including the submission of reports as described in Article 27-23 or Article 27-25 of the Securities and Exchange Law, and the timely disclosure by the Company in accordance with the regulations of the Securities Exchange.

(iii) "Joint Holder" means a joint holder as defined in Article 27-23(5) of the Securities and Exchange Law, including any person who is deemed to be a joint holder in accordance with Article 27-23(6) of the Securities and Exchange Law (including any person who is deemed to fall under the above by the Company's board of directors).

(iv) "Specified Large Purchaser" means a person who makes a public announcement of purchase, etc. (as defined in Article 27-2(1) of the Securities and Exchange Law; the same applies hereinafter) of share certificates, etc. (as defined in Article 27-2(1) of the Securities and Exchange Law; the same applies in this item (iv)) issued by the Company through tender offer (as defined in Article 27-2(6) of the Securities and Exchange Law) and whose ratio of ownership of share certificates, etc. (as defined in Article 27-2(8) of the Securities and Exchange Law; the same applies hereinafter) in respect of such share certificates, etc. owned by such person after such purchase, etc. (including similar ownership as prescribed in Article 7(3) of the Order of the Enforcement of the Securities and Exchange Law) is at least 20% when combined with the ratio of ownership of share certificates, etc. of a Person having a Special Relationship (including any person who is deemed to fall under the above by the Company's board of directors).

(v) "Person having a Special Relationship" is defined in Article 27-2(7) of the Securities and Exchange Law (including any person who is deemed to fall under the above by the Company's board of directors); provided, however, that those persons provided for in Article 3(1) of the Cabinet Ordinance concerning Disclosure of a Tender Offer by an Acquirer other than the Issuing Company are excluded from those persons set out in Article 27-2(7)(i) of the Securities and Exchange Law.

(vi) An "Affiliated Party" of a given person means a person who substantially Controls, is Controlled by, or is under common Control with such given person (including any person who is deemed to fall under the above by the Company's board of directors), or a person deemed by the Company's board of directors to act in concert with such given person. "Control" means to "control the determination of the financial and business policies" (as defined in Article 3(3) of the Enforcement Regulations of the Corporation Law) of other companies or entities.

Notwithstanding (i) and (iv) above, the persons set out in (a) through (e) below are not Specified Large Holders or Specified Large Purchasers:

(a) The Company, its subsidiaries (as defined in Article 8(3) of the Regulations concerning Terminology, Forms and Method of Preparation of Financial Statements, etc.) or its affiliates (as defined in Article 8(5) of the Regulations concerning Terminology, Forms and Method of Preparation of Financial Statements, etc.);

(b) A person that the Company's board of directors recognizes as a person that became a Specified Large Shareholder with no intention to control the Company and that ceased to be a Specified Large Shareholder due to a disposal, etc. of the share certificates, etc. of the Company held within ten (10) days after becoming a Specified Large Shareholder (provided, however, that the ten (10) day period may be extended by the Company's board of directors);

(c) A person that the Company's board of directors recognizes as a person that involuntarily became a Specified Large Shareholder by the Company acquiring treasury stock or for any other reason (excluding cases where the person thereafter newly acquires the Company's share certificates, etc. at its own discretion); or

(d) A person acquiring and holding the Stock Acquisition Rights at the time of their issuance as a trustee of a trust the settler of which is the company (this is limited to the person in the capacity of the trustee of the trust, who is hereinafter referred to as "Trustee")

(e) A person that the Company's board of directors recognizes, in accordance with the rules of the Stock Acquisition Rights separately determined by the Company's board of directors (hereinafter referred to as the "Rules of the Stock Acquisition Rights"), as a person whose acquisition or holding (hereinafter referred to as "Acquisition") of share certificates, etc. of the Company is not contrary to the Company's corporate value or the common interests of shareholders (the Company's board of directors may recognize that it falls under the above at any time regardless of whether the holder of the Stock Acquisition Rights (hereinafter referred to as the "Rights Holder") may exercise the Stock Acquisition Rights according to 3) or 4) below. In cases where the Company's board of directors recognizes that the Acquisition is not contrary to the Company's corporate value or common interests of shareholders under certain conditions, such recognition is effective to the extent that these conditions are satisfied.).

2) Regardless of before, on or after the allotment date of the Stock Acquisition Rights, only after (a) 10-day period (provided, however, that the Company's board of directors may extend this period in accordance with the Rules of the Stock Acquisition Rights) passes from the date on which a Public Announcement was made that one or more persons became Specified Large Shareholders; or (b) 10-day period (provided, however, that the Company's board of directors may extend this period in accordance with the Rules of the Stock Acquisition Rights) passes from the date on which one or more persons made a public notice of a Tender Offer which made them Specified Large Purchasers (this together with (a) are referred to as a "Trigger Event", and the time at which any Trigger Event occurs shall be referred to as the "Trigger Event Occurrence Time"), a person who does not fall under any of the persons listed in (i), (ii), (iii), (iv), (v) or (vi) below may exercise the Stock Acquisition Rights: (i) Specified Large Holders, (ii) Joint Holders with the Specified Large Holders, (iii) Specified Large Purchasers, (iv) Persons having a Special Relationship with the Specified Large Purchasers, (v) persons accepting or succeeding to the Stock Acquisition Rights from the persons listed in any of (i), (ii), (iii) or (iv) without the approval of the board of directors of the Company, or (vi) Affiliated Party to a person who falls under any of item (i), (ii), (iii), (iv) or (v) (the person falling under any of items (i) through (vi) are hereinafter collectively referred to as the "Non-Qualified Person").

3) Regardless of paragraph 2) above, in cases where a Trigger Event occurs with respect to an Acquisition by a certain person, the Stock Acquisition Rights may not be exercised if (i) none of the events provided below (hereinafter referred to as "Threats") occur, or (ii) even when one or more of the Threats occur, it is not reasonable in relation to the Threats to allow the Stock Acquisition Rights to be exercised. Whether or not (i) or (ii) above are satisfied shall be determined in accordance with the procedures provided in the Rules of the Stock Acquisition Rights.

(1) There is a threat that the Acquisition would obviously harm the corporate value of the Company and the common interests of shareholders through any of the following actions;
   (a) A buyout of the Company's shares to require such shares to be purchased by the Company at a high premium.
   (b) Management that achieves an advantage for the Acquirer to the detriment of the Company, including temporary gaining control of the Company for the acquisition of the Company's material assets at a discount price.
   (c) Diversion of the Company's assets to secure or repay debts of the Acquirer or its group companies.
   (d) Temporarily gaining control of the Company to dispose of high-value assets that have no current relevance to the Company's business and either temporarily making high dividend payouts from the profits of the disposal, or selling the shares at a high price taking advantage of the opportunity afforded by the sudden rise in share prices created by the temporary high dividends.

(2) The transaction structure of the Acquisition coerces shareholders of the Company into accepting the Acquisition;

(3) Adequate information on the Acquisition are not provided to the shareholders or the Company's board of directors, or there is not period of time reasonably necessary to produce an alternative proposal to the Acquisition;

(4) The terms and conditions of the Acquisition (including price and type of the consideration, timing of the Acquisition, legality of the measure of the Acquisition, probability of the closing of the Acquisition, and policy of treatment of the employees, business partners and other stakeholders of the Company) are inadequate or inappropriate in light of the intrinsic value of the Company; or

(5) In addition to (1) to (4) above, the Acquisition or the transaction thereof materially threatens to be against the Company's corporate value and the common interests of its shareholders (taking into consideration the interests of employees, business partners and other stakeholders.).

4) In addition to paragraph 3) above, in cases where a Trigger Event occurs with respect to an Acquisition by a certain person, a Rights Holder may not exercise such Stock Acquisition Rights if there is an alternative proposal, offered or supported by the board of directors of the Company, other than the Acquisition and the alternative proposal involves transfer of control of the Company (this refers to an action by which a certain person holds majority of the voting rights of all shareholders of the Company), and if (i) the Acquisition is implemented solely through a tender offer to purchase all share certificates issued by the Company in cash; (ii) the Acquisition does not cause any obvious harms to the corporate value of the Company or common interests of its shareholders through actions including that listed in any of 3)(1)(a), (b), (c) or (d) above; (iii) The structure of the transaction of the Acquisition does not coerce the shareholders of the Company into accepting the Acquisition; and (iv) the Acquisition or the transaction thereof does not materially threaten to be contrary to the corporate value of the Company or the common interests of its shareholders. Whether or not the Acquisition falls under any of the above cases shall be determined in accordance with the procedures provided in the Rules of the Stock Acquisition Rights.

5) In addition to 3) and 4) above, under the applicable foreign laws and ordinances, if a person located under a jurisdiction of such laws and ordinances is required for the purposes of exercising the Stock Acquisition Rights to (i) perform certain procedures, (ii) satisfy certain conditions (including prohibition of exercise for a certain period of time or submission of specified documents), or (iii) both perform such procedures and satisfy such conditions (collectively, the "Governing Law Exercise Procedures and Conditions"), such person may exercise the Stock Acquisition Rights only if the Company's board of directors recognizes that it fully performs or satisfies the Governing Law Exercise Procedures and Conditions, and such person may not exercise the Stock Acquisition Rights if the Company's board of directors does not recognize that it satisfies the Governing Law Exercise Procedures and Conditions; provided, however, that the Company shall bear no obligation to implement or satisfy any Governing Law Exercise Procedures and Conditions which are required in order for the person locates in such jurisdiction to exercise the Stock Acquisition Rights. In addition, if a person located under such jurisdiction is not permitted to exercise the Stock Acquisition Rights under such laws and ordinances, such person who locates in such jurisdiction may not exercise the Stock Acquisition Rights.

6) Notwithstanding 5) above, a person located in the United States may exercise the Stock Acquisition Rights, only if (i) such person represents and warrants that it is an accredited investor as defined in Rule 501(a) of the U.S. Securities Act of 1933, and (ii) such person covenants to resell the shares of the Company to be acquired upon exercise of the Stock Acquisition Rights held by such person only through a regular transaction at the Tokyo Stock Exchange (not on the basis of any previous arrangements and without previous solicitation). In such case only, the Company shall perform or satisfy the Governing Law Exercise Procedures and Conditions under Regulation D of the U.S. Securities Act of 1933 and U.S. state laws that are required to be performed or satisfied by the Company for exercise of the Stock Acquisition Rights by a person located in the United States. A person located in the United States shall not exercise the Stock Acquisition Rights if the Company's board of directors determines that such party is not permitted to legally exercise the Stock Acquisition Rights under the U.S. Securities Act due to a change in the law of the United States or some other reason, even though such person satisfies the conditions as described in (i) and (ii) above.

7) The Trustee may not exercise the Stock Acquisition Rights in the capacity of the Trustee.

8) A Rights Holder may exercise the Stock Acquisition Rights by using the method stipulated in (10) below only if the Rights Holder submits to the Company a written statement in which the holder undertakes representations and warranties, including, but not limited to, the fact that the Rights Holder is not a Non-Qualified Person, nor a person that has any intention to exercise the Stock Acquisition Rights on behalf of a Non-Qualified Person, provisions for indemnification and other matters prescribed by the Company.

9) Even if a Rights Holder is unable to exercise the Stock Acquisition Rights in accordance with 2) to 8) above, the Company shall not be liable to such Rights Holder of the Stock Acquisition Rights for damages or any other obligations in any respects.

(5) Capital and capital reserve to be increased upon issuance of shares by exercise of the Stock Acquisition Rights

The capital to be increased upon issuance of shares by exercise of the Stock Acquisition Rights shall be equal to the aggregate of the maximum increased capital amount, etc. to be calculated in accordance with Article 40 of the Company Calculation Rules, and the capital reserve shall not be increased.

(6) Restrictions on acquisition of the Stock Acquisition Rights by means of assignment

Any Acquisition of the Stock Acquisition Rights by means of assignment requires approval of the Company's board of directors.

If a person who intends to assign the Stock Acquisition Rights is located outside Japan and is unable to exercise the Stock Acquisition Rights in accordance with (4)5) and (4)6) above (excluding a Non-Qualified Person), then the Company's board of directors shall determine if it gives such approval as described in the above paragraph considering the following matters:

1) With regard to complete or partial assignment of the Stock Acquisition Rights by a person located in the relevant jurisdiction, the assignor shall submit an undertaking letter (including documents containing representations and warranties and indemnity clauses regarding (6)2) through (6)4) below) prepared and signed or sealed with printed name by the assignee.

2) The assignee does not fall under a Non-Qualified Person.

3) The assignee shall not be located in the relevant jurisdiction or be attempting to receive the assignment on behalf of a person located in the relevant jurisdiction.

4) The assignee shall not be attempting to receive the assignment on behalf of a Non-Qualified Person or be attempting to receive the assignment on behalf of a person located in the relevant jurisdiction as stipulated in 3).

(7) Acquisition of the Stock Acquisition Rights by the Company

1) In cases where a Trigger Event occurs with respect to an Acquisition by a certain person and the Company's board of directors recognizes that the Stock Acquisition Rights may not be exercised in accordance with (4)3) or 4) above, the Company shall acquire all of Stock Acquisition Rights on a date that falls on a date separately specified by the Company's board of directors without consideration; provided, however, that this does not apply if the Company's board of directors determines that, in accordance with (4)1)(e) above, the Acquirer falls under a person described in (4)1)(e) above.

2) In addition to 1) above, at any time on or until a Trigger Event Occurrence Time, if the Company's board of directors recognizes that it is appropriate for the Company to acquire the Stock Acquisition Rights, the Company may, on a date that falls on a date separately specified by the Company's board of directors, acquire all of Stock Acquisition Rights without consideration.

(8) Delivery of the Stock Acquisition Rights in the case of merger, corporate division, share exchange or share transfer

In the event the Company is involved in a merger by absorption where it becomes the absorbed corporation, a merger by incorporating a new company where it becomes the expired corporation, a corporate division by absorption where it becomes the absorbed corporation, a corporate division by incorporating a new company where it becomes the new company, a share exchange where it becomes the wholly-owned subsidiary, or a share transfer where it becomes the wholly-owned subsidiary (hereinafter collectively referred to as "Reorganization"), if the Stock Acquisition Rights have not been exercised or been acquired by the Company at the time the Reorganization comes into effect, new stock acquisition rights shall be delivered to the Rights Holder by the surviving company in a merger by absorption, the new company in a merger by incorporating a new company, the surviving company in a corporate division by absorption, the new company in a corporate division by incorporating a new company, the parent company in a share exchange or the parent company in a share transfer (hereinafter collectively referred to as "Reorganized Companies") in accordance with the following conditions; provided, however, that approval by the Company's general meeting of shareholders is required for proposals of the agenda regarding the approval of agreements on mergers by absorption, agreements on mergers by incorporating a new company, corporate divisions by absorption, plans for corporate divisions by incorporating a new company, share exchange agreements and share transfer plans with provisions in accordance with the following conditions with respect to the delivery of new stock acquisition rights instead of the Stock Acquisition Rights.

1) Number of stock acquisition rights newly delivered
   This shall be reasonably adjusted according to the terms and conditions of the Reorganization based on the number of Stock Acquisition Rights held by the Rights Holder. The number of shares after adjustment shall be rounded down to the nearest whole number.

2) Class of shares to be acquired upon exercise of the newly delivered stock acquisition rights
   The same class of shares in the Reorganized Company as those acquired upon exercise of the Stock Acquisition Rights.

3) Number of shares to be acquired upon exercise of the newly delivered stock acquisition rights
   The number is to be reasonably adjusted in consideration of the terms and conditions of the Reorganization. The number of shares after

adjustment shall be rounded up to the nearest whole number.

4) The amount of properties to be contributed upon exercise of the newly delivered stock acquisition rights
The amount is to be reasonably adjusted in consideration of the conditions of the Reorganization. The amount after adjustment shall be rounded up to the nearest yen.

5) Exercise Period of the newly delivered stock acquisition rights, conditions for exercising the stock acquisition rights, capital and capital reserve to be increased upon issuance of shares by exercise of the newly delivered stock acquisition rights, delivery of the stock acquisition rights in the case of reorganization and acquisition of the newly delivered stock acquisition rights by Reorganized Companies
Those are to be determined upon the Reorganization by applying (3) to (5), (7) and (8) above with necessary adjustments.

6) Restrictions on acquisition of the newly delivered stock acquisition rights by assignment
Acquisition of the newly delivered stock acquisition rights by assignment requires the approval of the Company's board of directors of Reorganized Companies. When the assignor is a person located outside of Japan that may not exercise the stock acquisition rights due to (4)5) or 6) (excluding a Non-Qualified Person), the Company's board of directors of the Reorganized Company determines whether or not approval should be given in consideration of the matters in (6) 1) to 4) above.

(9) Issuance of certificates representing the Stock Acquisition Rights
Certificates representing the Stock Acquisition Rights will not be issued.

(10) Method for exercising the Stock Acquisition Rights

1) The Stock Acquisition Rights shall be exercised by submitting a Stock Acquisition Rights exercise request in a form prescribed by the Company (including representations and warranties, including that the Right Holder is not a Non-Qualified Person, nor is attempting to exercise the Stock Acquisition Rights for any such person, and indemnity clauses) indicating necessary information such as the details and number of the Stock Acquisition Rights to be exercised and the exercise date for the Stock Acquisition Rights. This form shall be sealed with printed name and any documents, from time to time, required to exercise the Stock Acquisition Rights and other documents required by the Corporation Law, the Securities and Exchange Law and other laws and ordinances and their related regulations (including regulations such as those issued by the Japan Securities Dealers Association and domestic stock exchanges) and any other documents required at the time (hereinafter referred to as the "Attached Documents") shall be attached to the Stock Acquisition Rights exercise request form. In addition, the amount of money to be contributed upon exercise of the Stock Acquisition Rights as stated in (2) above shall be paid to the payment place.

2) A request to exercise the Stock Acquisition Rights shall be effective upon the arrival of the Stock Acquisition Rights exercise request form and all Attached Documents at the payment place in accordance with 1) above.

(11) Revision due to amendment to laws and ordinances
The provisions of the laws and ordinances referred to above are subject to the provisions that will come into effect as of May 22, 2006. If the meanings of the provisions or terms as set forth in each item above require revision due to the enactment, amendment or abolishment of laws and ordinances after May 22, 2006, the Company's board of directors may accordingly read the meanings of the provisions or terms as set forth in each item above to the reasonable extent as required, taking into consideration the purposes of such enactment, amendment or abolishment.

2. Amount paid in exchange for the offered stock acquisition rights
No payment is required in exchange for the offered stock acquisition rights.

3. Allotment Date of the offered stock acquisition rights
Tuesday, July 18, 2006

4. Payment place of the amount of money to be contributed upon exercise of the offered stock acquisition rights
The Sumitomo Trust & Banking Co., Ltd. Tokyo Corporate Business Department
1-4-4, Marunouchi, Chiyoda-ku, Tokyo
(or, to the new address in the event the department is relocated, or, in the event the department is consolidated or ceases it operations, to the head office or a branch taking over the department's services and its new address; hereinafter referred to as the "Payment Location")

5. At the allocation destination
The Sumitomo Trust & Banking Co., Ltd.

6 Other
The provisions herein are on the condition of the notification according to the Securities and Exchange Law being made effective.

Significant events subsequent to 31 March 2005 are noted as follows:

In the past, the company has considered the evaluation, development and promotion of intellectual property related to internet technology ventures as sources of competitiveness, on 28 April 2005, the Board of Directors resolved to clearly position investments 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 information service business. As a result of this resolution, investment in securities of ¥13,814 million were reclassified to investment 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.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of transcosmos inc.

We have audited the accompanying consolidated balance sheets of transcosmos inc. (the Company) and its subsidiaries as of 31 March 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended 31 March 2006, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 March 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended 31 March 2006, in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (19), effective for the year ended March 31, 2006, the Company and its subsidiaries adopted new accounting standard for impairment of fixed assets.

As described in Note 2 (4) and Note 15, the Company and its subsidiaries changed their accounting policy for investment securities of the Corporate Venture Capital business and the segmentation of its industry segment.

As described in Note 18 (2), the Company implemented a 2-for-1 split of its shares of common stock on 1 April 2006.

As described in Note 18 (3), on 23 May 2006 the Board of Directors approved the redemption of the Company's common stock, which was later approved on 29 June 2006 at the General Stockholder's Meeting.

As described in Note 18 (4), on 22 May 2006 and 29 May 2006 the Board of Directors approved the Company's issuance of stock acquisition rights.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
29 June 2006

Non-Consolidated Balance Sheets

At 31 March 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
ASSETS			
Current Assets:			
Cash and time deposits	¥ 7,956	¥ 18,748	$ 67,725
Investments in securities for operating purposes	11,529	13,814	98,145
Notes and accounts receivable:			
Third parties	12,773	12,723	108,734
Subsidiaries and affiliates	127	137	1,084
	12,900	12,860	109,819
Less: allowance for doubtful accounts	(34)	(41)	(289)
	12,866	12,819	109,530
Short-term loans receivable from subsidiaries	300	—	2,554
Work and software in progress and merchandise	135	89	1,146
Merchandise	11	68	94
Prepaid expenses	525	383	4,470
Other current assets	717	642	6,105
Total current assets	34,039	46,563	289,768
Investments and Advances:			
Investment in securities	1,391	702	11,842
Investment in and advances to subsidiaries and affiliates	26,573	24,864	226,214
Stock purchase warrants from subsidiaries	3	3	29
Long-term loans receivable from subsidiaries	10,790	5,450	91,853
Other investments	201	199	1,709
Less: allowance for doubtful accounts	(3,466)	(3,825)	(29,511)
Total investments and advances	35,492	27,393	302,136
Property and equipment, at cost, less accumulated depreciation	2,939	3,921	25,022
Security deposits	2,222	2,077	18,914
Deferred charges, intangibles and other	1,452	1,092	12,361
Other non-current assets to subsidiaries and affiliates	144	144	1,224
Deferred tax assets	531	5,006	4,523
Prepaid pension costs	435	455	3,699
	¥ 77,254	¥ 86,651	$ 657,647

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

At 31 March 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term bank loans	¥ 2,000	¥ —	$ 17,026
Accounts payable:			
Third parties	5,550	4,440	47,249
Subsidiaries and affiliates	668	840	5,687
	6,218	5,280	52,936
Income taxes payable	211	321	1,794
Deferred tax liabilities	248	2,723	2,114
Accrued expenses	2,490	2,196	21,200
Accrued bonuses for employees	2,326	2,127	19,797
Other current liabilities	1,637	1,617	13,933
Total current liabilities	15,130	14,264	128,800
Non-Current Liabilities:			
Bonds	5,171	10,000	44,020
Long-term bank loans	—	2,000	—
Other current liabilities	34	46	285
Total non-current liabilities	5,205	12,046	44,305
Total liabilities	20,335	26,310	173,105
Stockholders' Equity:			
Common stock:			
Authorized 90,088,176 shares at 31 March 2006 and 2005			
Issued 24,397,023 shares at 31 March 2006 and 2005	29,066	29,066	247,433
Additional paid-in capital	15,069	15,069	128,281
Other capital surplus	8,149	7,597	69,368
Legal reserve	—	—	—
General reserve	—	—	—
Retained earnings	9,570	5,776	81,471
Unrealized gains on marketable securities and investment in securities	5,356	7,492	45,592
Treasury stock, at cost, 2,060,902 and 1,645,055 shares at 31 March 2006 and 2005, respectively	(10,291)	(4,659)	(87,603)
Total stockholders' equity	56,919	60,341	484,542
	¥ 77,254	¥ 86,651	$ 657,647

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

Non-Consolidated Statements of Operations

For the years ended 31 March 2006, 2005 and 2004

	Millions of yen 2006	2005	2004	Thousands of U.S. dollars (Note 3) 2006
Net Sales	¥ **95,252**	¥ 82,483	¥ 65,360	$ **810,865**
Cost of Sales	**70,804**	63,589	50,698	**602,742**
Gross profit	**24,448**	18,894	14,662	**208,123**
Selling, general and administrative expenses	**15,755**	12,640	10,394	**134,119**
Operating income	**8,693**	6,254	4,268	**74,004**
Non-operating income (expenses):				
Interest income	**30**	43	120	**252**
Interest expenses	**(26)**	(36)	(27)	**(223)**
Dividend income	**99**	43	79	**841**
Bond issuance cost	**—**	(66)	—	**—**
Loss on disposal of merchandise	**(25)**	(4)	—	**(216)**
Loss on impairment of fixed assets	**(870)**	—	—	**(7,410)**
Loss on sale/disposal of property and equipment	**(137)**	(101)	(53)	**—**
Write-down of marketable securities and investment in securities	**—**	(150)	(274)	**—**
Write-down of investment in affiliates	**(727)**	(560)	(297)	**(6,186)**
Write-down of golf club memberships	**(11)**	(28)	(17)	**(94)**
Gain on sale/disposal of investment in securities	**149**	545	579	**1,265**
Gain on sale/disposal of investment in affiliates	**796**	0	38	**6,775**
Foreign exchange losses	**(62)**	—	—	**(531)**
Loss on liquidation of business segment	**—**	—	(202)	**—**
Head office relocation expense	**—**	—	(520)	**—**
Loss on investment in partnerships	**—**	—	(667)	**—**
Gain on dissolution of subsidiary	**1**	33	—	**9**
Bad debt expense	**—**	(1,008)	(523)	**—**
Other, income	**485**	140	155	**4,137**
Other, expenses	**(198)**	(192)	(195)	**(1,680)**
Total non-operating income (expenses)	**(496)**	(1,341)	(1,804)	**(4,224)**
Income before income taxes	**8,197**	4,913	2,464	**69,780**
Income taxes				
- Current	**37**	41	71	**312**
- Deferred	**3,453**	1,746	(967)	**29,395**
Net income	¥ **4,707**	¥ 3,126	¥ 3,360	$ **40,074**

	Yen 2006	2005	2004	U.S. dollars 2006
Per Share:				
Net income	¥ **210.2**	¥ 136.2	¥ 140.6	$ **1.79**
Cash dividends	¥ **70.0**	¥ 40.0	¥ 30.0	$ **0.60**
Weighted average number of shares (in thousands)	**22,376**	22,926	23,805	

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

Non-Consolidated Statements of Stockholders' Equity

For the years ended 31 March 2006, 2005 and 2004

Millions of yen

	Number of shares of common stock	Common stock	Additional paid-in capital	Other capital surplus	Legal reserve	General reserve	Retained earnings
Balance as at 31 March 2003	24,397,023	¥ 29,066	¥ 30,623	¥ —	¥ 389	¥ 14,900	¥ (23,289)
Transfer to retained earnings	—	—	(8,000)	—	(389)	(14,900)	23,289
Transfer to other capital surplus	—	—	(7,623)	7,623	—	—	—
Net income for the year ended 31 March 2004	—	—	—	—	—	—	3,360
Balance as 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)
Bonuses to directors	—	—	—	—	—	—	(14)
Net income for the year ended 31 March 2005	—	—	—	—	—	—	3,126
Balance as 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)
Bonuses to directors	—	—	—	—	—	—	(3)
Net income for the year ended 31 March 2006	—	—	—	—	—	—	4,707
Balance as at 31 March 2006	24,397,023	¥ 29,066	¥ 15,069	¥ 8,149	¥ —	¥ —	¥ 9,570

Thousands of U.S. dollars (Note 3)

	Number of shares of common stock	Common stock	Additional paid-in capital	Other capital surplus	Legal reserve	General reserve	Retained earnings
Balance as at 31 March 2005		$ 247,433	$ 128,281	$ 64,672	$ —	$ —	$ 49,170
Gain on sale of treasury stock		—	—	4,695	—	—	—
Cash dividends		—	—	—	—	—	(7,747)
Bonuses to directors		—	—	—	—	—	(26)
Net income for the year ended 31 March 2006		—	—	—	—	—	40,074
Balance as at 31 March 2006		$ 247,433	$ 128,281	$ 69,368	$ —	$ —	$ 81,471

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 2006, 2005 and 2004.

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 ¥117.47=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 ¥117.47=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.

Investor Information

CORPORATE INFORMATION

Name	transcosmos inc.
Head Office	3-25-18, Shibuya, Shibuya-ku, Tokyo 150-8530 Japan
Incorporated	June 18, 1985
Capital	¥29,065,968,631
Employees	8,801 group, 7,082 parent (as of March 31, 2006)
Major Banks	Sumitomo Mitsui Banking Corporation Mizuho Corporate Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd.

STOCK INFORMATION

Accounting Year-end
March 31

Month of General Shareholders' Meeting
June

Issued Common Stocks
24,397,023
(as of March 31, 2006)

Number of Shareholders
20,901
(as of March 31, 2006)

transcosmos conducted a two-for-one stock split on April 1, 2006.
Following the split, shares issued and outstanding numbered 48,794,046.

Stock Exchange Listing
Tokyo Stock Exchange

Auditing Corporation
Ernst & Young Shinnihon (from June 29, 2006)

OFFICERS

As of June 29, 2006

Founder & Group CEO	Koki Okuda
Chairman & CEO	Koji Funatsu
Vice Chairman	Osamu Goto
	Toshikazu Tanizawa
President & COO	Masataka Okuda
Executive Vice Presidents	Shojiro Takashima
	Koichi Iwami
Senior Managing Directors	Masakatsu Moriyama
	Shinichi Nagakura
Directors	Taiki Yoshioka
	Kichiro Takao
	Yoko Kamiyama
Standing Auditor	Yoshiharu Uenoyama
Auditors	Teruyuki Hiiro
	Kazushi Watanabe
	Toshiaki Nakamura
Corporate Executive Officers	Hiroshi Kaizuka
	Masaaki Muta
	Nobuhiko Fujimoto
	Kokkei Nakayama
	Yoichi Kawano
Corporate Senior Officers	Tsunetaka Miyaryo
	Masatoshi Kouno
	Kazuhiro Umemura
	Tsutomu Kawase
	Kazuhiko Yamaki
	Koji Okamoto
	Hirofumi Inoue
	Yasuhiro Hayami
	Kazuhiro Shimizu
	Kimihide Okino
	Masaya Nishimura
	Akira Miyake
Corporate Officers	Kunio Shimofusa
	Yutaka Kojima
	Hironori Katada
	Hiroyuki Morita
	Akio Kamei
	Masatoshi Araki
	Hiroyuki Kohara
	Tadashi Makino
	Shunji Hidaka