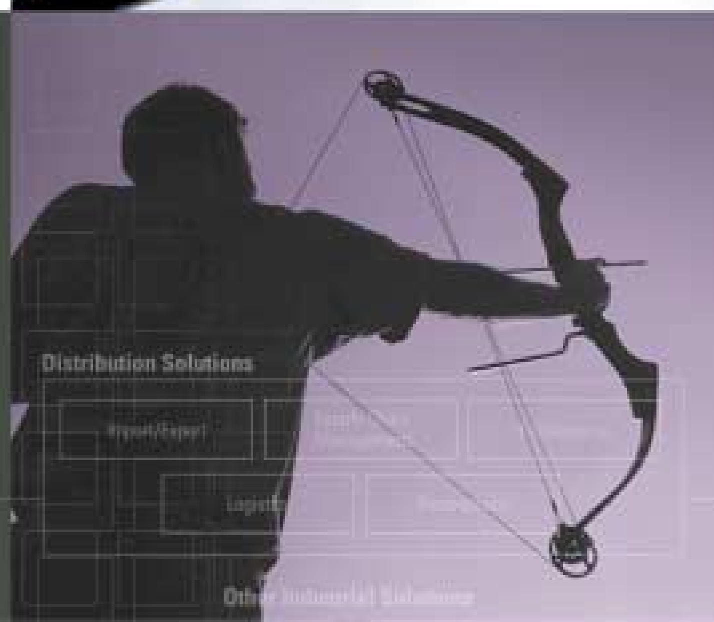
SCS Sumisho Computer Systems Corporation

SCS—Entering a New Era of Business Innovation



Annual
Report
2 0 0 6

Year ended March 31, 2006

Sumisho Computer Systems Corporation and Sumisho Electronics Co., Ltd. have merged to provide customers with a world of enhanced IT solutions. The new company is applying maximum synergy to find and attract a wider range of customers to serve their needs more completely and in greater depth.

Contents

Unique Business Development for the New SCS

To be in the first tier in the Quality IT Services……

Solid Customer Base

Strengthen Customer Base

- Sumitomo Corporation Group
- Distributors
- Manufacturers
- Financial Institutions
- Telecommunications Industry
- Media Industry

→ To Expand Customer Base

Maximize IT Service Skills and Expertise Gained through Business Activities with the Entire Sumitomo Corporation Group

Notice Concerning Forward-Looking Statements: This annual report includes forward-looking statements relating to our future plans, objectives, expectations and intentions. The forward-looking statements reflect management's current assumptions and expectations of future events, and accordingly, they are inherently susceptible to uncertainties and changes in circumstances and are not guarantees of future performance. Actual results may differ materially, for a wide range of possible reasons, including general industry and market conditions and general international economic conditions. In light of the many risks and uncertainties, you are advised not to put undue reliance on these statements. The Company is under no obligation—and expressly disclaims any such obligation—to update or alter its forward-looking statements.

Technical Leadership

Vendor-Accredited Certification

- Microsoft Consulting Partner
- SunTone Certification and Branding Program
- SAP Local Alliance Partner
- Oracle E-Business Suite Partner
- SAS Consulting Partner
- MySQL Platinum Partner

IT Industry

SCS

Core Competence

Global Operations

Focus on Global Businesses

- Operational Bases in the U.S. and Europe
- Offshoring in Asia
- Exploring Best-of-Breed Technologies

To Target Multinationals from Japan

Leverage Expertise in Global IT Services with Sumitomo Corporation

On August 1, 2005, Sumisho Computer Systems Corporation (SCS) merged with Sumisho Electronics Co., Ltd. (SSE), and began reorganizing the management infrastructure, focusing on its target businesses. This process culminated in a major organizational transformation in April 2006. The stage is now set for fiscal 2006, the year ending March 31, 2007, our first full business year as the new SCS. This period marks the start of our future to become one of the leading companies in the information technology (IT) services industry.

Fiscal 2005 Consolidated Performance

Through the August 2005 merger with SSE, we gained a much stronger client base, and by eliminating redundant businesses, the new SCS has unified its operation and has achieved a more efficient operating structure capable of providing total solutions.

The merger also yielded a positive impact on business results. Net sales for fiscal 2005, the year ended March 31, 2006, increased 70.4%, to ¥120.3 billion, reflecting the effect of the merger. Profit declined, however, because of development expenses for ProActive E^2, a proprietary package software, which was developed at a faster pace than had been planned, and in part because of the results of a few unprofitable projects. Nevertheless, as a consequence of the merger, operating income grew 31.2%, to ¥6.5 billion.

Due to the implementation of several administrative measures, including the reallocation of management resources to business areas tapped as “Target Businesses” and a redeployment of business assets as part of our reform efforts, we recognized net other expenses, which led to a 12.2% drop in net income, to ¥2.7 billion.

Laying the Foundation for Major Growth

In recent years, corporate Japan has become quite keen to build and utilize information systems to achieve competitive superiority and facilitate business strategies aimed at raising profitability. We expect investment in such systems to grow, complemented by IT investment to address special needs stemming from realignment in various industries, especially the financial sector. IT is capturing greater market attention, and we aim to capitalize on the opportunities this environment offers.

Consolidated Financial Highlights

Sumisho Computer Systems Corporation and its Subsidiaries

	Millions of yen			Thousands of U.S. dollars*
For the years ended March 31	2006	2005	2004	2006
Net sales	¥120,290	¥70,586	¥76,676	$1,024,008
Net income	2,722	3,101	3,978	23,176
Total shareholders’ equity	94,763	68,966	67,053	806,704
Total assets	125,064	80,497	80,477	1,064,650
Equity ratio (%)	75.8%	85.7%	83.3%	
Return on equity (%)	3.3%	4.6%	6.1%	
		Yen		U.S. dollars
Per share data (yen):				
Net income per share (EPS)	¥53.29	¥70.93	¥90.01	$0.45

* The dollar amounts represent the arithmetical results of translating yen to U.S. dollars using the exchange rate prevailing on March 31, 2006, which was ¥117.47 to US$1.00. Such dollar amounts are solely for the convenience of readers outside Japan and are not intended to imply that the yen amounts have been, or could be, readily converted, realized or settled in dollars at that rate or any other rate of exchange.

Against this operating backdrop, we have designated fiscal 2006 as the year to lay the foundation for a great leap forward to a place of rank among the leaders in the IT services industry. This is a medium- to long-term goal but we will achieve it. We will also strive to enhance our technological capabilities.

We will upgrade the talents of each and every employee and implement a new personnel system that fosters diversity in skills that enhance the capacity of the organization as a whole. To reinforce our manpower policy, we made comprehensive revisions to our training programs. Notable changes include better programs for cultivating expertise, an improved career development program and a substantial increase in our training budget.

To fortify our technology base, we will spotlight three efforts: the expansion of our System Engineering Group; the establishment of project management offices at the head office and in all business units; and more systematic control of projects.

We will strive to fully demonstrate the business synergies derived from our merger with SSE and maintain steady progress in the expansion of our business base.

On behalf of the Board of Directors, we ask for the continued support and encouragement of our stakeholders as we travel the road to our new destination among the leaders of the information services industry.

September 2006

Atsushi Nishijo
Chairman of the Board

Yasuyuki Abe
President & CEO

Atsushi Nishijo and Yasuyuki Abe

On August 1, 2005, SCS began a new chapter in its corporate history by merging with Sumisho Electronics Co., Ltd. (SSE). In this interview, Yasuyuki Abe, SCS President & CEO, shares his in-depth perspective regarding the strengths that the reinvigorated SCS now possesses and the strategies that the Company now pursues.

Q: What steps did SCS take to enhance operations in fiscal 2005?

A: The biggest step, of course, was the merger with Sumisho Electronics. It was made with an eye toward the future and has brought us closer to our goal of becoming a leading company in the IT services industry.

Since our primary objective is to be a first-class provider of quality IT services, we have directed post-merger efforts toward enhancing competitiveness and capitalizing on growth potential. These efforts include reforming our administrative infrastructure, specifically, implementing new human resource management practices and a new budget and performance monitoring system. We also reviewed our business assets, selected business segments to target, which we have designated as "Target Businesses," and reorganized our divisions accordingly. At the same time, we promoted greater efficiency in the application of management resources and more effective execution of business pursuits, an integral part of which includes the consolidation of companies within the SCS Group.

To reinforce profit control on projects, we introduced a screening program on business proposals, which complements our existing project risk check system by analyzing risks inherent to proposals at the planning stage. We also assigned a dedicated team to handle all subcontractor control activities and are now working toward reduced outsourcing costs and more efficient operations.

In regard to strategic business investments, we formed capital and business alliances, first with Cybozu, Inc., which maintains a strong business base in the groupware market; then with Quest Co., Ltd., with core competencies in such areas as software development and system operation management, strengths underpinned by extensive know-how and a thorough understanding of all industries; and also with E-WAVE CO., LTD., which demonstrates expertise in system integration, primarily for medium-sized companies, and boasts high-level Java development technology and smooth implementation of ERP solutions.

SCS will continue to build such partnerships, and through synergy and the joint development of businesses, we will reinforce our business base even further.

Q: How has the Company's business expanded since the merger?

A: Although the merger was achieved on August 1, 2005, SCS and SSE existed as separate in-house companies until March 31, 2006. This in-house company structure ended, as of April 1, 2006, and the two entities became one, ready to maximize the synergies generated through the merger in operations under a brand-new organizational structure.

We executed the organizational reform to facilitate priority allocation of management resources by carefully reviewing the business segments that expanded through the merger and pinpointing target business areas as future profit sources.

We now focus on three types of solution system areas: "Industrial Solutions," which provides system

applications tailored to client needs, based on specialized know-how for each industry sector; "ERP Solutions," which deals with core systems featuring ERP packages, including proprietary packaged software; and "Platform Solutions," which handles IT architecture and infrastructure.

Within these areas, we aim to further expand the scope of our business by integrating existing solution businesses, and by creating new businesses, which will improve the high-value-added nature of the services we provide.

Q: Could you describe the synergistic effects derived from the merger?

A: The consolidation of the client base of the two companies is by far the best result produced by the merger. With only about 15% redundancy among the top 200 companies on our respective client lists, we can expect good cross-selling potential, from SCS to SSE's clients and vice versa.

We can also expect synergies generated through the integration of our businesses. By combining the sales of hardware and software, the major part of SSE's business, with our services, which range from platform systems design to operation and maintenance, we become a one-stop solutions provider. Together with Data Center operations, geared to client needs, we are heading for a single yet major destination—to extend high-value-added services.

A goal requiring medium- and long-term efforts is for SCS to establish a place among the top three providers in each of our target segments with all three solution system areas, and then to hold a position between No. 5 and No. 10 in the IT services industry overall.

To reach this goal, we must continue to enhance our technological capabilities and strive to develop our business activities under the banner of a "revitalized Sumisho Computer Systems" with high-quality IT services. By drawing on proven overseas business development support extended to the Sumitomo Corporation Group, we will assist other Japanese companies in their efforts to globalize operations, and in so doing, expand our own client base worldwide.



The support of shareholders has been instrumental to our success. I ask for your continued encouragement of our efforts.

Q: What exactly are your plans for global expansion?

A: First, we will establish a support structure in Asia to complement what we already have in the United States and Europe. Then, with the experience and operating bases we have in these regions, we will follow our corporate clients to where they made their overseas investments and strategically develop IT service support to meet their needs.

As the trend toward globalization becomes more pronounced, we are also working to position ourselves as an IT partner for Japanese corporations. Through this connection to clients, we will distinguish our global IT services from those of rivals in the industry.

Offshore development—access to human resources at companies abroad, particularly in the People's Republic of China (PRC)—is another aspect of global expansion we will strategically promote.

We, ourselves, have an obligation to provide clients with leading-edge best-of-breed technology information. To discover leading-edge technologies, we will utilize our global infrastructure and, through our connection with the Sumitomo Corporation Group, keep constant watch for advanced technologies overseas to incorporate whatever will spur business development ahead.

Q: In closing, do you have a message for investors?

A: Fiscal 2006 is the inaugural year of the revitalized SCS, and as such, I will with great resolve strive to lead the Company in cementing a solid foundation for growth.

SCS is proud to have played an integral part in providing IT services for the SC Group. To reinforce this status, we continue to work toward a higher level of technological expertise and develop business activities appropriate to a revitalized SCS, based on high-quality IT services. Our efforts will secure us a distinguished position among the top players in the IT field.

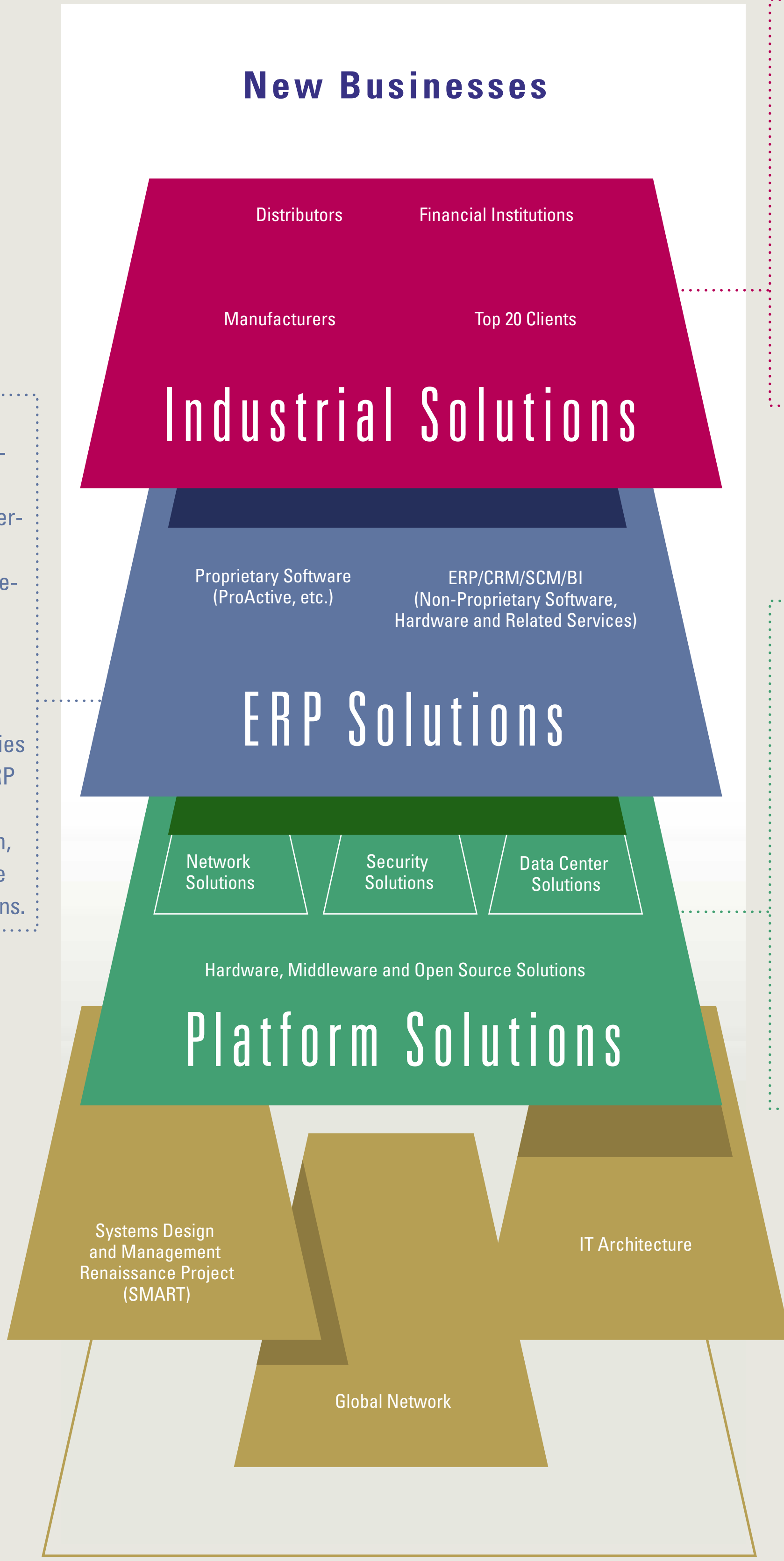
We will also strengthen efforts directed toward such themes as environmental protection, social contribution, information disclosure, compliance and respect for employees. We will endeavor to earn and maintain the trust of our stakeholders—a category not limited to shareholders but one that includes clients and suppliers—as well as that of employees and local communities. These goals are like steps toward a bigger objective—to be an enterprise well regarded and respected by society.

The support of shareholders has been instrumental to our success. I ask for your continued encouragement of our efforts.

SCS Target Businesses

In Industrial Solutions, the focus is on industry-specific system integration services tailored to the needs of each client. Their main feature is the development of application software for companies in distribution/manufacturing industries, as well as financial institutions.

In ERP Solutions, the spotlight is on management decision-making support solutions centering around packaged ERP software. This category offers ProActive, our proprietary packaged ERP software, designed mainly for medium-sized companies and major overseas ERP solutions from SAP AG and Oracle Corporation, which are geared more toward large corporations.



In Platform Solutions, the emphasis is on IT architecture, covering a broad spectrum of IT infrastructure building, including construction of IT network and security systems. This business segment also offers Data Center solutions. Creation of new IT businesses, based on open source architecture, is another critical function of this segment.

Industrial Solutions

Industrial Systems Group

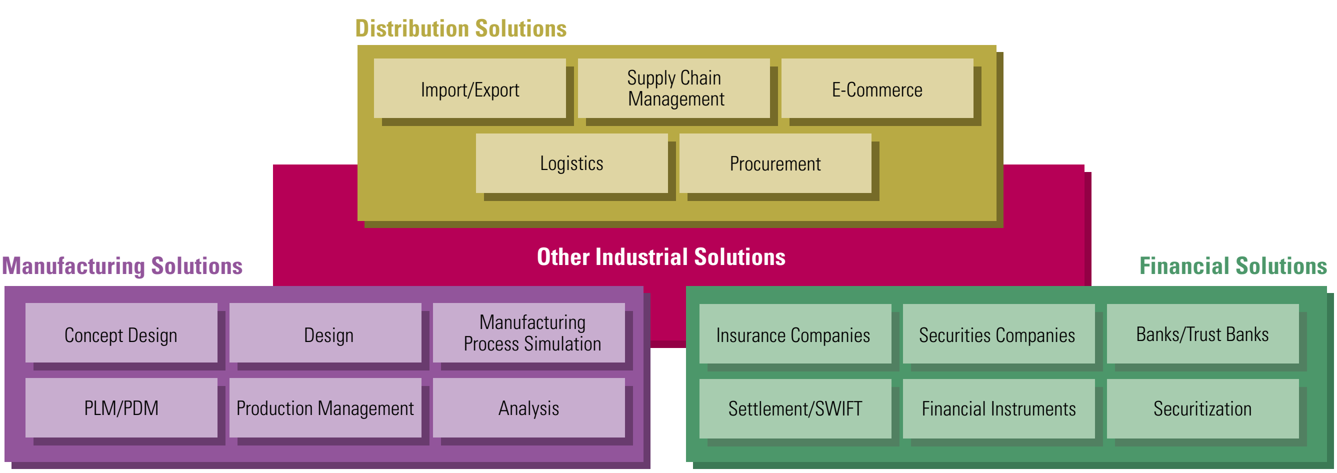
The Industrial Systems Group comprises three divisions: the Industrial Systems Unit, which targets companies in the distribution, communications and service industries, building systems catered to their needs; the Engineering Solutions Unit, which concentrates on solutions for the manufacturing sector, particularly the automotive industry, digitizing manufacturing disciplines, or “Digital Engineering”; and the Financial Systems Solutions Unit, which provides highly specialized packaged software, primarily to the banking, securities and insurance industries, as well as account-style services geared to major clients, creating and supporting systems that address user requirements in all aspects.

The Company has a storehouse of business know-how and a vast accumulation of proven results for clients in all industries. These business assets enable members of the Industrial Systems Unit to offer expert solutions fine-tuned to each industry sector, distinguishing SCS from other system integrators.

Our next step will be to reinforce the relationships we have built with clients, which will bring insight to new market requirements. We will also strive to provide systems that support the use of IT in manufacturing process transformation. Each division of this operating group will decide its own industry targets and endeavor to be No. 1 in its respective business segment. We will also create new business models unbound by the criteria of existing services to further extend our business activities.

SC Solutions Group

This operating group utilizes all the client business know-how accumulated by SCS to provide total IT solutions to the Sumitomo Corporation and the trading giant’s affiliates in Japan and overseas. In addition to efforts aimed at expanding standard business based on the maintenance and operation of core systems, management information systems and customized electronic data interchange (EDI) systems, the SC Solutions Group supports global group management at Sumitomo Corporation by acting as a business partner on the development of standard systems for the Sumitomo Corporation Group at home and abroad.



ERP Solutions

ERP Solutions Group

The ERP Solutions Group comprises two divisions: the ProActive Business Solutions Unit, which focuses on ProActive, SCS' own, integrated ERP solution, providing mainly for small and medium-sized companies; and the ERP Solutions Unit, which develops and installs prevailing overseas ERP solutions R/3, from SAP AG, and E-Business Suite (EBS), from Oracle Corporation, to large corporations. The ERP Solutions Group also promotes other resource planning solutions, including Business Intelligence (BI), Customer Relations Management (CRM) and Supply Chain Management (SCM).

SCS has earned a reputation for excellence on its ability to provide an extensive array of ERP solutions for all companies, from small enterprises to large corporations. From this position, the Company can offer integrated services covering core systems and other resource planning solutions to clients in many different industry sectors.

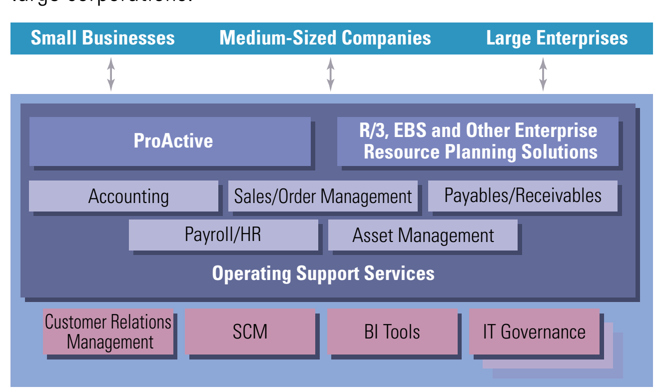
ProActive is a comprehensive integrated core business package. It has scored well with small and medium-sized companies because it can be installed all at once or in stages, if, for example, the client only wishes to address certain operations, such as accounting or personnel and salaries.

The ProActive Business Solutions Unit emphasizes a total service approach, starting with IT consulting for small and medium-sized companies and taking the client's perspective on implementation to ensure a process that is most appropriate for that client's situation.

ProActive E^2, the newest version of ProActive, was created with the Java programming language and facilitates the development of packages not dependent upon any particular operating system or middleware; obviates the need for installation in terminals on-site because it is totally Web-capable; and reduces the burden of maintenance. The latest technology, with a rich client platform, ensures a swift response naturally, and enables a user-friendly interface.

We are seeing an increase in demand for ERP solutions aimed at reinforcing internal controls, largely owing to corporate Japan's rush to respond to the implementation of the upcoming Japanese version of the Sarbanes–Oxley Act, a compliance-oriented corporate reform law dubbed the SOX Act in the United States, where it was created in the wake of corporate financial scandals. To meet heightened demand for solutions that support internal control assessment and require assessment auditing, SCS established a dedicated team to promote information-sharing among related business groups and is formulating a Companywide business strategy to support corporate internal control structures.

We anticipate tremendous growth in corporate IT investment. Against this backdrop, we will strive to provide services that enhance corporate transparency and clarify the connection between in-house information flow and capital flow. We aim to be the No. 1 provider in the ERP solutions market, with a high profile among a wide range of clients, from small businesses to large corporations.



Platform Solutions

IT Platform Solutions Group

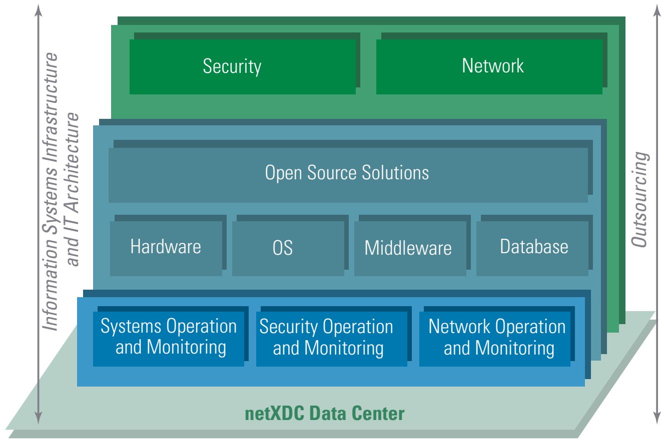
This group, which concentrates on IT architecture services for the creation of IT systems, comprises three divisions: the Network & Security Solutions Unit, which provides network- and security-related products and services; the IT Architecture Solutions Unit, which offers an integrated array of services, from IT platform design and configuration through to systems maintenance and operation; and the netXDC* Solutions Unit, which offers a secure data center environment.

This group provides total services that go beyond systems platform design, configuration, operation and maintenance to other facets of IT infrastructure creation, such as the selection of highly compatible hardware and software as well as advice on network security-enhancing solutions. These comprehensive efforts produce the most ideal infrastructure possible. By becoming a client-oriented one-stop platform solutions provider, the IT Platform Solutions Group will strive to further elevate the high-value-added quality of its solution services.

The netXDC Data Center functions as an important base, ensuring daily operations of clients' information systems with high-quality, highly secure services available around the clock, 365 days a year.

An area of future endeavor is Open Source solutions. SCS is teaming up with other companies, such as VA Linux Systems Japan K.K., to promote strategic business opportunities.

**network eXchange attached Data Center*



Business Development Group

This group focuses on the future, cultivating tomorrow's businesses for SCS. Searching for the drivers of new business growth, the Business Development Group uses its cross-segment presence to create new businesses, formulate strategies for overseas operations and support these pursuits, maintain the Company's offshore development structure in Asia, and underpin new technology development and business creation.

Mainstay operations are in developing applications featuring the rich client language "Curl," a next-generation Web programming language, adopted by "ProActive E^2." The group also offers total solutions for realizing rich client environments and promotes strategies to capitalize on the business opportunities afforded by Web technology innovations, particularly the recent Web–client boom.

Global Business Network

Through our global business network, we deliver the latest solutions to clients and firmly support their development of business activities abroad.

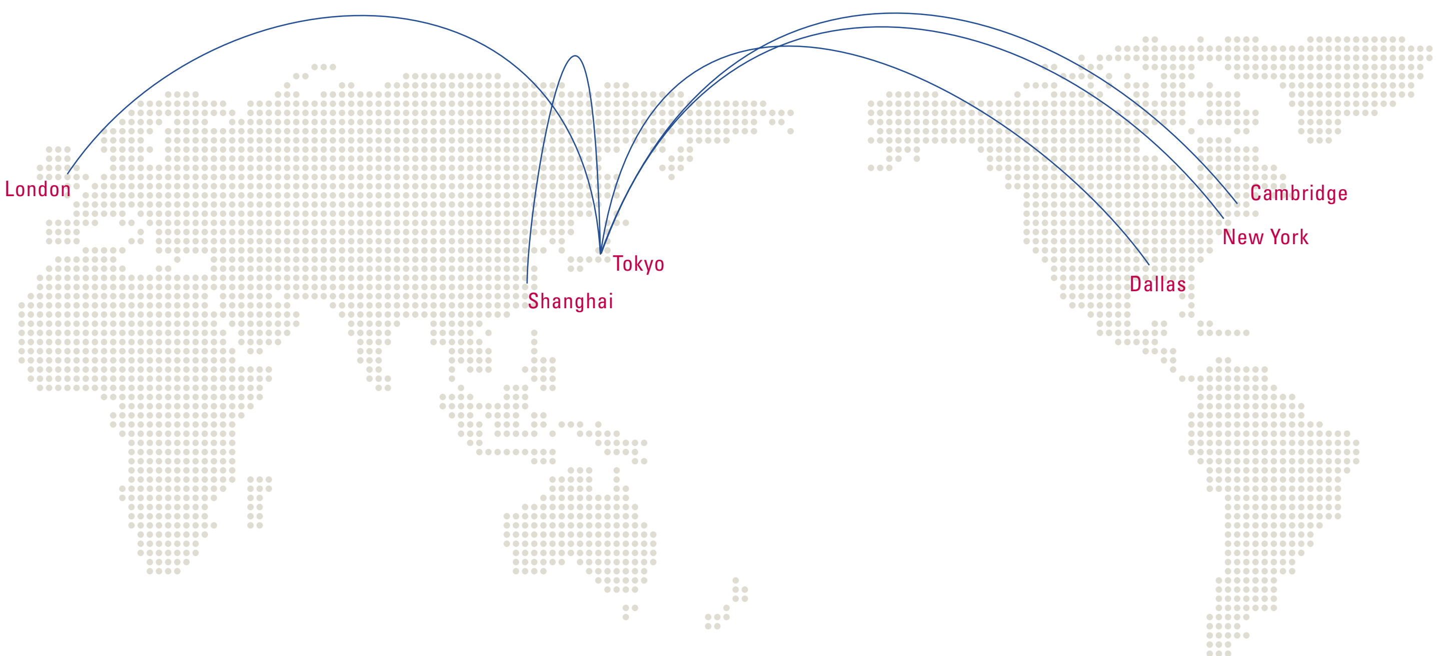
One of SCS's greatest features is its global business network. We have a solid framework with operational hubs in three key geographical regions—a head office in Japan and two overseas subsidiaries, in the United States and Europe. In the United States, operations revolve around Sumisho Computer Systems (USA), Inc., established in 1987, with a head office in New York and a branch in Dallas. In Europe, operations are centered around SUMISHO COMPUTER SYSTEMS (EUROPE) LTD., established in 1990 in London.

As a hub for R&D on rich client language, we set up Curl, Incorporated, in Cambridge, Massachusetts. Further, SCS opened a representative office in Shanghai, in the PRC, in 2004.

With this global presence, SCS is on call to help clients develop their business operations in the United States, Europe, the PRC and Southeast Asia.

We are partnering with outsourcing providers overseas for certain operations in software development. This gives us the flexibility in responding to our clients' needs with regard to delivery time, as well as cost requirements.

We also work with Presidio STX LLC (USA), a member of the Sumitomo Corporation Group dedicated to strategic investment and business activities in the IT field. We strive to find superior, leading-edge technologies around the world, with a particular focus on breakthrough technologies in the United States and Europe. Underpinned by these broad-based partner relationships, we deliver best-of-breed IT services and solutions to our clients.



netXDC

netXDC (network eXchange attached Data Center) is a next-generation data center established according to our own concepts, and is the essential foundation of SCS' high-quality one-stop services. It provides a powerful and comprehensive operation environment for various information/network systems, connecting systems/networks seamlessly between servers and servers, companies and companies, and enabling unified operation between mission critical systems and Internet-based front-end systems. It also provides high-quality services on demand, ranging from IT infrastructure, hardware, security and network operations, to business operations.

The SCS Group is seeking to build an optimal corporate governance framework by demonstrating the following principles: **improving management efficiency, sustaining management soundness** and **ensuring a level of management transparency**. Corporate governance is one of the most important management priorities at SCS, and the Company aims to build and maintain the most appropriate management structure for this purpose.

Corporate Governance Structure

SCS maintains a corporate auditor system and has established a supervisory structure with measures to monitor the execution of duties by directors and to facilitate audits by the Board of Corporate Auditors.

The Company adopted an executive officer system in January 2005 to enhance corporate governance. Consequently, efforts are being made to realize faster management decision-making processes and secure a monitoring system that underpins effective execution of duties. In addition, we have clarified the role of the Board of Directors as a unifying body for making decisions on vital management issues with the power to supervise the execution of operations.

Executive officers are responsible for executing operations, based on commands and instructions from the President & CEO and in accordance with resolutions of the Board of Directors.

The Chairman of the Board presides over the Board of Directors while the President & CEO oversees all business activities of the Company. Directors, excluding the Chairman of the Board and outside directors serve concurrently as executive officers—a structure that accelerates decision-making processes, improves assessment of the execution of operations and enhances the effectiveness of day-to-day operation management.

The Executive Committee and the Committee of Officers, comprising directors, executive officers and corporate auditors, meet to discuss management issues regarding business execution and operations and to confirm the status of business activities in business units.

Directors are elected to the office for a term of one year. Through annual elections at the general meeting of shareholders each year, the Company ensures a level of management transparency.

Corporate auditors attend meetings of the Board of Directors and the Committee of Officers as well as other important meetings, in line with auditing policy established by the Board of Corporate Auditors. Corporate auditors request business reports from directors and executive officers, obtain additional reports from the Internal Auditing Division—an internal auditing department—and review important approval documents. They also investigate the status of operations and finances, based on on-site audits of principal offices, including subsidiaries and affiliates of SCS.

Status of Internal Control System

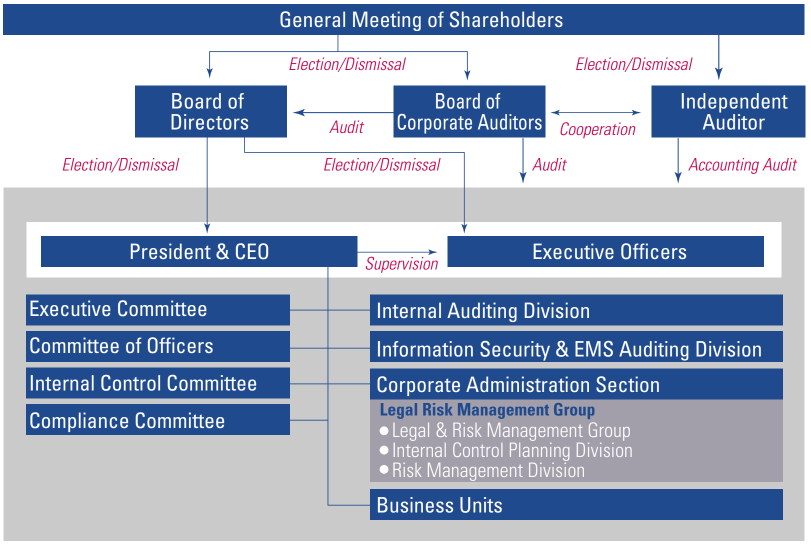
The Board of Directors sets the direction for maintaining the internal control system and makes concerted efforts to ensure thorough compliance by all directors, executives and employees to laws and regulations.

The Company established a system to support internal controls: the Internal Control Committee and Internal Control Office support the actual operation and maintenance of the internal control system, while the Internal Auditing Division makes sure that internal controls are functioning effectively and monitors the status of implementation.

SCS strives to ensure legal compliance. Toward this end, the Company formulated in-house regulations, including rules pertaining to legal compliance, drew up a code of conduct for all directors, executive officers and employees, set up the Compliance Committee and distributed to them the SCS Compliance Manual, a publication designed to raise awareness of compliance at all levels of the corporate hierarchy.

The Company introduced an internal reporting system dubbed "the speak-up system," which guarantees total protection for whistle-blowers. All directors, executive officers and employees have a direct channel to the Compliance Committee, as well as to corporate auditors and legal counsel to facilitate the reporting of compliance-related information.

● Corporate Governance Structure



Management

As of June 28, 2006

Board of Directors

Chairman	Atsushi Nishijo
President & CEO	Yasuyuki Abe
Board Members	Nobuhiko Ishizaka Hidekazu Sakurai Mitsuhiro Ohtsuki Izumi Yutani Tetsuya Fukunaga Hiroaki Kamata Osamu Kojima Yoshio Osawa* Satoshi Toriyama*

Auditors

Corporate Auditors	Hisashi Fujiwara Hisao Sasayama** Isao Yamamoto** Masatoshi Hayashi**

* *Outside director in compliance with the requirements of Item 15, Article 2 of Corporate Law*

** *Outside Corporate Auditor in compliance with the requirements of Item 16, Article 2 of Corporate Law*

Executive Officers

President & CEO	Yasuyuki Abe
Executive Vice President	Nobuhiko Ishizaka Hidekazu Sakurai Mitsuhiro Ohtsuki Izumi Yutani Hiroaki Kamata
Senior Vice President	Tetsuya Fukunaga Osamu Kojima Ken Fujii Kyoji Inomata Keigo Nakamura Kenji Tamaki Shoichi Takayama Akira Tsuyuguchi Motoki Kondo Takeshi Sugihashi Koichiro Nakaya Masaaki Fuchimoto Yoshiaki Ikeda Yutaka Hagio Masaki Ito Kazuhiro Ogawa Shigeo Kurimoto Tetsuo Ohyoshi Atsushi Innami Tatsuaki Shinkai

Photo (left to right):
(front) Nobuhiko Ishizaka, Yasuyuki Abe, Atsushi Nishijo
(back) Satoshi Toriyama, Yoshio Osawa, Osamu Kojima, Hiroaki Kamata, Tetsuya Fukunaga, Izumi Yutani, Mitsuhiro Ohtsuki, Hidekazu Sakurai

SCS and Group Companies

As of June 28, 2006

Sumisho Computer Systems (USA), Inc.

Head Office 600 Third Avenue, 30th Floor, New York, NY 10016, U.S.A.
Tel: +1-212-687-9053 / Fax: +1-212-983-9276

Dallas Office 6363 North State HWY 161, Suite 600, Irving, Texas 75038, U.S.A.
Tel: +1-972-870-3900 / Fax: +1-972-870-3999

SUMISHO COMPUTER SYSTEMS (EUROPE) LTD.

Vintners' Place, 68 Upper Thames Street, London EC4V3BJ, U.K.
Tel: +44-(0)20-7246-3660 / Fax: +44-(0)20-7246-3670

Curl, Incorporated

1 Cambridge Center, 10th Floor, Cambridge, Massachusetts 02142-1612, U.S.A.
Tel: +1-617-761-1200 / Fax: +1-617-761-1201

Curl International Corporation

Harumi Island Triton Square Office Tower Z ,1-8-12, Harumi, Chuo-ku, Tokyo 104-6241, Japan
Tel: +81-3-5547-3866 / Fax: +81-3-5547-3867

SCS Solutions Inc.

2-8-3 Kiba, Koto-ku, Tokyo 135-0042, Japan
Tel: +81-3-5646-0210 / Fax: +81-3-5646-2499

VA Linux Systems Japan K.K.

Harumi Island Triton Square Office Tower W, 1-8-8, Harumi, Chuo-ku Tokyo 104-0053, Japan
Tel: +81- 3-6204-4071 / Fax: +81- 3-6204-4072

Billingsoft Japan Co., Ltd.

CN-1 Bldg., 4F 5-5-2, Kiba, Koto-ku, Tokyo 135-0042, Japan
Tel: +81-3-5621-6330 / Fax: +81-3-5621-6325

e-Commerce Technology Corp.

Kakigara-cho Chiba Bldg., 1-36-7, Nihonbashi Kakigara-cho, Chuo-ku, Tokyo 103-0014, Japan
Tel: +81-3-5642-8478 / Fax: +81-3-5641-3978

Pioneer soft Co., Ltd.

Head Office P.S Bldg., 4-24-9, Katakasu, Hakata-ku, Fukuoka 812-0043, Japan

Tokyo Office Ryogoku Sakurai Bldg., 4-38-16, Ryogoku, Sumida-ku, Tokyo 130-0026, Japan
Tel: +81-3-5638-8291 / Fax: +81-3-5638-8292

Advanced Network Systems Co., Ltd.

STOUT Bldg., 3-23, Kanda-Sakumacho, Chiyoda-ku, Tokyo 101-0025, Japan
Tel: +81-3-3862-5402 / Fax: +81-3-5822-2039

SCS Business Support Inc.

7-51-1 Kameido, Koto-ku, Tokyo 136-0071, Japan
Tel: +81-3-3636-7235 / Fax: +81-3-3636-7210

Component Square, Inc.

Agora-Ooimachi-building 4F, 1-6-3 Ooimachi, Shinagawa-ku, Tokyo 140-0014, Japan
Tel: +81-3-5743-6140 / Fax: +81-3-5743-6139

HULINKS Inc.

Minami-Shinjuku Hoshino Bldg., 5-23-13, Sendagaya, Shibuya-ku, Tokyo 151-0051, Japan
Tel: +81-3-5363-9041 / Fax: +81-3-5363-9040

Financial Section

Consolidated Five-Year Summary

Sumisho Computer Systems Corporation and Subsidiaries for the years ended March 31

	Millions of yen				
	2006	2005	2004	2003	2002
Net sales	¥120,290	¥70,586	¥76,676	¥74,134	¥69,325
Software development	46,265	43,866	48,152	47,781	44,724
Information processing	29,944	15,986	14,690	14,486	14,336
Software package & hardware sales	44,081	10,734	13,834	11,867	10,265
Cost of sales	99,057	59,283	63,675	59,254	56,509
Operating income	6,532	4,978	7,010	9,616	8,042
Net income	2,722	3,101	3,978	5,006	4,107
At Year-End					
Total assets	¥125,064	¥80,497	¥80,477	¥75,360	¥70,839
Total shareholders' equity	94,763	68,966	67,053	63,822	60,064
Per Share (Yen)					
Net income per share (EPS)	¥ 53.29	¥ 70.93	¥ 90.01	¥ 113.25	¥ 94.23
Shareholders' equity per share	1,746.78	1,582.54	1,537.49	1,462.93	1,378.05
Cash dividends declared for the year	26.00	26.00	26.00	24.00	22.00
Other Information					
Return on equity (%)	3.3%	4.6%	6.1%	8.1%	7.0%
Equity ratio (%)	75.8%	85.7%	83.3%	84.7%	84.8%

Overview

Seeking to accelerate business reforms and corporate development, SCS merged with Sumisho Electronics Co., Ltd. (SSE), on August 1, 2005. The merger resulted in a combined client base with minimal redundancy and augmented the former SCS's competence in software development, system configuration and outsourcing-related IT architecture with a strong sales force, IT product procurement capabilities and system configuration skills of SSE. With this broader client base and combined capabilities, the "new SCS" aims to be in the first tier in the IT services industry, focusing on three strategic business domains: the industry-specific application business, which utilizes expert knowledge in each industry to customize system architecture to client needs; the ERP solutions business, which includes proprietary packaged software; and the platform solutions business, which concentrates on IT architecture services for the creation of IT systems.

Summary of Fiscal 2005 Results

During fiscal 2005, ended March 31, 2006, the Japanese economy gained momentum, backed by strong corporate earnings and increased personal spending. However, the unsettled global political and economic situation, most notably the prolonged surge in oil prices and the unresolved situation in the Middle East, created conditions that have not allowed for predictions as to future trends with any degree of certainty.

In this economic climate, many companies started to contemplate expanding their utilization of information systems, to seek competitive advantage and facilitate business strategies aimed at raising profitability. We also noted heightened interest in IT investment, in order to address special needs stemming from industry realignment, especially in the financial sector. The sluggish demand of fiscal 2004 appears to have reversed, evidencing increasing awareness of the significance of information technology.

Against this backdrop, SCS merged with SSE, and made substantial progress on integrating the operations of both companies. In fiscal 2005, net sales increased due mainly to the merger. However, unprofitable projects negatively impacted fiscal 2005 profits and prevented the Group from reaching targets set out at the beginning of the term.

In response, we improved our project risk check system, and are executing more thorough analysis of profit and quality control measures on each project.

In regard to the merger with SSE, this move was made with an eye toward the future. We have consolidated our two organizations to eliminate redundant operations and established an efficient administrative structure. The merger has reinforced our client base and has provided a framework for us to provide total solutions.

Our next step will be to further enhance our revitalized operating foundation and realize fully the synergies generated through the integration of our businesses.

During fiscal 2005, following the merger with SSE, we have formed strategic capital and business alliances with Cybozu, Inc., Quest Co., Ltd., and E-WAVE CO., LTD., as a measure to fortify our operating foundation, specifically for the creation of new IT service businesses and better cost management. For fiscal 2006, we will implement measures for profitability enhancement, one of which includes further cooperation with these three affiliate companies, by which we expect to realize the synergistic effects of combined marketing capabilities and service mix, thereby creating a "one-stop solution." Furthermore, we will actively seek new business investment opportunities to ensure profit increase.

Net Sales

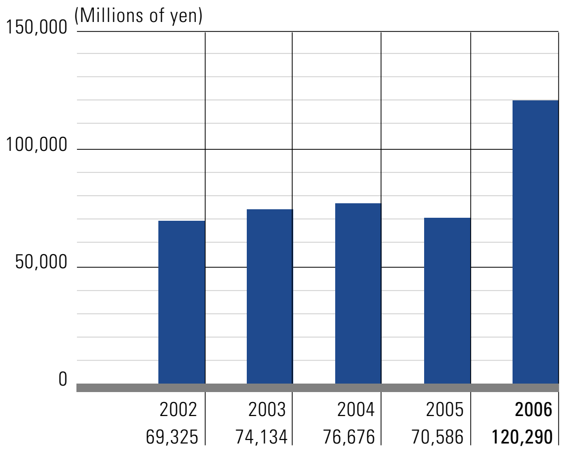
Net sales were ¥120,290 million in fiscal 2005, as compared to ¥70,586 million in fiscal 2004, reflecting the effect of the merger with SSE.

By business category, software development accounted for ¥46,265 million, up ¥2,399 million, or 5.5%, on a year-on-year basis, as a rise in sales to companies in the financial and communications industries compensated for retreating sales on large-scale development projects.

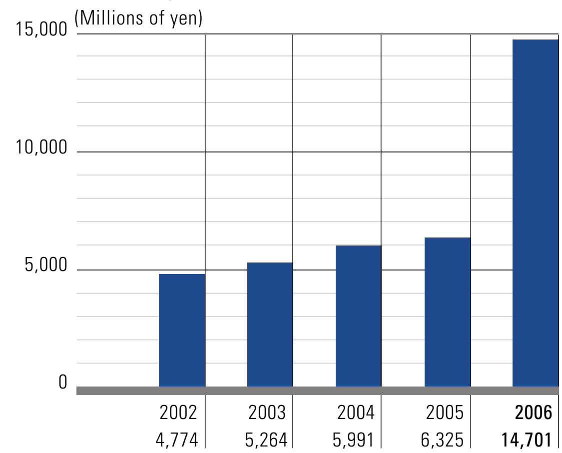
In information processing, sales were ¥29,944 million, up ¥13,958 million, or 87.3%, compared to the prior year, primarily due to the fact that various software development projects were completed and entered their operational phases.

Sales of packaged software and hardware reached ¥44,081 million, up ¥33,347 million, or 310.7%, compared to the prior year, owing to an increase in sales to members of the communications industry. Again, this increase resulted mainly from the addition of businesses of the former SSE.

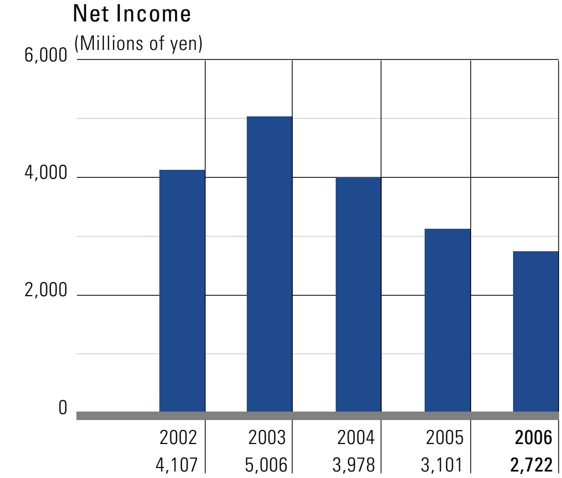
Net Sales



SG&A Expenses



Net Income



Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 67.1% over the fiscal 2004 level, to ¥99,057 million, but the rate of increase was held below that of net sales, and cost of sales as a percentage of net sales decreased to 82.3% in fiscal 2005 from 84.0% a year earlier. The gross profit margin as a percentage of net sales improved 1.7 percentage points in fiscal 2005, to 17.7%, as compared to 16.0% in fiscal 2004, with gross profit increasing 87.9%, to ¥21,232 million.

Selling, general and administrative (SG&A) expenses grew 132.4%, to ¥14,701 million, due primarily to the merger with SSE, and in part to development expenses for ProActive E^2, a proprietary packaged software that was developed at a faster pace than had been planned. The figure was also negatively impacted by the results of a few unprofitable projects. As a result, SG&A expenses as a percentage of net sales increased to 12.2%, from 9.0% in fiscal 2004.

Operating Income

Operating income increased 31.2%, to ¥6,532 million, but the ratio of operating income to net sales decreased 1.7 percentage points, to 5.4%, from 7.1%.

Other Expenses

The SCS Group posted other expenses of ¥1,667 million in fiscal 2005. This reversal from other income of ¥61 million in fiscal 2004 was due mainly to the cost incurred from the implementation of various measures geared toward future growth. Those measures include reallocation of management resources toward activities that the Group has identified as target segments, and the subsequent restructuring.

Net Income

After a 3.1% increase in income taxes, to ¥1,983 million, net income was ¥2,722 million, down 12.2% from the prior year. The ratio of net income to net sales declined 2.1 percentage points, to 2.3%, in fiscal 2005, from 4.4% in fiscal 2004. Net income per share was ¥53.29, compared with ¥70.93 in the previous year.

Liquidity and Financial Position

Cash Flow Status*

Cash and cash equivalents at the end of the year totaled ¥31,558 million, up 63.8% from a year earlier.

Net cash provided by operating activities grew 172.9%, to ¥7,519 million, primarily because of business expansion achieved through the merger with SSE as well as decreases in inventories and less income taxes paid.

Net cash used in investing activities rose 74.4%, to ¥2,780 million, largely owing to payments for purchases of property and equipment, following relocation of offices, and to payments for purchases of investment securities through capital and business alliances.

Net cash used in financing activities amounted to ¥1,399 million, up 19.5%. The major application of funds was dividends paid.

*Consolidated Statements of Cash Flows are unaudited.

Assets, Liabilities and Shareholders' Equity

The increase in assets and liabilities from fiscal 2004 to fiscal 2005 was largely attributable to the merger with SSE. The total assets of SSE as of July 31, 2005, the day before the merger, totaled ¥29,980 million.

Assets

Total assets stood at ¥125,064 million at March 31, 2006, up 55.4% from a year earlier.

Total current assets increased 83.9%, to ¥74,084 million, due mainly to the expanded business activities as a result of the merger with SSE. Key components of this total included cash and time deposits of ¥4,658 million, up 93.0%, notes and accounts receivable of ¥29,841 million, up 101.5%, and inventories of ¥5,761 million, up 85.7%.

Fixed assets rose 26.8%, to ¥50,980 million.

Net property and equipment grew 6.4%, to ¥29,174 million. Despite a disposal of buildings and structures and the sale of a dormitory with a low operating rate, operating assets increased with the impact of the merger with SSE.

Intangibles, net, dropped 29.4%, to ¥2,928 million, impacted primarily by a one-time amortization of software. However, the execution of strategic investments and the subsequent increase in investments in securities led to total investments and other assets of ¥21,806 million, up 70.5%.

Liabilities

Total current liabilities grew 180.4%, to ¥26,724 million, reflecting an increase in notes and accounts payable and other current liabilities, attributable to the merger with SSE and expansion of existing business activities.

Deferred income taxes rose 1,674.8%, to ¥2,254 million, mirroring an increase in net unrealized holding gains on securities, net of tax effect.

Shareholders' Equity

Total shareholders' equity reached ¥94,763 million, up 37.4%. This change is the result of the merger with SSE, as well as higher retained earnings from fiscal 2005 net income. The shareholders' equity ratio declined from 85.7% in fiscal 2004 to 75.8% in fiscal 2005, and return on equity (ROE) also fell, from 4.6% to 3.3%.

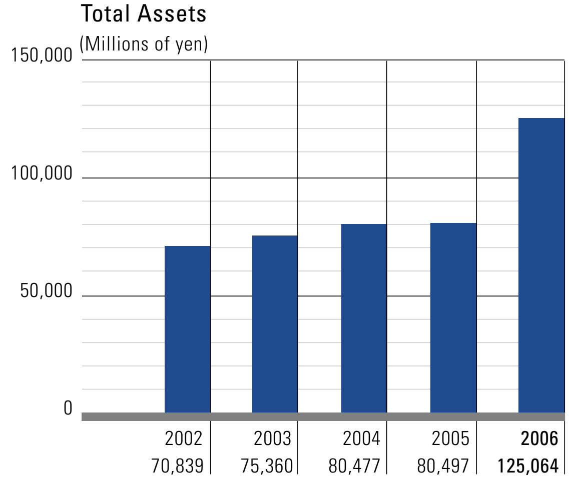
Initiatives for Fiscal 2006

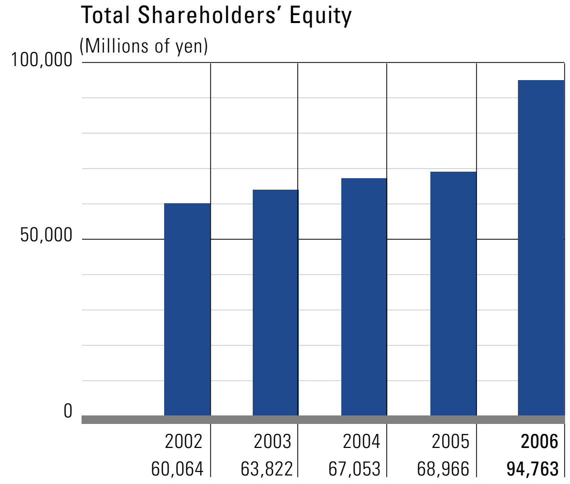
In fiscal 2006, the Japanese economy is expected to generate a continued moderate recovery, supported by improved corporate earnings and personal spending. Capital expenditure is expected to increase reflecting projected favorable corporate performance. Demand for information technology systems, SCS's field of expertise, is expected to grow accordingly, as companies pursue greater competitiveness and operating efficiencies. This positive climate, however, may be tempered by a noticeable trend of companies becoming more selective in their IT spending.

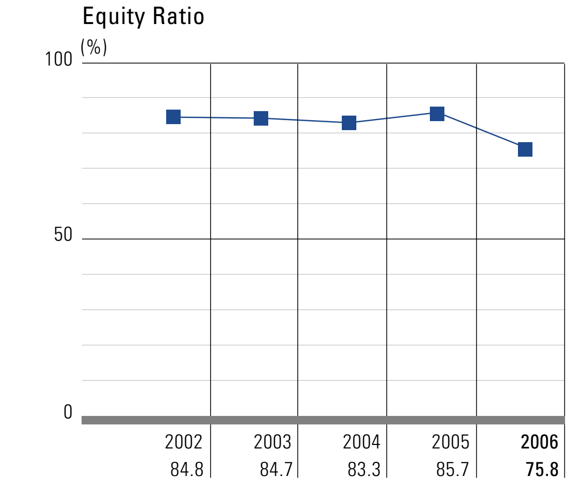
With these opportunities and challenges in mind, in order to ensure corporate growth over the medium term, we believe it imperative to maximize the synergies generated by the merger with SSE. These are the targets and initiatives to deliver in fiscal 2006, identified as priority issues.

(1) Strong earnings growth

We sharpened business focus and redefined several business areas as "Target Business," which we believe are particularly attractive sources of future profits within the expanded scope of operations presented by the merger. We then reallocated management resources to these segments. For fiscal 2006, in order to expand each "Target Business" and thereby boost profitability, we will strive to improve the quality of our services by integrating existing solution businesses of both companies and introducing new IT services.







(2) Solid business foundation

We have been enhancing our administrative infrastructure, which includes such functions as compliance, internal controls and security management. In order to improve the technological capacity of the SCS Group as a whole, we are standardizing our technological skill sets, including those of partner companies, ensuring more thorough project control. From a quality control perspective, we have enhanced our project check system by setting up project management offices in each operating group, which liaise with project managers throughout the Company. In pursuit of yet more robust risk management, we have enhanced our screening program on business proposals, which analyzes risks inherent to proposals at the planning stage, and our project check system, which pinpoints the level of profit on each project previously undertaken. These systems will strengthen our risk management efforts.

(3) Focus on ERP business

In the field of ERP packaged software, we aim to be in the top tier in the industry and to make ProActive, our proprietary software, the Top ERP solution for medium-sized companies.

Sales of ProActive E^2, our next-generation ERP packaged software, have commenced and the product has enjoyed favorable response. Not all of the modules we intend to offer are yet available, but we expect to release key modules in the first half of fiscal 2006. With each launch, we will raise ProActive's level of performance as a software product and further entrench this brand in the market.

(4) Leveraging ties with the Sumitomo Corporation Group

As the core provider of IT solution services for the Sumitomo Corporation Group, we will reinforce our ties with the Sumitomo Corporation Group, by providing a variety of one-stop IT service solutions. We are taking the lead in developing and supporting their global IT systems, especially in the People's Republic of China (PRC) and Southeast Asia, building on our experience and presence in the United States and Europe, where we have already installed new systems.

Furthermore, for companies within the Sumitomo Corporation Group, we will spearhead the introduction of standardized systems compatible with core systems already in use at Sumitomo Corporation.

We will apply this know-how and experience we have accumulated in the configuration of IT systems for the Sumitomo Corporation Group to other domestic clients, providing higher value-added IT services.

(5) Promoting global strategies

We will strengthen IT support structures in the overseas operations of clients, including the Sumitomo Corporation Group, in the United States, Europe and Asia. We will utilize these experiences and support structures overseas to raise our presence and actively promote IT support service in these overseas locations. In addition, in order to support the overseas business expansion of our clients, we will accelerate the development of our global business network, and thereby increase the appeal of our services to our clients and raise the levels of client satisfaction.

In addition, we will strive to continually improve the effectiveness and efficiency of offshore development and the use of corporate resources in other countries, particularly the PRC.

We will use our global infrastructure to identify leading-edge technologies, and draw on our ties with the Sumitomo Corporation Group to keep a constant watch for new opportunities and apply valuable new technologies to expand our own business potential.

Risks with the potential to significantly impact the business—that is, the operating results and financial standing of the SCS Group—are presented below. These forward-looking statements are deemed applicable as of the date of the (consolidated) financial statements, the fiscal year ended March 31, 2006.

Changes in the Business Environment

In recent years, the information services industry, of which the SCS Group is a key player, has been characterized by heightened competition among rival companies and falling prices of products and services. In this business climate, a change in economic conditions could herald sudden and sizable adjustments in the IT investment plans of client companies and could also cause price competition to intensify dramatically. Such developments could adversely affect the operating results and financial standing of the SCS Group.

Mergers and Business Investments

On August 1, 2005, SCS merged with SSE to reinforce business development and profit growth, by integrating such management resources as client bases and technological and marketing capabilities. In an effort to maximize the synergies afforded by the merger, the Company has embraced various approaches, including organizational changes, while directing concerted efforts toward achieving objectives the merger was intended to foster. Despite our best intentions, however, it is possible the merger will not generate the results we originally anticipated.

Investment in Venture Businesses

To secure technological expertise in leading-edge fields of the industry and to bolster our ability to procure products, such as the latest software and hardware, the Group makes several forms of strategic investments in venture businesses at home and abroad, such as equity participations, credit offerings and assistance in prototype development.

The Group endeavors to control investment risk by analyzing the technological assets and product advantages of venture businesses under consideration, building on its inherent strengths in particular technologies, general know-how and investment experience.

However, strategic investments currently include investment in companies that have yet to fully realize their financial, technological and product potentials. In addition, investments have been made in certain products, the commercial value of which has yet to be proven but with highly promising potential. It is therefore possible that ultimately these strategic investments may not generate assumed returns, which could lead to losses that exert a negative impact on the operating results of the Group.

Risks Inherent in Information Systems Creation

The Group undertakes the development and customization of client company information systems. For complex systems with short lead times, it may be difficult to achieve the desired level of quality, and development costs may increase if a project cannot be completed within the promised time frame. Both situations could have a negative effect on operating results. In an effort to minimize such factors that precipitate risk in information system creation, dedicated teams are assigned to all projects to ensure that the development process stays on track and profitability is maintained.

In the event the Group procures software, hardware and other components of system architecture from outside vendors, a structure that includes such quality control procedures as product inspections is in place to ensure no incompatibilities will emerge. In addition, we are methodical in our efforts to prevent unforeseen malfunctions in any aspect of a system, including a customized system, delivered by companies under the Group umbrella.

However, if a malfunction were to appear in an IT-related product after the system has been configured and delivered, the reputation of the Group may be tarnished or possibly irrevocably damaged, and this could have a highly detrimental effect on our operating results.

Risks Inherent in Outsourcing Overseas

SCS promotes the use of offshore development services in order to respond to the global IT service needs of client companies and reduce production costs. The Company is creating a structure that will facilitate the development of outsourced operations outside Japan. Toward this end, the Company has already opened a representative office in Shanghai, and has taken an equity stake in a joint venture in Vietnam with seven other Japanese companies and five Vietnamese companies.

However, offshore development could present several business risks stemming from differences in culture, language, laws, customs and other country- or region-specific conditions. Such risks that could impact the Group's operating results include operating inefficiencies because of differences in language and customs, labor disruption, bureaucratic and legal inefficiencies and roadblocks, political disruptions, and exchange rate fluctuations. As an example, language differences that prevent adequate communication required for instructions regarding specifications for software development could lead to greater overhead costs due to lost time and delayed delivery due to failure in project management.

Responding to Technological Innovation

The IT services industry—the business domain of the SCS Group—is characterized by intense competition in technological innovation, and the technologies, competence, know-how and other intangible resources that the Group currently possesses could be rendered obsolete by new breakthroughs. In addition, industry standards on technologies applied to software, hardware and other components used in system configuration services—a key source of profit for the Group—are changing at a rapid pace. Such factors could erode the Group's technological superiority or price advantage.

To respond in a timely manner to technological innovation, the Group makes every effort to cultivate the talents of its employees. Moreover, the Group carefully explores and strives to acquire the latest in breakthrough developments applicable to the Group's business. In promoting business, the Group endeavors to diversify system configuration-related technology and product procurement capabilities, and not merely rely on those single technologies, know-how or products that attain unduly high profit.

Nevertheless, the Group may not always be able to accurately anticipate products and technologies with the potential to capture market interest or to acquire the necessary technological capacity applicable to the Group's business. If the Company is not always sufficiently able to predict technological trends within the industry, this too could impact the Group's operating results.

Risk of Information Leaks

In the course of business, from system development through to the operation of a system, we may have access to client companies' confidential information, such as system technology data or personnel data. Unauthorized disclosure of confidential matters could lead to tarnished credibility in the market and lawsuits from client companies.

Therefore, the Company and affiliated companies of the Group have policies in place to ensure the physical security of information, with strict compliance. To further reinforce information security compliance, we have implemented measures such as comprehensive education and training for employees as well as outside contractors.

Possibility of Lawsuits

The SCS Group sells and distributes to clients software, hardware and other components ("Products") developed and manufactured by companies outside the Group. These business activities could precipitate the risk of lawsuits filed by third parties, involving claims of infringement of intellectual property rights over the Products, content and resulting judgments of which could hurt the Group's operating results.

A lawsuit seeking an injunction on the sale of FlexX, a drug design and discovery software offered by Tripos, Inc., in Japan, by the former SSE, was launched by the Tokyo-based Institute of Medicinal Molecular Design, Inc., and its president, Akiko Itai (hereafter, the "plaintiffs"), for infringement of Patent No. 2621842, held by Dr. Itai. The Supreme Court of Japan rejected an appeal made by SCS on June 7, 2005, and handed down a decision on one remaining issue on June 17, 2005, which was not in SCS's favor. A settlement was reached with the plaintiffs on March 24, 2006.

Impairment Losses on Fixed Assets

As of March 31, 2006, the SCS Group held land and buildings, comprising offices, data centers and company housing, including dormitories, with a total book value of ¥26,701 million. Impairment of the carrying amount of these assets owing to a decline in market value or poor Group operating results related to these assets could result in losses to be recognized in the Group's operating results. No such impairment losses were recognized in the year ended March 31, 2006.

Consolidated Balance Sheets

As of March 31, 2006 and 2005

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current assets:			
Cash and time deposits	¥ 4,658	¥ 2,413	$ 39,656
Notes and accounts receivable	29,841	14,806	254,031
Securities	1,900	2,005	16,174
Inventories	5,761	3,102	49,043
Deferred income taxes	1,717	597	14,618
Short-term loan	26,800	16,750	228,143
Other current assets	3,409	607	29,018
Allowance for doubtful accounts	(2)	(1)	(13)
Total current assets	74,084	40,279	630,670
Property and equipment:			
Land	14,668	14,517	124,865
Buildings and structures	20,311	19,935	172,903
Furniture and fixtures	5,925	1,450	50,435
Less: accumulated depreciation	(11,730)	(8,473)	(99,853)
Net property and equipment	29,174	27,429	248,350
Investments and other assets:			
Investments in affiliated companies	266	61	2,264
Investments in securities	16,508	7,389	140,532
Long-term prepaid expenses	209	70	1,778
Lease deposits paid	1,696	924	14,441
Intangibles, net	2,928	4,150	24,922
Deferred income taxes	90	45	768
Other assets	343	179	2,916
Allowance for doubtful accounts	(234)	(29)	(1,991)
Total investments and other assets	21,806	12,789	185,630
Total assets	¥125,064	¥80,497	$1,064,650

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current liabilities:			
Notes and accounts payable	¥ 14,828	¥ 4,444	$ 126,230
Accrued income taxes	2,100	1,071	17,881
Other current liabilities	9,796	4,015	83,386
Total current liabilities	26,724	9,530	227,497
Long-term liabilities			
Lease deposits received	112	112	950
Liability for severance and retirement benefits	459	939	3,910
Retirement benefits for directors and corporate auditors	206	168	1,755
Deferred income taxes	2,254	127	19,186
Other long-term liabilities	31	—	265
Total long-term liabilities	3,062	1,346	26,066
Minority interests	515	655	4,383
Shareholders' equity:			
Common stock:			
Authorized—200,000,000 shares			
Issued—54,291,447 shares as of 3/2006	21,153	21,153	180,070
(Issued—43,588,609 shares as of 3/2005)			
Capital surplus	31,300	20,650	266,449
Retained earnings	37,451	26,750	318,810
Net unrealized holding gains on securities, net of tax effect	5,142	620	43,778
Foreign currency translation adjustments	(87)	(155)	(738)
Treasury stock, at cost 53,776 and 15,878 shares in 2006 and 2005, respectively	(196)	(52)	(1,665)
Total shareholders' equity	94,763	68,966	806,704
Total liabilities, minority interests and shareholders' equity	¥125,064	¥80,497	$1,064,650

Consolidated Statements of Income

For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Net sales	¥120,290	¥70,586	¥76,676	$1,024,008
Cost and expenses:				
Cost of sales	99,057	59,283	63,675	843,256
Selling, general and administrative expenses	14,701	6,325	5,991	125,148
	113,758	65,608	69,666	968,404
Operating income	6,532	4,978	7,010	55,604
Other income (expenses):				
Interest and dividend income	96	88	76	813
Interest expense	(2)	(2)	(3)	(17)
Equity in earnings from affiliates	49	8	22	416
Gains on sale of investment securities, net	1,261	51	354	10,731
Write-down of investment securities and other	(61)	—	(107)	(517)
Losses on redemption of investment in securities	—	—	(26)	—
Losses on sales/disposal of property and equipment	(908)	(87)	(21)	(7,732)
Office relocation expenses	(141)	—	(102)	(1,196)
Loss on one-time amortization of software	(1,272)	—	—	(10,826)
Additional payment for early retirement benefits	(640)	—	—	(5,451)
Legal settlement changes	(75)	—	—	(638)
Other, net	26	3	16	227
	(1,667)	61	209	(14,190)
Income before income taxes and minority interests	4,865	5,039	7,219	41,414
Income taxes:				
Current	2,313	2,119	3,383	19,684
Deferred	(330)	(196)	(171)	(2,805)
	1,983	1,923	3,212	16,879
Minority interests	160	15	29	1,359
Net income	¥ 2,722	¥ 3,101	¥ 3,978	$ 23,176

	Millions of yen			U.S. dollars
	2006	2005	2004	2006
Per share information				
Basic net income per share	¥53.29	¥70.93	¥90.01	$0.45
Cash dividends declared for the year	26.00	26.00	26.00	0.22

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2006, 2005 and 2004

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2003	43,589	¥21,153	¥20,649	¥22,019	¥ 133	¥ (97)	¥ (35)
Net income	—	—	—	3,978	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(54)	—
Net unrealized gains on securities	—	—	—	—	475	—	—
Cash dividends	—	—	—	(1,089)	—	—	—
Bonuses to directors	—	—	—	(70)	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	(9)
Balance at March 31, 2004	43,589	21,153	20,649	24,838	608	(151)	(44)
Net income	—	—	—	3,101	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(4)	—
Net unrealized gains on securities	—	—	—	—	12	—	—
Cash dividends	—	—	—	(1,133)	—	—	—
Bonuses to directors	—	—	—	(56)	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	(7)
Balance at March 31, 2005	43,589	21,153	20,649	26,750	620	(155)	(52)
Net income	—	—	—	2,722	—	—	—
Increase by merger	10,702	—	10,651	8,762	—	—	(138)
Increase in retained earnings from newly consolidated subsidiaries	—	—	—	500	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	68	—
Net unrealized gains on securities	—	—	—	—	4,522	—	—
Cash dividends	—	—	—	(1,271)	—	—	—
Bonuses to directors	—	—	—	(10)	—	—	—
Disposal of treasury stock	—	—	—	(2)	—	—	4
Purchases of treasury stock	—	—	—	—	—	—	(9)
Balance at March 31, 2006	54,291	¥21,153	¥31,300	¥37,451	¥5,142	¥ (87)	¥(196)

	Number of shares of common stock (thousands)	Thousands of U.S. dollars					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2005	43,589	$180,070	$175,786	$227,715	$ 5,281	$(1,318)	$ (441)
Net income	—	—	—	23,176	—	—	—
Increase by merger	10,702	—	90,663	74,584	—	—	(1,182)
Increase in retained earnings from newly consolidated subsidiaries	—	—	—	4,253	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	580	—
Net unrealized gains on securities	—	—	—	—	38,497	—	—
Cash dividends	—	—	—	(10,820)	—	—	—
Bonuses to directors	—	—	—	(85)	—	—	—
Disposal of treasury stock	—	—	—	(13)	—	—	35
Purchases of treasury stock	—	—	—	—	—	—	(77)
Balance at March 31, 2006	54,291	$180,070	$266,449	$318,810	$43,778	$ (738)	$(1,665)

Sumisho Computer Systems Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 4,865	¥ 5,039	¥ 7,219	$ 41,414
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	2,569	1,333	1,258	21,865
Amortization of goodwill	101	44	99	858
Increase (decrease) in allowance for doubtful accounts	(8)	(2)	(30)	(65)
Losses on disposal of property and equipment	585	83	21	4,976
Losses on sales of property and equipment	324	5	—	2,756
Gains on sale of investment securities, net	(1,261)	(45)	(354)	(10,731)
Losses on redemption of investment in securities	—	—	26	—
One-time amortization of software	1,272	—	—	10,826
Write-down of investment securities and other	61	—	108	517
Gain on deemed sale of subsidiary shares	—	(7)	—	—
Interest and dividends income	(96)	(88)	(76)	(813)
(Increase) decrease in notes and acccounts receivable	(6,890)	1,169	266	(58,655)
(Increase) decrease in inventories	1,416	(1,025)	133	12,053
Increase (decrease) in acccounts payable	6,137	(1,940)	1,527	52,245
Net change in liabilities for severance and retirement benefits	(239)	169	387	(2,032)
Payments for bonuses to directors	(10)	(56)	(70)	(85)
Other	(139)	732	(420)	(1,182)
Subtotal	8,687	5,411	10,094	73,947
Interest and dividends received	96	95	72	819
Interest paid	(2)	(2)	(2)	(17)
Income taxes paid	(1,262)	(2,749)	(3,878)	(10,745)
Net cash provided by operating activities	7,519	2,755	6,286	64,004
Cash flows from investing activities:				
Payments for purchases of marketable securities	—	—	(201)	—
Proceeds from sales or redemption of marketable securities	2,303	1,750	2,657	19,606
Payments for purchases of investment securities	(3,531)	(1,847)	(5,810)	(30,059)
Proceeds from sales or redemption of investment securities	1,414	1,433	1,196	12,040
Payments for purchases of property and equipment	(1,221)	(251)	(254)	(10,391)
Proceeds from sales of property and equipment	246	—	—	2,098
Payments for purchases of intangibles	(1,759)	(2,424)	(1,429)	(14,972)
Payments for purchases of securities of subsidiaries, resulting from change in scope of consolidation	—	(363)	(97)	—
Other	(232)	108	170	(1,991)
Net cash used in investing activities	(2,780)	(1,594)	(3,768)	(23,669)
Cash flows from financing activities:				
Proceeds from sales of treasury stock	3	—	—	22
Payments for purchases of treasury stock	(9)	(7)	(10)	(77)
Dividends paid	(1,272)	(1,133)	(1,090)	(10,824)
Distributions to minority interests	(121)	(31)	(14)	(1,030)
Net cash used in financing activities	(1,399)	(1,171)	(1,114)	(11,909)
Effect of exchange rate changes on cash and cash equivalents	35	(1)	(40)	302
Net increase (decrease) in cash and cash equivalents	3,375	(10)	1,364	28,728
Cash and cash equivalents at beginning of year	19,263	19,273	17,909	163,985
Increase by merger	8,674	—	—	73,840
Increase due to newly consolidated subsidiaries through merger	246	—	—	2,097
Cash and cash equivalents at end of year	¥31,558	¥19,263	¥19,273	$268,650

The following consolidated financial statements are a translation of the consolidated financial statements in accordance with Article 19-2(3) of the former "Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Kaisha" (the "Audit Special Exceptions Law"), and are provided with an Independent Auditors' Report.

Sumisho Computer Systems Corporation and Subsidiaries

Consolidated Balance Sheet (Audited)

As of March 31, 2006

Account	Amount (Millions of yen)
ASSETS	
Current assets	74,084
Cash and time deposits	4,658
Notes and accounts receivable	29,841
Securities	1,899
Inventories	5,761
Deferred income taxes	1,717
Short-term loan	26,800
Other current assets	3,408
Allowance for doubtful accounts	(1)
Fixed assets	50,979
Property and equipment	29,173
Buildings and structures	12,033
Furniture and fixtures	2,471
Land	14,667
Intangible fixed assets	2,927
Consolidation goodwill	365
Other intangible fixed assets	2,562
Investments and other assets	18,878
Investment securities	16,774
Long-term prepaid expenses	208
Lease deposits paid	1,696
Deferred income taxes	90
Other assets	342
Allowance for doubtful accounts	(233)
Total assets	¥125,064

Account	Amount (Millions of yen)
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	
Current liabilities	26,724
Notes and accounts payable	14,828
Accrued income taxes	2,100
Other current liabilities	9,795
Long-term liabilities	3,062
Deferred income taxes	2,253
Liability for severance and retirement benefits	459
Retirement benefits for directors and corporate auditors	206
Lease deposits received	111
Other long-term liabilities	31
Total liabilities	29,786
Minority interests	
Minority interests	514
Shareholders' equity	
Common stock	21,152
Capital surplus	31,299
Retained earnings	37,450
Net unrealized holding gains on securities, net of tax effect	5,142
Foreign currency translation adjustments	(86)
Treasury stock, at cost	(195)
Total shareholders' equity	94,763
Total liabilities, minority interests and shareholders' equity	¥125,064

Sumisho Computer Systems Corporation and Subsidiaries

Consolidated Statement of Income (Audited)

For the year ended March 31, 2006

	Millions of yen	
Account	Amount	Amount
Net sales		¥120,290
Cost of sales		99,057
Gross profit		21,232
Selling, general and administrative expenses		14,701
Operating income		6,531
Other income		
Interest income	64	
Dividend income	31	
Equity in earnings of affiliates	48	
Other	121	266
Other expenses		
Interest expense	1	
Other	79	81
Ordinary income		6,716
Extraordinary income		
Gains on sale of investment securities, net	1,260	
Other	7	1,267
Extraordinary losses		
Losses on disposal of property and equipment	584	
Losses on sales of property and equipment	323	
Loss on one-time amortization of software	1,271	
Write-down of investment securities and other	60	
Additional payment for early retirement benefits	640	
Office relocation expenses	140	
Legal settlement charges	75	
Other	22	3,118
Income before income taxes and minority interests		4,864
Income taxes—current	2,312	
Income taxes—deferred	(329)	
Minority interests	159	2,142
Net income		2,722

1. Scope of Consolidation

Consolidated subsidiaries

All ten (10) subsidiaries are consolidated.

Sumisho Computer Systems (USA), Inc.	SUMISHO COMPUTER SYSTEMS (EUROPE) LTD.
SCS IT Management Ltd.	e-Commerce Technology Corp.
Billingsoft Japan Co., Ltd.	Curl, Incorporated
Curl International Corporation	VA Linux Systems Japan K.K.
SCS Solutions Inc. (Note 1)	Sumiele Business Support Co., Ltd. (Note 2)

Notes: 1. As of August 1, 2005, SCS Solutions Inc. became a subsidiary through a merger with Sumisho Electronics Co., Ltd., and was incorporated into the scope of consolidation of the Company.

As of January 1, 2006, SUMI-ELE System Co., Ltd., merged with Sumisho Computer Systems (Kyushu) Corporation. SUMI-ELE System Co., Ltd., changed its name to SCS Solutions Inc.

2. As of August 1, 2005, Sumiele Business Support Co., Ltd., became a subsidiary through a merger with Sumisho Electronics Co., Ltd., and was incorporated into the scope of consolidation of the Company.

A consolidated subsidiary, SCS Financial Consulting Corporation, was merged with the Company as of December 1, 2005.

2. Application of the Equity Method

All four (4) affiliates of the Company are accounted for by the equity method:

Advanced Network Systems Co., Ltd.	Pioneer soft Co., Ltd.
Component Square, Inc. (Note)	HULINKS Inc. (Note)

Note: As of August 1, 2005, Component Square, Inc. and HULINKS Inc. became affiliates through a merger with Sumisho Electronics Co., Ltd., and the equity method was therefore applied to the accounting of both companies.

3. Balance Sheet Date of Consolidated Subsidiaries

As the balance sheet date of Sumisho Computer Systems (USA), Inc., SUMISHO COMPUTER SYSTEMS (EUROPE) LTD., Billingsoft Japan Co., Ltd., and Curl, Incorporated, is December 31, preparation of the consolidated financial statements for the year ended March 31, 2006 is based on the financial statements for the period from January 1, 2005 through December 31, 2005, provided that necessary adjustments are made for consolidation purposes with regard to material transactions that might take place in the period between the above balance sheet date and the date of the Company for consolidation.

4. Summary of Significant Accounting Policies

(1) Valuation basis and method for important assets

1) Held-to maturity securities and investments in securities

Held-to-maturity securities that are expected to be held to maturity: Carried at amortized cost.

Other securities primarily designated as available-for-sale securities for which the fair market values are readily determinable: carried at fair market value as of the balance sheet date with changes in net unrealized holding gain or loss, net of related income taxes, included directly in shareholders' equity. The cost of securities sold is determined by the moving-average method.

Other securities primarily designated as available-for-sale securities for which the fair market values are not readily determinable: Carried at cost determined by the moving-average method.

2) Inventories

Merchandise: Principally stated at the lower of cost or market method determined by the specific identification method.

Work in process: Stated at cost determined by the specific identification method.

3) Derivative financial instruments

Stated at fair market value.

(2) Depreciation method of major depreciable assets

1) Tangible fixed assets

Depreciation of the tangible fixed assets of the Company and domestic consolidated subsidiaries is computed principally by the straight-line method. The declining-balance method is used by foreign consolidated subsidiaries.

2) Intangible fixed assets

Packaged software for sale: The annual amortization of packaged software for sale is computed using the greater of (a) the ratio of current gross revenue to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product (principally three years or less).

Software for internal use: Software for internal use is amortized using the straight-line method over the estimated useful life (principally five years or less).

Other intangible assets: Amortized on the straight-line method.

3) Long-term prepaid expenses

Amortized on the straight-line method.

(3) Accounting policies for important reserves

1) Allowance for doubtful accounts

An allowance for doubtful accounts is maintained for amounts deemed uncollectible based on estimated delinquencies, collection rates projected from historical credit loss experience and for amounts to cover specific accounts that are estimated to be uncollectible.

2) Liability for severance and retirement benefits

Liability for severance and retirement benefits for employees is provided based on the estimated amounts of the projected benefit obligation and the fair value of plan assets at year-end.

Unrecognized actuarial gain or loss is amortized using the straight-line method over the average remaining service period (principally five years), which is shorter than the average remaining service years for employees at the time of their occurrence for each consolidated fiscal year, since the following fiscal year of recognition.

However, regarding the former retirement benefit plan of Sumisho Electronics Co., Ltd., a merged company, unrecognized actuarial gain or loss is amortized over 13 years.

As of March 31, 2006, the Company adopted the new retirement benefit plan by integrating the plan inherited from Sumisho Electronics Co., Ltd. With the new plan, employees' prior service cost is amortized over five years.

3) Retirement benefits for directors and corporate auditors

The Company has accrued retirement benefits for directors and corporate auditors at the amount that would be required in the event that all directors and corporate auditors retired at the balance sheet date using their retirement benefit rules.

(4) Accounting for leases

Capital leases, other than those that are deemed to transfer the ownership of the leased assets to lessees, are accounted for by a method similar to that used for ordinary operating leases.

(5) Accounting for hedging activities

1) Hedge accounting

Deferred hedge accounting is applied for hedging activities. Appropriated method is applied for foreign currency receivables and payables with forward foreign currency contracts.

2) Hedge instruments and hedged items

Hedging instruments: forward foreign currency contracts

Hedged items: foreign currency receivables and payables

3) Hedging policy

Derivative instruments are used according to the volume of planned import transactions, for the purpose of reducing foreign exchange risks only.

4) Method of evaluation of hedging effectiveness

As forward foreign currency contracts with the same due dates and the same amounts denominated in the same foreign currency as the hedged items are appropriated in compliance with the risk management policy at the conclusion of the forward foreign currency contracts, a high correlation between hedging instruments and hedged items is guaranteed regardless of the subsequent fluctuation in the exchange market. Therefore, an evaluation of the hedging effectiveness at the consolidated closing date is omitted.

5) Other

As all the derivative transactions are conducted with Japanese financial institutions with a high credit rating, we believe that credit risk due to the default of such business partners is low.

(6) Accounting for consumption taxes

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of the consumption taxes.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The full portion of the assets and liabilities of the subsidiary is recorded at fair value as of the acquisition of control.

6. Amortization of Consolidation Goodwill

The amount of consolidation goodwill is equally amortized over five years on a straight-line basis. If the amount is small and insignificant, it is amortized in a lump sum at its occurrence.

7. The consolidated financial statements are prepared based on the provision of Article 200 of the Enforcement Regulations of the Commercial Code.

Notes to the Consolidated Balance Sheet (Audited)
1. Accumulated depreciation for property and equipment: ¥11,729 million
2. Amounts less than one million yen are truncated.

Notes to the Consolidated Statement of Income (Audited)
1. Net income per share (EPS): ¥53.29
2. Amounts less than one million yen are truncated.

[English Translation of the Auditors' Report Originally Issued in Japanese Language]

Independent Auditors' Report

May 12, 2006

The Board of Directors
Sumisho Computer Systems Corporation

KPMG AZSA & Co.

Toshiharu Kawai (Seal)
Designated and Engagement Partner
Certified Public Accountant

Kunihito Miura (Seal)
Designated and Engagement Partner
Certified Public Accountant

Hiroaki Sugiura (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the consolidated statutory report, that is the consolidated balance sheet and the consolidated statement of income, of Sumisho Computer Systems Corporation for the 38th business year from April 1, 2005 to March 31, 2006 in accordance with Article 19-2(3) of the former "Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki Kaisha." The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion. Our audit procedures also include those considered necessary for the Company's majority-owned subsidiaries and non-majority owned consolidated subsidiaries.

As a result of the audit, in our opinion, the consolidated statutory report referred to above presents fairly the consolidated financial position of Sumisho Computer Systems Corporation and consolidated subsidiaries, and the consolidated results of their operations in conformity with related laws and regulations and the Articles of Incorporation of the Company.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Corporate Data

(As of March 31, 2006)

Date Established	October 25, 1969
Headquarters	Harumi Island Triton Square Office Tower Z ,1-8-12, Harumi, Chuo-ku, Tokyo 104-6241, Japan
Number of Employees	3,043

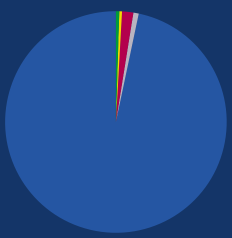
Investor Information

(As of March 31, 2006)

Number of Shares	Authorized:	200,000,000
	Issued and Outstanding	54,291,447
Common Stock (Yen)		21,152,847,708
Number of Shareholders		12,894
Stock Listing	Tokyo Stock Exchange (First Section)	
Transfer Agent of Common Stock	The Sumitomo Trust Bank Co., Ltd.	
Independent Certified Public Accountants	KPMG AZSA & Co.	

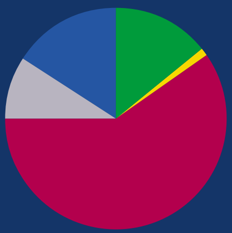
Distribution of Shareholders

Shareholder composition



Japanese Financial Institutions	63	(0.48%)
Japanese Securities Companies	51	(0.40%)
Other Japanese Corporations	212	(1.64%)
Foreign Institutions, etc.	101	(0.78%)
Japanese Individuals and Others	12,467	(96.70%)
Total	12,894	

Distribution of shares



Japanese Financial Institutions	7,670,784	(14.12%)
Japanese Securities Companies	617,730	(1.14%)
Other Japanese Corporations	32,423,657	(59.72%)
Foreign Institutions, etc.	4,960,059	(9.14%)
Japanese Individuals and Others	8,619,217	(15.88%)
Total	54,291,447	

	Shareholder name	Number of shares held (stocks)	Holdings ratio (%)
Major Shareholders	Sumitomo Corporation	30,254,359	55.73
	Japan Trustee Services Bank, Ltd. (Trust Account)	1,481,400	2.73
	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,266,100	2.33
	Nissho Electronics Corporation	1,141,648	2.10
	Shareholding Commission of Employees in Sumisho Computer Systems	730,174	1.34
	JAPAN SECURITIES FINANCE CO., LTD.	605,400	1.12
	Trust & Custody Services Bank, Ltd. (Trust Account B)	590,000	1.09
	HSBC Bank plc Clients UK Tax Treaty	564,370	1.04
	NikkoCiti Trust and Banking Corporation (Mutual Fund Account)	412,800	0.76
	Union Bancaire Privée (Luxembourg) S.A.	402,700	0.74

Sumisho Computer Systems Corporation

Harumi Island Triton Square Office Tower Z,
1-8-12, Harumi, Chuo-ku, Tokyo 104-6241, Japan

Printed in Japan