



Sumisho Computer Systems Corporation

Innovating to Maximize
**Customer
Satisfaction**
as a Business Value Creator

Annual Report 2004

The year ended March 31, 2004

SCS Solutions Model

Solutions on Integrated IT

- Consulting Services
- IT Governance Solutions
- Systems Integration Services
- Network Integration Services
- Business Process Outsourcing Services
- Open Source Solutions
- Security Services

Solutions for Enterprises

- *
 - ERP Packages
 - EC
 - CRM
 - SCM
 - EAI
 - BI (KM)
 - Various IT Services/ BPO Services

Solutions by Industry

- Manufacturing
- Distribution
- Finance
- Communication/ Transportation
- Electric Power/Gas
- Public sector and Services
- Life Sciences (Pharmaceuticals, Medical and Nursing care)

Systems Development Methodology, CASE Tools, Development Frameworks, Quality Management

netXDC (network eXchange attached Data Center)

Global Business Network

- * ERP = Enterprise Resource Planning
- EC = Electronic Commerce
- CRM = Customer Relationship Management
- SCM = Supply Chain Management
- EAI = Enterprise Application Integration
- BI = Business Intelligence
- KM = Knowledge Management

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Notice Concerning Forward-looking Statements:

This annual report includes "forward-looking statements" so that the investor can better understand a company's future prospects and make informed investment decisions. Since these forward-looking statements are the management's present expectations of future events, they are inherently susceptible to uncertainty and changes in circumstances. Therefore, the reader is advised not to put undue reliance on these statements, and the Company is under no obligation—and expressly disclaims any such obligation—to update or alter its forward-looking statements.

Focusing on quality, SCS provides its customers with truly valuable solutions through integration of high-level information technology (IT) and abundant business know-how.

Systems development methodology ("SMART"), CASE tools, Development frameworks, and Quality management

In the field of information systems, open systems are proliferating and systems in general are becoming more large-scale and complex. Therefore, the quality and productivity when developing new systems are strongly influenced by systems architecture, contents of application software design, and methods for development. This has created an increased demand for highly reliable and proven development standards, sophisticated know-how in systems, excellent frameworks, and useful tools.

Since the Company was founded, SCS, with a pioneer spirit, has been persistently studying and cultivating the theoretical and technical fundamentals of systems development. The following are our recent significant achievements which are now in use: "SMART(process)" in the field of development methodology, "SMART/framework)" using JAVA, and the "New Quality Management System" which incorporates two important pillars, methods improving the process of software development, and a service level management function for systems operation.

In addition, in the field of CASE tools, the "INTIMATE" Series, which we developed and marketed earlier, is being well received.

Including these developments, SCS constantly strives to enhance systems quality and development productivity for its customers, which leads to the improvement of ROI (return on investment), and the decrease of TCO (total cost of ownership).



netXDC (network eXchange attached Data Center)

netXDC is a next-generation data center that is developed based on our own concept. It provides integrated and powerful connections between servers and servers, companies and companies, enabling seamless and unified operation between mission-critical business systems and internet-based application systems. It also provides high-quality services on demand for overall business operations, including IT infrastructure, hardware, security and network operations.



Global Business Network

SCS founded Sumisho Computer Systems (USA), Inc. (headquartered in New York with a branch office in Dallas) in 1987, and Sumisho Computer Systems (Europe) Ltd. (headquartered in London) in 1990, and has established a global business structure by connecting the three regions of Japan, U.S.A. and Europe. In addition, in 2004, SCS opened its Representative Office in Shanghai, and founded Curl, Incorporated (headquartered in Cambridge, MA, U.S.A.). Also, SCS Networks Corporation, one of SCS's subsidiaries, is responsible for operating "SII", Sumitomo Corporation's global communications networks.





As a "Business Value Creator" in the ubiquitous networked society, we aim to become a permanent and reliable partner of our customers.

President
Yasubito Nakagawa

Q1

First, please provide an overview of Sumisho Computer Systems Corporation (SCS).

The Company was founded in 1969 by the global trading company, Sumitomo Corporation, to independently pursue strategic business opportunities. Sumitomo Corporation foresaw that the utilization of computers and the need for software technology would significantly expand in step with the advance of the information-oriented society.

Since then, based on two core Sumitomo Business Principles (explained in Question 2 below), "Being customer-oriented" has been set out as the fundamental corporate motto, together with "High Quality and High Productivity" pursued by all departments, including administrative departments.

As a result of basing the daily business practices on these mottos and after years of effort, the Company has presently come to enjoy favorable long-term business relationships with a wide range of customers in every industry. This has enabled it to amass a record of stable performance in the maintenance and improvement of first-class quality and productivity in the solutions it provides to customers.

Q2

Could you describe the two Sumitomo Business Principles you mentioned as being the basis of SCS's corporate philosophy?

The Company's corporate philosophy is based on two core Sumitomo Business Principles. One is "Place prime importance on integrity and sound management in the conduct of its business". For SCS, this means providing its customers with high quality, creative and comprehensive solutions in the field of information systems and network systems. The second principle is "Manage its activities with foresight and flexibility in order to cope effectively with the changing times, without pursuing easy gains or acting imprudently". Based on this ethos, we always strive to perceive changes with fresh points of view and new ideas. We continue to meet the challenges raised by changing times with advanced information technologies and excellent planning abilities, thus contributing to the realization of a more affluent and more fulfilling society.

No matter how much the business environment changes, the Company's business strategies and activities are all firmly grounded in these core principles. Furthermore, based on them, the Company continues to aim at maximizing customer satisfaction by providing optimum products and services that are high in quality, low in price, and delivered rapidly.

Q3

What are the characteristics and strengths that set SCS apart?

First of all, one of our characteristics is that our customers are from every industry, and we are thankful for their deep trust and continued patronage.

Our strength is that we possess various and superb products developed in-house, including "ProActive", one of the most popular ERP (Enterprise Resource Planning) packages in Japan. The next-generation data center with comprehensive capabilities, "netXDC (network eXchange attached Data Center)", is also a strength. In addition, we have many system analysts and system engineers with advanced technological skills who make SCS an industry leader in productivity as well as in sales and profit per employee. We always aim to provide solutions with higher levels of quality by fully employing our technology and expertise accumulated over the years. Furthermore, we provide solutions by utilizing other firms' software products or by collaborating together with them. For example, SCS is a major partner in Japan of SWIFT, an industry-owned cooperative that supplies mainly communication solutions for financial institutions.

From these strengths, we are now a one-stop provider of creative and comprehensive solutions that encompasses consulting, planning, designing, developing, maintaining, and operating customers' information systems, IT governance, BPO (Business Process Outsourcing), etc., which attained the approval and strong support of our customers.

Thus, the Company's strength lies in continued growth structured around the excellent balance between quality, technology, and profit. You might call this our "fundamentals of growth".



ISO9001 and TickIT Certificate for IT outsourcing services by Service Level Management



SCS offers SWIFT products, services, and other solutions.

Q4

How was the business performance for this fiscal year?

Beginning with some background, during this fiscal year ended March 31, 2004, the business outlook for the Japanese economy began to show signs of brightening in certain sectors. However, many enterprises took a cautious approach toward investments in information technology (IT) compared to the previous fiscal year, so the business climate of our industry continued to remain sluggish. For example, from the standpoint of return on investment (ROI), there was a strong tendency to tighten controls on investments in IT, namely through reducing the scale of investments, through reviewing, modifying or suspending projects which were already underway, and by shelving projects that were planned.

Influenced by the effects, not only due to the slowdown of contracting new projects, but also due to our customers' circumstances, we were faced with two extremely difficult situations. First, there were many large-scale development projects already in work that had to be reviewed, frozen, suspended or postponed until the next fiscal year. Second, there were sudden requests from customers related to modification, moving up the completion date for projects, and upgrading of system functions.

Accordingly, a considerable loss resulted from project engineers being made idle due to standby time as we made adjustments for these requests.

Amidst this harsh business environment, in order to provide creative and comprehensive solutions to meet our customers' needs, we strengthened the lineup of our products and services. We developed

information systems based on full use of advanced technology, developed and released various kinds of package software, provided ASP (Application Service Provider) services of ERP, provided full outsourcing services, promoting our business activities vigorously.

Following the steady sign of the bottoming out of Japan's economy after January 2004, projects which had been put on hold restarted, while new systems development projects and requests for proposal (RFP) related to outsourcing services increased. However, some projects remained postponed until the following fiscal year or later. Under such circumstances, it was difficult to achieve any major advances in business performance during this fiscal year. As a result, consolidated net sales increased by 3.4% to ¥76,676 million in comparison with the previous fiscal year, and ordinary income decreased by 26.6% to ¥7,122 million, while net income decreased by 20.5% to ¥3,978 million.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Sumisho Computer Systems Corporation and its Subsidiaries

For the years ended March 31,	Millions of Yen				
	2000	2001	2002	2003	2004
Net Sales	52,859	61,724	69,325	74,134	76,676
Ordinary Income	5,534	6,843	8,128	9,708	7,122
Net Income	2,880	3,724	4,107	5,006	3,978
Total Shareholders' Equity	45,589	56,587	60,064	63,822	67,053
Total Assets	53,718	68,133	70,839	75,360	80,477
Equity Ratio (%)	84.9	83.1	84.8	84.7	83.3
Return on Equity (%)	6.5	7.3	7.0	8.1	6.1
Per Share Data (Yen):					
Net Income per Share	83.18	107.06	94.23	113.25	90.01
Employees	1,541	1,624	1,736	1,840	2,084

Notes: 1. There were nine consolidated subsidiaries in the year ended March 31, 2004.
 2. Tax effect accounting was adopted in the year ended March 31, 1999.
 3. The Accounting Standard for Retirement Benefits was adopted in the year ended March 31, 2001.

Q5

Please tell us about the New Corporate Management Plan.

To realize the continuous and dynamic growth of SCS in this era, the New Corporate Management Plan was launched in April 2004, after the preceding "FORWARD 21" concluded.

As a big change, in other words, a paradigm shift, is going on in the IT industry, SCS recognizes the strong desires of customers for aggressive and reliable partners who can raise their business value. Therefore, in order to meet customers' demands adequately, every staff of SCS shall do his or her best to promote personal and corporate innovation under the basic slogan of "Innovate 21".

New Corporate Management Plan

- I. Focusing innovation on enhancing maximization of customer satisfaction over a span of 5 years from April 2004 through March 2009
 - Basic slogan: "Innovate 21"
 - Aim of corporate model:
 - to be the "Business Value Creator" in the ubiquitous networked society
- II. "New Medium-term Management Plan" as the first step under the abovementioned I.
 - Objective: "Innovate to be an aggressive and reliable partner with customers"
 - Term: April 2004 to March 2006
 - Seven key areas to be intensively reviewed and innovated:
 - Process of executing management policies, Customers, Services and products, Human resources, Organization and in-house cooperation, Global operation, and Collaboration with Sumitomo Corporation and its group companies

Q6

What is SCS's strategy for its corporate alliances, and what actions have you actually taken?

As I mentioned before, using our strong base of advanced information technology, our abundance of business know-how and our excellent product lineup, including the next-generation data center "netXDC", we offer a wide range of creative and comprehensive solutions ranging from consulting, building and operating of information systems and network systems in the IT field, to BPO (Business Process Outsourcing) services in the business field. Furthermore, we have been continuously seeking to enhance and expand our solutions, and therefore implemented some measures in this fiscal year as follows:

- SCS wholly acquired Curl Asia Pacific Corporation (CAPC). CAPC is an exclusive distribution agent of "Curl", the epoch-making next-generation web system development language that realizes an unprecedented "rich client" environment, where the "thin client" environment still predominates. "Curl" has the functions of integrating HTML, JavaScript, Graphic tools, Java, C++, etc., which makes it possible to develop rich client applications on web systems with high productivity and high extensibility at low cost.
- SCS started providing a new solution in the field of IT governance, which supports CIOs and IT executives seeking to collect and analyze relevant information, and make optimal decisions including ROI in the IT related area. IT governance is an important factor for corporate governance. In this connection, SCS made a tie-up with ITM Software Corporation (headquartered in California, U.S.A.) that has developed the practical and powerful package software, "ITM Software Application Suite".
- SCS initiated share participation in Mamezou Co., Ltd. to further strengthen its existing partnership/alliance. Mamezou possesses advanced technologies in object-oriented development. Both parties will further strive to develop systems in high quality and high productivity.
- SCS invested capital in ABeam Consulting Ltd. to expand its consulting services while strengthening the relationship both parties built. Consulting services are an important part of SCS's business strategy and this share-in will bolster its capabilities in the consulting field.

In addition to these activities, SCS formed an alliance with MySQL AB of Sweden, the developer of "MySQL", the most-used open source database in the world. SCS also participated in the establishment of VIJASGATE, a joint venture software development firm in Hanoi, Vietnam, by seven Japanese and six Vietnamese corporations.

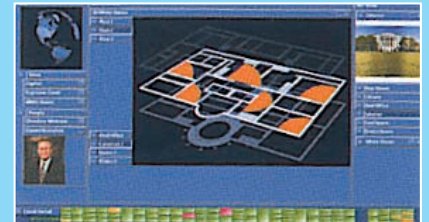
These strategic tie-ups are expected to lay the groundwork for vigorous and diversified growth of SCS in the future.

Your continuous support and cooperation will be sincerely appreciated.

President
Yasuhito Nakagawa



SCS hosts the "IT Governance Symposium 2004"



Screen of a system using "Curl"

TOPICS

Major products and services newly released during this fiscal year

SCS has been aggressively developing new products in order to accurately meet the newly evolving needs of its customers. The products outlined below are the major ones launched in this fiscal year.

Initiating "IT Business Management Solutions"

SCS began providing practical and advanced total solutions in the "IT governance" field, which is one of the key factors in "corporate governance", using the "ITM Software Application Suite" package as the core.

The "ITM Software Application Suite" is an excellent integrated IT governance solutions package developed by ITM Software Corp. of the United States. It is designed based on management science and actual best practices of more than 100 CIOs, and has gained recognition for its outstanding characteristics of visualization and numerical expression.

SCS is the first in Japan to sign a "System Integrator License Agreement" with ITM Software.

Developing and launching "WebTRADE Navi", an integrated trading/logistics package

SCS has developed and launched "WebTRADE Navi", an integrated trade/logistics solutions package based on the abundant business know-how on trading houses and the logistics industry. It is characterized by the "component-based development" and "navigation function".

Regarding the "component-based development", this package divides essential functions in trading and logistics transactions into eight components; estimates, contracting, logistics, purchasing, sales, and etc. Combining these components as required enables efficient and flexible building of optimal systems that best suit the business style of the customer within a short period of time.

Regarding the "navigation function", it enables customers to grasp and manage the progress of each contract on a real-time basis and to take appropriate measures when required.

In addition, as this product is a Web application, it can be used at any business location, both in Japan and overseas.

Launching "Auto Business Suite Ver. 2.0", the new version of the SAP template for automotive parts manufacturers

SCS released "Auto Business Suite Ver. 1.0" for the automotive parts industry in 2002, which was developed on SCS's know-how/practical installation experience and SAP Japan Co., Ltd.'s basic template. Now, SCS has developed and launched "Auto Business Suite Ver. 2.0".

This "Ver. 2.0" features all the functions required in the business processes of the automotive parts industry (business planning, receiving orders, production, procurement, shipment, accounting, etc.) on "All-in-One" business scenarios, including Japanese business practices.

The most remarkable characteristic of this suite is that it is designed not as a "functional template", but as a "business template" with "Can-be-Used-as-It-is" business scenarios, supporting quick, accurate and smooth operations comprehensively for complicated business processes in this industry. This package is expected to yield a high return on investment (ROI).

Forging a broader lineup of customer solutions

In addition to offering the above products, SCS has enhanced its product lineup for meeting customer needs on an appropriate and timely basis. For example, we also launched "SHARE/SSM (Application Management System on the Web)" in the "SHARE/Web Human Resources/Payroll Series", which enables corporate staff to apply, check/admit, and keep records of applied facts regarding personal matters on the Intranet. We also launched the "FOR NEXT" series, which are financing solution packages, suited for local banks, shinkin banks, and non-bank institutions. This provides comprehensive and detailed support of banking operations such as financing, managing credits/loans/non-recourse loans/property, and links smoothly with securitization of liabilities, which is on the increase. Another product we launched is "C-Kit", a template of ERP package software for the construction industry, through joint development with Fuji Research Institute Corporation and SAP Japan Co., Ltd.

During the process of building and operating information systems, we often handle important and sensitive information of our customers. In order to ensure that this information is strictly and adequately managed, SCS has established its "SCS Information Security Management Policy (SSM)". SSM includes the "SCS Information Security Guidelines", for the purpose of clarifying its policy on information security (available on SCS's website). Every single staff member or any person performing work related to our company in any form or place, is requested to comply with these guidelines strictly, to protect information security of a third party.



Privacy Mark System Certification

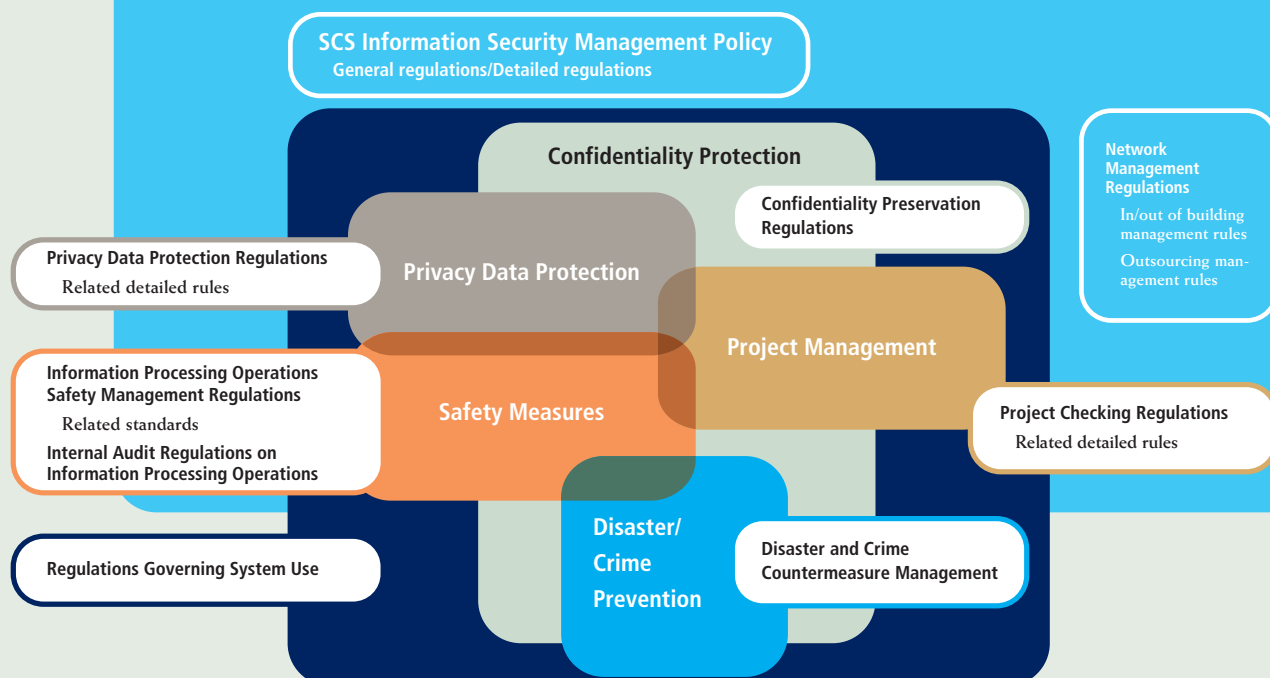
We have been implementing various measures for our information security related activities, and in 1999, we acquired the "Privacy Mark System Certification" from the Japan Information Processing Development Corporation (JIPDEC). Further to this, in 2001, we appointed a Chief Information Security Officer and established an Information Security Dept. SCS has taken every possible measure to ensure the safety and reliability of the information assets of its customers as well as its own information assets.

The SCS Information Security Policy

"Security is the basis of reliance"

- Based on these security guidelines, as a "Business Value Creator" in the ubiquitous networked society, SCS shall ensure the safety and reliability of its customers' and its own information assets, and shall endeavor to improve its services.
- These security guidelines are positioned as the company's basic policy and are intended to actualize due protection of all information assets.
- Every officer/staff member of SCS and any person working with us must understand this security policy well, and each SCS Division shall be responsible for ensuring that its effectiveness is fully and securely maintained.

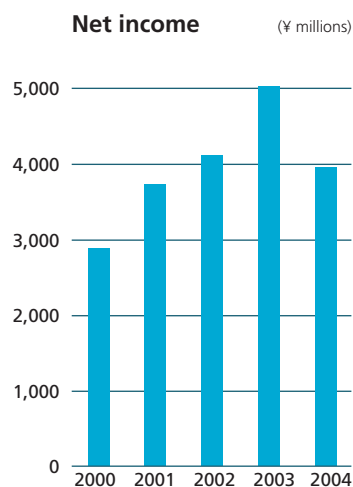
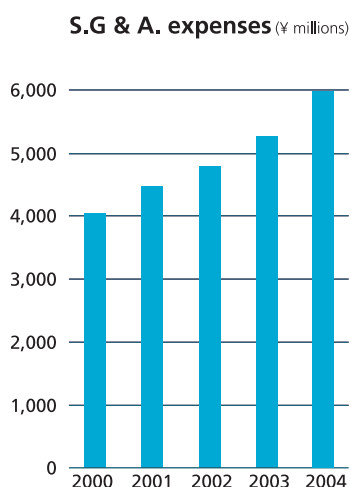
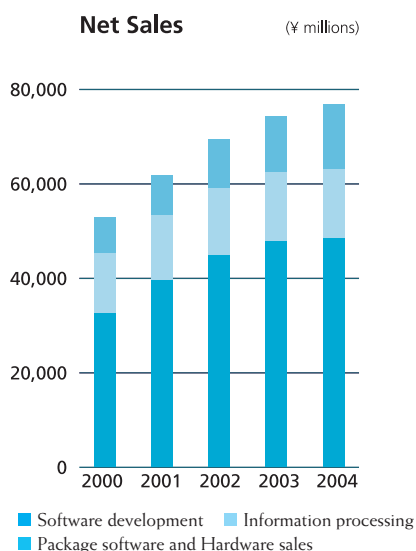
Positioning of Company's Information Security



FINANCIAL SECTION

Financial Review

for the fiscal year ended March 31, 2003



Operating Results

Consolidated net sales for the fiscal year ended March 31, 2004 increased by 3.4% to ¥76,676 million compared to the previous fiscal year, and marked the 9th consecutive year of growth. However, consolidated operating income decreased by 27.1% to ¥7,010 million, and consolidated ordinary income also decreased by 26.6% to ¥7,122 million, affected by factors such as customers' requests for reducing prices and the decreased profitability due to intensified competition.

A review of net sales by business segments shows that the number of orders significantly decreased for Software Development, especially in financial, communication and transportation industries. On the other hand, the demand for construction or reconstruction of both corporate mission-critical systems and internet-based information systems showed a steady growth, mainly in manufacturing, distribution and electric power industries. As a result, the net sales of Software Development increased by 0.8% to ¥48,152 million.

With respect to Information Processing, despite a certain decline due to requests from customers to reduce their total cost of ownership (TCO), the net sales grew by 1.4% to ¥14,690 million compared to the previous fiscal year. This growth was achieved mainly by a strong demand from new customers for our high quality one-stop services based on "netXDC", the next-generation data center, and also by our intensive effort to expand Business Process Outsourcing (BPO) services, including the "SHARE" business in the human resources and payroll area.

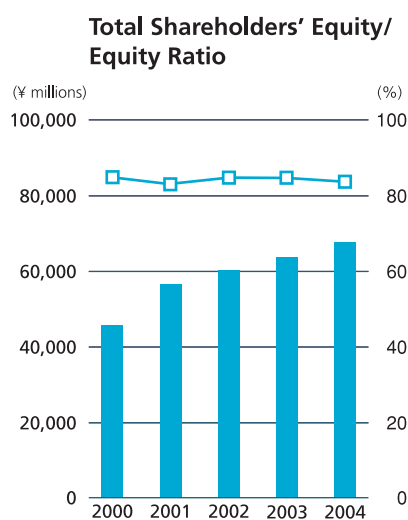
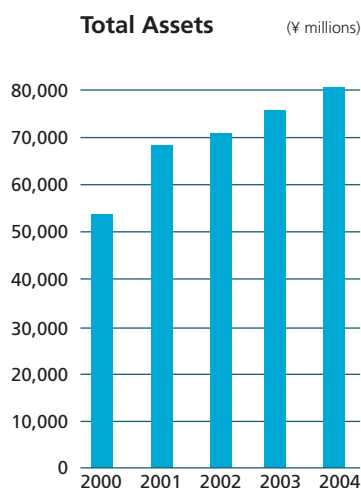
Net sales of Package Software and Hardware recorded stable growth in both software sales and hardware sales, resulting in a 16.6% increase to ¥13,834 million compared with the previous fiscal year.

The gross profit margin declined by 3.1 percentage points to 17.0% compared with the previous fiscal year. Major factors of the decline were underutilization of project engineers due to standby time created by suspension of projects by some customers and as a result of a smaller number of new orders reflecting severer competition.

The ratio of selling, general and administrative expenses (S.G. & A. Expenses) to net sales rose by 0.7 points to 7.8% compared with the previous fiscal year. This is mainly due to newly-consolidated subsidiaries that brought an increase in personnel expenses by ¥150 million, as well as to ¥98 million depreciation of goodwill.

As a result of the above, the ratio of operation income to net sales dropped by 3.9 points to 9.1%.

Consolidated net income for the year under review decreased by 20.5% to ¥3,978 million compared with the previous fiscal year. The ratio of net income to net sales as well declined by 1.6 points to 5.2%.



Financial Position

Consolidated total assets as of March 31, 2004 increased by ¥5,117 million to ¥80,477 million compared with the previous fiscal year.

Current assets slightly increased by ¥456 million to ¥39,951 million. Although the money deposits for short-term operation increased by ¥2,185 million, this effect was offset by the ¥1,414 million of decrease of securities due to redemption of held-to-maturity bonds and other fluctuations.

As regards fixed assets, the total balance as of the fiscal year end grew by ¥4,661 million to ¥40,526 million, compared with the previous fiscal year. Major factors of the increase include operating surplus funds in held-to-maturity bond securities (rated A or higher) of ¥4,266 million and the increase of intangibles by ¥964 million, mainly due to asset capitalization of production costs of package software for sales purposes.

For liabilities, although accrued income tax decreased by ¥464 million, total liabilities rose by ¥1,690 million to ¥12,941 million compared with the previous fiscal year. This was largely due to increases in accounts payable, deferred tax liability and liability for severance and retirement benefits, which grew by ¥1,658 million, ¥199 million and ¥419 million, respectively.

Total shareholders' equity increased by ¥3,231 million to ¥67,053 million compared with the previous fiscal year. As a result of recording ¥3,978 million in net income, retained earnings increased by ¥2,819 million to ¥24,838 million.

Analysis of Cash Flow

The net cash and cash equivalents provided by operating activities was ¥6,286 million. The major items of inflow were income before income taxes of ¥7,219 million, depreciation expenses of ¥1,258 million and increase in accounts payable of ¥1,527 million, while the major items of outflow include ¥3,878 million of corporate tax paid.

Investing activities resulted in net cash outflow of ¥3,768 million, mainly due to payments for intangibles including production costs of package software for sales purposes and acquisition of held-to-maturity bond securities for operation of surplus funds.

The net cash and cash equivalents used in financing activities amounted to ¥1,114 million, owing mainly to ¥25 dividends paid per share during the current fiscal year.

CONSOLIDATED BALANCE SHEETS

Sumisho Computer Systems Corporation and Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and time deposits (Note 3)	¥ 2,411	¥ 2,129	\$ 22,812
Securities (Note 4)	1,551	2,965	14,675
Notes and accounts receivable (Note 12)	15,852	15,820	149,986
Allowance for doubtful accounts	(1)	(27)	(9)
Inventories	2,063	2,143	19,519
Deferred income taxes (Note 5)	686	596	6,491
Money deposits (Note 12)	15,665	13,480	148,216
Other current assets	1,724	2,389	16,312
Total current assets	39,951	39,495	378,002
Property and equipment:			
Land	14,517	14,517	137,355
Buildings and structures	19,837	19,749	187,690
Furniture and fixtures	1,302	1,423	12,319
Less accumulated depreciation	(7,699)	(7,081)	(72,845)
Net property and equipment	27,957	28,608	264,519
Investments and other assets:			
Investments in affiliated companies	43	115	407
Investments in securities (Note 4)	8,997	4,659	85,126
Long-term prepaid expenses	91	67	861
Allowance for doubtful accounts	(31)	(34)	(293)
Lease deposits paid	1,009	900	9,547
Intangibles, net	2,077	1,113	19,652
Deferred income taxes (Note 5)	20	44	189
Other assets	363	393	3,434
Total investments and other assets	12,569	7,257	118,923
Total assets	¥ 80,477	¥ 75,360	\$ 761,444

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Accounts payable	¥ 6,375	¥ 4,717	\$ 60,318
Accrued income taxes	1,887	2,351	17,854
Other current liabilities	3,452	3,544	32,662
Total current liabilities	11,714	10,612	110,834
Lease deposits received	112	148	1,059
Liability for severance and retirement benefits (Note 6)	771	352	7,295
Retirement benefits for directors and corporate auditors (Note 2 (j))	145	139	1,372
Deferred income taxes (Note 5)	199	—	1,883
Minority interests in Consolidated Subsidiaries	483	287	4,570
Contingent liabilities (Note 13)			
Shareholders' equity (Note 7):			
Common stock:			
Authorized—100,000,000 shares			
Issued—43,588,609 shares	21,153	21,153	200,142
Capital surplus	20,649	20,649	195,373
Retained earnings	24,838	22,019	235,008
Net unrealized gains on securities, net of tax effect	608	133	5,753
Foreign currency translation adjustments	(151)	(97)	(1,429)
Treasury stock, at cost			
13,227 and 10,185 shares in 2004 and 2003, respectively	(44)	(35)	(416)
Total shareholders' equity	67,053	63,822	634,431
Total liabilities and Shareholders' equity	¥ 80,477	¥ 75,360	\$ 761,444

CONSOLIDATED STATEMENTS OF INCOME

Sumisho Computer Systems Corporation and Subsidiaries
For the Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Net Sales (Note 12)	¥ 76,676	¥ 74,134	¥ 69,325	\$725,480
Cost and expenses:				
Cost of sales	63,675	59,254	56,509	602,469
Selling, general and administrative expenses (Note 9)	5,991	5,264	4,774	56,685
	69,666	64,518	61,283	659,154
Operating income	7,010	9,616	8,042	66,326
Other income (expenses):				
Interest income and dividends	76	83	108	719
Interest expense	(3)	(2)	(3)	(28)
Common stock issue costs	—	—	(7)	—
Equity in net income from affiliates	22	1	2	208
Gains on sale of investment securities, net	354	—	48	3,349
Write off on investment securities and other	(107)	(631)	(375)	(1,012)
Losses on refund of investment in securities	(26)	—	—	(246)
Losses on sales / disposal of property and equipment	(21)	(65)	(57)	(199)
Removal expenses	(102)	—	(356)	(965)
Cumulative effect of accounting change for retirement benefits for directors and corporate auditors (Note 2 (j))	—	(101)	—	—
Other, net	16	11	(14)	151
	209	(704)	(654)	1,977
Income before income taxes	7,219	8,912	7,388	68,303
Income taxes (Note 5)				
Current	3,383	3,931	3,098	32,009
Deferred	(171)	(94)	164	(1,618)
	3,212	3,837	3,262	30,391
Minority interests	29	69	19	274
Net income	¥ 3,978	¥ 5,006	¥ 4,107	\$ 37,638
		Yen		U.S. Dollars (Note 1)
	2004	2003	2002	2004
Per share information (Note 2(o)):				
Basic earning per share	¥ 90.01	¥ 113.25	¥ 94.23	\$ 0.85
Cash dividends declared for the year	26.00	24.00	22.00	0.25

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumisho Computer Systems Corporation and Subsidiaries
For the Years ended March 31, 2004, 2003 and 2002

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains (loss) on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2001	36,324	¥21,153	¥20,649	¥14,871	¥ 11	¥ (97)	¥ (0)
Split of shares (Note 7)	7,265	—	—	—	—	—	—
Net income	—	—	—	4,107	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	47	—
Net unrealized gain on securities	—	—	—	—	180	—	—
Cash dividends	—	—	—	(799)	—	—	—
Bonuses to directors	—	—	—	(50)	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	(53)
Sales of treasury stock	—	—	—	—	—	—	45
Balance at March 31, 2002	43,589	21,153	20,649	18,129	191	(50)	(8)
Net income	—	—	—	5,006	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(47)	—
Net unrealized loss on securities	—	—	—	—	(58)	—	—
Cash dividends	—	—	—	(1,046)	—	—	—
Bonuses to directors	—	—	—	(70)	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	(27)
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 gain 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)

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 1)					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains (loss) on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2003	43,589	\$200,142	\$195,373	\$208,336	\$ 1,258	\$ (918)	\$(331)
Net income	—	—	—	37,638	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(511)	—
Net unrealized gain on securities	—	—	—	—	4,495	—	—
Cash dividends	—	—	—	(10,304)	—	—	—
Bonuses to directors	—	—	—	(662)	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	(85)
Balance at March 31, 2004	43,589	\$200,142	\$195,373	\$235,008	\$5,753	\$(1,429)	\$(416)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumisho Computer Systems Corporation and Subsidiaries
For the Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Cash flows from operating activities:				
Income before income taxes	¥ 7,219	¥ 8,912	¥ 7,388	\$ 68,303
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	1,258	1,335	1,327	11,903
Amortization of goodwill	99	—	178	937
Increase (decrease) in allowance for doubtful accounts	(30)	(9)	0	(284)
Losses on disposal of property and equipment	21	47	51	198
Gains on sale of investment securities, net	(354)	—	(48)	(3,349)
Losses on refund of investment in securities	26	—	—	246
Write off of investment securities and other	108	631	375	1,022
Interest income and dividends	(76)	(83)	(108)	(719)
Cumulative effect of accounting change for retirement benefits for directors and corporate auditors (Note 2 (j))	—	101	—	—
(Increase) decrease in notes and accounts receivable	266	(2,598)	(696)	2,517
(Increase) decrease in inventories	133	206	(118)	1,258
Increase (decrease) in accounts payable	1,527	(126)	(682)	14,448
Net change in liabilities for severance and retirement benefits	387	194	(43)	3,662
Payments for bonuses to directors	(70)	(70)	(50)	(662)
Other	(420)	320	104	(3,974)
Sub total	10,094	8,860	7,678	95,506
Interest and dividends received	72	86	110	681
Interest paid	(2)	(2)	(2)	(19)
Income taxes paid	(3,878)	(3,775)	(3,362)	(36,692)
Net cash provided by operating activities	6,286	5,169	4,424	59,476
Cash flows from investing activities:				
Payments for purchases of marketable securities	(201)	(1,892)	(5,097)	(1,902)
Proceeds from sales and maturities of marketable securities	2,657	4,198	4,696	25,140
Payments for purchases of beneficiary certificates	—	—	(300)	—
Proceeds from repayments of beneficiary certificates	—	300	—	—
Payments for purchases of investments securities	(5,810)	(3,865)	(419)	(54,972)
Proceeds from sales and maturities of investments securities	1,196	—	590	11,316
Payments for purchases of property and equipment	(254)	(98)	(7,767)	(2,403)
Proceeds from sales of property and equipment	—	194	1	—
Payments for purchases of intangibles	(1,429)	(751)	(228)	(13,521)
Payments for purchases of securities of subsidiaries, resulting from change in scope of consolidation (Note 10)	(97)	—	(133)	(918)
Other	170	284	1,244	1,609
Net cash used in investing activities	(3,768)	(1,630)	(7,413)	(35,651)
Cash flows from financing activities:				
Payments for purchases of treasury stock	(10)	(27)	(53)	(95)
Proceeds from sales of treasury stock	—	—	45	—
Dividends paid	(1,090)	(1,046)	(799)	(10,313)
Distributions to minority interests	(14)	(25)	—	(132)
Net cash used in financing activities	(1,114)	(1,098)	(807)	(10,540)
Effect of exchange rate changes on cash and cash equivalents	(40)	(37)	39	(379)
Net increase (decrease) in cash and cash equivalents	1,364	2,404	(3,757)	12,906
Cash and cash equivalents at beginning of year	17,909	15,505	19,262	169,448
Cash and cash equivalents at end of year (Note 3)	¥ 19,273	¥ 17,909	¥ 15,505	\$ 182,354

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumisho Computer Systems Corporation and Subsidiaries

NOTE 1: BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

Consolidation

The consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany transactions, account balances and unrealized profits are eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 5 years on a straight-line basis except that when the excess is immaterial, it is fully charged to income in the year of acquisition. Such amortization is included in selling, general and administrative expenses.

Equity Method

Investments in affiliated companies, which include all of 20% to 50% owned companies are accounted for by the equity method.

(b) Translation of foreign currency

Foreign currencies receivables and payables are translated into Japanese yen at the balance sheet rate. The resulting exchange gains or losses are recognized in earnings.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company. The resulting accumulated translation adjustments are included in a separate component of shareholders' equity.

(c) Cash and cash equivalents in the consolidated statements of cash flows

For the purpose of the consolidated statements of cash flows, "Cash and cash equivalents" consist of cash on hand, readily available deposits and short-term highly liquid investments with original maturity of three months or less with virtually no risk of loss of value.

(d) Securities and investments in securities

Securities and investments in securities are classified as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by affiliated companies, and (c) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by affiliated companies which are accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible.

Other securities with no available fair market value are stated at moving-average cost.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is maintained for the amounts deemed uncollectible based on solvency analyses and for estimated delinquency based on collection rates projected from historical credit loss experiences, and for the amounts to cover specific accounts that are estimated to be uncollectible.

(f) Inventories

Finished goods are stated at the lower of cost or market, cost being determined by the First-in First-out (FIFO) method. Work-in-process is stated at cost determined by the specific identification method.

(g) Depreciation**Property and equipment**

Property and equipment are carried at cost. Depreciation for buildings held by the Company and domestic consolidated subsidiaries is computed on the straight-line method based on estimated useful lives of the assets. Overseas consolidated subsidiaries compute the depreciation of property and equipment by the declining-balance method.

Intangible assets*Package software for sale*

The annual amortization of package 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 including the period being reported on (principally 3 years or shorter).

Software for internal use

Software for internal use is amortized using the straight-line method over the estimated useful life (principally 5 years or shorter).

Other intangible assets

Intangible assets are amortized on the straight-line method at rates based on estimated useful lives of the assets.

Long-term prepaid expenses

Prepaid insurance expenses, as a part of "Long-term prepaid expenses", is amortized on the straight-line method over the insurance periods.

The company does not adopt the new Japanese accounting standard for impairment of fixed assets ('Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets' issued by the Business Accounting Deliberation Council of Japan on August 9, 2002) and the Implementation Guidance for Accounting Standards for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance NO.6 issued by the Accounting Standards Board of Japan on October 31, 2003). The adoption of these standard and guidance are mandatory from the year ended March 31, 2006.

(h) Research and development costs

Research and development costs are expensed as incurred.

(i) Reserve for employees' retirement benefits

The Company and its consolidated domestic subsidiaries provide a liability for severance and retirement benefits based on the estimated amounts of 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 5 years).

(j) 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 on the director's retirement benefit rule.

Prior to October 1, 2002, retirement benefits for directors and corporate auditors were not accrued and recorded as expenses when paid. Based on the Company's revised rule for their retirement which reflects recent practices, the Company changed the method of accounting, effective October 1, 2002, and 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. The Company believes that this change provides a better matching of costs and revenues over the period of service.

(k) Income taxes

The provision for income taxes is computed based on the taxable income of each of the Company and its consolidated subsidiaries with certain adjustments required for tax purposes.

The Company and its subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequence of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(l) Derivative financial instruments

The Company and its subsidiaries use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Forward foreign currency contracts are utilized by the Company to reduce foreign exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Net assets or liabilities arising from derivative financial transactions are measured at fair value, with unrealized gains or losses included in earnings. For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions. With regard to the accounting method for hedge transaction, deferred hedge accounting is adopted. The derivative transactions are executed and managed by the Company's Finance and Accounting Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

(m) Leases

Finance leases, other than those which 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.

(n) Treasury stock and statutory reserves

The Company applies the accounting standard for treasury stock and reduction of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

(o) Per share information

The Company applies the accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). Basic earnings per share ("basic EPS") is computed by dividing net income applicable to common stock by weighted-average number of shares of common stock outstanding during the year.

Diluted earnings per share for the years ended March 31, 2004, 2003 and 2002 are not presented since the Company has no securities with dilutive effects.

NOTE 3: CASH AND CASH EQUIVALENTS

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2004 and 2003:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
Cash and time deposits	¥ 2,411	¥ 2,129	\$ 22,812
Securities	—	2,965	—
Less: Stocks and bonds	—	(2,387)	—
Less: Bond investment trust with original maturities of more than three months	—	(278)	—
Money Deposits	15,665	13,480	148,216
Other	1,724	2,389	16,312
Less: Other current assets	(527)	(389)	(4,986)
Cash and cash equivalents	¥19,273	¥17,909	\$182,354

NOTE 4: SECURITIES AND INVESTMENTS IN SECURITIES

(1) Marketable debt securities classified as held-to-maturity debt securities as of March 31, 2004 and 2003 are as follows:

As of March 31, 2004	Millions of Yen		
	Book value	Market value	Unrealized gain (loss)
Securities with fair value exceeding book value:			
Corporate bonds	¥4,066	¥4,076	¥ 10
Others	—	—	—
Total	4,066	4,076	10
Securities with fair value not exceeding book value:			
Corporate bonds	4,437	4,423	(14)
Others	—	—	—
Total	4,437	4,423	(14)
Total	¥8,503	¥8,499	¥ (4)

As of March 31, 2003	Millions of Yen		
As of March 31, 2003	Book value	Market value	Unrealized gain (loss)
Securities with fair value exceeding book value:			
Corporate bonds	¥1,861	¥1,865	¥ 4
Others	—	—	—
Total	1,861	1,865	4
Securities with fair value not exceeding book value:			
Corporate bonds	3,586	3,576	(10)
Others	—	—	—
Total	3,586	3,576	(10)
Total	¥5,447	¥5,441	¥ (6)

As of March 31, 2004	Thousands of U.S. Dollars		
	Book value	Market value	Unrealized gain (loss)
Securities with fair value exceeding book value:			
Corporate bonds	\$38,471	\$38,566	\$ 95
Others	—	—	—
Total	38,471	38,566	95
Securities with fair value not exceeding book value:			
Corporate bonds	41,981	41,849	(132)
Others	—	—	—
Total	41,981	41,849	(132)
Total	\$80,452	\$80,415	\$(37)

(2) Marketable securities classified as available-for-sale securities as of March 31, 2004 and 2003 are as follows:

As of March 31, 2004	Millions of Yen		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition costs:			
Stocks	¥ 267	¥1,297	¥1,030
Bonds:			
Corporate bonds	12	15	3
Total	279	1,312	1,033
Securities with book value not exceeding acquisition costs:			
Stocks	52	47	(5)
Bonds	—	—	—
Others	—	—	—
Total	52	47	(5)
Total	¥ 331	¥1,359	¥1,028

As of March 31, 2003

Securities with book value exceeding acquisition costs:			
Stocks	¥ 200	¥ 516	¥ 316
Bonds:			
Corporate bonds	12	15	3
Total	212	531	319
Securities with book value not exceeding acquisition costs:			
Stocks	317	245	(72)
Bonds:	—	—	—
Others	348	327	(21)
Total	665	572	(93)
Total	¥ 877	¥1,103	¥ 226

As of March 31, 2004	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition costs:			
Stocks	\$ 2,526	\$12,272	\$ 9,746
Bonds:			
Corporate bonds	114	142	28
Total	2,640	12,414	9,774
Securities with book value not exceeding acquisition costs:			
Stocks	492	445	(47)
Bonds:	—	—	—
Others	—	—	—
Total	492	445	(47)
Total	\$ 3,132	\$12,859	\$ 9,727

(3) Available-for-sale securities sold during the years ended March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale securities:			
Book value	¥ 336	¥ —	\$3,179
Proceed from sales	689	—	6,519
gain	¥ 353	¥ —	\$3,340

(4) The major components of securities with no available fair value and their respective balance sheet amounts:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Held-to-maturity debt securities:			
Commercial paper	¥ —	¥ 800	\$ —
Available-for-sale securities:			
Unlisted stocks (except for over-the-counter securities)	686	275	6,491
Total	¥ 686	¥1,075	\$6,491

Note: The Company reported the impairment loss of ¥107 million (\$ 1,012 thousand) on the available-for-sale securities with no available fair value.

(5) The carrying value of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2004 and 2003 are summarized by contractual maturities as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		2004	
	Corporate bonds	Others	Corporate bonds	Others	Corporate bonds	Others
One year or less	¥ 1,551	¥ —	¥ 1,887	¥ 1,078	\$ 14,675	\$ —
One to five years	6,426	—	3,561	—	60,800	—
Five to 10 years	541	—	15	—	5,119	—
More than 10 years	—	—	—	—	—	—
Total	¥ 8,518	¥ —	¥ 5,463	¥ 1,078	\$ 80,594	\$ —

NOTE 5: INCOME TAXES

Income taxes consist of corporation, inhabitants and enterprise taxes, which resulted in an aggregate normal effective statutory rate of approximately 42.1% for the years ended March 31, 2004 and 2003.

Deferred income tax assets and deferred income tax liabilities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
(Deferred income tax assets)			
Deferred enterprise taxes	¥ 147	¥ 199	\$ 1,391
Deferred bonus payments	400	327	3,785
Amortization difference of package software for sale	68	112	644
Write off on membership	160	192	1,514
Severance and retirement benefit expenses	310	144	2,933
Retirement benefits for directors and corporate auditors	59	56	558
Others	209	104	1,977
Gross deferred income tax assets	1,353	1,134	12,802
(Deferred income tax liabilities)			
Net unrealized gains on securities	(418)	(90)	(3,955)
Exclusion from reserve for programming	(428)	(404)	(4,050)
Gross deferred income tax liabilities	(846)	(494)	(8,005)
Net deferred income taxes	¥ 507	¥ 640	\$ 4,797

For the years ended March 31, 2004 and 2003, there was no significant difference between the normal effective statutory tax and the effective income tax rates reflected in the accompany consolidated statements of income.

NOTE 6: RETIREMENT BENEFIT PLANS

The Company has a non-contributory defined benefit pension plan (the "Tax Qualified Pension Plan") and participates in a contributory defined benefit Japanese government welfare pension program (the Employee Pension Fund, "EPF"), covering substantially all of its employees other than directors. Most of the consolidated domestic subsidiaries have the Tax Qualified Pension Plan and/or unfunded severance indemnities. The liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

(a) The following table sets forth the funded and accrued status of the plans as of March 31, 2004 and 2003.

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Retirement benefit obligation *1	¥(5,350)	¥(4,903)	\$(50,620)
Plan assets at fair value *2	3,947	3,057	37,345
Funded status	(1,403)	(1,846)	(13,275)
Unrecognized actuarial differences	632	1,494	5,980
Net retirement benefit obligation	(771)	(352)	(7,295)
Prepaid pension cost	—	—	—
Liability for severance and retirement benefits	¥ (771)	¥ (352)	\$ (7,295)

*1 The cost of pension plans and severance indemnity plans of certain subsidiaries are accrued based on the vested benefit obligation, which is the amount required to be paid if all employees covered by the severance indemnity plans voluntarily terminated their employment at the balance sheet date.

*2 The Company participates in an Employee Pension Fund ("EPF") as a group, which is stipulated by the Japanese Welfare Pension Insurance Law. This plan serves as a substitute for the Japan Government pension plan funded by social security taxes paid by employees and the employer. The EPF consists of two portions (1) social security tax portion funded by employees and the companies and (2) Corporate portion funded by the companies. Contributions are made based upon the aggregate cost method. The plan assets of the EPF cannot be specifically allocated to the individual participants or to the companies.

The amount of plan assets at fair value allocated based on the percentage of contribution is ¥3,173 million (\$30,022 thousand) and ¥2,927 million in 2004 and 2003, respectively, which is not included in plan assets at fair value shown above.

*3 The Company received approval from the Minister of Health, Labor and Welfare for exemption from the obligation of the future benefit payment regarding entrusted government's portion of the employee welfare pension funds on November 1, 2003.

(b) The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Service cost—benefits earned during the year	¥444	¥342	¥311	\$4,201
Interest cost on projected benefit obligation	120	120	109	1,135
Expected return on plan assets	(74)	(70)	(63)	(700)
Amortization of net retirement benefit expense at transition	—	—	—	—
Amortization of unrecognized actuarial differences	344	142	83	3,255
Amortization of prior service cost	—	—	—	—
Net periodic pension cost	¥834	¥534	¥440	\$7,891

*1 Service costs shown above do not include the contribution to the employees' pension fund of ¥333 million (\$3,150 thousand), ¥389 million and ¥231 million in 2004, 2003 and 2002, respectively.

Assumptions used for 2004, 2003 and 2002 in determining costs for the plan and the funded status information shown above are principally as follows:

	2004	2003	2002
	Discount rate	2.5%	2.5%
Expected long-term rate of return on plan assets	2.0%	2.0%	2.0%

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Unrecognized net retirement benefit obligation at transition was expensed as incurred.

NOTE 7: SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the proceed of certain issues of common share shall be credited to the common stock account. The remainder of the proceed shall be credited to the additional paid-in capital, which is included in capital surplus. The Code permits, upon approval of the Board of Directors, transfer of the amounts from additional paid-in capital to the common stock account.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal earnings reserve until the total of additional paid-in capital and the reserve equal 25% of the common stock. The reserve is not available for dividends but may be used to reduce a deficit by a resolution of the Board of Directors. The legal earnings reserve is included in retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

NOTE 8: LEASES

Finance leases as of March 31, 2004 and 2003, other than those which are deemed to transfer the ownership of the leased assets to lessees, are as follows:

(a) Analysis of leased assets:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Acquisition costs of furniture and fixtures	¥7,234	¥6,537	\$68,445
Accumulated depreciation	(4,195)	(2,993)	(39,692)
Net book value	¥3,039	¥3,544	\$28,753

(b) The summary of future minimum payments:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥1,707	¥1,628	\$16,151
Due after one year	1,421	2,012	13,445
Total minimum lease payments	¥3,128	¥3,640	\$29,596

(c) Lease payments and the amounts corresponding to depreciation and interest expense:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Lease payments	¥1,948	¥1,877	\$18,431
Depreciation expense portion	1,828	1,755	17,296
Interest expense portion	111	138	1,050

(d) Computation of depreciation expense portion:

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value.

(e) Computation of interest expense portion:

The difference between the total amount of the lease payments and the cost of the related asset is regarded as interest expense and the interest method is used to allocate this amount over the lease term.

NOTE 9: SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses during the years ended March 31, 2004 and 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Payroll and bonuses	¥2,375	¥1,959	¥1,691	\$22,471
Fringe benefits	347	278	246	3,283
Advertising expenses	170	165	254	1,608
Rental expenses	657	653	574	6,216
Repair costs	106	115	126	1,003
Depreciation	243	220	212	2,299
Computer and related cost	322	290	258	3,047
Training expenses	215	152	120	2,034

Research and development expenses included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended March 31, 2004, 2003 and 2002 totaled ¥790 million (\$7,475 thousand), ¥442 million and ¥359 million, respectively.

NOTE 10: ACQUISITION OF CONSOLIDATED SUBSIDIARIES

SC InfoTech Corporation and Curl Asia Pacific Co., Ltd. have been included in consolidation effective from fiscal year ended March 31, 2004, as a result of additional acquisition of their shares.

The assets and liabilities at the acquisition and the acquisition costs consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥1,016	\$9,613
Fixed assets	160	1,513
Consolidation difference	246	2,328
Current liabilities	(425)	(4,021)
Noncurrent liabilities	(74)	(700)
Minority interests	(243)	(2,299)
Acquisition price	680	6,434
Interest prior to acquisition	(30)	(284)
Cash and cash equivalents of the consolidated subsidiary	(553)	(5,232)
Net acquisition costs	97	918

NOTE 11: SEGMENT INFORMATION

The following segment information is not required to be disclosed in the consolidated financial statements because of the reasons below.

1. Business segment information: The Company and its subsidiary operate in a single industry known as information services, which includes sales of software developed in-house, and maintenance of high-quality information systems and offering network service on line.
2. The geographic segment information: The sales revenue from the Company and domestic-consolidated subsidiaries are over 90% of the total segments sales.
3. Overseas sales revenue: The amount is not material.

NOTE 12: RELATED PARTY DISCLOSURES

The Company is owned 51.2% directly and indirectly by Sumitomo Corporation (the "Parent company"). Account balances and transactions with related parties for the years ended March 31, 2004, 2003 and 2002 are as follows:

At March 31:	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Accounts receivable from the Parent company	¥ 2,388	¥ 3,225	¥ 4,025	\$ 22,594
Money deposit to a subsidiary of the Parent company	15,500	13,480	11,300	146,655

For the year ended March 31:	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Net sales to the Parent company				
–Information processing services and software development	¥ 14,974	¥15,528	¥17,602	\$141,678
Deposition of funds to a subsidiary of the Parent company	¥ 80,350	¥87,650	¥55,250	\$760,242

NOTE 13: CONTINGENT LIABILITIES

Contingent liabilities for guarantees given for lease obligation of Advanced Network Systems Co., Ltd., an affiliated company, accounted for by the equity method for the years ended March 31, 2004 are ¥6 million.

NOTE 14: SUBSEQUENT EVENTS

On June 29, 2004, the shareholders approved (a) the payment of a cash dividend to shareholders of record on March 31, 2004 of ¥ 13 per share, or a total of ¥566 million (\$5,355 thousand) and (b) the payment of bonuses to directors aggregating to ¥56 million (\$530 thousand).



Independent Auditors' Report

To the Board of Directors of
Sumisho Computer Systems Corporation:

We have audited the accompanying consolidated balance sheets of Sumisho Computer Systems Corporation and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Sumisho Computer Systems Corporation and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA K Co.

Tokyo, Japan
June 29, 2004

Corporate Information

Corporate Name:

Sumisho Computer Systems Corporation (SCS)

Established:

October 25, 1969

Capital:

¥ 21,152 million

Stock Exchange Listing:

The Tokyo Stock Exchange (First Section, Code No. 9719)

Board of Directors and Auditors:

President

Yasuhito Nakagawa

Senior Managing Director

Hisashi Fujiwara

Managing Directors

Hiroji Iwasaki

Mitsuhiro Ohtsuki

Directors

Nobuhiko Ishizaka

Mikio Shinomiya

Keigo Nakamura

Kohji Shionoya

Kenji Tamaki

Izumi Yutani

Motoki Kondo

Takeshi Sugihashi

Yoshio Osawa

Yasuyuki Abe

Auditors

Junya Maruoka

Tetsuro Fukumoto

Tsunehiro Tsukamoto

Isao Yamamoto

Employees: 1,776 (As of June 2004)

Major Lines of Business:

- Consulting Services
- IT Governance Solutions
- Systems Integration Services
- Network Integration Services
- Business Process
 - Outsourcing Services
- Open Source Solutions
- Security Services

URL <http://www.scs.co.jp/>

Corporate History

OCT 1969

Sumisho Computer Service Corporation (SCS) established, capitalized at ¥50 million. Head Office located at Shin Sumitomo Building, Kitahama 5-15, Higashi-ku, Osaka.

JUN 1973

Head Office relocated to Sumitomo Computer Building, Shinsenri Nishimachi 1-2-2, Toyonaka-shi, Osaka. Osaka Center No.1 (Data Center) opens.

DEC 1974

Tokyo Branch equipped with IBM370/135 in addition to NEC mainframe at Osaka Head Office, making SCS a multi-vendor company.

JAN 1980

Dual Head Office Organization begins, with Tokyo Branch changing to the Tokyo Head Office.

JUN 1986

Tokyo Head Office registered under the Commercial Code as the SCS Head Office, replacing the Osaka Head Office.

OCT 1987

A group company, Sumisho Computer Service (USA), Inc., established in Los Angeles, California.

FEB 1988

Establishment of Tokyo Center No.1 (Data Center) completed.

FEB 1989

SCS listed on the Second Section of the Tokyo Stock Exchange.

MAR 1989

SCS authorized as "Qualified Systems Integrator" by the Ministry of Economy, Trade and Industry (METI).

JUN 1989

SCS registered as "General Type-II Telecommunications Carrier" to the Ministry of Public Management, Home Affairs, Post and Telecommunications.

DEC 1989

A group company, Sumisho Computer Service (Miyazaki) Corporation, established in Miyazaki-shi, Miyazaki.

MAY 1990

A group company, Sumisho Computer Service (Europe) Ltd., established in London, U.K.

SEP 1991

SCS Listed on the First Section of the Tokyo Stock Exchange.

JAN 1992

Establishment of Tokyo Center No. 2 (Data Center) completed.

JUN 1992

Tokyo Offices integrated and relocated to Ryogoku, Sumida-ku, Tokyo.

OCT 1992

Corporate name changed to Sumisho Computer Systems Corporation (SCS), and three of its group company names above are changed to the present names.

OCT 1993

Osaka Center No. 2 (Data Center) opens.

MAR 1995

SCS qualified by METI as a "Specialized Systems Operation Service Provider".

SEP 1997

SCS acquires "ISO9001" and "TickIT" Certification in the scope of IT outsourcing services at Tokyo Center No.1 and No.2, the first in Japan.

NOV 1998

SCS acquires Privacy Mark System Certification from Japan Information Processing Development Corporation (JIPDEC).

APR 1999

Chubu Business Office opens.

APR 2001

SCS stock is included in "Nikkei Stock Index 500" (Nikkei 500) selection.

MAY 2001

Tokyo Head Office relocated to Harumi, Chuo-ku, Tokyo.

OCT 2001

Next-generation data center "netXDC", based on SCS's original concept, established.

NOV 2002

Osaka Center No.1 and Center No. 2 relocated and integrated as "netXDC Osaka Center".

SCS and its Group Companies

Sumisho Computer Systems Corporation

Tokyo Head Office
(Registered Head Office):
Harumi Island Triton Square Office Tower Z,
1-8-12, Harumi, Chuo-ku,
Tokyo 104-6241, Japan
Tel: +81-3-5166-2500 Fax: +81-3-5166-1009

JFE Bldg.,
1-1-2, Marunouchi,
Chiyoda-ku,
Tokyo 100-8202, Japan
Tel: +81-3-5219-0860 Fax: +81-3-5219-0876

Osaka Head Office:
Sumitomo Corporation Senri Bldg.,
1-2-2, Shinsenri Nishimachi,
Toyonaka-shi, Osaka 560-0083, Japan
Tel: +81-6-6833-2600 Fax: +81-6-6833-2611

Chubu Business Office:
Nagoya Daiya Bldg. 1-Gokan,
3-16-22, Meieki, Nakamura-ku,
Nagoya-shi, Aichi 450-0002, Japan
Tel: +81-52-588-0161 Fax: +81-52-588-0162

Shanghai Representative Office:
40th Floor, HSBC TOWER,
101 Yin Cheng East Road,
Pudong New Area, Shanghai 200120,
The People's Republic of China
Tel: +86-21-6841-1234 (ext. 2310)
Fax: +86-21-6841-0655

Data Centers:
Tokyo Center No.1, Tokyo Center No. 2
netXDC Osaka Center

SCS GROUP COMPANIES:

Sumisho Computer Systems (USA), Inc.
Establishment: October 1987
Business activities: Software development,
Information processing services, Package software
and hardware sales

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

Dallas Office:
433 East Las Colinas Boulevard
Suite 160, Irving, Texas 75039, U.S.A.
Tel: +1-972-402-4400 Fax: +1-972-401-0100

Sumisho Computer Systems (Europe) Ltd.
Establishment: May 1990
Business activities: Software development,
Information processing services, Package software
and hardware sales

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

Curl, Incorporated

Establishment: May, 2004
Business activities:
Research and development of Software products

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

Curl Asia Pacific Corporation

Establishment: July, 2002
Business activities: Exclusive sales agent of "Curl", a
web system development language for a "rich client"
environment

Landic Nihonbashi Bldg. 9th Floor,
2-16-13, Nihonbashi, Chuo-ku,
Tokyo 103-0027, Japan
Tel: +81-3-5255-3411 Fax: +81-3-5255-4044

Sumisho Computer Systems (Kyushu) Corporation

Establishment: December 1989
Business activities: Software development,
Information processing services, Package software
and hardware sales

Head Office:
Nomura Bldg., 4-1-2, Tachibanadori-higashi,
Miyazaki-shi, Miyazaki 880-0805, Japan
Tel: +81-985-26-9700 Fax: +81-985-26-9705

Tokyo Office:
Harumi Island Triton Square Office Tower W,
1-8-8, Harumi, Chuo-ku,
Tokyo 104-0053, Japan
Tel: +81-3-5166-1840 Fax: +81-3-5166-1849

Osaka Office:
Sumitomo Corporation Senri Bldg.,
1-2-2, Shinsenri Nishimachi,
Toyonaka-shi, Osaka 560-0083, Japan
Tel: +81-6-6833-2687 Fax: +81-6-6833-2659

SCS Networks Corporation

Establishment: July 1992
Business activities: Building, operating, managing and
consulting communication networks

Head Office:
Harumi Island Triton Square Office Tower W,
1-8-8, Harumi, Chuo-ku,
Tokyo 104-0053, Japan
Tel: +81-3-6221-9500 Fax: +81-3-6221-9990

Funabori Office:
3-5-14, Funabori, Edogawa-ku,
Tokyo 134-0091, Japan
Tel: +81-3-5658-3000 Fax: +81-3-5658-3070

Osaka Office:
Sumitomo Bldg., 4-5-33, Kitahama,
Chuo-ku, Osaka-shi, Osaka 541-0041, Japan
Tel: +81-6-6220-6116 Fax: +81-6-6220-7714

SC InfoTech Corporation

Establishment: April 1991
Business activities: Software development,
Information systems consulting services

Harumi Island Triton Square Office Tower W,
1-8-8, Harumi, Chuo-ku,
Tokyo 104-0053, Japan
Tel: +81-3-5144-4131 Fax: +81-3-5144-4136

Billingsoft Japan Co., Ltd.

Establishment: April 1996
Business activities: Software development,
Information processing services

KSK Bldg., 1-2-34, Ichigaya Sadohara-cho,
Shinjuku-ku, Tokyo 162-0842, Japan
Tel: +81-3-5261-1101 Fax: +81-3-5261-1105

Japan Financial System Research Institute

Establishment: December 1998
Business activities: Financial information systems
consulting services

Harumi Island Triton Square Office Tower Z,
1-8-12, Harumi, Chuo-ku,
Tokyo 104-6210, Japan
Tel: +81-3-6220-0700 Fax: +81-3-6220-0702

e-Commerce Technology corp.

Establishment: June 2000
Business activities: Software development

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.

Establishment: October 1976
Business activities: Introduction and development of
ERP systems

Head Office:
P.S Bldg., 4-24-9, Katakasu,
Hakata-ku, Fukuoka-shi,
Fukuoka 812-0043, Japan
Tel: +81-92-451-7255 Fax: +81-92-451-7257

Tokyo Office:
Kageyama Bldg., 4-42-18, Nishi-Shinkoiwa,
Katsushika-ku, Tokyo 124-0025, Japan
Tel: +81-3-3695-7202 Fax: +81-3-3695-7452

Osaka Office:
Melody Hymn A Bldg., 1-3-7, Nishi-Izumigaoka,
Toyonaka-shi, Osaka 561-0862, Japan
Tel: +81-6-4865-4855

Advanced Network Systems Co., Ltd.

Establishment: July 1997
Business activities: Total support of computer net-
works, Software development

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

Sumisho Computer Systems Corporation

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