CTC

Challenging Tomorrow's Changes

Your best engine

2006 Annual Report

For the year ended March 31, 2006

To maximize satisfaction, we rely on our ability to exhibit three core strengths.

At ITOCHU TECHNO–SCIENCE Corporation (CTC), we view our role as being a management partner to our clients that supports the entire information technology (IT) life cycle. We support the ability of our customers to create value by delivering appropriate configurations that ultimately provide safe and secure outcomes.

Essential to these tasks are strong affiliations with vendor partners, the ability to connect and combine technologies and the ability to support the entire IT life cycle. CTC exhibits its strength in these three core areas to ensure that clients enjoy the safe and secure outcomes that they require.

Human resources are the key to these three strengths. The IT industry is alive with dazzling displays of technological innovation. To deliver the advanced solutions that are expected of us as a leader in this industry, we place an ongoing focus on developing the knowledge, technical expertise and experience of our personnel.

VENDOR RELATIONS

Strong affiliations with vendor partners

Taking advantage of global partnerships, we carefully select the world's best IT offerings. We then apply our own expertise in linking these systems.

CUSTOMER SATISFACTION

Customer satisfaction forms the base of our corporate philosophy. Since the time of its establishment, the CTC Group has cultivated its operations by always seeking to act from a customer's perspective.

INTEGRATION

Ability to connect and combine technologies

Our expertise in connecting and combining technologies are based on years of experience and an awareness of the technologies needed to configure open systems.

IT LIFE CYCLE

Ability to support the entire IT life cycle

With a sales structure designed to remain in close contact with customers, we provide proposals that take into account the entire IT life cycle and employ our expertise in system configuration and support to keep systems up and running once they have been installed.

Contents

Cautionary Note Concerning Forward-Looking Statements

Statements made in this annual report with respect to CTC's plans, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of CTC based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties.

Financial Highlights

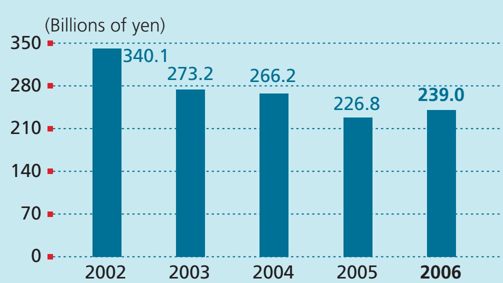
ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

	Billions of Yen		Millions of U.S. Dollars
	2006	2005	2006
For the Years Ended March 31:			
Net sales	¥239.0	¥226.8	$2,035
Operating income	19.5	17.1	166
Net income	11.5	10.9	98
As of March 31:			
Total assets	178.1	160.8	1,516
Total shareholders' equity	115.7	105.3	985
Shareholders' equity ratio (%)	64.9%	65.5%	—
Return on equity (%)	10.4	10.4	—
Return on assets (%)	6.8	6.6	—

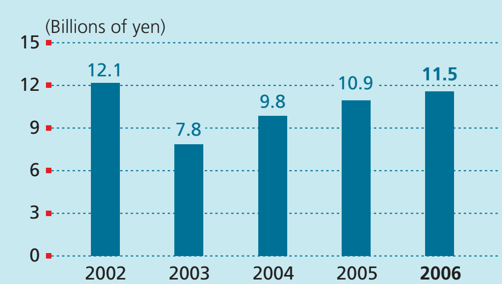
	Yen		U.S. Dollars
Per Share Data:			
Basic net income	¥197.87	¥182.88	$1.68
Cash dividends	60.00	30.00	0.51

Note: U.S. dollar mounts represent translations of Japanese yen amounts at the rate of ¥117.47=US$1, the approximate rate of exchange as of March 31, 2006.

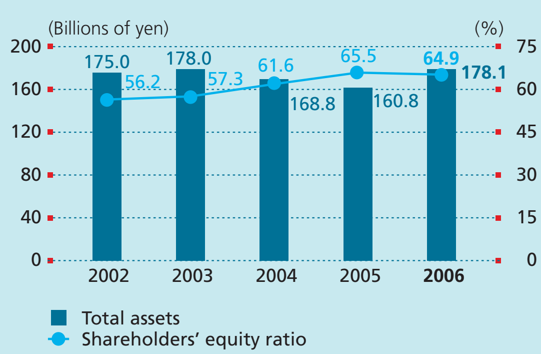
Net Sales



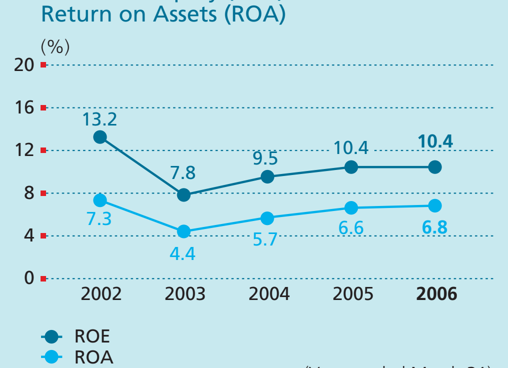
Net Income



Total Assets and Shareholders' Equity Ratio



Return on Equity (ROE) and Return on Assets (ROA)



(Years ended March 31)

Message from the President

Poised for Further Growth

The CTC Group provides high added value by deftly discovering leading U.S. and European technologies and products, then adding its own ability to connect and combine technologies. From consulting to software development and system configuration, maintenance and operation, and proposing next-round systems, we provide services through the entire IT life cycle—constituting a unique business model that sets us apart from other IT companies.

To ensure ongoing growth over the medium to long term, we will continue to develop our own business model to the point where our technologies have earned us general regard as a leading technology company. We are positioning fiscal 2007, ending March 31, 2007, as the year of laying stepping-stones for the realization of long-term growth strategies. Along the way, we will continue to strengthen our business foundations and strive for higher profitability.

The CTC Group recognizes corporate social responsibility (CSR) as a vital management issue. We understand that this responsibility concerns all our stakeholders, including society as a whole. With this understanding, we are proactive in social contribution activities that address some of the needs society faces.

August 2006

Yoichi Okuda
President & CEO

Fiscal 2006 in Review

In fiscal 2006, ended March 31, 2006, the CTC Group posted increases in both sales and profits for the first time since fiscal 2001.

During the year, consolidated net sales increased 5.4%, to ¥239.0 billion, operating income grew 14.0%, to ¥19.5 billion, and net income expanded 5.9%, to ¥11.5 billion. As a result, basic net income per share amounted to ¥197.87, compared with ¥182.88 in fiscal 2005.

In fiscal 2006, our aim was to "press firmly on the accelerator of growth." We worked aggressively to hire new employees, particularly engineers, and concentrated on building up our software development expertise. Successful in this regard, the contribution of software development to net sales expanded from 13% to 18%. This progress brought us a step closer to our goal of a 3:2:5 revenue composition, accounted for by operation and maintenance, software development and products, respectively.

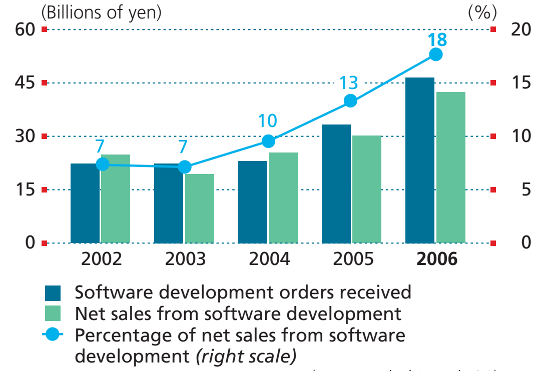
In terms of profitability, we raised our profit ratios in the Support Business. In project management, an area we have concentrated on thoroughly in recent years, we reduced our involvement in unprofitable projects. These two factors pushed up our gross profit margin from 23.7% to 24.5%—the highest level since we went public.

We are consistently raising profitability. Proactive hiring pushed up our selling, general and administrative (SG&A) expenses, but higher net sales and an improved gross profit margin caused our operating income ratio to rise from 7.5% to 8.2%.

Dividends

Recognizing returning profits to shareholders as a key management objective, the Company works to provide dividend stability. During the year, we went beyond stability to reflect our higher operating performance through our dividends. We increased dividends per share (DPS) for the year to ¥60, compared with ¥30 in the previous term. Therefore, our consolidated payout ratio rose to 30.3%.

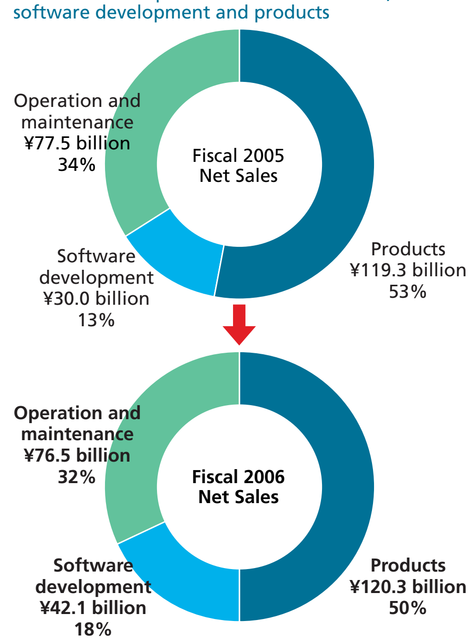
Software Development Orders, Sales and Composition of Net Sales



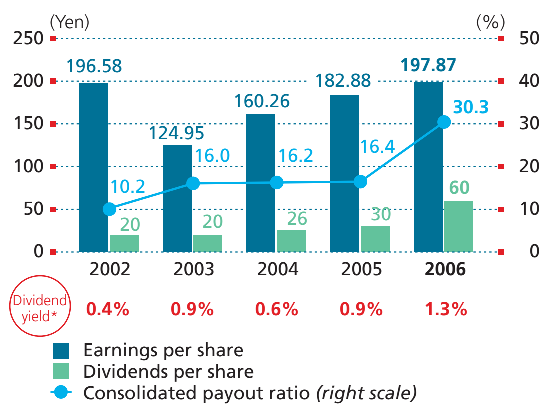
(Years ended March 31)

Revenue Composition

Progressing toward a 3:2:5 composition of revenues from operation and maintenance, to software development and products



Dividends



* Calculated by share price at the end of each fiscal year

(Years ended March 31)

Special Feature 1:

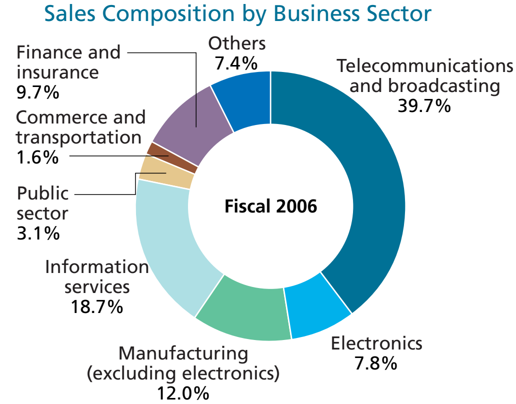
Reforming Our Revenue Structure

The Group has worked toward a balanced business model with a 3:2:5 ratio for revenues from operations and maintenance, development and products. We are now setting our sights on a 4:3:5 ratio, and are carrying out reforms that will lead us toward this objective. Creating a revenue structure that is less dependent on products will enable us to expand our stable revenue base over the long term.

1 Customer Strategy: Implement a "Super Account" Strategy

By "super accounts," we refer to important clients that provide stable, long-term earnings that grow over time and potential clients that we should approach strategically. In the upcoming fiscal year, we will work to cultivate deeper and expanded business relationships with our super accounts. By responding in a more detailed way with shared account strategies, objectives and action plans throughout the entire CTC Group, we will work toward our goal of being a management partner to our clients that supports the entire IT life cycle.

Sales Composition by Business Sector



2 Product Strategy: Cultivate New Technologies and Products

To help the CTC Group evolve toward a leading technology entity, we will bolster our product and technical abilities and other skills. By enhancing the structure of our marketing department, we have begun expanding sales of our mainstay products, strengthening relations with vendor partners and cultivating new technologies and products. In addition, we are building up our own attractive solution brands that center on solutions that we have verified ourselves. To this end, we will develop specific strategies for each of our core product areas—servers, storage devices, networks and middleware.


Technical Solution Center (Kudan, Tokyo)

Technical Solution Center (Osaka)

Multivendor products and technologies

Quality Control Center
This center performs rigorous loading and unloading inspections of the products that it handles based on CTC's own quality control guidelines and upholds system quality. This center supports product quality.

Technical Solution Center
This center verifies systems and solutions created by combining increasingly diverse products, supporting security and reliability.

Customer Support Center
This facility provides integrated management of support services, ranging from responding to calls related to systems and products to providing remote monitoring and response management in the event of a breakdown.

Client systems support

CTC's centers confirm the reliability of each product, increase the credibility of combined solutions and provide post-delivery maintenance and support, maintaining the stable operation of client systems.

3 SI Business Strategy: Ensure Thorough Project Management and Bolster Development Expertise

The CTC Group has developed a unique business model that involves the total provision of an entire range of services, ranging from consulting to software development and system configuration, and extending to maintenance and operation. To forge a base for stable profits over the medium to long term, in the upcoming fiscal year we will continue to work aggressively on software development projects.

We will implement a Companywide project qualification system, improve quality management and enhance our shared development infrastructure. These efforts should further reduce the number of unprofitable projects and improve cost competitiveness. In addition, we will work to secure personnel that will enable us to expand our development business. To achieve this aim, we will promote strategic alliances with development

Reduction in Unprofitable Projects

Year ended March 31, 2005		Year ended March 31, 2006
¥–3.0 bil		¥–1.0 bil
Loss of approximately ¥3.0 billion	Reduction in unprofitable projects	Loss of approximately ¥1.0 billion

Strategic Alliances with Development Partners and Promotion of Offshore Development

CTC's Overall System Engineer (SE) Resources

CTC Group	Partners	Offshore (China)
Approximately 3,200 SEs	Approximately 6,000 SEs	Approximately 350 SEs

Development structure comprising approximately 10,000 SEs partners and pursue offshore development. This expansion of resources should increase revenue.

As part of activities to extend our development infrastructure and environment, we plan to establish a new development center by February 2007. The new center will be equipped with development environments designed to further raise the efficiency of our development business. Furthermore, the in-house implementation of a professional qualification system should provide a more attractive environment from a personnel standpoint.

Development of Business Infrastructure

- Establish development center
- Expand control functions for large-scale projects
- Improve development productivity and quality

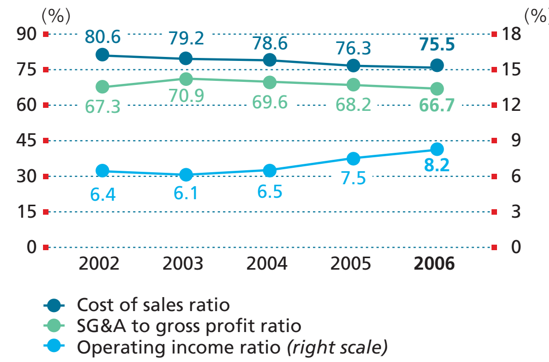
4 Build up Our Management Base: Create the Foundations for Competitiveness

We are working to raise profits, with the goal of quickly achieving a 75% cost of sales ratio and an SG&A to gross profit ratio of 65%. To build the highly reliable and stable management base that will support medium- to long-term growth, standardize operations and make processes more visible, the CTC Group is promoting a core systems integration project designed to raise management speed through the integration of information. The new system is scheduled to begin full-fledged operations throughout the Group in September 2008.

At the same time, we are enhancing our administrative divisions. Through a small and efficient organization, we will seek to maximize the corporate value of the Group, while working to establish a strong management infrastructure. By integrating Group administrative divisions, we will raise the overall quality of the Group and pursue greater efficiencies. We also are strengthening risk management and internal control and enhancing CSR and compliance structures. Moreover, we are striving to raise the level of information security throughout the Group, encompassing the ways we handle, manage, protect and maintain information.

Cost of Sales, SG&A and Operating Income Ratios

Steadily improving our profitability and moving toward our objectives for cost of sales ratio (target: 75%) and SG&A to gross profit ratio (target: 65%)



(Years ended March 31)

5 Alliance Strategy: Move toward Further Growth

We will promote alliance strategies which will serve as stepping-stones to further growth from the following three perspectives:

1 Secure the technical abilities and personnel to support internal growth
2 Acquire customer bases and sales channels in specific fields, enabling us to pursue an expanded scale of operations
3 Enter into new fields of business

As we pursue strategic operational and capital tie-ups in these areas, we will expand our foundation for profits and the scale of our operations.

Training and Bringing up Personnel to Support the Five Strategies

To achieve sustained growth, we must train and bring up personnel who can implement our growth strategies with certainty. The CTC Group will work in this direction by raising both the number and the quality of personnel, including engineers, sales personnel and administrative division staff.

Especially for engineers, we will enhance our training and personnel systems. To this end, in April 2006 we established the Engineer Skill Development Section, which aims to develop "super engineers" who have superior technical expertise and knowledge in specialized fields. The department also launched a professional qualification system to enhance the technical evaluation and treatment of engineers.

Our overall personnel training plan calls for aggressive efforts to secure both new graduates and mid-career personnel. The plan is also designed to enhance HR education and training, cultivate a management cadre, raise the skill levels of engineers, and enhance marketing and managerial talent.

Secure Resources to Support Internal Growth

Measures
- Form alliances with software development companies
- Strengthen alliances with partners with technical capabilities

Pursue a Larger Scale of Operations

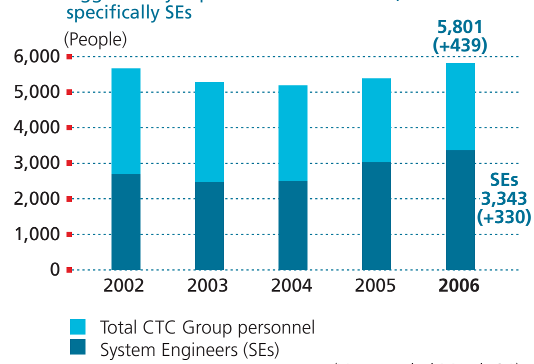
Measures
- Form alliances with companies that have customer bases in specific fields
- Acquire sales channels

Enter into New Fields of Business

Measures
- Shore up SI business
- Develop new businesses

Number of Employees

Aggressively expand human resources, specifically SEs



(Years ended March 31)

Special Feature 2:

Taking the Next Leap Forward—ITOCHU Techno–Solutions is Born

On May 23, 2006, ITOCHU TECHNO–SCIENCE Corporation and CRC Solutions Corp. (CRC) announced that a final agreement pertaining to the merger of the companies effective October 1, 2006 had been reached, and that the Board of Directors of each company at their respective meetings held on the day decided to enter into a merger agreement.

Boost Profits through Expanding Involvement in Service Business Sectors

By linking CTC's operational and maintenance services with CRC's data center business, we expect to increase our involvement in service businesses and expand our foundation for creating stable profits.

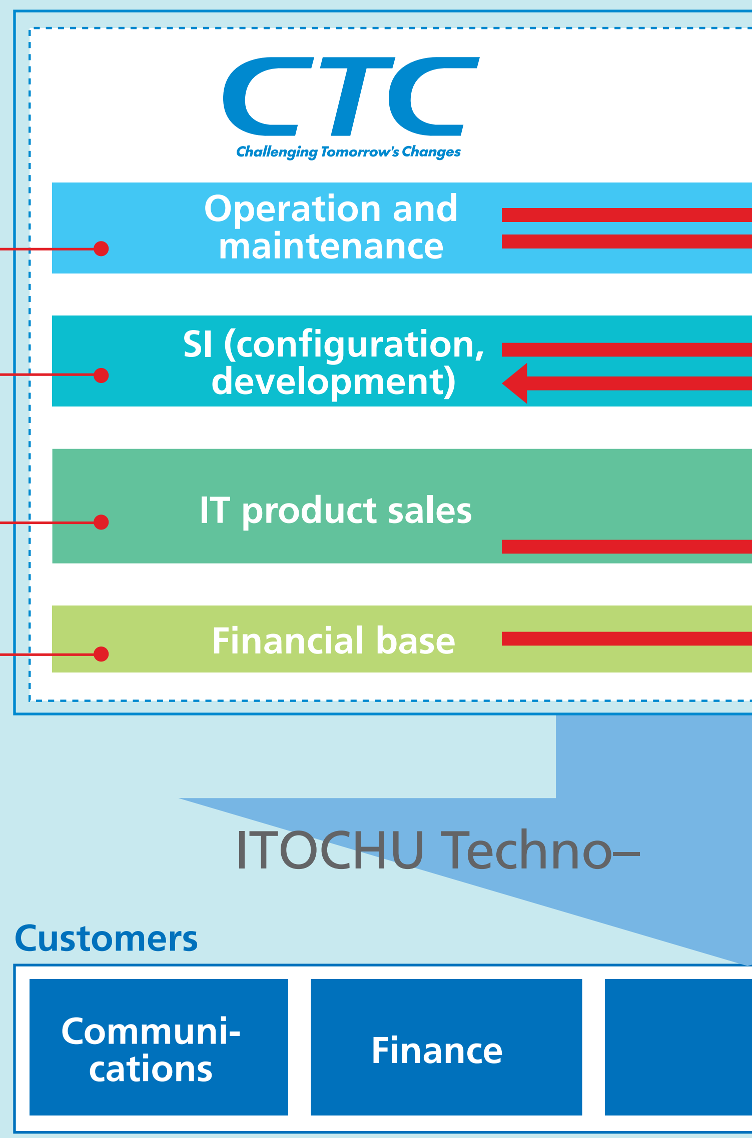
Increase System Integration (SI) Expertise

This two-company merger will result in an organization with approximately 5,000 engineers, within a mobilized total force of 20,000 SEs. The combination of CTC's know-how in infrastructure configuration with CRC's application software development expertise will result in an organization that is better able to respond to demand for large-scale projects.

Increase Business Opportunities in Existing Operations and Strengthen the Financial Base

By taking advantage of customer bases that have relatively little overlap, each of the former entities can cultivate its counterpart's customers in its own areas of expertise, providing opportunities for new business. Moreover, increasing operations in the data center business—an area where further growth is anticipated—should offer the chance to exploit an excellent financial foundation toward future growth.

Concept: Develop a Service Structure to Provide Total



Work to Become a Company with Strong, Specific Business Sectors

a Unique Business Model that Provides

Outline of the Merger

Merger date (effective date)
October 1, 2006 (scheduled)

Method of the merger
ITOCHU TECHNO–SCIENCE Corporation will be the surviving entity, and CRC Solutions Corp. will be dissolved.

Merger ratio

	ITOCHU TECHNO–SCIENCE	CRC
Merger ratio	1	0.31

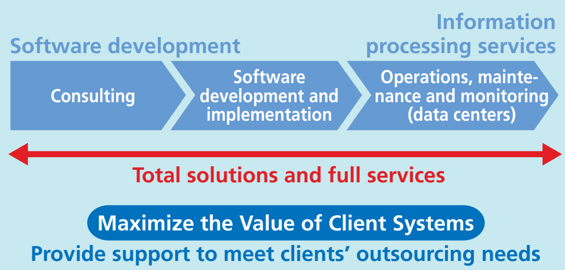
After the Merger

Corporate name
ITOCHU Techno–Solutions Corporation

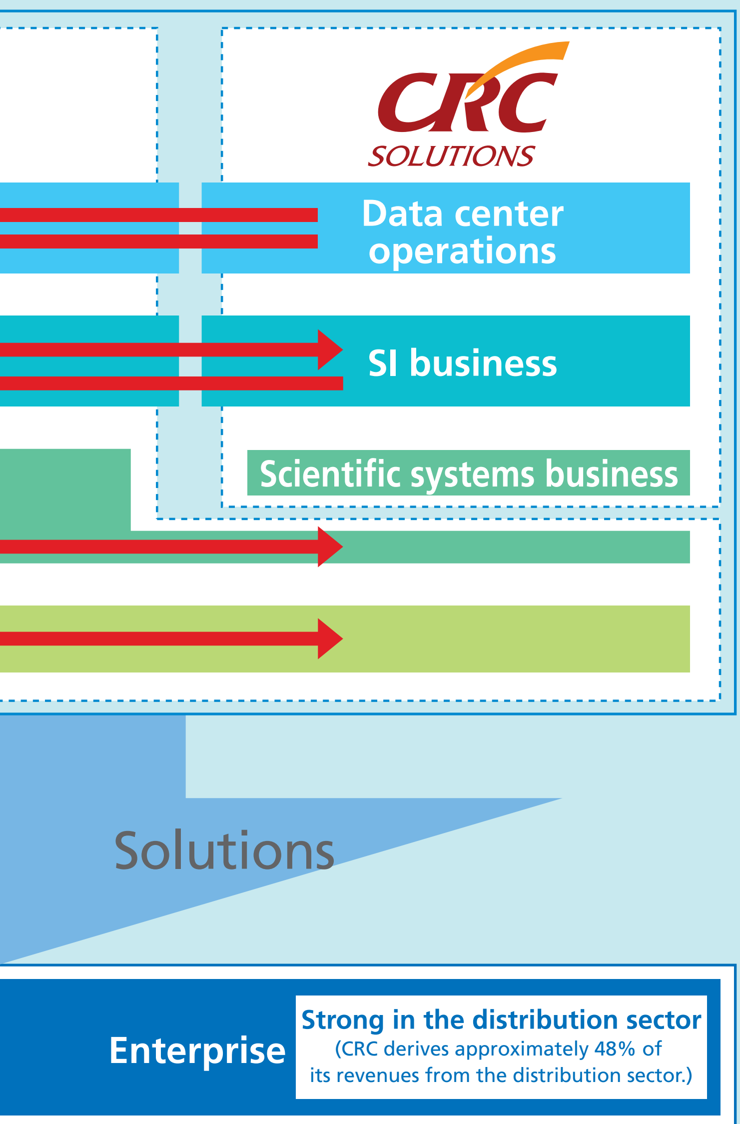
Capital
¥21,764 million
(Capital will not be increased due to the merger.)

CRC's Strengths

One of CRC's strengths lies in its ability to provide one-stop information services, both upstream and downstream. In addition, the company is particularly involved in distribution-related systems. In fiscal 2006, this business accounted for approximately 48% of CRC's group revenues.



Support over the Entire IT Life Cycle



Expanding Our Scale of Business through New Companies
(Based on the simple total of consolidated results for fiscal 2006)

Scale of net sales	Approximately ¥300 billion
Net income	Approximately ¥14 billion
Employees	Approximately 6,000
Total assets	Approximately ¥210 billion
Total shareholders' equity	Approximately ¥130 billion
Domestic sales facilities	27 locations
Domestic support centers	Approximately 100 locations
Overseas locations	7 locations*

*Silicon Valley, New York, London, Shanghai, Beijing, Hong Kong and Taipei

and Specific Types of Operations with

Companies with Overall Support

Q. Would you explain the background for the upcoming merger?

A. CTC has pursued management reform since fiscal 2003. After successfully stabilizing our management base, in fiscal 2006 we shifted to a strategy of growth and achieved increases in sales and profits for the first time in five years. From fiscal 2007, we are embarking on five strategies and implementing numerous measures that will set the stage for future growth.

The management environment is showing positive signs. The economy is turning around, corporate earnings are improving and investment in IT is beginning to gradually recover. At the same time, customer needs are growing more advanced and complicated, as clients seek higher returns on their investment in IT. In the medium term, I expect competition in the IT industry to increase and grow increasingly polarized. We will see a division between the large corporate groups that directly handle large-scale orders from end users and the leading medium-sized corporate groups that specialize in particular fields of business. Scale of operations and corporate vitality will be key to remaining competitive in this environment.

I believe that CTC and CRC each have the internal fortitude to excel and grow steadily on their own in this business environment. However, faced by the polarization of the IT services industry, there are limits to what either company can achieve on its own. From the standpoint of future growth, CTC and CRC each have their own specific strengths, and by combining the two entities I believe we can eliminate some of the issues that each faces. The merger will also expand our stable profit base and increase the scale of our expansion into the SI business. Ultimately, both companies have determined that the merger is exactly what we need to ensure we shift gears and propel ourselves onward to a new phase of growth.

Issues the Two Companies Face

CTC	• Expanding its base for stable profits • An increasing scale of activity in the enterprise business field • Increasing its ability to support the entire IT life cycle
CRC	• Increasing its scale of operations in the data center business • Raising its marketing strength and expanding its customer base • Securing SE resources

Q. Why is now the right time?

A. Although CTC and CRC are both members of the ITOCHU Group, they have separate histories and their businesses have evolved differently. CRC was established in 1958 as a center for scientific and engineering computation. Even in the days before computers became commonplace, CRC was involved in software development and contract computational services. Beginning as a forerunner of IT industry development, as the industry evolved, CRC took the lead in creating the nation's largest data center and thereby developing its operation services business. By boldly taking on such new challenges, the company steadily chalked up a string of successes. Distinguishing the company are its strength in the distribution-related systems sector and its extensive track record in application development. CRC also has an enviable operating performance. Even when faced with a lackluster IT business environment, the company has increased its sales and profits consecutively over each of the past six years.

Owing to its recent focus on management reform, CTC has moved toward a well-balanced business structure, with operations and maintenance, development and products delivering revenues of a 3:2:5 ratio. As a result, the two companies have come closer in the direction and content of their businesses. At the same time, the companies are strong in different aspects of the business and in different sectors. CTC excels in system infrastructure integration and technology cultivation, whereas CRC has solid application development expertise and a service business base. As relatively little overlap exists between the two companies' businesses, we determined that an effective merger would provide the best access to the other's customer base, allowing cross-selling and enabling each company to maintain its growth curve. Although each company is already delivering solid operating results, we believe that the combination of our two companies will accelerate this trend.

Q. What is your vision for the new company?

A. As a result of the merger, I see our company becoming one of the top groups in the industry. We will be larger not only in scale but also in terms of our business strengths. We will be able to provide such services as the configuration of front office systems and provide contact centers and portals for the finance and distribution sectors, as well as provide data center business and serve other specific business sectors. Such unique and integrated capabilities should attract attention both from within the industry and outside. By taking advantage of our strengths in advanced products and technologies, we will earn acclaim for our technologies as we move toward our goal of becoming a leading technology company.

More specifically, we aim for a balanced business model having a 4:3:5 ratio of revenues from operations and maintenance, development and products. Most System Integrators (SIers) are characterized by their relatively high level of earnings from SI, but with the new company we aim to strike a balance between three types of business. As a result, we will increase our profits as we support customers throughout the entire IT life cycle. Pushing forward with this model should allow us to raise profits over the medium to long term.

Vision for the New Company

A company that:
1. provides total support throughout the IT life cycle;
2. is attuned to the latest technologies and has the ability to create new solutions;
3. exhibits strength in specific areas of operation;
4. excels in specific types of business; and
5. can continually deliver profits in new areas of business.

Q. What sort of synergies do you anticipate?

A. CTC and CRC will be able to complement each other in terms of client sectors, functions and financial bases. Taking advantage of the companies' respective strengths in those areas, we will be able to provide more extensive services to more customers. We believe the expected result of this synergy will be greater than the sum of its parts.

After the merger, CRC will be able to offer its functions to CTC's broad customer base. At the same time, CTC will take advantage of CRC's strength in distribution and other specific customer sectors, allowing CTC to expand its operations in the enterprise business sector. In addition, linking CTC's operation and maintenance services with CRC's data center business will enable us to propose new services involving system configuration and operations. In terms of development, by combining our resources we will be able to take on larger projects as well as benefit from both CTC's strengths in product sales and system infrastructure integration and CRC's expertise in specific areas of business. After combining the two companies' balance sheets, we will have the joint resources to consider data center expansion and other effective business investments.

At this stage, even after the merger we have no plans to restructure or to lay off personnel. However, from a cost perspective we may simplify some of the overlaps in the administrative divisions. We plan to take early advantage of synergies wherever they can be found.

Q. What issues are arising because of the merger, and how will you address them?

A. The IT industry is highly competitive, and various companies have undergone many different types of management mergers in the past. However, ours is an unusual case because CTC and CRC have relatively few areas of overlap in their operations and should be able to develop synergies. Ours is a merger between partners.

However, when you look more closely at our business models, the way we work is different. In the past, CTC has cultivated new customers through a business model based on product sales, whereas CRC concentrated on specific customers and long-term business development. It is extremely important to integration for various layers of employees, including engineers, sales and administrative division staff, to respect each other and work to understand each other's differences. Unless this process is successful, I see no way for synergies to emerge. For this reason, in line with the creation of a new company we expect to develop a new culture that will foster interaction among personnel and the convergence of systems and methods. In these ways, we plan to develop an environment and create the systems that will allow the two companies to integrate quickly.

Q. What additional growth strategies do you have for the future?

A. Taking advantage of the multiple effects of the merger, the new company will be able to provide one-stop services to customers throughout the entire IT life cycle—as we will provide a broad-ranging customer base with everything from operations and maintenance to development and products.

A variety of strategies must be implemented to ensure growth over the medium to long term. We view the upcoming merger as the first step toward future growth and development and will persevere in our efforts to expand our business through internal growth. We plan to continue expanding our scale of operations and securing additional resources by promoting a strategy of business alliances and mergers and acquisitions. These activities will make up the second and third phases of strategic implementation, following on from our management merger.

Management merger briefing session
Left: Yoichi Okuda, President & CEO of CTC
Right: Hiromi Sugiyama, President & CEO of CRC

Environmental and Social Contribution Initiatives

CTC recognizes environmental and social contribution initiatives as items of vital management importance. We consider consistent and planned environmental consideration an essential part of achieving harmony between the environment and the activities of any company with its roots in the information services sector. Through our social contributions, we seek to employ CTC Group resources, including personnel, expertise and IT, in a proactive manner to address social needs and issues, with the ultimate aim of achieving a bountiful and affluent society.

Environmental Initiatives

Since 2000, CTC has held international ISO 14001 certification for its environmental management system. Our most recent renewal examination was conducted in May 2006, and we passed this test without problem. Our headquarters was the first to certify, and we are now certified at five locations. We are working to expand the certification of our facilities.

CTC also makes charitable contributions and efforts to address Team Minus 6%*. In addition, we seek to promote business that takes customers' environmental issues into consideration, a theme for which we have established voluntary targets. By helping to raise operating efficiency and productivity through IT, we are helping to improve the global environment.

* Team Minus 6% refers to a national campaign to prevent global warming, which has become a serious issue. In response to this issue, the world banded together to create the Kyoto Protocol, which came into force on February 16, 2005. The Team Minus 6% project was initiated to help to reach Japan's commitment as stipulated in the Kyoto Protocol to reduce greenhouse gas emissions by 6%.

Social Contributions

CTC's policy on social contribution is to start by doing what we can. For example, we contribute to the GUIDE DOG & SERVICE DOGS ASSOCIATION OF JAPAN, a non-profit organization (NPO). In October 2004, we began participating in this NPO's puppy walker system, and in February 2006 recruited from our staff two walkers for seeing eye and hearing assistance pups. We also participate in the regional community through such programs as Society with Helping Dogs at the TOKYO SHO-CHUGAKUSEI CENTER of the ITOCHU FOUNDATION, which provides enrichment programs at the Kudan Secondary School in Tokyo's Chiyoda Ward, near our Kudan office.

CTC contributes to the NIPPON-KEIDANREN INTERNATIONAL COOPERATION CENTER nature preservation fund, and supports the University of Tokyo's basic environmental research on the climate. We also support Family House—an NPO that provides accommodation and counseling for children with cancer and other serious diseases and their families. We participate in the Japan Association for the United Nations World Food Programme and contribute to Tokyo Opera Nomori. Furthermore, during the recent earthquake that struck the island of Java, Indonesia, we matched our employees' contributions to support disaster-related activities.

To increase the number of opportunities for employees to expand their social contributions, in April 2006 we established a voluntary leave system.

The CTC Group's philosophy has five components: Social Contribution, Customer Satisfaction, Global Partnership, Value Sharing and Quality of Life. Based on this corporate philosophy and our dedication to integrity, we are augmenting our corporate governance with the aim of raising management transparency and fairness. We are also implementing thorough compliance measures to ensure that all Company directors, auditors and employees uphold our corporate ethics and respect all laws.

At the same time, we are creating the internal control system outlined below. Developed in conformance with Japan's newly enacted Company Law, this system will create a corporate structure that ensures legality in a more efficient manner. The internal control system is designed to undergo ongoing review and continuous improvement, becoming more effective and efficient over time.

1. System to Ensure that Directors and Employees Conform with All Laws and the Articles of Incorporation in the Execution of Their Duties

(1) Corporate Governance

1. The Board of Directors makes decisions on important management-related issues and supervises the execution of duties by directors, in accordance with various laws, the Articles of Incorporation, General Meeting of Shareholders' resolutions, Board of Directors' regulations, our corporate philosophy and operational and ethical standards.
2. In accordance with the roles determined by the Board of Directors, individual directors execute the Company's business in light of various laws, the Articles of Incorporation, Board of Directors' resolutions, regulations on administrative authority and other internal regulations.
3. Within the limits of their legal authority, corporate auditors cooperate with the Audit Division and independent auditors, comply with corporate auditor audit regulations and audit the execution of duties by directors for appropriateness.

(2) Compliance

1. Directors and employees act in line with the Company's corporate philosophy and operational and ethical standards.
2. The Company has assigned a Chief Compliance Officer, established the CSR and Compliance Committee and created a department to take overall control of compliance-related activities. We also have created the CTC Group Ethics and Compliance Program and are working to enhance our compliance system.

(3) Structure to Ensure the Appropriateness of Financial Reporting

The Company has established accounting regulations, sales management regulations, purchasing management regulations, Groupwide uniform accounting regulations, regulations concerning the preparation of consolidated financial statements and other internal regulations. We have assigned a Chief Financial Officer and enhanced our system for ensuring that financial reports comply with accounting standards and related laws.

(4) Internal Audits

We have created an Audit Division, which is under the direct control of the President & CEO. The Audit Division performs periodic internal audits of overall operations to ensure adequate conformance with laws, the Articles of Incorporation and internal regulations.

2. Structure for the Storage and Management of Information Concerning the Execution of Duties by Directors

Directors keep documents and electromagnetic records, including the minutes of General Meetings of Shareholders and Board of Directors' meetings, and other legally required documents and important information concerning their execution of duties. These and related documents are stored and managed in accordance with the Company's basic regulations on information management, document management regulations and other internal regulations, so that directors and corporate auditors can review these documents at any time.

3. Regulations and Other Structures to Manage and Control Risks

The Company has established various internal committees and a control division to respond to CSR and compliance risk, information security risk, risk of natural disaster, exchange rate and other market risks, credit risk, investment risk, technology-related risk and various other risks. In addition, we have created various management regulations, investment standards, credit limits and a reporting and supervisory structure, and established necessary risk management systems and management methods to control risks throughout the Company.

4. Structures to Ensure that Directors Execute Duties Efficiently

(1) Management Committee and Various Internal Committees

The Company has created the Management Committee as an advisory institution to the President to ensure that directors make decisions appropriately and dynamically in the execution of their duties. This committee deliberates overall management policies and plans and other important issues related to the execution of these duties. The Company has also formed various other internal committees to provide valued advice on management issues in areas of director responsibility. These committees assist the President & CEO and the Board of Directors in their decision making.

(2) Business Structures

1. The Company has a business structure that employs managers whose responsibilities are divided among multiple businesses.
2. To ensure efficient management, executives in charge of businesses perform efficient management within their scope of authority based on regulations on administrative authority and predetermined management plans.
3. Executives in charge of businesses manage the businesses to which they have been assigned in line with relevant laws, the Articles of Incorporation, internal regulations and internal standards. Furthermore, major numerical objectives are set for each business. Periodically, the Company verifies the degree to which these objectives have been achieved. As another aspect of management supervision, executives report to the Board of Directors regarding the status of their execution of duties.

(3) System of Executive Officers

To strengthen the decision-making and supervisory functions of the Board of Directors, as well as the efficiency of their execution of duties, the Company has adopted a system of executive officers. This system is intended to delegate authority and responsibility for business in specific fields and encourage quick decision making. Executive officers are important employees assigned by resolution of the Board of Directors. In line with Board of Directors' decisions, these members execute their duties within a defined scope of authority and in accordance with the instructions, orders and supervision of the representative director or the director who has been assigned to this task.

(4) Clarification of Task Responsibilities and Authority

To ensure the appropriate and efficient execution of duties, the Company has established internal regulations that clearly define responsibilities and authority for various offices.

5. Systems to Ensure the Appropriateness of Business Activities of the Corporate Group, Comprising the Company, its Parent Company and Subsidiaries

(1) Relationship with the Parent Company

Although the Company participates in personal exchanges, uses sales information and works to strengthen alliances through its sales activities, the Company remains independent. By pursuing increases in operating performance by maintaining and strengthening the voluntary and autonomous nature of its business activities, the Company retains its independent status.

(2) Subsidiary Management Structure

The Company determines a person to be in charge of each subsidiary. These people are charged with providing management supervision and guidance for their assigned subsidiary, acting in accordance with the organization within the Company that is equipped with overall subsidiary management functions and internal regulations. As a general rule, directors and corporate auditors are dispatched to each subsidiary to ensure the appropriateness of their operations.

(3) Compliance

In conformance with the CTC Group Ethics and Compliance Program, subsidiaries undergo guidance concerning the establishment of compliance systems. As part of Groupwide efforts to ensure thorough compliance, subsidiaries undergo compliance training that is consistent throughout the CTC Group.

(4) Internal Audits

CTC's Audit Division conducts internal audits of the overall business activities of subsidiaries.

6. Items on Which Employees Assist Corporate Auditors in Their Duties and Areas Requiring Employee Independence from Directors

Corporate auditors may request assistance from Audit Division employees in audit activities. Employees who receive such requests may not take directions or orders from directors or the head of the Audit Division in this regard.

7. Systems for Directors and Employees to Report to Corporate Auditors

(1) Attendance at Important Meetings

Corporate auditors attend Board of Directors' meetings, Management Committee meetings, executive meetings, meetings of various internal committees and other important meetings to hear the status of the execution of duties by directors and other personnel, and review related documents.

(2) Reporting Obligations of Directors

In addition to legally stipulated items, directors are required to report periodically to corporate auditors concerning the execution status of their own duties.

(3) Reporting by Employees

Employees may report directly to corporate auditors on the following items:

- Facts concerning significant damage to the Company
- Material violations of laws or the Articles of Incorporation

8. Other Systems to Ensure Effective Audits by Corporate Auditors

(1) Opinion Hearings

Corporate auditors periodically meet with the President & CEO and the independent auditor to exchange opinions, and occasionally hold opinion hearings concerning the execution of duties by directors and important employees in charge of the execution of business.

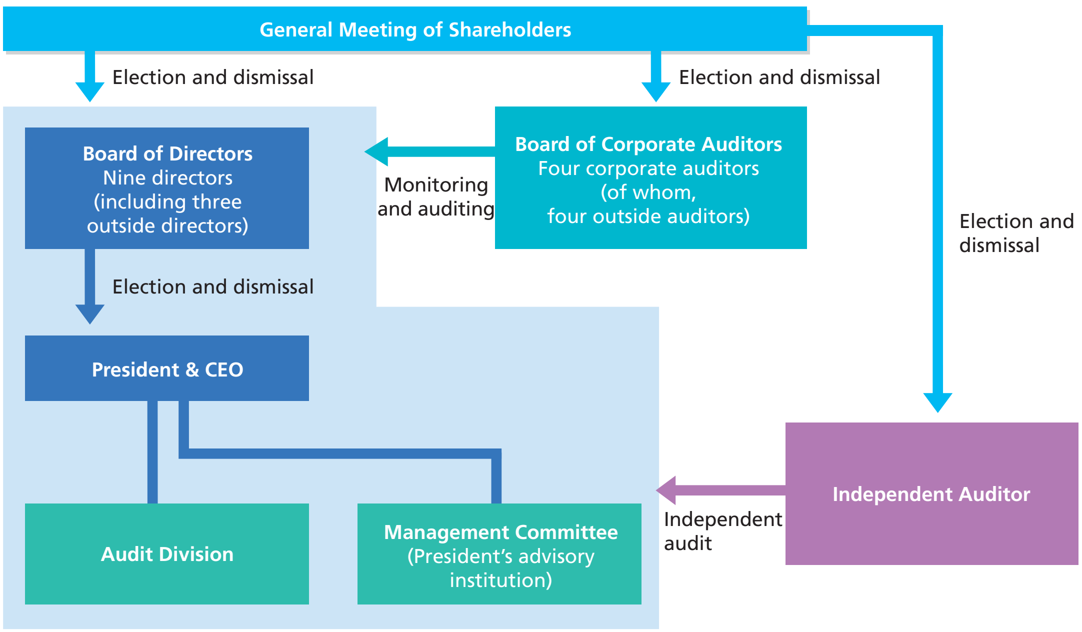
(2) Cooperation between the Audit Division and Corporate Auditors

Audit Division personnel and corporate auditors meet each fiscal year to discuss internal audit plans and cooperate to ensure the active exchange of information regarding the results of internal audits.

(3) Services of Outside Specialists

Corporate auditors meet independently with attorneys and other outside specialists as necessary to perform audits.

Organization Chart



Board of Directors

As of June 22, 2006

Yoichi Okuda*
President & CEO

Tohru Nakano*
Director &
Executive Senior Vice President

Ken Gotoh
Director &
Senior Vice President

Yoshinori Warashina
Director &
Senior Vice President

Yasuo Kanematsu
Director &
Senior Vice President

Shinichiro Sakuraba
Director &
Senior Vice President

Takatoshi Matsumoto
Director

Hiroo Inoue
Director

Shigemitsu Takatori
Director

Standing Auditors

Kozo Ohta
Masao Kasama

Auditors

Kosuke Hayashi
Shuji Ikeda

Vice Presidents

Shinji Kumazaki
Akira Saitoh
Masaaki Matsuzawa
Tadataka Okubo
Yoshimichi Miura
Katsuyuki Shirota
Ryouji Yokoyama
Yasuhiko Terada
Yasuhide Masanishi
Takahiro Susaki
Seiji Suzuki
Hisashi Eda
Takahiro Tani
Nobuyuki Nanbu

* Representative Director

Risk Information

There are a number of risks that could affect the CTC Group's business performance, share price and financial position. Some of those risks are summarized below.
(Forward-looking statements are based on judgments made by the Company as of June 22, 2006.)

(1) Risk of Information Leaks

The CTC Group is involved in the information services industry. In the course of our business, therefore, we sometimes receive classified information on individuals that is in the possession of our customers. The leakage of such information could lead to claims of damage and loss of confidence in our company, which could affect our business performance. For this reason, the CTC Group has made information management a top priority and established the Information Management Committee. This committee spearheads various activities, including maintenance, reinforcement and rigorous implementation of information management systems within the Group. We are also promoting in-house education and raising the level of awareness related to information management.

(2) Technology-Related Risk

The CTC Group is constantly monitoring innovations in IT technology and trends in standardization so that it can provide its customers with leading-edge systems. However, we cannot possibly keep abreast of all technology trends, which are rapidly changing and diversifying. If we fail to grasp important technologies in a timely manner, our business performance may be adversely affected. Making full use of our relationships with outside IT vendors, we are striving to keep pace with various diversified technological trends.

(3) Development-Related Risk

The CTC Group develops software under consignment in accordance with individual customer needs. These projects are managed from the standpoint of quality, development time and cost. In the software development field, however, projects are becoming larger and more complex, and lead times are getting tighter. If we cannot deliver the level of quality we promise, or if a project is not completed on time, our costs can increase, which could have a detrimental effect on our business performance. When we engage in large-scale development projects exceeding a certain size, therefore, management undertakes proper screening and decision making. The Project Management Office (PMO) manages the progress and profitability of such projects.

(4) Product Risk

Our competitiveness derives from our ability to procure innovative and attractive products. These offerings make up the key components of the systems that the CTC Group provides to its customers. In the information services industry, technological trends and customers' needs are closely linked and change quickly. As a result, being slow to change gives rise to the following risks, for which we are adopting countermeasures:

• **Procurement:** If we fail to keep pace with changing business conditions in developing and procuring products and technologies, the Group's business performance can be adversely impacted. These activities are not confined to Japan, but also encompass overseas markets, including the United States. Therefore, in addition to utilizing the network of our parent company, ITOCHU Corporation, we also dispatch our employees to members of ITOCHU Corporation's overseas Group companies.

• **Supply of products and services:** Our performance can be negatively affected if an IT vendor cannot continue in business for financial reasons, or when the supply of a product is suspended or halted altogether for various reasons. Therefore, the CTC Group works hard to identify risks as early as possible. We keep a constant and close watch on the performance and business strategies of our IT vendors, and stay in regular contact with their top management. When transacting with venture companies, we do not restrict our activities to the procurement of products, but when necessary provide business support in the form of human resources and capital participation.

The CTC Group endeavors to keep a product support structure that delivers ongoing maintenance and support services even in the event that a product is discontinued.

• **Inventories:** To maximize sales opportunities, we retain inventories for some products, based on demand estimates. However, if the estimated demand does not eventuate due to market changes or circumstances affecting the customer, the market prices of our inventories may fall, which could have a detrimental effect on our business performance. We have implemented a number of measures to minimize this risk. These include setting limits for the balance between inventory and outstanding orders for each product, and remaining well aware of inventory status.

• **Foreign exchange:** We buy overseas products in yen and other currencies. The yen-denominated cost of products purchased in foreign currencies may vary because of exchange rates, which can hurt our profit. We minimize this risk by importing products that hold high market shares and for which we can link market prices to exchange rates. We also hedge foreign exchange risk by concluding foreign exchange contracts when placing orders.

(5) Credit Risk

We provide products and services to many customers on the condition of payment at a later date. It is possible, therefore, that we may be unable to recover fees on time or at all if a customer's financial situation worsens, which would have a negative effect on our business performance.

For this reason, we have established a department specializing in credit risk that is independent from the sales department. This department screens the credit of each customer and sets appropriate credit limits that remain valid for a limited time. It regularly reviews the status of debt collection and where necessary makes provisions for doubtful receivables.

We are aggressive in our efforts to ensure information security and protection of personal information.

The CTC Group, comprising ITOCHU TECHNO–SCIENCE Corporation and its subsidiary and associated companies, has created CTC Group Operational and Ethical Standards as part of its information management efforts. We view safeguarding information, using it appropriately and managing it securely, as an important part of our corporate activities, and recognize these obligations as an important social responsibility. As such, we have established a Basic Policy on Information Security, which defines the manner in which all executives and employees throughout the CTC Group are to appropriately handle, manage, protect and maintain information.

The CTC Group's Basic Policy on Information Security

1. Management and Protection of Information Assets

The CTC Group evaluates the personal information and other important information assets that it possesses, then separates this information into categories according to confidentiality, integrity and availability. Information assets are then stored according to their level of security risk. The Company has implemented control measures to ensure the preservation of information assets. When outsourcing to entities outside the CTC Group or when lending or borrowing information systems, these organizations conclude agreements that spell out the degree to which our policies apply to them, as well as requirements concerning the management of information assets.

2. Compliance Program for the Protection of Personal Information

The CTC Group has created a compliance program for the protection of personal information. The program, which has been publicized and propagated to all executives and regular employees, is periodically reviewed to ensure ongoing improvement.

3. Information Security Training

In addition to making all executives and employees throughout the CTC Group thoroughly aware of the importance of information security and specific conformance measures, periodically we conduct information security training for all executives and employees. Such training is designed to foster the ongoing improvement of the CTC Group's information security management systems.

4. Preventing and Responding to Incidents and Accidents Involving Information Security

The Company is aware that incidents and accidents involving information security may arise not only from fraudulent behavior by third parties, but also from executives and employees who have proper user authority but who cause incidents through criminal intent or operational error. Taking such possibilities into consideration, we have established and implemented appropriate control measures that seek first to prevent such incidents, and then to provide quick response in the event of occurrence.

5. Laws and Regulations

All CTC Group executives and employees are required to conform to all compliance-related measures, including the respect of all relevant laws, regulations and industry guidelines.

Acquired P Mark certification on August 17, 2005

Six-Year Consolidated Financial Summary

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

Years ended March 31

	Billions of Yen					
	2006	2005	2004	2003	2002	2001
For the Years Ended March 31:						
Net sales	¥ 239.0	¥ 226.8	¥ 266.2	¥ 273.2	¥ 340.1	¥ 302.7
Gross profit	58.5	53.7	57.0	57.0	66.1	67.4
Selling, general and administrative expenses	39.0	36.6	39.6	40.4	44.5	39.1
Operating income	19.5	17.1	17.3	16.6	21.6	28.3
Income before income taxes and minority interests	20.0	19.2	17.5	15.4	22.2	26.9
Net income	11.5	10.9	9.8	7.8	12.1	14.8
As of March 31:						
Total assets	178.1	160.8	168.8	178.0	175.0	157.8
Total shareholders' equity	115.7	105.3	104.0	102.0	98.4	84.8
Cash Flows:						
Cash flows from operating activities	7.9	14.2	21.6	16.4	15.9	7.1
Cash flows from investing activities	(1.8)	(4.9)	0.2	(0.5)	(1.5)	(7.8)
Cash flows from financing activities	(3.3)	(10.2)	(6.5)	(1.5)	(1.5)	(20.7)
Financial Ratios:						
Gross profit margin (%)	24.5%	23.7%	21.4%	20.8%	19.4%	22.3%
Operating income margin (%)	8.2	7.5	6.5	6.1	6.4	9.3
Shareholders' equity ratio (%)	64.9	65.5	61.6	57.3	56.2	53.7
Return on equity (ROE) (%)*1	10.4	10.4	9.5	7.8	13.2	19.0
Return on assets (ROA) (%)*2	6.8	6.6	5.7	4.4	7.3	10.0

	Yen					
Per Share Data:						
Basic net income*3	¥ 197.87	¥ 182.88	¥ 160.26	¥ 124.95	¥ 196.58	¥ 241.34
Shareholders' equity*3	2,007.88	1,819.34	1,733.47	1,658.37	1,600.25	1,378.65
Cash dividends applicable to the year	60.00	30.00	26.00	20.00	20.00	18.00

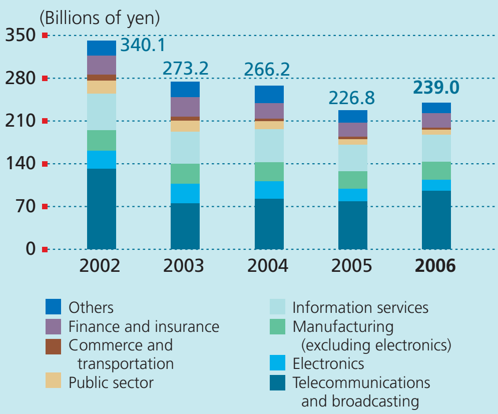
Note: As of August 18, 2000, one par value common share was split into three shares. Basic net income per share in fiscal 2001 is calculated on the assumption that the share was split at the beginning of the period.

*1 ROE = Net income / Average total shareholders' equity (which is based on total shareholders' equity at the beginning and end of the year) x 100

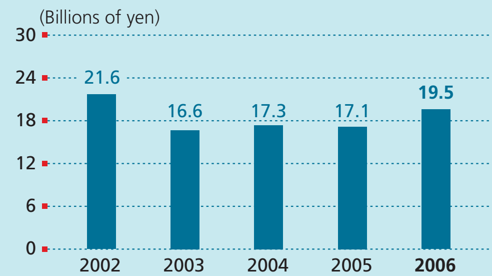
*2 ROA = Net income / Average total assets (which is based on total assets at the beginning and end of the year) x 100

*3 Basic net income and shareholders' equity are computed based on the Accounting Standard for Net Income per Share and Implementation Guidance on Accounting Standard for Net Income per Share from fiscal 2003.

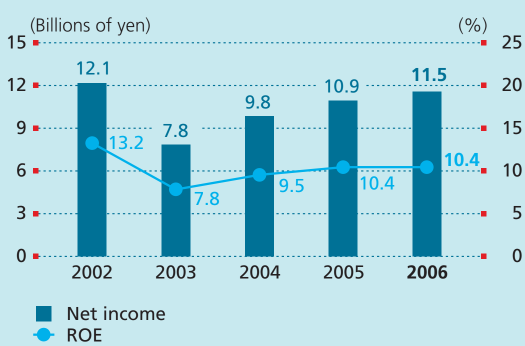
Net Sales by Business Sector



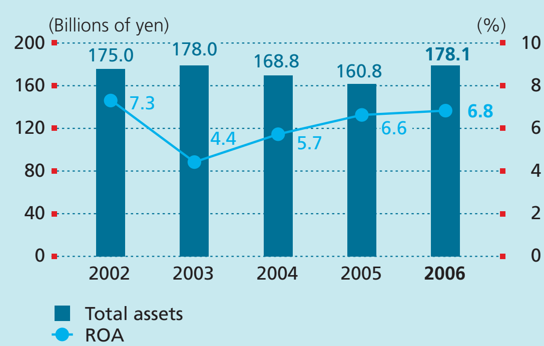
Operating Income Ratio



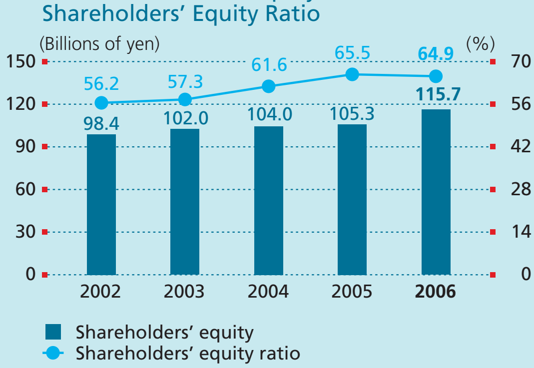
Net Income and Return on Equity (ROE)



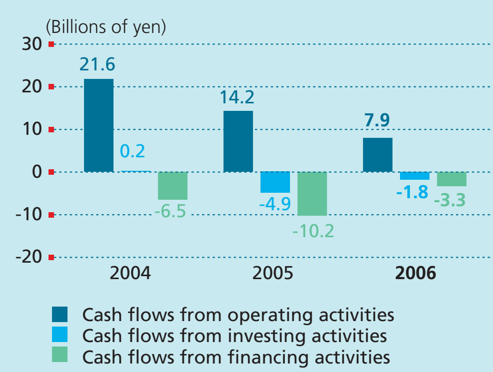
Total Assets and Return on Assets (ROA)



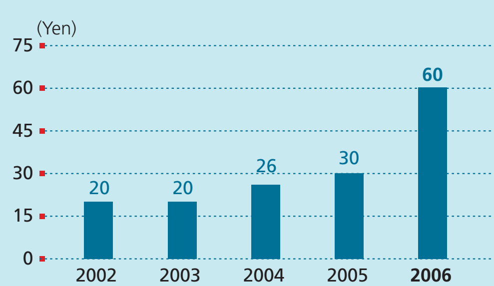
Total Shareholders' Equity and Shareholders' Equity Ratio



Cash Flows



Cash Dividends per Share



(Years ended March 31)

Consolidated Business Performance

In fiscal 2006, ended March 31, 2006, the CTC Group posted consolidated net sales of ¥239.0 billion, up 5.4% from fiscal 2005.

By business segment, sales in the System segment increased 6.2%, to ¥197.7 billion, owing to concentrated sales efforts to provide added value, which boosted orders, as well as a reduced number of unprofitable projects. As a result, these sales rose from 82.1% to 82.7% of net sales. The disposal of two consolidated subsidiaries affected sales in the Support segment, but firm demand for maintenance services, centered on hardware, pushed up segment sales 1.6%, to ¥41.4 billion. As a percentage of net sales, this segment fell from 17.9% to 17.3%.

In line with the increase in net sales, cost of sales rose 4.3%, to ¥180.5 billion. Nevertheless, the gross profit margin rose 0.8 percentage point, to 24.5%, the highest level since the Company listed its shares publicly. Reasons for this improvement included pervasive project management, which reduced the number of unprofitable development projects. (Such projects generated losses of approximately ¥1.0 billion in fiscal 2006, compared with approximately ¥3.0 billion in the preceding term.) In addition, Support segment profitability increased.

Reducing selling, general and administrative (SG&A) expenses were such factors as office consolidations, which decreased rent-related and communications expenses. However, the Company aggressively recruited new staff to support its sustained growth. The 6.5% increase in SG&A expenses, to ¥39.0 billion, was largely attributable to the resulting increase in personnel costs.

Despite the rise in SG&A expenses that accompanied our aggressive hiring, the combined impact of higher net sales and an improved gross profit margin prompted a 14.0% rise in operating income, to ¥19.5 billion. The operating income ratio consequently rose 0.7 percentage point, to 8.2%.

In other income (expenses), other income—net amounted to ¥0.5 billion, down ¥1.6 billion from fiscal 2005. Gain on investment in limited partnership contributed ¥0.7 billion in fiscal 2006. However, interest and dividend income—net fell from ¥0.6 billion to ¥0.2 billion, and equity in losses of associated companies reduced income ¥0.02 billion. By comparison, equity in earnings of associated companies bolstered other income ¥0.4 billion in fiscal 2005. The gain on sales of investment securities—net and disposal of shares in subsidiaries delivered ¥0.1 billion, down from ¥1.0 billion. Furthermore, loss on write-down of investment securities came to ¥0.3 billion, up from ¥0.2 billion in fiscal 2005.

Income before income taxes and minority interests increased 4.1%, to ¥20.0 billion. Total income taxes rose from ¥8.3 billion to ¥8.5 billion.

Net income expanded 5.9%, to ¥11.5 billion. Owing to higher net income and the acquisition of treasury stock—which reduced the average number of shares of common stock outstanding during the year—basic net income per share rose 8.2%, to ¥197.87.

Financial Position

As of March 31, 2006, consolidated total assets were ¥178.1 billion, up ¥17.2 billion from the preceding year. Total current assets amounted to ¥150.9 billion, up ¥13.3 billion. Primary factors included a ¥7.0 billion increase in investment securities, owing to our acquisition of commercial paper as a short-term investment, as well as a ¥4.2 billion rise in trade receivables, accompanying higher net sales.

Cash and cash equivalents, end of year, were ¥55.5 billion. The Group has implemented a cash management system to centrally manage the funds that are required by Group companies in their operations and employ assets efficiently. Surplus assets are invested in financial products with minimal risk to principal, interest and foreign exchange exposure. This practice reflects the Group's policy of reducing credit and liquidity risk.

Total non-current assets—the sum of net property and equipment and total investments and other assets—were ¥27.2 billion as of March 31, 2006, up ¥4.0 billion from the end of the previous term. Primary factors included an increase in investment securities, owing to an increase in market values, as well as new and additional investments in companies in which we are expanding our business relationships. As a result, investment securities expanded ¥3.7 billion during the year.

Total current liabilities at the end of the term were ¥60.4 billion, up ¥5.6 billion from one year earlier. In tandem with the increase in net sales, the Company acquired more products, spurring a ¥2.0 billion rise in notes and accounts payable—trade. Owing to these factors, the current ratio dipped from 250.9% to 249.7%.

The Group's policy is to generate internally the funds it requires for working capital and capital investments. However, as a contingency for unforeseen events we have commitment lines of credit with eight financial institutions, together totaling ¥10.0 billion as of March 31, 2006. By virtue of its financial position and abundant cash flows from operating activities, as well as contingency lines of credit, we believe the Company is well situated to continue growing, as it has ample operating capital as well as the ability to procure additional funds for future capital investments.

Total shareholders' equity rose ¥10.3 billion, to ¥115.7 billion. As major factors, strong operating performance caused a ¥9.1 billion increase in retained earnings. Net unrealized gain on available-for-sale securities grew ¥2.2 billion, buoyed by higher market prices on investment securities. Consequently, the shareholders' equity ratio decreased from 65.5% at the end of fiscal 2005 to 64.9% at the end of fiscal 2006, while ROE was unchanged at 10.4%.

Cash Flows

During fiscal 2006, the net increase in cash and cash equivalents was ¥2.9 billion, compared with a net decrease of ¥0.8 billion in the preceding term.

Net cash provided by operating activities amounted to ¥7.9 billion, 44.2% less than in the previous year. Income before income taxes and minority interests provided ¥20.0 billion, and the positive difference between receivables collected and payables paid during the year provided ¥2.6 billion. However, the increase in inventories required ¥3.2 billion, and income taxes—paid used ¥8.5 billion in cash.

Net cash used in investing activities was ¥1.8 billion. Purchases of property and equipment used ¥0.8 billion, and purchases of intangible assets required ¥0.6 billion. Purchases of investment securities required ¥2.1 billion, while proceeds from sales of investment securities provided ¥1.4 billion.

Net cash used in financing activities was ¥3.3 billion, down 67.1%. During the year, repurchases of treasury stock used ¥1.3 billion as we worked to raise capital efficiency and increase our return to shareholders. Dividends paid required ¥2.3 billion.

Consolidated Balance Sheets

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 55,490	¥ 52,637	$ 472,376
Receivables:			
Trade	57,171	52,533	486,683
Associated companies	631	1,074	5,373
Other	2,081	782	17,711
Allowance for doubtful receivables	(195)	(185)	(1,659)
Inventories (Note 4)	23,682	20,480	201,604
Deferred tax assets (Note 7)	5,780	5,764	49,208
Prepaid expenses and other current assets	6,259	4,560	53,277
Total current assets	150,899	137,645	1,284,573
PROPERTY AND EQUIPMENT:			
Buildings and structures	3,220	2,919	27,412
Furniture and fixtures	4,222	4,311	35,940
Total	7,442	7,230	63,352
Accumulated depreciation	(3,521)	(3,321)	(29,971)
Net property and equipment	3,921	3,909	33,381
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	12,672	8,977	107,873
Investments in and advances to associated companies	1,522	691	12,953
Software	2,076	2,386	17,676
Leasehold deposit	3,704	3,729	31,527
Deferred tax assets (Note 7)	119	764	1,016
Other assets	3,167	2,745	26,959
Total investments and other assets	23,260	19,292	198,004
TOTAL	¥178,080	¥160,846	$1,515,958

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Payables:			
Trade (Note 12)	¥ 31,312	¥ 29,292	$ 266,550
Associated companies	193	143	1,645
Other	5,133	5,482	43,701
Income taxes payable	4,908	5,716	41,782
Accrued expenses	4,889	3,406	41,625
Unearned income	9,582	8,388	81,566
Advance received	3,117	1,857	26,538
Other current liabilities	1,290	586	10,977
Total current liabilities	60,424	54,870	514,384
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 5)	219	512	1,863
Deferred tax liabilities (Note 7)	1,645		14,003
Total long-term liabilities	1,864	512	15,866
MINORITY INTERESTS	140	129	1,191
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9, 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 6 and 14):			
Common stock—authorized, 246,000,000 shares; issued, 61,500,000 shares	21,764	21,764	185,269
Capital surplus	33,127	33,137	282,000
Retained earnings	72,459	63,332	616,826
Net unrealized gain on available-for-sale securities	2,850	641	24,269
Foreign currency translation adjustments	23	(24)	192
Treasury stock—at cost, 3,965,916 shares in 2006 and 3,649,535 shares in 2005	(14,571)	(13,515)	(124,039)
Total shareholders' equity	115,652	105,335	984,517
TOTAL	¥178,080	¥160,846	$1,515,958

Consolidated Statements of Income

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES (Note 12)	¥239,022	¥226,796	$2,034,747
COST OF SALES (Notes 5, 9 and 12)	180,520	173,073	1,536,729
Gross profit	58,502	53,723	498,018
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 5, 8 and 9)	39,000	36,620	332,002
Operating income	19,502	17,103	166,016
OTHER INCOME (EXPENSES):			
Interest and dividend—net	178	565	1,512
Gain on sales of investment securities—net	68	727	582
Gain (loss) on investment in limited partnership	715	(76)	6,083
Loss on write-down of investment securities	(325)	(165)	(2,764)
Equity in (losses) earnings of associated companies	(23)	395	(192)
Reversal of allowance for doubtful receivables		526	
Impairment loss	(53)		(447)
Other—net	(58)	146	(502)
Other income—net	502	2,118	4,272
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	20,004	19,221	170,288
INCOME TAXES (Note 7):			
Current	7,748	8,658	65,959
Deferred	756	(373)	6,432
Total income taxes	8,504	8,285	72,391
MINORITY INTERESTS IN NET (LOSS) INCOME	(17)	63	(147)
NET INCOME	¥ 11,517	¥ 10,873	$ 98,044

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.p and 13):			
Basic net income	¥ 197.87	¥ 182.88	$ 1.68
Diluted net income	197.76	182.75	1.68
Cash dividends applicable to the year	60.00	30.00	0.51

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	59,953	¥21,764	¥33,141	¥54,201	¥ (51)	¥(14)	¥ (5,036)
Net income				10,873			
Appropriations:							
Cash dividends, ¥30.00 per share				(1,664)			
Bonuses to directors and corporate auditors				(78)			
Loss on sale of treasury stock			(4)				
Repurchase of treasury stock	(2,152)						(8,656)
Sale of treasury stock	49						177
Net increase in unrealized gain on available-for-sale securities					692		
Net decrease in foreign currency translation adjustments						(10)	
BALANCE, MARCH 31, 2005	57,850	21,764	33,137	63,332	641	(24)	(13,515)
Net income				11,517			
Appropriations:							
Cash dividends, ¥60.00 per share				(2,305)			
Bonuses to directors and corporate auditors				(85)			
Loss on sale of treasury stock			(10)				
Repurchase of treasury stock	(380)						(1,289)
Sale of treasury stock	64						233
Net increase in unrealized gain on available-for-sale securities					2,209		
Net increase in foreign currency translation adjustments						47	
BALANCE, MARCH 31, 2006	57,534	¥21,764	¥33,127	¥72,459	¥2,850	¥ 23	¥(14,571)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$185,269	$282,092	$539,131	$ 5,460	$(203)	$(115,050)
Net income			98,044			
Appropriations:						
Cash dividends, $0.51 per share			(19,620)			
Bonuses to directors and corporate auditors			(729)			
Loss on sale of treasury stock		(92)				
Repurchase of treasury stock						(10,972)
Sale of treasury stock						1,983
Net increase in unrealized gain on available-for-sale securities				18,809		
Net increase in foreign currency translation adjustments					395	
BALANCE, MARCH 31, 2006	$185,269	$282,000	$616,826	$24,269	$ 192	$(124,039)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 20,004	¥ 19,221	$ 170,288
Adjustments for:			
Income taxes—paid	(8,524)	(8,098)	(72,562)
Depreciation and amortization	1,838	1,694	15,644
Impairment loss	53		447
Reversal of allowance for doubtful receivables	(276)	(1,066)	(2,349)
Provision for (reversal of) accrued bonuses to employees	1,457	(216)	12,401
Reversal of accrued retirement benefits	(393)	(1,033)	(3,344)
Provision for accrued retirement benefits to directors	99	55	846
Gain on sales of investment securities—net	(68)	(727)	(582)
(Gain) loss on investment in limited partnership	(715)	76	(6,083)
Loss on write-down of investment securities	325	165	2,764
Bonuses to directors and corporate auditors	(86)	(78)	(732)
Equity in losses (earnings) of associated companies	23	(395)	192
Changes in assets and liabilities:			
(Increase) decrease in receivables—trade	(4,638)	16,452	(39,480)
(Increase) decrease in inventories	(3,202)	128	(27,263)
Increase in other current assets	(3,185)	(3,538)	(27,109)
Increase (decrease) in payables—trade	2,020	(9,237)	17,194
Increase in other current liabilities	2,965	809	25,242
Other—net	222	(17)	1,897
Total adjustments	(12,085)	(5,026)	(102,877)
Net cash provided by operating activities	7,919	14,195	67,411
INVESTING ACTIVITIES:			
Proceeds from sales of investment securities	1,409	1,317	11,997
Purchases of investment securities	(2,143)	(1,238)	(18,247)
Purchases of intangible assets	(550)	(567)	(4,679)
Purchases of property and equipment	(825)	(2,587)	(7,024)
Purchases of long-term deposits		(2,000)	
Other—net	340	217	2,897
Net cash used in investing activities	(1,769)	(4,858)	(15,056)
FINANCING ACTIVITIES:			
Sales of treasury stock	222	173	1,891
Repurchases of treasury stock	(1,289)	(8,656)	(10,972)
Proceeds from minority shareholders' payment	40		341
Dividends paid	(2,306)	(1,666)	(19,630)
Dividends paid to minority in consolidated subsidiary company	(11)	(3)	(95)
Net cash used in financing activities	(3,344)	(10,152)	(28,465)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	47	(10)	395
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,853	(825)	24,285
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,637	53,462	448,091
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 55,490	¥ 52,637	$ 472,376

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

1. BASIS OF PRESENTING 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ITOCHU TECHNO–SCIENCE Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to $1, the approximate rate of exchange as of March 31, 2006. Such translations should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its six (five in 2005) subsidiaries (together, the "Group").

Those companies over which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in four (five in 2005) associated companies are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories—Inventories are primarily stated at cost on the specific identification basis. Supplies are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 years of the estimated useful lives. Certain merchandise inventories are stated at cost determined by the moving-average cost basis. Certain supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. Investment Securities—Investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the average cost method.

Investments in limited partnership are accounted for by the equity method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property and Equipment—Property and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is from 10 to 18 years for buildings and structures, and from 5 to 15 years for furniture and fixtures.

f. Intangible Assets—Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method. Amortization of software is calculated by the straight-line method over 5 years of the estimated useful lives.

g. Long-Lived Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004. The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥53 million ($447 thousand).

h. Retirement and Pension Plans—The Company and certain consolidated subsidiaries participate in the "ITOCHU Group Kosei-Nenkin Kikin," which is a defined benefit contributory pension fund, and have the cash-balance type of defined benefit non-contributory pension fund or the unfunded benefit plan.

In July 2005, the Company and certain consolidated subsidiaries amended the employees retirement benefit rule and changed from the tax qualified defined benefit non-contributory pension plan to the cash-balance type of defined benefit non-contributory pension plan. As a result of this change, ¥1,193 million ($10,159 thousand) of unrecognized prior service cost (the decrease of liability) was accrued, and charged to income in this year.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation and plan assets at the balance sheet date. An actuarial adjustment is charged to income in the following year when incurred.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at each balance sheet date.

The Company decided to terminate the retirement benefits plan to directors and corporate auditors and the accrued retirement benefits to directors and corporate auditors will be paid subject to the approval of the Board of Directors and corporate auditors, respectively. This proposal was approved at the annual general meeting of the Company's shareholders held on June 22, 2006.

i. Research and Development Costs—Research and development costs are charged to income as incurred.

j. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

k. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

m. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

n. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

o. Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statements of income and 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.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of merchandise from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

p. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised into common stock.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. New Accounting Pronouncements

Business combination and business separation

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Marketable equity securities	¥ 7,874	¥5,188	$ 67,030
Non-marketable equity securities	1,788	1,643	15,216
Investment in limited partnership	3,010	2,146	25,627
Total	¥12,672	¥8,977	$107,873

The carrying amounts and aggregate fair values of investment securities as of March 31, 2006 and 2005 were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥4,325	¥3,549		¥7,874
March 31, 2005				
Securities classified as available-for-sale equity securities	¥4,380	¥ 809	¥1	¥5,188
	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$36,821	$30,209		$67,030

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥1,788	¥1,643	$15,216
Investment in limited partnership	3,010	2,146	25,627
Total	¥4,798	¥3,789	$40,843

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥149 million ($1,269 thousand) and ¥1,317 million, respectively. Gross realized gains on these sales for the years ended March 31, 2006 and 2005, were ¥78 million ($663 thousand) and ¥727 million, respectively. Gross realized losses on these sales were ¥10 million ($81 thousand) for the year ended March 31, 2006.

4. INVENTORIES

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥17,017	¥13,747	$144,862
Work in process	2,064	1,546	17,571
Supplies	4,601	5,187	39,171
Total	¥23,682	¥20,480	$201,604

5. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees, directors and corporate auditors.

As noted in the significant accounting policy, the Company and certain consolidated subsidiaries have two defined benefit plans; the Group contributory pension plan and the cash-balance type of defined benefit non-contributory pension plan. Employees who retire upon reaching the mandatory age of retirement or by death are entitled to larger benefits. Benefits determined by the retirement rule are paid primarily from the Group pension fund and the rest is then paid by the cash-balance type of defined benefit non-contributory pension fund, the Company or certain consolidated subsidiaries.

In July 2005, the Company and certain consolidated subsidiaries amended the employees retirement benefit rule and changed the tax qualified defined benefit non-contributory pension plan to the cash-balance type of defined benefit non-contributory pension plan.

The liability for retirement benefits for directors and corporate auditors for the years ended March 31, 2006 and 2005 was ¥207 million ($1,758 thousand) and ¥107 million, respectively. The Company decided to terminate the retirement benefits plan to directors and corporate auditors and the accrued retirement benefits to directors and corporate auditors will be paid subject to the approval of the Board of Directors and corporate auditors, respectively. This proposal was approved at the annual general meeting of the Company's shareholders held on June 22, 2006.

The liability for employees' retirement benefits as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 6,123	¥ 6,944	$ 52,127
Fair value of plan assets	(7,883)	(5,923)	(67,106)
Unrecognized actuarial gain (loss)	1,362	(616)	11,596
Long-term prepaid pension expenses	410		3,488
Net liability	¥ 12	¥ 405	$ 105

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 609	¥ 567	$ 5,189
Interest cost	120	114	1,025
Expected return on plan assets	(148)	(101)	(1,260)
Recognized actuarial loss (gain)	616	(705)	5,242
Recognized prior service cost	(1,193)		(10,159)
Premium of defined benefit contributory pension fund	870	1,007	7,404
Net periodic benefit costs	¥ 874	¥ 882	$ 7,441

Assumptions used for actuarial computation for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	2.0%
Recognition period of actuarial gain/loss	1 year	1 year
Recognition period of prior service cost	1 year	

6. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥44,229 million ($376,514 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

Stock options have been approved at the shareholders meetings as an additional benefit for certain directors or officers and key employees. The outstanding stock options granted as of March 31, 2006 are as follows:

Date of Shareholders Meeting	Number of Shares	Exercise Period of the Stock Options	Exercise Price per Share
June 27, 2001	71,800 shares	From July 1, 2003 to June 30, 2006	¥12,520 ($107)
June 26, 2002	162,100 shares	From July 1, 2004 to June 30, 2007	¥ 3,504 ($ 30)

7. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current:			
Deferred tax assets:			
Loss on write-down of inventories	¥2,920	¥3,967	$24,854
Accrued bonuses to employees	1,827	1,230	15,557
Accrued enterprise taxes	437	301	3,718
Accrued other expenses	308	216	2,625
Other	516	254	4,392
Less valuation allowance	(225)	(202)	(1,910)
Total	5,783	5,766	49,236
Deferred tax liabilities—consolidation adjustment of allowance for doubtful accounts	3	2	28
Net deferred tax assets—current	¥5,780	¥5,764	$49,208

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Deferred tax assets:			
Loss on write-down of investment securities	¥ 727	¥ 681	$ 6,188
Tax loss carryforwards	159	250	1,355
Depreciation	264	225	2,251
Accrued retirement benefits	90	216	765
Provision for doubtful receivables	20	132	172
Other	232	221	1,971
Less valuation allowance	(901)	(529)	(7,665)
Total	591	1,196	5,037
Charges to offset against deferred tax liabilities	(472)	(432)	(4,021)
Net deferred tax assets—non-current	¥ 119	¥ 764	$ 1,016
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	¥1,949	¥ 432	$16,592
Long-term prepaid pension expenses	168		1,432
Charges to offset against deferred tax assets	(472)	(432)	(4,021)
Net deferred tax liabilities—non-current	¥1,645		$14,003

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2005 is as follows:

	2005
Normal effective statutory tax rate	41.0%
Expenses not deductible for income tax purposes	1.1
Inhabitant tax—per capita	0.5
Equity in earnings of associated companies	(0.8)
Other—net	1.3
Actual effective tax rate	43.1%

Reconciliation of the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2006 is excluded, since the difference was not more than five one-hundredth of the normal effective statutory tax rate.

As of March 31, 2006, certain subsidiaries have tax loss carryforwards aggregating approximately ¥388 million ($3,304 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 13	$ 106
2009	1	9
2010	163	1,390
2011	72	616
2012 and thereafter	139	1,183
Total	¥388	$3,304

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥265 million ($2,252 thousand) and ¥524 million for the years ended March 31, 2006 and 2005, respectively.

9. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2006 and 2005 were ¥5,525 million ($47,031 thousand) and ¥4,906 million, respectively, including ¥747 million ($6,356 thousand) and ¥1,012 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen							
	2006				2005			
	Buildings and Structures	Furniture and Fixtures	Software	Total	Buildings and Structures	Furniture and Fixtures	Software	Total
Acquisition cost	¥52	¥2,363	¥323	¥2,738	¥65	¥2,942	¥360	¥3,367
Accumulated depreciation	38	1,416	168	1,622	42	1,588	153	1,783
Net leased property	¥14	¥ 947	¥155	¥1,116	¥23	¥1,354	¥207	¥1,584

	Thousands of U.S. Dollars			
	2006			
	Buildings and Structures	Furniture and Fixtures	Software	Total
Acquisition cost	$443	$20,115	$2,747	$23,305
Accumulated depreciation	328	12,053	1,426	13,807
Net leased property	$115	$ 8,062	$1,321	$ 9,498

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 545	¥ 674	$4,642
Due after one year	597	941	5,083
Total	¥1,142	¥1,615	$9,725

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥711	¥ 959	$6,054
Interest expense	32	47	272
Total	¥743	¥1,006	$6,326

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases as of March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥1,931	$16,439
Due after one year	4,200	35,749
Total	¥6,131	$52,188

10. DERIVATIVES

The Group enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets, liabilities and firm commitments of ordinary purchase transactions denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, foreign currency risk in these derivatives is basically offset by opposite movements in the value of hedged assets, liabilities or firm commitments of ordinary purchase transactions.

Because the counterparties to these derivatives are limited to major international financial institutions and a general trading company, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Forward exchange contracted amounts which are assigned to associated assets or liabilities are reflected on the balance sheet at year end.

11. CONTINGENT LIABILITIES

As of March 31, 2006, the Group is contingently liable for guarantees of borrowings for the Group's employees amounting to ¥442 million ($3,765 thousand).

12. RELATED PARTY TRANSACTIONS

Transactions of the Company with associated companies for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales	¥2,819	¥2,873	$23,996
Purchases	372	273	3,169

Transactions of the Company with the parent company, ITOCHU Corporation, for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deposits		¥ 3,000	
Purchases	¥59,672	56,692	$507,980

The balances due to or from the parent company, ITOCHU Corporation, as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deposits (included in cash and cash equivalents)	¥10,000	¥10,000	$85,128
Payables—Trade	9,203	8,662	78,347

13. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2006	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥11,387	57,548	¥197.87	$1.68
Effect of dilutive securities—Warrants		33		
Diluted EPS—Net income for computation	¥11,387	57,581	¥197.76	$1.68

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2005	Net Income	Weighted-average Shares	EPS
Basic EPS—Net income available to common shareholders	¥10,787	58,985	¥182.88
Effect of dilutive securities—Warrants		43	
Diluted EPS—Net income for computation	¥10,787	59,028	¥182.75

14. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings as of March 31, 2006 were approved at the Company's shareholders' meeting held on June 22, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35.00 ($0.30) per share	¥2,014	$17,142
Bonuses to directors and corporate auditors	68	581

In addition to the cash dividends described above, the Company paid interim cash dividends of ¥1,437 million ($12,233 thousand, ¥25.00 ($0.21) per share) on December 2, 2005 to shareholders of record as of September 30, 2005, based on a resolution of the Board of Directors.

b. Merger Agreement

On May 23, 2006, the Company entered into an agreement to merge with CRC Solutions Corp. ("CRC"), effective on October 1, 2006. It was approved at the annual general meeting of the Company's shareholders held on June 22, 2006.

Details of the merger are as follows:

(1) Method of the merger

The Company will be the surviving entity, and CRC will be dissolved.

(2) New company name

Itochu Techno Solutions Corporation

(3) Share allotment

The Company will issue 0.31 share either in the form of new shares or treasury shares in exchange for each share of CRC to shareholders of CRC registered and recorded in the list of shareholders as of the day before the effective date of the merger.

(4) Stock acquisition rights of CRC

The Company will issue its own stock acquisition rights to holders of the stock acquisition right of CRC registered and recorded in the list of holders of that as of the day before the effective date of the merger.

(5) Dividend of surplus

CRC decided to distribute surplus, up to ¥5 per share and within the amount of legal limitations available for dividend, instead of an interim dividend, to shareholders registered and recorded in the list of shareholders as of the day before the effective date of the merger. The new company will assume such payment obligation as of the effective date of the merger.

15. SEGMENT INFORMATION

The Group operates in the following business segments:

"System" consists of IT consulting service, infrastructure construction service, computer-network system sales, software development, maintenance service of software, etc.

"Support" consists of maintenance service of computer-network system, etc.

Information about business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2006 and 2005 is as follows:

(1) Business Segments

a. Sales and Operating Income

	Millions of Yen				Thousands of U.S. Dollars			
	2006				2006			
	System	Support	Eliminations/ Corporate	Consolidated	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	¥197,669	¥41,353		¥239,022	$1,682,717	$352,030		$2,034,747
Intersegment sales	649	15,734	¥(16,383)		5,528	133,943	$(139,471)	
Total sales	198,318	57,087	(16,383)	239,022	1,688,245	485,973	(139,471)	2,034,747
Operating expenses	190,228	37,254	(7,962)	219,520	1,619,376	317,138	(67,783)	1,868,731
Operating income	¥ 8,090	¥19,833	¥ (8,421)	¥ 19,502	$ 68,869	$168,835	$ (71,688)	$ 166,016

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen				Thousands of U.S. Dollars			
	2006				2006			
	System	Support	Eliminations/ Corporate	Consolidated	System	Support	Eliminations/ Corporate	Consolidated
Total assets	¥81,010	¥28,787	¥68,283	¥178,080	$689,622	$245,059	$581,277	$1,515,958
Depreciation	353	356	1,129	1,838	3,007	3,026	9,611	15,644
Capital expenditures	414	292	617	1,323	3,523	2,486	5,254	11,263

a. Sales and Operating Income

	Millions of Yen			
	2005			
	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	¥186,092	¥40,704		¥226,796
Intersegment sales	726	15,428	¥(16,154)	
Total sales	186,818	56,132	(16,154)	226,796
Operating expenses	181,332	37,883	(9,522)	209,693
Operating income	¥ 5,486	¥18,249	¥ (6,632)	¥ 17,103

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2005			
	System	Support	Eliminations/ Corporate	Consolidated
Total assets	¥70,361	¥26,711	¥63,774	¥160,846
Depreciation	509	277	908	1,694
Capital expenditures	437	786	2,189	3,412

Notes: 1. Corporate operating expenses consist primarily of the administration expenses of the Company, which are not allocated to business segments. Corporate operating expenses for the years ended March 31, 2006 and 2005 were ¥9,496 million ($80,839 thousand) and ¥7,375 million, respectively.
2. Corporate assets consist primarily of cash and cash equivalents, investment securities and administrative assets of the Company. Corporate assets as of March 31, 2006 and 2005 were ¥75,868 million ($645,851 thousand) and ¥76,223 million, respectively.

(2) Geographical Segments and Sales to Foreign Customers

Geographical segment information was not presented since aggregate sales and assets of the Company and its domestic subsidiaries were more than 90% of the consolidated net sales and assets for the years ended March 31, 2006 and 2005.

Sales to foreign customers were not presented since sales to foreign customers were less than 10% of the consolidated sales for the years ended March 31, 2006 and 2005.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ITOCHU TECHNO-SCIENCE Corporation:

We have audited the accompanying consolidated balance sheets of ITOCHU TECHNO-SCIENCE Corporation and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 ITOCHU TECHNO-SCIENCE Corporation and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 14 to the consolidated financial statements, on May 23, 2006, the Company entered into an agreement (the "Agreement") to merge with CRC Solutions Corp. The Agreement was approved at the annual general meeting of the Company's shareholders held on June 22, 2006.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 22, 2006

Member of
Deloitte Touche Tohmatsu

Data Section

This data section was created based on the Japanese securities report. Figures have been rounded for convenience, and accordingly, may differ from those presented in the line items and numbers on pages 1 to 40.

Consolidated Balance Sheets

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
March 31

	Millions of yen				
	2002	2003	2004	2005	2006
ASSETS					
CURRENT ASSETS	¥148,538	¥155,490	¥150,578	¥137,644	¥150,898
Cash and time deposits	23,965	38,285	36,463	30,639	26,499
Notes and accounts receivable—trade	90,925	81,893	69,398	53,606	57,779
Securities	—	—	6,998	11,997	18,990
Inventories	24,763	24,024	20,607	20,479	23,682
Deferred tax assets	2,745	3,175	4,548	5,763	5,780
Deposits from customers	—	—	10,000	10,000	10,000
Other current assets	6,716	8,327	2,837	5,341	8,361
Allowance for doubtful accounts	(578)	(215)	(274)	(184)	(194)
FIXED ASSETS	26,443	22,533	18,248	23,201	27,180
Tangible fixed assets	3,009	3,320	2,057	3,908	3,921
Buildings and fixtures	1,220	1,156	696	2,146	2,124
Furniture and fittings	1,469	1,357	1,047	1,762	1,796
Computers for rent	319	805	313	—	—
Intangible fixed assets	2,756	3,187	2,860	2,549	2,185
Software	2,588	3,018	2,691	2,386	2,076
Others	168	169	169	163	109
Investments and other assets	20,677	16,025	13,329	16,743	21,073
Investments in securities	13,950	7,833	5,958	9,668	14,193
Prepaid pension expenses	—	—	—	—	409
Deferred tax assets	658	2,618	2,038	764	119
Others	6,191	5,994	6,687	6,646	6,400
Allowance for doubtful accounts	(123)	(420)	(1,355)	(335)	(49)
TOTAL ASSETS	¥174,982	¥178,024	¥168,826	¥160,845	¥178,079
LIABILITIES					
CURRENT LIABILITIES	¥ 73,526	¥ 73,480	¥ 63,159	¥ 54,869	¥ 60,424
Notes and accounts payable—trade	46,999	49,011	38,704	29,401	31,401
Short-term borrowings	60	—	—	—	—
Accrued income taxes	5,664	5,326	5,168	5,716	4,908
Allowance for bonuses	3,264	2,908	3,246	3,000	4,457
Unearned income	—	—	—	8,388	9,581
Allowance for loss on orders	—	—	—	—	410
Other current liabilities	17,536	16,234	16,040	8,362	9,665
LONG-TERM LIABILITIES	2,090	1,558	1,517	512	1,863
Long-term debt	110	—	—	—	—
Deferred tax liabilities	411	—	13	—	1,644
Allowance for employees' retirement benefits	1,377	1,057	1,442	405	12
Allowance for directors' retirement benefits	191	242	61	107	206
Liabilities in accordance with the application of the equity method	—	258	—	—	—
TOTAL LIABILITIES	75,616	75,039	64,677	55,381	62,288
MINORITY INTERESTS	951	934	144	128	139
SHAREHOLDERS' EQUITY					
Common stock	21,763	21,763	21,763	21,763	21,763
Capital surplus/additional paid-in capital	33,076	33,076	33,141	33,137	33,126
Retained earnings	40,586	47,032	54,201	63,331	72,458
Other appraisal of securities margin	2,908	153	(51)	641	2,850
Foreign currency translation adjustments	83	33	(14)	(23)	22
Treasury stock	(3)	(9)	(5,035)	(13,514)	(14,570)
Total shareholders' equity	98,414	102,049	104,004	105,335	115,651
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	¥174,982	¥178,024	¥168,826	¥160,845	¥178,079

Consolidated Statements of Income

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31

	Millions of yen				
	2002	2003	2004	2005	2006
NET SALES	¥340,072	¥273,200	¥266,170	¥226,795	¥239,021
COST OF SALES	273,931	216,247	209,213	173,072	180,519
Gross profit	66,140	56,952	56,957	53,723	58,502
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	44,541	40,385	39,614	36,619	39,000
Provision for allowance for doubtful accounts	193	1	98	—	—
Salaries and bonuses for employees	16,261	15,918	15,206	14,066	14,625
Provision for accrued bonuses	2,060	2,045	2,258	1,965	3,019
Retirement benefits	1,084	629	1,520	333	365
Provision for directors' retirement benefits	127	74	57	55	68
Temporary staff costs	5,640	4,134	3,346	—	—
Contract employee expenses	—	—	—	3,364	3,899
Depreciation	1,583	1,589	1,639	1,384	1,600
Other	17,590	15,991	15,486	15,449	15,420
OPERATING INCOME	21,598	16,567	17,343	17,103	19,501
NON-OPERATING INCOME	769	1,406	490	1,173	1,097
Interest income	11	9	8	53	37
Dividend income	131	119	275	511	140
Insurance dividend income	—	37	20	—	—
Foreign exchange gain	42	—	54	—	—
Equity in gains of associated companies	—	—	—	395	—
Subsidy income	112	79	43	—	—
Miscellaneous income	211	1,070	—	—	—
Gain from investment in partnership	—	—	—	—	714
Other	261	90	87	213	204
NON-OPERATING EXPENSES	1,696	1,572	446	146	64
Interest expenses	15	1	—	—	—
Loss on disposal of merchandise	411	—	—	—	—
Foreign exchange losses	—	35	—	—	—
Loss from investment in partnership	—	—	—	75	—
Equity in losses of associated companies	795	1,010	174	—	22
Loss from funds invested	253	454	135	—	—
Other	219	70	137	70	41
ORDINARY INCOME	20,672	16,401	17,386	18,129	20,534
EXTRAORDINARY GAINS	4,053	381	2,221	1,500	183
Gain on sales of fixed assets	1	—	—	—	—
Gain on sales of investments in securities	4,051	381	2,089	726	77
Gain on liquidization of investment securities	—	—	125	22	—
Gain on transfer of sales rights	—	—	—	—	105
Gain on sales of investments in consolidated subsidiary	—	—	—	224	—
Reversal of allowance for doubtful accounts	—	—	—	525	—
Gain on sales of membership rights	—	—	6	—	—
EXTRAORDINARY LOSSES	2,511	1,404	2,083	408	714
Loss on disposal of fixed assets	112	284	248	231	249
Impairment losses	—	—	—	—	52
Office consolidation costs	—	—	630	—	—
Loss on sales of investments in securities	26	3	35	—	87
Loss on write-down of investments in securities	2,279	1,074	198	164	324
Loss on sales of membership rights	—	—	9	—	—
Loss on write-down of membership rights	93	29	25	11	—
Transfer to reserve for doubtful accounts	—	12	936	—	—
INCOME BEFORE INCOME TAXES	22,213	15,378	17,524	19,221	20,003
INCOME TAXES	11,296	8,303	8,467	8,658	7,748
DEFERRED TAX ADJUSTMENT	(1,397)	(797)	(692)	(372)	755
MINORITY INTERESTS	225	89	(73)	63	(17)
NET INCOME	¥12,089	¥7,783	¥9,822	¥10,872	¥11,517

Consolidated Statements of Cash Flows

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

Years Ended March 31

	Millions of yen		
	2004	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes	¥17,524	¥19,221	¥20,003
Depreciation	2,225	1,693	1,837
Impairment losses	—	—	52
Amortization of consolidation adjustment	35	—	—
Increase (decrease) in allowance for doubtful accounts	994	(1,065)	(275)
Increase (decrease) in allowance for bonuses	338	(215)	1,456
Increase in allowance for loss of orders	—	—	410
Increase (decrease) in allowance for retirement benefits	384	(1,033)	(392)
(Decrease) increase in allowance for directors' retirement benefits	(180)	54	99
Interest and dividend income	(284)	(564)	(177)
Equity in losses (gains) of associated companies	174	(395)	22
Loss from investments in partnership	—	75	(714)
Loss from funds invested	135	—	—
Gain on sales of investment securities	(2,089)	(726)	(77)
Gain on liquidation of investment securities	(125)	(22)	—
Gain on transfer of sales rights	—	—	(105)
Gain on sales of investments in associated companies	—	(224)	—
Loss on disposal of fixed assets	248	231	249
Expenses for office integration	630	—	—
Loss on sales of investment securities	35	—	87
Loss on write-down of investment securities	198	164	324
Decrease (increase) in accounts receivable	11,533	16,309	(3,896)
Decrease (increase) in inventories	3,416	127	(3,202)
(Decrease) increase in notes and accounts payable	(10,307)	(9,254)	2,000
Increase (decrease) in consumption tax payable	184	(203)	105
Decrease (increase) in other assets	5,599	(3,412)	(4,012)
(Decrease) increase in other liabilities	(676)	1,029	2,468
Payments of directors' bonuses	(97)	(78)	(86)
Payments of directors' bonuses borne by minority shareholders	(3)	—	—
Subtotal	29,895	21,709	16,178
Interest and dividends received	318	582	263
Income taxes paid	(8,624)	(8,098)	(8,523)
Net cash provided by operating activities	21,588	14,194	7,918
INVESTING ACTIVITIES:			
Long-term deposits	—	(2,000)	—
Payments for acquisition of tangible fixed assets	(160)	(2,586)	(825)
Proceeds from sales of tangible fixed assets	4	0	5
Purchases of intangible assets	(1,014)	(567)	(549)
Proceeds from sales of shares of consolidated subsidiary	—	226	—
Payments for acquisition of investment securities	(1,716)	(1,237)	(2,143)
Proceeds from sales of investment securities	3,140	1,316	1,634
Proceeds from liquidation of investment securities	232	22	—
Proceeds from transfer of sales rights	—	—	105
(Increase) decrease in short-term loans receivable, net	(400)	400	—
Payment of long-term loans receivable	(20)	(1)	(7)
Proceeds from recovery of long-term loans	78	63	11
Net decrease (increase) in other assets	32	(494)	—
Net cash provided by (used in) investing activities	176	(4,857)	(1,768)
FINANCING ACTIVITIES:			
Sales of treasury stock	—	173	222
Proceeds from minority shareholders' payment	—	—	40
Repurchases of treasury stock	(5,031)	(8,656)	(1,288)
Dividends paid	(1,405)	(1,665)	(2,305)
Dividend payments to minority shareholders	(103)	(2)	(11)
Net cash used in financing activities	(6,540)	(10,151)	(3,343)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(48)	(9)	46
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,176	(824)	2,852
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,285	53,461	52,637
CASH AND CASH EQUIVALENTS, END OF YEAR	¥53,461	¥52,637	¥55,489

Information by Segment (Consolidated)

Years Ended March 31

	Millions of yen									
	2002	Percent of total	2003	Percent of total	2004	Percent of total	2005	Percent of total	2006	Percent of total
Orders	¥333,808		¥281,480		¥256,083		¥245,492		¥258,772	
Increase (decrease) from the preceding year	+5.5%		–15.7%		–9.0%		–4.1%		+5.4%	
System Business	301,917	90.4%	241,434	85.8%	214,091	83.6%	198,545	80.9%	218,180	84.3%
Increase (decrease) from the preceding year	+6.1%		–20.0%		–11.3%		–7.3%		+9.9%	
Support Business	31,890	9.6	40,046	14.2	41,991	16.4	46,946	19.1	40,592	15.7
Increase (decrease) from the preceding year	+0.0%		+25.6%		+4.9%		+11.8%		–13.5%	
Orders backlog, end of year	¥ 47,098		¥ 55,378		¥ 45,291		¥ 63,987		¥ 83,738	
System Business	33,602	71.3%	41,228	74.4%	29,829	65.9%	42,283	66.1%	62,794	75.0%
Support Business	13,496	28.7	14,150	25.6	15,461	34.1	21,704	33.9	20,943	25.0

	Millions of yen									
	2002	Percent of total	2003	Percent of total	2004	Percent of total	2005	Percent of total	2006	Percent of total
Net Sales	¥340,072		¥273,200		¥266,170		¥226,795		¥239,021	
Increase (decrease) from the preceding year	+12.3%		–19.7%		–2.6%		–14.8%		+5.4%	
System Business	306,106	90.0%	233,808	85.6%	225,490	84.7%	186,092	82.1%	197,668	82.7%
Increase (decrease) from the preceding year	+11.3%		–23.6%		–3.6%		–17.5%		+6.2%	
Support Business	33,965	10.0	39,392	14.4	40,680	15.3	40,703	17.9	41,353	17.3
Increase (decrease) from the preceding year	+23.1%		+16.0%		+3.3%		+0.1%		+1.6%	

	Millions of yen									
	2002	Percent of total	2003	Percent of total	2004	Percent of total	2005	Percent of total	2006	Percent of total
Telecommunications and broadcasting	¥130,787	38.5%	¥ 74,847	27.4%	¥ 82,173	30.9%	¥ 77,643	34.2%	¥ 94,761	39.7%
Electronics	29,512	8.7	31,821	11.6	28,168	10.6	20,428	9.0	18,731	7.8
Manufacturing (excluding electronics)	34,127	10.0	32,493	11.9	31,748	11.9	29,165	12.9	28,712	12.0
Information services	59,295	17.4	52,700	19.3	53,322	20.0	42,494	18.7	44,681	18.7
Public sector	21,031	6.2	17,793	6.5	13,097	4.9	9,438	4.2	7,439	3.1
Commerce and transportation	9,677	2.8	6,257	2.3	4,342	1.6	4,239	1.9	3,922	1.6
Finance and insurance	30,879	9.1	31,841	11.7	25,057	9.4	22,265	9.8	23,120	9.7
Others	24,760	7.3	25,445	9.3	28,258	10.7	21,121	9.3	17,651	7.4
TOTAL	¥340,072	100.0%	¥273,200	100.0%	¥266,170	100.0%	¥226,795	100.0%	¥239,021	100.0%

Financial Data

Years Ended March 31

Number of Employees*

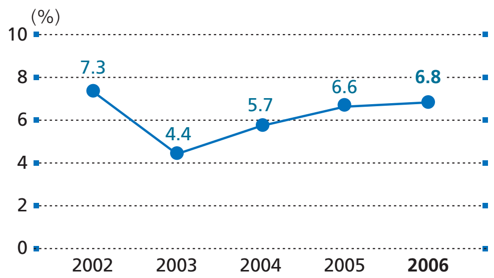
	Persons				
	2002	2003	2004	2005	2006
CTC Group employees	3,178	3,403	3,346	3,156	3,399
Of whom, system engineers	1,118	1,340	1,360	1,445	1,639
Dispatched employees	2,457	1,854	1,816	2,206	2,402
Of whom, system engineers	1,564	1,119	1,115	1,568	1,704
TOTAL CTC GROUP EMPLOYEES	5,635	5,257	5,162	5,362	5,801
Of whom, system engineers	2,682	2,459	2,475	3,013	3,343

* Number of employees at the end of each fiscal year

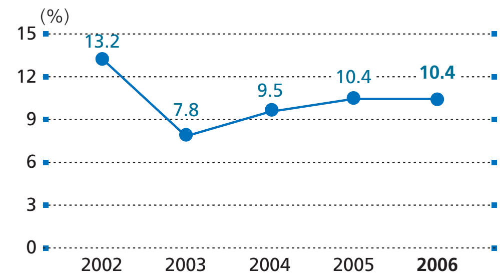
Capital Investments and Depreciation and Amortization Expenses

	Millions of Yen				
	2002	2003	2004	2005	2006
Capital investments	¥2,211	¥1,115	¥1,244	¥3,412	¥1,323
Depreciation and amortization expenses	1,829	1,871	2,225	1,693	1,837

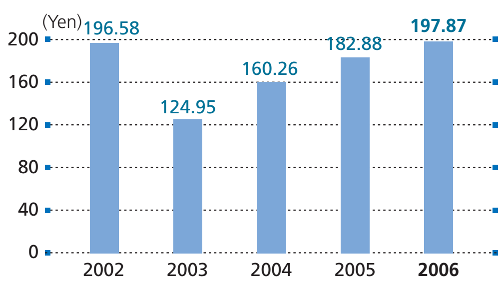
Return on Assets (ROA)



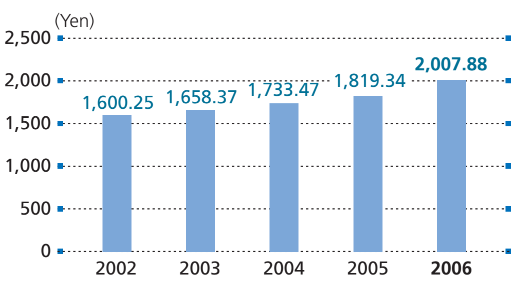
Return on Shareholders' Equity (ROE)



Basic Net Income per Share



Shareholders' Equity per Share



Corporate Organization

As of April 1, 2006

- General Meeting of Shareholders
  - Board of Directors
  - Board of Corporate Auditors
- President & CEO
  - Management Committee
  - CSR & Compliance Committee
  - Information Management Committee
- Telecom Systems Group
  - Telecom Systems Planning Division
    - Telecom Systems Planning & Administration Department
    - Telecom Business Development Department
  - Telecom Systems Division No. 1
    - Telecom Sales Department No. 1
    - Telecom Sales Department No. 2
    - Telecom Sales Department No. 3
    - Western Region Telecom Sales Department
    - Telecom Engineering Department No. 1
    - Telecom Engineering Department No. 2
    - Telecom Engineering Department No. 3
  - Telecom Systems Division No. 2
    - Telecom Sales Department No. 4
    - Telecom Sales Department No. 5
    - Telecom Sales Department No. 8
    - Telecom System Development Department
    - Telecom Engineering Department No. 4
    - Telecom Engineering Department No. 5
  - Telecom Systems Division No. 3
    - Telecom Sales Department No. 6
    - Telecom Sales Department No. 7
    - Telecom Engineering Department No. 6
    - Telecom Engineering Department No. 7
    - Telecom Engineering Department No. 8
- Financial Systems Group
  - Financial Systems Division No. 1
    - Financial Systems Department No. 1
    - Financial Systems Department No. 2
    - Financial Systems Department No. 3
    - Financial Systems Development Department No. 1
  - Financial Systems Division No. 2
    - Financial Systems Department No. 4
    - Financial Systems Department No. 5
    - Financial Systems Development Department No. 2
  - Financial Systems Engineering & Marketing Department
  - Financial Systems Planning & Administration Department
- Enterprise Systems Group
  - IT Contents Business Division
    - Cyber Business Sales Department
    - Media Business Sales Department
    - System Engineering Department No. 1
    - System Development Department No. 1
  - Enterprise Business Division No. 1
    - Retail Solution Business Sales Department No. 1
    - Retail Solution Business Sales Department No. 2
    - Service Business Sales Department
    - System Engineering Department No. 2
    - System Development Department No. 2
    - Network System Department No. 1
  - Enterprise Business Division No. 2
    - Enterprise Business Sales Department No. 1
    - Enterprise Business Sales Department No. 2
    - Enterprise Business Sales Department No. 3
    - System Engineering Department No. 3
    - System Development Department No. 3
    - Network System Department No. 2
  - Alliance Business Division
    - Alliance Sales Department
    - Education & Public Sales Department
    - Western Region Business Sales Department
    - Alliance System Engineering Department
    - Planning & Development Team
  - Enterprise Business Division No. 3
    - Toyota Sales Department
    - Products Industry Business Sales Department No. 1
    - Products Industry Business Sales Department No. 2
    - Automotive System Department
    - High Tech System Department
    - System Engineering Department No. 4
    - System Development Department No. 4
    - Industrial Engineering Sales Department
    - Engineering Solution Sales Department
    - PLM Engineering Department
  - BPR & SI Business Division
    - IT Life Cycle Support Department
    - BPR & SI Support Department
  - Planning & Administration Department
  - Solution Promotion Team
- Partner Distribution Business Group
  - Partner Distribution Business Division
- Cross Function Group
  - Product Marketing Division
    - Product Marketing Department No. 1
    - Product Marketing Department No. 2
  - IT Engineering Division
    - Application & Middleware Engineering Department
    - Platform Engineering Department
    - Network & Security Engineering Department
    - Solution Engineering Department
    - Technical Solution Center Engineering Department
  - Project Management Office
    - Project Control Department
    - Quality Control Department
- Sales Administration & Operation Group
  - Sales Administration & Operation Division
    - Sales Operation Department
    - Business Support Department
- Corporate Planning Department
- Corporate Communications Department
- Next. MI Promotion Office
- Administration Group
  - Legal Department
  - Finance & Accounting Department
  - Human Resource Management Department
  - General Affairs Department
  - Western Region Administration Department
  - Internal Control Development Team
  - CSR & Compliance Team
- Information Systems
  - Information Systems Department
  - Group Information Systems Team
  - Information Security Team
- Audit Division
  - Management Audit Team
  - Information Security Audit Team
- Secretary Department

Corporate History

1972 April	C. ITOH DATA SYSTEMS CO., LTD., is established in Chuo-ku, Tokyo, as a wholly owned subsidiary of ITOCHU Corporation.
1979 July	Hamilton/Avnet Electronics Japan Limited is established in Chuo-ku, Tokyo, as a wholly owned subsidiary of Avnet, Inc.
1984 April	C. ITOH DATA SYSTEMS CO., LTD., begins sales of Sun Microsystems, Inc., Unix workstations.
October	Hamilton/Avnet Electronics Japan Limited becomes ITOCHU Corporation's subsidiary following participation in its equity ownership by ITOCHU Corporation and C. ITOH DATA SYSTEMS.
1985 April	Hamilton/Avnet Electronics Japan Limited is renamed C. ITOH MICRONICS CORP. Head office moves to Chiyoda-ku, Tokyo.
1986 June	C. ITOH MICRONICS CORP. is renamed ITOCHU TECHNO-SCIENCE Corporation. Head office moves to Minato-ku, Tokyo.
July	ITOCHU TECHNO–SCIENCE Corporation takes over factory automation division and semiconductor division of C. ITOH DATA SYSTEMS, and sets up two branch offices: one in Higashi-ku, Osaka, and the other in Naka-ku, Nagoya.
1987 April	Establishes subsidiary CTC Create Corporation.
1988 June	Relocates head office to Setagaya-ku, Tokyo.
1989 October	Absorbs C. ITOH DATA SYSTEMS CO., LTD., and sets up a subsidiary, CTC Laboratory Systems Corporation (currently a consolidated subsidiary).
1990 April	Sets up two subsidiaries: CTC Technology Corporation (currently a consolidated subsidiary) and CTC SP Corporation (currently a consolidated subsidiary).
1992 April	Begins sales of Cisco Systems, Inc., network equipment products.
October	Begins sales of Oracle Corporation database software products.
1995 March	Takes over Compaq product sales and marketing license from ITOCHU Corporation. Begins sales of Netscape Communications Corporation Internet-related software products.
1996 November	Head office moves to Fujimi, Chiyoda-ku, Tokyo.
1998 February	Increases capital to ¥1,576 million through third-party allocation of new shares.
December	Sets up subsidiary Okinawa Call Center Corporation.
1999 April	CTC acquires all the shares of Four System Corporation and makes it a subsidiary. The name of the business is also changed to CTC Business Service Corporation (currently a consolidated subsidiary).
May	Sets up Kamata Solution Center in Ota-ku, Tokyo.
December	Lists shares on the First Section of the Tokyo Stock Exchange. A public stock offering increases the Company's capitalization to ¥21,763 million.
2001 October	Begins full-scale service of CTC Integrated Managed Service Provider (iMSP).
2003 February	Commences sales of Egenera's Linux servers.
2004 November	Head office moves to Kasumigaseki in Chiyoda-ku, Tokyo.
2005 February	CTC Create Corporation and Okinawa Call Center Corporation are transferred.
April	Establishes MAXIS Consulting Corporation.
August	Receives Privacy Mark certification from Japan Information Processing Development Corporation.

Corporate Data

As of March 21, 2006

■ Company Name

ITOCHU TECHNO–SCIENCE Corporation (CTC*)
*CTC = Challenging Tomorrow's Changes (Corporate action guideline)

■ Head Office

The Kasumigaseki Building,
2-5, Kasumigaseki 3-chome, Chiyoda-ku,
Tokyo 100-6080, Japan
Phone: +81-3-6203-5000
URL: http://www.ctc-g.co.jp/

■ Established

April 1, 1972

■ Paid-in Capital

¥21,764 million

■ Business Lines

CTC uses leading-edge computers, networks and applications to create total solutions in system consultation, integration, administration, maintenance/support, training and outsourcing.

■ Number of Employees

3,399 (CTC Group Total)

■ Main Suppliers & Sales Performance

Sun Microsystems	System Provider (No. 1 vendor in Japan)
Cisco Systems	Gold Partner Distributor (No. 2 vendor in Japan)
Oracle	Oracle Award 2005 • Oracle Award 2005 • Excellent Partner 2005 (Seventh consecutive year) • Showcase of the Year 2005 OCS Division • Sales of the Year 2005 Advanced Certified Support Partner 2006
EMC	Sales Partner (No. 1 Sales Partner of CLARiX CX series in Japan)
Avaya	Platinum Partner (No. 1 vendor in Japan)
Hewlett Packard	Enterprise Partner (No. 1 vendor in Japan)
Network Appliance	Major Distributor (No. 1 vendor in Japan)
Symantec	Sales Partner (No. 3 vendor in Japan), Availability (No. 1 in Japan)
HITACHI	Business Partner (No. 1 vendor in Japan of SANRISE)
BEA Systems	AquaLogic SOA Award, WebLogic Platform Sales (No. 1 in Japan), WebLogic Portal Sales (No. 1 in Japan), WebLogic Integration Sales (No. 1 in Japan)

CTC Group Companies

Consolidated Subsidiaries (6 companies)

Company	Paid-in Capital	Main Business Activities
CTC Laboratory Systems Corporation	¥300 million	Information system development and sales to the chemical and pharmaceutical industries
CTC Technology Corporation	¥450 million	Information system maintenance and support
CTC SP Corporation	¥100 million	Development and sales of network solutions
CTC Business Service Corporation	¥100 million	Various business services related to personnel and general affairs
MAXIS Consulting Corporation	¥100 million	Business launch support and consulting on process innovation
CTC Ventures, Inc.	US$2	Investment in venture funds in the United States

Note: On April 1, 2005, MAXIS Consulting Corporation was established and added to the scope of consolidation.

Associated Companies Accounted for by the Equity Method (4 companies)

Company	Paid-in Capital	Main Business Activities
Itochu Electronics Corporation	¥150 million	Provision of total e-business services
Itochu Technology Ventures, Inc.	¥100 million	Operation of investment funds for venture companies
Sony Broadband Solutions Corp.	¥1,642 million	Development and sales of systems that combine audio-visual functions with information technology
EC-One, Inc.	¥1,641 million	System development

Note: On June 28, 2005, one of CTC's Vice Presidents became a director of EC-ONE, Inc., and the company was converted to an associated company accounted for by the equity method.

Stock Information

As of March 31, 2006

Common Stock

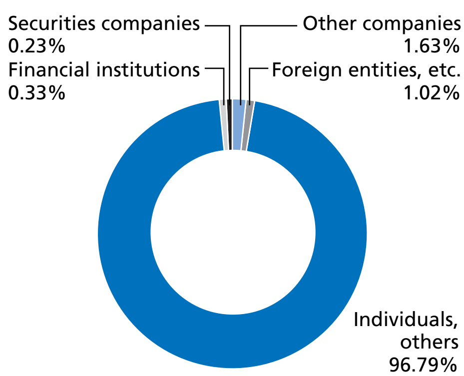
Authorized	246,000,000 shares
Issued	61,500,000 shares
Number of Shareholders	23,008

Major Shareholders

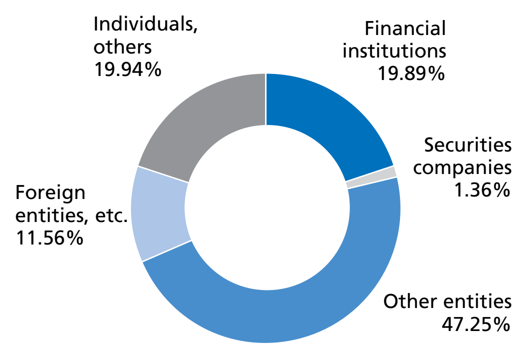
	Number of Shares	(%)
1. ITOCHU Corporation	27,866,400	48.44
2. Japan Trustee Services Bank, Ltd. (Trust Account)	2,403,600	4.18
3. Japan Trustee Services Bank, Ltd. (ITOCHU Corp., Retirement Benefit Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd.)	2,072,000	3.60
4. The Master Trust Bank of Japan, Ltd. (Trust Account)	1,882,000	3.27
5. Designated Separately Managed Account. Trustee is Mitsui Asset Trust and Banking Company, Ltd. (Trust Account 1)	1,085,000	1.89
6. Japan Trustee Services Bank, Ltd. (Trust Account 4)	851,500	1.48
7. Morgan Stanley & Co. International Limited	595,300	1.03
8. Japan Securities Finance Co., Ltd.	553,200	0.96
9. Mitsubishi UFJ Trust and Banking Corporation (Trust Account)	451,000	0.78
10. CTC Employee Shareholding Association	417,740	0.73

Notes: 1. The owner designated "Japan Trustee Services Bank, Ltd. (ITOCHU Corp., Retirement Benefit Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd.)" refers to shares owned by ITOCHU Corporation that have been entrusted as a retirement benefit trust.
2. In addition to the above, CTC holds 3,965,916 of its own shares.

Breakdown by Number of Owners



Ownership by Percentage Shareholding



ITOCHU TECHNO-SCIENCE Corporation

http://www.ctc-g.co.jp/

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