Matsushita Electric Works Information Systems Co., Ltd.

# Annual Report 2006

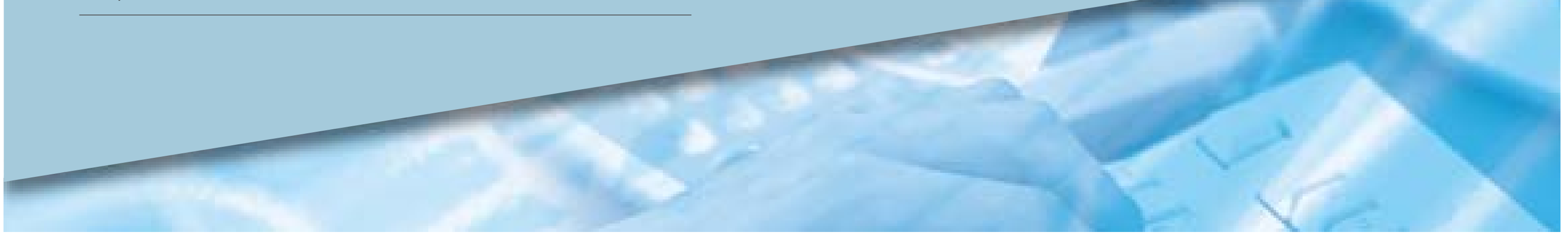
For the Year Ended March 31

# For the creation of new IT values with enhanced usability.

We strive towards the creation of new values by pursuing user-friendliness and reinforcing a high-tech mindset with a challenging spirit and agility.

## Contents





# Four-Year Summary

For the Year Ended March 31, 2006, the Four Month Period Ended March 31, 2005 and the Year Ended November 30, 2004 and 2003

| | Millions of Yen | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|
| | **March 31, 2006** | March 31, 2005 | November 30, 2004 | November 30, 2003 | **March 31, 2006** |
| **RESULTS OF OPERATIONS:** | | | | | |
| Net sales | **¥ 41,385** | ¥ 13,895 | ¥ 42,109 | ¥ 36,361 | **$ 353,718** |
| Cost of sales | **34,316** | 11,826 | 36,230 | 31,641 | **293,299** |
| Selling, general and administrative expenses | **2,459** | 740 | 2,161 | 1,967 | **21,017** |
| Operating income | **4,610** | 1,329 | 3,718 | 2,753 | **39,402** |
| Income before income taxes and minority interests | **4,682** | 1,309 | 3,683 | 2,951 | **40,017** |
| Net income | **2,800** | 776 | 2,107 | 1,673 | **23,932** |
| **FINANCIAL POSITION:** | | | | | |
| Current assets | **16,303** | 13,506 | 11,589 | 11,092 | **139,342** |
| Net property and equipment | **538** | 401 | 386 | 386 | **4,598** |
| Total assets | **18,610** | 16,119 | 14,017 | 14,116 | **159,060** |
| Current liabilities | **7,246** | 6,939 | 5,214 | 6,736 | **61,932** |
| Long-term liabilities | **366** | 636 | 696 | 988 | **3,128** |
| Shareholders' equity | **10,985** | 8,539 | 8,105 | 6,391 | **93,889** |
| **OTHER STATISTICS:** | | | | | |
| Research and development costs | **13** | 3 | 49 | 32 | **111** |
| Depreciation and amortization | **755** | 289 | 1,056 | 1,159 | **6,453** |

| | Yen | | | | U.S. Dollars |
|---|---|---|---|---|---|
| | **March 31, 2006** | March 31, 2005 | November 30, 2004 | November 30, 2003 | **March 31, 2006** |
| **PER SHARE OF COMMON STOCK:** | | | | | |
| Net income | **¥ 260.42** | ¥ 72.04 | ¥ 195.68 | ¥ 155.14 | **$ 2.23** |
| Cash dividends | **55.00** | 10.00 | 45.00 | 35.00 | **0.47** |

Note: 1. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006.
2. Net income per share of common stock and cash dividends per share of common stock are retroactively recalculated reflecting stock splits of 1 additional share for each outstanding share and 199 additional shares for each outstanding share, effective on January 20, 2003 and April 1, 2004, respectively.

# The Performance, Know-How, and Technical Capabilities That Have Been Sustaining Matsushita Electric Works for 40 Years

**Although MEW-IS itself is a young company established in 1999, we have over 40 years of experience in the development of information systems since the time of the Information System Department of Matsushita Electric Works, Ltd., its predecessor.**

**In spite of its short history as an independent company, MEW-IS boasts an extensive experience and a long history in IT technologies. Because Matsushita Electric Works is engaged in the manufacture and sale of a wide range of products, this background has nurtured our capabilities in presenting optimal proposals for the business processes of our customers.**

## Target Markets

We are targeting small to medium-sized companies as our core market in the proposing of solutions. We have been focusing on this particular market because we have become aware that, in spite of the broadening range of IT needs, there are no experts within these companies who are able to realize these needs, and more often than not, these companies do not possess the necessary technologies.

In the past several years small to medium-sized companies have been promoting the implementation of IT, while the IT movement is expanding in local municipalities. In addition, the priority IT issues that face domestic companies are the questions of how to reduce operation and management costs and how to respond to technological innovations and changes. It can be said, therefore that our target markets really are entering a period of growth.

## Our High-Value Added Solution Business

The competitive advantages in our solutions have been solidified and differentiated from other solutions in the following aspects:

- **Solution proposals for the business processes used by our customers.**
- **One-stop solutions which cover all business processes (i.e. planning, design, development, and operation management) relating to IT services.**
- **A group of solutions which are based on products and services that we have developed originally.**
- **Possession of a Gigabit network and an IDC infrastructure which forms the backbone of our solutions.**

Thin-client solutions give us an edge as a frontrunner, and we already boast a track record with a large number of introductions. Further expansion of demand is anticipated in the future.

# Proposals for Security and System Integration Solutions Support Solid Performance by the Thin-Client and Enterprise Application Integration Businesses

## Overview

During the fiscal year ended March 31, 2006, the global economy showed signs of steady recovery, particularly in the United States and China, and in Japan there were clear signs of economic expansion including a broadening of improvement in corporate profits and recoveries in personal consumption and employment.

In the IT industry, MEW-IS's primary area of activity, IT investment being conducted not in the sense of rationalization and higher efficiency through infrastructure development as usual, but as a part of corporate management strategies.

At the same time, the Act on the Protection of Personal Information, which came into effect in April of 2005, has raised awareness of security among the general population and has boosted demand for our thin-client solutions.

With the retirement of baby-boom generation system engineers, the "Year 2007 Problem" indicated by unstable operation of legacy systems has arisen, and interest in shifting from legacy systems to new systems is rising. This has resulted in greater demand for integration between new and legacy systems.

It is under these circumstances that MEW-IS is engaging in solution proposal services that maximize the collective strength of our IT business. We increased sales of service solutions to Matsushita Electric Works, Ltd. (MEW) with the construction of a system in conjunction with business reorganization with Matsushita Electric Industrial Co., Ltd. (MEI) and the construction of a supply chain management (SCM) system.

In addition, sales of service solutions to customers other than MEW were strong with increased proposals for thin clients against a backdrop of greater security needs and higher sales of the Metaforce sales management packages for the distribution industry.

As a result of the above developments, consolidated net sales for the fiscal year ended March 31, 2006 were 41,385 million yen, consolidated operating income was 4,610 million yen, and consolidated net income was 2,800 million yen.

* Last fiscal year, the accounting period was changed to the year ended March 31, and therefore, year-on-year comparisons are not provided.

## Management Strategies for the Fiscal Year Ending March 31, 2007 and Later

At just seven years old, MEW-IS is still a young company, but prior to its establishment in 1999 it was the information system division of MEW and had more than 40 years of experience as an organization of engineers. MEW, our primary customer and one of Japan's leading IT firms, regularly requests high-end solutions from us, and consequently, we have accumulated extensive information system expertise by responding to these requests. Thus, we have the ability to propose high-level solutions.

MEW-IS has long used a multi-vender approach, and we strive to propose better solutions to customers, thereby raising customer satisfaction. We adopt a neutral stance without excessive commitment to any particular manufacturer or model and propose systems with high cost performance. Our accumulated expertise has proven extremely useful in resolving problems of interconnection among the devices of different manufacturers under open environments and in overcoming the unique disadvantages of multi-vender systems.

Our technological capabilities and flexible ideas have gained the strong support of small- to medium-sized companies that do not have full-time IT personnel, and most of our unrelated customers are such firms. MEW accounted for approximately 49% of our sales in the current fiscal year, but we will work to increase the percentage of sales to unrelated small- to medium-sized companies to support further growth.

During the current fiscal year, measures to reinforce sales capabilities in the Tokyo metropolitan region included opening of the Yaesu Office and Solution Plaza as well as forming ties with other manufacturers including Dell Computer and Hewlett-Packard Japan to expand our multi-vender options.

As a result of these efforts, sales of thin-client solutions and EAI solutions to unrelated customers increased substantially.

During the fiscal year ending March 31, 2007, we will launch a new sales strategy that focuses on proposals that combine solutions and enhancing marketing capabilities. We will also work to increase profitability by increasing the added value of our products.

The solutions that we provide to customers are centered on thin-client solutions, EAI solutions, and engineering chain management (ECM) solutions. We provide a broad range of solutions rather high added-value solutions that combine core products with other solutions than individual products. One thin-client solution, for example, combines call center services, thin clients, and security products.

In addition, we reorganized our sales structures to enhance marketing capabilities. By raising sales capabilities through this reorganization, we will expand sales to unrelated companies and reinforce our ability to respond through the MEW sales route, one of our core strengths. Specifically, the Sales Headquarters was divided into the East Japan Solution Sales Department, the West Japan Solution Sales Department, and the Distribution Solution Sales Department, enabling us to develop closer ties with existing customers, make locally-oriented, high-quality IT proposals, and engage in effective collaboration with partner companies.

## The 2010 Plan Medium-Term Strategy

MEW-IS adopted the 2010 Plan as a business strategy for the medium-term future. The 2010 Plan sets goals of reaching consolidated net sales of 70 billion yen, an external sales rate of 65%, operating income of 7.5 billion yen, and an operating income margin of 10.7% by 2010.

In order to reach these quantitative goals, we will carry out two key strategies during the next fiscal year: the New Business Creation strategy and the Human Resource Recruiting and Development strategy.

Under the New Business Creation strategy, a New Business Planning Office was created under the direct authority of the president to create the structures that will generate business as new sources of income. This office will perform inter-departmental functions, linking the new business and new product creation functions of each division.

The Human Resource Recruiting and Development strategy defines human resources as human assets, and in order to solidify core businesses and expand business planning capabilities, periodic and interim hiring will be increased and investment in human assets including training and education programs will be boosted to previously unseen levels.

These measures are no more than the preliminary stages of the 2010 Plan, but they are beginning to produce significant results.

## To Our Shareholders

One of our core management policies is the stable and continuous return of profits to shareholders, keeping in mind the importance of building up the internal reserves, which will serve as the source of funds for solidifying our management foundations and expanding business in the future. Based on this policy, in addition to paying stable dividends, we will implement a more aggressive dividends policy that takes into consideration consolidated business performance from the perspective of placing even greater emphasis on shareholders.

We are also implementing management that emphasizes corporate social responsibility (CSR) including individualized compliance training for employees using e-learning as one means of fulfilling our responsibilities as a corporate citizen.

As a part of our investor relations activities, in the current fiscal year ended March 31, 2006,we began holding individual and group shareholder meetings including visits to institutional investors, and we will continue our effort for the formation of a proper share price.

I look forward to the continued support and cooperation of our shareholders.

***Takeyoshi Kawamura***
*President*

# Corporate Governance

We are positioning corporate governance as one of management's top priorities and would like to pursue transparency, fairness, and speed in management, based on the policy of improvements in management efficiency and emphasis on the shareholders. In addition, all the officers and employees of our company at the same time are tackling the thorough implementation of compliance on the basis of corporate ethics and law-abiding spirit.

Our corporate governance employs an auditing system. Three auditors, including two outside auditors, hold monthly auditor's meetings and attend board meetings to monitor and supervise the execution of directors' duties.

The board of directors meeting, which consists of nine directors including two outside directors, is held regularly every month. At the meeting, directors report on significant operating policies, decisions on substantive matters, and the status of the business and operations of the company, as well as statutory matters. Three auditors, of whom two are outside auditors, also attend.

In addition, we have distributed to all our staff members a brochure entitled *Our Code of Ethical Conduct*, which describes the code of conduct, drawn up a Compliance Program, established a Corporate Ethics Committee, and are providing enlightenment education for all employees through an e-learning program and so on.

Furthermore, we have acquired the Privacy Mark, which is given to companies that properly undertake the protection of personal information, and in March 2005 we acquired Information Security Management System (ISMS) certification, which is granted to companies where an organized information security management system is properly implemented.

MEW-IS places information management as the crux of management. In this respect, we have set up an Information Security Management Committee, which is under the direct control of the President, to play a central role in promoting and maintaining a thorough internal information management setup within the MEW-IS Group. The committee also promotes enlightenment, education, and awareness raising for employees concerning information management.

# Corporate Social Responsibility

Environmentally-conscious management is tied to the competitiveness of a company and ultimately to the transparency of management and the clarification of responsibility. Transparency of management and the clarification of responsibility are tied to the credibility of the company in society, which in turn enhances its corporate value. Based on this idea, we have set out to achieve two objectives on the theme of becoming a company with social significance. The first objective relates to undertaking environmental, social, and economic initiatives within the company with the aim of becoming a sustainable company that can help realize a sustainable society through a well-balanced business management. Among them, since the company places special focus on compliance, we are implementing training for every employee using e-learning and promoting the raising of consciousness toward compliance in a grass-roots manner.

The second objective is contribution to the society. We will contribute by proposing resource-and energy-conserving plans and system designs, and by offering product services that can significantly assist customers' response to corporate social responsibility (CSR) as an IT company.

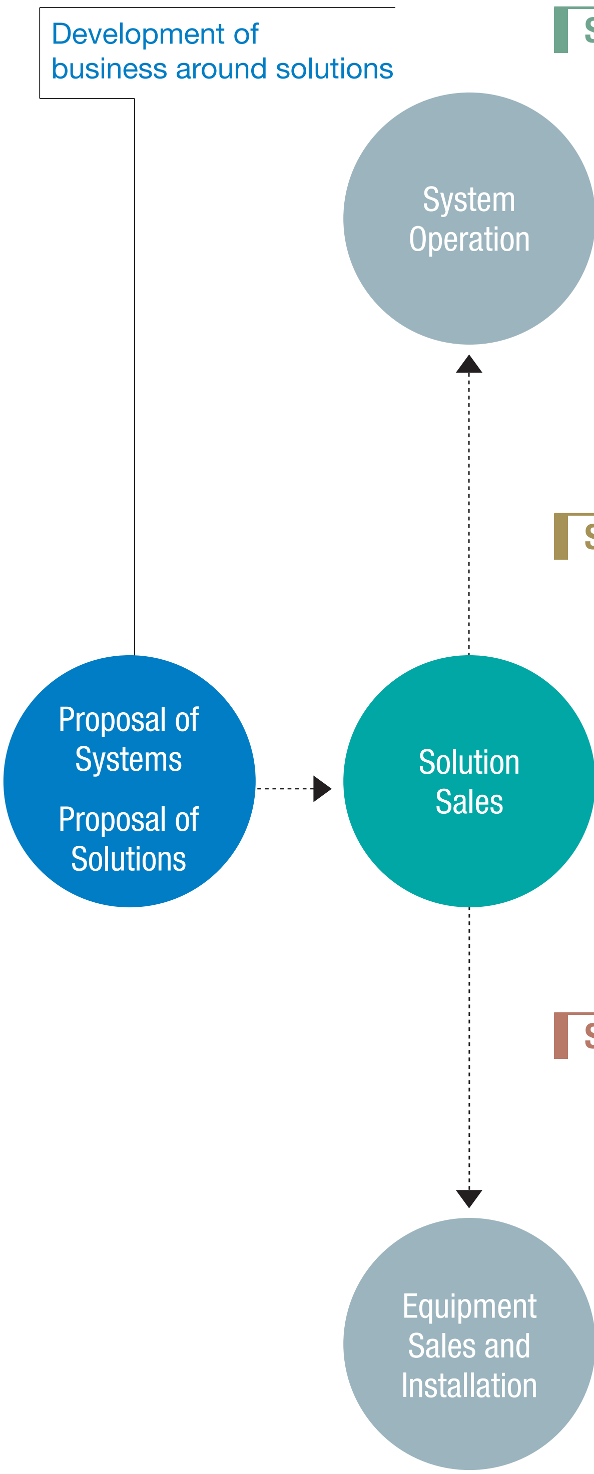
In concrete terms, we are offering sales of used PC application software, industrial waste management ASP services, sales of thin-client terminals, and vehicle traffic control services, while working internally on promoting recycling and resource-and energy-conservation.

In addition, as disaster countermeasures, we are contributing to society by enhancing our disaster recovery system and through such services as the "Mimamori Net," which provides regular information about the condition of elderly people living alone via e-mail.

## Corporate Social Responsibility (CSR)

| | |
|---|---|
| **Environmentally-friendly** | |
| •Recycling of personal computers | DeskWave for PC |
| •Industrial waste management | Industrial waste management system (electronic manifestation) |
| **Promotion of energy conservation** | |
| •Thin client | DeskWave |
| •Vehicle operation management service | Cruise NAVI |
| **Security measures** | |
| •Network security | IC card solution; ONMITSU; Managed fire wall; Security diagnosis |
| •Location | Loketan |
| •Remote facility surveillance service | Push e-mail |
| **Disaster prevention measures** | |
| •Disaster recovery | IDC service; METRONET; Backup center |

# MEW-IS At a Glance




## Service solution business — System services

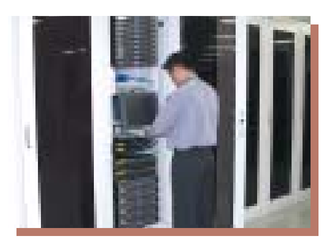
1. ASP service
2. Network service
3. Outsourcing service


## Service solution business — System solutions

1. Solution proposal
2. Consulting
3. Package software development and sales

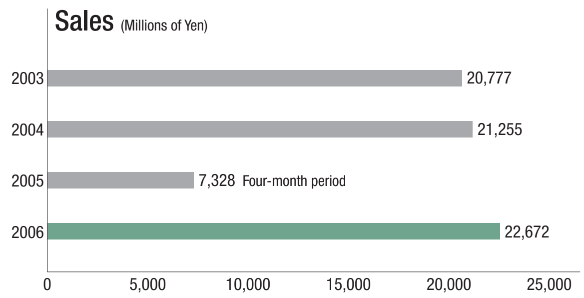

## System and communications equipment business

1. Sales of computers, servers,
   and communications equipment
2. Network and facility construction



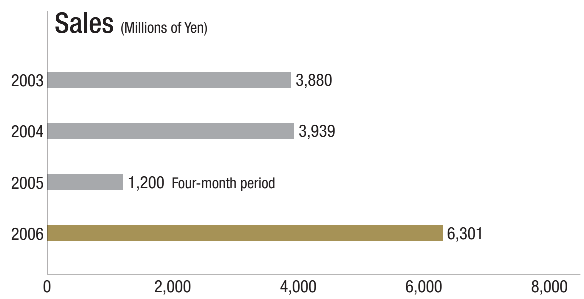

## System services division

The division is engaged primarily in the business of providing a wide array of information systems, which make full use of our technological capabilities and business solution skills we have nurtured through a variety of system developments over the years, including consigned system operation.
In specific terms, the core business of the System Services Division is provision of services such as manufacturing, sales, inventory control systems, human resources and accounting systems, and technical information systems. In addition to these enterprise information systems, it also provides EC/EDI services, network services, outsourcing services, and ASP services.



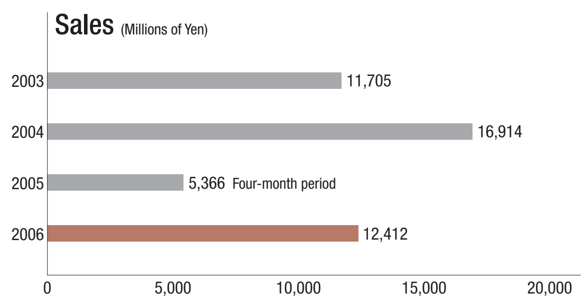

## System solutions division

The division's main businesses include the proposals of new information system solutions, consigned system developments, and the provision of originally developed software packages. It utilizes its own experience in information system services to propose solutions that are best suited to customer specifications. Specifically, it offers thin-client systems, originally developed software packages, system introduction consulting, and made-to-order system development.




## System and communications equipment business

The division is primarily engaged in the business of selecting and providing items that are best suited to customer specifications from among a wide variety of hardware and third-party software. It also undertakes construction works in which those systems are utilized. Specifically, the focus of its business is on the sales of systems equipment in personal computers and network-related communications equipment, provision of ancillary services, and telephone/LAN network construction. It is also engaged in the sales of personal computers, servers, printers, communications equipment, and purchased software as well as telephone discount services.



# Review of Operations

**We are engaged in the information services business, including the provision of system operation and communications services, system development, and the sales of system equipment. Because we are a single business entity, we do not disclose segment information by business category, but we categorize our services into two sectors: the Service Solutions Business and the System and Communications Equipment Business. The Service Solutions Business consists of the System Services Division and the System Solutions Division.**

(Note: Last fiscal year, the accounting period was changed to the year ended March 31, and therefore, year-on-year comparisons are not provided.)

## Service Solutions Business

### System Services Division

In the fiscal year ended March 31, 2006, the System Services Division registered sales of 22,672 million yen. Although there were rationalization returns to existing outsourcing companies, the sales of system operations and maintenance services were favorable as a result of increased sales for new outsourcing orders received, strengthened business through the discovery of new customers, increased sales of system integration projects, such as thin-client systems, and other factors, as well as an increased number of ASP customers.

The division is engaged primarily in the system services business, providing a wide array of information systems constructed using the technological capabilities and business solution skills that we have cultivated over many years in the development of various systems, including consigned system operation.

Specifically, the core business of the System Services Division is the operation of business application systems, such as manufacturing, sales, and inventory

control systems; human resources and accounting systems; and technical information systems. In addition, it also provides EC/EDI services, network services, outsourcing services, ASP services, and others.

### System Solutions Division

In the fiscal year ended March 31, 2006, the System Solutions Division registered sales of 6,301 million yen. This was the result of bullish sales of our company's own software packages for the distribution industry, such as MetaForce and Easy Call Center, and EAI-related order system building, as well as, in relation to Matsushita Electric Works, Ltd., sales from system building, SCM system building, and so on as a consequence of its business reorganization with Matsushita Electric Industrial Co., Ltd.

The division's main businesses include the proposals of new information system solutions to meet the needs of customers on the basis of its experience in information system services, consigned system developments, and the provision of originally developed software packages. Specifically, among other things, it proposes solutions through system equipment and so on, sells originally developed software packages, provides consulting for the introduction of systems, and undertakes individual consigned system development projects.

## System and Communications Equipment Business

In the fiscal year ended March 31, 2006, the System and Communications Equipment Business registered sales of 12,411 million yen. Although sales of system equipment, information-related construction work, and system installation work, relating to the service solutions business' system integration projects, such as thin-client systems were steady, sales of software peripheral-related equipment were sluggish.

The division is primarily engaged in selecting and providing items that are best suited to customer specifications from among a wide variety of hardware and third-party software, as well as construction works utilizing those systems.

Specifically, the focus of its business is the sale of systems equipment such as personal computers, network-related communications equipment, the provision of ancillary services, and telephone/LAN network construction. It is also engaged in the sales of personal computers, servers, printers, communications equipment, and purchased software, as well as telephone discount services.

# Management Discussion and Analysis of Operations

## Operations

In the current fiscal year, net sales declined by 1.7% from the year ended November 30, 2004 (fiscal 2004) to 41,385 million yen. This decrease was due to the fact that although there was a large increase in net sales for system solutions business (up 60.0% from the fiscal 2004), the decline in the sales of system equipment (down 26.6%) had a major impact.

Net sales to Matsushita Electric Works, Ltd. rose as a result of sales of system building and SCM system building in conjunction with its business reorganization with Matsushita Electric Industrial Co., Ltd. Against the background of an increased need for information security as a result of the Act on the Protection of Personal Information, sales for service solutions business to other customers rose favorably due to an increase of sales for thin-client systems and expanded sales of MetaForce management packages designed for distributors. In addition, in the system and communications equipment business, sales from information-related construction work and system installation support steadily improved, but sales of software peripheral-related equipment were stagnant.

Cost of sales declined by 5.3% from the fiscal 2004 to 34,316 million yen, which accounted for 82.9% of net sales, which is 3.1 points decline from the fiscal 2004. Selling, general and administrative expenses increased by 13.8% to 2,459 million yen, which accounted for 5.9% of net sales, which is a 0.8 point increase from the fiscal 2004. Furthermore, operating income grew by 24.0% from the fiscal 2004 to 4,610 million yen. This was due to the fact that the completions of orders received for system solutions business were better than initially expected and the fact that the sales share of system equipment with a low profit ratio relatively decreased. The ratio of operating income to net sales increased by 2.3 points to 11.1%.

Net other income amounted to 72 million yen, which is an increase from the net other expenses of 35 million yen registered in fiscal 2004. The principal reasons for this were the gain of 44 million yen on sales of investment in associated company and 39 million yen from the gain on donated assets such as the “Mimamori Net”.

As a result, net income for the current fiscal year grew to 2.8 billion yen, which is 32.9% increase from the fiscal 2004. The ratio of net income to net sales grew by 1.8 points to 6.8%.

Net income per share for the current fiscal year increased to 260.42 yen from 195.68 yen in the fiscal 2004. Return on equity decreased by 0.4 point from the fiscal 2004 to 28.7%.

## Business review

**Service Solutions Business**

In the current fiscal year the service solutions business reported consolidated sales of 28,974 million yen, which is an increase of 15.0% from the fiscal 2004.

**(a) System Services Division**

Although there were rationalization returns to our clients to which we provide outsourcing services, system operations and maintenance services sales performed well due to such factors as an increase in outsourcing orders received, enhancement of sales force to get new customers, increased sales of system integration project such as thin-client systems. As a result also of a firm increase in ASP customers, consolidated sales increased by 6.7% from the fiscal 2004 to 22,672 million yen. The ratio of the sales from system services to net sales increased by 4.3 points from the fiscal 2004 to 54.8%.

**(b) System Solutions Division**

Consolidated sales increased by 60.0% from the fiscal 2004 to 6,301 million yen, reflecting sales of our own software, such as the MetaForce distribution management package and the Easy Call Center, and lively EAI-related orders. In addition, with regard to orders from Matsushita Electric Works, Ltd., there were strong sales of system development in conjunction with its business reorganization with Matsushita Electric Industrial Co., Ltd., SCM system development, and so on. The ratio of sales from system solutions to net sales increased by 5.9 points from the fiscal 2004 to 15.2%.

**System and Communications Equipment Business**

The system and communications equipment business registered consolidated sales of 12,411 million yen. Although sales of system equipment for system integration projects, such as thin-client systems, and sales resulting from the multiplier effect of solution orders, such as information-related construction work and system installation support, were steady, sales for software peripheral-related equipment were sluggish. The ratio of sales from system and communications equipment business to net sales declined by 10.2 points from the fiscal 2004 to 30.0%.

## Financial position 2006

Total assets increased by 2,491 million yen from the end of the previous fiscal year (March 31, 2005) to reach 18,610 million yen, as a result mainly of increased accounts receivable and deposits and other factors.

Current assets increased by 2,797 million yen from March 31, 2005 to 16,303 million yen, while fixed assets declined by 306 million yen to 2,307 million yen.

The increase in assets was primarily due to the increase in current assets of accounts receivable and deposits (funds held in custody by Matsushita Electric Works Finance, Ltd.). The decrease in fixed assets was caused by the advanced depreciation of intangible fixed assets and the decline of deferred tax assets.

Total liabilities rose 37 million yen from the end of the previous fiscal year to 7,612 million yen, mainly due to an increase in accounts payable-other.

Current liabilities at the end of the current fiscal year increased by 307 million yen from the end of the previous fiscal year to 7,246 million yen; long-term liabilities declined by 270 million yen to 366 million yen.

The primary reasons for the increase in liabilities were the fact that, for current liabilities, although accounts payable-trade declined, accounts payable-other, consumption taxes payable, expenses payable and income taxes payable increased. Also, for long-term liabilities, deposits received which centered on liability for retirement benefits and employees' savings for house declined.

Shareholders' equity at the end of the current fiscal year increased by 2,446 million yen from the end of the previous fiscal year to 10,985 million yen as a result of a 2,446 million yen increase in retained earnings to 9,074 million yen reflecting substantial increase in net income that occurred for the current fiscal year.

## Liquidity and capital resources 2006

At the end of the current fiscal year cash and cash equivalents (hereinafter referred to as "funds") increased by 1,545 million yen from the beginning of the current fiscal year to 4,625 million yen as a result of the increase in free cash flows, which was the result of the increase in net income for the current fiscal year. It is our intent to use these funds to improve our facilities in order to facilitate further growth in the future.

**Cash flows from operating activities**

Funds generated from operating activities during the current fiscal year amounted to 2,469 million yen (an increase of 197 million yen from the fiscal 2004).

Although we had such expenses as 1,724 million yen for income taxes paid, a 1,636 million yen increase in accounts receivable, and a 694 million yen decrease in accounts payable, the increase in funds was due to the recording of income before income taxes and minority interests of 4,682 million yen, as well as the recording of increased current liabilities of 1,021 million yen and depreciation and amortization of 755 million yen.

**Cash flows from investing activities**

Funds used in investing activities during the current fiscal year amounted to 576 million yen (a decrease of 4 million yen from the fiscal 2004).

This decrease was due to expenses of 350 million yen for the purchases of software, as well as expenses of 277 million yen for the purchases of property and equipment.

**Cash flows from financing activities**

Funds used in financing activities during the current fiscal year amounted to 347 million yen (a decrease of 23 million yen from the fiscal 2004).

This figure is comprised of the payment of dividends of 347 million yen.

# Risk Management 2006

### (1) Information Security

If information systems should break down or leaks of a customer's or an individual's information should occur during the course of our group's involvement in providing system services, any claims for damages from customers or collapse of credit resulting from this could have an adverse impact on our business results. For this reason, our group regards information control as a matter of utmost importance to management. In this respect, we have set up an Information Security Management Committee, which is under the direct control of the President, to play a central role in promoting and maintaining thorough internal information management within the MEW-IS Group. The committee also promotes enlightenment, education, and awareness raising for employees concerning information management.

### (2) Transactions with the Parent Company

MEW-IS is a consolidated subsidiary of Matsushita Electric Works, Ltd. (MEW), which owns 63.86% of the voting rights, including indirect ownership, and is fully contracted for information system operations for the parent company. The ratio of the sales to MEW in the current fiscal year is 49.2%. While we are expanding sales outside the MEW Group, any significant changes in business strategy in our business relationship with MEW could exert an impact upon our business performance.

In addition, Matsushita Electric Industrial Co., Ltd. is the parent company of MEW and also the parent company of our company.

### (3) System for Software Development

MEW-IS is engaged in the development of software in collaboration with domestic partner companies. If any problems in business performance or deterioration of financial confidence should occur for any of the partner companies that has large-scale transactions with us, it could affect our business results.

With the goal of providing state-of-the-art systems to our customers, we are constantly keeping an eye on trends in the evolution and standardization of information technology. It is, however, impossible to keep pace with all of these rapid and diversely varied technological movements, and any delay in responding to a potential advanced technology could have an effect on business performance. At MEW-IS, we are leveraging partnerships with outside developers, with a focus on the Corporate Technology Development Division / R&D Center, to ensure our response to a broad range of technology trends.

# Consolidated Balance Sheets

March 31, 2006 and 2005

| ASSETS | Millions of Yen 2006 | Millions of Yen 2005 | Thousands of U.S. Dollars (Note 1) 2006 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and deposits (Note 3) | **¥ 1,560** | ¥ 1,958 | **$ 13,333** |
| Accounts receivable - Trade (Note 11) | **9,376** | 7,739 | **80,137** |
| Inventories (Note 4) | **311** | 1,024 | **2,658** |
| Deposits paid (Note 11) | **4,281** | 2,328 | **36,590** |
| Deferred tax assets (Note 8) | **310** | 272 | **2,650** |
| Other current assets | **465** | 185 | **3,974** |
| **Total current assets** | **16,303** | 13,506 | **139,342** |
| **PROPERTY AND EQUIPMENT:** | | | |
| Buildings | **227** | 173 | **1,940** |
| Tools, furniture and fixtures | **788** | 593 | **6,735** |
| Construction in progress | **4** | 6 | **34** |
| Total | **1,019** | 772 | **8,709** |
| Accumulated depreciation | **(481)** | (371) | **(4,111)** |
| **Net property and equipment** | **538** | 401 | **4,598** |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities | **315** | 318 | **2,692** |
| Investment in associated company | | 22 | |
| Long-term loans | **1** | 1 | **9** |
| Software | **746** | 962 | **6,376** |
| Deferred tax assets (Note 8) | **528** | 683 | **4,513** |
| Other assets | **199** | 248 | **1,701** |
| Allowance for doubtful receivables | **(20)** | (22) | **(171)** |
| **Total investments and other assets** | **1,769** | 2,212 | **15,120** |
| **TOTAL** | **¥ 18,610** | ¥ 16,119 | **$ 159,060** |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2006 | Millions of Yen 2005 | Thousands of U.S. Dollars (Note 1) 2006 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Accounts payable - Trade (Note 11) | **¥ 3,819** | ¥ 4,513 | **$ 32,641** |
| Accounts payable - Other (Note 11) | **1,789** | 1,108 | **15,291** |
| Income taxes payable | **769** | 688 | **6,573** |
| Consumption taxes payable | **252** | 35 | **2,154** |
| Deposits received (Note 5) | **59** | 86 | **504** |
| Other current liabilities | **558** | 509 | **4,769** |
| **Total current liabilities** | **7,246** | 6,939 | **61,932** |
| **LONG-TERM LIABILITIES:** | | | |
| Liability for retirement benefits (Note 6) | **333** | 564 | **2,846** |
| Deposits received (Note 5) | **33** | 72 | **282** |
| **Total long-term liabilities** | **366** | 636 | **3,128** |
| **MINORITY INTERESTS** | **13** | 5 | **111** |
| **COMMITMENTS (Note 10)** | | | |
| **SHAREHOLDERS' EQUITY (Notes 7 and 12):** | | | |
| Common stock authorized - 40,000,000 shares; issued 10,656,000 shares | **1,040** | 1,040 | **8,889** |
| Capital surplus | **871** | 871 | **7,444** |
| Retained earnings | **9,074** | 6,628 | **77,556** |
| **Total shareholders' equity** | **10,985** | 8,539 | **93,889** |
| **TOTAL** | **¥ 18,610** | ¥ 16,119 | **$ 159,060** |

# Consolidated Statements of Income

The Year Ended March 31, 2006, the Four Month Period Ended March 31, 2005 and the Year Ended November 30, 2004

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | March 31, | | November 30, | March 31, |
| | **2006** | 2005 | 2004 | **2006** |
| **NET SALES (Note 11)** | **¥ 41,385** | ¥ 13,895 | ¥ 42,109 | **$ 353,718** |
| **COST OF SALES (Notes 9 and 11)** | **34,316** | 11,826 | 36,230 | **293,299** |
| **Gross profit** | **7,069** | 2,069 | 5,879 | **60,419** |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 11)** | **2,459** | 740 | 2,161 | **21,017** |
| **Operating income** | **4,610** | 1,329 | 3,718 | **39,402** |
| **OTHER INCOME (EXPENSES):** | | | | |
| Interest income | **4** | 1 | 3 | **34** |
| Interest expense | **(6)** | (3) | (19) | **(51)** |
| Gain on sales of investment in associated company | **44** | | | **376** |
| Gain on sales of software | | | 19 | |
| Gain on donated assets (Note 11) | **39** | | | **333** |
| Equity in losses of associated company | **(7)** | (34) | (26) | **(60)** |
| Write-down of investment securities | **(3)** | | (14) | **(26)** |
| Other - net | **1** | 16 | 2 | **9** |
| **Other income (expenses) - net** | **72** | (20) | (35) | **615** |
| **INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS** | **4,682** | 1,309 | 3,683 | **40,017** |
| **INCOME TAXES (Note 8):** | | | | |
| Current | **1,756** | 674 | 1,474 | **15,009** |
| Deferred | **117** | (143) | 102 | **1,000** |
| **Total income taxes** | **1,873** | 531 | 1,576 | **16,009** |
| **MINORITY INTERESTS** | **9** | 2 | | **76** |
| **NET INCOME** | **¥ 2,800** | ¥ 776 | ¥ 2,107 | **$ 23,932** |

| | Yen | | | U.S. Dollars |
|---|---|---|---|---|
| **PER SHARE OF COMMON STOCK (Notes 2.l and 12):** | | | | |
| Net income | **¥ 260.42** | ¥ 72.04 | ¥ 195.68 | **$ 2.23** |
| Cash dividends | **55.00** | 10.00 | 45.00 | **0.47** |

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

The Year Ended March 31, 2006, the Four Month Period Ended March 31, 2005 and the Year Ended November 30, 2004

| | Issued Number of Shares of Common Stock | Millions of Yen | | |
|---|---|---|---|---|
| | | Common Stock | Capital Surplus | Retained Earnings |
| **BALANCE, DECEMBER 1, 2003** | **53,280** | **¥ 1,040** | **¥ 871** | **¥ 4,480** |
| Net income | | | | 2,107 |
| Cash dividends, ¥35 per share | | | | (373) |
| Bonuses to directors | | | | (20) |
| Shares issued upon stock split (Note 7) | 10,602,720 | | | |
| **BALANCE, NOVEMBER 30, 2004** | **10,656,000** | **1,040** | **871** | **6,194** |
| Net income | | | | 776 |
| Cash dividends, ¥30 per share | | | | (320) |
| Bonuses to directors | | | | (22) |
| **BALANCE, MARCH 31, 2005** | **10,656,000** | **1,040** | **871** | **6,628** |
| Net income | | | | 2,800 |
| Cash dividends, ¥32.5 per share | | | | (346) |
| Bonuses to directors | | | | (8) |
| **BALANCE, MARCH 31, 2006** | **10,656,000** | **¥ 1,040** | **¥ 871** | **¥ 9,074** |

| | Thousands of U.S. Dollars (Note 1) | | |
|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings |
| **BALANCE, MARCH 31, 2005** | **$ 8,889** | **$ 7,444** | **$ 56,649** |
| Net income | | | 23,932 |
| Cash dividends, $0.28 per share | | | (2,957) |
| Bonuses to directors | | | (68) |
| **BALANCE, MARCH 31, 2006** | **$ 8,889** | **$ 7,444** | **$ 77,556** |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

The Year Ended March 31, 2006, the Four Month Period Ended March 31, 2005 and the Year Ended November 30, 2004

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | March 31, | | November 30, | March 31, |
| | **2006** | 2005 | 2004 | **2006** |
| **OPERATING ACTIVITIES:** | | | | |
| Income before income taxes and minority interests | **¥ 4,682** | ¥ 1,309 | ¥ 3,683 | **$ 40,017** |
| Adjustments for: | | | | |
| Depreciation and amortization | **755** | 289 | 1,056 | **6,453** |
| Increase (decrease) in allowance for doubtful receivables | **(1)** | 11 | 11 | **(9)** |
| Decrease in liability for retirement benefits | **(231)** | (68) | (251) | **(1,974)** |
| Gain on sales of investment in associated company | **(44)** | | | **(376)** |
| Gain on sales of software | | | (19) | |
| Interest income | **(4)** | (1) | (3) | **(34)** |
| Interest expense | **6** | 3 | 19 | **51** |
| Write-down of investment securities | **3** | | 14 | **26** |
| Equity in losses of associated company | **7** | 34 | 26 | **60** |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in accounts receivable | **(1,636)** | (2,692) | 570 | **(13,983)** |
| Decrease (increase) in inventories | **714** | (554) | 314 | **6,103** |
| Decrease (increase) in other current assets | **(281)** | 67 | (74) | **(2,402)** |
| Increase (decrease) in accounts payable | **(694)** | 1,915 | (803) | **(5,932)** |
| Increase (decrease) in other current liabilities | **1,021** | (158) | (653) | **8,726** |
| Increase (decrease) in other long-term liabilities | **(39)** | 8 | (41) | **(333)** |
| Other - net | **(64)** | (22) | (44) | **(547)** |
| **Total adjustments** | **(488)** | (1,168) | 122 | **(4,171)** |
| Interest received | **4** | 1 | 3 | **34** |
| Interest paid | **(6)** | (3) | (19) | **(51)** |
| Income taxes paid | **(1,724)** | (782) | (1,517) | **(14,735)** |
| **Net cash provided by (used in) operating activities** | **2,468** | (643) | 2,272 | **21,094** |
| **INVESTING ACTIVITIES:** | | | | |
| Increase in deposits paid | **(1,200)** | | (1,200) | **(10,256)** |
| Decrease in deposits paid | **1,200** | | 1,200 | **10,256** |
| Increase in time deposits | **(10)** | | | **(85)** |
| Purchases of property and equipment | **(277)** | (39) | (95) | **(2,368)** |
| Purchases of software | **(350)** | (101) | (488) | **(2,991)** |
| Proceeds from sales of software | | | 19 | |
| Purchases of investment securities | | (300) | (14) | |
| Proceeds from sales of investment in associated company | **59** | | | **504** |
| Other - net | **2** | | (2) | **17** |
| **Net cash used in investing activities** | **(576)** | (440) | (580) | **(4,923)** |
| **FINANCING ACTIVITIES - Dividends paid** | **(347)** | (317) | (371) | **(2,966)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,545** | (1,400) | 1,321 | **13,205** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | **3,080** | 4,480 | 3,159 | **26,325** |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 3)** | **¥ 4,625** | ¥ 3,080 | ¥ 4,480 | **$ 39,530** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Year Ended March 31, 2006, the Four Month Period Ended March 31, 2005 and the Year Ended November 30, 2004

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Matsushita Electric Works Information Systems Co., Ltd (the "Company") was incorporated on February 22, 1999 as a subsidiary of Matsushita Electric Works, Ltd. (the "Parent"). The Company is 64% owned by the Parent at March 31, 2006 and 2005, respectively. The principle business of the Company is to provide integration service for information systems; maintenance of computer systems; design, development, sales, lease, rental of computer software; information network service and sales of related equipment.

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.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 have been made at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Company changed its fiscal year end from November 30 to March 31 in accordance with the resolution at the general shareholders' meeting held on February 16, 2005. The change conforms the Company's fiscal year to the fiscal year end of the Parent and Matsushita Electric Industrial Co., Ltd. (MEI) so that the Company can comply with the Parent's and MEI's consolidation requirements. Accordingly, fiscal 2005 included only four months of operations whereas fiscal 2006 and 2004 included twelve months.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation -*** The accompanying consolidated financial statements include the accounts of the Company and its subsidiary (together, the "Group").

Under the control or influence concept, the Company consolidates entities that it, directly or indirectly, is able to exercise control over operations. If the Group has the ability to exercise significant influence over an investee, the investment is accounted for using 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.

During the year ended March 31, 2006, MintWave Co., Ltd. has been excluded from the equity method as a result of the sale of its shares.

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 deposits paid, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories -*** Merchandise and supplies are stated at the lower of cost, determined by the moving-average method, or market. Work in process inventories are stated at cost determined by the specific identification method.

d. ***Investment Securities -*** Investment securities are non-marketable available-for-sale securities and are stated at cost determined by the moving-average 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 of property and equipment of the Company is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings. The range of useful lives is from 8 to 15 years for buildings and from 3 to 10 years for tools, furniture and fixtures.

f. ***Long-lived Assets -*** In August 2002, the Business Accounting Council (BAC) 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 adoption of the new accounting standard for impairment of fixed assets did not have an impact on the financial position or results of operations of the Group.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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.

g. ***Software -*** Software to be sold is amortized by the straight-line method over the estimated economic life of the software, 3 years. Software for internal use is amortized by the straight-line method over its useful life, 5 years.

h. ***Retirement Benefits -*** The Group has a non-contributory funded pension plan together with the Parent and certain domestic consolidated subsidiaries of the Parent covering substantially all of their employees. The liability for retirement benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

i. ***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.

j. ***Income Taxes -*** Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. ***Appropriations of Retained Earnings -*** Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon stockholders' approval.

l. ***Per Share Information -*** Net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the year.

Diluted net income is not presented as no securities with a dilutive effect have been issued.

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.

Net income per share and cash dividends per share were retroactively recalculated as if the stock split (see Note 7) occurred on December 1, 2003. The weighted-average number of common shares used in the computation was 10,656,000 shares for 2006, 2005 and 2004.

m. ***New Accounting Pronouncements***

***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. RECONCILIATION TO CASH AND CASH EQUIVALENTS

The reconciliation of cash and deposits in the consolidated balance sheets to cash and cash equivalents in the consolidated statements of cash flows at March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Cash and deposits | **¥ 1,560** | ¥ 1,958 | **$ 13,333** |
| Deposits paid with original maturities of within 3 months | **3,075** | 1,122 | **26,282** |
| Time deposits over 3 months | **(10)** | | **(85)** |
| Cash and cash equivalents | **¥ 4,625** | ¥ 3,080 | **$ 39,530** |

## 4. INVENTORIES

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

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Merchandise | **¥ 183** | ¥ 377 | **$ 1,564** |
| Work in process | **125** | 644 | **1,068** |
| Supplies | **3** | 3 | **26** |
| Total | **¥ 311** | ¥1,024 | **$ 2,658** |

## 5. DEPOSITS RECEIVED

Deposits received at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Savings for house | **¥ 56** | ¥ 120 | **$ 479** |
| Other | **36** | 38 | **307** |
| Total | **92** | 158 | **786** |
| Less current portion | **(59)** | (86) | **(504)** |
| Long-term debt, less current portion | **¥ 33** | ¥ 72 | **$ 282** |

Interest rates applicable to the savings for house were 6.0% at March 31, 2006 and 2005.

Annual maturities of deposits received at March 31, 2006, were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year Ending March 31 | | |
| 2007 | ¥ 59 | $ 504 |
| 2008 | 1 | 9 |
| 2009 | 1 | 9 |
| 2010 | 1 | 9 |
| 2011 and thereafter | 30 | 255 |
| Total | ¥ 92 | $ 786 |

## 6. RETIREMENT BENEFITS

The Group has severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of annuity payments from the non-contributory funded defined benefit pension plan. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

Effective June 16, 2004, the Group amended its severance payment plans by introducing a "points-based" system, under which severance benefits are calculated based on accumulated points allocated to employees each year according to their age and job evaluation and interest points over the accumulated points.

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

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Projected benefit obligation | **¥ 2,906** | ¥ 2,676 | **$ 24,838** |
| Fair value of plan assets | **(2,220)** | (1,636) | **(18,975)** |
| Unfunded benefit obligations | **686** | 1,040 | **5,863** |
| Unrecognized actuarial loss | **(574)** | (713) | **(4,906)** |
| Unrecognized prior service cost | **221** | 237 | **1,889** |
| Net liability | **¥ 333** | ¥ 564 | **$ 2,846** |

The components of net periodic benefit costs for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004 are as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **March 31,** | | November 30, | **March 31,** |
| | **2006** | 2005 | 2004 | **2006** |
| Service cost | **¥ 164** | ¥ 54 | ¥ 182 | **$ 1,402** |
| Interest cost | **67** | 22 | 70 | **573** |
| Expected return on plan assets | **(49)** | (15) | (48) | **(419)** |
| Amortization of prior service cost | **(18)** | (6) | 22 | **(154)** |
| Recognized actuarial loss | **53** | 17 | 7 | **453** |
| Net periodic benefit costs | **¥ 217** | ¥ 72 | ¥ 233 | **$ 1,855** |

Assumptions used for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004 are set forth as follows:

| | **2006** | 2005 | 2004 |
|---|---|---|---|
| Discount rate | **2.5%** | 2.5% | 2.5% |
| Expected rate of return on plan assets | **3.0%** | 3.0% | 3.0% |
| Amortization period of prior service cost | **7 years** | 7 years | 7 years |
| Amortization period of actuarial gain/loss | **15 years** | 15 years | 15 years |

## 7. 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.

Effective April 1, 2004, the Company declared a stock split issuing 199 additional shares for each outstanding share resulting in 10,602,720 shares issued to shareholders of record on April 1, 2004.

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 ¥9,080 million ($77,607 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 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 Accounting Standards Board of Japan (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.

## 8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.4% for the year ended March 31, 2006 and the four month period ended March 31, 2005, and 41.9% for the year ended November 30, 2004, respectively.

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

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Deferred tax assets: | | | |
| Accrued enterprise taxes | **¥ 59** | ¥ 53 | **$ 504** |
| Depreciation | **394** | 454 | **3,368** |
| Retirement benefits | **115** | 178 | **983** |
| Accrued bonus to employees | **146** | 155 | **1,248** |
| Others | **124** | 115 | **1,060** |
| Net deferred tax assets | **¥ 838** | ¥ 955 | **$ 7,163** |

For the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004, because the differences between the normal effective statutory tax rates and the actual effective tax rates are not material, the tax reconciliations are not disclosed.

## 9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥13 million ($111 thousand), ¥3 million and ¥49 million for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004, respectively.

## 10. LEASES

The Group leases certain computer equipment and other assets.

Total lease payments under finance leases for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004 were ¥2,509 million ($21,444 thousand), ¥1,013 million and ¥2,741 million, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004 was as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | |
| | **Tools, Furniture and Fixtures** | **Software** | **Total** | Tools, Furniture and Fixtures | Software | Total |
| Acquisition cost | **¥ 7,748** | **¥ 1,212** | **¥ 8,960** | ¥ 9,106 | ¥ 850 | ¥ 9,956 |
| Accumulated depreciation | **(4,205)** | **(450)** | **(4,655)** | (4,467) | (435) | (4,902) |
| Net leased property | **¥ 3,543** | **¥ 762** | **¥ 4,305** | ¥ 4,639 | ¥ 415 | ¥ 5,054 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | **2006** | | |
| | **Tools, Furniture and Fixtures** | **Software** | **Total** |
| Acquisition cost | **$ 66,222** | **$ 10,359** | **$ 76,581** |
| Accumulated depreciation | **(35,940)** | **(3,846)** | **(39,786)** |
| Net leased property | **$ 30,282** | **$ 6,513** | **$ 36,795** |

Obligations under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Due within one year | **¥ 2,108** | ¥ 2,366 | **$ 18,017** |
| Due after one year | **2,510** | 2,944 | **21,453** |
| Total | **¥ 4,618** | ¥ 5,310 | **$ 39,470** |

Depreciation expense and interest expense under finance leases:

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | March 31 | | November 30, | March 31, |
| | **2006** | 2005 | 2004 | **2006** |
| Depreciation expense | **¥ 2,397** | ¥ 1,000 | ¥ 2,646 | **$ 20,487** |
| Interest expense | **80** | 37 | 111 | **684** |
| Total | **¥ 2,477** | ¥ 1,037 | ¥ 2,757 | **$ 21,171** |

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

## 11. RELATED PARTY TRANSACTIONS

Balances at March 31, 2006 and 2005 and transactions for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004 with the Parent, its consolidated subsidiaries and its associated companies and the entity over which the Company has the ability to exercise significant influence were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | March 31, | | November 30, | March 31, |
| | **2006** | 2005 | 2004 | **2006** |
| Sales | **¥ 24,468** | ¥ 7,825 | ¥ 22,242 | **$ 209,128** |
| Purchases | **272** | 995 | 248 | **2,325** |
| Lease and rental expense | **838** | 458 | 855 | **7,162** |
| Gain on donated assets | **39** | | | **333** |

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Accounts receivable | **¥ 4,831** | ¥ 3,451 | **$ 41,291** |
| Accounts payable | **278** | 907 | **2,376** |
| Deposit paid | **4,267** | 2,321 | **36,470** |

## 12. SUBSEQUENT EVENT

***Appropriation***

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders meeting held on June 14, 2006:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥32.50 ($0.28) per share | ¥ 346 | $ 2,957 |
| Bonuses to directors | 25 | 214 |

**Deloitte.**

**Deloitte Touche Tohmatsu**
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Matsushita Electric Works Information Systems Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Matsushita Electric Works Information Systems Co., Ltd. and subsidiary as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004, 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 Matsushita Electric Works Information Systems Co., Ltd. and subsidiary as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the year ended March 31, 2006, the four month period ended March 31, 2005 and the year ended November 30, 2004 in conformity with accounting principles generally accepted in Japan.

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 14, 2006

Member of
**Deloitte Touche Tohmatsu**

# Corporate Data

Matsushita Electric Works Information Systems and Consolidated Subsidiaries
As of March 31, 2006

## Matsushita Electric Works Information Systems Co., Ltd.

**Head office:** 16th Fl., Applause Tower
19-19, Chayamachi, Kita-ku,
Osaka 530-0013, JAPAN
Telephone: +81-6-6906-2801
Facsimile: +81-6-6377-0833
URL: http://www.naisis.co.jp/english/

**Establishment:** February 22, 1999

**Paid-in capital:** 1,040 million yen

**Number of employees:** 482

**Stock listing:** Tokyo Stock Exchange, First Section

**Shares of common stock issued and outstanding:** 10,656,000 shares*
*Effective April 1, 2004, a 200-for-one share split was implemented.

**Number of shareholders:** 5,754

## Major Shareholders

| Shareholder | Number of shares | Percentage of voting rights (%) |
|---|---|---|
| Matsushita Electric Works, Ltd. | 6,787,200 | 63.70 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 243,600 | 2.28 |
| MEW-IS Employee Stock Ownership Association | 222,700 | 2.09 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 219,900 | 2.06 |
| Mitsubishi UFJ Trust and Banking Corporation (Trust Account) | 82,000 | 0.76 |
| Morgan Stanley & Co. Inc. | 56,800 | 0.53 |
| Japan Securities Finance Co., Ltd. | 53,700 | 0.50 |
| The Dai-ichi Mutual Life Insurance Company (Pension Special Account) | 48,600 | 0.45 |
| Goldman Sachs International | 47,200 | 0.44 |
| Trust & Custody Services Bank, Ltd. (Securities Investment Fund Account) | 46,500 | 0.43 |

## Board of Directors

**President:**
Takeyoshi Kawamura

**Senior Managing Directors, Member of the Board:**
Yasuhiko Nose
Mitsuo Mizuno

**Managing Director, Member of the Board:**
Suehiro Kanaya

**Directors, Member of the Board:**
Toshihiro Ono *1
Shinichiro Satani *1

**Standing Statutory Auditor:**
Tatsuji Shinkai *2

**Statutory Auditors:**
Kuniaki Watanabe *2
Makoto Ishii

**Managing Executive Officers:**
Takashi Yamamura
Tsutomu Toda
Kazuhiro Tanetani

**Executive Officers:**
Mikio Okuda
Shinji Ariga

*1 outside director
*2 external auditor

Matsushita Electric Works Information Systems Co., Ltd.
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