

Overview of Selected Financial Data
Fiscal Year Ended March 31, 2006

Hitachi Software Engineering Co., Ltd.

HitachiSoft

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1. Results for Fiscal Year Ended March 31, 2006 (Consolidated)

(Millions of yen - except per share data)

Segment \ Period	Previous fiscal year ended Mar. 31, 2005	Current fiscal year ended Mar. 31, 2006	Change on previous fiscal year (%)	Next fiscal year ending Mar. 31, 2007 (forecast)	Change on previous fiscal year (%)
Net sales	180,686	154,580	(14.4)	158,000	2.2
Operating profit	(9,194)	6,451	—	6,700	3.9
% of sales	(5.1)	4.2	—	4.2	—
Non-operating profit/loss	(51)	(1,158)	—	(800)	—
Ordinary profit	(9,246)	5,292	—	5,900	11.5
% of sales	(5.1)	3.4	—	3.7	—
Extraordinary gain/loss	(9,714)	3.0	—	—	—
Income before income taxes and minority interests	(18,961)	5,296	—	5,900	11.4
% of sales	(10.5)	3.4	—	3.7	—
Net income	(11,225)	2,350	—	3,000	27.6
% of sales	(6.2)	1.5	—	1.9	—
Net income per share (Yen)	(175.36)	36.23	(211.59)	46.77	10.54

2. Discussion of Consolidated Results for Fiscal Year Ended March 31, 2006

During the current fiscal year, although the company is still working toward a full recovery in business results, it succeeded in expanding mission-critical business systems for the financial, manufacturing and telecommunications industries as well as in increasing orders and sales in high profit sectors, including embedded software and package solutions, getting firmly on track for the reinvigoration of HitachiSoft.

(1) Net sales and orders

Orders and sales declined overall because the company reduced sales of low-profit information processing equipment. However, areas that performed well included system development sales with growth in system integration for banks and business systems for telecommunications carriers in addition to sales of package solutions, which topped ¥10 billion. Systems development accounted for 60.8% of sales in the year ended March 2005, rising to 74.9% of sales in the year ended March 2006.

Orders: ¥151,500 million, down 18.4%, or ¥34,200 million, year-on-year

 Systems Development: ¥114,700 million, Up 0.9%, or ¥1,000 million, year-on-year

 Information Processing Equipment: ¥36,700 million, down 48.9%, or down ¥35,200 million, year-on-year

Net sales: ¥154,500 million, down 14.4%, or ¥26,100 million, year-on-year

 Systems Development: ¥115,800 million, up 5.5%, or ¥6,000 million, year-on-year

 Information Processing Equipment: ¥38,700 million, down 45.3%, or ¥32,100 million, year-on-year

A. Systems Development

The group promoted identification and focus on its areas of strength.

- In software development, embedded software, FeliCa¹, an ASP service to provide satellite images and Finemax,² the Internet banking service for regional banks, saw steady results, in addition to business systems for banking and telecommunications.
- In the package solution area, security, business management, and electronic documents continued to perform well.

Package solution sales

(Millions of yen)

Fiscal year ended Mar. 31, 2004	Fiscal year ended Mar. 31, 2005	Current fiscal year ended Mar. 31, 2006	Next fiscal year ending Mar. 31, 2007 (forecast)
7,300	8,700	10,000 (+14%*)	10,500

*Year-on-year change

B. Information Processing Equipment

- Among the company's own products, amusement and life science-related equipment was weak. However, StarBoard, the interactive electronic board, performed well, being utilized for school lessons in addition to corporate meetings and presentations.

(2) Ordinary profit and net income

With regard to profits, the company has promoted software rationalization activities as well as working on cost reduction strategies through application of tools, raising productivity by improving system engineering efficiency, and strengthening collaboration with its order partners in Japan, China and Vietnam. In conjunction with this, the company has sought improvements through strict project management, thus achieving the projections for ordinary profit and net income that we announced on October 27, 2005.

(3) Outlook for the fiscal year ending March 31, 2007

In the information service industry, the company believes that businesses to assist in the development and strengthening of corporate internal control will create new demand, augmenting the need for full-scale redevelopment of large-scale systems in the financial, public works and telecom sectors and rising demand in the security, electronic list and IC card sectors. The group is seeking expansion by positioning software development, system engineering and services, and package products including package solutions as its three core businesses.

- In the field of software development, the company will seek to identify and focus on specific industries and areas of specialization to expand its business. The company will further strengthen risk management in large-scale system development in the finance and public works sectors, which are its areas of strength.

Finance	Major banks (accounting systems, system integration), securities (next generation systems), government-related finance (privatization, business support), insurance, non-banks
Public works	Government ministries and agencies (legal amendments, pension system, mutual aid, etc.), health care, education, geographical information systems (GIS)
Industry	Production management for manufacturing, infrastructure system integration (large-scale storage), automobile industry, FeliCa
Telecommunication	Customer information management, billing, telecommunications backbone, system management and surveillance control
Embedded software	Cellular phones, car navigation, intelligent home appliances, Entier (embedded database), CMMI (Capability Maturity Model Integration) development support consultation

¹ FeliCa: A contactless IC card technology developed by Sony Corporation. FeliCa is a registered trademark of Sony Corporation.

² Finemax: An online banking service for regional bank customers developed by Hitachi, Ltd.

- The company has been collaborating with Business Brain Showa-Ota Inc. to produce an internal control solution, following up on its information leakage prevention solution and electronic document solution.
- As part of its policy to strengthen management structure, the company has been fulfilling its corporate social responsibility (CSR), which includes strengthening sales capabilities, implementing strict cost reductions, boosting project management capabilities, improving quality and reliability, developing human resources, strengthening compliance, and delivering environmentally friendly products.

Outlook of results for fiscal year ending March 31, 2007 (consolidated)

Net sales	¥158,000 million (up 2.2% year-on-year)
Systems development	¥118,500 million (up 2.3% year-on-year)
Information processing equipment	¥39,500 million (up 1.9% year-on-year)
Operating profit	¥6,700 million (up 3.8% year-on-year)
Ordinary profit	¥5,900 million (up 11.5% year-on-year)
Net income	¥3,000 million (up 27.6% year-on-year)
Net income per share	¥46.77
Dividend	¥24.00 per share (¥12.00 interim dividend + ¥12.00 year-end dividend)

3. Consolidated Supplementary Data

(1) Orders by division

(Millions of yen)

Segment \ Period	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)
		%		%	
Systems Development	113,712	61.2	114,755	75.7	0.9
Information Processing Equipment	71,980	38.8	36,746	24.3	(48.9)
Total	185,692	100.0	151,502	100.0	(18.4)

(2) Net sales by division

(Millions of yen)

Segment \ Period	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)	Fiscal year ending Mar. 31, 2007 (forecast)		Change on previous fiscal year (%)
		%		%			%	
Systems Development	109,783	60.8	115,811	74.9	5.5	118,500	75.0	2.3
Information Processing Equipment	70,903	39.2	38,768	25.1	(45.3)	39,500	25.0	1.9
Total	180,686	100.0	154,580	100.0	(14.4)	158,000	100.0	2.2

(3) New orders by division

(Millions of yen)

Segment \ Period	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)
		%		%	
Systems Development	14,195	56.2	13,139	59.3	(7.4)
Information Processing Equipment	11,056	43.8	9,034	40.7	(18.3)
Total	25,251	100.0	22,174	100.0	(12.2)

(4) Sales costs: labor, outsourcing and materials

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Labor costs	43,180 (-6%)	42,633 (-1%)	44,000 (+3%)
Outsourcing costs	40,780 (+11%)	47,378 (+16%)	42,000 (-11%)
Materials costs	58,322 (-48%)	29,007 (-50%)	30,000 (+3%)

Note: Figures in parentheses indicate change on previous fiscal year.

(5) Capital investment program

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Capital expenditure	482	394	500

Consolidated

(6) Depreciation costs

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Depreciation costs	6,841	7,341	6,900
Tangible fixed assets	2,283	1,965	1,840

(7) Research and development expenditure

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
R&D expenditure	2,081	2,520	2,800

(8) Employees

(Persons)

As of Mar. 31, 2005	As of Mar. 31, 2006
6,427	6,244

4. Results for Fiscal Year Ended March 31, 2006 (Non-consolidated)

(Millions of yen - except per share data)

Segment	Period	Previous fiscal year ended Mar. 31, 2005		Current fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)	Next fiscal year ending Mar. 31, 2007 (forecast)	Change on previous fiscal year (%)
Net sales		176,755		149,207		(15.6)	153,000	2.5
Operating profit		(9,549)		5,476		—	6,100	11.4
	% of sales	(5.4)		3.7		—	4.0	—
Non-operating profit/loss		949		(54)		—	(600)	—
Ordinary profit		(8,599)		5,422		—	5,500	1.4
	% of sales	(4.9)		3.6		—	3.6	—
Extraordinary gain/loss		(10,116)		(99)		—	—	—
Income before income taxes and minority interests		(18,716)		5,322		—	5,500	3.3
	% of sales	(10.6)		3.6		—	3.6	—
Net income		(10,800)		3,022		—	3,150	4.2
	% of sales	(6.1)		2.0		—	2.1	—
Net income per share (Yen)		(168.37)		47.13		215.50	49.11	1.98
Dividend (Yen)								
Interim dividend per share		15.00		10.00		—	12.00	—
Year-end dividend per share		10.00		10.00		—	12.00	—
Annual dividend per share		25.00		20.00		—	24.00	—
Payout ratio (%)		—		42.4		—	48.9	—

5. Non-consolidated Supplementary Data

(1) Orders by division

(Millions of yen)

Segment	Period	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)
			%		%	
Systems Development		111,630	61.5	111,836	76.4	0.2
Information Processing Equipment		69,763	38.5	34,586	23.6	(50.4)
Total		181,394	100.0	146,422	100.0	(19.3)

(2) Net sales by division

(Millions of yen)

Segment	Period	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)	Fiscal year ending Mar. 31, 2007 (forecast)		Change on previous fiscal year (%)
			%		%			%	
Systems Development		107,812	61.0	112,831	75.6	4.7	116,000	75.8	2.8
Information Processing Equipment		68,943	39.0	36,376	24.4	(47.2)	37,000	24.2	(1.7)
Total		176,755	100.0	149,207	100.0	(15.6)	153,000	100.0	(2.5)

(3) New orders by division

(Millions of yen)

Segment	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change on previous fiscal year (%)
	Value	%	Value	%	
Systems Development	14,016	57.2	13,021	60.0	(7.1)
Information Processing Equipment	10,482	42.8	8,691	40.0	(17.1)
Total	24,498	100.0	21,713	100.0	(11.4)

(4) Sales costs: labor, outsourcing and materials

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Labor costs	36,671 (-6%)	36,270 (-1%)	37,700 (+4%)
Outsourcing costs	46,356 (+7%)	51,813 (+12%)	47,000 (-9%)
Materials costs	57,877 (-48%)	28,373 (-51%)	29,000 (+2%)

Note: Figures in parentheses indicate change on previous fiscal year.

(5) Sales by end-user sector (Systems Development)

(Billions of yen)

Segment	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2006		Change in share (pts.)	Fiscal year ending Mar. 31, 2007 (forecast)		Change in share (pts.)
	Value	%	Value	%		Value	%	
Electrical equipment (Hitachi, Ltd.)	22.0	20.4	19.8	17.5	(2.9)	18.0	15.5	(2.0)
Finance	20.3	18.8	24.6	21.8	3.0	26.4	22.8	1.0
Banking	10.9	10.1	14.4	12.7	2.6	15.3	13.2	0.5
Insurance	4.5	4.2	4.2	3.8	(0.4)	4.6	4.0	0.2
Securities and brokerage firms	4.9	4.5	6.0	5.3	0.8	6.5	5.6	0.3
Public works	20.1	18.6	19.4	17.2	(1.4)	19.5	16.8	(0.4)
Government and municipal offices	17.5	16.2	17.1	15.2	(1.0)	17.5	15.1	(0.1)
Electricity and gas	1.6	1.5	1.5	1.3	(0.2)	1.5	1.3	-
Transportation	1.0	0.9	0.8	0.7	(0.2)	0.5	0.4	(0.3)
Telecommunication	7.8	7.2	8.2	7.3	0.1	9.3	8.0	0.7
Services	17.2	16.0	17.2	15.2	(0.8)	18.0	15.5	0.3
Manufacturing and others	20.4	19.0	23.6	21.0	2.0	24.8	21.4	0.4
Total	107.8	100.0	112.8	100.0	-	116.0	100.0	-

(6) Sales share by marketing channel

A. Overall

(%)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Sales to Hitachi, Ltd.	48.2	41.8	40.5
Sales to Hitachi Group companies	12.7	13.7	12.1
Sales to outside companies via Hitachi	35.5	28.1	28.4
Sales direct to companies outside Hitachi	51.8	58.2	59.5

B. Systems Development

(%)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Sales to Hitachi, Ltd.	58.4	54.6	52.2
Sales to Hitachi Group companies	20.4	17.5	15.5
Sales to outside companies via Hitachi	38.0	37.1	36.7
Sales direct to companies outside Hitachi	41.6	45.4	47.8

(7) Sales of Leading Solutions

(Billions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Change on previous fiscal year (%)	Fiscal year ending Mar. 31, 2007 (forecast)	Change on previous fiscal year (%)
Security	3.0	4.7	57	5.5	17
Electronic documents	1.7	1.8	6	2.0	11
Comprehensive monitoring	1.0	0.8	(20)	0.9	13
FeliCa	1.5	2.0	33	2.2	10
GIS	3.0	1.6	(47)	1.7	6
StarBoard	2.0	2.0	–	2.1	5
Satellite imagery	1.8	1.9	6	2.1	11
Life sciences	1.6	1.2	(25)	1.0	(17)
Amusement	3.0	1.5	50	0.2	(87)

(8) Capital investment program

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Capital expenditure	333	351	400

(9) Depreciation costs

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
Depreciation costs	6,578	7,181	6,800
Tangible fixed assets	2,250	1,927	1,800

(10) Research and development expenditure

(Millions of yen)

	Fiscal year ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2006	Fiscal year ending Mar. 31, 2007 (forecast)
R&D expenditure	1,839	2,314	2,600

(11) Employees

(Persons)

As of Mar. 31, 2005	As of Mar. 31, 2006
5,406	5,242

Non-consolidated

(12) New recruiting

(Persons)

Recruiting Apr. 2005	Recruiting Apr. 2006	Recruiting Apr. 2007 (Forecast)
110	105	205

(13) Numbers of persons with qualifications

Information processing qualifications

(Persons)

Segment		Period	As of Mar. 31, 2005	As of Mar. 31, 2006
Information processing qualification	Systems analyst		25	29
	Systems audit engineer		63	64
	Project manager		75	76
	Applications engineer		468	456
	Production engineer		243	237
	Network		399	411
	Database		218	233
	Systems management		107	118
	Embedded systems		22	31
	Software development engineer		2,551	2,572
	Basic information engineer		4,573	4,441
	Senior systems administrator		14	18
	Information security administrator		250	323
	Junior systems administrator		471	475
	Total		9,479	9,484

Vendor qualifications

(Persons)

Vendor	Qualification	Qualified persons (As of Mar. 31, 2006)
PMI	PMP	650
Prosoft Training	CIW	1,640
Security Education Alliance/Japan (SEA/J)	SEA/J licensed qualification	460
Microsoft	MCP, MCSE, others	3,695
Oracle	Oracle Master	759
SAP	R/3 licensed consultant	493
Sun	Java licensed qualification	563
XML Technology Certification Committee	XML	918
IBM	DB2, Lotus and others	315

Note: 96% of systems engineers and programmers had obtained an information processing qualification as of Mar. 31, 2006 (96% as of Mar. 31, 2005).