



Business Results and Prospects

(April 1, 2002 through March 31, 2003)

April 30, 2003

NS Solutions Corp.

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1. Business results for fiscal year ended March 2003

(April 1,2002 through March 30,2003)

Economic and industry environments

During the term under review, the future direction of the Japanese economy remained uncertain. Exports and personal consumption, which had held steady after bottoming out, showed signs of fluctuation. The Nikkei Average broke the ¥8,000 barrier in March 2003, and the expected recovery of private-sector capital investment was delayed.

In the information services industry, a tendency to scale back or extend capital investment has become striking, and according to statistics by the Ministry of Economy, Trade and Industry on selected service industries, July 2002 marked the first time in 27 months that revenues in the information services industry were lower than the previous year's same month figures. Moreover, as hardware manufacturers shift towards the provision of solutions in their restructuring, competition is intensifying. Prices are dropping, and the competitive environment is becoming increasingly harsh.

Business processes and outcomes

Despite the difficult market environment, NS Solutions was able to utilize its ability to provide solutions, its record of success, and the trust of its clients to develop new customers and gain new orders while deepening relationships with existing customers. As a result, consolidated revenues for the term were ¥153,098 million, a ¥4,176 million (2.8 percent) increase over the previous term. Recurring profit was ¥12,086 million, a ¥336 million (2.7 percent) decrease over the previous term (¥12,422 million). Net income was ¥6,247 million, a ¥175 million decrease over the previous year's figure of ¥6,422 million.

On October 11, 2002, NS Solutions was successfully listed on the First Section of the Tokyo Stock Exchange. In addition to strengthening the Company's financial base, this was also an important step in establishing a firm foundation and strong presence in the industry.

Overview by solutions/service

An overview of the term by solutions/service sector (Business Solutions, Platform Solutions, and Business Services) is as follows.

Business Solutions

Results in our Business Solutions Division, primarily in the manufacturing and distribution industries, were solid. Revenue was ¥81,761 million, an increase over the previous term's figure of ¥78,534 million.

In those industries, investment in information systems to respond to global expansion, enhance competitiveness, and improve efficiency remained strong. Customers in the automotive and the electrical machinery and electronics industries are among those that particularly appreciate the ability of NS Solutions to provide solutions. The development of ERP and SCM solutions that integrate production and sales and speed up account settlement, and of PDM solutions that reduce the development time required from design to production have enabled us to expand our customer base and build a growing record of success. We also undertook full-fledged development of ERP solutions in the processing-related business sector.

ERP: Enterprise Resource Planning, Integrated enterprise application systems

SCM: Supply Chain Management, Production, distribution, and sales optimization systems

PDM: Product Data Management, Product data management systems

In the financial sector, the market environment was harsh, with striking trends toward greater caution in investment by financial institutions, which are our customers, and toward vender intensification. Even under such conditions, results were positive for our financial-sector solutions, especially for business management systems for which there is a high demand among regional banks and for market software systems such as our inter-bank trading systems that are highly valued especially by city banks.

In the government/public sector, we are steadily building a record of success as an informatization partner, with government offices moving to offer more electronic services as part of the e-government trend. Our work with government agencies includes the construction of an on-line application system for the Ministry of Education, Culture, Sports, Science and Technology and an order for an integrated LAN system for the Ministry of Public Management, Home Affairs, Posts and Telecommunications accompanying the government's organizational reform. Utilizing our expertise in advanced technologies, we are also constructing various solution systems in the fields of satellites, science, and education.

Platform Solutions

In the Platform Solutions Division, we are well-received as a provider of integrated open systems that respond to customer needs for the creation of mission critical systems meeting the highest standards of function and performance within strict time constraints. Increased customer demand for lower prices and inter-vendor competition, however, created a difficult environment, and revenues for the term were ¥34,990 million, roughly equal to the previous year's figure of ¥35,169 million.

Business Service

Our Business Services Division provides not only information systems outsourcing from planning and design to development, operation and maintenance to build stable business structures, it has also diversified and upgraded its service menu to respond to diverse customer needs for hosting and network diagnosis, design and construction, and oversight. Further strengthening of cooperation between our Business Solutions and Platform Solutions Divisions has enabled us to build systems that provide customers with integrated solutions from development to operations and maintenance, and is producing steady success. As a result, revenues in the Business Services Division were ¥36,347 million, an increase over the previous year's figure of ¥35,219 million.

Main measures taken during the term under review

To ensure the future development and expansion of business, and to further strengthen its business base, NS Solutions upgraded not only its business promotion systems but also its personnel training and improvement systems.

Reorganizing the business structure of our headquarters, branch offices and regional affiliates has enabled us to concentrate the human resources from the branch offices and regional affiliates into our headquarters business divisions and thus expand our scale of business. At the same time, we are improving the competitiveness of the NS Solutions Group by determining the optimum roles and functions for NS Solutions, Group companies, and partner companies.

In response to overseas expansion by our customers, last October we established a Chinese corporation named NS Solutions Software (Shanghai) Co., Ltd. The new company is already providing system support (NS Solutions also constructed the system) for Fast Retailing Co.'s expansion of its chain of stores in China. In the future, the company will undertake full-fledged expansion of its systems integration business in the fields of ERP and PDM.

Regarding the organization of NS Solutions, in addition to the Toyota Department we established last July, as of April 1, 2003 we completed reorganization by industry/customer and type of solution.

As has been reported elsewhere, NS Solutions and 16 other Japanese IT-related corporations concerned about Japan's declining competitiveness in the IT field have joined together this April to establish a research course at Hokkaido University on leading-edge systems engineering. In addition to bearing the operating costs, NS Solutions is sending its own researchers to act as research leaders and taking other steps to provide the utmost support for IT personnel development.

NS Solutions had received personnel assigned from Nippon Steel. As of March 31, 2003, 843 such personnel were fully transferred to the employment of NS Solutions as initially planned.

Revenue breakdown

(millions of yen)

	Fiscal Year ended Mar. 2002	Fiscal Year ended Mar. 2003	Pct. of whole	Pct. of annual change
Business Solutions	78,534	81,761	53.4%	+ 4.1%
Platform Solutions	35,169	34,990	22.9%	- 0.5%
Business Services	35,219	36,347	23.7%	+ 3.2%
Totals	148,922	153,098	100.0%	+ 2.8%

Financial status**Cash flows**

Cash and cash equivalents at the end of the fiscal year were ¥25,654 million, an increase of ¥10,582 million over the previous end of fiscal year amount of ¥15,071 million.

Cash flows from the current consolidated fiscal year and the elements that comprise them are as follows.

(Cash flows from operating activities)

Cash and cash equivalents utilized in operating activities totaled ¥1,928 million, a decrease of ¥8,581 million from the previous fiscal year. Net profit before taxes and other adjustments was ¥11,896 million, but corporate and other taxes paid totaled ¥8,086 million, and worsening credit due to concentrated sales at the fiscal year end/beginning led to an outflow of ¥2,678 million (sales credit decrease of ¥11,970 million plus purchasing credit increase of ¥9,292 million).

(Cash flows from investment activities)

Cash and cash equivalents utilized for investment activities totaled an outflow of ¥2,678 million. This included expenditures of ¥1,040 million on investments in securities and ¥1,369 million on tangible and intangible fixed assets.

(Cash flows from financial activities)

Cash and cash equivalents utilized for financial activities totaled ¥11,332 million. This included a public capital increase of ¥12,178 million and payment of a dividend of ¥815 million to the parent company.

2. Prospects for fiscal year to be ended 2004

Regarding the coming term, with the recovery of private capital investment not having materialized as hoped, economic conditions are expected to remain unclear. In this environment, investment in information systems by "winning" companies hoping to improve their competitiveness and management efficiency is projected to remain solid. With the strengthening trend of corporate contraction due to long-term economic stagnation, competition in the information systems industry is expected to further intensify, making for an even harsher business environment.

NS Solutions will, of course, utilize its ability to provide solutions and the trust of its customers as a foundation from which to seize appropriate business opportunities and steadily grow its bottom line. The Company also considers it essential to steadily reflect in its results the fruits of the policies it has implemented to strengthen its business fundamentals. The Company also intends to strategically utilize the capital raised through its recent stock offering in the future expansion of its business.

Projected results for the entire term are consolidated sales of ¥150,000 million, and consolidated recurring profit of ¥12,000 million.

Projections regarding the coming fiscal year and other future events may alter due to factors such as unexpected changes in economic conditions. NS Solutions and Group companies do not guarantee these projections.

2. Management policies

Basic management policy

Having established the corporate philosophy described below, NS Solutions will strive to help build a wealthy society by taking a leadership role in Japan's information services industry and by achieving sustainable business growth and profitability.

Creativity Trust Growth

As information technology professionals, NS Solutions will build relationships of trust with customers, grow together with them, and contribute to social development by creating real value.

To achieve those goals, NS Solutions bases its business activities on the following four basic principles.

- 1) Targeting new, large-growth markets that utilize information technology, NS Solutions will achieve business growth by planning forward-looking solutions and making the commitment of strategic strength its priority.
- 2) NS Solutions will form integrated business units for target markets. Each business unit will establish the optimum business model to distinguish itself from the competition and achieve profitability.
- 3) Recognizing that the trust of its customers and its advanced technical abilities are the source of its competitive strength, NS Solutions will strive to obtain and strengthen that trust and those abilities.
- 4) NS Solutions will provide integrated services, from solutions design and development to operation and maintenance, in its three core business sectors of Business Solutions, Platform Solutions, and Business Services.

Basic policy on profit allocation

NS Solutions believes that it is important to sustain and strengthen its competitiveness and to increase its corporate value. Based on this perspective, NS Solutions fundamental policy is to establish an internal reserve to prepare appropriate, stable dividends for its shareholders and to ensure future business expansion and profitability.

Regarding the payment of dividends, factors such as the financial situation, profit levels, and dividend propensity are comprehensively considered in determining the actual amount. During the term under review, a profit dividend of ¥20 per share was

paid. An interim dividend of ¥15 per share was previously paid, so dividends for the year totaled ¥35 per share.

Regarding internal reserves, they are to be strategically invested in the expansion of the Company's solutions lineup, in the securing of leading edge IT technologies, and in the development of human resources. This task will be undertaken from the perspective of responding to intensifying competition from other firms and seizing business opportunities by providing appropriate solutions services of the highest quality.

View regarding investment units

NS Solutions is considering various policies to improve liquidity in the stock market and to expand its investor class. Measures being considered include reduction of investment unit size.

Medium- and long-term management strategy

In the face of the information revolution and globalization, deregulation, and other changes in the economic environment, corporations are staking their survival on radical business reform and the reconstruction of their business models. The ability of corporations to utilize IT technologies as they make those changes can be a major factor in their success or failure. NS Solutions recognizes that it is vital to respond accurately and quickly to computerization investment needs based on the business strategies of its customers.

In this environment, the information services industry has begun dividing into two sectors, i.e., companies that have the ability to propose solutions in response to diverse customer IT strategies and that have advanced technical abilities, and companies that handle development. Inter-company competition is expected to continue to intensify.

In light of this situation, NS Solutions is earnestly addressing the issues described below in "(5) Issues to be addressed." Doing so will enable the Company to surpass its competition by differentiating itself with superior technology and product and service lineups, to obtain the trust of its customers, and to further strengthen its presence in the industry. In addition, it will enable an early realization of its immediate goals of ¥200,000 million in sales and an ordinary profit rate of 10 percent.

Issues to be addressed

1) Securing growth tracks

NS Solutions will secure sustainable growth by accurately comprehending market and technology trends and by making a high priority of the investment of

management resources in manufacturing and other growing sectors and markets where NS Solutions is highly competitive. In addition, the Company will work to strengthen and expand its advanced solutions.

The business services sector is expected to continue to grow. NS Solutions will achieve stability and the expansion of business scale by working to obtain new customers and to expand business with existing ones through the diversification and completion of its services lineup.

Furthermore, NS Solutions will position itself as the trusted IT partner of its customers through broad-based responses to the issues they face. This will be accomplished by completing integrated system lifecycle support systems, from consulting and development to operations and maintenance.

2) Establishing competitive business promotion systems

The NS Solutions Group as a whole is not only building systems for development and implementation that are effective both in Japan and abroad, it is also working to upgrade its technical development prowess through steps such as the acquisition of innovative development methodologies.

Moreover, regarding the important management resource that is its personnel, the Company is strengthening its employment activities to improve and upgrade the ability of its personnel to utilize advanced technology, make proposals, and manage projects. NS Solutions is improving its employee education system and completing a personnel system based on ability and results, while also establishing a corporate culture of vitality.

Basic view on corporate governance, and the implementation of corporate governance policies

NS Solutions recognizes that it cannot exist without the Trust that is part of its corporate philosophy. Establishing proper corporate governance is therefore a vital management issue.

Under its current auditing system, NS Solutions works to ensure the effective performance of a small Board of Directors (comprising of 10 Directors) who are to promptly make decisions that are legal and reasonable and of (a Board of) Statutory Auditors who oversee the management of the Company. Under an autonomous divisions system in which multiple departments function as profit and loss units, decisions must be made quickly and in accordance with the limits of prescribed rules for approval, and business unit managers are given implementation authority. The oversight of an internal auditing department attached to the President's office ensures the reasonableness of business administration. Furthermore, major topics such as proposed business strategies, resource allocation, investment and lending, and the acceptance of projects above a certain size are discussed and decided in various committees composed of

senior management including the President, such as the Management Council and the Project Policy Council.

NS Solutions also strives to ensure and improve the transparency of its management through management oversight from outside the Company. Accounting inspectors carry out accounting inspections approximately 180 days each year, and legal advisors provide suitable guidance and advice primarily to the Board of Directors. These actions enable the Directors to operate the Company and engage in business in a reasonable and lawful way. Meetings to explain settlement of accounts and the NS Solutions web site provide shareholders and investors with appropriate information at appropriate times.

NS Solutions also works to achieve complete compliance with the law and Company regulations. This is done through the establishment of and strict adherence to internal regulations such as the rules for approval mentioned above. Personnel are also trained to be aware of legal affairs and the protection of intellectual property.

NS Solutions is aware that shifting to the establishment of an audit committee under the revised Commercial Code is an option, but it has chosen to continue corporate governance under its current auditing system.

(Status of efforts to implement corporate governance measures over the past one year)

1) Meetings held

Board of Directors (15 times)

Management Council (24 times)

Project Policy Council (42 times)

2) Audit implementation

In addition to audits by the Statutory Auditors, an auditing department attached to the President's office carries out internal audits. During the previous fiscal year, internal audits were carried out to determine the status of internal business system operations, the completion of the information management system, and the completion and operation of the internal rules of subsidiaries.

3) Other activities

In addition to constant activities, the following were the main corporate governance activities carried out.

- The Company examined and implemented improvements to its compliance system, including the establishment of an internal compliance consultation office.
- In order to prevent insider trading, the Company upgraded existing internal rules on internal information management and insider trading, and trained executives and employees.
- In light of the importance of protecting customer and individual information, last June the Company established an Information Management Committee with the President as chair. The Company also improved internal rules and trained its personnel.
- The Company carried out educational activities related to the Anti-Monopoly Law.

Basic policy on associated parties

NS Solutions is a subsidiary of Nippon Steel Corporation. (Nippon Steel holds 72.2 percent of NS Solutions voting rights.).

The NS Solutions Group is entrusted with all aspects of planning, designing, developing, and operating Nippon Steel's information systems. The Group contributes to Nippon Steel's production, distribution, and sales, as well as to the rationalization of its purchasing processes and the improvement of its competitive strength. This business relationship will continue as a matter of policy.

NS Solutions receives personnel from Nippon Steel, but in the interest of creating a sense of unity among its employees and of unifying personnel systems, 843 such personnel were transferred to the employ of NS Solutions at the end of March. This was in accordance with original plans. Regarding another 107 (as of 1 April 2003) general employees, they continue to be dispatched from Nippon Steel. A policy of transferring them to the employ of NS Solutions as of 1 April 2004 has been set forth, and negotiations with unions and other issues are currently under examination.

Other important topics related to corporate management

None.