

**NS Solutions**

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# Business Results for the 1<sup>st</sup> half of FY 2003

(April 1, 2003 through September 30, 2003)

October 31, 2003

## NS Solutions Corp.

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This document includes statements of forward-looking descriptions regarding the intent, belief or current expectations of NS Solutions Corporation (the "Company") or its officers in terms of its operation and financial condition. Accordingly, such statements contain risks and uncertainties since they are neither historical facts nor guarantees of future performance. Actual results may be varied and influenced by various factors. The Company does not undertake to revise such forward-looking descriptions to reflect those factors

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## **1. Business results for the 1<sup>st</sup> half of Fiscal Year 2003**

(April 1,2003 through March 30,2003)

### **Trends in the Japanese economy and information service industry**

The Japanese economy is taking a favorable turn in this accounting period, because recoveries in corporate profits and stock prices have pushed up capacity investments as well as exports, mainly in the manufacturing sector.

The information service industry is also enjoying similar recovery trends, helped by favorable economic conditions. However, clients' selective investment projects, fiercer competition with competitors and lower sales prices have pushed down the industry's total sales on a year-on-year basis. In this sense, the industry is still facing difficult market conditions. (Source: METI, "Dynamic Statistics of Selected Service Industries")

### **Highlights for NS Solutions Group**

Bearing this in mind, NS Solutions established the Corporate IT Consulting Unit this April to enhance our IT consulting services. The company also reorganized the Industrial System Solutions Unit based on the types of their responsible industries/clients to better address customer needs. NS Solutions also established a proper system to coherently support system lifecycle, ranging from consulting to development and maintenance services. These efforts have led to a larger order volume in maintenance operation and also expanded our customer base. We are also able to cultivate new customers and expand the order volume, helped by our strong solution menu, previous business achievements and our customers' trust in us.

From the perspective of project risk management, we have been enhancing Project Management Office (PMO) activities. We also seek optimal role-sharing among NS Solutions, its group subsidiaries and partner firms to strengthen our competitive edge. As a part of this reorganization effort, NS Solutions integrated two subsidiaries this October (NS Solutions Tokyo is the surviving company and it was merged with NS Solutions Kanto).

Making use of the expertise and practical experiences accumulated in our steelmaking system operation, NS Solutions has started providing a new solution that migrates mainframe-based legacy systems into open/distributed systems. (This solution is the so-called "legacy migration" or "legacy transformation. ")

As a result, despite difficult market conditions, we have achieved ¥64,573 million sales and ¥3,710 million recurring profits on a consolidated basis and successfully exceeded our initial projection (consolidated sales: ¥64,000 million; and consolidated current profit: ¥3,600 million). (As we enjoyed transient but large-scale orders in the preceding term, we had ¥68,756 million sales and ¥5,454 million current profit on a consolidated basis.)

Our business performance for each service category (i.e., Business Solutions, Platform Solutions and Business Service) is as follows. It should be noted that we introduced a slightly different calculation method in this term. (For your reference, figures in parentheses represent our sales based on our traditional calculation approach.)

### **Business Solutions**

In the industrial solution operation, sales have amounted to ¥34,311 million (¥31,198 million).

Manufacturing/distribution industries: Generally speaking, we enjoyed steady demands from manufacturing/distribution industries, because they actively invested in IT systems to better address globalization and improve their competitiveness and management efficiency. By targeting automakers and electric/electronic makers, we beefed up sales efforts in (1) ERP solution that integrates production/sales processes and shortens the account settlement process; (2) global SCM solution for reducing total lead time and total inventory, (3) PDM solution for shortening R&D processes from design to production; and (4) solution business incorporating these individual solutions. As an example, we successfully established a new critical-mission system this May incorporating ERP, CRM and SCM solutions for Canon Sales Co. They highly appreciated our work.

To provide system development/maintenance services to our customers overseas, we established a local corporation “NS Solutions Software (Shanghai) Co., Ltd. ” in Shanghai, China in October 2002. This local corporation provides CAD- and PDM-related services.

ERP: Enterprise Resource Planning

SCM: Supply Chain Management

PDM: Product Data Management

CRM: Customer Relationship Management

Finance industry: Financial institutions still keep a prudent attitude toward information system investment. Their careful project and IT vendor selection attitude have resulted in severe market conditions for us. Despite such harsh market conditions, we enjoyed steady demands for business management systems mainly from regional banks as well as firm demands for market software systems such as inter-bank trading systems. The latter system has received a high commendation from major commercial banks and other financial institutions.

Government agency and public sector: We also have good historical records as an IT partner in the relations with government departments and other public sectors, since they aim to achieve "e-government" through paperless administrative information. We received an order for an online application system from the Ministry of Education, Culture, Sports, Science and

Technology. We also accepted an order for a large-scale LAN system at the Ministry of Public Management, Home Affairs, Posts and Telecommunications. We will continue establishing various systems in the fields of satellite, science, education and transportation, making the most of our abundant expertise in high technology fields.

### **Platform Solutions**

In platform solutions operation, we enjoy a fair reputation from our customers as an open system integrator because we are able to provide mission-critical state-of-the-art system infrastructures in a short schedule. We successfully designed and actually introduced our own standard model (“infrastructure framework”) to provide more homogeneous and efficient system infrastructures for our customers. For customer's convenience, we also established “NSSOL Oracle 10g Solution Center” in September 2003 to evaluate/verify main platforms based on Oracle's new products. However, we are facing a severe business environment because of stronger discount requests from customers and fiercer competition among IT vendors. As a result, our sales stood at ¥11,784 million (¥15,190 million) in this operation category.

### **Business Service**

In business service operation, NS Solutions provides various services, such as outsourcing service of information system design/development/maintenance, server hosting services as well as network diagnosis/design/establishment/monitoring services. To better address our customer's diverse needs, we are coherently supporting the whole system lifecycle from consulting to development and maintenance. We produce a steady flow of successful results in this field. In our ASP operation for technical drawings/document management solutions (“nsxpres.com”), we are successfully expanding our customer base and getting on the right track as well. As a result, our sales in this business category stood at ¥18,478 million (¥18,184 million).

Through our relation with Nippon Steel Corporation, we are now involved in SCM projects in the fields of automobile steel plate production, etc. We are helping to improve their international competitiveness.

## **2. Projection for the 2<sup>nd</sup> half of FY 2003**

Although Japan's economy is taking an upturn swing, there is still uncertainty about the future. Under such conditions, private corporations will have steady needs for their information system investment, aiming at improving their competitiveness and management efficiency. On the other hand, their careful attitude in selecting projects, fiercer competition in our industry and lower sales prices will result in more difficult business environments for us.

NS Solutions would like to steadily expand our revenue base by leveraging our strong solution menu and confidence from our customers as well as by making the most of business opportunities. In addition, we also need to translate our previous business enhancement efforts into actual revenue growth.

NS Solutions projects our consolidated sales at ¥150,000 million and consolidated recurring profit at ¥12,000 million on a full-term basis.

Forward-looking statements, such as projection for the next term, might be subject to unexpected changes in economic conditions. These statements do not guarantee actual performance of the NS Solutions group.

### **3. Business Policies**

#### **(1) Our Basic Business Policies**

NS Solutions Corporation adopts the following corporate philosophy in order to play a leading role in Japan's information service industry, achieve sustainable business expansion and high profitability and contribute to creating a better society.

##### **Creation, Reliability and Growth**

As an IT professional firm, NS Solutions creates real value to establish mutual trust with our customers, achieve mutual business growth and contribute to progress in our society.

To this end, NS Solutions has four basic business policies as follows:

To expand our business, we design creative solutions and selectively allocate more business resources for markets that have significant potential demand for IT solutions.

We integrate sales and manufacturing functions into a single business unit for such target markets and devise the most appropriate business model for each business unit in order to differentiate ourselves and achieve high profitability.

We seek state-of-the-art technologies and customers' confidence because our competitive edge stems from these two factors.

We focus on our three core businesses (i.e., industrial solution, IT infrastructure solution and business service operations) to provide coherent services ranging from design, development and implementation of solutions to maintenance service.

#### **(2) Basic Policy on Profit Sharing**

NS Solutions recognizes the importance of enhancing our competitiveness to boost our corporate value for shareholders. From this perspective, we provide proper and stable dividends to our shareholders, while maintaining sufficient internal reserve for expanding our business activities, as well as ensuring appropriate profits in the future.

When determining the specific amount for the dividend, we pay due attention to our financial position, profit level and dividend payout ratio. For this 6-month term, we have decided to pay ¥17.5 dividend per share. (In accordance with our initial projection, we will pay ¥17.5 term-end dividend and ¥35 dividend a year per share.)

Since we are now addressing fiercer competition with competitors and providing high-quality solutions in a timely manner by taking advantage of business opportunities, we plan to spend our internal reserve on expanding our solution menu, obtaining advanced information technologies and strategically investing in human resources development.

#### **(3) Trading Volume Unit**

To enhance active trading at stock markets and expand our shareholder base, we will examine

various initiatives, such as lowering the trading volume unit for NS Solutions shares, paying due attention to stock market trends.

#### **(4) Our Business Strategy in the Medium- to Long-Term**

In the face of the information revolution and ever-changing business environments resulting from a globalization of economy and ongoing deregulation, private corporations have been drastically reforming their business operations and redefining business models for their survival. Information technology plays a very important role in such corporate reform efforts. NS Solutions recognizes the importance of properly and quickly addressing our client's IT investment needs stemming from their business strategies.

Recently, IT firms have been heading in two different directions in the information service industry. The first type is the IT firm that has high technological and solution-proposing capabilities to properly address their customer's IT strategies; and the second type is the IT firm specializing in solution development efforts. Our industry will undoubtedly begin to see fiercer competition among these IT firms.

Bearing this in mind, NS Solutions has been making efforts to achieve our goals mentioned in “(5) Our Challenges” in order to provide our customers with better solutions and a wider menu than our competitors, to have a stronger presence in our industry by obtaining confidence from our customers and to achieve our target of ¥200 billion sales and 10% current profit ratio as soon as possible.

#### **(5) Our Challenges**

Getting on the growth path

To get on the growth path and sustain our growth, NS Solutions keeps track of market/technical trends, selectively allocates more business resources to growing markets, including the manufacturing industry, and other market categories where we have competitive edges. We will also enhance our advanced solutions.

In addition, we seek stronger ties among our business units to coherently support the total system life cycle ranging from consulting, development to maintenance services. By doing so, we aim to become a trustworthy IT partner for our customers.

Establishing more competitive business structure

We will establish a more competitive business structure by redefining optimal role-sharing among NS Solutions, its subsidiaries and partner firms. The company will also enhance R&D capabilities, such as finding more innovative R&D techniques.

From the perspective of risk management, we will further enhance Project Management Office (PMO) activities by creating task forces in each business unit. We will expand internal training schemes to improve our employees' abilities so that they will be able to provide better solutions, proposals and properly manage various projects. We will also establish the ability-and-performance-based personnel system, enhance our recruiting activities and create a more vibrant corporate culture.

#### **(6) Our Corporate Governance Basic Philosophy and Related-Activities**

As already mentioned in “Our Basic Business Policies” section, we recognize the importance

of successful corporate governance because our survival requires “confidence” from customers.

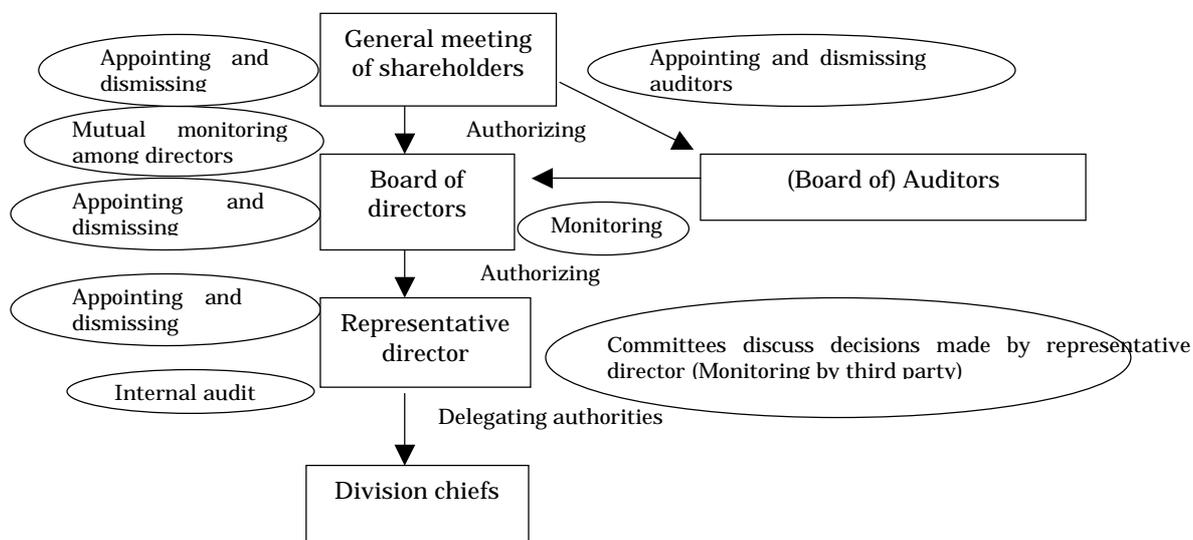
Under the current “board of auditors” system, our relatively small-sized board of directors (11 directors) makes proper and quick decisions in accordance with the applicable laws, while the board of auditors monitors the decisions made by the board of directors.

As we calculate profits and losses for the business unit group, NS Solutions authorizes division chiefs to make day-to-day operational decisions quickly in accordance with predetermined internal decision-making rules. Our internal inspection group, which directly reports to the president, monitors division chiefs’ behavior to ensure proper business activities. On the other hand, in terms of business strategy planning, recourse allocation, loan/investment projects and large-scale projects, decisions are made at NS Solutions’ various committees such as the project planning conference or management committees consisting of the president and other top management members.

NS Solutions has also been making endeavors to improve transparency through a third-party monitoring scheme. We achieve proper management and operational activities by involving our accounting auditor (ChuoAoyama Audit Corp.) in audits and asking our counsels for valuable opinion/advice mainly for smooth operation at our director’s board. We also provide shareholders and investors with up-to-date information via results briefing, website, etc.

To ensure compliance, we have necessary internal rules and require our employees to obey them, including the above-mentioned decision-making rules. We also provide our staff with training sessions in legal and intellectual property fields in order to raise the sense of compliance. By doing so, we conduct our business activities in accordance with applicable laws and internal regulations.

It may be an idea to adopt a “Committee System” under Japan’s recently revised Commercial Code. However, NS Solutions intends to keep corporate governance under our current “Board of Auditors” system.



(Note) We have three auditors in total. Our parent company Nippon Steel Corporation sends its director as our external auditor. For more information on our relationship with Nippon Steel Corporation, please see the section, “(7) Basic Policies regarding Relationships with our stakeholders.”

(Efforts to Improve Corporate Governance for These Twelve Months)

Number of conferences held

• FY 2002:

Board of directors (15 times), management conference (24 times) and project planning conference (42 times)

• First half of FY 2003:

Board of directors (6 times), management conference (15 times) and project planning conference (21 times)

Audits

In addition to inspections by our auditors, our internal inspection group, which directly reports to the president, also conducts internal audits.

In FY 2002, the inspection group mainly audits internal business system operation and information management practice as well as business-related internal rules at subsidiaries.

In FY 2003, the inspection group will investigate corporate governance, risk management system, etc. In the first half, the inspection group conducted field audits mainly at all the personnel divisions in NS Solutions.

Other activities

Other than regular activities, NS Solutions took the following measures:

- Established a consultation desk (Compliance Desk) for our employees in July 2003 as part of the compliance improvement project, and
- Set up an Information Management Committee (Chairperson: the president) in June 2002 to protect our personal/customer information assets. The company also drafted necessary internal regulations and provides training sessions for our staff, including workers at our partner firms. The Information Management Committee holds its meetings once every two or three months to properly control internal information assets.

## **(7) Basic Policies regarding Relationships with our Stakeholders**

NS Solutions is a consolidated subsidiary of Nippon Steel Corporation, which owns 72.2% of our voting shares.

As Nippon Steel Corporation exclusively commissions us to plan, design, develop and

operate their information systems, the NS Solutions Group contributes to enhancing their competitiveness and rationalizing their production, logistics, sales and purchase processes. We will continue to maintain the relationship with Nippon Steel Corporation in the future as well.

Nippon Steel Corporation has been sending a lot of its employees on secondment to NS Solutions. To enhance the sense of unity among our staff and unify our personnel/compensation systems, 843 executive officers transferred their corporate registration from Nippon Steel Corporation to NS Solutions at the end of March 2003. At the end of September 2003, we had 102 seconded workers from Nippon Steel Corporation. Last year, NS Solutions announced the transfer of these seconded workers' registrations to NS Solutions by the end of March 2004. We are now examining how to negotiate with their labor union.

**(8) Other Important Management Matters**

None.