



**NS Solutions**

# *Business Results and Outlook for First Half FY2005*

*(April 1, 2005 through September 30, 2005)*

November 10, 2005

## **NS Solutions Corp.**

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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In this material, where information is presented in millions of yen or percentages, these amounts have been rounded down. Accordingly, these amounts may differ from figures included in financial statements in some cases.

## 1. 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 business (i.e. Business Solutions, Platform Solutions and Business Services) to provide coherent services ranging from consulting services, design, development and implementation of solutions to maintenance services.

### (2) Basic Policy on Profit Sharing

The Company recognizes the importance of enhancing our competitiveness and boosting our corporate value for shareholders. Concerning profit sharing, the Company makes it a basic policy to provide proper and stable dividends to shareholders and to maintain sufficient internal reserve for expanding our business activities and ensuring appropriate profit in the future.

For the 1st half of the current fiscal year, we decided to provide a ¥ 12.50 mid-term dividend per share with an increase of ¥ 3.75 per share as initially scheduled. At the end of the current fiscal year, we plan to provide the ¥ 12.50 term-end dividends per share. Accordingly, the annual total dividend per share will be ¥ 25.00 with an increase of ¥ 7.50.

Concerning internal reserve, from the viewpoint of addressing fiercer competition with competitors and providing high-quality solution service timely by taking advantage of business opportunities, we plan to spend our internal reserve for strategic investment such as expanding our solution menu, obtaining advanced information technologies and human resources development, as well as for stepping up the implementation of business strategies including alliance with other companies.

### (3) Our Business Strategy in the Medium to Long Term and Management Index Targeted

While there is a growing recognition that business strategy is becoming more and more closely connected with IT strategy, and that our customers' survival depends upon whether they can get an

edge on other competitive companies in terms of IT strategy, we see customer needs for re-design and re-structure of core systems sizably emerging, reflecting management reform needs and the progress of IT.

In such circumstances, the Company grasps correctly the management task of customers to present the right approach to solve them as an IT professional, and aims at attaining the position of a reliable IT partner by providing services for consulting on the re-design of all IT equipment and software of customers, system integration ranging from planning, development, operation to maintenance, on demand service to business process outsourcing and so forth.

From such a managerial perspective, the Company will positively pursue the business structure reform such as selectively allocating business resources to growing sectors in which there are increasing customer needs, planning advanced solutions and creating a new business model. By differentiating ourselves and obtaining confidence from our customers, the Company will get an edge on our rivals in our industry, and will achieve the objectives of sustainable business expansion, profit growth and improvement in profitability.

#### (4) Our Challenges

Enhancement of technological capability to develop systems as the organization

We have enjoyed an excellent reputation from our customers regarding our highly technological capability to develop systems, which are typified by the project management business of successfully executing large-scale projects or by the Systems Research & Development Center which has a high degree of expertise. In order to further enhance our technological capability, the Company established the Technology Bureau in April this year, and is promoting best practice-based improvement and standardization of the development process, establishing the technique of fostering development in remote and offshore areas and utilizing development support tools and project management tools. The Company will wrestle with the task of enhancing technological capability to develop systems as an organization in the future.

Concerning the development of human resources shouldering these tasks, the Company, by making avail of the IT Skill Standard (ITSS), will expand the internal training scheme, with planning, to improve our employees' abilities so that they will be able to provide better solutions, proposals and properly manage various projects.

Enhancing customer relations capability and expansion of business opportunity by creating new solutions

In April this year, the Company established the Strategic Marketing & Vendor Alliance Department, and will step up our inter-organization cooperation of sales activities, which we have pursued for many years. The Company is wrestling with the task of reforming the sales process such as introduction of the sales portal to promote information sharing.

Moreover, the Corporate IT Consulting as well as the Solution & Business Innovation Department established in the business unit, by grasping properly customer needs and the market/technical trends, will endeavor to improve the existing solutions and create new solutions. By doing so, the Company will enhance its customer relation capability such as dealing with the diversity and complexity of individual customer needs to propose solutions suited to such needs, and will expand business opportunities.

#### Expansion of service business

Based on the Company's rich experience of having provided Nippon Steel Corporation with services available 24 hours a day 365-day a year for the past 40 years without interruption, the Company has provided high-quality operation and maintenance service. In the future, NSSLC Service Corporation established in April this year will take the lead to provide outsourcing services such as high-quality operation and maintenance on a full scale by utilizing the business resources held by the NS Solutions group.

Furthermore, the Company will provide outsourcing service, such as the on demand type of service on the usage-sensitive charging system like Oracle On Demand@NSSOL, creating the free use of our high IT technological capability in the future as well.

#### Promotion of BCM (Business Continuity Management)

Recently, as seen in establishment of the new company law, amendment to the Generally Accepted Auditing Standard (GAAS) and movement to establish the Japanese version of the Sarbanes-Oxley Act, the Company recognizes that it is necessary for enterprises to enhance the activity of internal control and compliance. The Act on the Protection of Personal Information, which came into enforcement in April this year, acted as a trigger for the growing interest in protecting personal information. The Company recognizes that it is an important obligation of enterprises to ensure information security. In addition to these, there is growing concern about disaster prevention such as disaster recovery from the viewpoint of business continuity, etc.

In October this year, the Company established the Business Continuity Management Group which specializes in business continuity management, aiming at strengthening capability to deal with these risks. The Company will actively promote business continuity management activities not only for in-house operations but also for our new solution business.

#### (5) Other Important Management Matters

None

## 2. Operating Results

(Trend in the Japanese economy and information service industry)

During the 1st half of the current fiscal year, although there were some factors dragging the economy down such as an increase in crude oil prices and others, the Japanese economy has stayed firm supported by improvement in corporate profits and increase in capital investment mainly in the manufacturing industry.

While in the information service industry, customer companies continue to move towards selective IT investment projects and request lower quotation bids, the sales totals in the information service industry as a whole recovered in the second quarter from the first quarter in which sales were flat compared to the previous year, and have remained relatively firm. (Source: The Bank of Japan “Short-Term Economic Survey of Principal Enterprises in Japan,” and the Ministry of Economy, Trade and Industry, “Specified Service Industry Dynamic Statistics”)

(Highlights for NS Solutions Group)

In such a market environment, the Company has expanded its business focusing on the system life cycle total solutions to provide coherent services ranging from planning, construction and operation to maintenance and the legacy re-engineering solutions to re-design and re-construct the core system, and has addressed the diversity and complexity of customer needs. In April this year, the Company reformed its business structure to manage business resources held by the NS Solutions group in a unified manner so as to provide high-quality operation and maintenance services, and has taken measures to enhance, with all the might of the NS Solutions group, services for the system life cycle total solutions by establishing NSSL Service Corporation which specializes in operation and maintenance service. On the other hand, in order to enhance technological capability to develop systems as the organization, the Company has wrestled with the task of improving and standardizing the development process, establishing the technique of fostering development in remote and offshore areas and utilizing development support tools and project management tools. Furthermore, the Company has taken measures to strengthen the managerial base such as enhancement of the project management and partner relations.

Because of sophistication and screening of the product mix in Platform Solutions, we have achieved ¥ 64,763 million sales for the 1st half of the current fiscal year, with a ¥ 959 million decline compared with the same period of the last fiscal year (¥ 65,723 million). Meanwhile, the recurring profit of ¥ 4,752 million was recorded in the 1st half of the current fiscal year, with a ¥ 480 million increase compared with the same period of the last fiscal year (¥ 4,272 million). Such increase in recurring profit is due to efforts in curtailing costs including outsourcing and procuring costs and in improving profitability by shifting to high value-added products in Platform Solutions operation.

Our business performance for each service category (i.e. Business Solutions, Platform Solutions and Business Services) is summarized as follows:

○ Business Solutions

We had a steady revenue stream mainly from the manufacturing, distribution and service industries, but revenue from the finance industry, government agency and public sectors declined. As a result, we have achieved ¥ 33,540 million sales for the 1st half of the current fiscal year, with almost the same level of sales as those of the same period of the last fiscal year (¥ 33,414 million).

Manufacturing, distribution and service industries

In the manufacturing, distribution and service industries, customers are showing stronger moves toward IT investment supported by strong corporate performance. Particularly, we have enjoyed steady demands for developing large-scale systems in the fields of production, sales and physical distribution for the manufacturing industries. Moreover, quotations and sales for various solutions such as the PLM solution for shortening the R&D process from design to production, the ERP solution that integrates the production/sales process, the SCM solution for reducing the total lead time and total inventory, and the MES solution that connects the core system with the control system of production, have remained firm.

PLM: Product Lifecycle Management

ERP: Enterprise Resource Planning

SCM: Supply Chain Management

MES: Manufacturing Execution System

Finance industry

The scale of investment in the information system has remained firm in the financial industry as a whole, but over the past several years, priority has been given to investment in system integration due to merger and consolidation including those between mega banks in the financial industry. As a result, the scale of strategic investment in information systems such as market type and information type systems, whose development the Company is wrestling with, is on a declining trend, and the market conditions continue to be severe. On the other hand, a movement whereby financial institutions increase strategic investment in information systems was observed. We enjoyed an excellent reputation for the solution for the Basel regulation, the solution for integrated income management and so on from our customers, and the business is smoothly increasing in terms of both quotation and order.

Government agency and public sector

In the government agency and public sector, competition is intensifying among vendors due to the procurement system reform of the government. In such circumstances, making the most of our expertise in high scientific technology fields, we have provided services of constructing and operating various systems that are original and unique to the Company in the fields of satellite, science and so forth.

○ Platform Solutions

In Platform Solutions operations, we enjoyed steady demands mainly for the consulting, engineering and maintenance service of products. However, because we attempted sophistication and screening of the product mix laying emphasis on profitability, we have achieved ¥ 12,334 million sales for the 1st half of the current fiscal year, with a ¥ 1,417 million decline compared with the same period of the last fiscal year (¥ 13,751 million).

○ Business Services

In Business Services operations, the business is increasing smoothly supported by expansion of the outsourcing market and by offering the system lifecycle total solution, and we enjoyed steady demands in terms of quotation and order. As a result, we have achieved ¥ 18,888 million sales for the 1st half of the current fiscal year, with a ¥ 330 million increase compared with the same period of the last fiscal year (¥ 18,557 million). Based on our experience of operating and managing the large-scale and complicated system of Nippon Steel Corporation with services available 24 hours a day 365-day a year over forty years without interruption, we have offered operation and management service, which are pursuant to ITIL (IT Infrastructure Library), and the Company has enjoyed an excellent reputation from our customers to date. In April this year, we established NSSL Service Corporation which specializes in high-quality operation and maintenance services, and are wrestling with development of the system lifecycle total solution with all the might of the NS Solutions group. Furthermore, in addition to the “Oracle On Demand@NSSOL” service whose development we have been wrestling with since last year as well as the process service provider operations, we are putting all our efforts into expansion of the service business such as investment for creating the service type of business model.

ITIL: The work into which the British government agency compiled all available data concerning the best practice of IT service management in the latter half of the 1980s. In Europe and the U.S., it is recognized as the de facto standard.



### 3. Outlook for Full Year

In the 1st half of the current fiscal year, we enjoyed relatively steady demands for the information system, supported by improvement in corporate profits. But since the 2nd half, customers have begun to adopt a cautious attitude towards investment. Whether the economy is on course for recovery remains to be seen. We will deal with the diversity and complexity of customers' needs such as planning of the IT strategy matched with their management strategy as a corporate IT partner and the system optimization as a whole, and will expand the business service operations by getting a grasp of the growing demand for outsourcing and creating new solutions.

Concerning performance on a full year basis, we project our consolidated sales at ¥ 150,000 million and consolidated recurring profit at ¥ 12,000 million.

Forward-looking statements, such as projection for performance on a full year basis, might be subject to unexpected changes in economic conditions. Please understand that these statements do not guarantee actual performance of the NS Solutions group.

## 4. Financial Position

### (1) Balance sheet

#### 1) Assets

The total assets as of the end of the 1st half of the current fiscal year amounted to ¥ 93,509 million with a ¥ 4,863 million decline from ¥ 98,372 million as of the end of the previous fiscal year. This is mainly due to the fact that trade notes and accounts receivable decreased by ¥ 11,310 million. We started to provide a long-term loan for the purpose of improving the efficiency in fund management operation in the 1st half of the last fiscal year.

#### 2) Liabilities

The liabilities as of the end of the 1st half of the current fiscal year amounted to ¥ 35,815 million with a ¥ 7,037 million decline from ¥ 42,852 as of the end of the previous fiscal year. This is mainly due to the fact that trade notes and accounts payable decreased by ¥ 5,199 million. The liabilities of the NS Solutions group are chiefly constituted of trade credit such as trade notes and accounts payable, and accrued accounts and allowances such as accrued income taxes and allowance for employees' retirement benefits. There are no liabilities with interest such as borrowing from financial institutions.

#### 3) Shareholders' equity

The shareholders' equity as of the end of the 1st half of the current fiscal year amounted to ¥ 56,240 million with a ¥ 2,136 million increase from ¥ 54,104 million as of the end of the previous fiscal year. This is mainly due to the fact that net income amounted to ¥ 2,706 million although ¥ 463 million of dividends was paid to shareholders. As a result, the equity ratio rose to 60.1%.

### (2) Cash flows

#### 1) Statement of cash flows

Cash and cash equivalent as of the end of the 1st half of the current fiscal year amounted to ¥ 24,149 million. During the 1st half of the last fiscal year, cash and cash equivalent decreased by ¥ 9,161 million. On the other hand, that for the same period of the current fiscal year increased by ¥ 1,051 million. Cash flow for each activity category is as follows:

#### • Cash flows from operating activities

In the 1st half of the previous fiscal year, the Company generated ¥ 3,732 million from operating activities. This is mainly due to income before income taxes of ¥ 4,275 million, depreciation expenses of ¥ 638 million and trade credit change of ¥ 7,590 million, while negatively impacted by payment of income taxes of ¥ 3,097 million and increase in inventory assets of ¥ 3,421 million. Meanwhile, during the 1<sup>st</sup> half of the current fiscal year, ¥ 2,447 million of cash was provided by operating activities. This is mainly due to income before income taxes of ¥ 4,755 million, depreciation expenses of ¥ 626 million and trade credit change of ¥ 6,110 million, while negatively affected by payment of income taxes of ¥ 3,843 and increase in inventory assets of ¥ 5,097 million.

#### • Cash flows from investing activities

During the 1st half of the last fiscal year, the Company used ¥ 12,384 million in investing activities. This is mainly due to acquisition of tangible and intangible assets of ¥ 625 million, acquisition of investment securities of ¥ 305 million and long-term loan to the affiliated company of ¥ 12,000 million. Meanwhile, ¥ 890 million of cash was used for investing activities in the 1st half

of the current fiscal year mainly due to acquisition of tangible and intangible assets of ¥ 714 million.

The long-term-loan to the affiliated company is that (the period of loan, five years) to Nippon Steel Corporation, our parent company.

• Cash flows from financing activities

The Company used ¥ 509 million in financing activities during the 1<sup>st</sup> half of the last fiscal year, mainly due to payment of dividends. On the other hand, ¥ 509 million of cash was used mainly for payment of dividends also in the 1st half of the current fiscal year.

2) Commitment line from financial institutions

The Company has overdraft facilities by which the Company may withdraw money up to a maximum of ¥ 4,800 million from each bank of three major financial groups in excess of the balance on deposit. Moreover, the Company has overdraft facilities with a maximum of ¥ 4,600 million at Nittetsu Finance Co., Ltd., the consolidated subsidiary of Nippon Steel Corporation. Therefore, the Company has overdraft facilities with a maximum of ¥ 9,400 million in total.

3) Cash management system (= CMS)

The Company uses CMS of Nittetsu Finance as mentioned above, and makes deposits of ¥ 12,337 million in Nittetsu Finance as of the end of the 1st half of the current fiscal year.

Moreover, the Company constructs and uses CMS of NS Solutions group with each of eight consolidated subsidiaries. The Company takes in deposits of ¥ 4,870 million as of the end of the 1st half of the current fiscal year from the NS Solutions group companies.

<Reference> Trend of cash flow index

The equity ratio is being improved by the steady accumulation of profit as mentioned below.

	September 2003	March 2004	September 2004	March 2005	September 2005
Equity ratio	57.9%	53.1%	60.9%	55.0%	60.1%
Equity ratio on fair market value basis	211.1%	202.1%	174.8%	136.0%	145.9%

(Note 1) Equity ratio: Equity capital/Total assets

Equity ratio on fair market value basis: Market capitalization based on share price at the term end/Total assets

(Note 2) Because there is no balance of liabilities with interest as of the term end, the number of years of debt redemption is not stated. The interest coverage ratio is not stated because the amount of interest payment is very small.