



**NS Solutions**

# Business Results and Outlook

(April 1, 2006 through March 31, 2007)

May 31, 2007

## 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

## Index

1. Business Policies	P.3-5
2. Operating Results	P.6-8
3. Outlook for the Next Period	P.9
4. Financial Position	P.10-11

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 a professional IT firm, NS Solutions focuses on creating 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:

- ① To expand our business, we pioneer IT-based solutions targeted emerging markets with growth potential and allocate our resources to those markets with priority.
- ② We integrate our sales and manufacturing functions into a single business unit for these target markets and devise the most appropriate business model for each business unit in order to differentiate ourselves and to achieve high profitability.
- ③ Aware that our competitive edge stems from customer confidence and our state-of-the-art technology, we seek to maintain and bolster both.
- ④ We focus on our three core businesses, namely Business Solutions, Platform Solutions and Business Services, in order to provide consistent services ranging from consulting to design, development, operation and maintenance of IT-based solutions.

### *(2) Basic Policy on Profit Sharing and Dividends for the Fiscal Years Ended March 2007 and Ending March 2008*

The Company recognizes the importance of enhancing its competitiveness and increasing its corporate value. Its basic policy on profit sharing is to pay fair and stable dividends to shareholders and secure sufficient internal reserves to expand operations and generate profits.

For the fiscal year ended March 31, 2007, we plan to pay a dividend of ¥17.50 per share (record date is March 31, 2007), as initially planned. Since we provided an interim dividend of ¥17.50 (the record date is September 30, 2006), the total dividend for the fiscal year ended March 31, 2007 will be ¥35.00, an increase of ¥10.00 from the previous fiscal year.

For the fiscal year ending March 31, 2008, to increase the distribution of profits, we intend to pay a dividend of ¥40.00, a rise of ¥5.00, based on our outlook of financial position and profit levels.

To seize appropriate business opportunities and provide quality solutions and services in response to intensifying competition, we plan to allocate internal reserves to strategic investments, namely expanding the menu of solutions, creating services, acquiring cutting-edge IT technologies, and developing human resources. We will also accelerate business strategies, including our alliance strategy.

### ***(3) Medium- to Long-term Business Strategies and Target Management Indices***

Increasingly, business strategies and IT strategies are closely linked and a superior IT strategy is essential to corporate survival. As circumstances surrounding business change, demand for redesigning and restructuring of existing systems rises. It is also necessary to enhance internal controls and address large-scale disasters or information leaks. There is ever growing demand for new systems that will provide IT governance, protect information assets and support disaster recovery.

We will be endeavoring to establish ourselves as a reliable IT partner by accurately identifying what business challenges our clients face, by presenting appropriate methodologies commensurate with the level expected from IT specialists and by offering a broad spectrum of services for the redesign of the entire IT assets of the client, including consulting, systems integration that covers systems planning, development, operation and maintenance, on-demand services and business process outsourcing.

From this managerial perspective, the Company will actively push ahead with business structure reforms, such as preferentially allocating business resources to growth sectors with high customer needs, planning visionary solutions and creating a new business model. By differentiating ourselves from our competitors and winning trust from customers, the Company will work to gain a competitive advantage, achieve sustainable business expansion and improve profitability.

### ***(4) Our Challenges***

#### **① Improving IT platform solutions and IT services**

With the advent of the broadband era, the business environment surrounding the Company is changing significantly. In response to this trend, we established the IT Infrastructure Solutions & Business Service Unit in April, strengthening our organizational structure. We will strive to bolster our IT platform solutions and IT services, which are expected to grow.

In the IT platform solution business, we have provided differentiated solutions in developing large systems, which require high reliability and availability. As customer needs become more complex and diverse, and technologies more sophisticated, we seek to further differentiate ourselves by using IT platform integration skills, especially in our mainstay products, and create and develop unique new solutions, including ID management and integrated backup solutions, using grid computing and utility computing technologies.

In IT services, we have positioned our data center business as a core business and developed competitive operations that call on our strengths. We will continue to step up our efforts in the data center business and pursue our next-generation data center initiative. We will also improve utility services, including IT infrastructure remote operation services, document services and security strengthening, while creating differentiated services and expanding our service menu. In this way, we will develop new IT services.

#### **② Bolstering our operating base**

We will continue to strengthen our operating base such as improving system development processes and system development technologies, tightening internal controls and cultivating human resources.

To improve system development processes and system development technologies, we will continue to promote and establish initiatives such as the standardization and improvement of system development processes, QMO (Quality Management Office) activities, systematic support to projects, and the improvement of system development supporting environment.

To tighten internal controls, we work positively to complete the initiatives that we commenced two years ago to comply with the internal control reporting system that will apply from accounting for the fiscal year ending March 2009. We will strive to integrate the results of the efforts in the development of new solutions and new services for our clients.

To foster and develop our staff, one of our most important management resources, we will continue to bolster our ability to recruit talent and apply a coherent program for the development of our young employees. We will also take steps to reinvigorate individuals and the organization, such as developing a personnel rotation mechanism, designing careers that take life stage into consideration and promoting a system of nine consecutive days holiday, which was introduced in the fiscal year ended March 2006 to encourage employees to take successive days off, and prohibiting in principle working late at night or on holidays.

## 2. Operating Results

### *(1) Trends in the Japanese Economy and Information Services Industry*

The Japanese economy exhibited sustained strength during the fiscal year ended March 31, 2007, supported by rising private capital investment against a background of robust corporate earnings.

Corporate customers invested aggressively in computing systems. IT spending was particularly directed at achieving integration and innovation in backbone systems, including sales, production and distribution systems in the manufacturing and distribution industries. Upgrading mission-critical systems and other large-scale systems in securities firms, major banks, and other organizations was another key spending focus. These trends produced rising sales in the overall information services industry.

### *(2) Highlights for the NS Solutions Group (the “Group”)*

During the fiscal year ended March 31, 2007, the Group deployed total System Life Cycle (SLC) solutions. Adopting a comprehensive approach to meeting more sophisticated and complex needs, the SLC solutions encompass the planning, development, operation and maintenance of customer systems. Consequently, the Group continued to secure orders based on customer trust and was able to exploit new business opportunities. To expand the growing data center business along with other IT services, we invested in data centers and in improving our service lineup. With these initiatives, we took aggressive action to develop our businesses and acquire new customers.

To bolster its operating base, the Group meanwhile took a number of initiatives designed to improve its system development processes, tighten its internal controls, and strengthen its human resources.

For our system development processes, we improved system development processes and shared best practices throughout the Group. Meanwhile, we took steps to develop a centralized support environment for distributed development, or namely a common project support environment. We also sought to entrench our Quality Management Office (QMO) activities to improve the quality of system development.

To tighten internal controls, we focused on responding to the Companies Act, introduced in May 2006, and prepared for the internal control reporting system to take effect from the fiscal year ending March 2009. We work positively to integrate these measures into the development of new solutions and new services.

For human resource development, we steadfastly improved our ability to recruit talent, while encouraging our young employees with a coherent program designed to equip them with the ability to operate as true professionals. In the meantime, we strengthened our alliances with Group companies, used offshore resources effectively, and secured good partner resources.

Consolidated sales for the fiscal year ended March 31, 2007 rose by ¥8,170 million from the previous

fiscal year (¥148,308 million), to ¥156,479 million, reflecting healthy growth in Business Solutions. Consolidated recurring profit was up ¥2,010 million from the year-ago period (¥12,355 million), to ¥14,366 million.

Our performance in each service category (Business Solutions, Platform Solutions and Business Services) is summarized as follows:

**- Business Solutions**

With a robust performance, mainly in solutions for the financial industry, consolidated sales increased by ¥8,573 million from the previous fiscal year (¥83,998 million), to ¥92,572 million.

• **Manufacturing, distribution and services industries.** Customers' willingness to invest in IT to strengthen and expand their operations is firm, encouraged by their strong earnings. This environment produced robust demand for our solutions, our key strengths, including: PLM to shorten the overall development process from design to production, SCM to optimize production, distribution and sales, and SCE to support the execution of operations in transportation and inventory management. We responded to a steady stream of orders for large new projects, including a comprehensive travel reservation service for a major Internet company. We also established ties with new customers, including a leading pharmaceuticals manufacturer.

PLM: Product Lifecycle Management

SCM: Supply Chain Management

SCE: Supply Chain Execution

• **Financial industry.** Financial institutions have a strong appetite for IT investment, reflecting the robust performance of this sector. In response, we worked on a number of large projects relating to market and information systems for mega banks. In addition, we carried out orders for large market and information systems from Japan Post, calling on our superior expertise in risk management. We also continued to enjoy steady demand from major regional banks for solutions compatible with the Basel II regulations, integrated revenue management solutions and integrated risk management solutions.

• **Government agencies and the public sector.** In this segment, we face intensifying competition following government's procurement system reform. Under such circumstances, we constantly implemented projects for central government ministries and agencies in the fields of LAN integration and security enhancement. We also developed and operated differentiated systems in relation to satellites and in other sciences, using our expertise in high technology. Based on research in our Grid & Utility Computing Center, which was established in our Systems Research & Development Center, we received an order for a large-scale grid computing system from a national university and delivered it. The system is one of Japan's largest grid computing

technology-based systems and will be used as a base for research and analysis in Japan for an enormous international experimental project involving more than 1,800 researchers from 35 countries.

**- Platform Solutions**

The performance in the Platform Solutions business was solid, especially in maintenance and engineering. Sales rose by ¥334 million from the previous fiscal year (¥24,180 million), to ¥24,515 million. Our Platform Solutions receive high acclaim in the development of systems where high performance and high reliability are required. We redeveloped the infrastructure of market and information systems for Japan's mega banks and provided an infrastructure for a large website for a major Internet company's comprehensive travel reservation service.

**- Business Services**

With an expansion in the outsourcing market and active development in SLC total solutions, inquiries and orders from clients other than Nippon Steel Corporation were firm. Unfortunately, however, sales to Nippon Steel Corporation were down and as a consequence, sales for Business Services declined by ¥738 million from the year-ago level (¥40,129 million), to ¥39,391 million. In operating services, we have been supporting Nippon Steel Corporation's large steel mill systems under demanding conditions—24 hours a day, seven days a week—for more than 40 years. Building on this experience, we provide high-value added data center services mainly through NSSLC Service Corporation. To improve our ability to deal with customer needs, we have taken ownership of the No.1 Data Center, our main base, which we formerly rented, and have taken steps to bolster our competitiveness in IT services, especially data center services. As a result, we received a steady flow of orders from major Internet companies to upgrade servers and increase the server floor area, enabling our data center business to expand.

To bolster our ability to gather information on advanced IT service examples in the United States and thereby expand our IT services, we restarted NS Solutions USA Corp. in California.

To facilitate these operations, we formed the following business alliances:

With IT governance becoming one of the key strategic challenges for corporate customers, we formed an alliance with CA Japan, Ltd. ("CA") and began to provide integrated solutions covering the entire IT lifecycle, from the selection and execution of investment to the evaluation of the results, using CA's product CA Clarity.

We also entered into a tie-up with Apriso Corporation Japan ("Apriso") and began to develop real-time system-coordination solutions for multiple facilities, including plants and warehouses, which cannot be provided by existing enterprise resource planning packages, using Apriso's product FlexNet.

In IT services, we concluded a business alliance agreement with salesforce.com Co., Ltd., with which we have previously collaborated. This allowed us to sell each other's on-demand services.



### **3. Outlook for the Next Period**

Corporate investment in computing systems is expected to be solid, supported by favorable earnings in the corporate sector. As a corporate IT partner, we seek to meet customer needs, for example by developing IT strategies, reducing TCO (Total Cost of Ownership) and tightening internal controls. And through this approach, we aim to expand the Business Solutions and Platform Solutions. At the same time, we are acting to meet increasing demand for outsourcing and foster IT services, thereby expanding the Business Services.

Our outlook for the fiscal year ending March 2008 is consolidated sales of ¥165,000 million and a consolidated recurring profit of ¥15,000 million.

Forward-looking statements, including outlook for the next fiscal year, are subject to change with unexpected changes in economic conditions. The NS Solutions does not guarantee the accuracy of the statements.

## 4. Financial Position

### (1) Balance Sheets

#### ① Assets

Total assets at the end of the current fiscal year ended March 31, 2007 rose by ¥10,880 million from ¥103,116 million for the previous fiscal year ended March 31, 2006, to ¥113,997 million. The principal factors were an increase of ¥5,002 million in trade notes and accounts receivable, a rise of ¥3,105 million in inventories and a growth of ¥4,982 million in buildings and structures.

#### ② Liabilities

Total liabilities increased by ¥4,390 million from ¥41,487 million to ¥45,878 million, mainly because of a rise of ¥1,930 million in trade notes and accounts payable. The liabilities of the Group consist chiefly of accounts payable and other inter-company credits, accrued income taxes and allowances, including an allowance for employees' retirement benefits. There was no interest-bearing debt, such as borrowings from financial institutions.

#### ③ Net assets

Net assets rose by ¥6,490 million from ¥61,628 million (including minority interests of ¥1,622 million), to ¥68,118 million. Major factors were a net income of ¥8,120 million and dividends of minus ¥1,589 million. The equity ratio was 58.1%.

### (2) Cash Flows

#### ① Statement of cash flows

In the previous fiscal year, net cash and cash equivalents increased by ¥8,626 million. However, in the fiscal year ended March 2007, net cash and cash equivalents decreased by ¥2,223 million to ¥29,510 million. Cash flows from each activity category are as follows:

- *Cash flows from operating activities.* In the fiscal year ended March 31, 2007, the Company generated ¥6,331 million of net cash from operating activities. Income before income taxes of ¥14,360 million, depreciation of ¥1,812 million, among other factors, more than offset the effect of negative factors, including income taxes paid of ¥5,785 million, inter-company credits of ¥3,071 million, an increase in inventories of ¥3,105 million. In the previous fiscal year, the Company generated ¥10,420 million of net cash from operating activities. Income before income taxes of ¥12,873 million, depreciation of ¥1,328 million, and inter-company credits of ¥1,381 million, among other factors, more than offset negative factors, including income taxes paid of ¥6,193 million and an increase in inventories of 130 million.
- *Cash flows from investing activities.* During the fiscal year ended March 31, 2007, the Company used ¥6,916 million in investing activities, mainly because of payments for purchase of property and equipment and intangible fixed assets of ¥6,573 million, led by the purchase of a data center. In the previous fiscal year ended March 31, 2006, the Company

used ¥629 million of net cash in investing activities, primarily the result of payments for purchase of property and equipment and intangible fixed assets of ¥1,479 million.

- *Cash flows from financing activities.* In the fiscal year ended March 31, 2007, the Company used ¥1,640 million in financing activities mainly reflecting dividends paid. In the last fiscal year ended March 31, 2006, the Company used ¥1,172 million in financing activities mainly due to dividends paid.

② Credit lines from financial institutions

The Company has overdraft facilities of ¥4,800 million at major banks. In addition, the Company has an overdraft facility of ¥4,600 million at Nittetsu Finance Co., Ltd., a consolidated subsidiary of Nippon Steel Corporation. Total overdraft facilities are therefore ¥9,400 million.

③ Cash management system (=CMS)

The Company uses the CMS of Nittetsu Finance Co., Ltd. and had deposited ¥15,402 million as of the end of the fiscal year ended March 31, 2007.

The Company also constructs and uses a CMS with eight consolidated subsidiaries. Total deposits collected from the Group companies amounted to ¥6,676 million at the end of the fiscal year ended March 31, 2007.

(Reference) Change in cash flow indicators

	Year ended March 2003	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007
Equity ratio	48.2%	53.1%	55.0%	58.2%	58.1%
Equity ratio on a fair market value basis	96.2%	202.1%	136.0%	168.1%	138.3%

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

Equity ratio on a fair market value basis: Market capitalization based on the term-end stock price / Total assets

(Note 2) The table does not include a debt redemption period because we do not have any interest-bearing debt outstanding as of the term end.

Interest coverage ratio is not included because the amount of interest paid is very small.