

CONSOLIDATED FINANCIAL STATEMENTS

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2004



NS Solutions

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Consolidated Balance Sheets

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Assets			
Current assets;			
Cash and bank deposits (Note 5)	¥ 20,956	¥ 14,605	\$138,187
Deposited money (Notes 5 and 18).....	4,699	12,914	122,188
Trade notes and accounts receivable	38,319	37,462	354,449
Inventories (Note 6)	9,110	7,035	66,563
Deferred tax assets-current (Note 10)	2,224	2,859	27,052
Others	1,165	682	6,461
Allowance for doubtful accounts	(31)	(30)	(287)
Total current assets	76,442	75,527	714,613
Property and Equipment;			
Buildings and structures	1,806	1,606	15,195
Machinery and equipment	6	7	67
Tools, furniture and fixtures	1,760	2,236	21,155
Land (Note 8)	883	883	8,354
Construction in progress	59	277	2,625
Total property and equipment	4,514	5,009	47,396
Intangible fixed assets;			
Software	762	745	7,044
Others.....	267	237	2,243
Total intangible fixed assets	1,029	982	9,287
Investments and other assets;			
Investments in securities (Note 7).....	3,027	3,633	34,373
Long-term prepaid expenses	70	43	406
Deferred tax assets-non-current (Note 10).....	2,834	2,887	27,317
Guarantee deposits.....	2,145	2,271	21,487
Others.....	304	323	3,051
Allowance for doubtful accounts	(41)	(50)	(471)
Total investments and other assets	8,339	9,107	86,163
Total assets	¥ 90,324	¥ 90,625	\$857,459

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Liabilities and Shareholders' Equity			
Current liabilities;			
Trade notes and accounts payable	¥ 23,478	¥ 17,232	\$163,047
Non-trade accounts payable	1,665	1,544	14,606
Accrued income taxes (Note 10)	2,608	3,060	28,953
Accrued expenses	3,659	4,732	44,776
Accrued bonuses to employees	5,118	5,520	52,228
Advance receipts	3,221	2,588	24,485
Deposits	193	230	2,177
Others	2	0	3
Total current liabilities	39,944	34,906	330,275
Non-current liabilities;			
Allowance for employees' retirement benefits (Note 11)	5,478	6,042	57,168
Allowance for directors' retirement benefits	239	229	2,164
Allowance for loss on guarantees (Note 15)	69	69	652
Long-term deposits	13	-	-
Total non-current liabilities	5,799	6,340	59,984
Total liabilities	45,743	41,246	390,259
Minority interest in consolidated subsidiaries	1,076	1,234	11,674
Shareholders' equity;			
Common stock (Note 14)	12,953	12,953	122,554
Authorized: 96,000,000 shares in 2003 and 2004 Issued: 26,499,560 shares in 2003 and 2004			
Additional paid-in capital (Note 14)	9,950	9,950	94,147
Retained earnings	21,273	25,586	242,085
Reserve for revaluation of land (Note 8)	(755)	(757)	(7,166)
Valuation gain on available-for-sale securities	84	417	3,950
Foreign currency translation adjustment	(0)	(4)	(42)
Treasury stock, 31 shares in 2004	-	(0)	(2)
Total shareholders' equity	43,505	48,145	455,526
Total liabilities, minority interests and shareholders' equity	¥ 90,324	¥ 90,625	\$857,459

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

NS Solutions and Consolidated Subsidiaries

For the fiscal years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Net sales	¥ 153,098	¥ 150,844	\$1,427,229
Cost of sales	122,766	123,359	1,167,174
Gross profit	30,332	27,485	260,055
Selling, general and administrative expenses (Note 12).....	18,235	17,759	168,030
Operating income	12,097	9,726	92,025
Other income (expenses);			
Interest income	3	11	101
Dividend income.....	5	9	87
Interest expense.....	(1)	(0)	(1)
Exchange gain.....	3	5	49
Equity in net income of affiliated companies	66	105	994
Loss on revaluation of investments in securities	(171)		
Loss on revaluation of golf memberships	(30)	(15)	(139)
Gain on sale of investments in securities, net.....		715	6,762
Loss on sale of investments in affiliates, net.....		(7)	(70)
Loss on disposal of fixed assets	(43)	(93)	(880)
Loss on disposal of inventories.....		(22)	(209)
Gain on cancellation of insurance		50	471
New stock issuing expenses.....	(48)		
Gain on reversal of allowance for doubtful accounts	12	1	11
Expense for moving of facilities		(291)	(2,755)
Compensation for the delay in the completion of system development.....		(416)	(3,938)
Other, net.....	3	(6)	(52)
Income before income taxes and minority interest	11,896	9,772	92,456
Income Taxes;			
Current (Note 10).....	5,460	5,154	48,762
Deferred (Note 10)	(70)	(918)	(8,681)
Income before minority interest	6,506	5,536	52,375
Minority interest	(259)	(212)	(2,003)
Net income	¥6,247	¥5,324	\$50,372
Net income per share	¥246.58	¥200.40	\$1.90

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

NS Solutions Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Common stock;			
Balance at beginning of year	¥6,838	¥12,953	\$122,554
Issuance of shares of common stock (Note 14)	6,115		
Balance at end of year	12,953	12,953	122,554
Additional paid-in capital;			
Balance at beginning of year	3,838	9,950	94,147
Issuance of shares of common stock (Note 14)	6,112		
Balance at end of year	9,950	9,950	94,147
Retained earnings;			
Balance at beginning of year	15,863	21,273	201,281
Net income.....	6,247	5,324	50,372
Dividends.....	(816)	(994)	(9,402)
Bonuses to directors.....	(21)	(17)	(166)
Balance at end of year	21,273	25,586	242,085
Reserve for revaluation of land;			
Balance at beginning of year	(740)	(755)	(7,142)
Net change during the year.....	(15)	(2)	(24)
Balance at end of year	(755)	(757)	(7,166)
Valuation gain (loss) on available-for-sale securities;			
Balance at beginning of year	236	84	785
Net change during the year.....	(152)	333	3,165
Balance at end of year	84	417	3,950
Foreign currency translation;			
Balance at beginning of year		(0)	(0)
Net change during the year.....	(0)	(4)	(42)
Balance at end of year	(0)	(4)	(42)
Treasury stock;			
Balance at beginning of year			
Net change during the year.....		(0)	(2)
Balance at end of year		(0)	(2)
Total shareholders' equity at end of year	¥43,505	¥48,145	\$455,526

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

NS Solutions Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Cash flows from operating activities;			
Income before income taxes.....	¥11,896	¥9,772	\$92,456
Adjustments to reconcile income before income taxes to net cash provided by operating activities;			
Depreciation.....	1,284	1,203	11,378
Decrease in allowance for doubtful accounts.....	(11)	(1)	(11)
Increase in allowance for employees' retirement benefits, net of payments.....	509	564	5,336
Increase (decrease) in allowance for directors' retirement benefits, net of payments.....	44	(10)	(98)
Interest and dividend income.....	(8)	(20)	(187)
Interest expense.....	1	0	1
Loss on revaluation of investments in securities ...	171		
Loss on revaluation of golf memberships.....	30	15	139
Gain on sale of investments in securities, net.....		(715)	(6,762)
Loss on sale of investments in affiliates, net.....		7	70
Equity in net income of affiliated companies.....	(66)	(105)	(994)
Loss on disposal of fixed assets.....	43	114	1,075
Decrease (increase) in accounts receivable.....	(11,970)	857	8,107
Decrease (increase) in inventories.....	(787)	2,075	19,628
Decrease (increase) in other current assets.....	(603)	483	4,572
Increase (decrease) in accounts payable.....	9,292	(6,246)	(59,095)
Increase in accrued bonuses to employees.....	41	402	3,801
Increase in accrued other current liabilities.....	89	295	2,795
Decrease in long-term deposits.....		(13)	(123)
New stock issuing expenses.....	48		
Bonuses to directors.....	(21)	(18)	(166)
Compensation for the delay in the completion of system development.....		416	3,938
Others, net.....	17	44	420
Sub total.....	9,999	9,119	86,280
Proceeds from interest and dividend income.....	18	32	300
Interest paid.....	(1)	(1)	(1)
Payments for compensation for the delay in the completion of system development.....		(416)	(3,938)
Income taxes paid.....	(8,087)	(4,701)	(44,483)
Net cash provided by operating activities.....	¥1,929	¥4,033	\$38,158

The accompanying notes are an integral part of these financial statements.

	Thousands of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Cash flow from investing activities;			
Payments for purchase of property and equipment and intangible fixed assets	(1,370)	(1,751)	(16,573)
Payments for purchase of investments in securities .	(1,040)	(40)	(380)
Proceeds from sale of investments in securities.....		778	7,365
Proceeds from sale of investments in affiliates.....		10	98
Others, net.....	(269)	(114)	(1,068)
Net cash used for investing activities	(2,679)	(1,117)	(10,558)
Cash flows from financing activities;			
Proceeds from issuance of common stock shares	12,178		
Capital injection by minority shareholders.....	18		
Payment for purchase of treasury stock.....		(0)	(2)
Dividends paid	(815)	(994)	(9,402)
Dividends paid to minority shareholders	(48)	(52)	(494)
Net cash provided by (used for) financing activities.....	11,333	(1,046)	(9,898)
Effect of exchange rate changes on cash and cash equivalents.....		(6)	(60)
Net increase in cash and cash equivalents	10,583	1,864	17,642
Cash and cash equivalents at beginning of year	15,072	25,655	242,732
Cash and cash equivalents at end of year.....	¥25,655	¥27,519	\$260,374

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

1. Nature of Operations

NS Solutions Corporation (referred to as the “Company”) was incorporated on April 1, 1980 as Nippon Steel Computer Systems Co., Ltd., a wholly-owned subsidiary of Nippon Steel Corporation. The Company changed its name in 1988 to Nippon Steel Information & Communication Systems Inc, or ENICOM. Effective April 1, 2001, the Company acquired part of the business of the Electronics & Information Systems Division of Nippon Steel (“EI Division”) and changed its name to NS Solutions Corporation on that date. On October 11, 2002, the Company was successfully listed on the First Section of the Tokyo Stock Exchange. As a result, the parent company’s, Nippon Steel Corporation’s, equity share percentage of the Company became 72%.

NS Solutions Corporation and its consolidated subsidiaries (together, referred to as the “Companies”) are leading information technology solution providers in Japan. The Companies provide integrated solutions which address their customers’ needs for both business applications and system platforms. The Companies provide end-to-end services, including system consulting, planning, design, development, deployment, operation, and maintenance, and total end-to-end outsourcing services. The Companies are adept at providing multi-vendor and mission critical systems solutions, as well as incorporating best-of breed products and technologies to address customer needs.

The Companies’ principal business lines are:

- Business Solutions.

The Companies provide solutions for industry-specific business applications to corporate enterprises, government agencies and public organizations.

- Platform Solutions.

The Companies provide solutions for system platforms including middleware, databases, operating systems, networking systems, storage systems, security systems, and services which enable systems running on diverse platforms to collaborate with each other.

- Business Services.

The Companies provide systems operation and maintenance services and total end-to-end outsourcing services.

2. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by NS Solutions Corporation (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards and of accounting principles and practices generally accepted in the United States. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

3. Summary of Significant Accounting Policies

(1) Principles of consolidation

Effective April 1, 2002, NS Solutions Osaka Corporation was integrated with NS Solutions Kansai Corporation. The assets, liabilities and shareholder's equity of NS Solutions Osaka Corporation were transferred to NS Solutions Kansai Corporation. This integration did not affect the Company's consolidated financial statements. The Company acquired a 70% interest in the shares of NS Solutions Software (Shanghai) Co., Ltd. at its incorporation on October 17, 2002. The Company's consolidated financial statements include the accounts of this entity from that date.

As a result, the consolidated financial statements for the fiscal year ended March 31, 2003, include the accounts of the Company and its 11 significant subsidiaries, as listed below:

- Hokkaido NS Solutions Corporation
- Tohoku NS Solutions Corporation
- NS Solutions Tokyo Corporation
- NS Solutions Kansai Corporation
- NS Solutions Chubu Corporation
- NS Solutions Nishinihon Corporation
- NS Solutions Kanto Corporation
- NS Solutions Oita Corporation
- Nittetsu Hitachi Systems Engineering, Inc.
- NCI Systems Integration, Inc.
- NS Solutions Software (Shanghai) Co., Ltd.

Effective October 1, 2003, NS Solutions Kanto Corporation was integrated with NS Solutions Tokyo Corporation. The assets, liabilities and shareholder's equity of NS Solutions Kanto Corporation were transferred to NS Solutions Tokyo

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

Corporation. This integration did not affect the Company's consolidated financial statements.

As a result, the consolidated financial statements for the fiscal year ended March 31, 2004, include the accounts of the Company and its 10 significant subsidiaries, as listed below:

- Hokkaido NS Solutions Corporation
- Tohoku NS Solutions Corporation
- NS Solutions Tokyo Corporation
- NS Solutions Kansai Corporation
- NS Solutions Chubu Corporation
- NS Solutions Nishinippon Corporation
- NS Solutions Oita Corporation
- Nittetsu Hitachi Systems Engineering, Inc.
- NCI Systems Integration, Inc.
- NS Solutions Software (Shanghai) Co., Ltd.

Due to a decrease in its importance as a result of suspension of its business operations, the investment in NS Solutions USA Corporation, a wholly-owned subsidiary, is stated at cost, after recognition of impairment losses, on the Company's consolidated balance sheets. The total assets, net sales, net income and surplus of NS Solutions USA Corporation are not significant to the Company's consolidated financial statements.

All significant inter-company accounts and transactions and unrealized inter-group profit, if any, have been eliminated on consolidation.

The Company's overseas subsidiary, NS Solutions Software (Shanghai) Co., Ltd., has a fiscal year ending December 31, which differs from that of the Company. This subsidiary does not prepare financial statements at any date after December 31 or on or before March 31 in the following year. Any material transactions occurring in the period January 1 to March 31 are adjusted for in these consolidated financial statements.

(2) Investments in affiliates

The Company's investments in three significant affiliates were accounted for using the equity method for the fiscal years ended March 31, 2003 and 2004, as listed below:

- NS&I System Service Corporation
- Solnet Co., Ltd.
- Hokkaido High Information Technology Center Co., Ltd.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The Company's investments in other affiliates remained at their respective acquisition costs. The net income and surplus of these affiliates are not significant to the Company's consolidated financial statements.

Other affiliates are as follows:

2003	2004
RM Solutions Co. Ltd.	Japan Maintenance and Operation Service Co. Ltd.
iTrust Inc.	

(3) Remeasurement of assets and liabilities of subsidiaries

For consolidated subsidiaries and affiliated companies where the Company exercises control or influence, assets and liabilities of those companies are fully marked to their respective fair values at the date of acquisition of control or influence.

(4) Translation of foreign currency

Assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate prevailing at the relevant balance sheet date.

Assets, liabilities and all income and expense accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rate prevailing at the relevant balance sheet date. Shareholders' equity accounts of foreign subsidiaries and affiliates are translated at historical rates.

The net difference arising from translation of the financial statements of the foreign subsidiaries and affiliates is recorded as a "Foreign currency translation adjustment" in the accompanying consolidated balance sheets.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which have a minor risk of fluctuation in value.

(6) Allowance for doubtful accounts

Receivables are required to be categorized into "normal receivables" and "doubtful receivables" for the purpose of providing an allowance for doubtful accounts under prevailing accounting practice in Japan. An allowance for doubtful accounts is provided for normal receivables based on the Company's historical

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write-off experience, plus an estimate of irrecoverable amounts on an individual account basis.

(7) Allowance for loss on guarantees

An allowance for loss on guarantees is provided at the estimated amount of future losses likely to occur from guaranteeing the indebtedness of other parties, based on the Company's analysis of the other parties' financial condition and results of operations.

(8) Inventories

Inventories are valued at cost as determined by the following methods:

Work-in-process..... the individual cost method

Merchandise and supplies..... primarily, the gross average method

(9) Investments in securities

Available-for-sale securities with a market quotation on a stock exchange are valued at market value. Unrealized holding gains and losses, net of tax, are recognized in "Valuation gain on available-for-sale securities" as a separate component of shareholders' equity.

Available-for-sale securities without a market quotation are recorded at cost. The cost of available-for-sale securities sold is principally based on the moving average cost method.

(10) Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation of ¥4,168 million and ¥4,838 million (\$45,773 thousand) at March 31, 2003 and 2004, respectively. Depreciation of property and equipment is computed principally using the declining-balance method at rates based on the estimated useful lives of the assets. However, depreciation of buildings (except for building improvements) acquired on or after April 1, 1998, is computed using the straight-line method.

The Company launched a new business of leasing property and equipment to clients from October 1, 2003. Depreciation of these leased assets is computed using the straight-line method over the period of the lease contract term, with no residual value.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(11) Intangible fixed assets and long-term prepaid expenses

Amortization of intangible fixed assets and long-term prepaid expenses is computed using the straight-line method over the estimated useful lives of the assets. Software costs for internal use are amortized over their estimated useful lives (less than 5 years) on a straight-line basis.

(12) Goodwill

Goodwill arising from mergers, which represents the excess of the purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over five years unless a more appropriate period of amortization can be identified.

(13) Deferred charges

New stock issuing expenses are charged to income as incurred.

(14) Income taxes

Income taxes consist of corporate income taxes, local inhabitants taxes and enterprise taxes. The Company calculates and records income taxes currently payable based on taxable income determined in accordance with the applicable tax laws.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

(15) Allowance for retirement benefits

(a) Retirement benefits for employees

The employees of the Company are generally covered by retirement benefit plans under which retiring employees are entitled to lump-sum payments determined by reference to current rates of pay, length of service and conditions under which the termination occurs.

An allowance for retirement benefits to employees of the Company and its major consolidated subsidiaries is provided based on the estimated present value of projected benefit obligations. For some minor consolidated subsidiaries, an allowance for retirement benefits to employees is provided using a simple method, as permitted by "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits", based on the estimated amount which would be payable if all employees voluntarily retired at the relevant balance sheet date.

Actuarial gains (losses) are charged as income or expense in the year they arise.

(b) Retirement benefits for directors

Notes to Consolidated Financial Statements

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An allowance for retirement benefits to directors and corporate auditors of the Company and its consolidated subsidiaries is provided based on the Companies' internal rules and is based on the estimated amount which would be payable if all directors and corporate auditors retired at the relevant balance sheet date.

(16) Accrued bonuses to employees

Accrued bonuses to employees are provided at the estimated amount which the Company is obliged to pay to employees after the year-end, based on their service for the six-month period ended on the relevant balance sheet date.

(17) Accounting for finance lease transactions

Finance lease transactions, except for those which are deemed to transfer ownership of the leased assets to lessees, are accounted for using a method similar to that used for regular operating lease transactions.

(18) Net income per share

Net income per share of common stock is computed based on the weighted average number of outstanding shares of common stock during the respective years. Since no convertible bonds or warrants were issued and outstanding, there was no dilutive effect on net income per share during these periods.

The average number of shares used in the computation was 25,262 thousand and 26,500 thousand for the fiscal years ended March 31, 2003 and 2004, respectively. Each of the Company's shares was divided into 4 shares on June 29, 2002, and the weighted average number of outstanding shares adjusted retroactively for the stock splits to the beginning of the year was used in computing net income per share.

Effective from the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 "Net income per Share" issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, net income per share was computed based on the net income shown on the statement of income. The net income per share computation therefore excluded bonuses to directors and statutory auditors, since under the Japanese Commercial Code, these are recognized as an appropriation of retained earnings, in the statement of shareholders' equity, rather than as expenses in the statement of income. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the statement of income, and the computation of net income per share be made

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on that adjusted net income basis. The accounting change did not have a material effect on the net income per share computation.

(19) Accounting for consumption tax

Consumption tax withheld by the Company on revenues and consumption tax paid by the Company on the purchase of goods and on expenses is recorded as an asset or a liability and is not included in the respective account items on the consolidated statements of income.

(20) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, any appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months of the end of each fiscal year. Therefore the appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding fiscal year, as approved at the shareholders' meeting and effected during the relevant year. Dividends are paid to shareholders whose names appear on the shareholders' register as at the end of each fiscal year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings through an appropriation, instead of being charged to the income for the relevant fiscal year.

The Japanese Commercial Code provides that interim cash dividends may be paid as part of the annual dividend, following approval by the Board of Directors. The Company pays such interim dividends to those shareholders who are listed on the shareholders' register at September 30 of the relevant fiscal year.

(21) Recent pronouncement

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Non-current Assets". The standard requires that non-current assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the statement of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. The standard shall be effective for fiscal years beginning April 1, 2005 or thereafter, with possible early adoption for fiscal years ended March 31, 2004 or thereafter. The Company did not adopt this standard for the fiscal year ended March 31, 2004.

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NS Solutions Corporation and Consolidated Subsidiaries

The Company's management does not believe that this standard will have a material effect on the Company's consolidated financial statements.

4. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥105.69=U.S. \$1, the effective rate of exchange prevailing at March 31, 2004, has been used in translation of yen amounts to U.S. dollar amounts. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

5. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2003 and 2004 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Cash and bank deposits.....	¥20,956	¥14,605	\$138,187
Deposited money (Note 18).....	4,699	12,914	122,187
Cash and cash equivalents.....	¥25,655	¥27,519	\$260,374

6. Inventories

Inventories at March 31, 2003 and 2004 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Work-in-process.....	¥7,851	¥6,554	\$62,012
Merchandise and supplies.....	1,259	481	4,551
Total.....	¥9,110	¥7,035	\$66,563

Notes to Consolidated Financial Statements

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7. Investments in Securities

Investments in securities at March 31, 2003 and 2004 are as follows:

(1) Marketable securities classified as available-for-sale securities

The aggregate acquisition cost, gross unrealized gains and losses and carrying amount on the balance sheet, which were re-valued to the related fair value, of available-for-sale securities with market quotations at March 31, 2003 and 2004 are as follows:

March 31, 2003	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥133	¥142	¥	¥275
Others				
Total	¥133	¥142	¥	¥275

March 31, 2004	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥117	¥700	¥(0)	¥817
Others				
Total	¥117	¥700	¥(0)	¥817

March 31, 2004	Thousands of U.S. dollars (Note 4)			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	\$1,103	\$6,628	\$ (0)	\$7,731
Others				
Total	\$1,103	\$6,628	\$ (0)	\$7,731

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(2) Available-for-sale securities sold for the fiscal year ended March 31, 2004

March 31, 2004	Carrying amount	
	Millions of yen	Thousands of U.S. dollars (Note 4)
Proceeds from sale of investments	¥778	\$7,365
Gain on sale of investments	715	6,762
Loss on sale of investments		

(3) Non-marketable securities classified as available-for-sale securities

The following is a summary of non-marketable securities:

March 31,	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Equity securities of unconsolidated subsidiary	¥ 11	¥ 11	\$ 102
Equity securities of affiliates	1,423	1,530	14,476
Others (unlisted equity securities)	1,318	1,275	12,064
Total	¥2,752	¥2,816	\$26,642

8. Property and Equipment

A revaluation of land for business purposes was carried out in accordance with the "Law Concerning the Revaluation of Land" as at March 31, 2000. This law was time-limited to a three-year period. Under this law, from March 31, 1998 to March 31, 2001, Japanese companies were allowed to revalue their land assets held for business purposes to fair value. Unrealized gains and losses were charged directly to shareholders' equity, rather than to the income statement. Application of this law was voluntary, but permitted only one time during the three-year period.

Revaluation charges of ¥1,277 million were deducted from the carrying amounts of land in the year ended March 31, 2000, with a net of tax charge of ¥740 million recorded as "Reserve for revaluation of land", as a separate component of shareholders' equity. As a result, "Total assets" and "Total shareholders' equity" decreased by ¥740 million on March 31, 2000.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

In the year ended March 31, 2003, the statutory tax rate of deferred tax assets and liabilities applicable to those items, that are expected to be reversed in the year beginning April 1, 2004 or later, changed from 42.0% to 40.8% (Note 10). As a result, “Reserve for revaluation of land” and “Deferred tax assets-non-current” decreased by ¥15 million, respectively. Thus, the “Reserve for revaluation of land” became a negative amount of ¥755 million in the shareholder’s equity at the fiscal year ended March 31, 2003.

In the year ended March 31, 2004, the statutory tax rate of deferred tax assets and liabilities changed from 40.8% to 40.6% (Note 10). As a result, “Reserve for revaluation of land” and “Deferred tax assets-non-current” decreased by ¥3 million (\$24 thousand), respectively. Thus, the “Reserve for revaluation of land” became a negative amount of ¥757 million (\$7,166 thousand) in the shareholder’s equity at the fiscal year ended March 31, 2004.

The detail of the revaluation is as follows:

- Method of revaluation

The calculations were made in accordance with the “Law Concerning the Revaluation of Land”.

- Date of revaluation

March 31, 2000.

- Difference between the fair value and carrying amount of the devalued land for business purposes at March 31, 2003 and 2004 was ¥90 million and ¥124 million (\$1,173 thousand), respectively.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

9. Leases

Leased assets, and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the leased assets, are accounted for using a method similar to that used for regular operating leases. Finance lease charges of the Companies for the fiscal years ended March 31, 2003 and 2004 were ¥1,770 million and ¥1,225 million (\$11,587 thousand), respectively. Had they been capitalized, the following items would have been recognized on the consolidated balance sheets and the consolidated statements of income as at and for the fiscal years ended March 31, 2003 and 2004:

March 31, 2003	Millions of yen		
	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	¥ 80	¥ 34	¥ 46
Tools, furniture and fixtures	7,075	5,235	1,840
Others	1,438	923	515
Total	¥8,593	¥6,192	¥2,401

March 31, 2004	Millions of yen		
	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	¥ 97	¥ 54	¥ 43
Tools, furniture and fixtures	4,808	3,587	1,221
Others	1,247	880	367
Total	¥6,152	¥4,521	¥1,631

March 31, 2004	Thousands of U.S. dollars (Note 4)		
	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	\$ 922	\$ 514	\$ 408
Tools, furniture and fixtures	45,489	33,938	11,551
Others	11,799	8,330	3,469
Total	\$58,210	\$42,782	\$15,428

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Depreciation expense	¥1,653	¥1,159	\$10,971
Interest expense	86	50	473

Depreciation is computed using the straight-line method over the lease period of leased assets, with no residual value at the end of the lease period. The interest expense portion is determined by subtracting an amount equivalent to the acquisition cost from the total lease fee. Total interest payments over the lease period are allocated to each period using the interest method.

The present values of future lease payments at March 31, 2003 and 2004 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Within one year	¥1,193	¥817	\$7,734
Over one year	1,355	915	8,660
Total.....	¥2,548	¥1,732	\$16,394

Future operating lease payments under non-cancelable lease contracts at March 31, 2003 and 2004 are as follows;

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Within one year	¥3	¥2	\$20
Over one year	3	4	40
Total.....	¥6	¥6	\$60

10. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes based on income, which in aggregate resulted in a statutory tax rate of approximately 42.0% for the fiscal years ended March 31, 2003 and 2004.

Foreign consolidated subsidiaries are subject to income and other taxes of the countries in which they operate.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the enterprise tax will be the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component; There was only an “income tax based component” before the amendment. Concurrently, the basic tax rate for the “income based component” has been reduced from 9.6% to 7.2%.

As a result of this amendment, the tax rate to be applied to deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to be reversed in the year beginning April 1, 2004 or later, decreased from 42.0% to 40.8% as at March 31, 2003. For temporary differences that are expected to be reversed in the year ending March 31, 2004, a tax rate of 42.0% has continued to be used at that date.

This resulted in a reduction in deferred tax assets at March 31, 2003 by ¥62 million, compared with the asset that would have been recognized if a tax rate of 42.0% had been fully applied to all temporary differences. The “Income taxes-Deferred” benefit also reduced by ¥63 million as a result of these changes in statutory local enterprise tax regulations.

In the year ended March 31, 2004, the statutory tax rate of deferred tax assets and liabilities for both current and non-current items changed to 40.6%. This resulted in a reduction in deferred tax assets at March 31, 2004 by ¥80 million (\$760 thousand), compared with the asset that would have been recognized if respective tax rates before the change had been applied. “Income taxes-Deferred” benefit also reduced by ¥82 million (\$773 thousand) as a result of the change in the statutory tax rates.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

At March 31, 2003 and 2004, the significant components of deferred tax assets and liabilities were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2003
Deferred tax assets:			
Accrued enterprise tax	¥ 239	¥ 279	\$ 2,637
Allowance for bonuses to employees.....	1,816	2,107	19,936
Allowance for employees' retirement benefits	2,002	2,317	21,922
Amortization of software costs.....	834	680	6,438
Elimination of unrealized profits on consolidation	88	85	801
Others.....	508	833	7,884
Total deferred tax assets.....	5,487	6,301	59,618
Deferred tax liabilities:			
Reserve for special tax purposes	(893)	(789)	(7,468)
Valuation gain on available-for-sale securities	(58)	(285)	(2,697)
Total deferred tax liabilities	(951)	(1,074)	(10,165)
Net deferred tax assets (liabilities).....	¥4,536	¥5,227	\$49,453

In addition to net deferred tax assets of ¥4,536 million and ¥5,227 million (\$49,453 thousand) for the fiscal years ended March 31, 2003 and 2004, respectively, mentioned above, a deferred tax asset relating to revaluation loss on land amounting to ¥522 million and ¥520 million (\$4,916 thousand) for the fiscal years ended March 31, 2003 and 2004, was also recognized, resulting in total deferred tax assets of ¥5,058 million and ¥5,746 million (\$54,369 thousand) being recognized on the balance sheets for the fiscal years ended March 31, 2003 and 2004, respectively.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

Reconciliation between the statutory tax rate and the effective tax rate for the fiscal year ended March 31, 2003 is as follows:

March 31, 2003	Percent
Statutory tax rate.....	42.0%
Non-deductible expenses	2.5
Inhabitants tax per capita.....	0.4
Effect of change in the statutory tax rate.....	0.5
Others	(0.1)
Effective income tax rate.....	45.3%

Since the difference between the statutory tax rate and the effective tax rate for the fiscal year ended March 31, 2004 is less than 5%, a reconciliation of these two rates is not presented.

11. Retirement Benefits

The Company and its consolidated domestic subsidiaries have unfunded defined benefit plans covering substantially all employees. The plans provide lump-sum payments or special retirement allowances for voluntary retirement, if necessary.

In addition to above plans, the Company introduced a defined contribution pension plan effective from October 1, 2002.

The projected benefit obligations at the end of March 31, 2003 and 2004 were ¥5,478 million and ¥6,042 million (\$57,168 thousand), respectively. Since no portion of the projected benefit obligations is funded outside the Company, and both the transition difference and actuarial gain or loss are charged to income or expenses in the year they arise, the project benefit obligations are fully recognized as a liability on the consolidated balance sheets.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The net periodic costs relating to retirement benefits for the fiscal years ended March 31, 2003 and 2004 are as follows:

March 31,	Thousands of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Service costs.....	¥539	¥709	\$6,711
Interest costs.....	75	79	750
Amortization of actual loss.....	101	101	953
Allowance for employees' retirement benefits.....	¥715	¥889	\$8,414
Costs of defined contribution pension plan.....	99	250	2,360
Total.....	¥814	¥1,139	\$10,774

The assumptions used in the actuarial computation for the fiscal years ended March 31, 2003 and 2004 above are as follows:

March 31	2003	2004
Method of benefit attribution	Benefit/years of service	Benefit/years of service
Discount rate	1.40 ~ 1.70%	1.50 ~ 2.01%
Period of amortization of unrecognized actual gain or loss.....	1 year	1 year

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

12. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2003 and 2004 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Payroll and bonuses	¥6,811	¥7,267	\$68,755
Allowance for employees' retirement benefits	305	310	2,932
Allowance for directors' retirement benefits.....	81	58	550
Depreciation expense.....	264	193	1,822
Operating expense for acceptance of orders	2,657	2,778	26,284
Write-off of bad debts.....		52	494

13. Research and Development Costs

Research and development costs charged to income for the fiscal years ended March 31, 2003 and 2004 were ¥1,001 million and ¥989 million (\$9,356 thousand), respectively.

14. Shareholders' Equity

(1) Capital increase

Under the Commercial Code of Japan, at least 50% of the issue price of newly issued shares is required to be designated as stated capital.

For the fiscal year ended March 31, 2003, each of the Company's shares was divided into 4 shares on June 29, 2002. In addition, the Company issued 2,340,000 new shares on October 11, 2002. The issue price of new shares was ¥5,225 per share (excluding the commission fees of issuing) and 50% of this issue price, ¥2,613, was designated as stated capital.

The portion which was to be designated as stated capital was determined by a resolution of the Board of Directors. The remaining 50% was credited to "Additional paid-in capital".

(2) Legal reserve

The Commercial Code of Japan provides that an amount equivalent to at least 10% of any appropriations of retained earnings paid in cash for each fiscal year be appropriated as a legal reserve until such legal reserve reaches a certain limit, which is 25% of common stock, less additional paid-in capital, in accordance with an

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

amendment to the Commercial Code. The legal reserve is not available for distribution as cash dividends, but may be used to reduce a deficit or may be transferred to common stock.

The legal reserve included in retained earnings was ¥191 million and ¥216 million (\$2,041 thousand), respectively, at March 31, 2003 and 2004.

(3) Appropriation of retained earnings

In accordance with the Commercial Code of Japan, appropriations of retained earnings are not reflected in the financial statements for each fiscal year. The following appropriation of retained earnings of the Company, including cash dividends applicable to the fiscal years ended March 31, 2003 and 2004, was proposed by the Board of Directors and approved at the shareholders' meeting held on June 25, 2003 and June 24, 2004, respectively.

Appropriation;	Millions of yen		Thousands of
			U.S. dollars
March 31,	2003	2004	(Note 4) 2004
Cash dividends.....	¥530	¥464	\$4,388
(Cash dividends at ¥20.00 per share for 2003 and ¥17.50 (\$0.17) per share for 2004, respectively)			
Directors' bonuses for services rendered	18	13	127
Transfer to special tax purpose reserve.....	163		
Reversal of special tax purpose reserve into retained earnings	(61)	(140)	(1,327)

Those appropriations applicable to the fiscal year ended March 31, 2004 were not recorded in the consolidated financial statements for the fiscal year ended March 31, 2004, but will be recorded in the consolidated financial statements for the fiscal year ending March 31, 2005. Those applicable to the fiscal year ended March 31, 2003 were recorded in the fiscal year ended March 31, 2004 rather than in the fiscal year ended March 31, 2003.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company, in accordance with the Commercial Code of Japan.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

15. Contingent Liabilities

The Company's loss contingencies for guaranteeing the indebtedness of other parties, excluding the portion for which a related allowance is provided as a liability on the consolidated balance sheets, were ¥85 million and ¥58 million (\$546 thousand) at March 31, 2003 and 2004, respectively, both of which are Guarantees for bank loans to Hokkaido High Information Technology Center Co., Ltd.

16. Segment Information

(1) Industry segment information

The Company responds to customer needs through the supply of a variety of information services ranging from information system planning through software development, hardware selection, system operation and system support. Based on the similarities in the type and nature of business, the Company's business constitutes a single segment and accordingly, industry segment information is not disclosed.

(2) Geographic segment information

The domestic proportion in relation to all segments is in excess of 90% in terms of both net income and total assets. Accordingly, geographic segment information is not separately disclosed.

(3) Overseas sales

The overseas share of consolidated net sales is less than 10%. Accordingly, overseas sales information is not separately disclosed.

17. Subsequent Events

(1) Stock Split

Based on the resolutions of the Board of Directors held on April 27, 2004, the Company's shares will be divided into 2 shares, effective on August 19, 2004. As a result, the number of the issued shares shall increase to 52,999,120.

Assuming that the above stock split occurred at the beginning of the fiscal years ended March 31, 2003 and 2004, the net income per share would had been ¥123.29 and ¥100.20 (\$0.95) for the fiscal years ended March 31, 2003 and 2004, respectively.

18. Related Party Transactions

Material transactions of the Company with related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the fiscal years ended March 31, 2003 and 2004 are as follows:

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(1) Parent company

March 31,	2003	2004
Name of the company	Nippon Steel Corporation	Nippon Steel Corporation
Address.....	Chiyoda-ku Tokyo	Chiyoda-ku Tokyo
Common stock amount.....	¥419,524 million	¥419,524 million
Type of business	Steel-making and engineering	Steel-making and engineering
Equity share percentage of the Company	72% (direct)	72% (direct)
Relationship:		
Number of directors and auditors who have a position in both companies	1	1
Number of directors and auditors transferred from the parent company*	12	13
Operational relationship	Sales of systems integration services.	Sales of systems integration services.
	Purchase of systems development services.	Purchase of systems development services.
	Rental of buildings.	Rental of buildings.
Transaction amounts:		
Sales of systems integration services.....	¥24,164 million	¥22,164 million (\$209,710 thousand)
Payment for systems development services and office services	¥69 million	¥65 million (\$613 thousand)
Building rental fee	¥1,346 million	¥1,273 million (\$12,041 thousand)
Labor cost payments for seconded employees from Nippon Steel.....	¥10,346 million	¥815 million (\$7,709 thousand)
Other	¥678 million	¥852 million (\$8,059 thousand)
Balances at fiscal year-end:		
Accounts receivable.....	¥1,993 million	¥1,373 million (\$12,990 thousand)
Other current assets	¥152 million	¥98 million (\$925 thousand)
Guarantee deposits	¥429 million	¥429 million (\$4,057 thousand)
Accounts payable	¥39 million	¥36 million (\$341 thousand)
Accrued expenses	¥168 million	¥156 million (\$1,474 thousand)
Advanced receipts	¥1,948 million	¥1,892 million (\$17,901 thousand)
Other current liabilities		¥31 million (\$298 thousand)

*A Representative Director of the Company was included in the above number of directors transferred from the parent company.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(2) Subsidiary of Nippon Steel

March 31,	2003	2004
Name of the company	Nittetsu Finance Co., Ltd.	Nittetsu Finance Co., Ltd.
Address.....	Chiyoda-ku Tokyo	Chiyoda-ku Tokyo
Common stock amount.....	¥1,000 million	¥1,000 million
Type of business.....	Money lending and operation	Money lending and operation
Relationship:		
Operational Relationship	Sales of system integration services. Deposit of funds.	Sales of systems integration services. Deposit of funds.
Transaction amounts:		
Sales of system integration service.....	¥23 million	¥22 million (\$212 thousand)
Interest income.....		¥9 million (\$84 thousand)
Money deposited.....	¥6,600 million	¥13,509 million (\$127,817 thousand)
Money refunded.....	¥9,300 million	¥5,500 million (\$52,039 thousand)
Balances at fiscal year-end:		
Accounts receivable	¥2 million	¥2 million (\$18 thousand)
Deposited money	¥4,501 million	¥12,510 million (\$118,361 thousand)

Report of Independent Auditors

To the Board of Directors and Shareholders of
NS Solutions Corporation

We have audited the accompanying consolidated balance sheets of NS Solutions Corporation and its subsidiaries (the "Company") as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NS Solutions Corporation and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (see Note 3).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Tokyo, Japan
June 24, 2004

ChuoAoyama PricewaterhouseCoopers