

# CONSOLIDATED FINANCIAL STATEMENTS

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2006



**NS Solutions**

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# Consolidated Balance Sheets

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
<b>Assets</b>			
Current assets;			
Cash and bank deposits (Note 5) .....	¥ 11,478	¥ 12,845	\$109,350
Deposited money (Notes 5 and 18).....	11,621	18,880	160,722
Trade notes and accounts receivable .....	37,265	34,234	291,426
Inventories.....	7,502	7,634	64,982
Deferred tax assets-current (Note 9) .....	3,004	3,218	27,389
Others .....	480	571	4,865
Allowance for doubtful accounts .....	(23)	(21)	(177)
Total current assets.....	71,327	77,361	658,557
Property and Equipment (Note 3(11));			
Buildings and structures .....	1,366	1,590	13,531
Machinery and equipment .....	9	8	71
Tools, furniture and fixtures .....	2,166	2,097	17,859
Land (Note 7) .....	883	883	7,516
Construction in progress .....	75	283	2,406
Total property and equipment.....	4,499	4,861	41,383
Intangible fixed assets;			
Software .....	540	430	3,655
Others.....	129	94	799
Total intangible fixed assets.....	669	524	4,454
Investments and other assets;			
Investments in securities (Note 6).....	4,496	2,928	24,926
Long-term prepaid expenses .....	21	38	325
Deferred tax assets-non-current (Note 9).....	3,265	3,111	26,482
Guarantee deposits.....	1,837	2,045	17,413
Long term loan-related party.....	12,000	12,000	102,154
Others.....	309	304	2,584
Allowance for doubtful accounts.....	(51)	(55)	(466)
Total investments and other assets.....	21,877	20,371	173,418
Total assets .....	¥ 98,372	¥ 103,117	\$877,812

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities;			
Trade notes and accounts payable .....	¥ 17,341	¥ 15,691	\$133,577
Non-trade accounts payable.....	1,498	1,647	14,021
Accrued income taxes .....	3,767	3,806	32,403
Accrued expenses.....	2,826	2,605	22,173
Accrued bonuses to employees.....	5,713	5,803	49,394
Accrued bonuses to directors .....		22	337
Advance receipts.....	4,236	3,212	27,342
Deposits.....	177	187	1,589
Allowance for program product warranties.....		337	2,869
Others.....		67	572
Total current liabilities .....	35,558	33,377	284,130
Non-current liabilities;			
Allowance for employees' retirement benefits (Note 10).....	6,939	7,810	66,491
Allowance for directors' retirement benefits .....	287	232	1,971
Allowance for loss on guarantees (Note 14) .....	69	69	587
Total non-current liabilities.....	7,295	8,111	69,049
Total liabilities.....	42,853	41,488	353,179
Minority interest in consolidated subsidiaries .....	1,415	1,623	13,812
Shareholders' equity;			
Common stock (Note 13) .....	12,953	12,953	110,265
Authorized: 192,000,000 shares in 2005 and 2006 Issued: 52,999,120 shares in 2005 and 2006			
Additional paid-in capital (Note 13) .....	9,950	9,950	84,706
Retained earnings (Note 13) .....	31,266	37,600	320,082
Reserve for revaluation of land (Note 7) .....	(757)	(1,277)	(10,871)
Valuation gain on available-for-sale securities .....	700	780	6,644
Foreign currency translation adjustment .....	(6)	2	15
Treasury stock, 643 shares in 2005 and 750 shares in 2006.....	(2)	(2)	(20)
Total shareholders' equity.....	54,104	60,006	510,821
Total liabilities, minority interests and shareholders' equity.....	¥ 98,372	¥ 103,117	\$877,812

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, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
<b>Net sales</b> .....	¥ 146,526	¥ 148,308	\$1,262,521
<b>Cost of sales</b> .....	117,062	117,789	1,002,722
<b>Gross profit</b> .....	29,464	30,519	259,799
<b>Selling, general and administrative expenses</b> (Notes 11 and 12) .....	17,754	18,402	156,648
<b>Operating income</b> .....	11,710	12,117	103,151
<b>Other income (expenses);</b>			
Interest income .....	73	136	1,153
Dividend income.....	8	11	94
Interest expense .....			
Exchange gain (loss) .....	(5)	(11)	(93)
Equity in net income of affiliated companies .....	162	156	1,329
Loss on revaluation of investments in securities .....	(18)	(116)	(985)
Loss on revaluation of golf memberships .....	(23)		
Gain on sale of investments in securities, net.....	184		
Loss on sale of investments in affiliates, net.....		494	4,207
Loss on disposal of fixed assets .....	(82)	(55)	(466)
Loss on disposal of inventories.....	(83)	(16)	(133)
Gain on sale of patent rights .....		140	1,190
Gain on reversal of allowance for doubtful accounts .....	7		
Expense for moving of facilities .....	(63)		
Loss of telephone subscription rights .....	(81)		
Others, net.....	8	18	146
<b>Income before income taxes and minority interest</b> .....	<b>11,797</b>	<b>12,874</b>	<b>109,593</b>
<b>Income Taxes;</b>			
Current (Note 9).....	5,667	5,760	49,038
Deferred (Note 9) .....	(713)	(618)	(5,268)
<b>Income before minority interest</b> .....	<b>6,843</b>	<b>7,732</b>	<b>65,823</b>
<b>Minority interest</b> .....	<b>(222)</b>	<b>(250)</b>	<b>(2,131)</b>
<b>Net income</b> .....	<b>¥6,621</b>	<b>¥7,482</b>	<b>\$63,692</b>
<b>Net income per share (Note 3(18))</b> .....	<b>¥124.52</b>	<b>¥141.17</b>	<b>\$1.20</b>

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, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
<b>Common stock (Note 13);</b>			
Balance at beginning of year .....	¥12,953	¥12,953	\$110,264
Balance at end of year .....	12,953	12,953	110,264
<b>Additional paid-in capital (Note 13);</b>			
Balance at beginning of year .....	9,950	9,950	84,706
Balance at end of year .....	9,950	9,950	84,706
<b>Retained earnings (Note 13);</b>			
Balance at beginning of year .....	25,586	31,266	266,160
Net income.....	6,621	7,482	63,692
Cash Dividends .....	(928)	(1,127)	(9,587)
Bonuses to directors.....	(13)	(21)	(183)
Balance at end of year .....	31,266	37,600	320,082
<b>Reserve for revaluation of land (Note 7);</b>			
Balance at beginning of year .....	(757)	(757)	(6,447)
Net change during the year.....		(520)	(4,424)
Balance at end of year .....	(757)	(1,277)	(10,871)
<b>Valuation gain on available-for-sale securities;</b>			
Balance at beginning of year .....	417	700	5,961
Net change during the year.....	283	80	683
Balance at end of year .....	700	780	6,644
<b>Foreign currency translation adjustment;</b>			
Balance at beginning of year .....	(4)	(6)	(48)
Net change during the year.....	(2)	8	64
Balance at end of year .....	(6)	2	16
<b>Treasury stock;</b>			
Balance at beginning of year .....	(0)	(2)	(17)
Net change during the year.....	(2)	(0)	(3)
Balance at end of year .....	(2)	(2)	(20)
<b>Total shareholders' equity at end of year .....</b>	<b>¥54,104</b>	<b>¥60,006</b>	<b>\$510,821</b>

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, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
<b>Cash flows from operating activities;</b>			
Income before income taxes and minority interest ....	¥11,797	¥12,874	\$109,593
Adjustments to reconcile income before income taxes to net cash provided by operating activities;			
Depreciation.....	1,307	1,328	11,310
Amortization of consolidation goodwill .....	4		
Decrease in allowance for doubtful accounts.....	(7)	2	15
Increase in allowance for employees' retirement benefits, net of payments.....	898	871	7,415
Decrease (increase) in allowance for directors' retirement benefits, net of payments.....	58	(55)	(470)
Increase in other allowances.....		359	3,059
Interest and dividend income .....	(81)	(147)	(1,247)
Loss on revaluation of investments in securities ...	18	116	985
Loss on revaluation of golf memberships.....	23		
Gain on sale of investments in securities, net .....	(184)		
Loss on sale of investments in affiliates, net.....		(494)	(4,207)
Equity in net income of affiliated companies.....	(162)	(156)	(1,329)
Loss on disposal of fixed assets.....	82	42	356
Decrease in accounts receivable .....	196	3,031	25,809
Decrease (increase) in inventories.....	(467)	(131)	(1,111)
Decrease in other current assets .....	205	161	1,370
Decrease (increase) in accounts payable.....	108	(1,650)	(14,047)
Increase in accrued bonuses to employees.....	193	90	763
Increase (decrease) in accrued other current liabilities .....	(43)	(1,147)	(9,763)
Bonuses to directors .....	(13)	(21)	(183)
Loss on impairment of telephone subscription rights.....	81		
Others, net .....	248	106	898
Sub total .....	14,261	15,179	129,216
Proceeds from interest and dividend income .....	101	1,434	12,212
Income taxes paid.....	(5,173)	(6,193)	(52,724)
Net cash provided by operating activities.....	¥9,189	¥10,420	\$88,704

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
<b>Cash flow from investing activities;</b>			
Payments for purchase of property and equipment and intangible fixed assets .....	(966)	(1,480)	(12,595)
Payments for purchase of investments in securities .	(306)	(1)	(10)
Proceeds from sale of investments in securities.....	224		
Proceeds from sale of investments in affiliates.....		914	7,783
Payments for long term loan-related party .....	(12,000)		
Others, net.....	414	(63)	(540)
Net cash used in investing activities .....	(12,634)	(630)	(5,362)
<b>Cash flows from financing activities;</b>			
Payment for purchase of treasury stock .....	(2)	0	(2)
Dividends paid .....	(928)	(1,127)	(9,587)
Dividends paid to minority shareholders .....	(44)	(46)	(392)
Net cash used in financing activities .....	(974)	(1,173)	(9,981)
Effect of exchange rate changes on cash and cash equivalents.....	(1)	9	77
Net increase in cash and cash equivalents .....	(4,420)	8,626	73,438
<b>Cash and cash equivalents at beginning of year .....</b>	<b>27,519</b>	<b>23,099</b>	<b>196,635</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>¥23,099</b>	<b>¥31,725</b>	<b>\$270,073</b>

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

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## 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. Following this, the parent company’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 the Company and its consolidated subsidiaries in accordance with the provisions set forth in the Corporation Law of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from



# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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the application and disclosure requirements of International Financial Reporting Standards and of accounting principles and practices generally accepted and applied 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

The consolidated financial statements for the fiscal years ended March 31, 2005 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 Nishinohon Corporation
- NS Solutions Oita Corporation
- Nittetsu Hitachi Systems Engineering, Inc.
- NCI Systems Integration, Inc.
- NS Solutions Software (Shanghai) Co., Ltd.

The Company added NSSLC Service Corporation to the scope of consolidation from the fiscal year ended March 31, 2006. NSSLC Service Corporation was established by a spin-off from NS Solutions Tokyo Corporation on April 1, 2005.

As a result, the consolidated financial statements for the fiscal years ended March 31, 2006 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 Nishinohon Corporation
- NS Solutions Oita Corporation
- NSSLC Service Corporation

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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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 differ 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 the three significant affiliates were accounted for using the equity method for years ended March 31, 2005 as listed below:

NS&I System Service Corporation

Solnet Co., Ltd.

Hokkaido High Information Technology Center Co., Ltd.

The Company excluded NS&I System Service Corporation from the scope of the equity method at the end of the third quarter, due to the sale of the Company's ownership interest in it on December 28, 2005.

As a result, the Company's investments in the two significant affiliates were accounted for using the equity method for years ended March 31, 2006 as listed below:

Solnet Co., Ltd.

Hokkaido High Information Technology Center Co., Ltd.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## **(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 a foreign subsidiary are translated into Japanese yen at the exchange rate prevailing at the relevant balance sheet date. Shareholders' equity accounts of a foreign subsidiary are translated at historical rates.

The net difference arising from translation of the financial statements of the foreign subsidiary 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 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 status and results of operations.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## **(8) Allowance for program product warranties**

Allowance for program product warranties is provided at the estimated amount computed by the actual rate of the past expenditure, in order that the Company prepare for expenditure of program product warranties in the future.

Effective from the year ended March 31, 2006, the Company adopted the above procedure. Prior to this adoption, program product warranty expenses were charged to income in the fiscal year when the payment was made. Compared to the results which would have been obtained applying the same procedure as that used in the previous period, operating income and income before income taxes and minority interests decreased ¥337 million(\$2,869 thousand).

## **(9) 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

## **(10) 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.

## **(11) Property and Equipment**

Property and equipment is recorded at cost, net of accumulated depreciation of ¥5,437 million and ¥6,210 million (\$52,862 thousand) at March 31, 2005 and 2006 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.

Depreciation of 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.

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### **(12) 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.

### **(13) Consolidation goodwill**

Consolidation goodwill arising from mergers and acquisitions, 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.

### **(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**

An allowance for retirement benefits to directors and corporate auditors of the Company and its consolidated subsidiaries is provided based on the Companies'

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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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**

#### **(a) Bonuses to employees**

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

#### **(b) Bonuses to directors**

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

Effective from the year ended March 31, 2006, the Company adopted the Statement of “Practical solution on Directors’ Bonus” issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, bonuses to directors and corporate auditors were included in an appropriation of retained earnings. However the new statement requires that bonuses to directors and corporate auditors which proposed outside appropriation of retained earnings should be charged to the income for the relevant fiscal year. Compared to the results which would have been obtained applying the same procedure as that used in the previous period, operating income and income before income taxes and minority interests decreased ¥22 million (\$190 thousand).

### **(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 periods. Under the Statement of Financial Accounting Standard No. 2 “Net income per Share” issued by the Accounting Standards Board of Japan, net income should be adjusted by deducting the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the statements of income, and the computation of net income per share be made on that adjusted net income basis. Since no convertible bonds or warrants were issued and outstanding, there was no dilutive effect on net income per share during these periods.

## Notes to Consolidated Financial Statements

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The average number of shares used in the computation was 52,999 thousand and 52,998 thousand for the fiscal years ended March 31, 2005 and 2006, respectively.

### **(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 Corporation Law 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 Corporation Law 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) Accounting standard for impairment of fixed assets**

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed 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 income statement by reducing the carrying amount of impaired assets or group of assets to the recoverable amount to be measured as the higher of net selling price and value in use. The standard shall be effective for fiscal years beginning April 1, 2005, or thereafter, with early adoption possible for fiscal years ended March 31, 2004, or thereafter.

The Company adopted this standard with effective from the year beginning April 1,

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

2005. The adoption of this standard had no effect on the Company's consolidated financial statements for the fiscal year ended March 31, 2006.

### 4. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥117.47=U.S. \$1, the effective rate of exchange prevailing at March 31, 2006, 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, 2005 and 2006 are as follows:

March 31,	Millions of yen		Thousands of U.S.
	2005	2006	dollars (Note 4)
Cash and bank deposits.....	¥11,478	¥12,845	\$109,350
Deposited money .....	11,621	18,880	160,722
Cash and cash equivalents.....	¥23,099	¥31,725	\$270,072

### 6. Investments in Securities

Investments in securities at March 31, 2005 and 2006 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, 2005 and 2006 are as follows:

March 31, 2005	Millions of yen			Carrying amount
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Equity securities.....	¥415	¥1,182	¥(14)	¥1,583
Total .....	¥415	¥1,182	¥(14)	¥1,583



## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2006	Millions of yen			Carrying amount
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Equity securities .....	¥416	¥1,267		¥1,684
<b>Total .....</b>	<b>¥416</b>	<b>¥1,267</b>		<b>¥1,684</b>

March 31, 2006	Thousands of U.S. dollars (Note4)			Carrying amount
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Equity securities .....	\$3,543	\$10,788		\$14,331
<b>Total .....</b>	<b>\$3,543</b>	<b>\$10,788</b>		<b>\$14,331</b>

### (2) Available-for-sale securities sold for the fiscal years ended March 31, 2005 and 2006

March 31, 2005	Millions of yen	Thousands of U.S. dollars (Note 4)
	Carrying amount	
Proceeds from sale of investments .....	¥224	\$2,090
Gain on sale of investments .....	184	1,715
Loss on sale of investments .....		

March 31, 2006	Millions of yen	Thousands of U.S. dollars (Note 4)
	Carrying amount	
Proceeds from sale of investments .....		
Gain on sale of investments .....		
Loss on sale of investments .....		

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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

The following is a summary of non-marketable securities:

March 31,2006	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Equity securities of unconsolidated subsidiary.....	¥ 11	¥ 11	\$ 92
Equity securities of affiliates .....	1,646	1,338	11,390
Others (unlisted equity securities) .....	1,255	1,084	9,232
<b>Total .....</b>	<b>¥2,912</b>	<b>¥2,433</b>	<b>\$20,714</b>

## 7. 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.

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 revalued land for business purposes at March 31, 2005 and 2006 was ¥140 million and ¥160 million (\$1,365 thousand), respectively.

## 8. 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 31,2005 and 2006 were ¥807 million and ¥463 million(\$3,946 thousand), respectively. Had they been capitalized, the following items would have been recognized on the consolidated balance sheets and the

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

consolidated statements of income as at and for the fiscal years ended March 31, 2005 and 2006:

March 31, 2005	Millions of yen		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment.....	¥ 97	¥ 75	¥ 22
Tools, furniture and fixtures.....	3,092	2,387	705
Software.....	777	569	208
<b>Total .....</b>	<b>¥3,966</b>	<b>¥3,031</b>	<b>¥ 935</b>

March 31, 2006	Millions of yen		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment.....	¥ 26	¥ 17	¥ 9
Tools, furniture and fixtures.....	1,897	1,416	481
Software.....	476	358	118
<b>Total .....</b>	<b>¥2,399</b>	<b>¥1,791</b>	<b>¥ 608</b>

March 31, 2006	Thousands of U.S. dollars (Note 4)		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment.....	\$ 220	\$ 144	\$ 76
Tools, furniture and fixtures.....	16,149	12,052	4,097
Software.....	4,055	3,044	1,011
<b>Total .....</b>	<b>\$20,424</b>	<b>\$15,240</b>	<b>\$5,184</b>

March 31,	Millions of yen		Thousands of
	2005	2006	U.S. dollars
			(Note 4)
			2006
Depreciation expense .....	¥748	¥431	\$3,668
Interest expense .....	33	19	164

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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, 2005 and 2006 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Within one year .....	¥437	¥246	\$ 2,090
Over one year .....	550	387	3,290
Total.....	¥987	¥633	\$5,380

Future operating lease payments under non-cancelable lease contracts at March 31, 2005 and 2006 are as follows;

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Within one year .....	¥2	¥2	\$14
Over one year .....	2	1	5
Total.....	¥4	¥3	\$19

### 9. 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 40.6% for the fiscal years ended March 31, 2005 and 2006.

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

At March 31, 2005 and 2006, the significant components of deferred tax assets and liabilities were as follows:

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Deferred tax assets:			
Accrued enterprise tax .....	¥ 314	¥ 325	\$ 2,763
Accrued bonuses to employees.....	2,120	2,165	18,430
Allowance for employees' retirement benefits.....	2,747	3,167	26,960
Amortization of software costs.....	658	628	5,349
Elimination of unrealized profits on consolidation.....	119	97	822
Others.....	832	1,045	8,893
Subtotal deferred tax assets.....		7,426	63,217
Valuation allowance.....		( 170 )	(1,448)
Total deferred tax assets.....	6,789	7,256	61,769
Deferred tax liabilities:			
Reserve for special tax purposes .....	(564)	(412)	(3,509)
Valuation gain on available-for-sale securities .....	(475)	(516)	(4,390)
Total deferred tax liabilities .....	(1,039)	(928)	(7,898)
Net deferred tax assets.....	¥5,750	¥6,328	\$53,871

In addition to net deferred tax assets of ¥5,750 million and ¥6,328 million (\$53,871 thousand) for the fiscal years ended March 31, 2005 and 2006, respectively, mentioned above.

Since the difference between the statutory tax rate and the effective tax rate for the fiscal years ended March 31, 2005 and 2006 is less than 5%, a reconciliation of these two rates is not presented.

### 10. 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.

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The projected benefit obligations at the end of March 31, 2005 and 2006 were ¥6,939 million and ¥7,811 million (\$66,492 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.

The net periodic costs relating to retirement benefits for the fiscal years ended March 31, 2005 and 2006 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Service costs.....	¥689	¥846	\$7,206
Interest costs.....	88	101	858
Amortization of actual loss.....	352	142	1,205
Allowance for employees' retirement benefits.....	¥1,129	¥1,089	\$9,269
Costs of defined contribution pension plan.....	297	350	2,978
Total.....	¥1,426	¥1,439	\$12,247

The assumptions used in the actuarial computation for the fiscal years ended March 31, 2005 and 2006 above are as follows:

March 31,	2005	2006
Method of benefit attribution .....	Benefit/years of service	Benefit/years of service
Discount rate .....	1.50 ~ 2.01%	1.50 ~ 2.01%
Period of amortization of unrecognized actual gain or loss.....	1 year	1 year

### 11. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2005 and 2006 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Payroll and bonuses .....	¥7,230	¥7,152	\$60,880

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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Provision for allowance for bonuses to directors .....		22	337
Provision for allowance for employees' retirement benefits.....	367	364	3,103
Provision for allowance for directors' retirement benefits .....	74	74	627
Depreciation expense.....	153	177	1,505
Operating expense for acceptance of orders .....	2,649	2,844	24,213

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### 12. Research and Development Costs

Research and development costs of general and administrative expenses charged to income for the fiscal years ended March 31, 2005 and 2006 were ¥1,177 million and ¥ 1,254 million (\$10,677 thousand), respectively.

### 13. Shareholders' Equity

#### (1) Capital increase

Under the Corporation Law of Japan, at least 50% of the issue price of newly issued shares is required to be 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 Corporation Law 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 amendment to the Corporation Law. 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 ¥226 million and ¥247 million (\$2,101 thousand) at March 31, 2005 and 2006, respectively.

#### (3) Appropriation of retained earnings

In accordance with the Corporation Law 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, 2005 and 2006, was proposed

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

by the Board of Directors and approved at the shareholders' meeting held on June 24, 2005 and June 27, 2006, respectively.

Appropriation;	Millions of yen		Thousands of
			U.S. dollars
March 31,	2005	2006	(Note 4) 2006
Cash dividends.....	¥464	¥662	\$4,318
(Cash dividends at ¥8.75 per share for 2005 and ¥12.5 (\$0.11) per share for 2006, respectively)			
Bonuses to directors .....	21		
Reversal of special tax purpose reserve into retained earnings .....	(178)	(221)	(1,882)

Those appropriations applicable to the fiscal year ended March 31, 2006 were not recorded in the consolidated financial statements for the fiscal year ended March 31, 2006, but will be recorded in the consolidated financial statements for the fiscal year ending March 31, 2007. Those applicable to the fiscal year ended March 31, 2005 were recorded in the fiscal year ended March 31, 2006 rather than in the fiscal year ended March 31, 2005.

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 Corporation Law of Japan.

### 14. 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 ¥30 million and ¥2 million (\$19 thousand) at March 31, 2005 and 2006, respectively, each of which are Guarantees for bank loans of the Hokkaido High Information Technology Center Co., Ltd.

### 15. Derivative Transactions

The Companies do not engage in derivative transactions.

### 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



# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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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

There have been no material events subsequent to March 31, 2006.

## 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, 2005 and 2006 are as follows:

### (1) Parent company

March 31,	2005	2006
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* .....	14	10
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.
	Loan	Loan
Transaction amounts:		

# Notes to Consolidated Financial Statements

## NS Solutions Corporation and Consolidated Subsidiaries

Sales of systems integration services.....	¥20,194 million	¥20,042 million (\$170,618 thousand)
Payment for systems development services and office services .....	¥362 million	¥209 million (\$1,782 thousand)
Building rental fee .....	¥1,275 million	¥1,252 million (\$10,655 thousand)
Interest income.....	¥55 million	¥108 million (\$922 thousand)
Loan .....	¥12,000 million	
Other .....	¥712 million	¥566 million (\$4,822 thousand)
Balances at fiscal year-end:		
Accounts receivable.....	¥1,476 million	¥1,510 million (\$12,856 thousand)
Other current assets.....	¥41 million	¥9 million (\$74 thousand)
Long term loan.....	¥12,000 million	¥12,000 million (\$102,154 thousand)
Guarantee deposits.....	¥429 million	¥429 million (\$3,650 thousand)
Accounts payable .....	¥49 million	¥28 million (\$239 thousand)
Advanced receipts .....	¥2,524 million	¥1,904 million (\$16,207 thousand)
Other current liabilities .....	¥40 million	¥6 million (\$51 thousand)

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

## (2) Subsidiary of Nippon Steel

March 31,	2005	2006
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 systems integration services. Deposit of funds.	Sales of systems integration services. Deposit of funds.
Transaction amounts:		
Sales of system integration service.....	¥66 million	¥28 million (\$237 thousand)
Interest income.....	¥16 million	¥25 million (\$217 thousand)
Money deposited.....	¥16,816 million	¥14,325 million (\$121,950 thousand)
Money refunded.....	¥18,400 million	¥7,000 million (\$59,590 thousand)
Balances at fiscal year-end:		

## Notes to Consolidated Financial Statements

### NS Solutions Corporation and Consolidated Subsidiaries

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Accounts receivable .....	¥37 million	¥2 million (\$16 thousand)
Deposited money .....	¥10,925 million	¥18,251 million (\$155,365 thousand)

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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, 2005 and 2006, 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, 2005 and 2006, 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.



ChuoAoyama PricewaterhouseCoopers  
Tokyo, Japan  
June 27, 2006