

NS Solutions

Business Results and Outlook

(April 1, 2004 through March 31, 2005)

May 13, 2005

NS Solutions Corp.

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

Index

1. Business Policies	P.3-11
2. Operating Results	P.12-15
3. Analysis of Operating Results	P.16-18
4. Outlook for the Next Period	P.19
5. Financial Position	P.20-22
6. Business Risks	P.23-24

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

1.Business Policies

(1) Our Basic Business Policies

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

Creation, Reliability and Growth

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

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

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

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

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

We focus on our three core businesses (i.e. Business Solutions, Platform Solutions and Business Services) to provide coherent services ranging from consulting services, design, development and implementation of solutions to maintenance service.

(2) Basic Policy on Profit Sharing

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

In the fiscal year ended March 31, 2005, we will provide a ¥ 8.75 term-end dividend per share as initially scheduled. As we have already provided a ¥ 8.75 mid-term dividend per share, the annual total of dividend per share will be ¥ 17.50.

Concerning the dividend for the fiscal year ending March 31, 2006, in view of the outlook for our financial position and level of profitability and from the viewpoint of return to shareholders, we plan to provide an annual total of dividend of ¥ 25 per share.

Concerning the internal reserve, in order to combat the fierce competition and provide a high-quality solution service in a timely manner, we plan to spend our internal reserve for strategic investment such as expanding our solution menu, obtaining advanced information technologies and human resources development as well as for stepping up implementation of business strategies including forming alliances with other companies, which the Corporate Planning and Strategic Alliance Department established in

April last year is taking the lead in reviewing.

(3) Trading volume unit

In order to enhance active trading on stock markets and expand our shareholder base, the Company executed a 2-for-1 stock split as of August 19, 2004. (To shareholders of record on June 30, 2004)

(4) Our business strategy in the medium to long term and Management index targeted

Customers are positive about IT investment for a good corporate performance. However, while there is a growing recognition that corporate competitiveness is decided depending on clever IT strategy and high-quality IT investment, there are increasing customers' needs for improvement in ROI (Return On Investment) and reduction in TCO. Under such circumstances, in the information service industry IT firms are clearly being dichotomized into two groups, that is, firms that have solution-proposing and high technological capability to properly address the diversity and complexity of customers' needs and those that do not. Competition among IT firms is predicted to intensify.

In such market environment, by taking advantage of having the capability to provide coherent services for the system life cycle ranging from consulting, design, development, operation to maintenance, the Company aims at becoming a reliable IT partner that can address customers' needs for an IT strategy.

From a management perspective, the Company will positively pursue business structure reform such as allocating selectively business resources to growing sectors in which there are increasing customers' needs, planning advanced solutions and creating a new business model. By differentiating and obtaining customer confidence, the Company will gain the edge on its rivals, and will achieve the objectives of sustainable business expansion and improvement in profitability.

(5) Our Challenges

Enhancement of technological capability to develop systems as the organization.

We have enjoyed an excellent reputation from our customers for our highly technological capability to develop systems, which are typified by successful execution of large-scale projects and by the performance of the Systems Research and Development Center. In order to continue to maintain our competitiveness, which is top-ranked in the industry, the Company will redefine optimal role-sharing among the Company, subsidiaries and partner firms. Moreover, the Technology Bureau established in April this year will take the lead in wrestling with, with all might of the NS Solutions group, the task of constructing a common development process, developing and utilizing development support tools and project management tools and establishing the technique of fostering development in remote and off-shore, and will enhance the technological capability to develop systems as the organization and establish a more competitive business structure of the NS Solutions group.

Concerning the development of human resources shouldering these duties, the Company, through applying the IT Skill Standard (ITSS), will expand internal training schemes to improve our employees' abilities so that they are able to provide better solutions, proposals and properly manage various projects. Moreover, for the purpose of developing, securing, treating and revitalizing personnel who are highly professional, the Company has newly established the system entitled the "Executive Professional

System”.

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

The Company will step up its inter-organization cooperation of sales activities, which it has long pursued. The Strategic Marketing and Vendor Alliance Department established in April this year will take the lead in tackling, on a full scale, the task of reforming sales process such as introduction of a sales portal to promote sharing information. Moreover, the Company will improve the existing solutions. Grasping properly customers’ needs and the market/technical trends and taking alliances with other vendors into consideration, the Company will endeavor to create new solutions mainly at the Corporate IT Consulting Center which is specialized in design and consulting of solutions as well as the Solution and Business Innovation Department, which was recently established in the business unit.

By doing so, the Company will enhance its customer relations capability such as dealing with the diversity and complexity of individual customer needs to make solution proposals suited to customers’ needs, and will expand business opportunities.

Expansion of service business

The Company has provided a high-quality operation and maintenance service to Nippon Steel Corporation 24 hours a day, 365 days a year for the past 40 years without interruption. In order to operate in a unified way the business resources held by NS Solutions group, the Company established NSSLC Service Corporation in April this year. The Company will improve the quality of the service and enhance competitiveness, and will provide outsourcing services such as operation and maintenance on a full scale. The said company will take the lead in promoting such activities.

The Company will provide services observing the laws and regulations such as Personal Information Protection Act. Furthermore, the Company will provide outsourcing services, such as the on demand type of service which manages in a unified way the operation process of customers and documents prepared in the course of carrying out operations, on the usage-based charging system, making free use of our high IT technological capability in the future as well.

Efforts to improve corporate governance and compliance

The Company recognizes it is an important management task to improve corporate governance and compliance, and will promote activities to improve them. Concerning corporate governance, the Company will enhance the management system such as introduction of the “executive officer (non-director)” system, and watching the movement of amendment to the Commercial Code, will disclose information in a timely and proper manner and enhance the auditing system. Concerning compliance, the Company will pursue the compliance improvement project based on the results of activities that we have performed up to now, such as prescribing necessary internal regulations that are in conformity to the laws and regulations, requiring our employees to observe them, setting up the internal reporting desk (Compliance Desk) and rising the sense of compliance by providing our staff with training sessions in legal affairs and the intellectual property field.

Regarding information security, the Personal Information Protection Act was enforced in April this

year. The Company recognizes that it is the minimum requirement and the basis of the continued existence of the enterprise that a company that is involved in information services manages information properly. From such viewpoint, we have taken various measures, such as, establishing the information management committee (chairperson: the president), setting up and putting the internal rules into practice, promoting educational and enlightening activity through e-learning, and taking measures for physical security. The Company obtained the privacy-mark soon after the accreditation system started in February 1999 and completed the third renewal in February this year. The Company will continue to promote information security activities.

Moreover, the Company extended the scope of applicable areas of Environment ISO (ISO 14001) to the whole area controlled by Head Office. We will focus our efforts on environmental protection activities in the future as well.

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

The Company recognizes the importance of successful corporate governance and is addressing the following challenges.

Organs of the Company, Internal control, Risk management system.

Under the current “board of auditors” system, our relatively small-sized board of directors (13 directors: It is expected to be reduced to 10 directors at the general meeting of shareholders, which is scheduled to be held this coming June) makes lawful, proper and quick decisions, while the board of auditors monitors carefully the decisions made by the board of directors.

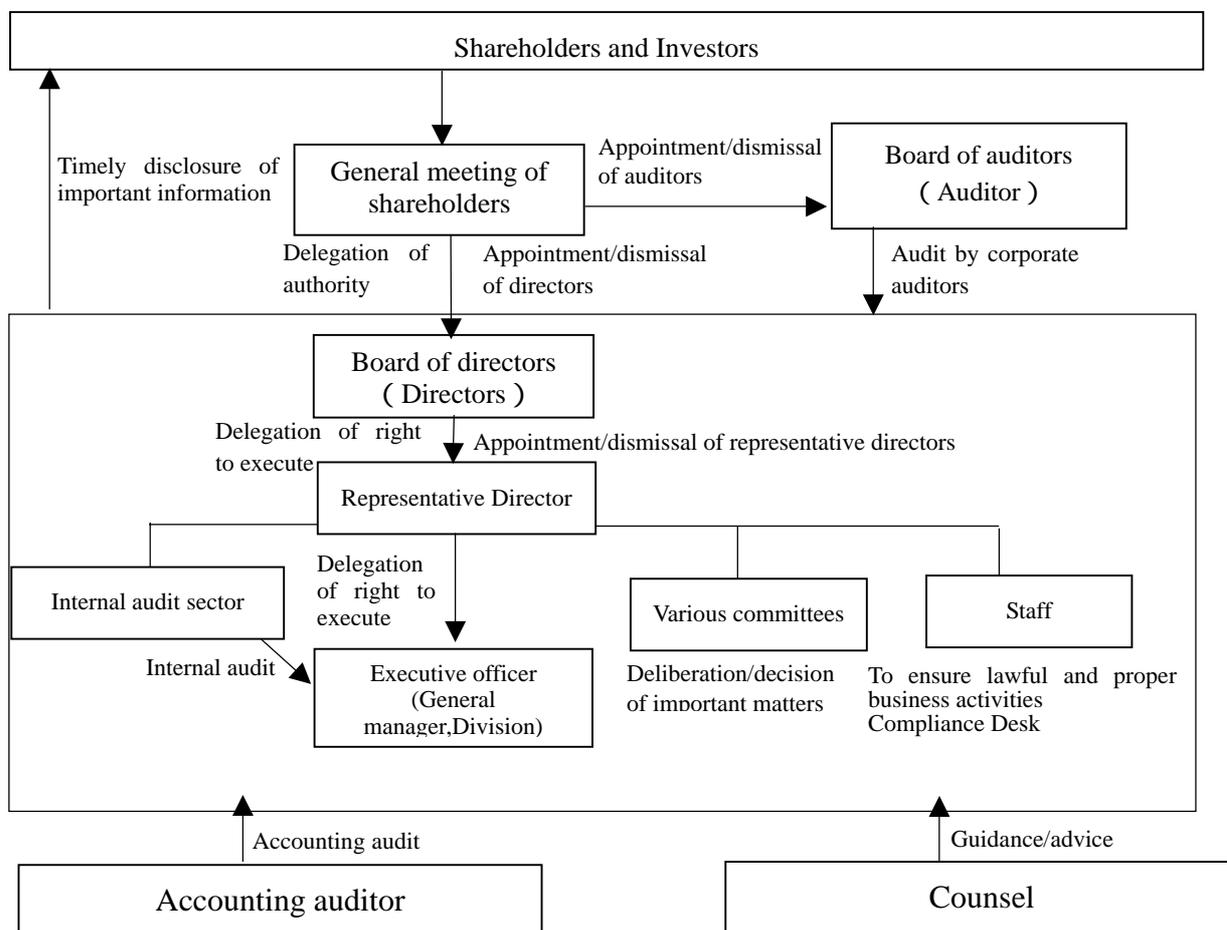
Concerning execution of corporate affairs, the Company adopts a divisional organization system under which profits and losses are calculated for each business unit, and in accordance with predetermined internal decision-making rules, the president delegates the authority to manage corporate affairs to division chiefs, and then the authority is delegated to department managers or section chiefs so that day-to-day operational decisions are made quickly. Due to the diversity and complexity of user needs and with the high technology required, expectations for the roles that these division chiefs play in their responsibility for managing corporate affairs are raising. For this reason, the Company has adopted newly “the executive officer (non-director) system”. Our internal inspection group, which directly reports to the president, monitors division chiefs’ behavior to ensure proper business activities.

Concerning important management matters, such as, planning business strategy, resources allocation, loan/investment projects and projects larger than the scale prescribed, we are to deliberate and make a decision at NS Solutions’ various committees such as the management committees composing of the president and other top management members or the project planning conferences.

NS Solutions has also been making endeavors to improve transparency through third-party monitoring scheme. We achieve proper management and operational activities by involving our CPA (ChuoAoyama PricewaterhouseCoopers) for audits and asking our counsels for valuable opinion/advice mainly for smooth operation at our director’s board. We disclose information in a timely and proper manner to shareholders and investors at the financial information meeting or via the website in accordance with the IR basic policy of the Company.

In order to ensure compliance, we have necessary internal rules and require our employees to obey

them, including the above-mentioned decision-making rules. We also provide our staff with training sessions in legal and intellectual property fields and establish an internal reporting desk (Compliance Desk) in order to raise sense of compliance. By doing so, we carry out our business activities in accordance with applicable laws and internal regulations.



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

Internal audit, Audit by corporate auditors, Accounting audit

< Procedures of internal audit, audit by corporate auditors and accounting audit >

Corporate auditors conduct audits focusing on the legality of a director’s performance of his duties in accordance with the auditing principles and auditing plan, which are decided by the board of auditors through their deliberation. Each auditor endeavors to grasp internal corporate affairs at all times by inspecting materials presented at the management conference and reports from internal staff, and to improve the quality of the audit by conducting an audit on a test basis of evidence including check sheets or field audits. After completing the audit on a test basis of evidence or a field audit, the auditor who has conducted the audit is obligated to submit an audit report to the board of auditors. Furthermore,

corporate auditors gain cooperation of auditors of subsidiaries to try to grasp the internal corporate affairs of subsidiaries, and as the need arises, investigate the status of corporate affairs of subsidiaries.

Our internal audit group, which directly reports to the president, conducts internal audits after deciding the chief auditing themes and drawing up the auditing plan each year. Our internal audit group conducts an audit on a test basis of evidence including check sheets and field audit at all internal departments focusing on the chief auditing themes, and after completing audits, draws up an audit report including indications and report periodically to the president. Our internal audit group always conducts a follow-up examination on how indications have been improved to ensure proper business activities.

In order to improve the effectiveness of audits by corporate auditors, internal audits and accounting audits, the auditors concerned keep in close contact to proceed with auditing procedure so as to be able to conduct the field audit involved in these audits as concurrently as possible.

<Name of CPA who conducted the audit, the number of years during which the CPA have been a reporting partner, the audit corporation >

Name of CPAs		Audit corporation
Designated Partner, Engagement Partner	Shigeyuki Nagayama	ChuoAoyama PricewaterhouseCoopers
	Masahiko Tezuka	

* Because all the above-mentioned CPA have worked less than seven years as a reporting partner, it is omitted.

The composition of an audit team is decided in accordance with the selection criteria prescribed by the audit corporation. Speaking specifically, the auditing team is mainly composed of CPA and junior CPA, if necessary, including a Systems Auditor and other assistant.

Efforts to improve corporate governance for these twelve months

<Number of conferences held>

Board of directors (13 times), management conference (32 times), and project planning conference (49 times)

<Audits>

- Conducted audits by corporate auditors, focusing on legality of director's performance of his duties, mainly on internal control, compliance and risk management in accordance with the auditing principles and audit plan.
- Conducted internal audits focusing on information assets management such as project management and customer/private information, and matters concerning the so-called Subcontract Act, in the manner of an audit on a test basis of evidence including check sheet and field audit at all divisions in NS Solutions

- In order to heighten the awareness of governance in subsidiaries, our corporate auditors cooperated with auditors of subsidiaries and our internal audit group in conducting an audit on a test basis of evidence and field audit at all subsidiaries in a similar manner to internal audits.

<Disclosure of information (IR / Closing accounts)>

- Disclosed timely and properly information such as disclosure regarding the stock split of the Company.
(TDnet、 press release, home page of the Company)
- Held the financial information meeting for institutional investors (April, October).
- Announced quarterly closing.

<Efforts to improve compliance>

【Compliance in general】

- Encouraged to make avail of an internal reporting desk (Compliance Desk), which was established in July 2003
- Provided the training session concerning compliance by e-learning (A little over 2,000 employees of the company including directors, auditors and executive officers received the said training session. Rate of participating in sessions, 100 %)

【Information asset protection】

- In February this year, completed the third renewal of privacy-mark, which the Company obtained soon after the accreditation system started.
- Held an Information Management Committee (Chairperson: the president) on almost a quarterly basis.
- Conducted an information asset protection audit (Conducted a voluntary audit using check lists and a field audit based on its results, as one series of audit)
- Provided the training session concerning information asset protection by e-learning (A little over 5,600 persons including not only directors, auditors, executive officers and employees but also all employees of companies that the Company entrusts with operations. Rate of participation in the training session, 100 %)

【Insider trading】

- In January 2005, laid down stricter internal rules, and provided education and heightened the awareness of employees at internal training session as well as the intranet websites.

Remuneration and bonus of directors and auditors; remuneration of accounting auditors

<Remuneration and bonus of directors and auditors>

		Number of people	Total payroll for this term
Directors	Remuneration	13	¥ 260 million
	Bonus	12	¥ 13 million
Auditors	Remuneration	2	¥ 26 million

(Note) 1. Remunerations for duties in an employee's capacity (73 million yen) are included in the directors' remuneration. The number of people is the total number of people for this term.

2. All directors are from within NS solutions.

<Remuneration for accounting auditors>

		Total payroll for this term
CPA	Remuneration	24 million yen

(Note) The accounting auditors' remuneration is for an audit certificate that is made based on the audit agreement between ChuoAoyama PricewaterhouseCoopers and NS solutions. Other remunerations (such as payment for consulting services) are not included

(7) Matters concerning the parent company

Trade name of the parent company

Parent company	Attribute	Percentage of our voting shares that the parent company owns (%)	Stock exchange on which the shares etc. issued by the parent company are listed.
Nippon Steel Corporation	Parent company	72.2%	Tokyo Stock Exchange First Section Osaka Stock Exchange First Section Nagoya Stock Exchange First Section Fukuoka Stock Exchange Sapporo Stock Exchange

Basic Policies regarding Relationship with our Stakeholders

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

As Nippon Steel Corporation exclusively commissions NS Solutions to plan, design, develop and operate their information systems, NS Solutions group contributes to streamlining their process of production, physical distribution, sales and procuring, and to enhancing their competitiveness. We will maintain the business relationship with Nippon Steel Corporation.

(Note) For more information on the pecuniary relation between the Company and the parent company and between the Company and the parent company group, please see Section “2.Operating Results and 5.Financial Position (2)Cash flow”.

(8) Other Important Management Matters

None.

2. Operating Results

(1) Trends in the Japanese economy and information service industry

In the fiscal year ended March 31, 2005, the Japanese economy moved into a period of moderate consolidation in the second half because of the slowing down of growth in U.S.A. and China, stock adjustments of digital-related products and so on, but has stayed firm supported by improvement in corporate profits, exports to the Chinese market and capital investment.

In the information service industry, customer companies are making stronger moves towards IT investment supported by improvement in corporate profits mainly in the manufacturing, distribution and services industries, but because of the increasing need to reduce TCO (Total Cost of Ownership), they continue to move towards selective investment projects and requests for IT price-cutting. In these circumstances, the sales totals in the information services industry recorded a temporary fall during the second quarter, but are now on a moderate recovery trend. (Source: Ministry of Economy, Trade and Industry, “Specified Service Industry Dynamic Statistics”)

(2) Highlights for the NS Solutions Group

Although the market conditions continue to be severe, the Company has enhanced its capability to deal with customers' needs such as planning IT strategy at the corporate level of customers, optimization of the whole system, need to reduce TCO and so on by improving the function of the Corporate IT Consulting Center. Furthermore, the Company has offered effective and efficient solutions that meet the needs of customers such as the system life cycle total solutions to provide coherent services ranging from planning, construction and operation of solutions to maintenance service, legacy re-engineering solutions to shift from the legacy system including mainframes to the open system and so on. In addition to these operations, the Company has endeavored to expand the service business by establishing NSSL Service Corporation that specializes in operation and maintenance services. Moreover, the Company has taken measures to strengthen the managerial base such as enhancing project management and reducing outsourcing expenses.

Although business smoothly increased in the business service operations sector, because revenue declined in the Business Solutions and Platform Solutions sectors, we have achieved ¥ 146,526 million sales on a consolidated basis, with a ¥ 4, 317 million decline from the previous year (¥ 150,843 million). Meanwhile, a recurring profit of ¥ 11,790 million was recorded on a consolidated basis with a ¥ 2,005 million increase from the previous year (¥ 9,785 million). This increase in current profit is due to efforts to reduce unprofitable projects and to curtail costs including subcontract unit costs by enhancing project management.

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

- Business Solutions

We had a steady revenue stream mainly from the manufacturing, distribution and service industries, but revenue from the finance industry, government agencies and the public sector declined. As a result, we have achieved ¥ 81,956 million sales on a consolidated basis, with a ¥ 1,507 million decline from the previous year (¥ 83,463 million).

Manufacturing, distribution and service industries

From the manufacturing, distribution and service industries, we enjoyed steady demand in terms of both inquiries and orders, and sales increased. In the organization change effective from April 2004, the Company enhanced its capability to deal with customers' needs such as planning IT strategy at the corporate level of customers and the need to reduce TCO and so on. Consequently, inquiries related to consultation about IT concepts and legacy re-engineering increased. Moreover, in addition to individual solutions such as the ERP solution that integrates the production/sales process, the global SCM solution for reducing total lead time and total inventory and the PLM solution for shortening the R&D process from design to production, we focused our efforts to offer total solution business incorporating these individual solutions. In particular, in the current fiscal year, inquiries and sales for the MES solution that connect the core system with the control system of the production facilities has stayed brisk.

ERP: Enterprise Resource Planning
SCM: Supply Chain Management
PLM: Product Lifecycle Management
MES: Manufacturing Execution System

Finance industry

In the finance industry, the number of financial institutions has been decreasing due to mergers and consolidation, and there has been a move for some institutions to share the same computer center. As a result, the scale of investment in the information system is declining in the industry as the whole, and competition among vendors is becoming stronger. From the finance industry, we enjoyed steady demand for systems to deal with problems involved in the new BIS regulation in the current fiscal year, but sales declined due to intensified competition. Furthermore, the demand for systems, whose development the Company is wrestling with in the field of market-type, management control-type and information-type systems (the field of the non-accounting-type system), is growing.

Government agencies and the public sector

In government agencies and the public sector, we have offered solutions at which the Company is skillful, such as the development and operation of large-scale LAN and document control systems. However, the sales field has declined due to intensifying competition among vendors as the government's procurement system reform is progressing. Meanwhile, making the most of our expertise in high technology fields, we have provided the differential services of developing and operating various systems in the fields of satellite, science and so on. The Company is steadily expanding its customer base, and business in this field is increasing smoothly.

- Platform Solutions

In Platform Solutions operations, we have focused our efforts on expanding higher value-added business such as consulting, engineering and maintenance service of products, but the sales of products have declined. As a result, we have achieved ¥ 25,699 million sales on a consolidated basis, with a ¥ 4,247 million decline from the previous year (¥ 29,947 million). In the fields of consulting and engineering, customers are seeking the optimal design of mainframes and open systems, flexible and sturdy system infrastructure, reduction in TCO and so on. The Company has dealt with these needs of customers by the high technological capability of the IT Infrastructure Solutions & Services Division and the Systems Research & Development Center. Concerning maintenance service, from last year, we started offering "NSNAOS," one-stop support and services available for 24 hours a day, 365 days a year, for the maintenance of various products that comprise the system infrastructure. Its business is increasing smoothly.

- Business Services

In Business Services operations, business is increasing smoothly supported by expansion of the outsourcing market. We have achieved ¥ 38,870 million sales on a consolidated basis, with a ¥ 1,437 million increase from the previous term (¥ 37,433 million). Based on our experience of operating and managing the large-scale, complicated system of Nippon Steel Corporation over forty years, we are offering operation and management services, which are pursuant to ITIL (IT Infrastructure Library). Furthermore, we are offering the system lifecycle total solution to provide coherent services ranging from planning, development and operation to maintenance. Such activities have contributed to expansion of the business concerned. In addition to these operations, we have taken positive measures to expand service business including new services such as the on-demand type of operation and management service of IT systems entitled "Oracle On Demand @ NSSOL," the process service provider operations to control process and manage sales documents entitled "nsxpres for Salesforce.com" and so on. Furthermore, to promote these service activities, we established NSSLC Service Corp. that specializes in operation and maintenance.

ITIL: Registered trademark of OGC (Office of Government Commerce) of the British government

To promote these operations, the Company has tied up with other companies as follows:

To better address the diverse needs of our customers, the Company tied up with Oracle Corporation Japan to commence providing the on-demand type of operation/management services of the IT system as “Oracle On Demand @ NSSOL.” Customers introduced to the integrated operation application entitled “Oracle E-Business Suite” of the said company can use the hardware and system operation/management service on the usage-sensitive charging system. The service of operating and managing the core system on the usage-sensitive charging system at the flat rate per user including charges for using hardware is the service put on sale for the first time in Japan.

Furthermore, many companies are seeking process control of sales activities and effective utilization of customer information to improve the efficiency of sales activities. To address these customers’ needs, the Company has tied up with Salesforce.com Inc. to commence offering ASP services entitled “nsxpres for Salesforce.com” that manage the lifecycle of customer information. Customers can use this service at the low cost. With this service, the Company will control the process and management documents involved in sales activities as the process service provider that can satisfy the customers’ need to improve the operation process.

The Company worked in conjunction with KDDI, which has a track record in communication networking and management of the data center, and commenced offering Japanese-affiliated companies in China the total solution including the wide area communication network, consulting, engineering, operation and maintenance of the systems. In September 2002, the Company established the China Business Group. Furthermore, the Company incorporated NS Solutions Software (Shanghai) Co., Ltd. as a local subsidiary and has provided services that support the whole system lifecycle for Japanese-affiliated companies moving into the Chinese market. In the future, by such joint work, the Company will reinforce activities that support the Japanese-affiliated companies that are attempting to expand business in the Chinese market.

3. Analysis of Operating Results

(1) Sales

We have achieved ¥ 146,526 million sales on a consolidated basis, with a 2.9% decline from the previous year (¥ 150,843 million). Our business performance for each service category is as follows:

In Business Solutions operations, we had a steady revenue stream mainly from the manufacturing, distribution and services industries, but due to the decline in sales in the finance industry, government agencies and the public sector, we have achieved ¥ 81,956 million sales on a consolidated basis, with a 1.8% decline from the previous year (¥ 83,463 million).

In Platform Solutions operations, we have focused our efforts on expanding higher value-added businesses such as consulting, engineering and product maintenance services, but because of the decline in product sales, we have achieved ¥ 25,699 million sales on a consolidated basis, with a 14.2% decline from the previous year (¥ 29,947 million).

In Business Services operations, the sales for Nippon Steel Corporation declined, but through endeavors to increase outsourcing service sales, we have achieved ¥ 38,870 million sales on a consolidated basis, with a 3.8% increase from the previous year (¥ 37,433 million).

(2) Sales costs, selling and administrative expenses

The sales cost on a consolidated basis decreased by 5.1% from the previous year (¥ 123,358 million) to ¥ 117,061 million. As a result, the gross profit margin increased by 1.9% from the previous year (18.2%) to 20.1%.

The reform of the corporate enterprise tax system, a change to pro forma standard taxation, and an R&D expense increase boosted up selling and administrative expenses. On the other hand, we have attempted to improve efficiency in sales activities, advertising/publicity and the internal system. Through such efforts to curtail costs, ¥ 17,754 million of selling and administrative expenses on a consolidated basis was recorded, which is similar to the previous year (¥ 17,759 million).

(3) Operating income

Due to increases in gross profit on sales, the operating income on a consolidated basis increased by 20.4% from the previous year (¥ 9,726 million) to ¥ 11,710 million. This is due to the reduction in unprofitable projects and curtailment of subcontract unit costs where sales declined but gross profit on sales increased.

(4) Non-operating income (expense)

Due to the increase in interest earned from long-term loans, the non-operating income (expense) on a consolidated basis increased to ¥ 80 million (net) from ¥ 59 million (net) in the previous year.

(5) Recurring profit

The recurring profit on a consolidated basis recorded ¥ 11,790 million with an increase of 20.5%

compared with the previous year (¥ 9,785 million).

(6) Extraordinary gain or loss (net)

Extraordinary gains or losses on a consolidated basis climbed into the black from a loss of ¥ 13 million in the previous year to a gain of ¥ 6 million.

Due to a reduction in profit on sales of investment securities, extraordinary gains on a consolidated basis decreased to ¥ 191 million from ¥ 715 million in the previous year.

The breakdown of extraordinary losses is as follows: the impairment loss of telephone subscription rights, ¥ 80 million, expenses for moving office, ¥ 63 million, loss on revaluation of golf club membership ¥ 23 million and loss on revaluation of investment securities, ¥ 17 million. As a result, extraordinary loss on a consolidated basis decreased to ¥ 184 million from ¥ 729 million in the previous fiscal year.

(7) Income before income taxes and minority interest

The income before income taxes and minority interest on a consolidated basis recorded ¥ 11,797 million with a 20.7% increase from the previous fiscal year (¥ 9,771 million).

(8) Income taxes

Income taxes on a consolidated basis recorded ¥ 4,954 million with a 17.0% increase from the previous year (¥ 4,236 million).

The ratio of income taxes to net profit before tax (tax burden ratio) fell by 1.4% from the previous year (43.4%) to 42.0%. This is mainly due to the introduction of the pro forma standard taxation system of corporate enterprise tax from the current fiscal year.

(9) Minority stockholders' interest

The minority stockholders' interest on a consolidated basis recorded ¥ 222 million with a 4.9% increase from the previous fiscal year (¥ 211 million).

(10) Net income

The net income on a consolidated basis recorded ¥ 6,620 million with a 24.4% increase from the previous term (¥ 5,323 million). The net income per share on a consolidated basis rose by 24.3% from ¥ 100.19 (after adjusting the impact by share split) in the previous year to ¥ 124.52.

(11) Significant accounting policies

The consolidated financial statements of the Company are drawn up in compliance with the generally accepted accounting principles of Japan. On drawing up these financial statements, the Company is required to estimate or forecast impacts on the financial position and operating results as of the closing date. The Company continues to make estimations or forecasts pursuant to the criteria considered reasonable, taking into account track record and business performance.

- Deferred tax assets

Deferred tax assets are reckoned based on the estimation of future taxable income.

- Allowance for employees' retirement benefits

Retirement benefit liabilities to employees are determined using the actuarial method. The amount of retirement benefit liabilities to employees varies depending upon the discount rate, the rate of increase in salary level and the average remaining service of employees expecting retirement, which are used in the calculation. The NS Solutions group determines the discount rate based on the interest rate of the government bond, and determines the rate of increase in salary level and the average remaining service of expected retirement of employees based on the track record of the NS Solutions groups.

- Allowance for doubtful accounts

The NS Solutions group provides allowance for doubtful accounts based on a bad debt ratio calculated from a track record. Furthermore, concerning receivable accounts against customers that could fall into financial difficulties or that are very likely to go into bankruptcy, the NS Solutions group provides additional allowance for doubtful accounts based on a review of the status of each individual receivable account.

- Allowance for loss on guarantees

The Company guarantees commitment on some money that its subsidiary by equity method borrowed from financial institutions. The Company provides allowance for this liability guarantee commitment of ¥ 68 million (as of March 31, 2005) based on a review of the financial position of the subsidiary concerned.

- Impairment of other securities

The NS Solutions group holds shares and other securities of specified customers and vendors (excluding shares of our affiliated companies), whose appraisal value amounts to ¥ 2,839 million as of March 31, 2005, from the viewpoint of promoting sales activities. These shares include those of public companies whose prices sharply fluctuate and those of non-public companies whose prices it is difficult to appraise. When judging that the investment value of these securities has depreciated, and that the possibility of recovery is very remote, the NS Solutions group accounts for the impairment of these securities. Concerning public companies when the share price falls below 50% of the acquisition price as of the closing date, or concerning non-public companies when the net asset value of the company falls below 50% of the acquisition price, the NS Solutions group judges that there is no possibility of the investment value recovering, and makes it a rule to account for impairment of these securities. In the fiscal year ended March 31, 2005, there were no shares that should have been accounted for impairment.

4.Outlook for the Next Period

Customers are continuing to take a selective investment attitude, becoming more conscious of reducing TCO and improving ROI. However, we believe that investment in systems by enterprises as a whole will subsequently be on a slow upward trend. The Company will attempt to expand business focusing on the manufacturing, distribution and service industries by addressing the customers' need to plan IT strategy and reduce TCO as a corporate IT partner. Furthermore, the Company will expand business service operations by grasping growing demand for outsourcing and by offering new services. In addition to these operations, the Company will attempt to strengthen sales and its production base by aggressively investing to reinforce the organizational structure, such as by upgrading technology to develop systems in an organized way, creating new solutions and developing human resources.

By implementing the strategies mentioned above, concerning performance for the fiscal year ending March 31, 2006, we project our consolidated sales to be ¥ 150,000 million and consolidated recurring profit to be ¥ 12,000 million on a full term basis.

Forward-looking statements, such as projection for the next year, may be subject to unexpected changes in economic conditions. Note that these statements do not guarantee the actual performance of the NS Solutions group.

5.Financial Position

(1) Balance sheet

1) Assets

The total assets as of the end of the current fiscal year amounted to ¥ 98,372 million with a ¥ 7,747 million increase from ¥ 90,624 as of the end of the previous year. Because the fixed assets held by the NS Solutions group are relatively few, the proportion of current assets to the total assets is relatively high, and reaches 72.5% at the end of the current fiscal year.

2) Liabilities

The liabilities as of the end of the current fiscal year amounted to ¥ 42,852 million with a ¥ 1,606 million increase from ¥ 41,246 million as of the end of the previous year. The liabilities of the NS Solutions group include accounts payable, accrued income taxes, allowance for employees' retirement benefits and so on. There are no liabilities with interest such as borrowings from financial institutions.

3) Shareholders' equity

The shareholders' equity as of the end of the current fiscal year amounted to ¥ 54,104 million with a ¥ 5,959 million increase from ¥ 48,144 million as of the end of the previous year. This is mainly due to the fact that the net income amounted to ¥ 6,620 million, and ¥ 927 million of dividends was paid to shareholders. As a result, the equity ratio rose by 1.9% from the previous year to 55.0%.

(2) Cash flows

1) Statement of cash flows

The balance of cash and cash equivalent as of the end of the current fiscal year amounted to ¥ 23,098 million with a ¥ 4,420 million decline from ¥ 27,518 million as of the end of the previous year (the total balance by an increase during the previous year, ¥ 1,864 million).

Cash flows for each activity category is as follows:

- Cash flows from operating activities

Concerning the cash flows from operating activities for the previous fiscal year, plus factors were income before income taxes and minority interest of ¥ 9,771 million, depreciation expenses of ¥ 1,202 million, and decrease in inventory assets of ¥ 2,027 million, meanwhile minus factors were payment of income taxes of ¥ 4,701 million and increase in trade credit of ¥ 5,388 million. Accordingly, a balance was ¥ 4,032 million.

Meanwhile, concerning cash flows from the operating activities for the current fiscal year, plus factors were income before income taxes and minority interest of ¥ 11,797 million, depreciation expenses of ¥ 1,307 million and the increase in allowance for employees' retirement benefits of ¥

897 million, meanwhile there was payment of corporate tax of ¥ 5,137 million. Accordingly, a balance was ¥ 9,187 million.

- Cash flows from investing activities

Concerning cash flows from investing activities for the previous year, ¥ 778 million came from the revenue from selling investment security, meanwhile ¥ 1,751 million was spent in acquiring tangible and intangible fixed assets. Accordingly, a balance was a minus of ¥ 1,115 million.

Meanwhile, concerning cash flows from investment activities for the current fiscal year, ¥ 224 million came from the revenue from selling investment securities, but minus factors were acquisition of tangible and intangible fixed assets of ¥ 965 million, acquisition of investment securities of ¥ 305 million, and payments for long term loan-related party of ¥ 12,000 million. Accordingly, a balance was a minus of ¥ 12,633 million

The long-term loan related party is that (a period of loan, 5 years) to Nippon Steel Corporation, our parent company. From the viewpoint of improving efficiency in fund management operations by managing idle funds at hand in the long term, the Company made the investment decision that the long-term loan to Nippon Steel Corporation is advantageous in terms of the risk involved and the interest rate, and made this loan on September 28, 2004.

- Cash flows from financing activities

Concerning cash flows from financial activities for the previous consolidated accounting year, there were payment of dividends for shareholders of ¥ 993 million and others, and in total it was a minus of ¥ 1,046 million.

Meanwhile, concerning cash flows from the financing activities for this consolidated accounting year, there were payment of dividends for shareholders of ¥ 927 million and others, and in total it was a minus of ¥ 973 million.

2) Credit lines from financial institutions

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

3) Cash management system (=CMS)

The Company uses CMS of Nittetsu Finance mentioned above, and makes deposits of ¥ 10,925 million in Nittetsu Finance as of the end of the current fiscal year.

Moreover, the Company constructs and uses CMS with each of the seven consolidated subsidiaries. The Company takes in deposits of ¥ 4,129 million as of the end of the current fiscal year from the NS Solutions group companies.

<Reference> Trend of cash flows index

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

	Year ended in March 2002	Year ended in March 2003	Year ended in March 2004	Year ended in March 2005
Equity ratio	39.9%	48.2%	53.1%	55.0%
Equity ratio on a fair market value basis	-	96.2%	202.1%	136.0%

(Note1) Equity ratio: Equity capital/Total assets

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

(Note2) Because there is no balance of liabilities with interest as of the term-end, the number of years of debt redemption is not stated. The interest coverage ratio is not stated because the amount of interest payment is very small.

6. Business Risks

Among matters concerning operations and accounting of the NS Solutions group, those considered to have a great potential effect on investor perceptions are stated in this paragraph.

Future matters concerning statements in this paragraph are projected as of the date of submitting this report.

(1) Unexpected changes in financial position, operating results and cash flows.

There are no unexpected changes in financial position, operating results or cash flows.

However, there is a possibility of operating results changing depending upon trends in system investment due to changes in economic conditions, how tough the competition is, whether we can take orders for large-scale projects, how an individual project is progressing, how profitable an individual project is, and so on. Moreover, because there is a tendency for the sales of system development projects for the governmental agencies and the public sector to be reckoned concentrated around the end of accounting year, the operating results considerably will change for each quarter or half year.

(2) Reliance on specified customers, products and technology

Concerning the above, there are no particular matters to note at present.

The NS Solutions group has enjoyed an excellent reputation with our customers of more than 1,500 companies, including the manufacturing industry, and in the distribution, finance, public service, transportation and communication industries. Among these companies, the NS Solutions group has stable and continuous business relations with Nippon Steel Corporation, which is the greatest customer of the NS Solutions group. The sales track record of the said company amounts to ¥ 21,558 million on a consolidated basis (share 14.7%). However, the NS Solutions group provides a solution menu of the system lifecycle ranging from consulting services about planning of IT strategy, planning, development, operation and maintenance, and is expanding business without heavily emphasizing specified products and technologies.

(3) Specific legal regulations, trade practice and business policies

Conditions peculiar to the information service industry

In the course of developing and operating the core systems of customers, there may be problems with the systems of customers or customer information and private information received from customers divulged outside the Company due to unavoidable circumstances. As a result, we are exposed to the risk of customers claiming compensation for damages and losing our credibility.

In April this year, the Personal Information Protection Act was enforced. The Company already established a system to protect private information by setting up the information management committee (chairperson, president) or enforcing the internal rules or promoting educational and enlightening activities through e-learning and physically enhancing various security measures. In the future, the Company will positively pursue acquiring privacy marks and various certifications and will protect customer information and private information.

Moreover, as products and technologies are becoming more complex, there is the possibility of a third party instituting a lawsuit or making a claim against the NS Solutions group, arguing that the

services or products of the NS Solutions group has infringed their intellectual property and consequently, the NS Solutions group must compensate for damages or acquire or develop alternative technologies.

(4) Lawsuits that have a serious effect on the NS Solutions group

At present, there are no lawsuits as mentioned above instituted in connection with the NS Solutions group.

(5) Important matters concerning executive officers, major shareholders and affiliated companies

The Company's shares

The number of shares issued by the Company is 52,999,120 in total, and Nippon Steel Corporation owns 72.2% of the total shares as of March 31, 2005. The other day, the delisting requirements of the Tokyo Stock Exchange were amended and enforced. If the number of shares owned by the specified minority shareholders of the Company as of the end of each fiscal year since March 31, 2006 does not meet the said requirement, the shares of the Company will be delisted. To avoid such delisting, it is necessary to amend the number of specified minority shareholders within one year from March 31, 2006 to meet the said requirement.