

# **CONSOLIDATED FINANCIAL STATEMENTS**

**NS Solutions Corporation and Consolidated Subsidiaries**

**March 31, 2003**



**NS Solutions**

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# Consolidated Balance Sheets

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Assets</b>			
Current assets;			
Cash and bank deposits (Note 5) .....	¥7,335	¥20,956	\$174,339
Deposited money (Notes 5 and 19).....	7,737	4,699	39,092
Trade notes and accounts receivable .....	26,348	38,319	318,790
Inventories (Note 7) .....	8,323	9,110	75,787
Deferred tax assets-current (Note 11).....	2,233	2,224	18,502
Others .....	563	1,165	9,702
Allowance for doubtful accounts .....	(41)	(31)	(256)
<b>Total current assets</b> .....	<b>52,498</b>	<b>76,442</b>	<b>635,956</b>
Property and Equipment;			
Buildings and structures .....	1,786	1,806	15,022
Machinery and equipment .....	10	6	54
Tools, furniture and fixtures .....	1,819	1,760	14,645
Land (Note 9) .....	883	883	7,345
Construction in progress .....	1	59	490
<b>Total property and equipment</b> .....	<b>4,499</b>	<b>4,514</b>	<b>37,556</b>
Intangible fixed assets;			
Software .....	620	762	6,343
Others.....	317	267	2,220
<b>Total intangible fixed assets</b> .....	<b>937</b>	<b>1,029</b>	<b>8,563</b>
Investments and other assets;			
Investments in securities (Note 8).....	2,393	3,027	25,184
Long-term prepaid expenses .....	94	70	579
Deferred tax assets-non-current (Note 11).....	2,658	2,834	23,579
Guarantee deposits.....	1,908	2,145	17,849
Others.....	294	304	2,521
Allowance for doubtful accounts .....	(37)	(41)	(338)
<b>Total investments and other assets</b> .....	<b>7,310</b>	<b>8,339</b>	<b>69,374</b>
<b>Total assets</b> .....	<b>¥65,244</b>	<b>¥90,324</b>	<b>\$751,449</b>

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities;			
Trade notes and accounts payable .....	¥14,187	¥23,478	\$195,325
Non-trade accounts payable.....	1,712	1,665	13,854
Accrued income taxes (Note 11) .....	5,234	2,608	21,696
Accrued expenses.....	3,686	3,659	30,440
Accrued bonuses to employees.....	5,077	5,118	42,581
Advance receipts.....	2,996	3,221	26,798
Deposits.....	196	193	1,605
Others.....	28	2	16
<b>Total current liabilities .....</b>	<b>33,116</b>	<b>39,944</b>	<b>332,315</b>
Non-current liabilities;			
Allowance for employees' retirement benefits (Note 12).....	4,969	5,478	45,575
Allowance for directors' retirement benefits .....	195	239	1,989
Allowance for loss on guarantees (Note 16) .....	69	69	573
Long-term deposits .....	13	13	108
<b>Total non-current liabilities.....</b>	<b>5,246</b>	<b>5,799</b>	<b>48,245</b>
<b>Total liabilities.....</b>	<b>38,362</b>	<b>45,743</b>	<b>380,560</b>
Minority interest in consolidated subsidiaries .....	847	1,076	8,953
Shareholders' equity;			
Common stock (Note 15) .....	6,838	12,953	107,760
Authorized: 9,500,000 shares and 96,000,000 in 2002 and 2003, respectively; Issued: 6,039,890 shares and 26,499,560 shares in 2002 and 2003, respectively			
Additional paid-in capital (Note 15) .....	3,838	9,950	82,782
Retained earnings.....	15,863	21,273	176,983
Reserve for revaluation of land (Note 9) .....	(740)	(755)	(6,279)
Valuation gain on available-for-sale securities .....	236	84	690
Foreign currency translation adjustment .....	—	(0)	(0)
<b>Total shareholders' equity.....</b>	<b>26,035</b>	<b>43,505</b>	<b>361,936</b>
<b>Total liabilities, minority interests and shareholders' equity.....</b>	<b>¥65,244</b>	<b>¥90,324</b>	<b>\$751,449</b>

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

# Consolidated Statements of Income

NS Solutions and Consolidated Subsidiaries

For the years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Net sales</b> .....	¥148,922	¥153,098	\$1,273,693
<b>Cost of sales</b> .....	119,203	122,766	1,021,348
<b>Gross profit</b> .....	29,719	30,332	252,345
<b>Selling, general and administrative expenses</b> (Note 13).....	17,240	18,235	151,707
<b>Operating income</b> .....	12,479	12,097	100,638
<b>Other income (expenses);</b>			
Interest income .....	11	3	25
Dividend income.....	5	5	43
Interest expense.....	(0)	(1)	(5)
Exchange gain (loss) .....	(10)	3	28
Equity in net income of affiliated companies .....	14	66	549
Amortization of consolidation goodwill.....	19	—	—
Loss on revaluation of investments in securities .....	(251)	(171)	(1,422)
Loss on revaluation of investments in stocks of affiliates .....	(8)	—	—
Loss on revaluation of golf memberships .....	(17)	(30)	(247)
Loss on disposal of fixed assets .....	(66)	(43)	(358)
Loss on disposal of inventories.....	(6)	—	—
Loss on write-off of fixed assets acquired from the Electronics & Information Division of Nippon Steel Corporation.....	(303)	—	—
New stock issuing expenses.....	(9)	(48)	(398)
Gain on reversal of allowance for doubtful accounts	7	12	96
Other, net.....	(15)	3	23
<b>Income before income taxes and minority interest</b> .....	<b>11,850</b>	<b>11,896</b>	<b>98,972</b>
<b>Income Taxes;</b>			
Current (Note 11) .....	7,159	5,460	45,427
Deferred (Note 11).....	(1,962)	(70)	(582)
<b>Income before minority interest</b> .....	<b>6,653</b>	<b>6,506</b>	<b>54,127</b>
<b>Minority interest</b> .....	<b>(231)</b>	<b>(259)</b>	<b>(2,157)</b>
<b>Net income</b> .....	<b>¥6,422</b>	<b>¥6,247</b>	<b>\$51,970</b>
<b>Net income per share</b> .....	<b>¥1,070.11</b>	<b>¥246.58</b>	<b>\$2.05</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 years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Common stock;</b>			
Balance at beginning of year .....	¥3,000	¥6,838	\$56,891
Issuance of shares of common stock (Note 15) .....	3,838	6,114	50,869
Balance at end of year .....	6,838	12,952	107,760
<b>Additional paid-in capital;</b>			
Balance at beginning of year .....	—	3,838	31,933
Issuance of shares of common stock (Note 15) .....	3,838	6,112	50,849
Balance at end of year .....	3,838	9,950	82,782
<b>Retained earnings;</b>			
Balance at beginning of year .....	10,195	15,863	131,972
Net income.....	6,422	6,247	51,970
Dividends.....	(750)	(815)	(6,784)
Decrease due to change in scope of consolidation .....	(4)	—	—
Bonuses to directors.....	—	(21)	(175)
Balance at end of year .....	15,863	21,274	176,983
<b>Reserve for revaluation of land;</b>			
Balance at beginning of year .....	(740)	(740)	(6,156)
Net change during the year.....	—	(15)	(123)
Balance at end of year .....	(740)	(755)	(6,279)
<b>Valuation gain (loss) on available-for-sale securities;</b>			
Balance at beginning of year .....	453	236	1,956
Net change during the year.....	(217)	(152)	(1,266)
Balance at end of year .....	236	84	690
<b>Foreign currency translation;</b>			
Balance at beginning of year .....	(1)	—	—
Net change during the year.....	1	(0)	(0)
Balance at end of year .....	—	(0)	(0)
<b>Total shareholders' equity at end of year .....</b>	<b>¥26,035</b>	<b>¥43,505</b>	<b>\$361,936</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 years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Cash flows from operating activities;</b>			
Income before income taxes.....	¥11,850	¥11,896	\$98,972
Adjustments to reconcile income before income taxes to net cash provided by operating activities;			
Depreciation.....	1,197	1,284	10,685
Amortization of consolidated goodwill .....	(19)	—	—
Decrease in allowance for doubtful accounts .....	(7)	(11)	(92)
Increase in allowance for employees' retirement benefits, net of payments .....	407	509	4,233
Increase in allowance for directors' retirement benefits, net of payments .....	59	44	370
Interest and dividend income .....	(16)	(8)	(68)
Interest expense .....	0	1	5
Loss on revaluation of investments in securities ...	251	171	1,422
Loss on revaluation of investments in stocks of affiliates.....	8	—	—
Loss on revaluation of golf memberships.....	17	30	247
Equity in net income of affiliated companies.....	(14)	(66)	(549)
Loss on disposal of fixed assets.....	66	43	358
Loss on write-off of fixed assets acquired from the Electronics & Information Division of Nippon Steel Corporation.....	303	—	—
Increase in accounts receivable .....	(2)	(11,970)	(99,587)
Decrease (increase) in inventories.....	1,807	(787)	(6,546)
Decrease (increase) in other current assets.....	322	(603)	(5,016)
Increase (decrease) in accounts payable .....	(1,532)	9,292	77,305
Increase in accrued bonuses to employees and other current liabilities .....	226	130	1,084
New stock issuing expenses .....	9	48	398
Bonuses to directors .....	—	(21)	(175)
Others, net .....	(23)	17	132
Sub total .....	14,909	9,999	83,178
Proceeds from interest and dividend income .....	16	18	149
Interest paid .....	(0)	(1)	(5)
Income taxes paid.....	(4,414)	(8,087)	(67,278)
Net cash provided by operating activities.....	¥10,511	¥1,929	\$16,044

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

	Thousands of yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Cash flow from investing activities;</b>			
Amounts put on time deposit .....	(0)	—	—
Proceeds from expiry of time deposits .....	471	—	—
Payments for purchase of property and equipment and intangible fixed assets .....	(2,109)	(1,370)	(11,395)
Payments for purchase of investments in securities .	(13)	(1,040)	(8,655)
Proceeds from sale of investments in securities.....	3	—	—
Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiary's shares (Note 6).....	369	—	—
Payment for acquisition of the Electronics & Information Division of Nippon Steel Corporation (Note 6).....	(7,459)	—	—
Others, net.....	(293)	(269)	(2,234)
Net cash used for investing activities .....	(9,031)	(2,679)	(22,284)
<b>Cash flows from financing activities;</b>			
Decrease in short-term loans .....	(145)	—	—
Proceeds from issuance of common stock shares .....	7,667	12,178	101,320
Capital injection by minority shareholders.....	—	18	150
Dividends paid .....	(750)	(815)	(6,784)
Dividends paid to minority shareholders .....	—	(48)	(402)
Net cash provided by financing activities.....	6,772	11,333	94,284
Net increase in cash and cash equivalents .....	8,252	10,583	88,044
<b>Cash and cash equivalents at beginning of year .....</b>	<b>6,842</b>	<b>15,072</b>	<b>125,387</b>
Cash owned by a deconsolidated subsidiary (Note 6) .....	(22)	—	—
<b>Cash and cash equivalents at end of year.....</b>	<b>¥15,072</b>	<b>¥25,655</b>	<b>\$213,431</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 and its consolidated subsidiaries (together, referred to as the "Companies") are leading information technology solution providers in Japan. The Companies provide integrated solutions which address their customers' needs for both business applications and system platforms. The Companies provide end-to-end services, including system consulting, planning, design, development, deployment, operation, and maintenance, and total end-to-end outsourcing services. The Companies are adept at providing multi-vendor and mission critical systems solutions, as well as incorporating best-of breed products and technologies to address customer needs.

The Companies' principal business lines are:

- Business Solutions.

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

- Platform Solutions.

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

- Business Services.

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

## 2. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by NS Solutions Corporation (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting 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.



# Notes to Consolidated Financial Statements

## NS Solutions Corporation and Consolidated Subsidiaries

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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. As discussed in Note 6, the Company acquired part of the business of the Electronics & Information Systems Division of Nippon Steel (“EI Division”), including total assets amounting to ¥19,057,392 thousand and total liabilities amounting to ¥11,000,337 thousand, effective April 1, 2001. In addition, effective April 1, 2001, the Company acquired Nippon Steel’s 51% interests in the shares of the following two of Nippon Steel’s subsidiaries and Nippon Steel’s 50% interests in the shares of one of its affiliates. The Company changed its name to NS Solutions Corporation on that date.

Subsidiaries:           Nittetsu Hitachi Systems Engineering, Inc. (“NHS”)  
                              NCI Systems Integration, Inc. (“NCI”)  
Affiliate:               NS&I System Service Corporation (“NSI”)

### 3. Summary of Significant Accounting Policies

#### (1) Principles of consolidation

Effective April 1, 2001, the Company acquired Nippon Steel’s 51% interest in the shares of two Nippon Steel’s subsidiaries, NHS and NCI. As a result, the Company’s consolidated financial statements include the accounts of these majority-owned subsidiaries from the acquisition date.

In addition, the assets and liabilities of NS Solutions USA Corporation, a wholly-owned subsidiary, were effectively deconsolidated from April 1, 2001, due to a decrease in its importance as a result of suspension of its business operations. The investment in this subsidiary is stated at cost, after recognition of impairment losses, for periods following the deconsolidation date 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.

As a result, the consolidated financial statements for the fiscal year ended March 31, 2002 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 Osaka Corporation  
NS Solutions Chubu Corporation  
NS Solutions Nishinohon Corporation  
NS Solutions Kanto Corporation

## **Notes to Consolidated Financial Statements**

### **NS Solutions Corporation and Consolidated Subsidiaries**

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NS Solutions Oita Corporation  
Nittetsu Hitachi Systems Engineering, Inc.  
NCI Systems Integration, Inc.

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

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

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

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

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

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## **(2) Investments in affiliates**

Effective April 1, 2001, the Company acquired Nippon Steel's 50% interest in the shares of one of Nippon Steel's affiliates, NSI.

As a result, the Company's investments in three significant affiliates were accounted for using the equity method for the fiscal year ended March 31, 2002 and 2003, as listed below:

NS&I System Service Corporation

Solnet Co., Ltd.

Hokkaido High Information Technology Center Co., Ltd.

The Company's investments in two other affiliates, RM Solutions Co. Ltd. and iTrust Inc., remained at their respective acquisition costs for the year ended March 31, 2002 and 2003. The total assets, net sales, net income and capital surplus of these two affiliates are not significant to the Company's consolidated financial statements.

## **(3) Remeasurement of assets and liabilities of subsidiaries**

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

## **(4) Translation of foreign currency**

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

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

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

## **(5) Cash and cash equivalents**

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

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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### (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 contingencies on guarantees

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

### (8) Inventories

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

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

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

### (9) Investments in securities

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

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

### (10) Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation of ¥3,342 million and ¥4,168 million (\$34,672 thousand) at March 31, 2002 and 2003, 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.

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

## **Notes to Consolidated Financial Statements**

NS Solutions Corporation and Consolidated Subsidiaries

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

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

### **(12) Goodwill**

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

### **(13) Deferred charges**

New stock issuing expenses are charged to income as incurred.

### **(14) Income taxes**

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

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

### **(15) Allowance for retirement benefits**

#### **(a) Retirement benefits for employees**

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

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

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

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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### (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' internal rules and is based on the estimated amount which would be payable if all directors and corporate auditors retired at the relevant balance sheet date.

### (16) Accrued bonuses to employees

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

### (17) Accounting for finance lease transactions

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

### (18) Net income per share

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

The average number of shares used in the computation was 6,002 thousand and 25,262 thousand for the fiscal years ended March 31, 2002 and 2003, respectively. Each of the Company's shares was divided into 4 shares on June 29, 2002, and the weighted average number of outstanding shares adjusted retroactively for the stock splits to the beginning of the year was used in computing net income per share.

Assuming that the above stock split had occurred at the beginning of the fiscal year ended March 31, 2002, the net income per share for the year ended March 31, 2002 would be ¥266.65.

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

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the statement of income, and the computation of net income per share be made on that adjusted net income basis. The accounting change did not have a material effect on the net income per share computation.

### **(19) Accounting for consumption tax**

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

### **(20) Appropriation of retained earnings**

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

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

## **4. U.S. Dollar Amounts**

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥120.20=U.S. \$1, the effective rate of exchange prevailing at March 31, 2003, 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.

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

### 5. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2002 and 2003 are as follows:

March 31,	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
Cash and bank deposits.....	¥7,335	¥20,956	\$174,339
Deposited money (Note 19).....	7,737	4,699	39,092
Cash and cash equivalents.....	¥15,072	¥25,655	\$213,431

### 6. Supplemental Cash Flow Information

#### (1) Acquisition of part of the business of the Electronics & Information Systems Division of Nippon Steel

The Company concluded a contract with Nippon Steel in respect of the acquisition of part of the business of the EI Division, after obtaining approval from the Board of Directors on March 27, 2001. Based on this contract, the Company acquired the following assets and liabilities on April 1, 2001, as part of a combination of entities under common control of Nippon Steel where the values of the EI Division's assets acquired and liabilities assumed by the Company were recorded at fair value at that date.

EI Division;	Millions of yen
Current assets.....	¥15,139
Non-current assets.....	3,918
Total assets.....	19,057
Current liabilities.....	(11,000)
Total liabilities.....	(11,000)
Payment for purchase of investments in the subsidiary	(598)
Payment for transfer of business.....	¥ 7,459

The consideration for the business transfer of ¥8,057 million, which represented the net assets acquired, was paid to Nippon Steel in two installments of ¥7,000 million and ¥1,057 million on April 3, 2001 and June 6, 2001, respectively.



## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

### (2) Consolidation of Nittetsu Hitachi Systems Engineering, Inc. and NCI Systems Integration, Inc.

Effective from April 1, 2001, the Company acquired from Nippon Steel 51% of the shares of two of Nippon Steel's subsidiaries, NHS and NCI, for a consideration of ¥365 million and ¥233 million, respectively. Both were acquisitions of entities under common control of Nippon Steel. As a result, assets and liabilities of NHS and NCI were included in the Company's consolidated financial statements effective from the acquisition date.

NHS:	Millions of yen
Current assets .....	¥2,410
Non-current assets .....	420
Total assets .....	2,830
Current liabilities.....	(1,670)
Non-current liabilities.....	(444)
Total liabilities .....	(2,114)
Minority interest .....	(351)
Payment for purchase of NHS shares .....	365
Cash and cash equivalents owned by NHS.....	(283)
Payment for purchase of NHS shares, net of cash acquired .....	¥ 82
<hr/>	
NCI:	Millions of yen
Current assets .....	¥3,136
Non-current assets .....	90
Total assets .....	3,226
Current liabilities.....	(2,598)
Non-current liabilities.....	(86)
Total liabilities .....	(2,684)
Minority interest .....	(309)
Payment for purchase of NCI shares .....	233
Cash and cash equivalents owned by NCI.....	(684)
Acquisition of cash owned by a new subsidiary, net of payment for purchase of subsidiary's shares .....	(¥ 451)

As discussed in Note 3(3), assets and liabilities of NHS and NCI are fully marked to the respective fair value at the date of acquisition, April 1, 2001, on the Company's consolidated balance sheets.

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

### (3) Deconsolidation of NS Solutions USA Corporation

The assets and liabilities of NS Solutions USA Corporation were effectively deconsolidated from April 1, 2001, due to a decrease in its importance as a result of suspension of its business operations, as follows:

NS Solutions USA corporation:	
April 1, 2001	Millions of yen
Current assets .....	¥23
Non-current assets .....	1
Total assets .....	24
Current liabilities .....	2
Total liabilities.....	¥ 2

Cash and cash equivalents of ¥22 million owned by NS Solutions USA Corporation were recorded as “Cash owned by a deconsolidated subsidiary” in the consolidated statements of cash flows.

### 7. Inventories

Inventories at March 31, 2002 and 2003 are as follows:

March 31,	Millions of yen		Thousands of
	2002	2003	U.S. dollars
			(Note 4)
			2003
Work-in-process.....	¥7,645	¥7,851	\$65,314
Merchandise and supplies .....	678	1,259	10,473
Total.....	¥8,323	¥9,110	\$75,787

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## 8. Investments in Securities

Investments in securities at March 31, 2002 and 2003 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, 2002 and 2003 are as follows:

March 31, 2002	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	¥259	¥406	¥—	¥665
Others .....	—	—	—	—
<b>Total .....</b>	<b>¥259</b>	<b>¥406</b>	<b>¥—</b>	<b>¥665</b>

March 31, 2003	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	¥133	¥142	¥—	¥275
Others .....	—	—	—	—
<b>Total .....</b>	<b>¥133</b>	<b>¥142</b>	<b>¥—</b>	<b>¥275</b>

March 31, 2003	Thousands of U.S. dollars (Note 4)			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	\$1,104	\$1,185	\$—	\$2,289
Others .....	—	—	—	—
<b>Total .....</b>	<b>\$1,104</b>	<b>\$1,185</b>	<b>\$—</b>	<b>\$2,289</b>

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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

The following is a summary of non-marketable securities:

March 31, 2002	Millions of yen	
	Carrying amount	
Equity securities of unconsolidated subsidiary .....	¥	11
Equity securities of affiliates .....		1,368
Others (unlisted equity securities) .....		349
<b>Total .....</b>		<b>¥1,728</b>

  

March 31, 2003	Millions of yen	Thousands of U.S. dollars
	Carrying amount	
Equity securities of unconsolidated subsidiary .....	¥ 11	\$ 90
Equity securities of affiliates .....	1,423	11,842
Others (unlisted equity securities) .....	1,318	10,963
<b>Total .....</b>	<b>¥2,752</b>	<b>\$22,895</b>

### 9. Property and Equipment

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

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

In the year ended March 31, 2003, the statutory tax rate of deferred tax assets and liabilities applicable to those items, that are expected to reverse in the year beginning April 1, 2004 or later, changed from 42.0% to 40.8% (Note 11). As a result, “Reserve for revaluation of land” and “Deferred tax assets-non-current” decreased by ¥15 million (\$123 thousand), respectively, and “Total assets” and “Total shareholders’ equity” decreased by ¥755 million (\$6,280 thousand) on March 31, 2003.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The detail of the revaluation is as follows:

- Method of revaluation

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

- Date of revaluation

March 31, 2000.

- Difference between the fair value and carrying amount of the devalued land for business purposes at March 31, 2001 and 2002 was ¥54 million and ¥90 million (\$751 thousand), respectively.

## 10. 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 years ended March 31, 2002 and 2003 were ¥2,994 million and ¥1,770 million (\$14,723 thousand), respectively. Had they been capitalized, the following items would have been recognized on the consolidated balance sheets and the consolidated statements of income as at and for the fiscal years ended March 31, 2002 and 2003:

	Millions of yen		
	Acquisition	Accumulated	
March 31, 2002	Cost	Depreciation	Net balance
Buildings and structures .....	¥ 6	¥ 6	¥ 0
Machinery and equipment .....	80	16	64
Tools, furniture and fixtures .....	9,903	6,795	3,108
Others .....	2,580	1,650	930
<b>Total .....</b>	<b>¥12,569</b>	<b>¥8,467</b>	<b>¥4,102</b>

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

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2003	Thousands of U.S. dollars (Note 4)		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment .....	\$ 669	\$ 285	\$ 384
Tools, furniture and fixtures .....	58,860	43,555	15,305
Others .....	11,959	7,672	4,287
<b>Total .....</b>	<b>\$71,488</b>	<b>\$51,512</b>	<b>\$19,976</b>

March 31,	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
	Depreciation expense .....	¥2,780	¥1,653
Interest expense .....	171	86	717

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, 2002 and 2003 are as follows:

March 31,	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
	Within one year .....	¥1,824	¥1,193
Over one year .....	2,477	1,355	11,272
<b>Total.....</b>	<b>¥4,301</b>	<b>¥2,548</b>	<b>\$21,199</b>

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

Future operating lease payments under non-cancelable lease contracts at March 31, 2002 and 2003 are as follows;

March 31,	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
Within one year .....	¥ 8,466	¥3	\$32
Over one year .....	3,035	3	22
Total.....	¥11,501	¥6	\$54

### 11. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes based on income, which in aggregate resulted in a statutory tax rate of approximately 42.0% for the fiscal years ended March 31, 2002 and 2003.

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

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

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

This resulted in a reduction in deferred tax assets at March 31, 2003 by ¥62 million (\$512 thousand), compared with the asset that would have been recognized if a tax rate of 42.0% had been fully applied to all temporary differences. "Income taxes-Deferred" benefit also reduced by ¥63 million (\$525 thousand) as a result of these changes in statutory local enterprise tax regulations.

## Notes to Consolidated Financial Statements

### NS Solutions Corporation and Consolidated Subsidiaries

At March 31, 2002 and 2003, the significant components of deferred tax assets and liabilities were as follows:

March 31,	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
<b>Deferred tax assets:</b>			
Accrued enterprise tax .....	¥ 481	¥ 239	\$ 1,990
Allowance for bonuses to employees.....	1,627	1,816	15,106
Allowance for employees' retirement benefits .....	1,744	2,002	16,652
Amortization of software costs.....	733	834	6,935
Elimination of unrealized profits on consolidation .....	83	88	729
Others.....	685	508	4,235
<b>Total .....</b>	<b>5,353</b>	<b>5,487</b>	<b>45,647</b>
Less: Valuation allowance .....	—	—	—
<b>Total deferred tax assets.....</b>	<b>5,353</b>	<b>5,487</b>	<b>45,647</b>
<b>Deferred tax liabilities:</b>			
Reserve for special tax purposes .....	(828)	(893)	(7,426)
Valuation gain (loss) on available-for-sale securities .....	(171)	(58)	(485)
<b>Total deferred tax liabilities .....</b>	<b>(999)</b>	<b>(951)</b>	<b>(7,911)</b>
<b>Net deferred tax assets (liabilities).....</b>	<b>¥4,354</b>	<b>¥4,536</b>	<b>\$37,736</b>

In addition to net deferred tax assets of ¥4,354 million and ¥4,536 million (\$37,736 thousand) for the years ended March 31, 2002 and 2003, respectively, mentioned above, a deferred tax asset relating to revaluation loss on land amounting to ¥537 million and ¥522 million (\$4,344 thousand) for the year ended March 31, 2002 and 2003, was also recognized, resulting in total deferred tax assets of ¥4,891 million and ¥5,058 million (\$42,080 thousand) being recognized on the balance sheets for the fiscal years ended March 31, 2002 and 2003, respectively.



## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2003 is as follows:

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

Since the difference between the statutory tax rate and the effective tax rate for the fiscal year ended March 31, 2002 is less than 5%, a reconciliation of these two rates is not presented.

### 12. Retirement Benefits

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

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

The projected benefit obligations at the end of March 31, 2002 and 2003 were ¥4,969 million and ¥5,478 million (\$45,575 thousand), respectively. Since no portion of the projected benefit obligations is funded outside the Company, and both the transition difference and actuarial gain or loss are charged to income or expenses in the year they arise, the project benefit obligations are fully recognized as a liability on the consolidated balance sheets.

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The net periodic costs relating to retirement benefits for the years ended March 31, 2002 and 2003 are as follows:

March 31,	Thousands of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
Service costs.....	¥548	¥539	\$4,482
Interest costs.....	65	75	623
Amortization of actual loss.....	62	101	847
Allowance for employees' retirement benefits.....	¥675	¥715	\$5,952
Costs of defined contribution pension plan.....	—	99	827
<b>Total.....</b>	<b>¥675</b>	<b>¥814</b>	<b>\$6,779</b>

The assumptions used in the actuarial computation for the years ended March 31, 2002 and 2003 above are as follows:

March 31	2002	2003
Method of benefit attribution .....	Benefit/years of service	Benefit/years of service
Discount rate .....	1.50~3.10%	1.40~1.70%
Period of amortization of unrecognized actual gain or loss.....	1 year	1 year
Period of amortization of transition difference upon adoption of accounting standard for retirement benefits .....	1 year	1 year

### 13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2002 and 2003 are as follows:

March 31	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2002	2003	2003
Payroll and bonuses.....	¥6,870	¥6,811	\$56,666
Allowance for employees' retirement benefits .....	264	305	2,542
Allowance for directors' retirement benefits.....	76	81	673
Depreciation expense.....	357	264	2,192
Operating expense for acceptance of orders .....	2,189	2,657	22,108

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## 14. Research and Development Costs

Research and development costs charged to income for the fiscal years ended March 31, 2002 and 2003 were ¥1,221 million and ¥1,001 million (\$8,331 thousand), respectively.

## 15. Shareholders' Equity

### (1) Capital increase

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

For the fiscal year ended March 31, 2002, the Company issued 1,000 new shares to Nippon Steel on April 3, 2001. The issue price of the new shares was ¥7,000,000 per share, and 50% of this, ¥3,500,000, was designated as stated capital. In addition, the Company also issued 38,890 new shares on March 27, 2002 to certain directors and officers, its employee stock ownership plan and Oracle Japan. The issue price of the new shares was ¥17,400 per share, and 50% of this, ¥8,700, was designated as stated capital.

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

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

### (2) Legal reserve

The Commercial Code of Japan provides that an amount equivalent to at least 10% of any appropriations of retained earnings paid in cash for each fiscal year be appropriated as a legal reserve until such legal reserve reaches a certain limit, which was 25% of common stock for periods prior to October 1, 2001, but changed to 25% of common stock, less additional paid-in capital, effective from that date, in accordance with an amendment to the Commercial Code. The legal reserve is not available for distribution as cash dividends, but may be used to reduce a deficit or maybe transferred to common stock.

The legal reserve included in retained earnings was ¥165 million and ¥191 million (\$1,591 thousand), respectively, at March 31, 2002 and 2003.

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

### (3) Appropriation of retained earnings

In accordance with the Commercial Code of Japan, appropriations of retained earnings are not reflected in the financial statements for each fiscal year. The following appropriation of retained earnings of the Company, including cash dividends applicable to the fiscal years ended March 31, 2002 and 2003, was proposed by the Board of Directors and approved at the shareholders' meeting held on June 27, 2002 and June 25, 2003, respectively.

Appropriation;	Millions of Yen		Thousands of
			U.S. dollars
March 31,	2002	2003	(Note 4) 2003
Cash dividends.....	¥453	¥530	\$4,409
(Cash dividends at ¥75.00 per share for 2002 and ¥20.00 (\$0.17) per share for 2003, respectively)			
Directors' bonuses for services rendered .....	21	18	146
Transfer to special tax purpose reserve.....	166	163	1,353
Reversal of special tax purpose reserve into retained earnings .....	—	(61)	(504)

Those appropriations applicable to the fiscal year ended March 31, 2003 were not recorded in the consolidated financial statements for the fiscal year ended March 31, 2003, but will be recorded in the consolidated financial statements for the fiscal year ending March 31, 2004. Those applicable to the fiscal year ended March 31, 2002 were recorded in the fiscal year ended March 31, 2003 rather than in the fiscal year ended March 31, 2002.

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

### 16. 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 ¥113 million and ¥85 million (\$710 thousand) at March 31, 2002 and 2003, respectively, both of which are Guarantees for bank loans of the Hokkaido High Information Technology Center Co., Ltd.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## 17. Segment Information

### (1) Industry segment information

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

### (2) Geographic segment information

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

### (3) Overseas sales

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

## 18. Subsequent Events

There have been no material events subsequent to March 31, 2003.

## 19. 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, 2002 and 2003 are as follows:

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## (1) Parent company

March 31,	2002	2003
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	99% (direct)	72% (direct)
Relationship:		
Number of directors and auditors who have a position in both companies ....	1	1
Number of directors and auditors transferred from the parent company* .....	12	12
Operational relationship .....	Sales of systems integration services.	Sales of systems integration services.
	Purchase of systems development services.	Purchase of systems development services.
	Rental of buildings.	Rental of buildings.
Transaction amounts:		
Sales of systems integration services.....	¥23,706 million	¥24,164 million (\$201,035 thousand)
Payment for systems development services and office services .....	¥177 million	¥69 million (\$571 thousand)
Building rental fee .....	¥1,449 million	¥1,346 million (\$11,199 thousand)
Labor cost payments for seconded employees from Nippon Steel.....	¥9,394 million	¥10,346 million (\$86,070 thousand)
Other .....	¥933 million	¥678 million (\$5,640 thousand)
Balances at fiscal year-end:		
Accounts receivable.....	¥1,650 million	¥1,993 million (\$16,584 thousand)
Other current assets .....	¥221 million	¥152 million (\$1,265 thousand)
Guarantee deposits .....	¥429 million	¥429 million (\$3,571 thousand)
Accounts payable .....	¥116 million	¥39 million (\$7 thousand)
Accrued expenses .....	¥406 million	¥168 million (\$1,397 thousand)
Advanced receipts .....	¥2,067 million	¥1,948 million (\$16,209 thousand)
Other current liabilities .....	¥3 million	—

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

# Notes to Consolidated Financial Statements

## NS Solutions Corporation and Consolidated Subsidiaries

### (2) Subsidiary of Nippon Steel

March 31,	2002	2003
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 system integration services. Deposit of funds.
Transaction amounts:		
Sales of system integration service.....	¥68 million	¥23 million (\$191 thousand)
Money deposited.....	¥7,200 million	¥6,600 million (\$54,908 thousand)
Money refunded.....	—	¥9,300 million (\$77,371 thousand)
Balances at fiscal year-end:		
Accounts receivable .....	¥2 million	¥2 million (\$16 thousand)
Deposited money .....	¥7,200 million	¥4,501 million (\$37,443 thousand)

Kasumigaseki Bldg. 32<sup>nd</sup> Floor  
3-2-5, Kasumigaseki, Chiyoda-ku,  
Tokyo 100-6088, Japan

**Report of Independent Accountants**

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, 2003 and 2002, 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices 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 Audit Corporation*

Tokyo, Japan  
June 25, 2003