Business Results and Outlook

(April 1, 2003 through March 31, 2004)

April 28, 2004

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

(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:

① To expand our business, we design creative solutions and selectively allocate more business resources for markets that have significant potential demand for IT solutions.

② 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.

③ We seek state-of-the-art technologies and customers' confidence because our competitive edge stems from these two factors.

④ We focus on our three core businesses (i.e., Business Solutions, Platform Solutions and Business Service operations) to provide coherent services ranging from consulting services, design, development and implementation of solutions to maintenance service.

(2) Basic Policy on Profit Sharing

NS Solutions recognizes the importance of enhancing our competitiveness to boost our corporate value for shareholders. From this perspective, we provide proper and stable dividends to our shareholders, while maintaining sufficient internal reserve for expanding our business activities, as well as ensuring appropriate profits in the future.

When determining the specific amount for the dividend, we pay due attention to our financial position, profit level and dividend payout ratio. For this term, we will provide a ¥17.5 term-end dividend per share. As we have already paid the ¥17.5 mid-term dividend, the annual total will be ¥35 dividend per share.

Since we are now addressing fiercer competition with competitors and providing high-quality solutions in a timely manner by taking advantage of business opportunities, we plan to spend our internal reserve on expanding our solution menu, obtaining advanced information technologies and strategically investing in human resources development.

(3) Trading Volume Unit

To enhance active trading at stock markets and expand our shareholder base, the board members decided to split stocks 1 : 2 at the board meeting held on April 27, 2004. (Base date: June 30, 2004. Effective date: August 19, 2004.)

(4) Our Business Strategy in the Medium- to Long-Term

In the face of the information revolution and ever-changing business environments resulting from a globalized economy and ongoing deregulation, private corporations have been drastically reforming their business operations and redefining business models for their survival. Information technology plays a very important role in such corporate reform efforts. NS Solutions recognizes the importance of properly and quickly addressing our customers' IT investment needs stemming from their business strategies.

Recently, IT firms have been heading in two different directions in the information service industry. The first type is the IT firm that has high technological and solution-proposing capabilities to properly address their customer's IT strategies; and the second type is the IT firm specializing in solution development efforts. Our industry will undoubtedly begin to see fiercer competition among these IT firms.

Bearing this in mind, NS Solutions will provide our customers with better solutions and a wider menu than our competitors and to have a stronger presence in our industry by obtaining confidence from our customers.

(5) Our Challenges

It is expected that the current business environment will become all the more severe due to the growing diversity and complexity of customer needs and the increasing competition among vendors. Bearing such conditions in mind, NS Solutions is addressing the following challenges to enhance our business competitiveness and to attain the position of a reliable "IT partner" for our customers.

① Getting on the growth path and enhancing customer relations capability.

To get on the growth path and sustain our growth, NS Solutions keeps track of market/technical trends, selectively allocates more business resources to growing markets, including the manufacturing industry, and other market categories where we have competitive edges. We will also enhance our advanced solutions.

In addition, we seek stronger ties among our business units to coherently support the total system life cycle ranging from consulting, development to maintenance services. By doing so, we aim to become a trustworthy IT partner for our customers.

We will implement the System Life Cycle (SLC) that provides customers with coherent services ranging from designing, development and operation to maintenance services based on a comprehensive overview of the customer system. To this end, we will step up our inter-organizational cooperation mainly at the Solution Design/Consulting Center of NS Solutions and enhance our customer relations capability. By doing so, we aim to become a trustworthy IT partner for our customers. Also, we will create new customers by providing full-scale legacy reengineering services.

② Establishing more competitive business structure

We will redefine optimal role-sharing among NS solutions, its subsidiaries and partner firms in order to establish a more competitive business structure in the NS solutions group as a whole.

To acquire stronger development skills and to achieve higher development productivity, we will promote the creation and the application of development methods/tools and foster the development in remote areas. We will also further enhance project management through Project Management Office (PMO) activities.

As for human resources that are vital factors for management, we will expand internal training schemes to improve our employees' abilities so that they will be able to provide better solutions, proposals and properly manage various projects. We will also improve our human resources, payment and compensation system based on the ability-and-performance-based personnel system and enhance our recruiting activities.

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

As already mentioned in "Our Basic Business Policies" section, we recognize the importance of successful corporate governance because our survival requires "confidence" from customers.

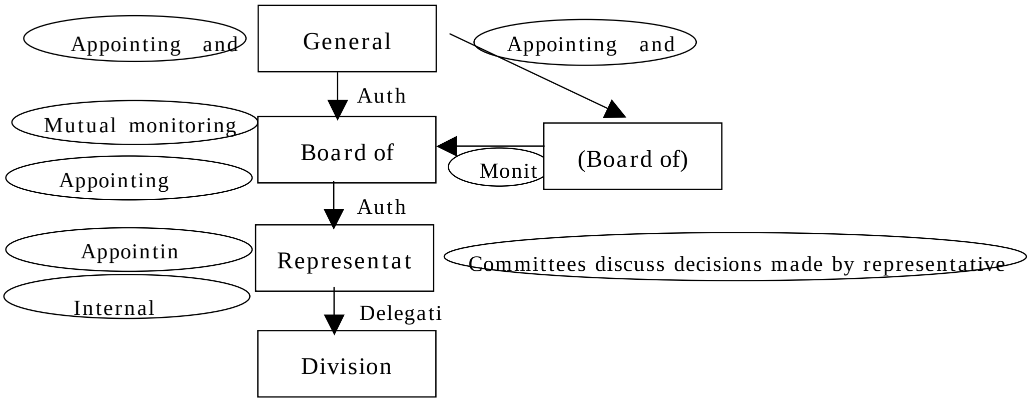
Under the current "board of auditors" system, our relatively small-sized board of directors (11 directors) makes proper and quick decisions in accordance with the applicable laws, while the board of auditors monitors the decisions made by the board of directors.

As we calculate profits and losses for the business unit group, NS Solutions authorizes division chiefs to make day-to-day operational decisions quickly in accordance with predetermined internal decision-making rules. Our internal inspection group, which directly reports to the president, monitors division chiefs' behavior to ensure proper business activities. On the other hand, in terms of business strategy planning, recourse allocation, loan/investment projects and large-scale projects, decisions are made at NS Solutions' various committees such as the project planning conference or management committees consisting of the president and other top management members.

NS Solutions has also been making endeavors to improve transparency through a third-party monitoring scheme. We achieve proper management and operational activities by involving our accounting auditor (ChuoAoyama Audit Corp.) in audits and asking our counsels for valuable opinion/advice mainly for smooth operation at our director's board. We also provide shareholders and investors with up-to-date information via results briefing, website, etc.

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 the sense of compliance. By doing so, we conduct our business activities in accordance with applicable laws and internal regulations.

It may be an idea to adopt a "Committee System" under Japan's recently revised Commercial Code. However, NS Solutions intends to keep corporate governance under our current "Board of Auditors" system.



(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 the section, "(7) Basic Policies regarding Relationships with our stakeholders."

(Efforts to Improve Corporate Governance for These Twelve Months)

① Number of conferences held

Board of directors (10 times), management conference (32 times) and project planning conference (47 times)

② Audits

In addition to inspections by our auditors, our internal inspection group, which directly reports to the president, also conducts internal audits.

In FY 2003, the inspection group focused on auditing operations such as internal control, compliance and risk management, and conducted field audits at all divisions in NS Solutions.

③ Other activities

Other than regular activities, NS Solutions took the following measures:

- Established a consultation desk (Compliance Desk) for our employees in July 2003 as part of the compliance improvement project,
- Held an Information Management Committee (Chairperson: the president) on almost a quarterly basis to protect our personal/customer information assets and conducted an information asset protection audit at all divisions in the second half of the year, and
- Provided education and heightened the awareness of our employees at internal training sessions as well as on the intranet websites prepared by the Corporate Planning & General Administration, Legal and Intellectual Property Departments as required.

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

① Remuneration and bonus of directors and auditors.

		Number of people	Total payroll for this term
Directors	Remuneration	12	230 million yen
	Bonus	10	17 million yen
Auditors	Remuneration	2	26 million yen

(Note)

1. Remunerations for the personal assistants of directors and concurrent directors (57 million yen) are included in the directors' remuneration.
2. In addition to the aforementioned payroll value, a special service bonus (9 million yen) is offered to retired directors.
3. All directors are from within NS solutions.

② Remuneration for accounting auditors.

		Total payroll for this term
Accounting auditors	Remuneration	21 million yen

(Note)

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

(7) Basic Policies regarding Relationships with our Stakeholders

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

As Nippon Steel Corporation exclusively commissions us to plan, design, develop and operate their information systems, the NS Solutions Group contributes to enhancing their competitiveness. We will continue to maintain the relationship with Nippon Steel Corporation in the future as well.

Nippon Steel Corporation had been sending its employees on secondment to NS Solutions. However, the transfer of these seconded workers was completed as of the end of March 2004.

(8) Other Important Management Matters

None.

2. Operating Results

Highlights in the current term

(Trend in the Japanese economy)

Early in this accounting year period, there was uncertainty over Japan's economy because of the Iraqi crisis, move in the stock market, the impact of SARS (Severe Acute Respiratory Syndrome) and so forth, but in the second half we saw some sign of recovery with revenue and profit of enterprises showing steady improvement supported mainly by capital investment and export to the Chinese market.

(Trend in information service industry)

In the information service industry, however, although mid-sized and middle class companies continue with software investment, large companies whose net investment should be large continue to be cautious, resulting in overall slow market activities. The revenue trend of the total information services industry has remained almost flat year on year since June 2002. (Source: Ministry of Economy, Trade and Industry, "Specified Services Industry Dynamic Statistics.") As customer companies are making stronger moves towards selective investment projects and requesting lower quotation bids, competition among vendors is becoming more intense.

(Highlights for NS Solutions Group)

Though the market condition continues to be severe, we have gained a very good reputation among our customers for our leading-edge solutions derived from a deep understanding of business and from our excellent information system technologies in fixing customers' problems. We have achieved ¥150,843 million sales on a consolidated basis, with a ¥2,254 million decline from the previous term (¥153,097 million). Excluding a one-off big project in the previous year, however, we saw an overall increase from the previous year. As consolidated current profit, we had ¥9,785 million, ¥2,300 million less than the previous year (¥12,085 million). As customers became more conscious of TCO (Total Cost of Ownership) reduction or ROI (Return on Investment) improvement, the lead time to order entry lengthened. Also, we saw price erosion due to heavier competition and we had some unprofitable projects. All of these caused a decline in current revenue from the previous term.

Our business performance for each service category (i.e., Business Solutions, Platform (IT infrastructure) Solution and Business Service Operations) is as follows.

In Business Solutions, we had a steady revenue stream mainly from manufacturing and distribution industries and sales amounted to ¥77,803 million.

From the manufacturing and distribution industries, we enjoyed steady demands because they actively invested in IT systems to better address globalization and improve their competitiveness and management efficiency. Based on our solution's a high reputation among customers including automakers and electric/electronic makers, we focused our efforts on: (1) ERP solution that integrates production/sales processes and shortens the account settlement process; (2) global SCM solution for reducing total lead time and total inventory, (3) PDM solution for shortening R&D processes from design to production; and (4) solution business incorporating these individual solutions. As an example, we successfully established a new mission-critical system last May incorporating ERP, CRM and SCM solutions for Canon Sales Co., Ltd. They highly appreciated our work. In addition to individual and integrated solutions, we saw emerging needs for total support in the system life cycle starting from consulting to construction, operation and maintenance.

Enterprise Resource Planning: ERP
Supply Chain Management: SCM
Product Data Management: PDM

Regarding the finance industry, we are in a difficult market environment as financial institutions have clearly placed stress on ROI for information systems investment, which in turn has made competition among venders even harder. Despite such harsh market conditions, we enjoyed steady demands for business management-type systems mainly from regional banks, as well as firm demands for market-type systems for trading financial products. The latter system has received a high commendation from major commercial banks and other financial institutions. We also supported the rebuilding of enterprise business systems for life insurance companies. With our support, one of our customers, Meiji Life Insurance Company (currently, Meiji Yasuda Life Insurance Company), has reorganized its client-server business system installed in key offices in Japan and succeeded in a significant reduction of required servers (i.e. from 1200 servers before to 50).

In the government agency and public sector we also have good historical records as an IT partner in relations with government departments and other public sectors, since they aim to achieve "E-government" through paperless administrative information. We have built an online application system and a large-scale LAN system for the central government. We will continue establishing various systems in the fields of satellite, science, education and transportation, making the most of our expertise in high technology fields.

In Platform (IT infrastructure) Solutions operation, we enjoy an excellent reputation from our customers as an open system integrator because we are able to provide mission-critical state-of-the-art system infrastructures in a short time. Revenue was ¥36,493 million. In IT infrastructure solution operation, we envision a very severe business environment as cost reduction requests from customers are becoming stronger and competition among vendors is getting harder. As pressure for lower cost is especially strong in product businesses like sales of single items, we have been focusing on non-product businesses such as consulting and maintenance. From this year, as one of the examples, we started to offer one stop support and services available 24 hours a day, 365 days a year for the maintenance of various products which comprise system infrastructure. Its business is increasing smoothly.

In Business Service operation, NS Solutions provides various services, such as outsourcing services of information system design/development/maintenance, server hosting services as well as network diagnosis/design/establishment/monitoring services. To better address our customer's diverse needs, we are coherently supporting the whole system lifecycle from development to maintenance. We produce a steady flow of successful results in this field. Also, in the area of business process outsourcing where the need is expected to grow, we extensively offer ASP (Application Service Provider) services for document and drawing management. We already have orders from construction, automobile and food industries and our customer base is steadily expanding. Through these efforts, revenue reached ¥36,547 million.

(Managing Policies)

To improve our business competitiveness, we are aggressively pursuing the following actions.

・Organization Change

In the organization change effective Apr. 1st this year, we have enhanced and promoted the System Solutions Consulting Center (SCC) to corporate organizations, responsible for customer support in building corporate level IT strategies for customers. We have also reorganized the Industrial System Solutions Unit in view of the dynamic reallocation of management resources and retaining organizational elasticity. Along with changes in SCC, we have also created the Legacy Reengineering Center (LRC) under SCC that will comply with customers' requirements to renew existing systems to new architecture and to execute system reengineering as well for the sake of business process efficiency. We have executed re-engineering activities from main frame-based systems to open-architecture based systems regarding large and complex steel works system of Nippon Steel, starting with analysis of status-quo from a view point of economy, security and efficiency. Moreover, we have experienced proposing and realizing a variety of solutions from a standpoint of neutrality and best of breed. We are planning to respond to customer needs for system reengineering by Legacy Reengineering Center activities based on such our achievements.

・Business Alliance

Corporate management is facing more and more complex tasks like response to globalization and strengthening corporate group competitiveness. In order to cope with such tasks, the key to gaining superiority over the competition is to employ flexible IT capabilities which enable large-scale system developments and inter-system alliance and integrations. We have decided to take an alliance with Nippon System Development Co., Ltd (NSD) with a view to strengthen capabilities to respond to market needs. Both companies are independent system integrators and are planning to strengthen large-scale system development capabilities and respond to clients more sophisticated needs for each stage of system life cycle from development to maintenance and operation.

・Personnel Management

We have been accepting employees seconded from Nippon Steel Corporation and a total of 86 employees have been officially transferred to NS Solutions effective the end of Mar. this year. This transfer combined with the transfer of 843 managers at the end of last Mar., completes the transfer of all the employees seconded from Nippon Steel Corporation in conjunction with the merger of the former Electronics & Information Systems Division of Nippon Steel Corporation and the former Nippon Steel Information & Communication Systems Inc. In addition, the Company introduced the annual salary system for some of the new graduates, who the Company decided had adaptable working potential in the area of information technology and financial engineering.

・Environmental Compliance

Many companies have been introducing concrete measures for environmental protection to handle the growing concern over global environmental problems. The Company has historically and proactively engaged itself in environmental management and encouraged several departments to obtain ISO14001 (environmental management system). To strengthen the environmental management system, the Company decided that ISO14001 should be obtained by all main offices (in the Shinkawa district).

3.Analysis of Operating Results

1) Sales

Sales of the current consolidated fiscal year were ¥150,843 million, 1.5% lower than the sales of ¥153,097 million in the previous consolidated fiscal year. Sales by area of service are reported as follows.

In the area of Business Solutions, the Company maintained robust sales with customers in the manufacturing and distribution industry, namely in automobiles and electric/electronic industries. However, because of increased orders for large-scale system development from public offices, and financial institutions with a higher proportion of hardware service in the previous consolidated fiscal year, sales decreased by 4.8% to ¥77,803 million, compared to the previous consolidated financial year of ¥81,761 million.

On the other hand, in the IT infrastructure (Platform) solution business, product sales prices continued to lower due to the effect of rising competition among service vendors, the Company made an effort to expand its business area to non-manufacturing business such as consulting and maintenance services, and reported sales of ¥36,493 million, a 4.3% increase over the previous fiscal year's sales of ¥34,990 million.

Though sales from Nippon Steel Corporation declined, the overall sales of the Business Service operation area in the current consolidated fiscal year increased by 0.6% to ¥36,547 million over the previous consolidated fiscal year of ¥36,346 million, as a result of the Company's efforts to adopt proper approaches to expanding the outsourcing market and increasing sales from general customers.

2) Cost of goods and services, and general, administrative and selling expenses

The cost of goods and services in the current consolidated fiscal year showed a 0.5% increase of ¥123,358 million over the previous consolidated fiscal year of ¥122,766 million.

The Company reduced costs by promoting the streamlining of research and development, education and training, as well as system management, and reported a 2.6% decline in general, administrative and selling expenses of the current consolidated fiscal year, to ¥17,759 million over the previous consolidated fiscal year of ¥18,235 million.

3) Operating income

While general, administrative and selling expenses of the Company declined, operating income of the current consolidated fiscal year decreased by 19.6% to ¥9,726 million compared to the previous consolidated fiscal year of ¥12,096 million, as a result of decreased sales and lowered gross margin.

Lowered SE operating ratio from extended order time, price lowering due to rising competition among service vendors, and some unprofitable projects resulted in a decline in the gross margin.

4) Non-operating income (expense)

Non-operating income (expense) of the current consolidated financial year improved to ¥59 million of income (net) from an operating expense of ¥11 million (net) in the previous consolidated financial year, due to improved gains at the affiliated companies under the equity method of accounting.

5) Recurring profit

Recurring profit of the current consolidated financial year was ¥9,785 million, 19.0% lower than the previous consolidated financial year of ¥12,085 million.

6) Extraordinary profit and loss (net)

The Company reported an extraordinary loss of ¥13 million for the current consolidated financial year, compared to the loss of ¥188 million in the previous consolidated financial year.

Extraordinary profit improved to ¥715 million for the current consolidated financial year from ¥11 million in the previous consolidated financial year, driven by the sales of investment securities.

While golf club membership and investment securities valuations declined from ¥200 million to ¥14 million, because of the incurring compensation for delay in the project completion schedule of ¥416 million and office relocation expense of ¥291 million, extraordinary loss increased to ¥729 million from ¥200 million in the previous consolidated financial year.

7) Current net income before tax adjustment

Current net income before tax adjustment of the current consolidated financial year was ¥9,771 million, a 17.9% decrease from the previous consolidated financial year of ¥11,896 million.

8) Income taxes

The income taxes of the current consolidated financial year resulted in a 21.4% decline to ¥4,236 million from ¥5,390 million in the previous consolidated financial year.

The income tax ratio (contribution percentage) in proportion to the current net income before tax adjustment decreased by 1.9% to 43.4% from 45.3% in the previous consolidated financial year. An increase in tax credit, led by the amendments to tax laws stipulated in FY2003, including "Special Income Tax Deduction for IT Investment" and "Special Income Tax Deduction for Total Expenditures for Research and Development," contributed to a decrease in the income tax ratio.

9) Minority stockholder income

The minority stockholder income of the current consolidated financial year decreased by 18.3% to ¥211 million from ¥259 million in the previous consolidated financial year.

10) Current net income

The current net income of the current financial consolidated financial year was ¥5,323 million, a 14.8% decrease from the previous consolidated financial year of ¥6,246 million. Current net income per share declined by 18.7% to ¥200.39 from ¥246.58 of the previous consolidated financial year, because of the decrease in current net income, in addition to an increase in the average number of shares outstanding from 25,262,245 shares in the previous consolidated financial year to 26,499,545 shares with the issue of new shares in the previous consolidated financial year.

11) Significant accounting policies

The consolidated financial statements of the Company have been prepared on the basis of accounting policies generally accepted in Japan. The preparation of financial statements in conformity with accounting principles requires management to make estimates and assumptions that affect the financial condition and operational results at the balance sheet date. Based on the assumptions deemed rational from the past results and conditions, the Company makes estimates and assumptions on a continuous basis.

・Deferred tax asset

The deferred tax asset is reported to be in line with future taxable income.

・Retirement allowance

Employee retirement benefits are calculated based on the actuarial method and reflect the pre-conditional ratio, compensation growth rate and average period of service. The Company group determines the pre-conditional ratio mainly in line with the interest rate of the Japanese Government Bond, and the compensation growth rate and average period of service on the basis of historical data of the Company group.

・Bad debt allowance

The Company group reports bad debt allowance for general obligations based on the past bad debt ratio. The Company also posts additional bad debt allowance for the debts held by the customers, who may incur serious problems with debt payment or those with the high probability of having problems with such payment, by determining individual collectability.

・Debt in line with equity method of accounting

The Company makes a commitment to guarantee a part of the loans borrowed by the affiliated companies carried under the equity method of accounting from financial institutions. Based on the financial evaluation of the affiliates concerned, the Company posted the reserve for a commitment to guarantee ¥68 million (as of March 31, 2004).

・Other losses related to securities

As of March 31, 2004, the Company group holds, for business reasons, other securities related to specific customers and suppliers (excluding stocks of affiliated companies) of ¥2,092 million. These securities include the shares with high price volatility of publicly held companies, and the shares of private companies, the share value of which is difficult to determine. The Company group estimates the loss from these securities, in the event that it decides that the investment value has declined and is assumed non-recoverable. The Company identifies the shares of publicly held companies as impaired, if the stock value on the yearend date dips below 50% of the purchase amount. With respect to private company stock value, the Company identifies those shares as impaired, if, in principle, the net asset value of the company concerned falls below 50% of the acquired value. There were no such shares in the current consolidated financial year, which required treatment of waste.

From the current consolidated financial year, the Company changed the categorization of reporting the sales amount in the service area, from an individual project basis to a departmental basis. To make comparisons with the previous consolidated financial year, the above reported figures by service area reflect the value of the current consolidated financial year, in conformity with traditional accounting approaches. The sales by service area based on the new categorization are as follows.

	Sales
Business Solutions	¥83,463 million
Platform Solutions	¥29,947 million
Business Service	¥37,433 million

4.Outlook for the next period

Outlook for the next period

Customers continue with an investment attitude highly conscious of TCO reduction and ROI improvement. However, business investment in software as a whole shows signs of having bottomed out in the second half of last year, and the market is on an upward trend. Software investment, which is intended to enhance business competitiveness and management efficiency, is expected to continue to be robust mainly at the so-called “winner group companies.”

Our company will seek to unerringly grasp every business opportunity on the basis of the solution ability and the customer’s confidence that we have thus far built up and won. We will also steadily implement different measures aimed at strengthening our earning power.

For the current fiscal year, we expect to report net sales of ¥152,000 million and a recurring profit of ¥12,000 million on a consolidated basis.

Matters shown as a future outlook including the next period may fluctuate due to unexpected changes in the economy, and therefore, do not mean any commitment by our group.

Business risks

In this section, we describe the items selected from among those matters relating to the status of our group’s businesses and financial situations that are likely to have a significant influence on investors’ decisions.

Any of the matters described herein regarding the future are based on our judgment as of the date when this report was submitted.

1) Unusual changes in financial positions, business results or cash flows

We have had no unusual changes in our financial positions, business results or cash flows.

However, business results may fluctuate depending on developments in system investments, competition, existence or nonexistence of large projects or progress/ profitability of individual projects that may result from changes in the economic situation. The results are also subject to quarterly or semi-annual changes as the sales of system development projects including those of the government and public bodies tend to be realized at year-end.

2) Dependence on particular customers, products or technology

Our relationship with Oracle:

In 1991, our parent company Nippon Steel Corporation entered into a strategic tie-up agreement and related agreements with the Oracle Corporation and its holding company Oracle Systems Corporation (hereinafter called “Strategic Tie-up Agreements”) valid until December 8, 2004 (however, automatically renewable every three years unless either party expresses its intent to terminate 180 to 270 days before expiration).

Based on the tie-up agreement, our company also signed a distributorship agreement with Oracle Corporation Japan, which gives us terms of business for Japan as good as or better than the terms offered to other companies (the so-called “Most Favored Nation” treatment). On the other hand, the agreement imposes restrictions on the Nippon Steel Corporation and its subsidiaries including our company in connection with the development and sales of products that compete with Oracle products.

As mentioned above, if either party expresses its intent to terminate the agreement 180 days before its expiration date (June 11, 2004), the Strategic Tie-up Agreement will terminate on December 8, 2004; however, the most favored nation treatment will continue in full effect for five years after the termination of the agreement.

3) Particular statutory regulations, trade practice or management policy

Situations peculiar to information service industry:

Our company is responsible for the development and management of customers' key systems. Should any system default arise in connection with a customer's system, or customer information or personal information received from customers unavoidably leaks out, we should be susceptible to customers' claims for damages as well as loss of our credibility.

As products and technology evolve toward greater sophistication, we will be more liable to lawsuits or claims filed by third parties by reason of infringement of their intellectual property rights in connection with the service or products that we provide. Thus, our group might be required to pay damages or acquire or develop alternative technology.

4) Occurrence of significant lawsuits

There is no known material lawsuit to date.

5) Significant matters relating to directors & officers, large shareholders or affiliate companies

Relating to our company's stock:

Our company's issued and outstanding shares are 26,499,560 shares (as of March 31, 2004), of which 72.2% is held by Nippon Steel Corporation. If the percentage of shares held by top-ranking shareholders rises, the ratio of shares held by a small number of particular shareholders may conflict with the Tokyo Stock Exchange's delisting criteria applicable to the first section stocks (80%).

5. Financial position

(1) Balance sheet

1) Assets

The consolidated assets at the end of the current fiscal year increased by ¥300 million to ¥90,624 million from ¥90,324 million of a year ago. Given that relatively few fixed assets are held, our group has a high ratio of current assets to total assets, which reached 83.3% at the end of the current fiscal year on a consolidated basis.

2) Liabilities

The consolidated liabilities at the end of the current fiscal year decreased by ¥4,496 million to ¥41,246 million from ¥45,743 million of a year ago, mainly as the result of a decrease in trade notes and trade accounts payable by ¥6,245 million. The liabilities held by our group consist of intercompany credit including trade accounts payable, income taxes payable and allowance for employee retirement benefit. Our group has no interest-bearing borrowings from financial institutions.

3) Shareholders' equity

The consolidated shareholders' equity at the end of the current fiscal year increased by ¥4,639 million to ¥48,144 million from ¥43,504 million of a year ago, brought about mainly by the net profit of ¥5,323 million for the current year and decrease of ¥993 million in dividend payment. As a result, our group's equity ratio rose by 4.9% from a year ago to 53.1%.

(2)Cash flows

1) Cash flow calculation

The consolidated outstanding balance of cash and cash equivalents at the end of the current fiscal year increased by ¥1,864 million to ¥27,518 million from ¥25,654 million of a year ago. Cash flows are broken down by segment of activities as follows:

* Cash flows from operating activities

For the previous fiscal year, the consolidated cash flows were: net income before adjusting taxes ¥11,896 million, depreciation ¥1,284 million, income taxes (¥8,086 million), intercompany credit (¥2,678 million), etc. for a total of ¥1,928 million.

For the current fiscal year, the cash flows were: net income before adjusting taxes ¥9,771 million, depreciation ¥1,202 million, income taxes (¥4,701 million), intercompany credit (¥5,388 million), decrease in inventories (¥2,074 million), etc. for a total of ¥4,032 million.

* Cash flows from investing activities

For the previous fiscal year, the consolidated cash flows were: acquisition of tangible/ intangible fixed assets (¥1,369 million), acquisition of investment securities (¥1,040 million), etc. for a total of ¥2,678 million. For the current fiscal year, the cash flows were: acquisition of tangible/intangible fixed assets (¥1,751 million), proceeds from the sale of investment securities ¥778 million, etc. for a total of (¥1,115 million).

* Cash flows from financing activities

For the previous fiscal year, the consolidated cash flows were: cash dividends paid (¥815 million), proceeds from the issuance of stock ¥12,178 million, etc. for a total of ¥11,332 million. For the current fiscal year, the cash flows were: cash dividends paid (¥993 million), etc. for a total of (¥1,046 million).

2) Credit lines available from financial institutions

Our company has overdraft credit lines available from four major financial groups for a total of ¥4,800 million, and also from NS Finance, Inc. (a Nippon Steel subsidiary) for ¥4,600 million. Thus, a total of ¥9,400 million is available as overdraft credit lines.

3) Cash Management System (CMS)

We use CMS of NS Finance, Inc. where we kept ¥4,500 million deposited at the end of the previous fiscal year. The consolidated deposit at the end of the current fiscal year was ¥12,509 million. In May 2003, we built and started using CMS with seven consolidated subsidiaries. At the end of the current fiscal year, we had deposits received from the seven subsidiaries outstanding for a total of ¥3,704 million.

<Ref.> Cash flow index trend

Steadily accumulating profits have raised our equity ratio as follows:

	Period ended March 2002	Period ended March 2003	Period ended March 2004
Equity ratio	39.9%	48.2%	53.1%
Equity ratio at market value	—	96.2%	202.1%

Note 1. Equity ratio = equity / total assets

Equity ratio at market value=market capitalization at end-of-period share price / total assets.

2. Years required for debt payment is not described as there was no interest- bearing debt at the end of the period. The interest coverage ratio is not described as interest payment was very limited.