



**NS Solutions**

# **Business Results and Outlook**

( April 1, 2007 through March 31, 2008 )

May 30, 2008

## **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

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

## 1. Business Policies

### *(1) Our Basic Business Policies*

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

#### Creation, Reliability and Growth

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

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

To expand our business, we pioneer IT-based solutions targeted emerging markets with growth potential and allocate our resources to those markets with priority.

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

Aware that our competitive edge stems from customer confidence and our state-of-the-art technology, we seek to maintain and bolster both.

We focus on our three core businesses, namely Business Solutions, Platform Solutions and Business Services, in order to provide consistent services ranging from consulting to design, development, operation and maintenance of IT-based solutions.

### *(2) Basic Policy on Profit Sharing and Dividends for the Fiscal Years Ended March 2008 and Ending March 2009*

The Company recognizes the importance of bolstering its competitiveness and increasing its corporate value. Its basic policy on profit sharing is to pay fair and stable dividends to shareholders and secure sufficient internal reserves to expand operations and generate profits.

The articles of incorporation stipulates that the record dates of dividends should be March 31, September 30, and other dates that the Board of Directors will specify and that the Board of Directors may decide matters concerning the acquisition of treasury stock, the reduction of reserves, and the appropriation of the surplus specified in each item of Article 459, Paragraph 1 of the Companies Act.

We decided to pay a year-end dividend of ¥20 per share for the fiscal year ended March 31, 2008 (the record date is March 31, 2008), as a result of an action by the directors in May 2008. Since we provided an interim dividend of ¥20 per share (the record date is September 30, 2007), the total dividend for the fiscal year ended March 31, 2008 will be ¥40 per share, an increase of ¥5 per share from the previous fiscal year ended March 31, 2007.

For the fiscal year ending March 31, 2009, to increase the distribution of profits, we intend to pay a dividend of ¥45 per share, a rise of ¥5 per share, based on our forecast financial position and profit

levels.

To seize appropriate business opportunities and provide quality solutions and services in response to intensifying competition, we plan to allocate internal reserves to strategic investments, namely expanding the menu solutions, creating services, acquiring cutting-edge IT technologies, and developing human resources. We will also accelerate the execution of our business strategies, including our alliance strategy.

(Note) The table below shows dividends whose record dates are in the fiscal year ended March 31, 2008

Date of resolution	Total dividends (million yen)	Dividend per share (yen)
October 25, 2007 Resolution of the Board of Directors	1,059	20.00
May 16, 2008 Resolution of the Board of Directors	1,059	20.00

### ***(3) Medium- to Long-term Business Strategies and Target Management Indices***

Increasingly, business strategies and IT strategies are closely linked and a superior IT strategy is essential to corporate survival. As circumstances surrounding business change, demand for redesigning and restructuring of existing systems rises. It is also necessary to enhance internal controls and address large-scale disasters or information leaks. There is ever growing demand for new systems that will provide IT governance, protect information assets and support disaster recovery.

We will be endeavoring to establish ourselves as a reliable IT partner by accurately identifying what business challenges our clients face, by presenting appropriate methodologies commensurate with the level expected from IT specialists and by offering a broad spectrum of services for the redesign of the entire IT assets of the client, including consulting, systems integration that covers systems planning, development, operation and maintenance, on-demand services and business process outsourcing.

From this managerial perspective, the Company will actively push ahead with business structure reforms, such as preferentially allocating business resources to growth sectors with high customer needs, planning visionary solutions and creating a new business model. By differentiating ourselves from our competitors and winning trust from customers, the Company will work to gain a competitive advantage, achieve sustainable business expansion and improve profitability.

### ***(4) Our Challenges***

Expanding our earning capacity

To expand the scope of total System Life Cycle (SLC) solutions—an issue we have been addressing—upstream and to bolster activities and consulting in the conceptual and planning phases before we receive orders, each division of the Company will strengthen cooperation with the Corporate

IT Consulting Center and will add to their ability to receive orders and create new solutions.

We will seek to enhance profitability. To this end, we will increase our focus on integrated platform engineering and will create and develop more advanced integrated platform solutions using cutting-edge IT technologies, including grid and utility computing technology and virtual techniques such as NSGRANDIR, a method for designing and building IT infrastructure using grid and utility computing technology, and “absonne,” which realizes high-performance, highly-functional, and highly reliable utility services in a virtualized data center environment under integrated management. We also aim to expand advanced total SLC solutions, considering the development, operation, and maintenance of applications on the integrated platform.

Meanwhile, we will institute initiatives to boost competitiveness, including the use of the total capabilities of the entire Group, thorough risk management, and the improvement of technologies, and will take full advantage of our consolidated management approach. We believe that these approaches will enable us to bolster our earnings power.

#### Bolstering our operating base

To bolster our operating base, we will take action to improve our ability to build systems and continue to develop human resources.

We will start full-scale operation of the Software Development Center, established in April 2008. We will bolster our efforts to standardize and improve systems development processes, enhancing our ability to build systems.

Human resource development is critical to management, and to do this we will continue to execute well-planned redeployments and comprehensive competency development, considering employees’ career paths. In addition to the human resource development initiatives, we will aspire to infuse the Company with the energy and opportunities that enable all employees to exercise their abilities to the full.

## 2. Operating Results

### *(1) Trends in the Japanese Economy and Information Services Industry*

The Japanese economy exhibited sustained strength overall during the fiscal year ended March 31, 2008, supported by rising private capital investment against a background of robust corporate earnings, despite uncertainty about the future of the economy due to the US economic slowdown, fluctuations in the stock and foreign exchange markets, and trends in crude oil prices.

In the information services industry, corporate customers exhibited a strong willingness to invest in computing systems. Spending was particularly directed at achieving innovation in backbone systems, including sales, production and distribution systems in the manufacturing and distribution industries. Upgrading mission-critical systems and other large-scale systems in financial institutions was another key spending focus. These trends produced rising sales in the overall information services industry.

### *(2) Highlights for the NS Solutions Group*

During the fiscal year ended March 31, 2008, the NS Solutions Group deployed a total System Life Cycle (SLC) solution that integrates the planning, building, operation and maintenance of computing systems, taking advantage of the comprehensive strength of the Group. Consequently, the Group continued to win orders based on customer trust, developed new customers, and exploited new business opportunities.

To realize IT infrastructure that deals flexibly with changes in the business environment of corporate customers, we created and developed new differentiated solutions and services, based on more complex and diversified needs and on trends in technology and toward services. The new solutions include the next-generation building method NSGRANDIR, which optimizes IT infrastructure using grid and utility computing technologies, integrated backup solutions for remote backup in a virtual and integrated management environment, and integrated Business Intelligence solutions that assess ever-changing management information accurately and aid in quick action.

In our business for the financial sector, which has received high acclaim especially from the business management division of financial institutions, we established NS Financial Management Consulting (NSFMC) Corporation in April 2007 and started to engage in earnest in consulting on the advancement of business management, internal control system, and internal auditing in financial institutions.

To bolster our operating base, we meanwhile took a number of steps to enhance our development processes and development technology, bolster our internal controls, and strengthen our human resources.

To improve systems development processes and technology, we built development work processes and standardized and visualized them company-wide, created our own tools to support the systems development processes, and developed a next-generation environment for dispersed systems development. Based on the results of those activities, we established the Software Development Center

in April 2008 to advance software, enhance the quality of software, improve efficiency in systems development, and accelerate globally-dispersed systems development.

To bolster internal controls, we made steady progress on preparations for the internal control reporting system taking effect in the fiscal year beginning April 2008.

For human resource development, we improved our ability to recruit talent, while encouraging our young employees with a coherent program designed to equip them with the ability to operate as true professionals. In the meantime, we strengthened our alliances with Group companies, effectively used offshore resources, especially in China, and secured good partner resources.

Consolidated sales for the fiscal year ended March 31, 2008 rose ¥8,920 million from the previous fiscal year (¥156,479 million), to ¥165,399 million, reflecting healthy growth in Business Solutions. Recurring profit was up ¥880 million from the last fiscal year (¥14,366 million), to ¥15,247 million.

#### **- Business Solutions**

With a robust performance in solutions for each industry, consolidated sales were up ¥9,303 million from the previous fiscal year (¥92,572 million), to ¥101,875 million.

• **Manufacturing, distribution and services industries.** The willingness of customers to invest in IT to strengthen and expand their operations is firm, encouraged by strong earnings in the corporate sector. This environment produced robust demand for our solutions, our key strengths, including: PLM to shorten the overall development process from design to production, SCM to optimize production, distribution and sales, and SCE to support the execution of operations in transportation and inventory management. We steadily rolled out a large mission-critical system project for a major precision machinery manufacturer. We also steadily received large-scale orders and carried out these projects including a real-time marketing system for a leading cosmetics manufacturer.

PLM: Product Lifecycle Management

SCM: Supply Chain Management

SCE: Supply Chain Execution

• **Financial industry.** Financial institutions have a strong appetite for IT investment, reflecting the robust performance of this sector. In response, we executed large projects relating to market and information systems for megabanks. We also continued to enjoy solid demand from major regional banks for market risk management solutions, integrated revenue management solutions and integrated risk management solutions. NSFMC Corporation, which was established in April 2007, made a robust start, receiving inquiries and orders especially for consulting for major regional banks.

To expand our business in the financial sector, we raised the position of the Financial System Solutions Division in the organizational structure in April 2008.

• **Government agencies and the public sector.** In this segment, we face intensifying competition following the tender system reform in the government procurement process. In response, we continually received and carried out major orders from central government ministries and agencies in the fields of LAN integration and security enhancement, using our ability to build large systems. We also responded to orders for large projects received in relation to statistical systems from central government ministries and agencies.

We also built and operated differentiated systems in relation to satellites and in other sciences, calling on our expertise in sophisticated technology. We earned high marks in our mission in association with the lunar explorer KAGUYA (SELENE), which was launched by the Japan Aerospace Exploration Agency (JAXA) in September 2007.

#### **- Platform Solutions**

Sales in the Platform Solutions business fell ¥2,266 million from the previous fiscal year (¥24,515 million), to ¥22,248 million, despite a solid performance in maintenance and engineering. The main reason for the decline was the presence of a large product project for an auto manufacturer in the previous fiscal year.

Our Platform Solutions earn high marks in the building of systems that require high performance and high reliability. We provided infrastructure for a Web service system on behalf of a major mobile phone company and for a leading convenience store chain's backbone system.

As already noted, we actively engaged in creating new solutions using advanced IT engineering technologies. We began in earnest to build systems and provide consulting services, applying the next-generation building method NSGRANDIR, which uses grid and utility computing technologies for the optimization of IT infrastructure. We received an order in relation to a global accounting management system for a major marine transportation business.

#### **- Business Services**

With strong sales to Nippon Steel Corporation and development in total SLC solutions, sales rose ¥1,884 million from the last fiscal year (¥39,391 million), to ¥41,275 million.

We have been supporting Nippon Steel Corporation's large steel mill systems under demanding conditions—24 hours a day, seven days a week—for more than 40 years. Building on this experience, we provide high-value added data center services, mainly through NSSLC Service Corporation to a broad range of customers.

We provide “nsxpres.com,” an ASP service for managing documents, for more than 1,000 companies, especially for major manufacturing, distribution, and financial businesses. Starting in April 2008, we launched a new SaaS (Software as a Service) service that we evolved from “nsxpres.com” as Nsxpres II by revamping the “nsxpres.com” platform. We have opened the platform equipped with Nsxpres II to other companies and are taking steps to expand our utility service menu.

We expanded orders and sales from Nippon Steel Corporation primarily by planning and



developing systems for a project to improve steel mill facilities in association with increased production and investment in producing high-quality steel in response to strong demand.

### **3. Outlook for the Next Period**

Corporate investment in computing systems is expected to ease given uncertainty about the future of the economy and slowing in corporate earnings. As a corporate IT partner, we seek to help our customers expand their operations and improve their competitiveness. We also aim to bolster our operations by developing total SLC solutions and meeting customer needs for the development of IT strategies, reduced total cost of ownership, and compliance.

Our outlook for the fiscal year ending March 31, 2009 is consolidated sales of ¥170,000 million and a consolidated recurring profit of ¥16,000 million.

Forward-looking statements, including outlook for the next fiscal year, are subject to change with unexpected changes in economic conditions. NS Solutions does not guarantee the accuracy of such statements.

## 4. Financial Position

### (1) Balance sheet

#### Assets

Total assets at the end of the current fiscal year ended March 31, 2008 rose ¥6,082 million, from ¥113,997 million at the end of the previous fiscal year to ¥120,079 million. The principal factors were an increase of ¥8,378 million in deposited money and a decline of ¥4,503 million in trade notes and accounts receivable.

#### Liabilities

Total liabilities declined ¥473 million, from ¥45,878 million to ¥45,404 million, principally due to a fall of ¥1,851 million in trade notes and accounts payable, an increase of ¥863 million in accrued employees' retirement benefits, and a decline of ¥372 million in accrued expenses.

#### Net assets

Net assets rose ¥6,556 million, from ¥68,118 million to ¥74,675 million. Major factors were net income of ¥8,424 million and dividends of ¥1,987 million. The equity ratio was 60.3%.

### (2) Cash flows

#### Statement of cash flows

Net cash and cash equivalents at the end of the fiscal year ended March 31, 2008 amounted to ¥34,154 million, a rise of ¥4,644 million from the previous fiscal year ended March 31, 2007 compared with a fall of 2,223 million in the previous fiscal year ended March 31, 2007. Cash flows from each activity category are as follows:

- *Cash flows from operating activities.* Net cash and cash equivalents provided by operating activities in the fiscal year ended March 31, 2008 were ¥14,380 million. This is mainly due to income before income taxes and minority interests of ¥15,223 million, depreciation of ¥1,817 million, inter-company credits of ¥2,651 million, among other factors, more than offset negative factors including income taxes paid of ¥6,988 million. In the previous fiscal year ended March 31, 2007, net cash and cash equivalents generated by operating activities were 6,331 million. This is mainly due to income before income taxes and minority interests of ¥14,360 million, depreciation of ¥1,812 million, among other factors, more than offset the effect of negative factors, including income taxes paid of ¥5,785 million, inter-company credits of 3,071 million, and an increase in inventories of ¥3,105 million.
- *Cash flows from investing activities.* In the fiscal year ended March 31, 2008, net cash and cash equivalents used in investing activities were ¥7,684 million, mainly due to payments for acquisition of short-term investment of ¥5,009 million and expenditures for purchase of property and equipment and intangible fixed assets of ¥1,881 million. In the previous fiscal year ended March 31, 2007, net cash and cash equivalents used in investing activities were

¥6,916 million, primarily the result of expenditures for purchase of property and equipment and intangible fixed assets of ¥6,573 million, led by the purchase of a data center.

- *Cash flows from financing activities.* In the fiscal year ended March 31, 2008, net cash and cash equivalents used in financing activities were ¥2,051 million, reflecting dividends paid, etc., compared with a net use of ¥1,640 million for the previous year ended March 31, 2007 as a result of dividends paid, etc.

#### Credit lines from financial institutions

The Company has overdraft facilities of ¥4,800 million at major banks. In addition, the Company has an overdraft facility of ¥4,600 million at Nittetsu Finance Co.,Ltd., a consolidated subsidiary of Nippon Steel Corporation. Total overdraft facilities are therefore ¥9,400 million.

#### Cash management system (CMS)

The Company uses the CMS of Nittetsu Finance and had deposited ¥23,980 million as of the end of the fiscal year ended March 31, 2008.

#### <Reference> Trend of cash flow indices

	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007	Year ended March 2008
Equity ratio	53.1%	55.0%	58.2%	58.1%	60.3%
Equity ratio on a fair market value basis	202.1%	136.0%	168.1%	138.3%	109.0%

(Note 1) Equity ratio: Equity capital / Total assets

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

(Note 2) The table does not include a debt redemption period because we did not have any interest-bearing debts outstanding as at term end. The interest coverage ratio is not included because the amount of interest paid is very small.