



**NS Solutions**

# *Business Results and Outlook*

(April 1, 2004 through September 30, 2004)

November 2, 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

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

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

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

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

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

We focus on our three core businesses (i.e., Business Solutions, Platform Solutions and Business 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 the 1<sup>st</sup> half of the current fiscal year, we will pay an interim dividend of ¥8.75 per share. As we intend to pay ¥8.75 yen per share as the term-end dividend for the current year, annual payouts for the current year will total ¥17.50 yen 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 on stock markets and expand our shareholder base, we split our stock 1:2, effective August 19, 2004 (Base date: June 30, 2004.)

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

In the area of information technology-related investment we are witnessing customer requirements changing and becoming more diversified and complex. This is typified by such developments as system renovations being linked to reforms in business processes, a switch from legacy systems to new architectures at corporate level (legacy re-engineering), and a drastic reduction in total cost of systems ownership (TCO).

On the other hand, the overall market for information services industries is expected to continue to experience sluggish growth, due to intensifying competition and other factors. However, new market areas are likely to show growth, as indicated by the expansion of information technology infrastructures such as those for wireless broadband services, and wider applications of information technology (advent of the “ubiquitous society”), e.g., domestic electronic appliances (IT-based home appliances) and automobiles.

Under these conditions, there has emerged a polarization of enterprises — some companies are equipped to propose solutions and offer high-level technologies to meet customers’ diverse and complex needs, while others are not. Competition between vendors is expected to intensify even further.

Recognizing this business environment, our company is determined to establish itself as an IT partner and to strengthen its presence in the industry, and to be capable of satisfying the increasingly diverse needs of customers by making further efforts to improve business competitiveness on the strength of its integrated activities, which range from consulting to maintenance and operation of systems.

#### (5) Our Challenges

Expanding business opportunities by strengthening capabilities to respond to customer needs

In order to get onto a path of business expansion and to realize sustainable growth, we will strengthen our abilities to respond to customer needs by concentrating our business resources in manufacturing industry and other growth areas, and in fields where we have a competitive edge. We will also strengthen and expand our cutting-edge solutions business to meet market needs by accurately analyzing and responding to market and technology trends.

Regarding System Life Cycle (SLC) total solutions (offering planning, operation and maintenance services in a package by taking into account the whole life-cycle of a customer’s system) and legacy re-engineering services, we intend to provide relevant services by strengthening cooperation between relevant sections within our company. We will also improve our internal structure in order to meet customer needs, and to position our organization as a reliable IT partner.

Establishing a competitive business structure

We will aim at acquiring stronger development skills and achieving higher development productivity in order to establish a competitive business structure across our whole group. To achieve this aim while pursuing optimal role-sharing between NS Solutions and its group companies, we will further strengthen project management by promoting standardization of development methods, practical applications of proprietary tools, development in remote areas,

and project management office (PMO) activities.

In respect of human resources, which management sees as a vital factor, we will strengthen personal development among our personnel by introducing IT skill standards (ITSS), which systematically incorporate the skills needed by IT staff, into our company's human relations policies, from recruitment, through training, to job assignment.

(6) Basic policies on relations with our stakeholders

NS Solutions is a consolidated subsidiary of Nippon Steel Corp. (which holds 72.2% of the voting rights in NS Solutions).

NS Solutions and its group companies are wholly commissioned by Nippon Steel to plan, design and operate its information systems, thereby helping to strengthen its competitiveness. We intend to maintain such business relations with Nippon Steel.

(7) Other important management matters

None.

## 2. Operating Results

(Economic conditions in Japan)

During the 1<sup>st</sup> half of the current fiscal year, solid economic recovery trends were observed overall, led by exports to China, improvements in corporate earnings, and greater corporate plant and equipment investment. However, a temporary slowdown in growth is anticipated in or after the second half of the current year, based on concerns about stagnation of the United States and Chinese economies and a surge in crude oil prices.

(Trends in the information services industry)

Meanwhile, in the information services industry, customer companies continue to seek stricter assessment of profitability and lower prices when making investment decisions, because of the strong need for optimization of total systems and reductions in total cost of ownership (TCO). Competition between vendors is also intensifying. Sales in the information services industry overall again fluctuated, with first-quarter year-on-year growth followed by negative growth in July. In particular, large companies maintained a cautious stance on information system investment. (Sources: “Specified Services Industry Dynamic Statistics” from the Ministry of Economy, Industry and Trade, and the “Tankan” short-term business sentiment survey by the Bank of Japan.)

(Outline of NS Solution group performance)

Given this difficult business environment, we strengthened our ability to respond to customer needs in such areas as support for development of customer IT strategies at the corporate level, optimization of total systems, and reductions in TCO by reinforcing the functions of the Solutions Planning and Consulting Center in April this year, as well as through other measures. In addition to offering individual solutions, such as ERP/SCM/PLM, we also actively expanded our business operations by launching system life-cycle total solutions, which offer design, creation, operation and maintenance services of systems as a package by taking into account the life-cycle of a customer’s total system and by adopting an account relationship management strategy, which is intended to strengthen relations with large customers. Meanwhile, we also implemented measures to strengthen our corporate structure, including efforts to further promote the spread of project portal/frameworks, boost development productivity through stepped-up project management office activities, improve project risk management capabilities, and enhance cost competitiveness through a reduction in outsourcing. As a result, NS Solutions registered consolidated sales of ¥65,723 million, up ¥1,149 million over the same term in the previous year. Consolidated recurring profit amounted to ¥4,272 million, up ¥580 million over the same term in the previous year.

The following is an outline of sector-by-sector performance in our services operations for the 1<sup>st</sup> half of the current fiscal year (Business Solutions, Platform Solutions, and Business Services).

Business Solutions remained steady with sales totaling ¥33,414 million, thanks to healthy demand chiefly from the manufacturing, distribution and services industries, reflecting the improvements in

corporate performance that have been evident since last year. However, we observed a trend among customers to strictly assess ROI and seek price reductions.

Regarding the manufacturing, distribution and services industries, we saw firm recovery trends, by and large, in both business inquiries and actual orders. We experienced increased inquiries for contracts related to legacy re-engineering, such as switching from mainframes and other legacy systems to open systems. This heightened inquiry level resulted from efforts to strengthen our ability to respond to customer needs, including support for development of customer IT strategies at corporate level, optimization of total systems, and reductions in TCO by implementing an internal structural reorganization in April this year. We also focused on offering individual solutions, such as ERP, which responds to the need for the integration of production and sales and for early compilation of settlement accounts; SCM, which aims at reducing total lead time and cutting total inventories; and PLM, which helps to shorten the duration of the development process from design through production. At the same time, we offered integrated packages combining those solutions. A notable illustration of our wide range of solutions services was the receipt of orders for MES solutions, which link basic systems such as ERP/SCM with control systems for production facilities.

ERP: Enterprise Resource Planning

SCM: Supply Chain Management

PLM: Product Lifecycle Management

MES: Manufacturing Execution System

In services to the financial industry, we enjoyed strong performance on the back of improved customer profitability and increasing demand stemming from the new BIS capital adequacy rules. Financial industry investment in information systems generally has been declining over the past few years, due to a fall in the number of companies as a result of mergers and integration of businesses, and a trend toward sharing system centers and mainframe computers. This has led to intensifying competition among vendors. Under these circumstances, we have been highly commended by many in the industry for offering differentiated solutions, such as market-related systems for transactions in financial products for many financial institutions including city banks, business management-related systems mainly for regional banks, and solutions to cater for the new BIS rules.

In services to government and public institutions, we are making steady progress in achieving our initial targets by offering solutions in our areas of expertise, such as the creation and operation of large LAN systems and document-management systems, mainly to central government agencies. However, no major business expansion is projected as deals relating to electronic government have decreased. We also offer services for creation and operation of various systems in the fields of satellite technology, science and education, taking advantage of our expertise in advanced science and technologies. Our company is steadily growing the customer base for further expansion of operations. Meanwhile, the issue of pricing has become more difficult in this field, reflecting reforms in the government

procurement system and intensifying competition among vendors.

In Platform Solutions, we registered sales of ¥13,751 million, thanks to the relative steadiness provided by a recovering market. NS Solutions is trying to improve earnings by expanding non-product businesses, such as design, creation and maintenance of systems. In particular, we steadily increased the number of maintenance business transactions by launching in the last business year one-stop support and services, under which we offer 24-hour, 365-day maintenance of various products basic to systems. Customers seek optimal design of mainframe and open systems, creation of flexible, solid systems, and reductions in TCO, etc. We respond to those customer needs with advanced technologies proprietary to our consulting and engineering centers, and system research and development centers. NS Solutions has received high marks from customers as an integrator of open systems, capable of offering system basics with top-level functions and capabilities, to promptly meet mission-critical needs.

Business Services operations ran smoothly, with sales amounting to ¥18,557 million, thanks partly to expansion of the outsourcing market. In those operations, NS Solutions offers such services as outsourcing, server hosting, and diagnosis, design/creation and monitoring of networks. In addition, in the field of business process outsourcing, where demand is expected to grow, we offer a comprehensive range of services, comprising application service provider (ASP) for graphic and document management, and related services for such customers as construction contractors, automakers and food companies. We also offer system life-cycle total solution services, under which we provide design, creation, and operation and maintenance services for systems, by taking into account the total life-cycle of a customer system, in response to customer needs for optimization of total systems and reduction in TCO. We have steadily been achieving results in this area.

#### (Managing Policies)

We are also actively promoting the following policy measures to boost business competitiveness:

##### \*Organization change

In the structural reorganization carried out on April 1 this year, NS Solutions set up a planning department that handles company-wide management issues, and strengthened the functions of the Solutions Planning and Consulting Center (SCC). We also established the Legacy Reengineering Center (LRC) under the SCC. We had the experience of implementing a switch from mainframe computers to the most appropriate open systems for the complex, large-scale steelworks system at Nippon Steel Corp. In addition, we have provided customers with solutions from the standpoint of “neutrality” and “best of breed” principles, without specific vendors. Using that recent experience, we aim to respond to customer needs for legacy re-engineering.

##### \*Business tie-ups

Over recent years, there has been increasing demand by companies for not only reductions in total



cost of ownership (TCO) in information systems, but also clearer assessment of return on investment (ROI) and efficient IT investment. This has led to more companies pursuing more strategic IT investment, with the aim of cutting system maintenance and operation costs, which are believed to account for more than half of total costs. At the same time, there are many companies that wish to switch to open systems from mainframe or office computers in an effort to reduce maintenance and operation costs, but are hesitant to do so because of the perceived need to take on a considerable number of highly skilled system operation personnel. NS Solutions, in a tie-up with Oracle Corporation Japan, has begun responding to customer needs by offering an on-demand type of IT system operation and management service in the form of “Oracle On Demand@NSSOL”. Under this service, companies that have introduced Oracle Corporation Japan’s integrated business application, “Oracle E-Business Suite”, can utilize hardware and system operation and management services at volume-based prices. This is the first time in Japan that a service for operating and managing a core system, including the fee for hardware, has been offered at a per-user, volume-based fixed price.

In addition, NS Solutions and MediBIC have agreed to initiate a fully-fledged program for practical applications of tools to analyze the correlation between causal and environmental factors in multifactorial diseases. Currently, research into relationships between multifactorial diseases and genes in respect of lifestyle-related diseases (such as hypertension and diabetes) are conducted at a number of university research institutions. The relationships between the two are complex and diverse. NS Solutions, which has considerable experience in cutting-edge software development, and MediBIC, which has expertise in the field of gene analysis, have successfully collaborated on development of basic software for gene analysis. The two companies will now jointly pursue practical applications for this basic software. Looking ahead, NS Solutions plans to offer solutions relating to drug development and in the field of life science at universities and medical institutions, while MediBIC will further strengthen its product lineup in the informatics business, and hopes to expand the enterprise as a tool for the development of tailor-made drug.

#### \*Environmental policy

To address worsening global environmental problems, companies have begun implementing concrete measures to contribute to conservation as part of corporate activities. NS Solutions, too, has been actively tackling environmental management, and several divisions have obtained ISO14001 (environmental management system) certification. In order to further strengthen its environmental management system, NS Solutions has extended ISO14001 coverage to all its head office (Shinkawa District) operations.

### 3. Outlook for Full Year

The business environment in the first half of the year remained difficult, due to customers' more stringent assessments of return on investment and intensifying competition between vendors. However, improvements in the market environment were seen on the back of recovery in customer companies' business results. For the second half of the year, the state of the market environment remains unclear, as indicated by concerns about a temporary slowdown in economic growth. The business environment is also expected to remain difficult, as indicated by the trend for customers to strictly assess return on investment. Our company believes it important to continue to implement measures for responding to customer needs and actively expanding business operations.

For the full year, NS Solutions projects a consolidated recurring profit of ¥12,000 million on consolidated sales of ¥152,000 million.

It should be noted that both earnings projections for the year and other business prospects are subject to modification caused by unforeseen changes in the economic situation, etc., and are therefore not guaranteed by the NS Solutions group.

## 4. Financial Position

### (1) Balance sheet

#### 1) Assets

The consolidated assets at the end of the 1<sup>st</sup> half of the current fiscal year stood at ¥82,607 million, down ¥8,017 million from ¥90,624 million at the end of the previous fiscal year. The ratio of fixed assets to total assets remained relatively high, standing at 32.8% at the end of the 1<sup>st</sup> half of the current fiscal year and at 16.7% at the end of the previous fiscal year, due to the long-term loan that we have just started to raise the efficiency of funds operations.

#### 2) Liabilities

The consolidated liabilities at the end of the 1<sup>st</sup> half of the current fiscal year stood at ¥31,010 million, down ¥10,236 million from ¥41,246 million at the end of the previous fiscal year. The decline was chiefly attributable to a decrease of ¥6,560 million in trade notes and accounts payable. NS Solutions' liabilities mainly comprise inter-company credits such as accounts payable, accrued income taxes and allowance for employees' retirement benefits, and there are no interest-bearing borrowings from financial institutions.

#### 3) Shareholders' equity

The consolidated shareholders' equity stood at ¥50,344 million at the end of the 1<sup>st</sup> half of the current fiscal year, up ¥2,200 million from ¥48,144 million at the end of the previous fiscal year. Primary factors were a net income of ¥2,287 million, dividend payments totaling ¥463 million, and an increase of ¥391 million in valuation gain on available-for-sale securities and others. As a result, our group's equity ratio came to 60.9%.

### (2) Cash flows

#### 1) Cash flow statements

The consolidated balance of cash and cash equivalents stood at ¥18,357 million at the end of the 1<sup>st</sup> half of the current fiscal year, down ¥9,161 million from the end of the previous fiscal year. This compared with a decline of ¥3,394 million in the balance of cash and cash equivalents as at the end of the 1<sup>st</sup> half of the previous fiscal year. Activity-by-activity cash flows are as follows:

##### \*Cash flows from operating activities

The consolidated cash flows decreased by ¥1,685 million in the 1<sup>st</sup> half of the previous fiscal year, due to such factors as income before income taxes of ¥3,691 million, depreciation costs of ¥553 million, income tax payments of ¥2,768 million, and an increase of ¥3,222 million in inventory assets. For the 1<sup>st</sup> half of the current fiscal year, the consolidated cash flows increased by ¥3,732 million, due to such factors as income before income taxes of ¥4,275 million, depreciation costs of ¥638 million, income tax payments of ¥3,097 million, inter-company credits of ¥7,590 million, and an increase of ¥3,421 million in inventory assets.

\* Cash flows from investing activities

The consolidated cash flows decreased by ¥1,126 million in the 1<sup>st</sup> half of the previous fiscal year, due to such factors as acquisitions of tangible and intangible fixed assets totaling ¥1,135 million. For the 1<sup>st</sup> half of the current fiscal year, the consolidated cash flows decreased by ¥12,384 million, due to such factors as acquisitions of tangible and intangible fixed assets totaling ¥625 million, purchase of investments in securities totaling ¥305 million, and long-term lending to a related company amounting to ¥12,000 million.

In this case, long-term lending to a related company is a five-year loan to the parent company, Nippon Steel Corp. NS Solutions studied investment target vehicles from the aspects of risk and interest, in order to initiate long-term effective investment of surplus funds in the 1<sup>st</sup> half of the current fiscal year. As a result, the company judged that long-term lending to Nippon Steel Corp. was relatively advantageous and initiated such lending on September 28, 2004.

\*Cash flows from financing activities

The consolidated cash flows decreased by ¥582 million in the 1<sup>st</sup> half of the previous fiscal year, due mainly to dividend payments by NS Solutions. For the 1<sup>st</sup> half of the current fiscal year, the consolidated cash flows decreased by ¥509 million, also due chiefly to dividend payments by NS Solutions.

2)Credit lines available from financial institutions

NS Solutions has overdraft credit lines available from the Big Four banking groups, totaling ¥4,800 million. As the company also has an overdraft credit line of ¥4,600 million available from Nittetsu Finance, which is a consolidated subsidiary of Nippon Steel Corp., the total amount of all overdraft credit lines is ¥9,400 million.

3)Cash Management System (CMS)

NS Solutions utilizes the CMS offered by Nittetsu Finance, mentioned above. NS Solutions' consolidated deposits in the CMS stood at ¥12,509 million at the end of the previous fiscal year, and at ¥6,020 million yen at the end of the 1<sup>st</sup> half of the current fiscal year. Also, NS Solutions created and utilizes a CMS with its seven consolidated subsidiaries. Deposits in NS Solutions by group companies stood at ¥3,704 million at the end of the previous fiscal year, and at ¥3,735 million at the end of the 1<sup>st</sup> half of this fiscal year.

<Ref.>Cash flow index trend

The equity ratio has been rising, as shown below, due to steady accumulation of profits

	Sep. 2002	Mar. 2003	Sep. 2003	Mar. 2004	Sep. 2004
Equity ratio	47.0%	48.2%	57.9%	53.1%	60.9%
Equity ratio at market value		96.2%	211.1%	202.1%	174.8%

Note 1: Equity ratio — equity / total assets

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

Note 2: Years required for debt payment are 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.