



NS Solutions

First-Half Results and Outlook for the Fiscal Year ending March 2007

November 30, 2006

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:

- ① To expand our business, we pioneer IT-based solutions targeted emerging markets with growth potential and allocate our resources to those markets with priority.
- ② 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.
- ③ Aware that our competitive edge stems from customer confidence and our state-of-the-art technology, we seek to maintain and bolster both.
- ④ 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

The Company recognizes the importance of retaining and enhancing our competitiveness and boosting our corporate value in the future. In terms of profit sharing, we have a basic stance of providing fair and stable dividends to our shareholders and securing a sufficient internal reserve for expanding our business activities and ensuring profitability in the future.

To increase profits to be redistributed to our shareholders, we have decided to raise the dividend by ¥5.00 per share as initially planned to pay per-share dividend of ¥17.50 from our surplus to our shareholders of record on September 30, 2006, the end of the first half of the current fiscal year. We are also expecting to distribute a per-share dividend of ¥17.50 to our shareholders of record on March 31, 2007, the end of the current fiscal year. This means our annual total dividend per share will be ¥35.00, ¥10.00 higher than in the preceding fiscal year ended March 31, 2006.

To provide high-quality solutions and services in a timely manner in answer to an intensifying competitive environment, we will be spending our internal reserve on strategic investments, such as expanding our array of solutions, launching our service operation, obtaining advanced information technologies and fostering human resources. We will also tap our internal reserves to invest in accelerating the implementation of our business strategies, including the formation of alliances with

other firms.

(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

① Fostering IT services

The broadband era has now become a reality. In light of this trend, the Company has been endeavoring to expand its service lineup.

Along with the spread of broadband connections, demand for data centers is on the rise. They are expected to support high capacity content distribution. We will step up our focus on the data center business to accomplish the next-generation data center initiative.

In terms of services for remote operation of IT infrastructure, document-related utility services and other utility services including security enhancement, we will expand our business to pioneer and add new distinctive services to our service lineup as the first mover, in an effort to foster the new IT services operation. Launched in April 2006, our new service, “electronic public notice investigation organ service,” made a positive start.

② Strengthening the business foundations

The Company will strengthen the business foundations by pursuing business process reforms, mainly targeting system development processes and sales processes, by enhancing internal controls and by training and strengthening our human resources.

In order to reform our business processes, especially system development processes, we will work to enhance the functions of tools for dispersed system development on a central control basis toward its full-scale operation, which serves as a common basis for sharing process improvement and best

practices. In addition, we will continue to improve the contents and services of the tool and also continue to develop into practice the activities of Quality Management Office (QMO), which was inaugurated in the first half of the current fiscal year.

Internal efforts will accelerate to upgrade the Company's internal control functions and ensure compliance with the Corporation Law of Japan, which came into effect in May this year, and with the Financial Instruments and Exchange Law, which is set to be introduced in the fiscal year ending in March 2008. We will actively commercialize the achievements of these efforts as new solutions and services.

To develop and increase human resources as part of vital business resources, NS Solutions will build up its recruiting capability and provide systematic education for young employees for steady workforce development. Moreover, we will strive to achieve closer ties with other companies in the Group, to effectively deploy our offshore workforce and to obtain good partner resources.

(5) Matters concerning the parent company

① Trade name of the parent company

Parent company, etc.	Type	Percentage of voting shares owned by the parent company, etc. (%)	Stock exchange on which the shares issued by the parent company, etc. are listed
Nippon Steel Corporation	Parent company	67.0%	Tokyo Stock Exchange First Section Osaka Stock Exchange First Section Nagoya Stock Exchange First Section Fukuoka Stock Exchange Sapporo Stock Exchange

② NS Solutions' status in the parent company's corporate group and other relationship between NS Solutions and the parent company

1) NS Solutions' status in the parent company's corporate group and its business, personnel and capital relationships with the parent company and other companies in the group

Nippon Steel Corporation is our parent firm and owned 67.0% of our voting shares on September 30, 2006. Nippon Steel Corporation is working to improve and enhance its structure to boost consolidated management. Defining as business domains six core business segments, namely steelmaking, engineering, urban development, chemicals, new materials, and system solutions, it has announced that the company will revamp its business structure to operate these businesses in an independent and parallel manner and to achieve self-sustaining development of these business activities. In this context, NS Solutions plays

an important role as a core business in the Nippon Steel Corporation's system solutions sector.

As Nippon Steel Corporation exclusively commissions NS Solutions to plan, design, develop, operate and maintain its information systems, NS Solutions contributes to streamlining of Nippon Steel's production, physical distribution, sales and procurement processes and to enhancing its competitiveness. This business relationship with Nippon Steel Corporation is set to continue.

With respect to personnel, NS Solutions has appointed one employee of Nippon Steel as an outside auditor. As of September 30, 2006, we had 163 employees from Nippon Steel temporarily based at our subsidiaries.

Nippon Steel Corporation owned 72.2% of the Company's voting rights on March 31, 2006. In response to the revision to the Tokyo Stock Exchange delisting criteria, a securities disposal trust was launched for the purpose of selling part of the Company's shares on the stock market. As a result, Nippon Steel now holds 67.0% of the Company's voting rights, as of September 30, 2006.

- 2) Business constraints, risks and advantages due to our membership in the parent company's corporate group and impacts on our business operations resulting from our business, personnel and capital relationships with the parent company and other companies in the group

As a subsidiary of Nippon Steel Corporation, we have a trade name associated with the Nippon Steel Corporation's brand. We provide our services as a system integrator trusted by society.

We maintain a stable business relationship with Nippon Steel Corporation. On a consolidated basis, first-half sales to our largest account, Nippon Steel Corporation, stand at ¥9,195 million and account for 13.1% of our total sales. In addition, as the exclusive provider of Nippon Steel Corporation's information systems, we have gained professional expertise and specialized knowledge of advanced IT systems. This factor helps us to differentiate ourselves in the manufacturing industry. We reasonably decide on trade terms and conditions with Nippon Steel Corporation, checking references from market prices as well as trade terms with other customers.

- ③ Matters concerning transactions with the parent company and others

For the money loan relations between the Company and the parent company's corporate group, please refer to (2) *Cash flows* in 4. *Financial Position*.

(6) Other Important Management Matters

None.

2. Operating Results

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

During the first half of the current fiscal year, the Japanese economy achieved positive growth backed by improved corporate profits, increased capital investment by the private sector and rallying consumer spending. These positive factors more than offset economic concerns raised by the lifting of the zero-interest policy and soaring oil prices.

Our customers are stepping up IT investment in the integration and revamping of mission-critical systems for sales, production, distribution and other processes and improving information security. Financial institutions are making strategic IT investments. The sales of the information services industry as a whole continue to increase. (Source: Cabinet Office, *Monthly Economic Report* and the Ministry of Economy, Trade and Industry, *Dynamic Statistics on Specific Service Industries*)

(2) Highlights for the NS Solutions Group

In such a business environment, NS Solutions has been addressing increasingly sophisticated and complex customer needs and seizing business opportunities by providing a full range of System Life Cycle (SLC) total solutions that continuously cover system planning, development, operation and maintenance.

We have also been making company-wide efforts to further foster and expand our IT services operation, centering on the data center business and utility services. In April 2006, we launched new service, “electronic public notice investigation organ service.”

Apart from that, we continued with the business process reform chiefly targeted at the system development and sales processes in a bid for an enhanced business foundation. For the system development process, we launched the activities of the Quality Management Office (QMO) for upgrading institutional quality management capabilities, in addition to conventional efforts. This is based on our achievements in the activities of the Project Management Office for increasing organizational capabilities in project management. To reform our sales and marketing process, we continue to work to strengthen our sales efforts and to win more new orders. Specifically, we introduced a sales portal to encourage the sharing of marketing-related information and emphasized the cross-sectoral coordination of our sales and marketing efforts throughout the Company.

In the first half of the current fiscal year, our sales stood at ¥70,089 million, up ¥5,325 million from the first half of the previous fiscal year (¥64,763 million), with robust expansion of the Business Solutions sector. Our recurring profit amounted to ¥5,238 million, rising ¥485 million from the same period of the last fiscal year (¥4,752 million).

Our business performance during the first half of the current fiscal year for each service category,

namely Business Solutions, Platform Solutions and Business Services, is summarized as follows:

- Business Solutions

Achieving strong progress, especially with the financial industry, our Business Solutions sector registered sales of ¥39,394 million, an increase of ¥5,853 million from the first half of the last fiscal year (¥33,540 million).

• **Manufacturing, distribution and services industries.** In terms of our services for the manufacturing, distribution and services industries, our customers are making active IT-related investments, encouraged by their own brisk performance, with the aim of strengthening and enlarging their business operations. There was strong demand, especially from major automobile, electronics and high-tech manufacturers and leading service operators. We succeeded in adding a pharmaceutical giant and other business accounts to our customer base. As in the preceding fiscal year, we received many inquiries about accounting ERP systems among our many solutions. Driving this trend are moves to bolster internal controls. Good sales progress was also seen in PLM systems designed for curtailing the overall development process from design to production and in MES systems for connecting mission-critical systems with control systems at production facilities. Demand is rising particularly for SCE systems, which facilitate the implementation of logistical control operations among different SCM systems for reducing total lead time and total inventories.

ERP: Enterprise Resource Planning

PLM: Product Lifecycle Management

MES: Manufacturing Execution System

SCM: Supply Chain Management

SCE: Supply Chain Execution

• **Financial industry.** Reflecting robust performance throughout their industry, financial institutions have a strong intention to invest in IT. In response, NS Solutions steadily proceeded with large-scale projects relating to mega-banks' market- and information-related systems. Exerting our strong professional expertise in risk control, we won a large-scale order from Japan Post. For major regional banks, our solutions continued to enjoy robust demand, reflecting their compliance with the Basel II. Integrated profit management and risk management solutions remained strong.

• **Government agencies and the public sector.** In the market for government agencies and the public sector, we face tougher competition following the reform of the bidding framework in the government procurement process. In this environment, we steadily implemented the project for LAN integration and enhanced information security at central governmental offices. In addition,

we undertake to develop and operate differentiated systems in the sectors of satellites and sciences on the basis of our knowledge of advanced science and technology. In the market for national university corporations, the research results of our Systems Research & Development Center helped us receive an order for systems based on grid computing technology.

- Platform Solutions

Our Platform Solutions operation saw steady demand mainly for our maintaining and engineering solutions. However, the sector posted a ¥268 million decline in sales, to ¥12,066 million, in the first half of the current fiscal year compared with the same period of the last fiscal year (¥12,334 million). Our platform solutions earn high marks for the system development that need to deliver high performance and impressive reliability. NS Solutions worked on a large-scale upgrade of market-related infrastructure for a leading bank and provided infrastructure for sales assistance systems to a major automaker.

- Business Services

Positive growth in the outsourcing market and our active sales efforts for total SLC solutions boosted inquiries and orders for our business services for general customers. However, hit by a fall in sales to Nippon Steel Corporation, sales in the Business Services operation during the first half of the current fiscal year amounted to ¥18,628 million on a consolidated basis, down ¥260 million from the first half of the last fiscal year (¥18,888 million). In operation services, we supported Nippon Steel Corporation's large-scale steel mill systems for 40 years. The systems need to satisfy the challenging conditions of ensuring uninterrupted 24-hours-a-day, 365-days-a-year operation. Based on this track record, NSSLC Service Corporation, set up in April 2005, plays a central role in providing high value-added data center services. To move faster toward investing in data center facilities, we have acquired a data center that we had rented for business. This is part of our efforts to increase the competitiveness of our data center service operation. Launched in April 2006, our new service, "electronic public notice investigation organ service," got off to a healthy start in terms of inquiries and orders.

3. Outlook for Full-Year Results

In the first half of the current fiscal year, our customers had a positive stance on investment and total IT-related investments were massive. The business climate is expected to remain positive in the second half and later.

As a corporate IT partner for customers, NS Solutions will respond to customer needs for devising IT strategies, reducing TCO (Total Cost of Ownership) and enhancing internal controls to attain growth in our Business Solutions and Platform Solutions operations. We will also take steps to meet growing outsourcing demand, foster IT services operations and enlarge our Business Services operations.

We project full-year sales of ¥156,000 million and recurring profit of ¥13,000 million, both on a consolidated basis.

Please note that forward-looking statements, such as full-year projections, are subject to change as a result of unexpected changes in economic conditions. The NS Solutions Group therefore does not guarantee these statements.

4. Financial Position

(1) Balance sheet

① Assets

As of the end of the first half of the current fiscal year, total assets stood at ¥99,732 million, down ¥3,383 million from ¥103,116 million at the close of the preceding fiscal year. This is mainly due to a ¥7,022 million decline in trade notes and accounts receivable and a ¥5,224 million rise in buildings and structures.

② Liabilities

The liabilities as of the end of the first half of the current fiscal year totaled ¥35,901 million, down ¥5,586 million from ¥41,487 million at the close of the preceding fiscal year. This is largely attributable to the fall in trade notes and accounts payable by ¥4,934 million. The liabilities of the NS Solutions Group mainly consist of trade credits such as trade notes and accounts payable, and accrued accounts and allowances such as accrued income taxes and allowance for employees' retirement benefits. There are no interest-bearing liabilities, such as borrowings from financial institutions.

③ Net assets

Net assets as of the end of the first half of the current fiscal year stood at ¥63,831 million, up ¥2,202 million from ¥61,628 million at the end of the previous fiscal year. The main reasons for this result include first-half net income amounting to ¥3,026 million and ¥662 million in dividends paid to shareholders. Consequently, the equity ratio is 62.3%.

(2) Cash flows

① Statement of cash flows

Cash and cash equivalents at the end of the first half of the current fiscal year was ¥26,078 million. While cash and cash equivalents increased by ¥1,051 million during the first half of the preceding fiscal year, the figure dropped by ¥5,646 million during the first half of the current fiscal year. Cash flows for each activity are as follows:

- *Cash flows from operating activities.* The Company generated ¥1,138 million of net cash from operating activities during the first half of the current fiscal year. This is mainly due to income before income taxes of ¥5,240 million, depreciation expenses of ¥699 million and a trade credit change of ¥2,088 million, while negatively affected by payment of income taxes of ¥3,736 million and an increase in inventory assets of ¥4,300 million. Meanwhile, during the first half of the last fiscal year, the Company generated ¥2,447 million of net cash from operating activities. This is mainly due to income before income taxes of ¥4,755 million, depreciation expenses of ¥626 million and a trade credit change of ¥6,110, while negatively impacted by payment of income taxes of ¥3,843 million and an increase in inventory assets of ¥5,097 million.

- *Cash flows from investing activities.* During the first half of the current fiscal year, the

Company used ¥6,071 million of net cash in investing activities. This resulted largely from the ¥5,912 million spent on the acquisition of tangible and intangible fixed assets, principally the acquisition of a data center. In the first half of the last fiscal year, the Company used ¥890 million of net cash in investing activities, mainly due to the acquisition of tangible and intangible fixed assets of ¥714 million.

- *Cash flows from financing activities.* In the first half of the current fiscal year, the Company used ¥712 million in financing activities. This was a result of dividend payments. During the first half of the last fiscal year, ¥509 of net cash was used in financing activities mainly for dividend payments.

② Credit lines from financial institutions

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

③ Cash management system (=CMS)

NS Solutions uses the CMS of Nittetsu Finance, the company mentioned above, and has deposited ¥18,875 million with Nittetsu Finance as of the end of the first half of the current fiscal year.

Moreover, the Company uses a CMS together with its eight consolidated subsidiaries. The Company has collected deposits totaling ¥5,977 million from the companies in its corporate group as of the close of the first half of the current fiscal year.

<Reference> Trend of cash flow indices

The equity ratio has been improved due to a steady accumulation of profits, as outlined below.

	First half ended September 2004	Year ended March 2005	First Half ended September 2005	Year ended March 2006	First Half ended September 2006
Equity ratio	60.9%	55.0%	60.1%	58.2%	62.3%
Equity ratio on a fair market value basis	174.8%	136.0%	145.9%	168.1%	163.1%

Note 1: The equity ratio is calculated by dividing the equity capital by the total assets.

The equity ratio on a fair market value basis is calculated by dividing the market capitalization based on share price at the end of the term by the total assets.

Note 2: The table does not describe a debt redemption period because we did not have any interest-bearing debts outstanding as of the end of the term.

The interest coverage ratio is not stated because the amount of interest paid is very small.

5. Business Risks

This section describes the NS Solutions Group's business conditions or accounting approaches that would have significant impacts on investor perceptions.

If this section includes any forward-looking statement, it represents our projection as of October 26, 2006.

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

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

However, our operating results may change mainly resulting from system investment trends due to changes in economic conditions, how tough the competition is, whether we can win orders for large-scale projects and the progress, profitability or other factors relating to individual projects. Moreover, our sales of system development projects for government agencies and the public sector tend to be recorded at the end of fiscal year. The quarterly or semiannual operating results will depend on the tendency.

(2) Reliance on specific customers, products and technologies

The NS Solutions Group has an excellent reputation with more than 1,500 corporate customers, including manufacturers, distribution service providers, financial institutions, public service and transportation providers, and communications carriers. In particular, the NS Solutions Group has a stable and continuous business relationship with Nippon Steel Corporation, which is NS Solutions Group's biggest customer. Our sales to Nippon Steel Corporation stood at ¥9,195 million in the first half of the current fiscal year, accounting for 13.1% of our overall sales. The NS Solutions Group provides an array of solutions to cover the overall systems lifecycle, ranging from consulting services on IT strategy as well as planning, development, operation and maintenance services. As a result, we are providing our solutions without depending heavily on specific products or technologies.

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

(Conditions specific to the information services industry)

As we develop and operate mission-critical systems for our customers, we may suffer a loss in credibility or face a customer claim for compensation after any system failure involving the customer's systems or any leakage of customer or personal information that we have inevitably received from the customer.

In April 2005, the Personal Information Protection Act came into full effect. The Company has long been committed to protecting customer information or personal data. Our initiatives include the setup of an information management committee chaired by the president; the drafting and enforcement of internal rules and other institutions; education and training through e-learning approaches; the implementation of physical security measures and active efforts to acquire privacy marks and other certifications.

Moreover, as products and technologies become more complex, a third party might file a lawsuit or

make a claim against the NS Solutions Group, arguing that our services or products have infringed their intellectual property rights. In this event, the NS Solutions Group might have to pay compensation for damages or acquire or develop alternative technologies.

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

At present, there are no lawsuits that would fall under this category.

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

(The Company's shares)

The number of shares issued by the Company is 52,999,120 in total. Nippon Steel Corporation owned 72.2% of the total shares as of March 31, 2006. In response to the revision to the delisting criteria of the Tokyo Stock Exchange, Nippon Steel set up a securities disposal trust for the purpose of selling part of NS Solutions' shares on the stock market. As a result, Nippon Steel holds 67.0% of the Company's voting rights as of September 30, 2006.