



NS Solutions

First-Half Results and Outlook for the Fiscal Year ending March 2008

November 30, 2007

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 and Dividends for the Current Fiscal Year

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.

In principle, the Company pays dividends twice a fiscal year (the record dates are March 31 and September 30), and the Board of Directors determines dividends. The Company provides in its Articles of Incorporation that dividends may be determined by resolution of the Board of Directors under the provision of Article 459 of the Corporate Law.

For the first half ended September 30, 2007, a meeting of the Board of Directors meeting held on October 25, 2007 resolved to pay a dividend of ¥20 per share (the record date is September 30, 2007), as initially planned, to increase the distribution of profits. We plan to pay a dividend of ¥20 per share (the record date is March 31, 2008) as a year-end dividend, making the total dividend for the current fiscal year ¥40, an increase of ¥5 from the previous fiscal year ended March 31, 2007.

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 of solutions, creating services, acquiring cutting-edge IT technologies, and developing human resources. We will also accelerate business strategies, including our alliance strategy.

(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 Improving IT platform solutions and IT services

With the advent of the broadband era, the business environment surrounding the Company is changing significantly. In response to this trend, we established the IT Infrastructure Solutions & Business Service Unit in April, strengthening our organizational structure. We will strive to bolster our IT platform solutions and IT services, which are expected to grow.

In the IT platform solution business, we have provided differentiated solutions in developing large systems, which require high reliability and availability. As customer needs become more complex and diverse, and technologies more sophisticated, we seek to further differentiate ourselves by using IT platform integration skills, especially in our mainstay products, and create and develop unique new solutions, including ID management and integrated backup solutions, using grid computing and utility computing technologies.

In IT services, we have positioned our data center business as a core business and developed competitive operations that call on our strengths. We will continue to step up our efforts in the data center business and pursue our next-generation data center initiative. We will also improve utility services, including IT infrastructure remote operation services, document services and security strengthening, while creating differentiated services and expanding our service menu. In this way, we will develop new IT services.

② Bolstering our operating base

We will continue to strengthen our operating base such as improving system development processes and system development technologies, tightening internal controls and cultivating human resources.

To improve system development processes and system development technologies, we will continue to promote and establish initiatives such as the standardization and improvement of system development processes, QMO (Quality Management Office) activities, systematic support to projects, and the improvement of system development supporting environment.

To tighten internal controls, we work positively to complete the initiatives that we commenced two years ago to comply with the internal control reporting system that will apply from accounting for the fiscal year ending March 2009. We will strive to integrate the results of the efforts in the development of new solutions and new services for our clients.

To foster and develop our staff, one of our most important management resources, we will continue to bolster our ability to recruit talent and apply a coherent program for the development of our young employees. We will also take steps to reinvigorate individuals and the organization, such as developing a personnel rotation mechanism, designing careers that take life stage into consideration and promoting a system of nine consecutive days holiday, which was introduced in the fiscal year ended March 2006 to encourage employees to take successive days off, and prohibiting in principle working late at night or on holidays.

2. Operating Results

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

The Japanese economy exhibited sustained strength during the first half ended September 30, 2007, supported by rising private capital investment against a background of robust corporate earnings.

Corporate customers invested aggressively in computing systems. IT 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 first half ended September 2007, the NS Solutions Group provided a total System Life Cycle (SLC) solution. Adopting a comprehensive approach to meeting more sophisticated and complex needs, the SLC solution encompasses the planning, building, operation, and maintenance of computer systems. Consequently, the Group continued to secure orders based on customer trust, developed new customers, and exploited new business opportunities. To expand the growing data center business along with other IT services, we stepped up efforts to create utility data center services using grid utility technologies on virtual data centers under integrated management, while investing in data centers and in improving our service lineup. With these initiatives, we took aggressive action to develop our businesses.

To bolster its operating base, the NS Solutions Group meanwhile took a number of steps to improve its development processes, bolster its internal controls, and strengthen its human resources.

For our development processes, we sought to entrench our Quality Management Office (QMO) activities to improve processes, share best practice throughout the Group, and bolster the quality of system development. Meanwhile, we took action to operate in earnest a centralized support environment for distributed development, or namely a common project support environment. SPEAK IPA Version, which was placed in the public domain by the Information-Technology Promotion Agency, Japan (IPA) in September this year, has been created by incorporating content, the rights to which are held by the Japan Information Technology Services Industry Association, based on SPEAK (compliant with ISO/IEC15504), a process assessment model that the Company had developed and used by itself.

To bolster internal controls, we made steady progress on preparations for the internal control reporting system to take effect from the fiscal year ending March 2009.

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, used offshore resources effectively, and secured good partner resources.

Consolidated sales for the first half ended September 30, 2007 rose ¥5,866 million from the same period of the last fiscal year (¥70,089 million), to ¥75,955 million, reflecting healthy growth in Business Solutions. Recurring profit was up ¥1,289 million from the year-ago period (¥5,238 million), to ¥6,527 million.

Our performance in each service category (Business Solutions, Platform Solutions and Business Services) is summarized as follows:

- Business Solutions

With a robust performance, mainly in solutions for the manufacturing, distribution and services, and financial industries, consolidated sales were up ¥5,295 million from the first half of the previous fiscal year (¥39,394 million), to ¥44,690 million.

• **Manufacturing, distribution and services industries.** Customers' willingness to invest in IT to strengthen and expand their operations is firm, encouraged by their strong earnings. 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 implemented a large backbone system project for a major manufacturer. We also responded to a steady stream of orders for large new 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 steadily worked on large projects relating to market and information systems for megabanks and Japan Post (now Japan Post Bank). We also continued to enjoy steady demand from major regional banks for market risk management solutions, integrated revenue management solutions and integrated risk management solutions. We have earned high marks for our solutions for the financial industry, especially from the business management sections of financial institutions, and we are aggressively expanding our operations in this field. In April 2007, we established NSFMC Corporation, which principally provides consulting relating to the sophistication of the business management, internal control systems, internal auditing, and other aspects of financial institutions.

• **Government agencies and the public sector.** In this segment, we face intensifying competition following the government's procurement procedure reform. In response, we continually executed

orders from central government ministries and agencies in the fields of LAN integration and security enhancement. We also built and operated differentiated systems in relation to satellites and other sciences, calling on our expertise in high technology.

- Platform Solutions

Sales in the Platform Solutions business fell ¥1,885 million from the first half of the last fiscal year (¥12,066 million), to ¥10,180 million, despite a solid performance in maintenance and engineering. The main reason for the decline was the presence of a large product selling project for an auto manufacturer in the first half of the previous fiscal year.

Our Platform Solutions earn high marks in the building of systems where high performance and high reliability are required. We provided infrastructures for a Web service billing system for a major mobile phone company and for a leading Internet company's mobile content service.

In addition, to meet customer needs for effective and strategic use of internal data, we stepped up our efforts in business intelligence (BI) solutions. We set up a testing center to build integrated BI systems in the Systems Research & Development Center jointly with Oracle Corporation Japan in August 2007.

- Business Services

With strong sales to Nippon Steel Corporation and active deployment in SLC total solutions, sales rose ¥2,455 million from the year-ago level (¥18,628 million), to ¥21,083 million.

In operating services, 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 NSSL Service Corporation. To respond to customer needs for internal control and compliance, we have expanded our IT service menu, including “nsxpres.com,” SaaS (Software as a Service) for managing both paper and electronic data under high-level security. As a result, we received a steady flow of orders from major Internet companies to upgrade servers and increase the server floor area and constantly implemented document and drawing management projects. In this way, the IT services had healthy growth.

3. Outlook for Full-Year Results

Corporate investment in computing systems is expected to remain solid, supported by favorable earnings in the corporate sector. 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 deploying SLC total solutions and meeting customer needs for the development of IT strategies, reduction of the total cost of ownership, and compliance.

Thanks to the strong performance in the first half ended September 30, 2007, we are revising upward our consolidated sales and recurring profit forecasts, to ¥167,000 million (initial forecast: ¥165,000 million) and ¥15,500 million (initial forecast: ¥15,000 million), respectively.

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

4. Financial Position

(1) Balance sheet

① Assets

Total assets at the end of the first half ended September 30, 2007 fell ¥5,068 million, from ¥113,997 million at the end of the previous fiscal year to ¥108,928 million. The principal factors were a decline of ¥10,493 million in trade notes and accounts receivable, an increase of ¥1,973 million in inventories and a growth of ¥1,614 million in money deposited.

② Liabilities

Total liabilities declined ¥7,704 million, from ¥45,878 million to ¥38,173 million, mainly due to a fall of ¥6,058 million in trade notes and accounts payable. The liabilities of the Group consist chiefly of accounts payable and other inter-company credits, accrued income taxes, and allowances, including an allowance for employees' retirement benefits. There was no interest-bearing debt, such as borrowings from financial institutions.

③ Net assets

Net assets rose ¥2,636 million from ¥68,118 million to ¥70,754 million. Major factors were a net income of ¥3,538 million and dividends of minus ¥927 million. The equity ratio was 63.1%.

(2) Cash flows

① Statement of cash flows

During the first half ended September 30, 2007, net cash and cash equivalents decreased by ¥1,160 million to ¥28,349 million while these decreased by ¥5,646 million during the same period of the last fiscal year. Cash flows from each activity category are as follows:

- *Cash flows from operating activities.* Net cash and cash equivalents provided by operating activities during the first half of the current fiscal year were ¥5,487 million. Income before income taxes of ¥6,522 million, depreciation of ¥920 million and inter-company credits of ¥4,435 million among other factors more than offset the effect of negative factors, including income taxes paid of ¥4,446 million and an increase in inventories of ¥1,972 million. In the first half of the last fiscal year, net cash and cash equivalents generated by operating activities were ¥1,138 million. Income before income taxes of ¥5,240 million, depreciation of ¥699 million, and inter-company credits of ¥2,088 million among other factors more than offset negative factors including income taxes paid of ¥3,736 million and an increase in inventories of ¥4,300 million.
- *Cash flows from investing activities.* Net cash and cash equivalents used in investing activities during the first half of the current fiscal year were ¥5,642 million, mainly because of payments for the acquisition of investments in securities of ¥3,005 million and payments for the placement of time deposits of ¥1,000 million. In the same period of the last fiscal

year, net cash and cash equivalents used in investing activities were ¥6,071 million, primarily the result of expenditures for purchase of property and equipment and intangible fixed assets of ¥5,912 million, led by the purchase of a data center.

- *Cash flows from financing activities.* In the first half of the current fiscal year, net cash and cash equivalents used in financial activities were ¥1,007 million, reflecting dividends paid, etc. On the other hand, the Company used ¥712 million of net cash in financing activities mainly due to dividends paid during the first half of the last fiscal year.

② Credit lines from financial institutions

The Company has overdraft facilities of ¥4,800 million at major financial groups. 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.

③ Cash management system (=CMS)

The Company uses the CMS of Nittetsu Finance Co., Ltd. and had deposited ¥17,016 million as of the end of the first half of the current fiscal year.

The Company also constructs and uses a CMS with eight consolidated subsidiaries. Total deposits collected from the Group companies amounted to ¥6,431 million at the end of the first half of the current fiscal year.

<Reference> Trend of cash flow indices

	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007	First Half ended September 2007
Equity ratio	53.1%	55.0%	58.2%	58.1%	63.1%
Equity ratio on a fair market value basis	202.1%	136.0%	168.1%	138.3%	154.7%

(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.