

# CONSOLIDATED FINANCIAL STATEMENTS

NS Solutions Corporation and Consolidated Subsidiaries

For the six-month period ended September 30, 2007



**NS Solutions**

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# Consolidated Balance Sheets (Unaudited)

NS Solutions Corporation and Consolidated Subsidiaries

September 30, 2006 and 2007, and March 31, 2007

	Millions of yen			Thousands of U.S. dollars (Note 3)
	September 30, 2006	March 31, 2007	September 30, 2007	September 30, 2007
<b>Assets</b>				
Current assets:				
Cash and bank deposits (Note 6) .....	¥6,512	¥5,643	¥6,800	\$ 58,910
Deposited money (Note 6).....	19,567	15,601	17,216	149,150
Trade notes and accounts receivable .....	27,211	39,236	28,743	249,010
Short-term investment (Note 6,7) .....	—	8,266	8,339	72,243
Inventories.....	11,934	10,739	12,712	110,128
Deferred tax assets-current.....	3,033	3,380	3,155	27,334
Others .....	582	521	877	7,597
Allowance for doubtful accounts .....	(14)	(185)	(212)	(1,839)
<b>Total current assets</b> .....	<b>68,825</b>	<b>83,201</b>	<b>77,630</b>	<b>672,533</b>
Fixed assets:				
Property and equipment (Note 5 (10)):				
Buildings and structures .....	6,814	6,572	6,442	55,810
Machinery and equipment .....	7	6	5	47
Tools, furniture and fixtures .....	2,118	2,149	2,117	18,344
Land.....	883	883	883	7,649
Construction in progress .....	207	189	127	1,094
<b>Total property and equipment</b> .....	<b>10,029</b>	<b>9,799</b>	<b>9,574</b>	<b>82,944</b>
Intangible fixed assets:				
Software .....	309	270	275	2,387
Others.....	87	54	48	404
<b>Total intangible fixed assets</b> .....	<b>396</b>	<b>324</b>	<b>323</b>	<b>2,791</b>
Investments and other assets:				
Investments in securities (Note 7).....	2,583	2,373	2,563	22,205
Long-term prepaid expenses .....	39	31	34	297
Deferred tax assets-non-current.....	3,442	3,668	3,829	33,173
Guarantee deposits.....	2,135	2,328	2,696	23,354
Long term loan-related party.....	12,000	12,000	12,000	103,959
Others.....	341	329	336	2,912
Allowance for doubtful accounts .....	(57)	(56)	(56)	(489)
<b>Total investments and other assets</b> .....	<b>20,483</b>	<b>20,673</b>	<b>21,402</b>	<b>185,411</b>
<b>Total fixed assets</b> .....	<b>30,908</b>	<b>30,796</b>	<b>31,299</b>	<b>271,146</b>
<b>Total assets</b> .....	<b>¥99,733</b>	<b>¥113,997</b>	<b>¥108,929</b>	<b>\$ 943,679</b>

The accompanying notes are an integral part of these financial statements.

	Millions of yen			Thousands of U.S. dollars (Note 3)
	September 30, 2006	March 31, 2007	September 30, 2007	September 30, 2007
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Trade notes and accounts payable .....	¥10,757	¥17,622	¥11,563	\$100,172
Non-trade accounts payable.....	493	1,467	901	7,805
Accrued expenses.....	2,405	2,724	2,265	19,622
Accrued income taxes .....	2,270	4,388	2,620	22,700
Advance received .....	4,805	4,259	5,267	45,633
Deposits received .....	254	241	294	2,545
Accrued bonuses to employees .....	5,595	5,901	5,818	50,399
Accrued bonuses to directors .....	—	31	—	—
Allowance for program product warranty .....	374	370	384	3,322
Others.....	327	312	86	750
<b>Total current liabilities .....</b>	<b>27,280</b>	<b>37,315</b>	<b>29,198</b>	<b>252,948</b>
Non-current liabilities:				
Accrued employees' retirement benefits.....	8,279	8,258	8,687	75,255
Allowance for directors' retirement benefits .....	273	306	289	2,507
Others (Note 16) .....	69	—	—	—
<b>Total non-current liabilities.....</b>	<b>8,621</b>	<b>8,564</b>	<b>8,976</b>	<b>77,762</b>
<b>Total liabilities.....</b>	<b>35,901</b>	<b>45,879</b>	<b>38,174</b>	<b>330,710</b>
<b>Net Assets</b>				
Shareholders' equity:				
Common stock (Note 11).....	12,953	12,953	12,953	112,213
Authorized: 211,996,000 shares at September 30, 2006 and 2007 and March 31, 2007				
Issued: 52,999,120 shares at September 30, 2006 and 2007 and March 31, 2007.				
Additional paid-in capital (Note 11) .....	9,950	9,950	9,950	86,203
Retained earnings (Note 11) .....	39,964	44,127	46,738	404,902
Treasury stock.....	(2)	(3)	(3)	(27)
855 shares at September 30, 2006, 980 shares at March 31, 2007 and 1,040 shares at September 30, 2007				
<b>Total shareholders' equity.....</b>	<b>62,865</b>	<b>67,027</b>	<b>69,638</b>	<b>603,291</b>
Valuation and translation adjustments:				
Unrealized gain on available-for-sale securities.....	553	433	349	3,025
Unrealized gain on revaluation of land.....	(1,277)	(1,277)	(1,277)	(11,063)
Foreign currency translation adjustment .....	1	5	8	73
<b>Total valuation and translation adjustments.....</b>	<b>(723)</b>	<b>(839)</b>	<b>(920)</b>	<b>(7,965)</b>
Minority interests:.....	1,690	1,930	2,037	17,643
<b>Total net assets.....</b>	<b>63,832</b>	<b>68,118</b>	<b>70,755</b>	<b>612,969</b>
<b>Total liabilities and net assets .....</b>	<b>¥99,733</b>	<b>¥ 113,997</b>	<b>¥108,929</b>	<b>\$943,679</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Income (Unaudited)

NS Solutions and Consolidated Subsidiaries

For the six-month period ended September 30, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>Net sales</b> .....	¥70,089	¥75,955	\$ 658,022
<b>Cost of sales</b> .....	55,536	59,424	514,811
<b>Gross profit</b> .....	14,553	16,531	143,211
<b>Selling, general and administrative expenses</b> (Notes 9,11) .....	9,409	10,184	88,228
<b>Operating income</b> .....	5,144	6,347	54,983
<b>Other income (expenses):</b>			
Interest income .....	80	146	1,265
Dividend income.....	13	48	414
Exchange loss .....	(1)	(15)	(129)
Equity in net income of affiliated companies .....	15	3	29
Impairment loss of investments in securities .....	(3)	(5)	(47)
Impairment loss of golf memberships.....	(2)	—	—
Loss on disposal of fixed assets .....	(11)	(2)	(19)
Gain on reversal of allowance for doubtful accounts .....	7	—	—
Other, net.....	(1)	1	11
<b>Income before income taxes and minority interests</b> .....	5,241	6,523	56,507
<b>Income taxes:</b>			
Current .....	2,095	2,679	23,208
Deferred.....	3	120	1,034
<b>Income before minority interests</b> .....	3,143	3,724	32,265
<b>Minority interests</b> .....	(117)	(186)	(1,614)
<b>Net income</b> .....	¥3,026	¥3,538	\$30,651
<b>Net income per share (Note 5 (17))</b> .....	¥57.11	¥66.76	\$ 0.58

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Net Assets (Unaudited)

NS Solutions Corporation and Consolidated Subsidiaries

For the six-month period ended September 30, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>Shareholders' equity:</b>			
Common stock (Note 11):			
Balance at beginning of the period .....	¥12,953	¥12,953	\$ 112,213
Balance at end of the period .....	12,953	12,953	112,213
Additional paid-in capital (Note 11):			
Balance at beginning of the period .....	9,950	9,950	86,203
Balance at end of the period .....	9,950	9,950	86,203
Retained earnings (Note 11):			
Balance at beginning of the period .....	37,600	44,127	382,286
Net income .....	3,026	3,538	30,651
Cash Dividends .....	(662)	(927)	(8,035)
Balance at end of the period .....	39,964	46,738	404,902
Treasury stock:			
Balance at beginning of the period .....	(2)	(3)	(26)
Net change during the period .....	(0)	(0)	(1)
Balance at end of the period .....	(2)	(3)	(27)
<b>Total shareholders' equity at the end of the period.....</b>	<b>¥62,865</b>	<b>¥69,638</b>	<b>\$ 603,291</b>

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>Valuation and translation adjustments:</b>			
Unrealized gain on available-for-sale securities:			
Balance at beginning of the period .....	¥780	¥433	\$ 3,754
Net change during the period .....	(227)	(84)	(729)
Balance at end of the period .....	553	349	3,025
Unrealized loss on revaluation of land:			
Balance at beginning of the period .....	(1,277)	(1,277)	(11,063)
Balance at end of the period .....	(1,277)	(1,277)	(11,063)
Foreign currency translation adjustments:			
Balance at beginning of the period .....	2	5	43
Net change during the period .....	(1)	3	30
Balance at end of the period .....	1	8	73
<b>Total valuation and translation adjustments at the end of the period.....</b>	<b>(723)</b>	<b>(920)</b>	<b>(7,965)</b>
<b>Minority interests:</b>			
Balance at beginning of the period .....	—	1,930	16,719
Increase due to change of accounting principle .....	1,623	—	—
Net change during the period .....	67	107	924
Balance at end of the period .....	1,690	2,037	17,643
<b>Total minority interests at the end of the period .....</b>	<b>1,690</b>	<b>2,037</b>	<b>17,643</b>
<b>Total net assets at the end of the period .....</b>	<b>¥63,832</b>	<b>¥70,755</b>	<b>\$ 612,969</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Cash Flows (Unaudited)

NS Solutions Corporation and Consolidated Subsidiaries

For the six-month period ended September 30, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests .....	¥5,241	¥6,523	\$ 56,507
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation.....	700	920	7,972
Increase (decrease) in allowance for doubtful accounts .....	(7)	28	241
Decrease in accrued bonuses to employees.....	(207)	(84)	(726)
Increase in accrued employees' retirement benefits.....	469	429	3,718
Increase (decrease) in allowance for directors' retirement benefits .....	41	(17)	(147)
Increase (decrease) in other allowances.....	15	(17)	(144)
Interest and dividend income .....	(93)	(194)	(1,679)
Impairment loss of investments in securities.....	3	5	47
Impairment loss of golf memberships .....	2	—	—
Equity in net income of affiliated companies.....	(15)	(3)	(29)
Loss on disposal of fixed assets.....	10	2	19
Decrease in accounts receivable .....	7,023	10,495	90,918
Increase in inventories.....	(4,300)	(1,973)	(17,090)
Increase in other current assets .....	(11)	(346)	(2,998)
Decrease in accounts payable .....	(4,934)	(6,059)	(52,492)
Increase in other current liabilities.....	729	14	124
Others, net .....	116	28	231
Sub total .....	4,782	9,751	84,472
Interest and dividend income .....	93	184	1,592
Income taxes paid.....	(3,736)	(4,447)	(38,523)
Net cash provided by operating activities.....	¥1,139	¥5,488	\$ 47,541

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>Cash flow from investing activities:</b>			
Payments for time deposits .....	—	(1,000)	(8,663)
Acquisition of short-term investment .....	—	(3,006)	(26,042)
Expenditures for purchase of property and equipment and intangible fixed assets.....	(5,913)	(900)	(7,795)
Acquisition of investments in securities .....	(1)	(341)	(2,957)
Acquisition of investments in affiliates .....	(18)	—	—
Others, net.....	(140)	(395)	(3,425)
Net cash used in investing activities .....	(6,072)	(5,642)	(48,882)
<b>Cash flows from financing activities:</b>			
Payment for purchase of treasury stock .....	(0)	(0)	(2)
Dividends paid .....	(663)	(927)	(8,035)
Dividends paid to minority shareholders .....	(50)	(82)	(694)
Net cash used for financing activities .....	(713)	(1,009)	(8,731)
Effect of exchange rate changes on cash and cash equivalents.....	(0)	2	16
Net increase (decrease) in cash and cash equivalents...	(5,646)	(1,161)	(10,056)
<b>Cash and cash equivalents at beginning of the six-month period ended September 30 .....</b>	<b>31,725</b>	<b>29,510</b>	<b>255,655</b>
<b>Cash and cash equivalents at end of the six-month period ended September 30 .....</b>	<b>¥26,079</b>	<b>¥28,349</b>	<b>\$ 245,599</b>

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## 1. Nature of Operations

NS Solutions Corporation (referred to as the “Company”) was incorporated on April 1, 1980 as Nippon Steel Computer Systems Co., Ltd., a wholly-owned subsidiary of Nippon Steel Corporation. The Company changed its name in 1988 to Nippon Steel Information & Communication Systems Inc, or ENICOM. Effective April 1, 2001, the Company acquired part of the business of the Electronics & Information Systems Division of Nippon Steel (“EI Division”) and changed its name to NS Solutions Corporation on that date. On October 11, 2002, the Company was successfully listed on the First Section of the Tokyo Stock Exchange. The parent company holds 67.0% of the Company’s voting rights, as of September 30, 2007.

NS Solutions Corporation and its consolidated subsidiaries (together, referred to as the “Companies”) are leading information technology solution providers in Japan. The Companies provide integrated solutions which address their customers’ needs for both business applications and system platforms. The Companies provide end-to-end services, including system consulting, planning, design, development, deployment, operation, and maintenance, and total end-to-end outsourcing services. The Companies are proficient in providing multi-vendor and mission critical systems solutions, as well as incorporating best-of-breed products and technologies to address customer needs.

The Companies’ principal business lines are:

- Business Solutions

The Companies provide solutions for industry-specific business applications to corporate enterprises, government agencies and public organizations.

- Platform Solutions

The Companies provide solutions for system platforms including middleware, databases, operating systems, networking systems, storage systems, security systems, and services which enable systems running on diverse platforms to collaborate with each other.

- Business Services

The Companies provide systems operation and maintenance services and total end-to-end outsourcing services.

## 2. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

### 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥115.43 = U.S. \$1, the effective rate of exchange prevailing at September 30, 2007, has been used in translation of yen amounts to U.S. dollar amounts. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

### 4. Change in accounting principle

Effective April 1, 2007, the company changed the revised depreciation method based on the revised corporate tax law for property and equipment acquired on and after April 1, 2007. The effect of the change was to decrease gross profit, operating income and income before income taxes and minority interests by ¥6 million (\$54 thousand), ¥8 million (\$71 thousand), ¥8 million (\$71 thousand), respectively.

After depreciable assets acquired on or after April 1, 2007 have been depreciated to the final depreciable limit, the company depreciates the remaining value to ¥1 over five years using straight line method starting from the six-month period ended September 30, 2007. The effect of the change was to decrease gross profit, operating income and income before income taxes and minority interests by ¥3 million (\$25 thousand), ¥4 million (\$32 thousand), ¥4 million (\$32 thousand), respectively.

### 5. Summary of Significant Accounting Policies

#### (1) Principles of consolidation

The consolidated financial statements for the six-month period ended September 30, 2007 include the accounts of the Company and its 13 significant subsidiaries, as listed below:

- Hokkaido NS Solutions Corporation
- Tohoku NS Solutions Corporation
- NS Solutions Tokyo Corporation
- NS Solutions Kansai Corporation
- NS Solutions Chubu Corporation
- NS Solutions Nishinohon Corporation
- NS Solutions Oita Corporation
- NS SLC Service Corporation
- NS FMC Corporation
- Nittetsu Hitachi Systems Engineering, Inc.
- NCI Systems Integration, Inc.
- NS Solutions Software (Shanghai) Co., Ltd.
- NS Solutions USA Corporation

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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The Company added NS FMC Corporation to the consolidation scope from the six-month period ended September 30, 2007. NS FMC Corporation was established on April, 2007.

All significant inter-company accounts and transactions and unrealized inter-group profit, if any, have been eliminated on consolidation.

The Company's overseas subsidiaries, NS Solutions Software (Shanghai) Co., Ltd. and NS Solutions USA Corporation, have a fiscal year ending December 31 and the six-month period ending June 30, which differ from that of the Company. These subsidiaries do not prepare financial statements at any date after December 31 and June 30 or on or before March 31 and September 30 in the following year and six-month, respectively. Any material transactions occurring in the respective periods, January 1 to March 31 and July 1 to September 30, are adjusted for in these consolidated financial statements.

## **(2) Investments in affiliates**

The Company's investments in the two significant affiliates were accounted for using the equity method for the six-month period ended September 30, 2007 as listed below:

Solnet Co., Ltd.

Hokkaido High Information Technology Center Co., Ltd.

## **(3) Remeasurement of assets and liabilities of subsidiaries**

For consolidated subsidiaries and affiliated companies where the Company has the ability to exercise control or significant influence, assets and liabilities of those companies are fully marked to their respective fair values at the date of acquisition of control or significant influence.

## **(4) Translation of foreign currency**

Assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate prevailing at the relevant balance sheet date.

Assets, liabilities and all income and expense accounts of foreign subsidiaries are translated into Japanese yen at the exchange rate prevailing at the relevant balance sheet date. Shareholders' equity accounts of foreign subsidiaries are translated at historical rates.

The net difference arising from translation of the financial statements of the foreign subsidiary is recorded as "Foreign currency translation adjustment" in the accompanying consolidated balance sheets.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## **(5) Cash and cash equivalents**

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturity of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

## **(6) Allowance for doubtful accounts**

Receivables are required to be categorized into “normal receivables” and “doubtful receivables” for the purpose of providing an allowance for doubtful accounts under prevailing accounting practice in Japan. Provision for normal receivables is provided based on the Company’s historical write-off experiences. Provision for doubtful receivables is provided based on an estimate of uncollectible amount on an individual doubtful receivables.

## **(7) Allowance for program product warranty**

Allowance for program product warranties is provided at the estimated amount computed by the actual rate of the past expenditure.

## **(8) Inventories**

Inventories are valued at cost as determined by the following methods:

Work in process ..... Individual cost method

Merchandise and supplies..... primarily, the average method

## **(9) Investments in securities**

Investments in securities consist of held-to-maturity investments, available-for-sale securities with market quotation, available-for-sale securities without market quotation.

Held-to-maturity investments are valued at cost, adjusted for the amortization of premium or the accretion of discounts based on straight line method.

Available-for-sale securities with market quotation are valued at market value. Unrealized holding gains and losses, net of tax, are recognized in “Unrealized gain on available-for-sale securities” as a separate component of net assets.

Available-for-sale securities without market quotation are stated at cost.

The cost of available-for-sale securities sold is principally based on the moving average method.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## **(10) Property and Equipment**

Property and equipment is recorded at cost, net of accumulated depreciation of ¥6,709 million and ¥ 8,232 million (\$71,320 thousand) at September 30, 2006 and 2007 and ¥ 7,451 million at March 31, 2007 respectively. Depreciation on property and equipment is computed principally using the declining-balance method over the estimated useful lives of the assets. However, depreciation of buildings (except for building improvements) acquired on or after April 1, 1998, is computed using the straight line method.

Property and equipment for lease operations are depreciated on the straight line method over the period of the lease contract term with no residual value.

## **(11) Intangible fixed assets and long-term prepaid expenses**

Amortization of intangible fixed assets and long-term prepaid expenses is computed using the straight line method over the estimated useful lives of the assets. Software costs for internal use are amortized over their estimated useful lives (less than 5 years) on a straight line basis.

## **(12) Goodwill**

Goodwill arising from mergers, which represents the excess of the purchase price over the fair value of net assets acquired, had been amortized on a straight line basis over the respective estimated useful lives. In case its amount is not material, it is charged to expense as incurred.

## **(13) Income taxes**

Income taxes consist of corporate income taxes, local inhabitants taxes and enterprise taxes. The Company calculates and records income taxes payable based on taxable income determined in accordance with the applicable tax laws.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

## **(14) Retirement benefits**

### **(a) Accrued employees' retirement benefits**

The employees of the Company are generally covered by defined benefit pension plan under which retiring employees are entitled to lump-sum payments determined by reference to current rates of pay, length of service and conditions under which the termination occurs.

Accrued employees' retirement benefits of the Company and its major consolidated subsidiaries are provided based on the estimated present value of projected benefit obligations.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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Actuarial gains (losses) are charged to income or expense as incurred.

(b) Allowance for directors' retirement benefits

An allowance for retirement benefits to directors and corporate auditors of the Company and its consolidated subsidiaries is calculated based on the Companies' internal rules and is calculated based on the estimated amount which would be payable if all directors and corporate auditors retired at the relevant balance sheet date.

**(15) Accrued bonuses to employees**

Accrued bonuses to employees are provided at the estimated amount which the Company is obliged to pay employees after period-end, based on their service for the six-month period ended on the relevant balance sheet date.

**(16) Accounting for finance lease transactions**

Finance lease transactions, except for those which are deemed to transfer ownership of the leased assets to lessees, are accounted for as operating lease transactions.

**(17) Per share information**

Net income per share of common stock is computed based on the weighted average number of outstanding shares of common stock during the respective periods. Under the Statement of Financial Accounting Standard No. 2 "Net income per Share" issued by the Accounting Standards Board of Japan, net income should be adjusted by deducting the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the statements of income, and the computation of net income per share be made on that adjusted net income basis. Since no convertible bonds or warrants were issued and outstanding, there was no dilutive effect on net income per share during these periods.

The average number of shares used in the computation was 52,998 thousand for the six-month period ended September 30, 2006 and 2007, respectively.

Net assets per share is computed without Minority interests.

**(18) Accounting for consumption tax**

Consumption tax is excluded from the figures of the accompanying financial statements.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## 6. Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2006 and 2007 and March 31, 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	September 30, 2006	March 31, 2007	September 30, 2007	September 30, 2007
Cash and bank deposits.....	¥6,512	¥5,643	¥6,800	\$58,910
Time deposits with maturities of more than three months .....			1,000	8,663
Deposited money.....	19,567	15,601	17,216	149,150
Short-term investment.....		8,266	5,333	46,202
Cash and cash equivalents.....	¥26,079	¥29,510	¥28,349	\$245,599

## 7. Investments in Securities

Investments in securities at September 30, 2006 and 2007 and March 31, 2007 are as follows:

### (1) Marketable securities

The aggregate acquisition cost, gross unrealized gains and losses and carrying amount on the balance sheet, which were revalued to the related fair value, of available-for-sale securities with market quotations at September 30, 2006 and 2007, and March 31, 2007 are as follows:

September 30, 2006	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities.....	¥417	¥902		¥1,319
Total .....	¥417	¥902		¥1,319

March 31, 2007	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities.....	¥417	¥688		¥1,105
Total .....	¥417	¥688		¥1,105

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

Millions of yen				
September 30, 2007	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	¥418	¥551		¥969
Total .....	¥418	¥551		¥969

Thousands of U.S. dollars (Note 3)				
September 30, 2007	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	\$ 3,622	\$ 4,774		\$ 8,396
Total .....	\$ 3,622	\$ 4,774		\$ 8,396

## (2) Non-marketable securities

The following is a summary of non-marketable securities:

	Carrying amount			Thousands of U.S. dollars (Note 3)
	Millions of yen			
	September 30, 2006	March 31, 2007	September 30, 2007	
<b>Held-to-maturity investments</b>				
Commercial paper .....		¥7,996	¥7,999	\$69,300
Government debt securities.....		270	340	2,943
Equity securities of unconsolidated subsidiary and affiliates.....	¥147	137	137	1,189
Available for sale securities without market quotation .....	1,116	1,131	1,357	11,754
Investment in funds .....			100	866
<b>Total .....</b>	<b>¥1,263</b>	<b>¥9,533</b>	<b>¥9,933</b>	<b>\$86,052</b>

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

### (3) Debt securities held-to-maturity

	Carrying amount			
	Millions of yen			Thousands of U.S. dollars (Note 3)
	September 30, 2006	March 31, 2007	September 30, 2007	September 30, 2007
Due within one year				
Commercial paper .....		¥7,996	¥7,999	\$69,300
Government debt securities.....		270	340	2,943
<b>Total .....</b>		<b>¥8,266</b>	<b>¥8,339</b>	<b>\$72,243</b>

### 8. Leases

Leased assets, and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the leased assets, are accounted for using a method similar to that used for regular operating leases. Finance lease charges of the Companies were ¥166 million and ¥147 million (\$1,249 thousand) for the six-month period ended September 30, 2006 and 2007 and ¥260 million for the fiscal year ended March 31, 2007, respectively. Had they been capitalized, the following items would have been recognized on the consolidated balance sheets and the consolidated statements of income as at and for the six-month period ended September 30, 2006 and 2007 and the fiscal year ended March 31, 2007:

September 30, 2006	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net balance
Machinery and equipment .....	¥17	¥10	¥7
Tools, furniture and fixtures .....	1,182	754	428
Software.....	345	245	100
<b>Total .....</b>	<b>¥1,544</b>	<b>¥1,009</b>	<b>¥535</b>

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2007	Millions of yen		
	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment .....	¥ 17	¥ 11	¥ 6
Tools, furniture and fixtures .....	1,105	816	289
Software .....	167	103	64
<b>Total .....</b>	<b>¥1,289</b>	<b>¥930</b>	<b>¥359</b>

September 30, 2007	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net balance
Machinery and equipment .....	¥17	¥13	¥4
Tools, furniture and fixtures .....	1,029	649	380
Software .....	171	92	79
<b>Total .....</b>	<b>¥1,217</b>	<b>¥754</b>	<b>¥463</b>

September 30, 2007	Thousands of U.S. dollars (Note 3)		
	Acquisition cost	Accumulated depreciation	Net balance
Machinery and equipment .....	\$148	\$112	\$36
Tools, furniture and fixtures .....	8,917	5,624	3,293
Software .....	1,485	796	689
<b>Total .....</b>	<b>\$10,550</b>	<b>\$6,532</b>	<b>\$4,018</b>

	Millions of yen			Thousands of U.S. dollars (Note 3)
	September	March	September	September
	30, 2006	31, 2007	30, 2007	30, 2007
Depreciation expense .....	¥149	¥229	¥131	\$1,110
Interest expense .....	7	13	7	55

Depreciation is computed using the straight line method over the lease period of leased assets, with no residual value at the end of the lease period. The interest expense portion is determined by subtracting an amount equivalent to the acquisition cost from the total lease fee. Total interest payments over the lease period are allocated to each period using the interest method.

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The present values of future lease payments at September 30, 2006 and 2007 and March 31, 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	September	March	September	September
	30, 2006	31, 2007	30, 2007	30, 2007
Within one year .....	¥185	¥152	¥207	\$1,757
Over one year .....	368	244	272	2,307
Total.....	¥554	¥396	¥479	\$4,064

Future operating lease payments under non-cancelable lease contracts at September 30, 2006 and 2007 and March 31, 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	September	March	September	September
	30, 2006	31, 2007	30, 2007	30, 2007
Within one year .....	¥1	¥1		
Over one year .....	1	0		
Total.....	¥2	1		

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## 9. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the six-month period ended September 30, 2005 and 2006 are as follows:

September 30,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
Payroll and bonuses.....	¥2,643	¥ 2,844	\$24,094
Provision for allowance for bonuses to employees .....	1,184	1,258	10,659
Provision for accrued employees' retirement benefits.....	198	206	1,749
Provision for allowance for directors' retirement benefits.....	41	29	249
Depreciation expense.....	99	102	864
Operating expense for acceptance of orders .....	1,455	1,737	14,717
Provision for allowance for doubtful accounts .....		31	262

## 10. Research and Development Costs

Research and development costs are charged to expense as incurred. The expense were recorded as general and administrative expenses and manufacturing costs for the six-month period ended September 30, 2006 and 2007 were ¥609 million and ¥615 million (\$5,206 thousand), respectively.

## 11. Shareholders' Equity

### (1) Capital increase

Under the Corporate Law of Japan, at least 50% of the issue price of newly issued shares is required to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to "Additional paid-in capital".

### (2) Legal reserve

The Corporate Law of Japan provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the Company and its domestic subsidiaries be appropriated as a legal reserve. There are some restrictions on distributions under the Corporate Law of Japan. The law requires a transfer of 10% of distribution to a legal reserve until the sum of legal reserve and paid-in capital reaches 25% of the stated capital.

The legal reserve included in retained earnings as of September 30, 2006 and 2007

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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were ¥273 million and ¥312 million (\$2,705 thousand) and as of March 31, 2007 was ¥273 million, and are restricted from being used as dividends.

### (3) Dividends

Dividends for the fiscal year ended March 31, 2007 were approved at the Board of Director held on May 17, 2007. These dividends were not recorded in the consolidated financial statements for the fiscal year ended March 31, 2007, but are recorded in the consolidated financial statements for the six-month period ended September 30, 2007.

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March 31,	Millions of yen
2007	2007
Cash dividends.....	¥927
(Cash dividends at ¥17.50 per share)	

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Under the law, the amount available for dividends is based on retained earnings as recorded on the Company's books.

### 12. Derivative instruments

The Companies do not enter into derivative contracts.

### 13. Stock options

The Companies do not issue any stock options.

### 14. Segment Information

#### (1) Industry segment information

The Company responds to customer needs through the supply of a variety of information services ranging from information system planning through software development, hardware selection, system operation and system support. Based on the similarities in the type and nature of business, the Company's business constitutes a single segment and accordingly, industry segment information is not disclosed.

#### (2) Geographic segment information

The domestic proportion in relation to all segments is in excess of 90% in terms of both net income and total assets. Accordingly, geographic segment information is not separately disclosed.

#### (3) Overseas sales

The share of overseas sales to consolidated net sales is less than 10%. Accordingly, overseas sales information is not separately disclosed.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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## 15. Subsequent Events

There have been no material events subsequent to September 30, 2007.

## 16. Contingent Liabilities

The Company's loss contingencies for guaranteeing the indebtedness of other parties were ¥0 and ¥30 million (\$257 thousand) at September 30, 2006 and 2007, and ¥43 million at March 31, 2007, respectively, each of which are Guarantees for bank loans of the Hokkaido High Information Technology Center Co. Ltd.