

CONSOLIDATED FINANCIAL STATEMENTS

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2005



NS Solutions

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Consolidated Balance Sheets

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Assets			
Current assets;			
Cash and bank deposits (Note 5)	¥ 14,605	¥ 11,478	\$106,876
Deposited money (Notes 5 and 18).....	12,914	11,621	108,215
Trade notes and accounts receivable	37,462	37,265	347,009
Inventories.....	7,035	7,502	69,856
Deferred tax assets-current (Note 9)	2,859	3,004	27,973
Others	682	480	4,472
Allowance for doubtful accounts	(30)	(23)	(213)
Total current assets	75,527	71,327	664,188
Property and Equipment (Note 3(10));			
Buildings and structures	1,606	1,366	12,724
Machinery and equipment	7	9	80
Tools, furniture and fixtures	2,236	2,166	20,174
Land (Note 7)	883	883	8,222
Construction in progress	277	75	698
Total property and equipment	5,009	4,499	41,898
Intangible fixed assets;			
Software	745	540	5,028
Others.....	237	129	1,203
Total intangible fixed assets	982	669	6,231
Investments and other assets;			
Investments in securities (Note 6).....	3,633	4,496	41,863
Long-term prepaid expenses	43	21	200
Deferred tax assets-non-current (Note 9).....	2,887	3,265	30,408
Guarantee deposits.....	2,271	1,837	17,103
Long term loan-related party.....		12,000	111,742
Others.....	323	309	2,870
Allowance for doubtful accounts	(50)	(51)	(474)
Total investments and other assets	9,107	21,877	203,712
Total assets	¥ 90,625	¥ 98,372	\$916,029

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Liabilities and Shareholders' Equity			
Current liabilities;			
Trade notes and accounts payable	¥ 17,232	¥ 17,341	\$161,476
Non-trade accounts payable	1,544	1,498	13,948
Accrued income taxes	3,060	3,767	35,074
Accrued expenses	4,732	2,826	26,319
Accrued bonuses to employees	5,520	5,713	53,196
Advance receipts	2,588	4,236	39,441
Deposits	230	177	1,652
Others	0		
Total current liabilities	34,906	35,558	331,106
Non-current liabilities;			
Allowance for employees' retirement benefits (Note 10)	6,042	6,939	64,622
Allowance for directors' retirement benefits	229	287	2,670
Allowance for loss on guarantees (Note 14)	69	69	642
Total non-current liabilities	6,340	7,295	67,934
Total liabilities	41,246	42,853	399,040
Minority interest in consolidated subsidiaries	1,234	1,415	13,179
Shareholders' equity;			
Common stock (Note 13)	12,953	12,953	120,614
Authorized: 96,000,000 shares in 2004 and 192,000,000 shares in 2005 Issued: 26,499,560 shares in 2004 and 52,999,120 shares in 2005			
Additional paid-in capital (Note 13)	9,950	9,950	92,657
Retained earnings (Note 13)	25,586	31,266	291,143
Reserve for revaluation of land (Note 7)	(757)	(757)	(7,053)
Valuation gain on available-for-sale securities	417	700	6,521
Foreign currency translation adjustment	(4)	(6)	(53)
Treasury stock, 31 shares in 2004 and 643 shares in 2005	(0)	(2)	(19)
Total shareholders' equity	48,145	54,104	503,810
Total liabilities, minority interests and shareholders' equity	¥ 90,625	¥ 98,372	\$916,029

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

Consolidated Statements of Income

NS Solutions and Consolidated Subsidiaries

For the fiscal years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Net sales	¥ 150,844	¥ 146,526	\$1,364,429
Cost of sales	123,359	117,062	1,090,061
Gross profit	27,485	29,464	274,368
Selling, general and administrative expenses (Notes 11 and 12)	17,759	17,754	165,325
Operating income	9,726	11,710	109,043
Other income (expenses);			
Interest income	11	73	682
Dividend income.....	9	8	71
Interest expense.....	(0)		
Exchange gain (loss)	5	(5)	(47)
Equity in net income of affiliated companies	105	162	1,509
Loss on revaluation of investments in securities		(18)	(166)
Loss on revaluation of golf memberships	(15)	(23)	(214)
Gain on sale of investments in securities, net.....	715	184	1,715
Loss on sale of investments in affiliates, net.....	(7)		
Loss on disposal of fixed assets	(93)	(82)	(764)
Loss on disposal of inventories.....	(22)	(83)	(772)
Gain on cancellation of insurance	50		
Gain on reversal of allowance for doubtful accounts	1	7	69
Expense for moving of facilities	(291)	(63)	(590)
Compensation for the delay in the completion of system development.....	(416)		
Loss of telephone subscription rights		(81)	(752)
Others, net.....	(6)	8	69
Income before income taxes and minority interest	9,772	11,797	109,853
Income Taxes;			
Current (Note 9).....	5,154	5,667	52,774
Deferred (Note 9)	(918)	(713)	(6,642)
Income before minority interest	5,536	6,843	63,721
Minority interest	(212)	(222)	(2,069)
Net income	¥5,324	¥6,621	\$61,652
Net income per share (Note 3(17))	¥200.40	¥124.52	\$1.16

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

Consolidated Statements of Shareholders' Equity

NS Solutions Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Common stock (Note 13);			
Balance at beginning of year	¥12,953	¥12,953	\$120,614
Balance at end of year	12,953	12,953	120,614
Additional paid-in capital (Note 13);			
Balance at beginning of year	9,950	9,950	92,657
Balance at end of year	9,950	9,950	92,657
Retained earnings (Note 13);			
Balance at beginning of year	21,273	25,586	238,252
Net income	5,324	6,621	61,652
Dividends	(994)	(928)	(8,636)
Bonuses to directors	(17)	(13)	(125)
Balance at end of year	25,586	31,266	291,143
Reserve for revaluation of land (Note 7);			
Balance at beginning of year	(755)	(757)	(7,053)
Net change during the year	(2)		
Balance at end of year	(757)	(757)	(7,053)
Valuation gain on available-for-sale securities;			
Balance at beginning of year	84	417	3,887
Net change during the year	333	283	2,634
Balance at end of year	417	700	6,521
Foreign currency translation adjustment;			
Balance at beginning of year	(0)	(4)	(42)
Net change during the year	(4)	(2)	(11)
Balance at end of year	(4)	(6)	(53)
Treasury stock;			
Balance at beginning of year		(0)	(2)
Net change during the year	(0)	(2)	(17)
Balance at end of year	(0)	(2)	(19)
Total shareholders' equity at end of year	¥48,145	¥54,104	\$503,810

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

Consolidated Statements of Cash Flows

NS Solutions Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Cash flows from operating activities;			
Income before income taxes and minority interest	¥9,772	¥11,797	\$109,853
Adjustments to reconcile income before income taxes to net cash provided by operating activities;			
Depreciation.....	1,203	1,307	12,171
Amortization of consolidation goodwill		4	38
Decrease in allowance for doubtful accounts	(1)	(7)	(69)
Increase in allowance for employees' retirement benefits, net of payments	564	898	8,359
Decrease (increase) in allowance for directors' retirement benefits, net of payments.....	(10)	58	540
Interest and dividend income	(20)	(81)	(752)
Interest expense	0		
Loss on revaluation of investments in securities ...		18	166
Loss on revaluation of golf memberships.....	15	23	214
Gain on sale of investments in securities, net	(715)	(184)	(1,715)
Loss on sale of investments in affiliates, net	7		
Equity in net income of affiliated companies.....	(105)	(162)	(1,509)
Loss on disposal of fixed assets.....	114	82	761
Decrease in accounts receivable	857	196	1,829
Decrease (increase) in inventories.....	2,075	(467)	(4,347)
Decrease in other current assets	483	205	1,907
Decrease (increase) in accounts payable.....	(6,246)	108	1,010
Increase in accrued bonuses to employees.....	402	193	1,795
Increase (decrease) in accrued other current liabilities	295	(43)	(399)
Decrease in long-term deposits.....	(13)		
Bonuses to directors	(18)	(13)	(125)
Compensation for the delay in the completion of system development.....	416		
Loss of telephone subscription rights		81	752
Others, net	44	248	2,311
Sub total	9,119	14,261	132,790
Proceeds from interest and dividend income	32	101	938
Interest paid	(1)		
Payments for compensation for the delay in the completion of system development	(416)		
Income taxes paid.....	(4,701)	(5,173)	(48,172)
Net cash provided by operating activities.....	¥4,033	¥9,189	\$85,556

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Cash flow from investing activities;			
Payments for purchase of property and equipment and intangible fixed assets	(1,751)	(966)	(8,991)
Payments for purchase of investments in securities .	(40)	(306)	(2,848)
Proceeds from sale of investments in securities.....	778	224	2,090
Proceeds from sale of investments in affiliates.....	10		
Payments for long term loan-related party		(12,000)	(111,742)
Others, net.....	(114)	414	3,849
Net cash used in investing activities	(1,117)	(12,634)	(117,642)
Cash flows from financing activities;			
Payment for purchase of treasury stock	(0)	(2)	(17)
Dividends paid	(994)	(928)	(8,637)
Dividends paid to minority shareholders	(52)	(44)	(412)
Net cash used in financing activities	(1,046)	(974)	(9,066)
Effect of exchange rate changes on cash and cash equivalents.....	(6)	(1)	(9)
Net increase in cash and cash equivalents	1,864	(4,420)	(41,161)
Cash and cash equivalents at beginning of year	25,655	27,519	256,252
Cash and cash equivalents at end of year.....	¥27,519	¥23,099	\$215,091

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

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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. As a result, the parent company’s, Nippon Steel Corporation’s, equity share percentage of the Company was 72%.

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 adept at 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 have been prepared based on the accounts maintained by the Company and its consolidated subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

the application and disclosure requirements of International Financial Reporting Standards and of accounting principles and practices generally accepted and applied in the United States. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

3. Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements for the fiscal years ended March 31, 2004 and 2005 include the accounts of the Company and its 10 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 Nishinihon Corporation
- NS Solutions Oita Corporation
- Nittetsu Hitachi Systems Engineering, Inc.
- NCI Systems Integration, Inc.
- NS Solutions Software (Shanghai) Co., Ltd.

Effective October 1, 2003, NS Solutions Kanto Corporation was integrated with NS Solutions Tokyo Corporation. The assets, liabilities and shareholder's equity of NS Solutions Kanto Corporation were transferred to NS Solutions Tokyo Corporation. This integration did not affect the Company's consolidated financial statements.

Due to a decrease in its importance as a result of suspension of its business operations, the investment in NS Solutions USA Corporation, a wholly-owned subsidiary, is stated at cost, after recognition of impairment losses, on the Company's consolidated balance sheets. The total assets, net sales, net income and surplus of NS Solutions USA Corporation are not significant to the Company's consolidated financial statements.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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

The Company's overseas subsidiary, NS Solutions Software (Shanghai) Co., Ltd., has a fiscal year ending December 31, which differs from that of the Company. This subsidiary does not prepare financial statements at any date after December 31 or on or before March 31 of the following year. Any material transactions occurring in the period January 1 to March 31 are adjusted for in these consolidated financial statements.

(2) Investments in affiliates

The Company's investments in the three significant affiliates were accounted for using the equity method for years ended March 31, 2004 and 2005, as listed below:

NS&I System Service Corporation

Solnet Co., Ltd.

Hokkaido High Information Technology Center Co., Ltd.

The Company's investments in other affiliates remained at their respective acquisition costs. The net income and surplus of the affiliate is not significant to the Company's consolidated financial statements.

The affiliate is as follows:

March 31, 2004	March 31, 2005
Japan Maintenance and Operation Service Co. Ltd.	_____

(3) Remeasurement of assets and liabilities of subsidiaries

For consolidated subsidiaries and affiliated companies where the Company exercises control or influence, assets and liabilities of those companies are fully marked to their respective fair values at the date of acquisition of control or 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 a foreign subsidiary are translated into Japanese yen at the exchange rate prevailing at the relevant balance sheet date. Shareholders' equity accounts of a foreign subsidiary are translated at historical rates.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which have a minor risk of fluctuation in value.

(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. An allowance for doubtful accounts is provided for normal receivables based on the Company's historical write-off experience, plus an estimate of irrecoverable amounts on an individual account basis.

(7) Allowance for loss on guarantees

An allowance for loss on guarantees is provided at the estimated amount of future losses likely to occur from guaranteeing the indebtedness of other parties, based on the Company's analysis of the other parties' financial status and results of operations.

(8) Inventories

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

Work-in-process..... the individual cost method

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

(9) Investments in securities

Available-for-sale securities with a market quotation on a stock exchange are valued at market value. Unrealized holding gains and losses, net of tax, are recognized in "Valuation gain on available-for-sale securities" as a separate component of shareholders' equity.

Available-for-sale securities without a market quotation are recorded at cost. The cost of available-for-sale securities sold is principally based on the moving average cost method.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(10) Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation of ¥4,838 million and ¥5,437 million (\$50,633 thousand) at March 31, 2004 and 2005 respectively. Depreciation of property and equipment is computed principally using the declining-balance method at rates based on 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.

The Company launched a new business of leasing property and equipment to clients from October 1, 2003. Depreciation of these leased assets is computed using the straight-line method over the period of the lease contract term, with no residual value.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(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) Consolidation goodwill

Consolidation goodwill arising from mergers, which represents the excess of the purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over five years unless a more appropriate period of amortization can be identified.

(13) Income taxes

Income taxes consist of corporate income taxes, local inhabitants taxes and enterprise taxes. The Company calculates and records income taxes currently 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) Allowance for retirement benefits

(a) Retirement benefits for employees

The employees of the Company are generally covered by retirement benefit plans under which retiring employees are entitled to lump-sum payments

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determined by reference to current rates of pay, length of service and conditions under which the termination occurs.

An allowance for retirement benefits to employees of the Company and its major consolidated subsidiaries is provided based on the estimated present value of projected benefit obligations. For some minor consolidated subsidiaries, an allowance for retirement benefits to employees is provided using a simple method, as permitted by “Opinion Concerning Establishment of Accounting Standard for Retirement Benefits”, based on the estimated amount which would be payable if all employees voluntarily retired at the relevant balance sheet date.

Actuarial gains (losses) are charged as income or expense in the year they arise.

(b) Retirement benefits for directors

An allowance for retirement benefits to directors and corporate auditors of the Company and its consolidated subsidiaries is provided based on the Companies' internal rules and is 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 to employees after the 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 using a method similar to that used for regular operating lease transactions.

(17) Net income per share

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 bonuses paid to directors and statutory auditors as well as 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.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

The average number of shares used in the computation was 26,500 thousand and 52,999 thousand for the fiscal years ended March 31, 2004 and 2005, respectively. Each of the Company's shares was divided into 2 shares on August 19, 2004 and the weighted average number of outstanding shares adjusted retroactively for the stock splits to the beginning of the year was used in computing net income per share for the fiscal year ended March 31, 2005.

Assuming that the above stock split had occurred at the beginning of the fiscal year ended March 31, 2004, the net income per share would have been ¥100.20.

(18) Accounting for consumption tax

Consumption tax withheld by the Company on revenues and consumption tax paid by the Company on the purchase of goods and on expenses is recorded as an asset or a liability and is not included in the respective account items on the consolidated statements of income.

(19) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, any appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months of the end of each fiscal year. Therefore the appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding fiscal year, as approved at the shareholders' meeting and effected during the relevant year. Dividends are paid to shareholders whose names appear on the shareholders' register as at the end of each fiscal year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings through an appropriation, instead of being charged to the income for the relevant fiscal year.

The Japanese Commercial Code provides that interim cash dividends may be paid as part of the annual dividend, following approval by the Board of Directors. The Company pays such interim dividends to those shareholders who are listed on the shareholders' register at September 30 of the relevant fiscal year.

(20) Recent pronouncement

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Non-current Assets". The standard requires that non-current assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the statement of income by

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reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. The standard shall be effective for fiscal years beginning April 1, 2005 or thereafter, with possible early adoption for fiscal years ended March 31, 2004 or thereafter. The Company did not adopt this standard for the fiscal years ended March 31, 2004 and 2005. The Company's management does not believe that this standard will have a material effect on the Company's consolidated financial statements.

4. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥107.39=U.S. \$1, the effective rate of exchange prevailing at March 31, 2005, 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.

5. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2005 are as follows:

March 31,	Millions of yen		Thousands of U.S.
	2004	2005	dollars (Note 4)
Cash and bank deposits.....	¥14,605	¥11,478	\$106,876
Deposited money.....	12,914	11,621	108,215
Cash and cash equivalents.....	¥27,519	¥23,099	\$215,091

6. Investments in Securities

Investments in securities at March 31, 2004 and 2005 are as follows:

(1) Marketable securities classified as available-for-sale securities

The aggregate acquisition cost, gross unrealized gains and losses and carrying amount on the balance sheet, which were re-valued to the related fair value, of available-for-sale securities with market quotations at March 31, 2004 and 2005 are as follows:

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NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2004	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥117	¥700	¥(0)	¥817
Total	¥117	¥700	¥(0)	¥817

March 31, 2005	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥415	¥1,182	¥(14)	¥1,583
Total	¥415	¥1,182	¥(14)	¥1,583

March 31, 2005	Thousands of U.S. dollars (Note4)			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	\$3,864	\$11,006	\$(133)	\$14,737
Total	\$3,864	\$11,006	\$(133)	\$14,737

(2) Available-for-sale securities sold for the fiscal years ended March 31, 2004 and 2005

March 31, 2004	Millions of yen	Thousands of U.S. dollars (Note 4)
	Carrying amount	
Proceeds from sale of investments	¥778	\$7,365
Gain on sale of investments	715	6,762
Loss on sale of investments		

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	Millions of yen	Thousands of
		U.S. dollars
		(Note 4)
March 31, 2005	Carrying amount	
Proceeds from sale of investments	¥224	\$2,090
Gain on sale of investments	184	1,715
Loss on sale of investments		

(3) Non-marketable securities classified as available-for-sale securities

The following is a summary of non-marketable securities:

	Carrying amount		Thousands of
	Millions of yen		
	2004	2005	(Note 4) 2005
March 31, 2005			
Equity securities of unconsolidated subsidiary	¥ 11	¥ 11	\$ 101
Equity securities of affiliates	1,530	1,646	15,326
Others (unlisted equity securities)	1,275	1,255	11,700
Total	¥2,816	¥2,912	\$27,127

7. Property and Equipment

A revaluation of land for business purposes was carried out in accordance with the "Law Concerning the Revaluation of Land" as at March 31, 2000. This law was time-limited to a three-year period. Under this law, from March 31, 1998 to March 31, 2001, Japanese companies were allowed to revalue their land assets held for business purposes to fair value. Unrealized gains and losses were charged directly to shareholders' equity, rather than to the income statement. Application of this law was voluntary, but permitted only one time during the three-year period.

Revaluation charges of ¥1,277 million were deducted from the carrying amounts of land in the year ended March 31, 2000, with a net of tax charge of ¥740 million recorded as "Reserve for revaluation of land", as a separate component of shareholders' equity. As a result, "Total assets" and "Total shareholders' equity" decreased by ¥740 million on March 31, 2000.

In the year ended March 31, 2003, the statutory tax rate of deferred tax assets and liabilities applicable to those items, that are expected to be reversed in the year

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NS Solutions Corporation and Consolidated Subsidiaries

beginning April 1, 2004 or later, changed from 42.0% to 40.8% (Note 9). As a result, "Reserve for revaluation of land" and "Deferred tax assets-non-current" decreased by ¥15 million, respectively. Thus, the "Reserve for revaluation of land" became a negative amount of ¥755 million in the shareholder's equity at the fiscal year ended March 31, 2003.

In the year ended March 31, 2004, the statutory tax rate of deferred tax assets and liabilities changed from 40.8% to 40.6% (Note 9). As a result, "Reserve for revaluation of land" and "Deferred tax assets-non-current" decreased by ¥3 million, respectively. Thus, the "Reserve for revaluation of land" became a negative amount of ¥757 million in the shareholder's equity at the fiscal year ended March 31, 2004.

The detail of the revaluation is as follows:

- Method of revaluation

The calculations were made in accordance with the "Law Concerning the Revaluation of Land".

- Date of revaluation

March 31, 2000.

- Difference between the fair value and carrying amount of the devalued land for business purposes at March 31, 2004 and 2005 was ¥124 million and ¥140 million (\$1,304 thousand), respectively.

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 for the fiscal years ended March 31, 2004 and 2005 were ¥1,225 million and ¥807 million (\$7,512 thousand), 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 fiscal years ended March 31, 2004 and 2005:

March 31, 2004	Millions of yen		
	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	¥ 97	¥ 54	¥ 43
Tools, furniture and fixtures	4,808	3,587	1,221
Software	1,247	880	367
Total	¥6,152	¥4,521	¥1,631

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2005	Millions of yen		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment.....	¥ 97	¥ 75	¥ 22
Tools, furniture and fixtures.....	3,092	2,387	705
Software.....	777	569	208
Total	¥3,966	¥3,031	¥ 935

March 31, 2005	Thousands of U.S. dollars (Note 4)		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment.....	\$ 907	\$ 698	\$ 209
Tools, furniture and fixtures.....	28,796	22,228	6,568
Software.....	7,238	5,298	1,940
Total	\$36,941	\$28,224	\$8,717

March 31,	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			(Note 4)
			2005
Depreciation expense	¥1,159	¥748	\$6,961
Interest expense	50	33	311

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.

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NS Solutions Corporation and Consolidated Subsidiaries

The present values of future lease payments at March 31, 2004 and 2005 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Within one year	¥817	¥437	\$ 4,067
Over one year	915	550	5,123
Total.....	¥1,732	¥987	\$9,190

Future operating lease payments under non-cancelable lease contracts at March 31, 2004 and 2005 are as follows;

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Within one year	¥2	¥2	\$19
Over one year	4	2	20
Total.....	¥6	¥4	\$39

9. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes based on income, which in aggregate resulted in a statutory tax rate of approximately 40.6% for the fiscal years ended March 31, 2004 and 2005.

Foreign consolidated subsidiaries are subject to income and other taxes of the countries in which they operate.

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the enterprise tax is the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component; There was only an "income tax based component" before the amendment. Concurrently, the basic tax rate for the "income based component" has been reduced from 9.6% to 7.2%.

As a result of this amendment, the tax rate to be applied to deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to be reversed

Notes to Consolidated Financial Statements

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in the year beginning April 1, 2004 or later, decreased from 42.0% to 40.8% as at March 31, 2003. For temporary differences that are expected to be reversed in the year ending March 31, 2004, a tax rate of 42.0% has continued to be used at that date.

In the year ended March 31, 2004, the statutory tax rate of deferred tax assets and liabilities for both current and non-current items changed to 40.6%. This resulted in a reduction in deferred tax assets at March 31, 2004 by ¥80 million (\$760 thousand), compared with the asset that would have been recognized if respective tax rates before the change had been applied. "Income taxes-Deferred" benefit also reduced by ¥82 million (\$773 thousand) as a result of the change in the statutory tax rates.

At March 31, 2004 and 2005, the significant components of deferred tax assets and liabilities were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Deferred tax assets:			
Accrued enterprise tax	¥ 279	¥ 314	\$ 2,920
Accrued bonuses to employees.....	2,107	2,120	19,739
Allowance for employees' retirement benefits.....	2,317	2,747	25,581
Amortization of software costs.....	680	658	6,124
Elimination of unrealized profits on consolidation	85	119	1,104
Others.....	833	832	7,750
Total deferred tax assets.....	6,301	6,789	63,217
Deferred tax liabilities:			
Reserve for special tax purposes	(789)	(564)	(5,251)
Valuation gain on available-for-sale securities	(285)	(475)	(4,424)
Total deferred tax liabilities	(1,074)	(1,039)	(9,675)
Net deferred tax assets.....	¥5,227	¥5,750	\$53,543

In addition to net deferred tax assets of ¥5,227 million and ¥5,750 million (\$53,543 thousand) for the fiscal years ended March 31, 2004 and 2005, respectively, mentioned above, a deferred tax asset relating to revaluation loss on land amounting to ¥520 million and ¥520 million (\$4,838 thousand) for the fiscal years ended March 31, 2004 and 2005, was also recognized, resulting in total deferred tax assets of ¥5,746 million

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

and ¥6,270 million (\$58,381 thousand) being recognized on the balance sheets for the fiscal years ended March 31, 2004 and 2005, respectively.

Since the difference between the statutory tax rate and the effective tax rate for the fiscal years ended March 31, 2004 and 2005 is less than 5%, a reconciliation of these two rates is not presented.

10. Retirement Benefits

The Company and its consolidated domestic subsidiaries have unfunded defined benefit plans covering substantially all employees. The plans provide lump-sum payments or special retirement allowances for voluntary retirement, if necessary.

In addition to above plans, the Company introduced a defined contribution pension plan effective from October 1, 2002.

The projected benefit obligations at the end of March 31, 2004 and 2005 were ¥6,042 million and ¥6,940 million (\$64,622 thousand), respectively. Since no portion of the projected benefit obligations is funded outside the Company, and both the transition difference and actuarial gain or loss are charged to income or expenses in the year they arise, the project benefit obligations are fully recognized as a liability on the consolidated balance sheets.

The net periodic costs relating to retirement benefits for the fiscal years ended March 31, 2004 and 2005 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2005	(Note 4) 2005
Service costs.....	¥709	¥689	\$6,416
Interest costs.....	79	88	822
Amortization of actual loss.....	101	352	3,275
Allowance for employees' retirement benefits.....	¥889	¥1,129	\$10,513
Costs of defined contribution pension plan.....	250	297	2,767
Total.....	¥1,139	¥1,426	\$13,280

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NS Solutions Corporation and Consolidated Subsidiaries

The assumptions used in the actuarial computation for the fiscal years ended March 31, 2004 and 2005 above are as follows:

March 31,	2004	2005
Method of benefit attribution	Benefit/years of service	Benefit/years of service
Discount rate	1.50 ~ 2.01%	1.50 ~ 2.01%
Period of amortization of unrecognized actual gain or loss.....	1 year	1 year

11. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal year fiscal years ended March 31, 2004 and 2005 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2005	2005
Payroll and bonuses	¥7,267	¥7,230	\$67,324
Allowance for employees' retirement benefits	310	367	3,421
Allowance for directors' retirement benefits.....	58	74	688
Depreciation expense	193	153	1,429
Operating expense for acceptance of orders	2,778	2,649	24,669
Write-off of bad debts.....	52		

12. Research and Development Costs

Research and development costs of general and administrative expenses charged to income for the fiscal years ended March 31, 2004 and 2005 were ¥989 million and ¥ 1,177 million (\$10,963 thousand), respectively.

13. Shareholders' Equity

(1) Capital increase

Under the Commercial Code of Japan, at least 50% of the issue price of newly issued shares is required to be designated as stated capital.

The portion which was to be designated as stated capital was determined by a resolution of the Board of Directors. The remaining 50% was credited to "Additional paid-in capital".

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(2) Legal reserve

The Commercial Code of Japan provides that an amount equivalent to at least 10% of any appropriations of retained earnings paid in cash for each fiscal year be appropriated as a legal reserve until such legal reserve reaches a certain limit, which is 25% of common stock, less additional paid-in capital, in accordance with an amendment to the Commercial Code. The legal reserve is not available for distribution as cash dividends, but may be used to reduce a deficit or may be transferred to common stock.

The legal reserve included in retained earnings was ¥216 million and ¥226 million (\$2,107 thousand) at March 31, 2004 and 2005, respectively.

(3) Appropriation of retained earnings

In accordance with the Commercial Code of Japan, appropriations of retained earnings are not reflected in the financial statements for each fiscal year. The following appropriation of retained earnings of the Company, including cash dividends applicable to the fiscal years ended March 31, 2004 and 2005, was proposed by the Board of Directors and approved at the shareholders' meeting held on June 24, 2004 and June 24, 2005, respectively.

Appropriation;	Millions of yen		Thousands of U.S. dollars
	2004	2005	(Note 4) 2005
March 31,	2004	2005	2005
Cash dividends.....	¥464	¥464	\$4,318
(Cash dividends at ¥17.50 per share for 2004 and ¥8.75 (\$0.08) per share for 2005, respectively)			
Bonuses to directors	13	21	200
Reversal of special tax purpose reserve into retained earnings	(140)	(178)	(1,661)

Those appropriations applicable to the fiscal year ended March 31, 2005 were not recorded in the consolidated financial statements for the fiscal year ended March 31, 2005, but will be recorded in the consolidated financial statements for the fiscal year ending March 31, 2006. Those applicable to the fiscal year ended March 31, 2004 were recorded in the fiscal year ended March 31, 2005 rather than in the fiscal year ended March 31, 2004.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company, in accordance with the Commercial Code of Japan.

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

14. Contingent Liabilities

The Company's loss contingencies for guaranteeing the indebtedness of other parties, excluding the portion for which a related allowance is provided as a liability on the consolidated balance sheets, were ¥58 million and ¥30 million (\$279 thousand) at March 31, 2004 and 2005, respectively, each of which are Guarantees for bank loans of the Hokkaido High Information Technology Center Co., Ltd.

15. Derivative Transactions

The Companies do not engage in derivative transactions.

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

17. Subsequent Events

There have been no material events subsequent to March 31, 2005.

18. Related Party Transactions

Material transactions of the Company with related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the fiscal years ended March 31, 2004 and 2005 are as follows:

Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

(1) Parent company

March 31,	2004	2005
Name of the company	Nippon Steel Corporation	Nippon Steel Corporation
Address.....	Chiyoda-ku Tokyo	Chiyoda-ku Tokyo
Common stock amount.....	¥419,524 million	¥419,524 million
Type of business	Steel-making and engineering	Steel-making and engineering
Equity share percentage of the Company	72% (direct)	72% (direct)
Relationship:		
Number of directors and auditors who have a position in both companies	1	1
Number of directors and auditors transferred from the parent company*	13	14
Operational relationship	Sales of systems integration services.	Sales of systems integration services.
	Purchase of systems development services.	Purchase of systems development services.
	Rental of buildings.	Rental of buildings.
	Received labor of seconded employees	Loan
Transaction amounts:		
Sales of systems integration services.....	¥22,164 million	¥20,194 million (\$188,048 thousand)
Payment for systems development services and office services	¥65 million	¥362 million (\$3,367 thousand)
Building rental fee	¥1,273 million	¥1,275 million (\$11,869 thousand)
Labor cost payments for seconded employees from Nippon Steel.....	¥815 million	
Interest income.....		¥55 million (\$510 thousand)
Loan		¥12,000 million (\$111,742 thousand)
Other	¥852 million	¥712 million (\$6,631 thousand)
Balances at fiscal year-end:		
Accounts receivable.....	¥1,373 million	¥1,476 million (\$13,742 thousand)
Other current assets	¥98 million	¥41 million (\$381 thousand)
Long term loan		¥12,000 million (\$111,742 thousand)
Guarantee deposits.....	¥429 million	¥429 million (\$3,992 thousand)
Accounts payable	¥36 million	¥49 million (\$460 thousand)
Accrued expenses	¥156 million	
Advanced receipts	¥1,892 million	¥2,524 million (\$23,500 thousand)
Other current liabilities	¥31 million	¥40 million (\$375 thousand)

*A Representative Director of the Company was included in the above number of directors transferred from the parent company.

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NS Solutions Corporation and Consolidated Subsidiaries

(2) Subsidiary of Nippon Steel

March 31,	2004	2005
Name of the company	Nittetsu Finance Co., Ltd.	Nittetsu Finance Co., Ltd.
Address.....	Chiyoda-ku Tokyo	Chiyoda-ku Tokyo
Common stock amount.....	¥1,000 million	¥1,000 million
Type of business.....	Money lending and operation	Money lending and operation
Relationship:		
Operational Relationship	Sales of systems integration services. Deposit of funds.	Sales of systems integration services. Deposit of funds.
Transaction amounts:		
Sales of system integration service.....	¥22 million	¥66 million (\$619 thousand)
Interest income.....	¥9 million	¥16 million (\$146 thousand)
Money deposited.....	¥13,509 million	¥16,816 million (\$156,585 thousand)
Money refunded.....	¥5,500 million	¥18,400 million (\$171,338 thousand)
Balances at fiscal year-end:		
Accounts receivable	¥2 million	¥37 million (\$346 thousand)
Deposited money	¥12,510 million	¥10,925 million (\$101,734 thousand)

Report of Independent Auditors

To the Board of Directors and Shareholders of
NS Solutions Corporation

We have audited the accompanying consolidated balance sheets of NS Solutions Corporation and its subsidiaries (the “Company”) as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders’ equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NS Solutions Corporation and its subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (see Note 3).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 24, 2005