

# CONSOLIDATED FINANCIAL STATEMENTS

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2008



**NS Solutions**

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# Consolidated Balance Sheets

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Assets</b>			
Current assets:			
Cash and bank deposits (Note 7) .....	¥5,643	¥6,365	\$63,534
Deposited money (Note 7).....	15,601	23,981	239,355
Trade notes and accounts receivable .....	39,236	34,733	346,675
Short-term investment (Note 7,8) .....	8,266	8,810	87,929
Inventories.....	10,739	10,396	103,763
Deferred tax assets (Note11) .....	3,380	3,521	35,144
Others .....	521	696	6,940
Allowance for doubtful accounts .....	(185)	(200)	(1,999)
Total current assets .....	83,201	88,302	881,341
Fixed assets:			
Property and Equipment (Note 6(10)):			
Buildings and structures .....	6,572	6,291	62,789
Machinery and equipment .....	6	4	44
Tools, furniture and fixtures .....	2,149	2,233	22,285
Land (Note 9) .....	883	883	8,813
Construction in progress .....	189	254	2,537
Total property and equipment .....	9,799	9,665	96,468
Intangible fixed assets:			
Software .....	270	385	3,843
Others.....	54	38	382
Total intangible fixed assets .....	324	423	4,225
Investments and other assets:			
Investment securities (Note 8).....	2,373	2,203	21,987
Long-term prepaid expenses .....	31	27	270
Deferred tax assets (Note11).....	3,668	4,406	43,981
Guarantee deposits.....	2,328	2,767	27,618
Long term loan receivable to affiliated company .....	12,000	12,000	119,772
Others.....	329	348	3,469
Allowance for doubtful accounts .....	(56)	(61)	(610)
Total investments and other assets.....	20,673	21,690	216,487
Total fixed assets .....	30,796	31,778	317,180
Total assets .....	¥113,997	¥120,080	\$1,198,521

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Trade notes and accounts payable .....	¥17,622	¥15,770	\$157,404
Non-trade accounts payable .....	1,467	1,729	17,255
Accrued expenses .....	2,724	2,351	23,465
Income tax payable .....	4,388	4,500	44,911
Advance received .....	4,259	4,430	44,213
Deposits received .....	241	246	2,452
Accrued bonuses to employees .....	5,901	5,978	59,669
Accrued bonuses to directors .....	31	—	—
Allowance for program product warranty .....	370	376	3,754
Others .....	312	597	5,964
Total current liabilities .....	37,315	35,977	359,087
Non-current liabilities:			
Accrued employees' retirement benefits (Note 12) ...	8,258	9,121	91,035
Allowance for directors' retirement benefits .....	306	307	3,064
Total non-current liabilities .....	8,564	9,428	94,099
Total liabilities .....	45,879	45,405	453,186
Net Assets			
Shareholders' equity:			
Common stock (Note 15) .....	12,953	12,953	129,282
Authorized: 192,000,000 shares in 2007 and 2008 Issued: 52,999,120 shares in 2007 and 2008			
Additional paid-in capital (Note 15) .....	9,950	9,950	99,316
Retained earnings (Note 15) .....	44,127	50,565	504,686
Treasury stock..... 980 shares in 2007 and 1,202 shares in 2008	(3)	(4)	(37)
Total shareholders' equity .....	67,027	73,464	733,247
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities .....	433	188	1,881
Unrealized loss on revaluation of land (Note 9).....	(1,277)	(1,277)	(12,746)
Foreign currency translation adjustment .....	5	5	46
Total valuation and translation adjustments .....	(839)	(1,084)	(10,819)
Minority interests .....	1,930	2,295	22,907
Total net assets .....	68,118	74,675	745,335
Total liabilities and net assets	¥ 113,997	¥ 120,080	\$ 1,198,521

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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Net sales</b> .....	¥156,479	¥165,400	\$1,650,860
<b>Cost of sales</b> .....	123,118	129,767	1,295,211
<b>Gross profit</b> .....	33,361	35,633	355,649
<b>Selling, general and administrative expenses</b> (Notes 13 and 14) .....	19,223	20,737	206,967
<b>Operating income</b> .....	14,138	14,896	148,682
<b>Other income (expenses):</b>			
Interest income .....	175	311	3,100
Dividend income.....	15	51	508
Interest expenses .....	—	(0)	(3)
Exchange loss .....	(5)	(8)	(81)
Equity in net income of affiliated companies .....	94	8	80
Impairment loss of investment securities .....	(3)	(4)	(38)
Impairment loss of golf memberships.....	(3)	(7)	(73)
Loss on sale of investments in affiliates, net.....	—	(13)	(127)
Loss on disposal of fixed assets .....	(60)	(20)	(201)
Others, net.....	9	10	100
<b>Income before income taxes and minority interests</b> ....	<b>14,360</b>	<b>15,224</b>	<b>151,947</b>
<b>Income Taxes:</b>			
Current (Note 11).....	6,368	7,100	70,861
Deferred (Note 11) .....	(485)	(729)	(7,277)
<b>Income before minority interests</b> .....	<b>8,477</b>	<b>8,853</b>	<b>88,363</b>
<b>Minority interests</b> .....	<b>(357)</b>	<b>(428)</b>	<b>(4,277)</b>
<b>Net income</b> .....	<b>¥8,120</b>	<b>¥8,425</b>	<b>\$84,086</b>

	Yen		U.S. dollars (Note 3)
	2007	2008	2008
<b>Net income per share</b> (Note 6(17)) .....	¥153.21	¥158.96	\$1.59
<b>Net assets per share</b> (Note 6(17)) .....	¥1,248.89	¥1,365.71	\$13.63

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

## Consolidated Statements of Net assets

NS Solutions Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Shareholder's equity:</b>			
Common stock (Note 15):			
Balance at beginning of year .....	¥12,953	¥12,953	\$129,282
Balance at end of year .....	12,953	12,953	129,282
Additional paid-in capital (Note 15):			
Balance at beginning of year .....	9,950	9,950	99,316
Balance at end of year .....	9,950	9,950	99,316
Retained earnings (Note 15):			
Balance at beginning of year .....	37,600	44,127	440,436
Net income .....	8,120	8,425	84,086
Cash Dividends.....	(1,590)	(1,987)	(19,836)
Decrease due to change in scope of consolidation...	(3)	—	—
Balance at end of year .....	44,127	50,565	504,686
Treasury stock:			
Balance at beginning of year .....	(2)	(3)	(30)
Net change during the year .....	(1)	(1)	(7)
Balance at end of year .....	(3)	(4)	(37)
<b>Total shareholders' equity at end of year .....</b>	<b>¥67,027</b>	<b>¥73,464</b>	<b>\$733,247</b>

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Valuation and translation adjustments:</b>			
Unrealized gain on available-for-sale securities:			
Balance at beginning of year .....	780	433	4,325
Net change during the year .....	(347)	(245)	(2,444)
Balance at end of year .....	433	188	1,881
Unrealized loss on revaluation of land (Note 9):			
Balance at beginning of year .....	(1,277)	(1,277)	(12,746)
Net change during the year .....	—	—	—
Balance at end of year .....	(1,277)	(1,277)	(12,746)
Foreign currency translation adjustment:			
Balance at beginning of year .....	2	5	50
Net change during the year .....	3	(0)	(4)
Balance at end of year .....	5	5	46
<b>Total valuation and translation adjustments.....</b>	<b>(839)</b>	<b>(1,084)</b>	<b>(10,819)</b>
<b>Minority interests:</b>			
Balance at beginning of year .....	—	1,930	19,262
Increase due to change of accounting principle .....	1,623	—	—
Net change during the year .....	307	365	3,645
Balance at end of year .....	1,930	2,295	22,907
<b>Total minority interests at end of year .....</b>	<b>1,930</b>	<b>2,295</b>	<b>22,907</b>
<b>Total net assets at end of year .....</b>	<b>¥68,118</b>	<b>¥74,675</b>	<b>\$745,335</b>

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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests ..	¥14,360	¥15,224	\$151,947
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation.....	1,812	1,818	18,141
Increase in allowance for doubtful accounts .....	163	16	158
Increase in accrued bonuses to employees.....	99	77	768
Increase in accrued employees' retirement benefits .....	447	863	8,616
Increase in allowance for directors' retirement benefits .....	75	1	6
Increase (decrease) in other allowances.....	41	(24)	(240)
Interest and dividend income .....	(190)	(362)	(3,608)
Impairment loss of investment securities.....	3	4	38
Impairment loss of golf memberships .....	3	7	73
Interest expenses.....	—	0	3
Loss on sale of investments in affiliates, net .....	—	13	127
Equity in net income of affiliated companies.....	(94)	(8)	(80)
Loss on disposal of fixed assets.....	60	20	201
Decrease (increase) in accounts receivable .....	(5,002)	4,503	44,941
Decrease (increase) in inventories.....	(3,105)	343	3,425
Decrease (increase) in other current assets .....	52	(197)	(1,963)
Increase (decrease) in accounts payable .....	1,930	(1,851)	(18,479)
Increase in other current liabilities.....	1,004	144	1,438
Others, net .....	269	317	3,167
Sub total .....	11,927	20,908	208,679
Interests and dividends received.....	190	461	4,602
Income taxes paid.....	(5,786)	(6,988)	(69,748)
Interests paid.....	—	(1)	(3)
Net cash provided by operating activities.....	¥6,331	¥14,380	\$143,530

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
<b>Cash flow from investing activities:</b>			
Payments for time deposits .....	—	(1,000)	(9,981)
Proceeds from maturity of time deposits .....	—	1,000	9,981
Acquisition of short-term investment .....	—	(5,009)	(49,998)
Purchase of property and equipment and intangible fixed assets .....	(6,573)	(1,882)	(18,784)
Acquisition of investments in securities .....	(6)	(342)	(3,412)
Proceeds from sale of investments in affiliates .....	—	34	339
Others, net .....	(337)	(485)	(4,844)
Net cash used in investing activities .....	(6,916)	(7,684)	(76,699)
<b>Cash flows from financing activities:</b>			
Capital injection by minority shareholders .....	—	16	166
Payment for purchase of treasury stock .....	(1)	(1)	(7)
Dividends paid .....	(1,590)	(1,987)	(19,837)
Dividends paid to minority shareholders .....	(50)	(80)	(800)
Net cash used in financing activities .....	(1,641)	(2,052)	(20,478)
Effect of exchange rate changes on cash and cash equivalents .....	2	1	5
Net increase (decrease) in cash and cash equivalents...	(2,224)	4,645	46,358
<b>Cash and cash equivalents at beginning of year .....</b>	<b>31,725</b>	<b>29,510</b>	<b>294,543</b>
<b>Increase due to change in scope of consolidation .....</b>	<b>9</b>	<b>—</b>	<b>—</b>
<b>Cash and cash equivalents at end of year (Note 7) .....</b>	<b>¥29,510</b>	<b>¥34,155</b>	<b>\$340,901</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 October 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 March 31, 2008.

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 system 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 ¥100.19 = U.S. \$1, the effective rate of exchange prevailing at March 31, 2008, 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 ¥27 million (\$265 thousand), ¥35 million (\$353 thousand), ¥35 million (\$353 thousand), respectively.

Based on the revised corporate tax law, the residual value of depreciable assets acquired on or before March 31, 2007 is depreciated to remaining value of one yen over five years. The effect of the change was to decrease gross profit, operating income and income before income taxes and minority interests by ¥6 million (\$58 thousand), ¥7 million (\$70 thousand), ¥7 million (\$70 thousand), respectively.

### 5. Reclassifications and restatement

Certain reclassifications have been made in the 2007 financial statements to conform to the presentation for 2008.

### 6. Summary of Significant Accounting Policies

#### (1) Principles of consolidation

The consolidated financial statements for the fiscal year ended March 31, 2008, 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 Nishinihon Corporation
- NS Solutions Oita Corporation
- NS SLC Service Corporation
- NS FMC Corporation
- Nittetsu Hitachi Systems Engineering, Inc.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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NCI Systems Integration, Inc.  
NS Solutions Software (Shanghai) Co., Ltd.  
NS Solutions USA Corporation

The Company added NS FMC Corporation to the consolidation scope from the fiscal year ended March 31, 2008. 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, which differ from that of the Company. These subsidiaries do not prepare financial statements at any date after December 31 or on or before March 31 in 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 investment in the affiliate was accounted for using the equity method for the fiscal year ended March 31, 2008 as listed below:

Hokkaido High Information Technology Center Co., Ltd.

The Company excluded Solnet Co., Ltd. from the scope of the equity method at the end of the fiscal year ended March 31, 2008, due to the sale of the Company's ownership interest.

## **(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) Investment securities**

Investment 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, 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 are recorded at cost, net of accumulated depreciation of ¥7,451 million and ¥8,966 million (\$89,486 thousand) at March 31, 2007 and 2008 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. When 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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Net obligation at translation on the employees' retirement benefits plan is charged to income or expense as incurred.

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 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 fiscal year-end, based on their service for the fiscal year 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 outstanding used in the computation was 52,998 thousand for the fiscal years ended March 31, 2007 and 2008, 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

## 7. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2007 and 2008 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Cash and bank deposits .....	¥ 5,643	¥ 6,365	\$ 63,534
Deposited money .....	15,601	23,981	239,355
Short-term investment .....	8,266	3,809	38,012
Cash and cash equivalents .....	¥29,510	¥34,155	\$340,901

## 8. Investment Securities

Investment securities at March 31, 2007 and 2008 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 March 31, 2007 and 2008 are as follows:

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

March 31, 2008	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	¥419	¥358	—	¥777
Total .....	¥419	¥358	—	¥777

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2008	Thousands of U.S. dollars (Note 3)			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities .....	\$ 4,179	\$ 3,573	—	\$ 7,752
Total .....	\$ 4,179	\$ 3,573	—	\$ 7,752

### (2) Non-marketable securities

The following is a summary of non-marketable securities:

March 31,	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Held-to-maturity investments			
Commercial paper .....	¥7,996	¥999	\$9,970
Corporate bond .....	—	5,001	49,918
Cash in trust .....	—	2,000	19,962
Government debt securities .....	270	810	8,079
Equity securities of affiliates .....	137	5	48
Non listed securities .....	1,131	1,322	13,200
Investment in funds .....	—	99	988
Total .....	¥ 9,534	¥ 10,236	\$ 102,165

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

March 31,	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Due within one year			
Commercial paper .....	¥7,996	¥999	\$9,970
Corporate bond .....	—	5,001	49,918
Cash in trust .....	—	2,000	19,962
Government debt securities .....	270	810	8,079
Total .....	¥8,266	¥8,810	\$87,929

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## 9. Property and Equipment

Land used for business purposes was revalued in accordance with the “Law Concerning the Revaluation of Land” as at March 31, 2000. Under the law, Japanese companies were allowed to revalue the land used for business purposes to fair value only for the limited period during the year ended March 31, 1998 to March 31, 2001. Unrealized gains and losses were charged directly to net assets, rather than to the income statement. Application of the law was voluntary, but permitted only one time during the three-year period.

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

The company revalued based on the fair value as of March 31, 2000.

- The difference between the fair value and book value as of March 31, 2007 and 2008 amounted to ¥160 million and ¥160 million (\$1,600 thousand), respectively.

## 10. 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 operating leases. Finance lease expenses recognized for the fiscal years ended March 31, 2007 and 2008 were ¥260 million and ¥275 million (\$2,746 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, 2007 and 2008:

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

	Millions of yen		
	Acquisition Cost	Accumulated Depreciation	Net balance
March 31, 2008			
Machinery and equipment.....	¥ 17	¥ 14	¥ 3
Tools, furniture and fixtures.....	859	575	284
Software.....	152	91	61
Total .....	¥1,028	¥680	¥348

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

March 31, 2008	Thousands of U.S. dollars (Note 3)		
	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment .....	\$ 170	\$ 145	\$ 26
Tools, furniture and fixtures .....	8,571	5,734	2,837
Software .....	1,519	907	612
<b>Total .....</b>	<b>\$10,260</b>	<b>\$6,786</b>	<b>\$3,475</b>

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Depreciation expense .....	¥229	¥259	\$2,588
Interest expense .....	13	10	104

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.

The present values of future lease payments at March 31, 2007 and 2008 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Within one year .....	¥152	¥164	\$1,641
Over one year .....	244	197	1,961
<b>Total.....</b>	<b>¥396</b>	<b>¥361</b>	<b>\$3,602</b>

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

Future operating lease payments under non-cancelable lease contracts at March 31, 2007 and 2008 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Within one year .....	¥1	—	—
Over one year .....	0	—	—
Total.....	¥1	—	—

### 11. 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 40.7% for the fiscal years ended March 31, 2007 and 2008.

Foreign consolidated subsidiaries are subject to income and other taxes based on tax rates applicable in their countries of incorporation.

At the fiscal years ended March 31, 2007 and 2008, the significant components of deferred tax assets and liabilities were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Deferred tax assets:			
Accrued enterprise tax .....	¥ 359	¥ 375	\$ 3,742
Accrued bonuses to employees.....	2,219	2,256	22,515
Accrued employees' retirement benefits.....	3,338	3,705	36,982
Amortization of software costs.....	602	648	6,466
Elimination of unrealized profits on consolidation .....	132	119	1,190
Others.....	1,126	1,291	12,882
Subtotal deferred tax assets.....	7,776	8,394	83,777
Valuation allowance .....	(181)	(176)	(1,751)
Total deferred tax assets.....	7,595	8,218	82,026
Deferred tax liabilities:			
Reserve for special tax purposes .....	(268)	(162)	(1,611)
Unrealized gain on available-for-sale securities .....	(280)	(129)	(1,290)

## Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

Total deferred tax liabilities .....	(548)	(291)	(2,901)
Net deferred tax assets.....	¥ 7,048	¥ 7,927	\$ 79,125

Tax rate reconciliation for the difference between the statutory tax rate and the effective tax rate for the fiscal years ended March 31, 2007 and 2008 are not disclosed because the difference is less than 5% of the statutory tax rate.

### 12. Retirement Benefits

The Company and its consolidated domestic subsidiaries have unfunded defined benefit plans covering substantially all employees. In addition, the Company introduced a defined contribution pension plan covering all employees effective from October 1, 2002.

The projected benefit obligations at March 31, 2007 and 2008 were ¥8,258 million and ¥ 9,121 million (\$91,035 thousand), respectively. Accrued employees' retirement benefits are equal to the projected benefit obligation since there are no balances in plan assets and unrecognized items.

The net periodic pension costs for the fiscal years ended March 31, 2007 and 2008 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Service costs.....	¥ 926	¥ 998	\$ 9,959
Interest costs.....	113	146	1,461
Amortization of actual loss.....	(444)	(14)	(137)
Amortization of prior service costs.....	—	(31)	(312)
Accrued employees' retirement benefits.....	¥ 595	¥ 1,099	\$ 10,971
Costs of defined contribution pension plan.....	406	423	4,224
Total.....	¥ 1,001	¥ 1,522	\$ 15,195

The assumptions used in the actuarial computation for the fiscal years ended March 31, 2007 and 2008 are as follows:

March 31,	2007	2008
Method of attributing the projected benefits to periods of service .....	Straight line basis	Straight line basis
Discount rate .....	1.60~2.01%	1.60~2.01%
Period of amortization of unrecognized actuarial gain or loss .....	1 year	1 year
Period of amortization of prior service benefits .....	—	1 year

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## 13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the fiscal years ended March 31, 2007 and 2008 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Payroll and bonuses .....	¥ 6,342	¥ 6,859	\$ 68,462
Provision for allowance for bonuses to employees .....	1,205	1,203	12,012
Provision for allowance for bonuses to directors .....	31	—	—
Provision for accrued employees' retirement benefits.....	294	420	4,188
Provision for allowance for directors' retirement benefits.....	79	47	468
Depreciation expense.....	223	221	2,207
Operating expense for acceptance of orders .....	3,025	3,456	34,491
Provision for allowance for doubtful accounts .....	166	17	172

## 14. 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 fiscal years ended March 31, 2007 and 2008 amounting to ¥1,248 million and ¥ 1,309 million (\$13,065 thousand), respectively.

## 15. 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.

Legal reserves included in retained earnings as of March 31, 2007 and 2008 were ¥273 million and ¥312 million (\$3,116 thousand), and are restricted from being used

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

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as dividends.

### **(3) Appropriation of retained earnings**

In accordance with the Corporate Law of Japan, appropriations of retained earnings are recorded in the accounts when the Board of Directors' approval is obtained. The board of directors of the Company approved cash dividends amounting to ¥1,060 million (\$ 10,579 thousand) at the board of directors' meeting held on May 16, 2008. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the board of directors.

### **16. Derivative instruments**

The Companies do not enter into derivative contracts.

### **17. Stock options**

The Companies do not issue any stock options.

### **18. 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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## 19. Subsequent Events

Acquisition of shares of Financial Engineering Group, Inc.

On May 27, 2008, the Company resolved at the meeting of board of directors to acquire the entire shares of Financial Engineering Group, Inc.(FEG) from NIWS Co. HQ Ltd., and to make FEG a wholly owned subsidiary of the Company.

### (1) Purpose of share acquisition

We aim to enhance the adjustability of the field of risk management and marketing in the solution business for financial institutions by making FEG having high modeling abilities in the field of finance, data mining abilities and consulting abilities a wholly owned subsidiary of the Company.

### (2) Name of transferor of shares

NIWS Co. HQ Ltd.

### (3) Name and business description of the acquired company and business scale

Name	Financial Engineering Group, Inc.
Business description	Mathematical analysis of the field of finance, investigation mainly on the data mining, analysis, consulting and software development

#### Business scale

Net sales *1	¥1,814 million
Net income *1	¥97 million
Total assets *1	¥1,341 million
Total net assets *1	¥841 million
Number of employee *2	67

\*1 For and at the fiscal year ended March 31, 2008

\*2 At May 1, 2008

### (4) Date of acquisition of shares

May 28, 2008

### (5) Outline of the acquired shares

Number of shares purchased	1,863 shares
Total purchased price	¥3,751 million (\$37,440 thousand )
Post-acquisition percentage of ownership	100%

### (6) Financing and method of payment

Funds on hand

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## 20. Related Party Transactions

Related party transactions during the years ended March 31, 2007 and 2008 were as follows:

### (1) Parent company

March 31,	2007	2008
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 .....	Manufacturing, selling and engineering steel products	Manufacturing, selling and engineering steel products
Equity share percentage of the Company	67% (direct)	67% (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* .....	10	12
Operational relationship .....	Sales of systems integration services	Sales of systems integration services
	Purchase of systems development services	Rental of buildings
	Rental of buildings	Loan
	Loan	
Transaction amounts:		
Sales of systems integration services.....	¥18,519 million	¥ 20,956 million (\$209,161 thousand)
Building rental fee .....	¥1,261 million	¥ 1,345 million (\$13,420 thousand)
Interest income.....	¥108 million	¥ 108 million (\$1,078 thousand)
Other .....	¥ 566 million	—
Balances at fiscal year-end:		
Accounts receivable.....	¥ 1,655 million	¥ 1,601 million (\$15,977 thousand)
Other current assets .....	¥9 million	—
Long term loan receivable .....	¥12,000 million	¥12,000 million (\$119,772 thousand)
Guarantee deposits .....	¥429 million	¥ 429 million (\$4,279 thousand)
Accrued expenses .....	¥ 30 million	—
Advance received .....	¥2,434 million	¥ 2,280 million (\$22,761 thousand)
Other current liabilities .....	¥103 million	—

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

\* The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.

# Notes to Consolidated Financial Statements

NS Solutions Corporation and Consolidated Subsidiaries

## (2) Subsidiary of Nippon Steel Corporation

March 31,	2007	2008
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.....	Financing	Financing
Relationship:		
Operational Relationship .....	Sales of systems integration services Deposit of funds	Deposit of funds
Transaction amounts:		
Sales of system integration service.....	¥26 million	—
Interest income.....	¥ 51 million	¥ 129 million (\$1,286 thousand)
Money deposited.....	¥19,200 million	¥ 32,800 million (\$327,378 thousand)
Money refunded.....	¥22,100 million	¥ 24,350 million (\$243,038 thousand)
Balances at fiscal year-end:		
Accounts receivable.....	¥2 million	—
Deposited money .....	¥15,402 million	¥ 23,981 million (\$239,355 thousand)

\* The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.

## 21. Contingent Liabilities

The Company's loss contingencies for guaranteeing the indebtedness of other parties were ¥43 million and ¥ 13 million (\$130 thousand) at March 31, 2007 and 2008, respectively, each of which are Guarantees for bank loans of the Hokkaido High Information Technology Center Co. Ltd.

## Independent Auditors' Report

To the Board of Directors of NS Solutions Corporation

We have audited the accompanying consolidated balance sheet of NS Solutions Corporation and its subsidiaries (the "Company") as of March 31, 2007, and the related consolidated statements of income, net assets, and cash flows for the year 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, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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 3 to the accompanying consolidated financial statements.

*KPMG AZSA & Co.*

KPMG AZSA & Co.  
Tokyo, Japan

June 20, 2007

*Misuzu Audit Corporation*

Misuzu Audit Corporation  
Tokyo, Japan

June 20, 2007

## Independent Auditors' Report

To the Shareholders and Board of Directors 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, 2008 and 2007, and the related consolidated statements of income, net assets, and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2008 and 2007, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for the convenience of the reader. Our audit also included the translation of the yen amount into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.  
Tokyo, Japan

June 20, 2008