



### ***Consolidated financial condition***

(Millions of yen, except per share amounts and percentages)

	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2004</b>	<b>Mar. 31, 2004</b>
Total assets	¥75,973	¥82,658	¥90,625
Shareholders' equity	46,127	51,230	48,145
Shareholders' equity ratio	60.7%	62.0%	53.1%
Shareholders' equity per share of common stock*	¥1,740.69	¥966.63	¥1,816.30

\*The number of shares at the end of the periods (used for computation of shareholders' equity per share of common stock) for the nine-month period ended Dec. 31, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 is shown in the chart below.

	(Thousands of shares)		Fiscal Year ended Mar. 31, 2004
	<b>Nine Months ended Dec. 31, 2003</b>	<b>2004</b>	
Number of issued shares at end of period	26,500	52,999	26,500
Number of own shares at end of period	0	1	0

### ***Ref. Consolidated cash flow***

(Millions of yen)

	<b>Nine Months ended Dec. 31,</b>		<b>Difference</b>	<b>Fiscal Year ended</b>
	<b>2003</b>	<b>2004</b>		<b>Mar. 2004</b>
Cash flow from operating activities	¥(1,300)	¥4,128	¥+5,428	¥4,033
Cash flow from investing activities	(1,237)	(12,537)	11,299	(1,116)
Cash flow from financing activities	(1,046)	(973)	+73	(1,046)
Cash and cash equivalents at end of period	22,068	18,138	3,930	27,519

Cash and cash equivalents at the end of the third quarter of this fiscal year decreased by ¥9,381 million to ¥18,138 million compared with the end of the last fiscal year. Cash flows by activities are as follows:

**Operating Activities:** Operating activities generated ¥4,128 million cash. This is mainly due to income before income taxes of ¥6,241 million and improvements in inter-company credit of ¥12,164 million, while negatively impacted by income taxes paid of ¥5,173 million and an increase in inventories of ¥8,782 million.

**Investing Activities:** Investing activities used ¥17,537 million cash. This is mainly due to payments for purchase of property and equipment and intangible fixed assets of ¥790 million, and long-term lending to a related company amounting to ¥12,000 million. In this case long-term lending to a related company is a loan to the parent company.

**Financing Activities:** Financing activities was a negative ¥973 million. This is mainly due to dividends paid of ¥927 million.

### ***Consolidated outlook for the Fiscal Year ending March 31, 2005 (FY2004)***

Business results for the nine-month period ended Dec 31, 2004 have been moving steadily as forecasted before. Therefore, there is no change in our outlook for the current fiscal year, as mentioned below.

Current outlook	(Millions of yen)		
	Sales	Recurring profit	Net income
FY2004	¥152,000	12,000	6,700

Ref. Net income per share forecast (full-year) 126.17 yen\*

\*Based on the resolution of the Board of Directors held on April 27, 2004, NS Solutions split its share into two shares, effective on August 19, 2004. As a result, the number of the issued shares increased to 52,998,517. Above mentioned per share amount was calculated by using the number of shares after the stock split.

#### **Adoption of Concise Accounting Procedure for the Quarterly Period**

None.

#### **Accounting Procedure Differences between the Quarters ended Dec. 31, 2003 and 2004, and the Fiscal Year ended March 31, 2004**

None.

#### **Difference in Consolidation and Equity Method Scope between the Quarters ended Dec. 31, 2003 and 2004, and the Fiscal Year ended March 31, 2004**

None.

## Non-consolidated Results Information

### Non-consolidated operating results

(Millions of yen, except per share amounts and percentages)

	Nine Months ended Dec. 31,		Difference	Fiscal Year ended
	2003	2004		Mar. 2004
Sales	¥83,517	¥83,276	0.3%	¥136,136
Operating income	4,160	5,228	25.7	7,651
Recurring profit	4,406	5,453	23.7	7,787
Net income	2,584	3,196	23.7	4,496
Net income per share of common stock				
Basic	¥97.50	¥60.30		¥169.14
Diluted	-	-		-

\* Average shares used for computation of net income per share of common stock for the nine-month period ended Dec. 31, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 are shown in the chart below.

	Nine Months ended Dec. 31,		Fiscal Year ended Mar.
	2003	2004	31, 2004
Net income per share of common stock Basic	26,500	52,999	26,500

(Thousands of shares)

### Non-consolidated financial condition

(Millions of yen, except per share amounts and percentages)

	Dec. 31, 2003	Dec. 31, 2004	Mar. 31, 2004
Total assets	¥70,778	¥77,121	¥84,012
Shareholders' equity	41,898	46,303	43,552
Shareholders' equity ratio	59.2%	60.0%	51.8%
Shareholders' equity per share of common stock*	¥1,581.08	¥873.67	¥1,642.98

\*The number of shares at the end of the periods (used for computation of shareholders' equity per share of common stock) for the nine-month period ended Dec. 31, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 is shown in the chart below.

	Nine Months ended Dec. 31,		Fiscal Year ended Mar.
	2003	2004	31, 2004
Number of issued shares at end of period	26,500	52,999	26,500
Number of own shares at end of shares	0	1	0

(Thousands of shares)

***Non-consolidated Outlook for the Fiscal Year ending March 31, 2005 (FY2004)***

Business results for the nine-month period ended Dec 31, 2004 have been moving steadily as forecasted before. Therefore, there is no change in our outlook for the current fiscal year, as mentioned below.

Current outlook	(Millions of yen)		
	Sales	Recurring profit	Net income
FY2004	¥137,000	10,000	5,800

Ref. Net income per share forecast (full-year) 109.18yen\*

\*Based on the resolution of the Board of Directors held on April 27, 2004, NS Solutions split its share into two shares, effective on August 19, 2004. As a result, the number of the issued shares increased to 52,998,517. Above mentioned per share amount was calculated by using the number of shares after the stock split.

(Note) Figures in this material have been rounded.

**The above statements were prepared, based on the materials available as of the release date. Actual results may vary from the outlook figures by various factors in the future.**

**NS SOLUTIONS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

As of Dec. 31, 2003, Mar. 31, 2004 and Dec. 31, 2004

	Millions of yen			Thousands of U.S. dollars ( Note 3 )
	Dec. 31, 2003	Mar. 31, 2004	Dec. 31, 2004	Dec. 31, 2004
<b>Assets</b>				
<b>Current assets</b>				
Cash and bank deposits	¥13,277	¥14,605	¥11,465	\$110,019
Deposited money	8,791	12,914	6,673	64,036
Trade notes and accounts receivable	18,225	37,462	18,186	174,515
Inventories	17,097	7,035	15,817	151,781
Deferred tax assets-current	2,573	2,859	2,827	27,125
Others	917	682	713	6,840
Allowance for doubtful accounts	(15)	(30)	(13)	(124)
<b>Total current assets</b>	<b>60,865</b>	<b>75,527</b>	<b>55,668</b>	<b>534,192</b>
Property and equipment ( Note 2(10) )	4,970	5,009	4,556	43,717
Intangible fixed assets	906	982	843	8,094
<b>Investments and other assets</b>				
Long term loan-related party			12,000	115,152
Others	9,232	9,107	9,591	92,036
<b>Total assets</b>	<b>¥75,973</b>	<b>¥90,625</b>	<b>¥82,658</b>	<b>\$793,191</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Trade notes and accounts payable	9,477	17,232	10,121	97,118
Accrued expenses	3,834	4,732	2,386	22,899
Accrued income taxes	1,001	3,060	843	8,092
Accrued bonuses to employees	2,928	5,520	2,903	27,859
Others	5,183	4,362	7,056	67,702
<b>Total current liabilities</b>	<b>22,423</b>	<b>34,906</b>	<b>23,309</b>	<b>223,670</b>
Allowance for employees' retirement benefits	6,033	6,042	6,533	62,695
Other long-term liabilities ( Note 7 )	294	298	350	3,360
Minority interest in consolidated subsidiaries	1,096	1,234	1,236	11,861
<b>Shareholders' equity</b>				
Common stock	12,953	12,953	12,953	124,295
Additional paid-in capital	9,950	9,950	9,950	95,484
Retained earnings	23,312	25,586	28,172	270,336
Reserve for revaluation of land	(755)	(757)	(757)	(7,267)
Valuation gain on available-for-sale securities and others	670	417	917	8,809
Foreign currency translation adjustment	(3)	(4)	(3)	(33)
Treasury stock	(0)	(0)	(2)	(19)
<b>Total shareholders' equity</b>	<b>46,127</b>	<b>48,145</b>	<b>51,230</b>	<b>491,605</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>¥75,973</b>	<b>¥90,625</b>	<b>¥82,658</b>	<b>\$793,191</b>

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

**NS SOLUTIONS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
For the Nine Months Ended Dec. 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars ( Note 3 )
	2003	2004	2004
<b>Net sales</b>	¥93,106	¥92,998	\$892,406
<b>Cost of sales</b>	74,522	74,183	711,854
<b>Gross profit</b>	18,584	18,815	180,552
<b>Selling, general and administrative expenses (Note 5,6)</b>	13,256	12,716	122,025
<b>Operating income</b>	5,328	6,099	58,527
<b>Other income (expenses)</b>	320	142	1,361
<b>Income before income taxes and minority interest</b>	5,648	6,241	59,888
<b>Income Taxes</b>	2,525	2,668	25,605
<b>Income before minority interest</b>	3,123	3,573	34,283
<b>Minority interest</b>	(73)	(46)	(441)
<b>Net income</b>	¥3,050	¥3,527	\$33,842

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

**NS SOLUTIONS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Nine Months Ended Dec. 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars ( Note 3 )
	2003	2004	2004
<b>Cash flows from operating activities;</b>			
Income before income taxes			
Adjustments to reconcile income before income taxes to net cash provided by operating activities	¥5,648	¥6,241	\$59,888
Depreciation	840	981	9,414
Decrease in allowance for doubtful accounts	(2,190)	(2,617)	(25,111)
Increase in allowance for employees' retirement benefits, net of payments	555	491	4,715
Decrease (increase) in accounts receivable	20,055	19,275	184,968
Decrease (increase) in inventories	(7,987)	(8,782)	(84,272)
Increase (decrease) in accounts payable	(14,001)	(7,112)	(68,244)
Others, net	454	781	7,482
Sub total	3,374	9,258	88,840
Income taxes paid	(4,701)	(5,173)	(49,638)
Others, net	27	43	415
Net cash provided by operating activities	(1,300)	4,128	39,617
<b>Cash flow from investing activities;</b>			
Payments for purchase of property and equipment and intangible fixed assets	(1,345)	(790)	(7,581)
Payments for long term loan-related party		(12,000)	(115,152)
Others, net	108	253	2,429
Net cash used for investing activities	(1,237)	(12,537)	(120,304)
<b>Cash flows from financing activities;</b>			
Payments for purchase of treasury stock	(0)	(2)	(16)
Dividends paid	(994)	(927)	(8,900)
Dividends paid to minority shareholders	(52)	(44)	(425)
Net cash provided by (used for) financing activities	(1,046)	(973)	(9,341)
Effect of exchange rate changes on cash and cash equivalents	(3)	1	11
Net increase in cash and cash equivalents	(3,586)	(9,381)	(90,017)
<b>Cash and cash equivalents at beginning of period</b>	<b>25,654</b>	<b>27,519</b>	<b>264,072</b>
<b>Cash and cash equivalents at end of period</b>	<b>¥22,068</b>	<b>¥18,138</b>	<b>\$174,055</b>

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

**NS SOLUTIONS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. 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 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.

**2. Summary of Significant Accounting Policies**

**(1) Principles of consolidation**

The consolidated financial statements for the fiscal year ended March 31, 2004 and the nine-month period ended December 31, 2003 and 2004 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 Nishinohon Corporation
- NS Solutions Oita Corporation
- Nittetsu Hitachi Systems Engineering, Inc.
- NCI Systems Integration, Inc.
- NS Solutions Software (Shanghai) Co., Ltd.

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

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## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Solutions USA Corporation are not significant to the Company's consolidated financial statements.

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 and the nine-month period ending September 30, which differ from those of the Company. The company incorporated this subsidiary's accounts for the three-month period ended September 30, 2004 into these unaudited condensed consolidated financial statements for the three-month period ended December 31, 2004. Any material transactions occurring in the period, April 1 to December 31 are adjusted for in these unaudited condensed consolidated financial statements.

### (2) Investments in affiliates

The Company's investments in three significant affiliates were accounted for using the equity method for the nine-month period ended December 31, 2003 and 2004 and the fiscal year ended March 31, 2004 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 these affiliates are not significant to the Company's consolidated financial statements.

Other affiliates are as follows:

<u>December 31, 2003</u>	<u>March 31, 2004 and December 31, 2004</u>
Japan Maintenance and Operation Service Co. Ltd.	Japan Maintenance and Operation Service Co. Ltd.
iTrust Inc.	

### (3) 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

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## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

### **(4) 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 condition and results of operations.

### **(5) 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

### **(6) 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.

### **(7) Property and equipment**

Property and equipment is recorded at cost, net of accumulated depreciation of ¥4,759 million and ¥5,494 million (\$52,724 thousand) at December 31, 2003 and 2004 and ¥4,838 million at March 31, 2004, 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.

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

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### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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.

#### **(9) 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 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.

#### **(10) 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 respective period-ends, based on their service for the fiscal year and the nine-month period ended on the relevant balance sheet date.

#### **(11) 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.

#### **(12) Net income per share**

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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 statement of income, and the computation of net income per share be made on that adjusted net income basis. Since no convertible bonds or warrants were issued and outstanding, there was no dilutive effect on net income per share during these periods.

The average number of shares used in the computation was 26,500 thousand and 52,999 thousand for the nine-month period ended December 31, 2003 and 2004, 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 nine-month period ended December 31, 2004.

Assuming that the above stock split had occurred at the beginning of the fiscal year ended March 31, 2004, for the nine-month period ended December 31, 2003 and for the fiscal year ended March 31, 2004, each of the net income per share would be ¥57.55 and ¥ 100.20, respectively.

**3. U.S. Dollar Amounts**

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥104.21=U.S. \$1, the effective rate of exchange prevailing at December 31, 2004, 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. Leases**

Leased assets, and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the leased assets, are accounted for using a method similar to that used for regular operating leases. Finance lease charges of the Companies were ¥847 million and ¥600 million (\$5,762 thousand) for the nine-month period ended December 31, 2003 and 2004 and ¥1,225 million for the fiscal year ended March 31, 2004, 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

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## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

the nine-month period ended December 31, 2003 and 2004 and the fiscal year ended March 31, 2004:

December 31, 2003	Millions of yen		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment .....	¥ 98	¥ 49	¥ 49
Tools, furniture and fixtures .....	4,944	3,686	1,258
Software .....	1,338	1,031	307
<b>Total .....</b>	<b>¥6,380</b>	<b>¥4,766</b>	<b>¥1,614</b>

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

December 31, 2004	Millions of yen		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment .....	¥ 98	¥ 71	¥ 28
Tools, furniture and fixtures .....	3,293	2,474	819
Software .....	953	705	248
<b>Total .....</b>	<b>¥4,344</b>	<b>¥3,250</b>	<b>¥1,095</b>

December 31, 2004	Thousands of U.S. dollars (Note 4)		
	Acquisition	Accumulated	Net balance
	Cost	Depreciation	
Machinery and equipment .....	\$ 944	\$ 677	\$ 267
Tools, furniture and fixtures .....	31,599	23,739	7,860
Software .....	9,147	6,765	2,382
<b>Total .....</b>	<b>\$41,690</b>	<b>\$31,181</b>	<b>\$10,509</b>

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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	Millions of Yen			Thousands of U.S. dollars (Note 4)
	December	March	December	December
	31, 2003	31, 2004	31, 2004	31, 2004
Depreciation expense .....	¥809	¥1,159	¥559	\$5,361
Interest expense .....	34	50	23	217

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 December 31, 2003 and 2004 and March 31, 2004 are as follows:

	Millions of Yen			Thousands of U.S. dollars (Note 4)
	December	March	December	December
	31, 2003	31, 2004	31, 2004	31, 2004
Within one year .....	¥862	¥817	¥525	\$ 5,037
Over one year.....	866	915	629	6,034
Total.....	¥1,728	¥1,732	¥1,154	\$11,071

Future operating lease payments under non-cancelable lease contracts at December 31, 2003 and 2004 and March 31, 2004 are as follows;

	Millions of Yen			Thousands of U.S. dollars (Note 4)
	December 31,	March	December	December
	2003	31, 2004	31, 2004	31, 2004
Within one year .....	¥3	¥2	¥2	\$20
Over one year.....	5	4	3	26
Total.....	¥8	¥6	¥5	\$46

**NS SOLUTIONS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**5. Selling, General and Administrative Expenses**

The main components of selling, general and administrative expenses for the nine-month period ended December 31, 2003 and 2004 are as follows:

December 31	Millions of Yen		Thousands of U.S. dollars (Note 4)
	2003	2004	2004
Payroll and bonuses.....	¥5,603	¥5,181	\$49,715
Allowance for employees' retirement benefits .....	256	198	1,903
Allowance for directors' retirement benefits .....	42	53	504
Depreciation expense.....	150	116	1,110
Operating expense for acceptance of orders.....	2,123	2,037	19,544

**6. Research and Development Costs**

Research and development costs charged to income for the nine-month period ended December 31, 2003 and 2004 were ¥687 million and ¥686 million (\$6,585 thousand), respectively.

**7. 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 ¥65 million and ¥37 million (\$354 thousand) at December 31, 2003 and 2004, and ¥58 million at March 31, 2004, respectively, each of which are Guarantees for bank loans of the Hokkaido High Information Technology Center Co., Ltd.