The financial results have been translated from the Japanese Consolidated Financial Statements for reference purposes only. In the event of any discrepancy between the Japanese version and the English translation, the Japanese version will prevail.

Consolidated Financial Results for Fiscal 2019 (April 1, 2019 - March 31, 2020) [under Japanese GAAP]

April 28, 2020

Company name: NS Solutions Corporation
Stock exchange listing: Tokyo Stock Exchange
Code number: 2327
URL: https://www.nssol.nipponsteel.com
Representative: Hiroyuki Morita, Representative Director & President
Contact: Hideki Komatsu, Director, Accounting & Finance Department
Phone: +81-3-6899-6720
Scheduled date of Annual General Meeting of Shareholders: June 19, 2020
Scheduled date of commencing dividend payments: June 5, 2020
Scheduled date of filing annual securities report: June 22, 2020
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual financial results briefing session: Scheduled (for analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for Fiscal 2019 (April 1, 2019 to March 31, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2019	274,843	7.7	28,387	11.8	28,275	9.5	18,552	11.0
FY2018	255,116	10.5	25,385	16.2	25,812	15.9	16,713	18.5

(Note) Comprehensive income: FY2019: 15,214 million yen [(26.5)%]
FY2018: 20,712 million yen [5.2%]

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
	Yen	Yen	%	%	%
FY2019	202.76	-	12.8	11.9	10.3
FY2018	178.44	-	12.1	11.4	10.0

(Reference) Share of profit (loss) of entities accounted for using equity method: FY2019: 41 million yen
FY2018: (16) million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2019	240,448	155,392	62.2	1,633.31
FY2018	232,779	145,901	60.3	1,534.94

(Reference) Equity: FY2019: 149,448 million yen
FY2018: 140,448 million yen

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(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2019	19,366	(2,975)	(6,796)	58,036
FY2018	19,690	(1,624)	(16,255)	48,436

2. Dividends

	Annual dividends					Total dividends	Dividend payout ratio (consolidated)	Dividends to net assets ratio (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2018	-	27.50	-	27.50	55.00	5,102	30.8	3.7
FY2019	-	32.50	-	32.50	65.00	5,947	32.1	4.1
FY2020 (Forecast)	-	32.50	-					

(Reference) The Company has not determined a year-end dividend distribution plan for fiscal 2020. The dividend distribution plan will be disclosed when it becomes available.

3. Consolidated Financial Results Forecast for Fiscal 2020 (April 1, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	127,500	(6.8)	12,700	(10.5)	13,000	(8.4)	8,300	(4.9)	90.71

(Reference) The earnings forecasts for fiscal 2020 are not presented because the outlook has not been determined due to difficulty formulating reasonably accurate estimates at this time because of the worldwide spread of COVID-19.

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*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation):None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: Yes
4) Retrospective restatement: None

(3) Total number of issued shares (common stock)
1) Total number of issued shares at the end of the period (including treasury shares):
FY2019: 94,704,740 shares
FY2018: 94,704,740 shares

2) Total number of treasury shares at the end of the period:
FY2019: 3,204,329 shares
FY2018: 3,204,145 shares

3) Average number of shares during the period:
FY2019: 91,500,502 shares
FY2018: 93,663,790 shares

* This consolidated financial results report is exempt from the audit procedures.

* Explanation of the proper use of financial results forecast and other notes
The forecasts stated above are based on information available as of the date of publication of this document. Actual results may differ from these forecasts due to a wide range of factors hereafter.

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Consolidated Financial Statements

Consolidated Balance Sheets

(Milions of yen)

	March 31, 2019	March 31, 2020
Assets		
Current assets		
Cash and deposits	3,256	4,459
Deposits paid	45,384	53,794
Notes and accounts receivable - trade	57,181	62,513
Work in process	29,674	26,834
Raw materials and supplies	10	15
Short-term loans receivable from subsidiaries and associates	12,000	12,000
Other	1,993	3,290
Allowance for doubtful accounts	(23)	(25)
Total current assets	149,478	162,882
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,494	8,227
Tools, furniture and fixtures, net	6,836	6,912
Land	2,543	2,543
Leased assets, net	1,757	2,478
Construction in progress	286	1,280
Other	1	0
Total property, plant and equipment	18,921	21,442
Intangible assets		
Software	1,686	1,706
Goodwill	3,854	3,389
Other	792	1,276
Total intangible assets	6,333	6,372
Investments and other assets		
Investment securities	45,554	39,168
Deferred tax assets	3,544	4,033
Guarantee deposits	6,751	6,259
Other	2,244	338
Allowance for doubtful accounts	(46)	(48)
Total investments and other assets	58,047	49,750
Total non-current assets	83,301	77,565
Total assets	232,779	240,448

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Consolidated Balance Sheets

(Milions of yen)

	March 31, 2019	March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,029	17,693
Lease obligations	1,044	1,862
Accounts payable - other	11,345	12,310
Income taxes payable	5,329	5,225
Advances received	20,597	18,741
Provision for bonuses	8,973	9,527
Provision for loss on order received	1,445	999
Allowance for program product warranty	209	217
Provision for loss on business withdrawal	—	27
Provision for surcharge	—	90
Other	653	1,405
Total current liabilities	68,629	68,100
Non-current liabilities		
Lease obligations	1,586	2,153
Provision for directors' retirement benefits	130	129
Provision for loss on business withdrawal	—	225
Retirement benefit liability	9,724	9,860
Deferred tax liabilities	2,746	1,568
Other	4,061	3,019
Total non-current liabilities	18,249	16,955
Total liabilities	86,878	85,055
Net assets		
Shareholders' equity		
Share capital	12,952	12,952
Capital surplus	9,950	9,950
Retained earnings	103,842	116,904
Treasury shares	(10,026)	(10,026)
Total shareholders' equity	116,719	129,780
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	23,672	19,571
Foreign currency translation adjustment	56	95
Total accumulated other comprehensive income	23,728	19,667
Non-controlling interests	5,452	5,944
Total net assets	145,901	155,392
Total liabilities and net assets	232,779	240,448

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Consolidated Statements of Income

(Milions of yen)

	FY2018	FY2019
Net sales	255,116	274,843
Cost of sales	202,820	218,244
Gross profit	52,295	56,598
Selling, general and administrative expenses	26,910	28,210
Operating profit	25,385	28,387
Non-operating income		
Interest income	159	179
Dividend income	409	398
Share of profit of entities accounted for using equity method	―	41
Other	73	133
Total non-operating income	641	753
Non-operating expenses		
Interest expenses	9	9
Share of loss of entities accounted for using equity method	16	―
Loss on retirement of non-current assets	74	31
Foreign exchange losses	15	39
Provision for loss on business withdrawal	―	250
Special investigation expenses, etc.	―	366
Other	98	168
Total non-operating expenses	214	865
Ordinary profit	25,812	28,275
Extraordinary income		
Gain on sales of investment securities	1,041	2,386
Total extraordinary income	1,041	2,386
Extraordinary losses		
Retirement benefit expenses	―	1,039
Loss on termination of retirement benefit plan	―	85
Office transfer cost	1,038	871
Total extraordinary losses	1,038	1,997
Profit before income taxes	25,815	28,663
Income taxes - current	8,820	9,243
Income taxes - deferred	(344)	142
Total income taxes	8,475	9,386
Profit	17,339	19,277
Profit attributable to non-controlling interests	625	725
Profit attributable to owners of parent	16,713	18,552

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Consolidated Statements of Comprehensive Income

(Milions of yen)

	FY2018	FY2019
Profit	17,339	19,277
Other comprehensive income		
Valuation difference on available-for-sale securities	3,468	(4,101)
Foreign currency translation adjustment	(96)	38
Total other comprehensive income	3,372	(4,062)
Comprehensive income	20,712	15,214
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	20,091	14,490
Comprehensive income attributable to non-controlling interests	620	724

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Consolidated Statements of Changes in Net Assets

FY2018 (Milions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,952	9,950	92,082	(25)	114,960
Changes of items during period					
Dividends of surplus			(4,953)		(4,953)
Profit attributable to owners of parent			16,713		16,713
Purchase of treasury shares				(10,001)	(10,001)
Disposal of treasury shares		(0)		0	0
Transfer to capital surplus from retained earnings		0	(0)		—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	11,760	(10,000)	1,759
Balance at end of current period	12,952	9,950	103,842	(10,026)	116,719

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	20,203	147	20,351	5,055	140,366
Changes of items during period					
Dividends of surplus					(4,953)
Profit attributable to owners of parent					16,713
Purchase of treasury shares					(10,001)
Disposal of treasury shares					0
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity	3,468	(91)	3,377	397	3,775
Total changes of items during period	3,468	(91)	3,377	397	5,534
Balance at end of current period	23,672	56	23,728	5,452	145,901

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Consolidated Statements of Changes in Net Assets

FY2019 (Milions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,952	9,950	103,842	(10,026)	116,719
Changes of items during period					
Dividends of surplus			(5,490)		(5,490)
Profit attributable to owners of parent			18,552		18,552
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					—
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	13,062	(0)	13,061
Balance at end of current period	12,952	9,950	116,904	(10,026)	129,780

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	23,672	56	23,728	5,452	145,901
Changes of items during period					
Dividends of surplus					(5,490)
Profit attributable to owners of parent					18,552
Purchase of treasury shares					(0)
Disposal of treasury shares					—
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity	(4,101)	39	(4,061)	491	(3,570)
Total changes of items during period	(4,101)	39	(4,061)	491	9,491
Balance at end of current period	19,571	95	19,667	5,944	155,392

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Consolidated Statement of Cash Flows

(Milions of yen)

	FY2018	FY2019
Cash flows from operating activities		
Profit before income taxes	25,815	28,663
Depreciation	4,858	5,205
Amortization of goodwill	465	465
Increase (decrease) in allowance for doubtful accounts	0	4
Increase (decrease) in provision for bonuses	488	554
Increase (decrease) in retirement benefit liability	1,183	135
Increase (decrease) in provision for directors' retirement benefits	(11)	(1)
Increase (decrease) in provision for loss on order received	1,329	(446)
Increase (decrease) in provision for loss on business withdrawal	(121)	252
Increase (decrease) in other provisions	(8)	98
Interest and dividend income	(568)	(578)
Interest expenses	9	9
Loss (gain) on sales of investment securities	(1,041)	(2,386)
Share of loss (profit) of entities accounted for using equity method	16	(41)
Loss on retirement of non-current assets	74	31
Decrease (increase) in trade receivables	(7,706)	(5,318)
Decrease (increase) in inventories	(5,419)	2,824
Decrease (increase) in other current assets	(44)	(530)
Increase (decrease) in trade payables	1,599	(1,326)
Increase (decrease) in other current liabilities	5,004	(63)
Other, net	370	665
Subtotal	26,295	28,218
Interest and dividends received	569	578
Interest paid	(9)	(8)
Income taxes paid	(7,165)	(9,421)
Net cash provided by (used in) operating activities	19,690	19,366
Cash flows from investing activities		
Proceeds from redemption of securities	2,000	—
Purchase of property, plant and equipment and intangible assets	(2,612)	(5,577)
Purchase of investment securities	(2,030)	(1,652)
Proceeds from sales of investment securities	1,156	2,558
Proceeds from redemption of investment securities	—	2,000
Payments of guarantee deposits	(149)	(309)
Proceeds from refund of guarantee deposits	61	29
Other, net	(50)	(23)
Net cash provided by (used in) investing activities	(1,624)	(2,975)
Cash flows from financing activities		
Purchase of treasury shares	(10,001)	(0)
Dividends paid	(4,953)	(5,490)
Dividends paid to non-controlling interests	(222)	(232)
Repayments of lease obligations	(1,078)	(1,072)
Other, net	0	—
Net cash provided by (used in) financing activities	(16,255)	(6,796)
Effect of exchange rate change on cash and cash equivalents	(56)	4
Net increase (decrease) in cash and cash equivalents	1,753	9,599
Cash and cash equivalents at beginning of period	46,682	48,436
Cash and cash equivalents at end of period	48,436	58,036

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(Note)

Transactions of which the Company is unable to verify the actual existence

During the tax examination process that was conducted on NS Solutions Corporation (the "Company") in mid-November of 2019, questions arose with respect to the actual existence of certain of the Company's recorded purchase and resale of goods transactions. Due to this situation, the Company established a Special Investigation Committee and investigated this matter. As a result, transactions of which the actual existence cannot be verified have been ascertained. Therefore, the Company has cancelled such transactions, and has recorded the deposits and withdrawals related thereto as temporary receipts of 46,404 million yen and temporary payments of 44,753 million yen, respectively, and has also recorded the net amount of 1,650 million yen as other non-current liabilities.

In addition to the above, there were matters in relation to which orders were received and/or issued but not yet processed. In connection with such matters, Mizuho-Toshiba Leasing Company, Limited ("MTL") has made a demand against the Company for payment of 10,926 million yen. The Company has also been informed of a lawsuit filed by MTL against the Company on March 31, 2020. The complaint has not yet been received, and the Company will review it when it is received.

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