Financial Information for the Fiscal Year ended March 31, 2020

(April 1, 2019 through March 31, 2020)

NS Solutions

NIPPON STEEL

April 28, 2020

NS Solutions Corporation

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FORWARD-LOOKING STATEMENTS

This document includes statements of forward-looking descriptions regarding the intent, belief or current expectations of NS Solutions Corporation (the “Company”) or its officers in terms of its operation and financial condition.

Accordingly, such statements contain risks and uncertainties since they are neither historical facts nor guarantees of future performance. Actual results may be varied and influenced by various factors. The Company does not undertake to revise such forward-looking descriptions to reflect those factors.

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Ⅰ. Consolidated Financial Results for FY 2019

Ⅱ. Outlook for FY 2020

Ⅲ. Action Plans

Ⅳ. Measures to prevent recurrence

Ⅴ. Appendix

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I

Consolidated Financial Results for FY 2019

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Ⅰ - 1 . Highlights of Consolidated Financial Results

(¥ in billions)

FY 2019 (April 1, 2019- March 31, 2020)		YoY change	Difference with Company Estimate
Sales	**274.8**	**+19.7**	**+0.8**
Operating Profit	**28.4**	**+3.0**	**−0.0**
Net Profit	**18.6**	**+1.8**	**+0.3**

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I -2. Consolidated Financial Results

(¥ in billions)	FY 2018 A	FY 2019 B	Difference B-A	FY 2019 Company Estimate C	Difference with Company Estimate B-C
Sales	255.1	274.8	+19.7	274.0	+0.8
Business solutions	165.5	180.1	+14.6	179.5	+0.6
Service solutions	89.6	94.8	+5.1	94.5	+0.3
Gross Profit	52.3	56.6	+4.3	56.8	-0.2
<Gross Profit Margin>	<20.5%>	<20.6%>	<+0.1%>	<20.7%>	<-0.1%>
SG&A	26.9	28.2	+1.3	28.4	-0.2
Operating Profit	25.4	28.4	+3.0	28.4	-0.0
Recurring Profit	25.8	28.3	+2.5	28.5	-0.2
Profit attributable to owners of parent	16.7	18.6	+1.8	18.3	+0.3

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I -3. Semiannual Consolidated Results

(¥ in billions)	FY 2018		FY 2019		Difference	
	1H A	2H B	1H C	2H D	1H C−A	2H D−B
Sales	118.3	136.8	136.8	138.1	+18.5	+1.2
Business Solutions	75.0	90.5	89.8	90.3	+14.8	−0.2
Service Solutions	43.3	46.4	47.0	47.8	+3.7	+1.4
Gross Profit	24.6	27.7	28.5	28.1	+3.9	+0.4
<Gross profit margin>	<20.8%>	<20.3%>	<20.8%>	<20.3%>	<+0.1%>	<+0.1%>
SG&A	13.6	13.3	14.3	13.9	+0.7	+0.6
Operating Profit	11.0	14.4	14.2	14.2	+3.2	−0.2
Recurring Profit	11.2	14.6	14.2	14.1	+3.0	−0.5
Profit attributable to owners of parent	6.9	9.9	8.7	9.8	+1.9	−0.0
Nippon Steel Sales	(24.6)	(26.4)	(27.3)	(28.7)	(+2.7)	(+2.3)

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I -4. Sales by Service and Segment（1H/2H)

(¥ in billions)	FY 2018 1H A	FY 2018 2H B	FY 2019 1H C	FY 2019 2H D	Difference 1H C-A	Difference 2H D-B	2H company estimate E	Difference with 2H company estimate D-E
Business Solutions	61.4	74.9	75.1	73.5	+13.7	-1.5	73.9	-0.4
Manufacturing, Retail and Service	32.2	33.7	42.3	34.6	+10.1	+0.8	35.2	-0.6
Financial Services	14.3	16.5	15.8	15.1	+1.5	-1.4	15.7	-0.6
Government, Public organizations and Others	14.9	24.7	17.0	23.8	+2.1	-0.9	23.0	0.8
Service Solutions	41.1	43.7	43.9	45.9	+2.8	+2.3	44.6	1.3
IT Platform	15.8	17.4	16.6	17.4	+0.8	+0.0	18.4	-1.0
Nippon Steel Group	25.3	26.2	27.3	28.5	+2.0	+2.3	26.2	2.3
Subsidiaries	15.8	18.2	17.7	18.7	+2.0	+0.4	18.8	-0.1
Total	118.3	136.8	136.8	138.1	+18.5	+1.2	137.2	0.8
Nippon Steel Sales	(24.6)	(26.4)	(27.3)	(28.7)	(+2.7)	(+2.3)	(25.7)	(+3.0)
Total Order	126.8	144.3	136.0	132.3	+9.3	-12.1	-	-

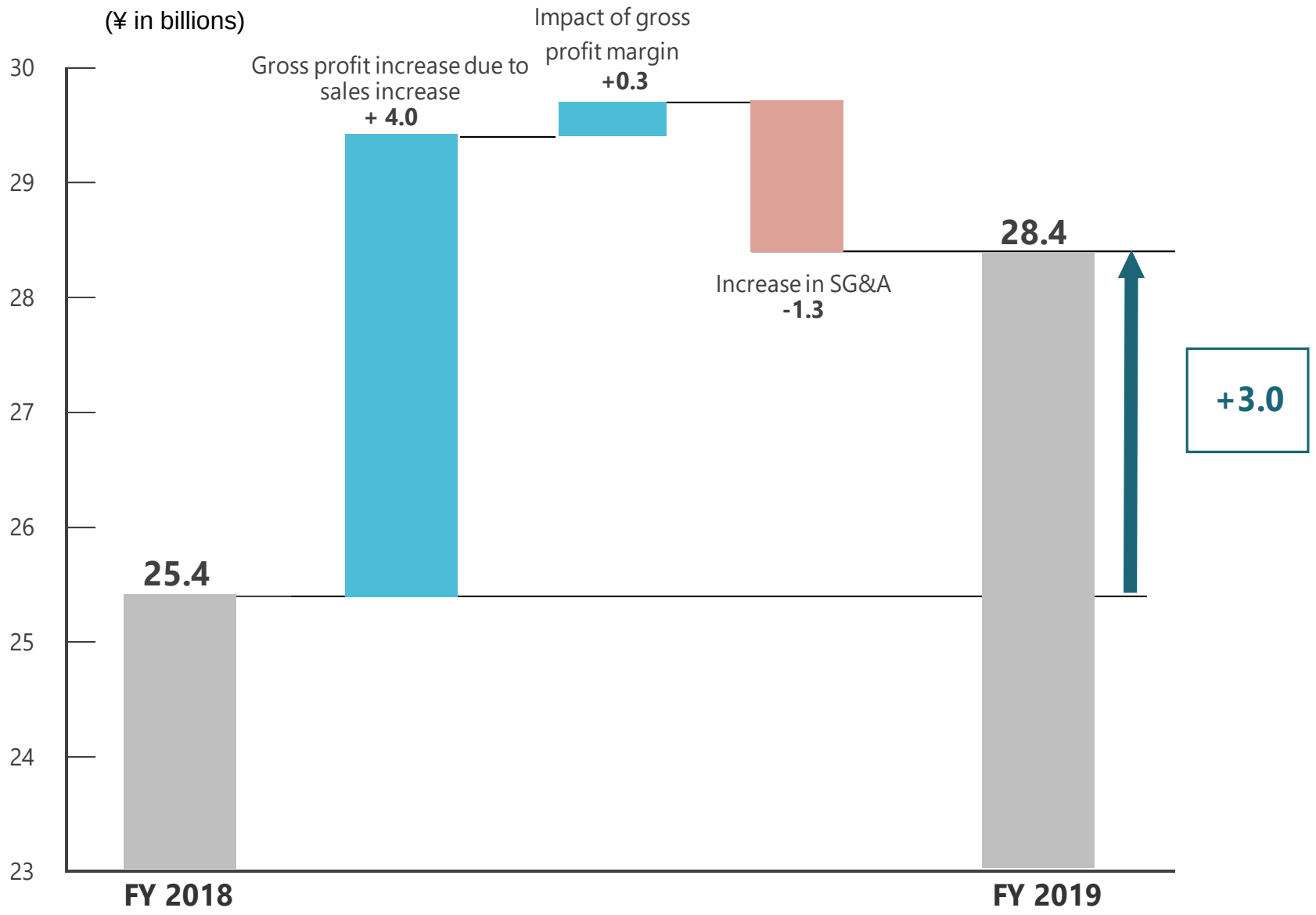
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I -5. Sales by Service and Segment（FY2019）

(¥ in billions)	FY 2018 A	FY 2018 IT platform	FY 2019 B	FY 2019 IT platform	Difference B-A	Difference IT platform	Comments
Business Solutions	136.4	33.3	148.6	43.8	+12.2	+10.5	
Manufacturing, Retail and Service	66.0	21.1	76.9	28.1	+10.9	+7.0	Sales increase in transportation, manufacturing, travel related business, retail and large platform project.
Financial Services	30.8	8.0	30.9	10.1	+0.1	+2.1	Increase in product sales
Government, Public organizations	39.6	4.3	40.8	5.6	+1.2	+1.4	Received orders for the government sector projects
Service Solutions	84.7		89.8		+5.1		
IT Platform	33.2	<33.3>	34.0	<43.8>	+0.9	<+10.5>	Sales increase in multi cloud services and DaaS/VDI
Nippon Steel Group	51.6		55.8		+4.2		Increase in Nippon Steel IT investment
Subsidiaries	34.0		36.4		+2.4		
Total	255.1		274.8		+19.7		
Nippon Steel Sales	(51.0)		(56.0)		(+4.9)		

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I -6. FY 2019 Operating Profit Breakdown



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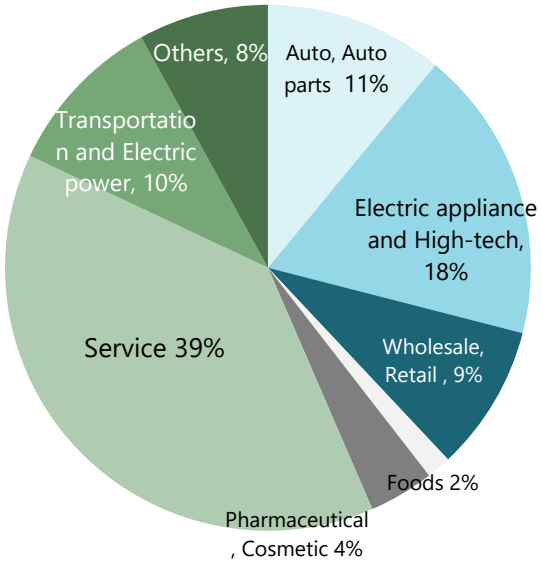
I -7. Breakdown of Sales (Manufacturing, Retail and Service)

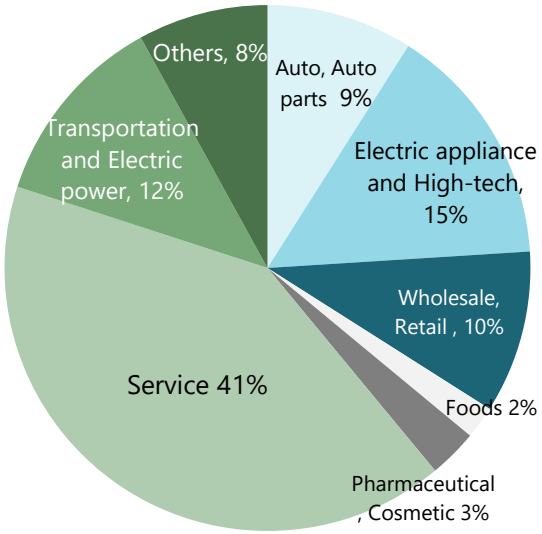
FY 2017～FY 2019

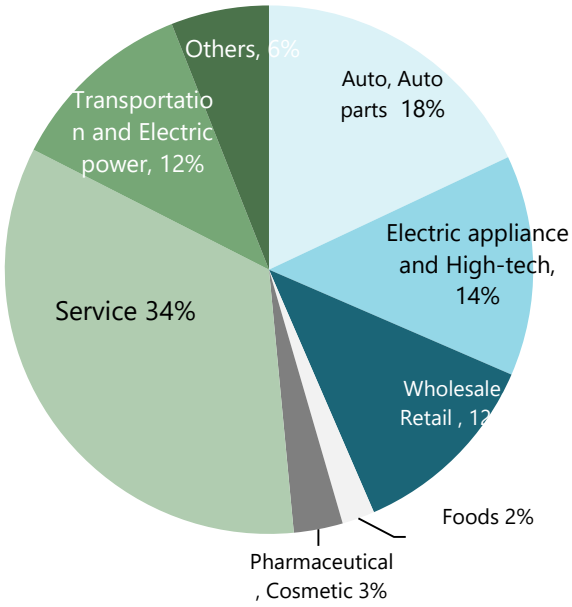
FY 2017
58.8 Billions of yen

FY 2018
66.0 Billions of yen

FY 2019
76.9 Billions of yen







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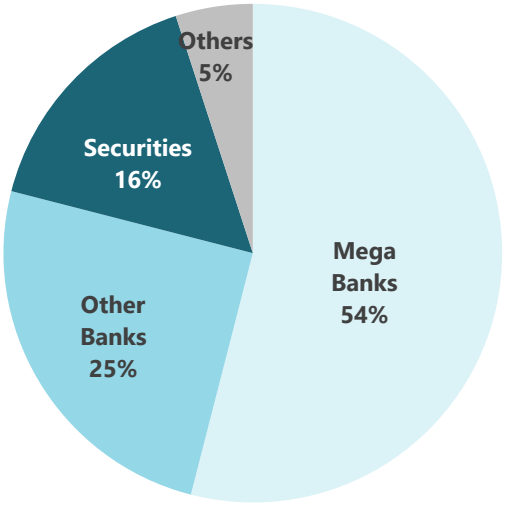
Ⅰ-8. Breakdown of Sales (Financial Services)

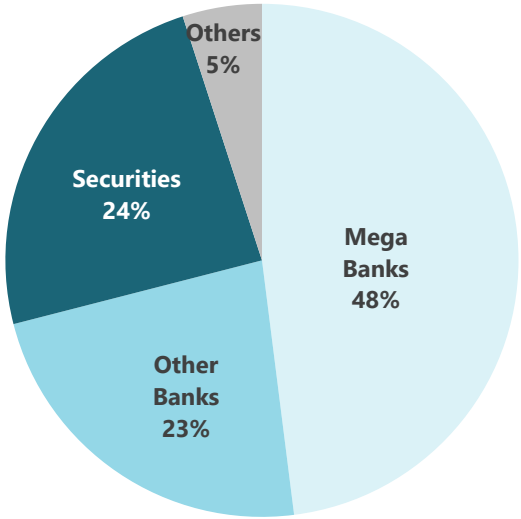
FY 2017～FY 2019

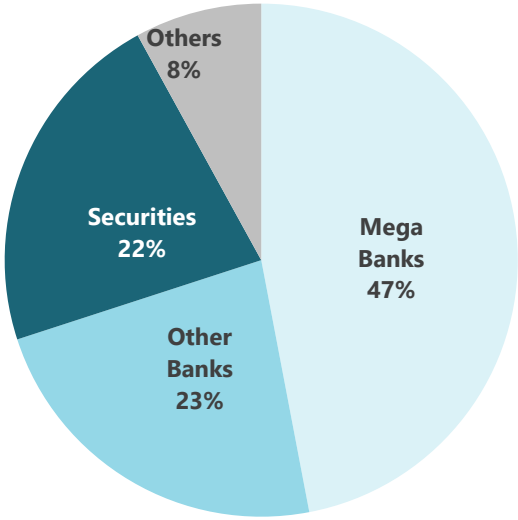
FY 2017
33.5 Billions of yen

FY 2018
30.8 Billions of yen

FY 2019
30.9 Billions of yen







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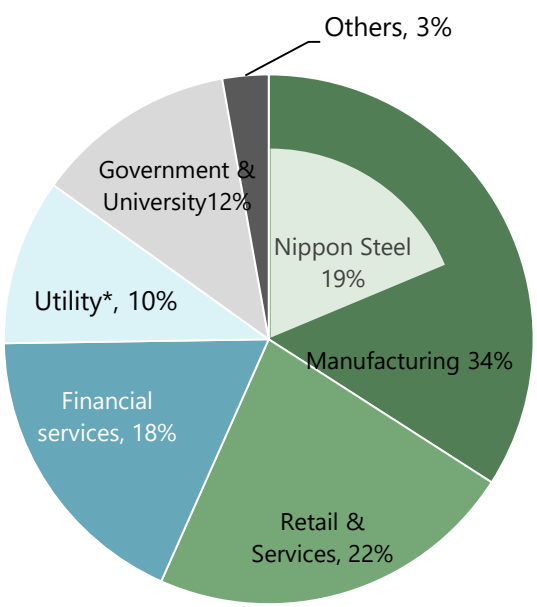
I -9. Sales Breakdown by Industry Segment

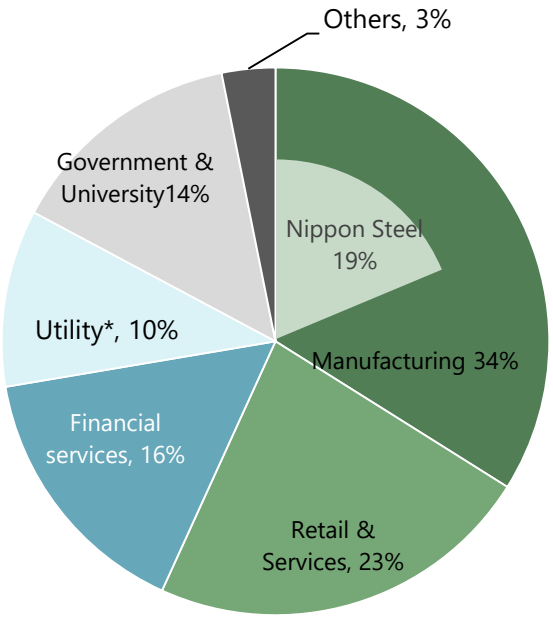
FY 2017～FY 2019

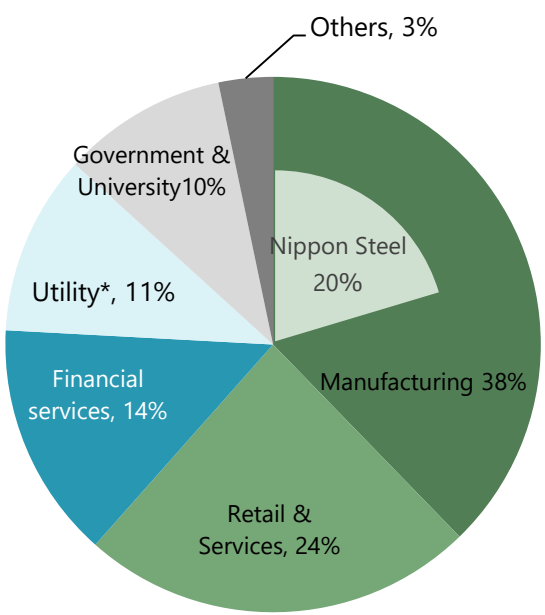
FY 2017
230.9 Billions of yen

FY 2018
255.1 Billions of yen

FY 2019
274.8 Billions of yen







*Utility : Transportation, Telecom and Electric Power

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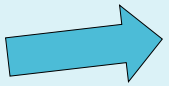
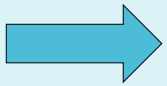
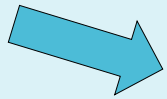
Ⅱ Outlook for FY 2020

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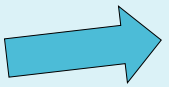
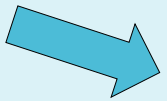
Ⅱ-１． Current Business Conditions

Market Trend

Business Solutions

Manufacturing, Retail and Service	Steady IT investment continues in Internet services and transportation due to the DX promotion	
Financial Services	Based on their mid-term growth strategies, Megabanks maintain IT investments, but there is a tendency of cost control.	
Government, Public organizations and others	The number of projects running in this sector will decrease. We will focus on activities for receiving orders.	

Service Solutions

IT Platform	IT needs are steady for multi cloud, It outsourcing and promotion of teleworking	
Nippon Steel Group	Nippon Steel's IT investment tends to be restrained, but we are required for supporting restructuring of steelworks and digital transformation	

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Ⅱ-２． Outlook for 1H of FY2020

(¥ in billions)	FY 2019 1H A	FY 2020 1H Compnay Estimate B	Difference B-A
Sales	136.8	127.5	-9.3
Business solutions	89.8	81.5	-8.3
Service solutions	47.0	46.0	-1.0
Gross Profit	28.5	27.6	-0.9
<Gross Profit Margin>	<20.8%>	<21.6%>	<+0.8%>
SG&A	14.3	14.9	+0.6
Operating Profit	14.2	12.7	-1.5
Recurring Profit	14.2	13.0	-1.2
Profit attributable to owners of parent	8.7	8.3	-0.4

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Ⅱ - 3 . Outlook for 1H of FY 2020

Sales Outlook by Segment / Customer Industry

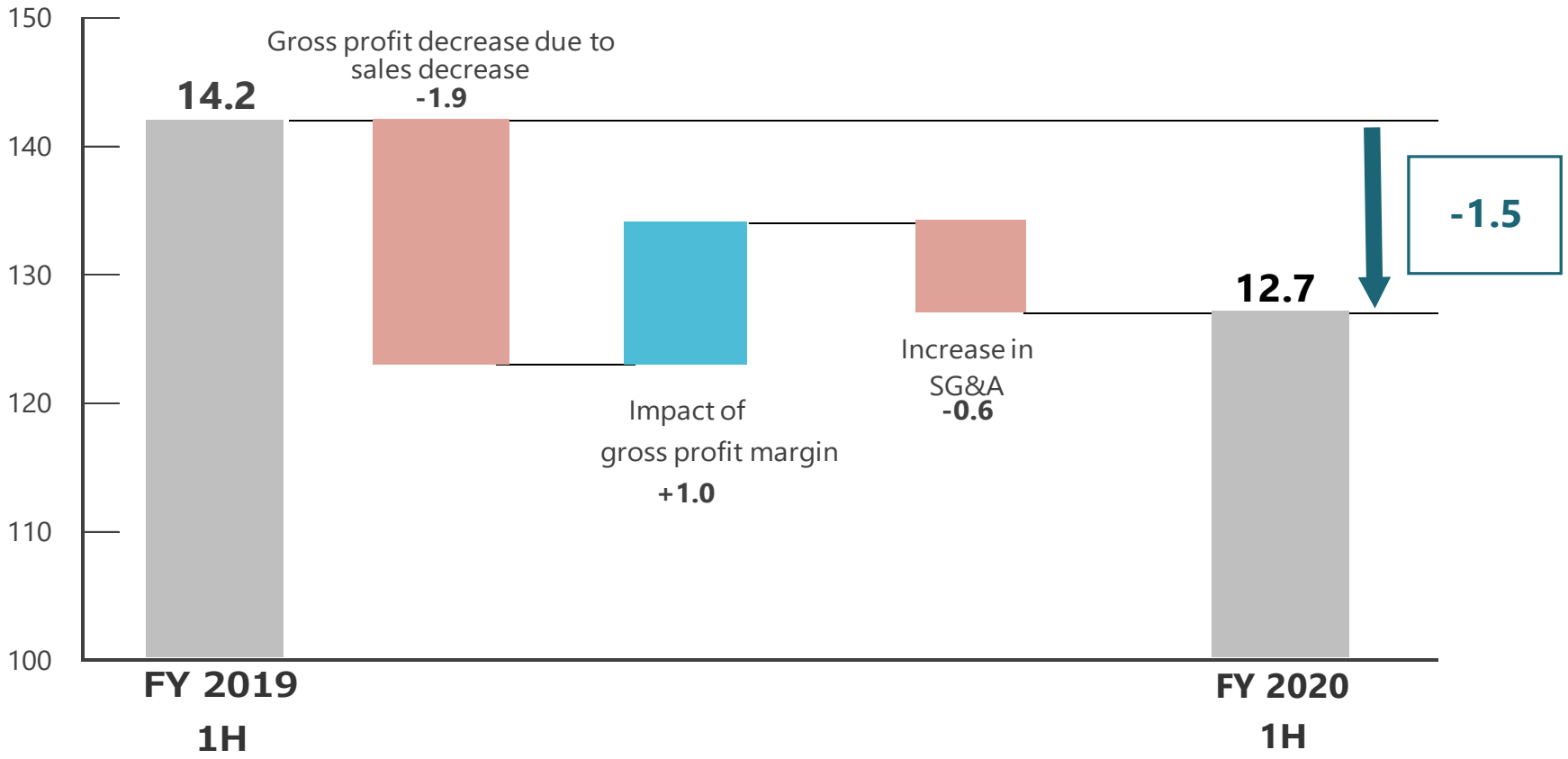
(¥ in billions)	FY 2019 1H Actual A	IT platform	FY 2020 1H Company Estimate B	IT platform	Difference B-A	IT platform	Comment
Business Solutions	75.1	26.2	66.5	16.5	-8.6	-9.7	
Manufacturing, Retail and Service	42.3	18.3	35.5	12.0	-6.8	-6.3	Decrease due to large platform project of last year
Financial Services	15.8	5.3	15.0	3.0	-0.8	-2.3	
Government, Public organizations	17.0	2.7	16.0	1.5	-1.0	-1.2	
Service Solutions	43.9		44.0		+0.1		
IT Platform	16.6	<26.2>	18.5	<16.5>	+1.9	<-9.7>	Sales increase in multi cloud services and DaaS.
Nippon Steel Group	27.3		25.5		-1.8		
Subsidiaries	17.7		17.0		-0.7		
Total	136.8		127.5		-9.3		
Nippon Steel Sales	(27.3)		(25.0)		(-2.3)		
Order backlog at the beginning of the period	133.4		126.9		-6.5		

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Ⅱ-4. 1H of FY2020 Operating Profit Outlook Breakdown

YOY

(¥ in billions)



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Ⅱ－5. Shareholders Return Policy

The management believes it is important for the company to maintain and increase its competitiveness and to continue to enhance the company's enterprise value in the long run.

Our basic policy with respect to profit sharing is to secure fair and stable shareholder returns, while also retaining earnings that are sufficient to grow the Company's business.

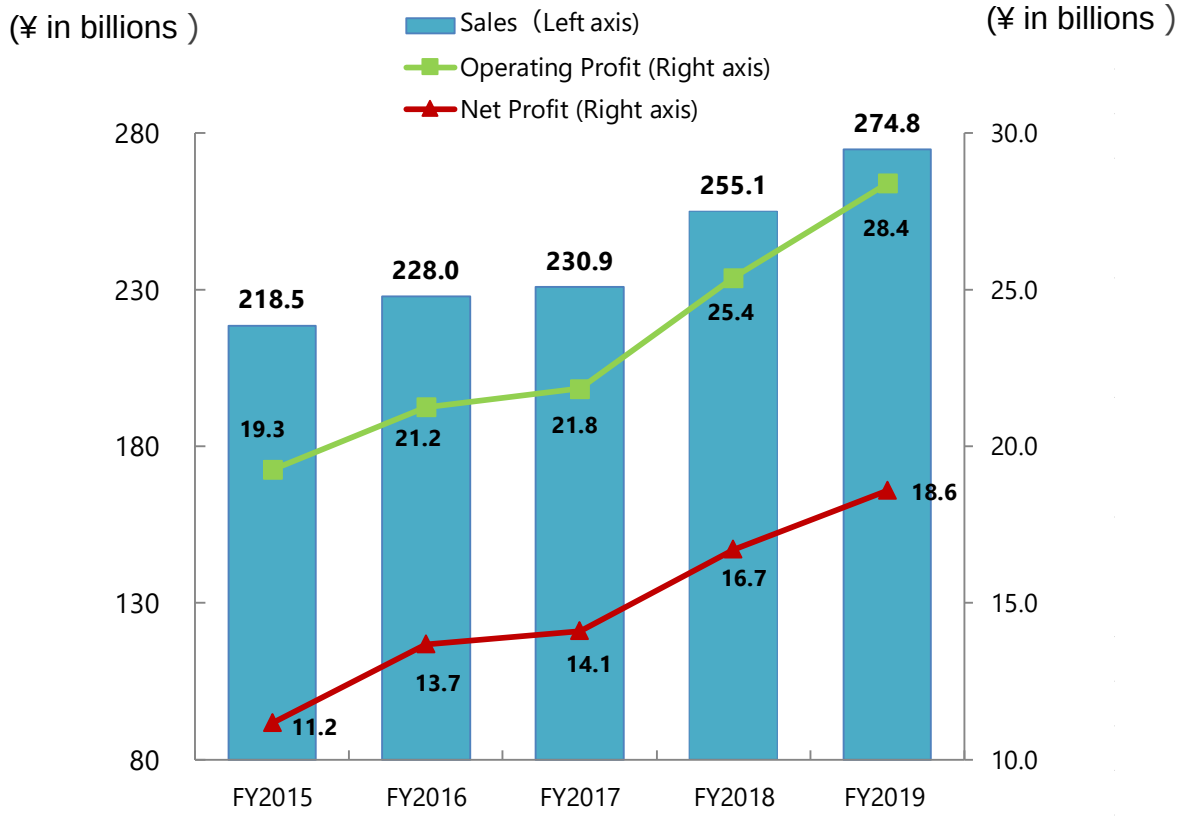
We consider it important to return to shareholders profits that are in line with the company's consolidated results. We aim for a consolidated dividend payout ratio of 30%.

Plan for FY 2020 1H Dividend

FY 2020 1H	(Reference) FY 2019 2H
32.5 yen	32.5 yen

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Ⅱ-Reference　Major KPI Trends



Operating Profit (Right axis)	8.8	9.3	9.5	10.0	10.3
ROE(%)	11.5	12.4	11.0	12.1	12.8
ROA(%)	11.3	11.6	10.6	11.4	11.9
Shareholder's equity ratio	57.3	60.5	61.0	60.3	62.2
Diveden (yen)	42.5	45.0	50.0	55.0	65.0
Payout ratio (%)	35.4	30.7	33.6	30.8	32.1

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III

Action Plans

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Ⅲ. Major Actions for FY 2020

Prompt operation in response to environmental changes

1. Promote DX business

- Business model
- Specific actions
- Nippon Steel business

2. Creating a highly engaged organization

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Ⅲ-1. Sustainable Structural Growth : Business Model Transition①

Expanding Area

Relationship with clients

NSSOL4.0 : Digital Innovation Model (IoX/AI)

Smart Factory

Smart Product

NSSOL2.0 : IT Partnership Model

Outsourcing

- NSFITOS : DC/absonne/ITO center
- Service business : M³DaaS・SaaS・BPO（CAD maintenance）

Insourcing

- Send IT staff to clients/Personnel exchange
- Scrum development/PPP(*1)business model
- Consultation

NSSOL1.0 : Conventional SI Model

- Phased approach :

Plan → Design → Develop-ment → Test → Maintenance / Operation

- Developing environment : TetraLink ,SLC standard, developing framework
- Developing organization: parent-subsidiary collaboration (domestic/offshore out-sourcing), with partner companies
- Quality and risk management : QMO(*2) /PMO(*3) organization

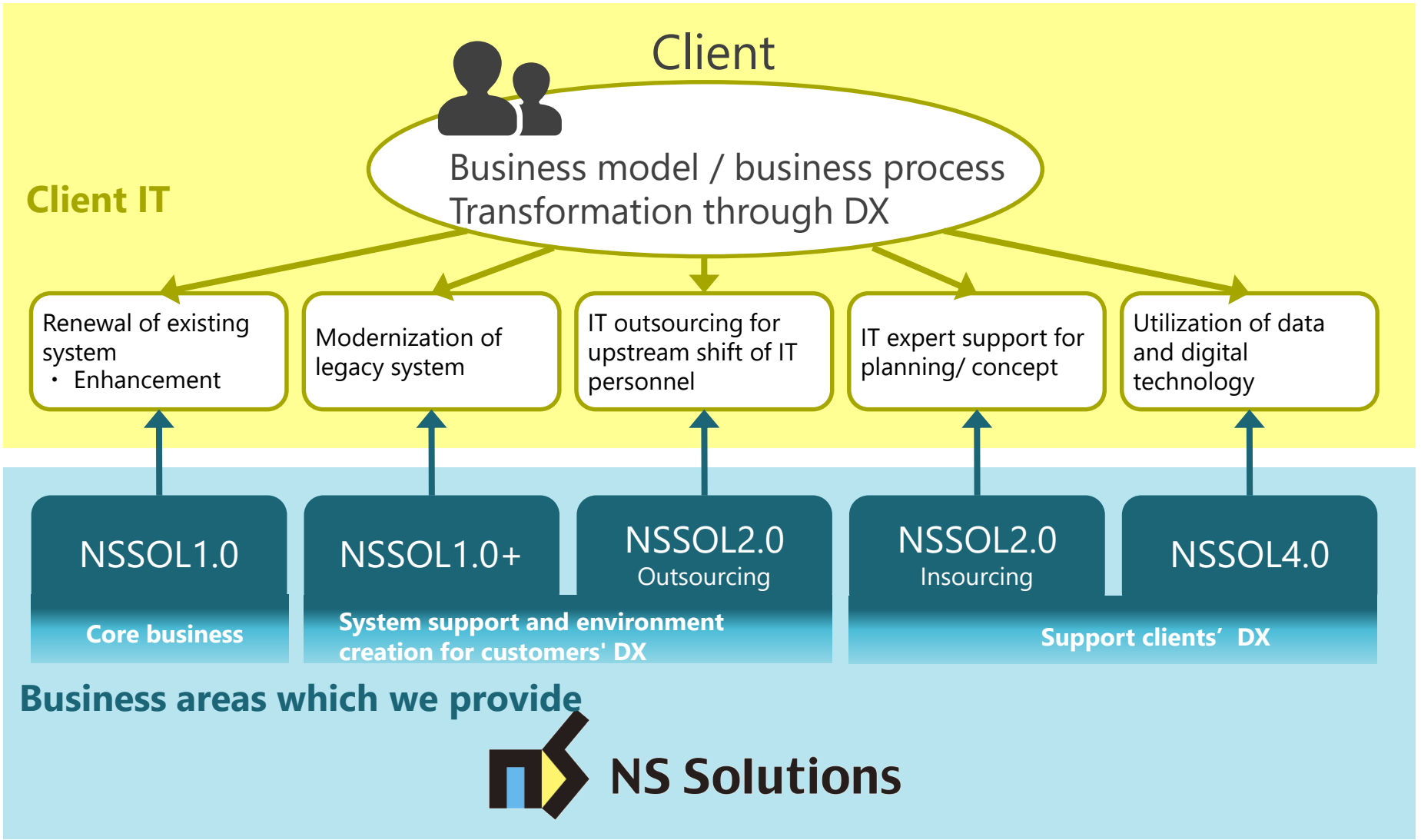
*1:PPP:Pay Per Performance

*2:QMO:Quality Management Office

*3:PMO:Project Management Office

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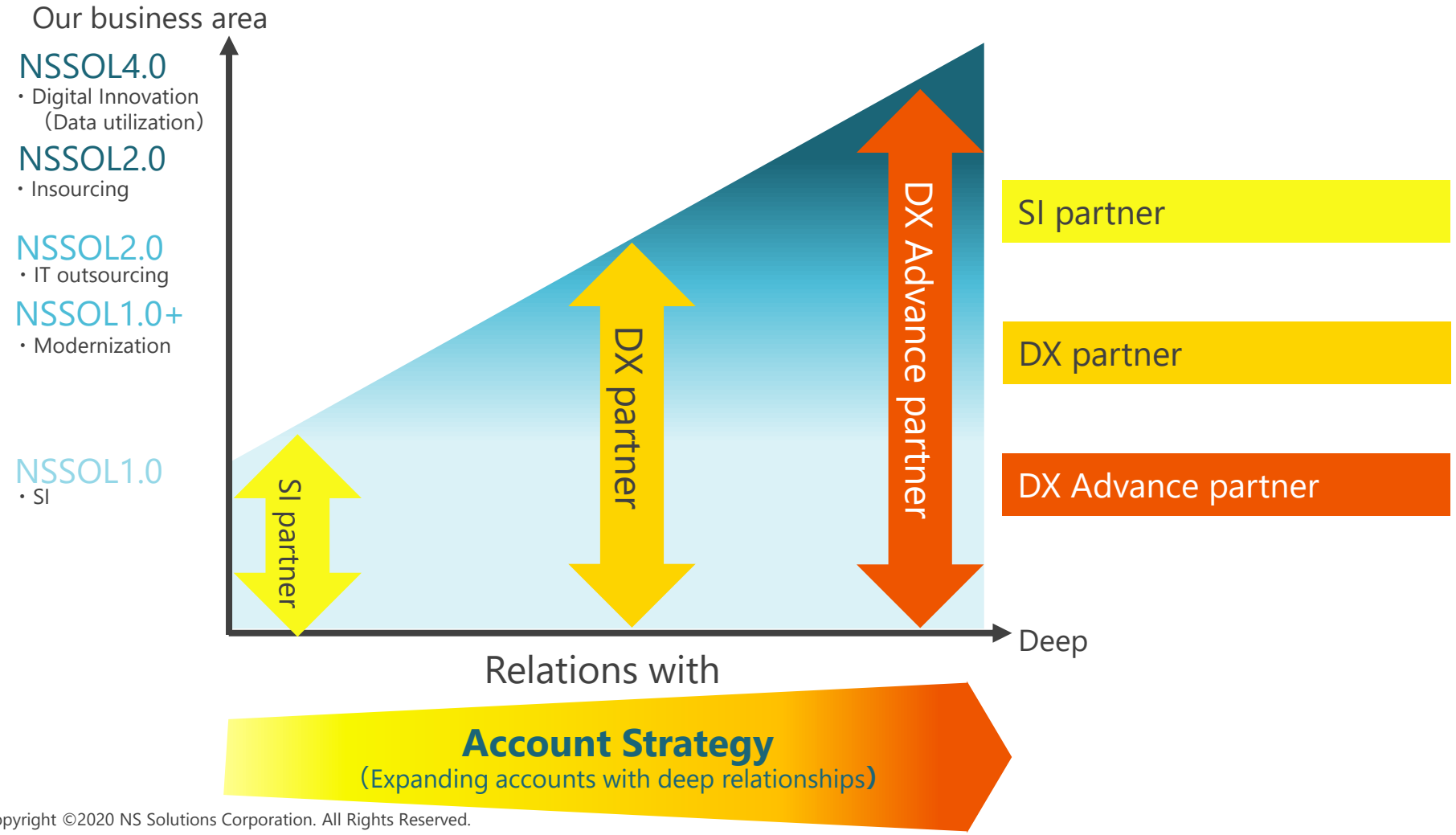
Ⅲ-1 Positioning of business model in promoting DX



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Ⅲ-1. Account strategy by promoting DX

Ensuring of companies which is moving towards DX and becoming a partner in a wide range of fields, in addition to the core business of NSSOL 1.0, and deepening relationships with customers

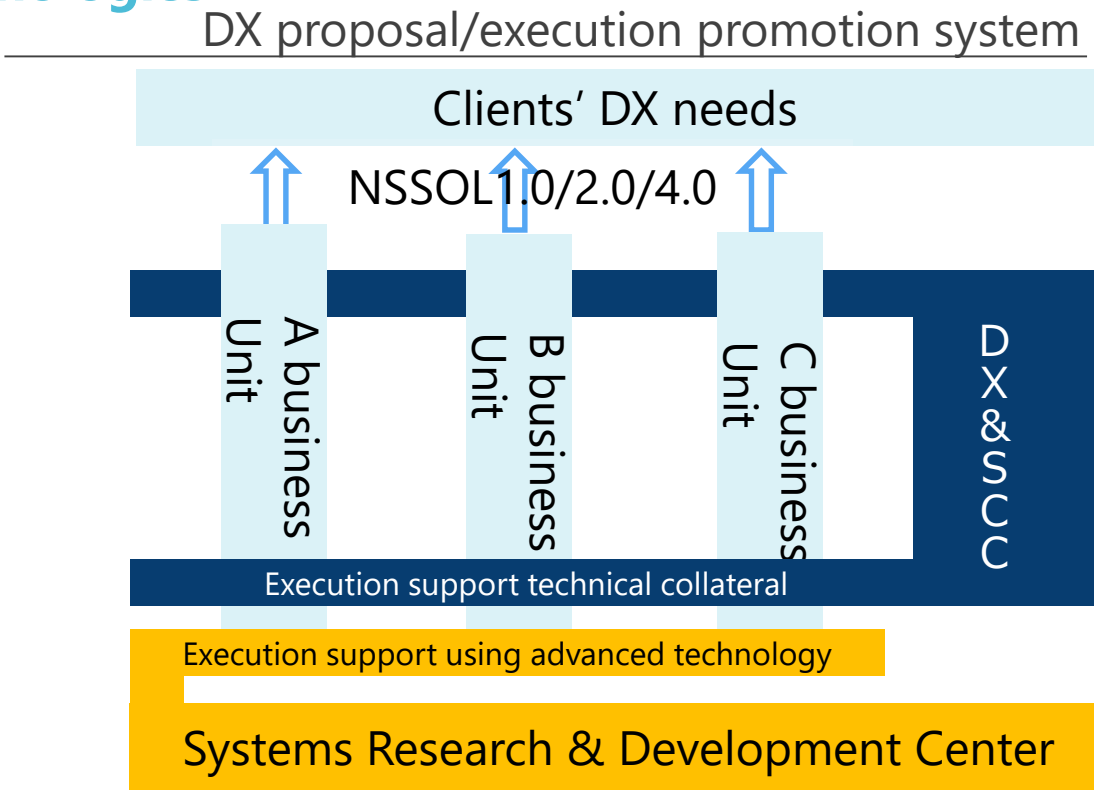


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Ⅲ-1. Organization for promoting DX｜DX&SCC

Aggregate in-house DX personnel and establish a system to promote DX with customers

- **Strengthen support for department's proposal and execution for the DX business**
- **Develop DX human resources and accumulate DX-related technologies**



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Ⅲ-1. Actions① | Digital business

DataRobot

- AI automated platform that sells globally
- Easily create predictive models

2016

June :First domestic Sier to sign an agency contract

September : Officially introduced to domestic customers

2018

April : **Establish a DX department**

May : Award DataRobot *Partner of the Year*

Japan's No. 1 introduction record: more than 90 companies

Award Partner of the Year 3 consecutive years

2020 March: Strategic Business Alliance

Topics

AI Democratization	Business Use	Added Value
Launch supplying AI success program	Utilized Data Robot System development accelerated	Inverse solver Expanded collaborative solutions such as feature extraction for the manufacturing industry

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Ⅲ-1. Actions ② | Cloud Service

Enables multi-cloud connectivity with AWS, Azure and Oracle Cloud

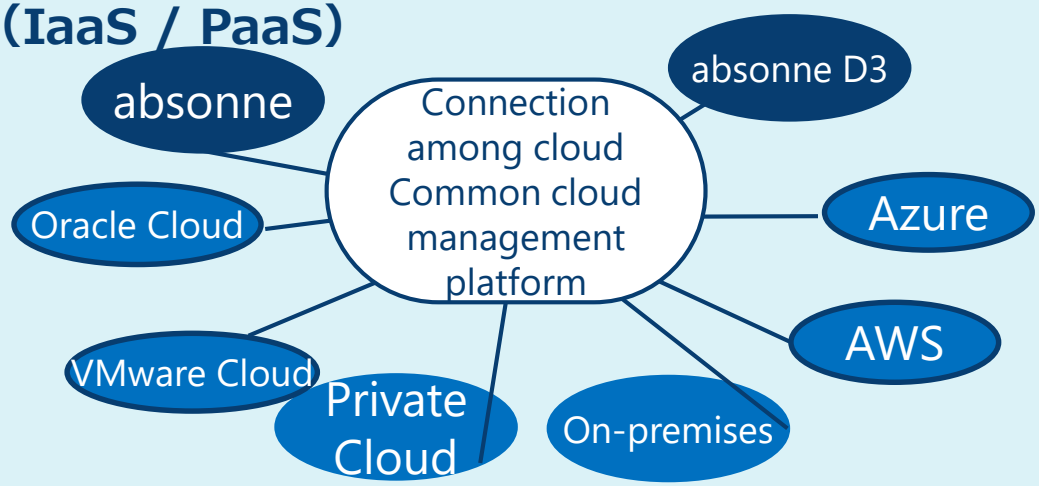
- **Promote comprehensive outsourcing NSF ITOS for IT infrastructure**

Consulting

Design Multi cloud environment

System development

Managed cloud (IaaS / PaaS)



Engineering

Integrated operation service: emerald

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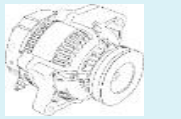
Ⅲ-1. Actions ③ | Local 5G service

Promote local 5G solutions to realize on-site DX

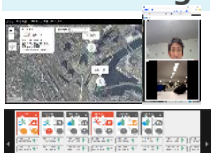
- Started study at Nippon Steel's Muroran Works
- Provide "Nokia Digital Automation Cloud" in collaboration with NOKIA

Equipment monitoring

Anomaly detection



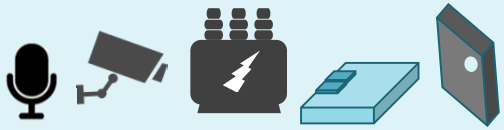
Safety monitoring



Equipment preventive maintenance



Anomaly information detection of electrical equipment



Reading instrument



Danger area intrusion detecting



Safety monitoring



Central control room

Collect and information via se all kinds of company owned wireless network (5G/LTE)



Location

Work navigation

Work navigation (Instruction・Record・Improvement)



Register accidents, Alert



Monitoring environment

Monitoring moving objects



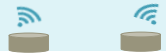
Corrosion detection



Drainage monitoring



Environmental data sensing

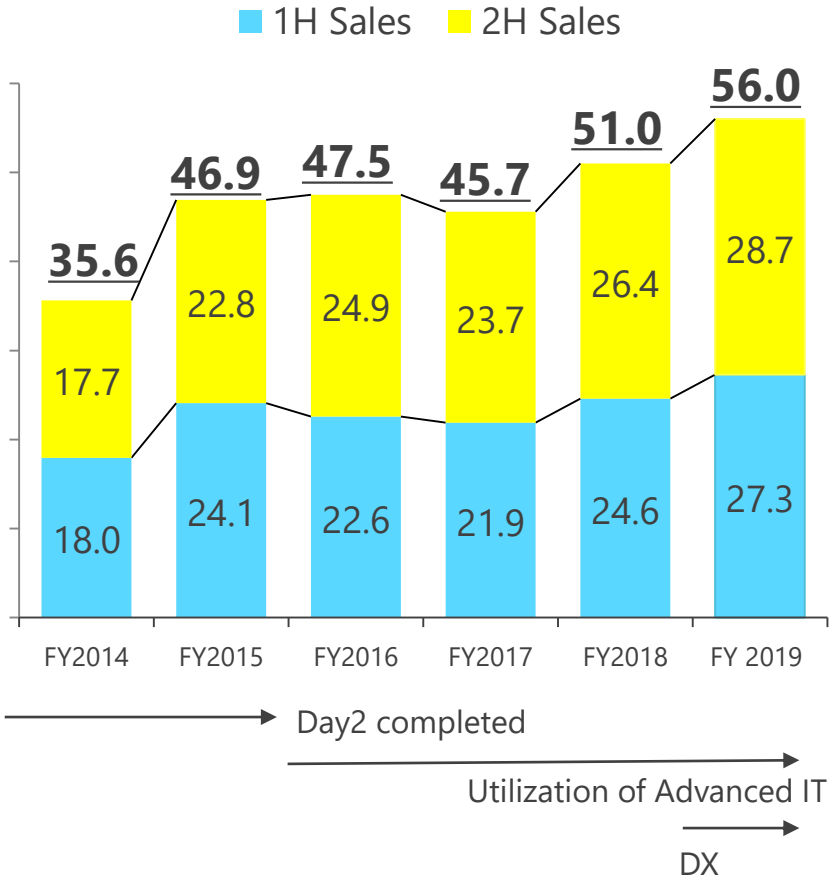


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Ⅲ-1. Sustainable Structural Growth：Nippon Steel Business

1. Nippon Steel Sales Trend

(¥ in billions)



2. Actions

・Integration of Nisshin Steel and Nippon Steel- April 1, 2020

・Transfer of business and employees of NI Information System to the NSSOL Group – Scheduled for April 2020

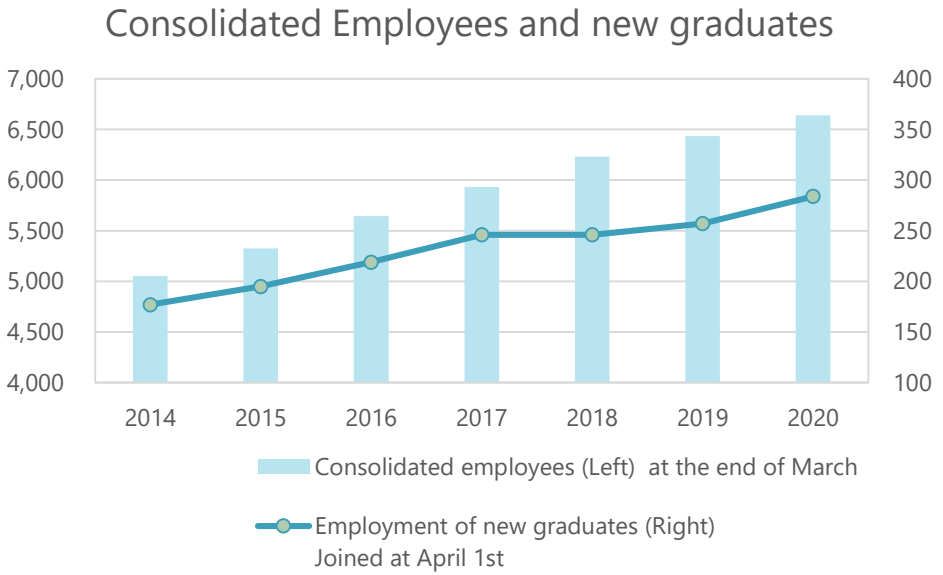
・Integration / reorganization of steel works

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Ⅲ-2. Creating a highly engaged organization

◆ Company worth for work

- Innovation open challenge (company-wide open recruitment system)
- Development of training platform
- New office in Toranomon (May 2020)



◆ Work place with safety

- Promote work style reform
- Promotion of diversity
- Improvement of feedback, etc.
  Enhance communication

◆ Utilization of TetraLink

Modern development environment platform

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Ⅲ. Our Vision



Build deep relationships with customers, support their IT systems, and
Talking about the future for the development of DX in the customer business,
Challenge and accompany to realize it

「1st DX Partner」

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Ⅳ Measures to prevent recurrence

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Ⅳ. Measures to prevent recurrence

1. Strengthening risk management

- Strengthen initiatives to realize self-disciplined and continuous risk management
- Implement measures to improve compliance awareness and risk sensitivity

2. Review of business operation processes

- Strengthen risk management in the process of purchase and resale of goods
- Clarification of prohibition of non value-added product sales
- Review the process of purchase and resale of goods

3. Improve monitoring

- Strengthen monitoring in the process of purchase and resale of goods

4. Education and training to sales representatives

- Business rules for sales representatives should be common understanding
- Improve their risk sensitivity

5. Review sales personnel assignments and rotations

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Ⅳ. Execution of measures to prevent recurrence

1. Strengthening risk management

- Grasp current condition, extract issues and complete formulation of action plan.
- Under consideration of risk identification and promotion system, etc. toward the start of operations in the first half of FY2020

2. Review of business operation processes

- Measures for strengthening risk management in purchase and resale of goods has started since April 2020
- New rule which confirms actual existence of goods has been applied since the end of March 2020

3. Improve monitoring

- Monitoring of operation is running for confirming the existence of goods.
- Measures for strengthening monitoring of actual existence of inventories has started since April 2020.

4. Education and training to sales representatives

- Preparing to start execution of training in the first half of FY2020

5. Review sales personnel assignments and rotations

- Under consideration for starting operation in the first half of FY2020

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Ⅳ Appendix

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Ⅳ. ESG Initiative

NSSOL is making efforts in various business activities in terms of ESG (environment, society, governance) aimed at the creation of a plentiful society based on the company's corporate philosophy.

Furthermore, the company is also actively promote on the Sustainable Development Goals (SDGs) led by the UN and will contribute to the realization of a sustainable society as a member of global society.

	Operation policy	Examples for activities during FY 2019	Major SDGs
E Environment	- Conservation of the global environment through IT	- Reductions in environmental impacts based on optimization solutions in the industrial operations for production and transportation - Contributions to the monitoring and forecasting of climate change through the operation of the Himawari weather satellites	
	- Promotion of activities to reduce environmental impacts	- Provision of cloud services by highly energy-efficient data centers - Promotion of activities to save resources such as electrical power and paper.	

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	Operation policy	Examples for activities during FY 2019	Major SDGs
S Society	- Resolution of social issues through IT	- Expand lineup of safe workplaces based on IoX solutions - Contributing to telework by providing a virtual desktop environment	
	- Co-existence with society and the community, Realization of rewarding workplaces	- Promotion of work-style reform and female participation - Development of high level IT human resources (NSSOL Academy) - Educational support for next-generation (endowed courses for universities) - Programming classes at elementary schools (K3Tunnel) - Support for cultural, artistic and sporting activities	
G Governance	- Provision of high quality IT solutions and IT services	- Provision of robust and efficient IT services (NSFITOS) - Organizational expansion of project risk management and quality management	
	- Strengthening of corporate governance and compliance	- Securement of diversity on the Board of Directors and Board of Auditors - Thorough implementation of “Global Code of Business Conduct,” the NSSOL Group code of conduct - Expansion of the help line by Compliance Promotion Department	

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