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 the First Quarter of Fiscal 2020 (April 1, 2020 - June 30, 2020) [under Japanese GAAP]

July 30, 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: +81-3-6899-6000
Scheduled date of filing quarterly securities report: August 7, 2020
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for analysts)

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

1. Consolidated Financial Results for the First Quarter of Fiscal 2020 (April 1, 2020 to June 30, 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	%
FY2020 1Q	56,644	(17.4)	5,102	(26.1)	5,389	(24.7)	3,116	(24.0)
FY2019 1Q	68,573	23.8	6,905	37.6	7,153	38.6	4,101	42.8

(Note) Comprehensive income: FY2020 1Q: 9,329 million yen [20.5%]
FY2019 1Q: 7,744 million yen [20.5%]

	Net income per share	Diluted net income per share
	Yen	Yen
FY2020 1Q	34.06	-
FY2019 1Q	44.83	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
FY2020 1Q	247,346	161,484	63.0
FY2019	240,448	155,392	62.2

(Reference) Equity: FY2020 1Q: 155,718 million yen
FY2019: 149,448 million yen

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2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2019	-	32.50	-	32.50	65.00
FY2020	-				
FY2020(Forecast)		25.00	-		

(Notes1) Revision to the forecast for dividends announced most recently: Yes

(Notes2) 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	120,000	(12.3)	10,900	(23.2)	11,000	(22.5)	6,900	(20.9)	75.41
Full year	255,000	(7.2)	23,900	(15.8)	24,000	(15.1)	15,500	(16.5)	169.40

(Note) Revision to the financial results forecast announced most recently: Yes

*** Notes:**

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

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) 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: None
4) Retrospective restatement: None

(4) Total number of issued shares (common stock)
1) Total number of issued shares at the end of the period (including treasury shares):
FY2020 1Q : 94,704,740 shares
FY2019: 94,704,740 shares

2) Total number of treasury shares at the end of the period:
FY2020 1Q : 3,204,329 shares
FY2019: 3,204,329 shares

3) Average number of shares during the period:
FY2020 1Q : 91,500,411 shares
FY2019 1Q : 91,500,577 shares

* This quarterly consolidated financial results report is exempt from the audit conducted by certified public accountants or an audit corporation.

* 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, 2020	June 30, 2020
Assets		
Current assets		
Cash and deposits	4,459	3,805
Deposits paid	53,794	63,125
Notes and accounts receivable - trade	62,513	45,097
Work in process	26,834	33,362
Raw materials and supplies	15	12
Short-term loans receivable from subsidiaries and associates	12,000	12,000
Other	3,290	3,628
Allowance for doubtful accounts	(25)	(19)
Total current assets	162,882	161,013
Non-current assets		
Property, plant and equipment	21,442	21,465
Intangible assets		
Goodwill	3,389	3,272
Other	2,983	2,782
Total intangible assets	6,372	6,055
Investments and other assets		
Investment securities	39,168	48,146
Other	10,631	10,714
Allowance for doubtful accounts	(48)	(48)
Total investments and other assets	49,750	58,811
Total non-current assets	77,565	86,333
Total assets	240,448	247,346
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,693	14,084
Income taxes payable	5,225	5,933
Advances received	18,741	24,809
Provision for bonuses	9,527	4,722
Other provisions	1,334	1,219
Other	15,577	15,914
Total current liabilities	68,100	66,683
Non-current liabilities		
Provision for directors' retirement benefits	129	130
Retirement benefit liability	9,860	10,036
Other provisions	225	215
Other	6,741	8,796
Total non-current liabilities	16,955	19,178
Total liabilities	85,055	85,862
Net assets		
Shareholders' equity		
Share capital	12,952	12,952
Capital surplus	9,950	9,950
Retained earnings	116,904	117,047
Treasury shares	(10,026)	(10,026)
Total shareholders' equity	129,780	129,924
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,571	25,845
Foreign currency translation adjustment	95	(50)
Total accumulated other comprehensive income	19,667	25,794
Non-controlling interests	5,944	5,765
Total net assets	155,392	161,484
Total liabilities and net assets	240,448	247,346

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Consolidated Statements of Income

(Milions of yen)

	FY2019 1Q	FY2020 1Q
Net sales	68,573	56,644
Cost of sales	54,284	44,404
Gross profit	14,288	12,239
Selling, general and administrative expenses	7,382	7,136
Operating profit	6,905	5,102
Non-operating income		
Interest income	44	46
Dividend income	209	204
Foreign exchange gains	―	13
Other	26	110
Total non-operating income	279	375
Non-operating expenses		
Interest expenses	2	2
Share of loss of entities accounted for using equity method	3	4
Loss on retirement of non-current assets	1	5
Foreign exchange losses	18	―
Special investigation expenses	―	71
Other	7	4
Total non-operating expenses	31	88
Ordinary profit	7,153	5,389
Extraordinary income		
Gain on sales of investment securities	―	822
Total extraordinary income	―	822
Extraordinary losses		
Office transfer cost	32	910
Total extraordinary losses	32	910
Profit before income taxes	7,121	5,301
Income taxes	2,909	2,095
Profit	4,211	3,205
Profit attributable to non-controlling interests	110	88
Profit attributable to owners of parent	4,101	3,116

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Consolidated Statements of Comprehensive Income

(Milions of yen)

	FY2019 1Q	FY2020 1Q
Profit	4,211	3,205
Other comprehensive income		
Valuation difference on available-for-sale securities	3,492	6,273
Foreign currency translation adjustment	40	△149
Total other comprehensive income	3,532	6,123
Comprehensive income	7,744	9,329
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,632	9,244
Comprehensive income attributable to non-controlling interests	111	85

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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 by the national tax authority 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, a lawsuit was filed against the Company on March 31, 2020. For details, please see Note: "Contingent Liability" in the Quarterly Consolidated Balance Sheets. Depending on the circumstances of these matters going forward, it is possible that these matters will affect the financial condition or business performance of the Company.

Accounting Estimates and COVID-19 Pandemic

The spread of COVID-19 is not expected to end any time soon, and the economic activity level outlook for the current fiscal year is extremely severe. Despite such business environment, the consolidated financial results forecast for the current fiscal year is made with the assumption that the Group will secure orders from customers by focusing on their IT needs, representative of which being their initiatives for "DX, Digital Transformation," and thereby securing the currently planned sales revenue. Accounting estimates are made using the financial results forecast based on the above assumptions. The assumptions used in making accounting estimates involve a high degree of uncertainty and if COVID-19 persists longer than expected or if its effects on the business environment change, the financial condition and operating performance of the Group may be affected.

Contingent Liability

Mizuho-Toshiba Leasing Company, Limited ("Mizuho-Toshiba Leasing") filed a lawsuit against the Company with the Tokyo District Court on March 31, 2020 (the date on which the complaint was served on the Company is June 24, 2020) regarding a claim for a penalty. According to the complaint served, this litigation involves assertions to the effect that a sales agreement ("Sales Agreement") was entered into between Mizuho-Toshiba Leasing and the Company in August 2019 regarding our purchase of servers and peripherals, etc. from it, and that the Company then terminated the Sales Agreement in November 2019, and accordingly, Mizuho-Toshiba Leasing is entitled to claim against the Company for penalty of the amount equivalent to the sales price, the amount of which is 10,926 million yen plus its delay damages.

In the future, the Company will appropriately handle the matter, including demanding dismissal of the claim. This fact may affect the financial condition or business performance of the group. However, as of now, it is difficult to reasonably estimate the amount of such effect, and thus it is not reflected in the Quarterly Consolidated Financial Statements.

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