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 2020 (April 1, 2020 - March 31, 2021) [under Japanese GAAP]

April 28, 2021

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 Annual General Meeting of Shareholders: June 18, 2021
Scheduled date of commencing dividend payments: May 31, 2021
Scheduled date of filing annual securities report: June 21, 2021
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 2020 (April 1, 2020 to March 31, 2021)

(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	251,992	(8.3)	24,549	(13.5)	25,101	(11.2)	16,982	(8.5)
FY2019	274,843	7.7	28,387	11.8	28,275	9.5	18,552	11.0

(Note) Comprehensive income: FY2020: 36,261 million yen [138.3%]
FY2019: 15,214 million yen [(26.5)%]

	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	%	%	%
FY2020	185.60	-	10.3	9.8	9.7
FY2019	202.76	-	12.8	11.9	10.3

(Reference) Share of profit (loss) of entities accounted for using equity method: FY2020: (53) million yen
FY2019: 41 million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2020	272,223	186,128	66.1	1,965.32
FY2019	240,448	155,392	62.2	1,633.31

(Reference) Equity: FY2020: 179,827 million yen
FY2019: 149,448 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
FY2020	17,544	10,414	(7,395)	78,579
FY2019	19,366	(2,975)	(6,796)	58,036

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	%	%
FY2019	-	32.50	-	32.50	65.00	5,947	32.1	4.1
FY2020	-	25.00	-	27.50	52.50	4,803	28.3	2.9
FY2021 (Forecast)	-	28.00	-	28.00	56.00		30.0	

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	7.1	11,800	5.8	12,000	5.7	7,600	(4.1)	83.06
Full year	265,000	5.2	25,500	3.9	26,000	3.6	17,100	0.7	186.88

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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: None
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):

FY2020:	91,501,000	shares
FY2019:	94,704,740	shares

2) Total number of treasury shares at the end of the period:

FY2020:	716	shares
FY2019:	3,204,329	shares

3) Average number of shares during the period:

FY2020:	91,500,376	shares
FY2019:	91,500,502	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, 2020	March 31, 2021
Assets		
Current assets		
Cash and deposits	4,459	5,255
Deposits paid	53,794	73,530
Notes and accounts receivable - trade	62,513	61,074
Securities	—	1,000
Work in process	26,834	28,344
Raw materials and supplies	15	42
Short-term loans receivable from subsidiaries and associates	12,000	—
Other	3,290	2,612
Allowance for doubtful accounts	(25)	(25)
Total current assets	162,882	171,834
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,227	8,179
Tools, furniture and fixtures, net	6,912	6,913
Land	2,543	2,543
Leased assets, net	2,478	1,491
Construction in progress	1,280	443
Other	0	1
Total property, plant and equipment	21,442	19,572
Intangible assets		
Software	1,706	1,507
Goodwill	3,389	2,923
Other	1,276	609
Total intangible assets	6,372	5,040
Investments and other assets		
Investment securities	39,168	65,036
Deferred tax assets	4,033	4,127
Guarantee deposits	6,259	6,336
Other	338	324
Allowance for doubtful accounts	(48)	(48)
Total investments and other assets	49,750	75,776
Total non-current assets	77,565	100,388
Total assets	240,448	272,223

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Consolidated Balance Sheets

(Milions of yen)

	March 31, 2020	March 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,693	15,884
Lease obligations	1,862	901
Accounts payable - other	12,310	9,099
Income taxes payable	5,225	3,753
Advances received	18,741	18,347
Provision for bonuses	9,527	9,553
Provision for loss on order received	999	2,255
Allowance for program product warranty	217	185
Provision for loss on business withdrawal	27	19
Provision for surcharge	90	90
Other	1,405	603
Total current liabilities	68,100	60,694
Non-current liabilities		
Lease obligations	2,153	1,363
Provision for directors' retirement benefits	129	149
Provision for loss on business withdrawal	225	173
Retirement benefit liability	9,860	10,956
Deferred tax liabilities	1,568	10,231
Other	3,019	2,525
Total non-current liabilities	16,955	25,400
Total liabilities	85,055	86,094
Net assets		
Shareholders' equity		
Share capital	12,952	12,952
Capital surplus	9,950	9,950
Retained earnings	116,904	118,600
Treasury shares	(10,026)	(2)
Total shareholders' equity	129,780	141,501
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,571	38,310
Foreign currency translation adjustment	95	15
Total accumulated other comprehensive income	19,667	38,325
Non-controlling interests	5,944	6,301
Total net assets	155,392	186,128
Total liabilities and net assets	240,448	272,223

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Consolidated Statements of Income

(Milions of yen)

	FY2019	FY2020
Net sales	274,843	251,992
Cost of sales	218,244	200,042
Gross profit	56,598	51,950
Selling, general and administrative expenses	28,210	27,400
Operating profit	28,387	24,549
Non-operating income		
Interest income	179	182
Dividend income	398	334
Share of profit of entities accounted for using equity method	41	―
Compensation income for damage	0	99
Other	133	363
Total non-operating income	753	980
Non-operating expenses		
Interest expenses	9	7
Share of loss of entities accounted for using equity method	―	53
Loss on retirement of non-current assets	31	50
Foreign exchange losses	39	48
Provision for loss on business withdrawal	250	―
Special investigation expenses, etc.	366	72
Litigation expenses	―	158
Other	168	37
Total non-operating expenses	865	428
Ordinary profit	28,275	25,101
Extraordinary income		
Gain on sales of investment securities	2,386	2,034
Total extraordinary income	2,386	2,034
Extraordinary losses		
Retirement benefit expenses	1,039	―
Loss on termination of retirement benefit plan	85	―
Office transfer cost	871	1,818
Total extraordinary losses	1,997	1,818
Profit before income taxes	28,663	25,318
Income taxes - current	9,243	7,414
Income taxes - deferred	142	298
Total income taxes	9,386	7,713
Profit	19,277	17,604
Profit attributable to non-controlling interests	725	622
Profit attributable to owners of parent	18,552	16,982

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Consolidated Statements of Comprehensive Income

(Milions of yen)

	FY2019	FY2020
Profit	19,277	17,604
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,101)	18,738
Foreign currency translation adjustment	38	(81)
Total other comprehensive income	(4,062)	18,657
Comprehensive income	15,214	36,261
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,490	35,640
Comprehensive income attributable to non-controlling interests	724	621

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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 Statements of Changes in Net Assets

FY2020 (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	116,904	(10,026)	129,780
Changes of items during period					
Dividends of surplus			(5,261)		(5,261)
Profit attributable to owners of parent			16,982		16,982
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		(10,024)		10,024	—
Transfer to capital surplus from retained earnings		10,024	(10,024)		—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	1,696	10,024	11,720
Balance at end of current period	12,952	9,950	118,600	(2)	141,501

	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	19,571	95	19,667	5,944	155,392
Changes of items during period					
Dividends of surplus					(5,261)
Profit attributable to owners of parent					16,982
Purchase of treasury shares					(0)
Disposal of treasury shares					—
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity	18,738	(80)	18,658	357	19,015
Total changes of items during period	18,738	(80)	18,658	357	30,736
Balance at end of current period	38,310	15	38,325	6,301	186,128

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Consolidated Statement of Cash Flows

(Milions of yen)

	FY2019	FY2020
Cash flows from operating activities		
Profit before income taxes	28,663	25,318
Depreciation	5,205	6,145
Amortization of goodwill	465	465
Increase (decrease) in allowance for doubtful accounts	4	(0)
Increase (decrease) in provision for bonuses	554	24
Increase (decrease) in retirement benefit liability	135	1,097
Increase (decrease) in provision for directors' retirement benefits	(1)	20
Increase (decrease) in provision for loss on order received	(446)	1,255
Increase (decrease) in provision for loss on business withdrawal	252	(59)
Increase (decrease) in other provisions	98	(32)
Interest and dividend income	(578)	(516)
Interest expenses	9	7
Loss (gain) on sales of investment securities	(2,386)	(2,034)
Share of loss (profit) of entities accounted for using equity method	(41)	53
Loss on retirement of non-current assets	31	50
Decrease (increase) in trade receivables	(5,318)	1,407
Decrease (increase) in inventories	2,824	(1,531)
Decrease (increase) in other current assets	(530)	(79)
Increase (decrease) in trade payables	(1,326)	(1,814)
Increase (decrease) in other current liabilities	(63)	(3,461)
Other, net	665	(434)
Subtotal	28,218	25,881
Interest and dividends received	578	518
Interest paid	(8)	(7)
Income taxes paid	(9,421)	(8,846)
Net cash provided by (used in) operating activities	19,366	17,544
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(5,577)	(3,644)
Purchase of investment securities	(1,652)	(53)
Proceeds from sales of investment securities	2,558	2,158
Proceeds from redemption of investment securities	2,000	—
Proceeds from collection of short-term loans to affiliated companies	—	12,000
Payments of guarantee deposits	(309)	(91)
Proceeds from refund of guarantee deposits	29	800
Other, net	(23)	(754)
Net cash provided by (used in) investing activities	(2,975)	10,414
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Dividends paid	(5,490)	(5,261)
Dividends paid to non-controlling interests	(232)	(264)
Repayments of lease obligations	(1,072)	(1,869)
Net cash provided by (used in) financing activities	(6,796)	(7,395)
Effect of exchange rate change on cash and cash equivalents	4	(20)
Net increase (decrease) in cash and cash equivalents	9,599	20,543
Cash and cash equivalents at beginning of period	48,436	58,036
Cash and cash equivalents at end of period	58,036	78,579

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(Notes)

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". 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 the COVID-19 is not expected to end any time soon, and the impact of the spread of the disease on business activities is expected to continue in some industries.
On the other hand, the impact of the spread of the disease on society and the economy is expected to further accelerate the pace of digitalization.
Therefore, considering that the spread of the COVID-19 has both positive and negative aspects for IT investment, the consolidated financial results forecast for fiscal year 2021 is made with the assumption that there will be no significant impact on our business activities in fiscal year 2021.
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. On January 18, 2021, Mizuho-Toshiba Leasing amended its claim for this lawsuit by adding, as an alternative claim, a claim for the payment of sales price in accordance with the sales agreement.
In this lawsuit, Mizuho-Toshiba Leasing asserts 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 the Company then terminated the Sales Agreement in November 2019, and based on that assertion, claims against the Company for penalty of the amount equivalent to the sales price, or, as an alternative claim, claims against the Company for the sales price in accordance with the Sales Agreement, the amount of which is 10,926 million yen plus its delay damages.
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 Consolidated Financial Statements.

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