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 2021 (April 1, 2021 - March 31, 2022) [under Japanese GAAP]

April 28, 2022

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 21, 2022
Scheduled date of commencing dividend payments: June 6, 2022
Scheduled date of filing annual securities report: June 22, 2022
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 2021 (April 1, 2021 to March 31, 2022)

(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	%
FY2021	270,332	7.3	29,815	21.4	30,811	22.7	19,977	17.6
FY2020	251,992	(8.3)	24,549	(13.5)	25,101	(11.2)	16,982	(8.5)

(Note) Comprehensive income: FY2021: 20,934 million yen [(42.3)%]
FY2020: 36,261 million yen [138.3%]

	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	%	%	%
FY2021	218.33	-	10.6	10.9	11.0
FY2020	185.60	-	10.3	9.8	9.7

(Reference) Share of profit (loss) of entities accounted for using equity method: FY2021: 39 million yen
FY2020: (53) million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2021	296,790	203,429	66.3	2,149.59
FY2020	272,223	186,128	66.1	1,965.32

(Reference) Equity: FY2021: 196,687 million yen
FY2020: 179,827 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
FY2021	32,313	(8,540)	(6,845)	95,706
FY2020	17,544	10,414	(7,395)	78,579

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	%	%
FY2020	-	25.00	-	27.50	52.50	4,803	28.3	2.9
FY2021	-	30.00	-	36.00	66.00	6,039	30.2	3.2
FY2022 (Forecast)	-	35.00	-	35.00	70.00		30.4	

3. Consolidated Financial Results Forecast for Fiscal 2022 (April 1, 2022 to March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	144,000	-	14,500	-	14,800	-	9,700	-	106.01
Full year	295,000	-	31,000	-	31,500	-	21,100	-	230.60

(Note) The Company has chosen to adopt International Financial Reporting Standards (IFRS) effective April 1, 2022. Accordingly, the above consolidated financial forecasts for fiscal year ending March 31, 2023, are based on IFRS. In addition, comparisons have not been provided with the performance figures for the fiscal year ended March 31, 2022, prepared based on the previously adopted Japanese generally accepted accounting principles (J-GAAP).

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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: Yes
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):
FY2021: 91,501,000 shares
FY2020: 91,501,000 shares

2) Total number of treasury shares at the end of the period:
FY2021: 923 shares
FY2020: 716 shares

3) Average number of shares during the period:
FY2021: 91,500,181 shares
FY2020: 91,500,376 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

(Millions of yen)

	March 31, 2021	March 31, 2022
Assets		
Current assets		
Cash and deposits	5,255	5,865
Deposits paid	73,530	90,216
Notes and accounts receivable - trade	61,074	—
Notes receivable - trade	—	266
Accounts receivable - trade	—	55,100
Contract assets	—	11,592
Securities	1,000	2,000
Work in process	28,344	19,488
Raw materials and supplies	42	159
Other	2,612	3,115
Allowance for doubtful accounts	(25)	(120)
Total current assets	171,834	187,686
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,179	10,331
Tools, furniture and fixtures, net	6,913	7,308
Land	2,543	2,543
Leased assets, net	1,491	2,711
Construction in progress	443	851
Other	1	0
Total property, plant and equipment	19,572	23,747
Intangible assets		
Software	1,507	2,757
Goodwill	2,923	2,458
Other	609	1,685
Total intangible assets	5,040	6,900
Investments and other assets		
Investment securities	65,036	67,824
Deferred tax assets	4,127	4,091
Guarantee deposits	6,336	6,223
Other	324	366
Allowance for doubtful accounts	(48)	(48)
Total investments and other assets	75,776	78,455
Total non-current assets	100,388	109,103
Total assets	272,223	296,790

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Consolidated Balance Sheets

(Millions of yen)

	March 31, 2021	March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,884	17,828
Lease obligations	901	2,034
Accounts payable - other	9,099	11,695
Income taxes payable	3,753	6,476
Contract liabilities	—	12,311
Advances received	18,347	—
Provision for bonuses	9,553	10,301
Provision for loss on order received	2,255	521
Allowance for program product warranty	185	183
Provision for loss on business withdrawal	19	149
Provision for surcharge	90	—
Other	603	662
Total current liabilities	60,694	62,165
Non-current liabilities		
Lease obligations	1,363	2,918
Provision for directors' retirement benefits	149	97
Provision for loss on business withdrawal	173	259
Retirement benefit liability	10,956	11,205
Asset retirement obligations	63	2,931
Deferred tax liabilities	10,231	10,534
Other	2,462	3,247
Total non-current liabilities	25,400	31,195
Total liabilities	86,094	93,360
Net assets		
Shareholders' equity		
Share capital	12,952	12,952
Capital surplus	9,950	9,950
Retained earnings	118,600	135,150
Treasury shares	(2)	(2)
Total shareholders' equity	141,501	158,051
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	38,310	38,427
Foreign currency translation adjustment	15	208
Total accumulated other comprehensive income	38,325	38,636
Non-controlling interests	6,301	6,741
Total net assets	186,128	203,429
Total liabilities and net assets	272,223	296,790

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Consolidated Statements of Income

(Millions of yen)

	FY2020	FY2021
Net sales	251,992	270,332
Cost of sales	200,042	210,011
Gross profit	51,950	60,321
Selling, general and administrative expenses	27,400	30,505
Operating profit	24,549	29,815
Non-operating income		
Interest income	182	217
Dividend income	334	318
Share of profit of entities accounted for using equity method	—	39
Gain on investments in investment partnerships	76	467
Cancellation penalty income	63	304
Compensation income for damage	99	—
Other	224	280
Total non-operating income	980	1,627
Non-operating expenses		
Interest expenses	7	42
Share of loss of entities accounted for using equity method	53	—
Loss on retirement of non-current assets	50	29
Foreign exchange losses	48	120
Provision of allowance for doubtful accounts	—	118
Provision for loss on business withdrawal	—	239
Special investigation expenses, etc.	72	—
Litigation expenses	158	0
Other	37	80
Total non-operating expenses	428	631
Ordinary profit	25,101	30,811
Extraordinary income		
Gain on sales of investment securities	2,034	—
Total extraordinary income	2,034	—
Extraordinary losses		
Settlement payments	—	702
Office transfer cost	1,818	—
Total extraordinary losses	1,818	702
Profit before income taxes	25,318	30,109
Income taxes - current	7,414	9,980
Income taxes - deferred	298	(484)
Total income taxes	7,713	9,495
Profit	17,604	20,613
Profit attributable to non-controlling interests	622	636
Profit attributable to owners of parent	16,982	19,977

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Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2020	FY2021
Profit	17,604	20,613
Other comprehensive income		
Valuation difference on available-for-sale securities	18,738	116
Foreign currency translation adjustment	(81)	203
Total other comprehensive income	18,657	320
Comprehensive income	36,261	20,934
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	35,640	20,287
Comprehensive income attributable to non-controlling interests	621	646

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Consolidated Statements of Changes in Net Assets

FY2020 (Millions 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
Cumulative effects of changes in accounting policies	—	—	—	—	—
Restated balance	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
Cumulative effects of changes in accounting policies	—	—	—	—	—
Restated balance	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 Statements of Changes in Net Assets

FY2021 (Millions 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	118,600	(2)	141,501
Cumulative effects of changes in accounting policies	—	—	1,834	—	1,834
Restated balance	12,952	9,950	120,435	(2)	143,335
Changes of items during period					
Dividends of surplus			(5,261)		(5,261)
Profit attributable to owners of parent			19,977		19,977
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	—	—	14,715	(0)	14,715
Balance at end of current period	12,952	9,950	135,150	(2)	158,051

	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	38,310	15	38,325	6,301	186,128
Cumulative effects of changes in accounting policies	—	—	—	12	1,846
Restated balance	38,310	15	38,325	6,313	187,975
Changes of items during period					
Dividends of surplus					(5,261)
Profit attributable to owners of parent					19,977
Purchase of treasury shares					(0)
Disposal of treasury shares					—
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity	116	193	310	428	738
Total changes of items during period	116	193	310	428	15,454
Balance at end of current period	38,427	208	38,636	6,741	203,429

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Consolidated Statement of Cash Flows

(Millions of yen)

	FY2020	FY2021
Cash flows from operating activities		
Profit before income taxes	25,318	30,109
Depreciation	6,145	5,523
Amortization of goodwill	465	465
Increase (decrease) in allowance for doubtful accounts	(0)	94
Increase (decrease) in provision for bonuses	24	740
Increase (decrease) in retirement benefit liability	1,097	247
Increase (decrease) in provision for directors' retirement benefits	20	(51)
Increase (decrease) in provision for loss on order received	1,255	(1,438)
Increase (decrease) in provision for loss on business withdrawal	(59)	216
Increase (decrease) in other provisions	(32)	(92)
Interest and dividend income	(516)	(536)
Interest expenses	7	42
Loss (gain) on sales of investment securities	(2,034)	(0)
Share of loss (profit) of entities accounted for using equity method	53	(39)
Loss on retirement of non-current assets	50	29
Decrease (increase) in trade receivables	1,407	272
Decrease (increase) in contract assets	—	(351)
Decrease (increase) in inventories	(1,531)	(1,013)
Decrease (increase) in other current assets	(79)	(421)
Increase (decrease) in trade payables	(1,814)	1,825
Increase (decrease) in other current liabilities	(3,461)	3,090
Other, net	(434)	403
Subtotal	25,881	39,117
Interest and dividends received	518	537
Interest paid	(7)	(43)
Income taxes paid	(8,846)	(7,299)
Net cash provided by (used in) operating activities	17,544	32,313
Cash flows from investing activities		
Payments into time deposits	—	(164)
Proceeds from redemption of securities	—	1,000
Purchase of property, plant and equipment and intangible assets	(3,644)	(5,337)
Purchase of investment securities	(53)	(4,070)
Proceeds from sales of investment securities	2,158	0
Proceeds from collection of short-term loans to affiliated companies	12,000	—
Payments of guarantee deposits	(91)	(19)
Proceeds from refund of guarantee deposits	800	67
Other, net	(754)	(15)
Net cash provided by (used in) investing activities	10,414	(8,540)
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Dividends paid	(5,261)	(5,261)
Dividends paid to non-controlling interests	(264)	(218)
Repayments of lease obligations	(1,869)	(1,365)
Net cash provided by (used in) financing activities	(7,395)	(6,845)
Effect of exchange rate change on cash and cash equivalents	(20)	199
Net increase (decrease) in cash and cash equivalents	20,543	17,126
Cash and cash equivalents at beginning of period	58,036	78,579
Cash and cash equivalents at end of period	78,579	95,706

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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 as other non-current liabilities.
On July 27, 2021, the Company received a refund of 1,275 million yen from some of the counterparties involved in the transactions that composed the temporary payments stated above. As a result, the balance of the temporary payments decreased by the same amount, and the net amount of 2,926 million yen is included in other non-current liabilities at the end of the consolidated accounting period.
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 impact of the spread of the COVID-19 on society and the economy is expected to further accelerate the pace of digitalization. On the other hand, the negative impact of the spread of the disease on business activities is expected to be remained in some industries. The downside risks to the economy due to the prolonged impact of the disease are still necessary to be closely watched.
Under the consideration that the spread of the COVID-19 has both positive and negative aspects for IT investment, the consolidated financial results forecast for fiscal year 2022 is made with the assumption that there will be no significant impact on our business activities in fiscal year 2022.
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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