

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 Second Quarter of Fiscal 2020 (April 1, 2020 - September 30, 2020) [under Japanese GAAP]

October 27, 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
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 Scheduled date of filing quarterly securities report: November 6, 2020
 Scheduled date of commencing dividend payments: December 1, 2020
 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 Second Quarter of Fiscal 2020 (April 1, 2020 to September 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 2Q	119,068	(12.9)	11,149	(21.4)	11,357	(20.0)	7,921	(9.2)
FY2019 2Q	136,759	15.6	14,190	29.5	14,196	26.9	8,727	27.4

(Note) Comprehensive income: FY2020 2Q:17,474 million yen[73.7 %]
 FY2019 2Q:10,059 million yen[(39.4)%]

	Net income per share		Diluted net income per share	
	Yen		Yen	
FY2020 2Q	86.57		-	
FY2019 2Q	95.39		-	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
FY2020 2Q	250,397	169,628	65.4
FY2019	240,448	155,392	62.2

(Reference) Equity: FY2020 2Q: 163,698 million yen
 FY2019: 149,448 million yen

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	-	25.00			
FY2020(Forecast)			-	27.50	52.50

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

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	
Full year	255,000	(7.2)	23,900	(15.8)	24,000	(15.1)	16,000	(13.8)		174.86

(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 2Q : 94,704,740 shares

FY2019: 94,704,740 shares

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

FY2020 2Q : 3,204,364 shares

FY2019: 3,204,329 shares

3) Average number of shares during the period:

FY2020 2Q : 91,500,399 shares

FY2019 2Q: 91,500,545 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.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

	March 31, 2020	September 30, 2020
Assets		
Current assets		
Cash and deposits	4,459	4,258
Deposits paid	53,794	71,255
Notes and accounts receivable - trade	62,513	49,882
Work in process	26,834	31,130
Raw materials and supplies	15	13
Short-term loans receivable from subsidiaries and associates	12,000	—
Other	3,290	3,600
Allowance for doubtful accounts	(25)	(20)
Total current assets	162,882	160,119
Non-current assets		
Property, plant and equipment	21,442	21,151
Intangible assets		
Goodwill	3,389	3,156
Other	2,983	2,634
Total intangible assets	6,372	5,791
Investments and other assets		
Investment securities	39,168	52,509
Other	10,631	10,873
Allowance for doubtful accounts	(48)	(48)
Total investments and other assets	49,750	63,334
Total non-current assets	77,565	90,277
Total assets	240,448	250,397
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,693	13,040
Income taxes payable	5,225	4,106
Advances received	18,741	22,212
Provision for bonuses	9,527	9,452
Other provisions	1,334	2,014
Other	15,577	9,442
Total current liabilities	68,100	60,269
Non-current liabilities		
Provision for directors' retirement benefits	129	139
Retirement benefit liability	9,860	10,221
Other provisions	225	181
Other	6,741	9,956
Total non-current liabilities	16,955	20,498
Total liabilities	85,055	80,768
Net assets		
Shareholders' equity		
Share capital	12,952	12,952
Capital surplus	9,950	9,950
Retained earnings	116,904	121,852
Treasury shares	(10,026)	(10,026)
Total shareholders' equity	129,780	134,728
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,571	28,966
Foreign currency translation adjustment	95	3
Total accumulated other comprehensive income	19,667	28,969
Non-controlling interests	5,944	5,930
Total net assets	155,392	169,628
Total liabilities and net assets	240,448	250,397

Quarterly Consolidated Statements of Income

	(Millions of yen)	
	FY2019 2Q	FY2020 2Q
Net sales	136,759	119,068
Cost of sales	108,259	94,045
Gross profit	28,499	25,023
Selling, general and administrative expenses	14,309	13,873
Operating profit	14,190	11,149
Non-operating income		
Interest income	89	92
Dividend income	213	209
Share of profit of entities accounted for using equity method	22	—
Foreign exchange gains	—	3
Other	40	207
Total non-operating income	365	512
Non-operating expenses		
Interest expenses	4	4
Share of loss of entities accounted for using equity method	—	26
Loss on retirement of non-current assets	6	17
Foreign exchange losses	15	—
Provision for loss on business withdrawal	269	—
Special investigation expenses	—	71
Litigation expenses	—	155
Other	63	30
Total non-operating expenses	359	304
Ordinary profit	14,196	11,357
Extraordinary income		
Gain on sales of investment securities	—	2,034
Total extraordinary income	—	2,034
Extraordinary losses		
Office transfer cost	122	1,426
Total extraordinary losses	122	1,426
Profit before income taxes	14,073	11,965
Income taxes	5,015	3,791
Profit	9,057	8,174
Profit attributable to non-controlling interests	329	253
Profit attributable to owners of parent	8,727	7,921

Quarterly Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	FY2019 2Q	FY2020 2Q
Profit	9,057	8,174
Other comprehensive income		
Valuation difference on available-for-sale securities	1,015	9,394
Foreign currency translation adjustment	(12)	(95)
Total other comprehensive income	1,002	9,299
Comprehensive income	10,059	17,474
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,731	17,223
Comprehensive income attributable to non-controlling interests	327	250

Quarterly Consolidated Statement of Cash Flows

	(Millions of yen)	
	FY2019 2Q	FY2020 2Q
Cash flows from operating activities		
Profit before income taxes	14,073	11,965
Depreciation	2,519	3,100
Amortization of goodwill	232	232
Increase (decrease) in allowance for doubtful accounts	(1)	(4)
Increase (decrease) in provision for bonuses	(22)	(75)
Increase (decrease) in retirement benefit liability	(78)	362
Interest and dividend income	(302)	(301)
Interest expenses	4	4
Loss (gain) on sales of investment securities	—	(2,034)
Share of loss (profit) of entities accounted for using equity method	(22)	26
Loss on retirement of non-current assets	6	17
Decrease (increase) in trade receivables	3,827	12,581
Decrease (increase) in inventories	(1,488)	(4,303)
Increase (decrease) in trade payables	5,342	(4,626)
Other, net	3,131	(2,803)
Subtotal	<u>27,222</u>	<u>14,139</u>
Interest and dividends received	303	302
Interest paid	(4)	(3)
Income taxes paid	(5,283)	(5,024)
Net cash provided by (used in) operating activities	<u>22,237</u>	<u>9,413</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(2,021)	(2,054)
Purchase of investment securities	(1,055)	(0)
Proceeds from sales of investment securities	—	2,158
Proceeds from redemption of investment securities	2,000	—
Proceeds from collection of short-term loans to affiliated companies	—	12,000
Other, net	(156)	(22)
Net cash provided by (used in) investing activities	<u>(1,233)</u>	<u>12,080</u>
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Dividends paid	(2,516)	(2,973)
Dividends paid to non-controlling interests	(232)	(264)
Repayments of lease obligations	(524)	(931)
Net cash provided by (used in) financing activities	<u>(3,274)</u>	<u>(4,169)</u>
Effect of exchange rate change on cash and cash equivalents	(22)	(55)
Net increase (decrease) in cash and cash equivalents	<u>17,707</u>	<u>17,268</u>
Cash and cash equivalents at beginning of period	<u>48,436</u>	<u>58,036</u>
Cash and cash equivalents at end of period	<u>66,144</u>	<u>75,304</u>

(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”. 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. Although the effect caused by the spread of the disease will continue for a certain period of time, the consolidated financial results forecast for the current fiscal year is made with the assumption that, in the second half of fiscal year 2020, the demand is expected to be at about the same level as that in the same period of the previous fiscal year.

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.

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.