

May 8, 2020

# Consolidated Financial Statements for the Fiscal Year Ended March 31, 2020 [Japanese standard]



## INES Corporation

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## 1. Consolidated Financial Statements for the Fiscal Year Ended March 31, 2020 (April 1, 2019 to March 31, 2020)

### (1) Consolidated Operating Results

(Million yen, figures in percentages denote year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal Year Ended March 31, 2020	42,278	10.8%	2,903	33.8%	2,957	32.4%	2,063	38.3%
Fiscal Year Ended March 31, 2019	38,143	5.6%	2,169	34.9%	2,233	34.8%	1,492	41.1%

(Note) Comprehensive income Fiscal Year Ended March 31, 2020: ¥1,999 million (28.6%)  
 Fiscal Year Ended March 31, 2019: ¥1,554 million (39.8%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)	Profit/Shareholders' equity	Ordinary profit/Total assets	Operating profit/Net sales
Fiscal Year Ended March 31, 2020	86.72	—	5.5%	5.5%	6.9%
Fiscal Year Ended March 31, 2019	56.93	—	4.0%	4.1%	5.7%

(Reference) Equity in earnings of affiliated companies Fiscal Year Ended March 31, 2020: ¥ — million  
 Fiscal Year Ended March 31, 2019: ¥ — million

### (2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
As of March 31, 2020	52,677	37,868	71.9	1,590.87
As of March 31, 2019	54,443	36,538	67.1	1,537.45

(Reference) Shareholders' equity As of March 31, 2020: ¥ 37,868 million  
 As of March 31, 2019: ¥ 36,538 million

### (3) Consolidated Cash Flow Situation

(Million yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal Year Ended March 31, 2020	1,512	11,531	(735)	21,014
Fiscal Year Ended March 31, 2019	4,344	(2,055)	(3,609)	8,706

## 2. Dividends

	Dividends per share (Yen)					Total dividends (annual) (millions of yen)	Dividend payout ratio (consolidated) (%)	Dividends/Net assets (consolidated) (%)
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual			
Fiscal Year Ended March 31, 2019	—	10.00	—	15.00	25.00	629	43.9	1.7
Fiscal Year Ended March 31, 2020	—	15.00	—	25.00	40.00	952	46.1	2.6
Fiscal Year Ending March 31, 2021 (Forecast)	—	—	—	—	—			

(Note) Breakdown of year-end dividend forecast for the fiscal year ended March 31, 2020: Ordinary dividend of ¥15.00 and special dividend of ¥10.00 yen.  
 Dividends for the fiscal year ending March 31, 2021 are currently undetermined.

### **3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)**

With regard to consolidated financial results forecasts for the fiscal year ending March 31, 2021, the INES Group is withholding its forecasts, in view of the current difficulty of rationally estimating the impact of the spread of the COVID-19 coronavirus on its operating performance. The INES Group will disclose its financial results forecasts when estimates of such impacts can be made.

\* Notes

**(1) Significant changes in subsidiaries during this fiscal year under review (changes in subsidiaries causing a change in the scope of consolidation): No**

**(2) Changes in accounting policies and changes or restatement of accounting estimates**

1. Changes in accounting policies associated with the revision of accounting standards, etc.: No
2. Changes in accounting policies other than 1.: No
3. Changes in accounting estimates: No
4. Restatement: No

**(3) Number of shares outstanding (common shares)**

1. Number of shares outstanding at the term end (including treasury shares)

Fiscal Year Ended March 31, 2020:	23,900,000 shares
Fiscal Year Ended March 31, 2019:	23,900,000 shares

2. Number of treasury shares at the term end

Fiscal Year Ended March 31, 2020:	96,438 shares
Fiscal Year Ended March 31, 2019:	134,160 shares

3. Average number of shares outstanding

Fiscal Year Ended March 31, 2020:	23,792,281 shares
Fiscal Year Ended March 31, 2019:	26,209,208 shares

***\* These financial statements are not subject to audit procedures performed by certified public accountants or audit corporations.***

# 1. Outline of Results of Operations

## (1) Outline of Results of Operations for the Fiscal Year ended March 31, 2020

### (i) Operating environment surrounding the INES Group

During the fiscal year ended March 31, 2020, the Japanese economy sustained a modest recovery supported by factors such as a pickup in consumer spending, better employment conditions and improved corporate earnings, although concerns persisted over overseas economies, such as trade issues and economic conditions in China. In the information industry in which the INES Group operates, corporate IT investment for digital transformation and other business activities remained steady.

However, reflecting the ongoing global COVID-19 pandemic since February, income and earnings conditions have been rapidly deteriorating in the national economy and companies in a wide range of industries. Although impacts from COVID-19 on the consolidated operating performance of the fiscal year under review were limited, the future remains uncertain, considering the increasing number of infected people and stagnant national economic activities associated with the state of emergency declared by the Japanese government since March.

### (ii) Initiatives in the fiscal year under review

The INES Group conducted aggressive marketing activities to increase orders and net sales and focused on developing the advanced version of WebRings, a core product for local governments, in the fiscal year under review. Moreover, based on the business and capital tie-up agreement with Mitsubishi Research Institute Inc. (“MRI”) Group concluded in May 2018, the INES Group has had positive results from initiatives for the joint development of new solutions and collaborative order-winning activities in the public, financial and general industry sectors. The alliance between the two groups has been further strengthened after MRI acquired additional ownership interest in INES Corporation (the “Company”) in October 2019.

Based on the long-standing recognition that further improvement of asset efficiency is a key management issue, the INES Group has been focusing on initiatives, including the sale of the Yokohama Office, whose book value was the largest among the real estate owned by the Group, and the booking of impairment loss with respect to other real estate owned by the Group in the Tokyo metropolitan area (refer to the announcement released separately today), and started to find prospects in the disposal of real estate owned.

### (iii) Operating results of the fiscal year under review

Net sales for the fiscal year under review are presented below as consolidated net sales by sector. Net sales recorded the second-highest level next to those of the fiscal year ended March 31, 2007, at ¥42,278 million (up 10.8% year on year). This was attributable to growing demand for system modifications associated with revisions of different types of laws and increased orders from new customers consisting of local governments and for new tasks in the public sector, as well as the contribution of the general industry sector such as increased sales in the retail industry and the expansion of the BPO business for public institutions within the Group companies (posted in “Other” in consolidated net sales by sector), despite a reactionary year-on-year fall in sales of equipment in the financial sector. On the profit front, operating profit stood at ¥2,903 million (up 33.8% year on year) and ordinary profit came to ¥2,957 million (up 32.4% year on year), mainly due to the elimination of the impact of unprofitable projects in the previous fiscal year, in addition to the positive effect of increased sales described above. Temporary costs for office relocation were posted under operating expenses in the fiscal year under review, and the core operating profit excluding the foregoing operating expenses achieved another record high, at ¥3,500 million (the ratio of core operating profit to net sales: 8.3%).

While extraordinary losses of ¥2,604 million were posted by the third quarter, including the impairment loss associated with the sale of the Yokohama Office for the purpose of improving asset efficiency, extraordinary income of ¥4,356 million was posted, including gain on sales of non-current assets associated with the sale of the old head office (Sanbancho, Chiyoda-ku). Moreover, extraordinary losses of ¥1,675 million were posted in the fourth quarter mainly due to the booking of impairment loss with respect to other real estate owned by the Group in the Tokyo metropolitan area for further improvement of asset efficiency.

As a result, profit attributable to owners of parent achieved another record high, at ¥2,063 million (up 38.3% year on year).

ROE (return on equity), an indicator for profitability and capital efficiency, came to 5.5% (up 1.5 percentage points year on year).

As announced separately today, the year-end dividend forecast for the fiscal year under review has been revised to ¥25 per share, consisting of ¥15 per share for the year-end dividend and ¥10 per share as special dividend. This revision was attributable to an increase in each profit item, in particular a record-high profit attributable to owners of parent. As a result, annual dividend forecast has been revised upward from ¥30 per share to ¥40 per share (a dividend increase of ¥15 year on year).

#### Consolidated net sales by sector

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2018 until March 31, 2019		Consolidated fiscal year under review From April 1, 2019 until March 31, 2020		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	13,434	35.2	16,669	39.5	24.1
Financial	14,262	37.4	12,507	29.6	(12.3)
General industry	6,453	16.9	7,318	17.3	13.4
Other	3,992	10.5	5,782	13.7	44.8
Total	38,143	100.0	42,278	100.0	10.8

(Note) Starting from the first quarter of the fiscal year under review, the Company has partially changed the classification of the business sector of customers. Amounts for the previous year are also presented based on the revised classification.

#### Consolidated net sales by product/service

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2018 until March 31, 2019		Consolidated fiscal year under review From April 1, 2019 until March 31, 2020		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	16,215	42.5	18,107	42.9	11.7
System operation	10,257	26.9	11,980	28.3	16.8
System maintenance	4,862	12.8	4,994	11.8	2.7
Sales of information equipment	2,858	7.5	2,290	5.4	(19.9)
Other	3,949	10.3	4,904	11.6	24.2
Total	38,143	100.0	42,278	100.0	10.8

### (2) Outline of Financial Position for the Fiscal Year Ended March 31, 2020

Looking at the financial position at the end of the fiscal year under review, total assets stood at ¥52,677 million, a decrease of ¥1,766 million from the end of the previous fiscal year.

Current assets increased ¥12,451 million from the end of the previous fiscal year, to ¥33,291 million, mainly reflecting a rise in cash and deposits as a result of the sales of the old head office and the Yokohama Office. Non-current assets decreased ¥14,218 million, to ¥19,385 million, largely due to declines in buildings and structures as well as land associated with said sales.

Current liabilities decreased ¥105 million from the end of the previous fiscal year, to ¥7,944 million. Non-current liabilities shrank ¥2,990 million, to ¥6,864 million, due primarily to a decrease in net defined benefit liability associated with the establishment of a retirement allowance trust.

Net assets increased ¥1,329 million from the end of the previous fiscal year, to ¥37,868 million mainly due to the posting of profit attributable to owners of parent.

### (3) Explanation regarding Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2021

With regard to consolidated financial results forecasts for the fiscal year ending March 31, 2021, the INES Group is withholding its forecasts, in view of the current difficulty of rationally estimating impact of COVID-19 on its operating performance. The INES Group will disclose its financial results forecasts when estimates of such impacts can be made.

Moreover, the INES Group is withholding its dividend forecast for the next fiscal year for the same reason.

## **2. Basic Stance regarding Selection of Accounting Principles**

In consideration of comparability with industry peers in Japan, the INES Group has the policy to prepare consolidated financial statements according to the Japanese accounting standards in the foreseeable future.

Going forward, the Group will examine the possibility of applying international accounting standards in light of trends and other factors in the application among Japanese companies.

## Consolidated Balance Sheets

As of March 31, 2019 and March 31, 2020

(Million yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	9,940	22,049
Notes and accounts receivable - trade	9,326	9,716
Work in process	*2 1,163	*2 940
Raw materials and supplies	117	102
Prepaid expenses	209	399
Other	91	91
Allowance for doubtful accounts	(9)	(9)
<b>Total current assets</b>	<b>20,839</b>	<b>33,291</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	16,456	6,785
Accumulated depreciation	(8,501)	(4,955)
Buildings and structures, net	7,955	1,830
Tools, furniture and fixtures	4,354	4,341
Accumulated depreciation	(2,948)	(2,840)
Tools, furniture and fixtures, net	1,406	1,500
Land	12,709	775
<b>Total property, plant and equipment</b>	<b>22,071</b>	<b>4,106</b>
<b>Intangible assets</b>		
Software	3,649	3,775
Other	23	24
<b>Total intangible assets</b>	<b>3,673</b>	<b>3,800</b>
<b>Investments and other assets</b>		
Investment securities	*1 1,589	*1 4,632
Long-term prepaid expenses	413	726
Deferred tax assets	4,512	5,046
Long-term time deposits	300	-
Other	1,043	1,073
Allowance for doubtful accounts	(0)	(0)
<b>Total investments and other assets</b>	<b>7,859</b>	<b>11,478</b>
<b>Total non-current assets</b>	<b>33,604</b>	<b>19,385</b>
<b>Total assets</b>	<b>54,443</b>	<b>52,677</b>

## Consolidated Balance Sheets

As of March 31, 2019 and March 31, 2020

(Million yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable - trade	1,961	2,184
Accrued expenses	899	997
Income taxes payable	981	1,150
Accrued consumption taxes	389	677
Advances received	124	524
Provision for bonuses	1,119	1,327
Provision for bonuses for directors (and other officers)	48	47
Provision for losses on orders received	*2 584	*2 445
Other	1,941	590
<b>Total current liabilities</b>	<b>8,050</b>	<b>7,944</b>
<b>Non-current liabilities</b>		
Provision for retirement benefits for directors (and other officers)	150	118
Net defined benefit liability	9,453	6,431
Asset retirement obligations	162	249
Other	88	65
<b>Total non-current liabilities</b>	<b>9,854</b>	<b>6,864</b>
<b>Total liabilities</b>	<b>17,904</b>	<b>14,808</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Capital stock	15,000	15,000
Capital surplus	14,582	14,579
Retained earnings	7,895	9,245
Treasury shares	(166)	(119)
<b>Total shareholders' equity</b>	<b>37,311</b>	<b>38,705</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	150	(7)
Remeasurements of defined benefit plans	(923)	(829)
<b>Total accumulated other comprehensive income</b>	<b>(773)</b>	<b>(836)</b>
<b>Total net assets</b>	<b>36,538</b>	<b>37,868</b>
<b>Total net assets and liabilities</b>	<b>54,443</b>	<b>52,677</b>

## Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

For the fiscal year ended March 31, 2019 and 2020

(Million yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
<b>Net sales</b>	38,143	42,278
Cost of sales	*6 30,562	*6 33,121
<b>Gross profit</b>	7,580	9,157
Selling, general and administrative expenses	*1, *2 5,410	*1, *2 6,253
<b>Operating profit</b>	2,169	2,903
<b>Non-operating income</b>		
Interest income	6	9
Dividends income	9	16
Real estate rent	64	55
Dividend income of insurance	32	14
Others	37	17
<b>Total non-operating income</b>	150	113
<b>Non-operating expenses</b>		
Interest expenses	0	0
Rent expenses on real estate	57	48
Commission for purchase of treasury shares	23	-
Others	5	9
<b>Total non-operating expenses</b>	87	59
<b>Ordinary profit</b>	2,233	2,957
<b>Extraordinary income</b>		
Gain on sales of non-current assets	-	*3 4,307
Gain on bargain purchase	-	49
<b>Total extraordinary income</b>	-	4,356
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	*4 4	*4 95
Impairment loss	*5 17	*5 4,178
Loss on valuation of membership	15	5
<b>Total extraordinary losses</b>	36	4,280
<b>Profit before income taxes</b>	2,196	3,034
<b>Income tax and others</b>	1,020	1,525
<b>Adjustment of corporate taxes</b>	(315)	(554)
<b>Total income taxes</b>	704	970
<b>Profit</b>	1,492	2,063
<b>Profit attributable to owners of parent</b>	1,492	2,063



## Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

For the fiscal year ended March 31, 2019 and 2020

(Million yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
<b>Profit</b>	1,492	2,063
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	(48)	(157)
Remeasurements of defined benefit plans, net of tax	111	94
<b>Total other comprehensive income</b>	* 62	* (63)
<b>Comprehensive income</b>	1,554	1,999
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	1,554	1,999

## Statements of Changes in Consolidated Shareholders' Equity

Previous fiscal year (from April 1, 2018 until March 31, 2019)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,000	20,348	6,937	(2,875)	39,410
Changes during current period					
Dividends of surplus			(534)		(534)
Profit attributable to owners of parent			1,492		1,492
Purchase of treasury shares				(6,002)	(6,002)
Disposal of treasury shares		76		2,869	2,945
Retirement of treasury shares		(5,841)		5,841	–
Changes in items other than shareholders' equity (net)					
Total changes during current period	–	(5,765)	957	2,708	(2,098)
Balance at end of current period	15,000	14,582	7,895	(166)	37,311

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	199	(1,034)	(835)	38,574
Changes during current period				
Dividends of surplus				(534)
Profit attributable to owners of parent				1,492
Purchase of treasury shares				(6,002)
Disposal of treasury shares				2,945
Retirement of treasury shares				–
Changes in items other than shareholders' equity (net)	(48)	111	62	62
Total changes during current period	(48)	111	62	(2,036)
Balance at end of current period	150	(923)	(773)	36,538

Current fiscal year (from April 1, 2019 until March 31, 2020)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,000	14,582	7,895	(166)	37,311
Changes during current period					
Dividends of surplus			(713)		(713)
Profit attributable to owners of parent			2,063		2,063
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		(3)		49	46
Changes in items other than shareholders' equity (net)					
Total changes for current period	–	(3)	1,349	46	1,393
Balance at end of current period	15,000	14,579	9,245	(119)	38,705

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	150	(923)	(773)	36,538
Changes during current period				
Dividends of surplus				(713)
Profit attributable to owners of parent				2,063
Purchase of treasury shares				(2)
Disposal of treasury shares				46
Changes in items other than shareholders' equity (net)	(157)	94	(63)	(63)
Total changes for current period	(157)	94	(63)	1,329
Balance at end of current period	(7)	(829)	(836)	37,868

## Consolidated Statement of Cash Flow

For the fiscal year ended March 31, 2019 and 2020

(Million yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
<b>Cash flows from operating activities</b>		
Profit before income taxes	2,196	3,034
Depreciation	2,575	2,448
Impairment loss	17	4,178
Increase (decrease) in provision for bonuses	1	169
Increase (decrease) in provision for bonuses for directors (and other officers)	(0)	(0)
Increase (decrease) in provision for losses on orders received	89	(139)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(21)	(31)
Increase (decrease) in net defined benefit liability	(614)	(2,942)
Loss (gain) on sales of property, plant and equipment	–	(4,307)
Loss on retirement of non-current assets	4	95
Loss on valuation of membership	15	5
Gain on bargain purchase	–	(49)
Decrease (increase) in trade receivables	413	60
Decrease (increase) in inventories	215	237
Decrease (increase) in other assets	(34)	(150)
Increase (decrease) in trade payables	(681)	197
Increase (decrease) in other liabilities	228	254
Other, net	(18)	(178)
<b>(Subtotal)</b>	<b>4,386</b>	<b>2,882</b>
Income taxes refund	215	13
Income taxes paid	(256)	(1,383)
<b>Net cash provided by (used in) operating activities</b>	<b>4,344</b>	<b>1,512</b>

(Million yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
<b>Cash flows from investing activities</b>		
Net decrease (increase) in time deposits	(0)	199
Proceeds from withdrawal of long-term time deposits	–	300
Purchase of property, plant and equipment	(709)	(1,209)
Proceeds from sales of property, plant and equipment	1,250	17,202
Purchase of intangible assets	(1,985)	(1,327)
Purchase of long-term prepaid expenses	(268)	(404)
Purchase of investment securities	(123)	(3,280)
Payments of leasehold and guarantee deposits	(298)	(273)
Proceeds from refund of leasehold and guarantee deposits	51	244
Payments for asset retirement obligations	(4)	(40)
Proceeds from merger	–	87
Other	33	32
<b>Net cash provided by (used in) investing activities</b>	<b>(2,055)</b>	<b>11,531</b>
<b>Cash flows from financing activities</b>		
Repayments of lease obligations	(19)	(21)
Decrease (increase) in deposits for purchase of treasury shares	(0)	–
Purchase of treasury shares	(6,002)	(2)
Proceeds from disposal of treasury shares	2,945	–
Cash dividends paid	(534)	(712)
<b>Net cash provided by (used in) financing activities</b>	<b>(3,609)</b>	<b>(735)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,320)</b>	<b>12,308</b>
<b>Beginning cash and cash equivalent balance</b>	<b>10,026</b>	<b>8,706</b>
<b>Ending cash and cash equivalent balance</b>	<b>* 8,706</b>	<b>* 21,014</b>