

July 31, 2020

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2021



INES Corporation

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1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2021 (April 1, 2020 to June 30, 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 | |
|----------------------------------|-----------|-------|------------------|---------|-----------------|---------|---|---------|
| Three months ended June 30, 2020 | 9,247 | 3.8% | 371 | (38.8)% | 390 | (36.9)% | 165 | (58.9)% |
| Three months ended June 30, 2019 | 8,910 | 15.9% | 607 | —% | 618 | —% | 404 | —% |

(Note) Comprehensive income Three months ended June 30, 2020: ¥208 million (-46.1%)
 Three months ended June 30, 2019: ¥386 million (-%)

| | Profit per share (Yen) | Fully diluted profit per share (Yen) |
|----------------------------------|------------------------|--------------------------------------|
| Three months ended June 30, 2020 | 6.97 | — |
| Three months ended June 30, 2019 | 17.00 | — |

(2) Consolidated Financial Position

(Million yen)

| | Total assets | Net assets | Equity ratio (%) |
|----------------------|--------------|------------|------------------|
| As of June 30, 2020 | 52,650 | 37,503 | 71.2 |
| As of March 31, 2020 | 52,677 | 37,868 | 71.9 |

(Reference) Shareholders' equity As of June 30, 2020: ¥37,503 million As of March 31, 2020: ¥37,868 million

2. Dividends

| | Dividends per share (Yen) | | | | |
|---------------------------------------|---------------------------|-----------|-----------|-----------------|--------|
| | End of Q1 | End of Q2 | End of Q3 | Fiscal year end | Annual |
| Year ended March 31, 2020 | — | 15.00 | — | 25.00 | 40.00 |
| Year ending March 31, 2021 | — | | | | |
| Year ending March 31, 2021 (Forecast) | | 15.00 | — | 25.00 | 40.00 |

(Note) Revisions to dividend forecasts published most recently: Yes

(Note) Of the year-end dividend of 25.00 yen for the fiscal year ending March 31, 2020, 10.00 yen is a special dividend paid for the achievement of record high results.

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

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Profit per share (Yen) | |
|-----------|-----------|--------|------------------|--------|-----------------|--------|---|--------|------------------------|--|
| Full year | 42,000 | (0.7)% | 2,800 | (3.6)% | 2,850 | (3.6)% | 1,900 | (7.9)% | 79.81 | |

(Note) Revisions to results forecasts published most recently: Yes

Refer to page 4 for details on the revision to the consolidated financial forecasts of INES Corporation.

*Notes

(1) Significant changes in subsidiaries during the first quarter under review (changes in subsidiaries causing a change in the scope of consolidation): No

(2) Application of special accounting treatment to the preparation of consolidated financial statements: Yes

(3) 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

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding at the term end (including treasury shares)
FY2021/3 Q1: 23,900,000 shares
FY2020/3: 23,900,000 shares
2. Number of treasury shares at the term end
FY2021/3 Q1: 93,494 shares
FY2020/3: 96,438 shares
3. Average number of shares outstanding
FY2021/3 Q1: 23,798,715 shares
FY2020/3 Q1: 23,765,567 shares

*** Quarterly consolidated financial statements are placed outside the scope of quarterly reviews performed by a certified public accountant or an audit corporation.**

*** Explanation regarding the proper use of results forecasts and other important notes**

(Disclaimer regarding forward-looking statements)

Forward-looking statements such as the results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee their achievement. Actual results may differ significantly from the above forecasts for various reasons. For conditions regarding the assumptions for results forecasts and notes on the use of results forecasts, etc., please refer to page 4 of the accompanying materials “1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2021, (2) Explanation of revisions to forecasts for consolidated financial results” of the accompanying materials.

1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2021

(1) Details of operating results

During the first quarter under review, the Japanese economy experienced extremely adverse conditions caused primarily by the novel coronavirus infection disease (“COVID-19”) pandemic and the impact of the state of emergency declared by the government.

Since the state of emergency was lifted, some indicators such as consumer spending have shown signs of recovery; however, efforts to gradually raise the level of economic activity while taking measures to prevent the spread of infection have continued.

When COVID-19 began spreading in Japan, INES Corporation (“the Company”) established a scheme to protect its customers, partners, and employees from the risk of infection, for instance, by reducing face-to-face sales activities. It has also focused on developing a system corresponding to the new normal, including employees’ teleworking, staggered working hours, teleconferencing, and social-distancing at workplace.

Net sales for the first quarter under review are presented in the consolidated net sales by sector below. Total consolidated net sales rose 3.8% year on year, to 9,247 million yen, through sale growth of the Company’s affiliates (“the INES Group”) (posted under “Other”). Since April when the spread of COVID-19 became increasingly serious, however, suspension and delay in system development projects, slowdown in sales activities, and other adverse effects began to arise mostly from customers in the private sector such as financial service, manufacturing, and retail industries, in which net sales decreased, while sales remained strong in the public sector as in the previous year.

Since June, customers have gradually established systems to avoid the risk of infection; however, the infection continues to spread both in Japan and abroad and the situation remains unpredictable.

In the aspect of profit, operating profit fell 38.8%, to 371 million yen, owing largely to a decrease in the work of engineers caused by project suspension and delay. As a result, ordinary profit and profit attributable to owners of parent came to 390 million yen (down 36.9% year on year) and 165 million yen (down 58.9% year on year), respectively.

Consolidated net sales by sector

(Million yen)

| Category/ Term | Three months ended June 30, 2019 | | Three months ended June 30, 2020 | | YoY change (%) |
|------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------|
| | Amount | Composition ratio (%) | Amount | Composition ratio (%) | |
| Public | 3,486 | 39.1 | 3,474 | 37.6 | (0.3) |
| Financial | 2,709 | 30.4 | 2,528 | 27.3 | (6.7) |
| General industry | 1,771 | 19.9 | 1,664 | 18.0 | (6.0) |
| Other | 943 | 10.6 | 1,579 | 17.1 | 67.5 |
| Total | 8,910 | 100.0 | 9,247 | 100.0 | 3.8 |

Consolidated net sales by product/service

(Million yen)

| Category/ Term | Three months ended June 30, 2019 | | Three months ended June 30, 2020 | | YoY change (%) |
|--------------------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------|
| | Amount | Composition ratio (%) | Amount | Composition ratio (%) | |
| System development | 4,008 | 44.9 | 3,709 | 40.1 | (7.5) |
| System operation | 2,857 | 32.1 | 2,804 | 30.3 | (1.9) |
| System maintenance | 1,111 | 12.5 | 1,155 | 12.5 | 3.9 |
| Sales of information equipment | 262 | 2.9 | 209 | 2.3 | (20.2) |
| Other | 670 | 7.6 | 1,369 | 14.8 | 104.3 |
| Total | 8,910 | 100.0 | 9,247 | 100.0 | 3.8 |

(2) Explanation on revisions to forecasts for consolidated financial results

As described in “3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)” in the “Consolidated Financial Statements for the Fiscal Year Ended March 31, 2020” announced on May 8, 2020, it was difficult at the time to rationally estimate the financial impact of the COVID-19 pandemic on the Company’s financial performance and, therefore, the consolidated financial forecasts for the fiscal year under review were undetermined. Because the operation for private-sector customers, which were delayed after the declaration of a state of emergency, gradually began returning to normal after the state of emergency was lifted, the Company has decided to announce its consolidated financial forecasts as presented below.

Overall net sales are expected to decrease only slightly by 0.7% year on year as a result of strong sales maintained in the public sector as in the previous year and sales growth maintained by the INES Group companies from the previous year, which will nearly offset the decrease in sales particularly in the financial and general industry sectors mostly during the first quarter due to the impact of COVID-19. Operating profit is expected fall 3.6% year on year owing in part to additional expenses for measures against COVID-19, including the development of settings for teleworking and social-distancing, in addition to the above factors of decrease.

Revision to the forecasts for consolidated financial results for the fiscal year ending March 31, 2021

| | (Million yen) | | | |
|--|---------------|------------------|-----------------|---|
| | Net sales | Operating profit | Ordinary profit | Profit attributable to owners of parent |
| Before the revision (A) (Announced on May 8, 2020) | — | — | — | — |
| After the revision (B) | 42,000 | 2,800 | 2,850 | 1,900 |
| Change (B-A) | — | — | — | — |
| Change (%) | — | — | — | — |
| Results in the previous year (Fiscal year ended March 31, 2020) | 42,278 | 2,903 | 2,957 | 2,063 |

Dividend forecast for the fiscal year ending March 31, 2021, will be revised for the same reason.

Revision to the dividend forecast for the fiscal year ending March 31, 2021

| | Dividends per share (Yen) | | |
|--|---------------------------|-----------------|--------|
| | End of Q2 | Fiscal year end | Annual |
| Previous forecast (Announced on May 8, 2020) | — | — | — |
| Revised forecast | 15.00 | 25.00 | 40.00 |
| Dividends paid in the fiscal year ending March 31, 2021 | | | |
| Dividends paid in the fiscal year ended March 31, 2020 | 15.00 | 25.00 | 40.00 |

Note) Of the year-end dividend of 25.00 yen for the fiscal year ending March 31, 2020, 10.00 yen is a special dividend paid for the achievement of record high results.

(Caution on future forecast information)

Forward-looking statements such as results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee their achievement. Actual results may differ significantly from the above forecasts for various reasons.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidated balance sheet

As of March 31 and June 30, 2020

(Million yen)

| | FY2019 (As of March 31, 2020) | 1Q of FY2020 (As of June 30, 2020) |
|--|----------------------------------|---------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and deposits | 22,049 | 25,528 |
| Notes and accounts receivable - trade | 9,716 | 5,177 |
| Securities | - | 300 |
| Work in process | 940 | 1,790 |
| Raw materials and supplies | 102 | 79 |
| Prepaid expenses | 399 | 404 |
| Other | 91 | 84 |
| Allowance for doubtful accounts | (9) | (12) |
| Total current assets | 33,291 | 33,352 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 6,785 | 6,798 |
| Accumulated depreciation | (4,955) | (4,999) |
| Buildings and structures, net | 1,830 | 1,799 |
| Tools, furniture and fixtures | 4,341 | 4,273 |
| Accumulated depreciation | (2,840) | (2,844) |
| Tools, furniture and fixtures, net | 1,500 | 1,428 |
| Land | 775 | 775 |
| Total property, plant and equipment | 4,106 | 4,002 |
| Intangible assets | | |
| Software | 3,775 | 3,749 |
| Other | 24 | 24 |
| Total intangible assets | 3,800 | 3,773 |
| Investments and other assets | | |
| Investment securities | 4,632 | 4,631 |
| Long-term prepaid expenses | 726 | 844 |
| Deferred tax assets | 5,046 | 5,030 |
| Other | 1,073 | 1,014 |
| Allowance for doubtful accounts | (0) | (0) |
| Total investments and other assets | 11,478 | 11,521 |
| Total non-current assets | 19,385 | 19,298 |
| Total assets | 52,677 | 52,650 |

Quarterly consolidated balance sheet

As of March 31 and June 30, 2020

(Million yen)

| | FY2019 (As of March 31, 2020) | 1Q of FY2020 (As of June 30, 2020) |
|--|----------------------------------|---------------------------------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable – trade | 2,184 | 2,023 |
| Accrued expenses | 997 | 957 |
| Income taxes payable | 1,150 | 200 |
| Accrued consumption taxes | 677 | 272 |
| Advances received | 524 | 1,660 |
| Provision for bonuses | 1,327 | 1,931 |
| Provision for bonuses for directors (and other officers) | 47 | 17 |
| Provision for losses on orders received | 445 | 517 |
| Other | 590 | 670 |
| Total current liabilities | 7,944 | 8,251 |
| Non-current liabilities | | |
| Provision for retirement benefits for directors (and other officers) | 118 | 119 |
| Retirement benefit liability | 6,431 | 6,475 |
| Asset retirement obligations | 249 | 250 |
| Other | 65 | 50 |
| Total non-current liabilities | 6,864 | 6,895 |
| Total liabilities | 14,808 | 15,147 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Share capital | 15,000 | 15,000 |
| Capital surplus | 14,579 | 14,582 |
| Retained earnings | 9,245 | 8,816 |
| Treasury shares | (119) | (100) |
| Total shareholders' equity | 38,705 | 38,297 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (7) | (5) |
| Remeasurements of defined benefit plans | (829) | (788) |
| Total accumulated other comprehensive income | (836) | (794) |
| Total net assets | 37,868 | 37,503 |
| Total net assets and liabilities | 52,677 | 52,650 |

Quarterly consolidated statement of income

For the three months ended June 30, 2019 and 2020

(Million yen)

| | 1Q of FY2019 (April 1, 2019 to June 30, 2019) | 1Q of FY2020 (April 1, 2020 to June 30, 2020) |
|--|---|---|
| Net sales | 8,910 | 9,247 |
| Cost of sales | 6,832 | 7,449 |
| Gross profit | 2,077 | 1,797 |
| Selling, general and administrative expenses | 1,470 | 1,426 |
| Operating profit | 607 | 371 |
| Non-operating income: | | |
| Interest income | 1 | 5 |
| Dividends income | 5 | 5 |
| Rental income from real estate | 16 | 10 |
| Others | 4 | 6 |
| Total non-operating income | 27 | 27 |
| Non-operating expenses: | | |
| Interest expenses | 0 | 0 |
| Rental expenses on real estate | 14 | 8 |
| Others | 1 | 0 |
| Total non-operating expenses | 16 | 9 |
| Ordinary profit | 618 | 390 |
| Extraordinary income: | | |
| Gain on bargain purchase | 49 | – |
| Total extraordinary income | 49 | – |
| Extraordinary losses: | | |
| Loss on retirement of non-current assets | 1 | 0 |
| Total extraordinary losses | 1 | 0 |
| Profit before income taxes | 667 | 390 |
| Income taxes | 263 | 224 |
| Profit | 404 | 165 |
| Profit attributable to owners of parent | 404 | 165 |

Quarterly consolidated statement of comprehensive income

For the three months ended June 30, 2019 and 2020

(Million yen)

| | 1Q of FY2019 (April 1, 2019 to June 30, 2019) | 1Q of FY2020 (April 1, 2020 to June 30, 2020) |
|---|---|---|
| Profit | 404 | 165 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities | (57) | 1 |
| Remeasurements of defined benefit plans, net of tax | 40 | 41 |
| Total other comprehensive income | (17) | 42 |
| Comprehensive income | 386 | 208 |
| Comprehensive income attributable | | |
| Comprehensive income attributable to owners of parent | 386 | 208 |

Quarterly consolidated statement of cash flow

For the three months ended June 30, 2019 and 2020

(Million yen)

| | 1Q of FY2019 (April 1, 2019 to June 30, 2019) | 1Q of FY2020 (April 1, 2020 to June 30, 2020) |
|---|---|---|
| Cash flows from operating activities: | | |
| Profit before income taxes | 667 | 390 |
| Depreciation | 538 | 557 |
| Increase (decrease) in provision for bonuses | 615 | 604 |
| Increase (decrease) in provision for bonuses for directors (and other officers) | (32) | (30) |
| Increase (decrease) in provision for loss on order received | (244) | 72 |
| Increase (decrease) in provision for retirement benefits for directors (and other officers) | (24) | 0 |
| Increase (decrease) in retirement benefit liability | 62 | 103 |
| Loss on retirement of non-current assets | 1 | 0 |
| Gain on bargain purchase | (49) | - |
| Decrease (increase) in trade receivables | 5,121 | 5,675 |
| Decrease (increase) in inventories | (416) | (827) |
| Decrease (increase) in other assets | (81) | (9) |
| Increase (decrease) in trade payables | (213) | (165) |
| Increase (decrease) in other liabilities | 12 | (408) |
| Other, net | (87) | (90) |
| (Subtotal) | 5,867 | 5,872 |
| Income taxes refund | - | 5 |
| Income taxes paid | (892) | (1,072) |
| Net cash provided by (used in) operating activities: | 4,974 | 4,804 |
| Cash flows from investing activities | | |
| Net decrease (increase) in time deposits | 199 | (0) |
| Purchase of securities | - | (300) |
| Purchase of property, plant and equipment | (127) | (125) |
| Proceeds from sales of property, plant and equipment | - | 127 |
| Purchase of intangible assets | (228) | (271) |
| Proceeds from sales of intangible assets | - | 1 |
| Purchase of long-term prepaid expenses | (31) | (177) |
| Purchase of investment securities | (229) | (4) |
| Payments of leasehold and guarantee deposits | (50) | (47) |
| Proceeds from refund of leasehold and guarantee deposits | 40 | 77 |
| Payments for asset retirement obligations | - | (73) |
| Proceeds from merger | 87 | - |
| Other | 6 | 30 |
| Net cash provided by (used in) investing activities: | (331) | (762) |
| Cash flows from financing activities: | | |
| Repayments of lease obligations | (1) | (5) |
| Purchase of treasury shares | (0) | (0) |
| Cash dividends paid | (334) | (558) |
| Net cash provided by (used in) financing activities | (336) | (563) |
| Net increase (decrease) in cash and cash equivalents | 4,306 | 3,478 |
| Cash and cash equivalents at beginning of period | 8,706 | 21,014 |
| Cash and cash equivalents at end of period | 13,013 | 24,493 |