

July 30, 2021

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2022



INES Corporation

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1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2022 (April 1, 2021 to June 30, 2021)

(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, 2021 | 8,439 | (8.7)% | 38 | (89.7)% | 62 | (83.9)% | (71) | — |
| Three months ended June 30, 2020 | 9,247 | 3.8% | 371 | (38.8)% | 390 | (36.9)% | 165 | (58.9)% |

(Note) Comprehensive income Three months ended June 30, 2021: ¥59 million (-71.4%)
 Three months ended June 30, 2020: ¥208 million (-46.1%)

| | Profit per share (Yen) | Fully diluted profit per share (Yen) |
|----------------------------------|------------------------|--------------------------------------|
| Three months ended June 30, 2021 | (3.02) | — |
| Three months ended June 30, 2020 | 6.97 | — |

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2020) has been applied from the beginning of the first quarter under review, and figures for the first quarter of the fiscal year ending March 31, 2022 are those after applying the Accounting Standard.

(2) Consolidated Financial Position

(Million yen)

| | Total assets | Net assets | Equity ratio (%) |
|----------------------|--------------|------------|------------------|
| As of June 30, 2021 | 52,222 | 38,294 | 73.3 |
| As of March 31, 2021 | 51,261 | 38,795 | 75.7 |

(Reference) Shareholders' equity As of June 30, 2021: ¥38,294 million As of March 31, 2021: ¥38,795 million

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2020) has been applied from the beginning of the first quarter under review, and figures for the first quarter of the fiscal year ending March 31, 2022 are those after applying the Accounting Standard.

2. Dividends

| | Dividends per share (Yen) | | | | |
|--|---------------------------|-----------|-----------|-----------------|--------|
| | End of Q1 | End of Q2 | End of Q3 | Fiscal year end | Annual |
| Year ended March 31, 2021 | — | 15.00 | — | 25.00 | 40.00 |
| Year ending March 31, 2022 | — | | | | |
| Year ending March 31, 2022 (Forecast) | | 20.00 | — | 20.00 | 40.00 |

(Note) Revisions to dividend forecasts published most recently: No

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(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 | 43,000 | 3.4% | 3,300 | 18.4% | 3,300 | 12.8% | 2,000 | 39.6% | 83.99 | |

(Note) Revisions to results forecasts published most recently: No

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2020) has been applied from the beginning of the first quarter under review, and the forecasts for consolidated financial results above are figures after applying the Accounting Standard.

*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.: Yes
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)
FY2022/3 Q1: 23,900,000 shares
FY2021/3: 23,900,000 shares
2. Number of treasury shares at the term end
FY2021/3 Q1: 87,316 shares
FY2021/3: 94,870 shares
3. Average number of shares outstanding
FY2022/3 Q1: 23,808,917 shares
FY2021/3 Q1: 23,798,715 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 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 a variety of reasons, such as the spread of COVID-19. 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, 2022, (3) Explanation on future forecast information such as consolidated results forecasts.”

1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2022

(1) External environment and the Company's initiatives in the first quarter under review

During the first quarter under review, the Japanese economy continued to experience the spread of COVID-19. A decline in the number of new cases and the reopening of economic activity were seen in some countries due in part to progress with vaccination. However, with the number of infected persons continuing to rise in many countries, the situation remains uncertain.

In Japan, the number of infected persons continued to rise, particularly in the Tokyo metropolitan area and the Kansai region, and a range of businesses, including non-manufacturing businesses such as tourism, transportation and restaurants in particular, faced difficult economic conditions due to the declaration of a state of emergency. Even so, some indicators such as those related to consumer spending, capital investment and export showed signs of recovery, partly reflecting the contribution of improving overseas economies, as well as the effects of a range of measures implemented by the government and efforts made by companies and the public, such as voluntary restrictions on outings and the implementation of teleworking.

In this situation, INES Corporation ("the Company") established protocols to protect its customers, partners, and employees from the risk of infection, for instance, by continuing to reduce face-to-face sales activities. It has also maintained a system corresponding to the new normal, including employees' teleworking, staggered working hours, teleconferencing, social-distancing in the workplace, and satellite offices.

In addition, the Company established a new dedicated organization in April 2021 to better promote digital transformation (DX), with an eye on a new post-COVID-19 era in which DX is expected to accelerate markedly. The Company implemented a major shift of personnel in existing business divisions, mainly young employees, to promote marketing and sales activities and worked proactively to facilitate research and development and develop human resources.

(2) Details of operating results

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "New Standard") from the beginning of the first quarter under review. For the first quarter of the previous fiscal year and the periods before that, figures before applying the New Standard are used. For further details, please refer to "2. Quarterly Consolidated Financial Statements and Important Notes, (4) Notes on quarterly consolidated financial statements (Changes in accounting policies)." Consolidated net sales for the first quarter under review declined 8.7% year on year, to ¥8,439 million (please refer to [Net sales and operating profit in the first quarter of the past five fiscal years] below). In the Public sector, the Company recorded a high level of net sales in fiscal 2019 and fiscal 2020 consecutively, unlike usual years, mainly due to large-scale legal system revisions, but net sales declined 14.4% year on year in the first quarter under review given the absence of projects of a similar scale.

In the Financial and General Industry sectors, net sales decreased significantly in the first quarter of the previous fiscal year due to the impact of COVID-19, but they are gradually returning to normal. As a result, net sales increased 8.3% year on year in the Financial sector in the first quarter under review, and the decline in net sales was significantly reduced in the General Industry sector. At Group companies (posted under "Other" in Consolidated net sales by sector), net sales declined 29.3% year on year, mainly due to the reduction of the scale of major bidding projects that had contributed to sales growth until the same period of the previous year.

In terms of profit, operating profit fell 89.7% year on year, to ¥38 million, and ordinary profit fell 83.9% year on year, to ¥62 million, largely reflecting increases in various infrastructure development costs to address the new normal and research and development expenses, in addition to lower sales in the Public sector and the Group companies. Every year, in the first quarter, the corporate tax burden ratio is also high compared with the profit level when calculating tax expenses. As a result, the Company recorded a loss attributable to

owners of parent of ¥71 million (compared with profit of attributable to owners of parent of ¥165 million in the same period of the previous year).

Net sales and operating profit in the first quarter of the past five fiscal years (Million yen)

| | 1Q of FY2017 | 1Q of FY2018 | 1Q of FY2019 | 1Q of FY2020 | 1Q of FY2021 |
|------------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 7,239 | 7,689 | 8,910 | 9,247 | 8,439 |
| Operating profit | (216) | (114) | 607 | 371 | 38 |

Consolidated net sales by sector (Million yen)

| Category/Term | Three months ended June 30, 2020 | | Three months ended June 30, 2021 | | YoY change (%) |
|------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------|
| | Amount | Composition ratio (%) | Amount | Composition ratio (%) | |
| Public | 3,474 | 37.6 | 2,973 | 35.2 | (14.4) |
| Financial | 2,528 | 27.3 | 2,737 | 32.5 | 8.3 |
| General industry | 1,664 | 18.0 | 1,611 | 19.1 | (3.2) |
| Other | 1,579 | 17.1 | 1,117 | 13.2 | (29.3) |
| Total | 9,247 | 100.0 | 8,439 | 100.0 | (8.7) |

Consolidated net sales by product/service (Million yen)

| Category/Term | Three months ended June 30, 2020 | | Three months ended June 30, 2021 | | YoY change (%) |
|--------------------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------|
| | Amount | Composition ratio (%) | Amount | Composition ratio (%) | |
| System development | 3,709 | 40.1 | 3,274 | 38.8 | (11.7) |
| System operation | 2,804 | 30.3 | 2,785 | 33.0 | (0.7) |
| System maintenance | 1,155 | 12.5 | 1,249 | 14.8 | 8.1 |
| Sales of information equipment | 209 | 2.3 | 209 | 2.5 | 0.3 |
| Other | 1,369 | 14.8 | 920 | 10.9 | (32.8) |
| Total | 9,247 | 100.0 | 8,439 | 100.0 | (8.7) |

(3) Explanation on future forecast information such as consolidated results forecasts

The consolidated financial results forecast and dividend forecast published on April 30, 2021 remain unchanged.

(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 a variety of reasons, such as the spread of COVID-19.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidated balance sheet

As of March 31 and June 30, 2021

(Million yen)

| | FY2020 (As of March 31, 2021) | 1Q of FY2021 (As of June 30, 2021) |
|--|----------------------------------|---------------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and deposits | 10,602 | 16,508 |
| Notes and accounts receivable - trade | 10,522 | - |
| Notes and accounts receivable - trade, and contract assets | - | 5,306 |
| Securities | 2,300 | 2,300 |
| Work in process | 760 | 1,044 |
| Raw materials and supplies | 73 | 78 |
| Prepaid expenses | 400 | 450 |
| Other | 578 | 522 |
| Allowance for doubtful accounts | (15) | (10) |
| Total current assets | 25,222 | 26,198 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 3,548 | 3,579 |
| Accumulated depreciation | (2,814) | (2,854) |
| Buildings and structures, net | 733 | 724 |
| Tools, furniture and fixtures | 4,260 | 4,366 |
| Accumulated depreciation | (3,083) | (3,204) |
| Tools, furniture and fixtures, net | 1,177 | 1,161 |
| Land | 3 | 3 |
| Total property, plant and equipment | 1,914 | 1,889 |
| Intangible assets | | |
| Software | 3,595 | 3,642 |
| Other | 24 | 24 |
| Total intangible assets | 3,620 | 3,666 |
| Investments and other assets | | |
| Investment securities | 13,947 | 14,072 |
| Long-term prepaid expenses | 878 | 830 |
| Deferred tax assets | 4,513 | 4,456 |
| Other | 1,164 | 1,108 |
| Allowance for doubtful accounts | (0) | (0) |
| Total investments and other assets | 20,503 | 20,467 |
| Total non-current assets | 26,038 | 26,023 |
| Total assets | 51,261 | 52,222 |

Quarterly consolidated balance sheet

As of March 31 and June 30, 2021

(Million yen)

| | FY2020 (As of March 31, 2021) | 1Q of FY2021 (As of June 30, 2021) |
|--|----------------------------------|---------------------------------------|
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable - trade | 2,343 | 1,699 |
| Accrued expenses | 790 | 838 |
| Income taxes payable | 107 | 131 |
| Accrued consumption taxes | 301 | 269 |
| Advances received | 231 | 1,806 |
| Provision for bonuses | 1,136 | 1,704 |
| Provision for bonuses for directors (and other officers) | 69 | 18 |
| Provision for losses on orders received | 350 | 277 |
| Other | 552 | 665 |
| Total current liabilities | 5,884 | 7,411 |
| Non-current liabilities | | |
| Provision for retirement benefits for directors (and other officers) | 129 | 135 |
| Net defined benefit liability | 6,168 | 6,086 |
| Asset retirement obligations | 252 | 261 |
| Other | 30 | 34 |
| Total non-current liabilities | 6,580 | 6,517 |
| Total liabilities | 12,465 | 13,928 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Capital stock | 15,000 | 15,000 |
| Capital surplus | 14,582 | 14,592 |
| Retained earnings | 9,725 | 9,061 |
| Treasury shares | (102) | (82) |
| Total shareholders' equity | 39,204 | 38,571 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (10) | 83 |
| Remeasurements of defined benefit plans | (398) | (361) |
| Total accumulated other comprehensive income | (408) | (277) |
| Total net assets | 38,795 | 38,294 |
| Total net assets and liabilities | 51,261 | 52,222 |

Quarterly consolidated statement of income

For the three months ended June 30, 2020 and 2021

(Million yen)

| | 1Q of FY2020 (April 1, 2020 to June 30, 2020) | 1Q of FY2021 (April 1, 2021 to June 30, 2021) |
|---|---|---|
| Net sales | 9,247 | 8,439 |
| Cost of sales | 7,449 | 6,835 |
| Gross profit | 1,797 | 1,603 |
| Selling, general and administrative expenses | 1,426 | 1,565 |
| Operating profit | 371 | 38 |
| Non-operating income | | |
| Interest income | 5 | 13 |
| Dividends income | 5 | 6 |
| Real estate rent | 10 | - |
| Other | 6 | 5 |
| Total non-operating income | 27 | 24 |
| Non-operating expenses | | |
| Interest expenses | 0 | 0 |
| Rent expenses on real estate | 8 | - |
| Other | 0 | 0 |
| Total non-operating expenses | 9 | 0 |
| Ordinary profit | 390 | 62 |
| Extraordinary income | | |
| Total extraordinary income | - | - |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 0 | 0 |
| Total extraordinary losses | 0 | 0 |
| Profit before income taxes | 390 | 62 |
| Income taxes | 224 | 134 |
| Profit (loss) | 165 | (71) |
| Profit (loss) attributable to owners of parent | 165 | (71) |

Quarterly consolidated statement of comprehensive income

For the three months ended June 30, 2020 and 2021

(Million yen)

| | 1Q of FY2020 (April 1, 2020 to June 30, 2020) | 1Q of FY2021 (April 1, 2021 to June 30, 2021) |
|---|---|---|
| Profit (loss) | 165 | (71) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1 | 94 |
| Remeasurements of defined benefit plans, net of tax | 41 | 37 |
| Total other comprehensive income | 42 | 131 |
| Comprehensive income | 208 | 59 |
| Comprehensive income attributable | | |
| Comprehensive income attributable to owners of parent | 208 | 59 |

Quarterly consolidated statement of cash flow

For the three months ended June 30, 2020 and 2021

(Million yen)

| | 1Q of FY2020 (April 1, 2020 to June 30, 2020) | 1Q of FY2021 (April 1, 2021 to June 30, 2021) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 390 | 62 |
| Depreciation | 557 | 508 |
| Increase (decrease) in provision for bonuses | 604 | 567 |
| Increase (decrease) in provision for bonuses for directors (and other officers) | (30) | (51) |
| Increase (decrease) in provision for losses on orders received | 72 | (72) |
| Increase (decrease) in provision for retirement benefits for directors (and other officers) | 0 | 6 |
| Increase (decrease) in net defined benefit liability | 103 | (27) |
| Loss on retirement of non-current assets | 0 | 0 |
| Decrease (increase) in trade receivables | 5,675 | 6,790 |
| Decrease (increase) in inventories | (827) | (289) |
| Decrease (increase) in other assets | (9) | 113 |
| Increase (decrease) in trade payables | (165) | (637) |
| Increase (decrease) in other liabilities | (408) | 82 |
| Other, net | (90) | 17 |
| (Subtotal) | 5,872 | 7,069 |
| Income taxes refund | 5 | 62 |
| Income taxes paid | (1,072) | (185) |
| Net cash provided by (used in) operating activities | 4,804 | 6,946 |
| Cash flows from investing activities | | |
| Net decrease (increase) in time deposits | (0) | – |
| Net decrease (increase) in short-term investment securities | (300) | – |
| Purchase of property, plant and equipment | (125) | (190) |
| Proceeds from sales of property, plant and equipment | 127 | – |
| Purchase of intangible assets | (271) | (300) |
| Proceeds from sales of intangible assets | 1 | – |
| Purchase of long-term prepaid expenses | (177) | (36) |
| Purchase of investment securities | (4) | (1) |
| Payments of leasehold and guarantee deposits | (47) | (44) |
| Proceeds from refund of leasehold and guarantee deposits | 77 | 100 |
| Payments for asset retirement obligations | (73) | (4) |
| Other, net | 30 | 1 |
| Net cash provided by (used in) investing activities | (762) | (477) |
| Cash flows from financing activities | | |
| Repayments of lease obligations | (5) | (5) |
| Purchase of treasury shares | (0) | (0) |
| Cash dividends paid | (558) | (558) |
| Net cash provided by (used in) financing activities | (563) | (563) |
| Net increase (decrease) in cash and cash equivalents | 3,478 | 5,905 |
| Beginning cash and cash equivalent balance | 21,014 | 10,368 |
| Ending cash and cash equivalent balance | 24,493 | 16,274 |