

October 29, 2021

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



INES Corporation

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1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2022 (April 1, 2021 to September 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	
Six months ended Sep. 30, 2021	18,923	(4.0)	846	(38.0)	894	(35.7)	500	61.0
Six months ended Sep. 30, 2020	19,716	(0.5)	1,363	(8.8)	1,391	(8.5)	310	—

(Note) Comprehensive income Six months ended September 30, 2021: ¥692 million (81.7%)
 Six months ended September 30, 2020: ¥380 million (—%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Six months ended Sep. 30, 2021	21.16	—
Six months ended Sep. 30, 2020	13.05	—

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

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2021	49,513	37,740	76.2
As of March 31, 2021	51,261	38,795	75.7

(Reference) Shareholders' equity As of September 30, 2021: ¥37,740 million
 As of March 31, 2021: ¥38,795 million

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter, and figures for the first half of the fiscal year ending March 31, 2022 are those after applying the said 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	—	20.00			
Year ending March 31, 2022 (Forecast)			—	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	42,000	1.0	1,500	(46.2)	1,500	(48.7)	1,000	(30.2)	43.43

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

See the news release, "Notice of Revision of Performance Forecast and Dividend Forecast," dated October 29, 2021, for details on the revision made to the consolidated financial forecasts of INES Corporation.

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter, and the above forecasts for consolidated financial results are those after applying the said Accounting Standard.

The Company purchased treasury shares following a resolution of a meeting of the Board of Directors held on July 30, 2021. Profit per share in forecasts for consolidated financial results reflect the impact of the purchase of treasury shares as of September 30, 2021.

* Notes

(1) Significant changes in subsidiaries during the first half 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 H1: 23,900,000 shares
 - FY2021/3: 23,900,000 shares
2. Number of treasury shares at the term end
 - FY2022/3 H1: 874,744 shares
 - FY2021/3: 94,870 shares
3. Average number of shares outstanding
 - FY2022/3 H1: 23,635,523 shares
 - FY2021/3 H1: 23,801,872 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 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 Half 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 Half 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 half under review, the Japanese economy continued to be affected by the spread of COVID-19, experiencing sluggish economic activity in a range of businesses, including non-manufacturing businesses such as tourism, transportation and restaurants, in particular, due to the declaration of a state of emergency. There were, however, positive signs for the future, mainly reflecting the downward trend in the number of new infections due partly to progress with vaccination, the lifting of the state of emergency and pre-emergency measures against COVID-19 at the end of September, and improving overseas economies. Even so, the situation still remains to be seen, partly reflecting a global shortage in semiconductors due to a surge in demand and a global rise in energy-related prices.

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

In addition, with the advent of a new post-COVID-19 era in which DX is expected to accelerate markedly, the Company established a new dedicated organization in April 2021 to better promote digital transformation (DX) and implemented a major shift of personnel in existing business divisions. By doing so, it moved forward actively with marketing and sales activities, research and development and the development of human resources.

(2) Details of operating results

The Company applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "New Standard") at the beginning of the first quarter of the fiscal year under review. For the first half of the previous fiscal year and the periods before that, results before the application of the New Standard are presented.

Consolidated net sales for the first half under review declined 4.0% year on year, to ¥18,923 million (please refer to "Net sales and operating profit in the first half for the past five years" below). In the Public sector, the Company recorded sales in conjunction with large-scale legal system revisions that took place in fiscal 2019 and fiscal 2020. Even so, net sales declined 3.4% year on year in the first half under review due to the absence of projects of a similar scale.

In the Financial and General Industry sectors, sales had been falling significantly in the first half of the previous fiscal year due to the impact of COVID-19. In the first half under review, however, reflecting a recovery in demand for IT investments, net sales increased 5.5% year on year in the Financial sector and in the General Industry sector, they recovered to the year-ago level. At Group companies (posted under "Other" in the "Consolidated net sales by sector" section), net sales declined 24.6% year on year in the first half under review, mainly due to the reduction of the scale of major bidding projects that had been contributing to sales growth until the same period of the previous year.

On the profit side, operating profit fell 38.0% year on year, to ¥846 million, and ordinary profit fell 35.7% year on year, to ¥894 million, largely reflecting increases in infrastructure development costs resulting from measures against COVID-19 as well as rising research and development expenses due to DX investments, in addition to lower sales at the Group companies, among other factors. Profit attributable to owners of parent increased 61.0% year on year, to ¥500 million, mainly due to a reactionary decline due to the absence of an impairment loss in association with the sale of owned real estate that we posted in the same period of the previous year.

Net sales and operating profit in the first half for the past five years (Million yen)

	1H of FY2017	1H of FY2018	1H of FY2019	1H of FY2020	1H of FY2021
Net sales	16,148	17,655	19,822	19,716	18,923
Operating profit	238	597	1,495	1,363	846

Consolidated net sales by sector (Million yen)

Category/Term	Six months ended September 30, 2020		Six months ended September 30, 2021		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	7,806	39.6	7,537	39.8	(3.4)
Financial	5,290	26.8	5,578	29.5	5.5
General industry	3,335	16.9	3,331	17.6	(0.1)
Other	3,284	16.7	2,476	13.1	(24.6)
Total	19,716	100.0	18,923	100.0	(4.0)

Consolidated net sales by product/service (Million yen)

Category/Term	Six months ended September 30, 2020		Six months ended September 30, 2021		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	7,927	40.3	7,516	39.8	(5.2)
System operation	5,884	29.8	6,302	33.3	7.1
System maintenance	2,390	12.1	2,462	13.0	3.0
Sales of information equipment	649	3.3	474	2.5	(26.9)
Other	2,864	14.5	2,169	11.4	(24.3)
Total	19,716	100.0	18,923	100.0	(4.0)

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

The Company positioned the fiscal year under review as the first year in the medium-term management plan and was moving forward with its businesses according to the plan. However, taking into consideration the details of publicly issued specifications for the standardization of local governments' systems, it decided to change its strategies on public sector-related business.

Although the impact of the standardization of local governments' systems is minor, the Company has revised its net sales forecast for the fiscal year under review, taking into account orders that the Group companies have received so far.

With respect to operating profit, it has revised the initial forecast because it reviewed its software investment strategy pertaining to public sector-related businesses and made upfront investments in research and development to accelerate the DX business.

In addition, the Company has revised ordinary profit and profit attributable to owners of parent in line with the revision of operating profit.

Revisions to forecasts for the consolidated financial results for the fiscal year ending March 31, 2022
(April 1, 2021 to March 31, 2022)

	Net sales (Million yen)	Operating profit (Million yen)	Ordinary profit (Million yen)	Profit attributable to owners of parent (Million yen)	Profit per share (Yen)
Before the revision (A) (Announced on April 30, 2021)	43,000	3,300	3,300	2,000	84.02
After the revision (B)	42,000	1,500	1,500	1,000	43.43
Change (B-A)	(1,000)	(1,800)	(1,800)	(1,000)	
Change (%)	(2.3)	(54.5)	(54.5)	(50.0)	
Dividends paid in the fiscal year ended March 31, 2021	41,573	2,786	2,925	1,432	60.16

Dividends for the fiscal year under review remain unchanged from the dividend forecast announced on April 30, 2021.

(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 September 30, 2021

(Million yen)

	FY2020 (As of March 31, 2021)	2Q of FY2021 (As of September 30, 2021)
ASSETS		
Current assets		
Cash and deposits	10,602	12,223
Notes and accounts receivable - trade	10,522	-
Notes and accounts receivable - trade, and contract assets	-	7,398
Securities	2,300	2,300
Work in process	760	999
Raw materials and supplies	73	58
Prepaid expenses	400	406
Deposits paid	-	809
Other	578	55
Allowance for doubtful accounts	(15)	(13)
Total current assets	25,222	24,237
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,548	3,624
Accumulated depreciation	(2,814)	(2,904)
Buildings and structures, net	733	719
Tools, furniture and fixtures	4,260	4,591
Accumulated depreciation	(3,083)	(3,336)
Tools, furniture and fixtures, net	1,177	1,255
Land	3	3
Total property, plant and equipment	1,914	1,978
Intangible assets		
Software	3,595	3,124
Other	24	24
Total intangible assets	3,620	3,148
Investments and other assets		
Investment securities	13,947	13,789
Long-term prepaid expenses	878	803
Deferred tax assets	4,513	4,438
Other	1,164	1,117
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	20,503	20,147
Total non-current assets	26,038	25,275
Total assets	51,261	49,513

Quarterly consolidated balance sheet

As of March 31 and September 30, 2021

(Million yen)

	FY2020 (As of March 31, 2021)	2Q of FY2021 (As of September 30, 2021)
LIABILITIES		
Current liabilities		
Accounts payable - trade	2,343	1,636
Accrued expenses	790	770
Income taxes payable	107	494
Accrued consumption taxes	301	108
Advances received	231	504
Provision for bonuses	1,136	1,065
Provision for bonuses for directors (and other officers)	69	35
Provision for losses on orders received	350	196
Other	552	585
Total current liabilities	5,884	5,396
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	129	138
Net defined benefit liability	6,168	5,939
Asset retirement obligations	252	267
Other	30	30
Total non-current liabilities	6,580	6,375
Total liabilities	12,465	11,772
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	14,582	14,592
Retained earnings	9,725	9,633
Treasury shares	(102)	(1,268)
Total shareholders' equity	39,204	37,957
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(10)	106
Remeasurements of defined benefit plans	(398)	(323)
Total accumulated other comprehensive income	(408)	(216)
Total net assets	38,795	37,740
Total net assets and liabilities	51,261	49,513

Quarterly consolidated statement of income

For the six months ended September 30, 2020 and 2021

(Million yen)

	1H of FY2020 (April 1, 2020 to September 30, 2020)	1H of FY2021 (April 1, 2021 to September 30, 2021)
Net sales	19,716	18,923
Cost of sales	15,441	14,910
Gross profit	4,274	4,013
Selling, general and administrative expenses	2,911	3,167
Operating profit	1,363	846
Non-operating income		
Interest income	10	26
Dividends income	6	7
Real estate rent	20	-
Other	11	22
Total non-operating income	48	56
Non-operating expenses		
Interest expenses	0	0
Rent expenses on real estate	17	-
Commission for purchase of treasury shares	-	4
Other	3	2
Total non-operating expenses	21	7
Ordinary profit	1,391	894
Extraordinary income		
Total extraordinary income	-	-
Extraordinary losses		
Loss on sales of non-current assets	1	-
Loss on retirement of non-current assets	2	0
Loss on sale of investment securities	-	7
Impairment loss	765	-
Total extraordinary losses	770	8
Profit before income taxes	620	885
Income taxes	310	385
Profit	310	500
Profit attributable to owners of parent	310	500

Quarterly consolidated statement of comprehensive income

For the six months ended September 30, 2020 and 2021

(Million yen)

	1H of FY2020 (April 1, 2020 to September 30, 2020)	1H of FY2021 (April 1, 2021 to September 30, 2021)
Profit	310	500
Other comprehensive income		
Valuation difference on available-for-sale securities	(12)	117
Remeasurements of defined benefit plans, net of tax	82	74
Total other comprehensive income	70	192
Comprehensive income	380	692
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	380	692

Quarterly consolidated statement of cash flow

For the six months ended September 30, 2020 and 2021

(Million yen)

	1H of FY2020 (April 1, 2020 to September 30, 2020)	1H of FY2021 (April 1, 2021 to September 30, 2021)
Cash flows from operating activities		
Profit before income taxes	620	885
Depreciation	1,159	1,404
Impairment loss	765	–
Increase (decrease) in provision for bonuses	(189)	(70)
Increase (decrease) in provision for bonuses for directors (and other officers)	(14)	(34)
Increase (decrease) in provision for losses on orders received	(35)	(154)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	3	9
Increase (decrease) in net defined benefit liability	179	(121)
Loss on sales of non-current assets	1	–
Loss on retirement of non-current assets	2	0
Loss (gain) on sale of investment securities	–	7
Decrease (increase) in trade receivables	2,749	3,627
Decrease (increase) in inventories	(945)	(450)
Decrease (increase) in other assets	(64)	99
Increase (decrease) in trade payables	(374)	(703)
Increase (decrease) in other liabilities	(640)	(197)
Other, net	(8)	95
(Subtotal)	3,209	4,397
Income taxes refund	34	567
Income taxes paid	(1,103)	(187)
Net cash provided by (used in) operating activities	2,140	4,778
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	(172)	(419)
Proceeds from sales of property, plant and equipment	531	–
Purchase of intangible assets	(476)	(414)
Proceeds from sales of intangible assets	1	–
Purchase of long-term prepaid expenses	(246)	(75)
Purchase of investment securities	(5)	(2)
Proceeds from sale of investment securities	–	292
Payments of leasehold and guarantee deposits	(67)	(55)
Proceeds from refund of leasehold and guarantee deposits	78	102
Payments for asset retirement obligations	(74)	(4)
Other, net	35	19
Net cash provided by (used in) investing activities	(696)	(557)

Cash flows from financing activities		
Repayments of lease obligations	(10)	(9)
Decrease (increase) in deposits for purchase of treasury shares	–	(809)
Purchase of treasury shares	(0)	(1,186)
Proceeds from sale of treasury shares	–	0
Cash dividends paid	(592)	(593)
Net cash provided by (used in) financing activities	(603)	(2,599)
Net increase (decrease) in cash and cash equivalents	840	1,620
Beginning cash and cash equivalent balance	21,014	10,368
Ending cash and cash equivalent balance	21,855	11,989