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Consolidated Financial Statements for the First Nine Months of the Fiscal Year Ending March 31, 2024 [Japanese standard]



INES Corporation

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1. Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2024 (April 1, 2023 to December 31, 2023)

(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	
Nine months ended Dec. 31, 2023	29,005	(3.3)	1,168	(44.4)	1,247	(42.4)	709	(46.9)
Nine months ended Dec. 31, 2022	29,988	5.2	2,100	63.5	2,166	58.0	1,334	61.9

(Note) Comprehensive income
 Nine months ended December 31, 2023: ¥896 million (-27.8%)
 Nine months ended December 31, 2022: ¥1,241 million (18.4%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Nine months ended Dec. 31, 2023	34.09	—
Nine months ended Dec. 31, 2022	64.17	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of December 31, 2023	51,675	36,157	70.0
As of March 31, 2023	48,523	36,286	74.8

(Reference) Shareholders' equity
 As of December 31, 2023: ¥36,157 million
 As of March 31, 2023: ¥36,286 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Fiscal year ended March 31, 2023	—	20.00	—	25.00	45.00
Fiscal year ending March 31, 2024	—	25.00	—		
Fiscal year ending March 31, 2024 (Forecast)				25.00	50.00

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

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(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	41,500	(2.1)	3,000	(21.1)	2,800	(27.9)	1,700	(33.1)	81.72	

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

*** 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.: No
2. Changes in accounting policies other than 1.: No
3. Changes in accounting estimates: Yes
4. Restatement: No

(4) Number of shares outstanding (common shares)

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

FY2024/3 Q3:	20,900,000 shares
FY2023/3:	20,900,000 shares
2. Number of treasury shares at the term end

FY2024/3 Q3:	96,093 shares
FY2023/3:	104,676 shares
3. Average number of shares outstanding

FY2024/3 first nine months:	20,801,718 shares
FY2023/3 first nine months:	20,794,644 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 Nine Months of the Fiscal Year Ending March 31, 2024, (3) Explanation on future forecast information such as consolidated results forecasts.”

1. Qualitative Information on Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2024

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

During the first nine months under review, the Japanese economy was affected by global geopolitical risks. Even so, the Nikkei stock average has been on an upward trend since the beginning of the year. In contrast, the real GDP of Japan in July-September 2023 was down 0.7% quarter on quarter (or down 2.9% on an annualized basis). Despite high share prices and the depreciation of the yen, the real economic condition still appears to remain uncertain.

In addition, reflecting the recent shortage of human resources in particular, many companies are accelerating their efforts to facilitate operational efficiency improvements and operational reforms through the utilization of new technologies such as generative AI in Japan as well.

In this environment, the Group has been conducting its businesses with a focus on three basic policy measures, supporting the standardization of local governments' WebRings information system to meet the national government's specifications, enhancing DX solutions and accelerating sustainable management, in the final year of its 2023 Medium-term Management Plan.

In conjunction with the standardization of local governments' WebRings information system, the Group was affected by the partial postponement of the deadline for transition in the standardization as a result of a change in the basic policy for the standardization of local governments' information system, which was decided by the Cabinet on September 8, 2023. Even so, the Group is making preparations steadily for transition. In addition, to move the standardization of WebRings forward smoothly, the Group is working on project management and operation and quality improvement initiatives by leveraging AI.

With respect to the enhancement of DX solutions, the Group is moving forward actively with the research and development of services to facilitate use of generative AI and large-scale language models (LLM) in local governments and private companies.

Further, regarding the acceleration of sustainable management, it is working, from the perspective of human investment, on the development of DX-oriented human resources, the promotion of new workstyles and the facilitation of exchanges between individuals with diverse backgrounds, while also creating an environment and culture in which all employees shine, grow sustainably and participate actively.

The Group, as an IT company that creates safety and innovation, will continue to take on challenges to create new value and help customers develop their businesses, while simultaneously moving forward aggressively with an eye toward the realization of a more prosperous and sustainable society.

(2) Details of operating results

Consolidated net sales for the first nine months under review decreased 3.3% year on year, to ¥29,005 million (please refer to "Consolidated net sales and operating profit in the first nine months of the past five fiscal years" and "Consolidated net sales by sector," which are shown in the tables below). Net sales in the Public sector came to ¥12,530 million, a decrease of 6.4% year on year, chiefly due to a decrease in demand for replacement prior to the standardization. Net sales in the Financial sector stood at ¥8,746 million, which was almost unchanged from the previous year, or down 0.1% year on year. Net sales in the Industrial sector declined 1.5% year on year, to ¥7,729 million, mainly reflecting the reduction of backbone system development projects.

On the profit front, operating profit decreased 44.4% year on year to ¥1,168 million and ordinary profit fell 42.4% year on year to ¥1,247 million, largely reflecting a decrease in sales in the Public sector and an increase in costs due to the opening of new sales offices. As a result, the Company recorded a profit attributable to owners of parent of ¥709 million (down 46.9% year on year).

Consolidated net sales and operating profit in the first nine months of the past five fiscal years (Million yen)

	Q3 of FY2019	Q3 of FY2020	Q3 of FY2021	Q3 of FY2022	Q3 of FY2023
Net sales	29,713	28,647	28,500	29,988	29,005
Operating profit	2,214	1,873	1,284	2,100	1,168

Consolidated net sales by sector (Million yen)

Category/Term	Nine months ended December 31, 2022		Nine months ended December 31, 2023		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	13,385	44.6	12,530	43.2	(6.4)
Financial	8,755	29.2	8,746	30.2	(0.1)
General industry	7,846	26.2	7,729	26.6	(1.5)
Total	29,988	100.0	29,005	100.0	(3.3)

(Note) Effective from the first quarter of the fiscal year under review, net sales of the Group companies that were included in Other previously have been reclassified and presented in the Public, Financial and General Industry sectors due to the restructuring of the Group's businesses. Net sales in the first nine months of the previous fiscal year are reclassified and presented in the same way.

Consolidated net sales by product/service (Million yen)

Category/Term	Nine months ended December 31, 2022		Nine months ended December 31, 2023		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	11,474	38.3	10,902	37.6	(5.0)
System operation	11,251	37.5	10,660	36.8	(5.3)
System maintenance	3,566	11.9	3,652	12.6	2.4
Sales of information equipment	666	2.2	764	2.6	14.7
Other	3,029	10.1	3,025	10.4	(0.1)
Total	29,988	100.0	29,005	100.0	(3.3)

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

The consolidated financial results forecast and dividend forecast published on October 30, 2023 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 various reasons.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidated balance sheet

As of March 31 and December 31, 2023

(Million yen)

	As of March 31, 2023	As of December 31, 2023
ASSETS		
Current assets		
Cash and deposits	9,376	7,588
Notes and accounts receivable - trade, and contract assets	11,960	8,328
Securities	2,300	-
Work in process	268	637
Raw materials and supplies	66	46
Prepaid expenses	454	483
Other	514	843
Allowance for doubtful accounts	(16)	(13)
Total current assets	24,924	17,916
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,710	4,060
Accumulated depreciation	(3,204)	(3,071)
Buildings and structures, net	506	988
Tools, furniture and fixtures	4,583	4,480
Accumulated depreciation	(3,494)	(3,470)
Tools, furniture and fixtures, net	1,089	1,010
Land	3	5,281
Construction in progress	1	3,953
Total property, plant and equipment	1,600	11,234
Intangible assets		
Software	2,241	2,477
Other	24	23
Total intangible assets	2,265	2,501
Investments and other assets		
Investment securities	13,236	13,400
Long-term prepaid expenses	678	654
Deferred tax assets	4,490	4,544
Other	1,328	1,424
Total investments and other assets	19,733	20,023
Total non-current assets	23,599	33,758
Total assets	48,523	51,675

Quarterly consolidated balance sheet

As of March 31 and December 31, 2023

(Million yen)

	As of March 31, 2023	As of December 31, 2023
LIABILITIES		
Current liabilities		
Accounts payable - trade	2,006	1,685
Current portion of long-term borrowings	-	208
Accrued expenses	1,261	965
Income taxes payable	908	250
Accrued consumption taxes	363	222
Advances received	191	217
Provision for bonuses	959	426
Provision for bonuses for directors (and other officers)	73	60
Provision for losses on orders received	48	41
Asset retirement obligations	-	335
Other	601	984
Total current liabilities	6,414	5,397
Non-current liabilities		
Long-term borrowings	-	4,791
Provision for retirement benefits for directors (and other officers)	102	109
Net defined benefit liability	4,608	4,270
Asset retirement obligations	276	147
Other	834	800
Total non-current liabilities	5,822	10,119
Total liabilities	12,237	15,517
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	10,100	10,099
Retained earnings	11,682	11,351
Treasury shares	(155)	(139)
Total shareholders' equity	36,627	36,312
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(179)	(44)
Remeasurements of defined benefit plans	(162)	(109)
Total accumulated other comprehensive income	(341)	(154)
Total net assets	36,286	36,157
Total net assets and liabilities	48,523	51,675

Quarterly consolidated statement of income

For the nine months ended December 31, 2022 and 2023

(Million yen)

	First nine months of FY2022 (April 1, 2022 to December 31, 2022)	First nine months of FY2023 (April 1, 2023 to December 31, 2023)
Net sales	29,988	29,005
Cost of sales	23,273	22,903
Gross profit	6,714	6,102
Selling, general and administrative expenses	4,614	4,933
Operating profit	2,100	1,168
Non-operating income		
Interest income	38	39
Dividends income	11	27
Dividend income of insurance	6	10
Other	13	14
Total non-operating income	69	92
Non-operating expenses		
Interest expenses	0	5
Loss on investments in investment partnerships	-	5
Other	2	2
Total non-operating expenses	2	13
Ordinary profit	2,166	1,247
Extraordinary income		
Gain on sale of investment securities	-	5
Gain on liquidation of subsidiaries and associates	-	18
Total extraordinary income	-	24
Extraordinary losses		
Loss on retirement of non-current assets	0	6
Impairment loss	99	-
Total extraordinary losses	99	6
Profit before income taxes	2,067	1,265
Income taxes	732	556
Profit	1,334	709
Profit attributable to owners of parent	1,334	709

Quarterly consolidated statement of comprehensive income

For the nine months ended December 31, 2022 and 2023

(Million yen)

	First nine months of FY2022 (April 1, 2022 to December 31, 2022)	First nine months of FY2023 (April 1, 2023 to December 31, 2023)
Profit	1,334	709
Other comprehensive income		
Valuation difference on available-for-sale securities	(205)	134
Remeasurements of defined benefit plans, net of tax	112	52
Total other comprehensive income	(92)	187
Comprehensive income	1,241	896
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	1,241	896

Quarterly consolidated statement of cash flow

For the nine months ended December 31, 2022 and 2023

(Million yen)

	First nine months of FY2022 (April 1, 2022 to December 31, 2022)	First nine months of FY2023 (April 1, 2023 to December 31, 2023)
Cash flows from operating activities		
Profit before income taxes	2,067	1,265
Depreciation	1,432	1,336
Impairment loss	99	–
Increase (decrease) in provision for bonuses	(599)	(533)
Increase (decrease) in provision for bonuses for directors (and other officers)	(16)	(12)
Increase (decrease) in provision for loss on order received	(22)	(7)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(9)	7
Increase (decrease) in retirement benefit liability	(72)	(280)
Loss (gain) on liquidation of subsidiaries and associates	–	(18)
Loss on retirement of non-current assets	0	6
Loss (gain) on sale of investment securities	–	(5)
Decrease (increase) in trade receivables	522	3,657
Decrease (increase) in inventories	(367)	(349)
Decrease (increase) in other assets	(32)	(41)
Increase (decrease) in trade payables	(509)	(383)
Increase (decrease) in other liabilities	292	(828)
Other, net	(60)	(52)
(Subtotal)	2,722	3,759
Income taxes refund	12	6
Income taxes paid	(819)	(1,258)
Net cash provided by (used in) operating activities	1,915	2,507
Cash flows from investing activities		
Net decrease (increase) in time deposits	0	(999)
Net decrease (increase) in short-term investment securities	–	2,300
Purchase of property, plant and equipment	(368)	(9,489)
Purchase of intangible assets	(407)	(765)
Purchase of long-term prepaid expenses	(143)	(240)
Purchase of investment securities	(2)	(10)
Proceeds from sale of investment securities	–	5
Proceeds from liquidation of subsidiaries and associates	–	30
Payments of leasehold and guarantee deposits	(271)	(164)
Proceeds from refund of leasehold and guarantee deposits	55	66
Payments for asset retirement obligations	(1)	(5)
Other, net	13	1
Net cash provided by (used in) investing activities	(1,125)	(9,271)

(Million yen)

	First nine months of FY2022 (April 1, 2022 to December 31, 2022)	First nine months of FY2023 (April 1, 2023 to December 31, 2023)
Cash flows from financing activities		
Proceeds from long-term borrowing	–	5,000
Repayments of lease obligations	(12)	(10)
Purchase of treasury shares	(1)	(1)
Cash dividends paid	(807)	(1,010)
Net cash provided by (used in) financing activities	(821)	3,977
Net increase (decrease) in cash and cash equivalents	(31)	(2,787)
Beginning cash and cash equivalent balance	9,731	9,162
Ending cash and cash equivalent balance	9,700	6,375