

October 29, 2015

Consolidated Financial Statements for the First Half of the Fiscal Year Ending March 31, 2016



INES Corporation

Listing: Tokyo Stock Exchange (Code: 9742)
 Representative: Etsuroh Mori, President & Representative Director
 Contacts: Akihiro Kobayashi, General Manager, PR and IP Department, Corporate Planning Division
 Tel: +81-3-6261-3400
 Head Office: 26, Sanbancho, Chiyoda-ku, Tokyo 102-0075, Japan
 Tel: +81-3-6261-3400 Fax +81-3-6261-3437
 URL/e-mail: URL: <http://www.ines.co.jp/en> E-mail: ir_info@ines.co.jp

1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2016 (April 1, 2015 to September 30, 2015)

(1) Consolidated Operating Results

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
Six months ended Sep. 30, 2015	17,774	(0.1)	489	(44.5)	500	(44.4)	284	(48.8)
Six months ended Sep. 30, 2014	17,791	10.4	881	15.9	900	15.9	554	28.9

(Note) Comprehensive income Six months ended September 30, 2015: ¥573 million (-4.9%)
 Six months ended September 30, 2014: ¥603 million (40.3%)

	Net income per share (Yen)	Fully diluted net income per share (Yen)
Six months ended Sep. 30, 2015	9.04	—
Six months ended Sep. 30, 2014	17.32	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2015	58,827	41,502	70.5
As of March 31, 2015	61,879	43,245	69.8

<Reference> Shareholders' equity As of September 30, 2015: ¥41,472 million
 As of March 31, 2015: ¥43,215 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2015	—	13.00	—	8.00	21.00
Year ending March 31, 2016	—	8.00			
Year ending March 31, 2016 (Forecast)			—	8.00	16.00

(Note) Revisions to dividend forecasts published most recently: No
 Breakdown of dividends at the end of the first half of the fiscal year ended March 31, 2015: Ordinary dividend 8.00 yen, commemorative dividend 5.00 yen

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2016 (April 1, 2015 to March 31, 2016)

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

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share (Yen)
Full year	38,000 (2.2)	2,000 2.6	2,030 2.2	1,150 35.7	38.06

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

At a meeting of the Board of Directors held on July 30, 2015, the Company resolved to acquire its own shares. The effect of the acquisition of own shares is taken into account in the net income per share in the consolidated results forecasts. For further details of the acquisition of own shares, please refer to the “[Notice of the Result of Acquiring Own Shares and the Completion of Acquisition](#)” released separately on October 29, 2015.

*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
 Note: For details, refer to page 5 of the accompanying materials “2. Matters relating to Summary Information (Notes) (1) Application of special accounting treatment to the preparation of quarterly consolidated financial statements.”

(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 (i): No
3. Changes in accounting estimates: No
4. Restatement: No

Note: For details, refer to page 5 of the accompanying materials “2. Matters relating to Summary Information (Notes) (2) Changes in accounting policies and changes or restatement of accounting estimates.”

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding at the term end (including treasury shares)
 - FY2016/3 H1: 32,100,000 shares
 - FY2015/3: 32,100,000 shares
2. Number of treasury shares at the term end
 - FY2016/3 H1: 1,740,411 shares
 - FY2015/3: 89,592 shares
3. Average number of shares outstanding
 - FY2016/3 H1: 31,410,796 shares
 - FY2015/3 H1: 32,011,008 shares

*** Status of quarterly review**

A quarterly review of the quarterly consolidated financial statements under the Financial Instruments and Exchange Act is underway at the time of disclosure of this quarterly financial summary.

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

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 Half of the Fiscal Year Ending March 31, 2016, (3) Information on the consolidated results forecasts and other future forecasts” of the accompanying materials.

1. Qualitative Information on Financial Results for the First Half of the Fiscal Year Ending March 31, 2016

(1) Details of operating results

During the first six months of the consolidated fiscal year under review, the Japanese economy remained on a moderate recovery path as corporate earnings and employment conditions improved against the backdrop of the economic stimulus packages of the government and the monetary easing policy of the Bank of Japan. However, the economic outlook is uncertain mainly due to downside risks to the world economy and to the Chinese economy in particular.

In the information service industry, software investment plans showed weaknesses in some areas, with an upward trend among large and mid-sized enterprises offset by decline among small enterprises.

In this business environment, the INES Group vigorously conducted sales activities to increase orders and net sales, and worked to develop new solutions that will become pillars of income in the future.

Orders received in the first six months under review increased 4.5% year on year, to ¥17,889 million, mainly due to an increase of more than 10% in the public sector. Net sales were almost unchanged year on year (down 0.1% year on year), amounting to ¥17,774 million, with decline in the industrial and financial sectors offset by growth in the public sector.

On the profit front, operating income fell 44.5% year on year, to ¥489 million, due to higher costs, especially after costs related to unprofitable projects from the previous fiscal year. As a result, ordinary income declined 44.4%, to ¥500 million, and net income attributable to owners of parent decreased 48.8%, to ¥284 million.

Nets sales by process and sector are as follows.

In terms of net sales by process, sales of system development in the mid-stream process increased 1.2% year on year, to ¥8,247 million, reflecting strong demand mainly from the public sector.

Sales in the back-end process remained almost flat, declining 0.7% year on year, to ¥6,972 million.

With respect to net sales by sector, sales in general industry fell 5.4% year on year, to ¥3,673 million, mainly due to decline in all-in development contracts. In the financial sector, sales declined 13.5% year on year, to ¥5,954 million, primarily due to decline in sales of equipment to life insurers and a decrease in system development for banks. In the public sector, sales increased significantly by 15.9% year on year, to ¥8,146 million, mainly because law reform contracts with municipalities increased, and development contracts from the previous fiscal year moved into the maintenance phase and sales of system maintenance increased.

Consolidated net sales by process (Million yen)

Category/ Term	Six months ended September 30, 2014		Six months ended September 30, 2015		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Front-end process (IT consulting, requirement definition)	89	0.5	151	0.9	68.2
Mid-stream process	8,147	45.8	8,247	46.4	1.2
System development					
Initial outsourcing	4,230	23.8	4,154	23.4	(1.8)
All-in contract	3,917	22.0	4,092	23.0	4.5
Back-end process	7,024	39.5	6,972	39.2	(0.7)
System operation	5,173	29.1	5,018	28.2	(3.0)
System maintenance	1,851	10.4	1,953	11.0	5.5
Other services	2,529	14.2	2,404	13.5	(4.9)
Total	17,791	100.0	17,774	100.0	(0.1)

Consolidated net sales by sector

(Million yen)

Category/ Term	Six months ended September 30, 2014		Six months ended September 30, 2015		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	3,881	21.8	3,673	20.7	(5.4)
Financial	6,884	38.7	5,954	33.5	(13.5)
Public	7,025	39.5	8,146	45.8	15.9
Total	17,791	100.0	17,774	100.0	(0.1)

(2) Description of Financial Position

Total assets at the end of the second quarter of the fiscal year under review were ¥58,827 million, a decline of ¥3,051 million from the end of the previous fiscal year.

Current assets decreased ¥2,591 million, to ¥21,244 million, mainly due to a decline in notes and accounts receivable - trade despite an increase in work in process. Non-current assets decreased ¥460 million, to ¥37,583 million.

Current liabilities declined ¥1,352 million, to ¥6,716 million, primarily reflecting falls in income taxes payable and accrued consumption taxes. Non-current liabilities increased ¥43 million, to ¥10,608 million.

Net assets decreased ¥1,742 million, to ¥41,502 million, chiefly owing to the acquisition of own shares. Based on a resolution made at the ordinary meeting of shareholders held on June 26, 2015, the Company reduced capital stock by ¥16,457 million and legal capital surplus by ¥4,114 million, and transferred the amount of the reduction to other capital surplus. The amount of net assets did not change due to this transfer.

Consolidated Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the second quarter under review were ¥7,632 million, a decrease of ¥645 million from the end of the previous fiscal year.

Cash flows for each category are as follows.

Cash flows from operating activities

Cash provided by operating activities stood at ¥3,108 million, a decrease of ¥136 million from the same period of the previous fiscal year, mainly reflecting a decrease in notes and accounts receivable - trade of ¥4,581 million, despite an increase in inventories of ¥1,358 million.

Cash flows from investing activities

Cash used in investing activities was ¥945 million, an increase of ¥767 million in cash from the same period of the previous fiscal year, chiefly due to payments into time deposits of ¥499 million and the purchase of property, plant and equipment of ¥175 million.

Cash flows from financing activities

Cash used in financing activities stood at ¥2,807 million, a decrease of ¥2,503 million in cash from the same period of the previous fiscal year, primarily attributable to the payment of ¥2,060 million for the purchase of treasury shares.

(3) Information on the consolidated results forecasts and other future forecasts

Results forecasts for the full year of the fiscal year ending March 31, 2016 published on April 27, 2015 remain unchanged.

With respect to dividends for the fiscal year under review, we are paying an interim dividend of 8 yen per share. Annual dividends, including a year-end dividend of 8 yen per share, will be 16 yen per share.

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.

2. Matters relating to Summary Information (Notes)

(1) Application of special accounting treatment to the preparation of quarterly consolidated financial statements

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating an effective tax rate after tax effect accounting is applied to income before income taxes for the consolidated fiscal year including the second quarter under review and multiplying income before income taxes by the estimated effective tax rate.

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

Changes in accounting policies

(Application of accounting standard for business combinations, etc.)

Starting in the first quarter of the consolidated fiscal year under review, the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013) and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013), etc. have been applied. In addition, changes in the presentation of net income and from minority interests to non-controlling interests have been made. To reflect these changes in presentation, the Company has made certain reclassifications to its quarterly consolidated financial statements for the first six months of the previous fiscal year and consolidated financial statements of the previous fiscal year.

Consolidated Balance Sheets

As of September 30 and March 31, 2015

(Million yen)

	2Q of FY2015 (As of September 30, 2015)	FY2014 (As of March 31, 2015)
ASSETS		
Current assets:		
Cash and deposits	8,314	8,459
Notes and accounts receivable - trade	8,003	12,402
Securities	351	351
Work in process	2,797	1,454
Raw materials and supplies	100	85
Prepaid expenses	249	231
Deposits paid	442	-
Deferred tax assets	816	816
Other	174	44
Allowance for doubtful accounts	(8)	(12)
Total current assets	21,244	23,835
Non-current assets		
Property, plant and equipment		
Buildings and structures	20,896	20,838
Accumulated depreciation	(10,355)	(10,064)
Buildings and structures, net	10,541	10,773
Tools, furniture and fixtures	4,769	4,671
Accumulated depreciation	(3,641)	(3,440)
Tools, furniture and fixtures, net	1,127	1,231
Land	17,404	17,404
Total property, plant and equipment	29,073	29,409
Intangible assets		
Software	2,507	2,872
Other	39	37
Total intangible assets	2,547	2,909
Investments and other assets		
Investment securities	1,987	1,663
Long-term prepaid expenses	260	305
Deferred tax assets	3,093	3,232
Other	620	522
Allowance for doubtful accounts	(0)	-
Total investments and other assets	5,962	5,724
Total non-current assets	37,583	38,043
Total assets	58,827	61,879

Consolidated Balance Sheets

As of September 30 and March 31, 2015

(Million yen)

	2Q of FY2015 (As of September 30, 2015)	FY2014 (As of March 31, 2015)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	2,051	2,266
Accrued expenses	831	948
Income taxes payable	287	678
Accrued consumption taxes	53	740
Advances received	325	143
Provision for bonuses	1,129	1,127
Provision for directors' bonuses	24	53
Provision for losses on orders received	506	668
Other	1,506	1,441
Total current liabilities	6,716	8,068
Non-current liabilities		
Provision for directors' retirement benefits	213	209
Provision for retirement benefits	10,062	10,002
Asset retirement obligations	170	160
Other	162	193
Total non-current liabilities	10,608	10,565
Total liabilities	17,324	18,634
NETASSETS		
Shareholders' equity		
Capital stock	15,000	31,457
Capital surplus	24,322	7,864
Retained earnings	4,298	4,271
Treasury shares	(2,125)	(65)
Total shareholders' equity	41,495	43,528
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	719	474
Remeasurements of defined benefit plans	(742)	(787)
Total accumulated other comprehensive income	(22)	(312)
Non-controlling interests	29	29
Total net assets	41,502	43,245
Total net assets and liabilities	58,827	61,879

Consolidated statement of income and consolidated statement of comprehensive income

For the six months ended September 30, 2014 and 2015

(Million yen)

	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2014 (April 1, 2014 to September 30, 2014)
Net sales	17,774	17,791
Cost of sales	14,525	14,271
Gross profit	3,249	3,520
Selling, general and administrative expenses	2,760	2,638
Operating income	489	881
Non-operating income:		
Interest income	2	1
Dividends income	12	11
Real estate rent	29	20
Others	7	6
Total non-operating income	51	40
Non-operating expenses:		
Interest expenses	1	2
Rent expenses on real estate	26	17
Commission for purchase of treasury shares	8	–
Others	3	1
Total non-operating expenses	40	21
Ordinary income (loss)	500	900
Extraordinary income:		
Gain on sales of investment securities	7	–
Gain on reversal of subscription rights to shares	–	36
Total extraordinary income	7	36
Extraordinary losses:		
Loss on retirement of noncurrent assets	9	2
Loss on retirement of software for sale	11	–
Others	0	0
Total extraordinary losses	21	3
Income before income taxes	486	933
Income taxes	202	379
Net income	284	554
Net income (loss) attributable to non-controlling interests	0	(0)
Net income (loss) attributable to owners of parent	284	554

Consolidated statement of comprehensive income

For the six months ended September 30, 2014 and 2015

(Million yen)

	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2014 (April 1, 2014 to September 30, 2014)
Net income	284	554
Other comprehensive income:		
Valuation difference on available-for-sale securities	244	10
Remeasurements of defined benefit plans, net of tax	45	37
Total other comprehensive income	289	48
Comprehensive income	573	603
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	573	603
Comprehensive income attributable to non-controlling interests	0	(0)

Consolidated statement of cash flow

For the six months ended September 30, 2014 and 2015

(Millions yen)

	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2014 (April 1, 2014 to September 30, 2014)
I. Cash flows from operating activities:		
Income before income taxes	486	933
Depreciation	1,085	1,086
Increase (decrease) in provision for bonuses	1	31
Increase (decrease) in provision for directors' bonuses	(28)	(21)
Increase (decrease) in provision for losses on orders received	(161)	(2)
Increase (decrease) in provision for directors' retirement benefits	3	8
Increase (decrease) in net defined benefit liability	127	213
Interest and dividend income	(14)	(13)
Interest expenses	1	2
Loss (gain) on sales of investment securities	(7)	-
Loss on retirement of non-current assets	9	2
Loss on retirement of software for sale	11	-
Gain on reversal of subscription rights to shares	-	(36)
Decrease (increase) in notes and accounts receivable - trade	4,581	2,230
Decrease (increase) in inventories	(1,358)	(1,291)
Decrease (increase) in other assets	(143)	(115)
Increase (decrease) in notes and accounts payable - trade	(211)	535
Increase (decrease) in other liabilities	(669)	175
Other, net	(2)	(5)
(Subtotal)	3,711	3,734
Interest and dividend income received	16	14
Interest expenses paid	(1)	(2)
Income taxes refund	14	10
Income taxes paid	(632)	(513)
Net cash provided by (used in) operating activities:	3,108	3,244
II. Cash flows from investing activities		
Decrease (increase) in time deposits	(499)	(300)
Purchase of property, plant and equipment	(175)	(561)
Purchase of intangible assets	(129)	(527)
Purchase of long-term prepaid expenses	(38)	(14)
Purchase of investment securities	-	(299)
Proceeds from liquidation of subsidiaries and affiliates	-	1
Purchase of membership	(3)	-
Proceeds from sales of membership	1	-
Net decrease (increase) in short-term loans receivable	0	0
Payments for lease and guarantee deposits	(141)	(33)
Proceeds from collection of lease and guarantee deposits	32	32
Other	9	(12)
Net cash provided by (used in) investing activities:	(945)	(1,713)

	(Millions yen)	
	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2014 (April 1, 2014 to September 30, 2014)
III. Cash flows from financing activities:		
Repayments of lease obligations	(47)	(48)
Proceeds from exercise of share options	–	1
Decrease (increase) in deposits for purchase of treasury shares	(442)	–
Purchase of treasury shares	(2,060)	(1)
Proceeds from sales of treasury shares	–	0
Cash dividends paid	(256)	(256)
Other	(0)	(0)
Net cash provided by (used in) financing activities	(2,807)	(303)
IV. Net increase (decrease) in cash and cash equivalents	(645)	1,227
V. Beginning cash and cash equivalent balance	8,278	8,171
VI. Ending cash and cash equivalent balance	7,632	9,398

Notes to quarterly consolidated financial statements

(Notes on going concern assumptions)

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

1. Dividend of surplus

At the ordinary meeting of shareholders held on June 26, 2015, the Company decided on the year-end dividends for the previous fiscal year as follows.

(1) Type of shares:	Common stock
(2) Total amount of dividends:	¥256 million
(3) Dividend per share:	¥8
(4) Record date:	March 31, 2015
(5) Effective date:	June 29, 2015
(6) Source of dividends:	Retained earnings

2. At the ordinary meeting of shareholders held on June 26, 2015, the Company resolved to reduce the amount of capital stock and legal capital surplus and transferred the amount of the reduction in the first half of the fiscal year under review as follows.

(1) Change in capital stock	
Decrease in capital stock	¥16,457 million
(2) Change in legal capital surplus	
Decrease in legal capital surplus	¥4,114 million
Increase in other capital surplus	¥20,572 million

3. The Company acquired 1,649,700 shares of treasury stock, in accordance with the resolution at the meeting of the Board of Directors held on June 26, 2015 and the resolution of the Board of Directors held on July 30, 2015. As a result, during the first six months under review, treasury shares increased ¥2,058 million yen, amounting to ¥2,125 million yen at the end of the second quarter under review.

(Significant subsequent events)

At the meeting of the Board of Directors held on October 29, 2015, the Company resolved to acquire its own shares pursuant to the provisions of Article 156 of the Companies Act that is applied by rereading it based on the provisions of Article 165, Paragraph 3 of the Act.

1. Reason for acquiring the Company's own shares

The Company will acquire its own shares to improve capital efficiency and enhance profit distribution to shareholders by increasing the shareholder value per share.

2. Details of the resolution on the acquisition of the Company's own shares at the meeting of the Board of Directors

(1) Type of shares to be acquired:	Common stock of the Company
(2) Total number of shares able to be acquired:	1,000,000 (maximum)
(3) Acquisition period:	November 4, 2015 to January 27, 2016 (on a contract basis)
(4) Total acquisition value:	¥1.0 billion (maximum)
(5) Acquisition method:	Market purchase on the Tokyo Stock Exchange

(Reference) Non-consolidated Balance Sheets

As of September 30, 2014 and 2015

(Million yen)

	2Q of FY2015 (As of September 30, 2015)	FY2014 (As of March 31, 2015)
ASSETS		
Current assets:		
Cash and deposits	5,476	5,691
Accounts receivable - trade	7,609	11,847
Securities	151	151
Work in progress	2,737	1,422
Raw materials and supplies	100	85
Other	1,585	1,001
Allowance for doubtful accounts	(8)	(12)
Total current assets	17,652	20,188
Non-current assets		
Property, plant and equipment	27,773	28,112
Intangible assets	2,512	2,864
Investments and other assets	7,112	6,881
Total non-current assets	37,399	37,858
Total assets	55,051	58,046
LIABILITIES		
Current liabilities		
Accounts payable - trade	2,105	2,311
Income taxes payable	199	548
Other	3,929	4,578
Total current liabilities	6,234	7,437
Non-current liabilities		
Provision for retirement benefits	8,361	8,252
Other	417	418
Total non-current liabilities	8,778	8,670
Total liabilities	15,012	16,108
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	31,457
Capital surplus	24,322	7,864
Retained earnings	2,122	2,206
Treasury shares	(2,125)	(65)
Total shareholders' equity	39,318	41,463
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	719	474
Total valuation and translation adjustments	719	474
Total net assets	40,038	41,938
Total liabilities and net assets	55,051	58,046

(Note) This balance sheet is prepared in accordance with the Regulations Concerning Preparation Methods of Consolidated Financial Statements but is not subject to review upon legal disclosure.

(Reference) Non-consolidated statement of income

As of September 30, 2014 and 2015

(Million yen)

	IH of FY2015 (April 1, 2015 to September 30, 2015)	IH of FY2014 (April 1, 2014 to September 30, 2014)
Net sales	16,105	16,044
Cost of sales	13,339	12,970
Gross Profit	2,765	3,074
Selling, general and administrative expenses	2,495	2,387
Operating income	270	686
Non-operating income:	138	122
Non-operating expenses	102	85
Ordinary income	306	724
Extraordinary income	7	36
Extraordinary losses	20	0
Income before income taxes	293	760
Income taxes	122	303
Net income	171	456

(Note) This statement of income is prepared in accordance with the Regulations Concerning Preparation Methods of Consolidated Financial Statements but is not subject to review upon legal disclosure.