

April 27, 2016

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2016 [Japanese standard]



INES Corporation

Listing: Tokyo Stock Exchange (Code: 9742)
 Representative: Etsuroh Mori, President & Representative Director
 Contacts: Akihiro Kobayashi, General Manager, PR and IR Department, Management Strategy Division
 Tel: +81-3-6261-3400
 Head Office: 26, Sanbancho, Chiyoda-ku, Tokyo 102-0075, Japan
 Tel: +81-3-6261-3400 Fax +81-3-6261-3401
 URL/e-mail: URL: <http://www.ines.co.jp/en> E-mail: ir@ines.co.jp

1. Consolidated Financial Statements for the Fiscal Year Ended March 31, 2016 (April 1, 2015 to March 31, 2016)

(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	
Fiscal Year Ended March 31, 2016	39,455	1.5%	2,212	13.5%	2,267	14.1%	1,454	71.6%
Fiscal Year Ended March 31, 2015	38,855	10.7%	1,949	2.6%	1,986	2.6%	847	(19.6)%

(Note) Comprehensive income Fiscal Year Ended March 31, 2016: ¥ 699 million (-20.3%)
 Fiscal Year Ended March 31, 2015: ¥ 878 million (-13.6%)

	Net income per share (Yen)	Fully diluted net income per share (Yen)	Net income/ Shareholders' equity	Ordinary income/ Total assets	Operating income/ Net sales
Fiscal Year Ended March 31, 2016	47.84	—	3.5%	3.8%	5.6%
Fiscal Year Ended March 31, 2015	26.47	—	2.0%	3.3%	5.0%

(Reference) Equity in earnings of affiliated companies Fiscal Year Ended March 31, 2016: ¥ - million
 Fiscal Year Ended March 31, 2015: ¥ - million

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
As of March 31, 2016	56,826	39,066	68.7	1,382.13
As of March 31, 2015	61,879	43,245	69.8	1,350.04

(Reference) Shareholders' equity As of March 31, 2016: ¥ 39,066 million
 As of March 31, 2015: ¥ 43,215 million

(3) Consolidated Cash Flow Situation

(Million yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal Year Ended March 31, 2016	2,113	1,495	(5,850)	6,036
Fiscal Year Ended March 31, 2015	2,650	(1,774)	(769)	8,278

2. Dividends

	Dividends per share (Yen)					Total dividends (annual) (millions of yen)	Dividend payout ratio (consolidated) (%)	Dividends/ Net assets (consolidated) (%)
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual			
Fiscal Year Ended March 31, 2015	—	13.00	—	8.00	21.00	672	79.3	1.6
Fiscal Year Ended March 31, 2016	—	8.00	—	8.00	16.00	469	33.4	1.2
Fiscal Year Ending March 31, 2017 (Forecast)	—	8.00	—	8.00	16.00		29.7	

(Note) 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, 2017 (April 1, 2016 to March 31, 2017)

(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	40,000	1.4%	2,400	8.5%	2,400	5.9%	1,500	3.1%	53.79

(Note) The Company resolved to acquire its treasury shares at a Board of Directors' meeting held on January 28, 2016. Net income per share in the consolidated forecasts for the fiscal year ending March 31, 2017 reflects the impact of the said acquisition of treasury shares. For details of the acquisition, please refer to a separate notice regarding the results and completion of the acquisition of treasury shares announced on April 27, 2016.

*Notes

(1) **Significant changes in subsidiaries during this fiscal year under review (changes in subsidiaries causing a change in the scope of consolidation): No**

(2) **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

(3) **Number of shares outstanding (common shares)**

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

Fiscal Year Ended March 31, 2016:	32,100,000 shares
Fiscal Year Ended March 31, 2015:	32,100,000 shares
2. Number of treasury shares at the term end

Fiscal Year Ended March 31, 2016:	3,834,496 shares
Fiscal Year Ended March 31, 2015:	89,592 shares
3. Average number of shares outstanding

Fiscal Year Ended March 31, 2016:	30,404,829 shares
Fiscal Year Ended March 31, 2015:	32,010,926 shares

* *Implementation status of audit procedures*

As at the time of the announcement of these financial statements, the audit procedures for financial statements under the Financial Instruments and Exchange Act were being implemented.

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.

1. Analysis of Operating Results

During the consolidated fiscal year under review, the Japanese economy remained on a moderate recovery path as improvements in corporate earnings and employment conditions continued against the backdrop of the economic stimulus packages of the government and the monetary policy of the Bank of Japan. Even so, there were signs of uncertainty, mainly reflecting risks due to the impact of a downturn in the economies of emerging countries and countries rich in natural resources in particular, including China.

In the information service industry, software investment plans showed an upturn, chiefly among financial institutions and the non-manufacturing sector, despite a decline expected among the manufacturing sector due in part to a stronger yen.

In this business environment, the INES Group worked on the development of new solutions while vigorously conducting sales activities to increase orders and net sales. In addition, the Group focused on responding steadily to demand from municipalities for system renovation relating to the social security and tax number systems (My Number system).

Net sales in the consolidated fiscal year under review increased 1.5% year on year, to ¥39,455 million, supported by an increase in sales to the public sector against the backdrop of demand related to the My Number system, which offset a decline in the industrial and financial sectors.

On the profit front, operating income and ordinary income rose 13.5% and 14.1% year on year, to ¥2,212 million and ¥2,267 million, respectively, largely reflecting the effects of increased sales and cost reductions. Net income attributable to owners of parent also increased 71.6%, to ¥1,454 million, as the Group recorded extraordinary income and losses associated with the disposal of property, plant and equipment as well as investment securities, to improve asset efficiency.

Net 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 5.3% year on year, to ¥19,234 million, reflecting the increase in all-in contracts with the public sector.

Sales in the back-end process remained almost flat, standing at ¥14,082 million.

With respect to net sales by sector, sales in general industry fell 2.5% year on year, to ¥7,596 million, as no signs of recovery were seen in customers' stance for investment. In the financial sector, sales declined 9.9% year on year, to ¥12,627 million, primarily due to the decreases in system development for banks and sales of equipment to life insurers. In the public sector, sales increased 12.8% year on year, to ¥19,231 million, mainly because system renovation contracts pertaining to the My Number system with municipalities increased and sales of system maintenance increased as a result of development contracts from the previous fiscal year moving into the maintenance phase.

Consolidated net sales by process

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2014 until March 31, 2015		Consolidated fiscal year under review From April 1, 2015 until March 31, 2016		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Front-end process (IT consulting, requirement definition)	238	0.6	250	0.6	5.3
Mid-stream process	18,260	47.0	19,234	48.8	5.3
System development					
Initial outsourcing	8,135	20.9	7,914	20.1	(2.7)
All-in contract	10,124	26.1	11,319	28.7	11.8
Back-end process	14,077	36.2	14,082	35.7	0.0
System operation	10,190	26.2	9,997	25.3	(1.9)
System maintenance	3,886	10.0	4,085	10.4	5.1
Other services	6,279	16.2	5,887	14.9	(6.2)
Total	38,855	100.0	39,455	100.0	1.5

Consolidated net sales by sector

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2014 until March 31, 2015		Consolidated fiscal year under review From April 1, 2015 until March 31, 2016		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	7,787	20.0	7,596	19.3	(2.5)
Financial	14,011	36.1	12,627	32.0	(9.9)
Public	17,056	43.9	19,231	48.7	12.8
Total	38,855	100.0	39,455	100.0	1.5

Consolidated Balance Sheets

As of March 31, 2015 and March 31, 2016

(Million yen)

	FY2014 (As of March 31, 2015)	FY2015 (As of March 31, 2016)
ASSETS		
Current assets:		
Cash and deposits	8,459	6,917
Notes and accounts receivable - trade	12,402	12,723
Securities	351	351
Work in process	1,454	1,966
Raw materials and supplies	85	113
Prepaid expenses	231	223
Deposit paid	-	874
Deferred tax assets	816	678
Other	44	28
Allowance for doubtful accounts	(12)	(12)
Total current assets	23,835	23,865
Non-current assets		
Property, plant and equipment		
Buildings and structures	20,838	18,978
Accumulated depreciation	(10,064)	(9,685)
Buildings and structures, net	10,773	9,292
Tools, furniture and fixtures	4,671	4,817
Accumulated depreciation	(3,440)	(3,708)
Tools, furniture and fixtures, net	1,231	1,109
Land	17,404	14,664
Total property, plant and equipment	29,409	25,065
Intangible assets		
Software	2,872	2,100
Other	37	40
Total intangible assets	2,909	2,140
Investments and other assets		
Investment securities	1,663	1,115
Long-term prepaid expenses	305	279
Deferred tax assets	3,232	3,720
Other	522	639
Allowance for doubtful accounts	-	(0)
Total investments and other assets	5,724	5,754
Total non-current assets	38,043	32,961
Total assets	61,879	56,826

Consolidated Balance Sheets

As of March 31, 2015 and March 31, 2016

(Million yen)

	FY2014 (As of March 31, 2015)	FY2015 (As of March 31, 2016)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	2,266	2,113
Accrued expenses	948	833
Income taxes payable	678	347
Accrued consumption taxes	740	267
Advances received	143	138
Provision for bonuses	1,127	1,155
Provision for directors' bonuses	53	47
Provision for losses on orders received	668	448
Other	1,441	794
Total current liabilities	8,068	6,146
Non-current liabilities		
Provision for directors' retirement benefits	209	224
Net defined benefit liability	10,002	10,877
Asset retirement obligations	160	394
Other	193	118
Total non-current liabilities	10,565	11,613
Total liabilities	18,634	17,760
NETASSETS		
Shareholders' equity		
Capital stock	31,457	15,000
Capital surplus	7,864	24,322
Retained earnings	4,271	5,226
Treasury shares	(65)	(4,414)
Total shareholders' equity	43,528	40,134
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	474	126
Remeasurements of defined benefit plans	(787)	(1,193)
Total accumulated other comprehensive income	(312)	(1,067)
Non-controlling interests	29	–
Total net assets	43,245	39,066
Total net assets and liabilities	61,879	56,826

Consolidated statement of income and consolidated statement of comprehensive income

For the fiscal year ended March 31, 2015 and 2016

(Million yen)

	FY2014 (April 1, 2014 to March 31, 2015)	FY2015 (April 1, 2015 to March 31, 2016)
Net sales	38,855	39,455
Cost of sales	31,573	31,729
Gross profit	7,281	7,725
Selling, general and administrative expenses	5,332	5,513
Operating income	1,949	2,212
Non-operating income:		
Interest income	3	4
Dividends income	17	17
Real estate rent	41	60
Dividend income of insurance	4	27
Others	14	23
Total non-operating income	81	134
Non-operating expenses:		
Interest expenses	4	3
Rent expenses on real estate	37	53
Commission for purchase of treasury shares	–	17
Others	3	5
Total non-operating expenses	44	80
Ordinary income (loss)	1,986	2,267
Extraordinary income:		
Loss on retirement of non-current assets	–	885
Gain on sales of investment securities	1	467
Gain on reversal of subscription rights to shares	36	–
Others	–	0
Total extraordinary income	38	1,352
Extraordinary losses:		
Loss on retirement of non-current assets	17	180
Loss on retirement of software for sale	–	11
Impairment loss	–	1,304
Others	0	1
Total extraordinary losses	18	1,498
Income before income taxes	2,006	2,121
Income Tax and Others	1,019	721
Adjustment of Corporate Taxes	139	(54)
Total Income Taxes	1,159	666
Net income	847	1,454
Net income (loss) attributable to non-controlling interests	(0)	(0)
Net income (loss) attributable to owners of parent	847	1,454

**Consolidated statement of income and
consolidated statement of comprehensive income**

For the fiscal years ended March 31, 2015 and 2016

(Million yen)

	FY2014 (April 1, 2014 to March 31, 2015)	FY2015 (April 1, 2015 to March 31, 2016)
Net income	847	1,454
Other comprehensive income:		
Valuation difference on available-for-sale securities	189	(348)
Remeasurements of defined benefit plans, net of tax	(158)	(406)
Total other comprehensive income	30	(754)
Comprehensive income	878	699
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	878	699
Comprehensive income attributable to non-controlling interests	(0)	(0)

(3) Statements of changes in Consolidated Shareholders' Equity
Previous fiscal year (from April 1, 2014 until March 31, 2015)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	31,457	17,458	6,045	(11,631)	43,420
Cumulative effects due to changes in accounting policies			(67)		(67)
Balance at beginning of current period reflecting changes in accounting policies	31,457	17,548	5,978	(11,631)	43,353
Changes during current period					
Dividends from surpluses			(672)		(672)
Net income attributable to owners of parent			847		847
Acquisition of treasury shares				(2)	(2)
Disposal of treasury shares		0		0	0
Retirement of treasury shares		(9,684)	(1,882)	11,567	–
Exercise of stock acquisition rights		0		1	1
Changes in items during current period other than shareholders' equity (net)					
Total changes during current period	–	(9,684)	(1,707)	11,566	174
Balance at end of current period	31,457	7,864	4,271	(65)	43,528

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation differences on available-for-sales	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	285	(628)	(343)	37	29	43,144
Cumulative effects due to changes in accounting policies						(67)
Balance at beginning of current period reflecting changes in accounting policies	285	(628)	(343)	37	29	43,076
Changes during current period						
Dividends from surpluses						(672)
Net income attributable to owners of parent						847
Acquisition of treasury shares						(2)
Disposal of treasury shares						0
Retirement of treasury shares						–
Exercise of stock acquisition rights				(0)		1
Changes in items during current period other than shareholders' equity (net)	189	(158)	30	(36)	(0)	(6)
Total changes during current period	189	(158)	30	(37)	(0)	168
Balance at end of current period	474	(787)	(312)	–	29	43,245

Current fiscal year (from April 1, 2015 until March 31, 2016)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	31,457	7,864	4,271	(65)	43,528
Changes during current period					
Transfer from capital stock to capital surplus	(16,457)	16,457			–
Dividends of surpluses			(498)		(498)
Net income attributable to owners of parent			1,454		1,454
Acquisition of treasury shares				(4,349)	(4,349)
Changes in items during current period other than shareholders' equity (net)					
Total changes for current period	(16,457)	16,457	965	(4,349)	(3,393)
Balance at end of current period	15,000	24,322	5,226	(4,414)	40,134

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation differences on available-for-sales	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	474	(787)	(312)	29	43,245
Changes during current period					
Transfer from capital stock to capital surplus					–
Dividends of surpluses					(498)
Net income attributable to owners of parent					1,454
Acquisition of treasury shares					(4,349)
Changes in items during current period other than shareholders' equity (net)	(348)	(406)	(754)	(29)	(784)
Total changes for current period	(348)	(406)	(754)	(29)	(4,178)
Balance at end of current period	126	(1,193)	(1,067)	–	39,066

Consolidated statement of cash flow

For the fiscal year ended March 31, 2015 and 2016

(Million yen)

	FY2014 (April 1, 2014 to March 31, 2015)	FY2015 (April 1, 2015 to March 31, 2016)
I. Cash flows from operating activities:		
Income before income taxes	2,006	2,121
Depreciation	2,324	2,470
Impairment loss	–	1,304
Increase (decrease) in provision for bonuses	(5)	27
Increase (decrease) in provision for directors' bonuses	2	(5)
Increase (decrease) in provision for losses on orders received	404	(219)
Increase (decrease) in provision for directors' retirement benefits	(6)	14
Increase (decrease) in net defined benefit liability	241	315
Interest and dividend income	(20)	(22)
Interest expenses	4	3
Loss (gain) on sales of property, plant and equipment	–	(885)
Loss (gain) on sales of investment securities	(1)	(467)
Loss on retirement of non-current assets	17	180
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	(1,962)	(325)
Decrease (increase) in inventories	(511)	(540)
Decrease (increase) in other assets	3	(18)
Increase (decrease) in notes and accounts payable - trade	304	(155)
Increase (decrease) in other liabilities	855	(563)
Other, net	(87)	(93)
(Subtotal)	3,533	3,155
Interest and dividend income received	24	26
Interest expenses paid	(4)	(3)
Income taxes refund	10	28
Income taxes paid	(914)	(1,093)
Net cash provided by (used in) operating activities:	2,650	2,113

(Million yen)

	FY2014 (April 1, 2014 to March 31, 2015)	FY2015 (April 1, 2015 to March 31, 2016)
II. Cash flows from investing activities		
Decrease (increase) in time deposits	(300)	(699)
Proceeds from redemption of securities	200	–
Purchase of property, plant and equipment	(799)	(689)
Proceeds from sales of property, plant and equipment	640	2,812
Purchase of intangible assets	(1,157)	(187)
Purchase of long-term prepaid expenses	(22)	(126)
Purchase of investment securities	(299)	–
Proceeds from sales of investment securities	3	520
Proceeds from liquidation of subsidiaries and affiliates	1	–
Purchase of membership	(16)	(3)
Proceeds from sales of membership	–	1
Net decrease (increase) in short-term loans receivable	0	0
Payments for lease and guarantee deposits	(48)	(186)
Proceeds from collection of lease and guarantee deposits	48	61
Other	(24)	(6)
Net cash provided by (used in) investing activities:	(1,774)	1,495
III. Cash flows from financing activities:		
Repayments of lease obligations	(97)	(96)
Proceeds from exercise of share options	1	–
Decrease (increase) in deposits for purchase of treasury shares	–	(874)
Purchase of treasury shares	(2)	(4,349)
Proceeds from sales of treasury shares	0	–
Cash dividends paid	(671)	(499)
Purchase of treasury shares of subsidiaries	–	(29)
Other	(0)	(0)
Net cash provided by (used in) financing activities	(769)	(5,850)
IV. Net increase (decrease) in cash and cash equivalents	106	(2,242)
V. Beginning cash and cash equivalent balance	8,171	8,278
VI. Ending cash and cash equivalent balance	8,278	6,036