

October 27, 2016

Consolidated Financial Statements for the First Half of the Fiscal Year Ending March 31, 2017



INES Corporation

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1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2017 (April 1, 2016 to September 30, 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	
Six months ended Sep. 30, 2016	18,096	1.8	888	81.6	894	78.8	499	75.7
Six months ended Sep. 30, 2015	17,774	(0.1)	489	(44.5)	500	(44.4)	284	(48.8)

(Note) Comprehensive income Six months ended September 30, 2016: ¥519 million (-9.4%)
 Six months ended September 30, 2015: ¥573 million (-4.9%)

	Net income per share (Yen)	Fully diluted net income per share (Yen)
Six months ended Sep. 30, 2016	18.29	—
Six months ended Sep. 30, 2015	9.04	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2016	54,736	37,428	68.4
As of March 31, 2016	56,826	39,066	68.7

<Reference> Shareholders' equity As of September 30, 2016: ¥37,428 million
 As of March 31, 2016: ¥39,066 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2016	—	8.00	—	8.00	16.00
Year ending March 31, 2017	—	8.00			
Year ending March 31, 2017 (Forecast)			—	8.00	16.00

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

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	56.58

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

The number of shares outstanding as of September 30, 2016 (excluding treasury shares) is used as the average number of shares outstanding on which the calculation of net income per share is based.

*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

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.: No
2. Changes in accounting policies other than (i): 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)
 - FY2017/3 H1: 28,600,000 shares
 - FY2016/3: 32,100,000 shares
2. Number of treasury shares at the term end
 - FY2017/3 H1: 2,087,896 shares
 - FY2016/3: 3,834,496 shares
3. Average number of shares outstanding
 - FY2017/3 H1: 27,286,276 shares
 - FY2016/3 H1: 31,410,796 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 5 of the accompanying materials “1. Qualitative Information on Financial Results for the First Half of the Fiscal Year Ending March 31, 2017, (2) 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, 2017

(1) Details of operating results

During the first half under review, the Japanese economy remained on a moderate recovery path as employment conditions improved against factors in the background, such as economic stimulus packages introduced by the government. However, the future of the economy remained uncertain due to a slowdown in growth in China and other emerging countries and the problem of the UK's withdrawal from the EU, among other issues.

In the information service industry, software investment plans showed weakness in some manufacturing sectors, but demand for IT investment for future growth remained firm and continued to expand, mainly among non-manufacturing companies, according to the Bank of Japan's quarterly economic survey released in October 2016.

In this business environment, INES Corporation worked on the development of new solutions while vigorously conducting sales/proposal activities to increase orders and net sales, acquire new customers and enter new business fields. In addition, the Company and its consolidated subsidiaries continued to improve the system for project management and the standardization of the process for development/introduction to strengthen its manufacturing capabilities.

Net sales in the first six months under review rose 1.8% year on year, to ¥18,096 million. The breakdowns of net sales by sector and by product/service (*) are as shown in the table below. In particular, net sales in the public sector owing to system development and the maintenance of systems that have already been introduced related to the social security and tax number systems (My Number system) for local governments contributed to the increase in net sales of 7.9% year on year.

(*) From this first three months of the consolidated fiscal year, net sales are shown by product/service offered to customers, instead of net sales by process, to reflect the market trends more accurately.

On the profit front, operating income, ordinary income and net income attributable to owners of parent rose to ¥888 million (increase of ¥399 million year on year), ¥894 million (increase of ¥394 million year on year) and ¥499 million (increase of ¥215 million year on year), respectively, largely reflecting the effects of increased sales and cost reductions.

Consolidated net sales by sector (Million yen)

Category/ Term	Six months ended September 30, 2015		Six months ended September 30, 2016		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	3,673	20.7	3,578	19.9	(2.6)
Financial	5,954	33.5	5,727	31.5	(3.8)
Public	8,146	45.8	8,790	48.6	7.9
Total	17,774	100.0	18,096	100.0	1.8

Consolidated net sales by product/service (Million yen)

Category/ Term	Six months ended September 30, 2015		Six months ended September 30, 2016		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	8,398	47.3	8,581	47.5	2.2
System operation	5,018	28.2	4,924	27.2	(1.9)
System maintenance	1,953	11.0	2,121	11.7	8.6
Sales of information equipment	815	4.6	501	2.8	(38.6)
Other	1,588	8.9	1,967	10.8	23.9
Total	17,774	100.0	18,096	100.0	1.8

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

Results forecasts for the full year of the fiscal year ending March 31, 2017 published on April 27, 2016 remain unchanged.

With respect to dividends for the current fiscal year, the Company will pay interim dividends of 8 yen per share. Annual dividends, including year-end dividends 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 first half of the fiscal year under review and multiplying income before income taxes by the estimated effective tax rate.

(2) Additional information

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

The Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 of March 28, 2016) was applied from the first quarter of the fiscal year under review.

Consolidated Financial Statements

Quarterly consolidate balance sheet

As of September 30 and March 31, 2016

(Million yen)

	FY2015 (As of March 31, 2016)	2Q of FY2016 (As of September 30, 2016)
ASSETS		
Current assets:		
Cash and deposits	6,917	11,896
Notes and accounts receivable - trade	12,723	6,565
Securities	351	151
Work in process	1,966	2,483
Raw materials and supplies	113	131
Prepaid expenses	223	238
Deposit paid	874	1
Deferred tax assets	678	678
Other	28	125
Allowance for doubtful accounts	(12)	(6)
Total current assets	23,865	22,267
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,978	19,241
Accumulated depreciation	(9,685)	(9,960)
Buildings and structures, net	9,292	9,281
Tools, furniture and fixtures	4,817	4,949
Accumulated depreciation	(3,708)	(3,853)
Tools, furniture and fixtures, net	1,109	1,095
Land	14,664	14,664
Total property, plant and equipment	25,065	25,041
Intangible assets		
Software	2,100	1,923
Other	40	39
Total intangible assets	2,140	1,963
Investments and other assets		
Investment securities	1,115	895
Long-term prepaid expenses	279	234
Deferred tax assets	3,720	3,708
Other	639	624
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,754	5,463
Total non-current assets	32,961	32,468
Total assets	56,826	54,736

Quarterly consolidate balance sheet

As of September 30 and March 31, 2016

(Million yen)

	FY2015 (As of March 31, 2016)	2Q of FY2016 (As of September 30, 2016)
LIABILITIES		
Current liabilities:		
Accounts payable – trade	2,113	1,766
Accrued expenses	833	766
Income taxes payable	347	342
Accrued consumption taxes	267	54
Advances received	138	386
Provision for bonuses	1,155	1,174
Provision for directors’ bonuses	47	24
Provision for losses on orders received	448	496
Other	794	620
Total current liabilities	6,146	5,633
Non-current liabilities:		
Provision for directors’ retirement benefits	224	218
Net defined benefit liability	10,877	10,955
Asset retirement obligations	394	395
Other	118	105
Total non-current liabilities	11,613	11,675
Total liabilities	17,760	17,308
NETASSETS		
Shareholders’ equity:		
Capital stock	15,000	15,000
Capital surplus	24,322	20,348
Retained earnings	5,226	5,499
Treasury shares	(4,414)	(2,372)
Total shareholders’ equity	40,134	38,475
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	126	77
Remeasurements of defined benefit plans	(1,193)	(1,123)
Total accumulated other comprehensive income	(1,067)	(1,046)
Total net assets	39,066	37,428
Total net assets and liabilities	56,826	54,736

Quarterly consolidated statement of income

For the six months ended September 30, 2015 and 2016

(Million yen)

	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2016 (April 1, 2016 to September 30, 2016)
Net sales	17,774	18,096
Cost of sales	14,525	14,326
Gross profit	3,249	3,769
Selling, general and administrative expenses	2,760	2,881
Operating income	489	888
Non-operating income:		
Interest income	2	1
Dividends income	12	6
Real estate rent	29	31
Others	7	9
Total non-operating income	51	48
Non-operating expenses:		
Interest expenses	1	1
Rent expenses on real estate	26	27
Commission for purchase of treasury shares	8	7
Others	3	6
Total non-operating expenses	40	42
Ordinary income	500	894
Extraordinary income:		
Gain on sales of investment securities	7	—
Gain on sales of memberships	—	0
Total extraordinary income	7	0
Extraordinary losses:		
Loss on retirement of non-current assets	9	0
Loss on retirement of software for sale	11	—
Others	0	0
Total extraordinary losses	21	0
Income before income taxes	486	894
Income taxes	202	395
Net income	284	499
Net income attributable to non-controlling interests	0	—
Net income attributable to owners of parent	284	499

Quarterly consolidated statement of comprehensive income

For the six months ended September 30, 2015 and 2016

(Million yen)

	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2016 (April 1, 2016 to September 30, 2016)
Net income	284	499
Other comprehensive income:		
Valuation difference on available-for-sale securities	244	(48)
Remeasurements of defined benefit plans, net of tax	45	69
Total other comprehensive income	289	20
Comprehensive income	573	519
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	573	519
Comprehensive income attributable to non-controlling interests	0	—

Quarterly consolidated statement of cash flow

For the six months ended September 30, 2015 and 2016

(Millions yen)

	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2016 (April 1, 2016 to September 30, 2016)
I. Cash flows from operating activities:		
Income before income taxes	486	894
Depreciation	1,085	1,043
Increase (decrease) in provision for bonuses	1	19
Increase (decrease) in provision for directors' bonuses	(28)	(23)
Increase (decrease) in provision for losses on orders received	(161)	48
Increase (decrease) in provision for directors' retirement benefits	3	(5)
Increase (decrease) in net defined benefit liability	127	179
Interest and dividend income	(14)	(8)
Interest expenses	1	1
Loss (gain) on sales of investment securities	(7)	—
Loss on retirement of non-current assets	9	0
Loss on retirement of software for sale	11	—
Decrease (increase) in notes and accounts receivable - trade	4,581	6,404
Decrease (increase) in inventories	(1,358)	(534)
Decrease (increase) in other assets	(143)	(120)
Increase (decrease) in notes and accounts payable - trade	(211)	(344)
Increase (decrease) in other liabilities	(669)	(350)
Other, net	(2)	(25)
(Subtotal)	3,711	7,177
Interest and dividend income received	16	9
Interest expenses paid	(1)	(1)
Income taxes refund	14	5
Income taxes paid	(632)	(453)
Net cash provided by (used in) operating activities	3,108	6,737
II. Cash flows from investing activities:		
Decrease (increase) in time deposits	(499)	(0)
Purchase of property, plant and equipment	(175)	(570)
Purchase of intangible assets	(129)	(201)
Proceeds from sales and redemption of securities	—	150
Purchase of long-term prepaid expenses	(38)	(4)
Purchase of membership	(3)	—
Proceeds from sales of membership	1	0
Net decrease (increase) in short-term loans receivable	0	1
Payments for lease and guarantee deposits	(141)	(41)
Proceeds from collection of lease and guarantee deposits	32	47
Other	9	—
Net cash provided by (used in) investing activities	(945)	(618)

	(Millions yen)	
	1H of FY2015 (April 1, 2015 to September 30, 2015)	1H of FY2016 (April 1, 2016 to September 30, 2016)
III. Cash flows from financing activities:		
Repayments of lease obligations	(47)	(55)
Decrease (increase) in deposits for purchase of treasury shares	(442)	872
Purchase of treasury shares	(2,060)	(1,931)
Cash dividends paid	(256)	(226)
Other	(0)	—
Net cash provided by (used in) financing activities	(2,807)	(1,340)
IV. Net increase (decrease) in cash and cash equivalents	(645)	4,778
V. Beginning cash and cash equivalent balance	8,278	6,036
VI. Ending cash and cash equivalent balance	7,632	10,814

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 28, 2016, 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:	¥226 million
(3) Dividend per share:	¥8
(4) Record date:	March 31, 2016
(5) Effective date:	June 29, 2016
(6) Source of dividends:	Retained earnings

2. Acquisition of treasury shares

The Company acquired 1,752,500 shares of treasury stock in accordance with resolutions made at the Board of Directors meetings held on January 28, 2016, April 27, 2016 and July 28, 2016. As a result, the value of treasury shares increased 1,930 million yen during the first six months under review.

3. Retirement of treasury shares

The Company retired 3,500,000 shares of treasury stock on August 16, 2016 in accordance with a resolution made at the Board of Directors meeting held on July 28, 2016. As a result, capital surplus and the value of treasury shares each decreased 3,974 million yen during the first six months under review.