

July 28, 2016

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



### INES Corporation

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## 1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017 (April 1, 2016 to June 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	
Three months ended June 30, 2016	7,943	4.0	145	—	151	—	63	—
Three months ended June 30, 2015	7,635	3.0	(77)	—	(60)	—	(55)	—

(Note) Comprehensive income Three months ended June 30, 2016: ¥51 million (-60.0%)  
 Three months ended June 30, 2015: ¥127 million (115.9%)

	Net income per share (Yen)	Fully diluted net income per share (Yen)
Three months ended June 30, 2016	2.28	—
Three months ended June 30, 2015	(1.74)	—

### (2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of June 30, 2016	57,194	37,654	65.8
As of March 31, 2016	56,826	39,066	68.7

<Reference> Shareholders' equity As of June 30, 2016: ¥37,654 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	—				
Year ending March 31, 2017 (Forecast)		8.00	—	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	55.65

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

At a meeting of the Board of Directors held on April 27, 2016, 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. The acquisition of own shares is published separately on July 13, 2016. Please refer to the “Notice of the Result of Acquiring Own Shares and the Completion of Acquisition.”

\*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.: 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 Q1: 32,100,000 shares  
FY2016/3: 32,100,000 shares
2. Number of treasury shares at the term end  
FY2017/3 Q1: 4,957,712 shares  
FY2016/3: 3,834,496 shares
3. Average number of shares outstanding  
FY2017/3 Q1: 27,729,256 shares  
FY2016/3 Q1: 32,010,111 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 Quarter 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 Quarter of the Fiscal Year Ending March 31, 2017

## (1) Details of operating results

During the first three 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, despite uncertain situations resulting in concern regarding the potential impact on the domestic economy due to the economic slowdown of China and other emerging countries and the problem of the UK's withdrawal from the EU, among other issues.

In the information service industry, the software investment plans of the companies are expected to increase for all the industries. The IT investment of the companies continues to expand, especially as the driver of strategic investment for future growth.

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 three months under review rose 4.0% year on year, to ¥7,943 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 15.8% year on year.

(\*) From the first three months of the consolidated fiscal year under review, 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 ¥145 million (increase of ¥223 million year on year), ¥151 million (increase of ¥212 million year on year) and ¥63 million (increase of ¥118 million year on year), respectively, largely reflecting the effects of increased sales and cost reductions.

### Consolidated net sales by sector (Million yen)

Category/ Term	Three months ended June 30, 2015		Three months ended June 30, 2016		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	1,737	22.8	1,685	21.2	(3.0)
Financial	2,940	38.5	2,832	35.7	(3.7)
Public	2,958	38.7	3,426	43.1	15.8
Total	7,635	100.0	7,943	100.0	4.0

### Consolidated net sales by product/service (Million yen)

Category/ Term	Three months ended June 30, 2015		Three months ended June 30, 2016		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	3,498	45.9	3,690	46.5	5.5
System operation	2,362	30.9	2,275	28.6	(3.7)
System maintenance	788	10.3	882	11.1	12.0
Sales of information equipment	270	3.5	162	2.1	(40.0)
Other	716	9.4	931	11.7	30.1
Total	7,635	100.0	7,943	100.0	4.0

## **(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 fiscal year under review, we plan to pay annual dividends of 16 yen per share, including an interim dividend of 8 yen per share and a year-end dividend of 8 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 quarter 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 June 30 and March 31, 2016

(Million yen)

	FY2015 (As of March 31, 2016)	1Q of FY2016 (As of June 30, 2016)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	6,917	15,284
Notes and accounts receivable - trade	12,723	4,486
Securities	351	151
Work in process	1,966	2,939
Raw materials and supplies	113	137
Prepaid expenses	223	255
Deposit paid	874	195
Deferred tax assets	678	746
Other	28	174
Allowance for doubtful accounts	(12)	(5)
<b>Total current assets</b>	<b>23,865</b>	<b>24,366</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	18,978	19,226
Accumulated depreciation	(9,685)	(9,821)
<b>Buildings and structures, net</b>	<b>9,292</b>	<b>9,405</b>
Tools, furniture and fixtures	4,817	4,888
Accumulated depreciation	(3,708)	(3,777)
<b>Tools, furniture and fixtures, net</b>	<b>1,109</b>	<b>1,110</b>
Land	14,664	14,664
<b>Total property, plant and equipment</b>	<b>25,065</b>	<b>25,180</b>
Intangible assets		
Software	2,100	1,958
Other	40	39
<b>Total intangible assets</b>	<b>2,140</b>	<b>1,998</b>
Investments and other assets		
Investment securities	1,115	1,057
Long-term prepaid expenses	279	253
Deferred tax assets	3,720	3,715
Other	639	623
Allowance for doubtful accounts	(0)	(0)
<b>Total investments and other assets</b>	<b>5,754</b>	<b>5,649</b>
<b>Total non-current assets</b>	<b>32,961</b>	<b>32,828</b>
<b>Total assets</b>	<b>56,826</b>	<b>57,194</b>

## Quarterly consolidate balance sheet

As of June 30 and March 31, 2016

(Million yen)

	FY2015 (As of March 31, 2016)	1Q of FY2016 (As of June 30, 2016)
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable – trade	2,113	1,676
Accrued expenses	833	779
Income taxes payable	347	100
Accrued consumption taxes	267	71
Advances received	138	1,901
Provision for bonuses	1,155	1,751
Provision for directors’ bonuses	47	15
Provision for losses on orders received	448	559
Other	794	980
<b>Total current liabilities</b>	<b>6,146</b>	<b>7,836</b>
<b>Non-current liabilities</b>		
Provision for directors’ retirement benefits	224	230
Net defined benefit liability	10,877	10,978
Asset retirement obligations	394	395
Other	118	99
<b>Total non-current liabilities</b>	<b>11,613</b>	<b>11,703</b>
<b>Total liabilities</b>	<b>17,760</b>	<b>19,540</b>
<b>NETASSETS</b>		
<b>Shareholders’ equity</b>		
Capital stock	15,000	15,000
Capital surplus	24,322	24,322
Retained earnings	5,226	5,063
Treasury shares	(4,414)	(5,651)
<b>Total shareholders’ equity</b>	<b>40,134</b>	<b>38,734</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	126	79
Remeasurements of defined benefit plans	(1,193)	(1,158)
<b>Total accumulated other comprehensive income</b>	<b>(1,067)</b>	<b>(1,079)</b>
<b>Total net assets</b>	<b>39,066</b>	<b>37,654</b>
<b>Total net assets and liabilities</b>	<b>56,826</b>	<b>57,194</b>

## Quarterly consolidated statement of income

For the three months ended June 30, 2015 and 2016

(Million yen)

	1Q of FY2015 (April 1, 2015 to June 30, 2015)	1Q of FY2016 (April 1, 2016 to June 30, 2016)
<b>Net sales</b>	<b>7,635</b>	<b>7,943</b>
Cost of sales	6,326	6,366
<b>Gross profit</b>	<b>1,309</b>	<b>1,577</b>
Selling, general and administrative expenses	1,386	1,431
<b>Operating income (loss)</b>	<b>(77)</b>	<b>145</b>
<b>Non-operating income:</b>		
Interest income	0	0
Dividends income	12	6
Real estate rent	13	15
Others	3	6
<b>Total non-operating income</b>	<b>30</b>	<b>29</b>
<b>Non-operating expenses:</b>		
Interest expenses	0	0
Rent expenses on real estate	12	13
Commission for purchase of treasury shares	—	4
Others	0	3
<b>Total non-operating expenses</b>	<b>13</b>	<b>23</b>
<b>Ordinary income (loss)</b>	<b>(60)</b>	<b>151</b>
<b>Extraordinary income:</b>		
Gain on sales of memberships	—	0
<b>Total extraordinary income</b>	<b>—</b>	<b>0</b>
<b>Extraordinary losses:</b>		
Loss on retirement of non-current assets	0	0
<b>Total extraordinary losses</b>	<b>0</b>	<b>0</b>
<b>Income (loss) before income taxes</b>	<b>(61)</b>	<b>151</b>
<b>Income taxes</b>	<b>(6)</b>	<b>88</b>
<b>Net income (loss)</b>	<b>(55)</b>	<b>63</b>
<b>Net income (loss) attributable to non-controlling interests</b>	<b>(0)</b>	<b>—</b>
<b>Net income (loss) attributable to owners of parent</b>	<b>(55)</b>	<b>63</b>



## Quarterly consolidated statement of comprehensive income

For the three months ended June 30, 2015 and 2016

(Million yen)

	1Q of FY2015 (April 1, 2015 to June 30, 2015)	1Q of FY2016 (April 1, 2016 to June 30, 2016)
<b>Net income (loss)</b>	<b>(55)</b>	<b>63</b>
<b>Other comprehensive income:</b>		
Valuation difference on available-for-sale securities	160	(47)
Remeasurements of defined benefit plans, net of tax	22	34
<b>Total other comprehensive income</b>	<b>183</b>	<b>(12)</b>
<b>Comprehensive income</b>	<b>127</b>	<b>51</b>
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	127	51
Comprehensive income attributable to non-controlling interests	(0)	—

## Quarterly consolidated statement of cash flow

For the three months ended June 30, 2015 and 2016

(Millions yen)

	1Q of FY2015 (April 1, 2015 to June 30, 2015)	1Q of FY2016 (April 1, 2016 to June 30, 2016)
<b>I. Cash flows from operating activities:</b>		
Income (loss) before income taxes	(61)	151
Depreciation	535	531
Increase (decrease) in provision for bonuses	615	596
Increase (decrease) in provision for directors' bonuses	(38)	(32)
Increase (decrease) in provision for losses on orders received	(162)	110
Increase (decrease) in provision for directors' retirement benefits	(11)	6
Increase (decrease) in net defined benefit liability	98	151
Interest and dividend income	(12)	(6)
Interest expenses	0	0
Loss (gain) on sales of membership	—	(0)
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	7,917	9,999
Decrease (increase) in inventories	(1,391)	(996)
Decrease (increase) in other assets	(190)	(188)
Increase (decrease) in notes and accounts payable - trade	(422)	(441)
Increase (decrease) in other liabilities	(680)	(181)
Other, net	(48)	(107)
<b>(Subtotal)</b>	<b>6,148</b>	<b>9,592</b>
Interest and dividend income received	13	7
Interest expenses paid	(0)	(0)
Income taxes refund	—	0
Income taxes paid	(631)	(371)
<b>Net cash provided by (used in) operating activities:</b>	<b>5,530</b>	<b>9,228</b>
<b>II. Cash flows from investing activities</b>		
Decrease (increase) in time deposits	(499)	600
Purchase of property, plant and equipment	(118)	(245)
Purchase of intangible assets	(70)	(31)
Purchase of long-term prepaid expenses	(30)	(1)
Purchase of membership	(1)	—
Proceeds from sales of membership	—	0
Net decrease (increase) in short-term loans receivable	0	0
Payments for lease and guarantee deposits	(25)	(38)
Proceeds from collection of lease and guarantee deposits	31	46
<b>Net cash provided by (used in) investing activities:</b>	<b>(715)</b>	<b>330</b>

	(Millions yen)	
	1Q of FY2015 (April 1, 2015 to June 30, 2015)	1Q of FY2016 (April 1, 2016 to June 30, 2016)
<b>III. Cash flows from financing activities:</b>		
Repayments of lease obligations	(23)	(25)
Decrease (increase) in deposits for purchase of treasury shares	—	678
Purchase of treasury shares	(0)	(1,236)
Cash dividends paid	(234)	(208)
Other	(0)	—
<b>Net cash provided by (used in) financing activities</b>	<b>(259)</b>	<b>(792)</b>
<b>IV. Net increase (decrease) in cash and cash equivalents</b>	<b>4,555</b>	<b>8,766</b>
<b>V. Beginning cash and cash equivalent balance</b>	<b>8,278</b>	<b>6,036</b>
<b>VI. Ending cash and cash equivalent balance</b>	<b>12,833</b>	<b>14,803</b>

## 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 1,123,100 treasury shares according to the resolution of a Board of Directors' meeting held on January 28, 2016 and the resolution of a Board of Directors' meeting held on April 27, 2016. As a result, treasury shares increased by ¥1,236 million for the first three months of the consolidated fiscal year under review and amounted to ¥5,651 million at the end of the first quarter of the fiscal year under review.

(Significant subsequent events)

(Acquisition of treasury shares)

At the meeting of the Board of Directors held on July 28, 2016, 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:	500,000 (maximum)
(3) Acquisition period:	August 2, 2016 to October 26, 2016 (on a contract basis)
(4) Total acquisition value:	¥0.5 billion (maximum)
(5) Acquisition method:	Market purchase on the Tokyo Stock Exchange

(Retirement of treasury shares)

The Company resolved to retire treasury shares according to the provisions of Article 178 of the Companies Act at a Board of Directors' meeting held on July 28, 2016.

#### 1. Reasons for retirement of treasury shares

Treasury shares shall be retired to increase the shareholder interest through a reduction in the total number of issued shares.

#### 2. Specifics of the resolution on the retirement of treasury shares of the Board of Directors

(1) Type of shares to be retired:	Common stock of the Company
(2) Total number of shares to be retired:	3,500,000 (Ratio of the shares to be retired to the total number of issued shares before retirement: 10.9%)
(3) Scheduled date of retirement:	August 16, 2016
(4) Total number of issued shares after retirement:	28,600,000