

October 26, 2017

Consolidated Financial Statements for the First Half of the Fiscal Year Ending March 31, 2018



INES Corporation

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1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2018 (April 1, 2017 to September 30, 2017)

(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	
Six months ended Sep. 30, 2017	16,148	(10.8)	238	(73.2)	250	(72.0)	125	(74.8)
Six months ended Sep. 30, 2016	18,096	1.8	888	81.6	894	78.8	499	75.7

(Note) Comprehensive income Six months ended September 30, 2017: ¥248 million (-52.2%)
 Six months ended September 30, 2016: ¥519 million (-9.4%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Six months ended Sep. 30, 2017	4.82	—
Six months ended Sep. 30, 2016	18.29	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2017	55,589	37,973	68.3
As of March 31, 2017	56,630	37,986	67.1

(Reference) Shareholders' equity As of September 30, 2017: ¥37,973 million
 As of March 31, 2017: ¥37,986 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2017	—	8.00	—	10.00	18.00
Year ending March 31, 2018	—	10.00			
Year ending March 31, 2018 (Forecast)			—	10.00	20.00

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

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(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	37,000 (3.9)	1,500 (37.7)	1,500 (38.2)	1,000 (38.0)	38.31

(Note) Revisions to results forecasts published most recently: Yes

With regard to the revisions to the consolidated results forecasts, please refer to the Notice of Revisions to Consolidated Results Forecasts which was announced today (October 26, 2017).

*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 (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)
 - FY2018/3 H1: 28,600,000 shares
 - FY2017/3: 28,600,000 shares
2. Number of treasury shares at the term end
 - FY2018/3 H1: 2,494,572 shares
 - FY2017/3: 2,493,748 shares
3. Average number of shares outstanding
 - FY2018/3 H1: 26,105,887 shares
 - FY2017/3 H1: 27,286,276 shares

** Quarterly results reports are not subject to quarterly review.*

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

(Disclaimer regarding forward-looking statements)

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, 2018, (2) Information on the consolidated results forecasts and other future forecasts” of the accompanying materials.

(Method of obtaining the contents of the first half financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and analysts on October 26, 2017 (Thursday). The materials distributed at the briefing are scheduled to be disclosed on the Company’s website.

1. Qualitative Information on Financial Results for the First Half of the Fiscal Year Ending March 31, 2018

(1) Details of operating results

During the first half of the consolidated fiscal year under review, the Japanese economy sustained a modest recovery on the back of better employment and income conditions and corporate earnings as well as various governmental policies. In the information industry in which the INES Group operates, investment in information technologies generally expanded, primarily in the private sector, although investment by the banking and other sectors leveled off.

In this business environment, INES Corporation took steps to bolster its corporate value over the medium and long terms, in addition to its normal business operations, mainly by proactively executing the following management measures:

(i) Enhancement of manufacturing capabilities

The Company has continued to strengthen the management of projects, including its core product WebRings, which is a web-type comprehensive government information system for local government, promoting the standardization and streamlining of the development, introduction and maintenance processes for projects and enhancing the quality assurance system.

(ii) Research and development activities

The Company began demonstration experiments with AI, RPA*, regional revitalization and information security with external experts, mainly through INES Research Institute, Inc., an institution established in January of this year, and continued to conduct other activities for acquiring new technology and knowhow.

* RPA: Robotic Process Automation

In light of robot-based automation of work combined with AI, machine learning and other technologies, many Japanese companies are now looking at introducing RPA for various tasks, mainly in back office units.

(iii) Promotion of work style changes

In the current fiscal year, the Company established a new division to facilitate work style changes with the aim of shifting ways of working in line with current trends, such as diversity and telework. It also launched a number of initiatives designed to secure and develop competent human resources and improve productivity.

Looking at the results for the first half of the consolidated fiscal year under review, net sales decreased 10.8% year on year, to ¥16,148 million, as indicated in the consolidated net sales by sector below. Although the general industry and financial sectors began to show stronger sales, the public sector experienced a reactionary decline after the My Number-related special demand in the previous fiscal year and delays in tender projects due to the reaction to the special demand and legislative amendments, among other factors.

In terms of profits, the Company posted an operating profit of ¥238 million (down 73.2% year on year), an ordinary profit of ¥250 million (down 72.0%), and a profit attributable to owners of parent amounting to ¥125 million (down 74.8%). This was due to one-time expenses associated with the relocation of the data center in addition to the decrease in net sales.

Consolidated net sales by sector and by product/service are as follows.

Consolidated net sales by sector

(Million yen)

Category/ Term	Six months ended September 30, 2016		Six months ended September 30, 2017		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	3,578	19.9	3,699	22.9	3.4
Financial	5,727	31.5	5,800	35.9	1.3
Public	8,790	48.6	6,648	41.2	(24.4)
Total	18,096	100.0	16,148	100.0	(10.8)

Consolidated net sales by product/service

(Million yen)

Category/ Term	Six months ended September 30, 2016		Six months ended September 30, 2017		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	8,581	47.5	6,645	41.1	(22.6)
System operation	4,924	27.2	4,920	30.5	(0.1)
System maintenance	2,121	11.7	2,212	13.7	4.3
Sales of information equipment	501	2.8	370	2.3	(26.1)
Other	1,967	10.8	1,999	12.4	1.6
Total	18,096	100.0	16,148	100.0	(10.8)

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

Taking into consideration the facts that, in the first half of the consolidated fiscal year under review, orders were below projection due to a reactionary decline following the My Number-related special demand in the previous fiscal year and that one-time expenses associated with the relocation of the data center and business facilities are likely to be greater than expected, the Company decided to revise the forecasts of business results for the full fiscal year, which were previously published on April 27, 2017.

Regarding dividends for the fiscal year under review, the Company will pay an interim dividend of ¥10 per share and a year-end dividend of ¥10 per share, for a total annual dividend of ¥20 per share as scheduled.

Revision of consolidated results forecasts for the fiscal year ending March 2018 (from April 1, 2017 to March 31, 2018)

(Million yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share (Yen)
Previous forecast (A)	40,000	2,200	2,200	1,300	49.80
Latest revised forecast (B)	37,000	1,500	1,500	1,000	38.31
Change (B-A)	(3,000)	(700)	(700)	(300)	–
Percentage (%)	(7.5)	(31.8)	(31.8)	(23.1)	–
Actual results of previous fiscal year (fiscal year ended March 31, 2017)	38,488	2,407	2,427	1,613	60.21

The consolidated results forecasts above are based on the Company's current assumptions and beliefs in light of the information currently available to it, and involve potential risks and uncertainties. Please note that the Company's actual results may differ from the results forecasts above due to various factors.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidated balance sheet

As of September 30 and March 31, 2017

(Million yen)

	FY2016 (As of March 31, 2017)	2Q of FY2017 (As of September 30, 2017)
ASSETS		
Current assets:		
Cash and deposits	10,960	12,836
Notes and accounts receivable - trade	10,546	5,828
Work in process	860	1,680
Raw materials and supplies	129	120
Prepaid expenses	243	262
Deferred tax assets	852	854
Other	38	168
Allowance for doubtful accounts	(10)	(5)
Total current assets	23,621	21,746
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,970	19,010
Accumulated depreciation	(9,697)	(9,715)
Buildings and structures, net	9,273	9,294
Tools, furniture and fixtures	4,573	4,690
Accumulated depreciation	(3,480)	(3,507)
Tools, furniture and fixtures, net	1,092	1,182
Land	14,260	14,260
Total property, plant and equipment	24,626	24,737
Intangible assets		
Software	2,527	2,854
Other	40	40
Total intangible assets	2,567	2,895
Investments and other assets		
Investment securities	1,068	1,147
Long-term prepaid expenses	228	242
Deferred tax assets	3,732	3,678
Long-term time deposits	-	300
Other	785	841
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,814	6,210
Total non-current assets	33,009	33,843
Total assets	56,630	55,589

Quarterly consolidated balance sheet

As of September 30 and March 31, 2017

(Million yen)

	FY2016 (As of March 31, 2017)	2Q of FY2017 (As of September 30, 2017)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	1,793	1,753
Accrued expenses	880	833
Income taxes payable	707	307
Accrued consumption taxes	103	62
Advances received	136	249
Provision for bonuses	1,149	1,133
Provision for directors' bonuses	52	23
Provision for losses on orders received	768	591
Other	1,311	1,154
Total current liabilities	6,903	6,110
Non-current liabilities		
Provision for directors' retirement benefits	251	224
Net defined benefit liability	11,045	11,074
Asset retirement obligations	377	152
Other	66	54
Total non-current liabilities	11,740	11,505
Total liabilities	18,643	17,616
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	20,348	20,348
Retained earnings	6,402	6,267
Treasury shares	(2,873)	(2,874)
Total shareholders' equity	38,876	38,740
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	170	220
Remeasurements of defined benefit plans	(1,060)	(987)
Total accumulated other comprehensive income	(889)	(767)
Total net assets	37,986	37,973
Total net assets and liabilities	56,630	55,589

Quarterly consolidated statement of income

For the six months ended September 30, 2016 and 2017

(Million yen)

	1H of FY2016 (April 1, 2016 to September 30, 2016)	1H of FY2017 (April 1, 2017 to September 30, 2017)
Net sales	18,096	16,148
Cost of sales	14,326	13,052
Gross profit	3,769	3,095
Selling, general and administrative expenses	2,881	2,857
Operating profit	888	238
Non-operating income:		
Interest income	1	0
Dividends income	6	5
Real estate rent	31	31
Others	9	6
Total non-operating income	48	44
Non-operating expenses:		
Interest expenses	1	0
Rent expenses on real estate	27	27
Commission for purchase of treasury shares	7	-
Others	6	4
Total non-operating expenses	42	32
Ordinary profit	894	250
Extraordinary income:		
Gain on sales of investment securities	-	49
Gain on sales of memberships	0	-
Total extraordinary income	0	49
Extraordinary losses:		
Loss on retirement of non-current assets	0	7
Others	0	1
Total extraordinary losses	0	9
Profit before income taxes	894	291
Income taxes	395	165
Profit	499	125
Profit attributable to owners of parent	499	125

Quarterly consolidated statement of comprehensive income

For the six months ended September 30, 2016 and 2017

(Million yen)

	1H of FY2016 (April 1, 2016 to September 30, 2016)	1H of FY2017 (April 1, 2017 to September 30, 2017)
Profit	499	125
Other comprehensive income:		
Valuation difference on available-for-sale securities	(48)	50
Remeasurements of defined benefit plans, net of tax	69	72
Total other comprehensive income	20	122
Comprehensive income	519	248
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	519	248

Quarterly consolidated statement of cash flow

For the six months ended September 30, 2016 and 2017

(Million yen)

	1H of FY2016 (April 1, 2016 to September 30, 2016)	1H of FY2017 (April 1, 2017 to September 30, 2017)
I. Cash flows from operating activities:		
Profit before income taxes	894	291
Depreciation	1,043	1,029
Increase (decrease) in provision for bonuses	19	(15)
Increase (decrease) in provision for directors' bonuses	(23)	(28)
Increase (decrease) in provision for losses on orders received	48	(177)
Increase (decrease) in provision for directors' retirement benefits	(5)	(26)
Increase (decrease) in net defined benefit liability	179	133
Loss (gain) on sales of investment securities	-	(49)
Loss on retirement of non-current assets	0	7
Decrease (increase) in notes and accounts receivable - trade	6,404	4,831
Decrease (increase) in inventories	(534)	(810)
Decrease (increase) in other assets	(120)	(165)
Increase (decrease) in notes and accounts payable - trade	(344)	(50)
Increase (decrease) in other liabilities	(350)	44
Other, net	(24)	(142)
(Subtotal)	7,185	4,870
Income taxes refund	5	15
Income taxes paid	(453)	(512)
Net cash provided by (used in) operating activities:	6,737	4,372
II. Cash flows from investing activities		
Decrease (increase) in time deposits	(0)	(0)
Payment into long-term time deposit	-	(300)
Purchase of property, plant and equipment	(570)	(1,057)
Purchase of intangible assets	(201)	(692)
Purchase of long-term prepaid expenses	(4)	(48)
Purchase of investment securities	-	(18)
Proceeds from sales of investment securities	-	53
Proceeds from redemption of investment securities	150	-
Payments for lease and guarantee deposits	(41)	(172)
Proceeds from collection of lease and guarantee deposits	47	107
Payments for asset retirement obligations	-	(75)
Other	2	6
Net cash provided by (used in) investing activities:	(618)	(2,197)
III. Cash flows from financing activities:		
Repayments of lease obligations	(55)	(38)
Decrease (increase) in deposits for purchase of treasury shares	872	0
Purchase of treasury shares	(1,931)	(0)
Cash dividends paid	(226)	(260)
Net cash provided by (used in) financing activities	(1,340)	(299)
IV. Net increase (decrease) in cash and cash equivalents	4,778	1,875
V. Beginning cash and cash equivalent balance	6,036	9,726
VI. Ending cash and cash equivalent balance	10,814	11,602