

January 30, 2018

# Consolidated Financial Statements for the First Three Quarters of the Fiscal Year Ending March 31, 2018

## INES Corporation

Listing: Tokyo Stock Exchange (Code: 9742)  
 Representative: Etsuroh Mori, President & Representative Director  
 Contacts: Akihiro Kobayashi, General Manager, Financial Management Department, Finance & Accounting Division  
 Tel: +81-3-6261-3400  
 Head Office: 26, Sanbancho, Chiyoda-ku, Tokyo 102-0075, Japan  
 Tel: +81-3-6261-3400 Fax +81-3-6261-3433  
 URL/e-mail: URL: <http://www.ines.co.jp/en> E-mail: [ir\\_info@ines.co.jp](mailto:ir_info@ines.co.jp)

## 1. Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2018 (April 1, 2017 to December 31, 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	
Nine months ended Dec. 31, 2017	23,911	(8.2)	305	(68.5)	343	(66.2)	175	(69.2)
Nine months ended Dec. 31, 2016	26,039	0.3	970	51.6	1,015	48.3	568	(7.1)

(Note) Comprehensive income  
 Nine months ended December 31, 2017: ¥372 million (-49.9%)  
 Nine months ended December 31, 2016: ¥744 million (-14.5%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Nine months ended Dec. 31, 2017	6.71	—
Nine months ended Dec. 31, 2016	21.03	—

### (2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of December 31, 2017	55,180	37,835	68.6
As of March 31, 2017	56,630	37,986	67.1

(Reference) Shareholders' equity  
 As of December 31, 2017: ¥37,835 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: No

\*Notes

**(1) Significant changes in subsidiaries during this 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**

**(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 Q3: 28,600,000 shares
  - FY2017/3: 28,600,000 shares
2. Number of treasury shares at the term end
  - FY2018/3 Q3: 2,495,306 shares
  - FY2017/3: 2,493,748 shares
3. Average number of shares outstanding
  - FY2018/3 Q3: 26,105,615 shares
  - FY2017/3 Q3: 27,013,443 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 Three Quarters of the Fiscal Year Ending March 31, 2018, (2) Information on the consolidated results forecasts and other future forecasts” of the accompanying materials.

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

## (1) Details of operating results

During the first three quarters 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, IT investment continued to expand primarily in the financial, logistics and services sectors, offsetting the impact of a drop-off in IT investment by the megabanks.

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

Established in January 2017, INES Research Institute, Inc. has been playing a central role, together with external experts, in continuing various activities, including the commencement of demonstration experiment in areas such as artificial intelligence (AI), RPA\*, regional revitalization and information security, for the purpose of acquiring new technologies and expertise and providing proposals to customers.

\* 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 three quarters of the consolidated fiscal year under review, net sales decreased 8.2% year on year, to ¥23,911 million, as indicated in the consolidated net sales by sector below. Although stronger sales began to become evident, mainly to the non-manufacturing sector among general industry, and to megabanks and insurance companies in the financial sector, 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 ¥305 million (down 68.5% year on year), an ordinary profit of ¥343 million (down 66.2%), and a profit attributable to owners of parent amounting to ¥175 million (down 69.2%). This was due to one-time expenses associated with the relocation of the business office 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	Nine months ended December 31, 2016		Nine months ended December 31, 2017		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	5,244	20.1	5,492	23.0	4.7
Financial	8,817	33.9	9,069	37.9	2.9
Public	11,977	46.0	9,349	39.1	(21.9)
Total	26,039	100.0	23,911	100.0	(8.2)

Consolidated net sales by product/service (Million yen)

Category/ Term	Nine months ended December 31, 2016		Nine months ended December 31, 2017		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	12,024	46.2	9,823	41.0	(18.3)
System operation	7,081	27.2	7,058	29.5	(0.3)
System maintenance	3,032	11.6	3,237	13.5	6.7
Sales of information equipment	896	3.4	552	2.3	(38.3)
Other	3,004	11.6	3,239	13.7	7.8
Total	26,039	100.0	23,911	100.0	(8.2)

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

Results forecasts for the full year of the fiscal year ending March 31, 2018 published on October 26, 2017 remain unchanged.

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.

# Quarterly Consolidated Financial Statements and Important Notes

## Quarterly consolidated balance sheet

As of December 31 and March 31, 2017

(Million yen)

	FY2016 (As of March 31, 2017)	3Q of FY2017 (As of December 31, 2017)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	10,960	11,270
Notes and accounts receivable - trade	10,546	5,264
Work in process	860	2,782
Raw materials and supplies	129	100
Prepaid expenses	243	243
Deferred tax assets	852	1,217
Other	38	330
Allowance for doubtful accounts	(10)	(5)
<b>Total current assets</b>	<b>23,621</b>	<b>21,204</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	18,970	19,120
Accumulated depreciation	(9,697)	(9,758)
Buildings and structures, net	9,273	9,361
Tools, furniture and fixtures	4,573	4,742
Accumulated depreciation	(3,480)	(3,524)
Tools, furniture and fixtures, net	1,092	1,218
Land	14,260	14,260
<b>Total property, plant and equipment</b>	<b>24,626</b>	<b>24,840</b>
Intangible assets		
Software	2,527	2,915
Other	40	40
<b>Total intangible assets</b>	<b>2,567</b>	<b>2,956</b>
Investments and other assets		
Investment securities	1,068	1,205
Long-term prepaid expenses	228	216
Deferred tax assets	3,732	3,645
Long-term time deposits	-	300
Other	785	812
Allowance for doubtful accounts	(0)	(0)
<b>Total investments and other assets</b>	<b>5,814</b>	<b>6,179</b>
<b>Total non-current assets</b>	<b>33,009</b>	<b>33,976</b>
<b>Total assets</b>	<b>56,630</b>	<b>55,180</b>

## Quarterly consolidated balance sheet

As of December 31 and March 31, 2017

(Million yen)

	FY2016 (As of March 31, 2017)	3Q of FY2017 (As of December 31, 2017)
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable - trade	1,793	1,990
Accrued expenses	880	905
Income taxes payable	707	198
Accrued consumption taxes	103	67
Advances received	136	228
Provision for bonuses	1,149	477
Provision for directors' bonuses	52	36
Provision for losses on orders received	768	576
Other	1,311	1,334
<b>Total current liabilities</b>	<b>6,903</b>	<b>5,815</b>
<b>Non-current liabilities</b>		
Provision for directors' retirement benefits	251	237
Net defined benefit liability	11,045	11,134
Asset retirement obligations	377	106
Other	66	50
<b>Total non-current liabilities</b>	<b>11,740</b>	<b>11,529</b>
<b>Total liabilities</b>	<b>18,643</b>	<b>17,345</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Capital stock	15,000	15,000
Capital surplus	20,348	20,348
Retained earnings	6,402	6,055
Treasury shares	(2,873)	(2,875)
<b>Total shareholders' equity</b>	<b>38,876</b>	<b>38,528</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	170	258
Remeasurements of defined benefit plans	(1,060)	(951)
<b>Total accumulated other comprehensive income</b>	<b>(889)</b>	<b>(692)</b>
<b>Total net assets</b>	<b>37,986</b>	<b>37,835</b>
<b>Total net assets and liabilities</b>	<b>56,630</b>	<b>55,180</b>

## Quarterly consolidated statement of income

For the nine months ended December 31, 2016 and 2017

(Million yen)

	3Q of FY2016 (April 1, 2016 to December 31, 2016)	3Q of FY2017 (April 1, 2017 to December 31, 2017)
<b>Net sales</b>	<b>26,039</b>	<b>23,911</b>
Cost of sales	20,872	19,358
<b>Gross profit</b>	<b>5,166</b>	<b>4,552</b>
Selling, general and administrative expenses	4,196	4,246
<b>Operating profit</b>	<b>970</b>	<b>305</b>
<b>Non-operating income:</b>		
Interest income	1	2
Dividends income	10	9
Real estate rent	46	46
Dividend income of insurance	27	13
Others	15	12
<b>Total non-operating income</b>	<b>101</b>	<b>84</b>
<b>Non-operating expenses:</b>		
Interest expenses	1	0
Rent expenses on real estate	41	41
Commission for purchase of treasury shares	9	-
Others	3	4
<b>Total non-operating expenses</b>	<b>56</b>	<b>46</b>
<b>Ordinary profit</b>	<b>1,015</b>	<b>343</b>
<b>Extraordinary income:</b>		
Gain on sales of investment securities	-	49
Gain on sales of memberships	0	-
<b>Total extraordinary income</b>	<b>0</b>	<b>49</b>
<b>Extraordinary losses:</b>		
Loss on retirement of non-current assets	10	8
Others	0	1
<b>Total extraordinary losses</b>	<b>10</b>	<b>10</b>
<b>Profit before income taxes</b>	<b>1,005</b>	<b>383</b>
<b>Income taxes</b>	<b>437</b>	<b>207</b>
<b>Profit</b>	<b>568</b>	<b>175</b>
<b>Profit attributable to owners of parent</b>	<b>568</b>	<b>175</b>

## Quarterly consolidated statement of comprehensive income

For the nine months ended December 31, 2016 and 2017

(Million yen)

	3Q of FY2016 (April 1, 2016 to December 31, 2016)	3Q of FY2017 (April 1, 2017 to December 31, 2017)
<b>Profit</b>	<b>568</b>	<b>175</b>
<b>Other comprehensive income:</b>		
Valuation difference on available-for-sale securities	71	88
Remeasurements of defined benefit plans, net of tax	104	108
<b>Total other comprehensive income</b>	<b>175</b>	<b>197</b>
<b>Comprehensive income</b>	<b>744</b>	<b>372</b>
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	744	372



## Quarterly consolidated statement of cash flow

For the nine months ended December 31, 2016 and 2017

(Million yen)

	3Q of FY2016 (April 1, 2016 to December 31, 2016)	3Q of FY2017 (April 1, 2017 to December 31, 2017)
<b>I. Cash flows from operating activities:</b>		
Profit before income taxes	1,005	383
Depreciation	1,565	1,566
Increase (decrease) in provision for bonuses	(669)	(672)
Increase (decrease) in provision for directors' bonuses	(11)	(15)
Increase (decrease) in provision for losses on orders received	45	(191)
Increase (decrease) in provision for directors' retirement benefits	9	(13)
Increase (decrease) in net defined benefit liability	232	245
Loss (gain) on sales of investment securities	-	(49)
Loss on retirement of non-current assets	10	8
Decrease (increase) in notes and accounts receivable - trade	6,982	5,373
Decrease (increase) in inventories	(1,305)	(1,892)
Decrease (increase) in other assets	(233)	(310)
Increase (decrease) in notes and accounts payable - trade	(273)	186
Increase (decrease) in other liabilities	14	300
Other, net	(50)	(234)
<b>(Subtotal)</b>	<b>7,321</b>	<b>4,685</b>
Income taxes refund	5	18
Income taxes paid	(855)	(946)
<b>Net cash provided by (used in) operating activities:</b>	<b>6,470</b>	<b>3,756</b>
<b>II. Cash flows from investing activities</b>		
Decrease (increase) in time deposits	(0)	(0)
Payment into long-term time deposit	-	(300)
Purchase of property, plant and equipment	(702)	(1,172)
Purchase of intangible assets	(293)	(1,021)
Purchase of long-term prepaid expenses	(30)	(77)
Purchase of investment securities	-	(28)
Proceeds from sales of investment securities	-	53
Proceeds from redemption of investment securities	150	-
Payments for lease and guarantee deposits	(121)	(173)
Proceeds from collection of lease and guarantee deposits	49	132
Payments for asset retirement obligations	-	(310)
Other	1	12
<b>Net cash provided by (used in) investing activities:</b>	<b>(947)</b>	<b>(2,885)</b>
<b>III. Cash flows from financing activities:</b>		
Repayments of lease obligations	(85)	(56)
Decrease (increase) in deposits for purchase of treasury shares	872	0
Purchase of treasury shares	(2,432)	(1)
Cash dividends paid	(422)	(504)
<b>Net cash provided by (used in) financing activities</b>	<b>(2,067)</b>	<b>(561)</b>
<b>IV. Net increase (decrease) in cash and cash equivalents</b>	<b>3,455</b>	<b>309</b>
<b>V. Beginning cash and cash equivalent balance</b>	<b>6,036</b>	<b>9,726</b>
<b>VI. Ending cash and cash equivalent balance</b>	<b>9,491</b>	<b>10,036</b>