

January 26, 2017

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



INES Corporation

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1. Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2017 (April 1, 2016 to December 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	
Nine months ended Dec. 31, 2016	26,039	0.3%	970	51.6%	1,015	48.3%	568	(7.1)%
Nine months ended Dec. 31, 2015	25,953	(0.2)%	639	(11.4)%	685	(9.0)%	611	34.0%

(Note) Comprehensive income
 Nine months ended December 31, 2016: ¥744 million (-14.5%)
 Nine months ended December 31, 2015: ¥870 million (52.0%)

	Net income per share (Yen)	Fully diluted net income per share (Yen)
Nine months ended Dec. 31, 2016	21.03	—
Nine months ended Dec. 31, 2015	19.80	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of December 31, 2016	53,673	36,939	68.8
As of March 31, 2016	56,826	39,066	68.7

<Reference> Shareholders' equity
 As of December 31, 2016: ¥36,939 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%	57.46

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

The number of shares outstanding as of December 31, 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 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

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 Q3: 28,600,000 shares
 - FY2016/3: 32,100,000 shares
2. Number of treasury shares at the term end
 - FY2017/3 Q3: 2,493,312 shares
 - FY2016/3: 3,834,496 shares
3. Average number of shares outstanding
 - FY2017/3 Q3: 27,013,443 shares
 - FY2016/3 Q3: 30,898,993 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 4 of the accompanying materials “1. Qualitative Information on Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2017, (3) 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, 2017

(1) Details of operating results

During the first nine months of the consolidated fiscal year under review, the Japanese economy remained on a moderate recovery path as employment conditions improved on the back of factors including economic stimulus packages introduced by the government. However, the future of the economy remained uncertain due to a slowdown of the economies 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 that was released in December 2016.

In this business environment, INES Corporation vigorously conducted 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.

In addition, the Company proceeded with preparations for the establishment of a new company (INES Research Institute, Inc.) that will engage in research and development and commercialization in light of the recent situation, in which innovative technologies such as AI, IoT, big data and FinTech have been rising rapidly. This new company was established on January 1, 2017.

Net sales in the first nine months under review rose 0.3% year on year, to ¥26,039 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 related to the social security and tax number systems (My Number system) for local governments contributed to the net sales increase of 6.6% year on year.

(*) From the 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 rose to ¥970 million (an increase of 51.6% year on year) and ordinary income rose to ¥1,015 million (an increase of 48.3% year on year), largely reflecting the effects of cost reductions, while net income attributable to owners of parent declined to ¥568 million (a decrease of 7.1% year on year).

Consolidated net sales by sector (Million yen)

Category/ Term	Nine months ended December 31, 2015		Nine months ended December 31, 2016		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	5,389	20.8	5,244	20.1	(2.7)
Financial	9,332	35.9	8,817	33.9	(5.5)
Public	11,231	43.3	11,977	46.0	6.6
Total	25,953	100.0	26,039	100.0	0.3

Consolidated net sales by product/service (Million yen)

Category/ Term	Nine months ended December 31, 2015		Nine months ended December 31, 2016		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	12,075	46.5	12,024	46.2	(0.4)
System operation	7,124	27.4	7,081	27.2	(0.6)
System maintenance	2,845	11.0	3,032	11.6	6.6
Sales of information equipment	1,385	5.3	896	3.4	(35.3)
Other	2,523	9.8	3,004	11.6	19.1
Total	25,953	100.0	26,039	100.0	0.3

Consolidated Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the third quarter under review were ¥9,491 million, an increase of ¥3,455 million from the end of the previous fiscal year.

Cash flows for each category are as follows.

Cash flows from operating activities

Cash provided by operating activities stood at ¥6,470 million, an increase of ¥3,469 million from the same period of the previous fiscal year, mainly reflecting a decrease in notes and accounts receivable-trade of ¥6,982 million, despite an increase in inventories of ¥1,305 million.

Cash flows from investing activities

Cash used in investing activities was ¥947 million, a decrease of ¥2,233 million in cash from the same period of the previous fiscal year, chiefly due to the purchase of property, plant and equipment of ¥702 million, offsetting proceeds from sales and redemption of securities of ¥150 million.

Cash flows from financing activities

Cash used in financing activities stood at ¥2,067 million, an increase of ¥1,733 million in cash from the same period of the previous fiscal year, primarily attributable to the purchase of treasury shares of ¥2,432 million.

(3) 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 paid out an interim dividend of 8 yen per share. Annual dividends, including a year-end dividend 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 third 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 December 31 and March 31, 2016

(Million yen)

	FY2015 (As of March 31, 2016)	3Q of FY2016 (As of December 31, 2016)
ASSETS		
Current assets:		
Cash and deposits	6,917	10,725
Notes and accounts receivable - trade	12,723	5,926
Securities	351	—
Work in process	1,966	3,262
Raw materials and supplies	113	124
Prepaid expenses	223	226
Deposit paid	874	1
Deferred tax assets	678	795
Other	28	242
Allowance for doubtful accounts	(12)	(6)
Total current assets	23,865	21,297
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,978	19,246
Accumulated depreciation	(9,685)	(10,066)
Buildings and structures, net	9,292	9,180
Tools, furniture and fixtures	4,817	4,926
Accumulated depreciation	(3,708)	(3,869)
Tools, furniture and fixtures, net	1,109	1,057
Land	14,664	14,664
Total property, plant and equipment	25,065	24,901
Intangible assets		
Software	2,100	1,803
Other	40	40
Total intangible assets	2,140	1,843
Investments and other assets		
Investment securities	1,115	1,041
Long-term prepaid expenses	279	223
Deferred tax assets	3,720	3,666
Other	639	697
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,754	5,629
Total non-current assets	32,961	32,375
Total assets	56,826	53,673

Quarterly consolidate balance sheet

As of December 31 and March 31, 2016

(Million yen)

	FY2015 (As of March 31, 2016)	3Q of FY2016 (As of December 31, 2016)
LIABILITIES		
Current liabilities:		
Accounts payable – trade	2,113	1,842
Accrued expenses	833	849
Income taxes payable	347	76
Accrued consumption taxes	267	47
Advances received	138	324
Provision for bonuses	1,155	485
Provision for directors' bonuses	47	36
Provision for losses on orders received	448	493
Other	794	897
Total current liabilities	6,146	5,053
Non-current liabilities:		
Provision for directors' retirement benefits	224	234
Net defined benefit liability	10,877	10,958
Asset retirement obligations	394	403
Other	118	83
Total non-current liabilities	11,613	11,679
Total liabilities	17,760	16,733
NET ASSETS		
Shareholders' equity:		
Capital stock	15,000	15,000
Capital surplus	24,322	20,348
Retained earnings	5,226	5,356
Treasury shares	(4,414)	(2,873)
Total shareholders' equity	40,134	37,831
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	126	197
Remeasurements of defined benefit plans	(1,193)	(1,088)
Total accumulated other comprehensive income	(1,067)	(891)
Total net assets	39,066	36,939
Total net assets and liabilities	56,826	53,673

Quarterly consolidated statement of income

For the nine months ended December 31, 2015 and 2016

(Million yen)

	3Q of FY2015 (April 1, 2015 to December 31, 2015)	3Q of FY2016 (April 1, 2016 to December 31, 2016)
Net sales	25,953	26,039
Cost of sales	21,203	20,872
Gross profit	4,750	5,166
Selling, general and administrative expenses	4,110	4,196
Operating income	639	970
Non-operating income:		
Interest income	2	1
Dividends income	17	10
Real estate rent	45	46
Dividend income of insurance	22	27
Others	16	15
Total non-operating income	104	101
Non-operating expenses:		
Interest expenses	2	1
Rent expenses on real estate	40	41
Commission for purchase of treasury shares	12	9
Others	3	3
Total non-operating expenses	59	56
Ordinary income	685	1,015
Extraordinary income:		
Loss on retirement of non-current assets	877	—
Gain on sales of investment securities	7	—
Gain on sales of memberships	—	0
Others	0	—
Total extraordinary income	884	0
Extraordinary losses:		
Loss on retirement of non-current assets	32	10
Loss on retirement of software for sale	11	—
Impairment loss	692	—
Others	0	0
Total extraordinary losses	736	10
Income before income taxes	833	1,005
Income taxes	221	437
Net income	611	568
Net income (loss) attributable to non-controlling interests	(0)	—
Net income attributable to owners of parent	611	568

Quarterly consolidated statement of comprehensive income

For the nine months ended December 31, 2015 and 2016

(Million yen)

	3Q of FY2015 (April 1, 2015 to December 31, 2015)	3Q of FY2016 (April 1, 2016 to December 31, 2016)
Net income	611	568
Other comprehensive income:		
Valuation difference on available-for-sale securities	191	71
Remeasurements of defined benefit plans, net of tax	67	104
Total other comprehensive income	258	175
Comprehensive income	870	744
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	870	744
Comprehensive income attributable to non-controlling interests	(0)	—

Quarterly consolidated statement of cash flow

For the nine months ended December 31, 2015 and 2016

(Million yen)

	3Q of FY2015 (April 1, 2015 to December 31, 2015)	3Q of FY2016 (April 1, 2016 to December 31, 2016)
I. Cash flows from operating activities:		
Income before income taxes	833	1,005
Depreciation	1,641	1,565
Impairment loss	692	—
Increase (decrease) in provision for bonuses	(640)	(669)
Increase (decrease) in provision for directors' bonuses	(17)	(11)
Increase (decrease) in provision for losses on orders received	(242)	45
Increase (decrease) in provision for directors' retirement benefits	18	9
Increase (decrease) in net defined benefit liability	286	232
Interest and dividend income	(20)	(12)
Interest expenses	2	1
Loss (gain) on sales of property, plant and equipment	(877)	—
Loss (gain) on sales of investment securities	(7)	—
Loss on retirement of non-current assets	32	10
Loss on retirement of software for sale	11	—
Decrease (increase) in notes and accounts receivable - trade	5,776	6,982
Decrease (increase) in inventories	(2,546)	(1,305)
Decrease (increase) in other assets	(274)	(233)
Increase (decrease) in notes and accounts payable - trade	(94)	(273)
Increase (decrease) in other liabilities	(421)	14
Other, net	(94)	(52)
(Subtotal)	4,058	7,308
Interest and dividend income received	23	14
Interest expenses paid	(2)	(1)
Income taxes refund	14	5
Income taxes paid	(1,093)	(855)
Net cash provided by (used in) operating activities	3,001	6,470
II. Cash flows from investing activities:		
Decrease (increase) in time deposits	(499)	(0)
Purchase of property, plant and equipment	(432)	(702)
Proceeds from sales of property, plant and equipment	2,571	—
Purchase of intangible assets	(166)	(293)
Purchase of long-term prepaid expenses	(104)	(30)
Proceeds from sales of investment securities	43	—
Proceeds from redemption of investment securities	—	150
Purchase of membership	(3)	—
Proceeds from sales of membership	1	0
Net decrease (increase) in short-term loans receivable	0	0
Payments for lease and guarantee deposits	(181)	(121)
Proceeds from collection of lease and guarantee deposits	36	49
Other	21	—
Net cash provided by (used in) investing activities	1,285	(947)

(Million yen)

	3Q of FY2015 (April 1, 2015 to December 31, 2015)	3Q of FY2016 (April 1, 2016 to December 31, 2016)
III. Cash flows from financing activities:		
Repayments of lease obligations	(71)	(85)
Decrease (increase) in deposits for purchase of treasury shares	(0)	872
Purchase of treasury shares	(3,219)	(2,432)
Cash dividends paid	(479)	(422)
Purchase of treasury shares of subsidiaries	(29)	—
Other	(0)	—
Net cash provided by (used in) financing activities	(3,801)	(2,067)
IV. Net increase (decrease) in cash and cash equivalents	485	3,455
V. Beginning cash and cash equivalent balance	8,278	6,036
VI. Ending cash and cash equivalent balance	8,763	9,491

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

The Company resolved to pay interim dividends at a meeting of the Board of Directors held on October 27, 2016 as follows.

(1) Type of shares:	Common stock
(2) Total amount of dividends:	¥212 million
(3) Dividend per share:	¥8
(4) Record date:	September 30, 2016
(5) Effective date:	December 5, 2016
(6) Source of dividends:	Retained earnings

2. Acquisition of treasury shares

The Company acquired 2,157,300 shares of treasury stock in accordance with resolutions made at the Board of Directors meetings held on January 28, 2016, April 27, 2016, July 28, 2016 and November 24, 2016. As a result, the value of treasury shares increased 2,430 million yen during the first nine 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 nine months under review.