

April 27, 2017

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2017 [Japanese standard]



INES Corporation

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1. Consolidated Financial Statements for the Fiscal Year Ended March 31, 2017 (April 1, 2016 to March 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	
Fiscal Year Ended March 31, 2017	38,488	(2.5%)	2,407	8.8%	2,427	7.1%	1,613	11.0%
Fiscal Year Ended March 31, 2016	39,455	1.5%	2,212	13.5%	2,267	14.1%	1,454	71.6%

(Note) Comprehensive income Fiscal Year Ended March 31, 2017: ¥1,791 million (156.1%)
 Fiscal Year Ended March 31, 2016: ¥ 699 million (-20.3%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)	Profit/Shareholders' equity	Ordinary profit/Total assets	Operating profit/Net sales
Fiscal Year Ended March 31, 2017	60.21	—	4.2%	4.3%	6.3%
Fiscal Year Ended March 31, 2016	47.84	—	3.5%	3.8%	5.6%

(Reference) Equity in earnings of affiliated companies Fiscal Year Ended March 31, 2017: ¥ - million
 Fiscal Year Ended March 31, 2016: ¥ - million

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
As of March 31, 2017	56,630	37,986	67.1	1,455.09
As of March 31, 2016	56,826	39,066	68.7	1,382.13

(Reference) Shareholders' equity As of March 31, 2017: ¥ 37,986 million
 As of March 31, 2016: ¥ 39,066 million

(3) Consolidated Cash Flow Situation

(Million yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal Year Ended March 31, 2017	7,258	(1,458)	(2,110)	9,726
Fiscal Year Ended March 31, 2016	2,113	1,495	(5,850)	6,036

2. Dividends

	Dividends per share (Yen)					Total dividends (annual) (millions of yen)	Dividend payout ratio (consolidated) (%)	Dividends/Net assets (consolidated) (%)
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual			
Fiscal Year Ended March 31, 2016	—	8.00	—	8.00	16.00	469	33.4	1.2
Fiscal Year Ended March 31, 2017	—	8.00	—	10.00	18.00	473	29.9	1.3
Fiscal Year Ending March 31, 2018 (Forecast)	—	10.00	—	10.00	20.00		40.2	

In the fiscal year ending March 31, 2018 (forecast), we will increase dividends to 10 yen (an increase of 2 yen from the previous fiscal year) at the end of the second quarter and to 10 yen (the same as in the previous fiscal year) at the end of the period to pay annual dividends of 20 yen (an increase of 2 yen) for the shareholder return.

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	40,000	3.9%	2,200	(8.6%)	2,200	(9.4%)	1,300	(19.5%)	49.80

*Notes

(1) Significant changes in subsidiaries during this fiscal year under review (changes in subsidiaries causing a change in the scope of consolidation): No

(2) 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 (1): No
3. Changes in accounting estimates: No
4. Restatement: No

(3) Number of shares outstanding (common shares)

1. Number of shares outstanding at the term end (including treasury shares)

Fiscal Year Ended March 31, 2017:	28,600,000 shares
Fiscal Year Ended March 31, 2016:	32,100,000 shares
2. Number of treasury shares at the term end

Fiscal Year Ended March 31, 2017:	2,493,748 shares
Fiscal Year Ended March 31, 2016:	3,834,496 shares
3. Average number of shares outstanding

Fiscal Year Ended March 31, 2017:	26,804,128 shares
Fiscal Year Ended March 31, 2016:	30,404,829 shares

*** These financial statements are not subject to the audit procedures**

*** 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 "Outline of Results of Operations (3) Future Outlook".

The Company plans to hold a results briefing for analysts on April 27, 2017 (Thursday). Documents to be distributed at the results briefing will be posted on the Company's website.

Outline of Results of Operations

(1) Outline of Results of Operations for the Fiscal Year ended March 31, 2017

During the consolidated fiscal year under review, the Japanese economy remained on a moderate recovery path against the backdrop of improvements in corporate earnings and employment conditions in Japan. However, events suggesting growing uncertainty occurred one after another overseas, including concerns over a downturn in the economies of emerging economies, the Brexit issue, the change of government in the United States and geopolitical risk in each region.

In the information service industry, the sense of uncertainty was also growing, particularly in the second half of the period, given that demand related to the social security and tax number systems (My Number system) in the public offices and local governments sector settled down in the first half of the period and that the impact of the negative interest rate policy and large development projects came to an end in the financial sector.

In this business environment, the INES Group worked to expand the businesses and strengthen the earnings power of the Group companies by further enhancing IT solution services, including “WebRings,” a web-based comprehensive administrative information system, and making efforts for comprehensive project management and the quality improvement of products and services.

At the same time, in January 2017 the Company embarked on a far-sighted effort to enhance its corporate value by establishing INES Research Institute, Inc., which will accumulate advanced technologies and know-how such as FinTech, IoT, AI and big data that are expected to bring innovations to society in the near future and promote commercialization in cooperation with external experts.

Net sales in the consolidated fiscal year under review declined 2.5% year on year, to ¥38,488 million, due to a fall in sales in the industrial and financial sectors, despite record high sales in the public sector mainly thanks to system renovation projects in response to My Numbers (net sales by sector and by product/service (*) are as shown in the tables below).

(*) From 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 profit rose to ¥2,407 million (an increase of 8.8% year on year) and ordinary profit climbed to ¥2,427 million (an increase of 7.1% year on year), largely reflecting the effects of comprehensive project management and cost reductions. Profit attributable to owners of parent rose to ¥1,613 million (an increase of 11.0% year on year).

Consolidated net sales by sector

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2015 until March 31, 2016		Consolidated fiscal year under review From April 1, 2016 until March 31, 2017		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	7,596	19.3	7,345	19.1	(3.3)
Financial	12,627	32.0	11,811	30.7	(6.5)
Public	19,231	48.7	19,331	50.2	0.5
Total	39,455	100.0	38,488	100.0	(2.5)

Consolidated net sales by product/service

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2015 until March 31, 2016		Consolidated fiscal year under review From April 1, 2016 until March 31, 2017		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	19,485	49.4	18,220	47.3	(6.5)
System operation	9,997	25.3	10,103	26.3	1.1
System maintenance	4,085	10.4	4,417	11.5	8.1
Sales of information equipment	1,905	4.8	1,287	3.3	(32.4)
Other	3,982	10.1	4,459	11.6	12.0
Total	39,455	100.0	38,488	100.0	(2.5)

(2) Outline of Financial Position for the Fiscal Year Ended March 31, 2017

Total assets at the end of the consolidated fiscal year under review stood at ¥56,630 million, or a decrease of ¥196 million from the end of the previous consolidated fiscal year.

Current assets declined ¥244 million, to ¥23,621 million, mainly reflecting a decrease in notes and accounts receivable-trade, despite an increase in cash and deposits. Non-current assets increased ¥47 million, to ¥33,009 million.

Current liabilities increased ¥756 million, to ¥6,903 million, chiefly due to a rise in accounts payable. Non-current liabilities rose ¥126 million, to ¥11,740 million, primarily attributable to an increase in net defined benefit liability.

Net assets decreased ¥1,079 million, to ¥37,986 million, mainly due to purchase of treasury shares. Associated with the retirement of treasury shares of ¥3,974 million in August 2016, capital surplus also declined by the same amount. Accordingly, there was no change in the amount of net assets due to the retirement of treasury shares.

(3) Future Outlook

In the next fiscal year, the Company will work to expand its businesses and strengthen its earnings power by enhancing packaged systems, including WebRings Plus, and various solutions and services and by making further efforts for comprehensive project management and quality improvement. A temporary rise in expenses is expected in the next fiscal year because the Company plans to relocate the data center.

In view of these situations, the Group forecasts the following results for the fiscal year ending March 31, 2018.

Consolidated

(Million yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Full year	40,000 3.9%	2,200 (8.6%)	2,200 (9.4%)	1,300 (19.5%)

(Note) Percentages show changes from the previous fiscal year.

The forward-looking statements discussed in this material, including results forecasts, are based on information currently available to the Company and certain assumptions judged to be reasonable, and the Company can give no assurance that its expectations will be achieved. Actual results may differ materially due to a range of factors.

Consolidated Balance Sheets

As of March 31, 2016 and March 31, 2017

(Million yen)

	FY2015 (As of March 31, 2016)	FY2016 (As of March 31, 2017)
ASSETS		
Current assets:		
Cash and deposits	6,917	10,960
Notes and accounts receivable - trade	12,723	10,546
Securities	351	-
Work in process	1,966	860
Raw materials and supplies	113	129
Prepaid expenses	223	243
Deposit paid	874	0
Deferred tax assets	678	852
Other	28	37
Allowance for doubtful accounts	(12)	(10)
Total current assets	23,865	23,621
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,978	18,970
Accumulated depreciation	(9,685)	(9,697)
Buildings and structures, net	9,292	9,273
Tools, furniture and fixtures	4,817	4,573
Accumulated depreciation	(3,708)	(3,480)
Tools, furniture and fixtures, net	1,109	1,092
Land	14,664	14,260
Total property, plant and equipment	25,065	24,626
Intangible assets		
Software	2,100	2,527
Other	40	40
Total intangible assets	2,140	2,567
Investments and other assets		
Investment securities	1,115	1,068
Long-term prepaid expenses	279	228
Deferred tax assets	3,720	3,732
Other	639	785
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,754	5,814
Total non-current assets	32,961	33,009
Total assets	56,826	56,630

Consolidated Balance Sheets

As of March 31, 2016 and March 31, 2017

(Million yen)

	FY2015 (As of March 31, 2016)	FY2016 (As of March 31, 2017)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	2,113	1,793
Accrued expenses	833	880
Income taxes payable	347	707
Accrued consumption taxes	267	103
Advances received	138	136
Provision for bonuses	1,155	1,149
Provision for directors' bonuses	47	52
Provision for losses on orders received	448	768
Other	794	1,311
Total current liabilities	6,146	6,903
Non-current liabilities		
Provision for directors' retirement benefits	224	251
Net defined benefit liability	10,877	11,045
Asset retirement obligations	394	377
Other	118	66
Total non-current liabilities	11,613	11,740
Total liabilities	17,760	18,643
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	24,322	20,348
Retained earnings	5,226	6,402
Treasury shares	(4,414)	(2,873)
Total shareholders' equity	40,134	38,876
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	126	170
Remeasurements of defined benefit plans	(1,193)	(1,060)
Total accumulated other comprehensive income	(1,067)	(889)
Total net assets	39,066	37,986
Total net assets and liabilities	56,826	56,630

Consolidated statement of income and consolidated statement of comprehensive income

For the fiscal year ended March 31, 2016 and 2017

(Million yen)

	FY2015 (April 1, 2015 to March 31, 2016)	FY2016 (April 1, 2016 to March 31, 2017)
Net sales	39,455	38,488
Cost of sales	31,729	30,307
Gross profit	7,725	8,180
Selling, general and administrative expenses	5,513	5,772
Operating profit	2,212	2,407
Non-operating income:		
Interest income	4	2
Dividends income	17	10
Real estate rent	60	62
Dividend income of insurance	27	33
Others	23	18
Total non-operating income	134	127
Non-operating expenses:		
Interest expenses	3	2
Rent expenses on real estate	53	54
Commission for purchase of treasury shares	17	9
Office transfer expenses	–	29
Others	5	10
Total non-operating expenses	80	107
Ordinary profit (loss)	2,267	2,427
Extraordinary income:		
Gain on sales of non-current assets	885	108
Gain on sales of investment securities	467	58
Others	0	0
Total extraordinary income	1,352	167
Extraordinary losses:		
Loss on retirement of non-current assets	180	40
Loss on retirement of software for sale	11	–
Impairment loss	1,304	92
Others	1	6
Total extraordinary losses	1,498	138
Profit before income taxes	2,121	2,456
Income Tax and Others	721	1,085
Adjustment of Corporate Taxes	(54)	(242)
Total Income Taxes	666	842
Profit	1,454	1,613
Profit (loss) attributable to non-controlling interests	(0)	–
Profit (loss) attributable to owners of parent	1,454	1,613

**Consolidated statement of income and
consolidated statement of comprehensive income**

For the fiscal year ended March 31, 2016 and 2017

(Million yen)

	FY2015 (April 1, 2015 to March 31, 2016)	FY2016 (April 1, 2016 to March 31, 2017)
Profit	1,454	1,613
Other comprehensive income:		
Valuation difference on available-for-sale securities	(348)	44
Remeasurements of defined benefit plans, net of tax	(406)	133
Total other comprehensive income	(754)	177
Comprehensive income	699	1,791
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	699	1,791
Comprehensive income attributable to non-controlling interests	(0)	-

(3) Statements of changes in Consolidated Shareholders' Equity
Previous fiscal year (from April 1, 2015 until March 31, 2016)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	31,457	7,864	4,271	(65)	43,528
Changes during current period					
Transfer from capital stock to capital surplus	(16,457)	16,457			–
Dividends of surpluses			(498)		(498)
Profit attributable to owners of parent			1,454		1,454
Purchase of treasury shares				(4,349)	(4,349)
Changes in items during current period other than shareholders' equity (net)					
Total changes during current period	(16,457)	16,457	955	(4,349)	(3,393)
Balance at end of current period	15,000	24,322	5,226	(4,414)	40,134

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	474	(787)	(312)	29	43,245
Changes during current period					
Transfer from capital stock to capital surplus					–
Dividends of surpluses					(498)
Profit attributable to owners of parent					1,454
Purchase of treasury shares					(4,349)
Changes in items during current period other than shareholders' equity (net)	(348)	(406)	(754)	(29)	(784)
Total changes during current period	(348)	(406)	(754)	(29)	(4,178)
Balance at end of current period	126	(1,193)	(1,067)	–	39,066

Current fiscal year (from April 1, 2016 until March 31, 2017)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,000	24,322	5,226	(4,414)	40,134
Changes during current period					
Dividends of surpluses			(438)		(438)
Profit attributable to owners of parent			1,613		1,613
Purchase of treasury shares				(2,433)	(2,433)
Retirement of treasury shares		(3,974)		3,974	–
Changes in items during current period other than shareholders' equity (net)					
Total changes for current period	–	(3,974)	1,175	1,541	(1,257)
Balance at end of current period	15,000	20,348	6,402	(2,873)	38,876

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	126	(1,193)	(1,067)	39,066
Changes during current period				
Dividends of surpluses				(438)
Profit attributable to owners of parent				1,613
Purchase of treasury shares				(2,433)
Retirement of treasury shares				–
Changes in items during current period other than shareholders' equity (net)	44	133	177	177
Total changes for current period	44	133	177	(1,079)
Balance at end of current period	170	(1,060)	(889)	37,986

Consolidated statement of cash flow

For the fiscal year ended March 31, 2016 and 2017

(Million yen)

	FY2015 (April 1, 2015 to March 31, 2016)	FY2016 (April 1, 2016 to March 31, 2017)
I. Cash flows from operating activities:		
Profit before income taxes	2,121	2,456
Depreciation	2,470	2,170
Impairment loss	1,304	92
Increase (decrease) in provision for bonuses	27	(6)
Increase (decrease) in provision for directors' bonuses	(5)	4
Increase (decrease) in provision for losses on orders received	(219)	320
Increase (decrease) in provision for directors' retirement benefits	14	26
Increase (decrease) in net defined benefit liability	315	362
Interest and dividend income	(22)	(12)
Interest expenses	3	2
Loss (gain) on sales of property, plant and equipment	(885)	(108)
Loss (gain) on sales of investment securities	(467)	(58)
Loss on retirement of non-current assets	180	40
Loss on retirement of software for sale	11	—
Decrease (increase) in notes and accounts receivable - trade	(325)	2,175
Decrease (increase) in inventories	(540)	1,090
Decrease (increase) in other assets	(18)	(24)
Increase (decrease) in notes and accounts payable - trade	(155)	(309)
Increase (decrease) in other liabilities	(563)	(198)
Other, net	(93)	73
(Subtotal)	3,155	8,095
Interest and dividend income received	26	15
Interest expenses paid	(3)	(2)
Income taxes refund	28	5
Income taxes paid	(1,093)	(856)
Net cash provided by (used in) operating activities:	2,113	7,258

(Million yen)

	FY2015 (April 1, 2015 to March 31, 2016)	FY2016 (April 1, 2016 to March 31, 2017)
II. Cash flows from investing activities		
Decrease (increase) in time deposits	(699)	(0)
Purchase of property, plant and equipment	(689)	(835)
Proceeds from sales of property, plant and equipment	2,812	823
Purchase of intangible assets	(187)	(1,364)
Purchase of long-term prepaid expenses	(126)	(57)
Purchase of investment securities	–	(424)
Proceeds from sales of investment securities	520	60
Proceeds from redemption of investment securities	–	500
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	(186)	(202)
Proceeds from collection of lease and guarantee deposits	61	52
Other	(6)	(11)
Net cash provided by (used in) investing activities:	1,495	(1,458)
III. Cash flows from financing activities:		
Repayments of lease obligations	(96)	(111)
Decrease (increase) in deposits for purchase of treasury shares	(874)	873
Purchase of treasury shares	(4,349)	(2,433)
Cash dividends paid	(499)	(438)
Purchase of treasury shares of subsidiaries	(29)	–
Other	(0)	–
Net cash provided by (used in) financing activities	(5,850)	(2,110)
IV. Net increase (decrease) in cash and cash equivalents	(2,242)	3,690
V. Beginning cash and cash equivalent balance	8,278	6,036
VI. Ending cash and cash equivalent balance	6,036	9,726