

April 26, 2018

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2018 [Japanese standard]

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@ines.co.jp

1. Consolidated Financial Statements for the Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(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, 2018	36,119	(6.2%)	1,608	(33.2%)	1,657	(31.8%)	1,057	(34.5%)
Fiscal Year Ended March 31, 2017	38,488	(2.5%)	2,407	8.8%	2,427	7.1%	1,613	11.0%

(Note) Comprehensive income Fiscal Year Ended March 31, 2018: ¥1,112 million (-37.9%)
 Fiscal Year Ended March 31, 2017: ¥1,791 million (156.1%)

	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, 2018	40.51	—	2.8%	3.0%	4.5%
Fiscal Year Ended March 31, 2017	60.21	—	4.2%	4.3%	6.3%

(Reference) Equity in earnings of affiliated companies Fiscal Year Ended March 31, 2018: ¥— million
 Fiscal Year Ended March 31, 2017: ¥— million

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
As of March 31, 2018	55,587	38,574	69.4	1,477.71
As of March 31, 2017	56,630	37,986	67.1	1,455.09

(Reference) Shareholders' equity As of March 31, 2018: ¥38,574 million
 As of March 31, 2017: ¥37,986 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, 2018	2,933	(2,037)	(595)	10,026
Fiscal Year Ended March 31, 2017	7,258	(1,458)	(2,110)	9,726

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, 2017	—	8.00	—	10.00	18.00	473	29.9	1.3
Fiscal Year Ended March 31, 2018	—	10.00	—	10.00	20.00	522	49.4	1.4
Fiscal Year Ending March 31, 2019 (Forecast)	—	10.00	—	10.00	20.00		37.3	

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(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	37,500	3.8%	2,100	30.6%	2,100	26.7%	1,400	32.4%	53.63

*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, 2018:	28,600,000 shares
Fiscal Year Ended March 31, 2017:	28,600,000 shares
2. Number of treasury shares at the term end

Fiscal Year Ended March 31, 2018:	2,495,466 shares
Fiscal Year Ended March 31, 2017:	2,493,748 shares
3. Average number of shares outstanding

Fiscal Year Ended March 31, 2018:	26,105,375 shares
Fiscal Year Ended March 31, 2017:	26,804,128 shares

*** These financial statements are not subject to audit procedures performed by certified public accountants or audit corporations.**

*** 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 5 of the accompanying materials "Outline of Results of Operations (3) Future Outlook".

(How to access supplementary explanations on business results)

The Company plans to hold a results briefing for analysts on April 26, 2018 (Thursday). Documents to be distributed at the results briefing will be posted on the Company's website.

(Changes in the method of stating dates)

The Company changed the method of stating dates from the Japanese-style date display to the Western-style date display from the Consolidated Financial Statements for the First Three Quarters of the Fiscal Year Ending March 31, 2018.

Outline of Results of Operations

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

During the fiscal year under review, the Japanese economy sustained a modest recovery on the back of better employment and income conditions, along with improved corporate earnings. 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 such investment by certain 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 continued to standardize the processes for developing, introducing and maintaining products, including WebRings, a web-based comprehensive administrative information system for local governments forming their core, enhance their efficiency, and strengthen its systems for managing projects and ensuring quality.

(ii) Research and development activities

The Company maintained activities for acquiring new technologies and expertise, and for making proposals to customers centered on INES Research Institute, Inc. Specifically, the Company launched demonstration experiments with external experts in areas such as artificial intelligence (AI), RPA*, regional revitalization and information security.

* RPA: Robotic Process Automation

The study and introduction of robot-based operational automation combined with AI, machine learning and other technologies are in progress in back office units.

(iii) Promotion of work style changes

The Company stepped up a range of initiatives for securing and training competent employees and improving productivity, aiming to shift ways of working in line with current trends, such as the promotion of telework and non-territorial offices.

Looking at the consolidated results for the fiscal year under review, net sales decreased 6.2% year on year, to ¥36,119 million, as stated in consolidated net sales by sector shown below. In the manufacturing sector, sales to manufacturers, wholesalers and retailers increased. In the financial sector, mainly sales to megabanks and insurance companies grew. However, sales in the public sector declined in reaction to factors such as special procurement demand in the previous fiscal year related to the Social Security and Tax Number System, known as the My Number System.

On the profit front, operating profit dropped 33.2% year on year, to ¥1,608 million, ordinary profit fell 31.8% year on year, to ¥1,657 million, and profit attributable to owners of parent declined 34.5% year on year, to ¥1,057 million. These results reflected one-time expenses associated with the relocation of the business office in addition to the lower net sales.

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

Consolidated net sales by sector (Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2016 until March 31, 2017		Consolidated fiscal year under review From April 1, 2017 until March 31, 2018		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	7,345	19.1	7,840	21.8	6.7
Financial	11,811	30.7	13,054	36.1	10.5
Public	19,331	50.2	15,224	42.1	(21.2)
Total	38,488	100.0	36,119	100.0	(6.2)

Consolidated net sales by product/service

(Million yen)

Category/ Term	Previous consolidated fiscal year From April 1, 2016 until March 31, 2017		Consolidated fiscal year under review From April 1, 2017 until March 31, 2018		Year-on-year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	18,220	47.3	15,452	42.8	(15.2)
System operation	10,103	26.3	9,827	27.2	(2.7)
System maintenance	4,417	11.5	4,615	12.8	4.5
Sales of information equipment	1,287	3.3	1,745	4.8	35.6
Other	4,459	11.6	4,478	12.4	0.4
Total	38,488	100.0	36,119	100.0	(6.2)

(2) Outline of Financial Position for the Fiscal Year Ended March 31, 2018

Looking at the financial position at the end of the fiscal year under review, total assets stood at ¥55,587 million, a decrease of ¥1,043 million from the end of the previous fiscal year.

Current assets increased ¥47 million from the end of the previous fiscal year, to ¥23,669 million, mainly reflecting a rise in work in process, which offset a fall in notes and accounts receivable-trade. Non-current assets fell ¥1,091 million from the end of the previous fiscal year, to ¥31,917 million, due to sales of property, plant and equipment, among other factors.

Current liabilities decreased ¥449 million from the end of the previous fiscal year, to ¥6,453 million. This was chiefly attributable to income taxes paid, which offset an increase in accounts payable-trade. Non-current liabilities shrank ¥1,181 million from the end of the previous fiscal year, to ¥10,558 million, due primarily to a decrease in net defined benefit liabilities associated with the establishment of a retirement allowance trust.

Net assets rose ¥588 million from the end of the previous fiscal year, to ¥38,574 million.

(3) Future Outlook

For the next fiscal year, the Company forecasts that net sales will rise 3.8% year on year, mainly due to higher sales to megabanks, life and nonlife insurance companies and other customers in the financial sector. The Company predicts that both operating profit and ordinary profit will come to ¥2,100 million, taking into consideration factors such as the strategic promotion of the research and development of products, including WebRings for future growth.

Consolidated	(Million yen)			
	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Full year	37,500 3.8%	2,100 (30.6%)	2,100 (26.7%)	1,400 (32.4%)

(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, 2017 and March 31, 2018

(Million yen)

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)
ASSETS		
Current assets:		
Cash and deposits	10,960	11,261
Notes and accounts receivable - trade	10,546	9,782
Work in process	*2 860	*2 1,374
Raw materials and supplies	129	120
Prepaid expenses	243	240
Deferred tax assets	852	684
Other	38	213
Allowance for doubtful accounts	(10)	(9)
Total current assets	23,621	23,669
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,970	16,372
Accumulated depreciation	(9,697)	(8,003)
Buildings and structures, net	9,273	8,368
Tools, furniture and fixtures	4,573	4,064
Accumulated depreciation	(3,480)	(2,881)
Tools, furniture and fixtures, net	1,092	1,182
Land	14,260	12,709
Total property, plant and equipment	24,626	22,260
Intangible assets		
Software	2,527	3,070
Other	40	40
Total intangible assets	2,567	3,111
Investments and other assets		
Investment securities	*1 1,068	*1 1,542
Long-term prepaid expenses	228	321
Deferred tax assets	3,732	3,559
Long-term time deposits	-	300
Other	785	822
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,814	6,545
Total non-current assets	33,009	31,917
Total assets	56,630	55,587

Consolidated Balance Sheets

As of March 31, 2017 and March 31, 2018

(Million yen)

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	1,793	2,647
Accrued expenses	880	951
Income taxes payable	707	153
Accrued consumption taxes	103	77
Advances received	136	166
Provision for bonuses	1,149	1,118
Provision for directors' bonuses	52	49
Provision for losses on orders received	*2 768	*2 495
Other	1,311	794
Total current liabilities	6,903	6,453
Non-current liabilities		
Provision for directors' retirement benefits	251	172
Net defined benefit liability	11,045	10,227
Asset retirement obligations	377	107
Other	66	52
Total non-current liabilities	11,740	10,558
Total liabilities	18,643	17,012
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	20,348	20,348
Retained earnings	6,402	6,937
Treasury shares	(2,873)	(2,875)
Total shareholders' equity	38,876	39,410
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	170	199
Remeasurements of defined benefit plans	(1,060)	(1,034)
Total accumulated other comprehensive income	(889)	(835)
Total net assets	37,986	38,574
Total net assets and liabilities	56,630	55,587

Consolidated statement of income and consolidated statement of comprehensive income

For the fiscal year ended March 31, 2017 and 2018

(Million yen)

	FY2016 (April 1, 2016 to March 31, 2017)	FY2017 (April 1, 2017 to March 31, 2018)
Net sales	38,488	36,119
Cost of sales	*6 30,307	*6 28,667
Gross profit	8,180	7,452
Selling, general and administrative expenses	*1, *2 5,772	*1, *2 5,844
Operating profit	2,407	1,608
Non-operating income:		
Interest income	2	3
Dividends income	10	9
Real estate rent	62	62
Dividend income of insurance	33	18
Others	18	15
Total non-operating income	127	108
Non-operating expenses:		
Interest expenses	2	1
Rent expenses on real estate	54	54
Commission for purchase of treasury shares	9	-
Office transfer expenses	29	-
Others	10	3
Total non-operating expenses	107	59
Ordinary profit	2,427	1,657
Extraordinary income:		
Gain on sales of non-current assets	*3 108	*3 14
Gain on sales of investment securities	58	49
Others	0	-
Total extraordinary income	167	64
Extraordinary losses:		
Loss on retirement of non-current assets	*4 40	*4 43
Impairment loss	*5 92	-
Others	6	2
Total extraordinary losses	138	45
Profit before income taxes	2,456	1,675
Income Tax and Others	1,085	301
Adjustment of Corporate Taxes	(242)	316
Total Income Taxes	842	618
Profit	1,613	1,057
Profit attributable to owners of parent	1,613	1,057

Consolidated statement of income and consolidated statement of comprehensive income

For the fiscal year ended March 31, 2017 and 2018

(Million yen)

	FY2016 (April 1, 2016 to March 31, 2017)	FY2017 (April 1, 2017 to March 31, 2018)
Profit	1,613	1,057
Other comprehensive income:		
Valuation difference on available-for-sale securities	44	29
Remeasurements of defined benefit plans, net of tax	133	25
Total other comprehensive income	* 177	* 54
Comprehensive income	1,791	1,112
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	1,791	1,112

Statements of changes in Consolidated Shareholders' Equity

Previous 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 during 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 during current period	44	133	177	(1,079)
Balance at end of current period	170	(1,060)	(889)	37,986

Current fiscal year (from April 1, 2017 until March 31, 2018)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,000	20,348	6,402	(2,873)	38,876
Changes during current period					
Dividends of surpluses			(522)		(522)
Profit attributable to owners of parent			1,057		1,057
Purchase of treasury shares				(1)	(1)
Changes in items during current period other than shareholders' equity (net)					
Total changes for current period	-	-	535	(1)	533
Balance at end of current period	15,000	20,348	6,937	(2,875)	39,410

	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	170	(1,060)	(889)	37,986
Changes during current period				
Dividends of surpluses				(522)
Profit attributable to owners of parent				1,057
Purchase of treasury shares				(1)
Changes in items during current period other than shareholders' equity (net)	29	25	54	54
Total changes for current period	29	25	54	588
Balance at end of current period	199	(1,034)	(835)	38,574

Consolidated statement of cash flow

For the fiscal year ended March 31, 2017 and 2018

(Million yen)

	FY2016 (April 1, 2016 to March 31, 2017)	FY2017 (April 1, 2017 to March 31, 2018)
I. Cash flows from operating activities:		
Profit before income taxes	2,456	1,675
Depreciation	2,170	2,227
Impairment loss	92	-
Increase (decrease) in provision for bonuses	(6)	(31)
Increase (decrease) in provision for directors' bonuses	4	(3)
Increase (decrease) in provision for losses on orders received	320	(273)
Increase (decrease) in provision for directors' retirement benefits	26	(79)
Increase (decrease) in net defined benefit liability	362	(781)
Loss (gain) on sales of property, plant and equipment	(108)	(14)
Loss (gain) on sales of investment securities	(58)	(49)
Loss on retirement of non-current assets	40	43
Decrease (increase) in notes and accounts receivable - trade	2,175	793
Decrease (increase) in inventories	1,090	(505)
Decrease (increase) in other assets	(24)	(22)
Increase (decrease) in notes and accounts payable - trade	(309)	856
Increase (decrease) in other liabilities	(198)	216
Other, net	76	(192)
(Subtotal)	8,109	3,861
Income taxes refund	5	18
Income taxes paid	(856)	(946)
Net cash provided by (used in) operating activities:	7,258	2,933

(Million yen)

	FY2016 (April 1, 2016 to March 31, 2017)	FY2017 (April 1, 2017 to March 31, 2018)
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	(835)	(1,583)
Proceeds from sales of property, plant and equipment	823	2,245
Purchase of intangible assets	(1,364)	(1,518)
Purchase of long-term prepaid expenses	(57)	(135)
Purchase of investment securities	(424)	(452)
Proceeds from sales of investment securities	60	53
Proceeds from redemption of investment securities	500	–
Payments for lease and guarantee deposits	(202)	(186)
Proceeds from collection of lease and guarantee deposits	52	134
Payments for asset retirement obligations	(11)	(310)
Other	2	16
Net cash provided by (used in) investing activities:	(1,458)	(2,037)
III. Cash flows from financing activities:		
Repayments of lease obligations	(111)	(72)
Decrease (increase) in deposits for purchase of treasury shares	873	0
Purchase of treasury shares	(2,433)	(1)
Cash dividends paid	(438)	(522)
Net cash provided by (used in) financing activities	(2,110)	(595)
IV. Net increase (decrease) in cash and cash equivalents	3,690	300
V. Beginning cash and cash equivalent balance	6,036	9,726
VI. Ending cash and cash equivalent balance	* 9,726	* 10,026