

July 27, 2018

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2019



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: <https://corp.ines.co.jp/en/> E-mail: ir_info@ines.co.jp

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019 (April 1, 2018 to June 30, 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	
Three months ended June 30, 2018	7,689	6.2%	(114)	—%	(94)	—%	(135)	—%
Three months ended June 30, 2017	7,239	(8.9%)	(216)	—%	(205)	—%	(197)	—%

(Note) Comprehensive income Three months ended June 30, 2018: -¥132 million (—%)
 Three months ended June 30, 2017: -¥96 million (—%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Three months ended June 30, 2018	(5.05)	—
Three months ended June 30, 2017	(7.55)	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of June 30, 2018	58,288	41,126	70.6
As of March 31, 2018	55,587	38,574	69.4

(Reference) Shareholders' equity As of June 30, 2018: ¥41,126 million
 As of March 31, 2018: ¥38,574 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2018	—	10.00	—	10.00	20.00
Year ending March 31, 2019	—				
Year ending March 31, 2019 (Forecast)		10.00	—	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, 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%	48.96

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

*Notes

(1) Significant changes in subsidiaries during the first 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)
FY2019/3 Q1: 28,600,000 shares
FY2018/3: 28,600,000 shares
2. Number of treasury shares at the term end
FY2019/3 Q1: 5,677 shares
FY2018/3: 2,495,466 shares
3. Average number of shares outstanding
FY2019/3 Q1: 26,726,942 shares
FY2018/3 Q1: 26,106,124 shares

**** Quarterly consolidated financial statements are placed outside the scope of quarterly reviews performed by a certified public accountant or an audit corporation.***

**** 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 Quarter of the Fiscal Year Ending March 31, 2019, (2) Information on the consolidated results forecasts and other future forecasts” of the accompanying materials.

1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019

(1) Details of operating results

During the first quarter under review, the Japanese economy sustained a modest recovery supported by factors such as a pickup in consumer spending, better employment conditions and improved corporate earnings, although concerns persisted over the uncertainty of overseas economies, including China. In the information industry in which the INES Group operates, IT investment continued to expand primarily in the financial, logistics and services sectors.

In this business environment, the INES Group took steps to win orders and expand sales aggressively. At the same time, based on a hard look at the future reality, the INES Group pursued initiatives, including research and demonstration experiments, in the fields of advanced technologies for which markets have been developing rapidly, such as artificial intelligence (AI), robotic process automation (RPA) and big data, with INES Research Institute, Inc. at the center of these efforts.

During the first quarter under review, INES Corporation signed a capital tie-up agreement with Mitsubishi Research Institute, Inc. (hereinafter referred to as “MRI”) to increase opportunities to win orders by taking advantage of outstanding personnel on both sides, in addition to responding speedily to rapid changes in market structures and technologies. In addition, INES Corporation concluded a comprehensive tripartite business alliance agreement with MRI and Mitsubishi Research Institute DCS Co., Ltd., a consolidated subsidiary of MRI. (As a result, MRI became the largest shareholder of INES Corporation, holding 8.71% of its outstanding shares.) The three companies began discussing their cooperation in specific business negotiations and manpower exchanges with their business divisions at the center.

Looking at consolidated results for the first quarter under review, net sales increased 6.2% year on year, to ¥7,689 million, as stated in consolidated net sales by sector shown below. The increase resulted from greater sales posted in the public, financial and manufacturing sectors.

On the profit front, the operating loss improved ¥101 million from the previous fiscal year, to ¥114 million due to effects increased sales produced, even though costs rose in some projects. The ordinary loss improved 110 million year on year, to ¥94 million. The loss attributable to owners of parent also improved ¥62 million year on year, to ¥135 million.

The operating loss incurred in the first quarter under review reflects the fact that the deliveries of INES Corporation’s products and services to customers and their posting as sales mainly in the public sector tend to be concentrated in the second and fourth quarters, as shown in the table below.

<Net sales and operating loss for the fiscal year ended March 31, 2018 by quarter>

(Million yen)

(Accounting periods)	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	7,239	8,908	7,763	12,208
Operating loss	(216)	454	67	1,302

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

Consolidated net sales by sector (Million yen)

Category/ Term	Three months ended June 30, 2017		Three months ended June 30, 2018		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	1,773	24.5	2,006	26.1	13.1
Financial	2,803	38.7	2,943	38.3	5.0
Public	2,661	36.8	2,739	35.6	2.9
Total	7,239	100.0	7,689	100.0	6.2

Consolidated net sales by product/service (Million yen)

Category/ Term	Three months ended June 30, 2017		Three months ended June 30, 2018		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	2,799	38.6	2,936	38.2	4.9
System operation	2,332	32.2	2,339	30.4	0.3
System maintenance	995	13.8	1,081	14.1	8.5
Sales of information equipment	134	1.9	317	4.1	136.0
Other	976	13.5	1,016	13.2	4.0
Total	7,239	100.0	7,689	100.0	6.2

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

Results forecasts for the full year of the fiscal year ending March 31, 2019 published on April 26, 2018 remain unchanged.

With respect to dividends for the fiscal year under review, we plan to pay annual dividends of 20 yen per share, including an interim dividend of 10 yen per share and a year-end dividend of 10 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.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidate balance sheet

As of March 31 and June 30, 2018

(Million yen)

	FY2017 (As of March 31, 2018)	1Q of FY2018 (As of June 30, 2018)
ASSETS		
Current assets:		
Cash and deposits	11,261	18,449
Notes and accounts receivable - trade	9,782	4,252
Work in process	1,374	1,584
Raw materials and supplies	120	130
Prepaid expenses	240	275
Other	213	301
Allowance for doubtful accounts	(9)	(4)
Total current assets	22,984	24,990
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,372	16,376
Accumulated depreciation	(8,003)	(8,123)
Buildings and structures, net	8,368	8,252
Tools, furniture and fixtures	4,064	4,241
Accumulated depreciation	(2,881)	(2,983)
Tools, furniture and fixtures, net	1,182	1,257
Land	12,709	12,709
Total property, plant and equipment	22,260	22,219
Intangible assets		
Software	3,070	3,753
Other	40	40
Total intangible assets	3,111	3,794
Investments and other assets		
Investment securities	1,542	1,471
Long-term prepaid expenses	321	364
Deferred tax assets	4,244	4,328
Long-term time deposits	300	300
Other	822	818
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	7,230	7,283
Total non-current assets	32,602	33,297
Total assets	55,587	58,288

Quarterly consolidate balance sheet

As of March 31 and June 30, 2018

(Million yen)

	FY2017 (As of March 31, 2018)	1Q of FY2018 (As of June 30, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	2,647	1,623
Accrued expenses	951	908
Income taxes payable	153	151
Accrued consumption taxes	77	209
Advances received	166	538
Provision for bonuses	1,118	1,698
Provision for directors' bonuses	49	14
Provision for losses on orders received	495	730
Other	794	688
Total current liabilities	6,453	6,563
Non-current liabilities		
Provision for directors' retirement benefits	172	154
Net defined benefit liability	10,227	10,282
Asset retirement obligations	107	106
Other	52	56
Total non-current liabilities	10,558	10,598
Total liabilities	17,012	17,161
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	20,348	20,424
Retained earnings	6,937	6,541
Treasury shares	(2,875)	(6)
Total shareholders' equity	39,410	41,959
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	199	162
Remeasurements of defined benefit plans	(1,034)	(995)
Total accumulated other comprehensive income	(835)	(833)
Total net assets	38,574	41,126
Total net assets and liabilities	55,587	58,288

Quarterly consolidated statement of income

For the three months ended June 30, 2017 and 2018

(Million yen)

	1Q of FY2017 (April 1, 2017 to June 30, 2017)	1Q of FY2018 (April 1, 2018 to June 30, 2018)
Net sales	7,239	7,689
Cost of sales	6,018	6,345
Gross profit	1,220	1,344
Selling, general and administrative expenses	1,436	1,459
Operating loss	(216)	(114)
Non-operating income:		
Interest income	0	1
Dividends income	5	4
Real estate rent	15	15
Others	3	14
Total non-operating income	25	35
Non-operating expenses:		
Interest expenses	0	0
Rent expenses on real estate	13	13
Others	0	1
Total non-operating expenses	14	15
Ordinary profit (loss)	(205)	(94)
Extraordinary income:		
Gain on sales of investment securities	13	-
Total extraordinary income	13	-
Extraordinary losses:		
Loss on retirement of non-current assets	0	1
Others	1	-
Total extraordinary losses	2	1
Profit (loss) before income taxes	(194)	(96)
Income taxes	2	38
Profit (loss)	(197)	(135)
Profit (loss) attributable to owners of parent	(197)	(135)

Quarterly consolidated statement of comprehensive income

For the three months ended June 30, 2017 and 2018

(Million yen)

	1Q of FY2017 (April 1, 2017 to June 30, 2017)	1Q of FY2018 (April 1, 2018 to June 30, 2018)
Profit (loss)	(197)	(135)
Other comprehensive income:		
Valuation difference on available-for-sale securities	64	(37)
Remeasurements of defined benefit plans, net of tax	36	39
Total other comprehensive income	101	2
Comprehensive income	(96)	(132)
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	(96)	(132)

Quarterly consolidated statement of cash flow

For the three months ended June 30, 2017 and 2018

(Million yen)

	1Q of FY2017 (April 1, 2017 to June 30, 2017)	1Q of FY2018 (April 1, 2018 to June 30, 2018)
I. Cash flows from operating activities:		
Profit (loss) before income taxes	(194)	(96)
Depreciation	497	545
Increase (decrease) in provision for bonuses	599	580
Increase (decrease) in provision for directors' bonuses	(34)	(34)
Increase (decrease) in provision for losses on orders received	23	235
Increase (decrease) in provision for directors' retirement benefits	(39)	(18)
Increase (decrease) in net defined benefit liability	54	111
Loss (gain) on sales of investment securities	(13)	-
Loss on retirement of non-current assets	0	1
Decrease (increase) in notes and accounts receivable - trade	6,850	5,901
Decrease (increase) in inventories	(1,003)	(219)
Decrease (increase) in other assets	(153)	(115)
Increase (decrease) in notes and accounts payable - trade	(281)	(1,031)
Increase (decrease) in other liabilities	15	96
Other, net	(187)	(72)
(Subtotal)	6,134	5,882
Income taxes paid	(510)	(72)
Net cash provided by (used in) operating activities:	5,624	5,810
II. Cash flows from investing activities		
Decrease (increase) in time deposits	(0)	(0)
Purchase of property, plant and equipment	(612)	(233)
Purchase of intangible assets	(186)	(948)
Purchase of long-term prepaid expenses	(18)	(154)
Purchase of investment securities	(9)	-
Proceeds from sales of investment securities	14	-
Payments for lease and guarantee deposits	(36)	(34)
Proceeds from collection of lease and guarantee deposits	44	33
Payments for asset retirement obligations	(13)	(2)
Other	0	21
Net cash provided by (used in) investing activities:	(815)	(1,318)
III. Cash flows from financing activities:		
Repayments of lease obligations	(19)	(5)
Purchase of treasury shares	(0)	(0)
Proceeds from disposal of treasury shares	-	2,945
Cash dividends paid	(242)	(243)
Net cash provided by (used in) financing activities	(262)	2,696
IV. Net increase (decrease) in cash and cash equivalents	4,545	7,188
V. Beginning cash and cash equivalent balance	9,726	10,026
VI. Ending cash and cash equivalent balance	14,272	17,215