

October 30, 2018

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



INES Corporation

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1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2019 (April 1, 2018 to September 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	
Six months ended Sep. 30, 2018	17,655	9.3	597	150.5	631	152.2	359	185.6
Six months ended Sep. 30, 2017	16,148	(10.8)	238	(73.2)	250	(72.0)	125	(74.8)

(Note) Comprehensive income Six months ended September 30, 2018: ¥487 million (96.3%)
 Six months ended September 30, 2017: ¥248 million (-52.2%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Six months ended Sep. 30, 2018	13.19	—
Six months ended Sep. 30, 2017	4.82	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2018	56,983	40,174	70.5
As of March 31, 2018	55,587	38,574	69.4

(Reference) Shareholders' equity As of September 30, 2018: ¥40,174 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	—	10.00			
Year ending March 31, 2019 (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, 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	51.25

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

The Company acquired treasury shares according to the resolution passed at the meeting of the Board of Directors held on July 27, 2018. "Profit per share" shown in the forecasts for consolidated financial results above considers the impact of acquisition of treasury shares as of September 30, 2018.

* Notes

(1) Significant changes in subsidiaries during the first half 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 H1: 28,600,000 shares
 - FY2018/3: 28,600,000 shares
2. Number of treasury shares at the term end
 - FY2019/3 H1: 1,281,203 shares
 - FY2018/3: 2,495,466 shares
3. Average number of shares outstanding
 - FY2019/3 H1: 27,258,474 shares
 - FY2018/3 H1: 26,105,887 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 3 of the accompanying materials "1. Qualitative Information on Financial Results for the First Half of the Fiscal Year Ending March 31, 2019, (2) Information on the consolidated results forecasts and other future forecasts."

(Method of obtaining the contents of the first half financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and analysts on October 30, 2018 (Tuesday). The materials distributed at the briefing are scheduled to be disclosed on the Company's website.

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

(1) Details of operating results

During the first half of the consolidated fiscal year under review, the Japanese economy generally sustained a modest recovery supported by factors such as a pickup in consumer spending, an increase in capital investment, better employment conditions and improved corporate earnings, although concerns persisted over the uncertainty of overseas economies, including developments of trade issues arising from so-called trade wars and emerging economies, and the adverse effects of a series of natural disasters on the economy.

In the information industry in which the INES Group operates, corporate IT investment continued to expand in every type of business and the development of the markets for artificial intelligence (AI), Internet of things (IoT), robotic process automation (RPA) and other advanced technologies utilizing IT was seen.

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 actively pursued initiatives, including research in fields related to digital transformation, including AI, RPA, big data and IoT, and demonstration experiments with customers and external institutions, with the INES Research Institute, Inc. at the center of these efforts.

During the first half under review, INES Corporation signed a capital tie-up agreement with Mitsubishi Research Institute, Inc. (“MRI”) to increase opportunities to win orders by taking advantage of outstanding talent on both sides, in addition to responding more speedily and more appropriately to rapid changes in market structures and technologies, among other actions. 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 began manpower exchanges with their business divisions at the center.

In terms of finance, the Company set the limitation on the acquisition of treasury shares at ¥4 billion to increase ROE (return on equity; ratio of profit to equity) and began making the acquisition from August 2018.

Looking at consolidated results for the first half under review, net sales increased 9.3% year on year, to ¥17,655 million, as stated in consolidated net sales by sector shown below. The increase resulted from greater sales posted in the manufacturing, financial and public sectors.

On the profit front, the operating profit increased 150.5% year on year, to ¥597 million, mainly due to the effects produced by increased sales, even though costs rose in some projects. With this increase, ordinary profit also increased 152.2% year on year, to ¥631 million, and profit attributable to owners of parent increased 185.6% year on year, to ¥359 million.

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

Consolidated net sales by sector

(Million yen)

Category/ Term	Six months ended September 30, 2017		Six months ended September 30, 2018		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	3,699	22.9	3,998	22.7	8.1
Financial	5,800	35.9	6,961	39.4	20.0
Public	6,648	41.2	6,695	37.9	0.7
Total	16,148	100.0	17,655	100.0	9.3

Consolidated net sales by product/service

(Million yen)

Category/ Term	Six months ended September 30, 2017		Six months ended September 30, 2018		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	6,645	41.1	7,281	41.2	9.6
System operation	4,920	30.5	4,978	28.2	1.2
System maintenance	2,212	13.7	2,339	13.3	5.7
Sales of information equipment	370	2.3	907	5.1	144.8
Other	1,999	12.4	2,148	12.2	7.5
Total	16,148	100.0	17,655	100.0	9.3

(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 consolidated balance sheet

As of September 30 and March 31, 2018

(Million yen)

	FY2017 (As of March 31, 2018)	2Q of FY2018 (As of September 30, 2018)
ASSETS		
Current assets:		
Cash and deposits	11,261	14,340
Notes and accounts receivable - trade	9,782	6,836
Work in process	1,374	1,786
Raw materials and supplies	120	97
Prepaid expenses	240	252
Other	213	515
Allowance for doubtful accounts	(9)	(6)
Total current assets	22,984	23,823
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,372	16,376
Accumulated depreciation	(8,003)	(8,241)
Buildings and structures, net	8,368	8,134
Tools, furniture and fixtures	4,064	4,216
Accumulated depreciation	(2,881)	(3,030)
Tools, furniture and fixtures, net	1,182	1,186
Land	12,709	12,709
Total property, plant and equipment	22,260	22,031
Intangible assets		
Software	3,070	3,723
Other	40	40
Total intangible assets	3,111	3,764
Investments and other assets		
Investment securities	1,542	1,697
Long-term prepaid expenses	321	358
Deferred tax assets	4,244	4,188
Long-term time deposits	300	300
Other	822	821
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	7,230	7,365
Total non-current assets	32,602	33,160
Total assets	55,587	56,983

Quarterly consolidated balance sheet

As of September 30 and March 31, 2018

(Million yen)

	FY2017 (As of March 31, 2018)	2Q of FY2018 (As of September 30, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	2,647	1,908
Accrued expenses	951	807
Income taxes payable	153	364
Accrued consumption taxes	77	164
Advances received	166	231
Provision for bonuses	1,118	1,128
Provision for directors' bonuses	49	25
Provision for losses on orders received	495	875
Other	794	659
Total current liabilities	6,453	6,165
Non-current liabilities		
Provision for directors' retirement benefits	172	163
Net defined benefit liability	10,227	10,320
Asset retirement obligations	107	105
Other	52	54
Total non-current liabilities	10,558	10,643
Total liabilities	17,012	16,808
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	20,348	20,424
Retained earnings	6,937	7,036
Treasury shares	(2,875)	(1,578)
Total shareholders' equity	39,410	40,881
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	199	248
Remeasurements of defined benefit plans	(1,034)	(955)
Total accumulated other comprehensive income	(835)	(707)
Total net assets	38,574	40,174
Total net assets and liabilities	55,587	56,983

Quarterly consolidated statement of income

For the six months ended September 30, 2017 and 2018

(Million yen)

	1H of FY2017 (April 1, 2017 to September 30, 2017)	1H of FY2018 (April 1, 2018 to September 30, 2018)
Net sales	16,148	17,655
Cost of sales	13,052	14,283
Gross profit	3,095	3,372
Selling, general and administrative expenses	2,857	2,775
Operating profit	238	597
Non-operating income:		
Interest income	0	3
Dividends income	5	4
Real estate rent	31	32
Others	6	32
Total non-operating income	44	72
Non-operating expenses:		
Interest expenses	0	0
Rent expenses on real estate	27	28
Commission for purchase of treasury shares	-	6
Others	4	3
Total non-operating expenses	32	38
Ordinary profit	250	631
Extraordinary income:		
Gain on sales of investment securities	49	-
Total extraordinary income	49	-
Extraordinary losses:		
Loss on retirement of non-current assets	7	1
Others	1	-
Total extraordinary losses	9	1
Profit before income taxes	291	630
Income taxes	165	270
Profit	125	359
Profit attributable to owners of parent	125	359

Quarterly consolidated statement of comprehensive income

For the six months ended September 30, 2017 and 2018

(Million yen)

	1H of FY2017 (April 1, 2017 to September 30, 2017)	1H of FY2018 (April 1, 2018 to September 30, 2018)
Profit	125	359
Other comprehensive income:		
Valuation difference on available-for-sale securities	50	49
Remeasurements of defined benefit plans, net of tax	72	78
Total other comprehensive income	122	128
Comprehensive income	248	487
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	248	487

Quarterly consolidated statement of cash flow

For the six months ended September 30, 2017 and 2018

(Million yen)

	1H of FY2017 (April 1, 2017 to September 30, 2017)	1H of FY2018 (April 1, 2018 to September 30, 2018)
I. Cash flows from operating activities:		
Profit before income taxes	291	630
Depreciation	1,029	1,095
Increase (decrease) in provision for bonuses	(15)	10
Increase (decrease) in provision for directors' bonuses	(28)	(23)
Increase (decrease) in provision for losses on orders received	(177)	380
Increase (decrease) in provision for directors' retirement benefits	(26)	(8)
Increase (decrease) in net defined benefit liability	133	206
Loss (gain) on sales of investment securities	(49)	-
Loss on retirement of non-current assets	7	1
Decrease (increase) in notes and accounts receivable - trade	4,831	3,011
Decrease (increase) in inventories	(810)	(388)
Decrease (increase) in other assets	(165)	(61)
Increase (decrease) in notes and accounts payable - trade	(50)	(739)
Increase (decrease) in other liabilities	44	(88)
Other, net	(142)	(9)
(Subtotal)	4,870	4,015
Income taxes refund	15	214
Income taxes paid	(512)	(118)
Net cash provided by (used in) operating activities:	4,372	4,112
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	(1,057)	(273)
Purchase of intangible assets	(692)	(1,192)
Purchase of long-term prepaid expenses	(48)	(163)
Purchase of investment securities	(18)	(100)
Proceeds from sales of investment securities	53	-
Payments for lease and guarantee deposits	(172)	(41)
Proceeds from collection of lease and guarantee deposits	107	37
Payments for asset retirement obligations	(75)	(4)
Other	6	26
Net cash provided by (used in) investing activities:	(2,197)	(1,712)
III. Cash flows from financing activities:		
Repayments of lease obligations	(38)	(10)
Decrease (increase) in deposits for purchase of treasury shares	0	(421)
Purchase of treasury shares	(0)	(1,572)
Proceeds from disposal of treasury shares	-	2,945
Cash dividends paid	(260)	(260)
Net cash provided by (used in) financing activities	(299)	679
IV. Net increase (decrease) in cash and cash equivalents	1,875	3,079
V. Beginning cash and cash equivalent balance	9,726	10,026
VI. Ending cash and cash equivalent balance	11,602	13,106