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# Consolidated Financial Statements for the First Three Quarters of the Fiscal Year Ending March 31, 2019



## INES Corporation

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## 1. Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2019 (April 1, 2018 to December 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	
Nine months ended Dec. 31, 2018	26,403	10.4	1,204	294.1	1,267	268.8	796	354.6
Nine months ended Dec. 31, 2017	23,911	(8.2)	305	(68.5)	343	(66.2)	175	(69.2)

(Note) Comprehensive income  
 Nine months ended December 31, 2018: ¥855 million (129.7%)  
 Nine months ended December 31, 2017: ¥372 million (-49.9%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Nine months ended Dec. 31, 2018	29.70	—
Nine months ended Dec. 31, 2017	6.71	—

### (2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of December 31, 2018	55,125	37,705	68.4
As of March 31, 2018	55,587	38,574	69.4

(Reference) Shareholders' equity  
 As of December 31, 2018: ¥37,705 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	55.46

(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 December 17, 2018. "Profit per share" shown in the forecasts for consolidated financial results above considers the impact of acquisition of treasury shares as of December 31, 2018.

\* 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**

**(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 Q3: 28,600,000 shares  
FY2018/3: 28,600,000 shares
2. Number of treasury shares at the term end  
FY2019/3 Q3: 3,354,966 shares  
FY2018/3: 2,495,466 shares
3. Average number of shares outstanding  
FY2019/3 Q3: 26,819,702 shares  
FY2018/3 Q3: 26,105,615 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 Three Quarters of the Fiscal Year Ending March 31, 2019, (2) Information on the consolidated results forecasts and other future forecasts.”

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

## (1) Details of operating results

During the first three quarters of the consolidated fiscal year under review, the Japanese economy sustained a modest recovery on the whole against a backdrop of a pick-up in consumer spending, an increase in capital expenditures and improving employment conditions and corporate earnings, among other things, despite lingering concerns about the fate of US-China protectionist trade issues, uncertainty in the global economy, particularly the economies of emerging countries, and an adverse impact on the economy from the successive natural disasters.

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 and promoted development investments for renovations of its core product WebRings, which is a web-type comprehensive government information system for local governments. At the same time, based on a hard look at the future reality, the INES Group aggressively pursued research and development activities 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.

Moreover, in June 2018, 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 promptly and 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. The three companies are currently discussing their cooperation in specific business negotiations and commenced manpower exchanges with their business divisions at the center.

In terms of finance, the Company acquired treasury stock for a total of ¥4 billion to increase ROE (return on equity). Moreover, it set the limit on the additional acquisition of treasury shares at ¥2 billion and began making the acquisition from December 2018.

As part of restructuring its bases in the metropolitan area, the Company also decided to transfer the land and building that it owns in Chiyoda ward, Tokyo with a view to reinforcing the competitiveness of its business and streamlining its business resources.

Looking at consolidated results for the first three quarters under review, net sales increased 10.4% year on year, to ¥26,403 million, as stated in consolidated net sales by sector shown below. The increase resulted from greater sales posted in the public sectors, financial and general industry.

On the profit front, the operating profit increased 294.1% year on year, to ¥1,204 million, mainly due to the effects produced by increased sales, even though costs rose in some projects. With this increase, ordinary profit also increased 268.8% year on year, to ¥1,267 million, and profit attributable to owners of parent increased 354.6% year on year, to ¥796 million.

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

**Consolidated net sales by sector**

(Million yen)

Category/ Term	Nine months ended December 31, 2017		Nine months ended December 31, 2018		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	5,492	23.0	6,024	22.8	9.7
Financial	9,069	37.9	10,857	41.1	19.7
Public	9,349	39.1	9,521	36.1	1.8
Total	23,911	100.0	26,403	100.0	10.4

**Consolidated net sales by product/service**

(Million yen)

Category/ Term	Nine months ended December 31, 2017		Nine months ended December 31, 2018		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	9,823	41.0	10,762	40.8	9.6
System operation	7,058	29.5	7,609	28.8	7.8
System maintenance	3,237	13.5	3,406	12.9	5.2
Sales of information equipment	552	2.3	1,865	7.1	237.4
Other	3,239	13.7	2,759	10.4	(14.8)
Total	23,911	100.0	26,403	100.0	10.4

**(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.

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 December 31 and March 31, 2018

(Million yen)

	FY2017 (As of March 31, 2018)	3Q of FY2018 (As of December 31, 2018)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	11,261	10,881
Notes and accounts receivable - trade	9,782	6,283
Work in process	1,374	2,464
Raw materials and supplies	120	84
Prepaid expenses	240	241
Deposits paid	-	1,873
Other	213	220
Allowance for doubtful accounts	(9)	(6)
<b>Total current assets</b>	<b>22,984</b>	<b>22,042</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	16,372	16,389
Accumulated depreciation	(8,003)	(8,363)
Buildings and structures, net	8,368	8,026
Tools, furniture and fixtures	4,064	4,334
Accumulated depreciation	(2,881)	(3,131)
Tools, furniture and fixtures, net	1,182	1,202
Land	12,709	12,709
<b>Total property, plant and equipment</b>	<b>22,260</b>	<b>21,938</b>
Intangible assets		
Software	3,070	3,849
Other	40	40
<b>Total intangible assets</b>	<b>3,111</b>	<b>3,890</b>
Investments and other assets		
Investment securities	1,542	1,574
Long-term prepaid expenses	321	371
Deferred tax assets	4,244	4,201
Long-term time deposits	300	300
Other	822	808
Allowance for doubtful accounts	(0)	(0)
<b>Total investments and other assets</b>	<b>7,230</b>	<b>7,254</b>
<b>Total non-current assets</b>	<b>32,602</b>	<b>33,083</b>
<b>Total assets</b>	<b>55,587</b>	<b>55,125</b>

## Quarterly consolidated balance sheet

As of December 31 and March 31, 2018

(Million yen)

	FY2017 (As of March 31, 2018)	3Q of FY2018 (As of December 31, 2018)
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable - trade	2,647	2,029
Accrued expenses	951	864
Income taxes payable	153	386
Accrued consumption taxes	77	141
Advances received	166	299
Provision for bonuses	1,118	463
Provision for directors' bonuses	49	36
Provision for losses on orders received	495	476
Other	794	2,052
<b>Total current liabilities</b>	<b>6,453</b>	<b>6,752</b>
<b>Non-current liabilities</b>		
Provision for directors' retirement benefits	172	174
Net defined benefit liability	10,227	10,336
Asset retirement obligations	107	105
Other	52	52
<b>Total non-current liabilities</b>	<b>10,558</b>	<b>10,667</b>
<b>Total liabilities</b>	<b>17,012</b>	<b>17,420</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Capital stock	15,000	15,000
Capital surplus	20,348	20,424
Retained earnings	6,937	7,199
Treasury shares	(2,875)	(4,142)
<b>Total shareholders' equity</b>	<b>39,410</b>	<b>38,481</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	199	139
Remeasurements of defined benefit plans	(1,034)	(916)
<b>Total accumulated other comprehensive income</b>	<b>(835)</b>	<b>(776)</b>
<b>Total net assets</b>	<b>38,574</b>	<b>37,705</b>
<b>Total net assets and liabilities</b>	<b>55,587</b>	<b>55,125</b>

## Quarterly consolidated statement of income

For the nine months ended December 31, 2017 and 2018

(Million yen)

	3Q of FY2017 (April 1, 2017 to December 31, 2017)	3Q of FY2018 (April 1, 2018 to December 31, 2018)
<b>Net sales</b>	<b>23,911</b>	<b>26,403</b>
Cost of sales	19,358	21,154
<b>Gross profit</b>	<b>4,552</b>	<b>5,249</b>
Selling, general and administrative expenses	4,246	4,044
<b>Operating profit</b>	<b>305</b>	<b>1,204</b>
<b>Non-operating income:</b>		
Interest income	2	4
Dividends income	9	9
Real estate rent	46	48
Dividend income of insurance	13	25
Others	12	36
<b>Total non-operating income</b>	<b>84</b>	<b>125</b>
<b>Non-operating expenses:</b>		
Interest expenses	0	0
Rent expenses on real estate	41	42
Commission for purchase of treasury shares	-	16
Others	4	3
<b>Total non-operating expenses</b>	<b>46</b>	<b>63</b>
<b>Ordinary profit</b>	<b>343</b>	<b>1,267</b>
<b>Extraordinary income:</b>		
Gain on sales of investment securities	49	-
<b>Total extraordinary income</b>	<b>49</b>	<b>-</b>
<b>Extraordinary losses:</b>		
Loss on retirement of non-current assets	8	1
Others	1	-
<b>Total extraordinary losses</b>	<b>10</b>	<b>1</b>
<b>Profit before income taxes</b>	<b>383</b>	<b>1,265</b>
<b>Income taxes</b>	<b>207</b>	<b>468</b>
<b>Profit</b>	<b>175</b>	<b>796</b>
<b>Profit attributable to owners of parent</b>	<b>175</b>	<b>796</b>

## Quarterly consolidated statement of comprehensive income

For the nine months ended December 31, 2017 and 2018

(Million yen)

	3Q of FY2017 (April 1, 2017 to December 31, 2017)	3Q of FY2018 (April 1, 2018 to December 31, 2018)
<b>Profit</b>	<b>175</b>	<b>796</b>
<b>Other comprehensive income:</b>		
Valuation difference on available-for-sale securities	88	(59)
Remeasurements of defined benefit plans, net of tax	108	118
<b>Total other comprehensive income</b>	<b>197</b>	<b>58</b>
<b>Comprehensive income</b>	<b>372</b>	<b>855</b>
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	372	855



## Quarterly consolidated statement of cash flow

For the nine months ended December 31, 2017 and 2018

(Million yen)

	3Q of FY2017 (April 1, 2017 to December 31, 2017)	3Q of FY2018 (April 1, 2018 to December 31, 2018)
<b>I. Cash flows from operating activities:</b>		
Profit before income taxes	383	1,265
Depreciation	1,566	1,617
Increase (decrease) in provision for bonuses	(672)	(654)
Increase (decrease) in provision for directors' bonuses	(15)	(12)
Increase (decrease) in provision for losses on orders received	(191)	(18)
Increase (decrease) in provision for directors' retirement benefits	(13)	1
Increase (decrease) in net defined benefit liability	245	279
Loss (gain) on sales of investment securities	(49)	-
Loss on retirement of non-current assets	8	1
Decrease (increase) in notes and accounts receivable - trade	5,373	3,631
Decrease (increase) in inventories	(1,892)	(1,052)
Decrease (increase) in other assets	(310)	(168)
Increase (decrease) in notes and accounts payable - trade	186	(625)
Increase (decrease) in other liabilities	300	85
Other, net	(234)	(97)
<b>(Subtotal)</b>	<b>4,685</b>	<b>4,255</b>
Income taxes refund	18	215
Income taxes paid	(946)	(245)
<b>Net cash provided by (used in) operating activities:</b>	<b>3,756</b>	<b>4,225</b>
<b>II. Cash flows from investing activities</b>		
Decrease (increase) in time deposits	(0)	(0)
Payment into long-term time deposit	(300)	-
Purchase of property, plant and equipment	(1,172)	(417)
Proceeds from sales of property, plant and equipment	-	1,250
Purchase of intangible assets	(1,021)	(1,552)
Purchase of long-term prepaid expenses	(77)	(224)
Purchase of investment securities	(28)	(113)
Proceeds from sales of investment securities	53	-
Payments for lease and guarantee deposits	(173)	(46)
Proceeds from collection of lease and guarantee deposits	132	51
Payments for asset retirement obligations	(310)	(4)
Other	12	27
<b>Net cash provided by (used in) investing activities:</b>	<b>(2,885)</b>	<b>(1,029)</b>
<b>III. Cash flows from financing activities:</b>		
Repayments of lease obligations	(56)	(13)
Decrease (increase) in deposits for purchase of treasury shares	0	(1,873)
Purchase of treasury shares	(1)	(4,136)
Proceeds from disposal of treasury shares	-	2,945
Cash dividends paid	(504)	(497)
<b>Net cash provided by (used in) financing activities</b>	<b>(561)</b>	<b>(3,575)</b>
<b>IV. Net increase (decrease) in cash and cash equivalents</b>	<b>309</b>	<b>(379)</b>
<b>V. Beginning cash and cash equivalent balance</b>	<b>9,726</b>	<b>10,026</b>
<b>VI. Ending cash and cash equivalent balance</b>	<b>10,036</b>	<b>9,647</b>