

July 27, 2017

# Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2018



## INES Corporation

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## 1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2018 (April 1, 2017 to June 30, 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	
Three months ended June 30, 2017	7,239	(8.9)	(216)	—	(205)	—	(197)	—
Three months ended June 30, 2016	7,943	4.0	145	—	151	—	63	—

(Note) Comprehensive income Three months ended June 30, 2017: -¥96 million (-%)  
 Three months ended June 30, 2016: ¥51 million (-60.0%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Three months ended June 30, 2017	(7.55)	—
Three months ended June 30, 2016	2.28	—

### (2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of June 30, 2017	55,859	37,629	67.4
As of March 31, 2017	56,630	37,986	67.1

(Reference) Shareholders' equity As of June 30, 2017: ¥37,629 million  
 As of March 31, 2017: ¥37,986 million

## 2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2017	—	8.00	—	10.00	18.00
Year ending March 31, 2018	—				
Year ending March 31, 2018 (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, 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	

(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)  
FY2018/3 Q1: 28,600,000 shares  
FY2017/3: 28,600,000 shares
2. Number of treasury shares at the term end  
FY2018/3 Q1: 2,493,974 shares  
FY2017/3: 2,493,748 shares
3. Average number of shares outstanding  
FY2018/3 Q1: 26,106,124 shares  
FY2017/3 Q1: 27,729,256 shares

***\* Quarterly results reports are not subject to quarterly review.***

***\* 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 “1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2018, (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, 2018

## (1) Details of operating results

During the first three months of the consolidated fiscal year under review, the Japanese economy continued its general recovery trend, reflecting signs of improvements in consumer spending and capital investment on the back of better employment/income conditions and corporate earnings. In the information industry in which the INES Group operates, investments in information technologies expanded as a whole centered on private non-manufacturing sectors, while those by mega banks, among other parties, were leveling off.

In this business environment, INES Corporation worked on project management and the standardization of development/introduction processes to strengthen its manufacturing capability. In addition, the Company established a new division for the promotion of work style changes and specified initiatives toward the securing/development of competent human resources and the improvement of productivity. The Company also worked on the enhancement of research and development activities mainly through INES Research Institute, Inc., an institution established in January of this year, to raise future corporate value.

Looking at the results for the first quarter of the consolidated fiscal year under review, net sales decreased 8.9% year on year, to ¥7,239 million. This was chiefly attributable to the public sector, which experienced a reactionary decline from the previous year in the number of My Number program-related reform projects and a gap in the timing of tender projects, among other factors.

On the profit side, the Company posted an operating loss of ¥216 million, an ordinary loss of ¥205 million and a net loss attributable to owners of the parent amounting to ¥197 million due to a decrease in net sales.

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, 2016		Three months ended June 30, 2017		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
General industry	1,685	21.2	1,773	24.5	5.3
Financial	2,832	35.7	2,803	38.7	(1.0)
Public	3,426	43.1	2,661	36.8	(22.3)
Total	7,943	100.0	7,239	100.0	(8.9)

### Consolidated net sales by product/service

(Million yen)

Category/ Term	Three months ended June 30, 2016		Three months ended June 30, 2017		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	3,690	46.5	2,799	38.6	(24.2)
System operation	2,275	28.6	2,332	32.2	2.5
System maintenance	882	11.1	995	13.8	12.8
Sales of information equipment	162	2.1	134	1.9	(17.2)
Other	931	11.7	976	13.5	4.8
Total	7,943	100.0	7,239	100.0	(8.9)

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

Results forecasts for the full year of the fiscal year ending March 31, 2017 published on April 27, 2017 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 June 30 and March 31, 2017

(Million yen)

	FY2016 (As of March 31, 2017)	1Q of FY2017 (As of June 30, 2017)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	10,960	15,506
Notes and accounts receivable - trade	10,546	3,969
Work in process	860	1,858
Raw materials and supplies	129	135
Prepaid expenses	243	274
Deferred tax assets	852	960
Other	38	150
Allowance for doubtful accounts	(10)	(4)
<b>Total current assets</b>	<b>23,621</b>	<b>22,851</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	18,970	19,028
Accumulated depreciation	(9,697)	(9,832)
Buildings and structures, net	9,273	9,196
Tools, furniture and fixtures	4,573	4,686
Accumulated depreciation	(3,480)	(3,538)
Tools, furniture and fixtures, net	1,092	1,148
Land	14,260	14,260
<b>Total property, plant and equipment</b>	<b>24,626</b>	<b>24,604</b>
Intangible assets		
Software	2,527	2,515
Other	40	40
<b>Total intangible assets</b>	<b>2,567</b>	<b>2,555</b>
Investments and other assets		
Investment securities	1,068	1,169
Long-term prepaid expenses	228	221
Deferred tax assets	3,732	3,687
Other	785	769
Allowance for doubtful accounts	(0)	(0)
<b>Total investments and other assets</b>	<b>5,814</b>	<b>5,848</b>
<b>Total non-current assets</b>	<b>33,009</b>	<b>33,008</b>
<b>Total assets</b>	<b>56,630</b>	<b>55,859</b>

## Quarterly consolidate balance sheet

As of June 30 and March 31, 2017

(Million yen)

	FY2016 (As of March 31, 2017)	1Q of FY2017 (As of June 30, 2017)
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable - trade	1,793	1,517
Accrued expenses	880	808
Income taxes payable	707	151
Accrued consumption taxes	103	205
Advances received	136	410
Provision for bonuses	1,149	1,748
Provision for directors' bonuses	52	17
Provision for losses on orders received	768	792
Other	1,311	890
<b>Total current liabilities</b>	<b>6,903</b>	<b>6,542</b>
<b>Non-current liabilities</b>		
Provision for directors' retirement benefits	251	211
Net defined benefit liability	11,045	11,047
Asset retirement obligations	377	369
Other	66	58
<b>Total non-current liabilities</b>	<b>11,740</b>	<b>11,687</b>
<b>Total liabilities</b>	<b>18,643</b>	<b>18,230</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Capital stock	15,000	15,000
Capital surplus	20,348	20,348
Retained earnings	6,402	5,944
Treasury shares	(2,873)	(2,874)
<b>Total shareholders' equity</b>	<b>38,876</b>	<b>38,418</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	170	235
Remeasurements of defined benefit plans	(1,060)	(1,024)
<b>Total accumulated other comprehensive income</b>	<b>(889)</b>	<b>(788)</b>
<b>Total net assets</b>	<b>37,986</b>	<b>37,629</b>
<b>Total net assets and liabilities</b>	<b>56,630</b>	<b>55,859</b>

## Quarterly consolidated statement of income

For the three months ended June 30, 2016 and 2017

(Million yen)

	1Q of FY2016 (April 1, 2016 to June 30, 2016)	1Q of FY2017 (April 1, 2017 to June 30, 2017)
<b>Net sales</b>	<b>7,943</b>	<b>7,239</b>
Cost of sales	6,366	6,018
<b>Gross profit</b>	<b>1,577</b>	<b>1,220</b>
Selling, general and administrative expenses	1,431	1,436
<b>Operating profit (loss)</b>	<b>145</b>	<b>(216)</b>
<b>Non-operating income:</b>		
Interest income	0	0
Dividends income	6	5
Real estate rent	15	15
Others	6	3
<b>Total non-operating income</b>	<b>29</b>	<b>25</b>
<b>Non-operating expenses:</b>		
Interest expenses	0	0
Rent expenses on real estate	13	13
Commission for purchase of treasury shares	4	-
Others	3	0
<b>Total non-operating expenses</b>	<b>23</b>	<b>14</b>
<b>Ordinary profit (loss)</b>	<b>151</b>	<b>(205)</b>
<b>Extraordinary income:</b>		
Gain on sales of investment securities	-	13
Gain on sales of memberships	0	-
<b>Total extraordinary income</b>	<b>0</b>	<b>13</b>
<b>Extraordinary losses:</b>		
Loss on retirement of non-current assets	0	0
Others	-	1
<b>Total extraordinary losses</b>	<b>0</b>	<b>2</b>
<b>Profit (loss) before income taxes</b>	<b>151</b>	<b>(194)</b>
<b>Income taxes</b>	<b>88</b>	<b>2</b>
<b>Profit (loss)</b>	<b>63</b>	<b>(197)</b>
<b>Profit (loss) attributable to owners of parent</b>	<b>63</b>	<b>(197)</b>

## Quarterly consolidated statement of comprehensive income

For the three months ended June 30, 2016 and 2017

(Million yen)

	1Q of FY2016 (April 1, 2016 to June 30, 2016)	1Q of FY2017 (April 1, 2017 to June 30, 2017)
<b>Profit (loss)</b>	<b>63</b>	<b>(197)</b>
<b>Other comprehensive income:</b>		
Valuation difference on available-for-sale securities	(47)	64
Remeasurements of defined benefit plans, net of tax	34	36
<b>Total other comprehensive income</b>	<b>(12)</b>	<b>101</b>
<b>Comprehensive income</b>	<b>51</b>	<b>(96)</b>
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	51	(96)



## Quarterly consolidated statement of cash flow

For the three months ended June 30, 2016 and 2017

(Million yen)

	1Q of FY2016 (April 1, 2016 to June 30, 2016)	1Q of FY2017 (April 1, 2017 to June 30, 2017)
<b>I. Cash flows from operating activities:</b>		
Profit (loss) before income taxes	151	(194)
Depreciation	531	497
Increase (decrease) in provision for bonuses	596	599
Increase (decrease) in provision for directors' bonuses	(32)	(34)
Increase (decrease) in provision for losses on orders received	110	23
Increase (decrease) in provision for directors' retirement benefits	6	(39)
Increase (decrease) in net defined benefit liability	151	54
Loss (gain) on sales of investment securities	-	(13)
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	9,999	6,850
Decrease (increase) in inventories	(996)	(1,003)
Decrease (increase) in other assets	(188)	(153)
Increase (decrease) in notes and accounts payable - trade	(441)	(281)
Increase (decrease) in other liabilities	(181)	15
Other, net	(106)	(187)
<b>(Subtotal)</b>	<b>9,599</b>	<b>6,134</b>
Income taxes refund	0	-
Income taxes paid	(371)	(510)
<b>Net cash provided by (used in) operating activities:</b>	<b>9,228</b>	<b>5,624</b>
<b>II. Cash flows from investing activities</b>		
Decrease (increase) in time deposits	600	(0)
Purchase of property, plant and equipment	(245)	(612)
Purchase of intangible assets	(31)	(186)
Purchase of long-term prepaid expenses	(1)	(18)
Purchase of investment securities	-	(9)
Proceeds from sales of investment securities	-	14
Payments for lease and guarantee deposits	(38)	(36)
Proceeds from collection of lease and guarantee deposits	46	44
Other	0	(13)
<b>Net cash provided by (used in) investing activities:</b>	<b>330</b>	<b>(815)</b>
<b>III. Cash flows from financing activities:</b>		
Repayments of lease obligations	(25)	(19)
Decrease (increase) in deposits for purchase of treasury shares	678	-
Purchase of treasury shares	(1,236)	(0)
Cash dividends paid	(208)	(242)
<b>Net cash provided by (used in) financing activities</b>	<b>(792)</b>	<b>(262)</b>
<b>IV. Net increase (decrease) in cash and cash equivalents</b>	<b>8,766</b>	<b>4,545</b>
<b>V. Beginning cash and cash equivalent balance</b>	<b>6,036</b>	<b>9,726</b>
<b>VI. Ending cash and cash equivalent balance</b>	<b>14,803</b>	<b>14,272</b>