

July 30, 2014

First Quarter Results for the Fiscal Year Ending March 31, 2015



INES Corporation

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1. First Quarter Result for the Fiscal Year Ending March 31, 2015

(1) Consolidated Operating Results (Three-month results)

(Millions of yen, percentage figures indicate year-on-year change)

	Revenue		Operating Income		Ordinary Income		Net Income	
Three Months Ended June 30, 2014	7,413	18.2	62	—	78	—	33	—
Three Months Ended June 30, 2013	6,269	(2.7)	(480)	—	(465)	—	(291)	—

(Note) Comprehensive Income: At June 30, 2014: ¥59 million (-%); At June 30, 2013: ¥(303) million (-%)

	Net Income per Share (Yen)	Fully Diluted Income per Share (Yen)
Three Months Ended June 30, 2014	1.04	—
Three Months Ended June 30, 2013	(9.10)	—

(2) Consolidated Financial Position

(Millions of yen, except for per share data)

	Total Assets	Total Net Assets	Equity Ratio (%)
As of June 30, 2014	59,235	42,879	72.3
As of March 31, 2014	59,161	43,144	72.8

<Reference> Equity at term-end: At June 30, 2014: ¥42,812 million / At March 31, 2014: ¥43,077 million

2. Cash Dividends

Term-end	Cash Dividends per Share (Yen)				
	1Q	2Q	3Q	Year-End	Full-Year
Year Ended March 31, 2014	—	8.00	—	8.00	16.00
Year Ending March 31, 2015	—	—	—	—	—
Year Ending March 31, 2015 (Forecast)	—	13.00	—	8.00	21.00

(Note) Revision of dividend forecasts: None

Dividend at the end of the second quarter for the year ending March 31, 2015 (forecast): 8-yen ordinary dividend; 5-yen commemorative dividend

3. Forecast for the Year Ending March 31, 2015

(Millions of yen, except per share data; percentage figures indicate year-on-year change)

	Revenue		Operating Income		Ordinary Income		Net Income		Net Income per Share (Yen)
First Half Ending Sep. 30, 2014	16,650	3.4	770	1.2	780	0.4	440	2.3	13.75
Year Ending March 31, 2015	35,600	1.4	1,920	1.0	1,950	0.7	1,130	7.2	35.30

(Note) Revision of performance forecasts: None

※ Notes

(1) Significant changes in subsidiaries (or changes in designated subsidiaries to influence the scope of consolidation) during the scope of consolidation of this quarter: None

(2) Application of specific accounting methods in the creation of quarterly consolidated financial statements: Yes

Note: For details, refer to page 5 in the attached material, “2. Items regarding Summary Information (Notes),
(1) Specific accounting methods in the creation of quarterly consolidated financial statements.”

(3) Changes in accounting policies, changes in accounting estimates and restatements

1. Changes associated with revision in accounting principles: Yes
2. Changes in accounting policies other than 1 above: None
3. Changes in accounting estimate: None
4. Restatement of revisions: None

Note: For details, refer to page 5 in the attached material, “2. Items regarding Summary Information (Notes),
(2) Changes in accounting policies, changes in accounting estimates and restatements.”

(4) Number of share outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)

Three Months Ended June 30, 2014: 48,000,000

Year Ended March 31, 2014: 48,000,000

2. Number of treasury shares outstanding

Three Months Ended June 30, 2014: 15,989,257

Year Ended March 31, 2014: 15,988,887

3. Average number of shares outstanding during the period (three months accumulation)

Three Months Ended June 30, 2014: 32,010,922

Three Months Ended June 30, 2013: 32,009,782

***Implementation status of quarterly review process**

At the time of this report’s release, the Company’s consolidated quarterly financial statements were under a review process pursuant to the Financial Instruments and Exchange Law.

Disclaimer

The above forecasts are based on information available at the time of this document’s release. In no event shall the Corporation guarantee for their realization. In addition, actual performance, etc. may differ significantly due to various factors. For the details, please refer to page 4 in the attached material “1. Performance and Financial Position (3) Description of Forward Looking Information Including Consolidated Performance Forecast”.

1. Performance and Financial Position

(1) Description of Business Performance

Japanese economy during the consolidated cumulative first quarter under review started to show signs of gradual recovery in company earnings and employment conditions, despite the remaining weakness due to reaction to the last-minute rush of demand accompanying the consumption tax hike.

In the information service industry, as shown in the Tankan survey released on July 2014, there were signs of moderate recovery with improved business confidence, including an upward revision to corporate-sector software investment plan.

Under these circumstances, the INES group has strengthened its sales structure in order to expand the volume of orders received and revenue, and furthermore, the Group has worked on the development of new solutions that will be a pillar of future profit for the Group. In addition, the Group endeavored to develop the so-called “WebRings Plus” integrating administrative information system in compliance with the identification number system for the entire population (“My Number”).

In the consolidated cumulative first quarter under review, our received orders increased 18.8% year-on-year to ¥7,815 million as the Financial sector performed well with continued strength. Revenues were up 18.2% on a year-on-year basis to ¥7,413 million mainly due to an increase in revenue in both the financial and public sectors.

Also in terms of profits and losses, the decrease in unprofitable projects brought operating profit up ¥62 million year-on-year (compared to an operating loss of ¥480 million in the same period of the previous year). As a result, ordinary income amounted ¥78 million (compared to an ordinary loss of ¥465 million in the same period of the previous year) while net income ended at ¥33 million (compared to net loss of ¥291 million in the same period of the previous year).

In general, Group revenue tends to centralize in the second and fourth quarters, and the level of profit and loss is usually lower in the first quarter.

A breakdown of sales by business segment and sector is shown below.

In sales by business segment, system development for mid-stream processes revenue was up 27.8% year-on-year to ¥3,269 million mainly because revenues in both the Financial and Public sectors were brisk.

In the Back-end Processes Management and System Maintenance, revenues increased 1.6% year-on-year to ¥3,201 million.

In sales by industry, the General Industry sector increased 5.2% year-on-year to ¥1,767 million due to the increased sales of the Group. Revenue in the Financial sector was up 19.8% year-on-year to ¥3,179 million due to an increase in system development for banks and life insurance. The Public sector increased substantially by 27.4% year-on-year to ¥2,467 million as it succeeded in bringing in new municipalities and steadily taking in collective development projects.

Performance by Business Segment

(Millions of yen)

	Three months ended June 30, 2013		Three months ended June 30, 2014		YOY Changes (%)
	Amount	(%) of Revenue	Amount	(%) of Revenue	
Front-End Processes (IT consulting, requirements definition)	4	0.0	57	0.8	-
Mid-Stream Processes	2,557	40.9	3,269	44.1	27.8
System development					
Initial outsourcing	1,501	23.9	2,046	27.6	36.3
Bundled service	1,056	17.0	1,222	16.5	15.7
Back-End Processes	3,150	50.2	3,201	43.2	1.6
System operation	2,390	38.1	2,436	32.9	1.9
System maintenance	759	12.1	765	10.3	0.7
Other	556	8.9	885	11.9	59.1
Total	6,269	100.0	7,413	100.0	18.2

Performance by Sector

(Millions of yen)

	Three months ended June 30, 2013		Three months ended June 30, 2014		YOY Changes (%)
	Amount	(%) of Revenue	Amount	(%) of Revenue	
General Industry	1,680	26.8	1,767	23.8	5.2
Financial	2,652	42.3	3,179	42.9	19.8
Public	1,936	30.9	2,467	33.3	27.4
Total	6,269	100.0	7,413	100.0	18.2

(2) Description of Financial Position

Total assets at the end of the consolidated account period for this first quarter were ¥59,235 million, a ¥73 million increase compared to the end of the previous consolidated fiscal year.

Current assets increased by ¥175 million and stood at ¥21,174 million. Noncurrent assets decreased by ¥101 million and were ¥38,060 million.

Current liabilities increased by ¥166 million to ¥6,124 million, mainly thanks to an increase in provision for bonuses. Noncurrent liabilities increased by ¥172 million to ¥10,230 million, mainly thanks to an increase in net defined benefit liability.

Net assets decreased by ¥264 million to ¥42,879 million mainly due to a decrease in retained earnings arising from dividend payments.

Cash Flows

Cash and cash equivalents (hereinafter referred to as “net cash”) at the end of the consolidated account period for this first quarter were ¥11,956 million for a ¥3,784 million increase compared to the end of the previous consolidated fiscal year.

The overall situation relating to cash flows during the consolidated cumulative first quarter under review is shown below.

I. Net Cash Provided by (Used in) Operating Activities

Net cash used in operating activities, despite of a ¥1,310 million increase in inventories, stood at ¥4,790 million (¥1,616 million increase year over year) due to a ¥5,582 million decrease in notes and accounts receivables, etc.

II. Net Cash Provided by (Used in) Investing Activities

Net cash used in investing activities was ¥751 million (¥939 million decrease year over year) due to ¥474 million in proceeds from redemption of securities, as well as ¥262 million in purchase of intangible noncurrent assets.

III. Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities were ¥254 million (¥8 million decrease year over year) due mainly to ¥230 million in cash dividends paid.

(3) Description of Forward Looking Information Including Consolidated Performance Forecast

The Company has not revised its performance forecasts issued on April 25 for the first half ending September 30, 2014 and the full-year period ending March 31, 2014.

This year in July, the Company celebrated its 50th anniversary. With respect to payment of dividends this fiscal year, in order to express gratitude to our shareholders for their constant support, a 16-yen ordinary dividend (8-yen interim dividend) followed by a commemorative dividend of 5 yen per share are planned.

The above forecasts are based on information available at the time of this document’s release. In no event shall the Corporation guarantee for their realization. In addition, actual performance, etc. may differ significantly due to various factors.

2. Items Regarding Summary Information (Notes)

(1) Specific accounting methods in the creation of quarterly consolidated financial statements

In calculating tax expenses for the current fiscal year, including the first quarter under review, income taxes were estimated rationally, using the effective tax rate after applying tax effect accounting multiplied by income before income taxes to estimate the appropriate effective tax rate.

(2) Changes in accounting policies, changes in accounting estimates and restatements

Changes in accounting policies

(Implementation of Accounting Standards for Retirement Benefits)

We have adopted “Accounting Standards for Retirement Benefits” (Corporate Accounting Standards No. 26 of May 17, 2012, hereinafter referred to as “Retirement Benefits Accounting Standards”) and “Implementation Guidance on Accounting Standard for Retirement Benefits” (Corporate Accounting Standards No. 25 of May 17, 2012, hereinafter referred to as “Implementation Guidance on Retirement Benefits”) from the first consolidated quarter of current fiscal year on provisions stipulated in the texts of the Section 35 of the Retirement Benefits Accounting Standards and of the Section 67 of the Implementation Guidance on Retirement Benefits: we have reconsidered the accounting method for pension benefit obligations and service liability, and we have changed our method of attributing projected retirement benefits from a fixed amount standard to a payment calculation standard along with changing the method using plural rate of discount set for each estimated period for payment of retirement benefits over the employees’ average service period remaining.

To apply the Retirement Benefits Accounting Standards, we comply with the transitional handling stipulated in the Section 37 of Retirement Benefits Accounting Standards, and effect of changes of accounting method for pension benefit obligations and service liability, financial effects are added to or subtracted from retained gains, at the beginning of the consolidated account period of this first quarter.

As the result, net defined benefit liability increased by ¥104 million, while retained earnings decreased by ¥67 million, at the beginning of the consolidated account period of this first quarter. Also, in the consolidated cumulative first quarter under review, operating income, ordinary income and quarterly net income before income taxes increased by ¥13 million respectively.

Consolidated Balance Sheets

As of June 30 and March 31, 2014

(Millions of yen)

	June 30, 2014	March 31, 2014
	Amount	Amount
ASSETS		
Current Assets:		
Cash and deposits	11,838	8,053
Notes and accounts receivable	5,317	10,397
Short-term investment securities	551	551
Work in process	2,250	971
Raw materials and supplies	87	56
Prepaid expenses	249	221
Deferred tax assets	705	692
Others	179	64
Allowance for doubtful accounts	(5)	(10)
Total Current Assets	21,174	20,998
Noncurrent Assets:		
Property, plant and equipment:		
Buildings and structures:		
Buildings and structures	20,590	20,583
Accumulated depreciation	(9,673)	(9,536)
Buildings and structures (net)	10,917	11,046
Tools, furniture and fixtures:		
Tools, furniture and fixtures	5,090	5,058
Accumulated depreciation	(3,630)	(3,608)
Tools, furniture and fixtures (net)	1,459	1,449
Land	17,404	17,404
Total Property, Plant and Equipment	29,782	29,901
Intangible noncurrent assets:		
Software	2,714	2,703
Others	37	37
Total Intangible Noncurrent Assets	2,752	2,741
Investments and other assets:		
Investment securities	1,123	1,124
Long-term prepaid expenses	375	399
Deferred tax assets	3,521	3,487
Others	505	509
Total Investments and Other Assets	5,525	5,520
Total Noncurrent Assets	38,060	38,162
Total Assets	59,235	59,161

Consolidated Balance Sheets

As of June 30 and March 31, 2014

(Millions of yen)

	June 30, 2014	March 31, 2014
	Amount	Amount
LIABILITIES		
Current Liabilities:		
Account payable	1,696	1,962
Accrued expenses	788	844
Income taxes payable	77	568
Accrued consumption taxes	184	38
Advances received	602	100
Provision for bonuses	1,741	1,133
Provision for directors' bonuses	17	50
Provision for loss on order received	308	263
Others	709	996
Total Current Liabilities	6,124	5,958
Noncurrent Liabilities:		
Provision for directors' retirement benefits	215	215
Net defined benefit liabilities	9,647	9,469
Asset retirement obligations	60	60
Others	307	313
Total Noncurrent Liabilities	10,230	10,058
Total Liabilities	16,355	16,017
NET ASSETS		
Shareholder's Equity:		
Capital stock	31,457	31,457
Capital surplus	17,548	17,548
Retained earnings	5,755	6,045
Treasury stock	(11,632)	(11,631)
Total Shareholders' Equity	43,129	43,420
Accumulated Other Comprehensive Income:		
Valuation differences on available-for-sale securities	292	285
Remeasurements of Defined Benefit Liabilities	(610)	(628)
Total Accumulated Other Comprehensive Income	(317)	(343)
Stock Acquisition Rights	37	37
Minority Interests	29	29
Total Net Assets	42,879	43,144
Total Liabilities and Net Assets	59,235	59,161

Consolidated Statements of Operations

For the three months ended June 30, 2013 and 2014

(Millions of yen)

	Three Months Ended June 30, 2014 Amount	Three Months Ended June 30, 2013 Amount
Revenue	7,413	6,269
Cost of sales	6,077	5,340
Gross Profit	1,336	929
Selling, general and administrative expenses	1,273	1,410
Operating Income (loss)	62	(480)
Non-Operating Income:		
Interest income	0	1
Dividends income	11	10
Real estate rent	10	10
Others	3	2
Total Non-Operating Income	25	24
Non-Operating Expenses:		
Interest expenses	1	1
Rent expenses on real estate	8	8
Others	0	0
Total Non-Operating Expenses	10	9
Ordinary Income (loss)	78	(465)
Extraordinary Income:		
Gain on sales of investment securities	—	17
Others	—	1
Total Extraordinary Income	—	18
Extraordinary Losses:		
Loss on retirement of noncurrent assets	0	0
Total Extraordinary Losses	0	0
Income (loss) before Income Taxes	77	(447)
Income Tax and Others	44	(155)
Income (loss) before Minority Interests	32	(291)
Minority interests (losses) in income	(0)	(0)
Net Income (loss)	33	(291)

Consolidated Statements of Comprehensive Income

For the three months ended June 30, 2013 and 2014

(Millions of yen)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
	Amount	Amount
Income (loss) before Minority Interests	32	(291)
Other Comprehensive Income:		
Valuation difference on available-for-sale securities	7	(11)
Remeasurements of Defined Benefit Plans, net of tax	18	-
Total Other Comprehensive Income	26	(11)
Comprehensive Income	59	(303)
(Breakdown)		
Comprehensive income attributable to owners of the parents	59	(303)
Comprehensive income attributable to minority interests	(0)	(0)

Consolidated Statements of Cash Flows

For the three months ended June 30, 2013 and 2014

(Millions of yen)

	Three Months Ended June 30, 2014 Amount	Three Months Ended June 30, 2013 Amount
I. Net Cash Provided by (used in) Operating Activities:		
Income (loss) before income taxes	77	(447)
Depreciation and amortization	541	517
Increase (decrease) in provision for bonuses	607	589
Increase (decrease) in provision for directors' bonuses	(33)	(41)
Increase (decrease) in provision for loss on order received	44	61
Increase (decrease) in provision for retirement benefits	-	49
Increase (decrease) in provision for directors' retirement benefit	(0)	(19)
Increase (decrease) in net defined benefit liabilities	103	-
Interest and dividends income	(12)	(12)
Interest expenses	1	1
Loss (gain) on sales of investment securities	-	(17)
Loss on retirement of noncurrent assets	0	0
Decrease (increase) in notes and accounts receivables	5,582	4,721
Decrease (increase) in inventories	(1,310)	(1,041)
Decrease (increase) in other assets	(140)	(98)
Increase (decrease) in notes and accounts payable	(260)	(179)
Increase (decrease) in other liabilities	131	(239)
Others	(46)	(120)
(Subtotal)	5,287	3,722
Interest and dividends income received	13	12
Interest expenses paid	(1)	(1)
Income taxes refund	3	0
Income taxes paid	(512)	(560)
Total Cash Provided by Operating Activities	4,790	3,173
II. Net Cash Provided by (used in) Investing Activities		
Proceeds from repayment of deposits	-	950
Proceeds from redemption of securities	-	6
Purchase of property, plant and equipment	(474)	(385)
Purchase of intangible noncurrent assets	(262)	(459)
Purchase of long-term prepaid expenses	(6)	(13)
Proceeds from sales of investment securities	-	90
Proceeds from liquidation of subsidiaries and affiliates	1	-
Proceeds from sale of membership	-	3
Decrease (increase) in short-term loans receivable	0	0
Others	(10)	(2)
Total Cash Provided by (used in) Investing Activities:	(751)	187
III. Net Cash Provided by (used in) Financing Activities:		
Repayment of lease obligations	(23)	(20)
Proceeds from exercise of stock option	-	0
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(230)	(224)
Others	(0)	(0)
Total Cash Used in Financing Activities	(254)	(245)
IV. Net increase (decrease) in Cash and Cash Equivalents	3,784	3,116
V. Cash and Cash Equivalents at Beginning of Period	8,171	11,278
VI. Cash and Cash Equivalents at End of Period	11,956	14,394