

October 30, 2014

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



INES Corporation

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

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

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

	Revenue		Operating Income		Ordinary Income		Net Income	
Six Months Ended Sep. 30, 2014	17,791	10.4%	881	15.9%	900	15.9%	554	28.9%
Six Months Ended Sep. 30, 2013	16,110	(2.2)%	760	(29.3)%	776	(30.6)%	430	(30.9)%

(Note) Comprehensive income: ¥603 million (43.0%) for the six months ended September 30, 2014; ¥421 million (-30.5%) for the six months ended September 30, 2013

	Net Income per Share (Yen)	Fully Diluted Income per Share (Yen)
Six Months Ended Sep. 30, 2014	17.32	—
Six Months Ended Sep. 30, 2013	13.44	13.44

(2) Consolidated Financial Position

(Millions of yen, except for per share data)

	Total Assets	Total Net Assets	Equity Ratio (%)
As of September 30, 2014	60,152	43,387	72.1
As of March 31, 2014	59,161	43,144	72.8

<Reference> Equity at term-end: At September 30, 2014: ¥43,357 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	—	13.00	—	—	—
Year Ending March 31, 2015 (Forecast)	—	—	—	8.00	21.00

(Note) Revision of dividend forecasts: None

Dividend at the end of Q2/FY ending March 31, 2015: 8-yen ordinary dividend, and a 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)
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 this quarter: None

(2) Application of specific accounting methods in the preparation 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 preparation 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 shares outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)

Six Months Ended September 30, 2014: 48,000,000

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

2. Number of treasury shares outstanding:

Six Months Ended September 30, 2014: 15,988,515

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

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

Six Months Ended September 30, 2014: 32,011,008

Six Months Ended September 30, 2013: 32,011,163

***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 second quarter under review, showed signs of gradual recovery as it has been supported by aggressive fiscal and monetary policies pursued by the government, while the negative impact to consumer spending following the pre-tax hike purchasing rush is easing up.

Information service industry as well continued its gradual recovery due to a shift towards recovery of the domestic economy, and as shown in the Tankan survey released on October 2014, an upward revision to corporate-sector software investment plan, etc.

Under such circumstances, the INES group has been focusing its efforts on improving profitability through actions such as the reorganization of the financial system operations in October, this way aiming to expand the volume of orders received and revenue, as well as to strengthen competitiveness. In addition, the Group endeavored to develop the so-called “WebRings Plus” integrating administrative information system in compliance with the social security and taxation number (“my number”) system scheduled to start in October 2015 the identification of the entire national population.

In the consolidated cumulative second quarter under review, the amount of received orders increased in the Financial sector. However, the overall received orders decreased by 5.6% from the same period of the previous year to ¥17,113 million, due to actions such as project bids in the Public sector postponed to or after the second half of the fiscal year, etc. Revenues were up 10.4% on a year-on-year basis to ¥17,791 million mainly due to an increase in revenue in both Financial and Public sectors.

Also in terms of profits and losses, operating income increased by 15.9% on a year-on-year basis to ¥881 million, reflecting the rise in revenue. As a result, ordinary income amounted ¥900 million, a year-on-year increase of 15.9%, and net income ended at ¥554 million, a year-on-year increase of 28.9%.

A breakdown of sales by process and sector is shown below.

In sales by process, system development for mid-stream processes revenue was up 11.0% year-on-year to ¥8,147 million mainly because revenue in the Financial sector were brisk.

In the Back-end Processes Management and System Maintenance, revenue remained almost unchanged at ¥7,024 million (a year-on-year decrease of 0.4%).

In sales by sector, the General Industry sector decreased 2.6% year-on-year in revenue to ¥3,881 million in response to the difficult business environment. Revenue in the Financial sector was up 13.5% year-on-year to ¥6,884 million due to an increase in system development for banks and life insurance. Revenue in the Public sector was up 15.9% year-on-year to ¥7,025 million as it continued to prove successful in bringing in new municipalities and steadily taking in collective development projects.

Performance by Business Segment

(Millions of yen)

	Six months ended September 30, 2013		Six months ended September 30, 2014		YOY Changes (%)
	Amount	(%) of Revenue	Amount	(%) of Revenue	
Front-End Processes (IT consulting, requirements definition)	62	0.4	89	0.5	42.9
Mid-Stream Processes	7,339	45.5	8,147	45.8	11.0
System development					
Initial outsourcing	3,217	19.9	4,230	23.8	31.5
Bundled service	4,121	25.6	3,917	22.0	(5.0)
Back-End Processes	7,050	43.8	7,024	39.5	(0.4)
System operation	5,182	32.2	5,173	29.1	(0.2)
System maintenance	1,867	11.6	1,851	10.4	(0.9)
Other	1,657	10.3	2,529	14.2	52.6
Total	16,110	100.0	17,791	100.0	10.4

Performance by Sector

(Millions of yen)

	Six months ended September 30, 2013		Six months ended September 30, 2014		YOY Changes (%)
	Amount	(%) of Revenue	Amount	(%) of Revenue	
General Industry	3,984	24.8	3,881	21.8	(2.6)
Financial	6,064	37.6	6,884	38.7	13.5
Public	6,061	37.6	7,025	39.5	15.9
Total	16,110	100.0	17,791	100.0	10.4

(2) Description of Financial Position

Total assets at the end of the consolidated account period for this second quarter were ¥60,152 million, a ¥990 million increase compared to the end of the previous consolidated fiscal year.

Current assets increased by ¥940 million and stood at ¥21,939 million. Noncurrent assets increased by ¥50 million and stood at ¥38,213 million.

Current liabilities increased by ¥507 million to ¥6,465 million mainly due to an increase in accounts payable. Noncurrent liabilities increased by ¥240 million to ¥10,299 million mainly due to an increase in net defined benefit liabilities.

Net assets increased by ¥243 million to ¥43,387 million mainly due to an increase in net income for the period under review.

Cash Flows

Cash and cash equivalents (hereinafter referred to as “net cash”) at the end of the consolidated account period for this second quarter were ¥9,398 million for a ¥1,227 million increase compared to the end of the previous consolidated fiscal year.

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

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

Net cash provided by operating activities, despite of a ¥1,291 million increase in inventories, stood at ¥3,244 million (a ¥1,498 million increase year-on-year) due to a ¥2,230 million decrease in notes and accounts receivable, etc.

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

Net cash used in investing activities was ¥1,713 million (a ¥200 million increase year-on-year) due to ¥561 million in purchase of property, plant and equipment, as well as ¥527 million in purchase of intangible noncurrent assets, etc.

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

Net cash used in financing activities was ¥303 million (a ¥9 million decrease year-on-year) due to ¥256 million in payment of cash dividends, etc.

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

The Company has not revised its performance forecasts issued on April 25, 2014, for the full-year period ending March 31, 2015.

This year in July, the Company celebrated its 50th anniversary. For the current fiscal year, in order to express gratitude to its shareholders for their constant support, the Company has declared a commemorative dividend of ¥5.00 per share, in addition to the interim dividend of ¥8.00 per share. The Company plans to pay an annual dividend of ¥21.00 per share which includes a year-end dividend of ¥8.00 per share.

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 Preparation of Quarterly Consolidated Financial Statements

In calculating tax expenses for the current fiscal year, including the consolidated second 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 revised the accounting method for retirement benefit obligations and service cost, and we have changed our method of attributing projected retirement benefits from a straight-line basis to a benefit formula basis, along with changing the method of discount determination to a method that uses plural rate of discount set for every retirement payment possibility period, over the previous discount rate based on the average remaining years of service.

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 the revision of accounting method for retirement benefit obligations and service cost, financial effects are added to or subtracted from retained gains, at the beginning of the consolidated cumulative second quarter under review.

As the result, net defined benefit liabilities increased by ¥104 million, while retained earnings decreased by ¥67 million, at the beginning of the consolidated cumulative second quarter under review. Also, in the aforementioned period under review, operating income, ordinary income and quarterly net income before income taxes increased by ¥26 million, respectively.

Consolidated Balance Sheets

As of September 30 and March 31, 2014

(Millions of yen)

	September 30, 2014	March 31, 2014
ASSETS		
Current Assets:		
Cash and deposits	9,580	8,053
Notes and accounts receivable	8,434	10,397
Short-term investment securities	551	551
Work in process	2,230	971
Raw materials and supplies	89	56
Prepaid expenses	236	221
Deferred tax assets	692	692
Others	132	64
Allowance for doubtful accounts	(8)	(10)
Total Current Assets	21,939	20,998
Noncurrent Assets:		
Property, plant and equipment:		
Buildings and structures:		
Buildings and structures	20,615	20,583
Accumulated depreciation	(9,809)	(9,536)
Buildings and structures (net)	10,805	11,046
Tools, furniture and fixtures:		
Tools, furniture and fixtures	5,089	5,058
Accumulated depreciation	(3,679)	(3,608)
Tools, furniture and fixtures (net)	1,409	1,449
Land	17,404	17,404
Total Property, Plant and Equipment	29,619	29,901
Intangible noncurrent assets:		
Software	2,762	2,703
Others	37	37
Total Intangible Noncurrent Assets	2,800	2,741
Investments and other assets:		
Investment securities	1,428	1,124
Long-term prepaid expenses	347	399
Deferred tax assets	3,508	3,487
Others	507	509
Total Investments and Other Assets	5,792	5,520
Total Noncurrent Assets	38,213	38,162
Total Assets	60,152	59,161

Consolidated Balance Sheets

As of September 30 and March 31, 2014

(Millions of yen)

	September 30, 2014	March 31, 2014
LIABILITIES		
Current Liabilities:		
Accounts payable	2,502	1,962
Accrued expenses	764	844
Income taxes payable	440	568
Accrued consumption taxes	273	38
Advances received	367	100
Provision for bonuses	1,165	1,133
Provision for directors' bonuses	29	50
Provision for loss on order received	260	263
Others	662	996
Total Current Liabilities	6,465	5,958
Noncurrent Liabilities:		
Provision for directors' retirement benefits	223	215
Net defined benefit liabilities	9,728	9,469
Asset retirement obligations	61	60
Others	285	313
Total Noncurrent Liabilities	10,299	10,058
Total Liabilities	16,764	16,017
NET ASSETS		
Shareholders' Equity:		
Capital stock	31,457	31,457
Capital surplus	17,549	17,548
Retained earnings	6,276	6,045
Treasury stock	(11,631)	(11,631)
Total Shareholders' Equity	43,652	43,420
Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	296	285
Remeasurements of defined benefit liabilities	(591)	(628)
Total Accumulated Other Comprehensive Income	(294)	(343)
Stock acquisition rights	-	37
Minority interests	29	29
Total Net Assets	43,387	43,144
Total Liabilities and Net Assets	60,152	59,161

Consolidated Statements of Operations

For the six months ended September 30, 2013 and 2014

(Millions of yen)

	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
Revenue	17,791	16,110
Cost of sales	14,271	12,674
Gross Profit	3,520	3,435
Selling, general and administrative expenses	2,638	2,674
Operating Income	881	760
Non-Operating Income:		
Interest income	1	1
Dividend income	11	10
Real estate rent	20	20
Others	6	4
Total Non-Operating Income	40	37
Non-Operating Expenses:		
Interest expenses	2	1
Rent expenses on real estate	17	17
Others	1	2
Total Non-Operating Expenses	21	21
Ordinary Income	900	776
Extraordinary Income:		
Gain on sales of investment securities	-	17
Gain on reversal of subscription rights to shares	36	18
Others	-	1
Total Extraordinary Income	36	36
Extraordinary Losses:		
Loss on retirement of noncurrent assets	2	14
Loss on retirement of software for sale	-	45
Others	0	0
Total Extraordinary Losses	3	61
Income before Income Taxes	933	752
Income Taxes and Others	379	322
Income before Minority Interests	554	430
Minority Interests in Income (Loss)	(0)	0
Net Income	554	430

Consolidated Statements of Comprehensive Income

For the six months ended September 30, 2013 and 2014

(Millions of yen)

	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
Income before Minority Interests	554	430
Other Comprehensive Income:		
Valuation difference on available-for-sale securities	10	(8)
Remeasurements of defined benefit plans, net of tax	37	-
Total Other Comprehensive Income (Loss)	48	(8)
Comprehensive Income	603	421
(Breakdown)		
Comprehensive income attributable to owners of the parent	603	421
Comprehensive income (loss) attributable to minority interests	(0)	0

Consolidated Statements of Cash Flows

For the six months ended September 30, 2013 and 2014

(Millions of yen)

	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
I. Net Cash Provided by (Used in) Operating Activities		
Income before income taxes	933	752
Depreciation and amortization	1,086	984
Increase (decrease) in provision for bonuses	31	(18)
Increase (decrease) in provision for directors' bonuses	(21)	(32)
Increase (decrease) in provision for loss on order received	(2)	(62)
Increase (decrease) in provision for retirement benefits	-	222
Increase (decrease) in net defined benefit liabilities	213	-
Increase (decrease) in provision for directors' retirement benefits	8	(2)
Interest and dividend income	(13)	(12)
Interest expenses	2	1
Loss (gain) on sales of investment securities	-	(17)
Loss on retirement of noncurrent assets	2	14
Loss on retirement of software for sale	-	45
Gain on reversal of subscription rights to shares	(36)	(18)
Decrease (increase) in notes and accounts receivable	2,230	1,661
Decrease (increase) in inventories	(1,291)	(405)
Decrease (increase) in other assets	(115)	(101)
Increase (decrease) in notes and accounts payable	535	192
Increase (decrease) in other liabilities	175	(727)
Others	(5)	(180)
(Subtotal)	3,734	2,297
Interest and dividend income received	14	12
Interest expenses paid	(2)	(1)
Income taxes refund	10	10
Income taxes paid	(513)	(572)
Total Cash Provided by Operating Activities	3,244	1,746
II. Net Cash Provided by (Used in) Investing Activities:		
Decrease (increase) in time deposits	(300)	3
Proceeds from repayment of deposits	-	950
Proceeds from redemption of securities	-	43
Purchase of property, plant and equipment	(561)	(1,717)
Purchase of intangible noncurrent assets	(527)	(804)
Purchase of long-term prepaid expenses	(14)	(72)
Purchase of investment securities	(299)	(405)
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	(13)	(4)
Total Cash Used in Investing Activities	(1,713)	(1,913)
III. Net Cash Provided by (Used in) Financing Activities:		
Repayments of lease obligations	(48)	(40)
Proceeds from exercise of stock option	1	2
Purchase of treasury stock	(1)	(0)
Proceeds from sales of treasury stock	0	0
Cash dividends paid	(256)	(255)
Others	(0)	(0)
Total Cash Used in Financing Activities:	(303)	(294)
IV. Net Increase (Decrease) in Cash and Cash Equivalents	1,227	(461)
V. Cash and Cash Equivalents at Beginning of Period	8,171	11,278
VI. Cash and Cash Equivalents at End of Period	9,398	10,816