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



INES Corporation

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

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

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

	Revenue		Operating Income		Ordinary Income		Net Income	
Nine Months Ended Dec. 31, 2014	26,013	9.1%	722	3.0%	752	1.7%	456	15.0%
Nine Months Ended Dec. 31, 2013	23,849	2.6%	701	(21.6)%	739	(24.0)%	396	(23.9)%

(Note) Comprehensive income: ¥572 million (29.3%) for the nine months ended December 31, 2014; ¥442 million (-34.2%) for the nine months ended December 31, 2013

	Net Income per Share (Yen)	Fully Diluted Income per Share (Yen)
Nine Months Ended Dec. 31, 2014	14.26	—
Nine Months Ended Dec. 31, 2013	12.40	12.40

(2) Consolidated Financial Position

(Millions of yen, except for per share data)

	Total Assets	Total Net Assets	Equity Ratio (%)
As of December 31, 2014	59,172	42,940	72.5
As of March 31, 2014	59,161	43,144	72.8

<Reference> Equity at term-end: At December 31, 2014: ¥42,910 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)

Nine Months Ended December 31, 2014: 32,100,000

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

2. Number of treasury shares outstanding

Nine Months Ended December 31, 2014: 89,172

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

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

Nine Months Ended December 31, 2014: 32,011,040

Nine Months Ended December 31, 2013: 32,011,474

***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 third quarter under review saw a moderate recovery in general, supported by the government's economic policies and the BOJ's monetary easing. However, with signs of continuing sluggish consumer spending following the consumption tax hike, future prospects remained uncertain.

In the information service industry, the environment for new orders was tough due to several factors including a downward revision to corporate-sector software investment plan, as shown in the Tankan survey released on December 2014.

Under such circumstances, the INES group has been focusing its efforts on shifting its management resources to the Public sector and reviewing its organizational structure in the Financial sector, this way aiming to expand the volume of orders received and revenue, as well as to strengthen competitiveness. Moreover, the Company has retired its treasury shares as of November 2014, and thus it has improved capital efficiency.

In the consolidated cumulative third quarter under review, the amount of received orders increased in the Financial sector mainly for life insurance. However, the overall received orders decreased by 4.5% from the same period of the previous year to ¥26,386 million due to actions such as postponing the system update in the Public sector, needed for complying with the social security and taxation number (“my number”) system.

Revenues were up 9.1% year-on-year to ¥26,013 million mainly because current order backlog performed favorably, while revenues in both the Financial and Public sectors remained strong.

Also in terms of profits and losses, operating income increased by 3.0% on a year-on-year basis to ¥722 million, reflecting higher costs than anticipated for the project of law revision in the Public sector implemented through this third quarter (October to December, 2014). As a result, ordinary income amounted ¥752 million, a year-on-year increase of 1.7%, and net income ended at ¥456 million, a year-on-year increase of 15.0%.

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 10.7% year-on-year to ¥11,830 million mainly because revenues in the Financial and Public sectors were brisk.

In the Back-end Processes Management and System Maintenance, revenue remained almost unchanged at ¥10,029 million (a year-on-year decrease of 0.1%).

In sales by sector, the General Industry sector scored ¥5,610 million (a year-on-year increase of 0.6%), nearly at the same level as the correspondent period last year. Revenue in the Financial sector was up 10.1% year-on-year to ¥10,582 million due to an increase in orders of OS renewals for life insurance. Revenue in the Public sector was up 13.4% year-on-year to ¥9,820 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)

	Nine months ended December 31, 2013		Nine months ended December 31, 2014		YOY Changes (%)
	Amount	(%) of Revenue	Amount	(%) of Revenue	
Front-End Processes (IT consulting, requirements definition)	73	0.3	134	0.5	83.4
Mid-Stream Processes	10,687	44.8	11,830	45.5	10.7
System development					
Initial outsourcing	5,146	21.6	6,310	24.3	22.6
Bundled service	5,540	23.2	5,519	21.2	(0.4)
Back-End Processes	10,035	42.1	10,029	38.6	(0.1)
System operation	7,372	30.9	7,387	28.4	0.2
System maintenance	2,662	11.2	2,642	10.2	(0.8)
Other	3,053	12.8	4,019	15.4	31.6
Total	23,849	100.0	26,013	100.0	9.1

Performance by Sector

(Millions of yen)

	Nine months ended December 31, 2013		Nine months ended December 31, 2014		YOY Changes (%)
	Amount	(%) of Revenue	Amount	(%) of Revenue	
General Industry	5,577	23.4	5,610	21.6	0.6
Financial	9,611	40.3	10,582	40.7	10.1
Public	8,661	36.3	9,820	37.7	13.4
Total	23,849	100.0	26,013	100.0	9.1

(2) Description of Financial Position

Total assets at the end of the consolidated account period for this third quarter were ¥59,172 million, a ¥10 million increase compared to the end of the previous consolidated fiscal year.

Current assets increased by ¥172 million and stood at ¥21,170 million. Noncurrent assets decreased by ¥161 million and were ¥38,001 million.

Current liabilities decreased by ¥109 million to ¥5,849 million mainly due to a decrease in income taxes payable and provision for bonuses. Noncurrent liabilities increased by ¥323 million to ¥10,382 million mainly due to an increase in net defined benefit liabilities.

Net assets decreased by ¥204 million to ¥42,940 million mainly arising from dividend payments.

Also, since November 2014 when the Company retired treasury stocks worth ¥11,567 million it had hitherto owned, capital surplus decreased by ¥9,684 million, as well as retained earnings decreased by ¥1,882 million.

Cash Flows

Cash and cash equivalents (hereinafter referred to as “net cash”) at the end of the consolidated account period for this third quarter were ¥8,230 million for a ¥59 million increase compared to the end of the previous consolidated fiscal year.

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

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

Net cash provided by operating activities, despite of a ¥2,426 million increase in inventories, stood at ¥2,760 million (a ¥1,269 million increase year-on-year) due to a ¥3,077 million decrease in notes and accounts receivable, etc.

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

Net cash used in investing activities was ¥1,992 million (a ¥1,420 million increase year-on-year) due to ¥637 million in purchase of property, plant and equipment, as well as ¥707 million in purchase of intangible noncurrent assets, etc.

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

Net cash used in financing activities was ¥708 million (a ¥168 million decrease year-on-year) due to ¥635 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.

The Company celebrated its 50th anniversary in July, 2014. For the current fiscal year, in order to express gratitude to its shareholders for their constant support, the Company paid out 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 third 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 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 cumulative third 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 third quarter under review. Also, in the aforementioned period under review, operating income, ordinary income and quarterly net income before income taxes increased by ¥40 million, respectively.

Consolidated Balance Sheets

As of December 31 and March 31, 2014

(Millions of yen)

	December 31, 2014	March 31, 2014
ASSETS		
Current Assets:		
Cash and deposits	8,412	8,053
Notes and accounts receivable	7,631	10,397
Short-term investment securities	551	551
Work in process	3,379	971
Raw materials and supplies	75	56
Prepaid expenses	218	221
Deferred tax assets	746	692
Others	163	64
Allowance for doubtful accounts	(7)	(10)
Total Current Assets	21,170	20,998
Noncurrent Assets:		
Property, plant and equipment:		
Buildings and structures:		
Buildings and structures	20,661	20,583
Accumulated depreciation	(9,926)	(9,536)
Buildings and structures (net)	10,734	11,046
Tools, furniture and fixtures:		
Tools, furniture and fixtures	5,121	5,058
Accumulated depreciation	(3,810)	(3,608)
Tools, furniture and fixtures (net)	1,310	1,449
Land	17,404	17,404
Total Property, Plant and Equipment	29,449	29,901
Intangible noncurrent assets:		
Software	2,707	2,703
Others	37	37
Total Intangible Noncurrent Assets	2,745	2,741
Investments and other assets:		
Investment securities	1,492	1,124
Long-term prepaid expenses	321	399
Deferred tax assets	3,479	3,487
Others	512	509
Total Investments and Other Assets	5,806	5,520
Total Noncurrent Assets	38,001	38,162
Total Assets	59,172	59,161

Consolidated Balance Sheets

As of December 31 and March 31, 2014

(Millions of yen)

	December 31, 2014	March 31, 2014
LIABILITIES		
Current Liabilities:		
Accounts payable	2,018	1,962
Accrued expenses	879	844
Income taxes payable	40	568
Accrued consumption taxes	280	38
Advances received	412	100
Provision for bonuses	471	1,133
Provision for directors' bonuses	40	50
Provision for loss on order received	621	263
Others	1,084	996
Total Current Liabilities	5,849	5,958
Noncurrent Liabilities:		
Provision for directors' retirement benefits	239	215
Net defined benefit liabilities	9,827	9,469
Asset retirement obligations	61	60
Others	254	313
Total Noncurrent Liabilities	10,382	10,058
Total Liabilities	16,232	16,017
NET ASSETS		
Shareholders' Equity:		
Capital stock	31,457	31,457
Capital surplus	7,864	17,548
Retained earnings	3,880	6,045
Treasury stock	(64)	(11,631)
Total Shareholders' Equity	43,137	43,420
Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	345	285
Remeasurements of defined benefit liabilities	(572)	(628)
Total Accumulated Other Comprehensive Income	(226)	(343)
Stock acquisition rights	-	37
Minority interests	29	29
Total Net Assets	42,940	43,144
Total Liabilities and Net Assets	59,172	59,161

Consolidated Statement of Operations

For the nine months ended December 31, 2013 and 2014

(Millions of yen)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Revenue	26,013	23,849
Cost of sales	21,390	19,132
Gross Profit	4,623	4,717
Selling, general and administrative expenses	3,900	4,016
Operating Income	722	701
Non-Operating Income		
Interest income	1	2
Dividend income	17	13
Real estate rent	31	30
Dividend income of insurance	-	15
Others	11	8
Total Non-Operating Income	62	70
Non-Operating Expenses:		
Interest expenses	3	2
Rent expenses on real estate	26	26
Others	1	2
Total Non-Operating Expenses	31	31
Ordinary Income	752	739
Extraordinary Income:		
Gain on sales of investment securities	1	17
Gain on reversal of subscription rights to shares	36	18
Others	-	1
Total Extraordinary Income	38	36
Extraordinary Losses:		
Loss on retirement of noncurrent assets	2	19
Loss on retirement of software for sale	-	45
Others	0	0
Total Extraordinary Losses	3	66
Income before Income Taxes	787	710
Income Taxes and Others	331	313
Income before Minority Interests	456	396
Minority Interests in Income (Loss)	(0)	(0)
Net Income	456	396

Consolidated Statement of Comprehensive Income

For the nine months ended December 31, 2013 and 2014

(Millions of yen)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Income before Minority Interests	456	396
Other Comprehensive Income:		
Valuation difference on available-for-sale securities	59	46
Remeasurements of defined benefit plans, net of tax	56	-
Total Other Comprehensive Income	116	46
Comprehensive Income	572	442
(Breakdown)		
Comprehensive income attributable to owners of the parent	572	443
Comprehensive income (loss) attributable to minority interests	(0)	(0)

Consolidated Statements of Cash Flows

For the nine months ended December 31, 2013 and 2014

(Millions of yen)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
I. Net Cash Provided by (Used in) Operating Activities		
Income before income taxes	787	710
Depreciation and amortization	1,647	1,548
Increase (decrease) in provision for bonuses	(662)	(650)
Increase (decrease) in provision for directors' bonuses	(10)	(19)
Increase (decrease) in provision for loss on order received	358	(0)
Increase (decrease) in provision for retirement benefits	-	350
Increase (decrease) in net defined benefit liabilities	341	-
Increase (decrease) in provision for directors' retirement benefits	23	(4)
Interest and dividend income	(19)	(15)
Interest expenses	3	2
Loss (gain) on sales of investment securities	(1)	(17)
Loss on retirement of noncurrent assets	2	19
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	3,077	2,127
Decrease (increase) in inventories	(2,426)	(1,224)
Decrease (increase) in other assets	(107)	(213)
Increase (decrease) in notes and accounts payable	55	302
Increase (decrease) in other liabilities	659	(238)
Others	(48)	(350)
(Subtotal)	3,644	2,354
Interest and dividend income received	22	16
Interest expenses paid	(3)	(2)
Income taxes refund	10	10
Income taxes paid	(913)	(888)
Total Cash Provided by Operating Activities	2,760	1,490
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	(637)	(2,589)
Purchase of intangible noncurrent assets	(707)	(1,009)
Purchase of long-term prepaid expenses	(23)	(189)
Purchase of investment securities	(299)	(711)
Proceeds from sales of investment securities	3	90
Proceeds from liquidation of subsidiaries and affiliates	1	-
Purchase of memberships	(16)	-
Proceeds from sale of membership	-	3
Decrease (increase) in short-term loans receivable	(0)	1
Others	(13)	(4)
Total Cash Used in Investing Activities	(1,992)	(3,413)
III. Net Cash Provided by (Used in) Financing Activities:		
Repayments of lease obligations	(72)	(63)
Proceeds from exercise of stock option	1	2
Purchase of treasury stock	(1)	(1)
Proceeds from sales of treasury stock	0	0
Cash dividends paid	(635)	(477)
Others	(0)	(0)
Total Cash Used in Financing Activities	(708)	(540)
IV. Net Increase (Decrease) in Cash and Cash Equivalents	59	(2,463)
V. Cash and Cash Equivalents at Beginning of Period	8,171	11,278
VI. Cash and Cash Equivalents at End of Period	8,230	8,815