May 16, 2016

Summary of Consolidated Financial Results for the Year Ended March 31, 2016

Company name: SRA Holdings, Inc.
(URL: http://www.sra-hd.co.jp/)
Stock listing: Tokyo Stock Exchange
Code number: 3817
President: Toru Kashima
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Tel: (03)-5979-2666
Date of ordinary general meeting of shareholders: June 24, 2016
Scheduled commencement of dividend payment: June 10, 2016
Scheduled date of submission of financial reports: June 24, 2016
Results Supplement Materials: Yes
Results Presentation Meeting : Yes (for institutional investors)

1. Consolidated Financial Results for Fiscal 2016(from April 1, 2015 to March 31, 2016)

(1) Consolidated Operating Results (All amounts rounded down, % change YoY)

	Net Sales		Operating Income		Ordinary Profit		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2016	39,155	7.2	3,736	22.6	3,850	1.0	463	(71.7)
Fiscal 2015	36,535	4.0	3,047	8.5	3,813	14.7	1,638	(23.2)

Note：Comprehensive Income
Fiscal 2016: ¥761million ((67.9%))
Fiscal 2015: ¥ 2,373million ((9.8%))

	Net Income per Share	Net Income per Share after Dilution	Ratio of Net Income to Shareholders' Equity	Ratio of Ordinary Profit to Total Assets	Ordinary Profit Ratio
	Yen	Yen	%	%	%
Fiscal 2016	38.40	38.17	2.5	12.1	9.5
Fiscal 2015	136.34	—	9.1	12.5	8.3

Reference: Gain (loss) on equity method investments:
Fiscal 2016: ¥12 million
Fiscal 2015: —

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2016	31,823	18,819	59.0	1,549.46
Fiscal 2015	31,714	18,859	59.4	1,565.05

Reference: Shareholders' equity
Fiscal 2016: ¥ 20,629 million
Fiscal 2015: ¥18,834 million

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the End of Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal 2016	3,493	(2,809)	(616)	8,833
Fiscal 2015	3,290	(1,626)	(932)	8,792

2. Dividends

	Dividend per Share					Total Dividends (for the year)	Dividend Propensity (consolidated)	Net Assets to Dividend Ratio (consolidated)
	End of First Quarter	End of Second Quarter	End of Third Quarter	Year-end	For the year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal 2015	—	17.00	—	38.00	55.00	661	40.3	3.7
Fiscal 2016	—	25.00	—	45.00	70.00	847	182.3	4.5
Fiscal 2017(forecast)	—	30.00	—	55.00	85.00		38.6	

3. Consolidated Earnings Forecast for Fiscal 2016 (from April 1, 2015 to March 31, 2016)

(% change YoY is for the fiscal year or for interim period)

	Net Sales		Operating Income		Ordinary Profit		Profit attributable to owners of the parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim Period	18,320	1.5	1,742	13.2	1,834	9.8	1,186	22.8	97.80
Full Year	40,000	2.2	3,940	5.4	4,125	7.1	2,667	475.2	219.93

4. Others

(1) Changes to significant subsidiaries during the current period : Yes

Note: Changes in specified subsidiaries during the current period that caused changes in the scope of consolidation

Exclusion: CreDist, Inc.

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

1. Changes caused by revision of accounting standards, etc. : Yes
2. Changes other than 1. above: No
3. Changes in accounting estimates: No
4. Restatements: No

(3) Number of outstanding shares (common shares)

1. Shares issued at the end of term (including own shares)
   Fiscal 2016: 15,240,000 shares
   Fiscal 2015: 15,240,000 shares
2. Own shares at end of term
   Fiscal 2016: 3,113,555 shares
   Fiscal 2015: 3,205,445 shares
3. Average number of shares over period
   Fiscal 2016: 12,074,881 shares
   Fiscal 2015: 12,016,780 shares

(Reference) Non-Consolidated Financial Results for Fiscal 2016 (from April 1, 2015 to March 31, 2016)

(1) Non-Consolidated Operating Results

(% change YoY)

	Net Sales		Operating Income		Ordinary Profit		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2016	257	(66.0)	38	(92.5)	21	(95.6)	(0)	(100.1)
Fiscal 2015	756	(70.2)	519	(76.7)	498	(77.5)	181	(91.6)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
Fiscal 2016	(0.01)	(0.01)
Fiscal 2015	13.75	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2016	8,987	8,679	96.2	649.47
Fiscal 2015	9,190	9,164	98.4	691.08

Reference: Shareholders' equity:
Fiscal 2016: ¥ 8,648 million
Fiscal 2015: ¥ 9,139 million

Note: Forecast performance is predicted by the Company based on information currently available at the time of the forecast. Actual financial results may differ due to a number of factors.

1. Analysis of Business Results and Financial Position

(1) Analysis of Business Results

(Business results for the fiscal year)

During the fiscal year (April 1, 2015 to March 31, 2016), the Japanese economy continued a moderate recovery underpinned by brisk personal consumption, capital investment that remained generally unchanged and an improvement in corporate earnings.

In the information services industry, despite an increase in IT investments, mainly in manufacturing industries and the banking industry, the environment for securing orders remained severe due to intensifying competition. Within this business environment, the SRA Holdings Group formulated a Medium-Term Management Strategy that covers the three-year period from fiscal 2016 through fiscal 2018 (from the fiscal year ending March 2016 to the fiscal year ending March 2018). Under this plan, we will seek to enhance corporate and shareholder value, promote earnings structure reform and establish a high-income model, while working to further enhance shareholder returns. Accordingly, we will implement the following measures under the Medium-Term Management Strategy. (For a summary of the Medium-Term Management Strategy, please refer to Announcement of Medium-Term Management Strategy released on June 24, 2015 http://www.sra-hd.co.jp/Portals/0/ir/index-en.html).

1) Improving profitability in existing operations

• Further raise the gross profit margin

We worked to raise profitability by enhancing and strengthening project management, continuously reduce production overhead costs, carry out SRA's proprietary IP product business and promote the appropriate level of production staff. As a result, the gross profit margin rose 0.9 percentage point to 19.2% compared with the same period of the previous fiscal year.

• Improve the ratio of selling, general and administrative costs to sales (SG&A-to-sales ratio)

We strived to raise operation efficiency by introducing an account manager system while working to reduce operational costs of Head Office staff departments and SRA Professional Service, Co., Ltd., which handles a shared service. As a result, the SG&A-to-sales ratio improved to 9.7%.

• Raise operating income ratio

The operating income ratio reached a record high of 9.5 %. Additionally, the operating income ratio at core company Software Research Associates, Inc. (SRA) and at Advanced Integration Technology, Inc. (AIT) also rose to record highs.

• Expand orders and sales volume

A priority measure will be to increase customer share of wallet by deeply cultivating existing customers, and in doing so, we worked to expand orders and sales. As a result, domestic Group companies, beginning with SRA generally achieved increases in revenues.

Additionally, we deployed the "project management structure," which was previously implemented at SRA, at all Group companies in Japan. As a result, we built a system that can respond in advance to a shortage of projects.

2) Transforming the SRA business model

• Regarding "transforming the SRA business model," in wearable solutions, which have recently attracted a high level of attention, we have commenced such initiatives as the "inspection work confirmation system" that leverages our high technological strengths and our wealth of experience in “embedded development” and utilizes wearable devices such as smart glass.

• We also made group-wide efforts to target higher added value in existing operations.

3) Strengthening links between SRA’s proprietary IP product business and overseas operations

• We raised the gross profit margin sharply by promoting SRA’s proprietary IP product business in the Product Sales business, which has a low gross profit margin compared with the Systems Development business and the System Operations and Infrastructure Development business. “Qt,” which boasts an extensive track record in embedded and mobile application building, recorded growth in both sales and profits. In the future, plans call for also proactively developing the Qt business in the field of Internet of Things (IoT), which is gaining a high degree of attention.

・In April 2016, SRA concluded a business alliance and capital alliance with Tagit Pte. Ltd. (headquartered in Singapore) to develop the mobile business, a promising field, targeting overseas growth markets beginning with Asia. These alliances were also formed as part of efforts to strengthen SRA’s proprietary IP product business and overseas operations. For detailed information, please refer to http://www.sra-hd.co.jp/Portals/0/ir/others/20160414.pdf (Japanese only).

Due to the above initiatives, our consolidated business results for the fiscal year were as follows.

Sales of the Systems Development business, the System Operations and Infrastructure Development business and the Product Sales business all increased. As a result, consolidated net sales amounted to ¥39,155 million, a 7.2% increase from the previous fiscal year.

At the profit level, due to an increase in gross profit accompanying growth in sales and an improvement in the profit margin as well as a streamlining of selling, general and administrative (SG&A) expenses, operating income rose 22.6% from the previous fiscal year to ¥3,736 million while ordinary profit increased 1.0% from previous fiscal year to ¥3,850 million. A loss on valuation of investment securities and provision of allowance for doubtful accounts were recorded as an extraordinary loss. As a result, profit attributable to owners of the parent amounted to ¥463 million, a 71.7% decrease from the previous fiscal year.

As detailed above, profit attributable to owners of the parent decreased due to the recording of extraordinary losses. Although profit attributable to owners of the parent declined below the full-year forecast, net sales, operating income and ordinary profit exceeded the forecast.

Consolidated Business Results (Millions of Yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	
					Most recent forecast figures (announced May 14, 2015)	Actual
Net sales	33,416	32,168	35,146	36,535	37,300	39,155
Operating income	2,490	2,436	2,807	3,047	3,360	3,736
Ordinary profit	2,656	2,883	3,324	3,813	3,450	3,850
Net income	1,233	1,681	2,134	1,638	2,260	463

A summary of consolidated business results for the fiscal year by business segment is shown below.

● Systems Development

The Systems Development business recorded increases in sales to the manufacturing, banking, electric power and distribution sectors. As a result, net sales increased 8.4% from the previous fiscal year to ¥20,901 million.

● System Operations and Infrastructure Development

University-related orders were virtually flat, but orders from companies increased. As a result, net sales of the System Operations and Infrastructure Development business increased 2.2% from the previous fiscal year to ¥3,978 million.

● Product Sales

AIT posted an increase in device sales. As a result, net sales of the Product Sales business rose 6.9% from the previous fiscal year to ¥14,275 million.

(**Outlook for the Next Fiscal Year**)

In the next fiscal year, the Japanese economy is expected to move toward a modest recovery due in part to the effects of various policies amid continued improvements in corporate earnings and in the employment and income environments. Nevertheless, there is visible weakness in overseas economies and there is a risk that this could push down the Japanese economy.

Under these conditions, the SRA Holdings Group will aim to reform its earnings structure (establish a high-earnings model) and will work toward “Improving profitability in existing operations (raise the gross profit margin and improve the SG&A-to-sales ratio),” “Transforming the SRA business model” and “Strengthening links between SRA’s proprietary IP product business and overseas operations.”

Regarding the outlook for consolidated results for the fiscal year ending March 2017, while implementing the above measures, we forecast net sales of ¥40,000 million, operating income of ¥3,940 million, ordinary profit of ¥4,125 million and profit attributable to owners of the parent of ¥2,667 million.

(2) Analysis of Financial Position

Total assets at the end of the fiscal year amounted to ¥31,823 million, an increase of 0.3% from the end of the previous fiscal year. Total liabilities increased 1.2% from the end of the previous fiscal year to ¥13,004 million and net assets decreased 0.2% to ¥18,819 million from the end of the previous fiscal year. Details of the principal increases and decreases from the end of the previous fiscal year are as follows.

(Total Assets)

Investment securities increased ¥1,569 million to ¥5,746 million due to the purchase of shares of an affiliated company. Notes and accounts receivable—trade increased ¥660 million to ¥6,884 million due to such factors as a rise in contracted development projects. On the other hand, allowance for doubtful accounts increased ¥1,269 million to ¥1,282 million and work in process decreased ¥289 million to ¥1,387 million.

(Total Liabilities)

Accrued expenses increased ¥217 million to ¥811 million. On the other hand, provision for loss on construction contracts decreased ¥247 million to ¥415 million and accounts payable—trade decreased ¥176 million to ¥3,288 million due to an increase in the payment of trade payables.

(Total Net Assets)

Valuation difference on available-for-sale securities increased ¥397 million to ¥992 million due to changes in the market prices of marketable and investment securities. On the other hand, retained earnings decreased ¥498 million to ¥14,790 million.

Cash and cash equivalents on a consolidated basis at the end of the fiscal year increased ¥40 million compared with at the previous fiscal year-end to ¥8,833 million.

The status of cash flows and factors underlying changes in cash flows for the fiscal year are shown below.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥3,493 million compared with ¥3,290 million in the previous fiscal year. This consisted mainly of such cash inflows as income before income taxes and minority interests of ¥1,899 million, an increase in allowance for doubtful accounts of ¥1,261 million, and a loss on valuation of investment securities of ¥656 million, while cash outflows were primarily an increase in notes and accounts receivable—trade of ¥678 million.

Cash Flows from Investing Activities

Net cash provided by investing activities amounted to ¥2,809 million (used in investing amounted to ¥2,809 million) compared with net cash used in investing activities of ¥1,626 million in the previous fiscal year. This consisted mainly of such inflows as ¥300 million in proceeds from sales of short-term investment securities, while outflows included ¥1,423 million for purchase of investment securities, ¥800 million for purchase of intangible assets and ¥597 million for payments of loans receivable.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥616 million compared with ¥932 million in the previous fiscal year. This was due mainly to such cash inflows as ¥143 million in proceeds from exercise of stock option and such cash outflows as ¥759 million in cash dividends paid.

Cash Flow Indicators

	FY2013	FY2014	FY2015
Shareholders’ equity ratio (%)	57.7	59.4	59.0
Shareholders’ equity ratio at market value (%)	56.0	62.8	98.7
Debt redemption years to cash flow (years)	0.7	0.4	0.3
Interest coverage ratio (times)	83.9	131.6	117.2

Notes:

Shareholders’ equity ratio: Shareholders’ equity/total assets

Shareholders’ equity ratio at market value: Market capitalization/total assets

Debt redemption years to cash flow: Interest-bearing debt/operating cash flow

Interest coverage ratio: Operating cash flow/interest expenses

1. All indicators were calculated using consolidated financial figures.
2. Market capitalization is calculated using the total number of shares outstanding at the end of the fiscal period excluding treasury stock.

3. Cash flows from operating activities is used for cash flow.
4. Interest-bearing debt includes all debt that pays interest as listed on the Consolidated Balance Sheets.

(3) Basic Policy on Profit Allocation and Dividends for the Fiscal Year under Review and the Next Fiscal Year

The Company's basic policy with respect to dividends is to actively make business investments for securing earnings power and growth potential with the aim of increasing the corporate value of the SRA Holdings Group. Under the Medium-Term Management Strategy, to further enhance shareholder returns, the Company will strive to "incrementally raise the target payout ratio, aiming for 50% in the final year (period ending March 2018)" and "achieve a stable, sustained ROE—an indicator of efficient utilization of shareholder equity—of at least 10%.

Regarding dividends for the fiscal year ended March 31, 2016, net sales, operating income and ordinary profit in our main business exceeded our full-year forecast. Therefore, to further enhance the redistribution of profits to shareholders the Company will increase ordinary dividends per share by ¥15.00 and pay cash dividends per share of ¥70.00 (consisting of a ¥25.00 interim dividend and a ¥45.00 year-end dividend).

Regarding dividends for the fiscal year ending March 31, 2017, we plan to increase ordinary dividends per share by ¥15.00 and pay cash dividends per share of ¥85.00 (consisting of a ¥30.00 interim dividend and a ¥55.00 year-end dividend). In the event that these dividends are paid, the consolidated payout ratio is expected to be 38.6%.

We also regard the acquisition of treasury shares as an effective means of redistributing profits to shareholders. Accordingly, we make such acquisitions appropriately while considering such factors as our stock price trends and financial condition.

(4) Business and Other Risks

The following principal risks could have an impact on the business results and financial condition of the Company as the SRA Holdings Group's controlling company.

"Forward-looking" statements contained in this report represent judgments by the SRA Holdings Group based on information currently available to management as of the end of the fiscal period.

[1] Risk of fluctuations in business results of Group companies

An abrupt fluctuation in business results of Group companies due to various factors could have an adverse impact on the Company's business results.

[2] Maintaining confidentiality of customer information

In addition to being aware that it is an information processing company with numerous opportunities for handling personal information, the SRA Holdings Group also sufficiently recognizes the critical nature of protecting personal information, and thus, has established an internal monitoring structure. Concurrently, the SRA Holdings Group provides education for its Group employees and business partners and makes efforts to protect personal information. However, in the event of the unexpected leakage of information, besides losing the trust of business partners, the SRA Holdings Group could become liable for payment of compensatory damages, which could have an effect on the SRA Holdings Group's business results.

[3] Overseas Business Investments

As part of its business strategy, the SRA Holdings Group implements a policy of utilizing its "global reach," which is a strength, and actively makes business investments that include forming business and capital alliances with local companies and carrying out M&A with the aim of cultivating overseas growth markets.

When making business investments, besides implementing preliminary surveys, the Company sufficiently exchanges opinions with the management teams of the companies in which we invest. Following the investment as well, we regularly manage the state of progress of businesses.

Nevertheless, the Company's overseas businesses could inevitably be exposed to country risk due to factors such as unforeseen rapid public unrest, market deterioration and exchange rate volatility or differences in politics, cultures, systems, laws and business practices. Additionally, there is a possibility of changes of the management team, capital structure and business strategies of investee companies. Such factors could prevent the Company from realizing expected profits and lead to losses that could have an impact on the Company's business results.

In addition to the above, the Company comprehensively incurs business and other risks of the SRA Holdings Group, which consists of SRA, a main subsidiary, and its subsidiaries.

The following principal risks could have an impact on the business results and financial condition of the SRA Holdings Group.

[1] Responses of business partners when production volume fluctuates

In the Systems Development and the System Operations and Infrastructure Development businesses, besides its own in-house engineers, the SRA Holdings Group utilizes business partners for the planned augmentation of its staff of in-house engineers and expansion of business, as well as to augment those areas where it does not possess technologies and to respond flexibly to changes in production volumes during peak production.

The SRA Holdings Group also utilizes business partners as one means of reducing production costs.
Nonetheless, in the event of a sudden unforeseen fluctuation in production volume, the inability to secure enough business partners possessing requisite skills or to arrange for business partners to take timely action could have an impact on the SRA Holdings Group's business results.

[2] Project profitability in Systems Development

In the core Systems Development business, the SRA Holdings Group concludes bulk subcontracting contracts, whereby it handles the entire system development and is responsible to its customers for completion. Therefore, even for projects for which a certain amount of income is expected at the time the order is received, there are instances when profitability worsens because of such factors as customer requests for specification changes after commencing development activities or a work process that exceeds the initial estimate. Moreover, incurring additional expenses such as those related to defect guarantees after the confirmation of sales could result in lower profitability.

To prevent the occurrence of these projects, the SRA Holdings Group reviews risk factors at the time an order is received and works to improve the precision of its estimates while strengthening its project management structure in an organized manner. Nevertheless, any project incurring a large loss could have an effect on the SRA Holdings Group's business results.

[3] Maintaining confidentiality of customer information

Along with being aware that it is an information processing company with numerous opportunities for handling personal information, the SRA Holdings Group also sufficiently recognizes the critical nature of personal information, and thus, has established an internal monitoring structure. Concurrently, as a company that has acquired Privacy Mark certification, the SRA Holdings Group provides education for its Group employees and outsourced staff and makes efforts to protect personal information. However, in the event of the unexpected leakage of information, besides losing the trust of business partners, the SRA Holdings Group could become liable for payment of compensatory damages, which could have an effect on the SRA Holdings Group's business results.

2. Management Policy

(1) The Company's Basic Management Policy

The SRA Holdings Group adheres to a basic management policy of maximizing user satisfaction through IT based on its management principle of "contributing to the future of humanity through professional practice that fosters progress in the fields of computer science," which has been our guiding principle since the founding of SRA. In accordance with this basic management policy, amid a rapidly changing business environment, we will strive to meet the expectations of the information services industry while raising profits for shareholders and increasing corporate value by pursuing profitability and growth.

Regarding the management of the SRA Holdings Group, under our management vision of "creating new value together with people through a global perspective and technologies," we will raise the overall capabilities of the SRA Holdings Group with the aim of enhancing corporate value.

(2) Management Indicator Targets

The SRA Holdings Group has adopted "operating income margin" as a representative indicator of the Company's overall earnings power and has set the medium- and long-term numerical target of quickly attaining and maintaining an operating income margin of 10% or higher."

Also, the SRA Holdings Group continues to use return on equity (ROE) as an indicator of efficient deployment of shareholders' equity. The SRA Holdings Group has established the numerical target of "attaining and maintaining double-digit consolidated ROE."

The SRA Holdings Group's consolidated operating income margin and ROE are as shown below.

	Consolidated operating income margin	Consolidated ROE
FY2011 (actual)	7.5%	7.9%
FY2012 (actual)	7.6%	10.2%
FY2013 (actual)	8.0%	12.4%
FY2014 (actual)	8.3%	9.1%
FY2015 (actual)	9.5%	2.5%
FY2016 (target)	9.9% (plan)	13.6% (plan)

(3) Medium- and Long-Term Management Strategy

The SRA Holdings Group is currently implementing its Medium-Term Management Strategy covering the three-year period from fiscal 2015 (year ending March 2016) through fiscal 2017 (year ending March 2018). The orientation of this strategy is as follows.

1. We will enhance corporate and shareholder value, promote earnings structure reform (secure the industry's top level operating profit ratio), and establish a high-income model, while working to further enhance shareholder returns. Our management tasks for attaining this target are as follows.

1) Raise the profitability of existing businesses
• Further raise the gross profit margin and improve the SG&A-to-sales ratio
2) Transforming the SRA business model
• Promote convergence between SRA's proprietary IP product business and higher added value in existing operations.
• Build new business models
3) Strengthening links between SRA's proprietary IP product business and overseas operations

•Expand SRA's line of proprietary IP products for growth sectors, and vigorously develop efforts that target emerging markets overseas.

2. Further enhancing shareholder returns

1) Re-evaluate the consolidated payout ratio and shareholder dividends
• Incrementally raise the consolidated payout ratio, aiming for 50% in the final year (period ending March 2018).

2) Continuously raise ROE, an indicator of efficient utilization of shareholder equity.
•Stably and continuously secure ROE of 10% or higher

(4) Issues to Be Addressed by the Company

The SRA Holdings Group will undertake the following specific tasks to enhance corporate and shareholder value, promote earnings structure reform (secure the industry's top level operating profit ratio), and establish a high-income model.

1. Raise the profitability of existing businesses

1) Further raise gross profit margins
•Eliminate large-scale unprofitable projects, raise precision of project management, continuously reduce production overhead costs and ensure the appropriate number of production personnel

2) Improve SG&A-to-sales ratio
• Increase sales efficiency through implementation of an account manager system.
• Reduce operational costs at SRA Professional Service, which handles Head Office staff and shared services

3) Expand orders and sales volume
• Increase the proportion of orders and sales accounted for by current customers through further cultivation of the existing SRA customer base.

2. Transforming the SRA business model
1) Promote convergence between SRA's proprietary IP product business and higher added value in existing operations.

2) Develop new business models (own IP products, new services) that target such growth sectors as the IoT, mobile, security, cloud computing, Big Data/analytics and social technologies markets.

3. Strengthening links between SRA's proprietary IP product business and overseas operations
• Increase own IP products for new fields while undertaking businesses that target overseas markets, which are growth markets.

(5) Other Important Management Matters

None

3. Basic Thinking Concerning Adoption of Accounting Standard

In preparation for the future adoption of International Financial Reporting Standards (IFRS), discussion is progressing regarding the establishment of in-house manuals and guidelines and the timing of adoption.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY2014 (as of March 31,2015)	**FY2015** (as of March 31,2016)
ASSETS		
Current assets:		
Cash and deposits	8,672	8,813
Notes and accounts receivable—trade	6,223	6,884
Short-term investment securities	3,392	509
Merchandise and finished goods	784	751
Work in process	1,677	1,387
Short-term loans receivable	1,767	139
Accounts receivable—other	175	2,641
Deferred tax assets	658	569
Other	801	528
Allowance for doubtful accounts	(27)	(19)
Total current assets	24,126	22,204
Noncurrent assets:		
Property, plant and equipment		
Buildings	317	334
Accumulated depreciation	(231)	(251)
Buildings, net	85	82
Machinery, equipment and vehicles	566	555
Accumulated depreciation	(510)	(509)
Machinery, equipment and vehicles, net	55	46
Other	113	114
Accumulated depreciation	(78)	(83)
Other, net	35	31
Total property, plant and equipment	175	160
Intangible assets		
Goodwill	–	55
Other	520	1,061
Total intangible assets	520	1,117
Investments and other assets		
Investment securities	4,177	5,746
Long-term loans receivable	1,060	1,937
Deferred tax assets	1,243	1,005
Guarantee deposits	324	338
Net defined benefit asset	44	46
Other	171	565
Allowance for doubtful accounts	(12)	(1,282)
Allowance for investment loss	(118)	(16)
Total investments and other assets	6,891	8,341

Total noncurrent assets	7,588	9,619
Total assets	31,714	31,823

(Millions of Yen)

	FY2014 (as of March 31, 2015)	**FY2015** (as of March 31, 2016)
LIABILITIES		
Current liabilities:		
Accounts payable—trade	3,465	3,288
Short-term loans payable	1,179	1,179
Accrued expenses	593	811
Income taxes payable	880	779
Accrued consumption taxes	621	507
Provision for bonuses	568	559
Provision for directors' bonuses	53	60
Provision for loss on construction contracts	662	415
Asset retirement obligations	–	5
Other	714	1,300
Total current liabilities	8,739	8,906
Noncurrent liabilities:		
Deferred tax liabilities	2	–
Net defined benefit liability	3,957	3,953
Provision for directors' retirement benefits	140	144
Other	15	–
Total noncurrent liabilities	4,116	4,097
Total liabilities	12,855	13,004
NET ASSETS		
Shareholders' equity		
Capital stock	1,000	1,000
Capital surplus	4,468	4,524
Retained earnings	15,288	14,790
Treasury stock	(2,727)	(2,628)
Total shareholders' equity	18,030	17,686
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	594	992
Foreign currency translation adjustments	585	457
Remeasurements of defined benefit plans	(375)	(347)
Total accumulated other comprehensive income	804	1,102
Subscription rights to shares	25	30
Total net assets	18,859	18,819
Total liabilities and net assets	31,714	31,823

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(Millions of Yen)

	FY2014 (April 1, 2014- March 31, 2015)	**FY2015** (April 1, 2015- March 31, 2016)
Net sales	36,535	39,155
Cost of sales	29,850	31,638
Gross profit	6,685	7,517
Selling, general and administrative expenses	3,637	3,780
Operating income	3,047	3,736
Non-operating income		
Interest received	202	205
Dividends received	31	34
Foreign exchange gains	357	–
Guarantee commission received	119	7
Other	100	121
Total non-operating income	812	370
Non-operating expenses		
Interest expenses	25	29
Foreign exchange losses	–	208
Stock transfer agency service fee	21	16
Other	0	1
Total non-operating expenses	46	256
Ordinary profit	3,813	3,850
Extraordinary income		
Gain on sales of investment securities	19	20
Gain on reversal of subscription rights to shares	21	0
Other	2	1
Total extraordinary income	43	23
Extraordinary loss		
Loss on retirement of noncurrent assets	14	42
Loss on valuation of investment securities	825	657
Provision of allowance for doubtful accounts	–	1,271
Other	34	2
Total extraordinary loss	874	1,973
Income before income taxes and minority interests	2,981	1,899
Income taxes-current	1,475	1,290
Income taxes-deferred	(132)	145
Total income taxes	1,343	1,436
Net income	1,638	463
Profit attributable to owners of the parent	1,638	463

(Consolidated Statements of Comprehensive Income)

(Millions of Yen)

	FY2014 (April 1, 2014- March 31, 2015)	**FY2015** (April 1, 2015- March 31, 2016)
Net income	1,638	436
Other comprehensive income		
Valuation difference on available-for-sale securities	356	397
Foreign currency translation adjustments	355	(127)
Remeasurements of defined benefit plans, net of tax	23	28
Total other comprehensive income	735	298
Comprehensive income	2,373	761
(breakdown)		
Comprehensive income attributable to parent company shareholders	2,373	761
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated Statements of Changes in Net Assets

FY2014 (April 1, 2014-March 31, 2015)

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	1,000	4,475	14,332	(2,826)	16,982
Changes of items during the period					
Dividends from surplus			(682)		(682)
Profit attributable to owners of the parent			1,638		1,638
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		(7)		99	92
Net change of items other than shareholders' equity					
Total change during the period	–	(7)	956	99	1,048
Balance at the end of current period	1,000	4,468	15,288	(2,727)	18,030

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehen-sive income		
Balance at beginning of period	238	229	(399)	68	32	17,083
Changes of items during the period						
Dividends from surplus						(682)
Profit attributable to owners of the parent						1,638
Purchase of treasury stock						(0)
Disposal of treasury stock						92
Net change of items other than shareholders' equity	356	355	23	735	(7)	728
Total change during the period	356	355	23	735	(7)	1,776
Balance at the end of current period	594	585	(375)	804	25	18,859

FY2015 (April 1, 2015-March 31, 2016)

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	1,000	4,468	15,288	(2,727)	18,030
Changes of items during the period					
Dividends from surplus			(759)		(759)
Profit attributable to owners of the parent			463		463
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		56		98	155
Change of scope of consolidation			(202)		(202)
Net change of items other than shareholders' equity					
Total change during the period		56	(498)	98	(343)
Balance at the end of current period	1,000	4,524	14,790	(2,628)	17,686

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehen-sive income		
Balance at beginning of period	594	585	(375)	804	25	18,859
Changes of items during the period						
Dividends from surplus						(759)
Profit attributable to owners of the parent						463
Purchase of treasury stock						(0)
Disposal of treasury stock						155
Change of scope of consolidation						(202)
Net change of items other than shareholders' equity	397	(127)	28	298	5	303
Total change during the period	397	(127)	28	298	5	(40)
Balance at the end of current period	992	457	(347)	1,102	30	18,819

(4) Consolidated Statements of Cash Flows

(Millions of Yen)

	FY2014 (April 1, 2014- March 31, 2015	**FY2015** (April 1, 2015- March 31, 2016
Net cash provided by (used in) operating activities:		
Income before income taxes and minority interests	2,981	1,899
Depreciation and amortization	389	388
Amortization of goodwill	–	27
Increase (decrease) in net defined benefit liability	31	(4)
Increase (decrease) in provision for directors' retirement benefits	(21)	3
Increase (decrease) in provision for bonuses	17	(8)
Increase (decrease) in provision for directors' bonuses	3	7
Increase (decrease) in allowance for doubtful accounts	(0)	1,261
Increase (decrease) in allowance for investment loss	(0)	(102)
Interest and dividend income	(234)	(240)
Interest expenses	25	29
Loss (gain) on valuation of investment securities	825	656
Loss (gain) on sales of investment securities	(19)	(20)
Loss on retirement of noncurrent assets	14	42
Decrease (increase) in notes and accounts receivable—trade	715	(678)
Decrease (increase) in inventories	(729)	322
Increase (decrease) in notes and accounts payable—trade	204	(159)
Increase (decrease) in other liabilities	(175)	873
Increase (decrease) in accrued consumption taxes	365	(113)
Other, net	(113)	440
Subtotal	4,279	4,626
Interest and dividends income received	161	171
Interest expenses paid	(24)	(29)
Income taxes paid	(1,125)	(1,274)
Net cash provided by operating activities	3,290	3,493
Net cash provided by (used in) investing activities:		
Purchase of short-term investment securities	(300)	–
Proceeds from sales of short-term investment securities	–	300
Purchase of property, plant and equipment	(62)	(27)
Proceeds from sale of property, plant and equipment	0	0
Purchase of intangible assets	(141)	(800)
Purchase of investment securities	(940)	(1,423)
Proceeds from sales of investment securities	255	164
Purchase of stocks of subsidiaries and affiliates	–	(383)
Payments of loans receivable	(898)	(597)
Collection of loans receivable	443	72
Payments into time deposits	(100)	(100)
Payments for guarantee deposits	(3)	(10)
Proceeds from collection of guarantee deposited	57	1

Other, net	63	(5)
Net cash used in investing activities	(1,626)	(2,809)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(30)	–
Repayments of long-term loans payable	(300)	–
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(682)	(759)
Proceeds from exercise of stock option	80	143
Other	(0)	(0)
Net cash used in financing activities	(932)	(616)
Effect of exchange rate changes on cash and cash equivalents	151	(58)
Net increase (decrease) in cash and cash equivalents	883	8
Cash and cash equivalents at beginning of period	7,909	8,792
Change of scope of net increase (decrease) in cash and cash equivalents	–	31
Cash and cash equivalents at the end of period	8,792	8,833

(Change in accounting policies)

(Adoption of Accounting Standard for Business Combinations, etc.)

Effective from the fiscal year ended March 31, 2016, the Company adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013; hereinafter, "Business Combinations Accounting Standard"), Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; hereinafter, "Consolidated Financial Statements Accounting Standard"), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; hereinafter, "Business Divestitures Accounting Standard"). Under this new application of these standards, differences caused by changes in the Company's equity shares in subsidiaries for which it has continued controlling interests will be adjusted as capital surplus, and acquisition-related expenses shall be recorded as expenses in the fiscal year in which the costs are incurred. Regarding business combinations implemented on or after the beginning of the fiscal year ended March 31, 2016, the Company changed to a method to reflect the revision in the allocation of acquisition costs arising from confirmation of the provisional accounting treatment on the consolidated financial statements of the fiscal year that includes the date of the business combination. Additionally, the Company changed net income to profit attributable to owners of the parent and also changed minority shareholders to non-controlling interests. To reflect these changes, the Company has reclassified its consolidated financial statements for the previous fiscal year.

The Company has adopted and will continue to apply these standards in the future from the beginning of the fiscal year ended March 31, 2016 in accordance with the transitional treatments stipulated in the provisions of Article 58-2 (4) of Accounting Standard for Business Combinations, Article 44-5 (4) of Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of Accounting Standard for Business Divestitures. The adoptions of these standards had no material impact on the Company's consolidated financial statements in the year ended March 31, 2016.

(Change in presentation method)

(Consolidated balance sheets)

Because of increased monetary importance, Accounts receivable-other, which was included within Other in Current assets in the previous fiscal year, is listed independently from the current fiscal year. To reflect this change in presentation method, the Company has reclassified the consolidated financial statements for the previous fiscal year.

As a result, ¥977 million expressed as Other under Current assets in the previous fiscal year has been reclassified as Accounts receivable-other of ¥175 million and Other of ¥801 million.

Segment Information and Others

Segment Information

1. Summary of Reporting Segments

The SRA Holdings Group's reporting segments are those for which financial information separate from that of other units comprising the SRA Holdings Group can be obtained. Periodic reviews are made of reporting segments by the Board of Directors for determining the allocation of management resources and assessment of business results.

The Company carries out overall management of subsidiaries engaged in the three businesses of "Systems Development," "System Operations and Infrastructure Development" and "Product Sales." Therefore, the SRA Holdings Group's three reporting segments are "Systems Development," "System Operations and Infrastructure Development" and "Product Sales."

Principal contents of business in each segment

Business segment	Content of business
Systems Development	● Integrated system development ranging from defining requirements to development and maintenance of mainframe-based large systems ● System integration covering system planning, development and introduction of open systems ● Solutions business offering business tools that utilize various products and tools ● Open source business that offers technical support for systems through open source software
System Operations and Infrastructure Development	● Operation management of computer systems and network systems ● Overall operation that includes data management and facilities management ● Building of network systems ● Outsourcing services
Product Sales	● Sales of packaged software that includes licensing ● Sales of system devices, centering on servers, in integration services ● Consulting services related to the introduction of IT

2. Accounting Treatment Method of Net Sales and Income or Losses, Assets, Liabilities and Others for Each Reporting Segment

The accounting treatment method for the reporting business segments is the same as that described in Principal Items that Serve as the Basis for Preparing the Consolidated Financial Statements.

Inventories are valued at an amount prior to the writing down of carrying value.

The figures for segment profits are on the basis of operating income.

Intersegment sales or transfers are based on current market prices.

3. Information Concerning Net Sales and Income or Losses, Assets, Liabilities and Others for Each Reporting Segment

Fiscal 2014 (from April 1, 2014 to March 31, 2015)

(Millions of Yen)

	Systems Development	System Operations and Infrastructure Development	Product Sales	Total	Adjustment amount*1	Amount recorded on the consolidated statements of income *2
Sales (1) Sales to customers	19,288	3,894	13,353	36,535	—	36,535
(2) Intersegment sales or transfers	31	264	554	851	(851)	—
Total sales	19,319	4,159	13,908	37,386	(851)	36,535
Operating income	2,306	925	1,066	4,298	(1,250)	3,047
Assets	8,516	1,382	4,622	14,521	17,193	31,714
Others Depreciation	121	12	251	386	3	389
Increase of tangible and intangible assets	69	15	126	212	2	214

Notes:

1. The adjustment amounts are as follows:

(1) The segment income adjustment of minus ¥1,250 million is a company-wide expense not apportioned to any reporting segment. Company-wide expenses are general and administrative expenses and R&D expenses not attributed to any reporting segment.

(2) Total Company assets amounted to ¥17,523 million for the fiscal year. These consisted mainly of the SRA Holdings Group's surplus operating assets (cash, deposits and marketable securities), short-term loans receivable, long-term invested assets (investment securities and long-term loans receivable) and deferred tax assets.

(3) Depreciation expenses and increases of tangible and intangible assets included depreciation and additions to long-term prepaid expenses, respectively.

2. Segment operating income is adjusted in operating income on the consolidated statements of income.

Fiscal 2015 (from April 1, 2015 to March 31, 2016)

(Millions of Yen)

	Systems Development	System Operations and Infrastructure Development	Product Sales	Total	Adjustment amount*1	Amount recorded on the consolidated statements of income *2
Sales						
(1) Sales to customers	20,901	3,978	14,275	39,155	—	39,155
(2) Intersegment sales or transfers	37	292	328	658	(658)	—
Total sales	20,939	4,270	14,604	39,813	(658)	39,155
Operating income	2,838	947	1,113	4,900	(1,163)	3,736
Assets	8,813	1,330	5,809	15,953	15,870	31,823
Others						
Depreciation	59	8	312	380	3	384
Amortization of goodwill	—	—	27	27	—	27
Increase of tangible and intangible assets	26	3	796	826	—	826

Notes:

1. The adjustment amounts are as follows:

(1) The segment income adjustment of minus ¥1,163 million is a company-wide expense not apportioned to any reporting segment. Company-wide expenses are general and administrative expenses and R&D expenses not attributed to any reporting segment.

(2) Total Company assets amounted to ¥16,235 million for the fiscal year. These consisted mainly of the SRA Holdings Group’s surplus operating assets (cash, deposits and marketable securities), short-term loans receivable, long-term invested assets (investment securities and long-term loans receivable) and deferred tax assets.

(3) Depreciation expenses and increases of tangible and intangible assets included depreciation and additions to long-term prepaid expenses, respectively.

2. Segment operating income is adjusted in operating income on the consolidated statements of income.

(Significant Subsequent Events)

The Board of Directors of Company subsidiary Software Research Associates, Inc. (hereafter SRA) convened on April 14, 2016 and resolved to conclude contracts for business and capital alliances with Tagit Pte. Ltd. (headquarters: Singapore; CEO: Sandeep Bagaria; hereafter Tagit).

1. Purpose and overview of business alliance

With a view toward FinTech[*1], SRA will collaborate with Tagit, which has an abundance of achievements in financial fields in the Asia region, and will develop “Own IP products” that utilize SRA’s strengths, namely its specialized knowledge and know-how in financial fields. The companies will offer products and services targeting Japan-affiliated and local major banks in the Asia region (Singapore, Malaysia, India, etc.), which is a growing market. By providing associated maintenance services as well, the companies will also strive to link this business to “recurring revenue–based operations” that provides stable and long-term profits. In the next stage, plans also call for expanding business into fields such as wealth management[*2] and to develop business in promising non-financial fields (healthcare, etc.).

*1. FinTEch: FinTech is a portmanteau word combining the words finance and technology and is a new financial-related service that utilizes IT.

*2. Wealth Management: Comprehensive financial services targeting the affluent class.

2. Purpose and details of capital alliance

Under the capital alliance, the Company provided a loan (with share conversion rights) as detailed below through SRA IP Solutions (Asia Pacific) Pte. Ltd. (headquarters: Singapore), an SRA Holdings Group company, for the purposes of raising the effectiveness of the business alliance between both companies and further building close cooperative relations and a relationship of trust.

3. Schedule for the business alliance and capital alliance

April 14, 2016: SRA Board of Directors resolution

April 14, 2016: “Business alliance contract” and “loans with conversion rights contract” concluded

April 15, 2016: Loan executed (S$6 million)

(Additional information)

(Lawsuits)

1. Regarding the filing of a lawsuit for contract payment and damages

(1) Cause and course of events leading to the lawsuit

Company subsidiary Software Research Associates, Inc. (hereafter SRA) carried out work based on multiple contracts concerning the "Building of a Next-Term Core System" that were concluded with Sanko Estate Co., Ltd. (hereafter Sanko Estate). However, on April 11, 2014 Sanko Estate notified SRA that it was cancelling the above-mentioned contracts on the grounds of a debt default. SRA explained it had not defaulted on debt. However, Sanko Estate refused receipt of cooperative development work and deliverables and refused SRA's request for payment. With no expectations for any progress in this situation at this rate and based on the belief that entrusting the judicial system to make a decision was appropriate, a resolution was passed at the SRA Board of Directors, and on August 25, 2015 SRA filed a lawsuit for contract payment and damages.

(2) Point of lawsuit and claimed amount

1) Court where lawsuit filed and date

Tokyo District Court on August 25, 2015

2) Party against which lawsuit was filed (defendant)

Name Sanko Estate Co. Ltd.

Address: Sanwa Building 6-1-4 chome, Ginza, Chuo-ku, Tokyo

Representative: Mitsuhiro Taneda, President

3) Details of pertinent lawsuit

Claim for contract payment and damages (total amount of claim: ¥499,186,500) concerning "Building of a Next-Term Core System" for Sanko Estate as well as a claim for delinquent damage charges based on the commercial statutory rate of interest for the amount of the claim.

(3) Regarding the filing of a lawsuit by Sanko Estate against the previously mentioned filing of a lawsuit for contract payment and damage claims

1) Court where lawsuit filed and date

Tokyo District Court on October 6, 2015

2) Details of lawsuit and amount of claim

Sanko Estate filed a claim (total amount of claim: ¥440,826,028) on the grounds of debt default on the commissioned contract for Sanko Estate's "Building of a Next-Term Core System" as well as a claim for delinquent damage charges based on the commercial statutory rate of interest for the amount of the claim.

(4) Future outlook

The Company recognizes that there is no basis for the claim by Sanko Estate and in this litigation will take a firm stance in asserting its rightfulness. At the present time, this lawsuit will have no material impact on the Company's consolidated business results for the fiscal year ended March 31, 2016. In accordance with the progress of these lawsuits, we will promptly provide information on any matters requiring disclosure.

2. Regarding the filing of a damage lawsuit

SRA, a Company subsidiary, filed a damage lawsuit against Happinet Corporation (hereafter Happinet) on March 31, 2011. In response, Happinet filed a lawsuit against SRA in the Tokyo District Court on April 6, 2011. These cases are currently being litigated. In accordance with the progress of the lawsuits, we will promptly provide information on any matters requiring disclosure.

5. Other Information

1. Status of Production, Orders and Sales

(1) Production amounts

Production by segment in the fiscal year ended March 31, 2016 is as follows.

Segment information by type of business	Consolidated cumulative total for fiscal 2015 (from April 1, 2015 to March 31, 2016)	% change YoY
Systems Development (Millions of Yen)	23,734	123.0
System Operations and Infrastructure Development (Millions of Yen)	3,961	101.3
Total (Millions of Yen)	27,696	119.3

Notes:

1. Amounts are based on sales price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.

(2) Purchase amounts

Purchases by segment in the fiscal year ended March 31, 2016 are as follows.

Segment information by type of business	Consolidated cumulative total for fiscal 2015 (from April 1, 2015 to March 31, 2016)	% change YoY
Product Sales (Millions of Yen)	8,239	92.7
Total (Millions of Yen)	8,239	92.7

Notes:

1. Amounts are based on purchase price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.

(3) Status of orders

Status of orders by segment in the fiscal year ended March 31, 2016 is as follows.

Segment information by type of business	Orders received (Millions of Yen)	% change YoY	Order backlog (Millions of Yen)	% change YoY
Systems Development	21,063	109.2	4,575	103.7
System Operations and Infrastructure Development	3,991	102.9	1,621	100.8
Product Sales	13,041	86.9	3,147	71.8
Total	38,097	99.8	9,344	89.8

Notes:

1. Amounts are based on sales price.

2. The amounts above do not include consumption tax.

3. Intersegment transactions are offset.

(4) Sales amounts

Sales by segment in the fiscal year ended March 31, 2016 are as follows.

Segment information by type of business	Consolidated cumulative total for fiscal 2016 (from April 1, 2015 to March 31, 2016)	% change YoY
Systems Development (Millions of Yen)	20,901	108.4
System Operations and Infrastructure Development (Millions of Yen)	3,978	102.2
Product Sales (Millions of Yen)	14,275	106.9
Total (Millions of Yen)	39,155	107.2

Notes:

1. Amounts are based on sales price.

2. The amounts above do not include consumption tax.

3. Intersegment transactions are offset.