

Summary of Consolidated Financial Results for the First Quarter of the Year Ending March 31, 2017

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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Scheduled date of submission of quarterly securities report:	August 5, 2016
Scheduled commencement of dividend payment:	—
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	No

1. Consolidated results for the first quarter of the fiscal year ending March 2017 (from April 1, 2016 to June 30, 2016)

(1) Consolidated Operating Results (cumulative total)

(All amounts rounded down, % change YoY)

	Net Sales		Operating Income		Ordinary Profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of fiscal 2016	9,325	7.9	801	46.0	531	(23.1)	328	(19.1)
First quarter of fiscal 2015	8,641	9.3	549	25.8	691	39.1	406	—

Note : Comprehensive Income

First quarter of fiscal 2016 ¥(488) million(-%)
First quarter of fiscal 2015 ¥443 million(-%)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
First quarter of fiscal 2016	27.09	26.96
First quarter of fiscal 2015	33.74	33.68

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
First quarter of fiscal 2016	30,492	17,793	58.2
Fiscal 2015	31,823	18,819	59.0

Reference: Shareholders' equity

First quarter of fiscal 2016: ¥17,759 million
Fiscal 2015 : ¥18,789million

2. Dividends

	Dividend per Share				
	End of First Quarter	End of Second Quarter	End of Third Quarter	Year-end	For the Year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2015	—	25.00	—	45.00	70.00
Fiscal 2016	—				
Fiscal 2016(forecast)		30.00	—	55.00	85.00

Note: Revision of dividend forecast in this quarter: No

3. Consolidated Earnings Forecast for Fiscal 2016 (from April 1, 2016 to March 31, 2017)

(% of change from FY2016 First Half or FY2016)

	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
FY2016 First Half (for the six months ending September 30, 2016)	18,320	1.5	1,742	13.2	1,834	9.8	1,186	22.8	7.79
FY2016	40,000	2.2	3,940	5.4	4,125	7.1	2,667	475.2	219.91

Note: Revision of consolidated results forecast in this quarter: No

4. Others

(1) Changes to significant subsidiaries during the current period : No

(2) Application of simplified accounting and application of special accounting : No

(3) Changes in accounting principles and procedures, presentation, etc.

1. Changes caused by revision of accounting standards, etc. : Yes

2. Changes other than 1. above: No

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding (including treasury stock)

First quarter of fiscal 2016: 15,240,000 shares

Fiscal 2015: 15,240,000 shares

2. Number of treasury stock

First quarter of fiscal 2016: 3,110,555 shares

Fiscal 2015: 3,113,555 shares

3. Average number of shares over period (consolidated total for quarter)

First quarter of fiscal 2016: 12,127,654 shares

First quarter of fiscal 2015: 12,034,555 shares

*Indication of quarterly review procedure implementation status

This earnings release is not subject to the quarterly review process as required by the Financial Instruments and Exchange Act of Japan. As of the date when this earnings release was issued, the review process on quarterly financial statements as required by the Financial Instruments and Exchange Act had been finished.

*Explanation relating to the appropriate use of results forecasts, and other noteworthy items

Forward-looking statements in this earnings release, such as forecasts of results of operations, are based on the information currently available and the certain assumptions that we regard as reasonable and therefore actual results may differ materially from those contained in or suggested by any forward-looking statements.

1. Qualitative Information Concerning First-Quarter Consolidated Business Results

(1) Explanation Concerning Business Results

During the first quarter of the fiscal year (April 1, 2016 to June 30, 2016), the Japanese economy continued a moderate recovery, as personal consumption remained generally unchanged, corporate earnings trended at a high level although improvements stagnated, and capital investment picked up.

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 are working 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.

- Improve SG&A expenses-to-sales ratio

We will strive 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.

- Expand orders and sales

A priority measure will be to increase customer share of wallet by deeply cultivating existing customers, and in doing so, we will work to expand orders and sales.

2) Transforming the SRA business model

- We aim to target higher added value in existing operations through the utilization of proprietary IP products that offer high gross profit margins (expansion of recurring revenue-based operations, etc.).

- Software Research Associates, Inc. (SRA) will leverage its high technological capabilities and solid track record in manufacturing/embedding development, cloud computing and open source software and will combine these areas to promote new business in the Internet of Things (IoT) field beginning with in-vehicle software.

3) Strengthening linkages between SRA's proprietary IP product business and overseas operations

- We raised SRA's gross profit margin sharply by promoting 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 developing the Qt business leveraging its technological capabilities and track record in the field of 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 for strengthening links between 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/20150624.pdf> (Japanese only).

Due to the above initiatives, our consolidated business results for the first quarter of 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 ¥9,325 million, a 7.9% increase from the same period of 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, operating income rose 46.0% from the same period of the previous fiscal year to ¥801 million. However, due to foreign exchange losses of ¥306 million, ordinary profit decreased 23.1% from the same period of the previous fiscal year to ¥531 million and profit attributable to owners of the parent amounted to ¥328 million, a 19.1% decrease from the same period of the previous fiscal year.

Consolidated results for the first quarter moved virtually in line with our forecast. Regarding consolidated results for the first quarter, net sales, operating income and the operating income margin reached all-time highs.

A summary of consolidated business results for the first quarter by business segment is shown below.

1) Systems Development

The Systems Development business recorded increases in sales to manufacturing industries and banks. As a result, net sales increased 10.1% from the previous fiscal year to ¥4,645 million.

2) System Operations and Infrastructure Development

Although university-related orders declined, there was an increase in orders from companies. As a result, net sales of the System Operations and Infrastructure Development business increased 2.0% from the previous fiscal year to ¥983 million.

3) Product Sales

Although sales by SRA declined, Advanced Integration Technology, Inc. posted a sharp increase in device sales. As a result, net sales of the Product Sales business rose 6.9% from the previous fiscal year to ¥3,697 million.

(2) Explanation Concerning Financial Condition

Total assets at the end of the first quarter amounted to ¥30,492 million, a decrease of 4.2% from the end of the previous fiscal year. Total liabilities decreased 2.3% from the end of the previous fiscal year to ¥12,698 million and

net assets decreased 5.5% to ¥17,793 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)

Work in process increased ¥352 million to ¥1,740 million due to such factors as a rise in contracted development projects and long-term loans receivable increased ¥329 million to ¥2,267 million. On the other hand, notes and accounts receivable—trade decreased ¥1,428 million to ¥5,455 million due to the collection of trade receivables. Investment securities decreased ¥1,166 million to ¥4,579 million due to such factors as changes in market value.

(Total Liabilities)

Provision for bonuses increased ¥342 million to ¥902 million. On the other hand, income taxes payable decreased ¥515 million to ¥264 million due to the payment of income taxes and accrued consumption taxes decreased ¥232 million to ¥274 million due to the payment of consumption taxes.

(Total Net Assets)

Valuation difference on available-for-sale securities decreased ¥751 million to ¥240 million due to changes in the market prices of marketable and investment securities. Retained earnings decreased ¥217 million to ¥14,573 million due to such factors as the payment of dividends.

(3) Explanation Concerning Consolidated Results Forecast and Other Future Projections

No revision has been made to forecasts in Summary of Consolidated Financial Results for the Year Ending March 31, 2017 released on May 16, 2016.

2. Summary Information (Notes)

- (1) Significant changes involving subsidiaries during the period: None
- (2) Application of simplified accounting methods and accounting methods specific to the preparation of the quarterly consolidated financial statements: None
- (3) Changes in accounting principles, changes in accounting estimates and restatements

Change in accounting policy

(Application of Practical Solution for a Change in Depreciation Method Due to Tax Reform 2016)

Effective beginning in the first quarter of the fiscal year ending March 31, 2017, SRA has adopted the “Practical Solution for a Change in Depreciation Method Due to Tax Reform 2016 (PITF No. 32 of June 17, 2016)” accompanying the revision of the Corporation Tax Act. Accordingly, the Company changed its depreciation method for structures and facilities attached to buildings acquired on and after April 1, 2016 from the declining-balance method to the straight-line method. The impact of this change on first quarter consolidated financial results is minimal.

- (4) Additional information

(Adoption of Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 of March 28, 2016).”

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY2015 (as of March 31, 2016)	FY2016 (as of June 30, 2016)
ASSETS		
Current assets:		
Cash and deposits	8,813	9,717
Notes and accounts receivable—trade	6,884	5,455
Short-term investment securities	509	3
Merchandise and finished goods	751	457
Work in process	1,387	1,740
Short-term loans receivable	139	116
Accounts receivable—other	2,641	2,573
Deferred tax assets	569	636
Other	528	541
Allowance for doubtful accounts	(19)	(16)
Total current assets	22,204	21,225
Noncurrent assets:		
Property, plant and equipment		
Buildings	334	330
Accumulated depreciation	(251)	(246)
Buildings, net	82	83
Machinery, equipment and vehicles	555	557
Accumulated depreciation	(509)	(510)
Machinery, equipment and vehicles, net	46	47
Other	114	115
Accumulated depreciation	(83)	(78)
Other, net	31	37
Total property, plant and equipment	160	167
Intangible assets		
Goodwill	55	44
Other	1,061	1,149
Total intangible assets	1,117	1,194
Investments and other assets		
Investment securities	5,746	4,579
Long-term loans receivable	1,937	2,267
Deferred tax assets	1,005	1,337
Guarantee deposits	338	327
Net defined benefit asset	46	46
Other	565	531
Allowance for doubtful accounts	(1,282)	(1,171)
Allowance for investment loss	(16)	(15)

Total investments and other assets	8,341	7,904
Total noncurrent assets	9,619	9,266
Total assets	31,823	30,492

(Millions of Yen)

	FY2015 (as of March 31, 2016)	FY2016 (as of June 30, 2016)
LIABILITIES		
Current liabilities:		
Accounts payable—trade	3,288	3,303
Short-term loans payable	1,179	1,179
Accrued expenses	811	720
Income taxes payable	779	264
Accrued consumption taxes	507	274
Provision for bonuses	559	902
Provision for directors' bonuses	60	41
Provision for loss on construction contracts	415	433
Asset retirement obligations	5	—
Other	1,300	1,417
Total current liabilities	8,906	8,537
Noncurrent liabilities:		
Net defined benefit liability	3,953	4,024
Provision for directors' retirement benefits	144	137
Total noncurrent liabilities	4,097	4,161
Total liabilities	13,004	12,698
NET ASSETS		
Shareholders' equity		
Capital stock	1,000	1,000
Capital surplus	4,524	4,526
Retained earnings	14,790	14,573
Treasury stock	(2,628)	(2,625)
Total shareholders' equity	17,686	17,474
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	992	240
Foreign currency translation adjustments	457	389
Remeasurements of defined benefit plans	(347)	(345)
Total accumulated other comprehensive income	1,102	285
Subscription rights to shares	30	33
Total net assets	18,819	17,793
Total liabilities and net assets	31,823	30,492

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 (Quarterly Consolidated Statements of Income)
 (Consolidated Cumulative Total for First Quarter)

(Millions of Yen)

	Consolidated cumulative total for first quarter of fiscal 2015 (from April 1, 2015 to June 30, 2015)	Consolidated cumulative total for first quarter of fiscal 2016 (from April 1, 2016 to June 30, 2016)
Net sales	8,641	9,325
Cost of sales	7,185	7,484
Gross profit	1,455	1,841
Selling, general and administrative expenses	906	1,039
Operating income	549	801
Non-operating income		
Interest received	59	28
Dividends received	18	12
Foreign exchange gains	52	–
Guarantee commission received	6	–
Other	14	18
Total non-operating income	152	59
Non-operating expenses		
Interest expenses	6	8
Foreign exchange losses	–	306
Stock transfer agency service fee	3	2
Other	0	12
Total non-operating expenses	10	330
Ordinary profit	691	531
Extraordinary income		
Gain on sales of investment securities	–	0
Gain on reversal of subscription rights to shares	–	0
Total extraordinary income		
Extraordinary loss		
Loss on retirement of noncurrent assets	–	0
Other	–	0
Total extraordinary loss	–	0
Income before income taxes	691	530
Income taxes-current	443	268
Income taxes-deferred	(158)	(66)
Total income taxes	285	202
Net income	406	328
Profit attributable to owners of the parent	406	328

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Cumulative Total for First Quarter)

(Millions of Yen)

	Consolidated cumulative total for first quarter of fiscal 2015 (from April 1, 2015 to June 30, 2015)	Consolidated cumulative total for first quarter of fiscal 2016 (from April 1, 2016 to June 30, 2016)
Net income	406	328
Other comprehensive income		
Valuation difference on available-for-sale securities	63	(751)
Foreign currency translation adjustments	(29)	(67)
Remeasurements of defined benefit plans, net of tax	2	2
Total other comprehensive income	37	(817)
Comprehensive income	443	(488)
(breakdown)		
Comprehensive income attributable to owners of the parent	443	(488)
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes Concerning Consolidated Financial Statements for the First Quarter

(Notes Concerning Premise of Going Concern)

None

(Notes on Significant Changes in Shareholders' Equity)

None

(Segment Information and others)

[Segment Information]

I. Consolidated cumulative total for first quarter of fiscal 2015 (from April 1, 2015 to June 30, 2015)

1. Information Concerning Net Sales and Income or Losses for each Reporting Segment

(Millions of Yen)

	Systems Development	System Operations and Infrastructure Development	Product Sales	Total	Adjustment amount* ¹	Amount recorded on the quarterly consolidated statements of income* ²
Sales						
(1) Sales to Customers	4,219	963	3,458	8,641	—	8,641
(2) Intersegment sales or transfers	2	65	83	151	(151)	—
Total sales	4,222	1,028	3,541	8,792	(151)	8,641
Segment income	331	213	303	848	(298)	549

Notes:

1. The segment income adjustment of minus ¥298 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. Segment income is adjusted in operating income on the quarterly consolidated statements of income.

2. Information concerning impairment loss on fixed assets or goodwill for each reporting segment

None

II. Consolidated cumulative total for first quarter of fiscal 2016 (from April 1, 2016 to June 30, 2016)

1. Information Concerning Net Sales and Income or Losses for each Reporting Segment

(Millions of Yen)

	Systems Development	System Operations and Infrastructure Development	Product Sales	Total	Adjustment amount* ¹	Amount recorded on the quarterly consolidated statements of income* ²
Sales						
(1) Sales to Customers	4,645	983	3,697	9,325	—	9,325
(2) Intersegment sales or transfers	1	56	81	139	(139)	—
Total sales	4,646	1,039	3,778	9,465	(139)	9,325
Segment income	656	217	315	1,189	(387)	801

Notes:

- The segment income adjustment of minus ¥387 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.
- Segment income is adjusted in operating income on the quarterly consolidated statements of income.

2. Information concerning impairment loss on fixed assets or goodwill for each reporting segment

None

(Significant subsequent events)

The Board of Directors of Company subsidiary Software Research Associates, Inc. (hereafter SRA) convened on July 28, 2016 and resolved to conclude contracts for business and capital alliances with Hackett Enterprises Limited (headquarters: Hong Kong; CEO: Ting Pang Wan Raymond; hereafter Hackett).

1. Purpose and overview of business alliance

Through the business alliance, SRA will utilize the SRA Group's strength, namely its specialized business knowledge and know-how in financial fields, to support Hackett's business promotion.

Meanwhile, Hackett will proactively introduce the SRA Group's products and services at companies under its corporate umbrella as well as provide support when expanding sales in Hong Kong, China (particularly in China's inland markets), and Taiwan.

2. Purpose and details of capital alliance

The capital alliance has two purposes: 1) raise the effectiveness of the business alliance between both companies and build even closer cooperative relations and a relationship of trust and 2) support Hackett's growth and make a net investment (stock acquisition) to obtain capital gains depending on the circumstances following Hackett's stock listing. SRA has invested ¥3.5 billion to acquire shares equivalent to 25% of Hackett's total outstanding shares from Insight Financial Group Limited, which is a major Hackett shareholder.

3. Schedule for the business alliance and capital alliance

July 28, 2016: SRA Board of Directors resolution

July 28, 2016: "Stock transfer contract" and "business alliance contract" concluded

4. Other Information

1. Status of Production, Orders and Sales

- Production amounts

Production by segment in the first quarter of the fiscal year ending March 31, 2017 is as follows.

Segment information by type of business	Consolidated cumulative total for first quarter of fiscal 2016 (from April 1, 2016 to June 30, 2016)	% change YoY
Systems Development (Millions of Yen)	4,930	103.5
System Operations and Infrastructure Development (Millions of Yen)	1,010	104.4
Total (Millions of Yen)	5,940	103.6

Notes:

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

- Purchase amounts

Purchases by segment in the first quarter of the fiscal year ending March 31, 2017 are as follows.

Segment information by type of business	Consolidated cumulative total for first quarter of fiscal 2016 (from April 1, 2016 to June 30, 2016)	% change YoY
Product Sales (Millions of Yen)	2,162	98.7
Total (Millions of Yen)	2,162	98.7

Notes:

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

● Status of orders

Status of orders by segment in the first quarter of the fiscal year ending March 31, 2017 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	4,951	98.1	4,881	93.1
System Operations and Infrastructure Development	671	106.0	1,310	102.5
Product Sales	3,831	113.1	3,282	76.1
Total	9,454	104.2	9,474	87.5

Notes:

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

● Sales amounts

Sales by segment in the first quarter of the fiscal year ending March 31, 2017 are as follows.

Segment information by type of business	Consolidated cumulative total for first quarter of fiscal 2016 (from April 1, 2016 to June 30, 2016)	% change YoY
Systems Development (Millions of Yen)	4,645	110.1
System Operations and Infrastructure Development (Millions of Yen)	983	102.0
Product Sales (Millions of Yen)	3,697	116.9
Total (Millions of Yen)	9,325	107.9

Notes:

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