

Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2018

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:	November 9, 2017
Scheduled commencement of dividend payment:	November 30, 2017
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	Yes

**1. Consolidated results for the Second quarter of the fiscal year ending March 2018
(from April 1, 2017 to September 30, 2017)****(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	%
Second quarter of fiscal 2018	20,002	6.1	1,768	(0.7)	1,736	17.7	1,154	23.6
Second quarter of fiscal 2017	18,850	4.4	1,781	15.8	1,476	(11.7)	933	(3.3)

Note : Comprehensive Income

Second quarter of fiscal 2018 ¥1,822million(-%)

Second quarter of fiscal 2017 ¥(93)million(-%)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
Second quarter of fiscal 2018	94.33	93.87
Second quarter of fiscal 2017	76.98	76.65

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
Second quarter of fiscal 2018	36,223	20,872	57.5
Fiscal 2017	34,781	19,674	56.5

Reference: Shareholders' equity

Second quarter of fiscal 2018 : ¥20,838million

Fiscal 2017 : ¥19,640million

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 2017	—	30.00	—	60.00	90.00
Fiscal 2018	—	40.00			
Fiscal 2018(forecast)			—	70.00	110.00

Note: Revision of dividend forecast in this quarter: No

60 yen of year-end dividend for FY 2017 includes 5 yen of special dividend,
and 70 yen of year-end dividend for FY 2018 includes 10 yen of memorial dividend for the 50th anniversary of business establishment.

3. Consolidated Earnings Forecast for Fiscal 2018(from April 1, 2017 to March 31, 2018)

(% of change from FY 2017)

	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
FY2018	40,500	3.5	4,155	(0.6)	4,155	(1.3)	2,611	(1.4)	213.36

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. : No

2. Changes other than 1. above: No

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding (including treasury stock)

Second quarter of fiscal 2018: 15,240,000 shares

Fiscal 2017: 15,240,000 shares

2. Number of treasury stock

Second quarter of fiscal 2018: 2,976,868 shares

Fiscal 2017: 3,036,175 shares

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

Second quarter of fiscal 2018: 12,237,255 shares

First quarter of fiscal 2017: 12,130,716 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 earning 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 Second-Quarter Consolidated Business Results

(1) Explanation Concerning Business Results

During the second quarter of the fiscal year (April 1, 2017 to September 30, 2017), the Japanese economy continued a moderate recovery due to an improvement in corporate earnings and a pickup in capital investment.

In the information services industry, despite an increase in IT investments, mainly in manufacturing industries, 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. Under this medium-term strategy, 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.

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 will work to promote a convergence between "SRA's proprietary IP product business and higher added value in existing operations." At the same time, we will strive to provide SRA's proprietary IP products and new services in such growth sectors as the Internet of Things (IoT), mobile computing, security, cloud computing, Big Data and social technology fields.

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

- We intend to expand and upgrade the line of SRA's proprietary IP products for growth fields as well as promote business that targets overseas markets, which are growth markets.

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

Sales of the Systems Development business, System Operations and Infrastructure Development business and Product Sales business all increased. Therefore, consolidated net sales amounted to ¥20,002 million, a 6.1% increase from the same period of the previous fiscal year.

At the profit level, although operating income declined 0.7% from the same period of the previous fiscal year to ¥1,768 million, ordinary profit increased 17.7% from the same period of the previous fiscal year to ¥1,736 million and profit attributable to owners of the parent increased 23.6% from the same period of the previous fiscal year to ¥1,154 million.

Regarding consolidated business results for the second quarter, net sales, operating income and profit attributable to owners of the parent exceeded our forecast and net sales, gross profit and ordinary profit reached all-time highs for the second quarter.

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

1) Systems Development

The Systems Development business recorded increases in sales to some manufacturing industries. As a result, net sales increased 6.4% from the previous fiscal year to ¥10,115 million.

2) System Operations and Infrastructure Development

Orders from companies increased sharply. As a result, net sales of the System Operations and Infrastructure Development business increased 11.8% from the previous fiscal year to ¥2,281 million.

3) Product Sales

Device sales by Advanced Integration Technology, Inc. increased. As a result, net sales of the Product Sales business rose 4.2% from the previous fiscal year to ¥7,605 million.

(2) Explanation Concerning Financial Condition

Total assets at the end of the second quarter amounted to ¥36,223 million, an increase of 4.1% from the end of the previous fiscal year. Total liabilities increased 1.6% from the end of the previous fiscal year to ¥15,351 million and net assets increased 6.1% to ¥20,872 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 ¥844 million to ¥8,574 million due to such factors as the purchase of shares of an

affiliated company. Work in process increased ¥584 million to ¥2,024 million due to such factors as a rise in contracted development projects. Long-term loans receivable increased ¥442 million to ¥3,391 million. On the other hand, notes and accounts receivable—trade decreased ¥637 million to ¥6,776 million due to the collection of trade receivables. Long-term deferred tax assets decreased ¥308 million to ¥1,105 million.

(Total Liabilities)

Accounts payable—trade increased ¥393 million to ¥3,635 million due to an increase in trade payables. Advances received increased ¥274 million to ¥2,943 million. On the other hand, income taxes payable decreased ¥378 million to ¥677 million owing to the payment of corporate income taxes.

(Total Net Assets)

Valuation difference on available-for-sale securities increased ¥714 million to ¥818 million due to changes in the market prices of marketable and investment securities. Retained earnings increased ¥422 million to ¥16,949 million. On the other hand, foreign currency translation adjustments decreased ¥50 million to ¥263 million due to fluctuations in exchange rates.

(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 11, 2017.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2017	As of September 30, 2017
ASSETS		
Current assets:		
Cash and deposits	6,794	7,110
Notes and accounts receivable—trade	7,414	6,776
Short-term investment securities	126	161
Merchandise and finished goods	609	536
Work in process	1,439	2,024
Short-term loans receivable	412	435
Accounts receivable—other	2,644	2,968
Deferred tax assets	646	638
Other	1,475	1,377
Allowance for doubtful accounts	(17)	(17)
Total current assets	21,545	22,011
Noncurrent assets:		
Property, plant and equipment		
Buildings	360	369
Accumulated depreciation	(253)	(260)
Buildings, net	106	108
Machinery, equipment and vehicles	510	519
Accumulated depreciation	(469)	(479)
Machinery, equipment and vehicles, net	41	40
Other	129	135
Accumulated depreciation	(82)	(85)
Other, net	46	49
Total property, plant and equipment	194	198
Intangible assets		
Goodwill	27	13
Other	1,265	1,311
Total intangible assets	1,293	1,325
Investments and other assets		
Investment securities	7,729	8,574
Long-term loans receivable	2,948	3,391
Deferred tax assets	1,413	1,105

Guarantee deposits	377	378
Net defined benefit asset	46	47
Other	559	559
Allowance for doubtful accounts	(1,308)	(1,347)
Allowance for investment loss	(19)	(19)
Total investments and other assets	11,747	12,688
Total noncurrent assets	13,235	14,212
Total assets	34,781	36,223

(Millions of Yen)

	As of March 31, 2017	As of September 30, 2017
LIABILITIES		
Current liabilities:		
Accounts payable—trade	3,242	3,635
Short-term loans payable	1,179	1,179
Accrued expenses	950	702
Income taxes payable	1,056	677
Accrued consumption taxes	467	341
Advances received	2,669	2,943
Provision for bonuses	598	655
Provision for directors' bonuses	97	89
Provision for loss on construction contracts	419	520
Other	167	261
Total current liabilities	10,849	11,007
Noncurrent liabilities:		
Deferred tax liabilities	5	11
Net defined benefit liability	4,097	4,166
Provision for directors' retirement benefits	154	166
Total noncurrent liabilities	4,257	4,344
Total liabilities	15,107	15,351
NET ASSETS		
Shareholders' equity		
Capital stock	1,000	1,000
Capital surplus	4,589	4,633
Retained earnings	16,527	16,949
Treasury stock	(2,545)	(2,481)
Total shareholders' equity	19,571	20,101
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	103	818
Foreign currency translation adjustments	313	263
Remeasurements of defined benefit plans	(349)	(344)
Total accumulated other comprehensive income	68	736
Subscription rights to shares	34	34
Total net assets	19,674	20,872
Total liabilities and net assets	34,781	36,223

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

(Quarterly Consolidated Statements of Income)

(Consolidated Cumulative Total for Second Quarter)

(Millions of Yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	18,850	20,002
Cost of sales	15,044	15,949
Gross profit	3,805	4,053
Selling, general and administrative expenses	2,024	2,285
Operating income	1,781	1,768
Non-operating income		
Interest received	47	36
Dividends received	15	42
Refunded consumption taxes	–	8
Foreign exchange gains	–	61
Other	36	18
Total non-operating income	98	168
Non-operating expenses		
Interest expenses	8	19
Foreign exchange losses	374	–
Stock transfer agency service fee	8	9
Equity in losses of affiliates	–	129
Other	12	42
Total non-operating expenses	403	200
Ordinary profit	1,476	1,736
Extraordinary income		
Gain on sales of investment securities	0	279
Other	–	1
Total extraordinary income	0	280
Extraordinary loss		
Loss on retirement of noncurrent assets	0	0
Loss on sales of investment securities	–	66
Loss on valuation of golf club membership	9	–
Other	0	0

Total extraordinary loss	10	67
Income before income taxes	1,465	1,949
Income taxes-current	499	792
Income taxes-deferred	32	2
Total income taxes	531	795
Net income	933	1,154
Profit (loss) attributable to non-controlling interests	–	(0)
Profit attributable to owners of the parent	933	1,154

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Total for Second Quarter)

(Millions of Yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net income	933	1,154
Other comprehensive income		
Valuation difference on available-for-sale securities	(751)	714
Foreign currency translation adjustments	(279)	(73)
Remeasurements of defined benefit plans, net of tax	4	4
Share of other comprehensive income of entities accounted for using the equity method	—	22
Total other comprehensive income	(1,027)	668
Comprehensive income	(93)	1,822
(breakdown)		
Comprehensive income attributable to owners of the parent	(93)	1,822
Comprehensive income attributable to non-controlling interests	—	(0)

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of Yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net cash provided by (used in) operating activities:		
Income before income taxes and minority interests	1,465	1,949
Depreciation and amortization	203	229
Amortization of goodwill	12	13
Increase (decrease) in net defined benefit liability	85	69
Increase (decrease) in provision for directors' retirement benefits	(0)	11
Increase (decrease) in provision for bonuses	93	56
Increase (decrease) in provision for directors' bonuses	25	(7)
Increase (decrease) in allowance for doubtful accounts	(2)	33
Increase (decrease) in allowance for investment loss	2	1
Interest and dividend income	(62)	(79)
Interest expenses	8	19
Loss (gain) on valuation of investment securities	–	66
Loss (gain) on sales of investment securities	(0)	(278)
Loss on retirement of noncurrent assets	0	0
Decrease (increase) in notes and accounts receivable—trade	789	630
Decrease (increase) in inventories	(348)	(510)
Increase (decrease) in notes and accounts payable—trade	214	394
Increase (decrease) in other liabilities	1,337	141
Increase (decrease) in accrued consumption taxes	(222)	(126)
Other, net	115	195
Subtotal	3,717	2,809
Interest and dividends income received	29	72
Interest expenses paid	(8)	(19)
Income taxes paid	(755)	(1,389)
Net cash provided by operating activities	2,982	1,472
Net cash provided by (used in) investing activities:		
Purchase of property, plant and equipment	(31)	(58)
Proceeds from sale of property, plant and equipment	0	–
Purchase of intangible assets	(89)	(209)
Purchase of investment securities	(93)	(767)

Proceeds from sales of investment securities	310	1,054
Purchase of stocks of subsidiaries and affiliates	(3,500)	–
Payments of loans receivable	(1,124)	(939)
Collection of loans receivable	348	517
Payments into time deposits	(80)	(150)
Payments for guarantee deposits	(0)	–
Proceeds from collection of guarantee deposited	1	0
Other, net	(0)	(0)
Net cash used in investing activities	(4,260)	(554)
Net cash provided by (used in) financing activities:		
Proceeds from stock issuance to non-controlling shareholders	2	0
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(545)	(732)
Proceeds from exercise of stock option	14	98
Net cash used in financing activities	(529)	(633)
Effect of exchange rate changes on cash and cash equivalents	(202)	(14)
Net increase (decrease) in cash and cash equivalents	(2,009)	270
Cash and cash equivalents at beginning of period	8,833	6,265
Cash and cash equivalents at the end of quarter	6,823	6,536

(4) Notes Concerning Consolidated Financial Statements for the Second 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 second quarter of the fiscal year ended March 31, 2017

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	9,506	2,041	7,302	18,850	—	18,850
(2) Intersegment sales or transfers	7	112	164	284	(284)	—
Total sales	9,514	2,153	7,476	19,134	(284)	18,850
Segment income	1,432	476	621	2,530	(749)	1,781

Notes:

- The segment income adjustment of minus ¥749 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

II. Consolidated cumulative total for second quarter of the fiscal year ending March 31, 2018

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	10,115	2,281	7,605	20,002	—	20,002
(2) Intersegment sales or transfers	17	102	198	318	(318)	—
Total sales	10,133	2,383	7,804	20,321	(318)	20,002
Segment income	1,585	569	475	2,630	(862)	1,768

Notes:

1. The segment income adjustment of minus ¥862 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

(Significant subsequent events)

Not applicable

3. Other Information

1. Status of Production, Orders and Sales

- Production amounts

Production by segment in the second quarter of the fiscal year ending March 31, 2018 is as follows.

Segment information by type of business	Six months ended September 30, 2017	% change YoY
Systems Development (Millions of Yen)	10,765	108.2
System Operations and Infrastructure Development (Millions of Yen)	2,318	113.2
Total (Millions of Yen)	13,083	109.1

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 second quarter of the fiscal year ending March 31, 2018 are as follows.

Segment information by type of business	Six months ended September 30, 2017	% change YoY
Product Sales (Millions of Yen)	4,613	101.2
Total (Millions of Yen)	4,613	101.2

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 second quarter of the fiscal year ending March 31, 2018 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	10,957	108.2	5,931	114.1
System Operations and Infrastructure Development	1,779	103.2	1,510	115.7
Product Sales	7,324	100.8	2,914	93.6
Total	20,060	104.9	10,356	107.7

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 second quarter of the fiscal year ending March 31, 2018 are as follows.

Segment information by type of business	Six months ended September 30, 2017	% change YoY
Systems Development (Millions of Yen)	10,115	106.4
System Operations and Infrastructure Development (Millions of Yen)	2,281	111.8
Product Sales (Millions of Yen)	7,605	104.2
Total (Millions of Yen)	20,002	106.1

Notes:

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