

Summary of Consolidated Financial Results for the Third 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
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Scheduled date of submission of quarterly securities report: February 9, 2018
Scheduled commencement of dividend payment: —
Quarterly Results Supplemental Materials: Yes
Quarterly Results Presentation Meeting: No

1. Consolidated results for the third quarter of the fiscal year ending March 2018 (from April 1, 2017 to December 31, 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	%
Third quarter of fiscal 2018	29,241	34	2,759	(2.2)	2,772	(10.6)	697	(64.6)
Third quarter of fiscal 2017	28,293	(0.9)	2,820	10.8	3,100	11.3	1,971	17.1

Note : Comprehensive Income

Third quarter of fiscal 2018 ¥ 1,340 million (66.3%)

Third quarter of fiscal 2017 ¥ 806 million ((54.1)%)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
Third quarter of fiscal 2018	56.96	56.65
Third quarter of fiscal 2017	162.53	161.78

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
Third quarter of fiscal 2018	35,765	19,940	55.6
Fiscal 2017	34,781	19,674	56.5

Reference: Shareholders' equity

Third quarter of fiscal 2018: ¥19,893 million

Fiscal 2017 : ¥19,640 million

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 FY2017)

	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)	1,779	(32.8)	145.26

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)
Third quarter of fiscal 2018: 15,240,000 shares
Fiscal 2017: 15,240,000 shares

2. Number of treasury stock
Third quarter of fiscal 2018: 2,962,297 shares
Fiscal 2017: 3,036,175 shares

3. Average number of shares over period (consolidated total for quarter)
Third quarter of fiscal 2018: 12,247,095 shares
Third quarter of fiscal 2017: 12,132,906 shares

*This earnings release is not subject to the quarterly review process as required by the Financial Instruments and Exchange Act of Japan.

*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 Third-Quarter Consolidated Business Results

(1) Explanation Concerning Business Results

During the third quarter of the fiscal year (April 1, 2017 to December 31, 2017), the Japanese economy continued a moderate recovery due to an improvement in corporate earnings and a slight increase 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 that covers the three-year period from fiscal 2015 through fiscal 2017 (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.

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 networking 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 third quarter of the fiscal year were as follows.

Despite a decrease in sales of the Product Sales business, sales of the Systems Development business and the System Operations and Infrastructure Development business increased. As a result, consolidated net sales amounted to ¥29,241 million, a 3.4% increase from the same period of the previous fiscal year.

At the profit level, due to an increase in sales administrative expenses, operating income decreased 2.2% from the same period of the previous fiscal year to ¥2,759 million and ordinary profit decreased 10.6% from the same

period of the previous fiscal year to ¥2,772 million. Profit attributable to owners of the parent decreased 64.6% from the same period of the previous fiscal year to ¥697 million due to the recording of an extraordinary loss that included a loss on litigation with Happinet Corporation.

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

1) Systems Development

The Systems Development business recorded increases in sales to some manufacturing industries and service industries. As a result, net sales increased 8.5% from the previous fiscal year to ¥15,502 million.

2) System Operations and Infrastructure Development

University-related orders and orders from companies both increased. As a result, net sales of the System Operations and Infrastructure Development business increased 8.8% from the previous fiscal year to ¥3,440 million.

3) Product Sales

Sales by SRA were level, but device sales by Advanced Integration Technology, Inc. decreased. As a result, net sales of the Product Sales business decreased 5.1% from the previous fiscal year to ¥10,298 million.

(2) Explanation Concerning Financial Condition

Total assets at the end of the third quarter amounted to ¥35,765 million, an increase of 2.8% from the end of the previous fiscal year. Total liabilities increased 4.8% from the end of the previous fiscal year to ¥15,825 million and net assets increased 1.4% to ¥19,940 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 ¥803 million to ¥8,533 million due to the purchase of shares. Work in process increased ¥674 million to ¥2,114 million due to such factors as a rise in contracted development projects. Short-term loans receivable increased ¥522 million to ¥935 million. On the other hand, notes and accounts receivable—trade decreased ¥1,074 million to ¥6,340 million due to the collection of trade receivables.

(Total Liabilities)

Provision for loss on litigation of ¥1,198 million was recorded. On the other hand, income taxes payable decreased ¥734 million to ¥322 million owing to the payment of corporate income taxes.

(Total Net Assets)

Valuation difference on available-for-sale securities increased ¥621 million to ¥725 million due to changes in the market prices of short-term investment securities and investment securities. On the other hand, retained earnings decreased ¥525 million to ¥16,002 million due to such factors as the payment of cash dividends.

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

No revision has been made to forecasts in the Announcement Regarding Extraordinary Loss and Revision of Consolidated Results Forecast for the Year Ending March 31, 2018 released on December 27, 2017.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2017	As of December 31, 2017
ASSETS		
Current assets:		
Cash and deposits	6,794	4,746
Notes and accounts receivable—trade	7,414	6,340
Short-term investment securities	126	129
Merchandise and finished goods	609	531
Work in process	1,439	2,114
Short-term loans receivable	412	935
Accounts receivable—other	2,644	2,897
Deferred tax assets	646	976
Other	1,475	2,755
Allowance for doubtful accounts	(17)	(37)
Total current assets	21,545	21,389
Noncurrent assets:		
Property, plant and equipment		
Buildings	360	372
Accumulated depreciation	(253)	(264)
Buildings, net	106	108
Machinery, equipment and vehicles	510	528
Accumulated depreciation	(469)	(487)
Machinery, equipment and vehicles, net	41	41
Other	129	136
Accumulated depreciation	(82)	(88)
Other, net	46	47
Total property, plant and equipment	194	197
Intangible assets		
Goodwill	27	6
Other	1,265	1,425
Total intangible assets	1,293	1,432
Investments and other assets		
Investment securities	7,729	8,533
Long-term loans receivable	2,948	3,361
Deferred tax assets	1,413	1,166
Guarantee deposits	377	379
Net defined benefit asset	46	48
Other	559	560
Allowance for doubtful accounts	(1,308)	(1,284)
Allowance for investment loss	(19)	(19)

Total investments and other assets	11,747	12,746
Total noncurrent assets	13,235	14,376
Total assets	34,781	35,765

(Millions of Yen)

	As of March 31, 2017	As of December 31, 2017
LIABILITIES		
Current liabilities:		
Accounts payable—trade	3,242	2,668
Short-term loans payable	1,179	1,179
Accrued expenses	950	852
Income taxes payable	1,056	322
Accrued consumption taxes	467	418
Advances received	2,669	2,933
Provision for bonuses	598	382
Provision for directors' bonuses	97	134
Provision for loss on construction contracts	419	871
Provision for loss on litigation	(-)	1,198
Other	167	451
Total current liabilities	10,849	11,411
Noncurrent liabilities:		
Deferred tax liabilities	5	16
Net defined benefit liability	4,097	4,224
Provision for directors' retirement benefits	154	172
Total noncurrent liabilities	4,257	4,413
Total liabilities	15,107	15,825
NET ASSETS		
Shareholders' equity		
Capital stock	1,000	1,000
Capital surplus	4,589	4,645
Retained earnings	16,527	16,002
Treasury stock	(2,545)	(2,465)
Total shareholders' equity	19,571	19,182
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	103	725
Foreign currency translation adjustments	313	328
Remeasurements of defined benefit plans	(349)	(342)
Total accumulated other comprehensive income	68	710
Subscription rights to shares	34	47
Total net assets	19,674	19,940
Total liabilities and net assets	34,781	35,765

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

(Millions of Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	28,293	29,241
Cost of sales	22,420	23,070
Gross profit	5,873	6,171
Selling, general and administrative expenses	3,053	3,411
Operating income	2,820	2,759
Non-operating income		
Interest received	61	61
Dividends received	26	63
Refunded consumption taxes	–	9
Foreign exchange gains	194	86
Other	45	31
Total non-operating income	329	252
Non-operating expenses		
Interest expenses	30	30
Stock transfer agency service fee	13	14
Equity in losses of affiliates	–	185
Other	5	9
Total non-operating expenses	48	239
Ordinary profit	3,100	2,772
Extraordinary income		
Gain on sales of investment securities	0	245
Reversal of loss on valuation of investment securities	3	2
Other	–	1
Total extraordinary income	3	248
Extraordinary loss		
Loss on retirement of noncurrent assets	1	0
Loss on valuation of golf club membership	9	–
Provision for allowance for investment loss	3	–
Loss on litigation	–	1,612
Other	0	18
Total extraordinary loss	14	1,631
Income before income taxes	3,089	1,389
Income taxes-current	1,043	1,044
Income taxes-deferred	73	(353)
Total income taxes	1,117	691
Net income	1,971	697
Profit (loss) attributable to non-controlling interests	–	(0)

Profit attributable to owners of the parent	1,971	697
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(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Total for Third Quarter)

(Millions of Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net income	1,971	697
Other comprehensive income		
Valuation difference on available-for-sale securities	(721)	621
Foreign currency translation adjustments	(450)	(33)
Remeasurements of defined benefit plans, net of tax	6	7
Share of other comprehensive income of entities accounted for using the equity method	–	48
Total other comprehensive income	(1,165)	642
Comprehensive income	806	1,340
(breakdown)		
Comprehensive income attributable to owners of the parent	806	1,340
Comprehensive income attributable to non-controlling interests	–	(0)

(3) Notes Concerning Consolidated Financial Statements for the Third 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 third 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	14,285	3,161	10,846	28,293	–	28,293
(2) Intersegment sales or transfers	11	164	265	440	(440)	–
Total sales	14,296	3,325	11,112	28,734	(440)	28,293
Segment income	2,193	745	953	3,892	(1,072)	2,820

Notes:

1. The segment income adjustment of minus ¥1,072 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 third 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	15,502	3,440	10,298	29,241	–	29,241
(2) Intersegment sales or transfers	17	151	285	454	(454)	–
Total sales	15,520	3,591	10,583	29,696	(454)	29,241
Segment income	2,406	860	668	3,934	(1,175)	2,759

Notes:

1. The segment income adjustment of minus ¥1,175 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 third quarter of the fiscal year ending March 31, 2018 is as follows.

Segment information by type of business	Nine months ended December 31, 2017	% change YoY
Systems Development (Millions of Yen)	16,241	108.7
System Operations and Infrastructure Development (Millions of Yen)	3,477	108.2
Total (Millions of Yen)	19,718	108.6

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

Segment information by type of business	Nine months ended December 31, 2017	% change YoY
Product Sales (Millions of Yen)	5,887	91.1
Total (Millions of Yen)	5,887	91.1

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 third 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	16,114	107.1	5,702	106.7
System Operations and Infrastructure Development	2,704	102.2	1,276	115.3
Product Sales	10,008	91.2	2,905	88.6
Total	28,827	100.5	9,884	101.6

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

Segment information by type of business	Nine months ended December 31, 2017	% change YoY
Systems Development (Millions of Yen)	15,502	108.5
System Operations and Infrastructure Development (Millions of Yen)	3,440	108.8
Product Sales (Millions of Yen)	10,298	94.9
Total (Millions of Yen)	29,241	103.4

Notes:

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