

## Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2019

<b>Company name:</b>	SRA Holdings, Inc. (URL: <a href="http://www.sra-hd.co.jp/">http://www.sra-hd.co.jp/</a> )
<b>Stock listing:</b>	Tokyo Stock Exchange
<b>Code number:</b>	3817
<b>President:</b>	Toru Kashima
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<b>Scheduled date of submission of quarterly securities report:</b>	November 9, 2018
<b>Scheduled commencement of dividend payment:</b>	November 29, 2018
<b>Quarterly Results Supplemental Materials</b>	Yes
<b>Quarterly Results Presentation Meeting</b>	Yes

### 1. Consolidated results for the Second quarter of the fiscal year ending March 2019 (from April 1, 2018 to September 30, 2018)

#### (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 2019	19,959	(0.2)	1,727	(2.3)	2,139	23.2	851	(26.2)
Second quarter of fiscal 2018	20,002	6.1	1,768	(0.7)	1,736	17.7	1,154	23.6

Note : Comprehensive Income

Second quarter of fiscal 2019 ¥525million((71.2)%)

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

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
Second quarter of fiscal 2019	69.09	-
Second quarter of fiscal 2018	94.33	93.87

#### (2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
Second quarter of fiscal 2019	36,216	21,112	58.3
Fiscal 2018	37,756	21,438	56.6

Reference: Shareholders' equity

Second quarter of fiscal 2019 : ¥21,106million

Fiscal 2018 : ¥21,379million

## 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 2018	—	40.00	—	70.00	110.00
Fiscal 2019	—	40.00			
Fiscal 2019(forecast)			—	65.00	105.00

Note: Revision of dividend forecast in this quarter: No

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 2019(from April 1, 2018 to March 31, 2019)

(% of change from FY 2018)

	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
FY2019	40,000	1.5	4,400	5.4	4,400	(7.6)	2,800	35.9	227.22

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 2019: 15,240,000 shares

Fiscal 2018: 15,240,000 shares

2. Number of treasury stock

Second quarter of fiscal 2019: 2,903,185 shares

Fiscal 2018: 2,935,755 shares

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

Second quarter of fiscal 2019: 12,322,872 shares

Second quarter of fiscal 2018: 12,237,255 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, 2018 to September 30, 2018), the Japanese economy continued a moderate recovery amid a gradual increase in capital investment and an improvement in corporate earnings.

In the information services industry, despite an increase in IT investments, mainly by large and medium-sized companies, the environment for securing orders remained severe due to intensifying competition.

Within this business environment, based on our Medium-Term Management Strategy, we will implement the following key measures 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

Priority measures will be to increase customer share of wallet by deeply cultivating existing customers as well as to focus on securing new customers in growth fields, 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 and System Operations and Infrastructure Development business increased but sales of the Product Sales business decreased. Therefore, consolidated net sales amounted to ¥19,959 million, a 0.2% decrease from the same period of the previous fiscal year.

At the profit level, despite an increase in gross profit resulting from measures to improve the profit margin, operating income decreased 2.3% from the same period of the previous fiscal year to ¥1,727 million due to an increase in selling, general and administrative expenses. Ordinary profit increased 23.2% from the same period of the previous fiscal year to ¥2,139 million due to the impact of foreign exchange rates and profit attributable to owners of the parent amounted to ¥851 million, a 26.2% decrease from the same period of the previous fiscal year, due to the recording of extraordinary losses.

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 manufacturing industries and the financial industry. As a result, net sales increased 5.3% from the previous fiscal year to ¥10,652 million.

### **2) System Operations and Infrastructure Development**

Orders from companies and university-related orders increased. As a result, net sales of the System Operations and Infrastructure Development business increased 3.3% from the previous fiscal year to ¥2,356 million.

### **3) Product Sales**

Advanced Integration Technology, Inc. and SRA recorded decreases in device sales. As a result, net sales of the Product Sales business decreased 8.6% from the same period in the previous fiscal year to ¥6,950 million.

## **(2) Explanation Concerning Financial Condition**

Total assets at the end of the second quarter amounted to ¥36,216 million, a decrease of 4.1% from the end of the previous fiscal year. Total liabilities decreased 7.4% from the end of the previous fiscal year to ¥15,103 million and net assets decreased 1.5% to ¥21,112 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 ¥2,141 million to ¥11,495 million due to such factors as the purchase of shares of an affiliated company. Short-term loans receivable increased ¥2,133 million to ¥2,550 million. On the other hand, long-term loans receivable decreased ¥1,689 million to ¥1,490 million.

(Total Liabilities)

Accounts payable—trade increased ¥726 million to ¥3,598 million due to an increase in trade payables. On the other hand, provision for loss on litigation decreased ¥1,198 million and short-term loans payable decreased ¥609 million to ¥570 million due to the repayment of bank loans.

(Total Net Assets)

Foreign currency translation adjustments decreased ¥255 million to ¥190 million due to fluctuations in exchange rates. Valuation difference on available-for-sale securities decreased ¥70 million to ¥584 million due to changes in the market prices of marketable and investment securities.

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

Please refer to “Notice Concerning Differences between Forecast of Consolidated Financial Results and Actual Results for the Second Quarter (Cumulative) of the Year Ending March 31, 2019” released on November 8, 2018 regarding the differences between forecasted amounts and actual results for the second quarter. No revision has been made to the full-year consolidated financial results forecast released on May 10, 2018. In the future, we will quickly disclose relevant information if there is a need to revise the forecast of financial results.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2018	As of September 30, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	7,629	4,194
Notes and accounts receivable—trade	6,932	6,474
Securities	108	25
Merchandise and finished goods	647	1,008
Work in process	1,566	1,407
Short-term loans receivable	416	2,550
Accounts receivable—other	2,874	2,824
Other	1,922	693
Allowance for doubtful accounts	(37)	(5)
<b>Total current assets</b>	<b>22,061</b>	<b>19,172</b>
<b>Non-current assets:</b>		
Property, plant and equipment		
Buildings	376	467
Accumulated depreciation	(268)	(276)
Buildings, net	107	191
Machinery, equipment and vehicles	530	548
Accumulated depreciation	(491)	(502)
Machinery, equipment and vehicles,	39	46
Other	136	147
Accumulated depreciation	(91)	(95)
Other, net	45	51
<b>Total property, plant and equipment</b>	<b>192</b>	<b>289</b>
Intangible assets		
Other	1,310	1,407
<b>Total intangible assets</b>	<b>1,310</b>	<b>1,407</b>
Investments and other assets		
Investment securities	9,353	11,495
Long-term loans receivable	3,179	1,490
Deferred tax assets	2,211	1,732
Guarantee deposits	384	391
Net defined benefit asset	46	47
Other	555	216
Allowance for doubtful accounts	(1,519)	(9)

Allowance for investment loss	(19)	(18)
Total investments and other assets	14,191	15,346
Total non-current assets	15,695	17,043
<b>Total assets</b>	<b>37,756</b>	<b>36,216</b>

(Millions of Yen)

	As of March 31, 2018	As of September 30, 2018
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable-trade	2,871	3,598
Short-term loans payable	1,179	570
Accrued expenses	859	604
Income taxes payable	735	409
Accrued consumption taxes	506	367
Advances received	2,908	3,550
Provision for bonuses	565	744
Provision for directors' bonuses	49	89
Provision for loss on construction contracts	780	378
Provision for loss on litigation	1,198	–
Other	294	375
<b>Total current liabilities</b>	<b>11,949</b>	<b>10,687</b>
<b>Non-current liabilities:</b>		
Deferred tax liabilities	68	69
Net defined benefit liability	4,134	4,161
Provision for directors' retirement benefits	165	167
Other	–	16
<b>Total non-current liabilities</b>	<b>4,368</b>	<b>4,415</b>
<b>Total liabilities</b>	<b>16,317</b>	<b>15,103</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Capital stock	1,000	1,000
Capital surplus	4,671	4,699
Retained earnings	17,364	17,354
Treasury stock	(2,437)	(2,402)
<b>Total shareholders' equity</b>	<b>20,598</b>	<b>20,651</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	654	584
Foreign currency translation adjustment	445	190
Remeasurements of defined benefit plans	(319)	(320)
<b>Total accumulated other comprehensive income</b>	<b>780</b>	<b>454</b>



<b>Share acquisition rights</b>	59	6
<b>Total net assets</b>	21,438	21,112
<b>Total liabilities and net assets</b>	37,756	36,216

(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, 2017	Six months ended September 30, 2018
<b>Net sales</b>	20,002	19,959
<b>Cost of sales</b>	15,949	15,664
Gross profit	4,053	4,294
<b>Selling, general and administrative expenses</b>	2,285	2,567
Operating profit	1,768	1,727
<b>Non-operating income</b>		
Interest income	36	58
Dividend income	42	28
Foreign exchange gains	61	356
Other	27	25
Total non-operating income	168	468
<b>Non-operating expenses</b>		
Interest expenses	19	22
Stock transfer agency service fee	9	8
Equity in losses of affiliates	129	20
Other	42	4
Total non-operating expenses	200	56
<b>Ordinary profit</b>	1,736	2,139
<b>Extraordinary income</b>		
Gain on sales of investment securities	278	3
Gain on reversal of share acquisition rights	1	54
Other	–	1
Total extraordinary income	279	58
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	0	0
Loss on valuation of investment securities	66	–
Provision of allowance for doubtful accounts	–	260
Loss on litigation	–	17
Total extraordinary losses	66	278
<b>Profit before income taxes</b>	1,949	1,919
Income taxes-current	792	560

Income taxes-deferred	2	507
Total income taxes	795	1,068
Net Profit	1,154	851
Loss attributable to non-controlling interests	(0)	—
<b>Profit attributable to owners of parent</b>	<b>1,154</b>	<b>851</b>

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Total for Second Quarter)

(Millions of Yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	1154	851
Other comprehensive income		
Valuation difference on available-for-sale securities	714	(70)
Foreign currency translation adjustments	(73)	(254)
Remeasurements of defined benefit plans, net of tax	4	(0)
Share of other comprehensive income of entities accounted for using equity method	22	(0)
Total other comprehensive income	668	(326)
Comprehensive income	1,822	525
(breakdown)		
Comprehensive income attributable to owners of the parent	1,822	525
Comprehensive income attributable to non-controlling interests	(0)	—

## (3) Quarterly Consolidated Statements of Cash Flows

(Millions of Yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
<b>Net cash provided by (used in) operating activities:</b>		
Income before income taxes and minority interests	1,949	1,919
Depreciation and amortization	229	233
Amortization of goodwill	13	—
Increase (decrease) in net defined benefit liability	69	26
Increase (decrease) in provision for directors' retirement benefits	11	2
Increase (decrease) in provision for bonuses	56	177
Increase (decrease) in provision for directors' bonuses	(7)	39
Increase (decrease) in allowance for doubtful accounts	33	(32)
Increase (decrease) in allowance for investment loss	1	(1)
Increase (decrease) in provision for loss on construction contracts	101	(401)
Increase (decrease) in provision for loss on litigation	—	(1,198)
Interest and dividend income	(79)	(86)
Interest expenses	19	22
Commissions paid	—	0
Foreign exchange losses (gains)	(61)	(356)
Share of loss (profit) of entities accounted for using equity method	129	20
Loss (gain) on valuation of investment securities	66	—
Loss (gain) on sales of investment securities	(278)	(3)
Loss on retirement of noncurrent assets	0	0
Decrease (increase) in notes and accounts receivable—trade	630	525
Decrease (increase) in inventories	(510)	(111)
Increase (decrease) in notes and accounts payable—trade	394	591
Decrease (increase) in other current assets	2	1,316
Increase (decrease) in other liabilities	141	284
Increase (decrease) in accrued consumption taxes	(126)	(138)
Other, net	24	222
<b>Subtotal</b>	<b>2,809</b>	<b>3,053</b>
Interest and dividends income received	72	58
Interest expenses paid	(19)	(21)
Income taxes paid	(1,389)	(829)

Net cash provided by used in operating activities	1,472	2,260
<b>Net cash provided by (used in) investing activities:</b>		
Purchase of property, plant and equipment	(58)	(18)
Purchase of intangible assets	(209)	(148)
Purchase of investment securities	(767)	(2,228)
Proceeds from sales of investment securities	1,054	14
Purchase of stocks of subsidiaries and affiliates	–	(92)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	–	(144)
Payments of loans receivable	(939)	(1,788)
Collection of loans receivable	517	46
Payments into time deposits	(150)	(200)
Payments for guarantee deposits	–	(0)
Proceeds from collection of guarantee deposited	0	0
Other, net	(0)	(0)
Net cash used in investing activities	(554)	(4,561)
<b>Net cash provided by (used in) financing activities:</b>		
Net increase (decrease) in short-term loans payable	–	(609)
Proceeds from stock issuance to non-controlling shareholders	0	–
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(732)	(861)
Proceeds from exercise of stock option	98	58
Commissions paid	–	(3)
Net cash used in financing activities	(633)	(1,416)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(14)	(1)
<b>Net increase (decrease) in cash and cash equivalents</b>	270	(3,718)
<b>Cash and cash equivalents at beginning of period</b>	6,265	7,018
<b>Cash and cash equivalents at the end of quarter</b>	6,536	3,299

(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

(Changes to significant subsidiaries during the current period)

None

There were no changes to specified subsidiaries. However, in the second quarter, Proxim Wireless Corporation, which became a subsidiary due to the acquisition of an additional equity interest, is included in the scope of consolidation.

**(Additional information)**

**Adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting**

The Company has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. As a result, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in noncurrent liabilities.

(Segment Information and others)

[Segment Information]

I. Consolidated cumulative total for second quarter of the previous fiscal year (April 1, 2017 to September 30, 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	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:

- 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.
- 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 under review (April 1, 2018 to September 30, 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	10,652	2,356	6,950	19,959	—	19,959
(2) Intersegment sales or transfers	7	106	135	249	(249)	—
Total sales	10,659	2,462	7,086	20,208	(249)	19,959
Segment income	1,780	581	150	2,513	(785)	1,727

Notes:

1. The segment income adjustment of minus ¥785 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 under review is as follows.

Segment information by type of business	Six months ended September 30, 2018	% change YoY
Systems Development (Millions of Yen)	10,956	101.8
System Operations and Infrastructure Development (Millions of Yen)	2,374	102.4
Total (Millions of Yen)	13,330	101.9

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 under review are as follows.

Segment information by type of business	Six months ended September 30, 2018	% change YoY
Product Sales (Millions of Yen)	4,657	101.0
Total (Millions of Yen)	4,657	101.0

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 under review 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	10,882	99.3	5,049	92.7
System Operations and Infrastructure Development	2,126	119.5	1,959	129.7
Product Sales	6,671	91.1	3,310	113.6
Total	19,680	98.1	10,319	104.5

Notes:

1. Amounts are based on sales price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.
4. The percentages comparing order backlog with the same quarter of the previous fiscal year are comparisons with figures for which the impact of the conclusion of litigation has been excluded from the previous year's figures.

- Sales amounts

Sales by segment in the Second quarter of the fiscal year under review are as follows.

Segment information by type of business	Six months ended September 30, 2018	% change YoY
Systems Development (Millions of Yen)	10,652	105.3
System Operations and Infrastructure Development (Millions of Yen)	2,356	103.3
Product Sales (Millions of Yen)	6,950	91.4
Total (Millions of Yen)	19,959	99.8

Notes:

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