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transcosmos inc.
Consolidated Financial Report
For the 2nd Quarter of the Fiscal Year Ended March 31, 2018 [J-GAAP]

October 31, 2017

(Amounts less than ¥1M are rounded down.)

1. Consolidated Performance for the 2nd Quarter of the Fiscal Year Ended March 31, 2018
 (April 1, 2017 – September 30, 2017)

(1) Consolidated results of operations (cumulative total)

(Percentages are shown as year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	¥M	%	¥M	%	¥M	%	¥M	%
2Q Mar. 2018 Period	126,640	8.3	1,841	(51.1)	1,440	(57.2)	238	(91.3)
2Q Mar. 2017 Period	116,912	7.6	3,765	(7.0)	3,365	(8.4)	2,735	(48.9)

(Note) Comprehensive income: 2Q Mar. 2018 Period ¥(11,042) million -% 2Q Mar. 2017 Period ¥(3,392) million (118.1)%

	Earnings per share (Quarter)	Earnings per share after adjustment for residual securities (Quarter)
	¥	¥
2Q Mar. 2018 Period	5.74	-
2Q Mar. 2017 Period	66.24	-

(2) Consolidated financial standing

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥M	¥M	%	¥
As of Sep. 30, 2017	125,656	71,543	53.9	1,634.29
As of Mar. 31, 2017	143,802	85,188	56.8	1,969.70

(Reference) Shareholders' equity: As of September 30, 2017 ¥67,783 million As of March 31, 2017 ¥81,695 million

2. Dividend Status

	Annual dividends				
	1Q End	2Q End	3Q End	Year End	Total
	¥	¥	¥	¥	¥
Mar. 2017 Period	-	0.00	-	52.00	52.00
Mar. 2018 Period	-	0.00			
Mar. 2018 Period (Forecast)			-	-	-

(Note) Corrections to the consolidated performance forecast figures for this quarter: None
 The dividend forecast for Fiscal Year ending March 31, 2018 is not yet to be determined.

3. Consolidated Performance Forecast for the Fiscal Year Ending March 31, 2018

(April 1, 2017 – March 31, 2018)

The consolidated financial forecast for Fiscal Year ending March 31, 2018 is not yet to be determined and presented because of the difficulties in making a reasonable forecast.

Unaudited Quarterly Consolidated Balance Sheet
transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES
As of September 30, 2017 and March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	As of September 30, 2017	As of March 31, 2017	As of September 30, 2017
ASSETS			
Current assets:			
Cash and deposits	¥ 29,773	¥ 33,866	\$ 264,089
Notes and accounts receivable - trade	39,299	39,967	348,585
Merchandise and finished goods	1,831	2,047	16,241
Work in process	851	581	7,551
Supplies	36	34	325
Deferred tax assets	1,687	1,708	14,965
Others	5,219	4,370	46,297
Less - allowance for doubtful accounts	(338)	(292)	(3,000)
Total current assets	<u>78,360</u>	<u>82,283</u>	<u>695,056</u>
Non-current assets:			
Property, plant and equipment:			
Buildings and structures, net	4,527	4,087	40,157
Tools, furniture and fixtures, net	3,964	3,608	35,165
Land	829	828	7,361
Others, net	692	545	6,143
Total property, plant and equipment, net	<u>10,014</u>	<u>9,069</u>	<u>88,829</u>
Intangible assets:			
Goodwill	3,683	3,818	32,671
Software	1,913	1,857	16,972
Others	725	618	6,434
Total intangible assets	<u>6,322</u>	<u>6,294</u>	<u>56,078</u>
Investments and other assets:			
Investment securities	5,553	14,286	49,256
Shares of subsidiaries and affiliates	12,061	10,457	106,980
Investments in capital of subsidiaries and affiliates	5,975	6,822	53,006
Deferred tax assets	175	149	1,553
Derivatives receivable	—	6,925	—
Guarantee deposits	6,168	5,861	54,714
Others	1,209	1,860	10,731
Less - allowance for doubtful accounts	(184)	(208)	(1,637)
Total investments and other assets	<u>30,958</u>	<u>46,154</u>	<u>274,605</u>
Total non-current assets	<u>47,295</u>	<u>61,518</u>	<u>419,512</u>
Total assets	<u>¥ 125,656</u>	<u>¥ 143,802</u>	<u>\$ 1,114,569</u>

See accompanying notes to unaudited quarterly consolidated financial statements.

Unaudited Quarterly Consolidated Balance Sheet
transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES
As of September 30, 2017 and March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
LIABILITIES	As of September 30, 2017	As of March 31, 2017	As of September 30, 2017
Current liabilities:			
Accounts payable - trade	¥ 11,611	¥ 12,452	\$ 102,996
Short-term loans payable	641	476	5,691
Current portion of bonds	7	7	62
Current portion of long-term debt	1,709	1,692	15,166
Accounts payable – other	5,387	6,167	47,787
Accrued expenses	11,535	8,928	102,323
Income taxes payable	1,629	2,352	14,450
Accrued consumption taxes	3,304	3,104	29,313
Provision for bonuses	3,648	3,732	32,364
Others	1,954	1,897	17,337
Total current liabilities	<u>41,431</u>	<u>40,812</u>	<u>367,493</u>
Non-current liabilities:			
Bonds payable	36	39	319
Convertible bond-type bonds with subscription rights to shares	10,032	10,037	88,985
Long-term debt	1,807	3,407	16,028
Deferred tax liabilities	216	3,872	1,916
Liability for retirement benefits	17	16	152
Others	572	428	5,081
Total non-current liabilities	<u>12,681</u>	<u>17,800</u>	<u>112,484</u>
Total liabilities	<u>54,112</u>	<u>58,613</u>	<u>479,977</u>
NET ASSETS			
Shareholders' equity:			
Capital stock	29,065	29,065	257,814
Capital surplus	18,287	18,908	162,210
Retained earnings	35,950	37,737	318,879
Treasury stock	(15,233)	(15,232)	(135,123)
Total shareholders' equity	<u>68,070</u>	<u>70,478</u>	<u>603,780</u>
Accumulated other comprehensive income:			
Unrealized holding gain on securities	615	6,509	5,457
Unrealized loss on hedging instruments	—	5,193	—
Foreign currency translation adjustments	(901)	(485)	(7,999)
Total accumulated other comprehensive income	<u>(286)</u>	<u>11,217</u>	<u>(2,542)</u>
Subscription rights to shares	3	3	28
Non-controlling interests	3,757	3,489	33,325
Total net assets	<u>71,543</u>	<u>85,188</u>	<u>634,591</u>
Total liabilities and net assets	<u>¥ 125,656</u>	<u>¥ 143,802</u>	<u>\$ 1,114,569</u>

See accompanying notes to unaudited quarterly consolidated financial statements.

Unaudited Quarterly Consolidated Statement of Income

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2017 and 2016

	Millions of yen		Thousands of U.S.
	2017	2016	dollars (Note 3)
Net sales	¥ 126,640	¥ 116,912	\$ 1,123,299
Cost of sales	105,214	96,355	933,247
Gross profit	21,426	20,556	190,051
Selling, general and administrative expenses	19,584	16,791	173,718
Operating income	1,841	3,765	16,333
Non-operating income (expenses):			
Interest income	37	38	329
Interest expenses	(19)	(14)	(175)
Dividend income	38	91	340
Share of loss of entities accounted for using equity method	(734)	(190)	(6,510)
Foreign exchange gain (loss)	211	(336)	1,875
Gain on sales of investment securities	313	694	2,785
Gain on sales of shares of subsidiaries and affiliates	—	121	—
Impairment loss on fixed assets	(6)	(34)	(59)
Gain on change in equity	109	44	975
Loss on change in equity	(229)	—	(2,032)
Other income, net	2	73	24
Total non-operating income (expenses)	(275)	485	(2,448)
Income before income taxes and non-controlling interests	1,565	4,251	13,885
Income taxes:			
Current	1,030	1,668	9,138
Deferred	95	(154)	846
	1,125	1,513	9,985
Net income	439	2,737	3,900
Net income attributable to non-controlling interests	201	1	1,788
Net income attributable to shareholders of transcosmos inc.	¥ 238	¥ 2,735	\$ 2,111

See accompanying notes to unaudited quarterly consolidated financial statements.

Unaudited Quarterly Consolidated Statement of Comprehensive Income

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2017 and 2016

	Millions of yen		Thousands of U.S.
	2017	2016	dollars (Note 3)
Net income	¥ 439	¥ 2,737	\$ 3,900
Other comprehensive income:			
Unrealized holding gain (loss) on securities	(5,874)	(6,630)	(52,104)
Unrealized gain (loss) on hedging instruments	(5,193)	4,338	(46,069)
Foreign currency translation adjustments	(241)	(2,255)	(2,137)
Share of other comprehensive income of entities accounted for using equity method	(173)	(1,582)	(1,539)
Total other comprehensive income	(11,482)	(6,130)	(101,850)
Comprehensive income	¥ (11,042)	¥ (3,392)	\$ (97,950)
Total comprehensive income attributable to:			
Shareholders of transcosmos inc.	¥ (11,265)	¥ (3,387)	\$ (99,927)
Non-controlling interests	222	(5)	1,977

See accompanying notes to unaudited quarterly consolidated financial statements.

Unaudited Quarterly Consolidated Statement of Cash Flows

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2017 and 2016

	Millions of yen		Thousands of U.S.
	2017	2016	dollars (Note 3)
Operating activities:			2017
Income before income taxes and non-controlling interests	¥ 1,565	¥ 4,251	\$ 13,885
Depreciation of property, plant and equipment	1,024	879	9,090
Impairment loss on fixed assets	6	34	59
Amortization of goodwill	253	240	2,249
Amortization of intangible assets	388	335	3,449
Increase (decrease) in allowance for doubtful accounts	32	(383)	285
Increase (decrease) in provision for bonuses	(204)	134	(1,814)
Changes in liability for retirement benefits, nets	1	0	10
Interest and dividend income	(75)	(129)	(669)
Interest expenses	19	14	175
Foreign exchange loss (gain)	(211)	336	(1,875)
Share of loss (profit) of entities accounted for using equity method	734	190	6,510
Loss on disposal of fixed assets	9	31	80
Gain on sales of investment securities	(313)	(694)	(2,785)
Loss on valuation of investment securities	—	0	—
Gain on sales of shares of subsidiaries and affiliates	—	(121)	—
Loss on valuation of shares of subsidiaries and affiliates	56	5	500
Gain on changes in ownership interests of subsidiaries and affiliates	119	(44)	1,057
Gain on step acquisitions	—	(99)	—
Decrease in notes and accounts receivable - trade	819	(94)	7,273
Decrease in inventories	(66)	(198)	(587)
Increase in notes and accounts payable – trade	(872)	504	(7,736)
Decrease in accrued consumption taxes	196	(313)	1,745
Others, net	1,325	544	11,754
Subtotal	4,809	5,427	42,660
Interest and dividends received	87	132	772
Interest paid	(20)	(8)	(179)
Litigation settlement received	10	—	96
Income taxes paid	(1,670)	(2,339)	(14,816)
Income taxes refund	560	—	4,973
Net cash provided by (used in) operating activities	¥ 3,777	¥ 3,212	\$ 33,507

Unaudited Quarterly Consolidated Statement of Cash Flows

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2017 and 2016

	2017	2016	2017
Investing activities:			
Payments into time deposits	¥ (434)	¥ (373)	\$ (3,856)
Proceeds from withdrawal of time deposit accounts	454	417	4,033
Purchases of property, plant and equipment	(1,929)	(1,196)	(17,117)
Purchases of intangible assets	(536)	(690)	(4,762)
Purchases of investment securities	(516)	(104)	(4,581)
Proceeds from sales of investment securities	580	935	5,147
Purchases of shares of subsidiaries and affiliates	(1,454)	(4,949)	(12,905)
Proceeds from sales of shares of subsidiaries and affiliates	0	402	0
Payments for guarantee deposits	(584)	(461)	(5,185)
Proceeds from collection of guarantee deposits	295	131	2,624
Payments of loans receivable	(504)	(774)	(4,472)
Collection of loans receivable	434	50	3,850
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(39)	(882)	(350)
Others, net	(97)	(41)	(861)
Net cash used in investing activities	<u>(4,333)</u>	<u>(7,536)</u>	<u>(38,435)</u>
Financing activities:			
Increase in short-term borrowings	542	28	4,809
Repayment of short-term borrowings	(379)	(89)	(3,368)
Increase in long-term borrowings	100	45	886
Repayment of long-term borrowings	(1,691)	(186)	(15,005)
Proceeds from issuance of bonds	—	48	—
Proceeds from sales of treasury stock	0	999	1
Cash dividends paid	(2,154)	(2,301)	(19,114)
Cash dividends paid to non-controlling interests	(38)	(20)	(337)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(532)	(1,957)	(4,727)
Others, net	(113)	(88)	(1,010)
Net cash provided by (used in) financing activities	<u>(4,268)</u>	<u>(3,522)</u>	<u>(37,865)</u>
Effect of exchange rate changes on cash and cash equivalents	(24)	(1,102)	(213)
Decrease in cash and cash equivalents	<u>(4,848)</u>	<u>(8,948)</u>	<u>(43,007)</u>
Cash and cash equivalents at the beginning of the period	33,422	33,339	296,458
Increase in cash and cash equivalents resulting from change of scope of consolidation	737	1,607	6,542
Increase in cash and cash equivalents from merger of subsidiaries	—	45	—
Cash and cash equivalents at the end of the period	<u>¥ 29,311</u>	<u>¥ 26,043</u>	<u>\$ 259,993</u>

See accompanying notes to unaudited quarterly consolidated financial statements

Notes to Unaudited Quarterly Consolidated Financial Statements

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

1. U.S. Dollar Amounts

The accompanying quarterly consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into United States (U.S.) dollars at the rate of ¥112.74=\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 30, 2017. This translation should not be construed as a representation that the amounts shown could be converted to U.S. dollars at such rate.

Notes to Unaudited Quarterly Consolidated Financial Statements
transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

2. Segment Information

(1) Information on net sales and profit or loss for each reportable segment for the six months ended September 30, 2017 and 2016

		Millions of yen										
		2017										
		Reportable segments										
		Domestic		Overseas		Total	Eliminations	Consolidated				
		Parent company	subsidiaries and affiliates	subsidiaries and affiliates								
Net sales												
Sales to third parties	¥	98,968	¥	7,341	¥	20,330	¥	126,640	¥	—	¥	126,640
Inter-segment sales and transfers		120		2,220		1,841		4,182		(4,182)		—
Total	¥	99,089	¥	9,561	¥	22,172	¥	130,823	¥	(4,182)	¥	126,640
Segment profit	¥	1,952	¥	220	¥	(331)	¥	1,840	¥	0	¥	1,841

		Thousands of U.S. dollars (Note 3)										
		2017										
		Reportable segments										
		Domestic		Overseas		Total	Eliminations	Consolidated				
		Parent company	subsidiaries and affiliates	subsidiaries and affiliates								
Net sales												
Sales to third parties	\$	877,848	\$	65,117	\$	180,332	\$	1,123,299	\$	—	\$	1,123,299
Inter-segment sales and transfers		1,072		19,694		16,333		37,100		(37,100)		—
Total	\$	878,921	\$	84,811	\$	196,665	\$	1,160,399	\$	(37,100)	\$	1,123,299
Segment profit	\$	17,314	\$	1,954	\$	(2,942)	\$	16,326	\$	6	\$	16,333

Note A: Segment profit of ¥0 million (\$6 thousand) in “Eliminations” consists of inter-segment elimination.

Note B: Total consolidated segment profit agrees with consolidated operating income.

		Millions of yen										
		2016										
		Reportable segments										
		Domestic		Overseas		Total	Eliminations	Consolidated				
		Parent company	subsidiaries and affiliates	subsidiaries and affiliates								
Net sales												
Sales to third parties	¥	93,544	¥	7,276	¥	16,081	¥	116,912	¥	—	¥	116,912
Inter-segment sales and transfers		119		1,990		933		3,044		(3,044)		—
Total	¥	93,674	¥	9,267	¥	17,015	¥	119,956	¥	(3,044)	¥	116,912
Segment profit	¥	3,942	¥	212	¥	(406)	¥	3,748	¥	16	¥	3,765

Note A: Segment profit of ¥16 million in “Eliminations” consists of inter-segment elimination.

Note B: Total consolidated segment profit agrees with consolidated operating income.