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transcosmos inc.
Consolidated Financial Report
For the 2nd Quarter of the Fiscal Year Ended March 31, 2019 [J-GAAP]

October 31, 2018

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

1. Consolidated Performance for the 2nd Quarter of the Fiscal Year Ended March 31, 2019
 (April 1, 2018 – September 30, 2018)

(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. 2019 Period	137,689	8.7	1,600	(13.1)	2,104	46.1	5,232	-
2Q Mar. 2018 Period	126,640	8.3	1,841	(51.1)	1,440	(57.2)	238	(91.3)

(Note) Comprehensive income: 2Q Mar. 2019 Period ¥7,845 million -% 2Q Mar. 2018 Period ¥(11,042) million -%

	Earnings per share (Quarter)	Earnings per share after adjustment for residual securities (Quarter)
	¥	¥
2Q Mar. 2019 Period	126.17	-
2Q Mar. 2018 Period	5.74	-

(2) Consolidated financial standing

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥M	¥M	%	¥
As of Sep. 30, 2018	136,178	76,947	54.0	1,774.56
As of Mar. 31, 2018	129,067	71,199	52.4	1,630.39

(Reference) Shareholders' equity: As of September 30, 2018 ¥73,600 million As of March 31, 2018 ¥67,621 million

(Note) For the fiscal year ended March 31, 2019, the consolidated financial standing is retrospectively applied to changes in accounting policies according to the amendments to partial accounting standard and implementation guidance.

2. Dividend Status

	Annual dividends				
	1Q End	2Q End	3Q End	Year End	Total
	¥	¥	¥	¥	¥
Mar. 2018 Period	-	0.00	-	23.00	23.00
Mar. 2019 Period	-	0.00			
Mar. 2019 Period (Forecast)			-	-	-

(Note) Corrections to the consolidated performance forecast figures for this quarter: None
 The dividend forecast for Fiscal Year ending March 31, 2019 is not yet to be determined.

3. Consolidated Performance Forecast for the Fiscal Year Ending March 31, 2019

(April 1, 2018 – March 31, 2019)

The consolidated financial forecast for Fiscal Year ending March 31, 2019 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, 2018 and March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 3)
	As of September 30, 2018	As of March 31, 2018	As of September 30, 2018
ASSETS			
Current assets:			
Cash and deposits	¥ 35,220	¥ 31,937	\$ 310,096
Notes and accounts receivable - trade	42,938	42,238	378,043
Merchandise and finished goods	2,547	2,595	22,428
Work in process	1,081	914	9,523
Supplies	50	42	444
Others	5,890	5,566	51,859
Less - allowance for doubtful accounts	(309)	(304)	(2,727)
Total current assets	87,418	¥ 82,989	769,668
Non-current assets:			
Property, plant and equipment:			
Buildings and structures, net	4,774	4,738	42,033
Tools, furniture and fixtures, net	3,817	4,035	33,614
Land	831	840	7,317
Others, net	774	662	6,819
Total property, plant and equipment, net	10,197	10,276	89,784
Intangible assets:			
Goodwill	3,173	3,570	27,938
Software	2,284	2,215	20,115
Others	566	453	4,991
Total intangible assets	6,024	6,238	53,045
Investments and other assets:			
Investment securities	10,302	4,654	90,707
Shares of subsidiaries and affiliates	7,432	9,482	65,440
Investments in capital of subsidiaries and affiliates	6,393	6,664	56,286
Deferred tax assets	478	1,385	4,214
Guarantee deposits	7,197	6,604	63,371
Others	1,169	1,268	10,300
Less - allowance for doubtful accounts	(438)	(499)	(3,857)
Total investments and other assets	32,536	29,561	286,465
Total non-current assets	48,759	46,077	429,295
Total assets	¥ 136,178	¥ 129,067	\$ 1,198,963

See accompanying notes to unaudited quarterly consolidated financial statements.

Unaudited Quarterly Consolidated Balance Sheet
transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES
As of September 30, 2018 and March 31, 2018

LIABILITIES	Millions of yen		Thousands of U.S. dollars (Note 3)
	As of September 30, 2018	As of March 31, 2018	As of September 30, 2018
Current liabilities:			
Accounts payable - trade	¥ 14,099	¥ 11,474	\$ 124,136
Short-term loans payable	883	1,286	7,780
Current portion of bonds	7	7	61
Current portion of long-term debt	1,746	1,737	15,377
Accounts payable – other	3,645	5,202	32,099
Accrued expenses	13,250	13,404	116,663
Income taxes payable	3,659	2,352	32,221
Accrued consumption taxes	3,542	3,759	31,190
Provision for bonuses	3,732	3,639	32,862
Others	2,494	2,335	21,958
Total current liabilities	47,061	45,201	414,351
Non-current liabilities:			
Bonds payable	29	32	255
Convertible bond-type bonds with subscription rights to shares	10,022	10,027	88,239
Long-term debt	111	1,796	978
Deferred tax liabilities	1,250	111	11,010
Liability for retirement benefits	28	26	247
Others	727	672	6,406
Total non-current liabilities	12,168	12,666	107,138
Total liabilities	59,230	57,867	521,489
NET ASSETS			
Shareholders' equity:			
Capital stock	29,065	29,065	255,907
Capital surplus	17,934	18,263	157,897
Retained earnings	37,127	33,381	326,885
Treasury stock	(15,234)	(15,234)	(134,134)
Total shareholders' equity	68,892	65,477	606,556
Accumulated other comprehensive income:			
Unrealized holding gain on securities	5,263	1,265	46,346
Foreign currency translation adjustments	(555)	878	(4,895)
Total accumulated other comprehensive income	4,708	2,144	41,451
Subscription rights to shares	3	3	28
Non-controlling interests	3,343	3,574	29,438
Total net assets	76,947	71,199	677,474
Total liabilities and net assets	¥ 136,178	¥ 129,067	\$ 1,198,963

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, 2018 and 2017

	Millions of yen		Thousands of U.S.
			dollars (Note 3)
	2018	2017	2018
Net sales	¥ 137,689	¥ 126,640	\$ 1,212,269
Cost of sales	114,894	105,214	1,011,569
Gross profit	22,795	21,426	200,699
Selling, general and administrative expenses	21,195	19,584	186,610
Operating income	1,600	1,841	14,088
Non-operating income (expenses):			
Interest income	40	37	353
Interest expenses	(17)	(19)	(150)
Dividend income	116	38	1,025
Share of loss of entities accounted for using equity method	(316)	(734)	(2,784)
Foreign exchange gain	103	211	907
Gain on investments in partnership	519	28	4,577
Gain on sales of investment securities	299	313	2,634
Gain on sales of shares of subsidiaries and affiliates	6,664	—	58,676
Loss on sales of shares of subsidiaries and affiliates	(48)	—	(426)
Loss on valuation of shares of subsidiaries and affiliates	(88)	(56)	(775)
Impairment loss on fixed assets	(17)	(6)	(150)
Other income (expense), net	140	(88)	1,239
Total non-operating income (expenses)	7,397	(275)	65,127
Income before income taxes and non-controlling interests	8,997	1,565	79,216
Income taxes:			
Current	2,985	1,030	26,283
Deferred	689	95	6,071
	3,674	1,125	32,355
Net income	5,322	439	46,860
Net income attributable to non-controlling interests	89	201	787
Net income attributable to shareholders of transcosmos inc.	¥ 5,232	¥ 238	\$ 46,073

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Net income	¥ 5,322	¥ 439	\$ 46,860
Other comprehensive income:			
Unrealized holding gain (loss) on securities	3,987	(5,874)	35,107
Unrealized loss on hedging instruments	—	(5,193)	—
Foreign currency translation adjustments	(1,000)	(241)	(8,809)
Share of other comprehensive income of entities accounted for using equity method	(464)	(173)	(4,086)
Total other comprehensive income	2,522	(11,482)	22,211
Comprehensive income	¥ 7,845	¥ (11,042)	\$ 69,071
Total comprehensive income attributable to:			
Shareholders of transcosmos inc.	¥ 7,796	¥ (11,265)	\$ 68,643
Non-controlling interests	48	222	428

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, 2018 and 2017

	Millions of yen		Thousands of U.S.
	2018	2017	dollars (Note 3)
Operating activities:			2018
Income before income taxes and non-controlling interests	¥ 8,997	¥ 1,565	\$ 79,216
Depreciation of property, plant and equipment	1,129	1,024	9,948
Impairment loss on fixed assets	17	6	150
Amortization of goodwill	267	253	2,357
Amortization of intangible assets	430	388	3,786
Increase (decrease) in allowance for doubtful accounts	(36)	32	(320)
Increase (decrease) in provision for bonuses	101	(204)	896
Changes in liability for retirement benefits, nets	2	1	24
Interest and dividend income	(156)	(75)	(1,378)
Interest expenses	17	19	150
Foreign exchange gain	(103)	(211)	(907)
Share of loss of entities accounted for using equity method	316	734	2,784
Gain on investments in partnership	(519)	(28)	(4,577)
Loss on disposal of fixed assets	12	9	113
Gain on sales of investment securities	(299)	(313)	(2,634)
Gain on sales of shares of subsidiaries and affiliates	(6,616)	—	(58,250)
Loss on valuation of shares of subsidiaries and affiliates	88	56	775
Gain (loss) on changes in ownership interests of subsidiaries and affiliates	(52)	119	(460)
Decrease (increase) in notes and accounts receivable - trade	(1,157)	819	(10,194)
Decrease in inventories	(198)	(66)	(1,747)
Increase (decrease) in notes and accounts payable – trade	2,749	(872)	24,211
Increase (decrease) in accrued consumption taxes	(178)	196	(1,575)
Others, net	(1,098)	1,354	(9,669)
Subtotal	3,713	4,809	32,696
Interest and dividends received	206	87	1,815
Interest paid	(16)	(20)	(143)
Litigation settlement received	—	10	—
Income taxes paid	(1,633)	(1,670)	(14,380)
Income taxes refund	—	560	—
Net cash provided by (used in) operating activities	¥ 2,270	¥ 3,777	\$ 19,988

Unaudited Quarterly Consolidated Statement of Cash Flows

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2018 and 2017

	2018	2017	2018
Investing activities:			
Payments into time deposits	¥ (80)	¥ (434)	\$ (710)
Proceeds from withdrawal of time deposit accounts	138	454	1,220
Purchases of property, plant and equipment	(1,142)	(1,929)	(10,057)
Purchases of intangible assets	(688)	(536)	(6,060)
Purchases of investment securities	(131)	(516)	(1,161)
Proceeds from sales of investment securities	841	580	7,409
Purchases of shares of subsidiaries and affiliates	(531)	(1,454)	(4,682)
Proceeds from sales of shares of subsidiaries and affiliates	7,898	0	69,542
Payments for guarantee deposits	(865)	(584)	(7,617)
Proceeds from collection of guarantee deposits	176	295	1,553
Payments of loans receivable	(141)	(504)	(1,247)
Collection of loans receivable	89	434	791
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(39)	—
Others, net	(72)	(97)	(635)
Net cash used in investing activities	<u>5,490</u>	<u>(4,333)</u>	<u>48,343</u>
Financing activities:			
Increase in short-term borrowings	148	542	1,307
Repayment of short-term borrowings	(511)	(379)	(4,500)
Increase in long-term borrowings	30	100	264
Repayment of long-term borrowings	(1,706)	(1,691)	(15,025)
Proceeds from sales of treasury stock	—	0	—
Cash dividends paid	(956)	(2,154)	(8,420)
Cash dividends paid to non-controlling interests	(50)	(38)	(446)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(558)	(532)	(4,914)
Others, net	(125)	(113)	(1,102)
Net cash provided by (used in) financing activities	<u>(3,729)</u>	<u>(4,268)</u>	<u>(32,838)</u>
Effect of exchange rate changes on cash and cash equivalents	(673)	(24)	(5,932)
Decrease in cash and cash equivalents	3,357	(4,848)	29,560
Cash and cash equivalents at the beginning of the period	31,772	33,422	279,737
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	737	—
Cash and cash equivalents at the end of the period	<u>¥ 35,130</u>	<u>¥ 29,311</u>	<u>\$ 309,298</u>

See accompanying notes to unaudited quarterly consolidated financial statements

Notes to Unaudited Quarterly Consolidated Financial Statements

transcosmos inc. AND ITS CONSOLIDATED SUBSIDIARIES

1. Accounting Changes

“Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018) was applied from the beginning of the first quarter of the year ended 31 March, 2019. This change effects an accounting treatment of tax effect accounting for retained earnings of subsidiaries and affiliates when investing in shares of subsidiaries and affiliates. We adopted this change in the beginning of the first quarter of the year ended 31 March, 2019 with no material impact to our consolidated financial statements.

2. Additional Information

As “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28, February 16, 2018; hereinafter the “Partial Amendments”) became applicable to the financial statements from this fiscal year-end, the Company has applied the Partial Amendments from this fiscal year. Accordingly, changes have been made to the classification, whereby deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in noncurrent liabilities.

3. 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 ¥113.58=\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 30, 2018. 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

1. Segment Information

(1) Information on net sales and profit or loss for each reportable segment for the six months ended September 30, 2018 and 2017

		Millions of yen										
		2018										
		Reportable segments										
		Domestic		Overseas		Total	Eliminations	Consolidated				
		Parent company	subsidiaries and affiliates	subsidiaries and affiliates								
Net sales												
Sales to third parties	¥	101,662	¥	8,484	¥	27,542	¥	137,689	¥	—	¥	137,689
Inter-segment sales and transfers		192		1,613		2,012		3,818		(3,818)		—
Total	¥	101,854	¥	10,098	¥	29,554	¥	141,507	¥	(3,818)	¥	137,689
Segment profit	¥	1,248	¥	344	¥	9	¥	1,602	¥	(2)	¥	1,600

		Thousands of U.S. dollars (Note 3)										
		2018										
		Reportable segments										
		Domestic		Overseas		Total	Eliminations	Consolidated				
		Parent company	subsidiaries and affiliates	subsidiaries and affiliates								
Net sales												
Sales to third parties	\$	895,071	\$	74,701	\$	242,495	\$	1,212,269	\$	—	\$	1,212,269
Inter-segment sales and transfers		1,692		14,206		17,716		33,615		(33,615)		—
Total	\$	896,764	\$	88,908	\$	260,212	\$	1,245,884	\$	(33,615)	\$	1,212,269
Segment profit	\$	10,992	\$	3,034	\$	82	\$	14,109	\$	(20)	\$	14,088

Note A: Segment profit of ¥(2) million (\$ (20) thousand) in “Eliminations” consists of inter-segment elimination.

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

		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

Note A: Segment profit of ¥ 0 million in “Eliminations” consists of inter-segment elimination.

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