

Summary of Financial Statements for the Second Quarter of the Year Ending December 31, 2018 (J-GAAP) (Consolidated)

August 13, 2018

Company Name: Segue Group Co., Ltd. Stock Exchange: Tokyo Stock Exchange
 Code Number: 3968 URL: <http://segue-g.jp/>
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 Scheduled date of filing quarterly securities report: August 13, 2018
 Scheduled date of dividend payment: —
 Explanatory documents supplement to the abridged quarterly financial statements: Yes
 Briefing for summary of quarterly financial results: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Year Ending December 31, 2018 (from January 1, 2018, to June 30, 2018)

(1) Consolidated Results of Operations (for six months) (Percentages indicate year-over-year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|------------|-------------|------|------------------|------|-----------------|------|---|------|
| | million yen | % | million yen | % | million yen | % | million yen | % |
| Q2 FY 2018 | 4,493 | 20.1 | 288 | -1.9 | 294 | -3.4 | 246 | 14.8 |
| Q2 FY 2017 | 3,740 | — | 294 | — | 304 | — | 214 | — |

Note: Comprehensive income (million yen) Q2 FY 2018: 163 (-20.8%) Q2 FY 2017: 206 (— %)

| | Net income per share | | Diluted net income per share | |
|------------|----------------------|--|------------------------------|--|
| | Yen | | Yen | |
| Q2 FY 2018 | 43.46 | | 42.15 | |
| Q2 FY 2017 | 38.78 | | 36.70 | |

Notes: 1. Because the Company did not prepare quarterly consolidated financial statements for the second quarter of FY 2016, comparisons of changes in earnings with the second quarter of FY 2017 are not presented.

2. Basic earnings per share and diluted earnings per share for the quarter have been calculated taking into account a common stock split executed at the ratio of two shares for one on April 1, 2017, and a common stock split executed at the ratio of two shares for one on October 1, 2017. For the purposes of the said calculations, all stock splits mentioned are assumed to have occurred at the beginning of the fiscal year ended December 31, 2017.

(2) Consolidated Financial Position

| | Total assets | | Net assets | | Equity ratio | |
|------------|--------------|--|-------------|--|--------------|--|
| | million yen | | million yen | | % | |
| Q2 FY 2018 | 5,495 | | 2,490 | | 45.3 | |
| FY 2017 | 5,154 | | 2,320 | | 45.0 | |

Reference: Shareholders' equity (million yen) Q2 FY 2018: 2,490 FY 2017: 2,320

2. Dividends

| | Annual dividends | | | | |
|--------------------|------------------|-----------|-----------|--------------------|-------|
| | End of Q1 | End of Q2 | End of Q3 | End of fiscal year | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY 2017 | — | 0.00 | — | 0.00 | 0.00 |
| FY 2018 | — | 0.00 | | | |
| FY 2018 (forecast) | | | — | 0.00 | 0.00 |

Note: Revision of the latest published dividend forecast: None

3. Forecast for the Year Ending December 31, 2018 (from January 1, 2018, to December 31, 2018)

(Percentages indicate year-over-year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Net income per share |
|-----------|-------------|-----|------------------|------|-----------------|-----|---|------|----------------------|
| | million yen | % | million yen | % | million yen | % | million yen | % | Yen |
| Full year | 8,436 | 8.3 | 458 | 19.9 | 459 | 4.9 | 362 | 13.5 | 63.90 |

Note: Revision of the latest published earnings forecast: None

* Explanatory notes

(1) Changes in major subsidiaries during the fiscal quarter

(changes in specified subsidiaries in conjunction with change in the scope of consolidation): Yes

One new company (company name) Falcon System Consulting Co., Ltd.

(2) Application of accounting procedures specific to creation of quarterly consolidated financial statements: None

(3) Change of accounting policies; change or restatement of accounting estimates

(i) Change of accounting policies caused by revision of accounting standards : None

(ii) Change of accounting policies other than stated in (i) : None

(iii) Change of accounting estimates : None

(iv) Restatement : None

(4) Issued shares (common stock)

(i) Number of issued shares at end of period
(including treasury shares)

| | | | |
|------------|------------------|------------|------------------|
| Q2 FY 2018 | 5,690,000 shares | FY 2017 | 5,668,800 shares |
| Q2 FY 2018 | 41 shares | FY 2017 | - shares |
| Q2 FY 2018 | 5,679,359 shares | Q2 FY 2017 | 5,542,500 shares |

(ii) Number of Treasury shares at end of period

(iii) Average number of shares outstanding during the period
(cumulative quarterly statistics)

Notes: The number of common shares issued and outstanding has been calculated taking into account a common stock split executed at the ratio of two shares for one on April 1, 2017, and a common stock split executed at the ratio of two shares for one on October 1, 2017. For the purposes of the said calculations, all stock splits mentioned are assumed to have occurred at the beginning of the fiscal year ended December 31, 2017.

* Quarterly summary of financial statements is outside the scope of the quarterly review by certified public accountant or audit firm.

* Explanation and other explanatory notes regarding the appropriate use of financial forecasts

- These materials contain forward-looking statements including forecasts of the Company's business performance, which are based on certain assumptions made in accordance with information currently available and judged to be reasonable and are not intended as a guarantee that the Company will achieve these targets. In addition, actual results may differ materially from these forecasts as a result of various factors, including actual business performance. For explanatory notes on the assumptions for these forecasts and the use of the financial forecasts, please refer to "1. Qualitative Information Concerning the Account Closing for the Period under Review (3) Explanatory information concerning future estimates including consolidated financial results projections" on page 1 of the attached materials.

- The Company plans to hold a results briefing for institutional investors and analysts on August 22, 2018. The materials distributed at the results meeting are scheduled to be posted on the Company's website promptly after the meeting.

1. Qualitative Information Concerning the Account Closing for the Period under Review

(1) Explanatory information concerning business results

The Japanese economy in the period under review has proceeded on a moderate recovery track amid continuing improvements in corporate earnings and employment. The recovery trend has been holding up also in the global economy despite remaining risks such as US policy actions and risks in the geopolitical sphere.

In the IT industry of the Group, new technologies such as AI and IoT, digital transformation making use of those technologies, work style reform, and other developments are increasingly taking center stage, and the investment inclination toward IT overall continues. In security reinforcement measures, we expect the importance of investments addressing not only external threats such as increasingly diverse and complex cyber attacks but also internal threats relating to access control and vulnerability management to detect abnormalities to increase, due in part to the revision of the Cybersecurity Management Guidelines in November 2017 and enforcement of the General Data Protection Regulation in Europe in May 2018.

Under this environment, the Group expanded sales of products, services and solutions that combine products and services as we did the previous year through aggressive sales activities. We have also landed large-scale projects and continue to steadily increase sales of maintenance services. At the same time, personnel expenses have increased as a result of aggressive hiring and the introduction of new educational programs.

As a result of the above, net sales in the Solutions Products Business during the period under review increased by 386,804 thousand yen (20.3%) year-over-year to 2,295,304 thousand yen, and in the Solutions Services Business they increased by 366,136 thousand yen (20.0%) to 2,198,155 thousand yen. Consolidated sales thus grew by 752,941 thousand yen (20.1%) overall to 4,493,460 thousand yen.

Meanwhile, operating income decreased by 5,687 thousand yen (1.9%) year-over-year to 288,336 thousand yen, ordinary income decreased by 10,379 thousand yen (3.4%) to 294,497 thousand yen, and net income attributable to shareholders of the parent company increased by 31,865 thousand yen (14.8%) to 246,804 thousand yen.

(2) Explanatory information concerning financial position

[Assets]

Total assets at the end of the period under review came to 5,495,247 thousand yen, an increase of 341,225 thousand yen from the previous fiscal year. Current assets were 4,371,802 thousand yen, an increase of 292,845 thousand yen from the previous fiscal year. Non-current assets were 1,123,444 thousand yen, an increase of 48,379 thousand yen from the previous fiscal year.

The main factor behind the rise in current assets was an increase in cash and deposits. The main factor behind the rise in non-current assets was an increase in tools, furniture and fixtures, and goodwill.

[Liabilities]

Total liabilities at the end of the period under review came to 3,004,634 thousand yen, an increase of 171,336 thousand yen from the previous fiscal year. Current liabilities were 2,721,111 thousand yen, an increase of 200,834 thousand yen from the previous fiscal year. Non-current liabilities were 283,522 thousand yen, a decrease of 29,497 thousand yen from the previous fiscal year.

The main factor behind the rise in current liabilities was an increase in advances received. The main factor behind the fall in non-current liabilities was a decrease in deferred tax liabilities.

[Net assets]

Net assets at the end of the period under review came to 2,490,613 thousand yen, an increase of 169,889 thousand yen from the previous fiscal year. The main factors behind this result were increases in retained earnings.

(3) Explanatory information concerning future estimates including consolidated financial results projections

At this time, there are no changes to the full-year financial forecasts published on February 13, 2018. If any revisions are deemed necessary in the future, they will be disclosed immediately.

2. Consolidated financial statements and major explanatory notes
(1) Consolidated balance sheets

(units: 1,000 yen)

| | FY 2017 (as of December 31, 2017) | Q2 FY 2018 (as of June 30, 2018) |
|---|--------------------------------------|-------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,469,381 | 2,016,259 |
| Notes and accounts receivable - trade | 1,102,032 | 939,561 |
| Electronically recorded monetary claims - operating | 14,416 | 29,060 |
| Securities | 99,990 | — |
| Inventories | 768,834 | 612,200 |
| Advance payments - trade | 317,612 | 450,974 |
| Accounts receivable - other | 225,939 | 196,414 |
| Deferred tax assets | 22,605 | 42,609 |
| Other | 58,286 | 84,903 |
| Allowance for doubtful accounts | -143 | -181 |
| Total current assets | 4,078,956 | 4,371,802 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 39,244 | 42,974 |
| Accumulated depreciation | -26,138 | -27,084 |
| Buildings and structures, net | 13,105 | 15,889 |
| Tools, furniture and fixtures | 748,421 | 800,423 |
| Accumulated depreciation | -596,381 | -617,325 |
| Tools, furniture and fixtures, net | 152,040 | 183,098 |
| Land | 639 | 639 |
| Leased assets | 5,170 | — |
| Accumulated depreciation | -5,117 | — |
| Leased assets, net | 52 | — |
| Total property, plant and equipment | 165,838 | 199,627 |
| Intangible assets | | |
| Goodwill | 6,700 | 67,801 |
| Other | 27,917 | 77,518 |
| Total intangible assets | 34,618 | 145,319 |
| Investments and other assets | | |
| Investment securities | 705,105 | 578,675 |
| Long-term guarantee deposits | 77,118 | 76,423 |
| Deferred tax assets | 10,429 | 42,637 |
| Insurance funds | 64,924 | 64,516 |
| Other | 17,031 | 16,244 |
| Total investments and other assets | 874,608 | 778,497 |
| Total non-current assets | 1,075,065 | 1,123,444 |
| Total assets | 5,154,021 | 5,495,247 |

(units: 1,000 yen)

| | FY 2017 (as of December 31, 2017) | Q2 FY 2018 (as of June 30, 2018) |
|---|--------------------------------------|-------------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 856,368 | 638,683 |
| Current portion of bonds | 20,000 | — |
| Current portion of long-term loans payable | 38,732 | — |
| Lease obligations | 55 | — |
| Accounts payable - other | 103,942 | 82,462 |
| Accrued expenses | 128,417 | 211,578 |
| Income taxes payable | 105,958 | 152,897 |
| Accrued consumption taxes | 64,249 | 42,159 |
| Provision for bonuses | — | 1,166 |
| Advances received | 1,110,251 | 1,538,610 |
| Other | 92,302 | 53,552 |
| Total current liabilities | 2,520,277 | 2,721,111 |
| Non-current liabilities | | |
| Deferred tax liabilities | 114,549 | 76,307 |
| Net defined benefit liability | 131,873 | 140,617 |
| Long-term accounts payable - other | 66,598 | 66,598 |
| Total non-current liabilities | 313,020 | 283,522 |
| Total liabilities | 2,833,298 | 3,004,634 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 498,306 | 501,645 |
| Capital surplus | 270,806 | 274,145 |
| Retained earnings | 1,142,981 | 1,389,786 |
| Treasury shares | — | -79 |
| Total shareholders' equity | 1,912,094 | 2,165,498 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 421,293 | 331,439 |
| Deferred gains or losses on hedges | -12,663 | -6,324 |
| Accumulated other comprehensive income | 408,629 | 325,114 |
| Total net assets | 2,320,723 | 2,490,613 |
| Total liabilities and net assets | 5,154,021 | 5,495,247 |

(2) Consolidated statements of income and comprehensive income

Consolidated statement of income
Second quarter

(units: 1,000 yen)

| | Q2 FY 2017 (from January 1, 2017, to June 30, 2017) | Q2 FY 2018 (from January 1, 2018, to June 30, 2018) |
|--|--|--|
| Net sales | 3,740,518 | 4,493,460 |
| Cost of sales | 2,720,332 | 3,389,891 |
| Gross margin on sales | 1,020,185 | 1,103,568 |
| Selling, general and administrative expenses | 726,161 | 815,231 |
| Operating income | 294,024 | 288,336 |
| Non-operating income | | |
| Interest and dividend income | 70 | 78 |
| Foreign exchange gains | 2,887 | — |
| Surrender value of insurance | 4,090 | 12,093 |
| Other | 5,465 | 2,058 |
| Total non-operating income | 12,513 | 14,231 |
| Non-operating expenses | | |
| Interest expenses | 1,181 | 152 |
| Foreign exchange losses | — | 7,605 |
| Other | 479 | 312 |
| Total non-operating expenses | 1,661 | 8,070 |
| Ordinary income | 304,876 | 294,497 |
| Extraordinary income | | |
| Gain on sales of investment securities | — | 66,368 |
| Total extraordinary income | — | 66,368 |
| Profit before income taxes | 304,876 | 360,866 |
| Income taxes - current | 117,648 | 139,132 |
| Income taxes - deferred | -27,710 | -25,069 |
| Total income taxes | 89,937 | 114,062 |
| Profit | 214,939 | 246,804 |
| Profit attributable to non-controlling interests | — | — |
| Profit attributable to owners of parent | 214,939 | 246,804 |

Consolidated statement of comprehensive income
Second quarter

(units: 1,000 yen)

| | Q2 FY 2017 (from January 1, 2017, to June 30, 2017) | Q2 FY 2018 (from January 1, 2018, to June 30, 2018) |
|---|--|--|
| Profit | 214,939 | 246,804 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 102 | -89,853 |
| Deferred gains or losses on hedges | -8,789 | 6,339 |
| Accumulated other comprehensive income | -8,686 | -83,514 |
| Comprehensive income | 206,252 | 163,290 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 206,252 | 163,290 |
| Comprehensive income related to non-controlling interests | — | — |