Note: This is a translation of a document written in Japanese and has been prepared for reference purpose only. The original disclosure in Japanese was released on January 11, 2019 at 15:00 (GMT +9).

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2019 <Japanese GAAP>

January 11, 2019

Company name		Rozetta Corp.		Listing Market TSE
Stock Code	6182	URL https://www.rozetta.jp		
Representative	(Title)	Representative Director and CEO	(Name) Junichi Goishi	
Contact	(Title)	Executive Officer, General Manager of Group Administration Division	(Name) Makoto Akita	TEL 03-6685-9570

Scheduled date of filing of quarterly report: January 11, 2019 Scheduled date of commencement of dividend payment: -

Preparation of supplementary material on quarterly financial results: Yes

Holding of quarterly financial results briefing: None

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2019
(March 1, 2018 to November 30, 2018)

(1) Consolidated Operating Results (Cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q3 FY2/19	2,058	38.5	179	-	179	-	129	-
Q3 FY2/18	1,486	5.8	9	-94.4	8	-94.5	-17	-

(NOTE) Comprehensive income Q3 FY2/19 129 million yen (-%) Q3 FY2/18 -17 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q3 FY2/19	12.79	12.24
Q3 FY2/18	-1.73	-

(NOTE) YoY changes in operating income and ordinary income for the third quarter of the fiscal year ending February 28, 2019 are not stated as these were more than 1,000%.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q3 FY2/19	2,352	1,045	44.4
FY2/18	2,089	894	42.8

(Reference) Shareholders' equity Q3 FY2/19 1,044 million yen FY2/18 894 million yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/18	-	0.00	-	0.00	0.00
FY2/19	-	0.00	-		
FY2/19 (Forecast)				0.00	0.00

(NOTE) Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending February 28, 2019 (March 1, 2018 -February 28, 2019)

Since the MT business has entered a period of rapid growth since the fourth quarter of the previous fiscal year, we are focusing our management policy on maximizing medium-to long-term growth rather than making short-term profits. Until the sales growth rate of the MT business stabilized from this term (approximately 150% compared to the previous year), we refrain from disclosing earnings forecasts as fixed figures. This is intended to make the most suitable choice aiming for long-term growth, depending on opportunities without being tied up with forecasted figures and adjusting expenses.

For the consolidated earnings forecasts for FY2/19, we only announced the minimum figures, for example, by indicating record-high sales are announced only as the lowest line of record-high sales (2,006 million yen) or over and record-high profit (operating income: 226 million yen) or over.

*Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(NOTE) For details, please refer to "2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)" on page 6 of the Attached Documents.

(3) Changes in accounting policies and changes or restatement of accounting estimates

① Changes in accounting policies due to revision of accounting standards, etc.: None
② Changes in accounting policies due to other reasons: None
③ Changes in accounting estimates: None
④ Restatement of prior period financial statements after error corrections: None

(4) Number of shares issued (common stock)

① Number of shares issued at the end of the period (including treasury stock)	Q3 FY2/19	10,173,460 shares	FY2/18	10,042,260 shares
② Treasury shares at the end of the year	Q3 FY2/19	286 shares	FY2/18	176 shares
③ Average number of shares during the period (cumulative)	Q3 FY2/19	10,088,413 shares	Q3 FY2/18	9,962,644 shares

*This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

*Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors.

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1. Qualitative Information on Results for the Current Quarter

(1) Results of Operations

In the cumulative period of the current third quarter (from March 1, 2018 to November 30, 2018), the orders received in the MT business continued to increase significantly after the release of the T-4OO (ver.2) in November 2017. We worked to strengthen our organizational structure by making upfront investments to rapidly expand our business in the future, such as developing new products and increasing the number of employees in all divisions, including development and sales divisions.

As a result, in the cumulative period of the current consolidated fiscal year, net sales increased by 38.5% year on year to 2,058,739 thousand yen. Operating income was 179,585 thousand yen (9,168 thousand yen in the same period of the previous fiscal year), ordinary income was 179,477 thousand yen (8,832 thousand yen in the same period of the previous fiscal year), and net income attributable to owners of parent was 129,025 thousand yen (17,236 thousand yen in the same period of the previous fiscal year).

The performance of each business segment is as follows:
The Company has changed the classification of reportable segments from the third quarter of the current fiscal year. For the following quarterly comparisons, the figures for the first quarter of the previous year have been reclassified to the new segment classification.

① MT business
In the MT business, sales were 586,066 thousand yen (up 204.0% year on year) and segment income was 46,262 thousand yen (up 364.4% year on year) as a result of a significant increase in orders received since we launched the T-4OO (ver.2) in November 2017.

② HT business
In the HT business, sales were almost unchanged at 1,203,406 thousand yen (up 4.1% year on year), and segment profit was 182,333 thousand yen (up 54.7% year on year) due to rationalization of SG&A expenses.

③ Crowdsourcing Business
In the Crowdsourcing business, net sales were 269,266 thousand (up 95.6% year on year) and segment profit was 44,511 thousand yen (compared with a loss of 67,466 thousand yen in the same period of the previous fiscal year) due to the addition of Quicktranslate, inc. as a group subsidiary from the previous fourth quarter and the amortization of goodwill of anydooR, Inc. in the previous fiscal year.

(2) Financial Position

Assets

At the end of the third quarter of the current fiscal year, current assets were 1,246,042 thousand yen, a decrease of 129,094 thousand yen from the end of the previous fiscal year. This was mainly due to a 177,128 thousand yen decrease in cash and deposits and a 54,443 thousand yen increase in notes and accounts receivable-trade. Non-current assets were 1,106 yen, an increase of 391,743 thousand yen from the end of the previous fiscal year. This was mainly due to a 93,730 thousand yen increase in software, a 28,726 thousand yen increase in property, plant and equipment resulting from the purchase of servers for development, and a 227,527 thousand yen increase in software in progress.

As a result, total assets stood at 2,352,143 thousand yen, an increase of 262,649 thousand yen from the end of the previous fiscal year.

Liabilities

Current liabilities stood at 976,117 thousand yen at the end of the third quarter, up 306,913 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 174,661 thousand yen in advances received, an increase of 44,395 thousand yen in income taxes payable, and an increase of 35,580 thousand yen in reserve for bonuses. Long-term liabilities amounted to 330,926 thousand yen, a decrease of 194,465 thousand yen from the end of the previous fiscal year. This was due to a 194,465 thousand yen decrease in long-term loans payable.

As a result, liabilities were 1,307,043 thousand yen, an increase of 112,448 thousand yen from the end of the previous fiscal year.

Net assets

Net assets at the end of the third quarter under review amounted to 1,045,099 thousand yen, an increase of 150,200 thousand yen from the end of the previous fiscal year. This was mainly due to an increase in retained earnings as a result of recording 129,025 thousand yen in profit attributable to owners of parent.

(3) Consolidated Earnings Forecasts

Since the MT business has entered a period of rapid growth since the fourth quarter of the previous fiscal year, we are focusing our management policy on maximizing medium-to long-term growth rather than making short-term profits. Until the sales growth rate of the MT business stabilized from this term (approximately 150% compared to the previous year), we refrain from disclosing earnings forecasts as fixed figures. This is intended to make the most suitable choice aiming for long-term growth, depending on opportunities without being tied up with forecasted figures and adjusting expenses.

For the consolidated earnings forecasts for FY2/19, we only announced the minimum figures, for example, by indicating record-high sales are announced only as the lowest line of record-high sales (2,006 million yen) or over and record-high profit (operating income: 226 million yen) or over.

(NOTE) Since business forecasts include various uncertainties, actual results may differ from the forecasts. Accordingly, please refrain from making a decision about investment or the like while fully relying on them.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (As of February 28, 2018)	Current third quarter (November 30, 2018)
Assets		
Current assets		
Cash and deposits	973,632	796,503
Notes and accounts receivable	268,101	322,544
Inventories	29,985	53,438
Other	114,169	78,804
Allowance for doubtful accounts	-10,751	-5,249
Total current assets	1,375,137	1,246,042
Fixed assets		
Property, plant and equipment	160,190	188,916
Intangible assets		
Goodwill	110,776	94,829
Software	303,673	397,404
Software in progress	97,956	325,484
Other	491	474
Total intangible assets	512,898	818,192
Investments and other assets	41,268	98,992
Total fixed assets	714,357	1,106,101
Total assets	2,089,494	2,352,143
Liabilities		
Current liabilities		
Notes and accounts payable-trade	111,286	144,208
Short-term borrowings	14,940	-
Current portion of long-term loans payable	260,140	257,128
Advances received	136,800	311,462
Income taxes payable	17,367	61,763
Provision for bonuses	20,389	55,970
Other	108,278	145,585
Total current liabilities	669,204	976,117
Long-term liabilities		
Long-term debt	525,391	330,926
Total long-term liabilities	525,391	330,926
Total liabilities	1,194,595	1,307,043
Net assets		
Shareholders' equity		
Capital stock	230,093	240,786
Capital surplus	1,210,282	1,220,974
Retained earnings	-545,709	-416,684
Treasury stock	-225	-435
Total shareholders' equity	894,440	1,044,641
Share subscription rights	458	458
Total net assets	894,898	1,045,099
Total liabilities and net assets	2,089,494	2,352,143

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income

Quarterly consolidated statements of income

(For the Nine-month Period)

(Thousands of yen)

	Previous third quarter (March 1, 2017 -November 30, 2017)	Current third quarter (March 1, 2018 -November 30, 2018)
Net sales	1,486,199	2,058,739
Cost of sales	678,859	822,736
Gross profit	807,339	1,236,003
Selling, general and administrative expenses	798,171	1,056,417
Operating income	9,168	179,585
Non-operating income		
Interest income	17	35
Dividends income	-	10
Subsidy income	600	-
Foreign exchange gain	515	371
Other	818	1,869
Total non-operating income	1,952	2,286
Non-operating expenses		
Interest expenses	2,109	2,090
Other	178	304
Total non-operating expenses	2,288	2,394
Ordinary income	8,832	179,477
Extraordinary income		
Income on sales of fixed assets	-	801
Surrender value of insurance	-	11,513
Total extraordinary income	-	12,315
Extraordinary loss		
Loss on retirement of noncurrent assets	0	3,149
Total extraordinary loss	0	3,149
Profit before income taxes	8,832	188,643
Income taxes	26,069	59,617
Net income (loss)	-17,236	129,025
Profit (loss) attributable to owners of parent	-17,236	129,025

(Consolidated Statements of Comprehensive Income)

(For the Nine-month Period)

(Thousands of yen)

	Previous third quarter (March 1, 2017 -November 30, 2017)	Current third quarter (March 1, 2018 -November 30, 2018)
Net income (loss)	-17,236	129,025
Comprehensive income	-17,236	129,025
Breakdown		
Comprehensive income attributable to owners of parent	-17,236	129,025

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumptions)

Not applicable.

(Notes on significant changes in shareholders' equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Not applicable.

(Application of accounting procedures specific to preparation of the consolidated quarterly financial statements)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax-effect accounting to income before income taxes for the consolidated fiscal year including 3rd quarter of the current fiscal year, and multiplying the estimated effective tax rate by the estimated effective tax rate.

(Segment Information)

I. Previous third quarter (March 1, 2017-November, 2017)

1. Information on net sales and profits or losses by reported segment

(Thousands of yen)

	Reportable Segments				Adjusted amount (NOTE) 1	Amount Posted in Quarterly Consolidated Statement of Income (NOTE) 2
	MT business	HT business	Crowdsourcing business	Total		
Net sales						
Net sales to unaffiliated customers	192,812	1,155,700	137,686	1,486,199	-	1,486,199
Intersegment sales or transfer	29,700	11,840	6,139	47,680	-47,680	-
Total	222,512	1,167,541	143,825	1,533,879	-47,680	1,486,199
Segment profit (loss)	9,960	117,854	-67,466	60,348	-51,180	9,168

(NOTE) 1. 51,180 thousand yen of adjustment in segment profit includes elimination of inter-segment transactions, amortization of goodwill not attributable to reportable segments, and company-wide expenses.
Amortization and corporate expenses are included. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income (loss) is adjusted with operating income in the quarterly consolidated statements of income.

II Current third quarter (March 1, 2018-November, 2018)

1. Information on net sales and profits or losses by reported segment

(Thousands of yen)

	Reportable Segments				Adjusted amount (NOTE) 1	Amount Posted in Quarterly Consolidated Statement of Income (NOTE) 2
	MT business	HT business	Crowdsourcing business	Total		
Net sales						
Net sales to unaffiliated customers	586,066	1,203,406	269,266	2,058,739	-	2,058,739
Intersegment sales or transfer	1,800	164,042	193,680	359,523	-359,523	-
Total	587,866	1,367,449	462,947	2,418,263	-359,523	2,058,739
Segment profit (loss)	46,262	182,333	44,511	273,106	-93,521	179,585

(NOTE) 1. 93521 thousand yen of adjustment in segment profit includes elimination of inter-segment transactions, amortization of goodwill not attributable to reportable segments, and company-wide expenses.
Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

2. Changes in reportable segments

In conjunction with the spin-off of the GLOZE Business Division to Glova, Inc.
Since the third quarter of the current fiscal year, "GLOZE business," "Translation and Interpretation business," and "Corporate Training business" have been included in the "HT business" segment.
As a result, our reportable segments consist of the following three segments: MT business, HT business, and Crowdsourcing business.

We have provided consigned translation services to standardize quality, reduce costs, and shorten lead times by combining MT (machine translation) technology and HT (human translation).

However, as the precision of our MT increased significantly in the previous consolidated fiscal year, our current management task has shifted to the stage of "fully automated (the complete replacement of HT by MT)".
There are no fundamental differences between the GLOZE business and Glova 's translation business, so we will reorganize the segment to streamline the organization.

Segment information for the previous third quarter was prepared by the revised classification method.
Please refer to the "1. Information on net sales and profits or losses by reported segment for the previous third quarter (March 1, 2017-November 30, 2017)"

(Per-stock Information)

Net income (loss) per share, basis for calculation, amount diluted net income per share, and basis for calculation are as follows.

	Previous third quarter (March 1, 2017 -November, 2017)	Current third quarter (March 1, 2018 -November, 2018)
(1) Net income (loss) per share	-1.73 yen	12.79 yen
(Basis of calculation)		
Net income (loss) attributable to owners of parent (thousands of yen)	-17,236	129,025
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income (loss) attributable to owners of parent related to common stock (thousands of yen)	-17,236	129,025
Average number of shares of common stock during the period (shares)	9,962,644	10,088,413
(2) Diluted net income per share	-	12.24
(Basis of calculation)		
Adjusted amount of net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	-	455,950
Outline of potential shares that had not been included in the calculation of diluted quarterly net income per share because they had no dilutive effect, and that had changed significantly since the end of the previous consolidated fiscal year	-	-

(NOTE) Diluted net income per share for the nine months ended December 31, 2015 is not presented because net loss per share was recorded despite the existence of potential shares.

(Significant subsequent events)

Establishment of a subsidiary

Based on a resolution of the Board of Directors held on October 15, 2017, our company established a development subsidiary of RPA (*1) / AIaaS (*2) on December 7, 2018 as described below.

(*1) RPA (Robotic Process Automation: Technology that automates white-collar businesses.

(*2) AIaaS (AI as a Service): A form of provision in which artificial intelligence can be used as a service only when it is necessary.

(1) Reasons for establishing the subsidiary

In November 2017, we launched T-4OO ver.2, an AI translation service. In order to further develop this technology as "RPA (Robotic Process Automation)" and "AIaaS (AIas aService)", we established a subsidiary separated from our previous organization as an in-group startup company run by young people who will lead the next generation.

(2) Outline of subsidiary

① Company name: CLASSIII Co., Ltd.
② Head Office Location: 7-1, Kanda Jimbo-cho 3-chome, Chiyoda-ku, Tokyo
③ Representative: Ryutaro Fujii, President and Representative Director
④ Outline of business: development of RPA/AIaaS
⑤ Capital: 10,000 thousand yen
⑥ Date of Establishment: December 7, 2018
⑦ Fiscal year-end: February
⑧ Investment ratio: Rozetta Corp. 70%
Ryutaro Fujii 10%
Liu Yi 10%
Yoshihide Shiono 10%

Merger of consolidated subsidiaries

At the meeting of the Board of Directors held on January 11, 2019, the Company resolved to conduct an absorption-type merger of Inter media Inc. by Glova Inc., a consolidated subsidiary of the Company, and an absorption-type merger of Quicktranslate, inc. by anydooR, Inc.

I. Absorption-type merger of Inter media Inc. by Glova Inc.

Summary of transactions

(1) Name and business of the acquired company

① Surviving company
Name: Glova Inc.
Business outline: translation, interpretation, and corporate language training

② Absorbed company
Name: Inter media Inc.
Business outline: technical translation, copy writing, DTP, design and printing

(2) Date of business combination

March 1, 2019

(3) Legal form of business combination

Absorption-type merger with Glova Inc as the surviving company and Inter media Inc. as the absorbed company

(4) Name after business combination

Glova Inc.

(5) Other matters related to the outline of the transaction

Aim of the business combination is to further improve management efficiency.

II. Absorption-type merger of Quicktranslate, inc. by anydooR, Inc.

Summary of transactions

(1) Name and business of the acquired company

① Surviving company

Name: anydooR, Inc.

Business outline: The user-participatory bilingual platform service on the website

② Absorbed company

Name: Quicktranslate, inc.

Business outline: translator matching service

(2) Date of business combination

March 1, 2019

(3) Legal form of business combination

Absorption-type merger in which anydooR, Inc. is the surviving company and Quicktranslate, inc. is the absorbed company

(4) Name after business combination

Xtra Inc.

(5) Other matters related to the outline of the transaction

With the aim of further improving management efficiency.

III. Outline of accounting procedure

In accordance with the "Accounting Standard for Business Combinations" and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," the Company plans to treat these transactions as transactions under common control.