Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. Please also note that this English financial results report reflects the amendments made to the financial results report in Japanese language originally announced on August 3, 2018 and amended on August 8, 2018.

August 3, 2018

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2019 <under Japanese GAAP>

Company name: **DTS Corporation**
Stock listing: Tokyo Stock Exchange, First Section
Stock code: 9682
URL: http://www.dts.co.jp/
Representative: Koichi Nishida, Representative Director and President
Inquiries: Takeo Haruki, General Manager, Accounting Department
TEL: +81-3-3948-5488

Scheduled date to file quarterly securities report: August 8, 2018
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Million yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first three months of the fiscal year ending March 31, 2019 (from April 1, 2018 to June 30, 2018)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	20,311	0.6	1,887	21.1	1,937	22.8	1,313	28.9
June 30, 2017	20,187	6.1	1,558	3.4	1,578	1.6	1,019	(7.7)

Note: Comprehensive income
Three months ended June 30, 2018: ¥1,372 million [14.6%]
Three months ended June 30, 2017: ¥1,197 million [5.5%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2018	56.14	–
June 30, 2017	44.46	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
June 30, 2018	59,946	46,679	77.9
March 31, 2018	61,365	46,962	76.5

Reference: Equity
As of June 30, 2018: ¥46,679 million As of March 31, 2018: ¥46,962 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	–	35.00	–	45.00	80.00
Fiscal year ending March 31, 2019	–				
Fiscal year ending March 31, 2019 (Forecasts)		35.00	–	45.00	80.00

Notes: 1. Revisions to the forecasts of dividends most recently announced: None

2. The second quarter-end dividend for the fiscal year ended March 31, 2018 includes a 45th anniversary commemorative dividend of ¥5.

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2019	87,000	4.6	8,700	2.1	8,750	2.0	5,850	1.5	250.73

Note: Revisions to the earnings forecasts most recently announced: None

* Notes

(1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes

Note: For the details, please refer to '(Application of specific accounting for preparing quarterly consolidated financial statements) in (4) Notes to quarterly consolidated financial statements in 2. Quarterly Consolidated Financial Statements and Significant Notes Thereto' on page 10 of the attached materials.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

a. Changes in accounting policies due to revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement of prior period financial statements after error corrections: None

(4) Number of issued shares (common stock)

a. Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2018	25,222,266 shares
As of March 31, 2018	25,222,266 shares

b. Number of treasury shares at the end of the period

As of June 30, 2018	1,913,720 shares
As of March 31, 2018	1,778,735 shares

c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2018	23,401,571 shares
Three months ended June 30, 2017	22,921,289 shares

* **Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

* **Proper use of earnings forecasts, and other special matters**

  The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors.

  For matters regarding the above earnings forecasts, please refer to '(2) Information regarding consolidated earnings forecasts and other forward-looking statements' in '1. Qualitative Information Regarding Settlement of Accounts for the First Three Months,' on page 4 of the attached materials.

Attached Materials

Contents

1. Qualitative Information Regarding Settlement of Accounts for the First Three Months

(1) Information regarding consolidated operating results

In the three months under review, the Japanese economy recovered at a modest pace due to ongoing improvements in the employment and income environments. However, the outlook has remained unclear due mainly to uncertainty in overseas economies, caused by protectionist policies of the U.S. and geopolitical risk in the East Asia and Middle East, along with the impact of fluctuations in financial and capital markets.

The environment in which the information services industry operates is projected to remain robust, with investment in information technology growing moderately against a background of improved corporate earnings and growth in digital business utilizing so-called CAMBRIC technology, a general term for Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity.

Amid this environment, the DTS Group is working toward achieving three “Changes”: Management innovation, Business reform and Marketing reform, guided by the vision of “Creating New Value Change! for the Next” under the medium-term management plan (April 2016 to March 2019). Specifically, the Group has been focusing on key activities that have entailed “introducing segment-specific growth strategies,” “implementing corporate reorganization,” and “accelerating management activities.”

With the fiscal year under review being the final year of the medium-term management plan which aims to make changes for the future, the Group will promote efforts that involve strengthening its marketing capability and SI capability, carrying out initiatives for new business, and strengthening the Group’s management foundation. Given that the Group’s highest priority objective is to achieve growth of its top-line, the Group is aiming for sustainable growth and enhanced profit-earning capabilities geared to achieving an operating margin of 10% again following the previous fiscal year.

As part of its focus on “strengthening its marketing capability and SI capability,” the Company has continued to implement its “Plus One Strategy” and “BiG8 Strategy” in order to build a robust customer base centered on the Sales Sector. Moreover, in order to widely respond to customer needs as a one-stop provider particularly with respect to developing cloud solutions and implementing security countermeasures, the Company has established the SI Promotion Division in the Sales Sector, and accordingly this new division has been working together with account sales representatives to strengthen proposal activities.

With respect to solutions drawing on new technologies, the Company has been pursuing sales growth by hosting exhibits at trade shows, including exhibits showcasing its memory monitoring tools for streamlining development of in-vehicle embedded software and its connected industry solutions linking manufacturing operators through information technologies.

Moreover, the Group expanded its total off-shore orders, including those of overseas group companies, to ¥400 million, up 12% year on year, having made progress in strengthening frameworks with respect to its off-shore operating bases. To such ends, DTS (Shanghai) CORPORATION upgraded its development framework by working in partnership with local enterprises, while DTS SOFTWARE VIETNAM CO., LTD. has been focusing on efforts that involve disseminating DTS’s own development standards (PMS) and training employees in that regard. The Group is focusing on heightening its SI competitive strengths by further increasing the ratio of off-shore development.

With respect to “carrying out initiatives for new business,” the Group has been extending initiatives involving digital business that utilizes new technologies such as CAMBRIC and FinTech. In the realm of cloud computing, the Group has been expanding its sales of solutions for enabling hybrid cloud environments that provide for separate access to physical systems and cloud computing, such as is the case with the D-RAID ADVANCE hyper-converged infrastructure[Note 1].

With respect to FinTech, the Group has been working on sales particularly to virtual currency exchanges, having made progress in developing money laundering countermeasure solutions[Note 2] handling transactions involving both real and virtual currencies.

In addition, the Group has been concentrating on acquiring new customers and developing new technological fields through such efforts as hosting exhibits at the SIBOS 2018[Note 3] and ASOCIO ICT Summit 2018[Note 4] events in order to strengthen marketing activities looking toward overseas markets.

Note 1: Hyper-converged infrastructure refers to a simply-configured virtual platform that integrates computing and storage functions within a server, thereby yielding an infrastructure that is easier to configure and manage.

Note 2: "Money laundering countermeasure solutions" refers to solutions comply with the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" as released by Japan's Financial Services Agency.

Note 3: SIBOS is an international conference specifically for the financial industry, held annually by Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Note 4: The ASOCIO ICT Summit is an international forum held by an international organization whose membership consists of entities in the IT services-related industry from 24 different countries. The forum's aim is to promote development of the IT industry in the Asian-Oceanic region.

With regard to "strengthening the Group's management foundation," the Company has decided to absorb DATALINKS CORPORATION in October 2018, with the aims of accelerating decision-making and streamlining management. The Group will take steps to strengthen its sales activities and development platforms with the aim of achieving top-line growth, which will involve maximizing business synergies of its solutions and BPO businesses, and achieving optimal allocation of its management resources.

In addition, the Company has embarked on trial operations of a staggered working hours system with the aims of enabling more flexible working arrangements and better employee health management. The Company is upgrading its in-house information system environments in part by shifting to remote access and thin-client solutions so that it can make use of arrangements for telecommuting from home and satellite offices going forward.

Furthermore, aiming to expedite management decisions and realize prompt provision of information to investors, the Group is working with united effort to review operational processes and put in place infrastructure such as systems to enable more prompt preparation of financial results.

As a result of the above, the Group reported net sales of ¥20,311 million for the three months under review, an increase of 0.6% year on year. This mainly reflected firm performance of development projects for the information and telecommunications industry and product sales in the embedding business.

Gross profit rose by 7.3% year on year to ¥3,933 million. The increase resulted from improvement in cost ratios and decreases in unprofitable projects. Selling, general and administrative expenses decreased by 3.0% year on year to ¥2,045 million, mainly reflecting lower one-time expenses and other such costs associated with DTS INSIGHT CORPORATION, established in the previous fiscal year. Consequently, operating profit was ¥1,887 million, up 21.1% year on year, and ordinary profit was ¥1,937 million, up 22.8% year on year. Profit attributable to owners of parent was ¥1,313 million, up 28.9% year on year, due mainly to an increase in operating profit.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	20,311	0.6	13,284	(3.2)
Operating profit	1,887	21.1	1,306	(13.4)
Ordinary profit	1,937	22.8	1,644	(6.6)
Profit attributable to owners of parent	1,313	28.9	–	–
Profit (Non-consolidated)	–	–	1,223	(4.2)

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Public Sector	5,806	(16.4)
Corporate, Communications and Solutions	5,855	17.3
Operation BPO	3,185	5.1
Regional, Overseas, Etc.	5,464	4.8
Total	20,311	0.6

Summaries of the operational conditions of each segment are as follows.

Finance and Public Sector Segment

While development projects for megabanks and life insurance companies remained robust, sales in this segment totaled ¥5,806 million, down 16.4% year on year, due to the impact of integration projects, etc.

Corporate, Communications and Solutions Segment

Sales of products in embedding business as well as development projects for information and telecommunications and transport industries remained strong. As a result, sales in this segment totaled ¥5,855 million, up 17.3% year on year.

Operation BPO Segment

System operation and maintenance services were firm in industries such as life insurance and information and telecommunications. As a result, sales in this segment totaled ¥3,185 million, up 5.1% year on year.

Regional, Overseas, Etc. Segment

Development projects for financial industries remained strong. As a result, sales in this segment totaled ¥5,464 million, up 4.8% year on year.

(2) Information regarding consolidated earnings forecasts and other forward-looking statements

With respect to the full-year consolidated earnings forecasts, there is no change from the earnings forecasts announced on May 10, 2018.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	32,624,664	32,610,712
Notes and accounts receivable - trade	14,921,928	12,532,003
Merchandise and finished goods	298,445	371,252
Work in process	726,918	1,347,117
Raw materials and supplies	27,261	29,445
Other	597,454	652,869
Allowance for doubtful accounts	(6,451)	(2,689)
Total current assets	49,190,221	47,540,712
Non-current assets		
Property, plant and equipment	3,548,512	3,522,733
Intangible assets		
Goodwill	286,673	253,931
Other	425,468	448,391
Total intangible assets	712,142	702,322
Investments and other assets		
Other	7,921,657	8,187,792
Allowance for doubtful accounts	(6,918)	(6,918)
Total investments and other assets	7,914,738	8,180,873
Total non-current assets	12,175,393	12,405,930
Total assets	61,365,615	59,946,642

(Thousand yen)

	As of March 31, 2018	As of June 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	4,844,019	5,435,165
Income taxes payable	1,936,946	667,979
Provision for bonuses	3,103,713	1,511,999
Provision for directors' bonuses	67,780	15,533
Provision for loss on order received	25,286	85,651
Other	3,603,295	4,758,788
Total current liabilities	13,581,043	12,475,117
Non-current liabilities		
Provision for directors' retirement benefits	35,341	35,381
Net defined benefit liability	682,036	705,624
Other	104,392	51,310
Total non-current liabilities	821,770	792,316
Total liabilities	14,402,813	13,267,434
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus	6,224,023	6,224,023
Retained earnings	36,395,303	36,654,198
Treasury shares	(2,783,511)	(3,384,406)
Total shareholders' equity	45,948,815	45,606,816
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	963,575	1,032,144
Foreign currency translation adjustment	43,956	32,986
Remeasurements of defined benefit plans	6,454	7,260
Total accumulated other comprehensive income	1,013,986	1,072,392
Total net assets	46,962,801	46,679,208
Total liabilities and net assets	61,365,615	59,946,642

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income (cumulative)

(Thousand yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	20,187,401	20,311,702
Cost of sales	16,520,621	16,378,537
Gross profit	3,666,779	3,933,165
Selling, general and administrative expenses	2,108,435	2,045,597
Operating profit	1,558,344	1,887,568
Non-operating income		
Interest income	2,407	3,381
Dividend income	24,372	26,911
Foreign exchange gains	5,786	–
Other	17,897	22,474
Total non-operating income	50,464	52,768
Non-operating expenses		
Interest expenses	307	–
Foreign exchange losses	–	1,255
Commission fee	27,213	–
Other	3,145	1,423
Total non-operating expenses	30,665	2,679
Ordinary profit	1,578,143	1,937,656
Extraordinary losses		
Loss on sales of golf club memberships	–	1,925
Loss on revision of retirement benefit plan	22,587	–
Other	1,084	–
Total extraordinary losses	23,671	1,925
Profit before income taxes	1,554,471	1,935,730
Income taxes	519,495	621,876
Profit	1,034,976	1,313,854
Profit attributable to non-controlling interests	15,785	–
Profit attributable to owners of parent	1,019,190	1,313,854

Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit	1,034,976	1,313,854
Other comprehensive income		
Valuation difference on available-for-sale securities	172,102	68,569
Foreign currency translation adjustment	(10,035)	(10,969)
Remeasurements of defined benefit plans, net of tax	503	806
Total other comprehensive income	162,570	58,406
Comprehensive income	1,197,547	1,372,260
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,179,757	1,372,260
Comprehensive income attributable to non-controlling interests	17,789	–

(3) Consolidated statements of cash flows

(Thousand yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Cash flows from operating activities		
Profit before income taxes	1,554,471	1,935,730
Depreciation	97,354	93,099
Amortization of goodwill	56,891	32,742
Increase (decrease) in provision for bonuses	(1,683,711)	(1,591,194)
Increase (decrease) in provision for directors' bonuses	(48,932)	(52,247)
Increase (decrease) in provision for loss on order received	17,592	60,364
Increase (decrease) in provision for directors' retirement benefits	(10,912)	40
Increase (decrease) in net defined benefit liability	42,506	24,754
Decrease (increase) in notes and accounts receivable - trade	1,872,870	2,386,187
Decrease (increase) in inventories	(573,111)	(695,292)
Increase (decrease) in notes and accounts payable - trade	(360,145)	592,172
Other, net	1,023,750	864,577
Subtotal	1,988,623	3,650,935
Interest and dividend income received	27,615	31,197
Income taxes paid	(1,481,232)	(1,797,839)
Net cash provided by (used in) operating activities	535,007	1,884,293
Cash flows from investing activities		
Purchase of property, plant and equipment	(36,691)	(9,803)
Purchase of intangible assets	(26,051)	(63,094)
Purchase of investment securities	(300,000)	(400,017)
Proceeds from redemption of investment securities	–	200,000
Payments into time deposits	(100,000)	(100,000)
Proceeds from withdrawal of time deposits	100,000	100,000
Purchase of shares of subsidiaries and associates	(18,177)	–
Other, net	225	1,919
Net cash provided by (used in) investing activities	(380,695)	(270,996)
Cash flows from financing activities		
Cash dividends paid	(988,157)	(1,013,965)
Dividends paid to non-controlling interests	(31,313)	(18)
Purchase of treasury shares	(603,314)	(602,094)
Net cash provided by (used in) financing activities	(1,622,786)	(1,616,079)
Effect of exchange rate change on cash and cash equivalents	(13,990)	(11,170)
Net increase (decrease) in cash and cash equivalents	(1,482,465)	(13,952)
Cash and cash equivalents at beginning of period	30,459,352	32,454,447
Cash and cash equivalents at end of period	28,976,887	32,440,495

(4) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Notes on substantial changes in the amount of shareholders' equity)

No items to report.

(Application of specific accounting for preparing quarterly consolidated financial statements)

(Calculation of taxes)

Taxes are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the first quarter under review, and next by multiplying the quarterly profit before income taxes by such estimated effective tax rate.

(Additional information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances)

The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter ended June 30, 2018. Accordingly, deferred tax assets were presented under "Investments and other assets" and deferred tax liabilities were presented under "Non-current liabilities."

(Significant subsequent events)

Absorption-type merger of a consolidated subsidiary

The Company has resolved to implement an absorption-type merger with its consolidated subsidiary, DATALINKS CORPORATION, at a meeting of its Board of Directors held on August 3, 2018, and entered into a merger agreement on the same date.

(1) Outline of transaction

1) Name of companies involved in business combination and nature of their business

Name: DATALINKS CORPORATION

Business: Services

2) Date of transaction

October 1, 2018 (planned)

3) Legal form of the business combination

An absorption-type merger, in which the Company will be the surviving company and DATALINKS CORPORATION will be the absorbed company.

4) Name of company after transaction

DTS Corporation

5) Other items regarding outline of transaction

With the aim of expanding the operational synergies with the system solution service business and the BPO services business of DATALINKS CORPORATION and further promoting the efficient utilization of resources, the Company decided that the best way to optimally utilize the management resources of both companies, improve management efficiency and speed up the decision-making processes was to execute an absorption-type merger with DATALINKS CORPORATION in which the Company will become the surviving company.

(2) Outline of accounting procedures to be applied

The transaction will be accounted for as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

3. Others

Production, orders and sales

(1) Production

Production in the three months under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	5,806,241	(16.4)
Corporate, Communications and Solutions	5,855,093	17.3
Operation BPO	3,185,854	5.1
Regional, Overseas, Etc.	5,464,512	4.8
Total	20,311,702	0.6

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.

(2) Orders

Orders in the three months under review are as follows.

Segment	Order volume (Thousand yen)	Year-on-year change (%)	Order backlog (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	2,331,438	(27.1)	10,391,156	(0.3)
Corporate, Communications and Solutions	5,633,139	15.4	6,509,108	(2.3)
Operation BPO	901,177	29.4	8,424,905	12.9
Regional, Overseas, Etc.	5,289,415	(5.5)	3,887,688	5.9
Total	14,155,171	(1.5)	29,212,858	3.5

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.

(3) Sales

Sales in the three months under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	5,806,241	(16.4)
Corporate, Communications and Solutions	5,855,093	17.3
Operation BPO	3,185,854	5.1
Regional, Overseas, Etc.	5,464,512	4.8
Total	20,311,702	0.6

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.