April 26, 2019

Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 <under Japanese GAAP>

Company name: **DTS Corporation**
Stock listing: Tokyo Stock Exchange, First Section
Stock code: 9682
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Scheduled date of General Shareholders' Meeting: June 21, 2019
Scheduled date to commence dividend payments: June 24, 2019
Scheduled date to file annual securities report: June 24, 2019
Preparation of supplementary material on financial results: Yes
Holding of 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 fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2019	86,716	4.3	9,789	14.8	9,929	15.8	6,817	18.2
March 31, 2018	83,163	4.1	8,523	6.7	8,574	5.9	5,765	12.6

Note: Comprehensive income
Fiscal year ended March 31, 2019: ¥6,871 million [9.6%]
Fiscal year ended March 31, 2018: ¥6,269 million [13.9%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2019	292.21	–	13.9	15.5	11.3
March 31, 2018	247.90	–	12.9	14.5	10.2

Reference: Equity in earnings (losses) of associates:
Fiscal year ended March 31, 2019: ¥– million Fiscal year ended March 31, 2018: ¥– million

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2019	66,982	51,353	76.7	2,203.22
March 31, 2018	61,365	46,962	76.5	2,003.23

Reference: Equity
As of March 31, 2019: ¥51,353 million As of March 31, 2018: ¥46,962 million

Note: The Group has applied the “Partial Amendments to Accounting Standards for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the fiscal year ended March 31, 2019, and the said accounting standards have also been retrospectively applied to the values from the previous fiscal year.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2019	6,947	(1,770)	(2,477)	35,140
March 31, 2018	6,761	(1,806)	(2,967)	32,454

2. Dividends

	Annual dividends					Total dividend payments	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended March 31, 2018	–	35.00	–	45.00	80.00	1,875	32.3	4.2
Fiscal year ended March 31, 2019	–	35.00	–	60.00	95.00	2,214	32.5	4.5
Fiscal year ending March 31, 2020 (Forecasts)	–	20.00	–	30.00	50.00		33.5	

Note: A 45th anniversary commemorative dividend of ¥5 is included in the dividend for the second quarter-end of the fiscal year ended March 31, 2018.

Note: At the Board of Directors’ meeting held on April 26, 2019, it was decided to conduct a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated annual dividend per share (forecast) for the fiscal year ending March 31, 2020 takes the said stock split into account. The annual dividend per share (forecast) for the fiscal year ending March 31, 2020 without taking the stock split into account would be ¥100 (interim dividend of ¥40 and year-end dividend of ¥60).

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(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, 2020	93,500	7.8	10,000	2.1	10,150	2.2	6,900	1.2	149.11

Note: The basic earnings per share (forecast) for the fiscal year ending March 31, 2020 takes the stock split mentioned in the note under “2. Dividends” into account. The basic earnings per share (forecast) for the fiscal year ending March 31, 2020 without taking the stock split into account would be ¥298.22.

* Notes

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

(2) 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

(3) Number of issued shares (common stock)

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

As of March 31, 2019	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 March 31, 2019	1,913,921 shares
As of March 31, 2018	1,778,735 shares

c. Average number of outstanding shares during the period

Fiscal year ended March 31, 2019	23,331,666 shares
Fiscal year ended March 31, 2018	23,258,209 shares

(Reference) Non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2019	61,473	8.4	7,675	10.0	8,098	10.9	5,768	14.1
March 31, 2018	56,696	0.9	6,978	1.4	7,302	2.4	5,054	2.4

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2019	247.23	–
March 31, 2018	217.31	–

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2019	60,863	49,821	81.9	2,137.52
March 31, 2018	55,759	46,469	83.3	1,982.21

Reference: Equity

As of March 31, 2019: ¥49,821 million As of March 31, 2018: ¥46,469 million

Note: The Group has applied the "Partial Amendments to Accounting Standards for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the fiscal year ended March 31, 2019, and the said accounting standards have also been retrospectively applied to the values from the previous fiscal year.

* **Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.**

* **Proper use of earnings forecasts, and other special matters**
  (1) At the Board of Directors' meeting held on April 26, 2019, the Company decided to conduct a 1:2 stock split for common stock with an effective date of July 1, 2019.
  (2) 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 the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to '(1) Overview of operating results for the fiscal year under review in 1. Overview of Operating Results and Others' on page 2 of the attached materials.

Attached Materials

Contents

1. Overview of Operating Results and Others

(1) Overview of operating results for the fiscal year under review

1) Operating results for the fiscal year under review

In the fiscal year under review, in spite of weaknesses being observed in some areas of export and production, it is judged that 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 regarding trends and policies 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, requiring a more cautious approach from corporate management.

Meanwhile, 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 fiscal year of the medium-term management plan which aims to make changes for the future, the Group has promoted efforts in the three areas of strengthening its marketing capability and SI capability, carrying out initiatives for new business, and strengthening the Group's management foundation, and as a result of continuing to aim for sustainable growth and enhanced profit-earning capabilities from the previous fiscal year, it has achieved nine straight fiscal years of increased profits and three straight fiscal years with an operating margin of 10% or higher.

■ Strengthening marketing capability and SI capability

As a result of the "Plus One Strategy" and "BiG8 Strategy" promoted mainly by the Sales Sector, the Company has built a new customer base, with orders received from new customers rising by ¥5,200 million year on year. 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 as a result of promoting complex projects including applications, platforms, and operation, the Company has achieved orders for large SI projects.

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, its connected industry solutions linking manufacturing operators through information technologies and its hybrid cloud solutions utilizing virtualization technology.

At the same time, the Company has worked to strengthen its presence in the global market with the cooperation of Nelito Systems Limited (India) through acquiring new customers by hosting exhibits at the SIBOS 2018[Note 1] and JISA/ASOCIO Digital Masters Summit 2018[Note 2] events and growing businesses that utilize new technologies.

Moreover, the Company has made progress in strengthening frameworks with respect to its off-shore operating bases, with DTS (Shanghai) CORPORATION upgrading its development framework by working in partnership with local enterprises, while DTS SOFTWARE VIETNAM CO., LTD. focused on efforts that involve disseminating DTS' own development standards (PMS) and training employees in that regard, and it has worked to increase SI competitiveness. The Group expanded its total offshore orders, including those of overseas group companies, to ¥1,500 million, up 14% year on year.

In the megabank large scale projects in which the Company is participating, the Company is contributing to the smooth system migration and stable operations by making use of its longstanding technological and organizational capabilities in financial-sector system development.

■ 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 3).

With regard to robotics-related business, the Company has seen rising orders, primarily in the finance and insurance industries, for projects that utilize the Company's business know-how and RPA technology, such as the one boosting clerical work efficiency by automation.

Regarding the living space presentation CAD software "Walk in home," the Company released a refresh in September in this fiscal year involving significant upgrades to functionality. As part of these upgrades, we deployed a proprietary CG engine, which allows the realization of dramatically improved processing speeds and CG representations with superior image quality, and so on, with the goal of improving CAD operator productivity and enhancing business efficiency.

With respect to FinTech, in November in this fiscal year, the Company launched "AMLion," a solution that takes measures to prevent money laundering. This solution implements a strict customer management using advanced customer recognition based on AI technology for the use of accounts for both legal currency and virtual currency, and it is capable of detecting "suspicious transactions" based on originally developed rules that have been accumulated from the respective financial institutions. Some virtual currency exchanges have decided to adopt "AMLion," and the Company is working to further expand sales.

As for e-Gov(Note 4), in December in this fiscal year, the Company launched eG-Connector, a solution for SAP human resources system that provides a one-stop location for such functions as filing applications to government agencies and performing data management of public documents issued by e-Gov.

With regard to AI, in January in this fiscal year, the Company began providing the data analysis platform powered by AI, DAVinCI LABS. This solution offers automated and simplified machine learning technology that enables anyone familiar with the work processes to easily use high-level predictive models, even if they are not an expert data analysts.

■ Strengthening the Group's management foundation

The Company absorbed DATALINKS CORPORATION in October in this fiscal year, 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.

Furthermore, in order to expand off-shore SI service infrastructure and promote business in China, the Group company, DTS (Shanghai) CORPORATION, raised its stake in Dalian Super Electronics Co., Ltd to 51% in March in this fiscal year.

Also, in order to develop business cooperation in North America and Asia, the Company moved forward with negotiations regarding additional investment in Nelito Systems Limited with an eye to making it a subsidiary in the future.

Furthermore, in October in this fiscal year a new expenses system was deployed, and we have been promoting improved business efficiency through initiatives involving paperless processes and the use of mobile devices.

Aiming to expedite management decisions and provide more timely information to investors, the Group has worked as one to implement efforts that will enable financial results to be prepared more promptly by reviewing operational processes and putting in place infrastructure such as new systems, which has resulted in six fewer business days year on year.

With the aims of enabling work-style reforms and better employee health management, the Company is promoting such efforts as participation in Declaration of Healthy Company(Note 5) for Tokyo Federation of National Federation of Health Insurance Societies and trial operation of a staggered working hours system. The Company is upgrading its in-house information system environment in part by shifting to remote access and thin-client solutions so that employees can expand their use of telecommuting from home and of satellite offices going forward.

Note 1: International conference specifically for the financial industry, held annually by Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Note 2: International forum which was hosted by the Japan Information Technology Services Industry Association (JISA) in November in this fiscal year with the aim of promoting development of the IT industry in the Asian and Oceania regions. Entities in the IT-services-related industry from 24 different countries attended.

Note 3: 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 4: A portal site providing a comprehensive range of government administrative information through which searches of information provided by the government can be made and government administrative procedures can be carried out by via the Internet.

Note 5: Declarations by the entire business office to implement health-creation initiatives with the aim of being a "Company of Health Excellence" accredited by Tokyo Promotion Council for Declaration of Healthy Company comprising 13 entity members including Tokyo Federation of National Federation of Health Insurance Societies.

The Group aims to achieve sustainable expansion and growth, and to this end, it has developed a new medium-term management plan commencing in April 2019. As the final stage of its long-term management targets, the Group aims to achieve net sales of ¥100,000 million or higher in fiscal 2021 and maintain an operating margin of 10% or higher, with the vision of becoming a "next value creator providing new value to the society of tomorrow."

As a result of the above, the Group reported net sales of ¥86,716 million for the fiscal year under review, an increase of 4.3% year on year. This mainly reflected a strong performance in the corporate communications field, the social security field, the operation BPO field, and the embedded in-vehicle field.

Gross profit rose by 6.5% year on year to ¥17,517 million. The increase resulted from improvement in cost ratios. Selling, general and administrative expenses decreased by 2.5% year on year to ¥7,727 million, mainly reflecting the effect of business integration with DATALINKS CORPORATION and lower expenses associated with the relocation of the corporate headquarters in the previous fiscal year. Consequently, operating profit was ¥9,789 million, up 14.8% year on year, and ordinary profit was ¥9,929 million, up 15.8% year on year. Profit attributable to owners of parent was ¥6,817 million, up 18.2% 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	86,716	4.3	61,473	8.4
Operating profit	9,789	14.8	7,675	10.0
Ordinary profit	9,929	15.8	8,098	10.9
Profit attributable to owners of parent	6,817	18.2	–	–
Profit (Non-consolidated)	–	–	5,768	14.1

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Public Sector	25,724	(3.3)
Corporate, Communications and Solutions	26,746	12.3
Operation BPO	13,387	8.6
Regional, Overseas, Etc.	20,858	2.1
Total	86,716	4.3

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

Finance and Public Sector Segment

While development projects for asset management, pensions, mutual aid and life insurance remained steady, sales in this segment totaled ¥25,724 million, down 3.3% year on year, due to the impact of integration projects, etc.

Corporate, Communications and Solutions Segment

The information and telecommunications industry, transport industry and embedding business in fields such as in-vehicle and broadcasting remained strong. As a result, sales in this segment totaled ¥26,746 million, up 12.3% year on year.

Operation BPO Segment

System operation and maintenance services were firm in industries such as life insurance and retail. As a result, sales in this segment totaled ¥13,387 million, up 8.6% year on year.

Regional, Overseas, Etc. Segment

Development projects for financial industries remained strong. As a result, sales in this segment totaled ¥20,858 million, up 2.1% year on year.

2) Outlook for the next fiscal year

The Japanese economy is likely to remain unclear due to protectionist policies in the US and concerns of an economic slowdown in China. Meanwhile, in the information services industry, the DTS Group forecasts firm growth, including market development and creation of demand due to prospects for development of innovation, such as through the expansion of digital business that utilizes new technologies such as CAMBRIC (Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity).
In order to contribute to the realization of a sustainable society, the Group will develop the new medium-term management plan (April 2019 to March 2022) and will create new value through ESG initiatives.

From the first fiscal year of the medium-term management plan, the Group will promote the five key activities of “strengthening marketing capability and SI capability,” “creating new business,” “strengthening the Group’s management foundation,” “innovating in-house information systems and administrative processes,” and “carrying out work-style reforms (HR reforms and health management).

In light of the above-mentioned outlook and policies, consolidated earnings forecasts for the fiscal year ending March 2020 are as follows. Furthermore, based on the Group’s reorganization, reporting segments from next fiscal year will change to the four segments of “Finance and Society,” “Corporate Solutions,” “Operational Infrastructure BPO,” and “Regional, Overseas, etc.”

(Million yen)

	Consolidated	Year-on-year change (%)
Net sales	93,500	7.8
Operating profit	10,000	2.1
Ordinary profit	10,150	2.2
Profit attributable to owners of parent	6,900	1.2

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Society	31,000	5.0
Corporate Solutions	27,300	6.7
Operational Infrastructure BPO	25,800	14.6
Regional, Overseas, Etc.	9,400	3.5
Total	93,500	7.8

Net sales are forecast to be ¥93,500 million, up 7.8% year on year. In Finance and Society segment, the Group forecasts sales of ¥31,000 million to be achieved by expanding sales in the asset management and insurance fields. In Corporate Solutions segment, the Group expects sales of ¥27,300 million to be achieved by expanding sales in the wholesale and retail businesses and expanding embedding-related businesses aimed at manufacturing, etc. In Operational Infrastructure BPO segment, the Group forecasts sales of ¥25,800 million, to be achieved by expanding construction of infrastructure, BPO, operation, and sales of system equipment, etc. In Regional, Overseas, etc. segment, the Group expects sales of ¥9,400 million, supported firstly by sales activities at local group companies who will utilize their respective local strengths, and secondly by conducting initiatives to strengthen overseas businesses, such as through cooperation among overseas group companies. Furthermore, as of the fiscal year ending March 31, 2020, the Group company, DIGITAL TECHNOLOGIES CORPORATION, has decided to change from an accounting period that concludes on December 31 to one that concludes on March 31.

With regard to operating profit, the Group has brought forward its long-term management targets of reaching operating profit of ¥10,000 million by the fiscal year ending March 31, 2022 by two years, and aims to achieve an operating margin of 10% or higher in four consecutive fiscal years. The Group plans to achieve ordinary profit of ¥10,150 million and profit attributable to owners of parent of ¥6,900 million.

To ensure sustainable growth and a solid earnings base, the DTS Group will reinforce project management to avoid unprofitable projects, raise productivity and take other steps in order to boost profitability further.

Note: The forecasts for net sales and profits provided in this financial results report are made on the basis of projections derived from information currently available to the Company including industry trends and other economic conditions, as well as trends among customers, all of which are subject to the influence of a variety of uncertain factors. Consequently, actual net sales and profits may differ from the forecasts provided in this financial results report.

(2) Overview of financial position for the fiscal year under review

1) Overview of assets, liabilities and net assets

Total assets as of March 31, 2019 were ¥66,982 million, an increase of ¥5,617 million from the previous fiscal year-end. The main factors for this were a decrease of ¥117 million in goodwill on one hand, and increases of ¥2,666 million in cash and deposits, ¥1,306 million in investment securities, ¥798 million in notes and accounts receivable - trade, and ¥743 million in merchandise and finished goods, respectively.

Liabilities were ¥15,629 million, an increase of ¥1,226 million from the previous fiscal year-end. The main factors for this were increases of ¥442 million in accounts payable - trade, ¥318 million in provision for bonuses and ¥297 million in income taxes payable, respectively.

Net assets were ¥51,353 million, an increase of ¥4,390 million from the previous fiscal year-end. The main factors for this were an increase of ¥601 million in treasury shares and also an increase in retained earnings due to an increase of ¥6,817 million in profit attributable to owners of parent, despite a decrease of ¥1,870 million used for dividends of surplus.

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 fiscal year ended March 31, 2019 and has compared its financial position to the figures at the end of the previous fiscal year after retrospectively applying the amendments.

2) Overview of cash flows for the fiscal year under review

Cash and cash equivalents (hereinafter, "cash") as of March 31, 2019 was ¥35,140 million, an increase of ¥2,686 million from ¥32,454 million as of the previous fiscal year-end.

The respective cash flow positions in the fiscal year under review and comparisons with the previous fiscal year are as follows.

Net cash provided by operating activities was ¥6,947 million. There was an increase in cash provided of ¥186 million compared with the previous fiscal year. This mainly reflected factors such as an increase in revenue due to an increase in profit before income taxes of ¥1,380 million, in spite of an increase in inventories of ¥504 million, an increase in income taxes paid of ¥439 million, and increased expenditure of ¥218 million due to a decrease in accounts payable-other, which had previously been increasing.

Net cash used in investing activities was ¥1,770 million. There was a decrease in cash used of ¥36 million compared with the previous fiscal year. This mainly reflected a decrease of purchase of property, plant and equipment of ¥442 million, an increase of proceeds from redemption of investment securities of ¥200 million, in spite of increases of purchase of investment securities of ¥347 million and purchase of intangible assets of ¥230 million, respectively.

Net cash used in financing activities was ¥2,477 million. There was a decrease in cash used of ¥489 million compared with the previous fiscal year. This mainly reflected a decrease of purchase of treasury shares of subsidiaries of ¥477 million.

The following table shows trends in cash flow indicators for the DTS Group.

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Equity ratio (%)	70.4	73.7	76.5	76.7
Market value equity ratio (%)	90.7	111.7	140.6	142.3
Interest-bearing debt to cash flow ratio (%)	–	–	–	–
Interest coverage ratio (times)	1,055.2	2,995.8	5,285.4	179,038.0

Notes: 1. Equity ratio: Equity / Total assets
Market value equity ratio: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flow
Interest coverage ratio: Cash flow / Interest payment

* All calculations are made using consolidated financial figures.
* For the calculation of market capitalization, the total number of issued shares less treasury shares is used.
* Cash flow from operating activities is used for cash flow.
* Interest-bearing debt includes all debt reported on the consolidated balance sheets on which interest is paid.
* For interest payment, interest expenses paid on the consolidated statements of cash flows is used.

2. The Group has applied the "Partial Amendments to Accounting Standards for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the fiscal year ended March 31, 2019, and cash flow indicators from the previous fiscal year show the values, etc., to which the said accounting standards have also been retrospectively applied.

(3) Basic policy for profit sharing and dividends for the fiscal year under review and next fiscal year

The Company regards the return of profits to shareholders as one of the priority issues of management, and believes that medium- to long-term growth in corporate value is the largest source of profit return. The Company is working to pay stable dividends on an ongoing basis and implement a flexible capital policy such as purchase of treasury shares, aiming to ensure the return of profits to shareholders in the medium- and long-term, after making a comprehensive consideration of results trends, its financial position and other factors as well as the internal reserves needed for business expansion.

The Company intends to make use of internal reserves for forward-looking investment to boost corporate value in the medium- to long-term, including development investment in new information technology, capital alliances for operational expansion and new business development, investment in employee training, and investment to strengthen managerial functions.

Taking into account factors such as operating results for the fiscal year under review, which exceeded projections, in order to return profits to shareholders, the Company plans to pay a year-end dividend of ¥60 per share, which is ¥15 higher than its start-of-year dividend forecast. As a result, the planned annual dividend is ¥95 per share, including the interim dividend of ¥35 per share already paid.

For annual dividend in the next fiscal year, the Company plans to pay ¥100 per share (interim dividend of ¥40 and a year-end dividend of ¥60) (Note).

(Note) At the Board of Directors' meeting held on April 26, 2019, it was decided to conduct a 1:2 stock split for common stock with an effective date of July 1, 2019. The above-mentioned dividends for next fiscal year do not take the said stock split into account. The dividend for next fiscal year taking the stock split into account would be an annual dividend of ¥50 (interim dividend of ¥20 and year-end dividend of ¥30).

(4) Business and other risks

Risks that may have an impact on the operating results and financial position of the DTS Group are as follows.

Forward-looking statements mentioned in this discussion of risks reflect the judgment of the DTS Group (the Company and its consolidated subsidiaries) as of March 31, 2019.

1) Price competition

In the information services industry, to which the DTS Group belongs, customers are becoming increasingly demanding with regard to investment in information technology. As such, customers constantly compare the relative merits of the DTS Group with those of industry competitors both in terms of price and service quality.

In particular, the Company expects more intense competition with regard to prices as a result of new entrants from other industries, entry into Japan by overseas companies and the expanded selection of software packages.

Amid this market environment, the Company is endeavoring to minimize the effects of price competition from cost cutting by thoroughly promoting project profit management and working to improve productivity, as well as providing high-value added services that use new technology.

Nevertheless, the results of the DTS Group may be affected if any external factor causes downward price pressure in excess of that anticipated by the Company.

2) Management of software development projects

In order to secure competitive advantages for themselves, customers are becoming increasingly demanding with regard to shortening system development turnaround times. As a result, project management and quality management are becoming even more important than before. In response, the Company holds project promotion meetings with the purpose of holding regular discussions on the receipt or otherwise of orders for packaged services of a certain minimum value and the progress of existing projects, and also avoids unprofitable projects. Currently there are no unprofitable projects with the potential to have a significant impact on the DTS Group. Nevertheless, the results of the DTS Group may be affected if projects with a negative impact on profitability occur due to unforeseen circumstances, notwithstanding the measures taken to prevent such occurrences.

3) Security

Companies operating in the information service business, an area of strength for the DTS Group, come into contact with important information of various customers due to the nature of the business. As a consequence, security management is an important operational issue.

In light of such considerations, the Company has developed internal rules on the handling and management of information. It has also obtained the “Privacy Mark” certification as one of its activities for the protection of personal information, and carries out training to enhance awareness about handling information among employees of the Company and employees of business partners. In addition, the Company has obtained certification for its Information Security Management System (ISMS) and is working to strengthen its security management structure further. In addition, the DTS Group has formulated a Compliance Guide to be followed by the entire DTS Group, including group companies in Japan and overseas, and is working to develop internal rules at each group company and raise employees’ awareness regarding the handling of security information.

Nevertheless, the results of the DTS Group may be affected in the unlikely event of a serious leakage of information, as such a leak would expose the Company to the possibility of being held liable for compensation for damages, in addition to other problems such as customer cancellations caused by loss of trust in the Company.

4) Business overseas

As a part of the Group’s overseas business strategy, the Group will promote expansion of overseas businesses, such as by expanding overseas dealings and promoting establishment and capital tie-ups of overseas subsidiaries, and will also strengthen governance.

In carrying out overseas operations, the DTS Group anticipates exposure to a wide variety of risks. With respect to overseas business transactions, risks may include problems arising from insufficient understanding or research regarding country and local laws such as export control laws, and trade customs, or differences between such laws and customs, and with respect to establishment, share acquisition and operation of overseas subsidiaries, risks may include an inability to comply properly with local laws, accounting treatments, labor management practices or contracts. The DTS Group is aware of such risks and is strengthening risk management by putting a business division in charge of handling risks.

Nevertheless, the results of the DTS Group may be affected if an inability to comply appropriately with local rules, etc. causes it to be held liable to pay compensation for damages.

2. Status of the Corporate Group

The corporate group consists of the Company (DTS Corporation), eight consolidated subsidiaries, four non-consolidated subsidiaries, and one associate and is primarily engaged in the information service business. Taking into account the industries to which customers belong and the nature of services provided, the Group classifies its reportable segments into "Finance and Public Sector," "Corporate, Communications and Solutions," "Operation BPO," and "Regional, Overseas, Etc.," and engages in its business activities accordingly.

The contents of the corporate group's businesses and the relationships among each of the companies in the group are as follows.

[Finance and Public Sector]

To customers in the financial sector, which includes the banking, insurance and securities industries, and the public sector, which are medical welfare, pensions and local governments, the Group provides the following services.

- Consulting in relation to the deployment of information systems
- Design, development, operation and maintenance etc. of systems (including design and construction of platforms and networks and so on)
- Deployment, operation and maintenance etc. of in-house developed solutions

[Corporate, Communications and Solutions]

To customers in the telecommunications, manufacturing, retail, distribution, air transport and other industries, the Group provides the following services.

- Consulting in relation to the deployment of information systems
- Design, development, operation and maintenance etc. of systems (including design, construction and embedding of platforms and networks and so on)
- Deployment, operation and maintenance of in-house developed solutions and ERP solutions etc.

[Operation BPO]

To customers, the Group provides the following services.

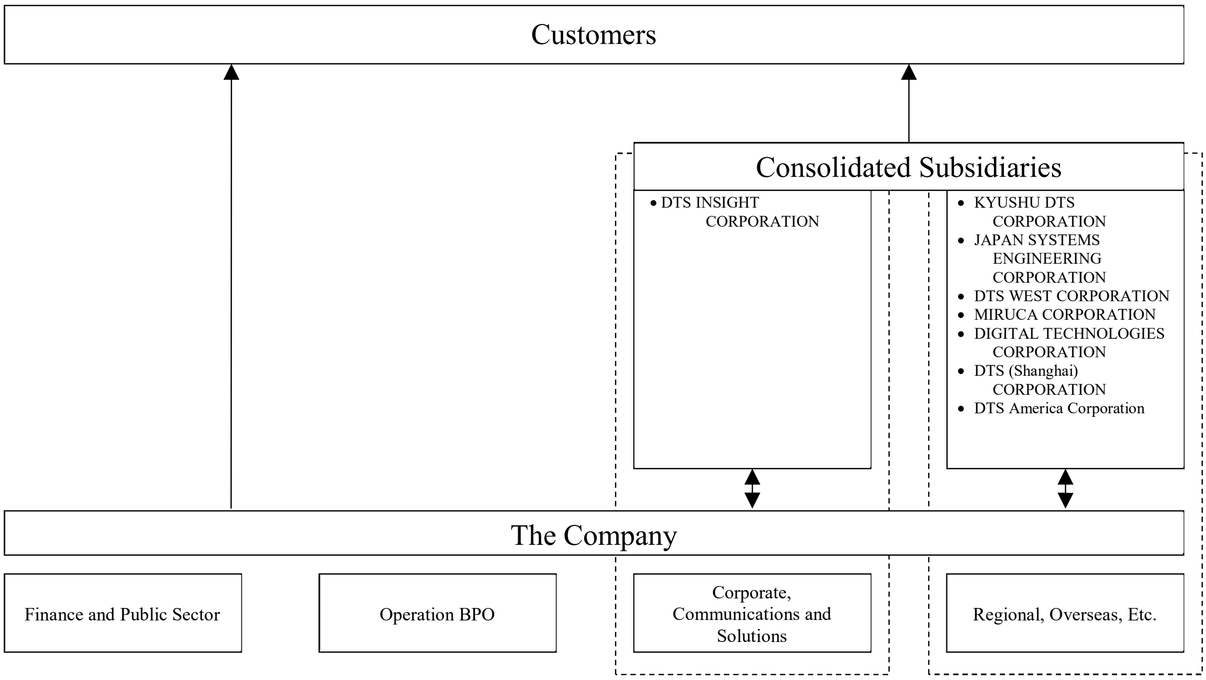
- Operational design and maintenance of total information systems, including cloud-related services and virtualization systems
- System operation either through permanently station personnel or remote access, monitoring operations
- System operational diagnosis and optimization services, primarily for IT infrastructure

[Regional, Overseas, Etc.]

To customers such as regional companies and overseas companies developing globally, the Group provides the following services.

- Design, development and maintenance of systems, and deployment of solutions including in-house developed solutions
- Sales of system equipment, educational services in the IT field, etc.
- Outsourcing services, and design, development, operations, maintenance etc. of software

An organizational chart of the businesses in the DTS Group is as follows.



Consolidated subsidiaries

Name	Stated capital	Ratio of voting rights held	Main business lines
KYUSHU DTS CORPORATION	¥100 million	100.00%	Information Service
JAPAN SYSTEMS ENGINEERING CORPORATION	¥310 million	100.00%	Information Service
DTS WEST CORPORATION	¥100 million	100.00%	Information Service
MIRUCA CORPORATION	¥100 million	100.00%	Information Service
DIGITAL TECHNOLOGIES CORPORATION	¥100 million	100.00%	Information Service
DTS (Shanghai) CORPORATION	CNY 14 million	100.00%	Information Service
DTS America Corporation	US $200,000	100.00%	Information Service
DTS INSIGHT CORPORATION	¥200 million	100.00%	Information Service

Note: DATALINKS CORPORATION, a consolidated subsidiary during the previous fiscal year, was excluded from the scope of consolidation from the fiscal year under review due to its absorption by the Company through a merger, effective October 1, 2018.

3. Management Policies

(1) Basic management policies

The DTS Group believes that it is vitally important to strive to strengthen its business performance and secure a certain level of results as a group of enterprises with a long track record in the information services industry, while also returning profits to stakeholders on the basis of that performance and working to increase medium- and long-term corporate value. Furthermore, the DTS Group's corporate philosophy is to utilize "potential to bring joy to people and affluence to society" as one of the "skills" of the Group, and to "utilize its skills to build up the trust of customers, expand corporate value, enhance the lives of employees, and contribute to society." Based on this philosophy, the DTS Group aims to be a group of enterprises that is trusted by all its stakeholders and provides a sense of reassurance, and will work to enhance its presence in the information services industry as a group of independent, comprehensive information service providers that is always at the forefront of the industry. The DTS Group also intends to achieve further development by establishing a sound and strong management foundation.

(2) Targeted management indicators

Under the medium-term management plan (April 2019 to March 2022), which is the final stage of the management vision "Made by DTS Group, creating new value," the DTS Group is aiming for the targets of consolidated net sales of ¥100.0 billion or higher, overseas net sales of ¥5.0 billion or higher, and an operating margin of 10% or higher.

(3) Medium- to long-term management strategies and issues to be addressed

The information services industry is entering a period in which there is a shift away from traditional business models such as contracted out system development and operation, creating an environment that is not conducive to large-scale future business growth. On the other hand, market growth is anticipated for service and solution provision business models.

The DTS Group has positioned the medium-term management plan (April 2019 to March 2022) as the final three-year period to complete the achievement of its long-term management targets and is promoting ESG management through SDGs, with the aim to be a corporate group that can produce new social and economic value through the Group.

Furthermore, in order to increase corporate value, through adapting to digital transformation (DX), the Group will promote the provision of total solutions according to the issues faced by society and customers.

In addition, in order to foster an environment that is conducive to the development of self-driven employees (employees that think and act for themselves) and sustainable and self-driven growth, the Group will promote work-style reforms and conduct digitalization of work processes, working to establish internal systems and environments.

4. Basic Concept Regarding Selection of Accounting Standard

At the moment, the DTS Group's fund procurement activities are limited to domestic capital markets. The Company will continue to use the generally accepted accounting standards in Japan (Japanese GAAP) for the time being, but given this limitation, it will consider adopting International Financial Reporting Standards (IFRS) while monitoring trends in IFRS adoption by other Japanese companies.

5. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	32,624,664	35,290,727
Notes and accounts receivable - trade	14,921,928	15,720,207
Merchandise and finished goods	298,445	1,041,972
Work in process	726,918	679,425
Raw materials and supplies	27,261	27,343
Other	597,454	603,491
Allowance for doubtful accounts	(6,451)	(3,204)
Total current assets	49,190,221	53,359,963
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,462,095	2,550,791
Accumulated depreciation	(1,320,526)	(1,382,246)
Buildings and structures, net	1,141,569	1,168,544
Land	2,045,239	2,045,239
Other	1,330,903	1,409,031
Accumulated depreciation	(969,199)	(1,064,624)
Other, net	361,703	344,406
Total property, plant and equipment	3,548,512	3,558,191
Intangible assets		
Goodwill	286,673	169,381
Software	416,447	622,778
Other	9,020	7,398
Total intangible assets	712,142	799,558
Investments and other assets		
Investment securities	5,135,734	6,442,500
Deferred tax assets	1,402,440	1,526,999
Other	1,383,481	1,302,544
Allowance for doubtful accounts	(6,918)	(6,918)
Total investments and other assets	7,914,738	9,265,126
Total non-current assets	12,175,393	13,622,876
Total assets	61,365,615	66,982,839

(Thousand yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	4,844,019	5,286,484
Accounts payable - other	1,309,429	1,261,256
Income taxes payable	1,936,946	2,234,550
Provision for bonuses	3,103,713	3,422,569
Provision for bonuses for directors (and other officers)	67,780	57,820
Provision for loss on order received	25,286	198,797
Other	2,293,866	2,271,146
Total current liabilities	13,581,043	14,732,625
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	35,341	35,461
Retirement benefit liability	682,036	743,572
Other	104,392	117,761
Total non-current liabilities	821,770	896,796
Total liabilities	14,402,813	15,629,421
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus	6,224,023	6,215,781
Retained earnings	36,395,303	41,342,281
Treasury shares	(2,783,511)	(3,385,247)
Total shareholders' equity	45,948,815	50,285,815
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	963,575	1,019,142
Foreign currency translation adjustment	43,956	27,365
Remeasurements of defined benefit plans	6,454	21,095
Total accumulated other comprehensive income	1,013,986	1,067,603
Total net assets	46,962,801	51,353,418
Total liabilities and net assets	61,365,615	66,982,839

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

Consolidated statements of income

(Thousand yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	83,163,302	86,716,902
Cost of sales	66,714,641	69,199,793
Gross profit	16,448,660	17,517,108
Selling, general and administrative expenses		
Salaries and allowances	2,529,340	2,509,472
Provision for bonuses	433,526	446,639
Amortization of goodwill	227,564	117,292
Other	4,734,341	4,654,110
Total selling, general and administrative expenses	7,924,772	7,727,515
Operating profit	8,523,887	9,789,592
Non-operating income		
Interest income	11,065	16,549
Dividend income	54,960	63,920
Subsidy income	16,085	14,322
Insurance premiums refunded cancellation	3,925	11,516
Dividends income of group life insurance	16,130	4,701
Commission for insurance office work	7,331	7,388
Other	28,133	30,861
Total non-operating income	137,631	149,260
Non-operating expenses		
Interest expenses	767	38
Loss on investments in partnership	8,547	–
Commission for purchase of treasury shares	3,199	1,199
Foreign exchange losses	4,389	2,756
Commission expenses	41,109	4,807
Cancellation fee	27,999	–
Other	634	955
Total non-operating expenses	86,647	9,757
Ordinary profit	8,574,872	9,929,095
Extraordinary income		
Gain on sales of investment securities	24,860	145
Reversal of provision for loss on liquidation of subsidiaries and associates	5,920	–
Total extraordinary income	30,781	145
Extraordinary losses		
Loss on retirement of non-current assets	8,894	1,301
Loss on valuation of golf club membership	–	5,104
Loss on sales of golf club memberships	–	1,925
Bad debts written off of subsidiaries and associates	17,701	–
Office transfer expenses	19,860	8,156
Loss on revision of retirement benefit plan	22,587	–
Other	5,250	1,283
Total extraordinary losses	74,294	17,771
Profit before income taxes	8,531,359	9,911,469
Income taxes - current	2,790,527	3,250,331
Income taxes - deferred	(40,965)	(156,595)
Total income taxes	2,749,561	3,093,736
Profit	5,781,797	6,817,732
Profit attributable to non-controlling interests	16,036	–
Profit attributable to owners of parent	5,765,760	6,817,732

Consolidated statements of comprehensive income

(Thousand yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit	5,781,797	6,817,732
Other comprehensive income		
Valuation difference on available-for-sale securities	506,684	55,567
Foreign currency translation adjustment	3,640	(16,590)
Remeasurements of defined benefit plans, net of tax	(22,420)	14,640
Total other comprehensive income	487,904	53,617
Comprehensive income	6,269,702	6,871,350
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,251,661	6,871,350
Comprehensive income attributable to non-controlling interests	18,040	–

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2018

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,113,000	6,166,259	32,483,962	(3,199,657)	41,563,564
Changes of items during period					
Dividends of surplus			(1,854,419)		(1,854,419)
Profit attributable to owners of parent			5,765,760		5,765,760
Purchase of treasury shares				(601,849)	(601,849)
Increase by share exchanges		57,763		1,017,995	1,075,759
Net changes of items other than shareholders' equity					
Total changes of items during period	–	57,763	3,911,341	416,146	4,385,251
Balance at end of current period	6,113,000	6,224,023	36,395,303	(2,783,511)	45,948,815

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	458,894	40,315	28,875	528,085	1,569,291	43,660,941
Changes of items during period						
Dividends of surplus						(1,854,419)
Profit attributable to owners of parent						5,765,760
Purchase of treasury shares						(601,849)
Increase by share exchanges						1,075,759
Net changes of items other than shareholders' equity	504,680	3,640	(22,420)	485,900	(1,569,291)	(1,083,390)
Total changes of items during period	504,680	3,640	(22,420)	485,900	(1,569,291)	3,301,860
Balance at end of current period	963,575	43,956	6,454	1,013,986	–	46,962,801

Fiscal year ended March 31, 2019

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,113,000	6,224,023	36,395,303	(2,783,511)	45,948,815
Changes of items during period					
Dividends of surplus			(1,870,754)		(1,870,754)
Profit attributable to owners of parent			6,817,732		6,817,732
Purchase of treasury shares				(601,736)	(601,736)
Net changes of items other than shareholders' equity					
Other		(8,242)			(8,242)
Total changes of items during period	–	(8,242)	4,946,978	(601,736)	4,336,999
Balance at end of current period	6,113,000	6,215,781	41,342,281	(3,385,247)	50,285,815

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	963,575	43,956	6,454	1,013,986	46,962,801
Changes of items during period					
Dividends of surplus					(1,870,754)
Profit attributable to owners of parent					6,817,732
Purchase of treasury shares					(601,736)
Net changes of items other than shareholders' equity	55,567	(16,590)	14,640	53,617	53,617
Other					(8,242)
Total changes of items during period	55,567	(16,590)	14,640	53,617	4,390,616
Balance at end of current period	1,019,142	27,365	21,095	1,067,603	51,353,418

(4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	8,531,359	9,911,469
Depreciation	421,081	473,852
Amortization of goodwill	227,564	117,292
Increase (decrease) in provision for bonuses	(62,703)	319,096
Increase (decrease) in provision for bonuses for directors (and other officers)	1,299	(9,960)
Increase (decrease) in provision for loss on order received	25,286	173,511
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	(29,585)	–
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(33,938)	120
Increase (decrease) in retirement benefit liability	107,755	82,596
Decrease (increase) in notes and accounts receivable - trade	(469,496)	(801,392)
Decrease (increase) in inventories	(191,926)	(696,427)
Increase (decrease) in notes and accounts payable - trade	(64,474)	442,672
Increase (decrease) in accounts payable - other	98,761	(119,641)
Other, net	649,832	(72,228)
Subtotal	9,210,815	9,820,960
Interest and dividend income received	71,575	85,477
Interest expenses paid	(1,279)	(38)
Income taxes paid	(2,519,760)	(2,958,828)
Net cash provided by (used in) operating activities	6,761,351	6,947,570
Cash flows from investing activities		
Purchase of property, plant and equipment	(555,170)	(112,403)
Purchase of intangible assets	(200,254)	(431,104)
Purchase of investment securities	(1,083,943)	(1,431,873)
Proceeds from sales of investment securities	44,404	1,825
Proceeds from redemption of investment securities	–	200,000
Payments into time deposits	(190,369)	(170,222)
Proceeds from withdrawal of time deposits	190,355	190,370
Purchase of shares of subsidiaries and associates	(18,177)	–
Other, net	6,869	(16,687)
Net cash provided by (used in) investing activities	(1,806,284)	(1,770,095)

(Thousand yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from financing activities		
Cash dividends paid	(1,850,435)	(1,866,787)
Dividends paid to non-controlling interests	(34,493)	(18)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(42)	(8,242)
Purchase of treasury shares	(605,049)	(602,936)
Purchase of treasury shares of subsidiaries	(477,045)	–
Other, net	41	–
Net cash provided by (used in) financing activities	(2,967,024)	(2,477,984)
Effect of exchange rate change on cash and cash equivalents	7,052	(13,278)
Net increase (decrease) in cash and cash equivalents	1,995,094	2,686,210
Cash and cash equivalents at beginning of period	30,459,352	32,454,447
Cash and cash equivalents at end of period	32,454,447	35,140,658

(5) Notes to consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Changes in presentation)

(Consolidated statements of income)

"Commission for purchase of treasury shares" and "Foreign exchange losses," which were included in "Other" under "Non-operating expenses" in the previous fiscal year, are presented separately under non-operating expenses for the fiscal year under review because the amount became greater than 10% of non-operating expenses. To reflect this change in method of presentation, the Company has reclassified the consolidated financial statements for the previous fiscal year.

As a result, an amount of ¥8,223 thousand shown as "Other" under "Non-operating expenses" in the consolidated statement of income of the previous fiscal year has been reclassified as "Commission for purchase of treasury shares" of ¥3,199 thousand, "Foreign exchange losses" of ¥4,389 thousand and "Other" of ¥634 thousand under non-operating expenses.

(Changes due to the application of "Partial Amendments to Accounting Standards for Tax Effect Accounting")

The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, we have changed the presentation method deferred tax assets, if any, are presented under "Investments and other assets" and deferred tax liabilities, if any, are presented under "Non-current liabilities."

As a result, "Deferred tax assets" of ¥1,402,440 thousand in "Investments and other assets" include "Deferred tax assets" of ¥1,399,688 thousand in "Current assets" in the consolidated balance sheets of the previous fiscal year.

Furthermore, the same taxable entity's deferred tax assets and deferred tax liabilities are offset against each other and the net asset/liability position is presented, so compared to before the change, total assets decreased by ¥164,461 thousand.

(Business combinations)

Absorption-type merger of a consolidated subsidiary

Based on a resolution of the Board of Directors' meeting held on August 3, 2018, the Company's consolidated subsidiary DATALINKS CORPORATION was the subject of an absorption-type merger by the Company, effective October 1, 2018.

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
   (3) Legal form of the business combination
       An absorption-type merger, in which the Company became the surviving company and DATALINKS CORPORATION became the absorbed company.
   (4) Name of company after transaction
       DTS Corporation
   (5) Other items regarding outline of transaction
       The Company executed the absorption-type merger with DATALINKS CORPORATION in which the Company became the surviving company for the purposes 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 deemed that combining the businesses in this way was the best way to optimally utilize the management resources of both companies, improve management efficiency and speed up the decision-making processes.

2. Outline of accounting procedures applied

The transaction was 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).

(Segment information, etc.)

[Segment Information]

1. Overview of reportable segments

The Group identifies a reportable segment as a component unit that constitutes a business for which discrete financial information is available and is regularly reviewed by the Board of Directors to make decisions on the allocation of management resources to the segments and assess its performance.

The Group classifies its reportable segments by business unit, based on the nature of services provided and the market served, and multiple businesses and group companies that could generate synergy. The Group has four reportable segments: “Finance and Public Sector,” “Corporate, Communications and Solutions,” “Operation BPO,” and “Regional, Overseas, Etc.”

The contents of each segment’s business activities are as follows.

(1) Finance and Public Sector

To customers in the financial sector, which includes the banking, insurance and securities industries, and the public sector, which includes medical welfare, pensions and local governments, the Group provides the following services.

- Consulting in relation to the deployment of information systems
- Design, development, operation and maintenance etc. of systems (including design and construction of platforms and networks and so on)
- Deployment, operation and maintenance etc. of in-house developed solutions

(2) Corporate, Communications and Solutions

To customers in the telecommunications, manufacturing, retail, distribution, air transport and other industries, the Group provides the following services.

- Consulting in relation to the deployment of information systems
- Design, development, operation and maintenance etc. of systems (including design, construction and embedding of platforms and networks and so on)
- Deployment, operation and maintenance of in-house developed solutions and ERP solutions etc.

(3) Operation BPO

To customers, the Group provides the following services.

- Operational design and maintenance of total information systems, including cloud-related services and virtualization systems
- System operation either through permanently station personnel or remote access, monitoring operations
- System operational diagnosis and optimization services, primarily for IT infrastructure

(4) Regional, Overseas, Etc.

To customers such as regional companies and overseas companies developing globally, the Group provides the following services.

- Design, development and maintenance of systems, and deployment of solutions including in-house developed solutions
- Sales of system equipment, educational services in the IT field, etc.
- Outsourcing services, and design, development, operations, maintenance etc. of software

2. Method for calculating net sales, profit (loss), assets, liabilities and other items by reportable segment

The accounting method used for the business segments reported is the same as the accounting method stated in “Significant matters forming the basis of preparing the consolidated financial statements.”

Segment profit of the reportable segments are on an operating profit basis and intersegment revenues and transfers are based on general transactions identical to arm's length transactions.

3. Information about net sales, profit (loss), assets, liabilities and other items by reportable segment

For the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Thousand yen)

	Reportable segment				
	Finance and Public Sector	Corporate, Communications and Solutions	Operation BPO	Regional, Overseas, Etc.	Total
Net sales					
Sales to external customers	26,610,718	23,806,522	12,323,309	20,422,751	83,163,302
Intersegment sales or transfers	1,299	10,891	50,928	3,805,833	3,868,952
Total	26,612,017	23,817,413	12,374,238	24,228,584	87,032,254
Segment profit	3,419,060	2,454,237	1,557,404	1,085,874	8,516,577
Other					
Depreciation	88,849	218,653	31,099	87,877	426,480
Amortization of goodwill	–	138,940	–	88,623	227,564

	Adjustment (Note 1)	Amount reported on the consolidated statements of income (Note 2)
Net sales		
Sales to external customers	–	83,163,302
Intersegment sales or transfers	(3,868,952)	–
Total	(3,868,952)	83,163,302
Segment profit	7,310	8,523,887
Other		
Depreciation	(7,709)	418,770
Amortization of goodwill	–	227,564

(Notes) 1. There were no material segment profit adjustments.
2. Segment profit is reconciled to operating profit in the consolidated statements of income.
3. Assets are not allocated to business segments.

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Reportable segment				
	Finance and Public Sector	Corporate, Communications and Solutions	Operation BPO	Regional, Overseas, Etc.	Total
Net sales					
Sales to external customers	25,724,780	26,746,520	13,387,063	20,858,538	86,716,902
Intersegment sales or transfers	1,416	24,056	40,207	4,040,457	4,106,137
Total	25,726,196	26,770,576	13,427,270	24,898,996	90,823,039
Segment profit	3,425,462	3,271,583	1,768,046	1,335,204	9,800,295
Other					
Depreciation	77,319	207,442	29,389	164,864	479,015
Amortization of goodwill	–	42,345	–	74,946	117,292

	Adjustment (Note 1)	Amount reported on the consolidated statements of income (Note 2)
Net sales		
Sales to external customers	–	86,716,902
Intersegment sales or transfers	(4,106,137)	–
Total	(4,106,137)	86,716,902
Segment profit	(10,703)	9,789,592
Other		
Depreciation	(7,044)	471,971
Amortization of goodwill	–	117,292

(Notes) 1. There were no material segment profit adjustments.
2. Segment profit is reconciled to operating profit in the consolidated statements of income.
3. Assets are not allocated to business segments.

[Related Information]

For the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

1. Information by product and service

   This information is omitted as it is identical to that in segment information.

2. Information by geographical area

   (1) Net sales

   It is omitted since net sales to external customers in Japan exceeds 90% of net sales on the consolidated statements of income.

   (2) Property, plant and equipment

   It is omitted since the amount of property, plant and equipment held in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheets.

3. Information by major customer

(Thousand yen)

Name of customer or individual	Net sales	Related segment
Mizuho Information & Research Institute, Inc.	8,634,693	Finance and Public Sector Corporate, Communications and Solutions Regional, Overseas, Etc.

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

1. Information by product and service

   This information is omitted as it is identical to that in segment information.

2. Information by geographical area

   (1) Net sales

   It is omitted since net sales to external customers in Japan exceeds 90% of net sales on the consolidated statements of income.

   (2) Property, plant and equipment

   It is omitted since the amount of property, plant and equipment held in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheets.

3. Information by major customer

   Information regarding major customers is omitted as net sales to each single external customer amount to less than 10% of consolidated net sales.

[Information about Impairment Loss on Non-current Assets by Reportable Segment]

For the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

No items to report.

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

No items to report.

[Information about Amortization and Unamortized Balance of Goodwill by Reportable Segment]

For the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Thousand yen)

	Finance and Public Sector	Corporate, Communications and Solutions	Operation BPO	Regional, Overseas, Etc.	Total
Amortization	–	138,940	–	88,623	227,564
Unamortized balance as of March 31, 2018	–	211,727	–	74,946	286,673

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Finance and Public Sector	Corporate, Communications and Solutions	Operation BPO	Regional, Overseas, Etc.	Total
Amortization	–	42,345	–	74,946	117,292
Unamortized balance as of March 31, 2019	–	169,381	–	–	169,381

[Information about Gain on Bargain Purchase by Reportable Segment]

For the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

No items to report.

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

No items to report.

(Per share information)

(Yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net assets per share	2,003.23	2,203.22
Basic earnings per share	247.90	292.21

(Notes) 1. Diluted earnings per share for the fiscal years ended March 31, 2018 and 2019 is not presented since no potential shares exist.

2. Calculation basis of net assets per share is as follows.

	As of March 31, 2018	As of March 31, 2019
Total net assets (Thousand yen)	46,962,801	51,353,418
Amount subtracted from total net assets (Thousand yen)	–	–
(Non-controlling interests (Thousand yen))	–	–
Net assets at the end of the period related to common stock (Thousand yen)	46,962,801	51,353,418
Number of common stock at the end of the period used for the calculation of net assets per share (Shares)	23,443,531	23,308,345

3. Calculation basis of earnings per share is as follows.

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit attributable to owners of parent (Thousand yen)	5,765,760	6,817,732
Amount not attributable to common shareholders (Thousand yen)	–	–
Profit attributable to owners of parent related to common stock (Thousand yen)	5,765,760	6,817,732
Average number of outstanding shares of common stock during the period (Shares)	23,258,209	23,331,666

(Significant subsequent events)

1. Stock split

At the Board of Directors' meeting held on April 26, 2019, the Company decided to conduct a stock split.

(1) Purpose of the stock split

The share split is for the purpose of reducing the price per investment unit of the Company's stock, creating a more investment-friendly environment for shareholders, improving the liquidity of shares, and broadening the investor base.

(2) Outline of the stock split

1) Method of the stock split

With a record date of Sunday, June 30, 2019 (as this is not a business day for the shareholders register administrator, the substantial record date is Friday, June 28, 2019), a 1:2 stock split of common stock held by shareholders who are listed or recorded in the shareholder register as of the end of the record date will be conducted.

2) Share increase due to the split

Total number of issued shares and outstanding before the split	25,222,266 shares
Share increase due to the split	25,222,266 shares
Total number of issued shares and outstanding after the split	50,444,532 shares
Total number of shares authorized to be issued after the split	100,000,000 shares (no change)

3) Scheduled date of the split

Public notice of record date	June 14, 2019 (Friday)
Record date	June 30, 2019 (Sunday) (Note)
Effective date	July 1, 2019 (Monday)

(Note) As this is not a business day for the shareholders register administrator, the substantial record date is Friday, June 28, 2019

4) Effect on per-share information

Per-share information on the premise that the stock split was conducted at the beginning of the previous fiscal year is as follows.

(Yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net assets per share	1,001.62	1,101.61
Basic earnings per share	123.95	146.10

(Note) Diluted earnings per share for the fiscal years ended March 31, 2018 and 2019 is not presented since no potential shares exist.

(3) Others

There is no change to the Company's Articles of Incorporation or capital as a result of this stock split.

2. Acquisition of treasury shares

The Company resolved at a meeting of the Board of Directors held on April 26, 2019, to acquire its treasury shares pursuant to the provisions of Article 156 of the Companies Act as applied by replacing certain terms under the provisions of Article 165, paragraph 3 of the same Act.

(1) Reasons for acquisition of treasury shares

The acquisition of treasury shares is to be implemented for the purpose of improving the Company's capital efficiency and delivering even greater returns for its shareholders.

(2) Details of the acquisition of treasury shares resolved by the Board of Directors

1) Class of shares to be acquired

Common stock of the Company

2) Total number of shares to be acquired

200,000 shares (maximum)

(Proportion of the total number of issued shares excluding treasury shares: 0.86%)

3) Total acquisition price of shares to be acquired

¥800,000 thousand (maximum)

4) Acquisition period

From May 8, 2019 to June 7, 2019

5) Method of acquisition

Market purchase on the Tokyo Stock Exchange
(Discretionary trading by securities company)

6. Non-consolidated Financial Statements

(1) Non-consolidated balance sheets

(Thousand yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	25,387,288	29,507,988
Notes receivable - trade	157,688	46,168
Accounts receivable - trade	9,867,624	11,620,932
Merchandise	41,499	456,683
Work in process	504,821	416,024
Supplies	8,184	6,894
Advance payments - trade	77,200	61,287
Prepaid expenses	225,515	218,576
Short-term loans receivable from subsidiaries and associates	428,161	529,417
Other	79,444	97,393
Allowance for doubtful accounts	(2,027)	(2,598)
Total current assets	36,775,400	42,958,767
Non-current assets		
Property, plant and equipment		
Buildings	971,867	1,021,498
Tools, furniture and fixtures	218,203	211,799
Land	1,965,696	1,965,696
Total property, plant and equipment	3,155,767	3,198,995
Intangible assets		
Software	265,973	518,436
Other	133	1,003
Total intangible assets	266,106	519,440
Investments and other assets		
Investment securities	4,744,818	6,084,330
Shares of subsidiaries and associates	8,860,121	6,010,411
Investments in capital of subsidiaries and associates	327,143	327,143
Long-term prepaid expenses	6,838	10,472
Deferred tax assets	756,360	929,566
Other	872,046	829,319
Allowance for doubtful accounts	(5,250)	(5,250)
Total investments and other assets	15,562,079	14,185,993
Total non-current assets	18,983,953	17,904,428
Total assets	55,759,354	60,863,196

(Thousand yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	2,781,862	3,281,437
Accounts payable - other	883,975	953,570
Accrued expenses	331,855	388,570
Income taxes payable	1,458,142	1,798,045
Advances received	115,235	123,031
Deposits received	236,937	270,647
Provision for bonuses	2,195,232	2,552,725
Provision for bonuses for directors (and other officers)	57,000	49,780
Provision for loss on order received	24,206	193,910
Other	874,493	989,441
Total current liabilities	8,958,940	10,601,160
Non-current liabilities		
Provision for retirement benefits	280,812	348,980
Asset retirement obligations	7,014	84,845
Long-term accounts payable - other	42,601	6,235
Total non-current liabilities	330,428	440,062
Total liabilities	9,289,369	11,041,222
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus		
Legal capital surplus	6,190,917	6,190,917
Other capital surplus	1,223,751	1,223,751
Total capital surpluses	7,414,669	7,414,669
Retained earnings		
Legal retained earnings	411,908	411,908
Other retained earnings		
General reserve	11,170,000	11,170,000
Retained earnings brought forward	23,180,934	27,078,501
Total retained earnings	34,762,842	38,660,409
Treasury shares	(2,783,511)	(3,385,247)
Total shareholders' equity	45,507,001	48,802,831
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	962,983	1,019,142
Total valuation and translation adjustments	962,983	1,019,142
Total net assets	46,469,984	49,821,974
Total liabilities and net assets	55,759,354	60,863,196

(2) Non-consolidated statements of income

(Thousand yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	56,696,028	61,473,604
Cost of sales	45,321,977	49,163,305
Gross profit	11,374,051	12,310,299
Selling, general and administrative expenses	4,395,985	4,634,820
Operating profit	6,978,065	7,675,479
Non-operating income		
Interest income	5,401	5,665
Interest on securities	6,182	10,973
Dividend income	269,146	359,727
Real estate rent	16,306	14,899
Other	40,919	37,601
Total non-operating income	337,955	428,867
Non-operating expenses		
Interest expenses	716	–
Loss on investments in partnership	8,547	–
Commission for purchase of treasury shares	3,199	1,199
Foreign exchange losses	839	–
Commission expenses	–	4,807
Other	162	224
Total non-operating expenses	13,465	6,231
Ordinary profit	7,302,555	8,098,115
Extraordinary income		
Gain on extinguishment of tie-in shares	–	94,878
Reversal of provision for loss on liquidation of subsidiaries and associates	5,920	–
Other	–	145
Total extraordinary income	5,920	95,024
Extraordinary losses		
Loss on retirement of non-current assets	8,656	86
Bad debts written off of subsidiaries and associates	17,701	–
Loss on valuation of golf club membership	–	5,104
Provision of allowance for doubtful accounts of golf club membership	5,250	–
Loss on sales of golf club memberships	–	1,925
Loss on valuation of telephone subscription right	–	1,283
Office transfer expenses	18,776	–
Total extraordinary losses	50,384	8,399
Profit before income taxes	7,258,091	8,184,739
Income taxes - current	2,221,697	2,557,850
Income taxes - deferred	(17,740)	(141,432)
Total income taxes	2,203,956	2,416,417
Profit	5,054,134	5,768,321

(3) Non-consolidated statements of changes in equity

Fiscal year ended March 31, 2018

(Thousand yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings	Treasury shares
Balance at beginning of current period	6,113,000	6,190,917	–	6,190,917	411,908	11,170,000	20,058,869	31,640,778	(3,199,657)
Changes of items during period									
Dividends of surplus							(1,854,419)	(1,854,419)	
Profit							5,054,134	5,054,134	
Purchase of treasury shares									(601,849)
Decrease by corporate division							(77,650)	(77,650)	
Increase by share exchanges			1,223,751	1,223,751					1,017,995
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	1,223,751	1,223,751	–	–	3,122,064	3,122,064	416,146
Balance at end of current period	6,113,000	6,190,917	1,223,751	7,414,669	411,908	11,170,000	23,180,934	34,762,842	(2,783,511)

	Shareholders' equity	Valuation and translation adjustments		
	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Total net assets
Balance at beginning of current period	40,745,038	447,386	447,386	41,192,424
Changes of items during period				
Dividends of surplus	(1,854,419)			(1,854,419)
Profit	5,054,134			5,054,134
Purchase of treasury shares	(601,849)			(601,849)
Decrease by corporate division	(77,650)			(77,650)
Increase by share exchanges	2,241,747			2,241,747
Net changes of items other than shareholders' equity		515,597	515,597	515,597
Total changes of items during period	4,761,963	515,597	515,597	5,277,560
Balance at end of current period	45,507,001	962,983	962,983	46,469,984

Fiscal year ended March 31, 2019

(Thousand yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings				Treasury shares
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings	
						General reserve	Retained earnings brought forward		
Balance at beginning of current period	6,113,000	6,190,917	1,223,751	7,414,669	411,908	11,170,000	23,180,934	34,762,842	(2,783,511)
Changes of items during period									
Dividends of surplus							(1,870,754)	(1,870,754)	
Profit							5,768,321	5,768,321	
Purchase of treasury shares									(601,736)
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	–	3,897,566	3,897,566	(601,736)
Balance at end of current period	6,113,000	6,190,917	1,223,751	7,414,669	411,908	11,170,000	27,078,501	38,660,409	(3,385,247)

	Shareholders' equity	Valuation and translation adjustments		Total net assets
	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	45,507,001	962,983	962,983	46,469,984
Changes of items during period				
Dividends of surplus	(1,870,754)			(1,870,754)
Profit	5,768,321			5,768,321
Purchase of treasury shares	(601,736)			(601,736)
Net changes of items other than shareholders' equity		56,159	56,159	56,159
Total changes of items during period	3,295,830	56,159	56,159	3,351,989
Balance at end of current period	48,802,831	1,019,142	1,019,142	49,821,974

7. Others

Production, orders and sales

1) Production

Production in the fiscal year under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	25,724,780	(3.3)
Corporate, Communications and Solutions	26,746,520	12.3
Operation BPO	13,387,063	8.6
Regional, Overseas, Etc.	20,858,538	2.1
Total	86,716,902	4.3

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 fiscal year 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	26,323,591	0.1	14,464,770	4.3
Corporate, Communications and Solutions	27,768,073	16.8	7,752,615	15.2
Operation BPO	13,872,556	4.8	11,195,074	4.5
Regional, Overseas, Etc.	21,328,520	0.6	4,532,768	11.6
Total	89,292,741	5.7	37,945,228	7.3

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 fiscal year under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	25,724,780	(3.3)
Corporate, Communications and Solutions	26,746,520	12.3
Operation BPO	13,387,063	8.6
Regional, Overseas, Etc.	20,858,538	2.1
Total	86,716,902	4.3

Notes:

1. The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.
2. Sales results by major transaction partner and the ratio to total sales results of those sales results for the last two fiscal years are as follows. Furthermore, because the sales results by major transaction partner and the ratio to total sales results for the fiscal year under review amounts to less than 10%, relevant information is omitted.

Transaction partner	Fiscal year ended March 31, 2018		Fiscal year ended March 31, 2019	
	Amount (Thousand yen)	Ratio (%)	Amount (Thousand yen)	Ratio (%)
Mizuho Information & Research Institute, Inc.	8,634,693	10.4	–	–