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April 30, 2020

Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 <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 19, 2020
Scheduled date to commence dividend payments: June 22, 2020
Scheduled date to file annual securities report: June 22, 2020
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, 2020 (from April 1, 2019 to March 31, 2020)

(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, 2020	94,618	9.1	10,674	9.0	10,849	9.3	7,317	7.3
March 31, 2019	86,716	4.3	9,789	14.8	9,929	15.8	6,817	18.2

Note: Comprehensive income
Fiscal year ended March 31, 2020: ¥6,851 million [(0.3)%]
Fiscal year ended March 31, 2019: ¥6,871 million [9.6%]

	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, 2020	158.01	–	13.8	15.8	11.3
March 31, 2019	146.10	–	13.9	15.5	11.3

Reference: Equity in earnings (losses) of associates:
Fiscal year ended March 31, 2020: ¥– million Fiscal year ended March 31, 2019: ¥– million

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated basic earnings per share has been calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2020	70,598	55,089	78.0	1,190.71
March 31, 2019	66,982	51,353	76.7	1,101.61

Reference: Equity
As of March 31, 2020: ¥55,083 million As of March 31, 2019: ¥51,353 million

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated net assets per share has been calculated on the assumption that this stock split was conducted at the beginning of 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, 2020	7,551	(1,360)	(3,047)	38,276
March 31, 2019	6,947	(1,770)	(2,477)	35,140

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, 2019 (Before stock split)	–	35.00	–	60.00	95.00	2,214	32.5	4.5
(Reference)								
Fiscal year ended March 31, 2019 (After stock split)	–	17.50	–	30.00	47.50	2,214	32.5	4.5
Fiscal year ended March 31, 2020	–	20.00	–	35.00	55.00	2,544	34.8	4.8
Fiscal year ending March 31, 2021 (Forecasts)	–	25.00	–	30.00	55.00		34.1	

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The amount of the annual dividend per share for the fiscal year ended March 31, 2020 reflects the stock split.

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

(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, 2021	95,000	0.4	10,700	0.2	10,850	0.0	7,400	1.1	161.49

Note: The earnings forecast may change if the novel coronavirus outbreak takes a long time to bring under control.

* 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, 2020	50,444,532 shares
As of March 31, 2019	50,444,532 shares

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

As of March 31, 2020	4,183,214 shares
As of March 31, 2019	3,827,842 shares

c. Average number of outstanding shares during the period

Fiscal year ended March 31, 2020	46,311,057 shares
Fiscal year ended March 31, 2019	46,663,333 shares

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated total number of issued shares at the end of the period, number of treasury shares at the end of the period and average number of outstanding shares during the period have been calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(Reference) Non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(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, 2020	67,700	10.1	8,632	12.5	9,228	14.0	6,495	12.6
March 31, 2019	61,473	8.4	7,675	10.0	8,098	10.9	5,768	14.1

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2020	140.27	–
March 31, 2019	123.62	–

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated basic earnings per share has been calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2020	63,231	52,842	83.6	1,142.25
March 31, 2019	60,863	49,821	81.9	1,068.76

Reference: Equity
As of March 31, 2020: ¥52,842 million As of March 31, 2019: ¥49,821 million

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated net assets per share has been calculated on the assumption that this stock split was conducted at the beginning of 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**
  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, the Japanese economy saw a modest recovery due to ongoing improvements in the employment and income environments. However, amid uncertainty surrounding 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 concerns about the trend in Japanese consumer sentiment after the consumption tax rate increase, the outlook has remained unpredictable due to the global economy deceleration caused by the outbreak of a novel coronavirus (COVID-19) pandemic during the fourth quarter under review, and the unpredictability of how much this will affect the Japanese economy.

The business environment of the information services industry has been projected to remain robust, with investment in information technology expanding in areas related to productivity improvements and work-style reforms to deal with labor shortages, and growth in digital business utilizing so-called CAMBRIC technology, a general term for Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity. Nevertheless, trends in IT investment, caused by the deteriorating results of our customers, need to be thoroughly and carefully assessed.

In this environment, the DTS Group has established a vision for its medium-term management plan (April 2019 to March 2022) of becoming a "Next Value Creator, providing new value to the society of tomorrow," and has set financial targets of consolidated net sales of ¥100.0 billion or higher, overseas net sales of ¥5.0 billion or higher, a consolidated operating margin of 10% or higher, ROE of 12% or higher, and a total return ratio of 45% or higher.

In order to achieve the above targets, we have drawn up the three basic policies of "realization of a sustainable society," "evolution into a new system integrator," and "transformation into self-driven employees," and have begun related initiatives. The Group has been promoting 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."

With the fiscal year under review being the first fiscal year of the medium-term management plan, the Group has worked on the five key activities. As a result, it has achieved net sales of ¥94,618 million, an increase of 9.1% year on year, an operating profit of ¥10,674 million exceeding the long-term management target two years ahead of schedule, and an operating margin of 11.3%, achieving an operating margin of 10% or higher in the four consecutive fiscal years.

■ Strengthening marketing capability and SI capability

In order to enhance the value that we propose the customers, we have begun initiatives aimed at a systematic strengthening of the sales activities. Specifically, because we intend to propose wide-ranging solutions for issues faced by customers, we have enhanced the solutions marketing function of the Sales Sector. In addition, in order to promote proposal activities that utilize new technologies such as CAMBRIC, a DX Promotion Office has been set up in the Sales Sector. As an activity for strengthening marketing capability, the Group has innovated the SFA system so as to secure the visualization and efficiency of sales activities.

Also, we have been promoting active use and training of our offshore bases such as Dalian SuperElectronics Co., Ltd. and DTS SOFTWARE VIETNAM CO., LTD., as well as developing and starting to place orders with an Indian partner company for SAP development projects to strengthen the foundations of our IT employees, and enhance our SI competitiveness.

The Group is working on agile development and the utilization of the "GeneXus" (Note 1) automated application generation tool in order to further expand the digital business and the SoE business, and as a result, development times have shortened and quality has improved. Going forward we will proactively utilize the newest technologies and focus on providing IT services that capture customer needs.

■ Carrying out initiatives for new business

In preparation for reinforcing our initiatives for digital business that makes use of new technologies such as CAMBRIC, we have launched a group-wide working group, centered on the DX Promotion Office. This has enabled the Group to draw up the DTS Group's DX strategy and drive the creation of new businesses while sorting out common issues and examining and delivering initiatives to solve them. As a result, the proportion of net sales accounted for by DX-related businesses has been increased to 23% (up 9% year on year). Furthermore, as we perceive the training of DX employees to a higher level to be an urgent issue, we are advancing our plan to train employees, which was set by each organization, and we are facilitating a change in attitudes through managers training in order to promote proposals that utilize AI. In the fiscal year under review, the number of DX-related certificate holders was increased to over 200, about three times as many as the number from the previous fiscal year.

<Finance and Society segment>

As for the AI platform "DAVinCI LABS," we registered an increase in adoptions and inquiries for the prediction of rate of automobile insurance contract renewal, and we will continue to forge ahead in making proposals that match the needs of customers.

<Corporate Solutions segment>

In April 2019 we began collaborating with a leading manufacturer of automotive components on initiatives for smart factory solutions. We have provided "GalleriaSolo," our BI dashboard, which is a function that increases the visibility of data, sensors with data collection functions, and transmitters, in addition to participating in the development of a system that manages the operation of factory equipment, output, and workers.

In addition, in March 2020, we jointly developed a core business system with a housing manufacturer and provided it to the market. From now on, we will secure in-house solutions for the system, and expand sales suitable for the need of customers by flexibly adding functions and customization for further improvement of housing-related operations.

<Operational Infrastructure BPO segment>

In December 2019, we launched "ReSM plus," which is based on "ServiceNow" (Note 2), as a service to support internal help desk operations through digital technology. We provide a support portal for all employees of our customer companies and support them in quickly resolving issues on internal work.

<Regional, Overseas, Etc. segment>

In October 2019, we introduced a multilingual AI chatbot service (Note 3), "kotosora for LGWAN," that can be used on the LGWAN (Local Government Wide Area Network). We will continue to work on this project actively with a view to expanding sales.

■ Strengthening the Group's management foundation

In terms of ESG initiatives, the ESG Promotion Office, which has been set up within the General Affairs Department, has surveyed SDGs for all of the Company's projects and prepared the integrated report, aiming at constructive dialogue with stakeholders.

As part of the DTS Group's global business initiatives, Nelito Systems Limited was made a consolidated subsidiary in order to expand operations in India for the Group's financial industry business and push for growth in markets in Southeast Asia.

In addition, in April 2020, the Company's corporate website was renovated. Not only did the Company improve information on technical features, solutions, etc., which are the Company's strong points, and enhance convenience, but it also has started pushing ahead with the establishment of new centers with the aim of strengthening links between organizations and improving productivity.

Moreover, after the 47th Annual General Meeting of Shareholders, Independent Officers accounted for a majority of seven out of 13 Directors. Additionally, the effectiveness of the Board of Directors was analyzed and assessed in July to August 2019, which received positive evaluations from all Directors. We will continue our efforts to ensure the effectiveness of corporate governance.

■ Innovating in-house information systems and administrative processes

In preparation for work-style reforms and improvements to business efficiency, we have started rationalization through the reviewing of work processes, as well as the rebuilding of in-house systems.

We have also worked to replace the Company's PCs with thin client devices and taken steps to promote teleworking with the aim of putting in place infrastructure for a variety of work styles, strengthening security, and reducing the amount of administrative work.

Additionally, with respect to internal systems, we have relocated our data center and enhanced our server performance with the aim of increasing business continuity.

■ Work-style reforms

In terms of health management, with the aim of realizing balance between work and private life, we hold regular seminars to support raising next-generation using a combination of occupational doctors and those with experience in this matter, the idea being to promote greater participation by women in the workplace, and greater participation by men in childcare.

In October 2019, the Company was awarded the second highest level (Class 2) "Eruboshi" certification based on the "Act on Promotion of Female Participation and Career Advancement in the Workplace," and in March 2020, the Company was certified as "Health & Productivity Management Outstanding Organization 2020 (large enterprise category)." In February 2020, DTS WEST Corporation, a DTS Group company, was certified as a childcare support company of "Kurumin." We will continue to improve environments where employees can work with confidence, and in which balance between work and private life and healthy management are considered.

Moreover, in order to promote the transformation into self-driven employees and cultivate a company culture where employees can proactively take on new challenges, we are continually working on a personnel system reform that values challenges and reforms.

■ Other, including shareholder returns

In May 2019, we acquired 177,600 treasury shares in order to improve capital efficiency and to further improve returns for our shareholders.

In addition, we conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The purpose of the stock split was not only to reduce the price per investment unit of the Company's stock, creating a more investment-friendly environment, but also to improve the liquidity of shares and broaden the investor base.

Note 1: "GeneXus" is a development tool that creates business systems automatically, based on the description of a set of business requirements.

Note 2: ServiceNow is a service management platform that supports inquiries and workflows.

Note 3: AI chatbot service is a service for FAQs that uses an AI chat engine to enable natural conversations feel like those of a real person.

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 ¥94,618 million (up 9.1% year on year) for the fiscal year under review. In addition, the renewal of the core system of a governmental financial institution, the renewal of an intranet project for a securities company, a housing-related development project, among others, have been satisfactorily progressing. Gross profit rose by 6.8% year on year to ¥18,705 million, reflecting an increase in net sales and a decrease in unprofitable projects. Selling, general and administrative expenses rose by 3.9% year on year to ¥8,030 million, and its main increasing factor was the impact of the consolidation of Nelito Systems Limited. As a result, operating profit was ¥10,674 million (up 9.0% year on year), ordinary profit was ¥10,849 million (up 9.3% year on year), profit attributable to owners of parent was ¥7,317 million (up 7.3% year on year) due to the increase of operating profit.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	94,618	9.1	67,700	10.1
Operating profit	10,674	9.0	8,632	12.5
Ordinary profit	10,849	9.3	9,228	14.0
Profit attributable to owners of parent	7,317	7.3	–	–
Profit (Non-consolidated)	–	–	6,495	12.6

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Society	30,835	4.1
Corporate Solutions	27,649	8.4
Operational Infrastructure BPO	24,879	10.5
Regional, Overseas, Etc.	11,253	23.9
Total	94,618	9.1

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

Finance and Society Segment
Due to the good progress in development projects such as the renewal of the core system of a governmental financial institution, the renewal of a securities company's intranet and OA project for other financial institution, net sales came to ¥30,835 million, up 4.1% year on year.

Corporate Solutions Segment
Due to the good progress in a development project related to residential housing and a development project utilizing SAP, amongst other factors, net sales rose by 8.4% year on year to ¥27,649 million.

Operational Infrastructure BPO Segment
With operation and management projects as well as projects such as operation and design of systems for wholesale and retail performing strongly, due to the impact of the change in the fiscal year-end date for DIGITAL TECHNOLOGIES CORPORATION, net sales were ¥24,879 million, up 10.5% year on year.

Regional, Overseas, Etc. Segment
As a result of favorable conditions for development projects in the regional segment, and the consolidation of Nelito Systems Limited, net sales rose 23.9% year on year to ¥11,253 million.

2) Outlook for the next fiscal year

In order to contribute to the realization of a sustainable society, the Group developed the new medium-term management plan (April 2019 to March 2022), aiming to create new value through ESG initiatives, and in order to achieve this objective, the Group has been promoting the five key activities of "strengthening marketing capability and SI capability," "innovating in-house information systems and administrative processes," "creating new business," "carrying out work-style reforms," and "strengthening the Group's management foundation."

However, since the global economy has been witnessing a slowdown due to the COVID-19 pandemic, the restraint of IT investment caused by the deteriorating results of our customers is predictable. On the other hand, the flow of investment is expected to continue for the development of digital business and innovation that utilize new technologies such as CAMBRIC (Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity) and for the shift from legacy systems. Therefore, at the moment, the Group envisages net sales and operating profit similar to those for the fiscal year 2019.

In light of the above-mentioned outlook and policies, consolidated earnings forecasts for the fiscal year ending March 2021 are as follows.

(Million yen)

	Consolidated	Year-on-year change (%)
Net sales	95,000	0.4
Operating profit	10,700	0.2
Ordinary profit	10,850	0.0
Profit attributable to owners of parent	7,400	1.1

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Society	30,400	(1.4)
Corporate Solutions	28,650	3.6
Operational Infrastructure BPO	23,750	(4.5)
Regional, Overseas, Etc.	12,200	8.4
Total	95,000	0.4

Net sales are forecast to be ¥95,000 million, up 0.4% year on year. In Finance and Society segment, the Group is forecasting sales of ¥30,400 million, down 1.4% year on year, due to the restraint of new IT investment in conventional systems in financial institutions. In Corporate Solutions segment, the Group expects sales of ¥28,650 million, up 3.6% year on year, to be achieved by expanding solution businesses such as SAP and the embedding-related businesses aimed at manufacturing, etc. In Operational Infrastructure BPO segment, despite forecasting sales of ¥23,750 million, down 4.5% year on year, due to the impact of the change in the fiscal year-end date for DIGITAL TECHNOLOGIES CORPORATION in the previous fiscal year, the Group substantially forecasts a growth of 4.7%. In Regional, Overseas, etc. segment, the Group expects sales of ¥12,200 million, up 8.4% year on year, supported by sales activities at each local group company who utilizes its local strength, and by conducting initiatives to strengthen overseas local business at each overseas Group company.

The Group forecasts operating profit of ¥10,700 million and an operating margin of 11.3% to aim to achieve an operating margin of 10% or higher in five consecutive fiscal years. The Group plans to achieve ordinary profit of ¥10,850 million and profit attributable to owners of parent of ¥7,400 million.

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, 2020 were ¥70,598 million. Total assets increased by ¥3,616 million from the previous fiscal year-end. The main factors for this were a decrease of ¥755 million in merchandise and finished goods on one hand, and increases of ¥3,188 million in cash and deposits, and ¥629 million in notes and accounts receivable - trade, etc., respectively.

Liabilities were ¥15,509 million. Liabilities decreased by ¥119 million from the previous fiscal year-end. The main factors for this were decreases of ¥230 million in provision for bonuses, ¥209 million in income taxes payable, and ¥207 million in accounts payable - trade, respectively, in spite of increases of ¥351 million in accrued consumption taxes included in other under current liabilities, and ¥132 million in advances received, respectively.

Net assets were ¥55,089 million, an increase of ¥3,735 million from the previous fiscal year-end. The main factors for this were an increase of ¥800 million in treasury shares and also an increase in retained earnings due to an increase of ¥7,317 million in profit attributable to owners of parent, despite a decrease of ¥2,323 million used for dividends of surplus.

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

Cash and cash equivalents (hereinafter, "cash") as of March 31, 2020 was ¥38,276 million, an increase of ¥3,135 million from ¥35,140 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 ¥7,551 million. There was an increase in cash provided of ¥603 million compared with the previous fiscal year. This mainly reflected factors such as decreased expenditure of ¥1,569 million due to a decrease in inventories, which had previously been increasing, and an increase of ¥862 million in revenue due to an increase in profit before income taxes, in spite of an increase of ¥792 million in income taxes paid, and increased expenditure of ¥766 million due to a decrease in trade payables, which had previously been increasing.

Net cash used in investing activities was ¥1,360 million. There was a decrease in cash used of ¥409 million compared with the previous fiscal year. This mainly reflected factors such as a decrease of ¥823 million in purchase of investment securities, and an increase of ¥200 million in proceeds from redemption of investment securities, in spite of increases of ¥456 million in purchase of shares of subsidiaries resulting in change in scope of consolidation, and ¥264 million in purchase of property, plant and equipment, respectively.

Net cash used in financing activities was ¥3,047 million. There was an increase in cash used of ¥569 million compared with the previous fiscal year. This mainly reflected factors such as an increase of dividends paid of ¥454 million, and an increase of purchase of treasury shares of ¥198 million.

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

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Equity ratio (%)	73.7	76.5	76.7	78.0
Market value equity ratio (%)	111.7	140.6	142.3	123.2
Interest-bearing debt to cash flow ratio (%)	–	–	–	1.2
Interest coverage ratio (times)	2,995.8	5,285.4	179,038.0	463.6

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 for the fiscal year ended March 31, 2018 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.

To achieve the total return ratio target of 45% or higher in the medium-term management plan, the Company plans to pay a year-end dividend of ¥35 per share, which is ¥5 higher than its start-of-year dividend forecast. As a result, the planned annual dividend is ¥55 per share, including the interim dividend of ¥20 per share already paid.

For annual dividend in the next fiscal year, the Company plans to pay ¥55 per share (interim dividend of ¥25 and a 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, 2020.

1) Changes of business environment

In the information services industry, the Group expects strong IT investment from all industries due to the expansion of digital business, etc.

Since the Group has been providing IT services according to the needs of customers in a wide range of industries and types of business on the basis of quality that relies on business expertise and information technology, its businesses employ a structure that is unlikely to be affected by trends of investment in specific industries.

However, if there arises a change in the trends of IT investment from customers caused by the changes of social and economic conditions, then it may affect the results of the Group.

2) 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 and train DX employees, 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.

3) 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, contracts and project management. 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 legal regulations, etc. causes it to become subject to various litigation or liable for compensation for damages.

4) Business models and technological innovation

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, and market growth is anticipated for the service and solution provision business models. To respond to such markets and various customer needs, the Group is required to have the capacity to adapt to DX, and recognizes that as an important issue.

To enable it to provide solutions using new technologies such as CAMBRIC, the Group has been working on employee training, demonstration experiments utilizing new technology, and investment in and partnerships with domestic/overseas companies.

However, if the adaptation of the Group to any rapid change of customer needs, or to technological innovation is behind schedule, then it may affect the results of the Group.

5) Legal regulation

The Group promotes businesses with the highest priority on compliance with laws and regulations such as the Companies Act, the Financial Instruments and Exchange Act and the Personal Information Protection Act.

Not only has the Group created the Group's compliance basic principles, code of conduct, etc., but also it has been providing compliance training and awareness programs to the Group corporate officers and employees as well as partner company employees, and it is continuing to comply with laws and regulations.

However, if a serious compliance violation or an event that conflicts with laws and regulations occurs, then that may deteriorate the social credibility of the Group and affect the results of the Group.

6) Litigation, etc.

The Group is not currently subject to any lawsuits that could affect its financial position or results. However, the Group could become the subject of litigation including claims for compensation for damages with regard to faults, defects, or delivery delays in the services provided by the Group, infringement of the rights of third parties, customer information leaks including personal information, defamation, inappropriate labor management, or other matters.

The Group recognizes that strengthening and enhancement of corporate governance is an important management priority, and has established the necessary systems for compliance, information security, and quality management, etc. However, depending on the details and results, such litigation, etc., could affect the results of the Group.

7) Intellectual property right, etc.

The Group, in its business activities, always makes sure not to infringe on any intellectual property rights owned by third parties, including patent right, trademarks, and copyrights.

The Group has tried to improve employees' awareness regarding intellectual property rights through training, etc., The Group also files applications and registers patents and trademarks for the technologies and business models that it needs.

However, there is a possibility that the Group's business may receive a claim for infringement on the intellectual property right of another company, and there is a possibility that a third party may infringe on the intellectual property right of the Group, if either case arose, that may affect the business, the results, etc. of the Group.

8) Human Resources, etc.

One of essential factors for sustainable growth of the Group is the securing and development of employees having high technical skills and expertise.

For this reason, the Group respects individuality and diversity, and focuses on the promotion of a proper balance between work and private life and the improvement of working environments, including the introduction of various systems for work-style reforms, proper working time management, active leave acquisition, etc.

In addition, regarding securing of employees, the Group hires new graduates from a medium- to long-term perspective and career employees with excellent expertise, and also focuses on the development of employees, including learning of new techniques in the DX area, support for acquiring professional qualifications, etc.

However, if the securing of employees is not as successful as expected, or if an exodus of employees or the decrease of productivity caused by the deterioration of working environments occurs, then it may affect the results or the business development of the Group.

9) 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 disseminating DTS' own development standards and 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.

10) 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.

11) Business Continuity

Many bases including the corporate headquarters are concentrated in greater metropolitan areas, and therefore, the Group needs to change this just in case of the outbreak of a large-scale natural disaster, the spread of a contagious disease, etc.

The Group has been working on business continuity while utilizing working systems including telework and staggered working hours, prioritizing the safety and security of employees, and figuring out customers' intentions.

However, if an unexpected event occurs, then it may affect the results of the Group because of service provision delayed by restoration.

2. Status of the Corporate Group

The corporate group consists of the Company (DTS CORPORATION), nine consolidated subsidiaries, and four non-consolidated subsidiaries, 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 Society,” “Corporate Solutions,” “Operational Infrastructure 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 Society]

To customers in the financial sector, which includes the banking, insurance and securities industries, and the public sector, which includes medical welfare, pensions, local governments and communications, 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 Solutions]

To customers in the information services, 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.

[Operational Infrastructure BPO]

To customers, the Group provides the following services.

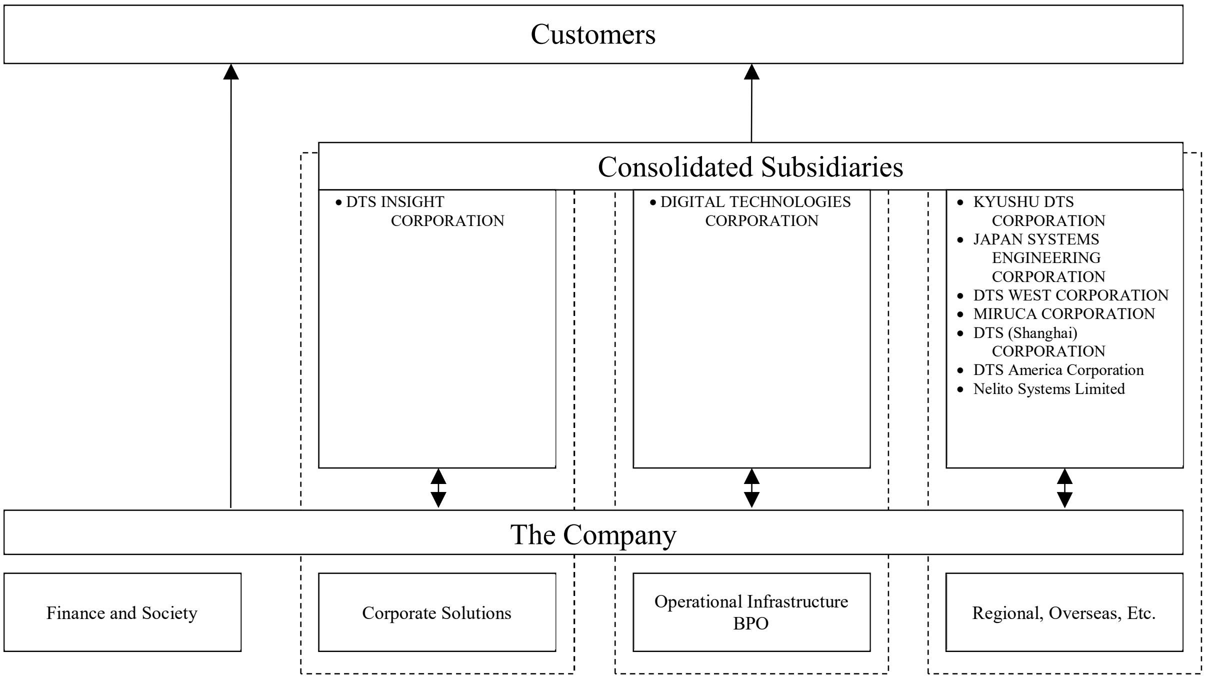
- Operational design and maintenance of total information systems, including cloud-related services and virtualization systems
- System operation either through permanently station personnel or remote access, monitoring operations
- System operational diagnosis and optimization services, primarily for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

[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
- 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	Share 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
Nelito Systems Limited	INR 20 million	98.80%	Information Service

Note: Nelito Systems Limited, which was an associate in the fiscal year ended March 31, 2019, was included in the scope of consolidation in the fiscal year under review, as a result of the Company purchasing additional shares on April 1, 2019.

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.

Under the medium-term vision "Next Value Creator, providing new value to the society of tomorrow," the Group is aiming to create new value for the realization of a sustainable society through ESG initiatives.

The Group, holding up the policies of "realization of a sustainable society," "evolution into a new system integrator," and "transformation into self-driven employees" mentioned below, will try to improve corporate value.

■ **"Realization of A Sustainable Society"**

In order to solve environmental social problems, the Group will utilize SDGs to achieve business targets. In terms of ESG initiatives, the ESG Promotion Office, which has been set up within the General Affairs Department, surveys all of the Company's projects for SDGs. The Group will clarify each social value and proceed with reforms effective for business promotion by figuring out what kind of social problem a targeted project can be associated with in order to solve it.

In addition, in order to encourage employees to comprehend SDGs, the Group has conducted PR activities and has provided education/training, etc. We will continue trying to disseminate information on SDGs across the Group, and realize reforms for ESG management.

■ **"Evolution into A New System Integrator"**

In the information services industry that the Group belongs to, information technology has been radically evolving, and in order to accommodate various needs from customers, we are required to adapt to DX, and we recognize it as an important issue.

In order to promote the Group's adaption to DX, we adopted growth of DX-related net sales and development of employees as KPI (key performance indicators). We are promoting the provision of total solutions tailored to the issues faced by society and customers.

In addition, we will focus on digital business utilizing so-called CAMBRIC technology (a general term for Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity), especially AI and IoT areas. The Group will work on the creation of solutions by the development of employees, demonstration experiments utilizing new technology, and investment in and partnerships with domestic/overseas companies.

■ **“Transformation into Self-driven Employees”**

In order to promote the transformation into self-driven employees and cultivate a company culture where employees can proactively take on new challenges, the Group has undertaken a personnel system reform and is working on the “work-style reforms” to improve the environment where employees can work enthusiastically.

In the personnel system reform, we will promote the improvement of an environment for realizing a reform to various treatment systems according to market value, the dissemination and thorough operation of an evaluation system that promotes challenges, and strategic personnel placement.

In the “work-style reforms,” in order to improve business efficiency and support balance between work and private life, the Group will secure the innovation of in-house information systems and administrative processes, and build the environment where all employees can play active roles.

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, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	35,290,727	38,478,978
Notes and accounts receivable - trade	15,720,207	16,349,995
Securities	–	17,407
Merchandise and finished goods	1,041,972	286,200
Work in process	679,425	567,630
Raw materials and supplies	27,343	22,203
Other	603,491	1,197,144
Allowance for doubtful accounts	(3,204)	(20,245)
Total current assets	53,359,963	56,899,314
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,550,791	2,602,466
Accumulated depreciation	(1,382,246)	(1,450,867)
Buildings and structures, net	1,168,544	1,151,598
Land	2,045,239	2,045,239
Other	1,409,031	1,934,347
Accumulated depreciation	(1,064,624)	(1,240,324)
Other, net	344,406	694,023
Total property, plant and equipment	3,558,191	3,890,861
Intangible assets		
Goodwill	169,381	127,036
Software	622,778	812,642
Other	7,398	7,287
Total intangible assets	799,558	946,966
Investments and other assets		
Investment securities	6,442,500	5,743,081
Deferred tax assets	1,526,999	1,524,760
Other	1,302,544	1,600,693
Allowance for doubtful accounts	(6,918)	(6,817)
Total investments and other assets	9,265,126	8,861,718
Total non-current assets	13,622,876	13,699,546
Total assets	66,982,839	70,598,860

(Thousand yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	5,286,484	5,079,429
Accounts payable - other	1,261,256	1,099,132
Income taxes payable	2,234,550	2,025,489
Provision for bonuses	3,422,569	3,191,854
Provision for bonuses for directors (and other officers)	57,820	58,270
Provision for loss on order received	198,797	2,680
Other	2,271,146	2,829,502
Total current liabilities	14,732,625	14,286,358
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	35,461	730
Retirement benefit liability	743,572	919,223
Other	117,761	303,478
Total non-current liabilities	896,796	1,223,432
Total liabilities	15,629,421	15,509,790
Net assets		
Shareholders' equity		
Share capital	6,113,000	6,113,000
Capital surplus	6,215,781	6,215,781
Retained earnings	41,342,281	46,336,183
Treasury shares	(3,385,247)	(4,185,444)
Total shareholders' equity	50,285,815	54,479,521
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,019,142	667,248
Foreign currency translation adjustment	27,365	(37,286)
Remeasurements of defined benefit plans	21,095	(25,727)
Total accumulated other comprehensive income	1,067,603	604,234
Non-controlling interests	–	5,314
Total net assets	51,353,418	55,089,070
Total liabilities and net assets	66,982,839	70,598,860

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

Consolidated statements of income

(Thousand yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	86,716,902	94,618,831
Cost of sales	69,199,793	75,913,769
Gross profit	17,517,108	18,705,062
Selling, general and administrative expenses		
Salaries and allowances	2,509,472	2,702,089
Provision for bonuses	446,639	447,004
Amortization of goodwill	117,292	109,062
Other	4,654,110	4,772,830
Total selling, general and administrative expenses	7,727,515	8,030,987
Operating profit	9,789,592	10,674,075
Non-operating income		
Interest income	16,549	23,686
Dividend income	63,920	77,776
Gain on investments in investment partnerships	1,209	20,449
Subsidy income	14,322	23,180
Surrender value of insurance policies	11,516	–
Dividends income of group life insurance	4,701	10,616
Commission for insurance office work	7,388	7,223
Other	29,651	52,071
Total non-operating income	149,260	215,003
Non-operating expenses		
Interest expenses	38	33,515
Commission for purchase of treasury shares	1,199	1,599
Foreign exchange losses	2,756	3,162
Commission expenses	4,807	–
Other	955	1,134
Total non-operating expenses	9,757	39,411
Ordinary profit	9,929,095	10,849,667
Extraordinary income		
Gain on step acquisitions	–	66,731
Gain on sales of investment securities	145	–
Total extraordinary income	145	66,731
Extraordinary losses		
Impairment loss	–	133,434
Loss on retirement of non-current assets	1,301	737
Loss on valuation of golf club membership	5,104	8,620
Loss on sales of golf club memberships	1,925	–
Office relocation expenses	8,156	–
Other	1,283	–
Total extraordinary losses	17,771	142,792
Profit before income taxes	9,911,469	10,773,607
Income taxes - current	3,250,331	3,277,091
Income taxes - deferred	(156,595)	180,720
Total income taxes	3,093,736	3,457,812
Profit	6,817,732	7,315,795
Loss attributable to non-controlling interests	–	(1,834)
Profit attributable to owners of parent	6,817,732	7,317,629

Consolidated statements of comprehensive income

(Thousand yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	6,817,732	7,315,795
Other comprehensive income		
Valuation difference on available-for-sale securities	55,567	(351,893)
Foreign currency translation adjustment	(16,590)	(65,338)
Remeasurements of defined benefit plans, net of tax	14,640	(46,923)
Total other comprehensive income	53,617	(464,156)
Comprehensive income	6,871,350	6,851,638
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,871,350	6,854,260
Comprehensive income attributable to non-controlling interests	–	(2,622)

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2019

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	6,113,000	6,224,023	36,395,303	(2,783,511)	45,948,815
Changes 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 in items other than shareholders' equity					
Other		(8,242)			(8,242)
Total changes during period	–	(8,242)	4,946,978	(601,736)	4,336,999
Balance at end of 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 period	963,575	43,956	6,454	1,013,986	46,962,801
Changes 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 in items other than shareholders' equity	55,567	(16,590)	14,640	53,617	53,617
Other					(8,242)
Total changes during period	55,567	(16,590)	14,640	53,617	4,390,616
Balance at end of period	1,019,142	27,365	21,095	1,067,603	51,353,418

Fiscal year ended March 31, 2020

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	6,113,000	6,215,781	41,342,281	(3,385,247)	50,285,815
Changes during period					
Dividends of surplus			(2,323,727)		(2,323,727)
Profit attributable to owners of parent			7,317,629		7,317,629
Purchase of treasury shares				(800,196)	(800,196)
Net changes in items other than shareholders' equity					
Total changes during period	–	–	4,993,902	(800,196)	4,193,705
Balance at end of period	6,113,000	6,215,781	46,336,183	(4,185,444)	54,479,521

	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 period	1,019,142	27,365	21,095	1,067,603	–	51,353,418
Changes during period						
Dividends of surplus						(2,323,727)
Profit attributable to owners of parent						7,317,629
Purchase of treasury shares						(800,196)
Net changes in items other than shareholders' equity	(351,893)	(64,651)	(46,822)	(463,368)	5,314	(458,053)
Total changes during period	(351,893)	(64,651)	(46,822)	(463,368)	5,314	3,735,651
Balance at end of period	667,248	(37,286)	(25,727)	604,234	5,314	55,089,070

(4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	9,911,469	10,773,607
Depreciation	473,852	473,348
Impairment loss	–	133,434
Amortization of goodwill	117,292	109,062
Increase (decrease) in provision for bonuses	319,096	(246,458)
Increase (decrease) in provision for bonuses for directors (and other officers)	(9,960)	450
Increase (decrease) in provision for loss on order received	173,511	(196,117)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	120	(34,731)
Increase (decrease) in retirement benefit liability	82,596	114,317
Decrease (increase) in trade receivables	(801,392)	(41,772)
Decrease (increase) in inventories	(696,427)	872,698
Increase (decrease) in trade payables	442,672	(324,126)
Increase (decrease) in accounts payable - other	(119,641)	(172,468)
Other, net	(72,228)	(247,423)
Subtotal	9,820,960	11,213,820
Interest and dividends received	85,477	105,279
Interest paid	(38)	(16,289)
Income taxes paid	(2,958,828)	(3,751,764)
Net cash provided by (used in) operating activities	6,947,570	7,551,046
Cash flows from investing activities		
Purchase of property, plant and equipment	(112,403)	(376,886)
Purchase of intangible assets	(431,104)	(391,162)
Purchase of investment securities	(1,431,873)	(608,120)
Proceeds from sales of investment securities	1,825	–
Proceeds from redemption of investment securities	200,000	400,000
Payments for investments in capital of subsidiaries and associates	(15,765)	(68,482)
Payments into time deposits	(170,222)	(237,526)
Proceeds from withdrawal of time deposits	190,370	250,996
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(456,070)
Proceeds from distributions from investment partnerships	–	87,000
Other, net	(922)	39,364
Net cash provided by (used in) investing activities	(1,770,095)	(1,360,887)

(Thousand yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from financing activities		
Dividends paid	(1,866,787)	(2,321,050)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(8,242)	–
Purchase of treasury shares	(602,936)	(801,796)
Other, net	(18)	74,992
Net cash provided by (used in) financing activities	(2,477,984)	(3,047,854)
Effect of exchange rate change on cash and cash equivalents	(13,278)	(6,627)
Net increase (decrease) in cash and cash equivalents	2,686,210	3,135,676
Cash and cash equivalents at beginning of period	32,454,447	35,140,658
Cash and cash equivalents at end of period	35,140,658	38,276,335

(5) Notes to consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Changes in presentation)

(Consolidated statements of income)

“Gain on investments in investment partnerships” included in “Other” under “Non-operating income” in the previous fiscal year, is presented separately for the fiscal year under review because it has increased quantitative significance. 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 ¥30,861 thousand shown as “Other” under “Non-operating income” in the consolidated statement of income of the previous fiscal year has been reclassified as “Gain on investments in investment partnerships” of ¥1,209 thousand and “Other” of ¥29,651 thousand.

(Consolidated statements of cash flows)

“Dividends paid to non-controlling interests” under “Net cash provided by (used in) financing activities” presented separately in the previous fiscal year, are included in “Other” for the fiscal year under review because they have been of less quantitative significance. 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 ¥(18) thousand shown in “Dividends paid to non-controlling interests” under “Net cash provided by (used in) financing activities” in the consolidated statements of cash flows for the previous fiscal year, has been reclassified as “Other.”

(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 Society," "Corporate Solutions," "Operational Infrastructure BPO," and "Regional, Overseas, Etc."

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

(1) Finance and Society

To customers in the financial sector, which includes the banking, insurance and securities industries, and the public sector, which includes medical welfare, pensions, local governments and communications, 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 Solutions

To customers in the information services, 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) Operational Infrastructure 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
- Sales of system equipment, etc.

(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
- 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 employed to prepare 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, 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Reportable segment				
	Finance and Society	Corporate Solutions	Operational Infrastructure BPO	Regional, Overseas, Etc.	Total
Net sales					
Sales to external customers	29,608,233	25,510,388	22,517,606	9,080,673	86,716,902
Intersegment sales or transfers	9,244	24,056	1,283,446	2,570,489	3,887,237
Total	29,617,477	25,534,444	23,801,053	11,651,163	90,604,139
Segment profit	3,906,929	3,144,293	1,875,877	871,024	9,798,124
Other					
Depreciation	77,319	207,442	40,903	153,350	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	(3,887,237)	–
Total	(3,887,237)	86,716,902
Segment profit	(8,532)	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.

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Thousand yen)

	Reportable segment				
	Finance and Society	Corporate Solutions	Operational Infrastructure BPO	Regional, Overseas, Etc.	Total
Net sales					
Sales to external customers	30,835,667	27,649,638	24,879,647	11,253,878	94,618,831
Intersegment sales or transfers	2,334	18,743	2,552,822	2,366,842	4,940,742
Total	30,838,002	27,668,382	27,432,469	13,620,720	99,559,574
Segment profit	4,004,131	3,528,482	2,243,436	847,292	10,623,343
Other					
Depreciation	81,813	222,743	58,830	114,785	478,173
Amortization of goodwill	–	42,345	–	66,717	109,062

	Adjustment (Note 1)	Amount reported on the consolidated statements of income (Note 2)
Net sales		
Sales to external customers	–	94,618,831
Intersegment sales or transfers	(4,940,742)	–
Total	(4,940,742)	94,618,831
Segment profit	50,732	10,674,075
Other		
Depreciation	(5,939)	472,234
Amortization of goodwill	–	109,062

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.

4. Overview of changes to reportable segments

Effective from the first quarter ended June 30, 2019, the Group, based on the Group's reorganization, changed the classification of its reporting segments from the four classifications of "Finance and Public Sector," "Corporate, Communications and Solutions," "Operation BPO" and "Regional, Overseas, Etc." to the four classifications of "Finance and Society," "Corporate Solutions," "Operational Infrastructure BPO" and "Regional, Overseas, Etc."

The main change is as follows: the infrastructure product business, the outsourcing business, etc. were previously included in the "Regional, Overseas, Etc.," whereas these businesses are now included in the "Operational Infrastructure BPO." However, the reportable segment information for the previous fiscal year, which was created based on the new reportable segment classifications, is disclosed.

[Related Information]

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.

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

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, 2019 (from April 1, 2018 to March 31, 2019)

No items to report.

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Thousand yen)

	Finance and Society	Corporate Solutions	Operational Infrastructure BPO	Regional, Overseas, Etc.	Total
Impairment loss	–	–	–	133,434	133,434

Note: In Regional, Overseas, etc. segment, an impairment loss is recorded on goodwill.

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

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

(Thousand yen)

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

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Thousand yen)

	Finance and Society	Corporate Solutions	Operational Infrastructure BPO	Regional, Overseas, Etc.	Total
Amortization	–	42,345	–	66,717	109,062
Unamortized balance as of March 31, 2020	–	127,036	–	–	127,036

Note: An impairment loss of ¥133,434 thousand is recorded on goodwill for the fiscal year under review.

[Information about Gain on Bargain Purchase by Reportable Segment]

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

No items to report.

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

No items to report.

(Per share information)

(Yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net assets per share	1,101.61	1,190.71
Basic earnings per share	146.10	158.01

Notes:
1. Diluted earnings per share is not presented since no potential shares exist.
2. The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated net assets per share and basic earnings per share have been calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.
3. Calculation basis of net assets per share is as follows.

	As of March 31, 2019	As of March 31, 2020
Total net assets (Thousand yen)	51,353,418	55,089,070
Amount subtracted from total net assets (Thousand yen)	–	5,314
(Non-controlling interests (Thousand yen))	–	5,314
Net assets at the end of the period related to common stock (Thousand yen)	51,353,418	55,083,755
Number of common stock at the end of the period used for the calculation of net assets per share (Shares)	46,616,690	46,261,318

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

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit attributable to owners of parent (Thousand yen)	6,817,732	7,317,629
Amount not attributable to common shareholders (Thousand yen)	–	–
Profit attributable to owners of parent related to common stock (Thousand yen)	6,817,732	7,317,629
Average number of outstanding shares of common stock during the period (Shares)	46,663,333	46,311,057

(Significant subsequent events)

Acquisition of treasury shares

The Company resolved at a meeting of the Board of Directors held on April 30, 2020, 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

   535,000 shares (maximum)

   (Proportion of the total number of issued shares excluding treasury shares: 1.16%)

   (3) Total acquisition price of shares to be acquired

   ¥1,000,000 thousand (maximum)

   (4) Acquisition period

   From May 1, 2020 to June 12, 2020

   (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, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	29,507,988	32,537,933
Notes receivable - trade	46,168	35,080
Accounts receivable - trade	11,620,932	10,996,989
Merchandise	456,683	13,014
Work in process	416,024	345,712
Supplies	6,894	6,425
Advance payments - trade	61,287	97,276
Prepaid expenses	218,576	323,319
Short-term loans receivable from subsidiaries and associates	529,417	449,463
Other	97,393	78,960
Allowance for doubtful accounts	(2,598)	(2,783)
Total current assets	42,958,767	44,881,393
Non-current assets		
Property, plant and equipment		
Buildings	1,021,498	971,341
Tools, furniture and fixtures	211,799	258,120
Land	1,965,696	1,965,696
Total property, plant and equipment	3,198,995	3,195,158
Intangible assets		
Software	518,436	630,678
Other	1,003	892
Total intangible assets	519,440	631,571
Investments and other assets		
Investment securities	6,084,330	5,712,536
Shares of subsidiaries and associates	6,010,411	6,511,123
Investments in capital of subsidiaries and associates	327,143	327,143
Long-term prepaid expenses	10,472	58,945
Deferred tax assets	929,566	954,063
Other	829,319	964,750
Allowance for doubtful accounts	(5,250)	(5,250)
Total investments and other assets	14,185,993	14,523,314
Total non-current assets	17,904,428	18,350,044
Total assets	60,863,196	63,231,437

(Thousand yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	3,281,437	3,133,629
Accounts payable - other	953,570	839,453
Accrued expenses	388,570	359,664
Income taxes payable	1,798,045	1,618,550
Advances received	123,031	197,871
Deposits received	270,647	101,962
Provision for bonuses	2,552,725	2,346,017
Provision for bonuses for directors (and other officers)	49,780	51,700
Provision for loss on order received	193,910	–
Other	989,441	1,208,540
Total current liabilities	10,601,160	9,857,389
Non-current liabilities		
Provision for retirement benefits	348,980	445,856
Asset retirement obligations	84,845	86,020
Long-term accounts payable - other	6,235	42
Total non-current liabilities	440,062	531,919
Total liabilities	11,041,222	10,389,309
Net assets		
Shareholders' equity		
Share capital	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	27,078,501	31,250,745
Total retained earnings	38,660,409	42,832,653
Treasury shares	(3,385,247)	(4,185,444)
Total shareholders' equity	48,802,831	52,174,879
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,019,142	667,248
Total valuation and translation adjustments	1,019,142	667,248
Total net assets	49,821,974	52,842,128
Total liabilities and net assets	60,863,196	63,231,437

(2) Non-consolidated statements of income

(Thousand yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	61,473,604	67,700,219
Cost of sales	49,163,305	54,080,016
Gross profit	12,310,299	13,620,202
Selling, general and administrative expenses	4,634,820	4,988,035
Operating profit	7,675,479	8,632,167
Non-operating income		
Interest income	5,665	6,943
Interest on securities	10,973	13,426
Dividend income	359,727	503,170
Rental income from real estate	14,899	10,088
Other	37,601	64,382
Total non-operating income	428,867	598,011
Non-operating expenses		
Commission for purchase of treasury shares	1,199	1,599
Foreign exchange losses	–	497
Commission expenses	4,807	–
Other	224	–
Total non-operating expenses	6,231	2,097
Ordinary profit	8,098,115	9,228,080
Extraordinary income		
Gain on extinguishment of tie-in shares	94,878	–
Other	145	–
Total extraordinary income	95,024	–
Extraordinary losses		
Loss on retirement of non-current assets	86	53
Loss on valuation of golf club membership	5,104	5,512
Loss on sales of golf club memberships	1,925	–
Loss on valuation of telephone subscription right	1,283	–
Total extraordinary losses	8,399	5,565
Profit before income taxes	8,184,739	9,222,515
Income taxes - current	2,557,850	2,595,737
Income taxes - deferred	(141,432)	130,806
Total income taxes	2,416,417	2,726,544
Profit	5,768,321	6,495,971

(3) Non-consolidated statements of changes in equity

Fiscal year ended March 31, 2019

(Thousand yen)

	Shareholders' equity								
	Share capital	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 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 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 in items other than shareholders' equity									
Total changes during period	–	–	–	–	–	–	3,897,566	3,897,566	(601,736)
Balance at end of 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 period	45,507,001	962,983	962,983	46,469,984
Changes 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 in items other than shareholders' equity		56,159	56,159	56,159
Total changes during period	3,295,830	56,159	56,159	3,351,989
Balance at end of period	48,802,831	1,019,142	1,019,142	49,821,974

Fiscal year ended March 31, 2020

(Thousand yen)

	Shareholders' equity								
	Share capital	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 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)
Changes during period									
Dividends of surplus							(2,323,727)	(2,323,727)	
Profit							6,495,971	6,495,971	
Purchase of treasury shares									(800,196)
Net changes in items other than shareholders' equity									
Total changes during period	–	–	–	–	–	–	4,172,244	4,172,244	(800,196)
Balance at end of period	6,113,000	6,190,917	1,223,751	7,414,669	411,908	11,170,000	31,250,745	42,832,653	(4,185,444)

	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 period	48,802,831	1,019,142	1,019,142	49,821,974
Changes during period				
Dividends of surplus	(2,323,727)			(2,323,727)
Profit	6,495,971			6,495,971
Purchase of treasury shares	(800,196)			(800,196)
Net changes in items other than shareholders' equity		(351,893)	(351,893)	(351,893)
Total changes during period	3,372,047	(351,893)	(351,893)	3,020,153
Balance at end of period	52,174,879	667,248	667,248	52,842,128

7. Others

Results of production, orders and sales

In the fiscal year under review, order backlog in the Regional, Overseas, Etc. business has significantly increased year on year. This was due to Nelito Systems Limited being included in the scope of consolidation as a result of purchasing additional shares from the first quarter ended June 30, 2019.

Effective from the first quarter ended June 30, 2019, the Company partially changed the classification of its reportable segments. Consequently, the percentage of year-on-year change utilizes figures for the same period of the previous fiscal year that were created based on the new reportable segment classifications.

(1) Production

Production in the fiscal year under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Society	30,835,667	4.1
Corporate Solutions	27,649,638	8.4
Operational Infrastructure BPO	24,879,647	10.5
Regional, Overseas, Etc.	11,253,878	23.9
Total	94,618,831	9.1

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 Society	30,071,207	(0.9)	14,658,266	(5.0)
Corporate Solutions	27,898,306	6.1	7,545,445	3.4
Operational Infrastructure BPO	26,978,242	14.9	15,395,179	15.8
Regional, Overseas, Etc.	11,155,162	21.4	3,030,605	57.1
Total	96,102,919	7.6	40,629,497	7.1

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 Society	30,835,667	4.1
Corporate Solutions	27,649,638	8.4
Operational Infrastructure BPO	24,879,647	10.5
Regional, Overseas, Etc.	11,253,878	23.9
Total	94,618,831	9.1

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