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August 4, 2014

# Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2015 <under Japanese GAAP>

Company name: **DTS Corporation**
Stock listing: Tokyo Stock Exchange, First Section
Stock code: 9682
URL: http://www.dts.co.jp/
Representative: Kouichi Nishida, Representative Director and President
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Scheduled date to file quarterly securities report: August 8, 2014
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

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

## 1. Consolidated financial results for the first three months of the fiscal year ending March 31, 2015 (from April 1, 2014 to June 30, 2014)

### (1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| Three months ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| June 30, 2014 | 17,293 | 15.8 | 894 | 13.9 | 929 | 15.3 | 537 | 32.7 |
| June 30, 2013 | 14,928 | 2.1 | 785 | 29.9 | 805 | 26.7 | 404 | 31.4 |

Note: Comprehensive income
Three months ended June 30, 2014: ¥600 million [18.2%]
Three months ended June 30, 2013: ¥507 million [48.1%]

| | Net income per share | Diluted net income per share |
|---|---|---|
| Three months ended | Yen | Yen |
| June 30, 2014 | 22.71 | – |
| June 30, 2013 | 17.03 | – |

### (2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| As of | Million yen | Million yen | % |
| June 30, 2014 | 45,424 | 35,149 | 74.4 |
| March 31, 2014 | 46,316 | 35,251 | 73.3 |

Reference: Equity
As of June 30, 2014: ¥33,787 million As of March 31, 2014: ¥33,926 million

## 2. Dividends

| | Annual dividends | | | | |
|---|---|---|---|---|---|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended March 31, 2014 | – | 15.00 | – | 20.00 | 35.00 |
| Fiscal year ending March 31, 2015 | – | | | | |
| Fiscal year ending March 31, 2015 (Forecasts) | | 15.00 | – | 20.00 | 35.00 |

Note: Revisions to the forecasts of dividends most recently announced: None

## 3. Consolidated earnings forecasts for the fiscal year ending March 31, 2015 (from April 1, 2014 to March 31, 2015)

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Six months ending September 30, 2014 | 34,400 | 11.6 | 2,250 | 8.3 | 2,300 | 8.9 | 1,350 | 20.2 | 57.09 |
| Fiscal year ending March 31, 2015 | 70,000 | 9.1 | 5,000 | 5.4 | 5,050 | 5.0 | 2,800 | 5.5 | 117.77 |

Note: Revisions to the earnings forecasts most recently announced: Yes
For the revisions to the earnings forecasts, please refer to the press release, "Notice of Revisions to Earnings Forecasts," issued today (August 4, 2014).

## * Notes

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

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

Note: For the details, please refer to '(1) Application of specific accounting for preparing quarterly consolidated financial statements in 2. Matters Regarding Summary Information (Notes)' on page 5 of the attached materials.

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

a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
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

Note: For the details, please refer to '(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections in 2. Matters Regarding Summary Information (Notes)' on page 5 of the attached materials.

(4) Number of issued shares (common stock)

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

| | |
|---|---|
| As of June 30, 2014 | 25,222,266 shares |
| As of March 31, 2014 | 25,222,266 shares |

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

| | |
|---|---|
| As of June 30, 2014 | 1,697,196 shares |
| As of March 31, 2014 | 1,447,128 shares |

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

| | |
|---|---|
| Three months ended June 30, 2014 | 23,645,964 shares |
| Three months ended June 30, 2013 | 23,775,362 shares |

* **Indication regarding execution of quarterly review procedures**
  The completion of quarterly review procedures in accordance with the Financial Instruments and Exchange Act is not required for preparing this quarterly financial results report. At the time of disclosure of this quarterly financial results report, the review procedures for quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act are incomplete.

* **Proper use of earnings forecasts, and other special matters**
  The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors.
  For matters regarding the above earnings forecasts, please refer to '(3) Information regarding consolidated earnings forecasts and other forward-looking statements in 1. Qualitative Information Regarding Settlement of Accounts for the First Three Months,' on page 4 of the attached materials.

**Attached Materials**

**Contents**

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

### (1) Information regarding consolidated operating results

In the three months under review, the Japanese economy recovered at a moderate pace. There were signs of a temporary pullback in demand after a spike ahead of the increase to consumption tax, but the impact was limited. Also, corporate earnings improved and capital investment increased. In the information services industry, investment in information technology continued to recover, particularly by financial institutions and others, supported by an upturn in corporate earnings.

Amid this environment, the DTS Group is in the second year of its medium-term management plan (April 2013 to March 2016) formulated in April 2013, and in order to realize plan's vision of "providing the highest value to customers as the Best Value Partner," the Group focused on efforts to increase net sales, including the strengthening of its proposal-making capability, the creation of new solutions, and the establishment of a business base for global business operations. The DTS Group is also continuously working to train its workforce into high value-added personnel to support these aims, strengthen its management base and maximize group synergies.

In new solutions development, the DTS Group teamed up with Mi media Inc. to launch Dr. Cowbell, a new cloud-based service aimed at the livestock industry. Dr. Cowbell allows livestock farmers to identify early signs of estrus and disease by collecting and analyzing in the cloud the data from sensors worn around the cows' necks. The Group is now working to develop a market for the service in the livestock industry. The Group also launched a number of other new services, including Remote System Management Service (ReSM), a system management service for small and midsize system users developed with MIRACLE LINUX CORPORATION, and On-PreSt, an online storage system that allows corporate users to share and access information on multiple terminals while also ensuring appropriate levels of security for business use.

In April 2014, as part of efforts to establish a global business base, the Group set up a local company in Vietnam as a new business base to conduct offshore development, Business Process Outsourcing (BPO) and other operations. This followed the establishment of other overseas base in China, the U.S. and Thailand. In offshore development, the Group plans to boost its global competitiveness by fostering local IT engineers. In BPO, the aim is to offer total IT solutions with higher added value through the provision of back office services and data entry services such as housing CAD data entry.

In addition, as part of its strategy to develop the embedding business as a third pillar to support existing businesses in finance and communication, the Group acquired shares in Artsystem CORPORATION and YOKOGAWA DIGITAL COMPUTER CORPORATION, making both companies subsidiaries of the Group from this first quarter. DTS has also continued to push ahead with the restructuring of Group companies. As part of this process, consolidated subsidiary FAITEC CORPORATION was absorbed through a merger in April, with the Company as the surviving entity. In addition, the Company spun off the information service businesses of its Kansai Branch and Chukyo Branch to create a separate company called DTS WEST CORPORATION.

As a result of the above, the Group reported net sales of ¥17,293 million for the three months under review, an increase of 15.8% year on year. The increase in sales reflected a strong performance in development contracts for banks, securities companies and other customers in the financial sector and success in securing new contracts mainly from the manufacturing sector and government agencies, in addition to the consolidation of DTS America Corporation, as well as the above two companies.

Gross profit rose 19.6% year on year to ¥2,693 million. This mainly reflected an increase in net sales. Selling, general and administrative expenses increased 22.6% year on year to ¥1,799 million, mainly due to the impact of new consolidations. Consequently, operating income was ¥894 million, up 13.9% year on year, ordinary income was ¥929 million, up 15.3% year on year, and net income was ¥537 million, up 32.7% year on year.

(Million yen)

| | Consolidated | Year-on-year change (%) | Non-consolidated (Reference) | Year-on-year change (%) |
|---|---|---|---|---|
| Net sales | 17,293 | 15.8 | 10,641 | 22.2 |
| Operating income | 894 | 13.9 | 848 | 36.4 |
| Ordinary income | 929 | 15.3 | 915 | 22.6 |
| Net income | 537 | 32.7 | 1,840 | 297.6 |

<Breakdown of net sales>

(Million yen)

| | | Consolidated | Year-on-year change (%) | Non-consolidated (Reference) | Year-on-year change (%) |
|---|---|---|---|---|---|
| Information Service | System Engineering Services | 10,509 | 20.4 | 7,737 | 29.3 |
| | Operation Engineering Services | 3,247 | (1.1) | 2,567 | (0.6) |
| | Product Services and Others | 2,584 | 41.6 | 336 | 144.3 |
| | Subtotal | 16,342 | 18.1 | 10,641 | 22.2 |
| Human Resource Service | Staffing Services and Others | 951 | (13.0) | – | – |
| | Subtotal | 951 | (13.0) | – | – |
| Total | | 17,293 | 15.8 | 10,641 | 22.2 |

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

**Information Service**

[System Engineering Services]

Sales from System Engineering Services increased, supported by rising demand in the financial sector for large-scale system integration projects for banks and by new contracts obtained from government agencies related to the integration of pension systems and local government IT system upgrades, as well as new consolidations.

[Operation Engineering Services]

Sales from Operation Engineering Services were steady year on year. Although the size of projects contracted at some of the communications carrier customers due to the completion of system migration projects, this was offset by growth in the size of projects at other existing customers.

[Product Services and Others]

Sales for Product Services and Others increased thanks to a strong performance in equipment sales, particularly sales of servers and storage, while there was also special demand for services such as PC renewals.

### Human Resource Service

[Staffing Services and Others]
In staffing services, the volume of contracts continued to decline due to a shift to in-house production by customers. Also, sales from outsourcing services related to product sales, which had been expanding, were affected by a shift to in-house operations at some customers from this first quarter. As a result, sales from Staffing Services and Others declined year on year.

## (2) Information regarding consolidated financial position

Total assets as of June 30, 2014 were ¥45,424 million, a decrease of ¥891 million from the previous fiscal year-end. The main factors for this were increases of ¥737 million in work in process and ¥622 million in goodwill on one hand and a decrease of ¥2,438 million in cash and deposits on the other.

Liabilities were ¥10,275 million, a decrease of ¥789 million from the previous fiscal year-end. The main factors for this were decreases of ¥1,280 million in provision for bonuses and ¥1,012 million in income taxes payable.

Net assets were ¥35,149 million, a decrease of ¥101 million from the previous fiscal year-end. This was mainly the result of an increase of ¥537 million from net income being offset by decreases of ¥475 million of dividends from surplus and ¥428 million of purchase of treasury shares.

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

Sales trended ahead of the Company's start-of-year forecast due to rising demand for system development from financial institutions and other customers. Orders are also increasing steadily. In addition, the Company now expects profits to exceed its start-of-year forecasts due to the increase in sales. In light of these factors, the Company has revised its earnings forecasts for the first six months of the fiscal year ending March 31, 2015, announced on May 9, 2014. There are no changes to full-year forecasts.

For more details, please refer to the press release, "Notice of Revisions to Earnings Forecasts," issued on August 4, 2014.

## 2. Matters Regarding Summary Information (Notes)

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

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

Deferred income taxes are included in income taxes.

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

Changes in accounting policies

(Application of Accounting Standard for Retirement Benefits and Its Guidance)
For the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), the Company has additionally applied the provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits from this first quarter, and reviewed the determination of retirement benefit obligations and current service costs. Accordingly, the Company changed the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis, as well as the determination of discount rate from one based on a period approximate to the expected average remaining working lives of employees to one that uses different discount rates according to the estimated timing of benefit payment.

Application of the Accounting Standard for Retirement Benefits and its Guidance is in line with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. In accordance with such measures, the effect of the change in the determination of retirement benefit obligations and current service costs has been added to or deducted from retained earnings as of the beginning of this first quarter.

As a result, as of the beginning of current period, net defined benefit liability decreased by ¥255,255 thousand and retained earnings increased by ¥164,384 thousand. In addition, the effect of these changes on operating income, ordinary income and income before income taxes and minority interests for the three months under review is immaterial.

## 3. Quarterly Consolidated Financial Statements

### (1) Consolidated balance sheets

(Thousand yen)

| | As of March 31, 2014 | As of June 30, 2014 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 18,255,320 | 15,816,587 |
| Notes and accounts receivable - trade | 10,801,675 | 11,082,646 |
| Merchandise and finished goods | 606,711 | 239,932 |
| Work in process | 546,784 | 1,284,031 |
| Raw materials and supplies | 9,428 | 28,887 |
| Other | 1,910,026 | 2,079,620 |
| Allowance for doubtful accounts | (9,574) | (8,782) |
| Total current assets | 32,120,374 | 30,522,923 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Land | 6,422,365 | 6,422,365 |
| Other, net | 2,307,741 | 2,213,106 |
| Total property, plant and equipment | 8,730,106 | 8,635,471 |
| Intangible assets | | |
| Goodwill | 1,114,091 | 1,736,197 |
| Other | 905,039 | 876,265 |
| Total intangible assets | 2,019,130 | 2,612,462 |
| Investments and other assets | | |
| Other | 3,446,678 | 3,654,439 |
| Allowance for doubtful accounts | (226) | (330) |
| Total investments and other assets | 3,446,451 | 3,654,109 |
| Total non-current assets | 14,195,688 | 14,902,044 |
| Total assets | 46,316,062 | 45,424,967 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 3,621,955 | 3,382,339 |
| Income taxes payable | 1,429,940 | 417,870 |
| Provision for bonuses | 2,578,991 | 1,298,084 |
| Provision for directors' bonuses | 61,960 | 12,887 |
| Provision for loss on order received | 30,590 | 33,291 |
| Other | 2,460,134 | 4,440,607 |
| Total current liabilities | 10,183,573 | 9,585,081 |
| Non-current liabilities | | |
| Provision for directors' retirement benefits | 51,172 | 40,062 |
| Net defined benefit liability | 599,715 | 359,485 |
| Other | 230,486 | 291,069 |
| Total non-current liabilities | 881,374 | 690,617 |
| Total liabilities | 11,064,947 | 10,275,698 |

(Thousand yen)

| | As of March 31, 2014 | As of June 30, 2014 |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,113,000 | 6,113,000 |
| Capital surplus | 6,190,917 | 6,190,917 |
| Retained earnings | 22,781,766 | 23,009,572 |
| Treasury shares | (1,493,973) | (1,922,339) |
| Total shareholders' equity | 33,591,711 | 33,391,151 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 348,967 | 416,824 |
| Foreign currency translation adjustment | 41,638 | 33,945 |
| Remeasurements of defined benefit plans | (55,892) | (54,325) |
| Total accumulated other comprehensive income | 334,713 | 396,444 |
| Minority interests | 1,324,688 | 1,361,672 |
| Total net assets | 35,251,114 | 35,149,268 |
| Total liabilities and net assets | 46,316,062 | 45,424,967 |

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

### Consolidated statements of income (cumulative)

(Thousand yen)

| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
|---|---|---|
| Net sales | 14,928,371 | 17,293,427 |
| Cost of sales | 12,675,158 | 14,599,441 |
| Gross profit | 2,253,213 | 2,693,985 |
| Selling, general and administrative expenses | 1,467,442 | 1,799,122 |
| Operating income | 785,770 | 894,863 |
| Non-operating income | | |
| Interest income | 2,104 | 2,266 |
| Dividend income | 15,889 | 16,431 |
| Insurance premiums refunded cancellation | 266 | 3,459 |
| Subsidy income | 23 | – |
| Other | 10,879 | 15,263 |
| Total non-operating income | 29,164 | 37,421 |
| Non-operating expenses | | |
| Interest expenses | 294 | 165 |
| Commission for purchase of treasury shares | – | 856 |
| Foreign exchange losses | 8,644 | – |
| Amortization of deferred organization expenses | – | 1,576 |
| Commission fee | 128 | – |
| Other | 11 | 451 |
| Total non-operating expenses | 9,078 | 3,049 |
| Ordinary income | 805,857 | 929,235 |
| Extraordinary income | | |
| Gain on sales of investment securities | 574 | – |
| Total extraordinary income | 574 | – |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 206 | 1,127 |
| Provision for allowance of office transfer expenses | 3,665 | – |
| Total extraordinary losses | 3,872 | 1,127 |
| Income before income taxes and minority interests | 802,559 | 928,107 |
| Income taxes | 366,631 | 385,552 |
| Income before minority interests | 435,927 | 542,554 |
| Minority interests in income | 31,147 | 5,512 |
| Net income | 404,779 | 537,042 |

## Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
|---|---|---|
| Income before minority interests | 435,927 | 542,554 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 53,650 | 67,665 |
| Foreign currency translation adjustment | 18,377 | (11,174) |
| Remeasurements of defined benefit plans, net of tax | – | 1,587 |
| Total other comprehensive income | 72,027 | 58,079 |
| Comprehensive income | 507,954 | 600,633 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 476,134 | 595,291 |
| Comprehensive income attributable to minority interests | 31,820 | 5,342 |

### (3) Consolidated statements of cash flows

(Thousand yen)

| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes and minority interests | 802,559 | 928,107 |
| Depreciation | 195,543 | 226,753 |
| Amortization of goodwill | 90,620 | 124,020 |
| Increase (decrease) in provision for bonuses | (1,283,039) | (1,388,052) |
| Increase (decrease) in provision for directors' bonuses | (43,895) | (50,880) |
| Increase (decrease) in provision for loss on order received | (5,286) | (1,333) |
| Increase (decrease) in provision for office transfer expenses | 2,685 | – |
| Increase (decrease) in provision for retirement benefits | 10,999 | – |
| Increase (decrease) in provision for directors' retirement benefits | (12,053) | (11,110) |
| Increase (decrease) in net defined benefit liability | – | 9,368 |
| Decrease (increase) in notes and accounts receivable - trade | 1,529,091 | 797,179 |
| Decrease (increase) in inventories | (922,323) | (246,859) |
| Increase (decrease) in notes and accounts payable - trade | 274,892 | (585,048) |
| Other, net | 1,049,582 | 1,461,018 |
| Subtotal | 1,689,376 | 1,263,164 |
| Interest and dividend income received | 17,083 | 17,623 |
| Interest expenses paid | (906) | (651) |
| Income taxes paid | (1,084,857) | (1,418,540) |
| Net cash provided by (used in) operating activities | 620,695 | (138,404) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (18,759) | (22,045) |
| Purchase of intangible assets | (48,661) | (65,197) |
| Purchase of investment securities | (473) | (511) |
| Proceeds from sales of investment securities | – | 5,000 |
| Purchase of shares of subsidiaries and associates | (15,660) | – |
| Payments for investments in capital of subsidiaries and associates | – | (123,516) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | – | (1,205,541) |
| Other, net | 1,151 | (5,027) |
| Net cash provided by (used in) investing activities | (82,403) | (1,416,838) |

(Thousand yen)

| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
|---|---|---|
| Cash flows from financing activities | | |
| Redemption of bonds | (50,000) | – |
| Cash dividends paid | (427,567) | (443,625) |
| Cash dividends paid to minority shareholders | (33,678) | (21,114) |
| Purchase of treasury shares | – | (429,222) |
| Other, net | 19 | (41,565) |
| Net cash provided by (used in) financing activities | (511,227) | (935,527) |
| Effect of exchange rate change on cash and cash equivalents | 7,631 | (4,776) |
| Net increase (decrease) in cash and cash equivalents | 34,696 | (2,495,546) |
| Cash and cash equivalents at beginning of period | 15,320,576 | 18,055,296 |
| Increase in cash and cash equivalents from newly consolidated subsidiary | 150,808 | 36,711 |
| Cash and cash equivalents at end of period | 15,506,081 | 15,596,461 |

## (4) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

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

No items to report.

(Business combination)

1. Merger with consolidated subsidiary

The Company carried out an absorption-type merger with its consolidated subsidiary, FAITEC CORPORATION, with the effective date of April 1, 2014, in accordance with a resolution at a meeting of its Board of Directors held on November 5, 2013.

(1) Outline of transaction

1) Name and business of company involved

| | |
|---|---|
| Name of company involved | FAITEC CORPORATION |
| Business | An information service business engaged in operations focused on property management for the insurance and pension fields |

2) Date of merger

April 1, 2014

3) Legal form of merger

Absorption-type merger in which the Company was the surviving company and FAITEC CORPORATION was the absorbed company

4) Company name after merger

DTS Corporation

5) Other items regarding outline of transaction

a. Purpose of transaction

FAITEC CORPORATION was established in partnership with The Chuo Mitsui Trust and Banking Company, Limited (currently Sumitomo Mitsui Trust Bank, Limited) and others, and was engaged in operations focused on property management for the insurance and pension fields.

With the aim of combining the operational knowhow of FAITEC CORPORATION with the Company's technological capabilities in the finance sector and expanding operations in the finance sector as a whole, in which demand for system development is expected to grow, while also boosting management efficiency and expediting decision making, the Company decided to carry out an absorption-type merger with it in which the Company became the surviving company after making the FAITEC CORPORATION a wholly owned subsidiary.

b. Details of allotments in connection with merger

Because the Company owned all shares of FAITEC CORPORATION, there was no issuance of new shares or increase in capital stock as a result of the merger, and a cash payment was not made for the merger.

c. Financial position and operating results in most recent fiscal year of absorbed company

(For the fiscal year ended March 31, 2014)

| | |
|---|---|
| Assets | ¥2,531 million |
| Liabilities | ¥716 million |
| Net assets | ¥1,814 million |

| | |
|---|---|
| Net sales | ¥5,568 million |
| Net income | ¥298 million |

(2) Outline of accounting procedures applied

The merger was accounted for as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

2. Establishment of subsidiary through company split (simplified incorporation-type company split)

The Company established DTS WEST CORPORATION through a company split with an effective date of April 1, 2014, in accordance with a resolution at a meeting of its Board of Directors held on January 24, 2014.

(1) Outline of transaction

1) Name and business that was demerged

| | |
|---|---|
| Name: | Information service business* |
| Business: | System engineering services, operation engineering services, product services* |

*Information service business operated by Kansai Branch and Chukyo Branch.

2) Date of transaction

April 1, 2014

3) Legal form of transaction

The business was demerged from the Company and established as new company DTS WEST CORPORATION through a simplified incorporation-type company split.

4) Company name after transaction

Name of new company: DTS WEST CORPORATION (a consolidated subsidiary of the Company)

5) Other items regarding outline of transaction

The information service business operated by Kansai Branch and Chukyo Branch was demerged and established as a new company called DTS WEST CORPORATION, in order to create a framework capable of proposing optimum IT systems for customers in western Japan, and to make business management more efficient and speed up decision making.

(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, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

## 4. Supplementary Information

Production, orders and sales

### (1) Production

Production in the three months under review is as follows.

| Segment and services | | Production (Thousand yen) | Year-on-year change (%) |
|---|---|---|---|
| Information Service | System Engineering Services | 10,509,403 | 20.4 |
| | Operation Engineering Services | 3,247,689 | (1.1) |
| Total | | 13,757,093 | 14.6 |

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

### (2) Orders

Orders in the three months under review are as follows.

| Segment and services | | Order volume (Thousand yen) | Year-on-year change (%) | Order backlog (Thousand yen) | Year-on-year change (%) |
|---|---|---|---|---|---|
| Information Service | System Engineering Services | 11,150,398 | 50.0 | 12,384,297 | 23.1 |
| | Operation Engineering Services | 1,445,199 | (28.2) | 6,815,441 | 3.4 |
| Total | | 12,595,598 | 33.3 | 19,199,738 | 15.3 |

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 three months under review are as follows.

| Segment and services | | Sales (Thousand yen) | Year-on-year change (%) |
|---|---|---|---|
| Information Service | System Engineering Services | 10,509,403 | 20.4 |
| | Operation Engineering Services | 3,247,689 | (1.1) |
| | Product Services and Others | 2,584,908 | 41.6 |
| | Subtotal | 16,342,002 | 18.1 |
| Human Resource Service | Staffing Services and Others | 951,424 | (13.0) |
| | Subtotal | 951,424 | (13.0) |
| Total | | 17,293,427 | 15.8 |

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