May 12, 2016

Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 <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 23, 2016
Scheduled date to commence dividend payments: June 24, 2016
Scheduled date to file annual securities report: June 24, 2016
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, 2016 (from April 1, 2015 to March 31, 2016)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2016	82,537	10.6	7,599	18.2	7,707	18.2	4,341	17.6
March 31, 2015	74,609	16.3	6,432	35.7	6,518	35.5	3,692	39.1

Note: Comprehensive income
Fiscal year ended March 31, 2016: ¥4,308 million [10.8%]
Fiscal year ended March 31, 2015: ¥3,889 million [27.2%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income on total assets	Operating income on net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2016	186.68	–	11.5	14.5	9.2
March 31, 2015	156.74	–	10.5	13.3	8.6

Reference: Equity in earnings (losses) of affiliates:
Fiscal year ended March 31, 2016: ¥– million Fiscal year ended March 31, 2015: ¥– million

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2016	55,131	40,355	70.4	1,671.27
March 31, 2015	51,382	38,084	71.3	1,557.32

Reference: Equity
As of March 31, 2016: ¥38,814 million As of March 31, 2015: ¥36,635 million

(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, 2016	5,060	5,423	(2,064)	30,120
March 31, 2015	6,950	(2,050)	(1,326)	21,728

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, 2015	–	15.00	–	35.00	50.00	1,176	31.9	3.4
Fiscal year ended March 31, 2016	–	20.00	–	40.00	60.00	1,393	32.1	3.7
Fiscal year ending March 31, 2017 (Forecasts)	–	25.00	–	35.00	60.00		30.7	

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2017	78,000	(5.5)	7,000	(7.9)	7,100	(7.9)	4,500	3.6	195.44

* 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: 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 details, please refer to '(Changes in accounting policies) in (5) Notes to consolidated financial statements under 5. Consolidated Financial Statements' on page 25 of the attached materials.

(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, 2016	25,222,266 shares
As of March 31, 2015	25,222,266 shares

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

As of March 31, 2016	1,997,593 shares
As of March 31, 2015	1,697,449 shares

c. Average number of outstanding shares during the period

Fiscal year ended March 31, 2016	23,259,175 shares
Fiscal year ended March 31, 2015	23,555,084 shares

(Reference) Non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2016	56,076	11.1	6,248	14.8	6,379	13.7	3,811	(19.7)
March 31, 2015	50,489	26.0	5,445	49.3	5,611	46.5	4,745	106.0

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2016	163.89	–
March 31, 2015	201.47	–

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2016	47,876	38,146	79.7	1,642.49
March 31, 2015	45,860	36,836	80.3	1,565.84

Reference: Equity

As of March 31, 2016: ¥38,146 million As of March 31, 2015: ¥36,836 million

2. Non-consolidated earnings forecasts for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(Percentages indicate year-on-year changes.)

	Net sales		Ordinary income		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2017	54,000	(3.7)	5,950	(6.7)	4,000	4.9	173.73

* **Indication regarding execution of audit procedures**

  The completion of audit procedures in accordance with the Financial Instruments and Exchange Act is not required for preparing this financial results report. At the time of disclosure of this financial results report, the audit procedures for 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 '(1) Analysis of operating results in 1. Analysis of Operating Results and Financial Position' on page 2 of the attached materials.

Attached Materials

Contents

1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

1) Operating results in the fiscal year under review

In the fiscal year under review, the Japanese economy recovered at a moderate pace due mainly to improvements in corporate earnings and an increase in capital investment, despite some weakness in production and exports amid an uncertain outlook for the global economy. In the information services industry, investment in information technology increased, particularly by financial institutions, supported by improvements in corporate earnings.

Amid this environment, the DTS Group focused on strengthening its proposal capabilities to boost sales, reinforcing its business base, transforming its business model, and enhancing the Group's management foundation to support those efforts, guided by the vision of "providing the highest value to customers as the Best Value Partner" under the medium-term management plan (April 2013 to March 2016), formulated in April 2013. The medium-term management plan's final year financial targets – net sales of ¥72.0 billion and operating income of ¥5.6 billion – were achieved one year early in the previous fiscal year ended March 31, 2015. Targeting further growth, the Company has raised its targets for the current fiscal year, the plan's final year, and has been working towards its long-term goals of net sales of ¥100.0 billion and operating income of ¥10.0 billion.

Under its medium-term management plan, the DTS Group has worked to strengthen its proposal capabilities by overhauling management strategy meetings to reinforce account-based marketing and enhanced and expanded customer satisfaction surveys to visualize customer needs as part of a greater focus on customers in marketing activities. This has helped the Group shift to proposal-based marketing activities. Also, in order to drive sustained business expansion, the Company has focused on developing new markets by introducing a target-based management system for proposal activities aimed at new customers and other users, upgraded its proposal activities and enhanced the content of proposals.

With respect to reinforcing the business base, the Company has worked to eliminate unprofitable projects and improve the quality of development activities by introducing a system that accurately visualizes project progress and by implementing ongoing training for project managers and other personnel. In the global business field, the Company is focusing on rebuilding systems and securing personnel to address changes in overseas IT investment and economic conditions.

With respect to transforming the business model, the Company is developing a third business pillar to complement existing businesses in finance and communication by increasing its presence in the promising medical and in-vehicle fields and by expanding its embedding business. In the medical field, the Company is developing new solutions and conducting research to commercialize those solutions. One example is a medical care support system for rheumatoid arthritis launched in November 2015, which improves the efficiency and quality of treatment through data visualization. In its embedding business, the Company transferred some of its embedding operations to ART System Co., Ltd. in April 2015 in order to integrate customer bases, know-how and other resources. Also, the Company realized to step up cooperation with YOKOGAWA DIGITAL COMPUTER CORPORATION, which has a strong position in the in-vehicle field. In new business creation, the Company worked with Group companies and utilized Group synergies to develop a new hybrid-type sales management solution called Xsi:d+, which leverages the advantages of web systems and client / server systems. The Company also developed new solutions that can be integrated with its strategic data utilization and analysis tool DataStudio@WEB. In addition, the Company focused on developing a next-generation version of Walk in home, a 3D presentation system for the construction sector. The new version, which has upgraded functionality, incorporates improvements made in response to requests from customers. In promising growth fields such as robotics, big data utilization and FinTech, the DTS Group is making strategic investments and conducting research and demonstration experiments.

As part of our efforts to enhance the Group's management foundation, we are continuously working to reorganize the Group to establish a management environment in each company that maximizes synergy for the Group. In April 2015, we merged DTS WEST CORPORATION, a Group company, with SOUGOU SYSTEM SERVICE CORPORATION, aiming to expand the business under this new operating structure. To strengthen technical capabilities and promote global business, the Company is changing some of its internal certification systems and enhancing training programs in order to create a better environment for personnel development. Also, the Company is extending its development standards and environmental management systems to Group companies in order to improve quality, productivity and CSR across the whole Group. Plans are also being developed to consolidate operating bases, including headquarters, with the aim of improving the efficiency and speed of management.

Aiming to continually expand growth, the DTS Group formulated a new medium-term management plan, to begin from April 2016. The DTS Group has positioned the plan as the second stage to follow the current medium-term management plan. Through this plan, the DTS Group aims to accumulate capabilities and bring about transformation under the vision “Change! for the Next—Creating New Value,” pursuing targets for fiscal 2018 of net sales of at least ¥90.0 billion and operating margin of at least 9%.

As a result of the above, the Group reported net sales of ¥82,537 million for the fiscal year under review, an increase of 10.6% year on year. Although sales of equipment to online service companies and other customers declined, as did sales from staffing services to telecommunications companies and other clients, net sales rose on the back of a strong performance in development contracts, mainly for banks and life insurance companies.

Gross profit rose by 13.7% year on year to ¥14,984 million. This mainly reflected the increase in net sales. Selling, general and administrative expenses increased by 9.5% year on year to ¥7,384 million, mainly reflecting enhancement of the management foundation. Consequently, operating income was ¥7,599 million, up 18.2% year on year, ordinary income was ¥7,707 million, up 18.2% year on year. Profit attributable to owners of parent was ¥4,341 million, up 17.6% year on year, mainly reflecting gains on the sale of land and buildings as part of moves to consolidate operating bases and the booking of allowance for special contributions related to the Company’s withdrawal from the Japan Computer Information Service Employees’ Pension Fund.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	82,537	10.6	56,076	11.1
Operating income	7,599	18.2	6,248	14.8
Ordinary income	7,707	18.2	6,379	13.7
Profit attributable to owners of parent	4,341	17.6	–	–
Profit (Non-consolidated)	–	–	3,811	(19.7)

<Breakdown of net sales>

(Million yen)

		Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Information Service	System Engineering Services	59,242	15.8	43,478	12.8
	Operation Engineering Services	13,516	3.6	11,210	4.8
	Product Services and Others	6,609	(3.5)	1,387	12.2
	Subtotal	79,368	11.7	56,076	11.1
Human Resource Service	Staffing Services and Others	3,168	(10.7)	–	–
	Subtotal	3,168	(10.7)	–	–
Total		82,537	10.6	56,076	11.1

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

Information Service

[System Engineering Services]

Sales from System Engineering Services increased year on year, supported by rising demand in the financial sector from banks for large-scale system integration projects and from life insurance companies for system development, as well as by development contracts in a wide range of sectors, including service sectors and government agencies.

[Operation Engineering Services]

Sales from Operation Engineering Services rose year on year, mainly supported by firm demand for system operation and maintenance projects in sectors including services, telecommunications, and financial sectors, despite a contraction in the size of projects for some telecommunication carriers.

[Product Services and Others]

Sales from Product Services and Others declined year on year, mainly reflecting the passing of a demand cycle for large-scale projects from online services companies and a shift to internal procurement by some telecommunication carriers, despite strong sales of equipment to educational institutions.

Human Resource Service

[Staffing Services and Others]

Sales from Staffing Services and Other declined year on year due to a weak performance in the staffing services business, despite success in securing new orders for call center services. Part of the staffing services business was sold on April 1, 2016.

2) Outlook for the next fiscal year

The outlook for the Japanese economy is likely to remain uncertain due to slowing growth in resource-producing countries and emerging countries such as China, lower oil prices, yen appreciation and weak share prices. In the IT services market, the DTS Group forecasts firm growth, including the creation of new markets and demand due to prospects for developments of innovation in cloud services, mobile telecommunications, social media, big data and the Internet of things (IoT).

In the first year of the DTS Group's new medium-term management plan (April 2016 to March 2019), the Group will continue to provide added value and aim to become a system integrator capable of responding to advanced business needs, while developing an organizational climate of self-reform and strengthening the bottom-up system and both business and human resources.

In light of the above-mentioned changes and policies, consolidated earnings forecasts for the fiscal year ending March 31, 2017 are as follows. Due to the reorganization of the DTS Group, the reportable segments will be reclassified into four new segments from the next fiscal year: "Finance and Public Sector," "Corporate, Communications and Solutions," "Operation BPO," and "Regional, Overseas, Etc."

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	78,000	(5.5)	54,000	(3.7)
Operating income	7,000	(7.9)	5,850	(6.4)
Ordinary income	7,100	(7.9)	5,950	(6.7)
Profit attributable to owners of parent	4,500	3.7	–	–
Profit (Non-consolidated)	–	–	4,000	5.0

<Breakdown of net sales>

(Million yen)

	Consolidated
Finance and Public Sector	26,500
Corporate, Communications and Solutions	20,700
Operation BPO	12,100
Regional, Overseas, Etc.	18,700
Total	78,000

Net sales are forecast to be ¥78,000 million, down 5.5% year on year. In Finance and Public Sector, the Group forecasts sales of ¥26,500 million. Sales from large-scale system integration projects for banks are likely to decline due to the end of the peak, but sales from other customers in the financial sector are expected to rise. In Corporate, Communications and Solutions, the Group forecasts sales of ¥20,700 million, supported by growth in the solutions business and by new large-scale projects for core operations at customers through the total system integration, including cloud computing and infrastructure. In Operation BPO, the Group forecasts sales of ¥12,100 million, supported by moves into new business fields and by using automation to reduce costs to secure business in existing fields. In Regional, Overseas, Etc., the Group forecasts sales of ¥18,700 million, supported by moves into regional business and developments of the business base to address changes in overseas markets.

In terms of profits, operating income is forecast to be ¥7,000 million, down 7.9% year on year, ordinary income is forecast to be ¥7,100 million, down 7.9% year on year, and profit attributable to owners of parent is forecast to be ¥4,500 million, up 3.7% year on year.

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

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

(2) Analysis of financial position

1) Assets, liabilities and net assets

Total assets as of March 31, 2016 were ¥55,131 million, an increase of ¥3,749 million from the previous fiscal year-end. The main factors for this were decreases of ¥4,281 million in land, ¥927 million in buildings and structures and ¥496 million in goodwill on one hand, and increases of ¥8,492 million in cash and deposits and ¥1,364 million in notes and accounts receivable - trade on the other hand, respectively. Regarding the increase in cash and deposits, please refer to ‘2) Cash flows.’

Liabilities were ¥14,775 million, an increase of ¥1,477 million from the previous fiscal year-end. The main factors for this was a decrease of ¥679 million in accrued consumption taxes included in other under current liabilities on one hand, and increases of ¥1,231 million in allowance for loss on employees’ pension fund withdrawal and ¥980 million in accounts payable - trade on the other hand, respectively.

Net assets were ¥40,355 million, an increase of ¥2,271 million from the previous fiscal year end. Although there was a decrease of ¥1,287 million in retained earnings due to dividends of surplus, and an increase of ¥726 million in treasury shares, this was offset by an increase of ¥4,341 million in retained earnings due to profit attributable to owners of parent.

2) Cash flows

Cash and cash equivalents (hereinafter, “cash”) as of March 31, 2016 was ¥30,120 million, an increase of ¥8,392 million from ¥21,728 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 ¥5,060 million. There was a decrease in cash provided of ¥1,890 million compared with the previous fiscal year. This mainly reflected an increase in increase in notes and accounts receivable - trade of ¥1,047 million, an increase in net gain on sales of non-current assets (net amount after offsetting loss on sales of non-current assets) of ¥602 million, an increase in income taxes paid of ¥500 million and a decrease of increase in accrued consumption taxes included in “Other, net” of ¥1,784 million, in spite of an increase in allowance for loss on employees’ pension fund withdrawal of ¥1,231 million and a decrease in notes and accounts payable - trade of ¥1,149 million.

Net cash provided by investing activities was ¥5,423 million. There was an increase in cash provided of ¥7,474 million compared with the previous fiscal year. This mainly reflected an increase in proceeds from sales of property, plant and equipment of ¥6,096 million and a decrease in purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥1,205 million.

Net cash used in financing activities was ¥2,064 million. There was an increase in cash used of ¥738 million compared with the previous fiscal year. This mainly reflected increases in cash dividends paid of ¥458 million and purchase of treasury shares of ¥296 million.

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

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Equity ratio (%)	72.4	73.3	71.3	70.4
Market value equity ratio (%)	83.2	92.7	105.3	90.7
Interest-bearing debt to cash flow ratio (%)	3.7	0.9	0.4	–
Interest coverage ratio (times)	1,937.6	3,445.1	9,238.7	1,055.2

Notes: 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.

(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 will work to pay stable dividends on an ongoing basis and implement a flexible capital policy, aiming to ensure the return of profits to shareholders in the medium- and long-term, after making a comprehensive consideration of results trends, its financial position and other factors as well as the internal reserves needed for business expansion.

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

Taking into account factors such as operating results for the fiscal year under review, which exceeded projections, in order to return profits to shareholders, the Company plans to pay a year-end dividend of ¥40 per share, which is ¥5 higher than its start-of-year dividend forecast. As a result, the planned annual dividend is ¥60 per share, including the interim dividend of ¥20 per share already paid.

For annual dividends in the next fiscal year, the Company plans to pay ¥60 per share.

(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, 2016.

1) Price competition

In the information services industry, to which the DTS Group belongs, customers are becoming increasingly demanding with regard to investment in information technology. As such, customers constantly compare the relative merits of the DTS Group with those of industry competitors both in terms of price and service quality. On the price front, there is expected to be further intensification in competition in the foreseeable future, partly reflecting entry into the Japanese market by information service providers with competitive advantages in terms of price, from China and other areas. Amid this market environment, the Company is endeavoring to minimize the effects of price competition from cost cutting by thoroughly promoting project profit management and working to improve productivity, as well as providing even higher-value added services by such means as strengthening its efforts to expand the consulting business. Nevertheless, the results of the DTS Group may be affected if any external factor causes downward price pressure in excess of that anticipated by the Company.

2) Management of software development projects

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

3) Security

Companies operating in the information service business, an area of strength for the DTS Group, come into contact with important information of various customers due to the nature of the business. As a consequence, security management is an important operational issue. In light of such considerations, the Company has developed internal rules on the handling and management of information. It has also obtained the “Privacy Mark” certification as one of its activities for the protection of personal information, and carries out training to enhance awareness about handling information among employees of the Company and employees of business partners. In addition, the Company has obtained certification for its Information Security Management System (ISMS) and is working to strengthen its security management structure further. Nevertheless, the results of the DTS Group may be affected in the unlikely event of a serious leakage of information, as such a leak would expose the Company to the possibility of being held liable for compensation for damages, in addition to other problems such as customer cancellations caused by loss of trust in the Company.

4) Business overseas

As part of the DTS Group’s business strategy, it is pushing forward with overseas business expansion by such means as increasing overseas business transactions and establishing overseas subsidiaries. In carrying out such 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 establishing and operating overseas subsidiaries, risks may include an inability to comply properly with local laws, accounting treatments, labor management practices or contracts. The DTS Group is aware of such risks and is strengthening risk management by putting a business division in charge of handling risks. Nevertheless, the results of the DTS Group may be affected if an inability to comply appropriately with local rules, etc. causes it to be held liable to pay compensation for damages.

2. Status of the Corporate Group

The corporate group consists of the Company (DTS Corporation), ten consolidated subsidiaries and three non-consolidated subsidiaries, and is primarily engaged in the information service business.

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

[Information Service]

(1) System Engineering Services

This business is engaged in consulting and integration regarding information systems, as well as designing and constructing various networks, and designing, developing and maintaining outsourced software and packaged software.

(2) Operation Engineering Services

This business is engaged in operating computer facilities and information systems as well as monitoring and maintaining various networks.

(3) Product Services and Others

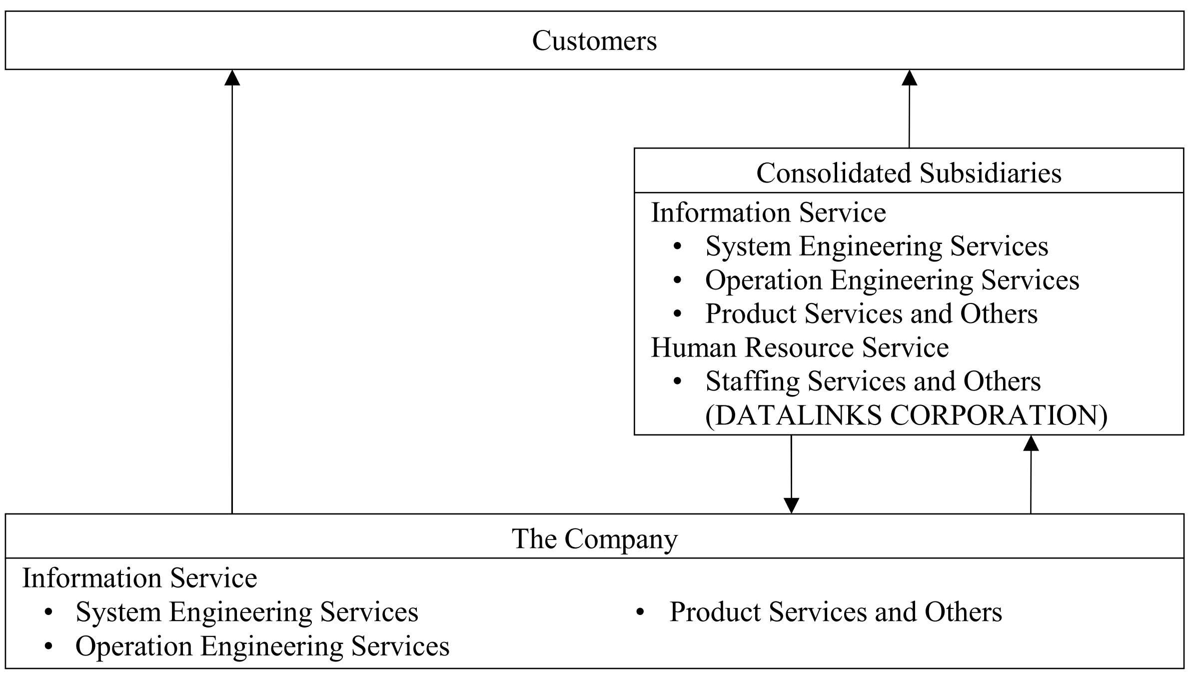
This business is engaged in selling system products of other companies such as packaged software and computers and other information-related equipment, and education and training in IT fields.

[Human Resource Service]

(4) Staffing Services and Others

This business is engaged in general worker dispatch, providing human resources for dispatch to a wide variety of general business companies. This business is carried out by DATALINKS CORPORATION.

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



Consolidated subsidiaries

Name	Stated capital	Ratio of voting rights held	Main business lines
KYUSHU DTS CORPORATION	¥100 million	100.00%	Information Service
DATALINKS CORPORATION	¥309 million	50.02%	Information Service Human Resource Service
JAPAN SYSTEMS ENGINEERING CORPORATION	¥755 million	98.69%	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
ART System Co., Ltd.	¥100 million	100.00%	Information Service
YOKOGAWA DIGITAL COMPUTER CORPORATION	¥200 million	90.00%	Information Service

Notes:
1. In the column of main business lines, the names of the DTS Group's business segments are provided.
2. DTS WEST CORPORATION, a consolidated subsidiary during the previous fiscal year, was excluded from the scope of consolidation from the fiscal year under review due to its absorption by SOUGOU SYSTEM SERVICE CORPORATION, a consolidated subsidiary of the Company, through a merger, effective April 1, 2015.
3. Effective April 1, 2015, SOUGOU SYSTEM SERVICE CORPORATION changed its company name to DTS WEST CORPORATION.
4. Effective April 1, 2015, ART System Co., Ltd. succeeded to part of the Company's embedding business by an absorption-type demerger.

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 "the creation of new value through unimaginable achievements" 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 its management vision "Made by DTS, creating new value," the DTS Group is aiming for long-term targets of consolidated net sales of ¥100.0 billion, overseas net sales of ¥10.0 billion, and an operating margin of 10%. As the second stage towards those targets, the DTS Group is aiming for net sales of ¥90.0 billion or higher and an operating margin of 9% or higher in the final year of the medium-term management plan (April 2016 to March 2019) and will work to achieve these goals.

(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, there is optimism regarding growth in the markets for service provision and solution provision business models, particularly in the fields of cloud computing, mobiles, social networking, big data and IoT. The DTS Group intends to achieve continuous and self-sustaining growth by seizing the opportunities arising from these changes in the business environment, developing, and continuing to provide new solutions that anticipate market needs in a timely manner.

The DTS Group has positioned the medium-term management plan (April 2016 to March 2019) as a three-year period of reform, aiming to become a Group that provides new value to society and customers and that can respond to advanced business needs.

Specifically, the DTS Group will introduce growth strategies for each business field and maximize technology, personnel and other resources and Group synergies to generate growth.

Also, the Group will conduct business restructuring to drive self-sustaining growth, develop highly competitive solutions and move into new businesses in promising growth fields. At the same time, in order to accurately take advantage of business opportunities, the Group will steadily work to visualize management information to support faster decision-making and increase management efficiency.

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

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	21,998,684	30,491,032
Notes and accounts receivable - trade	12,212,152	13,576,801
Merchandise and finished goods	274,620	200,470
Work in process	637,129	516,097
Raw materials and supplies	28,138	33,385
Deferred tax assets	1,356,362	1,726,348
Other	627,465	557,605
Allowance for doubtful accounts	(8,141)	(8,693)
Total current assets	37,126,412	47,093,046
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,611,703	2,285,693
Accumulated depreciation	(2,653,855)	(1,255,707)
Buildings and structures, net	1,957,848	1,029,986
Land	6,327,111	2,045,379
Other	1,765,865	1,557,854
Accumulated depreciation	(1,425,124)	(1,368,456)
Other, net	340,741	189,397
Total property, plant and equipment	8,625,700	3,264,763
Intangible assets		
Goodwill	1,364,134	868,051
Software	760,566	597,209
Other	18,734	10,181
Total intangible assets	2,143,436	1,475,441
Investments and other assets		
Investment securities	1,986,022	1,844,631
Deferred tax assets	415,639	304,632
Other	1,085,651	1,153,998
Allowance for doubtful accounts	(330)	(4,647)
Total investments and other assets	3,486,984	3,298,615
Total non-current assets	14,256,121	8,038,820
Total assets	51,382,534	55,131,867

(Thousand yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	3,801,739	4,781,841
Accounts payable - other	1,400,920	1,324,695
Income taxes payable	1,655,531	1,802,067
Provision for bonuses	2,996,944	3,166,222
Provision for directors' bonuses	65,876	67,642
Provision for loss on order received	–	24,280
Allowance for loss on employees' pension fund withdrawal	–	1,231,962
Other	2,682,137	1,715,436
Total current liabilities	12,603,149	14,114,148
Non-current liabilities		
Provision for directors' retirement benefits	48,944	57,818
Net defined benefit liability	381,070	433,969
Other	264,919	169,933
Total non-current liabilities	694,935	661,721
Total liabilities	13,298,084	14,775,869
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus	6,190,917	6,190,917
Retained earnings	25,811,759	28,865,886
Treasury shares	(1,922,921)	(2,649,308)
Total shareholders' equity	36,192,756	38,520,495
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	415,495	297,200
Foreign currency translation adjustment	84,927	68,207
Remeasurements of defined benefit plans	(57,556)	(71,168)
Total accumulated other comprehensive income	442,866	294,239
Non-controlling interests	1,448,826	1,541,262
Total net assets	38,084,449	40,355,997
Total liabilities and net assets	51,382,534	55,131,867

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

Consolidated statements of income

(Thousand yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net sales	74,609,075	82,537,533
Cost of sales	61,435,759	67,553,522
Gross profit	13,173,316	14,984,011
Selling, general and administrative expenses		
Salaries and allowances	2,161,348	2,344,508
Provision for bonuses	353,639	387,083
Amortization of goodwill	496,083	496,083
Other	3,729,827	4,156,435
Total selling, general and administrative expenses	6,740,899	7,384,110
Operating income	6,432,417	7,599,901
Non-operating income		
Interest income	10,038	15,966
Dividend income	34,983	39,482
Commission for insurance office work	8,347	8,305
Insurance premiums refunded cancellation	8,970	774
Subsidy income	9,700	10,536
Other	59,663	35,744
Total non-operating income	131,704	110,809
Non-operating expenses		
Interest expenses	701	1,532
Foreign exchange losses	35,249	–
Compensation for damage	6,544	–
Other	3,620	1,735
Total non-operating expenses	46,116	3,268
Ordinary income	6,518,004	7,707,442
Extraordinary income		
Gain on sales of non-current assets	–	1,160,939
Gain on sales of golf memberships	158	64
Other	–	23,710
Total extraordinary income	158	1,184,714
Extraordinary losses		
Impairment loss	200,061	–
Loss on sales of non-current assets	1	558,159
Loss on retirement of non-current assets	61,553	8,920
Office transfer expenses	17,698	244
Provision for loss on employees' pension fund withdrawal	–	1,231,962
Other	99	8,133
Total extraordinary losses	279,415	1,807,419
Profit before income taxes	6,238,748	7,084,737
Income taxes - current	2,392,772	2,846,086
Income taxes - deferred	63,479	(217,383)
Total income taxes	2,456,252	2,628,702
Profit	3,782,495	4,456,034
Profit attributable to non-controlling interests	90,392	114,044
Profit attributable to owners of parent	3,692,103	4,341,990

Consolidated statements of comprehensive income

(Thousand yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit	3,782,495	4,456,034
Other comprehensive income		
Valuation difference on available-for-sale securities	68,654	(117,063)
Foreign currency translation adjustment	39,807	(16,719)
Remeasurements of defined benefit plans, net of tax	(1,686)	(13,792)
Total other comprehensive income	106,775	(147,576)
Comprehensive income	3,889,271	4,308,458
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,796,774	4,193,362
Comprehensive income attributable to non-controlling interests	92,496	115,095

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2015

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,113,000	6,190,917	22,781,766	(1,493,973)	33,591,711
Cumulative effects of changes in accounting policies			162,231		162,231
Restated balance	6,113,000	6,190,917	22,943,998	(1,493,973)	33,753,943
Changes of items during period					
Dividends of surplus			(828,376)		(828,376)
Profit attributable to owners of parent			3,692,103		3,692,103
Purchase of treasury shares				(428,948)	(428,948)
Change of scope of consolidation			4,034		4,034
Change of scope of consolidation - foreign currency translation adjustment					
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	2,867,761	(428,948)	2,438,812
Balance at end of current period	6,113,000	6,190,917	25,811,759	(1,922,921)	36,192,756

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	348,967	41,638	(55,892)	334,713	1,324,688	35,251,114
Cumulative effects of changes in accounting policies					2,153	164,384
Restated balance	348,967	41,638	(55,892)	334,713	1,326,842	35,415,499
Changes of items during period						
Dividends of surplus						(828,376)
Profit attributable to owners of parent						3,692,103
Purchase of treasury shares						(428,948)
Change of scope of consolidation						4,034
Change of scope of consolidation - foreign currency translation adjustment		3,481		3,481		3,481
Net changes of items other than shareholders’ equity	66,528	39,807	(1,664)	104,671	121,984	226,656
Total changes of items during period	66,528	43,289	(1,664)	108,152	121,984	2,668,950
Balance at end of current period	415,495	84,927	(57,556)	442,866	1,448,826	38,084,449

Fiscal year ended March 31, 2016

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,113,000	6,190,917	25,811,759	(1,922,921)	36,192,756
Cumulative effects of changes in accounting policies					
Restated balance	6,113,000	6,190,917	25,811,759	(1,922,921)	36,192,756
Changes of items during period					
Dividends of surplus			(1,287,863)		(1,287,863)
Profit attributable to owners of parent			4,341,990		4,341,990
Purchase of treasury shares				(726,387)	(726,387)
Change of scope of consolidation					
Change of scope of consolidation - foreign currency translation adjustment					
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	3,054,126	(726,387)	2,327,739
Balance at end of current period	6,113,000	6,190,917	28,865,886	(2,649,308)	38,520,495

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	415,495	84,927	(57,556)	442,866	1,448,826	38,084,449
Cumulative effects of changes in accounting policies						
Restated balance	415,495	84,927	(57,556)	442,866	1,448,826	38,084,449
Changes of items during period						
Dividends of surplus						(1,287,863)
Profit attributable to owners of parent						4,341,990
Purchase of treasury shares						(726,387)
Change of scope of consolidation						
Change of scope of consolidation - foreign currency translation adjustment						
Net changes of items other than shareholders' equity	(118,295)	(16,719)	(13,611)	(148,627)	92,436	(56,191)
Total changes of items during period	(118,295)	(16,719)	(13,611)	(148,627)	92,436	2,271,548
Balance at end of current period	297,200	68,207	(71,168)	294,239	1,541,262	40,355,997

(4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from operating activities		
Profit before income taxes	6,238,748	7,084,737
Depreciation	706,092	534,050
Impairment loss	200,061	–
Amortization of goodwill	496,083	496,083
Increase (decrease) in provision for bonuses	309,987	169,386
Increase (decrease) in provision for directors' bonuses	2,108	1,766
Increase (decrease) in provision for loss on order received	(34,624)	24,280
Increase (decrease) in allowance for loss on employees' pension fund withdrawal	–	1,231,962
Increase (decrease) in provision for directors' retirement benefits	(2,228)	8,873
Increase (decrease) in net defined benefit liability	30,282	34,744
Loss on sales of non-current assets	1	558,159
Gain on sales of non-current assets	–	(1,160,939)
Decrease (increase) in notes and accounts receivable - trade	(319,469)	(1,366,564)
Decrease (increase) in inventories	366,436	189,935
Increase (decrease) in notes and accounts payable - trade	(168,129)	981,210
Increase (decrease) in accounts payable - other	(40,020)	(52,731)
Other, net	1,365,065	(980,261)
Subtotal	9,150,395	7,754,693
Interest and dividend income received	44,497	54,041
Interest expenses paid	(752)	(4,795)
Income taxes paid	(2,243,433)	(2,743,762)
Net cash provided by (used in) operating activities	6,950,707	5,060,177
Cash flows from investing activities		
Payments into time deposits	(290,264)	(390,310)
Proceeds from withdrawal of time deposits	240,236	290,282
Purchase of property, plant and equipment	(399,291)	(343,273)
Proceeds from sales of property, plant and equipment	2	6,096,705
Purchase of intangible assets	(251,732)	(197,702)
Purchase of investment securities	(963)	(76,034)
Proceeds from sales of investment securities	5,000	74,114
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	(24,278)	(29,912)
Net cash provided by (used in) investing activities	(2,050,347)	5,423,868

(Thousand yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from financing activities		
Cash dividends paid	(826,679)	(1,285,231)
Dividends paid to non-controlling interests	(22,490)	(22,525)
Purchase of treasury shares	(429,804)	(726,579)
Other, net	(47,384)	(30,168)
Net cash provided by (used in) financing activities	(1,326,358)	(2,064,506)
Effect of exchange rate change on cash and cash equivalents	62,521	(27,220)
Net increase (decrease) in cash and cash equivalents	3,636,522	8,392,319
Cash and cash equivalents at beginning of period	18,055,296	21,728,531
Increase in cash and cash equivalents from newly consolidated subsidiary	36,711	–
Cash and cash equivalents at end of period	21,728,531	30,120,850

(5) Notes to consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Significant matters forming the basis of preparing the consolidated financial statements)

1. Scope of consolidation
   1) Number of consolidated subsidiaries: 10
      Names of principal consolidated subsidiaries:
      DATALINKS CORPORATION
      DIGITAL TECHNOLOGIES CORPORATION
      JAPAN SYSTEMS ENGINEERING CORPORATION
      YOKOGAWA DIGITAL COMPUTER CORPORATION
      DTS WEST CORPORATION
      DTS WEST CORPORATION, a consolidated subsidiary during the previous fiscal year, was excluded from the scope of consolidation from the fiscal year under review due to its absorption by SOUGOU SYSTEM SERVICE CORPORATION, the Company's consolidated subsidiary, through a merger, effective April 1, 2015. SOUGOU SYSTEM SERVICE CORPORATION changed its company name to DTS WEST CORPORATION as of the same date.

   2) Names of principal non-consolidated subsidiaries, etc.
      Names of principal non-consolidated subsidiaries:
      DTS SOFTWARE VIETNAM CO., LTD.
      (Reason for exclusion from scope of consolidation)
      All non-consolidated subsidiaries are small in scale and their aggregate amount of total assets, net sales, profit or loss (for the Company's equity interest), retained earnings (for the Company's equity interest) and others do not have a material effect on the Company's consolidated financial statements.

2. Application of the equity method
   1) There are no non-consolidated subsidiaries or affiliates to which the equity method is applied.

   2) The non-consolidated subsidiaries that are not accounted for by the equity method (DTS SOFTWARE VIETNAM CO., LTD. and others) are excluded from the application of the equity method since such exclusion has immaterial effect on the Company's consolidated financial statements in terms of profit or loss (for the Company's equity interest), retained earnings (for the Company's equity interest) and others, and they are not material as a whole.

3. Fiscal year-end dates of consolidated subsidiaries
   1) Balance sheet dates of consolidated subsidiaries are as follows.
      December 31: 4 companies
      March 31: 6 companies
      From the fiscal year under review, DTS WEST CORPORATION, a consolidated subsidiary, has changed its fiscal year-end date from December 31 to March 31. Due to this change in the fiscal year-end date, its accounts for 15 months from January 1, 2015 to March 31, 2016 were consolidated in the fiscal year under review. However, this has immaterial effect on profit or loss.

2) In the preparation of the consolidated financial statements, for consolidated subsidiaries whose balance sheet date is December 31, the financial statements as of this date are used. However, for major transactions that occurred between that date and the consolidated balance sheet date, the necessary adjustments are made in the consolidated financial statements.

4. Accounting policies

1) Valuation bases and methods of significant assets

i) Securities

Available-for-sale securities

(a) Securities with readily determinable fair value

Stated at fair value based on market price at the fiscal year-end.

Valuation difference is included in a separate component of net assets, and cost of sales is determined based on the moving-average method.

(b) Securities without readily determinable fair value

Stated at cost determined by the moving-average method.

ii) Inventories

(a) Merchandise and finished goods

Mainly stated at cost determined by the moving-average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

(b) Work in process

Stated at cost determined by the identified cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

(c) Raw materials

Stated at cost determined by the moving-average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

(d) Supplies

Stated using the last cost method.

2) Depreciation and amortization method for significant depreciable assets

i) Property, plant and equipment (excluding leased assets)

Mainly depreciated by the declining balance method.

However, buildings (excluding accompanying facilities) acquired on or after April 1, 1998 are depreciated by the straight-line method.

The main useful lives are as follows:

Buildings and structures:	3-47 years
Tools, furniture and fixtures:	2-20 years

Assets for which the acquisition cost is at least ¥100,000 and less than ¥200,000 are mainly depreciated evenly over three years.

ii) Intangible assets (excluding leased assets)

Amortized by the straight-line method.

However, software to be sold on the market is amortized based on expected sales volume and sales revenue within three years after it is put on sale. If the resulting amortization amount is less than the evenly distributed amount based on the remaining effective period of the software, the software is amortized by the evenly distributed amount.

With respect to software for internal use, software used in providing services (software for licensing services on the basis of contracts with specific customers) is amortized evenly over the period during which fees are paid under the relevant contract (five years). Other software with cost reduction effects is amortized by the straight-line method based on its estimated useful life within the Company (within five years).

3) Significant allowances and provisions
   i) Allowance for doubtful accounts
      To prepare for losses from bad debt, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

   ii) Provision for bonuses
      To prepare for the payment of bonuses to employees, the amount expected to be paid is provided.

   iii) Provision for directors' bonuses
      To prepare for the payment of bonuses to directors, the amount expected to be paid is provided.

   iv) Provision for loss on order received
      To prepare for future losses on orders received, the amount of expected loss from orders received at the fiscal year-end is provided.

   v) Provision for directors' retirement benefits
      At certain consolidated subsidiaries, to prepare for the payment of retirement benefits to directors, the amount to be paid at the fiscal year-end, based on an internal rule, is provided.

   vi) Allowance for loss on employees' pension fund withdrawal
      To prepare for losses resulting from the withdrawal from employees' pension fund, the amount is provided based on the expected amount of special contributions.

4) Accounting for retirement benefits
   i) Allocation of expected retirement benefit payments
      When calculating retirement benefit obligations, the benefit formula basis is used to allocate expected retirement benefit payments to the period as of the fiscal year-end.

   ii) Actuarial differences and prior service cost
      Prior service cost is amortized by the straight-line method over a fixed number of years (12 years) set within the average remaining service period of employees as occurred.
      Unrecognized actuarial gains and losses are amortized by the straight-line method in equally allocated amounts over a fixed number of years (12 years) set within the average remaining service period of employees as occurred, starting in the respective fiscal years following each occurrence.

   iii) Simplified accounting method used by small companies
      Certain consolidated subsidiaries apply a simplified accounting method in which the calculation of net defined benefit liability and retirement benefit expenses is carried out by using a method in which the retirement benefit obligations are deemed to be the amount of retirement benefits to be paid in cases where all eligible employees retired at the fiscal year-end date.

5) Recognition of significant revenues and expenses
   Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts
   i) Construction activities whose outcome from the completed portion as of the fiscal year-end are deemed to be definite
      Percentage-of-completion method (the cost-to-cost method is used to estimate the percentage of completion)

ii) Other construction activities
Completed-contract method

6) Translation of major assets or liabilities denominated in foreign currencies
Short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized as profit and loss in the consolidated statements of income. Assets and liabilities of overseas subsidiaries and other affiliates are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date, and revenues and expenses are translated into Japanese yen using the average exchange rate during the fiscal year. The foreign exchange gains and losses from translation are included in foreign currency translation adjustment and non-controlling interests under net assets.

7) Method and period for amortization of goodwill
Goodwill is amortized by the straight-line method based on its cause and the period during which it has an effect (4-10 years).

8) Scope of cash in the consolidated statement of cash flows
Cash (cash and cash equivalents) in the consolidated statements of cash flows consists of cash on hand, demand deposits, and short-term investments with a maturity not exceeding three months from the acquisition date that are readily convertible to cash and not exposed to significant risk of price fluctuations.

9) Other significant matters for preparing the consolidated financial statements
Items subject to consumption taxes are accounted for at amounts exclusive of consumption taxes.

(Changes in accounting policies)

(Application of Accounting Standard for Business Combinations, etc.)

Effective from the fiscal year under review, the Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), etc. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year under review. Furthermore, for business combinations carried out on or after the beginning of the fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the period to which the date of business combination belongs. In addition, the presentation method for "net income" and other related items was changed, and "minority interests" was changed to "non-controlling interests." To reflect these changes, the Company has reclassified its consolidated financial statements for the previous fiscal year.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided for in paragraph 58-2 (4) of the Accounting Standard for Business Combinations, paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company is applying the said standards, etc. prospectively from the beginning of the fiscal year under review.

These changes in accounting policies have no impact on the consolidated financial statements.

(Changes in presentation)

(Consolidated statements of income)

"Loss on sales of non-current assets" which was included in "Other" under "Extraordinary losses" in the previous fiscal year, is presented separately under extraordinary losses for the fiscal year under review because the amount became greater than 10% of extraordinary losses. 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 ¥100 thousand shown as "Other" under "Extraordinary losses" in the consolidated statements of income of the previous fiscal year has been reclassified as "Loss on sales of non-current assets" of ¥1 thousand and "Other" of ¥99 thousand under extraordinary losses.

(Consolidated statements of cash flows)

"Loss on sales of non-current assets," which was included in "Other, net" under "Cash flows from operating activities" in the previous fiscal year, is presented separately under cash flows from operating activities for the fiscal year under review because the amount became material. 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 ¥1,365,067 thousand shown as "Other, net" under "Cash flows from operating activities" in the consolidated statements of cash flows of the previous fiscal year has been reclassified as "Loss on sales of non-current assets" of ¥1 thousand and "Other, net" of ¥1,365,065 thousand under cash flows from operating activities.

"Proceeds from sales of property, plant and equipment," which was included in "Other, net" under "Cash flows from investing activities" in the previous fiscal year, is presented separately under cash flows from investing activities for the fiscal year under review because the amount became material. 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 ¥(24,275) thousand shown as "Other, net" under "Cash flows from investing activities" in the consolidated statements of cash flows of the previous fiscal year has been reclassified as "Proceeds from sales of property, plant and equipment" of ¥2 thousand and "Other, net" of ¥(24,278) thousand under cash flows from investing activities.

(Additional information)

(Revisions to the amounts of deferred tax assets and liabilities as a result of a change in the corporate tax rate)

Following the enactment in the Diet of the "Act on Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Revision of the Local Taxation Act, etc." (Act No. 13 of 2016) on March 29, 2016, the income tax rates are to be lowered from the fiscal year beginning on or after April 1, 2016. In line with these changes, the statutory effective tax rate used for calculating deferred tax assets and deferred tax liabilities has been changed from the previous fiscal year's rate of 32.3% to 30.9% for taxable temporary differences expected to be eliminated in the fiscal years beginning on April 1, 2016 and April 1, 2017 and 30.6% for temporary taxable differences expected to be eliminated in the fiscal years beginning on or after April 1, 2018.

As a result of this change in the tax rate, the amount of deferred tax assets (after subtracting deferred tax liabilities) decreased by ¥74,919 thousand, income taxes - deferred increased by ¥80,107 thousand, valuation difference on available-for-sale securities increased by ¥6,637 thousand respectively, and remeasurements of defined benefit plans decreased by ¥1,449 thousand.

(Allowance for loss on employees' pension fund withdrawal)

The Company resolved, at the meeting of the Board of Directors held on March 18, 2016, to withdraw from Japan Computer Information Service Employees' Pension Fund, in which the Company has participated, and decided to provide the expected amount of special contributions at the withdrawal from the employees' pension fund. Consequently, profit before income taxes decreased by ¥1,231,962 thousand.

6. Non-consolidated Financial Statements

(1) Non-consolidated balance sheets

(Thousand yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	15,978,279	23,675,470
Notes receivable - trade	–	14,776
Accounts receivable - trade	8,395,866	8,341,118
Merchandise	84,748	30,643
Work in process	493,829	333,489
Supplies	6,825	5,788
Advance payments - trade	84,992	77,946
Prepaid expenses	207,822	233,389
Deferred tax assets	1,026,486	1,309,142
Short-term loans receivable from subsidiaries and associates	1,090,000	1,028,735
Current portion of long-term loans receivable from subsidiaries and associates	50,000	–
Other	108,874	137,132
Allowance for doubtful accounts	(1,852)	(1,922)
Total current assets	27,525,871	35,185,712
Non-current assets		
Property, plant and equipment		
Buildings	1,790,348	879,056
Tools, furniture and fixtures	127,054	85,599
Land	6,247,427	1,965,696
Leased assets	0	–
Other	120,644	–
Total property, plant and equipment	8,285,475	2,930,352
Intangible assets		
Software	681,226	513,694
Other	8,969	489
Total intangible assets	690,195	514,183
Investments and other assets		
Investment securities	1,882,354	1,732,521
Shares of subsidiaries and associates	6,543,891	6,543,891
Investments in capital of subsidiaries and associates	327,143	327,143
Long-term loans receivable from subsidiaries and associates	23,985	20,800
Long-term prepaid expenses	58,717	46,743
Other	522,592	575,357
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	9,358,682	9,246,455
Total non-current assets	18,334,353	12,690,991
Total assets	45,860,225	47,876,703

(Thousand yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	2,615,330	2,609,485
Lease obligations	118	–
Accounts payable - other	840,061	785,422
Accrued expenses	351,878	340,543
Income taxes payable	1,336,352	1,365,515
Advances received	118,210	105,109
Deposits received	98,987	100,688
Provision for bonuses	2,374,604	2,265,360
Provision for directors' bonuses	52,100	52,700
Provision for loss on order received	–	24,280
Allowance for loss on employees' pension fund withdrawal	–	1,231,962
Other	1,086,101	700,359
Total current liabilities	8,873,745	9,581,426
Non-current liabilities		
Long-term accounts payable - other	57,234	73,081
Deferred tax liabilities	86,148	68,793
Asset retirement obligations	6,550	6,701
Other	468	468
Total non-current liabilities	150,400	149,044
Total liabilities	9,024,146	9,730,470
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus		
Legal capital surplus	6,190,917	6,190,917
Total capital surpluses	6,190,917	6,190,917
Retained earnings		
Legal retained earnings	411,908	411,908
Other retained earnings		
General reserve	11,170,000	11,170,000
Retained earnings brought forward	14,464,675	16,624,267
Total retained earnings	26,046,583	28,206,175
Treasury shares	(1,922,921)	(2,649,308)
Total shareholders' equity	36,427,580	37,860,784
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	408,498	285,448
Total valuation and translation adjustments	408,498	285,448
Total net assets	36,836,079	38,146,233
Total liabilities and net assets	45,860,225	47,876,703

(2) Non-consolidated statements of income

(Thousand yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net sales	50,489,757	56,076,076
Cost of sales	41,394,044	45,849,519
Gross profit	9,095,712	10,226,557
Selling, general and administrative expenses	3,650,495	3,977,844
Operating income	5,445,217	6,248,712
Non-operating income		
Interest income	8,023	12,601
Interest on securities	3,300	3,309
Dividend income	90,429	87,349
Real estate rent	24,983	13,316
Other	47,453	21,876
Total non-operating income	174,190	138,452
Non-operating expenses		
Interest expenses	–	1,023
Foreign exchange losses	–	6,007
Commission for purchase of treasury shares	856	192
Compensation for damage	6,544	–
Other	13	927
Total non-operating expenses	7,414	8,150
Ordinary income	5,611,992	6,379,013
Extraordinary income		
Gain on extinguishment of tie-in shares	1,251,733	–
Gain on sales of non-current assets	–	1,160,924
Other	–	23,710
Total extraordinary income	1,251,733	1,184,635
Extraordinary losses		
Impairment loss	89,294	–
Loss on sales of non-current assets	–	557,946
Loss on retirement of non-current assets	59,290	8,643
Provision for loss on employees' pension fund withdrawal	–	1,231,962
Other	–	8,133
Total extraordinary losses	148,585	1,806,686
Profit before income taxes	6,715,140	5,756,962
Income taxes - current	2,003,497	2,194,135
Income taxes - deferred	(34,059)	(249,067)
Total income taxes	1,969,438	1,945,068
Profit	4,745,702	3,811,893

(3) Non-consolidated statements of changes in equity

Fiscal year ended March 31, 2015

(Thousand yen)

	Shareholders' equity								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings	Treasury shares	Total share-holders' equity
Balance at beginning of current period	6,113,000	6,190,917	6,190,917	411,908	11,170,000	10,547,349	22,129,257	(1,493,973)	32,939,202
Changes of items during period									
Dividends of surplus						(828,376)	(828,376)		(828,376)
Profit						4,745,702	4,745,702		4,745,702
Purchase of treasury shares								(428,948)	(428,948)
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	3,917,325	3,917,325	(428,948)	3,488,377
Balance at end of current period	6,113,000	6,190,917	6,190,917	411,908	11,170,000	14,464,675	26,046,583	(1,922,921)	36,427,580

	Valuation and translation adjustments		
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Total net assets
Balance at beginning of current period	346,983	346,983	33,286,186
Changes of items during period			
Dividends of surplus			(828,376)
Profit			4,745,702
Purchase of treasury shares			(428,948)
Net changes of items other than shareholders' equity	61,515	61,515	61,515
Total changes of items during period	61,515	61,515	3,549,893
Balance at end of current period	408,498	408,498	36,836,079

Fiscal year ended March 31, 2016

(Thousand yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings				Treasury shares	Total share-holders' equity
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
					General reserve	Retained earnings brought forward			
Balance at beginning of current period	6,113,000	6,190,917	6,190,917	411,908	11,170,000	14,464,675	26,046,583	(1,922,921)	36,427,580
Changes of items during period									
Dividends of surplus						(1,287,863)	(1,287,863)		(1,287,863)
Profit						3,811,893	3,811,893		3,811,893
Purchase of treasury shares								(726,387)	(726,387)
Decrease by corporate division						(364,438)	(364,438)		(364,438)
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	2,159,591	2,159,591	(726,387)	1,433,204
Balance at end of current period	6,113,000	6,190,917	6,190,917	411,908	11,170,000	16,624,267	28,206,175	(2,649,308)	37,860,784

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	408,498	408,498	36,836,079
Changes of items during period			
Dividends of surplus			(1,287,863)
Profit			3,811,893
Purchase of treasury shares			(726,387)
Decrease by corporate division			(364,438)
Net changes of items other than shareholders' equity	(123,050)	(123,050)	(123,050)
Total changes of items during period	(123,050)	(123,050)	1,310,153
Balance at end of current period	285,448	285,448	38,146,233

(4) Notes to non-consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Significant accounting policies)

1. Valuation bases and methods of securities
   1) Stocks of subsidiaries
      Stated at cost determined by the moving-average method.

   2) Available-for-sale securities
      i) Securities with readily determinable fair value
         Stated at fair value based on market price at the fiscal year-end.
         Valuation difference is included in a separate component of net assets, and cost of sales is determined based on the moving-average method.

      ii) Securities without readily determinable fair value
         Stated at cost determined by the moving-average method.

2. Valuation bases and methods of inventories
   1) Merchandise
      Stated at cost determined by the moving-average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

   2) Work in process
      Stated at cost determined by the identified cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

   3) Supplies
      Stated using the last cost method.

3. Depreciation and amortization method for non-current assets
   1) Property, plant and equipment (excluding leased assets)
      Depreciated by the declining balance method.
      However, buildings (excluding accompanying facilities) acquired on or after April 1, 1998 are depreciated by the straight-line method.
      The main useful lives are as follows:

Buildings:	3-47 years
Tools, furniture and fixtures:	2-20 years

      Assets for which the acquisition cost is at least ¥100,000 and less than ¥200,000 are depreciated evenly over three years.

   2) Intangible assets (excluding leased assets)
      Amortized by the straight-line method.
      However, software to be sold on the market is amortized based on expected sales volume and sales revenue within three years after it is put on sale. If the resulting amortization amount is less than the evenly distributed amount based on the remaining effective period of the software, the software is amortized by the evenly distributed amount.
      With respect to software for internal use, software used in providing services (software for licensing services on the basis of contracts with specific customers) is amortized evenly over the period during which fees are paid under the relevant contract (five years). Other software with cost reduction effects is amortized by the straight-line method based on its estimated useful life within the Company (within five years).

3) Long-term prepaid expenses
   Amortized by the straight-line method.

4. Allowances and provisions
   1) Allowance for doubtful accounts
      To prepare for losses from bad debt, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

   2) Provision for bonuses
      To prepare for the payment of bonuses to employees, the amount expected to be paid is provided.

   3) Provision for directors' bonuses
      To prepare for the payment of bonuses to directors, the amount expected to be paid is provided.

   4) Provision for loss on order received
      To prepare for future losses on orders received, the amount of expected loss from orders received at the fiscal year-end is provided.

   5) Allowance for loss on employees' pension fund withdrawal
      To prepare for losses resulting from the withdrawal from employees' pension fund, the amount is provided based on the expected amount of special contributions.

5. Recognition of revenues and expenses
   Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts
   1) Construction activities whose outcome from the completed portion as of the fiscal year-end are deemed to be definite
      Percentage-of-completion method (the cost-to-cost method is used to estimate the percentage of completion)

   2) Other construction activities
      Completed-contract method

6. Other significant matters forming the basis of preparing the non-consolidated financial statements
   Items subject to consumption taxes are accounted for at amounts exclusive of consumption taxes.

(Additional information)

(Revisions to the amounts of deferred tax assets and liabilities as a result of a change in the corporate tax rate)

Following the enactment in the Diet of the "Act on Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Revision of the Local Taxation Act, etc." (Act No. 13 of 2016) on March 29, 2016, the income tax rates are to be lowered from the fiscal year beginning on or after April 1, 2016. In line with these changes, the statutory effective tax rate used for calculating deferred tax assets and deferred tax liabilities has been changed from the previous fiscal year's rate of 32.3% to 30.9% for taxable temporary differences expected to be eliminated in the fiscal years beginning on April 1, 2016 and April 1, 2017 and 30.6% for temporary taxable differences expected to be eliminated in the fiscal years beginning on or after April 1, 2018.

As a result of this change in the tax rate, the amount of deferred tax assets (after subtracting deferred tax liabilities) decreased by ¥55,090 thousand, income taxes - deferred increased by ¥60,961 thousand, and valuation difference on available-for-sale securities increased by ¥5,870 thousand.

(Allowance for loss on employees' pension fund withdrawal)

The Company resolved, at the meeting of the Board of Directors held on March 18, 2016, to withdraw from Japan Computer Information Service Employees' Pension Fund, in which the Company has participated, and decided to provide the expected amount of special contributions at the withdrawal from the employees' pension fund. Consequently, profit before income taxes decreased by ¥1,231,962 thousand.

7. Others

(1) Changes in directors and corporate auditors (scheduled for June 23, 2016)

1) Change in representative directors
   No items to report.

2) Other changes
   - Candidates for new directors
     Director — Hirotoshi Kobayashi
     (Currently, Executive Officer, General Manager,
     Administration Department, the Company
     President & CEO, Digital Technologies Corporation)

   - Candidates for new auditors

     Auditor (part-time) — Kenji Yukimoto
     Note: The candidate for new auditor Kenji Yukimoto is a candidate for outside auditor.

(2) Production, orders and sales

1) Production

Production in the fiscal year under review is as follows.

Segment and services		Production (Thousand yen)	Year-on-year change (%)
Information Service	System Engineering Services	59,242,600	15.8
	Operation Engineering Services	13,516,701	3.6
Total		72,759,302	13.3

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

2) Orders

Orders in the fiscal year under review are as follows.

Segment and services		Order volume (Thousand yen)	Year-on-year change (%)	Order backlog (Thousand yen)	Year-on-year change (%)
Information Service	System Engineering Services	59,879,987	2.0	19,920,994	3.3
	Operation Engineering Services	13,879,922	1.3	9,638,744	3.9
Total		73,759,910	1.9	29,559,738	3.5

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

3) Sales

Sales in the fiscal year under review are as follows.

Segment and services		Sales (Thousand yen)	Year-on-year change (%)
Information Service	System Engineering Services	59,242,600	15.8
	Operation Engineering Services	13,516,701	3.6
	Product Services and Others	6,609,484	(3.5)
	Subtotal	79,368,787	11.7
Human Resource Service	Staffing Services and Others	3,168,746	(10.7)
	Subtotal	3,168,746	(10.7)
Total		82,537,533	10.6

Notes:

1. The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.
2. Sales results by major transaction partner and the ratio to total sales results of those sales results for the last two fiscal years are as follows.

Transaction partner	Fiscal year ended March 31, 2015		Fiscal year ended March 31, 2016	
	Amount (Thousand yen)	Ratio (%)	Amount (Thousand yen)	Ratio (%)
Mizuho Information & Research Institute, Inc.	10,727,808	14.4	13,904,905	16.9