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FASF
MEMBERSHIP

May 10, 2018

Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 <under Japanese GAAP>

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

Scheduled date of General Shareholders' Meeting: June 22, 2018
Scheduled date to commence dividend payments: June 25, 2018
Scheduled date to file annual securities report: June 25, 2018
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, 2018 (from April 1, 2017 to March 31, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2018	83,163	4.1	8,523	6.7	8,574	5.9	5,765	12.6
March 31, 2017	79,858	(3.2)	7,986	5.1	8,093	5.0	5,121	18.0

Note: Comprehensive income
Fiscal year ended March 31, 2018: ¥6,269 million [13.9%]
Fiscal year ended March 31, 2017: ¥5,502 million [27.7%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2018	247.90	–	12.9	14.5	10.2
March 31, 2017	222.48	–	12.7	14.4	10.0

Reference: Equity in earnings (losses) of associates:
Fiscal year ended March 31, 2018: ¥– million Fiscal year ended March 31, 2017: ¥– million

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2018	61,530	46,962	76.3	2,003.23
March 31, 2017	57,141	43,660	73.7	1,832.04

Reference: Equity
As of March 31, 2018: ¥46,962 million As of March 31, 2017: ¥42,091 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, 2018	6,761	(1,806)	(2,967)	32,454
March 31, 2017	3,764	(1,199)	(2,216)	30,459

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, 2017	–	25.00	–	45.00	70.00	1,608	31.5	4.0
Fiscal year ended March 31, 2018	–	35.00	–	45.00	80.00	1,875	32.3	4.2
Fiscal year ending March 31, 2019 (Forecasts)	–	35.00	–	45.00	80.00		31.9	

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

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

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2019	87,000	4.6	8,700	2.1	8,750	2.0	5,850	1.5	250.95

* Notes

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

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

a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
b. Changes in accounting policies due to other reasons: Yes
c. Changes in accounting estimates: Yes
d. Restatement of prior period financial statements after error corrections: None

Note: Some matters are applicable to Article 14-7 (Classification criteria when it is difficult to distinguish between Changes in Accounting Policy and Changes in Accounting Estimation) of "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements." For details, please refer to '(Changes in accounting policies) in (5) Notes to consolidated financial statements under 5. Consolidated Financial Statements and Significant Notes Thereto' on page 24 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, 2018	25,222,266 shares
As of March 31, 2017	25,222,266 shares

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

As of March 31, 2018	1,778,735 shares
As of March 31, 2017	2,247,002 shares

c. Average number of outstanding shares during the period

Fiscal year ended March 31, 2018	23,258,209 shares
Fiscal year ended March 31, 2017	23,019,911 shares

(Reference) Non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2018	56,696	0.9	6,978	1.4	7,302	2.4	5,054	2.4
March 31, 2017	56,199	0.2	6,882	10.1	7,130	11.8	4,937	29.5

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2018	217.31	–
March 31, 2017	214.51	–

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2018	55,940	46,469	83.1	1,982.21
March 31, 2017	50,212	41,192	82.0	1,792.90

Reference: Equity
As of March 31, 2018: ¥46,469 million   As of March 31, 2017: ¥41,192 million

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

* **Proper use of earnings forecasts, and other special matters**
The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors. For the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to '(1) Overview of operating results for the fiscal year under review in 1. Overview of Operating Results and Others' on page 2 of the attached materials.

Attached Materials

Contents

1. Overview of Operating Results and Others

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

1) Operating results for the fiscal year under review

In the fiscal year under review, the Japanese economy recovered at a modest pace due to ongoing improvements in the employment and income environments. However, the outlook has remained uncertain due mainly to uncertainty in overseas economies caused by geopolitical risks as well as the impact of fluctuations in financial and capital markets.

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

Amid this environment, the DTS Group is working toward achieving three “Changes”: Management innovation, Business reform and Marketing reform, guided by the vision of “Creating New Value Change! for the Next” under the medium-term management plan (April 2016 to March 2019). Specifically, through executing the corresponding key activities of “introducing segment-specific growth strategies,” “implementing corporate reorganization” and “accelerating management activities,” the Group is focusing on strengthening marketing capability and SI capability, strengthening the overall capabilities of all group companies, carrying out initiatives for new business, and enhancing the management foundation.

In the fiscal year under review, development projects for information and telecommunications, transport, wholesale and retail industries, as well as the product business, remained strong, achieving record-high net sales and operating profit. Particularly in terms of profit, through initiatives to strengthen project management and improve productivity, we achieved increased profits for the eighth consecutive fiscal year, and an operating margin of 10% again following last year.

In the next fiscal year, the final year of the medium-term management plan which aims to make changes for the future, our highest priority objective is to achieve growth of our top-line, and to maintain the same level of margin as the fiscal year under review, we are aiming for sustainable growth and enhanced profit-earning capabilities.

As part of its focus on “strengthening its marketing capability,” the Company further bolstered the company-wide cross-sectional sales structure, centered on the Sales Sector established in April 2016. In addition, the Company took initiatives to strengthen account marketing and solution marketing activities based on segment-specific growth strategies and portfolio strategy, including promoting the “Plus One Strategy” which aims to generate new customers, strengthening project management in cooperation with business sectors, and reforming proposal activities utilizing customer satisfaction surveys.

With the aim of growing the top-line, in order to widely respond to customer needs as a one-stop provider, as one part of our aggressive sales strategy, the Company focused on strengthening its business centered on an SI solutions service model, establishing a team dedicated to proposing total SI and securing large-scale SI projects centered on the financial sector.

With respect to “strengthening SI capability,” with the aim of strengthening project management, by sharing DTS’s own development standards (PMS) with the Group, we worked to improve development quality and contain unprofitable projects. Furthermore, to enhance core competencies of various group companies, we conducted monitoring and adjustments of transactions among the Group, promoting collaboration that utilizes the strengths of each company. We greatly expanded our total off-shore orders, including overseas group companies such as DTS SOFTWARE VIETNAM CO., LTD, to ¥1,300 million, up 72% year on year, working to increase our margin and secure development resources.

With regard to “strengthening the overall capabilities of all group companies,” with the aim of optimal allocation of the Group’s management resources, the Company conducted the merger of YOKOGAWA DIGITAL COMPUTER CORPORATION and ART System Co., Ltd. in April 2017 and integrated the Group’s embedding business into DTS INSIGHT CORPORATION. In addition, in August 2017 the Company made DATALINKS CORPORATION a wholly owned subsidiary company.

In the overseas business, the Group worked to rebuild the overseas business platform and focus on core businesses, including strengthening the business coordination between DTS America Corporation and Nelito Systems Limited (India) and expanding business in Vietnam and China.

In the Group's employee training, centered on MIRUCA CORPORATION, the dedicated education company within the Group, we plan and organize training programs in collaboration with business sectors and group companies, and by spreading the latest technologies through such measures as the "AI & IoT Seminar," we are implementing education as part of reforming the business model, while working to maximize business synergy and strengthen the Group's management foundation.

With respect to "carrying out initiatives for new business," we are promoting commercialization through demonstration experiments with manufacturing companies. In relation to Connected Industries, the Company conducted demonstration experiments for placing and accepting orders in the processing and manufacturing industry, and in relation to IoT and AI, the Company utilized AI analysis of production data to conduct demonstration experiments related to the prevention of equipment failure and defective products.

With respect to an enhancement of solutions, the Company launched sales of a 3D presentation system for the construction industry called "Walk in home 18" with new virtual reality functions, and designed and developed the next-generation "Walk in home" with improved operability through renewed CG functions and design functions, working toward the further development of the market and research and development. Furthermore, the Company is moving into the robotics business utilizing RPA, including projects to boost business efficiency for the finance and manufacturing industries and local governments. With respect to the various group companies, we placed effort into developing new technological fields, including developing ADAS*-related technology and the sales of hybrid cloud solutions utilizing virtualization technology.

Furthermore, working toward the creation of new businesses, we are pursuing considerations and negotiations on new capital and business alliances in Japan and overseas. We will invest aggressively particularly in digital-business-related solutions such as CAMBRIC (Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity), placing efforts into research and development, capital and business alliances, and engineer training.

Note: ADAS is an abbreviation for "Advanced Driver Assistance System." ADAS is a leading driver assistance system developed to assist safe driving and to increase convenience.

Regarding "enhancing the management foundation," the Group pursued work style reform based on Group-wide creativity. As a part of this, in April 2017, the Company established the Work Style Reform Promotion Office, which is endeavoring to put in place a diverse range of working styles and promote a balance between work and private life. In addition, in order to reduce long working hours and encourage employees to take paid annual leave, the Company promoted initiatives aimed at Group business reform and productivity improvement, such as improving the daily management and transparency of working hours, making sure that all employees comply with "no overtime days," and introducing a satellite office.

In October 2017, on the occasion of the 45th anniversary of the Company's founding, the Company relocated its headquarters to Chuo-ku in Tokyo in order to improve operational efficiency and enhance links between organizations. Positioning this move as its "second founding," the Company will steadily advance work style reform, and strive to transform into a value-generating company. In addition, after revising the "DTS WAY," which had been followed until then, the Company established the "DTS Group Way," which stipulates DTS Group's reason for existing, its values and its code of conduct, and is striving to foster a shared sense of value and a sense of unity as a corporate group. Furthermore, by updating the "Compliance Guide," which indicates the basic principles of compliance and the code of conduct, and expanding training for all DTS Group employees, the Group is promoting strict adherence to compliance to laws and regulations, including local laws and regulations in the case of overseas group companies, and strengthening awareness of such issues among employees.

As a result of the above, the Group reported net sales of ¥83,163 million for the fiscal year under review, an increase of 4.1% year on year. The increase in sales mainly reflected the expansion of projects in industries such as information and telecommunications and transport, and the product business of group companies remaining strong.

Gross profit rose by 3.8% year on year to ¥16,448 million. This increase resulted from growth in sales outweighing a one-off increase in costs related to unprofitable projects. Selling, general and administrative expenses increased by 0.9% year on year to ¥7,924 million, mainly reflecting the relocation of the corporate headquarters. Consequently, operating profit was ¥8,523 million, up 6.7% year on year, and ordinary profit was ¥8,574 million, up 5.9% year on year. Profit attributable to owners of parent was ¥5,765 million, up 12.6% year on year, as the increase in operating profit covered the impact from the booking of gain on the transfer of part of the staffing services business in the same period of the previous fiscal year.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	83,163	4.1	56,696	0.9
Operating profit	8,523	6.7	6,978	1.4
Ordinary profit	8,574	5.9	7,302	2.4
Profit attributable to owners of parent	5,765	12.6	–	–
Profit (Non-consolidated)	–	–	5,054	2.4

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Public Sector	26,610	(9.0)
Corporate, Communications and Solutions	23,806	17.9
Operation BPO	12,323	1.1
Regional, Overseas, Etc.	20,422	12.0
Total	83,163	4.1

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

Finance and Public Sector Segment

Although there was steady progress on development projects for megabanks and mutual aid associations, there was a decrease in integration projects, etc. As a result, sales in this segment totaled ¥26,610 million, down 9.0% year on year.

Corporate, Communications and Solutions Segment

New customers were acquired in a wide range of industries, including information and telecommunications, wholesale, retail and manufacturing; and existing projects expanded. As a result, sales in this segment totaled ¥23,806 million, up 17.9% year on year.

Operation BPO Segment

System operation and maintenance services were firm in industries such as information and telecommunications and life insurance companies. As a result, sales in this segment totaled ¥12,323 million, up 1.1% year on year.

Regional, Overseas, Etc. Segment

Product business and regional business remained strong. As a result, sales in this segment totaled ¥20,422 million, up 12.0% year on year.

2) Outlook for the next fiscal year

The Japanese economy is expected to post a moderate recovery due to improvements in such areas as employment and personal income, but the outlook is likely to remain unclear due to uncertainties regarding overseas economies caused by geopolitical risks as well as the impact of fluctuations in financial and capital markets. Meanwhile, in the information services industry, the DTS Group forecasts firm growth, including the creation of new markets and demand due to prospects for developments of innovation, such as through the expansion of digital business that utilizes new technologies such as CAMBRIC (Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity).

In its medium-term management plan started in April 2016, the DTS Group sets the targets of net sales of ¥90,000 million or higher and operating margin of 9% or higher. Moreover, in the forecast for the fiscal year ending March 31, 2019, the DTS group expects net sales of ¥87,000 million and operating profit of ¥8,700 million as a result of a partial transfer of the staffing services business that was conducted in April 2016. The DTS Group aims to repeat the performance of the current fiscal year and achieve record-high net sales and operating profit while achieving an operating margin or 10% or higher.

In its next medium-term management plan, the DTS Group will focus on the following: further strengthening of business centered on an SI solutions service model; promoting entry into digital business that utilizes new technologies such as CAMBRIC (Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity); carrying out activities to propose high added-value to customers; and building a business foundation for growing the top-line and realizing sustainable growth. Furthermore, the Group will aim for the transformation into a value-generating company while working to raise productivity and building an environment that enables employees to realize their maximum potential by promoting the Group’s unique “reforming the way of working” and employee training.

In light of the above-mentioned changes and policies, consolidated earnings forecasts for the fiscal year ending March 31, 2019 are as follows.

(Million yen)

	Consolidated	Year-on-year change (%)
Net sales	87,000	4.6
Operating profit	8,700	2.1
Ordinary profit	8,750	2.0
Profit attributable to owners of parent	5,850	1.5

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Public Sector	27,900	4.8
Corporate, Communications and Solutions	25,300	6.3
Operation BPO	12,600	2.2
Regional, Overseas, Etc.	21,200	3.8
Total	87,000	4.6

Net sales are forecast to be ¥87,000 million, up 4.6% year on year. In Finance and Public Sector segment, the Group forecasts sales of ¥27,900 million, up 4.8% year on year, to be achieved by winning projects from banks and expanding sales in insurance companies. In Corporate, Communications and Solutions segment, the Group forecasts sales of ¥25,300 million, up 6.3% year on year, supported by sales growth in information service businesses, growth in the embedding and solutions businesses, and by new projects for core operations at customers through the total system integration including infrastructure. In Operation BPO segment, the Group forecasts sales of ¥12,600 million, up 2.2% year on year, to be achieved by building a solid foundation, BPOs, and expanding operations. In Regional, Overseas, Etc. segment, the Group forecasts sales of ¥21,200 million, up 3.8% year on year, supported by sales activities at local group companies who will utilize their respective local strengths, and developments of the business base at each overseas group company to address changes in overseas markets such as through cooperation among overseas group companies.

In terms of profits, operating profit is forecast to be ¥8,700 million, up 2.1% year on year, ordinary profit is forecast to be ¥8,750 million, up 2.0% year on year, and profit attributable to owners of parent is forecast to be ¥5,850 million, up 1.5% 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) Overview of financial position for the fiscal year under review

1) Overview of assets, liabilities and net assets

Total assets as of March 31, 2018 were ¥61,530 million, an increase of ¥4,388 million from the previous fiscal year-end. The main factors for this were a decrease of ¥227 million in goodwill on one hand, and increases of ¥1,995 million in cash and deposits, ¥1,779 million in investment securities, ¥469 million in notes and accounts receivable - trade, respectively.

Liabilities were ¥14,567 million, an increase of ¥1,086 million from the previous fiscal year-end. The main factors for this were increases of ¥283 million in income taxes payable, ¥140 million in net defined benefit liability, ¥375 million in accrued consumption taxes included in other under current liabilities and ¥149 million in deposits received, respectively.

Net assets were ¥46,962 million, an increase of ¥3,301 million from the previous fiscal year-end. Although there was a decrease of ¥1,569 million in non-controlling interests, this was more than offset by an increase in retained earnings (¥5,765 million from profit attributable to owners of parent outweighed ¥1,854 million used by dividends of surplus), an increase of ¥504 million in valuation difference on available-for-sale securities, and a decrease of ¥416 million in treasury shares.

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

Cash and cash equivalents (hereinafter, “cash”) as of March 31, 2018 was ¥32,454 million, an increase of ¥1,995 million from ¥30,459 million as of the previous fiscal year-end.

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

Net cash provided by operating activities was ¥6,761 million. There was an increase in cash provided of ¥2,997 million compared with the previous fiscal year. This mainly reflected a decrease of decrease in allowance for loss on employees’ pension fund withdrawal of ¥1,231 million, a decrease of increase in notes and accounts receivable - trade of ¥409 million, a decrease of decrease in accrued consumption taxes included in “Other, net” of ¥560 million and an increase in profit before income taxes of ¥832 million.

Net cash used in investing activities was ¥1,806 million. There was an increase in cash used of ¥606 million compared with the previous fiscal year. This mainly reflected an increase of purchase of property, plant and equipment of ¥425 million, in spite of a decrease of proceeds from withdrawal of time deposits of ¥399 million, a decrease of proceeds from redemption of investment securities of

¥300 million, a decrease of purchase of shares of subsidiaries and associates of ¥291 million and a decrease of payments into time deposits of ¥199 million.

Net cash used in financing activities was ¥2,967 million. There was an increase in cash used of ¥750 million compared with the previous fiscal year. This mainly reflected an increase of purchase of treasury shares of subsidiaries of ¥476 million and an increase in cash dividends paid of ¥350 million, in spite of a decrease of payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of ¥136 million.

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

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Equity ratio (%)	71.3	70.4	73.7	76.3
Market value equity ratio (%)	105.3	90.7	111.7	140.2
Interest-bearing debt to cash flow ratio (%)	0.4	–	–	–
Interest coverage ratio (times)	9,238.7	1,055.2	2,995.8	5,285.4

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

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

Taking into account factors such as operating results for the fiscal year under review, which exceeded projections, in order to return profits to shareholders, the Company plans to pay a year-end dividend of ¥45 per share, which is ¥5 higher than its start-of-year dividend forecast. As a result, the planned annual dividend is ¥80 per share, including the interim dividend of ¥35 per share already paid (including a 45th anniversary commemorative dividend of ¥5).

For annual dividend in the next fiscal year, the Company plans to pay ¥80 per share (interim dividend of ¥35 and a year-end dividend of ¥45).

(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, 2018.

1) Price competition

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

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

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

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

2) Management of software development projects

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

3) Security

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

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

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

4) Business overseas

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

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

2. Status of the Corporate Group

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

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

[Finance and Public Sector]

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

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

[Corporate, Communications and Solutions]

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

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

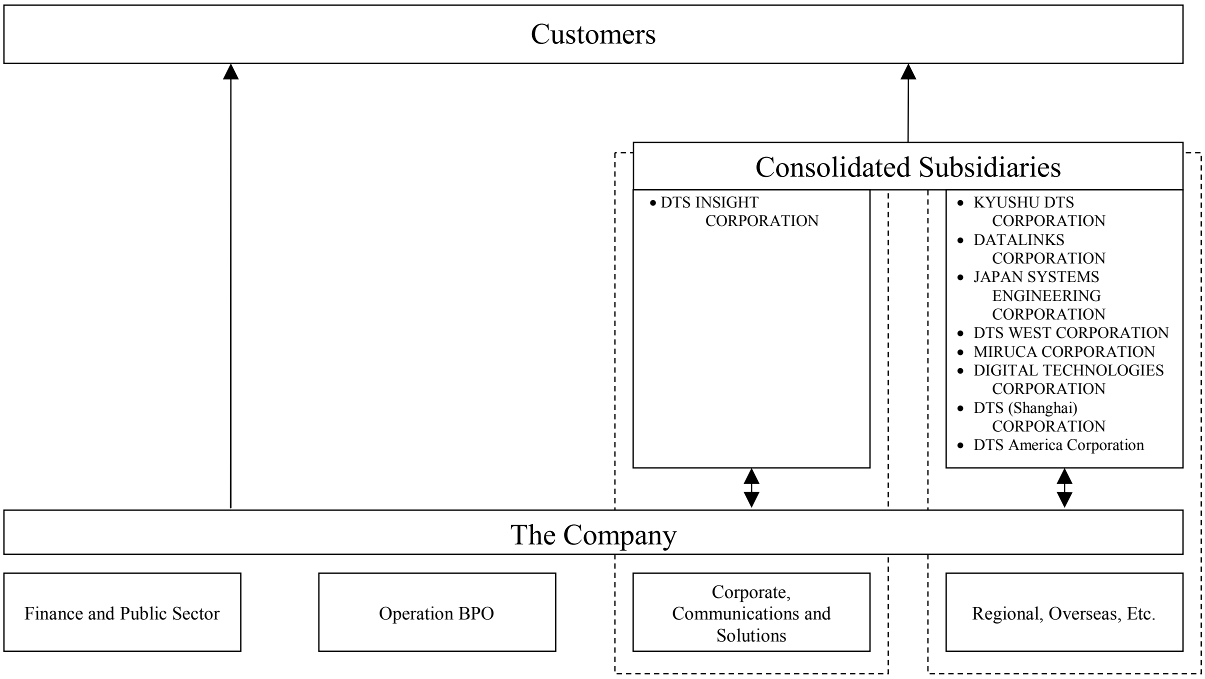
[Operation BPO]

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

[Regional, Overseas, Etc.]

- Design, development and maintenance of systems, and solutions deployment for regional companies and overseas companies developing globally
- Sales of system equipment, educational services in the IT field, etc.
- Outsourcing services, and design, development, operations, maintenance etc. of software

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



Consolidated subsidiaries

Name	Stated capital	Ratio of voting rights held	Main business lines
KYUSHU DTS CORPORATION	¥100 million	100.00%	Information Service
DATALINKS CORPORATION	¥309 million	100.00%	Information Service
JAPAN SYSTEMS ENGINEERING CORPORATION	¥310 million	100.00%	Information Service
DTS WEST CORPORATION	¥100 million	100.00%	Information Service
MIRUCA CORPORATION	¥100 million	100.00%	Information Service
DIGITAL TECHNOLOGIES CORPORATION	¥100 million	100.00%	Information Service
DTS (Shanghai) CORPORATION	CNY 14 million	100.00%	Information Service
DTS America Corporation	US $200,000	100.00%	Information Service
DTS INSIGHT CORPORATION	¥200 million	100.00%	Information Service

Notes:

1. ART System Co., Ltd., 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 YOKOGAWA DIGITAL COMPUTER CORPORATION, the Company's consolidated subsidiary, through a merger, effective April 1, 2017.
2. Effective April 1, 2017, YOKOGAWA DIGITAL COMPUTER CORPORATION succeeded the Company's embedding business by an absorption-type demerger and changed its company name to DTS INSIGHT CORPORATION.
3. Effective August 1, 2017, the Company made DATALINKS CORPORATION a wholly owned subsidiary company by share exchange.

3. Management Policies

(1) Basic management policies

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

(2) Targeted management indicators

Under its management vision "Made by DTS Group, 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, the DTS Group is aiming for net sales of ¥87.0 billion or higher and an operating margin of 10% or higher for the fiscal year ending March 31, 2019, 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 digital business for service and solution provision business models, especially those that use new technologies such as CAMBRIC (Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity). 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 and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	30,629,556	32,624,664
Notes and accounts receivable - trade	14,452,515	14,921,928
Merchandise and finished goods	201,860	298,445
Work in process	625,719	*2 726,918
Raw materials and supplies	32,768	27,261
Deferred tax assets	1,375,949	1,399,688
Other	672,900	597,454
Allowance for doubtful accounts	(7,687)	(6,451)
Total current assets	47,983,582	50,589,910
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,296,125	2,462,095
Accumulated depreciation	(1,322,141)	(1,320,526)
Buildings and structures, net	973,983	1,141,569
Land	2,045,239	2,045,239
Other	1,468,605	1,330,903
Accumulated depreciation	(1,270,438)	(969,199)
Other, net	198,167	361,703
Total property, plant and equipment	3,217,390	3,548,512
Intangible assets		
Goodwill	514,237	286,673
Software	446,384	416,447
Other	9,247	9,020
Total intangible assets	969,869	712,142
Investments and other assets		
Investment securities	*1 3,355,902	*1 5,135,734
Deferred tax assets	198,673	167,214
Other	*1 1,446,503	*1 1,383,481
Allowance for doubtful accounts	(30,002)	(6,918)
Total investments and other assets	4,971,077	6,679,512
Total non-current assets	9,158,336	10,940,166
Total assets	57,141,918	61,530,076

(Thousand yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	4,908,663	4,844,019
Accounts payable - other	1,249,953	1,309,429
Income taxes payable	1,653,297	1,936,946
Provision for bonuses	3,166,452	3,103,713
Provision for directors’ bonuses	66,480	67,780
Provision for loss on order received	–	25,286
Provision for loss on liquidation of subsidiaries and associates	29,585	–
Other	1,721,866	2,293,866
Total current liabilities	12,796,298	13,581,043
Non-current liabilities		
Provision for directors’ retirement benefits	69,279	35,341
Net defined benefit liability	541,588	682,036
Other	73,810	268,854
Total non-current liabilities	684,678	986,231
Total liabilities	13,480,977	14,567,274
Net assets		
Shareholders’ equity		
Capital stock	6,113,000	6,113,000
Capital surplus	6,166,259	6,224,023
Retained earnings	32,483,962	36,395,303
Treasury shares	(3,199,657)	(2,783,511)
Total shareholders’ equity	41,563,564	45,948,815
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	458,894	963,575
Foreign currency translation adjustment	40,315	43,956
Remeasurements of defined benefit plans	28,875	6,454
Total accumulated other comprehensive income	528,085	1,013,986
Non-controlling interests	1,569,291	–
Total net assets	43,660,941	46,962,801
Total liabilities and net assets	57,141,918	61,530,076

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

Consolidated statements of income

(Thousand yen)

		Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018
Net sales		79,858,459		83,163,302
Cost of sales		64,016,058	*1	66,714,641
Gross profit		15,842,400		16,448,660
Selling, general and administrative expenses				
Salaries and allowances		2,467,680		2,529,340
Provision for bonuses		414,444		433,526
Amortization of goodwill		375,174		227,564
Other	*2	4,598,620	*2	4,734,341
Total selling, general and administrative expenses		7,855,920		7,924,772
Operating profit		7,986,480		8,523,887
Non-operating income				
Interest income		9,543		11,065
Dividend income		48,015		54,960
Foreign exchange gains		22,013		–
Subsidy income		7,048		16,085
Insurance premiums refunded cancellation		3,516		3,925
Dividends income of group life insurance		7,652		16,130
Commission for insurance office work		7,983		7,331
Other		57,760		28,133
Total non-operating income		163,534		137,631
Non-operating expenses				
Interest expenses		1,973		767
Loss on investments in partnership		12,090		8,547
Commission fee		30,286		41,109
Cancellation fee		–		27,999
Other		12,265		8,223
Total non-operating expenses		56,616		86,647
Ordinary profit		8,093,399		8,574,872
Extraordinary income				
Gain on sales of investment securities		97		24,860
Gain on transfer of business		161,287		–
Reversal of provision for loss on liquidation of subsidiaries and associates		–		5,920
Total extraordinary income		161,385		30,781
Extraordinary losses				
Loss on sales of non-current assets	*3	226		–
Loss on retirement of non-current assets	*4	4,645	*4	8,894
Bad debts written off of subsidiaries and associates		–		17,701
Office transfer expenses		–		19,860
Loss on revision of retirement benefit plan		246,796		22,587
Loss on withdrawal from employees' pension fund		228,919		–
Other		75,558		5,250
Total extraordinary losses		556,146		74,294
Profit before income taxes		7,698,637		8,531,359
Income taxes - current		2,170,633		2,790,527
Income taxes - deferred		259,227		(40,965)
Total income taxes		2,429,860		2,749,561
Profit		5,268,777		5,781,797
Profit attributable to non-controlling interests		147,327		16,036
Profit attributable to owners of parent		5,121,449		5,765,760

Consolidated statements of comprehensive income

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit	5,268,777	5,781,797
Other comprehensive income		
Valuation difference on available-for-sale securities	160,990	506,684
Foreign currency translation adjustment	(27,892)	3,640
Remeasurements of defined benefit plans, net of tax	100,787	(22,420)
Total other comprehensive income	* 233,886	* 487,904
Comprehensive income	5,502,663	6,269,702
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,355,295	6,251,661
Comprehensive income attributable to non-controlling interests	147,368	18,040

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2017

(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	28,865,886	(2,649,308)	38,520,495
Changes of items during period					
Dividends of surplus			(1,503,373)		(1,503,373)
Profit attributable to owners of parent			5,121,449		5,121,449
Purchase of treasury shares				(550,349)	(550,349)
Change in ownership interest of parent due to transactions with non-controlling interests		(24,658)			(24,658)
Net changes of items other than shareholders' equity					
Total changes of items during period	－	(24,658)	3,618,076	(550,349)	3,043,068
Balance at end of current period	6,113,000	6,166,259	32,483,962	(3,199,657)	41,563,564

	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	297,200	68,207	(71,168)	294,239	1,541,262	40,355,997
Changes of items during period						
Dividends of surplus						(1,503,373)
Profit attributable to owners of parent						5,121,449
Purchase of treasury shares						(550,349)
Change in ownership interest of parent due to transactions with non-controlling interests						(24,658)
Net changes of items other than shareholders' equity	161,693	(27,892)	100,043	233,845	28,028	261,874
Total changes of items during period	161,693	(27,892)	100,043	233,845	28,028	3,304,943
Balance at end of current period	458,894	40,315	28,875	528,085	1,569,291	43,660,941

Fiscal year ended March 31, 2018

(Thousand yen)

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

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

(4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	7,698,637	8,531,359
Depreciation	460,792	421,081
Amortization of goodwill	375,174	227,564
Increase (decrease) in provision for bonuses	529	(62,703)
Increase (decrease) in provision for directors' bonuses	(1,162)	1,299
Increase (decrease) in provision for loss on order received	(24,280)	25,286
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	29,585	(29,585)
Increase (decrease) in allowance for loss on employees' pension fund withdrawal	(1,231,962)	–
Increase (decrease) in provision for directors' retirement benefits	11,461	(33,938)
Increase (decrease) in net defined benefit liability	253,392	107,755
Loss on sales of non-current assets	226	–
Decrease (increase) in notes and accounts receivable - trade	(878,799)	(469,496)
Decrease (increase) in inventories	(110,394)	(191,926)
Increase (decrease) in notes and accounts payable - trade	129,318	(64,474)
Increase (decrease) in accounts payable - other	(74,381)	98,761
Other, net	(522,301)	649,832
Subtotal	6,115,838	9,210,815
Interest and dividend income received	58,309	71,575
Interest expenses paid	(1,256)	(1,279)
Income taxes paid	(2,408,750)	(2,519,760)
Net cash provided by (used in) operating activities	3,764,140	6,761,351
Cash flows from investing activities		
Purchase of property, plant and equipment	(130,126)	(555,170)
Proceeds from sales of property, plant and equipment	850	–
Purchase of intangible assets	(152,344)	(200,254)
Purchase of investment securities	(1,266,317)	(1,083,943)
Proceeds from sales of investment securities	181	44,404
Proceeds from redemption of investment securities	300,000	–
Payments into time deposits	(390,351)	(190,369)
Proceeds from withdrawal of time deposits	590,329	190,355
Purchase of shares of subsidiaries and associates	(309,593)	(18,177)
Proceeds from transfer of business	161,287	–
Other, net	(3,643)	6,869
Net cash provided by (used in) investing activities	(1,199,728)	(1,806,284)

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from financing activities		
Cash dividends paid	(1,499,960)	(1,850,435)
Dividends paid to non-controlling interests	(28,880)	(34,493)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(136,089)	(42)
Purchase of treasury shares	(551,448)	(605,049)
Purchase of treasury shares of subsidiaries	(136)	(477,045)
Other, net	–	41
Net cash provided by (used in) financing activities	(2,216,515)	(2,967,024)
Effect of exchange rate change on cash and cash equivalents	(9,393)	7,052
Net increase (decrease) in cash and cash equivalents	338,502	1,995,094
Cash and cash equivalents at beginning of period	30,120,850	30,459,352
Cash and cash equivalents at end of period	* 30,459,352	* 32,454,447

(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: 9

      Names of principal consolidated subsidiaries:

      DATALINKS CORPORATION

      DTS INSIGHT CORPORATION

      DIGITAL TECHNOLOGIES CORPORATION

      JAPAN SYSTEMS ENGINEERING CORPORATION

      DTS WEST CORPORATION

      ART System Co., Ltd., 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 YOKOGAWA DIGITAL COMPUTER CORPORATION, the Company's consolidated subsidiary, through a merger, effective April 1, 2017. YOKOGAWA DIGITAL COMPUTER CORPORATION changed its company name to DTS INSIGHT CORPORATION on 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 associates 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) and an associate (Nelito Systems Limited) 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: 3 companies

      March 31: 6 companies

   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).
             In addition, among available-for-sale securities with readily determinable fair value, items for which the nature of disparity in the amount between “acquisition cost” and “bond value” is recognized as being an adjustment in interest rates are calculated using the amortized cost 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)
         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.
         Software for internal use 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 estimated loss from orders received at the fiscal year-end is recorded.

v) Provision for loss on liquidation of subsidiaries and associates

To prepare for losses on the liquidation of subsidiaries and associates, the estimated amount of such losses is recorded.

vi) 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.

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 until this 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 (12-15 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 associates 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 (4-9 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)

(Change in depreciation method of property, plant and equipment)

Previously, the Company had mainly used the declining-balance method for depreciating property, plant and equipment. From the fiscal year ended March 31, 2018, however, the Company has changed to using the straight-line method.

The purpose of this change is to consolidate operating bases which had been expanded and spread out, further enhance links between organizations and increase management efficiency during the fiscal year under review, and thereby establish a foundation for actions to support future business expansion. The Company used the relocation of the headquarters as an occasion to take a fresh look at held assets. In the past, the Company determined that using the declining-balance method, which results in more expenses the newer the asset, was logical due to the assumption that the fast pace of technological progress on information equipment would lead to early investment in replacements. However, in recent years, given the trend for assets to be used stably over the long term, the Company determined that the straight-line method, which allows for depreciation to be allocated in a level manner over time, more properly reflects the actual management situation.

As a result of this change, compared with the figures based on the previous method, operating profit, ordinary profit, and profit before income taxes for the fiscal year ended March 31, 2018 were each increased by ¥26,642 thousand.

(Changes in presentation)

(Consolidated statements of income)

“Dividends income of group life insurance” which was included in “Other” under “Non-operating income” in the previous fiscal year, is presented separately under non-operating income for the fiscal year under review because the amount became greater than 10% of non-operating income. 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 ¥65,413 thousand shown as “Other” under “Non-operating income” in the consolidated statement of income of the previous fiscal year has been reclassified as “Dividends income of group life insurance” of ¥7,652 thousand and “Other” of ¥57,760 thousand under non-operating income.

“Gain on sales of investment securities” which was included in “Other” under “Extraordinary income” in the previous fiscal year, is presented separately under extraordinary income for the fiscal year under review because the amount became greater than 10% of extraordinary income. 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 ¥97 thousand shown as “Other” under “Extraordinary income” in the consolidated statement of income of the previous fiscal year has been reclassified as “Gain on sales of investment securities” of ¥97 thousand.

(Consolidated statements of cash flows)

“Purchase of treasury shares of subsidiaries” which was included in “Other, net” under “Cash flows from financing activities” in the previous fiscal year, is presented separately under cash flows from financing 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 ¥(136) thousand shown as “Other, net” under “Cash flows from financing activities” in the consolidated statement of cash flows of the previous fiscal year has been reclassified as “Purchase of treasury shares of subsidiaries” of ¥(136) thousand.

(Notes to consolidated balance sheets)

*1. Investment securities issued by non-consolidated subsidiaries and associates are as follows:

(Thousand yen)

	As of March 31, 2017	As of March 31, 2018
Investments and other assets		
Investment securities (shares)	357,175	357,770
Other (investments in capital)	123,516	123,516
Total	480,691	481,286

*2. The work in process concerning order contracts which are expected to generate losses and the provision for loss on order received do not offset each other and thus both items are presented respectively. For work in process for order contracts on which losses are expected, the amount corresponding to the provision for loss on order received is as follows:

(Thousand yen)

	As of March 31, 2017	As of March 31, 2018
Work in process	–	15,476

(Notes to consolidated statements of income)

*1. Amount of provision for loss on order received included in cost of sales is as follows:

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Amount of provision for loss on order received included in cost of sales	–	25,286

*2. Research and development expenses included in general and administrative expenses is as follows:

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Research and development expenses included in general and administrative expenses	463,633	439,161

*3. The components of loss on sales of non-current assets are as follows:

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Property, plant and equipment		
Buildings and structures	182	–
Other (Tools, furniture and fixtures)	44	–
Total	226	–

*4. The components of loss on retirement of non-current assets are as follows:

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Property, plant and equipment		
Buildings and structures	2,609	47
Other (Tools, furniture and fixtures)	1,325	8,690
Intangible assets		
Other (Telephone subscription right, etc.)	711	156
Total	4,645	8,894

(Notes to consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Valuation difference on available-for-sale securities:		
Amount arising during the period	247,836	760,398
Reclassification adjustments	(97)	(32,662)
Before tax effect adjustments	247,738	727,736
Tax effect	(86,748)	(221,051)
Valuation difference on other securities	160,990	506,684
Foreign currency translation adjustment:		
Amount arising during the period	(27,892)	3,640
Reclassification adjustments	–	–
Before tax effect adjustments	(27,892)	3,640
Tax effect	–	–
Foreign currency translation adjustment	(27,892)	3,640
Remeasurements of defined benefit plans, net of tax:		
Amount arising during the period	138,467	(35,023)
Reclassification adjustments	7,305	2,331
Before tax effect adjustments	145,773	(32,691)
Tax effect	(44,985)	10,271
Remeasurements of defined benefit plans, net of tax	100,787	(22,420)
Total other comprehensive income	233,886	487,904

(Notes to consolidated statements of changes in equity)

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

1. Class and total number of issued shares and class and number of treasury shares

	Number of shares at the beginning of the fiscal year	Increase	Decrease	Number of shares at the end of the fiscal year
Issued shares				
Common stock	25,222,266	–	–	25,222,266
Total	25,222,266	–	–	25,222,266
Treasury shares				
Common stock (Note)	1,997,593	249,409	–	2,247,002
Total	1,997,593	249,409	–	2,247,002

(Note) The increase in the number of treasury shares of common stock (249,409 shares) was due to the increase owing to the acquisition of treasury shares by the resolution of the Board of Directors (249,200 shares) and the increase owing to the purchase of fractional shares (209 shares).

2. Dividends

(1) Dividends paid

(Resolution)	Class of stock	Total dividends (Thousand yen)	Dividend per share (Yen)	Cut-off date	Effective date
Annual Shareholders' Meeting held on June 23, 2016	Common stock	928,986	40	March 31, 2016	June 24, 2016
Board of Directors' meeting held on November 4, 2016	Common stock	574,386	25	September 30, 2016	November 28, 2016

(2) Dividends whose cut-off date is in the fiscal year under review and whose effective date is in the following fiscal year

(Resolution)	Class of stock	Total dividends (Thousand yen)	Source of dividends	Dividend per share (Yen)	Cut-off date	Effective date
Annual Shareholders' Meeting held on June 22, 2017	Common stock	1,033,886	Retained earnings	45	March 31, 2017	June 23, 2017

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

1. Class and total number of issued shares and class and number of treasury shares

	Number of shares at the beginning of the fiscal year	Increase	Decrease	Number of shares at the end of the fiscal year
Issued shares				
Common stock	25,222,266	–	–	25,222,266
Total	25,222,266	–	–	25,222,266
Treasury shares				
Common stock (Notes 1, 2)	2,247,002	182,459	650,726	1,778,735
Total	2,247,002	182,459	650,726	1,778,735

(Notes) 1. The increase in the number of treasury shares of common stock (182,459 shares) was due to the increase owing to the acquisition of treasury shares by the resolution of the Board of Directors (181,900 shares) and the increase owing to the purchase of fractional shares (559 shares).

2. The decrease in the number of treasury shares of common stock (650,726 shares) was due to treasury shares given to DATALINKS CORPORATION in share exchange for making it a wholly owned subsidiary company.

2. Dividends

(1) Dividends paid

(Resolution)	Class of stock	Total dividends (Thousand yen)	Dividend per share (Yen)	Cut-off date	Effective date
Annual Shareholders' Meeting held on June 22, 2017	Common stock	1,033,886	45	March 31, 2017	June 23, 2017
Board of Directors' meeting held on November 2, 2017	Common stock	820,532	35	September 30, 2017	November 27, 2017

(Note) The dividend of ¥35 per share resolved at the Board of Directors' meeting held on November 2, 2017 includes a 45th anniversary commemorative dividend of ¥5 per share.

(2) Dividends whose cut-off date is in the fiscal year under review and whose effective date is in the following fiscal year

(Resolution)	Class of stock	Total dividends (Thousand yen)	Source of dividends	Dividend per share (Yen)	Cut-off date	Effective date
Annual Shareholders' Meeting held on June 22, 2018	Common stock	1,054,958	Retained earnings	45	March 31, 2018	June 25, 2018

(Notes to consolidated statements of cash flows)

* Reconciliation of ending balance of cash and cash equivalents with balance of related items in consolidated balance sheets

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash and deposits	30,629,556	32,624,664
Time deposits with maturity over 3 months	(170,203)	(170,217)
Cash and cash equivalents	30,459,352	32,454,447

(Securities)

1. Available-for-sale securities

As of March 31, 2017

(Thousand yen)

	Type	Consolidated balance sheet carrying amount	Acquisition cost	Difference
Available-for-sale securities whose carrying amount exceeds acquisition cost	(1) Shares	1,650,660	984,199	666,461
	(2) Debt securities			
	(i) Government and municipal bonds	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	1,650,660	984,199	666,461
Available-for-sale securities whose carrying amount does not exceed acquisition cost	(1) Shares	26,400	32,250	(5,850)
	(2) Debt securities			
	(i) Government and municipal bonds	–	–	–
	(ii) Corporate bonds	1,106,273	1,113,494	(7,221)
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	1,132,673	1,145,744	(13,071)
Total		2,783,333	2,129,944	653,389

(Note) As unlisted shares (215,393 thousand yen reported on the consolidated balance sheet) have no market prices and their fair values are deemed extremely difficult to determine, they are not included in the table above.

As of March 31, 2018

(Thousand yen)

	Type	Consolidated balance sheet carrying amount	Acquisition cost	Difference
Available-for-sale securities whose carrying amount exceeds acquisition cost	(1) Shares	2,355,354	963,503	1,391,851
	(2) Debt securities			
	(i) Government and municipal bonds	–	–	–
	(ii) Corporate bonds	501,593	500,000	1,593
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	2,856,947	1,463,503	1,393,444
Available-for-sale securities whose carrying amount does not exceed acquisition cost	(1) Shares	28,300	32,250	(3,950)
	(2) Debt securities			
	(i) Government and municipal bonds	–	–	–
	(ii) Corporate bonds	1,610,161	1,615,678	(5,517)
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	1,638,461	1,647,928	(9,467)
Total		4,495,408	3,111,432	1,383,976

(Note) As unlisted shares (282,555 thousand yen reported on the consolidated balance sheet) have no market prices and their fair values are deemed extremely difficult to determine, they are not included in the table above.

2. Available-for-sale securities sold during the period

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

(Thousand yen)

Type	Proceeds from sales	Total gain on sales	Total loss on sales
Shares	181	97	–
Debt securities	300,000	–	–
Total	300,181	97	–

(Note) The proceeds from sales from debt securities stated above is a redemption amount.

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

(Thousand yen)

Type	Proceeds from sales	Total gain on sales	Total loss on sales
Shares	44,404	24,860	–

(Business combinations)

1. Absorption of the Company's operations by a consolidated subsidiary via absorption-type demerger

   Based on the resolution at a meeting of its Board of Directors held on February 7, 2017, the Company transferred its embedding business to wholly owned subsidiary DTS INSIGHT CORPORATION by means of a demerger with an effective date of April 1, 2017.

   (1) Outline of transaction

   1) Name and business to be transferred

   Name: Corporate, Communications and Solutions business

   Business: All aspects of the embedding business handled by the EBS Division of the Enterprise and Communication Sector

   2) Date of transaction

   April 1, 2017

   3) Legal form of the business combination

   An absorption-type demerger, in which the Company is the demerging company and YOKOGAWA DIGITAL COMPUTER CORPORATION is the successor company.

   4) Name of company after transaction

   DTS INSIGHT CORPORATION

   5) Other items regarding outline of transaction

   (a) Purpose of transaction

   In accordance with the "embedding area strategy," which is one of the key strategies in the medium-term management plan started in April 2016, the Company aims to further grow the business by expanding the corporate scale to build an efficient framework, grow the customer base and establish a competitive edge in the medical and automobile-related markets.

   (b) Details of allotments in connection with demerger

   As this demerger involves the parent company and its wholly owned subsidiary, there is no allotment of shares or any other consideration upon this demerger.

   (c) Financial position in most recent fiscal year of companies involved in demerger

   As of March 31, 2017

(Million yen)

	Demerging company (consolidated)	Successor company (non-consolidated)
Assets	57,141	1,460
Liabilities	13,480	729
Net assets	43,660	731

   (2) Outline of accounting procedures applied

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

2. Making a subsidiary a wholly owned subsidiary company through share exchange
The Company resolved at a meeting of its Board of Directors held on May 11, 2017, to conduct a share exchange in which the Company would make consolidated subsidiary DATALINKS CORPORATION ("DATALINKS") a wholly owned subsidiary company (the "Share Exchange"), and the share exchange agreement was concluded on the same date.
Under the procedures for a simplified share exchange in accordance with the provision of Article 796, paragraph 2 of the Companies Act, the Company conducted the Share Exchange with an effective date of August 1, 2017, after receiving approval for the share exchange agreement at the ordinary general meeting of shareholders of DATALINKS held on June 16, 2017, and without receiving approval at the Company's general shareholders' meeting.
The common stock of DATALINKS were delisted from Tokyo Stock Exchange Inc. on July 27, 2017, prior to the effective date of the Share Exchange (August 1, 2017).

(1) Outline of transaction

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

	Name	Business
Wholly owning parent company resulting from the share exchange	The Company	Information service
Wholly owned subsidiary company resulting from the share exchange	DATALINKS	Services

2) Date of transaction

August 1, 2017

3) Legal form of the business combination

Share exchange, through which the Company becomes the wholly owning parent company and DATALINKS becomes the wholly owned subsidiary company.

4) Purpose of transaction

By making DATALINKS a wholly owned subsidiary company of the Company, business efficiency will be increased by the speeding up of the decision-making process, the selection and concentration of management resources, the consolidation of information, and other factors, which will build a stronger management foundation. In addition, by further bolstering Group management, the Company will push ahead with raising the corporate value of the DTS Group.

(2) Outline of accounting procedures applied

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

(3) Items regarding additional purchase of shares of subsidiary

1) Acquisition cost and breakdown of cost by type of consideration

Consideration for acquisition	Common stock of the Company	¥2,241,748 thousand
Acquisition cost		¥2,241,748 thousand

2) Class of stock, share exchange ratio and number of shares delivered

	The Company (wholly owning parent company resulting from the share exchange)	DATALINKS (wholly owned subsidiary company resulting from the share exchange)
Share exchange ratio	1	0.73
Number of shares delivered in the Share Exchange	Common stock of the Company: 650,726 shares	

No shares were allocated based on the Share Exchange for the 1,080,000 common shares of DATALINKS held by the Company. Delivered shares were appropriated from treasury shares owned by the Company.

3) Method to calculate share exchange ratio

Both the Company and DATALINKS determined that the share exchange ratio was appropriate and would not harm the interests of shareholders of each company. Both companies came to this decision based on the calculations of share exchange ratios and advice submitted by third-party advisors, advice from legal advisors of each company, followed by comprehensive considerations of a number of factors, including the financial condition, earnings trends, and share price trends of both companies, and repeated negotiations and discussions between the two companies. The share exchange agreement was concluded between the two companies based on resolutions passed at board of directors meetings at both the Company and DATALINKS held on May 11, 2017, concerning executing the Share Exchange at the share exchange ratio.

(Segment information, etc.)

[Segment Information]

1. Overview of reportable segments

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

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

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

(1) Finance and Public Sector

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

• Consulting in relation to the deployment of information systems

• Design, development, operation and maintenance etc. of systems (including design and construction of platforms and networks and so on)

(2) Corporate, Communications and Solutions

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

• Consulting in relation to the deployment of information systems

• Design, development, operation and maintenance etc. of systems (including design, construction and embedding of platforms and networks and so on)

• Deployment, operation and maintenance of in-house developed solutions and ERP solutions etc.

(3) Operation BPO

• Operational design and maintenance of total information systems, including cloud-related services and virtualization systems

• System operation either through permanently station personnel or remote access, monitoring operations

• System operational diagnosis and optimization services, primarily for IT infrastructure

(4) Regional, Overseas, Etc.

• Design, development and maintenance of systems, and solutions deployment for regional companies and overseas companies developing globally

• Sales of system equipment, educational services in the IT field, etc.

• Outsourcing services, and design, development, operations, maintenance etc. of software

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

The accounting method used for the business segments reported is the same as the accounting method stated in “Significant matters forming the basis of preparing the consolidated financial statements.” Segment profit of the reportable segments are on an operating profit basis and intersegment revenues and transfers are based on general transactions identical to arm’s length transactions.

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

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

(Thousand yen)

	Reportable segment			Regional, Overseas, Etc.	Total
	Finance and Public Sector	Corporate, Communications and Solutions	Operation BPO		
Net sales					
Sales to external customers	29,232,652	20,200,131	12,183,904	18,241,770	79,858,459
Intersegment sales or transfers	33,831	13,302	30,411	3,871,749	3,949,295
Total	29,266,484	20,213,433	12,214,316	22,113,520	83,807,754
Segment profit	4,073,461	1,596,193	1,502,534	795,139	7,967,328
Other					
Depreciation	144,957	210,226	36,449	72,278	463,912
Amortization of goodwill	–	149,621	–	225,553	375,174

	Adjustment (Note 1)	Amount reported on the consolidated statements of income (Note 2)
Net sales		
Sales to external customers	–	79,858,459
Intersegment sales or transfers	(3,949,295)	–
Total	(3,949,295)	79,858,459
Segment profit	19,152	7,986,480
Other		
Depreciation	(9,325)	454,587
Amortization of goodwill	–	375,174

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

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

(Thousand yen)

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

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

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

[Related Information]

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

1. Information by product and service

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

2. Information by geographical area

   (1) Net sales

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

   (2) Property, plant and equipment

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

3. Information by major customer

(Thousand yen)

Name of customer or individual	Net sales	Related segment
Mizuho Information & Research Institute, Inc.	12,744,179	Finance and Public Sector Corporate, Communications and Solutions Regional, Overseas, Etc.

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

1. Information by product and service

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

2. Information by geographical area

   (1) Net sales

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

   (2) Property, plant and equipment

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

3. Information by major customer

(Thousand yen)

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

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

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

No items to report.

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

No items to report.

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

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

(Thousand yen)

	Finance and Public Sector	Corporate, Communications and Solutions	Operation BPO	Regional, Overseas, Etc.	Total
Amortization	–	149,621	–	225,553	375,174
Unamortized balance as of March 31, 2017	–	350,667	–	163,570	514,237

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

(Thousand yen)

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

[Information about Gain on Bargain Purchase by Reportable Segment]

For the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

No items to report.

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

No items to report.

(Per share information)

(Yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net assets per share	1,832.04	2,003.23
Basic earnings per share	222.48	247.90

(Notes) 1. Diluted earnings per share for the fiscal years ended March 31, 2017 and 2018 is not presented since no potential shares exist.

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

	As of March 31, 2017	As of March 31, 2018
Total net assets (Thousand yen)	43,660,941	46,962,801
Amount subtracted from total net assets (Thousand yen)	1,569,291	–
(Non-controlling interests (Thousand yen))	1,569,291	–
Net assets at the end of the period related to common stock (Thousand yen)	42,091,649	46,962,801
Number of common stock at the end of the period used for the calculation of net assets per share (Shares)	22,975,264	23,443,531

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

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit attributable to owners of parent (Thousand yen)	5,121,449	5,765,760
Amount not attributable to common shareholders (Thousand yen)	–	–
Profit attributable to owners of parent related to common stock (Thousand yen)	5,121,449	5,765,760
Average number of outstanding shares of common stock during the period (Shares)	23,019,911	23,258,209

(Significant subsequent events)

No items to report.

6. Non-consolidated Financial Statements and Significant Notes Thereto

(1) Non-consolidated balance sheets

(Thousand yen)

		As of March 31, 2017		As of March 31, 2018
Assets				
Current assets				
Cash and deposits		23,592,603		25,387,288
Notes receivable - trade		68,494		157,688
Accounts receivable - trade	*	9,601,803	*	9,867,624
Merchandise		22,326		41,499
Work in process		417,219		504,821
Supplies		7,414		8,184
Advance payments - trade		82,022		77,200
Prepaid expenses		226,386		225,515
Deferred tax assets		963,554		937,499
Short-term loans receivable from subsidiaries and associates	*	1,129,733	*	428,161
Other	*	108,331	*	79,444
Allowance for doubtful accounts		(2,066)		(2,027)
Total current assets		36,217,824		37,712,900
Non-current assets				
Property, plant and equipment				
Buildings		827,361		971,867
Tools, furniture and fixtures		71,886		218,203
Land		1,965,696		1,965,696
Other		16,259		–
Total property, plant and equipment		2,881,203		3,155,767
Intangible assets				
Software		358,545		265,973
Other		359		133
Total intangible assets		358,904		266,106
Investments and other assets				
Investment securities		2,933,031		4,744,818
Shares of subsidiaries and associates		6,546,758		8,860,121
Investments in capital of subsidiaries and associates		327,143		327,143
Claims provable in bankruptcy, claims provable in rehabilitation and other	*	30,778		–
Long-term prepaid expenses		12,421		6,838
Deferred tax assets		16,407		–
Other		916,169		872,046
Allowance for doubtful accounts		(28,334)		(5,250)
Total investments and other assets		10,754,376		14,805,718
Total non-current assets		13,994,484		18,227,592
Total assets		50,212,308		55,940,493

(Thousand yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	* 2,828,537	* 2,781,862
Accounts payable - other	* 749,447	* 883,975
Accrued expenses	357,861	331,855
Income taxes payable	1,500,902	1,458,142
Advances received	113,382	115,235
Deposits received	105,363	236,937
Provision for bonuses	2,355,829	2,195,232
Provision for directors' bonuses	57,400	57,000
Provision for loss on order received	–	24,206
Provision for loss on liquidation of subsidiaries and associates	29,585	–
Other	646,082	874,493
Total current liabilities	8,744,392	8,958,940
Non-current liabilities		
Deferred tax liabilities	–	181,139
Provision for retirement benefits	226,034	280,812
Asset retirement obligations	6,855	7,014
Long-term accounts payable - other	42,601	42,601
Total non-current liabilities	275,492	511,567
Total liabilities	9,019,884	9,470,508
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus		
Legal capital surplus	6,190,917	6,190,917
Other capital surplus	–	1,223,751
Total capital surpluses	6,190,917	7,414,669
Retained earnings		
Legal retained earnings	411,908	411,908
Other retained earnings		
General reserve	11,170,000	11,170,000
Retained earnings brought forward	20,058,869	23,180,934
Total retained earnings	31,640,778	34,762,842
Treasury shares	(3,199,657)	(2,783,511)
Total shareholders' equity	40,745,038	45,507,001
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	447,386	962,983
Total valuation and translation adjustments	447,386	962,983
Total net assets	41,192,424	46,469,984
Total liabilities and net assets	50,212,308	55,940,493

(2) Non-consolidated statements of income

(Thousand yen)

		Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018
Net sales	*1	56,199,970	*1	56,696,028
Cost of sales	*1	45,073,523	*1	45,321,977
Gross profit		11,126,446		11,374,051
Selling, general and administrative expenses	*1, *2	4,243,864	*1, *2	4,395,985
Operating profit		6,882,582		6,978,065
Non-operating income				
Interest income	*1	5,254	*1	5,401
Interest on securities		4,473		6,182
Dividend income	*1	207,974	*1	269,146
Real estate rent	*1	16,825	*1	16,306
Other	*1	36,207	*1	40,919
Total non-operating income		270,735		337,955
Non-operating expenses				
Interest expenses		1,944		716
Loss on investments in partnership		12,090		8,547
Loss on insurance cancellation		2,530		–
Commission for purchase of treasury shares		1,099		3,199
Foreign exchange losses		2,147		839
Other		2,890		162
Total non-operating expenses		22,703		13,465
Ordinary profit		7,130,613		7,302,555
Extraordinary income				
Reversal of provision for loss on liquidation of subsidiaries and associates		–		5,920
Total extraordinary income		–		5,920
Extraordinary losses				
Loss on retirement of non-current assets	*3	927	*3	8,656
Provision for loss on liquidation of subsidiaries and associates		29,585		–
Provision of allowance for doubtful accounts for subsidiaries and associates		28,334		–
Loss on revision of retirement benefit plan		156,249		–
Bad debts written off of subsidiaries and associates		–		17,701
Provision of allowance for doubtful accounts of golf club membership		–		5,250
Office transfer expenses		–		18,776
Other		17,551		–
Total extraordinary losses		232,648		50,384
Profit before income taxes		6,897,964		7,258,091
Income taxes - current		1,786,770		2,221,697
Income taxes - deferred		173,217		(17,740)
Total income taxes		1,959,988		2,203,956
Profit		4,937,976		5,054,134

(3) Non-consolidated statements of changes in equity

Fiscal year ended March 31, 2017

(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	16,624,267	28,206,175	(2,649,308)	37,860,784
Changes of items during period									
Dividends of surplus						(1,503,373)	(1,503,373)		(1,503,373)
Profit						4,937,976	4,937,976		4,937,976
Purchase of treasury shares								(550,349)	(550,349)
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	3,434,602	3,434,602	(550,349)	2,884,253
Balance at end of current period	6,113,000	6,190,917	6,190,917	411,908	11,170,000	20,058,869	31,640,778	(3,199,657)	40,745,038

	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	285,448	285,448	38,146,233
Changes of items during period			
Dividends of surplus			(1,503,373)
Profit			4,937,976
Purchase of treasury shares			(550,349)
Net changes of items other than shareholders' equity	161,937	161,937	161,937
Total changes of items during period	161,937	161,937	3,046,191
Balance at end of current period	447,386	447,386	41,192,424

Fiscal year ended March 31, 2018

(Thousand yen)

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

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

(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) Shares of subsidiaries and associates
      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).
         In addition, among available-for-sale securities with readily determinable fair value, items for which the nature of disparity in the amount between "acquisition cost" and "bond value" is recognized as being an adjustment in interest rates are calculated using the amortized cost 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 straight-line method.
      The main useful lives are as follows:

Buildings:	3-47 years
Tools, furniture and fixtures:	2-15 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.
      Software for internal use 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 estimated loss from orders received at the fiscal year-end is recorded.

5) Provision for retirement benefits
To prepare for the payment of retirement benefits to employees, an amount based on the projected retirement benefit obligations and plan assets at the fiscal year-end, is provided.
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 until this fiscal year-end.
ii. Actuarial differences
Unrecognized actuarial gains and losses are amortized by the straight-line method in equally allocated amounts over a fixed number of years (15 years) set within the average remaining service period of employees as occurred, starting in the respective fiscal years following each occurrence.
Unrecognized actuarial gains and losses are handled differently on the balance sheets than on the consolidated balance sheets.

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.

(Changes in accounting policies)

(Change in depreciation method of property, plant and equipment)

Previously, the Company had mainly used the declining-balance method for depreciating property, plant and equipment. From the fiscal year ended March 31, 2018, however, the Company has changed to using the straight-line method.

The purpose of this change is to consolidate operating bases which had been expanded and spread out, further enhance links between organizations and increase management efficiency during the fiscal year under review, and thereby establish a foundation for actions to support future business expansion. The Company used the relocation of the headquarters as an occasion to take a fresh look at held assets. In the past, the Company determined that using the declining-balance method, which results in more expenses the newer the asset, was logical due to the assumption that the fast pace of technological progress on information equipment would lead to early investment in replacements. However, in recent years, given the trend for assets to be used stably over the long term, the Company determined that the straight-line method, which allows for depreciation to be allocated in a level manner over time, more properly reflects the actual management situation.

As a result of this change, compared with the figures based on the previous method, operating profit, ordinary profit, and profit before income taxes for the fiscal year ended March 31, 2018 were each increased by ¥26,642 thousand.

(Notes to non-consolidated balance sheets)

* Monetary receivables and payables to subsidiaries and associates

(Thousand yen)

	As of March 31, 2017	As of March 31, 2018
Short-term monetary receivables	1,219,490	471,311
Long-term monetary receivables	30,778	–
Short-term monetary payables	494,094	466,020

(Notes to non-consolidated statements of income)

*1. Transactions with subsidiaries and associates

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Operating transactions		
Net sales	172,199	120,985
Subcontract expenses	2,720,879	3,253,041
Other operating transactions	1,135,862	1,082,512
Non-operating transactions	180,114	241,588

*2. The approximate percentages of selling expenses were 1% each out of selling, general and administrative expenses in the fiscal years ended March 31, 2017 and 2018, respectively. The approximate percentages of general and administrative expenses out of those expenses were 99% each in the fiscal years ended March 31, 2017 and 2018, respectively.

Major items and amounts of selling, general and administrative expenses are as follows:

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Salaries and allowances	1,345,796	1,364,481
Provision for bonuses	286,189	266,835
Provision for directors' bonuses	57,400	57,000
Depreciation	98,157	85,515
Commission fee	469,233	594,526
Provision of allowance for doubtful accounts	141	–

*3. The components of loss on retirement of non-current assets are as follows:

(Thousand yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Property, plant and equipment		
Buildings	–	47
Tools, furniture and fixtures	927	8,452
Intangible assets		
Software	–	156
Total	927	8,656

(Securities)

Shares of subsidiaries

As of March 31, 2017

(Thousand yen)

Category	Balance sheet carrying amount	Fair value	Difference
Shares of subsidiaries	545,184	2,041,200	1,496,016

As of March 31, 2018

The fair values of shares of subsidiaries are not disclosed because the shares of subsidiaries have no market prices and their fair values are deemed extremely difficult to determine.

DATALINKS CORPORATION was previously a listed company and a consolidated subsidiary of the Group. However, in the fiscal year ended March 31, 2018, the subsidiary became a wholly owned subsidiary of the Company and thus it was delisted from the stock exchange and accordingly, there are no subsidiaries with market values of their shares.

(Note) The balance sheet carrying amounts for shares of subsidiaries and associates whose fair values are deemed extremely difficult to determine are as follows:

(Thousand yen)

Category	As of March 31, 2017	As of March 31, 2018
Shares of subsidiaries	5,674,399	8,532,351
Shares of associates	327,175	327,770

These are not included in the “Shares of subsidiaries” table above because they have no market prices and their fair values are deemed extremely difficult to determine.

(Business combinations)

1. Absorption of the Company’s operations by a consolidated subsidiary via absorption-type demerger
   This note is omitted because the information is provided in “Business combinations,” of the Notes to consolidated financial statements.

2. Making a subsidiary a wholly owned subsidiary company through share exchange
   This note is omitted because the information is provided in “Business combinations,” of the Notes to consolidated financial statements.

(Significant subsequent events)

No items to report.

7. Others

Production, orders and sales

1) Production

Production in the fiscal year under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	26,610,718	(9.0)
Corporate, Communications and Solutions	23,806,522	17.9
Operation BPO	12,323,309	1.1
Regional, Overseas, Etc.	20,422,751	12.0
Total	83,163,302	4.1

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

2) Orders

Orders in the fiscal year under review are as follows.

Segment	Order volume (Thousand yen)	Year-on-year change (%)	Order backlog (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	26,302,614	(14.5)	13,865,959	(2.2)
Corporate, Communications and Solutions	23,765,548	9.7	6,731,062	(0.6)
Operation BPO	13,237,711	4.1	10,709,581	9.3
Regional, Overseas, Etc.	21,199,881	15.6	4,062,785	23.7
Total	84,505,755	1.2	35,369,389	3.9

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

3) Sales

Sales in the fiscal year under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	26,610,718	(9.0)
Corporate, Communications and Solutions	23,806,522	17.9
Operation BPO	12,323,309	1.1
Regional, Overseas, Etc.	20,422,751	12.0
Total	83,163,302	4.1

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, 2017		Fiscal year ended March 31, 2018	
	Amount (Thousand yen)	Ratio (%)	Amount (Thousand yen)	Ratio (%)
Mizuho Information & Research Institute, Inc.	12,744,179	16.0	8,634,693	10.4