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November 2, 2018

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2019 <under Japanese GAAP>

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 Stock listing: Tokyo Stock Exchange, First Section
 Stock code: 9682
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Scheduled date to file quarterly securities report: November 7, 2018
 Scheduled date to commence dividend payments: November 26, 2018
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

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

1. Consolidated financial results for the first six months of the fiscal year ending March 31, 2019 (from April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2018	41,569	1.8	4,438	15.1	4,508	17.3	3,067	19.9
September 30, 2017	40,831	6.9	3,854	8.9	3,845	6.5	2,557	5.1

Note: Comprehensive income
 Six months ended September 30, 2018: ¥3,257 million [11.3%]
 Six months ended September 30, 2017: ¥2,925 million [12.4%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2018	131.35	—
September 30, 2017	110.86	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
September 30, 2018	62,108	48,555	78.2
March 31, 2018	61,365	46,962	76.5

Reference: Equity
 As of September 30, 2018: ¥48,555 million As of March 31, 2018: ¥46,962 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	–	35.00	–	45.00	80.00
Fiscal year ending March 31, 2019	–	35.00			
Fiscal year ending March 31, 2019 (Forecasts)			–	45.00	80.00

Notes: 1. Revisions to the forecasts of dividends most recently announced: None
 2. The second quarter-end dividend for the fiscal year ended March 31, 2018 includes a 45th anniversary commemorative dividend of ¥5.

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	250.73

Note: Revisions to the earnings forecasts most recently announced: None

* Notes

- (1) Changes in significant subsidiaries during the six months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes
 Note: For the details, please refer to ‘(Application of specific accounting for preparing quarterly consolidated financial statements) in (4) Notes to quarterly consolidated financial statements in 2. Quarterly Consolidated Financial Statements and Significant Notes Thereto’ on page 11 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
- Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - Changes in accounting policies due to other reasons: None
 - Changes in accounting estimates: None
 - Restatement of prior period financial statements after error corrections: None

(4) Number of issued shares (common stock)

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

As of September 30, 2018	25,222,266 shares
As of March 31, 2018	25,222,266 shares

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

As of September 30, 2018	1,913,813 shares
As of March 31, 2018	1,778,735 shares

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

Six months ended September 30, 2018	23,354,765 shares
Six months ended September 30, 2017	23,073,807 shares

* **Quarterly financial results reports are exempt from quarterly review 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 matters regarding the above earnings forecasts, please refer to '(2) Information regarding consolidated earnings forecasts and other forward-looking statements' in '1. Qualitative Information Regarding Settlement of Accounts for the First Six Months,' on page 4 of the attached materials.

Attached Materials

Contents

1. Qualitative Information Regarding Settlement of Accounts for the First Six Months.....	2
(1) Information regarding consolidated operating results.....	2
(2) Information regarding consolidated earnings forecasts and other forward-looking statements.....	4
2. Quarterly Consolidated Financial Statements and Significant Notes Thereto	5
(1) Consolidated balance sheets.....	5
(2) Consolidated statements of income and consolidated statements of comprehensive income.....	7
Consolidated statements of income (cumulative)	7
Consolidated statements of comprehensive income (cumulative).....	8
(3) Consolidated statements of cash flows	9
(4) Notes to quarterly consolidated financial statements.....	11
(Notes on premise of going concern).....	11
(Notes on substantial changes in the amount of shareholders' equity).....	11
(Application of specific accounting for preparing quarterly consolidated financial statements)... ..	11
(Additional information).....	11
(Significant subsequent events)	11
3. Others	12
Production, orders and sales.....	12

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

(1) Information regarding consolidated operating results

In the six months 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 unclear due mainly to uncertainty in overseas economies, caused by protectionist policies of the U.S. and geopolitical risk in the East Asia and Middle East, along with the impact of fluctuations in financial and capital markets, and the effect on business conditions of a series of natural disasters.

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

Amid this environment, the DTS Group is working toward achieving three “Changes”: Management innovation, Business reform and Marketing reform, guided by the vision of “Creating New Value Change! for the Next” under the medium-term management plan (April 2016 to March 2019). Specifically, the Group has been focusing on key activities that have entailed “introducing segment-specific growth strategies,” “implementing corporate reorganization,” and “accelerating management activities.”

With the fiscal year under review being the final year of the medium-term management plan which aims to make changes for the future, the Group will promote efforts that involve strengthening its marketing capability and SI capability, carrying out initiatives for new business, and strengthening the Group’s management foundation. Given that the Group’s highest priority objective is to achieve growth of its top-line, the Group is aiming for sustainable growth and enhanced profit-earning capabilities geared to achieving an operating margin of 10% again following the previous fiscal year.

As part of its focus on “strengthening its marketing capability and SI capability,” the Company has continued to implement its “Plus One Strategy” and “BiG8 Strategy” in order to build a robust customer base centered on the Sales Sector. Moreover, in order to widely respond to customer needs as a one-stop provider particularly with respect to developing cloud solutions and implementing security countermeasures, the Company has established the SI Promotion Division in the Sales Sector, and accordingly this new division has been working together with account sales representatives to strengthen proposal activities.

With respect to solutions drawing on new technologies, the Company has been pursuing sales growth by hosting exhibits at trade shows, including exhibits showcasing its memory monitoring tools for streamlining development of in-vehicle embedded software, its connected industry solutions linking manufacturing operators through information technologies and its hybrid cloud solutions utilizing virtualization technology.

Moreover, the Group expanded its total off-shore orders, including those of overseas group companies, to ¥800 million, up 23% year on year, having made progress in strengthening frameworks with respect to its off-shore operating bases. To such ends, DTS (Shanghai) CORPORATION upgraded its development framework by working in partnership with local enterprises, while DTS SOFTWARE VIETNAM CO., LTD. has been focusing on efforts that involve disseminating DTS’s own development standards (PMS) and training employees in that regard. The Group is focusing on heightening its SI competitive strengths by further increasing the ratio of off-shore development.

With respect to “carrying out initiatives for new business,” the Group has been extending initiatives involving digital business that utilizes new technologies such as CAMBRIC and FinTech. In the realm of cloud computing, the Group has been expanding its sales of solutions for enabling hybrid cloud environments that provide for separate access to physical systems and cloud computing, such as is the case with the D-RAID ADVANCE hyper-converged infrastructure^(Note 1).

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

With respect to FinTech, the Group has been working on sales particularly to virtual currency exchanges, having made progress in developing money laundering countermeasure solutions^(Note 2) handling transactions involving both real and virtual currencies.

In addition, the Group has been concentrating on acquiring new customers and developing new technological fields through such efforts as hosting exhibits at the SIBOS 2018^(Note 3) and JISA/ASOCIO Digital Masters Summit 2018^(Note 4) events in order to strengthen marketing activities looking toward overseas markets.

Furthermore, the living space presentation CAD software “Walk in home” underwent a refresh involving significant updates to functionality, and went on sale in September 2018. With the goal of improving CAD operator productivity and enhancing business efficiency, we deployed a proprietary CG engine, which allows the realization of dramatically improved processing speeds and CG representations with superior image quality, and so on.

Note 1: Hyper-converged infrastructure refers to a simply-configured virtual platform that integrates computing and storage functions within a server, thereby yielding an infrastructure that is easier to configure and manage.

Note 2: “Money laundering countermeasure solutions” refers to solutions comply with the “Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism” as released by Japan’s Financial Services Agency.

Note 3: SIBOS is an international conference specifically for the financial industry, held annually by Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Note 4: The JISA/ASOCIO Digital Masters Summit 2018 is an international forum, in which entities in the IT services-related industry from 24 different countries will participate. It will be held by the Japan Information Technology Services Industry Association (JISA) in November, 2018. The forum’s aim is to promote development of the IT industry in the Asian-Oceanic region.

With regard to “strengthening the Group’s management foundation,” the Company absorbed DATALINKS CORPORATION in October 2018, with the aims of accelerating decision-making and streamlining management. The Group will take steps to strengthen its sales activities and development platforms with the aim of achieving top-line growth, which will involve maximizing business synergies of its solutions and BPO businesses, and achieving optimal allocation of its management resources.

In addition, the Company is performing trial operation of a staggered working hours system with the aims of enabling work-style reforms and better employee health management. The Company is upgrading its in-house information system environment in part by shifting to remote access and thin-client solutions so that employees can expand their use of telecommuting from home and of satellite offices going forward. In October 2018 a new expenses system was deployed, and we are promoting improved business efficiency through initiatives involving paperless processes and the use of mobile devices.

Furthermore, aiming to expedite management decisions and provide more timely information to investors, the Group is working as one to implement efforts, such as reviewing operational processes and putting in place infrastructure such as new systems, that will enable financial results to be prepared more promptly.

As a result of the above, the Group reported net sales of ¥41,569 million for the six months under review, an increase of 1.8% year on year. This mainly reflected firm performance of development projects for the information and telecommunications and transport industries, and product sales in the embedding business.

Gross profit rose by 6.6% year on year to ¥8,365 million. The increase resulted from improvement in cost ratios. Selling, general and administrative expenses decreased by 1.6% year on year to ¥3,927 million, mainly reflecting lower one-time expenses and other such costs associated with DTS INSIGHT CORPORATION, established in the previous fiscal year. Consequently, operating profit was ¥4,438 million, up 15.1% year on year, and ordinary profit was ¥4,508 million, up 17.3% year on year. Profit attributable to owners of parent was ¥3,067 million, up 19.9% year on year, due mainly to an increase in operating profit.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	41,569	1.8	28,119	0.9
Operating profit	4,438	15.1	3,275	(4.1)
Ordinary profit	4,508	17.3	3,632	(1.3)
Profit attributable to owners of parent	3,067	19.9	–	–
Profit (Non-consolidated)	–	–	2,591	0.1

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Public Sector	12,279	(9.6)
Corporate, Communications and Solutions	12,487	12.3
Operation BPO	6,556	8.8
Regional, Overseas, Etc.	10,247	1.5
Total	41,569	1.8

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

Finance and Public Sector Segment

While development projects for megabanks and life insurance companies remained robust, sales in this segment totaled ¥12,279 million, down 9.6% year on year, due to the impact of integration projects, etc.

Corporate, Communications and Solutions Segment

Development projects for the information and telecommunications and transport industries, and sales of products in embedding business remained strong. As a result, sales in this segment totaled ¥12,487 million, up 12.3% year on year.

Operation BPO Segment

System operation and maintenance services were firm in industries such as life insurance and information and telecommunications. As a result, sales in this segment totaled ¥6,556 million, up 8.8% year on year.

Regional, Overseas, Etc. Segment

Development projects for financial industries remained strong. As a result, sales in this segment totaled ¥10,247 million, up 1.5% year on year.

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

With respect to the full-year consolidated earnings forecasts, there is no change from the earnings forecasts announced on May 10, 2018.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	32,624,664	34,129,996
Notes and accounts receivable - trade	14,921,928	13,096,926
Merchandise and finished goods	298,445	306,978
Work in process	726,918	1,163,427
Raw materials and supplies	27,261	29,357
Other	597,454	627,536
Allowance for doubtful accounts	(6,451)	(3,052)
Total current assets	49,190,221	49,351,168
Non-current assets		
Property, plant and equipment	3,548,512	3,513,186
Intangible assets		
Goodwill	286,673	221,189
Other	425,468	515,292
Total intangible assets	712,142	736,481
Investments and other assets		
Other	7,921,657	8,515,051
Allowance for doubtful accounts	(6,918)	(6,918)
Total investments and other assets	7,914,738	8,508,133
Total non-current assets	12,175,393	12,757,801
Total assets	61,365,615	62,108,970

(Thousand yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	4,844,019	4,983,844
Income taxes payable	1,936,946	1,549,412
Provision for bonuses	3,103,713	2,852,726
Provision for directors' bonuses	67,780	29,369
Provision for loss on order received	25,286	124,030
Other	3,603,295	3,223,231
Total current liabilities	13,581,043	12,762,614
Non-current liabilities		
Provision for directors' retirement benefits	35,341	35,401
Net defined benefit liability	682,036	717,872
Other	104,392	37,538
Total non-current liabilities	821,770	790,812
Total liabilities	14,402,813	13,553,426
Net assets		
Shareholders' equity		
Capital stock	6,113,000	6,113,000
Capital surplus	6,224,023	6,215,781
Retained earnings	36,395,303	38,408,042
Treasury shares	(2,783,511)	(3,384,791)
Total shareholders' equity	45,948,815	47,352,033
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	963,575	1,161,020
Foreign currency translation adjustment	43,956	34,422
Remeasurements of defined benefit plans	6,454	8,066
Total accumulated other comprehensive income	1,013,986	1,203,510
Total net assets	46,962,801	48,555,543
Total liabilities and net assets	61,365,615	62,108,970

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

(Thousand yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	40,831,320	41,569,965
Cost of sales	32,985,967	33,203,996
Gross profit	7,845,352	8,365,969
Selling, general and administrative expenses	3,990,421	3,927,958
Operating profit	3,854,931	4,438,011
Non-operating income		
Interest income	5,051	7,074
Dividend income	28,246	30,605
Foreign exchange gains	3,093	–
Other	30,220	46,903
Total non-operating income	66,612	84,584
Non-operating expenses		
Interest expenses	642	20
Loss on investments in partnership	4,041	4,124
Foreign exchange losses	–	3,431
Commission fee	40,423	4,807
Cancellation fee	27,999	–
Other	3,414	1,654
Total non-operating expenses	76,520	14,037
Ordinary profit	3,845,022	4,508,557
Extraordinary income		
Gain on sales of investment securities	24,860	–
Reversal of provision for loss on liquidation of subsidiaries and associates	6,334	–
Total extraordinary income	31,195	–
Extraordinary losses		
Loss on retirement of non-current assets	862	72
Provision of allowance for doubtful accounts for subsidiaries and associates	9,720	–
Loss on valuation of golf club membership	–	5,104
Loss on sales of golf club memberships	–	1,925
Loss on revision of retirement benefit plan	22,587	–
Other	1,084	–
Total extraordinary losses	34,255	7,102
Profit before income taxes	3,841,962	4,501,455
Income taxes	1,267,932	1,433,757
Profit	2,574,030	3,067,698
Profit attributable to non-controlling interests	16,036	–
Profit attributable to owners of parent	2,557,993	3,067,698

Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	2,574,030	3,067,698
Other comprehensive income		
Valuation difference on available-for-sale securities	358,186	197,445
Foreign currency translation adjustment	(7,670)	(9,533)
Remeasurements of defined benefit plans, net of tax	908	1,612
Total other comprehensive income	351,424	189,524
Comprehensive income	2,925,454	3,257,222
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,907,413	3,257,222
Comprehensive income attributable to non-controlling interests	18,040	—

(3) Consolidated statements of cash flows

(Thousand yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	3,841,962	4,501,455
Depreciation	197,101	196,762
Amortization of goodwill	113,782	65,484
Increase (decrease) in provision for bonuses	(313,937)	(250,787)
Increase (decrease) in provision for directors' bonuses	(31,384)	(38,410)
Increase (decrease) in provision for loss on order received	13,168	98,743
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	(6,334)	–
Increase (decrease) in provision for directors' retirement benefits	(8,398)	60
Increase (decrease) in net defined benefit liability	64,559	38,167
Decrease (increase) in notes and accounts receivable - trade	975,344	1,823,320
Decrease (increase) in inventories	(631,356)	(447,260)
Increase (decrease) in notes and accounts payable - trade	(893,162)	140,437
Other, net	(70,885)	(490,862)
Subtotal	3,250,459	5,637,110
Interest and dividend income received	34,946	40,426
Interest expenses paid	(28)	(20)
Income taxes paid	(1,486,156)	(1,770,993)
Net cash provided by (used in) operating activities	1,799,222	3,906,523
Cash flows from investing activities		
Purchase of property, plant and equipment	(168,487)	(47,775)
Purchase of intangible assets	(50,501)	(169,677)
Purchase of investment securities	(475,000)	(705,367)
Proceeds from sales of investment securities	44,404	–
Proceeds from redemption of investment securities	–	200,000
Payments into time deposits	(120,151)	(120,153)
Proceeds from withdrawal of time deposits	120,149	120,152
Purchase of shares of subsidiaries and associates	(18,177)	–
Other, net	5,164	(13,860)
Net cash provided by (used in) investing activities	(662,599)	(736,681)

(Thousand yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from financing activities		
Cash dividends paid	(1,031,530)	(1,052,969)
Dividends paid to non-controlling interests	(34,354)	(18)
Purchase of treasury shares	(604,102)	(602,479)
Purchase of treasury shares of subsidiaries	(477,045)	–
Other, net	49,998	–
Net cash provided by (used in) financing activities	(2,097,033)	(1,655,467)
Effect of exchange rate change on cash and cash equivalents	(8,591)	(9,043)
Net increase (decrease) in cash and cash equivalents	(969,002)	1,505,330
Cash and cash equivalents at beginning of period	30,459,352	32,454,447
Cash and cash equivalents at end of period	29,490,350	33,959,778

(4) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

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

No items to report.

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

(Calculation of taxes)

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

(Additional information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances)

The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter ended June 30, 2018. Accordingly, deferred tax assets, if any, are presented under "Investments and other assets" and deferred tax liabilities, if any, are presented under "Non-current liabilities."

(Significant subsequent events)

Absorption-type merger of a consolidated subsidiary

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

(1) Outline of transaction

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

Name: DATALINKS CORPORATION

Business: Services

2) Date of transaction

October 1, 2018

3) Legal form of the business combination

An absorption-type merger, in which the Company became the surviving company and DATALINKS CORPORATION became the absorbed company.

4) Name of company after transaction

DTS Corporation

5) Other items regarding outline of transaction

The Company executed the absorption-type merger with DATALINKS CORPORATION in which the Company became the surviving company for the purposes of expanding the operational synergies with the system solution service business and the BPO services business of DATALINKS CORPORATION and further promoting the efficient utilization of resources. The Company deemed that combining the businesses in this way was the best way to optimally utilize the management resources of both companies, improve management efficiency and speed up the decision-making processes.

(2) Outline of accounting procedures applied

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

3. Others

Production, orders and sales

(1) Production

Production in the six months under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	12,279,061	(9.6)
Corporate, Communications and Solutions	12,487,056	12.3
Operation BPO	6,556,251	8.8
Regional, Overseas, Etc.	10,247,596	1.5
Total	41,569,965	1.8

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 six months 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	8,503,328	(4.3)	10,090,226	6.5
Corporate, Communications and Solutions	12,543,359	21.6	6,787,365	13.9
Operation BPO	1,815,630	19.2	5,968,960	12.8
Regional, Overseas, Etc.	10,480,012	1.0	4,295,202	20.5
Total	33,342,331	7.2	27,141,754	11.7

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 six months under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Public Sector	12,279,061	(9.6)
Corporate, Communications and Solutions	12,487,056	12.3
Operation BPO	6,556,251	8.8
Regional, Overseas, Etc.	10,247,596	1.5
Total	41,569,965	1.8

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