



Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 [Japan GAAP]

May 9, 2019

Name of listed company: Digital Arts Inc. Listed on: Tokyo Stock Exchange 1st Section
 Securities code: 2326 URL <https://www.daj.jp/>
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 Director and General
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 Scheduled date to hold the ordinary general meeting of shareholders: June 24, 2019 Scheduled date to start dividends distribution: June 25, 2019
 Scheduled date for filing annual financial report: June 25, 2019
 Supplementary materials prepared : Yes
 Results information meeting held : Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the year ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(1) Consolidated operating results (Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2019	5,841	14.2	2,629	38.2	2,630	37.8	1,961	53.0
Year ended March 31, 2018	5,116	1.2	1,902	4.3	1,909	5.4	1,281	13.9

(Note) Comprehensive income: Year ended March 31, 2019: 1,977 million yen (55.1%) Year ended March 31, 2018: 1,275 million yen (13.1%)

	Profit per share (basic)	Profit per share (diluted)	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2019	141.11	140.80	28.1	29.6	45.0
Year ended March 31, 2018	92.46	92.13	22.5	24.9	37.2

Reference: Equity-method investment profit (loss): Year ended March 31, 2019: – million yen Year ended March 31, 2018: – million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net Assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2019	9,859	7,802	78.7	558.33
As of March 31, 2018	7,928	6,247	78.2	446.43

Reference: Equity capital: Year ended March 31, 2019: 7,761 million yen Year ended March 31, 2018: 6,198 million yen

(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
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2019	3,091	(908)	(429)	5,569
Year ended March 31, 2018	1,663	(774)	(293)	3,826

2. Dividends

	Annual dividends					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended March 31, 2018	—	14.00	—	14.00	28.00	388	30.3	6.8
Year ended March 31, 2019	—	18.00	—	30.00	48.00	667	34.0	9.6
Year ending March 31, 2020 (forecast)	—	25.00	—	25.00	50.00		30.5	

(Note) Revisions to most recently announced dividend forecast: No

3. Forecast of consolidated financial results for the year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period figures.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	3,100	12.2	1,340	29.3	1,340	28.8	924	(6.8)	66.52
Full year	6,800	16.4	3,300	25.5	3,300	25.4	2,277	16.1	163.83

* Notes

(1) Changes in subsidiaries during the fiscal year

(Changes in specified subsidiaries resulting in changes in scope of consolidation): None

New—(Company name) , Excluding—(Company name)

(2) Changes in accounting policies, changes of accounting estimates and restatement

- 1) Changes in accounting policies due to revisions of accounting standards, etc. : Yes
 2) Changes in accounting policies due to reasons other than those stated in 1) : None
 3) Changes in accounting estimates : None
 4) Restatement : None

(Note) For details, refer to *(Change in the Accounting Policy)* in (5) Notes to consolidated financial statements in 3. Consolidated financial statements and major notes on page 14 of the Attached Document.

(3) Number of shares outstanding (common stock)

- 1) Number of shares issued and outstanding (including treasury shares)
 2) Number of treasury shares
 3) Average number of shares issued and outstanding in each period

	Year ended March 31, 2019	14,133,000	Year ended March 31, 2018	14,133,000
1) Number of shares issued and outstanding (including treasury shares)	Year ended March 31, 2019	232,320	Year ended March 31, 2018	248,018
2) Number of treasury shares	Year ended March 31, 2019	13,898,934	Year ended March 31, 2018	13,864,531
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2019		Year ended March 31, 2018	

(Reference) Overview of the non-consolidated business results

1. Non-consolidated financial results for the year ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(1) Non-consolidated operating results (Percentage figures represent changes from previous year.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2019	5,752	14.0	2,774	32.9	2,777	32.4	1,784	107.4
Year ended March 31, 2018	5,046	(1.1)	2,087	1.0	2,097	2.0	860	(35.7)

	Profit per share	Diluted profit per share
	Yen	Yen
Year ended March 31, 2019	128.42	128.14
Year ended March 31, 2018	62.07	61.85

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2019	9,870	7,804	78.8	559.74
As of March 31, 2018	8,149	6,451	78.7	462.20

Reference: Equity capital: As of March 31, 2019: 7,780 million yen

As of March 31, 2018: 6,417 million yen

2. Forecast of non-consolidated financial results for the year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period figures.)

	Net sales		Ordinary profit		Profit		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	3,000	9.5	1,340	12.6	930	13.7	66.91
Full year	6,600	14.7	3,300	18.8	2,290	28.3	164.76

* Summaries of financial results are not subject to audit.

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

Business forecasts and other forward-looking statements in this material contain predictions based on future assumptions, outlooks and plans as of the date of publication of this material. The Company does not warrant the accomplishment of the forecasts. Actual results may differ significantly from the forecasts due to risks and uncertain factors associated with the world economy, the state of competition, and fluctuations in foreign exchange rates and interest rates.

For matters relevant to business forecasts, refer to *(4) Outlook* in *1. Overview of business results, etc.* on page 5 of the Attached Document.

(Obtaining the Supplementary Material for the Financial Results)

The material is available at Digital Arts Inc. corporate website.

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1. Overview of Business Results, Etc.

(1) Overview of business results in the fiscal year under review

During the consolidated fiscal year under review (April 1, 2018 – March 31, 2019), the Japanese economy saw a continued recovery in employment and corporate income amid the turnaround in consumer spending and capital investment. Meanwhile, the outlook for the world economy remains uncertain given concern about the intensifying trade war between the United States and China and about political management of the U.S. administration and mounting geopolitical risks.

In the security industry where the Digital Arts Group (hereinafter “the Group”) operates, demand is expanding amid successive cases of diversifying cyberattacks including ransomware. Apart from demand from large-sized organizations as conventionally main sources of demand, demand for the new introduction of security measures is growing from medium- and small-sized enterprises, which are comparatively lagging in such measures. Amid the spread of IoT, AI and other technologies and the implementation of the work style reform, security personnel need to address increasingly diversifying and sophisticating risks. Accordingly, demand for security services will continue to expand.

Under these circumstances, the Group’s domestic operations continuously endeavored to expand sales of i-FILTER Ver. 10 and m-FILTER Ver. 5 in the enterprise sector and public sector markets in a bid to offer solutions for a secure Internet environment to customers of all sizes. In addition, the Group launched a cloud service for i-FILTER and m-FILTER in May 2018 in light of a rapid shift to cloud-based web services and email environment. The Group will open a prospect of viewing webpages without anxiety and reading email messages without hesitation in the cloud environment. FinalCode added support for a browser view feature highly awaited by existing users and prospective customers. This feature enables outside users receiving encrypted files to view them without installing any client software. The Group will continue its efforts to enhance the features of the product for boosting its sales. In the consumer sector market, smartphones are increasingly used not only by senior high schoolers but by junior high schoolers or younger children. In view of that, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People was revised on February 1, 2018. This revision toughened enforcement of the introduction of filtering to young people, which had been compulsory before the revision. The Group continued to work with mobile network carriers and mobile virtual network operations (MVNOs) to further promote i-FILTER for smartphones.

Outside Japan, marketing operations have been limited to FinalCode. The Group carried out its reorganization in a bid to globally promote the Digital Arts brand in the future as it does in the Japanese market as a general security solution provider.

As a result of the above, consolidated net sales for the fiscal year under review stood at 5,841,287 thousand yen, up 14.2% year on year. In terms of profit, while the Group incurred costs from reorganization and other initiatives after a revision of its overseas strategy, the more focused application of management resources began to produce the effect of improving profitability in the third quarter. Operating profit rose 38.2% year on year to 2,629,092 thousand yen, ordinary profit climbed 37.8% to 2,630,963 thousand yen, and profit attributable to owners of parent surged 53.0% to 1,961,276 thousand yen.

The following describes business performance in separate markets.

Enterprise Sector Market

In this market, a mainstay product of m-FILTER attained healthy sales after steadily gaining renewals of contracts from the preceding consolidated fiscal year. FinalCode introduced the highly demanded Browser View feature. That gave impetus to the acquisition of deals after a temporary stagnation, and the Group made one of the largest deals ever. With regard to i-FILTER Ver. 10 and m-FILTER Ver. 5 as high-end models for which marketing activities were geared up earlier in the consolidated fiscal year under review, active promotion helped increase recognition of their product features and a certain quantity of new orders were received. More large-scale contracts, which have a greater contribution to sales, were won in the public sector market, but potential contracts also exist in the enterprise sector market. In the next fiscal year, the Group will strive to expand sales of new products in earnest, taking advantage of its experience in the public sector market.

Chiefly due to shortages in security personnel, the use of cloud services is increasing to reduce the burden of security. Sales of cloud service products account for increasing percentages of sales in the Company’s entire product lineup. Sales of licenses are posted when they are shipped, but sales of cloud service are posted monthly during the period when the service is provided. As a result, the balance of advances received expanded. The balance will be posted from the next consolidated fiscal year.

Net sales in this market reached 3,133,580 thousand yen, up 4.1% year on year.

Public Sector Market

In this market, the Company has earned high recognition and market share as a security provider with a focus on internal data leakage. Highly regarded for its track record and reliability, it bolstered its presence as a general security solution provider in the market earlier than in the enterprise sector market as i-FILTER Ver. 10 and m-FILTER Ver. 5, which provide advanced security measures, including those against targeted attacks, sold well. Similar to the enterprise sector market, the use of cloud services increased, and sales of cloud service products accounted for a larger percent. As a result, sales to be posted from the next consolidated fiscal year expanded.

As a consequence, net sales in this market stood at 2,191,579 thousand yen, up 26.5% year on year.

Consumer Sector Market

In this market, the Group focused its efforts on collaboration with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID. Advances in the introduction of filtering amid widespread use of smartphones among young people and strong direct sales of multi-year packages and i-FILTER for Multiple Devices, which can be used on several terminals, contributed to sales growth.

Net sales in this market amounted to 516,127 thousand yen, up 37.4% year on year.

(2) Overview of financial position for the fiscal year under review

(Assets)

Total assets at the end of the consolidated fiscal year under review increased 1,930,814 thousand yen from the end of the previous consolidated fiscal year to 9,859,347 thousand yen, chiefly reflecting a rise in cash and deposits due to cash provided in operating activities and increases in property, plant and equipment and intangible assets.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review rose 375,522 thousand yen from the end of the previous fiscal year to 2,056,452 thousand yen. This was due chiefly to a rise in advances received.

(Net assets)

Net assets at the end of the consolidated fiscal year under review climbed 1,555,292 thousand yen from the end of the previous consolidated fiscal year to 7,802,894 thousand yen. This was due mainly to an increase in retained earnings after posting of profit attributable to owners of parent, which more than offset a decrease due to the exercise of share acquisition rights.

(3) Overview of cash flows in the fiscal year under review

In the consolidated fiscal year under review, cash and cash equivalents increased 1,742,729 thousand yen from the end of the previous consolidated fiscal year to 5,569,172 thousand yen. Cash flows in each category are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities stood at 3,091,862 thousand yen (net cash provided of 1,663,158 thousand yen in the previous consolidated fiscal year), chiefly reflecting a profit before income taxes of 2,563,232 thousand yen and depreciation of 662,496 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities came to 908,784 thousand yen (net cash used of 774,868 thousand yen in the previous consolidated fiscal year) mainly due to the purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 429,712 thousand yen (net cash used of 293,407 thousand yen in the previous consolidated fiscal year) primarily due to dividends paid.

The table below shows trends of cash flow indicators.

	As of March 31, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2019
Equity ratio (%)	74.7	70.2	78.2	78.7
Equity ratio based on market value (%)	556.0	570.2	719.8	1,276.0
Interest coverage ratio (times)	124,308.7	—	—	—

1. The methods to calculate the indicators are as follows:

a) Equity ratio: Equity capital / Total assets

b) Equity ratio based on market value: Market capitalization / Total assets

(Market capitalization is calculated by multiplying the closing stock price at the end of the fiscal year by the number of issued shares (excluding treasury shares).)

c) Interest coverage ratio: Net cash from operating activities / Interest payment

2. Each indicator is calculated based on consolidated financial numbers.

3. Net cash is net cash provided by (used in) operating activities on the consolidated statement of cash flows. Interest payment is interest paid on the consolidated statement of cash flows.

(4) Outlook

The outlook for the next fiscal year (April 1, 2019 to March 31, 2020) is as follows:

In the security industry where the Group operates, the challenges that companies and other entities face are expanding worldwide, including the sophisticated and diversified threats of attacks targeting specific companies, organizations, and government institutions, and other attacks from the outside as well as shortages of security personnel. In this environment, the use of cloud services has expanded as users, who have difficulty with security operations, are outsourcing them and are striving to reduce the burden of security.

To provide solutions for customers regardless of their size to enjoy a secure Internet environment against this backdrop, the Group will continue to enhance i-FILTER Ver. 10 and m-FILTER Ver. 5 and add functions to them, thereby providing a more accurate security environment in the enterprise sector market and the public sector market. Meanwhile, the Group will increase the visibility of DigitalArts@Cloud, which was released in the previous fiscal year, and promote its sales to provide a cloud environment where webpages can be viewed without anxiety and emails can be read without hesitation. As for FinalCode, the Group will add functions that are highly awaited by existing users and prospective customers to expand the number of users and sales.

In the consumer sector market, as more and more young people are using smartphones, they are increasingly being affected by inappropriate Internet content chiefly via smartphone. Filtering needs to be promoted to protect young people. Under such circumstances, the Company will continue to help promote i-FILTER for smartphones through educational activities and collaborations with mobile network carriers.

Outside Japan, the Group will suspend its expansion policy, which had been implemented until the previous fiscal year, and will focus its resources on activities to boost its presence as a general security solution provider in the Japanese market. The Group will monitor the Company's presence in the domestic security market and trends in the global security market to decide on the timing of the start to accelerate overseas expansion again.

As the Group pursues those initiatives, it expects to post net sales of 6,800 million yen, an ordinary profit of 3,300 million yen, and a profit attributable to owners of parent of 2,277 million yen in the next consolidated fiscal year.

The Company has determined the results forecasts based on information available on the day of publication of these financial results for the fiscal year ended March 31, 2019. Actual results may be different from the forecasts due to a variety of factors. If there are any significant changes, the Company will disclose them appropriately.

Results forecasts for the next fiscal year (consolidated)

	Net sales	Ordinary profit	Profit attributable to owners of parent
	Million yen	Million yen	Million yen
Year ending March 31, 2020 (forecast)	6,800	3,300	2,277
Year ended March 31, 2019 (results)	5,841	2,630	1,961

Results forecasts for the next fiscal year (non-consolidated)

	Net sales	Ordinary profit	Profit
	Million yen	Million yen	Million yen
Year ending March 31, 2020 (forecast)	6,600	3,300	2,290
Year ended March 31, 2019 (results)	5,752	2,777	1,784

(Figures shown are rounded down to the nearest million yen.)

Note: The forecasts above are based on information available on the day of publication of these financial results for the fiscal year ended March 31, 2019. Actual results may be different from the forecasts due to a variety of factors.

2. Basic Approach to Selection of Accounting Standards

The Group will prepare consolidated financial statements based on the Japan GAAP for some time to come, considering a comparison with consolidated financial statements for the previous fiscal year and with financial statements of other companies.

The Group will make an appropriate decision about the application of the International Financial Reporting Standards (IFRS), considering circumstances in Japan and overseas.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated balance sheet

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	4,426,443	6,169,172
Notes and accounts receivable - trade	1,125,067	1,172,515
Securities	—	299,968
Finished goods	695	290
Other	155,443	87,863
Total current assets	5,707,649	7,729,809
Non-current assets		
Property, plant and equipment		
Buildings	130,140	205,990
Accumulated depreciation	(96,596)	(104,980)
Buildings, net	33,543	101,009
Vehicles	17,519	17,519
Accumulated depreciation	(4,718)	(9,816)
Vehicles, net	12,800	7,703
Tools, furniture and fixtures	361,367	416,174
Accumulated depreciation	(251,204)	(290,055)
Tools, furniture and fixtures, net	110,163	126,119
Land	—	26,254
Total property, plant and equipment	156,508	261,087
Intangible assets		
Software	971,257	1,044,163
Other	314,637	367,390
Total intangible assets	1,285,895	1,411,553
Investments and other assets		
Investment securities	403,347	103,002
Deferred tax assets	73,884	80,886
Shares of subsidiaries and associates	32,788	1,097
Other	268,459	271,910
Total investments and other assets	778,479	456,896
Total non-current assets	2,220,882	2,129,537
Total assets	7,928,532	9,859,347

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	22,106	22,744
Income taxes payable	305,391	330,672
Provision for bonuses	112,280	128,192
Advances received	917,210	1,225,258
Other	278,936	303,494
Total current liabilities	1,635,924	2,010,363
Non-current liabilities		
Asset retirement obligations	44,360	45,444
Other	645	645
Total non-current liabilities	45,005	46,089
Total liabilities	1,680,930	2,056,452
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	825,560	827,730
Retained earnings	4,991,931	6,518,256
Treasury shares	(327,671)	(306,939)
Total shareholders' equity	6,203,410	7,752,637
Accumulated other comprehensive income		
Foreign currency translation adjustment	(4,703)	8,499
Total accumulated other comprehensive income	(4,703)	8,499
Share acquisition rights	33,812	23,587
Non-controlling interests	15,082	18,169
Total net assets	6,247,602	7,802,894
Total liabilities and net assets	7,928,532	9,859,347

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

Consolidated statement of income

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Net sales	5,116,969	5,841,287
Cost of sales	1,075,437	1,059,444
Gross profit	4,041,531	4,781,842
Selling, general and administrative expenses	2,138,614	2,152,750
Operating profit	1,902,917	2,629,092
Non-operating income		
Interest income	1,071	1,079
Foreign exchange gains	3,503	—
Commission income	212	198
Gain on forfeiture of unclaimed dividends	945	1,168
Miscellaneous income	1,003	1,759
Total non-operating income	6,736	4,204
Non-operating expenses		
Foreign exchange losses	—	2,224
Miscellaneous loss	276	108
Total non-operating expenses	276	2,333
Ordinary profit	1,909,377	2,630,963
Extraordinary income		
Gain on reversal of share acquisition rights	3,193	2,135
Gain on sales of non-current assets	1,498	—
Gain on liquidation of subsidiaries	2,607	—
Total extraordinary income	7,299	2,135
Extraordinary losses		
Loss on retirement of non-current assets	10,204	4,374
Loss on valuation of golf club membership	—	2,200
Loss on liquidation of subsidiaries	—	56,135
Loss on valuation of shares of subsidiaries	—	7,156
Total extraordinary losses	10,204	69,866
Profit before income taxes	1,906,472	2,563,232
Income taxes - current	577,834	605,870
Income taxes - deferred	44,881	(7,001)
Total income taxes	622,715	598,869
Profit	1,283,756	1,964,363
Profit attributable to non-controlling interests	1,832	3,087
Profit attributable to owners of parent	1,281,924	1,961,276

Consolidated statement of comprehensive income

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Profit	1,283,756	1,964,363
Other comprehensive income		
Foreign currency translation adjustment	(8,534)	13,203
Total other comprehensive income	(8,534)	13,203
Comprehensive income	1,275,222	1,977,567
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,273,389	1,974,480
Comprehensive income attributable to non-controlling interests	1,832	3,087

(3) Consolidated statement of changes in equity

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	778,435	4,098,920	(410,665)	5,180,280	3,830	3,830	81,152	5,075	5,270,339
Changes in items during period										
Dividends of surplus			(387,675)		(387,675)					(387,675)
Change in ownership interest of parent due to transactions with non-controlling interests		(2,174)			(2,174)				8,174	6,000
Profit attributable to owners of parent			1,281,924		1,281,924					1,281,924
Change in scope of consolidation			(1,238)		(1,238)					(1,238)
Disposal of treasury shares		49,299		83,552	132,852					132,852
Purchase of treasury shares				(558)	(558)					(558)
Net changes in items other than shareholders' equity					—	(8,534)	(8,534)	(47,340)	1,832	(54,042)
Total changes in items during period	—	47,125	893,010	82,994	1,023,130	(8,534)	(8,534)	(47,340)	10,007	977,262
Balance at end of period	713,590	825,560	4,991,931	(327,671)	6,203,410	(4,703)	(4,703)	33,812	15,082	6,247,602

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

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	825,560	4,991,931	(327,671)	6,203,410	(4,703)	(4,703)	33,812	15,082	6,247,602
Changes in items during period										
Dividends of surplus			(444,592)		(444,592)					(444,592)
Change in ownership interest of parent due to transactions with non-controlling interests					—					—
Profit attributable to owners of parent			1,961,276		1,961,276					1,961,276
Change in scope of consolidation			9,641		9,641					9,641
Disposal of treasury shares		2,170		20,741	22,912					22,912
Purchase of treasury shares				(10)	(10)					(10)
Net changes in items other than shareholders' equity					—	13,203	13,203	(10,225)	3,087	6,065
Total changes in items during period	—	2,170	1,526,325	20,731	1,549,227	13,203	13,203	(10,225)	3,087	1,555,292
Balance at end of period	713,590	827,730	6,518,256	(306,939)	7,752,637	8,499	8,499	23,587	18,169	7,802,894

(4) Consolidated statement of cash flows

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Profit before income taxes	1,906,472	2,563,232
Depreciation	573,514	662,496
Loss on valuation of golf club membership	—	2,200
Increase (decrease) in provision for bonuses	(53,466)	15,911
Interest income	(1,071)	(1,079)
Foreign exchange losses (gains)	(5,387)	2,878
Interest expenses	77	—
Gain on reversal of share acquisition rights	(3,193)	(2,135)
Loss on valuation of shares of subsidiaries	—	7,156
Loss on retirement of non-current assets	10,204	4,374
Loss (gain) on sales of non-current assets	(1,498)	—
Decrease (increase) in trade receivables	80,820	298,266
Decrease (increase) in inventories	(166)	404
Increase (decrease) in trade payables	4,117	450
Increase (decrease) in accounts payable - other	(3,622)	(34,743)
Decrease (increase) in other current assets	(13,078)	85,102
Increase (decrease) in other current liabilities	(75,396)	45,582
Other	(23,051)	19,598
Subtotal	2,395,273	3,669,697
Interest and dividends received	1,389	1,390
Interest paid	(77)	—
Income taxes paid	(733,426)	(579,225)
Net cash provided by (used in) operating activities	1,663,158	3,091,862
Cash flows from investing activities		
Purchase of property, plant and equipment	(103,913)	(167,827)
Proceeds from sales of property, plant and equipment	7,660	—
Purchase of intangible assets	(671,817)	(741,907)
Other	(6,797)	950
Net cash provided by (used in) investing activities	(774,868)	(908,784)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	98,291	14,822
Purchase of treasury shares	(558)	(10)
Proceeds from issuance of share acquisition rights	1,413	—
Proceeds from share issuance to non-controlling shareholders	0	—
Dividends paid	(387,554)	(444,524)
Other payments	(4,999)	—
Net cash provided by (used in) financing activities	(293,407)	(429,712)
Effect of exchange rate change on cash and cash equivalents	(1,465)	(2,267)
Net increase (decrease) in cash and cash equivalents	593,417	1,751,098
Cash and cash equivalents at beginning of period	3,298,836	3,826,443
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(65,811)	(8,369)
Cash and cash equivalents at end of period	3,826,443	5,569,172

(5) Notes to consolidated financial statements

(Notes on the premise of a growing concern)

There are no applicable matters.

(Significant matters that serve as the basis for the preparation of consolidated financial statements)

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries

Digital Arts Consulting Inc.

Digital Arts America, Inc.

Digital Arts Asia Pacific Pte. Ltd.

Digital Arts Europe Ltd.

(Changes in scope of consolidation)

The liquidation of FinalCode, Inc. was completed in the consolidated fiscal year under review, and it has been excluded from the scope of consolidation.

Digital Arts America, Inc. has been included in the scope of consolidation in the consolidated fiscal year under review due to its increased importance.

(2) Names, etc. of non-consolidated subsidiaries

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiary is a small company. Its total assets, net sales, profit, retained earnings or other items do not have any significant effect on the consolidated financial statements.

2. Matters related to the application of the equity method

(1) Number of non-consolidated subsidiaries to which the equity method is applied: —

(2) Names, etc. of non-consolidated subsidiaries to which the equity method is not applied

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason why the equity method is not applied)

The non-consolidated subsidiary's effect on profit, retained earnings and other items is minor and insignificant. The non-consolidated subsidiary as a whole is not significant.

3. Fiscal years of consolidated subsidiaries

The fiscal year end of all consolidated subsidiaries is the same as the end of the consolidated fiscal year.

4. Matters related to accounting policies

(1) Valuation standards and valuation methods for significant assets

a. Securities

(a) Bonds held for maturity

The amortized cost method (interest method) is applied.

(b) Shares in subsidiaries

The moving average cost method is applied.

b. Inventories

(a) Finished goods

The gross average cost method is applied. (The balance sheet amount is calculated by the book value write-down method)

based on reduction in profitability.)

(2) Depreciation/amortization method for significant depreciable/amortizable assets

a. Property, plant and equipment

The declining balance method is applied.

The useful life and the residual value are calculated based on the same standards as those set out in the Corporation Tax Act.

The straight-line method is applied for facilities attached to buildings and structures acquired from April 1, 2016.

b. Intangible assets

The straight-line method is applied.

The straight-line method based on the availability period in the company (five years) is used for software in the company. For software for sale in the market, a method based on estimated sales quantities (or revenue) or the remaining lifetime (three years) is used.

c. Long-term prepaid expenses

The straight-line method is applied.

The amortization period is calculated based on the same standards as those set out in the Corporation Tax Act.

(3) Standards for recognition of significant allowances

a. Provision for bonuses

For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the consolidated fiscal year under review is posted.

(4) Standards for translating significant assets or liabilities that are in foreign currency into yen

Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the consolidated settling day, and translation adjustments are treated as a profit or loss. Assets and liabilities at overseas subsidiaries, etc. are translated into yen using the spot exchange rate on the consolidated settling day. Revenue and expense are translated into yen using the average rate during the period, and translation adjustments are included in the foreign currency translation adjustment in net assets.

(5) Scope of funds in the consolidated statement of cash flows

Funds in the consolidated statement of cash flows (cash and cash equivalents) consist of cash on hand, deposits that can be withdrawn as needed, and short-term investments that can be realized easily and only have insignificant value fluctuation risk and whose redemption date arrives within three months of the acquisition date.

(6) Other significant matters that serve as a basis for the preparation of consolidated financial statements

a. Treatment of consumption tax

Consumption tax and local consumption tax are excluded from accounting. Non-recoverable consumption tax and local consumption tax are treated as expenses in the consolidated fiscal year under review.

(Change in accounting policy)

Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018), etc. has been applied from April 1, 2018, and the accounting for transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions are subject to the Accounting Standard for Share-based Payment (ASBJ Statement No. 8; December 27, 2005), etc.

The application of PITF No. 36 is subject to the transitional treatment provided for in Paragraph 10 (3) of PITF No. 36, and the accounting before the application of PITF No. 36 is applied to transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of PITF No. 36.

(Consolidated balance sheet)

*1 The item related to non-consolidated subsidiaries is as follows.

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Shares of subsidiaries and associates	32,788thousand yen	1,097thousand yen

(Consolidated statement of income)

*1 The major items of selling, general and administrative expenses and the amounts are as follows.

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Advertising expenses	287,617thousand yen	290,527thousand yen
Salaries and allowances	657,248	626,386
Provision for bonuses	53,043	70,766
Commission expenses	111,194	108,709

*2 Total amount of research and development expenses included in general and administrative expenses

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
	15,210thousand yen	13,176thousand yen

*3 The details of gain on sales of non-current assets are as follows.

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Vehicles	1,498thousand yen	— thousand yen

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

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Buildings	5,738thousand yen	— thousand yen
Tools, furniture and fixtures	4,465	3,163
Software	—	1,211

(Consolidated statements of comprehensive income)

*1 Reclassification adjustment and tax effect related to other comprehensive income

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Foreign currency translation adjustment:		
Amount that occurred in the fiscal year under review	(8,534)thousand yen	2,214thousand yen
Reclassification adjustment	-	10,989
Before tax effect adjustment	(8,534)	13,203
Tax effect	-	-
Foreign currency translation adjustment	(8,534)	13,203
Total other comprehensive income	(8,534)	13,203

(Consolidated statement of changes in equity)

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

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

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	311,175	143	63,300	248,018
Total	311,175	143	63,300	248,018

(Note) An increase in the number of common shares in treasury shares, 143, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 63,300, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares underlying share acquisition rights				Amount at end of fiscal year under review (thousand yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	33,812
Total		—	—	—	—	—	33,812

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 23, 2017	Common shares	193,505	14	March 31, 2017	June 26, 2017
Board of Directors meeting on October 30, 2017	Common shares	194,169	14	September 30, 2017	December 4, 2017

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Total amount of dividends (thousand yen)	Financial source of dividends	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 22, 2018	Common shares	194,389	Retained earnings	14	March 31, 2018	June 25, 2018

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

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

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	248,018	2	15,700	232,320
Total	248,018	2	15,700	232,320

(Note) An increase in the number of common shares in treasury shares, 2, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 15,700, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares underlying share acquisition rights				Amount at end of fiscal year under review (thousand yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	23,587
Total		—	—	—	—	—	23,587

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 23, 2018	Common shares	194,389	14	March 31, 2018	June 25, 2018
Board of Directors meeting on October 30, 2018	Common shares	250,203	18	September 30, 2018	December 4, 2018

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Total amount of dividends (thousand yen)	Financial source of dividends	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 24, 2019	Common shares	417,020	Retained earnings	30	March 31, 2019	June 25, 2019

(Consolidated statement of cash flows)

*1 Cash and cash equivalents at the end of the fiscal year and their relationships with items in the consolidated balance sheets

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Cash and deposit account	4,426,443thousand yen	6,169,172thousand yen
Time deposits whose deposit period is more than three months	(600,000)	(600,000)
Securities	—	—
Cash and cash equivalents	3,826,443	5,569,172

(Lease transactions)

There are no applicable matters.

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policy on financial instruments

The Group's fund management is centered on short-term deposits. The Group also invests in government bonds, which are very safe and highly rated corporate and other bonds.

(2) Description of financial instruments and their risks

Notes and accounts receivable-trade, operating receivables, are exposed to customers' credit risk.

Securities and investment securities are short-term investments in investment trusts and public and corporate bonds and are exposed to the market price fluctuation risk.

(3) Risk management system related to financial instruments

(i) Credit risk (risk related to business connections' contract non-performance) management

The sales management section and administrative department of the Company regularly monitor the status of operating receivables at the main trading partners under the Company's credit management regulations and control the due dates and balances for individual partners. In this way, the Company strives to identify concerns over collections caused by deterioration in partners' financial situation early and mitigate them. The Company conducts similar credit management at consolidated subsidiaries under its credit management regulations.

As for short-term fund management, the Company only uses bank deposits and investments in highly rated funds to avoid as much credit risk as possible.

(ii) Market risk (interest-rate fluctuation risk, etc.) management

The Company determines its fund management portfolio while expecting its financing needs, and avoids market risk as much as possible.

(iii) Management of liquidity risk in financing (risk of failure to pay on due dates)

The Company manages liquidity risk chiefly by having the administrative department create financial plans in a timely manner.

(4) Additional information on matters related to the market prices of financial instruments, etc.

The market prices of financial instruments are based on market prices and rationally calculated prices if no market prices are available. The calculated prices include variable factors, which may change if different assumptions are used.

2. Matters related to the market prices of financial instruments, etc.

Consolidated balance sheet amounts, market prices and differences between them are as follows:

Fiscal 2018 (As of March 31, 2018)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	4,426,443	4,426,443	—
(2) Notes and accounts receivable - trade	1,125,067	1,125,067	—
(3) Securities and investment securities			
Bonds held to maturity	403,347	404,943	1,595
Total assets	5,954,858	5,956,453	1,595
(1) Income taxes payable	305,391	305,391	—
Total liabilities	305,391	305,391	—

Fiscal 2019 (As of March 31, 2019)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	6,169,172	6,169,172	—
(2) Notes and accounts receivable - trade	1,172,515	1,172,515	—
(3) Securities and investment securities			
Bonds held to maturity	402,971	404,079	1,107
Total assets	7,744,658	7,745,766	1,107
(1) Income taxes payable	330,672	330,672	—
Total liabilities	330,672	330,672	—

(Note) 1. Matters related to calculation methods for the market prices of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade

These are settled in the short term, and their market prices are close to their book values. Thus, their market prices are deemed to be their book values.

(3) Securities and investment securities

The market prices of public and corporate bonds are presented by financial institutions, etc. As for investment trusts, the market prices are similar to the book values, because their yields are similar to those of deposits and their investment results are distributed in the short term. Thus, their market prices are close to their book values and are deemed to be their book values.

For information on securities according to holding purposes, refer to the note on securities.

Liabilities

(1) Income taxes payable

They are settled in the short term, and their market prices are similar to their book values. Thus, the market prices are deemed to be their book values.

2. Monetary claims and securities with maturity periods to be redeemed after the consolidated closing date

Fiscal 2018 (As of March 31, 2018)

	Within a year (thousand yen)	More than a year, within five years (thousand yen)	More than five years, within 10 years (thousand yen)	More than 10 years (thousand yen)
Cash and deposits	4,426,443	—	—	—
Notes and accounts receivable - trade	1,125,067	—	—	—
Securities and investment securities				
Bonds held to maturity				
(1) Government bonds, local government bonds	—	300,000	—	—
(2) Corporate bonds	—	—	100,000	—
Total	5,551,510	300,000	100,000	—

Fiscal 2019 (As of March 31, 2019)

	Within a year (thousand yen)	More than a year, within five years (thousand yen)	More than five years, within 10 years (thousand yen)	More than 10 years (thousand yen)
Cash and deposits	6,169,172	—	—	—
Notes and accounts receivable - trade	1,172,515	—	—	—
Securities and investment securities				
Bonds held to maturity				
(1) Government bonds, local government bonds	300,000	—	—	—
(2) Corporate bonds	—	—	100,000	—
Total	7,641,687	—	100,000	—

(Securities)

Bonds held for maturity

Fiscal 2018 (As of March 31, 2018)

	Type	Consolidated balance sheet amount (thousand yen)	Market value (thousand yen)	Difference (thousand yen)
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	299,869	300,840	970
	(2) Corporate bonds	103,477	104,103	625
	(3) Other	—	—	—
	Subtotal	403,347	404,943	1,595
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		403,347	404,943	1,595

Fiscal 2019 (As of March 31, 2019)

	Type	Consolidated balance sheet amount (thousand yen)	Market value (thousand yen)	Difference (thousand yen)
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	299,968	300,180	211
	(2) Corporate bonds	103,002	103,899	896
	(3) Other	—	—	—
	Subtotal	402,971	404,079	1,107
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		402,971	404,079	1,107

(Derivatives transactions)

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

The Group did not conduct any derivatives transactions.

(Retirement benefits)

1. Outline of the retirement benefits system

The Company has a defined contribution pension plan.

2. Retirement benefit expenses

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

The amount that was required for contribution to the defined contribution pension plan was 17,511 thousand yen.

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

The amount that was required for contribution to the defined contribution pension plan was 19,928 thousand yen.

(Stock options)

1. Amount posted as profit due to the forfeiture of unexercised stock options

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Gain on reversal of share acquisition rights	3,193	2,135

2. Description of stock options, their scale and changes

(1) Description of stock options

	2009 stock options	2010 stock options
Company	Reporting company	Same as left
Classification and number of persons subject to grants	Three directors 90 employees One employee at a subsidiary	Three directors 80 employees
Stock options by class of shares (Note)	Common stock 99,700 shares	Common stock 99,300 shares
Grant date	June 12, 2009	June 8, 2010
Vesting conditions	Being an officer (an officer includes a company auditor) or an employee at the reporting company or a subsidiary or an associate of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or a subsidiary or an associate of the reporting company from the grant date (June 12, 2009) to the vesting date (May 30, 2011) The vesting dates are as follows: (i) May 30, 2011 for a third of the stock options (ii) May 30, 2012 for a third of the stock options (iii) May 30, 2013 for a third of the stock options	Being an officer (an officer includes a company auditor) or an employee at the reporting company or a subsidiary or an associate of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or a subsidiary or an associate of the reporting company from the grant date (June 8, 2010) to the vesting date (May 26, 2012) The vesting dates are as follows: (i) May 26, 2012 for a third of the stock options (ii) May 26, 2013 for a third of the stock options (iii) May 26, 2014 for a third of the stock options
Requisite service period	(i) May 30, 2009 to May 29, 2011 for a third of the stock options (ii) May 30, 2009 to May 29, 2012 for a third of the stock options (iii) May 30, 2009 to May 29, 2013 for a third of the stock options These periods correspond to (i), (ii), and (iii) of the vesting conditions.	(i) May 26, 2010 to May 25, 2012 for a third of the stock options (ii) May 26, 2010 to May 25, 2013 for a third of the stock options (iii) May 26, 2010 to May 25, 2014 for a third of the stock options These periods correspond to (i), (ii), and (iii) of the vesting conditions.
Exercise period	From the vesting date to June 24, 2018. The person needs to continue to be an officer (an officer includes a company auditor) or an employee of the Company or a subsidiary or an associate of the Company until the exercise of stock options.	From the vesting date to June 24, 2019. The person needs to continue to be an officer (an officer includes a company auditor) or an employee of the Company or a subsidiary or an associate of the Company until the exercise of stock options.

	2015 stock options	2016 stock options
Company	Reporting company	Same as left
Classification and number of persons subject to grants	Four directors 151 employees	Three directors 96 employees
Stock options by class of shares (Note)	Common stock 350,100 shares	Common stock 848,000 shares
Grant date	November 27, 2015	December 13, 2016
Vesting conditions	<p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (November 27, 2015) to the vesting date (July 1, 2017)</p> <p>Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ending March 31, 2017, the fiscal year ending March 31, 2018, or the fiscal year ending March 31, 2019.</p> <p>(i)If operating profit exceeds ¥1.5 billion, 20% of share acquisition rights can be exercised</p> <p>(ii)If operating profit exceeds ¥2.0 billion, 50% of share acquisition rights can be exercised</p> <p>(iii)If operating profit exceeds ¥2.5 billion, 100% of share acquisition rights can be exercised</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p>	<p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (December 13, 2016) to the vesting date (July 1, 2018)</p> <p>Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ending March 31, 2018, the fiscal year ending March 31, 2019, or the fiscal year ending March 31, 2020.</p> <p>(i)If operating profit exceeds ¥2.0 billion, 20% of share acquisition rights can be exercised</p> <p>(ii)If operating profit exceeds ¥2.5 billion, 50% of share acquisition rights can be exercised</p> <p>(iii)If operating profit exceeds ¥2.8 billion, 100% of share acquisition rights can be exercised</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p>
Requisite service period	No requisite service periods are determined.	No requisite service periods are determined.
Exercise period	From the vesting date to May 31, 2027. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.	From the vesting date to May 31, 2028. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.

	2018 stock options
Company	Reporting company
Classification and number of persons subject to grants	Three directors 151 employees
Stock options by class of shares (Note)	Common stock 1,413,300 shares
Grant date	March 5, 2018
Vesting conditions	Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (March 5, 2018) to the vesting date (July 1, 2021) Each holder of share acquisition rights can exercise the share acquisition rights allocated to them only if operating profit exceeds ¥4.0 billion in the fiscal year ending March 31, 2021. To determine whether the condition above is met, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.
Requisite service period	No requisite service periods are determined.
Exercise period	From the vesting date to May 31, 2028. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.

(Note) The Company conducted a 100-for-1 common stock split on April 1, 2013. In the description above, the number of shares has been converted to the number of shares after the stock split.

(2) Scale of stock options and related changes

The stock options below are those that existed in the fiscal year under review (fiscal year ended March 31, 2019). The number of stock options has been converted to the number of shares.

(i) Number of stock options

	2009 stock options	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Before vesting (shares)					
As of March 31, 2018	—	—	235,500	820,200	1,413,300
Granted	—	—	—	—	—
Forfeited	—	—	17,500	44,800	119,300
Vested	—	—	—	—	—
Yet to be vested	—	—	218,000	775,400	1,294,000
After vesting (shares)					
As of March 31, 2018	15,200	8,200	34,400	—	—
Vested	—	—	—	—	—
Exercised	13,700	—	2,000	—	—
Forfeited	1,500	100	—	—	—
Yet to be exercised	—	8,100	32,400	—	—

(Note) The Company conducted a 100-for-1 stock split on April 1, 2013. The number of stock options is the number after the stock split.

(ii) Unit price information

	2009 stock options	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Exercise price (yen)	785	593	2,034	2,639	3,400
Average stock price when exercised (yen)	4,460	—	5,676	—	—
Fair unit value (grant date) (yen)	(i) 572 yen (ii) 586 yen (iii) 599 yen (Note) 1	(i) 375 yen (ii) 386 yen (iii) 396 yen (Note) 1	2 yen	24 yen	1 yen

(Note) 1. The vesting conditions and requisite service period for each fiscal year in (1) Description of stock options in the Description of stock options, their scale and changes correspond to (i), (ii) and (iii) above.

2. The Company conducted a 100-for-1 stock split on April 1, 2013. The numbers in the unit price information are those after the stock split.

3. Method for estimating the number of stock options vested

It is basically difficult to reasonably estimate the number of stock options to be forfeited, and only the actual number of stock options forfeited is reflected.

(Asset retirement obligations)

Asset retirement obligations posted in the consolidated balance sheets

a. Outline of the asset retirement obligations

Obligations of restoration related to lease agreements at the head office and other offices

b. Method for calculation of the asset retirement obligations

The period of use is estimated to be eight to 15 years from the acquisition. The discount rate is 0.12% to 1.73%. The amount of asset retirement obligations is calculated based on those assumptions.

c. Increase/decrease in the asset retirement obligations

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Balance at beginning of fiscal year	43,937thousand yen	44,360thousand yen
Increase due to purchase of property, plant and equipment	—	655
Adjustment due to passage of time	422	428
Balance at end of fiscal year	44,360	45,444

(Segment information, etc.)

Segment information

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

The Group has only one segment, which is the security business, and segment information is omitted.

Related information

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

1. Information by product/service

The Group has only one product and service classification, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statements of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Thousand yen)

Customer name	Net sales
SoftBank Commerce & Service Corp.	1,037,408
Daiwabo Information System Co., Ltd.	976,669

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

1. Information by product/service

The Group has only one product and service classification, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statements of income, and information by

region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Thousand yen)

Customer name	Net sales
SB C&S Corp.	1,247,566
Daiwabo Information System Co., Ltd.	1,160,228

(Note) The name of SoftBank Commerce & Service Corp. changed to SB C&S Corp. on January 1, 2019.

Information on impairment loss in non-current assets by reporting segment

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (April 1, 2018 to March 31, 2019)

There are no applicable matters.

Information on amortization of goodwill and unamortized balance by reporting segment

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (April 1, 2018 to March 31, 2019)

There are no applicable matters.

Information on gain on bargain purchase by reporting segment

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (April 1, 2018 to March 31, 2019)

There are no applicable matters.

(Related party information)

Transactions with related parties

Transactions between the company submitting consolidated financial statements and related parties

Officers and major individual shareholders of the company submitting consolidated financial statements

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

Type	Company name or name	Address	Capital or investment (thousand yen)	Business or occupation	Holding (held) rate of voting rights (%)	Relationship with related party	Transaction	Amount of transaction (thousand yen)	Item	Balance at end of fiscal year (thousand yen)
Officer	Toshio Dogu	—	—	Representative Director of the Company	(Held) Direct 17.9%	Exercise of stock options	Exercise of stock options	28,443	—	—

(Note) 1. The exercise of share acquisition rights issued by resolution at the annual shareholders' meeting held on June 21, 2007, in the fiscal year under review is described above. The amount of transaction is the number of shares granted as a result of the exercise of stock options in the fiscal year under review multiplied by the amount paid per share.

(Note) 2. The holding (held) rate of voting rights is calculated based on the number of issued shares less the number of treasury shares.

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

There are no applicable matters.

(Per share information)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Net assets per share	446.43 yen	558.33 yen
Profit per share	92.46 yen	141.11 yen
Diluted profit per share	92.13 yen	140.80 yen

(Note) Base for calculating profit per share and diluted profit per share

Item	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Profit per share		
Profit attributable to owners of parent (thousand yen)	1,281,924	1,961,276
Amount not attributable to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent related to common shareholders (thousand yen)	1,281,924	1,961,276
Average number of common shares during the term	13,864,531	13,898,934
Diluted profit per share		
Adjustment of profit attributable to owners of parent (thousand yen)	—	—
Increase in the number of common shares	49,616	30,455
(Of the increase, the number of share acquisition rights (shares))	49,616	30,455
Outline of potential shares that are not included in the calculation of the diluted profit per share because they do not have any diluting effects	Share acquisition rights Resolution on November 12, 2015 Number of potential shares: 235,500 Resolution on November 10, 2016 Number of potential shares: 820,200 Resolution on February 16, 2018 Number of potential shares: 1,413,300	Share acquisition rights Resolution on November 12, 2015 Number of potential shares: 218,000 Resolution on November 10, 2016 Number of potential shares: 775,400 Resolution on February 16, 2018 Number of potential shares: 1,294,000

(Significant subsequent events)

There are no applicable matters.

4. Non-consolidated Financial Statements and Major Notes

(1) Balance sheet

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	4,191,007	5,982,081
Notes and accounts receivable - trade	1,241,893	1,143,621
Securities	—	299,968
Finished goods	695	290
Advance payments - trade	24,718	807
Prepaid expenses	88,459	65,278
Other	89,948	20,523
Total current assets	5,636,722	7,512,572
Non-current assets		
Property, plant and equipment		
Buildings	33,543	101,009
Vehicles	12,800	7,703
Tools, furniture and fixtures	106,265	124,985
Land	—	26,254
Total property, plant and equipment	152,609	259,953
Intangible assets		
Software	736,951	1,043,645
Software in progress	282,373	367,199
Telephone subscription right	190	190
Other	23,671	15
Total intangible assets	1,043,186	1,411,051
Investments and other assets		
Investment securities	403,347	103,002
Shares of subsidiaries and associates	291,081	168,585
Investments in capital	10	10
Long-term prepaid expenses	26,050	28,890
Leasehold and guarantee deposits	181,212	182,990
Deferred tax assets	354,960	145,913
Other	60,576	57,426
Total investments and other assets	1,317,238	686,818
Total non-current assets	2,513,034	2,357,823
Total assets	8,149,757	9,870,395

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	115,570	19,236
Accounts payable - other	112,754	151,964
Accrued expenses	55,736	52,604
Income taxes payable	290,757	329,703
Accrued consumption taxes	37,402	99,125
Advances received	906,313	1,215,782
Deposits received	22,464	23,273
Provision for bonuses	112,280	128,192
Total current liabilities	1,653,279	2,019,882
Non-current liabilities		
Asset retirement obligations	44,360	45,444
Other	645	645
Total non-current liabilities	45,005	46,089
Total liabilities	1,698,284	2,065,972
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus		
Legal capital surplus	700,222	700,222
Other capital surplus	127,511	129,682
Total capital surplus	827,734	829,905
Retained earnings		
Other retained earnings		
Retained earnings brought forward	5,204,006	6,544,279
Total retained earnings	5,204,006	6,544,279
Treasury shares	(327,671)	(306,939)
Total shareholders' equity	6,417,660	7,780,835
Share acquisition rights	33,812	23,587
Total net assets	6,451,473	7,804,423
Total liabilities and net assets	8,149,757	9,870,395

(2) Statement of income

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Net sales	5,046,537	5,752,991
Cost of sales		
Beginning finished goods inventory	528	695
Cost of Internet service	1,060,531	1,028,520
Total	1,061,060	1,029,215
Transfer to other account	35	14
Ending finished goods inventory	695	290
Cost of finished goods sold	1,060,330	1,028,910
Gross profit	3,986,207	4,724,081
Selling, general and administrative expenses	1,898,597	1,949,449
Operating profit	2,087,609	2,774,631
Non-operating income		
Interest income	176	182
Interest on securities	894	896
Commission income	2,612	2,598
Foreign exchange gains	5,345	—
Gain on forfeiture of unclaimed dividends	945	1,168
Miscellaneous income	322	834
Total non-operating income	10,297	5,678
Non-operating expenses		
Foreign exchange losses	—	2,878
Total non-operating expenses	—	2,878
Ordinary profit	2,097,906	2,777,431
Extraordinary income		
Gain on sales of non-current assets	1,498	—
Gain on reversal of share acquisition rights	3,193	2,135
Gain on liquidation of subsidiaries	2,607	—
Distribution from the liquidation of subsidiaries	—	37,257
Total extraordinary income	7,299	39,393
Extraordinary losses		
Loss on retirement of non-current assets	10,204	4,374
Loss on valuation of golf club membership	—	2,200
Loss on valuation of shares of subsidiaries	916,198	219,860
Total extraordinary losses	926,403	226,434
Profit before income taxes	1,178,802	2,590,390
Income taxes – current	562,761	596,476
Income taxes – deferred	(244,570)	209,047
Total income taxes	318,190	805,523
Profit	860,611	1,784,866

Detailed statement of cost of Internet service

Classification	Note number	Fiscal 2018 (from April 1, 2017 to March 31, 2018)		Fiscal 2019 (from April 1, 2018 to March 31, 2019)	
		Amount (thousand yen)	Composition rate (%)	Amount (thousand yen)	Composition rate (%)
I Material cost		167,246	10.6	179,986	10.6
II Labor cost	*1	673,889	42.7	668,153	39.4
III Expenses	*2	738,164	46.7	848,375	50.0
Total expenses		1,579,300	100.0	1,696,515	100.0
Transfer to other account	*3	518,768		667,995	
Cost of Internet service		1,060,531		1,028,520	

(Notes)

Fiscal 2018 (from April 1, 2017 to March 31, 2018)		Fiscal 2019 (from April 1, 2018 to March 31, 2019)	
*1 Major items in labor cost		*1 Major items in labor cost	
Salaries and allowances	436,416 thousand yen	Salaries and allowances	425,274 thousand yen
Legal welfare expenses	83,748 thousand yen	Legal welfare expenses	88,208 thousand yen
Bonuses	58,635 thousand yen	Bonuses	57,372 thousand yen
Provision for bonuses	43,088 thousand yen	Provision for bonuses	57,425 thousand yen
Other salaries	46,772 thousand yen	Other salaries	33,372 thousand yen
*2 Major items in expenses		*2 Major items in expenses	
Outsourcing expenses	113,130 thousand yen	Outsourcing expenses	100,459 thousand yen
Depreciation	381,528 thousand yen	Depreciation	484,645 thousand yen
Rent expenses	98,510 thousand yen	Rent expenses	93,946 thousand yen
*3 Major items in transfer to other account		*3 Major items in transfer to other account	
Selling, general and administrative expenses	40,049 thousand yen	Selling, general and administrative expenses	34,115 thousand yen
Non-current assets	478,718 thousand yen	Non-current assets	633,880 thousand yen
Total	518,768 thousand yen	Total	667,995 thousand yen
4 Costing method		4 Costing method	
The job order cost system based on actual costs is employed for the Company's costing.		Same as left	

(3) Statement of changes in equity

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

(Thousand yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings				
Balance at beginning of period	713,590	700,222	78,212	778,435	4,731,069	4,731,069	(410,665)	5,812,429	70,154	5,882,583
Changes in items during period										
Dividends of surplus					(387,675)	(387,675)		(387,675)		(387,675)
Profit					860,611	860,611		860,611		860,611
Disposal of treasury shares			49,299	49,299			83,552	132,852		132,852
Purchase of treasury shares							(558)	(558)		(558)
Net changes in items other than shareholders' equity									(36,341)	(36,341)
Total changes in items during period	—	—	49,299	49,299	472,936	472,936	82,994	605,230	(36,341)	568,889
Balance at end of period	713,590	700,222	127,511	827,734	5,204,006	5,204,006	(327,671)	6,417,660	33,812	6,451,473

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

(Thousand yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings				
Balance at beginning of period	713,590	700,222	127,511	827,734	5,204,006	5,204,006	(327,671)	6,417,660	33,812	6,451,473
Changes in items during period										
Dividends of surplus					(444,592)	(444,592)		(444,592)		(444,592)
Profit					1,784,866	1,784,866		1,784,866		1,784,866
Disposal of treasury shares			2,170	2,170			20,741	22,912		22,912
Purchase of treasury shares							(10)	(10)		(10)
Net changes in items other than shareholders' equity									(10,225)	(10,225)
Total changes in items during period	—	—	2,170	2,170	1,340,273	1,340,273	20,731	1,363,175	(10,225)	1,352,950
Balance at end of period	713,590	700,222	129,682	829,905	6,544,279	6,544,279	(306,939)	7,780,835	23,587	7,804,423

(4) Notes to non-consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters.

5. Other

There are no applicable matters.