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2015 Annual Report
April.01.2015 - March.31.2016

TSE-1st/Code:2326

Contributing to a more convenient, comfortable and safe internet life

Internet is an integral part of today's social infrastructure

That supports and sustains our everyday lives.

Then the question is:

“Who looks after internet moral and cyber safety?”

In the modern world where every aspect of our lives are connected to the internet,

Maintaining internet safety is essentially equivalent to protecting the society.

As an information security company,

Digital Arts Group and its employees come together to look after

The safety and wellbeing of internet users on every level.

To Our Shareholders

I would like to extend my sincere gratitude for your continued support and understanding.

It is my pleasure to present you with our FY3/16 (April 1 2015 through March 31 2016) consolidated results.

Since the foundation of Digital Arts, we have continually addressed security measures to prevent internal leaks of confidential information, and today, our mainstay solutions respond to risks in the three core areas of IT usage—web (browse), emails (send/receive/store), and files (create/store/share outside the organization).

FY3/16 was a year that showed a strong interest in the value of reliable information security. While diverse and complicated threats, including viruses, unauthorized server access, and leaking information from within, encompass corporations and organizations, we also saw a wider use of cloud and mobile and the need to comply with various security law and regulations. Domestically, in addition to conventional information security products designed to block targeted attacks from third parties, expectations centered on solutions to prevent internal leaks of confidential information, which led to the Group reporting FY3/16 consolidated results with an all-time high sales and profits.

For FY3/17, our focus is to drive higher order from large companies. We have launched a new initiative to offer professional consulting services and will continue to support local municipalities in complying with a policy for strengthening local government security issued by the Ministry of Internal Affairs and Communications.

Overseas business went into full-fledged operations in FY3/16 and achieved positive results notably in marketing and branding by the US-based subsidiary FinalCode, Inc. Furthermore, we completed organization building for FinalCode Asia Pacific Pte. Ltd. and FinalCode Europe Limited. With this, we are ready to extend our professional sales and support services on a global level.

Our Group will continue its advancement as a software maker by contributing to meet global information security needs and creating a more secure future for the information society.

As we work to achieve these goals, we would very much appreciate your continued support and encouragement.

Toshio Dogu

Chief Executive Officer
Digital Arts Inc.



“Digital Arts continues to develop exceptional products and strengthen alliance with solution providers to bring a more comprehensive range of security solutions”

“Aim for higher orders from large companies by leveraging professional consulting service, branding on a global scale, and qualified sales and support”

Question — FY3/16 Domestic Operations

Answer — FY3/16 showed a strong interest in advanced information security measures. Amid diverse threats encompassing corporations and organizations, expansion in mobile and cloud usage, and the need to comply with security regulations, expectations centered on the Group’s core business-- security measures to prevent internal leaks of confidential information. Our mainstay i-FILTER expanded 17.6% and FinalCode posted upbeat domestic sales, resulting in a consolidated net sales of ¥4,000,620 thousand (117.6% YoY). Web security product i-FILTER increased new accounts with a collaborative option with FireEye for instantaneous protection against targeted attacks. This option was installed by large companies seeking effective protection against multi-faceted and high-level risks. There was a growing demand for FinalCode, the ultimate file encryption and tracking solution, due to a series cyber incidents, such as targeted attacks and intentional information leaks from within. As FinalCode orders



concentrate in 3Q and 4Q, orders recorded in FY3/16 was ¥110 million, however order volumes reached ¥17 million. This was a significant breakthrough compared to previous years.

Question — FY3/16 Overseas Operations

Answer — Overseas operations fell slightly short of period-start guidance, however on the bright side, the Group successfully obtained its first overseas orders in FY3/16. In the end, it acquired 14 contracts (five local firms and nine Japanese-affiliated firms). While sales volume for each deal is still small, some show potential to develop into full-scale deployment. Furthermore, the Group made notable progress in marketing activities. US-based FinalCode, Inc. moved up to no.46 on the Cybersecurity 500 ranking of the hottest and most innovative cybersecurity companies for 2016 (published by Cybersecurity Ventures). In addition, FinalCode, Inc. received prestigious awards that helped to raise its presence in the global market, leading to an even solid foundation for sales and marketing operations going forward.

Question — FY3/16 Investments

Answer — Major development activity from the preceding fiscal year came full circle, which accounted for a drop in cost of sales. COGS and SG&A increased approximately ¥500 million owing to strategic upfront investments for overseas business (approximately ¥300 million), personnel additions in Japan, and expenses related to distributor events and other initiatives. However, upbeat in domestic sales (¥597 million increase YoY) absorbed these costs to record an operating income of ¥1,006,925 thousand, a ¥141 million (116.4%) increase from the preceding period.

Question — FY3/17 Domestic Operations

Answer — The Group will continue to recruit new large corporate clients in the Enterprise and Public segments. In addition to collaborative solutions with FireEye, which contributed greatly to FY3/16 figures, the Group introduced a new consulting service. Major corporate customers seek dedicated and professional consulting service in order to accept and deploy solutions on a global scale. Digital Arts Consulting Inc. was established to address such group-wide needs where their value-added guidance and proposals will contribute to accelerated business with large entities. In the Public segment, a policy for strengthening local government security issued by the Ministry of Internal Affairs and Communications initiated a movement to strengthen security in the municipalities. The Group will meet their security needs through joint sales activities with various solution partners. In the Consumer segment, the Group continues to expand “i-FILTER for Smartphones” through collaboration with mobile carriers and other business partners.

Question — FY3/17 Forecast and Dividends Policy

Answer — The Group guides for net sales at ¥4,600 million, operating income at ¥1,400 million, and net income attributable to owners of parent at ¥870 million in FY3/17. The Group recognizes the return of profits to shareholders as one of the most important management tasks. While the Group retains an appropriate amount of internal reserves to invest in business areas with potential for future

Question — FY3/17 Overseas Operations

Answer — The global information security market is said to be ten times the size of that of Japan and in order to seize this market, the Group will continue to enhance operations to deliver qualified sales and support services on a global scale. US-based FinalCode, Inc. takes initiative to further drive digital marketing and distributor recruitment in North American to build up local deals via partner cultivation. New sales networks are being established in Singapore, Australia and New Zealand via recruiting partners. European corporations and organizations are now required to tighten control on material information in light of reinforced personal information protection within EU. There is expected to be an increase in demand for advanced security measures in this market, therefore personnel hiring and organization building is one of the Group’s top priority tasks.



Major deals via collaborative solutions with third-parties Significant growth in i-FILTER BROWSER & CLOUD and FinalCode

Market Summary
ENTERPRISE
&
PUBLIC

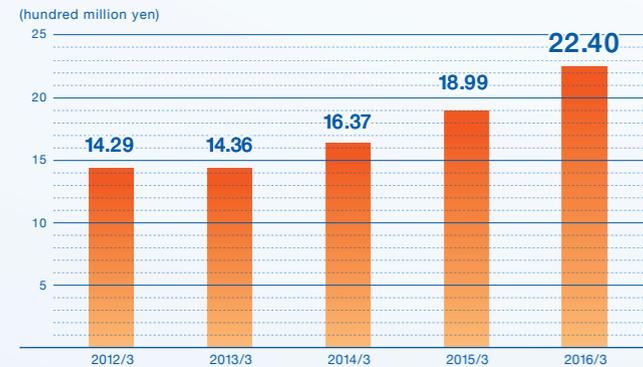
Enterprise

Net sales to the corporate market grew 17.9% YoY to ¥2,240,089 thousand. The Group steadily expanded business with its main offerings i-FILTER, m-FILTER, and FinalCode. As corporate earnings recovered and large enterprises began investing heavily on information security, i-FILTER / m-FILTER alliances with other solutions captured the needs to combat diverse and advanced risks. This led to acquiring major new deals. In addition, i-FILTER Browser & Cloud was installed by financial institutions and FinalCode was deployed by businesses taking quick action on security measures amid a series of frequent security incidents. As a result, net sales for these two products saw a sharp increase.

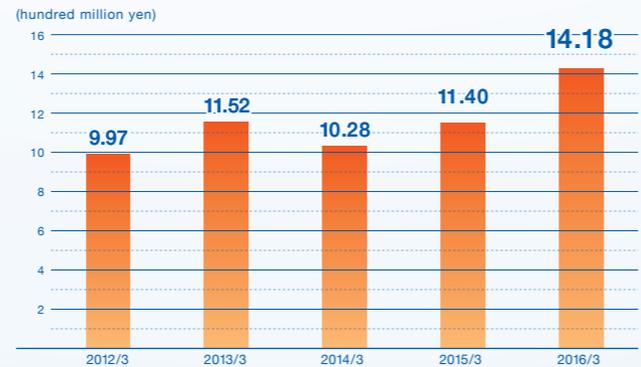
Public

Net sales to the public-sector increased 24.4% YoY to ¥1,418,060 thousand with mainstay i-FILTER and FinalCode exhibiting healthy gains. Similar to the Enterprise market, acquisition of major new deals materialized thanks to the collaborative effect of i-FILTER with other solutions. i-FILTER Browser & Cloud was installed widely by schools and education boards in response to a drive for ICT education, the use of tablet devices in the classrooms. Under the pressing need to combat targeted attacks and data disclosure from within, i-FILTER Browser & Cloud was also installed widely by local municipalities, which contributed to push up sales significantly.

Enterprise Net Sales FY2015 ¥2,240 million



Public Net Sales FY2015 ¥1,418 million



Topic

FinalCode initiates collaborative option with Box, a global cloud service platform

The ultimate file encryption and tracking solution, FinalCode, is now available on Box, a cloud file sharing and collaboration platform. FinalCode for Box ensures persistent file access, usage control directly invoked within the Box interface. Users can confidently share files with

FinalCode's strong file encryption, dynamic permission setting and lifecycle activity tracking even after the files leave the Box container.



Topic

i-FILTER Ver.9.3 released with options to connect to SIEM software, NICT database and education assistance features

Designed for corporations and the public-sectors striving to prevent data leakage and strengthen internal control, the latest i-FILTER Ver.9.3 comes with enhanced features that highlight three key elements of information security: detect, defend, and

educate. This version supports various SIEM products, such as Splunk, in response to increasing client demands to deploy SIEM software for persistent correlation analysis of system logs and real-time anomaly detection alerts.

Enterprise & Public: Net Sales by Product



Asia Pacific and Europe enhance operations to deliver optimal solutions for global corporations

Topic

Digital Arts expands to Asia Pacific and Europe Established sales/support operations to better serve leading global companies

Digital Arts established subsidiaries in Asia Pacific and Europe for the purpose of enhancing operations for overseas sales and support.

The Group has had a strong client base with small-to-medium domestic businesses and has continuously maintained a large share in the domestic market.

Considerable enhancements to its products in recent years made it possible to offer more advanced provisions against information leak demanded by large companies, which led to a prominent movement for major corporations to consider the Group's solutions as a choice to be installed as a global tool. Alternatively, establishing sound operations for overseas sales and support is a top priority task in order for clients to feel confident when installing the Group's products.

To accommodate these needs, the Group established FinalCode Asia Pacific Pte. Ltd. and conducted operational building for FinalCode Europe Limited. It will initially focus its efforts on North America, Europe and Asia Pacific, then gradually broaden the business to regions with high demand for its ultimate goal is deliver superior "Made-in-Japan" quality and refined support on a global level.

Digital Arts will continue to offer products and services to global corporations and public-sectors in the regions operated by our international group offices in realizing the corporate vision to make a "Made-in-Japan solution a global standard".



i-FILTER for MULTI-DEVICE maintained strong sales Digital Arts among the first to serve growing MVNO vendors

Market Summary
CONSUMER

Net sales to consumers totaled ¥342,470M (94.4% YoY). i-FILTER for Smartphone recruited and expanded partnership opportunities, however resulted in a decrease in revenues mainly on a steep decline in domestic PC shipment volume and termination of alliances with several ISPs. On an overall basis, the consumers segment held firm due to upbeat sales of i-FILTER for Multi-Device that can filter up to three devices on multiple OS (Windows® OS, iOS, Android™) with a single serial ID. This was an effective solution to reduce stress in managing filter settings across multiple devices. Moreover, sales also increased at a robust pace thanks to a healthy build-up of sales for a portable game player launched in the preceding fiscal year.

Consumer Net Sales FY2015 ¥342 million



Topic

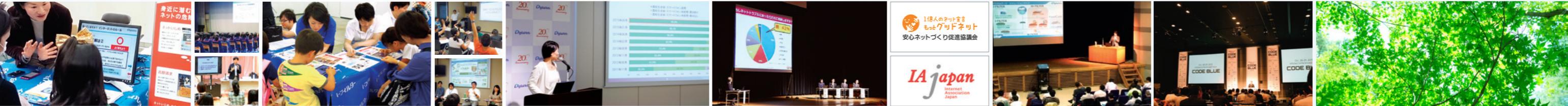
i-FILTER for MULTI-DEVICE for MVNO Vendors

In light of smartphones being widely used by minors and that these devices are available to children at a younger age, the Telecom Services Association MVNO Committee, where ICT companies are a member, issued a "policy to equip filtering services to MVNOs used by minors" in March 2016. As general mobile carriers selling smartphones and feature phones over the counter already follow this procedure, MVNO businesses are now

also advised to confirm if the user is a minor, offer explanations on filtering service, and confirm with a parent to remove filtering service, if necessary. i-FILTER for Consumers is certified as one of the most effective filtering service for mobile device. Digital Arts Group continues to promote the importance of filtering solutions for minors and raise awareness of i-FILTER to create a society where people can feel safe to connect to the internet.

“Delivering Value in the Connectivity Era”

Whether it be business confidence, the right school education, or a smile on a child's face,
The role we play sees no end in an era where internet is an integral part of our lives.
Digital Arts realizes a convenient, comfortable and safe internet experience
For peace of mind in a society connected to the world.



Promoting Public Awareness

Fostering a safe and secure internet environment and smartphone usage is one of our core missions. Digital Arts delivers lectures and presentations on these topics that are tailored to the audience, such as parents, educators, and students.

- Deliver off-site lectures on information literacy for teachers, parents and children (110 visits in FY15)
- Distribute free materials on cyber/information security
- Issue e-newsletters on the latest in information security

Educating The Future Generation

It is important to be equipped with information literacy early on to make the best use of the internet and develop a great career. Digital Arts offers various learning opportunities to adequately prepare our young leaders of the next generation.

- Contribute to various events e.g. Workshop Collection and Manabi Festival.
- Conduct house tours for visiting schools (8 schools in FY15)

Conducting Research and Surveys

How do young people actually use internet and smartphones? Do we see a change in corporate awareness levels on information security? Digital Arts conducts regular research to advocate common issues that encompasses the internet society.

- Study how minors actually use the internet and smartphones
- Survey corporations on their awareness and measures taken towards information security issues

Collaborating with Government Agencies & Ministries

Change for a safer internet society. Teaming with government agencies and ministries makes this possible. Digital Arts is an active member of various working groups to promote information security in corporations and the public-sector.

- Participate in Tokyo Campaign to Set Internet Rules for Children (Tokyo Metropolitan Government)
- Support Educating Information Morale for Children Project (Ministry of Education, Culture, Sports, Science and Technology)
- Participate in National Campaign to Protect Juveniles Against Harmful Information Environments (Cabinet Secretariat)
- Engage in active memberships of various professional institutions

Supporting The Growth of The Security Industry

Security measures are persistently updated to match the current trends. Digital Arts works with various governmental units and industrial groups to increase security awareness by providing valuable insight as an information security company.

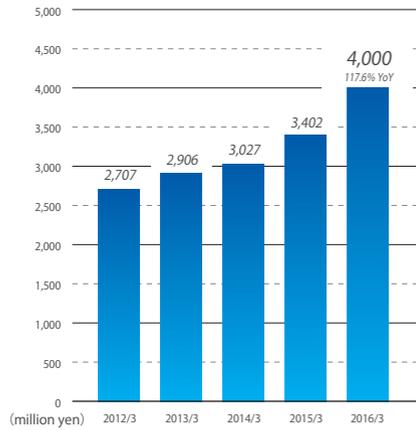
- Sponsor CODE BLUE
- Sponsor 20th Shirahama Cyber Crime Symposium, Information Security Workshop in Echigo Yuzawa, Cyber Security Symposium in Dogo
- Support IPA Information Security Slogan and Poster Contest

Promoting Eco-Consciousness

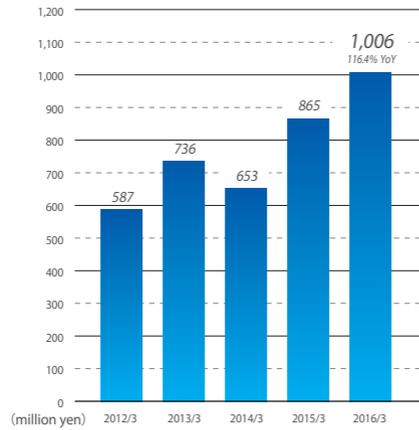
Protecting our planet is as important as maintaining internet security. As an information security company, Digital Arts employees conserve energy on various IT equipment we use every day and expands its environmental efforts to the community.

- Drive energy-saving efforts by employees

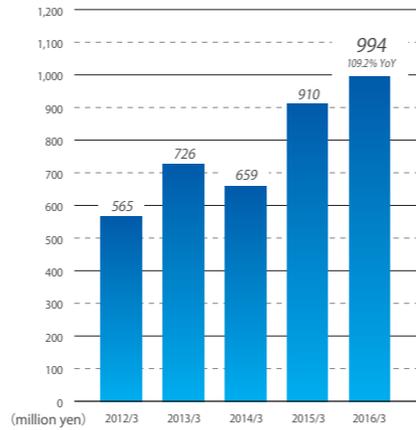
Net Sales **¥ 4,000 million**



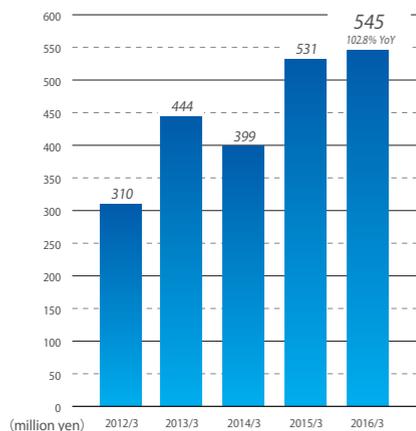
Operating Income **¥ 1,006 million**



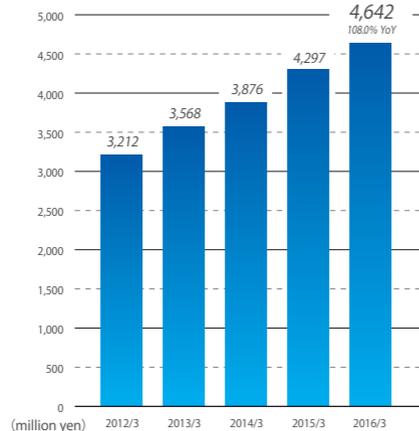
Ordinary Income **¥ 994 million**



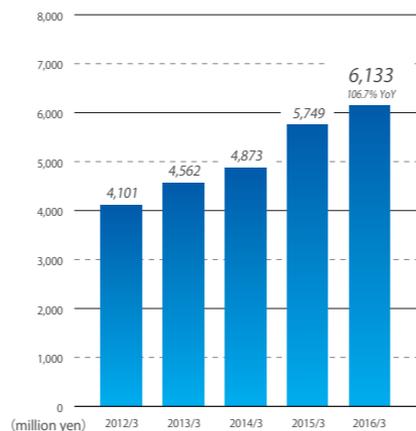
Net Income Attributable to Owners of Parent **¥ 545 million**



Net Assets **¥ 4,642 million**



Total Assets **¥ 6,133 million**



Consolidated Balance Sheet

	(thousands of yen)	
	2015/3	2016/3
Assets		
Current assets	4,077,978	4,262,613
Cash and deposits	2,673,533	2,942,965
Accounts receivable-Trade	932,503	1,081,626
Securities	300,872	100,909
Finished good	928	413
Deferred tax assets	67,182	73,813
Other	102,958	62,884
Non-current assets	1,671,251	1,871,246
Property, plant and equipment	145,117	127,257
Buildings	57,243	44,090
Vehicles	0	10,614
Tools, furniture and fixtures	73,748	72,552
Construction in progress	14,125	-
Intangible assets	935,674	995,526
Software	810,653	821,395
Other	125,021	174,131
Investments and other assets	590,459	748,462
Investment securities	299,559	404,099
Deferred tax assets	62,565	48,356
Shares of subsidiaries and affiliates	57,905	56,769
Other	170,428	239,237
Total assets	5,749,229	6,133,859

Liabilities

	2015/3	2016/3
Current liabilities	1,408,722	1,448,091
Account payable-Trade	3,720	5,844
Income taxes payable	266,542	283,949
Provision for bonuses	96,743	109,975
Advances received	675,395	721,033
Asset retirement obligations	261	-
Deferred tax liabilities	2,263	-
Other	363,797	327,288
Non-current liabilities	42,587	43,734
Asset retirement obligations	42,132	43,089
Other	455	645
Total liabilities	1,451,309	1,491,826

Net Assets

	2015/3	2016/3
Shareholders' equity	4,202,938	4,582,547
Capital stock	713,590	713,590
Capital surplus	735,847	766,234
Retained earnings	2,896,517	3,220,233
Treasury stock	△ 143,017	△ 117,511
Accumulated other comprehensive income	10,504	1,208
Foreign currency translation adjustments	10,504	1,208
Subscription rights to share	84,477	58,278
Total net assets	4,297,919	4,642,033
Total liabilities and net assets	5,749,229	6,133,859

Consolidated Statements of Income

	(thousands of yen)	
	2015/3	2016/3
Net sales	3,402,691	4,000,620
Cost of sales	974,644	926,094
Gross profit	2,428,046	3,074,526
Selling, general and administrative expenses	1,562,962	2,067,600
Operating income	865,084	1,006,925
Non-operating income	45,315	7,826
Non-operating expenses	131	20,440
Ordinary income	910,268	994,311
Extraordinary income	153	6,340
Extraordinary losses	1,941	1,960
Income before income taxes	908,479	998,691
Total income taxes	377,186	452,707
Net income	531,292	545,983
Net income attributable to owners of parent	531,292	545,983

Consolidated Statements of Cash Flows

	(thousands of yen)	
	2015/3	2016/3
Cash flows from operating activities	1,355,392	1,027,287
Cash flows from investment activities	△ 848,019	△ 441,185
Cash flows from financing activities	△ 119,893	△ 187,807
Effect of exchange rate changes on cash and cash equivalents	30,287	△ 28,799
Increase (decrease) in cash and cash equivalents	417,767	369,494
Cash and cash equivalent at beginning of period	1,656,613	2,074,381
Cash and cash equivalent at end of period	2,074,381	2,443,875

Consolidated Statement of Changes in Net Assets (April 1, 2015 ~ March 31, 2016)

	Shareholders' equity					Accumulated other comprehensive income		Share sub- scrip- tion rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total share- holders' equity	Foreign currency translation adjust- ments	Total accumulated other comprehensive income		
Balance at beginning of current period	713,590	735,847	2,896,517	△ 143,017	4,202,938	10,504	10,504	84,477	4,297,919
Changes of items during the period									
Cash dividends paid			△ 222,267		△ 222,267				△ 222,267
Net income attributable to owners of parent			545,983		545,983				545,983
Disposal of treasury stock		30,387		25,505	55,892				55,892
Net changes of items other than those in shareholders' equity						△ 9,295	△ 9,295	△ 26,199	△ 35,495
Total changes of items during the period		30,387	323,716	25,505	379,608	△ 9,295	△ 9,295	△ 26,199	344,113
Balance at end of current period	713,590	766,234	3,220,233	△ 117,511	4,582,547	1,208	1,208	58,278	4,642,033

Stock Overview

	(shares)
Total number of authorized shares	45,036,000
Total number of shares issued	14,133,000
Number of shareholders	5,784

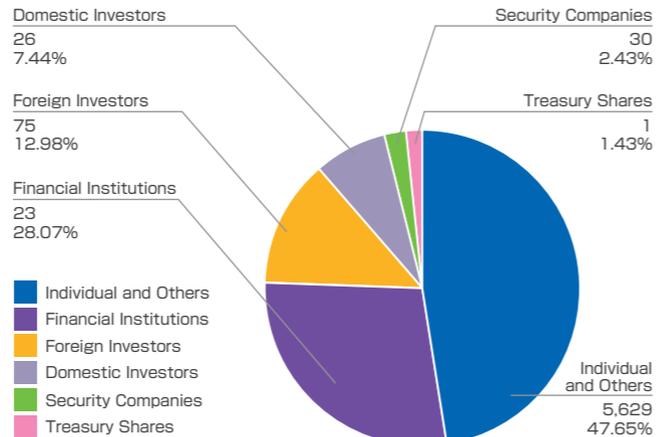
Principal Shareholders

Names	Number of Shares Held (shares)	Shareholding Ratio (%)
Toshio Dogu	3,527,110	25.32
Japan Trustee Services Bank, Ltd. (Trust Account)	1,558,400	11.19
DAM Corporation	680,000	4.88
The Master Trust Bank of Japan, Ltd. (Trust Account)	590,500	4.24
BNYM TREATY DTT 10	464,100	3.33
Japan Trustee Services Bank, Ltd. (Trust Account 9)	416,700	2.99
MSIP CLIENT SECURITIES	359,400	2.58
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	253,800	1.82
DA Corporation	150,000	1.08
DM Corporation	150,000	1.08

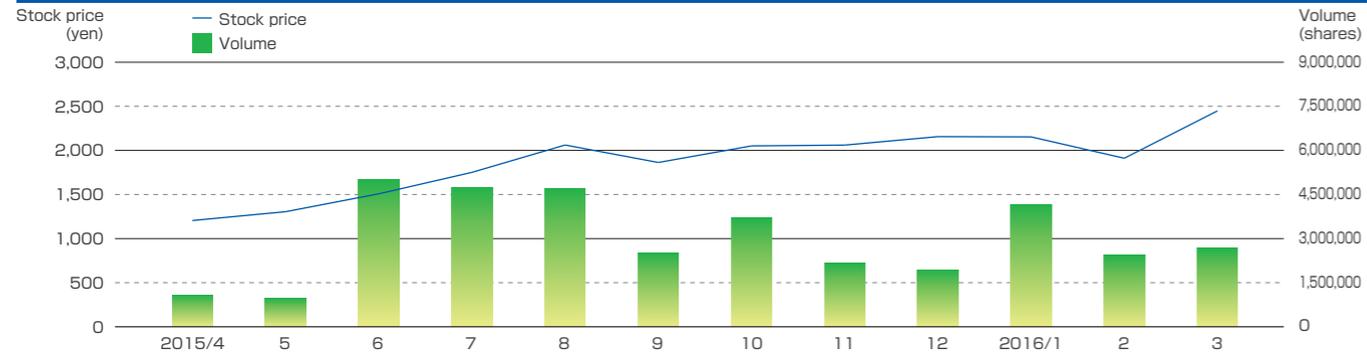
(Note) Shareholding ratio excludes treasury stock (201,800 shares).

Composition of Shareholders

	(shares)
Individual and Others	6,733,850
Financial Institutions	3,967,100
Foreign Investors	1,834,850
Domestic Investors	1,052,100
Security Companies	343,294
Treasury Shares	201,800
Total	14,133,000



Stock Information



Corporate Overview

Company Name	Digital Arts Inc.
Founded	June 21, 1995
Head Office	14F Otemachi First Square West Tower 1-5-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
Primary Business	Develop and market internet security software and appliances
Capital	713,590,262 yen
Number of Employees	192

Board of Directors

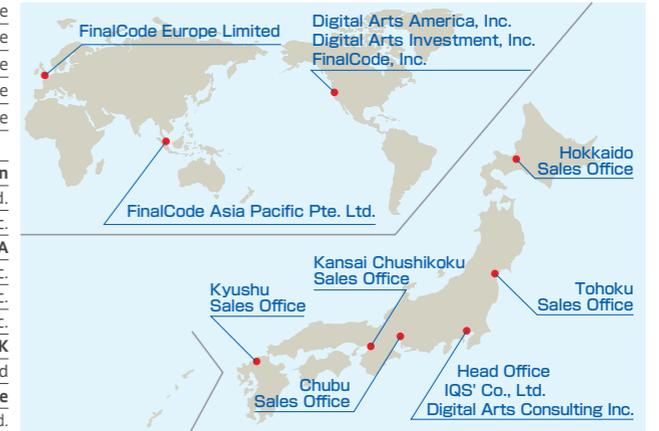
Chief Executive Officer	Toshio Dogu
Director	Noriyuki Takahashi
Director	Noriyuki Ogaki
Director	Hidenobu Akazawa
Full-time Auditor	Shuji Wakai
Auditor	Shuichi Kubokawa
Auditor	Masataka Uesugi

Shareholder Memo

Fiscal Year	April 1 through March 31 of the following year	
Annual General Shareholders Meeting	June	
Share Unit	100 Shares	
Record Dates	Voting Rights at Annual Shareholders Meeting	March 31
	Year-End Dividend	March 31
	Interim Dividend	September 30
Shareholder Registry Administrator	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo	
Mailing Address	2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan	
Inquiry	Sumitomo Mitsui Trust Bank, Limited Transfer Agent Department TEL: 0120-782-031 (toll free)	
Method of Public Notice	Electronic public notices (http://www.daj.jp/ir/); provided, however, that in the case where an electronic public notice is impracticable due to an accident or any other unavoidable reason, the same public notice may be given in The Nikkei.	
	※Balance sheets and statements of income are available on the Digital Arts corporate website. http://www.daj.jp/ir/finance/bs_pl/	

Locations

Sales Offices	Hokkaido Sales Office
	Tohoku Sales Office
	Chubu Sales Office
	Kansai Chushikoku Sales Office
	Kyushu Sales Office
Group Companies	
Subsidiaries - Japan	IQS' Co., Ltd.
	Digital Arts Consulting Inc.
Subsidiaries - USA	Digital Arts America, Inc.
	Digital Arts Investment, Inc.
	FinalCode, Inc.
Subsidiary - UK	FinalCode Europe Limited
Subsidiary - Singapore	FinalCode Asia Pacific Pte. Ltd.



※Digital Arts Consulting Inc. was established on April 1, 2016.



14F Otemachi First Square West Tower 1-5-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
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