

CONSOLIDATED FINANCIAL REPORT

FISCAL 2017 (Japanese GAAP)

(July 1, 2017 to June 30, 2018)



August 10, 2018

Digital Information Technologies Corporation is listed on the First Section of the Tokyo Stock Exchange under the securities code number 3916.

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Annual General Meeting of Shareholders date (planned): September 27, 2018

Fiscal 2017 Securities Report filing date (planned): September 28, 2018

Dividend payment commencement date (planned): September 28, 2018

Supplemental materials prepared for financial results: Yes

Holding of financial results meeting: Yes (for analysts and institutional investors)

(Millions of yen rounded down)

1. Consolidated Performance for FY 2017 (July 1, 2017 to June 30, 2018)

(1) Consolidated Business Results

(% figures represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2017	11,076	7.8	787	20.5	790	23.3	531	14.0
FY 2016	10,273	10.0	653	24.6	641	16.0	466	32.7

(Note) Comprehensive income: FY 2017: ¥536 million (4.1%) FY 2016: ¥515 million (52.5%)

	Net Income Per Share	Diluted Net Income Per Share	ROE	Ordinary Income to Total Assets	Ordinary Income to Operating Revenues
	Yen	Yen	%	%	%
FY 2017	34.57	—	21.1	20.3	7.1
FY 2016	30.33	30.09	21.3	18.5	6.4

(Reference) Equity in earnings of affiliated companies accounted for by the equity method:

FY 2017: ¥— million FY 2016: ¥— million

Note: The Company conducted a two-for-one split of common stock on October 1, 2016. The Company also conducted a two-for-one split of common stock on April 1, 2018. The figures for “Net Income per Share” and “Diluted Net Income per Share” are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Net Assets to Total Assets	Net Assets per Share of Common Stock
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2018	4,083	2,621	64.2	170.68
As of June 30, 2017	3,717	2,414	65.0	155.78

(Reference) Shareholders' equity: As of June 30, 2018: ¥2,621 million As of June 30, 2017: ¥2,414 million

Note: The Company conducted a two-for-one split of common stock on October 1, 2016. The Company also conducted a two-for-one split of common stock on April 1, 2018. The figures for “Net Assets per Share of Common Stock” are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at the End of the Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2017	747	(94)	(373)	1,627
FY 2016	221	125	(97)	1,346

2. Dividends

	Cash Dividends per Share of Common Stock					Cash Dividends Paid (Annual)	Dividend Payout Ratio (Consolidated)	Cash Dividends to Net Assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2016	—	0.00	—	15.00	15.00	116	24.7	5.3
FY 2017	—	10.00	—	6.00	—	168	31.8	6.7
FY 2018 (planned)	—	7.00	—	7.00	14.00		32.3	

Note: Content of FY6/17 dividend: Ordinary dividend 12.00 yen, commemorative dividend 3.00 yen (dividend commemorating designation to TSE First Section)

The Company conducted a two-for-one split of common stock on April 1, 2018. Accordingly, the year-end dividend for FY6/18 takes into account this stock split. Of note, without taking the stock split into account, the year-end dividend per share for FY6/18 would have been 12.00 yen, for a total annual dividend of 22.00 yen.

3. Forecast of Consolidated Results for FY 2018 (July 1, 2018 to June 30, 2019)

(% figures for the full fiscal year represent year-on-year increase or decrease,
% figures for the interim period are the increase / (decrease) for the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Fiscal Year	11,904	7.5	1,000	26.9	997	26.1	666	25.3	43.37

*Notes

- (1) **Changes in important subsidiaries during the period (changes in specified subsidiaries in accordance with changes in the scope of consolidation):** No

New: — (Company name: —), Excluded: — (Company name: —)

- (2) **Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements**

- 1) Changes of accounting principles in line with revisions to accounting and other standards: No
- 2) Changes of accounting principles other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Retrospective restatement: No

- (3) **Number of shares issued and outstanding (common shares)**

1. Number of shares issued and outstanding as of the end of the period (including treasury stock)
As of June 30, 2018: 15,501,820 shares As of June 30, 2017: 15,501,820 shares
2. Number of treasury stock
As of June 30, 2018: 140,464 shares As of June 30, 2017: 380 shares
3. Average number of shares for the year
FY2017: 15,382,116 shares FY2016: 15,371,994 shares

Note: The Company conducted a two-for-one split of common stock on October 1, 2016. The Company also conducted a two-for-one split of common stock on April 1, 2018. The figures for number of shares issued and outstanding (common shares) are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

(Reference) Overview of Non-Consolidated Performance**1. Non-Consolidated Performance for FY 2017 (July 1, 2017 to June 30, 2018)****(1) Non-Consolidated Business Results**

(% figures represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2017	10,488	8.5	796	25.8	793	27.6	539	19.4
FY 2016	9,671	11.8	633	37.4	622	32.3	452	53.4

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY 2017	35.10	—
FY 2016	29.41	29.17

Note: The Company conducted a two-for-one split of common stock on October 1, 2016. The Company also conducted a two-for-one split of common stock on April 1, 2018. The figures for “Net Income per Share” and “Diluted Net Income per Share” are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Net Assets to Total Assets	Net Assets per Share of Common Stock
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2018	3,750	2,388	63.7	155.50
As of June 30, 2017	3,371	2,173	64.5	140.20

(Reference) Shareholders' equity: As of June 30, 2018: ¥2,388 million As of June 30, 2017: ¥2,173 million

Note: The Company conducted a two-for-one split of common stock on October 1, 2016. The Company also conducted a two-for-one split of common stock on April 1, 2018. The figures for “Net Assets per Share of Common Stock” are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

* The financial statement summary is not subject to auditing by certified public accountants or audit firms.

*** Cautionary Statement Concerning Operating Results Forecasts and Other Special Items**

The forecasts of operating results and other items concerning the future contained in this document are based on management's assumptions and beliefs that are determined to be reasonable in light of currently available information. Digital Information Technologies Corporation cautions readers that due to a variety of factors actual results may differ materially from forecasts. For the assumptions that underpin operating results forecasts as well as cautionary notes on the use of operating results forecasts, please refer to “1. Overview of Business Results (4) Future Outlook” on page 7.

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1. Overview of Business Results

(1) Business Results for the Subject Period

During the subject fiscal year (July 1, 2017 – June 30, 2018), the business climate continued to improve despite turbid conditions overseas, including the protectionist leanings of the U.S. Trump administration and related trade frictions. The Japanese economy continued to recovery at a moderate pace, centered mainly on internal demand, including private sector capital investment supported by strong earnings, and consumer spending.

In Digital Information Technologies Corporation (DIT)'s main business industry of information services, despite the chronic issue of a shortage of IT personnel, growth was evident in conventional business fields, as well as new sectors such as artificial intelligence (AI), the Internet of Things (IoT), and robotic process automation (RPA, the automation and efficiency enhancement of routine office work using software robot technology), and Fintech (finance technology). These developments presented the DIT Group with increased opportunities to enter new businesses, and expand its business scope.

Also, the revised version of the Cybersecurity Management Guidelines (released November 2017) from Japan's Ministry of Economy, Trade and Industry (METI), notes the increasing trend toward strengthening security countermeasures for information systems overall, with the addition of such terms as "detection" and "restoration," as well as the continued interest in working-style reforms that have been a national issue for Japan. These guidelines provide a favorable boost to the DIT Group, since it has effective solutions to address these issues.

Under such conditions, the DIT Group formulated the following five business strategies as its medium-term management plan, and continued to take proactive measures to achieve them.

- Renovation (Stabilize management through reform of existing businesses)
- Innovation (Create new value centered on in-house products)
- Shift from competition to collaboration (Expand business through cooperative efforts)
- Shift from development to services (Expand business from service-oriented perspective)
- Secure and develop human assets (Hire and train personnel)

During FY6/18, the third year of the medium-term management plan, based on the results and issues from measures implemented over the past two years, DIT continued to focus on stabilizing the business foundation and strengthening growth factors.

In terms of renovation, DIT achieved steady growth as a result of continued investment in information technology by financial institutions, and an increase in capital investment in the automotive industry.

In terms of innovation, DIT achieved steady growth as a result of ongoing efforts from the previous fiscal year to enhance product appeal and strengthen sales for WebARGUS¹, DIT's in-house products built on proprietary technology, and the Excel process innovation platform xoBlos².

As a result, net sales in the subject fiscal year amounted to ¥11,076,924 thousand (up 7.8% year on year), with operating income of ¥787,780 (up 20.5%), ordinary income of ¥790,887 (up 23.3%), and profit attributable to owners of parent of ¥531,701 thousand (up 14.0%).

Notes

1. WebARGUS is a new type of website security solution that detects the tampering of websites as it occurs, and immediately restores the site to its original state. Instant detection and restoration protects corporate and other websites from malicious, unknown cyber-attacks, while at the same time prevents the escalation of the damage, such viruses spreading via the tampered website.
2. xoBlos is an innovation platform for Excel to automate inefficient Excel-based tasks, allowing for dramatic improvements in efficiency in a short period. (Excel® is registered trademark or trademark of Microsoft Corporation in the United States and other countries.)

Results by segment are as follows.

Of note, figures for segment net sales, earnings (operating income), or loss (operating loss) are prior to offsets for intracompany transactions.

1. Software Development Business

In the business solutions unit, orders remained firm, centered mainly on existing customers. Sales to the

mainstay finance industry were flat, but revenue rose overall from the previous fiscal year on growth in the medical/pharmaceutical and logistics sectors.

In the embedded product solutions unit, business grew strongly, with steady growth in products for in-vehicle devices, along with an increase in orders for mobile app development focused on smartphones, and development of various embedded applications for semiconductors.

In the original products unit, growth was steady as a result of product and sales strategies, including the release of product series, and proactive exhibition at trade shows. For WebARGUS, DIT established a position for further business development, including gradual adoption by major users, and following the release of the top-level Enterprise Edition, inclusion in the service lineup of cloud business operators. For xoBlos, DIT established a position for further business development with the release of xoBot, which works seamlessly with budget management solutions and various types of RPA products

As a result, net sales in the Software Development segment amounted to ¥10,462,524 thousand (up 8.5% year on year), with operating income of ¥798,849 thousand (up 21.2%).

2. System Sales Business

The System Sales segment is focused on “Rakuichi,” a business support system for small and medium-sized enterprises manufactured by Casio Computer Co., Ltd. During the subject fiscal year, sales were firm for replacement products such as upgrades from stand-alone to server versions, but new sales fell short of targets.

As a result, net sales in the System Sales segment amounted to ¥624,818 thousand (down 2.2% year on year), with an operating loss of ¥10,650 thousand (compared to an operating loss of ¥7,881 thousand in the previous fiscal year).

(2) Financial Position

The overview of assets, liabilities, and net assets in the subject fiscal year is as follows.

(Current Assets)

Current assets amounted to ¥3,447,517 thousand, an increase of ¥308,061 thousand compared to the end of the previous fiscal year. This was due mainly to increases of ¥281,017 thousand in cash and deposits; and ¥27,759 thousand in deferred tax assets.

(Noncurrent Assets)

Noncurrent assets amounted to ¥635,693 thousand, an increase of ¥61,251 thousand compared to the end of the previous fiscal year. This was due mainly to increases of ¥23,504 thousand in property, plant, and equipment; ¥58,434 thousand in investment securities; and ¥39,455 thousand in lease and guarantee deposits; against decreases of ¥5,159 thousand in intangible assets; ¥12,846 thousand in insurance funds; and ¥42,719 thousand in deferred tax assets.

(Current Liabilities)

Current liabilities amounted to ¥1,305,567 thousand, an increase of ¥282,022 thousand compared to the end of the previous fiscal year. This was due mainly to increases of ¥74,291 thousand in accrued expenses; ¥69,665 thousand in accrued consumption taxes; and ¥108,447 thousand in other; against a decrease of ¥2,707 thousand in accounts payable–other.

(Noncurrent Liabilities)

Noncurrent liabilities amounted to ¥155,732 thousand, a decrease of ¥119,796 thousand compared to the end of the previous fiscal year. This was due mainly to a decrease of ¥264,729 thousand in net defined benefit liability; against an increase of ¥130,611 thousand in long-term accounts payable–other.

(Net Assets)

Net assets amounted to ¥2,621,910 thousand, an increase of ¥207,087 thousand compared to the end of the previous fiscal year. This was due mainly to an increase of ¥338,633 thousand in retained earnings; against a decrease of ¥136,766 thousand in purchase of treasury shares.

(3) Cash Flows

Cash and cash equivalents at the end of the subject fiscal year amounted to ¥1,627,409 thousand, an increase of ¥281,017 thousand compared to the end of the previous fiscal year.

The factors contributing the changes in cash flows during the subject fiscal year were as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities amounted to ¥747,312 thousand (compared to ¥221,853 thousand in cash provided in the previous fiscal year). The main factors were net income before income taxes (¥790,887 thousand); decrease in net defined benefit liability (¥264,729 thousand); increase in accounts payable—other and accrued expenses (¥71,748 thousand); increase in long-term accounts payable—other (¥130,611 thousand); increase in other liabilities (¥173,559 thousand); and income taxes paid (¥194,959 thousand).

(Cash Flows from Investing Activities)

Cash used in investing activities amounted to ¥94,208 thousand (compared to ¥125,232 thousand in cash provided in the previous fiscal year). The main factors were purchase of investment securities (¥50,651 thousand); and payments for lease and guarantee deposits (¥45,980 thousand).

(Cash Flows from Financing Activities)

Cash used in financing activities amounted to ¥373,846 thousand (compared to ¥97,844 thousand in cash used in the previous fiscal year). The main factors were repayments of long-term loans payable (¥37,610 thousand); purchase of treasury shares (¥136,766 thousand); and cash dividends paid (¥191,750 thousand).

(4) Future Outlook

The Cabinet Office's projections for the Japanese economy for FY6/19 state that "The economy is expected to continue recovering at a moderate pace amid further improvement in employment and income conditions, supported by the effects of various policy measures. However, sufficient attention should be given to such factors as the impact of trade issues on the world economy, uncertainty in overseas economies, and the effects from fluctuations in financial and capital markets. The economic impact from the torrential rains in July 2018 should also be noted."

In DIT's main business industry of information services, advancements in new fields such as AI, IoT, RPA, and Fintech is expected to support the rapid spread of new services utilizing IT, with continued brisk investment in IT.

Under such conditions, during FY6/19, the initial year of its new medium-term management plan, DIT will continue its two-pronged business strategy of "stabilize the business foundation" and "strengthen growth factors," while also pursuing a new level of management to achieve Triple 10*, its medium-term targets for FY6/21.

***Triple 10**

- Net sales of ¥10.0 billion in FY6/17 (already achieved)
- Operating income of ¥1.0 billion in FY6/19
- Operating profit margin of 10% in FY6/21

Also, as announced in "Notice of Change in Representative Director (Change in President)" (May 15, 2018), on July 1, 2018, Norikazu Ichikawa moved from Representative Director and President to Representative Director and Chairman, and Satoshi Ichikawa moved from Representative Director and Senior Managing Executive Officer to Representative Director and President. These changes will provide the Company with a more youthful management structure able to contend with the rapidly changing business environment, and support the creation of systems allowing for quick decision-making.

Business plans by segment are as follows.

1. Software Development Business

For "stabilization of the business foundation," DIT will follow a path of further expansion and stabilization of its business foundation, building on a certain degree of success in the business solutions business to stabilize operations in the mainstay finance sector, and in the embedded product solutions business, solid growth centered on in-vehicle systems.

For “strengthening of growth factors,” although DIT is continuing to expand business by enhancing the product appeal and sales capacity of in-house original products, we feel that this has yet to reach the expected level, and will build on previous measures and accumulated know-how, aiming for further business expansion. Also, we will continue to focus on business development through collaboration with the system integration (SI) expertise and operational services of the business foundation.

2. System Sales Business

For sales of the mainstay “Rakuichi” system, DIT will pursue further effectiveness with the aim of stable business dealings.

As a result, for the fiscal year ending June 30, 2019, DIT is forecasting net sales of ¥11,904 million (up 7.5% year on year), with operating income of ¥1,000 million (up 26.9%), ordinary income of ¥997 million (up 26.1%), and profit attributable to owners of parent of ¥666 million (up 25.3%).

(5) Basic Policy on Profit Distribution and Dividends for the Subject and Next Periods

DIT considers returns to shareholders to be an important management issue, and believes in the importance of a stable and continuous dividend. Regarding the payout ratio, on the premise of revising the ratio while giving due consideration of the balance with internal reserves to support business expansion, the Company has decided to change its policy from the subject fiscal year, raising the target from “20% or above” to “30% or above.” The target will be maintained at 30% or above for FY6/19.

Regarding dividends for the subject fiscal year, as announced in “Notice of Revision to Dividend Forecast” (June 6, 2018), DIT plans to provide a year-end dividend of 6 yen per ordinary share. Of note, the Company conducted a two-for-one split of common stock on April 1, 2018. Accordingly, without taking the stock split into account, the year-end dividend per share for FY6/18 would have been 12.00 yen, which together with the interim dividend of 10.00 yen, would be a total annual dividend of 22.00 yen.

For FY6/19, in accordance with the above basic policy, the Company plans to increase its annual dividend by 3 yen to 14 yen per share, comprising an interim dividend of 7 yen, and a year-end dividend of 7 yen.

2. Overview of the Corporate Group

The DIT Group is an independent information services company, comprising the Company and two consolidated subsidiaries. Its main businesses are software development and system sales.

(1) Software Development Business

(Business Solutions Unit)

a. Business system development

This business focuses on custom development for end-users and information system subsidiaries in a wide range of fields, including finance, medical/pharmaceutical, communications, logistics, and transportation. It also provides custom development on a contract basis for major system integration (SI) vendors. Specifically, this business utilizes the technologies it has accumulated in various sectors for websites and key systems, front and back office operations, new system development and maintenance, building trusting relationships with leading companies in various business sectors in order to secure stable orders.

b. System operation support

This business provides operational support for clients' business systems, including support desks to handle inquiries from internal users at the client company, as well as the building and maintenance of infrastructure (servers, networks, etc.). Because this is an ongoing business alongside the business domains of major clients, it generates stable earnings.

(Embedded Product Solutions Unit)

a. Embedded product development

This business develops software for in-vehicle devices, mobile devices, information home appliances, and communication equipment.

For in-vehicle devices, mobile devices and information home appliances, the business develops custom software for the overall system, including firmware, device controls, and applications. In particular, for the growing field of in-vehicle devices, the business focuses on infotainment, as well as new technologies such as intelligent transport systems (ITS) and auto-drive systems. For communication equipment, the business provides custom software development for wireless base stations, communication module devices, and virtual networks*.

*Virtual networking: Technology that uses software controls to flexibly rebuild network architecture without altering the physical network.

b. Embedded product verification

This business provides verification of product quality and functionality on a contract basis, and through its verification service, makes suggestions on improving functionality and products.

The business offers a range of verification services, including laboratory tests using specialized equipment to verify product operation and function, field tests to verify products in the actual usage environments in Japan and internationally (North America, Asia, Europe, etc.), and comprehensive system tests conducted from a third-party perspective as the final quality verification.

Field tests conducted outside Japan are consigned as necessary to the Company's subsidiary DIT America, LLC, ensuring prompt service and verification of product usability from the perspective of local staff. Applicable products include in-vehicle devices, medical devices, communication equipment, and mobile devices.

(Original Products Unit)

a. Cybersecurity products

The main products in this business are WebARGUS, a solution to instantly detect tampering on a website and restore it to its original state, and APMG (Anti Phishing Mail Gateway), a solution to counter phishing emails. This business also partners with external cybersecurity firms to offer total cybersecurity services.

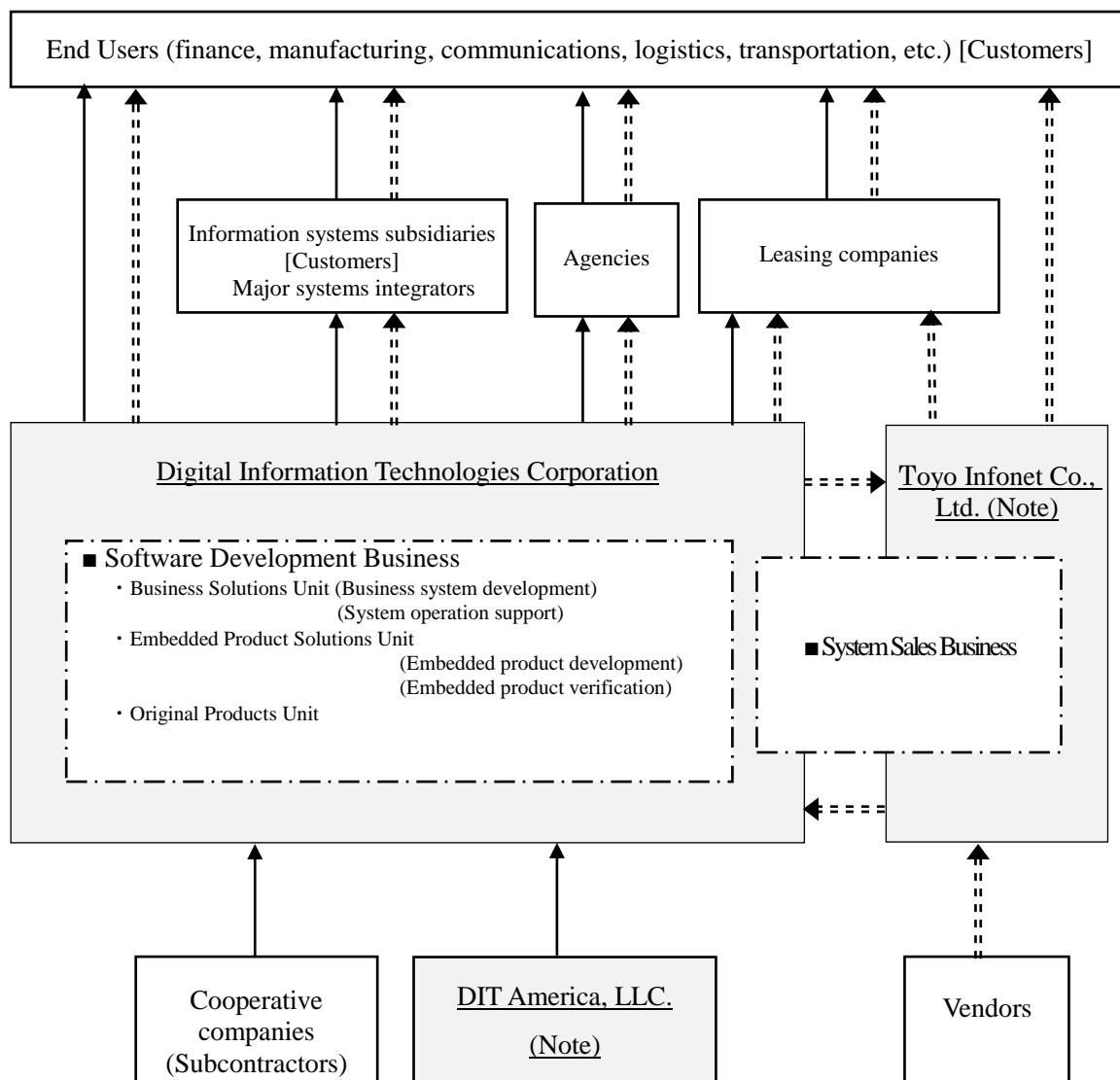
b. Business process automation products

This business provides services to meet market needs, such as commercialization of xoBot, a product based on the xoBlos Excel processes innovation platform that works seamlessly with budget management solutions and various types of RPA products.

(2) System Sales Business

The System Sales segment mainly comprises sales by DIT and its subsidiary Toyo Infonet Co., Ltd. of “Rakuichi,” a business support core system for small and medium enterprises. Toyo Infonet Co., Ltd.

The business system diagram is as follows.



—————→ : Provide IT services (development, verification testing, other services)

-----> : Product Sales

Note: Consolidated subsidiary

3. Basic Policy on Selection of Accounting Standards

The majority of stakeholders in the DIT Group are based in Japan, including shareholders, creditors, and business partners. Accordingly, the Company has decided to use Japanese accounting standards for the time being.

Regarding application of IFRS standards, the Company plans to respond appropriately, based on due consideration of the situation in Japan and internationally.

4. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Thousands of yen)

	End of the Fiscal Year Ended June 30, 2017 (As of June 30, 2017)	End of the Fiscal Year Ended June 30, 2018 (As of June 30, 2018)
ASSETS		
Current assets:		
Cash and deposits	1,346,391	1,627,409
Notes and accounts receivable — trade	1,555,541	1,562,636
Merchandise	15,261	13,252
Work in process	129,558	123,328
Deferred tax assets	22,431	50,191
Other	74,969	70,907
Allowance for doubtful accounts	(4,699)	(209)
Total current assets	3,139,455	3,447,517
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	63,202	65,987
Tools, furniture and fixtures	18,093	19,927
Lease assets	16,447	46,440
Accumulated depreciation	(68,105)	(79,212)
Land	62,018	62,018
Total property, plant and equipment	91,656	115,160
Intangible assets:		
Software	21,927	16,784
Other	1,860	1,843
Total intangible assets	23,787	18,628
Investments and other assets:		
Investment securities	13,787	72,221
Lease and guarantee deposits	90,985	130,440
Insurance funds	260,551	247,705
Deferred tax assets	82,243	39,523
Other	40,551	45,157
Allowance for doubtful accounts	(29,120)	(33,144)
Total investments and other assets	458,997	501,904
Total noncurrent assets	574,442	635,693
Total assets	3,713,897	4,083,210

(Thousands of yen)

	End of the Fiscal Year Ended June 30, 2017 (As of June 30, 2017)	End of the Fiscal Year Ended June 30, 2018 (As of June 30, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	317,983	328,674
Current portion of long-term loans payable	32,800	—
Accounts payable — other	171,035	168,327
Accrued expenses	121,138	195,430
Income taxes payable	133,736	188,096
Accrued consumption taxes	87,920	157,585
Provision for loss on order received	—	74
Other	158,931	267,378
Total current liabilities	1,023,545	1,305,567
Noncurrent liabilities:		
Long-term loans payable	4,810	—
Long-term accounts payable — other	—	130,611
Net defined benefit liability	269,291	4,561
Other	1,428	20,558
Total noncurrent liabilities	275,529	155,732
Total liabilities	1,299,074	1,461,300
NET ASSETS		
Shareholders' equity:		
Capital stock	453,156	453,156
Capital surplus	459,214	459,214
Retained earnings	1,496,598	1,835,232
Treasury stock	(457)	(137,223)
Total shareholders' equity	2,408,511	2,610,379
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	3,705	9,117
Foreign currency translation adjustments	2,606	2,413
Total accumulated other comprehensive income	6,311	11,531
Total net assets	2,414,823	2,621,910
Total liabilities and net assets	3,713,897	4,083,210

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

(Thousands of yen)

	Fiscal 2016 (July 1, 2016 to June 30, 2017)	Fiscal 2017 (July 1, 2017 to June 30, 2018)
Net sales	10,273,464	11,076,924
Cost of Sales	7,896,587	8,481,858
Gross profit	2,376,877	2,595,065
Selling, general and administrative expenses	1,722,902	1,807,284
Operating income	653,975	787,780
Non-operating income		
Interest and dividend income	166	512
Subsidy income	10,883	8,706
House rent income	273	—
Commission fee	4,733	4,440
Insurance income	1,000	—
Insurance premiums refunded cancellation	—	3,259
Other	1,492	641
Total non-operating income	18,548	17,560
Non-operating expenses		
Interest expenses	1,299	986
Commission fee	12,083	1,171
Loss on insurance cancellation	994	2,385
Litigation expenses	9,012	—
Office transfer expenses	1,988	5,261
Foreign exchange losses	3,988	4,648
Other	1,797	—
Total non-operating expenses	31,164	14,454
Ordinary income	641,359	790,887
Extraordinary income		
Gain on sales of non-current assets	38,102	—
Total extraordinary income	38,102	—
Extraordinary loss		
Loss on sales of non-current assets	38,928	—
Total extraordinary losses	38,928	—
Net income before income taxes	640,532	790,887
Income taxes — current	188,748	248,584
Income taxes — deferred	(14,494)	10,600
Total income taxes	174,253	259,185
Net income	466,279	531,701
Profit attributable to owners of parent	466,279	531,701

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Fiscal 2016 (July 1, 2016 to June 30, 2017)	Fiscal 2017 (July 1, 2017 to June 30, 2018)
Income before minority interests	466,279	531,701
Other comprehensive income		
Other valuation difference on available-for-sale securities	3,834	5,412
Foreign currency translation adjustments	718	(192)
Remeasurements of defined benefit plans, net of tax	45,138	—
Total other comprehensive income	49,691	5,219
Comprehensive income	515,971	536,921
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	515,971	536,921
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Changes in Net Assets

Fiscal 2016 (July 1, 2016 to June 30, 2017)

(Thousands of yen unless otherwise stated)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the end of previous period	437,181	443,239	1,120,771	(457)	2,000,734
Changes of items during the period					
Issuance of new shares	15,975	15,975			31,950
Purchase of treasury shares					—
Dividends of surplus			(90,452)		(90,452)
Profit attributable to owners of parent			466,279		466,279
Net changes of items other than shareholders' equity					
Total	15,975	15,975	375,826	—	407,776
Balance at the end of current period	453,156	459,214	1,496,598	(457)	2,408,511

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the end of previous period	(129)	1,887	(45,138)	(43,379)	1,957,354
Changes of items during the period					
Issuance of new shares					31,950
Purchase of treasury shares					—
Dividends of surplus					(90,452)
Profit attributable to owners of parent					466,279
Net changes of items other than shareholders' equity	3,834	718	45,138	49,691	49,691
Total	3,834	718	45,138	49,691	457,468
Balance at the end of current period	3,705	2,606	—	6,311	2,414,823

Fiscal 2017 (July 1, 2017 to June 30, 2018)

(Thousands of yen unless otherwise stated)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the end of previous period	453,156	459,214	1,496,598	(457)	2,408,511
Changes of items during the period					
Issuance of new shares					—
Purchase of treasury shares				(136,766)	(136,766)
Dividends of surplus			(193,068)		(193,068)
Profit attributable to owners of parent			531,701		531,701
Net changes of items other than shareholders' equity					
Total	—	—	338,633	(136,766)	201,867
Balance at the end of current period	453,156	459,214	1,835,232	(137,223)	2,610,379

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the end of previous period	3,705	2,606	—	6,311	2,414,823
Changes of items during the period					
Issuance of new shares					—
Purchase of treasury shares					(136,766)
Dividends of surplus					(193,068)
Profit attributable to owners of parent					531,701
Net changes of items other than shareholders' equity	5,412	(192)	—	5,219	5,219
Total	5,412	(192)	—	5,219	207,087
Balance at the end of current period	9,117	2,413	—	11,531	2,621,910

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal 2016 (July 1, 2016 to June 30, 2017)	Fiscal 2017 (July 1, 2017 to June 30, 2018)
Cash Flows from Operating Activities:		
Net Income before income taxes	640,532	790,887
Depreciation and amortization	27,228	30,776
Increase (decrease) in allowance for doubtful accounts	(411)	(466)
Increase (decrease) in provision for loss on order received	—	74
Increase (decrease) in net defined benefit liability	48,505	(264,729)
Interest and dividends income	(166)	(512)
Insurance income	(1,000)	—
Loss on litigation	9,012	—
Interest expenses	1,299	986
Loss (gain) on sales of non-current assets	826	—
Loss on retirement of non-current assets	912	—
Loss (gain) on valuation of investment securities	717	—
Decrease (increase) in notes and accounts receivable — trade	(326,063)	(7,095)
Decrease (increase) in inventories	(40,862)	8,377
Increase (decrease) in notes and accounts payable — trade	75,600	10,691
Increase (decrease) in accounts payable — other and accrued expenses	50,910	71,748
Increase (decrease) in long-term accounts payable — other	—	130,611
Decrease (increase) in other assets	(27,476)	(1,897)
Increase (decrease) in other liabilities	7,702	173,559
Other, net	1,212	(855)
Subtotal	468,480	942,155
Interest and dividends income received	166	512
Interest expenses paid	(1,312)	(397)
Income taxes paid	(237,468)	(194,959)
Proceeds from insurance income	1,000	—
Payments for loss on litigation	(9,012)	—
Net cash provided by (used in) operating activities	221,853	747,312

	(Thousands of yen)	
	Fiscal 2016 (July 1, 2016 to June 30, 2017)	Fiscal 2017 (July 1, 2017 to June 30, 2018)
Cash Flows from Investing Activities:		
Purchase of investment securities	(7,110)	(50,651)
Purchase of property, plant and equipment	(2,757)	(6,121)
Proceeds from sales of property, plant and equipment	132,645	—
Purchase of intangible assets	(5,200)	(6,031)
Collection of loans receivable	382	461
Purchase of insurance funds	(7,946)	(5,530)
Proceeds from cancellation of insurance funds	6,313	19,251
Payments for lease and guarantee deposits	(11,438)	(45,980)
Proceeds from collection of lease and guarantee deposits	20,071	395
Other, net	273	—
Net cash provided by (used in) investing activities	125,232	(94,208)
Cash Flows from Financing Activities:		
Repayment of long-term loans payable	(32,808)	(37,610)
Repayments of lease obligations	(7,076)	(7,719)
Proceeds from issuance of common shares	31,950	—
Purchase of treasury stock	—	(136,766)
Cash dividends paid	(89,910)	(191,750)
Net cash provided by (used in) financing activities	(97,844)	(373,846)
Effect of exchange rate change on cash and cash equivalents	718	1,760
Net increase (decrease) in cash and cash equivalents	249,959	281,017
Cash and cash equivalents at beginning of period	1,096,432	1,346,391
Cash and cash equivalents at end of period	1,346,391	1,627,409

(5) Notes to Consolidated Financial Statements

(Notes Regarding Going-Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

Not applicable.

(Additional Information)

Shift to a Retirement Benefit Plan

On July 1, 2017, the Company abolished its retirement bonus rules, and transitioned to a defined contribution pension system. For the accounting associated with this transition, the Company applied “Revised Accounting Standard for Transfer between Retirement Benefit Plans” (ASBJ Statement No. 1, December 16, 2016) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (PITF No. 2, February 7, 2007). This change has no effect on the consolidated financial statements.

Of note, the ¥196 million that had not been transferred as of the end of the subject fiscal year was recorded as “Accounts payable — other” in current liabilities, and “Long-term accounts payable — other” in noncurrent liabilities.

(Segment Information)

Segment Information

1. Overview of Reportable Segments

The reportable segments of the DIT Group are those constituent units of the corporate group for which separate financial information is available. The Board of Directors regularly reviews the reportable segments to determine allocation of management resources, and evaluate business results.

Accordingly, the two reportable segments are Software Development, which comprises the core of the Company, and System Sales, the main business of the Company's subsidiary Toyo Infonet Co., Ltd.

The content of the services applicable to each segment are as follows.

Business Segment	Content of Service
Software Development Business	Business solutions (business system development, system operation support), embedded product solutions (embedded product development, embedded product verification), original products
System Sales Business	Sales of the "Rakuichi" business support core system

2. Method for Calculating Amounts of Net Sales, Profit/Loss, Assets, and Other Items for Each Reportable Segment

The accounting method for reportable business segments is the same as "Significant Matters that Serve as the Basis for Preparation of Consolidated Financial Statements."

Profit figures for reportable segments are on an operating income basis.

Intersegment sales and transfers are based on market prices.

3. Information Regarding Net Sales, Profit and Loss, Assets, Liabilities and Other Items by Reporting Segment

Fiscal 2016, the Fiscal Year Ended June 30, 2017 (July 1, 2016 to June 30, 2017)

(Thousands of yen)

	Reporting Segments			Adjustment amount (Note 1)	Amount recorded on consolidated quarterly statements of income (Note 2)
	Software Development Business	System Sales Business	Total		
Net sales					
Net sales to outside customers	9,635,043	638,421	10,273,464	—	10,273,464
Intrasegment net sales and transfers	4,188	460	4,648	(4,648)	—
Total	6,939,231	638,881	10,278,112	(4,648)	10,273,464
Segment income (loss)	659,212	(7,881)	651,330	2,644	653,975
Segment assets	3,338,871	377,639	3,716,511	(2,613)	3,713,897
Other items					
Depreciation	25,023	2,807	27,831	(603)	27,228
Increase in property, plant and equipment and intangible assets	1,106	1,651	2,757	—	2,757

Notes

1. Adjustments are as follows.

- The ¥2,644 thousand adjustment to segment income is mainly intersegment eliminations.
- The minus ¥2,613 thousand adjustment to segment assets is mainly intersegment eliminations.
- The adjustments for depreciation, and increases in property, plant, and equipment and intangible assets, are intersegment unrealized losses and gains.

2. Segment income is adjusted with operating income in the consolidated financial statements.

Fiscal 2017, the Fiscal Year Ended June 30, 2018 (July 1, 2017 to June 30, 2018)

(Thousands of yen)

	Reporting Segments			Adjustment amount (Note 1)	Amount recorded on consolidated quarterly statements of income (Note 2)
	Software Development Business	System Sales Business	Total		
Net sales					
Net sales to outside customers	10,457,161	619,763	11,076,924	—	11,076,924
Intrasegment net sales and transfers	5,363	5,055	10,418	(10,418)	—
Total	10,462,524	624,818	11,087,342	(10,418)	11,076,924
Segment income (loss)	798,849	(10,650)	788,198	(417)	787,780
Segment assets	3,723,615	363,453	4,087,068	(3,857)	4,083,210
Other items					
Depreciation	28,737	2,111	30,849	(73)	30,776
Increase in property, plant and equipment and intangible assets	6,206	400	6,606	(484)	6,121

Notes

1. Adjustments are as follows.
 - a. The minus ¥417 thousand adjustment to segment income is mainly intersegment eliminations.
 - b. The minus ¥3,857 thousand adjustment to segment assets is mainly intersegment eliminations.
 - c. The adjustments for depreciation, and increases in property, plant, and equipment and intangible assets, are intersegment unrealized losses and gains.
2. Segment income is adjusted with operating income in the consolidated financial statements.

(Per Share Information)

(Yen)

	Fiscal 2016 (July 1, 2016 to June 30, 2017)	Fiscal 2017 (July 1, 2017 to June 30, 2018)
Net assets per share of common stock	155.78	170.68
Net income per share	30.33	34.57
Diluted net income per share	30.09	—

Notes:

1. The Company conducted a two-for-one split of common stock on October 1, 2016. The Company also conducted a two-for-one split of common stock on April 1, 2018. The figures for net assets per share of common stock, net income per share and diluted net income per share are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.
2. The basis for calculating net income per share and diluted net income per share is presented as follows:

(Thousands of yen unless otherwise stated)

	Fiscal 2016 (July 1, 2016 to June 30, 2017)	Fiscal 2017 (July 1, 2017 to June 30, 2018)
Net income per share		
Profit attributable to owners of parent	466,279	531,701
Amounts not applicable to ordinary shareholders	—	—
Profit attributable to owners of parent applicable to common stock	466,279	531,701
Average number of common shares (Shares)	15,371,994	15,382,116
Diluted net income per share		
Adjustment to profit attributable to owners of parent per share	—	—
Increased number of common shares (Shares)	125,014	—
(Subscription rights to shares)	(125,014)	(—)
Description of the diluted shares not included in the calculation of diluted net income per share due to their non-dilutive effect from the previous fiscal year	—	—

(Important Subsequent Events)

Not applicable.