



Yasushi Okamoto, President

## A reinforced frontline will fuel progress on structural transformation that underpins sustainable improvement in corporate value.

Yasushi Okamoto, TIS President and Representative Director, looks back on fiscal 2023, ended March 31, 2023, highlights progress on the current medium-term management plan and key themes going forward, and comments on the Group's vision for the future.

### Looking back on fiscal 2023

It was a year marked by favorable business results and progress on frontline reinforcement.

Fiscal 2023 delivered higher sales and higher income year on year, breaking past performance records and enabling TIS to achieve net sales, operating income and operating margin targets stated in the medium-term management plan a year ahead of schedule. These results reflect a huge amount of work and solid backup by everyone—management and employees alike—throughout the TIS INTEC Group to respond diligently to the active IT investment needs of clients, particularly thriving demand for digital transformation (DX). We also achieved a very commendable increase in return-on-equity through measures to enhance management, namely reduction of cross-shareholdings and execution of treasury share buybacks to optimize capital structure.

I also get a real sense of progress on frontline reinforcement—a management theme I have emphasized since becoming president. The current medium-term management plan is the second step toward achieving our corporate vision—“Create Exciting Future”—by 2026, and during this step, we are fully engaged in efforts to improve the value of DX services provided to better address social issues, promote further structural transformation, and strengthen value exchange with stakeholders through this process. Frontline reinforcement is essential to structural transformation, and my message is and will continue to be that all employees and management, including myself, be proactive in thought and deed—that is, look beyond strengthening skills in marketing and planning from a client perspective—and thereby respond to the needs of all the stakeholders we connect with.

Frontline reinforcement is a long-term process, like using traditional herbal medicine to improve health, and progress or markers of success may be hard to define numerically. But I can tell you we explored many different avenues in fiscal 2023 that will ultimately reinforce the frontline. Of note, we rolled out training programs to develop DX consultants, with more than 400 people already qualified, moving ever closer toward our goal of 500 by fiscal 2024. We also extended a business partner satisfaction survey into the entire group, which complements existing client satisfaction and employee awareness surveys, to deepen engagement with business partners who are indispensable in executing projects. And we reviewed the new human resources structure, which was introduced in April 2023, as well as the associated compensation system. These are extremely major steps toward enhancement of human resources, our most valuable corporate asset. Of course, we actively provided opportunities for dialogue with shareholders and investors, as well, and encouraged a deeper level of engagement across stakeholder groups.

### Structural transformation and human resources strategy

We are creating an environment in which employees are comfortable taking on new challenges.

The TIS INTEC Group has been involved in a process of structural transformation, including expansion of service-based businesses, since 2018. From our earliest days, our strength has always been system integration (SI) capabilities for customized development of clients' large-scale core systems. We will continue to polish these capabilities as a core competence. However, a current ask from clients these days is to reduce the time and cost associated with system development, so we will focus on template-type service-based solutions developed through anticipation of shared client needs. SI and service-based solutions are, fundamentally, a form of production, but the approaches taken are the polar opposite. SI is customized support defined by individual client requirements whereas service-based solutions reflect an understanding of wider market needs that we ourselves address with upfront investment to create software as a service available to anyone. Frontline reinforcement that fuels active participation is essential to this evolution of our form of production, and we are boldly engaged in this process.

Engagement with human resources—the champions of structural transformation and the energy that fuels corporate growth—has always featured prominently in our human resources strategy. We have highlighted three themes—the significance of work, the work environment, and compensation—and have seized on new opportunities, including workstyle reform and the opening of the state-of-the-art Toyosu Office, to showcase our commitment to human resources. In fiscal 2023, TIS took steps to update its human resources system, with changes scheduled to be implemented from April 2023. Of note, under the new compensation system, the underlying goal is to increase base salaries, with an upper limit of 17% and an average of 6%, and we have prepared for a ¥5 billion increase in aggregate personnel costs, including improved employee perks on a groupwide basis.

Compensation for employees comprises two components: a bonus and base salary. It is incumbent upon management to ensure employees fully understand that the bonus component corresponds to fiscal results and individual performance in terms of contributing to such results. That said, to encourage employees to be active participants in structural transformation and gamely embrace challenges—thus providing support indispensable to the Group's future—we have to keep base salaries high and lay the foundation for a stable standard of living resilient to changes in the market environment and business results. For some time already, we have maintained annual salary increases in line with other companies, but I believe it is the duty of management to

create an environment that draws talented people to the Group and enables them to fully demonstrate their capabilities in a comfortable working environment. This was the determining factor in our bold approach to upfront investment in human resources at this time.

**Growth strategy for IOS strategic domain, tapped as most powerful growth engine**  
**We will leverage the payment solutions business as a key component of our growth strategy.**

The TIS INTEC Group boasts a long track record of involvement in building financial systems, especially mission-critical systems for clients in the credit card sector, and has strong solution capabilities. TIS, in particular, can lay claim to being Japan's No.1 system integrator in the payment services sector, a position cemented by PAYCIERGE, which is a digital payment settlement platform infused with know-how accumulated over many years in the SI business.

PAYCIERGE addresses all digital payment processes associated with prepaid, debit and credit formats and covers SaaS-type services, which eliminates the need for a client to build its own system, as well as smartphone payment, security and other functions basic to a payment platform. That said, peripheral services related to payment settlement are expanding all the time to meet changing payment settlement needs, and PAYCIERGE continues to evolve as well. For example, Japan lifted restrictions on digital salary payments, effective April 1, 2023, and with employee consent, companies are now permitted to deposit wages into designated funds transfer service provider accounts, including payments through various apps instead of traditional bank accounts. A completely new trend in money circulation has emerged, and through tie-ups with companies to which we

have provided salary payment packages in PAYCIERGE, the platform is already prepared for providing digital salary payment services. I'm sure new money trends will emerge beyond salary payment, even in peripheral services related to payment settlement, such as reimbursement of expenses and payment of taxes. We, too, have to keep evolving to ensure that PAYCIERGE is seen by companies as a one-stop solution capable of covering all payment needs.

In addition, heightened expectations for the TIS INTEC Group are being felt on the frontlines of business. For example, we are already participating in verification tests, including proof-of-concept for next-generation MaaS (Mobility as a Service) transportation services and local e-currency. But the various services, once commercially available, will require payment from the people who use them, and our strength in payment services is highly attractive to companies not only in the finance sector but also in non-financial sectors seeking to work together on new services geared to the changing needs of society.

Against this backdrop, we are rolling out initiatives that will translate into an expanded portfolio for PAYCIERGE. Looking to respond to demand for embedded finance, which is the integration of financial services into non-financial businesses' infrastructures, TIS turned ULTRA Co., Ltd., an internationally branded prepaid payment servicer, into a subsidiary in May 2022. More recently, in April 2023, TIS turned Nihon ICS Co., Ltd., a provider of financial accounting packages for tax accounting offices and companies, into a subsidiary to reinforce IOS (IT Offering Services), a strategic domain. Nihon ICS has connections to more than 10,000 tax accounting offices across Japan, more than 400,000 client companies and more than 100 financial institutions and has many years of tangible results in providing the kind of business models the TIS INTEC Group seeks for IOS. To date, the Group

has developed business activities with an emphasis on major corporations, but in bringing Nihon ICS, with its proven track record and high-level technology and know-how in accounting/taxation software packages, under the Group umbrella, the Group embarks on a journey toward a new destination—providing solutions to a complementary set of small and mid-sized companies and realizing new business opportunities.

**Efforts to create a new pillar of business**  
**We are expanding efforts that utilize digital technology to help address social issues at home and abroad.**

Creating a new pillar of business to complement PAYCIERGE and turning it into a corporate strength is a priority in our goal to fuel further growth in IOS. Anticipating growth from a long-term perspective and defining the direction that will lead us to a successful result is one of the key responsibilities I have as president.

Currently, we have identified four social issues—financial inclusion, urban concentration/rural decline, low-carbon/decarbonized society, and health concerns—that we, as a corporate group, have the ability to help ameliorate through our business activities. Regarding health concerns, living life in good health is taking on greater importance as life expectancy in Japan hits 100, and against this backdrop, we are pleased to include in the Group's service menu a healthcare platform for building medical and health data managed primarily by medical institutions into personal health records that can be used to help individuals maintain good health. Visits to medical facilities during the pandemic were somewhat limited, especially if the reason was non-urgent, and progress in platform implementation was thus slower than hoped for. But we will continue to promote the platform as a tool for living life in good health.

Regarding the establishment of a low-carbon/decarbonized society, we aim to achieve carbon neutral status under Scope 1, 2 criteria by 2040, and we already disclose information in accordance with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). These are inward activities. For clients, we launched Carbyny, an IT solution brand that draws on years of insight gained through IT support for clients, including electric power companies, to realize a decarbonized society. Carbyny VPP (virtual power plant) Platform, which integrates regionally distributed energy resources through a cloud-based network, is now available.

Looking beyond Japan, we have our sights on becoming the top-class IT group in the ASEAN region, and we are leveraging strategic capital and business alliances along three trajectories—marketing channels, technologies and consulting capabilities—particularly in Thailand, Indonesia and Vietnam. In July 2022, TIS formed a capital and business alliance with PIX Moving, a Chinese startup developing self-driving chassis for electric vehicles. The alliance with PIX will enhance TIS' ability to create new IT services for MaaS (Mobility as a Service), smart city and other mobility applications, and facilitate a robust response to the issue of urban concentration/rural decline as well.

**Robotics will be absolutely essential in an aging society.**

Robotics is a focus of attention from a longer-term perspective. Full-scale, practical application of robotics requires changes to the very structure of cities, including, for example, the establishment of road traffic laws, and this will take time. However, against the backdrop of a labor shortage amid the continued graying of society in Japan and other developed countries, robotics is seen as an absolutely essential technology for the future, where dangerous jobs are performed by robots instead of humans. Our role, as the TIS INTEC Group, is not robot development but integration, combining multiple robots in an IT environment, and toward this end, we participate in all kinds of verification tests while accumulating know-how. In addition, we use service robots for reception and information operations at the Toyosu Office, and turn knowledge gained through practical applications like this into templates to support the robotics-related businesses of domestic companies. We will persist in our efforts to promote practical application of robotics.

**Manufacturing technology is our foundation and will remain so in order to fulfill our responsibility to society.**

There's lots of talk about system development using generative AI, which has currently caught market attention, and the TIS INTEC Group is of course exploring generative AI along with other new technologies. But large-scale systems comprise multiple, intricately entwined programs working in a coordinated way. Knowing the purpose of each system and clearly articulating how that system will address particular social issues are top priorities, especially in system design, and humans are essential to this process. And I would add that a responsibility to provide products and services to society should be top of mind in any business operation.

As I mentioned earlier, SI—a process that responds to client requirements—forms the bedrock of our operations, and we are working to build on this foundation with development and wider access to DX consulting and service-type businesses. As a result, we have accelerated training and hiring of human resources—namely, DX consultants, including data analysts—involved in manufacturing-related upstream processes. However, no matter how diverse our pool of talent grows and no matter how adept generative AI becomes in complex system development, it is vital that everyone under the TIS INTEC Group umbrella understand the basic technology that underlies system development. We are a service manufacturer—that is, a corporate group making products with digital technology—and we provide these products to society. It is therefore incumbent upon us from a social responsibility perspective to ensure that our products do not exist in a black box. In IT terms, that means there should be nothing mysterious about how our products work, complex as that may be, just because they do work.



**To achieve sustainable growth, we will enhance our ability to solve social issues focusing on such things as improving the value of DX services provided and fuel progress on structural transformation.**

## To our stakeholders

### It is the duty of upper management, myself included, to fulfill the social responsibility incumbent upon the TIS INTEC Group.

I am happy to report steady progress on the implementation of all business strategies, underpinned by the excellent efforts of corporate officers and employees. And I am reminded that the most significant role I can play as president is to deepen value exchange with stakeholders by enabling people outside the Group to gain a better understanding of what the Group does. Through good two-way communication, we can promote changes that drive forward-thinking structural transformation, including marketing activities that expand the ring of cooperation and reinforce frontline operations. Frontline reinforcement may be gradual, but I see sure and steady progress. The process must be irreversible or else every step forward has been for naught. We must achieve progress without any backtracking. With completion of infrastructure development to underpin structural transformation followed by wider participation in service-type businesses through reciprocal cooperation, we are getting ever closer to meeting the criteria for swift acceleration of structural improvement.

What I don't want to see is a phrase like "major SI" used to describe the TIS INTEC Group, but rather, immediate recognition of the TIS INTEC Group as having a deeper presence in society. Yes, technically, we belong to the SI sector,

but we aim to be more than a system integrator, instead aspiring to be a corporate group transcending SI and addressing social change through the power of digital technology. I think of myself as a conservative person, in the sense that I make decisions after carefully ascertaining what's necessary rather than by going on the defensive to hold a position. In fiscal 2023, several major investments were approved, and I firmly believe that each investment is essential to sustainable growth and higher corporate value going forward. Of course, these investment decisions were carefully discussed by the Board of Directors and others, from multifaceted perspectives, not to convince ourselves of the need but to ensure that stakeholders would accept the rationale behind these investments.

The COVID-19 pandemic is one example of unexpected situations that can upend the operating environment worldwide. Such events may happen again. Establishing a structure that can deal with anticipated risks is vital, along with determined efforts to explain our stance to stakeholders. I know that if we do this properly, we boost our ability to overcome any obstacle. Honest and sincere responses are the style of OUR PHILOSOPHY, the TIS INTEC Group philosophy, and guided by this philosophy, I will lead the TIS INTEC Group in fulfilling its social responsibilities and its duty to seamlessly connect our vision for the future to the next generation. The support and cooperation of all stakeholders will be instrumental to our shared success.

## Decision to acquire facility at heart of system operation services

Unprecedented approach from perspective of ensuring long-term, stable business continuity

Item	Details
Building overview	Gotenyama SH Building (Shinagawa-ku, Tokyo) Land: Site area measuring 6,858.68 m <sup>2</sup> Building: Total floor space of 19,812.85m <sup>2</sup>
Seller	Sekisui House Reit, Inc.
Acquisition price	¥72 billion (¥70 billion to acquire real estate trust beneficiary rights/100% acquired equity; about ¥2 billion in brokerage fees).
Acquisition method	Will gradually acquire quasi-co-ownership interest, with total amount broken into 10 single payments of ¥7 billion. First payment on October 31, 2023, with nine subsequent payments made every six months at end of each sixth month. Payment process will be complete with final payment on April 30, 2028.
Acquisition capital	Planning to use cash on hand and loans from financial institutions.

In March 2023, TIS made the decision to acquire real estate trust beneficiary rights in Gotenyama SH Building, a facility in Shinagawa-ku, Tokyo, that the Company currently leases and uses as a hub for providing system operation services and its own brand of cloud services. Payment will be made in installments. TIS typically prefers "have-not management" in that wherever possible the Company does not own fixed assets, such as operating bases and offices, and has been promoting a process of integration and consolidation. However, management feels the facility for which real estate beneficiary rights will now be acquired is absolutely necessary to support business activities, and the acquisition is extremely important from the perspective of building trust with clients as facility ownership ensures stable, long-term business continuity. In addition, management took a comprehensive view that included the reduced expenses effect of ownership and TIS' current financial status, which would allow for a large-scale investment, and concluded that the acquisition would contribute to enhanced corporate value of the TIS INTEC Group over the medium to long term. This is a rare exception to policy, and going forward, TIS will emphasize operations conscious of returns on capital.