

Status of Internal Control Systems and Risk Management Structure

The Company revised its Basic Policies Regarding Internal Control Systems at a meeting of the Board of Directors on June 24, 2016, in order to accommodate the merger by absorption with wholly owned subsidiary TIS Inc. on July 1, 2016. The revisions reflect changes to the management structure resulting from the Company's adoption of an operating holding company structure, and internal control systems have been developed and put into effect based on the new policies.

More specifically, the Company has adopted a "Group Management Philosophy" and "Basic Group Policy on CSR," in accordance with which it is working to ensure business is conducted properly and to make improvements that enhance corporate value by developing group-wide internal control systems (including structures for business administration, compliance, risk management, and internal audits).

Internal control at the Company is organized as follows.

Group Internal Control Committee

The Group Internal Control Committee identifies issues concerning the internal control of the Group as a whole, assesses progress on implementing improvements, and performs other related tasks from the following four standpoints.

Compliance

The Committee deliberates significant compliance issues affecting the Group as a whole and embeds good compliance practices throughout the Group by determining and managing progress on implementation of measures to prevent recurrences of incidents in accordance with compliance regulations.

The Committee has also introduced an internal group-wide whistleblower system and launched a whistleblower support service as means of preventing illegal acts and detecting and rectifying them as soon as possible when they occur, and it is working to raise awareness of legal compliance throughout the Group.

Risk Management

The Committee classifies the risks facing the Group as a whole into hazard risks, operational risks, financial risks, and strategic risks, and it has established structures for managing these risks and systems of accountability should crises arise in accordance with risk management regulations.

The Committee has also drawn up group risk management policies for the Company and the Group as a whole, and it monitors risks, promotes risk mitigation measures, and confirms the state of implementation of risk countermeasures.

Information Security

The Committee ascertains, assesses, and promotes improvements to the standard of information security management throughout the Group in accordance with regulations on promoting group information security. The Committee has also set up investigative committees when information security incidents occur, and it has established systems of accountability and other structures to resolve incidents (including by identifying causes, implementing countermeasures, and pursuing measures to prevent a recurrence).

Assessment of Development and Operation Status of Internal Control Systems

The Committee promotes various measures to maintain and improve group-wide internal controls in accordance with the Basic Policies Regarding Internal Control Systems and other rules and regulations, and it has established processes for monitoring the development and operation status of internal control systems and reporting the findings of deliberation by the Committee to the Board of Directors. Action is then taken to strengthen and improve internal control systems throughout the Group based on the reports made to the Board of Directors.

As of March 31, 2017, the Group comprised parent company TIS Inc. ("TIS" or "the Company") and 46 consolidated subsidiaries, including principal companies INTEC Inc., AGREX INC., QUALICA INC. and AJS Inc., and 55 affiliated companies for which the equity method is applied. Through additional acquisition of shares, PromptNow Co., Ltd. fall under the scope of consolidation from the fiscal 2017 ended March 31, 2017.

Effective July 1, 2016, wholly owned subsidiary TIS Inc., was merged into the Company (previously, IT Holdings Corporation), which then transitioned into an operating holding company. Paralleling this shift, the name of the Company changed to TIS Inc.

Profit and Loss Status

On the consolidated basis, net sales increased 2.8% from fiscal 2016, to ¥393,398 million, because we emphasized accurate identification of client needs in sectors where IT investment is showing renewed growth. On the earnings side, successful efforts to improve profitability, along with higher net sales starting point, neutralized impact of unprofitable projects, pushed income up year-on-year. Operating income rose 10.6% from a year earlier to

¥27,019 million, and recurring profit increased 10.5% to ¥27,092 million. Net income attributable to owners of the parent company rose 28.6% to ¥16,306 million, and reached target stated in medium-term management plan a year ahead of schedule.

(A breakdown of performance by business segment is presented on page 23 under "Group Business Summary".)

(Years ended March 31)	Millions of yen		
	Fiscal 2017	Fiscal 2016	% change
Net sales	¥393,398	¥382,689	+2.8%
Cost of sales	317,440	312,153	+1.7%
Cost of sales ratio	80.7%	81.6%	-0.9 point
Gross profit	75,958	70,535	+7.7%
Gross profit margin	19.3%	18.4%	+0.9 point
Selling general and administrative expenses	48,938	46,099	+6.2%
Ratio of selling, general and administrative expenses to net sales	12.4%	12.0%	+0.4 point
Operating income	27,019	24,436	+10.6%
Operating income ratio	6.9%	6.4%	+0.5 point
Recurring profit	27,092	24,521	+10.5%
Recurring profit ratio	6.9%	6.4%	+0.5 point
Net income attributable to owners of the parent company	16,306	12,678	+28.6%
Net income attributable to owners of the parent company as a percentage of net sales	4.1%	3.3%	+0.8 point

Segment Business Content

IT Infrastructure Services	Provide self-administered computer utility or system operation services through large IT facilities, including data centers.
Financial IT Services	Support clients in their efforts to make greater use of IT in their operations and in the execution of their business activities with IT expertise and business know-how specific to the finance industry.
Industrial IT Services	Support clients in their efforts to make greater use of IT in their operations and in the execution of their business activities with IT expertise and business know-how in areas other than finance, namely industrial and public sectors.
Others	Activities other than those described above.

Sales and Income by Business Segment		Millions of yen	
(Years ended March 31)	Fiscal 2017	Fiscal 2016	% change
Net sales	¥393,398	¥382,689	+2.8%
IT infrastructure services	126,581	125,929	+0.5
Financial IT services	84,051	79,519	+5.7
Industrial IT services	189,409	180,000	+5.2
Other business	11,885	16,095	-26.2
Intersegment elimination/adjustments	(18,528)	(18,855)	—
Operating income	27,019	24,436	+10.6
IT infrastructure services	10,158	8,924	+13.8
Financial IT services	3,626	3,361	+7.9
Industrial IT services	12,496	9,972	+25.3
Other business	1,084	2,649	-59.1
Intersegment elimination/adjustments	(345)	(471)	—

Note: Sales by segment in the above chart include intersegment sales.

Financial Position

Total assets stood at ¥337,622 million as of March 31, 2017, up 0.3%, from a year earlier. Current assets accounted for ¥152,162 million, down 8.7%, and fixed assets accounted for ¥185,459 million, up 9.2%. Current liabilities came to ¥78,676 million, down 14.0%, and non-current liabilities totaled

¥59,743 million, down 7.3%. Net assets were ¥199,202 million, up 10.3%. Equity capital, derived by subtracting non-controlling interests of ¥4,149 million from net assets, increased 10.5% year-on-year, to ¥195,053 million, pushing the equity ratio to 57.8%, up 5.3 point.

Financial Position		Millions of yen	
(As of March 31)	Fiscal 2017	Fiscal 2016	% change
Total assets	¥337,622	¥336,495	+0.3%
Total liabilities	138,420	155,955	-11.2
Net assets	199,202	180,539	+10.3
Non-controlling interests	4,149	3,990	+4.0
Equity capital	195,053	176,549	+10.5
Key ratios	%		
Equity ratio (*1)	57.8%	52.5%	+5.3 point
Return on equity (*2)	8.8	7.0	+1.8 point

Notes: 1. Equity ratio = (Equity capital / Total assets) x 100
2. Return on equity = Net income / Equity capital [(equity capital at the beginning of the term + equity capital at the end of term) / 2] x 100

Cash Flow Status

Cash and cash equivalents (“cash”) totaled ¥25,730 million as of March 31, 2017, down 47.1% versus March 31, 2016. Contributions to cash flow were as follows.

Cash flow from operating activities: Operating activities generated net cash of ¥18,952 million, down 25.7% from a year ago. This mainly reflects income before income taxes of ¥24,840 million and the positive cash flow effect of ¥11,801 million in depreciation, which offset a ¥7,852 million increase in notes and accounts receivable and ¥15,041 million in income taxes paid.

Cash flow from investing activities: Investing activities used net cash of ¥23,488 million. In fiscal 2016, the Company recorded net cash provided by investing activities of ¥8,688

million. This is largely due to an inflow of ¥3,506 million in proceeds from sale and redemption of marketable securities, which overshadowed ¥9,533 million in payments for the acquisitions of property and equipment, ¥7,548 million for the acquisitions of investment securities, and ¥7,115 million for the acquisitions of intangible assets.

Cash flow from financing activities: Financing activities used net cash of ¥18,327 million, up 22.4% from a year ago. A cash inflow of ¥10,905 million in proceeds from long-term debt was outweighed by outflows of ¥23,021 million for repayments of long-term debt, ¥2,945 million for dividends paid, and ¥2,106 million for purchase of treasury stock.

Cash Flow Status		Millions of yen	
(Years ended March 31)	Fiscal 2017	Fiscal 2016	% change
Cash and cash equivalents at end of year	¥25,730	¥48,651	- 47.1%
Net cash provided by operating activities	18,952	25,496	- 25.7
Net cash provided by (used in) investing activities	(23,488)	8,688	—
Net cash used in financing activities	(18,327)	(14,979)	+22.4
Free Cash Flow	(4,536)	34,184	—

Business Risks

Risks with the potential to significantly impact the operations—business results and financial position—of the Group are described below. Note that forward-looking statements mentioned in these materials are based on information available to management as of June 28, 2017.

1. Price wars and heightened competition

In the information services industry, competition among sectors is fierce and the situation is further exacerbated by such challenges as the increasing entry of companies from other industries into our industry. In addition, clients are cutting back on IT investment. These factors could fuel price wars. Within the Group, we seek to distinguish ourselves from our competitors, primarily by adding greater value to the information services we provide, and we also work to improve productivity. However, if price wars erupt beyond the scope we have anticipated, our business results could be adversely affected.

2. Legal system and compliance

Group companies pursue respective business activities in line with prevailing laws and regulations in Japan and overseas. In developing these activities, each company establishes a compliance system, in accordance with the Group’s basic policy on CSR, and strives to ensure thorough legal compliance. However, if a law is broken or if additional laws or regulations are put into force, the Group’s business activities and business results could be adversely affected.

3. Overseas business

As part of its growth strategy, the TIS INTEC Group seeks to expand the Group’s presence overseas, especially in the ASEAN (Association of Southeast Asian Nations) region. Various factors can have an impact on activities abroad, including legal restrictions, particularly regulations pertaining to investment and competition, as well as business customs and labor-management relations. If these risks appear, the Group’s business results could be adversely affected.

Business Risks

4. System development

The TIS INTEC Group is involved in contract system development services and information systems for client companies. In the development of systems that are increasingly larger in scale and on shorter delivery schedules, costs could rise significantly beyond the estimate if quality cannot be achieved according to plan or a project cannot be completed within the promised timeframe. Also, in system development, certain services are contracted to a number of companies, mainly to secure production capacity, boost production efficiency and utilize external technology, and there is always a chance that these outsourced providers will not meet productivity and quality expectations. Such situations could adversely affect the Group's business results.

5. System operation

The TIS INTEC Group offers round-the-clock outsourcing and cloud services 365 days a year through data centers and other large IT facilities. In developing this business, a vast amount of capital is required, from start-up investment through constant upkeep and operation. In addition, utilization of facilities could sink to a conspicuously low level in times of sluggish demand, which could adversely affect business results. Furthermore, if, in providing system operation services, losses are incurred because a client company's system crashes or malfunctions, the Group's reputation for reliability may be tarnished and the brand may lose credibility, and compensation may be required to cover client losses. Such situations could adversely affect the Group's business results.

6. Information security

The Group may gain access to confidential information, such as personal information in possession of client companies as well as system technology information belonging to client companies, during the stages of a project running from system development through operation. Efforts are made to properly manage information, in accordance with the TIS INTEC Group Information Security Policy. But if confidential information is leaked, altered or otherwise impacted by such means as a computer virus or unauthorized access, client companies or other relevant parties could demand compensation for damages, and the Group could lose the market's confidence. This could adversely affect the Group's business results.

7. Human resources

The business activities of the Group rely heavily on human resources and are greatly influenced by the Group's ability to keep talented individuals and upgrade their skills to provide specialized, high-value-added services to clients. If the

companies of the Group are unable to keep and train individuals with excellent capabilities as planned, the business results of the Group could be adversely affected.

8. Technological innovation

In the information services industry, providers must respond quickly to advances in information technology and to changing market needs that parallel these advances. The Group constantly promotes studies and research, with an emphasis on information technology and production and development techniques, to reinforce efforts to respond to market needs. However, in the vast domains of the industry, the pace of technological innovation is lightning fast, and if the Group's responses are not appropriate, its business results could be adversely affected.

9. Intellectual property rights

Members of the Group apply for and obtain patents on technologies and business models necessary to conduct business and also register trademarks in Japan and overseas. Business activities are always undertaken with careful attention to prevent third-party infringement of intellectual property rights, but it is possible that Group activities may infringe on the intellectual property rights of other companies and lead to claims for compensation. If that occurs, the business activities and business results of the Group could be significantly impacted.

10. Natural disasters

The Group offers outsourcing and cloud services through data centers and other large IT facilities. These facilities are equipped with various systems and structures to deal with a range of disasters. However, if a power outage that lasting longer than might reasonably be prepared for, a large-scale natural disaster, international disputes, acts of terrorism or serious criminal activity were to interrupt smooth data center operations, the business results of the Group could be adversely affected.

11. Securities portfolio

Companies within the Group hold stock to build stable and long-term relationships with suppliers and to promote sales, and bonds to utilize surplus capital. When acquiring these marketable securities, efforts are made to pinpoint financial status, performance trends, credit rating and other key factors of the issuer, and thereby ensure investment stability. But obvious changes in the stock market and other securities-related developments could lead to situations, such as losses on the books, which could have an effect on the Group's financial status and its business results.

IT Glossary

IoT (Internet of Things)

Not only information and telecommunications equipment, such as computers, but anything with embedded Internet connectivity and communication functions that facilitates auto-identification, auto-control, remote measurement and other applications.

Agile software development

Term for software development aimed at quickly and continuously providing software with value. Target software is split into a number of small features, which are developed and added on one at a time in short cycles called iterations.

ASP (Application Service Provider)

Company that offers customers (individuals or enterprises) access to software over the Internet or some other type of network.

IaaS (Infrastructure as a Service)

A method, service and business model that enables use of an infrastructure, such as hardware or wiring needed to operate an information system, through a network.

API (Application Programming Interface)

Interface specifications that allow software (computer programs) to interact. The use of APIs makes it easier for various software components (systems) to communicate with each other.

M2M (Machine to Machine)

A method for direct communication between devices using any communications channel.

Offshore Development

The outsourcing of system development, operation, maintenance, management and other services to overseas providers or overseas subsidiaries.

Omnichannel

Represents realization of environment in which all kinds of sales routes (marketing channels), including physical and virtual stores, are integrated, and customers can purchase products seamlessly from anywhere.

Virtualization Technology

Technology that logically builds resources, such as servers, inside hardware without the physical configuration. If several virtual servers can be created to work within a single server, conversely, it is also possible for several hard disks to show as a single hard disk.

Cloud Computing

Delivery of software, applications and other configurable resources to be used as services through the Internet without locating such data or programs on corporate premises. A hybrid cloud refers to systems available for use by anyone over the Internet, and a private cloud refers to configuration and operation of computing resources for employees, mainly, over a company's own network.

Trend toward Service Economy

Shift from customized configuration and delivery where the provided format of systems is matched to individual requirements in favor of standardized services available for use by an unspecified number of people.

SaaS (Software as a Service)

A method and service, and also business model, for distributing software over the Internet or other networks so that users can access and use the software whenever required.

PaaS (Platform as a Service)

A method and service, and also business model, for using platforms, such as hardware to operate application software and for operating systems, through a network.

Virtual Reality (VR)

Divided into a computer-generated virtual world using computer graphics with technology to make the environment seem real and one that uses the real world. Various gear is needed, including displays, speakers, headphones and other equipment or devices, to achieve the simulated experience of a 3D environment.

Big Data

A term for data sets so huge and complex that traditional database management systems and data processing application software are inadequate for recording, storing and analyzing such large volumes of information. Examination of such data sets can lead to valuable insights applicable to business and society, and big data has thus attracted attention as a source of information bringing about new methods and systems capable of dealing with major amounts of data.

Blockchain

Technology used to record transactions involving virtual currencies, such as bitcoin. Blockchain verifies data across all computers linking all transaction information over a peer-to-peer network, and the decentralized ledger is present across multiple nodes, making alteration or corruption of data practically impossible.

BPO (Business Process Outsourcing)

When a company outsources some of its business processes such as general affairs, personnel and accounting, to a specialist service provider.

ERP (Enterprise Resource Planning)

Technique and concept that collectively manages and allocates various enterprise resources, such as personnel, capital, facilities and information, with the objectives being to enhance business efficiency and optimize business management. Also, the integrated business software suite used to achieve ERP.

FinTech

Term coined from "finance" and "technology," implies use of IT to contribute to enhanced efficiency and innovation in financial services.

Consolidated Financial Summary

TIS Inc., and consolidated subsidiaries
Years ended March 31

(Millions of yen)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Net sales	323,173	327,417	337,834	346,647	361,025	382,689	393,398
Cost of sales	261,145	266,159	276,935	283,881	294,927	312,153	317,440
Gross profit	62,027	61,258	60,899	62,766	66,097	70,535	75,958
Selling, general and administrative expenses	49,209	45,636	42,727	43,255	44,976	46,099	48,938
Operating income	12,818	15,621	18,171	19,510	21,121	24,436	27,019
Recurring profit	12,625	15,393	17,440	18,971	21,251	24,521	27,092
Net income attributable to owners of the parent company	5,985	2,135	5,868	7,913	10,275	12,678	16,306
Current assets	128,455	142,442	138,219	143,519	140,450	166,666	152,162
Fixed assets	172,620	167,560	164,083	170,091	205,401	169,828	185,459
Total assets	301,076	310,003	302,302	313,610	345,851	336,495	337,622
Current liabilities	73,090	83,065	91,063	72,790	77,666	91,508	78,676
Non-current liabilities	76,875	75,972	53,079	76,316	79,395	64,447	59,743
Total liabilities	149,965	159,038	144,143	149,107	157,062	155,955	138,420
Net assets	151,110	150,965	158,159	164,502	188,789	180,539	199,202
Total liabilities and net assets	301,076	310,003	302,302	313,610	345,851	336,495	337,622
Total interest-bearing debt	77,454	76,515	60,550	58,869	52,115	46,158	35,144
Cash flow from operating activities	27,236	23,658	21,515	25,770	22,938	25,496	18,952
Cash flow from investing activities	(18,957)	(15,158)	(14,391)	(5,334)	(17,744)	8,688	(23,488)
Cash flow from financing activities	(18,755)	(4,230)	(19,883)	(5,872)	(19,067)	(14,979)	(18,327)
Cash and cash equivalents at the end of the term	36,492	41,119	28,433	43,142	29,485	48,651	25,730
Free cash flow	8,279	8,500	7,124	20,436	5,194	34,184	(4,536)
Capital expenditures	18,325	14,096	12,287	12,544	16,873	14,210	15,159
Depreciation	12,308	12,745	12,920	12,454	12,809	11,952	11,801
Research and development expenses	1,062	962	1,002	853	1,097	1,086	1,178
Amortization of goodwill	1,901	1,882	1,741	1,166	1,052	339	326
Goodwill balance at the end of the term	5,551	3,672	1,914	830	2,021	1,393	1,332
Net income per share—basic (yen)	68.19	24.33	66.86	90.16	117.40	145.22	189.02
Net income per share—diluted (yen)	—	24.33	66.83	90.12	—	—	—
Dividends per share (yen)	32.00	18.00	21.00	25.00	30.00	33.00	36.00
Payout ratio (%)	46.9%	74.0%	31.4%	27.7%	25.6%	22.7%	19.0%
Net assets per share (yen)	1,636.56	1,636.72	1,714.88	1,782.23	2,108.19	2,031.07	2,265.76
Interest-bearing debt ratio (%)	25.7%	24.7%	20.0%	18.8%	15.1%	13.7%	10.4%
Equity ratio (%)	47.7%	46.3%	49.8%	49.9%	53.3%	52.5%	57.8%
Net income to equity capital ratio (ROE) (%)	4.2%	1.5%	3.9%	5.1%	6.0%	7.0%	8.8%
Recurring profit to total assets ratio (ROA) (%)	4.1%	5.0%	5.7%	6.2%	6.4%	7.2%	8.0%
Number of employees at the end of the term	20,831	20,347	19,553	19,081	19,090	19,393	19,843
Number of new-graduate recruits	928	649	356	455	620	688	674
Number of regular recruits	370	450	379	549	499	687	575

Notes: 1. Total interest-bearing debt indicates the total sum of borrowed money and corporate bonds.
2. Free cash flows indicate the total sum of cash flows from operating activities and cash flows from investing activities.

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Profile

Group History

Value Creation Process

Financial/
Non-Financial Highlights

To Our Stakeholders

Medium-Term
Management Plan

Group Business Summary

Platform that Supports
Value Creation Process

Financial Review
Financial Summary

Corporate Data

(Millions of yen)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Sales and Income by Business Segment							
Net sales	323,173	327,417	337,834	346,647	361,025	382,689	393,398
IT Infrastructure Services	110,916	111,358	112,666	115,360	118,200	125,929	126,581
Financial IT Services	72,665	70,099	71,499	75,148	79,543	79,519	84,051
Industrial IT Services	141,294	149,466	155,689	158,234	166,357	180,000	189,409
Other business	16,595	16,234	16,232	16,498	14,667	16,095	11,885
Inter-segment elimination/adjustments	(18,298)	(19,740)	(18,253)	(18,593)	(17,742)	(18,855)	(18,528)
Operating income	12,818	15,621	18,171	19,510	21,121	24,436	27,019
IT Infrastructure Services	8,131	8,049	7,101	7,652	7,179	8,924	10,158
Financial IT Services	3,922	4,534	6,021	6,385	5,549	3,361	3,626
Industrial IT Services	1,625	2,658	4,992	4,687	7,049	9,972	12,496
Other business	1,313	2,277	2,153	2,152	2,159	2,649	1,084
Inter-segment elimination/adjustments	(2,174)	(1,898)	(2,097)	(1,367)	(816)	(471)	(345)
Sales by Client Sector							
Net sales	323,173	327,417	337,834	346,647	361,025	382,689	393,398
Credit card	52,614	45,084	48,846	49,402	53,743	59,274	65,006
Banking	25,819	26,702	26,230	29,049	25,444	27,867	28,233
Insurance	23,448	22,931	23,836	25,269	24,972	26,339	25,356
Other finance	19,178	23,416	21,337	23,481	23,312	20,406	20,857
Assembly-based manufacturing	46,323	40,363	38,824	40,904	45,785	49,455	42,723
Processing-based manufacturing	26,135	31,074	38,468	33,843	34,960	35,061	36,953
Distribution	22,870	26,267	27,398	30,009	31,775	32,702	31,773
Services	70,017	71,012	73,425	72,666	77,535	79,601	89,607
Public institutions	28,015	30,107	28,225	30,393	29,891	36,603	37,002
Others	8,754	10,456	11,241	11,626	13,604	15,376	15,882
Order Status (Software development)							
Orders received during the term	162,287	174,680	179,352	172,721	199,842	207,345	208,307
Financial IT Services	60,697	63,117	65,367	63,927	69,226	73,861	75,361
Industrial IT Services	101,590	111,562	113,985	108,794	130,616	133,483	132,946
Order backlog at year-end	47,967	57,778	62,055	58,869	71,095	69,961	64,751
Financial IT Services	18,229	24,452	26,057	23,824	23,983	25,796	25,547
Industrial IT Services	29,738	33,325	35,997	35,044	47,111	44,164	39,204

Notes: 1. From the fiscal 2017 ended March 31, 2017, TIS reviewed the business segment of the partial clients in accordance with the change, fiscal 2016 figures are recalculated.
2. Net sales include inter-segment sales.

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