Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2019

(April 1, 2018 through September 30, 2018)
(Prepared pursuant to Japanese GAAP)

All financial information has been prepared in accord with accounting principles generally accepted in Japan. This is a partial English translation of the original Japanese-language document. All information pertains to consolidated results unless otherwise noted. Information on the basis of presentation of consolidated financial statements does not appear in this translation.

October 31, 2018

Company name:	TIS Inc.
Stock exchange listings:	The First Section of the Tokyo Stock Exchange
Stock code:	3626
URL:	http://www.tis.com/
Representative:	Toru Kuwano, Chairman and President
Contact:	Tsuneyoshi Ito, Department Manager of Finance & Accounting Dept., Corporate Planning SBU.
Phone:	+81 3-5337-4569

Scheduled dates

Submission of quarterly report:	November 9, 2018
Commencement of dividend payments:	December 10, 2018
Supplementary materials to the quarterly results:	Available
Quarterly results presentation held:	Yes (targeted at institutional investors and analysts)

Figures in millions of yen are rounded down to the nearest million

1. Consolidated Results for the First Half of the Fiscal Year Ending March 31, 2019 (April 1, 2018 – September 30, 2018)

(1) Consolidated Financial Results

Percentages indicate year-over-year changes

	Net sales		Operating income		Recurring profit		Net income attributable to owners of the parent company	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
First Half, FY2019	203,030	4.2	15,542	14.4	15,837	15.1	10,692	24.3
First Half, FY2018	194,813	3.1	13,591	44.2	13,759	44.4	8,602	51.4

Note: Comprehensive income: First Half, FY 2019 10,832million yen (-26.7%), First Half, FY 2018: 14,777million yen (97.9%)

	Net income per share – basic	Net income per share – diluted
	Yen	yen
First Half, FY2019	126.14	-
First Half, FY2018	100.46	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	millions of yen	millions of yen	%
End of First Half, FY2019	383,291	230,637	58.9
End of FY2018	366,954	226,298	60.4

For reference: Total equity: End of First Half, FY2019: 225,834 million yen End of FY2018: 221,634 million yen.
*Total equity = Shareholders' equity plus total accumulated other comprehensive income

2. Cash Dividends for Shareholders of Common Stock

	Cash dividends per share				
Record date or period	End-Q1	End-Q2	End-Q3	Year-end	Total
	yen	yen	yen	yen	yen
FY2018	-	14.00	-	26.00	40.00
FY2019	-	20.00			
FY2019 (forecast)			-	40.00	60.00

Note: Revisions from the latest release of dividends forecasts: None

3. Forecast of Consolidated Results for FY2019 (April 1, 2018 – March 31, 2019)

Percentages indicate year-over-year changes

	Net sales		Operating income		Recurring profit		Net income attributable to owners of the parent company		Net income per share – basic
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full FY2019 (year ending Mar. 31, 2019)	414,000	2.1	35,000	6.9	35,500	8.2	23,300	13.0	275.56

Note: Revisions from the latest release of earnings forecasts: None

※ Notes

(1) Material reclassifications of subsidiaries during the period: None
(Changes in specified subsidiaries resulting in change in scope of consolidation)
Additions: None Exclusions: None

(2) Accounting methods specific to quarterly consolidated financial statements: None

(3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement
1) Changes in accordance with amendments to accounting standards, etc.: None
2) Changes other than noted in 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatement: None

(4) Common stock issued
1) Issued shares as of period-end (including treasury stock):
End-First Half, FY2019 (September 30, 2018): 87,789,098 shares
End-FY2018 (March 31, 2018): 87,789,098 shares
2) Treasury stock as of period-end:
End-First Half, FY2019 (September 30, 2018): 3,439,662 shares
End-FY2018 (March 31, 2018): 2,613,034 shares
3) Average number of shares (during the respective six-month period):
First Half, FY2019 (ended September 30, 2018): 84,762,918 shares
First Half, FY2018 (ended September 30, 2017): 85,635,467 shares
Note: Treasury stock includes the number of the Company's own shares held by TIS INTEC Group Employees' Shareholding Association Trust and the Board Incentive Plan (BIP) Trust.

***Quarterly review status**
These materials are not subject to the quarterly review procedures to be conducted by certified public accountants or an audit firm.

Caution on Forward-Looking Statements and Other Important Matters
This report contains forward-looking statements that reflect TIS Inc. ("TIS")'s plans and expectations based on information available to TIS at the time of preparation and on certain other information TIS believes to be reasonable. These forward-looking statements are not guarantees of future performance, and actual results, performance, achievements or financial position may differ materially from those expressed or implied herein due to a range of factors.

For the assumptions underlying the forecasts herein and other notice on the use of earnings forecasts, refer to "(3) Consolidated Earnings Forecast and Caution on Forward-Looking Statements" in the "1. Results of Operations" section on page 7 in the Accompanying Materials.

Accompanying Materials – Contents

1. Results of Operations

(1) Analysis of Consolidated Operating Results

In the first six months of fiscal 2019 (April 1, 2018 ~ September 30, 2018), the Japanese economy continued a moderate recovery owing to high corporate earnings and an improvement in employment conditions. Regarding the outlook, although it is necessary to monitor the impact of uncertainties surrounding the global economy and financial market fluctuations, the Japanese economy is expected to continue its moderate recovery trend.

The business environment surrounding the IT services industry, to which the TIS INTEC Group belongs, was robust during the period. The Bank of Japan’s Short-term Economic Survey of Enterprises in Japan (September 2018) showed a 7.0% year-on-year increase in company software investment plans (all manufacturing & financial institutions), reflecting a strong trend for increased IT investment by companies embracing digital management and aiming to realize their business strategies through the aggressive application of IT.

In this environment, the TIS INTEC Group promoted various measures to achieve a speedy structural transformation and raise corporate value under a new three-year medium-term management plan launched at the start of the new fiscal year. The new three-year plan will build the foundation from which the Group will work to realize its Group Vision 2026.

Consolidated net sales for the Group in the first six months increased 4.2% year on year to ¥203,030 million. Operating income rose 14.4% from a year earlier to ¥15,542 million, recurring profit grew 15.1% to ¥15,837 million, and net income attributable to owners of the parent company expanded 24.3% to ¥10,692 million.

The increase in consolidated net sales was driven by the Group’s ability to accurately grasp the IT investment needs of its customers in areas where IT investment is growing. The increase in operating income reflects sales growth and higher gross profit realized through continued efforts to improve profitability. These positives offset an increase in selling, general and administrative expenses related to expenditures targeted at strengthening the Group’s efforts to achieve structural reforms. The growth in recurring profit primarily reflects the growth in operating income. The year-on-year growth in net income attributable to owners of the parent company reflects the positive flow from the above factors and an improvement in the net extraordinary income/loss balance.

First-half consolidated results include extraordinary income of ¥14,357 million and extraordinary losses totaling ¥13,017 million. The main components of these two figures, as reported in our September 27 press release “Notice Regarding Booking of Extraordinary Loss and Extraordinary Income", are a ¥10,056 million extraordinary gain on the sale of investment securities and a ¥8,800 million extraordinary expense related to data center migration.

Segment results for the period are as follows. Following changes to the Group’s management structure for the purpose of accelerating the ongoing structural transformation, reporting business segments have been realigned and changed, effective from the start of the first quarter of the current fiscal year. The sales figures for each segment include inter-segment sales. Year-on-year percent changes are based on calculations of previous-year results that reflect the new segmentation.

1) Service IT Business

This segment comprises Group businesses providing knowledge-intensive IT services that leverage TIS's service and industry know-how to create universalized, template-oriented solutions for its customers (includes default configuration and ERP).

Segment sales in the first half of fiscal 2019 totaled ¥56,156 million, up 17.5% year on year, and operating income increased 11.3% to ¥3,396 million. Expansion of settlement-related business and strong demand for ERP updates contributed to strong sales growth, which offset spending on forward-looking investment to strengthen the business, thus enabling the segment to post growth in sales and profits.

2) BPO

This segment comprises businesses that leverage the Group's extensive service and IT know-how to deliver business process outsourcing (BPO) services, including marketing and sales services and office and contract operations.

Segment sales in the first half totaled ¥18,259 million, down 0.3% year on year. Operating income expanded 36.3% to ¥815 million. In a favorable business environment, sales were steady and broadly in line with the previous year's level and the segment posted increased operating income thanks to successful efforts to improve transaction margins and other initiatives.

3) Financial IT Business

This segment comprises businesses that leverage business and operating know-how specific to the financial sector to raise the value-added of clients' operations, expand their use of IT, and provide support to operations using IT.

Segment sales in the first half of the fiscal year totaled ¥52,723 million, up 4.1% year on year, and operating income expanded 18.0% to ¥5,715 million. Sales and profits increased on strong contributions from large-scale projects for credit card companies and expanding IT investment by core clients.

4) Industrial IT Business

This segment's businesses leverage business and operating know-how specific to non-finance industries to raise the value-added of clients' operations, expand their use of IT, and provide support to operations using IT.

Segment sales in the first half totaled ¥89,864 million, up 4.5% year on year, and operating income increased 13.1% to ¥5,420 million. The increases in sales and profits were driven by expanding IT investment by customers in a wide range of industrial sectors, including energy-related sectors.

5) Other

The Other segment includes a number of ancillary businesses that provide leasing and other information systems to clients.

Segment sales in the first half came to ¥4,587 million, a 12.1% year-on-year decline, while operating income increased 1.8% to ¥500 million. These results primarily reflect the absorption merger of IT Service Force Inc., a wholly owned subsidiary responsible for the TIS INTEC Group's shared services, and inclusion of that business's results in the Other segment from the second quarter of the current fiscal year.

As noted above, the TIS INTEC Group embarked on a new three-year medium-term management plan from the start of this fiscal year. The new plan will build the foundation from which the Group will work to realize its Group Vision 2026. By striving to fulfill the new plan's five basic policies—"Sustainable profit growth", "Emphasis on employee self-fulfillment", "Concentrate on core businesses"; "Shift to prior investment style of business development", and "Expand Global Business"—we aim to achieve a speedy structural transformation and raise corporate value.

Fiscal 2019 is the first year of the new medium-term management plan. The Group has formulated the following management strategy for the plan's initial year and is energetically implementing measures to accomplish the strategy.

Group Management Policies for Fiscal 2019

1) Charge forward on switch to service-style business
2) Robust prior investment to create new services
3) Added-value and productivity improvements in domains of expertise
4) Promote growth strategy aimed at becoming a top-class IT group in ASEAN region
5) Boost motivation and reinforce human resource management

The major initiatives taken in the first half of fiscal 2019 are presented below.

1) Charge forward on switch to service-style business

During the first half, we strengthened our cloud and security business when we launched the new Platform Square brand, which is based on the concept of providing one-stop added-value services by combining our Cloud & Security solutions with our Consulting & Managed Services. The new Platform Square brand brings together our specialists in cloud and security-related solutions and various other fields. In addition to strengthened staff numbers, the new brand brings together a wide range of solutions, from services consulting to managed services, which it is now using to accelerate business expansion, including the creation of new services.

We are also working with MUFG Bank to develop a "token requester agency service" for the bank's MUFG Wallet (provisional name), a new smartphone-based settlement service that the bank plans to introduce in spring 2019. The "token requester agency service" will also be offered to other mobile digital wallet operators. This service uses TIS technology to securely store tokenized settlement ID information on the full range of devices that might be used to make payments, including smartphones, wearable devices, and IoT-capable equipment. We will be working with MUFG Bank to develop services that leverage MUFG Bank's expertise in payment operations and TIS's expertise in the construction and operation of payment IT infrastructure. In the future we aim to provide, through such services, the security infrastructure that will ensure peace of mind for those using a diverse range of IoT devices to make online payments.

2) Robust prior investment to create new services

As part of our efforts to acquire state-of-the-art technology and enter the global market, we established a capital and business tie-up with R3 HoldCo LLC, a US-based technology startup that has established one of the world's leading brands in distributed ledger technology (DLT), a blockchain-related technology for corporate users. In addition, to promote business development of robot integration (the linking of robotics and ICT technologies) in the enterprise domain, we made an additional investment in SEQSENSE Inc., a startup company engaged in the development of autonomous mobile robots that we have previously been involved with through seed investments from our corporate venture capital system and through the dispatch of directors and employees.

In line with our efforts to promote open innovation through corporate venture capital, during the period we established an AI-specialized corporate venture capital framework to speed up decision-making and facilitate closer collaboration with startup companies in the AI field, where the remarkable pace of technological advancement is attracting keen attention from companies in all fields.

3) Added-value and productivity improvements in domains of expertise

During the first half, our preparations to launch CreditCube+ were advanced by the start of several projects with potential first users. CreditCube+ is a next-generation card processing service that fully leverages the technologies and expertise cultivated through our CreditCube credit-card core operations system. The new system will enable customers to improve competitiveness and reduce costs by using a system that optimally balances the merits of shared data with customers' proprietary data. In addition, we joined five other companies participating in a test run of the use of electronic payment service Alipay directly on ticket gates of the Yui Rail monorail line operated by Okinawa Urban Monorail, Inc. The test was part of TIS's effort to contribute to solutions that make travel in Japan easier for foreign visitors and create new opportunities for business expansion through the construction and operation of settlement centers that handle customer payments for merchants and acquirers.

Group company INTEC Inc. continued its efforts to develop new high-value-added services. During the period under review, INTEC succeeded in cloudifying its integrated CRM solution F^3 (F Cube), which leverages the company's years of experience providing services for regional banks. INTEC has also developed and begun offering new optional services, including an anti-money laundering system and automated loan screening service.

During the period, we continued our efforts to eliminate unprofitable projects and promote enhancement reforms aimed at further improving profitability. The success of these efforts is evident in the steady rise in the Group’s gross profit margin.

4) Promote growth strategy aimed at becoming a top-class IT group in ASEAN region

During the first half of the year, we strengthened our partnership with the Group’s Indonesian equity-method affiliate PT Anabatic Technologies Tbk, by purchasing convertible bonds with stock acquisition rights recently issued by PT Anabatic Technologies Tbk. To help Anabatic achieve further growth by accelerating the development of new areas of business, such as settlement services using QR codes and blockchains, we are working on the establishment of Group-led cooperative schemes with R3 HoldCo LLC, with which we entered into a capital and business alliance tie-up as noted earlier, and with Shanghai-based CardInfoLink, which has extensive experience in such areas as the provision of QR code settlement solutions.

We also formed a capital and business tie-up with TinhVan Technologies JSC., a major IT firm in Vietnam, with which we will work to develop settlement-related business in Vietnam, starting with a QR settlement service.

5) Boost motivation and reinforce human resource management

During the first half of fiscal 2019, we continued our efforts on the human resources front to promote the growth of each member of our diverse group of employees as well as the sustainable growth of the Company by implementing various "workstyle reform" and "health management" measures. For example, in April 2018 we established the new Human Resources SBU, which has issued a personnel manifesto. We also publicly proclaimed our plans to make TIS a company where employees are highly motivated. The manifesto presents the new Human Resources SBU’s three-point mission and various measures being taken to fulfill the mission’s objectives in the areas of “evaluation, treatment, and remuneration,” “workstyle reform, health management, and diversity” and “hiring, training, and assignment.” We also resolved to introduce, as part of these reforms, a new employment policy that pushes back the mandatory retirement age to 65 with no changes in the employee’s labor conditions after 60, meaning that basic salary and bonuses remain based on job function and personnel evaluations.

In addition to the above initiatives, we have launched cross-group projects centered on TIS and INTEC Inc. to promote enhancement and greater efficiency of headquarters functions and are now considering multifaceted approaches to realize these goals. As part of this effort, the Company absorbed group company IT Service Force Inc., which was responsible for the shared services of the TIS INTEC Group, and consolidated its functions with existing Group headquarter functions. In line with the Group’s policy of flexibly managing its capital positon to enable flexible responses to its operating environment while continuing to enhance shareholder returns and capital efficiency, a share buyback was carried out from May to July 2018, resulting in the acquisition of 809,100 shares at a total acquisition cost of ¥4,209 million.

(2) Analysis of Financial Condition

(Assets)

Consolidated total assets as of September 30, 2018, came to ¥383,291 million, an increase of ¥16,337 million from ¥366,954 million at the end of the previous fiscal year on March 31, 2018.

Current assets totaled ¥175,566 million, up from ¥162,064 million, primarily owing to a ¥12,086 million increase in other current assets.

Fixed assets totaled ¥207,725 million, up from ¥204,889, owing mostly to a ¥3,782 million increase in investment securities.

(Liabilities)

As of the end of the first half on September 30, 2018, total liabilities amounted to ¥152,654 million, an increase of ¥11,999 million from ¥140,655 million at the end of the previous fiscal year.

Current liabilities totaled ¥84,285 million, up from ¥81,310 million six months earlier, mainly reflecting a ¥8,342 million increase in other current liabilities.

Non-current liabilities amounted to ¥68,369 million, up from ¥59,344 million, primarily owing to an increase of ¥8,487 million in long-term debt.

(Net assets)

Net assets at the end of the first half of the fiscal year totaled ¥230,637 million, up ¥4,388 million from ¥226,298 million at the end of the previous fiscal year. The increase primarily reflects an ¥8,760 million increase in retained earnings, largely from net income attributable to owners of the parent company.

(3) Consolidated Earnings Forecast and Caution on Forward-Looking Statements

The Group achieved strong consolidated business performance for the first six months of the fiscal year, as results exceeded the business plan targets. The Group will continue striving to achieve full-year targets by steadily implementing various measures. At the current time, there is no change to the consolidated earnings forecast announced on May 10, 2018.

From this fiscal year, the Company has adopted a total return ratio* benchmark of 40%. Considering the previously mentioned share buyback and the current consolidated earnings forecast, the Company estimates the total return will come to 39.9% in the current fiscal year.

*Total return ratio: The ratio of the combined value of dividend payments and share buybacks versus net income attributable to owners of the parent company

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Items	As of March 31, 2018	As of Sep. 30, 2018
	millions of yen	millions of yen
Assets		
Current assets		
Cash and deposits	38,032	57,618
Notes and accounts receivable	94,438	75,386
Lease receivables and lease investment assets	4,747	4,405
Marketable securities	100	100
Merchandise and finished goods	3,526	3,871
Work in process	5,432	6,250
Raw materials and supplies	263	243
Other current assets	15,884	27,970
Allowance for doubtful accounts	(360)	(279)
Total current assets	162,064	175,566
Fixed assets		
Property and equipment		
Buildings and structures, net	39,990	38,792
Machinery and equipment, net	7,547	7,760
Land	19,373	18,575
Leased assets, net	2,952	2,875
Other property and equipment, net	5,815	5,795
Total property and equipment	75,680	73,800
Intangible assets		
Software	12,506	12,315
Software in progress	4,359	5,486
Goodwill	707	611
Other intangible assets	1,341	1,228
Total intangible assets	18,915	19,642
Investments and other assets		
Investment securities	78,766	82,548
Net defined benefit asset	5,610	5,714
Deferred tax assets	8,958	9,251
Other assets	17,230	16,876
Allowance for doubtful accounts	(271)	(107)
Total investments and other assets	110,293	114,282
Total fixed assets	204,889	207,725
Total assets	366,954	383,291

Items	As of March 31, 2018	As of Sep. 30, 2018
	millions of yen	millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable	23,246	18,985
Short-term borrowings	4,460	3,159
Income taxes payable	6,139	6,497
Accrued bonuses to directors and employees	13,184	13,435
Provision for loss on order received	1,075	658
Other allowances	72	75
Other current liabilities	33,131	41,473
Total current liabilities	81,310	84,285
Non-current liabilities		
Long-term debt	25,482	33,969
Lease obligations	3,997	3,672
Deferred tax liabilities	3,925	4,876
Deferred tax liabilities from revaluation of land	403	272
Accrued retirement benefits to directors	65	56
Other allowances	650	313
Net defined benefit liability	17,296	17,707
Other non-current liabilities	7,522	7,500
Total non-current liabilities	59,344	68,369
Total liabilities	140,655	152,654
Net assets		
Shareholders' equity		
Common stock	10,001	10,001
Additional paid-in capital	83,384	83,384
Retained earnings	108,298	117,059
Less treasury stock, at cost	(7,742)	(12,137)
Total shareholders' equity	193,941	198,307
Accumulated other comprehensive income		
Net unrealized gains on other securities	31,922	31,906
Revaluation reserve for land	(2,375)	(2,672)
Foreign currency translation adjustments	128	(318)
Remeasurements of defined benefit plans	(1,983)	(1,388)
Total accumulated other comprehensive income	27,692	27,527
Non-controlling interests	4,664	4,802
Total net assets	226,298	230,637
Total liabilities and net assets	366,954	383,291

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

Consolidated Statements of Income

Items	First Half, FY2018 (Apr. 1 – Sep. 30, 2017)	First Half, FY2019 (Apr. 1 – Sep. 30, 2018)
	millions of yen	millions of yen
Net sales	194,813	203,030
Cost of sales	156,060	159,867
Gross profit	38,752	43,162
Selling, general and administrative expenses	25,161	27,619
Operating income	13,591	15,542
Non-operating income		
Interest income	19	87
Dividend income	756	691
Other	411	375
Total non-operating income	1,186	1,155
Non-operating expense		
Interest expenses	172	169
Financing expenses	3	226
Equity in losses of affiliated companies	541	175
Other	300	289
Total non-operating expenses	1,018	860
Recurring profit	13,759	15,837
Extraordinary income		
Gain on sale of investment securities	42	13,145
Gain on sales of fixed assets	153	913
Other	-	299
Total extraordinary income	196	14,357
Extraordinary loss		
Impairment loss	512	423
Data center transfer cost	-	8,800
Other	160	3,793
Total extraordinary loss	673	13,017
Income before income taxes	13,283	17,177
Income taxes: current	3,635	5,971
Income taxes: deferred	761	171
Total income taxes	4,397	6,142
Net income	8,886	11,034
Net income attributable to non-controlling interests	283	342
Net income attributable to owners of the parent company	8,602	10,692

Consolidated Statements of Comprehensive Income

Items	First Half, FY2018 (Apr. 1 – Sep. 30, 2017)	First Half, FY2019 (Apr. 1 – Sep. 30, 2018)
	millions of yen	millions of yen
Net income	8,886	11,034
Other comprehensive income		
Net unrealized gains on other securities	5,851	5
Revaluation reserve for land	-	(296)
Foreign currency translation adjustments	34	(342)
Remeasurements of defined benefit plans	31	595
Share of other comprehensive income of equity-method affiliates	(26)	(165)
Total other comprehensive income	5,891	(202)
Comprehensive income	14,777	10,832
(Composition)		
Comprehensive income attributable to owners of the parent company	14,410	10,527
Comprehensive income attributable to non-controlling interests	367	305

(3) Notes on the Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Additional Information)

As the Company has adopted *Partial Amendments to Accounting Standard for Tax Effect Accounting* (ASBJ Statement No.28, February 16, 2018) and other related standards from the beginning of the first quarter of the fiscal year ending March 31, 2019, "deferred tax assets" is presented in the category of investments and other assets, and "deferred tax liabilities" is presented in the category of non-current liabilities.