Consolidated Financial Results for the Fiscal Year ended March 31, 2023
(April 1, 2022 through March 31, 2023)
(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.

May 9, 2023

Company name:	TIS Inc.
Stock exchange listings:	The First Section of the Tokyo Stock Exchange
Stock code:	3626
URL:	https://www.tis.com/
Representative:	Yasushi Okamoto, President
Contact:	Masahiro Hiwasa, Department Manager of Finance & Accounting Dept., Corporate Planning SBU.
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Scheduled dates

Annual general shareholders' meeting:	June 23, 2023
Filing of statutory financial report:	June 26, 2023
Commencement of dividend payments:	June 26, 2023

Supplementary materials to the full-year results:	Available
Full-year 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 Fiscal Year ended March 31, 2023 (FY2023) (April 1, 2022 – March 31, 2023)

(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	%
FY2023	508,400	5.4	62,328	13.9	63,204	13.5	55,461	40.5
FY2022	482,547	7.6	54,739	19.7	55,710	41.9	39,462	42.5

Note: Comprehensive income: FY2023: 47,746 million yen (27.4%); FY2022: 37,481 million yen (-2.8%)

	Net income per share – basic	Net income per share – diluted	Return on shareholders' equity	Ratio of recurring profit to total assets	Ratio of operating income to net sales
	yen	yen	%	%	%
FY2023	227.11	-	18.8	13.5	12.3
FY2022	157.69	-	14.0	12.0	11.3

For reference: Equity in earnings (losses) of affiliated companies: FY2023: (1,088) million yen; FY2022: (1,012) million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	yen
End-FY2023	462,320	309,226	64.2	1,227.44
End-FY2022	476,642	302,993	61.5	1,173.60

For reference: Total equity: End of FY2023: 297,039 million yen End of FY2022: 293,125 million yen
*Total equity = Shareholders' equity plus total accumulated other comprehensive income

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
	millions of yen	millions of yen	millions of yen	millions of yen
FY2023	33,634	11,300	(64,573)	94,306
FY2022	56,126	(3,424)	(21,948)	113,820

2. Cash Dividends for Shareholders of Common Stock

	Cash dividends per share					Total dividends paid (full year)	Payout ratio (consolidated)	Dividends paid to net assets (consolidated)
Record date or period	End-Q1	End-Q2	End-Q3	Year-end	Total			
	yen	yen	yen	yen	yen	millions of yen	%	%
FY2022	-	13.00	-	31.00	44.00	11,051	27.9	3.9
FY2023	-	15.00	-	35.00	50.00	12,167	22.0	4.2
FY2024 (forecast)	-	17.00	-	36.00	53.00		30.4	

Note: Total dividends paid includes dividends (54 million yen for FY2022, 39 million yen for FY2023) paid to TIS INTEC Group Employees' Shareholding Association Trust and dividends (9 million yen for FY2022, 10 million yen for FY2023) paid to Board Incentive Plan (BIP) Trust.

3. Forecast of Consolidated Results for FY2024 (April 1, 2023 – March 31, 2024)

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
First half of FY2024 (six months ending Sep. 30, 2023)	261,000	6.4	29,500	6.5	29,500	0.9	19,500	3.5	80.71
Full FY2024 (year ending Mar. 31, 2024)	530,000	4.2	63,500	1.9	63,500	0.5	42,000	-24.3	174.19

Note: The forecast of consolidated results may be revised depending on when the novel coronavirus outbreak comes to an end.

※Notes

(1) Material reclassifications of subsidiaries during the period: Yes

(Changes in specified subsidiaries resulting in change in scope of consolidation)

Additions: None

Exclusions: 1 Sequent Software Inc.

(2) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

1) Changes in accordance with amendments to accounting standards, etc.: Yes

2) Changes other than noted in 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(3) Common stock issued

1) Issued shares as of period-end (including treasury stock):

End-FY2023 (March 31, 2023): 244,445,411 shares

End-FY2022 (March 31, 2022): 251,160,894 shares

2) Treasury stock as of period-end:

End-FY2023 (March 31, 2023): 2,446,057 shares

End-FY2022 (March 31, 2022): 1,394,103 shares

3) Average number of shares (during the fiscal year):

FY2023 (ended March 31, 2023): 244,212,296 shares

FY2022 (ended March 31, 2022): 250,246,048 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.

Audit Status

Financial reports are not subject to review procedures to be conducted by certified public accountants or an audit firm.

Caution on Forward-Looking Statements and Other Important Matters

At a Board of Directors' Meeting held on May 9, 2023, TIS Inc. (TIS) resolved to acquire its own (treasury) shares in accordance with Article 156 of the Companies Act of Japan, as applied pursuant to Paragraph 3, Article 165 of said Act. Accordingly, "Net income per share – basic" in the Forecast of Consolidated Results for FY2024 has been presented taking into account the effect of this acquisition of treasury shares.

This report contains forward-looking statements that reflect 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 "(4) Outlook for fiscal 2023" in the "1. Results of Operations" section on page 12 in the Accompanying Materials.

Accompanying Materials - Contents

1. Results of Operations

(1) Analysis of Consolidated Operating Results

During fiscal 2023, while living with COVID-19, there were signs of a pickup in the Japanese economy, due in part to the effects of various policies. Looking ahead, it will be necessary to watch carefully for the risk of downward pressure on Japan’s economy due to the effects of a downturn in overseas economies, rising prices, supply-side constraints, and fluctuations in financial and capital markets amid worldwide monetary tightening, and other factors.

The IT services industry, to which the TIS INTEC Group (“the Group”) belongs, is expected to see further increases in IT investment demand as the transformation of business processes and business models utilizing digital technologies progresses globally. This is demonstrated by factors such as the Bank of Japan’s quarterly Short-term Economic Survey of Enterprises in Japan announced during the period under review, which all showed year-on-year increases in corporate software investment plans (all industries, including financial institutions).

In this environment, in accordance with its medium-term management plan (2021-2023) currently being implemented for further growth in achieving “Group Vision 2026”, the Group is continuing to work to accelerate business restructuring, with enhancing the value provided by digital transformation as the keystone.

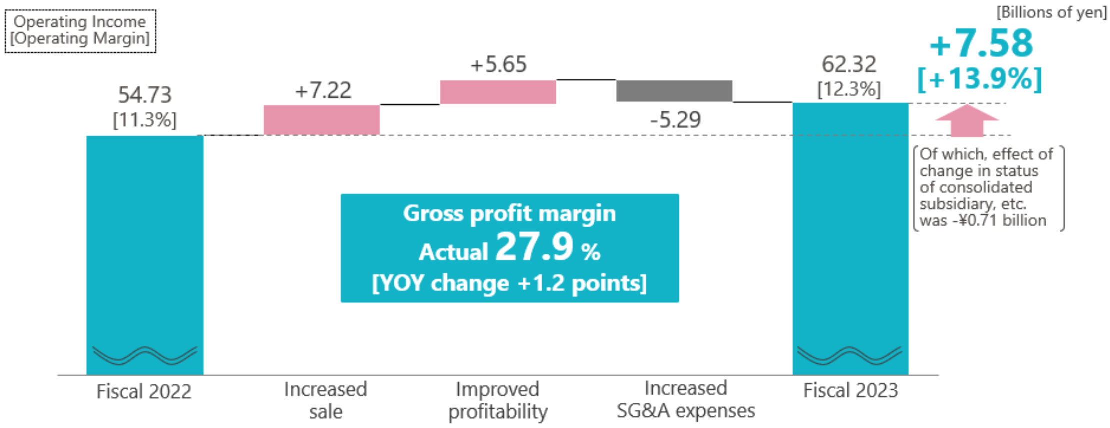
Consolidated net sales for the Group during fiscal 2023 rose 5.4% year on year to ¥508,400 million. Operating income rose 13.9% to ¥62,328 million, recurring profit rose 13.5% to ¥63,204 million, and net income attributable to owners of the parent company rose 40.5% to ¥55,461 million.

(Unit: millions of yen)

	Fiscal 2022	Fiscal 2023	Year-on-year change
Net sales	482,547	508,400	+5.4%
Cost of sales	353,699	366,668	+3.7%
Gross profit	128,848	141,732	+10.0%
Gross profit ratio	26.7%	27.9%	+1.2P
Selling, general and administrative expenses	74,108	79,403	+7.1%
Operating income	54,739	62,328	+13.9%
Operating income ratio	11.3%	12.3%	+1.0P
Recurring profit	55,710	63,204	+13.5%
Net income attributable to owners of the parent company	39,462	55,461	+40.5%

Net sales were higher than the previous year as a result of meeting the demand for IT investment, such as customers’ demand for digital transformation. As for operating income, gross profit ratio rose 1.2 percentage points to 27.9% over the previous year’s level due to factors such as the provision of high value-added businesses and the promotion of productivity and quality improvement measures, in addition to the increase in income due to higher revenue. This offset the increase in selling, general and administrative expenses, which were mainly due to investments such as anticipatory investments to promote structural transformation and investments that will contribute to future growth. As a result, operating income was higher and the operating income ratio increased 1.0 percentage points year-on-year to 12.3%. The increase from the previous year in recurring profit reflected the growth in operating income. Net income attributable to owners of the parent company was significantly higher than the previous year due to an increase in recurring profit and a great improvement in extraordinary income and loss. Fiscal 2023 results also include extraordinary income of ¥22,040 million, up ¥10,747 million year on year, and extraordinary losses totaling ¥3,752 million, down ¥1,769 million. The extraordinary income includes a gain on sale of investment securities and subsidiary, and the extraordinary losses include loss on valuation of investments and impairment losses.

<Analysis of the increase/decrease in key factors of operating income (YOY change)>



Prior investment costs for promoting structural transformation:
Up ¥1.72 billion (YOY change)
(Cost of sales: +¥1.17 billion, SG&A expenses: +¥0.54 billion)
Software investment / Investment in human resources / Investment in R&D
+
Cost of investment in human resources (additional):
Up ¥5.15 billion (YOY change)
(Cost of sales : +¥2.83 billion, SG&A expenses : +¥2.32 billion)

Cost of office reform to promote new workstyles:
Down ¥0.95 billion (YOY change)
(Cost of sales : -¥0.34, SG&A expenses : -¥0.61 billion)

Changes in SG&A expenses	
Effect of change in status of consolidated subsidiary, etc.	+0.05
Office reform	-0.61
Prior investment (includes enhanced employee benefits)	+2.87
Lower operating costs, enhanced head office functions	-0.20
Others (includes brand-related costs)	+3.17
Total	+5.29

Segment results for the period are as follows. In line with the change in the Group-wide management structure to promote further structural transformation, the Group has changed its segment classifications effective from fiscal 2023. Net sales for each segment include inter-segment net sales, and year-on-year comparisons (figures) are derived by reclassifying figures for the same period of the previous year into the new segments after the change.

(Unit: millions of yen)

		Fiscal 2022	Fiscal 2023	Year-on-year change
Offering Service Business	Net sales	103,167	111,752	+8.3%
	Operating income	4,692	6,426	+36.9%
	Operating income ratio	4.5%	5.8%	+1.3P
Business Process Management	Net sales	42,951	43,255	+0.7%
	Operating income	4,991	5,123	+2.6%
	Operating income ratio	11.6%	11.8%	+0.2P
Financial IT Business	Net sales	91,651	101,184	+10.4%
	Operating income	12,355	13,896	+12.5%
	Operating income ratio	13.5%	13.7%	+0.2P
Industrial IT Business	Net sales	108,751	113,632	+4.5%
	Operating income	15,356	16,728	+8.9%
	Operating income ratio	14.1%	14.7%	+0.6P
Regional IT Solutions	Net sales	156,231	160,010	+2.4%
	Operating income	16,492	19,343	+17.3%
	Operating income ratio	10.6%	12.1%	+1.5P
Other	Net sales	6,369	8,957	+40.6%
	Operating income	770	878	+13.9%
	Operating income ratio	12.1%	9.8%	-2.3P

1) Offering Service Business

Configures services through own investment based on best practices the Group accumulated and provides knowledge-intensive IT services.

Segment sales during fiscal 2023 totaled ¥111,752 million, up 8.3% year on year, and operating income increased 36.9% to ¥6,426 million. In addition to growth of overseas sales, the trend of expanding IT investments in areas such as settlement solutions and platforms as well as the promotion of productivity and quality improvement measures improved profitability, and resulted in a year-on-year increase in both sales and profits, with the operating income ratio increasing 1.3 percentage points year-on-year to 5.8%

2) Business Process Management

Addresses issues related to business processes with IT technology, business know-how and skilled human resources to provide more sophisticated, more efficient outsourcing services.

Segment sales during fiscal 2023 totaled ¥43,255 million, up 0.7% year on year, and operating income increased 2.6% to ¥5,123 million. While data entry operations were sluggish, steady sales and profits were achieved against the backdrop of growing digitalization needs, which led to an increase in both sales and profits year-on-year, and pushed up the segment's operating income ratio to 11.8%, a year-on-year improvement of 0.2 percentage points.

3) Financial IT Business

Considers business and IT strategies together and leverages both, and supports business progress using expert business and operating know-how specific to the finance industry.

Segment sales during fiscal 2023 totaled ¥101,184 million, up 10.4% year-on-year, and operating income increased 12.5% to ¥13,896 million. Driven by large projects by credit card companies and other core clients as well as public-sector financial institutions, both sales and profits increased from the previous fiscal year, and the operating income ratio rose to 13.7% (up 0.2 percentage points year-on-year).

4) Industrial IT Business

Considers business and IT strategies together and leverages both, and supports business progress using expert business and operating know-how specific to industry sectors other than finance.

Segment sales during fiscal 2023 totaled ¥113,632 million, up 4.5% year-on-year, and operating income increased 8.9% to ¥16,728 million. In addition to the trend of expanding IT investments, mainly by manufacturing and energy-related sectors core clients, profitability improvements through promotion of productivity and quality improvement measures resulted in a year-on-year increase in sales and profit, and the operating income ratio increased 0.6 percentage points to 14.7%.

5) Regional IT Solutions

Provides IT professional services extensively, across regions and client sites, and collects and develops this know-how as the source of solutions to support efforts to address issues and promote business activities.

Segment sales during fiscal 2023 totaled ¥160,010 million, up 2.4% year on year, and operating income increased 17.3% to ¥19,343 million. In addition to progress in solutions development, the promotion of business activities emphasizing profitability helped to offset the exclusion of a company (Chuo System Corporation) whose shares were transferred outside of the Group during the previous fiscal year, resulting in an increase in sales and profit year-on-year and the operating income ratio increased 1.5 percentage points to 12.1%.

6) Other

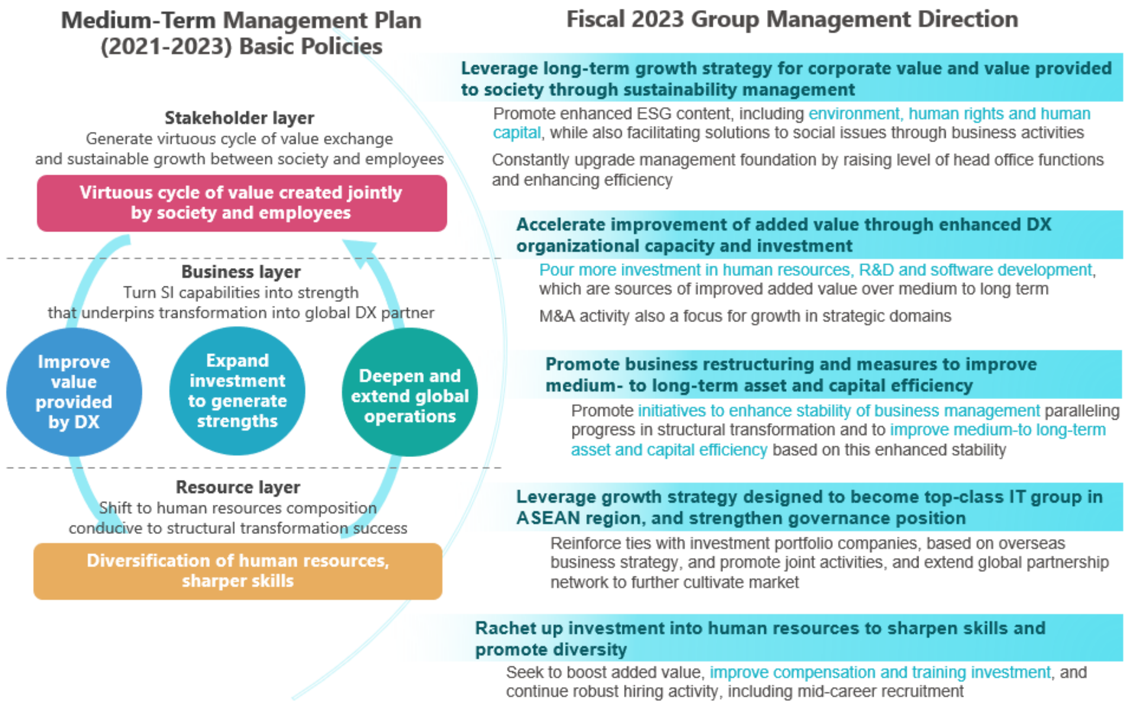
Consists of ancillary businesses offering IT services, and other activities.

Segment sales totaled ¥8,957 million, up 40.6% year-on-year, and operating income expanded 13.9% to ¥878 million and the operating income ratio was down 2.3 percentage points at 9.8%. This was mainly due to the absorption-type split of the Group's shared services business from the Company to TIS Business Service Inc., effective April 1, 2022.

As noted above, the Group has been implementing its medium-term management plan (2021-2023) since the previous fiscal year as a second step towards realizing its “Group Vision 2026”. Under the slogan of “Be a Digital Mover 2023”, the Group is continuing to increasingly focus on Strategic Domains* and is working to accelerate business restructuring, with enhancing the value provided by digital transformation as the keystone.

*Note: “Strategic Domains” are the four business domains designated to be built into the core businesses of the Group by 2026, as set forth in “Group Vision 2026”.

In fiscal 2023, the second year of the medium-term management plan (2021-2023), the Group energetically implemented various measures in line with the following Group management policies.



The status of issues and initiatives in the Group management policies are presented below. As a result of these initiatives, key management indicators specified in the medium-term management plan (2021-2023) were achieved one year ahead of schedule. For details, please refer to “3. Management Policy (3) Key Business Indicators” on page 25.

1) Leverage long-term growth strategy for corporate value and value provided to society through sustainability management

The Company will continue to promote the resolution of social issues through its business operations, as well as the advancement of ESG such as the environment, human rights, and human capital, and the development of its management foundation through the sophistication and efficiency of its head office functions.

In accordance with the Basic Direction on Corporate Sustainability, the Group continues to promote initiatives related to the high priority topics of the environment and human rights as urgent and important social issues. Of these initiatives, with regard to human rights issues, the Group carried out a human rights risk assessment in the previous fiscal year to identify potential human rights risks and make clear which countries, businesses, and rights holders (persons who may be negatively impacted by human rights) should be prioritized for future action. In response to this, during fiscal 2023, in addition to our own Company, we are taking steps to identify human rights risks stemming from labor problems at outsourced companies and equipment suppliers and to create a mechanism for redress, and to develop a system for the use of the Group’s services for other purposes in a phased manner. Regarding environmental issues, the Company is working to reduce greenhouse gas emissions from its business activities in an effort to realize a decarbonized society, aiming to achieve carbon neutrality of the Group’s own greenhouse gas emissions by fiscal 2040 and net zero greenhouse gas emissions for the entire value chain by fiscal 2050. In particular, in the operation of the Group's data centers, which consume the largest amount of electricity, we have decided to use electricity derived from renewable energy sources for all electricity used at our four main data centers starting in April 2023, and we are making preparations for this.

In addition, as part of the Group's contribution to regional communities, the Group has begun to utilize the corporate version of the "hometown tax" and has launched projects in cooperation with NPOs in three domains that cannot be covered by its business activities (activities that support future users, activities to promote digital technology's benefits, and activities to reduce the negative effects of digital technology in society).

In addition, as the Company seeks to establish its presence as a leading sustainability company, it has changed the positioning and composition of the Corporate Sustainability Committee since April 2023. The new Corporate Sustainability Committee is composed mainly of all Directors, including External Directors, and its purpose is to identify trends in the practice of sustainability management and to indicate the direction and goals of our correspondence through discussion of issues.

Such steady progress in corporate sustainability initiatives has resulted in its selection as a component of the MSCI Japan ESG Select Leaders Index for the first time in June 2022.

As part of its efforts to improve the understanding of the Group's brand and its value, we have initiated our owned media, "TIS INTEC Group MAGAZINE". Under the main theme of the brand message, "Make society's wishes come true through IT.", the Group will introduce its specific initiatives and forward-looking plans to solve social issues in a variety of fields.

From the perspective of improving the management foundation by upgrading and increasing the efficiency of head office functions, the Company will expand the scope of the "G20 Head Office Function Upgrade Project", which it has been working on for some time. In addition, as part of our efforts to share and further upgrade indirect business activities, the Company is also promoting a shift to shared services and digital transformation of back-office operations for the whole group through a system centered on TIS Business Service Inc.

2) Accelerate improvement of added value through enhanced DX organizational capacity and investment

In addition to further strengthening investments in human resources, R&D, and software, which are the source of mid- to long-term added value growth, the Group will continue to promote M&A for the purpose of expanding its Strategic Domains.

As we further strengthen the front line, which is the point of contact with stakeholders, and since it is necessary to strengthen consulting functions in upstream areas such as strategic planning and issue formulation to promote digital transformation, especially for customers, the Group is continuing to enhance its collaboration with our consolidated subsidiary, Miotsukushi Analytics Co., Ltd., a consolidated subsidiary with strengths in data analysis and AI consulting. In September 2022, along with the acquisition of Fixel Inc., which is engaged in business system UI (Note 1)/UX (Note 2) design consulting for enterprises and design system construction & operation support for business firms, we established a dedicated digital transformation design team to assist our clients with product and service design, business problem identification, ideation, and concept development. With the addition of this company to the Group, the value provided by digital transformation will be strengthened by combining its excellent design consulting capabilities with the Company's customer support and system construction capabilities. Through these strategic allocations of management resources and human resource development, we will continue to focus on increasing the number of digital transformation consultants and expanding our value delivery system with respect to clients' digital transformation promotion.

In the payments domain, which is one of the Group's strengths, the "credit card processing service" (Note 3) went into service. In addition, we are developing our business in the overall settlement area, including digital accounts, mobile wallets, service coordination, security, and data utilization. In addition to this, in March 2022, ULTRA Inc., a provider of international brand prepaid settlement services, became a consolidated subsidiary, and the Group is preparing to develop the "Embedded Finance" business, enabling integrated settlement functions in a single integrated manner by combining ULTRA's front-end settlement functions and the Group's expertise in conventional back-end function structuring of settlement functions. We will continue to contribute to the further popularization of cashless settlement services by expanding the service lineup and business scale of the entire “PAYCIERGE” total brand of retail settlement solutions in the payment area, which is expected to grow in step with the development of a cashless society.

Going forward, the Group will continue to focus on digital transformation in three domains, and will aim from an integrated perspective to create a virtuous cycle of new value by treating “social digital transformation” to realize a better society, “business digital transformation” to innovate our customers’ businesses, and “internal digital transformation” to evolve the Group itself, as a single linkage that strongly influences each other.

In addition, in March 2023, the Company decided to acquire the trust beneficiary rights in a facility that is currently under lease and is the core base for system operations and provision of cloud services under its own brand. This acquisition is to be made in installments. This decision was made based on the Company’s basic policy of owning large-scale and valuable facilities that are necessary as the foundation for supporting the Company’s business from the perspective of ensuring long-term, stable business continuity, and the Company was faced with the opportunity of acquiring this particular facility. The Company comprehensively considered the economic rationale for switching from renting to owning, as well as the Company’s current financial position that allows it to make large-scale investments, and concluded that this would contribute to improving the medium- to long-term corporate value of the Group.

Note 1: User interface - A mechanism for input and display when a user interacts with a PC.
Note 2: User Experience - A user experience gained from services, etc.
Note 3: A service that provides a total environment necessary for credit card issuing business activities. The company develops and provides highly original systems and card products that meet the current demands of the credit card industry, such as “sophisticated customer orientation”, “flexibility for open innovation” and “high profitability”. Since it is a SaaS-type of provision format, the necessary functions and services can be used while controlling costs at the time of introduction.

3) Promote business restructuring and measures to improve medium- to long-term asset and capital efficiency

The Group intends to promote efforts to boost management stability in line with progress in structural transformation, and to improve assets and capital efficiency over the medium- to long-term based on such improvements.

With the aim of further improving the effectiveness of business management, we are introducing business management with increased attention toward capital costs, promoting group formation management, expanding business through M&As of domestic and overseas companies, and business portfolio restructuring. To promote further structural transformation and improve effectiveness, from fiscal 2023 the entire Group has adopted a management structure based on its business model, and the segment classifications were changed accordingly. In each segment, a segment owner is assigned to clarify authority and responsibility, and promote the realization of growth strategies that leverage the strengths of each Group company.

In March 2023, the Company decided to acquire all of the stock in Nihon ICS Co., Ltd. (“Nihon ICS”), which provides accounting and tax packages to tax accounting firms and their corporate clients, and turned it into a consolidated subsidiary in April 2023. As various measures for structural transformation are promoted in the medium-term management plan (2021-2023), the Company determined that in order to accelerate the growth of IT Offering Services (Note 1), one of our Strategic Domains, it is important to welcome Nihon ICS, which mainly targets tax accountant offices and their corporate clients and is engaged in providing financial accounting packages and related services, into the Group and acquire its business model and client base. The Company will aim to expand its client base and realize new business schemes by enhancing the functionality of accounting and tax packages and related services for small and medium-sized companies and tax accounting firms, which are Nihon ICS’s clientele, by applying new technologies to improve the efficiency and reliability of tax accounting services, and by providing solutions for small and medium-sized companies to promote IT and digital transformation for clients in collaboration with financial institutions, which are the Company’s clientele.

On the other hand, with regard to Sequent Software Inc. (“Sequent”), which became a consolidated subsidiary in January 2020 with the aim of expanding digital wallet services of the Company, a Sequent minority shareholder proposed a new direction for the company, reorienting business activities away from payment services in light of the status of business in overseas market. After considering this proposal, the Company acquired Sequent-held intellectual assets and software related to payment services and then transferred all Sequent shares held by the Company to a company outside the Group.

Under these circumstances, in light of the transformation in the quality of management, including steady progress in structural transformation by concentrating management resources in Strategic Domains and the accompanying strengthening of the earnings base, etc., through profit growth and improved cash generation capabilities, etc., and as part of efforts to optimize our capital structure, the Company completed a share buyback of a total of approximately ¥30 billion (8,223,000 shares) by December 2022, including approximately ¥5.5 billion to be returned to shareholders based on a total return ratio of 45%. Of this amount, the Company has retired approximately ¥24.5 billion worth of treasury stock (6,715,483 shares, 2.7% of the total number of shares outstanding before retirement) on February 28, 2023 as planned. These shares were acquired as part of the Company’s efforts to optimize its capital structure, taking into consideration the Company’s policy and the need to eliminate concerns about the future dilution of shares. On the other hand, from the perspective of shareholder returns, the Company plans to respond to the purchase of treasury stock (equivalent to approximately ¥5.5 billion) in accordance with the Company’s policy on treasury stock holdings, which in principle limits the Company to holding up to 5% of the total number of shares outstanding and retiring any holdings exceeding 5% of total outstanding shares.

In addition, the Group is striving to reduce its cross-shareholdings in order to improve its asset efficiency and financial strength, and as a result, its cross-shareholdings decreased from ¥54.3 billion at the end of the previous fiscal year to ¥27.6 billion at the end of the current fiscal year. As a result, the ratio of the amount of cross-shareholdings to consolidated net assets on the balance sheet was 8.9%, achieving the early realization of the targeted reduction to the 10% level.

Note 1: A business area in which the Group’s accumulated know-how and broad range of leading-edge technologies are combined to create and rapidly deploy IT solutions and services that anticipate the future needs of our customers.

4) Leverage growth strategy designed to become top-class IT group in ASEAN region, and strengthen governance position

The Group intends to expand its global partnership network as well as further deepen markets by strengthening relationships with investee companies, and developing joint ventures based on its business strategy.

As part of this effort, collaboration with PT Aino Indonesia (“AINO”), which became an equity-method affiliate in March 2022, is being accelerated. AINO has already been recognized for its achievements in the joint development of “Acasia”, a smartphone-based transportation payment package for Southeast Asia, and in joint case studies on MaaS (Mobility as a Service) as a next-generation transportation service. As a core company of the JATeL consortium (Note 1), AINO has contributed to JATel receiving the order for the first integrated transportation payment infrastructure “JakLingko” (Note 2) project in Jakarta, Indonesia, and “Acasia” has been adopted as the back-end system of “JakLingko”. In June 2022, we added a MaaS service collaborating with Southeast Asia’s largest ride-hailing service, “Grab”, which is in a capital and business tie-up with the Company. In the future, in addition to the digitalization of Southeast Asia’s transportation settlements, we plan to expand our business domain into areas such as Park and Ride and data utilization.

In July 2022, the Company entered into a capital and business tie-up with HanKaiSi Intelligent Technology Co., Ltd. of China, which develops common chassis for self-driving EVs (electric vehicles). With the automotive industry undergoing a major transition with the shift to EVs and advances in automated driving technology, and at a time when software is becoming increasingly important, we aim to create new IT services in the areas of MaaS, smart cities, etc., through our partnership with HanKaiSi Intelligent Technology.

Furthermore, in order to better ensure the achievement of the “ASEAN top-class IT group”, we have added consulting as a new axis in addition to our existing channel technology to enhance our presence and capabilities as a global “consulting + IT” player. In November 2022, the Company entered into a capital and business tie-up with Vector Consulting Group, a major local management consulting firm in India, and in January 2023, Vector Consulting Group became an equity-method affiliate. Amid the ongoing global convergence of consulting and technology, by leveraging Vector Consulting Group’s expertise in the domain of management consulting, the Group aims to realize high value-added IT services for the clients in India, Japan, the ASEAN region, and China.

At the same time, in addition to the above-mentioned transfer of all shares of Sequent Software Inc. held by the Company, work is being done to accelerate the transformation of the business structure overseas, including the transfer of shares of a consolidated subsidiary of MFEC Public Company Limited of Thailand to focus on the reinvestment in areas that will contribute significantly to business performance.

Note 1: Joint venture formed by the four companies: PT Jatelindo Perkasa Abadi, AINO, Thales, and Lyko for the purpose of bidding on PT JAKARTA LINGKO INDONESIA's projects.

Note 2: Integrating the tariff systems of the four public transportation systems that exist in Jakarta, this service allows users to cross over from public transportation to Ride hailing (car dispatching service using an app) with a single app. Users can search for routes, make reservations, purchase tickets, and use the service from the point of departure to boarding public transportation, and from public transportation drop-off to the destination, including the means of transportation.

5) Rachet up investment into human resources to sharpen skills and promote diversity

Aiming at added value improvements, the Company will continue its aggressive recruiting efforts, including improved compensation and training investments, as well as career recruiting.

The Company is promoting initiatives such as creating an environment and organizational culture where diverse individuals can thrive, promoting next-generation work-style reforms looking towards a new work environment, advancing human resource portfolio management by digitalization of our human resources database, and supporting engagement with employees and autonomous career development through the full-scale operation of HR business partners. Also, to further accelerate structural transformation, the Company is striving to strategically secure and foster advanced human resources in areas such as consulting, global business, and service business and will place human resources optimally.

In addition, under the Group Diversity and Inclusion Policy, a Group promotion system was established to promote "health management”. Aiming to improve the quality of life of each and every employee working in the Group, measures are being promoted to achieve “physical and mental health”, “enhanced job satisfaction”, and “improved life skills”. As a result of these efforts, a total of four companies including the Company and INTEC Inc. were certified by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi (Japan Health Council) as a 2023 Health and Productivity Management Outstanding Organization, and the Company and INTEC Inc. were certified as a 2023 Health and Productivity Management Outstanding Organization (White 500).

Also, to achieve structural transformation toward the realization of the Group Vision 2026, the Group has set the promotion of solutions to social issues through co-creation with stakeholders by making full use of digital technology as a goal of the current medium-term management plan, and is focusing on increasing added value through the growth of human resources, which is the most important management capital in order to carry this forward. For some time, the Company has been promoting investment in human resources to increase employee engagement based on the three axes of the meaning of work, the working environment, and compensation. In order to further promote the reform of the meaning of work and compensation, the Company decided to introduce a new personnel system in April 2023 that completely revamps the compensation, evaluation, grading, and other systems. Under the compensation system, the Company will prioritize investments in high-level personnel and young employees who drive the business forward, with base salary increases of up to 17% and an average increase of 6%, and improving compensation in the entire Group. As a result, personnel expenses are expected to increase by approximately ¥5 billion in fiscal year 2024 compared to the previous year, but this is positioned as an upfront investment in human capital, which is essential for the sustainable growth of the Group. By continuing to implement these measures, the Company aims to "accelerate corporate growth by enhancing corporate competitiveness through the growth of human resources" by encouraging employees to actively think and move, and to achieve higher performance than expected, leading to increased added value.

Group-wide proactive investments will continue to be made to increase the value of human resources, and create a virtuous cycle of high added value for the Company, our employees, and society, aiming for the realization of further growth of the Group and improved corporate value, thereby creating a more prosperous society.

(2) Analysis of Financial Condition

(Assets)

Consolidated total assets as of March 31, 2023, amounted to ¥462,320 million, a decrease of ¥14,321 million from ¥476,642 million at the end of the previous fiscal year.

Current assets were ¥268,682 million, a ¥9,421 million increase from ¥259,261 million at the end of the previous fiscal year. This was mainly due to an increase of ¥20,126 million in notes and accounts receivable and contract assets and a decrease of ¥19,518 million in cash and deposits.

Fixed assets totaled ¥193,637 million, a ¥23,743 million decrease from ¥217,381 million at the end of the previous fiscal year. The decrease primarily reflects a ¥24,024 million decrease in investment securities.

(Liabilities)

As of March 31, 2023, total liabilities amounted to ¥153,094 million, a ¥20,555 million decrease from ¥173,649 at the end of the previous fiscal year.

Current liabilities totaled ¥117,179 million, a ¥22,057 million decrease from ¥139,236 million at the end of the previous fiscal year. The decrease primarily reflects a ¥23,239 million decrease in short-term debt.

Fixed liabilities amounted to ¥35,914 million, a ¥1,502 million increase from ¥34,412 million at the end of the previous fiscal year. The increase primarily reflects a ¥1,839 million increase in long-term debt.

(Net assets)

Consolidated total net assets as of March 31, 2023, came to ¥309,226 million, an increase of ¥6,233 million from ¥302,993 million at the end of the previous fiscal year. This was mainly due to a decrease in additional paid-in capital of ¥24,490 million resulting from the retirement of treasury stock, etc., an increase in retained earnings of ¥44,006 million as a result of net income attributable to owners of the parent company and dividends of surplus, and a ¥13,090 million decrease in net unrealized gains on other securities resulting from a reduction in cross-shareholdings.

(3) Analysis of Cash Flows

Cash and cash equivalents (“cash”) totaled ¥94,306 million as of March 31, 2023, down ¥19,514 million from March 31, 2022.

Contributions to cash flow were as follows.

(Cash flow from operating activities)

Operating activities generated net cash of ¥33,634 million. This mainly reflects income before income taxes of ¥81,492 million and the positive cash flow effect of ¥15,700 million in depreciation. These inflows were partially offset by the negative cash flow effect of ¥29,712 million in income taxes paid, increase in receivables and contract assets of ¥18,792 million, and gain on sales of investment securities of ¥18,313 million, etc.

(Cash flow from investing activities)

Investing activities generated net cash of ¥11,300 million. An inflow of ¥23,685 million in proceeds from sale and redemption of marketable securities was offset by outflows of ¥6,045 million for acquisitions of intangible assets and ¥4,337 million for acquisitions of property and equipment.

(Cash flow from financing activities)

Financing activities used net cash of ¥64,573 million. A cash inflow of ¥10,399 million in proceeds from short-term debt was offset by outflows such as ¥35,450 million for repayments of long-term debt, ¥30,005 million for purchase of treasury stock, and ¥11,451 million for dividends paid.

(Reference) Cash flow indicators

	Fiscal 2022	Fiscal 2023
Equity ratio (%)	61.5	64.2
Equity ratio based on market capitalization (%)	151.6	182.7
Ratio of interest-bearing debt to cash flow (years)	0.7	0.5
Interest-coverage ratio (times)	184.8	140.4

Equity ratio: Total equity / Total assets

Equity ratio based on market capitalization: Market capitalization / Total assets

Ratio of interest-bearing debt to cash flow: Interest-bearing debt / Cash flow

Interest-coverage ratio: Cash flow / Interest paid

Note 1: All indicators were calculated using consolidated financial statement data.

Note 2: Market capitalization is based on the number of shares issued and outstanding, excluding treasury stock. Treasury shares deducted from the number of shares issued to determine number of shares used to calculate market capitalization include the Company’s shares held by TIS INTEC Group Employees’ Shareholding Association Trust and the Board Incentive Plan (BIP) Trust.

Note 3: Cash flow from operating activities is used as the cash flow variable.

Note 4: “Interest-bearing debt” is all debt on the consolidated balance sheet on which interest is payable.

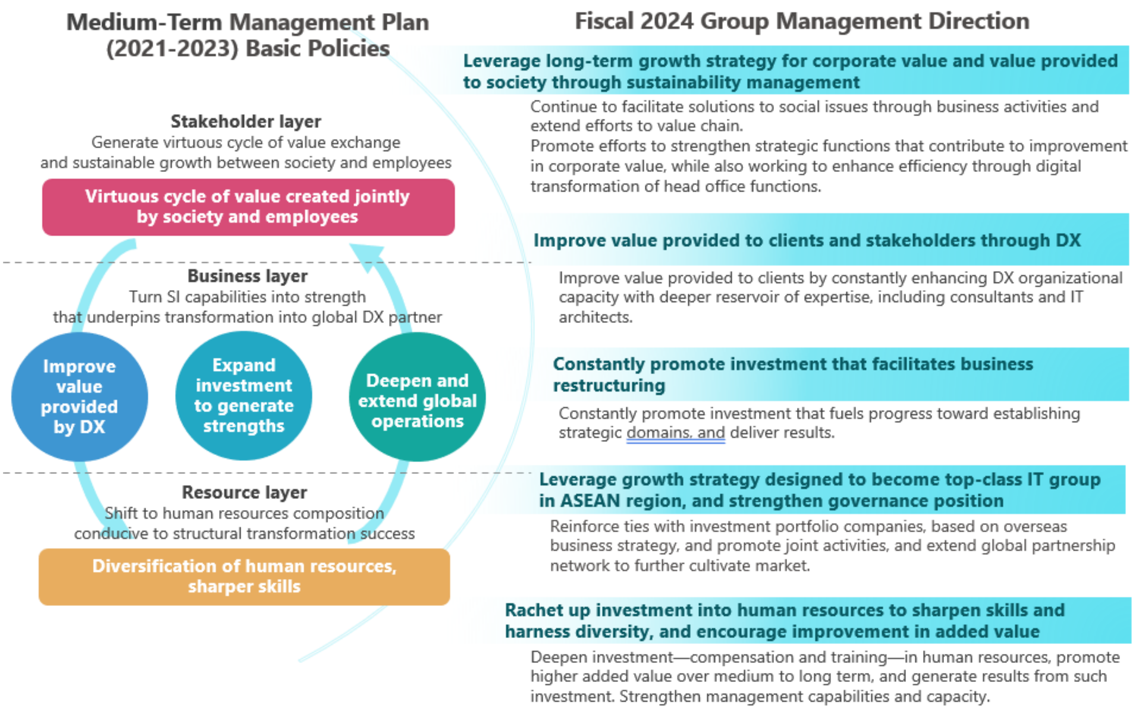
(4) Outlook for Fiscal 2024

In the business environment surrounding the Group, as the elements required of companies, including solutions to social issues, become more diverse, activities to transform business processes utilizing digital technologies and business model transformation are expanding more than ever, and IT investment demand is expected to increase further. However, the Group must to pay close attention to the risk of downward pressure on the Japanese economy amid continued global monetary tightening.

Given the current situation, the Group has set the following group management policies for the fiscal year ending March 31, 2024, and will continue to vigorously promote various measures to achieve steady progress toward sustainable corporate value enhancement in accordance with the basic policies of our medium-term management plan (2021-2023).

Group Management Policies for Fiscal 2024

1) Leverage long-term growth strategy for corporate value and value provided to society through sustainability management.
2) Improve value provided to clients and stakeholders through DX.
3) Constantly promote investment that facilitates business restructuring.
4) Leverage growth strategy designed to become top-class IT group in ASEAN region, and strengthen governance position.
5) Rachet up investment into human resources to sharpen skills and harness diversity, and encourage improvement in added value.



The consolidated earnings forecast for fiscal 2024 is as follows. The Group will continue to expand business by accurately responding to customers' demand for digital transformation, and aim to further improve profitability by providing high added value businesses and promoting productivity and quality enhancement measures, etc., while aggressively making investments that will contribute to future growth, including upfront investments in human resources, which are the most important management capital. Note that the decrease in net income attributable to owners of the parent company is due to extraordinary income of ¥22,040 million recorded in fiscal 2023.

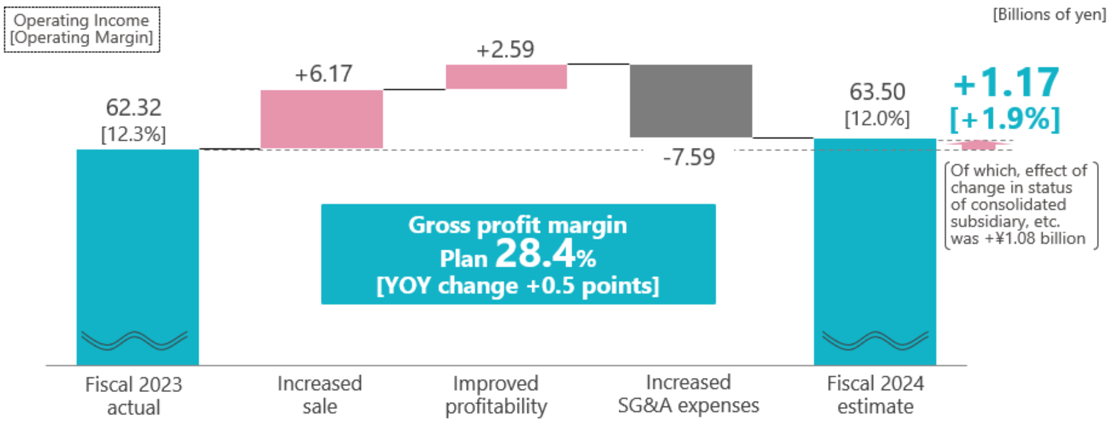
As announced in the "Notice regarding Acquisition of Stock in Nihon ICS Co., Ltd. and Subsequent Change in Subsidiary Status" dated March 7, 2023, Nihon ICS Co., Ltd. became a consolidated subsidiary of the Company as of April 6, 2023, and its business results will be reflected in the consolidated financial results from the second quarter of the fiscal year ending March 31, 2024. The Company's consolidated earnings forecast below includes their net sales of ¥5.4 billion and operating income of ¥1.7 billion as well as amortization of goodwill related to Nihon ICS of ¥1.2 billion. Under the acquisition, the company currently estimates goodwill of approximately ¥9 billion (to be amortized on a straight-line basis over 15 years), customer-related intangible assets of approximately ¥22 billion (to be amortized on a straight-line basis over 20 years) and deferred tax liabilities of approximately ¥6.5 billion, which may change in the future as the allocation of acquisition costs has yet to be determined.

<Fiscal 2024 Consolidated Earnings Forecast (April 1, 2023 to March 31, 2024)>

(Unit: millions of yen)

	Fiscal 2023 Actual results	Fiscal 2024 Forecast	Year-on-year change
Net sales	508,400	530,000	+4.2%
Cost of sales	366,668	379,500	+3.5%
Gross profit	141,732	150,500	+6.2%
Gross profit ratio	27.9%	28.4%	+0.5P
Selling, general and administrative expenses	79,403	87,000	+9.6%
Operating income	62,328	63,500	+1.9%
Operating income ratio	12.3%	12.0%	-0.3P
Recurring profit	63,204	63,500	+0.5%
Net income attributable to owners of the parent company	55,461	42,000	-24.3%

<Analysis of key factors in the increase/decrease in operating income (forecast, year-on-year change)>



Anticipated prior investment costs for promoting structural transformation:
Up ¥1.47 billion (YOY change)
(Cost of sales: +¥1.00 billion, SG&A expenses: +¥0.47 billion)
Software investment / Investment in human resources / Investment in R&D
+
Anticipated cost of investment in human resources (additional):
Up ¥5.00 billion (YOY change)
(Cost of sales : +¥3.20 billion, SG&A expenses : +¥1.80 billion)

Changes in SG&A expenses	
Effect of change in status of consolidated subsidiary, etc.	+2.36
Prior investment (excludes investment in human resources)	+0.47
Prior investment (investment in human resources)	+1.80
Others	+2.94
Total	+7.59

<By segment>

(Unit: millions of yen)

		Fiscal 2023 Actual results	Fiscal 2024 Forecast	Year-on-year change
Offering Service Business	Net sales	111,752	122,800	+9.9%
	Operating income	6,426	7,450	+15.9%
	Operating income ratio	5.8%	6.1%	+0.3P
Business Process Management	Net sales	43,255	44,000	+1.7%
	Operating income	5,123	5,150	+0.5%
	Operating income ratio	11.8%	11.7%	-0.1P
Financial IT Business	Net sales	101,184	105,500	+4.3%
	Operating income	13,896	13,900	+0.0%
	Operating income ratio	13.7%	13.2%	-0.5P
Industrial IT Business	Net sales	113,632	115,700	+1.8%
	Operating income	16,728	16,800	+0.4%
	Operating income ratio	14.7%	14.5%	-0.2P
Regional IT Solutions	Net sales	160,010	165,100	+3.2%
	Operating income	19,343	19,900	+2.9%
	Operating income ratio	12.1%	12.1%	-0.0P
Other	Net sales	8,957	9,600	+7.2%
	Operating income	878	700	-20.3%
	Operating income ratio	9.8%	7.3%	-2.5P

(5) Basic Policy on Profit Distribution and Dividends for Fiscal 2023 and Fiscal 2024

1) Policy on determining dividends from surplus, etc.

The Company regards the return of profits to shareholders as a key management decision and has adopted a basic policy of maintaining sufficient internal reserves required for business growth from a medium- to long-term management perspective, while continually paying a stable dividend in consideration of its consolidated financial results.

Based on this policy, the Company seeks in the medium-term management plan (2021-2023) to raise the target total return ratio from 40% to 45% and to continuously enhance the dividend per share based on a balance in promotion of growth investments with securing financial soundness and strengthening shareholder returns. Note that in order to increase the distribution of profits to shareholders in accordance with business growth in a sustained manner, the Company believes it is desirable to base shareholder returns on profits derived from operating activities, as they are not affected by one-time gains or losses.

2) Fiscal 2023 dividends from retained earnings

With regard to the distribution of retained earnings for fiscal 2023, as the results for the fiscal year exceeded targets, the Company intends to pay a year- end dividend of ¥35 per share, ¥3 more than planned. As a result, the annual dividend for fiscal 2023, including the interim dividend, will be ¥50. Including the approximately ¥5.5 billion buyback of shares of the Company (excluding share a buyback of ¥24.5 billion to optimize its capital structure), the total shareholder return ratio for fiscal 2023 comes to 31.9%, while the total return ratio calculated based on the above policy is 44.0%, which accords with the basic policy.

3) Fiscal 2024 dividends from retained earnings

With regard to dividends from retained earnings for fiscal 2024, the Company plans to pay an annual dividend of ¥53 per share, including an interim dividend of ¥17 per share. In addition, the Company has decided to purchase approximately ¥6.2 billion of treasury stock in the next fiscal year based on a total payout ratio of 45% (estimate).

(6) Business and Other Risks

The following are the main risks deemed to have the potential to have a significant impact on the business results, financial condition, and cash flow (hereinafter referred to collectively as "business results, etc.") of the TIS INTEC Group. The Group defines "risk" as "any factor that may hinder the achievement of the management philosophy, goals, and strategies of the Company and the Group by causing economic loss; the interruption, stagnation, or suspension of business operations; and/or damage to the Company's credit or brand image". In addition, the Group-wide risks are classified into strategic risks, financial risks, hazard risks, and operational risks according to the Group's rules on risk management.

Using the Group's risk management evaluation method, all risks are comprehensively evaluated from the viewpoint of occurrence frequency and degree of damage caused. However, the nature and degree of the impact that each risk will have on the Company's business results, etc. will vary depending on the nature of each risk event, the likelihood that the risk will emerge, and the timing of that emergence. Since more specific explanations of each risk are difficult, detailed descriptions of the potential damage to the Company's business results, etc. have been omitted.

Note that all forward-looking statements in this document are based on information available to the Group as of May 9, 2023.

The Group has established rules for risk management to ensure an accurate understanding of the risks facing the Group and prevent losses from occurring. In accordance with these rules, we have appointed an executive to oversee risk management of the entire Group. Also, a risk management department has been established to prepare a risk management system. In addition, we have established a risk management policy for the entire group and regularly check the implementation status of measures to control risk. When a group company becomes exposed to a serious risk, a task force is set up and appropriate measures are taken to minimize damage.

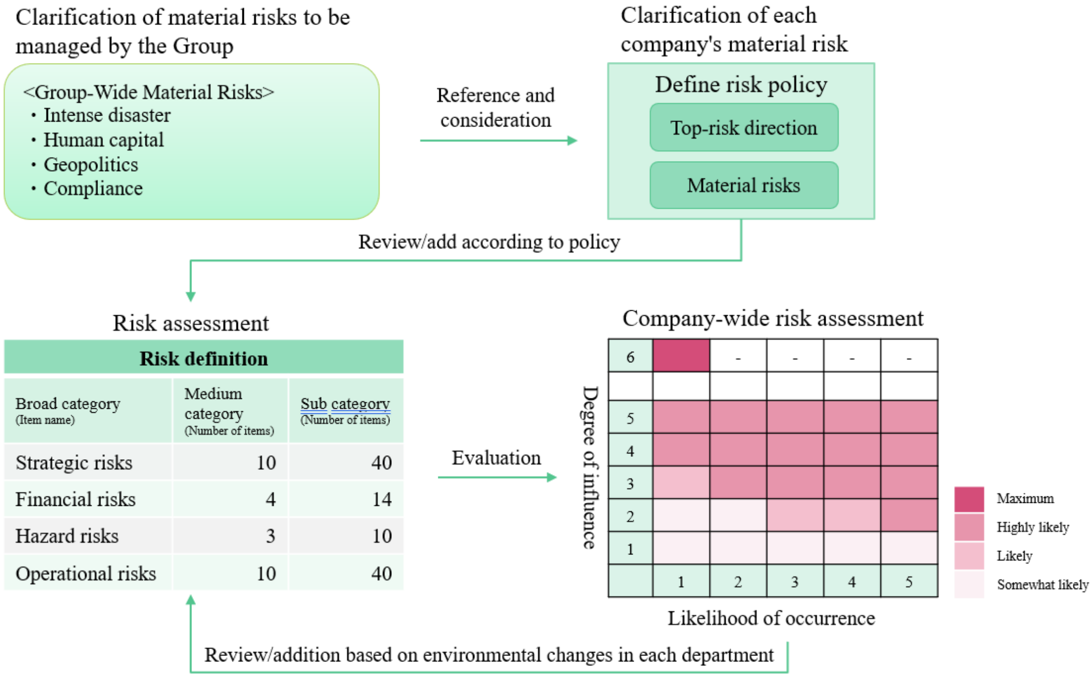
As for the status of the risk management system, we will promote various measures to maintain and improve Group-wide internal controls according to a basic policy and various regulations regarding the internal control system and monitor the development of internal control system and operation status and establish the process of reporting deliberation results to the Board of Directors upon deliberation at Group Internal Control Committee.

<Risk Assessment Process>

Both the risk policies (top risk direction and major risks) prepared by the president of each group company based on the Group's priority risks as well as the risks identified by each division are evaluated. The Group Internal Control Committee examines the risks faced by the Group twice a year, confirming issues related to those risks and evaluating the status of improvement measures, which are reported to the Board of Directors. Based on its reports to the Board of Directors, initiatives are implemented to strengthen and improve the Group-wide internal control system.

<Risk Management Process>

<Risk Assessment Process>



Risk definition

Broad category (Item name)	Medium category (Number of items)	Sub category (Number of items)
Strategic risks	10	40
Financial risks	4	14
Hazard risks	3	10
Operational risks	10	40

1) Strategic risks

a. Human resources

Human resources are the Group’s most important management resource, and its business activities are significantly influenced by its ability to secure and develop superior individuals capable of providing specialized, high value-added services to clients. The Group’s business and operating results, etc., may therefore be negatively affected if the Group cannot secure and develop superior human resources according to its plans. To this end, the Group has visualized its human resources portfolio based on the current situation, and is strengthening investment to acquire and grow specific personnel who will drive structural transformation toward the realization of its business and business strategies, as well as focused human resources that need to be continuously strengthened in each business area. In order to enhance the effectiveness of human resources strategies tailored to the business, we share business and organizational issues with top management and are strengthening our “HR business partner function”, which supports the acquisition, development, placement, organizational climate reform, and realization of business strategies on the job site in line with the business environment and issues, while promoting the “development of the HRDX platform”, which monitors and analyzes the execution status and support its implementation. The Group therefore, with the aim of enhancing work-style reform and job satisfaction, strives to secure talented human resources by means such as providing a corporate culture, HR systems, and an office environment in which a diverse group of people can thrive. Additionally, the Group focuses on human resources training by means such as providing support for acquiring certifications, career development support, systemizing its training program, and creating plans and targets for the number of training days.

b. Changes in the market

As the Group’s business domain changes and society changes, the technologies and services required by society are expected to change significantly. As a result, there is a risk that the Group’s technology and services may become obsolete due to delays in identifying the technology seeds that will be required in the future, resulting in a decline in competitiveness. With these changes, the Group’s business and operating results, etc., may be negatively affected if competitive advantage is lost due to price competition beyond expectations and the Group becomes unable to provide the high-quality services that customers have come to expect because of a failure to take appropriate measures or allowing technologies and know-how to become obsolete.

The Group continues to analyze the environment in its management plans to understand market needs, differentiate the Group from competitors by adding more value to the services the Group provides, constantly conducting investigation and research in areas such as information technologies as well as production and development technologies, selecting from a broad technology portfolio of core technologies that will enable the Group to sustain and improve its development competitiveness. Likewise, it is advancing R&D and deploying the results, while carrying out productivity innovation activities and enhancing the digital transformation value it provides, as well as controlling unprofitable projects and productivity innovation activities.

c. Investments

The Group invests in companies in Japan and overseas, including venture companies, to establish capital and business alliances mainly for the purpose of business expansion, acquisition of cutting-edge technologies, and the execution of mergers and acquisitions. It also makes investments in large IT facilities, such as data centers operating 24 hours a day, 365 days a year, which support the deployment of outsourcing and cloud services businesses (including continued capital investments to fund initial construction and the stable operation of existing facilities), and in software needed to promote service-based business. Unanticipated changes in the business environment may result in investments failing to yield the expected result or return or make assets obsolete, thereby impacting the Group’s business and operating results, etc. In addition, any potential misconduct or system failures by a corporate counterparty immediately after an investment or M&A transaction may result in a loss of credibility and brand image of the Group, lawsuits, and other repercussions.

Accordingly, all investment decisions are made after thorough examination of the business plan by either the Board of Directors, the CVC Investment Committee, or the Investment Committee, depending on the investment project, and the progress of the business plan is periodically confirmed after investments have been made. In addition, for companies with which we have entered into large-scale capital tie-ups or mergers and acquisitions, we continuously implement necessary measures based on prior verification and examination of the risks involved in their business activities, and dispatch executives to them so that we can quickly ascertain their status.

d. Overseas business

Overseas business may be impacted by various factors, including global economic and foreign exchange trends, legal regulations on investment and competition, local business practices, and labor-management relations. If one of these factors manifests itself in an unanticipated manner, it may impact the Group’s business and operating results, etc.

As part of its growth strategy, the Group is pursuing capital and business alliances as well as M&A with local companies in order to achieve expansion of overseas businesses, with a focus on ASEAN countries. In making such investments, the Company conducts detailed investigations on the business performance and financial position of the target company, and after the investment, business promotion and corporate planning business units work together to conduct monitoring and report periodically to the Board of Directors.

Additionally, the Company is dispatching personnel to operating companies, and promoting efforts to strengthen the governance of overseas subsidiaries and affiliates led by the Global Financial Planning Office, a dedicated body established within the Company.

e. Human rights

The Group’s business activities may have a direct or indirect negative impact on certain stakeholders. The occurrence and disclosure of such events could result in damaging the reputation and credibility of the Group, and could affect the Group’s business and operating results.

The Group’s human rights policy is based on the “Guiding Principles on Business and Human Rights” adopted by the United Nations Human Rights Council in June 2011. Furthermore, by promoting human rights due diligence in line with this policy, the Group aims to take appropriate measures to identify and correct any negative impacts of the Group’s business activities on society at an early stage. In fiscal 2022, the Group disclosed the identification process and detailed analysis of potential human rights risks that were identified in the previous fiscal year that are closely related to operations in the Group, as well as response policies. The Group will continue to analyze and address the identified risks in more detail.

f. Geopolitical risks

Newly emerging international pressures, exchange rate trends, trade issues, or effects on procurement costs due to warfare, civil strife, political upheaval, revolution, terrorism, rioting, etc., may impact the Group's business and operating results.

When such events occur, the Group will promptly ascertain the impact on the Group and quickly engage in activities to prevent losses due to each risk. In addition, the Group will implement measures based on the BCP plan as appropriate when there is a possibility that this may impair business continuity. In fiscal 2022, crisis response for expatriates and what to do when offshore transactions are interrupted are under consideration.

g. Reputational risk

If risks are not properly managed and have a negative impact on society, or if the Company is recalled to be associated with any negative impact that other companies have had on society, the Company's business may be interrupted, stagnate, or be suspended due to loss of credibility and brand image, or it may potentially lose customers or business partners. The Company believes that this risk increases particularly in proportion to the expansion of the Company's business and the increase in its name recognition, and that if the Company fails to manage the risk promptly, even an incident that occurs at a subsidiary of the Group could spread to the entire group. Therefore, in order to respond promptly to this risk, the Group has established a cross-group escalation system and prepared a response manual in the event of a crisis.

2) Financial risks

a. Owned securities

The Group buys and holds the equity shares of suppliers and other business partners in cases where it deems such investments will enable it to establish stable alliances and cooperative relations that lead to new business opportunities and will support the sustainable growth of the Group and enhance its medium- and long-term corporate value. The Group also invests in bonds as part of its short-term surplus fund management operations. However, the Group's business and operating results, etc. may be impacted if sharp fluctuations in the market prices of these marketable securities or deterioration in management conditions of issuing entities requires the posting of accounting losses or other similar measures.

Accordingly, the Group carefully confirms the reliability of these securities by thoroughly examining issuers' financial condition, business results trends, credit ratings, and other relevant indicators. In addition, the Group regularly reviews the suitability of continuing to hold the securities and reduces them if continued holding is deemed to lack meaningfulness.

3) Hazard risks

a. Pandemics (the global spread of infectious and communicable diseases)

Restrictions on activities both domestic and foreign due to a pandemic will affect the Group's business and operating results, etc., if it sharply constricts the productive activities of our employees and those of our business partners.

Should a pandemic occur, the Group will make every effort to properly ascertain the responses of the World Health Organization (WHO), the Japanese government, and other relevant authorities. Action will also be taken to strengthen hygiene at our offices, data centers, and other work sites, based on the Group's business continuity plan. The Group will also refrain from sending employees to work in areas heavily stricken by infections. In addition, the Group has established work environments that facilitate working from home and have ensured that operations, including the decision-making process for important matters of the Group, can be conducted in line with work procedures predicated on teleworking.

b. Natural disasters and accidents

As the likelihood of natural disasters, including floods, occurring in unconventional locations and frequencies is increasing due to global warming, large-scale natural disasters and the accompanying longer-than-expected power outages could affect outsourcing and cloud services businesses, which use large-scale IT facilities such as data centers which the Group operates.

In accordance with the Group's business continuity plan therefore, the Group is preparing various equipment environments that will facilitate data centers' response to all manner of disasters. In addition, the Group has been gradually closing older data centers and focusing on the development of state-of-the-art data centers with seismic-isolation structures, robust disaster-mitigation equipment, emergency power generators, fuel storage equipment, and other highly reliable electric power equipment as well as contracts for prioritized power supply. In addition, based on the business continuity plan that the Company has formulated, the Company is enhancing its business continuity capabilities by establishing stockpiles, conducting drills, establishing a remote work system aimed at mitigating the impact when conditions make commuting to work difficult, and promoting a paperless workflow.

4) Operational risks

a. System development

Outsourced development and maintenance of various information systems for client companies is one of the Group's core businesses. As system development becomes more sophisticated, complex, and subject to tighter time constraints, larger-than-expected costs may be incurred if additional work is required to secure the planned level of quality or if a project cannot be completed on schedule. These increased costs and the possibility of claims for damages from clients, etc., could impact the Group's business and operating results.

The Group has therefore developed its own original "Trinity" quality management system based on the ISO 9001 standard. Using this system, the Group is continually enhancing quality management and raising productivity by using dedicated organizations to thoroughly screen business proposals and review projects at each stage of development. In addition, the Group has established the Group Quality Executive Meeting to lead efforts to improve quality and promote production innovation measures throughout the Group while also enhancing management and technological capabilities by strengthening training programs for each employee rank.

Meanwhile, some systems development tasks are being outsourced to domestic and overseas business partners for reasons such as securing production capacity, raising productivity, and utilizing technical capabilities. If the productivity or quality do not meet expectations, smooth project management may not be realized and the Group's business and operating results, etc., may be impacted.

The Group therefore seeks to secure superior business partners in Japan and overseas. That effort includes regular meetings with and questionnaire surveys of our partners so that we fully understand their situation and are able to build strong relationships.

b. System operation

The Group uses data centers and other large IT facilities to provide its outsourcing business and cloud services business. If system problems arise due to human error or equipment malfunctions during system operation and the Group is unable to provide services at the level agreed upon with the client, the Group's business and operating results, etc., may be impacted.

The Group has therefore developed a system maintenance/operation framework based on ITIL (Information Technology Infrastructure Library) practices and is using this framework to direct constant efforts to improve system operation quality and to establish and strengthen measures for early detection and confirmation of system failures and measures to reduce and prevent the occurrence of failures.

c. Information security

Through its wide-ranging business activities, from system development to operation, the Group is in a position to handle various types of confidential information, including personal information held by clients and information about their systems' technologies, etc. of the clients. If such confidential information were to be leaked or manipulated, the Group's business and operating results, etc., could be impacted by claims for damages from client companies and by a loss of trust in the Group's services. And with the Internet having become part of the social infrastructure and various forms of information easily spreading in an instant, the range of users has expanded and convenience increased. However, the risk of accidents and system failures due to unauthorized external access is increasing. If the Group fails to respond appropriately to such a situation, its business and operating results, etc., could be impacted by claims for damages from clients and by a loss of trust in the Group’s services.

The Group has therefore established an information management system based on its Information Security Policy. The system is contributing to appropriate information management while also assisting our efforts to raise awareness through employee education and training programs. In addition, the Group applies the Group’s information security promotion guidelines to guide its checks and evaluations of the levels of information security management across the entire group, as well as subsequent promotion of improvement measures. When an information security breach does occur, the Group takes responsibility and establishes an investigative committee to look into the cause, implement countermeasures, and prevent recurrence. This fiscal year the Group renewed its SOC (Security Operation Center) and SIEM (Security Information and Event Management), and has promoted the implementation of a company wide and group wide zero-trust environment.

Regarding the personal information the Group handles, the Group has established a group wide information management system based on Japan’s Act on the Protection of Personal Information and regulations on the handling of Individual Numbers and information about specific individuals. The Group is also conducting education and training programs for employees to thoroughly raise their awareness of the importance of protecting personal information. These efforts are contributing to more appropriate handling of personal information, including stronger management of client information. And the Group is implementing security measures using a zero-trust security model to address the diversification of workplaces with the full-scale implementation of working from home. Furthermore, TIS and other Group companies have obtained Information Security Management System (ISMS) certification and the JIPDEC’s PrivacyMark.

Additionally, the Group has defined a group-wide CSIRT (Computer Security Incident Response Team) system to respond to cyber attacks and share information at the Group Security Promotion Meeting, and also operates “TIS-CSIRT” as an in-house CSIRT for early detection of incidents and quick and accurate emergency response. In addition, the Group collects, analyzes, and disseminates a wide range of security-related information, including the latest attack methods and incidents, and also monitors communications, responds to emergencies, and coordinates with external parties.

d. Legal systems, compliance

The Group conducts its various business activities in compliance with laws and regulations in Japan and other countries. If the Group were to contravene a law or regulation, or a new law or regulation were introduced, the Group’s business and operating results, etc., could be affected. In addition, in the event of discrimination or harassment, should there be a reduction in productivity, an increase in costs, and/or a decline in employee engagement, the Group's business and operating results may be affected.

The Group therefore has established a compliance structure based on its Basic Direction on Corporate Sustainability and Group Compliance Declaration, and it works to educate all employees regardless of employment status and comply with all laws in an endeavor to conduct its business activities fairly. In accordance with the Group’s compliance regulations, important compliance issues for the entire Group are discussed, measures to prevent recurrence are decided, and the status of the implementation of these measures is then monitored in an effort to ensure their adoption throughout the Group. One such measure is the tightening of regulations on contracted work and temporary staffing, an important issue for the Group because of the transactional nature of the IT services industry. The Group is working on a dedicated risk management system and the creation of group guidelines and independent inspection checklists that will contribute to the appropriate operation of the system. In addition, to prevent illegal activities and detect and correct them at an early stage, the Group has introduced a whistle-blowing system and established a reporting and consultation desk, thereby raising awareness of legal compliance throughout the Group. Furthermore, the Group will conduct education and awareness-raising activities aimed at building good relationships and establishing smooth communication in order to help prevent discrimination and harassment, and will take fair and strict measures in the event that such incidents should occur.

e. Intellectual property rights

The Group's business activities entail the use of technologies, licenses, business models and various trademarks that may be subject to intellectual property rights. Accordingly, the Group takes great care to ensure that it does not infringe the intellectual property rights of third parties. Nonetheless, if the Group were to infringe another company's intellectual property rights, it could be presented with an injunction and a claim for damages. In such a case, the Group's business and operating results, etc., could be impacted. To prevent such an event, the Group is strengthening its framework for preventing violations of intellectual property rights and is conducting education and training programs to raise employees' awareness of this issue. Meanwhile, the Group also regards its own intellectual property as an important management resource and takes all necessary means to protect this valuable resource.

f. Climate change

In response to climate change, companies are gradually becoming more committed to, and responsible for, both mitigation involving reducing greenhouse gas emissions and adaptation involving reducing the adverse effects of climate change, and as a result, there is a growing demand to promote the use of renewable energy in business and corporate activities. Therefore, if the Group's energy costs are significantly impacted by fluctuations in demand for renewable energy, or if the Group's transition to renewable energy is delayed, the Group's business and operating results may be affected.

The Group has therefore endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), carries out continuous assessments in accordance with the TCFD recommendations framework, and discloses the results to the public to explain our efforts to help mitigate climate change.

2. Status of the Group

The Group consists primarily of TIS Inc. (the parent company), 50 consolidated subsidiaries, and 74 affiliated companies accounted for under the equity method. The Group’s core activities comprise the provision of outsourcing and cloud services, software development, and solution services, all of which are related to digitalization investment. The Group also engages in businesses connected with these core activities, such as consulting services. The Group also provides other incidental and related business, such as management services.

The following is a breakdown of the Group’s businesses and the positioning of consolidated subsidiaries and equity method affiliates in relation to these businesses by reportable segment. The Company plays the central role in the Offering Service Business, Financial IT Business, and Industrial IT Business segments.

(1) Offering Service Business

Configures services through own investment based on best practices accumulated Group-wide and provides knowledge-intensive IT services.

(Main consolidated subsidiaries)

TIS System Service Inc., MFEC Public Company Limited

(2) Business Process Management (BPM)

Addresses issues related to business processes with IT technology, business know-how and skilled human resources to provide more sophisticated, more efficient outsourcing services.

(Main consolidated subsidiaries)

AGREX Inc.

(3) Financial IT Business

Considers business and IT strategies together and leverages both, and supports business progress using expert business and operating know-how specific to the finance industry.

(4) Industrial IT Business

Considers business and IT strategies together and leverages both, and supports business progress using expert business and operating know-how specific to industry sectors other than finance.

(Main consolidated subsidiaries)

Qualica Inc., AJS Inc.

(5) Regional IT Solutions

Provides IT professional services extensively, across regions and client sites, and collects and develops this know-how as the source of solutions to support efforts to address issues and promote business activities.

(Main consolidated subsidiaries)

INTEC Inc., TIS Solution Link Inc.

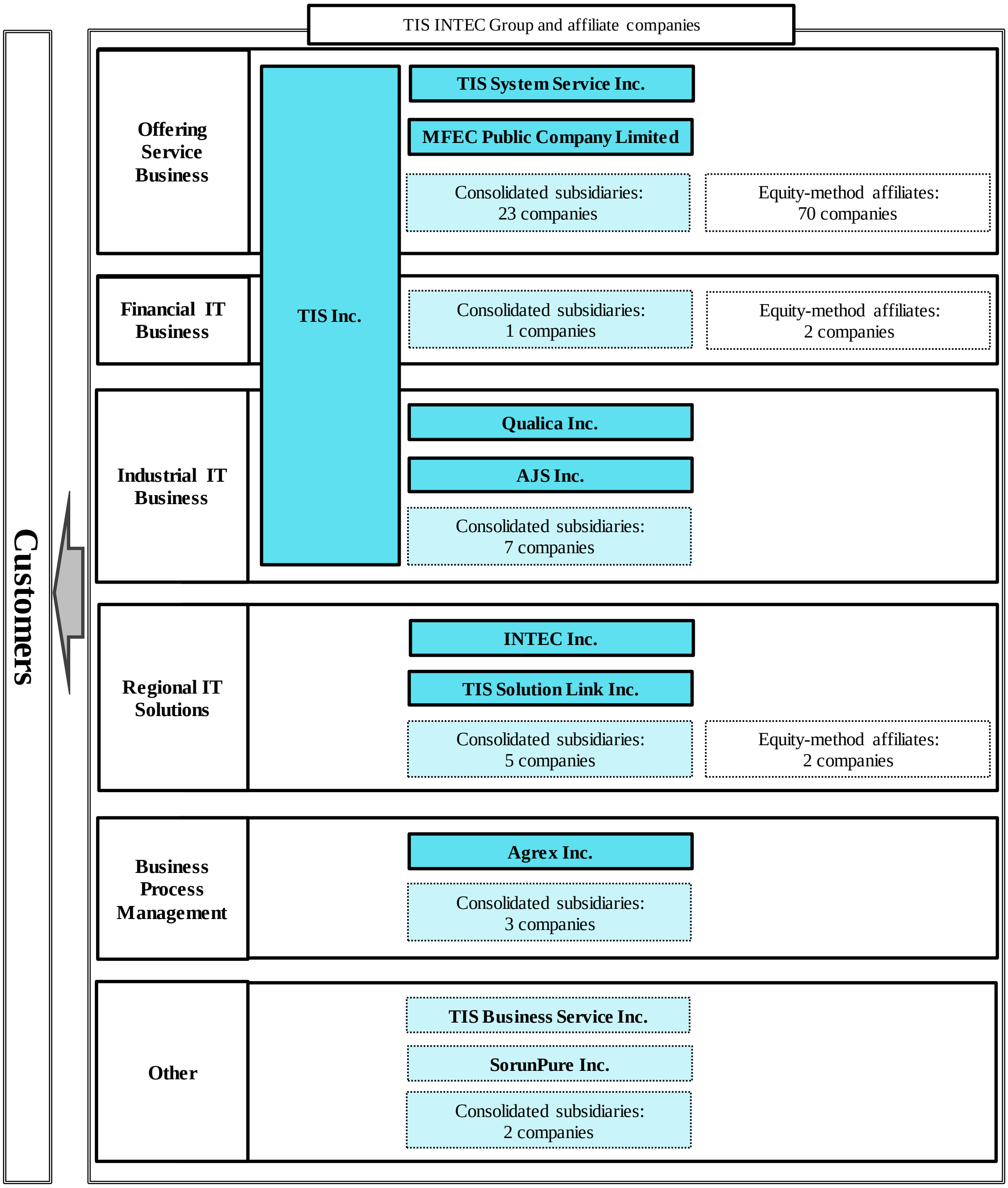
(6) Other

Consists of ancillary businesses offering IT services, and other activities.

(Main consolidated subsidiaries)

TIS Business Service Inc., Sorun Pure Inc.

The segments mentioned above are shown in the following chart



3. Management Policy

(1) Basic Management Policy

(Basic philosophy)

The Group has established and disclosed “OUR PHILOSOPHY” as a basic Group philosophy outlining the common values shared across the entire TIS INTEC Group. “OUR PHILOSOPHY” clearly and broadly delineates the thinking and ideals that TIS INTEC Group highly values in its group’s management, corporate activities, and constituent members. This new basic philosophy provides the axis around which the Group’s entire business revolves. The TIS INTEC Group aims to fulfill its role in broader society: “To brightly color the future as a mover using digital technology”.

The Group has formulated a Group Vision, which is shared by all the members of the TIS INTEC Group, and each employee puts the Vision into practice in their daily work activities as a way of realizing the TIS INTEC Group ideals and further raising corporate value.

(Group Vision)

1) Ideal corporate image

“Create Exciting Future” represents the Group’s corporate vision for 2026. Based on these values, the Group leverages next-generation technologies and know-how to make business innovations and create new markets. It is an honor to be a strategic partner to customers, and the Group repays this trust by aiming to be a true innovator that continually brings about change in existing industries and markets and creates new markets.

2) Strategic domains

In order to realize its ideal corporate image, the Group has defined the following as its four strategic domains.

Strategic Partnership Business	As partners to world-class companies in their respective industries, the Group will jointly plan and promote business strategies by leveraging our industry insight and our unmatched business expertise, playing a central role in their business.
IT Offering Service	The Group will combine the Group’s accumulated know-how and broad range of leading-edge technologies to create and rapidly deploy IT solutions and services that anticipate the future needs of our customers.
Business Function Service	The Group will combine the Group’s accumulated expertise in industries and business processes and utilize cutting-edge technologies to anticipate the business function needs within our customers’ value chains and offer them as services.
Frontier Market Creation Business	The Group will leverage its technologies, business know-how, and customer base to create entirely new markets and business models responsive to the emerging needs of society and industry, promoting these as our own new business ventures.

(2) Medium- to Long-term Management Strategies

In the market environment, companies are increasingly working to transform their business processes and business models through the use of digital technology (referred to as “DX” or digital transformation), in order to boost growth and strengthen their competitiveness. In response to this situation, competition is intensifying in IT market with the advancement of global IT platforms and consulting firms. Additionally, as the adverse situation caused by the COVID-19 pandemic has gradually eased and a new working environment has become widely established, a close eye must be kept on various factors including supply-side constraints associated with growing uncertainty in the global economy and downside risks from raw material price trends.

Under these circumstances, the Group has grown in the domestic market, mainly in the payments field, by building and stably supporting the important corporate infrastructure underpinning the business, and through the provision of speedy service provision with flexible responsiveness. Furthermore, the Group recognizes that global value chain coordination may provide the driving force to rapidly accelerate such business, and have brought business speed up to levels seen overseas and combined that with the Group’s strengths in Japan in order to bolster global competitiveness and establish a dominant position in the market.

In order to achieve further sustained growth, the Group recognizes the need to further enhance superiority in existing business areas in Japan and create and develop new businesses that will contribute to solving societal issues.

The TIS INTEC Group formulated its medium-term management plan (2021-2023) with the aim of playing an integral role in creating a prosperous future for society as a leading IT services group. In line with this medium-term management plan, it is working under the slogan “Be a Digital Mover 2023” to achieve continuous business expansion and further enhancement of corporate value through business restructuring with a focus on enhancing provided DX value in order to accelerate growth as it works to realize Group Vision 2026.

(3) Key Business Indicators

The key management indicators for fiscal 2024, the final year of the medium-term management plan (2021-2023), are “net sales of ¥500 billion”, operating income (operating income ratio) of ¥58 billion (11.6%)”, “EPS annual average growth rate of greater than 10%”, “strategic domain ratio of 60%”, and “societal issue solution service business net sales of ¥50 billion”.

In fiscal 2023, the main key management indicators (net sales, operating income, and operating income ratio) in the medium-term management plan (2021-2023) were achieved one year ahead of schedule. The Group will continue to accelerate the structural transformation set forth in Group Vision 2026, and strive to improve enhance the sustainable exchange of value with its stakeholders.

(4) Issues Requiring a Response

As the adverse situation caused by the COVID-19 pandemic has gradually eased and a new working environment has become widely established, a close eye must be kept on various factors including supply-side constraints associated with growing uncertainty in the global economy and downside risks from raw material price trends.

Under these circumstances, the Group has grown in the domestic market, mainly in the payments field, by building and stably supporting the important corporate infrastructure underpinning the business, and through the provision of speedy service provision with flexible responsiveness. Furthermore, the Group recognizes that global value chain coordination may provide the driving force to rapidly accelerate such business, and have brought business speed up to levels seen overseas and combined that with the Group's strengths in Japan in order to bolster global competitiveness and establish a dominant position in the market.

In order to achieve further sustained growth, the Group recognizes the need to further enhance superiority in existing business areas in Japan and create and develop new businesses that will contribute to solving societal issues.

In light of the recognition of the business environment and the challenges outlined above, the Group aims to continuously expand its business and realize a sustainable society by enhancing value exchange with stakeholders in all directions, and has set four initiatives to focus on: "enhancement of value provided by DX", "expansion of global business", "sharpen skills and promote diversity among human resources", and "advancement of business management".

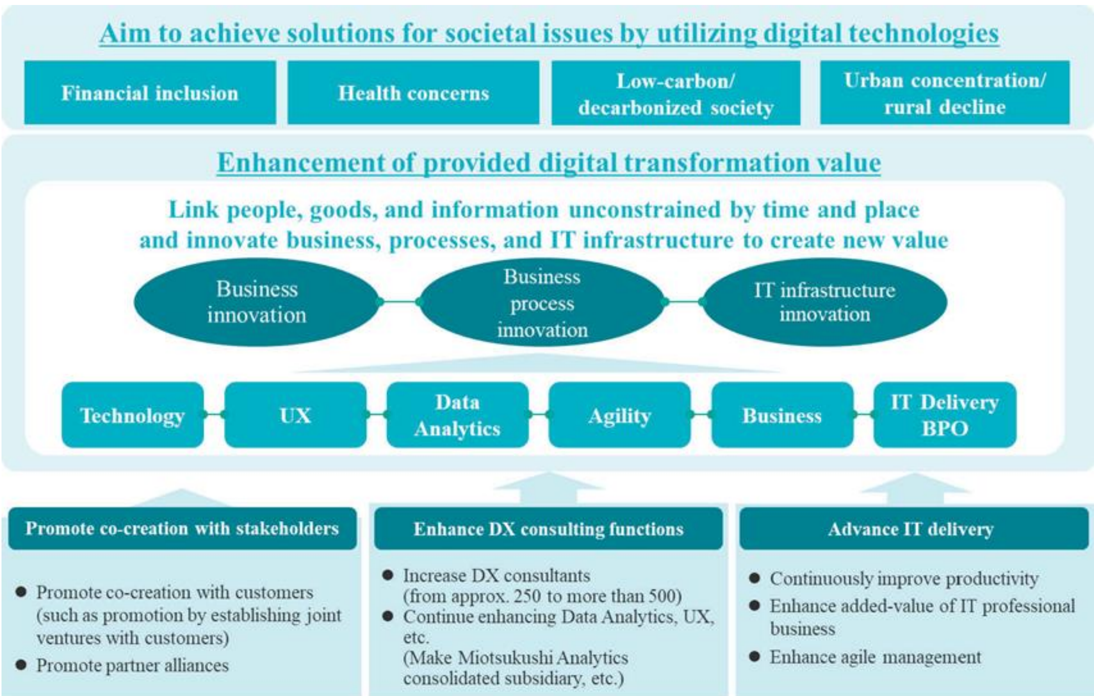
For information on the progress of each initiative during the current fiscal year, see "1. Results of Operations (1) Analysis of Consolidated Operating Results" on page 2.

1) Enhance provided digital transformation value

In the digital transformation area, the Company continuously work to expand business as a DX partner for its clients, focusing on the strengths cultivated by the Group, including Japan's top-level payment field, data analytics, AI, robotics, healthcare, and energy management, to help reform clients' current business processes and infrastructure, and even help to innovate their business itself.

"Promotion of co-creation with stakeholders", "enhancement of digital transformation consulting functions", and "enhancement of IT delivery" have been set as the initiatives necessary to improve the value of this DX offering.

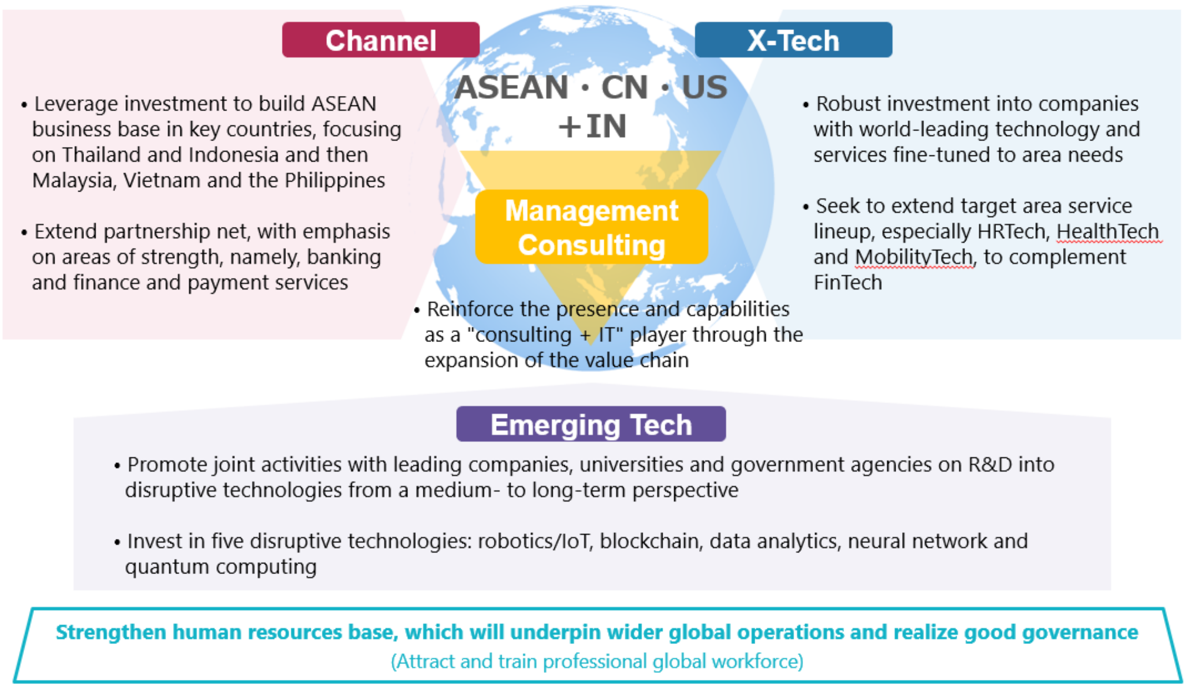
In fiscal 2022, the Company continued to strategically allocate management resources and develop human resources to strengthen its upstream consulting function. Furthermore, the Company has expanded the value of DX offerings by making Fixel Inc. a subsidiary and enhancing support for the construction and operation of design systems for business companies through system UI/UX design consulting for enterprise customers.



2) Deepening and expanding global management

Aiming to form an “ASEAN Top Class IT Syndicate” (consolidated net sales of ¥100 billion in fiscal 2026), the Group is expanding its business domain by making maximum use of alliances based on strategic investments based on the two core areas of “channels” and “technology”, integrating the strengths of each company, and building and strengthening alliances that can cover the ASEAN region. Against this backdrop, consolidated subsidiary MFEC Public Company Limited is leveraging its position as a leading player in the provision of IT solutions for enterprises in Thailand to make good progress with its domestic business in the country. In addition, the cross-selling of solutions between MFEC Public Company Limited and the Company, along with the deep cultivation of relations with Japan-based companies progressing, especially in the financial sector, and the Company is beginning to receive joint orders for large-scale projects. Moreover, collaboration between the Group’s overseas operating companies is in full swing, including the strategic partnership with Grab Holdings Inc., which operates the largest digital payment platform in Southeast Asia, with coordination on the enhancement of digital payment infrastructure and the development of new payment technologies in Southeast Asia and Japan. By continuing to strength the partnerships and alliances in ASEAN nations and utilize cutting-edge technologies and disruptive technologies, the Group will expand its IT offerings services and the Frontier Market Creation Business globally.

In light of the growing convergence of consulting and technology worldwide, which is becoming a competitive threat to traditional IT players, the Group will add “consulting” as a new axis, strengthen its presence and capabilities as a “consulting + IT” player by expanding its value chain, and accelerate global business development by focusing on the development of Next ASEAN.



3) Advance and diversify human resources

In order to continue to enhance the value exchange between employees and Group companies, the Group will promote a human resources strategy focusing on diversification and advancement of individuals. In that, the Group will take on the challenge of improving engagement with employees through creation of an environment and organizational culture where diverse individuals can thrive, promotion of next-generation work-style reforms looking towards a new work environment, and advancement of human resource portfolio management by digitalization of a human resources database. Additionally, the Company will strive to strategically secure and foster advanced human resources in areas such as consulting, global business, and service business and will place them optimally.

The Company has long regarded human resources as its most important management capital and has actively promoted up-front investment in human resources. The Company has been promoting investment in human resources to increase employee engagement based on the three axes of the meaning of work, the working environment, and compensation. It will introduce a new personnel system in April 2023 to further promote the reform of the meaning of work and compensation. Under the new personnel system, the compensation, evaluation, and grading systems will be completely revamped to create a virtuous cycle of high added value for the Company, its employees, and society, thereby ensuring further growth of the Company and securing excellent human resources both inside and outside the Company who can contribute to growth.

4) Enhance Group management

Based on the Group's basic philosophy of "OUR PHILOSOPHY", the Group will strive to solve social issues through its business activities and enhance value exchange with stakeholders through management sophistication in response to social demands, thereby promoting sustainability management that seeks to both contribute to a sustainable society and continuously increase corporate value.

< TIS INTEC Group's Overall Vision for Sustainability Management >

To date, the Group has established a system for enhancing sustainability management by means such as setting up a Corporate Sustainability Committee, identifying materiality and the four societal issues to resolve, and putting in place an implementation system to advance sustainability management, while promoting initiatives related to human rights and the environment, which are high-priority themes as urgent and important social issues based on the Basic Direction on Corporate Sustainability. In addition to continuing these initiatives, the Group recognizes that it is important to reevaluate not only the Group's direct corporate activities but also its corporate activities throughout the value chain, and the Group will strengthen its management system to establish a presence as a leading sustainability company by further deepening sustainability management.

In addition, the Group will continue to develop and strengthen its management foundation to achieve sustainable growth in an increasingly uncertain environment. The Group has established segment owners to clarify the focus of authority and responsibility, and is promoting the realization of growth strategies that leverage the strengths of each group company. The Group is also pursuing optimal group formation by restructuring the business portfolio through capital cost-conscious business management and M&A of domestic and overseas companies, and further upgrading and streamlining the head office functions including sharing inter-Group administrative operations. In addition, the Group will also promote the sophistication of investment management to earn appropriate returns as it aggressively executes growth investments (software investment, human resource investment, R&D investment, M&A and capital tie-ups, etc.) that will contribute to future growth.

At the same time, the Group will continue with strategic brand activities, including placing commercials on television and articles in advertising materials as part of efforts to increase corporate value and consumer recognition. At this point, the Group is beginning to see steady results in terms of improved recognition of the Group and corresponding benefits in terms of employee satisfaction and recruitment, but will continue efforts to strengthen the appeal of its service brand based on its corporate brand.

4. Basic Policy on Selecting Accounting Standards

The TIS INTEC Group uses Japanese accounting standards for financial reporting. The Group continues to review the possibility of optional application of International Financial Reporting Standards (IFRS).

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Items	As of March 31, 2022	As of March 31, 2023
	millions of yen	millions of yen
Assets		
Current assets		
Cash and deposits	114,194	94,675
Notes and accounts receivable, and contract assets	111,361	131,488
Lease receivables and lease investment assets	4,014	4,542
Marketable securities	298	284
Merchandise and finished goods	1,454	3,518
Work in process	1,360	1,758
Raw materials and supplies	217	207
Other current assets	26,668	32,668
Allowance for doubtful accounts	(308)	(461)
Total current assets	259,261	268,682
Fixed assets		
Property and equipment		
Buildings and structures, net	35,471	33,635
Machinery and equipment, net	9,636	8,336
Land	9,675	9,650
Leased assets, net	3,723	3,835
Other property and equipment, net	6,882	6,861
Total property and equipment	65,389	62,318
Intangible assets		
Software	14,231	22,039
Software in progress	12,255	3,609
Goodwill	770	692
Other intangible assets	1,493	1,329
Total intangible assets	28,750	27,671
Investments and other assets		
Investment securities	76,823	52,799
Net defined benefit asset	6,656	8,089
Deferred tax assets	17,313	21,159
Other assets	25,266	24,174
Allowance for doubtful accounts	(2,820)	(2,575)
Total investments and other assets	123,241	103,647
Total fixed assets	217,381	193,637
Total assets	476,642	462,320

Items	As of March 31, 2022	As of March 31, 2023
	millions of yen	millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable	22,475	26,976
Short-term borrowings	35,229	11,990
Income taxes payable	21,864	13,354
Accrued bonuses to directors and employees	15,840	17,540
Provision for loss on order received	1,092	607
Other allowances	140	160
Other current liabilities	42,593	46,549
Total current liabilities	139,236	117,179
Non-current liabilities		
Long-term debt	2,213	4,052
Lease obligations	3,554	4,011
Deferred tax liabilities	395	344
Deferred tax liabilities from revaluation of land	272	272
Accrued retirement benefits to directors	0	0
Other allowances	208	218
Net defined benefit liability	12,534	12,038
Asset retirement obligations	6,992	6,924
Other non-current liabilities	8,240	8,051
Total non-current liabilities	34,412	35,914
Total liabilities	173,649	153,094
Net assets		
Shareholders' equity		
Common stock	10,001	10,001
Additional paid-in capital	64,960	40,470
Retained earnings	203,256	247,263
Less treasury stock, at cost	(3,117)	(7,614)
Total shareholders' equity	275,100	290,120
Accumulated other comprehensive income		
Net unrealized gains on other securities	20,990	7,900
Deferred gains or losses on hedges	(4)	(31)
Revaluation reserve for land	(2,672)	(2,672)
Foreign currency translation adjustments	(70)	628
Remeasurements of defined benefit plans	(219)	1,093
Total accumulated other comprehensive income	18,024	6,918
Non-controlling interests	9,867	12,186
Total net assets	302,993	309,226
Total liabilities and net assets	476,642	462,320

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

Consolidated Statements of Income

Items	FY2022	FY2023
	millions of yen	millions of yen
Net sales	482,547	508,400
Cost of sales	353,699	366,668
Gross profit	128,848	141,732
Selling, general and administrative expenses	74,108	79,403
Operating income	54,739	62,328
Non-operating income		
Interest income	443	563
Dividend income	813	779
Foreign exchange gains	480	385
Other	835	759
Total non-operating income	2,572	2,488
Non-operating expense		
Interest expenses	322	235
Equity in losses of affiliated companies	1,012	1,088
Other	266	289
Total non-operating expenses	1,601	1,612
Recurring profit	55,710	63,204
Extraordinary income		
Gain on sales of investment securities	4,910	19,201
Gain on sales of shares of subsidiaries	6,362	2,774
Other	19	64
Total extraordinary income	11,293	22,040
Extraordinary loss		
Loss on sales of investment securities	32	887
Loss on valuation of investment securities	2,593	631
Impairment loss	909	969
Amortization of goodwill	560	-
Loss on valuation of investments in capital of subsidiaries	913	-
Loss on valuation of investments in capital	-	1,121
Other	511	141
Total extraordinary loss	5,521	3,752
Income before income taxes	61,481	81,492
Income taxes: current	28,074	21,552
Income taxes: deferred	(7,785)	1,370
Total income taxes	20,288	22,922
Net income	41,193	58,570
Net income attributable to non-controlling interests	1,731	3,108
Net income attributable to owners of the parent company	39,462	55,461

Consolidated Statements of Comprehensive Income

Items	FY2022	FY2023
	millions of yen	millions of yen
Net income	41,193	58,570
Other comprehensive income		
Net unrealized gains on other securities	(4,528)	(13,086)
Deferred gains or losses on hedge	(8)	(55)
Foreign currency translation adjustments	126	812
Remeasurements of defined benefit plans	228	1,315
Share of other comprehensive income of equity-method affiliates	469	190
Total other comprehensive income	(3,711)	(10,823)
Comprehensive income	37,481	47,746
(Composition)		
Comprehensive income attributable to owners of the parent company	35,761	44,356
Comprehensive income attributable to non-controlling interests	1,719	3,389

(3) Consolidated Statements of Changes in Net Assets

FY2022 (April 1, 2021 through March 31, 2022)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen
Balance at beginning of fiscal year	10,001	84,337	173,230	(18,812)	248,756
Cumulative effects of changes in accounting policies			(108)		(108)
Restated balance	10,001	84,337	173,122	(18,812)	248,648
Changes during the fiscal year					
Dividends from surplus			(9,327)		(9,327)
Net income attributable to owners of the parent company			39,462		39,462
Acquisition of treasury stock				(4,833)	(4,833)
Disposal of treasury stock		(19,376)		20,527	1,151
Capital increase of consolidated subsidiaries		0			0
Items other than changes in shareholders' equity, net					-
Net changes during the fiscal year	-	(19,376)	30,134	15,694	26,453
Balance at end of fiscal year	10,001	64,960	203,256	(3,117)	275,100

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gains on other securities	Deferred gains or losses on hedge	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen
Balance at beginning of fiscal year	25,513	-	(2,672)	(667)	(449)	21,724	8,948	279,429
Cumulative effects of changes in accounting policies								(108)
Restated balance	25,513	-	(2,672)	(667)	(449)	21,724	8,948	279,321
Changes during the fiscal year								
Dividends from surplus								(9,327)
Net income attributable to owners of the parent company								39,462
Acquisition of treasury stock								(4,833)
Disposal of treasury stock								1,151
Capital increase of consolidated subsidiaries								0
Items other than changes in shareholders' equity, net	(4,523)	(4)	-	597	229	(3,700)	919	(2,780)
Net changes during the fiscal year	(4,523)	(4)	-	597	229	(3,700)	919	23,672
Balance at end of fiscal year	20,990	(4)	(2,672)	(70)	(219)	18,024	9,867	302,993

FY2023 (April 1, 2022 through March 31, 2023)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen
Balance at beginning of fiscal year	10,001	64,960	203,256	(3,117)	275,100
Changes during the fiscal year					
Dividends from surplus			(11,451)		(11,451)
Net income attributable to owners of the parent company			55,461		55,461
Acquisition of treasury stock				(30,005)	(30,005)
Disposal of treasury stock		8		1,009	1,017
Cancellation of treasury stock		(24,498)		24,498	-
Change in scope of consolidation		(112)	(2)		(115)
Change in scope of equity method			(1)		(1)
Capital increase of consolidated subsidiaries		112			112
Sale of shares of consolidated subsidiaries		0			0
Items other than changes in shareholders' equity, net					-
Net changes during the fiscal year	-	(24,490)	44,006	(4,496)	15,019
Balance at end of fiscal year	10,001	40,470	247,263	(7,614)	290,120

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gains on other securities	Deferred gains or losses on hedge	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen	millions of yen
Balance at beginning of fiscal year	20,990	(4)	(2,672)	(70)	(219)	18,024	9,867	302,993
Changes during the fiscal year								
Dividends from surplus								(11,451)
Net income attributable to owners of the parent company								55,461
Acquisition of treasury stock								(30,005)
Disposal of treasury stock								1,017
Cancellation of treasury stock								-
Change in scope of consolidation								(115)
Change in scope of equity method								(1)
Capital increase of consolidated subsidiaries								112
Sale of shares of consolidated subsidiaries								0
Items other than changes in shareholders' equity, net	(13,090)	(27)	-	699	1,312	(11,105)	2,319	(8,786)
Net changes during the fiscal year	(13,090)	(27)	-	699	1,312	(11,105)	2,319	6,233
Balance at end of fiscal year	7,900	(31)	(2,672)	628	1,093	6,918	12,186	309,226

(4) Consolidated Statements of Cash Flows

Items	FY2022	FY2023
	millions of yen	millions of yen
Cash flows from operating activities		
Income before income taxes	61,481	81,492
Depreciation	15,083	15,700
Impairment loss	909	969
(Gain) loss on sale of investment securities	(4,877)	(18,313)
(Gain) loss on valuation of investment securities	2,593	631
Loss on disposal of fixed assets	377	127
Amortization of goodwill	889	157
(Gain) loss on sales of shares of subsidiaries	(6,362)	(2,774)
Loss on valuation of investments in capital of subsidiaries	913	-
Loss on valuation of investments in capital	-	1,121
Increase (decrease) in accrued bonuses to directors and employees	434	1,700
Increase(decrease) in allowance for doubtful accounts	270	(89)
Increase (decrease) in net defined benefit liability	(360)	(495)
Interest and dividend income	(1,257)	(1,343)
Interest expenses	322	235
Equity gains (losses) of affiliated companies	1,012	1,088
(Increase) decrease in notes and accounts receivable, and contract assets	1,718	(18,792)
(Increase) decrease in inventories	1,745	(2,317)
Increase (decrease) in notes and accounts payable	(4,063)	4,198
Increase (decrease) in accrued consumption taxes	3,395	(947)
Other, net	(4,695)	(43)
Subtotal	69,530	62,306
Interest and dividend income received	1,263	1,279
Interest expenses paid	(303)	(239)
Income taxes paid	(14,363)	(29,712)
Net cash provided by (used in) operating activities	56,126	33,634
Cash flows from investing activities		
Purchase of marketable securities	(400)	(400)
Proceeds from sale and redemption of marketable securities	400	400
Acquisitions of property and equipment	(9,048)	(4,337)
Proceeds from sales of property and equipment	62	50
Acquisitions of intangible assets	(6,231)	(6,045)
Acquisitions of investment securities	(2,746)	(4,191)
Proceeds from sale and redemption of investment securities	7,126	23,685
Payment of lease and guarantee deposits	(455)	(228)
Collection of lease and guarantee deposits	1,366	827
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	7,019	2,435
Other, net	(519)	(895)
Net cash provided by (used in) investing activities	(3,424)	11,300
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	1,320	10,399
Proceeds from long-term debt	-	3,500
Repayments of long-term debt	(7,012)	(35,450)
Purchase of treasury stock	(4,833)	(30,005)
Proceeds from sales of treasury stock	1,151	1,017
Dividends paid	(9,327)	(11,451)
Dividends paid to non-controlling interests	(756)	(1,155)
Other, net	(2,490)	(1,429)
Net cash provided by (used in) financing activities	(21,948)	(64,573)
Effect of exchange rate changes on cash and cash equivalents	142	271
Net increase (decrease) in cash and cash equivalents	30,895	(19,367)
Cash and cash equivalents at beginning of year	82,924	113,820
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	-	11
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(158)
Cash and cash equivalents at end of year	113,820	94,306

(5) Notes on the Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Additional Information)

(Acquisition of fixed assets (trust beneficiary interest in real estate))

At the Board of Directors meeting held on March 29, 2023, the Company resolved to acquire fixed assets (trust beneficiary interest in real estate).

1. Reason for acquisition

As a system integrator, the Company has long positioned system operation services as a core business along with system development services in order to provide one-stop services for customers' system life cycles. In recent years, the Company has focused on expanding its own brand of cloud services as part of efforts to transform its business structure in response to changes in the business environment and other factors. In addition, the basic policy is to own the large-scale facilities needed as the foundation to support such operations from the perspective of ensuring long-term, stable business continuity.

The Company chose to lease the subject facility based on the social situation, business environment, and financial position in the late 2000s, when it was considering opening the facility to expand its business, and began providing system operation and other services. Since then, the Company has fundamentally reviewed the system operation practices and strategies unique to the Company in light of changes in the business environment, including the rapid development of cloud computing, but the Company's recognition of the importance of owning facilities has not changed, and it has continuously explored opportunities to switch from renting to owning such facilities in line with the basic policy.

Following such developments, it has been decided that the acquisition of the trust beneficiary interest in the subject facility will contribute to the improvement of the Group's corporate value over the medium- to long-term, upon comprehensively considering the opportunity to enjoy the benefits of ownership through negotiations with the owner of the subject facility, the economic rationale for switching from leasing to ownership, and the current financial position that allows a large-scale investment.

2. Details of the acquired assets (trust beneficiary interest in real estate)

(1) Property name	Gotenyama SH Building	
(2) Address	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo	
(3) Land	Site area	6,858.68 ㎡
	Area usage	Commercial, semi-industrial, and Category 1 low-rise exclusive residential district
	Building coverage ratio	80%, 60%, 60%
	Floor area ratio	500%, 300%, 150%
	Form of ownership	Ownership rights
(4) Building	Total floor area	19,812.85 ㎡
	Structure/floors	S/SRC/one basement floor, 7 above ground floors
	Completion period	February 2011
	Form of ownership	Ownership rights
(5) Usage	Business facilities	
(6) Acquired percentage	100% (after complete acquisition)	
(7) Acquisition cost	¥72 billion Note: The above figures represent the total acquisition cost of the trust beneficiary interest in real estate ¥70 billion and miscellaneous expenses (estimate) related to the acquisition. In addition, an appraisal was obtained at the time of acquisition to verify the appropriateness of the acquisition price.	
(8) Acquisition funds	Cash on hand and loans from financial institutions are planned	
(9) Settlement method	The first installment will be made on October 31, 2023, and from then on, at the end of each half-year period, a total of 10 installments of ¥7 billion each will be made to acquire quasi-co-ownership interests in stages. The final acquisition date is scheduled for April 30, 2028.	

3. Counterparty Overview

(1) Name	Sekisui House Reit, Inc.	
(2) Address	4-15-1 Akasaka, Minato-ku, Tokyo	
(3) Title and name of representative	Atsuhiro Kida, Executive Director	
(4) Business description	Investment in assets primarily in real estate and asset-backed securities primarily in real estate	
(5) Total investment amount	¥161,283 million (as of October 31, 2022)	
(6) Date of incorporation	September 8, 2014	
(7) Net assets	¥294,484 million (as of October 31, 2022)	
(8) Total assets	¥570,999 million (as of October 31, 2022)	
(9) Major unitholders and ratio of investment units held	Japan Custody Bank, Ltd. (trust account) 25.80% The Master Trust Bank of Japan, Ltd. (trust account) 15.73% Sekisui House, Ltd. 4.58% The Nomura Trust and Banking Co., Ltd. (investment trust account) 4.34% (as of October 31, 2022)	
(10) Relationship between the listed company and the company	Capital relationship	Not applicable.
	Personnel relations	Not applicable.
	Business relationship	The Company leases the Gotenyama SH Building from the said company as a business facility for system operations and provision of own branded cloud services.
	Status as a related party	Not applicable.

4. Acquisition schedule

(1) Date of resolution by the Board of Directors	March 29, 2023
(2) Date of purchase agreement	March 29, 2023
(3) Scheduled date of acquisition of trust beneficiary interest	The first installment will be made on October 31, 2023, and from then on, at the end of each half-year period, a total of 10 installments of ¥7 billion each will be made to acquire quasi-co-ownership interests in stages. The final acquisition date is scheduled for April 30, 2028.

5. Effect of the event on the financial position and income or loss

The impact of this event on the Company’s consolidated financial results for the current fiscal year is immaterial. However, in conjunction with the switch from the current lease to ownership, the Company expects cost reduction effects for the subject facilities in proportion to the percentage of real estate trust beneficiary interests acquired from the next fiscal year onward.

(Significant Subsequent Events)

(Share buyback)

The Company resolved at a Board of Directors' meeting held on May 9, 2023, to acquire its own (treasury) shares in accordance with the provisions of Article 156 of the Companies Act of Japan as applied pursuant to Paragraph 3, Article 165 of said Act.

1. Reason for share buyback

To enhance shareholder returns and capital efficiency by implementing an agile capital strategy that is flexibly responsive to changes in the operating environment.

In addition to returning profits to shareholders in line with the target total return ratio of 45% set forth in the medium-term management plan (2021-2023), the share buyback is also being conducted as part of the Company's efforts to optimize its capital structure in light of the steady progress being made with the strengthening of its profit base through structural reforms, including progress in advancing service-based businesses.

2. Details of resolution on share buyback

(1) Class of shares to be repurchased
Common shares

(2) Total number of shares to be repurchased
1,800,000 shares (upper limit)

(3) Total cost of repurchase
¥6,200 million (upper limit)

(4) Period for repurchase
May 10, 2023 - August 31, 2023

(5) Method for repurchase
Market purchase on the Tokyo Stock Exchange

(Merger through Acquisition)

The Company resolved at a Board of Directors' meeting held on February 1, 2023, to participate in a bid related to the acquisition of stock in Nihon ICS Co., Ltd. ("Nihon ICS"), and following the execution of a stock transfer agreement on March 7, 2023, the Company acquired shares of Nihon ICS on April 6, 2023.

1.Overview of Merger

(1) Name of acquired company and its business description
Name of acquired company: Nihon ICS Co., Ltd.
Business description: Provision of accounting/tax packages for tax accounting firms, support for IT implementation, and accounting/payroll packages for corporate clients

(2) Main reasons for the merger

With the aim of achieving sustainable corporate growth and enhancing corporate value through the achievement of Group Vision 2026, the Group is promoting the concentration of its business into four Strategic Domains (Note 1). As various measures for structural transformation in the medium-term management plan (2021-2023) are promoted, it has been determined that in order to accelerate the growth of IT Offering Services (Note 2), one of the Strategic Domains, it is important to welcome Nihon ICS, which mainly targets tax accountant offices and their corporate clients and is engaged in providing financial accounting packages and related services, into the Group and acquire its business model and client base.

With the acquisition of Nihon ICS as a consolidated subsidiary, the Company will promote the following initiatives by combining its business for financial institutions and Nihon ICS's business for tax accountants and other professionals, aiming to expand its customer base and realize new business schemes.

1) Sophistication of the profession

Enhancement of the functions of accounting/tax packages and related services for small and medium-sized companies and tax consulting firms, which are the clientele of Nihon ICS, and application of new technologies to increase efficiency and certainty of tax accounting operations.

2) Sophistication of financial institutions

Provide solutions for small to medium-sized companies to promote IT and DX for business partners in collaboration with financial institutions, the Company's customer base.

3) Expanding the efforts of both companies to new companies

Formation of a business matching community connecting over 10,000 tax accountant firms, over 400,000 consulting clients, and over 100 financial institutions nationwide, and creation of business opportunities across regions.

Note 1: The four business domains designated to be built into the core businesses of the Group by 2026, as set forth in Group Vision 2026.

Note 2: The Company will combine its Group's accumulated know-how and broad range of leading-edge technologies to create and rapidly deploy IT solutions and services that anticipate the future needs of our customers.

(3) Merger date

April 6, 2023 (deemed acquisition date: June 30, 2023)

(4) Legal form of merger

Acquisition of shares for cash

(5) Name of merged company

No change.

(6) Percentage of voting rights acquired

Percentage of voting rights acquired on the date of business combination: 100.0%

Percentage of voting rights after acquisition: 100.0%

(7) Main reason for determining the acquiring company

This was mainly due to the Company's purchase of shares in exchange for cash.

2. Breakdown by acquisition cost and type of consideration of the acquired company

Consideration for acquisition Cash and deposits: ¥22,500 million

Acquisition cost: ¥22,500 million

3. Details and amounts of major acquisition-related expenses

Fees and commissions for advisory services: ¥260 million

4. Amount, causes, amortization method and amortization period of goodwill incurred

No decision has been made at this time.

5. Amounts of assets acquired and liabilities assumed on the date of merger and major breakdown

No decision has been made at this time.

6. Method of funding and payment

The funds will be appropriated from cash on hand and borrowings.

6. Other Information

INTEC Inc., a consolidated subsidiary of the Company, is currently in litigation with Mitsubishi Shokuhin Co., Ltd., which filed a claim for compensation in connection with services including systems development provided by INTEC Inc. (Amount of compensation demanded: 12,703 million yen; date the complaint was received: December 17, 2018).