



# TIS Inc.

**ANNUAL REPORT 2004**

Year ended March 31, 2004

## PROFILE

*TIS Inc., a provider of IT services, numbers among Japan's leading system integrators. Originally established in 1971 as Toyo Information Systems Co., Ltd., the Company adopted its current name in 2001. In the year ended March 31, 2004, the Group's consolidated net sales amounted to ¥169.4 billion and operating income came to ¥12.5 billion.*

### >>Outsourcing Services

*Through its operating centers in Tokyo and Osaka, TIS provides system operation, system warehousing, outsourcing management, 24-hour maintenance, and Internet data center services. Group companies additionally offer networking services.*

### >>Software Development

*TIS develops software, along with comprehensive system integration services, that range from design to configuration as well as support for implementing enterprise resource planning (ERP), creating databases, and building Internet environments.*

### >>Solution Services

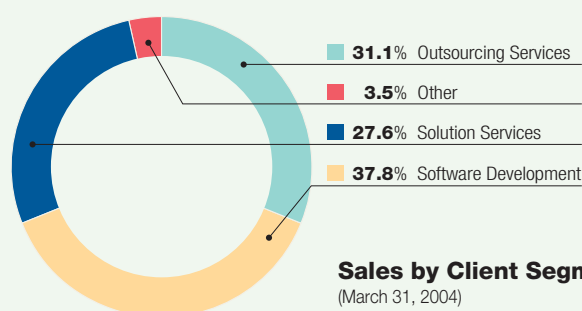
*TIS supports clients in planning and implementing the best configurations of systems and equipment by combining a full range of software, including packaged software, with the hardware, such as servers, storage devices, and equipment, already in use at client companies.*

### >>Other

*Subsidiaries are engaged in leasing and market research activities.*

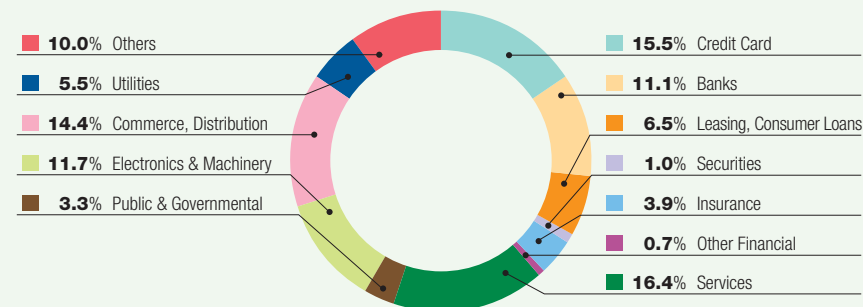
### Sales by Business Segment

(March 31, 2004)



### Sales by Client Segment

(March 31, 2004)



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# CONSOLIDATED FINANCIAL SUMMARY

TIS Inc. and Consolidated Subsidiaries

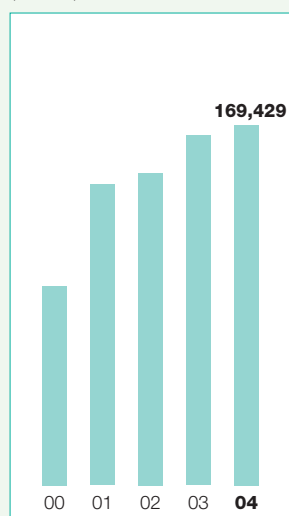
For years ended March 31	Millions of yen					Thousands of U.S. dollars	
	2004	2003	2002	2001	2000	2004	
<b>For the year:</b>							
Net sales.....	<b>¥169,429</b>	¥164,585	¥146,908	¥141,398	¥93,673	<b>\$1,603,083</b>	
Operating income .....	<b>12,503</b>	10,723	8,808	7,636	6,686	<b>118,297</b>	
Net income .....	<b>5,463</b>	3,696	3,609	4,616	3,495	<b>51,688</b>	
<b>At year-end:</b>							
Total assets .....	<b>155,344</b>	142,322	131,551	124,766	101,836	<b>1,469,810</b>	
Total shareholders' equity .....	<b>71,948</b>	60,912	58,804	57,041	52,142	<b>680,741</b>	
Property, plant and equipment.....	<b>36,991</b>	39,256	38,596	38,858	30,453	<b>349,997</b>	
Long-term debt.....	<b>33,192</b>	28,045	28,124	24,517	11,086	<b>314,050</b>	
Yen							U.S. dollars
<b>Per share data:</b>							
Net income (basic) .....	<b>¥ 121.52</b>	¥ 81.88	¥ 82.43	¥ 106.06	¥ 82.10	<b>\$ 1.15</b>	
Net income (diluted) .....	<b>113.63</b>	74.35	75.32	99.29	79.45	<b>1.08</b>	
Cash dividends .....	<b>25.00</b>	22.00	20.00	20.00	14.00	<b>0.24</b>	
Total shareholders' equity .....	<b>1,585.39</b>	1,388.82	1,343.15	1,303.33	1,205.90	<b>15.00</b>	
<b>Ratios:</b>							
ROA (%).....	<b>3.7</b>	2.7	2.8	4.1	3.5		
ROE (%).....	<b>8.2</b>	6.2	6.2	8.5	7.2		
Equity ratio.....	<b>46.3</b>	42.8	44.7	45.7	51.2		
<b>Number of employees .....</b>	<b>5,723</b>	5,667	5,209	3,870	3,039		

Notes: 1. ROE and ROA are calculated using the average of the beginning and ending balances for total shareholders' equity and total assets.

2. U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥105.69=US\$1, the approximate rate prevailing on March 31, 2004.

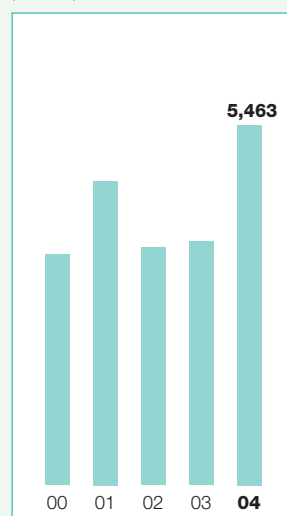
## Net Sales

(¥ Million)



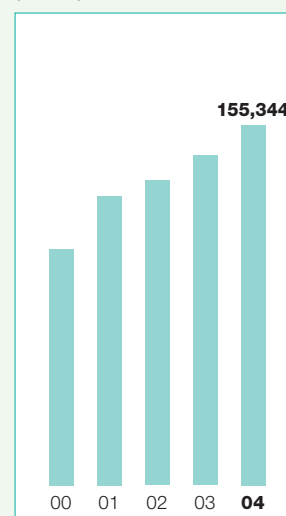
## Net Income

(¥ Million)



## Total Assets

(¥ Million)



Note: Fiscal 2004 refers to the accounting period from April 1, 2003, to March 31, 2004. Graphs appearing in this annual report use fiscal year notation.

## TO OUR INVESTORS



Susumu Okamoto,  
President

### **First, let me thank all our shareholders for their support over the years.**

#### **GROUP MANAGEMENT POLICY**

TIS' mission is one of providing an "intellectually rewarding and discerning lifestyle" through businesses that "provide functions that increase the information creativity of people and social systems." Fulfilling this mission remains our basic, universal policy.

#### **BASIC POLICY ON INCOME DISTRIBUTION**

The Company constantly works to maintain or increase the level of retained earnings based on an overall consideration of its future earnings prospects, medium-to-long-term funding needs, and financial position. It pursues a policy of returning profit to shareholders through stable dividends and by making optimal use of capital entrusted with it. At the same time, TIS works to formulate measures that will underpin growth into the future and earn the high regard of investors as a company worthy of long-term investment.

#### **EARNINGS**

The term under review, fiscal 2004, ended March 31, 2004, was the first year of the T-GET 5 three-year medium-term management plan, through which we aim to evolve into a stronger corporation.

Consolidated sales for the year increased 2.9% year on year, to ¥169,429 million. Two subsidiaries, Agrex Inc. and TIS Consulting Ltd., recorded double-digit year-on-year increases in revenue, and performance was also robust in all major parent solution and outsourcing services, software development, and equipment marketing.

In addition to improvement in the operating income ratio, operating income increased 16.6% year on year, to ¥12,503 million, due to reductions in selling, general and administrative (SG&A) expenses, and income before extraordinary items (*keijo rieki*) rose 17.5%, to ¥12,593 million. At Qualica Inc. where we are reorganizing development operations and cutting SG&A costs, earnings increased despite a drop in revenue. TIS Consulting and Agrex, which recorded strong sales, also made earnings contributions.

Net income soared 47.8% year on year, to ¥5,463 million. Extraordinary losses from costs of measures taken to strengthen system security and valuation loss on investments in securities were outweighed by extraordinary gains on the sale of investments in securities in connection with the listing of a TIS-supported venture company with which the Company aims to form an alliance.

**MEDIUM-TO-LONG-TERM MANAGEMENT STRATEGY**

Although the Japanese economy is vulnerable to external influences, such economic indicators as corporate confidence in future prospects are improving. However, clients now demand lower IT costs as a matter of course—a major change in their investment stance wrought by the economic slow-down of the last few years. Also, clients making IT investments increasingly view the price they pay as covering not only system costs but also the future value they expect the investment to generate, causing a shift in the traditional relationship between clients and IT service enterprises. Another powerful factor depressing prices is the growing number of companies turning to offshore development and open-source technologies such as Linux. In addition, we believe IT service providers will soon be expected to offer on-demand services, that is, services provided at specified times and in specified volumes. As a result, the industry now finds itself caught in a major paradigm shift.

In this environment, we are committed to continued business growth through the T-GET 5 three-year medium-term management plan. T-GET 5 aims at maximizing corporate value through three basic policies: reinforcing client-oriented capabilities, honing a sharper competitive edge, and elevating the skills of staff and management.

**1) Reinforcing client-oriented capabilities**

To put in place a global support framework capable of meeting increasingly sophisticated client needs, we are deepening cooperation with industry leaders and working to enhance our ability to offer support services through M&A activities.

**2) Honing a sharper competitive edge**

To offer more competitive services in the marketplace, we are making quality improvements through the development of new technologies and the reduction of costs through offshore development.

**3) Elevating the skills of staff and management**

We are taking steps to upgrade personnel policy in an integrated manner by fusing previously discrete talent development and personnel hiring/deployment functions. This will allow us to prioritize the nurturing of personnel and the development of their abilities.

**TASKS THAT LIE AHEAD**

To continue growing, we will need to make a wide range of forward-looking investments in such areas as data centers and related facilities as well as securities and to pursue M&A and software R&D. We consider it a management priority to simultaneously pursue strategies for growth and greater efficiency while maintaining a sound balance sheet.

**CORPORATE SOCIAL RESPONSIBILITY**

We realize that, along with the growth in earnings for TIS and its Group companies over the last few years, has come an expansion in our social responsibilities. Our philosophy commits the Group to forging appropriate relations between the Company as a corporate citizen and society. To realize this goal, we are taking measures to “reward” the community through social contribution activities.

Finally, I would like to reiterate our commitment to growing our business and building corporate value for all entities with which the TIS Group is involved. I ask shareholders for their continuing support and guidance.

September 1, 2004



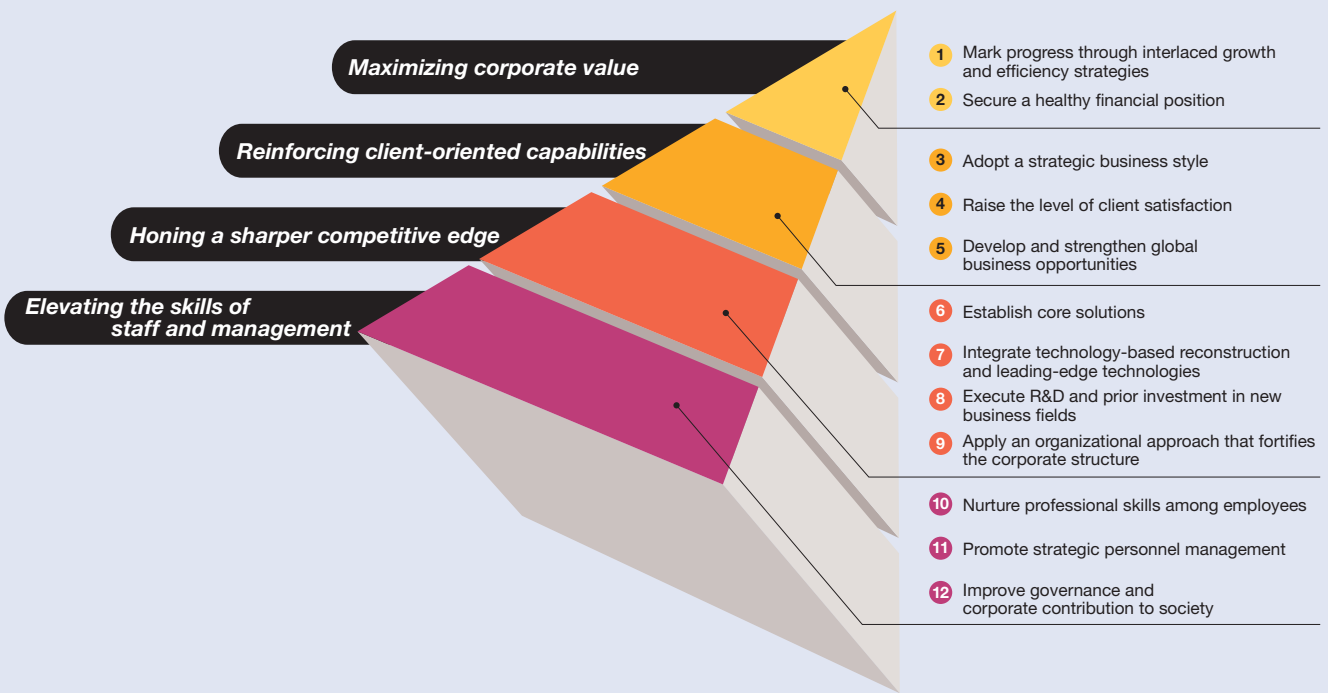
Susumu Okamoto  
President

# T-GET 5: TIS GROWTH & EVOLUTION THEORY 2005

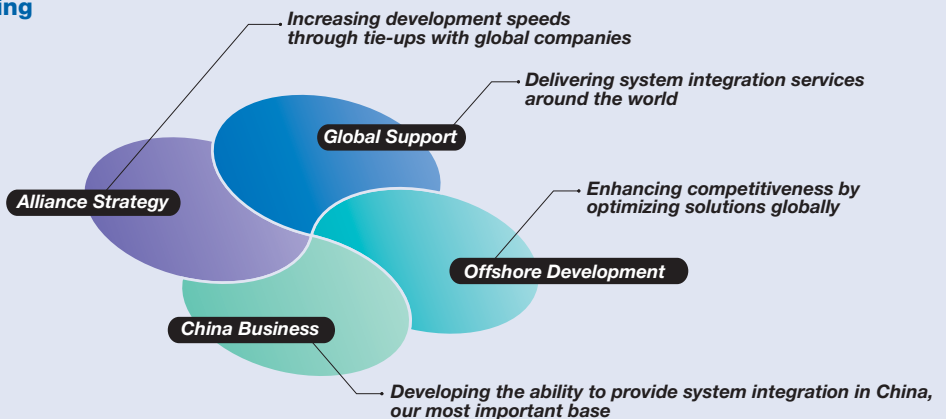
## Final Goals of T-GET 5

In April 2003, the Company embarked on the T-GET 5 three-year medium-term management plan. With our operating environment undergoing great change and existing paradigms shifting, we are convinced that TIS must evolve more quickly to thrive. To this end, we are maximizing corporate value through three basic policies: reinforcing client-oriented capabilities, honing a sharper competitive edge, and elevating the skills of staff and management.

Consolidated targets for the year ending March 31, 2005, are as follows: net sales of ¥205,000 million, income before extraordinary items of ¥15,700 million, and net income of ¥7,100 million.



>> TIS is aggressively expanding its business overseas



### T-GET 5: ACHIEVEMENTS THUS FAR

#### 1) Reinforcing client-oriented capabilities

One of the goals of the T-GET 5 three-year medium-term management plan is reinforcing client-oriented capabilities. By deepening cooperation with leading companies in all industries, we believe we can achieve sustained earnings growth. Below are details of the Company's alliance and M&A activities in the current term.

##### 1. Takeover of UFIT

In April 2004, UFJ Holdings' wholly owned IT strategic promotion subsidiary UFIT Co., Ltd., spun off one unit to form UFJIS Co., Ltd., as a wholly owned subsidiary serving the UFJ Group. Following the spin-off, TIS acquired a 67.4% share of UFIT, with the remainder held by UFJ.

Having established itself as the main system integrator in the Chubu area centered on Nagoya, UFIT can offer a full range of integrated IT-related outsourcing services.

Like TIS, UFIT has technological capabilities in card, credit, and non-bank systems. We aim to enhance and reinforce our IT solutions by combining TIS' strength in ERP solutions with UFIT's in BPO solutions since its transfer to us.

##### 2. Alliances

The Company forms alliances with leading vendors in Japan and overseas to enable sufficient levels of IT support for overseas expansion by our clients. For the purpose of providing SAP installation and outsourcing services to Japanese companies entering the China region, including mainland China and Taiwan, the Company has formed an alliance with Atos Origin China Co., Ltd., the Chinese subsidiary of Atos Origin SA and Digital China Holdings Ltd. In April 2002, we signed an enterprise agreement with Atos Origin and formed a comprehensive business tie-up covering global operations, and, in October 2003, we concluded a similar comprehensive tie-up with Digital China Holdings in the Chinese system integration business. Our enhancement of IT services for Japanese client companies expanding globally has strengthened this three-way alliance.

In February 2004, Saison Information Systems Co., Ltd., and our U.S. subsidiary TISI (USA), Inc., signed a formal sales agency agreement for the North American market (the United States and Canada) for HULFT middleware, which enables seamless intra- and intercompany file transfers. TISI (USA) has also begun operations at the HULFT New York Support Center, which was set up within the company to support companies introducing HULFT in the North American region.



### 2) Honing a sharper competitive edge

To offer services that are competitive in their markets, we need to improve quality through the development of new technologies while reducing costs through offshore development.

#### 1. Component-type, order-made solutions

Created on the basis of TIS' knowledge resources built up over 30 years, CreditCube is a component-type, order-made solution product for basic credit management systems for medium-sized and second-tier credit companies. It can build systems combining standard and custom-made elements to suit the particular needs of each client.

CommerceCube (formerly LSAM), optimized for the construction and maintenance of basic administrative systems, was fully launched in April 2004. CommerceCube provides basic administrative operations, chiefly marketing management (marketing, purchasing, inventory, logistics, debt and credit management). Marketing management system needs for all industries and business categories are basically the same with regard to manufacturing, wholesaling, distribution, and marketing. In future, we plan to expand the applications of this product while enhancing templates classified by industry.

#### 2. Acquisition of CMM Level 3

In November 2003, we acquired Capability Maturity Model (CMM) Level 3 accreditation, an indicator for measuring the organizational maturity of software development recognition. With five levels, this is the de facto standard for objectively judging and evaluating organizational ability and maturity in software development processes. Our acquisition of CMM Level 3 accreditation indicates that we are able to consistently guarantee high-level software development processing.

#### 3. Establishment of group service center

In April 2004, we established TIS Group Service Center through the integration of TIS Group personnel operations to achieve cost benefits from streamlined administration and to enhance service quality. We are now steadily transferring relevant service functions to the new entity and aim to complete the process during fiscal 2005.

#### 4. Offshore development

In October 2002, we established the Hong Kong-based joint venture DGT Information Systems Limited with Digital China Holdings and General Electric Company to serve the Japanese market as an offshore development base. Through DGT Information Systems, we aim to secure large-scale outsourcing development projects in China and strengthen our competitiveness in development costs.



## MAJOR SUBSIDIARIES

**For the TIS Group, the key to future profit growth is an effective M&A strategy. This policy has created strong companies within the Group and is making major contributions to well-balanced earnings growth in our software development, outsourcing services, and ERP businesses.**

### AGREX INC. (SECOND SECTION OF THE TOKYO STOCK EXCHANGE)

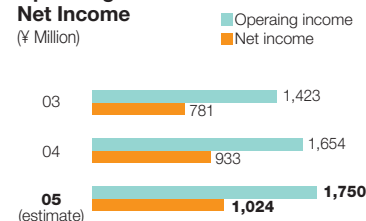
This company's principal domains, in which it develops order-made software, are BPO, software solutions, and system integration.

In the year ended March 31, 2004, the BPO business increased orders from credit card, telecommunications, and health insurance services, and the software solutions and system integration businesses also saw robust order growth. As a result, the division recorded its ninth consecutive period of double-digit increase in revenues and earnings.

#### Net Sales (¥ Million)



#### Operating Income Net Income (¥ Million)



### QUALICA INC.

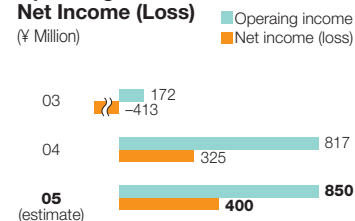
Originally established and wholly financed by the major Japanese construction machinery manufacturer Komatsu Ltd., this company is now an 80% owned subsidiary of TIS. It handles software development (outsourcing) and ERP package development tailored to client hardware environments and operations.

In the year ended March 31, 2004, sales declined in line with a decrease in orders from hardware vendors, but the operating income ratio reached record levels on the back of cost reductions. New orders won by this company include those from the food service industry.

#### Net Sales (¥ Million)



#### Operating Income Net Income (Loss) (¥ Million)



### TIS CONSULTING LTD.

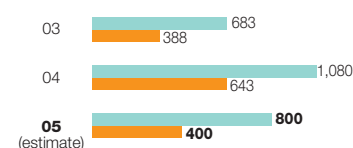
This company offers system support to clients who are restructuring their operations, providing everything from consulting to system purchase and support after the launch of operations.

In the year ended March 31, 2004, large-scale orders expanded in Japan and the company recorded its highest-ever earnings. It is steadily capitalizing on earnings opportunities from the increasing number of Japanese companies negotiating to set up operations in the Chinese market.

#### Net Sales (¥ Million)



#### Operating Income Net Income (¥ Million)



### SYSTEMS ENGINEERING LABORATORY CO., LTD.

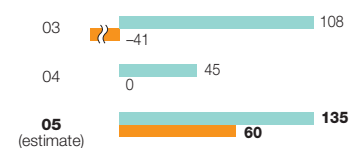
This company offers system development services focusing on the clients of IBM Corporation. Already, over 1,100 companies have introduced the LANSAs system development support tool, the company's main product.

In the year ended March 31, 2004, the company posted strong sales of packaged products. Deliveries were also brisk for LANSAs and the new application framework software Pliant for Web-based production, marketing, and accounting systems.

#### Net Sales (¥ Million)



#### Operating Income Net Income (Loss) (¥ Million)



### UFIT CO., LTD.

In April 2004, UFJ Holdings spun off its IT-planning function and transferred it to us as UFIT, a new IT strategic promotion company serving the TIS Group. Having established itself as the main system integrator in the Chubu area centered on Nagoya, UFIT can offer a full range of integrated IT-related outsourcing services.

Targets for the year ending March 31, 2005, are as follows: net sales of ¥38,000 million, operating income of ¥1,500 million, and net income of ¥900 million.

# RESEARCH & DEVELOPMENT

## ***The creation of core technologies***

With escalating customer demand for open technologies that can be applied to core systems, the Group is focusing on developing commercial applications and enhancing productivity through alliances centered on a core technology center and planning and promotion departments in every related field.

### **1) TECHNOLOGIES SHARED ACROSS THE GROUP**

#### **1. The core technology center: Disseminating the latest technologies among all Group businesses**

With core technologies as the base, we have set up R&D facilities focused on open-source, object-oriented, and network construction technologies. We have also put in place the basic infrastructure for the development of the security applications and systems management/maintenance services clients require.

#### **2. Production Technology Department: Sharing project management know-how**

In the Production Technology Department, we have focused on sharing our extensive experience of system engineering project management expertise throughout the whole Group. The aim is to enhance the project management capabilities of our various businesses.

#### **3. Personnel Department Ability Development Group: Sharing know-how in upstream process consultation**

To date, the Company has trained a total of 30 staff to work as IT coordinators (ITCs), general consultants in the field of IT utilization at every stage of production from upstream processing to IT application resource procurement, development, and delivery. The personnel ability development group of the Personnel Department has set up an ITC workshop centered on these specialists.

#### **4. TRC and ITR value-chain construction with leading-edge technologies**

The Company conducts research in such areas as Web services, BPO, and enterprise architecture, mainly at the subsidiaries TIS R&D Center, Inc. (TRC), in Silicon Valley, and IT Research Inc. (ITR).

### **2) "VERTICAL" BUSINESSES (PURSUED AT ALL LEVELS OF OPERATIONS)**

#### **1. Java-integrated framework CommerceCube for core systems**

Launched in April 2004, CommerceCube uses a Java-integrated framework. It can offer productivity enhancement by incorporating an operational component kit (framework) based on J2EE object technology to form a system integration base.

#### **2. Call Smart telephone and business system**

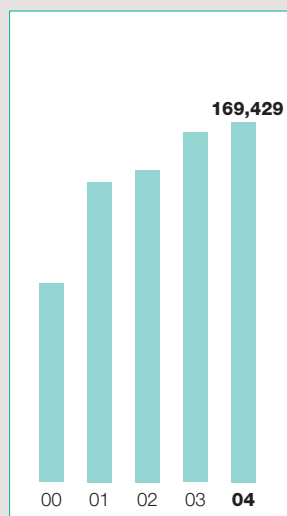
Based on the intelligent SIP server *Call Smart*, the MoIP promotion office has developed a solution that integrates PCs and telephones and converts them to VoIP while linking them with operational systems. This enables the effective use of VoIP for call center operation, teleconferencing, and presentation management.

#### **3. Core-managed PKI technology for security architecture**

Public Key Infrastructure (PKI) technology has won plaudits not only for ID verification systems for corporate use but also as an architecture powerful enough to detect alteration of electronic files. In the course of researching applications of this technology, we have provided customers with a wide range of consultation services.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Net Sales**  
(¥ Million)



*The scope of consolidation for fiscal 2004, ended March 31, 2004, covers TIS, 25 consolidated subsidiaries and six equity-method affiliates. The primary function of the TIS Group is to provide outsourcing services, software development services, and solution services that support investment in technology. We also engage in peripheral activities, such as leasing and market research, associated with the design and installation of information systems. In the consolidated fiscal year under review, Systems Trust Co., Ltd., and TISI (Shanghai) Co., Ltd., were newly consolidated.*

## BUSINESS SUMMARY

### Net Sales

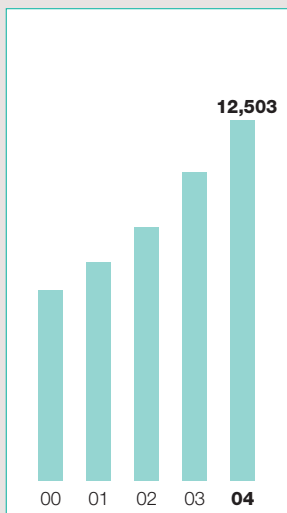
Net sales in the term under review totaled ¥169,429 million, up 2.9% year on year, maintaining their growth momentum. Performance was generally robust in all three of the parent company's service areas: outsourcing services, software development, and solution services centered on equipment sales. In addition, Agrex and TIS Consulting both saw double-digit revenue growth, more than offsetting declines, chiefly at Qualica.

Millions of yen, %

	2004	2003	% change
<b>Net sales</b>	<b>¥169,429</b>	¥164,585	2.9%
Outsourcing services	<b>52,733</b>	51,101	3.2
Software development	<b>63,978</b>	64,282	(0.5)
Solution services	<b>46,834</b>	44,059	6.3
Other	<b>5,883</b>	5,141	14.4

Note: Parentheses indicate negative figures.

**Operating Income**  
(¥ Million)



### (1) Outsourcing Services

Segment sales increased 3.2% year on year, to ¥52,733 million. A growing number of corporate customers are concentrating their resources in core businesses, a trend that is underpinning wider demand for outsourcing services, such as high-level system operation. In response to this demand, we have launched proposal-style marketing plans while continuing to improve the efficiency and quality of our data centers and thereby ensure competitiveness and customer satisfaction. As a result, important drivers of earnings performance during the year under review were increased transactions with main customers and expanded outsourcing business handled by Agrex (back-office tasks for credit card, communications, and insurance companies).

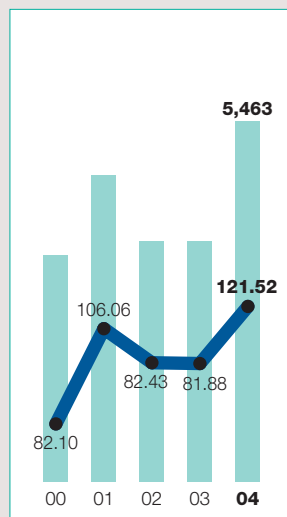
### (2) Software Development

Segment sales edged down 0.5% year on year, to ¥63,978 million. The operating environment for software development has recently grown harsher, with intensified

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net Income, Net Income per Share

(¥ Million, ¥)

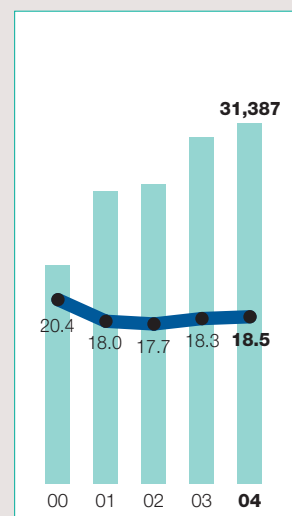


Net income

Net income per share  
(basic)

### Gross Profit, Gross Profit to Net Sales Ratio

(¥ Million, %)



Gross profit

Gross profit to  
net sales ratio

competition for orders and pressure for lower prices forcing us to work ever harder on a case-by-case basis to manage market risk. Specifically, we instituted measures to ensure that we would not accept potentially unprofitable projects, utilizing systematic risk-monitoring techniques, including status reviews at each step by a system development conference. Although efforts to market chemical industry solutions to affiliates of major customers through TIS Consulting are progressing well, revenues were down slightly due to curbed IT investment among Qualica's leading customers and a trend of streamlining in sectors the division traditionally targets for outsourcing contracts (subcontracts).

#### (3) Solution Services (sale of IT equipment and software)

Sales from solution services increased 6.3% year on year, to ¥46,834 million, on the back of orders from the banking industry for ATM equipment capable of handling newly issued banknotes and for network equipment for commercial applications.

#### (4) Other

Consolidated revenues from other operations, mainly a leasing subsidiary, increased 14.4% year on year, to ¥5,883 million.

### Costs, Expenses, and Earnings

Millions of yen, %

	2004	2003	% change, pt.
<b>Cost of sales</b>	<b>¥138,042</b>	¥134,462	2.7%
<b>Cost of sales ratio</b>	<b>81.5%</b>	81.7%	(0.2) pt.
<b>Gross profit</b>	<b>31,387</b>	30,123	4.2
<b>Gross profit ratio</b>	<b>18.5</b>	18.3	0.2
<b>Selling, general and administrative (SG&amp;A) expenses</b>	<b>18,884</b>	19,400	(2.7)
<b>SG&amp;A expense ratio</b>	<b>11.1</b>	11.8	(0.7)
<b>Operating income</b>	<b>12,503</b>	10,723	16.6
<b>Operating income ratio</b>	<b>7.4</b>	6.5	0.9
<b>Net income</b>	<b>5,463</b>	3,696	47.8
<b>Return on sales</b>	<b>3.2</b>	2.2	1.0

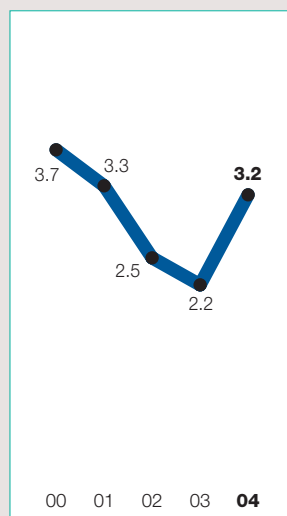
The cost of sales ratio decreased 0.2 percentage point year on year, to 81.5%, on the back of continued efficiency improvements. This pushed gross profit up 4.2% year on year, to ¥31,387 million, and the gross profit ratio up from 18.3% to 18.5%.

Selling, general and administrative expenses decreased 2.7% year on year, to ¥18,884 million, reflecting the benefits of divisional reorganization to raise efficiency within the Group and pare operating expenses. Increased gross profit and reduced SG&A expenses combined to lift operating income 16.6%, to ¥12,503 million. The operating income ratio grew 0.9 percentage point, from 6.5% to 7.4%. Notable contributions came from parent company operations as well as Qualica and TIS Consulting.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Return on Sales\*

(%)



\* Return on sales =  
net income / net sales x 100

Income before extraordinary items increased 17.5% year on year, to ¥12,593 million, and the ratio of income before extraordinary items to net sales rose 0.9 percentage point, to 7.4%. In addition, the extraordinary item position improved considerably, as valuation loss on investments in securities decreased substantially and two losses in the previous term were eliminated: the lump-sum amortization of goodwill in Systems Engineering Laboratory, and restructuring charges for affiliates primarily connected with the business reorganization of Qualica. As a result, net income for the term under review expanded 47.8% year on year, to ¥5,463 million, and return on sales increased 1.0 percentage point, to 3.2%

### FINANCIAL POSITION

Millions of yen, %

	2004	2003	% change
<b>Current assets</b>	<b>¥ 82,661</b>	¥ 69,415	19.1%
<b>Fixed assets</b>	<b>72,683</b>	72,907	(0.3)
<b>Total assets</b>	<b>155,344</b>	142,322	9.1
<b>Current liabilities</b>	<b>42,415</b>	47,014	(9.8)
<b>Non-current liabilities</b>	<b>35,665</b>	29,561	20.6
<b>Total liabilities</b>	<b>78,080</b>	76,575	2.0
<b>Minority interests</b>	<b>5,316</b>	4,835	9.9
<b>Total shareholders' equity</b>	<b>71,948</b>	60,912	18.1

#### Assets

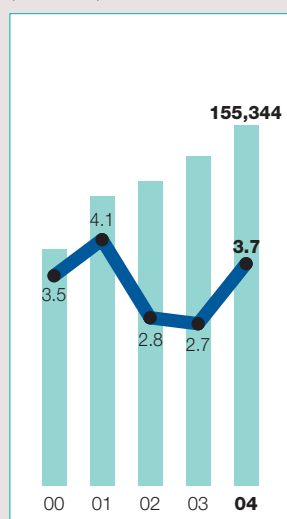
Total assets as of March 31, 2004, stood at ¥155,344 million, up 9.1%, or ¥13,022 million, from a year earlier. Most of the increase was due to a year-on-year 19.1%, or ¥13,246 million, rise in current assets, of which ¥12,379 million came from a boost in cash on hand and in bank as the Company prepared for the acquisition of UFIT shares. However, fixed assets shrank slightly, with decreases in property and equipment due to write-offs and write-downs of the value of assets—including dormitories owned by the Company—and a fall in intangible fixed assets reflecting a decrease in the consolidation adjustment account that together partially offset gains on investment securities amid improved market conditions.

#### Liabilities and Shareholders' Equity

Total liabilities increased 2.0%, or ¥1,505 million, year on year, to ¥78,080 million. A decrease in current liabilities (from a reduction in short-term debt, including convertible bonds due within one year) was more than offset by growth in non-current liabilities (from increased long-term debt) as the Company raised funds to acquire UFIT shares.

### Total Assets, ROA

(¥ Million, %)



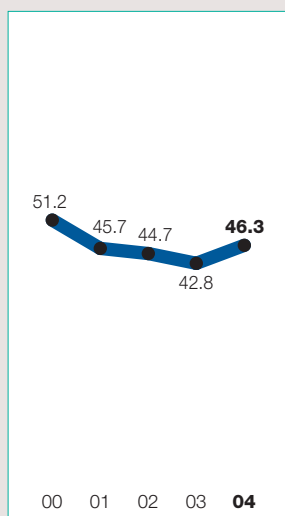
■ Total assets

■ ROA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Equity Ratio

(%)



Total shareholders' equity increased 18.1%, or ¥11,036 million, from the previous fiscal year-end, to ¥71,948 million. The rise was mainly due to expansion in capital and capital surplus from the conversion of convertible bonds into common shares, a rise in retained earnings reflecting increased profits in the term under review, and an unrealized gain on available-for-sale securities. As a result, the equity ratio at the end of the term was up 3.5 percentage points, to 46.3%.

### Cash Flows

Cash and cash equivalents at end of year were up ¥11,533 million, to ¥30,917 million. Net cash provided by operating activities remained high and net cash used in investing activities fell.

Net cash provided by operating activities totaled ¥16,665 million. The increase of ¥4,224 million was mainly due to increased income before income taxes and minority interests in the term under review and a sharp decrease in deposits in comparison with the year before.

Millions of yen, %

	2004	2003	% change
<b>Net cash provided by operating activities</b>	<b>¥16,665</b>	¥12,441	34.0%
<b>Net cash used in investing activities</b>	<b>6,884</b>	12,691	(45.8)
<b>Net cash provided by financing activities</b>	<b>1,800</b>	4,185	(57.0)
<b>Cash and cash equivalents at end of year</b>	<b>30,917</b>	19,384	59.5

Net cash used in investing activities totaled ¥6,884 million, and mainly consisted of acquisitions of property and equipment, namely machinery and equipment for TIS Group Service Center and equipment for lease in line with new contracts of the consolidated subsidiary TIS Leasing Co., Ltd.

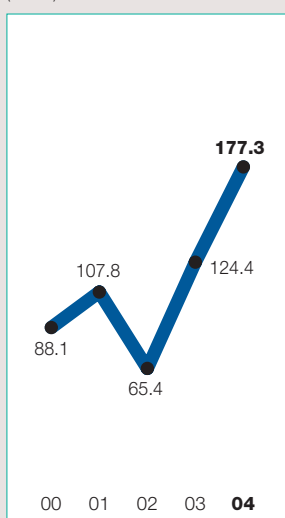
Net cash provided by financing activities totaled ¥1,800 million, principally reflecting proceeds from long-term debt.

### FISCAL 2005 OUTLOOK

We expect private-sector capital investment to enjoy continuing recovery in Japan spurred by a stronger global economy. However, we are not optimistic about the prospects for earnings performance in software investment as many uncertainties remain while demands from corporate customers are becoming more exacting and competition within the business is intensifying.

### Interest Coverage Ratio

(Times)



Nevertheless, we will strive to further maximize corporate value by working to enforce the three strategies of the T-GET 5 three-year medium-term management plan: reinforcing client-oriented capabilities, honing a sharper competitive edge, and elevating the skills of staff and management.

Our forecasts for fiscal 2005, ending March 31, 2005, are as below (the major year-on-year increases reflect the impact from the current term of newly consolidated subsidiary UFIT and its subsidiaries after our purchase of its stock):

<b>Net sales</b>	<b>¥205,000 million, up 21.0%</b>
<b>Income before extraordinary items (<i>keijo rieki</i>)</b>	<b>¥ 15,700 million, up 24.6%</b>
<b>Net income</b>	<b>¥ 7,100 million, up 30.0%</b>

Performance forecasts are based on data available as of May 7, 2004. Actual results may differ substantially due to various unforeseen factors.

### BASIC POLICY ON INCOME DISTRIBUTION

TIS makes it a policy to enhance its capabilities as a “value exchanger.” That is, the Company functions as an apparatus that exchanges value between itself and its shareholders, clients, and employees, seeking to return ever greater benefits to its stakeholders and to ensure ever higher levels of satisfaction. For example, we aim to always be a true partner for our customers by treating their goals as our goals and working to build value together with them based on an understanding of their needs.

In our relationship with shareholders, we will prudently utilize investors’ capital and deliver a suitable return through stable dividends. At the same time, we will formulate measures that underpin growth into the future and earn the high regard of investors as a company worthy of long-term investment.

We greatly value the support we receive from our customers, shareholders, transaction partners, host communities, employees, and other stakeholders and aim to treat all of them without bias and with honesty and neutrality in all our dealings.

Guided by these principles, TIS plans to distribute annual cash dividends of ¥25.00 per share for fiscal 2004, an increase of ¥3.00 from fiscal 2003.

# SUPPLEMENTARY DATA

TIS Inc.

## NONCONSOLIDATED FINANCIAL SUMMARY

For years ended March 31	Millions of yen				
	2004	2003	2002	2001	2000
<b>For the year:</b>					
Net sales.....	<b>¥110,401</b>	¥107,546	¥105,041	¥102,682	¥78,274
Outsourcing services.....	<b>27,916</b>	27,176	26,314	23,192	21,059
Software development.....	<b>43,180</b>	42,869	42,332	39,453	31,249
Solution services.....	<b>39,305</b>	37,502	36,395	40,036	25,965
Cost of sales.....	<b>91,105</b>	88,649	86,938	85,441	63,467
Gross profit.....	<b>19,296</b>	18,896	18,102	—	—
Selling, general and administrative expenses.....	<b>9,735</b>	9,747	10,076	9,930	8,968
Operating income.....	<b>9,561</b>	9,149	8,026	7,311	5,839
Income before income taxes.....	<b>9,196</b>	7,100	6,949	7,134	4,994
Net income.....	<b>5,401</b>	4,065	4,053	4,040	2,801
<b>At year-end:</b>					
Total assets.....	<b>128,458</b>	116,115	104,267	102,096	83,884
Total shareholders' equity.....	<b>73,585</b>	62,537	59,962	57,907	53,384
Property, plant and equipment.....	<b>27,199</b>	29,443	28,009	28,583	21,741
Convertible debt.....	<b>14,995</b>	14,999	18,415	18,448	4,628
Long-term debt.....	<b>10,100</b>	5,900	3,200	—	—
Yen					
<b>Per share data:</b>					
Net income (basic).....	<b>¥ 120.77</b>	¥ 90.55	¥ 92.60	¥ 92.84	¥ 65.79
Net income (diluted).....	<b>112.93</b>	82.13	84.51	87.02	63.89
Cash dividends (annual).....	<b>25.00</b>	22.00	20.00	20.00	14.00
Total shareholders' equity.....	<b>1,622.19</b>	1,426.17	1,369.62	1,323.13	1,234.58
<b>Ratios (%):</b>					
ROE*.....	<b>7.9</b>	6.6	6.9	7.3	5.6
Equity ratio.....	<b>57.3</b>	53.9	57.5	56.7	63.6
Operating income to net sales ratio.....	<b>8.7</b>	8.5	7.6	7.1	7.5
Number of employees.....	<b>2,560</b>	2,163	2,080	1,934	1,836

\* ROE is calculated using the average of the beginning and ending balances for total shareholders' equity.

**Report of Independent Auditors**

Kasumigaseki Bldg. 32nd Floor  
3-2-5, Kasumigaseki, Chiyoda-ku,  
Tokyo 100-6088, Japan

To the Board of Directors and Shareholders of TIS Inc.

We have audited the accompanying consolidated balance sheets of TIS Inc. and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TIS Inc. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan  
August 2, 2004

**TIS INC.**  
**AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2004 and 2003**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits (Note 2 (b))	¥ 29,964	¥ 17,584	\$ 283,506
Marketable securities (Notes 2 (b) and 4(3) )	1,310	1,967	12,394
Notes and accounts receivable	42,946	41,767	406,339
Allowance for doubtful accounts	(87)	(96)	(824)
Inventories (Note 5)	3,893	3,698	36,838
Deferred tax assets (Note 8)	2,875	2,148	27,206
Prepaid expenses and other current assets	1,760	2,347	16,649
Total current assets	<u>82,661</u>	<u>69,415</u>	<u>782,108</u>
<b>Property and Equipment: (Note 9)</b>			
Land	6,805	7,083	64,385
Buildings and structures	30,333	30,588	286,997
Machinery and equipment	5,730	6,363	54,221
Equipment for lease	21,635	21,150	204,701
Other	3,502	3,718	33,139
	<u>68,005</u>	<u>68,902</u>	<u>643,443</u>
Accumulated depreciation	(31,014)	(29,646)	(293,446)
Net property, plant and equipment	<u>36,991</u>	<u>39,256</u>	<u>349,997</u>
<b>Investments and Other Assets:</b>			
Investments in affiliates	110	70	1,042
Investments in securities (Note 4)	16,045	10,078	151,814
Goodwill	2,930	4,447	27,727
Long-term loans	711	933	6,724
Guarantee deposits	5,730	5,843	54,213
Deferred tax assets (Note 8)	676	2,564	6,395
Deferred tax assets for land revaluation (Note 6)	253	212	2,397
Other	10,436	10,533	98,742
Allowance for doubtful accounts	(1,199)	(1,029)	(11,349)
Total investments and other assets	<u>35,692</u>	<u>33,651</u>	<u>337,705</u>
Total assets	<u>¥ 155,344</u>	<u>¥ 142,322</u>	<u>\$ 1,469,810</u>

See Notes to the Consolidated Financial Statements.

**TIS INC.**  
**AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2004 and 2003**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Bank loans (Note 7)	¥ 1,120	¥ 2,407	\$ 10,601
Current portion of long-term debt (Note 7)	5,335	9,735	50,478
Notes and accounts payable	21,584	19,994	204,219
Deposits received	293	-	2,773
Allowance for bonuses to employees	2,056	1,944	19,455
Income taxes payable	3,686	3,438	34,875
Other (Note 8)	8,341	9,496	78,916
Total current liabilities	<u>42,415</u>	<u>47,014</u>	<u>401,317</u>
<b>Non-Current Liabilities:</b>			
Long-term debt (Note 7)	33,192	28,045	314,050
Allowance for retirement benefits to employees (Note 10)	1,681	1,040	15,908
Other (Note 8)	792	476	7,497
Total non-current liabilities	<u>35,665</u>	<u>29,561</u>	<u>337,455</u>
<b>Minority Interests</b>	5,316	4,835	50,297
<b>Shareholders' Equity:</b>			
Common stock, Authorized: 82,400 thousand shares Issued and outstanding: 45,303 and 43,782 thousand shares in 2004 and 2003, respectively	23,046	21,338	218,055
Additional paid-in capital	22,374	20,667	211,691
Retained earnings (Note 13)	24,956	20,492	236,128
Loss on land revaluation	(1,604)	(1,528)	(15,182)
Unrealized gain on available-for-sale securities	3,436	107	32,515
Foreign currency translation adjustments	(240)	(158)	(2,271)
	<u>71,968</u>	<u>60,918</u>	<u>680,936</u>
Treasury stock, at cost: 6,000 and 2,200 shares in 2004 and 2003, respectively	<u>(20)</u>	<u>(6)</u>	<u>(195)</u>
Total shareholders' equity	<u>71,948</u>	<u>60,912</u>	<u>680,741</u>
Total liabilities and shareholders' equity	<u>¥ 155,344</u>	<u>¥ 142,322</u>	<u>\$ 1,469,810</u>

See Notes to the Consolidated Financial Statements.

**TIS INC.**  
**AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the Years Ended March 31, 2004, 2003 and 2002**

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
<b>Net sales</b>	¥ 169,429	¥ 164,585	¥146,908	\$ 1,603,083
<b>Cost of sales (Notes 9 and 10)</b>	138,042	134,462	120,885	1,306,107
Gross profit	31,387	30,123	26,023	296,976
<b>Selling, general and administrative expenses</b> (Notes 9, 10 and 11)	18,884	19,400	17,215	178,679
Operating income	12,503	10,723	8,808	118,297
<b>Other income (expenses):</b>				
Interest and dividend income	288	198	141	2,721
Interest expenses	(94)	(101)	(85)	(889)
Gain on sale of investments in securities	1,112	246	899	10,526
Valuation loss on investments in securities	(311)	(1,405)	(937)	(2,939)
Loss on sale and disposal of fixed assets, net	(278)	(261)	(552)	(2,627)
Amortization of goodwill	-	(405)	-	-
Provision for allowance for doubtful accounts	(319)	(137)	(351)	( 3,022)
Gain from the transfer of the substitution portion of the employee pension fund liabilities	-	444	-	-
Reversal of allowance for retirement benefits to employees on the revision of retirement benefit plan for employees	-	255	-	-
Restructuring charges in affiliates	-	(980)	-	-
Loss on cancellation of lease	(305)	-	-	(2,885)
Loss for security countermeasures	(537)	-	-	(5,085)
Valuation loss on properties, plants and equipments	(290)	-	-	(2,748)
Other, net	(259)	(442)	(686)	(2,447)
	(993)	(2,588)	(1,571)	(9,395)
<b>Income before income taxes and minority interests</b>	11,510	8,135	7,237	108,902
<b>Income taxes (Note 8):</b>				
Current	6,222	5,692	4,140	58,869
Deferred	(726)	(1,501)	(523)	(6,873)
	5,496	4,191	3,617	51,996
	6,014	3,944	3,620	56,906
Minority interests	(551)	(248)	(11)	(5,218)
<b>Net income</b>	<u>¥ 5,463</u>	<u>¥ 3,696</u>	<u>¥ 3,609</u>	<u>\$ 51,688</u>
	Yen			U.S. dollars
<b>Per share (Note 2(n)):</b>				
Net income - basic	¥121.52	¥81.88	¥82.43	\$ 1.15
- diluted	113.63	74.35	75.32	1.08
Cash dividends applicable to the year	25.00	22.00	20.00	0.24

See Notes to the Consolidated Financial Statements.

**TIS INC.**  
**AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**For the Years Ended March 31, 2004, 2003 and 2002**

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
<b>Retained earnings at beginning of year</b>	¥ 20,492	¥ 17,844	¥ 15,302	\$ 193,891
Increase due to change in scope of consolidation	-	-	-	-
	20,492	17,844	15,302	193,891
<b>Appropriations</b>				
Cash dividends	(963)	(920)	(963)	(9,113)
Directors' and corporate auditors' bonuses	(106)	(108)	(104)	(1,003)
Decrease in retained earnings due to change in investment in affiliates under the equity method	-	(20)	-	-
Reversal of land revaluation	70	-	-	665
<b>Net income</b>	5,463	3,696	3,609	51,688
<b>Retained earnings at end of year</b>	<u>¥ 24,956</u>	<u>¥ 20,492</u>	<u>¥ 17,844</u>	<u>\$ 236,128</u>

See Notes to the Consolidated Financial Statements.

**TIS INC.**  
**AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended March 31, 2004, 2003 and 2002**

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 11,510	¥ 8,135	¥ 7,237	\$ 108,902
Depreciation	7,663	7,152	7,448	72,506
Bond issuance expenses	-	-	-	-
Loss on revaluation of membership rights	2	40	38	19
Increase in allowance for doubtful accounts	162	100	426	1,532
(Decrease)/Increase in allowance for retirement benefits	641	(37)	(599)	6,069
Amortization of goodwill	1,522	1,911	887	14,396
Interest and dividend income	(288)	(198)	(141)	(2,721)
Interest expenses	94	101	85	889
Equity in net loss of affiliates	28	15	249	269
Loss/(Gain) on sales and/or unrealized loss of investments in securities	(802)	1,160	41	(7,587)
Loss on sales and/or disposal of property and equipment, and intangible assets	354	241	552	3,348
Restructuring charges in affiliates	-	637	-	-
Valuation loss on property, plant and equipment	290	-	-	2,748
Increase in notes and accounts receivable	(1,472)	(4,674)	(2,416)	(13,926)
Decrease /(Increase) in inventories	(195)	321	(349)	(1,846)
Increase (Decrease) in notes and accounts payable	1,597	3,165	(450)	15,108
(Decrease)/Increase in other operating liabilities	888	(1,651)	(2,873)	8,401
Other, net	451	553	578	4,264
Subtotal	<u>22,445</u>	<u>16,971</u>	<u>10,713</u>	<u>212,371</u>
Interest and dividend income received	285	167	147	2,698
Interest expenses paid	(91)	(98)	(70)	(864)
Income taxes paid	(5,974)	(4,599)	(5,295)	(56,525)
Net cash provided by operating activities	<u>16,665</u>	<u>12,441</u>	<u>5,495</u>	<u>157,680</u>
<b>Cash flows from investing activities:</b>				
Payments for deposit of time deposits	(672)	(343)	(396)	(6,355)
Proceeds from withdrawal of time deposits	471	366	629	4,461
Proceeds from sales of properties	1,000	-	-	9,457
Acquisitions of property and equipment	(5,685)	(6,342)	(6,936)	(53,788)
Acquisitions of intangible assets	(2,588)	(1,233)	(2,515)	(24,483)
Acquisitions of investments in securities	(1,084)	(1,516)	(5,065)	(10,260)
Proceeds from sales/redemption of investments in securities	1,447	1,103	3,193	13,686
Acquisitions of newly consolidated subsidiaries	-	-	(448)	-
Additional investments in a consolidated subsidiary	-	(1,581)	(458)	-
Loans offered	(8)	(6)	(7)	(73)
Proceeds from collection of loans receivable	135	43	45	1,280
Payments for other investments	(536)	(3,771)	(255)	(5,075)
Proceeds from collection of other investments	628	563	370	5,942
Other, net	8	26	38	71
Net cash used in investing activities - forward	<u>¥ (6,884)</u>	<u>¥ (12,691)</u>	<u>¥ (11,805)</u>	<u>\$ (65,137)</u>

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Net cash used in investing activities - forward	¥ (6,884)	¥ (12,691)	¥ (11,805)	\$ (65,137)
<b>Cash flows from financing activities:</b>				
Increase/(Decrease) in short-term debt, net	(1,327)	197	176	(12,554)
Proceeds from long-term debt	10,500	10,550	9,600	99,347
Repayments of long-term debt	(6,516)	(6,641)	(6,293)	(61,649)
Proceeds from issuing bonds	216	-	-	2,044
Capital injection by minority shareholders	10	1,128	-	93
(Acquisition)/Sales of Treasury stock, net	(15)	(4)	(1)	(141)
Dividends paid	(1,068)	(1,045)	(1,050)	(10,100)
Net cash provided by/(used in) financing activities	1,800	4,185	2,432	17,040
Effect of exchange rate changes on cash and cash equivalents	(48)	(54)	104	(458)
Net increase (decrease) in cash and cash equivalents	11,533	3,881	(3,774)	109,125
Cash and cash equivalents at beginning of year	19,384	15,688	19,462	183,401
Decrease due to exclusion from consolidation	-	(185)	-	-
Cash and cash equivalents at end of year (Note 2 (b))	¥ 30,917	¥ 19,384	¥ 15,688	\$ 292,526
<b>Major non-cash transactions:</b>				
Convertible bonds converted into common stock	¥ 1,708	¥ -	¥ 16	\$ 16,160
Convertible bonds converted into additional paid-in capital	1,707	-	16	16,148
Decrease in convertible bonds	¥ 3,415	¥ -	¥ 33	\$ 32,308

See Notes to the Consolidated Financial Statements.

**TIS INC.**  
**AND ITS CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presenting the Consolidated Financial Statements**

The accompanying consolidated financial statements of TIS Inc. (the “Company”) and its domestic subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accounts of eight overseas-consolidated subsidiaries are based on their financial statements prepared in conformity with accounting principles and practices generally accepted in the respective countries in which the subsidiaries have been incorporated.

Certain items presented in the consolidated financial statements filed with the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

**2. Significant Accounting Policies**

(a) Principles of consolidation

The Company had 22 and 20 subsidiaries (controlled or majority-owned companies) as of March 31, 2004 and 2003, respectively. The consolidated financial statements include the accounts of the Company and all of its subsidiaries (together referred to as the “Group”).

Overseas consolidated subsidiaries have adopted accounting principles generally accepted in their respective countries and no adjustments have been made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan. The accounts of overseas subsidiaries whose fiscal year-ends are December 31 are included in the consolidated financial statements after making appropriate adjustments for any material transactions during the period between January 1 and March 31.

For the purposes of preparing the consolidated financial statements, all intercompany transactions, account balances and unrealized profits among the Group have been eliminated.

All assets and liabilities of consolidated subsidiaries are valued at fair market value as of the date of establishment of control.

The excess of the cost of investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, has been recorded as goodwill on the consolidated balance sheets and has been amortized over five years.

The Company had goodwill recognized at an acquisition of Systems Engineering Laboratory Co., Ltd., a consolidated subsidiary of the Company, as of March 31, 2002. As the Company determined that the goodwill was impaired, the Company fully amortized the goodwill in the amount of ¥405 million for the year ended March 31, 2003.

The six affiliates are accounted for using the equity method.

(b) Cash and cash equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Cash and cash equivalents as of March 31, 2004 and 2003, are as follows.

	Millions of yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Cash and time deposits	¥ 29,964	¥ 17,584	\$ 283,506
Marketable securities	1,310	1,967	12,394
Total	31,274	19,551	295,900
Time deposits with original maturity over three months	(357)	(167)	(3,374)
Cash and cash equivalents	¥ 30,917	¥ 19,384	\$ 292,526

(c) Valuation of securities

Available-for-sale securities for which market quotations are available are stated at fair value prevailing at the end of the fiscal year. Net unrealized gains or losses on those securities are reported as a separate component of shareholders' equity at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, principally determined by the moving-average method.

(d) Derivatives Valuation

Derivative financial instruments are valued at fair value at the end of the fiscal year.

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential to be paid or received under the swap agreements are accrued and included in interest expense or income. This is permitted under accounting principles generally accepted in Japan.

(e) Allowance for doubtful accounts

An allowance for doubtful accounts is made against potential losses on collection at an amount measured using historical default ratio, plus an amount individually measured on collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency.

(f) Allowance for bonuses to employees

An allowance for bonuses to employees is determined by certain consolidated subsidiaries based on estimated bonuses to be paid to employees at the end of the fiscal year.

(g) Inventories

Merchandise is stated at cost, determined by the first-in, first-out method. Work in process is determined by the specific cost method. Supplies are determined by the last purchase cost method.

(h) Property and equipment

Buildings and structures have been depreciated using the straight-line method; machinery and equipment have been depreciated using the declining-balance method at rates based on the estimated useful lives of the assets. Equipment for lease has been depreciated using the straight-line method over the lease period. Repair and maintenance costs are charged to income when incurred.

(i) Computer software included in Investments and Other Assets—Other.

The Company amortized expenses related to development activities of computer software as follows:

i) Computer software for internal use

Capitalized costs are amortized using the straight-line method over its estimated useful life, which is in the range of three to five years.

ii) Computer software for sale

Capitalized costs are amortized based on the higher ratio of current year sales divided by total estimated sales or ratio on a straight-line basis over an estimated sales period of three years.

(j) Accounting for leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(k) Allowance for retirement benefits to employees

The allowance for retirement benefits of the Company as of March 31, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized actuarial differences are amortized on a straight-line basis over eight to ten years from the next year in which they arise. Prior service costs are fully charged to income when incurred.

Following the enactment of the Welfare Pension Insurance Law in Japan, on January 30, 2003, the TIS Group Employee Pension Fund, which the Company and its domestic consolidated subsidiaries participate in, obtained approval from Japan's Ministry of Health, Labor and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that the Company and its domestic consolidated subsidiaries operate on behalf of the government (the so-called substitutional portion).

The Company applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and gain from the settlement of the substitutional portion of ¥444 million was recognized at the date of approval from Japan's Ministry of Health, Labor and Welfare. The amount of plan assets to be returned was ¥4,265 million (\$35,482 thousand) as of March 31, 2003.

Effective March 31, 2003, Qualica, Inc., a consolidated subsidiary of the Company, made a plan amendment of the defined benefit plan and also newly applied a defined contribution pension plan for a certain part of the defined benefit plan. As a result, Qualica, Inc., recorded reversal of allowance for retirement benefits to employees on the revision of the retirement benefit plan for employees in the amount of ¥255 million for the year ended March 31, 2003.

(l) Income taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(m) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments)

proposed by the Board of Directors should be approved by the shareholders' meeting, which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated statements of income and retained earnings represents the results of such appropriations, which are applicable to the immediately preceding financial year, but were approved by the shareholders' meeting and disposed of during that year.

Dividends are paid to shareholders on the shareholders' register at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income of the year, and constitute a part of appropriations cited above.

(n) Net income and cash dividends per share

Net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the respective years. Fully diluted net income per share reflects the potential dilution that could occur if convertible bonds were fully converted into common stock.

Effective from the year ended March 31, 2003, the Company and its domestic subsidiaries adopted the Financial Accounting Standard No. 2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No. 4 "Implementation Guidance for Accounting Standards for Earnings per Share" issued by the Accounting Standards Board of Japan on September 25, 2002.

Basis for the calculation of net income per share for the years ended March 31, 2004 and 2003 is as follows;

For the years ended March 31, 2004

<u>Net income per share</u>	Millions of yen	Thousands of U.S. dollars (Note 3)
Net income	¥ 5,463	\$ 51,688
Directors' and corporate auditors' bonuses	(134)	(1272)
Net income pertaining to common shareholders	¥ 5,329	\$ (50,417)
Average outstanding shares of common stock	43,849 thousand shares	
<u>Net income per share (fully diluted)</u>	Millions of yen	Thousands of U.S. dollars (Note 3)
Adjustment to net income;		
Interest expenses (net of tax)	¥ 28	\$ 261
Bond conversion expenses (net of tax)	¥ 18	\$ 174
Increase number of shares;		
Convertible bonds	3,457 thousand shares	
Stock options	64 thousand shares	

For the years ended March 31, 2003

<u>Net income per share</u>	Millions of yen	
Net income	¥ 3,696	
Less: Components not pertaining to common shareholders		
Directors' and corporate auditors' bonuses	(112)	
Net income pertaining to common shareholders	¥ 3,584	
Average outstanding shares of common stock	43,780 thousand shares	
<u>Net income per share (fully diluted)</u>	Millions of yen	
Adjustment to net income;		
Interest expenses (net of tax)	¥ 40	
Increase number of shares;		
Convertible bonds	4,980 thousand shares	

By applying the new accounting standard methods, the amounts of net income per share for fiscal 2002 would be calculated as follows:

	Millions of yen
<b>Per share :</b>	<u>2002</u>
Net income – basic	¥79.85
– diluted	72.99

Cash dividends per share, shown for each year, represent dividends approved by the shareholders and paid during the respective years.

(o) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in the net income for the period.

Assets and liabilities of the overseas subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at beginning of the year is translated into Japanese yen at historical rates. Profit and loss accounts for the year are translated into Japanese yen using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustments" under shareholders' equity.

(p) Hedge accounting

The Company and Group companies use derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are principally utilized by the Company and Group companies to reduce the risks arising from the factors mentioned above. The Company and Group companies do not enter into derivatives for trading or speculative purposes.

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential to be paid or received under the swap agreements are accrued and included in interest expense or income. This is permitted under accounting principles generally accepted in Japan.

(q) Consumption tax

The consumption tax withheld by the Company on revenues and the consumption tax paid by the Company on purchases of goods and expenses are recorded as an asset or a liability and not included in the respective account items in the statements of income.

(r) Reclassification of accounts

Certain prior years' amounts have been reclassified to conform to the current year's presentation.

### 3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S. \$1, the rate of exchange on March 31, 2004, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

#### 4. Marketable Securities and Investments in Securities

- (1) The cost, book value and unrealized gain or loss for available-for-sale securities with fair value as of March 31, 2004 and 2003, were as follows:

Description	Millions of yen		
	2004		
	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Case 1 Shares	¥ 1,504	¥ 7,161	¥ 5,657
Corporate bonds	550	551	1
Others	308	477	170
	<u>2,362</u>	<u>8,190</u>	<u>5,828</u>
Case 2 Shares	¥ 135	¥ 120	¥ (15)
Corporate bonds	100	99	(1)
Others	102	69	(33)
	<u>337</u>	<u>288</u>	<u>(49)</u>
Grand total	<u>¥ 2,699</u>	<u>¥ 8,477</u>	<u>¥ 5,779</u>

Description	Thousands of U.S. dollars (Note 3)		
	2004		
	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Case 1 Shares	\$ 14,230	\$ 67,755	\$ 53,524
Corporate bonds	5,207	5,215	9
Others	2,910	4,516	1,606
	<u>22,347</u>	<u>77,486</u>	<u>55,139</u>
Case 2 Shares	\$ 1,274	\$ 1,132	\$ (141)
Corporate bonds	946	937	(10)
Others	965	654	(311)
	<u>3,185</u>	<u>2,723</u>	<u>(462)</u>
Grand total	<u>\$ 25,532</u>	<u>\$ 80,209</u>	<u>\$ 54,677</u>

Description	Millions of yen		
	2003		
	Acquisition cost	Book value (Fair market value)	Unrealized gain (loss)
Case 1 Shares	¥ 159	¥ 667	¥ 508
Case 2 Shares	¥ 1,234	¥ 923	¥ (311)
Corporate bonds	50	50	(0)
Others	410	359	(51)
	<u>1,694</u>	<u>1,332</u>	<u>(362)</u>
Grand total	<u>¥ 1,853</u>	<u>¥ 1,999</u>	<u>¥ 146</u>

Note:

Case 1: Fair market value exceeds acquisition cost.

Case 2: Fair market value does not exceed acquisition cost.

- (2) Available-for-sale securities sold during this fiscal year

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
	Proceeds from sales of available-for-sale securities	¥ 2,798	¥ 1,342
Realized gain	1,115	247	10,551
Realized loss	0	(3)	0

- (3) Book value of major securities which are not subject to revaluation, as of March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
	Unlisted stocks	¥ 7,591	¥ 8,079
MMF, etc.	1,310	1,967	12,394
	<u>¥ 8,901</u>	<u>¥ 10,046</u>	<u>\$ 84,217</u>

- (4) Schedule for redemption of other securities with maturity as of March 31, 2004.

	Millions of yen			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Corporate bonds	-	650	-	-

	Thousands of U.S. dollars (Note 3)			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Corporate bonds	-	6,150	-	-

## 5. Inventories

Inventories at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
	Merchandise	¥ 421	¥ 843
Work in process	3,443	2,828	32,579
Supplies	29	27	272
	<u>¥ 3,893</u>	<u>¥ 3,698</u>	<u>\$ 36,838</u>

## 6. Land Revaluation

Pursuant to the "Law Concerning the Revaluation of Land" (the "Law"), land used for the Company's business operations was revalued on March 31, 2000. The income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as "Deferred tax assets for land revaluation" and the remaining balance presented under shareholders' equity as "Loss on land revaluation" in the accompanying consolidated balance sheets.

Revaluation of the land was determined based on the official notice prices published by the Commissioner of the National Tax Authorities in accordance with Paragraph 4, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation," with certain necessary adjustments.

The carrying value of the land after revaluation exceeded its fair value by ¥ 337 million (\$3,189 thousand) and ¥ 204 million at March 31, 2004 and 2003, respectively.

## 7. Short-term Bank Loans and Long-term Debt

Short-term bank loans are principally unsecured notes payable to banks generally due in one year.

It is normal business custom in Japan for short-term bank loans to be rolled over each year. Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Loans principally from banks and other financial institutions, with an average interest rate 1.08% and 1.32%, respectively	¥ 23,312	¥ 19,368	\$ 220,570
0.65% Unsecured bonds, due 2006	220	-	2,081
0.3% Unsecured convertible bonds, due 2007	9,999	9,999	94,607
0.2% Unsecured convertible bonds, due 2005	4,996	5,000	47,270
	<u>38,527</u>	<u>37,780</u>	<u>364,528</u>
Less: current portion of long-term debt	5,335	9,735	50,478
	<u>¥ 33,192</u>	<u>¥ 28,045</u>	<u>\$ 314,050</u>

The aggregate annual maturities of the non-current portion of long-term loans at March 31, 2004, were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 3)
2006	¥ 10,087	\$ 95,439
2007	4,906	46,419
2008	11,749	111,165
2009	2,450	23,181
2010	4,000	37,846
	<u>¥ 33,192</u>	<u>\$ 314,050</u>

## 8. Income Taxes

(a) The components of deferred tax assets and liabilities as of March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Deferred tax assets:			
Accrued enterprise tax	¥ 343	¥ 307	\$ 3,246
Non-deductible portion of allowance for doubtful accounts	483	457	4,568
Non-deductible portion of allowance bonus to employees	1,846	1,544	17,462
Non-deductible portion of depreciation	296	309	2,798
Tax loss carried forward	301	355	2,849
Retirement benefits	1,644	1,310	15,554
Loss on write down of investments in shares	1,159	1,087	10,962
Other, net	807	1,047	7,638
	<u>6,878</u>	<u>6,416</u>	<u>65,077</u>
Less – Valuation allowance	(464)	(469)	(4,393)
	<u>6,414</u>	<u>5,947</u>	<u>60,685</u>
Deferred tax liabilities:			
Reserve for development of computer programs	214	307	2,028
Gain on contribution of securities to pension fund	304	307	2,880
Unrealized gain on available-for-sale securities	2,352	61	22,251
Amortization on unrecognized prior service costs	387	389	3,657
Gain from the transfer of the substitution portion of the employee pension fund liabilities	118	119	1,120
Other, net	53	213	506
	<u>3,429</u>	<u>1,396</u>	<u>32,442</u>
Net deferred tax assets	<u>¥ 2,985</u>	<u>¥ 4,551</u>	<u>\$ 28,242</u>

Deferred income taxes at March 31, 2004 and 2003, are reflected in the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets-Deferred tax assets	¥ 2,875	¥ 2,148	\$ 27,206
Investments and Other Assets			
-Deferred tax assets	676	2,564	6,395
Current liabilities-Other	(3)	(3)	(25)
Non-Current liabilities-Other	(564)	(158)	(5,334)
Net deferred tax assets	¥ 2,985	¥ 4,551	\$ 28,242

(b) The reconciliation between the statutory tax rate and the Company's effective tax rate as of March 31, 2004 and 2003, is as follows:

	2004	2003
Statutory tax rate	42.0%	42.0%
Non-deductible expense (such as entertainment expense)	0.8	1.4
Non-taxable income (such as dividend income)	(0.4)	(0.4)
Tax loss carried forward	0.7	1.1
Amortization of goodwill	5.6	9.9
Equity in net loss of affiliates	0.1	0.1
Loss on liquidation of affiliates	-	-
Valuation loss on investments in subsidiaries	-	(1.2)
Tax deduction for IT investments	(2.2)	-
Other, net	1.1	(1.4)
Effective tax rate	47.7%	51.5%

(c) Adjustment of deferred tax assets and liabilities due to the change in tax rate

Due to the changes in Japanese Local Tax Law and introduction of Taxation of Corporation by the size of their Business, the Company's aggregate statutory tax rate will decrease effective April 1, 2004. As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥40 million as of March 31, 2003, and income taxes—deferred and unrealized gain on available-for-sale securities increased by ¥39 million and ¥1 million, respectively, for the year ended March 31, 2003.

## 9. Leases

### (a) As Lessee

The following summarizes information concerning finance leases other than those which are deemed to transfer substantially all the risks and rewards of ownership of the leased assets to the Company:

#### (1) Acquisition cost, accumulated depreciation and net balance as at March 31, 2004 and 2003

March 31, 2004	Millions of yen			Thousands of U.S. dollars (Note 3)
	Acquisition Costs	Accumulated Depreciation	Balance	Balance
Machinery and vehicles	¥ 3,782	¥ 1,839	¥ 1,943	\$ 18,384
Equipment	1,509	681	828	7,834
Other	6	4	2	19
	<u>¥ 5,298</u>	<u>¥ 2,524</u>	<u>¥ 2,773</u>	<u>\$ 26,237</u>

March 31, 2003	Millions of yen		
	Acquisition Costs	Accumulated Depreciation	Balance
Machinery and vehicles	¥ 2,392	¥ 987	¥ 1,405
Equipment	2,720	1,433	1,287
Other	69	39	30
	<u>¥ 5,181</u>	<u>¥ 2,459</u>	<u>¥ 2,722</u>

#### (2) The amount of outstanding future lease payments at March 31, 2004 and 2003, which included the portion of interest, categorized by contractual maturity

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Within one year	¥ 1,328	¥ 1,027	\$ 12,565
Over one year	2,268	1,856	21,458
Total	<u>¥ 3,596</u>	<u>¥ 2,883</u>	<u>\$ 34,024</u>

#### (3) Lease expenses, depreciation and interest expenses for the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Lease expense	¥ 1,329	¥ 988	¥ 637	\$ 12,575
Depreciation	1,256	1,021	514	11,884
Interest expenses	67	64	58	634

Depreciation is calculated by the straight-line method, useful life is equal to the lease term and the residual value is zero.

The amounts of outstanding future lease payments on operating leases at March 31, 2004 and 2003, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Within one year	¥ 38	¥ 23	\$ 361
Over one year	58	42	547
Total	<u>¥ 96</u>	<u>¥ 65</u>	<u>\$ 908</u>

(b) As Lessor

The following summarizes information concerning finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessees:

- (1) Acquisition cost, accumulated depreciation and net balance at March 31, 2004 and 2003

March 31, 2004	Millions of yen			Thousands of U.S. dollars (Note 3)
	Acquisition Costs	Accumulated Depreciation	Balance	Balance
Equipment	¥ 17,531	¥ 10,747	¥ 6,783	\$ 64,178
Software	2,675	1,390	1,284	12,149
	<u>¥ 20,206</u>	<u>¥ 12,138</u>	<u>¥ 8,068</u>	<u>\$ 76,336</u>

March 31, 2003	Millions of yen		
	Acquisition Costs	Accumulated Depreciation	Balance
Equipment	¥ 16,620	¥ 10,138	¥ 6,482
Software	6,919	3,930	2,989
	<u>¥ 23,539</u>	<u>¥ 14,068</u>	<u>¥ 9,471</u>

- (2) The amount of outstanding future lease payments receivable at March 31, 2004 and 2003, which included the portion of interest, are categorized by contractual maturity.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Within one year	¥ 3,052	¥ 3,703	\$ 28,877
Over one year	5,656	6,138	53,515
Total	<u>¥ 8,708</u>	<u>¥ 9,841</u>	<u>\$ 82,392</u>

- (3) Rentals received, depreciation and interest income for the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Rentals received	¥ 3,985	¥ 4,217	¥ 4,854	\$ 37,705
Depreciation	3,595	4,224	4,227	34,015
Interest income	253	500	512	2,394

## 10. Retirement Benefits

### (1) Overview of retirement benefit plans

The Company and its consolidated subsidiaries except Qualica, Inc., have a funded contributory pension plan, a qualified pension plan and an unfunded benefit plan on a lump-sum payment basis as their defined benefits system.

Effective March 31, 2003, Qualica, Inc., a consolidated subsidiary of the Company, made a plan amendment of the defined benefit plan and also newly applied a defined contribution plan for a certain part of the defined benefit plan.

### (2) Funded status

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Projected benefit obligation	¥ (9,835)	¥ (9,226)	\$ (93,053)
Plan assets	5,537	4,484	52,386
Unfunded retirement benefits	(4,298)	(4,742)	(40,667)
Unrecognized net actuarial differences	2,616	3,702	24,759
Allowance for retirement benefits:	¥ (1,681)	¥ (1,040)	\$ (15,908)

Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under the accounting standard generally accepted in Japan.

### (3) Components of the net periodic pension expense

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Service costs	¥998	¥1,420	¥1,245	\$9,439
Interest costs	225	412	470	2,131
Recognition of transition loss	415	473	286	3,922
Reduction of prior service costs (Note)	-	-	(1,227)	-
Expected return on plan assets	(110)	(377)	(522)	(1,036)
	1,528	1,928	252	14,458
Gain from the transfer of the substitution portion of the employee pension fund liabilities	-	(444)	-	-
Reversal of allowance for retirement benefits to employees on the revision of the retirement benefit plan for employees	-	(255)	-	-
Net periodic pension expense	¥1,528	¥1,229	¥252	\$14,458

### (4) Major assumptions used in calculating retirement benefits

	2004	2003
Discount rates:	2 % to 2.5%	2 % to 2.5%
Rate of expected return on plan assets	1.5% to 2.5%	2 % to 4.5%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis

## 11. Supplementary Notes to the Statement of Income

The major elements of selling, general and administrative expenses for each of the three years ended March 31, 2004, are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Salaries	¥ 5,797	¥ 5,858	¥ 4,874	\$ 54,850
Bonuses	1,823	2,005	1,765	17,252
Depreciation and amortization	523	596	652	4,946
Net periodic pension expense	355	468	51	3,361
Provision for bonus reserve	403	266	65	3,813
Amortization of goodwill	1,522	1,506	887	14,396

## 12. Segment Information

### (1) Industry segment information

The TIS Group responded to customer needs through the supply of a comprehensive range of information services ranging from information system planning through software development, hardware selection, and system operation. As the Group's marketing policies do not separate these operations into industry segment classifications, industry segment information is not disclosed.

### (2) Geographic segment information

Since the domestic share of net income and total assets for all segments are both in excess of 90%, geographic segment information is not separately disclosed.

### (3) Overseas sales

Since the overseas share of consolidated net sales was less than 10%, overseas sales information is not separately disclosed.

## 13. Subsequent Events

### (1) Appropriation of retained earnings

On June 25, 2004, the following appropriations of retained earnings was approved at the shareholders' meeting of the Company:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Cash dividends	¥ 679	¥ 6,424
Officers' and corporate auditors' bonuses	106	1,003

### (2) Acquisition of Shares in a Subsidiary

With a view to expanding the customer base in the UFJ Group, and to securing a foothold in the Chukyo Area, on April 1, 2004, the Company acquired additional 64.4 % of the outstanding shares of common stock in UFIT Co., Ltd., mainly from UFJ Bank Ltd.

#### UFIT Co., Ltd.

Establishment: July 1970  
 Head Office: 2-4-18, Sakae, Naka-ku, Nagoya 460-0008, Japan  
 Activities: Development of computerized information processing systems, software development and computing services. Telecommunications and related businesses.

Total Stockholders' Equity: ¥ 1.3 billion (As of March 31, 2004)  
 Sales: ¥ 56 billion (For the year ended March 31, 2003)

Number of Shares -March 31, 2004: 24,000

Number of Shares -Acquired: 515,000

Number of Shares -April 1, 2004: 539,000

Acquisition Price was funded by long-term debt.

**CONSOLIDATED COMPANIES**

<b>TIS SYSTEM SERVICE INC.</b>	<b>SYSTEMS TRUST CO., LTD.</b>
<b>TIS LEASING CO., LTD.</b>	<b>UFIT CO., LTD.</b>
<b>TOYO NETWORK SERVICES CORPORATION</b>	<b>SYSTEM SUPPORT CO., LTD.</b>
<b>IT RESEARCH INC.</b>	<b>CST CO., LTD.</b>
<b>TIS SOLUTION BUSINESS CO., LTD.</b>	<b>CSA CO., LTD.</b>
<b>TIS TOTAL SERVICE CO., LTD.</b>	<b>TIS R&amp;D CENTER, INC.</b>
<b>TIS CONSULTING LTD.</b>	<b>TISI (UK) LTD.</b>
<b>TIS INFOWARE INC.</b>	<b>TISI (USA), INC.</b>
<b>QUALICA INC.</b>	<b>TISI (HK) LTD.</b>
<b>SYSTEMS ENGINEERING LABORATORY CO., LTD.</b>	<b>TIS NORTH AMERICA INC.</b>
<b>LANSA DEVELOPERS FOUNDATION CORP.</b>	<b>TKSOFT SINGAPORE PTE LTD.</b>
<b>AGREX INC.</b>	<b>TISI (SHANGHAI) CO., LTD.</b>
<b>LANSA JAPAN LTD.</b>	

**AFFILIATES ACCOUNTED FOR UNDER THE EQUITY METHOD**

<b>HONG TU FINANCIAL SOFTWARE (SHANGHAI) CO., LTD.</b>
<b>ENCODEX JAPAN LTD.</b>
<b>M&amp;T SYSTEM OPERATIONS CO., LTD.</b>
<b>HI-HO BROADBAND SYSTEMS, INC.</b>
<b>E LAB</b>
<b>DGT INFORMATION SYSTEMS LIMITED</b>

# CORPORATE DATA

(As of September 1, 2004)

## BOARD OF DIRECTORS AND AUDITORS

### Chairman

Takao Funaki

### President

Susumu Okamoto

### Senior Managing Directors

Yukio Urata

Norio Maenishi

### Managing Directors

Toru Kuwano

Nobuyoshi Sasaki

### Directors

Shigeru Mikawa

Mitsushi Nishida

Kazunori Kawasaki

Yasuaki Kawamura

Tatsuya Nishiyama

Yasuo Goto

Shohei Miyashita

Motomasa Moriya

### Standing Corporate Auditor

Kentaro Fukumoto

### Corporate Auditors

Yoshinobu Tanaka

Eisuke Ito

Nobuyuki Yonezawa

## CORPORATE DATA

### Corporate Name

TIS Inc.

<http://www.tis.co.jp/>

### Established

April 1971

### Tokyo Head Office

TIS Takeshiba Bldg.,  
14-5, Kaigan 1-chome,  
Minato-ku, Tokyo 105-8624,  
Japan

Tel: +81-3-5402-2111

Fax: +81-3-5402-2412

### Osaka Head Office

Esaka Toyo Bldg.,  
9-1, Toyotsu-cho, Suita-shi,  
Osaka 564-0051, Japan

Tel: +81-6-6385-0888

Fax: +81-6-6821-1991

### Operation Centers

Tokyo No. 1-3 Operation Center:  
Koto-ku, Tokyo, Japan

Osaka Operation Center:  
Suita-shi, Osaka, Japan

### Number of Employees

Group: 5,723

Parent company: 2,560 (including  
seconded staff)

### Paid-in Capital

¥23,046 million

### Common Stock

Authorized: 82,400,000 shares

Issued: 45,302,752 shares

### Number of Shareholders

6,105

### Listings

Tokyo Stock Exchange,  
Osaka Securities Exchange

### Transfer Agent

UFJ Trust Bank Limited  
4-3, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo 100-0005,  
Japan

### Independent Certified

#### Public Accountants

ChuoAoyama Audit Corporation

All company and product names indicated in  
this report are registered trademarks.

### Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report with respect to plans, strategies, and future performance that are not historical fact are forward-looking statements. TIS cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.



**TIS Inc.**

<http://www.tis.co.jp>

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