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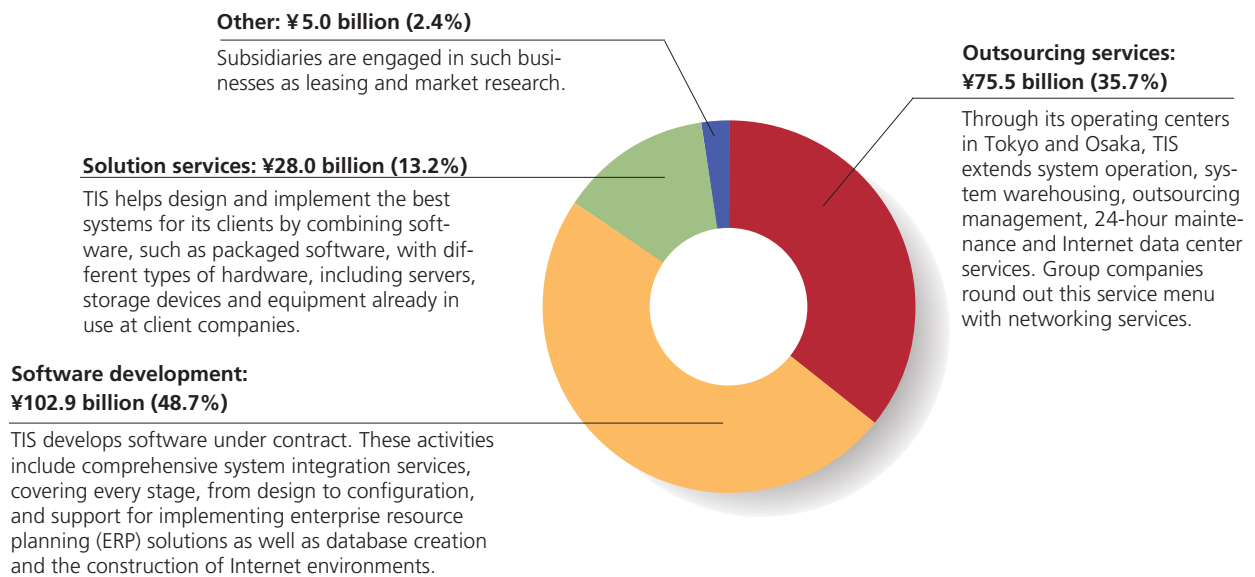
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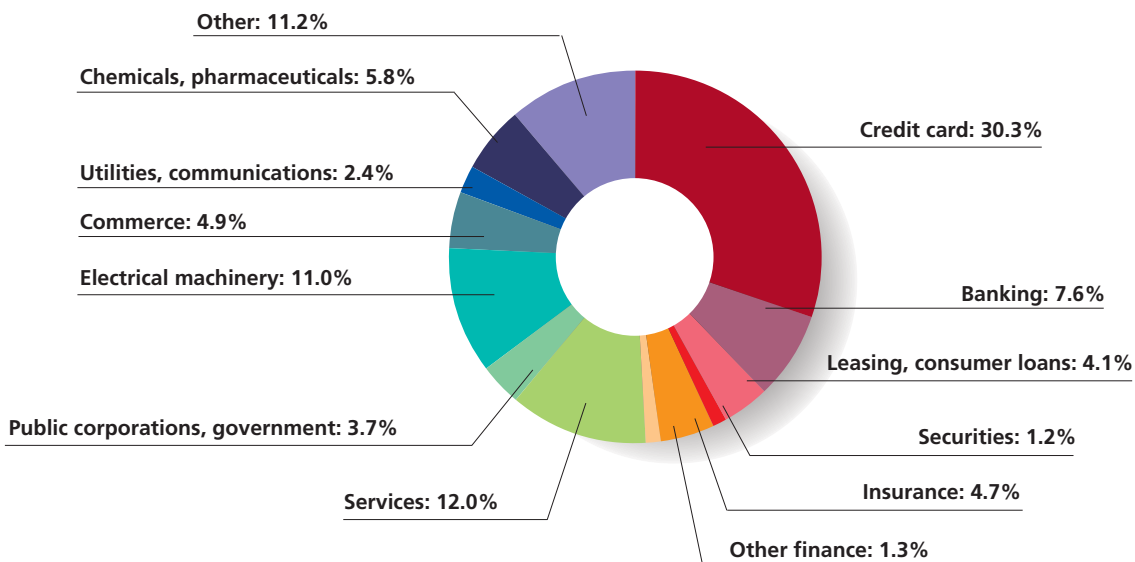
TIS Inc., a provider of information technology services, is one of Japan's leading system integrators. The Company was originally established in 1971 as Toyo Information Systems Co., Ltd., and adopted its current name in January 2001 to mark its 30th anniversary.

In fiscal 2007, the year ended March 31, 2007, the TIS Group, which TIS heads, posted consolidated net sales of ¥211.5 billion (\$1.8 billion) and an operating loss of ¥1 million (\$8,000).

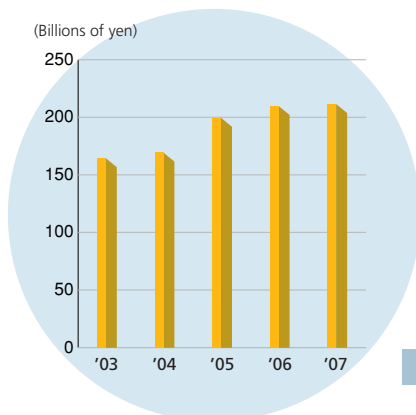
Sales by Business Segment (March 31, 2007)



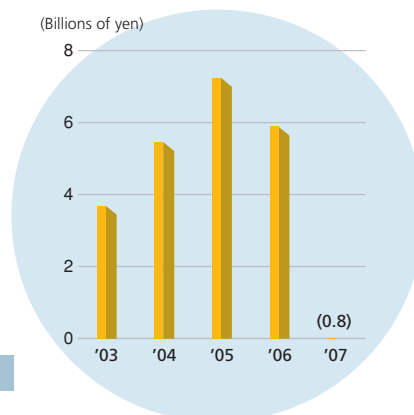
Sales by Client Segment (March 31, 2007)



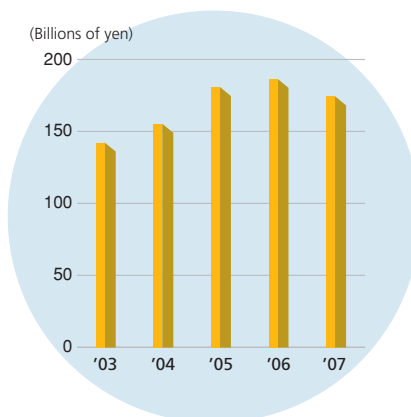
Net Sales



Net (Loss)/Income



Total Assets



	2007	Millions of yen				Thousands of U.S. dollars
		2006	2005	2004	2003	2007
For years ended March 31:						
Net sales	¥ 211,582	¥ 209,923	¥ 199,648	¥ 169,429	¥ 164,585	\$1,792,307
Operating (loss)/income	(1)	11,568	14,996	12,503	10,723	(8)
Net (loss)/income	(818)	5,893	7,258	5,463	3,696	(6,931)
At year-end:						
Total assets	174,456	186,604	180,913	155,344	142,322	1,477,812
Total net assets	93,184	85,643	78,370	71,948	60,912	789,358
Property and equipment	36,562	37,470	38,172	36,991	39,256	309,718
Long-term debt	14,998	27,196	32,465	33,192	28,045	127,042
Per share data (¥):						
Net (loss)/income (basic)	¥ (18.05)	¥ 127.73	¥ 157.36	¥ 121.52	¥ 81.88	\$(0.15)
Net (loss)/income (diluted)	—	120.67	146.43	113.63	74.35	—
Cash dividends	27.00	27.00	27.00	25.00	22.00	0.23
Net assets	1,770.18	1,887.63	1,726.69	1,585.39	1,388.82	14.99
Ratios:						
Return on equity (ROE; %)	(1.0)	7.2	9.7	8.2	6.2	
Equity ratio	46.0	45.9	43.3	46.3	42.8	
Price-earnings ratio (PER; times)	—	24.9	26.6	39.0	19.4	
Number of employees	8,693	8,489	8,041	5,724	5,667	

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 ¥118.05 = US\$1, the approximate rate prevailing on March 31, 2007.
 3. Net asset figures from 2003 to 2006 indicates shareholders' equity figures.

Susumu Okamoto *President*

Domestic Operating Environment

In recent years, three key factors have fostered demand for information services in Japan: 1) consistently high IT investment by financial institutions; 2) increasing globalization of production points by the manufacturing industry, particularly makers of electric home appliances and construction equipment; and 3) efforts to enhance internal controls, a trend precipitated by the introduction of Japan's version of the Sarbanes-Oxley (SOX) Act*¹.

For the domestic information services industry, these favorable demand conditions are expected to sustain annual growth at about 4.8% until 2010*². As information systems become more essential to corporate infrastructures, clients will require more sophisticated and more diverse responses. TIS is, and will continue to be, ready to meet these needs.

Fiscal 2007 Measures

To ensure flexible responses to evolving market conditions and to solidify its position in the information services industry, TIS made every effort to maintain momentum on "exceed '08*³", a three-year management plan that runs until March 2009. Fiscal 2007 was the first year of "exceed '08," and in line with the overall objective of this plan, the Company emphasized measures to prevent the appearance of unprofitable projects, improve technological capabilities and service quality, strengthen marketing skills, and raise profitability.

Preventing the appearance of unprofitable projects

Thanks to a thorough analysis of the causes leading to the loss of profitability on certain projects in fiscal 2006 and the implementation of approaches to avoid a recurrence of such events, the Company saw no new projects turn unprofitable in fiscal 2007.

Looking deeper into this result, we find meticulous proposal assessment and tighter risk control on each project, facilitated by a system that checks profit status soon after a project commences to confirm progress toward anticipated earnings. This system underpins a structure that accurately identifies client needs as well as inherent risks, such as the level of technical expertise required to successfully execute a project, and expedites the formulation of appropriately effective strategies.

Improving technological capabilities and service quality

To strengthen its system development platform, TIS embraced the concept of CMMI*⁴ and defined standard processes for uniform application throughout the Company.

Notes: 1. Japan's version of Sarbanes-Oxley (SOX) Act: Japanese legislation that seeks to reinforce internal controls and enhance the accounting audit system, based on the Financial Products and Exchange Law.

2. Sourced by TIS from the 2006 first-half IT service industry predictions of Gartner, Inc.

3. The "08" refers to the business year running from April 2008 through March 2009, which would be fiscal 2009 in our English-language materials but reflects the "fiscal 2008" designation used by most companies in Japan for their Japanese-language materials.

4. CMMI, the acronym for Capability Maturity Model Integration, is a process improvement approach developed by the Software Engineering Institute at Carnegie Mellon University as a standard for evaluating practices for software development.

Strengthening marketing skills

To upgrade marketing skills in solution services, TIS established the Business Promotion Division in October 2006. This division selects solution projects for the whole company, then works with the marketing sections in each business division to promote a wide range of proposal-type business opportunities.

Raising profitability

TIS focuses on two goals: to promote a deployment-style development model; and to enrich consulting expertise.

The spotlight was on training consultants knowledgeable in internal controls dealing with Japan's version of the SOX Act and aspects of the insurance business.

In April 2007, TIS established BM Consultants Inc. to specialize in consultations.

Fiscal 2008 Outlook

In addition to the measures outlined above, TIS will set aside a reserve for large-scale projects as a fiscal precaution. This will provide a considerable cushion against the risk of performance fluctuations that have besieged the Company of late.

The overall objective of "exceed '08" is to make the TIS Group the top name in the business by March 2009. Toward this end, the Company will strive to build on growth strategies in fiscal 2008.

Management will work to improve the corporate value of the TIS Group and thereby fulfill our mission to contribute to all stakeholders—not only shareholders and investors but also business partners and employees as well as the communities in which we maintain a presence. On behalf of the Board of Directors, I ask you for your continued support and encouragement as the Company and the Group it leads work toward greater successes.

TIS Road Map

Fiscal Year	Event	TIS Actions	Achievements (Completed or Expected)
2006	Appearance of unprofitable projects for manufacturers and members of the service industry.	Enhanced proposal review system, strengthened production bases, revised contract system, etc.	Implemented reforms
2007	Loss write-off on large-scale credit card project	Launched medium-term management plan "exceed '08"	Stopped unprofitable projects from arising
2008	Operational start of large-scale projects		Identify success of measures implemented in fiscal 2006 and fiscal 2007; promote measures to spur growth
2009		Last year of medium-term management plan "exceed '08"	Get on growth track

July 2007



Susumu Okamoto, President

Strengthen Three Production Platforms and Be Known for the Best Technology

One of the primary goals of “exceed ‘08” is to make technology the core of our business. Toward this end, we will focus on the establishment of platforms for project management, engineering and human resources.

The Changing Operating Environment

Client-Oriented Response Capabilities

- Clients require systems of increasingly large scale and greater complexity, better service and higher product quality, and shorter delivery schedules.
- Clients seek a level of responsiveness from providers that exceeds simple system configuration. Providers must be able to cater to all client needs, from consolidating the requirements of the end-user division to ensuring that the completed system has the functions needed to help each client achieve its business targets.

Changing Industry Trends

- Progress in software engineering has turned project management methodologies, such as CMMI and ITIL*¹, into international standards for developing and maintaining highly reliable software.
- Methodologies and tools related to system development and maintenance have become industry standards. Useful IT technology is appearing at a steady rate, making improvements in quality and productivity reliant on system capabilities.

Human Resources

- IT engineers must possess a wider range of independently acquired expertise.
- For projects to be successful, professionals in various IT categories must come together as a single unit to develop and maintain systems.
- Governments are expanding systems and standards, such as ITSS*² and certification tests for information processing engineers, that objectively evaluate technological skills.

Notes:

1. **ITIL: Information Technology Infrastructure Library**
ITIL, developed by the U.K.'s Office of Government Commerce, provides a systematic approach to the maintenance and management of computer systems. This approach was created in the 1980s in response to the inability of the government to achieve anticipated investment in IT. A project team was formed to study leading examples of IT in use, select the best practices, and compile the methods into a library to support the use of IT in the execution of business activities.
2. **ITSS: IT Skill Standard**
This standard, formulated by Japan's Ministry of Economy, Trade and Industry, clearly and systematically defines the skills required to provide IT-related services in all categories. The purpose of this standard is to establish a common framework for training IT service professionals and upgrading their skills, and for fostering cooperation among IT service providers, educational institutions, individuals and the government.





Three Enhanced Production Platforms

Project Management Platform

- **New QMS*1**
We will identify standard processes for all aspects of project management to keep projects moving forward, as planned, to successful conclusion. This will ensure that quality exceeds the norm.
- **Visual Control**
Instead of using intangible, qualitative information to determine project status, we will rely on visual, quantifiable benchmarks to facilitate a more accurate assessment of progress.
- **Clarification of Roles**
We will clarify the roles taken by ourselves, our clients and our partners in the execution of each project to prevent mistakes and secure a win-win outcome.

Engineering Platform

- **Standardized Methodology**
Standardized design and testing formats used in all project processes will eliminate operational oversights and glitches, facilitate the sharing of applicable know-how, and underpin mastery of skills.
- **Application of Standardized Tools**
We will reduce the number of people and the time needed to execute each project and minimize glitches by utilizing highly efficient tools in all processes. In addition, through the standardization of tools, we will acquire more extensive knowledge and ensure stable operation of systems.
- **Sharing Technology Data and Enhancing Reapplication**
We will create an environment more conducive to the reapplication of know-how and results acquired by software engineers through the execution of projects.
- **Evaluate and Utilize New IT Technology**
We will assess new IT technology on a timely basis and make the findings readily available to all our engineers.

Human Resource Platform

- **Launch Skill Certification Program**
We will introduce a skill certification program based on ITSS and will undertake visible control of engineers' technological expertise—individually and departmentally—as well as that of operating divisions and the Company as a whole.
- **Reinforce Training Programs and Seminars**
We will conduct long-term training courses and skill-enhancement seminars linked to the skill certification program and create an environment in which engineers can efficiently upgrade their skills.
- **Maximize Information Technology Engineers Examination**
We will capitalize on the examination, using certification as a means of encouraging engineers to improve skills and as a personal milestone marking self-improvement. The number of successful examinees employed at TIS will be seen internally and externally as a tangible and objective indicator of not only individual expertise but also company-wide technological capability.

Note: 1. **QMS: Quality Management System**
This term is generally applied to manufacturers' quality control structures. In the area of system development, QMS refers to the characteristics of projects and organizational activities that support the efforts of manufacturers to raise the quality of their products.

Project Management Platform

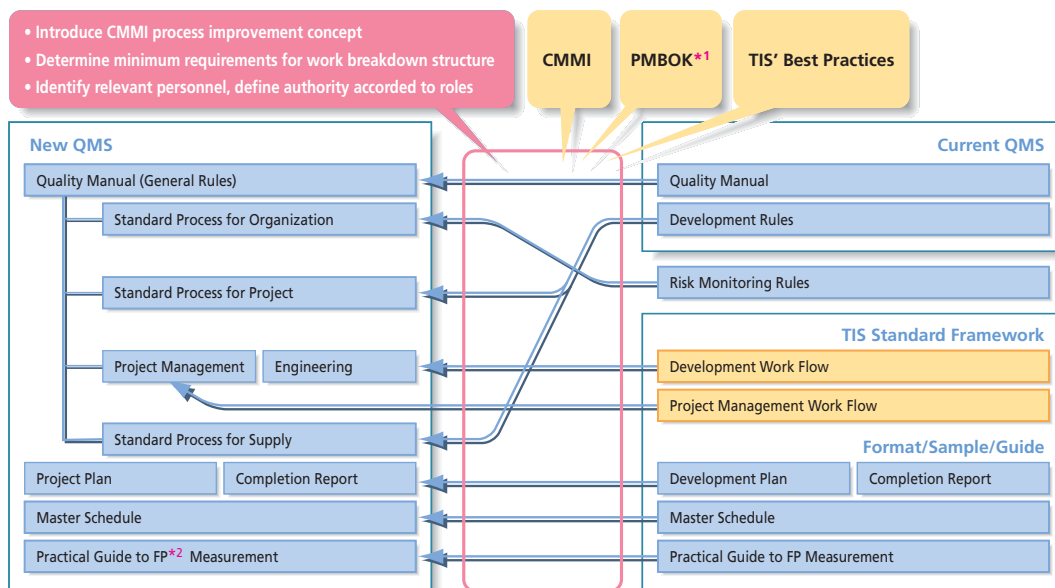
Improving Quality through Implementation of New QMS

Existing QMS describe only what has to be done, not how to do it. The methods used are left to the ingenuity of the project team.

TIS approached the idea of QMS from the perspective of maintaining quality above a certain level and raising productivity by clarifying the how-to process.

The standard process is like a recipe, with steps simple and straightforward enough to enable anyone, even a novice, to achieve relative success. Complemented by guidance from an expert, the software “cook” can achieve a higher level of performance and improved quality.

Improvement through New QMS



Notes: 1. PMBOK: Project Management Body of Knowledge
 2. FP: Function Point, a method to calculate development costs and number of hours of labor

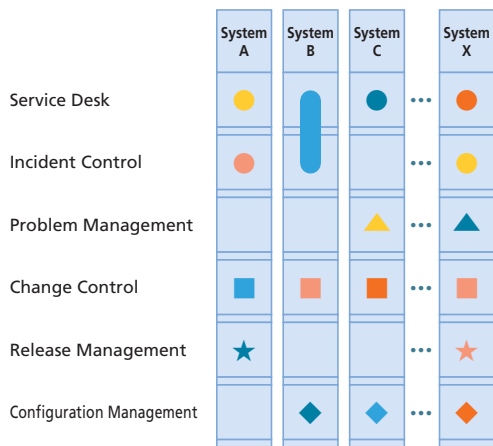
Engineering Platform

Using ITIL to Standardize Operation Management

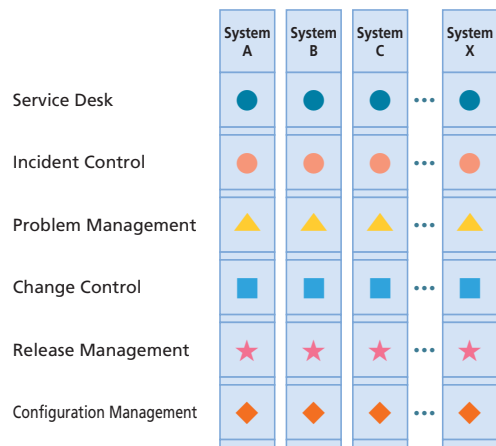
TIS aims to improve system operation management through the use of ITIL, a comprehensive collection of the best IT service-oriented management and maintenance rules, as compiled by the U.K.'s Office of Government Commerce.

Using ITIL to standardize operation management will facilitate quick responses, such as troubleshooting, elevate service quality, and make system operation more efficient. Excellence in service will lead to a better reputation for reliability in the market.

Current Operation Management (Service Support Portion)



New Operation Management (Service Support Portion)



Standardizing operation management processes based on ITIL will

- turn randomly oriented processes for separate systems into homogeneous processes applicable to all systems
- eliminate ambiguity in the scope of operations and the allocation of roles

Human Resource Platform

Promote Visual Control of Technology

To elevate technological capacity, from both human resource and overall corporate perspectives, TIS encourages employees to take the Information Technology Engineers Examination as part of skill development.

We also utilize easily recognizable ITSS benchmarks and promote methods that tangibly demonstrate engineers' technological expertise.

These efforts will motivate engineers and underpin enhanced capabilities.

TIS' Skill Recognition Standard and Correlation to Information Technology Engineers Examination

Some of the passing requirements of the Information Technology Engineers Examination that are needed for TIS' own standard, according to job category and skill level, are presented below.

ITSS Job Category	IT Architect	PM	IT Specialist	Application Engineering Specialist
Level 7	AN	PM	SM, NW, DB, SV	AE, AU
Level 6				
Level 5				
Level 4	AE, SM, NW, DB, SV	AE, SM, NW, DB, SV		
Level 3		SW	SW	SW
Level 2			FE	FE
Level 1				

AN: system analyst; PM: project manager; AE: application engineer; NW: network; DB: database; SM: system management; SV: security; SW: software development; FE: basic information; AU: system audit

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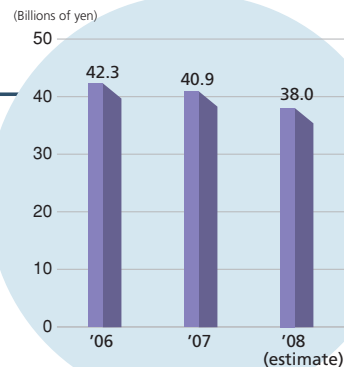
UFIT Co., Ltd.

TIS holds 70.4% equity. Particularly strong in services for credit card and consumer loan companies and focuses on outsourcing services.

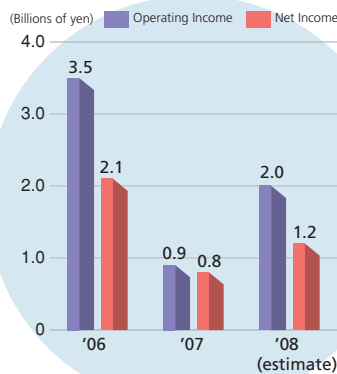
Fiscal 2007 Results

- Year-on-year drop in revenues, owing to sluggish interest in merger-based projects from financial institutions and other major clients as well as the impact of investment curbs following sudden changes in the operating environment of finance-related businesses.
- Dramatic reduction in profits, reflecting widening losses on large-scale projects for credit card companies.

Net Sales



Operating Income, Net Income



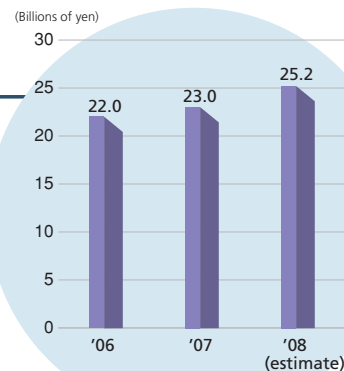
Agrex Inc.

TIS holds 50.04% equity. Leading company in Japan's business process outsourcing (BPO) business. Listed on First Section of Tokyo Stock Exchange.

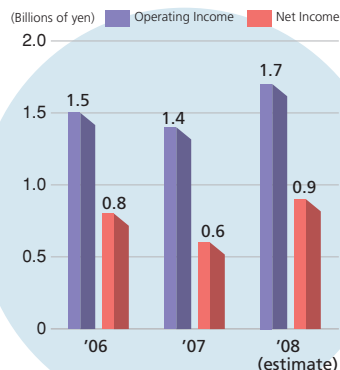
Fiscal 2007 Results

- Listed on First Section of the Tokyo Stock Exchange in September 2006.
- Open Techno Co. Ltd. and Finese Co., Ltd. made subsidiaries in September and December 2006, respectively, later merged as Agrex FineTechno, Inc., in April 2007.
- Drop in BPO orders for large, public service projects and campaign management services, but higher demand from insurers and credit card companies, complemented by strong interest from drug companies for clinical research data management (CRO).
- In software solutions, demand for a new product—Personal Information Concealment System—and client resource management (CRM) products was brisk but conditions in the ERP market were a challenge, eroding revenue potential.
- Thanks to higher system integration demand from insurers and financial institutions as well as the benefits of subsidiary consolidation, the company was able to offset the negative impact of contract revisions with certain large-volume clients.

Net Sales



Operating Income, Net Income



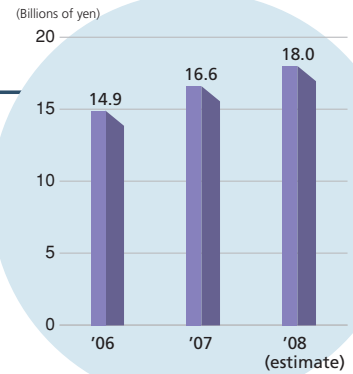
Qualica Inc.

TIS holds 80% equity and Komatsu Ltd., 20%. Formerly known as Komatsu Soft Ltd.

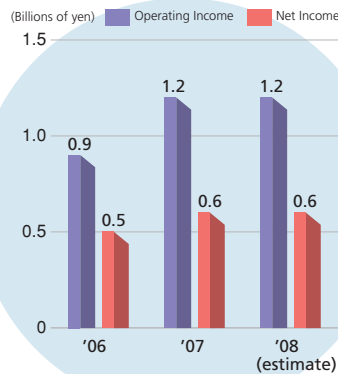
Fiscal 2007 Results

- Higher year-on-year sales and income.
- Higher demand for development and outsourcing services to major construction equipment companies (special demand for new factories).
- Increased large-scale projects for major manufacturers contributed to higher sales and profit.
- Newly acquired WebLight (touch panel display) business contributed to higher sales and profit.

Net Sales



Operating Income, Net Income



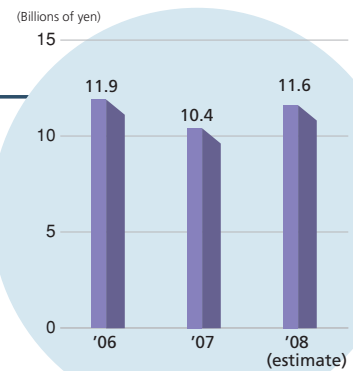
AJS Inc.

TIS holds 51% equity and Asahi Kasei Corp., 49%. Brought under the TIS Group umbrella in April 2005.

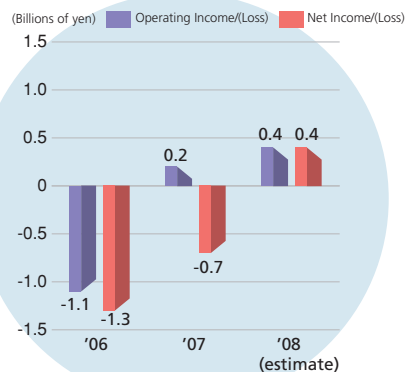
Fiscal 2007 Results

- Sales on services to the Asahi Kasei Group were down year-on-year. Operating income improved despite an increase in unprofitable projects.
- In the medical system business, the backlog and glitches expected at the beginning of the year were dealt with generally on schedule. The delay on new orders was not transferred as planned, and the operating loss shrank considerably.
- As a result, recurring profit and income before income taxes rebounded and the business turned a profit, but lower deferred tax assets led to a net loss.

Net Sales



Operating Income/(Loss), Net Income/(Loss)



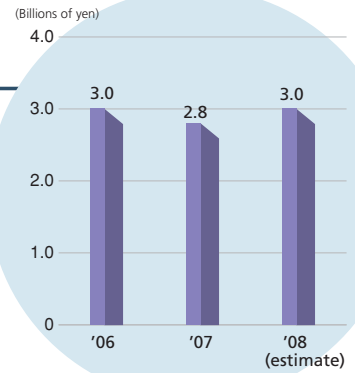
Systems Engineering Laboratory Co., Ltd.

The TIS Group holds 51% equity and TDK Corporation holds 11.8%. The company has experience building IBM i-series systems.

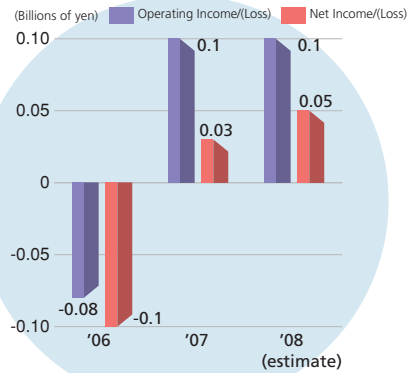
Fiscal 2007 Results

- Lower year-on-year sales but higher income.
- Income rebounded, largely due to meticulous project management and new packaged products.
- SE service revenues were down, following evaluation delay on some development projects, but profitability was significantly higher, thanks to the establishment of development standards.
- The relocation of headquarters incurred a ¥40 million extraordinary expense.

Net Sales



Operating Income/(Loss), Net Income/(Loss)



TIS pursues corporate activities in line with a corporate code of conduct and a basic policy on corporate social responsibility (CSR) that includes corporate governance.

Basic Policy on CSR

Guided by a basic management direction that seeks better-than-average achievements, we respect laws and regulations, and strive to conduct operations with integrity and impartiality, based on a high standard of business ethics. We seek to be a corporation that exceeds the ordinary expectations of society.

Code of Conduct for CSR

1. Ensure sound management practices.
2. Maintain active information disclosure.
3. Uphold high level of client satisfaction.
4. Comply with laws and adhere to social standards.
5. Conduct business fairly and in the spirit of free competition.
6. Consider the environment.
7. Contribute to society.
8. Respect human rights.
9. Improve information literacy.
10. Support development in countries where TIS has a presence.

Organizational Structure and Status of Internal Control System

Basic Outline of Corporate Bodies

As of March 31, 2007, the Board of Directors comprised 16 members and the Board of Auditors comprised four members, two of whom were outside auditors.

In principle, the Board of Directors meets once a month to decide on vital issues related to the execution of business activities as well as legal matters affecting operations.

In addition, to ensure rational and efficient decision-making by management, the Executive Council, chaired by the president, meets at least once a month to discuss pertinent management issues.

Auditors monitor the execution of duties by directors, in accordance with auditing policy set by the Board of Auditors and established allocation of auditors' duties, by attending meetings of the Board of Directors, the Executive Council and the Compliance Committee, by listening to management reports by directors, by examining approval documents for important draft proposals circulated to senior executives for official authorization, and by auditing business activities and corporate finances.

Status of Internal Audits and Auditors' Audits

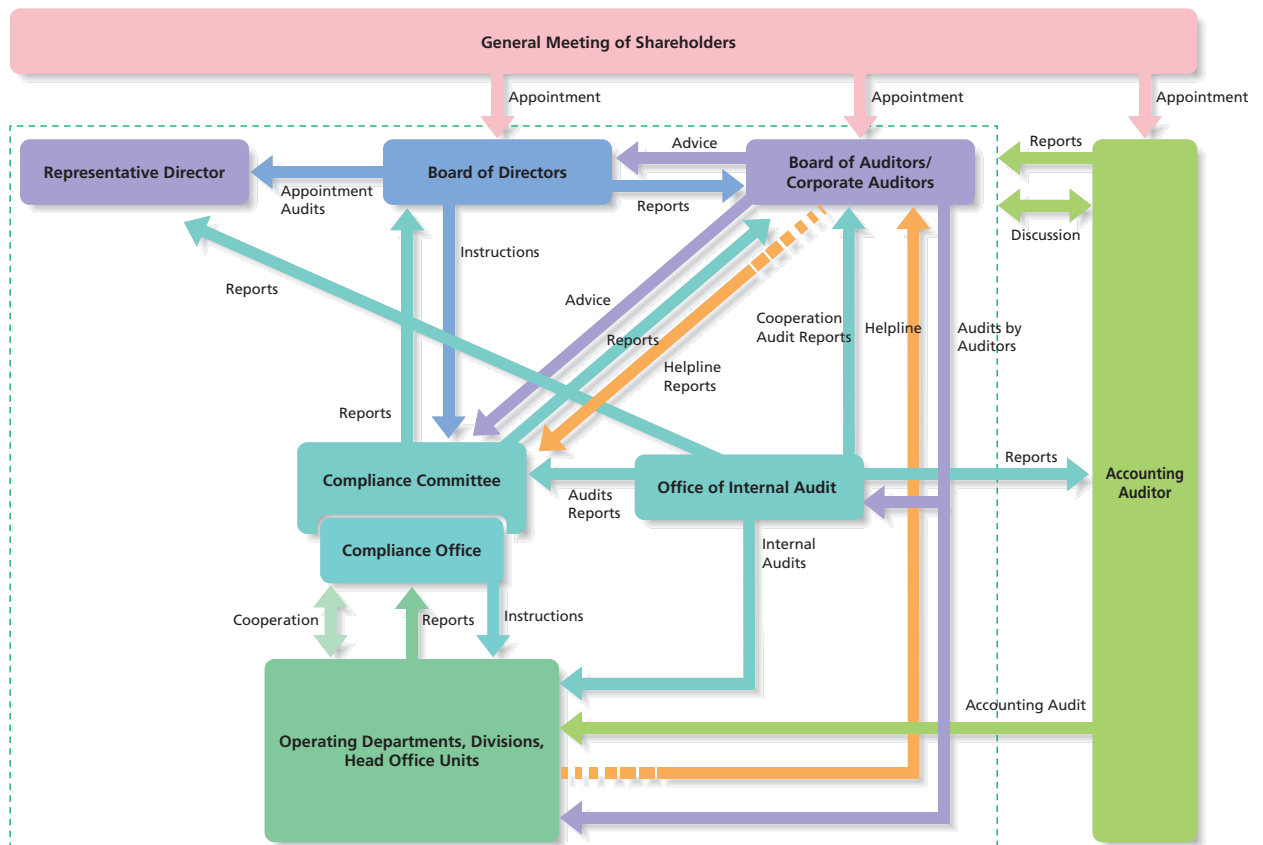
Internal audits fall under the authority of the Examination Office, staffed by six people, and the Security Observation Office, staffed by four people.

The Examination Office maintains an independent perspective on operations and contributes to the internal control structure at TIS by checking to see that these activities are being conducted properly and in compliance with established rules and manuals. When necessary, the office will issue recommendations to a division requiring improvement in certain aspects of its operations.

In the course of its business, TIS must often handle the systems, databases and other information assets of its clients. The Company fully recognizes the importance of safeguarding information assets—management resources—from threat, and ensures that software development and system operation are directly linked to its own management priorities and internal controls.

TIS has formulated an information security policy to ensure consistency in companywide decisions regarding information security and full protection of information assets.

The Security Observation Office regularly audits all divisions to confirm that every section of the Company is adhering to information security measures, in accordance with the information security policy and enforcement standards stated therein. The office will indicate areas for improvement and, when necessary, issue guidelines to achieve the necessary changes.



Accounting Audits

TIS has engaged Misuzu Audit Corporation as independent auditor responsible for accounting audits, and the Company undergoes audits performed by this accounting firm. The certified public accountants who conduct audits of TIS' books are as follows.

Certified public accountant Hiroyuki Kumasaka (one year of auditing TIS)
 Certified public accountant Masato Saito (seven consecutive years of auditing TIS)

Number of assistants involved in accounting operations

Certified public accountants	10
Junior accountants	4
Other assistants	12

Relationship with Outside Auditors

TIS has two outside auditors. No business relationship exists between these auditors and the Company.

Risk Management Status

CSR and compliance are integral components of risk management at TIS. The Company's Code of Conduct for CSR and the president's tireless efforts to instill the spirit of CSR among fellow executives ensure that business activities are conducted with respect for the law and in line with prevailing social values. Structures and systems that reinforce compliance and thereby underpin risk management are presented below.

Compliance Division and Compliance Committee

TIS designated a director responsible for compliance, who oversees the Compliance Department. The Company also maintains a companywide compliance structure and actively strives to pinpoint problem areas. These efforts are supported by the Compliance Committee, chaired by the president, where important issues related to compliance are discussed. The results of such discussions are presented to the Board of Directors in a report format.

Helpline (In-House Reporting System)

Paralleling wider efforts in corporate governance, TIS maintains a helpline system to facilitate direct communication between employees and outside auditors. This conduit enables employees to report alleged illegal business activities and socially unacceptable behavior committed by directors or other employees without fear of reprisals in the workplace.

Executive Compensation

Total annual compensation for directors: ¥311 million

Total annual compensation for auditors: ¥59 million, including ¥21 million for outside auditors

- Notes: 1. The employee salary portion (including bonuses) of employees concurrently holding positions as directors is not included in the total of directors' salaries.
 2. The compensation amount noted above includes ¥84 million (for 15 directors and four corporate auditors) recorded under allowance for retirement benefits to directors for the fiscal year in review.
 3. According to a resolution by shareholders at the General Meeting of Shareholders on June 27, 1991, executive compensation is within a monthly amount of ¥28 million.
 4. According to a resolution by shareholders at the General Meeting of Shareholders on June 29, 1998, executive compensation is within a monthly amount of ¥6 million.

Breakdown of Auditors' Compensation

Compensation related to activities set forth under Article 2,

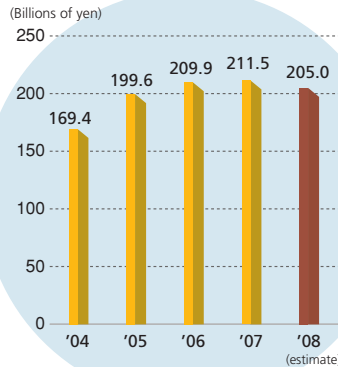
Paragraph 1 of the Certified Public Accountants' Law (No. 103, 1948): ¥48 million

Other compensation: ¥2 million

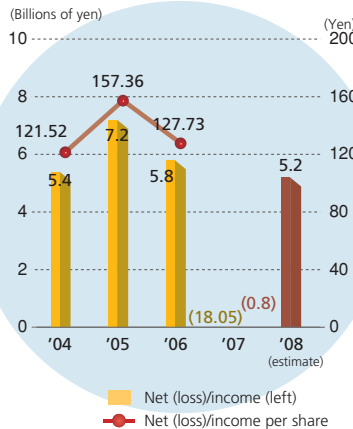
Fixed Number of Directors

As set forth in the Company's Articles of Incorporation, the number of directors of the Company shall be 25 or less.

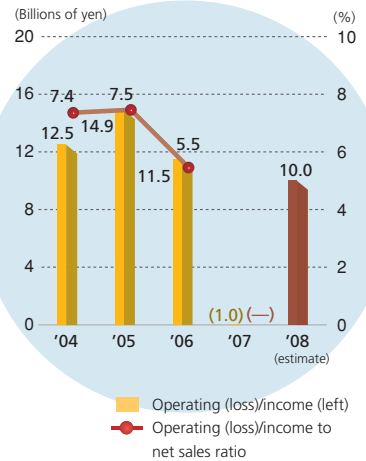
Net Sales



Net (Loss)/Income, Net (Loss)/Income per Share



Operating (Loss)/Income, Operating (Loss)/Income to Net Sales Ratio



At March 31, 2007, the TIS Group comprised TIS, 24 consolidated subsidiaries and 11 affiliates accounted for under the equity method. The Group's primary function is to provide outsourcing, software development and solution services that support investment in IT. Additionally, the Group undertakes peripheral activities, such as leasing and market research, related to the aforementioned services.

The changes in consolidation reflect the acquisition of shares by TIS from third parties to bring Open Techno Co., Ltd., and Finesse Co., Ltd., under the Company's consolidated umbrella. TIS absorbed TIS Consulting Co., Ltd., effectively removing the subsidiary from the scope of consolidation. Also during fiscal 2007, TIS took a startup equity stake in BeBest International, making the company an affiliate accounted for under the equity method.

Fiscal 2007 Business Summary

Consolidated Net Sales

Net sales edged up 0.8%, to ¥211,582 million (\$1,792 million), held back primarily because work on large-scale development projects peaked. A breakdown of sales by segment is presented below.

	Millions of yen		
	2007	2006	% change
Net sales	¥211,582	¥209,923	+0.8%
Outsourcing services	75,554	72,872	+3.7
Software development	102,945	106,685	-3.5
Solution services	28,028	23,939	+17.1
Other	5,055	6,426	-21.3

Outsourcing

Revenues from outsourcing increased 3.7%, to ¥75,554 million (\$640 million), reflecting higher revenues for TIS, AJS and Qualica on outsourcing services for major clients, as well as solid results for Agrex from insurance and credit card clients.

Software Development

Revenues from software development dropped 3.5%, to ¥102,945 million (\$872 million), as the peaking of large-scale projects for TIS restricted revenue opportunities.

Solution Services

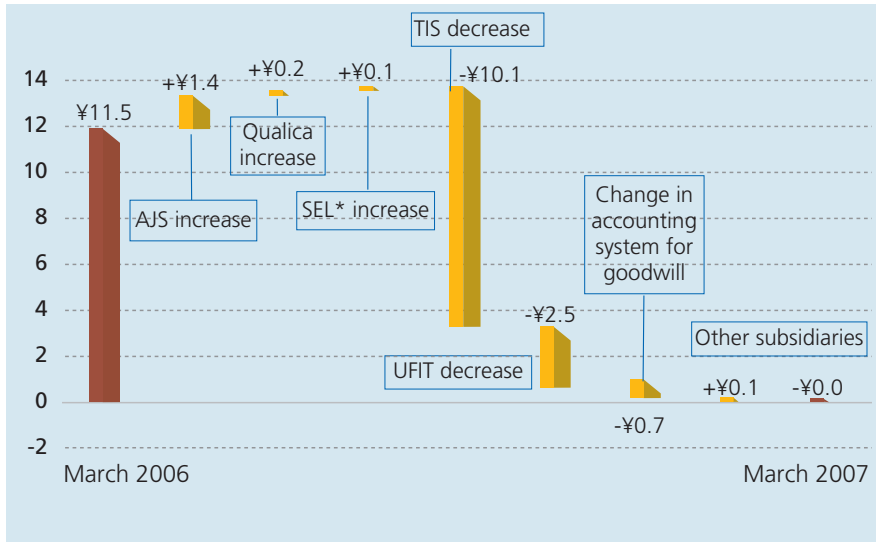
Revenues from solution services—that is, the sale of IT equipment and software—jumped 17.1%, to ¥28,028 million (\$237 million), thanks to a healthier contribution from TIS.

Other

Revenues from other operations, which center on the Company's leasing subsidiary, tumbled 21.3%, to ¥5,055 million (\$42.8 million).

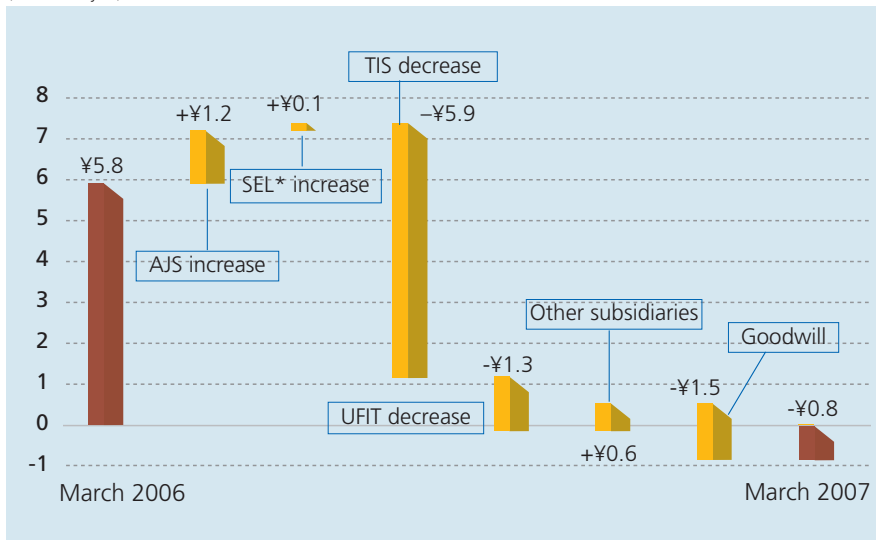
Operating (Loss)/Income Analysis

(Billions of yen)



Net (Loss)/Income Analysis

(Billions of yen)



Note: Figures indicate values after corporate taxes and other adjustments

*SEL: Systems Engineering Laboratory Co., Ltd.

Profile & Financial Summary
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Costs, Expenses and Earnings

	Millions of yen		
	2007	2006	% change
Cost of sales	¥186,716	¥175,009	+6.7%
<i>Cost of sales ratio</i>	88.2%	83.4%	
Gross profit	24,866	34,914	-28.8%
<i>Gross profit ratio</i>	11.8%	16.6%	
SGA expenses	24,867	23,346	+6.5%
<i>SGA expenses ratio</i>	11.8%	11.1%	
Operating (loss)/income	(1)	11,568	—
<i>Operating (loss)/income ratio</i>	—	5.5%	
Net (loss)/income	(818)	5,893	—
<i>Net (loss)/income ratio</i>	—	2.8%	

Cost of sales rose 6.7% over fiscal 2006, settling at ¥186,716 million (\$1,581 million). The cost of sales ratio grew 4.8 percentage points, to 88.2%. As a result, gross profit retreated 28.8%, to ¥24,866 million (\$210 million), and the gross profit ratio slipped 4.8 percentage points, to 11.8%.

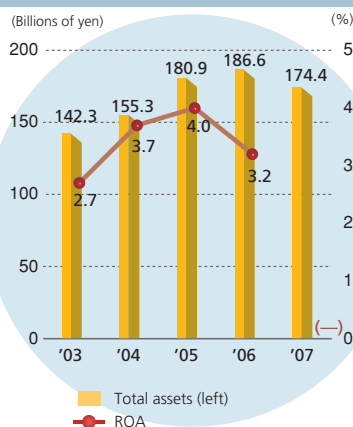
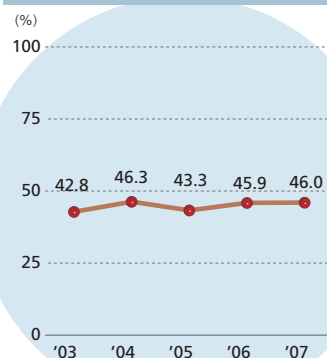
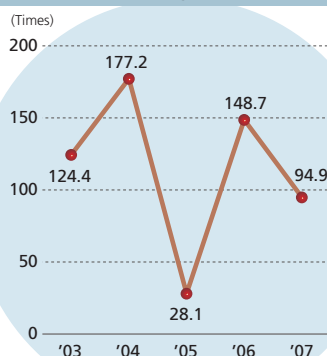
Selling, general and administrative (SGA) expenses increased 6.5%, to ¥24,867 million (\$210 million) and represented 11.8% of net sales, up 0.7 percentage point year-on-year.

Although measures to reinforce the business composition of AJS and steady IT investment by clients of Qualica buoyed earnings for these subsidiaries, sub par performances by TIS and UFIT led to zero operating income for the Group.

In the past, the net of amortization of goodwill on the asset side and amortization of negative goodwill on the liabilities side was recorded under other income (expenses). But from fiscal 2007, the two amounts are booked separately, with amortization of goodwill included under SGA expenses and amortization of negative goodwill included under other income. Consequently, the operating loss grew ¥775 million. This has no impact on income before income taxes.

Net other income (expenses) fell to ¥670 million (\$5 million), from ¥797 million in fiscal 2006, largely owing to ¥953 million (\$8 million) in amortization of negative goodwill and ¥1,434 million (\$12 million) in loss on disposal of fixed assets. In addition, TIS and certain members of the Group deployed significantly more essential personnel than initially anticipated to large-scale projects for which development activities still continue to ensure steady progress on such projects. This caused expenses in fiscal 2007 to expand, and since these projects did not wrap up in fiscal 2007, expenses in fiscal 2008 and beyond will greatly exceed initial estimates. Accordingly, reserves were set aside in fiscal 2007 to cover the increase in expenses that is expected to materialize in fiscal 2008 and beyond.

As a result, TIS booked a consolidated net loss of ¥818 million (\$6 million) in fiscal 2007.

Total Assets, ROA

Equity Ratio

Interest Coverage Ratio


Financial Position

	Millions of yen		
	2007	2006	% change
Current assets	¥ 89,582	¥ 92,919	-3.6%
Property and equipment	36,562	37,470	-2.4
Investments and other assets	48,312	56,215	-14.0
Total assets	174,456	186,604	-6.5
Current liabilities	55,650	47,256	+17.8
Non-current liabilities	25,622	41,091	-37.6
Total liabilities	81,272	88,347	-8.0
Minority interests	12,966	12,614	+2.7
Total net assets	93,184	85,643	+8.8

Assets

At March 31, 2007, total assets stood at ¥174,456 million (\$1,477 million), down 6.5% from a year earlier. Of this amount, current assets accounted for ¥89,582 million (\$758 million), a decrease of 3.6%, and net property and equipment represented ¥36,562 million (\$309 million), a drop of 2.4%. Investments and other assets shrank 14.0% year-on-year, to ¥48,312 million (\$409 million), primarily because of a reduction in investment in securities, which was largely the result of lower unrealized gains, according to market-value accounting.

Liabilities and Shareholders' Equity

Total current liabilities rose 17.8%, to ¥55,650 million (\$471 million). This change is chiefly due to the allocation of an aggregate ¥5,139 million (\$43 million) set aside by TIS and UFIT for accrued contract losses.

Total non-current liabilities dropped 37.6%, to ¥25,622 million (\$217 million), mainly reflecting a reduction in allowance for retirement benefits at UFIT and lower deferred tax liabilities for TIS.

Total net assets, which includes minority interest in consolidated subsidiaries, rose 8.8%, to ¥93,184 million (\$789 million). Net worth, calculated by subtracting minority interest in consolidated subsidiaries from total net assets, stood at ¥80,218 million (\$679 million) for an equity ratio of 46.0%, up 0.1 percentage point from March 31, 2006.

Cash Flows

Cash and cash equivalents at the end of the year came to ¥24,254 million (\$205 million), down 3.8% over fiscal 2006.

Cash flows provided by operating activities retreated 16.9%, to ¥15,750 million (\$133 million). Major components of this change were income before taxes and minority interests, at ¥669 million, as well as ¥9,793 million in depreciation, a ¥6,333 million decrease in notes and accounts receivable and an increase of ¥5,139 million in accrued contract losses on the assets side, and ¥3,749 million in income tax paid and a ¥1,187 million drop in notes and accounts payable on the liabilities side.

Cash flows used in investing activities decreased 11.3%, to ¥9,998 million (\$84 million). The change reflects ¥4,914 million in proceeds from the sale/redemption of investments in securities on the assets side and ¥7,403 million in acquisitions of property, plant and equipment, and ¥4,755 million in acquisitions of investment in securities on the liabilities side.

Cash flows used in financing activities dropped 45.4%, to ¥6,712 million (\$56 million), largely because of ¥428 million in proceeds from long-term bank loans on the assets side, and ¥5,557 million repayments of long-term bank loans and ¥1,449 million in dividends paid on the liabilities side.

	Millions of yen		
	2007	2006	% change
Cash flows provided by operating activities	¥15,750	¥18,960	-16.9%
Cash flows used in investment activities	(9,998)	(11,278)	-11.3
Cash flows used in financing activities	(6,712)	(12,286)	-45.4
Cash and cash equivalents at end of year	24,254	25,203	-3.8

Basic Policy on Income Distribution

Companies are expected to utilize the capital entrusted to them by shareholders effectively and thereby generate increasingly higher profits through operations. Companies are also expected to raise corporate value over the medium to long term. TIS believes that meeting these expectations is a basic obligation of any company.

At the same time, TIS recognizes the importance of fulfilling realistic responsibilities, without bias and in consideration of all stakeholders, whether they are clients, business associates, regional communities or employees.

Society demands that companies perform excellently in their given fields, within this basic framework of social responsibility. TIS is of the mind that a company has a duty to explain its intentions clearly with information that is accurate and in just the right amount for stakeholders to form a fair opinion of the company and its activities.

TIS aims to do exactly this in regard to corporate concepts and future direction. The Company thus emphasizes management transparency and impartiality and, bearing in mind the importance of information, undertakes suitable disclosure of pertinent data.

In regard to dividends, the Company wants to establish a solid reputation as a corporation that returns profits through stable dividends to shareholders and is thereby worthy of long-term investment. In fiscal 2007, the year ending March 31, 2008, TIS plans to maintain annual dividends at the fiscal 2006 level of ¥27 per share.

Fiscal 2008 Outlook (For the year ended March 31, 2008)

The trend toward IT investment by Japanese companies should remain strong in fiscal 2008. Market predictions indicate that financial institutions will sustain investment activity on a par with fiscal 2007 levels and that companies in other industries, particularly the distribution and service sectors, will boost their IT investment budgets, as well. In fact, more companies in a wider range of businesses are likely to address IT investment with more vigor than in the past. This dynamic IT investment scenario should provide the information services industry with continued impetus for high growth in fiscal 2008.

Heightened interest in IT investment by the manufacturing and credit card industries offers TIS a tremendous opportunity, since many of the Company's principal clients operate in these sectors and the Company has accumulated considerable expertise and experience in servicing these companies. TIS will strive to accurately address the needs of these key client segments to reinvigorate its fiscal performance.

TIS and certain Group members were plagued by unprofitable projects over the past few years, but concerted efforts in fiscal 2006 to enhance production platforms and maximize the emerging merits of a project-oriented risk management system prevented the appearance of new unprofitable projects. In fiscal 2008, the focus will therefore shift from eradication of unprofitable projects —since this has been achieved — to preventing a recurrence of the problem. Project profitability is an ongoing priority that requires constant consideration of actions and reactions.

TIS anticipates the following results in fiscal 2008.

Net sales:	¥205,000 million (down 3.1%)
Operating income:	¥10,000 million (on a par)
Net income:	¥5,200 million (on a par)

Business Risks

Prevailing factors of significance to the business and financial status of TIS and the TIS Group that may impact the decisions of investors are described below. These forward-looking factors were deemed applicable to the Company and the Group as of June 25, 2007.

Business environment

The information services industry is expected to grow, supported by particularly strong IT investment by financial institutions and service providers. However, the market will probably have to contend with heightened competition, on price and technology fronts, owing to greater sophistication in the requirements of corporate clients as well as the entry of foreign information service companies. The Company and the Group may encounter situations with greater repercussions than originally assessed, caused by the business environment or rivalry within the information services industry that goes beyond what management anticipated. Such situations could impact the fiscal performance and financial standing of the Company and the Group.

Software development

If new requirements, such as a significant modification in software specifications, arise during the development process, and the changes add more work hours to a project than initially budgeted, a project that the Company expected to generate a profit at the time the contract was signed may turn out to be unprofitable in the end.

In addition, the TIS Group undertakes projects that take several years to complete. During such long-term projects, it is possible that clients will revise miscellaneous conditions in response to changes in the operating environment and the advent of new technologies.

If such significant modification in software specifications and miscellaneous requests, or quality-related issues, were to arise, they might precipitate additional costs or demands for compensation, which could adversely effect the fiscal performance and financial standing of the Company and the Group.

Stable operation of outsourced systems

Outsourcing services represent one of the Group's core business segments, and the stable operation of a system after software development has been completed is a vital requirement.

TIS has formulated measures for the Group to prevent operational incompatibilities, but the Group's fiscal performance could be directly impacted if a system malfunction precludes stable operation of a system at the level demanded by the client.

Large-scale disruption of outsourcing services

The Company maintains uninterrupted outsourcing services 24 hours a day, 365 days a year through data centers located in the metropolitan areas of Tokyo and Osaka as well as Aichi Prefecture and Tochigi Prefecture. Every conceivable safeguard has been taken from various angles to establish a secure environment. The structures were designed to withstand earthquakes and feature on-site generators that kick in to run equipment in the event of a power failure as well as devices and systems to thwart unauthorized entry.

However, events beyond management's control, such as large-scale natural disasters, international disputes, terrorism and serious criminal activity, could influence the Company's fiscal performance and financial standing.

**TIS INC.
AND ITS CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2007 and 2006**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
ASSETS			
Current assets:			
Cash and time deposits (Note 2 (2))	¥ 22,971	¥ 23,266	\$ 194,589
Marketable securities (Notes 2 (2) and 4)	1,813	2,208	15,358
Notes and accounts receivable	47,786	53,640	404,796
Allowance for doubtful accounts	(30)	(76)	(258)
Inventories	6,460	7,172	54,721
Deferred tax assets (Note 8)	7,585	3,847	64,255
Prepaid expenses and other current assets	2,997	2,862	25,384
Total current assets	<u>89,582</u>	<u>92,919</u>	<u>758,845</u>
Property and equipment: (Notes 2 (9) , 7 and 10)			
Land (Note 6)	6,705	6,716	56,796
Buildings and structures	38,361	35,961	324,953
Machinery and equipment	13,349	13,164	113,078
Equipment for lease	18,876	19,994	159,904
Others	4,273	4,119	36,198
	<u>81,564</u>	<u>79,954</u>	<u>690,929</u>
Accumulated depreciation	(45,002)	(42,484)	(381,211)
Net property and equipment	<u>36,562</u>	<u>37,470</u>	<u>309,718</u>
Investments and other assets:			
Investments in affiliates	579	575	4,904
Investments in securities (Notes 4 and 7)	29,697	35,823	251,562
Guarantee deposits	7,282	6,873	61,691
Prepaid pension costs	1,569	1,564	13,288
Deferred tax assets (Note 8)	879	950	7,451
Intangible assets	6,243	8,465	52,888
Others	2,279	2,323	19,298
Allowance for doubtful accounts	(216)	(358)	(1,833)
Total investments and other assets	<u>48,312</u>	<u>56,215</u>	<u>409,249</u>
Total assets	<u>¥ 174,456</u>	<u>¥ 186,604</u>	<u>\$ 1,477,812</u>

See Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bank loans (Note 7)	¥ 2,283	¥ 2,118	\$ 19,339
Current portion of long-term debt (Note 7)	12,556	5,638	106,358
Notes and accounts payable	17,320	18,424	146,718
Allowance for bonuses to directors and employees	3,432	3,465	29,077
Accrued contract losses	5,139	-	43,536
Income taxes payable	2,347	2,417	19,879
Others (Note 8)	12,573	15,194	106,506
Total current liabilities	55,650	47,256	471,413
Non-current liabilities:			
Long-term debt (Note 7)	14,998	27,196	127,042
Allowance for retirement benefits to employees (Note 11)	2,525	3,510	21,388
Allowance for retirement benefits to directors	882	899	7,474
Negative goodwill (Note 5)	1,342	1,982	11,371
Deferred tax liabilities (Note 8)	4,051	5,726	34,317
Deferred tax liabilities for land revaluation (Note 6)	1,065	1,065	9,019
Others	759	713	6,430
Total non-current liabilities	25,622	41,091	217,041
Net assets:			
Common stock, Authorized: 82,400 thousand shares			
Issued and outstanding	23,088	-	195,579
Additional paid-in capital	22,416	-	189,882
Retained earnings	33,360	-	282,595
Treasury stock	(35)	-	(297)
Total shareholders' equity	78,829	-	667,759
Net unrealized gains on other securities	4,322	-	36,615
Revaluation of land (Note 6)	(2,923)	-	(24,757)
Foreign currency translation adjustments	(10)	-	(89)
Total revaluation and translation adjustments	1,389	-	11,769
Minority interests	12,966	-	109,830
Total net assets	93,184	-	789,358
Total liabilities and net assets	¥ 174,456	-	\$ 1,477,812

See Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Minority interests	-	12,614	-
Shareholders' equity:			
Common stock, Authorized: 82,400 thousand shares Issued and outstanding	-	23,085	-
Additional paid-in capital	-	22,412	-
Retained earnings	-	35,507	-
Revaluation of land (Note 6)	-	(2,923)	-
Net unrealized gains on other securities	-	7,644	-
Foreign currency translation adjustments	-	(50)	-
	-	85,675	-
Treasury stock	-	(32)	-
Total shareholders' equity	-	85,643	-
Total liabilities and shareholders' equity	¥ -	¥ 186,604	\$ -

See Notes to the Consolidated Financial Statements.

TIS INC.
AND ITS CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Net sales	¥ 211,582	¥ 209,923	¥ 199,648	\$ 1,792,307
Cost of sales (Note 14)	186,716	175,009	162,983	1,581,665
Gross profit	24,866	34,914	36,665	210,642
Selling, general and administrative expenses (Note 13 and 14)	24,867	23,346	21,669	210,650
Operating (loss) / income	(1)	11,568	14,996	(8)
Other income (expenses):				
Interest and dividend income	399	366	382	3,383
Interest expenses	(166)	(127)	(134)	(1,406)
Amortization of negative goodwill	953	162	-	8,072
Gain on sale of investments in securities, net	690	1,743	2,526	5,843
Valuation loss on investments in securities	(68)	(40)	(129)	(571)
Loss on disposal of fixed assets	(1,434)	(374)	(282)	(12,150)
Compensation loss	-	(1,000)	-	-
Provision for allowance for doubtful accounts	(61)	-	(19)	(516)
Provision for allowance for retirement benefits to directors	-	(3)	(868)	-
Loss on negotiated settlements for sales contracts	-	-	(1,792)	-
Loss generated in some development projects	-	-	(561)	-
Settlement gain from the revisions of retirement benefit plan for employees	405	-	1,834	3,432
Loss on investment under equity method	(65)	(18)	(7)	(549)
Others, net	17	88	(1,343)	140
	670	797	(393)	5,678
Income before income taxes and minority interests	669	12,365	14,603	5,670
Income taxes (Note 8):				
Current	3,663	4,741	6,647	31,032
Deferred	(2,935)	1,261	(287)	(24,860)
	728	6,002	6,360	6,172
(Loss) / Income before minority interests	(59)	6,363	8,243	(502)
Minority interests	759	(470)	(985)	6,429
Net (loss) / income	¥ (818)	¥ 5,893	¥ 7,258	\$ (6,931)
		Yen		U.S. dollars
Per share (Note 2 (16)):				
Net (loss) / income - basic	¥(18.05)	¥127.73	¥157.36	\$ (0.15)
- diluted	-	120.67	146.43	-
Cash dividends applicable to the year	27.00	27.00	27.00	0.23

See Notes to the Consolidated Financial Statements.

**TIS INC.
AND ITS CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended March 31, 2007**

Millions of yen

	Shareholders' equity					Revaluation and translation adjustments					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Revaluation of land	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interests	
Balance at March 31, 2006	¥23,085	¥22,412	¥35,507	(¥32)	¥80,972	¥7,644	(¥2,923)	(¥50)	¥4,671	¥12,614	¥98,257
Issuance of new shares	¥3	¥4			¥7						¥7
Dividends from surplus			(¥1,224)		(¥1,224)						(¥1,224)
Bonuses to directors			(¥105)		(¥105)						(¥105)
Net loss			(¥818)		(¥818)						(¥818)
Acquisition of treasury stock				(¥3)	(¥3)						(¥3)
Items other than changes in shareholders' equity						(¥3,322)		¥40	(¥3,282)	¥352	(¥2,930)
Balance at March 31, 2007	¥23,088	¥22,416	¥33,360	(¥35)	¥78,829	¥4,322	(¥2,923)	(¥10)	¥1,389	¥12,966	¥93,184

Thousands of U.S. dollars

	Shareholders' equity					Revaluation and translation adjustments					Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Revaluation of land	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interests	
Balance at March 31, 2006	\$195,551	\$189,853	\$300,781	(\$274)	\$685,911	\$64,750	(\$24,757)	(\$425)	\$39,568	\$106,849	\$832,328
Issuance of new shares	\$28	\$29			\$57						\$57
Dividends from surplus			(\$10,365)		(\$10,365)						(\$10,365)
Bonuses to directors			(\$890)		(\$890)						(\$890)
Net loss			(\$6,931)		(\$6,931)						(\$6,931)
Acquisition of treasury stock				(\$23)	(\$23)						(\$23)
Items other than changes in shareholders' equity						(\$28,135)		\$336	(\$27,799)	\$2,981	(\$24,818)
Balance at March 31, 2007	\$195,579	\$189,882	\$282,595	(\$297)	\$667,759	\$36,615	(\$24,757)	(\$89)	\$11,769	\$109,830	\$789,358

**TIS INC.
AND ITS CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Years Ended March 31, 2006 and 2005**

	Millions of yen	
	2006	2005
Retained earnings at beginning of year	¥ 30,957	¥ 24,956
Appropriations		
Cash dividends	(1,223)	(1,132)
Directors' and corporate auditors' bonuses	(120)	(125)
Net income	5,893	7,258
Retained earnings at end of year	<u>¥ 35,507</u>	<u>¥ 30,957</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, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 669	¥ 12,366	¥ 14,603	\$ 5,670
Depreciation	9,793	10,786	10,095	82,955
Decrease in allowance for doubtful accounts	(189)	(188)	(558)	(1,604)
(Decrease)/Increase in allowance for retirement benefits to directors	(61)	(17)	770	(520)
(Increase)/Decrease in allowance for retirement benefits to employees	(993)	(511)	589	(8,411)
Amortization of goodwill	775	-	-	6,570
Amortization of negative goodwill	(953)	-	-	(8,072)
Amortization of goodwill/(negative goodwill)	-	(162)	646	-
Compensation loss	-	1,000	-	-
Interest and dividend income	(399)	(366)	(382)	(3,383)
Interest expenses	166	127	134	1,405
Gain on sale and/or unrealized loss of investments in securities	(622)	(1,703)	(2,244)	(5,272)
Loss on sale and/or disposal of property and equipment, and intangible assets	1,416	392	661	11,995
Decrease /(Increase) in notes and accounts receivable	6,333	507	950	53,643
Decrease/(Increase) in inventories	712	442	(404)	6,034
(Decrease)/Increase in notes and accounts payable	(1,187)	679	(11,319)	(10,057)
Increase in accrued contract losses	5,139	-	-	43,536
(Decrease)/Increase in other operating liabilities	(1,201)	1,101	(70)	(10,170)
Others, net	(108)	483	(2,952)	(915)
Subtotal	19,290	24,936	10,519	163,404
Interest and dividend income received	399	369	384	3,381
Interest expenses paid	(190)	(124)	(134)	(1,609)
Income taxes paid	(3,749)	(6,221)	(6,995)	(31,760)
Net cash provided by operating activities	15,750	18,960	3,774	133,416
Cash flows from investing activities:				
Payments for deposit of time deposits	(729)	(579)	(460)	(6,180)
Proceeds from withdrawal of time deposits	383	557	593	3,243
Proceeds from sale of property and equipment	25	144	250	214
Acquisitions of property and equipment	(7,403)	(6,183)	(6,374)	(62,709)
Acquisitions of intangible assets	(1,675)	(3,225)	(3,572)	(14,189)
Acquisitions of investments in securities	(4,755)	(2,276)	(1,594)	(40,279)
Proceeds from sale/redemption of investments in securities	4,914	2,895	3,453	41,622
Acquisitions of newly consolidated subsidiaries	(323)	(1,987)	592	(2,737)
Additional investments in consolidated subsidiaries	(31)	(457)	-	(262)
Proceeds from collection of short loans receivable	6	32	132	54
Payments for other investments	(277)	(404)	(258)	(2,346)
Proceeds from collection of other investments	85	228	230	721
Other, net	(218)	(23)	1,039	(1,846)
Net cash used in investing activities—forward	¥ (9,998)	¥ (11,278)	¥ (5,969)	\$ (84,694)

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Cash flows from financing activities:				
Increase/(Decrease) in short-term bank loan, net	83	(437)	(1,008)	703
Proceeds from long-term bank loan	428	520	2,844	3,623
Repayments of long-term bank loan	(5,557)	(5,948)	(6,908)	(47,074)
Proceeds from issuing bonds	-	-	7,362	-
Redemption of bonds	(220)	(4,994)	-	(1,864)
Proceeds from issuing new shares	6	10	66	56
(Acquisition)/Sale of Treasury stock, net	(3)	(4)	(9)	(22)
Dividends paid	(1,449)	(1,433)	(1,293)	(12,277)
Net cash provided by/(used in) financing activities	(6,712)	(12,286)	1,054	(56,855)
Effect of exchange rate changes on cash and cash equivalents	11	37	(6)	90
Net decrease in cash and cash equivalents	(949)	(4,567)	(1,147)	(8,043)
Cash and cash equivalents at beginning of year	25,203	29,770	30,917	213,501
Cash and cash equivalents at end of year (Note 2 (2))	¥ 24,254	¥ 25,203	¥ 29,770	\$ 205,458

Effect of increase/(decrease) on consolidated subsidiaries:

- (1) For the year ended March 31, 2007, at the time of acquiring shares in newly consolidated subsidiaries, its assets and liabilities, the cost of the share acquisition, and the net proceeds from the acquisition of the shares were as follows:

Open Techno Co., Ltd.

Current assets:	440
Non-current assets:	44
Goodwill:	378
Current liabilities:	(296)
Non-current liabilities:	(60)
Cost of share acquisition of Open Techno Co., Ltd.	506
Cash and cash equivalents	(241)
Net proceeds from the acquisition of the shares in newly consolidated subsidiary	265

Fines Co., Ltd.

Current assets:	289
Non-current assets:	80
Goodwill:	83
Current liabilities:	(201)
Non-current liabilities:	-
Cost of share acquisition of Fines Co., Ltd.	251
Cash and cash equivalents	(193)
Net proceeds from the acquisition of the shares in newly consolidated subsidiary	58

- (2) For the year ended March 31, 2006, at the time of acquiring shares in newly consolidated subsidiaries, its assets and liabilities, the cost of the share acquisition, and the net proceeds from the acquisition of the shares were as follows:

Asahi Kasei Information Systems, Co., Ltd., AJS Software co., Ltd.

Current assets:	4,496
Non-current assets:	1,875
Goodwill:	305
Current liabilities:	(2,919)
Non-current liabilities:	(128)
Minority Interests	(1,629)
Cost of share acquisition of Asahi Kasei Information Systems, Co., Ltd.	2,000
Cash and cash equivalents	(13)
Net proceeds from the acquisition of the shares in newly consolidated subsidiaries	(1,987)

- (3) For the year ended March 31, 2005, at the time of acquiring shares in newly consolidated subsidiaries, its assets and liabilities, the cost of the share acquisition, and the net proceeds from the acquisition of the shares were as follows:

UFIT Co., Ltd., CST co., Ltd., CSA co., Ltd. and System support Co., Ltd.

Current assets:	20,095
Non-current assets:	14,650
Current liabilities:	(14,042)
Non-current liabilities:	(10,251)
Minority Interests	(4,941)
Cost of share acquisition of UFIT Co., Ltd.	5,511
Cash and cash equivalents	(6,102)
Net proceeds from the acquisition of the shares in newly consolidated subsidiaries	(591)

(4) For the year ended March 31, 2005, at the time of selling shares in the consolidated subsidiary, Brandy International Inc., its assets and liabilities were as follows:

Brandy International Inc.

Current assets:	397
Non-current assets:	117
Total assets	514
Current liabilities:	(181)
Non-current liabilities:	(32)
Total liabilities	(213)

Major non-cash transactions:	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	(Note 3) 2007
(1) Conversion of convertible bonds				
Convertible bonds converted into common stock	¥ -	¥ 0	¥ 0	\$ -
Convertible bonds converted into additional paid-in capital	-	0	0	-
Decrease in convertible bonds	¥ -	¥ 1	¥ 1	\$ -
(2) Increase in investment securities due to dissolution of employee retirement fund	¥ -	¥ -	¥ 1,431	\$ -
(3) Amount offset against long-term debt and allowance for doubtful accounts	¥ -	¥ 135	¥ 328	\$ -

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 seven overseas 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

(1) Principles of consolidation

The Company had 24 and 23 subsidiaries (controlled or majority-owned companies) as of March 31, 2007 and 2006, 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-end is 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 11 (10 in 2006) affiliates are accounted for using the equity method.

(2) 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, 2007 and 2006, are as follows.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Cash and time deposits	¥ 22,971	¥ 23,266	\$ 194,589
Marketable securities	1,813	2,208	15,358
Total	24,784	25,474	209,947
Time deposits with original maturity over three months	(30)	(271)	(256)
Investment securities with original maturity over three months	(500)	-	(4,233)
Cash and cash equivalents	¥ 24,254	¥ 25,203	\$ 205,458

(3) Valuation of securities

Available-for-sale securities for which market quotations are available are stated at the 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 **net assets** and shareholders' equity, 2007 and 2006, respectively, 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.

Held-to-maturity debt securities are stated amortized cost.

(4) Valuation of derivatives

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.

The table below lists contract amounts and fair values of derivatives as at March 31, 2007 and 2006, by transactions and type of instrument, excluding derivatives eligible for hedge accounting.

For the year ended March 31, 2007

Interest Rate Swaps (Millions of yen)

Category	Item	Contract amount	Contract amount: Period more than one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Interest rate swaps	1,000	—	(5)	(5)
Total		1,000	—	(5)	(5)

Interest Rate Swaps (Thousands of U.S. dollars (Note 3))

Category	Item	Contract amount	Contract amount: Period more than one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Interest rate swaps	8,471	—	(47)	(47)
Total		8,471	—	(47)	(47)

Equity Derivatives (Millions of yen)

Category	Item	Contract amount	Contract amount: Period more than one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	The Borrowing stock with call option	607	—	8	(1)
Total		607	—	8	(1)

Equity Derivatives (Thousands of U.S. dollars (Note 3))

Category	Item	Contract amount	Contract amount: Period more than one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	The Borrowing stock with call option	5,146	—	68	(6)
Total		5,146	—	68	(6)

For the years ended March 31, 2006

Interest Rate Swaps (Millions of yen)

Category	Item	Contract amount	Contract amount: Period more than one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Interest rate swaps	1,000	1,000	(10)	(10)
Total		1,000	1,000	(10)	(10)

(5) Allowance for doubtful accounts

An allowance for doubtful accounts is created 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 poor financial condition or insolvency.

(6) Allowance for bonuses to directors and employees

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

(7) Accrued contract losses

When the Group is able to estimate a loss reasonably, it provides an allowance for the estimated future losses on software development project orders which received with a high probability that a loss will occur in the future.

(8) Inventories

Merchandise is stated at cost, determined mainly by the first-in, first-out method. Work in process is determined by the specific-cost method.

(9) Property and equipment

Buildings and structures have been depreciated using mainly the straight-line method; machinery and equipment have been depreciated using mainly 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.

Accounting Standard for Impairment of Property and Equipment

On August 9, 2002, the Business Accounting Council of Japan issued a new accounting standard entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets". Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6", "Application Guidance on Accounting Standards for Impairment of Fixed Assets". These standards are effective from the fiscal years beginning April 1, 2005.

The Group adopted these standards in the fiscal year ended March 31, 2006, with no significant effect on net income.

The accumulated impairment loss is deducted from the net book value of each asset.

Reduction of acquisition cost of property and equipment

Recognition of certain income including national government subsidies can be deferred by offsetting such income against the acquisition cost of corresponding property and equipment under the Japanese Income Tax Law. Based on this method, the book value of buildings and structures was reduced by ¥76 million (\$644 thousand) as of March 31, 2007 and 2006, respectively.

(10) Computer software

The Group 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 the estimated useful life of the software, which is in the range of three to five years.

ii) Computer software for sale

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

(11) 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.

(12) Allowance for retirement benefits to employees

The allowance for the Company's retirement benefits as of March 31, 2007, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that the unrecognized actuarial differences are amortized on a straight-line basis over nine to 18 years from the next year in which they arise. Prior service costs, are mainly charged to income when incurred.

The Company and certain of its consolidated subsidiaries revised their retirement benefit systems as follows.

On January 1, 2005, the Ministry of Health, Labor and Welfare permitted that the past substitutional portion of the TIS Welfare Pension Fund was to be returned to the government, and the remaining portion of the fund was integrated.

Following a revision to its existing retirement benefit and pension system, those who were participating in "the TIS Welfare Pension Fund" adopted a cash-balance (market-interest-linked) pension plan in January 2005, and adopted a newly defined contribution pension plan at the same time. The effect of the changes was to decrease projected benefit obligations by ¥5,857 million, while contributions to the defined contribution pension plan amounted to ¥2,517 million.

According to this revision of the retirement benefit plan, a subset of the funded contributory pension plan was terminated, and there was a large decrease in the retirement benefit obligation resulting from the revision. The corresponding unrecognized actuarial difference, amounting to ¥1,488 million, was wholly amortized for the year ended March 31, 2005.

As a result of the above revisions, "Settlement gain from the revisions of retirement benefit plan for employees", amounting to ¥1,834 million, was recognized for the year ended March 31, 2005.

(13) Allowance for retirement benefits to directors

Prior to April 1, 2004, retirement payments for directors and corporate auditors of the Company and certain of its domestic consolidated subsidiaries were charged to income when paid. Effective April 1, 2004, the companies changed their accounting method to provide for retirement benefits for directors and corporate auditors on an accrual basis. The liability is provided for amount that companies would be required to pay in accordance with their internal regulations if all directors and corporate auditors were to retire at the balance sheet date.

The effect of this change was to increase selling, general and administrative expenses by ¥164 million, and to increase other expenses by ¥868 million.

As a result, "operating income" and "income before income taxes and minority interests" for the year ended March 31, 2005, decreased by ¥760 million, as compared with applying the former accounting method.

(14) Income taxes

The 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.

(15) 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 of the end of each fiscal 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 fiscal 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 fiscal 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 constitutes a part of appropriations cited above 2006 and 2005.

(16) Net (loss) /income and cash dividends per share

The basis for the calculation of net (loss)/ income per share for the years ended March 31, 2007, 2006 and 2005 is as follows;

For the years ended March 31, 2007

	<u>Net loss per share</u>	Thousands of U.S. dollars (Note 3)
	Millions of yen	
Net loss	¥ (818)	\$ (6,931)
Directors' and corporate auditors' bonuses	-	-
Net loss pertaining to common shareholders	¥ (818)	\$ (6,931)
Average outstanding shares of common stock	45,316 thousand shares	

Diluted amounts per share are not included for the year ended March 31, 2007 due to the net loss records.

For the years ended March 31, 2006

Net income per share

	Millions of yen
Net income	¥ 5,893
Directors' and corporate auditors' bonuses	(105)
Net income pertaining to common shareholders	¥ 5,788
Average outstanding shares of common stock	45,312 thousand shares

Net income per share (fully diluted)

	Millions of yen
Adjustment to net income;	
Interest expenses (net of tax)	¥ 20
Bond conversion expenses (net of tax)	¥ 15
Increase number of shares;	
Convertible bonds	2,883 thousand shares
Stock options	65 thousand shares

For the years ended March 31, 2005

Net income per share

	Millions of yen
Net income	¥ 7,258
Directors' and corporate auditors' bonuses	(129)
Net income pertaining to common shareholders	¥ 7,129
Average outstanding shares of common stock	45,300 thousand shares

Net income per share (fully diluted)

	Millions of yen
Adjustment to net income;	
Interest expenses (net of tax)	¥ 24
Bond conversion expenses (net of tax)	¥ 19
Increase number of shares;	
Convertible bonds	3,457 thousand shares
Stock options	217 thousand shares

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

(17) 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 net assets for the year ended March 31, 2007 and shareholders' equity, 2006 and 2005.

(18) Hedge accounting

The subsidiary uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are principally utilized by the subsidiary to reduce the risks arising from the above factors. The subsidiary does 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 is accrued and included in interest expense or income. This is permitted under accounting principles generally accepted in Japan.

(19) Consumption taxes

The consumption taxes withheld by the Company and its domestic subsidiaries on revenues and the consumption taxes paid by the Company and its domestic subsidiaries 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.

(20) Research and development costs

Research and development costs are expensed as incurred.

(21) Reclassification of accounts

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

(22) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥80,218 million.

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006.

(23) Accounting standard for directors' bonuses

Effective from the year ended March 31, 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No.4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

As a result of the application of this standard, operating loss, ordinary income and income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥34million, respectively.

(24) Accounting standard for business combinations and accounting standard for business divestitures and the related implementation guidance

Effective from the year ended March 31, 2007, the Company applied "Accounting standard for business combinations" (Accounting Standards issued on October 31, 2003 by the Business Accounting Council in Japan), "Accounting standard for business divestitures" (Accounting Standards Board of Japan Statement No.7) and "Implementation guidance on Accounting standard for business combinations and Accounting standard for business divestitures" (Accounting Standards Board of Japan Guidance No.10) both issued on December 27, 2005 by the Accounting Standards Board of Japan.

(25) Amortization of goodwill/(negative goodwill)

Previously, net amortization of goodwill on the asset side and amortization of negative goodwill on the liabilities side was recorded on the Statement of Income. However, following the revision of rules for consolidated statements in Japan, the Company presents amortization of goodwill under selling, general and administrative expenses and amortization of negative goodwill under other income, from the year ended March 31, 2007.

Owing to the separate booking of these amounts, the decrease in the Company's operating loss grew by ¥775 million for the year ended March 31, 2007. There had no impact on income before income tax and minority interests for the year ended March 31, 2007.

(26) Accounting standard for stock options

Effective from the year ended March 31, 2007, the Company applied "Accounting for subscription rights to shares and for bonds with subscription rights to shares" (Accounting Standards Board of Japan Statement No.8 issued on December 27, 2005) and "Implementation guidance for Accounting standard for share-based payment" (Accounting Standards of Japan Guidance No.11 issued on May 31, 2006).

The application of this standard and guidance had no impact on operating loss, ordinary income and income before income taxes and minority interests for the year ended March 31, 2007.

(27) Change in sales to net basis in consolidated subsidiary

Toyo Network Services Corporation, a consolidated subsidiary, is engaged in comprehensive private leased circuit services which include application and payment services and data backup.

Recently, its main business has shifted to payment services due to declining new application services. In response to changes in the market environment and "Issues related to auditing information service industry" published by the Japanese Institute of Certified Public Accountants on March 11, 2005, and "Financial and accounting issues related to information service industry, and measures" published by the Ministry of Economy, Trade and Industry on August 11, 2005, the Group changed its method of accounting for sales from customers and cost of sales to communication common carrier (type I), from grossing up sales and cost of sales to netting them to represent gains or losses, effective from the year ended March 31, 2006. This change was made to clarify actual profit from operations and current business status. As a result, net sales and cost of sales decreased by ¥5,926 million (\$50,447 thousand), compared with the amounts based that would have been obtained using the previous method for the year ended March 31, 2006.

This had no effect on gross profit, operating income, or income before income taxes and minority interests for the year ended March 31, 2006.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.05=U.S. \$1, the rate of exchange on March 31, 2007, 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 amount on consolidated balance sheet, fair value and difference for held-to-maturity debt securities with fair value as of March 31, 2007 was as follows:

(Millions of yen)				
	Type	The amount on consolidated balance sheet	Fair market value	Difference
With fair market value exceeding the amount on consolidated balance sheet	Government bonds	700	701	1
	Subtotal	700	701	1
With fair market value not exceeding the amount on consolidated balance sheet	Government bonds	500	499	(1)
	Subtotal	500	499	(1)
Total		1,200	1,200	(0)

(2) The cost, book value and unrealized gain or loss on available-for-sale securities with fair value as of March 31, 2007 and 2006, were as follows:

Description	Millions of yen		
	2007		
	The amount on consolidated balance sheet	Book value (Fair market value)	Unrealized gain (loss)
Case 1 Shares	¥ 3,992	¥ 14,615	¥ 10,623
Corporate bonds	100	100	0
	4,092	14,715	10,623
Case 2 Shares	¥ 1,584	¥ 1,431	¥ (153)
Corporate bonds	600	598	(2)
	2,184	2,029	(155)
Total	¥ 6,276	¥ 16,744	¥ 10,468

Description	Thousands of U.S. dollars (Note 3)		
	2007		
	The amount on consolidated balance sheet	Book value (Fair market value)	Unrealized gain (loss)
Case 1 Shares	\$ 33,814	\$ 123,801	\$ 89,987
Corporate bonds	847	848	1
	34,661	124,649	89,988
Case 2 Shares	\$ 13,420	\$ 12,123	\$ (1,297)
Corporate bonds	5,082	5,068	(14)
	18,502	17,191	(1,311)
Total	\$ 53,163	\$ 141,840	\$ 88,677

Description	Millions of yen		
	2006		
	The amount on consolidated balance sheet	Book value (Fair market value)	Unrealized gain (loss)
Case 1 Shares	¥ 4,346	¥ 20,602	¥ 16,256
Corporate bonds	100	101	1
	4,446	20,703	16,257
Case 2 Shares	¥ 16	¥ 16	¥ (0)
Corporate bonds	600	594	(6)
	616	610	(6)
Total	¥ 5,062	¥ 21,313	¥ 16,251

Note:

Case 1: Fair market value exceeds the amount on consolidated balance sheet.

Case 2: Fair market value does not exceed the amount on consolidated balance sheet.

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
	Proceeds from sales of available-for-sale securities	¥ 1,714	¥ 2,310
Realized gain	690	1,752	5,843
Realized loss	-	9	-

(4) Book value of major securities which are not subject to revaluation as of March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
	Unlisted stocks	¥ 11,750	¥ 11,340
MMF, etc.	1,313	2,208	11,125
Investment in partnerships	594	3,205	5,028
	¥ 13,657	¥ 16,753	\$ 115,692

(5) Schedule for redemption of available-for-sale securities with maturity and held-to-maturity debt securities as of March 31, 2007.

	Millions of yen			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds	200	1,001	-	-
Corporate bonds	300	398	-	-
	500	1,399	-	-

	Thousands of U.S. dollars (Note 3)			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds	1,691	8,474	-	-
Corporate bonds	2,542	3,374	-	-
	4,233	11,848	-	-

5. Goodwill and Negative goodwill

Negative goodwill on non-current liabilities indicates net amount which offset goodwill and negative goodwill as follows:

(Millions of yen)	
Goodwill	¥706
Negative goodwill	2,048
Net	¥1,342

6. Revaluation of land

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 liabilities for land revaluation" and the remaining balance presented under net assets at March 31, 2007 and shareholders' equity at March 31, 2006 as "loss on land revaluation" in the accompanying consolidated balance sheets.

Revaluation of the land was determined based on the official 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 ¥78 million (\$664 thousand) and ¥240 million at March 31, 2007 and 2006, respectively.

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

Short-term bank loans and long-term debt from banks at March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Short-term bank loans, with an average interest rate of 1.46% and 1.00%, respectively	¥ 2,283	¥ 2,118	\$ 19,339
Loans principally from banks and other financial institutions, with an average interest rate of 0.89% and 1.09%, respectively	10,054	15,115	85,168
0.65% Unsecured bonds, due 2006	-	220	-
0.3% Unsecured convertible bonds, due 2007	9,999	9,999	84,701
0.399% Unsecured bonds, due 2012	7,500	7,500	63,532
	29,836	34,952	252,740
Less: current portion of long-term debt	12,556	5,638	106,358
	¥ 17,280	¥ 29,314	\$ 146,382

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2007, were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 3)
2009	¥ 3,314	\$ 28,070
2010	2,169	18,377
2011	2,014	17,063
2012	-	-
	¥ 7,497	\$ 63,510

The assets pledged as collateral for short-term bank loans (¥30 million) at March 31, 2007 and 2006, respectively, were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Buildings and structures	¥ 29	¥ 31	\$ 250
Land	8	8	65
Investment in securities	-	178	-

8. Income Taxes

(a) The components of deferred tax assets and liabilities as of March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Deferred tax assets:			
Accrued enterprise tax	¥ 234	¥ 188	\$ 1,984
Non-deductible portion of allowance for bonuses to employees	2,443	2,406	20,693
Non-deductible portion of depreciation	1,000	859	8,468
Tax loss carry forward	1,013	976	8,586
Non-deductible portion of long-term accrued defined contribution pension plans	269	516	2,277
Allowance for retirement benefits to employees	1,182	1,357	10,019
Allowance for retirement benefits to directors	358	373	3,031
Write down of investments in shares	1,236	827	10,472
Write down of inventories	2,160	455	18,297
Accrued contract losses	2,091	-	17,711
Others, net	968	1,555	8,203
	12,954	9,512	109,741
Less—Valuation allowance	(2,455)	(1,916)	(20,800)
	10,499	7,596	88,941

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Deferred tax liabilities:			
Reserve for development of computer programs	231	248	1,959
Gain on contribution of securities to pension fund	304	304	2,579
Prepaid pension expenses	600	645	5,078
Unrealized gain on available-for-sale securities	4,882	7,240	41,354
Others, net	69	95	590
	6,086	8,532	51,560
Net deferred tax assets	¥ 4,413	¥ (936)	\$ 37,381

Deferred income taxes at March 31, 2007 and 2006, are reflected in the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets—Deferred tax assets	¥ 7,585	¥ 3,847	\$ 64,255
Investments and Other			
Assets—Deferred tax assets	879	950	7,451
Current liabilities—Other	(0)	(7)	(8)
Non-Current liabilities—Deferred tax liabilities	(4,051)	(5,726)	(34,317)
Net deferred tax assets	¥ 4,413	¥ (936)	\$ 37,381

- (b) The reconciliation between the statutory tax rate and the Company's effective tax rate as of March 31, 2007, 2006 and 2005, is as follows:

	2007	2006	2005
Statutory tax rate	40.7 %	40.7 %	40.7 %
Non-deductible expenses (such as entertainment expenses)	20.0	1.1	0.8
Non-taxable income (such as dividend income)	(10.1)	(0.5)	(1.0)
Tax loss carry forward	-	-	2.1
Valuation allowance	80.6	7.7	(0.4)
Amortization of goodwill (negative goodwill)	(10.8)	(0.5)	1.8
Tax credit	(13.8)	(1.8)	(0.8)
Others, net	2.2	1.8	0.4
Effective tax rate	108.8%	48.5%	43.6%

9. Consolidated Statement of Changes in Net Assets For the Year ended March 31, 2007

- (a) Types of stock and treasury stock, and number of shares

(Thousand of shares)

	Number of shares at March 31, 2006	Increase in number of shares during the fiscal year ended March 31, 2007	Decrease in number of shares during the fiscal year ended March 31, 2007	Number of shares at March 31, 2007
Issued shares				
Common stock (Note 1)	45,324	2	-	45,326
Total	45,324	2	-	45,326
Treasury stock				
Common stock (Note 2)	9	1	-	10
Total	9	1	-	10

- Notes:
- The 2,000-share increase in common stock represents the issue of new shares through the exercise of stock acquisition rights.
 - The 1-share increase in common stock treasury stock reflects the purchase of full tangen units.

(b) Items regarding dividends

(1) Dividends paid

Resolution	Type of stock	Total dividends	Dividend per share	Record date	Effective date
General shareholders' meeting on June 23, 2006	Common stock	¥ 770 million	¥ 17.00	March 31, 2006	June 26, 2006
Directors' meeting on November 8, 2006	Common stock	¥ 453 million	¥ 10.00	September 30, 2006	December 8, 2006

(2) The effective date for dividends with a record date of March 31, 2007, shall be a date after the close of books for said consolidated period.

Resolution	Type of stock	Total dividends	Source of dividends	Dividend per share	Record date	Effective date
General shareholders' meeting on June 22, 2007	Common stock	¥ 770 million	Retained earnings	¥ 17.00	March 31, 2007	June 25, 2007

10. 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, 2007 and 2006

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Balance
March 31, 2007			
Machinery and vehicles	¥ 6,445	¥ 2,571	¥ 3,874
Equipment	6,106	3,505	2,601
Other	1,343	453	890
	¥ 13,894	¥ 6,529	¥ 7,365

	Thousands of U.S. dollars (Note 3)		
	Acquisition cost	Accumulated depreciation	Balance
March 31, 2007			
Machinery and vehicles	\$ 54,599	\$ 21,782	\$ 32,817
Equipment	51,722	29,692	22,030
Other	11,381	3,840	7,541
	\$ 117,702	\$ 55,314	\$ 62,388

March 31, 2006	Millions of yen		
	Acquisition cost	Accumulated depreciation	Balance
Machinery and vehicles	¥ 7,325	¥ 4,022	¥ 3,303
Equipment	8,053	5,030	3,023
Other	1,233	536	697
	¥ 16,611	¥ 9,588	¥ 7,023

- (2) Amount of outstanding future lease payments at March 31, 2007 and 2006, including the interest portion, categorized by contractual maturity

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Within one year	¥ 3,161	¥ 3,216	\$ 26,774
Over one year	5,144	4,828	43,578
Total	¥ 8,305	¥ 8,044	\$ 70,352

- (3) Lease expenses, depreciation and interest expenses for the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Lease expense	¥ 3,163	¥ 3,654	¥ 3,348	\$ 26,795
Depreciation	2,875	3,425	2,718	24,353
Interest expenses	216	217	241	1,829

Depreciation is calculated using the straight-line method, the 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, 2007 and 2006, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Within one year	¥ 21	¥ 108	\$ 174
Over one year	14	26	119
Total	¥ 35	¥ 134	\$ 293

(Impairment loss)

There were no impairment losses allocated to the leased assets.

(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, 2007 and 2006

	Millions of yen		
March 31, 2007	Acquisition cost	Accumulated depreciation	Balance
Equipment	¥ 8,996	¥ 5,602	¥ 3,394
Software	2,493	1,326	1,167
	<u>¥ 11,489</u>	<u>¥ 6,928</u>	<u>¥ 4,561</u>

	Thousands of U.S. dollars (Note 3)		
March 31, 2007	Acquisition cost	Accumulated depreciation	Balance
Equipment	\$ 76,208	\$ 47,455	\$ 28,753
Software	21,122	11,235	9,887
	<u>\$ 97,330</u>	<u>\$ 58,690</u>	<u>\$ 38,640</u>

	Millions of yen		
March 31, 2006	Acquisition cost	Accumulated depreciation	Balance
Equipment	¥ 16,527	¥ 11,422	¥ 5,105
Software	3,158	1,659	1,499
	<u>¥ 19,685</u>	<u>¥ 13,081</u>	<u>¥ 6,604</u>

(2) The amount of outstanding future lease payments receivable at March 31, 2007 and 2006, which included the portion of interest, are categorized by contractual maturity.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Within one year	¥ 2,486	¥ 3,186	\$ 21,062
Over one year	2,815	4,239	23,845
Total	<u>¥ 5,301</u>	<u>¥ 7,425</u>	<u>\$ 44,907</u>

(3) Lease received, depreciation and interest income for the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Lease received	¥ 3,089	¥ 3,714	¥ 3,622	\$ 26,170
Depreciation	2,781	3,355	3,224	23,556
Interest income	257	368	407	2,177

(Impairment loss)

There were no impairment losses allocated to the leased assets.

11. Retirement Benefits

(1) Overview of retirement benefit plans

The Company and its consolidated subsidiaries have pension plans including a corporation pension plan based on the defined benefit pension law, a defined contribution pension plan, a welfare pension fund plan, a tax-qualified pension plan and an unfunded defined benefit plan with lump-sum payment.

The Company and certain of its consolidated subsidiaries changed their accounting method, as mentioned in "2. (13) Significant Accounting Policies: Allowance for retirement benefits to directors".

In addition, certain consolidated subsidiaries joined a welfare pension fund plan involving other companies. As it is impossible to reasonably calculate the amount of pension assets in the welfare pension fund attributable to contributions, the welfare pension fund is excluded from the calculation of the projected benefit obligation.

The value plan assets estimated based on the ratio of contribution payments was ¥5,724 million (US\$48,489 thousand) and ¥5,049 million as of March 31, 2007 and 2006, respectively.

(2) Funded status

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Projected benefit obligation	¥ (9,115)	¥ (10,312)	\$ (77,217)
Plan assets	8,808	8,718	74,615
Unfunded retirement benefits	(307)	(1,594)	(2,602)
Unrecognized net actuarial differences	449	1,241	3,801
Unrecognized net prior service costs	(1,098)	(1,592)	(9,299)
Allowance for retirement benefits to employees	(2,525)	(3,510)	(21,388)
Prepaid pension costs	1,569	1,564	13,288
Total	¥ (956)	¥ (1,946)	\$ (8,100)

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

(3) Components of the net periodic pension expense

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Service costs	¥767	¥718	¥1,123	\$6,500
Interest costs	225	231	357	1,904
Recognition of actuarial differences	133	198	316	1,127
Recognition of prior service costs	(109)	(125)	-	(927)
Contribution to defined contribution pension plan	457	327	82	3,873
Contribution to welfare pension fund plan	275	269	210	2,336
Contribution to smaller enterprise retirement allowance mutual aid	2	-	-	14
Expected return on plan assets	(262)	(195)	(227)	(2,219)
	1,488	1,423	1,861	12,608
Gain on the revision of retirement benefits	-	-	(1,834)	-
Net periodic pension expense	¥1,488	¥1,423	¥27	\$12,608

(4) Major assumptions used in calculating retirement benefits

	2007	2006	2005
Discount rates:	2 % to 2.5%	2 % to 2.5%	2 % to 2.5%
Rate of expected return on plan assets	1.5% to 2.5%	1.5% to 2.5%	1.5% to 2.5%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis	Straight-line basis

12. Stock Options

(a) Stock options granted and status thereof

(1) Detail of stock options

	2002	2003	2004	2005
Title and number of recipients	Directors 15 of the Company Employees 509 of the Company	Directors 18 of the Company Employees 530 of the Company Directors 3 of subsidiaries Employees 10 of subsidiaries	Directors 16 of the Company Employees 568 of the Company Directors 3 of subsidiaries Employees 14 of subsidiaries	Directors 16 of the Company Employees 605 of the Company Directors 2 of subsidiaries Employees 17 of subsidiaries
Number of stock options	370,400 shares of common stock	401,000 shares of common stock	425,600 shares of common stock	410,100 shares of common stock
Date of receipt	July 31, 2002	July 31, 2003	July 31, 2004	July 31, 2005
Conditions for ascertained claim	Continuous service from date of receipt (July 31, 2002) until exercise rights commence (July 1, 2004).	Continuous service from date of receipt (July 31, 2003) until exercise rights commence (July 1, 2005).	Continuous service from date of receipt (July 31, 2004) until exercise rights commence (July 1, 2006).	Continuous service from date of receipt (July 31, 2005) until exercise rights commence (July 1, 2007).
Requisite service period	In principle, the period beginning July 1, 2004 through December 31, 2007.	In principle, the period beginning July 1, 2005 through December 31, 2008.	In principle, the period beginning July 1, 2006 through December 31, 2009.	In principle, the period beginning July 1, 2007 through December 31, 2010.
Exercise period	From July 1, 2004 through December 31, 2007	From July 1, 2005 through December 31, 2008	From July 1, 2006 through December 31, 2009.	From July 1, 2007 through December 31, 2010.

(2) Stock options granted and status thereof

The table below shows the number of available stock options that were converted into shares during the fiscal year under review.

i. Number of stock options

	2002	2003	2004	2005
Before ascertained claim (shares)				
At the end of the previous consolidated fiscal year	—	—	383,200	388,000
Granted				
Forfeited	—	—	—	14,800
Claim ascertained	—	—	383,200	
Outstanding	—	—		373,200
After ascertained claim (shares)				
At the end of the previous consolidated fiscal year	320,600	353,700	—	—
Claim ascertained			383,200	
Rights exercised	—	2,400	—	—
Forfeited	11,800	11,600	11,800	
Exercisable	308,800	339,700	371,400	—

ii. Price information

	2002	2003	2004	2005
Exercise price (yen)	3,562	2,750	4,750	4,014
Average exercise price (yen)	—	3,045	—	—
Fair value on date of receipt (yen)	—	—	—	—

13. 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, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Salaries	¥ 7,990	¥ 7,892	¥ 6,506	\$ 67,181
Bonuses	2,203	2,209	1,913	18,663
Depreciation and amortization	636	645	692	5,387
Net periodic pension expense	297	297	304	2,514
Provision for bonus reserve	508	437	388	4,300
Retirement benefits to directors	215	178	164	1,818

14. Research and Development Costs

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥239 million (US\$2,025 thousand), ¥245 million and ¥505 million for the years ended March 31, 2007, 2006 and 2005, respectively.

15. Segment Information

- (1) Industry segment information
The TIS Group responds 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.

16. Subsequent Events

At its meeting of the Board of Directors on June 12, 2007, the Board of Directors resolved that the Company would seek to procure funds totaling ¥15 billion.

A summary of the funding is as follows:

1. Syndicated Loan
 - a. Amount ¥8 billion
 - b. Draw-down date Early July
 - c. Term Seven years
 - d. Purpose Working capital
 - e. Lead arranger The Bank of Tokyo-Mitsubishi UFJ, Ltd.
2. Second Series of Straight Bonds
 - a. Total issue amount ¥7 billion
 - b. Issue date Early July
 - c. Redemption period Five years
 - d. Purpose Working capital

Report of Independent Auditors

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, 2006 and 2007, the related consolidated statements of income and cash flows for the each of the three years in the period ended March 31, 2007, the statements of retained earnings for each of the two years in the period ended March 31, 2006, and the statement of changes in net assets for the year ended March 31, 2007, 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, 2006 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period March 31, 2007 in conformity with accounting principles generally accepted in Japan.

As described in Note 2.(13), effective for the year ended March 31, 2005, TIS Inc. and its subsidiaries changed their accounting policy for the allowance for retirement benefits to directors.

As described in Note 2.(25), effective for the year ended March 31, 2007, TIS Inc. and its subsidiaries changed their accounting policy for the presentation of amortization of goodwill and negative goodwill.

As described in Note 16, TIS Inc. resolved that it would seek to procure funds through syndicated loan and straight bonds at its meeting of the Board of Directors on June 12, 2007.

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.

Misuzu Audit Corporation
Misuzu Audit Corporation

Tokyo, Japan
June 22, 2007

TIS Group (As of March 31, 2007)**Consolidated companies**

TIS System Service Inc.
TIS Total Service Co., Ltd.
TIS Leasing Co., Ltd.
Toyo Network Services Corporation
IT Research Inc.
TIS Solution Business Co., Ltd.
Qualica Inc.
Systems Engineering Laboratory Co., Ltd.
Lansa Japan Ltd.
Agrex Inc.
Open Techno Co., Ltd.
Finese Co., Ltd.
Systems Trust Co., Ltd.
UFIT Co., Ltd.
System Support Co., Ltd.
CSA Co., Ltd.
CST Co., Ltd.
AJS Inc.
AJS Software Co., Ltd.
TIS R&D Center, Inc.
TISI (USA), Inc.
TISI (Shanghai) Co., Ltd.
TIS North America Inc.
TKSOFT Singapore Pte Ltd.

Affiliates accounted for under the equity method

ENCODEX Japan Ltd.
M&T System Operations Co., Ltd.
E Lab
Hong Tu Financial Software (Shanghai) Co., Ltd.
DGT Information Systems Limited
Hontsuna Co., Ltd.
CRONOVA Co., Ltd.
ALMEC Co., Ltd.
UPSHE Co., Ltd.
Medical Toukei Co., Ltd.
BeBest International Co., Ltd.

Board of directors and auditors (As of June 22, 2007)**President**

Susumu Okamoto

Senior Managing DirectorsYukio Urata
Norio Maenishi**Managing Directors**Toru Kuwano
Nobuyoshi Sasaki
Satoshi Miyamoto**Directors**Mitsushi Nishida
Tatsuya Nishiyama
Yasuo Goto
Shohei Miyashita
Motomasa Moriya
Yuuichi Aida
Toshio Asano
Satoru Ebina
Akira Kato
Nobuyuki Yonezawa**Standing Corporate Auditor**

Kentaro Fukumoto

Corporate AuditorsOsamu Takemura
Jun Ito
Tamaki Tsuchiya**Corporate data**

(As of March 31, 2007)

Corporate NameTIS Inc.
<http://www.tis.co.jp/>**Established**

April 1971

Tokyo Head OfficeTIS 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: 8,693
Parent company: 2,684
(Number of employees indicates
employees who are engaged in
TIS and group companies at fiscal
year-end)**Paid-in Capital**

¥23,088 million

Common StockAuthorized: 82,400 thousand shares
Issued: 45,326 thousand shares**Number of Shareholders**

8,973

ListingsTokyo Stock Exchange,
Osaka Securities Exchange**Transfer Agent**Mitsubishi UFJ Trust and Banking
Corporation
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212,
Japan**Independent Certified
Public Accountants**

Misuzu 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 facts 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.