

Annual Report 2012

Year Ended March 31, 2012

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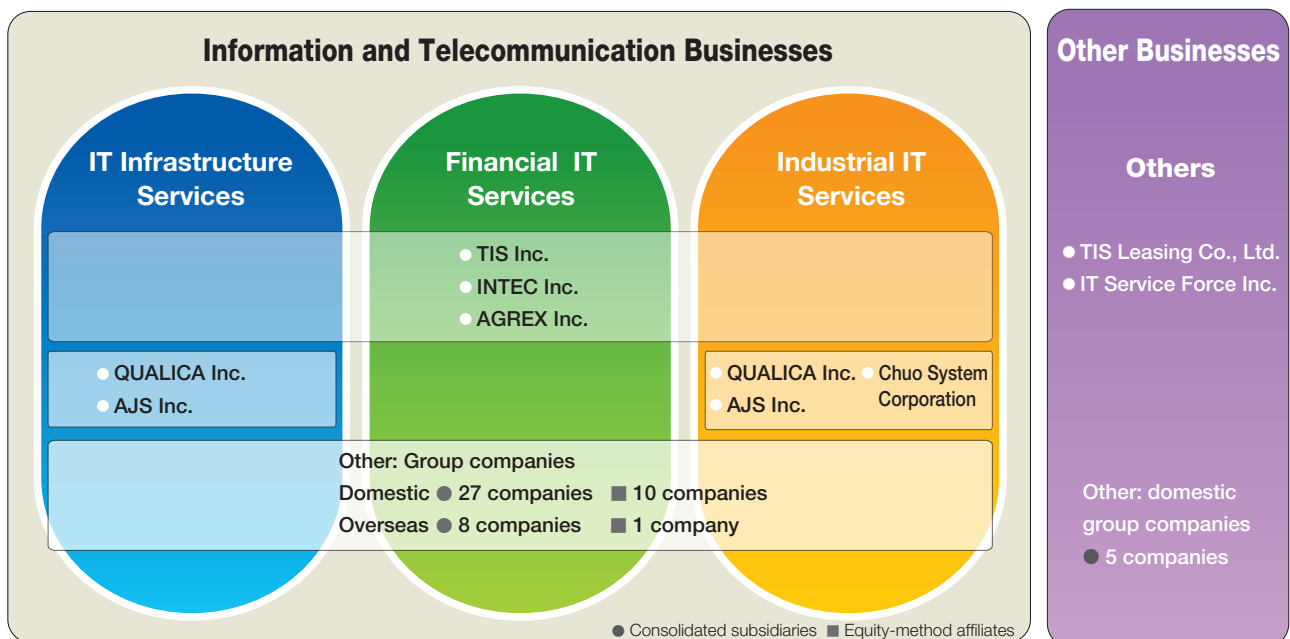
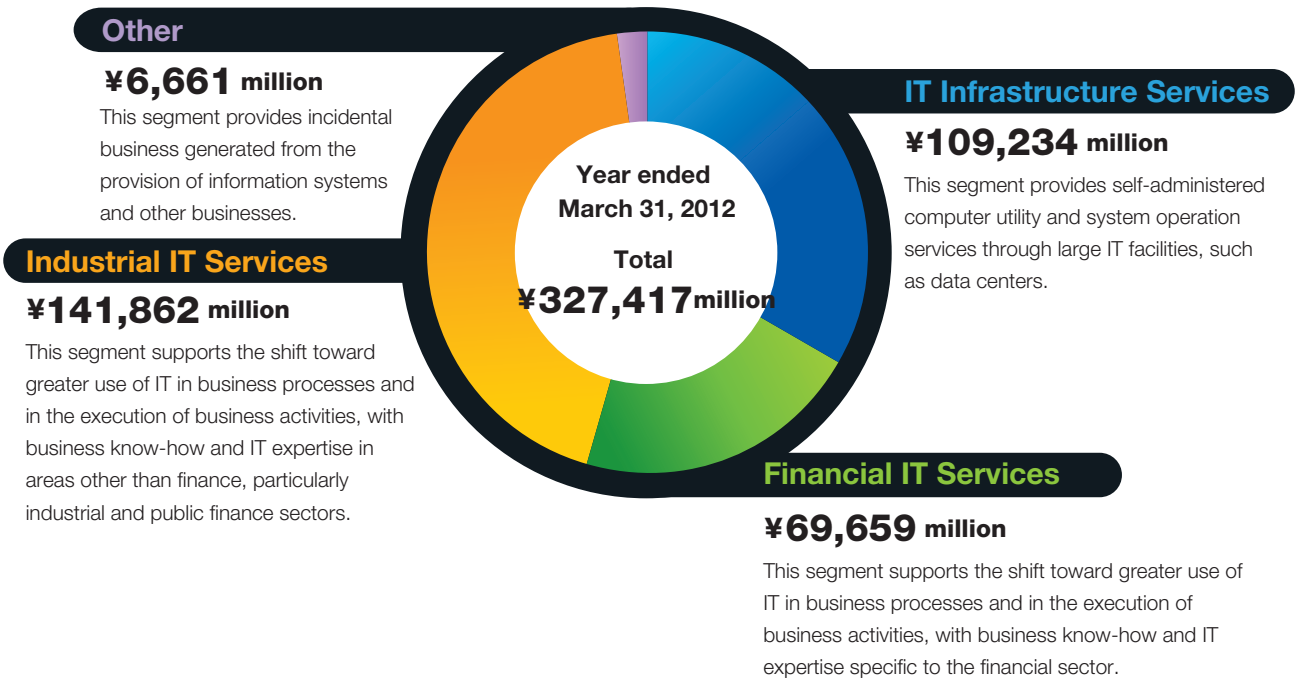
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Financial
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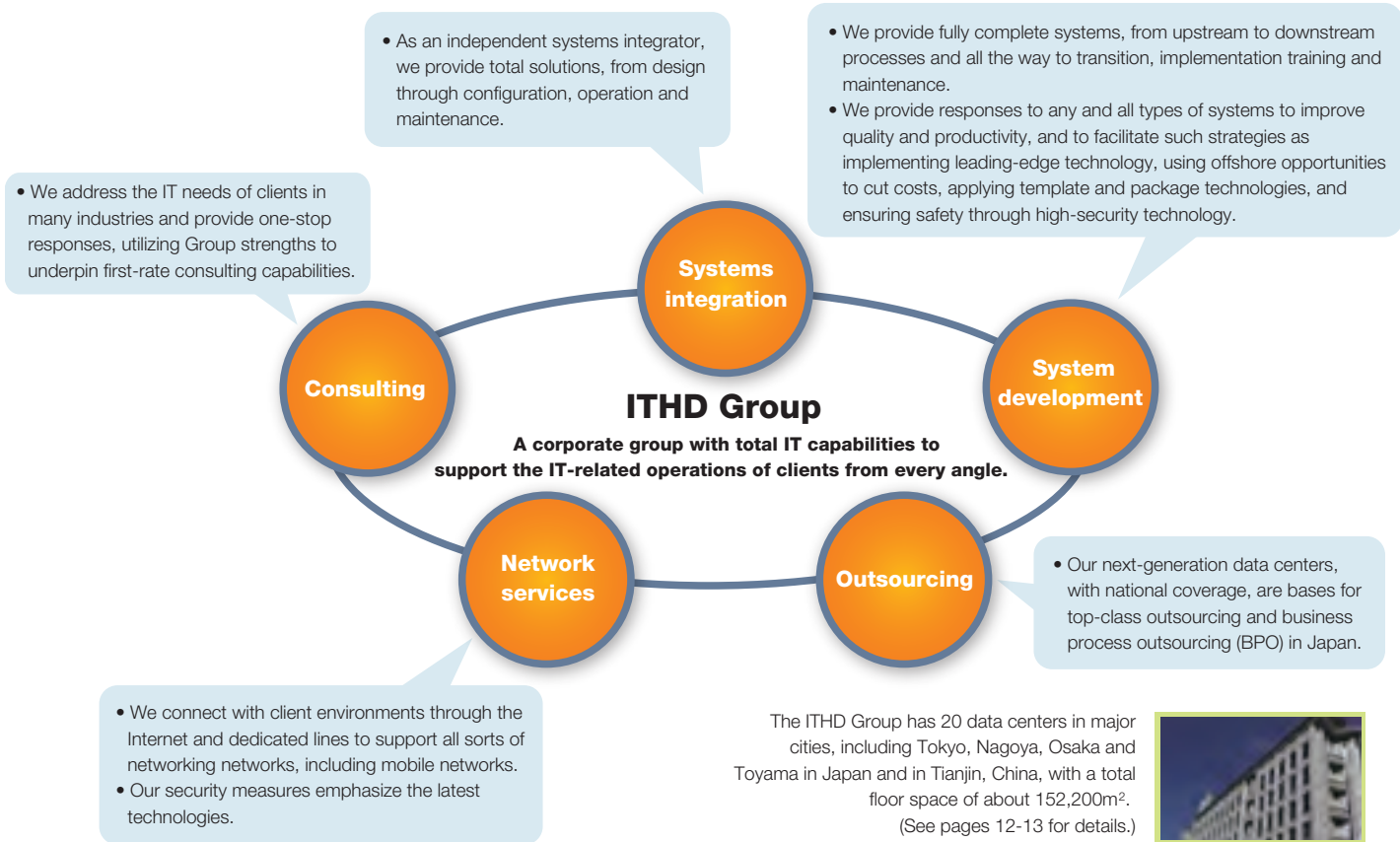
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Corporate
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What is the IT Holdings Group?

Formed in April 2008, the IT Holdings (ITHD) Group is made up of the top information technology (IT) companies in Japan. At its core are five principal operating companies, which underpin excellent responses to the needs of clients in a wide range of industry sectors. As of March 31, 2012, the Group comprised 59 companies—48 of which fell under the scope of consolidation and 11 of which are affiliated companies accounted for under the equity method—and net sales reached ¥327 billion.

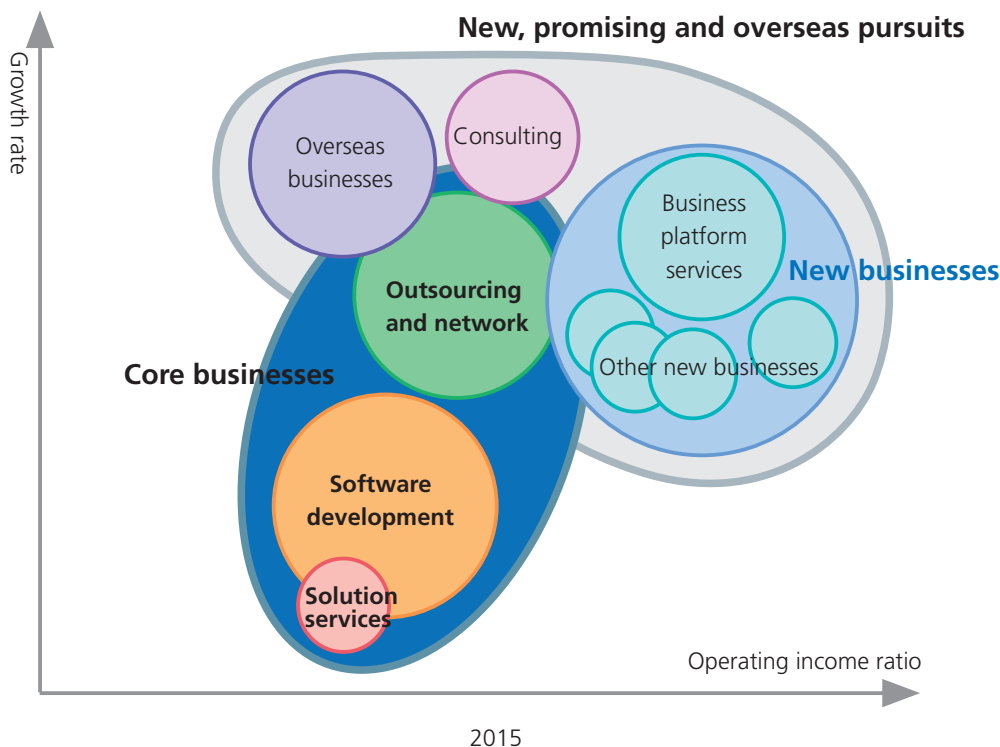
Net Sales by Business Segment (Sales to outside customers, excludes intersegment sales)





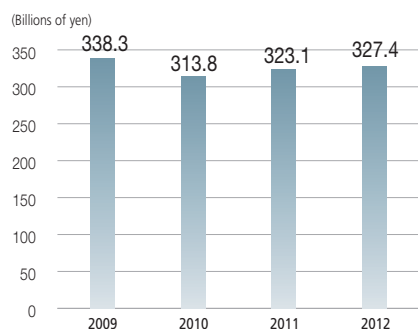
Future Targets

By 2015, the ITHD Group will have built a business portfolio geared for higher growth and higher profit by entrenching core businesses and establishing a presence in new businesses.



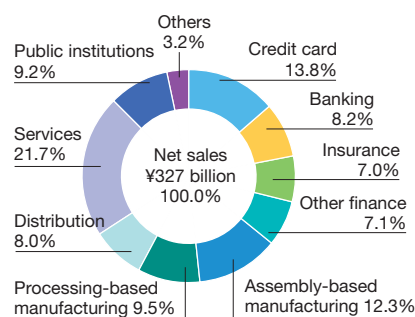
Years Ended March 31/ Consolidated

Net Sales

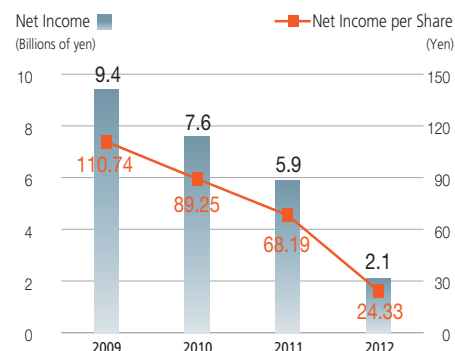


Net Sales by Client Sector

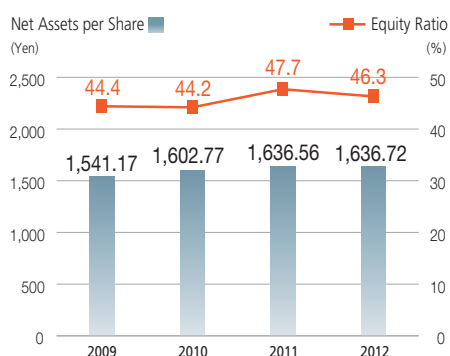
(Year ended March 31, 2012)



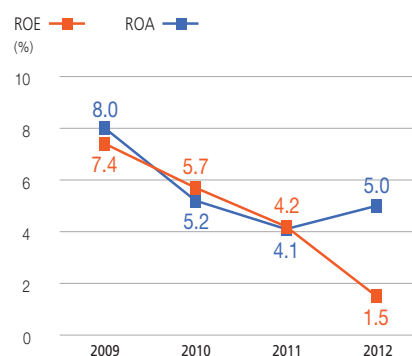
Net Income, Net Income per Share



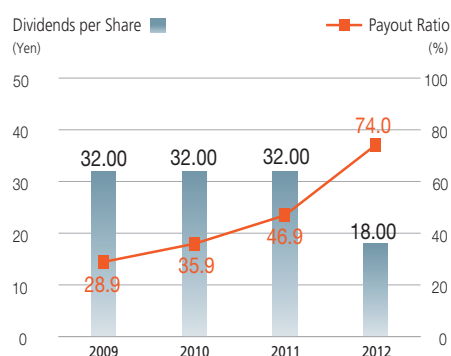
Net Assets per Share, Equity Ratio



ROE, ROA



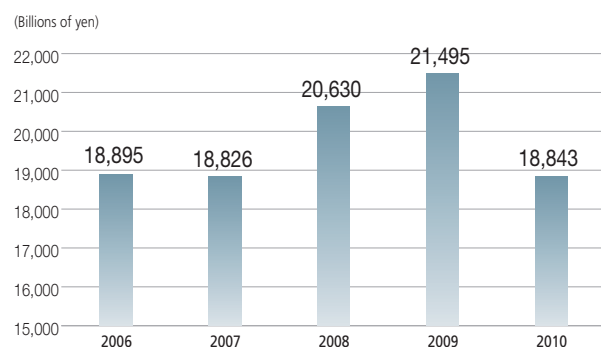
Dividends per Share, Payout Ratio



IT Services Industry Market Scale and Industry Position

ITHD belongs to the IT services industry. The Company is a leading, independent prime contractor, ranked as the industry's No. 2 system integrator on a consolidated sales basis.

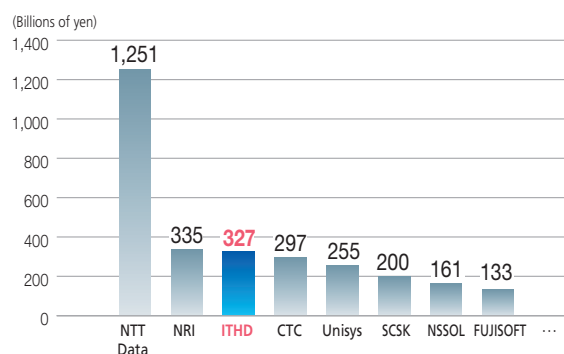
IT Services Industry Net Sales



Note: Japan Information Technology Services Industry Association classifies the software sector, the information processing services sector and the Internet-based service sector as the IT services industry.

Source: Data prepared by the Japan Information Technology Services Industry Association, based on the Ministry of Economy, Trade and Industry's "Survey of Selected Service Industries".

Net Sales of Japan's Leading IT Companies (Year ended March 31, 2012)



Note: The graph data indicates net sales of NTT Data Corporation, Nomura Research Institute, Ltd., ITOCHU Techno-Solutions Corporation, Nihon Unisys, Ltd., SCSK Corporation, NS Solutions Corporation, FUJISOFT Incorporated, and ITHD.

Consolidated Financial Summary

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31

	2009	2010	2011	2012	2012
	Millions of yen			Millions of yen	Thousands of U.S. dollars
Net sales	¥338,302	¥313,856	¥323,173	¥327,417	\$3,983,663
Cost of sales	272,944	254,827	261,145	266,159	3,238,338
Gross profit	65,357	59,029	62,027	61,258	745,325
Selling, general and administrative expenses	41,569	43,032	49,209	45,636	55,260
Operating income	23,787	15,996	12,818	15,621	190,065
Recurring profit	23,604	15,719	12,625	15,393	187,292
Net income	9,406	7,659	5,985	2,135	25,978
Current assets	140,799	141,967	128,455	142,442	1,733,089
Fixed assets	154,527	171,109	172,620	167,560	2,038,696
Total assets	295,327	313,077	301,076	310,003	3,771,786
Current liabilities	82,051	86,255	73,090	83,065	1,010,657
Non-current liabilities	67,058	71,746	76,875	75,972	924,347
Total liabilities	149,110	158,001	149,965	159,038	1,935,004
Net assets	146,216	155,075	151,110	150,965	1,836,781
Total liabilities and net assets	295,327	313,077	301,076	310,003	3,771,786
Total interest-bearing debt	80,532	91,646	77,454	96,515	1,174,301
Cash flow from operating activities	34,311	31,400	27,236	23,658	287,853
Cash flow from investing activities	-20,079	-25,726	-18,957	-15,158	-184,429
Cash flow from financing activities	-6,877	6,139	-18,755	-4,230	-51,468
Cash and cash equivalents at the end of the term	35,104	46,987	36,492	41,119	500,296
Free cash flow	14,232	5,674	8,279	8,500	103,423
Capital expenditures	13,139	15,676	18,325	14,096	171,517
Depreciation	10,996	11,978	12,308	12,745	155,078
Research and development expenses	946	912	1,062	962	11,711
Amortization of goodwill	1,149	1,389	1,901	1,882	22,902
Goodwill balance at the end of the term	5,053	6,863	5,551	3,672	44,679
Net income per share—basic (yen)	110.74	89.25	68.19	24.33	0.29
Net income per share—diluted (yen)	110.72	—	—	—	—
Dividends per share—diluted (yen)	32.00	32.00	32.00	18.00	0.21
Payout ratio (%)	28.9%	35.9%	46.9%	74.0%	—
Net assets per share (yen)	1,541.17	1,602.77	1,636.56	1,636.72	19.91
Interest-bearing debt ratio	27.3%	29.3%	25.7%	24.7%	—
Equity ratio (%)	44.4%	44.2%	47.7%	46.3%	—
Net income to equity capital ratio (ROE) (%)	7.4%	5.7%	4.2%	1.5%	—
Recurring profit to total assets ratio (ROA) (%)	8.0%	5.2%	4.1%	5.0%	—
Number of employees at the end of the term	15,259	20,476	20,831	20,347	—
Number of new-graduate recruits	919	974	928	649	—
Number of regular recruits	1,117	512	370	450	—

Notes: 1. The U.S. dollar amounts represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥82.19 to US\$1.

2. Total interest-bearing debt indicates the total sum of borrowed money and corporate bonds.

3. Free cash flows indicate the total sum of cash flows from operating activities and cash flows from investing activities.



Susumu Okamoto
President

We seek to demonstrate truly comprehensive capabilities and will constantly embrace reforms to achieve this goal.

The IT services industry is being reshaped in what could be called a paradigm shift, and the IT needs of our customers are becoming vastly different due to greater interest in services and accelerating globalization.

In this environment, we have established a platform to underpin business development, especially in Asia, highlighted by the opening of a state-of-the-art data center in Tianjin, China, and two representative offices, one in Singapore and one in Thailand. Meanwhile, in Japan we opened up flagship data centers in Tokyo and Toyama, and utilizing access to Japan's top-class data center resources, we responded to market demand for cloud computing and software as a system (SaaS) as well as global sourcing. Going forward, we will enhance our service provision structure to meet the increasingly global nature of our clients' business pursuits and strive to enrich our menu of marketable services, starting with cloud services.

The bold determination of each and every employee drives our growth, and we will reinforce our services from a new perspective, evolving as a corporate group with a greater sense of unity to demonstrate capabilities that are truly comprehensive in scope. We will seek depth in such activities as software development, where we boast proven results and top quality. As always, we will strive to sustain the confidence that clients have placed in us by aggressively entering new domains and adapting to changes in the operating environment.

Envisioning a future in which IT creates vitality in all industries and makes lives safe and comfortable, we will constantly embrace reforms to become better. The support and encouragement of our stakeholders is, as always, integral to success.

June 2012

Summary of Fiscal 2012

In fiscal 2012, ended March 31, 2012, the domestic economy initially showed signs of a gradual recovery after the Great East Japan Earthquake, but uncertainty remained, largely due to developments that unfolded from the summer onward, including the sovereign debt crisis and financial crisis in Europe as well as yen appreciation and the floods in Thailand. In the information services industry, to which we belong, a full-fledged recovery failed to materialize despite a positive attitude to IT investment among some clients, and our operating environment has changed significantly, reflecting a paradigm shift in recent years fueled by heightened interest in cloud computing.

Despite the challenging conditions, ITHD was able to achieve higher sales and higher income on a consolidated basis, thanks to the diligent efforts of its operating companies. Net sales reached ¥327,417 million, up 1.3% year-on-year, while operating income soared 21.9%, to ¥15,621 million. Unfortunately, net income tumbled 64.3%, to ¥2,135 million. We incurred one-time expenses of about ¥7.8 billion related to business restructuring in fiscal 2012, which was booked under extraordinary loss.

Looking Back on IT Evolution 2011, Our First Medium-term Management Plan

Since its establishment in April 2008, ITHD has expanded its business content, marked by the addition of SORUN Corporation to the Group as a subsidiary in December 2009, and then the merger of SORUN and UFIT Co., Ltd., into TIS, Inc., in April 2011.

In fiscal 2012—the last year of the first medium-term management plan—we set down a Group management policy and worked steadily to realize a resilient management structure through an emphasis on four management goals: to firmly establish a new Group formation, to reinforce the Group management foundation and profit structure, to achieve top-line expansion and growth of the contract outsourcing business, and to prepare for a shift to services- and solutions-oriented business through new investments.

1) Firmly establish a new Group formation

On April 1, 2011, TIS merged with SORUN and UFIT, and INTEC Inc. merged with Nippon System Gijutsu Co., Ltd., and INTEC Systems Institute, Inc., while IT Service Force Co., Ltd., and Web Office Co., Ltd., merged in a move to consolidate shared services companies within the Group.

In addition, TIS transferred its on-site service business to TIS Solution Link Inc. (formerly, CST Inc.) on October 1, 2011, and AJS Inc. merged with AJS Software Co., Ltd., its subsidiary.

Furthermore, two system operation service providers, TIS System Service Inc. and System Support Inc., merged on April 1, 2012.

2) Reinforce the Group management foundation and profit structure

A total of nine ITHD Group companies in the Tokyo area, including ITHD, moved their offices to a centralized location in Shinjuku-ku, Tokyo, so as to enhance cooperation between the companies, strengthen group governance and reduce fixed costs.

While Group companies were implementing measures to establish a firm management structure, TIS introduced a special career change support program paralleling companywide structural reforms aimed at maximizing merger synergies and the early improvement of business performance, in a comprehensive overhaul of the personnel structure and work assignments.

The ITHD Group made concerted efforts to prevent or at least rein in large-scale unprofitable projects which significantly affected profits in the previous fiscal year.

3) Achieve top-line expansion and growth of the contract outsourcing business

Over the past several years, the ITHD Group has gradually launched operations at next-generation data centers, including GDC Gotenyama and INTEC Manyo Square. We believe that these data centers will not only add value to customers' business models but also contribute to society by acting as BCP* centers in the event of large-scale disasters.

Given that existing customers in the financial sector continue to cut back on IT-related investment and large development projects, the Group pursued a wider presence in the industrial sector, where IT-related investment is expected to grow. Orders expanded favorably as steady implementation of measures to reinforce sales capabilities attracted new customers and brought in more small- to medium-sized projects.

* BCP (Business Continuity Plan): Enables a company to prevent interruption to vital operations in times of emergency, such as a disaster or an accident, and thereby maintain business to the fullest degree possible.

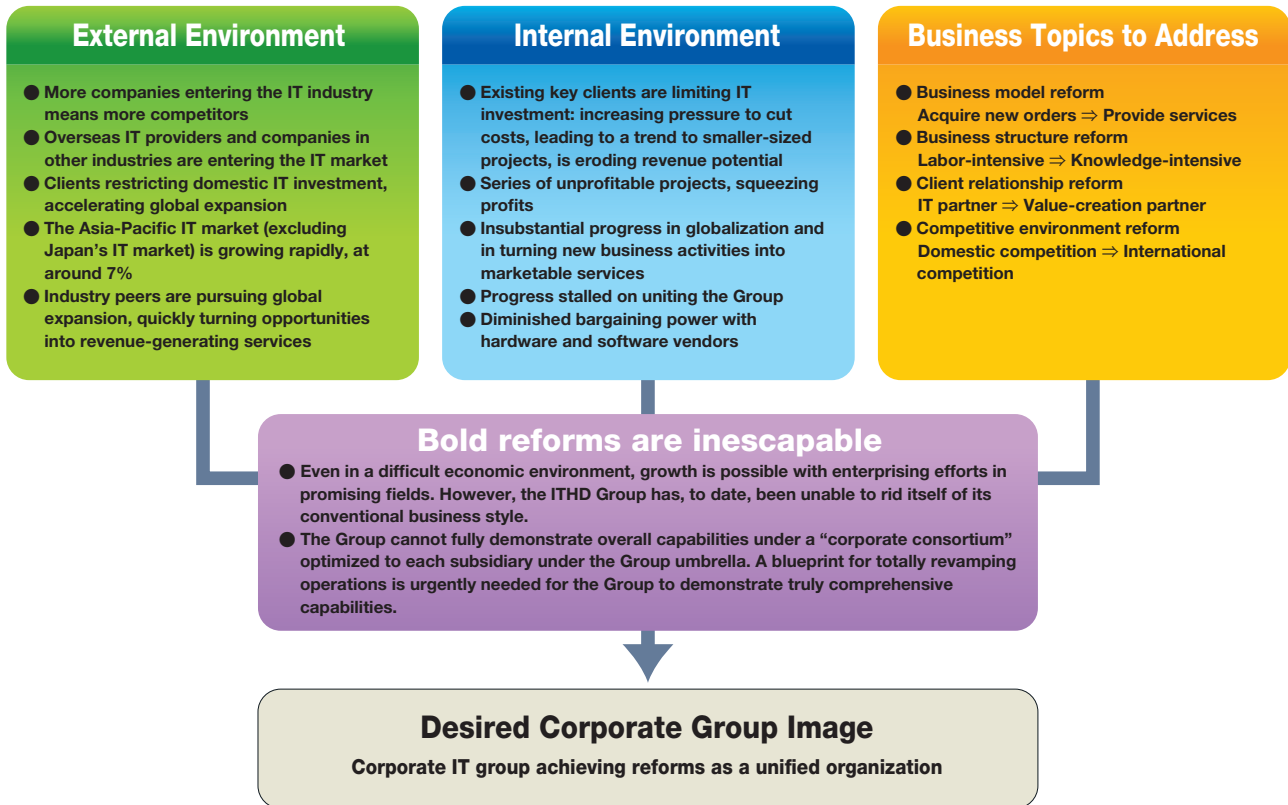
4) Prepare for a shift to services- and solutions-oriented business through new investments

In response to an industrywide trend toward services- and solutions-oriented business, ITHD has been driving forward development and expansion of multifaceted cloud services that leverage technologies and expertise accumulated over many years.

Major achievements in this effort include Call Crayons, a solution based on our own PhoneCookie® technology (patent pending) and aimed at enhancing contacts with customers by linking the Internet and telephone; expansion of cloud-compatible production control system AToMsQube in Japan and China; promotion of information distribution platform service Skyware, which is based on augmented reality technology, in the tourism industry and municipalities; and provision of mobile utilization platform service F³ Mobile Shield Center Service as an add-on of CRM system F³ (F cube) targeting local banks.

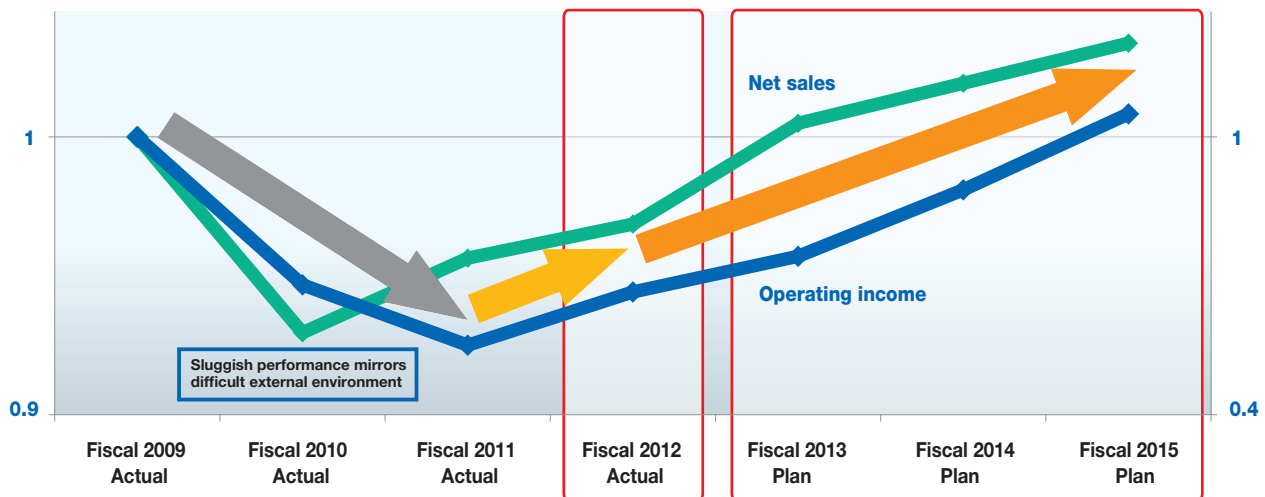
While promoting the strategies outlined above, the Group encountered challenges, namely, the dramatically performance-eroding effect of such external events as the Lehman shock, yen appreciation and natural disasters as well as internal factors, which unfortunately led to sluggish fiscal results. Consequently, the Group fell significantly short of the targets set by the Company in the IT Evolution 2011, which were net sales of ¥400 billion, operating income of ¥35 billion and an operating income to sales ratio of 8.8%.

Management has identified six key concerns that the Group must address: 1) Low consolidated net sales growth; 2) limited IT investment by core clients; 3) poor external evaluation and weakened brand power; 4) inefficient business investments (company basis); 5) redundant corporate functions; and 6) deteriorating Group governance capabilities. The key to solving these issues is none other than an ability to demonstrate truly comprehensive capabilities. Therefore, the theme of the second medium-term management plan must spotlight efforts to achieve reforms as a unified organization.



Placement of the Second Medium-term Management Plan

Below, net sales and operating income are indexed against fiscal 2009 results, denoted as 1.0.



Fiscal 2012

Implemented drastic structural reforms to facilitate medium-to long-term growth. Built resilient business structure.

- Made progress on realigning Group formation, kicked off by merger of SORUN and UFIT into TIS Inc.
- Executed relocation/concentration of Group offices into the Tokyo area.
- Introduced special career-change support program to underpin corporate restructuring at TIS.

Fiscal 2013 through Fiscal 2015

(Second Medium-term Management Plan)

Seek transformation guided by three basic concepts: "Top-Line Emphasis", "as One Company" and "Bold and Enterprising". Anticipate full-fledged V-shaped recovery and return to growth.

Second Medium-term Management Plan: Outline

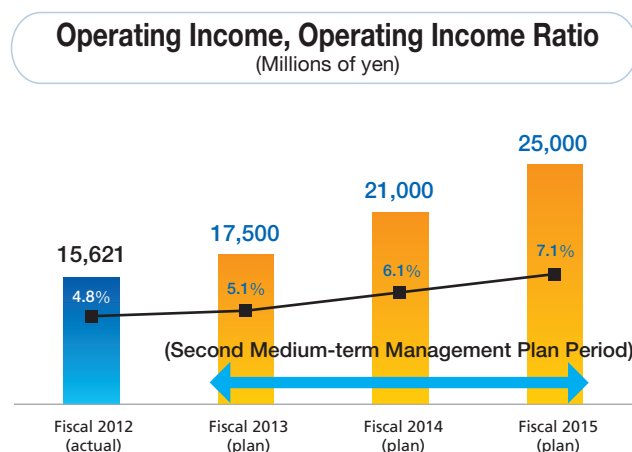
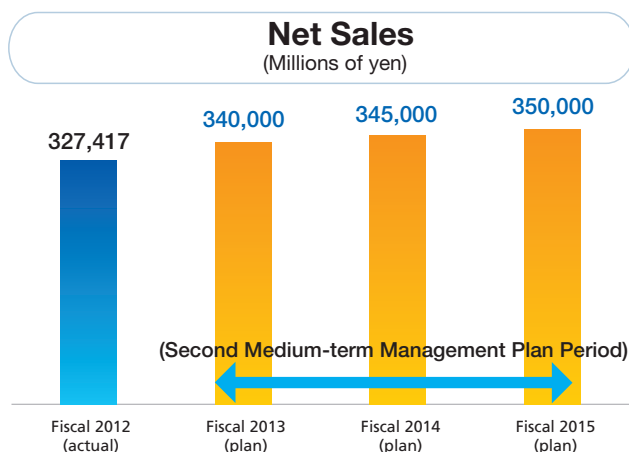
In April 2012, the Group embarked on a new three-year management plan under the banner “Brave Steps 2014.” This plan highlights three concepts—“Top-Line Emphasis,” “as One Company” and “Enterprising and Bold”—that will guide the Group, as a cohesive unit aiming for higher net sales, to thrive amid the paradigm shift that characterizes the IT services industry.

The plan lays out three business strategies—utilize existing businesses to overcome challenges, create markets through differentiated services, and secure an independent position in overseas markets—that will establish a firm footing in the industry and enable the Group to boldly pursue a presence in new business domains. (See page 11 for details.)

An underlying priority of the second medium-term management plan is to realign the Group. During the three years of Brave Steps 2014, we will unify the Group through organizational restructuring, eliminate redundant platform operations, realize optimum personnel assignments and flexible financial strategies, and demonstrate Group synergies and brand power. Numerical goals to be achieved by the end of fiscal 2015, on a consolidated basis, are net sales of ¥350 billion, operating income of ¥25 billion, an operating to net sales ratio above 7% and return-on-equity of 7.5%.

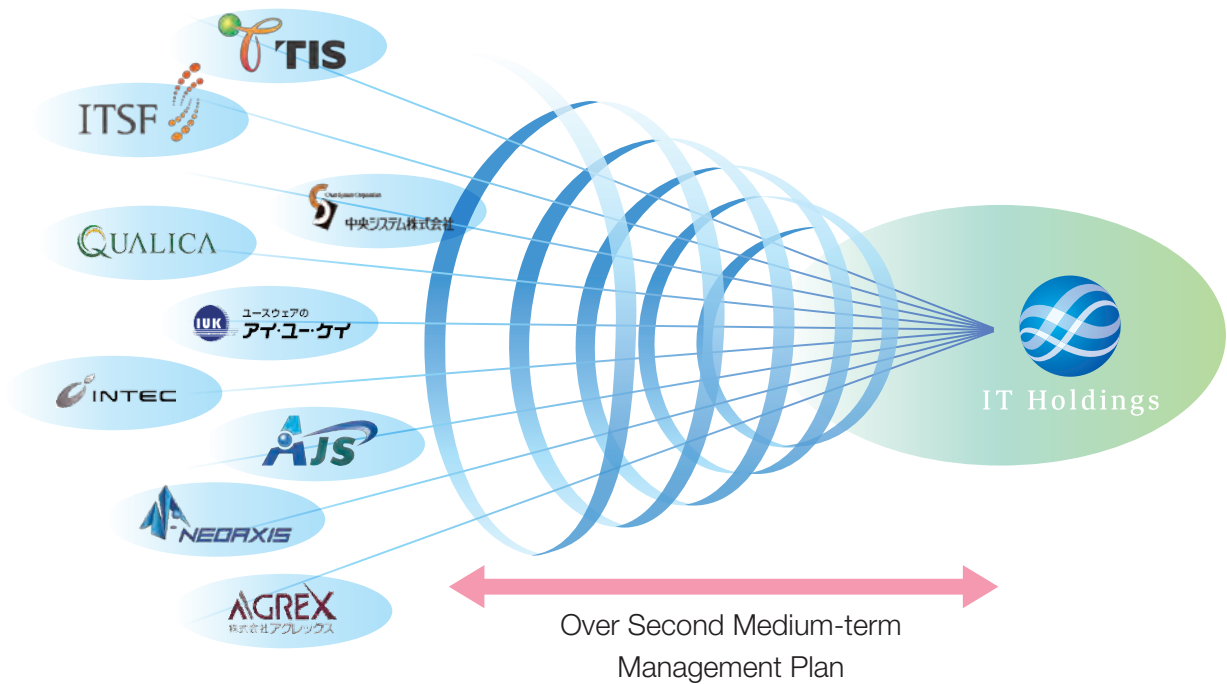
Second Medium-term Management Plan (April 2012 - March 2015) Taking on Transformation 「Brave Steps 2014」	
Basic Concepts	
Top-Line Emphasis	The IT market has shown signs of shrinking over the past few years. Nonetheless, we have endeavored to expand business with sales in mind. We will prioritize a commitment to growth—that is, achieve higher revenues—by all possible means.
As One Company	To realize a higher level of investment expertise and promote more robust business expansion, we will cultivate a group atmosphere that evokes a sense of unity and build a corporate collective centered on ITHD and acting as one company.
Enterprising and Bold	Dealing with paradigm shifts, such as globalization and the evolution of services, is not possible without an enterprising and bold resolve to take risks. We will prioritize a sense of courage in pursuing business activities.

Major Numerical Targets (to be achieved by March 2015)			
Net sales:	¥350 billion	Return on equity:	7.5%
Operating income:	¥25 billion	Credit rating:	Sustain A rating
Operating income to sales:	Above 7%		



Group Management Basic Strategies and Business Themes

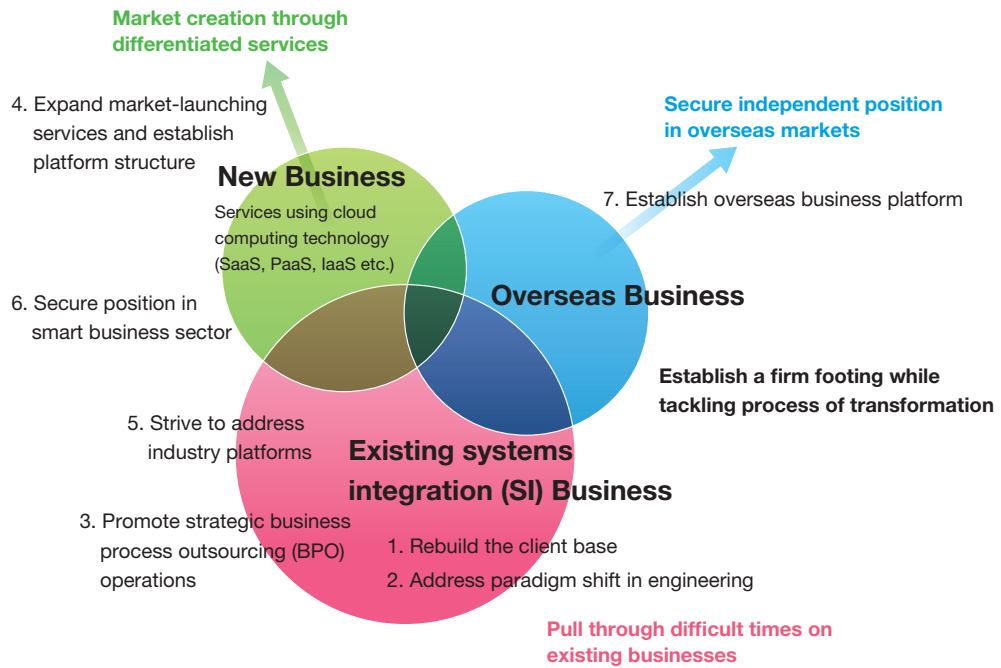
- 1** *Promote new Group formation*
Build structure that spotlights core businesses and growth segments.
- 2** *Cultivate shared groupwide spirit*
Establish ITHD College.
- 3** *Lay solid financial foundation to facilitate upfront investment activity*
Adopt consolidated tax and unified cash management system.
- 4** *Streamline and centralize corporate functions*
Expand the range and improve the quality of shared operations.
- 5** *Reinforce product brands and corporate image*
Make the names of services consistent.



This report contains forward-looking statements, including performance forecasts, based on information currently available to management of the ITHD Group—that is, ITHD and the subsidiaries under its umbrella—and reflect somewhat objective assumptions deemed reasonable at this time. In this regard, the Company does not promise to achieve forecasted results, and various factors may cause future results to be substantially different from those expressed or implied by forward-looking statements.

The Group's business strategies are described below.

Business Domains in the Spotlight



Business Strategy 1

Utilize existing businesses to overcome challenges

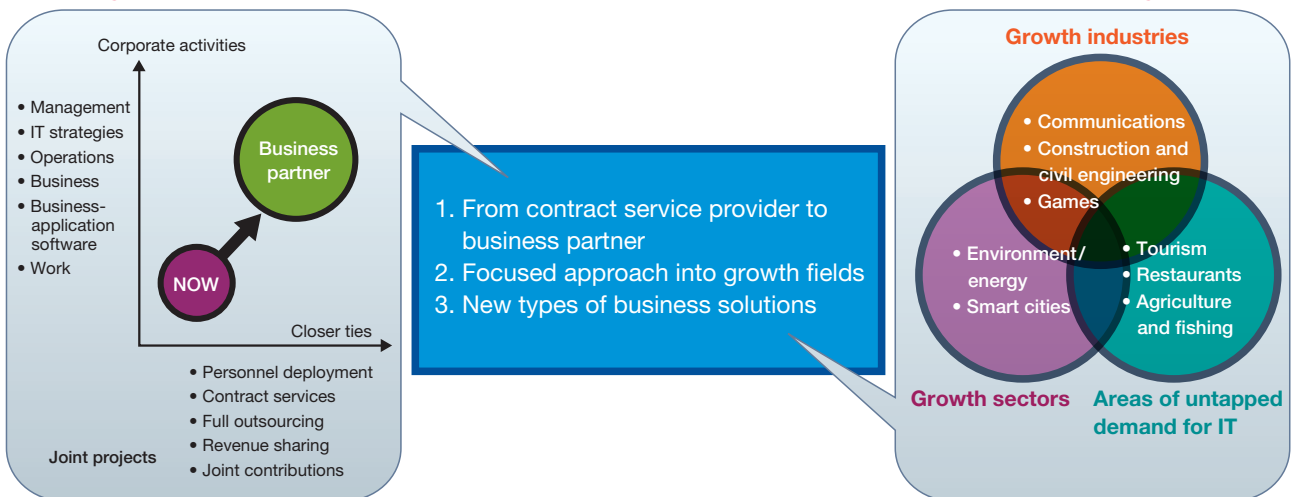
We will offer services in growth fields from the perspective of a business partner assisting its customers.

We will shed the old contract service provider image in favor of a business partner approach that stresses new business value for our customers, and we will present new services in growing fields, such as smart businesses, particularly the development of smart cities—planned, energy-efficient communities that integrate environment-friendly power, transportation and water supply systems utilizing advanced IT and other technologies—to differentiate ourselves from the competition.

Desired Business Image

Evolving role as business partner

Brisk entry into sectors with growth potential



The key to becoming a business partner to our customers is in the right responses to the paradigm shift in engineering requirements. Toward this end, we will reinforce structures, especially human resource development, R&D and production. We will also strive to enhance the quality of software development and boost productivity. These efforts will be the building blocks of development methods that facilitate the creation of marketable services and outsourcing on a larger scale.

Furthermore, amid expanding demand for business process outsourcing (BPO) services, we will strengthen the connection between the BPO business and the system integration (SI) business and, as a group, promote strategic, high-value-added BPO services to an eager market.

Topic ▶ Group Strength—Data Center Business

The ITHD Group has 20 data centers in major cities, including Tokyo, Nagoya, Osaka and Toyama in Japan and in Tianjin, China, for total floor space of about 152,200m². At home, the Group boasts the largest data center network.

Major Features

• High-quality system operation and the latest facilities

The ITHD Group draws on more than 40 years of proven results in operating mission critical systems 24 hours a day, 365 days a year and know-how accumulated in running the country’s largest data center network to safeguard clients’ vital information assets through strict security measures and state-of-the-art facilities with extremely sophisticated features that prevent service disruption in such events as natural disasters and power outages.

• Business Continuity for Clients through Japan’s Largest Data Center Network

Today, system downtime can have an hugely adverse effect on corporate activities. Data centers have therefore attracted attention as a practical component of disaster recovery plans to keep IT systems working seamlessly should that one-in-a-million off-line situation arise. The ITHD Group has data centers in major cities throughout Japan and a facility in China, so operations can be shifted from a primary data center to a remote data center as a backup measure.

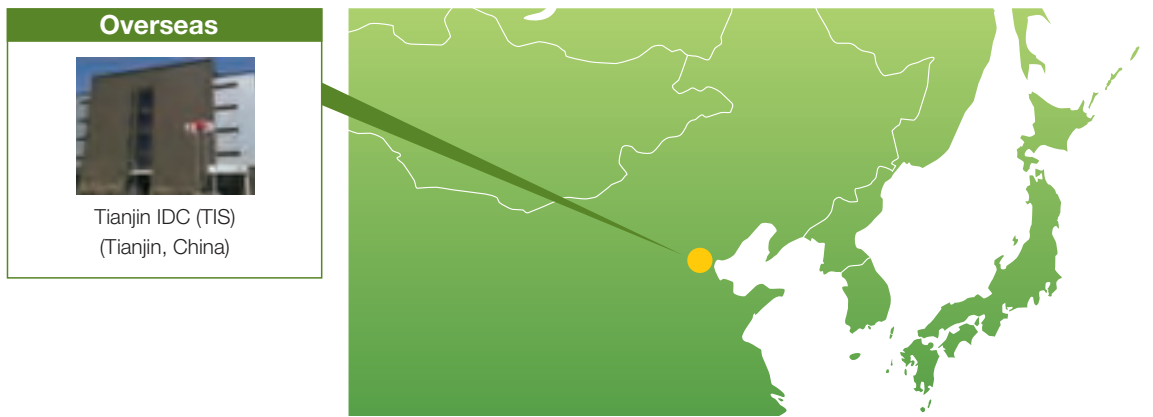
For example, INTEC Manyo Square, which opened in July 2010, and Power & IT, which opened in June 2011, are newly built, next-generation data centers located in prefectures where earthquake- and typhoon-related natural disasters occur less frequently than in other areas of Japan. As backup facilities, these data centers can be vital components of a highly reliable disaster recovery structure.

• Highly Reliable Cloud Environment Platform

Our highly reliable, highly accessible data centers can be used as portals to cloud services we provide to clients. In addition, our data centers can also be used as worry-free portals to cloud environments, such as client-only private cloud environments as well as hybrid cloud environments, which combine hybrid and private elements, and IT systems for smart devices.

The Group's data business network is as follows.

The ITHD Group's Data Center Business Network



Business Strategy **2**

Market Creation through Differentiated Services

We are pursuing new businesses in the services realm, starting with cloud computing.

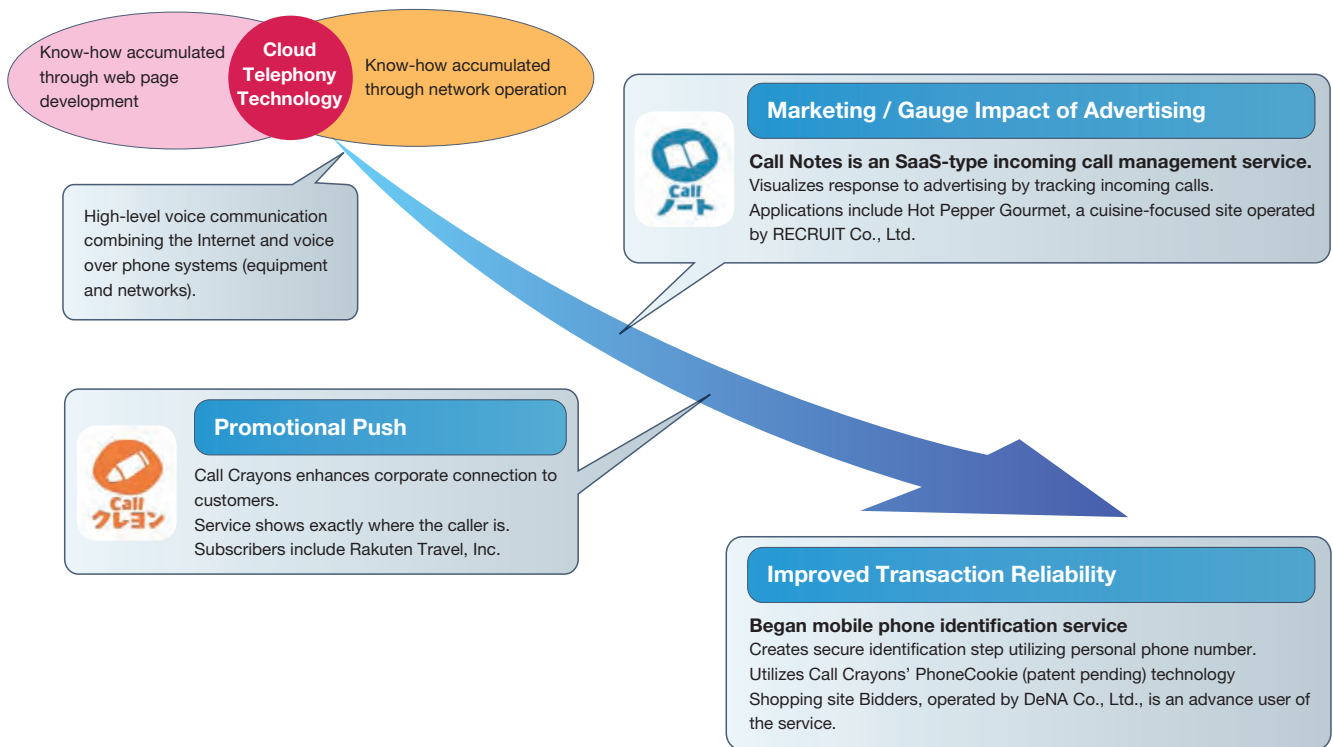
To promote business in the services realm, we will lay an optimum corporate platform—using marketing expertise, planning, development and business as the building blocks—and then expand share through the expansion of services pegged to market needs, new services planning and M&A activity. These efforts will turn the services business into a core ITHD business.

We will raise market share in industries and sectors, such as finance and manufacturing, where the Group boasts particular expertise, and launch industry platforms with the potential to become de facto standards, thereby realizing a solid lead over our competitors. In addition, we will maintain an independent position that allows Group strengths to shine, in promising growth sectors, especially smart businesses, and create new models for success.

ITHD Group Cloud Strengths

Cloud Integration	As an independent systems integrator, ITHD utilizes cloud services provided by companies under the Group umbrella as well as non-Group companies to build cloud environments perfectly suited to clients' needs.
SaaS for Immediate Application to Business	We utilize business know-how and proven results for clients in a wide range of industries, including finance, manufacturing and distribution and the public sector, and offer the best solutions from a client's perspective.
Highest-quality system operations in Japan	Not only do we have the largest data center network in Japan, we also boast the newest facilities and proven system operation results to ensure safe and secure service platforms.
Leading-Edge Cloud Services Foster Value Creation	We aggressively strive to develop the most advanced cloud technology available, leading the way in Japan and the industry as a whole. We aim to create value for our clients and the communities in which we all work.

Using Technologies, Developing New Services



Topic ▶ Call Crayons

Using PhoneCookie®, an original technology (patent pending), Call Crayons creates new business value by effectively linking Internet- and phone-sourced transaction information, such as the URL that the web-surfing caller has called from, the parameters, the time of origin and the duration of the call, and then uses that information. With Call Crayons, companies can gather marketing information that ties in online and offline data and apply phone- and Internet-based transaction information for various purposes, including approaches to improve customer services and make contact processes more efficient. This opens the door to expanded business possibilities in domains where customer contact is key.

On June 20, 2012, Call Crayons was recognized as an excellent service utilizing progressive, high-level technology, scooping up an Advanced Technology Prize in the ASP/SaaS category at the 6th ASP-SaaS-Cloud Awards, an event sponsored by the nonprofit organization ASP-SaaS-Cloud Consortium.



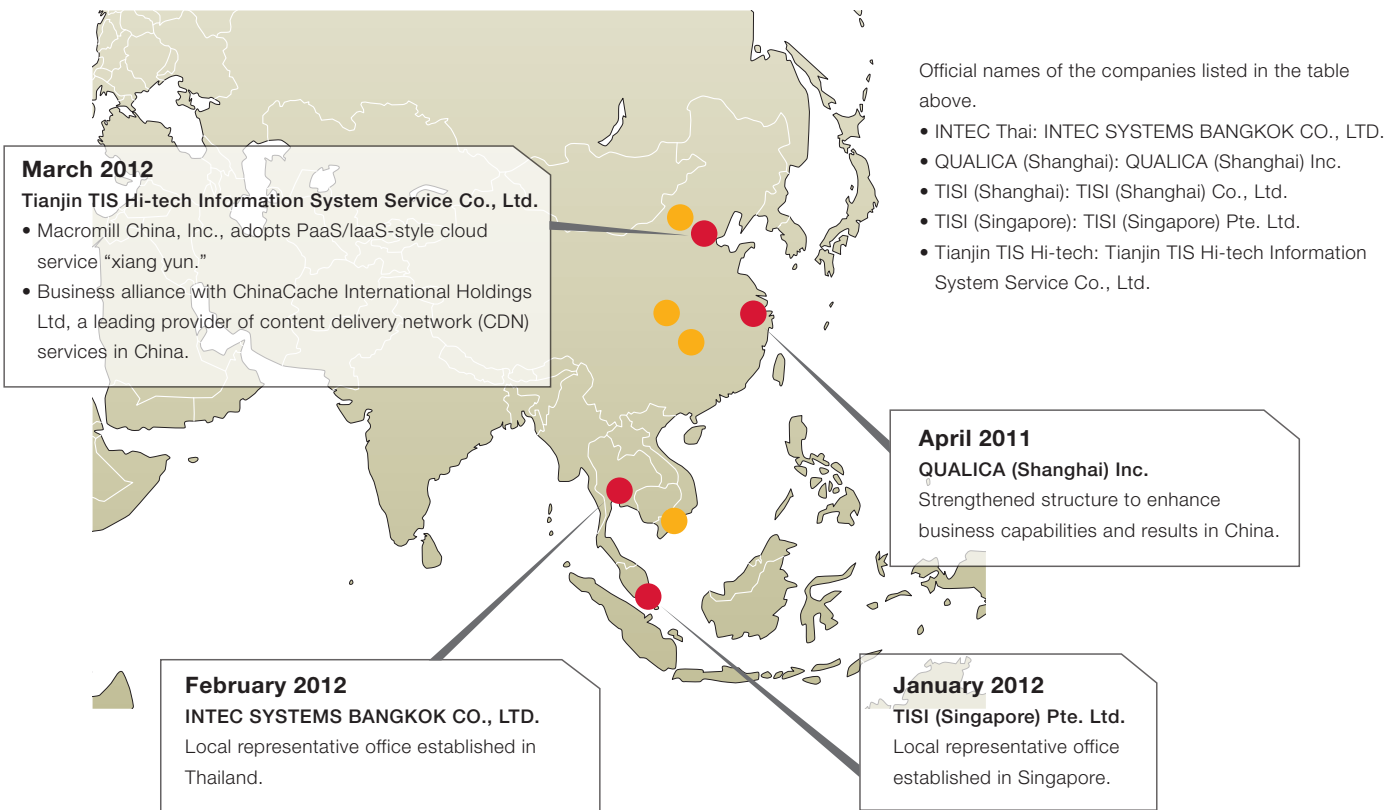
Securing an Independent Position in Overseas Markets

Two major pillars of growth are local support geared to the needs of existing customers as they establish a wider presence overseas and the cultivation of local markets using know-how accumulated in Japan.

We will streamline and consolidate the overseas operations of Group companies, with a spotlight on China and Southeast Asia, and thereby hone a sharper competitive edge. We will also strive to achieve the strategies that underpin our two pillars of growth while considering such steps as timely M&A activity to support existing activities.

Accelerating Global Expansion

		China	ASEAN
Overseas sales	Overseas expansion by Japanese companies	<ul style="list-style-type: none"> TISI (Shanghai) INTEC QUALICA / QUALICA (Shanghai) 	<ul style="list-style-type: none"> TISI (Singapore) INTEC Thai
	Local market Reinforced sector	<ul style="list-style-type: none"> Tianjin TIS Hi-tech QUALICA / QUALICA (Shanghai) 	<ul style="list-style-type: none"> Ho Chi Minh representative office
Overseas production	Offshore BPO New sector	<ul style="list-style-type: none"> Tianjin TIS Hi-tech—AGREX 	<ul style="list-style-type: none"> INTEC Thai—AGREX
	Offshore development	Used and promoted groupwide	



Topic ▶ Enhancing IT System Support Structure in ASEAN Region

To enhance the IT system support structure in the ASEAN region, where an increasing number of Japanese companies are focusing their overseas expansion efforts, TIS established TISI (Singapore) Pte. Ltd., in January 2012 and INTEC established INTEC SYSTEMS BANGKOK CO., LTD., in February 2012. As a result, the Group’s overseas network now has 15 offices in Asia, excluding Japan, and one office in the United States.

To date, the Company has emphasized offshore development in China to expand the Group’s overseas activities. But going forward, efforts will be directed toward improving IT solutions and services for Japanese companies establishing a presence the ASEAN region and, with an eye to future growth, the implementation of surveys to pinpoint customer needs and to promote suitable business responses.

Solution Development Good for Overseas Applications

➤ **AToMsQube – Cloud-oriented production-control system**



Promoting sales while enhancing structure, including better features and connectivity between providers and other software. Receiving more inquiries from interested companies in Asia, particularly China, as well as the ASEAN region.

- Actual applications: About 50 systems in use or in the process of being introduced
⇒ Mainly manufacturers in China (Komatsu-affiliated factories, general customers)
- Target: Total of 100 orders in China by March 31, 2013

The Group's R&D activities hinge on TIS and INTEC, which undertake leading-edge pursuits in the domains described below. Note that most of the Group's R&D activities are not specific to individual business segments but rather expeditions to discover techniques that can be applied laterally through operations groupwide.

(1) Software development technology

Seeking to boost the Group's overall development productivity and enhance quality so that clients can use integrated systems with peace of mind, TIS and INTEC spearheaded a steady and resourceful approach to software development technology.

INTEC expanded the functions of knowledge-support systems to make its system integration (SI) business more efficient, pursued research on next-generation SI development methods and R&D on an automated testing tool for web applications, and implemented verification tests to confirm the utility of open source database management systems. Plans are for the automated testing tool for web applications to be introduced for in-house use in fiscal 2013 to improve test-stage productivity.

TIS has been working to boost software development productivity using Xenlon, a Java development framework, since fiscal 2011 and recently added a web application using jQuery Mobile and ledger output using JasperReports.

Another area of interest is R&D related to the use of open source software. A major advantage of open source platforms is that they are free of licensing fees and carry a much smaller initial investment for clients. But open source solutions have a downside—no definitive response in the event of trouble since the software does not belong, necessarily, to any specific vendor and thus lacks guarantees of reliability and support. To address this concern, TIS verifies specific open source arrangements from a technology perspective and, as a recognized systems integrator, acts as a support partner to provide clients with peace of mind. The company is working on the creation of a verification template and associated application to business.

(2) Cloud Technology

Another priority is R&D on platform technologies to support cloud computing.

At INTEC, efforts have been directed into R&D on platforms for multitenancy on servers and databases as solutions that transforms existing web applications into SaaS (Software as a Service). The company is also pursuing research on security models for cloud environments and R&D to automate the creation and operation of IaaS (Infrastructure as a Service) environments.

With the pool of managed inventory of IPv4 (Internet Protocol version 4) addresses about to dry up in Japan, as elsewhere, INTEC has been involved in such activities as the shift toward IPv6 for websites, participation in World IPv6 Day, and free access to an IPv4/IPv6 meter that shows the ratio of websites with IPv4 addresses to those with IPv6 addresses.

TIS has been providing a product called SkyWare, which combines smartphone-oriented global positioning system and augmented reality functions, and in July 2011 launched the service Citywalk Sightseeing Navigation on SkyWare. There are many examples of this service in use, including an app for the six big festivals in Tohoku, provided by a telecommunications company as a way to support recovery in the Tohoku region where the effort to rebuild after the March 2011 earthquake and tsunami is an ongoing endeavor, and a touring app for rest stops along the portion of the Nakasendo trail through the modern city of Saku, Nagano Prefecture. This trail—literally, “route through the mountains”—was a major Edo Period highway linking Edo (now, Tokyo) and Kyoto and along which inn towns sprang up to cater to travelers. These activities have been featured on television shows many times.

The spread of cloud computing has brought about an increase in environments that mix public clouds, private clouds and on-premises services. Given prevailing conditions, TIS has undertaken R&D on formats to integrate multiple environments and monitor operations. Specifically, the company scaled up Zabbix, an open source integration, operation and management tool, and explored approaches for integration, operation and management, including cloud monitoring.

In the area of Big Data, R&D is under way to utilize Hadoop technology in more familiar business pursuits. TIS has implemented measures to replace clients' basic platform system batch processing with Hadoop and has come to understand that the Hadoop platform is effective in raising the efficiency of large-volume batch processing. INTEC, too, has emphasized Hadoop, and working with Riken Genesis Co., Ltd., developed a Japan-launched, cloud-using, human genome data analysis system.

(3) Smartphone-Related Technology

The explosive spread of smartphones and tablets began in 2010, and TIS and INTEC continued to tackle R&D related to these devices in fiscal 2012.

INTEC teamed up with the Keio Research Institute at SFC—the Shonan-Fujisawa Campus of Keio University—to pursue R&D on a micro-advertising system that allows store employees to communicate with customers using smartphones to deliver information updates. Also, tapped by the Ministry of Internal Affairs and Communications for participation in the Strategic Information and Communications R&D Promotion Programme (SCOPE), the company teamed up with Toyama University on joint research and implemented proof-of-concept on technology used by Centram, the streetcar system in Toyama.

Specifically, the system that was developed allows 1) the posting of ads to on-board digital signage displays synched to a train's operating location; 2) delivery of augmented reality games targeting riders; and 3) access to the real-time service status of trains—all by smartphone from anywhere. Also, with an increase in development projects using smartphones and tablets, the company held numerous in-house study sessions for engineers and worked to expand development techniques.

TIS is working with its clients to implement verification of natural user interfaces, utilizing head-mounted devices and navigation through voice and gestures, which is getting closer and closer to realization thanks to progress in mobile and cloud technologies.

(4) New Social System

The Group's R&D plan also targets an assortment of social issues arising from changing conditions and perspectives in society, such as global warming, power shortages, a national demographic characterized by a low birthrate and a high percentage of seniors, and an increasingly difficult employment environment for young people.

INTEC promoted R&D on Web Portfolio as a next-generation e-learning system for university students and working members of society and made presentations to several universities and corporations. The company also emphasized R&D on information platforms for smart cities and smart grids—next-generation power transmission networks—which are attracting attention from the perspective of efficient use of electricity and energy.

(5) Bioinformatics-Related Systems

With the life-science community generating copious amount of genome information and protein data, bioinformatics—the technology for handling biodata—has become essential to life science and innovative drug development research. INTEC has been involved in R&D on bioinformatics-related systems for more than 10 years. Successful product development includes the commercialization of a method developed jointly with Tosoh Corporation to detect the ribosomal RNA of a bacterium belonging to the genus *Legionella*. The company's bioinformatics technologies have been instrumental to the improvement of bacteria detection capabilities.

All told, consolidated R&D expenses in fiscal 2012 reached ¥962 million.

I. Basic Policy

To maintain the trust of all stakeholders, including clients and shareholders, and to be a corporate citizen meeting the expectations of society, ITHD strives to reinforce corporate governance, not only by raising the transparency and soundness of management practices but also by paying constant attention to actions taken in the pursuit of business to ensure suitable levels of corporate ethics and legal compliance.

1. Board of Directors, and Executive Officer System

The Company's Board of Directors comprises no more than 15 members, as set forth in the Articles of Incorporation. The Board meets monthly but will also convene whenever necessary to discuss and finalize decisions regarding important business activities and legal matters pertaining to the execution of operations.

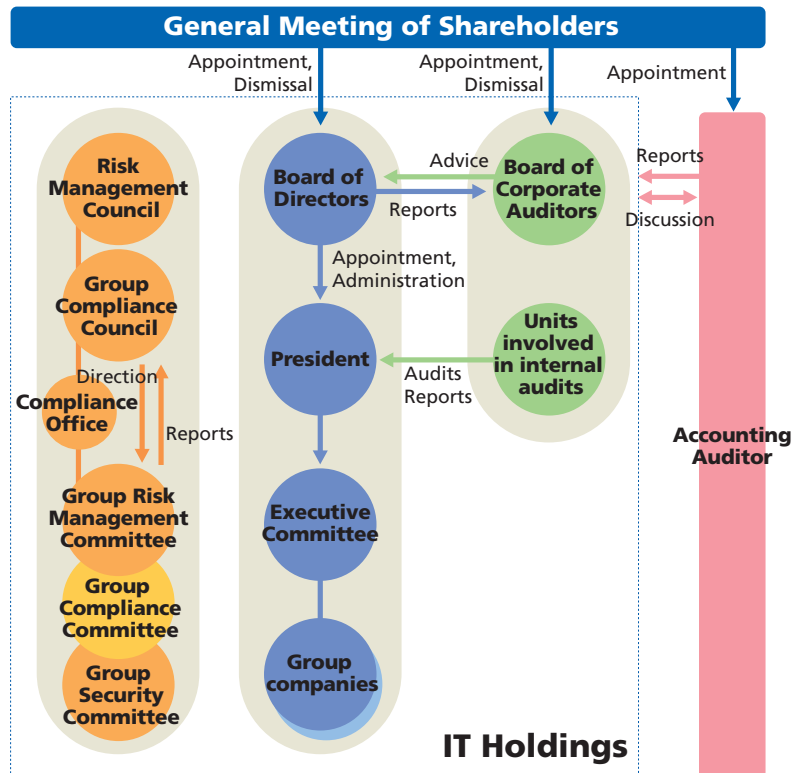
External directors with experience and insight into the industry and corporate management are appointed to the Board and offer advice and suggestions from an independent perspective to ensure that decision-making by the Board is appropriate and reasonable. This underpins efforts to reinforce the Board's supervisory function.

Currently, two of the 11 directors on the Board are from outside the Company. The responsibilities of individual directors are clearly defined, and the term of office is limited to one year to create a management structure ideal for responding flexibly to changes in the operating environment.

The Company introduced a groupwide executive officer system and established an executive committee to support and expedite decision-making efforts relating to the execution of duties by representative directors.

The Executive Committee meets as situations require to monitor progress of the business and affairs of the Group. This committee also discusses important issues related to the execution of operations, shares information and generally underpins enhanced governance of the Group.

The Company's corporate structure and internal control systems are illustrated here.



2. Corporate Auditors, Internal Auditing Departments and the Accounting Firm

The Company has a Board of Corporate Auditors and has adopted a corporate auditor structure, believing that the independent and objective perspective of corporate auditors, including external corporate auditors, would effectively support the management supervision function. The Board of Corporate Auditors comprises four auditors, two of whom are external auditors. Corporate auditors attend Board of Directors' meetings, examine important documents, perform audits of subsidiaries and, when necessary, seek the opinion of others, including the Company's accounting firm, the Compliance Office and other units involved in internal audits. They also keep close watch over the execution of duties by directors pertaining to business and all operating activities.

The Internal Audit Office, with a staff of three, is an internal auditing unit under the Compliance Division. This office exchanges information, as necessary, with units involved in internal audits at Group companies, including corporate auditors and accounting firms, and strives to ensure effective, high-caliber internal audits on a groupwide basis. In addition, the office exchanges information with the Finance and Accounting Department and the Compliance Office, and verifies explanations based on the results of implemented audits and any problem points discovered.

3. Executive Compensation

Compensation for the Company's directors (excluding external directors) comprises two portions: a base salary and an amount linked to performance. Compensation is reviewed annually for each director.

Base salary is a fixed monthly amount reflecting the individual rank of the director. The performance-linked portion is also a monthly amount specific to rank but tied to performance and must not exceed a fixed upper limit.

Guidelines have also been established that peg contributions into the executive shareholding association according to base salary and limit the purchase of stock to a fixed amount.

Category	Total base salary	Number of executives
Directors (external directors' portion)	¥205 million (¥12 million)	6 (2)
Corporate auditors (external corporate auditors' portion)	¥55 million (¥19 million)	5 (3)
Total (external executives' portion)	¥260 million (¥31 million)	11 (5)

Notes:

- The Company has not introduced a retirement benefits system nor does it pay out bonuses.
- In fiscal 2012, no employee salary portions were paid to employees who concurrently hold positions as directors.
- As of March 31, 2012, the Company had 10 directors, two of whom were external directors. The number of directors differs from that presented above because four directors did not receive compensation.
- As of March 31, 2012, the Company had four corporate auditors, two of whom were external corporate auditors. The number of corporate auditors differs from that presented above because one external director retired at the end of the Third General Meeting of Shareholders but was included in the total.
- Total compensation paid to directors and corporate auditors was within ¥400 million per year for directors (within ¥50 million for external directors) and within ¥85 million for corporate auditors, as approved by shareholders at the First General Meeting of Shareholders on June 25, 2009.
- There are no applicable items under total amount of compensation, on a consolidated basis, paid to individual executives receiving compensation packages exceeding ¥100 million.

Board of Directors and Corporate Auditors (As of June 26, 2012)

Chairman	Katsuki Kanaoka	Directors	Tetsuo Nakao	Katsuhiko Ishii
President	Susumu Okamoto		Hiroaki Fujimiya	Shingo Oda *
			Masaki Chitose	Yoshinobu Ishigaki *
			Koju Takizawa	
Executive Vice Presidents	Norio Maenishi Tomoki Sato	Corporate Auditors	Nobuyuki Yonezawa (standing auditor)	
			Masaru Takeda (standing auditor)	
			Taigi Ito *	
			Muneaki Ueda *	

* Designated for Independent Director/Auditor as specified by the Tokyo Stock Exchange in Japan.

4. Accounting Audits

The Company has engaged Ernst & Young ShinNihon LLC as independent auditor responsible for accounting audits.

The certified public accountants who conduct audits of the Company's books are as follows.

Certified public accountant	Osamu Oyama (four years of auditing IT Holdings)
Certified public accountant	Keizo Omura (three years of auditing IT Holdings)
Certified public accountant	Masato Saito (four years of auditing IT Holdings)
Certified public accountant	Masayoshi Zenpo (one year of auditing IT Holdings)

Number of assistants involved in accounting operations

Certified public accountants	5
Other assistants	11

5. Compensation to Certified Public Accountants

During the fiscal year ended March 31, 2012, the Company paid the accounting firm to provide the following services, in addition to the services covered in Article 2, Paragraph 1 of the Certified Public Accountants Law:

To verify the implementation and utilization status of the internal control system, based on Auditing Standards Committee Report No. 18 issued by the Japanese Institute of Certified Public Accountants.

The Company has not established a policy regarding compensation for audits executed by certified public accountants. The Company maintains an appropriate amount in line with the audit plan formed by certified public accountants and determines compensation for audits with the approval of the Board of Corporate Auditors.

(Millions of yen)

	Year ended March 31, 2011		Year ended March 31, 2012	
	Compensation for audit certification	Compensation other than for audit certification	Compensation for audit certification	Compensation other than for audit certification
Filing company	49	1	45	1
Consolidated subsidiaries	243	43	219	18
Total	292	44	264	18

Notes:**(1) Approval Criteria for Election of Directors**

In its Articles of Incorporation, the Company sets forth a clause stating that the appointment of a candidate to the Board of Directors must be approved by a majority vote of shareholders in attendance whose combined shareholdings represent more than one-third of total voting rights held by shareholders with the ability to exercise such rights. The Articles of Incorporation include a clause preventing cumulative voting in obtaining approval of appointment for director candidates.

(2) Approval Criteria for Special Resolutions at the General Meeting of Shareholders

Special resolutions described under Article 309, Paragraph 2 of the Company Law that are put before the general meeting of shareholders must, in accordance with a clause provided by the Company in its Articles of Incorporation, be passed with a number of votes corresponding to more than two-thirds of voting rights held by shareholders in attendance whose combined shareholdings represent no less than one-third of total voting rights held by shareholders with the power to exercise such rights. Management believes that this reduced quorum for special resolutions facilitates the execution of the general meeting of shareholders.

(3) General Meeting of Shareholders' Agenda Items that Can Be Resolved by the Board of Directors

(i) Seeking to achieve a flexible capital policy geared to the operating environment, the Company provides in its Articles of Incorporation a clause allowing the Board of Directors to approve the purchase of treasury stock from the market, in accordance with Article 165, Paragraph 2 of the Company Law.

(ii) The Company's Articles of Incorporation includes a clause that grants the Board of Directors the authority to approve the distribution of retained earnings to registered shareholders as of September 30 each year, as described in Article 454, Paragraph 5 of the Company Law, to promote the flexible return of profits to shareholders.

(4) Limited Liability Agreements with External Directors and External Corporate Auditors

In accordance with Article 427, Paragraph 1 of the Company Law, the Company enters into agreements with its external directors and external corporate auditors that limit their liability for compensation under Article 423, Paragraph 1 of the Company Law. The liability amount pursuant to such agreements shall be limited to the minimum stated in Article 425, Paragraph 1 of the Company Law.

II. Risk Management System

Management formulated a basic policy on corporate social responsibility, and the president continually conveys the spirit of this policy to executives to ensure that the corporate activities are conditioned by compliance with laws and regulations and underpinned by respect for social morals. The Company has the following structures in place to reinforce compliance and risk management practices.

1. Compliance Department and Group Compliance Committee

The Compliance Department underpins the laterally extending compliance structure groupwide and identifies trouble spots. The Group Compliance Committee, chaired by the president, discusses compliance-oriented issues of importance on a groupwide basis and promotes widespread efforts to address areas in need of improvement.

2. Status of Risk Management System

In the execution of its business activities, the Company is always aware of the various risks that accompany such activities. The risks of greatest weight for the Company, as an organization that handles information, are natural disasters, such as earthquakes, which could damage data centers, and information leaks, particularly unauthorized disclosure of personal information.

Risk management is practiced at all Group companies, and the Risk Management Committee plays a key role in directing and supporting the activities undertaken by risk management committees at each Group company. In addition, the Company is ready to act quickly with various response teams, if a vulnerability is discovered. This is part of an internal structure to minimize the impact of a risk situation on operations by ensuring sufficient communication within the Group.

The Group Compliance Committee is a component of the Company's risk management strategy to reinforce compliance practices groupwide and thereby enhance risk management.

These groupwide structures will be reviewed as necessary to keep responses current to the changing risks that mirror the evolution of the Group's business activities and market conditions.

Basic Direction on CSR

The management philosophy that permeates the ITHD Group stresses the Group's development into a corporate citizen whose activities, hinging on the provision of various services utilizing IT, match its status as a leading corporate group. This philosophy also underpins the Group's efforts to raise corporate value, supported in this effort by the high regard of all its stakeholders, including clients and shareholders as well as employees and their families. The Group's stance on corporate social responsibility is evident in its commitment to cultivate a vibrant corporate culture that encourages the companies and individuals under the Group umbrella to work toward higher goals and embrace new challenges, to be honest and fair in business pursuits based on respect for the law, of course, as well as high moral standards, and to fulfill social obligations. This is the Group's basic direction on CSR.

Ensure sound, transparent management practices

Acknowledge responsibilities as a leading corporate group in the IT services industry and undertake sound corporate activities with integrity and clarity of purpose. In addition, be sincere and fair in dealings with all stakeholders.

Provide optimum services

Always provide the very best to clients and strive to raise customer satisfaction levels through excellent quality and technology built on the composite strengths of the Group.

Develop talent

Cultivate an environment in which employees always look ahead, striving to achieve higher goals and embracing new challenges. Provide opportunities to grow and realize personal goals, create a safe and productive work environment, and give everyone the freedom to reach their potential.

Respect the law

Maintain high corporate morals, obey the law and uphold parameters of socially acceptable conduct.
Have absolutely nothing to do with antisocial forces.

Maintain fair business practices

Ensure an appropriate perspective on business transactions, based on fair and open competition.

Protect the environment

Recognize that environmental problems warrant universal attention and promote efforts to save resources and energy in the execution of corporate activities. Also, through IT services, support clients' efforts to enhance operating efficiency and reduce energy consumption, thereby contributing to lower environmental impact.

Contribute to society

Actively participate in community events as a corporate citizen whose social standing matches its leading industry status.

Be a part of the international community

Naturally, obey internationally recognized rules and local laws in the execution of cross-border projects, but also contribute to social and economic development in the countries where the Group maintains a presence by recognizing local culture and customs.

Note: Amounts in U.S. dollars are included solely for the convenience of non-Japanese readers. A rate of ¥82.19 = US\$1, the approximate rate of exchange prevailing on March 31, 2012, has been used in translation.

As of March 31, 2012, the ITHD Group comprised parent company IT Holdings Corporation (“ITHD” or “the Company”) and 48 consolidated subsidiaries, including principal companies TIS Inc., INTEC Inc., AGREX INC., QUALICA INC. and AJS Inc.

Several changes took place within the Group. On April 1, 2011, SORUN Corporation and UFIT Co., Ltd., merged with TIS, INTEC Systems Institute, Inc., merged with INTEC, and IT Service Force Co., Ltd. merged with Web Office Co., Ltd. Then, on October 1, 2011, AJS Inc. merged with AJS Software Co., Ltd. Consequently, the non-surviving companies were removed from the scope of consolidation.

Profit and Loss Analysis

Net Sales

Consolidated net sales edged up 1.3%, to ¥327,417 million (\$ 3,983 million), as favorable order activity from clients in the industrial IT services segment offset such challenges as reduced demand from clients in the financial IT services segment where the tendency to curb IT investment continued. A breakdown of performance by business segment is presented below.

Note: Seeking to promote a horizontal management structure within the Group, ITHD shifted away from management methods that hinged on its subsidiary groups in favor of management methods fined-tuned to service categories and clients/markets. Sales by segment include intersegment sales, and numerical data from the previous fiscal year has been restated under the new breakdown for comparison purposes.

IT Infrastructure Services

This segment provides self-administered computer utility and system operation services through large IT facilities, such as data centers. In fiscal 2012, net sales were on a par with the previous fiscal year, settling at ¥111,358 million (\$138 million), up 0.4% year-on-year. Over the last few years, the next-generation data center business has really picked up, compensating somewhat for sluggish results from existing businesses. Operating income slipped 1.0%, to ¥8,049 million (\$97 million), but the decrease could have been larger, due to the application of funds to front-load investment into next-generation data centers, had it not been for successful efforts to trim costs.

Financial IT Services

This segment supports the shift toward greater use of IT in business processes and in the execution of business activities, with business know-how and IT expertise specific to the financial sector. In fiscal 2012, net sales dipped 3.5%, to ¥70,099 million (\$852 million), owing to a persistent trend among credit card companies—a key demand group with a significantly high contribution to consolidated sales—to curb IT investment and also owing to the fact that large insurers and megabanks have already brought their IT investment plans to a close. Operating income, however, jumped 15.6%, to ¥4,534 million (\$55 million), thanks to successful efforts to reduce costs.

Industrial IT Services

This segment supports the shift toward greater use of IT in business processes and in the execution of business activities, with business know-how and IT expertise in areas other than finance, particularly industrial and public finance sectors.

Against a backdrop of gradual recovery in IT investment led by companies in the distribution and processing-based manufacturing industries, net sales grew 5.8%, to ¥149,466 million (\$1,818 million). Operating income skyrocketed 63.6%, to ¥2,658 million (\$32 million).

	Millions of yen		
	2012	2011	% change
Net sales	¥327,417	¥323,173	+1.3
IT infrastructure services	111,358	110,916	+0.4
Financial IT services	70,099	72,665	-3.5
Industrial IT services	149,466	141,294	+5.8
Other business	16,234	16,595	-2.2
Intersegment elimination/adjustments	-19,740	-18,298	-
Operating income	15,621	12,818	+21.9%
IT infrastructure services	8,049	8,131	-1.0
Financial IT services	4,534	3,922	+15.6
Industrial IT services	2,658	1,625	+63.6
Other business	2,277	1,313	+73.3
Intersegment elimination/adjustments	-1,898	-2,174	-

Other Business

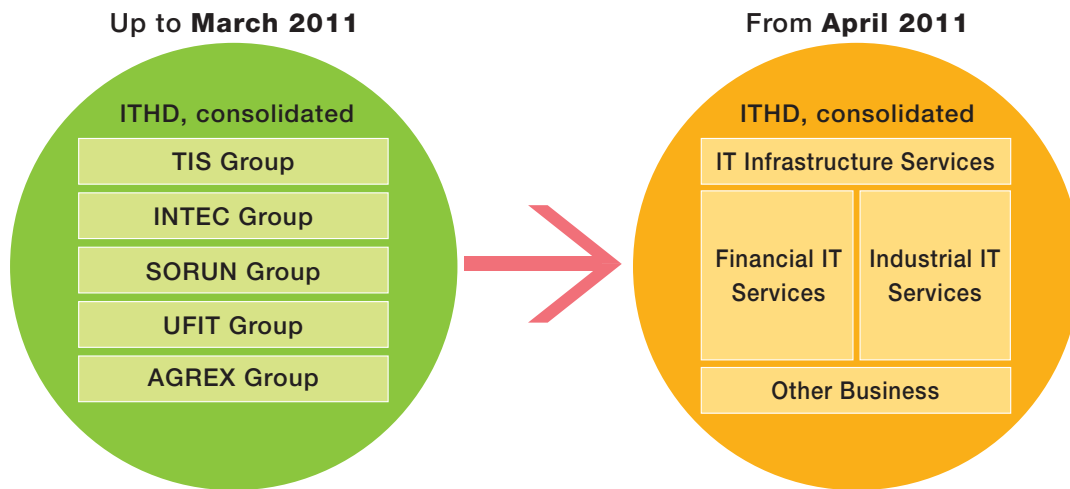
This segment covers activities incidental to the provision of information systems and other businesses. In fiscal 2012, the segment showed a 2.2% year-on-year decrease in net sales, to ¥16,234 million (\$197 million). But operating income soared 73.3%, to ¥2,277 million (\$27 million).

Costs, Expenses and Earnings

Although the Company allocated funds for upfront investment in next-generation data centers, concerted efforts to reduce expenses and capitalize on the crystallizing appearance of positive results from structural reforms implemented in the first half of the fiscal year, led to operating income of ¥15,621 million (\$190 million), up 21.9% year-on-year, and recurring profit of ¥15,393 million (\$187 million), also up 21.9% year-on-year. Net income tumbled 64.3%, to ¥2,135 million (\$25 million), squeezed by the booking of one-time expenses of about ¥7.8 billion related to business restructuring and a reversal of about ¥1.1 billion on deferred tax assets, paralleling tax system revision in December 2011. A breakdown of major expenses related to business restructuring shows that about ¥3.0 billion (\$36 million) was spent on the relocation and centralization of Group offices and about ¥4.4 billion (\$535 billion) was spent on the introduction of a special career change program at subsidiary TIS.

	Millions of yen		
	2012	2011	% change
Cost of sales	¥266,159	¥261,145	+1.9%
Cost of sales ratio	81.3%	80.8%	+0.5 point
Gross profit	61,258	62,027	-1.2%
Gross profit margin	18.7%	19.2%	-0.5 point
Selling, general and administrative expenses	45,636	49,209	-7.3%
Ratio of selling, general and administrative expenses to net sales	13.9%	15.2%	-1.3 points
Operating income	15,621	12,818	+21.9%
Operating income ratio	4.8%	4.0%	+0.8 point
Net income	2,135	5,985	-64.3%
Return on sales	0.7%	1.9%	-1.2 point

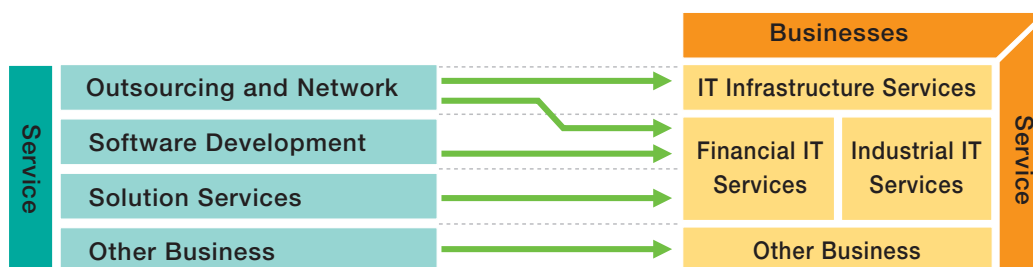
Disclosed Units



New Segment Business Content

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

Basic Correlation between Old and New Segment Classifications



Financial Position

Assets

Total assets stood at ¥310,003 million (\$3,771 million) as of March 31, 2012, up 3.0% from a year earlier. Of this amount, current assets accounted for ¥142,442 million (\$1,733 million), up 10.9% year-on-year, and total fixed assets accounted for ¥167,560 million (\$2,038 million), down 2.9%. Total liabilities grew 6.0%, to ¥159,038 million (\$1,935 million), and total net assets reached ¥150,965 million (\$1,836 million), dipping 0.1% from the end of March 2011. Equity capital, calculated by subtracting ¥7,267 million (\$88 million) in minority interest in consolidated subsidiaries and ¥38 million (\$469 thousand) in subscription rights from net assets, was on a par with the previous fiscal year, at ¥143,658 million (\$1,747 million), and the equity ratio retreated 1.4 percentage points, to 46.3%.

	Millions of yen		
	2012	2011	% change
Total assets	¥310,003	¥301,076	+3.0%
Total liabilities	159,038	149,965	+6.0
Total net assets	150,965	151,110	-0.1
Minority interests	7,267	7,434	-2.2
Stock acquisition rights	38	29	+31.0
Equity capital	143,658	143,646	+0.0
Key ratios:		%	
Equity ratio ¹	46.3%	47.7%	-1.4 points
Return on equity ²	1.5	4.2	-2.7 points

Notes: 1. Equity ratio = (Equity capital / Total assets) x 100

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

Cash Flow Status

Cash and cash equivalents ("cash") totaled ¥41,119 million (\$500 million) as of March 31, 2012, up 12.7% from March 31, 2011.

Net cash provided by operating activities fell 13.1%, to ¥23,658 million (\$287 million). This change reflects a ¥5,235 million (\$63 million) increase in notes and accounts receivable and ¥4,685 million (\$57 million) in income taxes paid, which offset income before income taxes of ¥6,121 million (\$74 million) and the positive cash flow effect of ¥12,745 million (\$155 million) in depreciation and a ¥2,710 million (\$32 million) increase in notes and accounts payable.

Net cash used in investing activities decreased 20.0%, to ¥15,158 million (\$184 million), as inflow, mainly ¥2,314 million (\$28 million) in proceeds from the sale of investment securities, was overshadowed by outflow, mainly ¥9,519 million (\$115 million) used for the acquisition of property and equipment and ¥4,927 million (\$59 million) for the acquisition of intangible assets.

Net cash used in financing activities retreated 77.4%, to ¥4,230 million (\$51 million). Primary components of cash inflows, namely, ¥16,637 million (\$202 million) in proceeds from long-term bank loans and a ¥4,403 million (\$53 million) net increase in short-term borrowings, were outweighed by outflows of ¥14,662 million (\$178 million) for repayment of long-term bank loans and ¥7,500 million (\$91 million) for redemption of corporate bonds.

	Millions of yen		
	2012	2011	% change
Cash and cash equivalents at end of year	¥41,119	¥36,492	+12.7%
Net cash provided by operating activities	23,658	27,236	-13.1
Net cash used in investing activities	(15,158)	(18,957)	-20.0
Net cash used in financing activities	(4,230)	(18,755)	-77.4

Dividend Policy

ITHD has made the long-term, comprehensive return of profits to shareholders a management priority and seeks to maintain stable dividends—targeting a consolidated payout ratio of 30%—while taking into account performance trends, financial status, and the need to enrich retained earnings to support business growth.

In fiscal 2012, the Company booked a consolidated extraordinary loss of about ¥7,800 million, mainly from one-time expenses of ¥3,000 million to relocate and centralize Group offices—a move designed to elicit greater synergy throughout the Group by reinforcing cooperation between Group companies, strengthening Group governance and cutting costs—and about ¥4,400 million for a special career change program at subsidiary TIS paralleling companywide structural reforms. The Company also had to deal with the impact of December 2011 tax system reforms, which caused a ¥1,100 million reversal in deferred tax assets. Taking these developments into account, as well as the need to build sufficient internal reserves to fund continued growth, management decided on an annual dividend of ¥18 (\$0.21) per share.

For fiscal 2013, management anticipates an annual dividend of ¥21 per share, including an interim dividend of ¥7 per share.

	Yen		
	2012	2011	% change
<i>Per share data:</i>			
Net income per share	¥ 24.33	¥ 68.19	-64.3%
Net assets per share	1,636.72	1,636.56	+0.0%
Dividends per share	18.00	32.00	-43.8%

Business and Other Risks

Risk specific to each business segment may arise. In the software development business, for example, projects could turn unprofitable, while system malfunctions could interrupt services in the outsourcing business. The Company applies various measures to prevent the manifestation of such risks.

In the IT infrastructure business, data centers under the Group umbrella offer outsourcing and cloud computing services at home and abroad—in Tokyo, Osaka, Kanagawa Prefecture, Tochigi Prefecture, Toyama Prefecture and Aichi Prefecture as well as in Tianjin, China, and other locations—24 hours a day every day of the year. A variety of a installations, such as a base-isolation structure for enhanced earthquake tolerance, an on-site generator to ensure uninterrupted power supply, and crime-prevention systems to thwart unauthorized access, have been incorporated into the buildings to control foreseeable risk. Nevertheless, if an extraordinarily significant event, such as an extended power failure, a large-scale natural disaster, international conflict or an act of terrorism, or major criminal activity, were to occur and disrupt the smooth execution of data center activities, the Group's business results and financial position could be adversely affected.

All forward-looking statements in this document are based on information available to management as of May 10, 2012.

Consolidated Balance Sheets

IT Holdings Corporation and Its Consolidated Group Companies

As of March 31, 2011 and 2012

	2011	2012
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and deposits	¥ 36,729	¥ 41,365
Notes and accounts receivable	59,040	64,591
Lease receivables and lease investment assets	8,710	8,942
Marketable securities	301	201
Merchandise and finished goods	2,295	2,633
Work in process	6,554	8,278
Raw materials and supplies	197	209
Deferred tax assets	7,741	8,027
Other current assets	7,085	8,305
Allowance for doubtful accounts	(199)	(112)
Total current assets	128,455	142,442
Fixed assets		
Property and equipment		
Buildings and structures, net	60,230	58,635
Machinery and equipment, net	5,009	4,360
Land	22,468	22,266
Leased assets, net	2,539	3,455
Other property and equipment, net	5,209	6,074
Total property and equipment	95,457	94,792
Intangible assets		
Goodwill	5,516	3,471
Other intangible assets	13,073	14,047
Total intangible assets	18,589	17,519
Investments and other assets		
Investment securities	31,794	28,693
Deferred tax assets	8,115	8,597
Other assets	20,995	19,986
Allowance for doubtful accounts	(2,331)	(2,028)
Total investments and other assets	58,573	55,248
Total fixed assets	172,620	167,560
Total assets	¥301,076	¥310,003

Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Act of Japan, and have been prepared in accordance with accounting principles generally accepted in Japan.

Consolidated Balance Sheets

IT Holdings Corporation and Its Consolidated Group Companies

As of March 31, 2011 and 2012

	2011	2012
	Millions of yen	Millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 14,944	¥ 17,917
Short-term borrowings	14,800	23,126
Corporate bonds (redeemed within one year)	7,500	100
Income taxes payable	3,401	2,341
Accrued bonuses to directors and employees	11,041	11,115
Other allowances	464	322
Other current liabilities	20,938	28,141
Total current liabilities	73,090	83,065
Non-current liabilities		
Corporate bonds	100	—
Long-term debt	55,054	53,288
Lease obligations	3,981	4,723
Deferred tax liabilities	674	503
Deferred tax liabilities from revaluation of land	993	869
Accrued retirement benefits to employees	11,509	12,359
Accrued retirement benefits to directors	244	107
Other non-current liabilities	4,317	4,120
Total non-current liabilities	76,875	75,972
Total liabilities	149,965	159,038
Net assets		
Shareholders' equity		
Common stock	10,001	10,001
Additional paid-in capital	86,788	86,787
Retained earnings	47,298	47,673
Less treasury stock, at cost	(24)	(25)
Total shareholders' equity	144,062	144,436
Accumulated other comprehensive income		
Net unrealized gains on other securities	1,729	1,210
Revaluation of land	(1,841)	(1,718)
Foreign currency translation adjustments	(303)	(270)
Total accumulated other comprehensive income	(415)	(778)
Stock acquisition rights	29	38
Minority interests	7,434	7,267
Total net assets	151,110	150,965
Total liabilities and net assets	¥301,076	¥310,003

Consolidated Statements of Income and Comprehensive Income

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2011 and 2012

	2011	2012
	Millions of yen	Millions of yen
Net sales	¥323,173	¥327,417
Cost of sales	261,145	266,159
Gross profit	62,027	61,258
Selling, general and administrative expenses	49,209	45,636
Operating income	12,818	15,621
Non-operating income		
Dividend income	554	619
Rental income from real estate	273	266
Reversal of allowance for doubtful accounts	—	270
Subsidy income	192	150
Other	520	339
Total non-operating income	1,541	1,646
Non-operating expenses		
Interest expenses	1,023	898
Equity in losses of non-consolidated subsidiaries and affiliates	46	202
Other	663	773
Total non-operating expenses	1,733	1,874
Recurring profit	12,625	15,393
Extraordinary profit		
Gain on sale of investment securities	1,782	1,142
Reversal of allowance for doubtful accounts	119	—
Negative goodwill gains	3,004	5
Other	153	160
Total extraordinary income	5,060	1,307
Extraordinary losses		
Impairment loss	1,074	766
Merger-related expenses	2,324	381
Structural reform-related expenses	—	7,852
Effect of adoption of new accounting standards for asset retirement obligations	2,199	—
Other	1,943	1,578
Total extraordinary losses	7,541	10,579
Income before income taxes and minority interests	10,145	6,121
Income taxes: current	4,382	4,068
Income taxes: deferred	(308)	(170)
Total income taxes	4,073	3,897
Income before minority interests	6,071	2,224
Minority interests in earnings (losses) of consolidated subsidiaries	86	89
Net income	¥ 5,985	¥ 2,135

Consolidated Statements of Comprehensive Income

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2011 and 2012

	2011	2012
	Millions of yen	Millions of yen
Income before minority interests	¥6,071	¥2,224
Other comprehensive income		
Net unrealized gains on other securities	328	(514)
Revaluation reserve for land	—	123
Foreign currency translation adjustments	(170)	33
Share of other comprehensive income of associates accounted for using the equity method	(8)	(5)
Total other comprehensive income	149	(363)
Comprehensive income	6,221	1,860
Components:		
Comprehensive income attributable to owners of the parent	6,407	1,772
Comprehensive income attributable to minority interests	¥ (185)	¥ 87

Consolidated Statements of Changes in Net Assets

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2011 and 2012

	2011	2012
	Millions of yen	Millions of yen
Shareholders' equity		
Common stock		
Balance at end of previous fiscal year	¥ 10,001	¥ 10,001
Balance at end of fiscal year	10,001	10,001
Additional paid-in capital		
Balance at end of previous fiscal year	85,207	86,788
Changes during the fiscal year		
Disposal of treasury stock	(30)	(0)
Increase from share exchange	1,610	—
Total changes during the fiscal year	1,580	(0)
Balance at end of fiscal year	86,788	86,787
Retained earnings		
Balance at end of previous fiscal year	44,088	47,298
Changes during the fiscal year		
Dividends from surplus	(2,780)	(1,755)
Net income	5,985	2,135
Change in scope of equity method	—	(0)
Increase from merger of consolidated and non-consolidated subsidiaries	4	—
Decrease from merger of consolidated and non-consolidated subsidiaries	—	(3)
Net changes during the fiscal year	3,209	375
Balance at end of fiscal year	47,298	47,673
Treasury stock		
Balance at end of previous fiscal year	(57)	(24)
Changes during the fiscal year		
Acquisition of treasury stock	(4)	(1)
Disposal of treasury stock	37	0
Net changes during the fiscal year	33	(1)
Balance at end of fiscal year	(24)	(25)
Total shareholders' equity		
Balance at end of previous fiscal year	139,239	144,062
Changes during the fiscal year		
Dividends from surplus	(2,780)	(1,755)
Net income	5,985	2,135
Acquisition of treasury stock	(4)	(1)
Disposal of treasury stock	7	0
Change in scope of equity method	—	(0)
Increase from share exchange	1,610	—
Increase from merger of consolidated and non-consolidated subsidiaries	4	—
Decrease from merger of consolidated and non-consolidated subsidiaries	—	(3)
Net changes during the fiscal year	4,823	374
Balance at end of fiscal year	¥144,062	¥144,436

Continued on the next page

Consolidated Statements of Changes in Net Assets

Continued from the previous page

	2011	2012
	Millions of yen	Millions of yen
Accumulated other comprehensive income		
Net unrealized gains on other securities		
Balance at end of previous fiscal year	¥ 1,182	¥ 1,729
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	547	(519)
Net changes during the fiscal year	547	(519)
Balance at end of fiscal year	1,729	1,210
Revaluation reserve for land		
Balance at end of previous fiscal year	(1,841)	(1,841)
Items other than changes in shareholders' equity, net	—	123
Total change during the fiscal year	—	123
Balance at end of the fiscal year	(1,841)	(1,718)
Foreign currency translation adjustments		
Balance at end of previous fiscal year	(178)	(303)
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	(125)	33
Net changes during the fiscal year	(125)	33
Balance at end of fiscal year	(303)	(270)
Accumulated other comprehensive income		
Balance at end of previous fiscal year	(837)	(415)
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	422	(362)
Net changes during the fiscal year	422	(362)
Balance at end of fiscal year	(415)	(778)
Stock acquisition rights		
Balance at end of previous fiscal year	18	29
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	10	9
Net changes during the fiscal year	10	9
Balance at end of fiscal year	29	38
Minority interests		
Balance at end of previous fiscal year	16,654	7,434
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	(9,220)	(166)
Net changes during the fiscal year	(9,220)	(166)
Balance at end of fiscal year	7,434	7,267
Total net assets		
Balance at end of previous fiscal year	155,075	151,110
Changes during the fiscal year		
Dividends from surplus	(2,780)	(1,755)
Net income	5,985	2,135
Acquisition of treasury stock	(4)	(1)
Disposal of treasury stock	7	0
Change in scope of equity method	—	(0)
Increase from share exchange	1,610	—
Increase from merger of consolidated and non-consolidated subsidiaries	4	—
Decrease from merger of consolidated and non-consolidated subsidiaries	—	(3)
Items other than changes in shareholders' equity, net	(8,788)	(519)
Net changes during the fiscal year	(3,964)	(145)
Balance at end of fiscal year	¥151,110	¥150,965

Consolidated Statements of Cash Flows

IT Holdings Corporation and Its Consolidated Group Companies
For Years Ended March 31, 2011 and 2012

	2011	2012
	Millions of yen	Millions of yen
Cash flows from operating activities		
Income before income taxes and minority interests	¥10,145	¥ 6,121
Depreciation	12,308	12,745
Impairment loss	1,074	766
Loss on disposal of fixed assets	558	249
Valuation (gain) loss on investment securities	681	318
Amortization of goodwill	1,901	1,882
Increase (decrease) in accrued bonuses to directors and employees	210	(8)
Increase (decrease) in allowance for doubtful accounts	(446)	(391)
Increase (decrease) in accrued retirement benefits to employees	836	547
Interest and dividend income	(615)	(642)
Interest expenses	1,023	898
(Increase) decrease in notes and accounts receivable	3,173	(5,235)
(Increase) decrease in inventories	225	(2,214)
Increase (decrease) in notes and accounts payable	1,046	2,710
Negative goodwill gains	(3,004)	(5)
Structural reform-related expenses	—	2,388
Effect of adoption of new accounting standards for asset retirement obligations	2,199	—
Other, net	(651)	8,453
Subtotal	30,665	28,585
Interest and dividend income received	627	656
Interest expenses paid	(1,058)	(897)
Income taxes paid	(2,998)	(4,685)
Net cash provided by operating activities	27,236	23,658
Cash flows from investing activities		
Acquisitions of property and equipment	(10,509)	(9,519)
Acquisitions of intangible assets	(6,311)	(4,927)
Proceeds from sale and redemption of investment securities	4,197	2,314
Payment of lease and guarantee deposits	(2,068)	(2,009)
Acquisition of subsidiaries' shares	(4,313)	(147)
Other, net	49	(868)
Net cash used in investing activities	(18,957)	(15,158)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	(21,266)	4,403
Proceeds from long-term debt	25,495	16,637
Repayments of long-term debt	(14,680)	(14,662)
Redemption of bonds	(4,000)	(7,500)
Dividends paid	(2,780)	(1,755)
Dividends paid to minority shareholders	(459)	(155)
Other, net	(1,059)	(1,197)
Net cash used in financing activities	(18,755)	(4,230)
Effect of exchange rate changes on cash and cash equivalents	(45)	31
Net increase (decrease) in cash and cash equivalents	(10,520)	4,301
Cash and cash equivalents at beginning of year	46,987	36,492
Increase in cash and cash equivalents resulting from merger	25	325
Cash and cash equivalents at end of year	¥36,492	¥41,119

IT Holdings Group (As of August 1, 2012)

• *Principal Companies*

TIS Inc.
INTEC Inc.
AGREX INC.
QUALICA INC.
AJS Inc.

• *Marketing Solution Services*

NEXWAY Co., Ltd.

• *Solution Services and Sales*

IUK Inc.
AGMS CORPORATION
Cloud Scope Technologies, Inc.
NEOAXIS Co., Ltd.

• *Financial IT Services*

Oartech, Inc.
Keyport Solutions, Inc.
First Manage Inc.

• *System Development, Management and Operations*

AGREX FINE TECHNO INC.
INTEC Solution Power Inc.
IN-X Co., Ltd.
TIS Solution Link Inc.
System Support Co., Ltd.
Chuo System Corporation
TIS System Service Inc.

• *Consulting Services and Research*

BM Consultants Inc.

• *Contract Research Organization (CRO)*

AC MEDICAL INC.
UPSHE Co., Ltd.
ALMEC Co., Ltd.
Medical Toukei Co., Ltd.

• *Regional Companies in Japan*

KOUSHI INTEC Inc.
SORUN WEST JAPAN CORPORATION
SORUN Hokkaido Inc.
SORUN-TOUHOKU Inc.
HOKKOKU INTEC SERVICE Inc.

• *Overseas Businesses*

BEIJING SORUN COMPUTER CO., LTD.
INTEC Information Technology (Wuhan) Co., Ltd.
TISI (Shanghai) Co., Ltd.
INTEC Information Technology (Shanghai) Co., Ltd.
QUALICA (SHANGHAI) Inc.
TIS R&D Center, Inc.
TIANJIN LARGE INFORMATION TECHNOLOGY CO., LTD.
TIANJIN SORUN DIGITAL SOFTWARE CORPORATION
Tianjin TIS Hi-tech Information System Service Co., Ltd.
SORUN CHINA CORPORATION
INTEC Information Technology (Dalian) Co., Ltd.
INTEC SYSTEMS BANGKOK CO., LTD.
TKSOFT SINGAPORE PTE. Ltd.
TISI (Singapore) Pte Ltd.

• *Other Specific Businesses*

IT Service Force Inc.
INTEC Amenity Inc.
SKY INTEC Inc.
Registration Network, Ltd.
TIS Total Service Co., Ltd.
SorunPure Inc.
MITEC Inc.
INTEC IT Capital, Inc.
WITH INTEC Inc.
TIS LEASING Co., Ltd.

April 2008

IT Holdings is created through the management integration of major domestic information service providers TIS Inc. and INTEC Holdings, Ltd.

2008—2009

The Group is reorganized. Key events include splitting off companies under the old TIS Group umbrella and merging INTEC Holdings into INTEC Inc., and then putting the surviving subsidiaries under the direct control of IT Holdings.

December 2009

SORUN CORPORATION joined the IT Holdings Group.

April 2011

ITHD orchestrated a three-company merger involving TIS, SORUN Corporation and UFIT Co., Ltd., with TIS as the surviving company.



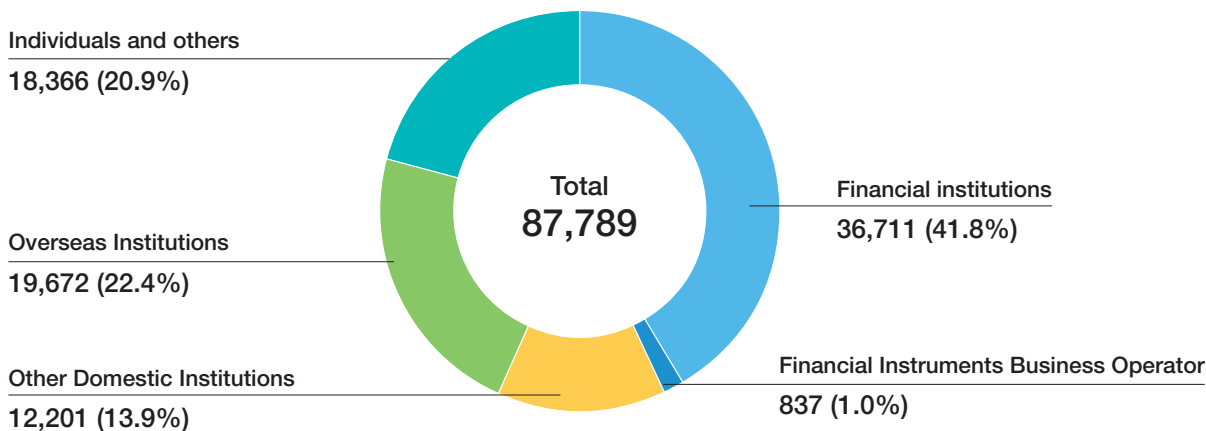
Corporate Data (As of March 31, 2012)

Company name	IT Holdings Corporation
Established	April 1, 2008
Main business	Management and business execution of group companies that carry on information and communication business
Tokyo head office	21F Sumitomo Fudosan Shinjuku Grand Tower, 17-1 Nishi-shinjuku 8-chome, Shinjuku-ku, Tokyo 160-0023 Japan Tel. +81-3-5338-2277 Fax. +81-3-5338-2266
Toyama head office	5-5 Ushijima-shinmachi, Toyama 930-0856 Japan Tel. +81-76-444-8011 Fax. +81-76-444-8012
Paid-in capital	¥ 10 billion
Number of shares	
Authorized	280,000,000 shares
Issued	87,789,098 shares
Number of shareholders	17,072
Stock listing	Tokyo Stock Exchange, First Section (Securities code: 3626)

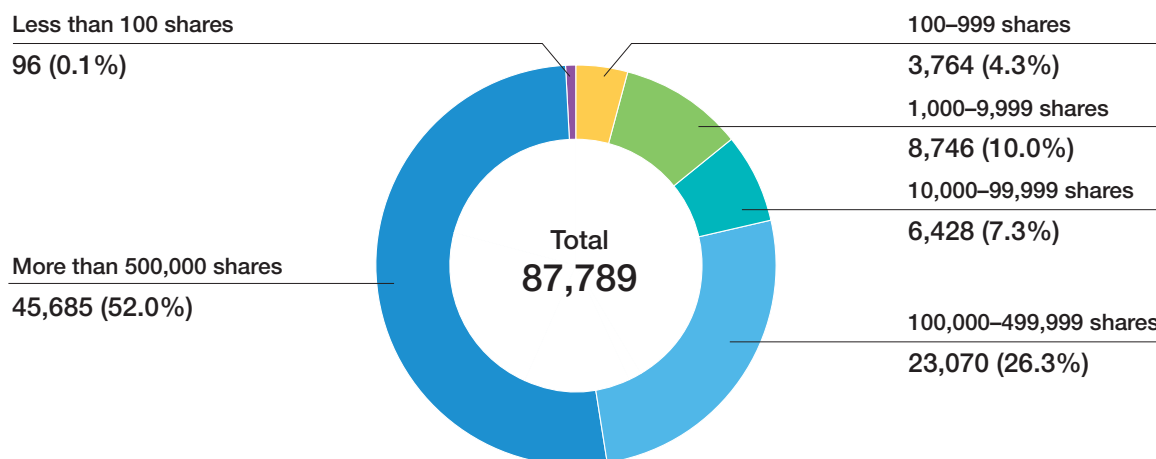
Major Shareholders (As of March 31, 2012)

Name	Number of shares (Thousands)	Shareholding ratio (%)
Japan Trustee Services Bank, Limited (Trust Account)	7,344	8.4
The Master Trust Bank of Japan, Limited (Trust Account)	5,330	6.1
Japan Trustee Services Bank, Limited (Trust Account 9)	3,619	4.1
Nippon Life Insurance Company	2,591	3.0
Employees' Shareholding Association of IT Holdings Corporation	2,372	2.7
Japan Trustee Service Bank, Ltd. (Trust Account 4)	1,717	2.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,654	1.9
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account, Mitsubishi Electric Corporation Account)	1,598	1.8
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	1,167	1.3
OBAYASHI Corporation	1,161	1.3
JCB Co., Ltd.	1,161	1.3

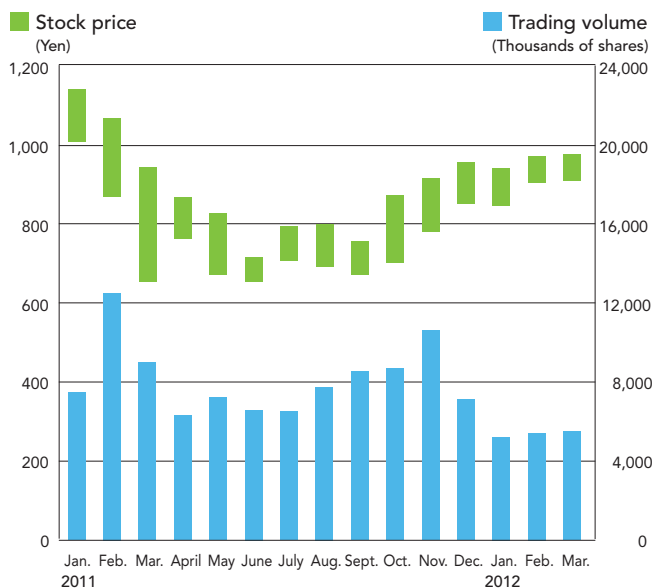
Share Composition by Shareholder (As of March 31, 2012; Thousands of Shares)



Share Composition by Number of Shares Held (As of March 31, 2012; Thousands of Shares)



Stock Price Range



ITHD Group

Management Philosophy

The ITHD Group seeks to be a corporate citizen whose activities, namely, the provision of various services utilizing information technology (IT), match its status as a leading corporate group, and will strive to raise corporate value, supported in this effort by the high regard of all its stakeholders, including clients and shareholders as well as employees and their families.

We will cultivate a vibrant corporate culture that encourages companies and individuals under the Group umbrella to work toward higher goals and embrace new challenges, and thereby ensure corporate growth.

We will always provide our very best to clients by combining Group strengths to foster higher quality and greater sophistication in our technological capabilities.

We will uphold high corporate morals and fulfill our social obligations.

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***Any revisions to information in this annual report
subsequent to publication will be posted at:***

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