

Financial Review

Note: Amounts in U.S. dollars are included solely for the convenience of non-Japanese readers. A rate of ¥102.92 = US\$1, the approximate rate of exchange prevailing on March 31, 2014, has been used in translation.

As of March 31, 2014, the ITHD Group comprised parent company IT Holdings Corporation (“ITHD” or “the Company”) and 40 consolidated subsidiaries, including principal companies TIS Inc., INTEC Inc., AGREX INC., QUALICA INC. and AJS Inc., and 12 companies accounted for by the equity method.

AJS System Service, WITH INTEC Inc. and Oartech, Inc., consolidated subsidiaries in the previous fiscal year, were liquidated during fiscal 2014 and are therefore excluded from the scope of consolidation.

Profit and Loss Analysis

Net Sales

Net sales edged up 2.6% from fiscal 2013, to ¥346,647 million (\$3,368 million), thanks to continued improvement from the three principal segments IT infrastructure services, financial IT services and industrial IT services.

A breakdown of performance by business segment is presented below.

(Sales by segment include intersegment sales.)

IT Infrastructure Services

Greater use of data centers and a favorable shift in demand for business process outsourcing (BPO), fueled by responses related to Japan’s new tax-free investment scheme NISA (Nippon Individual Savings Account), led to segment sales of ¥115,360 million (\$1,120 million), up 2.4% year-on-year. Operating income grew 7.8%, to ¥7,652 million (\$74 million).

(2) Financial IT Services

A gradual upturn in IT investment by key clients in the credit card, banking and insurance sectors underpinned a 5.1% increase in segment sales over the previous fiscal year, to ¥75,148 million (\$730 million). Operating income rose 6.0%, to ¥6,385 million (\$62 million).

(3) Industrial IT Services

Segment sales edged up 1.6%, to ¥158,234 million (\$1,537 million), as higher overall demand offset the impact of a reactionary decrease in large development projects for clients in the manufacturing industry. Operating income decreased 6.1%, to ¥4,687 (\$45 million) million, mainly because of unprofitable projects and also because measures to strengthen the marketing structure pushed up cost of sales.

(4) Others

Segment sales rebounded 1.6%, to ¥16,498 million (\$160 million), but operating income dipped ever so slightly—0.1%—to ¥2,152 million (\$20 million).

Sales and Income by Business Segment		Millions of yen	
(Years ended March 31)	2014	2013	% change
Net sales	¥346,647	¥337,834	+2.6%
IT infrastructure services	113,407	110,076	+3.0
Financial IT services	74,561	70,994	+5.0
Industrial IT services	151,322	149,565	+1.2
Others	7,355	7,196	+2.2
Operating income	19,510	18,171	+7.4
IT infrastructure services	7,652	7,101	+7.8
Financial IT services	6,385	6,021	+6.0
Industrial IT services	4,687	4,992	-6.1
Others	2,152	2,153	-0.1
Intersegment elimination/adjustments	(1,367)	(2,097)	—

Note: Sales by segment in the above chart exclude intersegment sales.

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.
Others	Activities other than those described above.

Expenses and Earnings

Operating income rose 7.4%, to ¥19,510 million (\$189 million), as solid contributions from IT infrastructure services and financial IT services covered a drop in earnings from industrial IT services caused by unprofitable projects and higher cost of

sales. Recurring profit grew 8.8%, to ¥18,971 million (\$184 million). Net income jumped 34.9%, to ¥7,913 million (\$76 million), thanks to higher operating income and a decrease in extraordinary expenses.

		Millions of yen	
(Years ended March 31)	2014	2013	% change
Cost of sales	¥283,881	¥276,935	+2.5%
Cost of sales ratio	81.9%	82.0%	-0.1 point
Gross profit	62,766	60,899	+3.1%
Gross profit margin	18.1%	18.0%	+0.1 point
Selling general and administrative expenses	43,255	42,727	+1.2%
Ratio of selling, general and administrative expenses to net sales	12.5%	12.6%	-0.1 point
Operating income	19,510	18,171	+7.4%
Operating income ratio	5.6%	5.4%	+0.2 point
Net income	7,913	5,868	+34.9%
Return on sales	2.3%	1.7%	+0.6 point

Financial Position

Assets

Total assets stood at ¥313,610 million (\$3,047 million) at the end of March 2014, up 3.8%. Current assets accounted for ¥143,519 million (\$1,394 million), up 3.8%, from a year earlier, and fixed assets accounted for ¥170,091 million (\$1,652 million), up 3.7%. Liabilities came to ¥149,107 million (\$1,448 million), up 3.4%, and net assets were ¥164,502 million

(\$1,598 million), up 4.0%. Minority interests accounted for ¥8,004 million (\$77 million) of net assets, and equity capital, excluding ¥45 million (\$437 thousand) in stock acquisition rights, amounted to ¥156,452 million (\$1,520 million), up 3.9%, for an equity ratio of 49.9%, up 0.1 point.

(As of March 31)	Millions of yen		
	2014	2013	% change
Total assets	¥313,610	¥302,302	+3.8%
Total liabilities	149,107	144,143	+3.4
Net assets	164,502	158,159	+4.0
Minority interests	8,004	7,602	+5.3
Stock acquisition rights	45	42	+7.1
Equity capital	156,452	150,514	+3.9
Key ratios:			%
Equity ratio (*1)	49.9%	49.8%	+0.1 point
Return on equity (*2)	5.2	4.0	+1.2 point

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 ¥43,142 million (\$419 million) as of March 31, 2014, up 51.7%, from a year earlier.

Net cash provided by operating activities jumped 19.8%, to ¥25,770 million (\$250 million). This change is primarily due to income before income taxes of ¥16,435 million (\$159 million) and the positive cash flow effect of ¥12,454 million (\$121 million) in depreciation, which offset a ¥1,597 million (\$15 million) increase in notes and accounts receivable and ¥5,602 million (\$54 million) in income tax payments.

Net cash used in investing activities dropped 62.9%, to ¥5,334 million (\$51 million). This change reflects inflows of

¥4,910 million (\$47 million) in proceeds from transfer of business, which exceeded outflows of ¥6,220 million (\$60 million) in payments for the acquisition of property and equipment, ¥22,499 million (\$218 million) for the acquisition of securities and ¥5,409 million (\$52 million) for the acquisition of intangible assets.

Net cash used in financing activities retreated 70.5%, to ¥5,872 million (\$57 million). This change is primarily due to the fact that outflow of ¥32,664 million (\$317 million) for repayment of long-term debt and ¥1,930 million (\$18 million) for dividends paid overshadowed inflow of ¥30,850 million (\$299 million) in proceeds from long-term debt.

(As of March 31)	Millions of yen		
	2014	2013	% change
Cash and cash equivalents at end of year	¥43,142	¥28,433	+51.7%
Net cash provided by operating activities	25,770	21,515	+19.8
Net cash used in investing activities	(5,334)	(14,391)	-62.9
Net cash used in financing activities	(5,872)	(19,883)	-70.5

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.

For the fiscal 2014 dividend, management considered the need to secure sufficient internal reserves to fund continued growth and decided on a year-end dividend of ¥17 (\$0.16) per share, for an annual dividend of ¥25 (\$0.24) per share.

For fiscal 2015, management expects to distribute an annual dividend of ¥30 (\$0.29) per share, including an interim dividend of ¥10 (\$0.09) per share.

(For the years ended March 31)	Yen		
	2014	2013	% change
Per share data			
Net income per share	¥ 90.16	¥ 66.86	+34.8%
Net assets per share	1,782.23	1,714.88	+3.9%
Dividend per share	25.00	21.00	+19.0%
Payout ratio	27.7%	31.4%	-3.7 points

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 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 of unforeseeable magnitude, 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 9, 2014.

Financial Section

Financial Statements

Consolidated Balance Sheets

IT Holdings Corporation and Its Consolidated Group Companies
As of March 31, 2013 and 2014

	Millions of yen	
	2013	2014
Assets		
Current assets		
Cash and deposits	¥ 28,633	¥ 43,248
Notes and accounts receivable	68,249	68,301
Lease receivables and lease investment assets	9,322	6,654
Marketable securities	5,401	226
Merchandise and finished goods	3,035	3,207
Work in process	7,091	6,757
Raw materials and supplies	200	229
Deferred tax assets	8,523	6,603
Other current assets	7,846	8,450
Allowance for doubtful accounts	(85)	(159)
Total current assets	138,219	143,519
Fixed assets		
Property and equipment		
Buildings and structures, net	58,133	56,565
Machinery and equipment, net	4,231	4,428
Land	21,135	20,726
Leased assets, net	3,615	4,738
Other property and equipment, net	6,475	5,153
Total property and equipment	93,592	91,612
Intangible assets		
Goodwill	1,784	771
Other intangible assets	13,487	14,802
Total intangible assets	15,272	15,573
Investments and other assets		
Investment securities	32,633	38,787
Net defined benefit asset	—	4,103
Deferred tax assets	6,823	6,881
Other assets	17,577	13,362
Allowance for doubtful accounts	(1,816)	(229)
Total investments and other assets	55,218	62,905
Total fixed assets	164,083	170,091
Total assets	¥302,302	¥313,610

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, 2013 and 2014

	Millions of yen	
	2013	2014
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 17,692	¥ 18,828
Short-term borrowings	32,881	14,299
Income taxes payable	3,112	3,495
Accrued bonuses to directors and employees	11,074	10,932
Other allowances	551	1,007
Other current liabilities	25,750	24,226
Total current liabilities	91,063	72,790
Non-current liabilities		
Long-term debt	27,668	44,570
Lease obligations	5,501	6,160
Deferred tax liabilities	492	470
Deferred tax liabilities from revaluation of land	732	732
Accrued retirement benefits to employees	12,762	—
Accrued retirement benefits to directors	108	88
Net defined benefit liability	—	18,688
Other non-current liabilities	5,813	5,606
Total non-current liabilities	53,079	76,316
Total liabilities	144,143	149,107
Net assets		
Shareholders' equity		
Common stock	10,001	10,001
Additional paid-in capital	86,787	86,786
Retained earnings	51,596	57,579
Less treasury stock, at cost	(27)	(6)
Total shareholders' equity	148,357	154,360
Accumulated other comprehensive income		
Net unrealized gains on other securities	4,271	5,975
Revaluation of land	(1,967)	(1,967)
Foreign currency translation adjustments	(147)	48
Remeasurements of defined benefit plans	—	(1,964)
Total accumulated other comprehensive income	2,157	2,092
Stock acquisition rights	42	45
Minority interests	7,602	8,004
Total net assets	158,159	164,502
Total liabilities and net assets	¥302,302	¥313,610

Consolidated Statements of Income

IT Holdings Corporation and Its Consolidated Group Companies
For Years Ended March 31, 2013 and 2014

	Millions of yen	
	2013	2014
Net sales	¥337,834	¥346,647
Cost of sales	276,935	283,881
Gross profit	60,899	62,766
Selling, general and administrative expenses	42,727	43,255
Operating income	18,171	19,510
Non-operating income		
Interest income	23	38
Dividend income	565	644
Foreign exchange gains	184	88
Rental income from real estate	257	259
Other	427	626
Total non-operating income	1,458	1,656
Non-operating expenses		
Interest expenses	789	598
Equity in losses of non-consolidated subsidiaries and affiliates	105	470
Financing expenses	—	350
Provision of allowance for doubtful accounts	482	30
Other	813	745
Total non-operating expenses	2,189	2,195
Recurring profit	17,440	18,971
Extraordinary income		
Gain on sale of fixed assets	44	1
Gain on sale of investment securities	95	817
Other	36	43
Total extraordinary income	175	862
Extraordinary losses		
Loss on disposal of fixed assets	662	269
Impairment loss	1,523	1,073
Loss on liquidation of business	—	463
Special severance pay	—	608
Structural reform-related expenses	843	—
Loss on partial termination of retirement benefit scheme	2,609	148
Other	792	834
Total extraordinary losses	6,431	3,398
Income before income taxes and minority interests	11,185	16,435
Income taxes: current	5,224	5,459
Income taxes: deferred	(349)	2,353
Total income taxes	4,874	7,813
Income before minority interests	6,310	8,622
Minority interests in earnings (losses) of consolidated subsidiaries	441	708
Net income	¥ 5,868	¥ 7,913

Consolidated Statements of Comprehensive Income

IT Holdings Corporation and Its Consolidated Group Companies
For Years Ended March 31, 2013 and 2014

	Millions of yen	
	2013	2014
Income before minority interests	¥ 6,310	¥ 8,622
Other comprehensive income		
Net unrealized gains on other securities	3,108	1,689
Difference in revaluation of land	(248)	—
Foreign currency translation adjustments	169	249
Share of other comprehensive income of associates accounted for using the equity method	4	24
Total other comprehensive income	3,033	1,963
Comprehensive income	9,343	10,586
Components:		
Comprehensive income attributable to owners of the parent	8,804	9,813
Comprehensive income attributable to minority interests	539	773

Consolidated Statements of Changes in Net Assets

IT Holdings Corporation and Its Consolidated Group Companies
For Years Ended March 31, 2013 and 2014

	Millions of yen	
	2013	2014
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	86,787	86,787
Changes during the fiscal year		
Disposal of treasury stock	(0)	(1)
Total changes during the fiscal year	(0)	(1)
Balance at end of fiscal year	86,787	86,786
Retained earnings		
Balance at end of previous fiscal year	47,673	51,596
Changes during the fiscal year		
Dividends from surplus	(2,194)	(1,930)
Net income	5,868	7,913
Reversal of revaluation reserve for land	248	—
Net changes during the fiscal year	3,923	5,982
Balance at end of fiscal year	51,596	57,579
Treasury stock		
Balance at end of previous fiscal year	(25)	(27)
Changes during the fiscal year		
Acquisition of treasury stock	(2)	(8)
Disposal of treasury stock	0	29
Net changes during the fiscal year	(2)	21
Balance at end of fiscal year	(27)	(6)
Total shareholders' equity		
Balance at end of previous fiscal year	144,436	148,357
Changes during the fiscal year		
Dividends from surplus	(2,194)	(1,930)
Net income	5,868	7,913
Acquisition of treasury stock	(2)	(8)
Disposal of treasury stock	0	27
Reversal of revaluation reserve for land	248	—
Items other than changes in shareholders' equity, net	—	—
Net changes during the fiscal year	3,920	6,002
Balance at end of fiscal year	148,357	154,360
Accumulated other comprehensive income		
Net unrealized gains on other securities		
Balance at end of previous fiscal year	1,210	4,271
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	3,061	1,703
Net changes during the fiscal year	3,061	1,703
Balance at end of fiscal year	4,271	5,975

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Consolidated Statements of Changes in Net Assets

Continued from the previous page

	Millions of yen	
	2013	2014
Revaluation reserve for land		
Balance at end of previous fiscal year	(1,718)	(1,967)
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	(248)	—
Net changes during the fiscal year	(248)	—
Balance at end of fiscal year	(1,967)	(1,967)
Foreign currency translation adjustments		
Balance at end of previous fiscal year	(270)	(147)
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	123	196
Net changes during the fiscal year	123	196
Balance at end of fiscal year	(147)	48
Remeasurements of defined benefit plans		
Balance at end of previous fiscal year	—	—
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	—	(1,964)
Net changes during the fiscal year	—	(1,964)
Balance at end of fiscal year	—	(1,964)
Accumulated other comprehensive income		
Balance at end of previous fiscal year	(778)	2,157
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	2,935	(64)
Net changes during the fiscal year	2,935	(64)
Balance at end of fiscal year	2,157	2,092
Stock acquisition rights		
Balance at end of previous fiscal year	38	42
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	3	3
Net changes during the fiscal year	3	3
Balance at end of fiscal year	42	45
Minority interests		
Balance at end of previous fiscal year	7,267	7,602
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	334	402
Net changes during the fiscal year	334	402
Balance at end of fiscal year	7,602	8,004
Total net assets		
Balance at end of previous fiscal year	150,965	158,159
Changes during the fiscal year		
Dividends from surplus	(2,194)	(1,930)
Net income	5,868	7,913
Acquisition of treasury stock	(2)	(8)
Disposal of treasury stock	0	27
Reversal of revaluation reserve for land	248	—
Items other than changes in shareholders' equity, net	3,273	341
Net changes during the fiscal year	7,194	6,343
Balance at end of fiscal year	¥158,159	¥164,502

Consolidated Statements of Cash Flows

IT Holdings Corporation and Its Consolidated Group Companies
For Years Ended March 31, 2013 and 2014

	Millions of yen	
	2013	2014
Cash flows from operating activities		
Income before income taxes and minority interests	¥ 11,185	¥ 16,435
Depreciation	12,920	12,454
Impairment loss	1,523	1,073
Loss on disposal of fixed assets	662	269
Amortization of goodwill	1,670	1,095
Increase (decrease) in accrued bonuses to directors and employees	(11)	(151)
Increase (decrease) in allowance for doubtful accounts	(238)	(1,513)
Increase (decrease) in accrued retirement benefits to employees	413	(12,762)
Increase (decrease) in net defined benefit liability	—	13,958
Interest and dividend income	(589)	(682)
Interest expenses	789	598
(Increase) decrease in notes and accounts receivable	(4,088)	(1,597)
(Increase) decrease in inventories	770	142
Increase (decrease) in notes and accounts payable	(71)	1,138
Structural reform-related expenses	(401)	—
Other, net	1,402	843
Subtotal	25,936	31,304
Interest and dividend income received	578	695
Interest expenses paid	(819)	(626)
Income taxes paid	(4,180)	(5,602)
Net cash provided by operating activities	21,515	25,770
Cash flows from investing activities		
Purchase of marketable securities	(5,600)	(22,499)
Proceeds from sale and redemption of marketable securities	500	27,699
Acquisitions of property and equipment	(7,454)	(6,220)
Acquisitions of intangible assets	(4,149)	(5,409)
Purchase of investment securities	(992)	(8,388)
Proceeds from sale and redemption of investment securities	990	4,709
Payment of lease and guarantee deposits	(308)	(397)
Collection of lease and guarantee deposits	2,263	758
Proceeds from transfer of business	—	4,920
Other, net	358	(505)
Net cash used in investing activities	(14,391)	(5,334)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	(4,053)	(223)
Proceeds from long-term debt	12,500	30,850
Repayments of long-term debt	(24,294)	(32,664)
Redemption of bonds	(100)	—
Dividends paid	(2,194)	(1,930)
Dividends paid to minority shareholders	(199)	(323)
Other, net	(1,540)	(1,579)
Net cash used in financing activities	(19,883)	(5,872)
Effect of exchange rate changes on cash and cash equivalents	109	140
Net increase (decrease) in cash and cash equivalents	(12,649)	14,703
Cash and cash equivalents at beginning of year	41,119	28,433
Increase in cash and cash equivalents resulting from merger	—	4
Decrease in cash and cash equivalents due to corporate division	(36)	—
Cash and cash equivalents at end of year	¥ 28,433	¥ 43,142