

Note: Amounts in U.S. dollars are included solely for the convenience of non-Japanese readers.

A rate of ¥94.05 = US\$1, the approximate rate of exchange prevailing on March 31, 2013, has been used in translation.

As of March 31, 2013, the ITHD Group comprised parent company IT Holdings Corporation (“ITHD” or “the Company”) and 43 consolidated subsidiaries, including principal companies TIS Inc., INTEC Inc., AGREX INC., QUALICA INC. and AJS Inc.

The scope of consolidation was affected by several changes during fiscal 2013. On April 1, 2012, System Support Co., Ltd., merged into TIS System Service Inc. and SORUN ESTATE CORPORATION merged into TIS Total Service Co., Ltd., effectively removing the two absorbed companies from the scope of consolidation. On January 1, 2013, SKY INTEC Inc. merged into INTEC Amenity Inc., and the absorbed company was removed from the scope of consolidation. All shares held in SORUN HOKURIKU CORPORATION were sold in April 2012, leading to the company’s exclusion from the scope of consolidation in fiscal 2013. CAREER SERVICE CORPORATION, a consolidated company as fiscal 2012, was liquidated and removed from the scope of consolidation in fiscal 2013.

Profit and Loss Analysis

Net Sales

Net sales reached ¥337,834 million (\$3,592 million), up 3.2% from a year ago, underpinned by accelerating demand for industrial IT services and gradual recovery in demand for financial IT services.

A breakdown of performance by business segment is presented below.
(Sales by segment include intersegment sales.)

(1) IT Infrastructure Services

Consolidated sales increased 1.2% year-on-year, to ¥112,666 million (\$1,197 million) and operating income declined 11.8%, to ¥7,101 million (\$75 million). While net sales rose steadily as major customers started using the Group’s data centers, operating income declined from the previous fiscal year, owing to the impact of up-front investments made in response to increased demand for data center services as well as a rise in electricity charges.

(2) Financial IT Services

Segment sales rose 2.0% year-on-year, to ¥71,499 million (\$760 million) and operating income jumped 32.8%, to ¥6,021 million (\$64 million). The increases in sales and income were primarily driven by the resumption of IT-related investments by the Group’s key customers in the credit card industry and the success of cost-cutting measures.

(3) Industrial IT Services

Segment sales increased 4.2% year-on-year, to ¥155,689 million (\$1,655 million), while operating income soared 87.8%, to ¥4,992 million (\$53 million). A large-scale system development project for a major manufacturer fueled the sales increase, while income improved by virtue of cost reductions.

(4) Other

Segment sales decreased slightly year-on-year, to ¥16,232 million (\$172 million), and operating income retreated 5.4%, to ¥2,153 million (\$22 million).

Sales and Income by Business Segment		Millions of yen	
	2013	2012	% change
Net sales	¥337,834	¥327,417	+3.2
IT infrastructure services	110,076	109,234	+0.8
Financial IT services	70,994	69,659	+1.9
Industrial IT services	149,565	141,862	+5.4
Other business	7,196	6,661	+8.0
Operating income	18,171	15,621	+16.3%
IT infrastructure services	7,101	8,049	-11.8
Financial IT services	6,021	4,534	+32.8
Industrial IT services	4,992	2,658	+87.8
Other business	2,153	2,277	-5.4
Intersegment elimination/adjustments	-2,097	-1,898	-

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.
Other Business	Activities other than those described above.

Costs, Expenses and Earning

Operating income came to ¥18,171 million (\$193 million), up 16.3% year-on-year and surpassing expectations. This improvement is largely due to the higher net sales starting point and enhanced productivity as well as the appearance of tangible results from office relocation and centralization and benefits realized through measures paralleling merger activity among subsidiaries. Recurring profit climbed 13.3%, to ¥17,440 million (\$185 million). Net income skyrocketed 174.9%, to ¥5,868 million (\$62 million), reflecting higher operating income as well as lower extraordinary losses, such as the cost of structural reforms.

		Millions of yen	
	2013	2012	% change
Cost of sales	¥276,935	¥266,159	+4.0%
Cost of sales ratio	82.0%	81.3%	+0.7 points
Gross profit	60,899	61,258	-0.6%
Gross profit margin	18.0%	18.7%	-0.7 points
Selling, general and administrative expenses	42,727	45,636	-6.4%
Ratio of selling, general and administrative expenses to net sales	12.6%	13.9%	+1.3 points
Operating income	18,171	15,621	+16.3%
Operating income ratio	5.4%	4.8%	+0.6 points
Net income	5,868	2,135	+174.9
Return on sales	1.7%	0.7%	+1.0 points

Financial Position

Assets

Total assets stood at ¥302,302 million (\$3,214 million) as of March 31, 2013, down 2.5% from a year earlier. Of this amount, current assets accounted for ¥138,219 million (\$1,469 million), up 3.0% year-on-year, and total fixed assets accounted for ¥164,083 million (\$1,744 million), down 2.1%. Total liabilities dropped 9.4%, to ¥144,143 million (\$1,532 million), and total net assets reached ¥158,159 million (\$1,681 million), up 4.8% from the end of March 2012. Equity capital, calculated by subtracting ¥7,602 million (\$80 million) in minority interest in consolidated subsidiaries and ¥42 million (\$446 thousand) in subscription rights from net assets, rose 4.8%, or ¥150,514 million (\$1,600 million) over the previous fiscal year, and the equity ratio rebounded 3.5 percentage points, to 49.8%.

	Millions of yen		
	2013	2012	% change
Total assets	¥302,302	¥310,003	-2.5%
Total liabilities	144,143	159,038	-9.4
Total net assets	158,159	150,965	+4.8
Minority interests	7,602	7,267	+4.6
Stock acquisition rights	42	38	+10.5
Equity capital	150,514	143,658	+4.8
Key ratios:	%		
Equity ratio ¹	49.8%	46.3%	+3.5 points
Return on equity ²	4.0	1.5	+2.5 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 ¥28,433 million (\$302 million) as of March 31, 2013, down 30.9% from a year earlier.

Net cash provided by operating activities grew 9.1%, to ¥21,515 million (\$228 million). This change is mainly due to the fact that cash outflow, namely, a ¥4,088 million (\$43 million) increase in notes and accounts receivable and ¥4,180 million (\$44 million) in income tax payments, were more than offset by income before taxes and minority interests of ¥11,185 million (\$118 million) and ¥12,920 million (\$137 million) in depreciation.

Net cash used in investing activities decreased 5.1%, to ¥14,391 million (\$153 million), as cash inflow, mainly ¥2,263 million (\$24 million) in proceeds from lease and guarantee deposits, was overshadowed by cash outflow, particularly ¥7,454 million (\$79 million) in payments for the acquisition of property and equipment, ¥5,600 million (\$59 million) for the acquisition of securities, and ¥4,149 million (\$44 million) for the acquisition of intangible assets.

Net cash used in financing activities more than quadrupled, to ¥19,883 million (\$211 million). This reflects cash outflow, such as ¥24,294 million (¥258 million) for repayment of long-term bank loans and a ¥4,053 million (\$43 million) net decrease in short-term borrowings, which negated cash inflow such as ¥12,500 million (\$132 million) in proceeds from long-term bank loans.

	Millions of yen		
	2013	2012	% change
Cash and cash equivalents at end of year	¥28,433	¥41,119	-30.9%
Net cash provided by operating activities	21,515	23,658	+9.1
Net cash used in investing activities	(14,391)	(15,158)	-5.1
Net cash used in financing activities	(19,883)	(4,230)	+370.0

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 2013, the Company booked consolidated extraordinary losses comprising approximately ¥2,600 million (\$27 million) in expense following changes to the pension program at consolidated subsidiary TIS, Inc., approximately ¥1,500 million (\$15 million) in real estate impairment loss, approximately ¥700 million (\$7 million) in loss on disposal of fixed assets and a total of approximately ¥800 million (\$8 million) spent on structural reform-related activities. The Company also took into account the need to secure sufficient internal reserves to fund continued growth. Management therefore decided on a year-end dividend of ¥14 (\$0.14) per share.

For fiscal 2014, management expects to distribute an annual dividend of ¥25 per share, including an interim dividend of ¥8 per share.

		Yen	
	2013	2012	% change
<i>Per share data:</i>			
Net income per share	¥ 66.86	¥ 24.33	+174.8%
Net assets per share	1,714.88	1,636.72	+4.8%
Dividends per share	21.00	18.00	+16.7%
Payout ratio	31.4%	74.0%	-42.6 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, 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, 2013.

Consolidated Balance Sheets

IT Holdings Corporation and Its Consolidated Group Companies

As of March 31, 2012 and 2013

	2012	2013
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and deposits	¥ 41,365	¥ 28,633
Notes and accounts receivable	64,591	68,249
Lease receivables and lease investment assets	8,942	9,322
Marketable securities	201	5,401
Merchandise and finished goods	2,633	3,035
Work in process	8,278	7,091
Raw materials and supplies	209	200
Deferred tax assets	8,027	8,523
Other current assets	8,305	7,846
Allowance for doubtful accounts	(112)	(85)
Total current assets	142,442	138,219
Fixed assets		
Property and equipment		
Buildings and structures, net	58,635	58,133
Machinery and equipment, net	4,360	4,231
Land	22,266	21,135
Leased assets, net	3,455	3,615
Other property and equipment, net	6,074	6,475
Total property and equipment	94,792	93,592
Intangible assets		
Goodwill	3,471	1,784
Other intangible assets	14,047	13,487
Total intangible assets	17,519	15,272
Investments and other assets		
Investment securities	28,693	32,633
Deferred tax assets	8,597	6,823
Other assets	19,986	17,577
Allowance for doubtful accounts	(2,028)	(1,816)
Total investments and other assets	55,248	55,218
Total fixed assets	167,560	164,083
Total assets	¥310,003	¥302,302

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, 2012 and 2013

	2012	2013
	Millions of yen	Millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 17,917	¥ 17,692
Short-term borrowings	23,126	32,881
Corporate bonds (redeemed within one year)	100	—
Income taxes payable	2,341	3,112
Accrued bonuses to directors and employees	11,115	11,074
Other allowances	322	551
Other current liabilities	28,141	25,750
Total current liabilities	83,065	91,063
Non-current liabilities		
Long-term debt	53,288	27,668
Lease obligations	4,723	5,501
Deferred tax liabilities	503	492
Deferred tax liabilities from revaluation of land	869	732
Accrued retirement benefits to employees	12,359	12,762
Accrued retirement benefits to directors	107	108
Other non-current liabilities	4,120	5,813
Total non-current liabilities	75,972	53,079
Total liabilities	159,038	144,143
Net assets		
Shareholders' equity		
Common stock	10,001	10,001
Additional paid-in capital	86,787	86,787
Retained earnings	47,673	51,596
Less treasury stock, at cost	(25)	(27)
Total shareholders' equity	144,436	148,357
Accumulated other comprehensive income		
Net unrealized gains on other securities	1,210	4,271
Revaluation of land	(1,718)	(1,967)
Foreign currency translation adjustments	(270)	(147)
Total accumulated other comprehensive income	(778)	2,157
Stock acquisition rights	38	42
Minority interests	7,267	7,602
Total net assets	150,965	158,159
Total liabilities and net assets	¥310,003	¥302,302

Consolidated Statements of Income

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2012 and 2013

	2012	2013
	Millions of yen	Millions of yen
Net sales	¥327,417	¥337,834
Cost of sales	266,159	276,935
Gross profit	61,258	60,899
Selling, general and administrative expenses	45,636	42,727
Operating income	15,621	18,171
Non-operating income		
Interest income	23	23
Dividend income	619	565
Foreign exchange gains	18	184
Rental income from real estate	266	257
Reversal of allowance for doubtful accounts	270	—
Other	449	427
Total non-operating income	1,646	1,458
Non-operating expenses		
Interest expenses	898	789
Equity in losses of non-consolidated subsidiaries and affiliates	202	105
Provision of allowance for doubtful accounts	—	482
Other	773	813
Total non-operating expenses	1,874	2,189
Recurring profit	15,393	17,440
Extraordinary income		
Gain on sale of fixed assets	62	44
Gain on sale of investment securities	1,142	95
Other	103	36
Total extraordinary income	1,307	175
Extraordinary losses		
Loss on disposal of fixed assets	249	662
Impairment loss	766	1,523
Valuation loss on investment securities	318	71
Merger-related expenses	381	—
Structural reform-related expenses	7,852	843
Loss on partial termination of retirement benefit scheme	—	2,609
Other	1,010	720
Total extraordinary losses	10,579	6,431
Income before income taxes and minority interests	6,121	11,185
Income taxes: current	4,068	5,224
Income taxes: deferred	(170)	(349)
Total income taxes	3,897	4,874
Income before minority interests	2,224	6,310
Minority interests in earnings (losses) of consolidated subsidiaries	89	441
Net income	¥ 2,135	¥ 5,868

Consolidated Statements of Comprehensive Income

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2012 and 2013

	2012	2013
	Millions of yen	Millions of yen
Income before minority interests	¥2,224	¥6,310
Other comprehensive income		
Net unrealized gains on other securities	(514)	3,108
Difference in revaluation of land	123	(248)
Foreign currency translation adjustments	33	169
Share of other comprehensive income of associates accounted for using the equity method	(5)	4
Total other comprehensive income	(363)	3,033
Comprehensive income	1,860	9,343
Components:		
Comprehensive income attributable to owners of the parent	1,772	8,804
Comprehensive income attributable to minority interests	¥ 87	¥ 539

Consolidated Statements of Changes in Net Assets

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2012 and 2013

	2012	2013
	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	86,788	86,787
Changes during the fiscal year		
Disposal of treasury stock	(0)	(0)
Total changes during the fiscal year	(0)	(0)
Balance at end of fiscal year	86,787	86,787
Retained earnings		
Balance at end of previous fiscal year	47,298	47,673
Changes during the fiscal year		
Dividends from surplus	(1,755)	(2,194)
Net income	2,135	5,868
Change in scope of equity method	(0)	—
Reduction in revaluation reserve for land	—	248
Decrease from merger of consolidated and non-consolidated subsidiaries	(3)	—
Net changes during the fiscal year	375	3,923
Balance at end of fiscal year	47,673	51,596
Treasury stock		
Balance at end of previous fiscal year	(24)	(25)
Changes during the fiscal year		
Acquisition of treasury stock	(1)	(2)
Disposal of treasury stock	0	0
Net changes during the fiscal year	(1)	(2)
Balance at end of fiscal year	(25)	(27)
Total shareholders' equity		
Balance at end of previous fiscal year	144,062	144,436
Changes during the fiscal year		
Dividends from surplus	(1,755)	(2,194)
Net income	2,135	5,868
Acquisition of treasury stock	(1)	(2)
Disposal of treasury stock	0	0
Change in scope of equity method	(0)	—
Reversal of land revaluation difference	—	248
Decrease from merger of consolidated and non-consolidated subsidiaries	(3)	—
Net changes during the fiscal year	374	3,920
Balance at end of fiscal year	¥144,436	¥148,357

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Consolidated Statements of Changes in Net Assets

Continued from the previous page

	2012	2013
	Millions of yen	Millions of yen
Accumulated other comprehensive income		
Net unrealized gains on other securities		
Balance at end of previous fiscal year	¥ 1,729	¥ 1,210
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	(519)	3,061
Net changes during the fiscal year	(519)	3,061
Balance at end of fiscal year	1,210	4,271
Revaluation reserve for land		
Balance at end of previous fiscal year	(1,841)	(1,718)
Items other than changes in shareholders' equity, net	123	(248)
Total change during the fiscal year	123	(248)
Balance at end of the fiscal year	(1,718)	(1,967)
Foreign currency translation adjustments		
Balance at end of previous fiscal year	(303)	(270)
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	33	123
Net changes during the fiscal year	33	123
Balance at end of fiscal year	(270)	(147)
Accumulated other comprehensive income		
Balance at end of previous fiscal year	(415)	(778)
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	(362)	2,935
Net changes during the fiscal year	(362)	2,935
Balance at end of fiscal year	(778)	2,157
Stock acquisition rights		
Balance at end of previous fiscal year	29	38
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	9	3
Net changes during the fiscal year	9	3
Balance at end of fiscal year	38	42
Minority interests		
Balance at end of previous fiscal year	7,434	7,267
Changes during the fiscal year		
Items other than changes in shareholders' equity, net	(166)	334
Net changes during the fiscal year	(166)	334
Balance at end of fiscal year	7,267	7,602
Total net assets		
Balance at end of previous fiscal year	151,110	150,965
Changes during the fiscal year		
Dividends from surplus	(1,755)	(2,194)
Net income	2,135	5,868
Acquisition of treasury stock	(1)	(2)
Disposal of treasury stock	0	0
Change in scope of equity method	(0)	—
Reversal of land revaluation difference	—	248
Decrease from merger of consolidated and non-consolidated subsidiaries	(3)	—
Items other than changes in shareholders' equity, net	(519)	3,273
Net changes during the fiscal year	(145)	7,194
Balance at end of fiscal year	¥150,965	¥158,159

Consolidated Statements of Cash Flows

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31, 2012 and 2013

	2012	2013
	Millions of yen	Millions of yen
Cash flows from operating activities		
Income before income taxes and minority interests	¥ 6,121	¥11,185
Depreciation	12,745	12,920
Impairment loss	766	1,523
Loss on disposal of fixed assets	249	662
Valuation (gain) loss on investment securities	318	71
Amortization of goodwill	1,882	1,670
Increase (decrease) in accrued bonuses to directors and employees	(8)	(11)
Increase (decrease) in allowance for doubtful accounts	(391)	(238)
Increase (decrease) in accrued retirement benefits to employees	547	413
Interest and dividend income	(642)	(589)
Interest expenses	898	789
(Increase) decrease in notes and accounts receivable	(5,235)	(4,088)
(Increase) decrease in inventories	(2,214)	770
Increase (decrease) in notes and accounts payable	2,710	(71)
Structural reform-related expenses	2,388	(401)
Other, net	8,448	1,331
Subtotal	28,585	25,936
Interest and dividend income received	656	578
Interest expenses paid	(897)	(819)
Income taxes paid	(4,685)	(4,180)
Net cash provided by operating activities	23,658	21,515
Cash flows from investing activities		
Purchase of marketable securities	(400)	(5,600)
Acquisitions of property and equipment	(9,519)	(7,454)
Acquisitions of intangible assets	(4,927)	(4,149)
Proceeds from sale and redemption of investment securities	2,314	990
Payment of lease and guarantee deposits	(2,009)	(308)
Collection of lease and guarantee deposits	538	2,263
Other, net	(1,153)	(134)
Net cash used in investing activities	(15,158)	(14,391)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	4,403	(4,053)
Proceeds from long-term debt	16,637	12,500
Repayments of long-term debt	(14,662)	(24,294)
Redemption of bonds	(7,500)	(100)
Dividends paid	(1,755)	(2,194)
Dividends paid to minority shareholders	(155)	(199)
Other, net	(1,197)	(1,540)
Net cash used in financing activities	(4,230)	(19,883)
Effect of exchange rate changes on cash and cash equivalents	31	109
Net increase (decrease) in cash and cash equivalents	4,301	(12,649)
Cash and cash equivalents at beginning of year	36,492	41,119
Increase in cash and cash equivalents resulting from merger	325	—
Decrease in cash and cash equivalents due to corporate division	—	(36)
Cash and cash equivalents at end of year	¥41,119	¥28,433