



Annual Report 2011

Year Ended March 31, 2011

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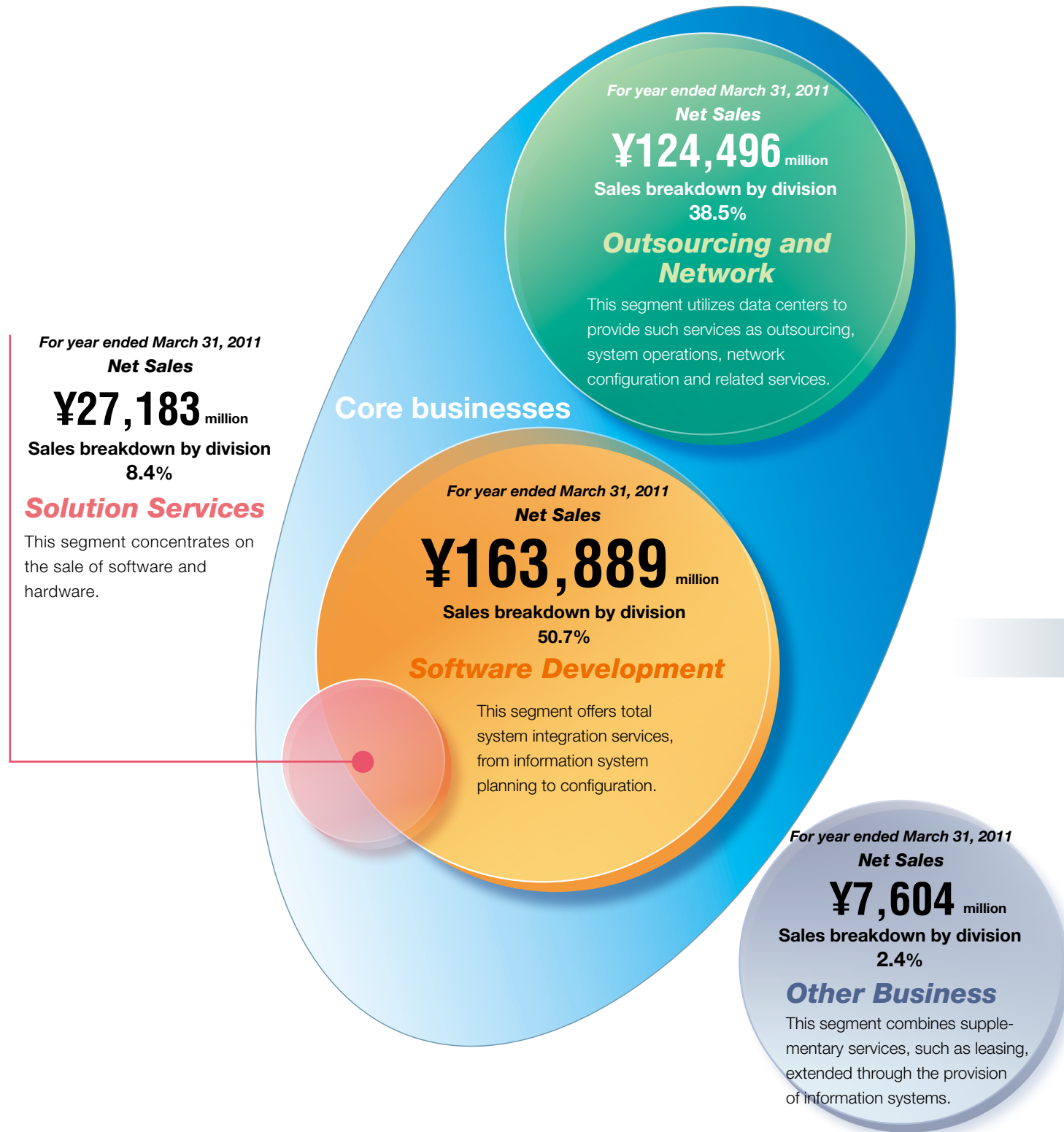
Financial Review

Financial Section

Corporate Data

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, 2011, the Group comprised 72 companies—53 of which fell under the scope of consolidation and 10 of which are affiliated companies accounted for under the equity method—and net sales reached ¥323 billion.



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.

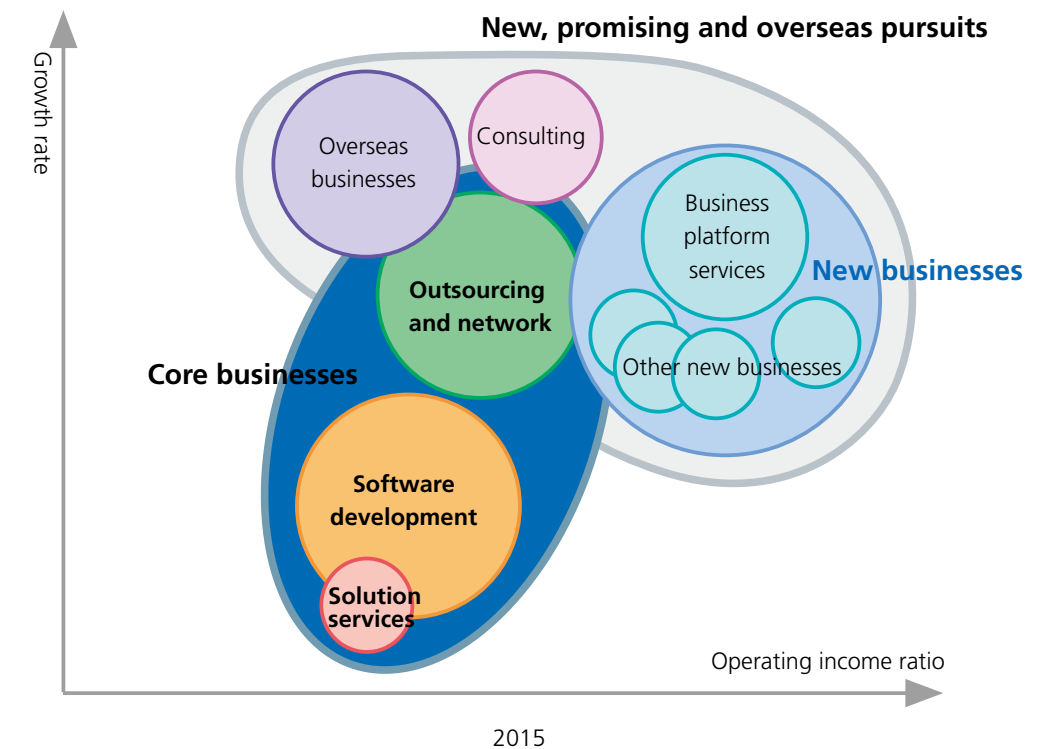
We will cultivate a vibrant corporate culture that encourages companies and individuals under the Group umbrella to work toward higher goals and embrace new challenges, and thereby ensure corporate growth.

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.

Future Targets

By 2015, the IT Holdings 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.



Overall Progress and Results ITHD Group

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.

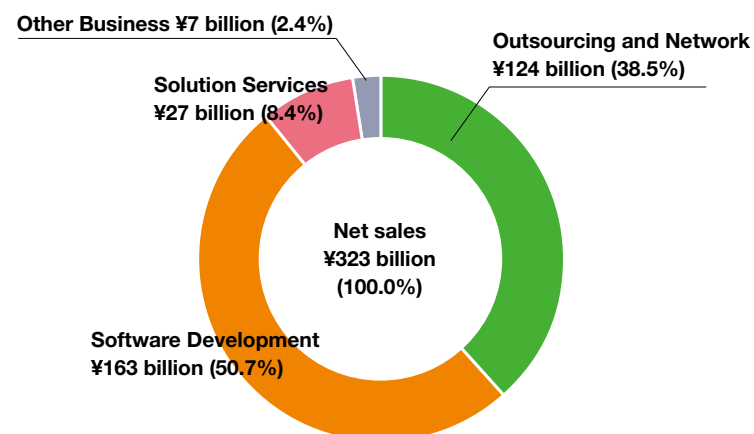
December 2009

SORUN CORPORATION joined the IT Holdings Group.

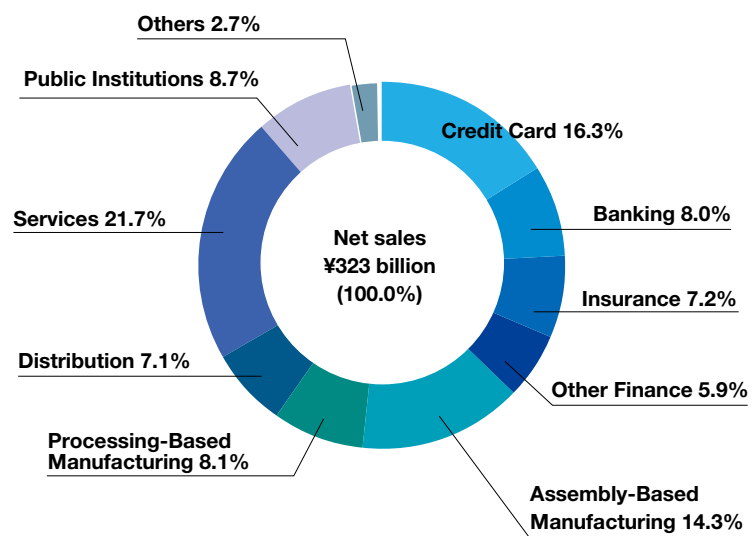
April 2011

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

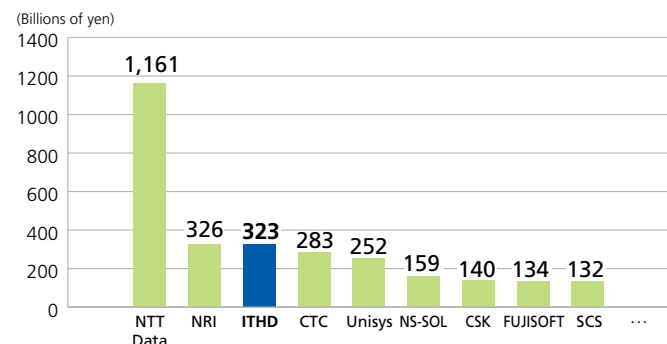
Net Sales by Business Segment (Year ended March 31, 2011)



Net Sales by Client Sector (Year ended March 31, 2011)



Net Sales of Japan's Leading IT Companies



Note: The graph data indicates net sales of NTT Data Corporation, Nomura Research Institute, Ltd., ITOCHU Techno-Solutions Corporation, Nihon Unisys, Ltd., NS Solutions Corporation, CSK Corporation, FUJISOFT Incorporated, Sumisho Computer Systems Corporation (SCS), and ITHD.

IT Holdings Corporation and Consolidated Subsidiaries				
	2011	2010	Change	2011
	Millions of yen	Millions of yen		Thousands of U.S. dollars
For year ended March 31:				
Net sales	¥323,173	¥313,856	+3.0%	\$3,886,632
Operating income	12,818	15,996	-19.9%	154,160
Net income	5,985	7,660	-21.9%	71,981
At year-end:				
Total assets	301,076	313,077	-3.8%	3,620,878
Total net assets	151,110	155,075	+2.6%	1,817,321
Net cash provided by operating activities	27,237	31,401	-13.3%	327,564
Cash and cash equivalents at end of year	36,493	46,988	-22.3%	438,880
Per share of common stock (¥):				
Net income, basic	¥68.19	¥89.25	-23.6%	\$0.82
Net income, diluted	—	—	—	—
Net assets	1,636.56	1,602.77	+2.1%	19.68
Cash dividends	32.00	32	0.0%	0.38
Key ratios (%):				
Return on equity	4.2%	5.70%	-1.5 points	
Equity ratio	47.7%	44.20%	+3.5 points	

Notes: 1. U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥83.15 = US\$1, the approximate rate prevailing on March 31, 2011.
 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
 3. Equity ratio = [Equity capital/Total assets] x 100
 4. Equity capital = Net assets - [Subscription rights + Minority interests] = ¥143,646 million for the year ended March 31, 2011.

Principal Operating Companies	Consolidated Subsidiaries		Business Content	Fiscal 2011 Net Sales
	Domestic	Overseas		
TIS Inc.	2	3	Addresses IT needs of clients in many industries, including finance, manufacturing and service. Provides one-stop responses, ranging from platform system development to data center services.	¥81 billion (Consolidated)
SORUN CORPORATION	10*	3	Focuses on clients in finance and manufacturing sectors but working to achieve good balance of business with orders from telecommunications and public service sectors. Also develops systems for aerospace industry.	¥45 billion (Consolidated)
UFIT Co., Ltd.	2	0	Strengths in services for clients in credit card and consumer finance sectors. Focuses on outsourcing services.	¥38 billion (Consolidated)
New TIS Inc. (From April 1, 2011)				¥166 billion (Note)
INTEC Inc.	10	0	Boasts expertise in services for clients over a diverse industry spectrum, including finance, manufacturing, distribution, medical services and public services. Provides total solutions, from consultations and system development to outsourcing and network services.	¥103 billion (Consolidated)
AGREX INC.	6	0	Leading company in business process outsourcing in Japan. Listed on the First Section of the Tokyo Stock Exchange (4799)	¥27 billion (Consolidated)
[For reference]				
QUALICA INC.	0	2	Maintains a high profile with services for the manufacturing, distribution and service industries.	
AJS Inc.	2	0	Focuses on systems for the manufacturing and medical services industries.	

Notes: New TIS net sales of ¥166 billion is the combined total for TIS, Inc., SORUN CORPORATION and UFIT Co., Ltd., at fiscal 2011 year-end.

Cautionary note regarding forward-looking statements

Performance estimates and other forward-looking statements in these materials are based on information available to management and certain reasonable assumptions at the time of publication. Various factors may cause actual figures to differ considerably from estimates.



Tetsuo Nakao
Chairman

Susumu Okamoto
President

On behalf of senior management and employees throughout the ITHD Group, we would like to thank you, our shareholders, for your invaluable support. The books for fiscal 2011, the year ended March 31, 2011, have been closed and it is time to tell you the results.

But first, we would like to take this opportunity to extend our most heartfelt sympathies to everyone in the area devastated by the Great East Japan Earthquake of March 2011.

Now to a quick review of fiscal 2011.

In a shift epitomized by growing interest in cloud computing, the information services industry is evolving, with system investment by clients moving away from the establishment of information systems in favor of enhanced application and operating efficiency of information and communications systems utilizing outsourcing services.

To address qualitative changes in the business environment as well as the pace at which these changes are occurring, and to strengthen corporate capabilities and improve management efficiency, ITHD took steps to redefine the Group's structure. Key to this process was the merger of three subsidiaries—TIS, Inc., SORUN CORPORATION and UFIT Co., Ltd.—effective April 1, 2011, and the merger of shared services subsidiaries. Unfortunately, the business environment continued to present challenges, particularly a persistent trend among clients to be more selective in their IT investments, and while the Group was able to boost sales, the prevailing circumstances inevitably led to lower profits.

Going forward, ITHD will emphasize efforts to achieve a more efficient groupwide management structure and to reinforce business platforms, with the changing environment in mind, while striving to fully demonstrate the capabilities of the Group.

In this pursuit, we ask shareholders for their continued support. Your encouragement of our efforts is integral to our success.

June 2011

Impact from the Great East Japan Earthquake

There were no injuries to employees of the ITHD Group caused by the Great East Japan Earthquake that occurred on March 11, 2011. Activities at offices in Sendai, Miyagi Prefecture, were temporarily interrupted by power outages, primarily, but resumed operations fairly soon and all locations are operating normally now.

Data centers, scattered throughout Japan, are all operating normally. Each location is equipped with its own power-generation facilities and has concluded contracts with fuel suppliers to ensure continuous on-site operations, so planned and unplanned electricity interruptions, especially rolling blackouts, by Tokyo Electric Power Company, had absolutely no impact on power to run client systems.

Support for People in the Disaster Zone

The ITHD Group undertook the following activities in support of reconstruction efforts in the area affected by the Great East Japan Earthquake. The Group will continue to be involved in whatever capacity it can to help in the recovery process.

Six Months' Free Access to IT Resources

The immediate destruction caused by the earthquake and tsunami and then the rolling blackouts implemented to deal with reduced power-generating capacity made it difficult for companies and local governments to keep systems running and sidelined IT platforms that facilitate the distribution of information. TIS has offered businesses and public corporations affected by the disaster six months of its TIS Enterprise Ondemand Service, an enterprise-oriented PaaS/IaaS, at no charge so that they can maintain access to vital IT resources.

Tethered Hot-Air Balloon Ride at Evacuation Center in the Disaster Area

On May 5, 2011—Children's Day in Japan—SORUN-TOUHOKU Inc. and SorunPure Inc. organized a hot-air balloon ride at the evacuation center in the town of Watari, Miyagi Prefecture, to boost the spirits of people in the disaster zone. Everyone who came had a great time, especially the kids.



Raising Donations to Finance Restoration

To contribute to the relief effort in the disaster zone and help those directly impacted by the disasters, ITHD Group companies as well as employees at these companies collected donations which were forwarded to the Japanese Red Cross Society.

In April 2009, the ITHD Group embarked on IT Evolution 2011, its first medium-term management plan. This three-year blueprint is designed to quickly generate results from the April 2008 management integration that created ITHD. It also addresses the paradigm shift that characterizes the IT industry and prioritizes business model reform, from tailored software development for one client to services responding to multiple clients, through progress in cloud services over the medium term.

Efforts to Expand Business

Extending the Range of Existing Business

Joint ordering activities, through which Group companies work together to cultivate client opportunities, yielded terrific results. The number of joint orders soared to 200 in fiscal 2011, with a value of ¥14.0 billion, compared with 121 orders worth ¥5.4 billion in fiscal 2010.

To acquire a larger share of orders within client industries, we constantly explored new approaches to existing and potential clients through industry-specific study sessions for Group companies to gain greater insight into client needs. We also established the Group Solutions Forum, an internal structure that supports information exchange and provides Group companies with an opportunity to showcase respective corporate resources. Reciprocal knowledge of company strengths can be a valuable tool for securing joint orders.

Building the Next-Generation Data Center Business

Past efforts to build and expand data centers ready to meet growing demand for services such as cloud computing have already been rewarded with the April 2011 opening of GDC Gotenyama in the Shinagawa district of Tokyo and the June 2011 opening of a data center operated by Power and IT Company, which was jointly established by Hokuriku Electric Power Company and INTEC.



Progress through the Medium-term Management Plan 1 Efforts to Expand Business

			Fiscal 2009	Fiscal 2010	Fiscal 2011 (Goals)	Fiscal 2011 (Results)	Executed in Fiscal 2012, as of May 2011
Business Development	Existing Business	Flagship account strategy	Investigation	Pursuit (3 companies)	Expansion (9 companies)	9 companies	
		Expand activities through synergy fusion	Candidate Committee (identifying clients by industry/sector for possible flagship account status)	Manufacturing	Finance		
		Solution Forum	Preliminary discussion (35 projects)	Announcement of results	Preliminary discussion (38 projects)	Undertook preliminary discussion, joint seminars, six exhibitions. Secured unofficial OK and orders on six projects	
		(Joint order results)	(29 projects/ ¥2.4 billion)	(121 projects/ ¥5.4 billion)		(200 projects/ ¥14.0 billion)	
	Build and expand next-generation data centers (DC)	Shinsaibashi gDC		Tianjin DC, INTEC Manyo Square under construction	Opened Tianjin DC and INTEC Manyo Square	<ul style="list-style-type: none"> Opened for GDC Gotenyama Gearing up for Power and IT Company (July) 	
	Overseas Business	Expand business presence, especially in the rest of Asia		Opened representative office in Vietnam	Dominant position strategy in China, specifically, Tianjin and Beijing, through SORUN connection	80% of Tianjin DC first stage construction (400 m ²) has been reserved	Started work on second-stage construction (500 m ²) at Tianjin DC
		Support clients in their globalization efforts		Business alliance with BT	IT support for clients' overseas bases	Suggested Europe VDC to principal clients	Expanded activities of QUALICA (SHANGHAI) and began offering SaaS
	New Business	Solution business		Combine the know-how and technologies of TIS and INTEC into marketable solutions	<ul style="list-style-type: none"> Utilize BT alliance to cultivate cloud telephony business Add to service menu with solutions targeting the environment business Establish department to address IFRS 	Promoted cloud telephony solution services	<ul style="list-style-type: none"> Call Note (July) Call Crayon (September)
		Create business platform business		Real Cloud Solution (IUK/INTEC Systems Institute)	Business platform business (cloud business)	<ul style="list-style-type: none"> Start with three layers of services: SaaS, PaaS, IaaS 	

Promoting Business Overseas

In fiscal 2011, the Tianjin Data Center, which opened in April 2010, has won high marks for services that are as highly secure and high quality as those available in Japan, thanks to the application of data center configuration and operational know-how accumulated by the Group in Japan. The second phase of construction is under way. Also, during fiscal 2011, ITHD efforts were directed toward the promotion of Europe VDC solutions to key customers.

Developing New Businesses

Cloud services from the ITHD Group utilize results achieved through outsourcing and system development for clients in various industries, including finance, manufacturing and distribution. The Group has about 30 types of original cloud services in its business arsenal, including industry- and business-specific formats and shared service formats. Moving forward, the Group will use environment-friendly next-generation data centers featuring energy-saving technologies—a network of facilities that ITHD is steadily expanding—to promote wider interest in cloud services.

Efforts to Enhance Management Efficiency

In fiscal 2011, ITHD introduced a cash management system (CMS) to make procurement and application of funds within the Group more effective and made advances on the reduction of interest-bearing debt.

In April 2010, the Company set up a groupwide health insurance plan as the groundwork for an employee health and welfare benefits platform. To create a groupwide communication platform, the Company embraced social networking services*. Group companies continue to promote measures, such as shared back-office operations, integrated planning on information systems and optimized group formation, initiated in fiscal 2009, and to direct energy into building a stronger, more efficient group management platform.

*Social networking services (SNS): Community-based web service used within the IT Holdings Group as a tool to facilitate communication among employees.

Progress through the Medium-term Management Plan 2 Efforts to Enhance Management Efficiency

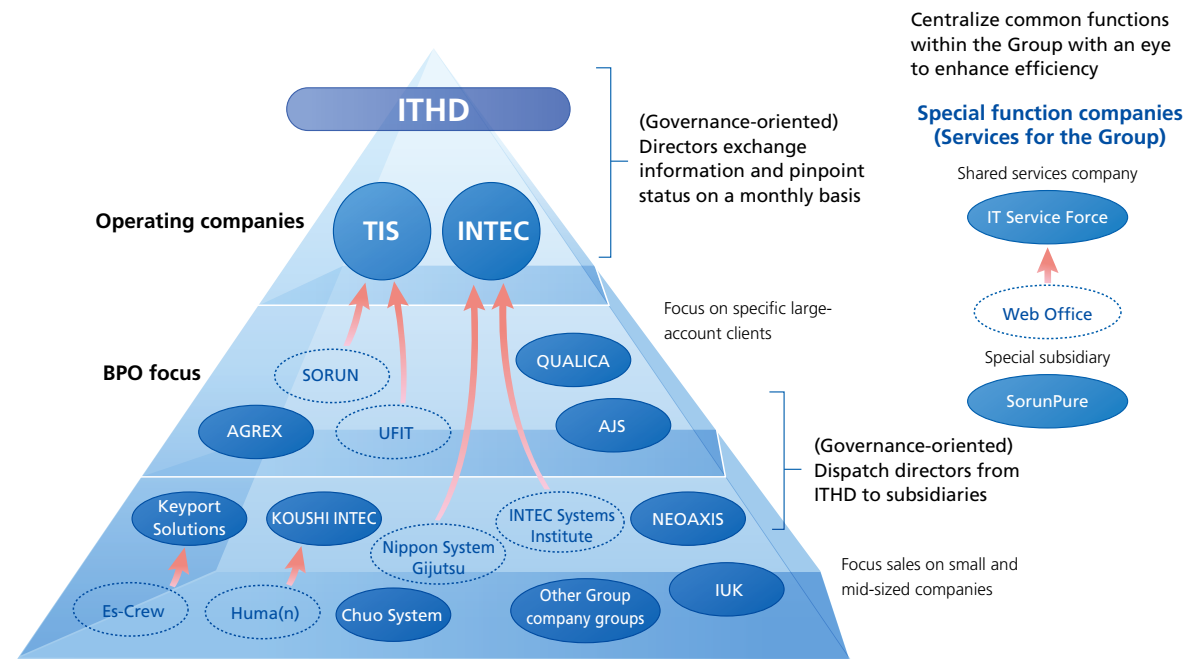
		Fiscal 2009	Fiscal 2010	Fiscal 2011 (Goals)	Fiscal 2011 (Results)	Executed in Fiscal 2012, as of May 2011	
Business Efficiency	Operations, Assets, Capital and Finances	Plan Preparation	First Medium-term Management Plan				
		Visualization of management system	Group presidents committee, executive committee and information exchange committee	Introduced hierarchical management method	Expand scope of Cash Management System (CMS)	CMS: 4 companies 13 companies • Introduced management cockpit system	Apply new management approaches
		Concentration of Group's headquarter operations		Established shared company (IT Service Force Inc.)			Merge ITSF and Web Office
		(Number of companies and business activities targeted)		(10 companies/35 operations)	(15 companies/60 operations)	(12 companies/63 operations)	
		Cost reduction through centralized purchasing		Implemented Group purchasing for indirect materials	Expand scope of products under Group purchasing structure and the number of companies involved	Targeted products: 10 Targeted companies: 13	
		(Reduction)		(¥20 million)	(¥60 million)	(¥55 million)	
	Effective use of capital			Introduce CMS	Made progress toward reduced interest-bearing debt through CMS use.		
	(Number of companies targeted)			4 companies	13 companies		
	Personnel, Corporate Culture	Set up employee health and welfare benefits program		Made preparations for groupwide health insurance plan	Establish Group health insurance plan	Established Group health insurance plan	• Integrate SORUN health insurance plan into Group plan • Extend the reach of activities undertaken by SORUN PURE (special subsidiary) to the Group
		Enhance Group communication platform		Introduced groupwide social networking system Registered users: 2,300		Registered users: 4,282	
Group Formation	Promote optimization to create a leading corporate group in the IT industry.	• NEXWAY joins the Group • Restructured old TIS Group	• Established ITSF • Established NEOAXIS • INTEC Holdings merged into INTEC • SORUN joins Group		• Reassignments: IUK, Chuo System, TIS Total Service, Oartech. • Mergers: Keyport Solutions and es Crew, AC Medical and Cronova, and Koushi INTEC and Huma(n)	Mergers • TIS, SORUN and UFIT • ITSF and Web Office • INTEC, INTEC Systems Institute and Nippon System Gijutsu	

Realigning the Group

Companies under the ITHD Group umbrella are being realigned to reinforce corporate capabilities and improve management efficiency.

Promote streamlining, integration and realignment by function

Push ahead with integration of Group companies from a perspective of sharper competitive capabilities matched to major changes in the operating environment



SORUN and UFIT merge with TIS

On April 1, 2011, we merged SORUN and UFIT into TIS to create a new TIS, Inc., which will draw on the technological strengths and know-how accumulated by each company on its own to provide enhanced services that meet all the business needs of its clients. The

new TIS will implement steps to hone its competitive edge and trim costs, mainly through the integration of organizational structures, offices and internal systems, and aims to realize the benefits generated through the merger as quickly as possible.

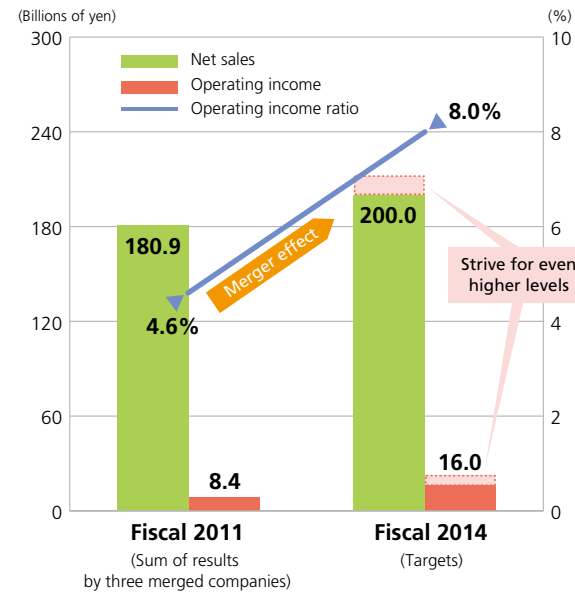
TIS	Consolidated net sales: ¥ 81,930 million	TIS Simple consolidated net sales total for the new TIS ¥166,091 million
SORUN	Consolidated net sales: ¥ 45,787 million	
UFIT	Consolidated net sales: ¥ 38,373 million	

Consolidated net sales for each company are the actual results achieved in fiscal 2011.

The new TIS will promote the following strategies, seeking to expand the scale of net sales and reduce costs.

Steps to Expand Top Line <ol style="list-style-type: none"> 1. Raise major clients' inner share. 2. Enhance solutions business. 3. Cultivate a larger base of potential clients and then grow it bigger. 4. Reinforce data center business. 	Steps to Improve Profitability <ol style="list-style-type: none"> 1. Realize merger benefits as quickly as possible by accelerating the integration of organizational structures. 2. Promote centralized procurement and joint purchases. 3. Integrate platform systems.
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New TIS



Steps to Expand Top-Line Operations

Establish Sales Innovation Committee

Form a sales innovation committee, chaired by the president, that cuts across the whole company to tackle four key objectives.

1. **Raise TIS transactions in major clients.**
2. **Enhance solution business.**
 - Implement strategies conscious of the synergy between solutions and system integration.
3. **Build a larger base of potential clients.**
 - Draw out orders from dormant clients and expand transaction value per company.
4. **Reinforce data center business**
 - Strengthen operations undertaken at data centers in Tokyo, Nagoya and Osaka, and in Tianjin.

Steps to Improve Profitability

Centralize procurement functions and do more work in-house. Integrate platform systems. Merge head office divisions and consolidate offices.

Strengths	New TIS
Solutions and services	<ul style="list-style-type: none"> • More than 220 solutions • High development platform expertise, exemplified by Xenlon
Data centers	Top-class in all regards, from floor space (100,000m ²) and geographical area to service menu, including cloud computing.
Major clients	Extensive client base comprising more than 3,000 companies from all sectors of industry.

Merger of Group-Oriented Shared Services Companies and Other Realignment Efforts

We merged Web Office and IT Service Force—shared service companies that handle the back-office operations of Group companies—to centralize administrative operations and promote a greater level of cohesion among Group companies. This merger will underpin greater efficiency in back-office activities that are common groupwide, accelerate cost-cutting efforts, and

facilitate the provision of high-value-added services to companies under the Group umbrella as well as to companies outside the Group.

We also brought special subsidiary SORUN PURE CORPORATION under our direct control and executed a merger of subsidiaries with INTEC as the surviving company.

Top Plan Strategy: Expand Data Center Business

The ITHD Group is promoting its next-generation data center business and expanding its stock business platform. In fiscal 2011, the data center network grew in Japan with the opening of the INTEC Manyo Square and overseas with the Tianjin Data Center. The network grew some more in April 2011 with the opening of the GDC Gotenyama in Tokyo.

The Group's data centers are noteworthy not only for reliable, high-quality system operation capabilities but also for location—geographically safer and more secure in a disaster situation—and

for facility design, in that the buildings feature seismic isolation foundations to better withstand the force of earthquakes. Even with the devastation caused by the Great East Japan Earthquake in March 2011, domestic data centers were able to operate normally. In addition, they are located outside the area affected by rolling blackouts and a system is in place to ensure uninterrupted power through on-site generators and contracts with fuel suppliers so that power outages, planned or not, will have absolutely no impact on the power needed to run client systems.

Operating Capabilities

X

Facilities

X

Location

- Located outside rolling power failure zones.
- Built in areas less susceptible to damage in a natural disaster and incorporating a base-isolation structure for enhanced earthquake tolerance.
- Large, in-house power generator and priority supply contracts for fuel.
- Newest data center facilities.

INTEC Manyo Square (Toyama)

GDC Gotenyama (TIS) (Tokyo)

Shinsaibashi gDC (TIS) (Osaka)

22 centers worldwide, boasting 122,000m² of floor space

- Offer services matched to clients' business activities and their purpose for using a data center.
- Develop high-value-added services.

Top Plan Strategy: Cloud Computing

The ITHD Group is nurturing cloud services as an integrated business under the catchphrase "Our Cloud, Your Dream" to support corporate business

aspirations with a rich assortment of services, new ideas and high-value-added cloud technologies.

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.
Quality of System Operations Is Highest in Japan	With the largest data center network in Japan, we 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.

Business- and Industry-Specific Services

Kentucky Fried Chicken Japan, Ltd.
Introduced i-TRe cloud-format product specification traceability service.

Services Providing Platform Stability

Shochiku Co., Ltd.
Subscriber to TIS Enterprise OnDemand Service.

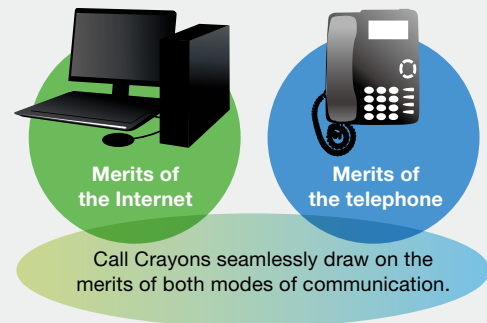
Business-Specific, Industry-Crossing Services

Rakuten Travel, Inc.
Subscriber to combination service featuring Call Crayon SaaS system and Fusion Communications Corp. phone network.

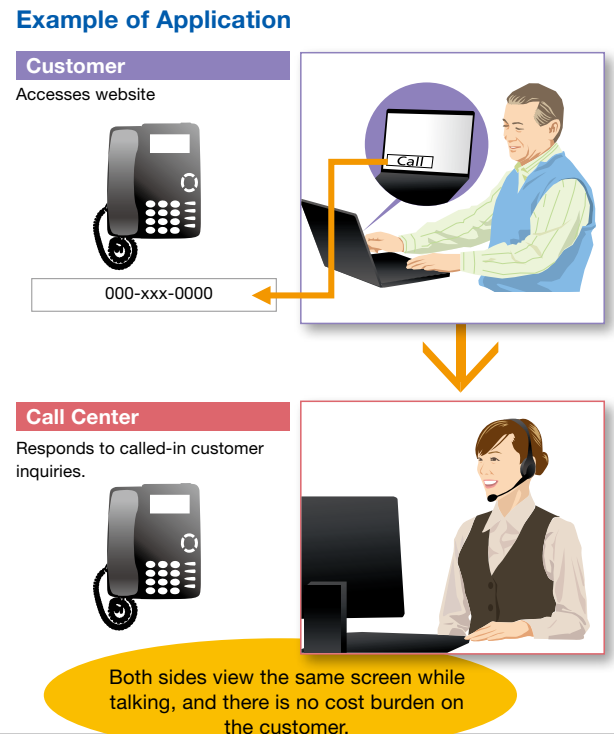
ITHD Group Launches Cloud Telephony Business

In July 2011, the ITHD Group launched a cloud telephony business, in which high-level voice communication combining the Internet and voice over telephone equipment or networks is offered as a cloud service.

The business currently comprises two services jointly offered by TIS and INTEC. They are Call Notes, an SaaS-type incoming call management service, and Call Crayons, an Internet- and phone-linked solution for enhanced corporate contact to customers. The noteworthy feature of these services is that they issue virtual phone numbers that utilize the Internet rather than a phone line or phone network and thereby facilitate access to a range of information. These services have been embraced by major Internet-based companies.



PhoneCookie—patented new technology connects companies with their customers.



Top Plan Strategy: China

Dubbing fiscal 2011 “Globalization Year One” for the ITHD Group, management promoted efforts to expand operations abroad, especially in Asia. As part of this emphasis, the Group’s view of the Chinese market has evolved from its original purpose as a hub for offshore development to a

strategic market for the Group’s services. INTEC split off activities undertaken by an existing subsidiary in China and established a new subsidiary, INTEC Shanghai Co., Ltd., with a local business network of 11 points staffed by more than 600 people.

ITHD Group Strategy in China

	Goals	Highlights	Fiscal 2011	Fiscal 2012 (plans)	Key Players
Securing a market presence	<ul style="list-style-type: none"> Data center business Solution services business 	<ul style="list-style-type: none"> Alliances (business tie-ups and agency connections) 	<ul style="list-style-type: none"> Tianjin Data Center fully open for business 	<ul style="list-style-type: none"> Expand Tianjin Data Center Business alliance with Dawning Information Industry Ltd. to promote cloud services. 	<ul style="list-style-type: none"> TIS INTEC
Overseas investment by clients (Japanese companies)	<ul style="list-style-type: none"> System configuration 	<ul style="list-style-type: none"> Japanese know-how Local hiring of essential personnel 	<ul style="list-style-type: none"> Accelerate assignment of personnel to factories being set up in China by major ITHD Group clients 	<ul style="list-style-type: none"> Expand activities of QUALICA (SHANGHAI) Inc. and start offering SaaS AToMsQube and JSCAST 	<ul style="list-style-type: none"> QUALICA AJS

AToMsQube is a cloud-oriented production control system for processing- and assembly-based manufacturers.
JSCAST is a casting design computer-aided-engineering system.



QUALICA Reinforces Business Structure of Shanghai Subsidiary

ITHD Group company QUALICA INC. enhanced the business execution structure of its Shanghai subsidiary, QUALICA (SHANGHAI) Inc., and relocated the office. There will be a staffing increase from Japan as well as local recruitment. Through these steps, QUALICA aims to provide a wider range of solutions to Japanese companies developing a presence in China as well as to Chinese companies and to improve its responsiveness to local needs.

Specifically, the company will complement JSCAT, an existing solution for the casting industry, by offering to the local market AToMsQube, a cloud-based production management system for the casting industry; TastyQube, a business support system for companies in the food service industry and services industry and their respective outlets; and SpecialtyQube, a similar business support system for retail specialty shops.

Four companies—TIS Inc., INTEC Inc., INTEC Systems Institute, Inc., and SORUN CORPORATION— underpin the Group's efforts in leading-edge R&D in the domains described below. Note that INTEC Systems Institute merged with INTEC NetCore in April 2010, with INTEC Systems Institute the surviving company.

(1) Software development technology

Seeking to enhance the quality of software development services and associated productivity, the four R&D-oriented companies under the Group umbrella maintain a steady and resourceful approach to software development technology.

INTEC launched services for its Companywide Shared Development Platform for in-house development projects. The company also expanded the functions of knowledge-support systems to make its system integration (SI) business more efficient, pursued research on next-generation SI business models, and investigated and evaluated HTML5 as a next-generation RIA (Rich Internet Application) technology.

In September 2010, TIS began companywide application of the newly developed Xenlon, a Java development framework. Xenlon is a compilation of know-how based on proprietary technology and actual results accumulated by the company. It embodies the following concepts.

1. Development platform capitalization and sharing: Shares generic engineering platforms to facilitate use in a format that can be applied by anyone whenever needed, and also shares development know-how.
2. Automated generation of programming code: Eliminates monotonous work and provides an environment in which engineers can concentrate on work that actually requires the skills of an engineer.
3. Enhanced programming quality: Configures frameworks allowing programming quality to be visualized automatically in real time. Results gleaned from an actual system development project show that Xenlon automatically generated about 50% of the code in the general processing area, excluding the customer's own business logic, from programming specifications, and demonstrate its capacity to boost development productivity.

In addition, TIS is making progress on verification of MapReduce technology, which dramatically shrinks batch-processing time by spreading work across multiple, low-cost IA (Information Architecture) servers. Actual project verification confirmed that a weekly batch of complex computations on transaction data comprising several tens of millions of jobs, which initially took 15.5 hours to process, was wrapped up in under an hour when reimplemented with MapReduce.

TIS plans to introduce this technology to corporate customers in fiscal 2012 and will link the technology to joint verification and system replacement solutions.

(2) Cloud Technology

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

At INTEC, efforts have been directed into various areas, including R&D on platforms to simplify the transition of existing web applications into SaaS (software as a service), research into the implementation of data analysis services using Hadoop, research on security models for cloud environments, and R&D on data center automation and connection systems.

With the pool of unallocated IPv4 (Internet Protocol version 4) addresses about to dry up, INTEC Systems Institute focused on activities linked to two announcements. One was a checklist for software applications that deal with the inevitable end of available IPv4 addresses. The company drew on accumulated expertise to create this checklist. The other was a countdown clock that shows the remaining inventory of IPv4 addresses by region.

TIS directed efforts toward new configuration techniques for web applications, such as ARC (Agile x Ruby x Cloud), through the development and use of youRoom, a free collaboration tool, from SonicGarden, an in-house venture company.

Putting this new development technique to work, SonicGarden created the youRoom prototype in just one week, after which the company raised the performance level with flexible, speedy improvements underpinned by Ruby technology. Services utilizing youRoom are now available in eight countries.

youRoom was singled out for excellence at the Third Fukuoka Ruby Awards, an event sponsored by Fukuoka Prefecture and the Fukuoka Ruby Business Hub Promotion Committee to recognize achievements maximizing the utility of Ruby.

TIS Enterprise Ondemand Service, an enterprise-oriented cloud service from TIS, was enhanced with the release of a customizable template that allows users to retain virtual machines as templates on the portal screen and to access these templates at any time. This feature trims the time required to create virtual machines and enables users to boost work efficiency.

(3) Smartphone-Related Technology

The explosive spread of smartphones and tablets began in 2010, and ITHD Group companies involved in R&D related to these devices had initially focused their efforts on platform technology. Now, however, an independent theme—AR (augmented reality) technology—is in the spotlight. Realizing the immense level of sophistication that AR technology brings to smartphones and tablets, each of the Group companies involved in R&D pursuits is moving forward on technology verification and field tests.

INTEC directed its attention toward R&D on smartphone remote control technology that addresses the risk of device loss or data leaks. In November 2010, the company revealed the creation of Smart-let, a smartphone remote control service.

INTEC Systems Institute focused on R&D for AR technology and navigation based on positioning data and initiated on-site data navigation field tests in November 2010 at Toyama Family Park, a zoo operated by the city of Toyama. The company looked to the general public for participants, and the parents and children who took part had favorable comments to make. The system was even featured on a television program.

TIS was also engaged in efforts to verify the use of AR technology for smartphone- and tablet-based corporate systems. Specifically, the company confirmed the practicality of AR technology for use in global positioning systems and image recognition and discovered that the technology could present innovative utilization solutions for smartphones and tablets used as devices to execute system-based enterprise services. TIS plans to introduce this technology to corporate customers in fiscal 2012 and to link the technology to joint verification and service application solutions.

SORUN created a system geared to mobile devices, particularly smartphones, that utilizes AR technology to deliver easy-to-understand details on places of interest, souvenir shops, local cuisine and other tourist-related information to assist visitors with these devices to enjoy their sightseeing activities. The company worked with municipalities to run local field tests of the system and will use these results as well as other resources to enhance the system. Plans are to develop the system into a new business after fiscal 2012.

(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, a national demographic characterized by a low birthrate and a high percentage of seniors, and an increasingly difficult employment environment for young people.

INTEC teamed up with Keio Research Institute at SFC—the Shonan-Fujisawa Campus of Keio University—and Tulip TV to pursue joint research on the design of Toyama Media Platform, a media business to maintain and then expand information distribution in the Toyama area.

INTEC Systems Institute promoted R&D on Web Portfolio as a next-generation e-learning system for university students and working members of society and collaborated with several universities to run field tests of the system. The results were presented at Learning Forum London ePortfolio 2010, held in London in July 2010.

Seeking to realize customized health care services, the company also investigated trends among government agencies and health insurance associations regarding medical treatment, insurance content and welfare programs. Another study was done on the information distribution technology needed to establish 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 Systems Institute embarked on R&D on bioinformatics-related systems more than 10 years ago.

At the request of the Functional RNA Project, an initiative funded by the New Energy and Industrial Technology Development Organization, or NEDO, INTEC Systems Institute joined the Computational Biology Research Center in research activities, the results of which were announced at the 18th International Conference on Intelligent Systems for Molecular Biology, held in Boston, Massachusetts, in July 2010.

Also, in a similarly named strategic R&D project launched by the Ministry of Economy, Trade and Industry, efforts led to the identification of a cancer marker. INTEC Systems Institute filed an international application in accordance with the Patent Cooperation Treaty on the patent related to this biomarker. Next, the company will move forward on research that links newly developed technology to discoveries, especially new diagnostic drugs and therapies.

All told, consolidated R&D expenses in fiscal 2011 reached ¥1,062 million. By operating segment, the TIS Group used ¥221 million, the INTEC Group used ¥720 million, and the SORUN Group used ¥81 million.

I. Basic Policy

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

The Company's governance structure relies on the holding company's board of directors to achieve flexible and efficient management of the Group while respecting the individuality and independence of each Group company.

1. Board of Directors, and Executive Officer System

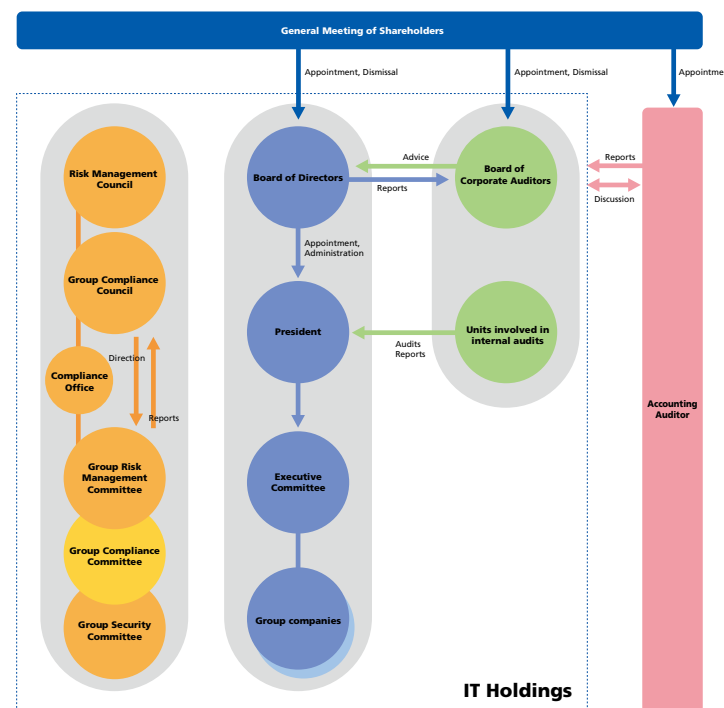
The Company's Board of Directors comprises no more than 15 members, as set forth in the Articles of Incorporation. The Board meets monthly but will also convene whenever necessary to discuss and finalize decisions regarding important business activities and legal matters pertaining to the execution of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

To strengthen the supervisory function of the Board of Directors, two of the 10 directors on the Company's Board of Directors 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 the best possible management structure to respond 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 above.



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

The Company maintains a corporate auditor system. 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, verify 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)	¥234 million (¥12 million)	8 (3)
Corporate auditors (external corporate auditors' portion)	¥55 million (¥34 million)	4 (3)
Total (external executives' portion)	¥290 million (¥46 million)	12 (6)

Notes:

- The Company has not introduced a retirement benefits system nor does it pay out bonuses.
- In fiscal 2011, no employee salary portions were paid to employees who concurrently hold positions as directors.
- As of March 31, 2011, the Company had 10 directors, two of whom were external directors, and four corporate auditors, three of whom were external corporate auditors. The number of directors and the number of corporate auditors differ from those presented above because three directors did not receive compensation and one external director retired at the end of the 2nd General Meeting of Shareholders on June 24, 2010, 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 1st General Meeting of Shareholders on June 25, 2009.
- Applicable items under total amount of compensation, on a consolidated basis, paid to individual executives receiving compensation packages exceeding ¥100 million are presented below.

Name	Executive Position	Company	Consolidated Compensation (Millions of yen)				Total Compensation
			Basic Salary	Stock options	Bonuses	Retirement benefits	
Junji Kitagawa	Director	IT Holdings	17	-	-	-	362
	Director	SORUN	44	-	-	300	

Board of Directors and Corporate Auditors (As of June 24, 2011)

Chairman	Tetsuo Nakao	Director and Senior Advisor	Junji Kitagawa	
President	Susumu Okamoto	Directors	Hiroaki Fujimiya	Shingo Oda *
		* External Director	Katsuki Kanaoka	Yoshinobu Ishigaki *
			Masaki Chitose	
Executive Vice Presidents	Norio Maenishi Tomoki Sato	Corporate Auditors	Nobuyuki Yonezawa (standing auditor)	
		** External Corporate Auditor	Tadamasa Hayashi (standing auditor)	
			Jun Ito **	
			Shigekazu Takeuchi **	

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 (three years of auditing IT Holdings)
Certified public accountant	Keizo Omura (two years of auditing IT Holdings)
Certified public accountant	Masato Saito (three years 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, 2011, 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, 2010		Year ended March 31, 2011	
	Compensation for audit certification	Compensation other than for audit certification	Compensation for audit certification	Compensation other than for audit certification
The filing company	52	1	49	1
Consolidated subsidiaries	228	53	243	43
Total	280	55	292	44

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 include 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.