

# IT Holdings Corporation

## Annual Report 2014

Year Ended March 31, 2014 (From April 1, 2013, to March 31, 2014)

Securities Code 3626

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## “as One Company”

# ITHD Group Companies Embrace Single Corporate Logo

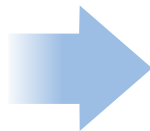
One of the key concepts under the second medium-term management plan Brave Steps 2014 is “as One Company,” which calls for efforts to build the ITHD Group into a collection of IT companies capable of robust growth as a cohesive unit. Toward this end, the 51 companies of the ITHD Group, along with ITHD itself, adopted a newly designed, common logo, effective June 1, 2014.



# IT HOLDINGS GROUP

Go Beyond

ITHD and the 51 companies under its umbrella employ a total of about 20,000 people. The decision to switch from separate logos for each operating company to a single logo for all companies in the ITHD Group clearly demonstrates the unified approach that all employees at all Group companies will apply in building close relationships with clients.



### ■ Corporate Logo

Each Group company presents a different area of specialization. All this expertise is integrated within the Group, but a single logo showcases a sense of unity among the individual companies under the Group umbrella and communicates the unified force that will propel the Group forward into the future.

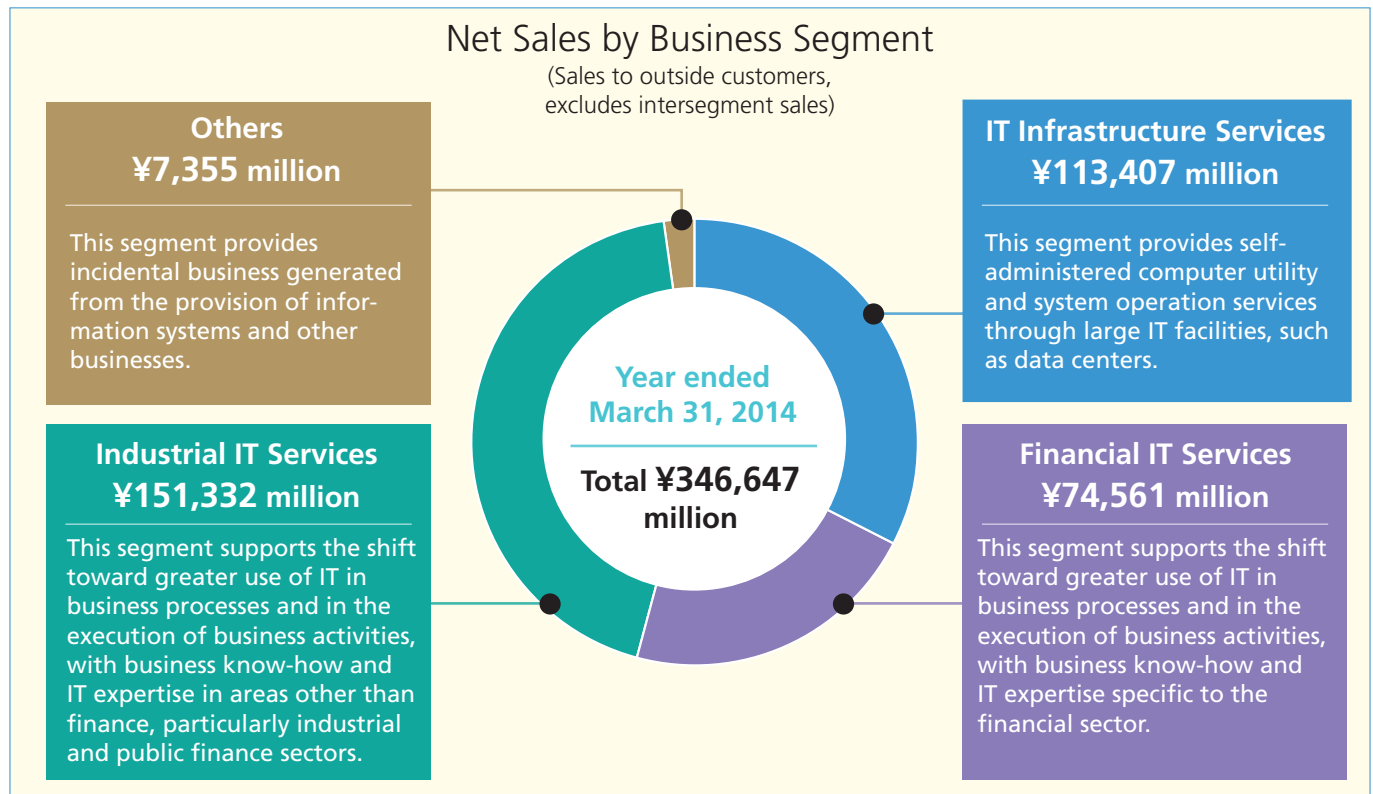
The colors of the logo—ocean blue and intelligent gray—are our corporate colors, evoking, respectively, the idea of a vast expanse of new territory to explore and accumulated capabilities backed by trusted and reliable technologies.

### ■ Brand Message “Go Beyond”

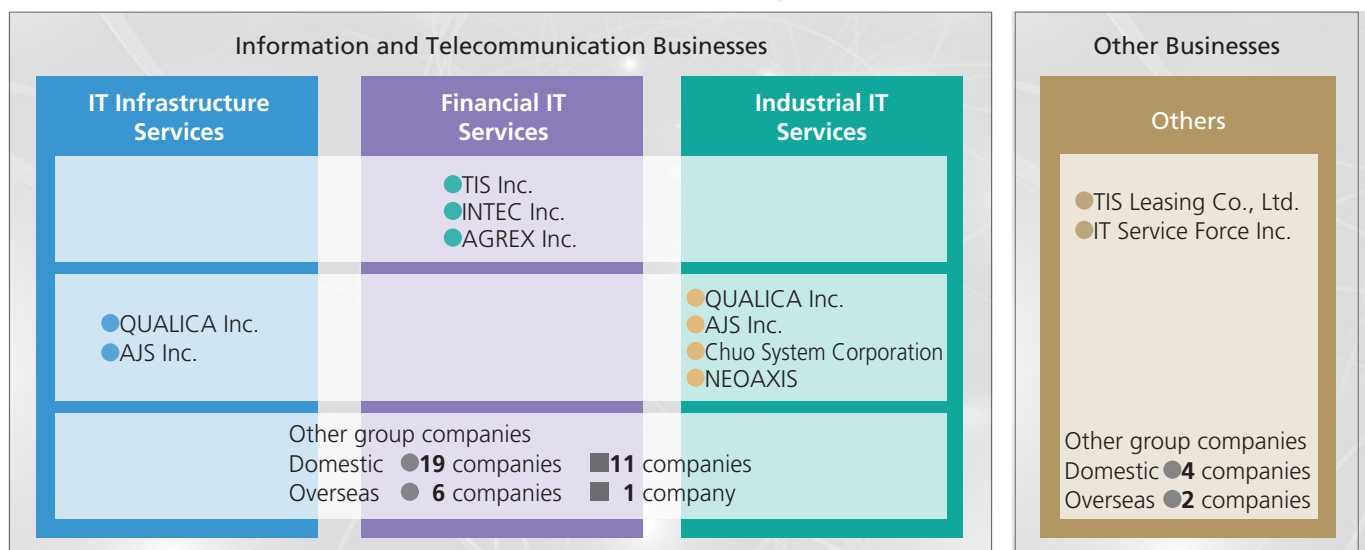
The ITHD Group constantly strives to go beyond the status quo, always taking on new challenges. Our goal is not simply to resolve issues of concern to our clients, but rather to anticipate their future needs and offer solutions that go one step further. “Go Beyond” reflects this corporate attitude.

# 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—TIS Inc., INTEC Inc., QUALICA INC., AJS Inc. and AGREX INC., which underpin excellent responses to the needs of clients in a wide range of industry sectors.

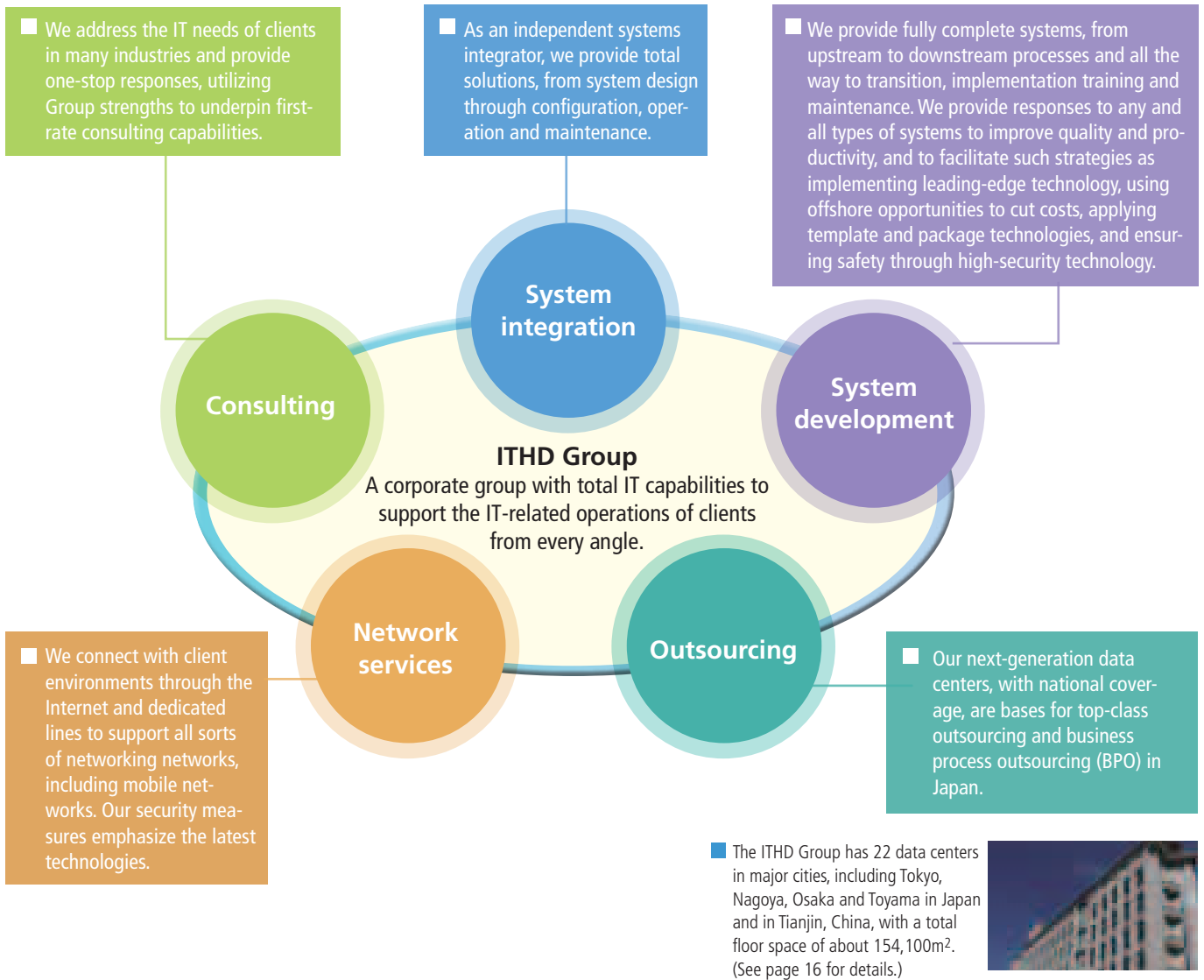


As of March 31, 2014, the ITHD Group consists of the parent company, 40 consolidated subsidiaries, and 12 affiliated companies accounted for under the equity method, for a total of 53 companies.



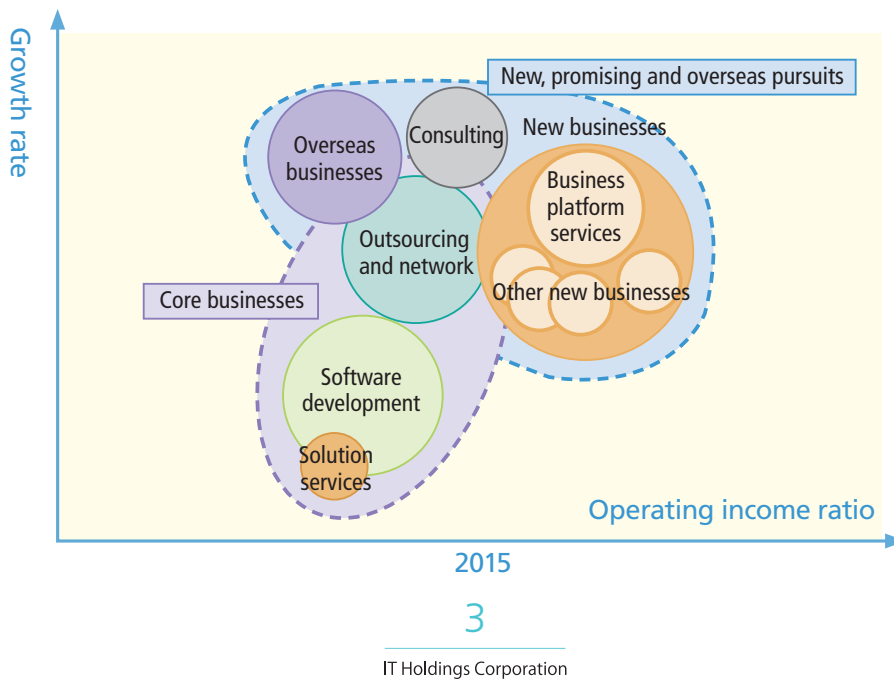
● Consolidated subsidiaries ■ Equity-method affiliates

# Principal Business



## Future Targets

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

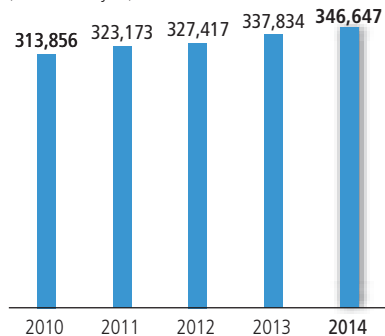


# Financial Highlights

Years Ended March 31/Consolidated

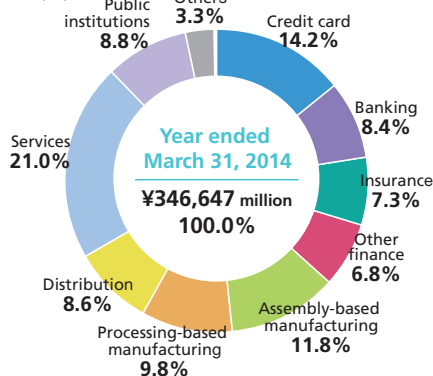
## Net Sales

(Millions of yen)



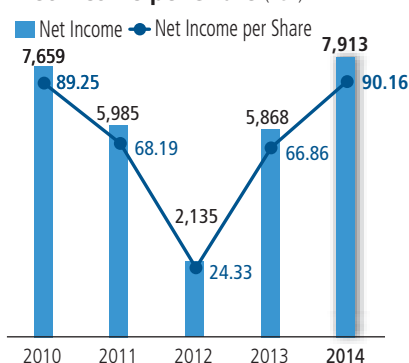
## Net Sales by Client Sector

(%)



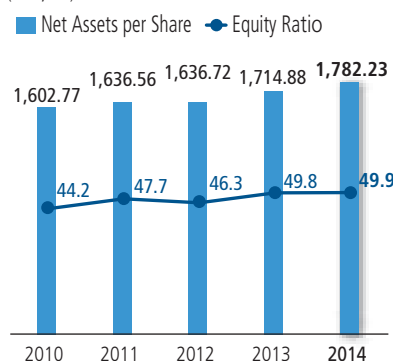
## Net Income (Millions of yen)

Net Income per Share (Yen)



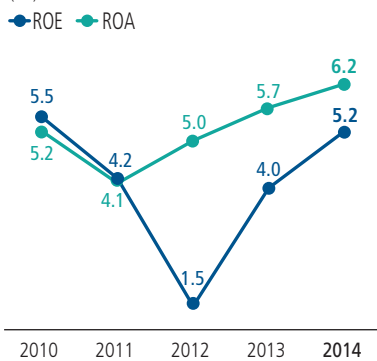
## Net Assets per Share, Equity Ratio

(Yen, %)



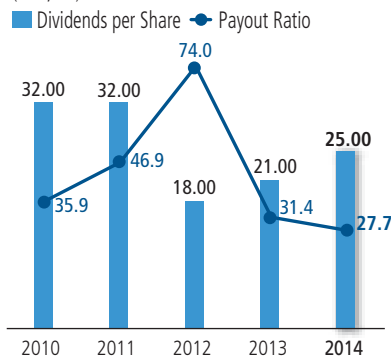
## ROE, ROA

(%)



## Dividends per Share, Payout Ratio

(Yen, %)

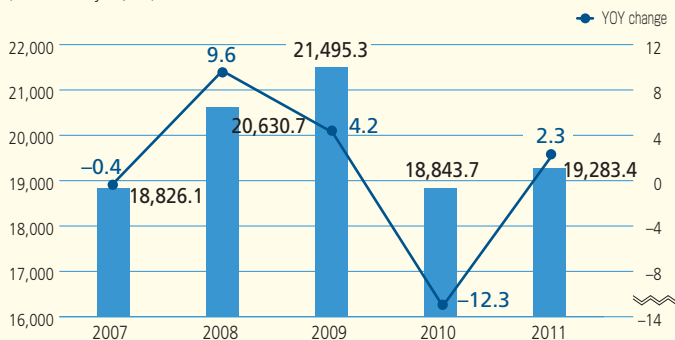


## IT Services Industry Market Scale and Industry Position

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

### IT Services Industry Net Sales

(Billions of yen, %)



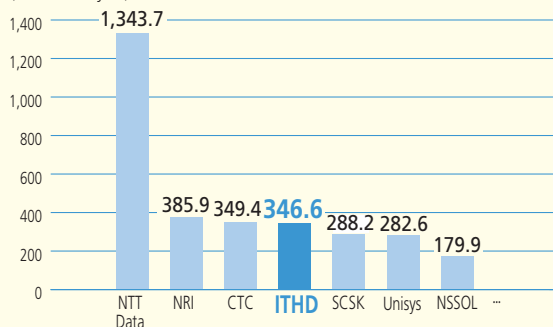
Note: Japan Information Technology Services Industry Association classifies the software sector, the information processing services sector and the Internet-based service sector as the IT services industry. Number of companies under examination increased in 2008 and 2009, because of the review of investigation targets.

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

### Net Sales of Japan's Leading IT Companies

(Year ended March 31, 2014)

(Billions of yen)



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

# Consolidated Financial Summary

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31

	(Millions of yen)					(Millions of U.S. dollars)
	2010	2011	2012	2013	2014	2014
Net sales	¥313,856	¥323,173	¥327,417	¥337,834	¥346,647	\$3,368
Cost of sales	254,827	261,145	266,159	276,935	283,881	2,758
Gross profit	59,029	62,027	61,258	60,899	62,766	609
Selling, general and administrative expenses	43,032	49,209	45,636	42,727	43,255	420
Operating income	15,996	12,818	15,621	18,171	19,510	189
Recurring profit	15,719	12,625	15,393	17,440	18,971	184
Net income	7,659	5,985	2,135	5,868	7,913	76
Current assets	141,967	128,455	142,442	138,219	143,519	1,394
Fixed assets	171,109	172,620	167,560	164,083	170,091	1,652
Total assets	313,077	301,076	310,003	302,302	313,610	3,047
Current liabilities	86,255	73,090	83,065	91,063	72,790	707
Non-current liabilities	71,746	76,875	75,972	53,079	76,316	741
Total liabilities	158,001	149,965	159,038	144,143	149,107	1,448
Net assets	155,075	151,110	150,965	158,159	164,502	1,598
Total liabilities and net assets	313,077	301,076	310,003	302,302	313,610	3,047
Total interest-bearing debt	91,646	77,454	76,515	60,550	58,869	572
Cash flow from operating activities	31,400	27,236	23,658	21,515	25,770	250
Cash flow from investing activities	-25,726	-18,957	-15,158	-14,391	-5,334	-51
Cash flow from financing activities	6,139	-18,755	-4,230	-19,883	-5,872	-57
Cash and cash equivalents at the end of the term	46,987	36,492	41,119	28,433	43,142	419
Free cash flow	5,674	8,279	8,500	7,124	20,436	198
Capital expenditures	15,676	18,325	14,096	12,287	12,544	121
Depreciation	11,978	12,308	12,745	12,920	12,454	121
Research and development expenses	912	1,062	962	1,002	853	8
Amortization of goodwill	1,389	1,901	1,882	1,670	1,166	11
Goodwill balance at the end of the term	6,863	5,551	3,672	1,914	830	8
Net income per share—basic (yen)	89.25	68.19	24.33	66.86	90.16	0.87
Net income per share—diluted (yen)	—	—	—	66.83	90.12	0.87
Dividends per share—diluted (yen)	32.00	32.00	18.00	21.00	25.00	0.24
Payout ratio (%)	35.9%	46.9%	74.0%	31.4%	27.7%	
Net assets per share (yen)	1,602.77	1,636.56	1,636.72	1,714.88	1,782.23	
Interest-bearing debt ratio	29.3%	25.7%	24.7%	20.0%	18.8%	
Equity ratio (%)	44.2%	47.7%	46.3%	49.8%	49.9%	
Net income to equity capital ratio (ROE) (%)	5.5%	4.2%	1.5%	4.0%	5.2%	
Recurring profit to total assets ratio (ROA) (%)	5.2%	4.1%	5.0%	5.7%	6.2%	
Number of employees at the end of the term	20,476	20,831	20,347	19,553	19,065	
Number of new-graduate recruits	974	928	649	356	455	
Number of regular recruits	512	370	450	379	549	

Notes: 1. The U.S. dollar amounts represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥102.92 to US\$1.

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

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

## Forecast for the Fiscal Year Ending March 31, 2015 (Consolidated)

**The Group expects both sales and profits to increase year on year in fiscal 2015, as it aims to expand business by accurately grasping the IT investment needs of customers primarily in the Financial IT Service and Industrial IT Service segments while striving to prevent projects from becoming unprofitable and improve productivity.**

Net sales	¥355,000 million	+2.4% year on year
Operating income	¥21,500 million	+10.2% year on year
Recurring profit	¥20,500 million	+8.1% year on year
Net income	¥10,000 million	+26.4% year on year

Note: The above performance forecast reflects IT Holdings Corporation's plans and expectations based on information available to the Company as of May 9, 2014, and on certain other information the Company believes to be reasonable. They are not guarantees of future performance and actual results, performance, achievements or financial position may differ materially from those expressed or implied herein due to a range of factors.



## Norio Maenishi, president of ITHD, discusses the Group's medium-term business strategies. Major Themes: "Overall Optimization" and "Creation and Interconnection of Growth Engines"

### Question 1

What is the background to the medium-term management plan "Brave Steps 2014" and its major themes?

### Answer

**Maenishi:** ITHD has been pushing forward on the three-year medium-term management plan "Brave Steps 2014" since April 2014.

The ITHD Group was established through the management integration of the former TIS Group and the former INTEC Group in April 2008. During the first three years after integration, drastic cost structure reforms were steadily introduced at each operating company through a management style that emphasized the independence of each operating company. Under the current three-year plan, "Brave Steps 2014," which is our second medium-term management plan, we will build on the results that earlier efforts produced and execute a shift from an era of protection to one of attack—to reestablish an assertive, forward-looking platform for growth.

Two major themes in "Brave Steps 2014" are overall optimization and creation and interconnection of growth engines, which target ways for each operating company to enhance their respective strengths from a groupwide perspective and then connect these strengths for exponential effect. Realizing these themes will solidify the Group's place in the industry and cements its status as a top brand. The basic concepts of the plan—the actual brave steps—are "Top-Line Emphasis," "as One Company" and "Enterprising and Bold," and concrete measures to achieve our stated goals are being put into place under each concept.

#### Second Medium-Term Management Plan (April 2012 – March 2015) Taking on Transformation "Brave Steps 2014"

##### Top-Line Emphasis

The IT market has shown signs of shrinking over the past few years. Nonetheless, we have endeavored to expand business with sales in mind. We will prioritize a commitment to growth—that is, achieve higher revenues—by all possible means.

##### as One Company

To realize a higher level of investment expertise and promote more robust business expansion, we will cultivate a group culture that promotes a sense of unity and build a corporate collective centered on ITHD that acts as a unified company.

#### Basic Concepts

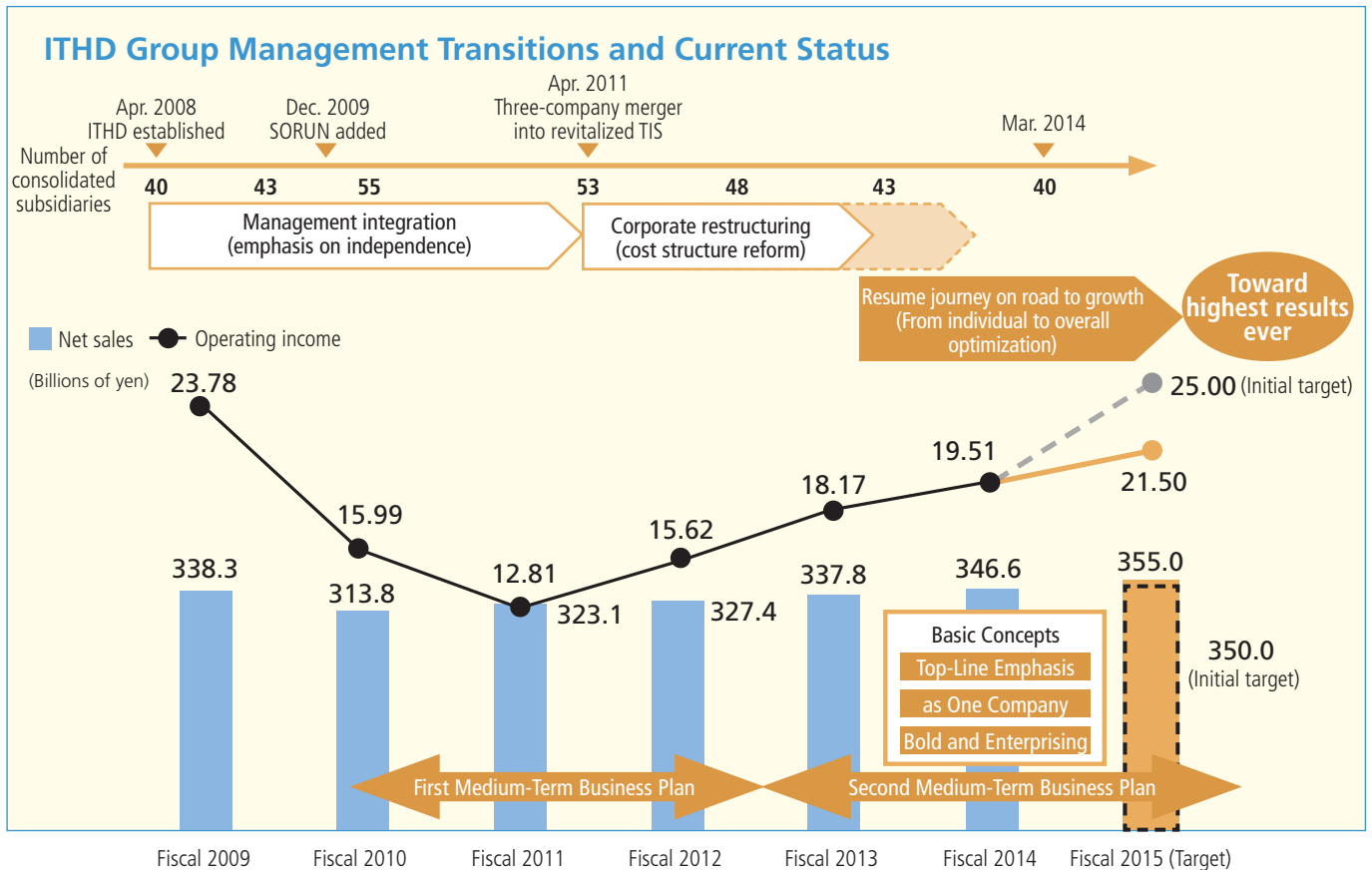
##### Enterprising and Bold

Dealing with paradigm shifts, such as globalization and the evolution of services, is not possible without an enterprising and bold resolve to take risks. We will infuse a sense of courage throughout our business activities.

##### Major numerical targets to be achieved by March 2015\*

Net sales: ¥350 billion  
Return on equity: 7.5%  
Operating income: ¥25 billion  
Operating income to sales: Above 7%  
Credit rating: Sustain A rating

\*The above figures are the initial targets of the Second Medium-Term Management Plan. The revised targets, which were announced on May 9, 2014, are net sales of ¥355 billion and operating income of ¥21.5 billion.



## Promoting Strategies to Reinforce Group Communication

### Question 2

What is the status of measures taken under the auspices of the three basic concepts, as of March 31, 2014?

### Answer

**Maenishi:** Fiscal 2014 was the second year of “Brave Steps 2014,” and the focus was on reinforcing the Group communication platform so that it becomes a basis for management across the Group. This was a feedback year, with a variety of in-depth discussions undertaken within the Group to explore the facets of overall optimization—what it would entail, what it would accomplish, how it would unfold—and the kind of cooperation across business segments that would reinforce Group strengths, as well as the concrete measures that will be implemented.

#### Market-directed solution-style business

The “Top-Line Emphasis” objective goes beyond achieving a numerical target of ¥350 billion in consolidated net sales. It extends to a new business style—away from contract service provider and toward solutions provider—with an eye on the market. It draws on cooperation across the Group and requires a more aggressive marketing stance.

The ITHD Group has built a client base of excellent customers—at the top of their respective industries—over a wide spectrum of business sectors. It has earned a solid reputation through the provision of platform systems for financial institutions and government and municipal agencies, operating systems for companies in the distribution and services sectors, and production control systems for manufacturers, through nationwide data center operations,

Basic Concept 1:  
Top-Line Emphasis



and through business process outsourcing (BPO) services. However, the Group has yet to demonstrate these strengths to maximum potential.

In recent years, IT investment has increasingly shifted away from back-office systems designed for cost-reduction and toward front-office systems that contribute to business growth. Coordinated efforts among Group companies will underpin solution planning and proposals tailored to the business perspective of each client. This will expand the scope and depth of services available to clients and pave a successful path to the future.

#### Prioritizing profits in last year

We encouraged each Group company to implement reforms, based on this understanding of the situation, and highlighted the creation and interconnection of distinctively recognizable strengths—our growth engines—as well as concentration of resources into core businesses. The effort yielded net sales above target. Operating income, unfortunately, did not reach target despite showing a year-on-year improvement, mainly because unprofitable projects eroded results. In the wrap-up year of “Brave Steps 2014,” we will prioritize profits. At TIS, which has struggled with unprofitable projects, the company set up a new business unit—System Development & Quality Management Innovation—in April 2014. This unit will strive to enhance project management by providing effective approaches to boost productivity and prevent projects from turning unprofitable.

The aim of “as One Company” is to establish a united management front for the Group, based on a stronger Group communication platform. Effective from June 2013, the presidents of principal subsidiaries hold concurrent positions as holding company directors. The communication platform has been reinforced in several ways, particularly in making discussions that involve directors responsible for planning, business promotion and administrative divisions more dynamic. Enhanced communication, supported by a shared perspective on the overall direction of the Group, is accelerating concrete action on various measures.

#### Pinpoint and connect strengths with an eye on industry environment

One approach, which I mentioned above, is the creation and interconnection of strengths (growth engines). Going forward, the industry outlook calls for expansion in IT investment from the financial sector, for business front-end operations, for social platforms, and to address evolving smart and e-business trends. Each Group company must anticipate where growth will occur and connect with other Group companies not only on certain projects but also at the domain level to bring value-added solutions to clients.

To achieve a structure that concentrates corporate energies into core businesses and growth fields, ITHD sold the leasing assets of TIS Leasing Co., Ltd., and pulled out of the leasing business in fiscal 2014. This decision was based on trends in the leasing business overall and an emphasis on steps to enhance the effectiveness of management resources. Also, TIS First Manage Inc. and TIS Solution Link Inc. are set to merge in October 2014, which should improve services through the centralization of on-premises services undertaken at clients’ offices, and the embedded system business of the merged company will be transferred to QUALICA INC., also for centralization purposes.

We will continue to give thought to the transfer and concentration of certain activities within common business domains while striving to pinpoint respective strengths and enhancing capabilities from the perspective of overall optimization. (See page 12 for details.)

## Basic Concept 2: as One Company





### Centralize corporate functions, promote best-practice concept

Between December 2011 and February 2012, the offices of nine ITHD Group companies in the Tokyo area, including ITHD, came together under one roof. Then, in February 2014, we set up the Office Integration Committee, which is looking into office integration for Group companies in the Osaka area, already planned for the summer of 2015, to be followed by office integration in Sapporo, Nagoya and Fukuoka.

In addition, to centralize back-office operations, such as personnel, general affairs and accounting, within the Group, we made greater use of the shared services provided by IT Service Force Inc., a subsidiary, and made progress on the creation and introduction of shared IT systems. We also integrated domestic tax systems in fiscal 2014. And, with Group companies setting up overseas representative offices one after another, we have been promoting greater information-sharing within the Group regarding the best practices for international accounting, finance and taxation, including transfer pricing taxation and new International Financial Reporting Standards.

### Debuted common corporate logo for the Group

As part of our efforts to build the ITHD Group into a collection of IT companies that will achieve robust growth as a cohesive unit, in June 2014, the ITHD Group—ITHD and the 51 companies under its umbrella—adopted a common logo. To devise this new logo, we set up a committee—the Brand Committee—hinging on young and middle-aged employees from ITHD and principal Group companies who met for in-depth discussions on the future direction of the ITHD Group. The ideas raised by the Brand Committee were explored further in other corporate structures, including the Group Presidents Committee, and then a final decision was made on the new logo and the brand message—Go Beyond—which expresses our commitment to anticipate the future needs of our clients and offer solutions that go one step further and exceed expectations. (Please go to page 1 for more details.)

### Increasing evolution of services based on market needs

Our domestic clients are increasingly in need of systems to handle data, particularly Big Data. At the same time, their IT-related patterns of use and requirements are diversifying, a trend substantiated by the creation of efficient platform systems for overseas and the reverse, efficient use of systems created overseas and then applied in Japan. Against this backdrop, demand is up for cloud data centers and planning-style services that use general-purpose shared systems. In response, the ITHD Group is applying a medium-term perspective to service menu expansion, with an emphasis on cloud services.

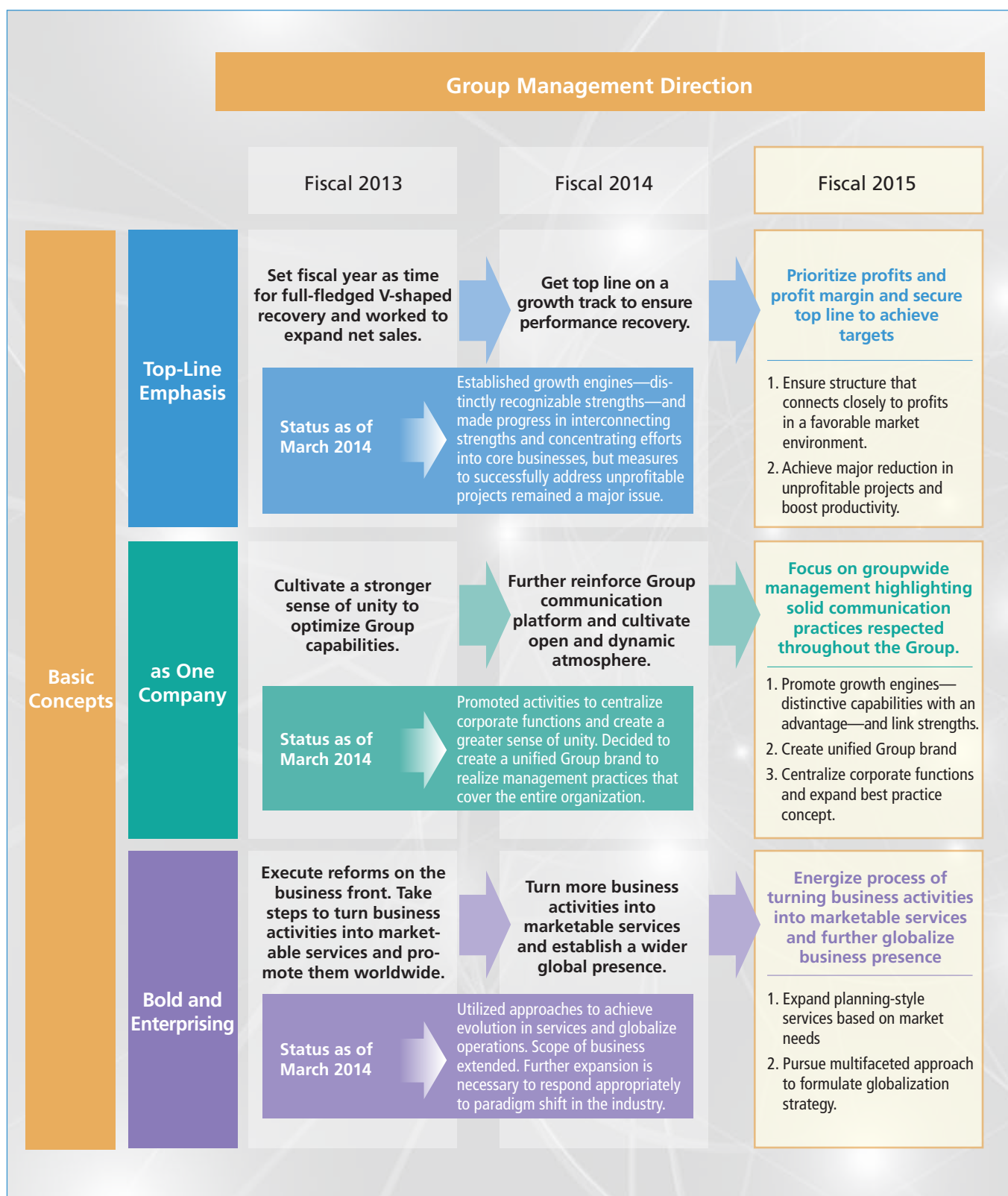
### Multifaceted approach to globalization

Currently, the Group's globalization efforts emphasize developing a wider presence in China and the ASEAN region. Group companies have, to date, prioritized entry through the establishment of representative offices, but recently, overseas expansion has been accelerated through different approaches, including alliances with local companies. As part of this pursuit, in fiscal 2014 AGREX established a joint venture in Vietnam, and TIS formed a number of capital and business alliances with companies in the ASEAN region, including taking a major equity stake in MFEC Public Company Limited, a top IT solutions provider in Thailand.

Also of note, in June 2014, TIS turned the Thai company I AM Consulting Co., Ltd., into a consolidated subsidiary. This company boasts top-class results as a total solution provider for SAP.

## Basic Concept 3: Bold and Enterprising

## Progress Update on Second Medium-term Management Plan



# IT Services that Engage Society

## Question 3

What can you say about ITHD's corporate value and the role that the Company must fulfill in society?

## Answer

**Maenishi:** As I've mentioned before, IT investment in social platforms is expected to grow. The presence of Group companies in this sector is already apparent, exemplified by the cloud services of INTEC and QUALICA used in systems to keep an eye on the elderly and for food safety announcements in disaster areas. But going forward, the Group's IT services need to expand not only B2B (business to business) but also B2C (business to consumer) and then they—the services as well as the ITHD Group companies—will really be contributing to society.

In regard to corporate governance, communication channels between the internal auditing departments at ITHD and at its subsidiaries remain open, and all companies, including those in the corporate groups of ITHD's subsidiaries, strive to ensure management soundness through shared guidelines. ITHD itself seeks to provide good disclosure to investors, and in fiscal 2014, this commitment was recognized by Daiwa Investor Relations Co., Ltd., which gave the IR page on the Company's website the 2013 Internet IR Excellence Award.

## Question 4

Do you have any closing remarks for shareholders?

## Answer

**Maenishi:** 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 the need to enrich retained earnings so that the Company can take advantage of business opportunities. For fiscal 2015, management expects to distribute an annual dividend of ¥30 per share, up ¥5 from fiscal 2014.

The ITHD Group's value is not found in the 20,000+ employees of a single company but rather in a collection of companies that are distinct but share IT at the core. The Group's new logo perfectly reflects this idea. A year has passed since I assumed the role of president. Over the past year, I have come to believe all the more that we can cultivate a bright future for the Group because of its fabulous client base, excellent technologies and lots of young talent as well as the power of "overall optimization." From now, the task will be to define and then roll out various measures to turn this potential into a tangible reality.

One of my personal mottos is "*Kami wa saibu ni yadoritamau*," which is the equivalent of "God is in the details." The holding company understands the situations at its operating companies and will encourage cooperation, not in an heavy-handed way but with the pride of a leader who brings some 20,000 people together as a united team, to improve corporate value.

I ask for the continued support and encouragement of shareholders and investors as we travel toward greater accomplishments.





# Key Points of Second Medium-Term Management Plan “Brave Steps 2014”

Read about the ITHD Group’s business strategies below.

## Business Strategy 1

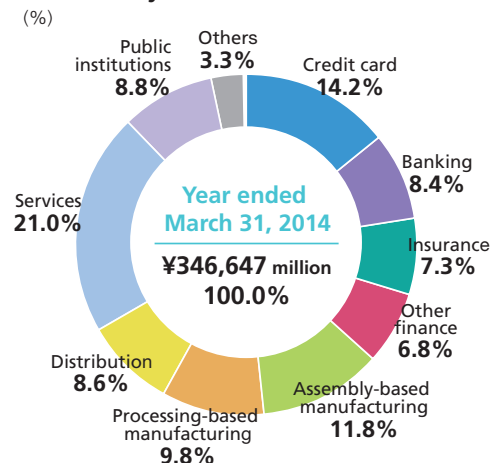
# Creating/Connecting Strengths (Growth Engines)

### Our Strength

#### Distinctive corporate group

The companies under the ITHD Group umbrella demonstrate distinctive capabilities and give the Group a well-balanced base of excellent clients over a diverse range of industry sectors at home and abroad. All-round providers TIS and INTEC—key ITHD operating companies—have unique strengths: TIS is metropolitan-based with particular expertise with credit card companies, while INTEC has a focus on regional banks. QUALICA and AJS, both specialized in specific domains, are able to address the needs of manufacturers because they originated as divisions of manufacturing companies. AGREX has attracted many clients and built up broad-based knowledge as a leader in the realm of business process outsourcing (BPO) services.

Net Sales by Client Sector (%)



Principal Subsidiaries	Shareholding Ratio	Company Outline
<b>TIS</b>	ITHD: 100%	Concentrates on services for credit card sector but is building wider presence in other sectors, including services and manufacturing sectors. Absorbed SORUN Corporation and UFIT Co., Ltd., in April 2011 and implemented structural reforms.
<b>INTEC</b>	ITHD: 100%	Focuses on services for megabanks and life insurance giants, but expanding presence with wider responses for public corporations, particularly in the Hokuriku region, as well as customer relationship management (CRM) for regional banks.
<b>QUALICA</b>	ITHD: 80% Komatsu: 20%	Former information systems subsidiary of Komatsu Ltd. Currently offers services to assembly-based manufacturers, particularly the Komatsu Group, while expanding services such as system configuration to members of the distribution and restaurant sectors.
<b>AJS</b>	ITHD: 51.0% Asahi Kasei: 49.0%	Former information systems subsidiary of Asahi Kasei Corp. Currently developing services, with a focus on the Asahi Kasei Group.
<b>AGREX</b>	ITHD: 50.6%	Leading company in Japan’s BPO business. Began BPO services overseas in 2013. Listed on Tokyo Stock Exchange (4799).

### Demonstrating strengths in growth markets

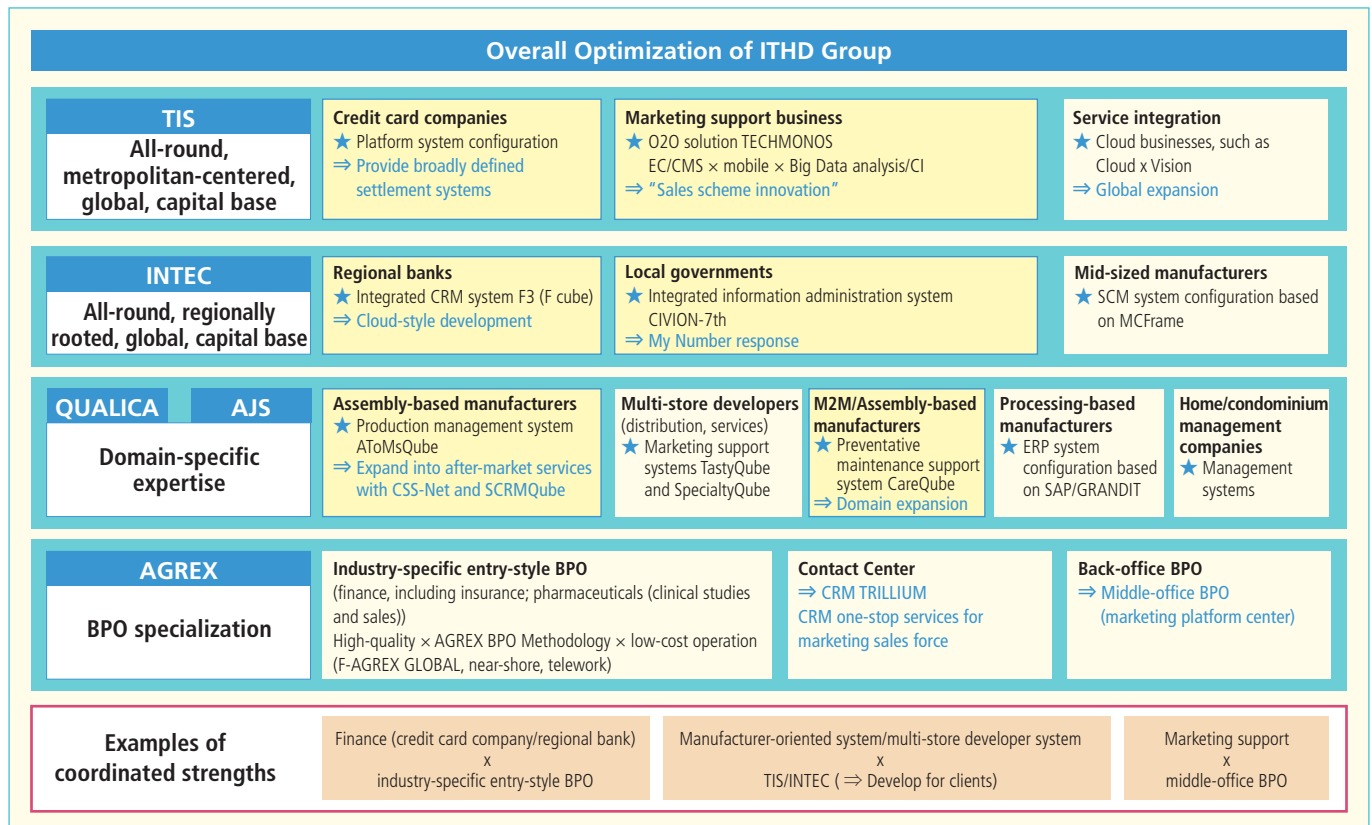
In Japan, IT investment is expected to grow over the medium term in the financial sector, for business front-end operations, for social platforms, and to address evolving smart and e-business trends.

Anticipated Growth Fields	Medium-Term Forecast
<b>Financial sector</b>	Expect more large-scale products, including rebuilding of platform systems.
<b>Business front-end operations</b>	IT investment is increasingly shifting away from back-office systems designed for cost-reduction to front-office systems that contribute to business growth.
<b>Social platforms</b>	Wider demand precipitated by introduction of national “My Number” personal ID system for citizens from January 2016, relaxation of utility-related regulations, and debut smart meters to deal with energy issues and demand associated with 2020 Olympics.
<b>Smart and e-business (Omni-Channel, O2O*)</b>	See growing need for marketing support platforms and Big Data utilization, progress toward combination of real (physical store) and virtual (online) sales, and material procurement through online purchasing, even in B2B market.

\*O2O (Online to Offline): Business mode combining online shopping at virtual stores and frontline transactions at physical stores and used in sales and marketing activities.

# ITHD Group's Strengths/Growth Engines

ITHD is encouraging Group companies to pursue strategic business development and cooperation in growth fields.

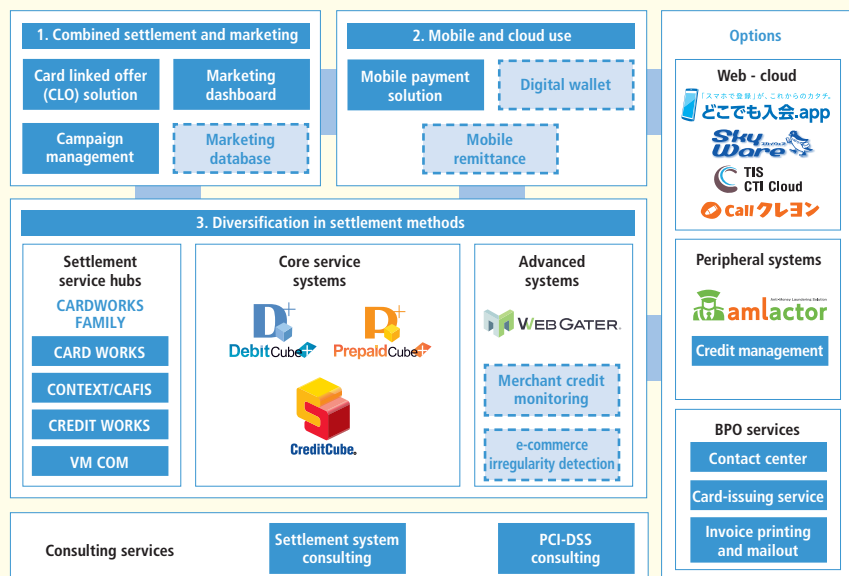


## Activities in Growth Fields ①

### PAYCIERGE Retail Settlement Solution from TIS

By 2018, the cashless settlement market—settlement by means other than cash—is likely to surpass ¥100 trillion. The need for service solutions—combined settlement and marketing, mobile and cloud use, and diversification of settlement methods—is expected to grow. PAYCIERGE\*, from TIS, is a service directed

toward card settlement providers and offers a menu of solutions for these services as well as solutions covering all sorts of settlement-related business domains, including consulting services, BPO services and cloud services. TIS aims to build PAYCIERGE into a ¥20 billion business in five years.



\* PAYCIERGE: A coined word combining "payment" and "conciierge," PAYCIERGE utilizes TIS' know-how and solutions in the area of retail settlement and incorporates the company's concept of a comprehensive guide for the retail settlement sector—like a hotel concierge—able to provide broad-based assistance, from advice on issues of concern to clients to realizing requests.



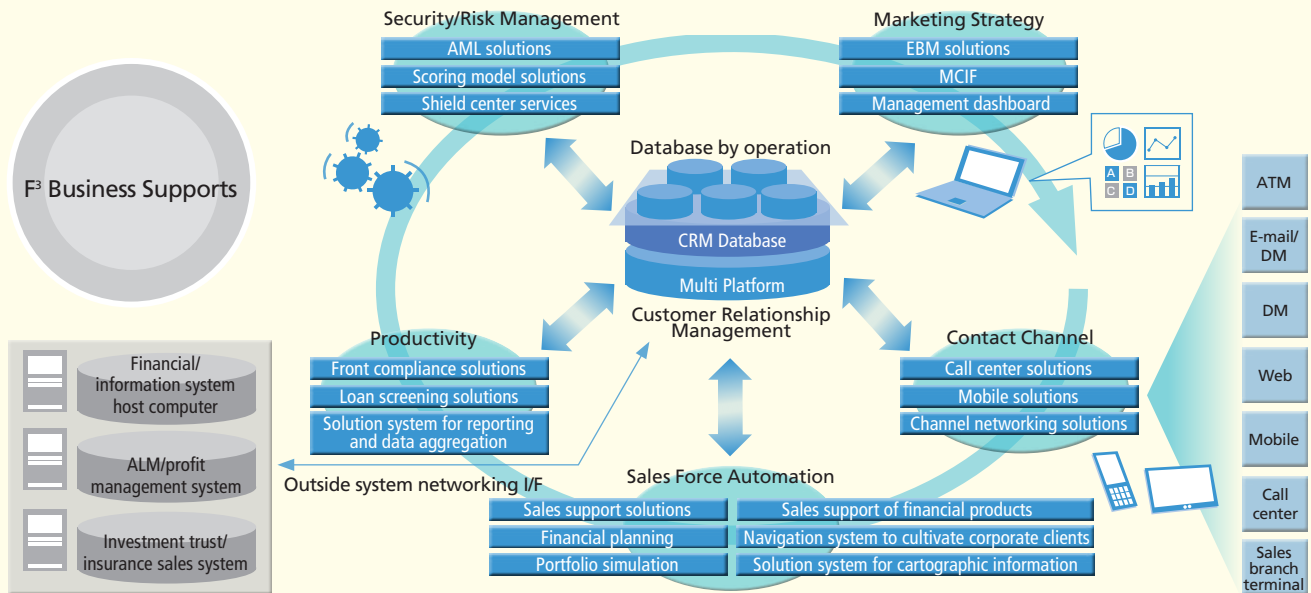
## ■ Activities in Growth Fields 2

### INTEC's Integrated CRM System F<sup>3</sup>

F<sup>3</sup> (Flexible Financial Frontier) is an information-based integrated solution offered by INTEC to regional financial institutions. It facilitates implementation of the right kind of systems with systemized service components, such as CRM, SFA, EBM and loan screening, and helps to improve revenues at financial

institutions. F<sup>3</sup> has been adopted by more than 40 regional banks, as of April 2014, and since 2013, INTEC has been working to attract new client segments, including second-tier regional banks and shinkin banks (credit unions), through access to cloud format F<sup>3</sup>.

■ F<sup>3</sup> supports a series of business processes, from formulating a business plan through marketing activities and sales operations.

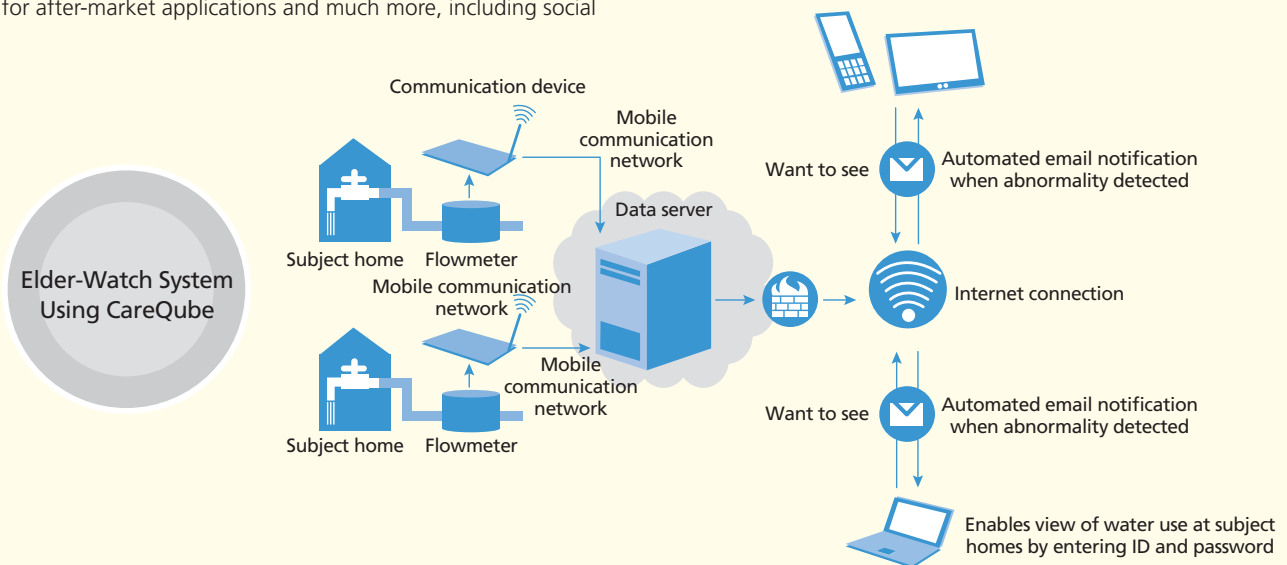


## ■ Activities in Growth Fields 3

### QUALICA's CareQube for Social Platform Systems

QUALICA'S CareQube, the industry's first cloud-oriented system, is a preventative maintenance support system that visualizes operating status of equipment used in the assembly-based manufacturing industry. The structure of this system is appropriate for after-market applications and much more, including social

platform systems. An example is the development of an elder-watch system using CareQube, developed with Tsukushinbo, a non-profit organization in Gifu Prefecture. The system is being tested out with seniors in the city of Gujo.



■ Information on water consumption by seniors is collected at QUALICA's data center through 3G lines. The data can be confirmed at any time over the Internet, and an email function can be set to deliver regular updates on water-consumption data to family or other authorized individuals living elsewhere.

# Topics

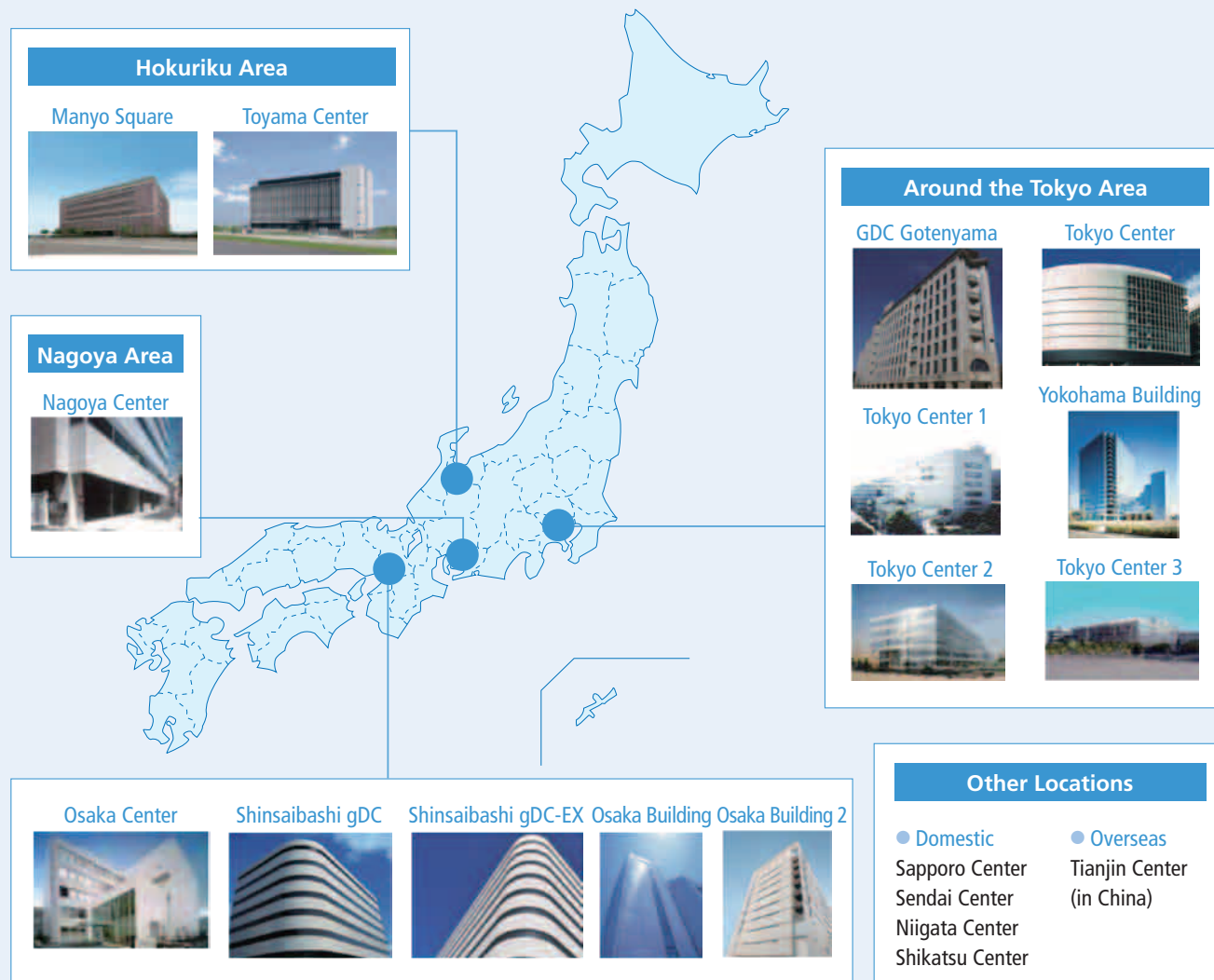
## New Data Center Opens in Kansai Area

### Japan's Largest Data Center Network

The ITHD Group has 22 data centers—154,000 m<sup>2</sup>—in major cities in Japan, including Tokyo, Nagoya, Osaka and Toyama, as well as in Tianjin, China. The Group, as a whole, has earned a solid reputation for reliability from clients for providing a cloud environment that boasts the experience and know-how accumulated over more than 40 years through round-the-clock, 365-day operation of data centers equipped with state-of-the-art facilities and highly secure features to protect against the risk of natural disasters and power failures.

### Response to Rising Demand for Data Centers in Kansai Area

TIS has agreed to operate a data center jointly with Nomura Research Institute, Ltd. The data center is to be located in the Hokusetsu area of Osaka and is scheduled to open for business in summer 2016. It will have total floor space of about 15,000 m<sup>2</sup>, be FISC compliant and meet specifications for JDCC-FS Tier 4-level compatibility. The joint operation will lower construction and equipment costs and disperse investment risk while expanding the data center network and facilitating wider response to diverse client needs.



### Key Features of the ITHD Group Data Center Network

- High operating quality and latest equipment
- Enables clients to achieve business continuity through access to Japan's largest data center network
- Highly reliable cloud environment platform

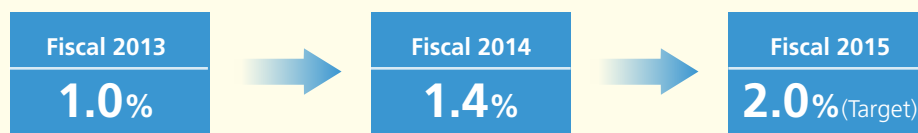
Global expansion of the ITHD Group is driven by two goals: provide local support for existing clients entering these overseas markets, and cultivate local IT markets using know-how accumulated in Japan. The Group's overseas activities kicked off in China and then expanded to the ASEAN region with the establishment of a three-

point presence—Thailand, Singapore and Vietnam—mainly through representative offices. In recent years, the approach has diversified, with an emphasis on business and capital alliances with local companies, thereby accelerating lateral expansion through the ASEAN region.

Major Steps in the ITHD Group's Expansion Overseas

Step ①	Expansion into China
1990s	Initiated overseas expansion primarily through establishment of local offices as offshore development sites.
↓	
February 2008	Begin expanding network by shifting presence from offshore development approach to points of business ● Established Tianjin TIS Hi-Tech Information System Service Co., Ltd.
April 2010	● Full-scale start of operations at Tianjin Data Center.
March 2012	● Tianjin TIS Hi-Tech Information System Service formed business alliance with ChinaCache International Holdings Ltd., a leading provider of content delivery network (CDN) services in China.
Step ②	Establish three-point ASEAN presence hinging on Thailand, Singapore and Vietnam
January 2012	● TISI Singapore Pte. Ltd. established.
February 2012	● INTEC SYSTEMS BANGKOK CO., LTD, established.
March 2013	● QUALICA ASIA PACIFIC PTE., LTD, hired more staff and reinforced local support structure.
Step ③	Accelerate expansion/lateral development in ASEAN region through business and capital alliances
October 2013	● AGREX established a joint venture, F-AGREX GLOBAL Co., Ltd., with FPT Software Company in Vietnam ➡ Launched global BPO business
December 2013	● TIS formed a capital and business alliance with econTEXT ASIA Limited, a Digital Garage subsidiary ➡ Jointly promoting solutions to e-commerce businesses in Asia
April 2014	● TIS formed a business alliance with PT Soltius Indonesia, top-class SAP vendor in Indonesia ➡ Strengthen SAP support services offered locally to Japanese companies operating in Indonesia ● TIS formed a capital and business alliance with MFEC Public Company Limited, a Bangkok-listed leader in IT solutions for corporate clients ➡ Mutually complement strengths and promote and expand business opportunities for each other in the IT markets of the ASEAN region and in Thailand, where growth is noticeably robust.
June 2014	● TIS turned Thai company I AM Consulting Co., Ltd., boasting top-class results as a total solution provider for SAP, into a consolidated subsidiary. ➡ Seek to expand business opportunities with local companies as well as Japanese companies operating in Thailand.

Overseas sales ratio



Step 1	Kicked off in China
Step 2	Established three-point presence—Thailand, Singapore and Vietnam
Step 3	Accelerating lateral expansion through the ASEAN region



# Corporate Social Responsibility

## 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.

<b>Ensure sound, transparent management practices</b>	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 and proactively disclose pertinent corporate information.
<b>Provide optimum services</b>	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.
<b>Develop talent</b>	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 each person the freedom to reach his or her potential.
<b>Respect the law</b>	Maintain high corporate morals, obey the law and uphold parameters of socially acceptable conduct, and respect the spirit of such standards. Have absolutely nothing to do with antisocial forces.
<b>Maintain fair business practices</b>	Ensure appropriate business transactions, based on fair and open competition.
<b>Protect the environment</b>	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.
<b>Contribute to society</b>	Actively participate in community events as a corporate citizen whose social standing matches its leading industry status.
<b>Be a part of the international community</b>	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 respecting local cultures and customs.

## Activities of the ITHD Group

The Basic Direction on CSR guides the ITHD Group in all CSR activities, enabling the Group as a whole to meet the expectations of all stakeholders.

### For the global environment

We actively integrate responses to environmental concerns in the course of business. At our most recently completed data centers, we have implemented measures to utilize renewable energy and resources, such as solar and geothermal energy, rainwater harvesting for non-drinking applications and outside air for cooling.

### With the community

We participate in various volunteer activities, including the Ecocap Movement, which collects and sells plastic bottle caps to recyclers and donates the profits to buy vaccines for the world's children. In addition, we support efforts coordinated through the non-profit organization Good Earth Japan to remove landmines in war-torn regions and help shattered communities rebuild.

### With our shareholders

Coinciding with quarterly disclosure, we hold information meetings for analysts and institutional investors. For individual investors, we issue two business reports a year and regularly post business results and information updates on our website.

### With our employees

To provide an environment in which employees can demonstrate their full potential and work in safety and comfort, each Group company reviews vacation and other entitlements and sets up programs to support employees' child-rearing efforts, such as access to daycare centers. Group companies also take steps to obtain "Kurumin" certification from the Ministry of Health, Labour and Welfare, which recognizes companies that implement programs to enable employees to balance work with family responsibilities.

# Topics

## Lunchtime Concert

In June 2014, the IT Holdings Gakuyukai (Friends of Music Society) held a 20-minute lunchtime concert on the first floor of the building that ITHD shares with other Group companies. The members of this registered ensemble are employees from three ITHD Group companies—TIS, INTEC and AGREX. This was their first performance and was organized to present the ITHD Group as a good corporate citizen and to show appreciation to other

tenants of this building. The concert was a happy mix of classical and popular music, including "Hana wa Saku" (Flowers Will Bloom)—a charity song produced by NHK (Japan Broadcasting Corporation) after the Great East Japan Earthquake to build support for disaster recovery efforts—and Bach's "Air on G String". Close to 200 people stopped to listen. The ensemble plans to continue these noontime performances.



Employees from three ITHD Group companies—TIS, INTEC and AGREX—played in the noontime concert. Close to 200 people stopped to listen.

\*Please visit our website to find out more about our CSR activities.

<https://www.itholdings.co.jp/e/csr/>



# Topics

## Smile Kids Camp

The annual Smile Kids Camp, organized by TIS, is a three-day/two-night program that offers seriously ill and disabled children, along with their families and volunteers, a place where they transcend their difficulties and share the energy that nourishes a cheerful, fun and healthy life. Employees from Group companies other than TIS also participate in this event, providing everyone a valuable opportunity to experience and understand the real meaning of CSR and volunteerism.

The 2013 event, in July, took place at Lake Kawaguchi, in Yamanashi Prefecture, at the foot of Mount Fuji, a World Heritage site, and drew together a crowd of 188 people: 27 families—a total of 93 kids and family members—and 95

volunteers (58 of whom were from TIS and other ITHD Group companies). After three days of getting to know each other, there were a lot of sad faces and tears as families and volunteers said goodbye at the closing ceremony. Smile Kids Camp was so much fun that many participants said they would like to come again.

The next Smile Kids Camp is scheduled for September 2014 at Kasuga no Mori, in Saku, Nagano Prefecture.



The spirits of Smile Kids Camp participants, even those in wheelchairs, truly soared with a ride in the hot air balloon. Excited voices rang out from high above at the wonderful views that spread out below.



## Participating in Environmentally Friendly "Future City" Project

Seeing the development of a society with a sustainable economy as a national strategy, Japan is promoting new technology and city-building initiatives that address environmental issues and the growing percentage of elderly in the population. The government selected 11 cities and regions, including the city of Toyama—where INTEC is headquartered—to be the sites of low-carbon cities of the future. In April 2012, the project in Toyama kicked off. INTEC has been involved in the project from the start. Using this project as a platform, INTEC is also working to turn smart city-related projects into marketable businesses, which could become growth sectors in the future. In January 2013, the company set up the Future City Promotion Dept. as the

department responsible for smart city business and will accelerate efforts going forward. The company will continue to address progressive scenarios utilizing information and communication technology (ICT) in pursuit of solutions to city concerns.

In addition, INTEC joined others, including Nikkei BP and the city of Toyama in a program designed to increase the number of healthy seniors in the Toyama area. This program ran from September 2013 through March 2014, with its objective to get seniors living a more active life. The program verified a variety of ICT approaches that support good health and greater participation in society.

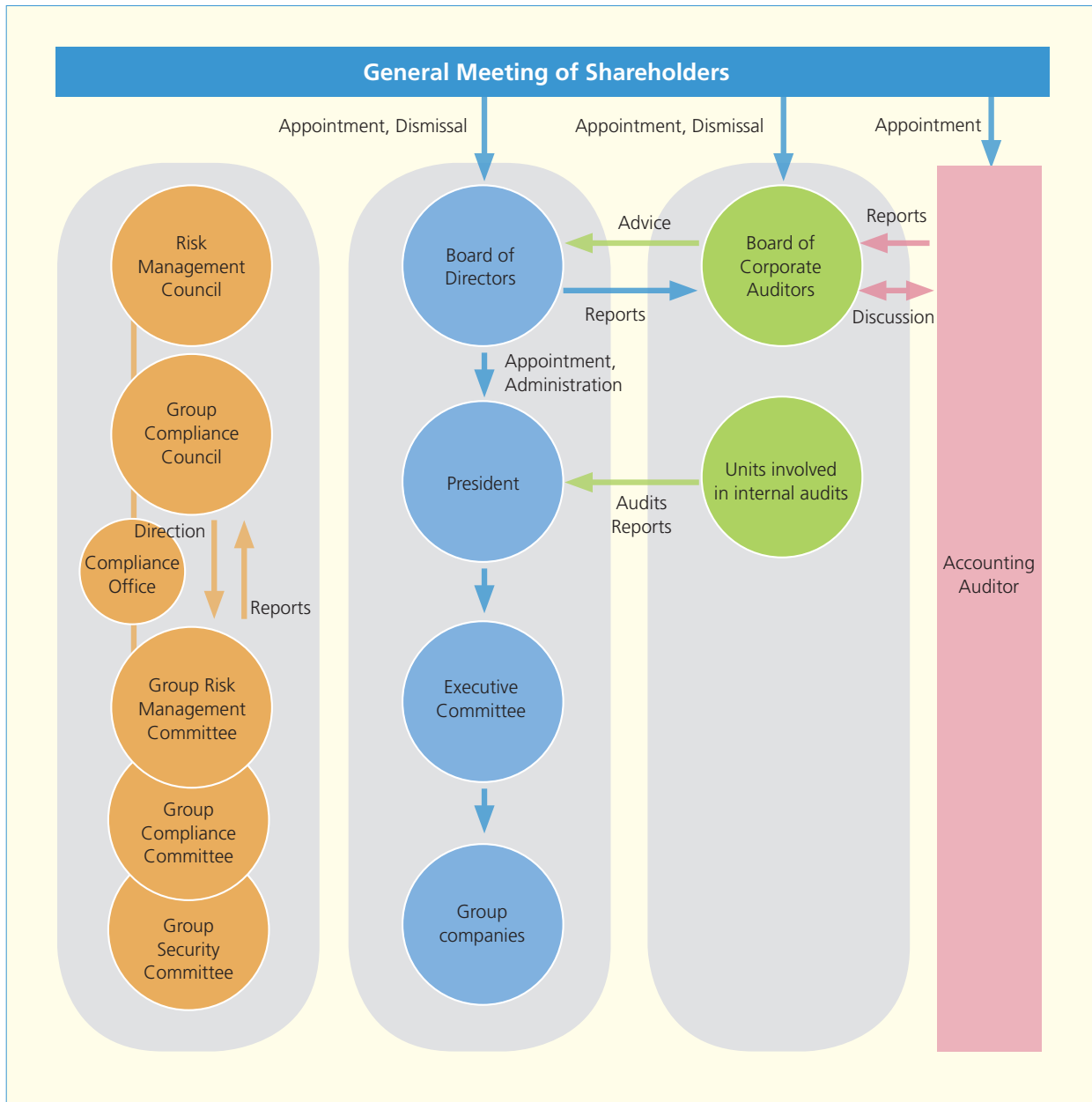
\*Please visit our website to find out more about our CSR activities.  
<https://www.itholdings.co.jp/e/csr/>



# Corporate Governance

## Basic Policy

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



For more information go to <http://www.itholdings.co.jp/e/investors/policy/governance/>

# Research and Development

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

## (1) Software Development Technology

Seeking to boost productivity and quality, TIS and INTEC spearhead efforts under a structure drawing on the strengths of each Group company. The results of these efforts are shared throughout the Group.

In fiscal 2014, the test stage of software development, which consumes a considerable number of man-hours, was again in the spotlight.

At INTEC, efforts centered on R&D for the test automation platform TaaS (Test as a Service) and a test script generator. The company continued to promote use of these tools for in-house use. A working group to facilitate the process was set up in the second half of fiscal 2014, and each division began implementing the tools. INTEC also delved into R&D on an automated production tool for programs designed to deliver a dramatic improvement in productivity at the manufacturing stage, and executed incremental prototype development and validation.

At TIS, a notable topic was Capsule-T, a newly developed test management system that provides overall management, from test planning through design, implementation, process control and defect tracking, particularly for test specifications and test cases. The company began full-scale application in the first half of fiscal 2014.

TIS also started policy research in two new areas aimed at boosting quality in upstream processes. One was an investigation into the use of REBOK (Requirements Engineering Body Of Knowledge) to raise requirement definition quality. It will be tested on projects in fiscal 2015 and then applied throughout the company thereafter. The other was to promote policy development that will encourage uniform results through enhanced quality of specifications using formal methods.

An ongoing pursuit at TIS is development and validation of Xenlon, a Java-based development framework that the company has been working on since fiscal 2011. Also of note, in January 2014, the company wrapped up efforts to integrate Xenlon with the development structure of Nablarch, an

application development/implementation framework used in large-scale core systems for clients in the financial and public service sectors. These engineering platforms underpin efforts to enhance productivity and ensure in-house standardization in web application development.

## (2) Cloud Technology

INTEC is studying architecture technology for software-defined data centers, including software-defined networking, and is also looking into a data center/cloud orchestration model using this technology in addition to studying the required technology. In fiscal 2014, the company delved into R&D on a security model for cloud environments, adding capability for secure online storage, and evaluated the model in-house for eventual service distribution. INTEC also joined the Distcloud Project Team, consisting of researchers at Osaka University and other educational and research-oriented organizations. In verification tests of Long Distance Live Migration, the team successfully built a virtual data-sharing platform to migrate without interruption a virtual machine sending backup data over a maximum distance of some 24,000km, or more than half the earth's circumference.

At TIS, cloud-related activities include the integration of public clouds, such as Amazon Web Services, with the company's own cloud platform—T.E.O.S— to create hybrids, and in fiscal 2014 TIS engineers began studying OpenStack, an open-source cloud platform architecture software. The company came up with CloudConductor, which facilitates configuration and operation of systems through a simple combination of Amazon Web Services and private clouds using OpenStack, and made it available on the Internet in March 2014. Part of this project was made possible by a grant from the Ministry of Economy, Trade and Industry (METI) under the fiscal 2013 project, Industrial Technology Commercialization Development Grant (development of software control cloud system technology).

### (3) Open Source

Since fiscal 2012, TIS has repeatedly contributed to open source software (OSS). Specifically, the company has independently validated middleware required for system integration, such as web server, application server, database, cluster formation and activity monitoring, and offers a software stack under the name ISHIGAKI Template. In fiscal 2014, the company launched technical support and consulting services for several middleware OSS based on this rich support expertise.

Of note, TIS has contributed many times to Zabbix, an open-source monitoring tool used widely around the world. Specifically, the company developed HyClops for Zabbix, which offers overall monitoring of virtual and cloud environments, and pg\_monz, a template that monitors the PostgreSQL database. These tools are available on the Internet. These achievements have been well received by the open-source community, and in February 2014, TIS' efforts were recognized at the 9th Japan OSS Incentive Awards, sponsored by the Japan OSS Promotion Forum, to encourage individuals and others to contribute to the development and widespread use of excellent OSS.

### (4) Smartphone and Tablet Technology

Another priority theme in R&D addresses the accelerating popularity of smartphones and tablets. INTEC and TIS are constantly tackling associated technology.

INTEC embarked on a project called Toyama Town Walking ICT Concierge, a theme selected by the Ministry of Internal Affairs and Communications in its ICT Town Building Promotion Project. This is a collaborative effort with the city of Toyama, the University of Toyama, Toyama Prefectural University and local companies to provide residents with walk-about information on their city. INTEC has created the ICT infrastructure and information distribution platform to gather and analyze dynamic data from walkers.

In another activity, INTEC made headway on proprietary technology that extrapolates the position of a person inside a building or underground where global positioning system (GPS) signals cannot reach, and applied the technology to a new service called SonicLocator.

### (5) Big Data Processing, Ubiquitous Platform Technology

Technology to process huge amounts of business data that was previously impossible to process is becoming increasingly accessible. Similarly, technology is steadily appearing that will process huge amounts of data generated by different kinds of sensors, an application that is expected to become widely popular in the not-too-distant future. INTEC and TIS are tackling R&D in the aptly named realm of Big Data and working on ubiquitous platforms to support various applications that use Big Data.

INTEC set up a dedicated unit—the Ubiquitous Platform Business Development Office—to prepare an environment for planning and developing a ubiquitous platform business and providing associated services. The company will utilize the proprietary scalable storage product EXAGE/Storage while working ahead with a ubiquitous platform architecture. Going forward, the company plans to leverage separate services—including those of other companies—starting with a health care service featuring INTEC's health diagnostic platform Super Phoenix stacked onto the ubiquitous platform.

At TIS, Big Data analysis will evolve into a business. The company began conducting seminars to provide data scientists with a practical perspective on statistical analysis linked to TECHMONOS, a marketing platform solution. Also, to establish a stronger profile overseas, especially in the ASEAN region, the company set up its first research grant agreement with the Ho Chi Minh City University of Technology in October 2013, and studies began on two Big Data themes: real-time traffic information capture and forecasting in Ho Chi Minh City, and overall analysis of Internet-based assessments of specific products and services.

### (6) Other Research Activities

INTEC announces the results of its R&D pursuits at various scientific meetings and holds external lectures as well. In addition, the company publishes INTEC Technical Journal and undertakes public relations activities. The company also sends representatives to deliver special lectures at Keio University, University of Toyama and Toyama Prefectural University.

TIS typically describes its R&D activities on its website in a section called Tech Sketch. The company creates many different opportunities for engineers to exchange opinions.

Given these various pursuits, INTEC booked consolidated R&D expenses of ¥853 million in fiscal 2014.

# 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
<b>Net sales</b>	<b>¥346,647</b>	¥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
<b>Operating income</b>	<b>19,510</b>	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

<b>IT Infrastructure Services</b>	Provide self-administered computer utility or system operation services through large IT facilities, including data centers.
<b>Financial IT Services</b>	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.
<b>Industrial IT Services</b>	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.
<b>Others</b>	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	<b>¥283,881</b>	¥276,935	+2.5%
Cost of sales ratio	<b>81.9%</b>	82.0%	-0.1 point
Gross profit	<b>62,766</b>	60,899	+3.1%
Gross profit margin	<b>18.1%</b>	18.0%	+0.1 point
Selling general and administrative expenses	<b>43,255</b>	42,727	+1.2%
Ratio of selling, general and administrative expenses to net sales	<b>12.5%</b>	12.6%	-0.1 point
Operating income	<b>19,510</b>	18,171	+7.4%
Operating income ratio	<b>5.6%</b>	5.4%	+0.2 point
Net income	<b>7,913</b>	5,868	+34.9%
Return on sales	<b>2.3%</b>	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	<b>¥313,610</b>	¥302,302	+3.8%
Total liabilities	<b>149,107</b>	144,143	+3.4
Net assets	<b>164,502</b>	158,159	+4.0
Minority interests	<b>8,004</b>	7,602	+5.3
Stock acquisition rights	<b>45</b>	42	+7.1
Equity capital	<b>156,452</b>	150,514	+3.9
Key ratios:			%
Equity ratio (*1)	<b>49.9%</b>	49.8%	+0.1 point
Return on equity (*2)	<b>5.2</b>	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	<b>¥43,142</b>	¥28,433	+51.7%
Net cash provided by operating activities	<b>25,770</b>	21,515	+19.8
Net cash used in investing activities	<b>(5,334)</b>	(14,391)	-62.9
Net cash used in financing activities	<b>(5,872)</b>	(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
<b>Per share data</b>			
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
<b>Assets</b>		
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
<b>Liabilities</b>		
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
<b>Net assets</b>		
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
<b>Total liabilities and net assets</b>	¥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
<b>Net sales</b>	¥337,834	<b>¥346,647</b>
<b>Cost of sales</b>	276,935	<b>283,881</b>
<b>Gross profit</b>	60,899	<b>62,766</b>
<b>Selling, general and administrative expenses</b>	42,727	<b>43,255</b>
<b>Operating income</b>	18,171	<b>19,510</b>
<b>Non-operating income</b>		
Interest income	23	<b>38</b>
Dividend income	565	<b>644</b>
Foreign exchange gains	184	<b>88</b>
Rental income from real estate	257	<b>259</b>
Other	427	<b>626</b>
<b>Total non-operating income</b>	1,458	<b>1,656</b>
<b>Non-operating expenses</b>		
Interest expenses	789	<b>598</b>
Equity in losses of non-consolidated subsidiaries and affiliates	105	<b>470</b>
Financing expenses	—	<b>350</b>
Provision of allowance for doubtful accounts	482	<b>30</b>
Other	813	<b>745</b>
<b>Total non-operating expenses</b>	2,189	<b>2,195</b>
<b>Recurring profit</b>	17,440	<b>18,971</b>
<b>Extraordinary income</b>		
Gain on sale of fixed assets	44	<b>1</b>
Gain on sale of investment securities	95	<b>817</b>
Other	36	<b>43</b>
<b>Total extraordinary income</b>	175	<b>862</b>
<b>Extraordinary losses</b>		
Loss on disposal of fixed assets	662	<b>269</b>
Impairment loss	1,523	<b>1,073</b>
Loss on liquidation of business	—	<b>463</b>
Special severance pay	—	<b>608</b>
Structural reform-related expenses	843	<b>—</b>
Loss on partial termination of retirement benefit scheme	2,609	<b>148</b>
Other	792	<b>834</b>
<b>Total extraordinary losses</b>	6,431	<b>3,398</b>
<b>Income before income taxes and minority interests</b>	11,185	<b>16,435</b>
<b>Income taxes: current</b>	5,224	<b>5,459</b>
<b>Income taxes: deferred</b>	(349)	<b>2,353</b>
<b>Total income taxes</b>	4,874	<b>7,813</b>
<b>Income before minority interests</b>	6,310	<b>8,622</b>
<b>Minority interests in earnings (losses) of consolidated subsidiaries</b>	441	<b>708</b>
<b>Net income</b>	¥ 5,868	<b>¥ 7,913</b>

## 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
<b>Income before minority interests</b>	¥ 6,310	¥ 8,622
<b>Other comprehensive income</b>		
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
<b>Comprehensive income</b>	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
<b>Shareholders' equity</b>		
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
<b>Accumulated other comprehensive income</b>		
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

Continued on the next page

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



## 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
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
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)
<b>Cash flows from financing activities</b>		
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)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	109	140
<b>Net increase (decrease) in cash and cash equivalents</b>	(12,649)	14,703
<b>Cash and cash equivalents at beginning of year</b>	41,119	28,433
<b>Increase in cash and cash equivalents resulting from merger</b>	—	4
<b>Decrease in cash and cash equivalents due to corporate division</b>	(36)	—
<b>Cash and cash equivalents at end of year</b>	¥ 28,433	¥ 43,142

# Corporate Data

## IT Holdings Group (As of August 1, 2014)

### Domestic Subsidiaries

#### [Principal Companies]

- TIS Inc.
- INTEC Inc.
- AGREX INC.
- QUALICA INC.
- AJS Inc.
  
- AC MEDICAL INC.
- AGREX FINE TECHNO INC.
- ALMEC Co., Ltd.
- Cloud Scope Technologies, Inc.
- Chuo System Corporation
- HOKKOKU INTEC SERVICE Inc.
- iBPS, Ltd.
- IN-X Co., Ltd.
- INTEC IT Capital, Inc.
- INTEC Solution Power Inc.
- IT Service Force Inc.
- IUK Inc.
- Keyport Solutions, Inc.
- KOUSHI INTEC Inc.
- Medical Toukei Co., Ltd.
- MITEC Inc.
- NEOAXIS Co., Ltd.
- Nexway Co., Ltd.
- Registration Network, Ltd.
- SKY INTEC INC.
- SorunPure Inc.
- TIS Business Consultants Inc.
- TIS First Manage Inc.
- TIS Hokkaido Inc.
- TIS Leasing Co., Ltd. (Note)
- TIS Solution Link Inc.
- TIS System Service Inc.
- TIS Total Service Inc.
- TIS TOUHOKU Inc.
- TIS WEST JAPAN Inc.
- UPSHE Co., Ltd.

### Overseas Subsidiaries

#### [China]

- Beijing TIS Information Technology Co., Ltd.
- Digital TIS Co., Ltd.
- Tianjin TIS Hi-tech Information System Service Co., Ltd.
- Tianjin TIS Software Co., Ltd.
- TISI (Shanghai) Co., Ltd.
- INTEC Information Technology (Dalian) Co., Ltd.
- INTEC Information Technology (Shanghai) Co., Ltd.
- INTEC Information Technology (Wuhan) Co., Ltd.
- WUALICA (SHANGHAI) Inc.

#### [Singapore]

- TISI (Singapore) Pte. Ltd.
- QUALICA ASIA PACIFIC PTE. LTD.

#### [Thailand]

- I AM Consulting Co., Ltd.
- Baseline Technology Consultants Co., Ltd.
- CODE IT Consulting Co., Ltd.
- ECM Consulting Co., Ltd.
- I Coach Co., Ltd.
- IHR Consulting Co., Ltd.
- ITS-Tradeship Co., Ltd.
- INTEC SYSTEMS BANGKOK CO., LTD.

#### [Vietnam]

- INTEC Vietnam Co., Ltd.

#### [United States]

- TIS R&D Center, Inc.

- Consolidated Subsidiaries
- Non-Consolidated Subsidiaries

### 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.

Note: TIS Leasing Co., Ltd., was dissolved on April 1, 2014. The liquidation process should be completed by December 31, 2014.

## Corporate Data (As of March 31, 2014)

Company name	IT Holdings Corporation
Established	April 1, 2008
Main business	Management and business execution of group companies that carry on information and communication business
Head office	21F Sumitomo Fudosan Shinjuku Grand Tower, 17-1 Nishi-shinjuku 8-chome, Shinjuku-ku, Tokyo 160-0023 Japan TEL. +81-3-5338-2277 FAX. +81-3-5338-2266
Paid-in capital	¥10 billion
Number of shares authorized	280,000,000 shares
Number of shares issued	87,789,098 shares
Number of shareholders	13,743
Stock listing	Tokyo Stock Exchange, First Section (Securities code: 3626)
Number of employees (consolidated)	19,081 (full-time employees)

## Board of Directors and Corporate Auditors (As of June 25, 2014)

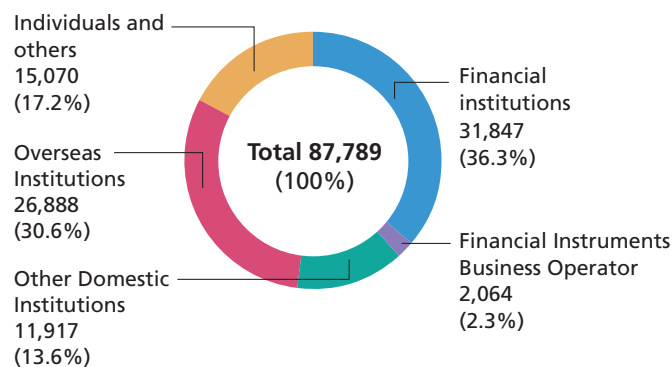
Chairman	<b>Katsuki Kanaoka</b>
President	<b>Norio Maenishi</b>
Director (Part-time)	<b>Toru Kuwano</b> (concurrent, Chairman and President, TIS Inc.)
Director (Part-time)	<b>Shigeo Morita</b> (concurrent, Chairman, INTEC Inc.)
Director (Part-time)	<b>Koju Takizawa</b> (concurrent, President, INTEC Inc.)
Director (Part-time)	<b>Kazunori Kawasaki</b> (concurrent, President, AJS Inc.)
Director (Part-time)	<b>Akira Kato</b> (concurrent, President & CEO, QUALICA Inc.)
Director	<b>Shingo Oda</b>
Director	<b>Yoshinobu Ishigaki</b>
Standing Audit & Supervisory Board Member	<b>Nobuyuki Yonezawa</b>
Standing Audit & Supervisory Board Member	<b>Masaru Sasakura</b>
Standing Audit & Supervisory Board Member	<b>Taigi Ito</b>
Audit & Supervisory Board Member	<b>Muneaki Ueda</b>

Notes: 1. Shingo Oda and Yoshinobu Ishigaki serve as external directors.  
2. Masaru Sasakura, Taigi Ito and Muneaki Ueda serve as external Audit & Supervisory Board Members.  
3. Shingo Oda, Yoshinobu Ishigaki, Masaru Sasakura, Taigi Ito and Muneaki Ueda serve as Independent Directors/Auditors as specified by the Tokyo Stock Exchange in Japan.

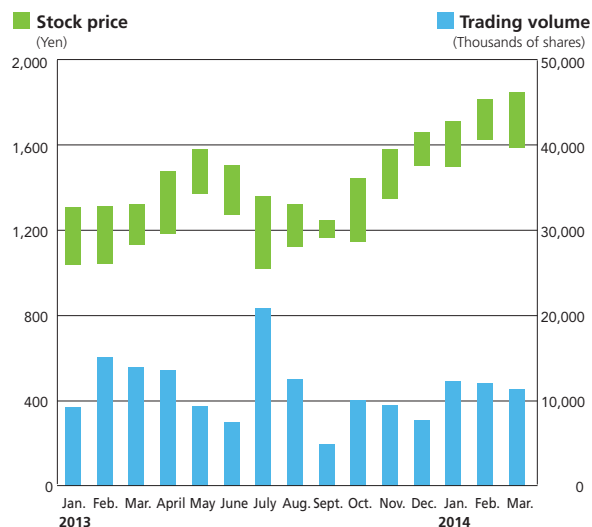
## Major Shareholders (As of March 31, 2014)

Name	Number of shares (Thousands)	Shareholding ratio (%)
The Master Trust Bank of Japan, Limited (Trust Account)	5,621	6.4
Japan Trustee Services Bank, Limited (Trust Account)	5,580	6.4
Employees' Shareholding Association of IT Holdings Corporation	2,497	2.8
Nippon Life Insurance Company	2,332	2.7
MSIP CLIENT SECURITIES	1,799	2.1
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,654	1.9
Daiwa Securities Co. Ltd.	1,602	1.8
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account, Mitsubishi Electric Corporation Account )	1,598	1.8
Japan Trustee Services Bank, Limited (Trust Account 9)	1,402	1.6
State Street Bank and Trust Company	1,360	1.6

## Share Composition by Shareholder (As of March 31, 2014; Thousands of Shares)



## Stock Price Range



# ITHD Group Management Philosophy

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

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

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

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

For further information contact:  
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Any revisions to information in this annual report subsequent to publication will be posted at:  
<http://www.itholdings.co.jp/e/>