Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2015

(April 1, 2014 through December 31, 2014)
(Prepared pursuant to Japanese GAAP)

All financial information has been prepared in accord with accounting principles generally accepted in Japan. This is a partial English translation of the original Japanese-language document. All information pertains to consolidated results unless otherwise noted. Information on the basis of presentation of consolidated financial statements does not appear in this translation.

February 2, 2015

Company name: IT Holdings Corporation
Stock exchange listings: The First Section of the Tokyo Stock Exchange
Stock code: 3626
URL: http://www.itholdings.co.jp/e/
Representative: Norio Maenishi, President
Contact: Akio Kita, Executive Officer, Deputy Division Manager, Administration Division
Phone: +81 3-5338-2272

Scheduled dates
Submission of quarterly report: February 10, 2015
Commencement of dividend payments: -

Supplementary materials to the quarterly results: Available
Quarterly results presentation held: Yes (targeted at institutional investors and analysts)

Figures in millions of yen are rounded down to the nearest million

1. Consolidated Results for the First Three Quarters of the Fiscal Year Ending March 31, 2015 (April 1, 2014 – December 31, 2014)

(1) Consolidated Financial Results

Percentages indicate year-over-year changes

	Net sales		Operating income		Recurring profit		Net income	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
First Three Qtrs., FY2015	254,887	6.9	10,803	28.8	10,829	31.3	4,866	51.5
First Three Qtrs., FY2014	238,447	1.0	8,388	8.4	8,251	18.0	3,211	20.2

Note: Comprehensive income: First Three Qtrs., FY 2015: 21,802 million yen (170.3%), First Three Qtrs., FY 2014: 8,066 million yen (147.0%)

	Net income per share – basic	Net income per share – diluted
	yen	yen
First Three Qtrs., FY2015	55.59	55.55
First Three Qtrs., FY2014	36.59	36.55

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	millions of yen	millions of yen	%
End of Third Quarter, FY2015	323,886	177,728	53.5
End of FY2014	313,610	164,502	49.9

For reference: Total equity: End of third quarter, FY2015: 173,352 million yen End of FY2014: 156,452 million yen.
*Total equity = Shareholders' equity plus total accumulated other comprehensive income

2. Cash Dividends for Shareholders of Common Stock

	Cash dividends per share				
Record date or period	End-Q1	End-Q2	End-Q3	Year-end	Total
	yen	yen	yen	yen	yen
FY2014	-	8.00	-	17.00	25.00
FY2015	-	10.00	-		
FY2015 (forecast)			-	20.00	30.00

Note: Revisions from the latest release of dividends forecasts: None

3. Forecast of Consolidated Results for FY2015 (April 1, 2014 – March 31, 2015)

Percentages indicate year-over-year changes

	Net sales		Operating income		Recurring profit		Net income		Net income per share – basic
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full FY 2015 (year ending Mar. 31, 2015)	355,000	2.4	21,500	10.2	20,500	8.1	10,000	26.4	114.26

Note: Revisions from the latest release of earnings forecasts: None

※ Notes

(1) Material reclassifications of subsidiaries during the period: None
(Changes in specified subsidiaries resulting in change in scope of consolidation)
Additions: None: Exclusions: None

(2) Accounting methods specific to quarterly consolidated financial statements: None

(3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement
1) Changes in accordance with amendments to accounting standards, etc.: Yes
2) Changes other than noted in 1) above: Yes
3) Changes in accounting estimates: None
4) Retrospective restatement: None
Note: For further details, please refer to “(1) Changes in Accounting Policy, Changes in Accounting Estimates, and Retrospective Restatement” in the “2. Other Information” on page 5 in the Accompanying Materials.

(4) Common stock issued
1) Issued shares as of period-end (including treasury stock):
End-Third Quarter, FY2015 (December 31, 2014): 87,789,098 shares
End-FY2014 (March 31, 2014): 87,789,098 shares
2) Treasury stock as of period-end:
End-Third Quarter, FY2015 (December 31, 2014): 319,028 shares
End-FY2014 (March 31, 2014): 4,337 shares
3) Average number of shares (during the respective nine-month period):
First three quarters, FY2015 (ended December 31, 2014): 87,539,797 shares
First three quarters, FY2014 (ended December 31, 2013): 87,771,067 shares

***Quarterly review status**

These materials are not subject to the quarterly review procedure requirements of Japan’s Financial Instruments and Exchange Act. As of this report’s publication, a review of the quarterly consolidated financial statements in accordance with the Act had not been completed.

Caution on Forward-Looking Statements and Other Important Matters

This report contains forward-looking statements that reflect IT Holdings Corporation (ITHD)’s plans and expectations based on information available to ITHD at the time of preparation and on certain other information ITHD believes to be reasonable. These forward-looking statements 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.
For the assumptions underlying the forecasts herein and other notice on the use of earnings forecasts, refer to “(2) Consolidated Earnings Forecast and Caution on Forward-Looking Statements” in the “1. Results of Operations” section on page 4 in the Accompanying Materials.

Accompanying Materials – Contents

1. Results of Operations

(1) Analysis of Consolidated Operating Results

In the first nine months of fiscal 2015 (April 1, 2014 – December 31, 2014), the Japanese economy on the whole continued its steady recovery despite a reactionary decline in demand caused by a spending surge prior to the consumption tax increase and concerns over economic trends overseas.

In the IT services industry, to which the IT Holdings Group belongs, the business environment in Japan remained strong. The Bank of Japan's quarterly Short-term Economic Survey of Enterprises in Japan indicated that corporate software investment plans (all industries including financial institutions) continued to improve (December 2014 survey showed a 2.9% year-on-year increase in spending).

Under these circumstances, the Group promoted various initiatives under its Group management strategy in accordance with the three basic concepts of the ongoing second medium-term management plan: "Top-Line Emphasis," acting "as One Company" and being "Enterprising and Bold".

Consolidated net sales for the Group in the first nine months of the fiscal year increased 6.9% versus the same period of the previous fiscal year to ¥254,887 million. Operating income rose 28.8% to ¥10,803 million from a year earlier, recurring profit increased 31.3% to ¥10,829 million, and net income rose 51.5% to ¥4,866 million.

Consolidated net sales exceeded the level for the same period of the previous fiscal year, as the Group accurately grasped the IT investment needs of its customers. Profits rose strongly, as the increase in sales and the control of unprofitable projects absorbed expenses for strengthening the structure to acquire and execute multiple large-scale development projects.

Segment results for the first nine months of the fiscal year are as follows. The sales figures for each segment include inter-segment sales.

1) IT Infrastructure Services

Consolidated sales rose 2.4% year on year to ¥86,673 million and operating income declined 2.8% to ¥4,977 million. While net sales increased compared with a year earlier on the back of strong growth of the data center business, operating income declined slightly from the same period a year earlier due to the impact of reduction in scale of business with some existing clients.

2) Financial IT Services

Consolidated sales in the first nine months of the fiscal year increased 8.8% from the same period a year ago to ¥57,026 million, while operating income rose 6.1% to ¥3,597 million from the same period of the previous fiscal year. Sales grew year on year, as major customer credit card companies and other enterprises expanded their IT-related investments. Operating income also increased, as the sales growth absorbed expenses for structural reinforcement aimed at acquiring and executing large-scale development projects.

3) Industrial IT Services

Consolidated sales increased 9.6% year on year to ¥113,070 million, and operating income totaled ¥1,563 million (compared with an operating loss of ¥687 million in the same period a year ago). The sales increase reflected strong overall demand, led by service, retail, and manufacturing industries. Operating income rebounded strongly, as the increase in sales and efforts to control unprofitable projects absorbed an increase in the number of sales projects with low profitability and the expenses for consultative activities for large-scale and other development projects.

4) Other

Consolidated sales in this segment declined 10.9% year on year to ¥11,001 million, and operating income declined 1.4% to ¥1,560 million. This was mainly due to the impact of the sale of lease assets of TIS Leasing Co., Ltd. and withdrawal from the leasing business as of the end of the previous fiscal year as part of efforts to promote the development of a structure that would allow it to focus on the core businesses and growth fields.

With the aim of becoming an IT business that will implement reforms as a single unit, the Group is implementing its second medium-term management plan (from fiscal 2013 through fiscal 2015) and positions the current fiscal year, which is the final year of the plan, as the year to complete the measures. The Group set forth the following group management strategy for fiscal 2015 based on the basic concepts of the medium-term management plan and in consideration of the achievements through fiscal 2014 and the implementation status of various measures. The Group continues to promote various measures to achieve the strategy.

The second medium-term management plan basic concepts	Group management strategy for fiscal 2015
Top-Line Emphasis	Put emphasis on the amount of profit and profit ratio and maintain a Group top-line that ensures them.
as One Company	Focus on operating the Group with a sense of unity based on strengthening of its communication base.
Enterprising and Bold	Bolster the Group's efforts to expand the services-oriented business and promote globalization.

IT Holdings Group's key moves in the first nine months of fiscal 2015 are as follows:

1. "Top-Line Emphasis"

In October 2014, the Group merged TIS First Manage Inc. into TIS Solution Link Inc. as part of transplant and consolidation of business domains to pursue growth through business collaboration between group companies. The move enables consolidation of customer onsite service business. At the same time, the Group transferred TIS First Manage's embedded-type business to Qualica Inc. to strengthen the Group's capability to respond to customer requests.

Moreover, in response to the growing demand for data centers in the Kansai region, TIS, Inc. agreed with Nomura Research Institute, Ltd. to cooperate on the joint operation of a new data center. The two companies signed a basic agreement in April 2014 and are making preparations to open the data center in the summer of 2016.

2. "as One Company"

The Group decided to unify the group brands to develop a sense of togetherness and strengthen the brand to succeed in operating the Group with a sense of unity, and all Group companies in June 2014 started using the common Group logo. Furthermore, the Group decided to consolidate the offices of Group companies in Osaka district in summer of 2015 in order to ensure smooth communications among the Group companies and promote cooperation among them.

Furthermore, in October 2014, IT Holdings decided to make consolidated subsidiary AGREX Inc. a wholly owned subsidiary in order to raise corporate value by strengthening competitiveness through reorganization of Group functions and enhancing consolidated management efficiency through Group’s total optimization. IT Holdings judged that it was necessary to rebuild capital relationship of the IT Holdings Group so as to enable dynamic and flexible businesses and reorganization of functions. Therefore, IT Holdings made a tender offer for shares of AGREX between October and December 2014 and is taking procedures to make AGREX its wholly owned subsidiary at an early date.

After the conversion to a wholly owned subsidiary, AGREX will be positioned as the core entity of the Group’s BPO business, strengthening collaboration with Group companies through such measures as the centralization of the BPO business currently scattered throughout the Group.

3. “Enterprising and Bold”

In its efforts towards globalization, the Group has been promoting further business expansion targeting Japanese as well as local companies in the respective countries through lateral expansion based on alliance strategies. As part of these efforts, TIS agreed on a capital and business alliance in April 2014 with MFEC Public Co., Ltd., a publicly traded IT company in Thailand and a leading player in IT solution for the enterprise, while in June 2014 TIS made I AM Consulting Co., Ltd., a SAP total solution provider in Thailand, a consolidated subsidiary.

As part of shift to services-oriented business, INTEC Inc. was selected to provide municipal cloud services to be shared by cities, towns and villages of Toyama Prefecture and is currently engaged in the development of the system environment. INTEC, which has been providing municipal cloud services such as an electronic bidding systems and tax document search systems, will jointly offer a backbone system that will be central to the local government’s operations and services, utilizing CIVION-7th, a general administrative information system. It will be the first time such a shared use of a backbone system is implemented in Toyama Prefecture.

At the same time, Qualica Inc., with the aim of expanding its core aftermarket business, took over a part of Komatsu Ltd.’s CSS-Net business in April 2014. The move enables Qualica to combine CSS-Net’s document computerization and Web broadcasting system with its own CareQube, a remote monitoring and preventive maintenance system developed by Qualica. It will use the acquisition to raise customer satisfaction even further and expand its business.

Further, the Group will continue to discuss and promote various measures from the perspectives of “achieving Group total optimum” and “development of unique and clear strengths (growth engines) and collaboration.”

(2) Consolidated Earnings Forecast and Caution on Forward-Looking Statements

The Group’s consolidated business results have generally been in line with forecasts, and therefore there is no change to the consolidated earnings forecast announced on May 9, 2014.

2. Other Information

(1) Changes in Accounting Policy, Changes in Accounting Estimates, and Retrospective Restatement

Changes in Accounting Policy

(Application of Accounting Standard for Retirement Benefits, etc.)

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan - ASBJ - Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) have been applied, effective from the first quarter of the current consolidated financial year ending March 31, 2015 (April 1, 2014 to June 30, 2014), in accordance with the provisions of Article 35 of the Accounting Standard for Retirement Benefits and Article 67 of the Guidance on Accounting Standard for Retirement Benefits.

As a result, the methods for calculating retirement benefit obligations and service costs have been revised, and the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis. As to the discount rate, it used to be calculated based on the bond duration, comparable to employees' average remaining years of service. Under the new accounting standard, however, the method of determining the discount rate has now been changed to use a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits for every such period.

In accordance with the transitional treatment provided in Article 37 of the Accounting Standard for Retirement Benefits, the effect of the change in calculation method for retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the first quarter of the financial year ending March 31, 2015.

Consequently, as at the beginning of the first quarter of the current financial year ending March 31, 2015, net defined benefit liability decreased by ¥1,657 million, while net defined benefit asset increased by ¥660 million, resulting in ¥1,532 million increase in retained earnings. Yet, the effect of this change on the consolidated income statement for the first nine months of the financial year ending March 31, 2015, is immaterial.

(Application of Accounting Standard for Business Combination)

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 of September 13, 2013), "Accounting Standard for Business Divestiture" (ASBJ Statement No. 7 of September 13, 2015) and related standards are made applicable to the consolidated financial year starting April 1, 2014 and onwards.

These accounting standards (except the provisions of Article 39 of Accounting Standard for Consolidated Financial Statements) have now been applied, effective from the first quarter of the current consolidated financial year (April 1, 2014 to June 30, 2014). Under this new application of these standards, differences caused by change in the Company's equity in the subsidiaries and affiliates with controlling interests shall be now adjusted in additional paid-in capital, and acquisition-related expenses shall be all reported as expenses accruing during the consolidated financial year in which said acquisition takes place.

As to a business combination to take place after April 1, 2014, i.e. the beginning of the first quarter of the current consolidated financial year, appraisal of purchase price allocation, pursuant to the final determination of provisional accounting treatments, shall now be changed to be reflected in the quarterly consolidated financial statements where the date of the business combination falls.

The implementation of Accounting Standards for Business Combinations and its related standards is subject to the transitional treatments stipulated in the provisions of Article 58-2 (4) of Accounting Standard for Business Combinations, Article 44-5 (4) of Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of Accounting Standard for Business Divestiture, and has been and will be under way since the beginning of the first quarter of the current consolidated financial year and going forward.

As a result, in the first nine months of the financial year ending March 31, 2015, operating income decreased ¥94 million, and recurring profit and income before income taxes and minority interests each declined ¥222 million. Additional paid-in capital decreased ¥3,135 million at the end of the third quarter of the fiscal year.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Items	As of Mar. 31, 2014	As of Dec. 31, 2014
	millions of yen	millions of yen
Assets		
Current assets		
Cash and deposits	43,248	27,722
Notes and accounts receivable	68,301	56,173
Lease receivables and lease investment assets	6,654	5,997
Marketable securities	226	3,011
Merchandise and finished goods	3,207	5,355
Work in process	6,757	10,651
Raw materials and supplies	229	226
Deferred tax assets	6,603	4,498
Other current assets	8,450	9,799
Allowance for doubtful accounts	(159)	(73)
Total current assets	143,519	123,364
Fixed assets		
Property and equipment		
Buildings and structures, net	56,565	54,245
Machinery and equipment, net	4,428	4,571
Land	20,726	24,612
Leased assets, net	4,738	4,422
Other property and equipment, net	5,153	4,513
Total property and equipment	91,612	92,365
Intangible assets		
Goodwill	771	1,185
Other intangible assets	14,802	15,820
Total intangible assets	15,573	17,006
Investments and other assets		
Investment securities	38,787	66,990
Net defined benefit asset	4,103	4,933
Deferred tax assets	6,881	6,069
Other assets	13,362	13,532
Allowance for doubtful accounts	(229)	(377)
Total investments and other assets	62,905	91,149
Total fixed assets	170,091	200,521
Total assets	313,610	323,886

Items	As of Mar. 31, 2014	As of Dec. 31, 2014
	millions of yen	millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable	18,828	15,768
Short-term borrowings	14,299	18,303
Income taxes payable	3,495	387
Accrued bonuses to directors and employees	10,932	5,527
Other allowances	1,007	591
Other current liabilities	24,226	28,584
Total current liabilities	72,790	69,163
Non-current liabilities		
Long-term debt	44,570	37,700
Lease obligations	6,160	5,634
Deferred tax liabilities	470	9,533
Deferred tax liabilities from revaluation of land	732	732
Accrued retirement benefits to directors	88	89
Net defined benefit liability	18,688	17,666
Other non-current liabilities	5,606	5,637
Total non-current liabilities	76,316	76,994
Total liabilities	149,107	146,157
Net assets		
Shareholders’ equity		
Common stock	10,001	10,001
Additional paid-in capital	86,786	83,652
Retained earnings	57,579	61,610
Less treasury stock, at cost	(6)	(511)
Total shareholders’ equity	154,360	154,752
Accumulated other comprehensive income		
Net unrealized gains on other securities	5,975	22,266
Revaluation reserve for land	(1,967)	(1,967)
Foreign currency translation adjustments	48	144
Remeasurements of defined benefit plans	(1,964)	(1,843)
Total accumulated other comprehensive income	2,092	18,599
Stock acquisition rights	45	58
Minority interests	8,004	4,317
Total net assets	164,502	177,728
Total liabilities and net assets	313,610	323,886

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

Items	First Three Qtrs., FY2014 (Apr. 1 – Dec. 31, 2013)	First Three Qtrs., FY2015 (Apr. 1 – Dec. 31, 2014)
	millions of yen	millions of yen
Net sales	238,447	254,887
Cost of sales	197,901	210,593
Gross profit	40,545	44,294
Selling, general and administrative expenses	32,157	33,490
Operating income	8,388	10,803
Non-operating income		
Interest income	35	44
Dividend income	630	704
Other	823	694
Total non-operating income	1,489	1,443
Non-operating expense		
Interest expenses	469	385
Equity in losses of affiliated companies	332	265
Other	825	765
Total non-operating expenses	1,626	1,416
Recurring profit	8,251	10,829
Extraordinary income		
Gain on sale of investment securities	233	376
Gain on transfer of business	69	—
Other	4	3
Total extraordinary income	308	379
Extraordinary loss		
Impairment loss	100	594
Loss on business liquidation	367	—
Special severance pay	278	—
Other	325	1,351
Total extraordinary loss	1,071	1,945
Income before income taxes and minority interests	7,487	9,263
Income taxes: current	1,576	1,609
Income taxes: deferred	2,151	2,390
Total income taxes	3,727	3,999
Income before minority interests	3,760	5,264
Minority interests in earnings of consolidated subsidiaries	548	398
Net income	3,211	4,866

Consolidated Statements of Comprehensive Income

Items	First Three Qtrs., FY2014 (Apr. 1 – Dec. 31, 2013)	First Three Qtrs., FY2015 (Apr. 1 – Dec. 31, 2014)
	millions of yen	millions of yen
Income before minority interests	3,760	5,264
Other comprehensive income		
Net unrealized gains on other securities	4,151	16,308
Foreign currency translation adjustments	139	105
Remeasurements of defined benefit plans	—	122
Share of other comprehensive income of equity-method affiliates	15	2
Total other comprehensive income	4,306	16,538
Comprehensive income	8,066	21,802
(Composition)		
Comprehensive income attributable to owners of the parent	7,457	21,373
Comprehensive income attributable to minority interests	609	429

(3) Notes on the Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable