IT Holdings Corporation

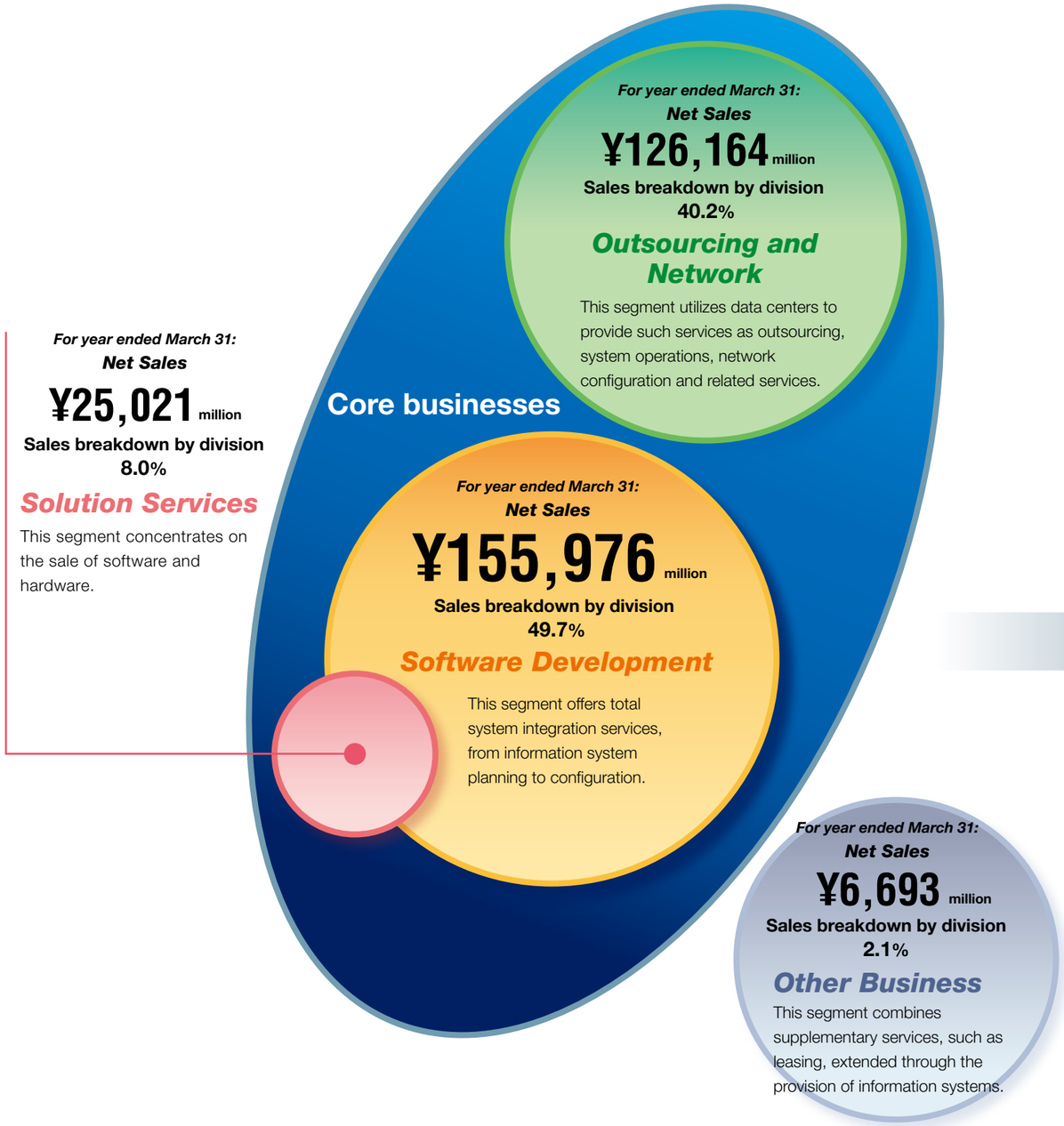
IT Holdings

Annual Report 2010

Year Ended March 31, 2010

What is the IT Holdings Group?

Formed in April 2008, the IT Holdings Group is the total information technology (IT) companies in Japan. At its core are seven principal operating companies, which underpin excellent responses to the needs of clients in a wide range of industry sectors. As of March 31, 2010, the Group comprised 82 companies—55 of which fell under the scope of consolidation—and net sales reached ¥313 billion.



IT Holdings Group
Management Philosophy

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

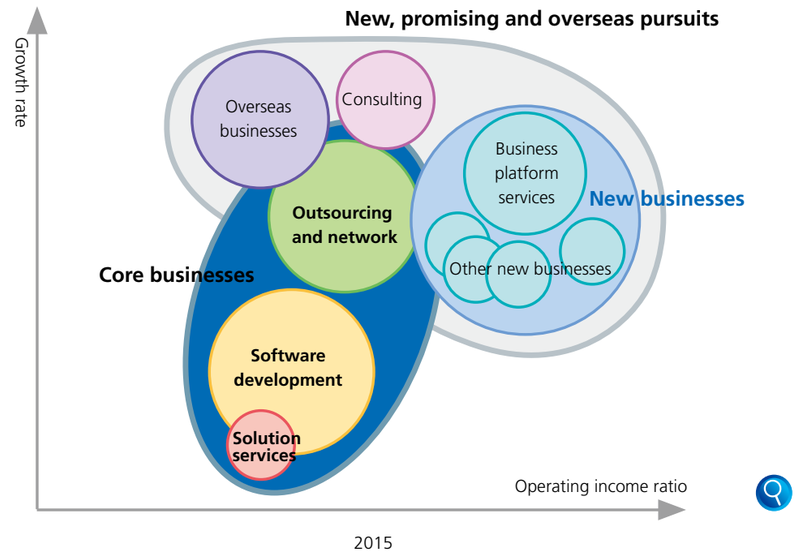
We will cultivate a vibrant corporate culture that encourages companies and individuals under the Group umbrella to work toward higher goals and embrace new challenges, and thereby ensure corporate growth.

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

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

Future Targets

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



Progress and Results as a Total IT Business Group

April 2008

IT Holdings is created through the management integration of major domestic information service providers TIS Inc. and INTEC Holdings, Ltd.

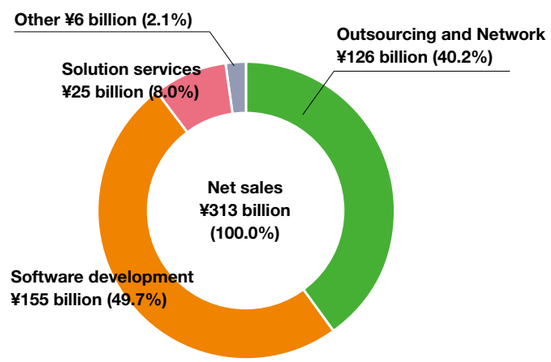
2008-2009

The Group is reorganized. Key events include splitting off companies under the old TIS Group umbrella and merging INTEC Holdings into INTEC Inc., and then putting the surviving subsidiaries under the direct control of IT Holdings.

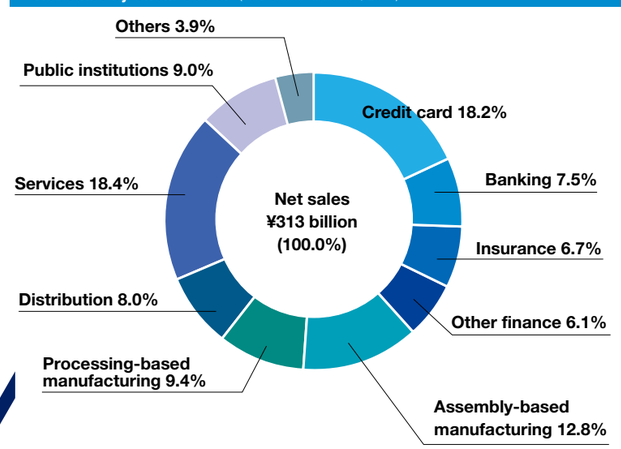
December 2009

SORUN CORPORATION joined the IT Holdings Group.

Net Sales by Business Segment (Year ended March 31, 2010)



Net Sales by Client Sector (Year ended March 31, 2010)



IT Holdings Corporation and Consolidated Subsidiaries

	2010	2009		2010
	Millions of yen	Millions of yen	Change	Thousands of U.S. dollars
For year ended March 31:				
Net sales	**¥313,856**	¥338,302	-7.2%	**$3,373,350**
Operating income	**15,996**	23,787	-32.8%	**171,931**
Net income	**7,660**	9,407	-18.6%	**82,328**
At year-end:				
Total assets	**313,077**	295,327	+6.0%	**3,364,972**
Total net assets	**155,075**	146,216	+6.1%	**1,666,758**
Net cash provided by operating activities	**31,401**	34,311	-8.5%	**337,495**
Cash and cash equivalents at end of year	**46,988**	35,105	+33.8%	**505,028**
Per share of common stock (¥):				
Net income, basic	**¥89.25**	¥110.74	-19.4%	**$0.96**
Net income, diluted	**—**	110.72	—	**—**
Net assets	**1,602.77**	1,541.17	+4.0%	**17.23**
Cash dividends	**32.00**	32.00	—	**0.34**
Key ratios (%):				
Return on equity	**5.7%**	7.4%	-1.7 points	
Equity ratio	**44.2%**	44.4%	-0.2 points	

Notes: 1. U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥93.04 = US$1, the approximate rate prevailing on March 31, 2010.
2. Return on equity = Net income/Equity capital [(equity capital at the beginning of the term + equity capital at the end of term)/2] x 100
3. Equity ratio = [Equity capital/Total assets] x 100
4. Equity capital = Net assets – [Subscription rights + Minority interests] = ¥138,401 million for the year ended March 31, 2010.

Principal Operating Companies	Consolidated Subsidiaries		Business Content	Fiscal 2010 Net Sales
	Domestic	Overseas		
TIS Inc.	1	3	Addresses IT needs of clients in many industries, including finance, manufacturing and service. Provides one-stop responses, ranging from platform system development to data center services.	¥90 billion (Consolidated)
INTEC Inc.	14	0	Boasts expertise in services for clients over a diverse industry spectrum, including finance, manufacturing, distribution, medical services and public services. Provides total solutions, from consultations and system development to outsourcing and network services.	¥93 billion (Non-consolidated)
SORUN CORPORATION	11	3	Focuses on clients in finance and manufacturing sectors but working to achieve good balance of business with orders from telecommunications and public service sectors. Also develops systems for aerospace industry.	¥46 billion (Consolidated)
UFIT Co., Ltd.	2	0	Strengths in services for clients in credit card and consumer finance sectors. Focuses on outsourcing services.	¥42 billion (Consolidated)
Agrex Inc.	6	0	Leading company in business process outsourcing in Japan. Listed on the First Section of the Tokyo Stock Exchange (4799)	¥26 billion (Consolidated)
Qualica Inc.	0	2	Maintains a high profile with services for the manufacturing, distribution and service industries.	¥13 billion (Non-consolidated)
AJS Inc.	1	0	Focuses on systems for the manufacturing and medical services industries.	¥10 billion (Non-consolidated)

Cautionary note regarding forward-looking statements

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

Tetsuo Nakao
Chairman

Susumu Okamoto
President

On behalf of senior management and employees throughout the IT Holdings Group, we would like to take this opportunity to extend our sincere appreciation to you, our shareholders, for your invaluable support. The books for fiscal 2010, the year ended March 31, 2010, have been closed and it is time to tell you the results.

The information services industry faced an uphill battle on the profit front in fiscal 2010. The operating environment was made particularly challenging by a persistent trend among companies to limit IT investment to a select few projects while striving to reduce the costs incurred on any projects that funds have been earmarked for. This budgetary restraint stems from sluggish business conditions and reduced profitability.

The difficulties felt in the industry played out as the Bank of Japan had predicted in its short-term economic survey: investment in software would show a steep year-on-year decline in fiscal 2010.

The IT Holdings Group was not immune to the challenges that characterized fiscal 2010. Order activity dropped off significantly as clients, especially in the finance and manufacturing industries, tightened their investment budgets and took an even more cautious approach toward spending, especially in regard to large-scale system development projects.

Against this backdrop, the Group stayed the course outlined in the medium-term management plan, emphasizing efforts to reinforce joint marketing and proposal activities among Group companies and prioritizing technology-driven strategies. A certain degree of success was achieved in reinforcing joint marketing and proposal activities, substantiated by a four-fold increase in the number of joint orders received. Technology-driven strategies hinged on efforts to turn demand for systems into broader business content. Management also emphasized the establishment of next-generation data centers and an enhanced lineup of cloud services.

An urgent task within the Group was to push costs down even further, and considerable effort was directed toward this end. But the absence of large-scale projects and clients' cautious stance in their IT investments adversely impacted results, leading to decreases in sales and profit.

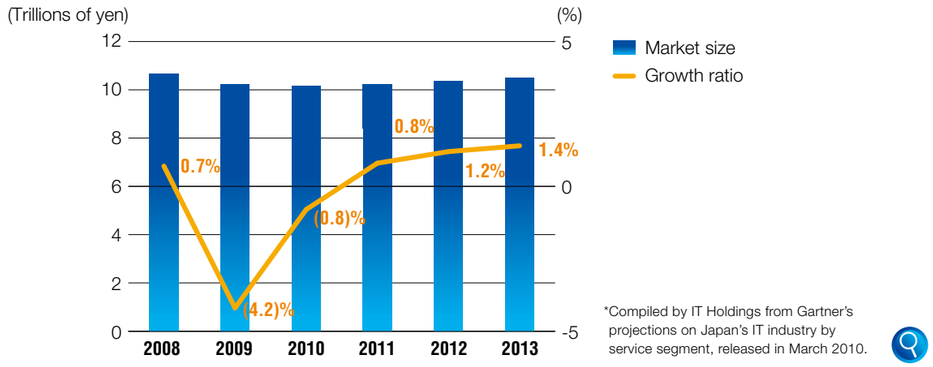
Fiscal 2011 is likely to be another tough year. But the Group now includes SORUN CORPORATION, and we, as the holding company, will strive to leverage excellent synergies in technology and know-how generated by SORUN and the rest of the Group with the merits of expanded business scale to achieve a sharper competitive edge. We will also strive to fortify the Group's management platform, promote steps to boost management efficiency, steadily tap emerging IT investment demand as the recovery takes hold—expected in the second half—and, ultimately, improve our performance.

We ask shareholders for their continued support. Your encouragement of our efforts is always instrumental to our success.

June 2010

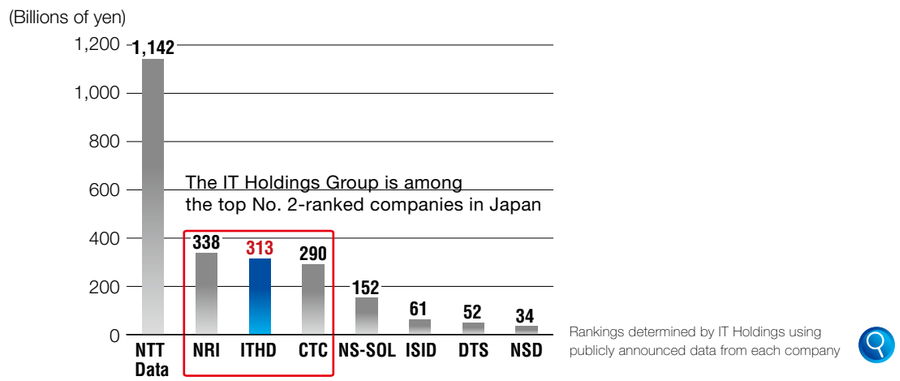
Market Data in Japan

Anticipated Scale of Japan's IT Services Market



*Compiled by IT Holdings from Gartner's projections on Japan's IT industry by service segment, released in March 2010.

Fiscal 2010 Net Sales Industry Ranking



Rankings determined by IT Holdings using publicly announced data from each company

In April 2009, the IT Holdings Group embarked on IT Evolution 2011, its first medium-term management plan. This three-year blueprint is designed to quickly generate results from the April 2008 management integration that created IT Holdings. It also addresses the paradigm shift that characterizes the IT industry and prioritizes business model reform, from outsourced development (creation) to service (use), through progress in cloud services over the medium term.

We would like to describe the progress we have made on key strategies in our second year of operations and outline the activities we will tackle next.

Efforts to Expand Business

Seeking to raise corporate value through synergies generated in technology and know-how, IT Holdings brought SORUN under its umbrella in December 2009. The newly consolidated subsidiary was delisted from the First Section of the Tokyo Stock Exchange on March 29, 2010.

Extending the Range of Existing Businesses

Joint ordering activities, through which Group companies work together to cultivate client opportunities, yielded terrific results. The number of joint orders soared to 121 in fiscal 2010, with a value of ¥5.4 billion, compared with 29 orders worth ¥2.4 billion in fiscal 2009.

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

Building the Next-Generation Data Center Business

Past efforts to build and expand data centers ready to meet growing demand for services such as cloud computing have already been rewarded with the April 2010 opening of a data center in Tianjin, China, Tianjin Binhai high-tech Internet Data Center. This was followed by the July 2010 opening of a data center, INTEC Manyo Square, in Japan, in Takaoka, Toyama Prefecture. The data center network will expand further in fiscal 2012 with the anticipated opening of GDC Gotenyama, a data center in the Shinagawa district of Tokyo, and a facility under Power and IT Company, which was jointly established by Hokuriku Electric Power Company and INTEC.

Progress through the Medium-term Management Plan 1

Efforts to Expand Business

				Fiscal 2009	Fiscal 2010	Fiscal 2011 (Planned)	Fiscal 2012 and Beyond	Remarks
Business Development				Plan Preparation	First Medium-term Management Plan			
	Existing Businesses	Expand activities through synergy fusion	Flagship account strategy	Investigation	Pursuit (3 companies)	Expansion (9 companies)		
			Review meetings for cooperative approach by client and solution theme	Manufacturing →	Finance →	→		
			Solution Forum	Preliminary discussion (35 projects)	Announcement of results	Preliminary discussion (38 projects)		
		(Joint order results)		(29 projects/ ¥2.4 billion)	(121 projects/ ¥5.4 billion)			
		Build and expand next-generation data centers (DC)		Shinsaibashi gDC		Tianjin Binhai high-tech Internet Data Center (April) INTEC Manyo Square (July)	GDC Gotenyama Power and IT Company	• Alliances and shared use of data centers by Group companies • Shift to service-format business
	Overseas Businesses	Expand business presence, especially in the rest of Asia			Opened representative office in Vietnam	Dominant position strategy in China, specifically, Tianjin and Beijing, through SORUN connection		
		Support clients in their globalization efforts			Business alliance with BT	IT support for clients' overseas bases		
	New Businesses	Solution business			Combine the know-how and technologies of TIS and INTEC into marketable solutions	• Start cloud telephony business • Add to service menu with solutions aimed at such targets as the environment business • Establish department to address IFRS		Anticipate solution- and service-format business trends and hone ability to capitalize on such trends
		Create business platform business			Real Cloud Solution (IUK/ INTEC Systems Institute)	Business platform business (cloud business) Start with three layers of services: SaaS, PaaS, IaaS		

Developing New Businesses

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

Promoting Business Overseas

In fiscal 2010, TIS opened a representative office in Vietnam. From fiscal 2011, IT Holdings Group plans to enhance its presence in China, with SORUN, a new addition to the Group with bases in Beijing and Tianjin. In addition, the Group aims to pursue full-scale joint marketing activities made possible through preparations for joint projects with U.K.-based BT, following the business alliance signed in June 2009.

Efforts to Enhance Management Efficiency

On the management efficiency front, IT Holdings introduced a cash management system to make procurement and application of funds within the Group more effective.

In April 2010, the Company set up a groupwide health insurance plan as the groundwork for an employee health and welfare benefits platform. To create a groupwide communication platform, the Company embraced social networking services*. About 2,500 employees had signed up as of June 2010, and use the system to exchange work-related information.

Group companies continue to promote measures, such as shared back-office operations, integrated planning on information systems and optimized group formation, initiated in fiscal 2009, and direct energy into building a stronger, more efficient group management platform.

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

Progress through the Medium-term Management Plan 2

Efforts to Enhance Management Efficiency

			Fiscal 2009	Fiscal 2010	Fiscal 2011 (Planned)	Fiscal 2012 and Beyond	Remarks
			Plan Preparation	First Medium-term Management Plan			
Management Efficiency	Operations, Assets, Capital and Finances	Visualization	Group presidents committee, executive committee and information exchange committee	Introduced hierarchical management method	Introduce Cash Management System (CMS)	Establish groupwide information system	
		Concentration of Group's headquarter operations		Established shared company (IT Service Force Inc.)			
		(Number of companies and business activities targeted)		(10 companies/35 operations)	(15 companies/60 operations)		
		Cost reduction through centralized purchasing		Implemented Group purchasing for indirect materials	Expand scope of products under Group purchasing structure as well as the number of companies involved		
		(Reduction)		(¥20 million)	(¥60 million)		
		Effective use of capital			Introduce CMS		
		(Number of companies targeted)			(4 companies)	(18 companies)	
	Personnel, Corporate Culture	Set up employee health and welfare benefits program		Made preparations for groupwide health insurance plan	Establish groupwide health insurance plan		Consider integrating SORUN health insurance plan into Group plan
		Enhance Group communication		Introduced groupwide social networking system	Boost number of registered users to about 2,300 in five months into system activation		

C O L U M N

What's SORUN all about?

SORUN CORPORATION traces its roots back to 1970, when the company was established as Matsumoto Keisan Center Co., Ltd., in Matsumoto, Nagano Prefecture. Tapping mergers and acquisitions as the strategic route toward growth as an independent software developer, the company merged with Stat Corporation in 1997. This was followed by a number of equity investments and mergers with such targets as Nippon Timeshare Co., Ltd., and LTBC Systems Co., Ltd., which underpinned the creation of today's SORUN Group.

SORUN has clients in many industries, including finance, manufacturing, communications and the public sector. A unique component of the company's business is its involvement in the development of satellite monitoring and control systems.

Location
Tokyo

Consolidated net sales
¥46,985 million (as of March 31, 2010)

Number of employees (Group basis)
4,318 (as of March 31, 2010)

President and Representative Director
Masaki Chitose

FY2010 : net sales total ¥313,856 million

Outsourcing and Network

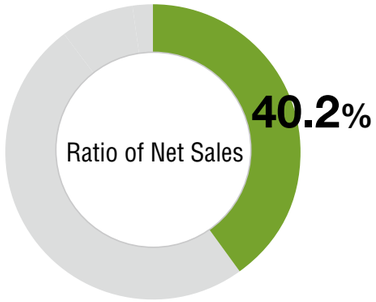
This segment utilizes data centers to provide such services as outsourcing, and system operations and network configuration.

Despite sales-limiting factors, particularly requests from major clients to lower prices, contributions from NEXWAY and SORUN nudged outsourcing and network sales to ¥126,164 million ($1,356 million), up 0.4% from fiscal 2009.

FY2010 : net sales total	¥126,164 million
FY2009 : net sales total	¥125,721 million
% change	+0.4 %

The main Outsourcing and Network results

- Undertake banking system operation
- Undertake insurance business operation
- Configure networks linking offices and branches in the securities, credit card and nonbank sectors
- Provide electronic data interchange (EDI) services and SaaS center for distribution and service sectors
- Operate next-generation data centers



Solution Services

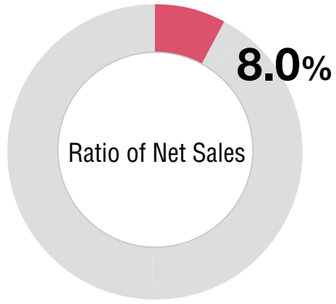
This segment concentrates on the sale of software and hardware.

Demand for hardware remained sluggish, reflecting poor economic conditions, and sales in the solution services segment decreased 14.9%, to ¥25,021 million ($268 million).

FY2010 : net sales total	¥25,021 million
FY2009 : net sales total	¥29,409 million
% change	-14.9 %

The main Solution Services results

- Sell hardware, including cloud storage devices
- Sector-specific solutions, for anti-money laundering, chemical substance information management (Chemikarte), identity management (Yuito, Sokuto) and food traceability (i-TRe)



Software Development

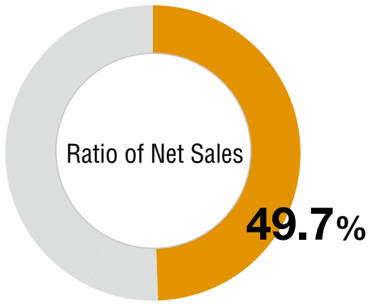
This segment offers total system integration services, from information system planning to configuration.

It was a challenge to secure new software development orders, given the trend toward reduced IT investment among clients. This situation was compounded by the absence of new large projects to replace completed projects. Therefore, even with the inclusion of sales by SORUN from the fourth quarter, sales in the software development segment dropped 11.3%, to ¥155,976 million ($1,676 million).

FY2010 : net sales total	¥155,976 million
FY2009 : net sales total	¥175,847 million
% change	-11.3 %

The main Software Development results

- Respond to system integration requirements prompted by mergers in the banking, life insurance and non-life insurance sectors
- Configure large-scale information-based systems for securities firms
- Configure nonbank main systems for credit card companies
- Build customer relationship management systems
- Support configuration of basic service systems, including enterprise resource planning systems



Other Business

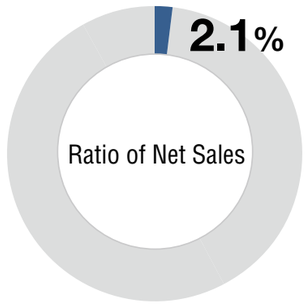
This segment combines supplementary services, such as leasing, extended through the provision of information systems.

The other business segment showed an 8.6% decline in sales, to ¥6,693 million ($71 million).

FY2010 : net sales total	¥6,693 million
FY2009 : net sales total	¥7,325 million
% change	-8.6 %

The main Other Business results

- Services associated with general affairs, bookkeeping and accounting, procurement and purchasing, human resource management and labor management
- Total leasing, including computers and peripheral equipment, industrial equipment and office equipment



TIS SAP System Upgrade and Migration for Mitsui Chemicals, Inc.

TIS has extensive knowledge and experience with enterprise resource planning (ERP) software packages and a solid history in the operation of large-scale systems. The company utilizes these strengths to underpin ERP implementation and support, including SAP applications.

In fiscal 2010, TIS undertook a system upgrade and migration project for Mitsui Chemical, a major integrated chemicals company headquartered in Japan. The system is used to handle core administrative tasks throughout the client company, namely financial accounting, administrative accounting, production control, quality control, sales management, purchasing control and distribution management.

The system went on line in 2001, and seeing that the software and hardware were both due for maintenance, TIS suggested an upgrade in hardware to raise system reliability and stability and reduce operating costs, along with a newer version of software as well as migration to a Windows environment, which has gained rapid popularity in the last few years.

The large-scale mission-critical system required some modification to allow for limited time and budget. Toward this end, TIS executed a detailed analysis of administrative processes and utilized its wealth of accumulated SAP-related experience and product knowledge to efficiently perform a suitable level of tests to ensure that the system meets client needs. This commitment to client satisfaction ensured a smooth transition from the old environment to the new one.

INTEC Next-Generation Store Operation System

Yoshinoya is a restaurant chain specializing in a dish called “gyudon,” a bowl of rice topped with beef and vegetables. INTEC built a next-generation store operation system that went on line in February 2009 throughout the Yoshinoya network, which had 1,174 locations as of July 2010. Yoshinoya needed a new system to support store restructuring efforts, and INTEC provided comprehensive support, from system planning through activation at all stores.

The system has two main functions. One is a store function, which supports integrated business activities related to the operation of stores. An example would be automated estimates on order volume, based on sales data, to enhance efficiency and accuracy in the ordering process. The other is a business function, with an analytical capability, to support sales predictions and staffing plans, based on sales and personnel expense data collected from stores. In addition, groupware was installed to expedite the information transfer between the head office and stores. This effort has successfully reduced back office procedures, such as order adjustments and sales reports.

The new system utilizes INTEC’s considerable expertise in electronic data interchange and value-added networks and enables stable processing of hundreds of millions of monthly transactions. Looking to the future, INTEC created a highly scalable system suitable for up to 1,500 stores.

INTEC will continue to aggressively develop system configuration support services for companies with large store networks.

UFIT SaaS-Based School Fee Account Transfer Service Begins

Rakuraku Shukin, a Software as a Service, or SaaS, for transferring school fees developed by UFIT, was introduced by the city of Kiyosu, Aichi Prefecture, and supports the collection of fees, such as those for school lunches and educational materials, needed to finance the operation of schools.

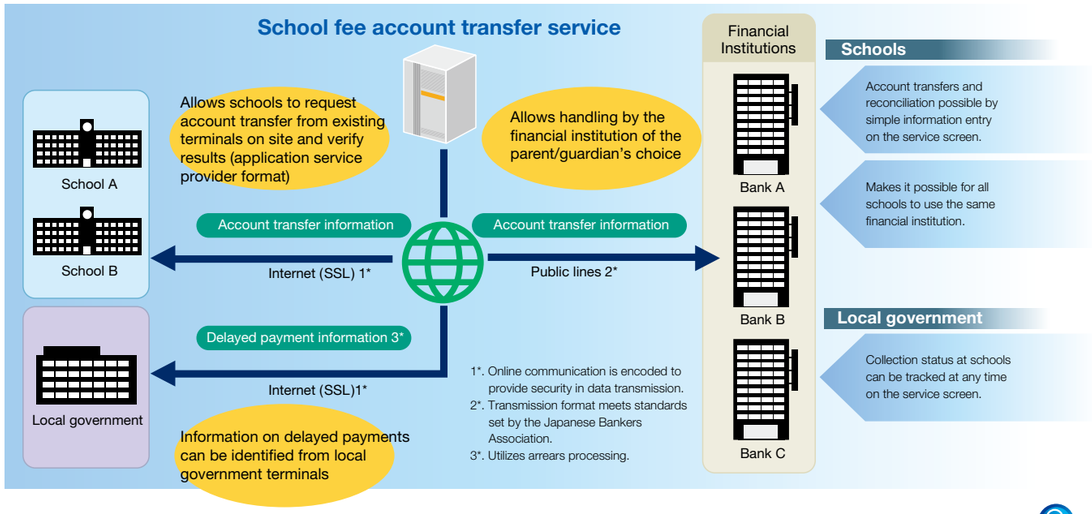
This service solves various problems associated with the collection of school fees: eliminates concerns over the loss or theft of cash; lightens the growing administrative workload involved in invoicing and deposits; and ensures school lunch fees are paid.

In its Saas format, Rakuraku Shukin facilitates changes to amounts and makes administration of transfers more efficient by placing management applications on the Internet. This covers invoice management for transferring collected fees, such as those for school lunch and educational materials, to accounts as well as deposit management for tracking account transfers and the recipients of cash.

In 2005, the city of Kiyosu introduced a stand-alone version* of Rakuraku Shukin to link all elementary and junior high schools in its jurisdiction to facilitate school fee collection activities and improved related administrative processes. The switch to a SaaS-based service will boost operating efficiency by realizing additional improvements in invoice-related administration and reducing concerns about the loss of data.

*A service in which specialized software is installed in computers independent of any network and not reliant upon any other equipment to operate.

Service in Use Conceptual Scheme



TIS, INTEC, Intec Systems Institute and Intec NetCore form the core of the Group's efforts in leading-edge R&D in the domains described below. In the fourth quarter of fiscal 2010, SORUN joined the Group and expanded the scope of R&D activities.

(1) Software development technology

Software development technology is a vital R&D theme for the IT Holdings Group, which approaches the genre from two angles: high quality and high productivity. Each companies in the Group maintain a steady and aggressive approach to the realization of valuable R&D results.

A concrete example of this commitment is Virtual Project Room, a type of Platform as a Service, or PaaS, for software developers. This project was a joint effort by INTEC, Intec Systems Institute and TIS, and the results are being put to practical use. For TIS, Virtual Project Room has greatly enhanced productivity in offshore development operations and successfully reduced in-house main system maintenance costs by half.

On its own, INTEC undertook research on knowledge-support systems to make its system integration business more efficient. Results gained through this research have been implemented.

Meanwhile, TIS developed framework prototypes and application infrastructures using leading-edge technologies such as continuous integration and automated testing. In specific domains, the company used domain-specific language development methods that dramatically boost development productivity and achieved high-productivity product management with agile software development methods.

(2) Service platform technology

Platform technology R&D enables the Group to anticipate the market changes that accompany technological innovation and underpins the development of new products and new services.

INTEC emphasized platform R&D to facilitate use of existing web-based application Software as a Service, or SaaS, and supported the service and planning proposals of operating divisions.

On the local WiMAX (worldwide interoperability for microwave access) technology front, INTEC continued to offer assistance to a project established jointly with the Keio Research Institute at the Shonan-Fujisawa Campus of Keio University and undertook R&D on a local signage platform application.

TIS investigated several non-relational databases, including Hadoop, and began applied research on the use of such frameworks in its services. The company also evaluated next-generation Android and iPhone smartphones and initiated a pilot project using smartphones as a component of mobile enterprise platforms.

(3) Next-generation IT constituent technology (industry-specific emphasis)

The Group is keen to tailor next-generation IT constituent technology to the needs of client industries. Therefore, engineers assigned to this genre of R&D consider available technologies and explore possible applications in each client industry.

A concrete example is the Asbestos Automated Measurement System, which delivers instantaneous, on-site measurement of asbestos. In fiscal 2010, engineers ran tests on a number of samples, collected data, and then moved into R&D aimed at realizing a marketable system.

The Group also operates a netizen site—an e-learning environment for ordinary citizens to promote lifelong study—and performed verification tests in collaboration with the University of Toyama on Web Portfolio, which has potential as a next-generation e-learning system.

Another area of interest is research into the creation of a customized health care services market. The Group was assigned to investigate an application platform for lifetime health information collected by local governments, while INTEC and TIS jointly tackled verification tests on business-oriented health support services.

(4) Next-generation IT constituent technology (advanced constituent technology)

A topic of major interest these days is the fast-approaching end of available IPv4 (Internet Protocol version four) addresses and the inevitable migration toward IPv6 (Internet Protocol version six). The pool of unallocated IPv4 addresses is expected to dry up sometime between 2011 and 2012. An industry group—Task Force on IPv4 Address Exhaustion, Japan—was established by telecommunications and Internet-related associations in Japan, to promote smooth transition to IPv6 and to encourage wider deployment of IPv6-oriented hardware, software and support services.

Intec NetCore is tapping into several of the latest trends, but the spotlight is on IPv4/IPv6 coexistence technology, which has become a key topic in an industry characterized by increased migration toward IPv6. In addition, the company offers consultations based on expertise gained in the delivery of network management systems to three major communication carriers in Japan.

Intec NetCore is also pursuing R&D on a multihoming technique that will enable users to easily create highly dependable online networks. Multihoming is a technology that uses several IP addresses to connect a host to the Internet, and it is essential to the realization of highly reliable communication networks. Two Requests for Comments—that is, proposals—submitted to the Internet Engineering Task Force on techniques that utilize multihoming were adopted by the Internet standards organization, in April and October 2009.

Having developed a measurement technique that pinpoints the quality of each Internet connection in an IP network, Intec NetCore continues to analyze and store Internet measurement quality data from Japan and overseas. The company is currently working to commercialize services utilizing this technique as well as its IPv4/IPv6 coexistence technology while exploring methods to optimize network resources.

SORUN prototyped a solution for implementing remote environment tests on applications built into devices using Android technology. The company achieved a format whereby log data generated during the tests was temporarily transferred to a cloud environment and then transmitted as necessary to a remote environment for analysis.

Meanwhile, Intec NetCore and Intec Systems Institute utilized cloud computing technology in developing a method that allows companies, primarily, to activate private clouds within their own corporate structures. Companies can use this method when building in-house systems to configure reliable, scalable application platforms fine-tuned to respective organizational capabilities. Such high-level, decentralized computing technology has the potential to dramatically cut the cost of building private clouds, and preparations are under way to create a full-fledged business out of this new method.

(5) Bioinformatics-related systems

In life science R&D, progress in testing methods and equipment makes it easier to amass vast amounts of data in a short period of time. Paralleling this, bioinformatics and information sciences have become increasingly important to support computer analysis of all the data and underpin new biological discoveries.

In joint research with non-Group partners, Intec System Institute and the Institute of Physical and Chemical Research, known as RIKEN, achieved results that led to patents on a bioinformation analyzer, analysis method and analysis program. The objective was to search the genetic switch responsible for life phenomena, and the structural principle that controls the circadian clock in mammals was successfully identified. The next step is to create a technique that cracks the biomechanisms of diseases and drug side-effects at the genetic level for application in innovative drug development.

Intec Systems Institute is also participating in the Functional RNA Project—a five-year, strategic R&D effort launched by the Ministry of Economy, Trade and Industry in 2005—as a member of the Japan Biological Informatics consortium. The company is responsible for bioinformatic R&D aimed at finding and analyzing functional RNA. A notable result achieved so far is the expanded scope of a patent for a microRNA analyzer, analysis method and analysis program overseas. The company will now move forward on research that will turn developments to practical results, such as the capacity to discover biomarkers.

(6) Other R&D pursuits

Intec Systems Institute applied for five new patents in fiscal 2010, including the ones described above. For R&D in progress, the company provides updates through scientific papers, outside lectures and articles in the INTEC Technical Journal. The company also takes an active role in cultivating the skills of tomorrow's software and system engineers with support for a program at the University of Toyama and special lectures at Toyama Prefectural University.

TIS inaugurated an in-house venture system with the debut of Sonic Garden and launched an in-house social networking system called Skip that connects all employees horizontally and promotes communication throughout the organization.

Total R&D expenses reached ¥912 million in fiscal 2010.

I. Basic Policy

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

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

1. Board of Directors, and Executive Officer System

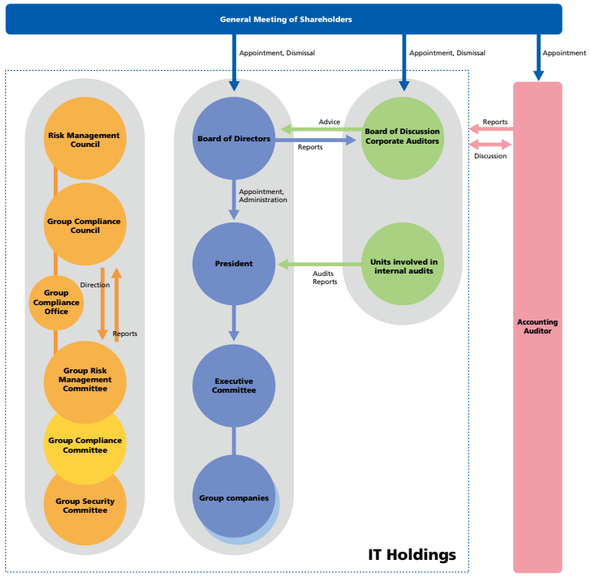
The Company's Board of Directors comprises no more than 15 members, as set forth in the Articles of Incorporation. The Board meets monthly but will also convene whenever necessary to discuss and finalize decisions regarding important business activities and legal matters pertaining to the execution of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

To strengthen the supervisory function of the Board of Directors, two of the 10 directors on the Company's Board of Directors are from outside the Company. The responsibilities of individual directors are clearly defined, and the term of office is limited to one year to create the best possible management structure to respond flexibly to changes in the operating environment.

The Company introduced a groupwide executive officer system and established an Executive Committee to support and expedite decision-making efforts relating to the execution of duties by representative directors.

The Executive Committee meets as situations require to monitor progress of the business and affairs of the Group. This committee also discusses important issues related to the execution of operations, shares information and generally underpins enhanced governance of the Group.

The Company's corporate structure and internal control systems are illustrated.



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

The Company maintains a corporate auditor system. The Board of Corporate Auditors comprises four auditors, three of whom are outside auditors. Corporate auditors attend Board of Directors' meetings, examine important documents, perform audits of subsidiaries and, when necessary, seek the opinion of others, including the Company's accounting firm, the Group Compliance Office and other units involved in internal audits. They also keep close watch over the execution of duties by directors pertaining to business and all operating activities.

The Group Internal Audit Office, with a staff of four, is an internal auditing unit under the Compliance Division. This office exchanges information, as necessary, with units involved in internal audits at Group companies, including corporate auditors and accounting firms, and strives to ensure effective, high-caliber internal audits on a groupwide basis. In addition, the office exchanges information with the Group Finance and Accounting Department and the Group Compliance Office, verify explanations based on the results of implemented audits and any problem points discovered.

3. Executive Compensation

Compensation for the Company's directors (excluding outside directors) comprises two portions: a base salary and an amount linked to performance. Compensation is reviewed annually for each director.

Base salary is a fixed monthly amount reflecting the individual rank of the director. The performance-linked portion is also a monthly amount specific to rank but tied to performance and must not exceed a fixed upper limit.

Guidelines have also been established that peg contributions into the executive shareholding association according to base salary and limit the purchase of stock to a fixed amount.

Category	Total base salary	Number of executives
Directors (outside directors' portion)	¥247 million (¥12 million)	6 (2)
Corporate auditors (outside corporate auditors' portion)	¥50 million (¥29 million)	5 (3)
Total (outside executives' portion)	¥298 million (¥41 million)	11 (5)

Notes:

1. The Company has not introduced a retirement benefits system nor does it pay out bonuses.
2. In fiscal 2010, no employee salary portions were paid to employees who concurrently hold positions as directors.
3. As of March 31, 2010, the Company had eight directors, two of whom were outside directors, and four corporate auditors, three of whom were outside corporate auditors. The number of directors and the number of corporate auditors differs from those presented in the accompanying table because two directors did not receive compensation and one corporate auditor retired at the end of the 1st General Meeting of Shareholders on June 25, 2009, but was included in the total.
4. Total compensation paid to directors and corporate auditors was within ¥400 million per year for directors (within ¥50 million for outside directors) and within ¥85 million for corporate auditors, as approved by shareholders at the 1st General Meeting of Shareholders on June 25, 2009.
5. Total Amount of Compensation, Consolidated Basis, to Individual Executives Receiving Compensation Packages Exceeding ¥100 million: Not applicable.

Board of Directors and Auditors (As of June 24, 2010)

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

4. Accounting Audits

The Company has engaged Ernst & Young ShinNihon LLC as independent auditor responsible for accounting audits.

The certified public accountants who conduct audits of the Company's books are as follows.

Certified public accountant Osamu Oyama (two years of auditing IT Holdings)
Certified public accountant Keizo Omura (one year of auditing IT Holdings)
Certified public accountant Masato Saito (two years of auditing IT Holdings)
Number of assistants involved in accounting operations
Certified public accountants 6
Other assistants 10

5. Compensation to Certified Public Accountants

During the fiscal year ended March 31, 2010, the Company pays the accounting firm to provide the following services, in addition to the services covered in Article 2, Paragraph 1 of the Certified Public Accountants Law.

To verify the implementation and utilization status of the internal control system, based on Auditing Standards Committee Report No. 18 issued by the Japanese Institute of Certified Public Accountants.

The Company has not established a policy regarding compensation for audits executed by certified public accountants. The Company maintains an appropriate amount in line with the audit plan formed by certified public accountants and determines compensation for audits with the approval of the Board of Corporate Auditors.

(Millions of yen)

	Year ended March 31, 2009		Year ended March 31, 2010	
	Compensation for audit certification	Compensation other than for audit certification	Compensation for audit certification	Compensation other than for audit certification
The filing company	35	14	52	1
Consolidated subsidiaries	223	88	228	53
Total	258	103	280	55

Notes:

(1) Approval Criteria for Election of Directors

In its Articles of Incorporation, the Company sets forth a clause stating that the appointment of a candidate to the Board of Directors must be approved by a majority vote of shareholders in attendance whose combined shareholdings represent more than one-third of total voting rights held by shareholders with the ability to exercise such rights. The Articles of Incorporation include a clause preventing cumulative voting in obtaining approval of appointment for director candidates.

(2) Approval Criteria for Special Resolutions at the General Meeting of Shareholders

Special resolutions described under Article 309, Paragraph 2 of the Company Law that are put before the general meeting of shareholders must, in accordance with a clause provided by the Company in its Articles of Incorporation, be passed with a number of votes corresponding to more than two-thirds of voting rights held by shareholders in attendance whose combined shareholdings represent no less than one-third of total voting rights held by shareholders with the power to exercise such rights. Management believes that this reduced quorum for special resolutions facilitates the execution of the general meeting of shareholders.

(3) General Meeting of Shareholders' Agenda Items that Can Be Resolved by the Board of Directors

(i) Seeking to achieve a flexible capital policy geared to the operating environment, the Company provides in its Articles of Incorporation a clause allowing the Board of Directors to approve the purchase of treasury stock from the market, in accordance with Article 165, Paragraph 2 of the Company Law.

(ii) The Company's Articles of Incorporation includes a clause that grants the Board of Directors the authority to approve the distribution of retained earnings to registered shareholders as of September 30 each year, as described in Article 454, Paragraph 5 of the Company Law, to promote the flexible return of profits to shareholders.

(4) Limited Liability Agreements with Outside Directors and Outside Corporate Auditors

In accordance with Article 427, Paragraph 1 of the Company Law, the Company enters into agreements with its outside directors and outside corporate auditors that limit their liability for compensation under Article 423, Paragraph 1 of the Company Law. The liability amount pursuant to such agreements shall be limited to the minimum stated in Article 425, Paragraph 1 of the Company Law.

II. Risk Management System

Management formulated a basic policy on corporate social responsibility, and the president continually conveys the spirit of this policy to executives to ensure that the corporate activities are conditioned by compliance with laws and regulations and underpinned by respect for social morals. The Company has the following structures in place to reinforce compliance and risk management practices.

1. Group Compliance Department and Group Compliance Committee

The Group Compliance Department underpins the laterally extending compliance structure groupwide and identifies trouble spots. The Group Compliance Committee, chaired by the president, discusses compliance-oriented issues of importance on a groupwide basis and promotes widespread efforts to address areas in need of improvement.

2. Status of Risk Management System

In the execution of its business activities, the Company is always aware of the various risks that accompany such activities. The risks of greatest weight for the Company, as an organization that handles information, are natural disasters, such as earthquakes, which could damage data centers, and information leaks, particularly unauthorized disclosure of personal information.

Risk management is practiced at all Group companies, and the Risk Management Committee plays a key role in directing and supporting the activities undertaken by risk management committees at each Group company. In addition, the Company is ready to act quickly with various response teams, if a vulnerability is discovered. This is part of an internal structure to minimize the impact of a risk situation on operations by ensuring sufficient communication within the Group.

The Group Compliance Committee is a component of the Company's risk management strategy to reinforce compliance practices groupwide and thereby enhance risk management.

These groupwide structures will be reviewed as necessary to keep responses current to the changing risks that mirror the evolution of the Group's business activities and market conditions.

* Please refer to "Business Risks" on page 24.

IT Holdings Group

Basic Direction on CSR

The management philosophy that permeates the IT Holdings 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 stand 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 of the law, of course, as well as high moral standards, and to fulfill social obligations. This is the Group's basic direction on CSR.

Ensure sound, transparent management practices	Acknowledge responsibilities as a leading corporate group in the IT services industry and undertake sound corporate activities with integrity and clarity of purpose. In addition, be sincere and fair in dealings with all stakeholders.
Provide optimum services	Always provide the very best to clients and strive to raise customer satisfaction levels through excellent quality and technology built on the composite strengths of the Group.
Develop talent	Cultivate an environment in which employees always look ahead, striving to achieve higher goals and embracing new challenges. Provide opportunities to grow and realize personal goals, create a safe and productive work environment, and give everyone the freedom to reach their potential.
Respect the law	Maintain high corporate morals, obey the law and uphold parameters of socially acceptable conduct. Have absolutely nothing to do with antisocial forces.
Maintain fair business practices	Ensure an appropriate perspective on business transactions, based on fair and open competition.
Protect the environment	Recognize that environmental problems warrant universal attention and promote efforts to save resources and energy in the execution of corporate activities. Also, through IT services, support clients' efforts to enhance operating efficiency and reduce energy consumption, thereby contributing to lower environmental impact.
Contribute to society	Actively participate in community events as a corporate citizen whose social standing matches its leading industry status.
Be a part of the international community	Naturally, obey internationally recognized rules and local laws in the execution of cross-border projects, but also contribute to social and economic development in the countries where the Group maintains a presence by recognizing local culture and customs.