

Annual Report 2012

Year Ended March 31, 2012

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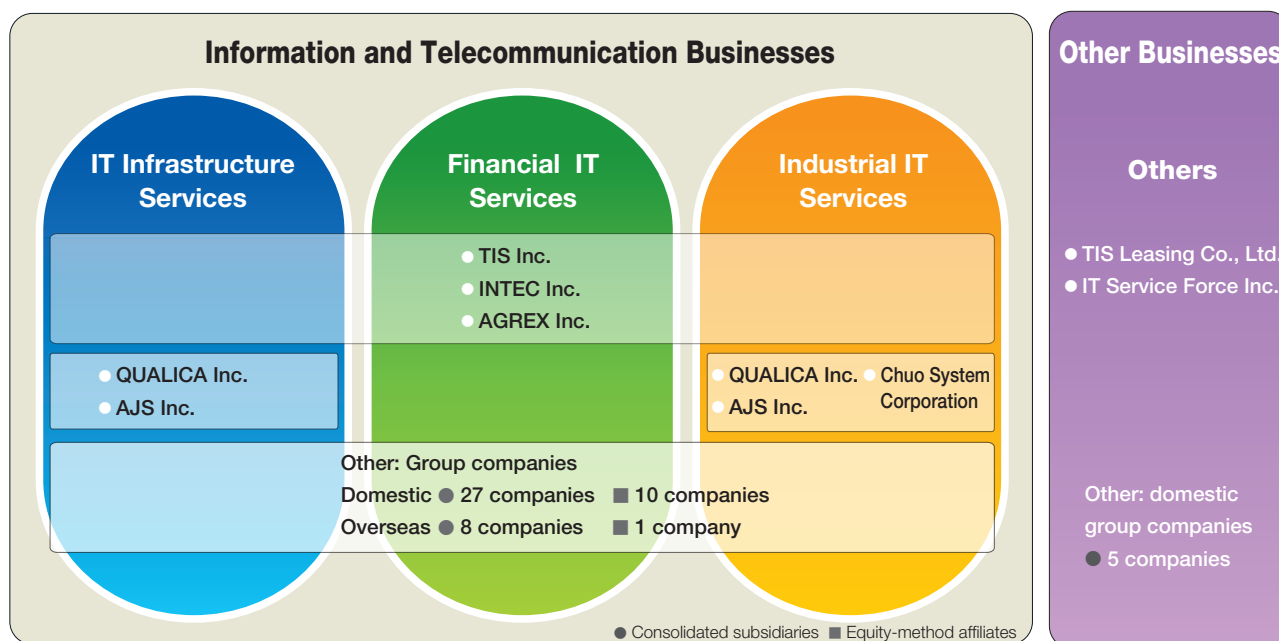
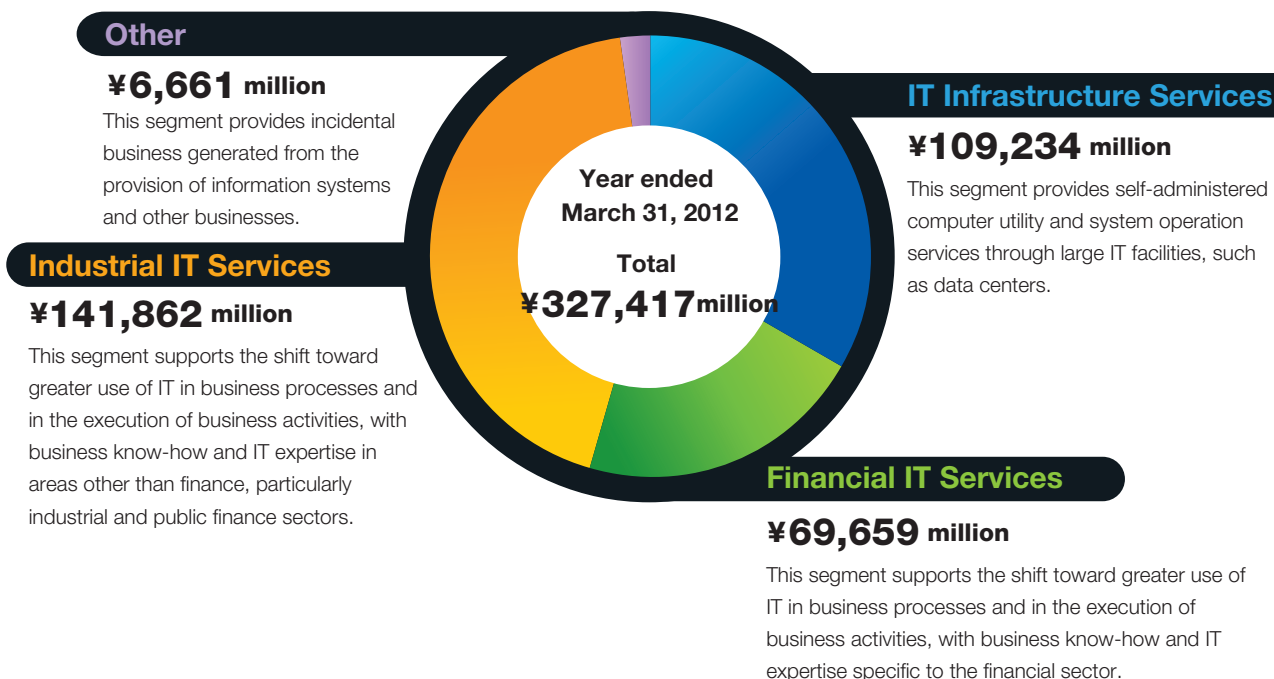
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Financial
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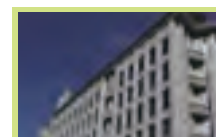
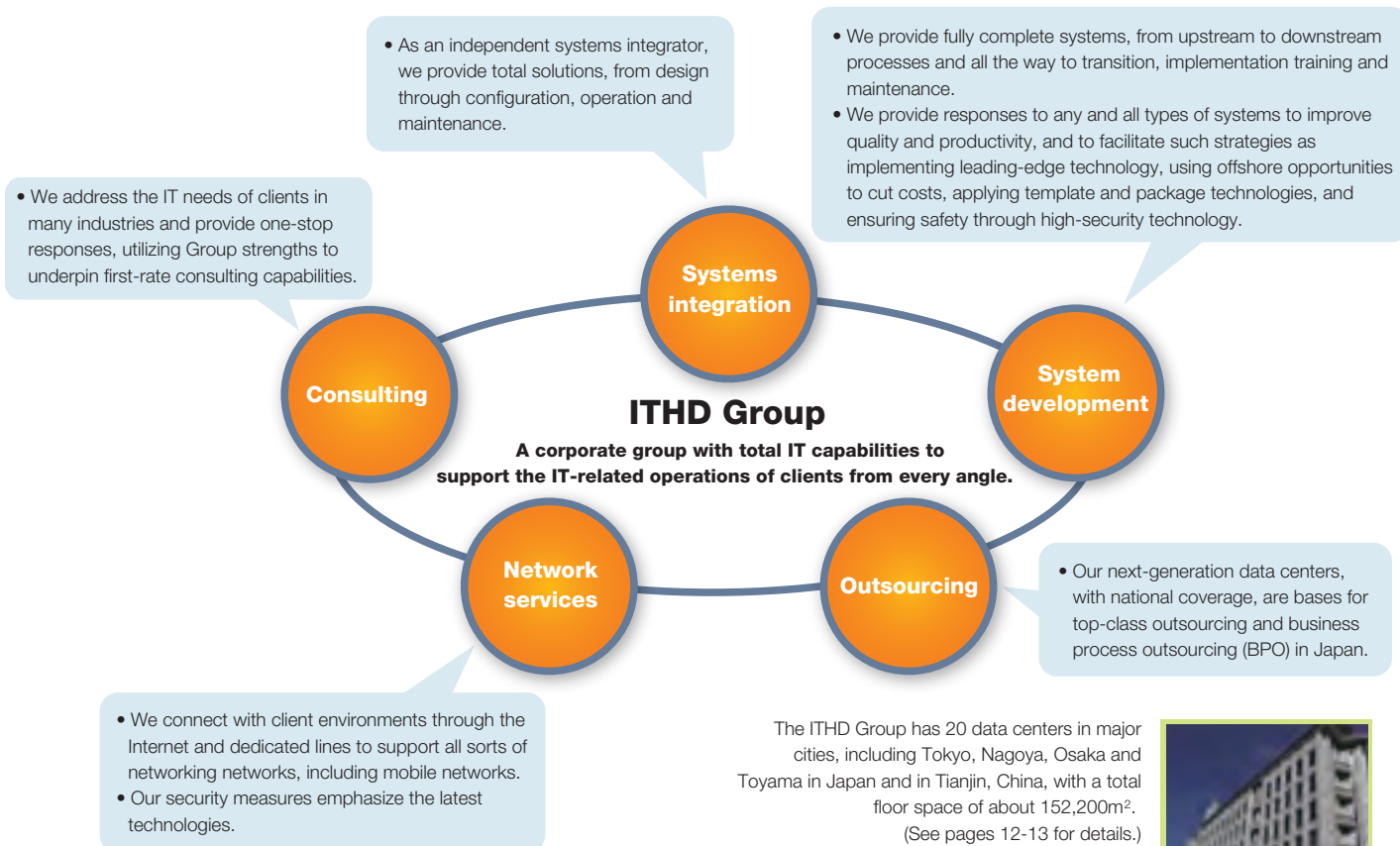
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Corporate
Data

What is the IT Holdings Group?

Formed in April 2008, the IT Holdings (ITHD) Group is made up of the top information technology (IT) companies in Japan. At its core are five principal operating companies, which underpin excellent responses to the needs of clients in a wide range of industry sectors. As of March 31, 2012, the Group comprised 59 companies—48 of which fell under the scope of consolidation and 11 of which are affiliated companies accounted for under the equity method—and net sales reached ¥327 billion.

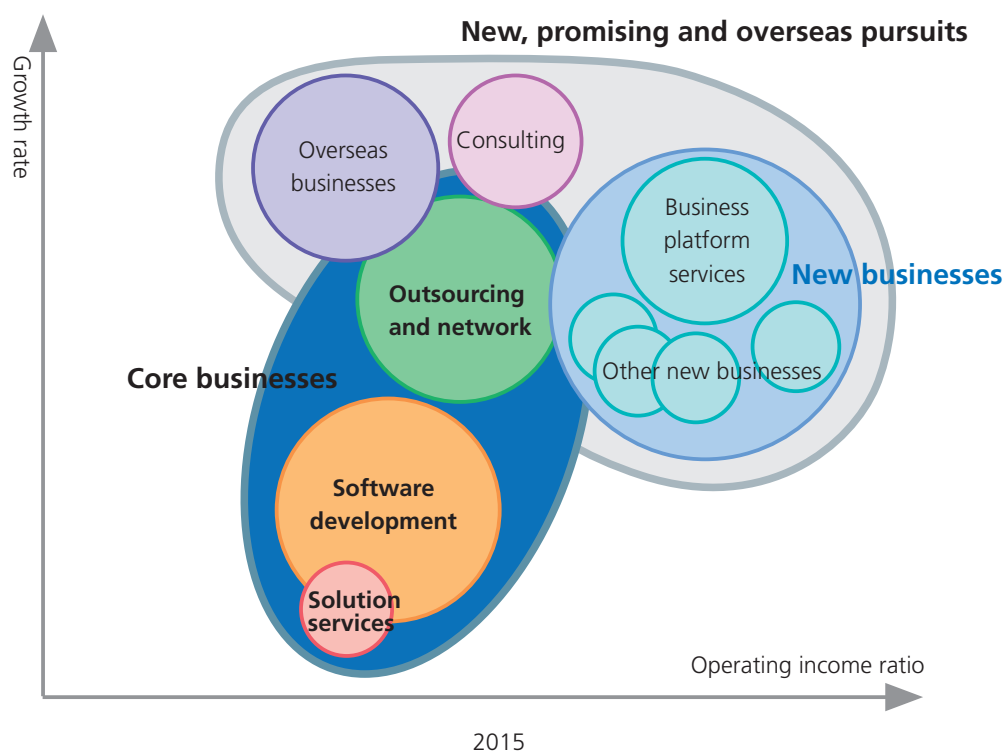
Net Sales by Business Segment (Sales to outside customers, excludes intersegment sales)





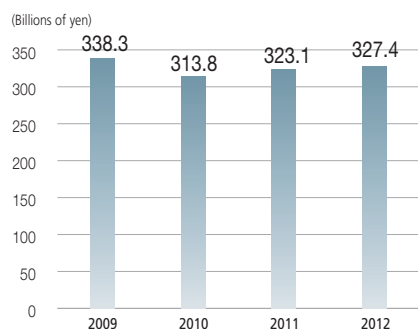
Future Targets

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.



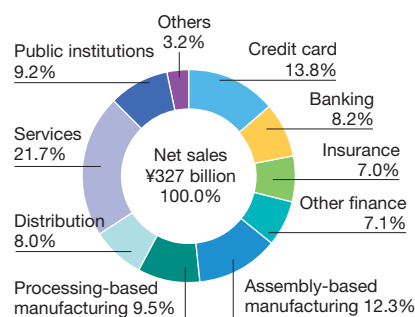
Years Ended March 31/ Consolidated

Net Sales

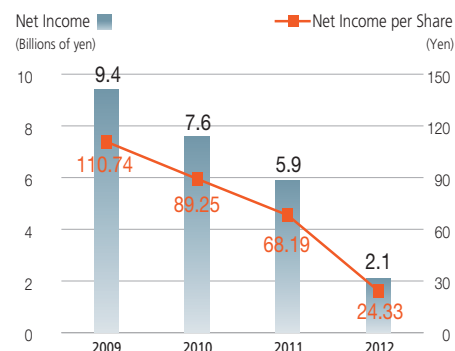


Net Sales by Client Sector

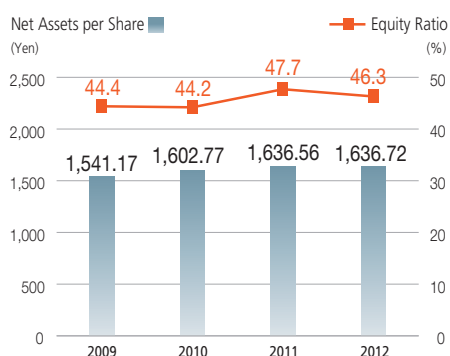
(Year ended March 31, 2012)



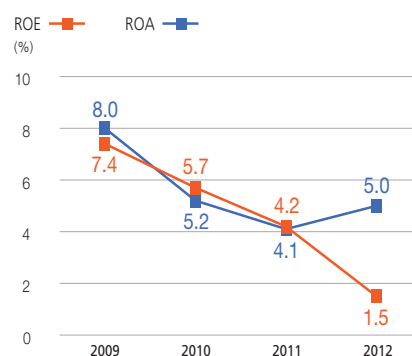
Net Income, Net Income per Share



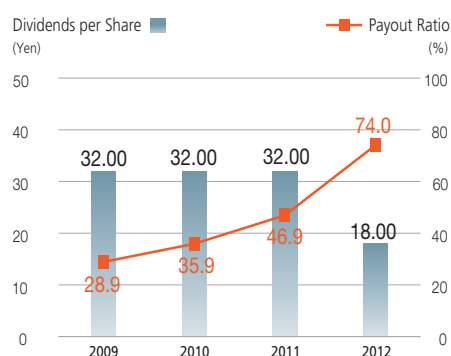
Net Assets per Share, Equity Ratio



ROE, ROA



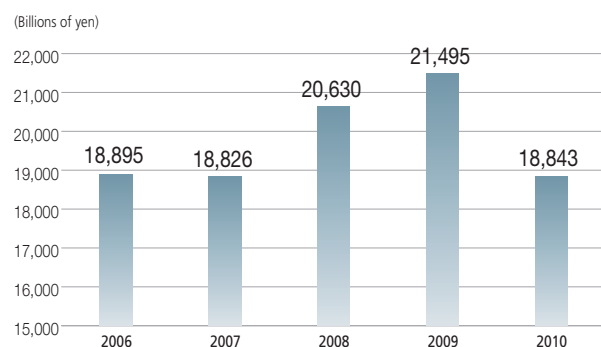
Dividends per Share, Payout Ratio



IT Services Industry Market Scale and Industry Position

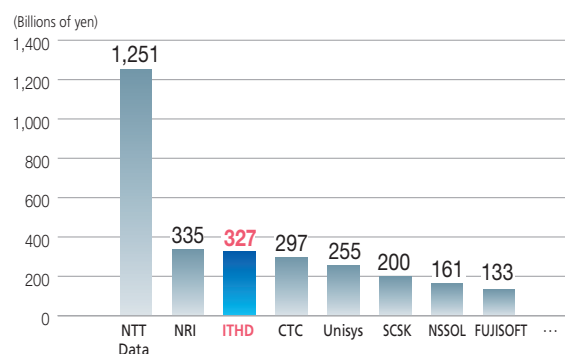
ITHD belongs to the IT services industry. The Company is a leading, independent prime contractor, ranked as the industry's No. 2 system integrator on a consolidated sales basis.

IT Services Industry Net Sales



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.

Source: 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, 2012)

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

Consolidated Financial Summary

IT Holdings Corporation and Its Consolidated Group Companies

For Years Ended March 31

	2009	2010	2011	2012	2012
	Millions of yen			Millions of yen	Thousands of U.S. dollars
Net sales	¥338,302	¥313,856	¥323,173	¥327,417	\$3,983,663
Cost of sales	272,944	254,827	261,145	266,159	3,238,338
Gross profit	65,357	59,029	62,027	61,258	745,325
Selling, general and administrative expenses	41,569	43,032	49,209	45,636	55,260
Operating income	23,787	15,996	12,818	15,621	190,065
Recurring profit	23,604	15,719	12,625	15,393	187,292
Net income	9,406	7,659	5,985	2,135	25,978
Current assets	140,799	141,967	128,455	142,442	1,733,089
Fixed assets	154,527	171,109	172,620	167,560	2,038,696
Total assets	295,327	313,077	301,076	310,003	3,771,786
Current liabilities	82,051	86,255	73,090	83,065	1,010,657
Non-current liabilities	67,058	71,746	76,875	75,972	924,347
Total liabilities	149,110	158,001	149,965	159,038	1,935,004
Net assets	146,216	155,075	151,110	150,965	1,836,781
Total liabilities and net assets	295,327	313,077	301,076	310,003	3,771,786
Total interest-bearing debt	80,532	91,646	77,454	96,515	1,174,301
Cash flow from operating activities	34,311	31,400	27,236	23,658	287,853
Cash flow from investing activities	-20,079	-25,726	-18,957	-15,158	-184,429
Cash flow from financing activities	-6,877	6,139	-18,755	-4,230	-51,468
Cash and cash equivalents at the end of the term	35,104	46,987	36,492	41,119	500,296
Free cash flow	14,232	5,674	8,279	8,500	103,423
Capital expenditures	13,139	15,676	18,325	14,096	171,517
Depreciation	10,996	11,978	12,308	12,745	155,078
Research and development expenses	946	912	1,062	962	11,711
Amortization of goodwill	1,149	1,389	1,901	1,882	22,902
Goodwill balance at the end of the term	5,053	6,863	5,551	3,672	44,679
Net income per share—basic (yen)	110.74	89.25	68.19	24.33	0.29
Net income per share—diluted (yen)	110.72	—	—	—	—
Dividends per share—diluted (yen)	32.00	32.00	32.00	18.00	0.21
Payout ratio (%)	28.9%	35.9%	46.9%	74.0%	—
Net assets per share (yen)	1,541.17	1,602.77	1,636.56	1,636.72	19.91
Interest-bearing debt ratio	27.3%	29.3%	25.7%	24.7%	—
Equity ratio (%)	44.4%	44.2%	47.7%	46.3%	—
Net income to equity capital ratio (ROE) (%)	7.4%	5.7%	4.2%	1.5%	—
Recurring profit to total assets ratio (ROA) (%)	8.0%	5.2%	4.1%	5.0%	—
Number of employees at the end of the term	15,259	20,476	20,831	20,347	—
Number of new-graduate recruits	919	974	928	649	—
Number of regular recruits	1,117	512	370	450	—

Notes: 1. The U.S. dollar amounts represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥82.19 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.



Susumu Okamoto
President

We seek to demonstrate truly comprehensive capabilities and will constantly embrace reforms to achieve this goal.

The IT services industry is being reshaped in what could be called a paradigm shift, and the IT needs of our customers are becoming vastly different due to greater interest in services and accelerating globalization.

In this environment, we have established a platform to underpin business development, especially in Asia, highlighted by the opening of a state-of-the-art data center in Tianjin, China, and two representative offices, one in Singapore and one in Thailand. Meanwhile, in Japan we opened up flagship data centers in Tokyo and Toyama, and utilizing access to Japan's top-class data center resources, we responded to market demand for cloud computing and software as a system (SaaS) as well as global sourcing. Going forward, we will enhance our service provision structure to meet the increasingly global nature of our clients' business pursuits and strive to enrich our menu of marketable services, starting with cloud services.

The bold determination of each and every employee drives our growth, and we will reinforce our services from a new perspective, evolving as a corporate group with a greater sense of unity to demonstrate capabilities that are truly comprehensive in scope. We will seek depth in such activities as software development, where we boast proven results and top quality. As always, we will strive to sustain the confidence that clients have placed in us by aggressively entering new domains and adapting to changes in the operating environment.

Envisioning a future in which IT creates vitality in all industries and makes lives safe and comfortable, we will constantly embrace reforms to become better. The support and encouragement of our stakeholders is, as always, integral to success.

June 2012

Summary of Fiscal 2012

In fiscal 2012, ended March 31, 2012, the domestic economy initially showed signs of a gradual recovery after the Great East Japan Earthquake, but uncertainty remained, largely due to developments that unfolded from the summer onward, including the sovereign debt crisis and financial crisis in Europe as well as yen appreciation and the floods in Thailand. In the information services industry, to which we belong, a full-fledged recovery failed to materialize despite a positive attitude to IT investment among some clients, and our operating environment has changed significantly, reflecting a paradigm shift in recent years fueled by heightened interest in cloud computing.

Despite the challenging conditions, ITHD was able to achieve higher sales and higher income on a consolidated basis, thanks to the diligent efforts of its operating companies. Net sales reached ¥327,417 million, up 1.3% year-on-year, while operating income soared 21.9%, to ¥15,621 million. Unfortunately, net income tumbled 64.3%, to ¥2,135 million. We incurred one-time expenses of about ¥7.8 billion related to business restructuring in fiscal 2012, which was booked under extraordinary loss.

Looking Back on IT Evolution 2011, Our First Medium-term Management Plan

Since its establishment in April 2008, ITHD has expanded its business content, marked by the addition of SORUN Corporation to the Group as a subsidiary in December 2009, and then the merger of SORUN and UFIT Co., Ltd., into TIS, Inc., in April 2011.

In fiscal 2012—the last year of the first medium-term management plan—we set down a Group management policy and worked steadily to realize a resilient management structure through an emphasis on four management goals: to firmly establish a new Group formation, to reinforce the Group management foundation and profit structure, to achieve top-line expansion and growth of the contract outsourcing business, and to prepare for a shift to services- and solutions-oriented business through new investments.

1) Firmly establish a new Group formation

On April 1, 2011, TIS merged with SORUN and UFIT, and INTEC Inc. merged with Nippon System Gijutsu Co., Ltd., and INTEC Systems Institute, Inc., while IT Service Force Co., Ltd., and Web Office Co., Ltd., merged in a move to consolidate shared services companies within the Group.

In addition, TIS transferred its on-site service business to TIS Solution Link Inc. (formerly, CST Inc.) on October 1, 2011, and AJS Inc. merged with AJS Software Co., Ltd., its subsidiary.

Furthermore, two system operation service providers, TIS System Service Inc. and System Support Inc., merged on April 1, 2012.

2) Reinforce the Group management foundation and profit structure

A total of nine ITHD Group companies in the Tokyo area, including ITHD, moved their offices to a centralized location in Shinjuku-ku, Tokyo, so as to enhance cooperation between the companies, strengthen group governance and reduce fixed costs.

While Group companies were implementing measures to establish a firm management structure, TIS introduced a special career change support program paralleling companywide structural reforms aimed at maximizing merger synergies and the early improvement of business performance, in a comprehensive overhaul of the personnel structure and work assignments.

The ITHD Group made concerted efforts to prevent or at least rein in large-scale unprofitable projects which significantly affected profits in the previous fiscal year.

3) Achieve top-line expansion and growth of the contract outsourcing business

Over the past several years, the ITHD Group has gradually launched operations at next-generation data centers, including GDC Gotenyama and INTEC Manyo Square. We believe that these data centers will not only add value to customers' business models but also contribute to society by acting as BCP* centers in the event of large-scale disasters.

Given that existing customers in the financial sector continue to cut back on IT-related investment and large development projects, the Group pursued a wider presence in the industrial sector, where IT-related investment is expected to grow. Orders expanded favorably as steady implementation of measures to reinforce sales capabilities attracted new customers and brought in more small- to medium-sized projects.

* BCP (Business Continuity Plan): Enables a company to prevent interruption to vital operations in times of emergency, such as a disaster or an accident, and thereby maintain business to the fullest degree possible.

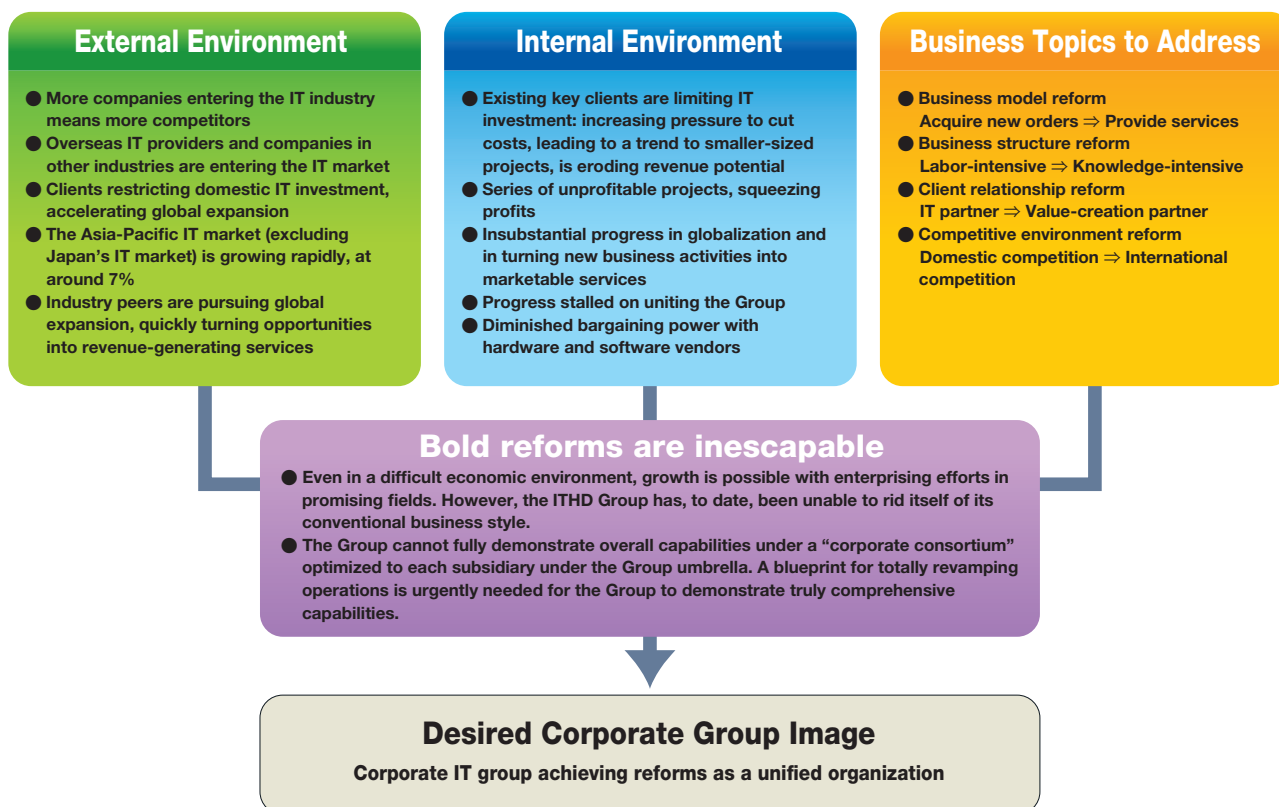
4) Prepare for a shift to services- and solutions-oriented business through new investments

In response to an industrywide trend toward services- and solutions-oriented business, ITHD has been driving forward development and expansion of multifaceted cloud services that leverage technologies and expertise accumulated over many years.

Major achievements in this effort include Call Crayons, a solution based on our own PhoneCookie® technology (patent pending) and aimed at enhancing contacts with customers by linking the Internet and telephone; expansion of cloud-compatible production control system AToMsQube in Japan and China; promotion of information distribution platform service Skyware, which is based on augmented reality technology, in the tourism industry and municipalities; and provision of mobile utilization platform service F³ Mobile Shield Center Service as an add-on of CRM system F³ (F cube) targeting local banks.

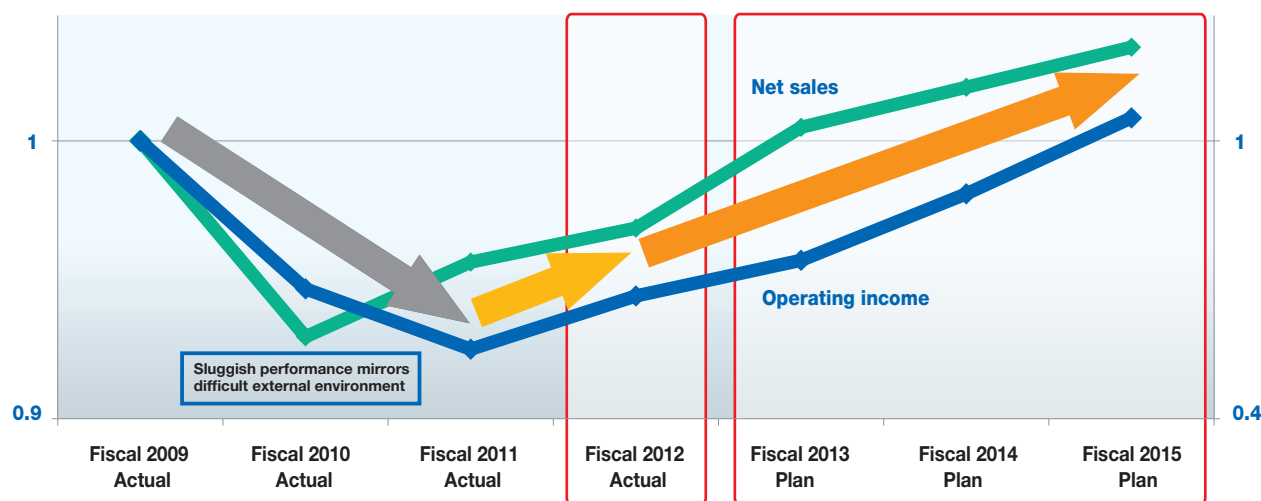
While promoting the strategies outlined above, the Group encountered challenges, namely, the dramatically performance-eroding effect of such external events as the Lehman shock, yen appreciation and natural disasters as well as internal factors, which unfortunately led to sluggish fiscal results. Consequently, the Group fell significantly short of the targets set by the Company in the IT Evolution 2011, which were net sales of ¥400 billion, operating income of ¥35 billion and an operating income to sales ratio of 8.8%.

Management has identified six key concerns that the Group must address: 1) Low consolidated net sales growth; 2) limited IT investment by core clients; 3) poor external evaluation and weakened brand power; 4) inefficient business investments (company basis); 5) redundant corporate functions; and 6) deteriorating Group governance capabilities. The key to solving these issues is none other than an ability to demonstrate truly comprehensive capabilities. Therefore, the theme of the second medium-term management plan must spotlight efforts to achieve reforms as a unified organization.



Placement of the Second Medium-term Management Plan

Below, net sales and operating income are indexed against fiscal 2009 results, denoted as 1.0.



Fiscal 2012

Implemented drastic structural reforms to facilitate medium-to long-term growth. Built resilient business structure.

- Made progress on realigning Group formation, kicked off by merger of SORUN and UFIT into TIS Inc.
- Executed relocation/concentration of Group offices into the Tokyo area.
- Introduced special career-change support program to underpin corporate restructuring at TIS.

Fiscal 2013 through Fiscal 2015

(Second Medium-term Management Plan)

Seek transformation guided by three basic concepts: "Top-Line Emphasis", "as One Company" and "Bold and Enterprising". Anticipate full-fledged V-shaped recovery and return to growth.

Second Medium-term Management Plan: Outline

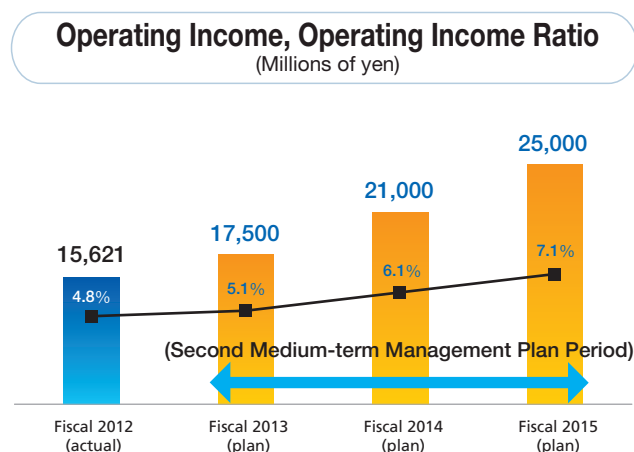
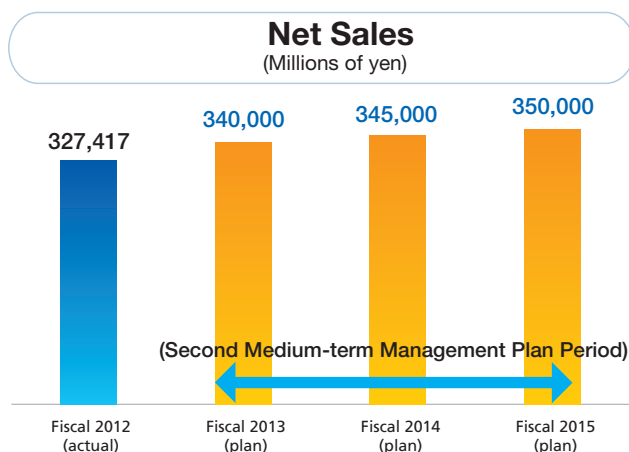
In April 2012, the Group embarked on a new three-year management plan under the banner “Brave Steps 2014.” This plan highlights three concepts—“Top-Line Emphasis,” “as One Company” and “Enterprising and Bold”—that will guide the Group, as a cohesive unit aiming for higher net sales, to thrive amid the paradigm shift that characterizes the IT services industry.

The plan lays out three business strategies—utilize existing businesses to overcome challenges, create markets through differentiated services, and secure an independent position in overseas markets—that will establish a firm footing in the industry and enable the Group to boldly pursue a presence in new business domains. (See page 11 for details.)

An underlying priority of the second medium-term management plan is to realign the Group. During the three years of Brave Steps 2014, we will unify the Group through organizational restructuring, eliminate redundant platform operations, realize optimum personnel assignments and flexible financial strategies, and demonstrate Group synergies and brand power. Numerical goals to be achieved by the end of fiscal 2015, on a consolidated basis, are net sales of ¥350 billion, operating income of ¥25 billion, an operating to net sales ratio above 7% and return-on-equity of 7.5%.

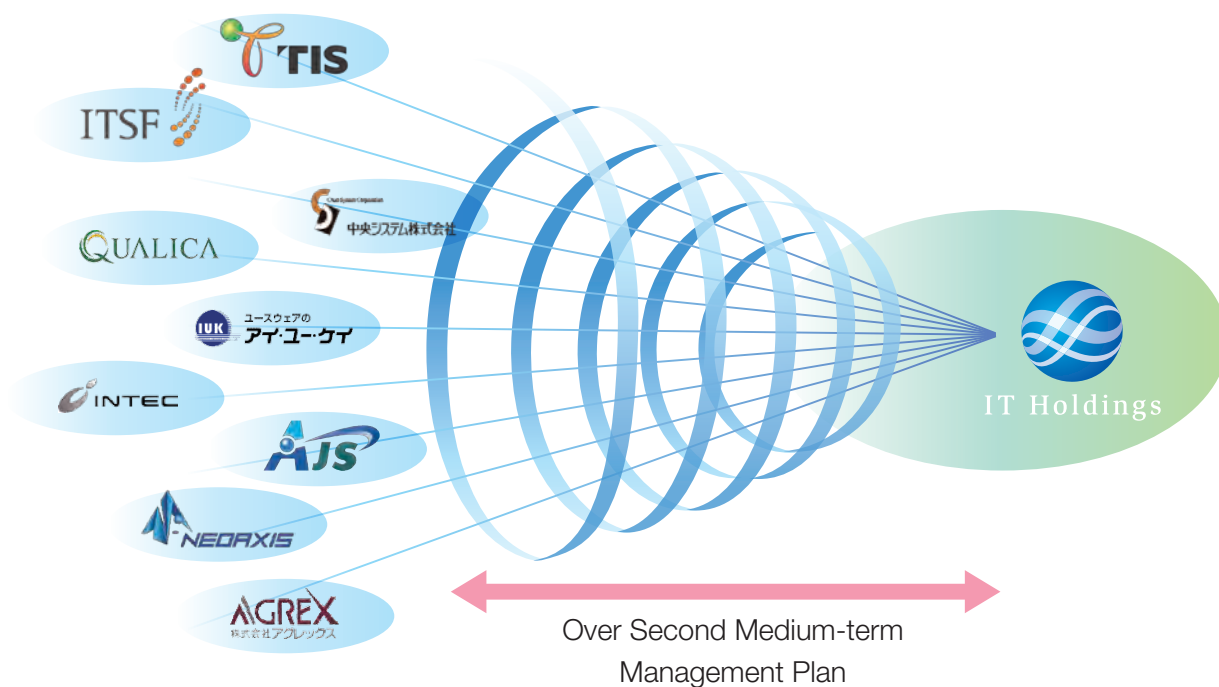
Second Medium-term Management Plan (April 2012 - March 2015) Taking on Transformation 「Brave Steps 2014」	
Basic Concepts	
Top-Line Emphasis	The IT market has shown signs of shrinking over the past few years. Nonetheless, we have endeavored to expand business with sales in mind. We will prioritize a commitment 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 atmosphere that evokes a sense of unity and build a corporate collective centered on ITHD and acting as one company.
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 prioritize a sense of courage in pursuing business activities.

Major Numerical Targets (to be achieved by March 2015)			
Net sales:	¥350 billion	Return on equity:	7.5%
Operating income:	¥25 billion	Credit rating:	Sustain A rating
Operating income to sales:	Above 7%		



Group Management Basic Strategies and Business Themes

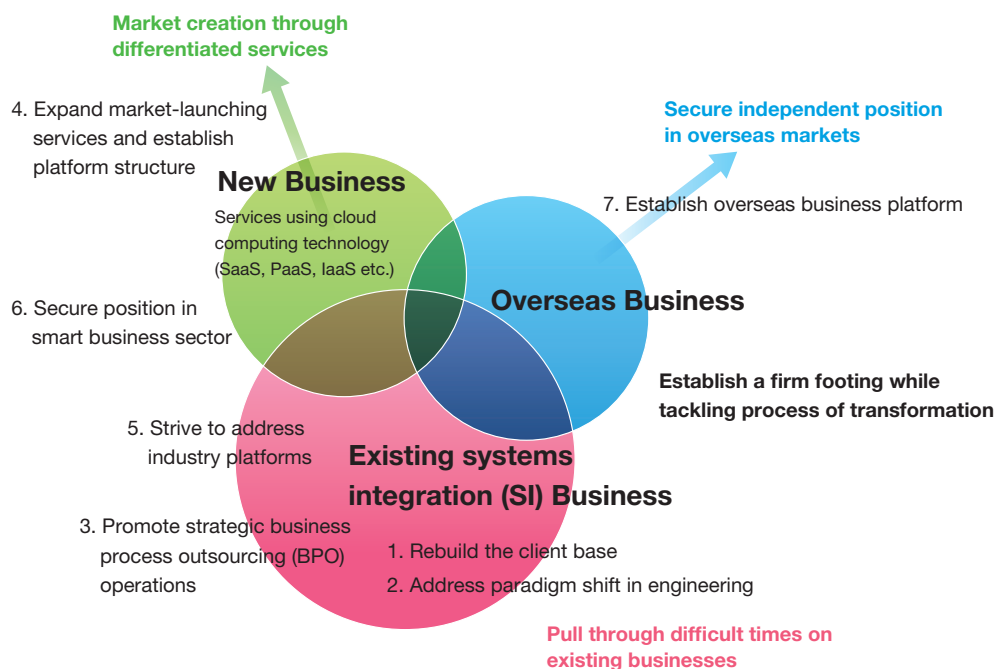
- 1 Promote new Group formation**
Build structure that spotlights core businesses and growth segments.
- 2 Cultivate shared groupwide spirit**
Establish ITHD College.
- 3 Lay solid financial foundation to facilitate upfront investment activity**
Adopt consolidated tax and unified cash management system.
- 4 Streamline and centralize corporate functions**
Expand the range and improve the quality of shared operations.
- 5 Reinforce product brands and corporate image**
Make the names of services consistent.



This report contains forward-looking statements, including performance forecasts, based on information currently available to management of the ITHD Group—that is, ITHD and the subsidiaries under its umbrella—and reflect somewhat objective assumptions deemed reasonable at this time. In this regard, the Company does not promise to achieve forecasted results, and various factors may cause future results to be substantially different from those expressed or implied by forward-looking statements.

The Group’s business strategies are described below.

Business Domains in the Spotlight



Business Strategy

1

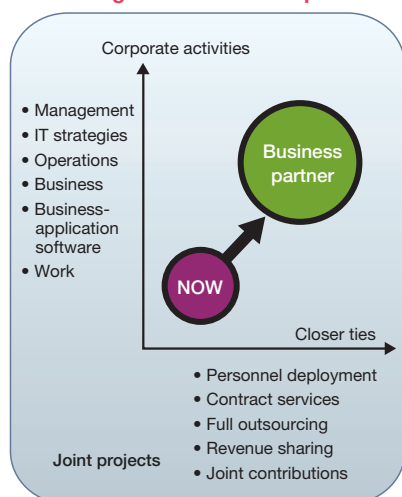
Utilize existing businesses to overcome challenges

We will offer services in growth fields from the perspective of a business partner assisting its customers.

We will shed the old contract service provider image in favor of a business partner approach that stresses new business value for our customers, and we will present new services in growing fields, such as smart businesses, particularly the development of smart cities—planned, energy-efficient communities that integrate environment-friendly power, transportation and water supply systems utilizing advanced IT and other technologies—to differentiate ourselves from the competition.

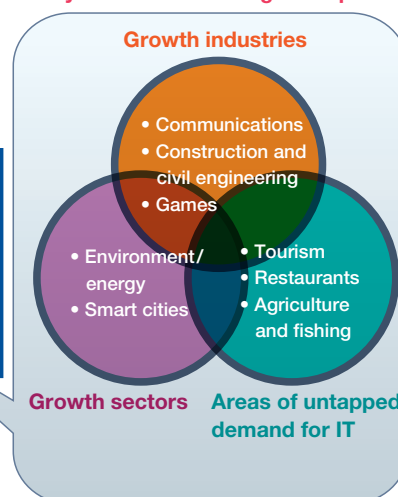
Desired Business Image

Evolving role as business partner



1. From contract service provider to business partner
2. Focused approach into growth fields
3. New types of business solutions

Brisk entry into sectors with growth potential



The key to becoming a business partner to our customers is in the right responses to the paradigm shift in engineering requirements. Toward this end, we will reinforce structures, especially human resource development, R&D and production. We will also strive to enhance the quality of software development and boost productivity. These efforts will be the building blocks of development methods that facilitate the creation of marketable services and outsourcing on a larger scale.

Furthermore, amid expanding demand for business process outsourcing (BPO) services, we will strengthen the connection between the BPO business and the system integration (SI) business and, as a group, promote strategic, high-value-added BPO services to an eager market.

Topic ▶ Group Strength—Data Center Business

The ITHD Group has 20 data centers in major cities, including Tokyo, Nagoya, Osaka and Toyama in Japan and in Tianjin, China, for total floor space of about 152,200m². At home, the Group boasts the largest data center network.

Major Features

• High-quality system operation and the latest facilities

The ITHD Group draws on more than 40 years of proven results in operating mission critical systems 24 hours a day, 365 days a year and know-how accumulated in running the country's largest data center network to safeguard clients' vital information assets through strict security measures and state-of-the-art facilities with extremely sophisticated features that prevent service disruption in such events as natural disasters and power outages.

• Business Continuity for Clients through Japan's Largest Data Center Network

Today, system downtime can have an hugely adverse effect on corporate activities. Data centers have therefore attracted attention as a practical component of disaster recovery plans to keep IT systems working seamlessly should that one-in-a-million off-line situation arise. The ITHD Group has data centers in major cities throughout Japan and a facility in China, so operations can be shifted from a primary data center to a remote data center as a backup measure.

For example, INTEC Manyo Square, which opened in July 2010, and Power & IT, which opened in June 2011, are newly built, next-generation data centers located in prefectures where earthquake- and typhoon-related natural disasters occur less frequently than in other areas of Japan. As backup facilities, these data centers can be vital components of a highly reliable disaster recovery structure.

• Highly Reliable Cloud Environment Platform

Our highly reliable, highly accessible data centers can be used as portals to cloud services we provide to clients. In addition, our data centers can also be used as worry-free portals to cloud environments, such as client-only private cloud environments as well as hybrid cloud environments, which combine hybrid and private elements, and IT systems for smart devices.

The Group's data business network is as follows.

The ITHD Group's Data Center Business Network



Business Strategy

2

Market Creation through Differentiated Services

We are pursuing new businesses in the services realm, starting with cloud computing.

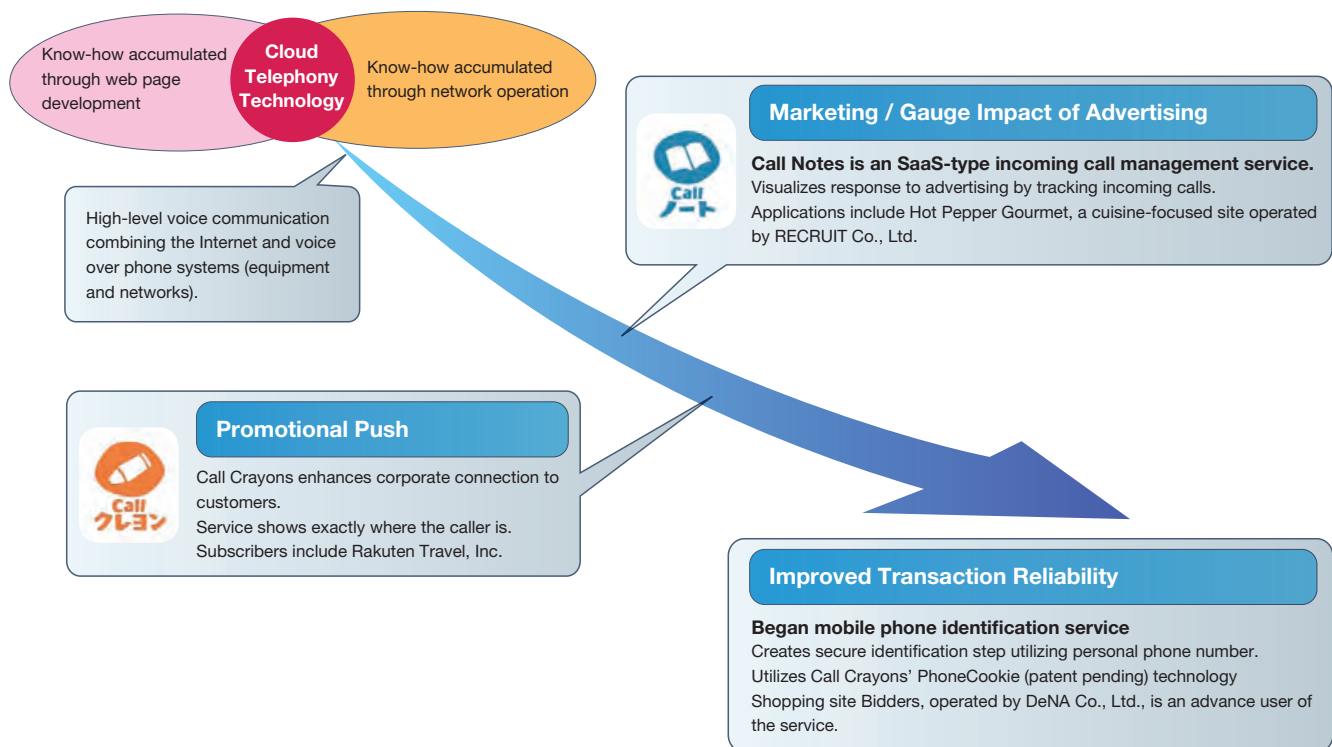
To promote business in the services realm, we will lay an optimum corporate platform—using marketing expertise, planning, development and business as the building blocks—and then expand share through the expansion of services pegged to market needs, new services planning and M&A activity. These efforts will turn the services business into a core ITHD business.

We will raise market share in industries and sectors, such as finance and manufacturing, where the Group boasts particular expertise, and launch industry platforms with the potential to become de facto standards, thereby realizing a solid lead over our competitors. In addition, we will maintain an independent position that allows Group strengths to shine, in promising growth sectors, especially smart businesses, and create new models for success.

ITHD Group Cloud Strengths

Cloud Integration	As an independent systems integrator, ITHD utilizes cloud services provided by companies under the Group umbrella as well as non-Group companies to build cloud environments perfectly suited to clients' needs.
SaaS for Immediate Application to Business	We utilize business know-how and proven results for clients in a wide range of industries, including finance, manufacturing and distribution and the public sector, and offer the best solutions from a client's perspective.
Highest-quality system operations in Japan	Not only do we have the largest data center network in Japan, we also boast the newest facilities and proven system operation results to ensure safe and secure service platforms.
Leading-Edge Cloud Services Foster Value Creation	We aggressively strive to develop the most advanced cloud technology available, leading the way in Japan and the industry as a whole. We aim to create value for our clients and the communities in which we all work.

Using Technologies, Developing New Services



Topic ▶ Call Crayons

Using PhoneCookie®, an original technology (patent pending), Call Crayons creates new business value by effectively linking Internet- and phone-sourced transaction information, such as the URL that the web-surfing caller has called from, the parameters, the time of origin and the duration of the call, and then uses that information. With Call Crayons, companies can gather marketing information that ties in online and offline data and apply phone- and Internet-based transaction information for various purposes, including approaches to improve customer services and make contact processes more efficient. This opens the door to expanded business possibilities in domains where customer contact is key.

On June 20, 2012, Call Crayons was recognized as an excellent service utilizing progressive, high-level technology, scooping up an Advanced Technology Prize in the ASP/SaaS category at the 6th ASP-SaaS-Cloud Awards, an event sponsored by the nonprofit organization ASP-SaaS-Cloud Consortium.



Securing an Independent Position in Overseas Markets

Two major pillars of growth are local support geared to the needs of existing customers as they establish a wider presence overseas and the cultivation of local markets using know-how accumulated in Japan.

We will streamline and consolidate the overseas operations of Group companies, with a spotlight on China and Southeast Asia, and thereby hone a sharper competitive edge. We will also strive to achieve the strategies that underpin our two pillars of growth while considering such steps as timely M&A activity to support existing activities.

Accelerating Global Expansion

		China	ASEAN
Overseas sales	Overseas expansion by Japanese companies	<ul style="list-style-type: none"> • TISI (Shanghai) • INTEC • QUALICA / QUALICA (Shanghai) 	<ul style="list-style-type: none"> • TISI (Singapore) • INTEC Thai
	Local market Reinforced sector	<ul style="list-style-type: none"> • Tianjin TIS Hi-tech • QUALICA / QUALICA (Shanghai) 	<ul style="list-style-type: none"> • Ho Chi Minh representative office
Overseas production	Offshore BPO New sector	<ul style="list-style-type: none"> • Tianjin TIS Hi-tech—AGREX 	<ul style="list-style-type: none"> • INTEC Thai—AGREX
	Offshore development	Used and promoted groupwide	

Official names of the companies listed in the table above.

- INTEC Thai: INTEC SYSTEMS BANGKOK CO., LTD.
- QUALICA (Shanghai): QUALICA (Shanghai) Inc.
- TISI (Shanghai): TISI (Shanghai) Co., Ltd.
- TISI (Singapore): TISI (Singapore) Pte. Ltd.
- Tianjin TIS Hi-tech: Tianjin TIS Hi-tech Information System Service Co., Ltd.

March 2012

Tianjin TIS Hi-tech Information System Service Co., Ltd.

- Macromill China, Inc., adopts PaaS/IaaS-style cloud service “xiang yun.”
- Business alliance with ChinaCache International Holdings Ltd, a leading provider of content delivery network (CDN) services in China.

April 2011

QUALICA (Shanghai) Inc.

Strengthened structure to enhance business capabilities and results in China.

February 2012

INTEC SYSTEMS BANGKOK CO., LTD.

Local representative office established in Thailand.

January 2012

TISI (Singapore) Pte. Ltd.

Local representative office established in Singapore.

Topic ▶ Enhancing IT System Support Structure in ASEAN Region

To enhance the IT system support structure in the ASEAN region, where an increasing number of Japanese companies are focusing their overseas expansion efforts, TIS established TISI (Singapore) Pte. Ltd., in January 2012 and INTEC established INTEC SYSTEMS BANGKOK CO., LTD., in February 2012. As a result, the Group’s overseas network now has 15 offices in Asia, excluding Japan, and one office in the United States.

To date, the Company has emphasized offshore development in China to expand the Group’s overseas activities. But going forward, efforts will be directed toward improving IT solutions and services for Japanese companies establishing a presence the ASEAN region and, with an eye to future growth, the implementation of surveys to pinpoint customer needs and to promote suitable business responses.

Solution Development Good for Overseas Applications

➤ AToMsQube – Cloud-oriented production-control system



Promoting sales while enhancing structure, including better features and connectivity between providers and other software. Receiving more inquiries from interested companies in Asia, particularly China, as well as the ASEAN region.

- Actual applications: About 50 systems in use or in the process of being introduced
⇒ Mainly manufacturers in China (Komatsu-affiliated factories, general customers)
- Target: Total of 100 orders in China by March 31, 2013

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 the Group’s overall development productivity and enhance quality so that clients can use integrated systems with peace of mind, TIS and INTEC spearheaded a steady and resourceful approach to software development technology.

INTEC expanded the functions of knowledge-support systems to make its system integration (SI) business more efficient, pursued research on next-generation SI development methods and R&D on an automated testing tool for web applications, and implemented verification tests to confirm the utility of open source database management systems. Plans are for the automated testing tool for web applications to be introduced for in-house use in fiscal 2013 to improve test-stage productivity.

TIS has been working to boost software development productivity using Xenlon, a Java development framework, since fiscal 2011 and recently added a web application using jQuery Mobile and ledger output using JasperReports.

Another area of interest is R&D related to the use of open source software. A major advantage of open source platforms is that they are free of licensing fees and carry a much smaller initial investment for clients. But open source solutions have a downside—no definitive response in the event of trouble since the software does not belong, necessarily, to any specific vendor and thus lacks guarantees of reliability and support. To address this concern, TIS verifies specific open source arrangements from a technology perspective and, as a recognized systems integrator, acts as a support partner to provide clients with peace of mind. The company is working on the creation of a verification template and associated application to business.

(2) Cloud Technology

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

At INTEC, efforts have been directed into R&D on platforms for multitenancy on servers and databases as solutions that transforms existing web applications into SaaS (Software as a Service). The company is also pursuing research on security models for cloud environments and R&D to automate the creation and operation of IaaS (Infrastructure as a Service) environments.

With the pool of managed inventory of IPv4 (Internet Protocol version 4) addresses about to dry up in Japan, as elsewhere, INTEC has been involved in such activities as the shift toward IPv6 for websites, participation in World IPv6 Day, and free access to an IPv4/IPv6 meter that shows the ratio of websites with IPv4 addresses to those with IPv6 addresses.

TIS has been providing a product called SkyWare, which combines smartphone-oriented global positioning system and augmented reality functions, and in July 2011 launched the service Citywalk Sightseeing Navigation on SkyWare. There are many examples of this service in use, including an app for the six big festivals in Tohoku, provided by a telecommunications company as a way to support recovery in the Tohoku region where the effort to rebuild after the March 2011 earthquake and tsunami is an ongoing endeavor, and a touring app for rest stops along the portion of the Nakasendo trail through the modern city of Saku, Nagano Prefecture. This trail—literally, “route through the mountains”—was a major Edo Period highway linking Edo (now, Tokyo) and Kyoto and along which inn towns sprang up to cater to travelers. These activities have been featured on television shows many times.

The spread of cloud computing has brought about an increase in environments that mix public clouds, private clouds and on-premises services. Given prevailing conditions, TIS has undertaken R&D on formats to integrate multiple environments and monitor operations. Specifically, the company scaled up Zabbix, an open source integration, operation and management tool, and explored approaches for integration, operation and management, including cloud monitoring.

In the area of Big Data, R&D is under way to utilize Hadoop technology in more familiar business pursuits. TIS has implemented measures to replace clients' basic platform system batch processing with Hadoop and has come to understand that the Hadoop platform is effective in raising the efficiency of large-volume batch processing. INTEC, too, has emphasized Hadoop, and working with Riken Genesis Co., Ltd., developed a Japan-launched, cloud-using, human genome data analysis system.

(3) Smartphone-Related Technology

The explosive spread of smartphones and tablets began in 2010, and TIS and INTEC continued to tackle R&D related to these devices in fiscal 2012.

INTEC teamed up with the Keio Research Institute at SFC—the Shonan-Fujisawa Campus of Keio University—to pursue R&D on a micro-advertising system that allows store employees to communicate with customers using smartphones to deliver information updates. Also, tapped by the Ministry of Internal Affairs and Communications for participation in the Strategic Information and Communications R&D Promotion Programme (SCOPE), the company teamed up with Toyama University on joint research and implemented proof-of-concept on technology used by Centram, the streetcar system in Toyama.

Specifically, the system that was developed allows 1) the posting of ads to on-board digital signage displays synched to a train's operating location; 2) delivery of augmented reality games targeting riders; and 3) access to the real-time service status of trains—all by smartphone from anywhere. Also, with an increase in development projects using smartphones and tablets, the company held numerous in-house study sessions for engineers and worked to expand development techniques.

TIS is working with its clients to implement verification of natural user interfaces, utilizing head-mounted devices and navigation through voice and gestures, which is getting closer and closer to realization thanks to progress in mobile and cloud technologies.

(4) New Social System

The Group's R&D plan also targets an assortment of social issues arising from changing conditions and perspectives in society, such as global warming, power shortages, a national demographic characterized by a low birthrate and a high percentage of seniors, and an increasingly difficult employment environment for young people.

INTEC promoted R&D on Web Portfolio as a next-generation e-learning system for university students and working members of society and made presentations to several universities and corporations. The company also emphasized R&D on information platforms for smart cities and smart grids—next-generation power transmission networks—which are attracting attention from the perspective of efficient use of electricity and energy.

(5) Bioinformatics-Related Systems

With the life-science community generating copious amount of genome information and protein data, bioinformatics—the technology for handling biodata—has become essential to life science and innovative drug development research. INTEC has been involved in R&D on bioinformatics-related systems for more than 10 years. Successful product development includes the commercialization of a method developed jointly with Tosoh Corporation to detect the ribosomal RNA of a bacterium belonging to the genus *Legionella*. The company's bioinformatics technologies have been instrumental to the improvement of bacteria detection capabilities.

All told, consolidated R&D expenses in fiscal 2012 reached ¥962 million.

I. 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.

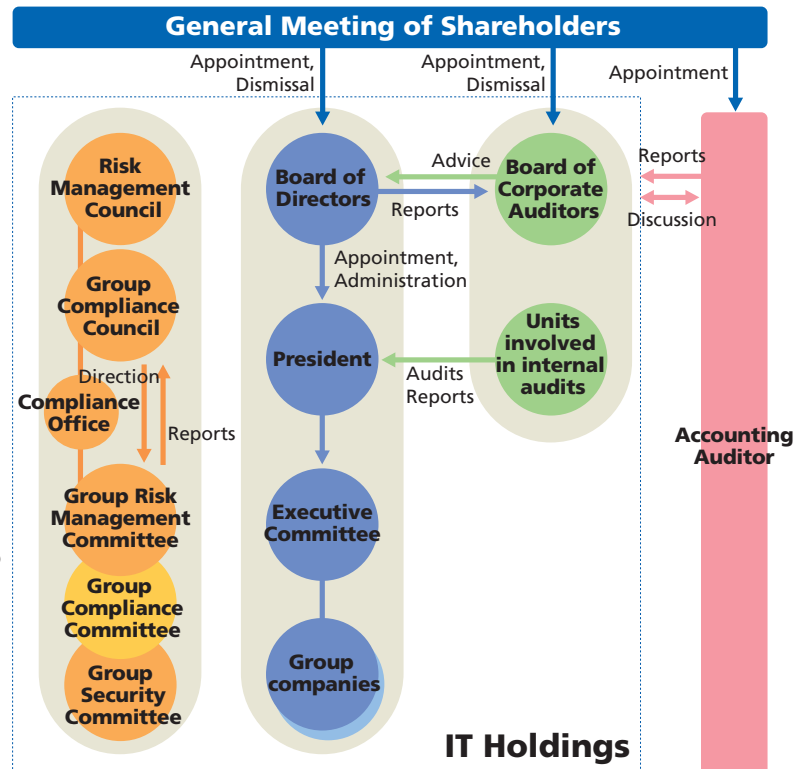
1. Board of Directors, and Executive Officer System

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. External directors with experience and insight into the industry and corporate management are appointed to the Board and offer advice and suggestions from an independent perspective to ensure that decision-making by the Board is appropriate and reasonable. This underpins efforts to reinforce the Board's supervisory function. Currently, two of the 11 directors on the Board 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 a management structure ideal for responding 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 here.



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

The Company has a Board of Corporate Auditors and has adopted a corporate auditor structure, believing that the independent and objective perspective of corporate auditors, including external corporate auditors, would effectively support the management supervision function. The Board of Corporate Auditors comprises four auditors, two of whom are external auditors. Corporate auditors attend Board of Directors' meetings, examine important documents, perform audits of subsidiaries and, when necessary, seek the opinion of others, including the Company's accounting firm, the Compliance Office and other units involved in internal audits. They also keep close watch over the execution of duties by directors pertaining to business and all operating activities.

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

3. Executive Compensation

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

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

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

Category	Total base salary	Number of executives
Directors (external directors' portion)	¥205 million (¥12 million)	6 (2)
Corporate auditors (external corporate auditors' portion)	¥55 million (¥19 million)	5 (3)
Total (external executives' portion)	¥260 million (¥31 million)	11 (5)

Notes:

1. The Company has not introduced a retirement benefits system nor does it pay out bonuses.
2. In fiscal 2012, no employee salary portions were paid to employees who concurrently hold positions as directors.
3. As of March 31, 2012, the Company had 10 directors, two of whom were external directors. The number of directors differs from that presented above because four directors did not receive compensation.
4. As of March 31, 2012, the Company had four corporate auditors, two of whom were external corporate auditors. The number of corporate auditors differs from that presented above because one external director retired at the end of the Third General Meeting of Shareholders but was included in the total.
5. Total compensation paid to directors and corporate auditors was within ¥400 million per year for directors (within ¥50 million for external directors) and within ¥85 million for corporate auditors, as approved by shareholders at the First General Meeting of Shareholders on June 25, 2009.
6. There are no applicable items under total amount of compensation, on a consolidated basis, paid to individual executives receiving compensation packages exceeding ¥100 million.

Board of Directors and Corporate Auditors (As of June 26, 2012)

Chairman	Katsuki Kanaoka	Directors	Tetsuo Nakao	Katsuhiko Ishii
President	Susumu Okamoto		Hiroaki Fujimiya	Shingo Oda *
			Masaki Chitose	Yoshinobu Ishigaki *
			Koju Takizawa	
Executive Vice Presidents	Norio Maenishi Tomoki Sato	Corporate Auditors	Nobuyuki Yonezawa (standing auditor)	
			Masaru Takeda (standing auditor)	
			Taigi Ito *	
			Muneaki Ueda *	

* Designated for Independent Director/Auditor as specified by the Tokyo Stock Exchange in Japan.

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 (four years of auditing IT Holdings)
Certified public accountant	Keizo Omura (three years of auditing IT Holdings)
Certified public accountant	Masato Saito (four years of auditing IT Holdings)
Certified public accountant	Masayoshi Zenpo (one year of auditing IT Holdings)
Number of assistants involved in accounting operations	
	Certified public accountants 5
	Other assistants 11

5. Compensation to Certified Public Accountants

During the fiscal year ended March 31, 2012, the Company paid the accounting firm to provide the following services, in addition to the services covered in Article 2, Paragraph 1 of the Certified Public Accountants Law:

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

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

(Millions of yen)

	Year ended March 31, 2011		Year ended March 31, 2012	
	Compensation for audit certification	Compensation other than for audit certification	Compensation for audit certification	Compensation other than for audit certification
Filing company	49	1	45	1
Consolidated subsidiaries	243	43	219	18
Total	292	44	264	18

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 External Directors and External Corporate Auditors

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

II. Risk Management System

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

1. Compliance Department and Group Compliance Committee

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

2. Status of Risk Management System

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

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

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

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

Basic Direction on CSR

The management philosophy that permeates the ITHD Group stresses the Group's development into a corporate citizen whose activities, hinging on the provision of various services utilizing IT, match its status as a leading corporate group. This philosophy also underpins the Group's efforts to raise corporate value, supported in this effort by the high regard of all its stakeholders, including clients and shareholders as well as employees and their families. The Group's stance on corporate social responsibility is evident in its commitment to cultivate a vibrant corporate culture that encourages the companies and individuals under the Group umbrella to work toward higher goals and embrace new challenges, to be honest and fair in business pursuits based on respect for the law, of course, as well as high moral standards, and to fulfill social obligations. This is the Group's basic direction on CSR.

Ensure sound, transparent management practices

Acknowledge responsibilities as a leading corporate group in the IT services industry and undertake sound corporate activities with integrity and clarity of purpose. In addition, be sincere and fair in dealings with all stakeholders.

Provide optimum services

Always provide the very best to clients and strive to raise customer satisfaction levels through excellent quality and technology built on the composite strengths of the Group.

Develop talent

Cultivate an environment in which employees always look ahead, striving to achieve higher goals and embracing new challenges. Provide opportunities to grow and realize personal goals, create a safe and productive work environment, and give everyone the freedom to reach their potential.

Respect the law

Maintain high corporate morals, obey the law and uphold parameters of socially acceptable conduct.
Have absolutely nothing to do with antisocial forces.

Maintain fair business practices

Ensure an appropriate perspective on business transactions, based on fair and open competition.

Protect the environment

Recognize that environmental problems warrant universal attention and promote efforts to save resources and energy in the execution of corporate activities. Also, through IT services, support clients' efforts to enhance operating efficiency and reduce energy consumption, thereby contributing to lower environmental impact.

Contribute to society

Actively participate in community events as a corporate citizen whose social standing matches its leading industry status.

Be a part of the international community

Naturally, obey internationally recognized rules and local laws in the execution of cross-border projects, but also contribute to social and economic development in the countries where the Group maintains a presence by recognizing local culture and customs.