Announcement of 1st Half Operating Results for the Fiscal Year Ending March 31, 2014

October 31, 2013

ITOCHU Techno-Solutions Corporation

These materials contain forward-looking statements about the future performance of CTC, based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties. Actual results may differ from projected performance, owing to a variety of factors, including changes in the economic environment.

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FY2014 Overview of the 1st Half Results

Challenging Tomorrow's Changes

Higher revenues, lower profit

- ◇ Although business with mobile carriers declined, revenues increased year on year due to gains in other businesses and contributions from the consolidation of two overseas companies.
- ◇ All profit line items decreased year on year as a result of a fall in gross profit margin and an increase in SG&A expenses.
- ◇ Compared to the initial earnings forecast (released on May 1, 2013), both revenues and gross profit failed to meet expectations, and profit levels undercut initial forecasts.

1st Half FY2013 Performance Highlights

(Compared with 1st half of FY2012)

Challenging Tomorrow's Changes

	1st Half FY2012 Actual		1st Half FY2013 Actual		YoY change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)
Net sales	146.3	—	147.8	—	1.5	+1.0%
Gross profit	37.7	25.8%	35.6	24.1%	(2.0)	(5.4%)
SG&A expenses	(27.6)	—	(30.0)	—	(2.3)	+8.6%
Operating income	10.0	6.9%	5.6	3.8%	(4.4)	(44.1%)
Ordinary income	10.0	6.9%	5.7	3.9%	(4.3)	(43.0%)
Net income	5.5	3.8%	3.1	2.1%	(2.4)	(44.1%)
Orders received	194.2	—	155.5	—	(38.7)	(19.9%)
Backlog	184.5	—	193.9	—	9.3	+5.1%

Major factors

[Net sales]
Although business with mobile carriers decreased, revenues increased due to contributions from consolidation of two overseas companies and gains in the financial & public and enterprise businesses.

[Gross profit]
Decreased due to lower gross profit margin

[SG&A expenses]
Impact of consolidation of two overseas companies was main factor

[Operating income/ Ordinary income/Net income]
Decreased due to drop in gross profit margin and increase in SG&A expenses

[Orders received]
Main factors were reactionary decline after large orders from postal services in same period in previous year and decrease in orders from mobile carriers

[Backlog]
Backlog reached record high for end of first half as a result of contribution from consolidation of two overseas companies in addition to increases in Enterprise and Telecommunications businesses

1st Half FY2013 Performance Highlights
(Compared with forecast at the beginning of the fiscal year)

	1st Half FY2013 Initial Forecast (5/1)		1st Half FY2013 Actual		vs. Initial Forecast	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)
Net sales	155.0	—	147.8	—	(7.1)	(4.6%)
Gross profit	40.0	25.8%	35.6	24.1%	(4.3)	(10.9%)
SG&A expenses	(29.9)	—	(30.0)	—	(0.1)	+0.5%
Operating income	10.1	6.5%	5.6	3.8%	(4.4)	(44.4%)
Ordinary income	10.1	6.5%	5.7	3.9%	(4.3)	(43.3%)
Net income	5.6	3.6%	3.1	2.1%	(2.4)	(44.6%)
Orders received	160.0	—	155.5	—	(4.4)	(2.8%)
Backlog	191.2	—	193.9	—	2.6	+1.4%

Major factors

[Net sales]
Business with mobile carriers undercut forecasts

[Gross profit]
Fell short of forecast due to lower revenues and drop in gross profit margin

[SG&A expenses]
Roughly in line with earnings forecast

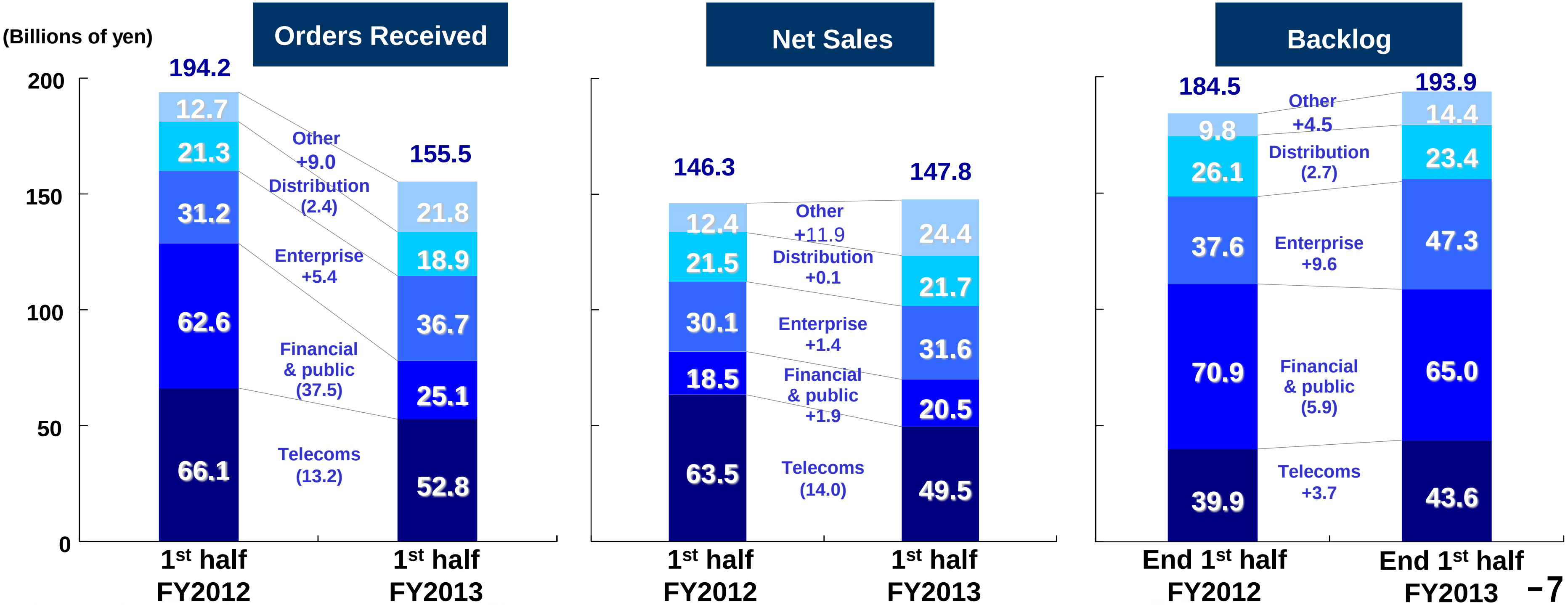
[Operating income/ Ordinary income/Net income]
Lower-than-expected revenue and gross profit margin were main factors

[Orders received]
Orders from mobile-carrier business fell short of forecasts

[Backlog]
Backlog increased for orders for which revenues will be posted in second half in Enterprise and Telecommunications businesses

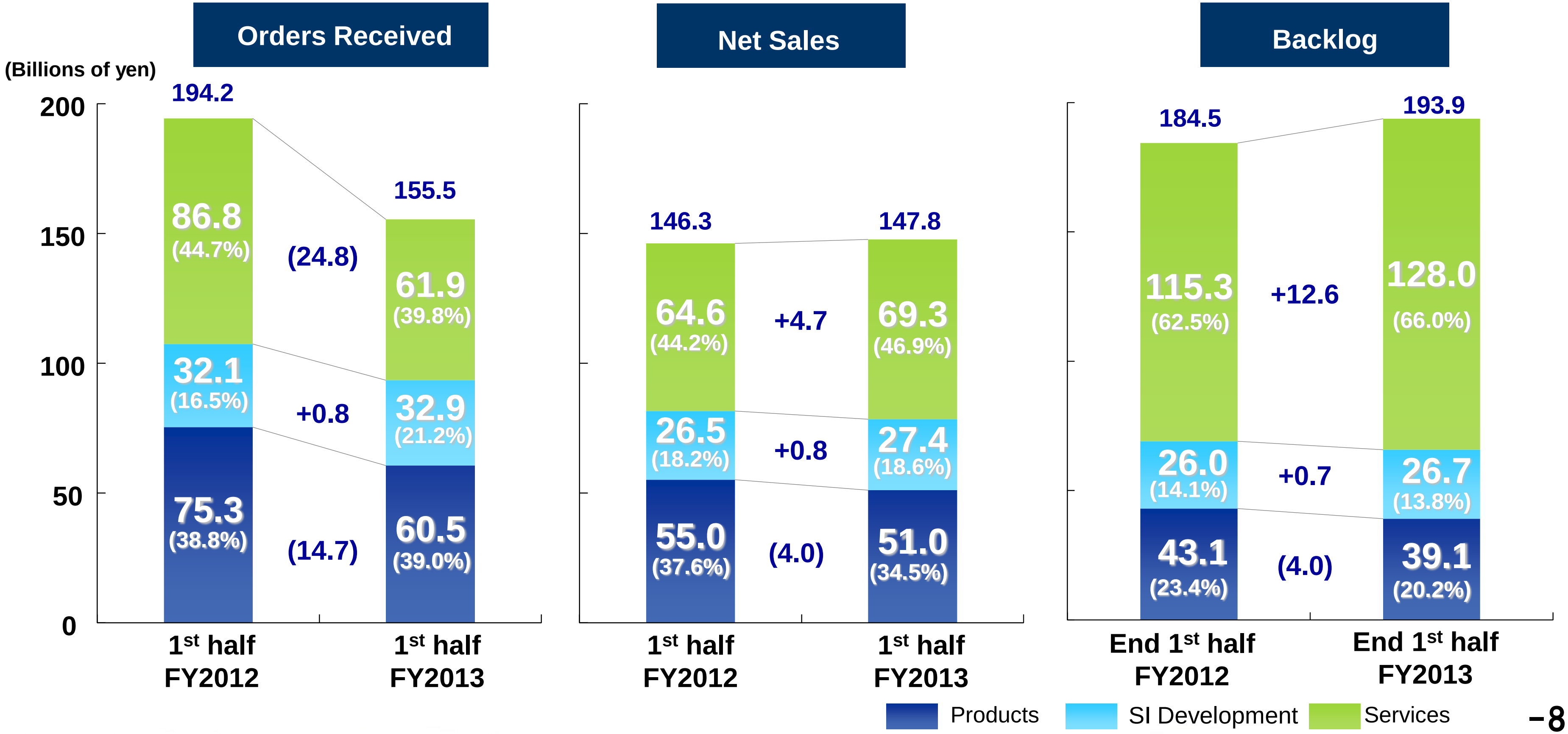
Performance by Business Group

- **Telecoms:** Orders received and net sales both decreased due to a decline in mobile-carrier network business
- **Financial & public:** Orders received fell in a reactionary decline following projects from postal services in the same period in the previous fiscal year. Net sales increased due to growth in projects for megabank and credit card companies.
- **Enterprise:** Orders received and net sales both increased on an increase in infrastructure upgrades and service projects for clients in the manufacturing, service and transportation sectors.
- **Distribution:** Although orders received fell due to a natural pullback after development projects for major clients in the distribution sector, net sales increased slightly.
- **Other:** Orders received and net sales both increased due to the consolidation of two overseas companies.

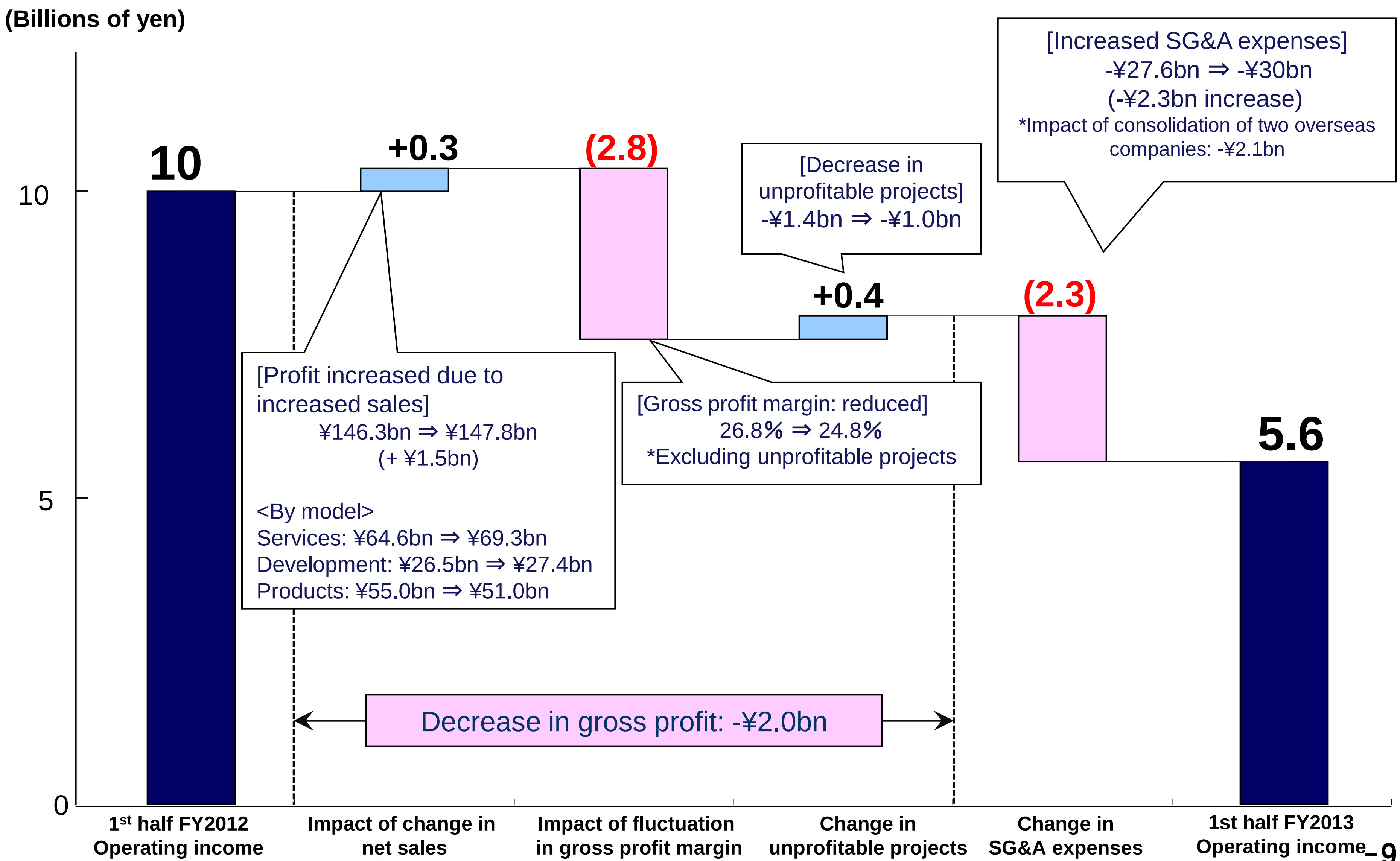


Performance by Business Model

- **Services:** Orders received decreased due to a natural decline following orders from the postal service. Net sales increased for overseas subsidiaries and business from credit card companies.
- **SI Development:** Orders received and net sales both increased due to an increase in system integration projects and overseas backbone system projects for megabanks.
- **Products:** Orders received and net sales both decreased due to a decrease in mobile-carrier network projects and a natural decline following the completion of projects for the postal service.



Main Reasons for YoY Change in Operating Income



[Reference]

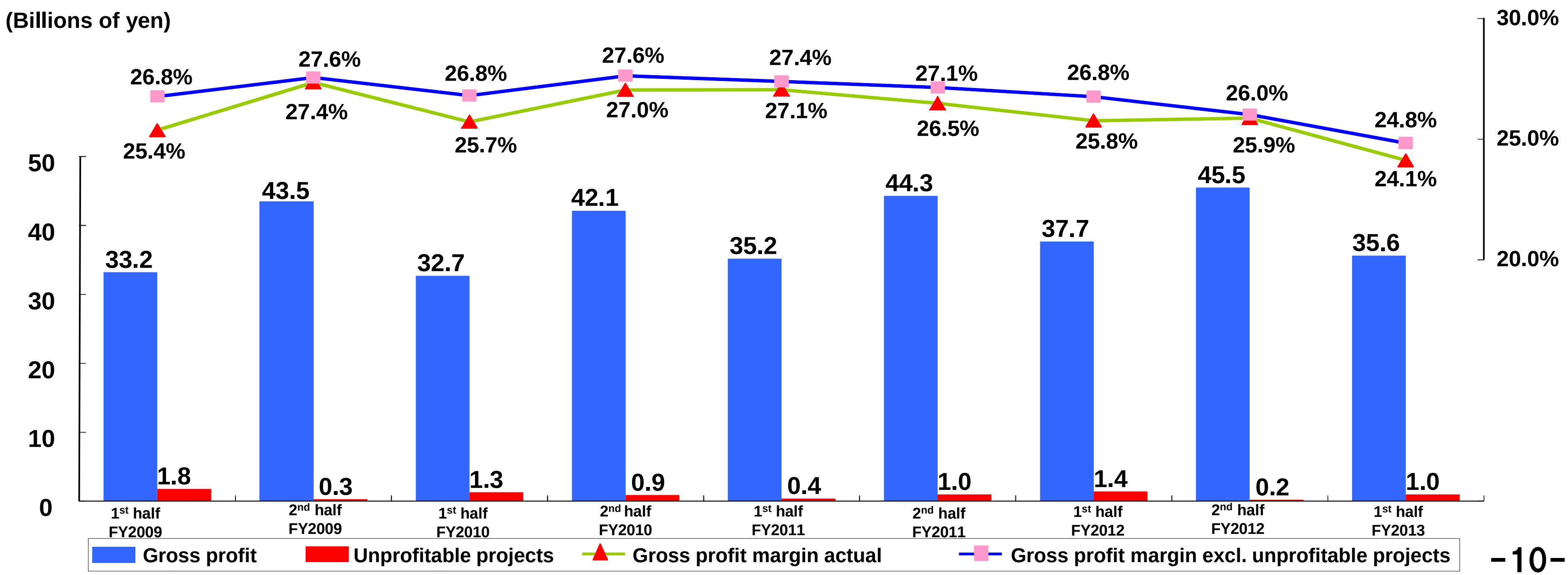
Gross Profit Margin and Unprofitable Projects

■ Gross profit margin fell 1.7 points year on year to 24.1%.

⇒ Gross profit margin excluding unprofitable projects fell 2.0 points year on year to 24.8%.
The gross profit margin declined due to more intense competition, weaker yen and an increase in DC and operation costs.

■ Reserve for unprofitable projects amounted to ¥1 billion (¥400 million decrease over previous year)

⇒ Of these projects, approximately ¥400 million are expected to be posted from the next fiscal year.



[Reference]

Non-operating and Extraordinary Items

	1st Half FY2012 Actual Billions of yen	1st Half FY2013 Actual Billions of yen	YoY Change (Billions of yen)	Major reasons for changes
Non-operating income	0.17	0.24	0.06	—
Non-operating expenses	(0.18)	(0.13)	0.05	—
Total non-operating income	(0.01)	0.10	0.11	

	1st Half FY2012 Actual Billions of yen	1st Half FY2013 Actual Billions of yen	YoY Change (Billions of yen)	Major reasons for changes
Extraordinary gains	0.01	0.28	0.27	Gains on sales of investment securities +0.27
Extraordinary losses	(0.42)	(0.37)	0.05	—
Total extraordinary losses	(0.40)	(0.08)	0.32	

[Reference]
Consolidated Balance Sheets and Cash Flows

Consolidated balance sheets

(Billions of yen)

	End 1st Half FY2012	End 1st Half FY2013	Change
Current assets	191.7	193.8	2.0
Fixed assets	52.8	63.0	10.1
Total assets	**244.6**	**256.9**	**12.2**
Current liabilities	71.8	75.6	3.8
Fixed assets	16.2	16.6	0.3
Total liabilities	88.1	92.2	4.1
Total net assets	156.5	164.6	8.1
Total liabilities and net assets	244.6	256.9	12.2

[Breakdown of assets and liabilities] (YoY Change)

■Current assets

Cash and deposits	37.8 [+9.1]
Notes and accounts receivable	49.6 [+1.7]
Securities	12.9 [-17.9]
Inventory assets	36.3 [+3.2]

■Major reasons for changes in fixed assets

Tangible fixed assets	34.4 [+5.2]
Intangible fixed assets	13.2 [+6.0]
Investments and other assets	15.3 [-1.1]

■Current liabilities

Notes and accounts payable	23.2 [+3.7]
Unearned income	25.9 [+2.7]

■Fixed liabilities

Long-term lease obligations	13.4 [-0.3]

■Net assets

Retained earnings	118.3 [+7.3]
Treasury stock	(10.3) [-0.0]

Consolidated cash flows

(Billions of yen)

	1st Half FY2012	1st Half FY2013	Change
Cash and cash equivalents at beginning of period	77.8	66.1	(11.7)
Operating activities	(2.7)	(1.4)	1.3
Investing activities	(2.1)	(4.9)	(2.8)
Financial activities	(7.9)	(3.5)	4.4
Cash and cash equivalents at end of period	64.8	56.2	(8.6)
Free cash flow	(4.9)	(6.4)	(1.4)

■Free cash flow (FCF)
Free cash flow decreased year on year due to an increase in cash outflow from investing activities, which offset a decrease in cash outflow in operating activities (decrease in notes and accounts receivables and net income before taxes and other adjustments).

Major reasons for changes in cash flows
(1) Cash flow from operating activities
Notes and accounts receivable decreased: [+4.9]
Income before income taxes and minority interests: [-3.9]

(2) Cash flow from investing activities
Increase in spending for acquisition of tangible fixed assets: [-3.3]
Proceeds from the sale of investment securities: [+0.4]

■Primary fluctuations in cash flow from financing activities
Decrease in spending for acquisition of Treasury stock [+5.0]

Challenging Tomorrow's Changes

Ⅰ FY2013
Overview of the 1st Half Results

Ⅱ FY2013
2nd Half and Full-year Forecasts

Ⅲ Short-term and medium- and long-term topics

Key points in 1st half earnings results

Good	Need to Improve
Net sales	Telecoms
Backlog	Gross profit margin

FY2013 Consolidated Operating Results Forecasts

Challenging Tomorrow's Changes

Higher revenues, lower profit

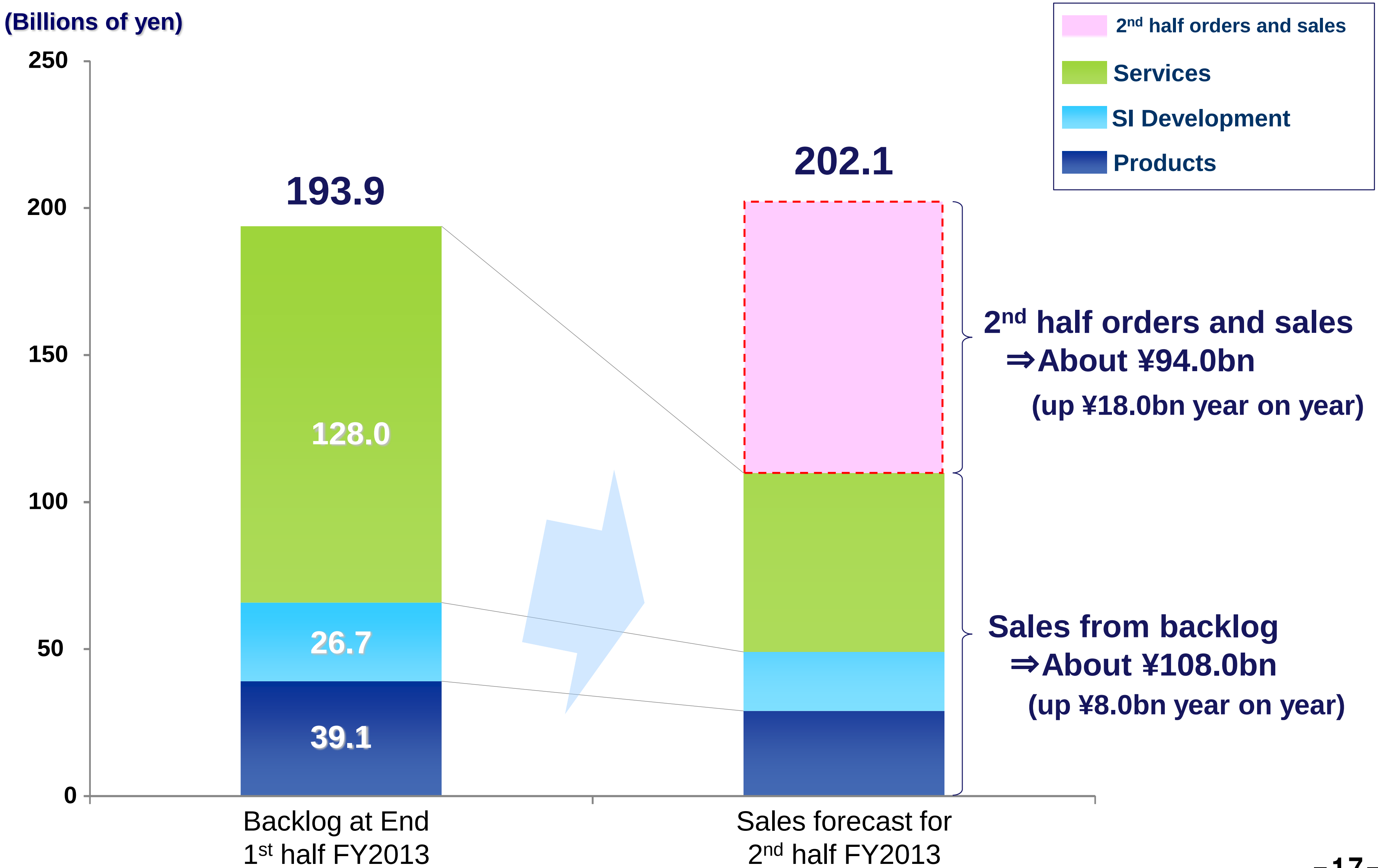
	FY2013 Revised Forecast		FY2013 Initial Forecast (5/1)		vs. Initial Forecast		FY2012 Actual		YoY change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)
Net sales	350.0	—	345.0	—	5.0	+1.4%	322.4	—	27.5	+8.5%
Gross profit	85.5	24.4%	88.5	25.7%	(3.0)	(3.4%)	83.2	25.8%	2.2	+2.7%
SG&A expenses	(60.5)	—	(60.5)	—	0.0	+0.0%	(56.0)	—	(4.4)	+7.8%
Operating income	25.0	7.1%	28.0	8.1%	(3.0)	(10.7%)	27.1	8.4%	(2.1)	(8.0%)
Ordinary income	25.2	7.2%	28.0	8.1%	(2.8)	(10.0%)	27.3	8.5%	(2.1)	(7.8%)
Net income	15.0	4.3%	16.5	4.8%	(1.5)	(9.1%)	16.0	5.0%	(1.0)	(6.4%)
Orders received	363.0	—	350.0	—	13.0	+3.7%	372.0	—	(9.0)	(2.4%)
Backlog	199.2	—	191.2	—	8.0	+4.2%	186.2	—	13.0	+7.0%

Second-half FY2013 Operating Results Forecasts

Higher revenue, higher profit

	2nd Half FY2013 Revised Forecast		2nd Half FY2013 Initial Forecast (5/1)		vs. Initial Forecast		2nd Half FY2012 Actual		YoY change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)
Net sales	202.1	—	190.0	—	12.1	+6.4%	176.1	—	26.0	+14.8%
Gross profit	49.8	24.7%	48.5	25.5%	1.3	+2.8%	45.5	25.9%	4.2	+9.3%
SG&A expenses	(30.4)	—	(30.6)	—	0.1	(0.5%)	(28.4)	—	(2.0)	+7.1%
Operating income	19.3	9.6%	17.9	9.4%	1.4	+8.3%	17.1	9.7%	2.2	+13.1%
Ordinary income	19.4	9.6%	17.9	9.4%	1.5	+8.8%	17.2	9.8%	2.1	+12.6%
Net income	11.8	5.9%	10.9	5.7%	0.9	+9.2%	10.4	5.9%	1.4	+13.5%
Orders received	207.4	—	190.0	—	17.4	+9.2%	177.8	—	29.6	+16.7%
Backlog	199.2	—	191.2	—	8.0	+4.2%	186.2	—	13.0	+7.0%

Backlog at end-1st half and 2nd half revenue forecasts



Second-half gross profit margin forecasts

	1st half	2nd half	Full year
FY2012 (Actual)	25.8%	25.9%	25.8%
FY2013 (Initial forecast)	25.8%	25.5%	25.7%
FY2013 (Revised forecast)	**24.1%** (Actual)	**24.7%**	**24.4%**

- Gross profit margin expected to improve by 0.6 points in 2nd half compared to 1st half.
  - ⇨Dissolution of increase in operational costs
  - ⇨Increase in high value-added projects
  - ⇨Improved profitability for development and services

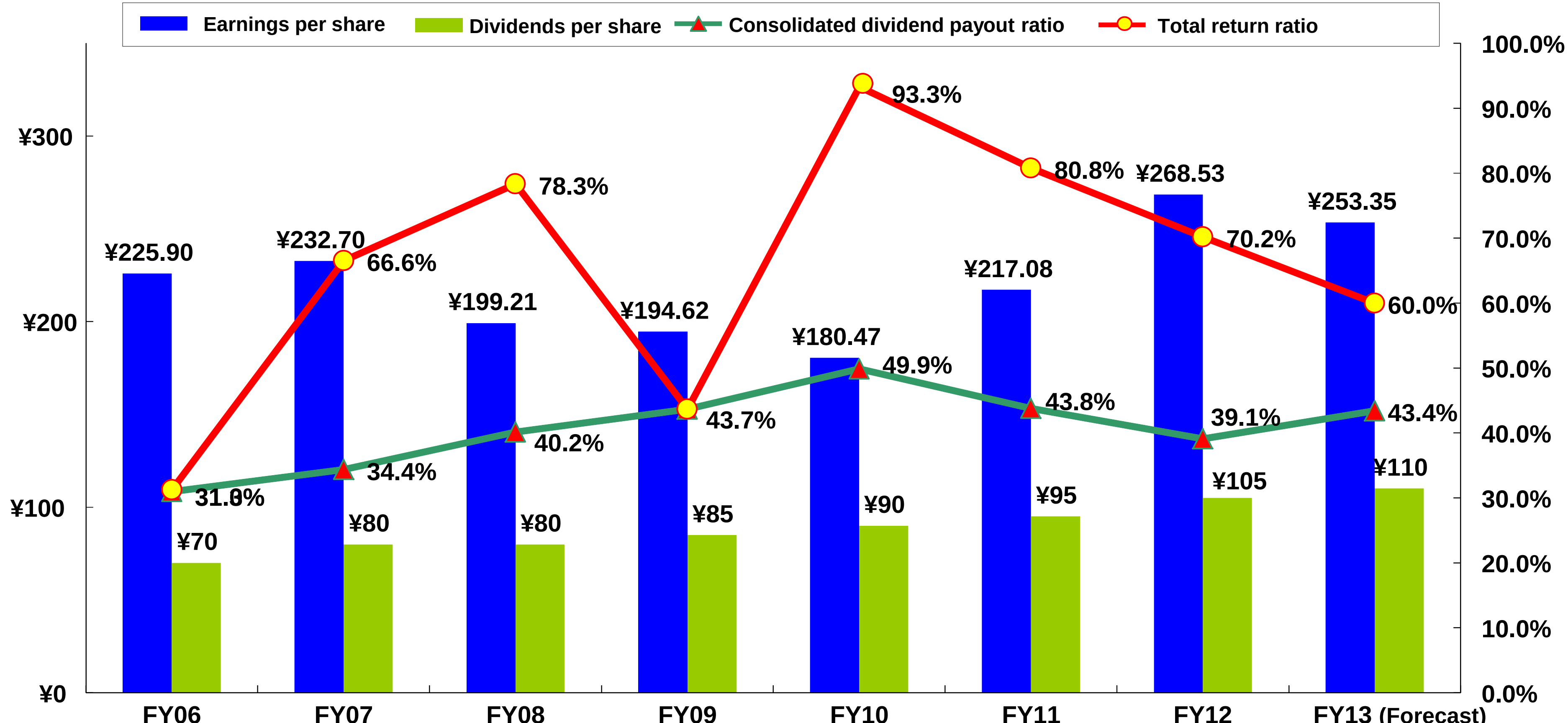
FY2013 sales: Comparison with initial forecasts

Main businesses	1st half	2nd half	Full year
	Down ¥7.1bn from initial forecast	Up ¥12.1bn over initial forecast	+ ¥5.0bn
Telecoms	× • Stagnant growth in mobile-carrier network projects	◎ • Resumption/expansion of projects to augment mobile-carrier networks • Increase in fixed-carrier infrastructure projects	△
Financial & Public	○ • Increase in megabank system integration-related projects • Increase in projects for telecommunications companies affiliated with electric power companies	○ • Same as to the left	○
Enterprise	— • Generally in line with initial forecasts	○ • Increase in projects, particularly in manufacturing and transportation sectors	○
Distribution	— • Generally in line with initial forecasts	— • Same as to the left	—
Other	○ • Steady performance by overseas subsidiaries	— • Generally in line with initial forecasts	○

Shareholder Returns

Challenging Tomorrow's Changes

- Targeting a consolidated dividend payout ratio of 43.4% (forecasted total annual dividend of ¥110/¥15.0bn on net income basis)
- ¥2.5bn/acquisition of 800,000 in Treasury stock (total return ratio of 60.0%)
- Retirement of 2.5 million shares (4.0% of outstanding shares)



*Total return ratio = (Stock buybacks + Total dividend payment) / Net income

Ⅰ FY2013

Overview of the 1st Half Results

Ⅱ FY2013

2nd Half and Full-year Forecasts

Ⅲ Short-term and medium- and long-term topics

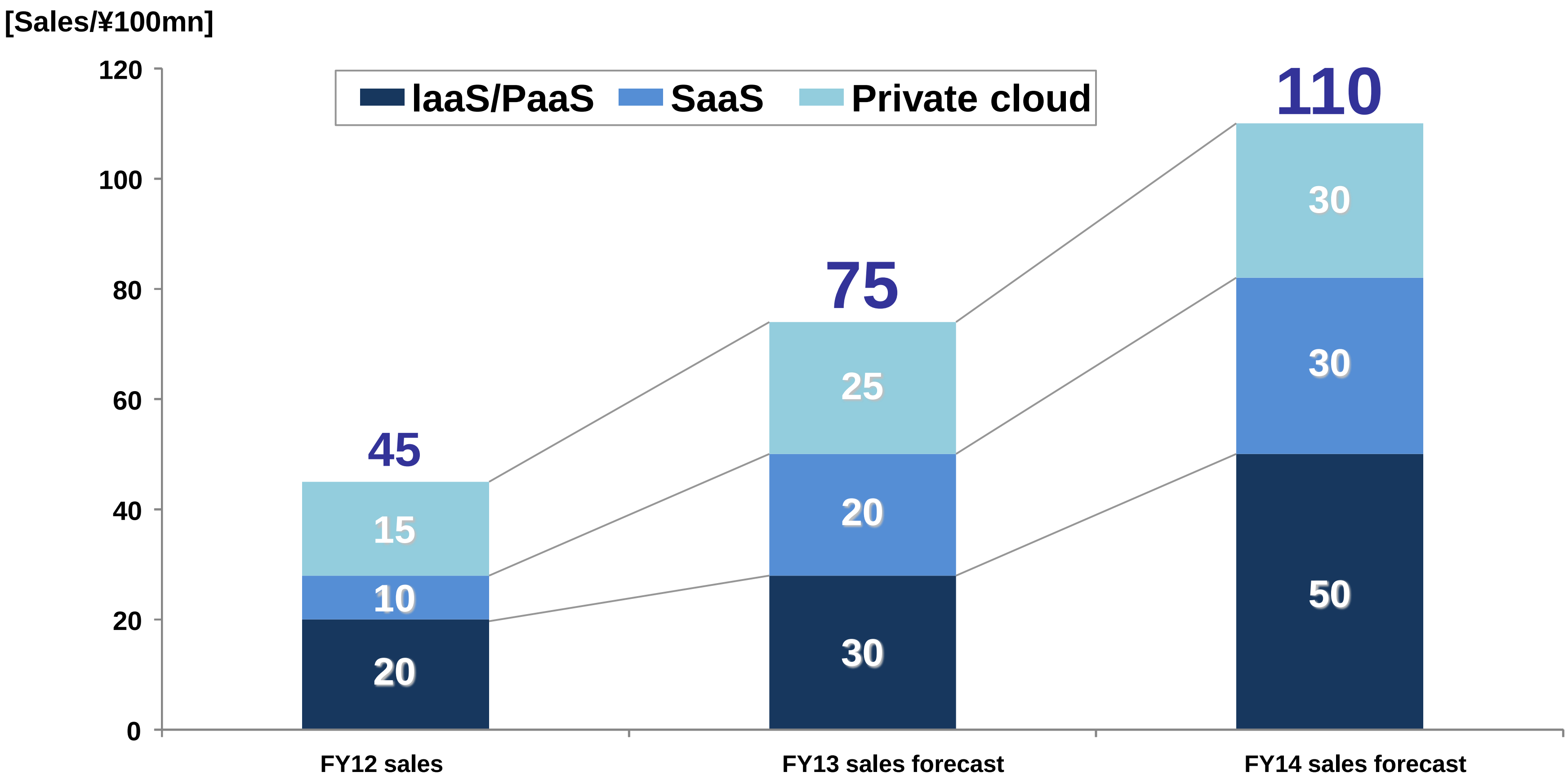
1. Key fields for each business group

Field	Short term	Medium and long term (in addition to areas for short-term focus)
Telecoms	● Projects to reinforce networks ● Authentication and traffic control systems	● Enter service business field ● Advanced LTE/Next-generation NGN ● SDN
Financial & Public	● Megabank system integration projects ● Infrastructure projects for public utility	● Business for credit card companies ● Business for public sector

Field	Short term	Medium and long term (in addition to areas for short-term focus)
Enterprise	● Demand for upgrades in manufacturing and transportation sectors	● Further cultivation of key clients ● SI + Cloud services
Distribution	● Backbone systems for companies affiliated with trading companies	● Next-generation store system projects with convenience stores ● Backbone and sales systems
Other	● Expanded sales of CUVIC series and data center ● Global expansion	● Development and sale of cloud services ● Domestic and overseas M&As

2. CTC's cloud service

Steady expansion of cloud services, Contribution to higher profit ratio

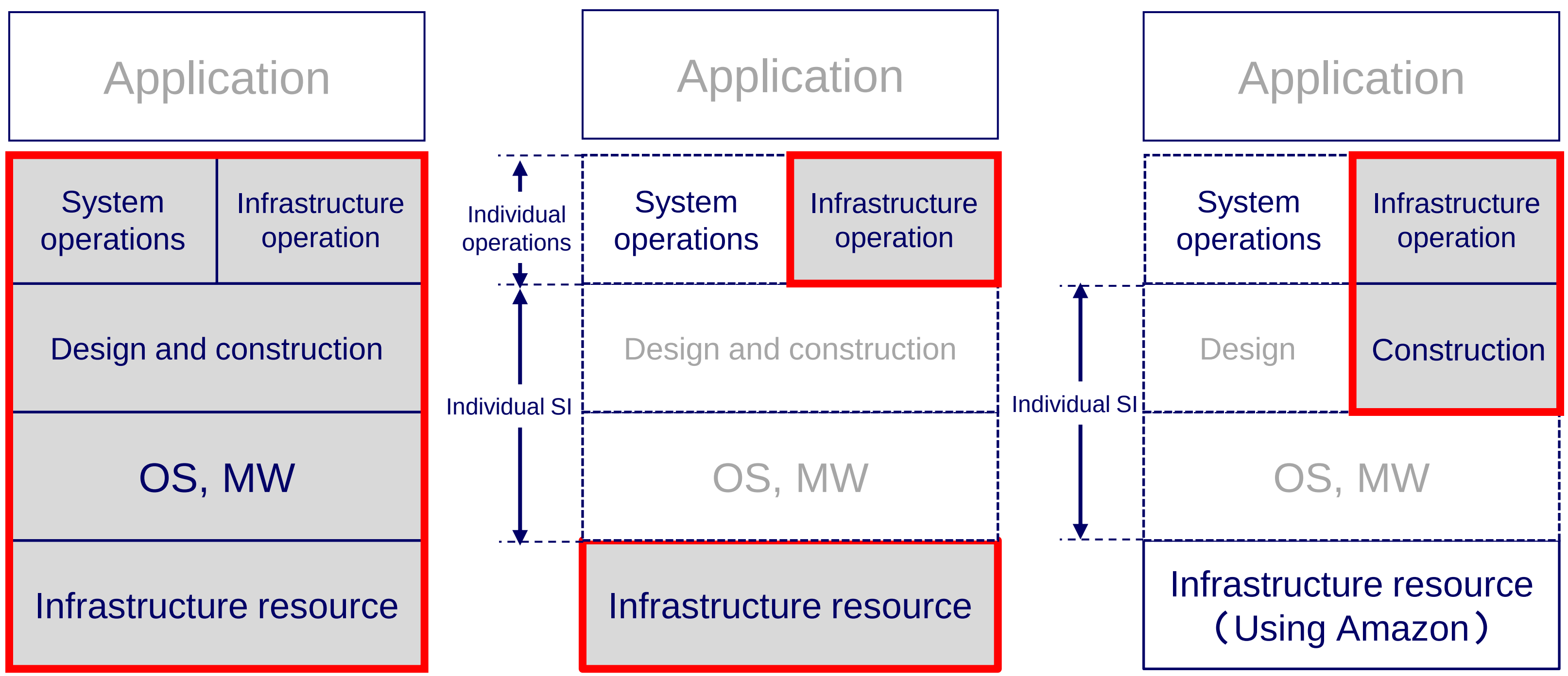


*Definition of cloud services: Cloud business that provides hardware and software computer resources via the Internet for a service fee. (Does not include product sales and conventional DC services)

[Reference] CTC's IaaS/PaaS cloud services

CTC Challenging Tomorrow's Changes

cloudage ElasticCUVIC | cloudage TechnoCUVIC | cloudage CUVIC on AWS



Key characteristics

ElasticCUVIC:
- IT infrastructure outsourcing
- Includes system operations
- Availability/operation grade charges

TechnoCUVIC:
- CTC original IaaS
- CTC's five domestic data centers
- Resource charges

CUVIC on AWS:
- AWS construction and operation services
- Hyper-scale
- Resource "time" charge

3. Global expansion (ASEAN）

Challenging Tomorrow's Changes

Key fields in Malaysia, Singapore and Thailand (existing)

- Expand CTC’s proprietary technology and solutions in local market
- Meet robust IT demand of local Japanese companies

Future policies

- M&A in other key ASEAN countries
- Overseas sales target (FY15): 10% of overall sales

CTC

Challenging Tomorrow's Changes