

Announcement of 1st Half Operating Results for the Fiscal Year Ending March 31, 2015

November 6, 2014

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.

I FY2014 Overview of the 1st Half Results

II FY2014 2nd Half and Full-year Forecasts

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I FY2014
Overview of the 1st Half Results

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Higher revenues, higher profit

- ◇ Revenues increased YoY, reflecting strong performances by the Telecoms, Financial & Public and Distribution Business Groups.
- ◇ All profit line items increased YoY as a result of a rise in gross profit associated with increased revenues.
- ◇ Orders received also increased YoY, reflecting strong demand centered on the Telecoms and Distribution Business Groups.

1st Half FY2014 Performance Highlights

(Compared with 1st Half FY2013)



Major Factors

[Net sales]

Increased YoY due to increases in mobile carriers, postal services and convenience stores.

[Gross profit]

Increased YoY due to higher revenues.

[Operating revenue and expenses]

Although SG&A expenses increased, operating revenue and expenses is same level at previous year due to other revenue and other expenses improved.

[Operating income]

Increased due to rise in gross profit.

[Orders received]

Increased, especially orders from mobile carriers and convenience stores.

[Backlog]

Same as above.

	1st half FY2013 Actual		1st half FY2014 Actual		YoY Change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change (%)
Net sales	152.18	—	161.12	—	+8.94	+5.9%
Gross profit	35.96	23.6%	38.11	23.7%	+2.15	+6.0%
Operating revenue and expenses	(30.08)	—	(30.13)	—	(0.05)	+0.2%
Operating income	5.88	3.9%	7.98	5.0%	+2.10	+35.7%
Net income	3.57	2.3%	5.05	3.1%	+1.48	+41.4%
Net income attributable to owners of the parent company	3.43	2.3%	4.98	3.1%	+1.55	+45.3%
Orders received	155.50	—	162.78	—	+7.27	+4.7%
Backlog	180.22	—	197.12	—	+16.90	+9.4%

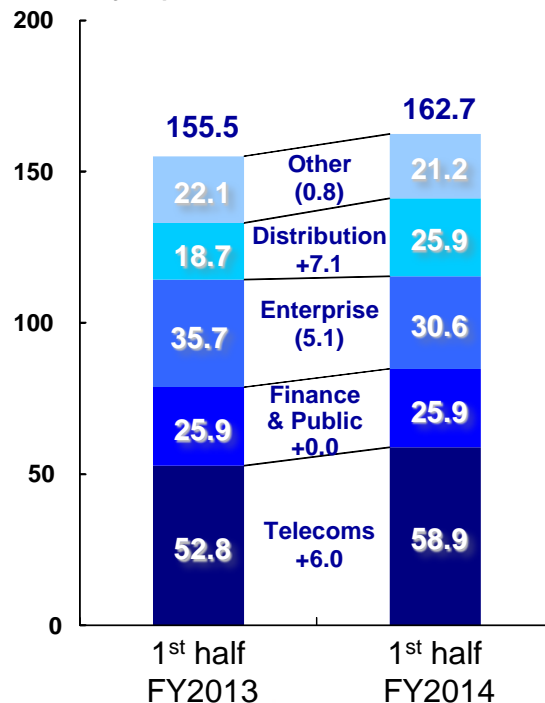
Performance by Business Group (Compared with 1st Half FY2013)



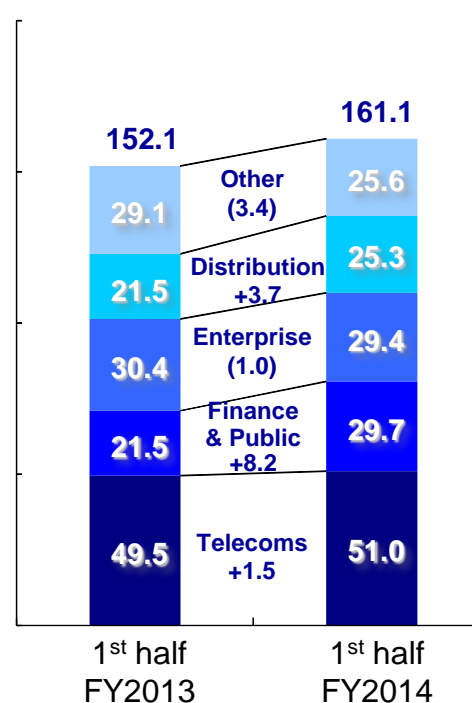
- Telecoms: Orders received and net sales increased due to projects to reinforce networks for mobile carriers.
- Financial & Public: Orders received were unchanged from the year-ago level. Net sales increased mainly due to projects for megabanks and postal services.
- Enterprise: Orders received for service projects from housing and Internet companies declined. Net sales from projects for precision equipment, etc. declined.
- Distribution: Orders received and net sales increased due to growth in development projects for major clients.

Orders Received

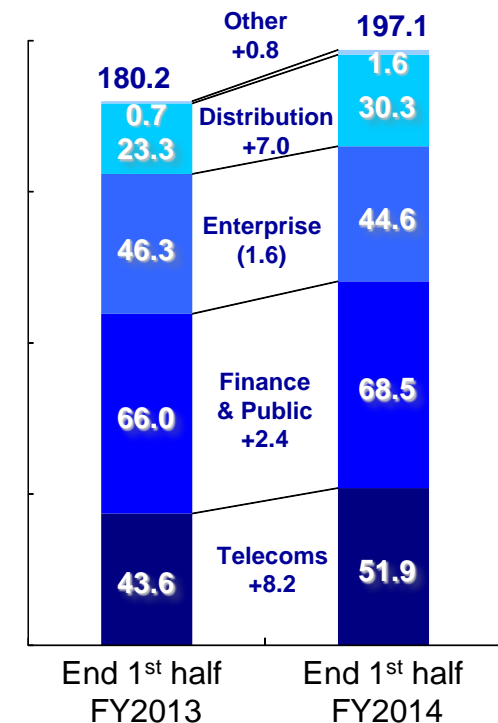
(Billions of yen)



Net sales

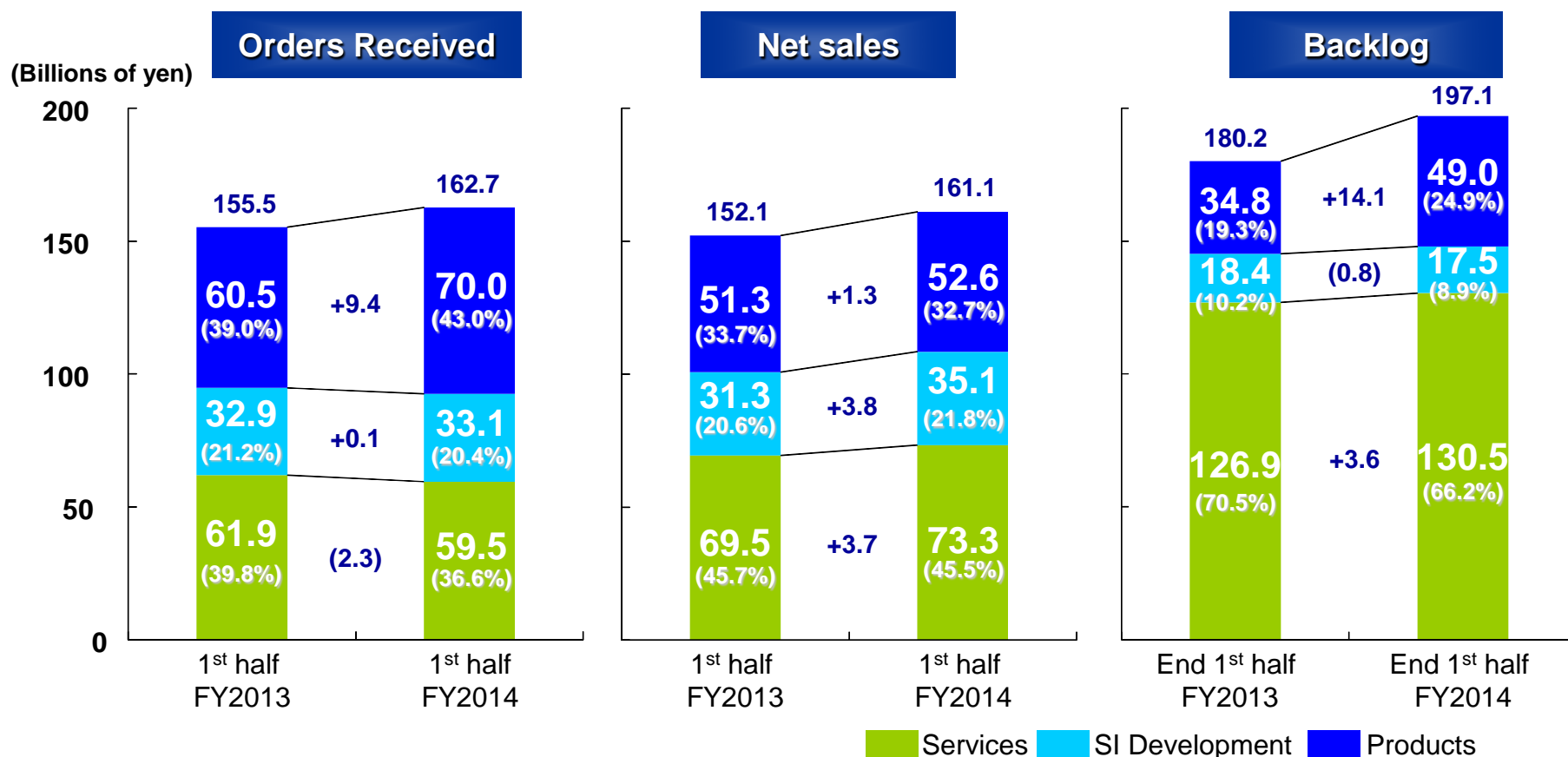


Backlog



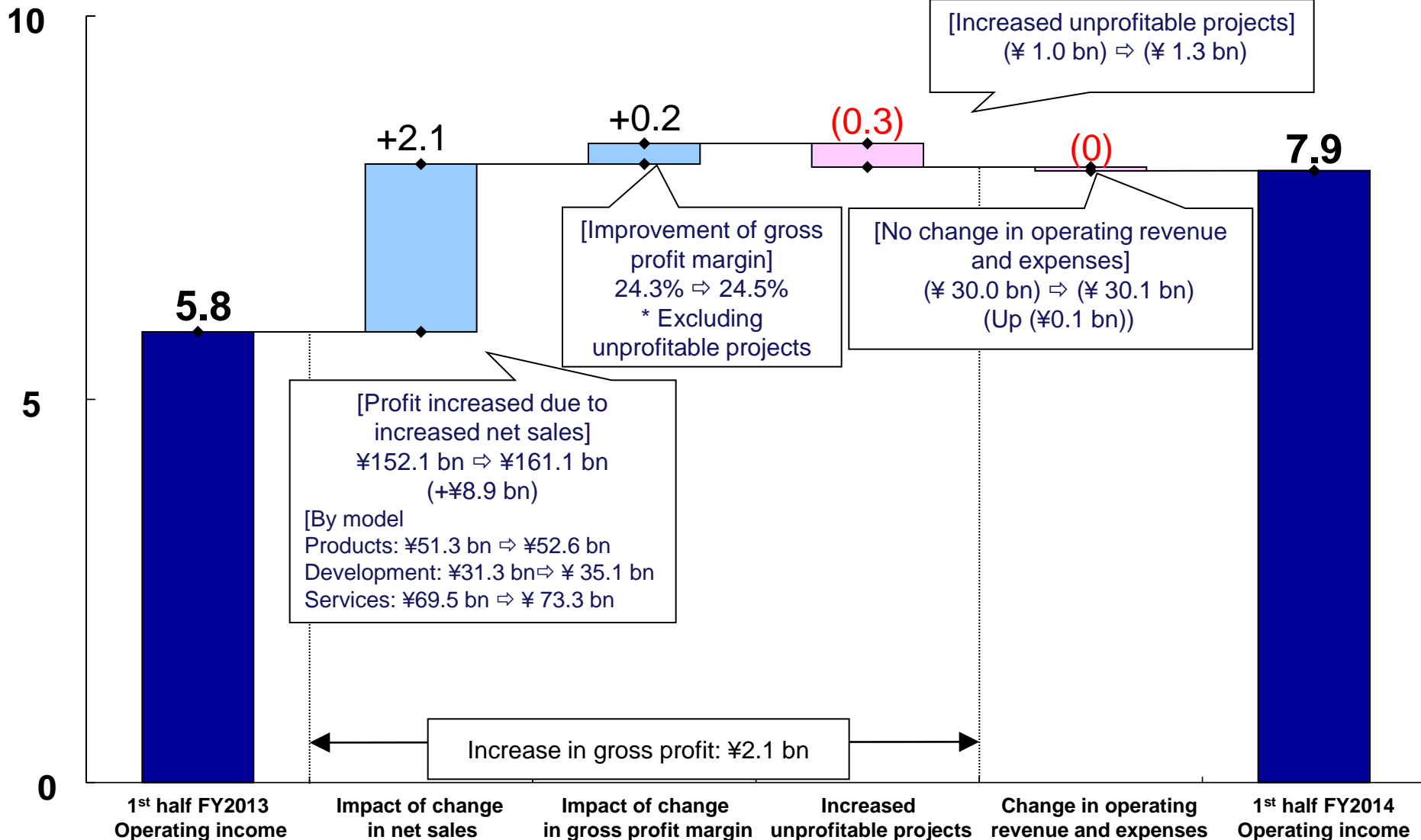
Performance by Business Model (Compared with 1st Half FY2013)

- **Services:** Orders received for service projects in Enterprise declined. Net sales from projects for mobile carriers and postal services grew.
- **SI Development:** Orders received were more or less unchanged from the year-ago level. Net sales grew, driven by infrastructure construction projects for megabanks and postal services.
- **Products:** Orders received for projects for mobile carriers and conveniences stores rose. Net sales from projects for telecommunications companies affiliated with electric power companies and conveniences stores, etc. increased.



Main Reasons for YoY Change in Operating Income

(Billions of yen)

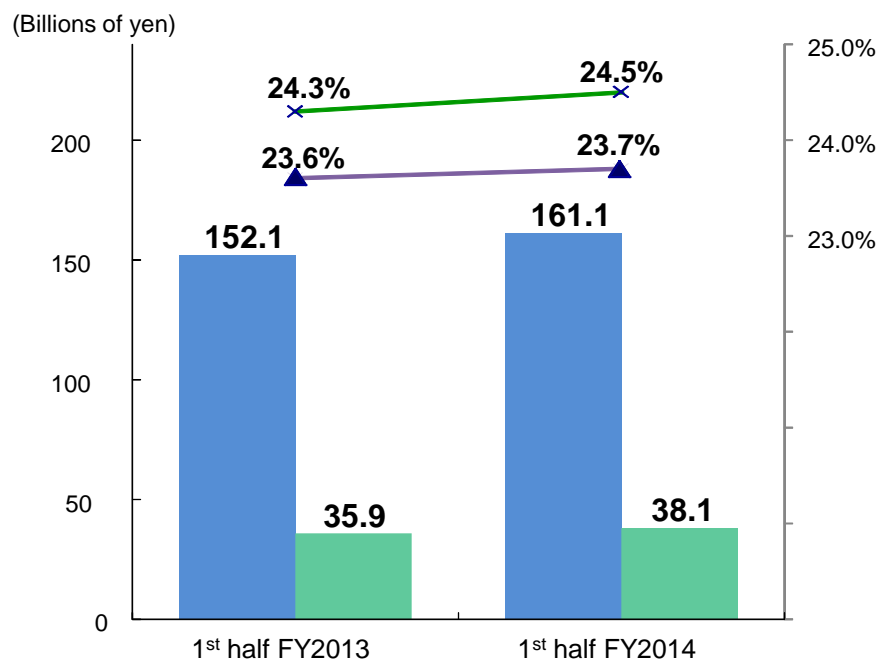


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Gross Profit Margin and Unprofitable Projects

Gross Profit Margin

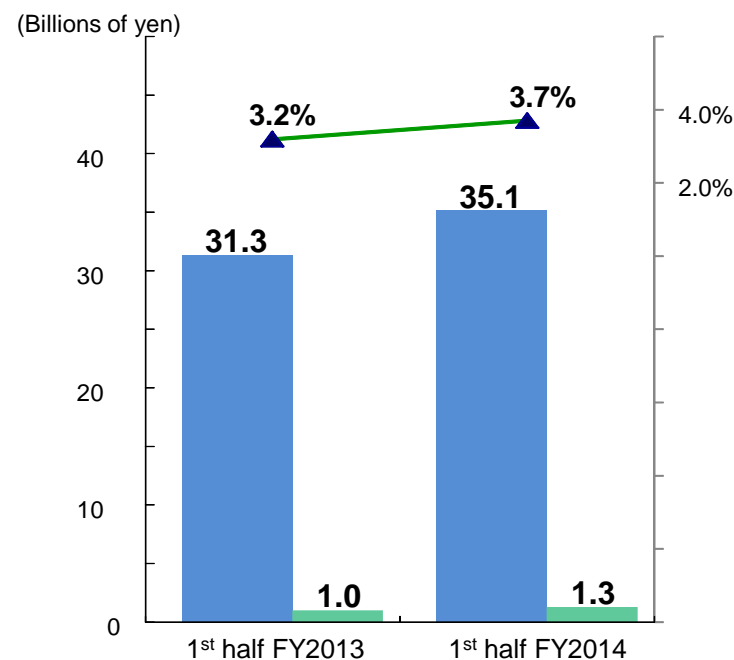
- 1st half FY2014: 23.7%
(up 0.1 point YoY)
- ⇒ 24.5% excluding unprofitable projects
(up 0.2 point YoY)



■ Net sales
■ Gross profit
▲ Gross profit margin
✕ Gross profit margin (excl. unprofitable projects)

Unprofitable Projects

- 1st half FY2014: 12 projects/ ¥1.3 billion
(up ¥300 million YoY)
- ⇒ Of these projects, approximately ¥900 million (2 projects) are expected to be posted from FY2015



■ SI Development net sales
■ Value of unprofitable projects
▲ Incidence of unprofitable projects

<Reference>

Breakdown of operating revenue and expenses

		1st half FY2013	1st half FY2014	YoY Change	Main reasons
		Billions of yen	Billions of yen	Billions of yen	
SG&A expenses	Personnel expenses	(17.1)	(17.7)	(0.6)	Change in number of employees: Increase of 139 (Compared with end of Q2 FY2013)
	Outside staff expenses	(3.1)	(3.1)	(0.0)	
	Other	(9.4)	(9.5)	(0.1)	
	Total	(29.6)	(30.5)	(0.8)	
Other revenue		0.1	0.4	+0.2	Foreign exchange gain + 0.2
Other expenses		(0.5)	(0.0)	+0.5	Improvement due to loss on litigation (0.3) and foreign exchange loss (0.1) incurred in FY2013
Operating revenue and expenses		(30.0)	(30.1)	(0.0)	

<Reference>

Consolidated Balance Sheets and Cash Flows

Consolidated balance sheets

(Billions of yen)

	End 1st half FY2013	End 1st half FY2014	Change
Current assets	183.4	203.1	+19.6
Noncurrent assets	74.9	74.0	(0.8)
Total assets	258.4	277.2	+18.8
Current liabilities	75.5	89.5	+13.9
Noncurrent liabilities	22.0	18.7	(3.2)
Total liabilities	97.5	108.2	+10.6
Total shareholders' equity	160.8	168.9	+8.1
Total liabilities and shareholders' equity	258.4	277.2	+18.8

Breakdown of assets and liabilities [YoY change]

■ Current assets	
Cash and cash equivalents	45.3 [-10.9]
Operating receivables and other receivables	86.0 [+13.7]
Inventories	31.2 [+4.3]
Other financial assets (short-term)	7.4 [+6.8]
Other current assets	32.3 [+5.7]
■ Noncurrent assets	
Tangible fixed assets	35.2 [+1.0]
Intangible assets	9.7 [-0.7]
Other financial assets (long-term)	10.6 [-0.7]
■ Current liabilities	
Operating payables and other payables	29.9 [+0.2]
Advances received, unearned income	37.6 [+10.6]
■ Noncurrent liabilities	
Long-term financial liabilities	11.8 [-1.8]
Employees' benefits (long-term)	4.3 [-1.5]
■ Shareholders' equity	
Retained earnings	112.8 [+0.9]
Treasury stock	-4.2 [+6.1]

Consolidated cash flows

(Billions of yen)

	1st half FY2013	1st half FY2014	Change
Cash and cash equivalents at beginning of period	66.1	55.0	(11.0)
Operating activities	(1.4)	2.4	+3.9
Investing activities	(4.9)	(8.4)	(3.5)
Financial activities	(3.5)	(4.1)	(0.6)
Cash and cash equivalents at end of period	56.2	45.3	(10.9)
Free cash flow	(6.4)	(5.9)	+0.4

■ Free cash flow (FCF)

- FCF improved slightly year on year because of an increase in net cash inflow from operating activities (increase in income before income taxes and minority interests and increase in advances received, etc.), which partially offset an increase in net cash outflow from investing activities.

Major reasons for changes in cash flows

- (1) Cash flow from operating activities
 - Income before income taxes and minority interests increased [+2.0]
 - Change in advances received, unearned income [+7.0]
 - Change in operating payables and other payables [-5.9]
- (2) Cash flow from investing activities
 - Spending for acquisition of tangible fixed assets decreased [+2.5]
 - Change in deposit paid in subsidiaries and affiliates [-6.8]

■ Major reasons for changes in cash flow from financial activities

- Expenditure for repayment of finance lease obligations increased [-0.3]
- Expenditure for repayment of short-term loans increased [-0.4]

Key Points in 1st Half Operating Results

- ◇ Business trend in mobile carriers
- ◇ Strong performance in Finance & Public
(Net sales ¥21.5 bn → ¥29.7 bn)
- ◇ Revision of strategy for Enterprise
(Further cultivate priority customers.
Small and Medium Business is
transferred to the domestic subsidiary.)
- ◇ Unprofitable projects

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2nd half and Full-year Consolidated Operating Results Forecasts



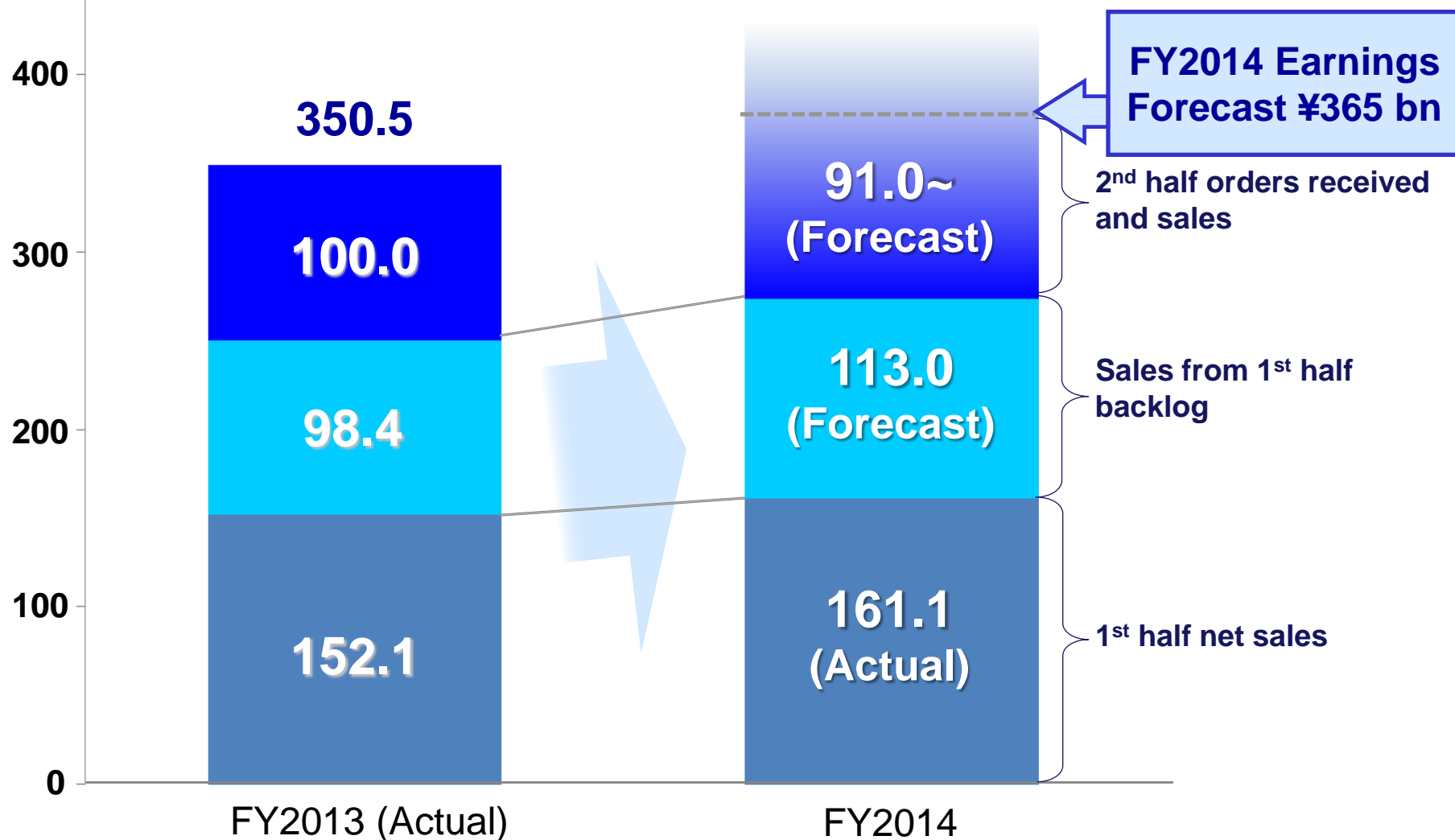
	2nd half FY2013 Actual	2nd half FY2014 Forecast	YoY Change	
	Billions of yen	Billions of yen	Change (Billions of yen)	Change (%)
Net sales	198.3	203.8	+5.4	+2.8%
Operating income	17.9	19.0	+1.0	+6.1%
Net income attributable to owners of the parent company	10.7	11.5	+0.7	+6.7%

	FY2013 Actual	FY2014 Forecast (*)	YoY Change	
	Billions of yen	Billions of yen	Change (Billions of yen)	Change (%)
Net sales	350.5	365.0	+14.4	+4.1%
Operating income	23.8	27.0	+3.1	+13.4%
Net income attributable to owners of the parent company	14.2	16.5	+2.2	+16.0%









* At the present time, there is no change to the full-year consolidated operating results forecast announced on May 1.

Breakdown of net sales

(Billions of yen)

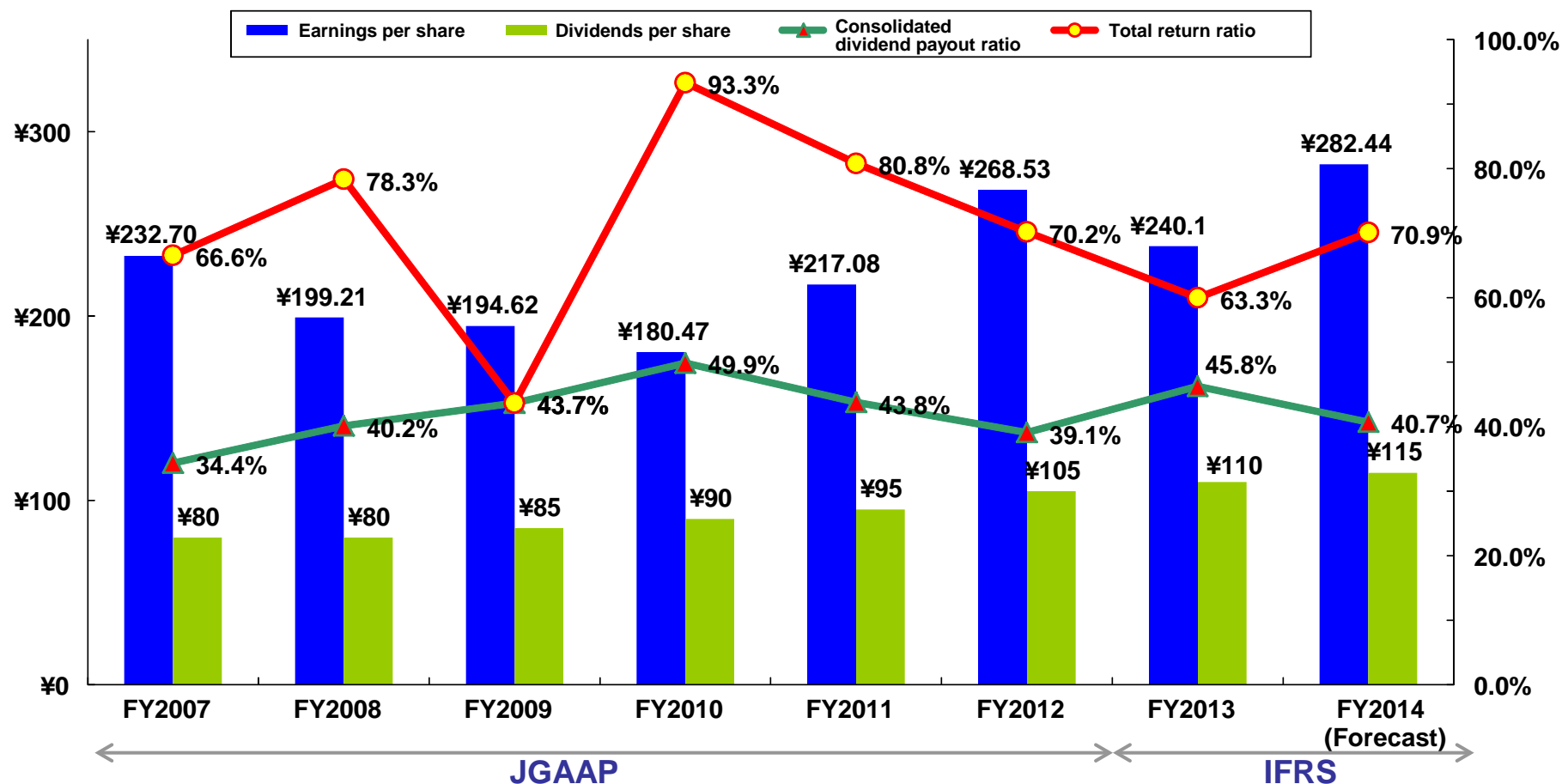


Net Sales Forecast: YoY Comparison + Projects Driving Growth

Main Businesses	1 st Half Actual		2 nd Half Forecast	
	Up ¥8.9 bn YoY		Up ¥5.4 bn YoY	
Telecoms		<ul style="list-style-type: none"> Network projects for mobile carriers 		<ul style="list-style-type: none"> Network projects for mobile carriers
Finance & Public		<ul style="list-style-type: none"> Infrastructure projects for postal services Risk management projects for megabanks Network projects for telecommunications companies affiliated with electric power companies 		<ul style="list-style-type: none"> Infrastructure projects for postal services Network projects for telecommunications companies affiliated with electric power companies
Enterprise		—		<ul style="list-style-type: none"> Network projects for transportation sector Infrastructure projects for manufacturing sector
Distribution		<ul style="list-style-type: none"> Backbone system projects for food wholesalers and convenience store 		<ul style="list-style-type: none"> Backbone system projects for convenience stores Backbone system projects for oil wholesale companies

Shareholder Returns

- Forecast consolidated dividend payout ratio of 40.7%.
- Planning ¥5 bn acquisition of Treasury stock (forecast total return ratio of 70.9%)



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

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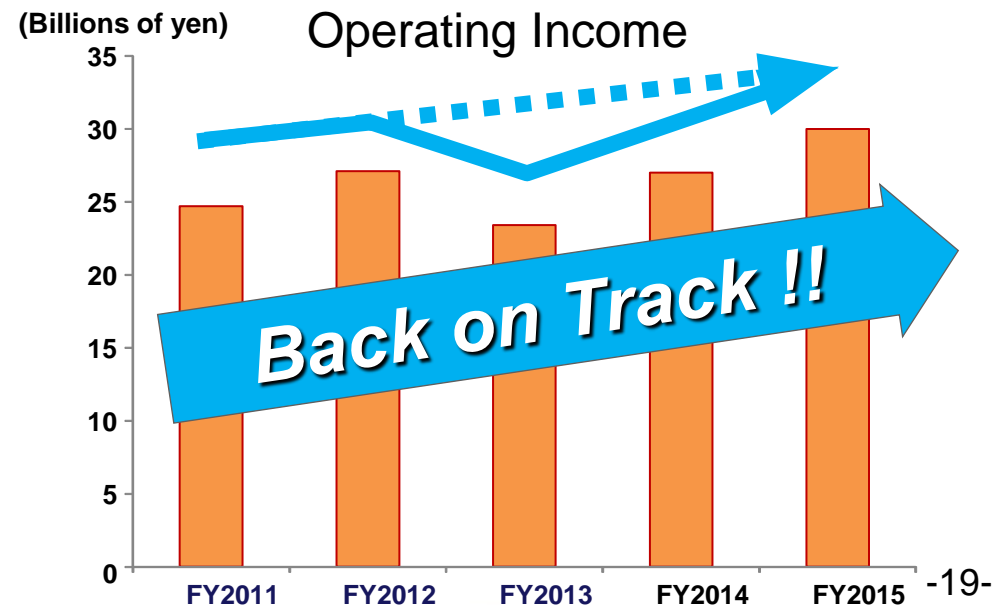
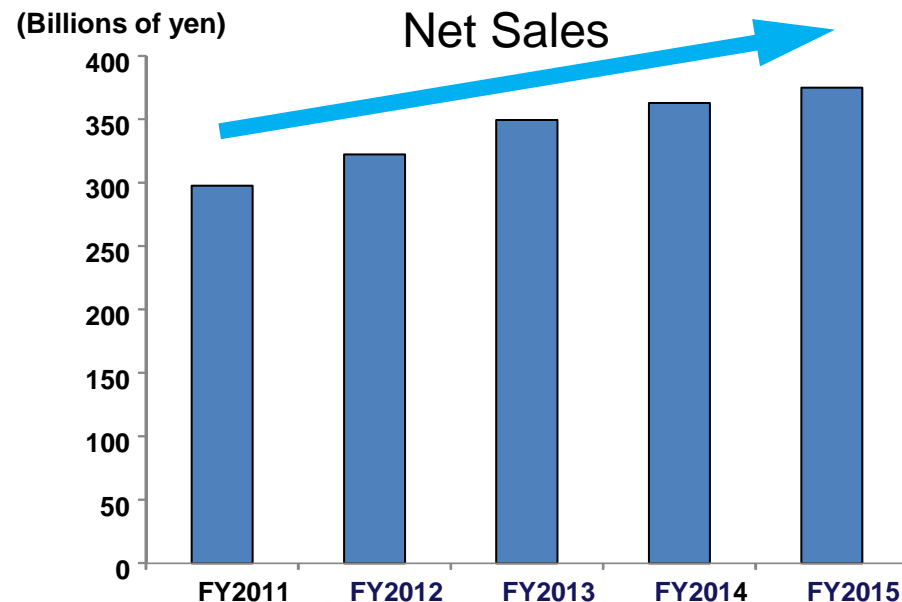
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FY2014 Basic Management Policy and Key Themes

Basic Management Policy

Get back on growth track

Key themes	Strengthen capability to offer comprehensive IT services.
	Strengthen defences.
Ongoing theme	Implement key strategies under the medium-term plan



New Focus Areas of Each Business Group

[Telecoms]

- Response to enhancement of LTE networks
- Next-generation virtualization networks
 - NFV (Network Functions Virtualization)

[Finance & Public]

- Information systems for megabanks
- Local government/regional business

[Enterprise]

- Private cloud services for transportation sector
- Infrastructure for automobile manufacturers
- Contact center business

[Distribution]

- Services-based business (Omnichannel/BPO cloud)
- Backbone systems for oil wholesalers/refiner-distributors

Promotion of collaborative
business between Enterprise and Distribution

[Common Themes]

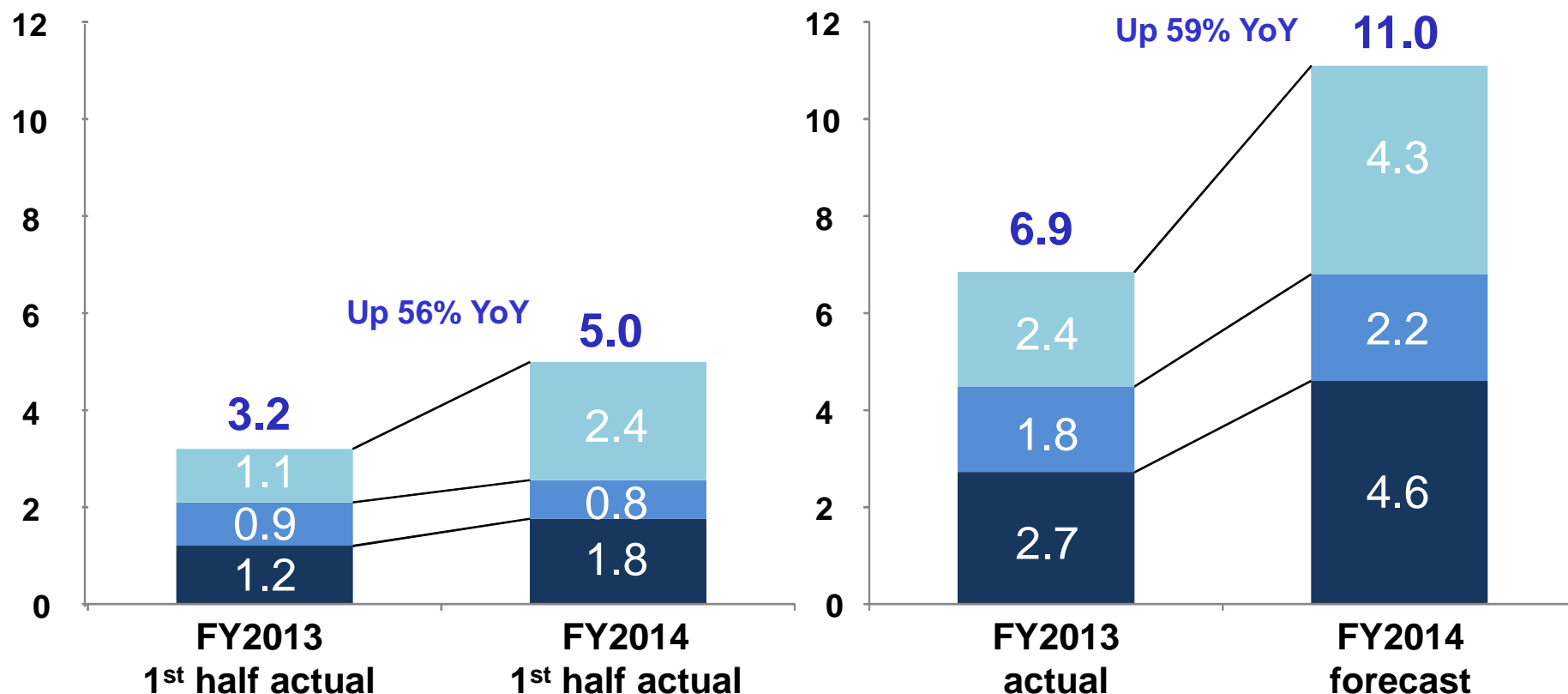
- Enterprise-class Cloud
- Security services
- Science sector (Analysis/Simulation)

CTC's Cloud Services

■ Cloud services expanded steadily (up 56% YoY)

■ IaaS/PaaS ■ SaaS ■ Private cloud

(Billions of yen)



* 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.)