

Announcement of 1st Half Operating Results for the Fiscal Year Ending March 31, 2016

October 29, 2015

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 FY2015 Overview of the 1st Half Results

II FY2015 2nd Half and Full-year Forecasts

III Progress of Medium-term Management Plan

I **FY2015
Overview of the 1st Half Results**

II **FY2015
2nd Half and Full-year Forecasts**

III **Progress of
Medium-term Management Plan**

Higher revenue, lower profit

- ◇ Revenue increased year on year due to gains in telecommunications, enterprise business group and overseas subsidiaries.
- ◇ All profit line items decreased year on year as a result of a fall in gross profit margin and an increase in SG&A.
- ◇ The Q1 lag has been made up in Q2, orders received and backlog are almost same level with previous year.

1st Half FY2015 Performance Highlights

(Compared with 1st Half FY2014)



Major Factors

	1 st half FY2014 Actual		1 st half FY2015 Actual		YoY Change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change(%)
Revenue	161.1	—	165.2	—	+4.1	+2.5%
Gross Profit	38.1	23.7%	37.3	22.6%	(0.7)	(2.0%)
Other income and expenses	(30.1)	—	(31.5)	—	(1.3)	+4.6%
Operating income	7.9	5.0%	5.8	3.5%	(2.1)	(26.7%)
Profit attributable to Owners of the Parent Company	4.9	3.1%	3.7	2.3%	(1.1)	(24.0%)
Orders received	162.7	—	161.0	—	(1.7)	(1.1%)
Backlog	197.1	—	197.4	—	+0.3	+0.2%

[Revenue]

Increase in business for mobile carrier, finance, manufacture and overseas subsidiaries.

[Gross profit]

Although unprofitable project was improved, gross profit decreased due to gross profit margin in Service and Products declined.

[Other income and expenses]

SG&A expenses such as personnel expenses and R&D expenses increased.

[Operating income]

Decreased due to decline in gross profit and increase in SG&A expenses.

[Orders received]

Decreased due to projects for mobile carrier.

[Backlog]

Almost same level with previous year.

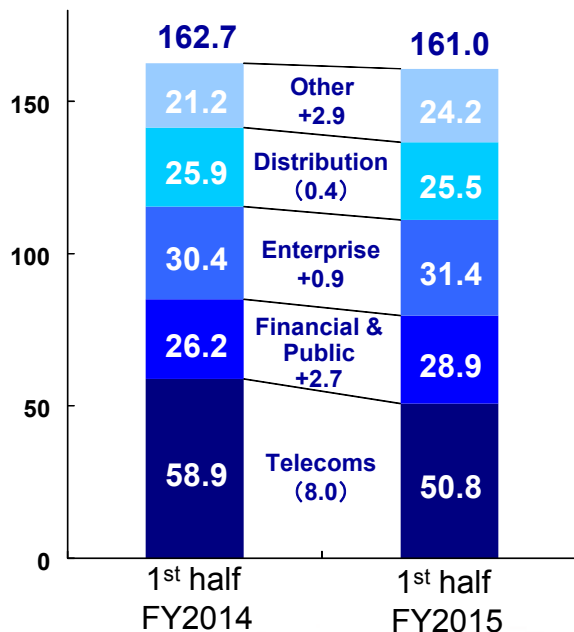
Performance by Business Group (Compared with 1st Half FY2014)



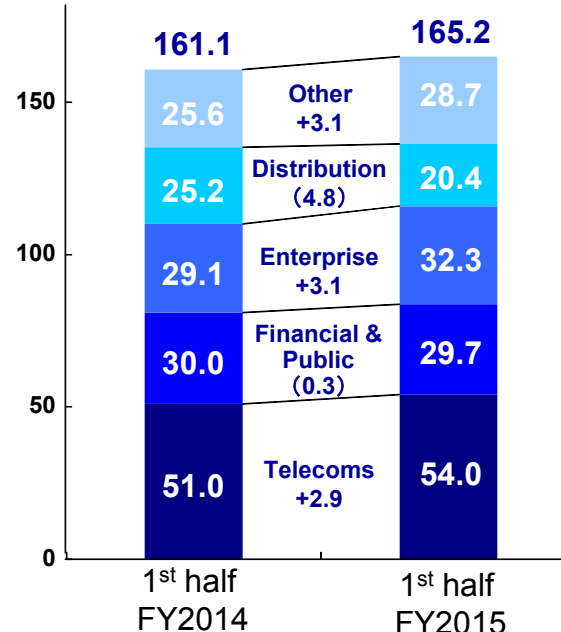
- Telecoms: Orders received decreased due to projects for mobile carrier. Revenue increased due to contribution from backlog.
- Financial & Public: Orders received increased due to projects for megabank and credit card company.
Revenue is same level with previous year.
- Enterprise: Orders received and revenues increased due to projects for manufacture and resale business.
- Distribution: Orders received is same level with previous year. Revenue decreased mainly due to projects for convenience stores.
- Other: Orders received increased due to products business for finance and infrastructure construction projects for service provider in overseas subsidiaries. Revenue increased due to products business for finance.

Orders Received

(Billions of yen)

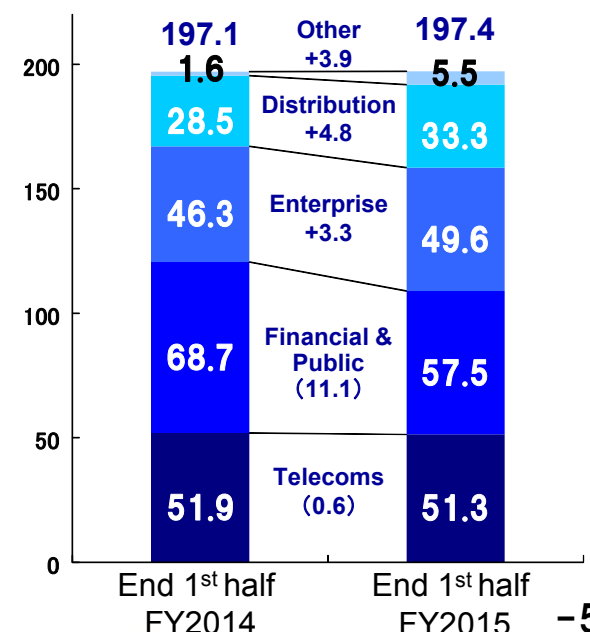


Revenue



Backlog

(Billions of yen)

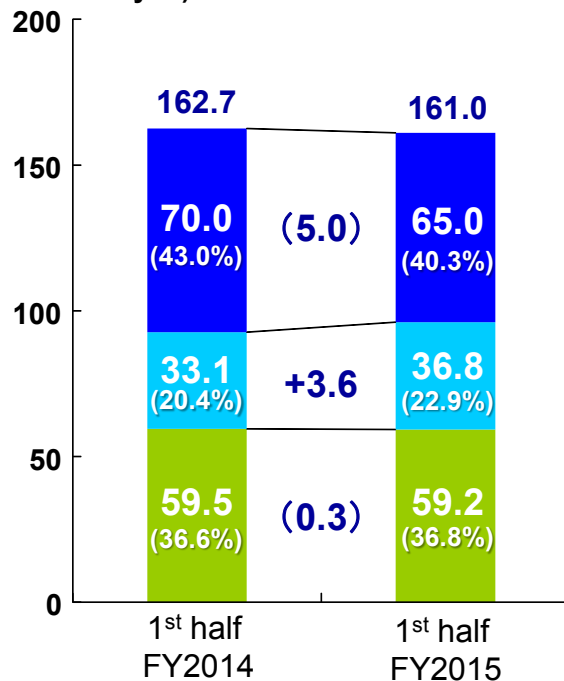


Performance by Business Model (Compared with 1st Half FY2014)

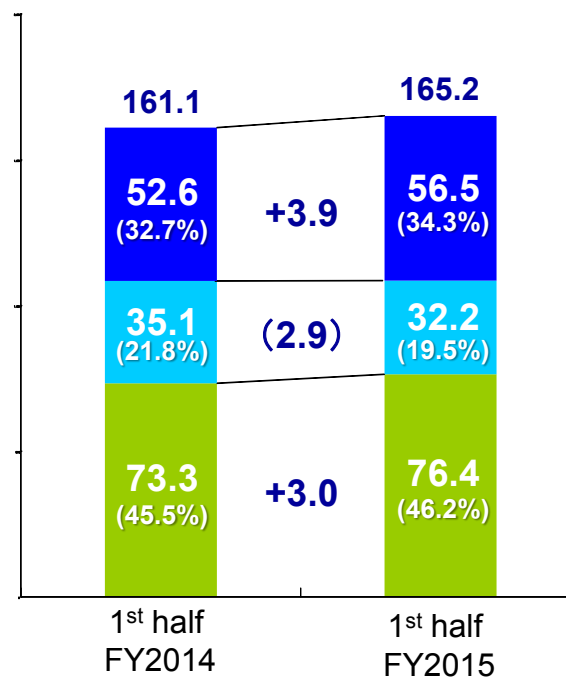
- **Services** : Orders received is same level with previous year. Revenue increased mainly due to products maintenance and system operation for postal service.
- **SI Development**: Orders received increased due to project for convenience stores. Revenue decreased due to projects for food wholesalers and convenience stores.
- **Products**: Orders received decreased due to networks for mobile carrier and electric power-affiliated telecommunication companies. Revenue increased due to network for mobile carrier and server for finance in ASEAN region.

Orders Received

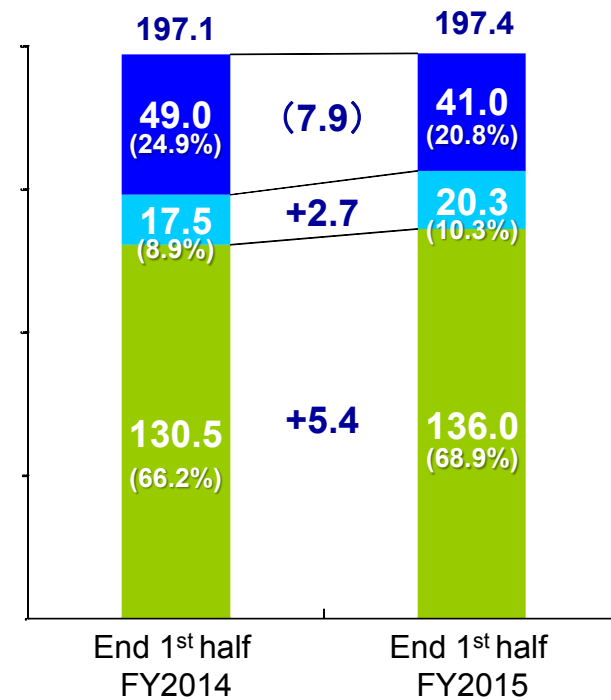
(Billions of yen)



Revenue



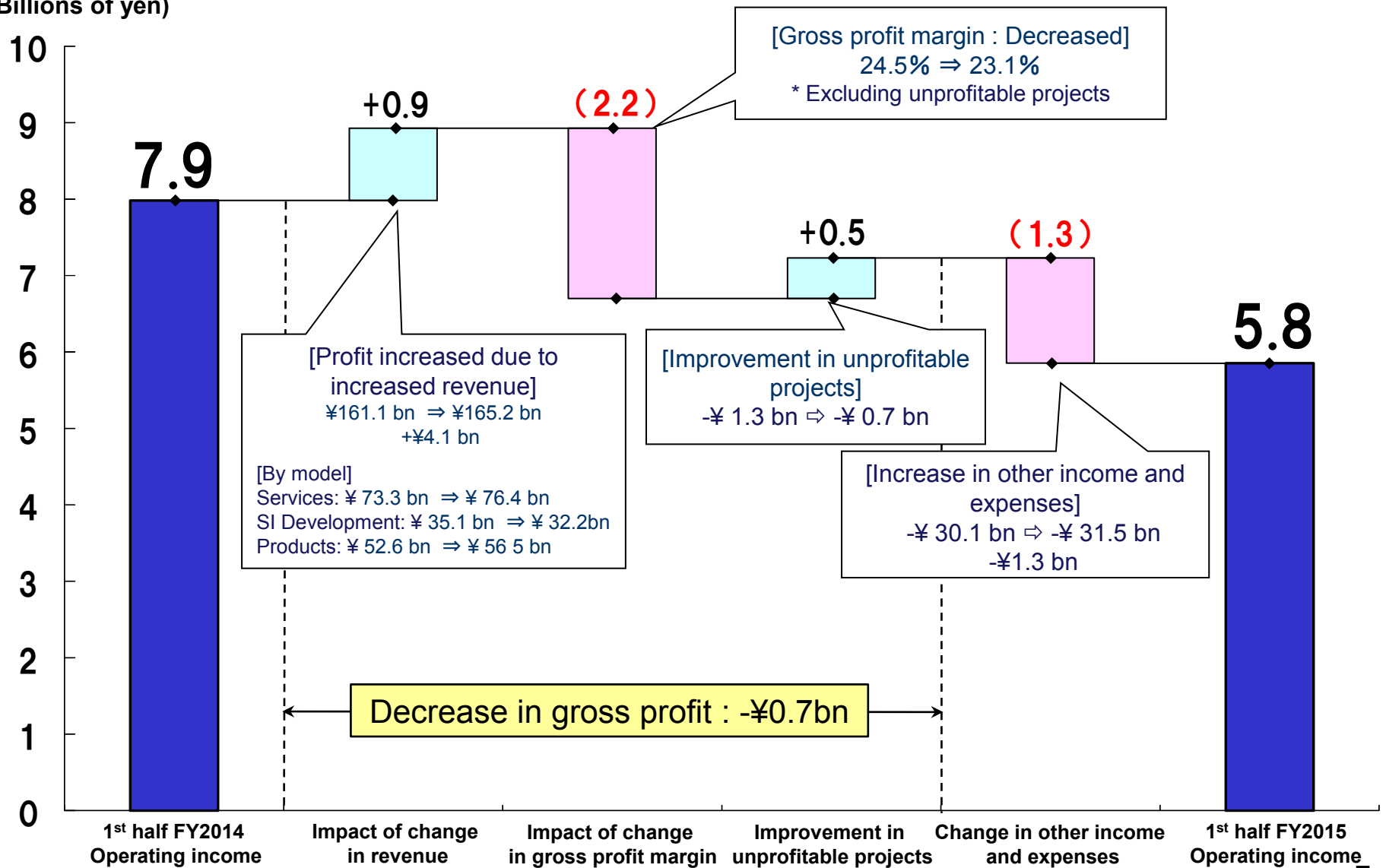
Backlog



Services SI Development Products

Main Reasons for YoY Change in Operating Income

(Billions of yen)



For Reference:

Main reasons of the decline in gross profit margin.



I Impact of change in sales ratio

The sales ratio of Products increased, of which the profit margin is relatively low : -¥0.3bn

II Impact of change in gross profit margin by model

1. The gross margin in Service decreased : -¥1.6bn

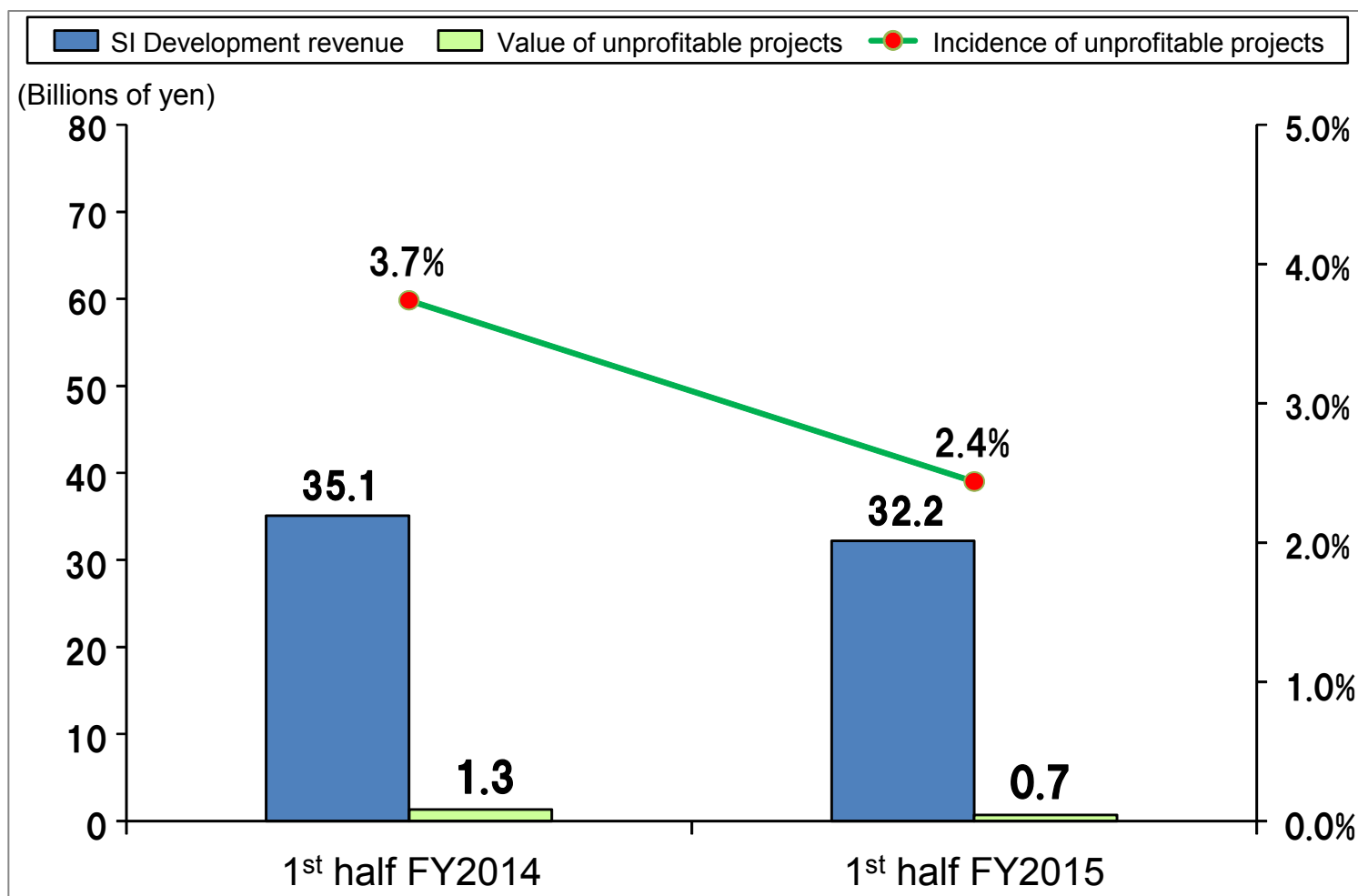
- Profitability of Domestic/Overseas subsidiaries decreased : -¥1.0bn
- Profitability of some projects for telecoms decreased : -¥0.4bn
- Increase in operating cost in public sector : -¥0.2bn

2. The gross profit margin in SI Development and Products decreased : -¥0.3bn

- Product cost hikes triggered by weak ringgit in Malaysia : -¥0.1bn

For Reference: Revenue and Unprofitable projects in SI Development

The ratio of unprofitable projects to revenue fell in
SI Development



For Reference: Breakdown of other income and expenses.

		1 st half FY2014	1 st half FY2015	YoY	Major factors
		Actual	Actual	Change	
		Billions of yen	Billions of yen	Change (Billions of yen)	
	Personnel expenses	(17.7)	(18.1)	(0.3)	Increase in number of employees and salary and bonuses
	Outside staff expenses	(3.1)	(2.9)	+0.1	
	Depreciation and amortization	(1.4)	(1.5)	(0.0)	
	Others	(8.1)	(9.0)	(0.9)	R&D expenses -0.4 Office relocation expenses -0.2 Taxes and dues -0.1
	SG & A expenses	(30.5)	(31.6)	(1.1)	
	Other income	0.4	0.1	(0.2)	FY2014: Foreign exchange gains +0.2
	Other expenses	(0.0)	(0.0)	(0.0)	
Other income and expenses		(30.1)	(31.5)	(1.3)	

For Reference:

Consolidated Statement of Financial Position and Cash Flows



■ Consolidated Statement of Financial Position (Billions of yen)

	End 1 st half FY2014	End 1 st half FY2015	Change
Current assets	203.1	203.2	+0.0
Non-current assets	74.0	73.0	(1.0)
Total assets	277.2	276.3	(0.9)
Current liabilities	89.5	87.4	(2.0)
Non-current liabilities	18.7	17.2	(1.4)
Total liabilities	108.2	104.7	(3.5)
Total equity	168.9	171.5	+2.5
Total liabilities and equity	277.2	276.3	(0.9)

■ Consolidated Statement of Cash Flows (Billions of yen)

	1 st half FY2014	1 st half FY2015	Change
Cash and cash equivalents at the beginning of the period	55.0	50.1	(4.9)
Operating activities	2.4	(4.6)	(7.1)
Investing activities	(8.4)	(3.8)	+4.6
Financing activities	(4.1)	(4.4)	(0.2)
Cash and cash equivalents at the end of the period	45.3	36.9	(8.3)
Free cash flow	(5.9)	(8.5)	(2.5)

Breakdown of assets and liabilities [YoY change]

■ Current assets		
Cash and cash equivalents	36.9	[-8.3]
Trade and other receivables	84.0	[-2.0]
Inventories	27.8	[-3.4]
Other current financial assets (short-term)	14.4	[+6.9]
Other current assets	39.1	[+6.8]
■ Non-current assets		
Property, plant and equipment	34.9	[-0.3]
Goodwill	4.1	[-0.5]
Other non-current financial assets (long-term)	11.0	[+0.4]
Deferred tax assets	10.9	[-0.4]
■ Current liabilities		
Trade and other payables	31.5	[+1.5]
Provisions (short-term)	0.8	[-0.8]
Unearned income	32.2	[+4.2]
Advances received	3.5	[-6.0]
■ Non-current liabilities		
Non-current financial liabilities	10.9	[-0.9]
■ Shareholders' equity		
Retained earnings	121.6	[+8.8]
Treasury stock	-9.2	[-5.0]

■ Free cash flow (FCF)

Free cash flow decreased year on year due to a decrease in cash outflow from operating activities (decrease in Income before income taxes and minority interests and other-net) which partially offset a decrease in expenditures in cash flow from investing activities.

Major reasons for changes in cash flows

(1)Cash flow from operating activities	
Income before income taxes and minority interests decreased:	
	[- 1.9]
Trade and other receivables:	[+ 9.7]
Trade and other payables:	[- 3.2]
Other-net:	[-10.3]
(2)Cash flow from investing activities	
Purchase of intangible assets increased:	[- 1.4]
Deposits paid:	[+ 7.3]
■ Cash flow from financial activities	
Dividends paid to owners of the Company:	[- 0.4]

I FY2015
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III Progress of
Medium-term Management Plan

I

Gross profit

- CTC => Almost same level with previous year
- Subsidiaries => Lowering of the profitability

II

Strategic moves for medium-and-long term growth.

- Carry out various measures
- At present, an expense leads than profit.

Full-year Consolidated Operating Results Forecast



There is no change to the full-year consolidated operating results forecast announced on May 1.

	FY2014 Actual		FY2015 Forecast		YoY Change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change(%)
Revenue	381.9	—	390.0	—	+8.1	+2.1%
Gross Profit	91.2	23.9%	93.6	24.0%	+2.4	+2.6%
Other income and expenses	(61.9)	—	(64.1)	—	(2.2)	+3.6%
Operating income	29.3	7.7%	29.5	7.6%	+0.2	+0.5%
Profit attributable to Owners of the Parent Company	17.4	4.6%	18.0	4.6%	+0.6	+3.4%
Orders received	388.0	—	400.0	—	+12.0	+3.1%
Backlog	201.6	—	211.6	—	+10.0	+5.0%

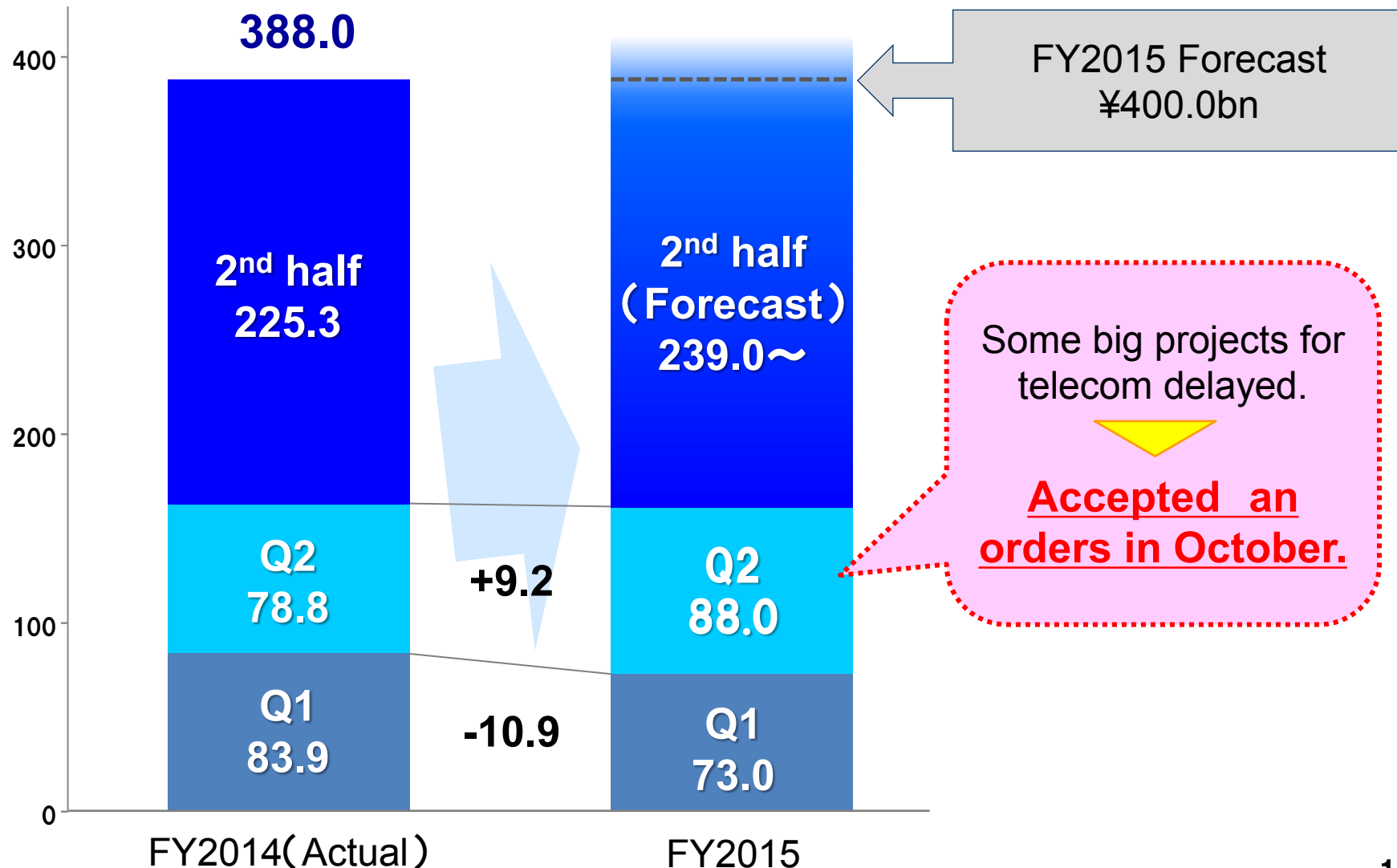
2nd half Consolidated Operating Results Forecast

	2 nd half FY2014 Actual		2 nd half FY2015 Forecast (*)		YoY Change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Change (Billions of yen)	Change(%)
Revenue	220.8	—	224.7	—	+3.9	+1.8%
Gross Profit	53.1	24.1%	56.2	25.0%	+3.0	+5.8%
Other income and expenses	(31.8)	—	(32.5)	—	(0.7)	+2.5%
Operating income	21.3	9.7%	23.6	10.5%	+2.2	+10.7%
Profit attributable to Owners of the Parent Company	12.4	5.6%	14.2	6.3%	+1.7	+14.4%
Orders received	225.3	—	238.9	—	+13.6	+6.1%
Backlog	201.6	—	211.6	—	+10.0	+5.0%

* 2nd Half FY2015 Forecast = Full Year Forecast – 1st Half Actual

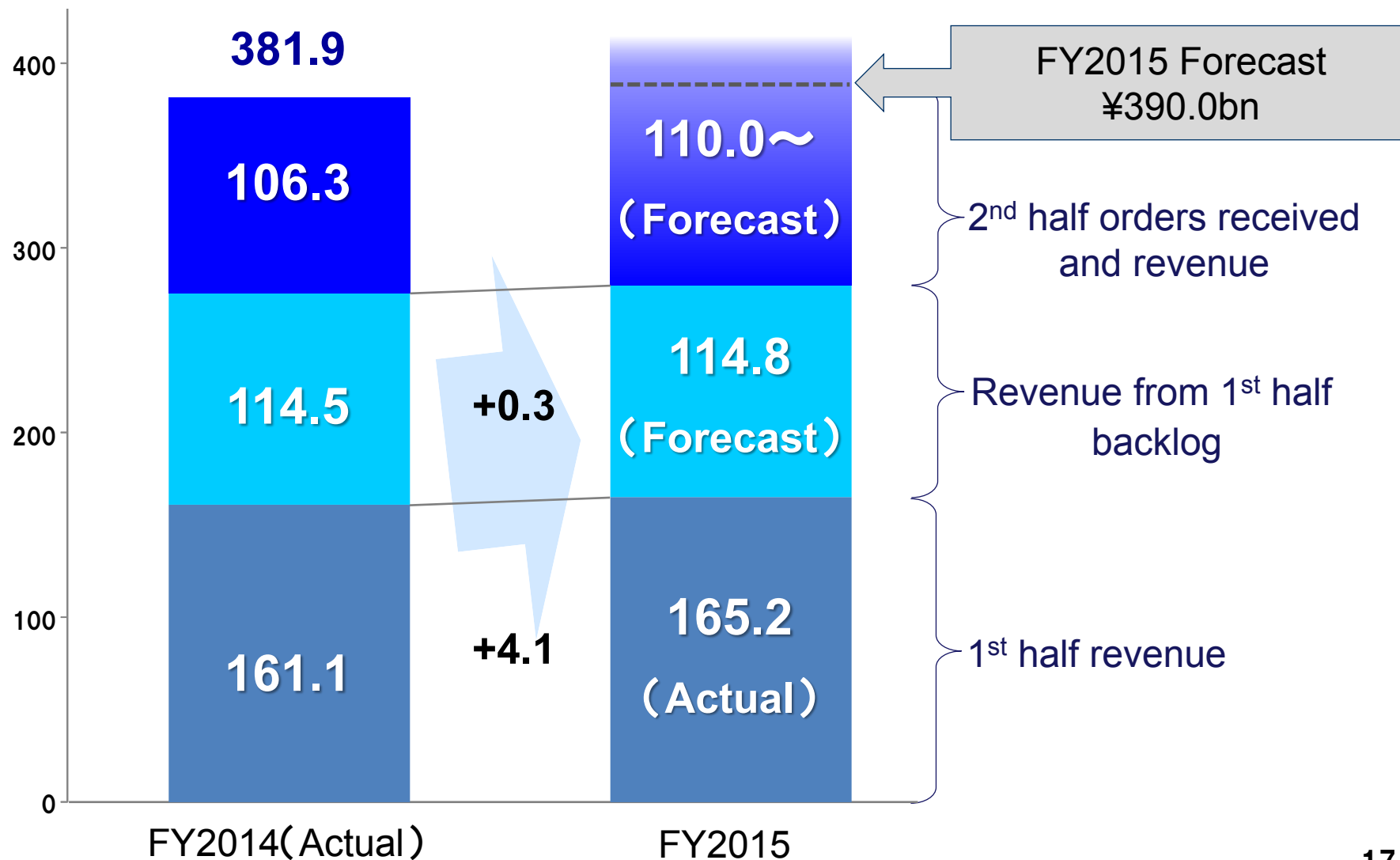
For Reference: Breakdown of Orders received

(Billions of yen)



For Reference: Breakdown of Revenue

(Billions of yen)



Key Point for Each Business Group in 2nd half

Telecoms	<ul style="list-style-type: none">• Construction of data center infrastructure base on the OCP for service provider.• Reinforcement of approaches for 5G(SDN/NFV)• Expand the cloud service business for enterprise.
Financial & Public	<ul style="list-style-type: none">• Response to measures for international regulation and global expansion for megabanks.• Acquisition of security projects for public/utility sector.• Acquisition of BPO/CRM projects.
Enterprise	<ul style="list-style-type: none">• Acquisition of projects for transportation sector.• Large scale projects for automobile manufactures.

Key Point for Each Business Group in 2nd half

Distribution

- Acquisition of large scale projects for trading company and convenience stores.
- Expansion of POS system based cloud-type.

IT Service

- Reinforcement of approaches for CUVICmc2, OpenStack.
- Reinforcement of approaches for new developments in operation and maintenance.

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Medium-Term Management Plan: Vision and Themes



Vision

Take responsibility for the evolution of the IT industry,
as the industry's leading company

Commitments

“Two 500 billions”

FY2017 Targets

Growth	Revenue	¥500 billion
Profitability	Operating income	¥40 billion (Operating margin 8%)
Capital Efficiency	ROE	Exceeding 10%

Reference Target

Corporate Value	Market cap	Exceeding ¥500 billion (achieve as soon as possible)
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Basic Management Theme

“Three shifts”

1

Shift to “a service-type business”.
(Bring the share of the service-type business to more than 50%.)

2

Shift to management that generates “internal synergies”.
(Exert comprehensive capabilities beyond the segment framework.)

3

Shift to growth “investments”.
(Vigorously promote investments in human resources, technologies and businesses.)

Strengthen management base to support three shifts

Medium-Term Management Plan: Understanding situation of each theme



Shift
1

Shift to a service-type business

Bring the share of the service-type
business to more than 50%.

- 1) Implementation of cloud service that specialized in backbone system.
 - Service will start at April, 2016 -
- 2) Start a business tie-up and co-operation with BELLSYSTEM24.
- 3) Expansion of SaaS for enterprise.

For reference :
New Cloud Service “CUVICmc2”

CUVICmc2

IaaS that specialized in backbone system, with increased reliability and security.



New cloud service “CUVICmc2” 3 important features.

Performance Assurance	Clearly delineates SLA for ensuring run backbone system. In addition to service availability, <u>performance is also guaranteed.</u>
High security & compliance	Follows <u>the security industry's No.1 IaaS system.</u> Complies with a range of industry and administrative standards.
Charge that according to actual usage	Patented technology bills for <u>incurred amount based on actual computing resources used.</u>

For reference : Expansion of SaaS for enterprise

Services/Contents of each service



Service to make an effective delivery plan in the distribution system automatically.



File-sharing service for enterprise.



BPO service that manage the health information of employees for human resource department.



The store profit prediction service that utilized Big Data.

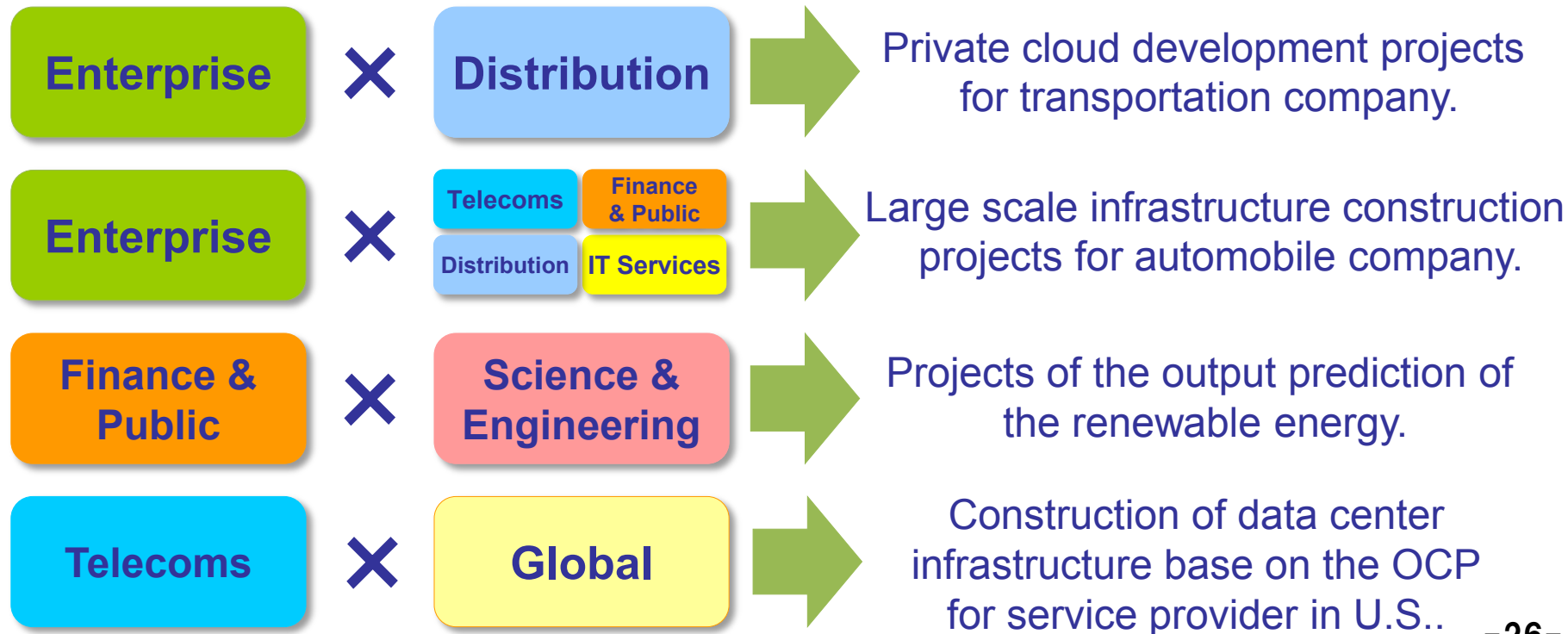
Medium-Term Management Plan: Understanding situation of each theme

Shift
2

**Shift to management that
generates internal synergies**

Exert comprehensive capabilities
beyond the segment framework.

The "strengths" of each business group were utilized and the collaborative project is being expanded.



Medium-Term Management Plan: Understanding situation of each theme

Shift
3

Shift to growth investments

Vigorously promote investments in human resources, technologies and businesses.

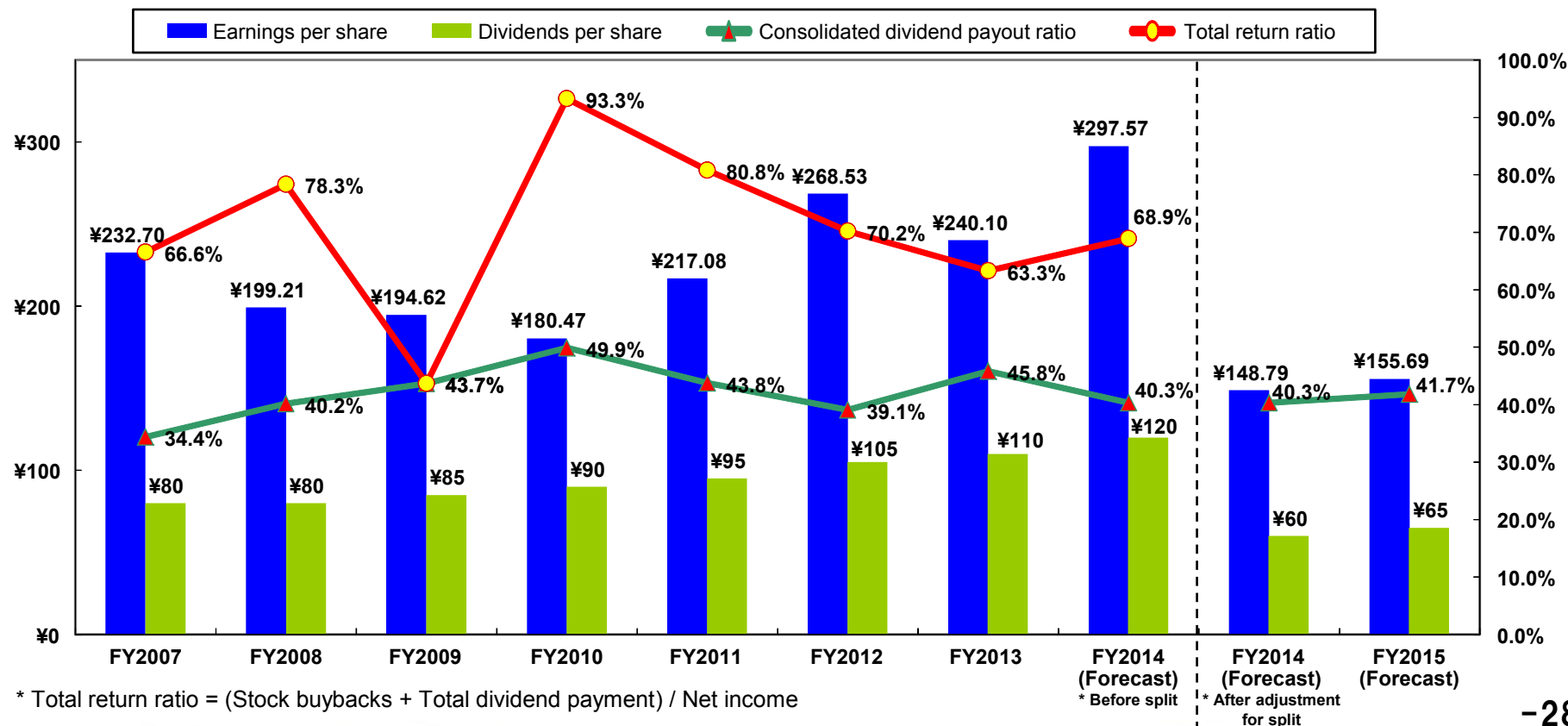
- 1) Development of cloud service “CUVICmc2” that specialized in backbone system.
- 2) Capital tie-up with Solinea in U.S. for strengthen Open Stack business.
- 3) Start of the proof experiment for the export of agricultural products support service based on AI.

Shareholder Returns

Pay stable dividends mindful of linkage with performance (targeting a dividend payout ratio of 40%)

- FY2014: Planned a total annual dividend of ¥120 => a dividend payout ratio of 40.3%
- FY2015: Planning a total annual dividend of ¥65(*) => a dividend payout ratio of 41.7%

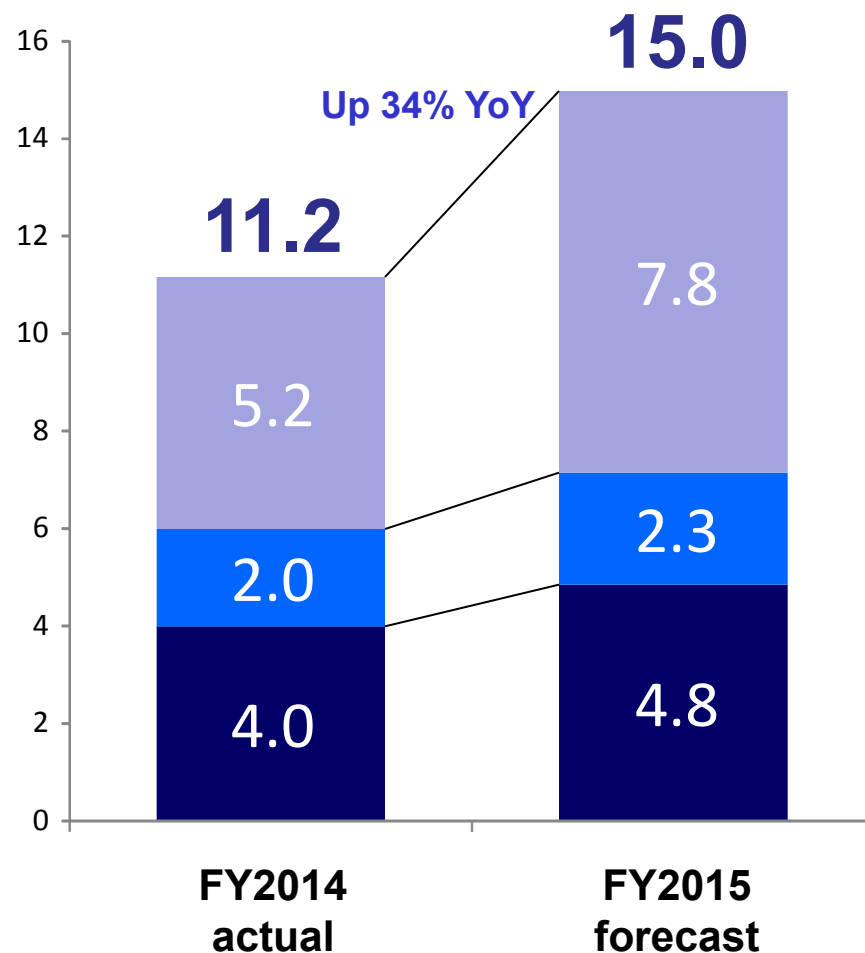
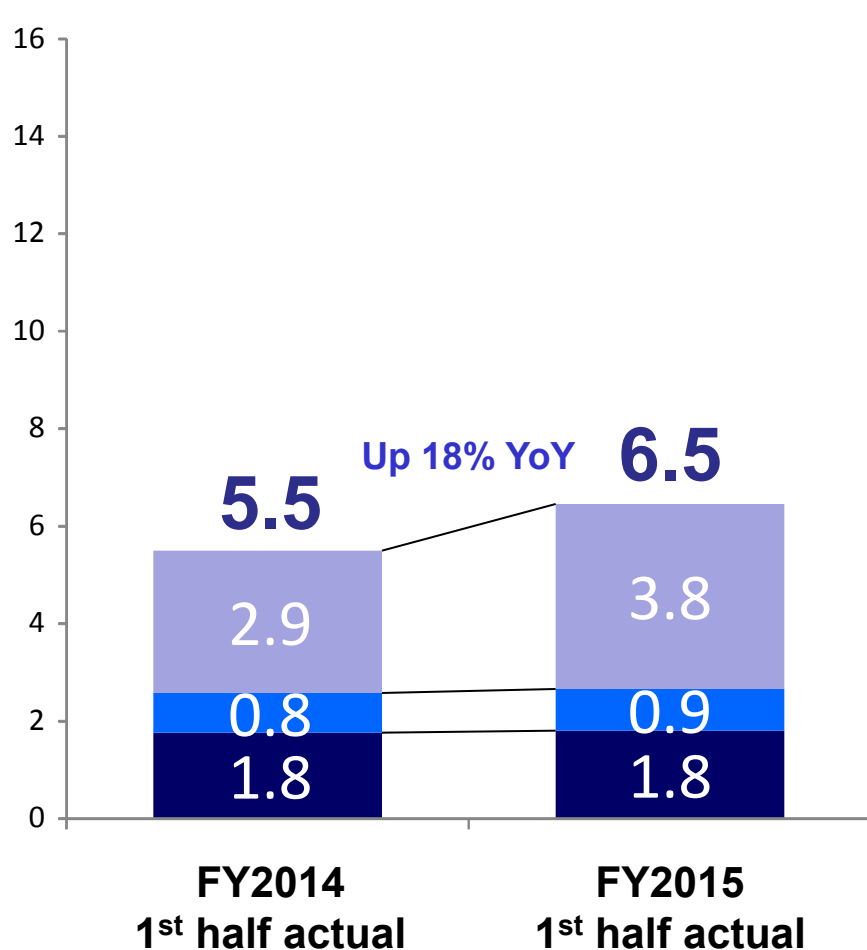
* The Company implemented a stock split, splitting common stock at a ratio of 2 for 1, effective April 1, 2015, to create an environment in which it is easier for investors to invest and to enhance the liquidity of its stock.



For Reference: CTC's Cloud Services

(Billions of yen)

■ IaaS/PaaS ■ SaaS ■ Private cloud



* 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.)

“CTC is the Answer.”

CTC

▼ *Challenging Tomorrow's Changes*