

# Announcement of Operating Results for the Fiscal Year Ended March 31, 2017

May 1, 2017

**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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FY2016

### Overview of Operating Results



FY2015 – FY2017

### Progress of Medium-Term Management Plan



FY2017

### Management Plan/Operating Results Forecast

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FY2016

## Overview of Operating Results

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FY2015 – FY2017

## Progress of Medium-Term Management Plan

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FY2017

## Management Plan/Operating Results Forecast

## Higher revenue, Higher profit

- Order received, revenue, all profit line items and backlog reached record high after merger in 2006.  
Profit attributable to owners of the Company records high for 3 consecutive years.
- Revenue, all profit line items and order received exceeded the initial earning forecast.
- Return on equity(ROE) records high for 3 consecutive years.  
ROE is more than 10% for 3 consecutive years.

## Performance Highlights for FY2016 (Compared with FY2015)



(Billions of yen)

	FY2015 Actual	FY2016 Actual	YoY change	YoY change (%)
Revenue	391.6	407.8	+16.2	+4.1%
Gross profit	91.5	96.7	+5.1	+5.7%
Gross profit margin	23.4%	23.7%	+0.3pt	-
Other income and expenses	(63.5)	(65.5)	(2.0)	+3.2%
Operating income	27.9	31.1	+3.1	+11.4%
Operating income margin	7.1%	7.6%	+0.5pt	-
Profit attributable to owners of the company	18.0	21.8	+3.8	+21.3%
Order received	398.3	437.5	+39.2	+9.8%
Backlog	208.3	238.0	+29.7	+14.3%
ROE	10.4%	11.8%	+1.4%	-

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### FY2016 Performance highlights (vs. FY2015)

#### [Revenue]

Increase in business for distribution, manufacturing and telecoms.

#### [Gross profit]

Increased due to higher revenue and improvement in gross profit margin.

\* Gross profit margin excluding "Unprofitable projects" and "Influence of the reclassification of SG&A to COGS in overseas subsidiaries" improved 0.9pts YoY.

#### [Other income and expenses]

Increase in personnel cost, business commission fee and tax and public dues.

#### [Operating income]

Increased due to gain in gross profit

#### [Order received]

Increase in business for telecoms, distribution, public and social.

#### [Backlog]

Same as the above.

## Performance Highlights for FY2016 (vs. forecast)



(Billions of yen)

	FY2016 Forecast (May 2)	FY2016 Actual	vs. Forecast	vs. Forecast (%)
Revenue	400.0	407.8	+7.8	+2.0%
Gross profit	96.0	96.7	+0.7	+0.7%
Gross profit margin	24.0%	23.7%	(0.3pt)	-
Other income and expenses	(66.0)	(65.5)	+0.4	(0.6%)
Operating income	30.0	31.1	+1.1	+3.8%
Operating income margin	7.5%	7.6%	+0.1pt	-
Profit attributable to owners of the company	19.5	21.8	+2.3	+12.1%
Order received	410.0	437.5	+27.5	+6.7%
Backlog	238.0	238.0	+19.7	+9.0%

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### FY2016 Performance highlights (vs. forecast)

#### [Revenue]

Increase in business for telecoms.

#### [Gross profit]

Increased due to higher revenue.

\* Gross profit margin excluding “Unprofitable projects” and “Influence of the reclassification of SG&A to COGS in overseas subsidiaries” is almost same as forecast.

#### [Other income and expenses]

Almost in line with forecast.

#### [Operating income]

Increased due to gain in gross profit.

#### [Order received]

Increase in business for distribution, telecoms, and social.

#### [Backlog]

Same as the above.

## Performance by Business Group (Compared with FY2015)



(Billions of yen)

	Order received			Revenue			Backlog		
	FY2015 Actual	FY2016 Actual	YoY Change	FY2015 Actual	FY2016 Actual	YoY Change	End of FY2015	End of FY2016	YoY Change
Distribution & Enterprise	110.9	124.6	+13.7	99.4	113.1	+13.6	73.5	84.9	+11.4
Telecommunication	141.3	158.2	+16.9	144.5	147.4	+2.8	51.6	62.4	+10.8
Public & Regional	36.7	39.0	+2.3	37.6	38.1	+0.5	29.5	30.5	+1.0
Finance & Social	48.9	51.8	+2.8	51.2	50.3	(0.8)	41.9	43.4	+1.4
Others	60.3	63.7	+3.3	58.6	58.7	+0.0	11.6	16.6	+5.0
Total	398.3	437.5	+39.2	391.6	407.8	+16.2	208.3	238.0	+29.7

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### Performance by Business group

#### [Distribution & Enterprise]

Order received and revenue increased in large infrastructure construction projects for distribution, development projects for distribution, and development projects for transportation.

#### [Telecommunication]

Order received increased mainly due to network construction projects for telecom.

Revenue increased due to network construction projects for telecom, infrastructure construction projects for telecom and ISP.

#### [Public & regional]

Order received increased due to network construction projects for public and co-operation business with the local partner.

Revenue were roughly unchanged YoY.

#### [Finance & social]

Order received increased due to infrastructure construction projects for social.

Revenue were roughly unchanged YoY.

#### [Others]

Order received increased due to service business for distribution and pharmaceutical in Japan.

Revenue were roughly unchanged YoY.



## Performance by Business Model (Compared with FY2015)



(Billions of yen)

	Order received			Revenue			Backlog		
	FY2015 Actual	FY2016 Actual	YoY Change	FY2015 Actual	FY2016 Actual	YoY Change	End of FY2015	End of FY2016	YoY Change
Services	161.4 (40.5%)	176.4 (40.3%)	+14.9 -	158.3 (40.4%)	164.9 (40.4%)	+6.5 -	156.3 (75.0%)	167.7 (70.5%)	+11.4 -
SI Development	82.6 (20.7%)	93.3 (21.3%)	+10.6 -	77.6 (19.8%)	87.1 (21.4%)	+9.5 -	20.7 (10.0%)	26.9 (11.3%)	+6.1 -
Products	154.2 (38.8%)	167.8 (38.4%)	+13.5 -	155.6 (39.8%)	155.7 (38.2%)	+0.1 -	31.2 (15.0%)	43.3 (18.2%)	+12.0 -
Total	398.3	437.5	+39.2	391.6	407.8	+16.2	208.3	238.0	+29.7

\*Within the parenthesis is composition ratio.

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### Performance by business model

#### **[Services]**

Order received increased due to products maintenance for telecoms and maintenance & operations for social.

Revenue increased due to products implementation and construction for distribution, operation for automobile and products maintenance for telecoms.

#### **[SI Developments]**

Order received increased mainly due to application developments for distribution, transport and telecoms.

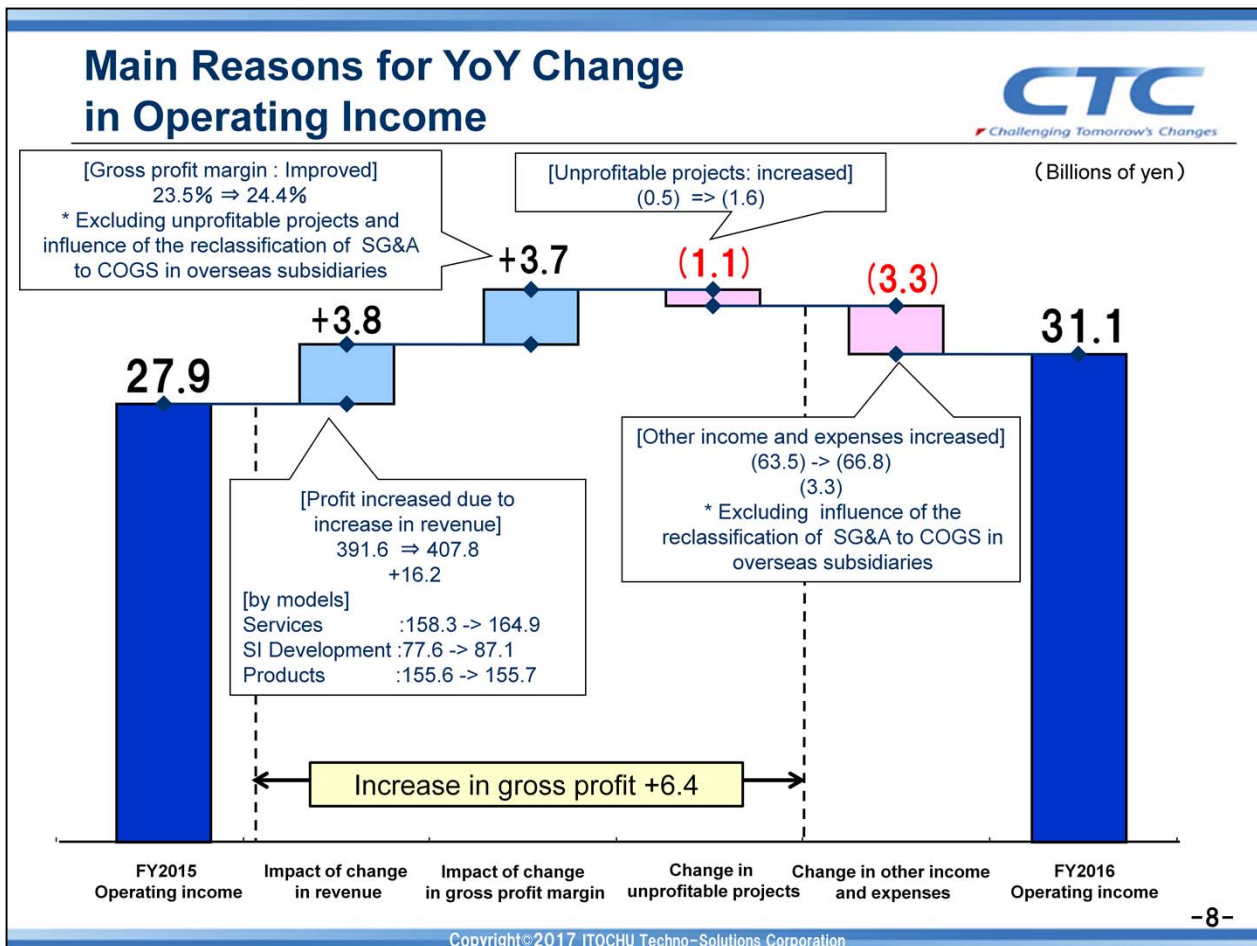
Revenue increased mainly due to application developments for distribution and transport.

#### **[Products]**

Order received increased due to infrastructure products for distribution and network for telecoms.

Revenue were roughly unchanged YoY.





### Reference for gross profit margin

[Gross profit margin excluding the unprofitable projects]

FY2015 : 23.5% ⇒ FY2016 : 24.1% (Improved 0.6pts)

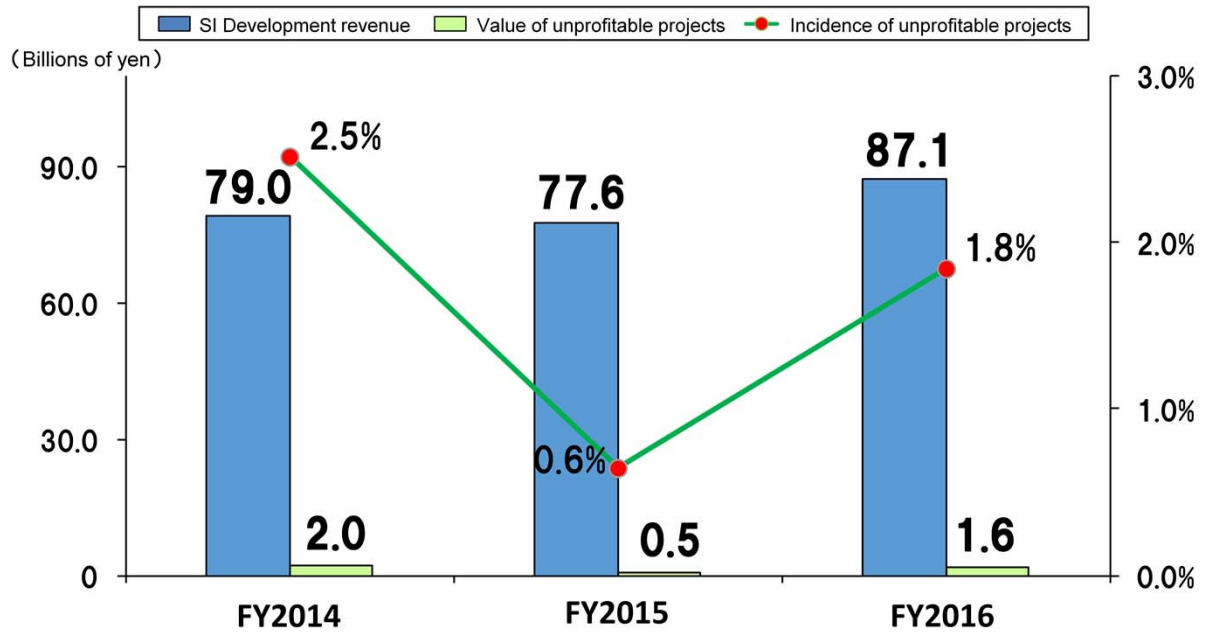
[Gross profit margin excluding the unprofitable projects and the influence of reclassification of SG&A to COGS in overseas subsidiaries]

FY2015 : 23.5% ⇒ FY2016 : 24.4% (Improved 0.9pts)

For reference:  
Revenue and unprofitable projects in SI Development



**The ratio of unprofitable projects to SI Development revenue is maintained within 2.5%**



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**For reference:  
Breakdown of other income and expenses.**



(Billions of yen)

	FY2015 Actual	FY2016 Actual	YoY change
Personnel expenses	(37.0)	(37.8)	(0.7)
Outside staff expenses	(5.7)	(5.6)	+0.1
Depreciation and amortization	(2.8)	(2.5)	+0.3
Others	(17.7)	(19.4)	(1.7)
<b>SG&amp;A expenses</b>	<b>(63.4)</b>	<b>(65.5)</b>	<b>(2.0)</b>
<b>Other income</b>	<b>0.4</b>	<b>0.3</b>	<b>(0.1)</b>
<b>Other expenses</b>	<b>(0.5)</b>	<b>(0.4)</b>	<b>+0.1</b>
<b>Other income and expenses</b>	<b>(63.5)</b>	<b>(65.5)</b>	<b>(2.0)</b>

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**Breakdown of “Other income and expenses”**

**[Personnel expenses]**

Even though personnel cost decreased due to Influence of the reclassification of SG&A to COGS in overseas subsidiaries, personnel expenses increased due to increase in number of employees and salary and bonuses.

**[Others]**

Increase in business commission fee and tax and public dues.

Business commission fee increased due to development of backbone systems.

Tax and public dues increased due to increase in size-based business tax.

**For Reference:  
Consolidated Balance Sheets**



(Billions of yen)

	End of FY2015	End of FY2016	YoY Change
Current assets	229.0	250.1	+21.1
Non current assets	78.9	82.9	+4.0
<b>Total assets</b>	<b>307.9</b>	<b>333.1</b>	<b>+25.1</b>
Current liabilities	108.5	121.6	+13.0
Non current liabilities	16.3	15.7	(0.5)
<b>Total liabilities</b>	<b>124.8</b>	<b>137.4</b>	<b>+12.5</b>
<b>Equity</b>	<b>183.0</b>	<b>195.7</b>	<b>+12.6</b>
<b>Total liabilities and equity</b>	<b>307.9</b>	<b>333.1</b>	<b>+25.1</b>

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**1. Current assets +21.1**

Cash and cash equivalents	+3.3
Trade and other receivables	+3.8
Inventories	+5.8
Deposit	+4.9
Prepaid expense	+2.8

**2. Non-current assets +4.0**

Property, plant and equipment	+0.8
Intangible assets	+1.0
Deferred tax asset	+2.3

**3. Current liabilities +13.0**

Trade and other payables	+1.0
Income tax payable	+2.7
Reserve for bonus	+2.5
Unearned revenue	+5.2
Advances received	+2.2

**4. Non-current liabilities (0.5)**

Liabilities for employee benefits	(0.3)
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**5. Equity +12.6**

Retained earnings	+13.8
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**For Reference:  
Consolidated Cash Flows**



(Billions of yen)

	FY2015	FY2016	YoY change
Cash and cash equivalents at the beginning of the period	50.1	44.8	(5.2)
Operating activities	21.8	25.2	+3.3
Investing activities	(18.1)	(14.1)	+4.0
Financing activities	(8.4)	(7.8)	+0.5
Cash and cash equivalents at the end of the period	44.8	48.2	+3.3
Free cash flow	3.6	11.0	+7.3

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**1. Cash flows from Operating activities +3.3**

Profit before tax	+3.3
(Increase) in inventories	(8.0)
Income tax paid	+1.8
Others	+6.2

**2. Cash flows from Investing activities +4.0**

Purchase of investment securities	+3.4
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**3. Cash flows from Financing activities +0.5**

For reference:  
4<sup>th</sup> Quarter FY2016 Performance highlights



(Billions of yen)

	4 <sup>th</sup> Quarter FY2015 Actual (3 months)	4 <sup>th</sup> Quarter FY2016 Actual (3 months)	YoY change	YoY change (%)
Revenue	139.8	135.9	(3.9)	(2.8%)
Gross profit	33.9	34.9	+0.9	+2.9%
Gross profit margin	24.3%	25.7%	+1.4pt	-
Other income and expenses	(15.9)	(18.5)	(2.6)	+16.4%
Operating income	18.0	16.3	(1.6)	(9.1%)
Operating income margin	12.9%	12.1%	(0.8pt)	-
Profit attributable to owners of the company	11.7	11.9	+0.1	+1.3%
Order received	148.1	160.0	+11.9	+8.1%
Backlog	208.3	238.0	+29.7	+14.3%

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# <4<sup>th</sup> Quarter FY2016 (3 months) >

For reference : Performance by Business group/ Business model



( Billions of yen )

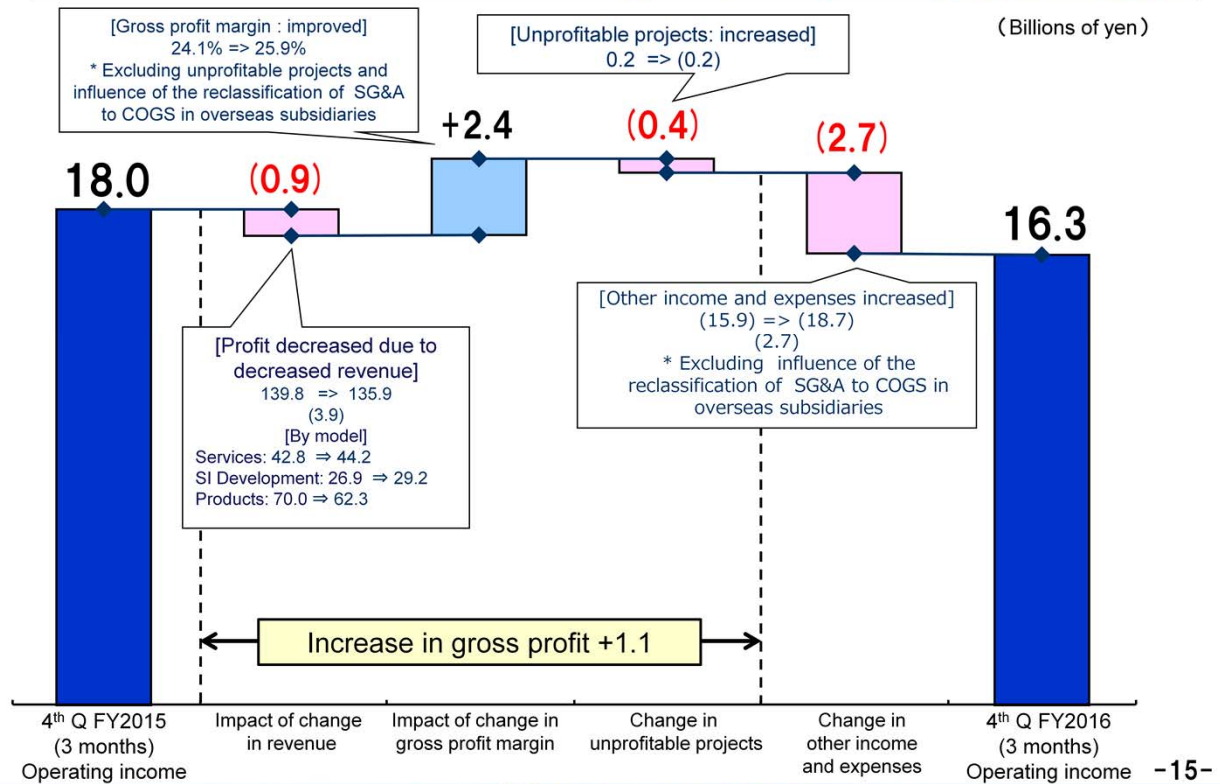
		Order received			Revenue		
		4 <sup>th</sup> Quarter FY2015 (3 months)	4 <sup>th</sup> Quarter FY2016 (3 months)	YoY Change	4 <sup>th</sup> Quarter FY2015 (3 months)	4 <sup>th</sup> Quarter FY2016 (3 months)	YoY Change
By Business group	Distribution & Enterprise	40.4	55.7	+15.3	33.2	34.0	+0.7
	Telecommunication	56.4	55.3	(1.1)	62.5	59.8	(2.7)
	Public & Regional	13.3	9.5	(3.8)	13.1	13.5	+0.4
	Finance & Social	16.2	16.0	(0.2)	16.2	15.7	(0.5)
	Others	21.6	23.4	+1.7	14.5	12.6	(1.9)
	Total	148.1	160.0	+11.9	139.8	135.9	(3.9)
By Business model	Services	74.6	80.6	+5.9	42.8	44.2	+1.4
	SI Development	25.6	27.8	+2.2	26.9	29.2	+2.2
	Products	47.8	51.6	+3.7	70.0	62.3	(7.6)
	Total	148.1	160.0	+11.9	139.8	135.9	(3.9)

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# <4<sup>th</sup> Quarter FY2016 (3 months) >

For reference : Main reasons for YoY change in operating income



<4<sup>th</sup> Quarter FY2016 (3 months)>  
Breakdown of “Other income and expenses”



(Billions of yen)

	4 <sup>th</sup> Quarter FY2015 Actual (3 months)	4 <sup>th</sup> Quarter FY2016 Actual (3 months)	YoY change
Personnel expenses	(9.3)	(10.5)	(1.1)
Outside staff expenses	(1.3)	(1.3)	+0.0
Depreciation and amortization	(0.6)	(0.6)	(0.0)
Others	(4.2)	(5.9)	(1.7)
<b>SG&amp;A expenses</b>	<b>(15.5)</b>	<b>(18.5)</b>	<b>(2.9)</b>
<b>Other income</b>	<b>0.0</b>	<b>0.0</b>	<b>+0.0</b>
<b>Other expenses</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>+0.3</b>
<b>Other income and expenses</b>	<b>(15.9)</b>	<b>(18.5)</b>	<b>(2.6)</b>

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FY2016

### Overview of Operating Results



FY2015 – FY2017

### Progress of Medium-Term Management Plan



FY2017

### Management Plan/Operating Results Forecast

## FY2016 Management Plan(Previously announced)



"Speeding up of 3 shifts" and "further strengthening of management foundation" aimed at achieving mid-term management plan



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- ◆ New “Internal Synergies” management
- ◆ “New Services” takeoff
- ◆ Promotion of “M&A”

### FY2016 Topics

- ◆ Improvement of comprehensive power by drastically reformed our organizational structure.
- ◆ Launched CUVICmc2 and Avail- I  
\*11 companies has decided to use CUVICmc2.
- ◆ Continuously search for M&A opportunities.

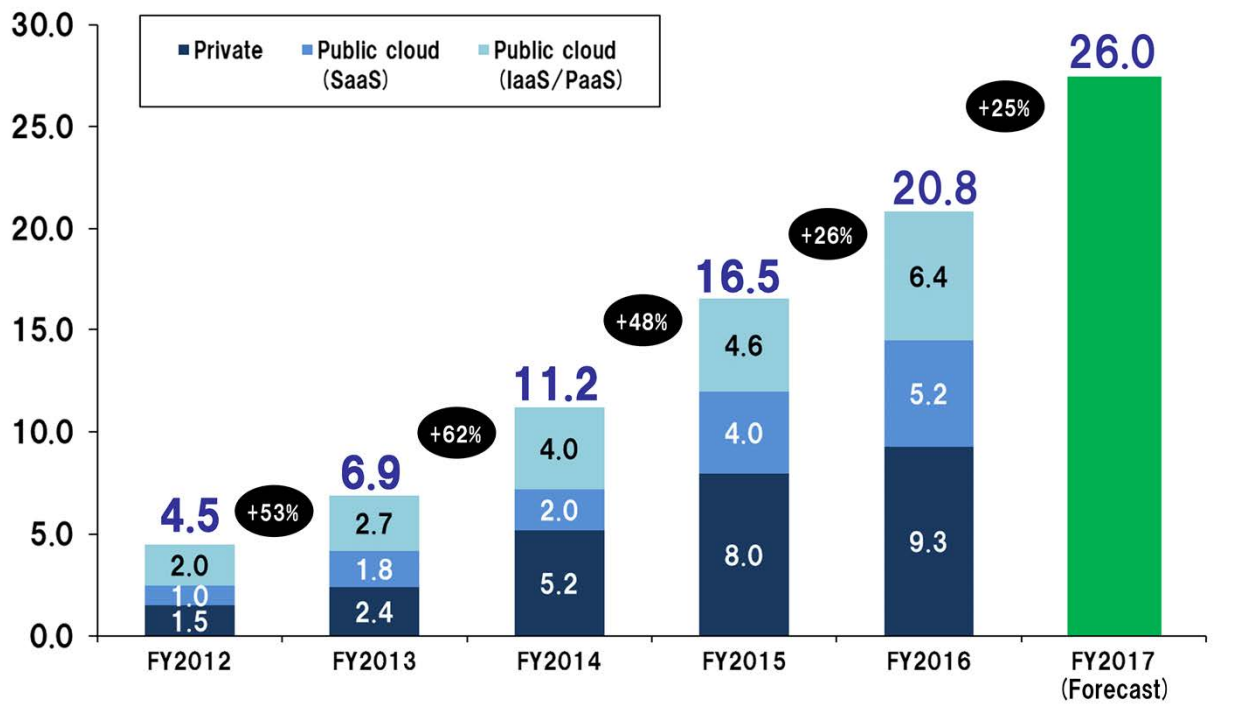
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## Reformed our organizational structure and change the role of all COO



## For reference: CTC's cloud service

(Billions of yen)



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- ◆ “Regional Revitalization” business start
- ◆ Launch the “Advanced Technology” into business
- ◆ “Global Expansion” Phase 2

FY2016  
Topics

- ◆ New business group takeoff
- ◆ Implementation of OpenStack, OCP and SDN/NFV
- ◆ Establish new entity in Indonesia

For  
Telecom  
carriers

- ◆ Introduction of SDN to commercial networks.
- ◆ Focusing towards the realization of NFV for carriers.

Taking technical capabilities of Telecoms and applying them to the comprehensive power of CTC

For  
Enterprise

- ◆ Start up a new service “CTC ESPA”, the Implementation support service for enterprise networks utilized SDN/NFV.

## Strengthen management base

- ◆ Continue “Unprofitable projects control”
- ◆ Reforms “Working Style”
- ◆ Strengthen “Shareholder return ”

### FY2016 Topics

- ◆ The ratio of unprofitable projects to revenue in SI Development : 1.8%
- ◆ Carry out the measure of a flexible working style
- ◆ Dividends : ¥70 (FY15) => ¥80(FY16 Forecast)

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For reference : Certified as Health and Productivity  
Management Organization Recognition Program (White 500)



### Changing working styles to reinforce our business base

Morning-focused working system	Slide work
Mobile work	Satellite office
Time-based paid holidays	The card which shows time to leave the office



2017

健康経営優良法人

Health and productivity

ホワイト500

- Ministry of Economy, Trade and Industry(METI) and Nippon Kenko Kaigi are sponsored.
- White 500 program certifies large corporations that practice excellent health-oriented management in conjunction with their health insurance societies.
- 235 organizations was certified as White 500.

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FY2016

### Overview of Operating Results



FY2015 – FY2017

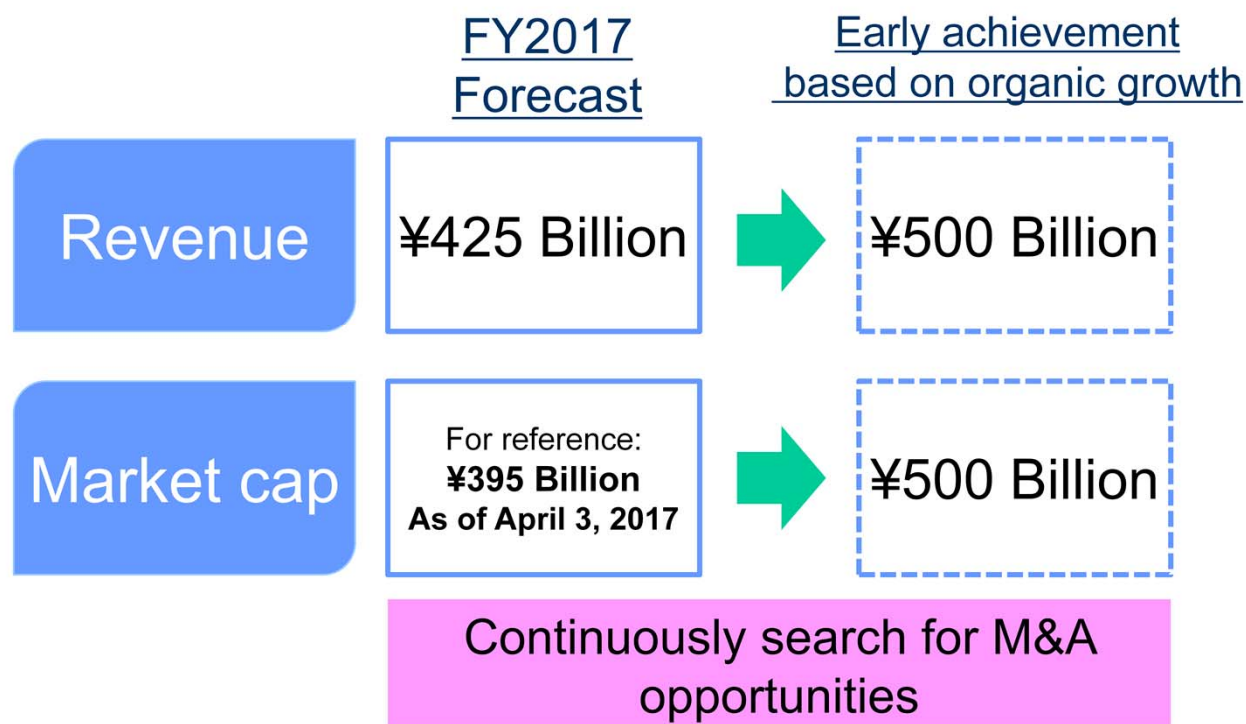
### Progress of Medium-Term Management Plan



FY2017

### Management Plan/Operating Results Forecast

## About “Two 500 billions” of Medium-Term Management Plan



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## FY2017 Consolidated Operating Results Forecasts



(Billions of yen)

	FY2016 Actual	FY2017 Forecast	YoY change	YoY change (%)
Revenue	407.8	425.0	+17.1	+4.2%
Gross profit	96.7	101.0	+4.2	+4.4%
Gross profit margin	23.7%	23.8%	+0.1pt	-
Other income and expenses	(65.5)	(68.5)	(2.9)	+4.4%
Operating income	31.1	32.5	+1.3	+4.4%
Operating income margin	7.6%	7.6%	+0.0pt	-
Profit attributable to owners of the company	21.8	22.5	+0.6	+2.9%
Order received	437.5	430.0	(7.5)	(1.7%)
Backlog	238.0	243.0	+4.9	+2.1%
ROE	11.8%	Over 10%	-	-

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Basic management  
theme “Three shifts”

Focus on new fields  
& future technologies



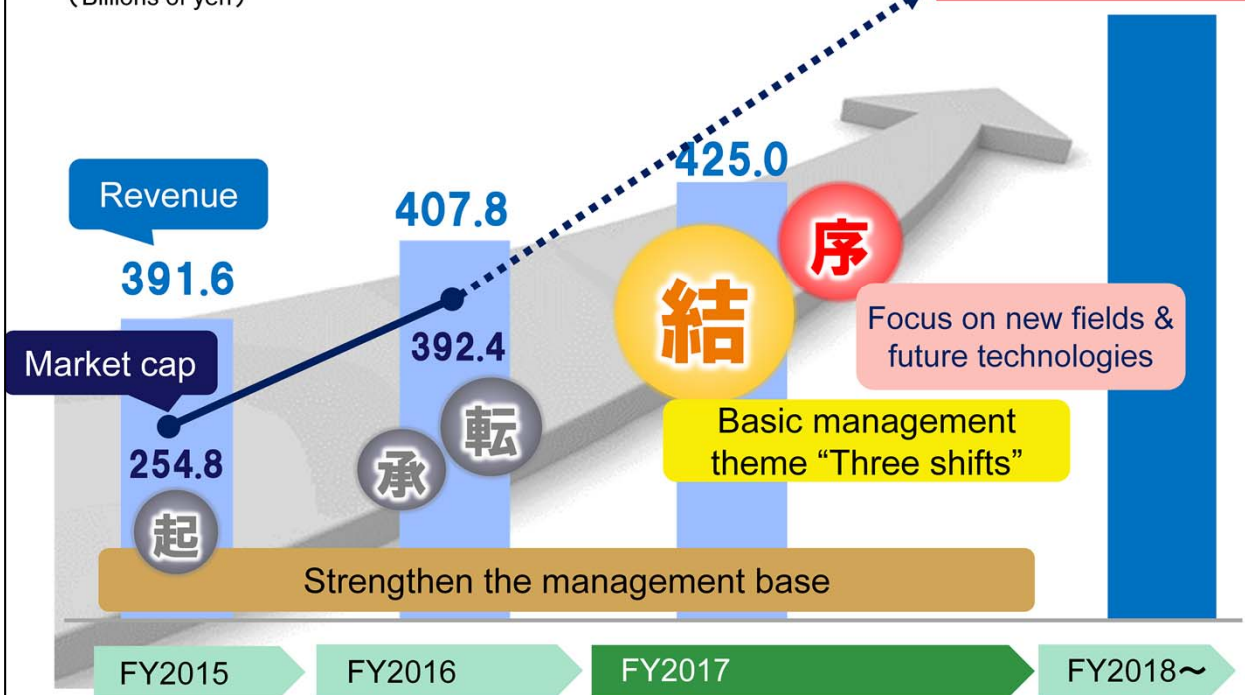
Strengthen the management base

# FY2017 Business Plan



(Billions of yen)

**"Two 500billions"**



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Basic management  
theme "Three shifts"

- ◆ Empowering Cloud Integration Services
- ◆ New phase in Maintenance, Support,  
& BPO businesses
- ◆ Expand business territory in ASEAN region

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Focus on new fields &  
future technologies

- ◆ SDN, NFV for “5G”
- ◆ SAP + CUVICmc2
- ◆ Starting up -  
Institute of Open Innovation  
Research "MIRAI"

### Strengthen the management base

- ◆ Continue to control “the unprofitable projects”
- ◆ Phase 2 of “Working Style Reform”
- ◆ Continue to strengthen “Shareholder return”

Distribution  
& Enterprise

- ◆ Large-Scale core system construction Projects
- ◆ Health Tech Business
- ◆ Focus on designated customers with solutions
  - “Health and Productivity Management” support service
  - Advanced network for enterprises (CTC ESPA)
  - SI Development tool / Database integration tool etc

Telecoms

- ◆ SDN, NFV for “5G”
- ◆ Co-work with telecommunication companies with new technologies (IoT, AI, & others)

## Key Point of Each Business Group in FY2017



### Public & Regional

- ◆ Co-work with local IT partners
- ◆ Security businesses for Public Sectors
- ◆ Supporting to Power Companies' creation of new services

### Finance & Social

- ◆ Large-scale out-sourcing projects
- ◆ Respond to new law in Credit Card field
- ◆ RegTech for Mega-bank

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## Key Point of Each Business Group in FY2017



### IT Services

- ◆ Expanding CUVICmc2 Business
- ◆ Security Business
- ◆ Implement new technology into projects

### Advanced IT Strategy

- ◆ Solving social issues with Science and technology with IT
- ◆ Explore & develop advanced IT technologies, to create new business models
- ◆ Reform working style with advanced IT technologies

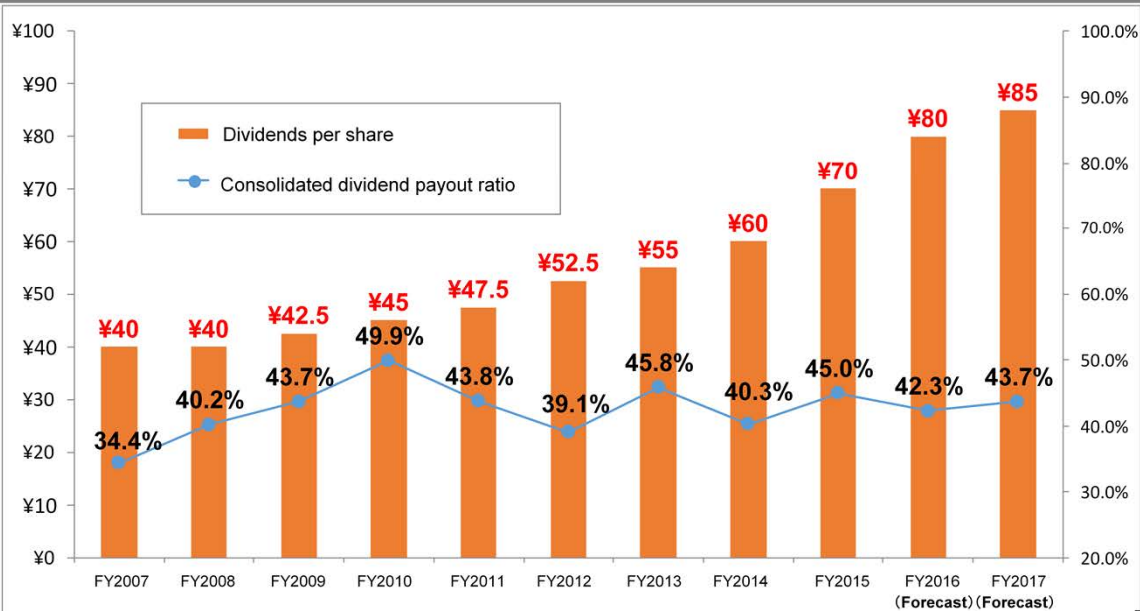
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## Shareholder Returns Plans

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

- FY2016 : Planned a total annual dividend of ¥80 => a dividend payout ratio of 42.3%
- FY2017 : Planned a total annual dividend of ¥85 => a dividend payout ratio of 43.7%



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“CTC is the Answer.”



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