

# Announcement of 1<sup>st</sup> half Operating Results for the Fiscal Year Ending March 31, 2018

October 31, 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.

**I** FY2017  
**Overview of the 1st Half Results**

**II** FY2017  
**Progress of priority Measures**

**III** FY2017  
**Full-year Forecasts**

**I** FY2017  
**Overview of the 1st Half Results**

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**Full-year Forecasts**

## Higher revenue, Higher profit

- Progressing smoothly towards achievement of the FY2017.
- In the first half of the fiscal year, order received, revenue, all profit line items, and backlog are the highest after merger FY2006.
- Gross profit margin and operating income margin also improved.

# 1<sup>st</sup> half FY2017 Performance highlights



(Billions of yen)

	1 <sup>st</sup> Half FY2016 Actual	1 <sup>st</sup> Half FY2017 Actual	YoY change	YoY change (%)
Revenue	175.8	190.2	+14.4	+8.2%
Gross profit	40.1	44.2	+4.0	+10.1%
Gross profit margin	22.9%	23.3%	+0.4pt	-
Other income and expenses	(31.2)	(33.7)	(2.4)	+7.9%
Operating income	8.8	10.4	+1.5	+17.9%
Operating income margin	5.1%	5.5%	+0.4pt	-
Net profit attributable to CTC's shareholders	5.9	8.1	+2.1	+37.1%
Order received	173.8	194.6	+20.7	+12.0%
Backlog	206.3	242.3	+36.0	+17.4%

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## 1st Half FY2017 Performance Highlights

### [Revenue]

Increase in all business groups.

By industry, increase mainly in business for distribution, telecoms, public and social.

### [Gross profit]

Increased due to higher revenues and the improvement in gross profit margin.

\* Gross profit margin excluding "Unprofitable projects" improved 0.3pts YoY.

### [Other income and expenses]

Increase in personnel cost, business commission fee and depreciation and amortization.

### [Operating income]

Increased due to gain in gross profit.

### [Net profit attributable to CTC's shareholders]

In addition to an increase in operating income, profit increased due to financial income, gains on sales of stocks of affiliated company.

### [Order received]

Increase in business for telecoms and financial.

### [Backlog]

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

## Performance by Business group (Compared with 1<sup>st</sup> half FY2016)



(Billions of yen)

	Order received			Revenue			Backlog		
	1st Half FY2016 Actual	1st Half FY2017 Actual	YoY Change	1st Half FY2016 Actual	1st Half FY2017 Actual	YoY Change	1st Half FY2016 Actual	1st Half FY2017 Actual	YoY Change
Distribution & Enterprise	47.2	48.2	+0.9	52.6	56.3	+3.7	67.4	78.9	+11.5
Telecommunication	62.3	68.7	+6.3	57.3	61.3	+3.9	56.8	69.9	+13.0
Public & Regional	18.9	18.1	(0.7)	14.8	18.3	+3.4	34.0	30.3	(3.6)
Finance & Social	18.3	32.6	+14.3	23.9	27.1	+3.1	36.5	48.8	+12.3
Others	26.8	26.8	+0.0	27.0	27.2	+0.1	11.5	14.2	+2.6
Total	173.8	194.6	+20.7	175.8	190.2	+14.4	206.3	242.3	+36.0

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### Performance by Business group

#### **[Distribution & Enterprise]**

Order received increased due to products sales for distribution and services business for transportation.  
Revenue increased due to development project and products sales for distribution.

#### **[Telecommunication]**

Order received and revenue increased due to network construction projects for telecoms.

#### **[Public & regional]**

Despite a decrease in network construction project for public for the same period last year, infrastructure construction for public increased, roughly unchanged YoY.  
Revenue increased due to network for public.

#### **[Finance & social]**

Order received increased due to infrastructure construction project for financial and operation project for social.  
Revenue increased due to infrastructure construction project for social.

#### **[Others]**

Order received and revenue were roughly unchanged YoY.

## Performance by Business model (Compared with 1<sup>st</sup> half FY2016)



(Billions of yen)

	Order received			Revenue			Backlog		
	1st Half FY2016 Actual	1st Half FY2017 Actual	YoY Change	1st Half FY2016 Actual	1st Half FY2017 Actual	YoY Change	1st Half FY2016 Actual	1st Half FY2017 Actual	YoY Change
Services	62.6 (36.0%)	68.7 (35.4%)	+6.1 -	79.8 (45.4%)	81.0 (42.6%)	+1.2 -	139.1 (67.4%)	155.5 (64.2%)	+16.4 -
SI Development	43.5 (25.0%)	45.5 (23.4%)	+2.0 -	36.7 (20.9%)	41.4 (21.8%)	+4.6 -	27.5 (13.3%)	31.0 (12.8%)	+3.5 -
Products	67.6 (39.0%)	80.2 (41.3%)	+12.5 -	59.2 (33.7%)	67.8 (35.6%)	+8.5 -	39.7 (19.3%)	55.7 (23.0%)	+16.0 -
Total	173.8	194.6	+20.7	175.8	190.2	+14.4	206.3	242.3	+36.0

\*Within the parenthesis is composition ratio.

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### Performance by business model

#### [Services]

Order received increased due to operations for financial social.

Revenue increased due to products maintenance for telecoms and operation for the manufacture.

#### [SI Developments]

Order received increased due to infrastructure construction for financial and operational design for social.

Revenue increased due to application developments for distribution and telecoms and infrastructure construction for social.

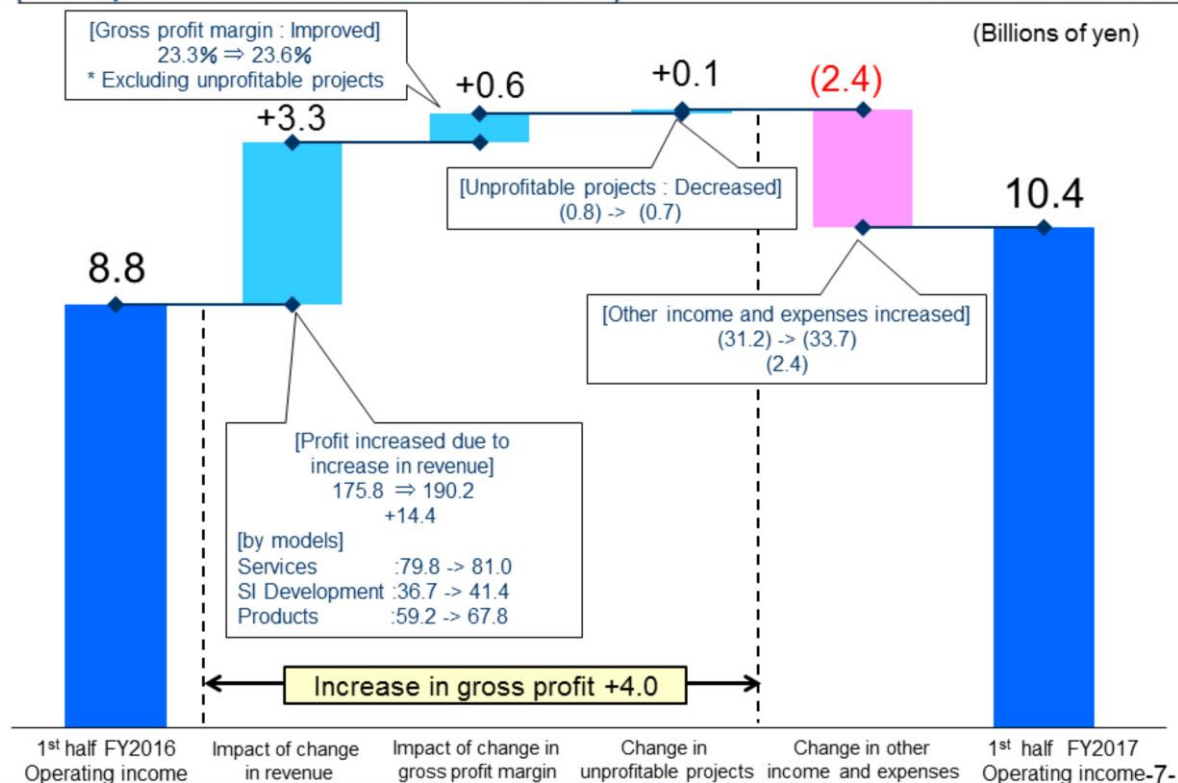
#### [Products]

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

Revenue increased due to network for telecoms and public and infrastructure products for public.



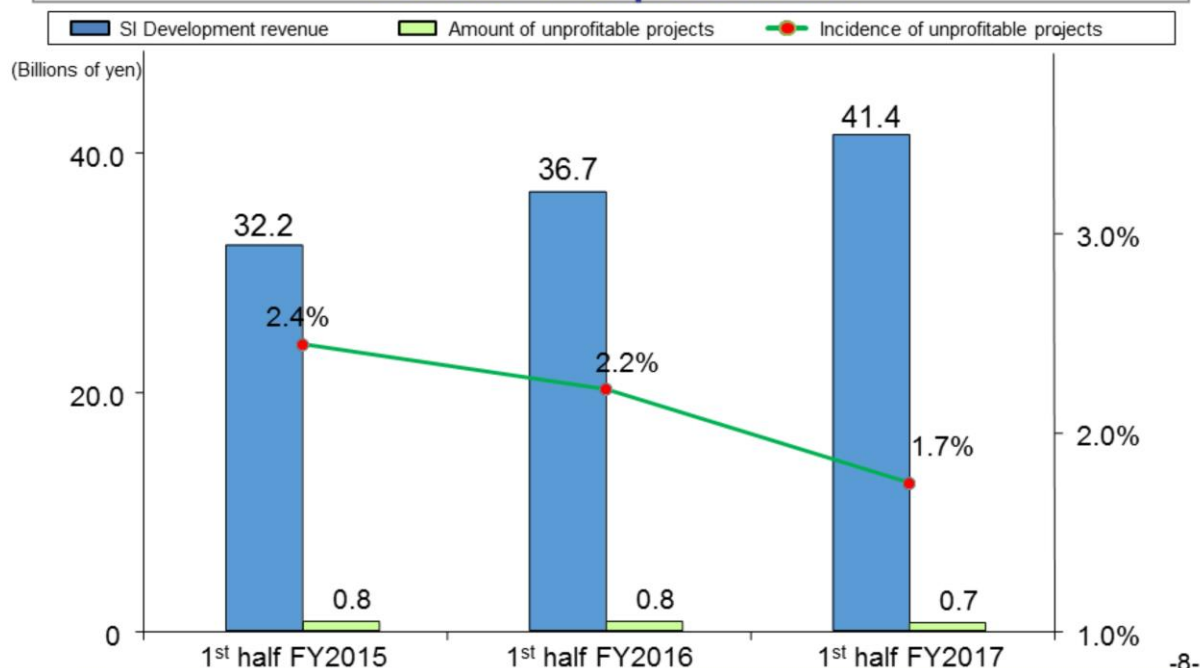
# Main reasons for YoY change in operating income (Compared with 1<sup>st</sup> half FY2016)





For reference:  
Revenue and unprofitable projects in SI Development

**The ratio of unprofitable projects to SI Development revenue is improvement.**



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For reference:  
Breakdown of “Other income and expenses”

(Billions of yen)

	1 <sup>st</sup> Half FY2016 Actual	1 <sup>st</sup> Half FY2017 Actual	YoY change
Personnel expenses	(17.8)	(19.2)	(1.3)
Outside staff expenses	(2.9)	(3.2)	(0.2)
Depreciation and amortization	(1.2)	(1.5)	(0.3)
Others	(9.0)	(9.8)	(0.8)
<b>SG&amp;A expenses</b>	<b>(31.0)</b>	<b>(33.8)</b>	<b>(2.7)</b>
<b>Other income</b>	<b>0.1</b>	<b>0.1</b>	<b>+0.0</b>
<b>Other expenses</b>	<b>(0.3)</b>	<b>(0.0)</b>	<b>+0.2</b>
<b>Other income and expenses</b>	<b>(31.2)</b>	<b>(33.7)</b>	<b>(2.4)</b>

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

**[Personnel expenses]**

Personnel expenses increased due to increase in salaries and bonuses.

**[Depreciation and amortization]**

Increased due to development of our backbone systems.

**[Others]**

Mainly increase in business commission fee.

Business commission fee increased due to development of our backbone systems.

For reference:  
Consolidated statement of financial position



(Billions of yen)

	End of FY2016	End of 1st Half FY2017	Change
Current assets	250.1	244.1	(6.0)
Non current assets	82.9	79.0	(3.9)
<b>Total assets</b>	<b>333.1</b>	<b>323.1</b>	<b>(9.9)</b>
Current liabilities	121.6	107.6	(14.0)
Non current liabilities	15.7	16.4	+0.6
<b>Total liabilities</b>	<b>137.4</b>	<b>124.0</b>	<b>(13.3)</b>
<b>Equity</b>	<b>195.7</b>	<b>199.1</b>	<b>+3.4</b>
<b>Total liabilities and equity</b>	<b>333.1</b>	<b>323.1</b>	<b>(9.9)</b>

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① Current assets :	(6.0)
Trade and other receivables	(17.1)
Inventories	+3.5
Other current financial assets	(1.9)
Other current assets	+10.2
② Non-current assets :	(3.9)
Property, plant and equipment	(1.5)
Intangible assets	(1.2)
Deferred tax assets	(1.7)
③ Current liabilities :	(14.0)
Trade and other payables	(13.1)
Income taxes payable	(6.6)
Liabilities for employee benefits	(3.7)
Other current liabilities	+10.0
④ Non-current liabilities :	+0.6
Non-current financial liabilities	+0.8
⑤ Equity :	+3.4
Retained earnings	+3.1

## For reference: Cash flows

(Billions of yen)

	1st Half FY2016	1st Half FY2017	YoY change
Cash and cash equivalents at the beginning of the period	44.8	48.2	+3.3
Operating activities	5.0	0.4	(4.5)
Investing activities	(11.1)	1.2	+12.3
Financing activities	(4.3)	(2.5)	+1.7
Cash and cash equivalents at the end of the period	34.4	47.5	+13.0
Free cash flow	(6.0)	1.6	+7.7

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① Cash flows from operating activities :	(4.5)
Profit before tax	+3.0
Gains on disposal and remeasurement of investments in subsidiaries and associates	(1.1)
Increase in trade and other receivables	(6.1)
Decrease (increase) in inventories	+3.5
(Decrease) increase in trade and other payables	+1.8
Other – net	(3.2)
Income taxes paid	(2.7)
② Cash flows from investing activities :	+12.3
Purchases of property, plant and equipment	+1.1
Purchases of intangible assets	+2.1
Increase in deposits other than cash equivalents	+8.0
proceeds from sales of shares of subsidiaries and associates	+0.7
③ Cash flows from financing activities :	+1.7
Proceeds from sale and leaseback	+2.5
Dividends paid to owners of the Company	(0.5)

For reference:  
2<sup>nd</sup> Quarter FY2017 Performance highlights



(Billions of yen)

	2 <sup>nd</sup> Quarter FY2016 Actual	2 <sup>nd</sup> Quarter FY2017 Actual	YoY change	YoY change (%)
Revenue	93.4	104.2	+10.8	+11.6%
Gross profit	22.0	24.7	+2.6	+12.0%
Gross profit margin	23.7%	23.7%	+0.0pt	–
Other income and expenses	(15.1)	(16.9)	(1.8)	+11.9%
Operating income	6.9	7.7	+0.8	+12.1%
Operating income margin	7.4%	7.4%	+0.0pt	–
Net profit attributable to CTC's shareholders	4.6	6.0	+1.3	+29.3%
Order received	95.1	110.9	+15.7	+16.5%
Backlog	206.3	242.3	+36.0	+17.4%

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For reference:  
<2<sup>nd</sup> Quarter FY2017>

Performance by Business group/ Business model



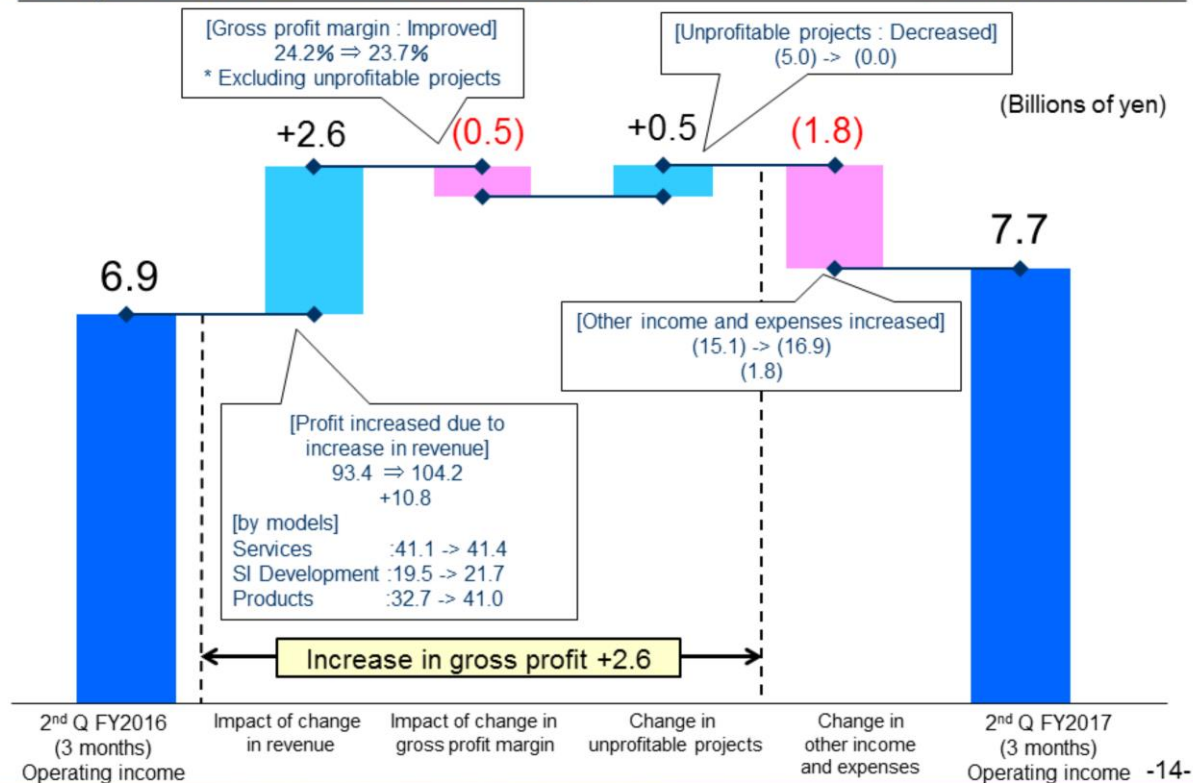
(Billions of yen)

		Order received			Revenue		
		2 <sup>nd</sup> Quarter FY2016 (3 months)	2 <sup>nd</sup> Quarter FY2017 (3 months)	YoY Change	2 <sup>nd</sup> Quarter FY2016 (3 months)	2 <sup>nd</sup> Quarter FY2017 (3 months)	YoY Change
By Business group	Distribution & Enterprise	27.7	25.1	(2.6)	27.1	30.8	+3.6
	Telecommunication	33.7	38.4	+4.6	31.9	34.5	+2.5
	Public & Regional	8.2	9.3	+1.1	7.5	10.7	+3.2
	Finance & Social	11.5	21.0	+9.4	12.7	14.4	+1.6
	Others	13.8	16.9	+3.0	13.9	13.6	(0.3)
	Total	95.1	110.9	+15.7	93.4	104.2	+10.8
By Business model	Services	33.2	37.8	+4.6	41.1	41.4	+0.3
	SI Development	24.5	25.9	+1.4	19.5	21.7	+2.1
	Products	37.4	47.0	+9.6	32.7	41.0	+8.3
	Total	95.1	110.9	+15.7	93.4	104.2	+10.8

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For reference:  
Main reasons for YoY change in operating income  
(Compared with 2<sup>nd</sup> Quarter FY2016)





For reference:  
 <2<sup>nd</sup> Quarter FY2017>  
 Breakdown of "Other income and expenses"

(Billions of yen)

	2 <sup>nd</sup> Quarter FY2016 Actual	2 <sup>nd</sup> Quarter FY2017 Actual	YoY change
Personnel expenses	(8.6)	(9.4)	(0.7)
Outside staff expenses	(1.5)	(1.6)	(0.0)
Depreciation and amortization	(0.5)	(0.9)	(0.3)
Others	(4.4)	(5.0)	(0.5)
<b>SG&amp;A expenses</b>	<b>(15.2)</b>	<b>(17.0)</b>	<b>(1.7)</b>
<b>Other income</b>	<b>0.0</b>	<b>0.0</b>	<b>+0.0</b>
<b>Other expenses</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>
<b>Other income and expenses</b>	<b>(15.1)</b>	<b>(16.9)</b>	<b>(1.8)</b>

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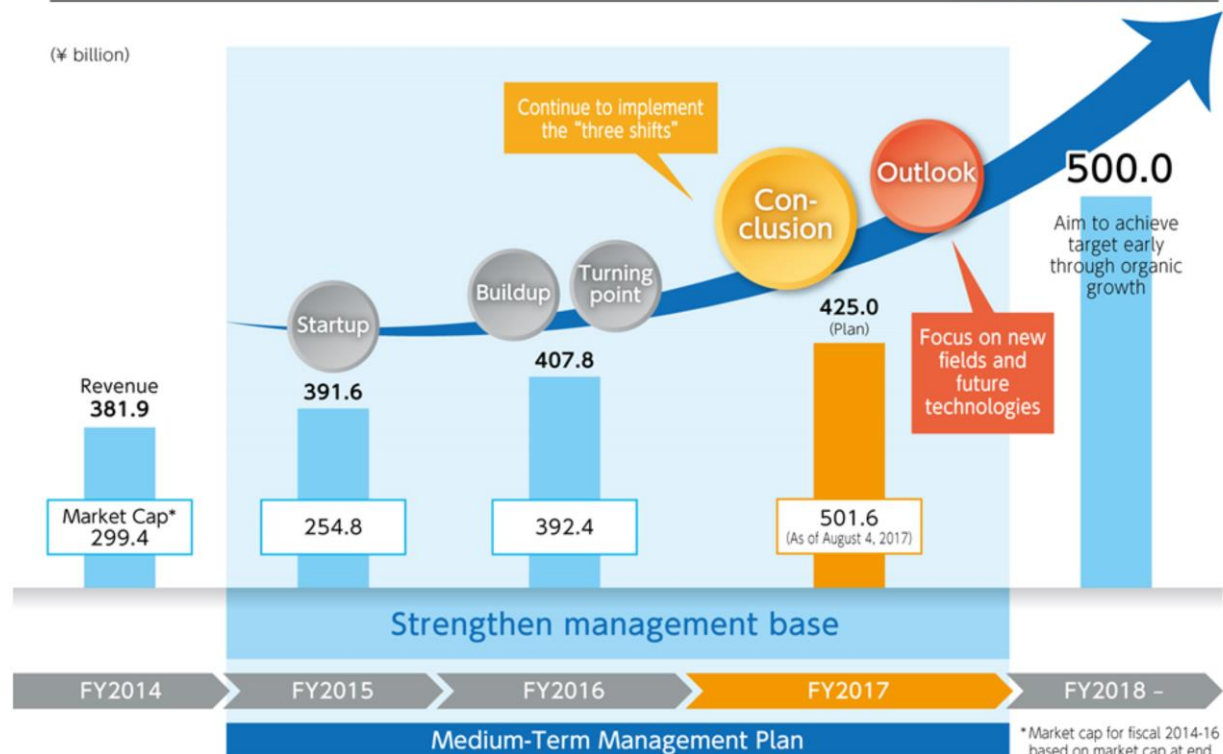
**I** FY2017  
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# FY2017 Business Plan

(¥ billion)



\* Market cap for fiscal 2014-16 based on market cap at end

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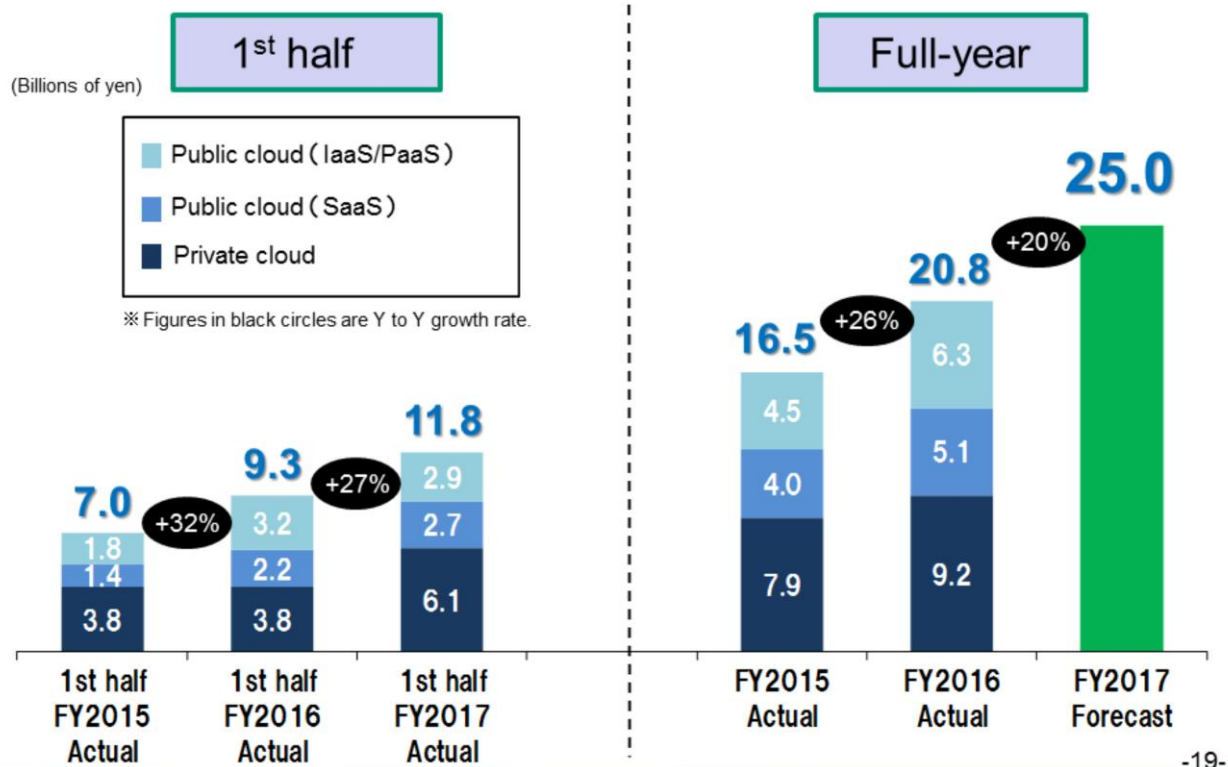
Basic management  
theme "Three shifts"

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

First half topics

- CUVICmc2 cumulative number of contracts:  
18 companies / 20 cases  
(FY17 H1 new contracts: 7 companies / 8 cases)
- Established a Joint Venture with Bell System 24  
utilizing existing subsidiary (CTCFC)
- Established an Indonesia base

## For reference: CTC's cloud service



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Focus on new fields &  
future technologies

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

First half topics

- Collaboration with ABeam Consulting for cloud business  
Start offering ABeam Cloud on CUVICmc2.
- Platform for open innovation "CTC Future Factory" start.
- Comprehensive support organization for AI utilization.

For reference:

Open-Innovation Platform "CTC Future Factory"



## Four functionalities of "CTC Future Factory" from Institute of Open Innovation Research "MIRAI"

### Space

- Workspaces for corporate innovators
- Residency for startups and business accelerators
- Support platforms (Cloud, AI, IoT, and other resources)



### Engineering

- Agile and scrum development approaches
- Joint prototype development
- Hands-on advanced technology development
- Ideathons, hackathons



### Producing

- Business partner matching
- Venture capital matching
- Advice from startups and business accelerators

### Community

- Communities for innovators
- Events to encourage interaction between different industries
- Market research (people networks)





Organi-  
zation

**AI Business Development Department** [new]

AI solutions / AI Business development / Talent training

Develo  
pment  
platform

**CTC Integrated AI Platform Stack**

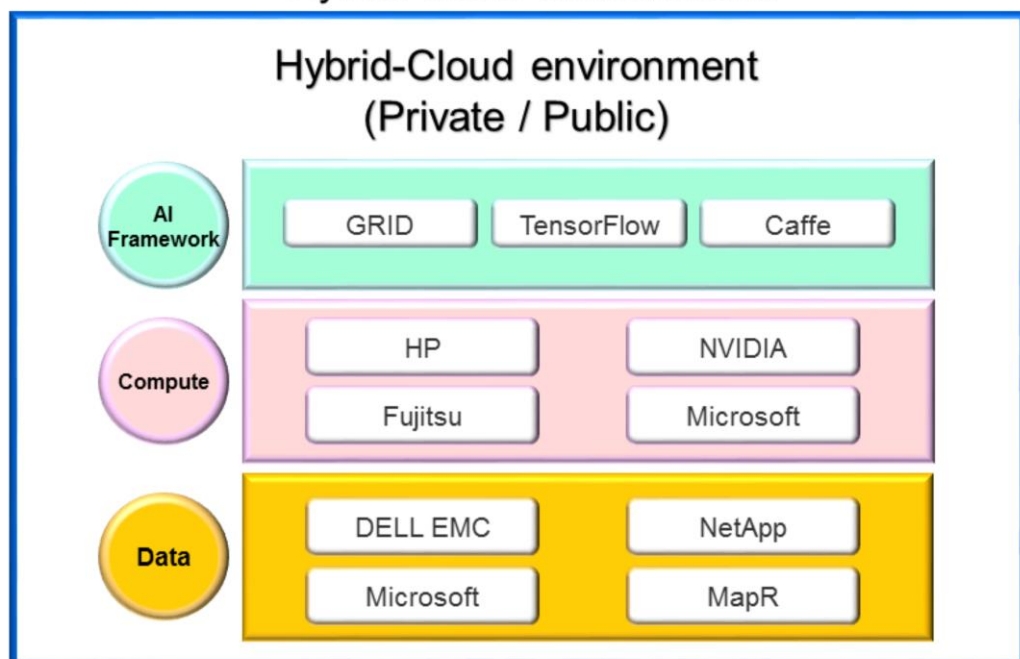
Certified platform from combining AI framework

**<Topics>**

- Commence of selling **NVIDIA's** AI Super Computer "DGX-1"
- Acquired certification "Deep Learning Competency" at  
"NVIDIA Partner Network" of Deep learning field, **first in Japan.**

For reference:  
CTC Integrated AI Platform Stack

Enabled necessary functionalities for AI-development on  
Hybrid-cloud environment.



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1

Acquired Thailand's Netband Consulting as a Subsidiary

2

Enabling Open Innovation from DEJIMA

3

CTC ESPA - Implementation Support Service for Enterprise Networks with SDN/NFV

For reference:  
Open Innovation Space DEJIMA

**October 2017 OPEN**

The place we transform the ideas  
into the realities with our customers.



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**I** FY2017  
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# FY2017 Consolidated Operating Results Forecasts

No change to the FY2017 consolidated operating results forecast announced on May 1.

(Billions of yen)

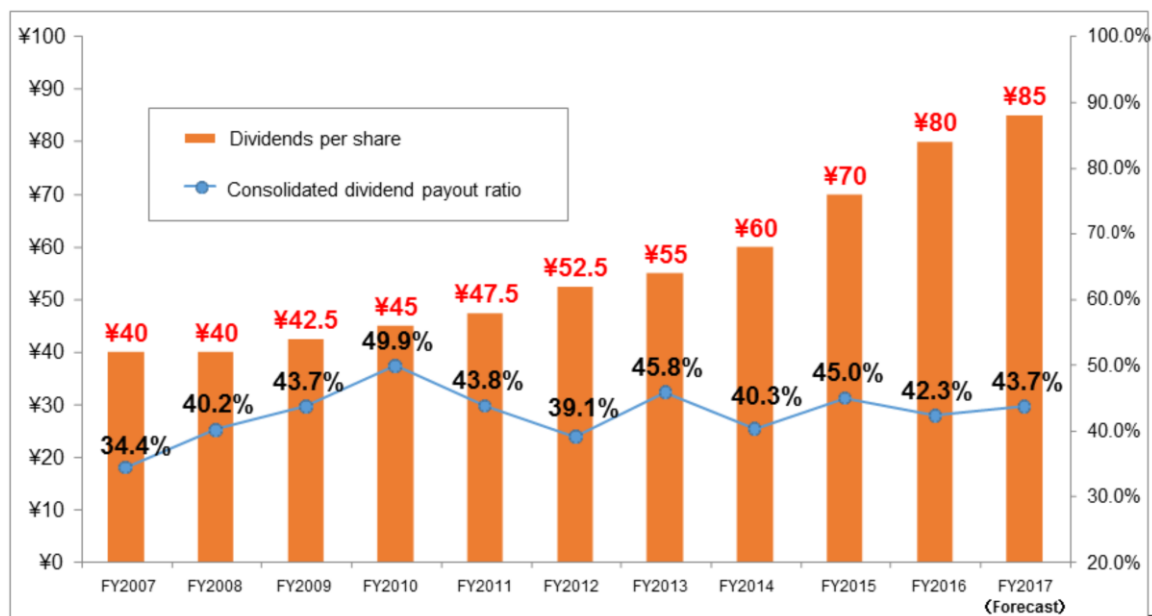
	FY2016 Actual	FY2017 Forecast	YoY change	YoY change (%)
Revenue	407.8	425.0	+17.1	+4.2%
Gross profit	96.7	101.0	+4.2	+4.4%
Gross profit margin	23.7%	23.8%	+0.1pt	-
Other income and expenses	(65.5)	(68.5)	(2.9)	+4.4%
Operating income	31.1	32.5	+1.3	+4.4%
Operating income margin	7.6%	7.6%	+0.0pt	-
Net profit attributable to CTC's shareholders	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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# Shareholder Returns Plans

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

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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