

Consolidated Financial Results

for the First Half of the Fiscal Year ending March 31, 2018

(IFRS)

October 31, 2017

Listed Company Name: ITOCHU Techno-Solutions Corporation

Securities Code: 4739

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Scheduled date to submit the quarterly report (*Shihanki Hokokusho*):

November 10, 2017

Scheduled date of dividend payment:

December 4, 2017

Supplementary documents for financial results:

Yes

Financial results briefing:

Yes (for institutional investors and analysts)

(Figures less than one million yen are omitted)

1. Consolidated Business Results for the six months ended September 30, 2017 (April 1, 2017 – September 30, 2017)

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Revenue		Operating income		Profit before tax		Net Profit		Net profit attributable to CTC's shareholders		Total comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended 9/17	190,293	8.2	10,482	17.9	11,966	34.3	8,099	35.3	8,104	37.1	8,781	132.1
Six months ended 9/16	175,817	6.4	8,889	51.9	8,912	49.6	5,986	60.0	5,913	56.1	3,783	61.6

	Basic earnings per share attributable to CTC's shareholders	Diluted earnings per share attributable to CTC's shareholders
	Yen	Yen
Six months ended 9/17	70.11	—
Six months ended 9/16	51.14	—

(2) Consolidated financial position

	Total assets	Total equity	Total shareholders' equity	Ratio of shareholders' equity to total assets
	Millions of yen	Millions of yen	Millions of yen	%
September 30, 2017	323,146	199,111	195,543	60.5
March 31, 2017	333,123	195,701	192,175	57.7

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended 3/17	—	37.50	—	42.50	80.00
Year ending 3/18	—	42.50	—	—	—
Year ending 3/18 (forecast)	—	—	—	42.50	85.00

(Note) 1. Revision of the dividend forecast in the latest announcement: None

3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentages represent changes from the same period of previous fiscal year)

	Revenue		Operating income		Profit before tax		Net Profit		Net profit attributable to CTC's shareholders		Basic earnings per share attributable to CTC's shareholders
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	425,000	4.2	32,500	4.4	32,600	4.2	22,500	2.3	22,500	2.9	194.71

(Notes) Revision of earnings forecast in the latest announcement: None

* Notes

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

(2) Changes in accounting policies and changes of accounting estimates

(i) Changes in accounting principles required by IFRS: Not applicable

(ii) Changes in accounting principles other than (i): Not applicable

(iii) Changes in accounting estimates: Not applicable

(3) Number of outstanding shares (common shares)

(i) Number of shares outstanding at the end of period (including treasury shares):

Six months ended 9/17: 120,000,000 shares Year ended 3/17: 120,000,000 shares

(ii) Number of treasury shares at the end of period:

Six months ended 9/17: 4,485,086 shares Year ended 3/17: 4,385,798 shares

(iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period):

Six months ended 9/17: 115,596,768 shares Six months ended 9/16: 115,614,236 shares

* This document is an English translation of a statement written initially in Japanese as a guide for non-Japanese investors. The Japanese original document should be considered as the primary version.

* Disclosure regarding audit procedures

- This quarterly financial results report is not subject to quarterly review procedures by independent auditors under the Financial Institutions and Exchange Act. At the time of disclosure of this report, review procedures for quarterly financial statements had not been completed.

* Cautionary statement with respect to forward-looking statements

- These materials contain forward-looking statements and statements of this nature based on assumptions judged to be valid and information available to the Company as of the announcement date of the summary. These statements are not promises by the Company regarding future performance. Actual results may differ materially from forecasts due to a variety of factors.

* "CTC" is the abbreviation for ITOCHU Techno-Solutions Corporation.

○Accompanying Materials –Contents

1. Qualitative Information Regarding Results for the First Half	P.4
(1) Qualitative information on consolidated operating results	P.4
(2) Qualitative information on consolidated financial position	P.6
(3) Qualitative information on consolidated earnings forecasts	P.6
2. Summary of Quarterly Consolidated Financial Statements and Significant Notes.....	P.7
(1) Summary of quarterly consolidated statement of financial position	P.7
(2) Summary of quarterly consolidated income statement and summary of quarterly consolidated comprehensive income statement	P.9
(3) Summary of quarterly consolidated statement of changes in equity	P.11
(4) Notes to summary of quarterly consolidated financial statements.....	P.12
(Notes on going concern assumptions)	P.12
(Changes in accounting policies and changes of accounting estimates)	P.12

1. Qualitative Information Regarding the Results for the First Half

(1) Qualitative information on consolidated operating results

In the first six months of the fiscal year ending March 2018, the Japanese economy maintained its overall moderate recovery, chiefly supported by improvement in corporate earnings and the employment situation despite concerns over the impact of uncertainties in other countries' policies on the business situation, in particular.

In the information service industry, the overall business environment remained steady, given the recovery trend of IT investment mainly in the manufacturing, distribution and communication industries.

In this environment, the ITOCHU Techno-Solutions Corporation ("CTC") Group has established a Medium-Term Management Plan for the three years from the fiscal year ended March 2016 to the fiscal year ending March 2018 by specifying its vision, "Take responsibility for the evolution of the IT industry as the industry's leading company." In an effort to achieve the targets in the plan, the Group has been pursuing initiatives such as expanding its service business, strengthening the customer base by exerting its comprehensive capabilities, and making aggressive growth investments. In addition to continuing these activities, the Group has been focusing on developing new businesses and futuristic technologies in view of the next Medium-Term Management Plan during the fiscal year under review, which is the final year of the current Medium-Term Management Plan.

<Activities aimed at the expansion of the service business>

- CTC made CTC First Contact Corporation, which was originally a wholly owned subsidiary of CTC and which provides outsourcing services for service desk, contact center, and other customer service operations, a joint company with Bellsystem24 Holdings Inc. as of July 3, 2017. Through this, CTC aims to expand business in the Business Process Outsourcing (BPO) sector.

- In recent years, in the field of artificial intelligence (AI), which is rapidly being used in real life applications, the Group has been working on the development of services and solutions to comprehensively support its customer in using AI. As part of this, the Group began handling the deep learning AI supercomputers of American technology company NVIDIA Corporation.

The Group also worked towards the provision of the CTC Integrated AI Platform Stack, an AI hybrid cloud environment which integrates AI development processes and technologies to support companies in using AI.

- The Group is promoting on-premise system construction based on customers' system requirements and use, and the strengthening of its cloud integration capabilities, linking its own cloud services with public clouds and other computing environments to build optimal systems. As part of these activities, the Group obtained AWS Managed Service Provider designation through AWS Partner Network, which is the partner program for Amazon Web Services (AWS).

<Activities aimed at exhibiting comprehensive capabilities>

- Following the reorganization in April 2016, including the segment restructuring, the Group reorganized itself in April 2017, to further exhibit its comprehensive capabilities. By putting one director in charge of overseeing sales and one director in charge of overseeing technology, the Group will increase the mobility of human resources between organizations and strengthen cooperation with customers.

<Activities aimed at shift to growth investments, new business areas and future technologies>

- The Group established PT. CTC Techno Solutions Indonesia in Indonesia as a subsidiary of CTC Global Sdn. Bhd. (Malaysia), which is an overseas subsidiary of CTC, with the aim of further expanding its global business. PT. CTC Techno Solutions Indonesia will cooperate with CTC's overseas operating companies mainly in Malaysia, Singapore and Thailand to provide IT services to local companies and Japanese companies in the ASEAN region, where the IT market is expected to show high growth.
- The Group founded Institute of Open Innovation Research "MIRAI" under the Advanced IT Strategy Group to create and develop advanced technologies for the future and to develop and implement strategies to commercialize such technologies. It also launched CTC Future Factory, an open innovation platform that provides comprehensive support for business development from the ideas for new businesses built with customers to commercialization. CTC Future Factory is a platform that supports companies, local governments, and other groups in their efforts for open innovation to develop ideas and create businesses in cooperation with venture companies, and provides services such as finding venues and opportunities for Ideathon and hackathon, support for the examination of the commercialization of joint research, consultations at each level, and prototype development.

<Activities aimed at strengthening management base>

- The Medium-Term Management Plan emphasizes the strengthening of the Group's business foundations as one of its focal strategies. The Group has been actively promoting work style innovation since 2014, and has carried out a range of activities in this area. Additionally, the backbone systems were reformed to increase telework and work efficiency as an additional strategy. The use of new digital technologies such as these, the supply of IT services with potential as well as expandability to customers and their internal use, and the use of IT for work style reforms have earned recognition, and CTC has been selected as a "Competitive IT Strategy Company 2017," a title assigned by the Ministry of Economy, Trade, and Industry and the Tokyo Stock Exchange to companies working to increase their corporate value through the active use of IT.

- CTC is working to create a work environment which accepts diversity and is a rewarding work environment for every employee. As part of this, CTC is putting effort into the expansion of systems and communication of information intended to support female employees in their careers. Recently, in recognition of these activities, CTC received “Eruboshi” certification, which is the highest-ranking certification, from the Minister of Health, Labour and Welfare pursuant to the Act on Promotion of Women’s Participation and Advancement in the Workplace.

In its sales activities, the Group focused primarily on distribution development and infrastructure projects, communication network development projects, and public and social infrastructure projects.

During the first six months of the fiscal year under review, sales in all segments, including Services, SI Development, and Products, increased, resulting in revenue of 190,293 million yen (up 8.2% year on year). Operating income rose 17.9% year on year, to 10,482 million yen, thanks to higher revenue and gross margin. An increase in operating income and financial income contributed to profit before tax of 11,966 million yen (up 34.3%), net profit of 8,099 million yen (up 35.3% year on year), and net profit attributable to CTC’s shareholders of 8,104 million yen (up 37.1%)

(2) Qualitative information on consolidated financial position

Total assets amounted to 323,146 million yen as of September 30, 2017, a decrease of 9,976 million yen from March 31, 2017. This was attributable largely to decreases of 17,197 million yen in trade and other receivables, 1,921 million yen in other current financial assets (current assets), 1,584 million yen in property, plant and equipment, and 1,774 million yen in deferred tax assets, which offset increases of 3,535 million yen in inventories and 10,248 million yen in other current assets.

Total liabilities stood at 124,035 million yen, a decrease of 13,387 million yen from March 31, 2017. The principal contributing factors included decreases of 13,136 million yen in trade and other payables, 6,645 million yen in income taxes payable, and 3,788 million yen in liabilities for employee benefits (current liabilities), which offset an increase of 10,070 million yen in other current liabilities.

Total equity was 199,111 million yen, a rise of 3,410 million yen from March 31, 2017. This was primarily attributable to increases of 8,099 million yen in net profit and 682 million yen in other comprehensive income, which offset decreases of 5,000 million yen for the payment of dividends and 389 million yen for the purchase of treasury stock.

(3) Qualitative information on consolidated earnings forecasts

As for the future outlook, while it is necessary to continue to pay close attention to the uncertainties in overseas economies and the impact of fluctuations in the financial and capital markets, the domestic economy is expected to continue to stage a gradual recovery.

In light of this situation, at present, the Company has not revised its financial forecasts announced on May 1, 2017.

2. Summary Quarterly Consolidated Financial Statements

(1) Summary quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of September 30, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	48,213	47,510
Trade and other receivables	115,473	98,275
Inventories	24,045	27,581
Current tax assets	22	11
Other current financial assets	25,017	23,096
Other current assets	37,421	47,670
Total current assets	250,194	244,146
Non-current assets		
Property, plant and equipment	36,365	34,780
Goodwill	3,899	4,071
Intangible assets	12,560	11,294
Investments accounted for using the equity method	664	897
Other non-current financial assets	13,989	14,477
Deferred tax assets	12,679	10,904
Other non-current assets	2,769	2,574
Total non-current assets	82,929	79,000
Total assets	333,123	323,146

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of September 30, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	48,222	35,086
Other current financial liabilities	5,658	5,097
Income taxes payable	9,064	2,419
Liabilities for employee benefits	17,079	13,290
Provisions	689	740
Other current liabilities	40,909	50,980
Total current liabilities	121,624	107,614
Non-current liabilities		
Non-current financial liabilities	10,016	10,861
Liabilities for employee benefits	3,720	3,537
Provisions	1,732	1,714
Deferred tax liabilities	327	306
Total non-current liabilities	15,797	16,420
Total liabilities	137,422	124,035
Equity		
Common stock	21,763	21,763
Capital surplus	33,076	33,094
Treasury stock	(9,231)	(9,621)
Retained earnings	146,537	149,727
Other components of equity	29	578
Total shareholders' equity	192,175	195,543
Non-controlling interests	3,525	3,567
Total equity	195,701	199,111
Total liabilities and equity	333,123	323,146

(2) Summary quarterly consolidated income statement and summary quarterly consolidated comprehensive income statement

Summary quarterly consolidated income statement

	Previous consolidated fiscal year (From April 1, 2016 to September 30, 2016)	Consolidated fiscal year under review (From April 1, 2017 to September 30, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	175,817	190,293
Cost of sales	(135,640)	(146,045)
Gross profit	40,177	44,247
Other income and expenses		
Selling, general and administrative expenses	(31,065)	(33,854)
Other income	127	175
Other expenses	(349)	(85)
Total other income and expenses	(31,287)	(33,765)
Operating income	8,889	10,482
Financial income	115	433
Financial costs	(123)	(46)
Share of profit of associates accounted for using the equity method	30	(50)
Gains on disposal and remeasurement of investments in subsidiaries and associates	—	1,147
Profit before tax	8,912	11,966
Income tax expense	(2,926)	(3,866)
Net profit	5,986	8,099
Profit attributable to :		
CTC's shareholders	5,913	8,104
Non-controlling interests	73	(4)
Earnings per share	(Yen)	(Yen)
(Attribution to CTC's shareholders):		
Basic earnings per share	51.14	70.11
Diluted earnings per share	—	—

Summary quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2016 to September 30, 2016)	Consolidated fiscal year under review (From April 1, 2017 to September 30, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	5,986	8,099
Other comprehensive income, net of tax effect		
Items that will not be reclassified to profit or loss:		
Changes in net fair value of financial assets measured through other comprehensive income	(609)	176
Share of other comprehensive income of associates accounted for using the equity method	(0)	8
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(1,567)	448
Cash flow hedges	4	45
Share of other comprehensive income of associates accounted for using the equity method	(29)	2
Total other comprehensive income, net of tax effect	(2,202)	682
Total comprehensive income	3,783	8,781
Total comprehensive income attributable to:		
Owners of the Company	4,153	8,653
Non-controlling interests	(369)	128

(3) Summary quarterly consolidated statement of changes in equity

(Millions of yen)

Items	Attributable to the owners of the Company						
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity		
					Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges
April 1, 2016	21,763	33,076	(9,231)	132,677	64	950	(16)
Profit	—	—	—	5,913	—	—	—
Other comprehensive income	—	—	—	—	(1,153)	(610)	4
Total comprehensive income	—	—	—	5,913	(1,153)	(610)	4
Payment of dividends	—	—	—	(4,335)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Share-based payment transactions	—	—	—	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	(2)	—	2	—
Total transactions with owners	—	—	(0)	(4,338)	—	2	—
September 30, 2016	21,763	33,076	(9,231)	134,252	(1,088)	342	(12)

(Millions of yen)

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2016	179,285	3,758	183,043
Profit	5,913	73	5,986
Other comprehensive income	(1,759)	(443)	(2,202)
Total comprehensive income	4,153	(369)	3,783
Payment of dividends	(4,335)	(90)	(4,426)
Purchase of treasury stock	(0)	—	(0)
Share-based payment transactions	—	—	—
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(4,335)	(90)	(4,426)
September 30, 2016	179,102	3,297	182,400

(Millions of yen)

Items	Attributable to the owners of the Company						
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity		
					Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges
April 1, 2017	21,763	33,076	(9,231)	146,537	(582)	621	(9)
Profit	—	—	—	8,104	—	—	—
Other comprehensive income	—	—	—	—	318	185	45
Total comprehensive income	—	—	—	8,104	318	185	45
Payment of dividends	—	—	—	(4,913)	—	—	—
Purchase of treasury stock	—	—	(389)	—	—	—	—
Share-based payment transactions	—	18	—	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	—	—	—	—
Total transactions with owners	—	18	(389)	(4,913)	—	—	—
September 30, 2017	21,763	33,094	(9,621)	149,727	(264)	807	35

(Millions of yen)

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2017	192,175	3,525	195,701
Profit	8,104	(4)	8,099
Other comprehensive income	549	133	682
Total comprehensive income	8,653	128	8,781
Payment of dividends	(4,913)	(87)	(5,000)
Purchase of treasury stock	(389)	—	(389)
Share-based payment transactions	18	—	18
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(5,284)	(87)	(5,371)
September 30, 2017	195,543	3,567	199,111

(4) Notes to the summary of consolidated Financial Statement

(Notes on going concern assumptions)

None

(Change in the accounting policies / Change of estimation in accounting)

None