

Consolidated Financial Results for the Third Quarter of the Fiscal Year ending March 31, 2018 (IFRS)

February 1, 2018

Listed Company Name: ITOCHU Techno-Solutions Corporation

Listing Exchanges: Tokyo Stock Exchange

Securities Code: 4739

URL: <http://www.ctc-g.co.jp/en/index.html>

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

February 13, 2018

Scheduled date of dividend payment:

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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 nine months ended December 31, 2017 (April 1, 2017 – December 31, 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	%
Nine months ended 12/17	294,707	8.4	16,612	12.6	18,347	22.9	12,398	22.8	12,327	23.9	13,576	55.1
Nine months ended 12/16	271,934	8.0	14,747	48.8	14,931	48.2	10,092	59.9	9,950	59.0	8,753	61.8

	Basic earnings per share attributable to CTC's shareholders		Diluted earnings per share attributable to CTC's shareholders	
	Yen		Yen	
Nine months ended 12/17	106.67		—	
Nine months ended 12/16	86.07		—	

(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	%
December 31, 2017	324,458	199,559	195,288	60.2
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):

Nine months ended 12/17:	120,000,000 shares	Year ended 3/17:	120,000,000 shares
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 - (ii) Number of treasury shares at the end of period:

Nine months ended 12/17:	4,485,188 shares	Year ended 3/17:	4,385,798 shares
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 - (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period):

Nine months ended 12/17:	115,569,365 shares	Nine months ended 12/16:	115,614,232 shares
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* 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.

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1. Qualitative Information Regarding the Results for the Nine-Month Period Ended December 31, 2017

(1) Qualitative information on consolidated operating results

In the first nine 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 and distribution 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 by establishing an organization dedicated to comprehensively supporting its customers in using AI. As part of this, the Group began handling the deep learning AI supercomputers of American technology company NVIDIA Corporation and providing the CTC Integrated AI Platform Stack, an AI hybrid cloud environment that integrates AI development processes and technologies, to support companies in using AI. In addition, the Group has participated in the AI Business Promotion Consortium of 11 companies (as of December 13, 2017 at the time of establishment) involved in application and service development, demonstration experiments, and other activities in the AI field for sharing the relevant expertise of the participants and promoting cooperation among them.
- The Group is promoting on-premises system construction based on customers' system requirements and use and the strengthening of its cloud integration capabilities, linking different environments such as the Group's own cloud services and other public cloud services to build optimal systems. As part of these activities, the Group obtained AWS Premier Consulting Partner designation, the highest status in the AWS Partner Network, which is the partner program for Amazon Web Services. Furthermore, the Group began collaborating with ABeam Consulting Ltd. in the cloud service business, and the Group's cloud service, CUVICmc2, which specializes in backbone systems, was adopted in the ABeam Cloud base, the business innovation platform provided by ABeam Consulting.

<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. Additionally, the Group acquired all the shares of Netband Consulting Co., Ltd., a joint venture in Thailand (changing the trade name to CTC Global (Thailand) Ltd. on January 25, 2018), to make it a subsidiary. The CTC Group will strengthen its collaboration in Japan and in the ASEAN region provide optimal IT services to local and Japanese companies in ASEAN.

- 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. As part of this project, the Group established DEJIMA, an event and co-creation activity space providing a prototype development environment for incorporating new ideas into businesses at an early stage.
- The Group founded CTC Innovation Partners, a corporate venture capital fund aimed at accelerating business creation through innovation. It supports the growth of promising start-ups by providing funds and participating in their businesses, and facilitates the expansion of business domains through joint ventures with customers.

<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, including the introduction of new programs to support employees’ flexible work styles. 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.
- On November 1, 2017, the Group founded CTC Business Expert Corporation, a company with the shared service functions of the CTC Group including financial accounting and product management. It aims to raise the level of specialization and productivity to increase the Group’s management capacity by integrating functions such as overall accounting operations, product ordering and management, and the management of logistics center operations within the Group.
- CTC is working to create a work environment which accepts diversity and is a rewarding work environment for every employee. In recognition of the activities for the expansion of systems and the communication of information aimed at supporting female employees in their careers, 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 nine months of the fiscal year under review, sales in all segments, including Services, SI Development, and Products, increased, resulting in revenue of 294,707 million yen (up 8.4% year on year). Operating income rose 12.6% year on year, to 16,612 million yen, thanks to higher revenue and gross margin. An increase in operating income and financial income contributed to profit before tax of 18,347 million yen (up 22.9%), net profit of 12,398 million yen (up 22.8% year on year), and net profit attributable to CTC’s shareholders of 12,327 million yen (up 23.9%).

(2) Qualitative information on consolidated financial position

Total assets amounted to 324,458 million yen as of December 31, 2017, a decrease of 8,664 million yen from March 31, 2017. This was largely attributable to decreases of 19,795 million yen in trade and other receivables and 2,282 million yen in deferred tax assets, which offset increases of 5,459 million yen in cash and cash equivalents and 7,291 million yen in other current assets.

Total liabilities stood at 124,898 million yen, a decrease of 12,523 million yen from March 31, 2017. The principal contributing factors included decreases of 13,391 million yen in trade and other payables, 7,102 million yen in income taxes payable, and 5,150 million yen in liabilities for employee benefits (current liabilities), which offset an increase of 11,090 million yen in other current liabilities.

Total equity was 199,559 million yen, a rise of 3,858 million yen from March 31, 2017. This was primarily attributable to increases of 12,398 million yen in net profit and 1,177 million yen in other comprehensive income, which offset decreases of 9,914 million yen for the payment of dividends.

(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 of Quarterly Consolidated Financial Statements

(1) Summary of quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of December 31, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	48,213	53,672
Trade and other receivables	115,473	95,677
Inventories	24,045	28,773
Current tax assets	22	74
Other current financial assets	25,017	23,083
Other current assets	37,421	44,713
Total current assets	250,194	245,994
Non-current assets		
Property, plant and equipment	36,365	34,751
Goodwill	3,899	4,603
Intangible assets	12,560	10,903
Investments accounted for using the equity method	664	710
Other non-current financial assets	13,989	14,548
Deferred tax assets	12,679	10,396
Other non-current assets	2,769	2,549
Total non-current assets	82,929	78,464
Total assets	333,123	324,458

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of December 31, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	48,222	34,831
Other current financial liabilities	5,658	6,787
Income taxes payable	9,064	1,962
Liabilities for employee benefits	17,079	11,928
Provisions	689	806
Other current liabilities	40,909	51,999
Total current liabilities	121,624	108,315
Non-current liabilities		
Non-current financial liabilities	10,016	11,060
Liabilities for employee benefits	3,720	3,475
Provisions	1,732	1,723
Deferred tax liabilities	327	323
Total non-current liabilities	15,797	16,583
Total liabilities	137,422	124,898
Equity		
Common stock	21,763	21,763
Capital surplus	33,076	33,141
Treasury stock	(9,231)	(9,621)
Retained earnings	146,537	149,037
Other components of equity	29	967
Total shareholders' equity	192,175	195,288
Non-controlling interests	3,525	4,271
Total equity	195,701	199,559
Total liabilities and equity	333,123	324,458

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

Summary of quarterly consolidated income statement

	Previous consolidated fiscal year (From April 1, 2016 to December 31, 2016)	Consolidated fiscal year under review (From April 1, 2017 to December 31, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	271,934	294,707
Cost of sales	(210,169)	(226,972)
Gross profit	61,765	67,734
Other income and expenses		
Selling, general and administrative expenses	(46,951)	(51,272)
Other income	252	298
Other expenses	(318)	(149)
Total other income and expenses	(47,017)	(51,122)
Operating income	14,747	16,612
Financial income	267	522
Financial costs	(130)	(70)
Share of profit of associates accounted for using the equity method	46	(29)
Gains on disposal and remeasurement of investments in subsidiaries and associates	—	1,312
Profit before tax	14,931	18,347
Income tax expense	(4,838)	(5,948)
Net profit	10,092	12,398
Profit attributable to :		
CTC's shareholders	9,950	12,327
Non-controlling interests	142	70

Earnings per share	(Yen)	(Yen)
(Attribution to CTC's shareholders):		
Basic earnings per share	86.07	106.67
Diluted earnings per share	—	—

Summary quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2016 to December 31, 2016)	Consolidated fiscal year under review (From April 1, 2017 to December 31, 2017)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	10,092	12,398
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	(648)	317
Share of other comprehensive income of associates accounted for using the equity method	(0)	3
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(718)	859
Cash flow hedges	51	37
Share of other comprehensive income of associates accounted for using the equity method	(23)	(39)
Total other comprehensive income, net of tax effect	(1,339)	1,177
Total comprehensive income	8,753	13,576
Total comprehensive income attributable to:		
Owners of the Company	8,838	13,265
Non-controlling interests	(84)	311

(3) Summary of 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	—	—	—	9,950	—	—	—
Other comprehensive income	—	—	—	—	(515)	(648)	51
Total comprehensive income	—	—	—	9,950	(515)	(648)	51
Payment of dividends	—	—	—	(8,671)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Share-based payment transactions	—	—	—	—	—	—	—
Changes in interests in subsidiaries	—	—	—	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	(2)	—	2	—
Total transactions with owners	—	—	(0)	(8,673)	—	2	—
December 31, 2016	21,763	33,076	(9,231)	133,954	(450)	304	35

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2016	179,285	3,758	183,043
Profit	9,950	142	10,092
Other comprehensive income	(1,112)	(227)	(1,339)
Total comprehensive income	8,838	(84)	8,753
Payment of dividends	(8,671)	(90)	(8,761)
Purchase of treasury stock	(0)	—	(0)
Share-based payment transactions	—	—	—
Changes in interests in subsidiaries	—	—	—
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(8,671)	(90)	(8,761)
December 31, 2016	179,452	3,583	183,035

(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	—	—	—	12,327	—	—	—
Other comprehensive income	—	—	—	—	579	320	37
Total comprehensive income	—	—	—	12,327	579	320	37
Payment of dividends	—	—	—	(9,827)	—	—	—
Purchase of treasury stock	—	—	(390)	—	—	—	—
Share-based payment transactions	—	24	—	—	—	—	—
Changes in interests in subsidiaries	—	40	—	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	—	—	—	—
Total transactions with owners	—	65	(390)	(9,827)	—	—	—
December 31, 2017	21,763	33,141	(9,621)	149,037	(3)	942	27

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2017	192,175	3,525	195,701
Profit	12,327	70	12,398
Other comprehensive income	937	240	1,177
Total comprehensive income	13,265	311	13,576
Payment of dividends	(9,827)	(87)	(9,914)
Purchase of treasury stock	(390)	—	(390)
Share-based payment transactions	24	—	24
Changes in interests in subsidiaries	40	521	562
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(10,152)	434	(9,717)
December 31, 2017	195,288	4,271	199,559

(4) Notes to the summary of quarterly consolidated financial statements

(Notes on going concern assumptions)

None

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

None

(Significant subsequent events)

Stock split

The Board of Directors of CTC passed a resolution at the meeting held on February 1, 2018 to implement a stock split with the effective date of April 1, 2018.

1. Purpose of stock split

The stock split is conducted to reduce the price per unit of investment, thereby organizing the investment environment easily accessible for investors, aiming for an increase in the number of CTC's investors, and a rise in the liquidity of CTC stock.

2. Overview of stock split

(i) Method of stock split

With the record date set as March 31, 2018, (in effect March 30, 2018, since March 31, 2018 is a non-working day of the administrator of the shareholder registry), each share of common stock held by shareholders written or recorded in the last shareholder registry on the record date will be split into two (2-for-1 split).

(ii) The number of shares added by the stock split

Total number of shares outstanding before the stock split	120,000,000
The number of shares added by the stock split	120,000,000
Total number of shares outstanding after the stock split	240,000,000
Total number of authorized shares after the stock split	492,000,000

(iii) Schedule for the stock split

Record date announcement Friday, March 9, 2018

Record date Saturday, March 31, 2018

(in effect March 30, 2018, since March 31, 2018 is a non-working day of the administrator of the shareholder registry)

Effective date Sunday, April 1, 2018

3. Effect on per-share information

The per-share information on the assumption that the stock split was implemented at the beginning of the previous fiscal year is as follows:

	Previous consolidated fiscal year (From April 1, 2016 to December 31, 2016)	Consolidated fiscal year under review (From April 1, 2017 to December 31, 2017)
Basic earnings per share attributable to CTC's shareholders (yen)	43.03	53.33