

# Consolidated Financial Results

## for the First Quarter of the Fiscal Year ending March 31, 2019

### (IFRS)

August 1, 2018

Listed Company Name: ITOCHU Techno-Solutions Corporation      Listing Exchanges: Tokyo Stock Exchange  
 Securities Code: 4739      URL <http://www.ctc-g.co.jp/>  
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Scheduled date to submit the annual securities report (*Shihanki Hokokusho*): August 10, 2018  
 Scheduled date of dividend payment: -  
 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 three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(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	%
Three months ended 6/18	90,974	5.7	3,122	13.9	3,356	7.4	2,246	8.2	2,267	2,469	2.3
Three months ended 6/17	86,054	4.4	2,741	38.2	3,124	57.0	2,076	66.2	2,067	2,412	—

	Basic earnings per share attributable to CTC's shareholders	Diluted earnings per share attributable to CTC's shareholders
	Yen	Yen
Three months ended 6/18	9.82	—
Three months ended 6/17	8.94	—

(Note) The company conducted a two-for-one stock split for its common stock on April 1, 2018. The amount of "Basic earnings per share attributable to CTC's shareholders" is calculated on the assumption that the stock split had been carried out at the beginning of the previous consolidated fiscal year.

## (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	%
June 30, 2018	335,803	207,845	203,630	60.6
March 31, 2018	353,882	210,850	206,569	58.4

## 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 3/18	—	42.50	—	47.50	90.00
Year ending 3/19	—				
Year ending 3/19 (forecast)		24.00	—	24.00	48.00

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

2. The company conducted a two-for-one stock split for its common stock on April 1, 2018. For the fiscal years ended March 2018, the amounts of dividends before the stock split are recorded.

## 3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(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	450,000	4.7	35,000	7.3	35,000	3.8	24,200	1.8	24,000	1.8	103.88

(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: | Applicable     |
| (ii) Changes in accounting principles other than (i):  | Not applicable |
| (iii) Changes in accounting estimates:                 | Not applicable |

(Note) For further details, please refer to the section “Notes to the summary of consolidated Financial Statement” of this Consolidated Financial Results in the Accompanying Materials section on page 12.

(3) Number of outstanding shares (common shares)

- |  |                    |                          |                    |
|--|--------------------|--------------------------|--------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares):                                 |                    |                          |                    |
| Three months ended 6/18:   | 240,000,000 shares | Year ended 3/18:         | 240,000,000 shares |
| (ii) Number of treasury shares at the end of period:   |                    |                          |                    |
| Three months ended 6/18:   | 8,970,722 shares   | Year ended 3/18:         | 8,970,504 shares   |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): |                    |                          |                    |
| Three months ended 6/18:   | 231,029,287 shares | Three months ended 6/17: | 231,228,398 shares |

(Note) The Company conducted a two-for-one stock split for its common stock on April 1, 2018. “Number of shares outstanding at the end of period (including treasury shares),” “Number of treasury shares at the end of period” and “Average number of shares during the period” are calculated on the assumption that the stock split had been carried out at the beginning of the previous consolidated fiscal year.

\* 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 First Quarter

### (1) Qualitative information on consolidated operating results

In the first three months of the fiscal year ending March 2019, the Japanese economy maintained its overall moderate recovery, chiefly supported by improvement in corporate earnings and the employment situation despite the increasing uncertainty of the future of the world economy that is attributed in part to other countries' policies on international trade.

In the information service industry, the 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 formulated a Medium-Term Management Plan: "Opening New Horizons ~To See New Landscapes~," covering the three years from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021, which is aimed at achieving its vision of "Take responsibility for the evolution of the IT industry, as the industry's leading company." The Group has termed the fields for new activities "Horizons" and focuses its efforts on "Go upward: Challenge business transformation," "Go forward: Sharpening our advantages," "Go out: New coverage, new region in globe," and "Consolidate foothold: Stabilize management infrastructure." Specific initiatives are as follows.

- To reduce the burden of system operation work that is becoming ever more complicated, the CTC Group has begun providing Multi-Platform Monitoring, a service developed by the Group that features the centralized monitoring of the hybrid system environment with mixture of on-premises, cloud and other systems, and which also provides failure analysis. The Group will provide this service together with maintenance support and operational services to contribute to the stable operation of customers' systems.

- The Group has formed a business alliance on the IT services business in Europe with Newton Information Technology Ltd. in Britain, which provides IT services in Europe, and has commenced joint sales activities focused mainly on Japanese companies. Moving forward, the Group will provide customer support on a global scale by working in concert with CTC Group companies and business partners in the ASEAN region and North America. The Group also plans to establish R&D bases in Europe (London) and China (Shenzhen) to develop new solutions and discover advanced technologies.

- The Group has opened "agile offices" at its offices in Tokyo and Toyota City. An agile office is a dedicated space for agile development, in which new business is commenced quickly with a small start and promoted flexibly with repeated changes. The Group will strive to co-create digital businesses in the environment that facilitates close cooperation with customers while also focusing its efforts on the development of engineers to be involved in the co-creation.

- The Group invested in Cinnamon Inc. in the second project of CTC Innovation Partners (a venture capital that was established to provide support to start-ups and expand business domains through joint ventures with customers). Among AI technologies that are deemed promising in various fields, Cinnamon Inc. has leading technologies in the field of AI OCR. The company has developed the "Flax Scanner," a tool which is capable of recognizing handwritten characters with significantly high precision that was enabled by the use of deep learning. The Group will further evolve its Business Process Outsourcing (BPO) business with linkage between AI and RPA and collaboration with BELLSYSTEM24 Holdings, Inc. and realize high-productivity solutions/BPO promoted by the Group, thereby contributing to the improvement of customers' operating efficiency and productivity.

- Since 2014, the Group has been actively promoting Work Style Innovation, which is aimed at enabling employees to find their jobs more meaningful and work more comfortably. As measures for creating workplaces where each employee can work actively in good physical and mental health, the CTC Group has enhanced cancer screening programs and introduced a financial assistance program for employees receiving advanced medical care. The Group has thus established a system for the prevention and early detection of cancer, which has become a disease with which everyone is familiar, for its employees and for helping employees with cancer to continue working. As a result of these measures, CTC was certified as a Health and Productivity Management Organization (White 500) for 2018 by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi for the second consecutive year.

- CTC was selected as one of the Competitive IT Strategy Companies for 2018 for the second consecutive year. Under this program, the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange (TSE) select companies that are proactive in utilizing IT to improve management innovations, earnings and productivity.

In its sales activities, the Group focused primarily on communication development and network development projects, infrastructure development projects for internet service providers, and infrastructure development projects for financial institutions.

During the first three months of the fiscal year ending March 2019, sales in the Services and Products businesses increased, resulting in revenue of 90,974 million yen (up 5.7% year on year). Operating income rose 13.9% year on year, to 3,122 million yen, thanks to higher revenue and gross margin. An increase in operating income and share of profit of associates accounted for using the equity method contributed to profit before tax of 3,356 million yen (up 7.4% year on year), net profit of 2,246 million yen (up 8.2%), and net profit attributable to CTC's shareholders of 2,267 million yen (up 9.7%).

## (2) Qualitative information on consolidated financial position

Total assets amounted to 335,803 million yen as of June 30, 2018, a decrease of 18,078 million yen from March 31, 2018. This was attributable largely to decreases of 48,831 million yen in trade and other receivables and 1,981 million yen in other current financial assets, which offset increases of 7,042 million yen in cash and cash equivalents, 6,967 million yen in inventories, and 19,512 million yen in other current assets.

Total liabilities stood at 127,958 million yen, a decrease of 15,073 million yen from March 31, 2018. The principal contributing factors included decreases of 13,686 million yen in trade and other payables, 7,762 million yen in income taxes payable, and 6,513 million yen in liabilities for employee benefits (current liabilities), which offset increases of 2,655 million yen in other current financial liabilities and 10,728 million yen in other current liabilities.

Total equity was 207,845 million yen, a decline of 3,004 million yen from the end of the previous consolidated fiscal year. This was mainly attributable to a decrease of 5,540 million yen in the payment of dividends, which offset increases of 2,246 million yen in net profit and 222 million yen in other comprehensive income.

## (3) Qualitative information on consolidated earnings forecasts

At present, the Company has not revised its financial forecasts announced on May 1, 2018.

## 2. Summary of Quarterly Consolidated Financial Statements and Notes

### (1) Summary of quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2018)	Consolidated fiscal year under review (As of June 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	51,003	58,045
Trade and other receivables	130,370	81,538
Inventories	25,577	32,545
Current tax assets	79	509
Other current financial assets	23,333	21,351
Other current assets	42,427	61,940
Total current assets	272,792	255,932
Non-current assets		
Property, plant and equipment	34,857	34,280
Goodwill	4,470	4,443
Intangible assets	10,538	10,159
Investments accounted for using the equity method	724	882
Other non-current financial assets	14,888	15,665
Deferred tax assets	12,817	11,876
Other non-current assets	2,793	2,565
Total non-current assets	81,090	79,871
Total assets	353,882	335,803

	Previous consolidated fiscal year (As of March 31, 2018)	Consolidated fiscal year under review (As of June 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	48,572	34,885
Other current financial liabilities	5,992	8,647
Income taxes payable	8,089	327
Liabilities for employee benefits	17,633	11,119
Provisions	707	671
Other current liabilities	44,934	55,662
Total current liabilities	125,929	111,314
Non-current liabilities		
Non-current financial liabilities	10,912	10,505
Liabilities for employee benefits	4,149	4,113
Provisions	1,716	1,723
Deferred tax liabilities	324	301
Total non-current liabilities	17,103	16,644
Total liabilities	143,032	127,958
Equity		
Common stock	21,763	21,763
Capital surplus	33,152	33,172
Treasury stock	(9,621)	(9,622)
Retained earnings	160,544	157,367
Other components of equity	730	949
Total shareholders' equity	206,569	203,630
Non-controlling interests	4,281	4,215
Total equity	210,850	207,845
Total liabilities and equity	353,882	335,803

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

Summary of quarterly consolidated income statement

	Previous consolidated fiscal year (From April 1, 2017 to June 30, 2017)	Consolidated fiscal year under review (From April 1, 2018 to June 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	86,054	90,974
Cost of sales	(66,545)	(70,022)
Gross profit	19,508	20,952
Other income and expenses		
Selling, general and administrative expenses	(16,795)	(17,872)
Other income	81	57
Other expenses	(52)	(14)
Total other income and expenses	(16,766)	(17,829)
Operating income	2,741	3,122
Financial income	395	102
Financial costs	(22)	(55)
Share of profit of associates accounted for using the equity method	10	187
Profit before tax	3,124	3,356
Income tax expense	(1,048)	(1,109)
Net profit	2,076	2,246
Profit attributable to:		
CTC's shareholders	2,067	2,267
Non-controlling interests	8	(20)
Earnings per share (Attribution to CTC's shareholders):	(Yen)	(Yen)
Basic earnings per share	8.94	9.82
Diluted earnings per share	—	—



Summary of quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2017 to June 30, 2017)	Consolidated fiscal year under review (From April 1, 2018 to June 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	2,076	2,246
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	97	146
Share of other comprehensive income of associates accounted for using the equity method	3	(2)
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	211	(10)
Cash flow hedges	22	86
Share of other comprehensive income of associates accounted for using the equity method	0	1
Total other comprehensive income, net of tax effect	336	222
Total comprehensive income	2,412	2,469
Total comprehensive income attributable to:		
Owners of the Company	2,339	2,485
Non-controlling interests	72	(16)

## (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, 2017	21,763	33,076	(9,231)	146,537	(582)	621	(9)
Profit	—	—	—	2,067	—	—	—
Other comprehensive income	—	—	—	—	147	101	22
Total comprehensive income	—	—	—	2,067	147	101	22
Payment of dividends	—	—	—	(4,913)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Sale of treasury stock	—	—	—	—	—	—	—
Share-based payment transactions	—	—	—	—	—	—	—
Total transactions with owners	—	—	(0)	(4,913)	—	—	—
June 30, 2017	21,763	33,076	(9,231)	143,691	(434)	723	13

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2017	192,175	3,525	195,701
Profit	2,067	8	2,076
Other comprehensive income	271	64	336
Total comprehensive income	2,339	72	2,412
Payment of dividends	(4,913)	(50)	(4,964)
Purchase of treasury stock	(0)	—	(0)
Sale of treasury stock	—	—	—
Share-based payment transactions	—	—	—
Total transactions with owners	(4,913)	(50)	(4,964)
June 30, 2017	189,601	3,547	193,148

(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, 2018 (as previously reported)	21,763	33,152	(9,621)	160,544	(270)	1,053	(52)
Effect of accounting change	—	—	—	46	—	—	—
April 1, 2018 (as restated)	21,763	33,152	(9,621)	160,591	(270)	1,053	(52)
Profit	—	—	—	2,267	—	—	—
Other comprehensive income	—	—	—	—	(12)	144	86
Total comprehensive income	—	—	—	2,267	(12)	144	86
Payment of dividends	—	—	—	(5,491)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Sale of treasury stock	—	0	0	—	—	—	—
Share-based payment transactions	—	20	—	—	—	—	—
Total transactions with owners	—	20	(0)	(5,491)	—	—	—
June 30, 2018	21,763	33,172	(9,622)	157,367	(283)	1,197	34

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2018 (as previously reported)	206,569	4,281	210,850
Effect of accounting change	46	—	46
April 1, 2018 (as restated)	206,616	4,281	210,897
Profit	2,267	(20)	2,246
Other comprehensive income	218	3	222
Total comprehensive income	2,485	(16)	2,469
Payment of dividends	(5,491)	(48)	(5,540)
Purchase of treasury stock	(0)	—	(0)
Sale of treasury stock	0	—	0
Share-based payment transactions	20	—	20
Total transactions with owners	(5,471)	(48)	(5,520)
June 30, 2018	203,630	4,215	207,845

#### (4) Notes to the summary of consolidated Financial Statement

(Notes on going concern assumptions)

None

(Change in the accounting policies)

Application of IFRS 9 Financial Instruments

Starting from the first quarter of the consolidated fiscal year ending March 2019, the Group applies IFRS 9 Financial Instruments (revised in July 2014). In applying IFRS 9, the Group adopted a method with which the accumulated impact of the application of IFRS 9 is recognized on the day when it began to be applied, which is permitted as a transitional measure.

Concerning impairment losses of financial assets, IFRS 9 replaces “incurred loss model” in IAS 39 “Financial Instruments: Recognition and Measurement” with “expected credit loss model.”

On the last day of every consolidated accounting period, the CTC Group assesses whether or not credit risk related to financial assets has increased significantly from the level at the time of initial recognition. Where the credit risk has not increased significantly from the level at the time of initial recognition, the Group recognizes the amount equivalent to the 12-month expected credit losses as the allowance for doubtful accounts. On the other hand, where the credit risk has increased significantly from the level at the time of initial recognition, the Group recognizes the amount equivalent to the full lifetime expected credit losses as the allowance for doubtful accounts. However, the Group applies the simplified approach stipulated in IFRS 9 for expected credit losses related to trade receivables, contract assets and lease receivables, recognizing the allowance for doubtful accounts to be equivalent in amount to the full lifetime expected credit losses. Expected credit losses are estimated by reflecting changes in credit information, information about overdue accounts receivable and other information.

The application of this standard does not have any material impact on the profit or loss of the Group.

Application of IFRS 15 Revenue from Contracts with Customers

Starting from the first quarter of the consolidated fiscal year ending March 2019, the CTC Group applies IFRS 15 Revenue from Contracts with Customers (published in May 2014) and Clarifications to IFRS 15 (published in April 2016) (hereinafter collectively referred to as “IFRS 15”). In applying IFRS 15, the Group adopted a method with which the accumulated impact of the application of IFRS 15 is recognized on the day when it began to be applied, which is permitted as a transitional measure.

Reflecting the application of IFRS 15, the Group recognizes its revenue in the following five steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation.

Revenue is measured based on the compensation indicated in the contract with the customer by excluding the amount of money collected for third parties. The CTC Group recognizes revenue when the control of goods or a service is passed to the customer.

The application of this standard does not have any material impact on the profit or loss of the Group.