

1st Half Operating Results for the Fiscal Year 2018

November 1, 2018

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.



Copyright©2018 ITOCHU Techno-Solutions Corporation

I

FY2018 1st Half

Overview of Operating Results

II

Progress of Medium-Term
Management Plan

III

FY2018

Operating Results Forecast

I

FY2018 1st Half

Overview of Operating Results

II

Progress of Medium-Term Management Plan

III

FY2018

Operating Results Forecast

Performance Highlights for the 1st Half of FY2018

- Higher revenue, higher gross profit and operating income.
- Progressing smoothly to achievement of the FY2018 forecast.
- In the first half of the fiscal year, revenue, gross profit and operating income are the highest after merger FY2006.

Performance for the 1st Half of FY2018

(Billions of Yen)

	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY change	YoY change (%)
Revenue	190.2	192.1	+1.8	+1.0%
Gross profit	44.2	45.6	+1.4	+3.2%
Gross profit margin	23.3%	23.8%	+0.5p	-
Other income and expenses	(33.7)	(35.1)	(1.3)	+4.0%
Operating income	10.4	10.5	+0.09	+0.9%
Operating income margin	5.5%	5.5%	(0.0p)	-
Net profit attributable to CTC's shareholders	8.1	7.3	(0.7)	-9.4%
Order received	194.6	185.6	(8.9)	-4.6%
Backlogs	242.3	238.2	(4.1)	-1.7%

Performance for the 1st Half of FY2018

【Revenue】

Increased in business for telecoms, ISP and finance.

【Gross profit】

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

* Gross profit margin excluding “Unprofitable projects” improved +0.2p YoY.

【Other income and expenses】

Increased SG&A expenses due to a rise in personnel cost.

【Operating income】

Increased due to an increase in gross profit.

【Net profit attributable to CTC's shareholders】

Despite an increase in operating income, net profit attributable to CTC's shareholders decreased due to gains on disposal of investments in subsidiaries and associates.

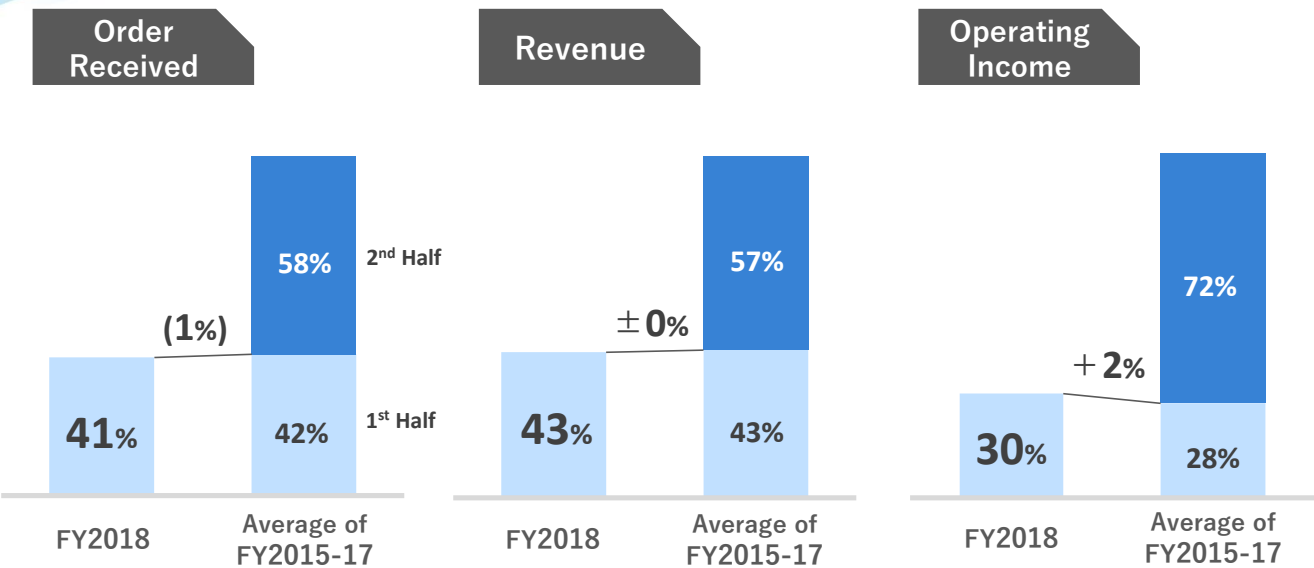
【Order Received】

Decreased in business for finance and social in spite of an increase in business for telecoms, ISP and manufacture.

【Backlogs】

Decreased in business for finance and social.

参考：The Rate of the 1st Half Progression to Forecast of FY2018



※ The rate of progression of the 1st half of FY2018 is calculated to forecast of full year, that of FY2015-17 is calculated to result of full year.

Performance by Business Groups

(Billions of Yen)

	Order received			Revenue			Backlogs		
	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change
Distribution & Enterprise	48.5	57.0	+8.4	56.6	56.1	(0.4)	78.8	77.9	(0.9)
Telecommunication	68.7	69.7	+1.0	61.3	72.2	+10.9	69.9	66.9	(3.0)
Regional & Social Infrastructure	23.2	19.8	(3.3)	26.7	21.9	(4.8)	49.3	44.5	(4.8)
Finance	27.2	15.3	(11.8)	18.3	19.4	+1.0	29.7	26.6	(3.1)
Others	26.8	23.6	(3.1)	27.2	22.3	(4.8)	14.3	22.1	+7.8
Total	194.6	185.6	(8.9)	190.2	192.1	+1.8	242.3	238.2	(4.1)

Performance by Business Groups

【Distribution & Enterprise】

Order received increased due to maintenance for manufacture and products for an audit firm.
Revenue almost unchanged.

【Telecommunication】

Order received increased due to infrastructure for telecoms and ISP and network for telecoms.

Revenue increased due to network and the project in new business area for CTC for telecoms and infrastructure for ISP.

【Regional & Social Infrastructure】

Order received decreased due to operation for social.

Revenue decreased due to infrastructure for social and network for public.

【Finance】

Order received decreased due to infrastructure construction for finance.

Revenue increased due to projects as written above.

【Others】

Order received decreased in service for medical institution in oversee subsidiary.

Despite an increase in overseas subsidiaries business, revenue decreased due to accounting change.

* The impact of accounting change is insignificant.

Performance by Business Models

(Billions of Yen)

	Order received			Revenue			Backlogs		
	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change	1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change
Services	73.9 (38.0%)	64.7 (34.9%)	(9.2)	81.0 (42.6%)	85.8 (44.7%)	+4.7	160.7 (66.3%)	162.7 (68.3%)	+2.0
SI Development	45.5 (23.4%)	44.1 (23.8%)	(1.3)	41.4 (21.8%)	40.0 (20.8%)	(1.4)	31.0 (12.8%)	29.6 (12.5%)	(1.3)
Products	75.1 (38.6%)	76.7 (41.3%)	+1.6	67.8 (35.6%)	66.3 (34.5%)	(1.5)	50.6 (20.9%)	45.8 (19.2%)	(4.8)
Total	194.6	185.6	(8.9)	190.2	192.1	+1.8	242.3	238.2	(4.1)

*Within the parenthesis is composition ratio.

Notice :The classification of several projects that were classified as products in the 1st half of FY2017 has changed to services. We displayed the result of order received and backlogs in the 1st half of FY2017 after the change was made.

Performance by Business Models

【Services】

Order received decreased due to maintenance and operation for finance and service for medical institution in oversee subsidiary.

Revenue increased due to operation for distribution and maintenance for telecoms.

【SI Development】

Order received decreased due to infrastructure construction projects for finance.

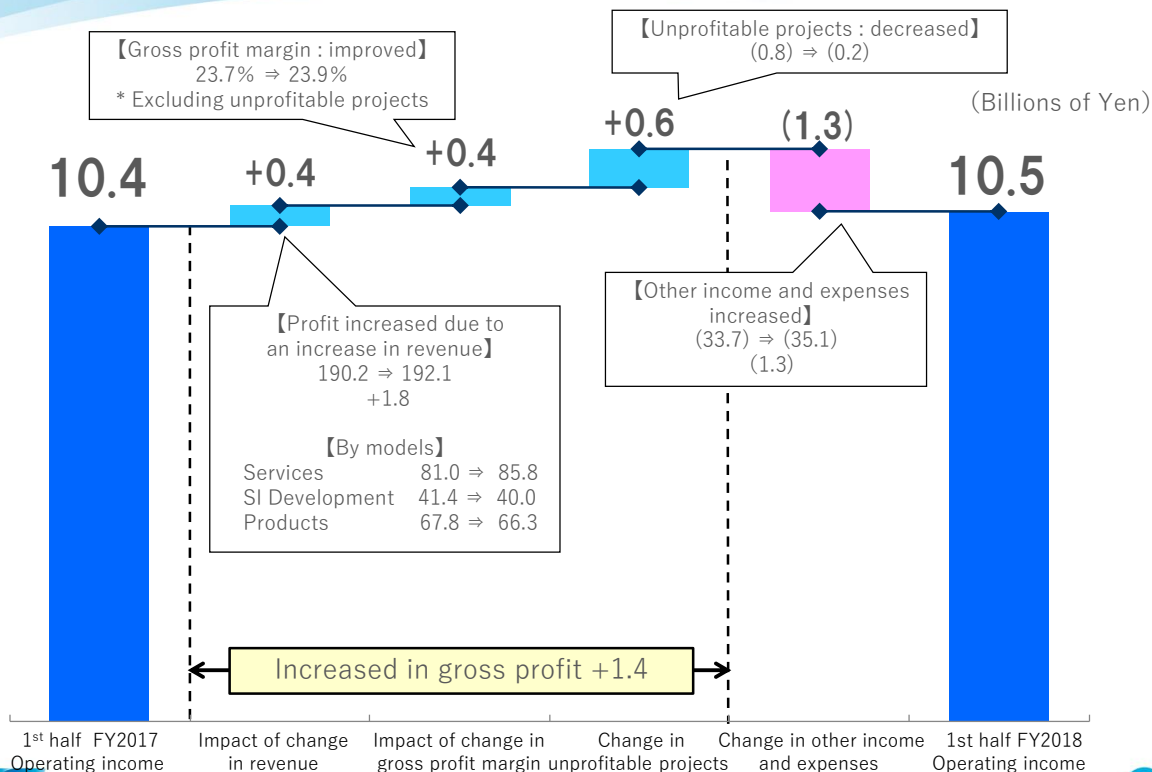
Revenue decreased due to development for distribution.

【Products】

Order received increased due to products for an audit firm and manufacture.

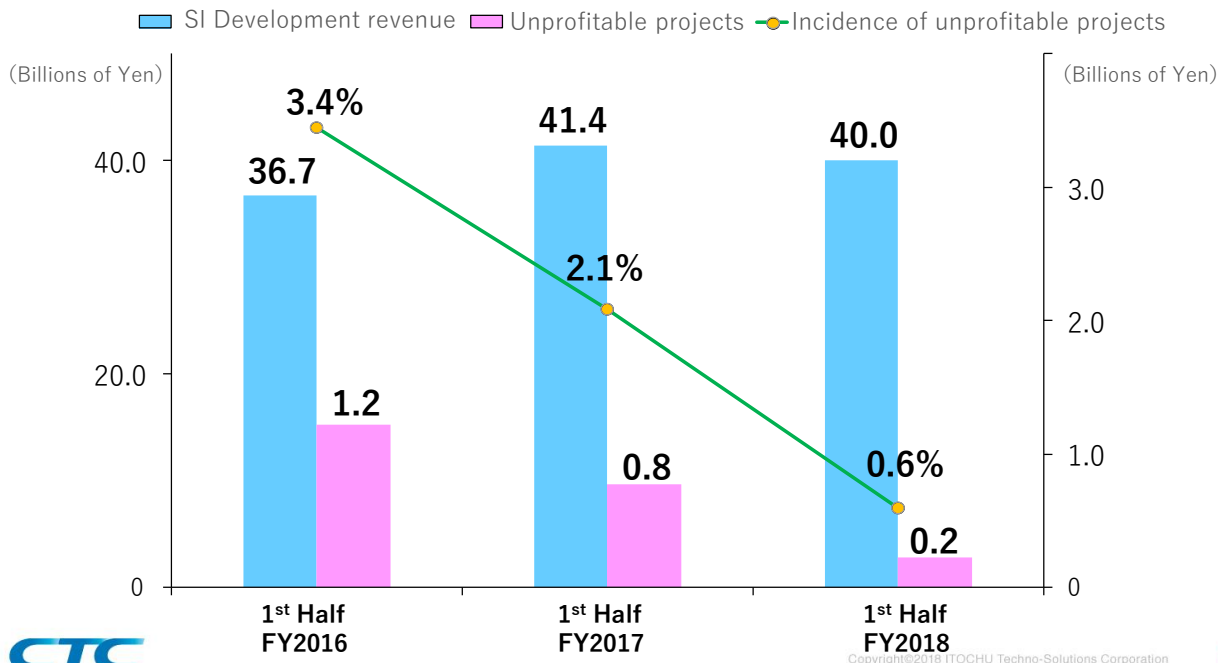
Revenue decreased due to products for distribution, infrastructure for social and network for public.

Main Reasons for YoY Changes in Operating Income



For Reference:
Revenue and Unprofitable Projects in SI Development

The ratio of unprofitable projects to SI Development revenue improved.



For Reference: Breakdown of “Other Income and Expenses”

(Billions of Yen)

		1 st Half FY2017 Results	1 st Half FY2018 Results	YoY Change
	Personnel expenses	(19.2)	(20.1)	(0.9)
	Outside staff expenses	(3.2)	(3.3)	(0.0)
	Depreciation and amortization	(1.5)	(1.5)	(0.0)
	Others	(9.8)	(10.0)	(0.2)
	SG&A expenses	(33.8)	(35.1)	(1.3)
	Other income	0.1	0.1	(0.0)
	Other expenses	(0.0)	(0.1)	(0.0)
	Other income and expenses	(33.7)	(35.1)	(1.3)

Breakdown of “Other Income and Expenses”

【Personnel expenses】

Personnel expenses increased due to an increase in number of employee, salaries and performance-linked bonuses.

For Reference: Consolidated Statement of Financial Position

(Billions of Yen)

	End of FY2017	End of 1 st half FY2018	YoY Change
Current assets	272.7	262.5	(10.2)
Non current assets	81.0	79.0	(2.0)
Total assets	353.8	341.5	(12.3)
Current liabilities	125.9	111.5	(14.4)
Non current liabilities	17.1	16.9	(0.1)
Total liabilities	143.0	128.4	(14.5)
Equity	210.8	213.1	+2.2
Total liabilities and equity	353.8	341.5	(12.3)

1. Current assets : **(10.2)**

Cash and cash equivalents	+5.9
Trade and other receivables	(44.2)
Inventories	+9.6
Other current financial assets	(2.1)
Other current assets	+20.1

2. Non-current assets : **(2.0)**

Property, plant and equipment	(0.7)
Intangible assets	(0.8)
Other non-current financial assets	+1.0
Deferred tax assets	(1.8)

3. Current liabilities : **(14.4)**

Trade and other payables	(15.7)
Income taxes payable	(6.0)
Liabilities for employee benefits	(3.3)
Other current liabilities	+11.9

4. Non-current liabilities : **(0.1)**

Non-current financial liabilities	(0.1)
-----------------------------------	-------

5. Equity : **+2.2**

Retained earnings	+1.8
-------------------	------

For Reference : Cash Flows

(Billions of Yen)

	1st Half FY2017 Results	1st Half FY2018 Results	YoY Change
Cash and cash equivalents at the beginning of the period	48.2	51.0	+2.7
Operating activities	0.4	12.1	+11.7
Investing activities	1.2	(1.0)	(2.2)
Financing activities	(2.5)	(5.2)	(2.7)
Cash and cash equivalents at the end of the period	47.5	56.9	+9.4
Free cash flow	1.6	11.1	+9.4

1. Cash flows from operating activities : **+11.7**

Profit before tax	(1.1)
Gains on disposal and remeasurement of investment in subsidiaries and associates	+1.1
Increase in trade and other receivables	+18.9
Increase (decrease) in inventories	(5.1)
Increase (decrease) in trade and other payables	(2.8)

2. Cash flows from investing activities : **(2.2)**

Purchases of property, plant and equipment	(0.4)
Purchases of intangible assets	(0.2)
Purchase of stocks of subsidiaries and affiliates	(0.5)
Proceeds from sales of shares of subsidiaries and associates	(0.7)

3. Cash flows from financing activities : **(2.7)**

Proceeds from sales and leaseback	(2.3)
Dividends paid	(0.5)

For Reference: Performance for the 2nd Quarter of FY2018 (3months)

(Billions of Yen)

	2 nd Quarter FY2017 Results	2 nd Quarter FY2018 Results	YoY change	YoY change (%)
Revenue	104.2	101.1	(3.0)	-2.9%
Gross profit	24.7	24.7	(0.0)	-0.0%
Gross profit margin	23.7%	24.4%	+0.7p	-
Other income and expenses	(16.9)	(17.2)	(0.2)	+1.7%
Operating income	7.7	7.4	(0.2)	-3.7%
Operating income margin	7.4%	7.4%	(0.0p)	-
Net profit attributable to CTC's shareholders	6.0	5.0	(0.9)	-16.0%
Order received	110.9	97.4	(13.4)	-12.1%
Backlogs	242.3	238.2	(4.1)	-1.7%

Performance for the 2nd Quarter of FY2018 (3months)

【Revenue】

Decreased in business for distribution, social and public.

【Gross profit】

In spite of lower revenue, gross profit unchanged because of improved gross profit margin.

※Gross profit margin excluding “unprofitable projects” improved +0.7p YoY.

【Other income and expenses】

Increased SG&A expenses due to a rise in personnel cost.

【Operating income】

Despite gross profit unchanged, operating income decreased due to an increase in other income and expenses.

【Net profit attributable to CTC's shareholders】

Decreased due to a decrease in gains on disposal of investments in subsidiaries and associates.

【Order received】

Decreased in business for finance and telecoms.

【Backlogs】

Decreased in business for finance and social.

For Reference : Performance by Business Groups/Business Models for the 2nd Quarter of FY2018 (3months)

(Billions of Yen)

		Order received			Revenue		
		2 nd Quarter (3months) FY2017 Results	2 nd Quarter (3months) FY2018 Results	YoY Change	2 nd Quarter (3months) FY2017 Results	2 nd Quarter (3months) FY2018 Results	YoY Change
By business group	Distribution & Enterprise	25.3	32.7	+7.4	30.9	29.6	(1.2)
	Telecommunication	38.4	34.2	(4.2)	34.5	36.9	+2.4
	Public & Regional	10.0	10.0	+0.0	15.1	11.6	(3.5)
	Finance & Social Infrastructure	20.1	7.8	(12.3)	9.8	9.7	(0.1)
	Others	16.9	12.5	(4.3)	13.6	13.1	(0.5)
	Total	110.9	97.4	(13.4)	104.2	101.1	(3.0)
By business model	Services	43.0	35.5	(7.5)	41.4	43.8	+2.3
	SI Development	25.9	22.8	(3.0)	21.7	21.3	(0.4)
	Products	41.9	39.0	(2.8)	41.0	36.0	(5.0)
	Total	110.9	97.4	(13.4)	104.2	101.1	(3.0)

Notice : The classification of several projects that were classified as products in the 2Q of FY2017 has changed to services. We displayed the result of order received in the 2Q of FY2017 after the change was made.

Performance by Business Groups

【Distribution & Enterprise】

Order received increased due to products for an audit firm, maintenance for manufacture and development for distribution.

Revenue decreased due to products for distribution.

【Telecommunication】

Order received decreased due to network for telecoms.

Revenue increased due to network for telecoms and infrastructure for ISP.

【Public & Regional】

Order received unchanged.

Revenue decreased due to infrastructure for social and network for public.

【Finance】

Order received decreased due to infrastructure construction for finance.

Revenue almost unchanged.

Performance by Models

【Services】

Order received decreased due to maintenance and operation for finance.

Revenue increased due to operation for distribution and maintenance for telecoms.

【SI Development】

Order received decreased due to infrastructure construction for finance.

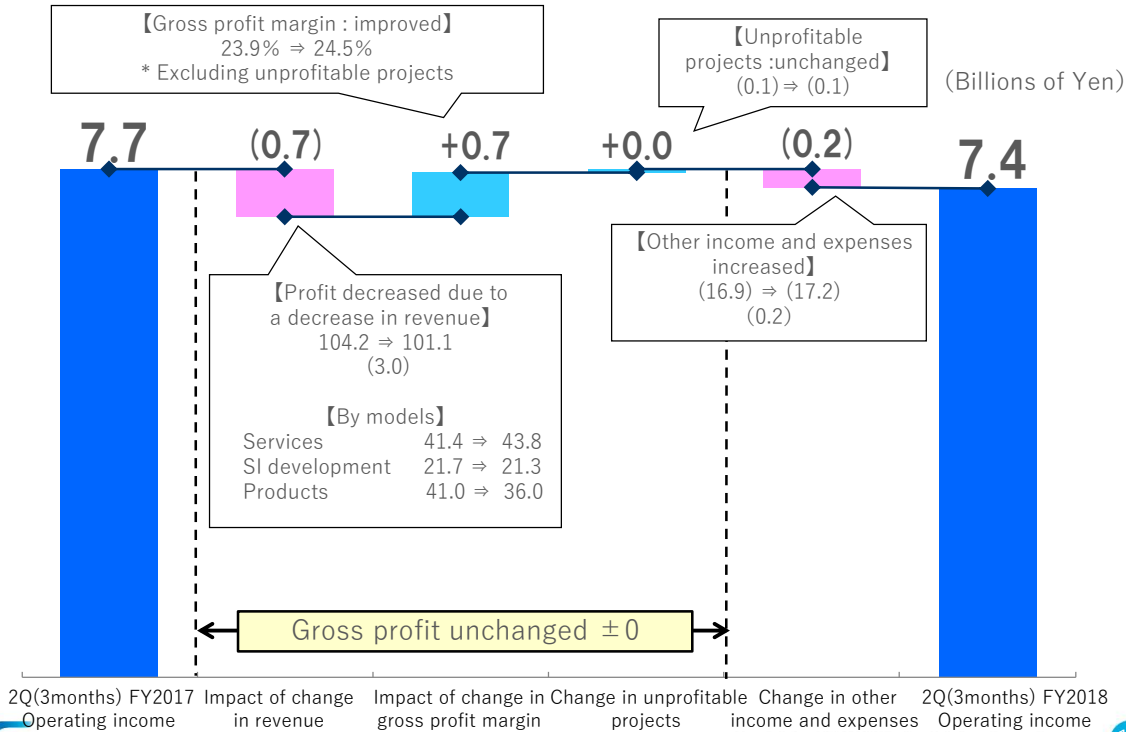
Revenue almost unchanged.

【Products】

Order received decreased due to network for telecoms and infrastructure for finance.

Revenue decreased due to products for distribution, infrastructure for social and network for public.

For Reference: Main Reasons for YoY Changes in Operating Income for the 2nd Quarter of FY2018 (3months)



For Reference:
Other Income and Expenses for the 2nd Quarter of FY2018 (3months)

(Billions of Yen)

	2 nd Quarter (3months) FY2017 Results	2 nd Quarter (3months) FY2018 Results	YoY change
Personnel expenses	(9.4)	(9.9)	(0.4)
Outside staff expenses	(1.6)	(1.5)	+0.0
Depreciation and amortization	(0.9)	(0.7)	+0.1
Others	(5.0)	(5.0)	+0.0
SG&A expenses	(17.0)	(17.2)	(0.2)
Other income	0.0	0.0	+0.0
Other expenses	(0.0)	(0.0)	(0.0)
Other income and expenses	(16.9)	(17.2)	(0.2)

Breakdown of “Other Income and Expenses”

【Personnel expenses】

Personnel expenses increased due to an increase in number of employee, salaries and performance-linked bonuses.

I

FY2018 1st Half

Overview of Operating Results

II

Progress of Medium-Term Management Plan

III

FY2018

Operating Results Forecast

New Horizons

Horizon 1

Go Upwards!

Challenge Business Transformation

- Co-Create of Digital Transformation Businesses with Major Clients
- Expand Businesses in Application Services Layer

Horizon 2

Go Forwards!

Sharpen our Advantages

- No.1 Cloud-Computing Integrator
- No.1 IT Infrastructure & Network Environment Provider
- Accelerate Expanding of Recurring Businesses

Horizon 4

Consolidate Footholds!

Stabilize Management Infrastructure

- Skill Transition & Workstyle Transformation
- Strengthen & Consolidate CTC Group Governance
- Quality First & Customer Centric
- Keep Shareholders Value & Returns

Horizon 3

Go Outwards!

New Coverage, New Region in Globe

- Expand Global Activities
- Create "Open Innovation" Activities as New Business Models

Business Goal (FY2020)

3

Strengthen profitability

Net profit attributable to
CTC's shareholders

¥**30** billion

6

**Growth in
focused businesses**

Recurring Business

¥**60** billion

Global Business

¥**60** billion

12

Increase ROE

ROE

12%+



Go Upwards!

-
- IoT entered into implementation phase
 - Expansion of agile development
-

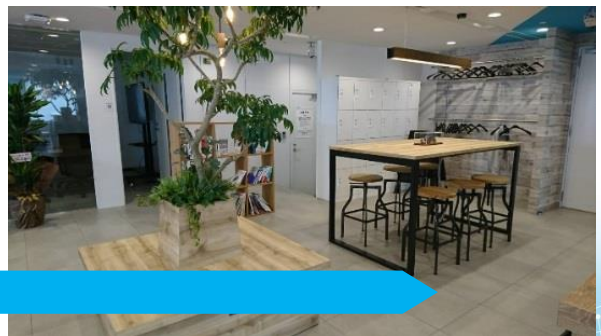
For Reference Dedicated Space of Agile Development



THE AGILE TOKYO in OSAKI



the agile office in TOYODA



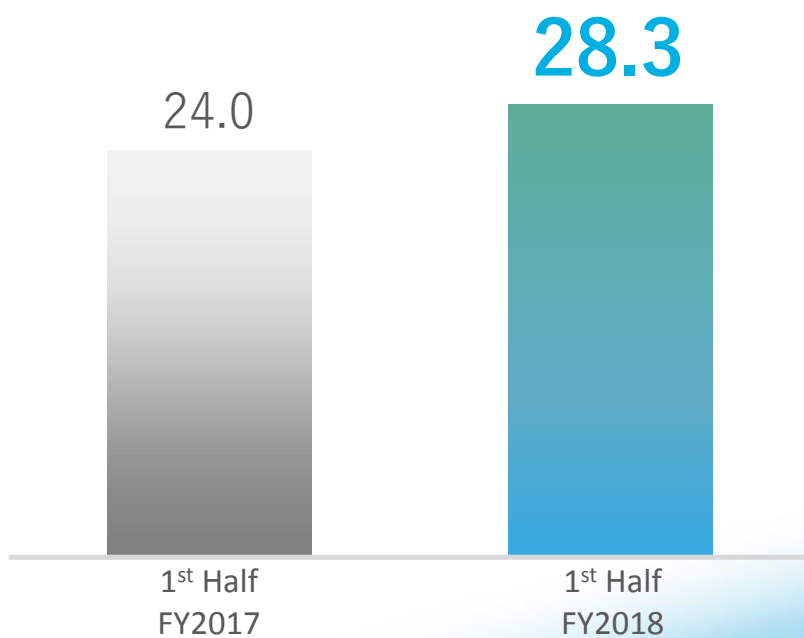


Go Forwards!

-
- Enlargement of recurring fee business
 - Stable operation of large-scale system/CUVICmc2
-

For Reference
The Result of Recurring Fee Business for the 1st Half of FY2018

(Billions of Yen)



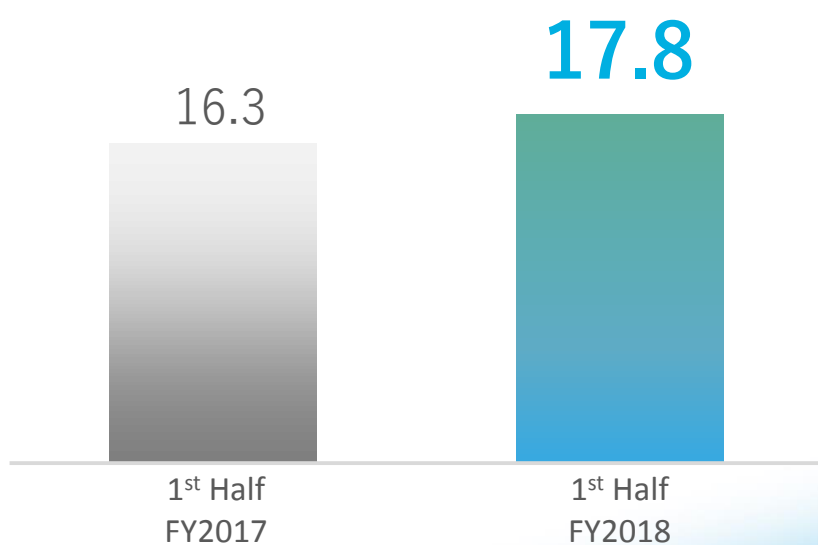


Go Outwards!

-
- Capital and business alliance in North America and Europe
 - 3 new investments by CVC
-

For Reference
The Result of Global Business for the 1st Half of FY2018

(Billions of Yen)





Consolidate Footholds!

-
- Increased dividends in the end of 2nd quarter of FY2018
 - Progress in work style reforms
-

Topics in the 2nd Half of FY2018

1

5 G

2

DX

3

Global

I

FY2018 1st Half

Overview of Operating Results

II

Progress of Medium-Term
Management Plan

III

FY2018

Operating Results Forecast

FY2018 Consolidated Operating Results Forecast

No change to the FY2018 consolidated operating results forecast announced on May 1.

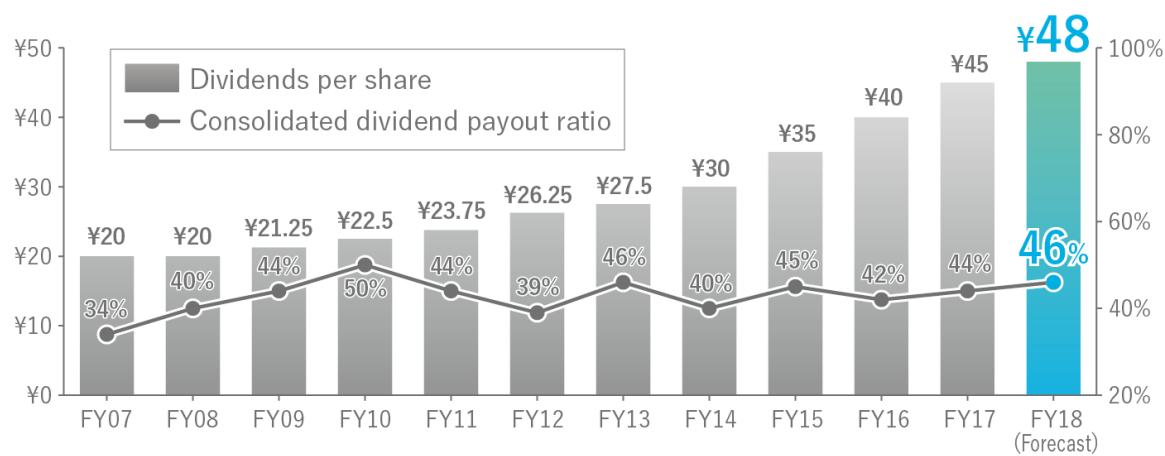
(Billions of yen)

	FY2017 Results	FY2018 Forecast	Y o Y Change	Y o Y Change (%)
Revenue	429.6	450.0	+20.3	+4.7%
Gross profit	101.6	108.0	+6.4	+6.3%
Gross profit margin	23.6%	24.0%	+0.4p	-
Other income and expenses	(68.9)	(73.0)	(4.0)	+5.8%
Operating income	32.6	35.0	+2.3	+7.3%
Operating income margin	7.6%	7.8%	+0.2p	-
Net profit attributable to CTC's shareholders	23.5	24.0	+0.4	+1.8%
Order received	435.2	455.0	+19.7	+4.5%
Backlogs	243.6	248.6	+5.0	+2.1%

Shareholder Returns Plan

Pay stable dividends mindful of linkage with performance continuously.

Target consolidated payout ratio: approx. **45%**



※The Company implemented a stock split, splitting common stock at a ratio of 2 for 1, effective April 1, 2018. The results of dividends per share before FY17 are displayed in the converted values after the stock split.

“CTC is the Answer.”