

Consolidated Financial Results

for the First Half of the Fiscal Year ending March 31, 2019

(IFRS)

November 1, 2018

Listed Company Name: ITOCHU Techno-Solutions Corporation Listing Exchanges: Tokyo Stock Exchange
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Scheduled date to submit the annual securities report (*Shihanki Hokokusho*): November 12, 2018
 Scheduled date of dividend payment: December 7, 2018
 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, 2018

(April 1, 2018 – September 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	%
Six months ended 9/18	192,150	1.0	10,573	0.9	10,817	(9.6)	7,376	(8.9)	7,338	(9.4)	7,851	(10.6)
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

	Basic earnings per share attributable to CTC's shareholders		Diluted earnings per share attributable to CTC's shareholders	
	Yen		Yen	
Six months ended 9/18	31.76		—	
Six months ended 9/17	35.05		—	

(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	%
September 30, 2018	341,574	213,126	208,912	61.2
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	—	24.00			
Year ending 3/19 (forecast)			—	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
Full year	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	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 9.

(3) Number of outstanding shares (common shares)

- | | | | |
|--|--------------------|------------------------|--------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares): | | | |
| Six months ended 9/18: | 240,000,000 shares | Year ended 3/18: | 240,000,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Six months ended 9/18: | 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): | | | |
| Six months ended 9/18: | 231,029,282 shares | Six months ended 9/17: | 231,193,537 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.

1. Qualitative Information Regarding the Results for the First Half	4
(1) Qualitative information on consolidated operating results	4
(2) Qualitative information on consolidated financial position	5
(3) Qualitative information on consolidated earnings forecasts	5
2. Summary of Quarterly Consolidated Financial Statements and Notes	6
(1) Summary of quarterly consolidated statement of financial position	6
(2) Summary of quarterly consolidated income statement and summary of quarterly consolidated comprehensive income statement	8
(3) Summary of quarterly consolidated statement of changes in equity	10
(4) Notes to the summary of quarterly consolidated financial statement	12
(Notes on going concern assumptions)	12
(Changes in accounting policies)	12

1. Qualitative Information Regarding Results for the First Half

(1) Qualitative information on consolidated operating results

In the first six months of the fiscal year ending March 2019, the Japanese economy continued recovering moderately overall against the background of improvement in corporate earnings and employment conditions, even though the future of the global economy became less certain due to causes such as trade policies adopted by other countries.

In the information service industry, business conditions remained firm with IT investments showing a trend toward recovery in fields such as manufacturing, distribution and communications.

In this environment, ITOCHU Techno-Solutions Corporation (“CTC”) and its consolidated subsidiaries (collectively the “CTC Group”) formulated a Medium-Term Management Plan subtitled “Opening New Horizons” for a period of three years from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021. In this Management Plan, aimed at “Take responsibility for the evolution of the IT industry, as the industry’s leading company,” the CTC Group stipulated fields for new activities as “Horizons.” In the four Horizons stipulated in this way, the CTC Group is focusing 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.

- As the first step toward reforming ITOCHU Corporation’s mission-critical systems, the CTC Group built a next-generation integrated Group-wide data platform that supports faster, more flexible business data analysis based on taking a hard look at the age of digital transformation. The CTC Group will continue expanding new functions that support operations in the period through fiscal 2020, such as the streamlining and sophistication of management decisions based on the real-time processing of sales and settlement data and business efficiency improvement through the application of artificial intelligence (AI).
- 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.
- To expand IT service operations in Europe and North America, CTC formed a business alliance with Newton Information Technology Ltd. in Britain and a capital alliance with SYSCOM (USA) INC. in the United States through ITOCHU Techno-Solutions America, Inc., its subsidiary in the United States. (CTC acquired 33.7% of the outstanding shares of SYSCOM (USA) INC. through the subsidiary). The CTC Group will cooperate with the two companies in fields including system construction, operation and security services from now on to achieve a global customer support network that covers Europe, North America, the ASEAN region and Japan.
- The Group has opened “agile offices” at its offices in Tokyo and Toyota City Aichi. 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 CTC Group invested in Cinnamon Inc., a company with leading technologies in the field of AI-OCR that has dramatically increased the accuracy of handwritten character recognition through the use of deep learning, as an investment project undertaken by CTC Innovation Partners, a venture capital established to provide support to start-ups and expand business domains through joint ventures with customers. In addition, the CTC Group invested in CoCooking Co., Ltd., a company offering a platform for reducing food waste by

linking unsold products with buyers, and Active SONAR Inc., a provider of a resale platform that supports activities in the field of the sharing economy, in a bid to contribute to the realization of a recycling-oriented society and the achievement of sustainable development goals (SDGs). The CTC Group will continue investing in companies with the aim of participating in their operations that can lead to the development of innovative businesses.

- CTC concluded an academic exchange agreement with Waseda University for training individuals with the high data science capabilities necessary for solving problems in the ability to think statistically. Personnel training in the field of data science has become a vital issue with the recent advancement of big data, IoT and AI. In cooperation with Waseda University, the CTC Group will commit to training personnel in the field of data science, in addition to advancing data analysis and AI development at companies.
- The Ministry of Economy, Trade and Industry and Tokyo Stock Exchange (TSE) selected CTC as one of the Competitive IT Strategy Companies for 2018 for the second consecutive year. For this distinction, the Ministry and the TSE choose companies that are proactive in using IT for developing new values, innovating management and improving earnings levels and productivity. They selected CTC based on high evaluations of aspects such as mission-critical system reforms applying new digital technologies, IT technology application to working style reforms and initiatives for developing businesses by means of open innovations using advanced IT.

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.

Sales for the six months under review amounted to 192,150 million yen (up 1.0% year on year), reflecting an increase in the Services business. Operating income rose 0.9% year on year, to 10,573 million yen, thanks to higher revenues and an improved gross margin. In the meantime, profit before tax came to 10,817 million yen (down 9.6% year on year) due to factors including lower gains on sales of shares of subsidiaries and associates. Net profit was 7,376 million yen (down 8.9% year on year). Net profit attributable to CTC's shareholders totaled 7,338 million yen (down 9.4% year on year).

(2) Qualitative information on consolidated financial position

Total assets amounted to 341,574 million yen as of September 30, 2018, a decrease of 12,308 million yen from March 31, 2018. The asset decline was mainly attributable to decreases of 44,285 million yen in trade and other receivables and 2,111 million yen in other current financial assets, which offset increases of 5,935 million yen in cash and cash equivalents, 9,678 million yen in inventories and 20,167 million yen in other current assets.

Total liabilities stood at 128,447 million yen as of September 30, 2018, a decrease of 14,584 million yen from March 31, 2018. Primary factors for the decrease included falls of 15,772 million yen in trade and other payables, 6,071 million yen in income taxes payable and 3,335 million yen in liabilities for employee benefits (current liabilities), which offset a rise of 11,980 million yen in other current liabilities.

Total equity was 213,126 million yen as of September 30, 2018, an increase of 2,276 million yen from March 31, 2018. The equity growth was mainly attributable to increases of 7,376 million yen in net profit and 475 million yen in other comprehensive income, which offset a decrease of 5,649 million yen in the payment of dividends.

(3) Qualitative information on consolidated earnings forecasts

As of the announcement date of these financial results, CTC has made no change to 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 September 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	51,003	56,938
Trade and other receivables	130,370	86,085
Inventories	25,577	35,256
Current tax assets	79	412
Other current financial assets	23,333	21,221
Other current assets	42,427	62,594
Total current assets	272,792	262,509
Non-current assets		
Property, plant and equipment	34,857	34,088
Goodwill	4,470	4,488
Intangible assets	10,538	9,683
Investments accounted for using the equity method	724	1,437
Other non-current financial assets	14,888	15,985
Deferred tax assets	12,817	10,952
Other non-current assets	2,793	2,428
Total non-current assets	81,090	79,065
Total assets	353,882	341,574

	Previous consolidated fiscal year (As of March 31, 2018)	Consolidated fiscal year under review (As of September 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	48,572	32,799
Other current financial liabilities	5,992	4,857
Income taxes payable	8,089	2,017
Liabilities for employee benefits	17,633	14,297
Provisions	707	641
Other current liabilities	44,934	56,914
Total current liabilities	125,929	111,527
Non-current liabilities		
Non-current financial liabilities	10,912	10,777
Liabilities for employee benefits	4,149	4,117
Provisions	1,716	1,734
Deferred tax liabilities	324	290
Total non-current liabilities	17,103	16,920
Total liabilities	143,032	128,447
Equity		
Common stock	21,763	21,763
Capital surplus	33,152	33,181
Treasury stock	(9,621)	(9,622)
Retained earnings	160,544	162,437
Other components of equity	730	1,152
Total shareholders' equity	206,569	208,912
Non-controlling interests	4,281	4,214
Total equity	210,850	213,126
Total liabilities and equity	353,882	341,574

(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 September 30, 2017)	Consolidated fiscal year under review (From April 1, 2018 to September 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	190,293	192,150
Cost of sales	(146,045)	(146,465)
Gross profit	44,247	45,684
Other income and expenses		
Selling, general and administrative expenses	(33,854)	(35,157)
Other income	175	153
Other expenses	(85)	(106)
Total other income and expenses	(33,765)	(35,110)
Operating income	10,482	10,573
Financial income	433	151
Financial costs	(46)	(124)
Share of profit of associates accounted for using the equity method	(50)	216
Gains on disposal and remeasurement of investments in subsidiaries and associates	1,147	—
Profit before tax	11,966	10,817
Income tax expense	(3,866)	(3,441)
Net profit	8,099	7,376
Profit attributable to:		
CTC's shareholders	8,104	7,338
Non-controlling interests	(4)	37

Earnings per share (Attribution to CTC's shareholders):	(Yen)	(Yen)
Basic earnings per share	35.05	31.76
Diluted earnings per share	—	—

Summary of quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2017 to September 30, 2017)	Consolidated fiscal year under review (From April 1, 2018 to September 30, 2018)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	8,099	7,376
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	176	244
Share of other comprehensive income of associates accounted for using the equity method	8	24
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	448	127
Cash flow hedges	45	77
Share of other comprehensive income of associates accounted for using the equity method	2	2
Total other comprehensive income, net of tax effect	682	475
Total comprehensive income	8,781	7,851
Total comprehensive income attributable to:		
Owners of the Company	8,653	7,760
Non-controlling interests	128	91

(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	—	—	—	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)	—	—	—	—
Sale of treasury stock	—	—	—	—	—	—	—
Share-based payment transactions	—	18	—	—	—	—	—
Total transactions with owners	—	18	(389)	(4,913)	—	—	—
September 30, 2017	21,763	33,094	(9,621)	149,727	(264)	807	35

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)
Sale of treasury stock	—	—	—
Share-based payment transactions	18	—	18
Total transactions with owners	(5,284)	(87)	(5,371)
September 30, 2017	195,543	3,567	199,111

(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	—	—	—	7,338	—	—	—
Other comprehensive income	—	—	—	—	76	268	77
Total comprehensive income	—	—	—	7,338	76	268	77
Payment of dividends	—	—	—	(5,491)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Sale of treasury stock	—	0	0	—	—	—	—
Share-based payment transactions	—	28	—	—	—	—	—
Total transactions with owners	—	28	(0)	(5,491)	—	—	—
September 30, 2018	21,763	33,181	(9,622)	162,437	(194)	1,322	25

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	7,338	37	7,376
Other comprehensive income	421	53	475
Total comprehensive income	7,760	91	7,851
Payment of dividends	(5,491)	(158)	(5,649)
Purchase of treasury stock	(0)	—	(0)
Sale of treasury stock	0	—	0
Share-based payment transactions	28	—	28
Total transactions with owners	(5,463)	(158)	(5,621)
September 30, 2018	208,912	4,214	213,126

(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.