

Consolidated Financial Results

for the First Quarter of the Fiscal Year ending March 31, 2020

(IFRS)

August 1, 2019

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 9, 2019
 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, 2019 – June 30, 2019)

(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 6/19	96,973	6.6	4,826	54.5	4,869	45.1	3,315	47.6	3,246	43.2	2,409	(2.4)
Three months ended 6/18	90,974	5.7	3,122	13.9	3,356	7.4	2,246	8.2	2,267	9.7	2,469	2.3

	Basic earnings per share attributable to CTC's shareholders		Diluted earnings per share attributable to CTC's shareholders	
	Yen		Yen	
Three months ended 6/19	14.05		—	
Three months ended 6/18	9.82		—	

(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, 2019	386,891	219,317	215,044	55.6
March 31, 2019	378,936	225,105	220,701	58.2

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 3/19	—	24.00	—	26.00	50.00
Year ending 3/20	—				
Year ending 3/20 (forecast)		27.50	—	27.50	55.00

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

3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(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	480,000	6.2	39,000	8.6	39,500	8.9	27,300	9.7	27,000	9.7	116.87

(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 |
- (3) Number of outstanding shares (common shares)
- | | | | |
|--|--------------------|--------------------------|--------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares): | | | |
| Three months ended 6/19: | 240,000,000 shares | Year ended 3/19: | 240,000,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Three months ended 6/19: | 8,970,749 shares | Year ended 3/19: | 8,970,749 shares |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): | | | |
| Three months ended 6/19: | 231,029,251 shares | Three months ended 6/18: | 231,029,287 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.

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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 2020, the Japanese economy continued to stage a modest recovery overall against the background of an improvement in corporate earnings and employment conditions, even though uncertainties about the future of the global economy were increasing mainly due to growing concerns over trade issues between the United States and China.

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

In this environment, ITOCHU Techno-Solutions Corporation (“CTC”) and its consolidated subsidiaries (collectively the “CTC Group”) focused on the following four “Horizons” to achieve a Medium-Term Management Plan subtitled “Opening New Horizons” for a period of three years from the fiscal year ended March 31, 2019 to the fiscal year ending March 31, 2021: “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.

<Initiatives related to “Go upwards: Challenge business transformation”>

- The CTC Group established a specialized organization in charge of the cultivation and supply of IT architects with seasoned knowledge of standardization in the overall design and development of system architecture, the resolution of technical issues, and processes including test design. The CTC Group will promote the cultivation of IT architects well-versed on both IT infrastructure and application development.

<Initiatives related to “Go forwards: Sharpening our advantages”>

- The CTC Group provided open networking*1 solutions for the data analysis infrastructure of Yahoo Japan Corporation. The CTC Group achieved the effective use and improved scalability of network bandwidth by adopting a data center network design introduced by leading OTT service providers*2, in addition to the improved efficiency and automation of operation using operating tools based on open source software. The CTC Group also provided development support to improve the efficiency of verification process of changes in network configuration, as well as integrated maintenance services.

*1: Open networking: Technology to build a network flexibly without relying on unique technologies of certain manufacturers, by combining hardware and operating systems according to the situation like a server.

*2 : OTT (Over The Top) service providers: Business operators that provide websites and contents such as images and sounds on the Internet as represented by Google and Facebook.

<Initiatives related to “Go outwards: New coverage, new region in globe”>

- CTC invested in Intumit Inc. (“Intumit”), a venture company in Taiwan engaging in the AI and robot business, to begin cooperating in introducing AI chat robots of Intumit in Japan. To that end, CTC will take a role of coordinating the AI chat robots with existing chat systems and intra-company systems, in addition to the sale and maintenance of “SmartRobot,” an AI platform using an AI engine developed by Intumit on its own.

<Initiatives related to “Consolidate footholds: Stabilize management infrastructure”>

- The CTC Group sought to contribute to action against global warming and the achievement of the Sustainable Development Goals (SDGs) and adopted the 2050 CTC Environmental Declaration, a medium- to long-term environmental goal. The CTC Group will aim to reduce CO2 emissions associated with its businesses by 30% in comparison with the level in 2015 by 2030, and to zero by 2050, through the promotion of energy saving with leading-edge technologies such as IoT and AI, the creation of innovations using IT, the use of renewable energy, and the use of Non-Fossil Certificates and Tradable Green Certificates.
- CTC was selected as one of the Competitive IT Strategy Companies for 2019 for the third consecutive year. Under this program, the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange (TSE) select

companies that are working on the active use and application of IT to improve management innovations, earnings and productivity. CTC's efforts to improve productivity with new development methods (agile software development, etc.), its cultivation of advanced IT human resources including those for big data, IoT and AI, and the establishment of AI LAB, which gathers advanced AI systems for the verification and learning of extensive use of AI, were recognized.

In its sales activities, the Group focused primarily on infrastructure development projects for the manufacturing and distribution sectors and those at its overseas operating companies.

During the first three months of the fiscal year ending March 2020, revenue amounted to 96,973 million yen (up 6.6% year on year) thanks to higher sales in the Services business and the Development business. Operating income came to 4,826 million yen (up 54.5% year on year) due to higher sales and an improved gross margin. Profit before tax came to 4,869 million yen (up 45.1% year on year) due to higher operating income. Net profit was 3,315 million yen (up 47.6% year on year), and net profit attributable to CTC's shareholders totaled 3,246 million yen (up 43.2% year on year).

(2) Qualitative information on consolidated financial position

Starting from the first quarter of the current consolidated fiscal year, CTC applies IFRS 16 Leases. Its details are stated in "2. Summary of Quarterly Consolidated Financial Statements and Notes, (4) Notes to the summary of quarterly consolidated financial statements (Changes in the accounting policies)."

Total assets amounted to 386,891 million yen as of June 30, 2018, an increase of 7,954 million yen from March 31, 2019. This was attributable largely to increases of 6,850 million yen in cash and cash equivalents, 10,650 million yen in inventories, 15,082 million yen in other current assets, and 19,011 million yen in property, plant and equipment, which offset a decrease of 44,481 million yen in trade and other receivables.

Total liabilities stood at 167,573 million yen, an increase of 13,742 million yen from March 31, 2019. The principal contributing factors included increases of 14,024 million yen in other current financial liabilities, 16,196 million yen in other current liabilities, and 15,560 million yen in non-current financial liabilities, which offset decreases of 15,819 million yen in trade and other payables, 9,108 million yen in income taxes payable, and 6,914 million yen in liabilities for employee benefits (current liabilities).

Total equity was 219,317 million yen, a decline of 5,787 million yen from the end of the previous consolidated fiscal year. This was mainly attributable to a decrease of 6,061 million yen due to the payment of dividends and the posting of the amount of adjustment at the beginning of the period of -2,155 million yen associated with the application of IFRS 16 Leases, which offset an increase of 3,315 million yen due to net profit.

(3) Qualitative information on consolidated earnings forecasts

At present, the Company has not revised its financial forecasts announced on April 26, 2019.

2. Summary Quarterly Consolidated Financial Statements

(1) Summary quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of June 30, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	58,878	65,728
Trade and other receivables	132,348	87,866
Inventories	28,907	39,557
Current tax assets	78	1,458
Other current financial assets	20,089	20,124
Other current assets	58,021	73,104
Total current assets	298,325	287,841
Non-current assets		
Property, plant and equipment	34,488	53,500
Goodwill	4,233	4,085
Intangible assets	8,937	8,467
Investments accounted for using the equity method	1,568	1,295
Other non-current financial assets	16,233	16,391
Deferred tax assets	12,467	12,633
Other non-current assets	2,681	2,675
Total non-current assets	80,611	99,049
Total assets	378,936	386,891

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of June 30, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	53,901	38,081
Other current financial liabilities	5,479	19,504
Income taxes payable	9,964	856
Liabilities for employee benefits	19,047	12,132
Provisions	1,333	1,182
Other current liabilities	45,677	61,873
Total current liabilities	135,403	133,630
Non-current liabilities		
Non-current financial liabilities	12,243	27,803
Liabilities for employee benefits	4,016	3,979
Provisions	1,825	1,841
Deferred tax liabilities	341	317
Total non-current liabilities	18,427	33,942
Total liabilities	153,830	167,573
Equity		
Common stock	21,763	21,763
Capital surplus	33,193	33,213
Treasury stock	(9,622)	(9,622)
Retained earnings	174,460	169,544
Other components of equity	906	145
Total shareholders' equity	220,701	215,044
Non-controlling interests	4,404	4,272
Total equity	225,105	219,317
Total liabilities and equity	378,936	386,891

(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, 2018 to June 30, 2018)	Consolidated fiscal year under review (From April 1, 2019 to June 30, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	90,974	96,973
Cost of sales	(70,022)	(74,090)
Gross profit	20,952	22,883
Other income and expenses		
Selling, general and administrative expenses	(17,872)	(18,124)
Other income	57	78
Other expenses	(14)	(10)
Total other income and expenses	(17,829)	(18,056)
Operating income	3,122	4,826
Financial income	102	105
Financial costs	(55)	(127)
Share of profit of associates accounted for using the equity method	187	65
Profit before tax	3,356	4,869
Income tax expense	(1,109)	(1,554)
Net profit	2,246	3,315
Profit attributable to:		
CTC's shareholders	2,267	3,246
Non-controlling interests	(20)	68
Earnings per share (Attribution to CTC's shareholders):	(Yen)	(Yen)
Basic earnings per share	9.82	14.05
Diluted earnings per share	—	—

Summary quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2018 to June 30, 2018)	Consolidated fiscal year under review (From April 1, 2019 to June 30, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	2,246	3,315
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	146	(429)
Share of other comprehensive income of associates accounted for using the equity method	(2)	(0)
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(10)	(447)
Cash flow hedges	86	(11)
Share of other comprehensive income of associates accounted for using the equity method	1	(16)
Total other comprehensive income, net of tax effect	222	(905)
Total comprehensive income	2,469	2,409
Total comprehensive income attributable to:		
Owners of the Company	2,485	2,486
Non-controlling interests	(16)	(76)

(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, 2018	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	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

(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, 2019 (as previously reported)	21,763	33,193	(9,622)	174,460	(256)	1,160	1
Effect of accounting change	—	—	—	(2,151)	—	—	—
April 1, 2019 (as restated)	21,763	33,193	(9,622)	172,309	(256)	1,160	1
Profit	—	—	—	3,246	—	—	—
Other comprehensive income	—	—	—	—	(318)	(429)	(11)
Total comprehensive income	—	—	—	3,246	(318)	(429)	(11)
Payment of dividends	—	—	—	(6,011)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—
Sale of treasury stock	—	—	—	—	—	—	—
Share-based payment transactions	—	19	—	—	—	—	—
Total transactions with owners	—	19	—	(6,011)	—	—	—
June 30, 2019	21,763	33,213	(9,622)	169,544	(574)	731	(10)

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2019 (as previously reported)	220,701	4,404	225,105
Effect of accounting change	(2,151)	(4)	(2,155)
April 1, 2019 (as restated)	218,550	4,399	222,949
Profit	3,246	68	3,315
Other comprehensive income	(760)	(145)	(905)
Total comprehensive income	2,486	(76)	2,409
Payment of dividends	(6,011)	(49)	(6,061)
Purchase of treasury stock	—	—	—
Sale of treasury stock	—	—	—
Share-based payment transactions	19	—	19
Total transactions with owners	(5,992)	(49)	(6,041)
June 30, 2019	215,044	4,272	219,317

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

(Notes on going concern assumptions)

None

(Change in the accounting policies)

Application of IFRS 16 Leases

Starting from the first quarter of the consolidated fiscal year ending March 2020, the Group applies IFRS 16 Leases (published in January 2016) (“IFRS 16”). In applying IFRS 16, the Group adopted a method with which the accumulated impact of the application of IFRS 16 is recognized on the day when it began to be applied, which is permitted as a transitional measure.

In association with the application of IFRS 16, the Group assesses whether a contract contains a lease at the inception of the contract. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the Group assesses that the contract contains a lease.

If the Group assesses that the contract contains a lease, the Group recognizes a right-of-use asset and a lease liability on the lease commencement date. The Group measures the lease liability at the present value of the total amount of lease payments that are not paid on the lease commencement date. The Group measures the right-of-use asset by making an adjustment for the amount of the initial measurement of the lease liability, lease payments made on or before the commencement date, and initial direct costs, etc.

After the commencement of the lease, the Group recognizes an amount obtained by multiplying the lease liability by a discount rate on the lease commencement date as interest paid and reduces the difference between the lease payments made and the interest paid from the lease liability. If the ownership of the underlying asset is transferred to the lessee by the end of the lease term or if the future exercise of a purchase option is reasonably certain, the Group depreciates the right-of-use asset for the estimated useful life of the underlying asset, or otherwise, from the lease commencement date to the earlier of the end of the estimated useful life of the right-of-use asset or the end of the lease term, using a straight-line method.

For short-term leases the lease term of which will end within 12 months and leases of low-value assets, the Group does not recognize a right-of-use asset and a lease liability but recognizes them as expenses over the lease term using a straight-line method, etc.

As an impact of applying IFRS 16 on the summary of quarterly consolidated financial statements of the Group, the Group additionally recognizes right-of-use assets of 19,114 million yen in property, plant and equipment and intangible assets and lease liabilities of 22,220 million yen in other financial liabilities and non-current financial liabilities in the summary of quarterly consolidated statement of financial position on the date of initial application. As a result, retained earnings declined 2,151 million yen.

The weighted average of the lessee’s incremental borrowing rate applied to lease liabilities as of the date of initial application is 1.1%.

The reconciliation of non-cancellable operating lease contracts to which IAS 17 Leases was applied at the end of the previous consolidated fiscal year and lease liabilities recognized on the date of initial application is as follows.

Non-cancellable operating lease contracts at the end of the previous consolidated fiscal year	5,264 million yen 5,196 million yen
Amount discounted by using an incremental borrowing rate on the date of initial application	
Finance lease obligations recognized at the end of the previous consolidated fiscal year	16,210 million yen
Discounted present value of non-cancellable operating lease contracts	17,023 million yen
Lease liabilities recognized on the date of initial application	38,430 million yen

(Material subsequent events)

Acquiring Shares of PT. Nusantara Compnet Integrator and PT. Pro Sistimatika Automasi.

ITOCHU Techno-Solutions Corporation aims to further expand its business in the ASEAN region. To that end, CTC will acquire from existing shareholders 70% of outstanding shares in PT. Nusantara Compnet Integrator (headquartered in Jakarta; hereinafter “Compnet”) and PT. Pro Sistimatika Automasi (headquartered in Jakarta; hereinafter “Prosia”) respectively in an agreement that will turn the two Indonesian IT companies into subsidiaries. The transactions will be completed after confirming fulfillment of the conditions precedent stipulated in the stock sales contract, and the two companies are scheduled to become our subsidiaries in September 2019.

1. Overview of Compnet and Prosia

Overview of PT. Nusantara Compnet Integrator

Trade name	PT. Nusantara Compnet Integrator (abbr.: Compnet)
Representative	President Director, Irawan Purwono
Paid-in capital	IDR 35,024 million (JPY 270 million) *1
Location	AKR Tower Lantai 8, Jl. Panjang No.5, Keurahan Kbon Jeruk, West Jakarta, Republic of Indonesia
Business lines	IT Infrastructure, cloud services, application development, product sales and maintenance
Net sales	IDR 944,793 million (JPY 7,274 million) *2
Total assets	IDR 420,048 million (JPY 3,234 million) *2
Net assets	IDR 228,728 million (JPY 1,761 million) *2

Overview of PT. Pro Sistimatika Automasi

Trade name	PT. Pro Sistimatika Automasi (abbr.: Prosia)
Representative	Director, Roedi Soedjanto Gondopriono
Paid-in capital	IDR 14,597 million (JPY 112 million) *1
Location	AKR Tower Lantai 12, Jl. Panjang No.5, Keurahan Kbon Jeruk, West Jakarta, Republic of Indonesia
Business lines	Application development
Net sales	IDR 42,878 million (JPY 330 million) *2
Total assets	IDR 27,604 million (JPY 212 million) *2
Net assets	IDR 11,355 million (JPY 87 million) *2

*1 As of submission date (25th July 2019). IDR 1 = JPY 0.0077

*2 Results from the most recent fiscal year (Compnet: the fiscal year ended July 31, 2018; Prosia: the fiscal year ended December 31, 2019). IDR 1 = JPY 0.0077 (as of 25th July 2019)

2. Overview of the counterparties of the share acquisition

PT. Nusantara Compnet Integrator:	Irawan Purwono Handoko Rimbawan, and 6 individuals
PT. Pro Sistimatika Automasi:	PT. Manggis Inotech Corpora (Indonesia), Roedi Soedjanto Gondopriono, and an individual

3. Equity ratio of CTC after the acquisition and the acquisition price

PT. Nusantara Compnet Integrator : 70%

PT. Pro Sistimatika Automasi : 70%

The acquisition price changes due to the fulfillment of the requirement defined in the share trading agreement and is not determined at this time.

4. Impact on future business results

The effect of the acquisition of the shares on CTC's consolidated earnings for the fiscal year ending March 2020 is minor.