

Announcement of 1st Half Operating Results for the Fiscal Year Ending March 31, 2020

October 31, 2019

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.



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Performance Highlights for 1st half FY2019

- Higher revenue, Higher profit
- Progressing smoothly to achievement of the FY2019 forecast
- In the first half of the fiscal year, revenue, all profit line items, orders received and backlogs reached record highs after the merger FY2006.

Performance highlights (Compared with 1st half FY2018)

(Billions of yen)

	1st Half FY2018 Results	1st Half FY2019 Results	YoY change	YoY change (%)
Revenue	192.1	210.3	+18.2	+9.5%
Gross profit	45.6	50.1	+4.5	+9.9%
Gross profit margin	23.8%	23.9%	+0.1p	-
Other income and expenses	(35.1)	(35.5)	(0.4)	+1.2%
Operating income	10.5	14.6	+4.0	+38.7%
Operating income margin	5.5%	7.0%	+1.5p	-
Net profit attributable to CTC's shareholders	7.3	9.8	+2.5	+34.8%
Orders received	185.6	210.7	+25.0	+13.5%
Backlogs	238.2	268.1	+29.9	+12.6%



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1st Half FY2019 Performance highlights

[Revenue]

Revenue increased, particularly from the manufacturing, distribution and public utilities industries. Revenue at overseas operating companies also rose.

[Gross profit]

Rose with the increase in revenue and profitability.

* The gross margin excluding the effect of unprofitable projects improved 0.2 p year on year.

[Other income and expenses]

SG&A expenses increased, chiefly reflecting increases in personnel expenses.

[Operating income]

Rose due to the rise in gross profit.

[Net profit attributable to CTC's shareholders]

Increased, reflecting the rise in operating income.

[Order received]

Orders primarily from the manufacturing and telecoms industries and public offices rose.

[Backlogs]

The same as above. Backlogs in consolidated subsidiaries also increased in acquisition of IT company in Indonesia.

Performance by business group

(Billions of yen)

	Orders received			Revenue			Backlogs		
	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change
Enterprise	51.7	58.4	+6.7	47.6	54.1	+6.4	67.0	67.7	+0.6
Distribution	16.0	15.4	(0.5)	19.6	22.5	+2.9	24.7	24.3	(0.3)
Telecommunication	69.7	72.3	+2.5	72.2	65.9	(6.3)	66.9	84.6	+17.7
Regional & Social Infrastructure	19.8	30.7	+10.9	21.9	26.8	+4.9	44.5	51.5	+6.9
Financial Services	8.7	10.2	+1.4	11.6	11.0	(0.6)	16.5	14.7	(1.8)
Others	19.5	23.3	+3.8	18.9	29.9	+10.9	18.3	25.1	+6.8
Total	185.6	210.7	+25.0	192.1	210.3	+18.2	238.2	268.1	+29.9

Performance by Business group

[Enterprise]

Orders particularly for infrastructure equipment in manufacturers increased, and revenue from them rose.

[Distribution]

Orders declined, particularly for infrastructure equipment at securities companies.

Revenue increased, particularly from development in the distribution industry.

[Telecommunication]

Orders rose, particularly for infrastructure equipment at telecoms companies.

Revenue decreased, primarily reflecting revenue from projects in new fields (up-front investment projects) in the previous fiscal year.

[Regional & Social infrastructure]

Orders increased, primarily for development and infrastructure equipment for public offices and railroad companies.

Revenue rose, particularly from infrastructure equipment for public utilities.

[Financial Services]

Orders increased, particularly for development and infrastructure projects for banks.

Revenue declined, primarily from infrastructure-building for banks.

[Others]

Orders increased, particularly for infrastructure projects at overseas operating companies.

Revenue rose the same as above. In addition to that, reflecting an increase in revenue from the absence of management accounting adjustments that took place in the previous fiscal year in association with a change in accounting policy.

Performance by business model

(Billions of yen)

	Orders received			Revenue			Backlogs		
	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change
Services	64.7 (34.9%)	74.2 (35.2%)	+9.5	85.8 (44.7%)	92.3 (43.9%)	+6.5	162.7 (68.3%)	172.1 (64.2%)	+9.4
SI Development	44.1 (23.8%)	51.8 (24.6%)	+7.6	40.0 (20.8%)	47.0 (22.4%)	+7.0	29.6 (12.5%)	36.5 (13.6%)	+6.8
Products	76.7 (41.3%)	84.6 (40.2%)	+7.9	66.3 (34.5%)	70.9 (33.7%)	+4.6	45.8 (19.2%)	59.5 (22.2%)	+13.6
Total	185.6	210.7	+25.0	192.1	210.3	+18.2	238.2	268.1	+29.9

*Within the parenthesis is composition ratio.



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Performance by business model

[Services]

Orders increased, particularly for maintenance and cloud services for the manufacturing and telecoms industries and public offices.

Revenue rose, primarily from maintenance and cloud services for the manufacturing and telecoms industries.

[SI Development]

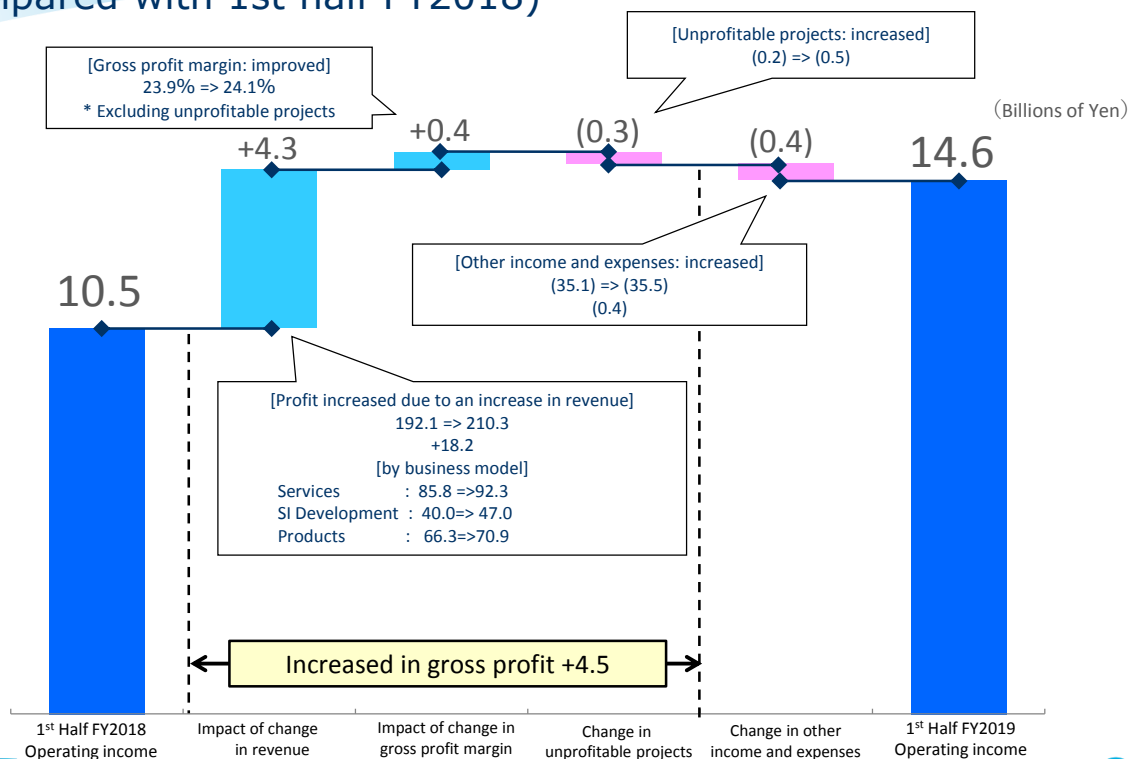
Orders increased, chiefly for development and infrastructure construction for public offices and infrastructure construction for telecoms companies.

Revenue also increased, mainly from development for distribution companies and public offices and infrastructure construction for public utilities.

[Products]

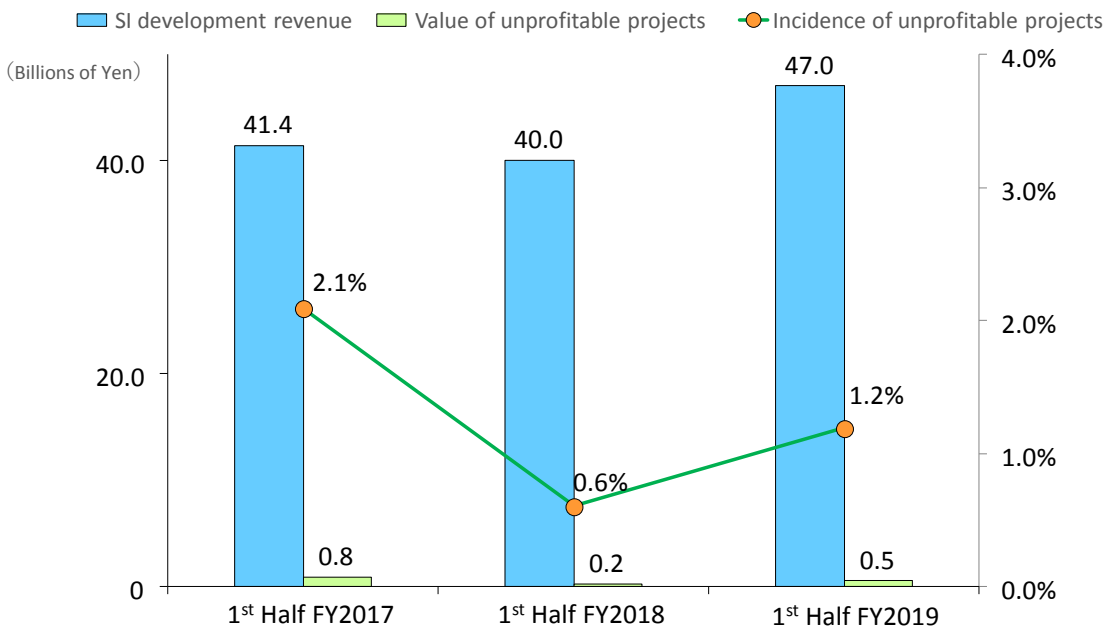
Orders rose, primarily for infrastructure equipment for public offices and at overseas operating companies. Revenue ultimately increased, mostly for infrastructure equipment for manufacturing industry and public offices, even though declined in infrastructure equipment due to projects in new fields (up-front investment projects) for the telecommunications industry in the previous fiscal year.

Main reasons for YoY changes in operating income (Compared with 1st half FY2018)



For reference: Revenue and unprofitable projects in SI development

The ratio of unprofitable projects to SI development revenue increased.



For reference: Breakdown of “Other income and expenses”

(Billions of Yen)

	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change
Personnel expenses	(20.1)	(20.6)	(0.4)
Outside staff expenses	(3.3)	(3.1)	+0.1
Depreciation and amortization	(1.5)	(3.0)	(1.5)
Others	(10.0)	(8.9)	+1.1
SG&A expenses	(35.1)	(35.8)	(0.6)
Other income	0.1	0.3	+0.1
Other expenses	(0.1)	(0.0)	+0.0
Other income and expenses	(35.1)	(35.5)	(0.4)

Breakdown of “Other Income and Expenses”

[Personnel expenses]

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

[Depreciation and amortization]

Rose because of a change in accounting policy.

(Rent and related expenses decreased by approximately the same amount due to the change in accounting policy, and the effect of the change in accounting policy on SG&A expenses is minor and insignificant.)

[Others]

Rent and related expenses decreased due to the change in accounting policy.

For reference: Consolidated balance sheets

(Billions of Yen)

	End of FY2018	End of 1st half FY2019	YoY Change
Current assets	298.3	289.0	(9.2)
Non current assets	80.6	109.9	+29.3
Total assets	378.9	399.0	+20.0
Current liabilities	135.4	135.1	(0.2)
Non current liabilities	18.4	34.0	+15.5
Total liabilities	153.8	169.1	+15.3
Equity	225.1	229.8	+4.7
Total liabilities and equity	378.9	399.0	+20.0

1. Current assets :	(9.2)
Cash and cash equivalents	(0.6)
Trade and other receivables	(37.1)
Inventories	+14.5
Other current financial assets	(1.7)
Other current assets	+15.1
2. Non-current assets :	+29.3
Property, plant and equipment	+20.5
Goodwill	+8.8
Intangible assets	(0.9)
Other non-current financial assets	+1.3
3. Current liabilities :	(0.2)
Trade and other payables	(12.8)
Other current financial liabilities	+8.3
Income taxes payable	(6.5)
Liabilities for employee benefits	(3.1)
Other current liabilities	+13.7
4. Non-current liabilities :	+15.5
Non-current financial liabilities	+15.3
5. Equity :	+4.7
Retained earnings	+1.7
Non-controlling interests	+3.0

For reference: Consolidated cash flows

(Billions of Yen)

	1st Half FY2018 Results	1st Half FY2019 Results	YoY Change
Cash and cash equivalents at the beginning of the period	51.0	58.8	+7.8
Operating activities	12.1	15.0	+2.9
Investing activities	(1.0)	(7.5)	(6.5)
Financing activities	(5.2)	(8.0)	(2.7)
Cash and cash equivalents at the end of the period	56.9	58.2	+1.3
Free cash flow	11.1	7.5	(3.6)

1. Cash flows from operating activities :	+2.9
Profit before tax	+3.8
Depreciation and amortization	+3.5
Increase in trade and other receivables	+2.0
Increase in inventories	(3.9)
Income taxes paid	(1.7)
2. Cash flows from investing activities :	(6.5)
Purchase of shares of subsidiaries	(6.8)
3. Cash flows from financing activities :	(2.7)
Proceeds from sales and leaseback	+2.9
Dividends paid	(0.5)
Repayments of lease obligations	(4.8)

For reference: Performance for the 2nd quarter of FY2019 (3months)

(Billions of Yen)

	2nd Quarter FY2018 Results	2nd Quarter FY2019 Results	YoY change	YoY change (%)
Revenue	101.1	113.4	+12.2	+12.1%
Gross profit	24.7	27.3	+2.5	+10.5%
Gross profit margin	24.4%	24.1%	(0.4p)	-
Other income and expenses	(17.2)	(17.4)	(0.1)	+1.1%
Operating income	7.4	9.8	+2.3	+32.1%
Operating income margin	7.4%	8.7%	+1.3p	-
Net profit attributable to CTC's shareholders	5.0	6.6	+1.5	+31.1%
Orders received	97.4	109.0	+11.5	+11.9%
Backlogs	238.2	268.1	+29.9	+12.6%



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Performance for the 2nd Quarter of FY2019 (3months)

[Revenue]

Revenue increased, particularly from the manufacturing and distribution industries and public utilities.

[Gross profit]

Rose with the increase in revenue and profitability.

* The gross profit margin excluding the effect of unprofitable projects decreased 0.1 p year on year.

[Other income and expenses]

SG&A expenses increased, chiefly reflecting increases in personnel expenses.

[Operating income]

Rose due to the rise in gross profit.

[Net profit attributable to CTC's shareholders]

Increased, reflecting the rise in operating income.

[Orders received]

Orders primarily from the telecoms and financial industries and railroad companies rose.

For reference : Performance by business groups/business models for the 2nd quarter of FY2019 (3months)

(Billions of Yen)

		Orders received			Revenue		
		2nd Quarter (3months) FY2018 Results	2nd Quarter (3months) FY2019 Results	YoY Change	2nd Quarter (3months) FY2018 Results	2nd Quarter (3months) FY2019 Results	YoY Change
By business group	Enterprise	28.6	29.7	+1.1	25.9	28.7	+2.8
	Distribution	8.4	9.5	+1.0	9.4	11.1	+1.6
	Telecommuni- cation	34.2	40.0	+5.7	36.9	37.1	+0.1
	Regional & Social Infrastructure	10.0	11.5	+1.5	11.6	15.8	+4.2
	Financial Services	5.1	6.3	+1.2	5.7	6.0	+0.2
	Others	10.9	11.7	+0.8	11.3	14.4	+3.0
	Total	97.4	109.0	+11.5	101.1	113.4	+12.2
By business model	Services	35.5	37.9	+2.4	43.8	47.4	+3.5
	SI Development	22.8	27.3	+4.5	21.3	25.2	+3.9
	Products	39.0	43.7	+4.6	36.0	40.7	+4.7
	Total	97.4	109.0	+11.5	101.1	113.4	+12.2

Performance by business group

[Enterprise]

Orders increased, particularly from products resales and maintenance for manufacturing industry.

Revenue rose, primarily infrastructure equipment and services for manufacturing and distribution industries.

[Distribution]

Orders rose, particularly for operation for credit card companies and development projects at distribution industry.

Revenue increased, particularly from development in distribution industry.

[Telecommunication]

Orders rose, particularly for network products resales at telecoms companies.

Revenue was ultimately roughly on a par with the previous fiscal year.

[Regional & Social infrastructure]

Orders increased, primarily for development and infrastructure equipment for public offices and railroad companies.

Revenue rose, particularly from infrastructure projects for public utilities.

[Financial Services]

Orders increased, particularly for development and infrastructure equipment for banks.

Revenue was ultimately roughly on a par with the previous fiscal year.

Performance by business model

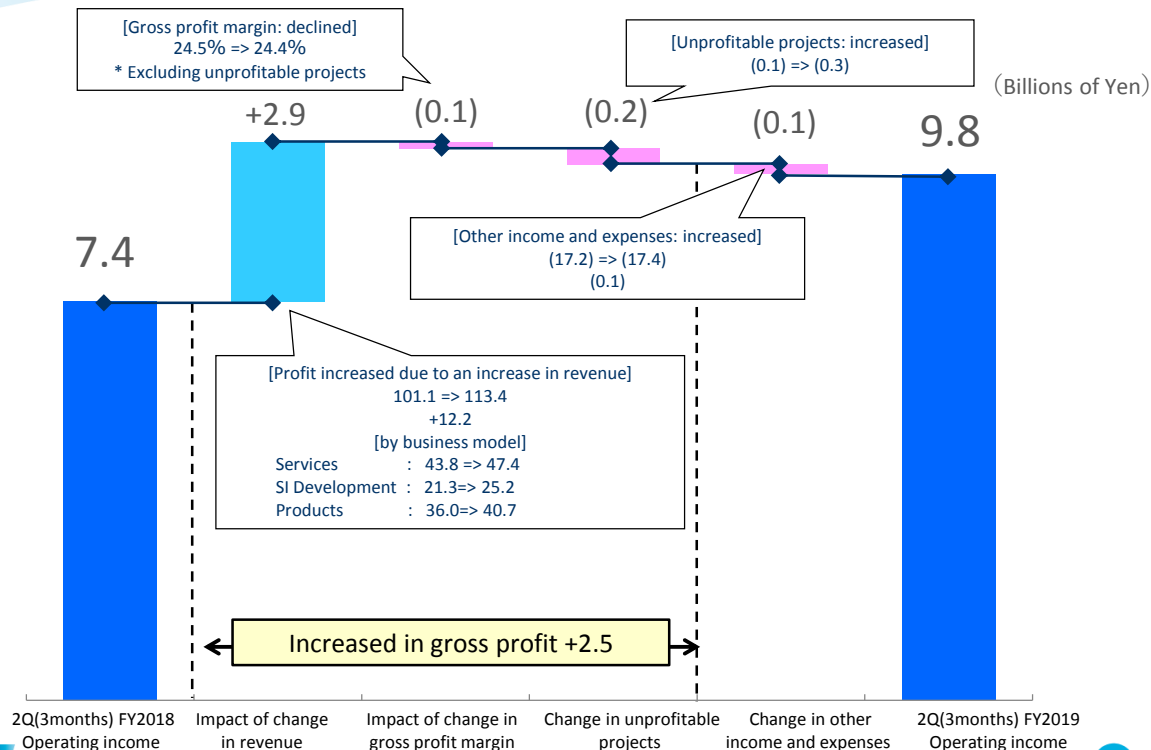
[Services] Orders increased, particularly for maintenance and services for the manufacturing industry, maintenance for telecoms industry and operation for credit card companies.

Revenue rose, primarily from maintenance and cloud services for the manufacturing and telecoms industries.

[SI Development] Orders increased, chiefly for development and infrastructure construction for railroad companies and development for banks. Revenue also increased, mainly from development for distribution companies and infrastructure construction for public utilities.

[Products] Orders rose, primarily for network products resales for telecoms companies and infrastructure equipment for public offices. Revenue increased, mostly for infrastructure equipment for manufacturing industry, public offices and public utilities.

For reference: Main reasons for YoY changes in operating income for the 2nd quarter of FY2019 (3months)



For Reference: Breakdown of "Other income and expenses" for the 2nd quarter of FY2019 (3months)

(Billions of Yen)

	2nd Quarter (3months) FY2018 Results	2nd Quarter (3months) FY2019 Results	YoY change
Personnel expenses	(9.9)	(10.1)	(0.2)
Outside staff expenses	(1.5)	(1.5)	+0.0
Depreciation and amortization	(0.7)	(1.5)	(0.7)
Others	(5.0)	(4.5)	+0.4
SG&A expenses	(17.2)	(17.7)	(0.4)
Other income	0.0	0.2	+0.1
Other expenses	(0.0)	(0.0)	+0.0
Other income and expenses	(17.2)	(17.4)	(0.1)

Breakdown of "Other Income and Expenses"

[Personnel expenses]

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

[Depreciation and amortization]

Rose because of a change in accounting policy.

(Rent and related expenses decreased by approximately the same amount due to the change in accounting policy, and the effect of the change in accounting policy on SG&A expenses is minor and insignificant.)

[Others]

Rent and related expenses decreased due to the change in accounting policy.

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Go Upwards

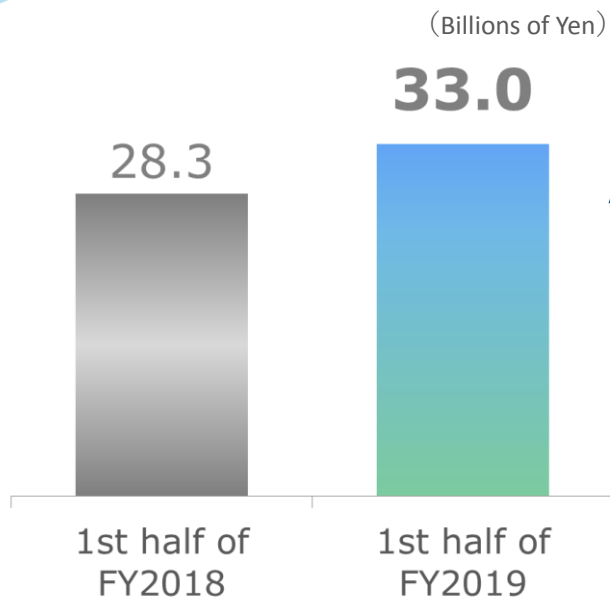
-
- Expanded DX Businesses
 - Strengthened Agile Development Capability
-



Go Forwards

-
- Continuously obtained 5G projects
 - Expanded Recurring Businesses
-

The result of recurring business for the 1st half of FY2019



Expansion in the model of recurring business

Major increase factors (YoY change)

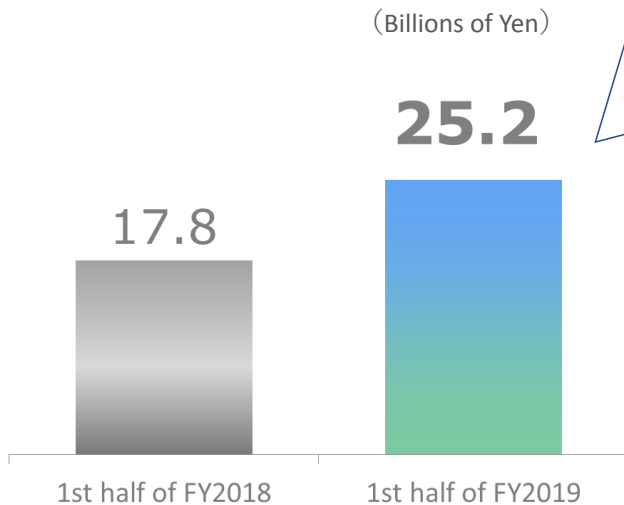
- Cloud services increased.
- Application maintenance and system engineering services increased.



Go Outwards

- Acquired Indonesian SI companies

The result of global business for the 1st half of FY2019



Growth in existing overseas subsidiaries and expansion due to implementation of strategic investment

Major increase factors (YoY change)

- Increased for business in overseas subsidiaries (mainly in America)
- subsidiaries (Indonesia) and Affiliated company accounted by the equity-method (America) increased by capital alliance.

Definition of global business : Total revenue of overseas subsidiaries, the project related to overseas business implemented in Japan and affiliated overseas company accounted for by the equity-method.



Consolidate Footholds

- Established ITOCHU Techno-Solutions Future Foundation
- Won Good Career Company Awards 2019

Key measures in the 2nd half of FY2019 plan

- Continuously obtained 5G projects
 - Improve in the gross profit margin
 - Accelerate expanding of recurring business
 - M&A and PMI after M&A
-

I FY2019
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FY2019 consolidated operating results forecast

No revision of financial forecasts announced
on April 26, 2019.

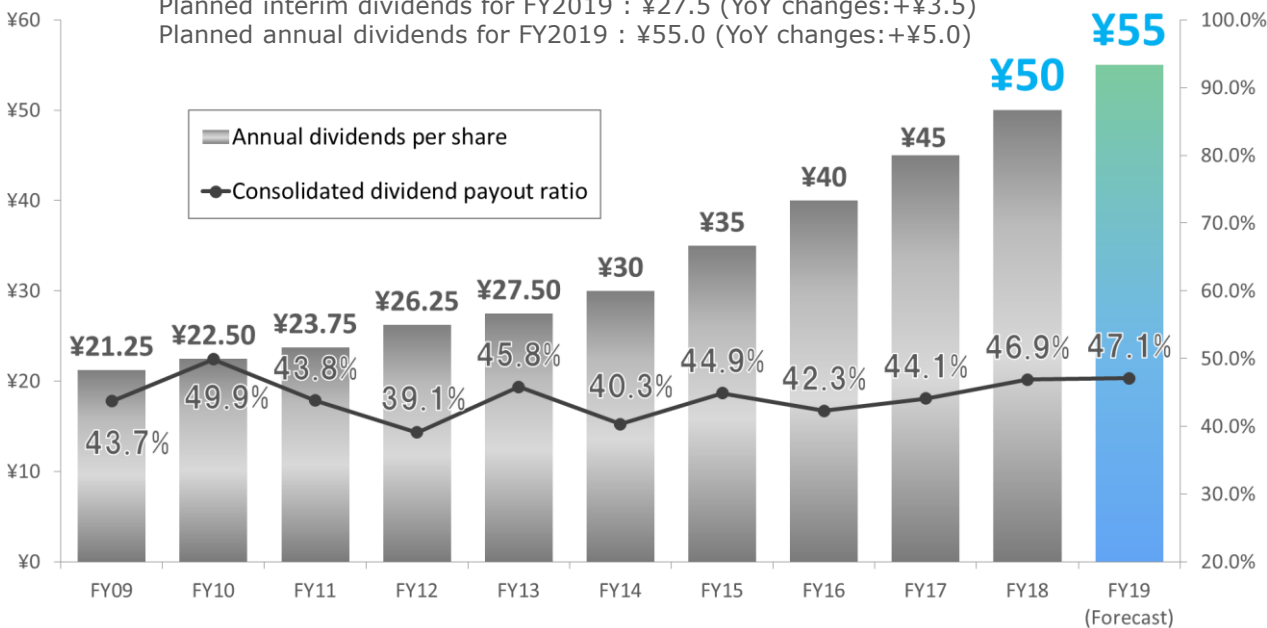
(Billions of Yen)

	FY2018 Results	FY2019 Forecast	YoY change	YoY change (%)
Revenue	451.9	480.0	+28.0	+6.2%
Gross profit	107.7	115.0	+7.2	+6.8%
Gross profit margin	23.8%	24.0%	+0.2p	-
Other income and expenses	(71.8)	(76.0)	(4.1)	+5.8%
Operating income	35.8	39.0	+3.1	+8.6%
Operating income margin	7.9%	8.1%	+0.2p	-
Net profit attributable to CTC's shareholders	24.6	27.0	+2.3	+9.7%
Orders received	470.1	485.0	+14.8	+3.2%
Backlogs	262.9	267.9	+5.0	+1.9%

Shareholder Returns Plans

Pay stable dividends mindful of linkage with performance continuously.
Our target consolidated dividend payout ratio approx 45%

Planned interim dividends for FY2019 : ¥27.5 (YoY changes: +¥3.5)
Planned annual dividends for FY2019 : ¥55.0 (YoY changes: +¥5.0)



※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.”