

Consolidated Financial Results

for the First Quarter of the Fiscal Year ending March 31, 2021

(IFRS)

August 4, 2020

Listed Company Name: ITOCHU Techno-Solutions Corporation

Listing Exchanges: Tokyo Stock Exchange

Securities Code: 4739

URL: <https://www.ctc-g.co.jp/en/index.html>

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Scheduled date to submit the annual securities report (*Shihanki Hokokusho*): August 13, 2020

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, 2020 (April 1, 2020 – June 30, 2020)

(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 attributable to CTC's shareholders	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended 6/20	104,075	7.3	5,846	21.1	5,895	21.1	4,067	22.7	4,092	26.1	5,635	133.8
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)

	Basic earnings per share attributable to CTC's shareholders	Diluted earnings per share attributable to CTC's shareholders
	Yen	Yen
Three months ended 6/20	17.71	17.71
Three months ended 6/19	14.05	14.05

(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, 2020	420,610	236,664	229,462	54.6
March 31, 2020	438,816	238,564	231,672	52.8

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 3/20	—	27.50	—	30.50	58.00
Year ending 3/21	—				
Year ending 3/21 (forecast)		31.50	—	31.50	63.00

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

3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(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	500,000	2.7	44,600	7.0	44,600	7.4	30,600	7.5	30,000	5.4	129.85

(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: | Not 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 6/20: | 240,000,000 shares | Year ended 3/20: | 240,000,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Three months ended 6/20: | 8,966,322 shares | Year ended 3/20: | 8,966,282 shares |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): | | | |
| Three months ended 6/20: | 231,033,702 shares | Three months ended 6/19: | 231,029,251 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 under review, the Japanese economy faced a severe situation, with the impact of COVID-19 rapidly putting downward pressure on the economy and weakening corporate earnings, particularly in the manufacturing sector.

In the information service industry, while demand was created for IT investment, such as teleworking due to the impact of COVID-19, there were moves to limit certain business activities, or even curb or postpone such investments mainly among customer companies whose business performance was seriously affected.

In this environment, ITOCHU Techno-Solutions Corporation (“CTC”) and its consolidated subsidiaries (collectively, the “CTC Group”), with a motto of playing a leading role to contribute to the evolution of the IT industry, continued to focus on the following four “Horizons”: “Go upward: Challenge business transformation,” “Go forward: Sharpening our advantages,” “Go out: New coverage, new region in globe” and “Consolidate foothold: Stabilize management infrastructure” to achieve the Medium-Term Management Plan subtitled “Opening New Horizons” that covers the period of three years from the fiscal year ended March 31, 2019 to the fiscal year ending March 31, 2021.

In addition, amid changes in workstyles and lifestyles prompted by the spread of COVID-19, the CTC Group has been pursuing new initiatives in line with the Medium-Term Management Plan to help employees adapt to such changes. Details of such initiatives are as follows.

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

- CTC provided Sompo Japan Insurance Inc. with CTC-AICON, an AI-based inquiry response solution for the company’s call center, featuring automatic text conversion, analysis and voice response systems. AI recognizes customer’s requirements based on what the customer is speaking about and automatically accepts a range of procedural requests such as the change of a registered address due to relocation and issuance of a tax deduction certificate. Going forward, CTC will contribute to further improving the quality of the call center’s response systems by making CTC-AICON usable for other services.
- CTC started to sell AI-based temperature detectors, devices that utilize versatile IoT devices, in collaboration with Idein Inc. Installed at corporate receptions and the entrances/exits of logistics facilities, among other places, where people come and go, the device is used for screening of visitors to identify those who are suspected of having high temperatures through the contactless measurement of their body surface temperatures. Because it is equipped with an AI-based face recognition function, persons in charge of reception or security are able to recognize and identify people to whom relevant conditions apply. Going forward, CTC will continue to facilitate the development and popularization of AI/IoT systems that contribute to the prevention of the spread of infections including the COVID-19 in particular, in collaboration with the company.
- CTC started to promote the Celonis Intelligent Business Cloud, a process mining solution that Germany-based Celonis SE is offering. The solution enables a user to take in data and logs that are produced in daily corporate operations, analyze them through AI and identify bottlenecks and matters that should be improved in operation processes. The user can execute the OODA loop^{*1}, which is necessary for improving processes, within the framework of a tool in real time. CTC not only provides the solution but also offers services such as data design, consulting, setting, collaboration with existing systems, operation and training as a total package, thereby helping customers implement digital transformation (DX).

^{*1}: A problem-solving method through the iteration of an observe-orient-decide-act cycle.

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

- CTC provided The Iyo Bank, Ltd. with the Health Support System (“H.S.S.”), a cloud service of Wellness Communications Corporation. The H.S.S. is a cloud service aimed at supporting corporate health and productivity management through the centralized management of data on health check, work and stress check. In addition, it provided wearable terminal devices and a data management platform so that the bank could not only help their employees raise their health awareness but also encourage them to change their behavioral patterns autonomously through the improvement of lifestyles and other means. By doing so, CTC provided comprehensive support for health and productivity management that the bank is facilitating.
- CTC provided Government Pension Investment Fund (“GPIF”) with a cloud platform that gathers and analyzes index information, which is a benchmark for asset management. GPIF started the Index Posting, an initiative of gathering a variety of index information including ESG indices and Smart Beta indices proposed by companies that provide indices. By adopting the platform, GPIF can accept proposals made by companies that provide indices at any time while at the same time gathering and storing information more efficiently. Thanks to the high-level data analysis function embedded in the cloud platform, GPIF can analyze not only corporate financial information reflected in indices but non-financial information including ESG information, which resulted in the implementation of more advanced management.
- CTC started to provide a quantitative assessment service to commercial, transport and public facilities, respectively, in response to social distancing requests. The service is created based on knowledge that CTC has accumulated through digital simulations for more than 60 years. It makes forecasts on the formation of queues and a rise in the level of group density in conjunction with the securing of social distance aimed at preventing the spread of COVID-19. Then, by identifying issues and evaluating the effectiveness of countermeasures, it supports the operation of facilities. Going forward, CTC will work to enhance the simulation technology and expand related services, thereby ensuring that people can use varieties of facilities in secure and safe conditions.

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

- To create an environment and corporate culture that encourage active participation of diverse human resources, CTC has been working on a range of initiatives such as employees' work-style reforms, health and productivity management, aid for active participation of women, seniors, and people with disabilities, and support for balancing work with childcare/nursing care. In addition, it has developed the Basic Policy on Diversity to further promote diversity by including LGBT*¹ and SOGI*² issues. Based on this policy, CTC has established a desk for consultation on LGBT and SOGI issues and implemented internal training programs to facilitate employees' understanding.

*1: LGBT stands for lesbian, gay, bisexual and transgender. It is a collective term for sexual minorities.

*2: SOGI stands for sexual orientation and gender identity.

- Given the spread of the COVID-19, the CTC Group adopted a teleworking system for all managers and staff members, in principle, on April 3, 2020, which was before the issuance of the declaration of a state of emergency by the Japanese government. Since the lifting of the declaration, it has been reviewing the work system flexibly in light of infection rates while also maintaining the basic policy of working from home. With this in mind, the CTC Group will continue to take necessary measures to prevent the spread of infection while also giving top priority to the safety of all stakeholders including managers, staff members, customers and business partners. In doing so, it will seek to continue IT-based businesses.

In its sales activities, the CTC Group focused on infrastructure for the communication and manufacturing sectors, and development and infrastructure for government and municipal offices. During the first three months of the fiscal year under review, revenue amounted to 104,075 million yen (up 7.3% year on year) thanks to higher sales in the Services business and the Products business. Operating income came to 5,846 million yen (up 21.1% year on year) due to higher sales and an improved gross margin. Profit before tax came to 5,895 million yen (up 21.1% year on year) due to higher operating income. Net profit was 4,067 million yen (up 22.7% year on year), and net profit attributable to CTC's shareholders totaled 4,092 million yen (up 26.1% year on year).

(2) Qualitative information on consolidated financial position

Total assets amounted to 420,610 million yen at the end of the first three month of the fiscal year under review, a decrease of 18,206 million yen from the end of the previous consolidated fiscal year. This was attributable largely to a decrease of 29,418 million yen in trade and other receivables, which offset an increase of 12,048 million yen in other current assets.

Total liabilities stood at 183,945 million yen, a decrease of 16,306 million yen from the end of the previous consolidated fiscal year. The principal contributing factors included decreases of 18,336 million yen in trade and other payables, 11,146 million yen in income taxes payable, which offset an increase of 14,731 million yen in other current financial liabilities.

Total equity was 236,664 million yen, a decline of 1,900 million yen from the end of the previous consolidated fiscal year. This was mainly attributable to a decrease of 7,109 million yen due to the payment of dividends of surplus, which offset increases of 4,067 million yen due to net profit and 1,567 million yen in other comprehensive income.

(3) Qualitative information on consolidated earnings forecasts

At present, the CTC Group will not revise its financial forecasts announced on April 30, 2020.

2. Summary Quarterly Consolidated Financial Statements

(1) Summary quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of June 30, 2020)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	74,615	67,860
Trade and other receivables	137,736	108,318
Inventories	29,044	34,048
Current tax assets	76	1,974
Other current financial assets	20,301	20,152
Other current assets	62,963	75,047
Total current assets	324,736	307,402
Non-current assets		
Property, plant and equipment	55,382	55,000
Goodwill	10,406	11,415
Intangible assets	8,477	8,254
Investments accounted for using the equity method	5,035	5,056
Other non-current financial assets	18,721	19,071
Deferred tax assets	13,910	12,199
Other non-current assets	2,145	2,210
Total non-current assets	114,080	113,208
Total assets	438,816	420,610

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of June 30, 2020)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	56,788	38,451
Other current financial liabilities	14,818	21,133
Income taxes payable	11,696	549
Liabilities for employee benefits	21,761	13,238
Provisions	995	1,026
Other current liabilities	56,545	71,276
Total current liabilities	162,604	145,676
Non-current liabilities		
Non-current financial liabilities	31,222	31,809
Liabilities for employee benefits	3,839	3,820
Provisions	2,198	2,207
Deferred tax liabilities	387	432
Total non-current liabilities	37,647	38,269
Total liabilities	200,252	183,945
Equity		
Common stock	21,763	21,763
Capital surplus	30,526	30,099
Treasury stock	(9,613)	(9,613)
Retained earnings	188,149	185,190
Other components of equity	846	2,022
Total shareholders' equity	231,672	229,462
Non-controlling interests	6,892	7,202
Total equity	238,564	236,664
Total liabilities and equity	438,816	420,610

(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, 2019 to June 30, 2019)	Consolidated fiscal year under review (From April 1, 2020 to June 30, 2020)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	96,973	104,075
Cost of sales	(74,090)	(79,094)
Gross profit	22,883	24,980
Other income and expenses		
Selling, general and administrative expenses	(18,124)	(19,194)
Other income	78	99
Other expenses	(10)	(39)
Total other income and expenses	(18,056)	(19,134)
Operating income	4,826	5,846
Financial income	105	111
Financial costs	(127)	(153)
Share of profit of associates accounted for using the equity method	65	91
Profit before tax	4,869	5,895
Income tax expense	(1,554)	(1,828)
Net profit	3,315	4,067
Profit attributable to:		
CTC's shareholders	3,246	4,092
Non-controlling interests	68	(25)
Earnings per share (Attribution to CTC's shareholders):	(Yen)	(Yen)
Basic earnings per share	14.05	17.71
Diluted earnings per share	14.05	17.71

Summary quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2019 to June 30, 2019)	Consolidated fiscal year under review (From April 1, 2020 to June 30, 2020)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	3,315	4,067
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	(429)	223
Share of other comprehensive income of associates accounted for using the equity method	(0)	(0)
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(447)	1,335
Cash flow hedges	(11)	13
Share of other comprehensive income of associates accounted for using the equity method	(16)	(4)
Total other comprehensive income, net of tax effect	(905)	1,567
Total comprehensive income	2,409	5,635
Total comprehensive income attributable to:		
Owners of the Company	2,486	5,268
Non-controlling interests	(76)	366

(3) Summary quarterly consolidated statement of changes in equity

Previous consolidated fiscal year (From April 1, 2019 to June 30, 2019)

(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	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	—	—	—	—	—	—	—
Share-based payment transactions	—	19	—	—	—	—	—
Put options held by non-controlling shareholders	—	—	—	—	—	—	—
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	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	—	—	—
Share-based payment transactions	19	—	19
Put options held by non-controlling shareholders	—	—	—
Total transactions with owners	(5,992)	(49)	(6,041)
June 30, 2019	215,044	4,272	219,317

Consolidated fiscal year under review (From April 1, 2020 to June 30, 2020)

(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, 2020 (as previously reported)	21,763	30,526	(9,613)	188,149	(1,655)	2,532	(31)
Profit	—	—	—	4,092	—	—	—
Other comprehensive income	—	—	—	—	939	223	13
Total comprehensive income	—	—	—	4,092	939	223	13
Payment of dividends	—	—	—	(7,052)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Share-based payment transactions	—	29	—	—	—	—	—
Put options held by non-controlling shareholders	—	(455)	—	—	—	—	—
Total transactions with owners	—	(426)	(0)	(7,052)	—	—	—
June 30, 2020	21,763	30,099	(9,613)	185,190	(716)	2,756	(17)

Items	Shareholders' equity	Non-controlling interests	Total equity
	Total shareholders' equity		
April 1, 2020 (as previously reported)	231,672	6,892	238,564
Profit	4,092	(25)	4,067
Other comprehensive income	1,176	391	1,567
Total comprehensive income	5,268	366	5,635
Payment of dividends	(7,052)	(56)	(7,109)
Purchase of treasury stock	(0)	—	(0)
Share-based payment transactions	29	—	29
Put options held by non-controlling shareholders	(455)	—	(455)
Total transactions with owners	(7,478)	(56)	(7,535)
June 30, 2020	229,462	7,202	236,664

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

(Notes on going concern assumptions)

None