Annual Report 2016

ITOCHU Techno-Solutions Corporation

CTC
Challenging Tomorrow's Changes

Working to Change Future for the Global Good

Challenging Tomorrow's Changes

CTC, our corporate brand, is derived from the phrase "Challenging Tomorrow's Changes". This slogan embodies our corporate mission of "leveraging IT's potential to change future for the Global Good".

Our clients are facing various challenges in their businesses amid changes in the operating environment. Our goal is to provide consulting services that give them optimal solutions to overcome those challenges, systems integration that puts the solutions into practice, and support services once our systems have been delivered. By providing this integrated package of services, we aim to enhance corporate value for clients and help change future for the Global Good.

Chapter 1 CTC's Sustainable Growth Story

In this section, we look at CTC's current position, its value creation processes and the steps the Group is taking to deliver sustainable growth.

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Chapter 2 CTC's Growth Strategy

The President and the CFO explain in detail CTC's new Medium-Term Management Plan, group philosophy and capital policy. Business group leaders also describe the growth strategies for each business and highlight examples of how CTC is creating value for clients.

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Chapter 3 Systems that Support Value Creation

In this section, we show how we are reinforcing our management base to support value creation and implementing CSR initiatives to cultivate a distinct CTC culture. We also describe the Group's management framework.

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CTC Group Philosophy

Slogan

Challenging Tomorrow's Changes

Mission

Leveraging IT's potential to change future for the Global Good.

Values	Action Guidelines
Challenge the Change	Are you determined? Are you constantly trying new things without ever giving up?
Challenge the Value	Are you creative? Do you create value that exceeds customers' expectations?
Challenge the Future	Are you free thinking? Do you strive to map out a brighter future?

Our Vision for CTC

Take responsibility for the evolution of the IT industry, as the industry's leading company

Chapter 4

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Editing Policy

CTC's Annual Report 2016 highlights the most important information from the CTC Group's business activities, business results, CSR activities and management framework, with a particular focus on management strategy, and presents it to readers in a concise and integrated manner. CTC has designed the Annual Report 2016 to be used in conjunction with the CTC website as part of efforts to promote effective communication with shareholders, investors and all other stakeholders.

Website Information

For more information about the CTC Group, please use the following links:

IR Information
http://ctcir.ctc-g.co.jp/rose/en/index.htm
IR documents such as financial results and securities filings, as well as IR news

CSR Information
http://www.ctc-g.co.jp/en/corporate/csr/index.html
Detailed information about the CTC Group's social and environmental activities

Scope of Report

The report covers ITOCHU Techno-Solutions Corporation (CTC) and its Japan and overseas consolidated subsidiaries. It also contains some information about non-consolidated subsidiaries and affiliates.

Notes on Financial Amounts

Figures shown have been rounded down to the nearest unit, based on IFRS.

Forward-Looking Statements

Statements made in this Annual Report with respect to CTC's plans, strategies and beliefs, and other statements that are not historical facts, are 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.

CTC has a long track record of flexibly responding to change and building on its strengths

Multi-Vendor

1980s
Started sales of Oracle products

1990s
Started sales of products from
- Avaya
- Cisco Systems
- Hewlett Packard Enterprise
- IBM
- NetApp
- Veritas Technologies

and other vendors

2001
Opened Technical Solution Center (TSC) as an integrated verification center

2000s
Started sales of products from
- EMC
- Juniper Networks
- Symantec

and other vendors

Technological Capabilities

1996
Launched Japan's first online weather information site

1999
Supported pioneering initiatives to develop the mobile internet for a leading telecom carrier

1999
Collaborated on satellite digital communication system project for convenience stores

1999
Number of engineers in CTC Group to over 1,000

2004
Moved into the wind and solar power fields using expertise from weather IT

2004
Number of engineers in CTC Group to over 2,000

Support Framework

1988
Opened Yokohama Computer Center

1995
Opened Kobe Computer Center

2001
Opened Management Operation Center (renamed Remote Operation Center (ROC))

2000
Opened Otemachi Internet Data Center

2005
Opened Shibuya Data Center

Mainframe era → Internet era

1999
Listed ITOCHU TECHNO-SCIENCE Corporation on First Section of Tokyo Stock Exchange (TSE)

2000
Listed CRC Integrated Research Center Co., Ltd. on Second Section of TSE

2001
CRC Integrated Research Center Co., Ltd. name changed to CRC Solutions Corp.
Company then listed on First Section of TSE in 2002

Developments in IT mean our clients' needs are constantly changing.
We have responded flexibly to those changes and built on our strengths over time.
Today, our business covers the full spectrum of the IT lifecycle.
We will continue to take on new challenges as a company that drives the evolution of Japan's IT industry.

2000s

Started sales of products from
- Citrix Systems
- F5 Networks
- Microsoft
- Red Hat
- VMware

and other vendors

2010s

Started sales of products from
- Dell
- FireEye
- Palo Alto Networks
- Pure Storage
- Tableau Software

and other vendors

2014

Certified as Japan's first Open Compute Project solution provider

2016

Roughly 250 vendor partners

2006

Mergers increase number of engineers in CTC Group to over 3,000

2007

Started initiatives in virtualization technologies

2009

Launched TechnoCUVIC and other cloud services

2012

Opened Big Data Processing Lab

2013

Launched C-ARCS solution for credit card operations

2014

Established Innovation and R&D Division

2014

Opened Advanced Technology LAB

2015

Opened Cloud Innovation Center

2015

Developed CUVICmc2 cloud service for backbone systems

2016

Number of engineers in CTC Group to over 6,000

2008

Opened Mejirozaka Data Center

2013

Opened Yokohama Computer Center North Wing

2014

Launched system operation and monitoring service CUVICEye in Malaysia

2014

Opened CTC Security Operations Center (CTC-SOC) and began providing CTC Managed Security Service (CTC-MSS)

Cloud era

2006

ITOCHU TECHNO-SCIENCE Corporation merged with CRC Solutions Corp.

Merged company makes new start as a total solution provider

2011

Opened Singapore Branch Office

2012

Acquired US company ITOCHU Technology, Inc. and changed name to ITOCHU Techno-Solutions America, Inc.

2012

Formed capital alliance with Netband Consulting Co., Ltd. of Thailand

2013

Acquired two companies in Malaysia and Singapore and changed names to CTC Global Sdn. Bhd. and CTC Global Pte. Ltd.

Harnessing CTC's Unique Strengths to Provide

CTC's Strengths

Multi-Vendor
Capable of rapidly building partnerships with leading IT companies in Japan and overseas across technologies and products

Technological Capabilities
Construction of optimal systems by combining the best options available

Support Framework
Ensuring client systems remain secure

CTC's Business Resources

Partnerships with leading IT companies in Japan and overseas
Vendor partners
Around 250 companies
See page 36 for more details

Verification facilities in Japan
Servers
Roughly 500
Networks
Roughly 600
Significant equipment assets
See page 39 for more details

People that can deliver change
In-house engineers
Roughly 6,200
See pages 37-38 for more details

External engineers
Development partners
Around 900 companies
Roughly 7,300 engineers
See page 36 for more details

Extensive facilities
Data centers
5 locations
83,818㎡
See page 39 for more details

24/7 support all year round
Maintenance and support bases
Around 100 sites nationwide
See page 40 for more details

Support for client sites overseas
Sites in the ASEAN region
See page 33 for more details

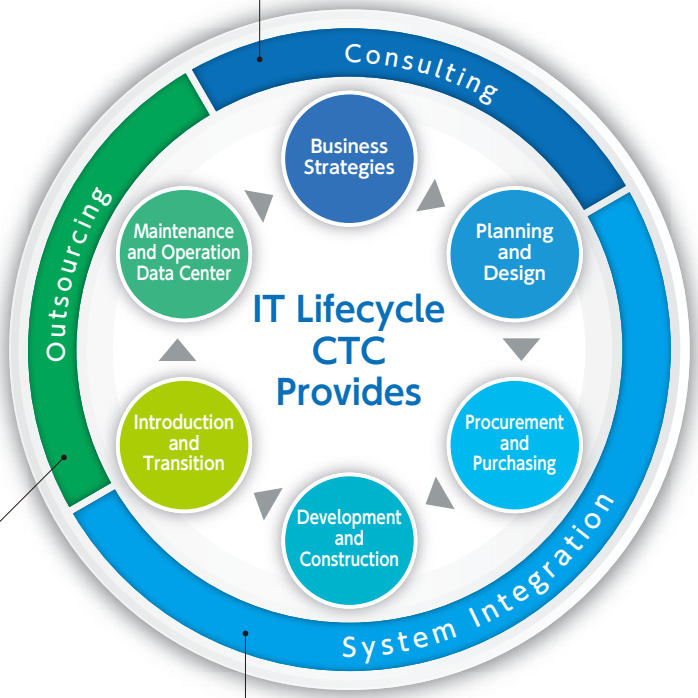
CTC selects the best products and services for client needs from a vast array of IT options, combines them into systems and ensures they operate securely. Our capacity to deliver across all those areas is our strength as a company. We offer a wide choice of products and services compared with multivendor system integrator firms and our technological skills are among the best in Japan, allowing us to flexibly build large-scale systems from our extensive product and service menu.

Clients with Optimal Solutions

CTC's Businesses

As a total solutions provider, CTC provides optimal solutions for all phases of the IT lifecycle.

- Business consulting
- IT consulting



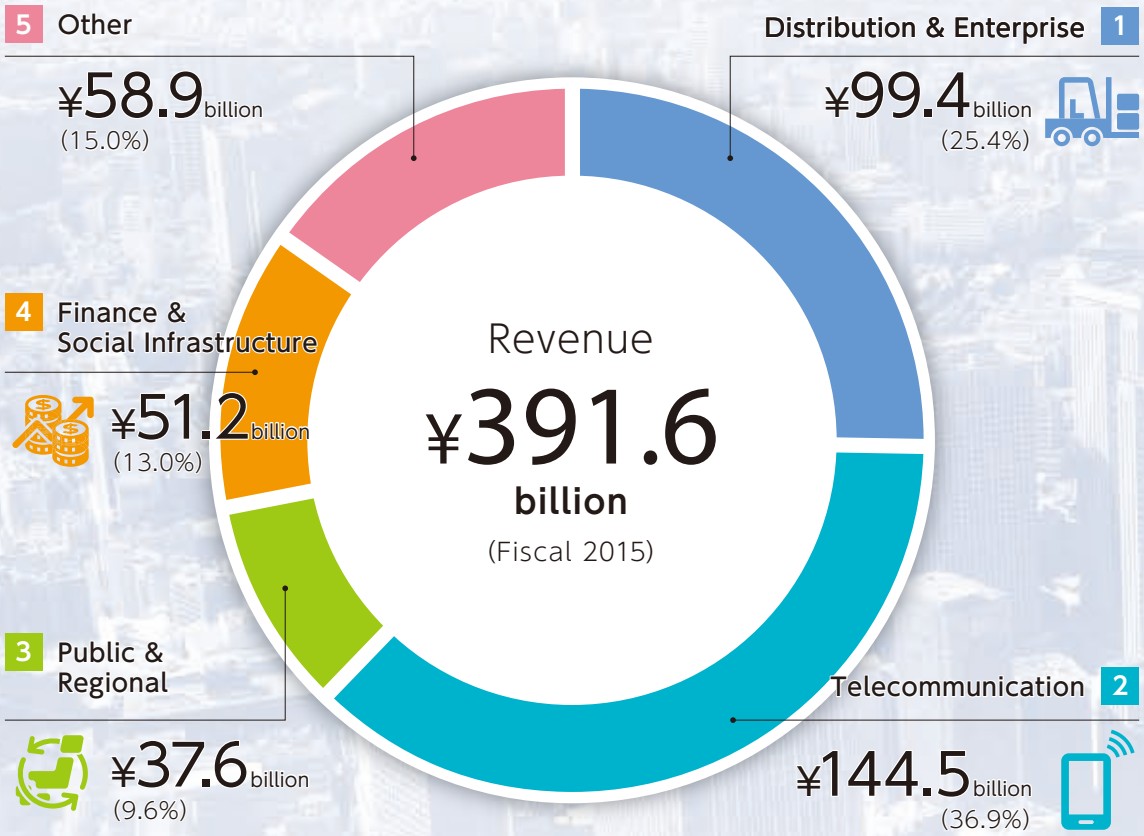
- Maintenance and support
- Operation and administration
- Office transfers
- Technical training

- Industry solutions
- Business solutions
- IT solutions
  (including databases, storage, networks and security)

Enhance corporate value for clients

Using our wealth of skills and experience in a wide range of fields to help clients overcome challenges

Revenue by business group



Major Clients

1 Distribution & Enterprise

Main clients are manufacturers, distributors, trading companies, transport companies and service companies.
See pages 23-24 for more details about the business.

2 Telecommunication

Main clients are telecom carriers and online service providers. See pages 25-26 for more details about the business.

3 Public & Regional

Main clients are regional companies, central government ministries and agencies, local governments, regional banks, power companies and gas companies. See pages 27-28 for more details about the business.

4 Finance & Social Infrastructure

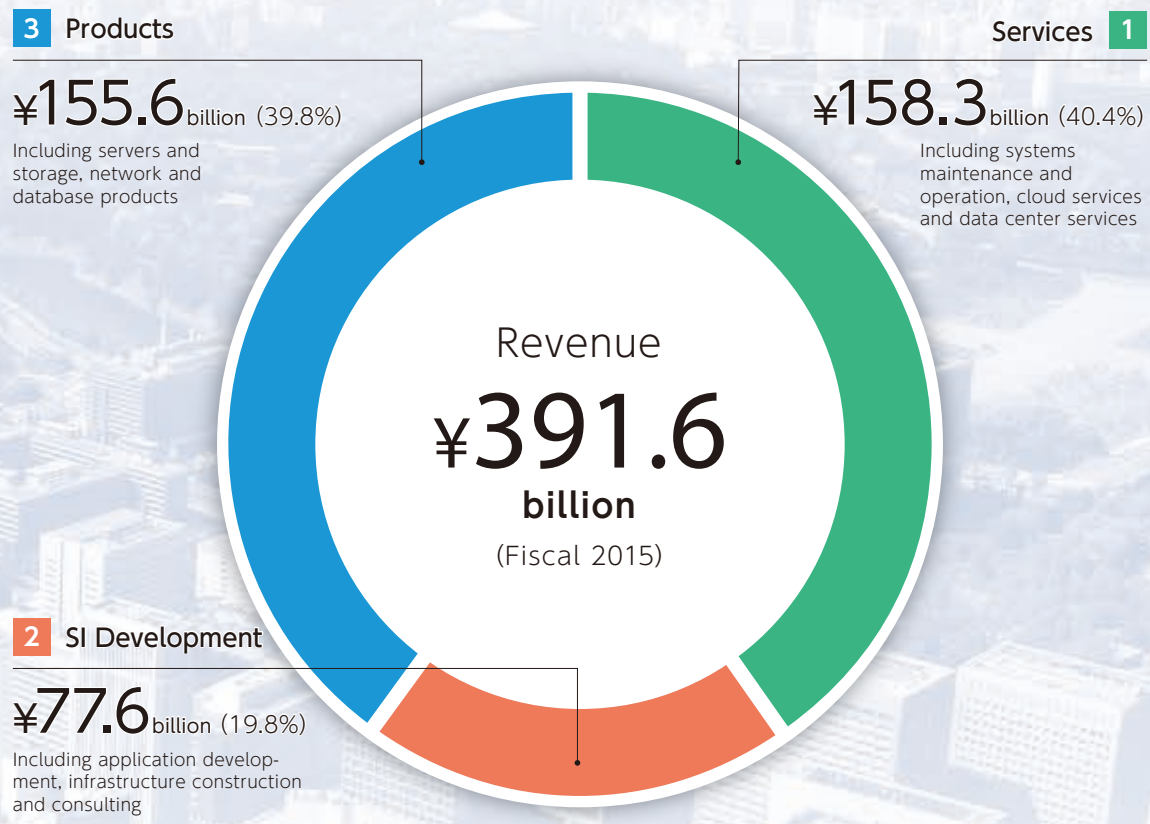
Main clients are banks, securities companies, credit card companies, postal service providers, power companies and gas companies. See pages 29-30 for more details about the business.

5 Other

This segment mainly covers sales generated by the Science & Engineering Systems Division and operating companies in Japan and overseas. See pages 31-33 for more details about the business.

CTC's client base covers a wide range of sectors, including telecom carriers and financial firms that need systems to operate 24/7 all year round, manufacturers and utilities with large-scale systems, and construction and energy firms that require advanced scientific computing capacity. The skills and know-how we have built up over many years serving this diverse client base underpin our ability to deliver advanced and innovative IT solutions.

Revenue by business model



Changes in Revenue

(¥ billion)

	JGAAP							IFRS		
	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
1 Services	105.3	128.0	134.9	134.0	131.1	130.6	135.0	145.2	155.0	158.3
2 SI Development	55.0	69.4	67.1	66.4	59.7	67.0	64.9	71.9	79.0	77.6
3 Products	133.9	121.8	105.1	89.8	92.1	100.0	122.4	133.3	147.8	155.6
Total	294.3	319.2	307.2	290.3	283.0	297.7	322.4	350.5	381.9	391.6

Accelerating "three shifts" to achieve the goals in our Medium-Term Management Plan

Fiscal 2015-2017 Medium-Term Management Plan

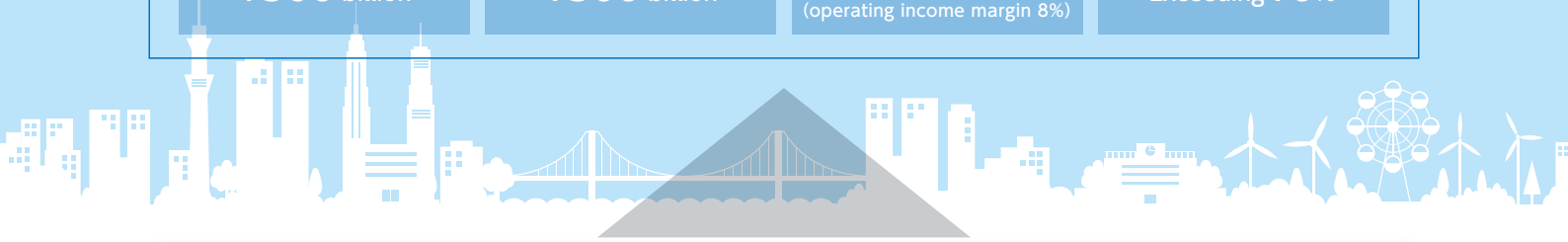
Vision

Take responsibility for the evolution of the IT industry, as the industry's leading company

Fiscal 2017 Targets

"Two 500 billions"

Growth	Corporate Value	Profitability	Capital Efficiency
Revenue ¥500 billion	Market cap ¥500 billion	Operating income ¥40 billion (operating income margin 8%)	ROE Exceeding 10%



Basic management theme

"Three shifts"

Shift to a service-type business
Bring the share of the service-type business to more than 50%

Shift to management that generates synergies
Exert comprehensive capabilities beyond the segment framework

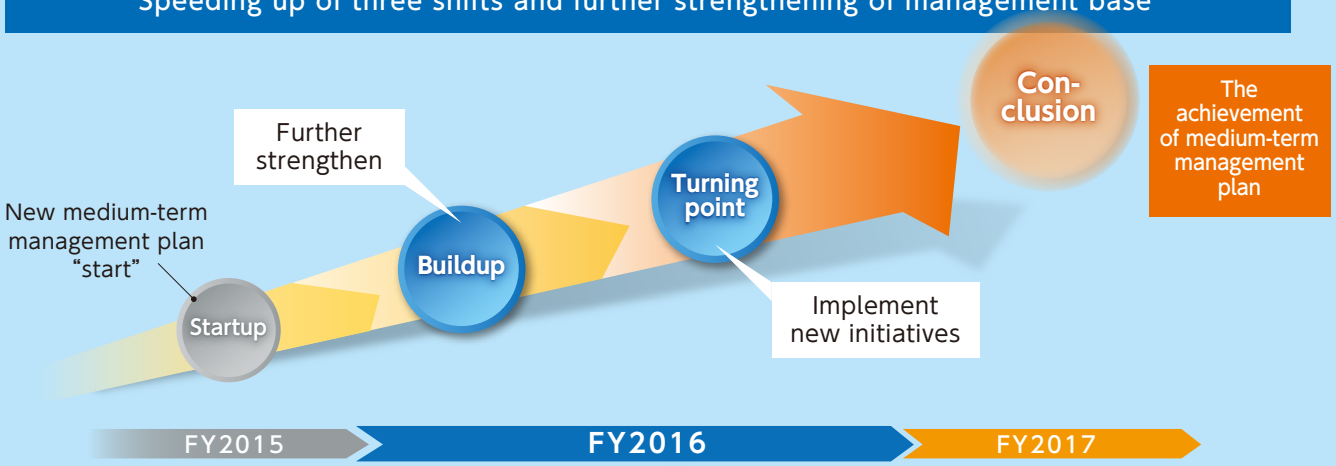
Shift to growth Investments
Vigorously promote investments in human resources, technologies and businesses

Strengthen management base to support three shifts

We announced a new three-year Medium-Term Management Plan in fiscal 2015. Under the plan, we are aiming to drive the evolution of the IT industry as the leading company.
To achieve the plan's goals, we will step up efforts to realize our “three shifts” in fiscal 2016: shift to a service-type business, shift to management that generates internal synergies and shift to growth investments.

FY2016 Management Policy

Speeding up of three shifts and further strengthening of management base



Buildup Further strengthen	New management synergies	• Reorganize for flexible allocation of human resources to help actively target large projects
	Lift off for new services	• Sales launch and expansion of CUVICmc2, our cloud service specialized in backbone system and Avail-I, our efficient maintenance services.
	M&A deals	• Promotion of M&A targeting Japan and ASEAN region
Turning point Implement new initiatives	Implement new systems to spur local innovation	• Strengthening of promotion system for local economies by establishing Public and Regional Business Group
	Roll out advanced technologies	• Market input of advanced technologies, such as OpenStack and AI • Expansion of OCP business
	Move into phase 2 of our strategy to grow our global business	• Strengthening of organizations of the U.S. bases • Expansion of bases in ASEAN region
Strengthen management base	Continuity of control on unprofitable projects	• Strengthening of project control function of business groups
	Work-style innovation	• Adoption of new work-style aiming for creation of an appealing company and for improvement of job satisfaction
	Increase return for shareholders	• Performance-based stable dividends

Feature

CTC's Progress in Fiscal 2015

Shifting to a service-type business and utilizing advanced technologies

※Excerpts from press releases in fiscal 2015

2015

Apr

May

Jun

CTC joins OpenStack Foundation to reinforce cloud business

Jul

CTC launches CTC Agilemix to support business creation at corporate offsite hackathons

Aug

Sep

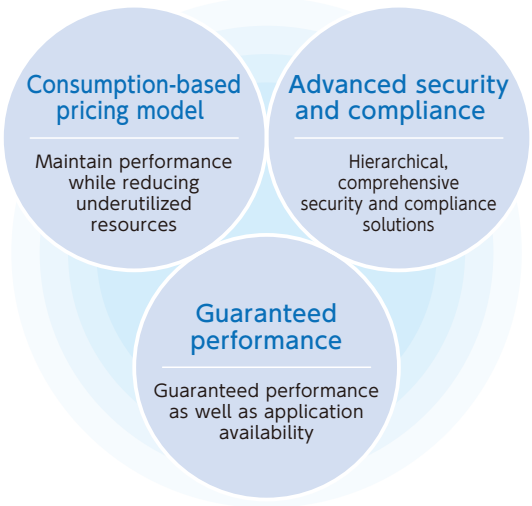
CTC wins top prize in general category in IBM Bluemix Challenge 2015

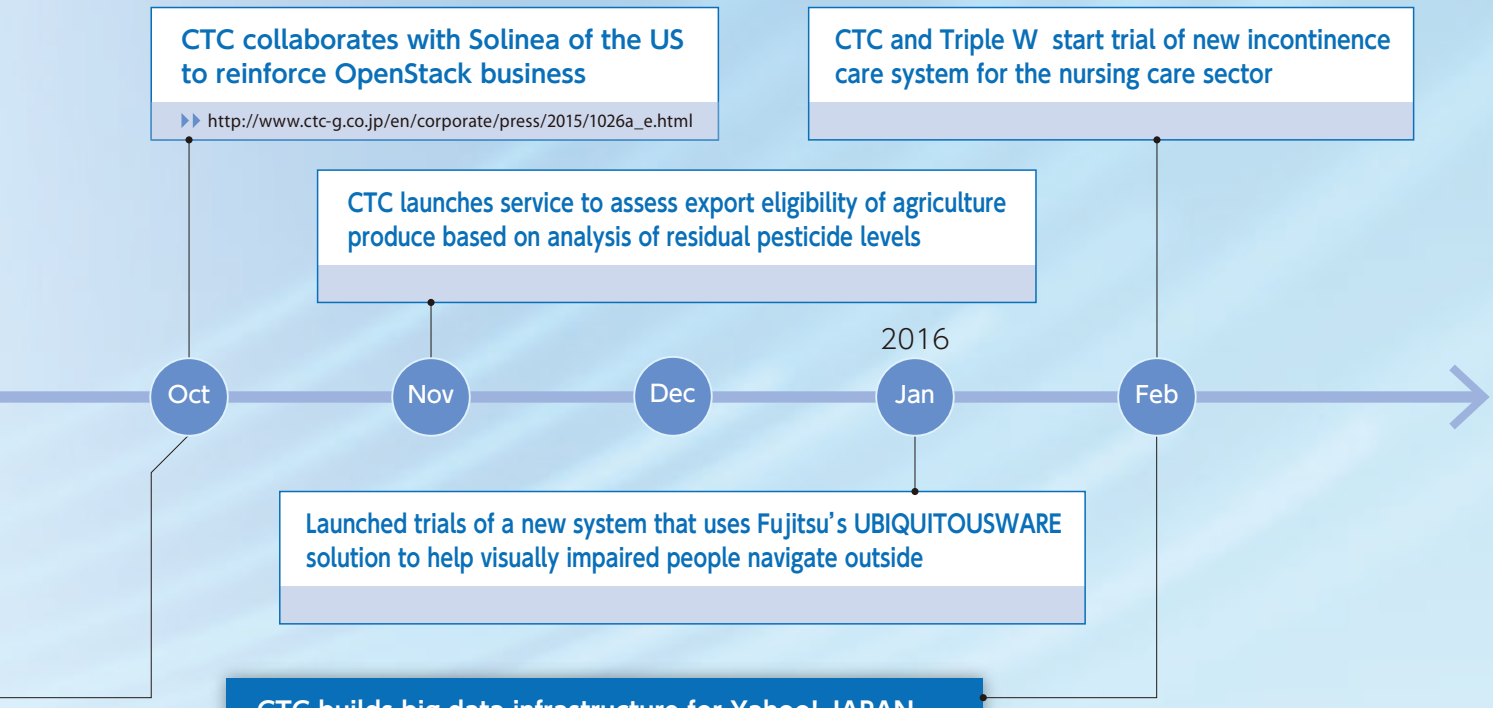
CTC, SAP Japan and Virtustream team up to launch cloud service for backbone systems

CUVICmc2

Cost control is one reason cloud technology is attracting so much interest. Backbone systems typically eat up more than 70% of corporate IT investment, so moving them to the cloud should be a realistic option for companies. However, many have hesitated to make the switch due to lingering concerns about stability and security. To address those concerns, CTC has developed CUVICmc2, a cloud service for backbone systems. We announced the new service in October 2015 and started rolling it out in April 2016. CUVICmc2 is anchored by technology from Virtustream of the US, offering advanced security and performance guaranteed by service-level agreements (SLAs). Users are only charged based on actual use of cloud resources. Those features mean companies can feel confident CUVICmc2 will meet their mission-critical system needs. CUVICmc2 is highly compatible with SAP's ERP solutions, enabling us to provide one-stop infrastructure and business application development and operation packages by combining CUVICmc2 and SAP ERP, helping companies migrate their backbone systems to the cloud. We plan to focus on expanding sales of CUVICmc2 in fiscal 2016 as part of our shift to a service-type business.

Joint press event in October 2015 to announce CUVICmc2; from left: Virtustream CEO Rodney Rogers, CTC President & CEO Satoshi Kikuchi, SAP Japan President & CEO Yuzuru Fukuda, and CTC CTO Tadataka Okubo





CTC builds big data infrastructure for Yahoo! JAPAN the utilizing Open Compute Project

http://www.ctc-g.co.jp/en/corporate/press/2016/0202a_e.html

In 2014, CTC became the first company in Japan to be certified as a Solution Provider for the Open Compute Project (OCP), which is technology for next-generation IT infrastructure. Since gaining certification, we have been selling OCP-specified products and building and maintaining systems based on those products.

In 2016, we deployed a big data infrastructure for YJ America, Inc., a US subsidiary of Yahoo! JAPAN Corporation. The new system was announced in February 2016. We covered all aspects of project delivery, from the sale of OCP-specified servers, storage, racks, power sources and other products to system construction and maintenance.

We worked closely with YJ America, ITOCHU Techno-Solutions America, Inc. and partner companies to try out various solutions that address a key issue faced by the client – how to reduce costs through infrastructure technology development. Our approach included reviewing the hardware procurement process from scratch, leading to the procurement of competitive OCP-certified gear that delivered a significant reduction in costs. We will continue to take on new challenges in the field of OCP to develop solutions with clients that help them increase corporate value.

Spotlight on OCP

OPEN™ Compute Project
SOLUTION PROVIDER

The Open Compute Project (OCP) is a global project started by Facebook, Inc. to design and develop the best hardware for data centers and share those ideas freely with other users. OCP-specified hardware is energy efficient, low cost and enables highly scalable, adaptable computing systems.

Amid rising demand for large-scale IT infrastructure, particularly in the US, the OCP has signed up around 150 companies, from major names such as Facebook, Microsoft and Google to equipment vendors and system integrators.

Message from the President

To reach even greater heights, we need to accelerate our shift to a service-type business, management that generates internal synergies and growth investments.

Satoshi Kikuchi

President & CEO

Our Long-term Vision

Harnessing the possibilities of IT

Digital disruption is a phrase we hear often these days. It describes the potential of IT to create innovative new business models that can dramatically change the values of society itself. As in the past, when automobiles and aircrafts significantly extended our reach, IT has made society and everyday lives more comfortable and convenient than before. But IT is poised to bring even greater fundamental changes to our lives. Artificial intelligence (AI) is one example. AI has surprised everyone recently by showing it can beat one of the world's leading players of the board game Go. Another AI program has written a novel. Some observers believe the point when AI surpasses human intelligence is close at hand. When that happens, society will undergo another period of momentous change.

However, people working at the cutting edge of IT need to be aware that the evolution of IT is not necessarily always positive for society. As the CTC Group philosophy states, our corporate mission is to "leverage IT's potential to change future for the Global Good." That short phrase describes our overriding goal in a nutshell.

Progress with the Medium-Term Management Plan

We laid the foundations for change in the plan's first year

The CTC Group's current Medium-Term Management Plan is scheduled to end in fiscal 2017. In fiscal 2015, the plan's first year, we steadily laid the foundations to support CTC's transformation. In that sense, it was a crucial period for the Group's growth prospects. We are implementing three shifts to achieve our commitment in the plan of "two 500 billions": revenue of ¥500 billion and market capitalization of ¥500 billion.

Shift to a service-type business

Compared with other system integration firms, product sales generate a high share of revenue at CTC. As commoditization has spread across IT products, profit margins on product sales have declined.

To address that issue and improve the CTC Group's profit margins, we need to increase the ratio of sales from service-type business, which have higher margins. One area we are focusing on is the growth market of cloud services.

In the last few years, the CTC Group's sales from services have increased by nearly 50% each year, reaching ¥16.5 billion in fiscal 2015.

We have also taken a number of steps to accelerate the shift to a service-type business, such as developing the CUVICmc2 cloud service for backbone systems and a service called Avail-I that realizes efficient maintenance services for IT systems.

Shift to management that generates internal synergies

To create new sources of earnings, we are pushing ahead with a comprehensive management approach that allows internal organizations to draw on the Group's strengths across different

First year review of the "Three Shifts" – the plan's basic management theme

1 Shift to "Service-type business"

Expansion of cloud service and security service	Shift the products maintenance to system maintenance and operation + Managed Service

2 Shift to management that generates "internal synergies"

Expansion of collaborative projects beyond the segment	Winning the large-scale global projects

3 Shift to growth "Investments"

Investment to new cloud-service	Investment to advanced technology and innovation field

Message from the President

business segments. In fiscal 2015, we launched an unprecedented number of joint projects that go beyond our traditional segment framework. For example, all our business groups are collaborating on a large-scale project to develop IT infrastructure for automobiles, and business groups are working with Group companies on various joint projects, such as a cloud-based search site for a real estate broker and a large-scale IT infrastructure construction project for a US service provider based on OCP* specifications.

In large-scale projects, which presented significant challenges in the past, we are harnessing the Group's collective strengths to achieve successful outcomes.

* See the feature on page 12 for more details about the Open Compute Project (OCP).

Shift to growth investments

To stay ahead of competitors in the fast-evolving world of IT, we have to invest in growth. That means investing in the latest technologies, services created by those technologies and innovative fields. As part of that approach, we opened the Advanced Technology LAB (laboratories) in fiscal 2014 to help our personnel keep abreast of the latest developments in technology and practices in our sector. We also set up the Cloud Innovation Center in fiscal 2015 to conduct research and development related to next-generation cloud technology.

Another trend we are seeing is that clients are increasingly asking CTC and other IT companies to collaborate on developing new business models, rather than simply help them solve IT issues. To address those needs, we are focusing on cultivating personnel that have strengths in both IT and design. Ideally, we want people who can transform new business ideas into IT systems at venues such as hackathons and ideathons.

Success with these initiatives now helps us develop highly competitive services and win projects that utilize advanced technologies.

Agriculture, welfare services and nursing care are other areas ripe for innovation. Here we are already starting to see concrete results, such as trials of new services and projects to verify new technologies.

Growth in joint projects that leverage the strengths of each business group

The "strengths" of each business group were utilized and the collaborative project is being expanded.

Enterprise	Distribution		Private cloud development projects for transportation company
Enterprise	Telecoms	Finance & Social Infrastructure / Distribution / IT Services	Large scale infrastructure construction projects for automobile company
Enterprise	IT Services	CTC FACILITES / CTC TECHNOLOGY	Cloud construction project for real estate intermediation company's internet search site
CTC America	Telecoms	IT Services	Construction of data center infrastructure base on the OCP for service provider in U.S.

Business Climate

Harnessing business opportunities arising from change

Next I would like to talk a bit about CTC's business climate.

Domestic IT market

We forecast continued firm IT investment in many sectors, particularly by large companies. We see investment being driven by retailers and distributors to address the shift to omnichannel business models and by manufacturers that are using IoT and big data to boost productivity and competitiveness.

Cloud services market

North America currently accounts for half of the global cloud service market, but demand is poised to expand worldwide as well. In Japan, more companies are considering using cloud services when they migrate to new IT systems, and around 40% of domestic companies have already introduced cloud services across all or part of their business network.

ASEAN IT market

At the end of 2015 the Association of Southeast Asian Nations (ASEAN) established the ASEAN Economic Community (AEC). With the AEC, ASEAN is aiming to create a vast economic area with no trade barriers and freedom of movement for people, goods and services to boost trade and investment in the region. That is also likely to spur growth in the ASEAN IT market.

Medium-Term Management Plan

Accelerating the "three shifts" to achieve our goals

In the Medium-Term Management Plan, we have positioned fiscal 2015 as the "startup" phase and fiscal 2016 as the "buildup" and "turning point" phase.

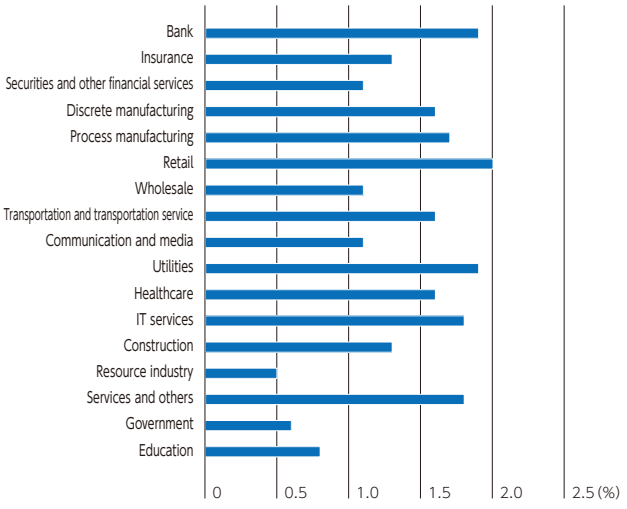
In the context of the plan, "buildup" means strengthen further. We are focusing on:

- New management synergies
- Lift off for new services
- M&A deals

"Turning point" means implementing new initiatives. Specifically, we will:

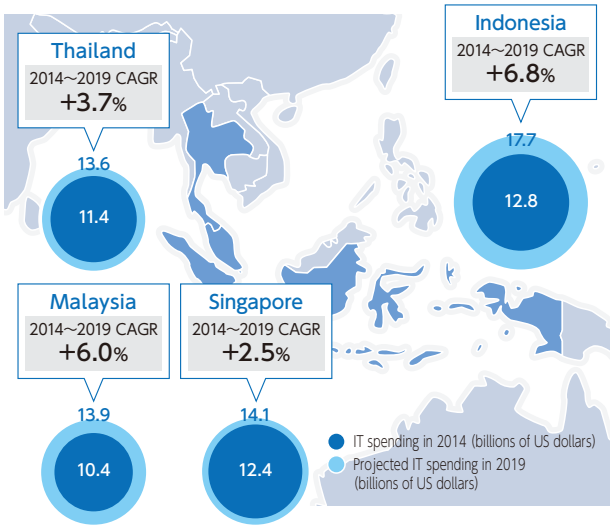
- Implement new systems to spur local innovation
- Roll out advanced technologies

IT spending growth forecasts by sector (CAGR, 2015~2020)



Japan Vertical Market: IT Spending 2016-2020 Forecast and Second-Half 2015 Analysis
(Source) IDC Japan, May 2016 (J16120303)

IT market forecasts for four ASEAN countries



(Source) IDC, Worldwide Semiannual IT Spending Guide 2016H1

Message from the President

• Move into phase 2 of our strategy to grow our global business

Looking at key initiatives in more depth, we implemented a major reform of our organization in April 2016 to promote management that generates internal synergies. The main points of the reform are: (1) integration of the Enterprise Systems Group, which is strong in infrastructure, with the Distribution Systems Group, which is focused on application development and operation, (2) creation of the Public and Regional Business Group, and (3) an overhaul of the roles of all COOs responsible for the main business groups.

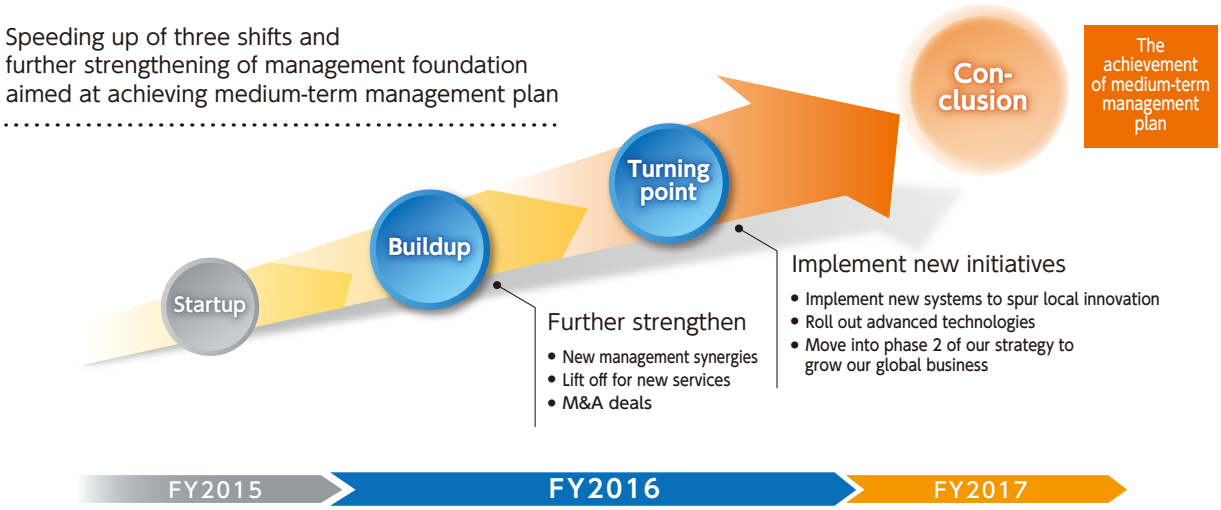
This new organization makes it easier to flexibly allocate personnel and resources to each business group, giving us an even greater capacity to handle large-scale projects. In terms of new services, we have launched new cloud and maintenance services that were developed in 2015 and we plan to focus on expanding sales of those services going forward. To spur regional revitalization, we have upgraded our Osaka and Nagoya sites to branch offices, which have been tasked with stepping up marketing activities targeting local governments, regional banks, universities and other potential regional clients.

In terms of global strategy, we will continue to focus on expanding our business in the ASEAN region and use our US operations to strengthen the OCP business. These steps are part of a wider strategy to significantly expand our business overseas as a new phase for the CTC Group.

Changing working styles to reinforce our business base

It is vital that we reinforce our business base to advance the above projects. As part of those efforts, we are changing the way our employees work to boost motivation and make CTC a more appealing company. As one initiative, we rolled out a new morning-focused working system in 2014 to create more motivating workplaces by improving the quality of time employees have at home and work. More recently, in fiscal 2016, we introduced a flexi-time system called Slide Work and a time-based paid holiday system that allows employees to build up leave in hourly increments. We plan to introduce other new systems to add more flexibility to employee working styles.

FY2016 Management Plan



The CTC Group's Corporate Social Responsibility

Working with stakeholders

Cooperation and collaboration with all stakeholders holds the key to the CTC Group's sustainable growth. In March 2016, after a thorough evaluation process drawing on opinions from inside and outside the Group, we identified material topics (materiality) that the CTC Group should tackle in its CSR activities. Ensuring rigorous information security and compliance are obvious areas, but we are also working on raising quality levels, which is crucial to delivering reliable and trusted IT services. Other areas we identified include cultivating personnel with the necessary advanced technical skills to change society for the better, creating enriching workplaces for our employees and introducing children to IT technology.

Tackling social issues through our core business is another material topic we need to address, specifically, aging society, nursing care provision, reducing environmental impact and revitalizing local communities.

In fiscal 2016, we will set out specific targets and action plans for materiality and work towards concrete goals. Last year the CTC Group signed up to the United Nations Global Compact, making a commitment to 10 principles in four key areas: human rights, labor, the environment and anti-corruption. We plan to implement CSR initiatives based on a global perspective.

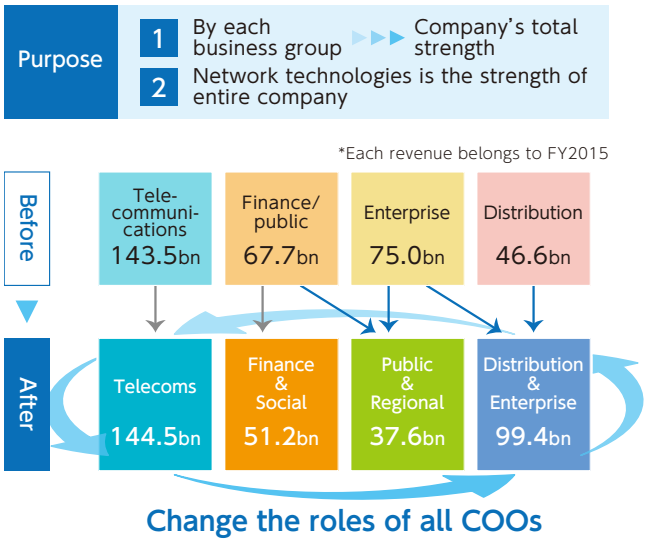
A Message to all Our Stakeholders

Aiming to be a company that drives the evolution of Japan's IT industry

In fiscal 2016, we will work toward the goals of our current Medium-Term Management Plan, which concludes in fiscal 2017. The CTC Group will continue to work as one to implement the plan's initiatives, aiming to realize the plan's vision: take responsibility for the evolution of the IT industry as the leading company.

I hope we can count on your continued understanding and support in the year ahead.

Organizational Restructuring of Business Groups in FY2016



The CTC Group's materiality

1 Provide trusted IT services

- Ensure rigorous information security
- Improve quality
- Compliance

2 Cultivate personnel who can change society for the better

- Conduct personnel development and training
- Promote diversity and change work styles
- Help cultivate people who can be a bridge to the next generation

3 Harness IT to build a sustainable society

- Address issues related to aging societies
- Reduce environmental impact
- Contribute to regional economies

Message from the CFO

Working to achieve the targets in our Medium-Term Management Plan by continuing to actively invest in growth and employing a flexible capital policy

Toru Matsushima
Director & Executive Vice President
Assistant to the President & CAO
CFO & CCO
COO, Global Business Development

Overview of fiscal 2015 results

In fiscal 2015, the domestic economy continued to recover at a moderate pace, despite some signs of weakness in the global economy such as slowing growth in China and other Asian emerging economies and a drop in the crude oil price. In the IT market, corporate IT investment was firm in the manufacturing sector, as well as in the finance and public sectors due to demand for system upgrades and moves to address regulatory changes.

In fiscal 2015, we achieved top- and bottom-line growth, with revenue and profit attributable to owners of the company both rising year on year. Revenue increased ¥9.6 billion to ¥391.6 billion, driven by growth in business with domestic mobile phone carriers, megabanks and manufacturers. However, operating income declined ¥1.3 billion year on year to ¥27.9 billion due to higher R&D expenses and an increase in size-based corporate taxes following revisions to the tax system. Profit attributable to owners of the company increased ¥0.6 billion to ¥18.0 billion, partly reflecting a boost to profits from other changes to the tax system. Revenue and profit attributable to owners of the company were both new records for the Company, marking a strong first fiscal year for the Medium-Term Management Plan.

Consolidated financial highlights

(¥ billion)

	'14	'15	YoY Change	'16 Forecast
Revenue	381.9	**391.6**	+96	400.0
Gross profit	91.2	**91.5**	+2	96.0
Gross profit margin	23.9%	**23.4%**	(0.5pts)	24.0%
Other income and expenses	(61.9)	**(63.5)**	(1.6)	(66.0)
Operating income	29.3	**27.9**	(1.3)	30.0
Operating income margin	7.7%	**7.1%**	(0.6pts)	7.5%
Profit attributable to owners of the company	17.4	**18.0**	+0.6	19.5

Fiscal 2016 business plan

The outlook for the global economy is uncertain for fiscal 2016, but we forecast continued moderate growth in the domestic economy on the back of stronger corporate earnings and an improving employment environment. In the IT market, we also anticipate firm IT investment centered on the finance, manufacturing and distribution sectors. Against this backdrop, we will work towards the targets in our Medium-Term Management Plan by continuing to expand our service-type business, leveraging Groupwide strengths to reinforce the client base, and actively investing in growth. For fiscal 2016, we are targeting consolidated revenue of ¥400 billion, operating income of ¥30 billion and profit attributable to owners of the company of ¥19.5 billion.

Growth investments in the Medium-Term Management Plan

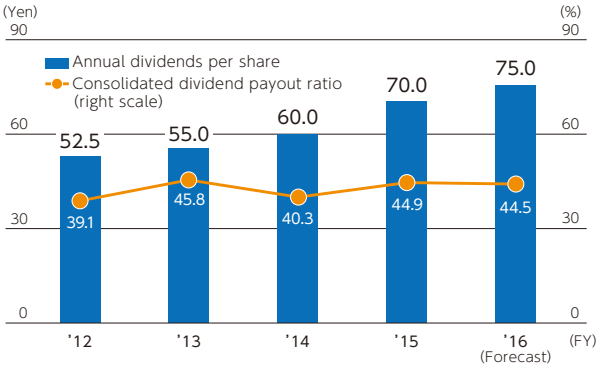
One of the basic management policies in our current three-year Medium-Term Management Plan, announced May 2015, is investing in growth, including M&A and capital investment.

Our stance on M&A is to continue looking for deals that give us access to new growth fields and help us expand our business in the ASEAN region. When forging M&A deals, final investment decisions will be based on multiple perspectives, such as the target company's compatibility and synergies with the CTC Group and its profitability and growth potential, in line with internal investment criteria. Where necessary, we may use interest-bearing debt to fund M&A and capital investment, but in principle, investment spending will not exceed free cash flow in the three years of the Medium-Term Management Plan.

Shareholder returns

Returning profits to shareholders is one of our main considerations at CTC. Our basic policy is to pay stable dividends in line with earnings performance. We are currently targeting a consolidated dividend payout ratio of around 40%. However, taking into account the Group's financial position, earnings performance and other factors, we paid a full-year dividend of ¥70 per share for fiscal 2015, resulting in a consolidated dividend payout ratio of 44.9%. For fiscal 2016, we plan to pay a full-year dividend of ¥75 per share, equating to a consolidated dividend payout ratio of 44.5%. Going forward, we will continue to employ a flexible capital policy focused on capital efficiency, while also taking into account funds needed to invest in growth and the level of internal reserves.

Annual dividends per share and consolidated dividend payout ratio



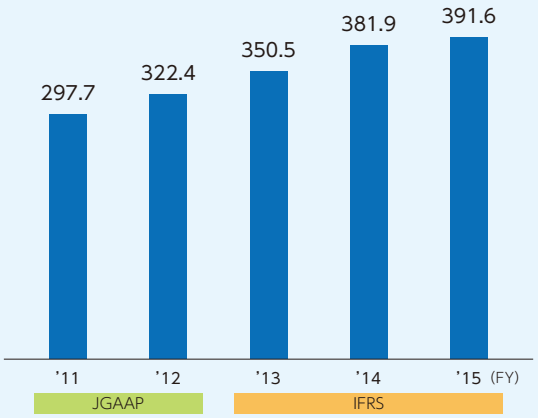
Targeting further growth in corporate value

We are stepping up our emphasis on dialogue with shareholders and other investors. We launched IR activities for individual investors in fiscal 2015, complementing our existing IR program aimed at institutional investors. We plan to use these activities to increase CTC's corporate value by drawing on suggestions and opinions from shareholders and other investors to improve the way we do business. I hope we can continue to count on your advice and support in the year ahead.

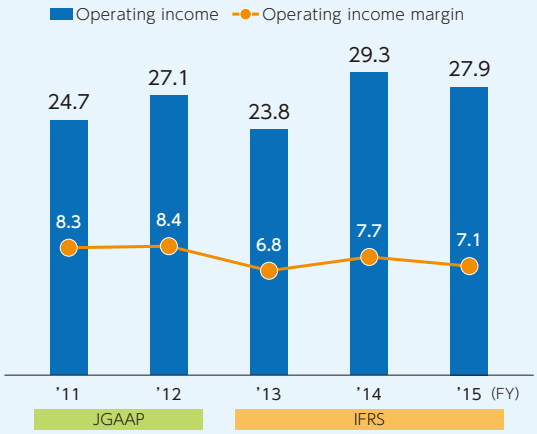
CTC in Numbers

Financial data

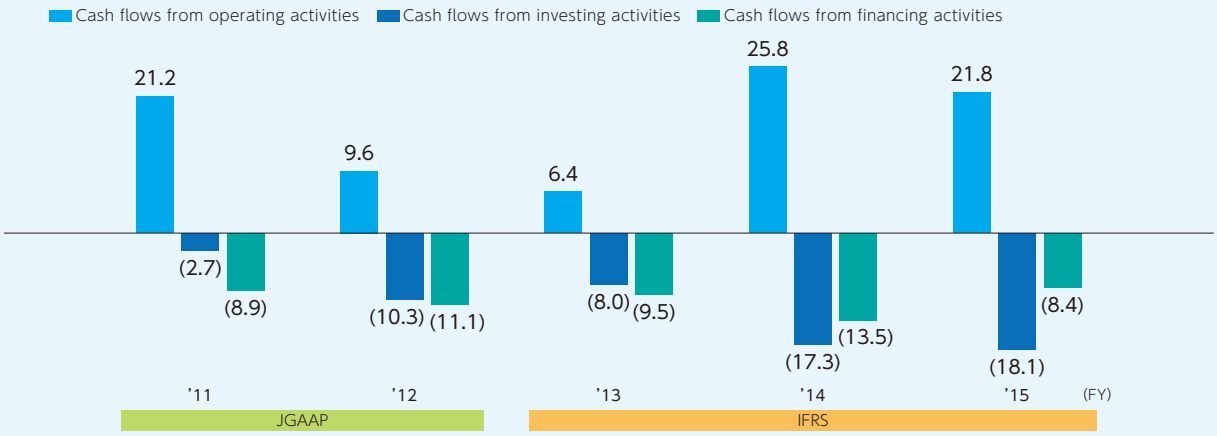
Revenue (¥ billion)



Operating income (¥ billion) / Operating income margin (%)



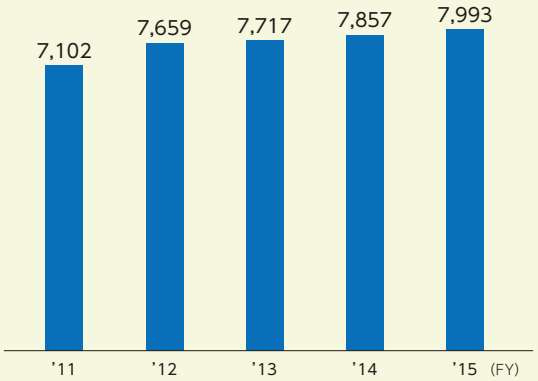
Cash flows (¥ billion)



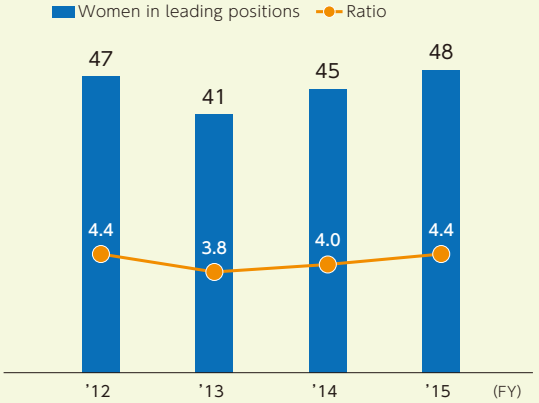
Non-financial data

Total employees (people)

As of March 31 each year

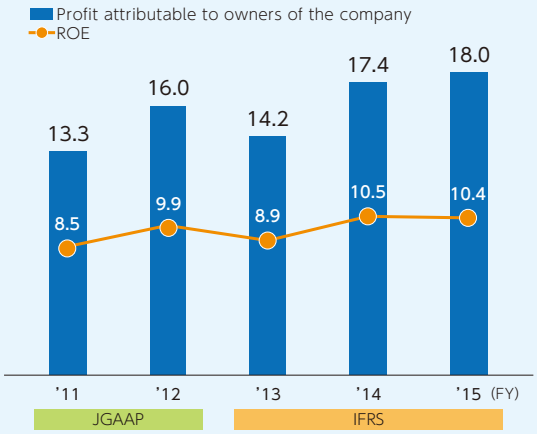


Women in leading positions (people) and ratio (%) (non-consolidated)

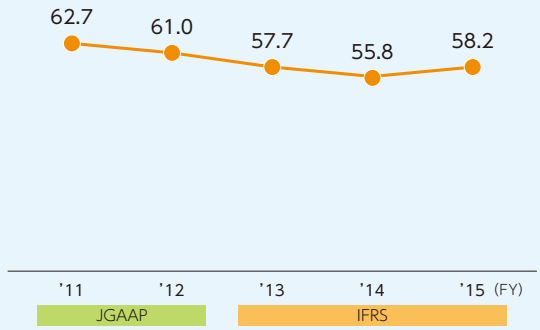


*Leading position means certified professionals (specialist for FY2015) and managers.

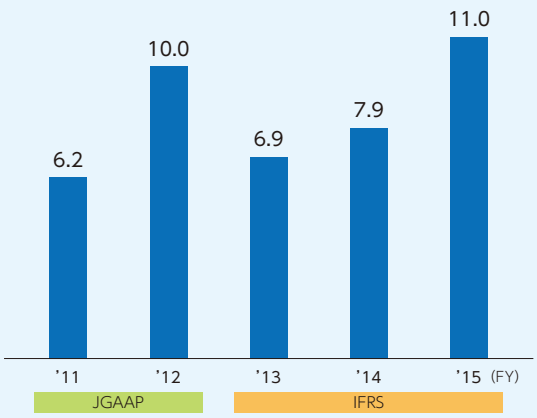
Profit attributable to owners of the company (¥ billion)/ROE (%)



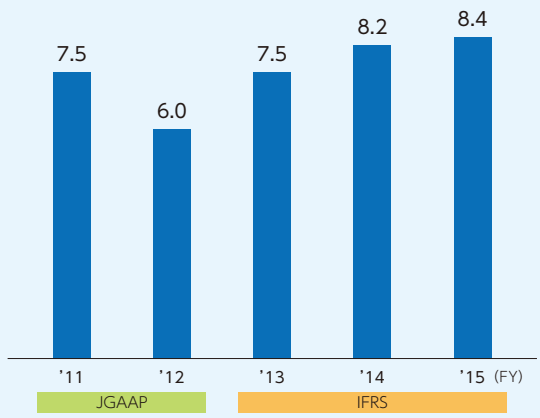
Ratio of equity attributable to owners of the company (%)



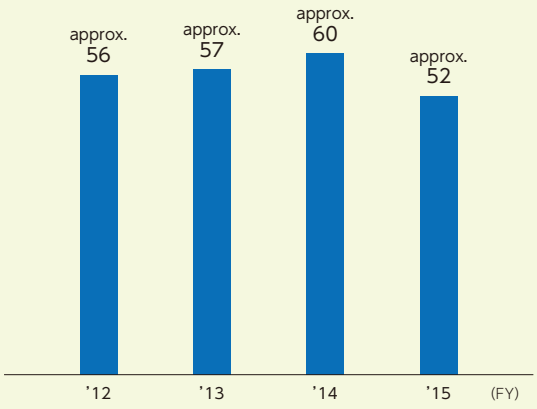
Capital investment (¥ billion)



Depreciation and amortization (¥ billion)



Average hours of training per person (hour)

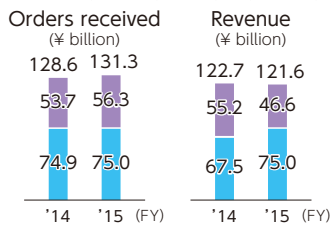


Main Business Review

Distribution & Enterprise Group

Masaaki Matsuzawa
Director & Senior Managing Executive Officer
COO, Distribution & Enterprise Group

Reference data



*Graph shows figures for former business segments

Our Vision

Under our new organizational structure, we will leverage our large team of engineers and harness their expertise to develop new earnings streams

Business Climate and Strengths

Main Client Sectors	Business Climate
Manufacturing, Distribution, Trading Companies, Transportation, Services	● Recovery in IT investment, centered on the manufacturing sector ● Growth in omnichannel retailing, which combines distribution and IT ● Companies stepping up initiatives in IoT and big data (Shifting from defensive IT investment to proactive IT investment)

Strengths of the Distribution & Enterprise Group

- Application development for small-scale systems through to backbone systems, network and server infrastructure construction, and comprehensive operation of those systems

Case Study

Using IT to extend healthy & logevity life expectancy

The Distribution & Enterprise Group is targeting potential growth in IT demand in the healthcare market in the areas of prevention & detection and prognosis & nursing care.

● Prevention & Detection

We have launched a new service called Wellness Workstyle to provide IT support to health and productivity management, an area that companies are actively focusing on to improve the health of their employees.

Our service supports corporate health management programs in three ways: visualization of employee health, analysis of working conditions, and response and prevention measures. We also provide consulting services to help companies develop health management policies and systems that improve productivity.

● Prognosis & Nursing Care

We have initiated trials of a new incontinence care system designed to reduce workload in frontline nursing care environments and improve quality of life for people receiving care.

Aimed at people suffering from incontinence, the D free wearable device uses an ultrasound sensor to monitor and analyze bowel and bladder movements, helping care providers by giving them early warnings. Using trials in nursing care settings, we aim to gather data and improve forecasting accuracy to improve usability for nursing care facilities.

Fiscal 2015 Results

In fiscal 2015, the former Distribution Systems Group saw a decline in business with food wholesalers and convenience stores, but the former Enterprise Systems Group registered strong business in areas such as large-scale infrastructure systems construction for the manufacturing sector and private cloud services for the transportation sector.

Initiatives in Fiscal 2016

The organizational reforms of April 2016 led to the creation of the Distribution & Enterprise Group through the integration of the former Distribution Systems Group, which has a strong position in development, and the former Enterprise Systems Group, which has powerful capabilities in infrastructure construction. Under this new framework, we aim to develop our business by flexibly utilizing the Group's human resources to address the needs of a broad range of clients in manufacturing, distribution, services and other sectors.

Security is one of our main target business fields in fiscal 2016. More than ever, companies have to implement rapid and effective responses against increasingly sophisticated cyber attacks. The Distribution & Enterprise Group will reinforce structures to support the development of its security business and harness CTC's broad range of security products, monitoring systems and consulting services to create optimal solutions for client issues.

We also plan to step up initiatives in the health field. Recently, companies have been adopting health and productivity management designed to improve employee work styles and health as part of active efforts to increase motivation and productivity. We will offer IT tools to support these health management programs.

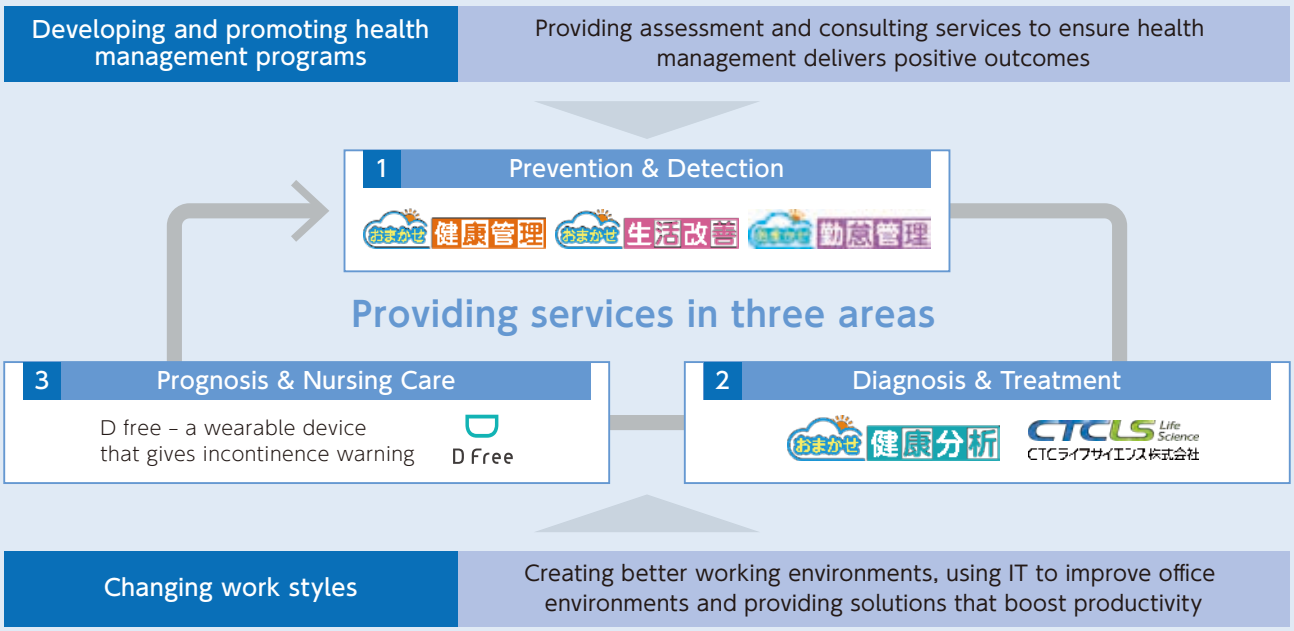
Medium-term Outlook

Amid the slow pace of recovery in the Japanese economy, the manufacturing sector is actively targeting overseas business expansion. This is driving a switch to proactive IT investment to prepare for intensifying global competition and to strengthen operations. Companies are also accelerating efforts to tap into emerging business opportunities in areas such as IoT, big data and artificial intelligence.

Against this backdrop, IT companies like CTC need to work closely with clients to develop new business models and use IT to bring their ideas to life, rather than simply solving clients' IT issues. That means we have to cultivate human resources with a broad skills base, not just in advanced IT tools, but also with respect to how business works in various fields.

Under our new organizational structure, we aim to leverage our large team of engineers and harness their expertise to create new earnings streams.

CTC's Initiatives in the Healthcare Market

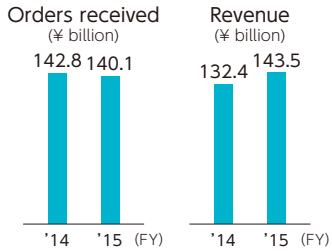


Main Business Review

Telecommunication Group

Yasuhiko Terada
Managing Executive Officer
COO, Telecommunication Group

Reference data



*Graph shows figures for former business segments

Our Vision

Harnessing cutting-edge technologies and our wealth of experience to help create next-generation communication networks

Business Climate and Strengths

Main Client Sectors	Business Climate
Telecom carriers, online service providers	● Data traffic on mobile communication networks is growing each year ● Initiatives are underway to roll out 5G mobile communication technologies by 2020

Strengths of the Telecommunication Group

- Specialist builder of large-scale infrastructure for the telecom sector
- Skilled in developing new services that utilize the latest technologies
- Support network covering all areas of Japan

Case Study

User authentication infrastructure for Travel Japan Wi-Fi

CTC has built user authentication infrastructure for Travel Japan Wi-Fi, a free WiFi service for overseas visitors to Japan provided by wireless broadband company Wire and Wireless Co., Ltd. (Wi2).

The service gives overseas visitors free access to over 200,000 WiFi hotspots nationwide and provides them with tourist information tailored to time, location and language to help them discover all that Japan has to offer.

The user authentication infrastructure manages connections between users' smart devices and WiFi networks. CTC has expertise in various authentication protocols and a strong track record in building related systems. In addition to the authentication infrastructure, we are creating information systems for companies and local governments that are Travel Japan Wi-Fi tourism and facility partners.

Going forward, we will continue to use communication technologies to help revitalize regions and local government areas through tourism.

Fiscal 2015 Results

Amid wider uptake and increased use of smart devices, we focused on projects to expand the capacity of mobile carrier networks. Business was also strong in promising next-generation network infrastructure technologies, such as software-defined networking (SDN).

Initiatives in Fiscal 2016

As smart devices become more widespread and data transmission speeds increase, more people are using mobile networks for online activities such as SNS, video streaming and internet shopping. In March 2016, mobile networks in Japan carried three times more data than in 2013, and data traffic is likely to continue increasing. As demand grows, mobile carriers need to ensure users always have optimal and reliable network access.

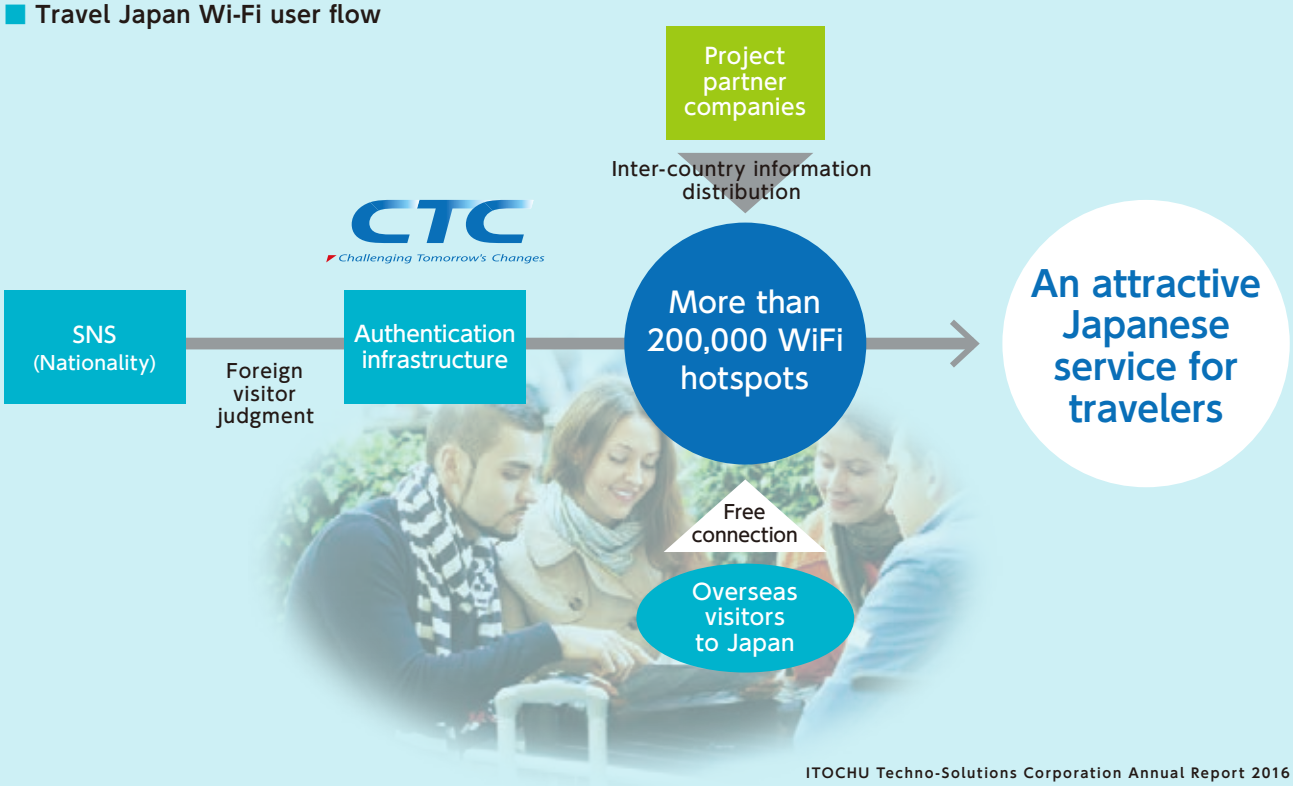
Our strengths in building large-scale infrastructure and developing highly complex mission critical systems mean we are well-placed to help carriers create high value-added data networks.

Medium-term Outlook

Through to 2020, the telecom sector will be focused on rolling out 5G mobile network technology. 5G is expected to enable streaming of video in 8K and 4K ultra high-definition formats and spur the creation of networks for automobiles, sensors and other devices. To help realize this 5G environment, CTC is conducting research into cutting-edge technologies such as SDN, network functions virtualization (NFV) and other network virtualization technology, and training the necessary engineers and partnering with telecom carriers in field testing.

Amid major changes in the way people use their mobile devices, mobile carriers are also revamping their business models to provide new and innovative services, in addition to their traditional role of ensuring reliable, high-quality network access. These developments in the telecom sector mean CTC needs to be able to develop new service proposals that draw on expertise in areas outside telecommunications, such as finance and distribution. To respond to these shifts in client business models, we will work closely with other CTC business groups to create and offer pioneering new services.

■ **Travel Japan Wi-Fi user flow**



Main Business Review

Public & Regional Business Group

Takahiro Susaki
Director & Managing Executive Officer
COO,
Public & Regional Business Group

Our Vision

Helping to revitalize regional economies by combining IT with business ideas to tackle local issues

Business Climate and Strengths

Main Client Sectors	Business Climate
Regional companies, central government ministries and agencies, local governments, regional banks, power companies, gas companies	● Growth in IT investment spurred by deregulation of electric power market ● Increased use of IT to develop Japan as a Tourism-Oriented Country ● Adoption of IT tools by the agriculture and fisheries industries

Strengths of the Public & Regional Business Group

- Business know-how accumulated through work with local governments, regional banks, power companies and other clients
- Network of partner companies covering all regions

Case Study

Electricity meter data management system based on that uses virtualization technology

CTC has built a meter data management system (MDMS) for Chugoku Electric Power Co., Inc. using virtualization technology. To ensure stable services for customers, Chugoku Electric Power has constructed data centers in Hiroshima and Okayama as part of wider efforts to enhance its disaster recovery capability. Also, spurred by the full deregulation of the electric power market in Japan, smart meters are being installed at houses and businesses across the country. That trend is set to drive a significant increase in the volume of data from meter readings, which needs to be managed reliably and securely.

To address those challenges, Chugoku Electric Power turned to CTC's autonomous data center solution. By combining data storage systems with network virtualization software, our solution enables Chugoku Electric Power to manage its two independent data centers as a single virtual facility.

Critical data is shared between the two data centers in real time, allowing the company to restore operations rapidly during disasters and significantly enhance service reliability. The virtual environment covers the roughly 140km distance between the Hiroshima and Okayama data centers, making it one of the longest such links in Japan.

Initiatives in Fiscal 2016

Reinforcing local business is a key initiative in our Medium-Term Management Plan announced in May 2015, which aims to tap into the wider theme of regional revitalization. Many local clients face common issues related to IT. To help them rapidly and effectively resolve those issues, we need to flexibly share personnel and resources between CTC teams across Japan. To support that approach, the Public and Rigional Business Group adopted a new organizational structure in April 2016.

We have built up considerable experience in constructing and delivering various IT systems for companies and universities across Japan, regional banks, power companies, telecom carriers affiliated to power companies, and other clients. Leveraging that experience, we plan to strategically extend our reach into other local markets, giving us a unique nationwide capability to support business operations.

By working closely with local IT companies, telecom carriers affiliated to power companies and other partners, we plan to actively step up the provision of cloud and security services to local companies. We will also work with clients as their collaborative partner to develop new business models.

Medium-term Outlook

The Japanese government has flagged depopulation in regional areas as a major issue. To address that challenge, the government's Japan Revitalization Strategy announced in June 2014 includes a package of initiatives called Local Abenomics aimed at reenergizing regional economies.

Reforms will be implemented to restructure regional economies, which will be complemented by concrete initiatives to enhance government services, boost economic activity by consolidating and creating networks for industry and employment, support the development and promotion of regional specialties and products made from local materials, and create attractive tourist destinations.

In areas such as the public sector, utilities, tourism, agriculture (smart agriculture), energy, healthcare and welfare, the use of IT with artificial intelligence (AI), virtual reality, wearable devices and networked robots has the potential to boost productivity, while SNS and other tools can be harnessed to promote the appeal of local areas to attract more tourists. In these and other ways, IT can increase the efficiency and effectiveness of initiatives designed to revitalize regional communities.

CTC aims to play a key role in that process by helping local clients overcome challenges and develop strategies that lead to effective new business models.

Challenges and Outcomes

Challenges

- Reinforce business continuity after deregulation of the electric power market
- Manage vast amounts of data delivered from smart meters every 30 minutes
- Use two data centers more efficiently

Outcomes

- Reactivate or restore data centers within 12 hours, even after a disaster
- Install reliable, high-performance MDMS infrastructure
- Create a seamless environment with a virtual data center

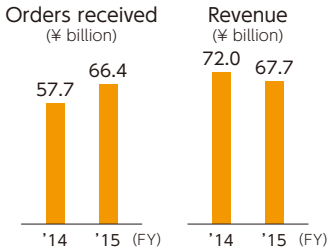
Built a virtual data center using VMware's NSX / vSphere virtualization products and EMC's VPLEX virtual data software product

Main Business Review

Finance & Social Infrastructure Group

Eiji Haraguchi
Managing Executive Officer
COO, Finance & Social Infrastructure Group
CIO

Reference data



*Graph shows figures for former business segments

Our Vision

Providing systems and services that help clients increase corporate value amid changing markets

Business Climate and Strengths

Main Client Sectors	Business Climate
Banks, securities companies, credit card companies, postal service providers, power companies, gas companies	● Financial institutions are adopting new international regulations and accelerating global expansion ● Increased investment in FinTech that is new financial service ● Growth in IT investment spurred by deregulation of electric power market

Strengths of the Finance & Social Infrastructure Group

- Ability to develop business applications for the financial sector
- Capacity to build large-scale infrastructure for the utilities sector
- Partnership with BELLSYSTEMS24 Holdings in the contact center field

Case Study

Developing next-generation contact center services

In the Finance & Social Infrastructure Group, CTC has formed a comprehensive partnership with BELLSYSTEMS24 Holdings, Inc. and ITOCHU Corporation to develop contact center operations in the field of business process outsourcing (BPO). Through this partnership, we have jointly developed and launched eBellCloud, a next-generation contact center cloud service. The new service brings together BELLSYSTEMS24's cloud-based contact center infrastructure and CTC's software and service menu to realize a one-stop solution covering construction through to operation.
We plan to roll out and enhance the service with a focus on three areas:

- **eMotion: a video streaming service that is customizable to user needs, requiring no support from contact centers**
- **AI contact center services: immediate automated responses to inquiries using artificial intelligence**
- **Real-time communication services: screen navigation support and information provision**

By developing these services, we aim to cut the number of non-essential calls to contact centers, reduce user inconvenience and improve efficiency at client businesses.
Working closely with BELLSYSTEMS24, we will help clients boost business efficiency and increase corporate value.

Fiscal 2015 Results

In the financial field, we focused on system integration projects for major banks and global projects related to market and international systems and risk management, generating strong business for the business group. In the utilities field, the volume of business contracted year on year, partly reflecting a pullback from major projects booked in the previous fiscal year.

Initiatives in Fiscal 2016

Companies in the financial sector are accelerating FinTech initiatives, aiming to harness IT to develop new financial services. Power and gas companies and other players in the energy sector are also likely to develop new services after deregulation of the electric power market in April 2016. Spurred by these and other major developments in business models across multiple sectors, CTC is making upfront investments to help clients overcome emerging challenges.

Specifically, we are conducting research into key FinTech technologies, verifying new technology with clients, developing business cloud services that boost business efficiency for clients, mainly in the financial and utilities sectors, creating cloud services that support marketing and sales activities, and enhancing the functionality of our C-ARCS backbone system for credit card companies.

In the contact center field, we will use our partnership with BELLSYSTEMS24 to expand our business.

Medium-term Outlook

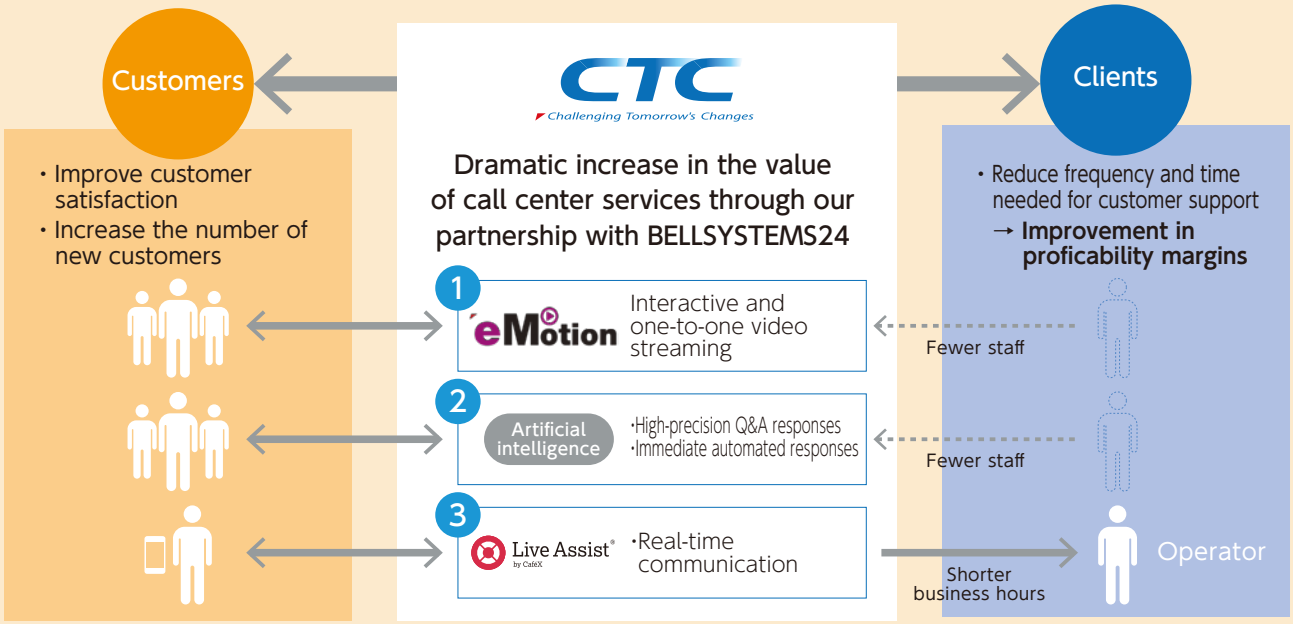
IT investment is likely to continue rising in the financial and utilities sectors, with financial companies adopting international standards and accelerating global business expansion and utilities responding to deregulation of the electricpower market.

Against this backdrop, we plan to further leverage our strengths in the construction of large-scale infrastructure and application development. We intend to target demand for major system upgrades in the utilities sector, using our wealth of experience and our expertise in cutting-edge technologies.

We will also build new strengths by continuing to invest in developing our service business, particularly cloud services.

The Finance & Social Infrastructure Group will work to address changing client needs and business conditions by developing systems and services that increase their corporate value.

■ **Next-generation contact center cloud service eBellCloud**



Main Business Review

Science & Engineering Systems Division

Hiroshi Iimuro
Managing Executive Officer
General Manager,
Science & Engineering Systems Division

Providing IT, science and engineering solutions to resolve issues in the energy, manufacturing and public infrastructure fields

Main Client Sectors	
Public and private sector research institutions	
Power companies	Construction firms
Engineering companies	Manufacturers

Strengths

- Using advanced science, expertise and IT to drive innovation in Japan's science and industry

Medium-term initiatives

Japan imports almost all its energy from overseas and is highly dependent on oil, coal, liquefied natural gas (LNG) and other fossil fuels for its energy needs, which raises various issues such as energy security and rising emissions of greenhouse gases. Japan also faces the growing problem of aging public infrastructure such as roads and bridges. The Science & Engineering Systems Division aims to resolve these and other issues by providing IT, science and engineering solutions that help create a more secure and safer society with less impact on the environment. The division focuses on three main fields:

1 Energy

Expanding technology-based forecasting services for power companies to support the stable supply of energy, including from renewable sources

2 Manufacturing

Analyzing materials that can reduce weight and improve fuel efficiency, developing proprietary applications that pioneer the use of new technologies, and expanding the range of solutions that match client needs

3 Public infrastructure

Increasing CIM* services to help maintain and extend the useful life of large-scale facilities (dams, bridges, tunnels and other infrastructure)

*CIM (Construction Information Management/Modeling):
Realized lower cost and higher efficiency in construction projects over a few decades

Case Study

Using virtual reality technology to recreate reactor decommissioning sites

CTC was awarded a contract by the Naraha Remote Technology Development Center (Naraha, Fukushima Prefecture), run by the Japan Atomic Energy Agency's, to build an immersive virtual space system using virtual reality (VR) technology. The Naraha center is tasked with developing technology to support the decommissioning of the Fukushima Daiichi Nuclear Power Plant owned by Tokyo Electric Power Company (TEPCO), giving it a key role in recovery efforts for the Fukushima region. The system is designed to help TEPCO implement safe and efficient decommissioning procedures by providing an environment to train personnel and test and verify work processes. The virtual space replicates the power plant's facilities on screens in 3D using actual dimensions, creating a lifelike view of the work site. The system can also measure distances, radiation dose volume distributions and potential radiation doses in the facility, as well as simulate remote vehicle operation, allowing users to identify the safest routes in the facility, estimate radiation doses and practice remote vehicle operation. We plan to use our wealth of experience in analysis and simulation technologies to help solve a wide range of issues faced by our clients.

IT Services Business Group

Tadataka Okubo

Director & Managing Executive Officer
CTO
COO, IT Services Business Group

Expanding our business in cloud, maintenance, operation and security services

Medium-term initiatives

The IT Services Business Group is working closely with partners across CTC, such as other business groups and Group companies involved in service delivery, to expand its service business. We are targeting growth in cloud services, product / maintenance / operation services, system and business operation, security and data centers. We are also focusing on OSS technology*1, including OpenStack*2 next-generation cloud software, and research into cloud development methods.

1 Cloud services

We are working to grow our business in this field by offering unique cloud services that set us apart from other companies in the sector. One example is CUVICmc2, a cloud service optimized for backbone systems that was launched in fiscal 2016.

2 Provide the total IT management and system operation services

Leveraging our strengths in multi-vendor services, we are targeting further growth and improved profitability in the system maintenance business by expanding our service menu from product maintenance to complete maintenance of today's increasingly sophisticated IT systems.

3 Security business

Our clients have increasingly complex and advanced security needs. To address that demand, we will focus on identifying advanced technologies and products and on expanding sales of management security services (MSS), such as system monitoring and analysis.

*1 OSS (Open Source Software):
Software of which source codes are freely disclosed and so that anyone is allowed to modify and redistribute it
*2 OpenStack: Software group developed with Open Source for construction of cloud environment

CTC's initiatives in the security business

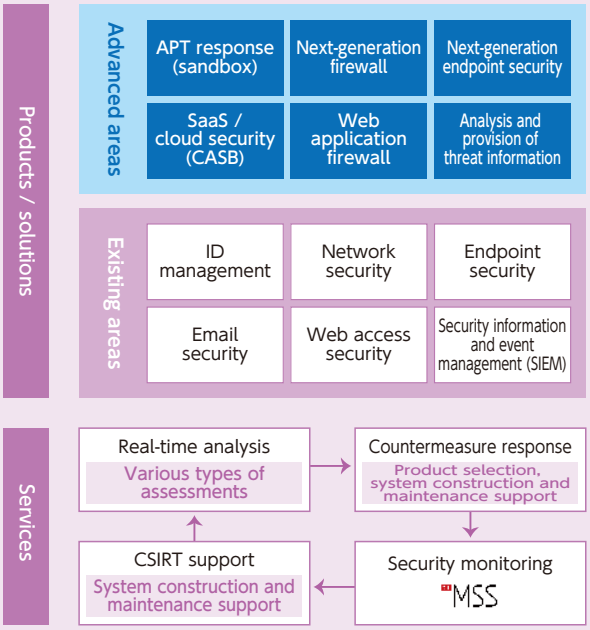
CTC is a comprehensive security partner providing support for all areas of client security lifecycles (see diagram on right). We offer a broad range of services to support their security strategies, including real-time system analysis, countermeasure responses, security monitoring and CSIRT* support.

Through our partnership with BAE Systems, a leading overseas MSS provider, our CTC-MSS security monitoring service offers advanced security monitoring using threat information gathered from six sites worldwide and know-how gleaned from correlation analysis.

Our new CSIRT construction and operation support service, launched in July 2016, also helps our clients mitigate and respond to security threats. With 13 mitigation measures and 9 response strategies, the service can play a key role in supporting client CSIRT activities.

* CSIRT (Computer Security Incident Response Team):
Internally-set security dedicated team in order to deal with a cyber attack

CTC's security initiatives



Main Business Review

Global Business

Toru Matsushima

Director & Executive Vice President
Assistant to President, CAO & CFO
CCO
COO, Global Business Development

Leveraging our track record to accelerate growth overseas, focusing on the North America and ASEAN region

Main Clients	
CTC Global (Malaysia)	▶ Financial institutions, manufacturers
CTC Global (Singapore)	▶ Government agencies, financial institutions, healthcare companies
Netband Consulting (Thailand)	▶ Manufacturers, retailers, financial institutions
ITOCHU Techno-Solutions America (US)	▶ Financial institutions, web-related service providers

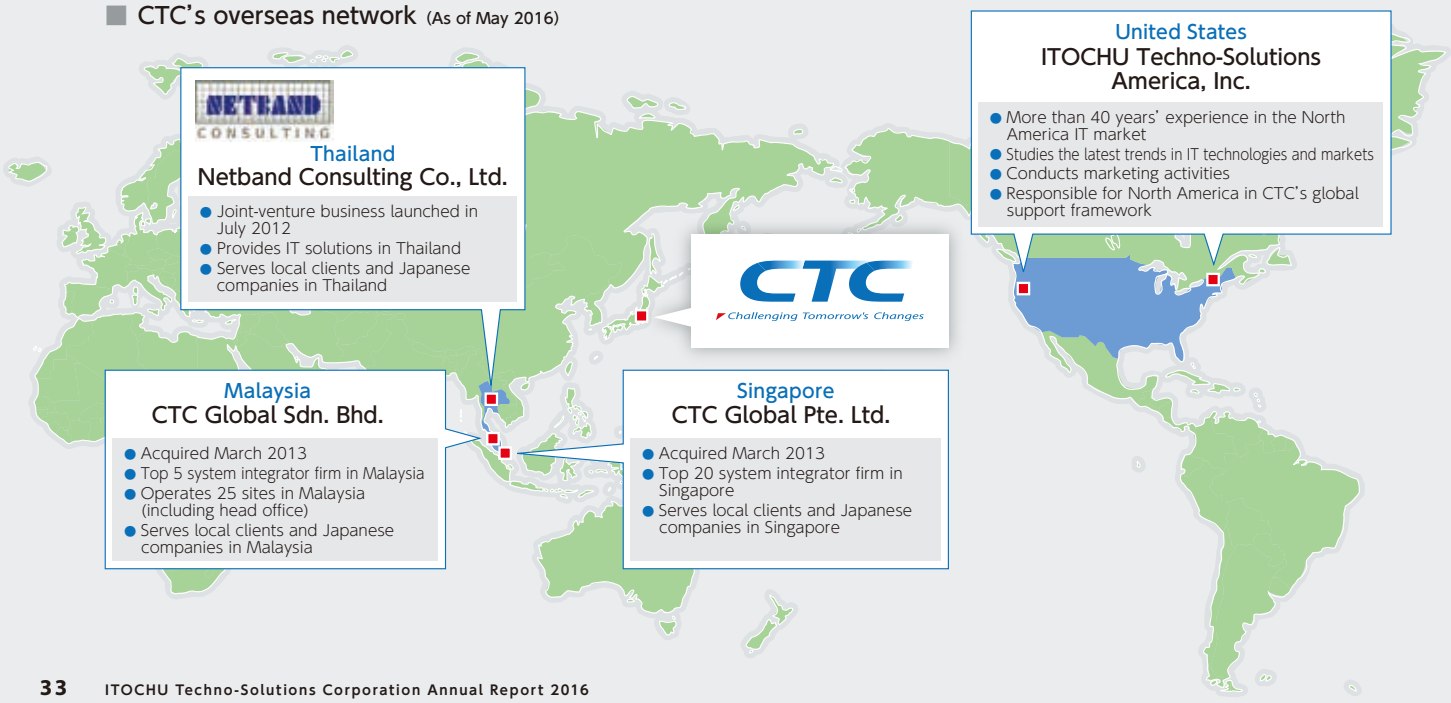
Medium-term Initiatives

We are expanding our operations overseas with a focus on the North America and the ASEAN region.

In the North America, we conduct research into the latest technological trends in North America, such as FinTech, AI, IoT and security, and work to identify related business opportunities. We also provide system development, maintenance and operation services for financial institutions. In fiscal 2015, we built a large-scale infrastructure platform based on the Open Compute Project (OCP) standards for a Internet-related service provider, leading to new business opportunities in the US.

In the ASEAN region, we provide an infrastructure construction business and maintenance and operation services for local clients and Japanese-affiliated companies, primarily in Malaysia, Singapore and Thailand. We have positioned ASEAN as a strategic market in our plans for global expansion due to prospects for strong growth in the region's IT market. We plan to open new offices in the above three countries and build a support network covering the whole ASEAN region. This is an important business theme for the CTC Group going forward. Utilizing the latest advances in US IT, such as OCP, and our track record in cloud-based service provision in Japan, we also plan to increase and enhance our business with existing customers and attract new clients to expand earnings in the ASEAN market. We will also accelerate global business expansion by enhancing cooperation with business sites, exchanging personnel and training global human resources.

CTC's overseas network (As of May 2016)



As of May 2016

CTC Group Uses Comprehensive Group Capabilities to Provide Total Support for Clients' IT Lifecycles

Maintenance & Operations Services

Maintenance & Operations Services provide a variety of necessary technological capabilities, from product maintenance to the management of infrastructure and operation of backbone system application and the ongoing management of data centers. Each operational specialization of CTC Group companies supports clients' IT lifecycles.

System Maintenance and Support Business

CTC TECHNOLOGY CORPORATION

Established: Apr 6, 1990

Leveraging the experience and expertise gained from operating a nationwide support system 24/7 all year round and proprietary services harnessing the latest IT, we aim to make an even greater contribution to client business continuity by offering solutions for IT system issues, in addition to resolving technical problems with standalone products.

System Operations and Support Business

CTC SYSTEM MANAGEMENT CORPORATION

Established: Jul 1, 2008

Provides specialized operations services, such as satellite communications controls and the operation management of IT infrastructure, backbone systems and data centers for clients in the financial, distribution, telecommunications and manufacturing industries. Also carries out IT infrastructure construction, develops ERP-related software and provides maintenance services.

Data Center Facility Management Business

CTC FACILITIES CORPORATION

Established: Jul 7, 2000

Provides a wide variety of data center-related services, from data center facility operations management and construction consulting to IT service operations, with five CTC Group data center locations across Japan.

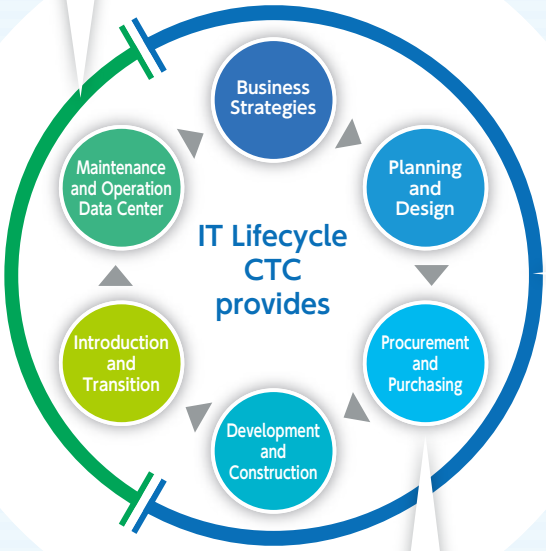
Contact Center and Helpdesk Services Business

CTC First Contact Corporation*

Established: Apr 1, 2000

Provides outsourcing services for helpdesk and contact center operations, education and training, manual development, and back-office services such as contracted business administration work, as well as total solutions combining these and other related services. The company is also aiming to expand its business further by working with CTC Group sales teams and enhancing service quality by securing support center international certification program from the Helpdesk Institute.

*In May 2015, the company name of the First Contact Corporation was changed to CTC First Contact Corporation.



Developing Businesses Specialized for the Client Companies and Industries

Develops business specialized for client companies and industries, providing systems developed for clients' unique operating processes and industry-specific solutions.

CTC LIFE SCIENCE CORPORATION

Established: Oct 1, 1989

Provides global standard solutions for clients in the life sciences sector in a wide range of domains, from drug discovery research to development, manufacturing, sales and marketing from the client's perspective in terms of both IT and operations.

Asahi Business Solutions Corp.

Established: Jan 5, 1989

Since established as an information systems subsidiary for Asahi Breweries, provides total solutions to the Asahi Group, from IT solutions planning, proposal and development, to maintenance and operations.

Product Sales Business

Laying out the framework to offer a variety of IT-related products and top global vendors to provide the best solutions to client needs.

CTCSP CORPORATION

Established: Apr 1, 1990

We supply infrastructure such as networks and storage products, as well solutions to address a wide array of client needs in areas such as security, data utilization, work style innovation and video streaming. The company is also a one-stop service provider of those products and related equipment, from purchasing and installation through to system construction and maintenance.

The Sources of Value Creation

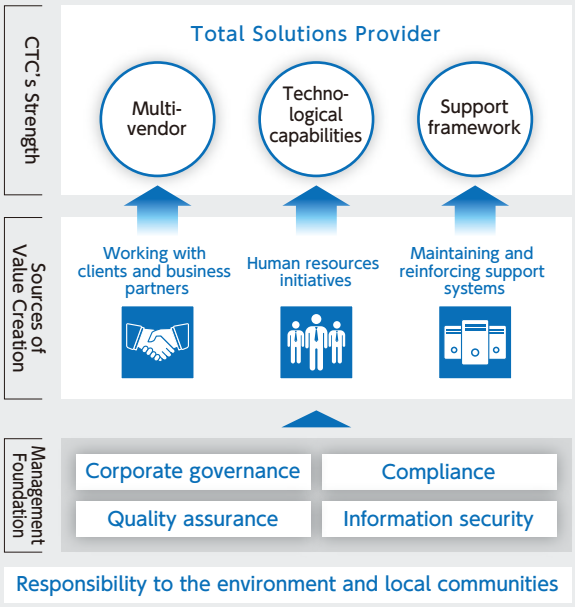
CTC's Sources of Value Creation

CTC draws on three strengths – its multi-vendor role, technological capabilities and support framework – to consistently provide optimal solutions tailored to client needs by selecting the best available options.

These strengths are supported by strong links with business partners in Japan and overseas, an extensive support network of data centers, maintenance bases and other sites, expertise accumulated over many years of working with clients, and personnel who can devise optimal solutions using the latest technologies. These are the sources of the CTC Group's value creation.

Other factors play a key role in helping us enhance corporate value for clients: a corporate governance structure that increases management transparency and fairness, initiatives in areas such as information security and compliance that strengthen our business base, and measures to ensure CTC fulfills its corporate social responsibility to all stakeholders.

In Chapter 3, we look in more detail at these areas that support the CTC Group's value creation.



Working with Clients and Business Partners

Providing optimal solutions for clients while enhancing cooperation with business partners

CTC sources a broad range of products from leading IT vendors in Japan and overseas. Working closely with development partners, we bring those products together to create optimal solutions for a wide variety of different client needs.

Initiatives for Clients

☐ Providing high-quality services

At CTC, we aim to provide high-quality services in order to increase client satisfaction. Based on this policy, we constantly strive to offer high-quality products and services that are reliable, secure and easy to use. This is an integral part of our business activities.

To ensure we continue providing these high-quality services, we have established a Groupwide quality management system based on ISO 9001 certification. By promoting quality management from the perspective of clients, we aim to lift quality levels and increase client satisfaction.

☐ Increasing client satisfaction

CTC puts an emphasis on listening to clients and using their feedback to improve services. As part of this approach, we continually gather feedback from clients about project implementation.

In fiscal 2015, clients gave us high marks for sticking to delivery timetables and for communication, but they were less satisfied with our proposal capabilities. We plan to use this feedback effectively to improve project implementation and business management.

We also carry out follow-up checks on each project so that client feedback can lead to improvement activities. Going forward, we intend to employ a Plan-do-check-act (PDCA) approach to further enhance client satisfaction.

Working with Leading IT Vendors in Japan and Overseas

Combining vendor expertise with our system construction capabilities through close communication

One of CTC's strengths-our role as a multi-vendor- is supported by partnerships with leading IT vendors in Japan and overseas. Since the first days of CTC, we have aimed to source global standard products as soon as they become available, helping us to deliver optimal solutions to many clients over the years. Based on that sales track record, CTC has secured top-level partner certification from many IT vendors and won numerous awards. We also have more vendor-certified engineers than many other IT companies in Japan.

CTC holds regular meetings with leading IT vendors in Japan and overseas. These meetings give us the opportunity to pass on the opinions of our in-house engineers and discuss client requests, helping vendors to develop higher quality products by responding to feedback from users. We also share information with vendors in areas such as new products, new projects and maintenance services. This process allows us to provide optimal solutions to clients by combining the expertise of vendors with our system construction capabilities.

Major Vendors and CTC's Award-Winning Results

EMC	Platinum Partner ●Business Partner Award 2016 ・EMC Partner of the Year 2016
Cisco Systems	Gold Partner ●Japan Award ・Japan Partner of the Year 2015 ・SP Architectures Acceleration Award
IBM	Premier Partner ●IBM Choice Awards 2016 ・Top Transformational Partner—Japan
Oracle	Platinum Partner ●Oracle Excellence Awards 2016 ・SPARC Server—Japan

Hewlett-Packard Enterprise※	Platinum partner ●Japan Award 2014 ・Blade System Partner of the Year
NetApp	Star Partner ●NetApp Partner Summit 2015 ・Support Partner of the Year ・Special Award
VMware	Solution Provider Premier Partner ●Partner Innovation Award 2016 ・Solution Provider Partner of the Year (Global) ・Mobility Partner of the Year (APJ)

As of July 2016

*When CTC was awarded, the company name was Hewlett-Packard Company (before company split).

Working with Development Partners

Rigorous information security, technology sharing with certified partners and support for personnel training

CTC has built a network of roughly 900 development partners in Japan and overseas to help us address the diverse needs of our clients. These companies support and strengthen the CTC Group's system development and construction capabilities.

In system development and construction, high levels of quality and productivity are obviously crucial. But protecting the information assets of our clients is one of our most important considerations. When selecting development partners, we look at various aspects of supplier businesses, such as their management base, technological capability and business track record, as well as their information security management framework. Before starting work on joint projects, development partners are required to sign a memorandum on information security. We also provide them with an Information Security Bible, which summarizes the CTC Group's information security policy. We verify information security management on an ongoing basis with regular check sheets and visits to partner sites.

Of our roughly 900 development partners, the best companies are awarded certified partner status, which gives them access to the latest technologies and initiatives to enhance quality. Certified partners also receive access to various development environments and our internal quality standards. In addition, we provide certified partners with training programs to help them improve the skills of their workforce.

The Sources of Value Creation

Human Resources Initiatives

Cultivating personnel who can help us harness the possibilities of IT

In the fast-moving IT industry, where new technologies and services are emerging all the time, we need to supply the latest technologies and continue providing high-quality services to clients. To support that goal, we are striving to create fulfilling workplaces where all CTC employees are highly motivated and keen to take on new challenges.

Initiatives to help employees acquire advanced technical skills

Helping employees acquire the cutting-edge skills as part of our shift to a service-type business

■ Advanced Technology LAB (laboratories)

We established the Advanced Technology LAB in January 2014 to enhance the skills of our engineers, provide training on the latest technologies and share expertise.

The Advanced Technology LAB has a hands-on environment where engineers can interact directly with new technologies and products and share knowledge and test results within the company, as well as a virtual communication environment that supports the sharing, accumulation and discussion of expertise.

Employees who are registered to use the facility can try out cutting-edge technologies in the hands-on testing environment formed by our community of engineers, helping them rapidly get up to speed on the latest developments in IT.

■ Cloud Innovation Center

This facility was established in April 2015 to conduct research and development into next-generation cloud technology. In areas such as agile software development and cloud technology, which is set to play a key role in areas such as the internet of things (IoT), mobile devices, big data, social technologies, security and machine learning, we plan to train engineers across the Group, reinforce our technological capabilities and expand our presence in the IT market. We will also conduct research into future IT systems and look at ways of making them commercially viable. Moreover, we plan to contribute to the open source software (OSS)* community in areas such as OpenStack software and platform as a service (PaaS) system, as well as play a key role in promoting the development of the cloud services market, aiming to provide IT environments that support client businesses.

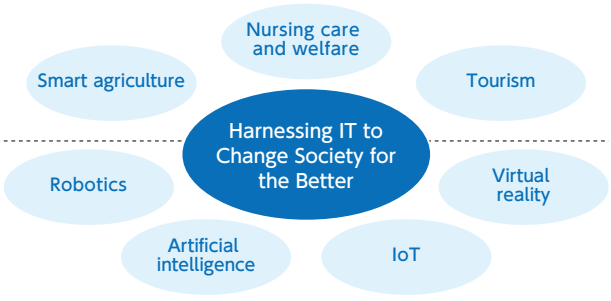
Promoting farsighted research activities

■ Innovation and R&D Division

We established the Innovation and R&D Division in November 2014 to develop new business paradigms.

The division is leading efforts to create partnerships inside and outside the CTC Group, aiming to push forward research that generates innovation in seven key areas, such as smart agriculture, tourism, artificial intelligence (AI) and nursing care and welfare. The division is also evaluating blockchains, an important FinTech tool, and assessing the potential for wider use of AI in areas such as IoT and big data.

Services Geared Towards Future Society



Technologies for Future Society

* Open source software: Computer software with its source code (the software's "blueprint") made available for free over the Internet. This open source approach allows anyone to improve and redistribute the software.

Human resources initiatives to reinforce our business base

■ Morning-focused working system

Launched in July 2014, this system is designed to limit irregular working hours at night or on days off. Where necessary, employees are encouraged to stop working and come into the office early the next day. Our aim is to promote healthier lifestyles to improve employee concentration and motivation, which is likely to lead to further improvements in service quality and client satisfaction.

■ Time-based paid holidays / Slide Work / Mobile Work

We have introduced a time-based paid holiday system that allows employees to build up leave in hourly increments and a new system called Slide Work, giving employees more options to choose their work hours. Another system called Mobile Work lets them choose their preferred work location. The goal of these systems is to make working styles more efficient and effective by creating a highly flexible workplace environment.

Training people to support CTC's future

■ Multiple-track personnel system

Starting in fiscal 2013, engineers have been divided into two paths in a high-grade stream, one for specialist engineers and the other for managers, creating a dual track approach aimed at enhancing the technical skills of our engineers.

We made further changes to the system in April 2015 to create a wide range of career paths for all our employees. Specifically, we divided sales personnel and other employees into two high-grade streams comprising managers and specialists, resulting in a systemized grade-based personnel system tailored to job roles, including engineers.

Developing global human resources

We are cultivating human resources who can flourish in the global marketplace, as part of efforts to reinforce our business base in the ASEAN region. In addition to improving language abilities, CTC provides training to nurture overseas business management capabilities and enhance practical communication skills targeting select employees with experience and a proven track record in the domestic business. We are also working to hire more international staff and Japanese who have studied abroad.

Leveraging diverse capabilities to increase business opportunities

■ Mentor system for female employees

We have introduced a mentor system for female employees to improve career development and enhance communication and relationship skills. Under the system, senior female managers and other employees provide support and advice to junior colleagues. Additionally, we run networking events with companies in other industries to give female employees access to numerous role models who can show them what is achievable, and we build networks to open the door to new experiences and thinking. Our goal is to encourage more women to become leaders and to create a supportive environment throughout their careers.

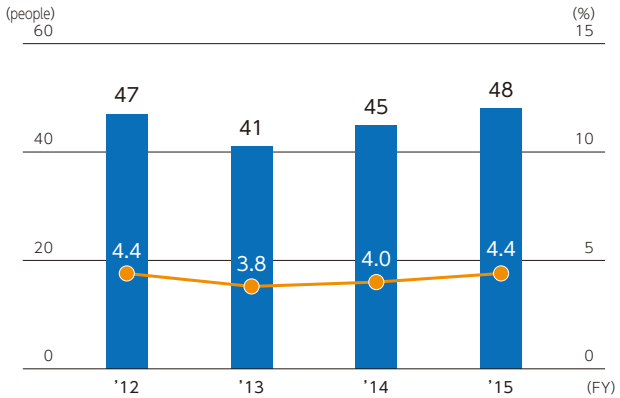
■ Employment for the elderly

In accordance with April 2013 revisions to the Act on Stabilization of Employment of Elderly Persons, the CTC Group fosters an environment enabling all willing and healthy seniors to be rehired after statutory retirement. We also hold seminars for employees aged 55 and older to encourage them to think about future life plans.

■ Employment for the disabled

CTC established HINARI Corporation in April 2010 as special subsidiary to promote employment of people with disabilities. In addition to providing massage and office cleaning services for CTC Group companies, HINARI runs businesses such as agriculture-related contract work in conjunction with farmers and the contracted dismantling of computer equipment. This is part of our efforts to create an environment where people with disabilities can maximize their potential.

Women in leading positions (people) **and ratio** (%) (non-consolidated)



*Leading position means certified professionals (specialist for FY2015) and managers.

The Sources of Value Creation

Maintaining and Reinforcing Support Systems

Extensive facility assets supporting development, verification, operation and maintenance – now and in the future

CTC has a range of different facilities that help us address client needs – from backbone system development and infrastructure construction to comprehensive system verification services that increase reliability and security, client system operation and monitoring, and the provision of consistent maintenance services nationwide.

Technical Solution Center (TSC)

TSC is one of only a handful of comprehensive validation centers in Japan with extensive open source resources. In addition to verifying standalone products, TSC works with vendor partners to conduct verification processes in a multi-vendor environment. TSC works to improve the reliability and security of systems provided by CTC and also plays a key role in ensuring the rapid delivery of optimal systems tailored to client needs.

- TSC is equipped with extensive resources such as servers, storage systems, network equipment and other hardware, various types of middleware, application software, load testing equipment and measuring devices.
- Using products that clients are planning to install, TSC runs systems close to client specifications so that clients can confirm operational status and performance themselves.

Big Data Processing Lab (BPL)

CTC has established BPL as part of TSC to verify systems used for analyzing large volumes of data. Drawing on its wealth of experience, proven track record and technological capabilities as a multi-vendor, CTC is a powerful partner for clients in big data projects.

Oracle Authorized Solution Center (OASC)

In 2014, Oracle selected TSC as the first OASC in Japan and the Asia Pacific region, recognizing its suitability as a demonstration and verification facility for Oracle products.

OASC is a global network of Oracle Solution Centers and partner-driven solution centers like CTC's TSC. Oracle grants authorization to facilities after assessing engineers, equipment, track record and other factors.

Authorization allows Oracle engineers and experts to connect to OASC-certified facilities to offer solution proposals and verification services that are better suited to client needs.

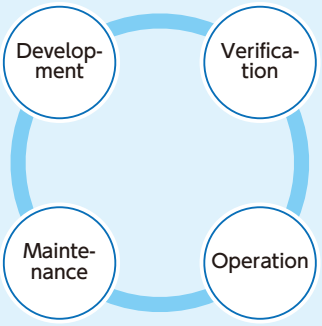
Data Centers

The CTC Group has seven data centers at five locations nationwide. Certified to ISMS and FISC standards, the facilities are highly secure and reliable and are connected to high-quality networks. Highly skilled engineers with extensive experience in data center operations are onsite 24/7 all year round, working to ensure client systems are secure and running reliably.

Data Center Floor Area (total area: approx. 83,818㎡)

Yokohama:	East 22,132㎡, West 22,075mm㎡, North 9,300㎡
Kobe:	18,898㎡
Otemachi:	3,514㎡
Shibuya:	1,745㎡
Mejirozaka:	6,154㎡

Osaki Development Center



Technical Solution Center (TSC)

Maintenance bases

Data centers

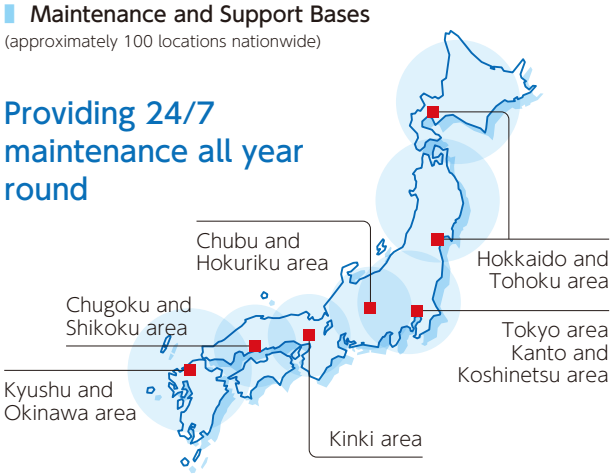
Maintenance Support Centers

CTC has around 100 maintenance support centers nationwide, providing rapid and consistent maintenance support to every corner of Japan, 24/7 all year round. A call management system that links sites nationwide in real time allows support staff to share information smoothly. CTC's maintenance support centers provide a broad range of systems support, covering mission-critical systems, multi-vendor environments and nationwide analysis systems.

Maintenance and Support Bases

(approximately 100 locations nationwide)

Providing 24/7 maintenance all year round



Remote Operation Center (ROC)

Group company CTC Technology Corporation established ROC to provide 24/7 system operation and monitoring services to clients all year round.

In November 2014, CTC and CTC Global Sdn. Bhd. (Malaysia), a Group company responsible for IT system development and maintenance, started offering a new service called CUVICEye* using system operation capabilities in Malaysia built to similar specifications as ROC in Japan. The service draws on the know-how we have accumulated in Japan from the provision of maintenance support and ROC-derived services.

*CUVICEye: An operation and monitoring service designed to improve the efficiency of client system operations through automated system operation and 24/7 monitoring to prevent system failures. With help-desk support provided in English, Malay and Chinese, the service is mainly aimed at Japanese companies in the ASEAN region who demand the same level of IT governance as in Japan.

CTC Security Operations Center (CTC-SOC)

To provide comprehensive support to client security management operations, CTC has established a remote monitoring facility called the CTC Security Operations Center (CTC-SOC) in a CTC data center, which is fully equipped with disaster prevention and security measures.

CTC-SOC enables real-time monitoring 24/7 all year round. Data gathered by the facilities are used in the CTC Managed Security Service (CTC-MSS), which provides threat analysis.

CSR in the CTC Group

Our Responsibility to the Environment and Local Communities

For more details, please visit the CSR section of the CTC website
http://www.ctc-g.co.jp/about/csr/index.html

The objective of the CTC Group's CSR activities is to realize the CTC Group Philosophy, which sets out our mission of leveraging IT's potential to change future for the Global Good.

Our aim is to realize an affluent and sustainable society by resolving societal issues through our business activities and by proactively engaging with local communities.

CSR Promotion Structure

CTC has established a CSR Committee as an advisory body to the Management Committee. The CSR Committee meets each quarter to formulate CSR action plans, review the progress of existing activities and discuss future initiatives.

CSR in the CTC Group

Mission

Leveraging IT's potential to change future for the Global Good

Systems that support our business activities (Corporate governance, compliance, risk management, information security, quality assurance, etc.)

☐ The CTC Group's materiality (material topics)

The CTC Group has identified material topics to focus on in its CSR activities. To make our CSR goals easier to understand both inside and outside the CTC Group, we have organized the topics into nine items in three categories that reflect our corporate philosophy.

The CTC Group's materiality (material topics)

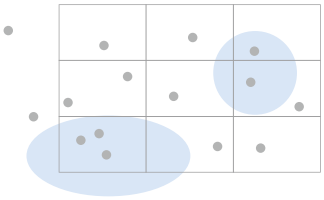
1	Provide trusted IT services	• Ensure rigorous information security • Improve quality • Compliance
2	Cultivate personnel who can change society for the better	• Conduct personnel development and training • Promote diversity and change work styles • Help cultivate people who can be a bridge to the next generation
3	Harness IT to build a sustainable society	• Address issues related to aging societies • Reduce environmental impact • Contribute to regional economies

☐ The CTC Group's materiality – material topic assessment process

We examined and identified the CTC Group's materiality by referencing international sustainability guidelines, social issues that CSR assessment bodies and other organizations focus on, and opinions from stakeholders.

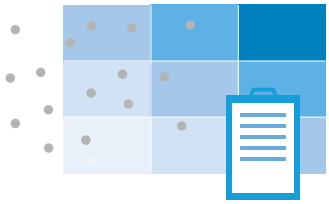
1 Compiled and organized material issues to be considered

We compiled a list of 27 candidates for material topics based on a wide-ranging review of our corporate philosophy, the Generation 4 Global Reporting Initiative Guidelines (G4 Guidelines), the United Nation's Sustainable Development Goals (SDGs) and disclosure requirements set out by institutions that use socially responsibility investing (SRI) strategies.



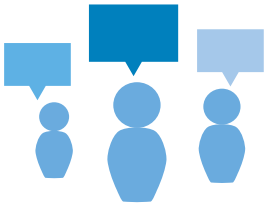
2 Surveyed stakeholders

We carried out a survey of our stakeholders, asking them to evaluate the importance of each of the 27 material topic candidates.



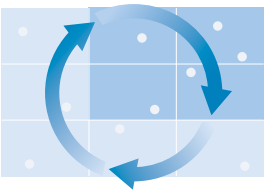
3 Conducted dialogue with experts

Based on the results of the stakeholder survey, we carried out a dialogue with experts to narrow down the material topics the CTC Group should tackle. We then evaluated and organized their proposals and suggestions from both a qualitative and quantitative perspective.



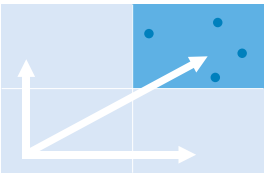
4 Created a Materiality Map for review by management executives

Based on the survey results and analysis in steps 1 through 3, we created a Materiality Map visualizing the impact of each of the 27 material topic candidates on our business and stakeholders using concrete figures. As the final step in the verification process, we asked CTC's management executives to review the material topics.



5 Identified materiality

We extracted materiality – the areas that the CTC Group should address as a matter of priority in terms of the impact on its business and stakeholders. The extracted materiality is defined as the CTC's Group materiality, which reflects our corporate philosophy in more straightforward terms.



☐ Future developments

We plan to attach concrete targets and key performance indicators (KPIs) to the material topics and review them on a regular basis using a PDCA cycle.

We also intend to review the Group's materiality and tackle new themes in response to stakeholder requests and expectations, changes in our business environment and progress with existing activities.

CSR in the CTC Group

Dialogue with CSR Experts

While contributing to society is not the primary goal of companies, so defining what kind of contribution they should make can be a hard decision for business leaders. If the decision is taken to target resources on a specific issue, at the very least, the outcomes should benefit both society and the company itself. Based on those criteria, I believe climate change is an issue that IT companies should tackle. As IT businesses grow, so does electricity consumption to power data centers, and steps need to be taken to mitigate that impact. At the same time, many new and emerging ideas have the potential to take IT services into almost every area of society. But that entails risks that need to be addressed, which could also lead to business opportunities. I want CTC to use CSR to show how it can harness its strengths in IT to help change society for the better.

Yoshinao Kozuma
Professor, Faculty of Economics, Sophia University

Companies typically focus on how much profit (output) they can generate by supplying products and services to society. But by also considering what impact (outcome) those products and services have on society, they can achieve CSR in its truest sense. Many industries see real potential in the possibilities of IT. CTC has the ability to develop systems that lead to optimal responses for various issues and situations, such as risks associated with climate change, support for the agriculture and fisheries industries and the revitalization of local communities. To attribute materiality to each area, companies need to develop CSR strategies with long time frames through to 2020 or 2050, rather than just a near-term focus on current issues.

Mariko Kawaguchi
Senior Researcher, Daiwa Institute of Research Ltd.

The ideal form of CSR for companies is to generate business growth while also creating strategies that help build a sustainable society. As society increasingly moves toward sustainable approaches, companies need to create businesses that match those new market realities. For example, with some areas of Japan facing depopulation, IT has the potential to create innovation that revitalizes those areas and closes the gap in conditions between different regions. IT is no more than a tool, but if companies can provide IT products and services that are accepted by users, IT can be a real force for good in society. That would constitute true CSR. In other words, selecting the best ways to supply clients with the best possible tools can lead to positive CSR outcomes.

Hitoshi Mitomo
President, The Japan Society of Information and Communication Research
Professor, Graduate School of Asia-Pacific Studies, Waseda University

Environmental Initiatives

For more details, please visit the CSR section of the CTC website
http://www.ctc-g.co.jp/about/csr/environment/

The CTC Group is doing its part to pass on a sustainable global environment to future generations. We are cutting energy consumption, using resources effectively and taking other steps to prevent global warming. Also, recognizing the importance of maintaining biodiversity, we are working to improve the natural environment.

Environmental Activities Policies

Philosophy

The ITOCHU Techno-Solutions (CTC) Group works vigorously to make effective use of resources and to prevent global warming, aiming to achieve harmony between its business activities and the global environment based on a constant awareness of the CTC Philosophy. In addition, with full recognition of the importance of preserving biological diversity, we will fulfill our social responsibility as a good corporate citizen.

Basic Policies

To help create an advanced information society, the CTC Group will pursue environmental initiatives with a sustained and organized approach through its general day-to-day business of providing optimal solutions to customers based on leading-edge information technologies and an accurate insight into customer needs. To do this, the Group will endeavor to continuously improve its environmental management system and will act on the basic environmental policies set out the right column.

1 **Promoting operations on customers' environmental issues**

The CTC Group will actively promote its operations on customers' environmental issues, such as reducing the environmental impact and increasing environmental efficiency using information technologies.

2 **Advancing environmental initiatives**

The CTC Group will advance its activities to improve the environment, such as energy saving, resource conservation, waste reduction and the preferential purchase of environmental friendly goods, in an effort to lower its environmental impact, prevent pollution and preserve the environment. It will also incorporate this policy into the CTC Group Code of Conduct.

3 **Complying with related legislation**

The CTC Group will comply with legislation relating to environmental conservation and other agreements it has signed.

4 **Building environment awareness**

The CTC Group will publicy disclose this Environmental Activities Policy and make it known to all members to build environmental awareness throughout the Group.

Environmental Management System

The CTC Group has established an environmental management system based on environmental policies that conform with the CTC Group Philosophy. Environmental managers and eco-leaders in each organization promote environmental improvement activities under the leadership of the CSR and Compliance Committee chairman and environmental control manager.

Also, once each year, internal auditing staff selected from each organization conduct internal audits under the guidance of the chief environmental internal auditor to confirm the effectiveness of environmental improvement activities.

Currently, 21 business sites (18 offices and 3 data centers) have ISO 14001 certification, and the CTC Group is working to expand this certification to more of its sites.

Regardless of certification acquisition status, the CTC Group promotes environmental improvement activities across all its operations.

Environmental Education

The CTC Group conducts environmental education for its workforce each year using an e-learning system. Eco-leaders and assistant eco-leaders are required to take part in an enhanced e-learning program designed to improve their capacity to promote environmental activities throughout the year. In addition, internal auditing staff selected from each organization participate in basic e-learning courses and annual training programs run by external instructors to improve their skills.

Environmental Improvement Activities

Based on Groupwide environmental targets, each organization works to reduce environmental impact by using virtualization and cloud technologies to improve the efficiency and cut the energy consumption of client IT systems. The Group also strives to reduce its own energy usage by installing highly efficient equipment at proprietary datacenters and by encouraging staff to start work earlier in order to cut electricity consumption at offices at night time. Under the Ministry of Economy, Trade and Industry's system for evaluating business energy efficiency, CTC has been certified as an S-class company, the highest grade.

CTC's Relationship with Communities

As a member of the regional communities where we do business, the CTC Group aims to realize an affluent and comfortable society by proactively engaging in a wide range of activities that contribute to society, including environmental protection, personnel development and education, social welfare, regional participation and cultural activities. We are also involved in activities to help communities recover from natural disasters.

Children's Technology Challenge: nurturing creativity and the power of expression

CTC launched programming workshops for children in fiscal 2015. Called Children's Technology Challenge, the workshops give children an opportunity to create their own programs using tablet PCs, helping them to learn how IT is used widely in everyday situations. The workshops employ an open source visual programming environment called Pyonkee*1.

By running the workshops on a continuous basis, we hope to harness IT to help nurture children's problem-solving capabilities, creativity and power of expression.

*1 Pyonkee is a visual programming application for the iPad developed by SoftUmeYa, LLC., based on the Scratch open-source code licensed from the MIT Media Lab. Pyonkee is available as a free download from the AppStore.

All the pupils enrolled at Ishida Elementary School

Comment from Yuji Munakata, Principal of Ishida Elementary School, Date City, Fukushima Prefecture

We offer career education for our pupils to help them visualize their hopes and dreams for the future and plot a route to achieving their goals. Another aim of the classes is to give them skills to build strong relationships while also tackling any challenges they may encounter. Children's Technology Challenge dovetails perfectively with that approach. I think learning programming skills to create simple dialogue and games today will be very useful for the children further down the road, giving them the tools they need to control their own futures.

Yuji Munakata, Principal

CTC develops miyagiTouch to support teachers in Miyagi Prefecture

Iwanuma Elementary School in Iwanuma City, Miyagi Prefecture and Akinobu Ando's research team at Miyagi University of Education have developed an Android-based electronic blackboard app called miyagiTouch. Working closely with those partners, CTC has developed an iOS version of the app. The miyagiTouch app is used with tablet PCs and was created as part of the Miyagi Prefectural Board of Education's MIYAGI Style*2 strategy, which aims to encourage wider use of ICT in learning environments. The app can be used in almost any subject and situation. Elementary school student notebooks and learning materials can be projected onto large displays, and users can input and share handwritten information. The app is easy to use and functions have also been pared back to ensure students are not distracted during lessons.

*2 Miyagi Style is a strategy developed by the Miyagi Prefectural Board of Education to improve elementary school students learning using ICT. The goal is to start first with class-based learning areas, where adoption is easier, then work to establish the use of ICT across all areas of the curriculum.

Comment from Takuya Kato, Senior Director of Learning Support, Miyagi Prefectural Board of Education

miyagiTouch was initially developed for Android-based operating systems, limiting the scope of use. This led to a large number of requests for an iOS version of the app. We are grateful to CTC, which stepped in to help develop the app when we were faced with funding and technical issues. Thanks to CTC, we have released an app that supports the prefecture's MIYAGI Style strategy aimed at promoting the use of ICT in learning. The app has been rolled out by municipal governments together with equipment upgrades and has been warmly welcomed by teachers.

Takuya Kato, Senior Director

Local Community and Society Initiatives

The CTC Group participates in a wide range of activities as a member of regional communities.

Support for disaster-affected areas

Trips to the region affected by the Great East Japan Earthquake

The CTC Group conducted three trips to help the recovery effort, with a total of 108 employees taking part.

Social welfare

Guide helper training

Employees learnt how to help visually impaired people who need white canes to navigate.

Environmental protection

Clean-up activities along the Tagonoura shoreline

As a supporter of the MOTTAINAI campaign, CTC participated in activities to clear rubbish from the shoreline at Tagonoura. A total of 34 employees took part in fiscal 2015.

Support for the international community

Participation in Yokohama charity walk

50 CTC employees took part in the WFP Walk the World 2016 charity event organized by the United Nations World Food Programme (WFP), which tackles hunger worldwide.

Local community participation

Volunteer work in the office

CTC employees were taught how to make towel elephants called "Mamoritaizo" by students from Chiyoda Ward in Tokyo. Profits made from the sale of the towel elephants will be used to support people in Chiyoda Ward who have been displaced by natural disasters.

Social welfare

Educating children about guide dogs

In a joint initiative with the Guide Dog & Service Dog & Hearing Dog Association of Japan, we conducted office tours to help children understand the role of guide dogs.

Signatory to the UN Global Compact

On July 20, 2015, the CTC Group joined the United Nations Global Compact, which aims to work with partners worldwide to create a sustainable society. Signatories commit to advancing societal goals in accordance with 10 principles in four key areas: human rights, labour, the environment and anti-corruption.

The Ten Principles of the UN Global Compact

Human Rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2	make sure that they are not complicit in human rights abuses.
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	Principle 4	the elimination of all forms of forced and compulsory labour;
	Principle 5	the effective abolition of child labour; and
	Principle 6	the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges;
	Principle 8	undertake initiatives to promote greater environmental responsibility; and
	Principle 9	encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Corporate Governance

Basic Stance on Corporate Governance

Guided by the slogan "Challenging Tomorrow's Changes" and the CTC Group Philosophy, which sets out our mission of leveraging IT's potential to change future for the Global Good, we are working to reinforce corporate governance in order to enhance management transparency and fairness as part of our efforts to maximize the Group's corporate value.

Corporate Governance Structure

CTC is a company with auditors. Our Board of Directors, which consists of nine members (including two outside directors), makes decisions on important management issues and supervises the execution of duties by directors in accordance with legal requirements, the Articles of Incorporation, resolutions passed by the General Meeting of Shareholders, regulations of the Board of Directors.

In order to strengthen oversight functions of the Board of Directors and enhance transparency of decision-making process, CTC established Nomination Committee, Remuneration Committee and Governance Committee as discretional advisory bodies to the Board of Directors.

CTC has also adopted an executive officer system in order to strengthen the decision-making and oversight functions of the Board of Directors and improve the efficiency of business execution. Executive officers are appointed by a resolution of the Board of Directors and are authorized to perform duties within a certain area by the Board of Directors and the representative director.

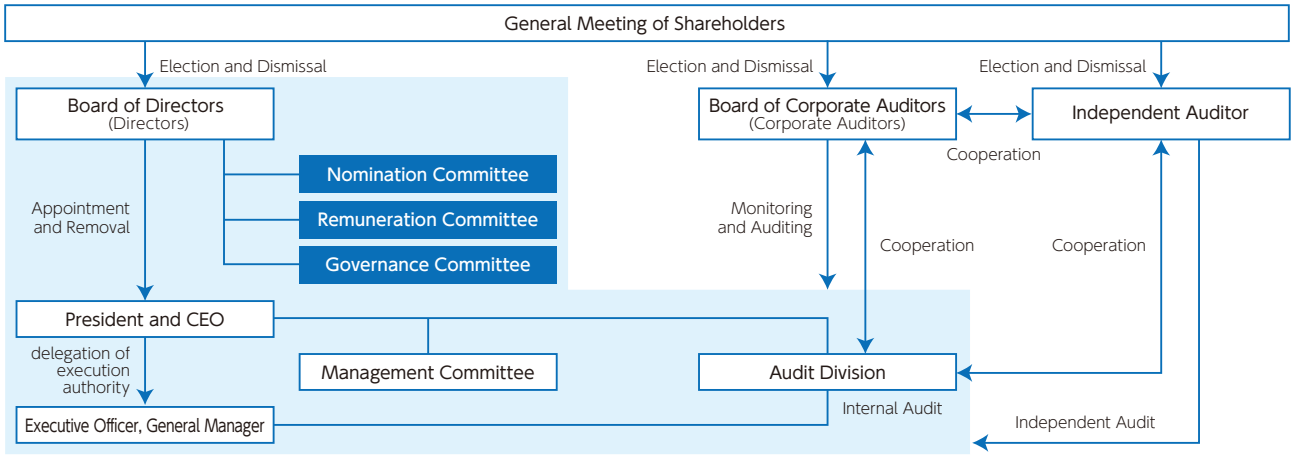
The Board of Corporate Auditors consists of three members (including two outside auditors). The corporate auditors perform their duties in accordance with the regulations and audit standards, cooperate with the Audit Division and Independent Auditor to ensure the directors execute their duties in an appropriate manner.

Analyzing and evaluating the effectiveness of the Board of Directors

All directors and corporate auditors carried out anonymous self-assessments of their performance at board meetings during fiscal 2015. The results of the assessments were compiled into a report and submitted to the Governance Committee. The effectiveness of the Board of Directors was analyzed and evaluated based on the results of the assessments and discussions within the committee. We intend to use this process to encourage the board to take a longer-term and more strategic perspective in discussions.

Outside Director and Auditor Nominations

Outside directors are nominated for their objectivity and specialized perspective on corporate management in an attempt to create the Board of Directors with the appropriate decision-making and management supervisory functions from a variety of perspectives. Outside auditors are nominated based on their wealth of knowledge and experience in their area of specialization and ability to



Nomination Committee

Deliberation on election/dismissal agenda of candidates for executive officers, directors and auditors

Number of Meetings held in fiscal 2015 5 times

Remuneration Committee

Deliberation on agenda for establishment of remuneration system for executive officers and directors (individual remuneration amount is entrusted to the president)

Number of Meetings held in fiscal 2015 4 times

Governance Committee

Deliberation on governance-related agenda below:
1. Stance on composition of the Board of Directors
2. Evaluation of the Board of Directors

Number of Meetings held in fiscal 2015 3 times

conduct audits with an objective perspective to ensure management health and transparency.

Of the four outside directors and auditors, three are independent and not affiliated with CTC, our parent company or any of our major suppliers, and have no inherent conflicts of interest with regular shareholders.

Number of Meetings Held by Main Bodies (March 31, 2016)

Board of Directors	19 times
Board of Corporate Auditors	17 times
Outside director attendance at Board of Directors meetings	97%
Outside auditor attendance at Board of Directors meetings	97%
Outside auditor attendance at Board of Corporate Auditors meetings	100%

Reasons for Appointment of Outside Directors and Auditors

Category	Name	Independent Director	Reason for Selection
Director	Makiko Nakamori	○	First appointed as a director in June 2013, Makiko Nakamori has been reappointed due to her invaluable contribution to the Company's management based on her highly specialized and extensive knowledge of finance and accounting as a certified public accountant.
	Toshio Obi	○	First appointed as a director in June 2014, Toshio Obi has been reappointed due to his invaluable contribution to the Company's management based on his highly specialized and extensive knowledge of information systems as an academic researcher.
Corporate Auditor	Toshiaki Tada	○	First appointed as a corporate auditor in June 2012, Toshiaki Tada has been reappointed based on his highly specialized knowledge as a lawyer and his ability to appropriately audit the executive duties of the Company's directors.
	Shintaro Ishimaru		First appointed in June 2013, Shintaro Ishimaru has been reappointed to conduct audits utilizing his experience and insights related to information system operations from the user's perspective, drawing on his long track record in financial operations and role as CIO*.

*Chief Information Officer. Person responsible for formulating and executing information-related strategies in line with management philosophy.

Director Remuneration and Calculation Method

Director remuneration is determined according to the Director Remuneration System, which was established in consideration of the opinions from the Remuneration Committee mainly comprising of outside auditors and directors.

Directors receive standard fixed payments and a performance-based bonus. Standard fixed payments are determined for each director based on consideration of full and part-time work, responsibilities and individual evaluations. Bonus amounts for each director are calculated based on profit attributable to owners of the company announced in the management plan and are determined using individual evaluations and other benchmarks.

The amount of auditor remuneration is determined for each auditor based on a discussion among auditors.

Auditors and part-time directors, including outside directors are not paid performance-based bonuses.

Director Remuneration (March 31, 2016)

Directors: 8 people (excluding outside directors)	Basic remuneration	¥226 million
	Bonus	¥94 million
Auditors: 2 people (excluding outside auditors)	Basic remuneration:	¥51 million
Outside Auditors and Directors: 5 people	Basic remuneration:	¥54 million

Internal Control System

CTC has created an internal control system, comprising systems to ensure directors perform their duties in accordance with legal requirements and the Articles of Incorporation and systems to ensure business activities are conducted in an appropriate manner across the Group. The internal control system is continually improved through an ongoing review process designed to create a more adequate and efficient system.

Systems to Ensure Appropriate Financial Reporting

CTC is stepping up efforts to ensure appropriate financial reporting in accordance with the Group's accounting regulations, sales administration regulations, procurement administration regulations and other internal company rules.

CTC also has a chief financial officer who is tasked with ensuring financial reporting complies with accounting standards and other relevant laws and regulations. In addition, the Internal Control Committee is responsible for establishing, regularly evaluating and improving internal systems to ensure appropriate financial reporting.

Corporate Governance

Compliance

Positioning compliance as one of the most important management issues, the CTC Group requires all its employees to observe all applicable laws, regulations and internal rules related to its corporate activities and to conduct themselves with high ethical standards and a sense of responsibility. In this way, we aim to increase corporate value throughout the entire Group as a sound company to ensure we are trusted and held in high esteem by society.

To realize these objectives, we have formulated a code of conduct and various regulations that stipulate items related to compliance such as the Group's compliance structure. The regulations require the appointment of a Chief Compliance Officer, the establishment of a CSR & Compliance Committee, and the appointment of compliance general managers for each business group and subsidiary, and compliance managers for each department and team. We also conduct compliance training and provide an internal helpline for whistleblowers. In addition, we improve awareness about compliance among our employees by providing an e-booklet containing legal guidelines and examples of appropriate behavior.

Third-party experts from outside the CTC Group regularly review these activities, helping us to make improvements. We also conduct Compliance Awareness Surveys of all our employees to identify and resolve any Issues.

CTC Group Code of Conduct

We at CTC will endeavor to fulfill our corporate social responsibility in accordance with the CTC Group Philosophy, and always conduct ourselves with a strong sense of ethics and responsibility based on an understanding of the code set forth below:

1. Full Commitment to Compliance
2. Offering Services and Products Useful to the World
3. Fair Trade and Prevention of Corruption
4. Strict Management of Information
5. Creation of a Work Environment with Respect for Human Rights
6. Consideration for a Sustainable Environment
7. Contribution to Society
8. Standing Against Antisocial Forces and Organizations
9. Reporting and Preventing the Recurrence of Violations
10. Taking the Initiative and Setting Good Examples

Risk Management

Recognizing the management of risk as a management priority issue, CTC establishes various internal committees and supervisory departments, including the Risk Management Committee, to mitigate a wide range of risks pertaining to CSR and compliance, information security, disasters, foreign currency and other markets, credit, investments and technologies. The CTC Group also manages risks through the establishment of the necessary risk management systems and methods, including various management regulations, business continuity planning, investment criteria, the establishment of credit limits and reporting and monitoring systems.

Information Security

The CTC Group developed "an information security & personal information protection management system" integrating information security management and personal information protection systems in compliance with ISO27001 (JIS Q 27001) and PrivacyMark (JIS Q 15001), which is responsible for:

- Creating various regulations, standards and procedures
- Conducting education and awareness activities related to information security and personal information protection
- Acquiring a written oath from all directors and employees each year
- Conducting internal audits
- Conducting annual surveys of outsourcing contractors

Intensifying IR promotions for individual investors

CTC has been strengthening IR promotions for individual investors since FY2015.

In the year, we held briefing sessions regularly and also renewed our website to deepen their understanding on us.

Breifing sessions for individual investors (FY2015 results)

Number of sessions held	16 times
Number of attendees	approx. 2,000 people

Messages from Outside Directors

Makiko Nakamori

Outside Director

CTC established three new committees in fiscal 2015: the Nomination Committee, Remuneration Committee and Governance Committee. All three committees are advisory bodies to the Board of Directors and are not mandatory under corporate law, but discussions are productive and they clearly help to strengthen oversight of the Board of Directors and improve the transparency of decision-making processes. Also, the Governance Committee analyzed the effectiveness and evaluated the performance of the Board of Directors for the first time. Details can be found in our Corporate Governance Report, but the process of asking directors and corporate auditors to carefully consider the role and future of the Board of Directors, followed by discussions by the committee using their feedback, was very valuable.

It is crucial for the Board of Directors to draw on the objective opinions of third parties and conduct open debate when deciding management policy and other key matters. As a certified public accountant with audit experience, I want to use my knowledge to make management at CTC even more transparent and fair, such as by helping to increase investment efficiency, strengthening and operating internal control systems, and participating in open debate by contributing my views about risk management and other matters.

Toshio Obi

Outside Director

I am now in my third year as an outside director at CTC. As shared values, the Company's directors are all committed to three challenges in the CTC Group's Action Guidelines: Challenge the Change, Challenge the Value and Challenge the Future. The directors also working as one to achieve the CTC Group's "three shifts" basic management theme as soon as possible: shift to a service-type business, shift to management that generates internal synergies and shift to growth investments.

Given those goals, the Board of Directors began reinforcing internal control systems from fiscal 2015 and focused on ensuring operations are conducted in an appropriate manner. Specifically, we established three new committees mainly made up of outside directors. The committees are responsible for advising on personnel nomination, remuneration and governance. CTC has already taken steps to improve governance, such as publishing a Corporate Governance Report for fiscal 2014, but as somebody with a key role in oversight and supervision, I think CTC deserves high marks for ensuring meetings of the Board of Directors remain transparent and open.

Business Risks and Mitigation Measures

The following is a list of risks that could affect the CTC Group's operating results, share price and financial position. Forward-looking statements are based on judgments made by the Company as of the end of the previous consolidated fiscal year.

Risk	Summary of risk that could negatively impact earnings
1 Development Risk	The CTC Group focuses on quality, development timeframes, cost and risk control when managing customized software development projects for clients. However, due to the increasing complexity and size of software development projects and shorter delivery timeframes, the Group faces the risk of increased costs if software quality does not reach expected standards or if development is not completed within the expected timeframe.
2 Information Security Risk	As part of its business, the Group is contracted to conduct operations that involve handling personal information and classified information held by clients. In the event of unauthorized leaks of this information, the Group may face claims for damages or a loss of confidence from clients and other parties.
3 Product Risk	One source of the CTC's Group's competitiveness is its ability to procure and provide cutting-edge, superior products as base components for client systems. However, due to rapid technological development and changing client needs, the Group is exposed to the following risks.
	1 Product procurement: Amid technological innovation and diversifying client needs, the CTC Group may fail to keep up with product and technology development and the pace of change in the procurement environment.
	2 Product supply and support: Product vendors may end the supply of products to the CTC Group.
	3 Inventories: The CTC Group holds inventories of certain products in order to maximize sales opportunities. However, the market value of those product inventories may decline if expected demand fails to materialize due to changes in the market, developments at clients or other factors.
	4 Foreign exchange rates: Transactions related to the procurement of overseas products are denominated in foreign currencies or Japanese yen. The yen cost of products procured in foreign currencies fluctuates depending on prevailing exchange rates.
4 Service Business Risk	The CTC Group operates service business infrastructure centered on data centers and manages systems for clients on a contract basis. The Group is exposed to the following risks in those operations.
	1 The CTC Group needs to invest heavily in infrastructure on an ongoing basis to ensure its data centers and cloud services continue to operate reliably. In addition to initial investments in infrastructure, the Group needs to renew aging equipment and upgrade facilities in response to rising demand. Furthermore, the Group's profitability may decline due to deteriorating margins caused by factors such as intensifying competition from rival firms and significantly lower than expected facility operating rates amid weak client demand for resources.
	2 The CTC Group's data centers operate 24/7 all year round as facilities for delivering outsourced operations to clients and the Group's cloud services. The delivery of those services may be affected by unexpected system issues due to facility shutdowns caused by earthquakes, major power outages, terrorist attacks and other unforeseen events.
	3 In system operation services, clients may be forced to halt critical business operations due to damage or accidents to their on going systems.
5 Natural Disaster Risk	Major natural disasters affecting a wide area may prevent the CTC Group from maintaining or rapidly restoring head office functions and critical services.

	Risk mitigation measures
▶ ▶ ▶	For large-scale development projects that exceed a certain size, management use data from preliminary assessments to discuss and decide whether the CTC Group has the capacity to take on projects before submitting an estimate. In addition, the Project Management Division and project management teams in each business group work together to conduct preliminary project assessments, monitor progress and profitability on each project and provide project support.
▶ ▶ ▶	The CTC Group attaches the highest priority to information management. Led by the permanent CSR & Compliance Committee, the CTC Group works to maintain and reinforce information management systems across the Group and raise awareness of the importance of information management through internal training courses and other activities. The Group also regularly checks the Group's public sites such as websites and public cloud services for vulnerabilities and takes remedial action when required.
▶ ▶ ▶	The Group recognizes that consistently sourcing competitive new products is vital to its business. In line with this thinking, the Group is reinforcing its ability to develop and procure products and technologies by focusing on overseas markets, particularly the US, and by establishing independent procurement center overseas.
▶ ▶ ▶	The CTC Group constantly monitors earnings performance and business strategy at product vendors and regularly communicates with management executives at vendor partners. The Group has also put in place systems to provide ongoing product support to clients, even if supplies of products are discontinued.
▶ ▶ ▶	The Group works to minimize inventory risk by constantly managing inventories, including setting inventory limits for each product based on inventory and order backlog levels.
▶ ▶ ▶	The CTC Group works to minimize exchange rate risk by using forward exchange contracts at the time of order and other methods to hedge currency risk.
▶ ▶ ▶	The CTC Group works to increase competitiveness by expanding and upgrading facilities, reinforcing security and taking other steps to enhance services for clients.
▶ ▶ ▶	The CTC Group works to minimize risk with contingency-based systems, including robust earthquake proofing and fire prevention equipment at each facility, backup power generation systems and in-built redundancy for essential utilities.
▶ ▶ ▶	The Group works to minimize risk in the provision of system operation services by stepping up control activities and monitoring systems on a continuous basis.
▶ ▶ ▶	The Group has developed business continuity plans for head office functions and critical operations. Based on those plans, the Group conducts regular training and makes ongoing improvements.

Management Team As of August 1, 2016

Directors

Satoshi Kikuchi
President & CEO

Toru Matsushima
Director & Executive Vice President
Assistant to the President & CAO
CFO & CCO
COO, Global Business Development

Masaaki Matsuzawa
Director & Senior Managing Executive Officer
COO, Distribution & Enterprise Group
In charge of Distribution & Enterprise Group/
Telecommunication Group

Takahiro Susaki
Director & Managing Executive Officer
COO, Public & Regional Business Group
In charge of Public & Regional Business Group/
Finance & Social Infrastructure Group

Tadataka Okubo
Director & Managing Executive Officer
CTO
COO, IT Services Business Group

Makiko Nakamori
Director *1

Toshio Obi
Director *1

Shunsuke Noda
Director

Akira Tsuchihashi
Director

1. Outside director as defined in Article 2, Item 15 of the Companies Act
2. Outside auditor as defined in Article 2, Item 16 of the Companies Act

Outside directors Makiko Nakamori and Toshio Obi, and outside auditor Toshiaki Tada are independent from CTC, our parent company and major suppliers. As independent officers, they have no inherent conflicts of interest with regular shareholders.

Auditors

Shintaro Ishimaru
Corporate Auditor *2

Hiroshi Takada
Corporate Auditor

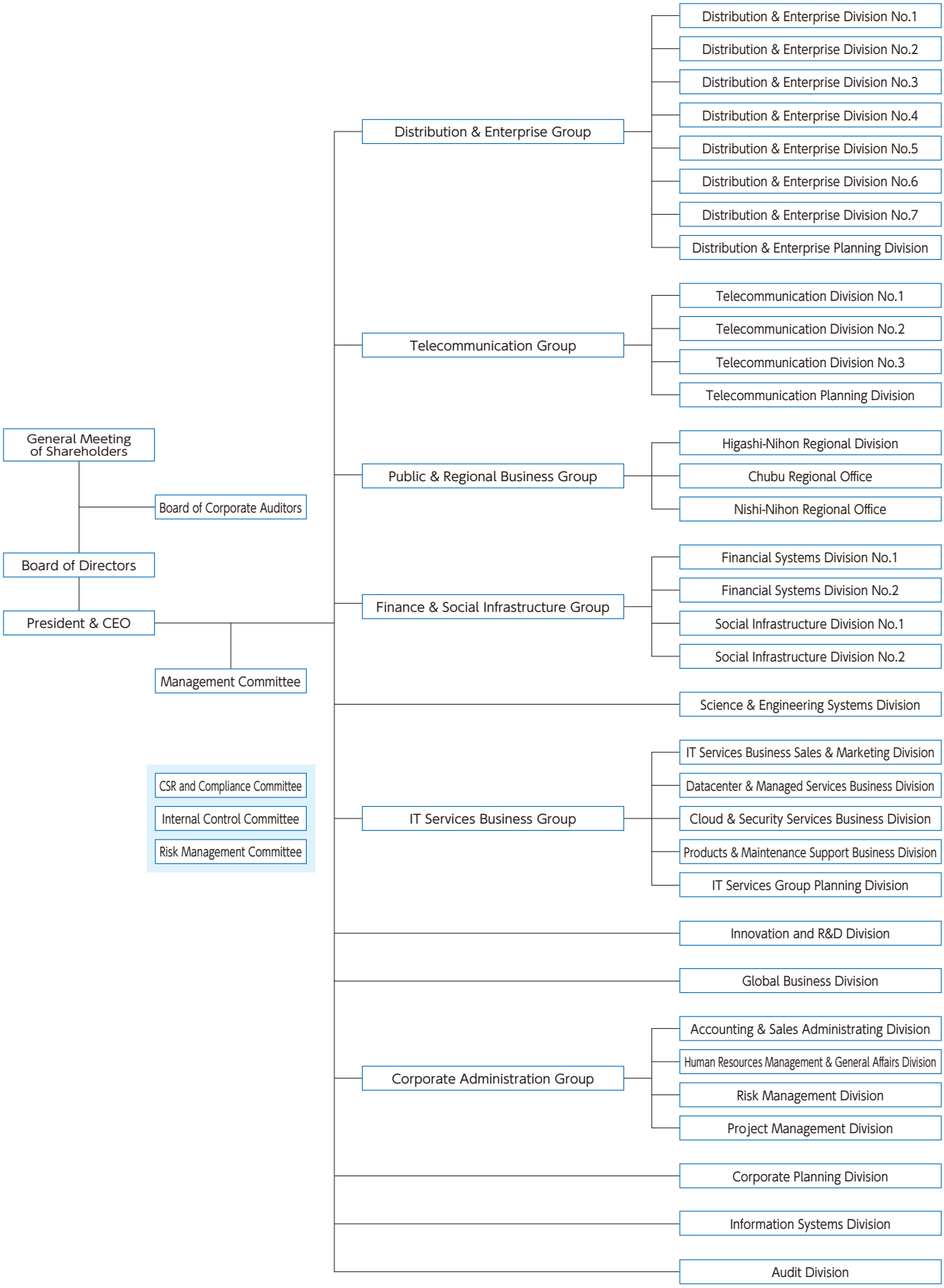
Toshiaki Tada
Corporate Auditor *2

Executive Officers

Hiroshi Iimuro	Managing Executive Officer General Manager, Science & Engineering Systems Division
Eiji Haraguchi	Managing Executive Officer COO, Finance & Social Infrastructure Group CIO
Yasuhiko Terada	Managing Executive Officer COO, Telecommunication Group
Hisashi Eda	Managing Executive Officer General Manager, Chubu Regional Office General Manager, Distribution & Enterprise Division No. 7
Yasuhide Masanishi	Executive Officer Assistant to COO, Distribution & Enterprise Group President & CEO, Asahi Business Solutions Corp.
Toshiyuki Awai	Executive Officer General Manager, Financial Systems Division No. 1
Takanori Minatohara	Executive Officer Assistant to COO, Distribution & Enterprise Group General Manager, Distribution & Enterprise Division No. 2
Akira Tamanoi	Executive Officer General Manager, Distribution & Enterprise Division No. 5
Noboru Omoto	Executive Officer General Manager, Distribution & Enterprise Division No. 3
Shinichi Nakano	Executive Officer General Manager, Datacenter & Managed Services Business Division
Hirohito Ohashi	Executive Officer General Manager, Telecommunication Division No. 2
Yasushi Morimoto	Executive Officer General Manager, Audit Division
Tomohito Arai	Executive Officer Assistant to President General Manager, Global Business Division
Nagaki Fujioka	Executive Officer General Manager, Cloud & Security Services Business Division
Seiji Nagamatsu	Executive Officer Assistant to COO, Distribution & Enterprise Group
Hiroshi Torigoe	Executive Officer General Manager, Nishi-Nihon Regional Office
Tatsuya Matsumaru	Executive Officer General Manager, Social Infrastructure Division No. 1
Minoru Nishiyama	Executive Officer Assistant to CFO General Manager, Accounting & Sales Administrating Division
Tadaaki Otsuka	Executive Officer President & CEO, ITOCHU Techno-Solutions America, Inc.
Junji Hirooka	Executive Officer General Manager, Corporate Planning Division

CFO (Chief Financial Officer)
CCO (Chief Compliance Officer)
CTO (Chief Technology Officer)
CIO (Chief Information Officer)

Organization Chart As of April 1, 2016



Glossary

Agile development
A rapid, incremental approach to software development based on close onsite collaboration with clients, early development of prototypes and feedback from clients and the market.

APT response (sandbox)
Technology used to respond to targeted attacks against specific organizations or individuals using a variety of methods, known as advanced persistent threats (ATP). APT response is a suite of technologies and products that isolate programs and email attachments from the internet in safe areas (sandboxes), where they can be run and scanned for unknown viruses.

Omnichannel
An environment that combines physical stores, online stores and other sales channels, giving consumers the option to buy the same product in multiple channels.

Virtualization technology
Technology that integrates or divides resources in servers and other hardware without any physical change in the hardware. The technology can create multiple virtual severs in a single physical server or create a single virtual hard disk from multiple disks.

Cloud computing
Software, applications or other resources provided to users as a service over the internet. Cloud computing can be divided into the public cloud, where anybody can access services from the internet, or the private cloud, where companies build and operate infrastructure to provide services to their own employees and other trusted parties.

Next-generation endpoint security
A new type of endpoint security with added functionality that protects endpoints in company networks such as servers, client PCs and other devices. Examples include antivirus software incorporating the latest technologies, such as sandbox technology, behavior-based detection and machine learning, and products that can visualize the spread of virus infection by assessing impact on endpoints.

Smart agriculture
Agriculture that utilizes the latest advances in IT to improve yields and quality. One example is controlled cultivation in greenhouses, where a suite of sensor technologies is used to control temperature, humidity and the amount of sunlight.

Hackathon / Ideathon
The words "hackathon" and "ideathon" are portmanteau of the words "hack" (adapting or improving computer programs), "idea" and "marathon." At hackathons, computer engineers and other participants compete intensively in a fixed timeframe to develop programs or services with new capabilities or outcomes. At ideathons, teams discuss new ideas and collaborate on problem-solving.

Virtual reality (VR)
Technology that uses computer graphics to generate lifelike virtual worlds created by computers or real-world environments. Displays, speakers, headphones and other devices are used together to simulate three-dimensional spaces.

Big data
A term for vast data sets that are too large to store, manage or analyze using traditional database management systems and processing applications. The ability to analyze big data is expected to yield new business insights and lead to the development of new services.

Block chain
A new type of FinTech (see below) used to record transactions in virtual currencies such as Bitcoin. By dispersing data on computers distributed worldwide without centralized control, block chains enable the creation of robust networks that are resilient to tampering and destruction.

Business process outsourcing (BPO)
A type of outsourcing where companies contract out business administration, human resources, accounting and other business functions to specialist companies. In contrast to traditional outsourcing, BPO companies typically provide one-stop support covering areas from the redesign of business processes through to operation.

Enterprise resource planning (ERP)
An integrated approach to managing and allocating business resources (personnel, funds, facilities, information, etc.) to improve operational efficiency and optimize management. ERP also refers to integrated software applications that help companies achieve those objectives.

FinTech
A portmanteau of the words "finance" and "technology, FinTech refers to new IT tools in the financial sector. Common examples include online settlement technology and cloud-based household budget services. FinTech has attracted growing attention in recent years amid growth in the number of relatively small companies providing new services.

Internet of things (IoT)
The embedding of various physical devices, not just computers, with internet connectivity, creating networks that enable automated verification, control and remote measurement.

Managed security service (MSS)
A security service that monitors firewalls and other security systems in real-time 24/7 all year round, gathering data to analyze and defend against threats.

Network functions virtualization (NFV)
Virtualization technology that replicates network functions on standard servers. Currently, network functions are typically integrated with specialist servers, but NFV has the potential to virtualize network functions on standard servers without the need for specialist hardware.

OpenStack
A software platform for cloud computing. OpenStack is open-source software available to anyone for any purpose.

Software-defined networking (SDN)
Next-generation technology that can flexibly and rapidly adjust network configurations through centralized management of routers, switches and other network components using a single software package.

Service level agreement (SLA)
An official commitment given by service providers to users guaranteeing an agreed level of service.

Financial Highlights

*CTC adopted international financial reporting standards (IFRS) from the first quarter of fiscal 2014. Figures for fiscal 2013 have been reclassified to reflect the new standards.

	JGAAP				
Item	'06	'07	'08	'09	'10
Operating Results					
Net Sales	294.3	319.2	307.2	290.3	283.0
Cost of Sales	222.9	238.8	226.9	213.5	208.1
Gross Profit	71.3	80.4	80.2	76.8	74.8
(Gross Profit Margin)	24.2%	25.2%	26.1%	26.5%	26.5%
SG&A Expenses	45.9	55.4	58.5	55.2	53.5
Operating Income	25.4	25.0	21.6	21.5	21.3
(Operating Income Margin)	8.7%	7.8%	7.1%	7.4%	7.5%
EBITDA*1	27.8	28.1	26.2	27.5	28.0
Net Income	14.0	15.4	12.9	12.4	11.4
Orders Received	309.5	345.8	316.7	285.1	285.2
Backlog	98.8	125.4	134.9	129.6	131.8
(Backlog Turnover Ratio)*2	—	71.8%	69.5%	69.1%	68.2%
Financial Position at End of Fiscal Year					
Total Assets	214.8	218.0	227.4	233.2	238.1
Total Equity	139.9	145.1	147.2	154.6	155.4
Cash Flows					
Cash Flows from Operating Activities	24.2	10.4	11.2	25.2	14.9
Cash Flows from Investing Activities	(15.7)	3.5	(13.8)	(1.3)	(6.9)
Cash Flows from Financing Activities	(3.8)	(10.1)	(11.1)	(7.2)	(13.4)
Cash and Cash Equivalents at End of Period	67.0	70.9	57.2	73.8	68.3
Capital Investment	7.7	6.3	21.4	4.5	8.8
Depreciation and Amortization	2.3	3.1	4.5	5.9	6.7
Financial Index/Indicator (%)					
ROE*3	11.0	10.8	8.8	8.3	7.4
ROA*4	7.1	7.1	5.8	5.4	4.9
Equity Ratio	65.1	66.6	64.7	66.3	65.3
Dividend Payout Ratio	31.3	34.4	40.2	43.7	49.9
Per Share Data (Yen)*5					
Net Income	11.2	11.6	9.9	9.7	9.0
Net Assets	104.6	110.3	114.9	120.7	124.6
Dividend	3.5	4.0	4.0	4.2	4.5
Per Capita Data (¥ million)*6					
Net Sales	49	50	45	41	40
Operating Income	4	3	3	3	3

*1 EBITDA = Operating Income + Depreciation and Amortization
*2 Backlog Turnover Ratio = Gross Profit / (Backlog of the previous fiscal year + Orders Received of this fiscal year) x 100
*3 ROE = Net Income / Average Total Shareholders Equity x 100
*4 ROA = Net Income / Average Total Assets x 100
*5 CTC conducted a 2-for-1 stock split as of April 1, 2015. For the past data, retroactive revisions were made accordingly.
*6 Figures are calculated with the average number of employees (from April 1 to March 31)

(¥ billion)

'11	'12
297.7	322.4
218.1	239.1
79.6	83.2
26.7%	25.8%
54.8	56.0
24.7	27.1
8.3%	8.4%
32.3	33.2
13.3	16.0
302.4	372.0
136.6	186.2
68.5%	63.4%
252.7	270.0
158.3	164.6
21.2	9.6
(2.7)	(10.3)
(8.9)	(11.1)
77.8	66.1
6.2	10.0
7.5	6.0
8.5	9.9
5.4	6.1
62.7	61.0
43.8	39.1
10.8	13.4
130.2	138.3
4.7	5.2
41	42
3	3

(¥ billion)

Item	IFRS '13	IFRS '14	IFRS '15
Operating Results			
Revenue	350.5	381.9	391.6
Cost of Sales	(266.8)	(290.6)	(300.0)
Gross Profit	83.7	91.2	91.5
(Gross Profit Margin)	23.9%	23.9%	23.4%
Other Income and Expenses	(59.8)	(61.9)	(63.5)
Operating Income	23.8	29.3	27.9
(Operating Income Margin)	6.8%	7.7%	7.1%
EBITDA	31.3	37.5	36.3
Profit attributable to Owners of the Company	14.2	17.4	18.0
Orders Received	369.1	388.0	398.3
Backlog	195.4	201.6	208.3
(Backlog Turnover Ratio)	63.1%	65.4%	65.3%
Financial Position at End of Fiscal Year			
Total Assets	282.6	302.7	307.9
Total Equity attributable to Owners of the Company	162.9	168.8	179.2
Cash Flows			
Cash Flows from Operating Activities	6.4	25.8	21.8
Cash Flows from Investing Activities	(8.0)	(17.3)	(18.1)
Cash Flows from Financing Activities	(9.5)	(13.5)	(8.4)
Cash and Cash Equivalents at End of Period	55.0	50.1	44.8
Capital Investment	6.9	7.9	11.0
Depreciation and Amortization	7.5	8.2	8.4
Financial Index/Indicator (%)			
ROE*7	8.9	10.5	10.4
ROA*8	5.1	5.9	5.9
Ratio of Equity attributable to Owners of the Company	57.7	55.8	58.2
Dividend Payout Ratio	45.8	40.3	44.9
Per Share Data (Yen)			
Profit attributable to Owners of the Company	12.0	14.8	15.5
Equity attributable to Owners of the Company	138.4	146.0	155.0
Dividend	5.5	6.0	7.0
Per Capita Data (¥ million)			
Revenue	45	48	48
Operating Income	3	3	3

*7 ROE = Profit attributable to owners of the company / Average total shareholders' equity (which is based on total shareholders' equity at the beginning and end of the year) x 100

*8 ROA = Profit attributable to owners of the company/ Average total assets (which is based on total assets at the beginning and end of the year)×100

Non-financial Highlights

Human Resources-Related Data

*Data calculation reference dates: Data calculated on March 31 of each fiscal year. But disabled employee figures calculated on June 1st of each fiscal year.

Consolidated

Item		Unit	'12	'13	'14	'15
Employees	Men	People	6,515	6,571	6,687	6,817
	Women	People	1,144	1,146	1,170	1,176
	Total	People	7,659	7,717	7,857	7,993

Non-consolidated

Item		Unit	'12	'13	'14	'15
Employees	Men	People	3,329	3,339	3,307	3,326
	Women	People	568	562	588	592
	Total	People	3,897	3,901	3,895	3,918
Average years worked		Year	11.5	11.8	12.2	12.7
Female managers*	Number	People	47	41	45	48
	Percentage	%	4.4	3.8	4.0	4.4
Percentage of disabled employees		%	1.88	2.00	2.20	2.15
Annual average number of holidays taken		Day	12.7	12.3	12.3	13.0
Childcare leave system users		People	52	57	64	67
	(Male employees)	People	0	1	4	2
Reduced working hours system users		People	45	60	73	78
Nursing care holiday system users		People	100	100	109	137
Nursing care leave system users		People	1	1	2	1
Time off for caregivers system users		People	11	10	12	19
Number of training participants (employees)		People	99,103	116,256	149,612	111,553
Average hours of training per person		Hour	approx. 56	approx. 57	approx. 60	approx. 52

*Leading position means managers and specialist (certified professionals till FY2014).

Environmental Data from CTC Group Offices and Data Centers

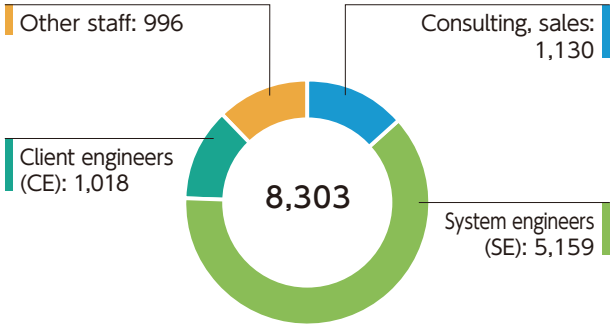
Item		Unit	'12	'13	'14	'15
Offices	Energy used	kL	6,603	5,212	3,567	3,383
	Greenhouse gas	t-CO_2	12,382	10,624	7,138	6,706
	Specific energy consumption*1		66.74	47.64	34.90	24.25
Data Centers	Energy used	kL	32,007	31,136	29,362	29,980
	Greenhouse gas	t-CO_2	58,781	64,315	61,530	60,880
	Specific energy consumption*2		1.871	1.881	1.803	1.772
Major Overseas Offices	Greenhouse gas*3	t-CO_2	—	—	—	695.4

*1 Energy used(kL) x Floor space / number of employees *2 Whole DC (data centers) energy used(kL) / IT Equipment energy used(kL)
*3 CO_2 emission volume when electricity used in major overseas offices are calculated based on the 2012 figures on the list of grid emission factor by country which is officially announced by IGES (Institute for Global Environmental Strategies).

Corporate Data As of April 1, 2016

Company Name	ITOCHU Techno-Solutions Corporation (CTC)
Head Office	Kasumigaseki Bldg., 3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo 100-6080, Japan Phone: + 81-3-6203-5000 URL: http://www.ctc-g.co.jp/en/
Established	April 1, 1972
Paid-in Capital	¥21,763 million
Business Lines	Sales, maintenance and support of computers and network systems; commissioned software development; information processing services; information services related to science and engineering; support; other.
Employees	8,303 (CTC Group total)

Composition of CTC Employees



CTC Group Companies

Subsidiaries

Company	Paid-in Capital	Main Business Activities
CTC TECHNOLOGY CORPORATION	¥450 million	System maintenance and support
CTC SYSTEM MANAGEMENT CORPORATION	¥300 million	Maintenance and system management services, support services for systems and networks, system construction services, IT-related training
CTC LIFE SCIENCE CORPORATION	¥300 million	System development and sales for the pharmaceutical and chemical industries
CTCSP CORPORATION	¥200 million	Sales of network and security-related equipment, storage devices and packaged software, and provision of related services
CTC FACILITIES CORPORATION	¥100 million	Building facility operations management activities for computer centers (Yokohama, Kobe, Otemachi, Shibuya, Mejirozaka)
CTC BUSINESS SERVICE CORPORATION	¥100 million	Various business functions (human resources, administration) entrusted by CTC Group companies, as well as planning, producing and maintaining web content, and planning and producing advertising materials
CTC First Contact Corporation	¥50 million	Contact center operations, helpdesk services, IT training, planning and implementation of IT training
Asahi Business Solutions Corp.	¥110 million	Overall system development, maintenance, operation and IT consulting
HINARI Corporation	¥30 million	Massage and cleaning services for Group companies, light agricultural work and contracting
ITOCHU Techno-Solutions America, Inc.	$3,750,000	Maintenance and support of computers and network systems, exporting of IT products, research into state-of-the-art technology and market trends
CTC Global Sdn. Bhd.	RM62,118,000	Reselling hardware and software products and providing maintenance service
CTC Global Pte. Ltd.	S$2,000,000	Reselling hardware and software products and providing maintenance service

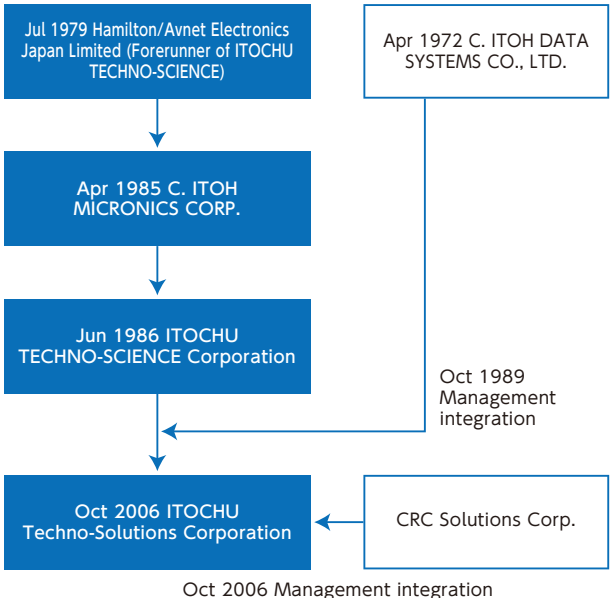
Associated Companies

Company	Paid-in Capital	Main Business Activities
ITOCHU Technology Ventures, Inc.	¥100 million	Operation of investment funds of venture companies
Netband Consulting Co., Ltd.	THB 55,000,000	Sales network products and solutions

Three other companies (one in Japan, two overseas)

Company History

(Apr 1972 - Oct 2006)



Company History (Oct 2006 - May 2016)

Oct 2006	● ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. merged to form ITOCHU Techno-Solutions Corporation.
Jan 2007	● Established the Osaki Development Center in Osaki, Shinagawa-ku, Tokyo
Jul 2008	● Established CTC SYSTEM OPERATIONS Corporation as a consolidated subsidiary
Oct	● Established the Mejirozaka Data Center in Bunkyo-ku, Tokyo
Apr 2010	● Established a company for employment promotion of handicapped persons, HINARI Corporation
Apr 2011	● Changed company names of CRC Systems Corp. and CRC Facilities Corp. to CTC SYSTEM SERVICE CORPORATION and CTC FACILITIES CORPORATION, respectively ● Established the Singapore Branch
Apr 2012	● Established ITOCHU Techno-Solutions America, Inc., first subsidiary in North America
Mar 2013	● Changed company names of CSC ESI Sdn. Bhd. and CSC Automated Pte. Ltd. to CTC Global Sdn. Bhd. and CTC Global Pte. Ltd., respectively.
May 2013	● Changed company names of CSC ESI Sdn. Bhd. and CSC Automated Pte. Ltd. to CTC Global Sdn. Bhd. and CTC Global Pte. Ltd., respectively.
Apr 2014	● The former CTC System Operations Corporation and CTC System Service Corporation were merged and the company name was changed to the CTC System Management Corporation. ● The company name of the CTC Laboratory Systems Corporation was changed to CTC Life Science Corporation.
May 2015	● The company name of the First Contact Corporation was changed to CTC First Contact Corporation.

Stock Information As of March 31, 2016

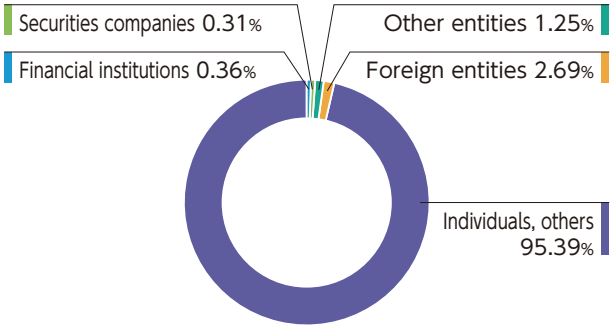
Authorized ..... 246,000,000 shares
Issued ..... 120,000,000 shares
Shareholders 14,967

Major Shareholders

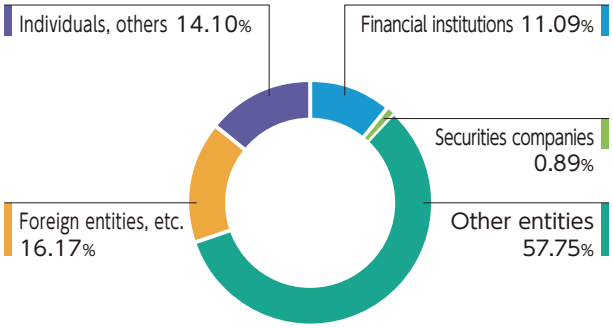
	Number of Shares	(%)
ITOCHU Corporation	67,330,800	56.11
Japan Trustee Services Bank, Ltd. (Trust Account)	3,356,600	2.80
CTC Employee Shareholding Association	2,325,036	1.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,631,000	1.36
STATE STREET BANK WEST CLIENT-TREATY 505234	976,740	0.81
Trust & Custody Services Bank, Ltd. As trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	885,360	0.74
UBS SECURITIES LLC-HFS CUSTOMER SEGREGATED ACCOUNT	862,121	0.72
Japan Trustee Services Bank, Ltd. (Trust Account 9)	856,800	0.71
Mizuho Information & Research Institute, Inc.	675,180	0.56
CBLDN THREADNEEDLE INVESTMENT FUNDS ICVC-JAPAN FUND	648,500	0.54

*Additionally, the company holds 4,385,750 shares of treasury stock.

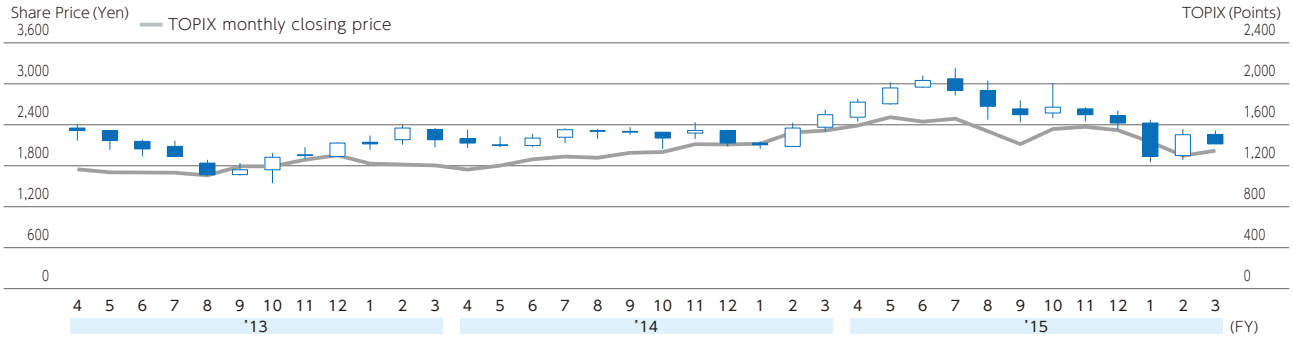
Breakdown by Number of Owners



Ownership by Percentage Shareholding

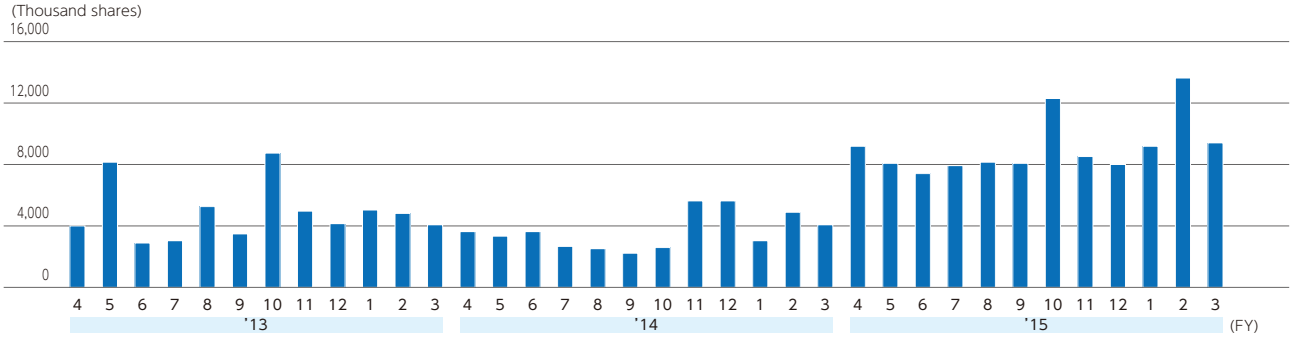


Stock Price Trend



*The Tokyo Stock Price Index (TOPIX) is a stock market index tracking all domestic stocks on the First Section of the Tokyo Stock Exchange.
*CTC implemented a 2-for-1 stock split effective April 1, 2015. For the past data, retroactive revisions were made assuming the mentioned split was conducted.

Trading Volume Trend



Challenging Tomorrow's Changes

ITOCHU Techno-Solutions Corporation

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URL: http://www.ctc-g.co.jp/

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COMMUNICATION ON PROGRESS

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