Message from the CEO

Opens the Door to Take on New Challenges to Deliver Benefits of Digital Technology to People and our Planet Earth

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Introduction

The Company is expected to go private going forward as a result of a takeover bid (TOB) by ITOCHU Corporation. Throughout the past 24 years since our listing on the First Section of the Tokyo Stock Exchange (TSE) as C.ITOH TECHNO-SCIENCE Co., Ltd., we have made steady progress as a listed company, including our transition to the Prime Market of the TSE. We would like to thank our shareholders once again for their tremendous support. Going forward, we will continue to provide value to our customers and society by leveraging the strengths of the CTC Group. We will continue to move forward with the understanding and support of our suppliers, business partners, and all those directly and indirectly involved with the Company.

Fiscal 2023 marks the final year of the CTC Group's Beyond the Horizons—To the Future Ahead—three-year medium-term management plan. The major theme for fiscal 2023 is to enter the final preparation stage for our next leap forward. Since its founding in April 1972, the Group has been striving to realize its mission of "Leveraging IT's potential to change future for the Global Good," based on its slogan of "Taking on Challenges." We will remain committed to achieving this purpose by continuing to take on every challenge and demonstrate the significance of our existence in society in the process.

Today, we are standing at the gateway of a stage that very well may be called "CTC 5.0." CTC 5.0 is a concept that represents not only a stage in our business growth but also management protocol (management thinking and philosophy) that must be renewed and reformed as technology evolves and social issues become more sophisticated and complex. Over the period between now and our next medium-term management plan, we will implement CTC 5.0 and aim to evolve toward the type of company we want to be. Therefore, I will discuss what CTC 5.0 is all about and what we will focus on, implement, and aim to achieve to that end.

CTC to Date

While CTC 5.0 has been adopted as the new protocol to which we will transition to in our aim to become a company that continues to pursue challenges into the future, "5.0" was chosen due to the fact that the Group's progress to date can be summarized in four stages.

IT has played a central role in bringing about change not only through the streamlining of business processes but also through the connection of people, things, and everything else. The Group has continued to take on challenges in line with the growth of IT and develop based on its network technologies, Cloud technologies, and maintenance support services.

Since its founding in 1972, the Group focused mainly on the introduction of technologies and products from the United States to the Japanese market by capitalizing on its discerning eye for technology. Our sales of WANG products and our partnership with Sun Microsystems, Inc. are prime examples of such efforts and have become the foundation of our business today. (CTC 1.0)

From the mid-1980s, we made full-scale efforts to introduce to the Japanese market the ideologies of information networks and technology focused on the internet from the United States. (CTC 2.0) Subsequently, we took advantage of our extensive network of contacts, technologies, and experience cultivated to date to delve even deeper into areas associated with the construction of mobile phone and other mobile internet services. (CTC 3.0)

Recently, we have been taking advantage of our technologies and track record in network systems to develop a wide range of services, such as Cloud-related businesses or, in other words, shift to the Cloud, Cloud-lift and managed services, our unique Cloud service CUVIC Series, and security measures. In regard to DX, which has now become a commonly used term, we offer a vast array of solutions from consultancy services to the provision of data analysis platforms and digital twin. We have also teamed up with co-creation partners to provide solutions to social issues, such as green transformation (GX) and sustainability transformation (SX). (CTC 4.0)

CTC Going Forward

Moving ahead, we will continue to demonstrate the significance of our existence in society by embracing every challenge as we have done so over the years. Although our vision and concept of CTC 5.0 has yet to be officially decided, from a business standpoint, we would like to focus on providing solutions that help promote DX and enhance the quality of people's lives. For example, through collaboration with NTT Communications Corporation and MOYAI Co., we offer IoT-based camera solutions for monitoring the in-vehicle status. By checking real-time images provided by IoT cameras, train crew members and control centers can quickly and accurately respond to the situation when emergency calls are made inside the train. We will increase these types of solutions going forward.

AI, quantum computing, and other future technological developments may be entering a new stage in history in terms of both hardware and software. We, too, intend on actively adopting new ways of thinking and continuing to learn new techniques and take on challenges.

In particular, while Chat GPT and other generative AI tools can be risky to both overestimate and underestimate, they may have such an impact that we may need to radically redefine our customers' business processes and service content. While we are currently in the preliminary stages of AI transformation (AX), there are things ahead in the future that we will look back on as important opportunities and risks, indicating that the time has come to demonstrate our collective strengths.

At any rate, in order to figure out even more solutions, we must address issues through not only our existing methods but also the greater cooperation of internal and external businesses and partners.

Design thinking is a way of thinking that I have paid close attention to for some time and would like to incorporate as a technology once again. In dictionary terms, this means "viewing products and services from the perspective of the issues and needs of end-users." In terms of our everyday lives, this means trying to view the issues that our customers, the people who we do business with on a daily basis, are unaware of based on an empathy of the members of society. In the concept of design thinking, there is the idea that "by fulfilling the needs of those in greatest need, we would fulfill the needs of a wider range of people." In order to do so, we must broaden our horizon and enrich our imagination more than ever. I believe it is important that we continue to maintain an open and flexible mindset and take a trial-and-error approach with an eye on the actual issues and their true nature.

Matters to Focus on for CTC 5.0

From a management perspective, we must change our focus from profit and loss management to intellectual capital management. In other words, rather than taking a management approach that places emphasis only on our short-term profits and losses, we must increase our intellectual capital over the medium to long term, understand the types of solutions that lead to financial results, and take measures to provide such solutions and put our business on a growth track. In light of the increasingly complex issues and sophisticated technologies, we must not only enhance the knowledge and skills of each employee, but also develop as an organization by making the best possible use of information and strengthen our relationship with our co-creation partners. These elements of intellectual capital form the foundation of our business and management. It is clear that the market will no longer be simple enough for strategies to be based solely on sales, cost, or market share. We believe that it will become increasingly necessary for management to pay attention to the "invisible" aspects of our business on a daily basis.

In fiscal 2023 and the period covered by the next medium-term management plan, we will focus on the following three pillars in CTC 5.0.

1. Enhancing Intellectual Capital

Based on the view that intellectual capital, consisting of human capital, organizational and structural capital, relationship capital, and information capital, represents the fundamental capital of our business, we will work to continue to monitor and enhance our intellectual capital. In addition to increasing the amount of intellectual capital, we will take into account the quality standards and composition that conform to our new business model and the times.

2. Strengthening Our *Waza* (Unique Skillset)

(1) Reinforcing Our Social Issue-Setting Capabilities
We work with various co-creation partners to identify issues that delve into the essence of social issues and confront these complex issues with an issue-first mindset by not concerning ourselves over past competitive relationships.
(2) Enhancing Our Problem-Solving Capabilities on a Daily Basis
In regard to known issues, we will provide a wide range of solutions to customer needs by leveraging our strengths in the "art of combination." In particular, we will focus on Application Programming Interface (API) and data analytics platforms, which are essential to the development of Cloud-native systems and flexible systems while expanding the use of AI and enhancing managed services to eliminate waste, stress, and wastefulness and help transform our customers' business.

Based on our in-depth knowledge of technology, we will demonstrate our technology implementation capabilities that have been forged through the development of IT systems and continue to hone our *waza* (unique skillset) to provide pragmatic solutions.

3. Staying Progressive on the Technology Front

To realize 2. above, we will continue to enhance our long-cultivated technological capabilities while expanding our knowledge of AI, quantum computing, Beyond 5G, security, and other core technologies by carrying out research on new technologies that must be incorporated going forward. GPT-4 and other AI technologies are evolving at an astonishing speed. We must think about how they can be combined with security and authentication technology and in what situations they can be used going forward. By enhancing our technological capabilities, we will rapidly proceed with the development of implementable solutions.

I will now explain in further detail regarding the intellectual capital discussed in 1. above and its components: human capital, organizational and structural capital, relationship capital, and information capital.

Intellectual Capital Management under CTC 5.0 (Conceptual Diagram)
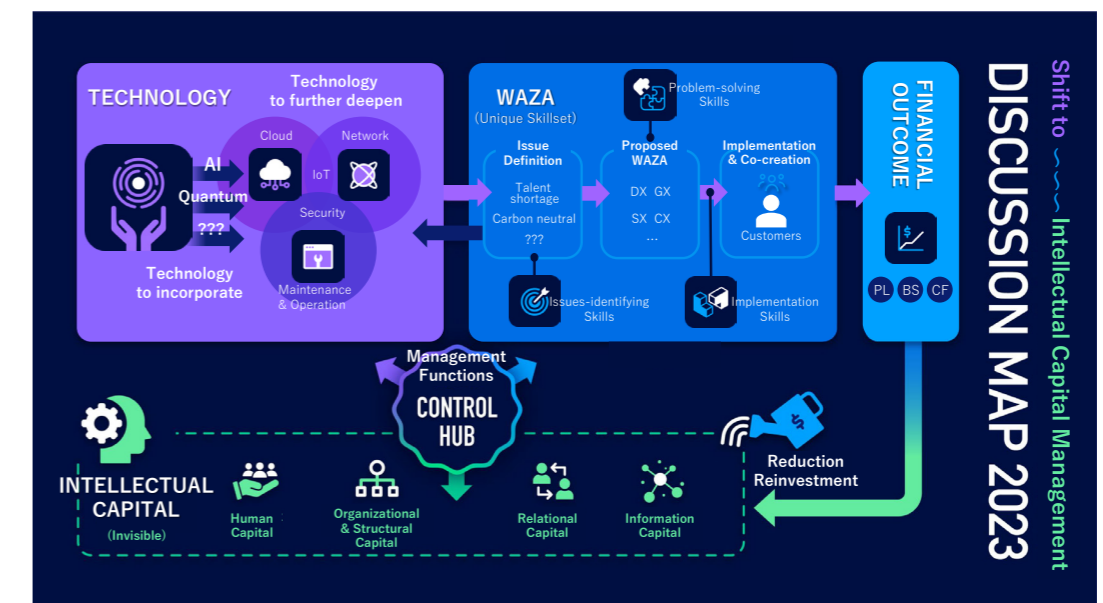
This diagram has been provided to facilitate discussions on CTC's intellectual capital management under CTC 5.0 to promote better understanding of our information disclosure and dissemination among society. It provides a birds-eye view of how you think as a manager to connecting and positioning each individual item by presenting our technologies and unique skillset for connecting IT services, a strength of CTC, in a higher resolution. It also serves as a communication tool to monitor where discussions are currently taking place. This diagram was designed based on the idea that it would be updated in accordance with the various opinions and advice from both internal and external sources.

Intellectual Capital: Enhancing the Group's Sustainability

To enhance a company's sustainability, it is necessary to expand its intellectual capital while providing appropriate returns to stakeholders through the financial results generated from its business activities. Despite the fact it can be easily overlooked, it is a matter of course to reinvest in intellectual capital so that it does not get depleted. Because we are not a research institute, we cannot generate financial results unless we understand the technology and turn it into a form that can be implemented and provided as a solution for resolving issues.

Meanwhile, it is also important that we take on the challenge of conducting research on the technologies that have yet to be utilized so that they can function as solutions in the near future, such as in the case of AI and quantum computing, which will become even more widely used going forward. Continuing to take on this challenge will entail certain costs and may not lead to immediate profits. However, it will continue to be stored as the Group's intellectual capital and there will come a day when it benefits our business, just as it did in the past.

Human Capital: Promoting Measures toward Enhancement

To strategically expand our human capital, it is essential that we have an internal human resources management system (first release scheduled for fiscal 2023) in place that visualizes the current situation and that we continue to improve this system. To begin with, the system will be used to monitor our internal human resources and appropriately allocate them for the near future.

While we will not realize a complete system overnight, in the future we hope to make full use of AI and conduct simulations of human resources strategies by repeatedly improving the system. We recognize this as an important management issue we must face, despite its lack of visibility, which we seem to be able to do but have not been able to thus far.

Organizational and Structural Capital: Promoting Diversity

At the CTC Group, diversity is an area we must continue to improve going forward. We have a system in place that promotes gender equality, does not place restrictions on specific nationalities, and provides a comfortable workplace environment that allows everyone, including people with disabilities and preexisting illnesses, to demonstrate their full potential.

However, in the course of day-to-day business activities and recruitment processes, we may distance ourselves from opinions and ideas that differ from those of our own without being aware of it. It will likely be difficult for companies to meet their recruitment targets going forward due to the serious labor shortage we face. This also means that we are nearing the limits of labor-intensive methods.

While it is natural to look outside of Japan or make even greater use of IT, unless we value the limited human capital available and increase diversity, we will be bounded in our social issue-setting capabilities and problem-solving capabilities in an increasingly complex society. Simply hiring people of different genders, nationalities, and professional backgrounds will not make an organization stronger. As people are naturally different from each other, we must allow our employees to release their individual capabilities and embrace their uniqueness to demonstrate our diversity as an organization. Otherwise, we may all make major oversights. We must ensure that we do not impose an organization's uniform values on individuals and prevent them from expressing their individuality.

In order to promote diversity through to the organizational and structural level, we must redefine and redesign our decision-making processes, organization, and evaluation system, which will require an open mind and an exceptional balance of empathy and logic. When we began discussions on CTC 5.0, the new stage of our management protocol, and the company we aim to be at this stage, we invited not only the current members of management but also mid-level and junior employees, who will shape the future of our company, to participate and launched the NEXT CTC Project in 2022. We believe this project will serve as a stage for all members of the Group to demonstrate their individualities.

Relationship Capital: Entering a New Phase

Our business is built on our various collaborative efforts with customers, suppliers, and co-creation partners. We must strengthen our capabilities to set and resolve social issues through these relationships. We hope to expand our co-creation efforts with companies not only in Japan but also in North America and other parts of Asia that we have yet to work with and enhance our problem-solving capabilities. From the standpoint of discovering new technologies and expanding our network of business partners, we will consider the possibility of business investments, M&As, and business alliances with the aim of forming partnerships with start-up and overseas companies, mainly in North America and Asia.

Information Capital: Data Supply Chain Management

In a broad sense, the CTC Group is a part of the information industry. How can information and the data from which it is derived be distributed so that they benefit people and the planet? We believe that supply chain management exists for data in the same manner as it does for products. Over the past 20 years alone, the volume and speed of data distribution has increased rapidly, and various data storage technology and methods of accessing information have been developed. It has even become possible to create new information from an unimaginable sea of data in ways that are impossible for humans. Simply amassing information is meaningless, and we must capitalize on it in order to properly utilize information without drowning in it.

In Closing: Taking the Correct Path to Healthy Digital Ethics

Behind the development of digital technology, there is always the issue of environmental impact and high energy consumption. Moreover, AI and other digital technologies can be used maliciously by people. Simply advocating the term "ethics" will not lead to a solution. Laws and regulations have not been able to keep up at all and there are limits to controlling technology with technology. How to reconcile these negative issues with the positive aspects of digital promotion is an extremely important task.

Using energy issues as an example, while reducing the energy use of devices and semiconductors is a major theme for the industry, simply amassing data that is no longer necessary or used is also a significant waste of energy. In addition, multimodal AI models will likely be implemented by many companies to set themselves apart from the competition while the ways in which programmers do their work may change considerably.

Meanwhile, there are concerns that society could deteriorate if many people were to act based on incorrect information as it becomes increasingly difficult to discern what is correct information. When this happens, can it be said that companies are not completely liable? While it is not something that a single company or country can overcome on its own, I believe companies should be held responsible for contributing in a positive manner by making full use of its co-creation partners and their respective expertise.

Delivering the benefits of digital technology to more people and the planet is one of our important missions. In our final year of Beyond the Horizons—To the Future Ahead—and the period of our next medium-term management plan, we intend on continuing to take on challenges by remaining keenly aware of our path to healthy digital ethics in order to open the door to even newer challenges. This is exactly what the CTC Group Philosophy is all about.