

Consolidated Financial Results for the Third Quarter of the Fiscal Year ending March 31, 2017 (IFRS)

February 2, 2017

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Listing Exchanges: Tokyo Stock Exchange
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Scheduled date to submit the quarterly report (*Shihanki Hokokusho*): February 13, 2017

Scheduled date of dividend payment: –

Supplementary documents for financial results: Yes

Financial results briefing: Yes (for institutional investors and analysts)

(Figures less than one million yen are omitted)

1. Consolidated Business Results for the nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Revenue		Operating income		Profit before tax		Profit		Profit attributable to owners of the Company		Total comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended 12/16	271,934	8.0	14,747	48.8	14,931	48.2	10,092	59.9	9,950	59.0	8,753	61.8
Nine months ended 12/15	251,751	(1.6)	9,911	(35.6)	10,075	(34.6)	6,312	(35.1)	6,257	(34.7)	5,409	(50.8)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended 12/16	86.07		–	
Nine months ended 12/15	54.12		–	

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the Company	Percentage ownership of the owners of the Company
	Millions of yen	Millions of yen	Millions of yen	%
December 31, 2016	299,865	183,035	179,452	59.8
March 31, 2016	307,932	183,043	179,285	58.2

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Annual
Year ended 3/16	–	32.50	–	37.50	70.00
Year ending 3/17	–	37.50	–	–	–
Year ending 3/17 (forecast)	–	–	–	37.50	75.00

(Note) 1. Revision of the dividend forecast in the latest announcement: None

3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent changes from the same period of previous fiscal year)

	Revenue		Operating income		Profit before tax		Profit for the year		Profit for the year attributable to owners of the Company		Basic earnings per share for the year
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	400,000	2.1	30,000	7.4	30,000	7.4	19,600	8.1	19,500	8.2	168.66

(Notes) Revision of earnings forecast in the latest announcement: None

* Notes

- (1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None
- (2) Changes in accounting policies and changes of accounting estimates
- | | |
|--|----------------|
| (i) Changes in accounting principles required by IFRS: | Not applicable |
| (ii) Changes in accounting principles other than (i): | Not applicable |
| (iii) Changes in accounting estimates: | Not applicable |
- (3) Number of outstanding shares (common shares)
- | | | | |
|--|--------------------|--------------------------|--------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares): | | | |
| Nine months ended 12/16: | 120,000,000 shares | Year ended 3/16: | 120,000,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Nine months ended 12/16: | 4,385,774 shares | Year ended 3/16: | 4,385,750 shares |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): | | | |
| Nine months ended 12/16: | 115,614,232 shares | Nine months ended 12/15: | 115,614,342 shares |

* This document is an English translation of a statement written initially in Japanese as a guide for non-Japanese investors. The Japanese original document should be considered as the primary version.

* Disclosure regarding audit procedures

- This quarterly financial results report is not subject to quarterly review procedures by independent auditors under the Financial Institutions and Exchange Act. At the time of disclosure of this report, review procedures for quarterly financial statements had not been completed.

* Cautionary statement with respect to forward-looking statements

- These materials contain forward-looking statements and statements of this nature based on assumptions judged to be valid and information available to the Company as of the announcement date of the summary. These statements are not promises by the Company regarding future performance. Actual results may differ materially from forecasts due to a variety of factors. With respect to the conditions that underpin earnings forecasts as well as cautionary statements regarding the proper use of earnings forecasts, please refer to the section "1. Qualitative Information, (3) Qualitative information about consolidated earnings forecasts" of this Consolidated Financial Results in the Accompanying Materials section on page 4.

Accompanying Materials – Contents

1. Qualitative Information	3
(1) Qualitative information about consolidated operating results	3
(2) Qualitative information about consolidated financial position	4
(3) Qualitative information about consolidated earnings forecasts	4
2. Items Regarding Summary (and Notes) Information	4
(1) Changes in significant subsidiaries during the period under review	4
(2) Changes in accounting policies and changes of accounting estimates	4
3. Summary Quarterly Consolidated Financial Statements	5
(1) Summary quarterly consolidated statement of financial position	5
(2) Summary quarterly consolidated income statement and summary quarterly consolidated comprehensive income statement	7
(3) Summary quarterly consolidated statement of changes in equity	9
(4) Notes on going concern assumptions	10
4. Supplementary Information	10

1. Qualitative Information Regarding Results for the Nine-Month Period Ended December 31, 2016

(1) Explanation of Operating Results

During the nine-month period ended December 31, 2016, the Japanese economy continued to follow a moderate recovery trend overall, chiefly supported by solid corporate earnings and improvements in the employment environment, despite uncertainty over the economic outlook, due partly to concerns over an economic slowdown in China and other Asian emerging economies, and the ambiguity of the United States' future policies. In the information services industry, the overall business environment remained steady, given the recovery trend of IT investments centered mainly on the manufacturing, financial and distribution industries. In this environment, the ITOCHU Techno-Solutions Corporation (CTC) Group has established a Medium-Term Management Plan for three years from the fiscal year ended March 2016 to the fiscal year ending March 2018 by specifying its vision, "Take responsibility for the evolution of the IT industry, as the industry's leading company." In an effort to achieve this, the Group has been taking measures including expanding the service-type business, strengthening the customer base by exerting its comprehensive capabilities and making aggressive growth investments.

Specifically, the Group focused on operations specializing in mission-critical systems centered on backbone systems, and began offering CUVICmc2, a cloud service that has superior security and cost performance, and Avail-I, which are maintenance services that automatically scan problems in the multivendor environment to reduce the burdens of customers in terms of maintenance and shorten the time for the resolution of problems. Based on this, the Group launched Avail-ProE, a service that predicts the occurrence of problems and delays through big data analysis of networks and performance. Moreover, the Group carried out initiatives to expand the service-type business. These initiatives included collaborative development with BELLSYSTEM24 Inc. of BellCloud AI for Webself, a solution to be offered by BELLSYSTEM24 Inc. that uses AI to automatically answer inquiries from consumers, etc. received through corporate websites.

The Group also launched IoT Digital LAB, which allows large-scale demonstrations and verification with an eye to the use of IoT by companies, RoBo-LAB, a test facility that uses a unique management platform to support the utilization of robots for business, and CSIRT construction and management support services, which provide comprehensive support for the establishment and management of a Computer Security Incident Response Team (CSIRT), an organization that responds internally to security incidents as a result of cyber-attacks. As for initiatives to exert the Group's comprehensive capabilities, in April 2016, the Group carried out reform including the reorganization of the segments, mainly to expand the scope of businesses with key customers and strengthen the capability to respond to large projects by using human resources in a flexible manner. In its Medium-Term Management Plan, the Group has specified the strengthening of the management base as one of the key measures. Accordingly, the Group has been promoting work-style innovation to ensure that its employees are able to experience job satisfaction and carry out their duties efficiently and effectively. To reinforce this initiative, the Group adopted new systems, including slide work, which allows employees to choose their working hours in a flexible manner. This is designed to respond to the diversification of the work style of employees by meeting their needs for child rearing, nursing care, self-development and the like. Other new systems include the time-based paid holiday system that allows the employees to build up leave in hourly increments, and mobile work, which supports employees in achieving efficient operations by using free hours when they are out of the office and commuting hours.

In addition, the Group launched activities to promote workplace communication by distributing a finishing time visualization card to its employees for sharing the estimated finishing time among co-workers. In sales activities, the Group mainly focused on infrastructure building projects and development projects for the distribution industry, and network construction projects for the telecommunications industry. During the nine-month period ended December 31, 2016, revenue rose 8.0% year on year, to ¥271,934 million, with all the business models, services, SI development and products recording higher revenue. On the profit front, reflecting higher revenue and an increase in gross profit, operating income rose 48.8% year on year, to ¥14,747 million, profit before tax increased 48.2%, to ¥14,931 million, profit climbed 59.9%, to ¥10,092 million and profit attributable to owners of the Company rose 59.0%, to ¥9,950 million.

(2) Explanation of Financial Position

Total assets amounted to ¥299,865 million as of December 31, 2016, a decrease of ¥8,066 million from March 31, 2016. This mainly reflected decreases of ¥8,216 million in cash and cash equivalents and ¥23,021 million in trade and other receivables, offsetting increases of ¥13,801 million in inventories, ¥5,146 million in other financial assets (current assets) and ¥4,049 million in other current assets. Total liabilities amounted to ¥116,830 million, a decrease of ¥8,057 million from March 31, 2016. This was mainly due to decreases of ¥7,713 million in trade and other payables, ¥4,457 million in income taxes payable, and ¥2,701 million in liabilities for employee benefits (current liabilities), offsetting an increase of ¥7,700 million in other current liabilities.

Total equity amounted to ¥183,035 million, a decrease of ¥8 million from March 31, 2016. This was mainly attributable to decreases of ¥1,339 million in other comprehensive income and ¥8,761 million in payment of dividends, offsetting an increase of ¥10,092 million in profit.

(3) Explanation of Forecast for Consolidated Business Results and Other Forward-Looking Statements

Going forward, although it is necessary to continue to pay close attention to the growing uncertainty of overseas economies and the effects of the fluctuations of the financial and capital markets, the domestic economy is expected to continue to stage a gradual recovery.

In light of these circumstances, at present, the Company has not revised its forecast for business results announced on May 2, 2016.

2. Matters Relating to Summary Information (Notes)

(1) Changes in important subsidiaries during the nine-month period

Not applicable.

(2) Changes in accounting policies and changes or restatements of accounting estimates

Not applicable.

3. Summary Quarterly Consolidated Financial Statements

(1) Summary quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2016)	Consolidated fiscal year under review (As of December 31, 2016)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	44,880	36,663
Trade and other receivables	111,118	88,096
Inventories	18,488	32,289
Current tax assets	8	40
Other current financial assets	20,025	25,171
Other current assets	34,492	38,542
Total current assets	229,013	220,804
Non-current assets		
Property, plant and equipment	35,514	35,908
Goodwill	4,245	3,960
Intangible assets	11,548	13,092
Investments accounted for using the equity method	635	626
Other non-current financial assets	14,490	13,630
Deferred tax assets	10,286	9,955
Other non-current assets	2,198	1,887
Total non-current assets	78,918	79,060
Total assets	307,932	299,865

	Previous consolidated fiscal year (As of March 31, 2016)	Consolidated fiscal year under review (As of December 31, 2016)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	47,202	39,488
Other current financial liabilities	6,179	5,938
Income taxes payable	6,312	1,855
Liabilities for employee benefits	14,061	11,360
Provisions	660	1,431
Other current liabilities	34,140	41,841
Total current liabilities	108,558	101,916
Non-current liabilities		
Non-current financial liabilities	10,207	9,109
Liabilities for employee benefits	3,973	3,732
Provisions	1,671	1,686
Deferred tax liabilities	474	386
Other non-current liabilities	3	0
Total non-current liabilities	16,329	14,914
Total liabilities	124,888	116,830
Equity		
Common stock	21,763	21,763
Capital surplus	33,076	33,076
Treasury stock	(9,231)	(9,231)
Retained earnings	132,677	133,954
Other components of equity	999	(110)
Total equity attributable to owners of the Company	179,285	179,452
Non-controlling interests	3,758	3,583
Total equity	183,043	183,035
Total liabilities and equity	307,932	299,865

(2) Summary quarterly consolidated income statement and summary quarterly consolidated comprehensive income statement

Summary quarterly consolidated income statement

	Previous consolidated fiscal year (From April 1, 2015 to December 31, 2015)	Consolidated fiscal year under review (From April 1, 2016 to December 31, 2016)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	251,751	271,934
Cost of sales	(194,207)	(210,169)
Gross profit	57,544	61,765
Other income and expenses		
Selling, general and administrative expenses	(47,887)	(46,951)
Other income	394	252
Other expenses	(140)	(318)
Total other income and expenses	(47,632)	(47,017)
Operating income	9,911	14,747
Financial income	218	267
Financial costs	(116)	(130)
Share of profit of associates accounted for using the equity method	62	46
Profit before tax	10,075	14,931
Income tax expense	(3,763)	(4,838)
Profit	6,312	10,092
Profit attributable to :		
Owners of the Company	6,257	9,950
Non-controlling interests	55	142
Earnings per share	(Yen)	(Yen)
(Attribution to the owners of the Company):		
Basic earnings per share	54.12	86.07
Diluted earnings per share	-	-

Summary quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2015 to December 31, 2015)	Consolidated fiscal year under review (From April 1, 2016 to December 31, 2016)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	6,312	10,092
Other comprehensive income, net of tax effect		
Items that will not be reclassified to profit or loss:		
Changes in net fair value of financial assets measured through other comprehensive income	250	(648)
Share of other comprehensive income of associates accounted for using the equity method	(0)	(0)
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(1,090)	(718)
Cash flow hedges	(42)	51
Share of other comprehensive income of associates accounted for using the equity method	(21)	(23)
Total other comprehensive income, net of tax effect	(903)	(1,339)
Total comprehensive income	5,409	8,753
Total comprehensive income attributable to:		
Owners of the Company	5,681	8,838
Non-controlling interests	(272)	(84)

(3) Summary quarterly consolidated statement of changes in equity

(Millions of yen)

Items	Attributable to the owners of the Company						
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity		
					Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges
April 1, 2015	21,763	33,076	(9,225)	121,530	907	812	13
Profit	—	—	—	6,257	—	—	—
Other comprehensive income	—	—	—	—	(783)	250	(42)
Total comprehensive income	—	—	—	6,257	(783)	250	(42)
Payment of dividends	—	—	—	(7,370)	—	—	—
Purchase of treasury stock	—	—	(5)	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	(24)	—	24	—
Total transactions with owners	—	—	(5)	(7,394)	—	24	—
December 31, 2015	21,763	33,076	(9,231)	120,392	123	1,086	(28)

(Millions of yen)

Items	Attributable to the owners of the Company	Non-controlling interests	Total equity
	Total equity attributable to owners of the Company		
April 1, 2015	168,876	4,030	172,907
Profit	6,257	55	6,312
Other comprehensive income	(575)	(327)	(903)
Total comprehensive income	5,681	(272)	5,409
Payment of dividends	(7,370)	(64)	(7,435)
Purchase of treasury stock	(5)	—	(5)
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(7,376)	(64)	(7,441)
December 31, 2015	167,182	3,692	170,875

(Millions of yen)

Items	Attributable to the owners of the Company						
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity		
					Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges
April 1, 2016	21,763	33,076	(9,231)	132,677	64	950	(16)
Profit	—	—	—	9,950	—	—	—
Other comprehensive income	—	—	—	—	(515)	(648)	51
Total comprehensive income	—	—	—	9,950	(515)	(648)	51
Payment of dividends	—	—	—	(8,671)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	(2)	—	2	—
Total transactions with owners	—	—	(0)	(8,673)	—	2	—
December 31, 2016	21,763	33,076	(9,231)	133,954	(450)	304	35

(Millions of yen)

Items	Attributable to the owners of the Company	Non-controlling interests	Total equity
	Total equity attributable to owners of the Company		
April 1, 2016	179,285	3,758	183,043
Profit	9,950	142	10,092
Other comprehensive income	(1,112)	(227)	(1,339)
Total comprehensive income	8,838	(84)	8,753
Payment of dividends	(8,671)	(90)	(8,761)
Purchase of treasury stock	(0)	—	(0)
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(8,671)	(90)	(8,761)
December 31, 2016	179,452	3,583	183,035

(4) Notes on going concern assumptions

None

4. Supplementary Information

Reorganization of the Categories of Reportable Segments

Effective from the first quarter of the fiscal year ending March 2017 under review, the Company has integrated the two existing segments, the Enterprise segment and the Distribution segment, into the Distribution & Enterprise segment, and established a new Public & Regional segment.