

Consolidated Financial Results for the First Half of the Fiscal Year ending March 31, 2014 (Japanese Accounting Standards)

October 31, 2013

Listed Company Name: ITOCHU Techno-Solutions Corporation
 Securities Code: 4739
 Representative: Satoshi Kikuchi, President & CEO
 Contact: Kunihiro Yaita, General Manager, General Accounting & Financial Control Department
 Phone: +81-3-6203-5000

Listing Exchanges: Tokyo Stock Exchange
 URL: <http://www.etc-g.co.jp/en/index.html>

Scheduled date to submit the quarterly report (*Shihanki Hokokusho*): November 11, 2013
 Scheduled date of dividend payment: December 6, 2013
 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 six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended 9/13	147,822	1.0	5,616	-44.1	5,722	-43.0	3,102	-44.1
Six months ended 9/12	146,305	12.2	10,051	14.4	10,040	13.7	5,546	12.4

(Note) Comprehensive income (million yen): Six months ended 9/13: 3,108 (-46.6%) Six months ended 9/12: 5,820 (13.4%)

	Earnings per share		Earnings per share/ diluted	
	Yen		Yen	
Six months ended 9/13	52.14		–	
Six months ended 9/12	92.67		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
September 30, 2013	256,914	164,654	63.2
March 31, 2013	270,025	165,980	61.0

(Reference) Shareholders' equity (million yen): September 30, 2013: 162,424 March 31, 2013: 164,641

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended 3/13	–	50.00	–	55.00	105.00
Year ended 3/14	–	55.00			
Year ended 3/14 (forecast)			–	55.00	110.00

(Note) Changes from the latest released dividend forecasts: No

3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2014 (April 1, 2013 – March 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	350,000	8.5	25,000	-8.0	25,200	-7.8	15,000	-6.4	253.35

(Note) Changes from the latest released performance forecasts: No

* Notes

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

(2) Application of simplified accounting treatment: No

(3) Changes in accounting principles and changes or restatement of accounting estimates

- | | |
|--|----------------|
| (i) Changes in accounting principles due to amendment of accounting standards, etc.: | Not applicable |
| (ii) Changes in accounting principles other than (i): | Yes |
| (iii) Changes in accounting estimates: | Not applicable |
| (iv) Restatement: | Not applicable |

For further details, please refer to the section “2. Item Regarding Summary (and Notes) Information, (3) Changes in accounting policies, accounting estimates, and restatements” of this Consolidated Financial Results in the Accompanying Materials section on page 3.

(4) Number of outstanding shares (common shares)

- | | | | |
|--|-------------------|------------------------|-------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares): | | | |
| Six months ended 9/13: | 62,500,000 shares | Year ended 3/13: | 62,500,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Six months ended 9/13: | 2,996,899 shares | Year ended 3/13: | 2,996,613 shares |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): | | | |
| Six months ended 9/13: | 59,503,191 shares | Six months ended 9/12: | 59,848,751 shares |

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

* Disclosure regarding audit procedures

This consolidated financial results does not constitute the audited financial statements under the Financial Instruments and Exchange Act. As of the date of disclosure of this consolidated financial results, an audit of the financial statements had not been carried out in accordance with the Financial Instruments and Exchange Act.

* 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 3.
- The Company plans to hold an IR presentation for institutional investors and analysts on October 31, 2013. Materials distributed during the IR presentation will be posted on the Company’s website.

Accompanying Materials – Contents

1. Qualitative Information	2
(1) Qualitative information about consolidated operating results	2
(2) Qualitative information about consolidated financial position	2
(3) Qualitative information about consolidated earnings forecasts	3
2. Items Regarding Summary (and Notes) Information	3
(1) Changes in significant subsidiaries during the period under review	3
(2) Adoption of specific procedures in preparation of the quarterly consolidated financial reports	3
(3) Changes in accounting policies, accounting estimates, and restatements	3
3. Consolidated Financial Statements	4
(1) Consolidated balance sheet	4
(2) Consolidated income statement and consolidated statements of comprehensive income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Note on going concern assumptions)	8
(Note on significant changes in the amount of shareholders' equity)	8
(Note on significant subsequent events)	8
4. Additional Information	8
Changes to reportable segments	8

1. Qualitative Information

(1) Qualitative information about consolidated operating results

In the first six months of the fiscal year under review, the Japanese economy began to stage a modest recovery, with improvement in corporate earnings, mainly among large enterprises, and signs of an upturn in capital spending, amid more favorable export conditions.

In the IT services industry, businesses were still at the stage of considering IT investment, and the business environment remained challenging. However, in the financial sector, businesses gradually became more willing to invest in IT, with investment starting to increase mainly in connection with the revitalization of the stock market and large-scale systems integration projects.

In this environment, the CTC Group implemented strategies to improve profitability and initiatives for medium-to-long term growth, positioning the fiscal year ending March 31, 2014 as “a year in which it raises its business base to the next level and achieves sustainable growth.”

More specifically, the Group opened a new data center building on the premises of the Yokohama Computer Center in April 2013, strengthening its ability to provide data center services and cloud services, and implemented initiatives to further expand the services business. One of the initiatives is a data center virtual integration solution which is to integrate multiple data centers in remote locations into a single data center and centralize its control. With businesses becoming increasingly aware of the need for business continuity in the event of disaster, the Group also constructed and provided disaster recovery environments in a short timeframe using CTC’s unique cloud services and data centers. As attacks on the IT systems of businesses become increasingly sophisticated, the Group also focused on measures to minimize risks associated with business systems, including expanding and improving services for diagnosing the resistance of business systems to security attacks.

In initiatives related to overseas expansion, the Group took steps to create a sense of unity and expand business at CTC GLOBAL SDN. BHD. (Malaysia) and CTC GLOBAL PTE. LTD. (Singapore), which were made into subsidiaries at the end of the previous fiscal year with the aim of accelerating business expansion in the ASEAN region. These initiatives included changing their trade names to integrate them into the CTC brand, developing their office environments and information systems, and exchanging human resources between them, to reinforce their position as the Group’s strategic bases in the ASEAN region.

In terms of sales activities, in the Telecommunications Business, projects to augment networks for fixed carriers held firm, but projects to augment networks for mobile carriers remained at a low level. In the Financial & Public Business, development projects and suchlike for megabanks and credit card companies grew, while, in the Enterprise Business, projects to upgrade and increase the efficiency of systems increased, especially in the manufacturing sector. In the Distribution Business, infrastructure construction projects and development projects for the retail and service industries increased, offsetting decline in development projects for trading companies. Overseas, the products business was strong in the ASEAN region.

As a result, consolidated sales for the six months of the fiscal year under review were 147,822 million yen (up 1.0% from the same period of the previous fiscal year), reflecting growth in the services business and SI development business and the contributions of the overseas subsidiaries acquired at the end of the previous fiscal year, which offset decline in the products business. Due to decline in the gross profit margin, consolidated operating income was 5,616 million yen (down 44.1%), consolidated ordinary income was 5,722 million yen (down 43.0%), and consolidated net income was 3,102 million yen (down 44.1%).

(2) Qualitative information about consolidated financial position

Consolidated assets at the end of the second quarter under review amounted to 256,914 million yen, down 13,110 million yen from the end of the previous fiscal year. This was mainly due to decreases of 20,999 million yen in securities and 17,243 million yen in notes and accounts receivable-trade, offsetting increases of 7,002 million yen in merchandise, 5,917 million yen in cash and deposits, 5,274 million yen in prepaid expenses, and 4,300 million yen in work in process.

Consolidated liabilities fell 11,785 million yen from the end of the previous fiscal year, to 92,260 million yen. This was primarily due to declines of 6,214 million yen in income taxes payable, 3,280 million yen in notes and accounts payable-trade, and 2,368 million yen in provision for bonuses, offsetting an increase of 5,644 million yen in unearned revenue.

Consolidated net assets reached 164,654 million yen, down 1,325 million yen from the end of the previous fiscal year. This chiefly reflects a decrease of 3,272 million yen due to the payment of cash dividends and the recording of remeasurements of defined benefit plans of 1,789 million yen as a result of partial early application of the “Accounting Standard for Retirement Benefits” and the “Guidance on Accounting Standard for Retirement Benefits” from the first quarter of the fiscal year under review.

(3) Qualitative information about consolidated earnings forecasts

Despite lingering concerns over the slowdown of overseas economies and other downside risks, the domestic economy is staging a modest recovery, raising expectations of a full-fledged recovery in IT investment in the future.

On this understanding, the Group released “Notice of Revisions to Earnings Forecast” on October 16, 2013, taking into consideration progress in the first six months of the fiscal year under review and other factors, and there is no change to the full-year consolidated earnings forecast announced in that release. Please refer to the news release for further details.

The differences between the full-year consolidated forecast revised on October 16, 2013 and the forecast announced on May 1, 2013 are as follows:

Revision of full-year consolidated earnings forecast for the fiscal year ending March 31, 2014

(April 1, 2013 to March 31, 2014)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	345,000	28,000	28,000	16,500	277.30
Revised forecast (B)	350,000	25,000	25,200	15,000	253.35
Change (B-A)	5,000	-3,000	-2,800	-1,500	—
Rate of change (%)	1.4	-10.7	-10.0	-9.1	—
(Reference) Results for fiscal year ended March 31, 2013	322,475	27,187	27,340	16,025	268.53

(Note) The above-mentioned earnings forecasts are based on information available as of the date of this announcement. Actual results may differ from the forecasts due to various factors.

2. Items Regarding Summary (and Notes) Information**(1) Changes in significant subsidiaries during the period under review**

None

(2) Adoption of specific procedures in preparation of the quarterly consolidated financial reports

None

(3) Changes in accounting policies, accounting estimates, and restatements**(ii) Changes in accounting policies other than (i)**

From first quarter under review, the Group has applied the “Accounting Standard for Retirement Benefits” (ASBJ Statement No.26, May 17, 2012; hereinafter “Accounting Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25, May 17, 2012; hereinafter “Guidance on Accounting Standard”) (except for the main clause stipulated in article 35 of the Accounting Standard and the main clause stipulated in article 67 of the Guidance on Accounting Standard), which became applicable from the beginning of fiscal years starting on or after April 1, 2013.

Under these accounting standards, liability for retirement benefit is recognized as the net amount of retirement benefit obligations minus pension assets, and unrecognized actuarial gains and losses and unrecognized prior service costs are recorded as liability for retirement benefit. The Group has more than one retirement benefit plan and, since in the case of the main defined benefit company pension plans (under joint sponsorship contract executed by the Company and its domestic consolidated subsidiaries) pension assets exceed retirement benefit obligations, this excess amount is recorded as asset for retirement benefit in “Other” under “Investments and Other Assets.”

In accordance with the transitional measures stipulated in article 37 of the Accounting Standard, the effect of this accounting change is recognized as “Remeasurements of defined benefit plans” in the accumulated other comprehensive income, at the beginning of the second quarter under review.

As a result, “Accumulated other comprehensive income” at the beginning of the second quarter under review decreased by 1,915 million yen.

3. Consolidated Financial Statements

(1) Consolidated balance sheet

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2013)	Consolidated fiscal year under review (As of September 30, 2013)
Assets		
Current assets		
Cash and deposits	31,914	37,832
Notes and accounts receivable	66,882	49,639
Securities	33,997	12,998
Merchandise	13,427	20,430
Work in process	5,347	9,648
Maintenance parts and materials	6,588	6,255
Prepaid expenses	22,317	27,592
Other	25,534	29,458
Allowance for doubtful accounts	-94	-14
Total current assets	205,917	193,841
Fixed assets		
Tangible fixed assets	34,719	34,450
Intangible fixed assets		
Goodwill	4,129	2,954
Other	7,053	10,341
Total intangible fixed assets	11,182	13,295
Investments and other assets		
Other	18,271	15,373
Allowance for doubtful accounts	-63	-46
Total investments and other assets	18,207	15,326
Total fixed assets	64,108	63,073
Total assets	270,025	256,914
Liabilities		
Current liabilities		
Notes and accounts payable	26,484	23,203
Income taxes payable	7,803	1,588
Unearned income	20,269	25,913
Provision for bonuses	7,566	5,197
Provision for loss on order received	308	347
Provision for after service cost	368	315
Other	23,827	19,081
Total current liabilities	86,627	75,647
Long-term liabilities		
Provision for retirement benefits	575	-
Net defined benefit liability	-	584
Asset retirement obligations	1,448	1,476
Other	15,395	14,551
Total long-term liabilities	17,418	16,612
Total liabilities	104,045	92,260

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2013)	Consolidated fiscal year under review (As of September 30, 2013)
Net assets		
Shareholders' equity		
Capital stock	21,763	21,763
Capital surplus	33,076	33,076
Retained earnings	118,506	118,336
Treasury stock	-10,370	-10,371
Total shareholders' equity	162,975	162,804
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,610	1,318
Deferred gains or losses on hedges	-2	-8
Foreign currency translation adjustment	58	99
Remeasurements of defined benefit plans	-	-1,789
Total accumulated other comprehensive income	1,666	-379
Minority interests	1,338	2,229
Total net assets	165,980	164,654
Total liabilities and net assets	270,025	256,914

(2) Consolidated income statement and consolidated statements of comprehensive income

Consolidated income statement

(Million yen)

	Previous consolidated fiscal year (From April 1, 2012 to September 30, 2012)	Consolidated fiscal year under review (From April 1, 2013 to September 30, 2013)
Net sales	146,305	147,822
Cost of sales	108,601	112,165
Gross profit	37,703	35,657
Selling, general and administrative expenses	27,652	30,040
Operating income	10,051	5,616
Non-operating income		
Interest income	27	17
Dividend income	48	47
Equity in gains of associated companies	–	54
Other	102	121
Total non-operating income	177	240
Non-operating expenses		
Interest expenses	84	79
Equity in loss of associated companies	17	–
Loss from investments in partnership	38	23
Other	47	31
Total non-operating expenses	188	133
Ordinary income	10,040	5,722
Extraordinary gains		
Gains on sales of investment securities	18	289
Total extraordinary gains	18	289
Extraordinary losses		
Loss on disposal of fixed assets	22	–
Impairment loss	120	–
Loss on valuation of investment securities	–	7
Compensation for damage	146	–
Loss on litigation	138	364
Total extraordinary losses	427	372
Income before income taxes	9,632	5,639
Income taxes-current	3,168	1,445
Income taxes-deferred	860	952
Total income taxes	4,028	2,397
Income before minority interests	5,603	3,241
Minority interests in income	57	139
Net income	5,546	3,102

Consolidated statements of comprehensive income

(Million yen)

	Previous consolidated fiscal year (From April 1, 2012 to September 30, 2012)	Consolidated fiscal year under review (From April 1, 2013 to September 30, 2013)
Income before minority interests	5,603	3,241
Other comprehensive income		
Valuation difference on available-for-sale securities	216	-291
Deferred gains or losses on hedges	22	-5
Foreign currency translation adjustment	-18	21
Remeasurements of defined benefit plans, net of tax	-	125
Share of other comprehensive income of entities accounted for using equity method	-2	17
Total other comprehensive income	217	-133
Comprehensive income	5,820	3,108
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,763	2,971
Comprehensive income attributable to minority interests	57	136

(3) Notes to Quarterly Consolidated Financial Statements

(Note on going concern assumptions)

Not applicable

(Note on significant changes in the amount of shareholders' equity)

Not applicable

(Note on significant subsequent events)

(Acquisition of the Company's own shares)

At a meeting of the Board of Directors of the Company held on October 16, 2013, the Company adopted a resolution to acquire the Company's own shares pursuant to Article 156 of the Companies Act applied in accordance with Article 165, Paragraph 3 of the said act.

Matters relating to the acquisition of the Company's own shares are as follows:

(i) Reason for the acquisition of the Company's own shares

The Company acquires its own shares for the purpose of adopting flexible capital policy measures in response to changes in the business environment, and improving capital efficiency and increasing returns to shareholders.

(ii) Details of acquisition

a Class of shares acquired	Common stock
b Method of acquisition	Purchased on the Tokyo Stock Exchange
c Total number of shares acquired	Maximum number is 800,000 shares
d Total acquisition cost	Maximum cost is 2,500 million yen
e Acquisition period	From November 1, 2013 to December 6, 2013

(Retirement of the Company's own shares)

At a meeting of the Company's Board of Directors held on October 16, 2013, the Company adopted a resolution on matters relating to the retirement of the Company's own shares pursuant to the provisions of Article 178 of the Companies Act.

Matters relating to the retirement of the Company's own shares are as follows:

a Class of shares retired	Common stock
b Total number of shares retired	2,500,000 shares
c Scheduled date of retirement	November 1, 2013
d Total number of shares issued and outstanding after retirement	60,000,000 shares

4. Additional Information**Changes to reportable segments**

As a result of a structural reorganization effective April 1, 2013, business for the broadcasting sector and for ISPs, which was previously included in the "Enterprise", was transferred to the "Telecommunications", and business for the distribution sector was transferred to the "Distribution"; also, business for the public sector, which was previously included in the "Enterprise" and the "Telecommunications", was transferred to the "Finance" and the name of this segment was changed from the "Finance" to the "Finance & Public".

Please refer to the "First Half Consolidated Financial Summary for the Fiscal Year Ending March 31, 2014 (April 1, 2013 – September 30, 2013)" published on the Company's website today for details on business results by reportable segment.