

# Consolidated Financial Results

## for the Third Quarter of the Fiscal Year ending March 31, 2014

### (Japanese Accounting Standards)

January 31, 2014

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Scheduled date to submit the quarterly report (*Shihanki Hokokusho*): February 10, 2014  
 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, 2013 (April 1, 2013 – December 31, 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	%
Nine months ended 12/13	224,625	2.1	8,920	-39.4	9,180	-38.3	5,108	-39.3
Nine months ended 12/12	219,919	8.2	14,715	1.3	14,866	1.4	8,416	12.1

(Note) Comprehensive income (million yen): Nine months ended 12/13: 5,880 (-32.8%)      Nine months ended 12/12: 8,756 (14.0 %)

	Earnings per share		Earnings per share/ diluted	
	Yen		Yen	
Nine months ended 12/13	85.99		–	
Nine months ended 12/12	140.90		–	

##### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
December 31, 2013	255,604	161,653	62.3
March 31, 2013	270,025	165,980	61.0

(Reference) Shareholders' equity (million yen): December 31, 2013: 159,257      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	15,500	-6.4	253.08

(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):                                 |                   |                          |                   |
| Nine months ended 12/13:   | 60,000,000 shares | Year ended 3/13:         | 62,500,000 shares |
| (ii) Number of treasury shares at the end of period:   |                   |                          |                   |
| Nine months ended 12/13:   | 1,131,270 shares  | Year ended 3/13:         | 2,996,613 shares  |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): |                   |                          |                   |
| Nine months ended 12/13:   | 59,401,174 shares | Nine months ended 12/12: | 59,733,250 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 2.
- The Company plans to hold an IR presentation for institutional investors and analysts on January 31, 2014. Materials distributed during the IR presentation will be posted on the Company’s website.

Accompanying Materials – Contents

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## 1. Qualitative Information

### (1) Qualitative information about consolidated operating results

In the first nine months of the fiscal year under review, the Japanese economy began to stage a modest recovery, as corporate earnings improved, and production and capital spending also showed signs of strengthening.

In the IT services industry, businesses, especially those in the financial and manufacturing sectors, became more willing to invest in IT, and the business environment improved.

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. The Group also implemented initiatives to further expand the services business and global business, including collaborating with CTC GLOBAL SDN. BHD. (Malaysia) and CTC GLOBAL PTE. LTD. (Singapore), which became subsidiaries at the end of the previous fiscal year, over initiatives to realize autonomous data centers aimed at virtually integrating multiple data centers in remote locations into a single infrastructure. In the Big Data sector, the Group focused on developing business related to new technologies and solutions, including starting to offer a big data solution for analyzing large quantities of logs (operation records) of IT devices kept by businesses to ensure stable system operation, and a BI solution using the products of the U.S. computer software company Tableau Software. The Group also implemented initiatives to promote a change in the employee mindset toward working styles, including promoting employees' healthy lifestyles and mental and physical fulfillment and starting to recommend morning-focused working style to improve work concentration and efficiency.

In terms of sales activities, in the Telecommunications business, projects to augment networks for mobile carriers decreased but, in the Financial & Public business, development and service projects for megabanks and credit card companies grew. In the Enterprise Business, projects to upgrade and increase the efficiency of systems increased, especially in the manufacturing sector. In the Distribution Business, development projects for beverage, convenience store and food wholesale companies increased. Overseas, the products business performed solidly, especially in the financial sector, in the Southeast Asia region.

As a result, consolidated sales for the first nine months of the fiscal year under review were 224,625 million yen (up 2.1% 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 8,920 million yen (down 39.4%), consolidated ordinary income was 9,180 million yen (down 38.3%), and consolidated net income was 5,108 million yen (down 39.3%).

### (2) Qualitative information about consolidated financial position

Consolidated assets at the end of the third quarter under review amounted to 255,604 million yen, down 14,421 million yen from the end of the previous fiscal year. This was mainly due to decreases of 21,792 million yen in notes and accounts receivable-trade and 10,999 million yen in securities, offsetting increases of 9,844 million yen in merchandise, and 7,201 million yen in work in process.

Consolidated liabilities fell 10,094 million yen from the end of the previous fiscal year, to 93,950 million yen. This was primarily due to declines of 2,409 million yen in notes and accounts payable-trade, 7,020 million yen in income taxes payable, and 4,061 million yen in provision for bonuses, offsetting an increase of 3,812 million yen in unearned revenue

Consolidated net assets reached 161,653 million yen, down 4,326 million yen from the end of the previous fiscal year. This chiefly reflects a decrease of 6,545 million yen due to the payment of cash dividends and a decrease of 2,501 million yen due to the acquisition of the Company's own shares, offsetting an increase of 5,108 million yen due to net income.

### (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.

Although the business environment remains challenging, results for the first nine months of the fiscal year under review were more or less in line with estimates, and orders received and the order backlog are also trending upward. The Group is, therefore, leaving its earnings forecast announced on October 16, 2013 unchanged at the present time.

(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 third quarter under review.

As a result, “Accumulated other comprehensive income” at the beginning of the third 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 December 31, 2013)
<b>Assets</b>		
Current assets		
Cash and deposits	31,914	27,354
Notes and accounts receivable	66,882	45,090
Securities	33,997	22,998
Merchandise	13,427	23,272
Work in process	5,347	12,549
Maintenance parts and materials	6,588	5,911
Prepaid expenses	22,317	26,298
Other	25,534	29,179
Allowance for doubtful accounts	-94	-13
Total current assets	205,917	192,640
Fixed assets		
Tangible fixed assets	34,719	34,150
Intangible fixed assets		
Goodwill	4,129	3,067
Other	7,053	10,327
Total intangible fixed assets	11,182	13,394
Investments and other assets		
Other	18,271	15,461
Allowance for doubtful accounts	-63	-42
Total investments and other assets	18,207	15,418
Total fixed assets	64,108	62,963
Total assets	270,025	255,604
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	26,484	24,074
Income taxes payable	7,803	783
Unearned income	20,269	24,082
Provision for bonuses	7,566	3,504
Provision for loss on order received	308	295
Provision for after service cost	368	318
Other	23,827	24,718
Total current liabilities	86,627	77,776
Long-term liabilities		
Provision for retirement benefits	575	-
Net defined benefit liability	-	593
Asset retirement obligations	1,448	1,451
Other	15,395	14,129
Total long-term liabilities	17,418	16,174
Total liabilities	104,045	93,950

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2013)	Consolidated fiscal year under review (As of December 31, 2013)
Net assets		
Shareholders' equity		
Capital stock	21,763	21,763
Capital surplus	33,076	33,076
Retained earnings	118,506	108,419
Treasury stock	-10,370	-4,222
Total shareholders' equity	162,975	159,037
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,610	1,304
Deferred gains or losses on hedges	-2	24
Foreign currency translation adjustment	58	611
Remeasurements of defined benefit plans	-	-1,719
Total accumulated other comprehensive income	1,666	220
Minority interests	1,338	2,395
Total net assets	165,980	161,653
Total liabilities and net assets	270,025	255,604

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

## Consolidated income statement

(Million yen)

	Previous consolidated fiscal year (From April 1, 2012 to December 31, 2012)	Consolidated fiscal year under review (From April 1, 2013 to December 31, 2013)
Net sales	219,919	224,625
Cost of sales	163,359	170,428
Gross profit	56,560	54,197
Selling, general and administrative expenses	41,844	45,277
Operating income	14,715	8,920
Non-operating income		
Interest income	38	27
Dividend income	62	65
Equity in gains of associated companies	12	89
Other	233	253
Total non-operating income	347	436
Non-operating expenses		
Interest expenses	124	115
Loss from investments in partnership	19	32
Other	51	28
Total non-operating expenses	196	176
Ordinary income	14,866	9,180
Extraordinary gains		
Gains on sales of investment securities	18	338
Total extraordinary gains	18	338
Extraordinary losses		
Loss on disposal of fixed assets	57	—
Impairment loss	122	—
Loss on valuation of investment securities	—	7
Compensation for damage	25	—
Loss on litigation	138	592
Total extraordinary losses	344	600
Income before income taxes	14,541	8,918
Income taxes-current	4,007	1,945
Income taxes-deferred	2,007	1,676
Total income taxes	6,015	3,621
Income before minority interests	8,526	5,296
Minority interests in income	109	188
Net income	8,416	5,108

## Consolidated statements of comprehensive income

(Million yen)

	Previous consolidated fiscal year (From April 1, 2012 to December 31, 2012)	Consolidated fiscal year under review (From April 1, 2013 to December 31, 2013)
Income before minority interests	8,526	5,296
Other comprehensive income		
Valuation difference on available-for-sale securities	157	-306
Deferred gains or losses on hedges	46	27
Foreign currency translation adjustment	21	646
Remeasurements of defined benefit plans, net of tax	–	195
Share of other comprehensive income of entities accounted for using equity method	4	21
Total other comprehensive income	230	584
Comprehensive income	8,756	5,880
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,646	5,578
Comprehensive income attributable to minority interests	109	302

## (3) Notes to Quarterly Consolidated Financial Statements

(Note on going concern assumptions)

Not applicable

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

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stocks	Total Equity
	Million yen	Million yen	Million yen	Million yen	Million yen
Balance, March 31, 2013	21,763	33,076	118,506	-10,370	162,975
Net change in the nine months period					
Cash dividends			-6,545		-6,545
Net income			5,108		5,108
Purchase of treasury stock				-2,501	-2,501
Cancellation of treasury stocks		-0	-8,649	8,650	-
Total Net change in the nine months period	-	-0	-10,087	6,148	-3,938
Balance, December 31, 2013	21,763	33,076	108,419	-4,222	159,037

(Note) On November 1, 2013, CTC retired 2,500,000 shares of treasury stock.

## 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 "Third Quarter Consolidated Financial Summary for the Fiscal Year Ending March 31, 2014 (April 1, 2013 – December 31, 2013)" published on the Company's website today for details on business results by reportable segment.