

Consolidated Financial Results for the First Half of the Fiscal Year ending March 31, 2015 (IFRS)

November 6, 2014

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Scheduled date to submit the quarterly report (*Shihanki Hokokusho*):

November 12, 2014

Scheduled date of dividend payment:

December 5, 2014

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, 2014 (April 1, 2014 – September 30, 2014)

(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	%
Six months ended 9/14	161,127	5.9	7,981	35.7	7,954	34.2	5,052	41.4	4,986	45.3	5,614	69.1
Six months ended 9/13	152,183	-	5,881	-	5,928	-	3,572	-	3,432	-	3,320	-

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended 9/14	84.71		-	
Six months ended 9/13	57.69		-	

(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	%
September 30, 2014	277,258	168,990	165,097	59.5
March 31, 2014	282,650	166,700	162,967	57.7

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 3/14	-	55.00	-	55.00	110.00
Year ending 3/15	-	57.50	-	-	-
Year ending 3/15 (forecast)	-	-	-	57.50	115.00

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

3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(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	365,000	4.1	27,000	13.4	26,800	11.5	16,800	16.3	16,500	16.0	282.44

(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): | | | |
| Six months ended 9/14: | 60,000,000 shares | Year ended 3/14: | 60,000,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Six months ended 9/14: | 1,131,834 shares | Year ended 3/14: | 1,131,626 shares |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): | | | |
| Six months ended 9/14: | 58,868,291 shares | Six months ended 9/13: | 59,503,191 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

- Effective from the first quarter of the fiscal year ending March 31, 2015, CTC started to apply the International Financial Reporting Standards (IFRS), and the figures for the first quarter and full year of the fiscal year ended March 31, 2014 have been converted into IFRS-based figures.

- 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.

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1. Qualitative Information

(1) Qualitative information about consolidated operating results

In the first half of the fiscal year under review, the Japanese economy continued to recover at a moderate pace, despite certain adverse effects from the consumption tax hike, as corporate earnings around major companies have been improving against the background of the weaker yen and improvement in stock prices.

In the information services industry, the overall business environment was gradually improving, with an increasing appetite for IT investment in certain quarters of the distribution and manufacturing industries in addition to the financial sector, although certain sectors in the telecom industry showed a cautious stance toward IT investment.

In this environment, the CTC Group plans to further strengthen its capability to offer comprehensive IT services, which are its forte, and to implement initiatives aimed at improving profitability, positioning the fiscal year ending March 31, 2015 as the “year in which it aims to return to a growth path.” Specifically, our comprehensive verification center, the Group’s Technical Solution Center, was certified as an Oracle Authorized Solution Center, the first such center in Japan and the Asia Pacific Region. In the security sector, in light of the growing concerns over the threats of cyber attacks on a global scale, the Group prepared for the establishment of the CTC Security Operations Center that remotely monitors the situation of a variety of customers’ equipment 24 hours a day, 365 days a year, and started to sell CTC Managed Security Services in which emergency response, changes in configurations and management of equipment and other activities are carried out in an integrated fashion. In the cloud service sector, the Group started to provide eAssist to automate such services as continuous input operations and surveys. We already provide the document distribution and browsing services of ePromo and the data mining services of eMining for example, to organize them as a “Business Evolution” series and have been expanding our Business Process Outsourcing (BPO) cloud services that improve operational processes and optimize a range of resources. With respect to profitability improvement, in addition to a review of project management methods to curb unprofitable projects, the Group took steps to improve costs by strengthening hedging measures to counter risks of fluctuations in foreign exchange rates. Moreover, aiming at further improving the service quality and the level of customers’ satisfaction, and in order to improve employees’ concentration and efficiency of business operations, the Group carried out initiatives to change the way employees think about their work style by fully adopting measures in July 2014 to encourage employees to work in the early morning hours, which was introduced on a trial basis in December 2013.

In terms of sales activities, in addition to promoting projects to augment networks for mobile carriers in the Telecommunications Business, the Group also focused on system development for megabanks, facility expansion projects for telecommunication subsidiaries of electric power companies, as well as infrastructure construction projects for postal service companies in the Finance and Public Business, and in the Distribution Business, we focused on matters such as core system infrastructure construction for retailers and food wholesalers.

As a result, the SI development business and service business improved in the first half of the consolidated fiscal year under review, resulting in revenue of 161,127 million yen (up 5.9% year on year).

In terms of profit, the Group experienced an increase in personnel expenses and other aspects, but thanks to higher gross profit associated with higher sales, it achieved operating income of 7,981 million yen (up 35.7% year on year); profit before tax of 7,954 million yen (up 34.2% year on year); profit of 5,052 million yen (up 41.4% year on year); and profit attributable to owners of the company of 4,986 million yen (up 45.3% year on year).

Effective from the first quarter of the consolidated fiscal year ending March 31, 2015, the Group began to apply the International Financial Reporting Standards (“IFRS”) in place of the Japan GAAP that it previously used. The figures previously published for the first half of the previous consolidated fiscal year and the previous consolidated full fiscal year have been converted from the Japan GAAP to IFRS.

(2) Qualitative information about consolidated financial position

Assets at the end of the first half of the consolidated fiscal year under review amounted to 277,258 million yen, down 5,391 million yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease of 15,453 million yen in trade and other receivables, offsetting an increase of 7,689 million yen in inventories.

Liabilities declined to 108,268 million yen, down 7,681 million yen from the end of the previous consolidated fiscal year. This was due primarily to decreases of 14,501 million yen in trade and other payables and 4,308 million yen in income taxes payable, in spite of an increase of 12,889 million yen in other current liabilities.

Equity amounted to 168,990 million yen, up 2,290 million yen from the end of the previous consolidated fiscal year. This mostly reflected a decrease of 3,237 million yen in dividends paid by the parent company, in spite of an increase of 5,052 million yen in profit.

(3) Qualitative information about consolidated earnings forecasts

With regard to the future outlook, the domestic economy is on a modest recovery path and expectations for a full recovery in IT investment are growing, despite remaining concerns about a slowdown in overseas economies.

In light of such circumstances, the Group has not revised the full-year operating results forecast for the fiscal year ending March 31, 2015 which were released on May 1, 2014.

2. Items Regarding Summary (and Notes) Information

(1) Changes in significant subsidiaries during the period under review

None

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

None

3. Summary Quarterly Consolidated Financial Statements

(1) Summary quarterly consolidated statement of financial position

	Date of transition to the IFRS (As of April 1, 2013)	Previous consolidated fiscal year (As of March 31, 2014)	Consolidated fiscal year under review (As of September 30, 2014)
Items	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)
(Assets)			
Current assets			
Cash and cash equivalents	66,133	55,083	45,305
Trade and other receivables	87,447	101,530	86,076
Inventories	20,038	23,573	31,262
Current tax assets	—	12	788
Other current financial assets	842	689	7,423
Other current assets	22,360	26,249	32,313
Total current assets	196,822	207,139	203,170
Non-current assets			
Property, plant and equipment	34,707	35,596	35,260
Goodwill	4,236	4,467	4,710
Intangible assets	10,727	10,046	9,726
Investments accounted for using the equity method	1,315	1,489	543
Other non-current financial assets	12,225	11,054	10,666
Deferred tax assets	12,681	11,609	11,413
Other non-current assets	1,074	1,246	1,767
Total non-current assets	76,968	75,511	74,088
Total assets	273,791	282,650	277,258

	Date of transition to the IFRS (As of April 1, 2013)	Previous consolidated fiscal year (As of March 31, 2014)	Consolidated fiscal year under review (As of September 30, 2014)
Items	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)			
Current liabilities			
Trade and other payables	40,207	44,491	29,989
Other current financial liabilities	5,648	6,064	6,111
Income taxes payable	7,803	6,560	2,251
Liabilities for employee benefits	13,391	11,892	10,795
Provisions	761	1,225	1,706
Other current liabilities	21,736	25,811	38,700
Total current liabilities	89,548	96,045	89,555
Non-current liabilities			
Non-current financial liabilities	14,428	12,748	11,870
Liabilities for employee benefits	6,590	4,576	4,359
Provisions	1,448	1,649	1,605
Deferred tax liabilities	870	887	850
Other non-current liabilities	75	42	27
Total non-current liabilities	23,413	19,904	18,712
Total liabilities	112,961	115,949	108,268
Equity			
Common stock	21,763	21,763	21,763
Capital surplus	33,076	33,076	33,076
Treasury stock	(10,370)	(4,223)	(4,224)
Retained earnings	111,525	111,132	112,858
Other components of equity	1,398	1,219	1,623
Total equity attributable to owners of the Company	157,392	162,967	165,097
Non-controlling interests	3,436	3,732	3,892
Total equity	160,829	166,700	168,990
Total liabilities and equity	273,791	282,650	277,258

(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, 2013 to September 30, 2013)	Consolidated fiscal year under review (From April 1, 2014 to September 30, 2014)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	152,183	161,127
Cost of sales	(116,217)	(123,009)
Gross profit	35,965	38,118
Other income and expenses		
Selling, general and administrative expenses	(29,676)	(30,516)
Other income	121	403
Other expenses	(529)	(23)
Total other income and expenses	(30,084)	(30,136)
Operating income	5,881	7,981
Financial income	99	71
Financial costs	(105)	(149)
Share of profit of associates accounted for using the equity method	54	26
Gain on sales of shares of subsidiaries and associates	—	23
Profit before tax	5,928	7,954
Income tax expense	(2,356)	(2,902)
Profit	3,572	5,052
Profit attributable to :		
Owners of the Company	3,432	4,986
Non-controlling interests	139	65
Earnings per share	(Yen)	(Yen)
(Attribution to the owners of the Company):		
Basic earnings per share	57.69	84.71
Diluted earnings per share	—	—

Summary quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2013 to September 30, 2013)	Consolidated fiscal year under review (From April 1, 2014 to September 30, 2014)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	3,572	5,052
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	(236)	(80)
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	(26)	638
Cash flow hedges	(5)	7
Share of other comprehensive income of associates accounted for using the equity method	16	(2)
Total other comprehensive income, net of tax effect	(251)	562
Total comprehensive income	3,320	5,614
Total comprehensive income attributable to:		
Owners of the Company	3,226	5,368
Non-controlling interests	93	245

(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, 2013	21,763	33,076	(10,370)	111,525	–	1,401	(2)
Profit	–	–	–	3,432	–	–	–
Other comprehensive income	–	–	–	–	35	(236)	(5)
Total comprehensive income	–	–	–	3,432	35	(236)	(5)
Payment of dividends	–	–	–	(3,272)	–	–	–
Purchase of treasury stock	–	–	(1)	–	–	–	–
Other movement in non-controlling interests	–	–	–	–	–	–	–
Transfer to retained earnings from other components of equity	–	–	–	179	–	(179)	–
Total transactions with owners	–	–	(1)	(3,093)	–	(179)	–
September 30, 2013	21,763	33,076	(10,371)	111,864	35	985	(8)

(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, 2013	157,392	3,436	160,829
Profit	3,432	139	3,572
Other comprehensive income	(205)	(45)	(251)
Total comprehensive income	3,226	93	3,320
Payment of dividends	(3,272)	(80)	(3,353)
Purchase of treasury stock	(1)	–	(1)
Other movement in non-controlling interests	–	46	46
Transfer to retained earnings from other components of equity	–	–	–
Total transactions with owners	(3,273)	(34)	(3,308)
September 30, 2013	157,345	3,496	160,842

(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, 2014	21,763	33,076	(4,223)	111,132	442	771	4
Profit	–	–	–	4,986	–	–	–
Other comprehensive income	–	–	–	–	455	(80)	7
Total comprehensive income	–	–	–	4,986	455	(80)	7
Payment of dividends	–	–	–	(3,237)	–	–	–
Purchase of treasury stock	–	–	(0)	–	–	–	–
Other movement in non-controlling interests	–	–	–	–	–	–	–
Transfer to retained earnings from other components of equity	–	–	–	(22)	–	22	–
Total transactions with owners	–	–	(0)	(3,260)	–	22	–
September 30, 2014	21,763	33,076	(4,224)	112,858	898	714	11

(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, 2014	162,967	3,732	166,700
Profit	4,986	65	5,052
Other comprehensive income	381	180	562
Total comprehensive income	5,368	245	5,614
Payment of dividends	(3,237)	(85)	(3,323)
Purchase of treasury stock	(0)	–	(0)
Other movement in non-controlling interests	–	–	–
Transfer to retained earnings from other components of equity	–	–	–
Total transactions with owners	(3,238)	(85)	(3,324)
September 30, 2014	165,097	3,892	168,990

(4) Notes on going concern assumptions

None

4. Additional Information

Changes to reportable segments

As a result of a structural reorganization effective April 1, 2014, “Cloud Platform”, and “Support & Service” business segments have been integrated to “IT Service”.

Please refer to the “First Half Consolidated Financial Summary For the fiscal year ending March 31, 2015 (April 1, 2014 – September 30, 2014)” published on the Company’s website today for details on business results by reportable.