



# Announcement of operating results for the fiscal year ended March 31, 2007

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**April 27, 2007**

**ITOCHU Techno-Solutions Corporation**

These materials contain forward-looking statements about the future performance of CTC, based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties. Actual results may differ from projected performance, owing to a variety of factors, including changes in the economic environment.

## **I. Overview of operating results for FY2006**

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- 2. The CTC of the future**
- 3. Management policies for FY2007**

# I. Overview of operating results for FY2006



## Increases in revenues and profits

- ◆ **Higher performance, partly owing to merger**  
Ongoing revenue and profit increases even had former companies not merged  
(Former CTC would have grown for its second consecutive year, former CRC for its seventh)
  
- ◆ **Not only “quantity” expansion, but also steady “quality” improvements**
  - ☆ Made solid progress on large-scale projects
  - ☆ Reduced unprofitable SI development projects
  - ☆ Improved cost competitiveness through 75/65 business target
  - ☆ Strengthened consolidated management  
(reorganization of group business)

# Performance highlights

- FY2006: New CTC, full year
- FY2005: Former CTC, full year



## Sharply higher revenues and profits, partly owing to merger

	FY2006 (Actual)		FY2005 (Actual)		Year-on-year change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Billions of yen	Percent
Net sales	294.3	—	239.0	—	+55.3	+23.2%
Gross profit	71.3	24.2%	58.5	24.5%	+12.8	+22.0%
SG&A expenses	(45.9)	—	(39.0)	—	+6.9	+17.7%
Operating income	25.4	8.7%	19.5	8.2%	+5.9	+30.6%
Ordinary income	25.9	8.8%	20.5	8.6%	+5.3	+26.1%
Net income	14.0	4.8%	11.5	4.8%	+2.5	+21.9%

# Reference: Performance highlights

- FY2006: New CTC + former CRC 1H
- FY2005: Former CTC + former CRC full year



## Sustained revenue and profit increases and improved profitability, assuming separate operation

	FY2006 (Actual*1)		FY2005 (Actual*2)		Year-on-year change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Billions of yen	Percent
Net sales	325.2	—	299.6	—	+25.6	+8.6%
Gross profit	77.1	23.7%	68.8	23.0%	+8.2	+11.9%
SG&A expenses	(49.3)	—	(45.1)	—	+4.1	+9.3%
Operating income	27.7	8.5%	23.7	7.9%	+4.0	+17.0%
Ordinary income	28.3	8.7%	25.0	8.4%	+3.3	+13.2%
Net income	15.2	4.7%	14.1	4.7%	+1.1	+8.1%

\*1: FY2006 performance indicates simple totals for the year ended March 31, 2007, of consolidated full-year performance for the new CTC and consolidated first-half performance of the former CRC (before excluding the intersegment transactions of both corporate groups)

\*2: FY2005 performance indicates simple totals for the year ended March 31, 2006, of consolidated full-year performance for the former CTC and the former CRC (before excluding the intersegment transactions of both corporate groups)

# Reference: Performance highlights (Former CTC)



## Absorbed merger costs and achieved second consecutive annual increases in revenues and profits

Note: Former CTC on a consolidated basis (before exclusions)

	FY2006 (Actual)		FY2005 (Actual)		Year-on-year change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Billions of yen	Percent
Net sales	261.8	—	239.0	—	+22.8	+9.6%
Gross profit	64.8	24.8%	58.5	24.5%	+6.3	+10.9%
SG&A expenses	(42.5)	—	(39.0)	—	(3.5)	+9.1%
Operating income	22.3	8.5%	19.5	8.2%	+2.8	+14.4%
Ordinary income	22.6	8.6%	20.5	8.6%	+2.0	+10.1%
Net income	12.2	4.7%	11.5	4.8%	+0.7	+6.8%

# Reference: Performance highlights (Former CRC)



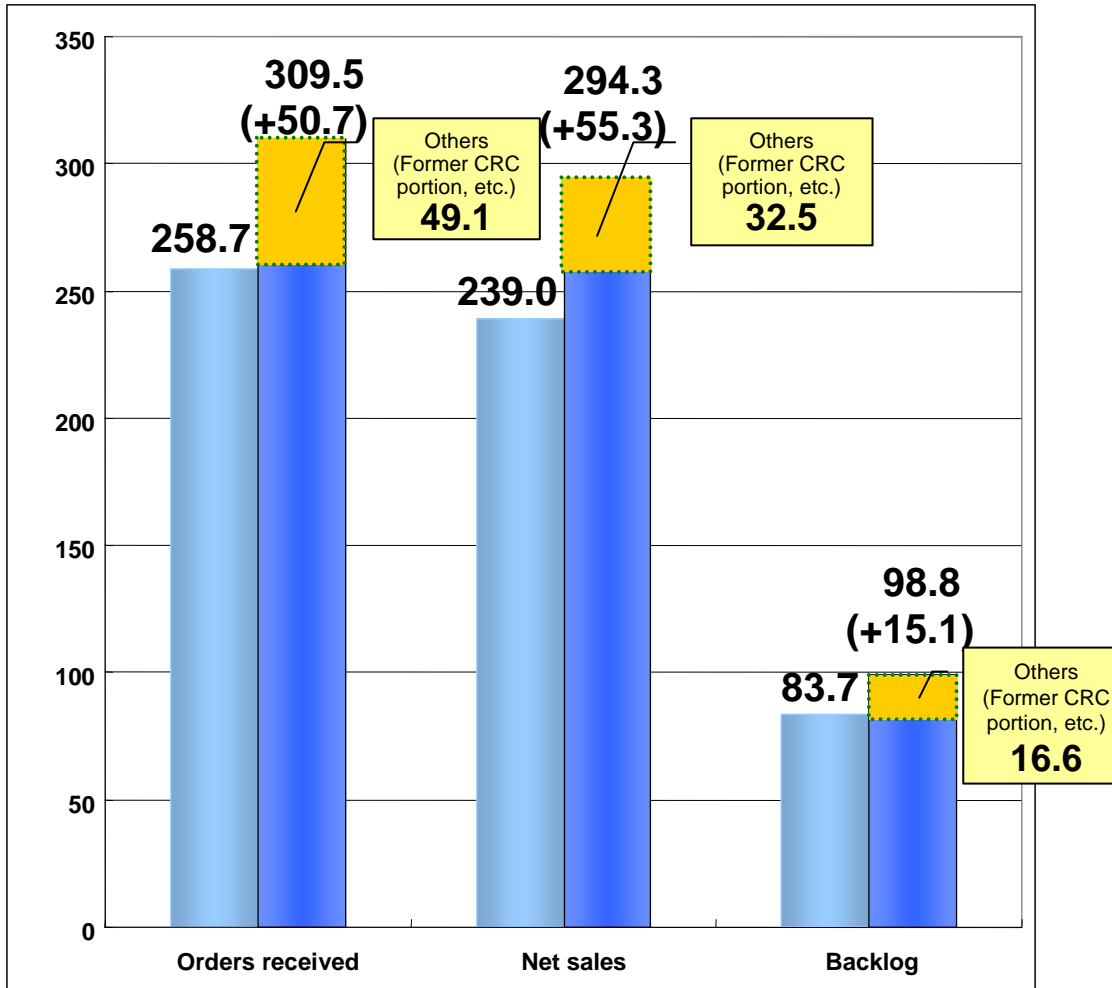
## Seventh consecutive annual increases in revenues and profits

Note: Former CRC on a consolidated basis (before exclusions)

	FY2006 (Actual)		FY2005 (Actual)		Year-on-year change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Billions of yen	Percent
Net sales	34.2	—	32.8	—	+1.4	+4.3%
Gross profit	6.6	19.4%	5.7	17.6%	+0.8	+15.3%
SG&A expenses	(3.4)	—	(3.0)	—	(0.4)	+13.9%
Operating income	3.1	9.2%	2.7	8.2%	+0.4	+16.9%
Ordinary income	3.2	9.6%	2.8	8.7%	+0.4	+14.5%
Net income	1.7	5.1%	1.7	5.2%	+0.0	+1.5%

# Reference: Orders received, net sales and backlog

(Billions of yen)



■ FY2005   
 ■ FY2006 (former CTC, consolidated)   
 ■ FY2006 (former CRC, consolidated)

Note: Former ITOCHU TECHNO-SCIENCE, consolidated

(Billions of yen)

Orders received		FY2005	FY2006
Former CTC (before exclusions)	Telecom systems	112.5	108.0
	Financial systems	25.2	29.3
	Enterprise systems, other	121.0	122.8
Others (including orders of former CRC, 2H portion, exclusions)		—	49.1
Total		258.7	309.5

Net sales		FY2005	FY2006
Former CTC (before exclusions)	Telecom systems	102.7	112.0
	Financial systems	24.8	26.5
	Enterprise systems, other	111.4	123.2
Others (including former CRC 2H portion, exclusions)		—	32.5
Total		239.0	294.3

Backlog		FY2005	FY2006
Former CTC (before exclusions)		83.7	82.2
Others (including orders of former CRC, exclusions)		—	16.6
Total		83.7	98.8

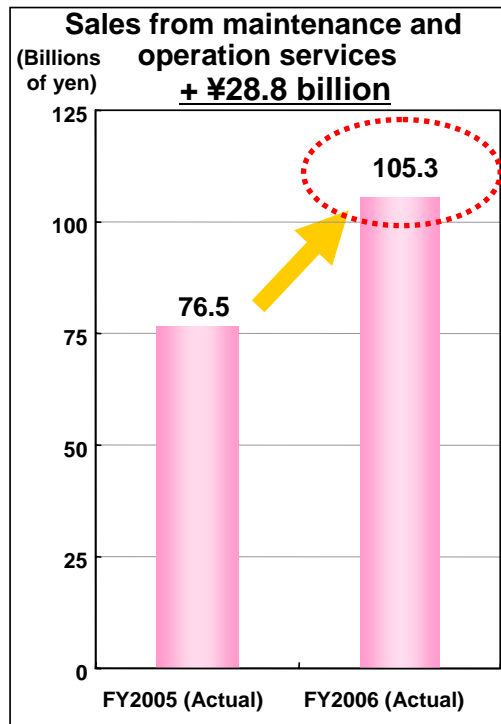
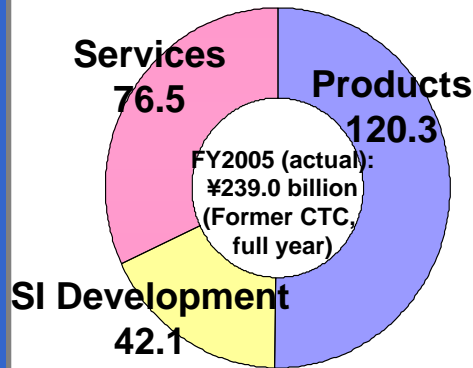
# Review of management indicators (1)

Move to a 4:3:5 ratio of revenue from maintenance and operation services, SI development and products

⇒ Expanded maintenance and operation services area, products also remained firm

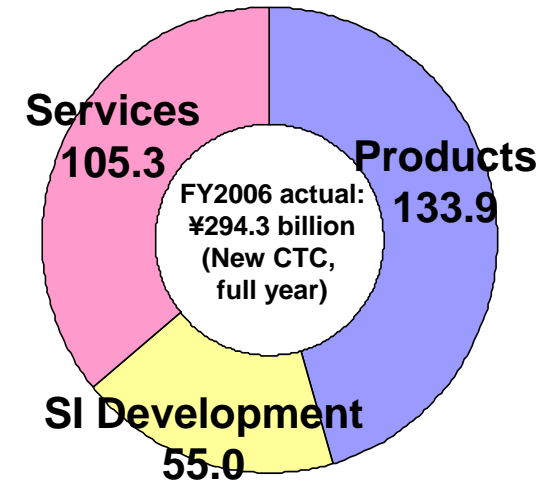
## ◆ Former CTC, consolidated FY2005 performance

Services	SI Development	Products
3/10	2/10	5/10



## ◆ New CTC, consolidated FY2006 performance

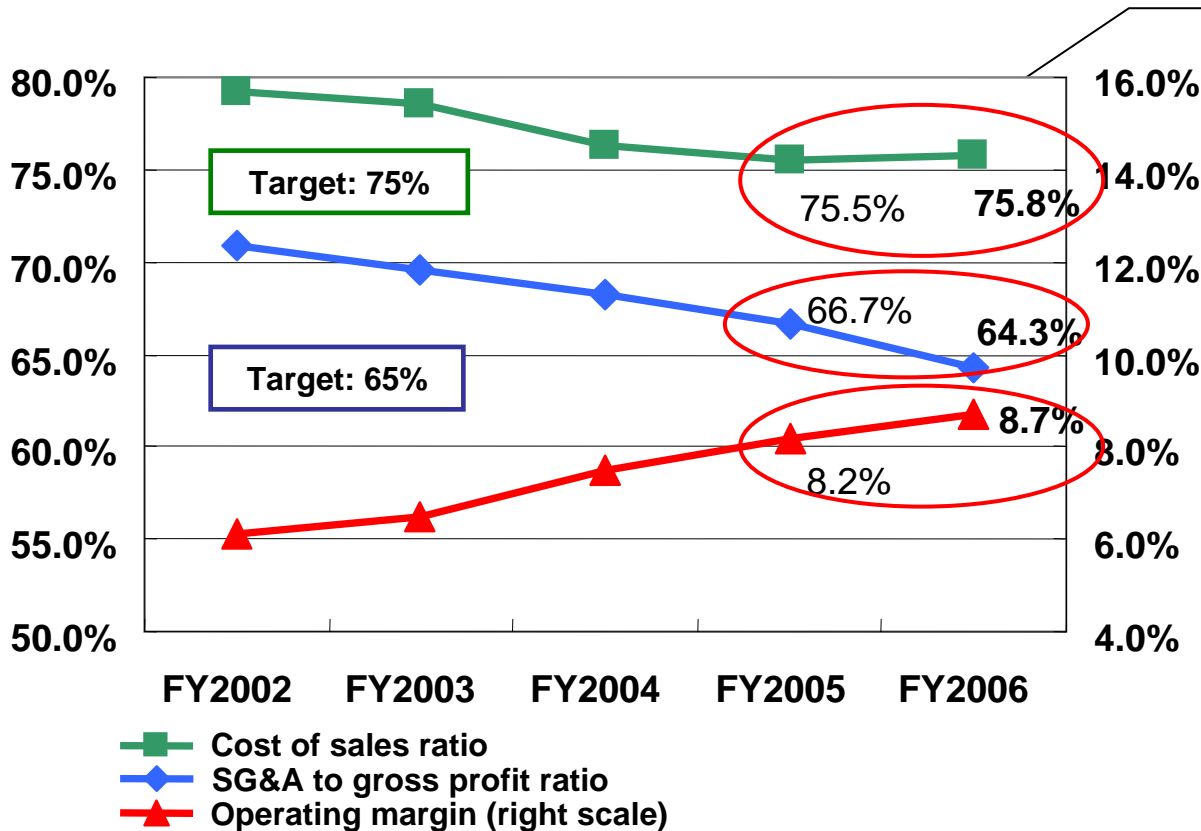
Services	SI Development	Products
4.3/12	2.2/12	5.5/12



# Review of management indicators (2)

**Targets: Cost of sales ratio (75%), SG&A to gross profit ratio (65%), operating margin (8.75%)**

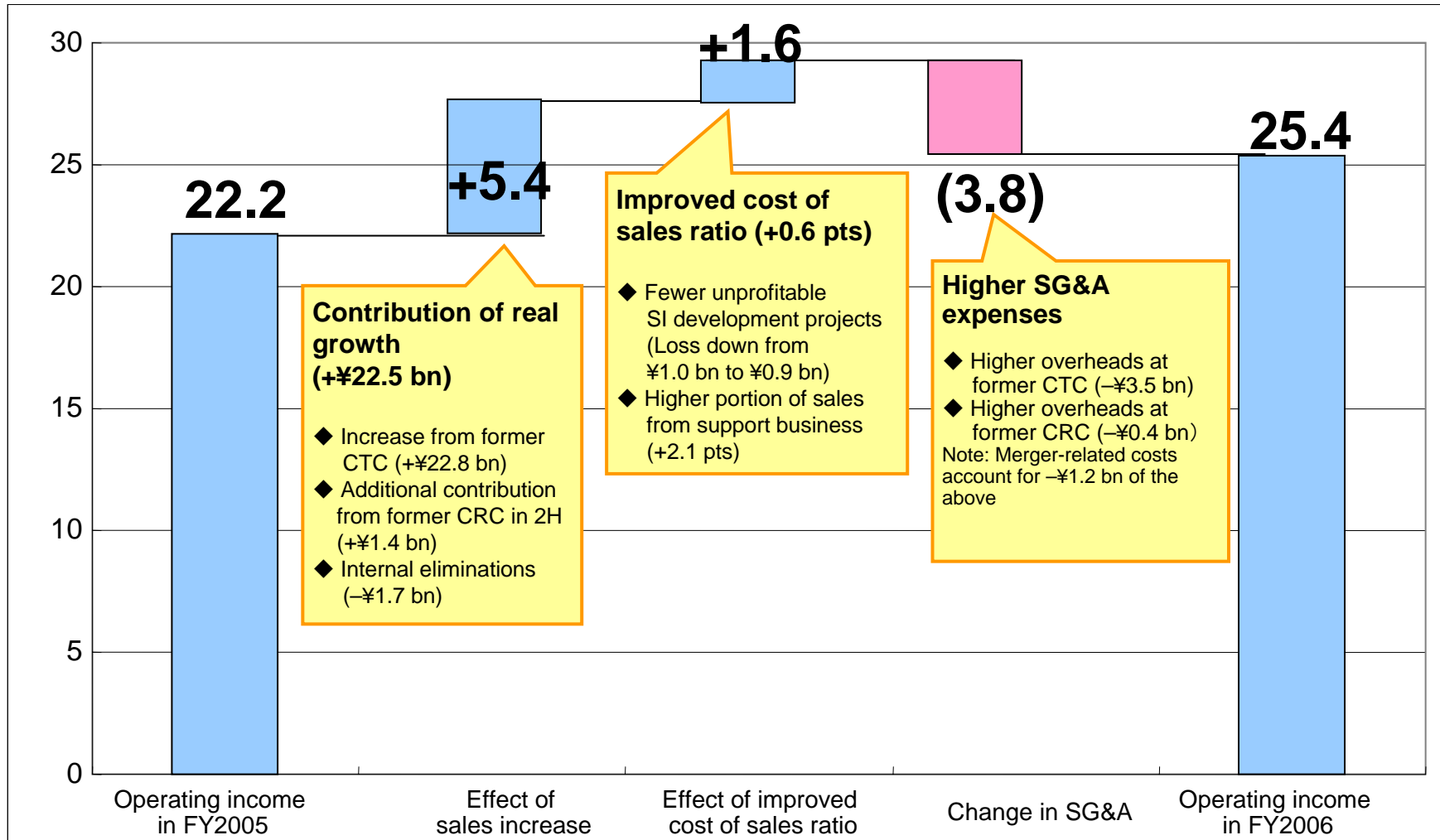
⇒ **As scale of business increases, cost performance is improving**



- ◆ **Main reasons for changes in cost of sales ratio**
  - (-) Rise in cost of sales due to merger (Note: Ongoing improvements on previous company basis)
  - (+) Fewer unprofitable SI development projects (Loss from ¥1.0 bn → ¥0.9 bn)
  - (+) Higher portion of sales from support business (17.3% → 19.4%)
- ◆ **Main reasons for changes in SG&A to gross profit ratio**
  - (+) Lower retirement benefits (+ ¥0.8 bn)
  - (-) Merger-related and up-front investment costs (Total: - ¥1.2 bn)
  - (-) Increase in internal system (Next.MI) expenses (- ¥1.0 bn)
  - (-) Higher personnel costs due to merger and aggressive recruiting (Total: - ¥3.0 bn)  
 Note: Includes 2H portion of former CRC (- ¥2.3 bn)  
 (Mid-career hires: 391 people, Total employees at fiscal year-end: 6,080)

# Main reasons for changes in operating income

(Billions of yen)



Note: Operating income in FY2005 represents the simple total for the consolidated former CTC during FY2005 and the second-half results of the former CRC (before both groups' internal eliminations).

# Non-operating and extraordinary items

(Billions of yen)

	FY2006	Year-on-year change		Major factors
	(Actual)	FY2005 (Actual)	Change	
	Billions of yen	Billions of yen	Billions of yen	
<b>Non-operating income</b>	<b>1.1</b>	<b>1.0</b>	<b>+0.0</b>	Gain on investment in limited partnership +0.67 Dividend income +0.12
<b>Non-operating expenses</b>	<b>(0.6)</b>	<b>(0.0)</b>	<b>(0.6)</b>	Equity in losses of associated companies (0.53)
<b>Total non-operating income</b>	<b>0.4</b>	<b>1.0</b>	<b>(0.5)</b>	
<b>Extraordinary gains</b>	<b>0.9</b>	<b>0.1</b>	<b>+0.7</b>	Gain on sale of investments in securities +0.94
<b>Extraordinary losses</b>	<b>(2.9)</b>	<b>(0.7)</b>	<b>(2.1)</b>	Loss on write-down of investments in securities +0.90 Office relocation expenses +0.62 System reconfiguration expenses +0.38 Merger-related expenses +0.33
<b>Total extraordinary losses</b>	<b>(1.9)</b>	<b>(0.5)</b>	<b>(1.4)</b>	

# Consolidated balance sheets

(Billions of yen)

Assets	March 31, 2006	March 31, 2007	Year-on-year change	Major factors
Current assets	150.8	176.2	+25.3	Cash, cash equivalents +15.7 Securities +5.9
Fixed assets	27.1	38.6	+11.4	Tangible fixed assets +9.6 Intangible fixed assets +1.3
<b>Total assets</b>	<b>178.0</b>	<b>214.8</b>	<b>+36.8</b>	
Liabilities and shareholders' equity	March 31, 2006	March 31, 2007	Year-on-year change	Major factors
Current liabilities	60.4	72.9	+12.4	Unearned income +3.9 Allowance for bonuses +2.6
Long-term liabilities	1.8	1.4	(0.3)	
<b>Total liabilities</b>	<b>62.2</b>	<b>74.4</b>	<b>+12.1</b>	
<b>Total net assets</b> Note: At March 31, 2006, shareholders' equity + minority interests	<b>115.7</b>	<b>140.4</b>	<b>+24.7</b>	Retained earnings +14.7 Treasury stock +10.4
<b>Total liabilities and shareholders' equity</b>	<b>178.0</b>	<b>214.8</b>	<b>+36.8</b>	

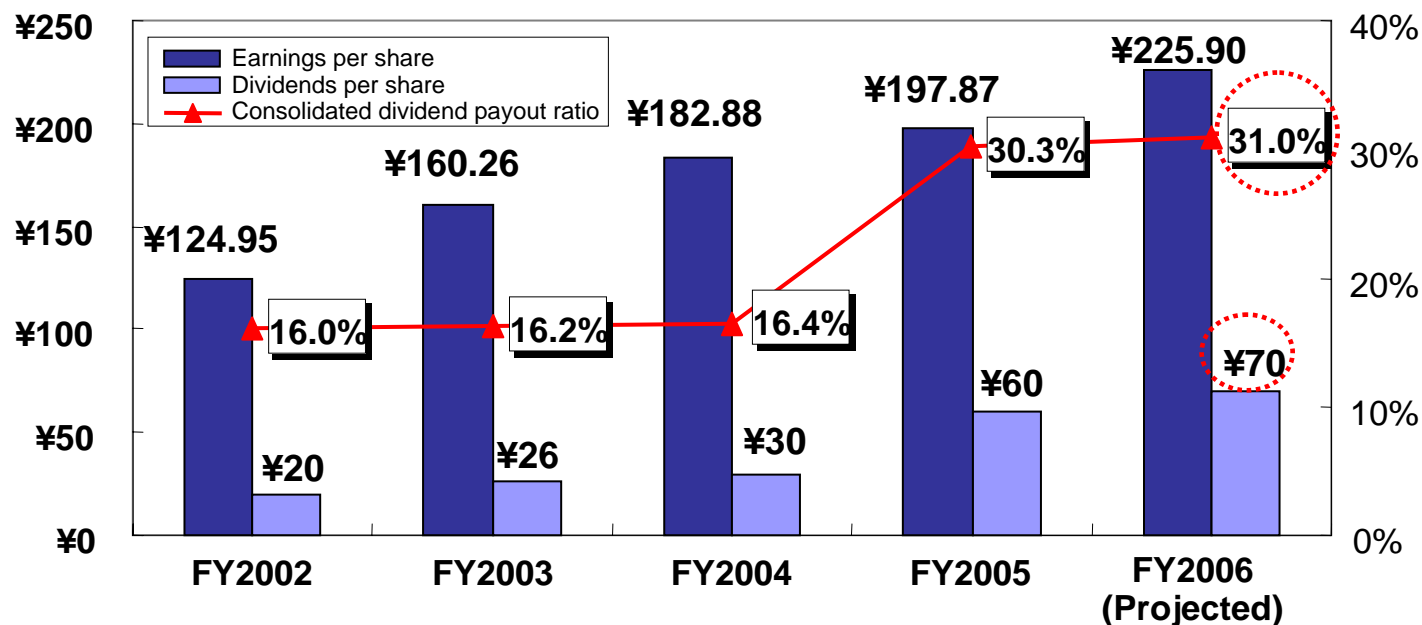
# Consolidated cash flows



(Billions of yen)

	FY2005	FY2006	Year-on-year change	Major factors
Cash and cash equivalents at beginning of period	52.6	55.4	+2.8	
Cash flows from operating activities	7.9	24.2	+16.3	Decrease in accounts receivable +9.7 Decrease in inventories +10.7 Decrease in notes and accounts payable (6.7)
Cash flows from investing activities	(1.7)	(15.7)	(13.9)	Payments for acquisition of tangible fixed assets (4.3) Payments of acquisition of intangible fixed assets (1.2) Deposit payments (10.2)
Cash flows from financing activities	(3.3)	(3.8)	(0.5)	Dividend payments (1.5) Payments for acquisition of treasury stock +1.2
Increase in cash and cash equivalents as result of merger	—	6.8	+6.8	
Cash and cash equivalents at end of period	55.4	67.0	+11.5	
<b>Free cash flow</b>	<b>6.1</b>	<b>8.5</b>	<b>+2.4</b>	

# Dividend policy



Dividend yield*	0.9%	0.6%	0.9%	1.3%	1.2%

\* Based on calculations at each fiscal year-end

- In addition to dividend stability, placing importance on returning earnings to shareholders in line with operating performance
- Dividend forecast for FY2007: ¥80 (interim: ¥40, year-end: ¥40)

## II. Forecasts for FY2007

# FY2007 consolidated operating results forecast



**Through full contribution of merger effects, further increases in revenues and profits**

	FY2007 (Forecast)		FY2006 (Actual)		Year-on-year change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Billions of yen	Percent
Net sales	<b>348.0</b>	—	<b>294.3</b>	—	<b>+53.6</b>	<b>+18.2%</b>
Gross profit	<b>85.6</b>	<b>24.6%</b>	<b>71.3</b>	<b>24.2%</b>	<b>+14.2</b>	<b>+19.9%</b>
SG&A expenses	<b>(56.8)</b>	—	<b>(45.9)</b>	—	<b>(10.8)</b>	<b>+23.7%</b>
Operating income	<b>28.8</b>	<b>8.3%</b>	<b>25.4</b>	<b>8.7%</b>	<b>+3.3</b>	<b>+13.1%</b>
Ordinary income	<b>29.1</b>	<b>8.4%</b>	<b>25.9</b>	<b>8.8%</b>	<b>+3.1</b>	<b>+12.3%</b>
Net income	<b>16.7</b>	<b>4.8%</b>	<b>14.0</b>	<b>4.8%</b>	<b>+2.6</b>	<b>+18.9%</b>

# Reference: FY2007 interim consolidated operating results forecast



	FY2007 (Interim forecast)		FY2006 (Interim actual)		Year-on-year change	
	Billions of yen	Profit margin	Billions of yen	Profit margin	Billions of yen	Percent
Net sales	151.5	—	117.5	—	+33.9	+28.9%
Gross profit	38.2	25.2%	30.4	25.9%	+7.7	+25.3%
SG&A expenses	(27.8)	—	(20.0)	—	+7.7	+38.5%
Operating income	10.4	6.9%	10.4	8.9%	(0.0)	(0.2%)
Ordinary income	10.5	6.9%	10.6	9.1%	(0.1)	(1.7%)
Net income	6.4	4.2%	5.0	4.3%	+1.3	+25.6%

# Reference: Reasons for changes in SG&A and capital investment plans

## ◆ Reasons for major changes in SG&A in FY2007

	FY2006	FY2007	
SG&A expenses in FY2006 (Full year for former CTC + second half for former CRC)	¥45.9 billion	◆ Personnel expenses (303 new graduates from April 1, net increase of 150 mid-career employees)	+¥2.4 bn
SG&A expenses of former CRC in first half of FY2006	¥3.4 billion	◆ Office rent-related expenses (Increase in costs for additional office floor space)	+¥0.9 bn
		◆ Depreciation and amortization, etc. (Higher amortization related to office and accounting)	+¥0.9 bn
		◆ Consolidation of cost of sales and SG&A as result of merger	+¥3.0 bn
		<b>Total:</b>	<b>+¥7.2 bn</b>
Sum of SG&A expenses	¥49.3 billion	¥56.8 billion	+¥7.4 billion

## ◆ FY2007 capital investment plans

### Principal investments

- ◆ Office-related
- ◆ Next.MI-related
- ◆ System-related
- ◆ Data center facilities related

Reference: Capex for FY2006: ¥7.7 billion (Actual)

## III. Management policies for FY2007

# 1. CTC's operating environment



# 1. CTC's operating environment

## Market environment

- Massive IT investment, centered on telecommunications and financial industries
- Solid corporate earnings prompting expansion of IT investments

## Competitive environment

- Polarized by differences in corporate scale
- Active industrial restructuring through mergers, acquisitions and consolidations
- Offshore development, strong alliances with attractive SI business partners

## 2. The CTC of the future



## 2. The CTC of the future

### The IT/information service industry

1) Employ a **unique** business model that plays to our **collective strengths** as a company

#### **Innovative business model**

- Pursue a **balanced 4:3:5** revenue model
- Strengthen our ability to **handle and pursue large projects**
- In the medium term, expand SI development to more than ¥100 billion
- Further strengthen and expand **sales of infrastructure products**
- Cultivate new service model and solutions

2) A **top group** in the industry in terms of scale

Through sustained growth, become a true member of the **top group**

3) A **leading technology company**

A company rated highly for its technology and quality

### 3. Status of progress in integrating management

- Completed the integration project (work toward shared awareness and unified management infrastructures)
- Achieved target integration levels in each domain → Achieved synergy early on

Category		As of day 2 (April 1, 2007)	FY2007
Shared awareness	Promotion of integration	<ul style="list-style-type: none"> <li>• Held activities to cultivate a shared awareness</li> <li>• Implemented staged training</li> </ul>	Implement measures to achieve synergies early on
Management infrastructure integration	Office-related	<ul style="list-style-type: none"> <li>• Moved from the Toyochō office (head office of former CRC)</li> <li>• Opened the new Osaki office</li> </ul>	
	Information systems	<ul style="list-style-type: none"> <li>• Centralized information systems</li> <li>• Integrated information security rules</li> </ul>	
	Systems, regulations, rules	<ul style="list-style-type: none"> <li>• Unified personnel systems</li> <li>• Unified regulations and accounting policies</li> </ul>	

## 3. Management policies for FY2007

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1. Pursue measures for growth
2. Implement various measures to realize the 4:3:5 revenue model
3. Strengthen management infrastructure to become a more attractive company

# 1. Pursue measures for growth

## ◆ Expand business scale and strengthen management structure

- Win business trust and confidence from customers
- Ensure prime contractor positioning, respond to bipolar industry structure
- Boost ability to handle large-scale projects
- Increase scale of business investment and expand ability to develop business domains
- Improve our competitiveness in the recruiting market

# 1. Pursue measures for growth

## Priority measure (1) Expand the top line

Specific measure 1: Quickly realized synergistic effects of business integration

⇒ Establish Integration Promotion Committee

Specific measure 2: Aggressively promote our super account strategy

⇒ Telecommunications, financial, commerce, media, automotive, electronics/semiconductors, precision/manufacturing, apparel, electronic components, others

# 1. Pursue measures for growth

## Priority measure (2) Implement measures to expand business domains

Specific measure 1: Implement data center growth strategy  
(DC expansion plan, investment)

Specific measure 2: Expand maintenance and operation services business

Specific measure 3: Promote our alliance strategy

## Priority measure (3) Implement measures to raise profitability

Specific measure 1: Minimize unprofitable projects

⇒ Held project assessment meeting

Specific measure 2: Profit improvement targets

⇒ Maintain cost of sales ratio at 75%, SG&A to gross profit ratio at 65% (targeted operating margin of 8.75%)

## 2. Implement various measures to realize the 4:3:5 revenue model

### ◆ Business model that enables sustained growth

- Total support throughout customers' IT life cycles
  - ⇒ Become a full-lineup player
- Configure a competitive and unique business model
- Expand scale of revenues and profits



## 2. Implement various measures to realize the 4:3:5 revenue model

Priority measure (1) Implement measures to expand the maintenance and operation services business

Priority measure (2) Implement measures to raise SI development business revenues to more than ¥100 billion

Specific measure 1: Tailor business for priority customers

⇒ Full outsourcing model

Specific measure 2: To raise development productivity and quality, establish standard development methods and common development platforms

⇒ Create Software Engineering Office (SEO)

## 2. Implement various measures to realize the 4:3:5 revenue model

### Priority measure (3) Strengthen product strategies

Specific measure 1: Employ product strategy with vendor products and solutions as its two engines

- ⇒ Hold product strategy meeting
- ⇒ Form solution promotion organizations for each market segment
- ⇒ Establish priority solution domains (see next page)

Specific measure 2: Strengthen vendor-specific sales strategies

# Reference: Priority solution domains

Enterprise solutions	Internal control	<ul style="list-style-type: none"><li>◆ Create mechanism to provide everything from consulting to solutions</li><li>◆ Access management, document management, log management</li></ul>
	eWork	<ul style="list-style-type: none"><li>◆ Next-generation office IT environments that strike a balance between security and operations</li><li>◆ Ongoing enhancement of tours that make use of in-house IT environments</li></ul>
	Contact center CRM	<ul style="list-style-type: none"><li>◆ Promote development from contact center to CRM business domain</li><li>◆ Strengthen emphasis on CTI middleware</li></ul>
Next-generation IT system platforms	Integrated IT platforms	<ul style="list-style-type: none"><li>◆ Promote new integrated IT platforms that employ virtualization technologies</li><li>◆ Approach from perspective as both IT issues and business issues</li></ul>
	Storage	<ul style="list-style-type: none"><li>◆ Further enhance our existing strengths through a storage leader strategy (data-centric model)</li><li>◆ Log management, backups, archives, compression, encryption, BCP/DR</li></ul>

### **3. Strengthen management infrastructure to become a more attractive company**

◆ A company that appeals to stakeholders

(Customer satisfaction, shareholder satisfaction, employee satisfaction)

- Strengthen recruiting capabilities
- Enhance management infrastructure, strengthen management infrastructure for mid- to long-term support

### 3. Strengthen management infrastructure to become a more attractive company

## Priority measure (1) Strengthen personnel strategy

### Specific measure 1: Strengthen human resources

#### ⇒ Training programs

(Staged training, English-language courses, occupation-specific training, awareness unification training, overseas trainees)

#### ⇒ Specialist system

(Apply to sales and administrative functions)

### Specific measure 2: Create and implement action plan with aims of personnel diversity and a new working

### Specific measure 3: Implement brand strategy for enhancement of human resources

### 3. Strengthen management infrastructure to become a more attractive company



## Priority measure (2) Strengthen group management foundations

Specific measure 1: Strengthen business management functions

Specific measure 2: Complete Next.MI (next-generation information backbone system)

Specific measure 3: Continue to strengthen internal control systems

Specific measure 4: Further enhance CSR and compliance systems

Specific measure 5: Enhance group information infrastructure and security countermeasures

Specific measure 6: Reinforce and strengthen group business management system

### 3. Strengthen management infrastructure to become a more attractive company



## Priority measure (3) Establish a new CTC corporate culture

Specific measure 1: Formulate and develop CTC's new management philosophy

# CTC

▼ *Challenging Tomorrow's Changes*

**Your best engine**

A leading technology company