

Management's Discussion and Analysis of Results and Financial Condition

Consolidated Business Performance

In fiscal 2008, ended March 31, 2009, in the telecommunications industry, CTC moved aggressively in response to system development projects related to next-generation network business, including NGNs and WiMAX, and to projects that demonstrated increased data traffic. CTC also commenced a new business that supports the construction and operation of systems for mobile virtual network operators (MVNO) wishing to provide original wireless services with wireless communications equipment leased from mobile network operators. In the financial industry, amid a general trend of restrained investment, we focused on projects involving the construction of market and risk management systems centered on large financial institutions as well as projects involving call centers. In the manufacturing and distribution industries, we concentrated on business that integrates large-scale infrastructure using virtualization technologies, reconstructed infrastructure systems and expanded our information management and analysis system and operating services. In the public sector, our consulting business steadily expanded its portfolio with seismic analysis services for such large structures as nuclear facilities and for our new energy business, which includes wind power and solar energy. We also made good progress in our business operations aimed at the central government and municipalities.

As a result, consolidated net sales in fiscal 2008 slipped 3.8% compared with the previous fiscal year, to ¥307.3 billion. This was attributable to a downturn in hardware sales, primarily servers, in the wake of investment restraints resulting from declining corporate performance and infrastructure investments having run their course. By business segment, sales in the System segment dropped 5% to ¥234.2 billion due mainly to decreased product sales and fewer large-scale development projects. Operating income fell 24.1% to ¥10.2 billion on the back of declining revenues and rising expenses. In the Support segment, thanks to business stability and the operation of a new data center, sales rose 0.6% to ¥73.0 billion and operating income increased 0.1% to ¥24.6 billion.

Gross profit on sales decreased ¥0.1 billion, or 0.2%, to ¥80.3 billion due mainly to decreased revenue. As a result of increased earnings from Service segment expansion and successful business growth from emphasizing higher added value, the gross profit margin improved 0.9 of a percentage point, from 25.2% to 26.1%, which is a new record.

Selling, general and administrative expenses increased ¥3.2 billion, or 5.8%, to ¥58.6 billion, primarily owing to higher costs from an increased number of employees, especially new college graduates, and the reconstructing of internal systems.

With an improved gross profit margin failing to absorb the higher expenses associated with efforts to fortify CTC's business foundation, operating income dropped ¥3.3 billion, or 13.3%, to ¥21.7 billion. The operating income ratio declined 0.7 of a percentage point, from 7.8% to 7.1%.

The CTC Group posted other expenses totaling ¥0.2 billion, compared with other income, net, totaling ¥0.3 billion in the previous fiscal year. Such contributions as the net gain on sales of investment securities were offset by a decrease of equity in earnings of associated companies, as well as increases in the loss on equity in earnings of limited partnerships, loss on sales of investment securities and loss on retirement of long-term assets.

As a result of these factors, income before income taxes and minority interests decreased ¥3.8 billion, or 14.9%, to ¥21.5 billion.

Total income taxes (corporate taxes, inhabitants' taxes and adjustments for corporate and other taxes) decreased ¥1.3 billion from the previous fiscal year, or 13.7%, to ¥8.5 billion. Minority interests in net income totaled ¥0.9 billion, an increase of ¥54 million, or 149.8%, compared with the previous fiscal year.

As a result of the aforementioned, net income declined ¥2.5 billion, or 16.1%, to ¥12.9 billion.

Financial Position

As of March 31, 2009, consolidated total assets amounted to ¥227.5 billion, an increase of ¥9.4 billion, or 4.3%, from the end of the previous fiscal year.

Total current assets were ¥173.4 billion, a drop of ¥4.6 billion, or 2.6%, year on year. This was attributable to a ¥36.0 billion fall in securities, mainly commercial paper, that offset a 17.2 billion increase in cash and cash equivalents, a ¥2.8 billion increase in inventories and a ¥6.7 billion pickup in money deposits.

Total non-current assets—the sum of net property and equipment and total investments and other assets—amounted to ¥54.1 billion, an increase of ¥14.0 billion, or 35.0%. This was primarily due to a ¥17.4 billion increase in property and equipment stemming from the purchase of land and buildings for a new data center in Mejirozaka and existing data centers in Yokohama and Kobe, which overshadowed the ¥2.9 billion decrease in total investments and other assets due to slackening market growth.

Total liabilities were ¥79.7 billion, an increase of ¥7.3 billion, or 10.1% year on year, mainly due to an ¥8.6 billion jump in lease obligations.

Total equity was ¥147.8 billion, an increase of ¥2.1 billion, or 1.4%, year on year, mainly due to a ¥2.8 billion surge in shareholders' equity resulting from strong earnings. In addition, because the increase in total assets exceeded the increase in shareholders' equity, the equity ratio declined 1.9 percentage points, from 66.6% to 64.7%.

Cash Flows

During fiscal 2008, cash and cash equivalents decreased ¥13.7 billion from the previous fiscal year to ¥57.2 billion.

Net cash provided by operating activities totaled ¥11.3 billion. Major components were net outflows of ¥3.4 billion for trade receivables and payables and a ¥2.8 billion increase in inventories, as well as such inflows as ¥21.5 billion in income before income taxes and minority interests and ¥4.5 billion in depreciation and amortization. Compared with the previous fiscal year, net cash provided by operating activities increased ¥0.8 billion. Major factors contributing to this change included the ¥3.8 billion decrease in income before income taxes and minority interests, a

¥1.5 billion increase in spending on inventories, a ¥1.4 billion surge in depreciation and amortization and a ¥4.4 billion net decrease in spending on trade receivables and payables.

Net cash used in investing activities amounted to ¥13.8 billion. This was primarily due to purchases of property and equipment totaling ¥13.5 billion. For comparison purposes, net cash used in investing activities showed a ¥17.4 billion negative turnaround from cash provided year on year due mainly to a ¥10.9 billion increase in purchases of property and equipment, which offset a ¥3.0 billion decline in purchases of intangible assets, as well as an ¥8.9 billion decrease in proceeds from deposits other than cash equivalents.

Net cash used in financing activities amounted to ¥11.1 billion. Major components included repurchases of treasury stock totaling ¥5.0 billion and dividend payments totaling ¥5.2 billion. Compared with the previous fiscal year, net cash used in financing activities rose ¥1.0 billion due primarily to the repayment of long-term lease obligations totaling ¥0.9 billion.

Return to Shareholders

The CTC Group recognizes returning profits to shareholders as a preeminent management issue. In line with this principle, the Company works to secure stable dividend payments and constantly improve dividend levels, while optimizing the balance between its business performance, internal reserves and the actual amount distributed to shareholders. The Company shall, in principle, pay out interim and year-end dividends every year. Year-end dividends are subject to resolutions made by the General Meeting of Shareholders, while interim dividends are subject to resolutions made by the Board of Directors.

For the fiscal year under review, the Company resolved to pay out a full-year cash dividend of ¥80 per share of common stock, of which ¥40 was paid out as an interim dividend, with due consideration given to its financial position and business performance. As a result, the consolidated payout ratio improved from 34.4% in the previous fiscal year to 40.2%.

Consolidated Balance Sheets

ITOCHU Techno-Solutions Corporation and Subsidiaries
March 31, 2008 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2009	2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 70,977	¥ 57,238	\$ 582,518
Short-term investments (Note 3)	1,529	3,192	32,491
Receivables:			
Trade	63,918	64,791	659,386
Associated companies	224	82	831
Other (Note 12)	1,574	3,660	37,251
Allowance for doubtful receivables	(124)	(16)	(167)
Inventories (Note 5)	21,434	24,232	246,616
Deferred tax assets (Note 10)	6,979	7,060	71,850
Prepaid expenses and other current assets	11,538	13,166	133,989
Total current assets	178,049	173,405	1,764,765
PROPERTY AND EQUIPMENT:			
Land (Note 15)	1,698	6,391	65,046
Buildings and structures (Note 15)	13,033	20,955	213,260
Furniture and fixtures (Note 15)	7,297	7,908	80,479
Lease assets	—	7,133	72,590
Total	22,028	42,387	431,375
Accumulated depreciation	(7,697)	(10,700)	(108,898)
Net property and equipment	14,331	31,687	322,477
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	5,346	3,424	34,841
Investments in and advances to associated companies	986	932	9,487
Software (Note 6)	5,999	5,319	54,135
Leasehold deposits	6,984	7,193	73,205
Prepaid pension cost (Note 7)	2,653	2,202	22,413
Deferred tax assets (Note 10)	520	1,563	15,904
Other assets (Note 6)	3,224	1,731	17,612
Total investments and other assets	25,712	22,364	227,597
TOTAL	¥218,092	¥227,456	\$2,314,839

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2009	2009
CURRENT LIABILITIES:			
Current portion of long-term lease obligations	¥ —	¥ 2,340	\$ 23,811
Payables:			
Trade (Note 15)	28,728	26,163	266,259
Associated companies	189	99	1,005
Other	8,072	7,224	73,523
Income taxes payable	7,649	7,305	74,349
Accrued expenses	7,494	6,262	63,734
Unearned income	15,673	16,871	171,694
Other current liabilities	3,476	6,344	64,563
Total current liabilities	71,281	72,608	738,938
LONG-TERM LIABILITIES:			
Long-term lease obligations	—	6,214	63,241
Long-term accounts payable	369	273	2,774
Liability for retirement benefits (Note 7)	266	294	2,990
Deferred tax liabilities (Note 10)	149	82	837
Other long-term liabilities	315	216	2,203
Total long-term liabilities	1,099	7,079	72,045
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12, 13 and 14)			
EQUITY (Notes 8 and 17):			
Common stock—authorized, 246,000,000 shares; issued, 67,000,000 shares in 2008 and 66,000,000 shares in 2009	21,764	21,764	221,490
Capital surplus	33,076	33,076	336,617
Retained earnings	94,100	98,132	998,702
Net unrealized gain on available-for-sale securities	768	175	1,782
Deferred loss on derivatives under hedge accounting	(7)	(2)	(18)
Foreign currency translation adjustments	(1)	(94)	(959)
Treasury stock—at cost, 1,234,897 shares in 2008 and 1,970,165 shares in 2009	(4,527)	(5,806)	(59,093)
Total	145,173	147,245	1,498,521
Minority interests	539	524	5,335
Total equity	145,712	147,769	1,503,856
TOTAL	¥218,092	¥227,456	\$2,314,839

Consolidated Statements of Changes in Equity

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years Ended March 31, 2008 and 2009

	Thousands				Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2007	66,838	¥21,764	¥34,258	¥87,217	¥781	¥ 6	¥ 30	¥ (4,129)	¥139,927	¥564	¥140,491
Net income				15,420					15,420		15,420
Appropriations—Cash dividends, ¥80.00 per share				(5,332)					(5,332)		(5,332)
Repurchase of treasury stock	(1,141)							(4,977)	(4,977)		(4,977)
Sale of treasury stock	68		17	(2)				220	235		235
Cancellation of 1,300,000 shares of treasury stock			(1,199)	(3,160)				4,359			
Decrease of retained earnings due to the exclusion of associated company				(51)					(51)		(51)
Other				8					8		8
Net change in the year					(13)	(13)	(31)		(57)	(25)	(82)
BALANCE, MARCH 31, 2008	65,765	¥21,764	¥33,076	¥94,100	¥768	¥ (7)	¥ (1)	¥ (4,527)	¥145,173	¥539	¥145,712
Net income				12,936					12,936		12,936
Appropriations—Cash dividends, ¥80.00 per share				(5,232)					(5,232)		(5,232)
Repurchase of treasury stock	(1,743)							(4,973)	(4,973)		(4,973)
Sale of treasury stock	8			(7)				29	22		22
Cancellation of 1,000,000 shares of treasury stock				(3,665)				3,665			
Net change in the year					(593)	5	(93)		(681)	(15)	(696)
BALANCE, MARCH 31, 2009	64,030	¥21,764	¥33,076	¥98,132	¥175	¥ (2)	¥(94)	¥(5,806)	¥147,245	¥524	¥147,769

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2008	\$221,490	\$336,617	\$957,662	\$7,818	\$ (74)	\$ (9)	\$(46,068)	\$1,477,436	\$5,487	\$1,482,923
Net income			131,655					131,655		131,655
Appropriations—Cash dividends, \$0.81 per share			(53,245)					(53,245)		(53,245)
Repurchase of treasury stock							(50,616)	(50,616)		(50,616)
Sale of treasury stock			(71)				292	221		221
Cancellation of 1,000,000 shares of treasury stock			(37,299)				37,299			
Net change in the year				(6,036)	56	(950)		(6,930)	(152)	(7,082)
BALANCE, MARCH 31, 2009	\$221,490	\$336,617	\$998,702	\$1,782	\$(18)	\$(959)	\$(59,093)	\$1,498,521	\$5,335	\$1,503,856

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years Ended March 31, 2008 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2009	2009
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 25,281	¥ 21,510	\$ 218,904
Adjustments for:			
Income taxes—paid	(8,813)	(9,767)	(99,394)
Depreciation and amortization	3,160	4,542	46,228
Reversal of allowance for doubtful receivables	(94)	(96)	(971)
Reversal of accrued bonuses to employees	(549)	(779)	(8,130)
Reversal of accrued bonuses to directors and corporate auditors	(84)	(35)	(354)
Provision for accrued retirement benefits to employees	9	28	281
Equity in (earnings) loss of limited partnership	(95)	301	3,065
Gain on sales of investment securities—net	(124)	(248)	(2,528)
Gain on sales of investment securities of the associated company	(107)	—	—
Loss on write-down of investment securities	840	347	3,527
Equity in earnings of associated companies	(239)	(71)	(721)
Changes in assets and liabilities:			
Increase in receivables—trade	(4,824)	(873)	(8,884)
Increase in inventories	(1,321)	(2,798)	(28,479)
Increase in other current assets	(692)	(3,944)	(40,138)
Decrease in payables—trade	(2,894)	(2,565)	(26,108)
Increase in other current liabilities	715	5,392	54,873
Other—net	318	374	3,812
Total adjustments	(14,794)	(10,212)	(103,921)
Net cash provided by operating activities	¥ 10,487	¥ 11,298	\$ 114,983
INVESTING ACTIVITIES:			
Proceeds from sales of investment securities	990	910	9,264
Purchases of investment securities	(321)	(573)	(5,831)
Proceeds from sales of investment securities of an associated company	238	—	—
Purchases of property and equipment	(2,604)	(13,544)	(137,839)
Purchases of intangible assets	(3,880)	(912)	(9,281)
Decrease in deposits other than cash equivalents	9,197	322	3,273
Other—net	(42)	(10)	(104)
Net cash provided by (used in) investing activities	3,578	(13,807)	(140,518)
FINANCING ACTIVITIES:			
Repayment of long-term lease obligations	(55)	(922)	(9,381)
Proceeds from sales of treasury stock	236	22	221
Repurchases of treasury stock	(4,984)	(4,981)	(50,696)
Dividends paid	(5,328)	(5,230)	(53,224)
Dividends paid to minority in a subsidiary	(7)	(26)	(263)
Net cash used in financing activities	(10,138)	(11,137)	(113,343)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	(33)	(93)	(946)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,894	(13,739)	(139,824)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	67,083	70,977	722,342
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 70,977	¥ 57,238	\$ 582,518

See notes to consolidated financial statements.