



# Revitalizing CSK Group

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CSK HOLDINGS CORPORATION

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# 1. Implementing the CSK revitalization program

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## ■ Group revitalization: now at the start line

### Reducing financial risk

Withdrawal from the real estate securitization business

Sold all shares and loans receivable from CSK Finance to ACA Properties

### Stabilizing financial structure

ACA Investments:

Subscribed to approximately ¥16.0 bn of preferred shares and new share subscription rights (exercise value ¥6.0 bn)

Main banks:

Issuance of ¥30.0 bn of preferred shares in debt equity swap

Repayment of ¥7.5 bn of short-term debt and refinancing ¥50.0 bn to long term



Offsetting impact on capital from loss on withdrawal from real estate securitization business through ¥46.0 bn of capital increase and DES

# 1. Implementing the CSK revitalization program

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## ■ Group revitalization: now at the start line

### Selectivity and focus

Concentrating on IT services business

Focusing on systems integration, systems management and BPO

Assessing viability and potential of non-profitable operations with view to sale as appropriate

Disposing of real estate securitization business

Withdrawing from securities business and other financial services businesses

Planning to sell Cosmo Securities in appropriate circumstances

Withdrawing from, selling or downsizing other financial services

### Rebuilding governance system

Complete new team of directors and auditors for a fresh start

Establishing an executive officer meeting that includes the presidents of core Group companies in systems integration, systems management and BPO

⇒ Targeting “swift decision-making” and “optimal management monitoring”

## 2. Basic revitalization policy

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### ■ Basic policy on CSK Group revitalization

#### The CSK Group of the future

We intend to become a corporate group that provides customers with critical, highly optimized services that are constantly aligned with their needs, with the aim of achieving sustainable growth and development.

We aim to achieve an operating profit in the year to March 2010 and a stable earnings structure by the year to March 2011, and will undertake comprehensive business improvements and cost structure reform with the goal of securing operating income in the medium term of ¥10.0 to ¥15.0 billion.

#### Rebuilding the CSK brand

We will strive to rebuild the CSK brand, aiming to restore the trust of stakeholders that has been lost in the management crisis while turning around our performance in IT services business and restoring our ability to achieve growth.

#### CSK Group growth strategy

We will position systems integration, systems management and BPO—all of which have been the historic basis of our customer relationships and business development—as our business pillars, aiming to strengthen each business area, develop new opportunities in tune with the times, and achieve sustainable growth.

### 3. Rebuilding the CSK brand

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#### ■ Toward a stronger CSK brand

##### Restore trust

Take steps to rebuild trust in CSK Group lost in the management crisis

⇒ **Steadily implement and reach goals of revitalization plan**

- Clarify business domain by concentrating on IT services
- Reconstruct governance system to enable highly transparent management
- Reduce interest-bearing debt and strengthen financial position

##### Restore profitability

Target operating income margin of 7%

⇒ **Reform cost structure to restore profitability and establish stable earnings structure**

- Shift to lean management (pursue comprehensive reform of cost structure)
- Lift productivity to decrease systems development and management costs
- Significantly cut indirect costs through improving operational processes

##### Restore growth

Target a sales growth rate of 5%

⇒ **Create new growth in 3 core areas: Systems integration, systems management and BPO**

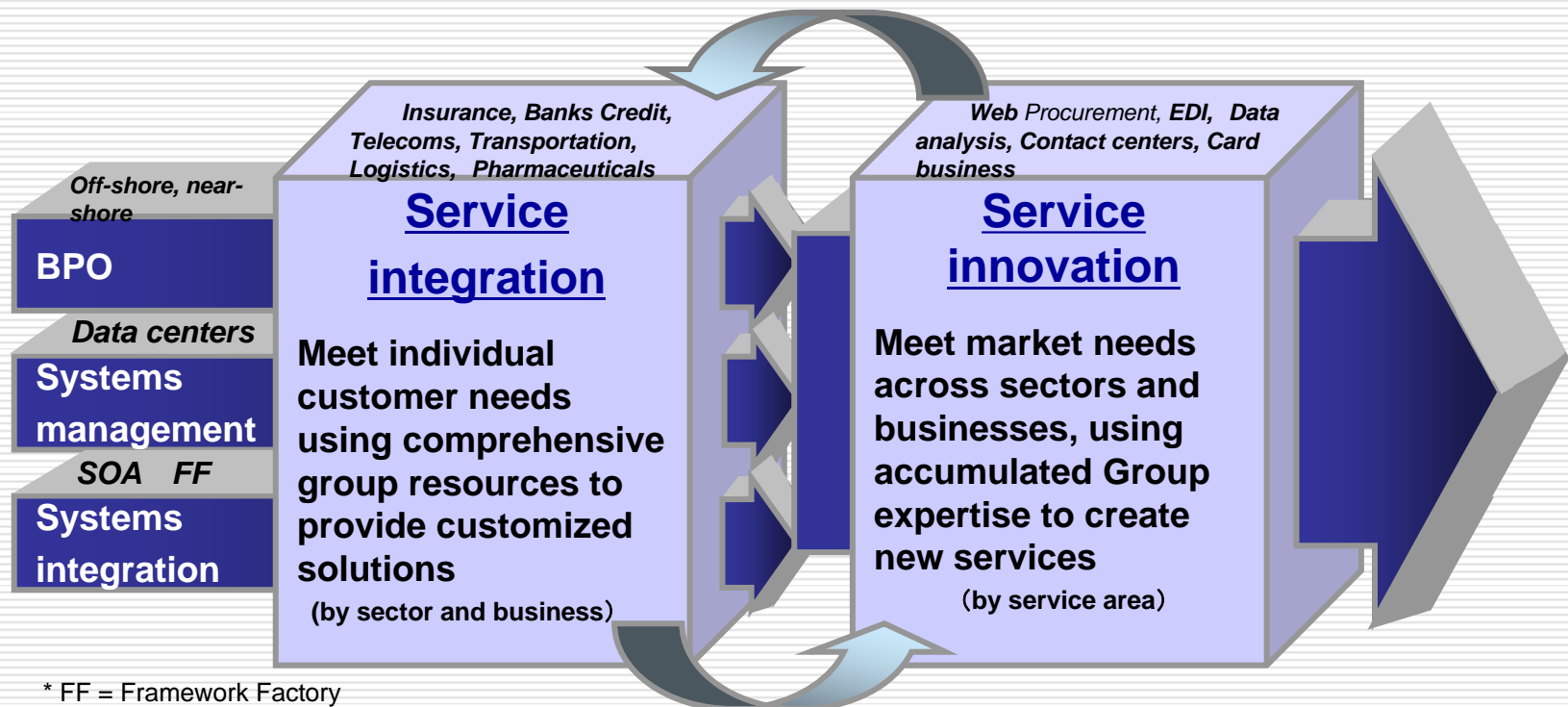
- Boost competitiveness of each business through lifting service quality
- Develop new market-responsive services and improve proposal sales
- Develop new business through activities between similar operations in different industries

## 4. CSK Group business policy

### ■ Services provided by CSK Group

Focusing on systems integration, systems management and BPO, strengthen customized services for individual clients while driving growth with market-responsive new services, looking to achieve synergies between both business streams.

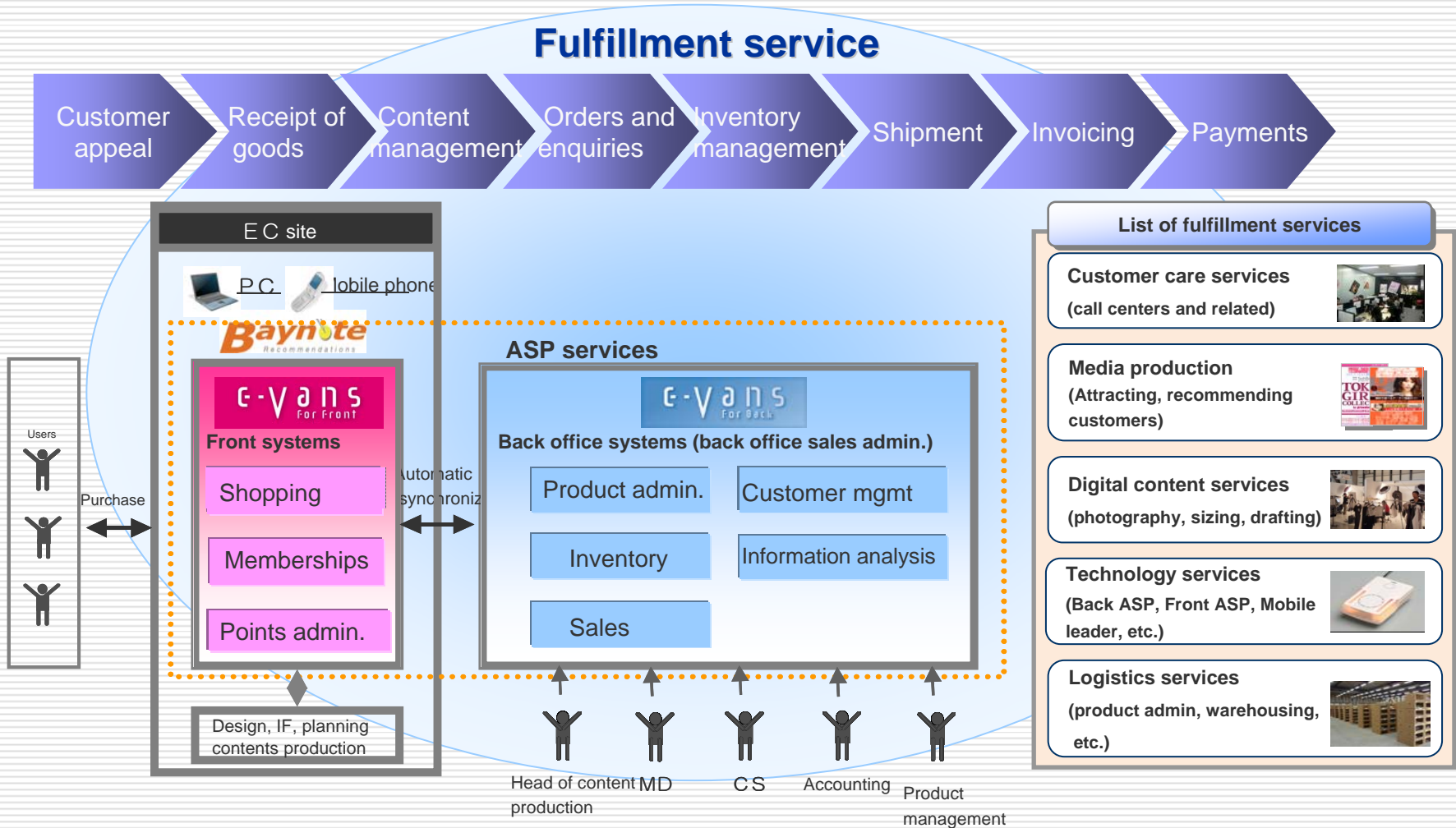
Our value offering will be founded on *precise, dedicated service* and *close alignment with today's needs*.



# 4. CSK Group business policy

## Service example 1: EC total outsourcing

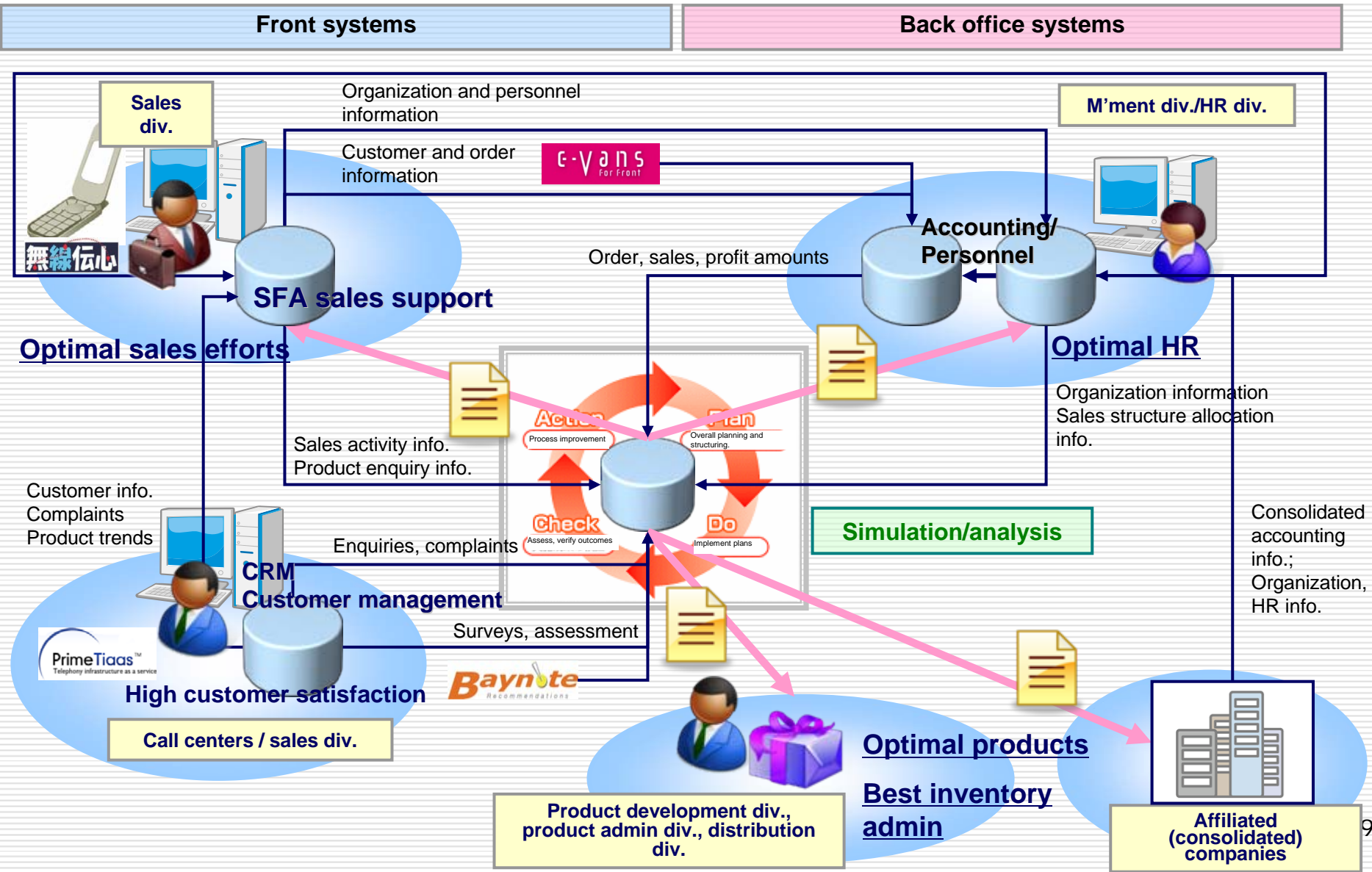
Our fulfillment services cover every step of the process, from front office functions such as bringing customers to the appropriate e-commerce site, shipment, inventory control and settlement, and all back office functions.





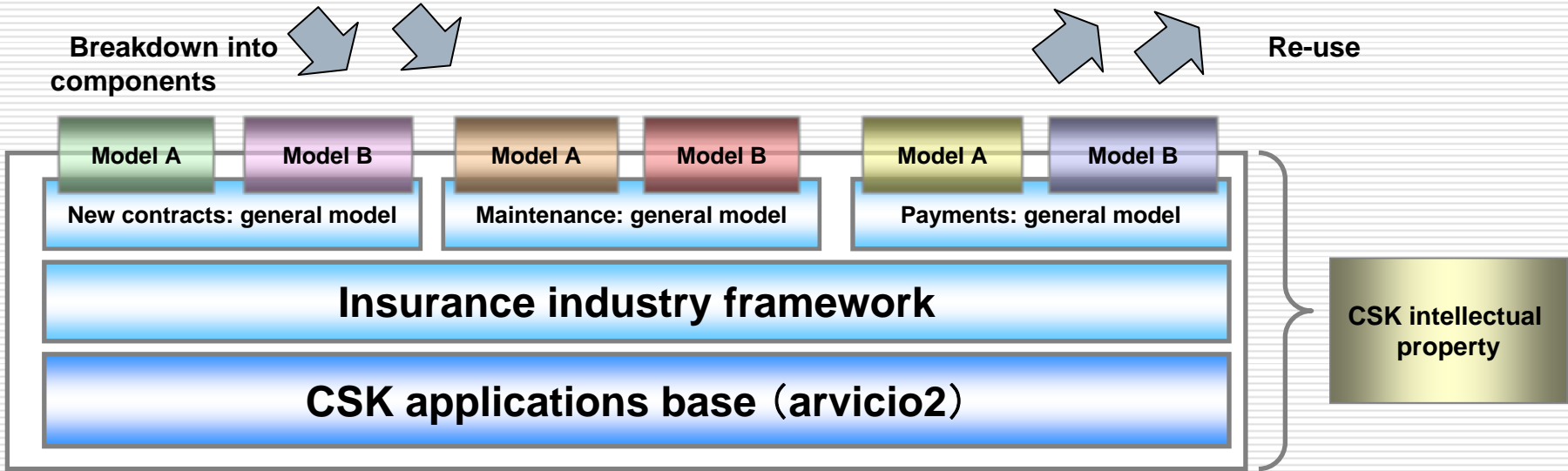
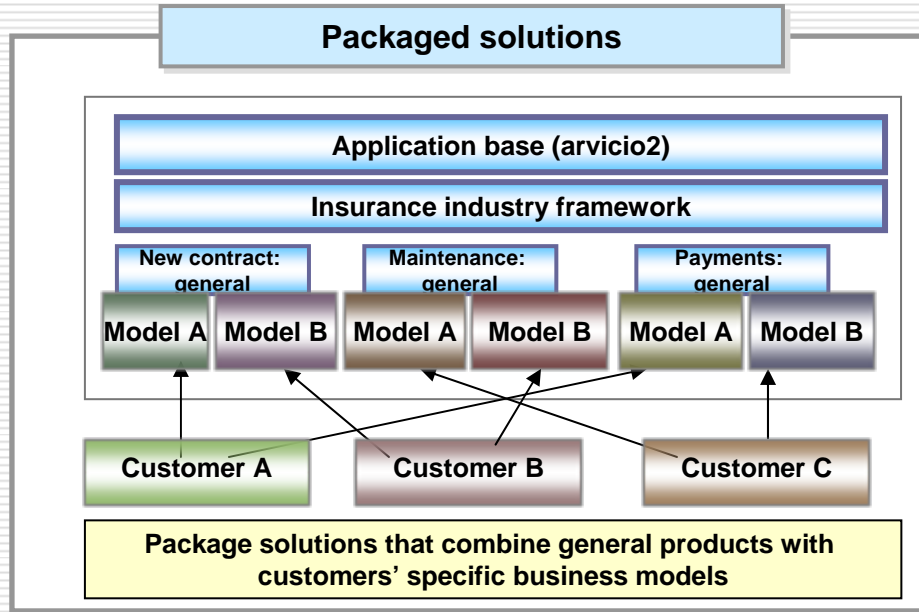
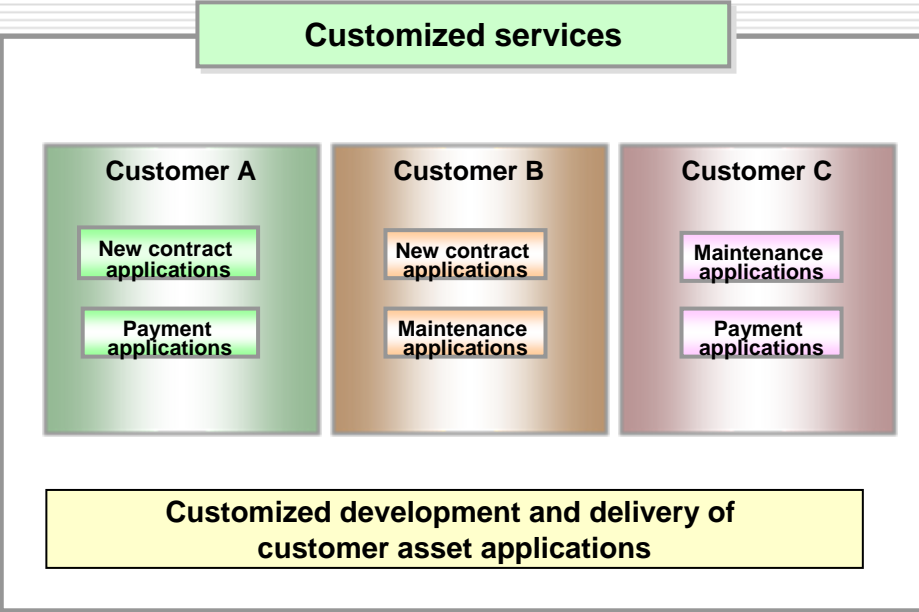
# 4. CSK Group business policy

## Service example 2: Solutions for the distributive industry



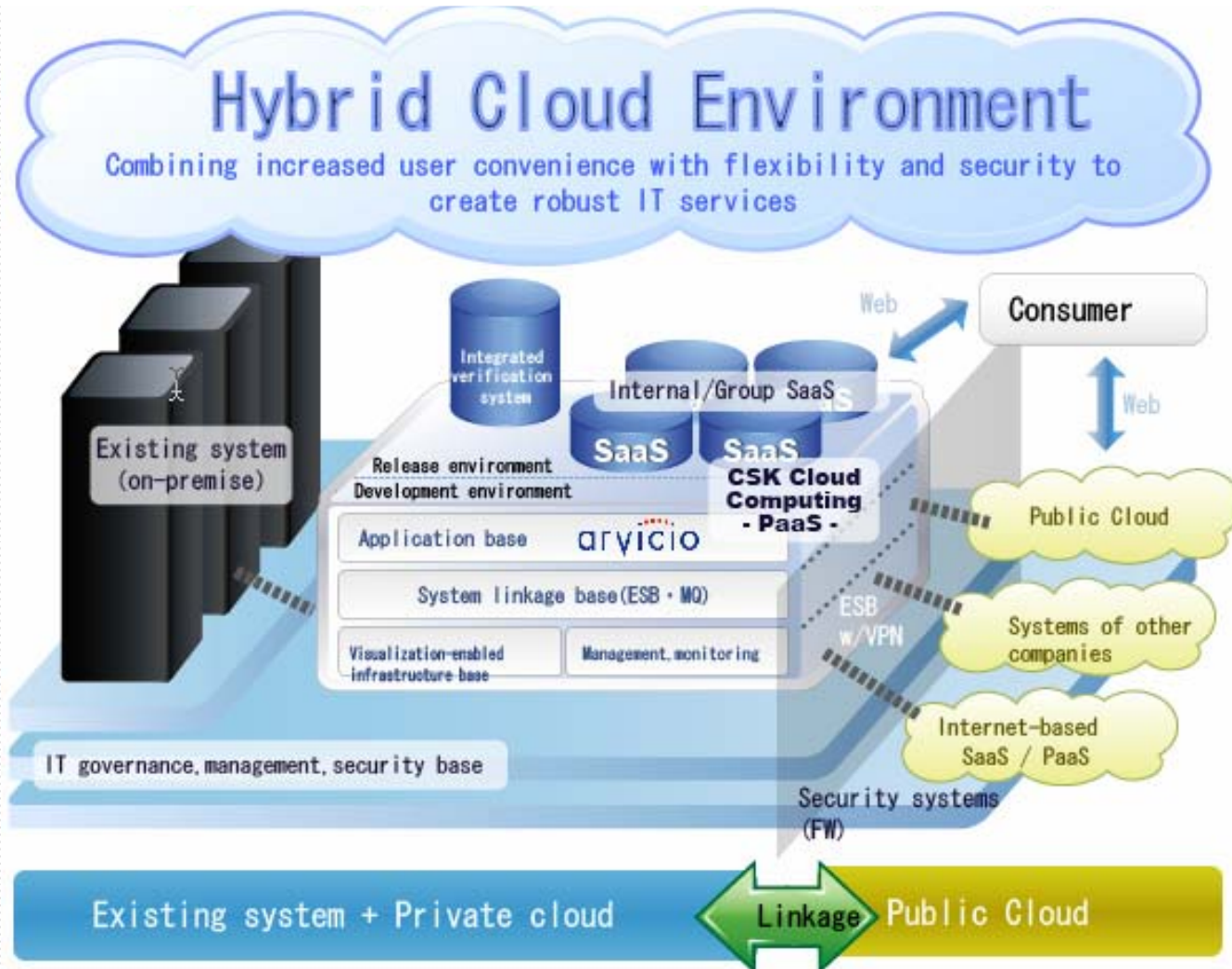
# 4.CSK Group business policy

## Service example 3: Insurance industry solutions



## 4. CSK Group business policy

### ■ Service example 4: Data center operations



# 4. CSK Group business policy

## Off-shore and near-shore (domestic regional) operations

### ① Actively use off-shore (China) locations

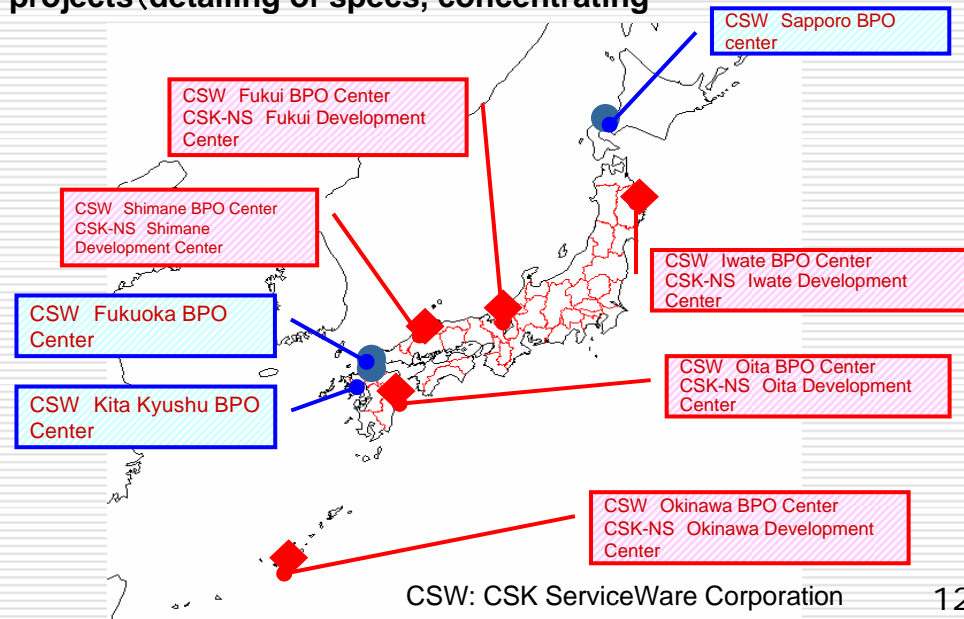
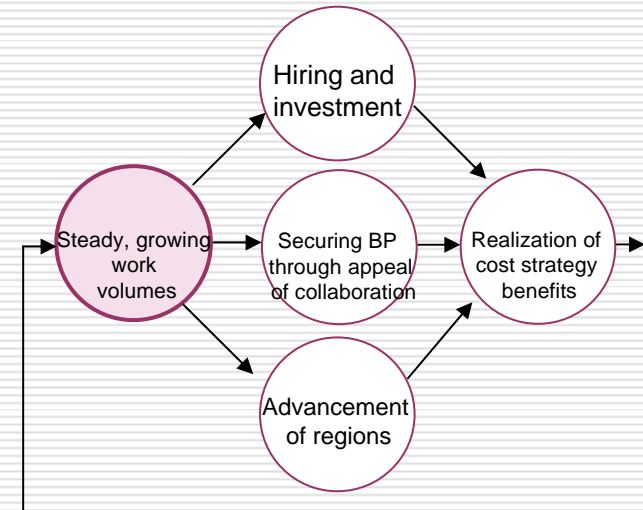
- Use CSK's BPO location in Dalian as systems integration site, in addition to existing Shanghai site

### ② Jointly use off-shore (China) and near-shore (domestic)

- Match product quality and operational skills with customer requirements and optimize use of different locations
- Diversify risks associated with changing circumstances in China (rising pay rates, regulations, socio-economics, HR mobility, etc.)

### ③ Utilize distinct capabilities of near-shore operations

- Handle difficult or complex projects needing Japanese skills, knowledge and/or processes
- Use in projects requiring fast flexible response and frequent consultations, etc.
- Perform intermediary elements of low-cost offshore projects (detailing of specs, concentrating enquiries to boost proficiency)



CSW: CSK ServiceWare Corporation

CSK-NS: CSK Nearshore Systems Corporation

## 4. CSK Group business policy

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### ■ Basic approach to business development

#### **Strengthen competitiveness position and increase differentiation**

Focusing on the three business pillars of systems integration, systems management and BPO, reform services to develop as a highly competitive, differentiated company achieving sustainable growth

**Key issues in each business area:**

- **Systems integration:** Comprehensively improve price and competitiveness and productivity
- **Systems management:** Expand scale and lift profitability of data centers
- **BPO:** Develop differentiated operational arena and expand scale

#### **Pursue Group alliances and collaboration**

Boost group alliances and collaboration to expand business scale

**Action points:**

- **Strengthen sales to core customers (cross sell to largest customer groups)**

#### **Develop No. 1 services**

Based on our three business areas, use CSK's accumulated experience and skills to develop leading new services that can become future earning pillars

**Action points:**

- **Undertake strategic business development**
- **Develop products; monetize intellectual property in technology, skills and service**
- **Create operational alliances between and within different operating areas**

## 4. CSK Group business policy

### ■ Market growth trends and CSK Group business development

Sector (% total sales)	Growth rate (2009→2010)	Market trends	CSK situation and initiatives
<b>Finance (34.1%)</b>	<b>Showing some recovery</b> Minus 2.5% → minus 0.9%	<b>Banks, trust banks:</b> <ul style="list-style-type: none"> <li>• Limited new projects but some work targeting profitability, customer acquisition and operational efficiency</li> </ul> <b>Credit, consumer loans</b> <ul style="list-style-type: none"> <li>• Active SI and upgrading</li> <li>• BPO expanding (comprehensive operational centers)</li> </ul> <b>Insurance</b> <ul style="list-style-type: none"> <li>• Management integration from industry restructuring</li> <li>• Responding to new financial products and insurance laws</li> </ul>	<b>Banks, trust banks:</b> <ul style="list-style-type: none"> <li>• Winning business in foreign banks, settlement, forex operations, etc.</li> <li>• Strengthening systems for regulatory revisions</li> </ul> <b>Credit, consumer loans</b> <ul style="list-style-type: none"> <li>• Good project sales ability; looking to expand scope to include maintenance (next generation systems)</li> </ul> <b>Insurance</b> <ul style="list-style-type: none"> <li>• Growing business in core systems renewal</li> <li>• Looking to build on existing strengths with systems replacement and management integration projects</li> </ul>
<b>Distribution, services (21.7%)</b>	<b>Flat</b> 0.3% → 0.6%	<ul style="list-style-type: none"> <li>• Weak market is restricting IT spend</li> <li>• EDI, electronic data progression speed is flattening</li> <li>• Packaged and SW installs increasing</li> <li>• Potential investment to strengthen customer marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Expanding marketing to priority distribution customers; targeting horizontal sales of proven existing systems; promoting ASP</li> <li>• Have begun investing to develop business with educational institutions with Dream Campus credit management system, expanding sales opportunities</li> <li>• Promoting services for EC operations (CSK PRESCENDO, Baynote)</li> </ul>
<b>Communications (8.9%)</b>	<b>Recovering</b> Minus 0.4% → plus 0.5%	<ul style="list-style-type: none"> <li>• Major emerging themes include: <ul style="list-style-type: none"> <li>-IP base in next gen. core system (main frame) N/W</li> <li>-Integration of operations-type core systems</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3 major carriers ⇒ expanding transaction scale</li> <li>• New carriers ⇒ proposing service-type system outsourcing</li> <li>• Planning to target opportunities arising from diversification of wireless transmission</li> </ul>
<b>Manufacturing (24.0%)</b>	<b>Unclear</b> Minus 3.8% → minus 1.9%	<ul style="list-style-type: none"> <li>• Sustained high yen, weak domestic and foreign markets putting pressure on earnings; IT spending may fall</li> <li>• Potential for pick-up if global demand or large-scale M&amp;A emerges</li> </ul>	<ul style="list-style-type: none"> <li>• Working to understand customer investment scope and focus marketing on key areas</li> <li>• Developing manufacturing support series (RFID) (Chubu)</li> </ul>

Source: Based on Gartner, September 2009; Outlook for Japanese IT service sector by industry (moderate case)

## 4. CSK Group business policy

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### ■ CSK Group initiatives

#### Strategic development to increase sales to financial institutions

- Aim to generate orders in this high potential area through strategic personnel placements and pricing initiatives
  - Reconstruction of non-life insurance accounting systems
  - Upgrading of major banking group systems, etc.

#### eCommerce total outsourcing services

- Refer customers and produce content for operations and various systems issues relating to EC operations, offering one-stop solutions for logistics, customer care, technology, etc.
- With EC total outsourcing, provide total management of the EC operational flow, enabling high-quality customer services and optimizing customers' overall EC operations.

#### Leveraging institutional knowledge in new product development

- Savings account monitoring system, "BankSavior"
- Financial market information service, "MarketViewer"
- Education business products, "DreamCampus", "BeeDance"
- ASP services for distribution business, "CRIPS", "CHOIS"
- ASP-type contact center platform service, "PrimeTiaas", etc.

## 5. Second-half initiatives (year ending March 31, 2010)

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### ■ Initiatives for second half of current year

#### Short-term cost reduction measures

##### Control property expenses:

Reduce office rental fees and other costs

##### Control consignment costs:

Continue shift from business partners to regular employees

##### Control personnel expenses:

Further reduce officer compensation; reduce contract employees; restrict bonuses for managers and general employees; consider furlough system

### ■ Initiatives for next year and beyond

#### Comprehensive qualitative improvement and structural reform

##### Strengthen organizational/personnel resources

Adopt new HR system and early retirement scheme (career option program)

##### Measures to reduce costs:

Review outside vendor costs, review off-shore/near-shore strategy, adopt strategies to boost productivity in each business area

##### Reduce SG&A:

Review headquarters/staff functions (optimize headquarter functions, eliminate administrative duplication).

Hold down rental fees through a consolidation of offices and service outlets.



## 6. Group restructuring

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### ■ Reorganization of CSK SYSTEMS Group

**Planned integration in April 2010 of CSK SYSTEMS CORPORATION, CSK SYSTEMS NISHINIHON and CSK SYSTEMS CHUBU**

#### **Aims:**

**Drive sales of systems management and BPO as the core systems integration company, while facilitating Group collaboration by providing integrated services across the three business areas, clarifying our leadership in the information services industry.**

**Expand operational scale to achieve higher business process efficiency and promote cost structure reform.**

### ■ Reduce costs by optimizing head office staff functions

#### **Aim:**

**Review head office staff functions of holding company, administration services and each operating company, integrating and rationalizing to optimize functions as an information services-based business structure and reduce costs.**

# 7. Revitalization planning roadmap

2009/9	2009/10	2009/11	2009/12	2010/1	2010/2	2010/3	2010/4	
<p><b>Reduce financial risk</b></p> <p>Reduce risk in financial services business</p> <ul style="list-style-type: none"> <li>• Sell real estate securitization business</li> <li>• Withdraw from other financial service businesses</li> </ul> <p>Stabilize financial position:</p> <ul style="list-style-type: none"> <li>• ¥30 bn DES with financial institutions</li> <li>• Long-term refinance of ¥50 bn short-term loans</li> <li>• ¥16 bn capital increase from ACA</li> </ul>								
<p><b>Strengthen governance system</b></p> <p>Establish executive officer meeting</p> <ul style="list-style-type: none"> <li>• Rapid decision-making</li> <li>• Strong management monitoring</li> </ul> <p>Establish Corporate Turnaround</p> <ul style="list-style-type: none"> <li>• Revitalization planning</li> </ul>								
<p><b>Formulation of revitalization plans to 2009/11</b></p> <ul style="list-style-type: none"> <li>• Basic revitalization policy</li> <li>• Management policy, business policy</li> <li>• 3/2010 initiatives</li> <li>• Group restructuring options</li> </ul>			<p><b>to 2009/12</b></p> <ul style="list-style-type: none"> <li>• Outline mid-term plan</li> <li>• Plan for FY3/2011</li> <li>• Revise Group management system (announcing 2/2010)</li> </ul>		<p><b>to 2010/3</b></p> <ul style="list-style-type: none"> <li>• Group company mid-term business plans</li> <li>• Group company 3/2011 business plans</li> <li>• Individual strategic plans (announcing 5/2010)</li> </ul>			<p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>Start of new year to achieve revitalization plans</b></p>

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