

Results of Operations for 2nd Quarter of Fiscal Year Ending March 2018

Tooru Tanihara
President

SCSK Corporation
October 30, 2017

Greetings, my name is Tooru Tanihara, the president of SCSK Corporation. I would like to thank you for joining us today for this financial results briefing meeting.

(Billions of Yen)

	Apr. 2016- Sep. 2016	Apr. 2017- Sep. 2017	Increase/Decrease	
			Amount	%
Net Sales	157.4	163.4	6.0	3.8%
Operating Profit	14.7	13.2	-1.4	-9.8%
Ordinary Profit	15.7	14.2	-1.5	-9.6%
Net Profit Attributable to Owners of Parent	13.2	12.0	-1.2	-9.4%

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Let us start our discussion of performance in the six-month period ended September 30, 2017. As shown, net sales increased by 6 billion year-on-year to 164.4 billion yen, while operating profit were down by 1.4 billion to 13.2 billion, and ordinary profit, down by 1.5 billion to 14.2 billion, and profit attributable to owners of parent down by 1.2 billion to 12 billion.

CFO Fukunaga will go into this performance in more detail later on, but I would like to briefly explain some main points. Net sales were up year on year in businesses selling IT products to communications industry customers, among others. However, profit declined due to various factors. As one of these factors, we incurred higher expenses in association with the restructuring of SCSK's business portfolio, which included an increase in business investment costs for facilitating the shift toward service-oriented businesses and the development of strategic businesses. In addition, commencement of large-scale systems development projects for major financial institutions, including banks and insurance companies, were delayed longer than expected while the profitability of our business process outsourcing, or BPO, operations were down in comparison to the previous equivalent period.

Some of you probably remember the new systems development order from a securities industry customer that had a large impact on performance in the three-month period ended June 30, 2017. Although we were unable to conclude a contract for this order by June 30, we were successful in concluding this contract at the end of September. Accordingly, we were able to record the entire amount of sales associated with the upfront development expenses incurred during three-month period in the six-month period ended September 30, 2017. With the conclusion of the contract, this order has been completed.

As you know, SCSK's operating environment is currently characterized by a trend toward IT systems being viewed as a part of social infrastructure. Such systems have thus become indispensable to the efforts of customers to grow or strengthen their business. In the fiscal year ending March 31, 2018, we have been seeing brisk IT investment demand in all target customer industries, including the manufacturing, financial, and distribution industries. The deal flow from these industries was also strong, particularly with regard to strategic IT investment projects aimed at business expansion.

Given the aging population, declining birthrate, labor shortfalls, and other social trends, there is a significant need for IT investment to improve operational efficiency, particularly through labor savings. Demand is therefore rising among customers for cloud services in the infrastructure field and for various IT services in the application field. We are also seeing the emergence of upgrade demand for large-scale enterprise resource planning systems in the midst of upgrade demand for other IT infrastructure. Accordingly, we anticipate substantial, ongoing growth in IT demand among SCSK's more than 8,000 customers.

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However, the landscape of the IT market is not what it used to be, and we can no longer expect customers to bring us promising projects if we just wait. Rather, it is crucial that we forge trust-based business relationship with customers as IT partners by endeavoring to adopt their perspective, in the truest sense of the word, with regard to strategic IT investment and to work together with them in expanding their business. We must also employ sophisticated technologies in addressing customer needs. It is therefore essential for us to leverage the expertise and customer relationships we have developed to date and take advantage of cutting-edge technologies to propose systems that are beneficial to customers.

Meanwhile, our ability to address streamlining demand will hinge on whether or not we are successful in creating service-oriented businesses and uniting the entire organization in developing these businesses. If we are slow in furnishing responses to customer needs, we risk losing even those customers that been with SCSK for many years to the platform- and stock-type IT services of competitors. Such loses would diminish the foundations supporting our future growth.

We are therefore fully aware of the need to dedicate ourselves to accelerating the shift toward service-oriented businesses during the fiscal year ending March 31, 2018. Business investments associated with this shift may adversely impact performance through upfront costs and other causes, but we are prepared to make this sacrifice as these investments are vital. As a result of such business investments and business portfolio restructuring expenses, performance in the six-month period ended September 30, 2017, may seem to be in a temporary slump. We hope that you will recognize this slump as indicating our commitment to continually implementing the management strategies needed to achieve stable business growth in the future.

Revised Forecasts for FY2017 Reflecting Share Transfer of a Subsidiary

■ Previous Forecasts Released on 28th Apr. 2017 (%: Rate of Change, YOY)

Net Sales		Operating Profit		Ordinary Profit		Net Profit Attributable to Owners of Parent	
JPY B	%	JPY B	%	JPY B	%	JPY B	%
340.0	3.2	36.0	6.8	37.0	2.4	24.5	-13.9



■ Revised Forecasts ([] : Amounts Revised, %: Rate of Change, YOY)

Net Sales		Operating Profit		Ordinary Profit		Net Profit Attributable to Owners of Parent	
JPY B	%	JPY B	%	JPY B	%	JPY B	%
340.0 [No Change]	3.2	36.0 [No Change]	6.8	37.0 [No Change]	2.4	33.5 [+9]	17.7

I would now like to explain the trends we anticipate during the second half of the fiscal year ending March 31, 2018, as well as some topics pertaining to management and our full-year forecasts.

In terms of second-half trends, as stated, we anticipate a strong deal flow supported by a large appetite among customer companies for strategic investment and efficiency improvement investment.

Performance in second half of the fiscal year is projected to exceed our initial expectations. Trends supporting this performance will include the start of projects during the second half of the fiscal year, which will contrast the delays in large-scale projects with banks, insurance companies, and other major financial institutions seen during the first half of the fiscal year. In addition, we expect that we will continue to receive a steady flow of small-sized orders from the distribution industry while several new projects for the manufacturing industry start up. We also look forward to sales in service-oriented businesses growing in line with our initial forecasts. Furthermore, the factors leading to cost increase including business investment and other expenses will not be significantly large when compared to the previous equivalent period.

Accordingly, there have not been any noteworthy changes to our full-year forecasts for consolidated financial results which had been announced earlier:

Net Sales of 340 billion (year-on-year increase of 3.2%), Operating Profit of 36 billion (year-on-year increase of 6.8%), Ordinary Profit of 37 billion (year-on-year increase of 2.4%).

We will therefore target performance that coincides with our initial financial results forecasts.

I would now like to touch upon some topics pertaining to management with the potential to significantly impact SCSK's performance and financial position in the second half of the fiscal year ending March 31, 2018. At SCSK's board meeting held today, we decided to sell all the shares of QUO CARD Co., Ltd. to T-Gaia Corporation.

The closing date for the deal is set on December 1st, 2017, and the transaction will have huge impact on our financial results of 3rd quarter or later this fiscal year. Therefore, considering its impact, we decided to revise our forecasts for net income attributable to owners of parent for the year ending March 31, 2018 upward by 9 billion to 33.5 billion yen (year-on-year increase of 17.7%). This figure reflects the extraordinary income (gains on sales of investment securities). As for the details of the changes in our financial position caused by this transaction, CFO Fukunaga will explain to you later in his presentation. Although SCSK had been seeking synergy with QUO Card business, we reached a conclusion that because of its nature as B to C business, it would be difficult to generate significant growth if QUO Card stays within SCSK group.

Since Quo Card has strong brand recognition among consumers, we believe Quo Card would become better able to deploy a business model best suited for B-to C with T-Gaia. Further, as a member of T-Gaia group, which is engaged in consumer business under the umbrella of Sumitomo Corporation, Quo Card could leverage its status as a member of Sumitomo Corporation Group better in expanding its business further.

As for the funds procured through this transaction, we are thinking of allocating to future investments when opportunity arises in advancing core strategies. Specifically, the reinforcement of our operating foundations through new investments in the automotive systems business and other businesses and the expansion of the datacenter that we recently celebrated completion of in the Kansai region. Also, as has been stated previously, we are always considering M&A activities as a potential way to use funds should a beneficial opportunity present itself.

With this, I would like to conclude my discussion of second-half trends, management topics, and our full-year forecasts.

Transform Business Structure
 (to a non-labor-intensive business)
 Dynamic Growth Strategy
 Aiming to Achieve High Profit Growth

Core Strategies

- 1). Shift to service-oriented businesses
- 2). Promote strategic businesses that capture the changing times
- 3). Enter into the second stage of global business expansion

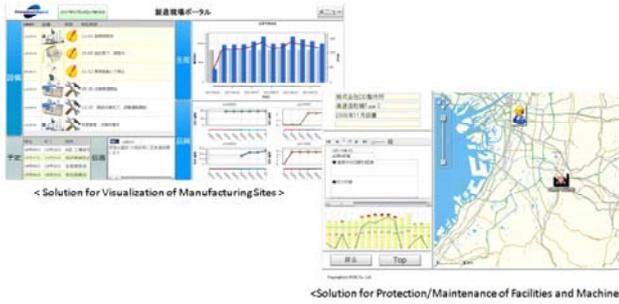
Strengthen Management Base

- 1). Seek operational quality
- 2). Improve business strategies profitability
- 3). Enhance operational efficiency
- 4). Pleasant, fulfilling place to work / Promote health and productivity mgt.
- 5). Enhance human resource capabilities

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I would next like to talk about the progress of our core strategies. First, we will look at our efforts to shift to service-oriented businesses. During the financial results briefing in April 2017, I explained that our service-oriented businesses were not merely cloud services. Rather, these services entail merging the services and solutions for which we have developed a track record with certain state-of-the-art technologies to provide customers with one-stop service for everything from operations and consulting to evaluation and analysis. Furthermore, we are developing platforms that will enable us to provide comprehensive services for the value chains and customer business cycles of entire industry across all sections.

IoT Solution for Manufactures [PrimeDashBoard]
- Process Visualization Tool to Support Operational Restructuring -



For the manufacturing industry, we offer PrimeDashBoard, a line of IoT solutions that track data at manufacturing sites. This service platform is founded on the insight SCSK has gained through years of supplying IT solutions to manufacturing sites and is capable of providing customers with data collection, data storage and management, and data tracking and analysis services.

For the financial industry, we will provide the MINEFORCUS smartphone application. This mobile banking service enables regional banks to practice one-on-one communication with the customers that use their services.

Application for Financial Institutions [MINEFOCUS]
- Realization of One-to-One Communication with Customers -



MINEFORCUS features the various functions expected of a platform service, making it possible for banks to choose the combination of services their own customers require in order to tailor the application to the needs of their customer base.

In this manner, SCSK is simultaneously creating new IT services and working to develop these services into platforms.

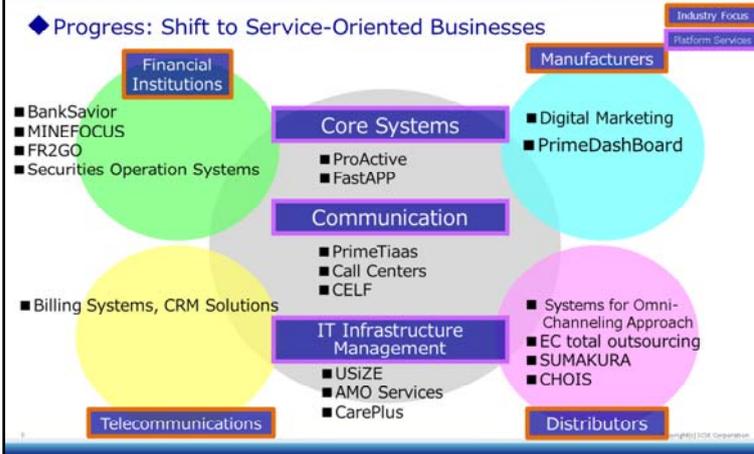
In terms of this business portfolio transition, the fiscal year ending March 31, 2018, is still a period in which we need to conduct investments and incur other upfront costs. As we undertake this transition, we recognize that some of the new service-oriented businesses could syphon sales away from existing businesses. Nonetheless, we are taking a forward-looking perspective toward the restructuring expenses. We thus stand committed to shifting to scalable service-oriented businesses in order to ensure high profitability and robust, ongoing growth in the future.

Recently, competition has been spreading across industry lines and growing more intense. We see inter-industry collaboration as a viable tool for winning out against this competition. In such collaboration, we will use the IT service platforms I have explained thus far to become an inter-industry IT servicer that incorporates the evolution of digital technologies and links customers together. We will provide services and systems in this capacity to help customers transform their business models in line with their strategic ambitions.

Shift to Service-Oriented Businesses

SCSK

◆ Progress: Shift to Service-Oriented Businesses



I would now like to touch briefly on the scale of SCSK's service-oriented businesses. In the fiscal year ended March 31, 2017, these businesses generated total sales of approximately ¥50.0 billion. In the fiscal year ending March 31, 2018, we are targeting year-on-year growth of 10%. Moreover, sales from these businesses totaled ¥28.0 billion in the six-month period ended September 30, 2017, representing year-on-year growth of 10% and making for progress that coincides with our plans for the full year. In this manner, we are making smooth progress in transforming our business portfolio.

Enhance Support Structure for Service-Oriented Businesses
Utilizing AI Technologies

- Invested in Asian Frontier Co.,LTD.

Several Businesses in Place;
Applying AI Technologies

- "DIMo" for Efficient Damage Investigation
for Non-life Insurance Companies
- AI Face-to-face Web Agent "Desse"
- Next Generation Services Utilizing VOC "VOiC"

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Many of you are no doubt aware of the fact that SCSK positions the automotive systems business as one of its strategic businesses. However, this is not our only strategic business. Please let me take some time to briefly explain one of our other strategic businesses: the artificial intelligence, or AI, business. In September 2016, we formed business alliances with three companies in the AI field: Preferred Networks, Inc., a company promoting AI development based on deep learning and image analysis technologies; Asian Frontier Co., Ltd., a company that provides solutions utilizing AI technologies; and Ridge-i Co., Ltd., an affiliate of Asian Frontier. Together with these partners, we are moving ahead with verification tests that entail applying AI-powered system solutions. Recently, we invested in Asian Frontier, converting into an affiliate accounted for using the equity method, out of recognition of the need to further reinforce our operations in this field.

One specific example of our efforts to apply AI technologies is a verification test being conducted together with a customer (Aioi Nissay Dowa Insurance Co., Ltd.) of a system that efficiently performs damage surveys for insurance purposes. This system utilizes SCSK's DIMo AI platform, which is centered on deep learning, to analyze images in order to automatically calculate the amount of insurance payments based on actual accident images.

By applying AI and other variety of technologies & mechanisms
Provide solutions to solve issues of customers from a wide perspective



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Also, we are engaged in more than 50 other AI-field projects. Almost all of these are still at the proof concept level.

As we approach the era of edge computing and fog computing, we believe that one of SCSK's missions is to determine the type of practical AI applications that will truly be beneficial to customers and to make these applications a reality. In order to fulfill this mission, it will be important for us to anticipate a broad range of fields in which AI will see practical application. We must then select and utilize the optimal AI for the decision nodes of each field from among a diverse range of AI technologies, including both SCSK technologies and external technologies. We plan to begin building collaborative relationships with various AI developers today to ensure we are up to the task when the time comes.

In our AI business, we hope to help resolve the issues faced by customers in a wide range of fields, and we will work to this end by combining the AI technologies we have accumulated with other IT technologies as well as with technologies related to areas such as big data, the IoT, and robotic process automation.

■ SCSK's Automotive Software Systems Business

1. Development of Customized Application
2. Development and Sales of Our Proprietary Software
 - Develop ECU Basic Software (QINeS-BSW) and Related Services
 - Provide Customers with QINeS Related Products, System Integration Services (Implementation Support Services and Application Development Services)



Ensuring high quality, QINeS realizes high productivity in automotive software development which became more complex, large in size.

Contribute to Global Competitiveness of Japanese Auto Industry

Lastly, I would like to touch on SCSK's automotive systems business. As you might have guessed, there is not a lot to talk about. However, I can say that we are receiving more inquiries from original equipment manufacturers and tier 1 component manufacturers than had been anticipated.

In terms of SCSK's market position and competition in the market, we are faced with a difficult position in which we are forced to compete with European and U.S. rivals like Vector Software, Inc., and Mentor, both of which have track records in supplying basic software using older versions of AUTOSAR. Nevertheless, the movement to introduce AUTOSAR is currently gaining momentum among Japanese automobile manufacturers, and such manufacturers are increasingly examining multiple basic software vendors. We therefore expect to be able to announce the conclusion of some contracts during the fiscal year ending March 31, 2018, just as we have stated previously.

For example, a certain tier 1 component manufacturer has practically finalized the decision to use SCSK's QINeS-BSW in components connected to automobile bodies. I cannot offer any details on the contract as it is still under negotiation, but I will reiterate that our progress in the automobile systems business is in line with internal plans.

With this, I wrap up my explanation of the progress of our core strategies. In closing, as president of SCSK, I am committed to implementing working style reforms, enhancing our business portfolio, and improving productivity and operational quality in order to elevate the Company to the position of industry leader.

Our performance in the six-month period ended September 31, 2017, was lower than initial forecast. Nevertheless, we will do everything in our power to achieve our full-year forecasts for the fiscal year ending March 31, 2018. I hope we can look forward to your ongoing support.

Thank you again for joining us today.

Create Our Future of Dreams

We create our future of dreams
by establishing value
based on our customers' trust.

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