SCSK

ANNUAL REPORT 2014

SCSK Corporation Annual Report 2014

Corporate Philosophy

Create Our Future of Dreams

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

Code of Conduct

Challenge	Aim higher with future creating passion
Commitment	Act with integrity and responsibility for our customers and society
Communication	Facilitate teamwork with respect and understanding

At the time of the October 2011 merger, SCSK Corporation formulated the corporate philosophy, "Create Our Future of Dreams," as our everlasting mission. This means that all executives and employees will foster relationships of trust with customers to generate new value in our aim to create a future of dreams together. The definition of a "future of dreams" will differ from individual to individual. However, even if a "future of dreams" takes different forms, everyone will have a shared sense of its pursuit, and we therefore see the "future of dreams" as a universal aspiration shared by all. We will use new technologies and ideas to contribute to the creation of value in our customers' businesses, as we strive to realize a "future of dreams" for individuals at SCSK, for customers, and for Japan.

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Quality of Our Operation

Fiscal 2012

Operating income
¥20.8 billion

ROE
15.1%

Net sales
¥278.6 billion

Operating income margin
7.5%

Fiscal 2013

Operating income
¥23.9 billion

ROE
16.5%

Net sales
¥288.2 billion

Operating income margin
8.3%

Fiscal 2014
(Target year for the Medium-Term Management Plan)

Operating income target
¥25–¥30 billion

ROE target
At least 10%

Net sales target
¥300 billion

Operating income margin target
8%–10%

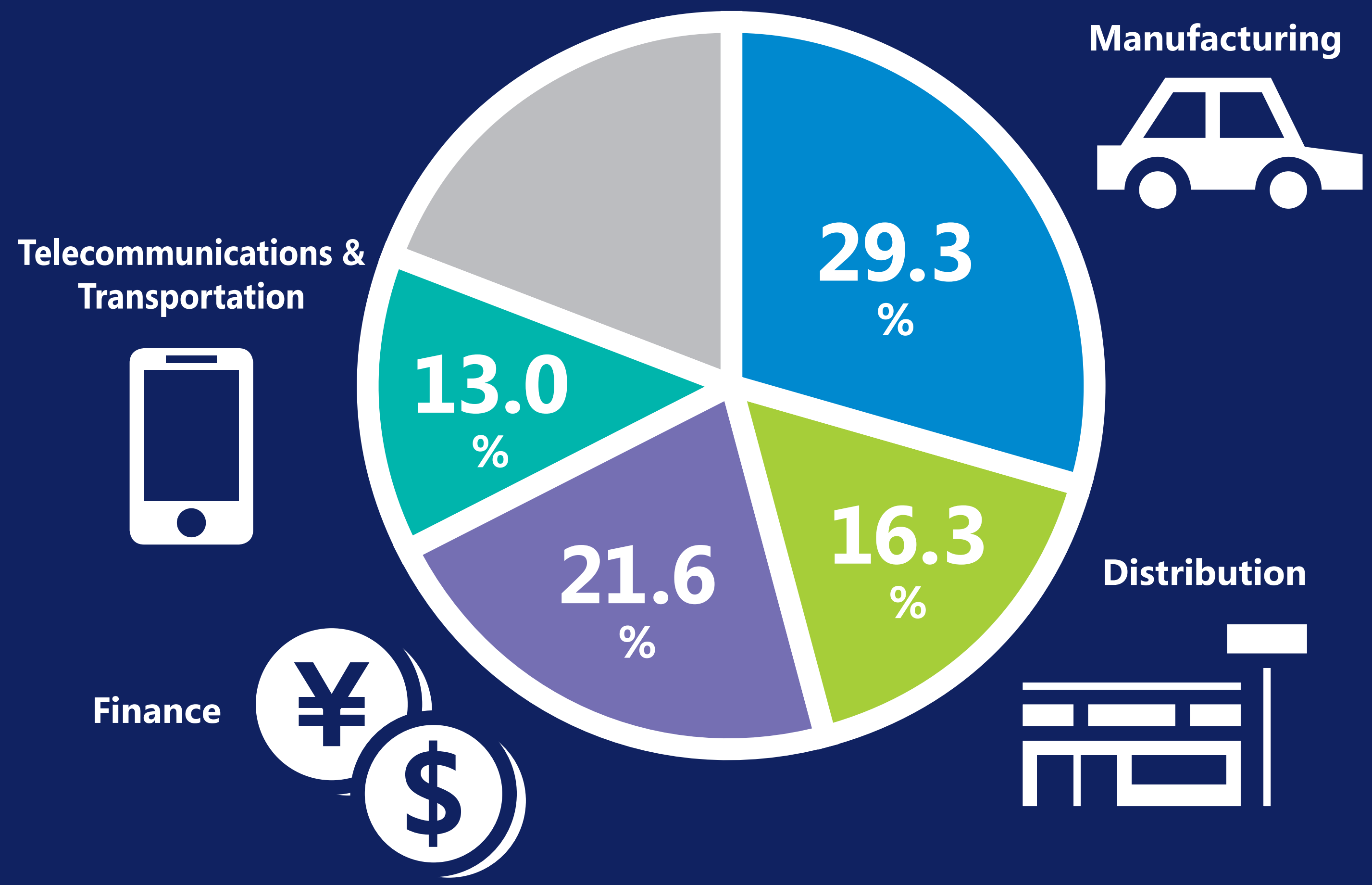
Solid progress toward achievement of Medium-Term Management Plan

Quality of Our Customer

Our High-Profile Customer Base

Percentage of customer companies that are among the top 100 companies listed on the First Section of the Tokyo Stock Exchange in terms of market capitalization

Many Fields of Specialization

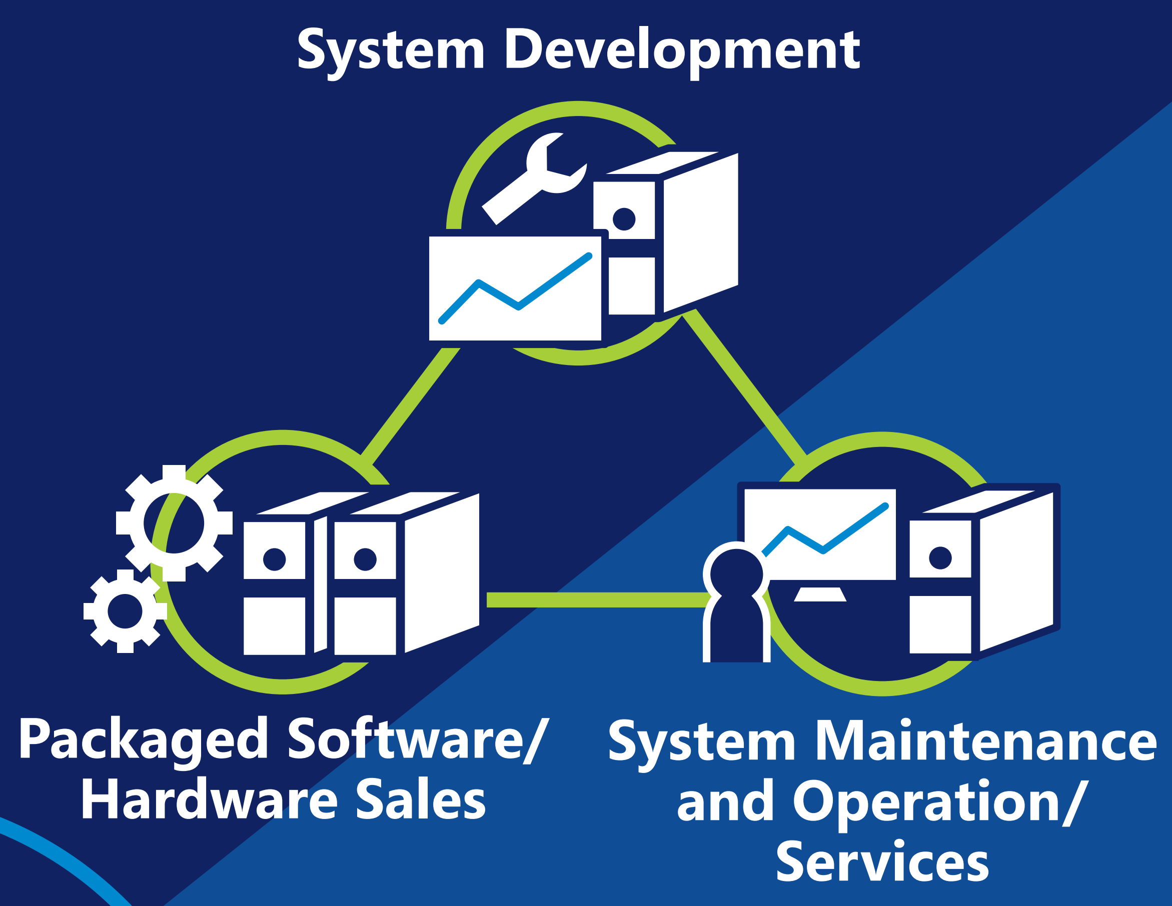


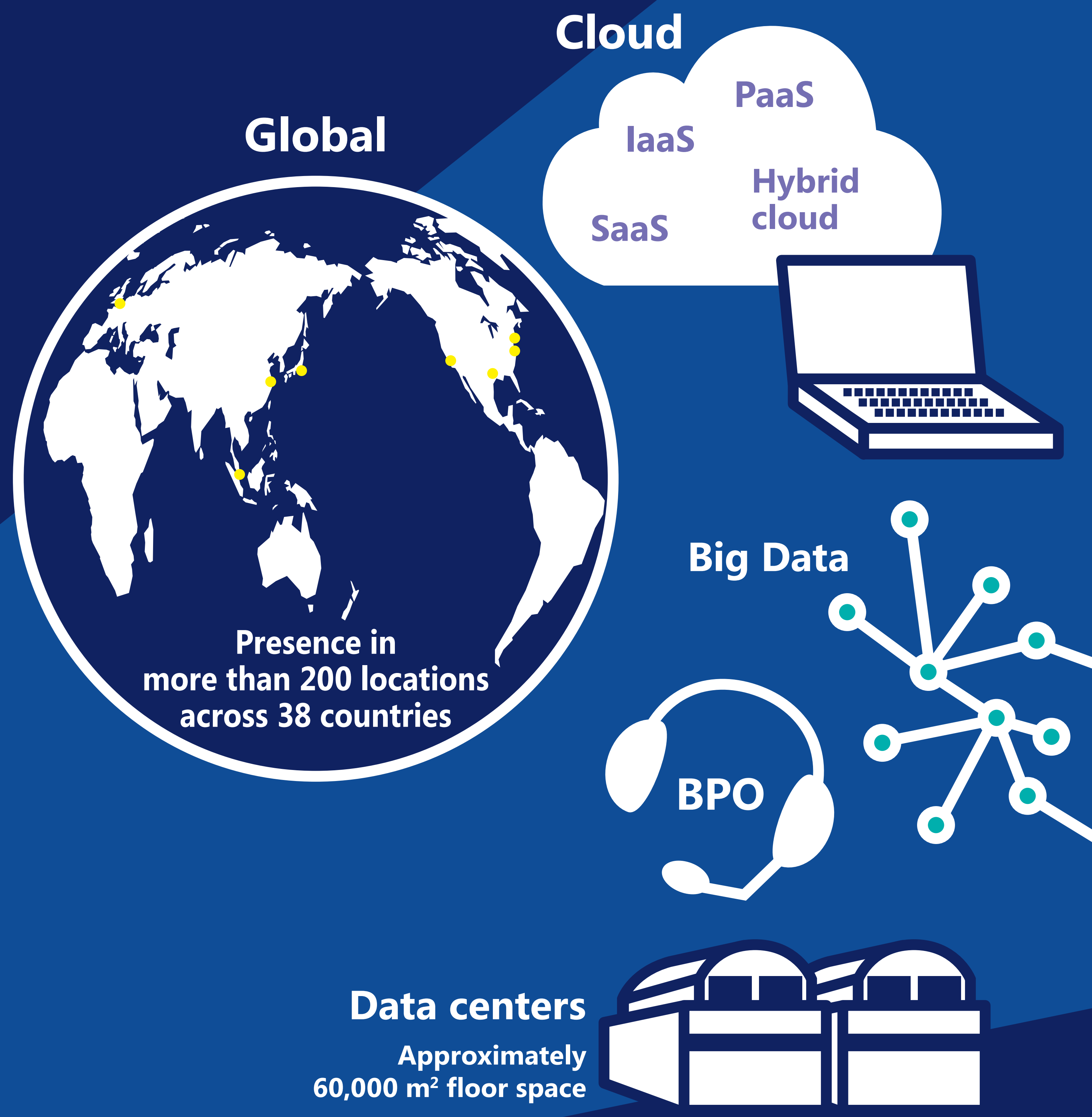
Percentage of consolidated net sales by industry (fiscal 2013)

More than 8,000 customer companies

Quality of Our Services

Global business development and a wide range of services





Comprehensive IT services company

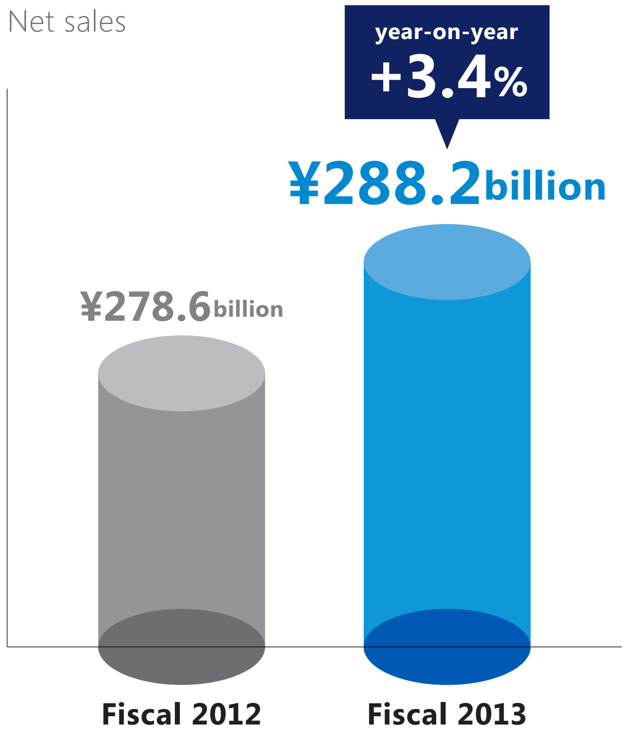
Message from Management

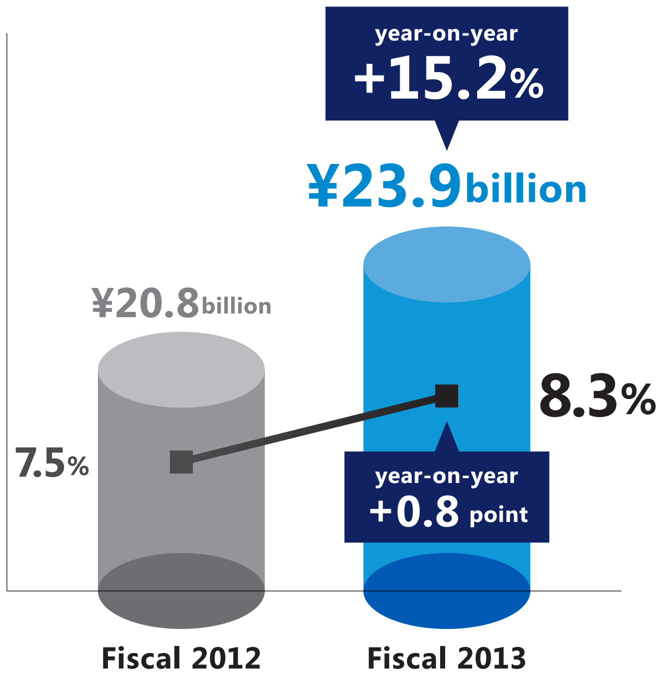
To Our Stakeholders

President and COO
Yoshio Osawa

Chairman and CEO
Nobuhide Nakaido

Operating Results for the Fiscal Year Ended March 31, 2014





SCSK Corporation is a global IT services company that was created through the merger of Sumisho Computer Systems Corporation and CSK Corporation. Since the merger in October 2011, we have been pursuing three key strategies that form the core of our Medium-Term Management Plan: Actively "pursuing cross-selling," "expanding the global solutions business," and "strengthening the cloud solutions business." By effectively fusing the two organizations' structures and functions, we have made steady progress in establishing a solid management framework.

Going forward, we will further accelerate our integration as a company, while also making effective use of our resources to dynamically develop our business with wider market definition. At the same time, we will be diligent in identifying the fields in which we can be successful, and concentrate management resources in and place companywide focus on these businesses, to quickly create and develop unique services.

SCSK will continue to strive to resolve issues faced by customers in their different businesses using the latest IT services and novel ideas, while using IT to create new value, and working with customers to create their future, with the aim of ongoing future growth.

We ask for your continued support as we move forward together.

The Japanese economy showed an overall recovery in fiscal 2013, boosted by the government's and Bank of Japan's fiscal and monetary policies. The stock market gave a strong performance from the second half of the fiscal year, corporate earnings rebounded on the correction of the strong yen, and capital investment picked up as well. As the environment for employment and wages improved, and ahead of an increase in the consumption tax rate, retail consumption and housing demand were strong.

Given these economic conditions, customers' IT investment, which had been curtailed or postponed in recent years, showed a recovery and investment demand was solid, primarily for systems development projects. At the same time, many companies are considering rebuilding their IT infrastructure, leading to increased demand for cloud-based IT infrastructure services, and needs for the use of data center services are growing that are related to companies' business continuity planning (BCP) and disaster recovery measures.

Reflecting these developments, fiscal 2013 net sales rose 3.4% from the previous year, to ¥288.2 billion, on the back of strong systems development business, mainly in the financial industry.

With the increase in net sales and net income, combined with improved operational efficiency, operating income grew 15.2%, to ¥23.9 billion. As a result of companywide programs to increase operating efficiency, the ratio of operating income to net sales (the operating income margin) rose 0.8 percentage point, to 8.3%.

Although one-time expenses from the review of the business portfolio and liquidation of non-core assets were larger than initially anticipated, the growth in operating income led to a 9.9% increase in net income, to ¥18.3 billion.

Fiscal 2014 marks the final year of the Medium-Term Management Plan formulated at the time of the October 2011 merger, and we will continue to work toward the steady implementation of the various business strategies included in the Plan. We will also focus companywide on raising quality in all operations, to further strengthen our operating base for medium-term growth as a company.

Nobuhide Nakaido
Chairman and CEO

Yoshio Osawa
President and COO

Medium-Term Management Plan

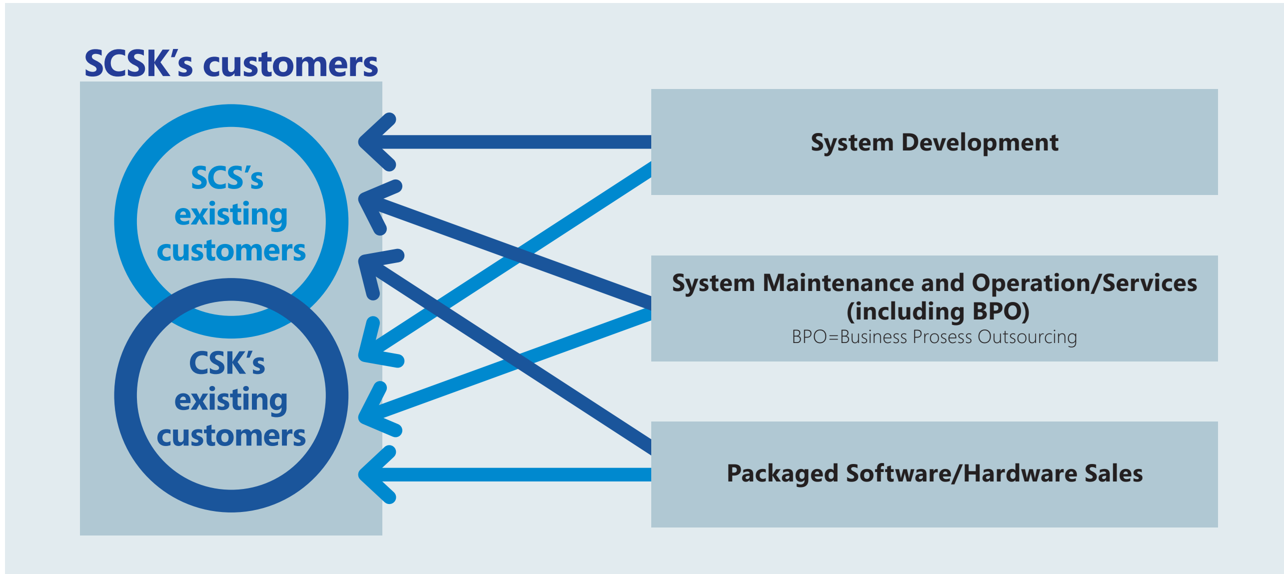
With Japan's IT market maturing, competition is intensifying while IT services become more diverse and sophisticated, and companies are striving to build businesses that can flexibly respond to these rapid changes. Against this backdrop, SCSK was born on October 1, 2011, through the merger of Sumisho Computer Systems Corporation (SCS) and CSK Corporation (CSK). At the time of the merger, the new SCSK announced a Medium-Term Management Plan covering the period through fiscal 2014.

* SCSK was formed through a merger with CSK Corporation on October 1, 2011. For purposes of comparison with fiscal 2012, the figures shown for fiscal 2011, are pro forma figures with the first half (April–September) results of CSK Corporation simply added, and therefore different from the figures reported in the Company's official financial statements.

Fiscal 2013 marked the midway point under the Medium-Term Management Plan, and progress since the merger, under the Plan's three key strategies to actively "pursue cross-selling," "expand the global solutions business," and "strengthen the cloud solutions business," as well as proactive efforts to improve operational efficiency and raise productivity, have generally been as planned. Accordingly, business results have also grown in line with the initial plan, and steady progress was made toward the achievement of the targets set in the Medium-Term Management Plan. Fiscal 2014 is the final year covered by the Medium-Term Management Plan, and we aim to achieve all of the Plan's targets by continuing to pursue the three key strategies for medium-term growth, while also reinforcing our organizational and human resource capabilities to strengthen our earnings base, and through ongoing efforts to raise business and operational efficiency. At the same time, we will work to create new, unique services to drive future growth. With the goal of solidifying a leading position within the IT industry as a truly first-class company, we will make every effort to fulfill the Medium-Term Management Plan and to continue to grow and develop beyond it.

Pursuing Cross-Selling

Our customer base has grown significantly since the merger, and we now do business with approximately 8,000 companies. We have been working to swiftly realize synergies from the merger by pursing cross-selling that offers IT products and services that incorporate our companywide strengths. Distribution, manufacturing, finance, and telecommunications and transportation were key customer industries for both SCS and CSK but there was little overlap between almost 80% of the top customers of each company, making it possible to cross-sell and provide services based in each company's strengths. The cross-selling strategy has been a key element of our business development since the merger, and the process of integration has not only strengthened our business base, it has also helped promote a true fusion of two companies with different histories and corporate cultures.



With the progress made in integrating the two organizations since the merger, from fiscal 2013 it has become difficult to measure quantitative business results from cross-selling using the previous definition of the term, but over the past two and a half years all executives and employees have developed a thorough awareness of cross-selling, and there has been an increase in comprehensive solutions that cut across business divisions, contributing to companywide earnings. We will emphasize companywide cross-selling again in fiscal 2014, but given the extent to which the concept has become instilled within the company, going forward each business division's own management will continue to incorporate the cross-division perspective that underlies the strategy, including the designation of key business segments and the strategic allocation of resources.

Examples of Cross-Selling

[IT infrastructure operations and management contract with an automaker]

By creating a companywide account plan and strategically working to increase our business, we proposed a highly comprehensive and applicable solution that cut across several business divisions and won a large, multi-year contract for infrastructure operations and management that includes BPO.

[Rebuilding the IT infrastructure platform for a customer in the distribution industry]

By cross-selling to an existing customer where our relationship was primarily based on system development projects, we won our first order for an IT platform construction and operations project in a major competing vendor's core area that it had dominated for many years.

Expanding the Global Solutions Business

Today, many Japanese companies are aggressively expanding their businesses overseas, and seek optimal global IT systems and IT services with Japanese quality. The demand for IT services among Japanese companies pursuing a wider presence overseas, while still centering corporate activities in Japan, is referred to as the "greater Japanese market." To date, we have provided IT support for the global expansion of Sumitomo Corporation and many other customer companies. Our global strategy is to provide full support to this "greater Japanese market," using the expertise and experience we have cultivated over the years to provide services with the high standard of Japanese quality, as a reliable Japanese partner.

To successfully support our customers' global expansion, the Company is hiring and training global human resources and setting up specialized divisions as part of a support structure to enhance the functions of companies' local offices and locally incorporated entities. We have set a target for global-related sales at roughly 10% of total sales by fiscal 2015 or fiscal 2016, and with strong results in the "greater Japanese market" during fiscal 2013, we are making steady progress toward the achievement of this goal. Despite elements of uncertainty including geopolitical risk in some overseas markets, in general, we expect the trend of globalization at customer companies to continue. Focusing on Asia, we will further strengthen our structure for the expansion of our business and the acquisition and training of global human resources.

Examples of the Global Solutions Business

[Globalization project for major electronic components manufacturer's enterprise system]

We received an order to expand an enterprise system that was built and operates in Japan to manage production, sales, and quality on a global scale. The customer is also considering using SCSK to assist them in installing the system in all of their overseas locations in Asia and Europe.

[Projects for comprehensive home electronics manufacturer, automotive parts manufacturer, and megabank]

We won orders for a broad range of projects from customers in different industries, including a global financial management system upgrade for a comprehensive home electronics manufacturer, support for the overseas development of an IFRS-compatible cost management system for an automotive parts manufacturer, and the rebuilding of an international accounts system covering more than 10 overseas locations for a megabank group.

Global Network

Strengthening the Cloud Solutions Business

With the rapid growth of the market for cloud services, companies are increasingly using outside services rather than owning systems themselves, leading to a paradigm shift from "IT system ownership" to "IT service usage." SCSK is responding to growing demand for cloud services by strengthening and expanding our data centers, and at the same time proactively developing new businesses that provide services combining SCSK's systems development and BPO-related operational expertise in a format appropriate for the cloud age.

Against this backdrop, fiscal 2013 saw growth in demand for several types of cloud-based IT infrastructure services, and also in data center service usage needs, including for business continuity planning (BCP) and disaster recovery measures.

To meet this increase in demand, SCSK has recently decided to build a new data center (tentatively named the Chiba Center 2), and construction and preparations are under way for a scheduled commencement of services in January 2015. This new data center will bring our total netXDC data center floor space, distributed across cities and suburbs in the Kanto and Kansai regions, to roughly 70,000 m^2, making our network one of the industry's largest. In addition to providing safe, environment-friendly, and sophisticated services, this large suburban center will have ample capacity to expand further as its operations grow.

During fiscal 2014, we will also continue to expand our cloud business in terms of software as well as hardware, by proactively developing unique services including the highly acclaimed USiZE metered service for IT infrastructure, and the PrimeCloud Controller cloud control software that we have begun to offer on an open-source basis. We are aiming for cloud service-related sales, including from data centers, of ¥50 billion in fiscal 2015, and are moving forward with sophisticated and highly specialized services that only SCSK can provide.

Examples of the Cloud Solutions Business

[Outsourcing for major construction company]

We have received a multi-year contract for the construction and outsourced operation of an enterprise system for a major construction company, using our USiZE metered cloud service for security as well as disaster recovery to enhance business continuity.

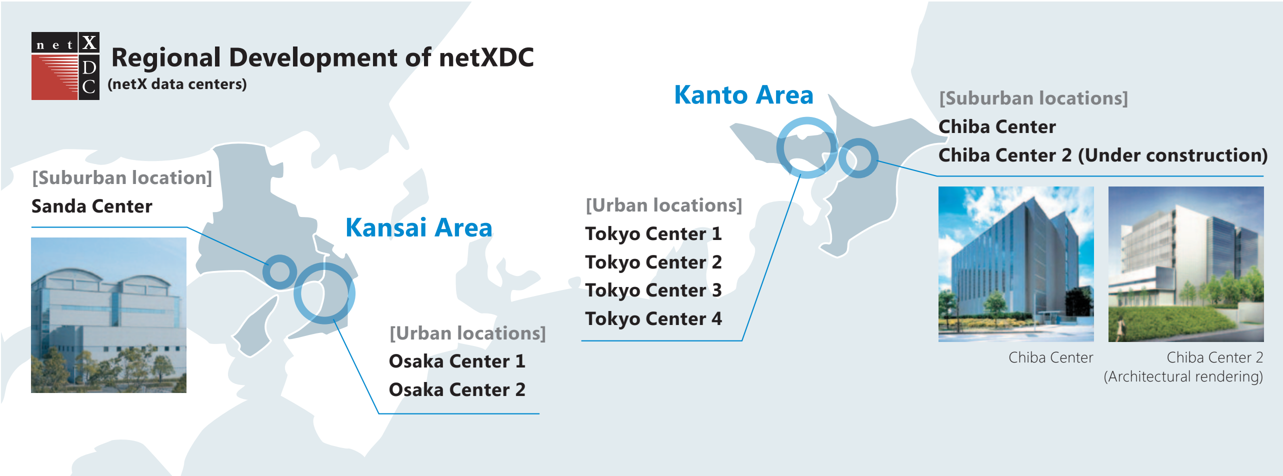
[Private cloud environment for major consumer finance company]

By providing IaaS and DaaS services via a private cloud, this customer has migrated entirely from a service ownership model to a service usage model. The IaaS service allows us to quickly respond to the customer's needs for system enhancement, and by providing the DaaS service as part of our operation of the system, further raise its level of security.

IaaS (Infrastructure as a Service):
A service that provides via the Internet the platform (hardware, networks, etc.) needed to build and operate systems.

DaaS (Desktop as a Service):
A service that provides a desktop environment for personal computers and other devices via the Internet.

Regional Development of netXDC
(netX data centers)



Chiba Center   Chiba Center 2 (Architectural rendering)

Organizational and Structural Integration

Since the October 2011 merger, we have attempted to quickly integrate the two organizations for true fusion to take place. Our first step was to integrate the corporate divisions responsible for head-office functions, which began at the time of the merger.

Initially, we had a Company structure that left the two companies' organizations intact, but after six months, effective April 1, 2012, we abolished the existing Company system and shifted to an organizational structure of business groups aligned with industries and functions.

Following this, effective April 1, 2013, we implemented the industry- and function-based organizational structure at lower organizational levels, effectively achieving complete fusion in terms of organization. With this reorganization, we also restructured our human resources, moving away from having multiple managers with joint responsibilities to designating one head for each organization, while paying close attention to assigning staff to where they would best fit within the organization. At the same time, we established a cross-organizational Development Division for the strategic placement of technicians, to increase the profitability and productivity of the systems development business.

In terms of structural integration, we have made progress in unifying and integrating the human resource structure relating to compensation and performance evaluations, which is one of the most important areas for our resource management. In April 2012, we integrated the human resource systems related to compensation and performance evaluations, to establish a structure that treats fairly all employees. In July 2012, we implemented an evaluation and certification system for each specialization. Next, in April 2013 we began operating under a new retirement benefit and pension plan, completing a structure that integrates all human resource-related functions. We also installed a new enterprise system in July 2013, meaning that basically all of the organizational and structural integration planned at the time of the merger was completed in fiscal 2013.

Organizational and Structural Integration

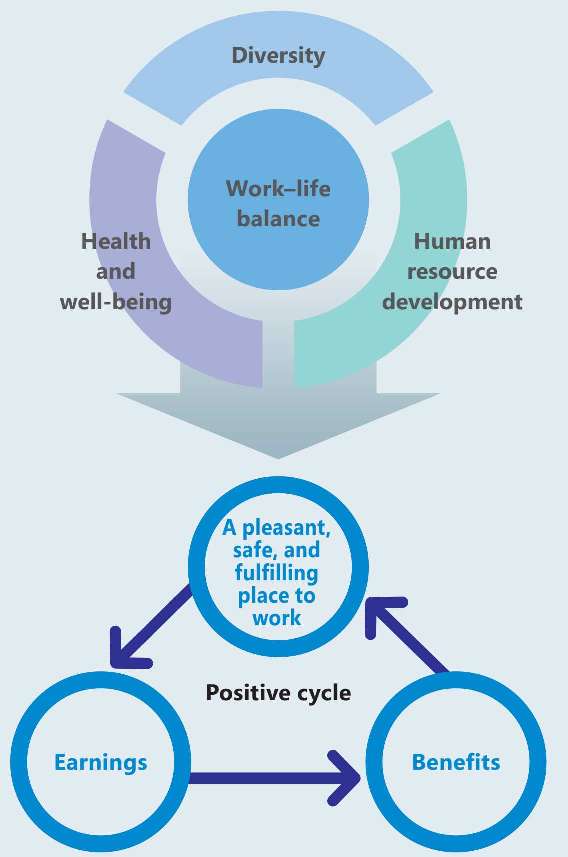
▫Organizational Integration ▫Structural Integration

October 2011 (merger)	▫Operating divisions launched under company structure (SCS Company, CSK Company) ▫Corporate divisions integrated from time of merger
April 2012	▫Operating divisions reorganized by industry and function ▫Previous company divisions abolished and operations integrated at operating division level ▫Human resource structure integrated in terms of compensation and performance evaluation
April 2013	▫Group operations below operating division level integrated at division and department level ▫New structure for retirement benefits and pension plan is implemented

Enhancing Human Resource Capabilities

People are the basis of SCSK's management, and "caring about our people" is one of our most important themes in terms of achieving further growth. Since the merger, we have made it a priority to create an environment that is "a pleasant, safe, and fulfilling place to work." This is because the added value created by each individual employee is the source of growth in the IT services industry, and promoting "a pleasant, safe, and fulfilling place to work" raises to employees' motivation, which in turn leads to stronger earnings, thereby creating a positive cycle by which all stakeholders including employees benefit. With this in mind, our personnel structure and programs focus on four areas: work–life balance, diversity, health and well-being, and human resource development. In recognition of these programs, in October 2013, SCSK was selected for the Award for Companies Providing Career Support in 2013—given to companies committed to human resource development, by the Ministry of Health, Labour and Welfare, and also ranked No. 2 in the *Nihon Keizai Shimbun*'s survey of Companies' Use of People in 2013. SCSK's other recognitions also include being one of 100 companies selected by the Ministry of Economy, Trade and Industry in 2013 for its diversity management. Going forward, we will continue to proactively implement policies that put an emphasis on people, in the belief that this will enhance the quality of our future earnings base and of SCSK as a company.

Concept of a "a pleasant, safe, and fulfilling place to work"



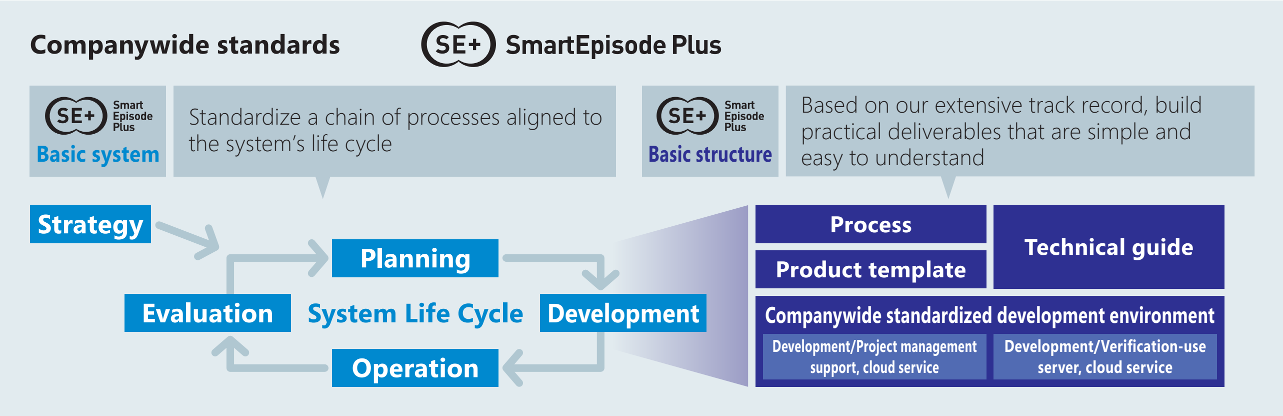
Theme	Major programs	Major measures implemented and results achieved in fiscal 2013
Work–life balance	System for full employment up to age 65 (career plan for mature employees), Smart Work Challenge 20 program (full use of 20 paid vacation days, 20% year-on-year reduction of overtime), expansion of working from home	• More than 19 days of paid vacation taken, overtime reduced by 16%
Diversity	Proactive promotion of women to managerial positions, expansion of support programs for child care and nursing care	• Number of female managers increased, including appointment of first female executive officer
Health and well-being	Unified approach to promoting employees' physical and mental health and career development, and strengthening of support functions	• Life support promotion dept. established • Counseling room opened
Human resource development	• Human resource development through training in regular and specialized tasks, global human resource training programs (both short-term overseas assignments and language training) • Formulation of companywide human resource strategies and stronger development of highly specialized positions using the system for specialist certification	• Roughly 100 employees sent overseas to Group companies for on-the-job training or overseas companies for short-term assignments

*Please refer to Page 18 for more information on the Smart Work Challenge 20 program

Improving the Quality of Operations

To improve the productivity, profitability, and quality of the systems development operations that constitute SCSK's main business, we have created and are promoting the implementation of SmartEpisode Plus (SE+) standards for development and management processes to ensure the stable quality of the IT services we provide, with as little reliance on human factors as possible. In addition, with regard to companywide project management activities, we are introducing a detailed project status check by a PMO*, and involving senior management in timely and appropriate risk management.

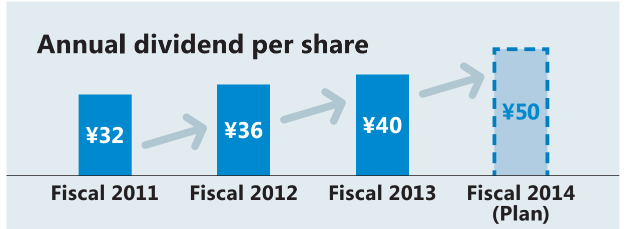
*PMO=Project Management Office



Financial Strategy and Returns to Shareholders

SCSK's financial strategy uses the operating income ratio and ROE as important indexes for further strengthening management, and we have set medium-term targets of 8%–10% for the operating income ratio and at least 10% for ROE for fiscal 2014. At the time of the merger in October 2011, we expected to reduce net interest-bearing debt (loans, corporate bonds, and other interest-bearing liabilities minus cash, deposits, and deposits paid) to zero by the end of fiscal 2013, but we achieved this one year early, at the end of fiscal 2012. During fiscal 2013, SCSK generated more than ¥30.0 billion of operating cash flow, and redeemed convertible bonds and repaid borrowings as scheduled, repaying ¥27.8 billion of interest-bearing debt during the year. This further strengthening of our financial position also led to a 6.1 percentage-point improvement from the previous fiscal year-end in the equity ratio, to 37.9%.

With regard to the return of profits to investors, we aim to provide appropriate returns in the form of a stable dividend that increases in line with growth in consolidated business results, while comprehensively taking into account the Company's financial position, earnings trends, the dividend payout ratio, and the maintenance of sufficient internal reserves for future business investment. For fiscal 2011, the year of the merger, we paid a full-year dividend of ¥32 per share, and increased the full-year dividend for fiscal 2012 by ¥4, to ¥36 per share. For fiscal 2013, based on the aforementioned policy, we continued this steady pace of dividend increases, raising the full-year dividend by ¥4, to ¥40 per share. Reflecting our forecast for further growth in business results going forward, we intend to increase the full-year dividend for fiscal 2014 by ¥10, to ¥50 per share.



SCSK: Looking to the Future

Pursuing Growth and Expansion

IT services are an essential social infrastructure, and as shown by cloud services and big data, they are an important source of growth and business innovation for our customer companies. On the other hand, over the past few years, the Japanese market for IT services has matured, and the number of IT businesses, both large and small, is said to have grown to more than several thousand, raising concerns over slower growth and excessive competition for the industry going forward, and a resulting restructuring of the industry. With this in mind, we have carried out management based on our Medium-Term Management Plan's three key strategies: "pursue cross-selling," "expand the global solutions business," and "strengthen the cloud solutions business." Fiscal 2015 is the final year under this Plan, and we will continue to focus on these key strategies as we work toward the achievement of the Plan's targets.

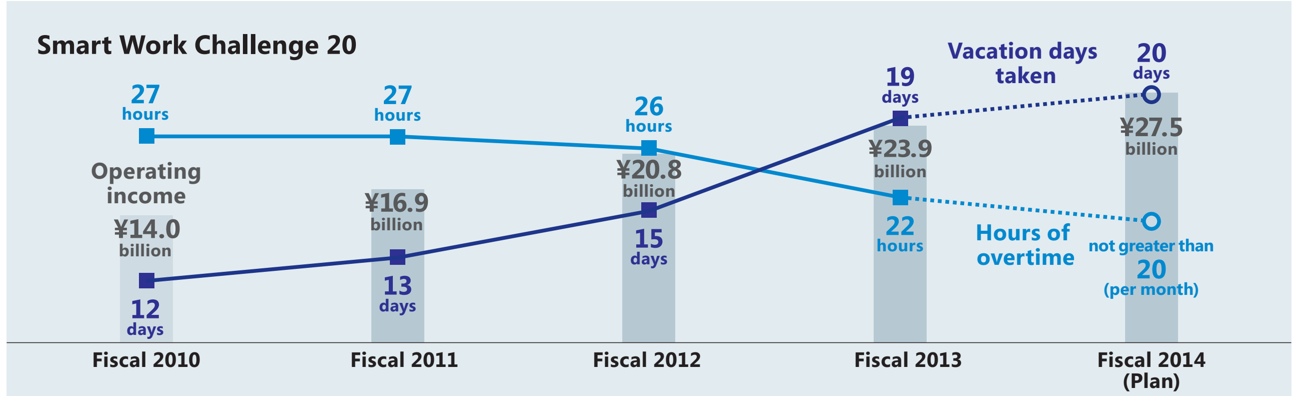
Since the merger, we have pursued the priority management themes of organizational integration and fusion, increasing business efficiency, and enhancing operational quality, but from fiscal 2014 we will begin to look at our next stage of business development with growth as the key word. With systems development experience and a customer base covering many industries and spanning 45 years, the SCSK Group possesses a broad range of operational expertise and unique proprietary technologies, and going forward we will pursue increasingly dynamic business development through stronger cooperation among operating divisions and the strategic allocation of management resources, with the aim of further growth.

Pursuing a Future of Dreams

At SCSK, we aim to expand our operations and increase earnings going forward, to become a leading company in the IT services industry. We gain a sense of satisfaction and take pride in the work we do, and aim to be a "truly first-class company" that is well regarded by customers, shareholders, all other stakeholders, and society.

To achieve this aim, we will pursue a growth strategy that involves both business expansion and increased earnings, while also improving our work environment to support our business expansion. We call the enhancement of the work environment "health management," which we believe will greatly benefit our future growth.

One example of this is the Smart Work Challenge 20 program, which targets a reduction in overtime and the full use of 20 paid vacation days. During fiscal 2013, in addition to achieving our initially projected growth in business performance, employees took more than 19 days of paid vacation and overtime was reduced by 16% from the previous year. We believe it is meaningful that our companywide effort including setting specific measures related to the work environment and working conditions to create a comfortable workplace yield results in the IT services industry, often known for its high-stress working conditions. Moreover, we believe these results will not be temporary, but will further enhance our ability as an organization to resolve the management issues that may arise, marking a significant step toward becoming a first-class company.

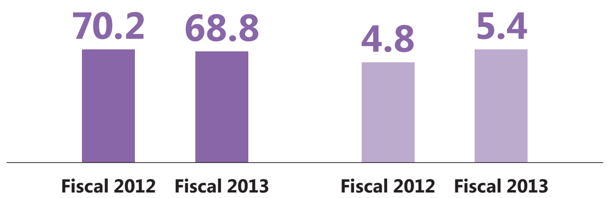


Segment Overview

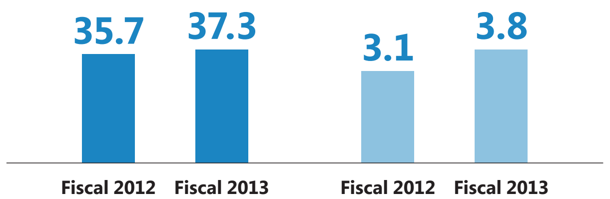
The SCSK Group comprises seven business segments, organized by business and function to provide customers with optimal services and reinforce our earnings strength. In addition to these seven business segments, the prepaid card business constitutes an eighth business segment. Business strategies are proposed and implemented, earnings are managed, and management resources are allocated in relation to all eight segments. Businesses not included in these segments are managed as "others." The chart below shows the breakdown of sales by business segment, and more detailed information regarding seven of the business groups is given in the following pages.

Composition of Net Sales and Segment Profit

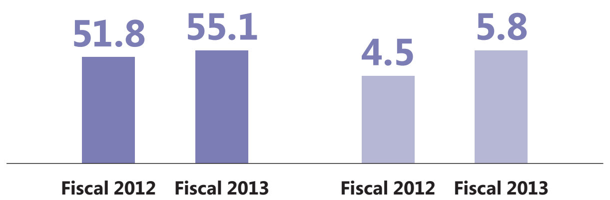
Industrial Systems Business



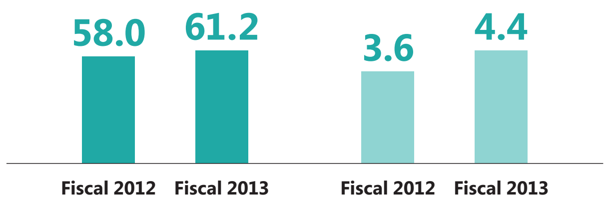
IT Management



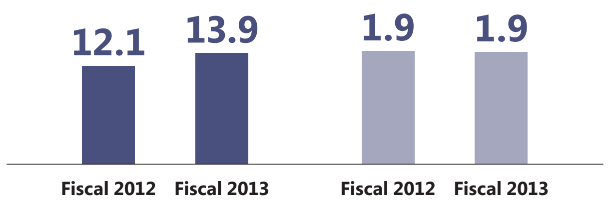
Financial Systems Business



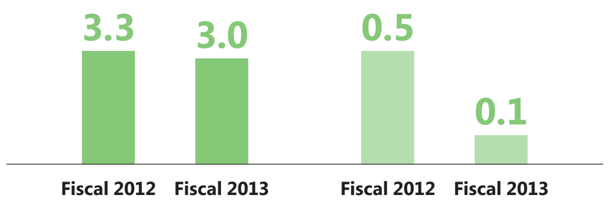
IT Platform Solutions



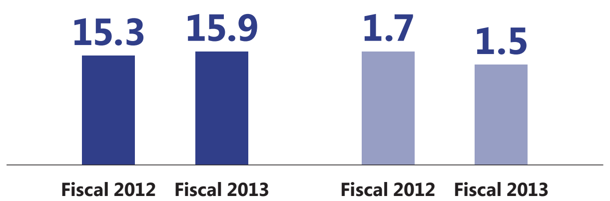
Global Systems Business



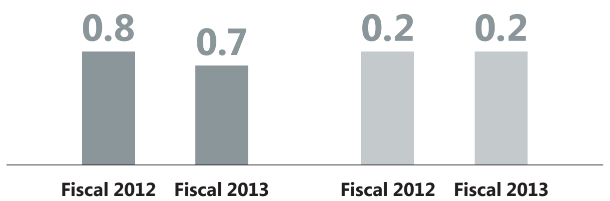
Prepaid Card Business



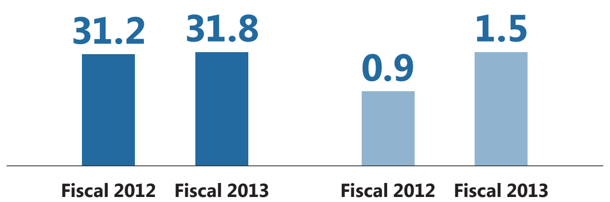
Business Solutions



Others



Business Services



* In accordance with changes in the segmentation method for fiscal 2013, the year under review, results for fiscal 2012 have been restated to enable comparison.
* Segment profit includes ¥11 billion of administrative expenses that cannot be allocated to individual reporting segments and are not included in this graph.
* The prepaid card segment comprises the issuing and settlement operations for prepaid cards, and the development and sales of card systems.

Industrial Systems Business

Hiroaki Kamata
Director, Executive Vice President
General Manager, Industrial Systems Business Group

Creating new value as an IT value coordinator

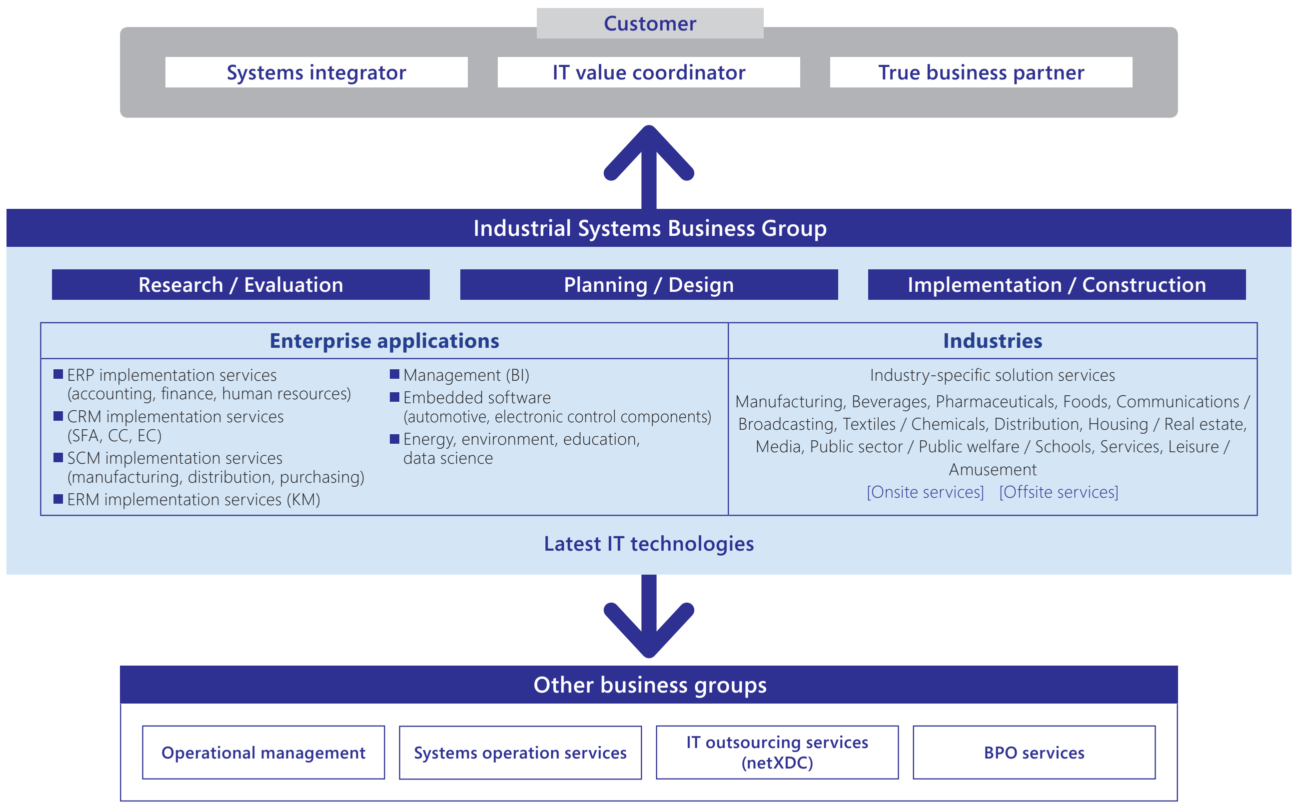
Providing optimal solutions to create new value for customers' businesses

The Industrial Systems Business acts as an "IT value coordinator" to provide customers in the manufacturing, communications, distribution, media, and service industries with a variety of IT solutions based on SCSK's accumulated SI technologies and operational expertise, including enterprise systems, information systems, SCM, CRM, EDI, BI, and EC websites, with the aim of creating new value as our customers' true business partner.

We also meet the needs of customers looking to expand internationally with optimal IT solutions to support their overseas business development.

In addition, as a trading company-affiliated SIer, one of SCSK's greatest sources of business value is our proprietary ERP package "ProActive," which comprises a range of operational systems including sales, purchasing and inventory management, asset management, payroll, and human resource management. With a variety of options for the utilization of its many functions, including standard implementation using pre-set functions, or integrated group system implementation to achieve timely consolidated management, ProActive is popular with customers and one of the best-selling ERP packages.

Total IT service partner offering consulting, development, systems operation, and business operations



Financial Systems Business

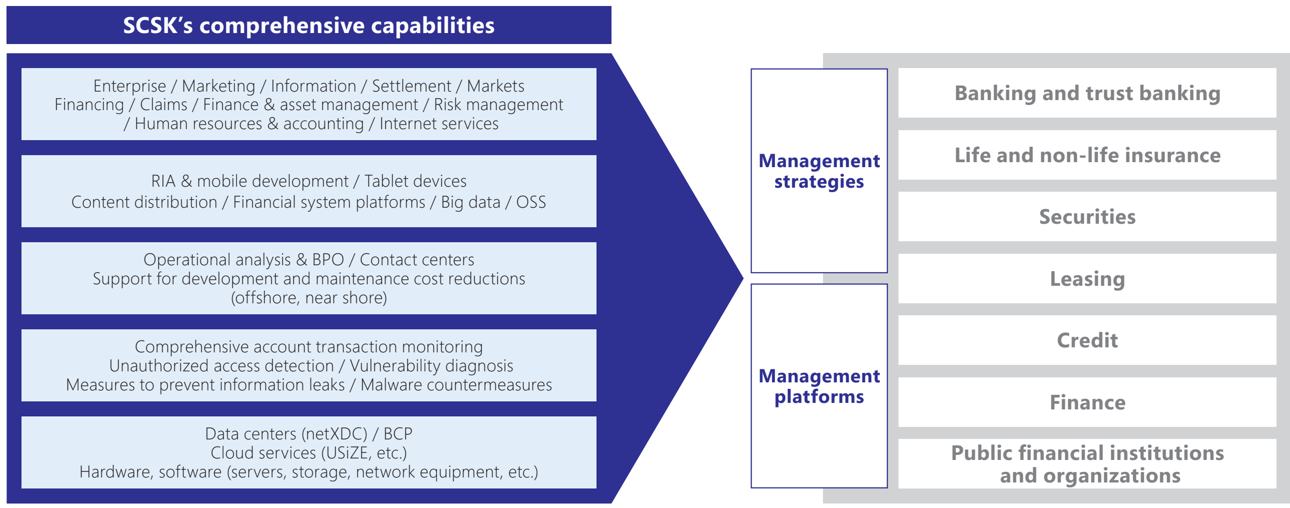
Masanori Furunuma
Director, Senior Managing Executive Officer
General Manager, Financial Systems Business Group

Reliable IT services supporting strategic investment

Backed by reliability in our ability to build sophisticated IT systems for financial institutions, SCSK can be relied on to provide comprehensive support for the realization of business strategies and stable and efficient management of financial institutions.

Financial businesses seek to be able to constantly respond to changes in the market environment and address diversification, sophistication, and globalization. IT is at the core of financial institutions' strategies for timely management.
SCSK works with customers to develop, maintain, and operate systems for financial institutions engaged in banking and trust banking, life and non-life insurance, securities, leasing, and credit. We have gained the confidence of customers over many years, as a professional organization that is highly familiar with financial operations and that possesses sophisticated financial systems development capabilities.
Along with supporting critical systems including online trading, SWIFT, and other financial settlement systems, we provide multichannel systems using smartphones and tablet devices on the front line of financial product sales, to support financial businesses as they evolve along with the transformation to an online society.
We also work with customers to implement BPO services for higher operational efficiency and lower IT costs, and to reduce systems maintenance and operation costs.
In addition, we provide solutions utilizing SCSK data centers and systems to detect unauthorized access, for disaster recovery, BCP, and security measures to help financial institutions achieve the required safety and security.
As a "best partner" with the ability to propose and implement optional solutions, SCSK helps financial institutions to execute their strategies through IT investment, based on our overall capabilities, by providing IT services and packaged software and hardware that address the latest IT themes and technologies, such as system development, maintenance and operations, packaged software for financial operations, cloud services, IT infrastructure technologies for financial systems, data centers, contact centers, and big data.

Reliable IT services supporting strategic investment



Global Systems Business

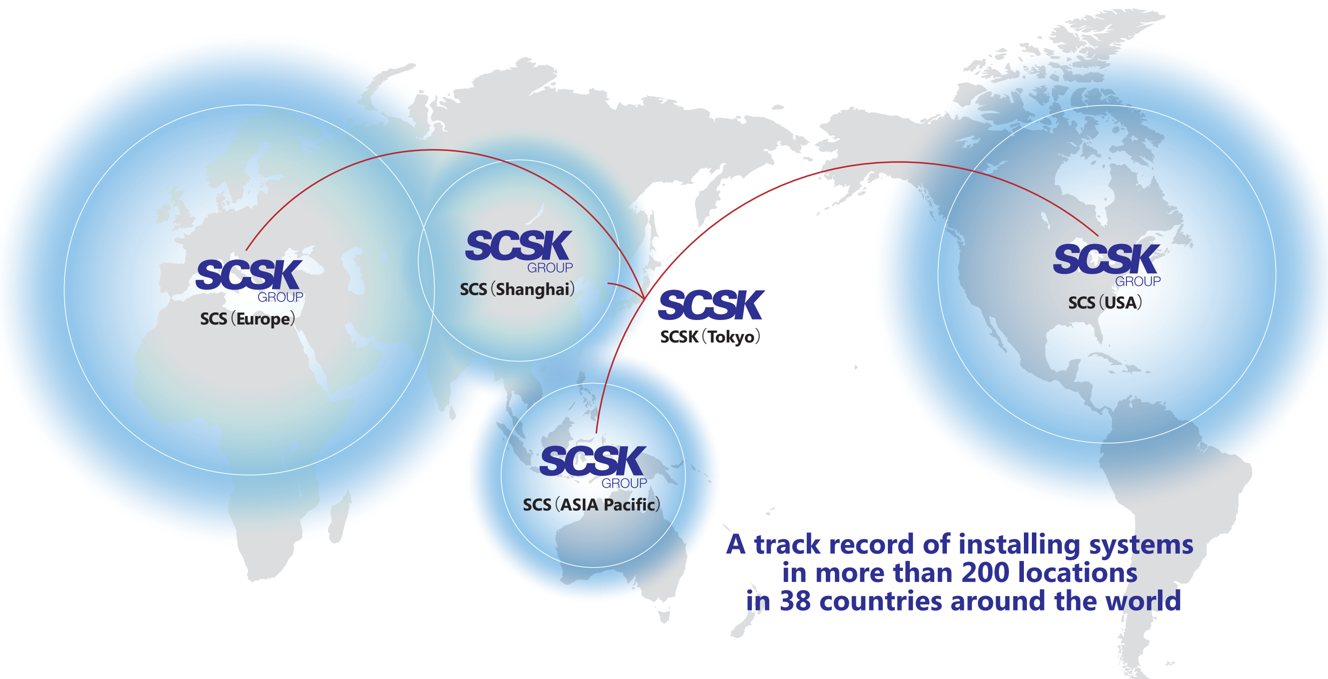
Satoshi Toriyama
Director, Senior Managing Executive Officer
General Manager, Global Systems Business Group

IT Services Supporting Global Development

Providing one-stop IT services for rapid global development

With the acceleration of globalization, information technology has become an important platform that supports companies' global consolidated management. In particular, companies operating around the world need to be able to track the status of overseas businesses in real time and instantly create new strategies if they are to succeed in the face of global competition. However, since local entities overseas have different IT systems, depending on their market entry, operational processes differ by local entity in many cases.
The most effective way for a global company to reduce its IT operations burden and total cost of ownership (TCO) is to create and roll out a common template across countries. SCSK offers globally compatible enterprise resource planning solutions (ERP - comprehensive backbone operations systems) to companies including Sumitomo Corporation, and to date we have installed and developed IT systems in more than 200 locations in 38 countries. In addition to IT systems, we support Japanese companies' overseas development by providing all of their required IT services as a single package, encompassing on a globally standardized basis the construction of IT platforms in the areas of networks and infrastructure.
SCSK boasts a global network, with major bases in the United States (New York), Europe (London), Asia (Singapore), and China (Shanghai), as well as Japan. With a global support structure organized around these five bases, we provide swift, accurately tailored services.

SCSK's global network offers complete worldwide coverage



Business Solutions

Masahiko Suzuki
Director, Senior Managing Executive Officer
General Manager, Business Solutions Group

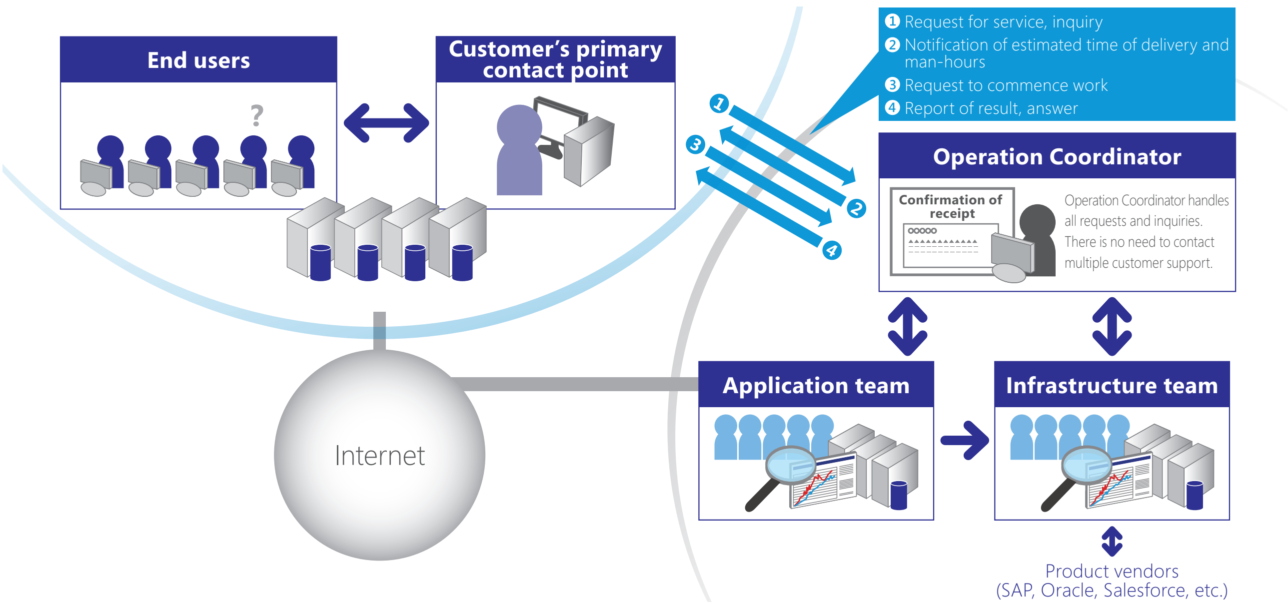
Delivering IT services in an optimal configuration

Providing a full lineup of IT services to meet customers' business objectives

Business Solutions offers a variety of products and services including ERP solutions such as SAP and Oracle, the Salesforce CRM system, and maintenance and operation outsourcing services. In particular, by working with other business groups that focus on specific industries, we are able to provide customers with an even wider range of services. For example, although other companies offer ERP and CRM solutions, SCSK provides global one-stop services from development to operation, putting importance on ease of use, that other companies cannot match. One of these areas is our SAP business. Customers who purchased SAP licences certain amount can use the infrastructure and basic operation service for three years with no additional costs. We have also developed a new Application Management Outsourcing (AMO) service that enables customers to reduce the amount of costs and time spent on application management and operation. With this service, we provide the maintenance operations normally performed by the customer, via a network and only for the amount of time required, thereby significantly reducing expenses for maintenance and operation that account for as much as 70%-80% of the total IT budget. In addition to a wide-ranging menu that provides secure system operation including the maintenance service for the systems that are built by other companies, we provide solutions tailored to the customer's business by working with other business groups and IT vendors.

AMO Service Overview

Providing one-stop services covering comprehensive processes for problem resolution, as a general contact point for customers



Business Services

Takahiro Ichino
Director, Senior Managing Executive Officer
General Manager, Business Services Group

BPO services as an IT company

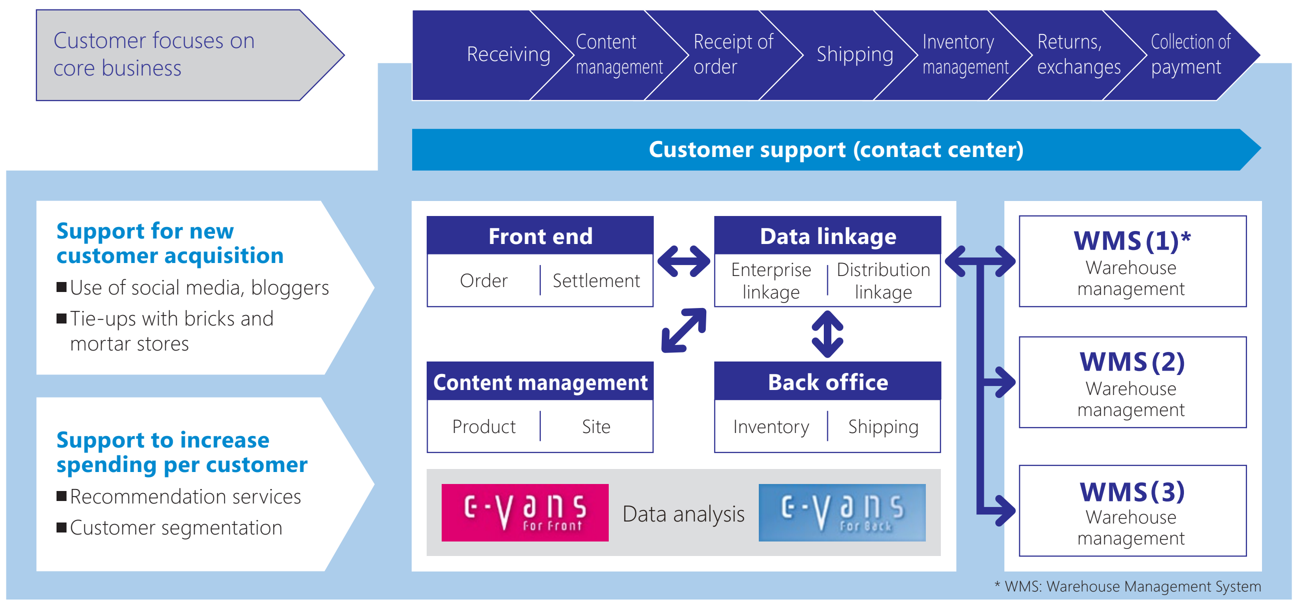
Using solutions that combine human operations and IT to achieve service quality and efficiency that exceed customers' expectations

Utilizing our abundant operational expertise in BPO, we provide various operations including technical support, help desk services, telemarketing, and data input via our 13 call centers and contact centers in Japan. In addition, based on our long track record and systematized verification theory, we provide third-party system verification services for IT-related products (hardware and software), security verification for network systems, and enterprise application verification. With the recent rapid growth of e-commerce, we also provide support for EC system construction and implementation, and fulfillment service – a total outsourcing service for e-commerce that includes back office operations and logistics via our customer service and logistics centers in Tokyo and Yokohama.

Business Services provides solutions that combine human operations and IT, as BPO services that only an IT company can deliver. In particular, as corporate needs for the outsourcing of operational processing for core businesses has grown in recent years, we go beyond simple operations and data input to providing services for operational process rebuilding and business process re–engineering (BPR), with an eye toward system renewal, through making optimal use of IT. By effectively utilizing the systems and implementing new systems with the human operated services, we are able to achieve service quality and efficiency that exceeds customers' expectations.

BPO must be created together with customers based on their operations. We review operations together with the customer in the pursuit of higher quality and more efficient services.

Example of BPO services in e-commerce
Total EC outsourcing service



* WMS: Warehouse Management System

IT Management

Tooru Tanihara
Director, Senior Managing Executive Officer
General Manager, IT Management Group

Creating value for customers through IT management

Providing IT management services that resolve customers' issues regarding management risks and optimize IT investment

Corporate management is constantly seeking business growth, continuity, and soundness. SCSK's IT management services aim to resolve issues and create value for customers through the utilization of IT. To achieve this, the IT Management operates based on two service concepts.

The first concept is "proof" of stable IT services. Utilizing our expertise and experience developed over more than 40 years, combined with ongoing improvements, we offer proof by continuously providing stable operation services.

The second is "realization" of continuously evolving IT services. SCSK provides IT management services in three main areas:

① Platform integration services, focusing on IT infrastructure construction

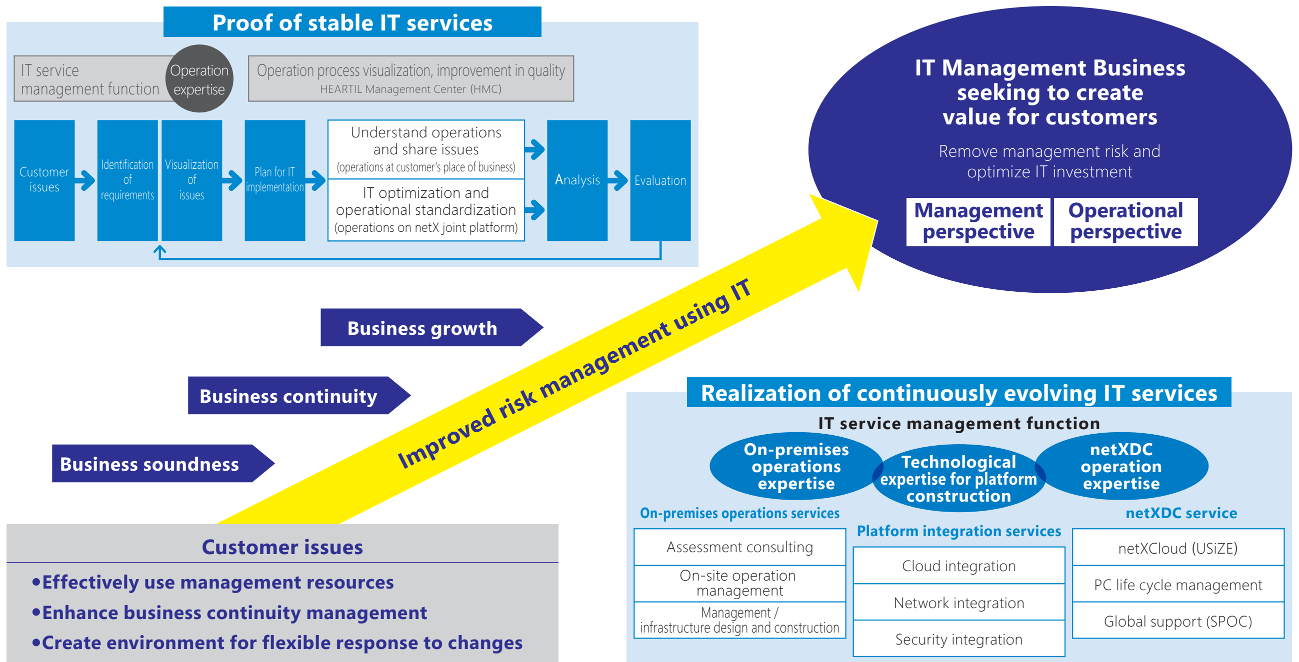
② On-premises operation services, provided on an ongoing basis at the customer's place of business

③ netXDC service, primarily through our data centers

With a full service menu of abundant solutions and expertise, and highly experienced human resources in each of these areas, we are able to meet the needs of customers with our wide-ranging, sophisticated services. In addition, through combinations and the effective utilization of these services, our business is continuously evolving by creating novel and unique services.

IT Management pursues these service concepts through cooperation with customers to create value by removing management risk and optimizing IT investment.

IT Management Service Concept



IT Platform Solutions

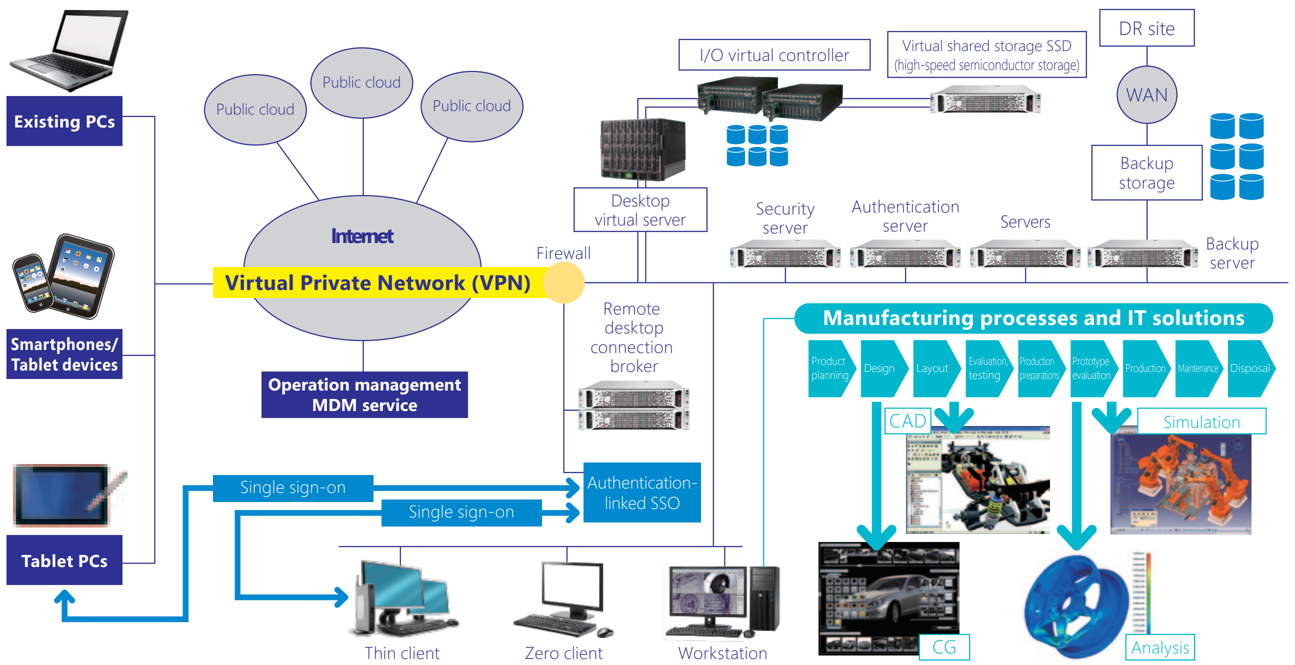
Shigeo Kurimoto
Director, Executive Vice President
General Manager, IT Platform Solutions Group

Opening the door to new businesses with IT infrastructure

Supporting the creation of new businesses with value-added IT infrastructure services

As we are seeing with tablet devices, the range of businesses being supported by IT is expanding due to the commoditization of IT products. New businesses, created based on IT, enhance companies' competitiveness. At the same time, new issues are arising. For example, the concept of Bring Your Own Device (BYOD) introduces convenience, but also raises concerns of information leaks and virus infections. IT Platform Solutions has been providing products and services for IT infrastructure for many years. In particular, SCSK has accumulated the expertise to bring out the desired functionality through optimal combinations of products, including new and commoditized ones, in every circumstance. One example of this is our fine-tuning expertise to achieve optimal functionality through combinations of products. In the fields of fluid analysis and structural analysis, for example, High-Performance Computing (HPC), combining multiple servers to achieve the equivalent functionality of a supercomputer, is receiving attention. In the area of storage, we provide products and services that surpass the functionality of a single product by a combination of products. Hybrid storage, which combines conventional storage with the flash memory used in mobile phones, is one such example. We also design and provide Big Data solutions. We are providing effective solutions that collect, manage and analyze very large quantities of data as well as unstructured data. Through the optimal combination of these solutions, we are planning to offer our comprehensive analytics services.

Overview of a system that can be built with IT products and professional services



CSR Activities

Resolving issues facing our society to "Create Our Future of Dreams"

SCSK engages in IT services that support people in working together alongside a broad range of stakeholders to resolve the many issues facing our society. We also promote CSR activities under ISO26000, an international standard for social responsibility.

An enjoyable and rewarding place to work

Work-life balance

SCSK aims to be "an enjoyable and rewarding place to work," and we have implemented a variety of related programs including a flex-time system of flexible hours that allow employees to adjust their work schedule, the designation of Wednesdays as a "refresh (no overtime) day," and the shortening of the official work day by 10 minutes (from April 2014). The Smart Work Challenge 20 program, introduced in April 2013, is one specific activity that we have implemented.

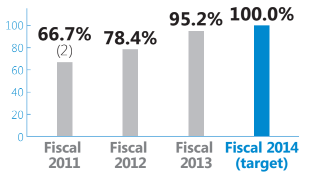
Smart Work Challenge 20 aims to promote health and well-being in the workplace, while also creating a positive cycle of greater operational efficiency and productivity, allowing employees to feel rested and to pursue studies and interests, which in turn lead to further productivity. We have set targets of "taking 20 paid vacation days (the full number allocated for the year)" and "keeping average monthly overtime below 20 hours." During fiscal 2013, on a companywide basis, 95% of vacation days were taken and average monthly overtime was reduced to 22 hours.

To promote the taking of vacation days, we have introduced a back-up vacation system[1] that allows employees to take paid holidays in the event of unforeseen circumstances after having already used all of their paid holidays. In addition, we set certain dates in while employees are encouraged to take a paid vacation, as well as allow the vacation days to be taken in one-hour increments. We also offer incentives at the organizational level that correspond to the achievement of these targets (the degree of improvement in the quality of working life).

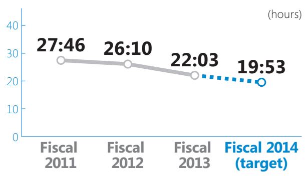
1 Back-up vacation: up to three extra days in fiscal year 2013, and up to five days in fiscal year 2014 (provisional).

スマチャレ20 Smart Work Challenge 20

Percentage of Paid Vacation Days Taken



Hours of Overtime Worked



2 Employment for persons with disabilities occurs primarily via SCSK's special subsidiary Tokyo Green Systems Corporation.

Diversity

The individual characteristics and values of employees are what constitute the strength of an organization, and SCSK actively promotes diversity at work through support for women's participation and employment for persons with disabilities to create a workplace that maximizes each employee's skills.

Number of Women in Line Management Positions

As of April 2014	Fiscal 2018
43 (actual)	100 (target)

Number and Percentage of Employees with Disabilities (As of June 1, 2014)

Number	Percentage
169	2.08%

Tokyo Green Systems Corporation

Selected as Companies Providing Career Support in 2013 — for companies committed to human resource development (Ministry of Health, Labour and Welfare)

No. 2 in Ranking of Companies' Use of People (*Nihon Keizai Shimbun*)

Diversity Management Selection 100 Winner (Ministry of Economy, Trade and Industry)

DIVERSITY MANAGEMENT SELECTION 100 2014

Support for reconstruction after the Great East Japan Earthquake

We consider the recovery and reconstruction following the earthquake and tsunami to be an issue for Japanese society that transcends corporate and organizational entities. Under the motto "Starting with Tohoku, we will create a future of dreams together," we are working on front-line activities that make regular use of our core businesses and SCSK's resources.

Participating in "Yui-no-Ba" or resource support matching.

Installing support systems at local NGOs.

The Kizuna Café was opened to consider ways to support reconstruction.

Environmental activities

To accurately address global environmental issues and reduce the environmental impact of our business activities, SCSK participates in the Sumitomo Corporation Group's unified verification system for ISO14001 certification for environmental management systems. We are engaged in environmental protection activities to preserve our office environment, expand our environmental businesses, strictly comply with environmental laws and regulations, and elevate awareness of environmental protection.

Social contribution activities

CAMP (Children's Art Museum & Park)

CAMP Children's Art Museum & Park

CAMP workshops foster creativity in interactive settings through imaginative activities, group work, and project presentations. Since its launch in 2001, CAMP has developed and held a variety of workshops to develop children's creativity and communications skills, and expanded the program nationwide.

At the Japan Mécénat Award 2013, hosted by the Association for Corporate Support of the Arts for cultural activities undertaken by companies and organizations, SCSK's CAMP program received the Learning Treasure Chest prize in recognition of the program's practical activities for fostering creativity.

MÉCÉNAT AWARDS 2013

Earth One

Earth One is a voluntary club for employees interested in social contribution activities. It carries out a range of employee-initiated activities including events, volunteering, and the collection of donations. One of the club's activities was to collect funds for the construction of a computer room at Dontey Lower Secondary School in Kampong Cham Province, Cambodia, through Plan Japan, to provide an opportunity for children in a developing country to learn IT skills.

Class in session at the computer room built in Cambodia.

Plate indicating the gift from SCSK and Earth One.

SCSK supports these activities through a system of matching gifts and paid holidays for persons attending employee-led volunteer activities.

Supporting United Nations Global Compact

SCSK participates in the UN Global Compact. We support and implement the Compact's Ten Principles concerning human rights, labor, the environment, and Anti-Corruption, to provide the services required for the achievement of a sustainable society.

United Nations Global Compact

The UN Global Compact involves voluntary participation in a global framework that supports an organization to act as a good citizen and achieve sustainable growth by fulfilling corporate responsibility through creative leadership.

ISO26000 core subjects and SCSK's CSR activities

SCSK is engaged in the following activities with regard to the Core Subjects designated by ISO26000, an international standard for social responsibility.

ISO26000 Core Subject	SCSK's Main Activities
Organizational governance	■Strengthening corporate governance ■Establishing a system of internal controls ■Strengthening risk management ■Disclosing information to stakeholders
Human rights	■Supporting the UN Global Compact ■Respecting human rights and prohibiting discrimination
Labor practices	■Promoting human resource development ■Promoting diversity ■Supporting persons with disabilities ■Addressing work–life balance ■Promoting worker health and safety
The environment	■Promoting environmental management ■Obtaining ISO14001 certification ■Promoting environmental targets and indexes ■Expanding environmental businesses ■Reducing data centers' environmental footprint
Fair operating practices	■Promoting compliance ■Thoroughly implementing fair trading practices ■Strengthening information security
Consumer issues	■Promoting product and service quality management ■Working to raise customer satisfaction ■Thoroughly protecting personal information
Community involvement and development	■Promoting social contribution activities ■Developing next-generation human resources ■Cooperating with local communities and globally ■Protecting the global environment

ISO26000

ISO26000 was developed by the International Organization for Standardization (ISO) through consensus among diverse stakeholders, as a set of comprehensive guidelines related to social responsibility for sustainable development. The standard designates seven Core Subjects as themes that apply to all types of organizations.

More information regarding SCSK's CSR activities is available on our corporate website.

http://www.scsk.jp/corp_en/csr/index.html

Corporate Governance

Basic Policy

SCSK's basic policy on corporate governance is to raise management efficiency and maintain healthy operations from the perspective of shareholders and other stakeholders, maintaining transparency in the process, and bearing in mind our corporate social responsibility (CSR) as a company. Recognizing this as one of our most important management issues, we aim to build and implement an optimal management structure for the Company.

Structure and Main Committees

SCSK's corporate governance structure is organized around the General Meetings of Shareholders as the ultimate decision-making body, and a Board of Directors, a Board of Auditors, and an Independent Auditor.

The Board of Directors has 17 members, three of whom are outside directors. In principle, the Board of Directors meets monthly to decide on important management issues and supervise operational execution. To maintain and enhance the supervisory function of the Board of Directors, the Company continuously appoints outside directors who have no conflicts of interest with general shareholders.

To clarify their management responsibilities in each business year, directors serve a term of one year. In addition, full-time directors serve concurrently as executive officers, to maintain and facilitate swift management decision making based on actual business circumstances and effective oversight of operational execution.

The Board of Auditors has four members, three of whom are outside corporate auditors, who receive reports, deliberate on and make decisions regarding important audit-related matters. In accordance with the audit policy set by the Board of Auditors, corporate auditors attend meetings of the Board of Directors, the Management Committee, and other important meetings, and request business reports from directors and executive officers.

A Management Committee, comprising directors, executive officers, and corporate auditors, has been set up to facilitate operational execution by advising the Chairman & CEO and President & COO with regard to important management matters.

Audit and Oversight Structure

SCSK employs a corporate auditor structure for audits and oversight, primarily through oversight of the Board of Directors' operational execution and audits carried out by the Board of Auditors.

Corporate auditors receive reports from the Internal Auditing Department and review documents related to important decisions, as well as visit subsidiaries, affiliates, and other important business locations to inspect the status of operations and assets.

Corporate auditors meet regularly with the independent auditor, to understand the independent auditor's activities and to exchange information. Corporate auditors also attend audit evaluation meetings held by the independent auditor, conduct on-site inspections of inventory assets, and work to enhance the efficiency and quality of the corporate auditors' activities.

In addition, a Corporate Auditors' Department has been established as an organization independent of the Board of Directors, to assist corporate auditors in their operations, and to ensure that the activities of the corporate auditors are not hindered and that their function is fully utilized.

Internal Controls

A Basic Policy on Internal Controls has been formulated to ensure that directors' operational execution and other operations are carried out in conformity with relevant laws and regulations. This Policy is constantly reviewed to confirm the effective functioning of internal control systems and address changes in the operating environment, in order to maintain a structure that meets the needs of the times.

Risk Management

A Risk Management Policy has been drafted to manage the risks inherent in our business activities. The Policy classifies risk into four categories: (1) strategic risk, including market, business opportunity, and investment risk; (2) operational risk, including litigation, environmental, and labor affairs risk; (3) financial risk, including inventory and foreign exchange risk; and (4) hazard risk, including natural disaster, information system, and accident/malfunction risk. We are continuously engaged in risk management, to maintain and enhance our credibility as a company and to minimize losses and maintain stable business results when risk events do occur.

Emergency Response Measures and Business Continuity Planning

SCSK has created action standards and an organizational structure for emergency responses in the event of a major disaster, pandemic, or other unforeseen event that could have a significant impact on the SCSK Group. We have also introduced measures to prepare for this type of situation, including the installation of a system to confirm employees' safety, and for the storage of food and water supplies, and have formulated a business continuity plan that is reviewed annually.

Timely Disclosure of Corporate Information Structure for Timely Disclosure

SCSK recognizes that a high level of management transparency is an important component of corporate governance, and we have therefore established the following structure for the disclosure of corporate information. Through this system we ensure that information is disclosed in a timely, appropriate, and impartial manner.

1. Legal, General Affairs, Corporate Communications & IR Group, Finance & Risk Management Group, Accounting Group, Corporate Planning Group, and Human Resources Group carry out the appropriate collection of information that is subject to disclosure, screen items, and prepare drafts for disclosure.
2. Upon receiving authorization of the Chairman & CEO and President & COO, the persons responsible for handling information, i.e., for supervising the management and disclosure of information, confirm the content and determine whether disclosure is required.
3. The approval of the Board of Directors is obtained as needed, and the persons responsible for handling information disclose the corporate information.

Board of Directors, Corporate Auditors (As of June 26, 2014)

Directors and Corporate Auditors

Chairman & CEO* Nobuhide Nakaido

President & COO* Yoshio Osawa

Director	Hiroaki Kamata	Director	Shigeo Kurimoto	Director	Masahiko Suzuki	Director*	Hisakazu Suzuki
Director	Masanori Furunuma	Director*	Tatsuyasu Kumazaki	Director	Tooru Tanihara	Director	Satoshi Toriyama
Director	Takahiro Ichino	Director	Tetsuya Fukunaga	Director	Hiroyuki Yamazaki	Director	Masatoshi Endou
Outside Director	Tatsujiro Naito	Outside Director	Naoaki Mashimo	Outside Director	Iwao Fuchigami		

*Representative Director

Outside Standing Auditor	Yoshiharu Takano	Corporate Auditor	Yasuaki Matsuda
Outside Corporate Auditor	Hideo Ogawa	Outside Corporate Auditor	Shigeki Yasunami

Compliance

Basic Policy

At SCSK, compliance means having a strong sense of ethics, in terms of both legal and regulatory compliance and adherence to social norms. The most important principle for employees to apply is honesty and proper conduct, as a member of the Company and of society, based on the Company's Corporate Philosophy and Code of Conduct. Our aim is for each employee to be responsible for his or her own actions, and to fulfill our social responsibility as an organization.

Structure/System

Building on our Basic Compliance Policy, we have drawn up the Code of Compliance and the SCSK Compliance Manual, as guidelines on a range of issues including the organizational structure for compliance activities, education and awareness programs, a Compliance Committee, and a system for internal reporting.

We have set up a Compliance Committee as a structure for implementing compliance. The Committee's responsibilities include determining and revising Companywide compliance policies, supporting and managing the compliance structure, coordinating with related departments, confirming implementation, and sharing information.

Internal Reporting System

SCSK has created an internal reporting system for the prevention and early resolution of compliance infractions. This system provides an alternative when it is difficult for an employee to report a compliance-related problem through their organizational reporting line—for example, when a superior is involved in a compliance infraction—by allowing employees who sense a problem to report the issue directly to the Compliance Committee, a designated attorney, and/or a corporate auditor.

This system is strictly confidential and maintains the privacy of the person making the report and other parties involved, as well as the confidentiality of the matter reported, while also ensuring there will be no repercussions for the person making the report. Appropriate action is taken when the information received requires a response, and the results of that action is communicated as feedback to the person who made the original report.

Promoting Education and Awareness

Based on the belief that compliance is each employee's responsibility, regular compliance training programs are held for employees. In addition, the SCSK Compliance Manual contains detailed information explaining particularly important laws and regulations, and is available on our Company intranet so that employees can refer to it at any time, so as to always carry out their duties in compliance with the Company's Corporate Philosophy and Code of Conduct.

Financial Section

CONTENTS

Financial Highlights

SCSK Corporation: Financial Indicators

(millions of yen)

Income Statements	2010/3	2011/3	2012/3 (Note1)	2013/3	**2014/3**
Net sales	127,317	132,840	200,327	278,634	**288,237**
System Development	43,377	45,964	73,812	112,316	**117,597**
System maintenance and operation/ Services	36,084	37,286	68,296	104,284	**107,577**
Packaged Software/ Hardware Sales	47,857	49,589	56,496	58,731	**60,019**
Prepaid Card business	–	–	1,723	3,302	**3,042**
Gross profit	29,176	29,048	46,370	64,467	**68,725**
Gross profit margin (%)	22.9	21.9	23.1	23.1	**23.8**
SG&A expenses	22,752	21,972	33,490	43,663	**44,750**
Operating income	6,424	7,076	12,880	20,804	**23,975**
Operating income margin (%)	5.0	5.3	6.4	7.5	**8.3**
Net income	3,242	3,803	25,669	16,730	**18,388**

(millions of yen)

Cash Flows	2010/3	2011/3	2012/3	2013/3	**2014/3**
Cash flows from operating activities	6,688	7,080	22,249	25,156	**35,343**
Cash flows from investing activities	(6,786)	(4,815)	(8,112)	(249)	**(26,045)**
Free cash flows (Note 2)	(98)	2,266	14,137	24,907	**9,297**
Cash flows from financing activities	(3,005)	(2,426)	(7,966)	(5,512)	**(33,739)**
Cash and cash equivalents at end of period	26,203	25,892	63,662	83,248	**59,004**

(millions of yen)

Financial Postion	2010/3	2011/3	2012/3	2013/3	**2014/3**
Total assets	117,545	121,285	300,929	322,829	**317,933**
Net assets	92,683	94,569	124,420	108,209	**126,160**
Equity capital	92,314	94,161	119,190	102,800	**120,489**
Interest-bearing debt + Preferred shares (Note 3)	0	0	84,860	84,860	**57,000**

(yen)

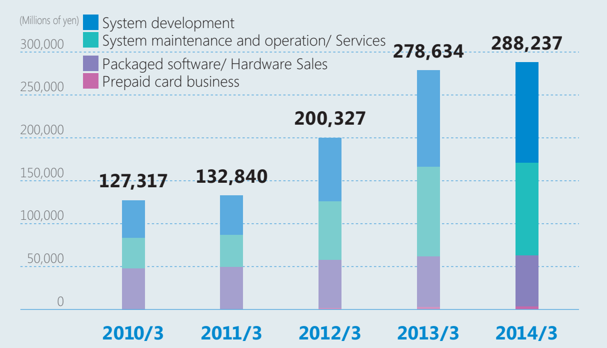
Per Share Data	2010/3	2011/3	2012/3	2013/3	**2014/3**
BPS	1,847.95	1,884.78	860.37	991.48	**1,161.29**
EPS	64.90	76.13	334.19	161.39	**177.26**

Financial Highlights

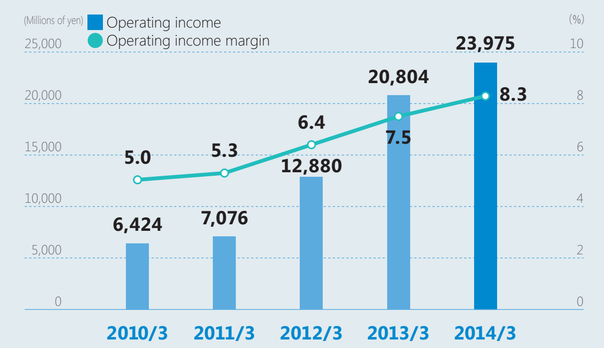
Major Indicators	2010/3	2011/3	2012/3 (Note1)	2013/3	**2014/3**
ROE (%)	3.6	4.1	24.1	15.1	**16.5**
ROA (%)	6.2	6.1	7.9	7.1	**8.0**
Equity ratio (%)	78.5	77.6	39.6	31.8	**37.9**
Debt /Equity ratio (times)	0.00	0.00	0.46	0.83	**0.47**
Number of employees	3,480	3,517	11,995	11,797	**11,689**
Capital expenditures (millions of yen)	4,627	7,121	7,955	10,219	**9,441**
Depreciation (millions of yen)	3,571	3,811	5,380	6,690	**6,841**
R&D (millions of yen)	975	432	417	566	**449**
Stock prices (yen)	1,356	1,161	1,312	1,835	**2,781**

Notes: 1 Figures of CSK before the merger date (October 1, 2011) are not included.
2 Free cash flows = Cash flows from operating activities + Cash flows from investing activities
3 The figure as of March 31, 2012 includes ¥30.0 billion of preferred stocks assumed by the Company in fiscal 2011 as a result of the merger with CSK CORPORATION. All of these preferred stocks were acquired from the financial institutions holding the shares on May 31, 2012, and based on a resolution passed at the Ordinary General Meeting of Shareholders held on June 27, 2012, all of these preferred stocks were cancelled the same day, June 27, 2012.

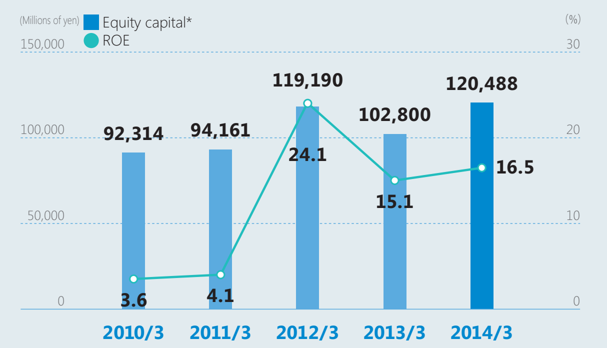
Net sales



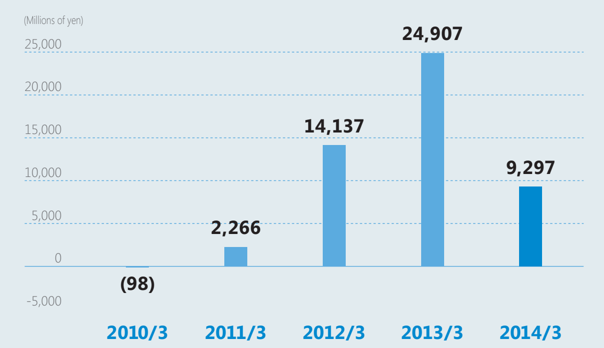
Operating income / Operating income margin



Equity capital* / ROE



Free cash flows



* Equity capital = Shareholders' equity + total accumulated other comprehensive income

Management's Discussion and Analysis

I. Overview of Results

1. Economic and Industry Trends

In the period under review, the Japanese economy responded to the government and central bank's economic and fiscal policies and generally moved towards a recovery. The stock market trended favorably from the latter half of the fiscal year, corporate earnings showed a recovery on the correction of the strong yen, and capital expenditure also exhibited a firm trend. As the employment and income environment continued to improve, consumer spending and housing demand firmed, with an increase in demand prior to the consumption tax increase.

In this economic environment, an improvement in business sentiment formed the background of a recovery in capital investment by corporate customers who had restrained or postponed spending in recent years. Thus IT investment demand, especially system development projects, grew firmly.

In the financial industry, systems investment expanded as large-scale IT investment involving business integration continued to be firm mainly in the banking and insurance industries, while more companies in industries such as securities and leasing where IT investment had been restrained proactively undertook IT investment.

In the manufacturing industry, corporate customers' strategic IT investment demand is being realized as part of reinforcing production and marketing activities and global business expansion. As the earnings of manufacturing industry customers recover, IT investment is expected to gain momentum for further recovery.

Many more companies are considering renewing their IT infrastructures, prompting an expansion in demand for cloud-type IT infrastructure services for further improving business efficiency and productivity as well as data center services related to business continuity planning and disaster recovery.

2. Consolidated Results

□ Net sales

Net sales increased 3.4% from the previous fiscal year, to ¥288,237 million, reflecting the strong performance of the systems development business, primarily for the financial industry.

□ Operating income

In addition to profit growth from increased net sales, improved operational efficiency raised profitability, and as a result operating income rose 15.2%, to ¥23,975 million.

□ Non-operating income (expenses)

As a result of a review of the business portfolio, an impairment loss of ¥1,120 million, a business withdrawal loss of ¥401 million, and office transfer expenses of ¥819 million were recorded.

□ Income before income taxes and minority interests

Income before income taxes and minority interests increased 19.2% from the previous fiscal year, to ¥19,458 million.

□ Income taxes

Income taxes for the fiscal year totaled ¥803 million. As a result, the ratio of income taxes to net income before income taxes and minority interests (the tax rate) was 4.1%.

□ Minority interests

Minority interests in income totaled ¥267 million.

□ Net income

Despite the recording of initially anticipated one-time losses related to the review of the business portfolio and liquidation of certain assets, net income rose 9.9% from the previous fiscal year, to ¥18,388 million, reflecting growth in operating income and ordinary income. Net income per share was ¥177.26, marking a ¥15.87 increase from the previous fiscal year's ¥161.39.

Management's Discussion and Analysis

II. Overview of Results by Reportable Segment

Business results by reported segment are as follows. In accordance with changes in the segmentation method for the fiscal year under review, results for the previous fiscal year have been restated to enable comparison.

(Unit: Millions of yen unless otherwise stated)

	Previous fiscal year (April 1, 2012 - March 31 2013)		Fiscal year under review (April 1, 2013 – March 31, 2014)		Change from previous fiscal year	
	Amount	Segment Profit	Amount	Segment Profit	Amount	Segment Profit
Industrial Systems Business	70,201	4,844	68,847	5,476	(1,354)	632
Financial Systems Business	51,855	4,553	55,176	5,880	3,321	1,327
Global Systems Business	12,103	1,976	13,923	1,957	1,820	(19)
Business Solutions	15,359	1,748	15,948	1,544	589	(204)
Business Services	31,208	996	31,854	1,525	646	529
IT Management	35,749	3,148	37,358	3,890	1,609	742
IT Platform Solutions	58,028	3,615	61,293	4,445	3,265	830
Prepaid Card business	3,302	572	3,043	148	(259)	(424)
Others	829	288	795	265	(34)	(23)
Adjusted total	–	(936)	–	(1,155)	–	(219)
Total	278,634	20,804	288,237	23,975	9,603	3,171

(Notes) 1 Net sales by segment is based on sales to external customers.
2 For information on changes to reporting segments please refer to 1. Overview of reported segments in (5) Notes to consolidated financial statements in 4. Consolidated Financial Statements.

□ Industrial Systems Business

Due to a relative decline in the large-scale systems development projects in the distribution and communications industries that supported performance in the previous year, net sales decreased 1.9% to ¥68,847 million, while segment profit increased 13.0% to ¥5,476 million due to an increase in development productivity and reduced expenses.

□ Financial Systems Business

Development projects in the banking and securities industries were firm, mainly driven by large-scale development projects related to business integration in the insurance industry, and net sales increased 6.4% to ¥55,176 million and segment profit increased 29.1% to ¥5,880 million.

□ Global Systems Business

Development projects were firm, particularly in the distribution industry, and net sales increased by 15.0% to ¥13,923 million and segment profit decreased 1.0% to ¥1,957 million due to the effects of decreased profitability on some projects.

□ Business Solutions

ERP related application development and maintenance projects were firm, with net sales increasing 3.8% to ¥15,948 million while a decline in profitability on a few projects caused segment profit decrease 11.7% to ¥1,544 million.

□ Business Services

Smart device-related technical support and customer support projects were firm, leading to net sales increasing 2.1% to ¥31,854 million, and segment profit increased 53.1% to ¥1,525 million on improved profitability largely due to reduced expenses.

□ IT Management

Business was firm in various types of system maintenance and operation services including cloud services and data center services, with net sales increasing 4.5% to ¥37,358 million and segment profit increasing 23.6% to ¥3,890 million.

□ IT Platform Solutions

In addition to firm sales of hardware and software in the manufacturing industry, especially automobile makers, large-scale IT equipment sales to scientific and research institutions caused net sales increase 5.6% to ¥61,293 million and segment income increase 23.0% to ¥4,445 million.

□ Prepaid Card Business

Business related to the issuing and settlement of prepaid cards was firm, but because a one-time gain on asset management of ¥431 million was included in the previous fiscal year, net sales decreased 7.8% to ¥3,043 million and segment profit decreased 74.1% to ¥148 million.

□ Others

Net sales (facility maintenance and lease income) decreased 4.2% to ¥795 million. Segment profit decreased 8.0% to ¥265 million.

III. Net Sales by Segment

Net sales in the sales segment of Systems Development, System Maintenance and Operation/Services,Packaged Software/Hardware Sales and Prepaid Card Business were as follows.

	Previous fiscal year (April 1, 2012 – March 31 2013)		Fiscal year under review (April 1, 2013 – March 31, 2014)		Change from previous fiscal year	
	Amount (millions of yen)	Percent of Total (%)	Amount (millions of yen)	Percent of Total (%)	Amount (millions of yen)	Percent of Total (%)
Systems Development	112,316	40.3	117,598	40.8	5,282	4.7
System Maintenance and Operation/Services	104,285	37.4	107,577	37.3	3,292	3.2
Packaged Software/Hardware Sales	58,731	21.1	60,019	20.8	1,288	2.2
Prepaid Card Business	3,302	1.2	3,043	1.1	(259)	(7.9)
Total	278,634	100.0	288,237	100.0	9,603	3.4

In Systems Development, development projects expanded in system areas such as production management, sales management and CRM due to increased customer need for strategic IT investment required to strengthen their business and increase their corporate value. In addition, as development project demand increased for areas such as business integration and IT investment for global operations, net sales rose 4.7% to ¥117,598 million.

In System Maintenance and Operation/Services, as an increasing number of companies are considering reviewing or renewing their IT infrastructures, demand is growing for cloud-type infrastructure services which aim to further increase business efficiency, as there are needs for data center services that take BCP (business continuity planning) and disaster recovery into account. Net sales in the segment increased 3.2% to ¥107,577 million.

In Packaged Software/Hardware Sales, large-scale IT equipment sales to scientific and research institutions and larger sales of hardware and software to customers in manufacturing such as automobile makers caused net sales rise 2.2% to ¥60,019 million. In Prepaid Card Business, although business related to the issuance and settlement of prepaid cards was firm, a one-time gain on asset management in the previous fiscal year caused net sales to decline 7.9% to ¥3,043 million.

Management's Discussion and Analysis

IV. Financial Position

□ Total assets

Total assets as of March 31, 2014, were ¥317,933 million, for a ¥4,896 million decrease from March 31, 2013.

Current assets increased ¥2,276 million, to ¥210,897 million. Investments and other assets decreased ¥8,136 million, to ¥49,849 million.

□ Liabilities

Liabilities as of March 31, 2014, totaled ¥191,773 million, for a ¥22,847 million decrease from March 31, 2013. Current liabilities decreased ¥14,352 million from March 31, 2013 to ¥145,525 million, mainly due to a ¥17,000 million increase in short-term loans payable. Long-term liabilities decreased ¥8,495 million from March 31, 2013 to ¥46,248 million.

□ Net assets

Net assets as of March 31, 2014, totaled ¥126,160 million, for a ¥17,951 million increase from March 31, 2013, attributable to a ¥2,537 million increase as a result of remeasurements of defined benefit plans. The equity ratio (shareholders' equity as a percentage of total assets) was 37.9%, and net assets per share increased ¥169.81 from March 31, 2013 to ¥1,161.29.

V. Cash Flows

Cash and cash equivalents ("cash") as of March 31, 2014 was ¥59,004 million, a decrease of ¥24,244 million compared to March 31, 2013. The increase or decrease in each cash flow type and the main factors for such changes are as follows.

□ Cash flow from operating activities

Net cash provided by operating activities was ¥35,343 million. The main cash inflow factors were income before taxes and minority interests of ¥19,458 million, depreciation and amortization expenses of ¥6,841 million, and an increase in accounts payable of ¥2,051 million. The main cash outflow factor was an increase in accounts receivable of ¥1,638 million.

□ Cash flow from investing activities

Net cash used in investing activities was ¥26,045 million. The main cash inflow factor was income from the sale of short-term investment securities of ¥3,428 million. The main cash outflow factors were payment of deposits of ¥18,000 million, acquisition of tangible fixed assets of ¥7,017 million and acquisition of intangible fixed assets of ¥1,926 million.

□ Cash flow from financing activities

Net cash used in financing activities was ¥33,739 million.

The main cash inflow factor was an increase in cash from new short-term bank loans of ¥17,000 million. The main cash outflow factors were a capital reduction for redemption of bonds of ¥35,000 million, repayment of long-term debt of ¥9,860 million, year-end dividend payments of ¥1,871 million (¥18 per share) for the fiscal year ending March 31, 2013 and interim dividend payments of ¥2,079 million (¥20 per share) for the fiscal year ending March 31, 2014.

Business Risks

The following risks could potentially have a significant impact on SCSK Group's business (operating results and/or financial position). Matters in this section regarding future developments are based on the Company's judgment as of June 26, 2014.

1 Risks Related to the Business Environment

The information services industry in which SCSK Group operates experiences intense competition—among specialist IT service companies, from IT hardware vendors attempting to enter the IT services sector, and from overseas companies. Given this situation, changes in the business environment can lead to major and rapid changes in customers' IT investment needs, and these changes, as well as continued price competition within the industry, significantly beyond the level being seen at this time, could have a major impact on the Group's results.

In addition, the Group provides a range of IT services to customer companies in a variety of industries and with various business formats, and the timing and scope of customers' IT investment is both directly and indirectly affected by the economic environment and factors like interest rate and currency movements. Furthermore, the Prepaid Card Business faces the possibility of competition arising from other payment methods, and this could also have an impact on the Group's results.

2 Risks Related to Systems Development

The SCSK Group undertakes information systems development for customer companies, but as systems development becomes increasingly complex with shorter delivery schedules, there is the possibility that costs will increase if quality cannot be maintained as planned, or development cannot be completed within the scheduled timeframe, and this could have an impact on the Group's results. In addition, the Group uses many subcontractors, including offshore development companies, to maintain production capacity, increase cost efficiency, and utilize technological capabilities and expertise, but there is the possibility that productivity and quality cannot be maintained as expected.

The Group therefore strives to reduce risk through systematic efforts to ensure that unforeseen malfunctions do not arise in the overall systems delivered, through checks at the negotiation and estimate stages and management of the project's progress by specialist divisions, quality checks, general inspections of subcontractors, and thorough progress and quality management for system development operations.

3 Risks Related to Addressing Technological Innovation

The information services industry in which the SCSK Group operates experiences extremely fast-paced technological innovation, which creates the possibility that the Group's technologies, technical abilities, and expertise will become outdated. In addition, rapid changes in industry standards for the software and hardware used to construct the systems and provide the services of customers, which are the source of the Group's earnings, could lead to a loss of technical or price advantages for those systems and services. As a result, if the Group is unable to predict or recognize trends in technological changes within the industry, or is able to predict but not able to respond appropriately to those changes, these could have an impact on the Group's results.

To appropriately respond to technological innovation in a timely manner, the Group promotes the enhancement of employees' capabilities, and the systematic identification and acquisition of new technologies. In addition, the Group disperses the technical capabilities and product procurement capacity used to build systems and provide services, and at the same time promotes business operations that are not overly reliant on any particular technology, expertise, or product.

4 Risks Related to Information Security

From systems development through to the operational stage, the SCSK Group handles various types of confidential information, including personal information held by customer companies and technical information related to customer companies' systems. In the event this confidential information were to be leaked or altered because of a computer virus, unauthorized access, human error, damage to the customer's system, or for any other reason, the customer could seek compensatory damages and the Group could suffer a loss of confidence, and this could have an impact on the Group's results.

Business Risks

Therefore, in addition to maintaining thorough compliance and strengthening physical security measures, we implement programs to strengthen information security through education and training, including at subcontractors that handle confidential information. We also work to insure that subcontractors maintain the same levels of information security and information management as those of SCSK through on-site reviews at subcontractors when necessary.

5 Risks Related to Investments

The SCSK Group provides credit including equity investment and loans to operating companies and venture capital companies for the purpose of strengthening our solutions, maintaining production capacity, acquiring and enhancing technical capabilities in cutting-edge areas, and maintaining the ability to procure the latest hardware and software, and purchases prototype products from these companies. Investments are also made for packaged software development and service development in priority business areas and new business areas.

The failure to get returns as initially anticipated, or to incur losses, as a result of deterioration in earnings or shortfalls in the business plans at businesses receiving investments could have an impact on the Group's results.

Therefore, a risk management structure has been established to give thorough consideration, when making investments, to the business receiving the investment, the business plan, and the risk versus return on the investment, and to confirm and monitor the progress under the plan after the investment is made.

6 Risks Related to Litigation

The SCSK Group sells and delivers software and hardware products developed and manufactured outside the Group to a large number of customer companies, and there is the possibility of litigation arising as a result of infringement of intellectual property rights in connection with these business activities. The details and outcomes of any such litigation could have an impact on the Group's results.

7 Risks Related to Fluctuations in Defined Benefit Pension Fund Assets and Assumptions in Pension Benefit Accounting

The plan assets in the Group's corporate pension fund increase and decrease as a result of investment performance. In addition, assumptions which are one of the components used in pension benefit accounting to calculate retirement benefit obligations, fluctuate as a result of factors including the aging and retirement of employees, and new employees enrolling, in the pension program. Plan assets and assumptions are subject to change due to factors that are beyond the control of SCSK's management, and this could have an impact on the Group's results.

8 Risks Related to the Possibility of Recovery of Deferred Tax Assets

The Group recognizes deferred tax assets that it expects to recover from taxable income arising from business transactions. However, the inability to recover these assets because of a shortfall from planned operating results, or tax system revisions including changes in tax rates, could necessitate reversals of deferred tax assets, which could have an impact on the Group's results.

9 Risks Related to Impairment on Fixed Assets

As of March 31, 2014, the SCSK Group owned land and structures with a book value of ¥45,876 million, which are used for offices (including leased offices), data centers, dormitories, and employee housing. Data centers and leased offices are classified with their respective business segments, and other assets are classified as corporate assets, and movements in land prices or the SCSK Group's performances could have an impact on the Group's results.

During the fiscal year ended March 31, 2014, impairment losses were recorded on facilities that had become idle. Based on an evaluation of the collectability of these assets of respective business segments as of March 31, 2014, SCSK determined that there was no property and equipment other than those idle facilities on which impairment losses would be recognized in the fiscal year ended March 31, 2014.

10 Risks Related to Product Procurement

The SCSK Group procures a wide range of specially selected hardware and software products in Japan and overseas, and supplies these products to customers. In addition to utilizing overseas offices and networks to identify and procure products and keep pace with technological trends overseas, we pursue joint business strategies with vendors in Japan and overseas to keep abreast of developments and enable stable product procurement. Nevertheless, sudden, unexpected changes in vendors' business strategies could result in changes in product specifications or the termination of supplies, and this could have an impact on the Group's results.

11 Risks Related to Non-Recovery of Claims

The SCSK Group sells products, undertakes systems development, and provides services to a large number of customer companies. The payment for many of these transactions takes place after the product or service is delivered. Deterioration in the customer company's financial position could lead to a delay in the recovery of SCSK's claims, or make recovery difficult, and this could have an impact on the Group's results.

Therefore, the Group manages credit, confirms the status of customer companies' credit and sets appropriate credit limits independently of the operating division, and also regularly monitors the status of unpaid claims and recovery. Appropriate accounting measures, including the recording of allowances for doubtful accounts, are taken as necessary.

12 Risks Related to Large-Scale Natural Disasters

The SCSK Group has formulated business continuity plans and has strengthened its structure to ensure business continuity in the event of unforeseen circumstances. Nevertheless, many of the Group's offices and assets, including the head office, are concentrated in large metropolitan areas, and the occurrence of a major natural disaster like an earthquake occurring directly beneath Tokyo or in the Nankai Trough, or the outbreak of a new type of influenza or other infectious disease with the potential to spread globally, could have an impact on the Group's results.

13 Risks Related to Retention and Development of Human Resources

The SCSK Group's business activities rely heavily on human resources, and we strive to hire, retain, and develop quality human resources in all of our business areas while maintaining a workplace environment that focuses on the four perspectives of work-life balance, diversity, health maintenance, and career development. In the event this retention and development of human resources were to fail to proceed as planned, there could be an impact on the Group's results.

Consolidated Balance Sheets

SCSK Corporation and Consolidated Subsidiaries
March 31, 2014 and 2013

ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 2) 2014
Current assets:			
Cash and time deposits (Notes 3, 11 and 24)	**¥ 19,157**	¥ 19,669	**$ 186,131**
Notes and accounts receivable - trade (Notes 3, 4 and 6)	**63,372**	61,661	**615,744**
Short-term investment securities (Notes 3, 5 and 24)	**1,101**	1,299	**10,701**
Operational investment securities (Notes 3, 5 and 11)	**40,372**	37,327	**392,270**
Inventories (Note 7)	**4,245**	3,462	**41,246**
Deferred tax assets (Note 14)	**10,482**	8,548	**101,844**
Short-term loans receivable (Note 3)	**7**	107	**70**
Deposits paid (Notes 3 and 24)	**58,865**	64,478	**571,947**
Others	**13,327**	12,171	**129,479**
Allowance for doubtful accounts	**(31)**	(101)	**(298)**
Total current assets	**210,897**	208,621	**2,049,134**
Property and equipment (Notes 8, 9, 13, 18, 19 and 25)	**57,187**	56,223	**555,650**
Investments and other assets:			
Investment securities (Notes 3 and 5)	**3,877**	7,076	**37,669**
Investment in unconsolidated subsidiaries and affiliates (Notes 3 and 5)	**4,437**	4,353	**43,109**
Deferred tax assets (Note 14)	**23,500**	25,138	**228,336**
Intangible assets (Note 18)	**7,216**	7,690	**70,114**
Asset for retirement benefits (Note 12)	**2,295**	–	**22,302**
Others (Note 3)	**8,776**	14,026	**85,267**
Allowance for doubtful accounts	**(252)**	(298)	**(2,454)**
Total investments and other assets	**49,849**	57,985	**484,343**
Total assets	**¥317,933**	¥322,829	**$3,089,127**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets
(Continued)

SCSK Corporation and Consolidated Subsidiaries
March 31, 2014 and 2013

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 2) 2014
Current liabilities:			
Notes and accounts payable-trade (Notes 3 and 4)	**¥ 19,644**	¥ 17,569	**$ 190,867**
Short-term loans payable (Notes 3 and 10)	**17,000**	–	**165,177**
Current portion of long-term debts (Notes 3 and 10)	**3,253**	46,378	**31,607**
Provision for bonuses	**7,492**	7,547	**72,796**
Provision for directors' bonuses	**122**	111	**1,184**
Provision for losses on construction contracts	**79**	13	**762**
Deposits received of prepaid cards (Note 3)	**70,647**	64,414	**686,429**
Income taxes payable (Note 14)	**2,472**	777	**24,018**
Others (Notes 11 and 13)	**24,816**	23,068	**241,121**
Total current liabilities	**145,525**	159,877	**1,413,961**
Long-term liabilities:			
Long-term debts (Notes 3 and 10)	**42,110**	42,243	**409,149**
Provision for retirement benefits (Note 12)	**–**	7,697	**–**
Liability for retirement benefits (Note 12)	**193**	–	**1,873**
Provision for directors' retirement benefits	**30**	30	**289**
Asset retirement obligations (Note 13)	**1,508**	1,391	**14,657**
Others	**2,407**	3,382	**23,392**
Total long-term liabilities	**46,248**	54,743	**449,360**
Contingent liabilities (Note 27)			
NET ASSETS (Note 15):			
Shareholders' equity:			
Capital stock (Note 15)	**21,153**	21,153	**205,527**
Capital surplus	**3,061**	3,066	**29,746**
Retained earnings	**101,176**	86,736	**983,059**
Treasury stock, at cost: 4,231,885 shares in 2014 and 4,303,745 shares in 2013 (Note 15)	**(8,510)**	(8,654)	**(82,689)**
Total shareholders' equity	**116,880**	102,301	**1,135,643**
Accumulated other comprehensive income:			
Valuation differences on available-for-sale securities	**1,130**	958	**10,977**
Deferred gains or losses on hedges	**(1)**	9	**(5)**
Foreign currency translation adjustments	**(57)**	(468)	**(560)**
Accumulated adjustments for retirement benefits	**2,537**	–	**24,650**
Total accumulated other comprehensive income	**3,609**	499	**35,062**
Subscription rights to shares (Notes 15 and 28)	**135**	168	**1,316**
Minority interests	**5,536**	5,241	**53,785**
Total net assets	**126,160**	108,209	**1,225,806**
Total liabilities and net assets	**¥317,933**	¥322,829	**$3,089,127**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Net sales	**¥288,237**	¥278,634	**$2,800,589**
Cost of sales (Note 16)	**219,512**	214,167	**2,132,841**
Gross profit	**68,725**	64,467	**667,748**
Selling, general and administrative expenses (Note 17)	**44,750**	43,663	**434,803**
Operating income	**23,975**	20,804	**232,945**
Non-operating income (expenses):			
Interest and dividends income	**262**	510	**2,543**
Equity in earnings of affiliates	**321**	263	**3,120**
Gains on investments in partnership	**208**	367	**2,025**
Hoard profits of prepaid cards	**1,167**	1,193	**11,336**
Interest expenses	**(327)**	(415)	**(3,180)**
Loss on valuation of investment securities (Note 5)	**(2,609)**	(2,723)	**(25,352)**
Loss on valuation of stocks of subsidiaries and affiliates	**(811)**	(177)	**(7,884)**
Losses on retirement of noncurrent assets (Note 18)	**(169)**	(104)	**(1,642)**
Impairment losses (Note 19)	**(1,120)**	(125)	**(10,882)**
Office relocation related expenses (Note 21)	**(819)**	–	**(7,958)**
Compensation expenses	**(250)**	–	**(2,429)**
Losses on business withdrawal	**(401)**	–	**(3,900)**
Financing expenses	**–**	(266)	**–**
Personnel expenses arising from changes in human resource policy (Note 20)	**–**	(847)	**–**
Losses on integration to retirement pension plans (Note 12)	**–**	(2,363)	**–**
Others, net (Note 28)	**31**	200	**313**
Total	**(4,517)**	(4,487)	**(43,890)**
Income before income taxes and minority interests	**19,458**	16,317	**189,055**
Income taxes (Note 14):			
Current	**2,597**	1,044	**25,235**
Deferred	**(1,794)**	(1,737)	**(17,433)**
Total	**803**	(693)	**7,802**
Income before minority interests	**18,655**	17,010	**181,253**
Minority interests	**267**	280	**2,593**
Net income	**¥ 18,388**	¥ 16,730	**$ 178,660**

	yen		U.S. dollars (Note 2)
	2014	2013	**2014**
Earnings per share of common stock (Note 22):			
Basic	**¥177.26**	¥161.39	**$1.72**
Diluted	**174.24**	157.17	**1.69**
Cash dividends per share applicable to the year	**40.00**	36.00	**0.37**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Income before minority interests	**¥18,655**	¥17,010	**$181,253**
Other comprehensive income (Note 23):			
Valuation differences on available-for-sale securities	**155**	150	**1,508**
Deferred gains or losses on hedges	**(9)**	36	**(92)**
Foreign currency translation adjustments	**407**	266	**3,952**
Gains on change in equity	**5**	8	**53**
Share of other comprehensive income of affiliates accounted for by the equity method	**23**	27	**230**
Total other comprehensive income	**581**	487	**5,651**
Comprehensive income	**¥19,236**	¥17,497	**$186,904**
Comprehensive income attributable to:			
Owners of the parent	**¥18,963**	¥17,212	**$184,255**
Minority interests	**273**	285	**2,649**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Net Assets

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2012	¥21,153	¥33,152	¥ 73,554	¥ (8,690)	¥119,169	¥ 787	¥(27)	¥(739)	¥ –	¥ 21	¥190	¥5,040	¥124,420
Purchases of treasury stock	–	–	–	(30,085)	(30,085)	–	–	–	–	–	–	–	(30,085)
Disposals of treasury stock	–	(9)	–	44	35	–	–	–	–	–	–	–	35
Retirement of treasury stock	–	(30,077)	–	30,077	–	–	–	–	–	–	–	–	
Net income	–	–	16,730	–	16,730	–	–	–	–	–	–	–	16,730
Cash dividends paid (Note 15)	–	–	(3,532)	–	(3,532)	–	–	–	–	–	–	–	(3,532)
Decrease resulting from changes of scope of consolidation	–	–	(20)	–	(20)	–	–	–	–	–	–	–	(20)
Gain or loss on change in equity	–	–	4	–	4	–	–	–	–	–	–	–	4
Net other changes of items during the period	–	–	–	–	–	171	36	271	–	478	(22)	201	657
Balance at March 31, 2013	21,153	3,066	86,736	(8,654)	102,301	958	9	(468)	–	499	168	5,241	108,209
Balance at April 1, 2013	21,153	3,066	86,736	(8,654)	102,301	958	9	(468)	–	499	168	5,241	108,209
Purchases of treasury stock	–	–	–	(26)	(26)	–	–	–	–	–	–	–	(26)
Disposals of treasury stock	–	(5)	–	156	151	–	–	–	–	–	–	–	151
Change in equity in affiliates accounted for by equity method-treasury stock	–	–	–	14	14				–				14
Net income	–	–	18,388	–	18,388	–	–	–	–	–	–	–	18,388
Cash dividends paid (Note 15)	–	–	(3,950)	–	(3,950)	–	–	–	–	–	–	–	(3,950)
Gain or loss on change in equity	–	–	2	–	2	–	–	–	–	–	–	–	2
Net other changes of items during the period	–	–	–	–	–	172	(10)	411	2,537	3,110	(33)	295	3,372
Balance at March 31, 2014	¥21,153	¥ 3,061	¥101,176	¥ (8,510)	¥116,880	¥1,130	¥ (1)	¥ (57)	¥2,537	¥3,609	¥135	¥5,536	¥126,160

	Thousands of U.S. dollars (Note 2)												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2013	$205,527	$29,794	$842,748	$ (84,088)	$ 993,981	$ 9,308	$87	$(4,548)	$ –	$ 4,847	$1,634	$50,926	$1,051,388
Purchases of treasury stock	–	–	–	(252)	(252)	–	–	–	–	–	–	–	(252)
Disposals of treasury stock	–	(48)	–	1,511	1,463	–	–	–	–	–	–	–	1,463
Change in equity in affiliates accounted for by equity method-treasury stock	–	–	–	140	140	–	–	–	–	–	–	–	140
Net income	–	–	178,660	–	178,660	–	–	–	–	–	–	–	178,660
Cash dividends paid (Note 15)	–	–	(38,378)	–	(38,378)	–	–	–	–	–	–	–	(38,378)
Gain or loss on change in equity	–	–	29	–	29	–	–	–	–	–	–	–	29
Net other changes of items during the period	–	–	–	–	–	1,669	(92)	3,988	24,650	30,215	(318)	2,859	32,756
Balance at March 31, 2014	$205,527	$29,746	$983,059	$ (82,689)	$1,135,643	$10,977	$ (5)	$ (560)	$24,650	$35,062	$1,316	$53,785	$1,225,806

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥19,458**	¥16,317	**$189,055**
Adjustments for:			
Depreciation and amortization	**6,841**	6,690	**66,470**
Impairment losses	**1,120**	125	**10,882**
Increase (decrease) in liability for retirement benefits	**(159)**	3,508	**(1,540)**
Decrease in prepaid pension costs	**–**	(4,154)	**–**
Losses on retirement of noncurrent assets	**169**	104	**1,642**
Losses on valuation of investment securities	**2,663**	2,723	**25,873**
Gains on investments in partnership	**(208)**	(367)	**(2,025)**
Changes in assets and liabilities:			
Increase in operational investment securities	**(3,160)**	(1,879)	**(30,705)**
Increase in notes and accounts receivable – trade	**(1,638)**	(5,646)	**(15,916)**
Increase (decrease) in inventories	**(775)**	122	**(7,532)**
Increase in notes and accounts payable - trade	**2,051**	1,292	**19,928**
Increase in deposits received of prepaid cards	**6,233**	5,194	**60,561**
Others, net	**3,411**	704	**33,153**
Sub-total	**36,006**	24,733	**349,846**
Interest and dividends income received	**494**	617	**4,797**
Interest expenses paid	**(333)**	(390)	**(3,234)**
Income taxes received (paid)	**(824)**	196	**(8,007)**
Net cash provided by operating activities	**35,343**	25,156	**343,401**
Cash flows from investing activities:			
Payments into deposits	**(18,000)**	–	**(174,893)**
Purchases of property and equipment	**(7,017)**	(8,263)	**(68,179)**
Proceeds from sales of property and equipment	**484**	2	**4,704**
Purchases of intangible assets	**(1,926)**	(2,483)	**(18,709)**
Purchases of investment securities	**(1,005)**	(199)	**(9,762)**
Purchases of short-term investment securities	**(3,200)**	(4,499)	**(31,090)**
Proceeds from sales and redemption of short-term investment securities	**3,428**	5,200	**33,307**
Proceeds from sales and redemption of investment securities	**874**	2,321	**8,491**
Collections of short-term loans receivable	**152**	6,933	**1,476**
Proceeds from withdrawal of investments in partnership	**552**	724	**5,367**
Others, net	**(387)**	15	**(3,778)**
Net cash used in investing activities	**(26,045)**	(249)	**(253,064)**
Cash flows from financing activities:			
Increase in short-term loans payable	**17,000**	–	**165,177**
Proceeds from long-term loans payable	**–**	20,000	**–**
Repayments of long-term debts	**(9,860)**	(10,000)	**(95,803)**
Proceeds from issuance of bonds	**–**	20,000	**–**
Redemption of bonds	**(35,000)**	–	**(340,070)**
Repayments of lease obligations	**(1,925)**	(1,814)	**(18,706)**
Purchase of treasury stock	**(26)**	(30,085)	**(252)**
Cash dividends paid	**(3,950)**	(3,533)	**(38,378)**
Others, net	**22**	(80)	**211**
Net cash used in financing activities	**(33,739)**	(5,512)	**(327,821)**
Effect of exchange rate changes on cash and cash equivalents	**344**	206	**3,348**
Net increase (decrease) in cash and cash equivalents	**(24,097)**	19,601	**(234,136)**
Cash and cash equivalents at beginning of period	**83,248**	63,662	**808,859**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(147)**	(15)	**(1,419)**
Cash and cash equivalents at end of period (Note 24)	**¥59,004**	¥83,248	**$573,304**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies

(1) Basis of presentation

SCSK Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

(2) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and effective April 1, 2010, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No. 24). In accordance with these PITFs, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

Differences between the acquisition costs and the underlying net equities of investments in consolidated subsidiaries are recorded as goodwill in the consolidated balance sheets and amortized using the straight-line method over periods between 5 and 10 years for fiscal years 2014 and 2013. Any immaterial amounts are fully recognized as expenses as incurred.

At March 31, 2014, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 22 and 4 (23 and 4 in 2013). Certain subsidiaries were excluded from the scope of consolidation and equity method. The aggregate amount of total assets, net sales, net income and retained earnings of these excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation or if the equity method had been applied for these investments. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost. Where there has been a permanent decline in the value of such investments, these investments have been written down.

Subsidiary SUMISHO COMPUTER SYSTEMS (EUROPE) LTD., Sumisho Computer Systems (Shanghai) Limited, Sumisho Computer Systems (Asia Pacific) Pte. Ltd., Veriserve Shanghai Corporation and other 2 partnerships are consolidated using their financial statements at their respective fiscal year end, which falls on December 31 and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from intercompany transactions are eliminated.

(3) Foreign currency translation

(a) Translation of accounts

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing on the balance sheet date. Gains and losses resulting from the translation are recognized in the consolidated statements of income as incurred.

(b) Financial statements denominated in foreign currencies
Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Statements of income of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

(4) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with insignificant risk of changes in value, maturities not exceeding three months at the time of purchase and Money Management Funds and others are considered to be cash and cash equivalents.

(5) Operational investment securities

Marketable securities held for gaining financial revenue for operational purposes are classified as operational investment securities. Financial revenue such as interest derived from the operational investment securities is included in net sales of the consolidated statements of income.

(6) Investment securities

The Company and its consolidated subsidiaries (collectively, the "Group") examine the intent of holding each security and classify those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity (hereinafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliates, or (d) all other securities that are not classified in any of the above categories (hereinafter, "available-for-sale securities"). The Group did not hold any security defined as (a) above at March 31, 2014 and 2013.

Held-to-maturity debt securities are stated at amortized cost computed based on the straight-line method. Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for by equity method are stated at the moving-average cost. Available-for-sale securities with fair value are stated at fair value at the balance sheet date. Valuation differences on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using the moving-average method. Available-for-sale securities without fair value are stated at the moving-average cost. Investments in partnership considered as securities in accordance with the Financial Instruments and Exchange Law of Japan are stated at amounts of net shares based on their available financial statements at reporting dates designated by partnership agreements.

If the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities declines significantly, such securities are restated at fair value and the difference between fair value and the carrying amount is recognized as "Loss on valuation of investment securities" or "Loss on valuation of stocks of subsidiaries and affiliates" in the consolidated statements of income in the period of the decline. For equity securities without fair value, if the net asset value of the investee declines significantly, such securities are adjusted to net asset value with the corresponding losses recognized in the consolidated statements of income in the period of decline. In these cases, such fair value or the net asset value will be the carrying amount of the securities at the beginning of the following fiscal year.

(7) Inventories

Merchandise and finished goods are principally stated at the specific identification method (write-down amount of carrying value as a result of declines in profitability) and work in process are stated at the specific identification method (write-down amount of carrying value as a result of declines in profitability).

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. The allowance for doubtful accounts consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual historic percentage of collection losses.

(9) Property and equipment (excluding leased assets)

Depreciation of property and equipment is calculated principally by the straight-line method based on the estimated useful lives and the residual value determined by the Group. Significant renewals and additions are capitalized at cost. Maintenance and repairs are recognized as expense as incurred.

(10) Leases

Non-cancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance lease. All other lease transactions are accounted for as operating leases and relating payments are charged to income as incurred.

Leased assets of finance leases except for those which transfer ownership of the leased assets to the lessee are depreciated on the straight-line method over the lease periods with no residual value.

(11) Intangible assets (excluding leased assets)

Capitalized costs of software for internal use are amortized using the straight-line method over the estimated useful life of the software (within 5 years). Capitalized costs of software developed for external sales are amortized as the higher of (a) the amount based on projected sales amounts, or (b) the amount equally allocated for the remaining period (within 3 years).

(12) Amortization for deferred assets

Bond issue costs are fully expensed as incurred.

(13) Provision for bonuses

Provision for bonuses is provided based on the estimated amounts payable at the balance sheet date.

(14) Provision for directors' bonuses

Provision for directors' bonuses is provided based on the estimated amounts payable at the balance sheet date.

(15) Provision for losses on construction contracts

Provision for losses on construction contracts is provided for estimated future losses related to the construction contracts.

(16) Provision for directors' retirement benefits

The Company and certain consolidated subsidiaries record provision for directors' retirement benefits based on an estimated amount payable to directors and corporate auditors upon retirement. An estimate is only based on the period prior to the date of abolishment of the directors' retirement benefit plan, which was approved at the shareholder's meeting in previous years.

(17) Accounting for retirement benefits

The retirement benefit obligation for employee is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Past service costs are amortized by the straight-line method over a defined period not exceeding the average estimated remaining service period of mainly 1 to 12 years. Actuarial gains and losses are amortized by the straight-line method over a defined period not exceeding the average estimated remaining service period, which is mainly 5 to 13 years, beginning from the following fiscal year.

Certain consolidated subsidiaries apply the simplified method that assumes the amount required for voluntary resignation at the end of the term to be retirement benefit obligations in computing net defined benefit liability and retirement benefit costs.

The unrecognized transitional obligation taken over from CSK CORPORATION is amortized over 15 years.

(18) Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for tax losses carried forward and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(19) Revenue recognition

(a) Revenue from construction contracts
The percentage of completion method is applied to contracts for which substantial progress toward certain results is reasonably dependable at the end

of the fiscal year under review. The estimation for the degree of completion of contract at the fiscal year end is determined by the percentage of the cost incurred to the estimated total costs. The completed contract method is applied to other contracts.

(b) Prepaid card sales
Upon issuance of prepaid cards, the face value are recognized as "Deposits received of prepaid cards" with subsequent deductions from as the cards are used. The Group estimates any remaining value of the prepaid cards that are considered unlikely to be used, based on the requirement under the Corporation Tax Law, which takes into account the year of issuance for the basis of estimation. Any amounts that are determined to be unlikely used are recognized as "Hoard profits of prepaid cards" in Non-operating income with subsequent deductions from "Deposits received of prepaid cards".

(20) Consumption taxes

Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

(21) Amortization of goodwill

Goodwill is amortized over a period of 5 years to 10 years under the straight-line method. However, the full amount of goodwill that is not material is expensed as incurred.

(22) Derivative and hedge accounting

Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to operations, except for those meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as a component of net assets. Appropriation treatment is applied for receivables and payables denominated in foreign currencies hedged by forward foreign exchange contracts. Appropriation treatment is that receivables and payables denominated in foreign currencies, for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the forward contracts qualify for specific hedge accounting. Derivative transactions are implemented based on actual demands and not for trading or speculative purposes. Hedge effectiveness is not assessed at the balance sheet date since forward foreign exchange contracts with the same amounts and maturities denominated in the same foreign currencies, based on risk management policies, are appropriated when the forward foreign exchange contracts are entered into, and therefore, their following correlation in exchange fluctuations is fully confirmed.
All derivative transactions are carried with domestic financial institutions that have high credit ratings and credit risk arising from contractual default by counterparties is assumed to be low.

(23) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares issuing for the period. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of the outstanding subscription rights to shares with an applicable adjustment.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(24) Application of consolidated taxation system

The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

(25) Accounting standards issued but not yet effective

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)
"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(a) Overview
From the viewpoint of improvements to financial reporting and international convergence, this accounting standard was revised mainly focusing on the treatment of unrecognized actuarial gains and losses and unrecognized past service, the calculation method of retirement benefit obligations and current service cost, and enhancement of disclosures.

(b) Scheduled date of application
The Company and certain consolidated subsidiaries are scheduled to apply the revision to the calculation method of retirement benefit obligations and current service cost from the beginning of the fiscal year starting on April 1, 2014.

(c) Effect of application of this accounting standard
The Company and certain consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(26) Accounting changes

Effective from the year ended March 31, 2014, the Company and certain consolidated subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25 and unrecognized actuarial gains and losses and unrecognized past service costs have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as an asset and a liability for retirement benefits.
In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefits in accumulated other comprehensive income.
As a result of the application, an asset for retirement benefits in the amount of ¥2,295 million ($22,302 thousand) and a liability for retirement benefits in the amount of ¥192 million ($1,873 thousand) has been recognized, deferred tax assets has decreased by ¥1,439 million ($13,985 thousand) and accumulated other comprehensive income has increased by ¥2,537 million ($24,650 thousand), at the end of the current fiscal year.
Consequently net asset per share increased by ¥24.45.

2. U.S. dollar amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥102.92=U.S.$1, the rate of exchange prevailing at March 31, 2014. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

3. Financial instruments

1. Matters related to financial instruments

(1) Policy for financial instruments

For the management of surplus funds, the Group's policy is to invest in deposits at banks and mainly operational investment securities. As for fund raising, the Group mainly raises funds through bank loans, and corporate bonds and funds on hand. Also, the Group does not use derivative instruments for speculative or trading purposes and only uses forward foreign exchange contracts to mitigate the risk of currency rate fluctuations for debts and credits denominated in foreign currencies.

(2) Types of financial instruments, related risks and risk management for financial instruments

Trade receivables, such as trade notes and accounts receivable, are exposed to customer credit risk.

Notes to Consolidated Financial Statements

In accordance with the internal policy of the Group for managing credit risk arising from receivables, the Group monitors credit worthiness of their main customers on a periodical basis and monitors due dates and outstanding balances by individual customers.

A subsidiary which operates Prepaid Card Business holds the debt securities as operational investment securities. The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships. These securities are exposed to market risk.

The Group periodically reviews market prices of these securities in order to mitigate market risk.

Substantially all trade payables, such as trade notes and accounts payables, have payment due dates within one year and are exposed to liquidity risk.

Some trade payables denominated in foreign currency arising from import transactions are exposed to foreign currency exchange risk. The Group enters into forward exchange contracts to reduce foreign currency exchange risk with financial institutions, which have high credit ratings in order to reduce credit risk.

Deposits received of prepaid cards are relating to Prepaid Card Business which the subsidiary operates are no-interest bearing financial obligations. Although deposits received of prepaid cards are not exposed to risk of interest rate fluctuations are exposed to liquidity risk.

Bonds payable are issued and used mainly for capital expenditure. These bonds with the final due in March 2018 are exposed to liquidity risk.

Long-term loans payable mainly consist of the syndicated loans provided by 22 main banks. This syndicated loan due in May 2017 with variable interest rates is exposed to liquidity risk as well as the risk of interest fluctuations.

Trade payables, loans payables, deposits received of prepaid cards, bonds with subscription rights to shares and bonds payable are exposed to liquidity risk, which is the risk of failing to settle as scheduled. The Company comprehensively manages the Group's cash flow by using the cash management systems. In addition, the Company receives the monthly cash flow report from each Group company and maintains the Group-wide cash management.

Regarding derivative transactions, forward exchange contracts were entered into for the purpose of hedging foreign currency exchange risk deriving from trade payables and trade receivables denominated in foreign currencies.

2. Fair values of financial instruments

Carrying value of financial instruments on the consolidated balance sheets at March 31, 2014 and 2013 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	March 31, 2014					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	Millions of yen			Thousands of U.S. dollars (Note 2)		
Assets:						
(1) Cash and time deposits	**¥19,157**	**¥19,157**	**¥ –**	**$186,131**	**$186,131**	**$ –**
(2) Notes and accounts receivable-trade	**63,372**	**63,372**	**–**	**615,744**	**615,744**	**–**
(3) Short-term investment securities:						
Held-to-maturity debt securities	**900**	**900**	**(0)**	**8,744**	**8,744**	**(0)**
Available-for-sale securities	**201**	**201**	**–**	**1,957**	**1,957**	**–**
(4) Operational investment securities:						
Available-for-sale securities	**40,372**	**40,372**	**–**	**392,270**	**392,270**	**–**
(5) Deposits paid	**58,865**	**58,865**	**–**	**571,947**	**571,947**	**–**
(6) Investment securities	**2,474**	**2,474**	**–**	**24,040**	**24,040**	**–**
(7) Investment in unconsolidated subsidiaries and affiliates	**3,488**	**4,006**	**518**	**33,886**	**38,917**	**5,031**
(8) Lease and guarantee deposits	**¥6,519**	**¥6,442**	**¥(77)**	**$63,344**	**$62,597**	**$ (747)**
Liabilities:						
(1) Notes and accounts payable-trade	**¥19,644**	**¥19,644**	**¥ –**	**$190,867**	**$190,867**	**$ –**
(2) Short-term loans payable	**17,000**	**17,000**	**–**	**165,177**	**165,177**	**–**
(3) Deposits received of prepaid cards	**70,647**	**70,647**	**–**	**686,429**	**686,429**	**–**
(4) Bonds payable	**20,000**	**20,093**	**(93)**	**194,326**	**195,226**	**(900)**
(5) Long-term loans payable	**¥20,000**	**¥20,001**	**¥ (1)**	**$194,326**	**$194,334**	**$(8)**
Derivative transactions	**¥ –**	**¥ –**	**¥ –**	**$ –**	**$ –**	**$ –**

	March 31, 2013		
	Carrying value	Fair value	Difference
	Millions of yen		
Assets:			
(1) Cash and time deposits	¥19,669	¥19,669	¥ –
(2) Notes and accounts receivable-trade	61,661	61,661	–
(3) Short-term investment securities:			
Held-to-maturity debt securities	1,100	1,100	(0)
Available-for-sale securities	199	199	–
(4) Operational investment securities:			
Available-for-sale securities	37,327	37,327	–
(9) Short-term loans receivable	107	107	–
(5) Deposits paid	64,478	64,478	–
(6) Investment securities	4,879	4,879	–
(7) Investment in unconsolidated subsidiaries and affiliates	3,356	3,299	(57)
(8) Lease and guarantee deposits	¥ 6,604	¥ 6,492	¥(112)
Liabilities:			
(1) Notes and accounts payable-trade	¥17,569	¥17,569	¥ –
(6) Current portion of bonds with subscription rights to shares	35,000	34,965	35
(7) Current portion of long-term debts	9,860	9,890	(30)
(3) Deposits received of prepaid cards	64,414	64,414	–
(4) Bonds payable	20,000	20,065	(65)
(5) Long-term loans payable	¥20,000	¥20,004	¥ (4)
Derivative transactions	¥ –	¥ –	¥ –

Note: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

<Assets>

(1) Cash and time deposits, (2) Notes and accounts receivable-trade, (5) Deposits paid and (9) Short-term loans receivable
Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Short-term investment securities, (4) Operational investment securities, (6) Investment securities and (7) Investment in unconsolidated subsidiaries and affiliates
The fair value of these securities is based on either quoted market prices or prices provided by the correspondent financial institutions. The carrying value is used as the fair value for certain securities with short-term maturities because the fair value is nearly equal to the carrying value. The fair value of certain investment security is estimated based on the present value of the future cash flows using the discount rate considering certain risk premium.

(8) Lease and guarantee deposits
The fair value of lease and guarantee deposits with maturities exceeding one year is based on the present value discounted by reasonable rates.

<Liabilities>

(1) Notes and accounts payable-trade and (2) Short-term loans payable
Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Deposits received of prepaid cards
Deposits received of prepaid cards are obligations to pay usage amounts reported in notifications from stores where prepaid card called "QUO card" is usable and its fair value is based on its carrying value since they are settled in a short period of time.

(4) Bonds payable
The fair value of bonds payable is based on the present value of total principal and interest discounted by interest rate to be applied if similar new bonds are issued.

(5) Long-term loans payable and (7) Current portion of long-term debts
The fair value of long-term loans payable is based on the present value of total principal and interest discounted by interest rate to be applied if similar new long-term loans are incurred.

(6) Current portion of bonds with subscription rights to shares
The fair value of bonds with subscription rights to shares is based on quoted market prices.

3. Financial instruments for which it is extremely difficult to determine the fair value

	March 31,		March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Unlisted equity securities	**¥1,398**	¥2,075	**$13,581**
Unlisted debt securities	**–**	29	**–**
Investments in partnership	**954**	1,090	**9,271**
Total	**¥2,352**	¥3,194	**$22,852**

As quoted market price was not available and it was extremely burden to estimate future cash flows, the carrying value of the above financial instruments was not included in 2. (6) Investment securities and (7) Investment in unconsolidated subsidiaries and affiliates.

4. Redemption schedule for monetary receivables and marketable securities with maturities at March 31, 2014 is as follows:

	March 31, 2014							
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen				Thousands of U.S. dollars (Note 2)			
Cash and time deposits	**¥ 19,157**	**¥ –**	**¥–**	**¥–**	**$ 186,131**	**$ –**	**$–**	**$–**
Notes and accounts receivable-trade	**63,372**	**–**	**–**	**–**	**615,744**	**–**	**–**	**–**
Deposits paid	**58,865**	**–**	**–**	**–**	**571,947**	**–**	**–**	**–**
Short-term investment securities, operational investment securities and investment securities:								
Held-to-maturity debt securities:								
Government/municipal bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**900**	**–**	**–**	**–**	**8,745**	**–**	**–**	**–**
Available-for-sale securities with maturities:								
Government/municipal bonds	**27,423**	**12,281**	**–**	**–**	**266,451**	**119,324**	**–**	**–**
Corporate bonds	**100**	**–**	**–**	**–**	**971**	**–**	**–**	**–**
Total	**¥169,817**	**¥12,281**	**¥–**	**¥–**	**$1,649,989**	**$119,324**	**$–**	**$–**

Note: Available-for-sale securities of ¥94 million ($910 thousand) with their scheduled amounts being subject to change due to fluctuation of their fair value were not included in available-for-sale securities with maturities in the above table.

Notes to Consolidated Financial Statements

4. Derivative transactions

The notional amount and the estimated fair value of the derivative instruments outstanding at March 31, 2014 and 2013 were summarized as follows:

		March 31, 2014					
Type of transaction	Hedged item	Notional amount	Portion due after one year included in notional amount	Fair value	Notional amount	Portion due after one year included in notional amount	Fair value
		Millions of yen			Thousands of U.S. dollars (Note 2)		
Derivative transactions for which deferral hedge accounting has been applied							
Forward foreign exchange contracts							
Sell							
USD,GBP	Forecast transactions in foreign currency	**¥ 5**	**¥ –**	**¥(0)**	**$ 48**	**$ –**	**$(1)**
Buy							
USD, EUR, GBP, SGD		**1,524**	**209**	**(1)**	**14,809**	**2,027**	**(7)**
Derivative transactions for which appropriation treatment has been applied							
Forward foreign exchange contracts							
Sell							
USD,GBP	Accounts receivable-trade	**23**	**–**	***2**	**226**	**–**	***2**
Buy							
USD, EUR, GBP, SGD	Accounts payable-trade	**408**	**–**	***2**	**3,959**	**–**	***2**
Total		**¥1,960**	**¥209**	**¥(1)**	**$19,042**	**$2,027**	**$(8)**

		March 31, 2013		
Type of transaction	Hedged item	Notional amount	Portion due after one year included in notional amount	Fair value
		Millions of yen		
Derivative transactions for which deferral hedge accounting has been applied				
Forward foreign exchange contracts				
Sell				
USD	Forecast transactions in foreign currency	¥ 117	¥ –	¥ (9)
Buy				
USD, EUR, GBP, SGD		1,489	77	¥23
Derivative transactions for which appropriation treatment has been applied				
Forward foreign exchange contracts				
Buy	Accounts payable-trade			
USD, EUR, GBP, SGD		193	–	*2
Total		¥1,799	¥77	¥14

Note: 1. Fair value was based on the prices obtained from financial institutions.
*2. Forward foreign exchange contracts for which appropriation treatment had been applied were accounted for together with account payable and account receivable designated as a hedge item, therefore, their fair values were included in the fair value of the hedged account payable and account receivable.

5. Information on investment securities

The following tables summarize acquisition cost, carrying value and fair value of securities with fair value.

1. Held-to-maturity debt securities with fair value

	March 31, 2014					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	Millions of yen			Thousands of U.S. dollars (Note 2)		
1. Securities with fair value exceeding book value:						
Governmental/municipal bonds	**¥ –**	**¥ –**	**¥–**	**$ –**	**$ –**	**$–**
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Others	**300**	**300**	**0**	**2,914**	**2,914**	**0**
Sub-total	**300**	**300**	**0**	**2,914**	**2,914**	**0**
2. Securities with fair value not exceeding book value:						
Governmental/municipal bonds	**–**	**–**	**–**	**–**	**–**	**–**
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Others	**600**	**600**	**–**	**5,830**	**5,830**	**–**
Sub-total	**600**	**600**	**–**	**5,830**	**5,830**	**–**
Total	**¥900**	**¥900**	**¥ 0**	**$8,744**	**$8,744**	**$ 0**

	March 31, 2013		
	Carrying value	Fair value	Difference
	Millions of yen		
1. Securities with fair value exceeding book value:			
Governmental/municipal bonds	¥ 200	¥ 200	¥ 0
Corporate bonds	–	–	–
Others	–	–	–
Sub-total	200	200	0
2. Securities with fair value not exceeding book value:			
Governmental/municipal bonds	300	300	(0)
Corporate bonds	–	–	–
Others	600	600	(0)
Sub-total	900	900	(0)
Total	¥1,100	¥1,100	¥(0)

Notes to Consolidated Financial Statements

2. Available-for-sale securities with fair value

	March 31, 2014					
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
	Millions of yen			Thousands of U.S. dollars (Note 2)		
1. Securities with fair value exceeding acquisition cost:						
Equity securities	**¥ 2,065**	**¥ 1,108**	**¥ 957**	**$ 20,064**	**$ 10,766**	**$ 9,298**
Debt securities:						
Governmental/municipal bonds	**31,044**	**30,749**	**295**	**301,629**	**298,761**	**2,868**
Corporate bonds	**101**	**100**	**1**	**982**	**972**	**10**
Others	**–**	**–**	**–**	**–**	**–**	**–**
Sub-total	**33,210**	**31,957**	**1,253**	**322,675**	**310,499**	**12,176**
2. Securities with fair value not exceeding acquisition cost:						
Equity securities	**315**	**361**	**(46)**	**3,065**	**3,504**	**(439)**
Debt securities:						
Governmental/municipal bonds	**9,329**	**9,330**	**(1)**	**90,642**	**90,658**	**(16)**
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Others	**194**	**202**	**(8)**	**1,885**	**1,961**	**(76)**
Sub-total	**9,838**	**9,893**	**(55)**	**95,592**	**96,123**	**(531)**
Total	**¥43,048**	**¥41,850**	**¥1,198**	**$418,267**	**$406,622**	**$11,645**

	March 31, 2013		
	Carrying value	Acquisition cost	Difference
	Millions of yen		
1. Securities with fair value exceeding acquisition cost:			
Equity securities	¥ 1,938	¥ 1,103	¥ 835
Debt securities:			
Governmental/municipal bonds	34,222	33,814	408
Corporate bonds	103	100	3
Others	–	–	–
Sub-total	36,263	35,017	1,246
2. Securities with fair value not exceeding acquisition cost:			
Equity securities	231	265	(34)
Debt securities:			
Governmental/municipal bonds	3,105	3,105	(0)
Corporate bonds	–	–	–
Others	2,806	2,809	(3)
Sub-total	6,142	6,179	(37)
Total	¥42,405	¥41,196	¥1,209

3. Sales of available-for-sale securities

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Sales proceeds:			
Equity securities	**¥128**	¥ 51	**$1,248**
Debt securities	**–**	11,425	**–**
Others	**–**	–	**–**
Aggregate gains:			
Equity securities	**¥ 12**	¥ –	**$ 120**
Debt securities	**–**	432	**–**
Others	**–**	–	**–**
Aggregate losses:			
Equity securities	**¥ –**	9	**$ –**
Debt securities	**–**	–	**–**
Others	**–**	–	**–**

Note: The amounts shown in the above table do not include available-for-sale securities whose fair values are extremely difficult to determine and no quoted market prices are available.

4. Losses on valuation of available-for-sale securities with fair value

"Losses on valuation of investment securities" includes available-for-sale securities with fair value of ¥2,607 million ($25,332 thousand) and ¥2,410 million for the year ended March 31, 2014 and 2013, respectively.

6. Notes receivable maturing at fiscal year end

Notes receivable are settled on the date of clearance. As March 31, 2013 was a bank holiday, notes receivable maturing on that date could not be settled and were included in the ending balance of "Notes and accounts receivable – trade" account as follows:

	March 31,
	2013
	Millions of yen
Notes receivable-trade	¥66

Notes to Consolidated Financial Statements

7. Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Merchandise and finished goods	**¥2,459**	¥2,794	**$23,896**
Work in process	**1,757**	647	**17,074**
Raw materials and supplies	**29**	21	**276**
Total	**¥4,245**	¥3,462	**$41,246**

8. Property and equipment

Acquisition cost, accumulated depreciation and carrying value of property and equipment were as follows:

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Acquisition cost:			
Buildings and structures	**¥50,146**	¥51,182	**$ 487,231**
Tools, furniture and fixtures	**17,036**	16,105	**165,528**
Land	**20,681**	22,118	**200,944**
Lease assets	**4,524**	4,582	**43,957**
Construction in progress	**3,552**	627	**34,513**
Others	**9**	9	**85**
Total	**95,948**	94,623	**932,258**
Accumulated depreciation	**(38,761)**	(38,400)	**(376,608)**
Carrying value	**¥57,187**	¥56,223	**$ 555,650**

9. Investment and rental properties

A part of the office buildings including land are leased in Tokyo and other areas. The net of leasing income and related expenses of these transactions were ¥202 million for the year ended March 31, 2013. The income was included in "Net sales" and the expense was mainly included in "Cost of sales."

The description for the year ended March 31, 2014, was omitted as the amounts were immaterial.

The carrying value in the consolidated balance sheets and corresponding fair value of those properties were as follows:

	March 31, 2013
	Millions of yen
Consolidated balance sheet amount:	
Balance at beginning of year	¥8,343
Net changes during year	(979)
Balance at end of year	7,364
Fair value at year end*2	¥6,084

Note: 1 The amount recorded in the consolidated balance sheets was the acquisition cost reduced by the accumulated depreciation.
*2 Fair value was based on real estate appraisal reports submitted by external real estate appraisers. Some of the valuation amounts were adjusted based on appraisal values and indices by using market indices to reflect recent market price fluctuations since the latest appraisal report.

10. Short-term loans payable and long-term debts

Short-term loans payable and current portion of long-term debts at March 31, 2014 and 2013 consisted of the following:

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Short-term loans principally from banks, average annual interest rates of 0.26% in 2014	**¥17,000**	¥ –	**$165,177**
Loans principally from banks, maturing in 2013 with average annual interest rates of 0.75%	**–**	9,860	**–**
0.25% unsecured bonds with subscription rights to shares (exercise period: from October 1, 2011 to September 30, 2013)	**–**	35,000	**–**
Finance lease obligations – current (at an average interest rate of 2.66% in 2014 and 3.47% in 2013)	**3,253**	1,518	**31,607**
Total	**¥20,253**	¥46,378	**$196,784**

Long-term debts at March 31, 2014 and 2013 consisted of the following:

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Loans principally from banks due serially through May 2017 with interest ranging from 0.26% to 0.32% in FY2013.	**¥20,000**	¥29,860	**$194,326**
0.25% unsecured bonds with subscription rights to shares (exercise period: from October 1, 2011 to September 30, 2013)	**–**	35,000	**–**
0.50% unsecured bonds (exercise period: from May 29, 2012 to May 29, 2017)	**10,000**	10,000	**97,164**
0.26% unsecured bonds (exercise period: from March 14, 2013 to March 14, 2016)	**5,000**	5,000	**48,581**
0.34% unsecured bonds (exercise period: from March 14, 2013 to March 14, 2018)	**5,000**	5,000	**48,581**
Finance lease obligations (at an average interest rate of 3.03% in 2014 and 3.57% in 2013, maturing from 2014 to 2019)	**5,363**	3,761	**52,105**
Less: current portion	**(3,253)**	(46,378)	**(31,607)**
Total long-term debts	**¥42,110**	¥42,243	**$409,149**

Note: 1. Exercise conditions of bonds with subscription rights to shares are as follows:

Type of shares for subscription rights	Common stock
Issuing price of subscription rights to shares	No consideration
Issuing price of shares	¥11,737 ($114.04)
Total amount of issuing price	¥35,000 million ($340,070 thousand)
Total amount of shares issued due to exercise of subscription rights to shares	–
Grant ratio of subscription rights to shares	100%

2. When the holders of the unsecured bonds with subscription rights to shares exercise their rights, it shall be deemed that claim of payment of the full amount to be paid in exercising subscription rights to shares, instead of redemption of the total amount of the unsecured bonds, has been made.

The aggregate annual maturities of loans payable, bonds payable and finance lease obligation at March 31, 2014 were as follows:

	March 31, 2014	
	Millions of yen	Thousands of U.S. dollars (Note 2)
Year ending March 31,		
2015	¥20,253	$196,784
2016	15,942	154,894
2017	667	6,478
2018 and thereafter	25,501	247,777
Total	¥62,363	$605,933

11. Pledged assets

The following assets were pledged as collateral for other current liabilities of ¥1,577 million ($15,322 thousand) and ¥1,406 million at March 31, 2014 and 2013, respectively.

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Cash and time deposits	**¥1,400**	¥1,300	**$13,603**

Operational investment securities of ¥40,233 million ($390,917 thousand) and ¥34,091 million were lodged as security deposits pursuant to "the Act on Settlement" at March 31, 2014 and 2013, respectively.

12. Employees' pension and retirement benefits

Year Ended March 31, 2014

The Company and its certain consolidated subsidiaries have defined benefit plans and defined contribution plans. A part of consolidated domestic subsidiaries calculated retirement benefit obligations using a simplified method. The Company had joined a multi-employer defined plan. However the Company withdrew from the plan on October 1, 2013.

1. Defined benefit plans

(1) Movement in retirement benefit obligations, except for subsidiaries applying simplified method.

	Year ended March 31, 2014	
	Millions of yen	Thousands of U.S. dollars (Note 2)
Balance at April 1, 2013	¥54,017	$524,846
Service costs	2,953	28,695
Interest costs	802	7,790
Actuarial gain	(564)	(5,483)
Benefits paid	(1,119)	(10,869)
Past service costs	(3)	(33)
Others	34	334
Balance at March 31, 2014	¥56,120	$545,280

Notes to Consolidated Financial Statements

(2) Movement in plan assets, except for subsidiaries applying simplified method

	Year ended March 31, 2014 Millions of yen	Year ended March 31, 2014 Thousands of U.S. dollars (Note 2)
Balance at April 1, 2013	¥50,866	$494,226
Expected return on plan assets	1,019	9,904
Actuarial gain	3,671	35,673
Contributions paid by the employer	3,782	36,746
Benefits paid	(1,119)	(10,869)
Others	10	93
Balance at March 31, 2014	¥58,229	$565,773

(3) Movement in retirement benefit obligations applying the simplified method

	Year ended March 31, 2014 Millions of yen	Year ended March 31, 2014 Thousands of U.S. dollars (Note 2)
Balance at April 1, 2013	**¥14**	**$138**
Retirement benefit costs	**(2)**	**(21)**
Benefits paid	**(1)**	**(8)**
Contributions to fund	**(4)**	**(45)**
Balance at March 31, 2014	**¥ 7**	**$ 64**

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	March 31, 2014 Millions of yen	March 31, 2014 Thousands of U.S. dollars (Note 2)
Funded retirement benefit obligations	**¥ 56,209**	**$ 546,146**
Plan assets	**(58,328)**	**(566,735)**
	(2,119)	**(20,589)**
Unfunded retirement benefit obligations	**17**	**159**
Total net asset for retirement benefits	**(2,102)**	**(20,430)**
Liability for retirement benefits	**193**	**1,873**
Asset for retirement benefits	**(2,295)**	**(22,303)**
Total net asset for retirement benefits	**¥ (2,102)**	**$ (20,430)**

Note: The above mentioned amounts include the plans used a simplified method.

(5) Retirement benefit costs

	Year ended March 31, 2014 Millions of yen	Year ended March 31, 2014 Thousands of U.S. dollars (Note 2)
Service costs	¥2,953	$28,695
Interest costs	802	7,790
Expected return on plan assets	(1,019)	(9,904)
Net actuarial loss amortization	201	1,954
Past service costs amortization	222	2,162
Amortization of transitional obligation	261	2,533
Retirement benefit costs calculated on a simplified method	(2)	(21)
Others	126	1,222
Total retirement benefit costs	¥3,544	$34,431

(6) Accumulated adjustments for retirement benefits

	March 31, 2014 Millions of yen	March 31, 2014 Thousands of U.S. dollars (Note 2)
Past service costs that are yet to be recognized	¥ 135	$ 1,311
Actuarial gains and losses that are yet to be recognized	(4,516)	(43,872)
Net retirement benefit obligations at transition that are yet to be recognized	261	2,533
Total Balance	¥(4,120)	$(40,028)

(7) Plan assets

1. Categories of plan assets

	March 31, 2014
Bonds	51%
Equity securities	24%
Cash and time deposits	1%
Assets in an insurer's general account	9%
Hedge fund	9%
Others	6%
Total	100%

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumption

The principal actuarial assumptions at March 31, 2014

Discount rate	1.5%
Long-term expected rate of return	2.0%

2. Defined contribution plans

The contribution amounts which the Company and its certain consolidated subsidiaries were requested from the defined contribution plans were ¥1,158 million ($11,247 thousand) for the years ended March 31, 2014.

Year Ended March 31, 2013

The following table set forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2013 for the Company's and the certain consolidated domestic subsidiaries' defined benefit plans:

	March 31, 2013
	Millions of yen
Retirement benefit obligation*1	¥(54,118)
Plan assets at fair value*1	50,952
Unfunded retirement benefit obligation	(3,166)
Net retirement benefit obligations at transition that are yet to be recognized	522
Actuarial gains and losses that are yet to be recognized	(76)
Past service costs that are yet to be recognized	361
Net retirement benefit obligation	(2,359)
Prepaid pension costs	5,338
Provision for retirement benefits	¥ (7,697)

Note: *1 The Company involving the multi-employer pension fund for Sumisho Computer Systems Corporation where processed required contributions as a retirement benefit obligation includes the retirement benefit obligation in the amount of ¥4,056 million and plan assets at fair value in the amount of ¥8,693 million as at March 31, 2013.

The components of employees' pension and retirement benefit expenses for the year ended March 31, 2013 were outlined as follows:

	Year ended March 31, 2013
	Millions of yen
Service costs*1	¥2,504
Interest costs	851
Expected return on plan assets	(941)
Past service costs amortization	226
Net actuarial loss amortization	981
Amortization of transitional obligation	261
Retirement benefit costs	3,882
Others*2	4,177
Total	¥8,059

*1 Employees' pension and retirement benefit expenses for certain consolidated domestic subsidiaries adopting the simplified method were included in service cost.

*2 Items included in others were as follows:

	Year ended March 31, 2013
	Millions of yen
Contributions paid to defined contribution plans	¥ 968
Retirement expenses	155
Contributions paid to multi-employer defined pension plan	691
Losses on integration to retirement pension plans*1	2,363
Total	¥4,177

Note: *1 Temporary expense (loss) including prior service obligations in the amount of ¥3,288 million caused by re-examination and integration on the Company's retirement pension plans for the year ended March 31, 2013.
The Company re-examined and integrated retirement benefit plan involving multi-employer pension fund for Sumisho Computer Systems Corporation and prior service obligation were included in non-operating expenses as a temporary expense in the amount of JPY 2,363 million.

The assumptions used in accounting for the above plans were as follows:

	March 31, 2013
Periodic allocation principle for projected benefit obligation	Straight line basis
Discount rate	1.5%
Expected rate of return on plan assets	2.0% or 3.0%
Amortization of transitional obligation	15 years
Amortization of unrecognized past service costs	1-12 years
Amortization of unrecognized actuarial gains and losses	5-13 years

13. Asset retirement obligations

1. Overview of asset retirement obligations

Asset retirement obligations include the obligation to restore assets to their original state, etc. relating to real estate lease agreements on the head office and other office buildings.

2. Calculation method for the asset retirement obligations

Expected period of use is estimated as mainly 15 years from the acquisition of property and equipment and the amounts of asset retirement obligations are calculated by using a discount rate ranged from 0.750% to 1.744%.

3. Changes in asset retirement obligations for the years ended March 31, 2014 and 2013

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Balance at beginning of period	**¥1,406**	¥1,342	**$13,665**
Increase due to acquisition of property and equipment	**178**	–	**1,730**
Adjustment due to passage of time	**21**	20	**204**
Decrease due to fulfillment of asset retirement obligations	**(97)**	(6)	**(942)**
Others	**–**	50	**–**
Balance at end of period	**¥1,508**	¥1,406	**$14,657**

14. Income taxes

Following the promulgation on March 31, 2014 of "Act for Partial Revision of the Income Tax Act, etc" (Act No. 10 of 2014). The Special Restoration Corporate Tax will be abolished for the fiscal year beginning on or after April 1, 2014.
In line with these changes, the effective statutory tax rate used to measure deferred tax assets and liabilities related to temporary difference expected to be recovered or settled in the fiscal year beginning April 1, 2014 will be changed from 38.0% to 35.6%.
As a result of the changes, net deferred tax assets (after deducting deferred tax liabilities) at fiscal year-end decreased by ¥718 million, and the income taxes-deferred increased by ¥724 million.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the statutory tax rate for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31,	
	2014	2013
Statutory tax rate	**38.0%**	38.0%
Effect of:		
Expenses not deductible for income tax purposes	**1.4**	1.2
Revenues excluded from income tax such as dividends received	**(0.6)**	(1.0)
Dividends received from foreign subsidiaries eliminated in consolidation	**0.8**	0.6
Amortization of goodwill	**0.1**	0.1
Equity in earnings of affiliates	**(0.6)**	(0.6)
Base portion of inhabitants' taxes	**0.9**	1.1
Change in valuation allowance	**(38.7)**	(45.6)
Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulation	**3.7**	1.4
Others	**(0.9)**	0.6
Effective tax rate	**4.1%**	(4.2)%

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	March 31,		March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Deferred tax assets:			
Tax losses carried forward	**¥72,745**	¥78,398	**$706,810**
Provision for bonuses	**2,702**	2,893	**26,256**
Provision for retirement benefits	**–**	1,817	**–**
Allowance for doubtful accounts	**97**	60	**946**
Net defined benefit liability	**69**	–	**668**
Depreciation	**369**	646	**3,587**
Impairment losses	**557**	1,328	**5,416**
Unrecognized profit of prepaid card	**3,145**	2,676	**30,554**
Payable for integration to retirement pension plans	**965**	1,367	**9,377**
Loss on valuation of investment securities	**2,435**	1,398	**23,655**
Others	**2,015**	1,714	**19,579**
Total gross deferred tax assets	**85,099**	92,297	**826,848**
Valuation allowance	**(49,064)**	(56,556)	**(476,719)**
Total deferred tax assets	**36,035**	35,741	**350,129**
Deferred tax liabilities:			
Prepaid pension costs	**–**	(966)	**–**
Valuation differences on available-for-sale securities	**(586)**	(507)	**(5,694)**
Removal expenses for asset retirement obligations	**(319)**	(305)	**(3,098)**
Accumulated adjustments for retirement benefit	**(814)**	–	**(7,911)**
Others	**(334)**	(277)	**(3,246)**
Total deferred tax liabilities	**(2,053)**	(2,055)	**(19,949)**
Net deferred tax assets	**¥33,982**	¥33,686	**$330,180**

Notes to Consolidated Financial Statements

15. Net assets

Under the Japanese Corporation Law (hereinafter the "Law") and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

Capital stock consists of common stock. Common stock at March 31, 2014 and 2013 were as follows:

	Number of shares			
	2014		2013	
	Authorized	**Issued**	Authorized	Issued
Common stock	**200,000,000**	**107,986,403**	200,000,000	107,986,403
Total	**200,000,000**	**107,986,403**	200,000,000	107,986,403

Supplementary information for the consolidated statements of changes in net assets

Year ended March 31, 2014

1) Number of issued shares

	Common stock
Number of shares at April 1, 2013	107,986,403
Increase during the period ended March 31, 2014	–
Decrease during the period ended March 31, 2014	–
Number of shares at March 31, 2014	107,986,403

2) Number of treasury stock

	Common stock
Number of shares at April 1, 2013	4,303,745
Increase during the period ended March 31, 2014	10,911
Decrease during the period ended March 31, 2014	82,771
Number of shares at March 31, 2014	4,231,885

Note: 1. Increase in the number of treasury stock was due to the following reason:
- Purchases of less-than-one-unit treasury stock: 10,911 shares

2. Decrease in the number of treasury stock was due to the following reasons:
- Disposals of less-than-one-unit shares: 784 shares
- Exercise of subscription rights to shares: 76,300 shares
- Decrease due to change in equity in affiliated companies accounted for by the equity method: 5,687 shares

3) Subscription rights to shares

Description of subscription rights to shares	Subscription rights as stock options
Type of shares for subscription rights	Common stock
Amount outstanding at March 31, 2014	¥135 million ($1,316 thousand)

4) Matters related to dividend

(1) Dividend payments on common stock

Approvals by the Board of Directors' meeting on April 26, 2013 were as follows:

a. Total amount of dividend	¥1,870 million ($18,172 thousand)
b. Dividend per share	¥18.00
c. Record date	March 31, 2013
d. Effective date	June 5, 2013

Approvals by the Board of Directors 'meeting on October 31, 2013 were as follows:

a. Total amount of dividend	¥2,079 million ($20,203 thousand)
b. Dividend per share	¥20.00
c. Record date	September 30, 2013
d. Effective date	December 2, 2013

Notes to Consolidated Financial Statements

(2) Dividends whose record date is attributable to the year ended March 31, 2014 but to be effective after the balance sheet date

The Company received the approval at the Board of Directors' meeting on April 30, 2014 as follows:

Dividend on common stock

a. Total amount of dividend	¥2,080 million ($20,208 thousand)
b. Dividend per share	¥20.00
c. Record date	March 31, 2014
d. Effective date	June 5, 2014

Year ended March 31, 2013

1) Type and number of issued shares

	Type of issued shares		
	Common stock	Class A preferred stock	Class B preferred stock
Number of shares at April 1, 2012	107,986,403	15,000	15,000
Increase during the period ended March 31, 2013	–	–	–
Decrease during the period ended March 31, 2013	–	15,000	15,000
Number of shares at March 31, 2013	107,986,403	–	–

Note: Decrease in the number of issued shares was due to the following reasons:
- Cancellation of Class A preferred stock: 15,000 shares
- Cancellation of Class B preferred stock: 15,000 shares

2) Type and number of treasury stock

	Type of treasury shares		
	Common stock	Class A preferred stock	Class B preferred stock
Number of shares at April 1, 2012	4,322,267	–	–
Increase during the period ended March 31, 2013	5,533	15,000	15,000
Decrease during the period ended March 31, 2013	24,055	15,000	15,000
Number of shares at March 31, 2013	4,303,745	–	–

Note: 1. Increase in the number of treasury stock was due to the following reasons:
- Purchases of preferred stock: 30,000 shares
- Purchases of less-than-one-unit treasury stock: 5,533 shares

2. Decrease in the number of treasury stock was due to the following reasons:
- Cancellation of preferred stock: 30,000 shares
- Disposals of less-than-one-unit shares: 2,125 shares
- Exercise of subscription rights to shares: 20,000 shares
- Decrease due to exclusion of affiliated companies accounted for by the equity method: 1,930 shares

3) Subscription rights to shares

Description of subscription rights to shares	Subscription rights as stock options
Type of shares for subscription rights	Common stock
Amount outstanding at March 31, 2013	¥168 million

4) Matters related to dividends

(1) Dividend payments on common stock

Approvals by the Board of Directors' meeting on May 10, 2012 were as follows:

a. Total amount of dividend	¥1,662 million
b. Dividend per share	¥16.00
c. Record date	March 31, 2012
d. Effective date	June 6, 2012

Approvals by the Board of directors' meeting on October 31, 2012 were as follows:

a. Total amount of dividend	¥1,871 million
b. Dividend per share	¥18.00
c. Record date	September 30, 2012
d. Effective date	December 3, 2012

(2) Dividends whose record date is attributable to the year ended March 31, 2013 but to be effective after the balance sheet date

The Company received the approval at the Board of Directors' meeting on April 26, 2013 as follows:

Dividend on common stock

a. Total amount of dividend	¥1,871 million
b. Dividend per share	¥18.00
c. Record date	March 31, 2013
d. Effective date	June 5, 2013

16. Cost of sales

Amounts of provision for losses on construction contracts included in "Cost of sales" were as follows:

	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Provision for losses on construction contracts	**¥70**	¥6	**$677**

17. Selling, general and administrative expenses

Major elements of "Selling, general and administrative expenses" for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Salaries and bonuses	**¥18,360**	¥18,367	**$178,394**
Employees' pension and retirement benefit expenses	**1,424**	1,714	**13,835**
Welfare expenses	**3,951**	3,940	**38,392**
Rent	**3,437**	3,002	**33,398**
Depreciation	**1,700**	1,667	**16,522**
Business consignment expenses	**2,191**	1,957	**21,290**
Taxes and dues	**1,729**	1,611	**16,798**
Provision for bonuses	**2,156**	2,125	**20,951**
Provision for directors' bonuses	**122**	111	**1,184**
Others	**9,680**	9,169	**94,039**
Total	**¥44,750**	¥43,663	**$434,803**

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, were recognized in the consolidated statements of income in the year when incurred. The total amount of research and development expenses, included in "Selling, general and administrative expenses," was ¥450 million ($4,372 thousand) and ¥566 million for the years ended March 31, 2014 and 2013, respectively.

18. Losses on retirement of noncurrent assets

Losses on retirement of noncurrent assets for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Buildings and structures	**¥ 93**	¥ 22	**$ 906**
Tools, furniture and fixtures	**49**	75	**478**
Leased assets	**1**	4	**10**
Software	**26**	2	**248**
Others	**0**	1	**0**
Total	**¥169**	¥104	**$1,642**

19. Impairment losses

Year ended March 31, 2014

Property and equipment are classified into groups based on the respective type of business, which are the units for making investment decisions.

The main assets for which the group recognized impairment losses were as follows.

Use	Location	Type of assets
Assets used for training	Souraku-gun, Kyoto	Lands

Since assets used for training that were classified as corporate assets became idle assets, their carrying amounts were devalued to recoverable amounts and the differences of ¥1,118 million ($10,860 thousand) were charged to the consolidated statements of income as impairment losses.

Recoverable amounts of assets above were estimated by a real estate appraisal company.

Year ended March 31, 2013

Property and equipment are classified into groups based on the respective type of business, which are the units for making investment decisions.

The assets for which the group recognized impairment losses were as follows:

Use	Location	Type of assets
Assets used for training	Suttu-gun, Hokkaido	Buildings and structures, tools, furniture and fixtures

Notes to Consolidated Financial Statements

Since assets used for training that were classified as corporate assets became held-for-sale assets, their carrying amounts were devalued to recoverable amounts and the differences of ¥125 million were charged to the consolidated statements of income as impairment losses.

Recoverable amounts of assets above were estimated based on net selling prices which were evaluated based on their contract prices.

20. Personnel expenses arising from changes in human resource policy

Year ended March 31, 2013

Personnel expenses arising from changes in human resource policy were ¥847 million ($9,009 thousand) at the company for the year ended March 31, 2013.

21. Office relocation related expenses

Year ended March 31, 2014

Office relocation related expenses amounted to ¥819 million ($7,958 thousand) for the year ended March 31, 2014.

22. Amounts per share

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Yen		U.S. dollars (Note 2)
Net income:			
Basic	**¥177.26**	¥161.39	**$1.72**
Diluted	**174.24**	157.17	**1.69**
Cash dividends applicable to the year	**¥ 40.00**	¥ 36.00	**$0.37**

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Yen		U.S. dollars (Note 2)
Net assets	**¥1,161.29**	¥991.48	**$11.28**

Basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share was computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and subscription rights to shares.

Net assets per share was computed based on the net assets excluding share subscription rights and minority interests and the number of common stock outstanding at the year end.

Cash dividends per share represented the cash dividends proposed by the Board of Directors as applicable to the respective years together with any interim cash dividends paid.

The bases for calculation were as follows:

1. Basic and diluted net income per share

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Net income per share:			
Net income	**¥18,388**	¥16,730	**$178,660**
Amount not attributable to common shareholders	**–**	–	**–**
Net income related to common stock	**¥18,388**	¥16,730	**$178,660**
Diluted net income per share:			
Net income adjustment	**¥ (34)**	¥ 46	**$ (327)**
(of which, interest expenses after deducting tax)	**30**	58	**295**
(of which, change in holdings in equity method affiliates due to their issuance of subscription rights)	**(64)**	(12)	**(622)**

	Year ended March 31,	
	2014	2013
	Thousands of shares	
Weighted average number of shares for basic net income	**103,731**	103,665
Increase in shares of common stock:		
Exercise of warrant	**1,495**	2,982
Exercise of subscription rights to shares	**112**	96
Number of shares for dilutive net income	**105,338**	106,743

The following securities were excluded from the computation of diluted net income per share because they did not have dilutive effects:

Year ended March 31, 2013

The Company:

3rd subscription rights to shares (the number of subscription rights to shares: 34,500 units)

5th subscription rights to shares (the number of subscription rights to shares: 49,800 units)

7th subscription rights to shares (the number of subscription rights to shares: 40,000 units)

ARGO GRAPHICS Inc. (An affiliate accounted for by the equity method):
6th subscription rights to shares (the number of subscription rights to shares: 411,500 units)

Entire net income for the years ended March 31, 2014 and 2013 was attributed to common shareholders.

2. Net assets per share

	March 31,	
	2014	2013
	Thousands of shares	
The number of shares of common stock used for the calculation of net assets per share	103,755	103,683

	March 31,		March 31,
	2014	2013	2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Total net assets	¥126,160	¥108,209	$1,225,806
Amounts deducted from total net assets:			
Subscription rights to shares	135	168	1,316
Minority interests	5,536	5,241	53,785
Net assets attributable to shares of common stock	¥120,489	¥102,800	$1,170,705

23. Consolidated statements of comprehensive income

The following table presented components of reclassification adjustment and income tax of other comprehensive income for the years ended March 31, 2014 and 2013:

	Year ended March 31,		Year ended March 31,
	2014	2013	2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Other comprehensive income:			
Change in fair value of available-for-sale securities:			
Gains arisen during the year	¥226	¥671	$2,192
Reclassification adjustments for gains (losses) included in income statements	1	(425)	9
Before-tax amounts	227	246	2,201
Tax expenses	(72)	(96)	(693)
Sub-total, net of tax	¥155	¥150	$1,508
Deferred gains or losses on hedges:			
Gains (losses) arisen during the year	¥ (15)	¥ 58	$ (148)
Reclassification adjustments for gains included in income statements	–	–	–
Before-tax amounts	(15)	58	(148)
Tax (expenses) benefits	6	(22)	56
Sub-total, net of tax	¥ (9)	¥ 36	$ (92)
Foreign currency translation adjustments:			
Gains arisen during the year	¥405	¥266	$3,929
Reclassification adjustments for gains included in income statements	2	–	23
Before-tax amounts	407	266	3,952
Tax expenses	–	–	–
Sub-total, net of tax	¥407	¥266	$3,952
Share of other comprehensive income of associates accounted for using equity method:			
Gains arisen during the year	¥ 5	¥ 8	$ 53
Sub-total, net of tax	¥ 5	¥ 8	$ 53
Share of other comprehensive income of affiliates accounted for by the equity method:			
Gains arisen during the year	¥ 23	¥ 27	$ 230
Sub-total, net of tax	¥ 23	¥ 27	$ 230
Total other comprehensive income	¥581	¥487	$5,651

24. Cash flow information

1. Reconciliation of cash and cash equivalents

Reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows was as follows:

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Cash and time deposits	**¥19,157**	¥19,669	**$186,131**
Short-term investment securities	**1,101**	1,299	**10,701**
Deposits paid	**58,865**	64,478	**571,947**
Deposits paid with original maturities of more than three months	**(18,000)**	–	**(174,893)**
Time deposits with original maturities of more than three months or those submitted as collateral for loans payable	**(1,418)**	(1,300)	**(13,771)**
Bond investment trusts and government bonds with original maturities of more than three months	**(701)**	(898)	**(6,811)**
Cash and cash equivalents	**¥59,004**	¥83,248	**$573,304**

2. Non-cash investing and financing activities

(1) Finance lease assets and obligations incurred

Finance lease assets and obligations incurred for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Capital lease obligations incurred	**¥6,943**	¥869	**$67,462**

25. Lease transaction

(a) Lessee – Finance leases

Leased assets consist mainly of facilities in head offices and data centers as property and equipment.

Finance leases, except for those leases under which the ownership of the leased assets is considered to be transferred to the lessee, whose inception dates are on or before March 31, 2008, are accounted for in the same manner as operating leases. The details at March 31, 2014 and 2013 were disclosed as follows:

1. Acquisition cost equivalents, accumulated depreciation equivalents and net carrying value equivalents of leased assets

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Tools, furniture and fixtures:			
Acquisition cost equivalents	**¥–**	¥127	**$–**
Accumulated depreciation equivalents	**–**	111	**–**
Net carrying value equivalents	**¥–**	¥ 16	**$–**

2. Lease commitments

	March 31, 2014	March 31, 2013	March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Due within one year	**¥–**	¥19	**$–**
Due over one year	**–**	–	**–**
Total	**¥–**	¥19	**$–**

3. Lease expenses, depreciation equivalents and interest expense equivalents

	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014
	Millions of yen		Thousands of U.S. dollars (Note 2)
Lease expenses	**¥20**	¥120	**$192**
Depreciation equivalents	**16**	111	**160**
Interest expense equivalents	**¥ 1**	¥ 3	**$ 5**

Notes to Consolidated Financial Statements

4. Calculation method of depreciation equivalents

Depreciation equivalents are calculated using the straight-line method over the lease terms without residual value.

5. Calculation method of interest expense equivalents

Difference between total lease expenses and acquisition cost equivalents of the leased assets comprise interest expense equivalents. Interest expense equivalents are allocated using the effective interest method over the lease terms.

(b) Lessee – Operating lease

Lease commitments under non-cancelable operating leases were as follows:

	March 31,		March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
As a lessee:			
Due within one year	**¥ 4,075**	¥ 4,060	**$ 39,597**
Due over one year	**13,485**	17,544	**131,024**
Total	**¥17,560**	¥21,604	**$170,621**

26. Related party transactions

1. Transactions with related parties

Related party transactions during the years ended March 31, 2014 and 2013 were as follows:
(1) Transactions between the Company and related parties

(A) Sumitomo Corporation

	Year ended March 31,	
	2014	2013
Attribute	**Parent company**	Parent company
Name of the company	**Sumitomo Corporation**	Sumitomo Corporation
Location	**Chuo-ku, Tokyo**	Chuo-ku, Tokyo
Common stock amount (Millions of yen)	**¥219,279 ($2,130,576 thousand)**	¥219,279
Type of business	**Trading company**	Trading company
Percentage of voting shares in the Company (%)	**Direct 51.3%**	Direct 51.4%
Relationship of related party	**Providing of data processing service and software development service**	Providing of data processing service and software development service
Transaction amounts: (Millions of yen)		
Sales of data processing service and software development service*2	**¥16,051 ($155,961 thousand)**	¥13,905
Sales of investment securities*3	**– (–)**	¥1,700
Gain on sale of investment securities*3	**– (–)**	¥97
Balance at year end: (Millions of yen)		
Accounts receivable-trade	**¥3,293 ($31,996 thousand)**	¥2,583

Note: 1. In the amounts above, consumption taxes were included in the outstanding balances at year end, but not in transaction amounts.
*2. The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.
*3. Sales of investment securities depend on selling price determined in a reasonable way.

(B) Subsidiary of Sumitomo Corporation

	March 31, 2014	2013
Attribute	**Company which has an identical parent company**	Company which has an identical parent company
Name of the company	**Sumitomo Shoji Financial Management Co., Ltd.**	Sumitomo Shoji Financial Management Co., Ltd.
Location	**Chuo-ku, Tokyo**	Chuo-ku, Tokyo
Common stock amount (Millions of yen)	**¥100 ($972 thousand)**	¥100
Type of business	**Financing**	Financing
Percentage of voting shares in the Company (%)	**N/A**	N/A
Relationship of related party	**Deposit of funds**	Deposit of funds
Transaction amounts: (Millions of yen)		
Depositing of funds*2	**¥488,200 ($4,743,490 thousand)**	¥149,300
Interest income*2	**¥198 ($1,927 thousand)**	¥172
Balance at year end: (Millions of yen)		
Deposits paid	**¥58,200 ($565,488 thousand)**	¥64,000
Accrued income	**¥4 ($38 thousand)**	¥20

Note: 1. In transaction amounts and the amounts of balance at year end, consumption taxes were not included in the outstanding balances at year end.
*2. The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.

(2) Transactions between the consolidated subsidiaries of the Company and related parties

Not applicable

2. Notes regarding the parent company and important affiliates

(1) Parent company information

Sumitomo Corporation (Listed on Tokyo, Nagoya and Fukuoka Stock Exchange)

(2) Summary of financial information of important affiliates

Not applicable

27. Contingent liabilities

There were no material contingent liabilities at March 31, 2014 and 2013.

28. Stock options

Year ended March 31, 2014

1. Amount of income and expenses related to the stock option plans for the year ended March 31, 2014 and the account recorded

Gain on reversal of subscription rights to shares: ¥6 million ($60 thousand)

2. Stock options outstanding for the year ended March 31, 2014 were as follows:

Stock Option	Grantees' Position	Number of Option Granted	Date of Grant	Exercise Price
2007 Stock Option	10 directors 14 executive officers	Common stock 16,400 shares	July 27, 2007	¥1 ($0.01)
2008 Stock Option	9 directors 13 executive officers	Common stock 50,500 shares	July 29, 2008	¥1,964 ($19.08)
2008 Stock Option	9 directors 12 executive officers	Common stock 22,900 shares	July 29, 2008	¥1 ($0.01)
2009 Stock Option	9 directors 17 executive officers	Common stock 53,500 shares	July 30, 2009	¥1,564 ($15.20)
2009 Stock Option	9 directors 16 executive officers	Common stock 31,100 shares	July 30, 2009	¥1 ($0.01)
2010 Stock Option	9 directors 14 executive officers	Common stock 50,000 shares	July 30, 2010	¥1,376 ($13.37)
2010 Stock Option	9 directors 14 executive officers	Common stock 45,400 shares	July 30, 2010	¥1 ($0.01)

Stock Option	Vesting Condition	Applicable Period of Service	Exercisable Period
2007 Stock Option	*1	No provisions	July 28, 2007 – July 26, 2027
2008 Stock Option	*2	July 29, 2008 – June 30, 2010	July 1, 2010 – June 30, 2013
2008 Stock Option	*3	No provisions	July 30, 2008 – July 28, 2028
2009 Stock Option	*4	July 30, 2009 – June 30, 2011	July 1, 2011 – June 30, 2014
2009 Stock Option	*5	No provisions	July 31, 2009 – July 29, 2029
2010 Stock Option	*6	July 30, 2010 – June 30, 2012	July 1, 2012 – June 30, 2015
2010 Stock Option	*7	No provisions	July 31, 2010 – July 29, 2030

Note: Number of subscription rights to shares was expressed in number of shares to be issued upon exercise.

*1 The Holders can exercise the rights for only 2 years from the day following the date when they lose positions of directors or executive officers of the Company (hereinafter the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2025, they shall only be able to exercise the rights on and after August 1, 2025. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 27, 2007 for the fiscal year ended March 31, 2007.

*2 The Holders need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where Board of Directors of the Company recognizes that there is a justifiable reason. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 26, 2008 for the fiscal year ended March 31, 2008.

*3 The Holders can exercise the rights for only 2 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2026, they shall only be able to exercise the rights on and after August 1, 2026. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 26, 2008 for the fiscal year ended March 31, 2008.

*4 The Holders need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where Board of Directors of the Company recognizes that there is a justifiable reason. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2009 for the fiscal year ended March 31, 2009.

*5 The Holders can exercise the rights for only 2 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2027, they shall only be able to exercise the rights on and after August 1, 2027. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2009 for the fiscal year ended March 31, 2009.

*6 The Holders need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where the Holders retire as directors, corporate auditors or executive officers of the Company or its subsidiaries and affiliates at the expiration of their terms, or where Board of Directors of the Company recognizes that there is a justifiable reason. In this case, the Holders shall only be able to exercise the rights for 1 year from one day later than either the day of occurring such causes or July 1, 2012. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2010 for the fiscal year ended March 31, 2010.

*7 The Holders can exercise the rights for only 10 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2028, they shall only be able to exercise the rights on and after August 1, 2028. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2010 for the fiscal year ended March 31, 2010.

Number and movement of stock options

The following tables were based on the stock options which existed for the year ended March 31, 2014. Number of stock options was expressed in number of shares to be issued upon exercise.

	2007 Stock Option	2008 Stock Option	2008 Stock Option	2009 Stock Option
	Number of shares	Number of shares	Number of shares	Number of shares
Non-vested:				
Outstanding at April 1, 2013	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding at March 31, 2014	–	–	–	–
Vested:				
Outstanding at April 1, 2013	7,400	34,500	13,600	49,800
Vested	–	–	–	–
Exercised	–	18,000	–	34,300
Forfeited	–	16,500	–	–
Outstanding at March 31, 2014	7,400	–	13,600	15,500

	2009 Stock Option	2010 Stock Option	2010 Stock Option
	Number of shares	Number of shares	Number of shares
Non-vested:			
Outstanding at April 1, 2013	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Outstanding at March 31, 2014	–	–	–
Vested:			
Outstanding at April 1, 2013	26,700	40,000	42,200
Vested	–	–	–
Exercised	–	24,000	–
Forfeited	–	–	–
Outstanding at March 31, 2014	26,700	16,000	42,200

3. Price information of stock options for the year ended March 31, 2014

	2007 Stock Option	2008 Stock Option	2008 Stock Option	2009 Stock Option
Exercise price (yen)	¥ 1	¥1,964	¥ 1	¥ 1,564
Average market price of the stock at the time of exercise (yen)	–	2,131	–	2,477
Fair valuation price (date of grant) (yen)	¥2,156	¥ 374	¥ 1,774	¥ 380

	2009 Stock Option	2010 Stock Option	2010 Stock Option
Exercise price (yen)	¥ 1	¥1,376	¥ 1
Average market price of the stock at the time of exercise (yen)	–	2,318	–
Fair valuation price (date of grant) (yen)	¥1,363	¥ 284	¥ 1,149

	2007 Stock Option	2008 Stock Option	2008 Stock Option	2009 Stock Option
Exercise price (U.S. dollar)	$ 0.01	$19.08	$ 0.01	$ 15.20
Average market price of the stock at the time of exercise (U.S. dollar)	–	20.71	–	24.07
Fair valuation price (date of grant) (U.S. dollar)	$20.95	$ 3.63	$ 17.24	$ 3.69

	2009 Stock Option	2010 Stock Option	2010 Stock Option
Exercise price (U.S. dollar)	$ 0.01	$13.37	$ 0.01
Average market price of the stock at the time of exercise (U.S. dollar)	–	22.52	–
Fair valuation price (date of grant) (U.S. dollar)	$13.24	$ 2.76	$ 11.16

4. Method of estimating exercised stock options

The Company estimates the number of exercised stock options based on the actual number of forfeitures because it is difficult to estimate the number of stock options which will be forfeited in the future.

Year ended March 31, 2013

1. Amount of income and expenses related to the stock option plans for the year ended March 31, 2013 and the account recorded

Gain on reversal of subscription rights to shares: ¥11 million

2. Stock options outstanding for the year ended March 31, 2013 were as follows:

Stock Option	Grantees' Position	Number of Option Granted	Date of Grant	Exercise Price
2007 Stock Option	10 directors 14 executive officers	Common stock 49,000 shares	July 27, 2007	¥2,461
2007 Stock Option	10 directors 14 executive officers	Common stock 16,400 shares	July 27, 2007	¥1
2008 Stock Option	9 directors 13 executive officers	Common stock 50,500 shares	July 29, 2008	¥1,964
2008 Stock Option	9 directors 12 executive officers	Common stock 22,900 shares	July 29, 2008	¥1
2009 Stock Option	9 directors 17 executive officers	Common stock 53,500 shares	July 30, 2009	¥1,564
2009 Stock Option	9 directors 16 executive officers	Common stock 31,100 shares	July 30, 2009	¥1
2010 Stock Option	9 directors 14 executive officers	Common stock 50,000 shares	July 30, 2010	¥1,376
2010 Stock Option	9 directors 14 executive officers	Common stock 45,400 shares	July 30, 2010	¥1

Stock Option	Vesting Condition	Applicable Period of Service	Exercisable Period
2007 Stock Option	*1	July 27, 2007 – June 30, 2009	July 1, 2009 – June 30, 2012
2007 Stock Option	*2	No provisions	July 28, 2007 – July 26, 2027
2008 Stock Option	*3	July 29, 2008 – June 30, 2010	July 1, 2010 – June 30, 2013
2008 Stock Option	*4	No provisions	July 30, 2008 – July 28, 2028
2009 Stock Option	*5	July 30, 2009 – June 30, 2011	July 1, 2011 – June 30, 2014
2009 Stock Option	*6	No provisions	July 31, 2009 – July 29, 2029
2010 Stock Option	*7	July 30, 2010 – June 30, 2012	July 1, 2012 – June 30, 2015
2010 Stock Option	*8	No provisions	July 31, 2010 – July 29, 2030

Note: Number of subscription rights to shares was expressed in number of shares to be issued upon exercise.

*1 Those who hold share subscription rights (hereinafter the "Holders") need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where Board of Directors of the Company recognizes that there is a justifiable reason. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 27, 2007 for the fiscal year ended March 31, 2007.

*2 The Holders can exercise the rights for only 2 years from the day following the date when they lose positions of directors or executive officers of the Company (hereinafter the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2025, they shall only be able to exercise the rights on and after August 1, 2025. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 27, 2007 for the fiscal year ended March 31, 2007.

*3 The Holders need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where Board of Directors of the Company recognizes that there is a justifiable reason. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 26, 2008 for the fiscal year ended March 31, 2008.

*4 The Holders can exercise the rights for only 2 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2026, they shall only be able to exercise the rights on and after August 1, 2026. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 26, 2008 for the fiscal year ended March 31, 2008.

*5 The Holders need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where Board of Directors of the Company recognizes that there is a justifiable reason. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2009 for the fiscal year ended March 31, 2009.

*6 The Holders can exercise the rights for only 2 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2027, they shall only be able to exercise the rights on and after August 1, 2027. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2009 for the fiscal year ended March 31, 2009.

*7 The Holders need to be in the position of a director, a corporate auditor or an executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where the Holders retire as directors, corporate auditors or executive officers of the Company or its subsidiaries and affiliates at the expiration of their terms, or where Board of Directors of the Company recognizes that there is a justifiable reason. In this case, the Holders shall only be able to exercise the rights for 1 year from one day later than either the day of occurring such causes or July 1, 2012. Succession of stock option shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2010 for the fiscal year ended March 31, 2010.

*8 The Holders can exercise the rights for only 10 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2028, they shall only be able to exercise the rights on and after August 1, 2028. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of Board of Directors and general meeting of shareholders held on June 25, 2010 for the fiscal year ended March 31, 2010.

Number and movement of stock options

The following tables were based on the stock options which existed for the year ended March 31, 2013. Number of stock options was expressed in number of shares to be issued upon exercise.

	2007 Stock Option	2007 Stock Option	2008 Stock Option	2008 Stock Option
	Number of shares	Number of shares	Number of shares	Number of shares
Non-vested:				
Outstanding at April 1, 2012	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding at March 31, 2013	–	–	–	–
Vested:				
Outstanding at April 1, 2012	28,500	8,600	34,500	14,400
Vested	–	–	–	–
Exercised	–	1,200	–	800
Forfeited	28,500	–	–	–
Outstanding at March 31, 2013	–	7,400	34,500	13,600

	2009 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
	Number of shares	Number of shares	Number of shares	Number of shares
Non-vested:				
Outstanding at April 1, 2012	–	–	50,000	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	50,000	–
Outstanding at March 31, 2013	–	–	–	–
Vested:				
Outstanding at April 1, 2012	53,500	27,800	–	45,400
Vested	–	–	50,000	–
Exercised	3,700	1,100	10,000	3,200
Forfeited	–	–	–	–
Outstanding at March 31, 2013	49,800	26,700	40,000	42,200

3. Price information of stock options for the year ended March 31, 2013

	2007 Stock Option	2007 Stock Option	2008 Stock Option	2008 Stock Option
Exercise price (yen)	¥2,461	¥ 1	¥1,964	¥ 1
Average market price of the stock at the time of exercise (yen)	–	1,603	–	1,557
Fair valuation price (date of grant) (yen)	¥ 373	¥2,156	¥ 374	¥1,774

	2009 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
Exercise price (yen)	¥1,564	¥ 1	¥1,376	¥ 1
Average market price of the stock at the time of exercise (yen)	1,766	1,557	1,768	1,603
Fair valuation price (date of grant) (yen)	¥ 380	¥1,363	¥ 284	¥1,149

4. Method of estimating exercised stock options

The Company estimates the number of exercised stock options based on the actual number of forfeitures because it is difficult to estimate the number of stock options which will be forfeited in the future.

29. Segment information

1. Summary of reportable segments

The Company designates its reported segments according to the business divisions as organizational units. The Board of Directors and Chairman & CEO and President & COO decide on the allocation of business resources, evaluate business performance, and conduct other such managerial duties in reference to these organizational units, with such managerial decision-making directly reflected in the pursuit of business activities within those business divisions.

The Company's business groups are arranged by IT service business area in consideration of client characteristics. Each business division plans and pursues its activities under a companywide business strategy as it relates to its own service area. Based on this arrangement, eight reportable segments have been designated: Industrial Systems Business, Financial Systems Business, Global Systems Business, Business Solutions, Business Services, IT Management, IT Platform Solutions, and Prepaid Card Business.

Businesses not included within the above are presented in the aggregate as "Others."

Presented below is an overview of the business activities of each of the reportable segments.

(1) Industrial Systems Business: This business group manages manufacturing, communication, distribution, media, and service industries, all based on advanced SI capabilities and business know-how. It offers the Company's self-developed ERP package, "ProActive," and a variety of other solutions pertaining to SCM, CRM, EDI, BI, enterprise systems, information systems and EC websites.

(2) Financial Systems Business: This business group supplies system services for banks, brokerages, insurance companies, and a variety of other financial business extending to credit card issuers and sales finance companies, utilizing experience and technological capabilities built up over years of experience with financial industry clientele.

(3) Global Systems Business: This business group offers IT services, including local site support, for companies which operate their business around the world. It draws on expertise and experience accumulated over years of providing support to such globally active clients as Sumitomo Corporation.

(4) Business Solutions: This business group offers ERP solutions centered on "SAP ERP" from SAP and "Oracle EBS" from Oracle, along with such peripheral solutions relating to CRM, IT governance and BI.

(5) Business Services: This business group offers a full range of business services, including technical support, customer support, help desk operation, telephone sales support and data entry, software verification/testing services, and a full range of fulfillment services, from EC site configuration and installation to back office operations and logistics.

(6) IT Management: This business group operates domestic netXDC solution-oriented data centers, known for the robustness of their facilities and the sophistication of their security controls. From these data centers it provides solutions-driven outsourcing services to meet a full range of client needs, including operational cost reduction, infrastructure integration and optimization, governance intensification and project continuity, infrastructural support for a variety of cloud computing options (private, public and hybrid), and a variety of other IT services, including website management and 24/7/365 SE support.

(7) IT Platform Solutions: This business group provides a wide range of products and advanced engineering services, including server storage devices, high performance computing (HPC) hardware and software, network switches and routers, VoIP products, IP telephony systems, communications/CATV devices, security-related products and data conversion tools.

(8) Prepaid Card business: This business group provides issuing and settlement services for prepaid cards, develops and markets card systems, etc.

In conjunction with the partial change in segment classification beginning with the fiscal year under review, comparable amounts for segment-specific sales, profits or losses, assets and other items have been restated within the Company's consolidated financial statements for the previous fiscal year.

2. Calculation of sales, profits or losses, assets and other items amounts by reportable segment

The accounting treatment for the Group's reported business segments is generally the same as described in Note 1 "Summary of significant accounting policies" of the notes to consolidated financial statements.

The segment income figures stated in the reportable segment are based on operating income. The inter-segment sales or the inter-segment figures are based on actual market prices.

Notes to Consolidated Financial Statements

3. Sales, profits or losses, assets and other items for each reportable segment

Segment data for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31, 2014					
	Reportable Segment					
	Industrial Systems Business	Financial Systems Business	Global Systems Business	Business Solutions	Business Services	IT Management
	Millions of yen					
Sales, profits or losses and assets by reportable segment						
Net sales:						
Sales to third parties	¥68,847	¥55,176	¥13,923	¥15,948	¥31,854	¥37,358
Inter-segment sales and transfers	1,751	386	2,527	1,971	1,639	9,338
Total	70,598	55,562	16,450	17,919	33,493	46,696
Segment profits or losses	5,476	5,880	1,957	1,544	1,525	3,890
Segment assets	25,655	19,202	6,165	7,341	11,932	42,550
Other items						
Depreciation and amortization	924	188	167	1,060	284	2,719
Investments in equity-method affiliates	174	–	–	–	25	153
Net increase in tangible/intangible fixed assets	¥ 1,074	¥ 257	¥ 46	¥ 610	¥ 206	¥ 5,596

	Year ended March 31, 2014					
	Reportable Segment					
	IT Platform Solutions	Prepaid Card Business	Others	Total	Adjustments	Amount recorded in the consolidated financial statements
	Millions of yen					
Sales, profits or losses and assets by reportable segments						
Net sales:						
Sales to third parties	¥61,293	¥ 3,043	¥ 795	¥288,237	¥ –	¥288,237
Inter-segment sales and transfers	6,402	91	2,643	26,748	(26,748)	–
Total	67,695	3,134	3,438	314,985	(26,748)	288,237
Segment profits or losses	4,445	148	265	25,130	(1,155)	23,975
Segment assets	27,297	51,783	5,376	197,301	120,632	317,933
Other items						
Depreciation and amortization	474	80	177	6,073	768	6,841
Investments in equity-method affiliates	3,488	–	–	3,840	–	3,840
Net increase in tangible/intangible fixed assets	¥ 582	¥ 151	¥ 1	¥ 8,525	¥ 1,155	¥ 9,680

	Year ended March 31, 2014					
	Reportable Segment					
	Industrial Systems Business	Financial Systems Business	Global Systems Business	Business Solutions	Business Services	IT Management
	Thousands of U.S dollars (Note 2)					
Sales, profits or losses and assets by reportable segments						
Net sales:						
Sales to third parties	$668,940	$536,109	$135,279	$154,955	$309,503	$362,983
Inter-segment sales and transfers	17,018	3,750	24,554	19,146	15,925	90,734
Total	685,958	539,859	159,833	174,101	325,428	453,717
Segment profits or losses	53,209	57,130	19,011	15,002	14,814	37,796
Segment assets	249,269	186,568	59,903	71,328	115,939	413,425
Other items						
Depreciation and amortization	8,977	1,826	1,620	10,297	2,759	26,423
Investments in equity-method affiliates	1,690	–	–	–	247	1,490
Net increase in tangible/intangible fixed assets	$ 10,433	$ 2,503	$ 446	$ 5,923	$ 2,007	$ 54,373

	Year ended March 31, 2014					
	Reportable Segment					
	IT Platform Solutions	Prepaid Card Business	Others	Total	Adjustments	Amount recorded in the consolidated financial statements
	Thousands of U.S dollars (Note 2)					
Sales, profits or losses and assets by reportable segments						
Net sales:						
Sales to third parties	$595,543	$29,563	$ 7,714	$2,800,589	$ –	$2,800,589
Inter-segment sales and transfers	62,199	887	25,676	259,889	(259,889)	–
Total	657,742	30,450	33,390	3,060,478	(259,889)	2,800,589
Segment profits or losses	43,193	1,442	2,580	244,177	(11,232)	232,945
Segment assets	265,223	503,135	52,233	1,917,023	1,172,104	3,089,127
Other items						
Depreciation and amortization	4,606	776	1,717	59,001	7,469	66,470
Investments in equity-method affiliates	33,886	–	–	37,313	–	37,313
Net increase in tangible/intangible fixed assets	$ 5,655	$ 1,465	$ 30	$ 82,835	$ 11,219	$ 94,054

Note: 1. Adjustments were as follows:

(1) The adjustment of ¥ (1,155) million ($(11,232) thousand) to segment profits or losses represented general corporate expenses that were not allocated to a reportable segment.

(2) The adjustment of ¥120,632 million ($1,172,104 thousand) to segment assets represented corporate assets that were not allocated to a reportable segment.

(3) The adjustment of ¥768 million ($7,469 thousand) to depreciation and amortization represented charges to corporate assets that were not allocated to a reportable segment.

(4) The adjustment of ¥1,153 million ($11,219 thousand) to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.

2. Segment profits or losses were reconciled to operating income in the consolidated statements of income.

Notes to Consolidated Financial Statements

	Year ended March 31, 2013					
	Reportable Segment					
	Industrial Systems Business	Financial Systems Business	Global Systems Business	Business Solutions	Business Services	IT Management
	Millions of yen					
Sales, profits or losses and assets by reportable segment						
Net sales:						
Sales to third parties	¥70,201	¥51,855	¥12,103	¥15,359	¥31,208	¥35,749
Inter-segment sales and transfers	2,684	269	1,589	1,524	1,372	8,376
Total	72,885	52,124	13,692	16,883	32,580	44,125
Segment profits or losses	4,844	4,553	1,976	1,748	996	3,148
Segment assets	28,345	18,276	4,988	8,438	12,540	38,509
Other items						
Depreciation and amortization	872	211	126	1,076	330	2,528
Investments in equity-method affiliates	162	–	–	–	78	117
Net increase in tangible/intangible fixed assets	¥ 1,582	¥ 173	¥ 34	¥ 772	¥ 261	¥ 6,380

	Year ended March 31, 2013					
	Reportable Segment					
	IT Platform Solutions	Prepaid Card Business	Others	Total	Adjustments	Amount recorded in the consolidated financial statements
	Millions of yen					
Sales, profits or losses and assets by reportable segments						
Net sales:						
Sales to third parties	¥58,028	¥ 3,302	¥ 829	¥278,634	¥ –	¥278,634
Inter-segment sales and transfers	5,426	137	2,698	24,075	(24,075)	–
Total	63,454	3,439	3,527	302,709	(24,075)	278,634
Segment profits or losses	3,615	572	288	21,740	(936)	20,804
Segment assets	22,171	48,231	6,472	187,970	134,859	322,829
Other items						
Depreciation and amortization	482	79	158	5,862	828	6,690
Investments in equity-method affiliates	3,356	–	–	3,713	–	3,713
Net increase in tangible/intangible fixed assets	¥ 415	¥ 37	¥ 13	¥ 9,667	¥ 165	¥ 9,832

Note: 1. Adjustments were as follows:
(1) The adjustment of ¥ (936) million ($ (9,957) thousand) to segment profits or losses represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥138,214 million ($1,469,575 thousand) to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥1,472 million ($15,658 thousand) to depreciation and amortization represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥754 million ($8,015 thousand) to net increase in tangible/intangible assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profits or losses were reconciled to operating income in the consolidated statements of income.

4. Related Information

(1) Information about products and services

Sales data by products and services for the years ended March 31, 2014 and 2013 was not presented as similar information was disclosed in the above segment information.

(2) Information about geographic area

(a) Net sales

Sales data by geographic area for the years ended March 31, 2014 and 2013 was not presented as the sales of Japan represented more than 90% of total sales.

(b) Property and equipment

Property and equipment data by geographic area at March 31, 2014 and 2013 was not presented as property and equipment located in Japan represented more than 90% of total property and equipment.

(3) Information about major customers

Information about major customers for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Sales to Sumitomo Corporation	**¥16,051**	¥13,905	**$155,961**

Note: Amounts of sales to customers that belonged to the same group as that of Sumitomo Corporation were not included in the sales above.

5. Information regarding impairment losses of fixed assets by reportable segment

Information regarding impairment losses of fixed assets by reportable segment for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Industrial Systems Business	**¥ –**	¥ –	**$ –**
Financial Systems Business	**–**	–	**–**
Global Systems Business	**–**	–	**–**
Business Solutions	**–**	–	**–**
Business Services	**2**	–	**22**
IT Management	**–**	–	**–**
IT Platform Solutions	**–**	–	**–**
Prepaid Card Business	**–**	–	**–**
Others	**–**	–	**–**
Corporate assets and Eliminations	**1,118**	125	**10,860**
Total	**¥1,120**	¥125	**$10,882**

6. Information regarding amortization of goodwill and remaining balance of goodwill by reportable segment

Information regarding amortization of goodwill and remaining balance of goodwill by reportable segment for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31,		Year ended March 31,
	2014	2013	**2014**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Amortization:			
Industrial Systems Business	**¥ –**	¥ –	**$ –**
Financial Systems Business	**8**	23	**74**
Global Systems Business	**1**	3	**9**
Business Solutions	**–**	–	**–**
Business Services	**21**	21	**201**
IT Management	**2**	3	**20**
IT Platform Solutions	**45**	45	**433**
Prepaid Card Business	**–**	–	**–**
Others	**16**	16	**163**
Corporate assets and Eliminations	**–**	–	**–**
Total	**¥ 93**	¥111	**$ 900**
Remaining balance:			
Industrial Systems Business	**¥–**	¥ –	**$–**
Financial Systems Business	**–**	8	**–**
Global Systems Business	**–**	1	**–**
Business Solutions	**–**	–	**–**
Business Services	**62**	83	**603**
IT Management	**–**	2	**–**
IT Platform Solutions	**147**	192	**1,430**
Prepaid Card Business	**–**	–	**–**
Others	**42**	58	**410**
Corporate assets and Eliminations	**–**	–	**–**
Total	**¥251**	¥344	**$2,443**

30. Subsequent events

There are no significant subsequent events.

KPMG

Independent Auditor's Report

To the Board of Directors of SCSK Corporation:

We have audited the accompanying consolidated financial statements of SCSK Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SCSK Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

KPMG AZSA LLC

July 30, 2014
Tokyo, Japan

Corporate History

Apr 2012
Abolished the internal company system and integrated the Operation Divisions

Oct 2011
Sumisho Computer Systems Corporation merged with CSK Corporation, with SCS as the surviving company and the new company named SCSK Corporation

SCSK SCSK Corporation

Oct 2010
Shifted from a pure holding company to an operating holding company Several Group companies merged with CSK Holdings Corporation, the surviving company name was changed to CSK Corporation

Jul 2009
Established CSK ServiceWare through the merger of Business Process Outsourcing (BPO) service businesses of eight Group companies

Feb 2007
Established Sumisho Computer Systems (Shanghai) Ltd.

Dec 2006
Acquired data center facilities in Sanda, Hyogo

Oct 2005
Shifted to a holding company structure, company name was changed to CSK Holdings Corporation

Aug 2005
Merged with Sumisho Electronics Co., Ltd.

Oct 2002
Data Center opened in Inzai, Chiba

Oct 1992
Company name changed to Sumisho Computer Systems Corporation

Sep 1991
Listed on the First Section of the Tokyo Stock Exchange

CSK Corporation

May 1990
Established Sumisho Computer Service (Europe) Ltd. (now SUMISHO COMPUTER SYSTEMS (EUROPE) LTD.)

Feb 1989
Shifted to the Second Section of the Tokyo Stock Exchange

Jan 1987
Company name changed to CSK Corporation

Oct 1987
Established Sumisho Computer Service (USA), Inc. (now Sumisho Computer Systems (USA), Inc.)

Mar 1985
Shifted to the First Section of the Tokyo Stock Exchange

Jun 1982
Listed in the Second Section of the Tokyo Stock Exchange

Sumisho Computer Systems Corporation

Oct 1968
Computer Services Corporation established

Oct 1969
Sumisho Computer Service Corporation established

Corporate Data

Corporate Data (As of March 31, 2014)

Established	October 25, 1969
Capital	21,152 million yen
Total number of employees	Consolidated: 11,689
Head office	Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo 135-8110, Japan TEL : +81-3-5166-2500 URL : http://www.scsk.jp/index_en.html

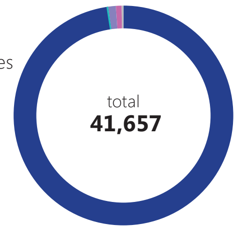
Investor Information (As of March 31, 2014)

Stock/ Shareholder information	Class of stock	common stock
	Number of shares authorized	200,000,000
	Number of shares issued	107,986,403 (including treasury stock of 3,997,711 shares)
	Number of shareholders	41,657

Stock listing	First Section of the Tokyo Stock Exchange
Stock code	9719
Stock trading unit	100
Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
Independent certified public accountants	KPMG AZSA LCC

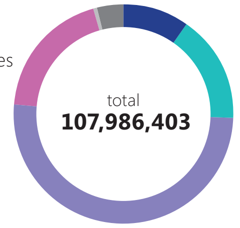
Distribution of shareholders (Common stock)

Shareholder composition



Type of investor	Number of investors	Composition
Individuals and others	40,776	97.91%
Government and public bodies	1	0.00%
Financial institutions	45	0.10%
Other companies	459	1.10%
Foreign companies, etc.	326	0.78%
Securities companies	49	0.11%
Treasury stock	1	0.00%
Total	41,657	100.00%

Distribution of shares



Type of investor	Number of stocks	Composition
Individuals and others	10,763,796	9.96%
Government and public bodies	48	0.00%
Financial institutions	17,097,954	15.83%
Other companies	54,879,427	50.85%
Foreign companies, etc.	20,664,888	19.13%
Securities companies	582,579	0.53%
Treasury stock	3,997,711	3.70%
Total	107,986,403	100.00%

Major shareholders

	Name of shareholder	Number of shares held	Shareholding ratio
1	Sumitomo Corporation	52,697,159	50.68%
2	The Master Trust Bank of Japan, Ltd. (Trust account)	5,202,200	5.00%
3	Japan Trustee Services Bank, Ltd. (Trust account)	4,589,300	4.41%
4	Shareholding Commission of Employees in SCSK Group	2,731,774	2.63%
5	STATE STREET BANK AND TRUST COMPANY	1,213,281	1.17%
6	ARGO GRAPHICS Inc.	1,015,500	0.98%
7	Trust & Custody Services Bank, Ltd. (Securities investment trust account)	836,600	0.80%
8	The Nomura Trust and Banking Co., Ltd. (Investment trust account)	820,300	0.79%
9	STATE STREET BANK AND TRUST COMPANY 505225	744,736	0.72%
10	STATE STREET BANK AND TRUST COMPANY 505103	675,360	0.65%

Note: The Company owns 3,997,711 shares of treasury stock, but is excluded from the major shareholders listed above.