

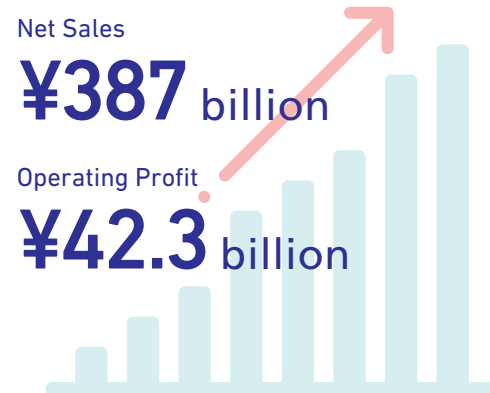
IT for the next delight.



Cretate Our Future of Dreams

The SCSK Group continues to grow into a leading company in the IT services industry.

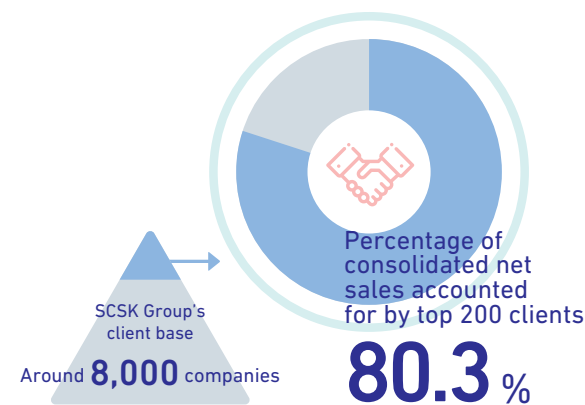
Eight straight years of higher profit on higher revenue



We have posted higher profit on higher revenue* for eight consecutive years since the merger. The operating profit margin was 10.9%, while net sales, operating profit and operating profit margin were all record highs.

*Operating profit basis

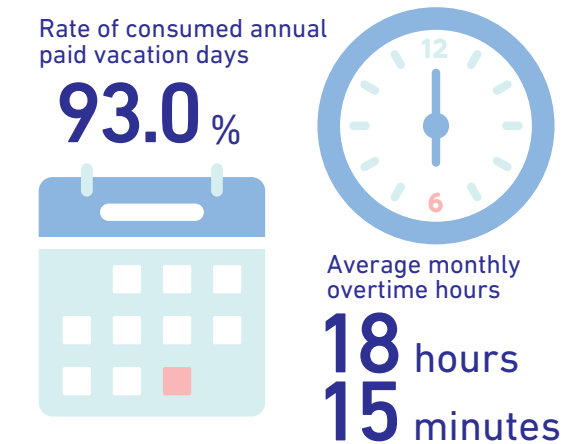
Strategic IT partner to clients



Net sales ¥387 billion

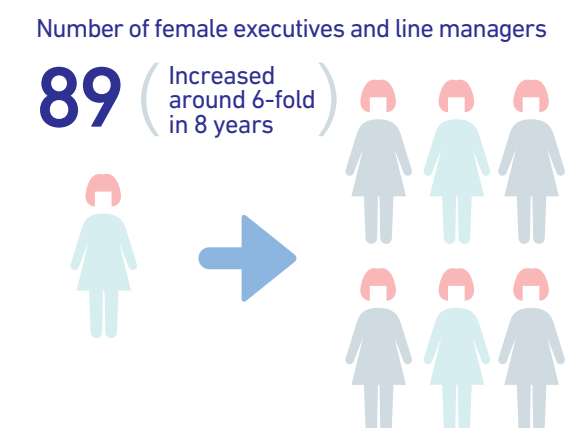
We are building relationships with the goal of becoming clients' top vendor as an IT partner they can trust. As a result, the percentage of net sales accounted for by the top 200 clients eclipse 80% and we are now receiving projects with a broader range of domains and higher volumes.

Actively implement working style reforms



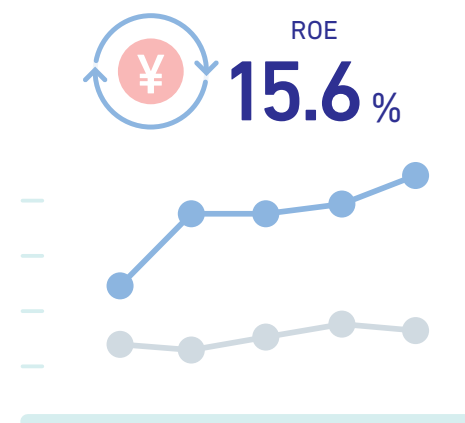
We believe that improving employees' mental and physical wellbeing and increasing their motivation at work will create a positive cycle where we increase the service value provided to clients and provide greater returns of profits to stakeholders. As such, we continually work on this area with the goal of realizing more efficient and flexible working styles.

Promoting the career development of women



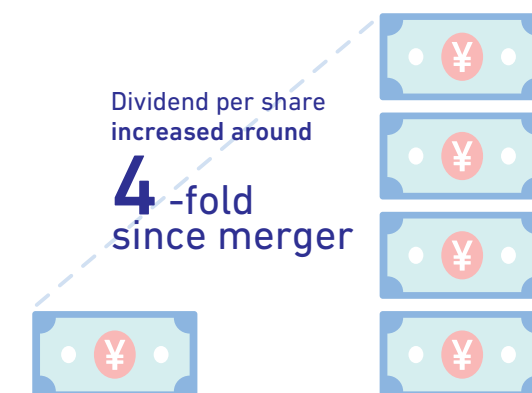
We promote career development support based on the unique challenges faced by each generation with the goal of further promoting women's empowerment. As a result, the number of female executives and line managers has reached 89, which is more than 6-times the figure from 2012.

Among the top capital efficiency in the industry



We continue with management mindful of capital efficiency while undertaking structural reforms toward a non-labor intensive business model, M&A, Group restructuring, and efforts to improve profitability.

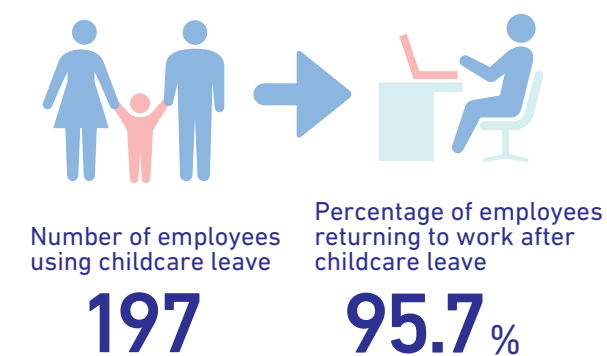
Growing shareholder returns in line with earnings



We have continued to pay higher dividends since the merger thanks to growing earnings. Dividend per share has increased around 4-fold to ¥130 per share* in the fiscal year ended March 31, 2020 from ¥32 in the fiscal year ended March 31, 2012, the first year after the merger.

*Includes ¥20 commemorative dividend marking our 50th anniversary.

Facilitating the smooth return to work for employees taking childcare leave



We have established a flexible work system and facilitated the smooth return to work for employees taking childcare leave and have various work-life balance programs in place to support employees in returning from paid leave at an early stage.

Becoming a company with a pleasant and rewarding workplace



We aim to become a company with a pleasant and rewarding workplace through various systems and measures for diversity aimed at promoting working style reforms, improving work-life balance and utilizing our diverse workforce.

*All figures as of March 31, 2020.

Corporate Philosophy

Our Mission

Create Our Future of Dreams

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

Our Promises

Respecting each other

We realize our potential by respecting each other.

Providing excellent service utilizing reliable technology

We delight customers through our service based on reliable technology and passion.

Sustaining growth from a global and future perspective

We, with our stakeholders, pursue sustainable growth for the world and the future.

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.

SCSK GROUP

Japan

SCSK ServiceWare Corporation
VeriServe Corporation
Minori Solutions Co., Ltd.
SCSK KYUSHU CORPORATION
SCSK HOKKAIDO CORPORATION
SCSK PRESCENDO CORPORATION

Skeed Co., Ltd.
CSI SOLUTIONS Corporation
Allied Engineering Corporation
WinTechnology Corporation
SCSK SYSTEM MANAGEMENT CORPORATION
VA Linux Systems Japan KK

SDC Corporation
Gran Manibus Co., Ltd.
SCSK Nearshore Systems Corporation
Tokyo Green Systems Corporation
ARGO GRAPHICS Inc.*

Overseas

SCSK USA Inc.
SCSK Europe Ltd.
SCSK Shanghai Limited
SCSK Asia Pacific Pte. Ltd.
PT SCSK Global Indonesia
SCSK Myanmar Ltd.

* Company accounted for using the equity method

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Editorial Policy

Integrated Report 2020 has been compiled as an integrated report that contains information on performance and business strategies as well as non-financial information, such as that pertaining to sustainability activities.

We hope this report will facilitate understanding with regard to SCSK's efforts to realize stable, ongoing improvements in corporate value from a medium- to long-term perspective while paying attention to stakeholders.

Scope of report | SCSK and the SCSK Group
Publication date | October 2020

Guidelines referenced

- U.N. Global Compact



- ISO 26000
- The International Integrated Reporting Council (IIRC)'s International Integrated Reporting Framework
- Global Reporting Initiative (GRI) GRI Standards
- Ministry of Economy, Trade and Industry (METI)'s Guidance for Collaborative Value Creation

Important Information Regarding Report Terminology

The phrase "health and productivity management" appearing in this report is a registered trademark of Workshop for the Management of Health on Company and Employee.

Disclaimer

This report is intended to provide information about the performance and business strategies of the SCSK Group and is not intended to solicit the purchase or sales of SCSK's stock. Estimates, targets, and outlooks included in this report are forward-looking statements based on information available as of the date of publication. Results and outcomes may differ materially from the forward-looking statements and no guarantee is made that targets will be reached. All such statements are subject to change without notice.

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Composition of Information Disclosure Media

Integrated Reporting



Integrated Report

**Investor Relations
Detailed Information
Investor Relations Website**
https://www.scsk.jp/ir_en/index.html



**Sustainability
Detailed Information
Sustainability Website**
https://www.scsk.jp/corp_en/csr/index.html



We will promote sustainability management as a medium- to long-term growth strategy centered around co-creation with clients and society.



Masao Tabuchi

Representative Director
Chairman and Chief Executive Officer

Using digitalization effectively to support the new normal in an era with COVID-19

The world has changed at an unprecedented speed since the 2000s. Globalization and digitalization have been the two major drivers behind this change. Today people, commodities, products, services, information and money actively move across international borders thanks to deregulation and innovations in information communication technology (ICT). This has brought structural changes to all areas of the economy and society, from the manufacturing and distribution supply chain to financial and capital markets, all the way to our day-to-day lives. However, due to the worldwide spread of the COVID-19 pandemic, a number of issues have also emerged, including how to move people and goods safely and maintain the supply chain. Now is a time of fundamental change in traditional values, representing an important turning point in human history.

The digitalization of society will likely gain even greater traction following the COVID-19 pandemic. This situation where people must remain at home has caused IT services

such as remote work, online learning, and online healthcare to become indispensable to society. Attention is also focused on the use of smartphones in countermeasures to stop the pandemic's spread. Without a doubt, the effective utilization of digital technology will become an important factor in achieving a new standard of living that balances infection control and economic activities in this new normal of life with COVID-19 in the future.

For example, work styles will likely begin to transition from the traditional concentrated type, where employees gather at a main office, to a dispersed type, where remote work in regions is used to avoid crowding. The SCSK Group will further accelerate its use of nearshoring offices in regions—an approach we have pioneered—to address this change, and shift to new work styles for a new normal. Concurrently, we will contribute to solutions to social issues, such as job creation and economic revitalization in regions.

Taking the lead in resolving social issues by expanding the scope of co-creation

As these changes in business climate further accelerate, for companies to achieve sustainable growth, it will be important to make it clear what we aim for based not only on near term changes, but fundamental changes in society from a longer term perspective. Toward this end, the SCSK Group has established a long-term growth vision as well as a medium- to long-term management plan based on the direction of this vision.

With our corporate philosophy of “Create Our Future of Dreams” closely in mind, we will now promote sustainability management as a medium- to long-term growth strategy.

Going forward, for the SCSK Group to achieve sustainable growth, it will be important to pursue management that contributes to solutions to social issues from a long-term perspective, taking into account the values of our diverse stakeholders and company's social influence. In recent years, social issues have become more complex and larger. The progress of digitalization in society is the key to resolving a number of these social issues. Sustainability management involves identifying and contributing to solutions to various social issues together with clients and society by utilizing our core competence in digital technology. This growth strategy involves creating economic value while at the same time creating new value required by society.

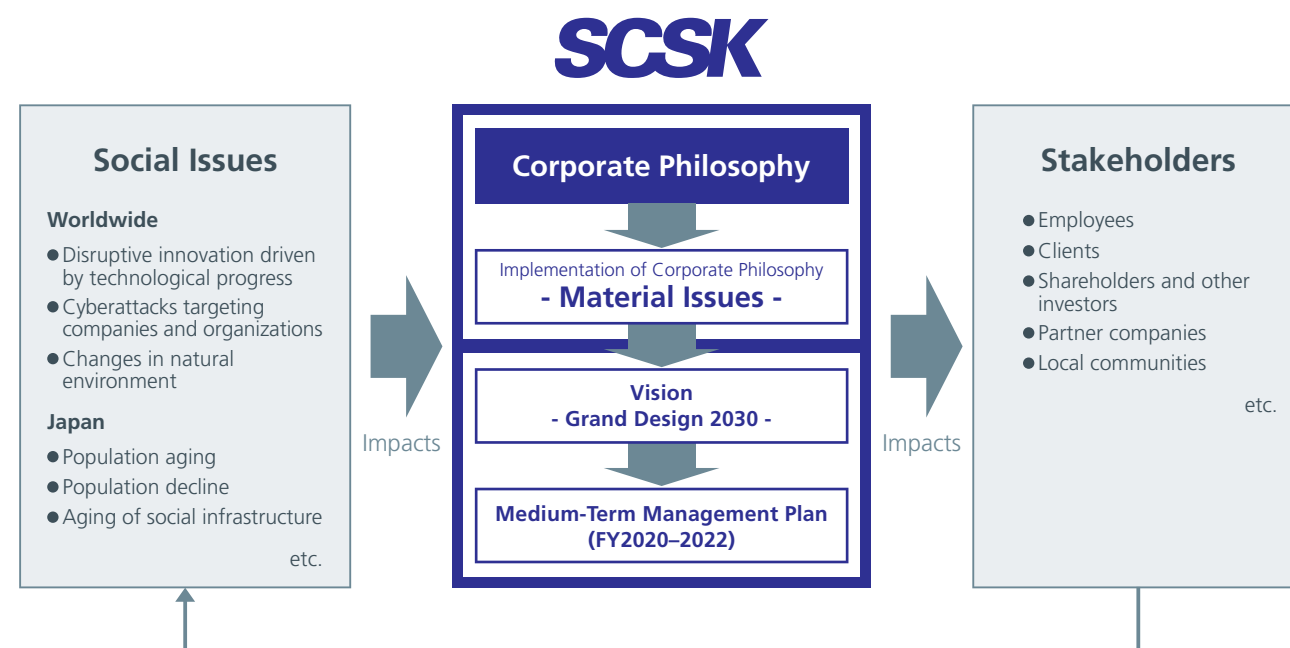
We formulated Grand Design 2030 as our vision for 2030, and defined “co-creative IT company” as our goal for 2030.

We drew up a new three-year Medium-Term Management Plan as the first step toward realizing both.

Until now, we have contributed indirectly to society by resolving the issues faced by client companies, but in the future we will take more of a lead in contributing directly to society. Joining forces with client companies and companies from different industries to resolve issues using each other's strengths can become a major driver for transforming society. This represents the value of co-creation found in our corporate philosophy. Going forward, we will fulfill our roles as a company to expand the scope of co-creation with clients and society to work on solutions to social issues aimed at 2030.



Overview of Management Plan



Identifying material issues as a compass for implementing our corporate philosophy

We have identified material issues facing SCSK to determine and share areas we should prioritize in implementing sustainability management based on our corporate philosophy.

The issues society faces are truly wide ranging. Given this, we require a compass to determine the direction of priority areas in resolving social issues utilizing the Group's businesses and strengths. Material issues represent this compass and by using it, employees also can check whether they are working on addressing social issues and whether their work is contributing to society.

Material issues we consider vital to "achieve sustainable business growth with society" include the three qualities of "innovating for a brighter society," "building trust for a safe and secure society" and "creating an inclusive society." These crystallize our ideal society of the future based on the three promises in our corporate philosophy. To achieve these three promises, the SCSK Group will combine its competencies to resolve social issues and achieve business growth at the same time. On the other hand, the four qualities of material issues for "foundation supporting sustainable growth" represent the foundation for pursuing sustainability management from the perspectives of environmental, social, governance (ESG).

These material issues were determined based on an employee consensus reached after various discussions; rather than a top down approach from senior management. We

will now use these material issues as a compass to determine whether officers and employees are on the same page.

Material issues for implementation of our corporate philosophy



Fostering Co-Creation-Oriented Corporate Culture and increasing employee morale

To become a "co-creative IT company" in our vision for 2030, I believe it is vital for us to foster Co-Creation-Oriented Corporate Culture. Until now SCSK has focused on contract work, but now we will take the lead in business with the aim to create new value by co-creating with clients and society. Therefore, it will be important to have the power to connect various partners across organization, company and industry lines, and the power to embrace diverse values and individuality as well as utilize these. To co-create with various people, we must understand, accept, and utilize various viewpoints and ideas. In other words, fostering Co-Creation-Oriented Corporate Culture involves the promotion of diversity and inclusion. Once employees can co-create with various people and feel a keen sense of contributing to solutions to social issues through their work, morale should increase greatly.

As part of this process for fostering Co-Creation-Oriented Corporate Culture, we launched the Future Creation Project mainly comprised of young and mid-career employees to formulate Grand Vision 2030 and establish our new Medium-Term Management Plan. These discussions lasted around 18

months. By creating an employee-driven vision for the Group, I feel that more employees are taking ownership and there is growing awareness about social issues.

In order to fully draw out the drive and skills of these employees, we will focus on building our training system and making our personnel evaluation and compensation fair and convincing. We will further upgrade our training system including SCSK i-University and utilize our career development program, free agent system, and second job program (*Smart Work Plus*) to provide opportunities for employees to experience diverse lines of work. Furthermore, in July 2020 we revamped our personnel system and incorporated an evaluation system where capable employees are compensated more.

Going forward, the SCSK Group will seek to foster and penetrate Co-Creation-Oriented Corporate Culture while increasing employee morale. We will achieve sustainable growth together with society as a co-creative IT company where a diverse workforce tackles the challenges of actively creating new value.

The SCSK Group will promote sustainability management as a growth strategy. Our goal is to become a “co-creative IT company” in 2030 through our efforts to create new value and resolve social issues through our businesses.

Sustainable business growth through the resolution of social issues

External Environment Surrounding the SCSK Group

Paradigm shift of technology

AI/IoT
Fintech
xR
5G
CASE
...

Social issues

Climate change
Health and welfare
Human rights and education
Diversity
Work-life balance
Regional and healthcare disparities
...

Corporate Philosophy Create Our Future of Dreams

Implementation of Corporate Philosophy Material Issues

> P33

Achieving sustainable business growth with society



Foundation supporting sustainable growth



Corporate governance > P49

Management resources

Financial capital >P29

- A strong financial base
- High capital efficiency
- Strategic business investment

Intellectual capital >P27

- Ability to explore and apply innovative technologies
- R&D capabilities in commercialization of advanced technologies
- SCSK's quality standard to achieve high quality and improved productivity and platforms underpinning it

Human capital >P43

- Professional human resources with various skills and experiences
- Workplace environment that encourages continual growth and contributions
- Corporate culture that encourages co-creation and provides a strong sense of employee motivation

Social and relationship capital >P47

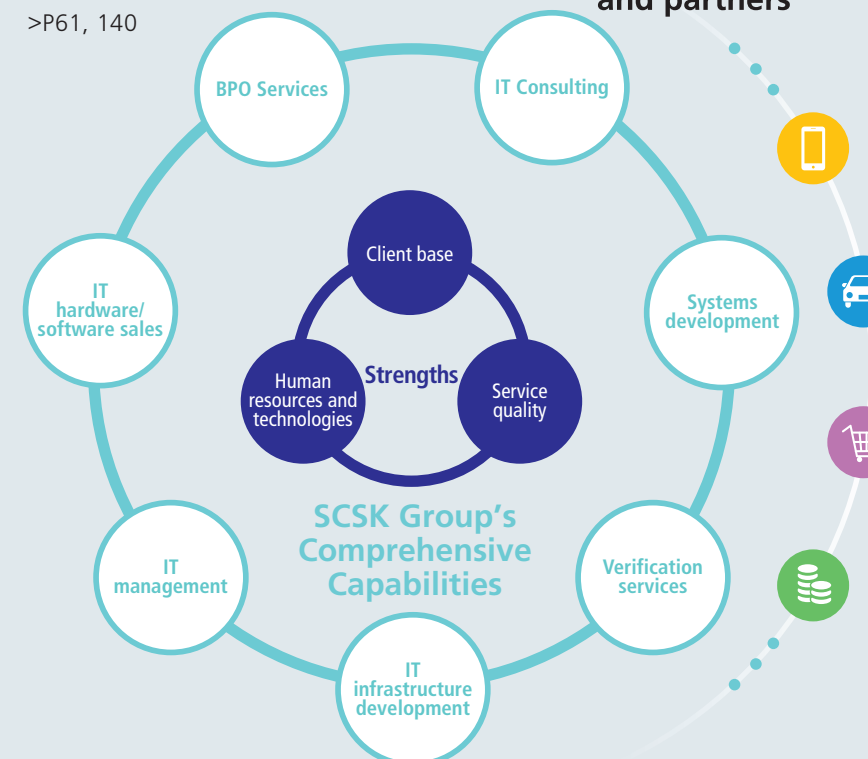
- Sustainable value chain
- Client base for realizing co-creation across different industries

Natural capital >P41

- Highly energy efficient data centers

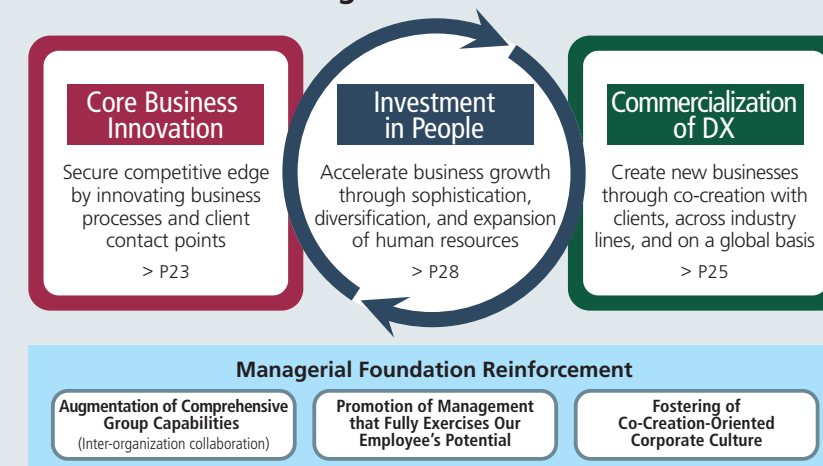
Business activities

>P61, 140



Co-creation with clients and partners

Medium-Term Management Plan >P21



Creation of social value

- Innovating for a brighter society
- Building trust for a safe and secure society
- Creating an inclusive society

Grand Design 2030
> P15

SCSK Group's vision

Co-Creative IT Company

– IT for the next delight –

Target net sales of ¥1 trillion

Creation of economic value

- Increasing profits
- Enhancing capital efficiency
- Maximizing shareholder value

Expand management resources

Transforming into a co-creative IT company in 2030

I spent the first part of my career as an engineer for 16 years after joining SCSK in 1982. Even after being promoted to managerial positions and executive officer, I have always relied upon my credo of "Always think from the client's perspective." This is because I believe that by identifying the true challenges inherent in the client's needs and thinking up solutions together, we can become a strategic partner to clients. Therefore, even after being appointed president, I continue to visit the frontline of our operations whenever possible given the importance of dialogue with clients and to convey firsthand to employees the significance of this credo. I believe the Group was able to increase sales and profits even in the fiscal year ending March 31, 2020 because of our strategies under the previous Medium-Term Management Plan as well as my continued focus on the client's perspective as a corporate manager.

In April 2020, we launched a new management plan. Returning to our roots in our corporate philosophy of "Create Our Future of Dreams," we identified material issues for implementing this corporate philosophy and drew up Grand Design 2030 as our vision for 2030. Our ultimate goal is to become a "co-creative IT company" in 2030 and, toward this end, we have established the ambitious target to reach ¥1 trillion in net sales for the Group.

The acceleration in digitalization means the IT industry itself requires a structural transformation, which represents a major opportunity to create new value for society. The grand design we formulated for this business climate contains our strong commitment to transform into a company that generates new value by further promoting co-creation globally for various client industries and formats, using IT as a means and tool, instead of simply carrying on our conventional business model. Aimed at this realization, I am committed to guiding us in the right direction for fundamentally transforming the SCSK Group.

Toru Tanihara

Representative Director
President and Chief Operating Officer



We will continue to enhance and expand core businesses and achieve medium- to long-term growth by creating new value with co-creation.

Review of the Previous Medium-Term Management Plan

Q What progress did you make with the core strategies of the previous Medium-Term Management Plan?

We shifted to service-oriented businesses and achieved major results in strengthening the Group's business foundation.

Under the previous Medium-Term Management Plan spanning from April 2015 to March 2020, the Group implemented three core strategies for "Transform Business Structure (To a Non-Labor-Intensive Business) / Dynamic Growth Strategy Aiming to Achieve High Profit Growth."

First, in terms of "shifting to service-oriented businesses," net sales in this field in the fiscal year ended March 2020 reached about ¥80 billion, growing to the point where it now occupies 20% of the entire company's net sales. Going forward, we will continue to take steps to advance this initiative. A service-oriented business involves using our own strengths and know-how as intellectual properties to establish services that can be provided jointly. The qualities we have cultivated during this shift will foster standardization/automation tools and modularization. This will also link up with "core business innovation," one of the core strategies of the new Medium-Term Management Plan that kicked off in April 2020 involving the shift to Low-Code No-Code development and automation of operations.

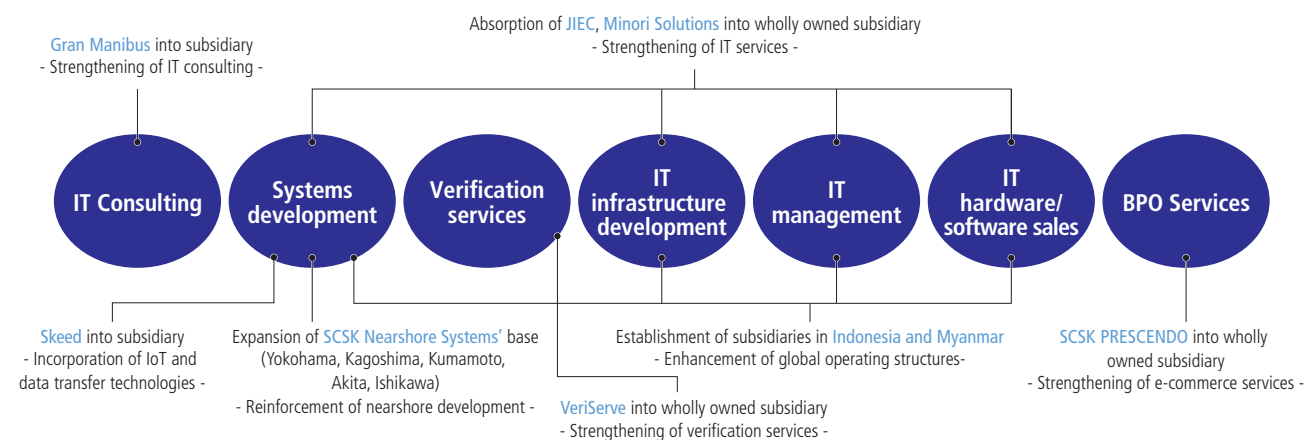
Second is the automotive software systems business, considered a strategic business. We developed new automotive basic software called QINeS-BSW, compliant with AUTOSAR, a standardized architecture framework for automotive platform software, and released it to the market. Since automakers have prioritized investment in

development of advanced driver assistance systems (ADAS) and autonomous driving over changes in development architecture, initially there were delays in adoption compared to our plan. Yet, from the perspective of supporting the automotive industry, which stands as a symbol of Japan's manufacturing prowess, I believe this solution has major social significance. Looking ahead, we will work on increasing sales of the service and expanding the coverage, aimed at adoption in next-generation vehicle models. Also, by connecting technologies developed through this process and the business application world where we have excelled traditionally, we should be able to expand into the domain known as Mobility as a Service (MaaS). For this reason, we positioned MaaS—not just in-vehicle solutions—as one of the priority fields of commercialization of DX in the new Medium-Term Management Plan.

Third is global business expansion. In the fiscal year ended March 2020, we established subsidiaries in Indonesia and Myanmar, marking our first new overseas locations in 12 years. As a foothold for these new bases, we plan to expand into the digital transformation (DX) and new businesses in the business IT domain in the Asia-Pacific region.

Furthermore, over the past two years we have actively taken steps to reinforce the Group's structure, including reorganizing Group companies, executing M&A, and expanding nearshoring offices. These efforts represent preparations for the new Medium-Term Management Plan. One of the Group's greatest strengths is our ability to deliver a full lineup of services, from IT consulting to systems development, verification services, IT infrastructure development, systems maintenance and operation, BPO services, and IT hardware / software sales. Despite such an expansive

Reinforcement of Group Structures



lineup, we dug deeper and actually found pieces we were lacking. If we are unable to fill these gaps before the new Medium-Term Management Plan starts, it will end up as a pie in the sky. With this sense of urgency, we tried to do more than is needed and took thorough steps to reinforce the Group's business foundation.

Q How do you evaluate business performance during the previous Medium-Term Management Plan?

We continued to grow profits at 8.6% CAGR while transforming our business structure, and broke records for both net sales and operating profit.

Over the past five years we have increased net sales 30.0% and operating profit 51.1%. Net sales for the fiscal year ended March 2020 totaled ¥387 billion, while operating profit came in at ¥42.3 billion, both record highs. Also, the five-year trailing CAGR of net sales and operating profit was

5.4% and 8.6%, respectively. In this manner, over the past five years, we have continued to increase sales and profits despite business investment aimed at business structure transformation, and operating profit margin increased from 9.4% before the start of the previous Medium-Term Management Plan to 10.9% after. This shows that we have been able to increase efficiencies and productivity.

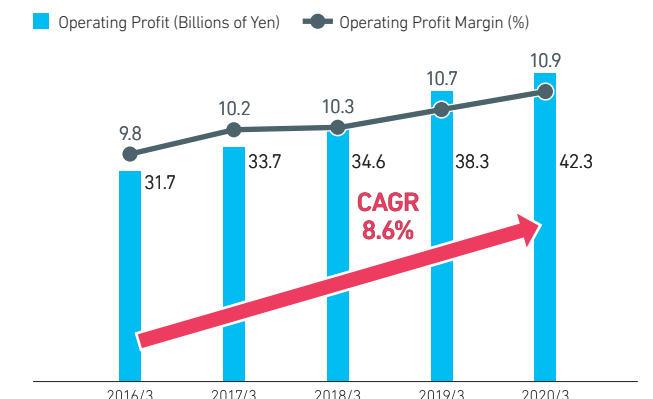
Next up, I would like to talk about operating profit of ¥50 billion cited as a management target. We fell short of operating profit target of between ¥5 and ¥10 billion expected from strategic businesses and M&A due to delays in the automotive software systems business, but we made steady progress according to plan for the operating profit target of ¥40 to ¥45 billion from existing businesses and the shifting to service-oriented businesses. In addition, operating profit margin was 10.9%, as discussed above, and ROE was 15.6%, both achieved the target.

Regarding the automotive software systems business, we are steadily moving toward the black and we intend to continue following this trajectory.

Review of Previous Medium-Term Management Plan

	Fiscal 2014	Fiscal 2019		
	Results	Target	Results	vs FY2014
Net sales	¥297.6 billion	-	¥387 billion	+30.0%
Operating profit	¥28 billion	¥50 billion	¥42.3 billion	+51.1%
Operating profit margin	9.4%	10-12%	10.9%	+1.5pt
ROE	12.4%	15%	15.6%	+3.2pt
EPS	¥150	¥320	¥300	+¥150

Operating profit CAGR



Growth Vision for 2030

Q Can you provide the background and overview of Grand Design 2030?

We will work to become a “co-creative IT company” and aim for net sales of ¥1 trillion as our goals for 2030.

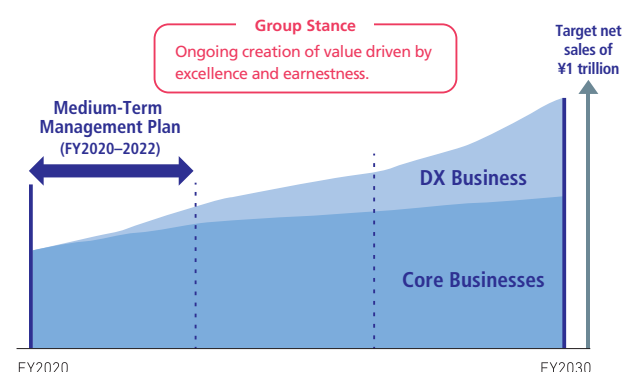
The IT service market in Japan continues to see moderate growth, but demand for large-scale development projects appears to be returning to the normal level. In this environment, I believe that going forward there will be qualitative changes in client companies' IT strategies, including a further move toward cloud solutions and acceleration of DX. Business and IT will become even more closely related, and there is a growing movement for companies to pursue IT in DX domains in-house. In addition, following the acceleration in DX, shared services beyond industry lines and the provision of complex services will expand in coming years. The talent demanded for IT services will change from problem solving-oriented to value creation-oriented, and I believe competition will heat up for this talent, including among our client companies.

In this manner, the IT services world finds itself in the wave of major change; not to mention the paradigm shift in technology. If we continue with the status quo, in either case our growth will peak. This is an unavoidable fact. Therefore, I felt it vital to formulate a medium- to long-term strategy for fundamentally transforming the SCSK Group. As a result, we established Grand Design 2030 as our vision for 2030. This Grand Design 2030 calls for us to become a co-creative IT company and achieve net sales of ¥1 trillion.

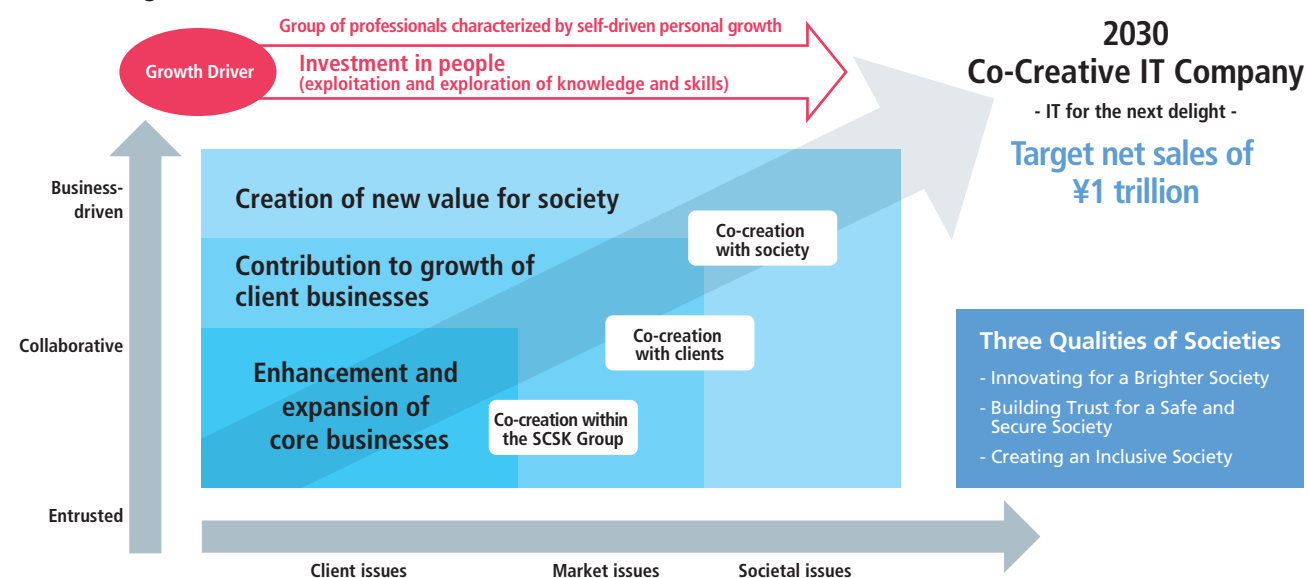
The target of ¥1 trillion in net sales is very ambitious, and it could be seen as impossible to achieve. However, if we can take the lead in business and generate new value for society using co-creation, I believe this number is possible. When setting targets, I find it important for targets to be “at a level where you can somehow touch it with your fingertips after extending as far as humanly possible.” Such a target will become a major source of motivation for all of our employees. On this occasion, we decided on tackling the challenge of ¥1 trillion in net sales as a target that is lofty, but realistic.

Also, from the time when I worked as a manager on the frontline of our operations, I have been keenly aware that “the power of youth and their free thinking will change the company.” As a result, when we formulated Grand Design 2030, we launched the Future Creation Project involving select young and mid-career employees. Our young and

Medium- to Long-Term Business Policy



Grand Design 2030



mid-career employees will be the ones who implement our transformation heading toward our long-term vision. The

ability to draw upon their views and commitment and reflect it in management is an important task for senior management.

Strategy of New Medium-Term Management Plan

Q What strategies will you follow during the first three years to realize Grand Design 2030?

We will aim to achieve ¥500 billion or more in net sales in the fiscal year ending March 2023 under the core strategies of core business innovation, commercialization of DX and investment in people.

The new Medium-Term Management Plan (covering the period from April 2020 to March 2023) that began in April 2020 is positioned as a milestone for steadily taking the company to the next level aimed at realization of Grand Design 2030.

■ Core business innovation: We will secure a competitive edge by innovating business processes and client contact points in core businesses.

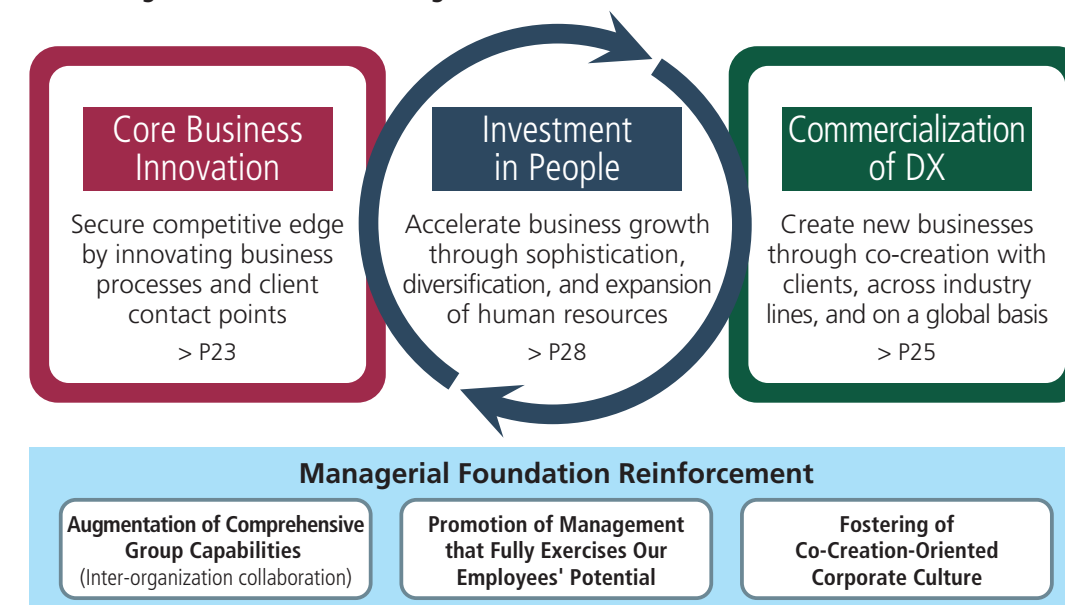
The first core strategy is core business innovation. We will work on *Monozukuri* innovations contributing to high productivity operations and Subdivision innovations where we will transform business by using bases positioned on client premises—the closest possible location to clients—on a full-time basis after having established relationships of trust

with clients over a long period of time.

In terms of *Monozukuri* innovation, until now, SCSK has applied its development process standard SE+ (SmartEpisode Plus) to the entire company aiming to increase quality in systems development. By rolling this out to partner companies, we have achieved not only better quality, but also improved productivity and profitability. In addition to these, we will utilize standardization and automation tools along with modularization on the *Monozukuri* innovation platform called S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) to tackle Low-code No-code development, automation of development and operations, accumulation and utilization of intellectual properties, and standardization of development, maintenance and operation. With this platform at the heart of our work, we will push ahead with automation and standardization of operations thoroughly, increase productivity, and eliminate personal factors.

Actually, development efficiency and automation is something I have kept close at heart since my involvement in systems development as an engineer. From the belief that “we will never be able to escape a labor-intensive business model if we simply keep writing programs,” the challenges I took on during my time in charge of development are

Medium-Term Management Plan - Core Strategies



being used today. This is precisely why I intend to make the necessary investments and accomplish everything that needs to be done.

Going forward, it will become more difficult to secure engineer talent because of the declining population and other factors. Using *Monozukuri* innovation to increase productivity, improve quality and reduce manpower is an important tool that will largely determine the competitiveness of IT service companies. SCSK will increase productivity and efficiency of projects through *Monozukuri* innovation, and at the same time allocate the engineer resources secured through these efforts to proposals of new projects, optimization of SoR domain, and demand in the SoE domain. By transforming these human resources for commercialization of DX, I believe we will be able to grow our top line.

Next is subdivision innovation. Utilizing our strength and track record in subdivisions, from maintenance and operation services to development and maintenance closely tied to clients, we will transform subdivisions from a full-time IT support to value-co-creating business model. Today, there are more than 10,000 members, including not only SCSK employees, but partner employees, too, working at around 530 subdivisions across Japan. Since there is a wealth of client needs at these offices, we consider them to be the departure point for co-creation with clients, where we will promote planning and proposals, while performing a deep dive into strategy and needs. By doing so, our aim is to support the transformation of clients' business and further strengthen clients point. We will shift the traditional full-time IT support domain to a remote environment wherever possible, and promote dispersed operations using nearshoring and offshoring. Meanwhile, by assigning only service managers or highly skilled engineers to clients, we will think "from the client's perspective" in the transformation of clients' businesses, which will make it possible to support the SoE domain and DX where clients should be involved.



■ **Commercialization of DX: We will take the lead to create new businesses that provide new value to society through co-creation with clients, across industry lines, and on a global basis.**

Looking ahead, we will enter a time of declining labor population, which will clearly make it impossible for not only SCSK but also our client companies to sustain growth using the conventional status quo. To break through this situation, we will need to generate new demand by means of technological innovation and business model transformation. DX will be a powerful means to this end.

Commercialization of DX represents a strategy where the SCSK Group will take the lead in business under this vantage point to promote DX using various forms of co-creation, and then attempt to roll out businesses and services that create new social and economic value. In the future, we will not only support business transformation using DX through co-creation with clients, but also approach a wide range of industries utilizing the Group's intellectual properties and services in an effort to create innovative services through co-creation with different industries. In addition, we plan to focus on creation of the DX business in new markets on a global basis, while strengthening our coordination with Sumitomo Corporation and others.

The priority fields for the commercialization of DX include the mobility field, where we can harness our track record in automotive software systems development and utilization of AI solutions, the financial service platform field, where we can utilize multi settlement technology and our track record in development, operations and BPO services for a host of different industries, the healthcare field, where we have a track record in a wide range of solutions, and the customer experience field, where we have AI and IoT related solutions, in addition to contact centers, e-commerce, and fulfillment services. For example, in the mobility field there is the world of MaaS. If we can utilize vehicle usage data together with life insurers and lease and rental companies, we will not only be able to increase user convenience, but also produce a new business model that results in solutions to social issues. We expect to flexibly review these priority fields while examining changes in society and technology. Looking ahead, as we utilize the Group's strength in co-creation with many different partners, we will carefully examine the risks and opportunities, and push ahead with reviews even outside of the current priority fields.

■ **Investment in People: We will accelerate business growth through sophistication, diversification, and expansion of human resources.**

Up to this point, I have explained about core business innovation and commercialization of DX. At a quick glance, it may appear that commercialization of DX is just beyond core business innovation, but after creating new business using

DX, there is the process of stabilizing it and then beginning operations. Consequently, core business transformation driven by core business innovation will make it possible for new business creation using DX to move on to the secure operation phase. In other words, by strongly implementing these two strategies as two axes, we will be able to see the path to Grand Design 2030. In order to move forward seamlessly without favoring one or the other, human resources, which are the drivers of these axes, are vital.

We want to be a company with a workforce where each and every employee feels a sense of purpose, flexibly accommodates change, and tackles the challenge of transformation with a sense of agility and courage. We are now actively working to implement the programs and measures for this.

■ **Managerial Foundation Reinforcement: We will work on augmentation of comprehensive Group capabilities, promotion of management that fully exercises our employees' potential, and fostering of Co-Creation-Oriented Corporate Culture.**

We will work on reinforcing our managerial foundation which will serve as a foundation for promoting our core strategies. First is augmentation of comprehensive Group capabilities. I feel like the time has come to create high value by combining the Group's diverse resources and knowledge built up over many years. Our goal is to further refine these comprehensive capabilities that cannot be replicated by other companies. Second is promotion of management that fully exercises our employees' potential. We will promote "creating an inclusive

society" cited as a material issue. This not only includes previous efforts toward health and productivity management and pursuit of comfortable workplaces, but also the initiative to become a highly engaging and motivating organization. Finally, third is fostering of Co-Creation-Oriented Corporate Culture. This will involve building a culture where we take the lead in promoting connections and combinations with other companies. As a result, we hope to become a group of companies that realizes value creation through co-creation.

By promoting these business strategies, we will aim for net sales of ¥500 billion or more, operating profit margin of 10 to 12%, and ROE of 15% or more in the fiscal year ending March 2023, the final fiscal year of the plan. In addition, as a result of achieving these targets, we will maintain Return on Invested Capital (ROIC) at a level between 10.0% and 12.0%.

Medium-Term Management Plan - Management Targets

	FY2019		FY2022
	Results		Target
Net sales	¥385.2 billion	▶	¥500 billion or more
Operating profit margin	10.4%	▶	10.0-12.0%
ROE	15.0%	▶	15% or more

*Figures for FY2019 have been restated in IFRS.

Capital efficiency index

ROIC maintenance target level: 10–12 %
(In the medium-term management plan period)

Finally

Q What are your ambitions for the future, taking into account the impacts of the COVID-19 pandemic?

We will boldly tackle the challenges of transforming business and society using IT-driven co-creation.

The economy in Japan and around the world has suffered a major blow from the COVID-19 pandemic which has caused significant restrictions on people's movements from stay-home orders and cut-backs in-person sales. In contrast, however, IT services involving remote work, social media, and online shopping have been recast key components of infrastructure for work and living. To balance infection prevention and economic activities in a future society with COVID-19, the

effective use of IT is more vital than ever before. Looking ahead, without a doubt social and business transformation will accelerate, driven by IT, not only work styles, but also remote work, cashless, online diagnosis, and visualization of the 3Cs (closed spaces, crowded places, and close-contact settings).

In this manner, as the social role of IT increases further, in addition to responding to the needs of clients working on business transformation, we ourselves will boldly take on risks and produce business that contributes to various social issues through co-creation with clients and society.

In essence, the Group will promote sustainability management as a growth strategy. We will work as one to tackle reforms, and achieve sustainable business growth and fulfill management targets. I ask for your further support as we move forward.

Past Medium-Term Management Plans

Medium-Term Management Plan (FY2012 to FY2014)

Core Strategies

Pursue cross-selling

Main Results and Review

- Capitalized on expanded client base from the merger to promote company-wide cross-selling of services where both companies excel and increased sales.

Expand the global solutions business

- Utilized track record in global markets to develop support system for Japanese companies' overseas operations, including expanded and reinforced overseas bases and business assistance, and increased relevant sales.

Strengthen the cloud solutions business

- Newly established the netXDC Chiba Center 2. Expanded cloud-based IT services using our network of data centers, which is among the largest in the industry.

Initiatives to managerial foundation reinforcement

	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3
Operational Quality, Efficiency and Productivity	Began use of SE*	Introduced Service Check System	Distributed SE* guidebook company-wide Introduced Core Partner Program		Newly opened Kagoshima nearshoring base Introduced SE* certification program Introduced SE* (Navi)		Newly opened Kumamoto nearshoring base Achieved 100% internal compliance with SE*	
Pleasant, Fulfilling Place to Work / Promote Health and Productivity Management >P43		Launched Smart Work Challenge	Reduced overtime work to less than 20 hours and achieved a rate of consumed annual paid vacation of 95% or greater	Introduced Kenko Waku Waku Mileage Program		Commenced Dokodemo WORK	Introduced the program for full-time employment of seniors	Introduced Second Job program (Smart Work Plus)
Enhance Human Resource Capabilities >P43	Introduced IT Skill Level Assessment			Launched Technoco, a hackathon for cultivating self-led talent in IT	Opened SCSK i-University	Began Kotsukatsu, supporting self-development		Began providing stipend for learning



- Promoted the true combination of both companies since the merger in October 2011 by developing a management foundation using various initiatives.
- Achieved business expansion driven by merger synergies as expected and fulfilled management targets.

Medium-Term Management Plan (FY2015 to FY2019)

Core Strategies

Shifting to service-oriented businesses

- Expanded service-oriented businesses that provide standardized and generalized business operations as shared-use systems utilizing our know-how, expertise and IP, and promoted the shift away from a labor-intensive business model.
- Expanded scale of business to about 20% (¥80 billion) of total net sales.

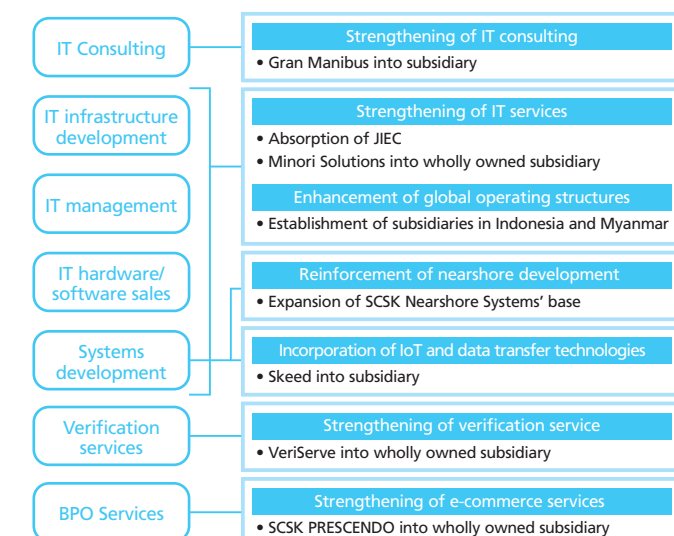
Promoting strategic business

- Developed in-house BSW (basic software) as a platform for automotive software systems and brought to market our proprietary product QINeS-BSW.
- Experienced a delay in increasing profits compared to the initial plan due to changes in the automobile market. As a result, we did not turn a profit in this core strategy during this Medium-Term Management Plan.

Enter into the second stage of global business expansion

- Promoted the further global business expansion of various IT services, including support for the IT needs of Japanese companies' local subsidiaries.
- Newly established bases in Myanmar and Indonesia to reinforce the business foundation in ASEAN.

Reinforcement of Group Structures



- Made steady progress with reinforcing the management foundation and transform business structure (move away from labor-intensive business model). Achieved high profit growth, with net sales growth rate at 5.4% CAGR and operating profit growth rate at 8.6% CAGR during this Medium-Term Management Plan.
- Although the profitability of strategic businesses is delayed, the operating income target of generating ¥40 to ¥45 billion from existing businesses and service-oriented businesses progressed according to plan.

New Medium-Term Management Plan (FY2020 to FY2022)

Background to the New Medium-Term Management Plan

With the full-fledged advent of digital society, Japan's IT market, clients, technologies and trends are undergoing significant changes. As the entire IT services industry must look to structural reform, the SCSK Group recognizes that continuing on with the status quo of business will make growth opportunities limited. Changes driven by digitalization offer great potential for creating new value for society and clients. To achieve the next stage of our growth, we felt it essential to implement a medium- to long-term strategy for fundamentally transforming the Group.

For the SCSK Group to achieve sustainable growth, it is

imperative to have a long-term perspective considering our influence on society, to share the values of various stakeholders, and to engage in management that contributes to solutions to social issues.

As a result, the SCSK Group has returned to its roots found in the corporate philosophy of "Create Our Future of Dreams" to establish a long-term growth vision. At the same time, we identified material issues for realizing this corporate philosophy. Taking into account this direction, we also formulated Grand Design as our vision for 2030 and the Medium-Term Management Plan as a roadmap for achieving this vision.

Operating Environment for the SCSK Group

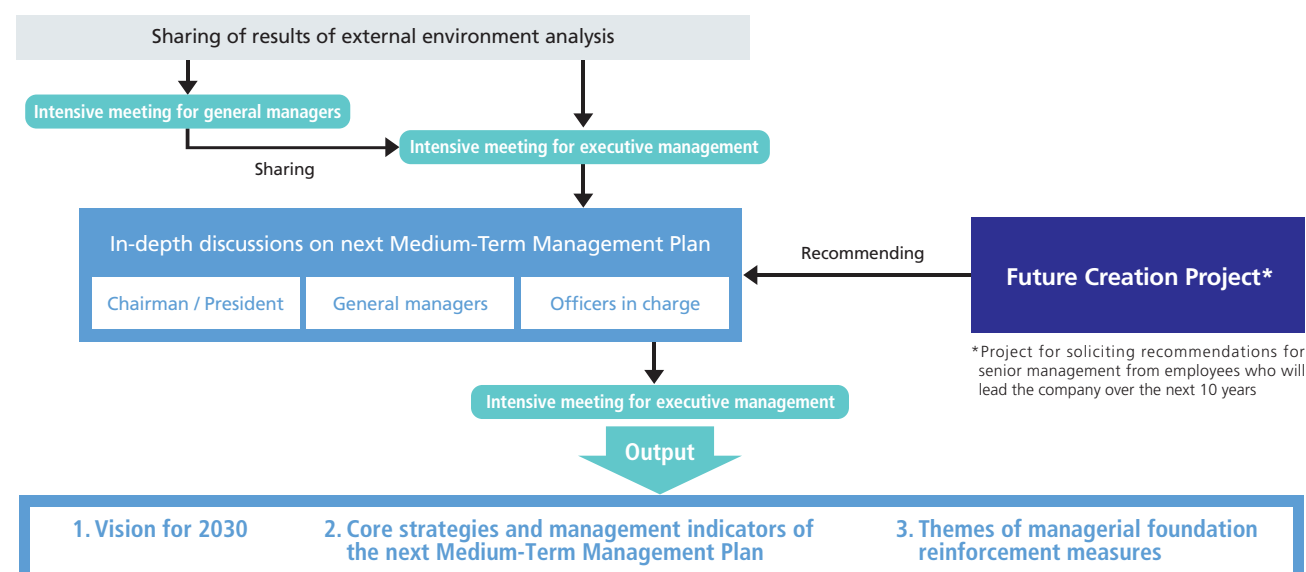
Domestic IT Market	<ul style="list-style-type: none"> Return to normal levels of demand despite modest growth trend Fundamental changes fueled by cutting-edge technologies Shift in human resource demand from problem solving-oriented to value creation-oriented personnel 	<ul style="list-style-type: none"> Transition toward in-house IT development as businesses become more intimately linked to IT Intensification of competition to secure IT personnel with clients and other companies, etc.
Client Trend	<ul style="list-style-type: none"> Expanded provision of integrated, cross-industry services as digital transformations accelerate 	<ul style="list-style-type: none"> Trend toward clients supplying IT services fueled by in-house digital transformations, etc.
Technologies and Trends	<ul style="list-style-type: none"> Emergence of solutions combining AI, IoT, 5G, sharing, API, etc. as de facto standard, etc. 	

Need for medium- to long-term strategies for drastically transformation

Response to rapid fundamental changes in IT investment /
Improvement in value creation capacity in preparation for IT-driven evolution

Formulation Process of the New Medium-Term Management Plan

In formulating the new Medium-Term Management Plan, we launched the Future Creation Project in fiscal 2018 composed of young and mid-career employees as representatives of each division to present bottom-up recommendations to complement the ideas of executive management and general managers. In essence, the entire company came together in examining the direction of the SCSK Group.



Summary of New Medium-Term Management Plan

Core Strategies

To be the "Co-Creative IT Company in 2030" described in the new Medium-Term Management Plan, SCSK will work on the three core strategies of Core Business Innovation, Commercialization of DX, and Investment in People, along with three managerial foundation reinforcement measures supporting these efforts: Augmentation of Comprehensive Group Capabilities, Promotion of Management that Fully Exercises Our Employees' Potential, and Fostering of Co-Creation-Oriented Corporate Culture. Through these, we will aim to expand our businesses globally.

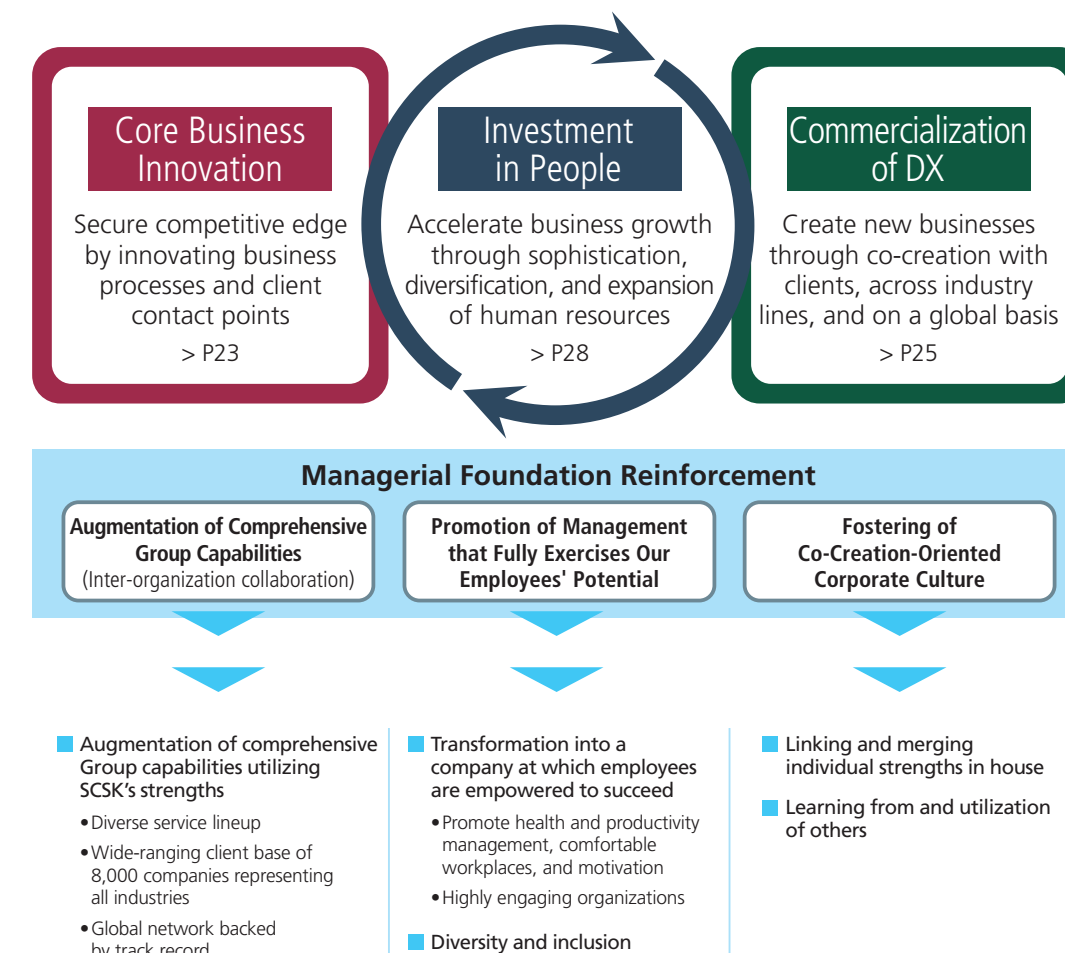
Management Targets

	FY2019*	FY2022
	Results	Target
Net sales	¥385.2 billion	▶ ¥500 billion or more
Operating profit margin	10.4%	▶ 10.0–12.0%
ROE	15.0%	▶ 15% or more

*Figures for FY2019 have been restated in IFRS.

■ Capital efficiency index

ROIC maintenance target level: 10–12%
(In the medium-term management plan period)



Core Business Innovation

Secure competitive edge
by innovating business processes and
client contact points in core business



Basic Approach

Representing one of the core strategies, Core Business Innovation will involve transforming the SCSK Group's business processes and client contact points from the two perspectives of *Monozukuri* innovation and subdivision innovation, with the goal of enhancement and expansion core businesses.

The DX report published by Japan's Ministry of Economy, Trade and Industry entitled the "2025 Digital Cliff" * discusses the obsolescence, black box nature, and

ballooned costs of legacy systems as well as the lack of engineers due to aging population and declining birthrate as issues facing many Japanese companies. The SCSK's Core Business Innovation will provide powerful support to solutions for delays in data linkages and data utilization attributed to these issues.

*Quoted from the report on digital transformation (DX) published by the Ministry of Economy, Trade and Industry on September 7, 2018 entitled "Overcoming of '2025 Digital Cliff' Involving IT Systems and Full-fledged Development of Efforts for DX"

System-Related Issues Facing Many Japanese Companies -"2025 Digital Cliff"-

- Legacy system issues (black box nature, obsolescence, expansiveness, and complexity)
- Inability to coordinate and utilize data through individual system optimization
- Lack of engineers at system-using companies, etc.

Core Business Innovation

Business processes:
1. "*Monozukuri* innovation"
contributing to high productivity

Client contact points:
2. "Subdivision innovation"
for transitioning toward value
co-creation with clients

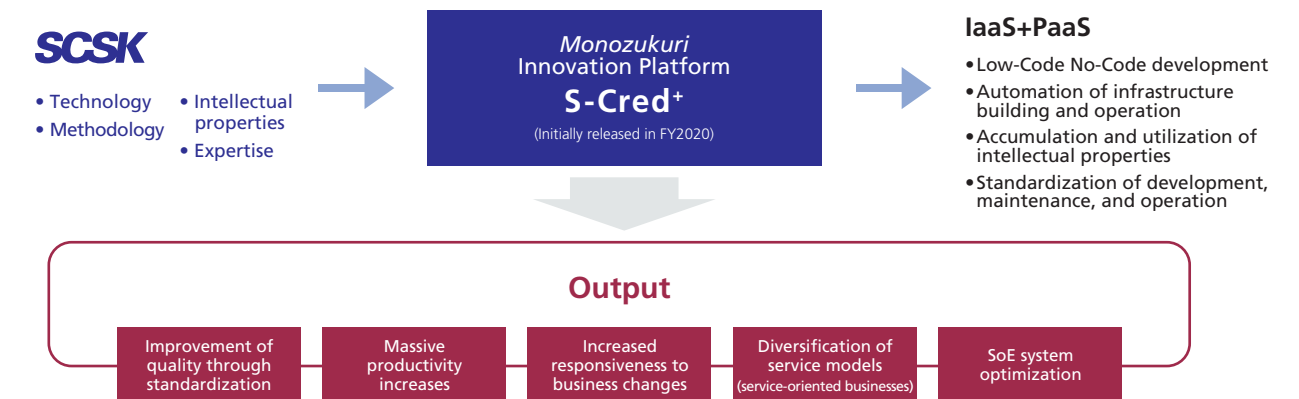
Development and enhancement of tools underpinning business innovation
(Platforms, methods, standardized processes, tools, nearshore and offshore development systems)

1. *Monozukuri* innovation

Provide diverse IT services boasting high levels of quality, productivity, and flexibility centered on "*Monozukuri* innovation platform"

Monozukuri innovation will drastically enhance service quality, productivity and flexibility along with optimize systems in the SoE/SoR domains, diversify service models and improve agility to business change, using as a foundation S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus), a *Monozukuri* innovation platform newly developed by SCSK.

S-Cred+ is a platform that combines the SCSK Group's technologies, methods, intellectual properties, and know-how. Through Low-Code No-Code development, automation of infrastructure building and operation, use of intellectual properties, and standardization, it not only improves productivity, but also removes the personal element. (See P27 for details about S-Cred+.)



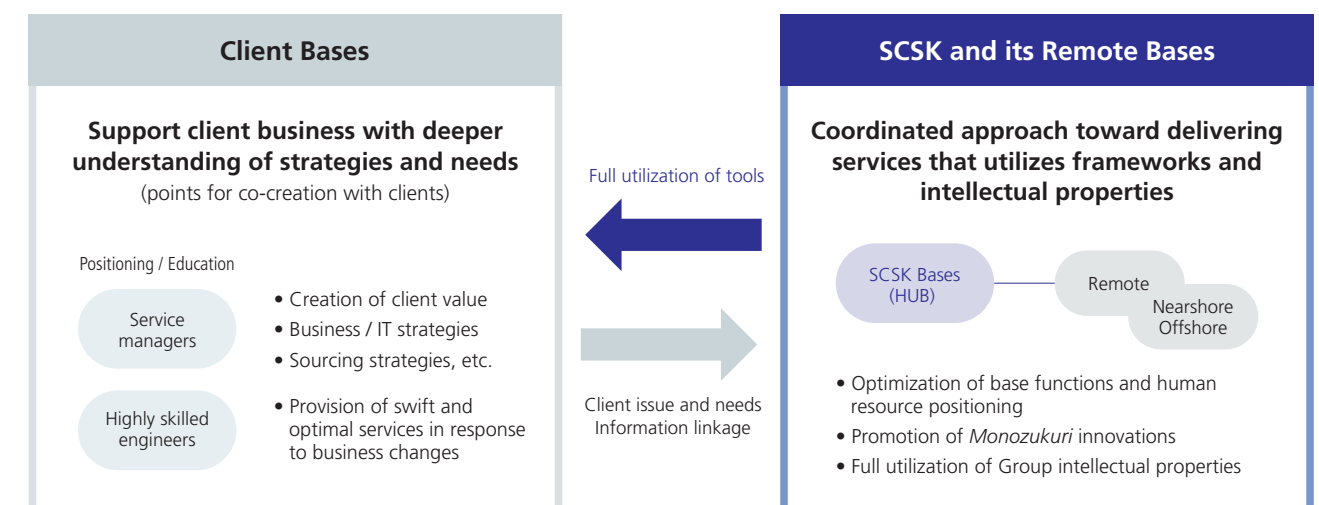
2. Subdivision innovation

Transform subdivisions from full-time IT support organizations to value-co-creating organizations supporting clients' business and IT strategies

Subdivisions are full-time IT support organizations located at clients' places of business and established based on long-standing relationships of trust fostered with clients. There are more than 10,000 members, including not only SCSK employees, but partner employees, too, working at these subdivisions. The subdivision business is considered a unique strength of the SCSK Group which values frontline interactions.

Under subdivision innovation, we will transform this subdivision business from full-time IT support organizations to

value-co-creating organizations underpinning clients' business and IT strategy. We will assign to clients service managers, who perform deep dives into strategies and needs, and highly skilled engineers, who provide swift and optimized services based on changes in business, to strengthen clients point. In addition, we will relocate existing full-time support members to the SCSK Group's remote bases to evolve efforts to a new co-creation stage with clients, including dispersed operations, while further building upon collaboration with clients.



Commercialization of DX

Create new businesses through

co-creation with clients,

across industry lines, and on a global basis



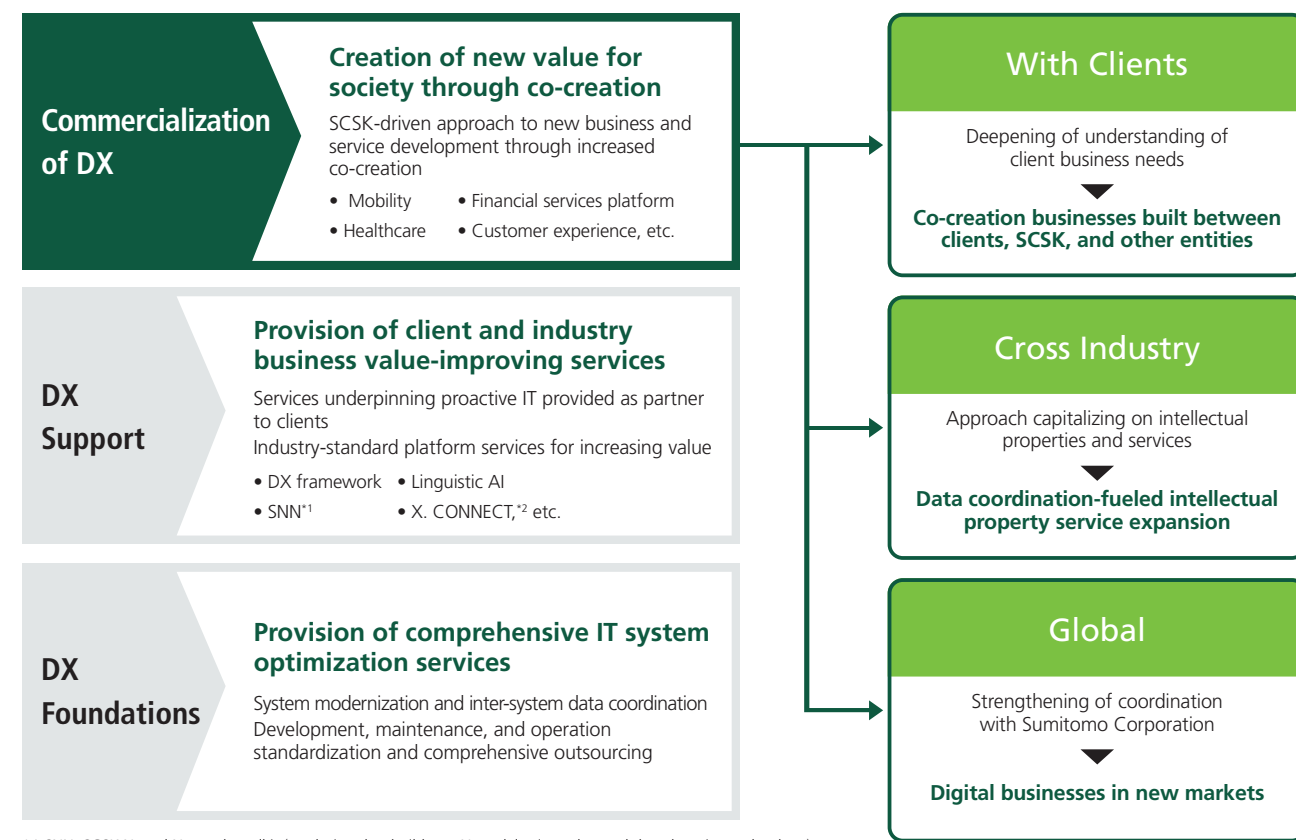
Basic Approach

The digital transformation (DX) the SCSK Group is working on is broken down into "DX Foundations," "DX Support" and "Commercialization of DX."

DX Foundations and DX Support, the two areas found at the bottom of the figure, involve further accelerating our current initiatives in core businesses and supporting the growth of clients and industries. Commercialization of DX, at the very top of the figure, involves creating new

value for society through co-creation where SCSK takes the lead, unlike its conventional contract-based approach, while utilizing the strengths of core businesses.

Aimed at Commercialization of DX, one of the core strategies, the SCSK Group will focus on the three types of co-creation: "co-creation with clients," "co-creation cross targeted industry" and "global co-creation with Sumitomo Corporation."



*1 SNN: SCSK Neural Network toolkit (a solution that builds an AI model using advanced deep learning technology).
*2 X.CONNECT: A cloud-based IOT service platform provided by SCSK.

On April 1, 2020, we newly established the DX Strategic Marketing Center, DX & Innovation Business Center, and DX Technology Development Center, after integrating and restructuring the DX & Innovation Business Center, the Strategy Solutions Sales Coordination Division, part of the Sales Coordination Group, and certain sales functions, in order to further strengthen and enhance functions for promoting and supporting the DX businesses aimed at Commercialization of DX. While working closely with each division and the R&D Center, we will now make steady progress toward Commercialization of DX.

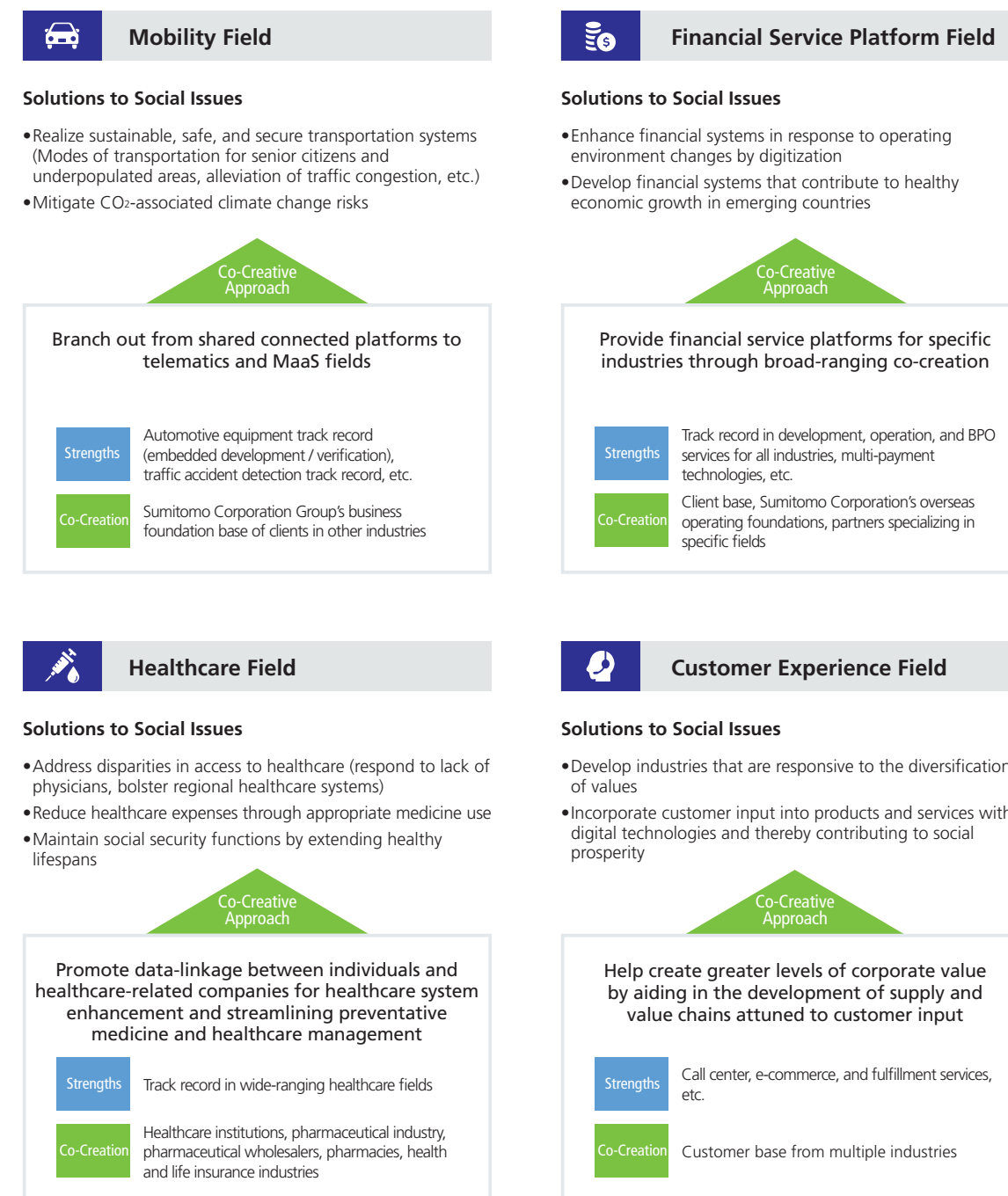
Assisting Clients' Commercialization after Identifying Four Priority Fields with Significant Social Impacts

First, we will work on business creation in the fields of mobility, financial services platform, healthcare and customer experience (CX). Together these are positioned as priority fields under Commercialization of DX. In response to the social issues of each field, we will examine cross-functionally and company-wide how we can harness our strengths and generate new value through a co-creative approach with partners.

We will increase business creation capabilities by continuing to increase and review these priority fields in the future.

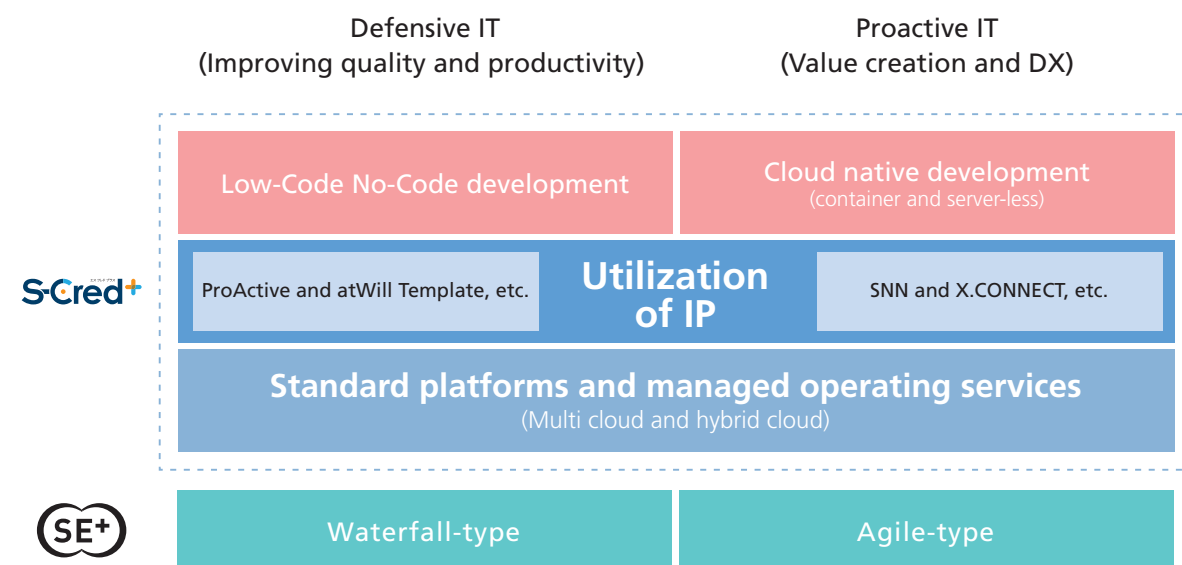
In promoting Commercialization of DX, we will use our global network of bases to explore the advanced technologies and business models of North America and Europe and focus on business creation in emerging markets predominantly in Southeast Asia. This will position us to expand our business globally.

Four Priority Fields



S-Cred+ Supporting Core Business Innovation and Commercialization of DX

We will promote Core Business Innovation and Commercialization of DX utilizing a platform that can aptly use proactive IT and defensive IT for their different purposes.



At SCSK, we introduced SmartEpisode Plus (SE+), a process standard for project management and systems development, in fiscal 2012 to realize higher operational quality. Since then, we have worked to entrench this standard company-wide, and by implementing all development projects in compliance with SE+ we have improved quality.

S-Cred+ represents a *Monozukuri* (software engineering) innovation platform for delivering IT solutions that increase clients' business value by promoting further standardization using SE+ in response to the changing demands on IT systems around the world. S-Cred+ features development and operation tools as well as project management tools for improving quality and productivity with the purpose of business process innovation in core business domains. Moreover, it can be used for Commercialization of DX, too, as it is compliant with advanced technologies and new methods. As such, we can evolve it into a platform compatible with both proactive IT and defensive IT. Adding SCSK's in-house knowledge to S-Cred+ will make it possible to create value while optimizing the entire company.

Initiatives for Defensive IT

Improving quality, productivity and continuity is now possible with S-Cred+ based on the concepts of Low-Code No-Code development, automation of infrastructure building and operation, and closer

collaboration between development and operation. As a way to expand S-Cred+, we will develop an IP utilization platform to encourage the use of IP under organizations and systems that reinforce this concierge function. As a result, we will further increase productivity and quality of defensive IT and at the same time develop an environment for creating value with proactive IT.

Initiatives for Proactive IT

S-Cred+ is compatible with application development using cloud technologies (container and server-less, etc.) and development methods such as agile and DevOps*. Therefore, we will now evolve it into a platform that can fully address changes in clients' businesses in a speedy and flexible manner. By incorporating advanced technologies such as AI and IoT in the form of SNN or X.CONNECT, we will be able to address the needs of improving customer experience.

In this manner, we will make powerful headway in Core Business Innovation and Commercialization of DX by using S-Cred+ for company-wide development projects since it can be used differently for proactive IT and defensive IT depending on the nature of the project.

*DevOps: systems development method promoting swift development through close cooperation/coordination between Development and Operations

Investment in People

Position people as our greatest asset and growth driver

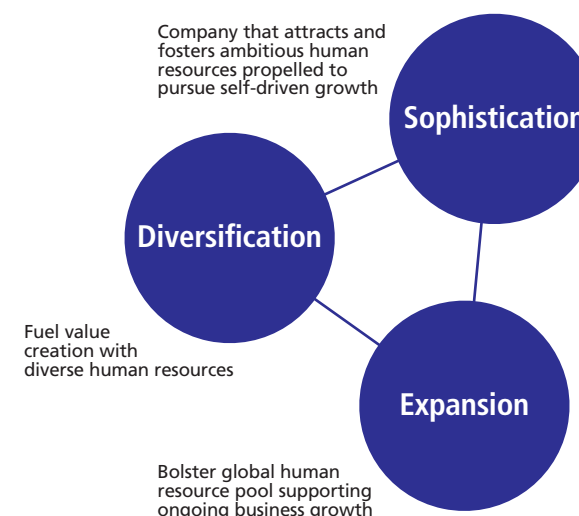
Accelerate business growth by sophistication, diversifying, and expanding human resources



Basic Approach

The SCSK Group's greatest asset and most important growth driver is its people. With a focus on sophistication, diversifying and expanding our workforce, we will actively invest in our people to accelerate business growth.

The focus of these investments will include revamping our personnel system, promoting diversity and inclusion for co-creation with a diverse workforce, and expanding our workforce in Japan and abroad.



Focus of Human Resource Investment

► Reinvention of SCSK's human resource systems >P44

- Compensation matched to employee ability and role
- Recruitment of highly skilled personnel (Establishment of ADV positions / ¥30 million earners)

► Co-creative organization development spurred by diverse human resources >P45

- Promotion of diversity and inclusion to breed innovation

► Expanding of worldwide human resources >P40

- Amassment of 1,000 nearshore development staff
- Redoubling of global human development and recruitment efforts

Core Business Innovation / Commercialization of DX and Investment in People

SCSK will provide IT services that serve as a foundation for society, while using investment in people to drive forward the two basic business strategies of Core Business Innovation and Commercialization of DX. This will enable us to resolve the challenges of society and clients as well as to provide value.

In addition to providing remote work environments and IT services using dispersed operations with nearshoring to address the fundamental shift in work styles, we will enhance and improve system convenience using digital technology to provide value in response to the needs of society in terms of the security and sustainability of countries, companies and individuals.

Core Business Innovation
X
Investment in People

- Delivery of IT services founded on safe and secure dispersed use
- Provision of remote work environments and leading-edge initiative examples

Working Styles Envisioned by the SCSK Group
"Remote work available nationwide"
(Transition from in-office work to telework and finally freedom in living location)

Commercialization of DX
X
Investment in People

- Enhancement and convenience improvement using digital technologies
- Value provision in mobility, financial service platform, healthcare, and customer experience priority fields

We will generate returns in excess of capital costs through aggressive investment in growth during the new Medium-Term Management Plan.

Review of the Previous Medium-Term Management Plan and Policy for the New Medium-Term Management Plan

The previous Medium-Term Management Plan, which concluded in the fiscal year ended March 31, 2020, focused on shifting our business structure away from a labor-intensive business model, investing in strategic businesses, executing M&A and Group restructuring for reinforcing our medium-term business foundation, and improving the profitability of our businesses. As a result of these efforts, we have been able to achieve year-on-year growth in both profit and revenue every year since the merger in 2011. The management indicators of operating profit margin and ROE for the final fiscal year of the previous Medium-Term Management Plan were 10.9% and 15.6%, respectively. Both exceeded the target of operating profit margin between 10 and 12% and ROE of 15%. In terms of returning profits to shareholders, we have increased the dividend for eight consecutive years since the merger, and the dividend payout ratio reached a level that exceeds 40%.

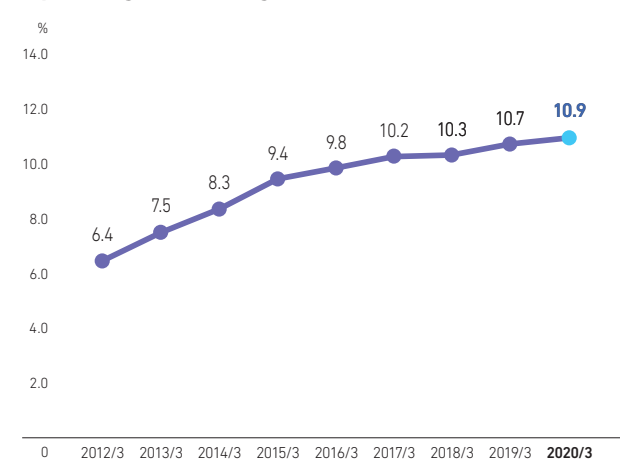
Under the current Medium-Term Management Plan starting in fiscal 2020, we will sustain aggressive investment as well as aim to further boost earnings power and enhance corporate value over the medium-term, in order to achieve sustainable growth into the future. In particular, as we transform our business portfolio through core business

innovation and commercialization of DX, both cited as core strategies in the Medium-Term Management Plan, we will strategically deploy capital in areas that make our managerial foundation stronger and in priority fields strategically.

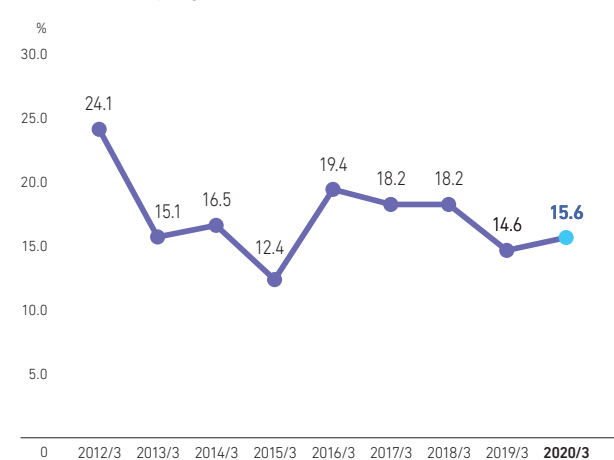
SCSK will not only actively invest in these growth domains, but also pursue management focused on capital efficiency more so than before to unlock growth of high margin businesses and improve capital efficiency at the same time. As part of these efforts, the SCSK Group has established a strategic target to achieve ROE, a management indicator we have used for some time, of 15% or higher in the fiscal year ending March 31, 2023. Also, we will use return on invested capital (ROIC) as a new benchmark for measuring capital efficiency during the new Medium-Term Management Plan, with a target for business operations to maintain ROIC of between 10 and 12%.

Through the pursuit of this business strategy, we will increase profits and operating cash flows. At the same time, we will secure agile and diverse means of financing for addressing various capital expenditure needs with the goal of expanding the earnings base and business investment aimed at reinforcement and expansion of strategic businesses. Toward this end, we will pursue optimization of capital and debt structure for maintaining and strengthening our robust financial standing. Furthermore, we will aim to sustainably improve corporate value and share value, which includes working continuously to increase returns to shareholders centered on cash dividends.

Operating Profit Margin



Return on Equity (ROE)



Initiatives for Increasing Profitability

Previously, the Group has actively shifted to a service-oriented business model. Driven by the evolving IT business climate surrounding SCSK and the accelerating IT investment of clients, we are working to increase business profitability and sales growth of service-oriented businesses, mainly the SaaS business in platform systems and the subscription-based IT service business based on SCSK's intellectual properties.

Additionally, as part of core business innovation, we are working to improve service productivity, quality and flexibility centered on our proprietary platform for *Monozukuri* innovation platform called S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) released in April 2020. By utilizing S-Cred+, we are striving to improve productivity and profitability of the system development business, while seeking to optimize SoE/SoR and capitalize on the diversification of service models along with improved agility toward business change. Moreover, from the fiscal year ended March 31, 2020, the MONOKAKU Center, which was established in April 2019 to incorporate the latest software engineering technology into our business, spearheaded a project to build a software engineering environment that can be used cross-functionally by the entire company. Through *Monozukuri* innovation aimed at the shift to Low-Code No-Code development and automation of infrastructure

building and operation, we will increase utilization of SCSK's intellectual properties to actively improve productivity and operational quality.

The results of these initiatives have started to materialize in the form of sustained improvement in various profit margin indicators. By further reinforcing initiatives going forward, we will achieve even greater business growth and steadily improve profitability.

Our Policies for Business Investment

The Group is implementing a number of core strategies under the new Medium-Term Management Plan with the aim of boosting profitability as well as enhancing corporate value over the medium term, seeking to convert its business structure ahead of major changes in technology paradigm and business climate. To achieve future growth, we intend to make large-scale investments totaling ¥100 billion over the three-year period focused on the three core strategies of core business innovation, commercialization of DX, and investment in people.

Roughly half of the total investment amount will go to the commercialization of DX for businesses that will generate new value. The four priority fields for commercialization of DX have been defined as mobility, financial services

Investment Targets under the new Medium-Term Management Plan

Core strategies	Investment Targets	Investment amount
Core business innovation	Augmenting Managed Service Platforms (MSP) and MONOKAKU platform functions	¥30 billion
	Service-oriented business software	¥10 billion
Commercialization of DX	R&D investments for commercialization of DX	¥50 billion
	Priority fields (M&As and joint venture establishment, etc.)	
	Venture companies worldwide to drive cutting-edge R&D	
Investment in people	Enhancement of human resource recruitment and development efforts, improvement of compensation levels	¥10 billion

Total investment amount: ¥100 billion

platforms, healthcare and customer experience (CX). In order to accelerate business growth in these priority fields, we must reinforce our own businesses by organically combining technologies and services inside and outside the company based on cutting edge new technologies and business models including IoT and AI. To utilize these technologies and services in an integrated manner, we are promoting tie-ups with venture firms inside and outside Japan, including establishment of corporate venture capital, investment in venture funds, and participation in accelerator programs, with the aim of business transformation and business creation through DX.

Promoting tie-ups with venture firms will involve commercialization by piggybacking the advanced technology and services of the venture firm on our business infrastructure. Tie-ups will also harness open innovation with a venture firm with a technology or service that can resolve medium-term challenges in our clients' business strategies.

Further, we will continue to consider M&A deals that contribute to the acceleration of business growth, including strengthening client foundation and service expansion, from the perspective of both the company and individual business divisions.

The promotion of such business investment requires skills unlike our conventional operations, so we will work to develop the necessary talent, which will reinforce our business investment promotion system.

Our Policies for Financing

We intend to fund these investments required for reinforcing and expanding our business without raising capital by using cash flows from operating activities and internal reserves, but when necessary, we plan to use various forms of financing such as borrowings from financial institutions, syndicated loans, and different forms of corporate bonds, backed by our robust financial base as discussed below.

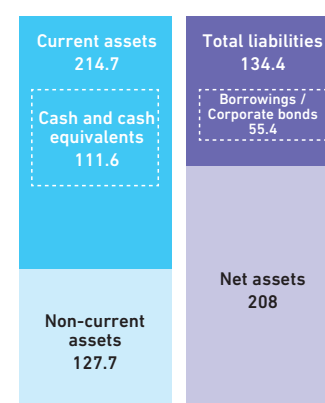
At the end of fiscal 2020, the SCSK Group's interest-bearing debt totaled ¥55.4 billion in the form of bank borrowings and corporate bonds. Cash and cash equivalents totaled ¥111.6 billion, far exceeding these debts, indicating our robust financial base.

As for working capital on hand, we will introduce a cash management system (CMS) at SCSK and our consolidated subsidiaries in Japan in order to centralize the surplus funds of all companies and manage them effectively. This will make it possible to supply funds to Group companies in an expedited manner, ensure ample liquidity at the Group level and allow us to optimize capital efficiency.

Furthermore, the worldwide economic contraction caused by the COVID-19 pandemic has made it extremely difficult to forecast the extent and duration of impacts on our business climate and earnings. Given this awareness, to prepare for unforeseen circumstances, we will not only secure ample liquidity on hand, but also further reinforce agile means of financing.

Summary of Consolidated Balance Sheet (As of March 31, 2020)

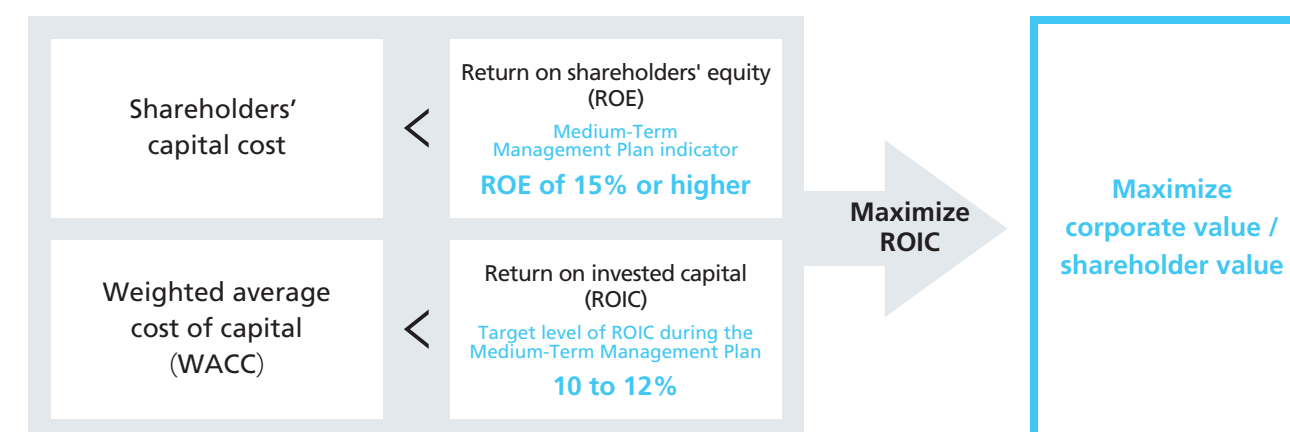
(Unit: billions of yen)



Management Mindful of Capital Cost

SCSK aims to further enhance corporate value and shareholder value through the sustainable growth of its businesses. From this perspective, we believe ROE, a major indicator for measuring capital efficiency, is an important management performance indicator; thus, we have established a management target to maintain ROE of at least 15% in the fiscal year ending March 31, 2023. In addition, as we expand various business investment and capital expenditures to qualitatively shift the business portfolio away from labor-intensive business, we are strongly aware of the need to

Generate returns in excess of capital cost



promote management more mindful of capital efficiency than before. Consequently, return on invested capital (ROIC), which measures the extent to which invested capital generates a return, will be used as benchmark. During the period of the Medium-Term Management Plan, our goal is to maintain ROIC at a level between 10 and 12%. As a result, we will more actively invest in business while appropriately managing the balance sheet, and by further improving capital efficiency, we will strive to maintain and enhance corporate value and shareholder value.

Our Policies for Shareholder Returns

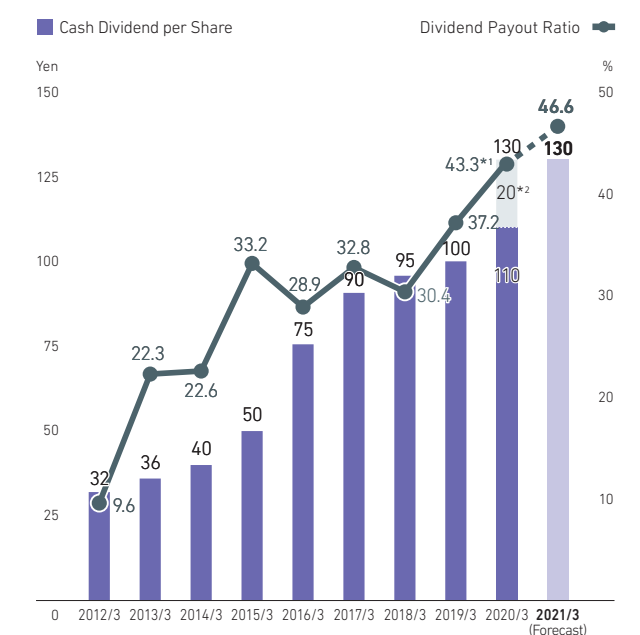
With regard to how we return our profits to shareholders, we aim to provide dividends in line with improvements in consolidated business results, while comprehensively taking into account financial position, earnings trends, dividend payout ratio, and the need to maintain sufficient internal reserves for future business investments.

The full-year dividend for the fiscal year ended March 31, 2020, which was our 50th anniversary, totaled ¥130 per share. This marks an increase of ¥30 compared to ¥100 per share in the previous fiscal year, including a commemorative dividend of ¥20 per share to mark our anniversary.

The full-year dividend forecast for this fiscal year calls for a dividend of ¥130 per share, based on our financial

standing as well as the profit level forecast for this fiscal year. This represents an increase of ¥20 per share over the previous year for a dividend payout ratio of 40% or higher, which closely follows our capital policy and dividend policy. As a result, this will be the ninth consecutive year we have increased our dividend as a return of profits to shareholders.

Cash Dividend per Share / Dividend Payout Ratio



*1 Dividend payout ratio of ordinary dividend excluding commemorative dividend: 36.6%
*2 Commemorative dividend marking the company's 50th anniversary

SCSK's Material Issues

Basic Approach

While AI and other cutting-edge technologies have made tremendous advances in recent years, social issues such as climate change and widening regional disparity have also intensified. In hand with this, companies irrespective of industry are being called on to conduct management aimed at resolving social issues through their business and achieving sustainable growth together with society.

Against this backdrop, the SCSK Group evaluated a range of issues faced by society from a business perspective, seeking to achieve its corporate philosophy of "Create Our Future of Dreams," and specified the issues that it views as particularly important and that it should prioritize taking action on to achieve growth together with society as material issues.



Foundation supporting sustainable growth





















Implementation of Corporate Philosophy - Material Issues -



Achieving sustainable business growth with society
By achieving three qualities of society through our business activities, we aim to resolve social issues and achieve sustainable business growth. The three material issues are mutually related to one another and link with "IT for the next delight."

Foundation supporting sustainable growth
We are creating a foundation for achieving the three material issues outlined above at the same time as solidifying SCSK's management foundation by accelerating initiatives centered around environmental, social and governance (ESG).

Material Issues and Concrete Initiative Examples

Material Issues	Concrete Initiative Examples	Related SDGs
Innovating for a Brighter Society While engaging in co-creation with our customers and partners with a focus on the major changes digital technology is bringing to industry and society, we create greater affluence and comfort by turning technology into innovation to address social challenges and create social value.	<ul style="list-style-type: none">AI utilizationCommercialization of DX (Support customers' transformation of business model and business process)Realization of more comfortable mobility	  
Building Trust for a Safe and Secure Society Our resilient and reliable business platforms connect customers and partners across industries and support increased safety and security for all by allowing companies to improve the quality of their business activities and people to have better everyday experiences.	<ul style="list-style-type: none">Secure and stable operation of social infrastructureCybersecurityPlatform services (for specified industries, processes, etc.)Financial irregularity detection system	  
Creating an Inclusive Society Our business is global and contributes to growth and development in many countries and regions. We use our understanding of technology and its impacts to help build more inclusive societies that offer more opportunities to more people.	<ul style="list-style-type: none">ICT solutions enabling work-style reformsGlobal business supportNear shore development base deployment (revitalization and HR development in regional areas)	  
Global Environmental Contributions We are addressing the impacts climate change is having on our business while helping create a better global environment by integrating environmental considerations into our business activities and creating and expanding environmentally sustainable business opportunities.	<ul style="list-style-type: none">Implementation of environmental action planEnvironmental impact reduction initiativesDevelopment of environmental impact reduction solutionsUtilization of renewable energy	 
Diverse Team of Professionals We are a team of professionals with diverse expertise and experience and a shared set of values. Since we embrace diversity as a source of creativity, we strive to create workplaces and opportunities to engage our team and keep them growing professionally and as individuals.	<ul style="list-style-type: none">Support for ongoing employee skill development and realization of diverse career pathsEstablishment of environments conducive to contributions by diverse human resources	    
Sustainable Value Chain We minimize any negative impacts associated with our value chain. In addition to service quality, we also work with partners to advance environmental and social goals such as sustainability, diversity, human rights and innovation to support our customers' sustainable growth.	<ul style="list-style-type: none">Quality and productivity improvements through coordination with partner companiesImprovements in project and development process qualityDissemination and exercise of sustainability policies	  
Transparent Governance We conduct effective management oversight while ensuring transparency and compliance, and have established and maintain management frameworks for sound information and risk management.	<ul style="list-style-type: none">Compliance and respect for human rightsAppropriate information and risk managementReinforcement of corporate governance systems needed for sustainable growth	

Process for Compiling Material Issues



Perspective of social value creation

(Business opportunities/CSV)

Identified social issues to address from the perspective of achieving sustainable growth by resolving social issues through business (Co-creation with clients and society)

Discussions from a Social Value Creation Perspective

- Each business division examined services and business ideas that contribute to solutions to social issues and the business growth of clients from a long-term perspective through co-creation with clients and society (see page 37 for comments from employees of business divisions who took part in the review process).
- From the examined services and business ideas, social issues that SCSK should address for its sustainable growth were identified after considering social impacts and needs.
- Each social issue was discussed from multiple perspectives including expectations of clients and society and SCSK's strengths to establish importance through relative assessment.



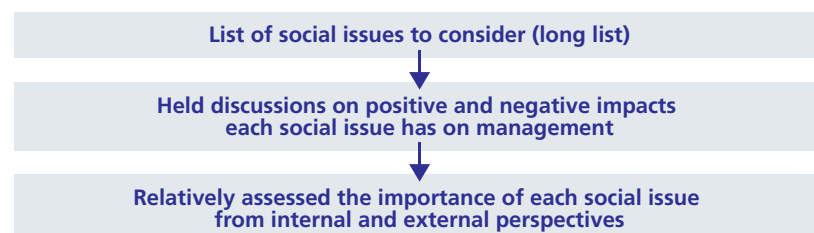
Perspective of management foundation

(Risk controls/ESG)

Identified social issues to consider from the perspective of mitigating negative impacts that business has on the environment and society (ISO 26000, SASB, GRI, ESG, SDGs)

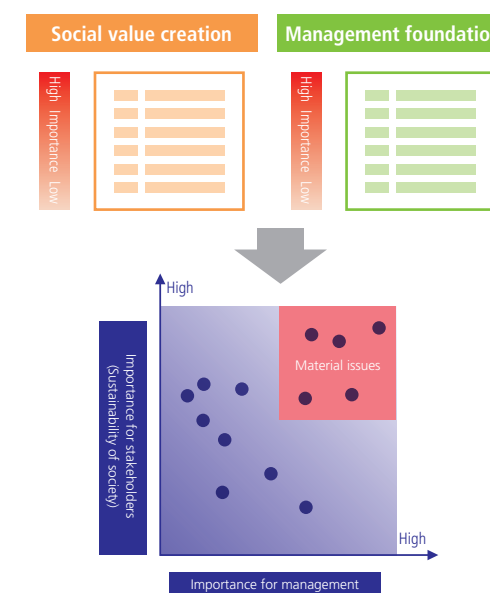
Discussions from Management Foundation Perspective

- Referencing international guidelines such as ISO 26000 and SASB, discussions were held on social issues that SCSK should address, and the impacts on management were categorized as positive impacts from initiatives (business expansion) and negative impacts from no initiatives (risks).
- The level of importance was determined based on a relative assessment of the positive and negative impacts that each issue has on management from internal and external perspectives.



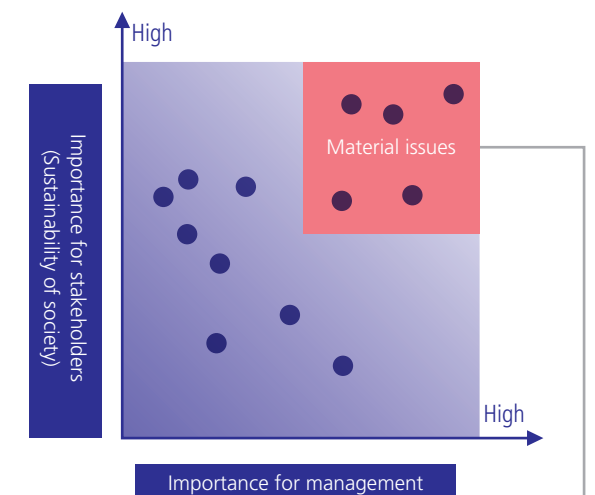
Mapping of Materiality Matrix

Each social issue evaluated from the perspectives of social value creation and management foundation was mapped out on a materiality matrix from the perspectives of management and stakeholders. Discussions were also held with outside experts regarding the materiality matrix and a survey of employees was conducted (see the results of this survey on page 37).



In-house review in progress

Ultimately, seven material issues identified



Focus theme		Material issues
Social value creation	Social transformation	Innovating for a Brighter Society
	Safety and security Social infrastructure	Building Trust for a Safe and Secure Society
	Overseas and regional development Work styles and active roles	Creating an Inclusive Society
Management foundation	Environment	Global Environmental Contributions
	Human resources	Diverse Team of Professionals
	Value chain	Sustainable Value Chain
	Governance	Transparent Governance

Comments from Employees Who Participated in the Material Issue Compilation Process



Arata Sakaguchi
General Manager
IT Outsourcing Services Dept. II
Nishinoh IT Management Business Div.

When I participated in the project, I became aware that clients I had previously covered were utilizing sustainability in their own management. Their approach was to make society a more vibrant place with a long-term perspective, and I remember this resonating with me greatly. At the same time, I felt this same approach was needed by SCSK, too, as we move forward.

During the project, I spoke in detail with other participants about how SCSK can contribute to society. Because SCSK engages in BtoB business, rather than contributing directly to society, we found it important to co-create with various companies while combining our eco systems. These discussions proved to be a valuable experience for thinking about what is needed for our medium- to long-term vision.

Building Trust for a Safe and Secure Society is one of the material issues we identified during this project. The presence of safe and secure infrastructure is an important factor for diversity and inclusion in society and the workplace. Knowing that we play an important role in a safe and secure society, I hope to continually contribute to society in the future.



Eri Usami
Manager
Accounting Solution Section
Administrative Systems
Management Dept. II
SC Systems Business Div.

I'm grateful to have participated in such an exciting project.

Unlike my daily work, where I often think with a micro perspective, this project mainly involved a very macro world, such as resolving social issues with a timeline of 10 years in the future and no restrictions on location. The review process had me escape momentarily from my daily routine to examine the future. This process of considering what exactly makes people happy was almost spiritual.

From this macro perspective, we asked such questions as why does SCSK exist and what can we offer that is unique. I was very grateful to have the chance to discuss this with people from other divisions. It was a valuable and eye-opening experience in terms of our vision and goals.

Using this experience, I look forward to approaching my job with awareness of taking small steps toward large goals.

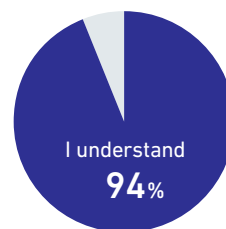
Employee Survey Results

During the material issue compilation process, SCSK shared proposed material issues with a broad range of executives and employees, and conducted a survey with the goal of soliciting many different opinions.

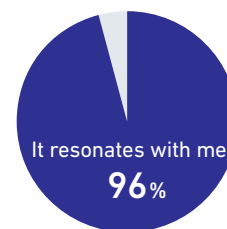
The many opinions provided by executives and employees were utilized in the compilation process, and reported to the Management Committee and Board of Directors.

The survey results show a good understanding of the importance and significance of material issues as well as a high level of resonance with the approach that social issues link to discovery and exploitation of new business opportunities. Meanwhile, some employees noted views that ongoing efforts were needed for better penetration internally. Toward this end, going forward we plan to implement initiatives to foster greater understanding.

Understanding of the importance and significance of material issues



Social issues link to discovery and exploitation of new business opportunities



Note: The response rate to the survey was 97% of all executives and employees.



Innovating for a Brighter Society

While engaging in co-creation with our customers and partners with a focus on the major changes digital technology is bringing to industry and society, we create greater affluence and comfort by turning technology into innovation to address social challenges and create social value.



Background and Approach

In recent years, a number of environmental and social issues that threaten a sustainable society have grown more serious. This requires that not only countries and governments, but also all people and organizations including companies and communities work together to take action toward solutions to these issues.

Digital technologies such as AI and IoT are in the spotlight as integral to these solutions. The advancement of digital technologies represents an important key in resolving social issues considered to be impossible before. They are expected to play a vital role in this regard.

SCSK has supported management foundations and the digitalization of Japanese companies using systems representing a culmination of its technologies and know-how

developed over many years in a various fields. To address these increasingly complex social issues, we need to join forces with clients and partners from different industries to harness one another's strengths while utilizing digital technologies. This will become a major driving force behind the transformation of society and lead to more sustainable growth of society as a whole.

SCSK will provide innovative businesses and services by further reinforcing its initiatives in technical innovation and DX promotion, aimed at balancing sustainable business growth and solutions to social issues. By expanding areas of co-creation with clients and society and working to find solutions to social issues, we will create a comfortable and vibrant future society.

Examples of Initiatives

The spread of computers and smartphones has led to new forms of shopping among consumers unrestricted by time or place and has made it common place to make inquiries. Companies must now address the growing diversification of user needs and greater complexity of channels. This requires finding new approaches to solutions, such as automation using advanced technology.

SCSK developed Desse, a proprietary AI-powered question and answer system. Desse is a service that combines SCSK's many years of development experience in voice recognition systems and text mining along with operational know-how for call centers. Desse is expected to increase the accuracy of responses by using AI to learn ways of improving the performance of the voice analysis engine and increasing the correct response rate.

Desse is able to troubleshoot user issues and questions because it interprets requests/questions and responds to them optimally by interacting with users online with a mascot character. As a result, Desse helps to resolve labor shortages

by greatly reducing the number of incoming calls to call centers and cutting the time needed for user support. It also contributes to work style improvements by increasing the quality and efficiency of client operations we provide services to.

Going forward, SCSK will contribute to the creation of a comfortable and vibrant future society by leveraging advanced technologies and creating new businesses and services required by society together with clients and business partners.





Building Trust for a Safe and Secure Society

Our resilient and reliable business platforms connect customers and partners across industries and support increased safety and security for all by allowing companies to improve the quality of their business activities and people to have better everyday experiences.



Background and Approach

With modern society transitioning to a digital society, IT has come to occupy an important position as a platform essential to the creation of new services and businesses for clients. As many activities become digitalized and data linkages accelerate, IT will become a huge social infrastructure connecting industries together, and the stable operation of IT will be vital to a safe and secure society.

At the same time, social infrastructure using multiple platforms will increase system complexity and accumulate vast amounts of highly confidential data including personal information. For this reason, sophisticated information

security is also needed.

The SCSK Group has supported the development and operation of business platforms that connect a multitude of industries and clients. It is our role as IT professionals to provide IT as a form of social infrastructure securely and safely. In this regard, we maintain untold responsibility and social significance. The SCSK Group will support a safe and secure society by increasing the quality of daily living and corporate activities through the provision of resilient and trustworthy business platforms together with clients.

Examples of Initiatives

The ability for consumers to go into a store and purchase products on the shelves, an act that has become almost mundane in our daily lives, is made possible with the stable operations of electronic data interchange (EDI) systems.

Despite the spread of COVID-19 and even after Japan's state of emergency, supermarkets continued to operate as people's lifeline. The need for sustainable ordering with a large number of employees unable to come into work has become a common issue facing all industries. To address this issue, SCSK and sinops Inc. are planning a new emergency ordering data provision system that can be introduced in a short period of time for an affordable price. This system will automatically place orders by combining SCSK's "SUMAKURA" EDI service and sinops' "sinops" automated ordering system. This system had been made available free of charge until September 30, 2020. This will make it possible to sustain the stable supply of food, even when order placement becomes difficult, thereby ensuring food makes it into the hands of consumers.

SUMAKURA is a cloud-based service compliant with the Ryutsu BMS, Japan's domestic EDI standard, recommended by four distribution industry groups*. It has already been adopted at more than 200 companies in the distribution and retail industry alone, while more than 30,000 companies using connected terminals. SUMAKURA continues to account

for over ¥10 trillion in commercial transactions annually. In addition, this service aims for usability and broadly responds to order placement and order taking work for the manufacturing and wholesale industries. SCSK also supports system operations which run 24 hours a day, 365 days a year. The system is compliant with legal systems (invoicing, etc.) in Japan and also features BCP functions in case of a major disaster.

SUMAKURA makes high-quality services and operations possible as a cloud lifeline supporting B2B transactions (EDI) in Japan. It works behind the scenes to support the daily mundane of going into a store to select and purchase products. SCSK will contribute to supporting a safe and secure society by increasing the quality of daily living and corporate activities through the provision of daily platforms that are reliable and trustworthy.

* Japan Supermarkets Association, All Japan Supermarket Association, National Supermarket Association of Japan, Japan Voluntary Chain Association

スマクラ®



Creating an Inclusive Society

Our business is global and contributes to growth and development in many countries and regions. We use our understanding of technology and its impacts to help build more inclusive societies that offer more opportunities to more people.



Background and Approach

SCSK is actively expanding its business and offices globally while also using nearshoring. This is one measure for expanding SCSK's businesses and resources, but at the same time, it also greatly contributes to the development of local communities.

By expanding our offices, we are providing employment opportunities in local communities and fostering excellent IT talent. In addition, sustained close cooperation with local partners, including ways of improving quality and promoting work style reforms, revitalizes the IT industry that contributes to corporate activities, improves the productivity and convenience of local communities and develops local

economies. Also, by broadening new, flexible work styles, such as remote work, people who have left small communities to come to the Greater Tokyo Area for work will now be able to remain in their community and still contribute their skills.

In this manner, working toward an inclusive society will produce social value in response to the challenge of regional revitalization and will help us secure excellent IT talent and realize business growth.

SCSK is committed to building a more inclusive society beyond the countries and regions where we operate by contributing to the growth and development of local communities while utilizing the diverse qualities of our workforce.

Examples of Initiatives

As part of its new Medium-Term Management Plan beginning in fiscal 2020, SCSK will actively expand regional bases by positioning the expansion of our nearshore system mainly covering enhancement projects* as a key measure that will lead to the acceleration of business growth.

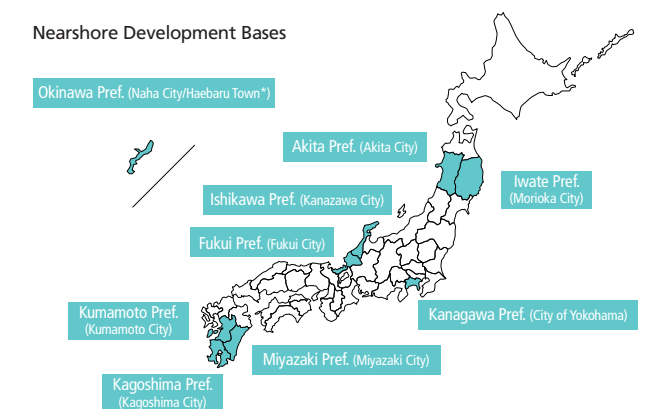
SCSK Nearshore Systems Corporation, a subsidiary responsible for SCSK's nearshore development, opened new bases in Kagoshima in September 2016 and Kumamoto in November 2018. As of March 2020, the company operates 10 bases in nine prefectures with a team of 625, including business partners. In addition, it opened new bases in Akita and Ishikawa in April 2020. The company is now working to promote the active roles of women and seniors as well as to hire IT engineers looking to return home to regional communities in order to increase its workforce to 1,000 as soon as possible. It is also collaborating with partner companies who endorse the SCSK-NS model and support the long-term sustained implementation of enhancement projects for major corporations in urban centers at bases in regional locations.

Looking ahead, the company will work on creating job opportunities for IT talent in regions, fostering talent, and promoting work-style reforms such as work-life balance in

regions, while collaborating with partner companies and educational institutions such as universities and the local authorities of regional cities. Through such efforts toward building a regional IT industry that attracts people, the company will continue contributing to the development of sustainable local communities that are inclusive.

* System maintenance projects that involve expanding and improving the functions of existing systems

Nearshore Development Bases



* Completion of new building in Urasoe City, Okinawa Prefecture planned for 2021



Global Environmental Contributions

We are addressing the impacts climate change is having on our business while helping create a better global environment by integrating environmental considerations into our business activities and creating and expanding environmentally sustainable business opportunities.



Background and Approach

In recent years, the review of social and economic systems is underway around the world driven by the growing seriousness of various environmental issues. Starting with the Paris Agreement in 2015, there has been a growing social movement to mitigate environmental impacts, which has included governments tightening environmental regulations, expanding ESG investment, and rising awareness of the environment among stakeholders. The impacts of these developments are now spreading to corporate activities. Abnormal weather and wind and flood damage have untold impacts on social life and business activities. As a result, efforts to carbon-free societies for mitigating climate change risks and initiatives from the standpoint of containing business continuity risk are accelerating.

The SCSK Group actively supports responses to these social changes through its IT services. Our support for business transformation and greater operating efficiencies utilizing AI, IoT and cloud-based services not only helps to reduce clients' environmental impacts from the more efficient use of energy, but it also contributes to clients' business continuity during disasters by providing robust data centers and BCP solutions. By working to improve our own environmental performance and response to emergencies, while collaborating with clients and partner companies from a broad range of industries, we will implement business activities adaptable to climate change and considerate of the environment as well as contribute to a better global environment through the creation and expansion of business opportunities.

Management of Climate Change Issues

SCSK has acquired ISO 14001 certification, which is an environmental management system standard. A system is also in place for management reviews requiring approval of the Corporate Environmental Officer. We host environmental conservation meetings to share future measures for improving environmental performance and other activities in order to manage the climate change initiatives of each business division in a company-wide manner.

To curtail environmental impacts caused by energy use and greenhouse gas emissions throughout SCSK's value

chain, we need to consider both the impacts from our own offices and data centers along with the impacts caused by clients' use of our IT products and services. Energy use and greenhouse gas emissions at data centers have a particularly large impact. As such, efforts to reduce both are considered one of our top priorities.

We regularly monitor energy use and greenhouse gas emissions at SCSK's offices and data centers, and have set reduction targets, based on which various measures are underway.

Third Party Verification and Assurance

We obtained Third Party Verification and Assurance from Lloyd's Register Quality Assurance Limited concerning Scope 1, 2 and 3 emissions for the disclosure of greenhouse gas emissions for fiscal 2019.

The scope is set as SCSK Group companies excluding those outside of Japan. Scope 1 and 2 emissions are for fiscal

2019 and Scope 3 emissions are for fiscal 2018.

Going forward, we will continue to disclose reliable information.

The Independent Assurance Statement is available on the SCSK Website.
https://www.scsk.jp/corp_en/csr/pdf/assurance_statement_e.pdf



*See page 80 for detailed data concerning the environment.

Climate Change Risks and Opportunities

At SCSK, each division identifies the frequency and severity of risks and opportunities related to climate change, and then determines specific fields to take action based on a priority

ranking they establish. Currently, we are working mainly on the following risks and opportunities.

Main Opportunities

Resource efficiency	• Reduce operation costs by using energy efficiently
Products and services	• Growing demand for services such as cloud-based energy management systems for using energy efficiently in collaboration with power companies
Resilience	• Rising demand for data centers resilient against natural disasters that contribute to clients' business continuity

Main Risks

Policies and regulations	• Tighter environmental regulations driven by the Paris Agreement • Rising costs for the purchase of emissions credit that occur when we failed to meet the greenhouse gas reduction targets set to comply with Tokyo Metropolitan Environmental Security Ordinance
Physics	• Impacts on business operations that could be caused by the instable supply of electricity from changes in natural environment or weather hazards • Possibility of challenges to business continuity in case weather hazards destroy the Group's facilities and equipment
Others	• Impacts on financing that may occur if our initiatives to address climate change are deemed not proactive by investors

AI-Powered Air Conditioning Control at Data Centers to Protect the Environment

Today, as environmental issues are growing more serious, there is strong demand for companies to tackle energy conservation. In particular, the amount of electricity consumed by data centers is rising steadily following the increase in the amount of data handled and higher performance equipment. The focal point of countermeasures is air conditioning. Cooling is vital to preventing the runaway heat of IT equipment, but vast amounts of electricity are needed to operate air conditioning.

To reduce electricity used for air conditioning, we are considering air conditioning controls powered by AI using SCSK Neural Network toolkit (SNN), an AI model building service with many base models, including image recognition and sensor data analysis. The concentrated cooling of only the areas that become hot and adjusting cooling using air conditioning before temperature changes occur will improve cooling efficiency and increase the stability of equipment. Currently, we are conducting verification testing with the ultimate goal of reducing air conditioning costs by 30%.

The greatest advantage of introducing AI is the ability to

balance stable server operation and contributions to global environmental issues. By combining our established know-how and latest technologies including AI, we can provide an environment to clients that balance stable operations and energy saving. In addition, reducing electricity costs using AI will also lower clients' usage costs.

As a professional operator of data centers, SCSK will help to efficiently and effectively mitigate environmental impacts of clients and society as a whole as well as contribute to the sustainable value enhancement of client companies.



Verification test on an AI-powered cooling system



Diverse Team of Professionals

We are a team of professionals with diverse expertise and experience and a shared set of values. Since we embrace diversity as a source of creativity, we strive to create workplaces and opportunities to engage our team and keep them growing professionally and as individuals.



Background and Approach

With the full-fledged advent of a digital society, companies now must address the complex and diversified needs of society using sophisticated business activities incorporating the latest digital technologies. IT services companies such as SCSK play an important role in the utilization of sophisticated IT and the promotion of digitalization. To address such varied needs, we must foster and secure talent with a broad range of experience and knowledge, beyond conventional IT technologies.

The SCSK Group is implementing a number of measures to increase morale and fully draw out the motivation and

skills of employees. We believe that increasing opportunities and venues for interacting with different ideas, technologies and know-how, while having each employee embrace diverse values and personalities through the fostering of professional talent, promotion of diversity, and introduction of the second job program (*Smart Work Plus*) will lead to new value creation in the form of innovative businesses and services. Going forward, we will provide opportunities and workplaces that enable continual growth and involvement, while utilizing our diversity and expertise, so that our team of professionals can actively tackle the challenges of new value creation.

Fostering Professional Talent

Human Resources Development Program —SCSK i-University

SCSK i-University is a framework for providing all employees with opportunities for continual growth and learning. It represents a training program as well as a company-wide integrated human resources development program that

SCSK i-University

Learning and growth	Shared company-wide	Career development	Leadership development
		Specialized skills development	Basic business skills development
	Division-specific	<ul style="list-style-type: none">• Supplementing company-wide training• Development of skills unique to each business division	
Communication		<ul style="list-style-type: none">• Job category-based communication workshops• Workshops for departments in charge, divisions, and workplaces, etc.	
Mechanisms and infrastructure		<ul style="list-style-type: none">• Remote participation (training)• On-demand (e-learning)• SCSK Learning Park (training facility)• MA-N@vi (Learning Management System)• ProActive (HR management system)	

includes systems and infrastructure for supporting active communication. We are committed to supporting each and every employee's learning goals, recognizing that the active role of all employees drives SCSK's growth. Common company-wide training is provided according to the four categories of career development, leadership development, basic business skills development, and specialized skills development, with the goal of strengthening both mind (people skills) and skills (job skills), based on personnel grade and specialization level.

Kotsukatsu—Supporting Self-Development

As we move toward a truly aging society, we must prepare for an era of longer working and longer learning as well as adapting to intense changes driven by technology. At SCSK, we have been implementing *Kotsukatsu* since fiscal 2017 as a way of supporting our employees to engage in active learning, guided by the notion that steady effort is the key to success. *Kotsukatsu* aims to both support continual learning tied to growth by sharing the many learning activities of employees within the company and build mechanisms for employees to work together to raise one another's skill levels.

*See page 79 for detailed data concerning human resources.

Developing IT Engineers

We have introduced a career development program for young professionals with the objective of having up-and-coming employees acquire multiple skills ahead of changes in future technology needs. University graduates joining the company are provided with a total of 1,350 hours of methodology, technology and human skills training over a four-year period. By combining this with career advice and job rotations, we aim to foster this young talent at an early stage of their career. For mid-career employees and above, we have expanded job-specific curriculum for improving practical work skills. At the same time, we promote the development of elemental technology curriculum expected to grow in importance in the future, such as agile development, AI and IoT, and the acquisition of related qualifications, in order to secure talent in quality and quantity for addressing the full-fledged growth of the DX business.

Fostering Management Talent

We have introduced a training program targeting general managers, the cornerstone of organizational management,

in order to foster a culture that embraces a diverse workforce and promotes innovation. During the program, participants learn about various management approaches based on the strengths and challenges of each organization quantified using the results of the company-wide employee survey, which maximizes organizational performance.

Second Job Program (*Smart Work Plus*)

SCSK instituted a second job program called *Smart Work Plus* in January 2019. This program aims to foster diverse, vibrant human resources and create innovation by helping employees to broaden their experience and knowledge outside the company through a second job. Another objective of the program is to hire and deploy outside human resources with advanced expertise in a second job capacity to play an active role at SCSK. Through the hiring of diverse people and utilization of their knowledge, we will aim to generate new value through the creation of innovation and new businesses.

New Personnel System

Background to New Personnel System

SCSK aims to become a group of professionals capable of sustained value creation using our rich spirit and intellect geared toward self-development as a vision for its organization and people aimed at becoming a co-creative IT company in 2030. As a first step, under the Medium-Term Management Plan launched in April 2020, we have positioned investment in people as one of its core strategies. And as a fundamental starting point, we introduced a new personnel system in July 2020.

Vision for New Personnel System

The purpose of the new personnel system is to fully draw out the skills of employees by further strengthening human resources development, giving employees with the right skills bigger roles regardless of age or experience, and providing compensation suited to their roles. The ultimate goal is to become a company that can foster and attract diverse talent with ambition and the drive for self-development, through the introduction and effective implementation of this new personnel system.

Multi-Track Personnel and Career Systems

Under the new personnel system, we will adopt a multi-track personnel system so that our diverse workforce can

develop and contribute their skills independently. We have put into place a mechanism for fostering the optimum talent and providing the right compensation, based on their expected roles in each career track such as "General manager position" which is responsible for business growth through organizational management and "Professional position" which is dynamically evaluated the degree of utilization of their own skills.

Fostering and Acquiring High-Level Talent

In the IT industry, where technology is rapidly changing and becoming sophisticated, the value of human resources with advanced expertise is growing. The advanced level position, one of the positions under the new personnel system, has the purpose of fostering and acquiring talent that will drive core business innovation and the commercialization of DX through their advanced expertise. The system makes it possible for them to earn over ¥30 million per year in compensation, and we are working to expand human resources both by promoting from within the company and by hiring from outside the company.

Compensation in Line with Skills and Roles

Under the new personnel system, employees will be evaluated with emphasis given to skills and roles they play regardless of age or experience, and the results of this evaluation will be reflected in compensation. By objectively evaluating roles and responsibilities, we will encourage taking on the challenge

of higher role jobs and promotions to positions suited to actual skills, and provide compensation that is based on role and performance. In addition, to facilitate hiring of talented human resources and their retention at SCSK, we made revisions to compensation to make it more competitive in external human resources markets.

Diversity and Inclusion

Basic Approach to Diversity and Inclusion

SCSK is promoting diversity and inclusion as a way to become a company with a pleasant and rewarding workplace where all employees can fully maximize their skills. We aim to be a company that grows sustainably and continually creates new value by ensuring its workforce from varying backgrounds respects one another and actively contributes to the organization.

Policy for Promoting Diversity and Inclusion

SCSK's diversity and inclusion has the goal of increasing organizational strengths by having its diverse workforce accept and understand one another as colleagues. We are working to deploy organization-wide measures that embrace diversity based on "visible" diversity such as gender, nationality, age and on "invisible" diversity such as opinions, perspectives, ideas, skills/experiences so as to fully draw out the ability of all employees which can then be harnessed for SCSK's business growth.

System for Promoting Diversity and Inclusion

SCSK established an organization dedicated to the promotion of diversity and inclusion in 2012. Since then, we have implemented a number of initiatives for promoting women's empowerment, leveraging the skills of seniors and supporting employment opportunities for people with disabilities. With the foundation a workplace where our diverse workforce can thrive professionally, in 2019 we held rank-based training and workshops along with a seminar for all employees for penetrating diversity and inclusion. In addition, we published the Inclusion Promotion Guidebook to promote the penetration and instilment of diversity and inclusion throughout our corporate culture.



Diversity and inclusion training for general managers

Initiatives for empowering a diverse workforce

- **Measures for women:** We are supporting career development based on the issues unique to each generation, having established a target for the number of women in officer and line management positions as a main indicator of women's empowerment. We have promoted 119 women to manager positions, which is roughly 9x the level at the start of this measure.
- **Measures for LGBT:** We are working to develop an environment where all employees can work with peace of mind, which includes allowing same sex and common-law partners to be considered "spouse" under the company's internal programs.
- **Measures for seniors:** We are focusing on creating a workplace environment where all employees can thrive regardless of age, having introduced a program for the full-time employment of seniors up to age 65.

Initiatives for preventing harassment

- **Harassment prevention training:** We have held training on the theme of sexual harassment since fiscal 2015 and on power harassment since fiscal 2018 for all employees in order to create a comfortable workplace environment where employees and other stakeholders respect one another at work. As for prevention of power harassment, while also deepening knowledge and encouraging proper behavior using practical cases as curriculum including self-checks and case studies of other companies, we compiled the SCSK Power Harassment Guidelines. By making these widely known internally, we raise awareness of common knowledge regarding words and actions that could be harassment, including gray areas, working to reinforce measures to eliminate all forms of harassment in the workplace.

Health and Productivity Management

Principles for Health and Productivity Management

In October 2015, SCSK established its principles for health and productivity management. "The health of employees underpins the happiness of individual employees and their families as well as the development of the Company's business. It is only when employees are able to deliver their best performance due to being in good mental and physical health and feeling motivated in their work that the Company will be able to delight its customers with services of the highest caliber." SCSK lays this out in clear language in its work rules including the responsibilities of SCSK employees.

System for Promoting Health and Productivity Management

At SCSK, top management serves as the Chief Health Officer and works to foster penetration of the principles and related measures. In addition, we have established a dedicated department for promoting health and productivity management along with advancement of employee health. In this manner, we have a system in place to implement various measures while working with the employee mutual aid society and the health insurance association SCSK belongs to.

Initiatives for Health and Productivity Management

We carry out a number of health advancement measures, including improving facilities such as the in-house medical clinic and a cessation of cigarette smoking program. The *Kenko Waku Waku Mileage program*, one of the core measures, provides employees with points for taking part in and recording healthy activities, with incentives provided based on the number of points earned in one year. Since roll out in 2015, the program continues to be used by 99% of employees.

Results and Future Policy for Health and Productivity Management

An in-house survey found that health advancement measures have led to changes in employee behavior and habits, such as decline in the ratio of employees who smoke. More and more employees feel a keen sense of health and productivity management penetration and feel like health advancement is having positive results at work. SCSK plans to promote health and productivity management continuously as a core measure underpinning the medium- to long-term growth of the company.

Working Style Reforms

Creating a Positive Cycle with Working Style Reforms

SCSK has been working continuously to create more efficient and flexible working styles since 2012 before the term working style reform was coined in Japan. Improving employees' physical and mental health and increasing their motivation toward work will give rise to a positive cycle where we improve the service value provided to clients and increase stakeholder returns. Toward this end, we are implementing various measures.

Smart Work Challenge and Dokodemo WORK (Work Anywhere Project)

Smart Work Challenge launched in fiscal 2013 is a core measure of SCSK for promoting the target of reducing average monthly overtime hours to less than 20 and ensuring employees take on average 20 days of annual paid vacation days every year.

Average monthly overtime hours in fiscal 2019 totaled

18.3 hours and the number of days of annual paid vacation days taken by employees was 18.1 days (93%).

From fiscal 2016, we launched the *Dokodemo WORK program* for promoting remote work. During *Telework Days 2019*, more than 50% of employees teleworked and this fiscal year more than 70% of employees worked from home during Japan's state of emergency declared due to the COVID-19 pandemic.

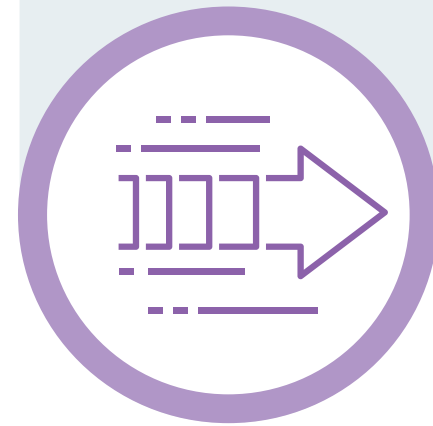
Future Initiatives for Working Style Reforms

To achieve the SCSK Group's vision of becoming a "co-creative IT company in 2030," and driven by intense changes in business climate, we must update our reforms to integrate our business strategy and working styles. As a pioneer in working style reform, and as a IT service company supporting social infrastructure, we will continue with our initiatives under the new policy of *Working Style Reform 2.1*, a next-generation working style strategy that integrates business strategy, working styles, and concepts of offices.



Sustainable Value Chain

We minimize any negative impacts associated with our value chain. In addition to service quality, we also work with partners to advance environmental and social goals such as sustainability, diversity, human rights and innovation to support our customers' sustainable growth.



Background and Approach

Companies provide their customers with various products and services. The ability to deliver consistent and high-quality services to customers requires close collaboration with various partner companies in the value chain of business activities.

SCSK has worked with its partner companies to achieve high quality and productivity, carrying out initiatives jointly for utilizing SCSK's development standard (SE+) in systems development, maintenance and operation. We are also committed to the work-life balance of partner company employees, including putting into place solutions for greater operational efficiencies as working style reforms, in addition

to activities for consistent quality, such as mutual evaluation of each project.

Furthermore, demand for a responsible supply chain is rising from the perspectives of sustainability in recent years. To deal with this, we share the Supply Chain Sustainability Policy with partners and ask their understanding and acceptance in implementing these initiatives.

Going forward, SCSK will continue to support the sustainable growth of clients by providing high-quality, safe and secure services using a value chain that is conscious not only of quality, but also the environment and society.

Various Policies in the Supply Chain

Supply Chain Sustainability Policy

SCSK has established the Supply Chain Sustainability Policy, recognizing its social responsibilities in the supply chain for purchasing that is conscious of sustainability. We share this recognition with partners who we work closely with to resolve social issues while gaining their understanding and acceptance.

For details, please visit:
https://www.scsk.jp/corp_en/csr/fairpractices/supply_chain.html



Purchasing Guidelines

SCSK has established its basic corporate stance toward purchasing within its Purchasing Guidelines. We define and implement themes for specific initiatives based on these guidelines and promote them together with partner companies.

For details, please visit:
https://www.scsk.jp/corp_en/csr/fairpractices/partner.html



Core Partner Conference

SCSK designates main partner companies that help it achieve higher quality and productivity and engage in continuous and stable transactions as core partners. We share SCSK's business policy with these core partners so that they engage in business transactions with an understanding of the direction of our business. Once a year we host the Core Partner Conference. This fiscal year we streamed video of the conference online due to the COVID-19 pandemic. We plan to continue holding the conference using this same format given the new normal of life with COVID-19.

Collaboration with Partners

SCSK continues with its initiatives for improving quality and productivity together with partner companies. This has enabled us to provide stable systems development, maintenance and operation using the SCSK development standard (SE+). We are now working on initiatives for achieving more sophisticated development and operation using S-Cred+, a platform for promoting Low-Code No-Code development, aimed at next-generation solutions.

In addition, we will transform our approach by requesting work of partner companies on a contract basis in order to further promote the move away from our reliance on people. Furthermore, we mutually evaluate each project together with core partners and then analyze and utilize the results to continually improve project quality and productivity.

Also, we are promoting working style reforms together with partner companies with the goal of creating an IT industry that attracts talent.

Toward this end, we are working closely with partner companies on solutions for more efficient operations and improving quality and productivity. As a positive outcome, we have seen overtime working hours reduced with each passing year for employees of both SCSK and partner companies. In recent years, we have been making efforts to enhance work-life balance by proactively introducing teleworking at satellite offices or working from home as flexible working styles that can utilize time and place effectively.

Finally, SCSK requires its partner companies to comply with its Information Security Guidelines when handling information that is considered an important asset of clients. We ensure compliance and rectify any issues through regular briefings and field audits. To eliminate information security incidents, we will continue to ensure thorough information security compliance so that we can earn the strong trust of clients and society in the future.

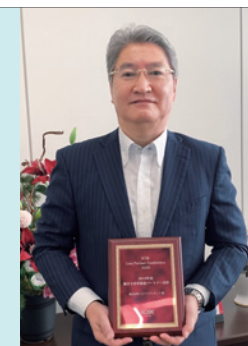
Initiative Themes

Theme	Key point	Examples of initiatives
Operational Quality and Productivity Improvement	<ul style="list-style-type: none"> Development and management standardization (SE+, etc.) Collaboration from upper processes Promotion of subcontracting 	<ul style="list-style-type: none"> Rollout of SCSK development standards (SE+) and software engineering platform (S-Cred+) at partner companies for stable systems development, maintenance and operation Transformation to business style driven by work requests made to partner companies using subcontracting
Working Style Reforms / Health and Productivity Management	<ul style="list-style-type: none"> Sharing of health and productivity management measures / initiatives Tracking of shared indicators 	<ul style="list-style-type: none"> Establishment of average overtime hours and rate of consumed annual paid vacation days as indicators for core partners and commendation of companies that demonstrate specific activities and outcomes Active introduction and promotion of telework for development work
Information Security Enhancement and Compliance Promotion	<ul style="list-style-type: none"> Enhancement of information security Strict observance of laws related to outsourcing 	<ul style="list-style-type: none"> Requirement of partner companies to comply with the Information Security Guidelines and rectification of any issues through field audits Briefings for partner companies to ensure and strengthen information security and compliance

Comment from a Partner Company

Implementing initiatives for working style reforms as a key management task

Koshiro Someya
 Representative Director and President
 IST-Software Co., Ltd.



IST-Software has been implementing initiatives for working style reforms as a key management task.

SCSK provided the impetus behind our initiatives and it has provided us with advice. Having learned so much from SCSK, we are very honored to have been recognized by SCSK for our working style reforms, which has provided encouragement to our employees.

Going forward, I look forward to learning even more from SCSK as we move ahead with further reforms.



Transparent Governance

We conduct effective management oversight while ensuring transparency and compliance, and have established and maintain management frameworks for sound information and risk management.



Basic Policy

Embracing its focus on corporate social responsibility (sustainability), the SCSK Group conducts business activities with an eye to shareholders and other stakeholders.

From this perspective, the SCSK Group considers raising the efficiency and soundness of management as well as ensuring transparency in the decision-making process as the most basic components of its corporate governance.

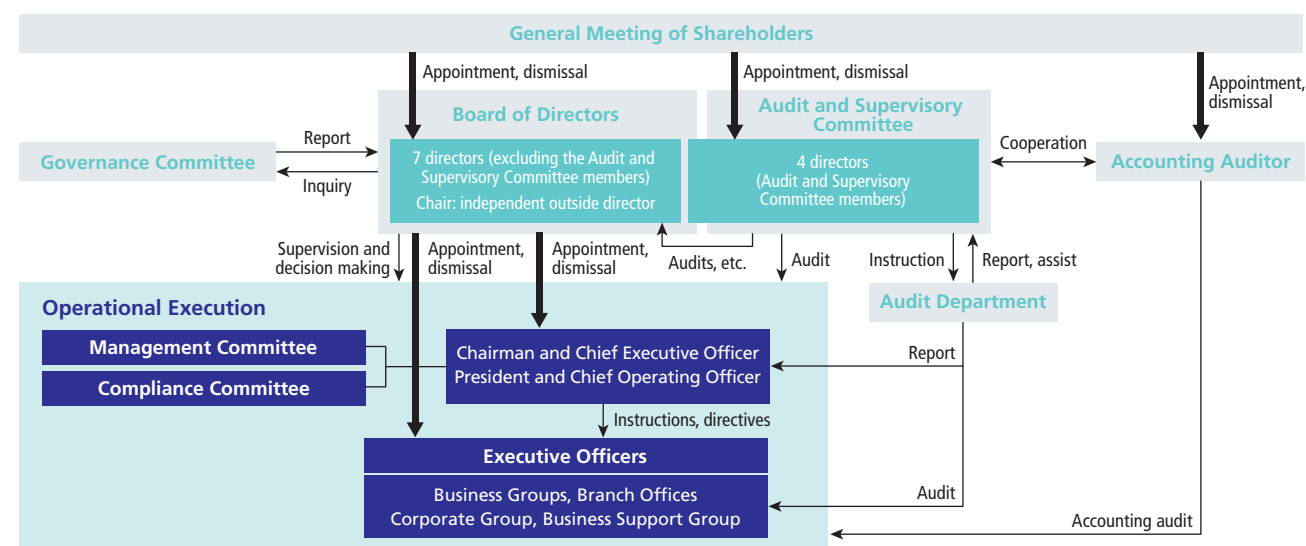
Rating these matters high among management priorities, we aim to build an optimal management structure that benefits SCSK the most.

We implement each of the principles set forth in the Tokyo Stock Exchange's Corporate Governance Code and provide detailed disclosures within our Corporate Governance Report based on each principle.

Strengthening of Corporate Governance

	June 25, 2015 onward	June 28, 2016 onward	June 23, 2017 onward	June 26, 2018 onward	June 25, 2019 onward
Number of Directors	18 (3 Outside Directors)	19 (5 Outside Directors)	16 (7 Outside Directors)	12 (4 Outside Directors)	11 (4 Outside Directors)
Institutional design	Company with Audit and Supervisory Board (4 Company Auditors)	Company with Audit and Supervisory Committee (4 Audit and Supervisory Committee members)	Company with Audit and Supervisory Committee (7 Audit and Supervisory Committee members)	Company with Audit and Supervisory Committee (4 Audit and Supervisory Committee members)	Company with Audit and Supervisory Committee (4 Audit and Supervisory Committee members)
Voluntary committee for deliberating nomination and remuneration	Nomination and Remuneration Advisory Committee (6 members including 3 independent directors)		Governance Committee (5 members including 3 independent outside directors)	Governance Committee (6 members including 4 independent outside directors)	Governance Committee (5 members including 4 independent outside directors)

Corporate Governance Structure



Board of Directors

As of June 23, 2020, SCSK's Board of Directors comprises 11 members, including four independent outside directors. The Board of Directors makes decisions on important management issues and supervises operational execution. The main matters discussed by the Board of Directors include matters stipulated by law, matters stipulated in company regulations, and important matters regarding management such as management strategy and management plans.

SCSK's Board of Directors meets in principle on a monthly basis, but also convenes extraordinary meetings when necessary. Meetings of the Board of Directors were held 14 times in fiscal 2019.

In addition, SCSK has concluded a liability limitation agreement with directors (excluding directors who also act as executive officers, etc.) for the minimum liability amount stipulated in Article 425-1 of the Companies Act, pursuant to Article 427-1 of the Companies Act and Article 29-2 of the Articles of Incorporation.

Executive Officers

SCSK introduced an executive officer system on January 1, 2005. Through this system, executive officers are assigned responsibility for areas of operational execution under the directions of the Chairman and Chief Executive Officer and President and Chief Operating Officer and act in accordance with the management policies decided by the Board of Directors.

This system clarifies that authority for making decisions on important management matters and supervising operational execution collectively resides with the Board of Directors. In addition, the system allows for the establishment and strengthening of supervising systems to ensure that effective operational execution can be conducted based on swifter decisions regarding management policies by the Board of Directors. In these ways, the executive officer system contributes to the enhanced corporate governance of the company.

Management Committee

The Management Committee, made up of executive officers, etc., functions as an advisory body to the Chairman and Chief Executive Officer and President and Chief Operating Officer with regard to important operational execution matters. This committee was created with the aim of strengthening both corporate governance and operational execution capabilities by creating a system with clear separation of management supervision and execution functions in which executive officers including the Chairman and Chief Executive Officer and the President and Chief Operating Officer, have authority and responsibility for matters of daily operational execution.

Audit and Supervisory Committee

The Audit and Supervisory Committee comprises four directors, including three independent outside directors as members. The committee carries out organized audits using the internal control system and supervises and audits business execution from an independent and objective position. One director who is an Audit and Supervisory Committee member is a certified public accountant with considerable knowledge of finance and accounting.

Governance Committee

We have also established the Governance Committee, a majority of whose members are independent outside directors and an independent outside expert, as an advisory committee to the Board of Directors. This committee is charged with ensuring fairness and transparency, and that consideration is given to the interests shared by SCSK and SCSK's shareholders, during decision making by directors and the Board of Directors. The Governance Committee deliberates on the following matters and reports to the Board of Directors and other meeting bodies.

- 1: Matters involving transactions that could pose a conflict of interest between the company and directors and that require approval of the Board of Directors as per the Companies Act.
- 2: Matters involving transactions between the company and relevant parties that the Board of Directors ask the Governance Committee to deliberate on as necessary for ensuring the fairness of decision making by the Board of Directors.
- 3: Matters concerning the selection criteria and election process of directors and executive officers as well as the appointment and dismissal of directors.
- 4: Matters concerning the remuneration of directors and executive officers.
- 5: Other matters that the Board of Directors inquire about as necessary for ensuring the fairness of their decision making.

Audit Department

SCSK's Audit Department is in charge of the company's internal audits. It is independent from departments that execute business operations, and examines and evaluates control activities and risk management covering all management activities of SCSK and its subsidiaries from the standpoint of improving operational effectiveness and efficiency and securing the reliability of financial reporting. The Audit Department reports the results of internal audits to the Audit and Supervisory Committee as it is under the direct supervision of the Audit and Supervisory Committee. It also reports these results directly to the Chairman and Chief Executive Officer and President and Chief Operating Officer.

Composition of Board of Directors and Committees

◎: Chairperson ○: Committee Member (): Attendance record*1

Title	Name	Board of Directors	Audit and Supervisory Committee	Governance Committee*4
Representative Director Chairman and Chief Executive Officer	Masao Tabuchi	(14/14 meetings)	-	○
Representative Director President and Chief Operating Officer	Toru Tanihara	(14/14 meetings)	-	○
Director Senior Managing Executive Officer	Tetsuya Fukunaga	(14/14 meetings)	-	-
Director Senior Managing Executive Officer	Kei Kato	(12/12 meetings)	-	-
Director Managing Executive Officer	Tatsuro Tamura	(12/12 meetings)	-	-
Director	Bin Haga*3	(-)	-	-
Director *2	Kiyoto Matsuda	◎ (14/14 meetings)	-	○
Director (Audit and Supervisory Committee Member) (Full-time)	Yasunori Anzai	(14/14 meetings)	◎ (16/16 meetings)	-
Director (Audit and Supervisory Committee Member)*2	Kimitoshi Yabuki	(12/14 meetings)	○ (14/16 meetings)	◎
Director (Audit and Supervisory Committee Member) *2	Masaichi Nakamura	(12/14 meetings)	○ (16/16 meetings)	○
Director (Audit and Supervisory Committee Member)*2	Kazuko Shiraishi	(13/14 meetings)	○ (16/16 meetings)	○

*1 Attendance records from April 2019 to March 2020
*2 Outside Director
*3 Newly elected (from June 2020)
*4 One independent outside expert (lawyer) was also appointed as a member. The Governance Committee also deliberates on matters other than those concerning nomination and remuneration, and currently totals seven members.

Policy on the Protection of Minority Shareholders

Policy on the Protection of Minority Shareholders in Transactions with Parent Company

SCSK engages in transactions with its parent company Sumitomo Corporation under the same conditions as other business counterparties without capital ties to ensure that minority shareholders are not subjected to disadvantages.

Important transactions are deliberated on in advance by the Governance Committee, a majority of whose members are independent outside directors and an independent outside expert. In turn, the Board of Directors determines whether to go ahead with the transaction based on the reports of the Governance Committee.

Furthermore, we ensure the fairness of transactions with the parent company by means of regular reporting to the Governance Committee.

Policy on Protection of Minority Shareholders in Ensuring Independence from Parent Company

From the perspective of protecting minority shareholders, the Board of Directors is composed of 11 directors including four outside independent directors without a conflict of interest with general shareholders (as of June 23, 2020). In this manner, SCSK independently supervises the execution of business and decision making on matters important to management.

In addition, we give appropriate consideration to the shared interests of SCSK and its shareholders. To ensure fairness and transparency, we have established the Governance Committee, a majority of whose members are independent outside directors and an independent outside expert, as an advisory committee to the Board of Directors.

Election and Dismissal of Directors and Procedures

Directors (excluding those directors that serve as members of the Audit and Supervisory Committee) are elected and dismissed by the General Meeting of Shareholders after a resolution is passed by SCSK’s Board of Directors based on certain criteria and take into account the results of examinations by the Governance Committee, which mainly consists of independent outside directors, and the views of the Audit and Supervisory Committee. These criteria include the necessary knowledge, experience and track record to serve as a director of SCSK, the ability to contribute to constructive discussion at meetings of the Board of Directors, excellent management skills and understanding of compliance with laws and regulations, high levels of corporate ethics, and for directors who also act as executive officers, sufficient knowledge in the field they are in charge of.

The election and dismissal of candidates for directors that serve as members of the Audit and Supervisory Committee are determined by the Board of Directors with the consent of the Audit and Supervisory Committee, taking into account the results of examinations by the Governance Committee, a majority of whose members consists of independent outside

directors. Directors that serve as members of the Audit and Supervisory Committee must have specialized knowledge and experience and be able to carry out audits from an objective standpoint.

In addition to the above, candidates for outside director are determined based mainly on whether they have specialized and wide-reaching knowledge concerning various fields and corporate management.

Currently, one female director has been elected considering diversity, including both gender and international experience. This director possesses a wealth of experience and broad insight concerning the international situation.

SCSK continually appoints independent outside directors without any concern of conflict of interests with general shareholders in order to maintain and improve directors’ supervision of management execution by executive officers. Outside directors with management discernment gained through a wide range of business activities attend meetings of the Board of Directors and provide recommendations for the maximization of corporate value.

Reasons for Elections of Outside Directors

		Reason
Kiyoto Matsuda (Chairman of the Board)	Independent Director	Kiyoto Matsuda has a breadth of experience and a wealth of knowledge in corporate management. He has been selected since we believe the experience and knowledge accumulated through his business career qualify him to maintain and improve the supervision of the execution of operations of SCSK.
Kimitoshi Yabuki	Audit and Supervisory Committee Member Independent Director	Kimitoshi Yabuki has specialized knowledge and experience as a lawyer. He has been elected as an outside director and member of the Audit and Supervisory Committee because we believe the experience and knowledge accumulated through his career qualify him to audit the execution of duties by directors of SCSK from an objective standpoint.
Masaichi Nakamura	Audit and Supervisory Committee Member Independent Director	Masaichi Nakamura has been elected as outside director and member of the Audit and Supervisory Committee because he is qualified for carrying out audits of the execution of duties by directors of SCSK objectively based on his professional experience and knowledge and his specialized knowledge and experience as a certified public accountant.
Kazuko Shiraishi	Audit and Supervisory Committee Member Independent Director	Kazuko Shiraishi has been elected as outside director and member of the Audit and Supervisory Committee because she is qualified for carrying out audits of the execution of duties by directors of SCSK objectively based on her professional experience and knowledge and her breadth of experience and broad insight concerning international situation.

Stimulating Deliberations of the Board of Directors

The secretariat of the Board of Directors led mainly by the Legal Department strives to endeavor handout materials for the Board of Directors and to ensure discussions during meetings of the Board of Directors are active and substantial by conducting prior explanations for outside directors.

Additionally, the secretariat determines the annual

schedule and deliberation matters of the Board of Directors in advance to every extent possible, continuously reviews agenda standards, and carefully selects matters requiring resolution of the Board of Directors. In this manner, sufficient time is dedicated to deliberations on truly material matters.

Evaluating the Effectiveness of the Board of Directors in Fiscal 2019

SCSK carries out self-evaluation and analysis concerning the effectiveness of the Board of Directors in order to improve the functions of the Board of Directors and enhance corporate value as a result.

This self-evaluation and analysis was carried out by asking all directors to complete a questionnaire in February 2020 that was prepared with the help of an outside advisor. Anonymity was assured by having directors reply directly to the outside advisor. Based on the tabulation results from the outside advisor, analysis, discussion and evaluation was carried out at the regular meeting of the Board of Directors held in May 2020.

A summary of these results is as follows: Responses to the questionnaire indicate generally positive assessments regarding the composition of the Board of Directors, appropriate management of transactions with conflicts of interest, open and constructive discussions, training of directors, information exchanges among outside directors, and general management matters. As a result, we believe

that the overall effectiveness of the Board of Directors is being secured.

In particular, in the previous fiscal year, we took steps to improve deliberations on determination of the management plan, which was identified as an issue in the previous evaluation of board effectiveness, and we believe that the results of these improvements are steadily materializing. In addition, regarding the succession plan, we continue to deepen discussions at meetings of the Board of Directors.

Opinions were shared about regular reviews of the Group's entire business portfolio. We also shared other tasks such as further improvement of the Board of Directors' functions and energization of discussions.

Looking ahead, taking into account the results of this evaluation, SCSK's Board of Directors will swiftly address issues based on a thorough review and will continue to promote measures for enhancing the functions of the Board of Directors.

Remuneration for Directors

SCSK pays out annual remuneration to directors including bonuses, within the maximum amount as determined at the Ordinary General Meeting of Shareholders.

The policies, procedures, and calculation methods, and level of remuneration of directors (excluding those directors that serve as members of the Audit and Supervisory Committee) are decided by the Board of Directors taking into account the results of examinations by the Governance Committee, a majority of whose members consists of independent outside directors, and views of the Audit

and Supervisory Committee. The specific amount of remuneration to be paid to individual directors is determined jointly among the representative directors. However, the determination process involves reporting to the Audit and Supervisory Committee, which we have confirmed to be an appropriate process.

In addition, directors that serve as members of the Audit and Supervisory Committee are given sole discretion regarding their own compensation pursuant to the provisions of Article 361, Paragraph 3 of the Companies Act.

Remuneration of Directors in Fiscal 2019

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)			Number of eligible directors (persons)
		Basic remuneration	Bonus	Other	
Directors (excluding those directors that serve as Audit and Supervisory Committee members) (of whom, outside directors)	258 (12)	185 (12)	59 (0)	14 (0)	11 (1)
Directors that serve as Audit and Supervisory Committee members (of whom, outside directors)	53 (36)	53 (36)	0 (0)	0 (0)	4 (3)

Performance-Linked Compensation Policy and Indicators

SCSK has established a compensation system which uses business performance and profit growth to determine the amount of compensation. Performance-linked compensation is designed in a way so that it fluctuates between 50% and 110% based on the target achievement rate. The calculation formula used for determining the achievement rate of the forecast is presented below:

$$\begin{aligned} & \text{Target achievement rate} = \\ & \text{Target achievement rate of net sales} \times 30\% + \\ & \text{Target achievement rate of operating income} \times 70\% \end{aligned}$$

Breakdown of Base Compensation and Performance-Linked Compensation in Officer Compensation

Position as executive officer	Base compensation	Performance- linked compensation
Representative Director Chairman and Chief Executive Officer	66%	34%
Representative Director President and Chief Operating Officer	66%	34%
Executive Vice President	67%	33%
Senior Managing Executive Officer	73%	27%

Internal Control

SCSK has established the Basic Policy on Establishing the Internal Control System so that the execution of duties by directors conforms to laws and the Articles of Incorporation and that other operations along with the operations of the corporate group comprising SCSK and its subsidiaries are performed appropriately.

In accordance with this basic policy, we continuously check the effectiveness of the internal control system and conduct reviews based on the changing management climate, which allows us to modify the internal control system on occasion as the need arises.

Enhancing Information Disclosures and Communication

Basic Policy

Information disclosure represents an important responsibility of management from the standpoint of ensuring the transparency and fairness of the company's decision making.

We strive to carry out information disclosure in an appropriate and timely manner in order to help deepen understanding among various stakeholders, including shareholders and other investors, about decision making by SCSK's management and the company's business activities.

The company's basic policy on information disclosures is to disclose information in a proactive manner. In addition to disclosures on operating results and financial information pursuant to laws and regulations, non-financial information (including ESG elements concerning governance along with social and environmental issues) deemed material by SCSK is also communicated using various means, including the corporate website and SCSK report.

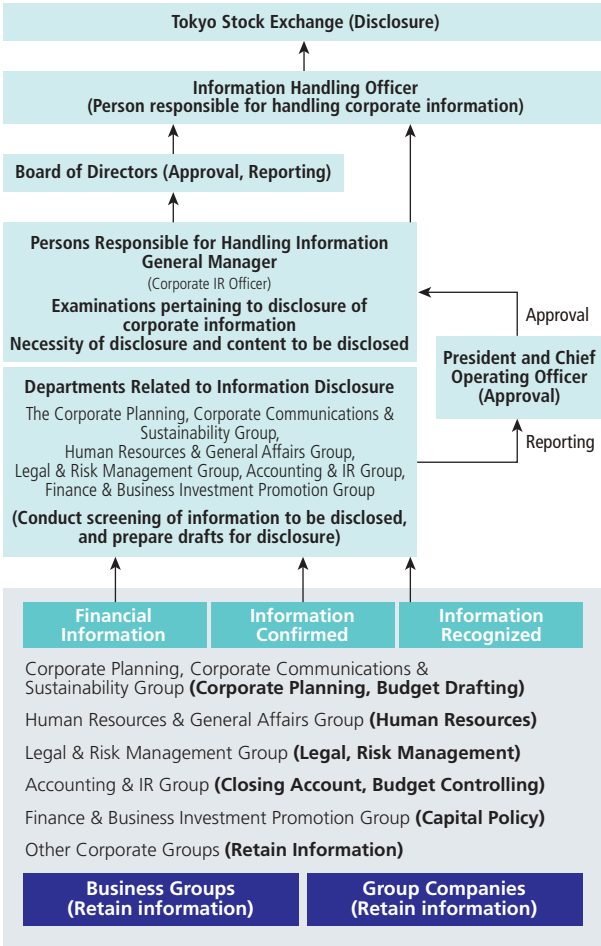
Structure for Timely Disclosure

SCSK recognizes that a high level of management transparency is an important component of corporate

governance. Also, as a measure to ensure this transparency, the company has established the following system for the disclosure of corporate information. Through this system, we work to disclose information in a timely, appropriate, and fair manner.

- 1: The Corporate Planning, Corporate Communications & Sustainability Group, Human Resources & General Affairs Group, Legal & Risk Management Group, Accounting & IR Group, and Finance & Business Investment Promotion Group carry out the effective collection of information that is subject to disclosure, screen what is to be disclosed, and prepare drafts for disclosure.
- 2: Upon receiving authorization from the President and Chief Operating Officer, information handling officers—the persons responsible for supervising the management and disclosure of information—confirm the content and determine whether disclosure is required.
- 3: The information handling officers appropriately disclose corporate information after receiving approval from the Board of Directors when necessary.

Structure for Timely Disclosure



Communication with Shareholders and Other Investors

SCSK actively holds constructive communication with shareholders and other investors according to a scope and means acceptable in order to contribute to sustainable growth and the enhancement of medium- to long-term corporate value. We have created a structure for promoting constructive communication with shareholders and other investors, led by a Corporate IR officer. This officer is mainly responsible for establishing an internal system for disclosing information on our business activities to shareholders and other investors in an appropriate and timely manner. In terms of actual communication, we work to facilitate direct discussions between this officer and shareholders and other investors whenever possible.

As a means to promoting communication with shareholders and other investors, we hold quarterly briefings on financial results, and plan and conduct briefings on business activities and business strategies as appropriate to deepen understanding about the SCSK's operations. We also actively engage in IR activities both inside and outside of Japan. In particular, outside of Japan, we hold IR meetings for institutional investors in Europe, the United States as well as in Asia, including Hong Kong and Singapore. SCSK also takes part in investor conferences for overseas institutional investors hosted by securities companies as part of its efforts to engage with investors. Opinions received through communication with shareholders and other investors inside and outside Japan are shared with management in an appropriate and timely manner for use in SCSK's business planning.

Whistleblower System

We have established a whistleblower system (or "speak up" system) for quickly resolving compliance violations and preventing such violations from occurring by enabling employees of the SCSK Group and partner companies to report and consult on problems they notice.

Contact Points and Reporting Methods

Employees may report a problem to any of the three following contact points by email or another method at their own discretion.

- 1. Chair of Compliance Committee
- 2. Audit and Supervisory Committee
- 3. Outside lawyer (reports may be anonymous)

Regardless of the point of contact, the privacy of the person filing the report and other related parties is strictly protected along with the confidentiality of reported matters. Guarantees are in place to ensure persons who report a problem are not subjected to unfair treatment, and the system has been well used each year.

Investigating Matters

All reports and consultations are handled promptly. Investigation is conducted in cooperation with relevant departments based on policies established by the Chair of the Compliance Committee, when required.

The results of investigations are promptly informed to the whistleblower.

The results of investigations and details of corrective measures are also reported to senior management and the

Audit and Supervisory Committee.

Education and Training

Recognizing that employees are the foundation of compliance, we provide information on compliance as well as various forms of compliance training, including group training for new employees and newly appointed managers, e-learning and group discussions, so that regardless of the situation the correct decision and action are taken following rules and regulations on compliance. We have compiled a Compliance Manual that contains detailed commentary on particularly important laws and regulations. We also strive to foster greater awareness of compliance through our in-house website and other means.

Fair Transactions

The SCSK Compliance Manual clearly stipulates that we must ensure fair transactions as specific rules about compliance. Its standards include a Code of Business Activities, which sets forth requirements for compliance with the Anti-Monopoly Act and prohibition of unfair competition. These standards support the development of commercial relationships based on trust with our suppliers through fair and free competition.

The manual also outlines corporate ethics required for fair operating practices in its Code for Employees as Members of Society, which includes rules against corruption and rules concerning political donations and stresses the importance of resisting organized crime.

Compliance

Basic Approach

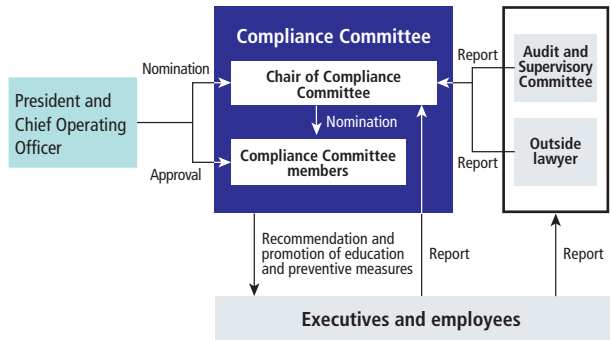
SCSK views compliance as observing laws and regulations, and acting with a high sense of ethics within the norms of society. Based on its corporate philosophy and Code of Conduct, SCSK considers acting sincerely and appropriately as members of society and corporate citizens to be the most important principle for director and employee conduct. Each individual director and employee is responsible for his/her own actions based on the concept of compliance, and strives to produce results that fulfill the social responsibility of the entire company as an organization.

Structure and System

Following our basic approach to compliance, we have established Compliance Rules and compiled a Compliance Manual as well as built an organizational structure for compliance. We have set up a Compliance Committee to

follow through with our commitment to compliance. This committee determines and revises company-wide policies on compliance, maintains and manages the compliance system, coordinates with relevant departments, monitors implementation status and shares information.

System to Promote Compliance



Risk Management

Basic Policy on Risk Management

SCSK defines risk as the possibility of incurring loss and the possibility that returns obtained from business activities fall short of expectations. To ensure the stability of the SCSK Group's business activities and enhance corporate value, we examine all possible forms of risk during execution of business activities and engage in continuous risk management with the purposes described at right.

Consistent performance and growth	Increase the consistency of performance and ensure sustainable growth by administering operations so that actual results do not vary from forecasts.
Reinforcing corporate structure	Limit losses from latent risks posed by the business model to enable business continuity even when risks emerge.
Maintain trust	Maintain and increase trust by fulfilling corporate social responsibilities including legal compliance.

Risk Management System

SCSK has established the Risk Management Regulations and the Risk Management Department as a dedicated department in charge of risk management, so that we can appropriately manage risks that could have a serious adverse effect on the SCSK Group's business.

Based on these regulations, each Corporate Group is responsible for relevant risks based on their individual operations. All persons heading up an organization including business groups are in charge of risk management for their respective organizations.

The Risk Management Department centrally identifies and evaluates whether risk management is functioning appropriately from a companywide perspective and regularly reports its findings to the President and Chief Operating Officer, who provides instructions regarding the response policy to risks. Additionally, risks determined to require more focused countermeasures are defined as important risk management items, with countermeasures and implementation progress reported to the Board of Directors.

Risk Management System Diagram



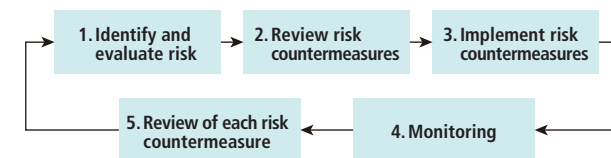
Risk Management Process

Under the risk management system described above, we continually implement a series of processes as follows in order to unlock more sophisticated risk management and adapt to changes in business climate.

To identify and evaluate risks, every year, we regularly take inventory of risks for the entire organization, including Group companies inside and outside Japan. At the same time, the Risk Management Department gathers risk information from inside and outside the company, reporting it to the President and Chief Operating Officer and sharing it with relevant organizations.

The examination, implementation, monitoring and review of risk countermeasures are carried out mainly by the

Corporate Group responsible for each risk. Risk management activities are carried out by the entire company, including training and education. In addition, the status of each process is also reported to the Board of Directors.



Specific Risk Countermeasures: Emergency Response and Business Continuity Plan

To prepare for the occurrence of major disasters, pandemics and other unforeseen circumstances that may have a grave impact on the SCSK Group, SCSK has established rules of conduct and organizational frameworks to respond to emergencies. We are taking a number of advanced measures led by the Disaster Risk Management Subcommittee. These include stockpiling food, water and other supplies; conducting drills for adopting an employee safety confirmation system and setting up disaster headquarters; establishing a system to address emergencies that take place at night or on holidays; and sharing information and raising awareness among employees through the disaster response portal, e-learning and disaster preparedness seminars. Furthermore, we review our business continuity plan each year to ensure it is up to date and improve its effectiveness.



Initiatives in Disaster Risk Reduction at Home following Working Style Reforms

At CSCS, we are working on not only natural disaster countermeasures for offices, but also activities to raise awareness about countermeasures at home (disaster risk reduction at home) following the growing number of employees teleworking as a result of working style reforms. As part of this, in August 2019 we published a guidebook on preventing damages from wind, floods and landslides and provided an e-learning program on the subject matter to all employees, taking into account the growing risk of wind, floods and landslide disasters in recent years.

We continue working to improve our business continuity system by continuously implementing countermeasures against natural disasters for the office and home.

Response to Security Incidents

SCSK-CSIRT

We have organized SCSK-CSIRT in order to carry out activities to ensure a prompt response and that minimize damages should a computer security incident occur.

SCSK-CSIRT System

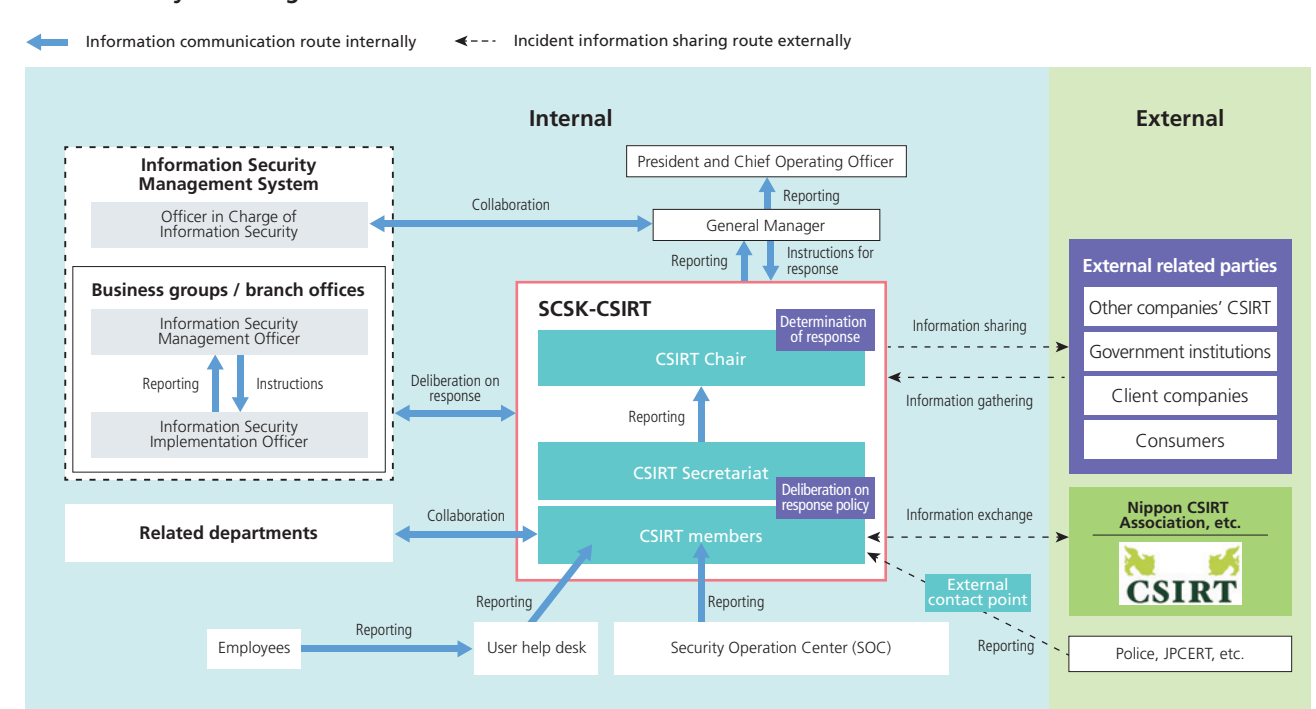
We established the CSIRT system under the belief that coordination and collaboration with related departments based on their roles will be vital in the case of an emergency.

In dealing with an incident appropriately, the CSIRT Secretariat, Corporate Systems Department and Security Services Department collaborate to analyze the incident and deliberate on response policy and methods. At the same time, they also coordinate with outside institutions such as JPCERT and NISC.

The Legal Department and Corporate Planning Department, or other departments in charge collaborate to accurately determine the scope of impacts from an incident, including whether an incident breaches compliance rules or laws, or whether it will impact SCSK's operations.

Information obtained in this manner through collaboration with departments in charge is compiled by the CSIRT Secretariat and reported to the CSIRT Chair, which ensures we can make a determination of the response quickly depending on the degree of impacts.

SCSK-CSIRT System Diagram



Board of Directors

Current position(s) of directors as of June 2020

**Masao Tabuchi**

Representative Director
Chairman and Chief Executive Officer, SCSK
Chief Health Officer

**Toru Tanihara**

Representative Director
President and Chief Operating Officer, SCSK

**Tetsuya Fukunaga**

Director
Senior Managing Executive Officer
General Manager, Finance & Business
Investment Promotion Group
Outside Director, ARGO GRAPHICS Inc.

**Masaichi Nakamura**

Outside Director
(Audit and Supervisory Committee Member)
Independent Director
Representative, Masaichi Nakamura CPA Office
External Corporate Auditor, Sumitomo Heavy
Industries, Ltd.
Outside Director (Audit and Supervisory
Committee Member), Terumo Corporation

**Kazuko Shiraishi**

Outside Director
(Audit and Supervisory Committee Member)
Independent Director
External Director, MODEC, Inc.

**Kei Kato**

Director
Senior Managing Executive Officer
General Manager, Global System Solutions &
Innovation Business Group
Deputy General Manager (DX Strategic
Marketing Center, DX & Innovation Business
Center, DX Technology Development Center,
Research & Development Center)
Corporate Officer of Sumitomo Corporation
Assistant to General Manager, Digital Business
Division

**Tatsuro Tamura**

Director
Managing Executive Officer
General Manager (Corporate Planning,
Corporate Communications &
Sustainability Group)
Executive Officer of Sumitomo Corporation
Assistant to General Manager, Media &
Digital Business Unit

**Bin Haga**

Director
Managing Executive Officer of Sumitomo
Corporation
Assistant General Manager, Media & Digital
Business Unit
General Manager, Digital Business Division

**Kiyoto Matsuda**

Outside Director
Independent Director
Chairman of the Board
Chairman of the Board, TOPAZ CAPITAL, INC.
Outside Director, Hotto Link Inc.
Outside Director, SURUGA bank Ltd.

**Yasunori Anzai**

Director
(Audit and Supervisory Committee Member)
Assistant to General Manager,
Media & Digital Business Unit,
Sumitomo Corporation

**Kimitoshi Yabuki**

Outside Director
(Audit and Supervisory Committee Member)
Independent Director
Partner, Yabuki Law Offices

Executive Officers

Current position(s) of directors as of June 2020

Chairman and Chief Executive Officer Masao Tabuchi

President and Chief Operating Officer Toru Tanihara

Executive Vice President Masatoshi Endo

Senior Managing Executive Officer Tatsuyasu Kumazaki
Tetsuya Fukunaga

Kei Kato

Managing Executive Officer Toshiaki Kudo

Tetsuya Ueda

Hideki Tazai

Atsushi Innami

Makoto Nakamura

Atsushi Watanabe

Takashi Shinjo

Yasushi Shimizu

Takaaki Touma

Tatsuro Tamura

Yasuo Sugahara

Hisanao Takei

Yoshiyuki Shinbori

Shigehiro Seki

Senior Executive Officer Yoshinori Imai

Koichi Naito

Yoshinori Kawashima

Akihiko Harima

Takayuki Okuhara

Tadashi Miyagawa

Takaya Yamamoto

Koji Watanabe

Toshihiko Mitsuishi

Yukihiko Saito

Yasuhiko Oka

Mineo Yokoyama

Hiroyuki Komiya

Kan Takahashi

Akira Yamano

Ken Takano

Masahiro Otani

Tomishige Tamura

Masaaki Mori

Takaaki Ishida

Executive Officer Naoki Ike

Eri Kawanabe

Toshiya Uchida

Hiroyuki Miyagawa

Junichi Horie

Kenji Toda

Hideyuki Miyashita

Shoji Shiuchi

Kenji Ichiba

Shu Wei

Shunichiro Fukushima

Tomoo Kawana

Ikuo Uchiyama

Shinji Miyanishi

Toshihiko Kusakabe

Osamu Kubo

Yoshinari Kobayashi

Yousuke Tsutaya

Masaki Komine

Tomoyuki Naruke

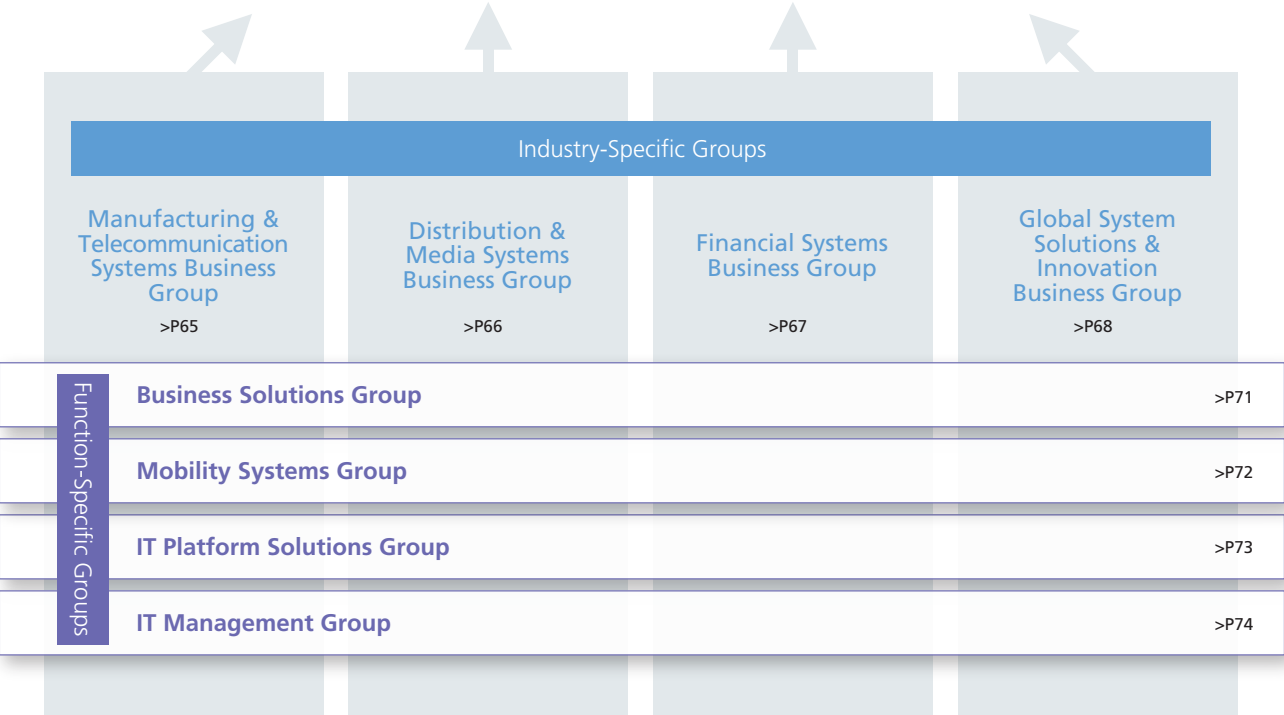
Masayuki Tanabe

Hideya Nakashima

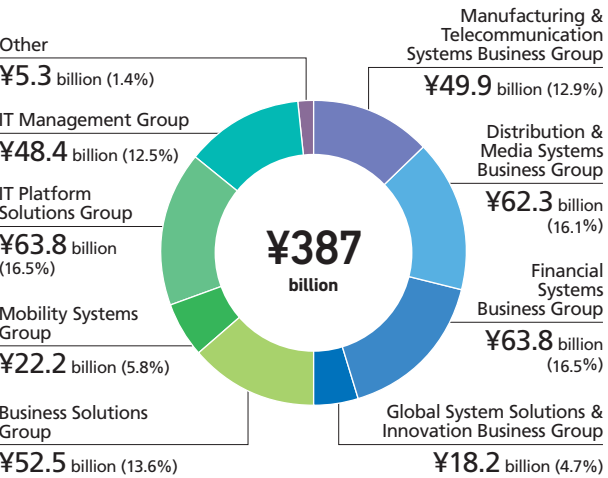
Our Businesses

SCSK Group's Business Structure

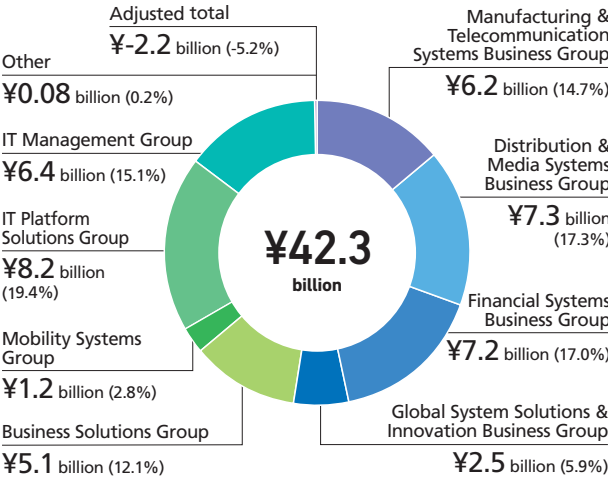
Client base of around 8,000 companies



Distribution of Net Sales (FY2019)



Distribution of Operating Profit (FY2019)



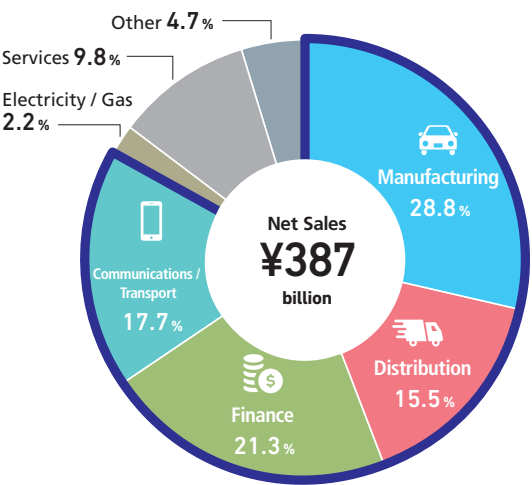
SCSK Group's Client Base

Client Base Spanning Multiple Industries Ideal for Co-Creation

For many years, the SCSK Group has provided IT services to a broad range of industries including manufacturing, distribution, finance, and communications/transport. The SCSK Group's strength can be found in its broad operational know-how and technologies that address demand for IT services unique to specific industries along with its robust client base covering major companies in these industries.

The four industries of manufacturing, distribution, finance and communications/transport account for around 80% of our client base, which now totals roughly 8,000 companies. Continually providing a broad range of clients with IT services has enabled us to establish solid relationships of trust built atop deep comprehension and awareness of clients' strategies and unique business operations. With these relationships integral to our success, we will continue to provide truly added value to our clients and in the future realize new co-creation that connects clients from different industries together utilizing our track record with clients representing a wide range of industries.

Net Sales Broken Down by Client Industry (Fiscal Year Ended March 31, 2020)



Powerful Relationships with Major Clients

The SCSK Group has engaged in the service-oriented business based on its knowledge and know-how from its experience of continually supporting the IT needs of clients, providing subscription-based services targeting a broad range of clients after having developed services that generalize industry-standard operations.

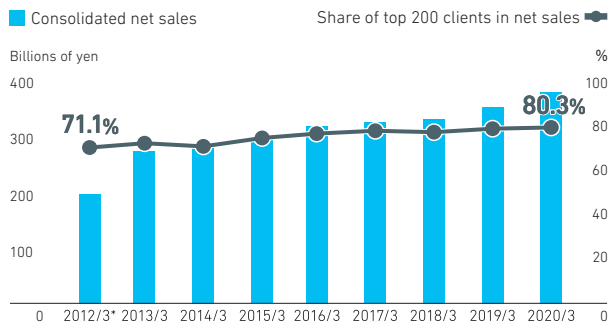
For strategic IT investment for business expansion unique to specific companies, we allocate engineers with experience in the related industry to provide the highest value added systems and services to clients, aiming to become their top vendor. As a result, our transactional volume with our top 200 clients in terms of sales continues to grow with each passing year since the merger. These clients now account for more than 80% of consolidated net sales in the fiscal year ended March 31, 2020. This is mainly because the SCSK Group is expanding the domains and scale of its work entrusted from these major clients.

Under the new Medium-Term Management Plan, we will shift focus to the value co-creation business that supports the business transformation of clients while more

closely examining client needs utilizing our relationships of trust built up with clients over many years.

Going forward, we will continue to listen intently to the voices of clients and provide solutions that fully capitalize on comprehensive Group capabilities of SCSK. As a strategic IT partner clients can trust, we will continue to focus on building and strengthening client relationships.

Share of Top 200 Clients in Consolidated Net Sales



*Figures of CSK before the merger date (October 1, 2011) are not included.

Industry-Specific Groups

Business group	Business lines	Strengths (competitive edge)	Focus solutions
Manufacturing & Telecommunication Systems Business Group >P65	 <p>The Manufacturing & Telecommunications Systems Business Group provides systems development as well as maintenance services for a full range of operational processes. We cater to clients in diverse range of industries such as manufacturing, telecommunications and utilities. For manufacturing industries, we deliver systems for production management, global supply chain management (SCM), as well as sales force automation and order management. For the telecommunications and utilities industries, we provide customer management operation and utilities management systems. Moreover, we aim to contribute directly to client's business by creating new value through the evolution of services and utilization of cutting edge technologies.</p>	<ul style="list-style-type: none"> • Client base of more than 600 companies representing a broad range of industries • Strong relationships with clients through the subdivision business where staff are deployed at more than 250 client bases on a full-time basis • High-quality services based on operational expertise and technical prowess developed through in-depth experience in many industries • Suite of original solutions with a track record of supporting the manufacturing industry 	atWill Template <p>The atWill Template is a next-generation production management system that develops operational functions required of the manufacturing industry using a template based on long-standing know-how from the frontlines. Since partial introduction of operational templates is possible based on industry, atWill Template can quickly and flexibly build highly expandable systems tailored to operation.</p> 
Distribution & Media Systems Business Group >P66	 <p>The Distribution & Media Systems Business Group provides comprehensive IT services, such as systems development, maintenance, operation and network equipment installation, for a variety of client industries, including food, drugstores, dispensing pharmacies, cable television, real estate, sports gyms, and apparel. Our group also excels at the introduction of solutions supporting the sophistication of customer contact point domains, such as provision of website management, sales support, and customer management solutions. Group company SCSK PRESCENDO CORPORATION provides e-commerce fulfillment services to apparel companies and SCSK HOKKAIDO CORPORATION uses IT to support the business growth and management problem solving needs of clients mainly in Hokkaido.</p>	<ul style="list-style-type: none"> • Providing a wealth of services and solutions that make diversifying customer contact points more sophisticated • Integrated EDI services leading the retail industry • Healthcare related services supporting drugstores and dispensing pharmacies • Robust operating base underpinned by an established track record of providing a full range of IT services to the cable television industry • Cloud services that enable persons in charge of operations to create apps easily • SCSK's proprietary application know-how developed over many years of experience (food, drugstores, dispensing pharmacies, real estate, sports clubs, etc.) 	WEBSAS <p>WEBSAS represents a full lineup of services, from consulting to planning, development, building, maintenance and operation, in order to support measures with the goal of increasing website effectiveness and enhancing appeal. Utilizing accumulated know-how from our track record of building and operating a number of websites, we are capable of short lead times and high quality. Based on our long-standing experience, we select the right technologies and applications for clients' ideal website to provide systems that are used in a stable manner.</p> 
Financial Systems Business Group >P67	 <p>The Financial Systems Business Group offers a broad range of services, from systems development, maintenance and operation to call centers and BPO services for financial industry fields including banking, life and non-life insurance, securities, leasing and credit cards. We are now working on the following measures capitalizing on comprehensive Group capabilities along with our accumulated experience and knowledge, to address the trend of clients investing management resources into solutions to strategic management issues.</p> <ul style="list-style-type: none"> • Outsourcing of individual operations for the more effective and efficient maintenance, operation and development of existing systems • Creation of new services and businesses together with clients using Fintech utilizing information technology, such as AI, blockchain and RPA • Construction of a system for our team of service provision professionals to deliver local IT support while also collaborating with the SCSK Group's offices around the world 	<ul style="list-style-type: none"> • Knowledge and operational experience built up through systems development, maintenance, and operation services for a wide range of financial institutions • Team capable of providing high quality and stable maintenance and operation services for massive legacy systems of financial institutions • IP and services for attaining a higher dimension of productivity and service level essential to improving the competitiveness of clients • Team able to support clients from development to operation and maintenance of various systems to address the globalization of financial institutions 	BankSavior®, BankSavior Filter and BankSavior ScoreBoard <p>BankSavior® is a suite of solutions supporting various financial crime countermeasures against money laundering, remittance fraud, anti-social forces, and unauthorized use of debit cards. This solution supports all operations related to financial crime countermeasures, including preventing crime during account opening and overseas remittances by real time filtering, batch filtering of existing customers, continuous fraud monitoring of domestic and international transactions, investigation and response to crime detection, and ongoing operational support for various procedures for regulators. In addition, it delivers a high level of monitoring based on ongoing customer management and customer risk assessment.</p> 
Global System Solutions & Innovation Business Group >P68	 <p>The Global System Solutions & Innovation Business Group provides safe and secure IT systems and infrastructure that contributes to the local business expansion of Japanese companies with global operations, in addition to a full lineup of services provided to the Sumitomo Corporation Group, including development, maintenance and operation of core systems and peripheral systems.</p> <p>We have six overseas business sites, with the Indonesia and Myanmar offices newly opened in 2019 to complement existing offices located in New York, London, Shanghai and Singapore. We are tackling the challenges of commercialization of DX through co-creation with prominent local companies. In addition, as a strategic IT partner transforming the Sumitomo Corporation Group's business model with digital technology, we are promoting the commercialization of DX on a global basis.</p>	<ul style="list-style-type: none"> • Know-how and team for developing and operating core systems and peripheral systems for trading companies inside and outside of Japan • Ability to provide services globally with six overseas offices • New business creation using business IT and DX through partnership with the Sumitomo Corporation Group • Provision of solutions through alliances with prominent overseas IT companies • Co-creation through open innovation with Sumitomo Corporation 	Core and peripheral systems solutions centered around SAP S/4HANA <p>We provide solutions globally to trading companies including Sumitomo Corporation, along with the finance, manufacturing, distribution and services industries using SAP Concur, SAP SuccessFactors (HR), DIVA (consolidated accounting), PEGA (workflow), and Blue Prism (RPA), as well as SAP S/4HANA and SAP S/4HANA Cloud.</p>  

Manufacturing & Telecommunication Systems Business Group

Officer in Charge

Shigehiro Seki

Managing Executive Officer
General Manager, Manufacturing & Telecommunication Systems Business Group



Market Environment Analysis

Opportunities

- Growing utilization of digital technologies to improve companies' competitive advantage, such as on the manufacturing fields or customer contact points
- Shift of IT investment to new business value creation from maintenance of existing business
- Emergence of industry amalgamation or new frameworks born from new changes in social structure driven by DX

Threats

- Declining competitiveness of manufacturing industry caused by difficulty securing human resources and passing on technologies
- Worsening supply-demand balance of manufacturing industry due to economic friction overseas, disasters and pandemics
- Delay in shift to new business caused by difficulty securing System of Engagement (SoE) talent

Strategy for Achieving Medium-Term Management Plan

Our group will engage in the following strategies with the vision of transformation into a service integrator. We will create new value together with clients and grow to occupy a presence that directly contributes to clients' businesses and industries.

1. Build model for commercialization of DX

- Utilize technical strengths in digital technologies such as AI and xR as well as our broad client base and Group companies to connect clients and industries for transformation of business processes and commercialization of DX that creates new business models and services

2. Evolve and expand IP-driven business model

- Help strengthen competitiveness of client businesses by turning knowledge of peripheral systems built up through past development centered around atWill Template into solutions
- Provide new awareness and help expand clients' businesses by connecting the series of operating processes from product design and manufacturing to sales and after-sales service with data on the manufacturing fields and customer contact point domains

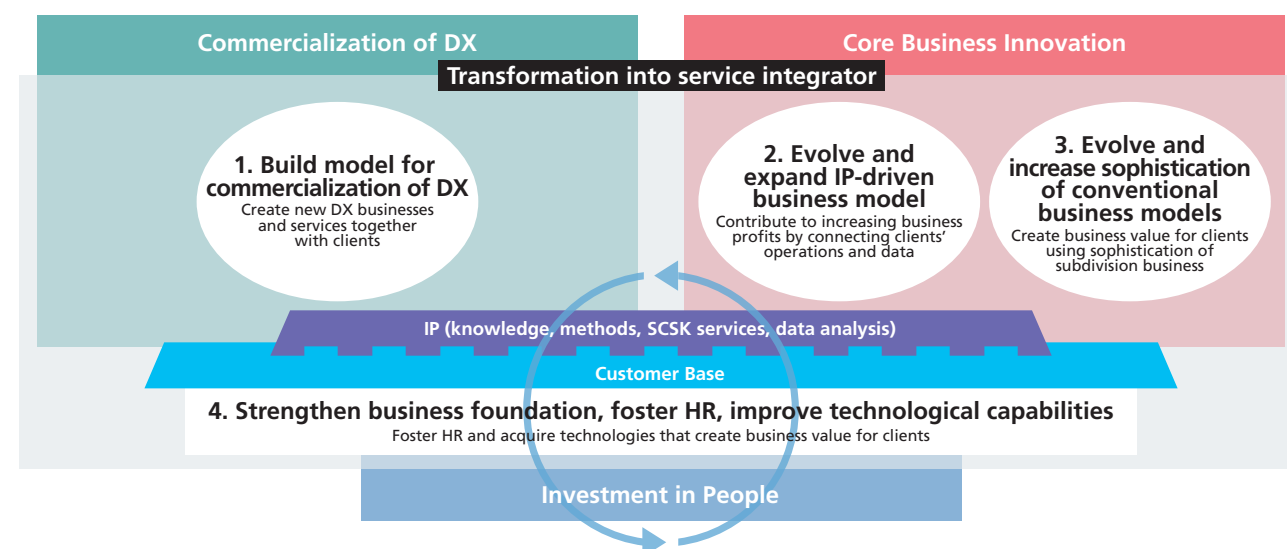
3. Evolve and increase sophistication of conventional business models

- Shift the subdivision business, one of SCSK's strengths, from supporting development operations to supporting strategy planning and execution to evolve it for direct contributions to clients' business value creation
- Utilize *Monozukuri* innovation Platform and resource sharing to swiftly respond to clients' business changes and deliver high-quality and highly productive IT services

4. Strengthen business foundation, foster HR, improve technological capabilities for shifting to operations that create business value for clients

- Develop service managers who support clients' business value creation as well as strategy formulation and execution
- Foster advanced engineers in cloud native, AI and IoT for providing the optimum service quickly in response to clients' business changes
- Foster DX talent who can lead business process transformation and actively utilize external resources through partnerships and alliances

Strategy of the Manufacturing & Telecommunication Systems Business Group



Distribution & Media Systems Business Group

Officer in Charge

Atsushi Innami

Managing Executive Officer
General Manager, Distribution & Media Systems Business Group



Market Environment Analysis

Opportunities

- Growing demand for IT investment for DX and working style reforms
- Increasing opportunities for service provision to the diversification of customer contact points from changes in consumers and purchasing styles
- Growing demand for use of systems, such as corporate system integration resulting from active M&A

Threats

- Rapid changes in business model and management environment of distribution and retail industries following the declining labor population
- Declining volume of work and transactions of clients caused by declining population

Strategy for Achieving Medium-Term Management Plan

Our group covers clients from a wide range of industries, including food, drugstores, dispensing pharmacies, cable television, real estate, sports gyms, and apparel. Our main focus is on contributing to the business growth of clients and their industries based on our long-standing knowledge and know-how. In the four domains considered to be the basics of social living—clothing, food, living and health—we will generate new value through co-creation with clients and industry to contribute to the realization of a vibrant society.

- **Clothing:** We will create new business and work on DX in the apparel industry where Group company SCSK PRESCENDO CORPORATION provides fulfillment services.
- **Food:** We will contribute to problem solving for the entire food industry driven by our specialty of EDI services so that food makers, in addition to the retail and wholesale industries, can widely use solutions.

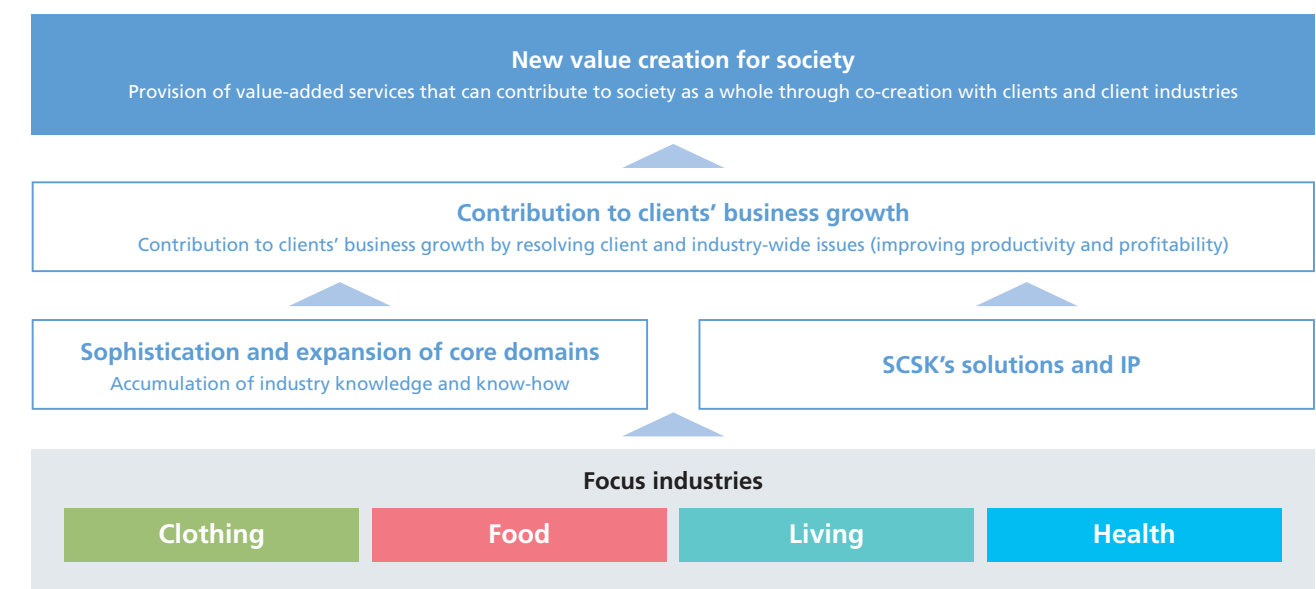
- **Living:** We will contribute to the greater use of IT in living through co-creation with companies involved in the living domain, such as media, telecommunications and power, and new service development for the real estate industry.
- **Health:** In the healthcare domain, we will provide value to the production-distribution-sales value chain through utilization of data mainly for dispensing services, and aim to provide IT services that enhance regional medicine.

In addition, for the sophistication of customer contact point domains related to all industries, we will consolidate and strengthen resources within the SCSK Group and provide the optimum solutions to clients.

Examples of Solutions Provided

- Service platforms where consumers can have the same purchasing experience as brick-and-mortar stores
- Creation of new purchasing experiences that utilize data to combine brick-and-mortar and e-commerce

Strategy of the Distribution & Media Systems Business Group



Financial Systems Business Group

Officer in Charge

Toshiaki Kudo

Managing Executive Officer
General Manager, Financial
Systems Business Group

Market Environment Analysis

Opportunities

- Structural changes in financial markets caused by environmental changes such as full-scale DX, declining population, changes in behavioral patterns, and promotion of client-centric financial transactions
- Emergence of new players providing financial functions following structural changes and creation of new markets driven by establishment of financial eco systems

Threats

- Declining number of large-scale systems development projects by financial institutions and contracting conventional system integration market due to growing use of the cloud
- Stagnant growth in labor-intensive business model following labor shortage in IT market and aging population

Strategy for Achieving Medium-Term Management Plan

Our group aims to transform its business structure using two scenarios based on changes in clients' management environment, changes in social values, and structural changes in financial markets over the medium to long term. The first scenario is an "enclave" where we seek the sophistication of core businesses using our organic strengths of knowledge and operational expertise gained from many years of systems development, maintenance and operation services for a wide range of financial institutions. The second scenario is an "exclave" where we create financial platform businesses using co-creation with various companies including clients and Fintech ventures.

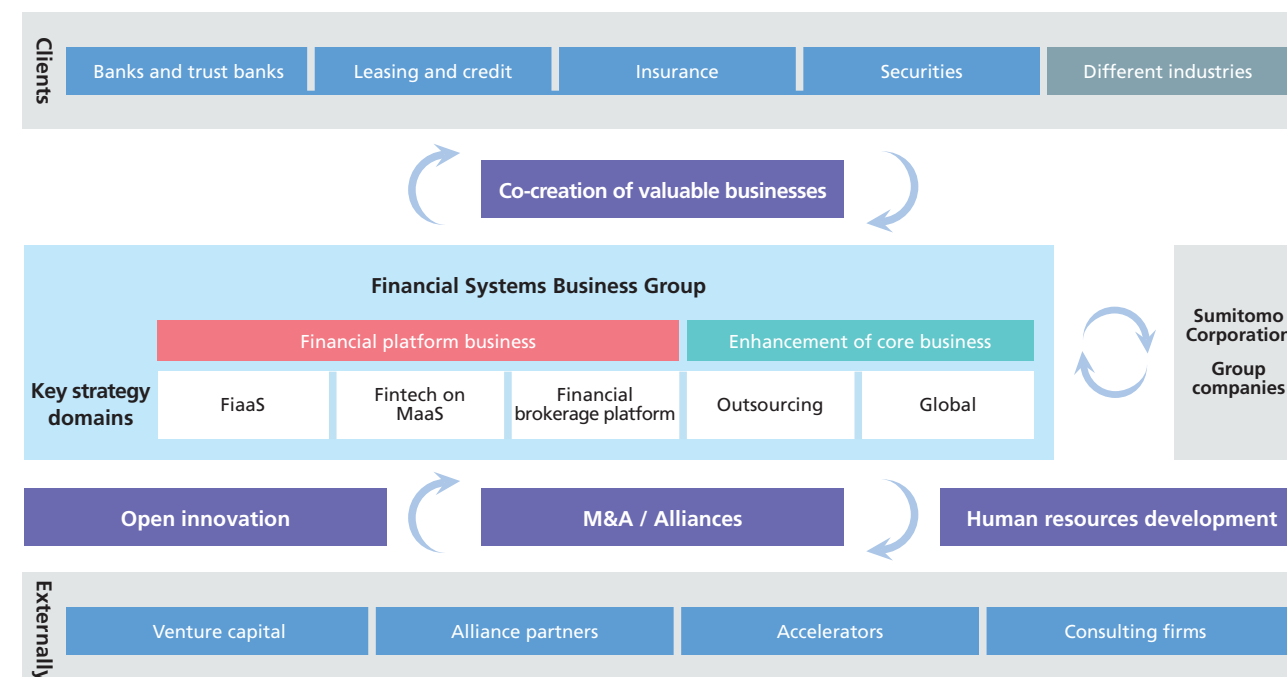
In terms of the enhancement of core business, we will increase added value by (1) providing sophisticated technologies, (2) pursuing operational expertise; and (3)

transforming service models. In particular, outsourcing and global are considered key strategic domains to achieve stable business growth and increase earnings power.

In terms of the financial platform business, over the interim we will focus on the key strategic domains of FaaS (Financial as a Service), Fintech on MaaS and financial brokerage platforms where our group has knowledge and where new market creation is anticipated. We will aim to create new businesses in these domains.

Through the steady promotion of these measures, we will support clients' digital technologies more so than before and establish the medium- to long-term vision for our group of becoming a digital financial provider that generates new value for society as a financial function player within new financial eco systems.

Strategy of the Financial Systems Business Group



Global System Solutions & Innovation Business Group

Officer in Charge

Kei Kato

Senior Managing Executive Officer
General Manager, Global System
Solutions & Innovation
Business Group

Market Environment Analysis

Opportunities

- Increasing demand for rebuilding of core systems to transform clients' businesses and response to DX
- Increasing business opportunities driven by emergence of new technologies and business models
- Rapid digitalization and social IT infrastructure transformation on a global scale

Threats

- Changes in companies' IT investment driven by diversification of people's living patterns
- Acquisition of new technologies and establishment of new business models
- Changes in global business environment
- Further enhancement of human resources that understand both business and IT

Strategy for Achieving Medium-Term Management Plan

Our group will provide new value to society and clients under the conviction of "creating innovation with the power of thought and IT for a more exciting picture of the future" aimed at becoming a "Co-Creative IT Company" in 2030. We will build a network starting with the Sumitomo Corporation Group and branching out to clients and prominent local companies overseas across a wide range of industries along with partners we collaborate with globally and venture companies, to lead the commercialization of DX aiming for business transformation using digital technology. Toward this end, we will harness the knowledge and IP of the SCSK Group to think up solutions to market issues together with clients and partners and focus on proposal activities.

For example, we will consider the new trends of mobility, Fintech, and smart cities as business opportunities, and move ahead with business development mainly in Southeast Asia where rapid digitalization of the economy is taking place. In addition to collaboration in offshore development with FPT Corporation, the largest

Vietnamese IT company that we concluded a strategic alliance with in 2018, we will expand collaboration across many fields including initiatives for DX projects inside and outside of Japan. In terms of initiatives for open innovation, we will identify the latest technologies and new business models through collaboration with Sumitomo Corporation's global CVC and a joint fund set up with Sumitomo Corporation in the United States.

In the key profit drivers of core systems and peripheral systems, we will pursue thorough enhancement and efficiency of operations. Specifically, we will aim to establish corporate IT and realize safe and secure operations to support companies' DX. Systems co-created with clients will be developed into industry platforms for various partners as business infrastructure to provide new value to society.

As an initiative for investment in people under the Medium-Term Management Plan, we will strengthen resource management by fostering and expanding human resources strategically for new business creation.

Strategy of the Global System Solutions & Innovation Business Group



Function-Specific Groups

Business group	Business lines	Strengths (competitive edge)	Focus solutions
Business Solutions Group >P71 	<p>The Business Solutions Group delivers an integrated line-up of services from system introduction to customized development, operation and maintenance, with a focus on standard IT products and SCSK's original products covering domains such as ERP, CRM, data management, contact center platforms, and IoT. In addition to stable functions and quality, we provide solutions that contribute to the business of clients from various sectors and business lines through medium- to long-term support.</p>	<ul style="list-style-type: none"> • Provision of not only product introduction and development, but also maintenance and enhancements thereafter as application management outsourcing (AMO) services • Medium- to long-term relationships of trust with clients • Partner-focused proposal capabilities, such as proactive IT investment and response to changes in operations after launch 	<p>CollaboView</p> <p>We released CollaboView in May 2020. This solution enables various working styles and approaches to collaboration at companies. Utilizing IoT systems based on BLE tags and autonomous dispersed networks, CollaboView organically connects business applications that contain positional information of people and things, various sensor data, scheduler, attendance systems, and workflow to promote the effective use of teamwork and offices.</p> 
Mobility Systems Group >P72 	<p>The Mobility Systems Group provides services and products for the development of automotive software systems aimed at clients in the automotive industry. We offer a broad range of solutions for the software used for the Electronic Control Unit (ECU) that controls a vehicle's onboard electronics. These solutions also include entrusted development of model-based systems, provision of proprietary middleware (QINeS-BSW), software testing, and process improvement. We will continue to contribute to the business development of clients using our accumulated know-how and trust as a foundation.</p>	<ul style="list-style-type: none"> • Development standard process with ISO 26262 certification for functional safety and development team for automotive software systems compatible with large-scale systems • Full-time onsite presence at clients for understanding client development trends and needs in a timely manner • Experience, IP, and knowledge in various domains from over 35 years of experience in automotive software systems development • Business track record not dependent on a specific automaker and its affiliates 	<p>QINeS</p> <p>Improving development efficiency and ensuring quality have become challenges as a result of the greater sophistication of onboard functions and growing size of automotive software systems. QINeS provides a suit of solutions centered on basic software (BSW) that enables high quality and highly efficient development of automotive software systems compliant with AUTOSAR, a standardized architecture framework developed in Europe.</p> 
IT Platform Solutions Group >P73 	<p>The IT Platform Solutions Group offers product sales, development and support in the six main categories of security, network equipment, servers / storage, middleware, CAD, and analysis / CAE. We coordinate and tailor this extensive lineups with our group's engineering skills and know-how to client tasks, while constantly expanding products that promote corporate DX, to pave the way for solutions, increasing client satisfaction and expanding the business of the entire group.</p>	<ul style="list-style-type: none"> • Service quality only possible by SCSK that adds value to our leading product lineups sourced from around the world • Engineers with broad knowledge and experience to complement an extensive product lineup • Strong relationships built up over many years with vendors (suppliers), resellers and clients 	<p>Aras Innovator and DASSAULT Systèmes' 3DEXPERIENCE</p> <p>These systems centrally manage in a higher dimension digital data in the process chain of engineering departments in the manufacturing industry (planning, design, development, production preparations, manufacturing and maintenance). This enables us to shorten development lead time and lower manufacturing cost by linking production systems with management of design and analysis work.</p> 
IT Management Group >P74 	<p>We provide infrastructure development, on-site operation, and data center operation services centered around, our original service platform for existing systems. By combining each service optimally, we are able to address various challenges in clients' IT strategies. We engage in the service business, which contributes to the creation of new value underpinning DX and the account business, which provides as a sophisticated management service all aspects from planning, development and operation management to improvement proposals for the optimization of IT platforms.</p>	<ul style="list-style-type: none"> • Proprietary service platform grounded in <i>Monozukuri</i> innovations • Secure and highly connected data centers that support multi-cloud solutions • Sophisticated engineer team, including service managers with in-depth operational expertise and IT architects well versed in advanced technologies • Training programs for fostering globally-minded human resources 	<p>USiZE</p> <p>USiZE is a cloud service that responds to diverse needs using a broad lineup centered around public cloud (AWS, Microsoft Azure and Google Cloud Platform) and managed cloud for core operating systems. We have established a track record with several hundred mainly major corporations using our high reliability and development and operation technologies at SCSK's data centers that are among the highest class in Japan.</p> 

Business Solutions Group

Officer in Charge

Hideki Tazai

Managing Executive Officer
General Manager,
Business Solutions Group

Market Environment Analysis

Opportunities

- Growing demand for proactive IT investment driven by automation of operations and working style reforms with an eye on lifestyle changes
- Rising demand for services that provide new value by combining operational know-how and IT, both SCSK's strengths, aimed at a DX era

Threats

- Dampening of economic and corporate investment activities caused by changing situation globally
- Staged decline in demand for conventional license sales, introduction and development following SAP replacements running their course

Strategy for Achieving Medium-Term Management Plan

The group plays a new role as an organization providing common functions aimed at making SCSK a co-creative IT company cited in Grand Design 2030.

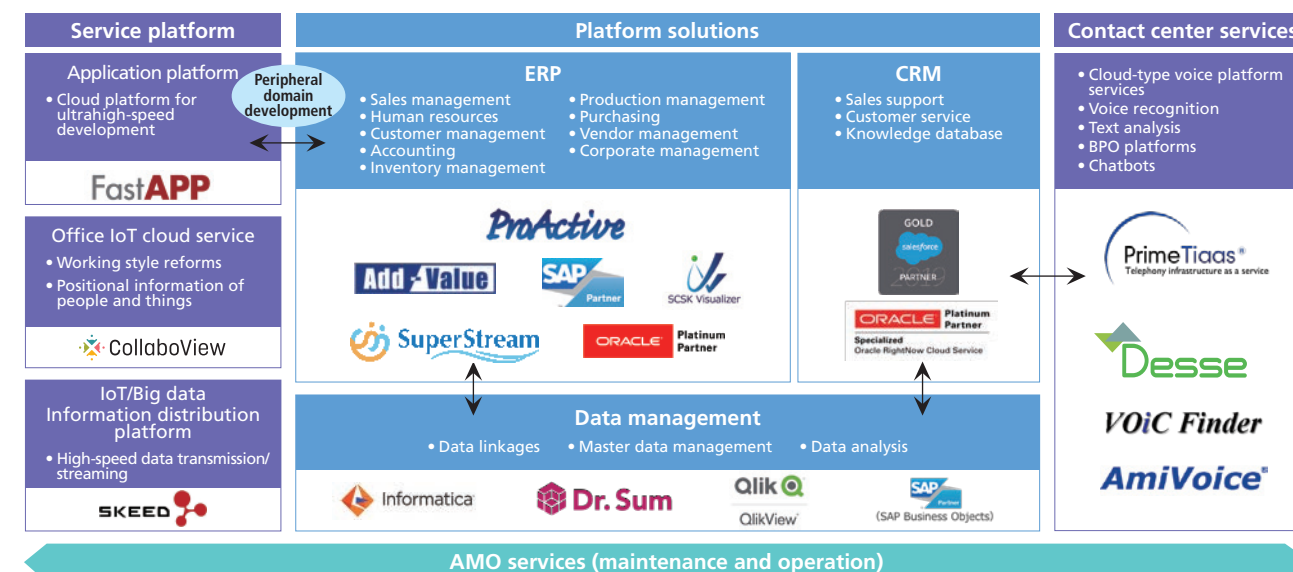
Basic Approach

- Move away from simple function provision business for applications and business tools, such as ERP, CRM and PBX*
- Become an organization that connects and creates together with clients and industry players co-creative solutions based on stronger collaboration with channels inside and outside the company
- Engage in data-oriented business that generates synergies with peripheral businesses using data and built-up operational knowledge to create value

*PBX: Private Branch eXchanger

In the ERP field, a core operating system, we will steadily roll out new solutions focused on efficiency of overall operations and linkages with front and back end operating processes, beyond the framework of individual functions

Solutions Map of the Business Solutions Group



Mobility Systems Group

Officer in Charge

Makoto Nakamura

Managing Executive Officer
General Manager,
Mobility Systems Group

Market Environment Analysis

Opportunities

- Growth of market driven by social issues and changes in lifestyle patterns
- Increased weighting of software in mobility development and outsourcing for non-advanced domains / derivatives
- Acceleration of dispersed development, simulation development and automation of development

Threats

- Structural changes in mobility industry caused by entry of companies from different industries
- Shortage of engineers for automotive software

Strategy for Achieving Medium-Term Management Plan

The group has defined its vision for 2030 as a "co-creative IT company building a new mobility society by combining in-car and out-car expertise." First, aimed at 2022, we will promote a shift of business following the strategies outlined below (qualitative shift in core domains plus business development in new domains).

Business Innovation (In-Car Domain)

We will engage in the following core measures in the In-Car domain, a core domain of the group.

- **Software development assistance:** We will utilize "SE+ for Automotive," a software development standard process by SCSK to support high quality and highly productive software development. We will contribute to clients' mobility development by expanding the scope of contract development processes. We will actively work on dispersed development, which is now rapidly penetrating the market, using co-creation with SCSK's development bases around Japan and SCSK Nearshore Systems Corporation along with partner companies and offshore companies.
- **Software Tier1:** We will aim to be a Tier 1 software supplier that offers software platform supported by QINeS. We will acquire new technical expertise through co-creation with clients, engineering companies, and device manufacturers to tackle the challenge of strengthening the product business.

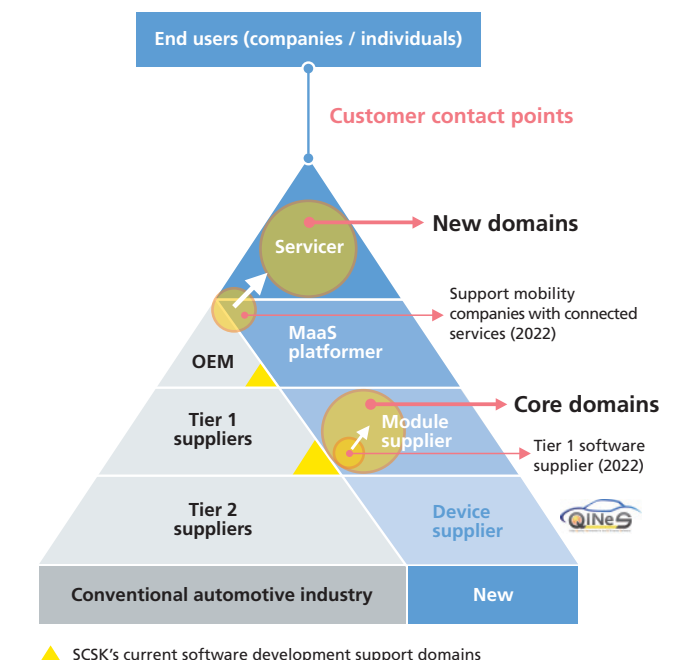
Commercialization of DX (Out-Car Domain)

We will aim for new value creation in mobility with mobility considered an IoT device. This will be achieved by identifying the key domains we should focus on and through co-creation inside and outside of the company.

Investment in People

We will also focus on developing and acquiring engineers in the In-Car domain, a core domain of the group. We will implement strategic career recruitment from the automotive industry, in addition to developing talent with advanced knowledge for achieving the shift from software domain to system domain, and from single control to integrated control (optimal control). Also, we will make contributions to fostering talent at partner companies and secure human resources in the Out-Car domain for commercialization of DX.

Strategy of the Mobility Systems Group



IT Platform Solutions Group

Officer in Charge

Takashi Shinjo
Managing Executive Officer
General Manager,
IT Platform Solutions Group



Market Environment Analysis

Opportunities

- Growing demand for network (5G / wireless), security (VPN / authentication) and communication platforms due to the spread of telework
- Increasing trend for efficiency, transformation and creation of business using data mainly AI driven by DX promotion

Threats

- Worldwide acceleration of new product development using new technologies
- Weakening of competitiveness of existing products and decline or extinction of their markets
- Major transformation of business caused by understanding / penetration of DX and declining labor population in Japan

Strategy for Achieving Medium-Term Management Plan

The group will establish and implement a growth strategy for each product category. Since the existing six categories largely differ from one another based on market environment, competition, and SCSK's standing, we believe the key to business growth is establishing a medium-term strategy for each product category and constantly reviewing it using the PCDA cycle over the short term.

To implement the strategy for each product category, it will be important to foster and secure human resources. We are now working on fostering global and marketing talents who can contribute to establishment of an ecosystem for identifying and launching new products, or business promotion in product categories across corporate organizations. Additionally, in terms of the group's engineers, currently most are "I-class" engineers that have advanced specialization in each product, so we also have established the IT Engineering Center as a specialist organization focused on fostering "T-class" engineers with a wide range of specializations.

At the same time as formulating and implementing strategy for existing product categories, we will focus on

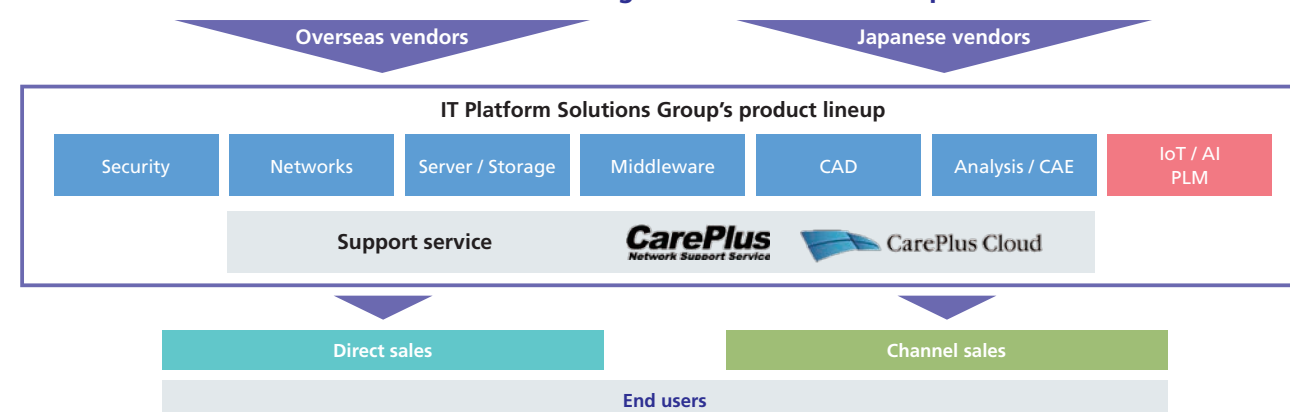
PLM, IoT, AI, 5G, and containers* as target domains with strong expectations for the future, aimed at creating the seventh and eighth product categories. These domains are at the dawn of the market, and today their market has yet to become large enough to warrant an individual category. Going forward, we will aim to create new product categories, while monitoring the market growth rate, launch of SCSK trademarks, and compatibility of technical resources. As for PLM, we established the PLM Solutions Division within the Chubu & Kansai IT Platform Solutions Division in fiscal 2020, and began operations aimed at establishing the seventh product category. Regarding AI which can become a focal point of DX promotion, we established the AI Products Technologies Department within the IT Engineering Center which has initiated activities to foster engineers.

As a professional in product sales, we will focus on creating cutting edge solutions and services closely in tune with market needs.

*Container: A technology for achieving virtualization that can be built quickly and operates at high speed compared to conventional virtual machine type software. A container also makes it easy to run applications from one computing environment to another.

Business Model of the IT Platform Solutions Group

"Product sales professional" that identifies excellent products from around the world and then adds on SCSK's original services for the Japan market



IT Management Group

Officer in Charge

Tetsuya Ueda
Managing Executive Officer
General Manager,
IT Management Group



Market Environment Analysis

Opportunities

- Expanding utilization of the cloud in all industries including finance
- Sharply rising needs for building environments for remote communication and operation

Threats

- Contraction of existing business markets following declining investment caused by integration / elimination of legacy systems
- Commoditization of build / operate domains and tougher competition caused by service expansion, such as mega cloud, and the emergence of platformers

Strategy for Achieving Medium-Term Management Plan

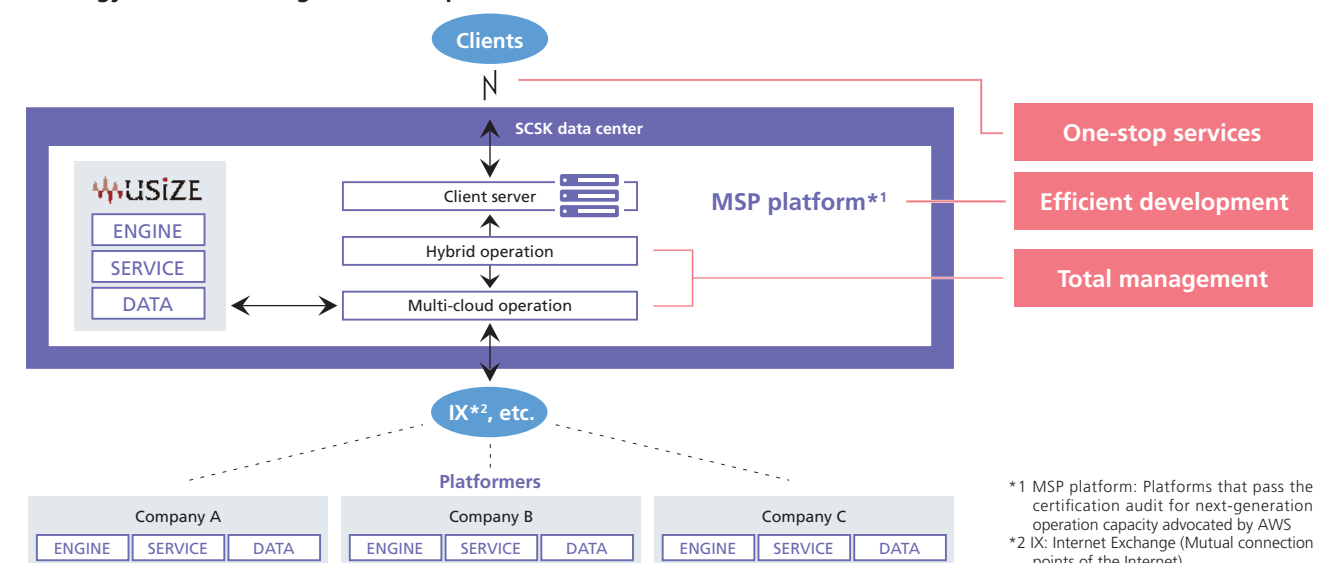
The business climate is changing rapidly from the contraction of the existing business market and emergence of platformers symbolized by mega cloud. In the Medium-Term Management Plan, we have reorganized our previous three businesses of onsite operation, infrastructure development, and data center operations into the service business and account business. We have decided to restructure our conventional organization by service function into the service business, an organization that creates and operates new differentiated solutions, and the account business, an organization that provides services based on individual client requests using these solutions. This will enable us to build a team capable of contributing in a timely and accurate manner to improving clients' value.

One of the specific solutions is our data center where we have greatly differentiated ourselves from other companies. This data center has an MSP platform*1, supporting SCSK's

core business innovation to achieve greater efficiency in infrastructure development and Low-Code No-Code development. It also provides a DX promotion environment for clients in a one-stop setting. Simply by connecting to this center, clients have access to many forms of IT services. Furthermore, this data center has a total management function where it can completely control hybrid operations with the cloud as well as multi-cloud operations. This powerful strength makes it possible to freely utilize engines, services and data provided by mega clouds. Instead of simply viewing emerging platformers as threats, and combating them, we will aim to produce leverage effects by mutually utilizing each other's services.

Today, with the trend of companies and society in general moving greatly toward DX, we will provide services utilizing these data centers as a powerful weapon, and contribute to improving clients' value, which is one strategy aimed at achieving the Medium-Term Management Plan.

Strategy of the IT Management Group



*1 MSP platform: Platforms that pass the certification audit for next-generation operation capacity advocated by AWS

*2 IX: Internet Exchange (Mutual connection points of the Internet)

Financial Highlights

Consolidated Management Indicators

(Unit: millions of yen)

Income Statements	2012/3*1	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3
Net sales	200,326	278,634	288,236	297,633	323,945	329,303	336,654	358,654	387,003
Systems Development	73,811	112,316	117,597	117,843	124,470	127,051	128,387	140,092	155,835
System Maintenance and Operation / Services	68,296	104,284	107,577	110,720	119,170	125,802	129,071	134,132	143,429
Packaged Software / Hardware Sales	56,496	58,731	60,019	65,691	77,087	73,147	76,247	84,430	87,738
Prepaid Card Business*2	1,722	3,302	3,042	3,378	3,217	3,302	2,948	—	—
Gross profit	46,370	64,466	68,724	72,469	78,021	81,754	83,555	88,742	97,954
Gross profit margin (%)	23.1	23.1	23.8	24.3	24.1	24.8	24.8	24.7	25.3
SG&A expenses	33,490	43,663	44,749	44,466	46,235	48,040	48,953	50,363	55,628
Operating profit	12,879	20,803	23,974	28,003	31,785	33,714	34,602	38,378	42,326
Operating profit margin (%)	6.4	7.5	8.3	9.4	9.8	10.2	10.3	10.7	10.9
Ordinary profit	16,659	22,228	25,690	30,667	33,610	36,121	36,291	38,650	43,014
Profit attributable to owners of parent	25,669	16,730	18,387	15,638	26,956	28,458	32,488	27,892	31,201

(Unit: millions of yen)

Cash Flows									
Cash flows from operating activities	22,249	25,156	35,342	29,707	34,730	37,161	37,096	33,511	48,950
Cash flows from investing activities	(8,112)	(249)	(26,045)	5,166	(9,473)	(11,982)	(35,394)	(7,163)	(27,338)
Free cash flows *3	14,137	24,907	9,297	34,873	25,257	25,178	1,702	26,348	21,612
Cash flows from financing activities	(7,965)	(5,512)	(33,739)	(8,395)	(12,338)	476	(25,763)	(19,995)	(16,309)
Cash and cash equivalents at end of period	63,661	83,247	59,004	85,713	98,445	123,935	99,797	106,198	111,695

(Unit: millions of yen)

Financial Position									
Total assets	300,928	322,828	317,932	334,290	352,676	389,537	303,914	314,844	342,485
Net assets	124,419	108,208	126,159	138,536	151,546	173,674	196,600	194,468	208,072
Equity capital	119,189	102,799	120,488	132,458	145,420	166,897	189,214	193,412	207,681
Interest-bearing debt + preferred shares *4	84,860	84,860	57,000	55,000	50,000	60,000	45,000	55,000	55,400

(Unit: yen)

Per Share Data									
BPS	860.37	991.48	1,161.29	1,276.37	1,401.00	1,607.74	1,822.54	1,862.78	2,000.16
EPS	334.19	161.39	177.26	150.71	259.72	274.16	312.95	268.64	300.50
Annual dividend per share	32	36	40	50	75	90	95	100	130*5

Major Indicators									
ROE (%)	24.1	15.1	16.5	12.4	19.4	18.2	18.2	14.6	15.6
ROA (%)	7.9	7.1	8.0	9.4	9.8	9.7	10.5	12.5	13.1
Equity ratio (%)	39.6	31.8	37.9	39.6	41.2	42.8	62.3	61.4	60.6
Debt / Equity ratio (times)	0.46	0.83	0.47	0.42	0.34	0.36	0.24	0.28	0.27
Number of employees	11,995	11,797	11,689	11,754	11,769	11,910	12,054	12,365	13,979
Capital expenditures (millions of yen)	7,954	10,219	9,441	14,842	12,046	15,335	15,588	15,163	13,604
Depreciation and amortization (millions of yen)	5,380	6,690	6,841	6,865	8,003	8,972	11,245	10,530	10,358
R&D expenses (millions of yen)	417	566	449	267	117	266	280	725	1,190
Stock prices (yen)	1,312	1,835	2,781	3,365	4,400	4,420	4,595	4,935	4,815
Price-book ratio (PBR) (times)	1.5	1.9	2.4	2.6	3.1	2.7	2.5	2.6	2.4
Price-earnings ratio (PER) (times)	3.9	11.4	15.7	22.3	16.9	16.1	14.7	18.4	16.0
Total shareholder return (TSR) (%) *6	107.3	152.4	232.1	283.3	372.9	381.8	403.6	439.2	440.0

*1 Figures of CSK before the merger date (October 1, 2011) are not included.

*2 All the shares of QUO CARD Co., Ltd., which constitutes Prepaid Card Business, were transferred as of December 1, 2017.

*3 Free cash flows = Cash flows from operating activities + Cash flows from investing activities

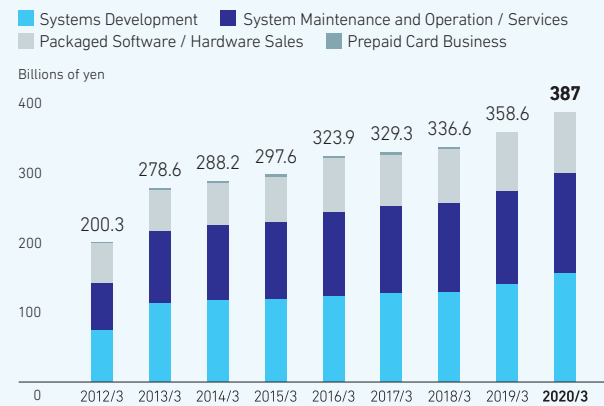
*4 The figure as of March 31, 2012 includes ¥30.0 billion of preferred stocks assumed by the company in fiscal 2011 as a result of the merger with CSK Corporation.

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 on the same day, June 27, 2012.

*5 Includes ¥20 commemorative dividend marking our 50th anniversary.

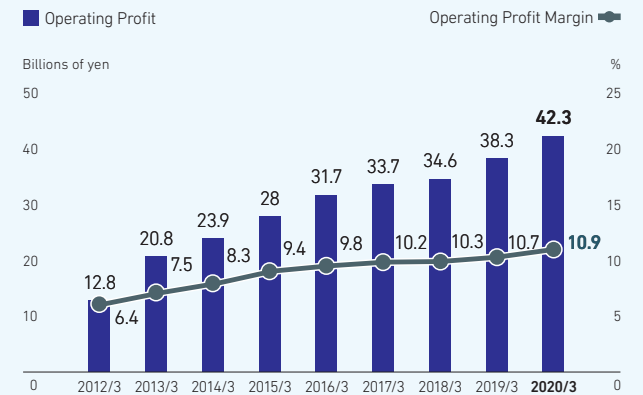
*6 Calculated with the merger date (October 1, 2011) as 100%.

Net Sales



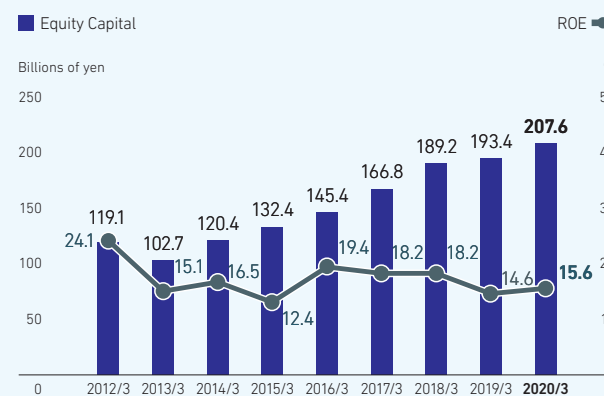
Net sales increased 7.9% year on year to ¥387 billion. This was the result of robust demand for IT investment among clients driven by the business climate and market conditions from the start of the fiscal year, causing net sales across every segment including Systems Development, System Maintenance and Operation / Services, and Packaged Software / Hardware to rise.

Operating Profit / Operating Profit Margin



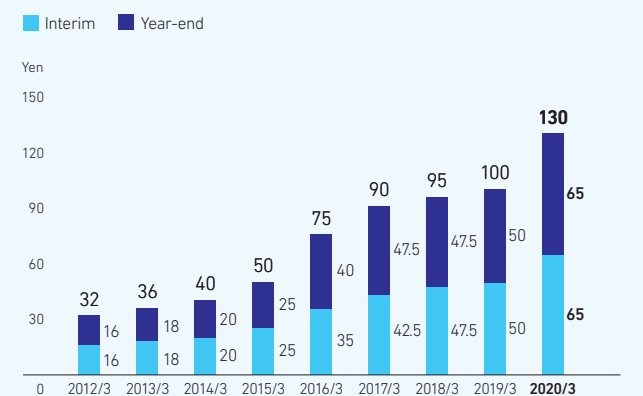
Operating profit increased 10.3% year on year to ¥42.3 billion and operating profit margin rose 0.2 points to 10.9% thanks to the increase in profits from higher sales along with continuous improvement in profitability centered on systems development, which offset the impacts of unprofitable projects.

Equity Capital / ROE



Equity capital increased 7.4% year on year to ¥207.6 billion and ROE rose 1.0 point to 15.6% attributed mainly to the increase in net profits.

Cash Dividend per Share



We paid a commemorative dividend of ¥20 per share because the company marked its 50th anniversary in the fiscal year ended March 31, 2020. When combined with the ordinary dividend of ¥110, the annual dividend per share was ¥130, marking a ¥30 increase from the previous year.

Total Shareholder Return (TSR)



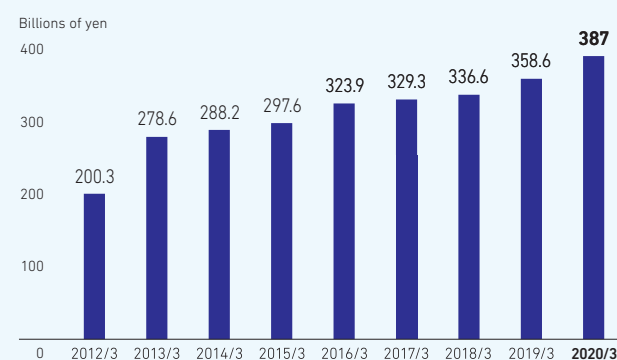
*October 3, 2011 indexed as 100

Summary of Financial Results for the Fiscal Year Ended March 31, 2020

In the fiscal year ended March 31, 2020, sales and profits increased for the eighth consecutive year since the merger. Net sales rose 7.9% year on year to ¥387.0 billion and operating profit rose 10.3% year on year to ¥42.3 billion. The operating profit margin improved 0.2 point to 10.9%. Net sales, operating profit, and the operating profit margin all finished the year at all-time highs. Backlog for the business as a whole increased 6.9% year on year to ¥146.9 billion.

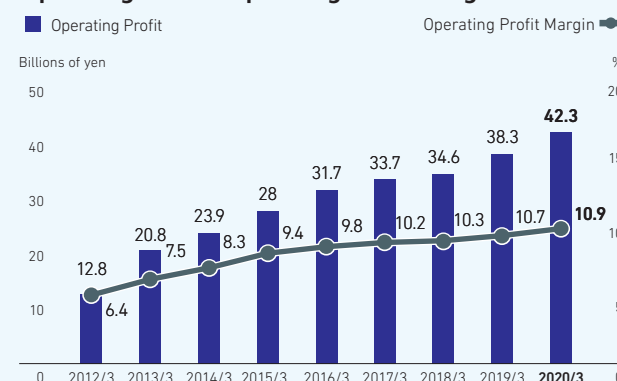
Net Sales	¥387 billion Up 7.9% YoY
Operating Profit	¥42.3 billion Up 10.3% YoY
Operating Profit Margin	10.9 % Improved 0.2 point YoY
Backlog	¥146.9 billion Up 6.9% YoY

Net Sales



* Figures of CSK before the merger date (October 1, 2011) are not included

Operating Profit / Operating Profit Margin



Net sales increased 7.9% year on year to ¥387.0 billion. The main contributing factors were growth in sales to manufacturing industry customers centered on automakers, along with increases in systems development and system maintenance and operation services for financial industry customers, and systems development and packaged software and hardware sales for communications industry customers. Another contributing factor was firm sales from redevelopment of enterprise resource planning systems.

Gross profit increased 10.4% year on year to ¥97.9 billion. The main factors behind this increase were continuous profitability enhancements centered on systems development and the positive effect of a 0.6 point year-on-year improvement in the gross profit margin, in addition to the increase in profits from higher sales. This was despite the impact of unprofitable projects.

On the other hand, selling, general and administrative (SG&A) expenses increased 10.5% year on year to ¥55.6 billion. This increase mainly reflected the impact of the addition of three new consolidated subsidiaries, including Minori Solutions Co., Ltd.*, and the payment of special support lump-sum grants as a measure to counter the COVID-19 pandemic. Other factors behind the increase were higher business investment and R&D expenses.

As a result, operating profit increased 10.3% year on year to ¥42.3 billion, and the operating profit margin improved 0.2 point year on year to 10.9%.

Both incoming orders and backlog increased from the previous fiscal year. Incoming orders rose 3.6% year on year

(Unit: billions of yen)

	Fiscal 2018	Fiscal 2019	Amount of change	Percentage of change
Net Sales	358.6	387	28.3	7.9%
Gross profit	88.7	97.9	9.2	10.4%
(Gross profit margin)	(24.7%)	(25.3%)	-	-
SG&A expenses	50.3	55.6	5.2	10.5%
Operating Profit	38.3	42.3	3.9	10.3%
(Operating Profit Margin)	(10.7%)	(10.9%)	-	-
Ordinary profit	38.6	43	4.3	11.3%
Profit attributable to owners of parent	27.8	31.2	3.3	11.9%
Incoming orders	378.9	392.6	13.6	3.6%
Backlog	137.3	146.9	9.5	6.9%

to ¥392.6 billion and backlog rose 6.9% year on year to ¥146.9 billion.

* Minori Solutions Co., Ltd. became a consolidated subsidiary in the fourth quarter of the fiscal year ended March 31, 2020. Minori Solutions' net sales amounted to approximately ¥4.3 billion and operating profit amounted to just over ¥0.1 billion, including amortization of goodwill. Incoming orders and backlog were ¥5.6 billion and ¥5.2 billion, respectively.

Full-Year Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2021 (Announced on April 28, 2020)

Voluntary Adoption of International Financial Reporting Standards (IFRS)

Beginning with the consolidated financial statements and the consolidated financial reports for the fiscal year ending March 31, 2021, the Company will voluntarily adopt International Financial Reporting Standards (IFRS) in place of the previously employed Japanese generally accepted accounting principles (J-GAAP). This decision was made for the purpose of improving the international comparability of the Company's financial information. Accordingly, given that the financial forecast figures for the fiscal year ending March 31, 2021 will be based on IFRS, figures for the fiscal year ended March 31, 2020 have been restated from J-GAAP to IFRS for comparison purposes.

Full-Year Consolidated Financial Forecast Figures

It is difficult to accurately estimate financial forecasts at this time due to the COVID-19 pandemic. Based on business performance for the fiscal year ended March 31, 2020, the Company's financial forecasts for the fiscal year ending March 31, 2021 call for consolidated net sales of ¥380 billion and consolidated operating profit of ¥41 billion.

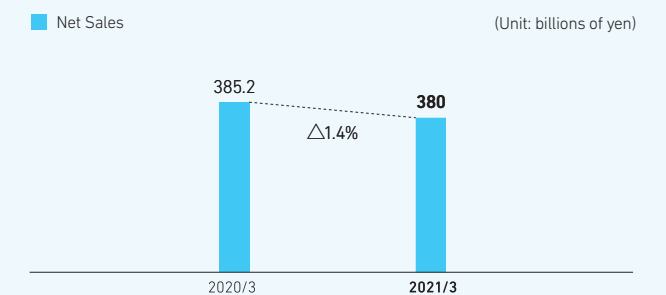
With regard to net sales, the Company is projecting an increase in sales based on the inclusion of Minori Solutions Co., Ltd. in the scope of consolidation. On the other hand, it is also projecting decreases in sales based on expected delays in product development for next-generation models in network equipment sales to communications industry customers and a downturn in demand for large-scale system sales to manufacturing industry customers due to the COVID-19 pandemic.

With regard to operating profit, the Company is projecting increased costs in the fiscal year ending March 31, 2021 due to factors such as the implementation of a new human resources system. However, SG&A expenses are expected to remain mostly flat year on year, because the Company recorded special support lump-sum grants as a measure to counter the COVID-19 pandemic and one-time costs such as R&D expenses in the previous fiscal year. Therefore, taking into consideration the impact of newly consolidated subsidiaries and other factors, operating profit is forecast to increase slightly.

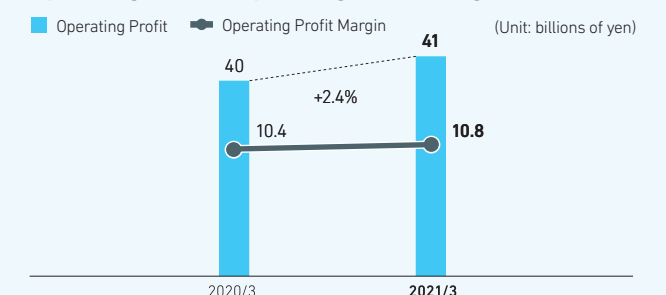
Looking ahead, corporate business performance is expected to remain under pressure due to the global

COVID-19 pandemic. However, this experience will also mark a major turning point in how people perceive value, and the Company expects the value of IT to only increase further. Therefore, we believe that the SCSK Group will have an extremely vital part to play as an IT services provider over the medium and long terms.

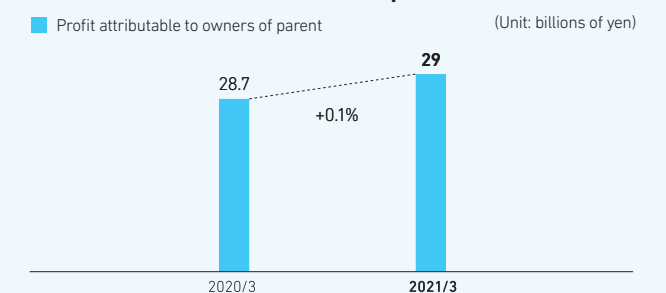
Net Sales



Operating Profit / Operating Profit Margin



Profit attributable to owners of parent



(Unit: billions of yen)

	Fiscal 2019*	Fiscal 2020 (forecast)	Amount of change	Percentage of change
Net Sales	385.2	380	-5.2	-1.4%
Operating Profit	40	41	0.9	2.4%
Operating Profit Margin (%)	10.4	10.8	0.4	-
Profit attributable to owners of parent	28.7	29	0.2	0.1%

* Figures for the fiscal year ended March 31, 2020 have been restated from Japanese generally accepted accounting principles (J-GAAP) to IFRS.

Non-Financial Highlights

Human Resources Data

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	
Number of employees		7,490	7,385	7,328	7,261	7,241	7,273	7,280	7,384	
	Male	6,254	6,162	6,091	6,022	5,976	5,955	5,919	5,940	
	Female	1,236	1,223	1,237	1,239	1,265	1,318	1,361	1,444	
Recruitment		93	90	99	122	162	205	234	227	
Number of new recruits (newly graduated)	Male	68	61	67	80	104	122	156	140	
	Female	25	29	32	42	58	83	78	87	
Turnover	Turnover rate *1	2.6%	2.2%	2.0%	2.2%	2.3%	2.3%	2.3%	2.6%	
Diversity	Number of people with disabilities *2	139	153	171	179	219	248	263	262	
	Number of female executives and line managers	14	32	44	54	64	72	78	89	
	Number of non-Japanese employees	46	46	42	45	43	42	38	36	
Work-life balance	Average monthly overtime hours *3	26 hours, 10 minutes per month	22 hours, 03 minutes per month	18 hours, 16 minutes per month	18 hours, 00 minutes per month	17 hours, 47 minutes per month	16 hours, 22 minutes per month	17 hours, 41 minutes per month	18 hours, 15 minutes per month	
	Rate of consumed annual paid vacation days *3	78.4%	95.3%	97.8%	95.3%	95.3%	96.4%	94.4%	93.0%	
	Employee satisfaction *4	—	—	79.9%	82.6%	84.0%	90.2%	89.2%	90.0%	
	Number of employees using childcare leave	163 (Male:2, Female: 161)	189 (Male:7, Female: 182)	208 (Male:8, Female:200)	208 (Male:8, Female:200)	220 (Male:11, Female:209)	220 (Male:14, Female: 206)	208 (Male:16, Female:192)	197 (Male:19, Female:178)	
	Percentage of employees returning to work after childcare leave	93.1%	96.6%	96.8%	92.0%	96.9%	96.8%	93.5%	95.7%	
	Number of employees using nursing care leave	3 (Male:2, Female: 1)	3 (Male:3, Female: 0)	4 (Male:4, Female:0)	1 (Male:1, Female:0)	3 (Male:1, Female:2)	6 (Male:2, Female:4)	1 (Male:1, Female:0)	1 (Male:1, Female:0)	
	Number of employees using reduced work hour programs	182 (Male:2, Female: 180)	179 (Male:2, Female: 177)	191 (Male:2, Female:189)	216 (Male:3, Female:213)	264 (Male:3, Female:261)	249 (Male:3, Female:246)	254 (Male:4, Female:250)	265 (Male:7, Female:258)	
	Number of employees using maternity leave *5	86	76	74	85	76	70	62	63	
	Number of employees using parental leave	187	184	152	169	145	143	131	122	
	Number of employees using balance support leave *6	449 (Male:307, Female:142)	496 (Male:335, Female:161)	621 (Male:399, Female:222)	729 (Male:455, Female:274)	839 (Male:516, Female:323)	1,006 (Male:642, Female:364)	993 (Male:629, Female:364)	1,068 (Male:669, Female: 399)	
	Number of employees using child nursing leave	363 (Male:228, Female:135)	419 (Male:266, Female:153)	438 (Male:265, Female:173)	458 (Male:260, Female:198)	492 (Male:286, Female:206)	508 (Male:284, Female:224)	465 (Male:253, Female:212)	496 (Male:261, Female:235)	
	Nursing care support seminars *7	Number of seminars held (times)	3	3	16	14	17	21	11	10
		Number of participants	192	155	1,088	1,126	1,630	1,523	715	429

*1 Voluntary resignation of full-time employees and specialized full-time employees (excluding mandatory retirement and job transfers, etc.). Number of persons as of April 1 each fiscal year used as the parameter.

*2 Employment ratio of the 10 Group companies in Japan certified as affiliates. Figures for each year are as of June 1.

*3 Average for all employees including those under the discretionary work system and supervisors.

*4 The results tabulated for “Agree” and “Agree somewhat.” The question in fiscal 2016 on “A company with a pleasant and rewarding workplace” was split into two from fiscal 2017.

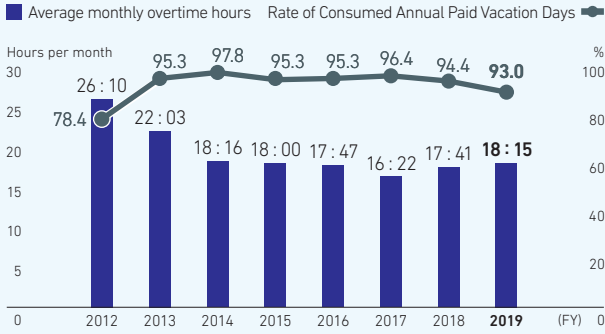
*5 Available to pregnant women in half-day increments to allow them to take time off for various related ailments, such as morning sickness, and for prenatal checkups (10 days a year).

*6 Available in half-day increments for the following reasons (5 days a year).

- When the employee is providing nursing care to a family member (the employee’s spouse, or an equivalent person)
- When the employee must accompany his or her child to receive necessary vaccinations, or attend an event at his or her child’s school, up until the child graduates from junior high school
- When the employee goes to the hospital for infertility treatment

*7 Partial changes were made to the seminar’s format from fiscal 2019

Average Monthly Overtime Hours / Rate of Consumed Annual Paid Vacation Days



We tackled the challenge of working style reforms mainly intended to reduce average monthly overtime hours and improve the rate of consumed annual paid vacation days. Instead of adopting a uniform rule forbidding overtime work over a certain threshold, each workplace thought up approaches unique to their needs, which has produced significant results.

Number of Female Executives and Line Managers



Aiming to be a company where female employees are empowered to succeed, we have established a target to reach 100 female executives and line managers and are working toward career development support, including holding training based on the challenges faced by female employees of each generation.

Environmental Performance Data

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 *2	FY2018 *2	FY2019 *2	
Electricity consumption	Total (MWh) *: Entire SCSK Group	89,808	91,266	93,013	88,931	78,985	84,450 (73,786)	91,861 (82,071)	109,992 (99,170)	
	Break down	Offices in Japan (MWh) *1	18,057	16,463	15,072	14,124	13,687	25,384 (14,720)	24,373 (14,583)	24,671 (13,849)
		Data centers (MWh)	71,751	74,803	77,941	74,807	65,298	59,066	67,488	85,321
Fuel	Total (GJ)	3,572	3,768	1,945	2,613	2,521	2,789	2,605	3,018	
	Break down	Kerosene (kl)	18	8	9	19	17	20	16	19
		Light oil (kl)	18	—	—	—	—	—	—	—
		Diesel (kl)	14	20	21	20	18	23	12	27
		LPG (t)	19	39	—	—	—	—	—	—
		Utility gas (m³)	16,000	16,000	16,000	25,000	26,000	26,000	35,000	28,000
Heat consumption (steam, hot water, cold water)*1 (GJ)		2,346	2,595	3,395	2,590	3,268	2,822	11,510*3	13,029*3	
CO2 Emissions (Scope1 and Scope2) *1 (t-CO2)		41,393	47,341	48,636	45,612	39,820	42,783 (36,664)	43,632 (38,081)	46,577 (40,828)	
Volume of office paper purchased (1,000 sheets)		37,771	33,363	32,577	34,390	29,234	23,079	20,250	17,767	
General waste (t) *4		309	331	361	357	294	267	215	203	
Industrial waste (t) *4		95	161	130	172	172	148	187	159	
Annual average PUE at data centers	Tokyo Center 1	1.62	1.63	1.58	1.63	1.64	1.63	1.63	1.65	
	Chiba Center	1.46	1.47	1.53	1.49	1.76	1.74	1.73	1.65	
	Sanda Center	1.75	1.80	1.74	1.79	1.82	1.79	1.80	1.81	

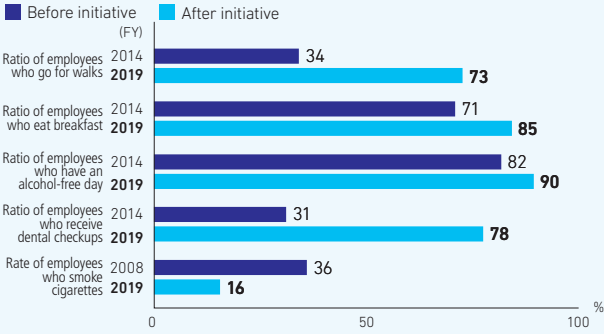
*1 Data for fiscal 2012 to fiscal 2016 only includes certain group companies. Data for fiscal 2017 and afterwards indicate electricity usage and CO2 emissions for the entire SCSK Group, excluding overseas Group companies. Data for fuel and heat energy from fiscal 2018 represents the total volume for the Group, excluding overseas Group companies.

*2 Parentheses indicate data within the same scope up to fiscal 2016.

*3 Cold water usage from certain locations that could not be calculated up to fiscal 2017 were newly included from fiscal 2018.

*4 The company does not produce any hazardous waste from its business operations.

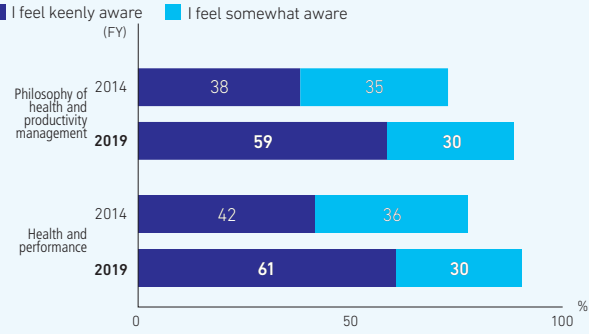
Behavioral Changes from the Kenko Waku Waku Mileage Program



We have seen major improvements in behaviors and habits from initiatives that encourage employees to make better health related choices using the *Kenko Waku Waku Mileage Program* introduced from fiscal 2015 as an all-hands-on-deck health promotion initiative.

*The rate of employees who smoke cigarettes compares with the figures before the smoke cessation program was implemented prior to the *Kenko Waku Waku Mileage Program*.

Changes in Awareness from Various Health Promotion Initiatives



We have seen major changes in employees’ awareness of health and their health literacy, including the penetration of the philosophy of health and productivity management and sense of relationship with performance, by implementing various health related initiatives such as the *Kenko Waku Waku Mileage Program*.

External Recognition

SCSK's initiatives have been recognized by a number of institutions inside and outside of Japan.

- Received the Chairman's Prize at the 18th Telework Promotion Awards sponsored by the Japan Telework Association

- Third consecutive year to win the Human Resources Prize at the Nikkei Smart Work Awards that selects leading companies in productivity through working style reforms (2018, 2019 and 2020)

- Received the Minister of Health, Labor and Welfare Award at the Good Career Company Awards 2019 organized by the Ministry of Health, Labour and Welfare

- Second consecutive year received the Gold rating, the highest rating, in the PRIDE Index* (2018 and 2019)

*An index used by work with Pride, a volunteer organization with the mission of achieving comfortable workplaces for the LGBT community in Japan beyond the frameworks of companies and organizations.



- Sixth consecutive year selected as "Brand of Companies Enhancing Corporate Value through Health & Productivity" jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (FY2014, FY2015, FY2016, FY2017, FY2018 and FY2019)



- Awarded the Top Prize of "Platinum Career Award" organized by Toyo Keizai Inc. and supported by Cabinet Secretariat / Ministry of Health, Labor and Welfare.



- Fourth consecutive year selected for inclusion in the SNAM Sustainability Index established by Sampo Japan Nipponkoa Asset Management Co., Ltd. (2017, 2018, 2019 and 2020)



- Achieved the top ranking as an "Eruboshi" certified excellent company based on the Act of Promotion of Women's Participation and Advancement in the Workplace



- Sixth consecutive year selected as "Nadeshiko Brand" designation jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (FY2014, FY2015, FY2016, FY2017, FY2018 and FY2019)



- Selected for THE DIVERSITY MANAGEMENT 2.0 PRIME (FY2018)



- Selected for inclusion in the 2017, 2018, 2019 and 2020 FTSE4 Good Index Series



- Selected for inclusion in the 2017, 2018, 2019 and 2020 FTSE Blossom Japan Index



- Selected for inclusion in the MSCI Japan ESG Select Leaders Index (2017, 2018, 2019 and 2020)



- Selected for inclusion in the MSCI Japan Empowering Women Index (WIN) (2017, 2019 and 2020)



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Management's Discussion and Analysis

I. OVERVIEW OF RESULTS

1. Economic and Industry Trends

In the fiscal year ended March 31, 2020, the Japanese economy experienced a moderate recovery backed by robust corporate earnings and employment, as well as improvement in income conditions. From the start of 2020, however, the COVID-19 pandemic has depressed broad swaths of consumer spending and adversely impacted employment conditions. Furthermore, concerns about an economic downturn have mounted as corporate earnings were weakened by a slowdown in the Chinese economy, centered on the manufacturing sector, while supply chains were disrupted.

Regarding the outlook for the Japanese economy, SCSK expects challenging conditions to continue as long as the COVID-19 outbreak persists. Due to the risk that COVID-19 will further undermine the domestic and global economies, the Company believes a conservative outlook for economic trends is warranted in corporate management.

In this environment, the IT services market saw high levels of demand for systems investments to alleviate labor shortages and advance working style reforms, as well as strong demand for systems that improve productivity, increase automation and reduce work at customer companies, in addition to heightened demand for strategic IT investment geared toward reinforcing strategic businesses and ensuring competitive advantages. Furthermore, IT spending remained brisk overall on growing demand for upgrading business operation systems, such as converting legacy systems that still exist in various sectors into open systems, and migration services for software approaching the end of its service life. In the fiscal year under review, we believe the COVID-19 outbreak had only a limited impact on the IT services market.

In the manufacturing industry in particular, demand was strong for business process outsourcing (BPO) services for products and services, including strategic investments to expand business and sharpen competitiveness, for the pre-market verification of products, which are becoming more advanced, and for upgrading business systems, such as converting some legacy systems into open systems.

In the financial industry, most financial institutions were hesitant to make capital investments in a market environment of negative interest rates. Looking ahead, demand for IT investment for augmenting operations should show robust

growth, especially for reinforcing and expanding overseas operations. In addition, this demand will arise from measures for realizing more sophisticated online banking and Internet services, such as the application of FinTech, artificial intelligence (AI), and other new IT technologies, as well as the diversification of payment methods.

In communications and transportation industries, IT investment demand has been on an uptrend with growth in project development for augmenting customer services at telecommunications firms, as well as an increase in projects for rebuilding and updating core systems at transportation firms.

In addition, demand for various cloud-based IT services has been on the rise in IaaS, PaaS, and other IT infrastructure sectors against a backdrop of shortages of in-house IT engineers at customer companies and a strong interest among these companies for investment to enhance operational efficiency. A similar increase was seen in demand for system operation outsourcing services in the operational system field, although here it was limited to certain sectors.

2. Consolidated Results

In the fiscal year ended March 31, 2020, net sales, operating profit, and ordinary profit increased as a result of the aforementioned strong operating environment and IT investment demand trends, making for the eighth consecutive year of higher sales and profit.

Net sales increased 7.9% year on year, to ¥387,003 million, due in part to robust performance in all business segments, including systems development, system maintenance and operation/services, as well as packaged software/hardware sales, against a backdrop of brisk demand for IT investment among customers in the manufacturing industry, an area in which demand strengthened during the fiscal year ended March 31, 2019.

Operating profit was up 10.3% year on year, to ¥42,326 million, due to the higher net sales coupled with improved profitability attributable to increased development productivity, which itself stemmed from efforts to boost work quality and streamline operations.

In tandem with growth in operating profit, ordinary profit expanded 11.3%, to ¥43,014 million, and profit attributable to owners of parent rose 11.9%, to ¥31,201 million.

II. OVERVIEW OF RESULTS BY REPORTABLE SEGMENT

Business results by reportable segment are presented in the table below. Net sales by segment are based on sales to external customers.

	Year ended March 31, 2019		Year ended March 31, 2020		Change from previous fiscal year	
	Sales	Profit	Sales	Profit	Sales	Profit
Manufacturing & Telecommunication Systems Business	¥ 43,369	¥ 6,308	¥ 49,960	¥ 6,280	¥ 6,591	¥ (28)
Distribution & Media Systems Business	63,054	6,589	62,382	7,326	(671)	737
Financial Systems Business	63,932	7,349	63,860	7,223	(71)	(125)
Global System Solutions & Innovation Business	15,553	2,576	18,249	2,592	2,696	15
Business Solutions	48,829	5,016	52,578	5,112	3,749	96
Mobility Systems	19,550	(265)	22,279	1,246	2,728	1,512
IT Platform Solutions	58,857	7,163	63,844	8,242	4,986	1,078
IT Management	44,780	5,845	48,457	6,447	3,677	601
Others	726	(86)	5,389	80	4,662	166
Adjustments	—	(2,120)	—	(2,226)	—	(106)
Total	¥358,654	¥38,378	¥387,003	¥42,326	¥28,348	¥3,948

■ Manufacturing & Telecommunication Systems Business

Net sales increased 15.2% year on year, to ¥49,960 million, reflecting brisk demand for system development projects for the automotive industry and at gas providers and telecommunications firms, as well as an increase in business system update projects at construction companies. However, segment profit declined 0.4%, to ¥6,280 million, owing to some projects becoming unprofitable.

■ Distribution & Media Systems Business

Net sales decreased 1.1% year on year, to ¥62,382 million, due to a decline in the large-scale projects for logistics industry customers recorded in the previous fiscal year, and a decline in fulfillment service sales in e-commerce total outsourcing services, despite brisk performance in the first half with sales of packaged software and hardware to telecommunications firms. Segment profit, meanwhile, increased 11.2%, to ¥7,326 million, due to the disappearance of R&D spending related to business investments last year.

■ Financial Systems Business

Net sales were down 0.1% year on year, to ¥63,860 million, due to a decline in the large-scale hardware sales recorded in the previous fiscal year, despite robust demand for system upgrades from the banking, consumer credit and leasing industries. Segment profit slipped 1.7%, to ¥7,223 million, due to unprofitable projects.

■ Global System Solutions & Innovation Business

Net sales rose 17.3% year on year, to ¥18,249 million, thanks to an increase in projects for trading companies. Segment profit edged up 0.6%, to ¥2,592 million, as costs increased as a result of entering the Southeast Asian market.

■ Business Solutions

Net sales increased 7.7% year on year, to ¥52,578 million, as a result of demand for enterprise resource planning system upgrade investments and brisk performance in the BPO business. Segment profit grew 1.9% year on year, to ¥5,112 million, due to the growth in sales, despite a drag from higher R&D expenses.

■ Mobility Systems

Net sales expanded 14.0% year on year, to ¥22,279 million, owing to firm demand for inspection services for the automobile industry, and strong demand for automotive embedded software development. Segment profit was ¥1,246 million, a turnaround from losses of ¥265 million within the prior fiscal year.

■ IT Platform Solutions

Net sales increased 8.5% year on year, to ¥63,844 million, and segment profit rose 15.1%, to ¥8,242 million, due to increased sales of packaged software/hardware to manufacturers.

■ IT Management

Net sales were up 8.2% year on year, to ¥48,457 million, and segment profit grew 10.3%, to ¥6,447 million, thanks to solid demand for management services and the datacenter business.

■ Others

Owing to the addition of a new consolidated subsidiary to this segment, net sales were 642.2% higher than last year, at ¥5,389 million, and segment profit totaled ¥80 million, compared with a loss of ¥86 million in the previous fiscal year.

III. NET SALES BY SALES SEGMENT

Net sales in the sales segments of Systems Development, System Maintenance and Operation/Services, Packaged Software/Hardware Sales are described below.

	Year ended March 31, 2019		Year ended March 31, 2020		Comparison with previous fiscal year	
	Sales	Share (%)	Sales	Share (%)	Sales	Change (%)
Systems Development	¥140,092	39.1	¥155,835	40.3	¥15,742	11.2
System Maintenance and Operation/Services	134,132	37.4	143,429	37.1	9,297	6.9
Packaged Software/Hardware Sales	84,430	23.5	87,738	22.7	3,308	3.9
Total	¥358,654	100.0	¥387,003	100.0	¥28,348	7.9

In Systems Development, net sales rose 11.2%, to ¥155,835 million, reflecting IT investment to reinforce strategic businesses and sharpen competitive advantages, projects for rebuilding enterprise resource planning systems, and demand targeted at improving productivity and saving labor, against a backdrop of strong IT investment in the manufacturing, logistics, financial, communications and transportation industries.

In System Maintenance and Operation/Services, despite the decline in sales for some fulfillment services related to

e-commerce total outsourcing, net sales increased 6.9%, to ¥143,429 million, as a result of strong performance in BPO business for products and services, in addition to growth in the system maintenance business and validation services for product development, on the back of positive trends in systems development.

In Packaged Software/Hardware Sales, net sales increased 3.9%, to ¥87,738 million, due to higher sales of network IT equipment to communications industry customers in the first half of the year and sales of hardware to the manufacturing industry.

IV. FINANCIAL POSITION

Assets, Liabilities and Net Assets

Minori Solutions Co., Ltd. was included in the scope of consolidation under the Others segment on December 19, 2019, following acquisition of 100% of its shares. For details regarding the impact on results, please refer to “Note 19. BUSINESS COMBINATION, Notes to Consolidated Financial Statements.”

■ Total Assets

Assets as of March 31, 2020 totaled ¥342,485 million, an increase of ¥27,640 million compared to March 31, 2019.

■ Liabilities

Liabilities as of March 31, 2020 were ¥134,413 million, an increase of ¥14,037 million compared to March 31, 2019.

■ Net Assets

Net assets as of March 31, 2020 were ¥208,072 million, an increase of ¥13,603 million compared to March 31, 2019.

The main factor behind this increase was profit attributable to owners of parent, in the amount of ¥31,201 million. Factors that decreased net assets included dividend payments of ¥5,202 million (¥50.00 per share) for the year-end dividend of the fiscal year ended March 31, 2019, and ¥6,763 million (¥65.00 per share, including a ¥10.00 per share dividend commemorating the Company's 50th anniversary) for the interim dividend of the fiscal year ended March 31, 2020, and changes in ownership interests in subsidiaries that do not result in a change in scope of consolidation.

The equity ratio stood at 60.6%. Net assets per share amounted to ¥2,000.16, an increase of ¥137.38 from March 31, 2019.

V. CASH FLOWS

Cash and cash equivalents (“cash”) as of March 31, 2020 increased ¥5,496 million compared to March 31, 2019, to ¥111,695 million. The changes in each type of cash flow and the main factors for such changes are as follows.

■ Cash Flows from Operating Activities

Net cash provided by operating activities was ¥48,950 million (¥15,438 million higher than March 31, 2019).

The main cash inflow factors were profit before income taxes of ¥43,961 million, depreciation of ¥10,358 million, an increase in accrued consumption taxes of ¥4,830 million and an increase in notes and accounts payable-trade of ¥2,231 million. The main cash outflow factors were an increase in notes and accounts receivable – trade of ¥1,584 million, an increase in inventories of ¥1,409 million, and income taxes paid of ¥7,660 million.

■ Cash Flows from Investing Activities

Net cash used in investing activities was ¥27,338 million (a decline of ¥20,175 million compared to March 31, 2019).

The main cash outflow factors consisted of payments for the acquisition of property, plant and equipment of ¥9,721 million, acquisition of intangible assets of ¥3,183 million and a payment of ¥12,590 million for the acquisition of shares in subsidiary Minori Solutions Co., Ltd. that resulted in a change in the scope of consolidation.

■ Cash Flows from Financing Activities

Net cash used in financing activities was ¥16,309 million (increased ¥3,686 million compared to March 31, 2019).

The main cash outflow factors consisted of payments from changes in ownership interests in subsidiaries that do not result in a change in scope of consolidation of ¥3,569 million, dividend payments of ¥5,202 million (¥50.00 per share) for the year-end dividend of the fiscal year ended March 31, 2019, and ¥6,763 million (¥65.00 per share, including a ¥10.00 per share dividend commemorating the Company's 50th anniversary) for the interim dividend of the fiscal year ended March 31, 2020.

■ Liquidity and Capital Resource

Basic Policy and Capital Requirements

The Group has been advancing the aforementioned core strategies under the Medium-Term Management Plan in order to transform its business structure, thereby achieving strong growth and high profitability over the medium term, amid a paradigm shift currently underway in technologies and other major changes, such as increasingly sophisticated customer requirements. The Group plans to invest in software and datacenters while advancing its existing businesses further, and is proactively examining investments in business development on various fronts in order to facilitate digital transformation as a business, including the use of IoT and AI technologies. Moreover, the Group has been continuously acquiring cutting-edge technologies, strengthening its customer base, and considering M&As that will accelerate business growth.

Capital Procurement

The Group plans to use its own funds generated by the cash flow from operating activities to primarily meet the financing requirements related to these investment activities. However, the Group also intends to use a broad range of financing methods as necessary (loans from financial institutions, syndicated loans, the issuance of various bonds, etc.), backed by its solid financial base as described below, in order to address financing requirements.

The Group had interest-bearing debt of ¥57,818 million as of March 31, 2020 through bank loans and the issuance of bonds and suchlike. In comparison, cash and cash equivalents stood at ¥111,695 million, surpassing the amount of interest-bearing debt, underscoring the Group's solid financial base.

With regard to the Group's ability to stably procure external funding, as of the publication of this report, it has obtained an A/Stable Long-term Issuer Rating from the Japan Credit Rating Agency, Ltd. and maintains good relationships with its principal trading financial institutions. The Group is therefore confident that it has sufficient capability for procuring the necessary operating and investment capital to expand and operate its businesses.

Allocation of Management Resources and Approach to Shareholder Returns

With regard to working capital in hand, the Group has introduced a Cash Management System (CMS) at the Company and its domestic consolidated subsidiaries. Under this CMS, the Group pools surplus funds from the Group companies and centrally manages the funds at the Company as a means of ensuring adequate liquidity and optimizing funding efficiency.

In our approach to shareholder returns, we will comprehensively consider the Group's financial position, earnings trends, and internal reserves for future business investments, then aim to make full use of the Group's growing cash flow as funds for making investments in businesses related to digital transformation, a business area that can support future corporate growth. At the same time, in order to strengthen returns to shareholders, we will aim to increase the amount of dividends in line with our envisaged growth in earnings.

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 March 31, 2020.

If the COVID-19 pandemic causes a significant decline in the economy it may have an impact on the Group's performance, but the degree of that impact cannot be forecast now.

The Group's basic policy in response to the COVID-19 pandemic is not just to take measures against it, but also promote highly productive, satisfying new working styles such as taking a flexible response to duties, including remote work.

The Group is implementing preventative measures complying with the government's New Lifestyle and the Guidelines for Preventing the Spread of Novel Coronavirus Disease formulated by the Japan Business Federation.

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 service 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 are both directly and indirectly affected by the economic environment and factors such as interest rate and currency movements. Therefore, 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. However, 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, development cannot be completed as planned or development cannot be completed within the scheduled timeframe. This could have an impact on the Group's results. In addition, the Group uses many subcontractors, including nearshore development companies, to maintain production capacity, increase cost efficiency and utilize technological capabilities and expertise. With this use of subcontractors, 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 the establishment and implementation of Company-wide

standards covering aspects such as checks at the negotiation and estimate stages, management of the project's progress by specialist divisions, and quality checks, along with rigorous general inspections of subcontractors and progress, as well as 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 or is able to predict but not able to respond appropriately to those changes, this 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. At the same time, it promotes business operations that are not overly reliant on any particular technology, expertise or product.

4. Risks Related to Information Security

The SCSK Group provides various information system services to customers. In addition, from systems development through to the operational stage, the Group handles various types of confidential information, including personal information held by customer companies and technical information related to customer companies' systems. Information system services for customers could be suspended or personal and confidential information could be leaked or altered because of a computer virus, cyberattacks such as unauthorized access, human error, damage to the customer's system or for any other reason. As a result, the customer could seek compensatory damages and the Group could suffer a loss of confidence that could have an impact on its results.

Therefore, the Group has introduced security systems and established a framework for responding to the detection or occurrence of a cyberattack. In addition to maintaining thorough compliance and strengthening physical security measures, the Group implements programs to strengthen information security throughout education and training, including at subcontractors that handle confidential information. The Group requires subcontractors to fully

comply with the Information Security Guidelines established by the Company, and we work to ensure that subcontractors maintain the same levels of information security and information management as those of SCSK through regular monitoring of subcontractor compliance using confirmation sheets, as well as carrying out on-site reviews (field audits), issuing instructions to make fixes and conducting related measures at subcontractors when necessary. The Group has taken out special insurance policies in preparation for any unforeseen information leaks.

5. Risks Related to Investment

The SCSK Group invests in or provides credit such as loans to operating companies and venture capital companies for the purpose of strengthening their 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 and new business areas. The failure to get returns as initially anticipated as a result of deterioration in earnings or shortfalls in the business plans of the invested businesses or the borrowers could have an impact on the Group's results.

Therefore, the Group has established a risk management structure and strives to enhance the structure to give thorough consideration to the entities to be invested in and to the borrowers, their business plans and the risk versus return on the investments when making investment decisions, and to confirm and monitor the progress under the plan after the investment is made.

6. Risks Related to Intellectual Property

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 held by third parties during the course of these business activities. The details and outcomes of such litigation could have an impact on the Group's result.

As a result, the Group may survey the intellectual property rights of customer companies and conduct in-house training and raise awareness regarding intellectual property rights to ensure that customer companies' intellectual property rights are not infringed.

7. Risks Related to Product Procurement

The SCSK Group procures a wide range of specially selected hardware and software products in Japan and from overseas, and supplies these products to customers. Sudden and unexpected changes in vendors' business strategies could

result in changes in product specifications or the termination of supplies, which could have an impact on the Group's results.

In order to cope with such circumstances, we utilize our overseas offices and networks with an aim to identify, procure new products and to keep pace with technological trends overseas. Also, we pursue joint business strategies with vendors in Japan and overseas to keep abreast of developments and enable stable product procurement.

8. Risks Related to Non-Recovery of Assets

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 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.

9. Risks Related to Large-Scale Natural Disasters

Many of the SCSK Group's offices and assets, including the head office, are concentrated in large metropolitan areas, and the occurrence of a major natural disaster such as an earthquake occurring directly beneath Tokyo or in the Nankai Trough or the outbreak of a novel virus or other infectious disease with the potential to spread globally could have an impact on the Group's results.

In order to strengthen its structure to ensure business continuity in the event of unforeseen circumstances, the Group has formulated business continuity plans and established a disaster control headquarters and backup offices where managerial duties can be performed in the event of such circumstances. In addition, the SCSK Group strives to ensure employees' safety by allowing their employees and partners of its Group companies to work from home.

10. Risks Related to Retaining and Development of Human Resources

The SCSK Group's business activities rely heavily on human resources. In the event that the Group fails to secure needed personnel and to develop human resources as originally planned, there could be an impact on its results.

While SCSK focuses on maintaining a workplace environment that emphasizes four perspectives of work-life balance, diversity, health maintenance and career development, the Group strives to hire, retain, and develop quality human resources in all of its business areas.

Consolidated Balance Sheets

SCSK Corporation and Consolidated Subsidiaries
March 31, 2020 and 2019

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Current assets:			
Cash and deposits	¥ 21,170	¥ 32,072	\$ 294,700
Notes and accounts receivable – trade (Note 7- ^{*4})	74,698	78,828	724,330
Lease receivables and investment assets	334	340	3,130
Securities	—	299	2,754
Merchandise and finished goods	7,831	9,150	84,076
Work in process (Note 7- ^{*3})	360	671	6,171
Raw materials and supplies	117	133	1,231
Deposits paid	85,028	79,703	732,365
Other	11,496	13,600	124,973
Allowance for doubtful accounts	(31)	(48)	(446)
Total current assets	201,007	214,752	1,973,288
Non-current assets:			
Property, plant and equipment:			
Buildings and structures, net (Note 7- ^{*2})	43,566	44,587	409,694
Tools, furniture and fixtures, net (Note 7- ^{*2})	9,233	9,878	90,773
Land	14,169	14,204	130,516
Leased assets, net (Note 7- ^{*2})	1,552	1,384	12,726
Construction in progress	2,310	4,745	43,600
Other, net (Notes 7- ^{*2})	0	1	16
Total property, plant and equipment	70,833	74,801	687,327
Intangible assets:			
Goodwill	53	13,889	127,626
Other	8,155	7,494	68,868
Total intangible assets	8,208	21,384	196,494
Investments and other assets:			
Investment securities (Note 7- ^{*1})	11,773	11,854	108,928
Long-term prepaid expenses	1,563	1,599	14,694
Lease and guarantee deposits	6,759	7,178	65,965
Deferred tax assets	13,709	10,044	92,298
Other	1,042	918	8,441
Allowance for doubtful accounts	(53)	(50)	(460)
Total investments and other assets	34,794	31,546	289,867
Total non-current assets	113,837	127,732	1,173,689
Total assets	¥314,844	¥342,485	\$3,146,978

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

LIABILITIES	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Current liabilities:			
Notes and accounts payable – trade	¥ 22,087	¥ 25,054	\$ 230,219
Short-term loans payable	15,000	15,400	141,505
Current portion of long-term loans payable	—	10,000	91,886
Lease obligations	843	836	7,690
Income taxes payable	4,898	5,091	46,782
Provision for bonuses	5,910	6,972	64,070
Provision for directors’ bonuses	57	65	603
Provision for loss on construction contracts (Note 7- ^{*3})	228	507	4,665
Other	23,499	29,960	275,296
Total current liabilities	72,525	93,889	862,720
Non-current liabilities:			
Bonds payable	40,000	30,000	275,659
Lease obligations	1,909	1,581	14,530
Provision for directors’ retirement benefits	20	11	103
Net defined benefit liability	2,902	5,532	50,835
Asset retirement obligations	2,779	3,115	28,627
Long-term lease and guarantee deposited	154	156	1,433
Other	83	127	1,169
Total non-current liabilities	47,850	40,523	372,358
Total liabilities	120,375	134,413	1,235,078
NET ASSETS			
Shareholders’ equity:			
Capital stock	21,152	21,152	194,365
Retained earnings	175,223	191,881	1,763,128
Treasury shares	(694)	(698)	(6,417)
Total shareholders’ equity	195,681	212,335	1,951,076
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,076	1,066	9,796
Deferred gains or losses on hedges	(21)	23	212
Foreign currency translation adjustments	(182)	(197)	(1,814)
Remeasurements of defined benefit plans	(4,141)	(5,547)	(50,972)
Total accumulated other comprehensive income	(2,269)	(4,655)	(42,778)
Subscription rights to shares	40	30	279
Non-controlling interests	1,015	361	3,320
Total net assets	194,468	208,072	1,911,899
Total liabilities and net assets	¥314,844	¥342,485	\$3,146,978

Consolidated Statements of Income

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Net sales	¥358,654	¥387,003	\$3,556,036
Cost of sales (Note 8- ^{*7})	269,912	289,048	2,655,966
Gross profit	88,742	97,954	900,070
Selling, general and administrative expenses (Notes 8- ^{*1} , ^{*6})	50,363	55,628	511,147
Operating profit	38,378	42,326	388,922
Non-operating income			
Interest income	65	65	599
Dividend income	71	79	726
Share of profit of entities accounted for using equity method	750	923	8,484
Other	173	212	1,953
Total non-operating income	1,061	1,280	11,764
Non-operating expenses			
Interest expenses	115	123	1,136
Loss on sales of investment securities	2	8	75
Bond issuance cost	48	—	—
Subsidiary stock acquisition-related cost	495	342	3,146
Other	128	117	1,083
Total non-operating expenses	789	592	5,442
Ordinary profit	38,650	43,014	395,244
Extraordinary income			
Gain on sales of non-current assets (Note 8- ^{*2})	371	10	100
Gain on sales of investment securities	1,024	331	3,049
Gain on sales of membership	0	—	—
Gain on step acquisitions	47	1,556	14,304
Gain on reversal of share acquisition rights	—	5	49
Settlement received	—	123	1,131
Total extraordinary income	1,443	2,028	18,635
Extraordinary losses			
Loss on retirement of non-current assets (Note 8- ^{*3})	57	53	491
Loss on sales of non-current assets (Note 8- ^{*4})	44	6	57
Impairment loss (Note 8- ^{*5})	—	508	4,672
Loss on sales of investment securities	1	—	—
Loss on valuation of investment securities	—	4	41
Loss on sales of membership	0	0	0
Compensation expenses	294	505	4,646
Disaster loss	217	—	—
Loss on liquidation of subsidiaries	—	2	22
Total extraordinary losses	615	1,080	9,931
Profit before income taxes	39,477	43,961	403,948
Income taxes – current	6,567	7,723	70,970
Income taxes – deferred	4,221	4,943	45,420
Total income taxes	10,788	12,666	116,391
Profit	28,688	31,294	287,557
Profit attributable to non-controlling interests	796	93	855
Profit attributable to owners of parent	¥ 27,892	¥ 31,201	\$ 286,702

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

Consolidated Statements of Comprehensive Income

SCSK Corporation and Consolidated Subsidiaries
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Profit	¥28,688	¥31,294	\$287,557
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	(185)	(981)	(9,015)
Deferred gains or losses on hedges	(15)	44	406
Foreign currency translation adjustments	(20)	(29)	(275)
Remeasurements of defined benefit plans, net of tax	(1,199)	(1,410)	(12,960)
Share of other comprehensive income of entities accounted for using equity method	(18)	(6)	(61)
Total other comprehensive loss (Note 9)	(1,440)	(2,384)	(21,906)
Comprehensive income	¥27,248	¥28,910	\$265,651
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥26,513	¥28,815	\$264,773
Comprehensive income attributable to non-controlling interests	735	95	878

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, 2020 and 2019

	Millions of yen					Millions of yen							
	Shareholders' equity					Accumulated other comprehensive income (loss)							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2018	¥21,152	¥ 1,299	¥168,363	¥(711)	¥190,104	¥ 2,274	¥ (5)	¥(154)	¥(3,004)	¥ (890)	¥ 57	¥ 7,329	¥196,600
Changes of items during period:													
Dividends of surplus	—	—	(10,144)	—	(10,144)	—	—	—	—	—	—	—	(10,144)
Profit attributable to owners of parent	—	—	27,892	—	27,892	—	—	—	—	—	—	—	27,892
Change in ownership interest of parent due to transactions with non-controlling interests	—	(12,178)	—	—	(12,178)	—	—	—	—	—	—	—	(12,178)
Purchases of treasury shares	—	—	—	(11)	(11)	—	—	—	—	—	—	—	(11)
Disposals of treasury shares	—	(8)	—	28	19	—	—	—	—	—	—	—	19
Transfer to capital surplus from retained earnings	—	10,887	(10,887)	—	—	—	—	—	—	—	—	—	—
Change in the scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(198)	(15)	(27)	(1,137)	(1,378)	(16)	(6,313)	(7,709)
Total changes of items during period	—	(1,299)	6,860	16	5,577	(198)	(15)	(27)	(1,137)	(1,378)	(16)	(6,313)	(2,131)
Balance at March 31, 2019	21,152	—	175,223	(694)	195,681	2,076	(21)	(182)	(4,141)	(2,269)	40	1,015	194,468
Balance at April 1, 2019	21,152	—	175,223	(694)	195,681	2,076	(21)	(182)	(4,141)	(2,269)	40	1,015	194,468
Changes of items during period:													
Dividends of surplus	—	—	(11,966)	—	(11,966)	—	—	—	—	—	—	—	(11,966)
Profit attributable to owners of parent	—	—	31,201	—	31,201	—	—	—	—	—	—	—	31,201
Change in ownership interest of parent due to transactions with non-controlling interests	—	(2,497)	—	—	(2,497)	—	—	—	—	—	—	—	(2,497)
Purchases of treasury shares	—	—	—	(13)	(13)	—	—	—	—	—	—	—	(13)
Disposals of treasury shares	—	(2)	—	9	6	—	—	—	—	—	—	—	6
Transfer to capital surplus from retained earnings	—	2,500	(2,500)	—	—	—	—	—	—	—	—	—	—
Change in the scope of consolidation	—	—	(77)	—	(77)	—	—	—	—	—	—	—	(77)
Net changes of items other than shareholders' equity	—	—	—	—	—	(1,010)	44	(15)	(1,405)	(2,386)	(10)	(653)	(3,050)
Total changes of items during period	—	—	16,657	(3)	16,653	(1,010)	44	(15)	(1,405)	(2,386)	(10)	(653)	13,603
Balance at March 31, 2020	¥21,152	¥ —	¥191,881	¥(698)	¥212,335	¥ 1,066	¥23	¥(197)	¥(5,547)	¥(4,655)	¥ 30	¥ 361	¥208,072

	Thousands of U.S. dollars (Note 1)					Thousands of U.S. dollars (Note 1)							
	Shareholders' equity					Accumulated other comprehensive income (loss)							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2019	\$194,365	\$ 0	\$1,610,066	\$(6,381)	\$1,798,051	\$19,078	\$(193)	\$(1,675)	\$(38,058)	\$(20,849)	\$375	\$ 9,328	\$1,786,905
Changes of items during period:													
Dividends of surplus	—	—	(109,951)	—	(109,951)	—	—	—	—	—	—	—	(109,951)
Profit attributable to owners of parent	—	—	286,702	—	286,702	—	—	—	—	—	—	—	286,702
Change in ownership interest of parent due to transactions with non-controlling interests	—	(22,947)	—	—	(22,947)	—	—	—	—	—	—	—	(22,947)
Purchases of treasury shares	—	—	—	(122)	(122)	—	—	—	—	—	—	—	(122)
Disposals of treasury shares	—	(27)	—	85	58	—	—	—	—	—	—	—	58
Transfer to capital surplus from retained earnings	—	22,974	(22,974)	—	0	—	—	—	—	—	—	—	—
Change in the scope of consolidation	—	—	(713)	—	(713)	—	—	—	—	—	—	—	(713)
Net changes of items other than shareholders' equity	—	—	—	—	—	(9,282)	406	(139)	(12,914)	(21,929)	(95)	(6,007)	(28,032)
Total changes of items during period	0	—	153,062	(36)	153,025	(9,282)	406	(139)	(12,914)	(21,929)	(95)	(6,007)	124,993
Balance at March 31, 2020	\$194,365	\$ —	\$1,763,128	\$(6,417)	\$1,951,076	\$ 9,796	\$ 212	\$(1,814)	\$(50,972)	\$(42,778)	\$279	\$ 3,320	\$1,911,899

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Cash flows from operating activities:			
Profit before income taxes	¥ 39,477	¥ 43,961	\$ 403,948
Depreciation	10,530	10,358	95,179
Amortization of goodwill	30	428	3,939
Impairment loss	—	508	4,672
Increase (decrease) in allowance for doubtful accounts	(76)	11	106
Increase (decrease) in net defined benefit liability	(1,003)	(1,142)	(10,500)
Loss on retirement of non-current assets	57	53	491
Loss (gain) on sales of non-current assets	(326)	(4)	(42)
Loss (gain) on valuation of investment securities	—	4	41
Loss (gain) on sales of investment securities	(1,020)	(323)	(2,973)
Share of (profit) loss of entities accounted for using equity method	(750)	(923)	(8,484)
Loss (Gain) on step acquisitions	(47)	(1,556)	(14,304)
Interest and dividend income	(137)	(144)	(1,325)
Received settlement fee	—	(123)	(1,131)
Interest expenses paid on loans and bonds	115	123	1,136
Compensation expenses	294	505	4,646
Disaster loss	217	—	—
Decrease (increase) in notes and accounts receivable – trade	(7,995)	(1,584)	(14,556)
Decrease (increase) in inventories	(2,213)	(1,409)	(12,954)
Increase (decrease) in notes and accounts payable – trade	2,078	2,231	20,504
Increase (decrease) in advances received	535	2,162	19,874
Increase (decrease) in accrued consumption taxes	(1,004)	4,830	44,381
Other, net	1,241	(1,162)	(10,681)
Subtotal	40,002	56,805	521,965
Interest and dividend income received	327	381	3,506
Settlement received	—	123	1,131
Interest expenses paid	(114)	(123)	(1,135)
Compensation expenses paid	(224)	(385)	(3,539)
Payments for loss on disaster	(6)	(191)	(1,755)
Income taxes (paid) refund	(6,472)	(7,660)	(70,387)
Net cash provided by (used in) operating activities	33,511	48,950	449,786
Cash flows from investing activities:			
Purchase of property, plant and equipment	(12,022)	(9,721)	(89,328)
Proceeds from sales of property, plant and equipment	8,168	1	13
Purchase of intangible assets	(3,234)	(3,183)	(29,249)
Purchase of investment securities	(1,274)	(2,102)	(19,318)
Proceeds from sales and redemption of investment securities	1,210	578	5,319
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 11-*)	—	(12,590)	(115,688)
Payments of short-term loans receivable	(208)	(4)	(37)
Collection of short-term loans receivable	154	5	47
Proceeds from withdrawal of investments in partnership	113	49	451
Payments for lease and guarantee deposits	(483)	(511)	(4,703)
Proceeds from collection of lease and guarantee deposits	614	347	3,191
Other, net	(199)	(207)	(1,902)
Net cash provided by (used in) investing activities	(7,163)	(27,338)	(251,205)
Cash flows from financing activities:			
Increase in short-term loans payable	15,000	15,300	140,586
Decrease in short-term loans payable	(10,000)	(15,335)	(140,910)
Repayments of long-term loans payable	(5,000)	(78)	(724)
Proceeds from issuance of bonds	10,000	—	—
Repayments of lease obligations	(615)	(590)	(5,428)
Purchase of treasury shares	(12)	(14)	(132)
Proceeds from sales of treasury shares	2	1	12
Cash dividends paid	(10,144)	(11,967)	(109,961)
Dividends paid to non-controlling interests	(181)	(55)	(512)
Payments for acquisition of subsidiary's shares not resulting in a change in scope of consolidation	(19,045)	(3,569)	(32,794)
Net cash provided by (used in) financing activities	(19,995)	(16,309)	(149,866)
Effect of exchange rate change on cash and cash equivalents	(21)	(19)	(180)
Net increase (decrease) in cash and cash equivalents	6,330	5,281	48,533
Cash and cash equivalents at beginning of period	99,797	106,198	975,824
Increase in cash and cash equivalents from newly consolidated subsidiary	70	214	1,973
Cash and cash equivalents at end of period (Note 11-*)	¥106,198	¥111,695	\$1,026,331

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

Notes to Consolidated Financial Statements

SCSK Corporation and Consolidated Subsidiaries

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 aspect in terms of 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 Act of Japan.

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

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(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. In accordance with 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 the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using the Equity Method” (PITF No. 24), 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.

(3) Changes in Presentation

Effective from the year ended March 31, 2017, the Company presents its consolidated financial statements in accordance with the Ordinance on the terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).

(4) U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in Japanese yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥108.83 to U.S.\$1.00, the prevailing exchange rate at March 31, 2020. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars.

(5) Foreign Currency Translation

(a) Translation of accounts

All short- and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the prevailing exchange rates 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 foreign consolidated 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 foreign consolidated subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

2. MATTERS RELATED TO THE ISSUE OF A GOING CONCERN

Not applicable

3. SIGNIFICANT ITEMS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Scope of Consolidation

(a) Consolidated subsidiaries: 25

SCSK ServiceWare Corporation
VeriServe Corporation
VERISERVE OKINAWA TEST CENTER CORPORATION
JIEC Co., Ltd.
Minori Solutions Co., Ltd.
SCSK KYUSHU CORPORATION
SCSK HOKKAIDO CORPORATION
SCSK PRESCENDO CORPORATION
SCSK USA Inc.
SCSK Europe Ltd.
SCSK Shanghai Limited
SCSK Asia Pacific Pte. Ltd.
PT SCSK Global Indonesia
SCSK Myanmar Ltd.
Skeed Co., Ltd.
CSI SOLUTIONS Corporation
Allied Engineering Corporation
WinTechnology Corporation
SCSK SYSTEM MANAGEMENT CORPORATION
VA Linux Systems Japan K.K
SDC Corporation
Gran Manibus Co., Ltd.
SCSK Nearshore Systems Corporation
One investment partnership and one silent partnership

Effective from the first quarter of the fiscal year ended March 31, 2020, Gran Manibus Co., Ltd. and Skeed Co. Ltd. were included in the scope of consolidation to reflect their increased materiality.

Effective from the second quarter of the fiscal year ended March 31, 2020, PT SCSK Global Indonesia and SCSK Myanmar Ltd. were included in the scope of consolidation following investments to establish these companies.

Effective from the third quarter of the fiscal year ended March 31, 2020, Minori Solutions Co., Ltd. was included in the scope of consolidation following the acquisition of stock in this company.

(b) Major non-consolidated subsidiaries and affiliates

Tokyo Green Systems Corporation

Effective from the first quarter of the fiscal year ended March 31, 2020, Skeed Co., Ltd. was included in the scope of consolidation to reflect its increased materiality.

Non-consolidated subsidiaries are excluded from the scope of consolidation because they are all small in size and their total assets and net sales and the portions of net profit and retained earnings attributable to the Company would be immaterial to the consolidated financial statements.

(2) Equity-Method Affiliates

Affiliates (consolidated) accounted for by the equity method: 2

ARGO GRAPHICS Inc.
Presidio SCSK Digital Fund

Non-consolidated subsidiaries not accounted for by the equity method (Tokyo Green Systems Corporation) are excluded from the method's application because their overall importance within the Group is low and the impact on net profit, retained earnings and other factors would be minor.

Effective from the first quarter of the fiscal year ended March 31, 2020, Gran Manibus Co., Ltd. was excluded from the scope of equity method application and included in the scope of consolidation to reflect its increased materiality.

Effective from the second quarter of the fiscal year ended March 31, 2020, an investment in the Presidio SCSK Digital Fund is included into the scope of equity-method accounting.

(3) Fiscal Year of Consolidated Subsidiaries

The fiscal year-end of SCSK Europe Ltd., SCSK Shanghai Limited, SCSK Asia Pacific Pte. Ltd., PT SCSK Global Indonesia and one investment partnership is December 31. For those companies, preparation of the consolidated financial statements for the fiscal year ended March 31, 2020 is based on the financial statements for the period from January 1, 2019 through December 31, 2019.

Note that necessary adjustments have been made for consolidation purposes with regard to material transactions that took place between the above period-end and the fiscal year-end of the Company.

(4) Significant Accounting Policies

(a) Valuation bases and valuation methods for assets

i) Securities

Held-to-maturity debt securities are stated at amortized cost computed based on the straight-line method.

Shares of non-consolidated subsidiaries that are not accounted for by the equity method are stated at the moving average cost.

Available-for-sale securities:

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 the 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 Act of Japan are stated at the amount of net shares based on their available financial statements at reporting dates designated by partnership agreements.

ii) Inventories

Merchandise and finished goods:

Merchandise and finished goods are principally stated using the specific identification method of writing down the book value to reflect a decline in the profitability.

Work in process:

Work in process is stated by the specific identification method of writing down the book value to reflect a decline in the profitability.

iii) Derivative transactions

Derivative transactions are carried at fair value.

(b) Depreciation method of significant assets

i) Property and equipment (excluding leased assets)

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

ii) Intangible assets (excluding leased assets)

Software for external sales:

Capitalized costs of software developed for external sales are amortized at the higher of (a) the amount based on projected sales amounts, or (b) the amount equally allocated for the remaining period (within 3 years).

Software for internal use:

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).

Other intangible assets:

Other intangible assets are amortized using the straight-line method.

iii) Leases

Non-cancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases.

All other lease transactions are accounted for as operating leases and related payments are charged to profit or loss as incurred.

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

iv) Long-term prepaid expenses

Long-term prepaid expenses are amortized using the straight-line method.

(c) Recognition standards for allowances and provisions

i) 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 historical percentage of collection losses.

ii) Provision for bonuses

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

iii) Provision for directors' bonuses

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

iv) Provision for loss on construction contracts

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

v) 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 upon retirement. An estimate is based only on the period prior to the date of abolishment of the directors' retirement benefit plan, which was approved at the shareholders' meeting in previous years.

(d) Retirement benefits

i) Calculation method for retirement benefit obligation

The retirement benefit obligation for employees is attributed to each period by a benefit formula basis over the estimated years of service of the eligible employees.

ii) Recording methods of actuarial gains/losses and past service costs

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.

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.

Unrealized actuarial gains and losses and unrealized past service costs are recorded as remeasurements of defined benefit plans in accumulated other comprehensive income, net of tax.

(e) Deferred assets

Bond issuance cost:

Bond issuance cost is expensed in full when paid.

(f) Revenue recognition

Revenue from construction contracts:

The percentage of completion method is applied to contracts for which substantial progress toward certain results is reliably estimated at the end of the fiscal year under review. The estimation of the degree of completion of a 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.

(g) Derivative and hedge accounting

i) Hedge accounting methods

Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to operations, except for those that 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. With appropriation treatment, receivables and payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for specific hedge accounting.

ii) Hedging instruments and hedged items

Hedging instruments:

Forward foreign exchange contracts

Hedged items:

Receivables and payables denominated in foreign currencies

iii) Hedging policy

Derivative transactions are implemented based on actual demands and not for trading or speculative purposes.

iv) Assessment of hedge effectiveness

In accordance with the risk management policies, forward foreign exchange contracts with the same amounts and maturities denominated in the same foreign currencies, are appropriated when the forward foreign exchange contracts are entered into. As a result, their following correlation in exchange fluctuations is fully confirmed, and therefore, hedge effectiveness is not assessed at the balance sheet date.

v) Other

All derivative transactions are carried with domestic financial institutions that have high credit ratings, and credit risk arising from contractual default by these counterparties is assumed to be low.

(h) Amortization of goodwill

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

(i) 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 other are considered to be cash and cash equivalents.

(j) Consumption taxes

Consumption taxes and local consumption taxes are excluded from the revenue and expenses accounts, which are subject to such taxes.

(k) Application of consolidated taxation system

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

(l) Application of tax-effect accounting for transition from consolidated taxation system to group taxation system

Other significant matters in preparation of the consolidated financial statements

Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system

Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the Company and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

4. STANDARDS AND GUIDANCE NOT YET ADOPTED

The following standard and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

i) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contract(s) with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ii) Effective date

Effective from the beginning of the fiscal year ending March 31, 2021.

iii) Effects of the application of the standard and guidance

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standard and guidance on the consolidated financial statements.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

i) Overview

The Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (hereinafter, "fair value measurement accounting standards") are being developed to improve comparability and align with international accounting standards, and guidance has been issued for measuring fair value. The fair value of the following items will be measured based on the below fair value measurement accounting standards.

- Financial instruments subject to the Accounting Standard for Financial Instruments

Implementation Guidance on Disclosures about Fair Value of Financial Instruments has been revised, and a breakdown of the fair value of financial instruments by level is disclosed in the notes to the financial statements.

ii) Effective date

Effective from the beginning of the fiscal year ending March 31, 2021.

iii) Effects of the application of the standard and guidance

The Company and its consolidated domestic subsidiaries are currently in the process of assessing the effects of these new standard and guidance on the consolidated financial statements.

- Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

i) Overview

For better understanding of users of the financial statements, the standard requires to disclose estimation uncertainty at the end of the reporting period, that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

ii) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

5. CHANGES IN PRESENTATION

Consolidated Statements of Cash Flows

Increase (decrease) in advances received and increase (decrease) in consumption tax payable were included in other, net under cash flows from operating activities in the previous fiscal year. These were presented separately in this fiscal year due to increased materiality. In order to reflect the changes of presentation retrospectively, the respective amounts in the previous fiscal year have been reclassified.

As a result, net inflow of ¥772 million presented as other, net under cash flows from operating activities in the consolidated statement of cash flow for the previous fiscal year has been reclassified as increase in advances received of ¥535 million, decrease in accrued consumption taxes of ¥1,004 million, and other, net of ¥1,241 million.

6. ADDITIONAL INFORMATION

The Company exercised judgement in estimating the impact of COVID-19 for the areas of revenue recognition under the percentage of completion method, recognition of the provision for loss on construction contracts, recoverability analysis of deferred tax assets and assessment of impairment on non-current assets. The Company expected customers' demands

in the year ending March 31, 2021 as similar level of this fiscal year whereas the impact of the COVID-19 pandemic in Japan and overseas remains uncertain. This assumption was taken into account in forming business plan and will provide the basis of accounting estimates. However, the future outcome may differ from these accounting estimates as new facts become available.

7. CONSOLIDATED BALANCE SHEETS

*1 Investment in unconsolidated subsidiaries and affiliates was as follows:

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Investment Securities	¥5,632	¥6,336	\$58,219

*2 Accumulated depreciation of property, plant and equipment

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Accumulated depreciation of property, plant and equipment	¥46,628	¥50,156	\$460,871

*3 Presentation of inventories and provision for loss on construction contracts

The following inventories and provision for loss on construction contracts that are likely to incur losses are not offset but presented in gross amounts.

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Work in process (Amount of inventories corresponding to provision for loss on construction contracts)	¥125	¥375	\$3,453

*4 Notes maturing as of the fiscal year-end are treated as settled on the relevant clearing dates.

Since the last day of the fiscal year was a holiday for financial institutions, the following amounts of notes maturing as of the fiscal year-end are included in the balance as of the fiscal year-end.

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Notes receivable	¥69	¥—	\$—

8. CONSOLIDATED STATEMENTS OF INCOME

*1 Major elements of "Selling, general and administrative expenses" for the years ended March 31, 2019 and 2020 were as follows:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Salaries and bonuses	¥21,043	¥22,269	\$204,622
Retirement benefit expenses	1,709	1,805	16,590
Welfare expenses	4,765	5,152	47,345
Rent expenses	3,316	3,473	31,913
Depreciation	1,619	1,619	14,881
Business consignment expenses	2,504	2,570	23,620
Taxes and dues	3,034	3,263	29,982
Provision for bonuses	1,465	2,103	19,326
Provision for directors' bonuses	57	65	603

*2 Gain on sales of non-current assets was as follows:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥(1,363)	¥ 0	\$ 0
Tools, furniture and fixtures	1	0	8
Land	1,733	—	—
Software	—	10	91
Other	—	0	0
Total	¥ 371	¥10	\$100

In the fiscal year under review, the gains on sale and losses on sale from the same transaction have been offset and presented as gain on sale of property, plant and equipment.

*3 Loss on retirement of non-current assets was as follows:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥13	¥22	\$203
Tools, furniture and fixtures	39	27	254
Leased assets	1	—	—
Software	3	3	33
Other	0	0	0
Total	¥57	¥53	\$491

*4 Loss on sales of non-current assets was as follows:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥—	¥4	\$37
Tools, furniture and fixtures	44	2	20
Total	¥44	¥6	\$57

*5 Impairment loss

The Group recognized an impairment loss on the following asset group:

Year ended March 31, 2019

Not applicable

Year ended March 31, 2020

Location	Use	Type of assets
Koto-ku, Tokyo	Business asset	Software
Shinjuku-ku, Tokyo	Business asset	Software

In principle, the Group classifies business assets by the smallest unit independently generating cash flows based on business segments.

However, idle assets are grouped together as a sum of their individual asset values.

Business assets in Koto-ku, Tokyo, have become idle due to an undetermined date for service provision, resulting in the

booking of impairment losses equivalent to their book value of ¥202 million (\$1,857 thousand), assuming zero utility value.

Business assets in Shinjuku-ku, Tokyo, are no longer in service due to a decision to stop using a core system at a subsidiary, resulting in the booking of impairment losses equivalent to their book value of ¥306 million (\$3,664 thousand), assuming recoverable amounts of zero.

*6 Research and development expenses included in “Selling, general and administrative expenses” were as follows:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
	¥725	¥1,190	\$10,942

*7 Provision for loss on construction contracts included in “Cost of sales” was as follows:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
	¥227	¥505	\$4,645

9. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table presents the components of reclassification adjustments and income tax of other comprehensive income for the years ended March 31, 2019 and 2020.

* Other comprehensive income:

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Valuation difference on available-for-sale securities:			
(Losses) gains arising during the year	¥(1,290)	¥(1,738)	\$(15,971)
Reclassification adjustments for gains (losses) included in income statements	1,022	323	2,973
Before tax amounts	(268)	(1,414)	(12,997)
Tax (expenses) benefits	82	433	3,982
Subtotal, net of tax	(185)	(981)	(9,015)
Deferred gains or losses on hedges:			
(Losses) gains arising during the year	(22)	63	585
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Before tax amounts	(22)	63	585
Tax (expenses) benefits	6	(19)	(179)
Subtotal, net of tax	(15)	44	406
Foreign currency translation adjustments:			
(Losses) gains arising during the year	(20)	(29)	(275)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Before tax amounts	(20)	(29)	(275)
Tax (expenses) benefits	—	—	—
Subtotal, net of tax	(20)	(29)	(275)
Remeasurements of defined benefit plans:			
(Losses) gains arising during the year	(2,437)	(2,997)	(27,545)
Reclassification adjustments for gains (losses) included in income statements	692	958	8,810
Before tax amounts	(1,745)	(2,038)	(18,734)
Tax (expenses) benefits	546	628	5,774
Subtotal, net of tax	(1,199)	(1,410)	(12,960)
Share of other comprehensive income of entities accounted for using equity method:			
(Losses) gains arising during the year	(18)	(6)	(61)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Subtotal, net of tax	(18)	(6)	(61)
Total other comprehensive income	¥(1,440)	¥(2,384)	\$(21,906)

10. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Year ended March 31, 2019

(1) Number of issued shares

Class of shares	Number of shares as of April 1, 2018	Increase	Decrease	Number of shares as of March 31, 2019
Common Stock	104,181,803	—	—	104,181,803

(2) Number of treasury shares

Class of shares	Number of shares as of April 1, 2018	Increase	Decrease	Number of shares as of March 31, 2019
Common Stock	362,918	2,373	13,510	351,781

Outline of reasons for changes:

The increase in the number of treasury shares was due to the following:

Purchases of less-than-one-unit shares: 2,373 shares

The decrease in the number of treasury shares was due to the following:

Disposals of less-than-one-unit shares: 610 shares

Exercise of subscription rights to shares: 12,900 shares

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares			Amount outstanding at March 31, 2019 (Millions of yen)
			Number of shares outstanding at April 1, 2018	Increase	Decrease	
SCSK	Subscription rights as stock options	—	—	—	—	¥40

(4) Matters related to dividends

(a) Dividend payments

Approved by	Types of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held on April 27, 2018	Common Stock	¥4,941	¥47.50	March 31, 2018	June 5, 2018
Board Meeting held on October 29, 2018	Common Stock	¥5,202	¥50.00	September 30, 2018	December 3, 2018

(b) Dividends whose record date is attributable to the year ended March 31, 2019 but whose effective date is to be after the balance sheet date

Approved by	Types of shares	Source of funds	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 26, 2019	Common Stock	Accumulated income	¥5,202	¥50.00	March 31, 2019	June 4, 2019

Year ended March 31, 2020

(1) Number of issued shares

Class of shares	Number of shares at April 1, 2019	Increase	Decrease	Number of shares at March 31, 2020
Common Stock	104,181,803	—	—	104,181,803

(2) Number of treasury shares

Class of shares	Number of shares as of April 1, 2019	Increase	Decrease	Number of shares as of March 31, 2020
Common Stock	351,781	2,404	4,346	349,839

Outline of reasons for changes:

The increase in the number of treasury shares was due to the following:

Purchases of less-than-one-unit shares: 2,404 shares

The decrease in the number of treasury shares was due to the following:

Disposals of less-than-one-unit shares: 246 shares

Exercise of subscription rights to shares: 4,100 shares

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares			Amount outstanding at March 31, 2020	
			Number of shares outstanding at April 1, 2019	Increase	Decrease	Number of shares outstanding at March 31, 2020	Thousands of U.S. dollars
SCSK	Subscription rights as stock options	—	—	—	—	—	¥30 \$279

(4) Matters related to dividends

(a) Dividend payments

Approved by	Types of shares	Total amount of dividends		Dividends per share		Record date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Board Meeting held at April 26, 2019	Common Stock	¥5,202	\$47,804	¥50.00	\$0.45	March 31, 2019	June 4, 2019
Board Meeting held at October 30, 2019	Common Stock	¥6,763	\$62,147	¥65.00	\$0.59	September 30, 2019	December 2, 2019

Note: Dividends per share approved by the Board of Directors on October 30, 2019, include a commemorative dividend of ¥10.00 per share for the Company's 50th anniversary.

(b) Dividends whose record date is attributable to the year ended March 31, 2020 but whose effective date is to be after the balance sheet date

Approved by	Types of shares	Source of funds	Total amount of dividends		Dividends per share		Record date	Effective date
			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Board Meeting held at April 28, 2020	Common Stock	Accumulated income	¥6,763	\$62,147	¥65.00	\$0.59	March 31, 2020	June 2, 2020

Note: Dividends per share includes a 50th anniversary commemorative dividend of ¥10.00 per share.

11. CASH FLOW INFORMATION

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

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Cash and deposits	¥ 21,170	¥ 32,072	\$ 294,700
Deposits paid	85,028	79,703	732,365
Total	106,198	111,775	1,027,066
Time deposits in excess of three months	—	(80)	(735)
Cash and cash equivalents	¥106,198	¥111,695	\$1,026,331

*2 The significant components of assets and liabilities of companies that were newly consolidated as a result of the acquisition of shares

Year ended March 31, 2020

The breakdown of assets and liabilities at the time Minori Solutions Co., Ltd. became a consolidated subsidiary as a result of the acquisition of shares, the acquisition amount for shares in Minori Solutions Co., Ltd., and the net expenditure to acquire Minori Solutions Co., Ltd., is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 9,750	\$ 89,598
Non-current assets	1,317	12,105
Goodwill	14,045	129,058
Current liabilities	(1,946)	(17,888)
Non-current liabilities	(778)	(7,149)
Non-controlling interests	(478)	(4,400)
Amount acquired until acquisition of control	(873)	(8,023)
Net gain on step acquisition	(1,556)	(14,304)
Transaction price	19,479	178,994
Cash and cash equivalents	(6,889)	(63,305)
Net: Payments for acquisition of stock	¥12,590	\$115,688

12. LEASE TRANSACTIONS

(1) Lessee – Finance leases

Finance leases that do not transfer ownership of the leased assets to the lessee

(a) Description of leased assets

Leased assets consist mainly of property, plant and equipment in head offices and data centers.

(b) Calculation method of depreciation equivalents

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

(2) Lessee – Operating leases

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

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
As a lessee:			
Due within one year	¥3,409	¥2,251	\$20,684
Due over one year	6,346	4,109	37,759
Total	¥9,755	¥6,360	\$58,444

13. FINANCIAL INSTRUMENTS

(1) Matters related to financial instruments

For year ended March 31, 2019

(a) Policy for financial instruments

For the management of surplus funds, the Group's policy is to invest only in short-term deposits at banks and investment securities. The Group mainly raises funds through bank loans and corporate bonds and uses funds on hand. 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.

(b) 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.

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

The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships. Investment 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 payable, 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 foreign exchange contracts to reduce foreign currency exchange risk with financial institutions which have high credit ratings in order to reduce credit risk.

Short-term loans payable are mainly for raising working capital for operating transactions. These loans payable with the final due date in September 2019 are exposed to liquidity risk.

Bonds payable are issued and used mainly for capital expenditures. These bonds with the final due date in September 2023 are exposed to liquidity risk.

Trade payables, loans payables 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 CMS. In addition, the Company receives a monthly cash flow report from each Group company and maintains Group-wide cash management.

Regarding derivative transactions, forward foreign 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.

(c) Supplementary explanation regarding matters related to fair value of financial instruments

The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

For year ended March 31, 2020**(a) Policy for financial instruments**

For the management of surplus funds, the Group's policy is to invest only in short-term deposits at banks and investment securities. The Group mainly raises funds through bank loans and corporate bonds and uses funds on hand. 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.

(b) 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.

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

The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships, and bonds held to maturity. Investment securities are exposed to market risk. The Group periodically reviews market prices of these securities in order to mitigate market risk. Bonds held to maturity are bonds with high credit ratings, and therefore carry minimal credit risk.

Substantially all trade payables, such as trade notes and accounts payable, 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 foreign exchange contracts to reduce foreign currency exchange risk with financial institutions which have high credit ratings in order to reduce credit risk.

Short-term loans payable are mainly for raising working capital for operating transactions. These loans payable with the final due date in September 2020 are exposed to liquidity risk.

Bonds payable are issued and used mainly for capital expenditures. These bonds with the final due date in September 2023 are exposed to liquidity risk.

Trade payables, loans payable 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 CMS. In addition, the Company receives a monthly cash flow report from each Group company and maintains Group-wide cash management.

Regarding derivative transactions, forward foreign 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.

(c) Supplementary explanation regarding matters related to fair value of financial instruments

The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

(2) Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheets at March 31, 2019 and 2020 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.

At March 31, 2019

	Carrying value ^(*a)	Fair value ^(*a)	Difference
	Millions of yen		
Assets:			
(1) Cash and deposits	¥ 21,170	¥ 21,170	¥ —
(2) Notes and accounts receivable – trade	74,698	74,698	—
(3) Deposits paid	85,028	85,028	—
(4) Investment securities			
Available-for-sale securities	5,513	5,513	—
Shares of subsidiaries and associates	5,185	11,167	5,982
(5) Lease and guarantee deposits	6,759	6,695	(63)
(6) Notes and accounts payable – trade	(22,087)	(22,087)	—
(7) Short-term loans payable	(15,000)	(15,000)	—
(8) Bonds payable	(40,000)	(40,023)	(23)
(9) Derivative transactions ^(*b)	(30)	(30)	—

(*a) Liabilities are presented in parentheses.

(*b) Receivables and payables incurred as a result of derivatives are presented on a net basis.

At March 31, 2020

	Carrying value ^(*a)	Fair value ^(*a)	Difference	Carrying value	Fair value	Difference
	Millions of yen			Thousands of U.S. dollars (Note 1)		
Assets:						
(1) Cash and deposits	¥ 32,072	¥ 32,072	¥ —	\$ 294,700	\$ 294,700	\$ —
(2) Notes and accounts receivable – trade	78,828	78,828	—	724,330	724,330	—
(3) Securities						
Available-for-sale securities	299	299	—	2,754	2,754	—
(4) Deposits paid	79,703	79,703	—	732,365	732,365	—
(5) Investment securities						
Held-to-maturity securities	306	301	(4)	2,814	2,770	(44)
Available-for-sale securities	3,174	3,174	—	29,165	29,165	—
Shares of subsidiaries and associates	5,873	16,803	10,929	53,971	154,399	100,428
(6) Lease and guarantee deposits	7,178	7,064	(114)	65,965	64,910	(1,054)
(7) Notes and accounts payable – trade	(25,054)	(25,054)	—	(230,219)	(230,219)	—
(8) Short-term loans payable	(15,400)	(15,400)	—	(141,505)	(141,505)	—
(9) Current portion of bonds ^(*b)	(10,000)	(10,000)	—	(91,886)	(91,886)	—
(10) Bonds payable	(30,000)	(30,000)	(0)	(275,659)	(275,659)	(0)
(11) Derivative transactions ^(*b)	33	33	—	306	306	—

(*a) Liabilities are presented in parentheses.

(*b) Receivables and payables incurred as a result of derivatives are presented on a net basis.

Note 1. Matters related to the calculation method of the fair value of financial instruments, as well as securities and derivative transactions

For fiscal year ended March 31, 2019

(1) Cash and deposits, (2) Notes and accounts receivable – trade and (3) Deposits paid

Since these items are settled in a short period of time, their carrying value approximates fair value.

(4) Investment securities

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.

(5) 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.

(6) Notes and accounts payable – trade, and (7) Short-term loans payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

(8) Bonds payable

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

(9) Derivative transactions

Information on the fair value of derivatives is included in Note 13, "Derivative transactions."

For fiscal year ended March 31, 2020

(1) Cash and deposits, (2) Notes and accounts receivable – trade and (3) Securities

Since these items are settled in a short period of time, their carrying value approximates fair value.

(4) Deposits paid and (5) Investment securities

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.

(6) 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.

(7) Notes and accounts payable – trade, (8) Short-term loans payable and (9) Bonds due within one year

Since these items are settled in a short period of time, their carrying value approximates fair value.

(10) Bonds payable

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

(11) Derivative transactions

Information on the fair value of derivatives is included in Note 13, “Derivative transactions.”

Note 2. Financial instruments for which it is extremely difficult to determine the fair value

	March 31
	2019
	Millions of yen
Unlisted equity securities	¥ 551
Investments in partnership	523
Total	¥1,074

As the quoted market price was not available and it was extremely difficult to estimate future cash flows, the carrying values of the above financial instruments were not included in (4) Investment securities. Unlisted equity securities include the shares in non-consolidated subsidiaries and affiliates of ¥447 million at March 31, 2019.

	March 31	March 31
	2020	2020
	Millions of yen	Thousands of U.S. dollars (Note 1)
Unlisted equity securities	¥1,894	\$17,407
Investments in partnership	606	5,569
Total	¥2,500	\$22,977

As the quoted market price was not available and it was extremely difficult to estimate future cash flows, the carrying values of the above financial instruments were not included in (5) Investment securities. Unlisted equity securities include the shares in non-consolidated subsidiaries and affiliates of ¥462 million (\$4,248 thousand) at March 31, 2020.

Note 3. The redemption schedule for monetary receivables and marketable securities with maturities at March 31, 2019 and 2020 was as follows:

At March 31, 2019

	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen			
Cash and time deposits	¥ 21,170	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	74,698	—	—	—
Deposits paid	85,028	—	—	—
Investment securities				
Available-for-sale securities with maturities:				
Corporate bonds	—	1,200	—	—
Total	¥180,897	¥1,200	¥ —	¥ —

Note: Available-for-sale securities of ¥41 million with scheduled amounts subject to change due to fluctuation in fair value were not included in available-for-sale securities with maturities in the above table.

At March 31, 2020

	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 1)			
Cash and time deposits	¥ 32,072	¥ —	¥ —	¥ —	\$ 294,700	\$ —	\$ —	\$ —
Notes and accounts receivable – trade	78,828	—	—	—	724,330	—	—	—
Securities								
Available-for-sale securities with maturities:								
Corporate bonds	300	—	—	—	2,756	—	—	—
Deposits paid	79,703	—	—	—	732,365	—	—	—
Investment securities								
Held-to-maturity securities	—	300	—	—	—	2,756	—	—
Available-for-sale securities with maturities:								
Corporate bonds	—	900	—	—	—	8,269	—	—
Total	¥190,904	¥1,200	¥ —	¥ —	\$1,754,153	\$11,026	\$ —	\$ —

Note: None of the available-for-sale securities are subject to change due to fluctuation in fair value.

Note 4. The repayment schedule for bonds payable and long-term debts after March 31, 2019 and 2020 are as follows.

At March 31, 2019

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Millions of yen					
Short-term loans payable	¥15,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	10,000	10,000	10,000	10,000	—
Total	¥15,000	¥10,000	¥10,000	¥10,000	¥10,000	¥ —

At March 31, 2020

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Millions of yen					
Short-term loans payable	¥15,400	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	10,000	10,000	10,000	10,000	—	—
Total	¥25,400	¥10,000	¥10,000	¥10,000	¥ —	¥ —

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Thousands of U.S. dollars					
Short-term loans payable	\$141,505	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate bonds	91,886	91,886	91,886	91,886	—	—
Total	\$233,391	\$91,886	\$91,886	\$91,886	\$ —	\$ —

14. INFORMATION ON SECURITIES

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

(1) Bonds held to maturity

Year ended March 31, 2019

Not applicable

Year ended March 31, 2020

Classification	Amount on consolidated balance sheet	Fair value	Difference	Amount on consolidated balance sheet	Fair value	Difference
	Millions of yen			Thousands of U.S. dollars		
Bonds with fair value higher than amount shown on consolidated balance sheet	¥ —	¥ —	¥—	\$ —	\$ —	\$ —
Bonds with fair value no higher than amount shown on consolidated balance sheet	306	301	(4)	2,814	2,770	(44)
Total	¥306	¥301	¥(4)	\$2,814	\$2,770	\$(44)

(2) Available-for-sale securities with fair value

At March 31, 2019

	Carrying value	Acquisition cost	Difference
	Millions of yen		
1. Securities with fair value exceeding acquisition cost:			
Equity securities	¥4,270	¥1,763	¥2,507
Debt securities:			
Governmental/municipal bonds	—	—	—
Corporate bonds	1,001	1,000	1
Other	—	—	—
Sub-total	5,272	2,763	2,508

2. Securities with fair value not exceeding acquisition cost:

Equity securities	—	—	—
Debt securities:			
Governmental/municipal bonds	—	—	—
Corporate bonds	200	200	—
Other	41	50	(8)
Sub-total	241	250	(8)
Total	¥5,513	¥3,014	¥2,499

Note: Unlisted equity securities of ¥104 million and investments in partnership of ¥523 million were not included in the above table since the quoted market price was not available and it was extremely difficult to estimate future cash flows.

At March 31, 2020

	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
	Millions of yen			Thousands of U.S. dollars		
1. Securities with fair value exceeding acquisition cost:						
Equity securities	¥2,032	¥662	¥1,370	\$18,676	\$ 6,083	\$12,593
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Sub-total	2,032	662	1,370	18,676	6,083	12,593
2. Securities with fair value not exceeding acquisition cost:						
Equity securities	243	294	(51)	2,233	2,710	(476)
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	1,198	1,200	(1)	11,009	11,026	(16)
Other	—	—	—	—	—	—
Sub-total	1,441	1,494	(53)	13,243	13,736	(493)
Total	¥3,473	¥2,157	¥1,316	\$31,920	\$19,819	\$12,100

Note: Unlisted equity securities of ¥1,432 million (\$13,159 thousand) and investments in partnership of ¥606 million (\$5,569 thousand) were not included in the above table since the quoted market price was not available and it was extremely difficult to estimate future cash flows.

(3) Sales of available-for-sale securities

At March 31, 2019

Classification	Sales proceeds	Aggregate gains	Aggregate losses
	Millions of yen		
Equity securities	¥1,210	¥1,024	¥ 3
Debt securities	—	—	—
Other	—	—	—
Total	¥1,210	¥1,024	¥ 3

At March 31, 2020

Classification	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	Millions of yen			Thousands of U.S. dollars		
Equity securities	¥535	¥331	¥—	\$4,923	\$3,049	\$ —
Debt securities	—	—	—	—	—	—
Other	42	—	8	390	—	75
Total	¥578	¥331	¥ 8	\$5,314	\$3,049	\$75

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

Not applicable for the year ended March 31, 2019.

For the year ended March 31, 2020, losses on valuation of investment securities of ¥4 million (\$41 thousand) were recognized.

With regard to equities for which quoted market prices were not available and for which it was extremely difficult to estimate future cash flows, if the effective price of such an equity declines due to factors such as a deterioration in the financial condition of the issuer, the Company determines whether or not impairment is necessary by considering factors such as the likelihood of a recovery in the future price.

15. DERIVATIVE TRANSACTIONS

Derivative transactions for which hedge accounting has been applied

Currency-related

At March 31, 2019

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, GBP	Forecast transactions in foreign currency	¥2,498	¥—	¥(43)
Buy				
USD, EUR, GBP, SGD		2,360	90	13
Derivative transactions for which appropriation treatment has been applied				
Forward foreign exchange contracts				
Sell	Accounts receivable – trade	1,612	—	(Note 2)
Buy	Accounts payable – trade	2,052	—	(Note 2)
USD, EUR, GBP, SGD				
Total		¥8,523	¥90	¥(30)

Notes: 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 accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

At March 31, 2020

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		
Derivative transactions for which deferral hedge accounting has been applied							
Forward foreign exchange contracts							
Sell							
USD, GBP	Forecast transactions in foreign currency	¥ 5,045	¥ —	¥(22)	\$ 46,359	\$ —	\$(210)
Buy							
USD, EUR, GBP, SGD		6,333	317	56	58,195	2,920	517
Derivative transactions for which appropriation treatment has been applied							
Forward foreign exchange contracts							
Sell							
USD, EUR, GBP	Accounts receivable – trade	1,331	—	(Note 2)	12,234	—	(Note 2)
Buy							
USD, EUR, GBP, SGD, CNY	Accounts payable – trade	1,914	—	(Note 2)	17,590	—	(Note 2)
Total		¥14,624	¥317	¥ 33	\$134,380	\$2,920	\$ 306

Notes: 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 accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

16. EMPLOYEES' PENSION AND RETIREMENT BENEFITS

(1) Outline of employees' pension and retirement benefit plans adopted by the Company

The Company and certain consolidated subsidiaries have defined benefit plans and defined contribution plans.

(2) Defined benefit plans

(a) Movement in retirement benefit obligations

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of the year	¥76,868	¥79,647	\$731,848
Service costs	3,235	3,295	30,285
Interest costs	524	432	3,974
Actuarial gains and losses	1,303	(904)	(8,313)
Benefits paid	(2,407)	(2,609)	(23,979)
Past service costs	—	—	—
Increase from change in scope of consolidation	—	774	7,118
Others	121	44	409
Balance at the end of the year	¥79,647	¥80,680	\$741,343

(b) Movement in plan assets

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of the year	¥75,400	¥76,744	\$705,176
Expected return on plan assets	1,508	1,534	14,103
Actuarial gains and losses	(1,134)	(3,902)	(35,858)
Contributions paid by the employer	3,323	3,374	31,004
Benefits paid	(2,353)	(2,602)	(23,917)
Others	—	—	—
Balance at the end of the year	¥76,744	¥75,147	\$690,508

(c) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Funded retirement benefit obligations	¥ 79,181	¥ 80,170	\$736,661
Plan assets	(76,744)	(75,147)	690,508
	2,437	5,022	46,153
Unfunded retirement benefit obligations	465	509	4,682
Total net liability for retirement benefits	2,902	5,532	50,835
Net defined benefit liability	2,902	5,532	50,835
Net defined benefit asset	—	—	—
Total net liability for retirement benefits	¥ 2,902	¥ 5,532	\$ 50,835

(d) Retirement benefit expenses

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Service costs	¥ 3,235	¥ 3,295	\$ 30,285
Interest costs	524	432	3,974
Expected return on plan assets	(1,508)	(1,534)	(14,103)
Net actuarial gains and losses amortization	707	998	9,178
Past service costs amortization	(15)	(20)	(185)
Other	371	396	3,645
Total retirement benefit expenses	¥ 3,316	¥ 3,569	\$ 32,795

(e) Remeasurements of defined benefit plans, before tax

Items included in the remeasurements of defined benefit plans, before tax, were as follows:

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Past service costs	¥ (15)	¥ (20)	\$ (185)
Actuarial gains and losses	(1,729)	(2,018)	(18,548)
Total balance	¥(1,745)	¥(2,038)	\$ (18,734)

(f) Accumulated remeasurements of defined benefit plans

Items included in the accumulated remeasurements of defined benefit plans, before tax, were as follows:

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Past service costs that are yet to be recognized	¥ (125)	¥ (105)	\$ (970)
Actuarial gains and losses that are yet to be recognized	6,227	8,256	75,862
Total balance	¥6,101	¥8,150	\$74,891

(g) Plan assets

i) Categories of plan assets

The ratios of plan assets in each major category to total plan assets were as follows:

	March 31	
	2019	2020
Bonds	49%	44%
Equity securities	28%	23%
Cash and deposits	5%	14%
Assets in an insurer's general account	8%	9%
Hedge fund	6%	6%
Other	4%	4%
Total	100%	100%

ii) 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.

(h) Actuarial assumptions

The principal actuarial assumptions (weighted average rate) were as follows:

	Year ended March 31	
	2019	2020
Discount rate	0.6%	0.6%
Long-term expected rate of return	2.0%	2.0%

(3) Defined contribution plans

Amounts which the Company and certain consolidated subsidiaries contributed to the defined contribution plans were ¥1,404 million and ¥1,458 million (\$13,401 thousand) for the years ended March 31, 2019 and 2020, respectively.

17. STOCK OPTIONS

(1) Outline, number and movement of stock options

(a) Outline of stock options

Stock option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Date of resolution	July 27, 2007	June 26, 2008	June 25, 2009	June 25, 2010
Grantees' position	10 directors 14 executive officers	9 directors 12 executive officers	9 directors 16 executive officers	9 directors 14 executive officers
Number of share options by types of shares (Note 1)	Common stock 16,400 shares	Common stock 22,900 shares	Common stock 31,100 shares	Common stock 45,400 shares
Date of grant	July 27, 2007	July 29, 2008	July 30, 2009	July 30, 2010
Vesting condition	No provisions	No provisions	No provisions	No provisions
Applicable period of service	No provisions	No provisions	No provisions	No provisions
Exercisable period	July 28, 2007– July 26, 2027	July 30, 2008– July 28, 2028	July 31, 2009– July 29, 2029	July 31, 2010– July 29, 2030
Number of subscription rights to shares (Note 2)	6	13	53 [50]	171
Class, content and number of shares issued upon exercise of stock acquisition rights (Note 2)	Common stock 600 shares (Note 3)	Common stock 1,300 shares (Note 3)	Common stock 5,300 shares [Common stock 5,000 shares] (Note 3)	Common stock 17,100 shares (Note 3)
Amount to be paid upon exercise of subscription rights to shares (Yen) (Note 2)	1	1	1	1
Issue price and amount included in capital in case of the issuance of shares upon exercise of subscription rights to shares (Yen) (Note 2)	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1
Terms and conditions for the exercise of subscription rights to shares (Note 2)	*1	*2	*3	*4
	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 entered into between the Company and the Holder.			
Matters concerning the transfer of subscription rights to shares (Note 2)	The transfer of the subscription rights to shares shall require the approval of the Board of Directors.			
Matters related to the issuance of subscription rights to shares in connection with organizational restructuring measures (Note 2)	Note 4	Note 4	Note 4	Note 4
Matters concerning provisions for the acquisition of subscription rights to shares (Note 2)	Note 5	Note 5	Note 5	Note 5

Notes:

1. The number of stock options by class of shares has been converted and stated as number of shares.

2. The information is presented as of March 31, 2020. Certain matters have changed during the period from March 31, 2020 to the end of the month (May 31, 2020) preceding the filing date of the Securities Report. This information is presented as of May 31, 2020 in brackets ("[]"). There have been no changes to other matters from March 31, 2020.

*1 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2025, they shall be able to exercise the rights on and after August 1, 2025.

*2 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2026, they shall only be able to exercise the rights on and after August 1, 2026.

*3 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2027, they shall be able to exercise the rights on and after August 1, 2027.

*4 The Holders can exercise the rights for only ten years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2028, they shall be able to exercise the rights on and after August 1, 2028.

3. In the event that the Company conducts a stock split or stock consolidation, the number of shares granted for each subscription right to shares shall be adjusted by the following formula: However, this adjustments will apply only to the number of shares granted for those subscription rights to shares that have not already been exercised prior to the relevant date. Fractions of less than one share arising from the adjustments shall be discarded.

Adjusted number of shares granted = Preadjusted number of shares granted x stock split or stock consolidation ratio

If the Company conducts a merger, a company split, share exchange or share transfer (hereinafter collectively "Mergers, etc."), a free distribution of the Company's shares, or any other event requiring an adjustment of the number of shares granted, the Company can make a reasonable adjustment of the number of shares granted, taking into account the terms and conditions of the Mergers, etc. and free distribution of shares.

4. Treatment of subscription rights to shares in the event of organizational restructuring measures

If the Company specifies in agreements, plans or other such documents prepared upon organizational restructuring that it will issue subscription rights to shares of a Restructured Company as set forth below, the Company shall issue subscription rights to shares of the Restructured Company to the original Holders based on the relevant organizational restructuring ratio.

(1) Mergers (only mergers under which the Company is to be dissolved)

A Restructured Company that will survive after the merger or a Restructured Company that will be established through the merger

(2) Absorption-type company split

A Restructured Company that succeeds to all or part of the rights and obligations with respect to the business that are held by the company that conducts the absorption-type company split

(3) Incorporation-type company split

A Restructured Company established through an incorporation-type company split

(4) Share exchange

A Restructured Company that acquires all of the issued shares of a company that conducts a share exchange

(5) Share transfer

A Restructured Company established through a share transfer

5. Provisions for acquiring subscription rights to shares

(1) If a Holder of subscription rights to shares fails to meet the conditions for exercising the subscription rights to shares, the Company may acquire the relevant subscription rights to shares at no cost.

(2) If a General Meeting of Shareholders approves a proposal for approval of a merger agreement under which the Company is to be dissolved, or a proposal for approval of a share exchange agreement or share transfer plan under which the Company is to become a wholly owned subsidiary, the Company is entitled to acquire the subscription rights to shares at no cost.

(Additional Information)

Notable matters that should be disclosed in "Outline of stock options" under "15. STOCK OPTIONS" have been disclosed collectively in the notes related to stock options.

(b) Number and movement of stock options

(i) Number of stock options

	Number of shares			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Non-vested:				
Outstanding at March 31, 2019	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Outstanding at March 31, 2020	—	—	—	—
Vested:				
Outstanding at March 31, 2019	1,200	2,600	8,100	19,700
Vested	—	—	—	—
Exercised	—	—	1,500	2,600
Forfeited	600	1,300	1,300	—
Outstanding at March 31, 2020	600	1,300	5,300	17,100

(ii) Price information of stock options

Year ended March 31, 2019

	Yen			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise	5,080	5,080	5,080	4,947
Fair valuation price (date of grant)	2,156	1,774	1,363	1,149

Year ended March 31, 2020

	Yen			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise	—	—	4,880	5,373
Fair valuation price (date of grant)	2,156	1,774	1,363	1,149

	U.S. dollars			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average market price of the stock at the time of exercise	—	—	44.84	49.37
Fair valuation price (date of grant)	19.81	16.30	12.52	10.55

(2) Method of estimating exercised stock options

Since it is fundamentally difficult to reasonably estimate the number of options that will expire in the future, the number of options that have actually been forfeited is reflected.

18. INCOME TAXES

(1) Significant components of deferred tax assets and liabilities

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Accrued enterprise taxes	¥ 538	¥ 557	\$ 5,120
Accrued payable bonuses	1,917	2,281	20,966
Loss on valuation of membership	153	151	1,389
Provision for loss on construction contracts	70	157	1,447
Net defined benefit liability	896	1,703	15,648
Carryforward tax loss (Note 2)	18,398	5,722	52,581
Allowance for doubtful accounts	24	31	286
Depreciation	53	248	2,286
Impairment	933	678	6,231
Loss on valuation of investment pension plans	59	54	504
Asset retirement obligations	959	1,006	9,248
Others	675	957	8,795
Total gross deferred tax assets	24,681	13,549	124,505
Valuation reserve for carryforward tax loss (Note 2)	(7,854)	(645)	(5,934)
Valuation reserve for deductible temporary differences	(1,182)	(1,232)	(11,322)
Valuation allowance (Note 1)	(9,037)	(1,878)	(17,257)
Total deferred tax assets	15,644	11,671	107,248
Deferred tax liabilities			
Valuation differences on available-for-sale securities	(881)	(434)	(3,996)
Removal expenses for asset retirement obligations	(475)	(479)	(4,406)
Others	(577)	(712)	(6,549)
Total deferred tax liabilities	(1,934)	(1,627)	(14,953)
Net deferred tax assets	¥13,709	¥10,044	\$ 92,295

Notes:

1. The valuation reserve decreased by ¥7,159 million (\$65,783 thousand). This decrease was mainly due to a decline in the carryforward tax loss following the expiration of carryforward periods as of March 31, 2020.

2. Carryforward tax loss and its deferred tax assets by expiration periods

Year ended March 31, 2019

	Millions of yen						
	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Carryforward tax loss ^(a)	¥13,000	¥ 456	¥4,725	¥ 79	¥—	¥ 136	¥18,398
Valuation reserve	(7,531)	(115)	(28)	(48)	—	(131)	(7,854)
(Net) Deferred tax assets	5,469	340	4,697	30	—	4	10,543 ^(b)

(a) The carryforward tax loss shown in the above table represents amounts after multiplying the statutory tax rate.

(b) A deferred tax asset of ¥10,543 million was recognized for a carryforward tax loss of ¥18,398 million (amount multiplied by the statutory tax rate). The deferred tax asset of ¥10,543 million was recognized primarily for a portion of the Company's outstanding carryforward tax loss of ¥17,968 million (amount multiplied by the statutory tax rate). No valuation reserve is recognized for the carryforward tax loss since the amount was determined to be recoverable based on expected future taxable income.

Year ended March 31, 2020

	Millions of yen						
	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Carryforward tax loss ^(a)	¥ 460	¥4,704	¥ 45	¥ 0	¥ 109	¥ 402	¥5,722
Valuation reserve	(119)	(6)	(14)	—	(109)	(395)	(645)
(Net) Deferred tax assets	341	4,697	30	0	—	6	5,076 ^(b)

	Thousands of U.S. dollars						
	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Carryforward tax loss ^(a)	\$ 4,235	\$43,227	\$ 419	\$ 0	\$ 1,001	\$ 3,696	\$52,580
Valuation reserve	(1,102)	(60)	(135)	—	(1,001)	(3,634)	(5,934)
(Net) Deferred tax assets	3,133	43,166	283	0	—	61	46,646

(a) The carryforward tax loss shown in the above table represents amounts after multiplying the statutory tax rate.

(b) A deferred tax asset of ¥5,076 million (\$46,646 thousand) was recognized for a carryforward tax loss of ¥5,722 million (\$52,580 thousand) (amount multiplied by the statutory tax rate). The deferred tax asset of ¥5,076 million (\$46,646 thousand) was recognized primarily for the Company's outstanding carryforward tax loss of ¥5,038 million (\$46,299 thousand) (amount multiplied by the statutory tax rate). No valuation reserve is recognized for the carryforward tax loss since the amount was determined to be recoverable based on expected future taxable income.

(2) The reconciliation between the statutory tax rate reflected in the consolidated statements of income and the effective tax rate for the years ended March 31, 2019 and 2020 was as follows:

	Year ended March 31	
	2019	2020
Statutory tax rates:	30.6%	30.6%
Effect of:		
Expenses not deductible for income tax purposes	0.4	0.3
Share of profit of entities accounted for using the equity method	(0.6)	(0.6)
Base portion of inhabitants' taxes	0.5	0.4
Change in valuation allowance	(4.0)	(1.3)
Retained earnings	0.2	0.3
Net gain on step acquisition	—	(1.1)
Others	0.2	0.2
Effective tax rate	27.3%	28.8%

19. BUSINESS COMBINATIONS

Year ended March 31, 2019

Omitted as it is not significant to the Group.

Year ended March 31, 2020

Business combination via share acquisition

(1) Outline of business combination

(a) Name of acquired company and business description

Name of acquired company: Minori Solutions Co., Ltd.

Business description: Software development, system operations and management, system equipment sales

(b) Reason for business combination

Maximize corporate value of both companies by pursuing greater scales of business expansion and management strategies in tune with the changing times.

(c) Date of business combination

December 19, 2019 (deemed acquisition date: December 31, 2019)

(d) Legal form of business combination

Acquisition of shares in exchange for cash

(e) Name of companies after business combination

No change

(f) Acquired voting right ratio

Voting rights before business combination: 10.45%

Voting rights after acquisition: 94.26%

(g) Main reason for determining acquiring company

SCSK acquired shares in Minori Solutions Co., Ltd. in exchange for cash

(2) Earnings of acquired company included in consolidated financial statements

From January 1, 2020 to March 31, 2020

(3) Breakdown of acquisition cost and value of acquired company

	Millions of yen	Thousands of U.S. dollars
Fair value of shares held before business combination as of the date of business combination with Minori Solutions Co., Ltd.	¥ 2,430	\$ 22,328
Cash expenditure to acquire additional shares	19,479	178,994
Acquisition cost	¥21,909	\$201,322

(4) Difference between acquisition cost for acquired company and total acquisition cost for transactions until acquisition

Net gain on step acquisition

¥1,556 million (\$14,304 thousand)

(5) Amount, source, amortization method and amortization schedule for goodwill

(a) Amount of goodwill

¥14,045 million (\$129,058 thousand)

The amount of goodwill is a provisionally calculated amount because the allocation of acquisition costs was not completed in the fiscal year under review.

(b) Source of goodwill

Potential for excess returns from future business development

(c) Goodwill amortization method and schedule

Straight-line method over 10 years

(6) Breakdown of amount of assets and liabilities assumed on the date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 9,750	\$ 89,598
Non-current assets	1,317	12,105
Total assets	¥11,068	\$101,703
Current liabilities	¥ 1,946	\$ 17,888
Non-current liabilities	778	7,149
Total liabilities	¥ 2,724	\$ 25,038

20. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations carried on the consolidated balance sheets

(1) Overview of asset retirement obligations

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

(2) Calculation method for asset retirement obligations

The expected period of use is estimated as mainly 15 years from the acquisition of property, plant and equipment, and the amounts of asset retirement obligations are calculated by using a discount rate ranging from 0.000% to 1.744%.

(3) Changes in asset retirement obligations for the years ended March 31, 2019 and 2020

	March 31		March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥2,412	¥2,949	\$27,099
Increase due to acquisition of property and equipment	224	368	3,389
Adjustments due to passage of time	22	21	194
Decrease due to fulfillment of asset retirement obligations	(111)	(227)	(2,093)
Increase due to change in estimates (Note 1)	399	7	69
Decrease from change in scope of consolidation	—	0	0
Balance at end of period (Note 2)	¥2,949	¥3,119	\$28,660

Notes: 1. At March 31, 2019, it became clear that a cost required for the asset retirement increased. Thus, the Company added ¥399 million from the balance of asset retirement obligations as a change in estimate.

At March 31, 2020, it became clear that a cost required for the asset retirement increased. Thus, the Company increased the balance of asset retirement obligations by ¥7 million (\$69 thousand).

2. The balance at end of period for March 31, 2019 included ¥169 million of asset retirement obligations under other current liabilities.

The balance at end of period for March 31, 2020 included ¥3 million (\$33 thousand) of asset retirement obligations under other current liabilities.

21. SEGMENT INFORMATION

(1) Segment information

(a) Method of designating reportable segments

The Company designates its reportable segments according to the clients' business category and business characteristics of IT services. The Board of Directors and the President and Chief Operating Officer decide the allocation of business resources, evaluate business performance and conduct other managerial duties in reference to these reportable segments, with such management decision directly reflected in the operations of those reportable segments.

The Company has designated eight reportable segments according to the clients' business category and business characteristics of IT services: Manufacturing & Telecommunication Systems Business, Distribution & Media Systems Business, Financial Systems Business, Global System Solutions & Innovation Business, Business Solutions, Mobility Systems, IT Platform Solutions, and IT Management.

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

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

- (i) Manufacturing & Telecommunication Systems Business: This business group provides a wide range of IT solutions on a global scale. These solutions include core systems, manufacturing management systems, information management systems, supply chain management (SCM) systems, and customer relationship management (CRM) systems. The business group's services leverage the experience and know-how it has cultivated over many years throughout the chain of operational processes from production to sales. The customers of this business are primarily companies in the manufacturing, telecommunications, and energy industries.
- (ii) Distribution & Media Systems Business: This business group provides IT solution packages configured from various core systems, information systems, SCM systems, CRM systems, and e-commerce systems, primarily to customers in the distribution, service, and media industries.
- (iii) Financial Systems Business: This business group engages in systems development, maintenance, and operation for financial institutions. As professionals that understand financial operations and possess a strong track record of creating sophisticated financial systems, members of this business group's staff support secure and efficient management and help customers implement their financial business strategies. The business group provides these services primarily to financial institutions, such as banks and trust banks as well as insurance, securities, lease and credit companies.
- (iv) Global System Solutions & Innovation Business: This business group provides optimal IT solutions primarily to trading companies and the global bases of customers from among a lineup that includes core systems, information management systems, SCM systems and CRM systems.
- (v) Business Solutions: This business group provides a wide range of IT solutions. These solutions include contact center services as well as application management outsourcing (AMO) services that cover the entire system lifecycle, from development and installation to maintenance and operation, for enterprise resources planning (ERP) and CRM products, such as the Company's internally developed ProActive ERP package, SAP, and Oracle offerings as well as Salesforce. In addition, this business group offers the type of business process outsourcing services that only an IT company can provide. These services merge support provided by human workers with IT.
- (vi) Mobility Systems: This business group develops embedded software using model-based development practices for software embedded in electronic control units (ECUs) that electronically control automobiles for customers in the automobile industry. It also provides in-house developed middleware (QINeS-BSW), inspects software, improves processes and offers a broad variety of other solutions to the global market.
- (vii) IT Platform Solutions: This business group draws on solid technical capabilities and know-how to leverage cutting-edge technologies in the fields of IT infrastructure and manufacturing, including computer-aided design (CAD) and computer-aided engineering (CAE). In this way, IT Platform Solutions provides services and products that accurately address the needs of customers and offer flexible support for a wide range of customer businesses.
- (viii) IT Management: This business group develops solutions-oriented netXDC data centers, which boast robust facilities and high-level security, in east and west Japan to provide customers with proposal-based outsourcing services that address their management issues pertaining to operating cost reductions, infrastructure integration and optimization, governance enhancement, and business risk mitigation. The business group also supplies cloud infrastructure and on-site management services, along with SE support 24 hours a day, 365 days a year.

(b) Matters related to changes in reportable segments

Effective from the fiscal year under review, SCSK created the Mobility Systems segment with the aim of further strengthening business management, including strategic planning for the business, and building a more robust business promotion structure that integrates its automotive apps (MBD) and platforms (QINeS) in the strategic automotive systems business domain.

As a result, Mobility Systems was created as a new reportable segment. In the prior reportable segments, the automotive systems business of the Business Solutions segment was transferred to the Mobility Systems segment.

Segment information for the fiscal year ended March 31, 2019, has been restated to reflect this change in reportable segments.

(2) Calculation of sales, profit, assets and other items by reportable segment

The accounting treatment for the Group's reportable segments is generally the same as described in Note 1, "Summary of significant accounting policies."

The profit figures stated in the reportable segments are based on operating profit. The intersegment sales or the intersegment figures are based on actual market prices.

(3) Sales, profit, assets and other items for each reportable segment

Segment data for the years ended March 31, 2019 and 2020 were as follows:

Year ended March 31, 2019

	Reportable segment						
	Manufacturing & Telecommunication Systems Business	Distribution & Media Systems Business	Financial Systems Business	Global System Solutions & Innovation Business	Business Solutions	Mobility Systems	IT Platform Solutions
	Millions of yen						
Sales, profit and assets by reportable segment							
Net sales:							
Sales to third parties	¥43,369	¥63,054	¥63,932	¥15,553	¥48,829	¥19,550	¥58,857
Inter-segment sales and transfers	1,096	903	869	5,505	4,761	397	6,918
Total	44,466	63,957	64,802	21,058	53,591	19,947	65,776
Profit	6,308	6,589	7,349	2,576	5,016	(265)	7,163
Assets	12,412	19,973	22,535	8,893	13,635	9,787	30,593
Other items							
Depreciation and amortization	71	803	326	233	688	2,179	645
Investments in equity-method affiliates	—	—	—	—	—	—	5,185
Net increase in tangible/intangible fixed assets	69	1,372	71	697	696	1,016	645

	Reportable segment			Adjustments	Amount recorded in the consolidated financial statements
	IT Management	Other (Note 3)	Total	(Note 1)	(Note 2)
	Millions of yen				
Sales, profit and assets by reportable segment					
Net sales:					
Sales to third parties	¥44,780	¥ 726	¥358,654	¥ —	¥358,654
Inter-segment sales and transfers	16,090	3,766	40,309	(40,309)	—
Total	60,871	4,492	398,964	(40,309)	358,654
Profit	5,845	(86)	40,498	(2,120)	38,378
Assets	66,057	1,858	185,746	129,098	314,844
Other items					
Depreciation and amortization	3,893	256	9,099	1,430	10,530
Investments in equity-method affiliates	—	438	5,623	—	5,623
Net increase in tangible/intangible fixed assets	10,160	63	14,793	369	15,163

Notes: 1. Adjustments were as follows:

(1) The adjustment of ¥(2,120) million to profit represented general corporate expenses that were not allocated to a reportable segment.

(2) The adjustment of ¥129,098 million to assets represented corporate assets that were not allocated to a reportable segment.

(3) The adjustment of ¥1,430 million to depreciation represented charges to corporate assets that were not allocated to a reportable segment.

(4) The adjustment of ¥369 million to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.

2. Profit was reconciled to operating profit in the consolidated statements of income.

3. The "Other" category includes business segments that are not part of reportable segments.

Year ended March 31, 2020

	Reportable segment					
	Manufacturing & Telecommunication Systems Business	Distribution & Media Systems Business	Financial Systems Business	Global System Solutions & Innovation Business	Business Solutions	Mobility Systems
	Millions of yen					
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	¥49,960	¥62,382	¥63,860	¥18,249	¥52,578	¥22,279
Inter-segment sales and transfers	833	1,313	1,357	10,106	5,020	613
Total	50,793	63,696	65,217	28,356	57,599	22,893
Profit	6,280	7,326	7,223	2,592	5,112	1,246
Assets	14,222	15,676	19,613	10,292	15,750	8,997
Other items						
Depreciation and amortization	75	1,009	238	374	595	1,173
Investments in equity-method affiliates	—	—	—	459	—	—
Net increase in tangible/intangible fixed assets	125	794	113	326	1,560	1,204

	Reportable segment				Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Platform Solutions	IT Management	Other (Note 3)	Total		
Millions of yen						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	¥63,844	¥48,457	¥5,389	¥387,003	¥ —	¥387,003
Inter-segment sales and transfers	6,931	15,099	4,919	46,195	(46,195)	—
Total	70,776	63,556	10,308	433,198	(46,195)	387,003
Profit	8,242	6,447	80	44,553	(2,226)	42,326
Assets	35,634	69,429	27,317	216,932	125,552	342,485
Other items						
Depreciation and amortization	629	4,732	219	9,049	1,308	10,358
Investments in equity-method affiliates	5,873	—	—	6,333	—	6,333
Net increase in tangible/intangible fixed assets	747	7,853	126	12,853	750	13,604

	Reportable segment					
	Manufacturing & Telecommunication Systems Business	Distribution & Media Systems Business	Financial Systems Business	Global System Solutions & Innovation Business	Business Solutions	Mobility Systems
Thousands of U.S. dollars						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	\$459,072	\$573,209	\$586,790	\$167,692	\$483,129	\$204,719
Inter-segment sales and transfers	7,654	12,072	12,474	92,865	46,127	5,637
Total	466,727	585,281	599,264	260,557	529,257	210,357
Profit	57,710	67,324	66,378	23,822	46,975	11,454
Assets	130,687	144,041	180,224	94,569	144,724	82,675
Other items						
Depreciation and amortization	694	9,276	2,191	3,445	5,473	10,784
Investments in equity-method affiliates	—	—	—	4,223	—	—
Net increase in tangible/intangible fixed assets	1,150	7,302	1,046	2,999	14,338	11,071

	Reportable segment				Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Platform Solutions	IT Management	Other (Note 3)	Total		
Thousands of U.S. dollars						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	\$586,642	\$445,261	\$ 49,518	\$3,556,036	\$ —	\$3,556,036
Inter-segment sales and transfers	63,693	138,739	45,206	424,472	(424,472)	—
Total	650,336	584,001	94,724	3,980,508	(424,472)	3,556,036
Profit	75,737	59,242	738	409,384	(20,462)	388,922
Assets	327,428	637,958	251,006	1,993,316	1,153,661	3,146,978
Other items						
Depreciation and amortization	5,782	43,488	2,016	83,153	12,025	95,179
Investments in equity-method affiliates	53,971	—	—	58,195	—	58,195
Net increase in tangible/intangible fixed assets	6,871	72,165	1,162	118,110	6,893	125,004

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(2,226) million (\$ (20,462) thousand) to profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥125,552 million (\$1,153,661 thousand) to assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥1,308 million (\$12,025 thousand) to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥750 million (\$6,893 thousand) to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Profit was reconciled to operating profit in the consolidated statements of income.
3. The "Other" category includes business segments that are not part of reportable segments.

(4) Related information

Year ended March 31, 2019 and 2020

- (a) Information about products and services
Sales data by products and services was not presented as similar information was disclosed in the above segment information.
- (b) Information about geographic area
(i) Net sales
Sales data by geographic area was not presented as the sales in Japan represented more than 90% of net sales in the consolidated statements of income.
- (ii) Property, plant and equipment
Property, plant and equipment data by geographic area was not presented as property, plant and equipment located in Japan represented more than 90% of total property, plant and equipment in the consolidated balance sheets.
- (c) Information about major customers
Of the net sales to external customers, no customer accounted for 10% or more of net sales in the consolidated statement of income.

(5) Information regarding impairment loss on fixed assets by reportable segment

Year ended March 31, 2019

Not applicable

Year ended March 31, 2020

	Impairment loss	
	Millions of yen	Thousands of U.S. dollars
Manufacturing & Telecommunication Systems Business	¥ —	\$ —
Distribution & Media Systems Business	202	1,857
Financial Systems Business	306	2,814
Global System Solutions & Innovation Business	—	—
Business Solutions	—	—
Mobility Systems	—	—
IT Platform Solutions	—	—
IT Management	—	—
Others	—	—
Corporate Assets and Eliminations	—	—
Total	¥508	\$4,672

(6) Information regarding amortization of goodwill and remaining balances of goodwill by reportable segment

Year ended March 31, 2019

	Amortization of goodwill	Remaining balances
	Millions of yen	
Manufacturing & Telecommunication Systems Business	¥30	¥53
Distribution & Media Systems Business	—	—
Financial Systems Business	—	—
Global System Solutions & Innovation Business	—	—
Business Solutions	—	—
Mobility Systems	—	—
IT Platform Solutions	—	—
IT Management	—	—
Others	—	—
Corporate Assets and Eliminations	—	—
Total	¥30	¥53

Year ended March 31, 2020

	Amortization of goodwill	Remaining balance	Amortization of goodwill	Remaining balance
	Millions of yen		Thousands of U.S. dollars	
Manufacturing & Telecommunication Systems Business	¥ 30	¥ 22	\$ 280	\$ 210
Distribution & Media Systems Business	—	—	—	—
Financial Systems Business	—	—	—	—
Global System Solutions & Innovation Business	—	—	—	—
Business Solutions	—	—	—	—
Mobility Systems	—	—	—	—
IT Platform Solutions	—	—	—	—
IT Management	—	—	—	—
Others	398	13,866	3,658	127,415
Corporate Assets and Eliminations	—	—	—	—
Total	¥428	¥13,889	\$3,939	\$127,626

(7) Information about related parties

(a) Transactions between related parties

(i) Transactions between the Company and related parties

(A) Sumitomo Corporation

	Year ended March 31	
	2019	2020
Attribute	Parent Company	Parent Company
Name of the Company	Sumitomo Corporation	Sumitomo Corporation
Location	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo
Common stock amount (Millions of yen)	¥219,448	¥219,612 (\$2,017,942 thousand)
Type of business	Trading Company	Trading Company
Percentage of voting shares in the Company	Direct 51.0%	Direct 51.0%
Relationship of related party 1	Providing of data processing services and software development services	Providing of data processing services and software development services
Transaction amounts (Millions of yen) (Sales of data processing services and software development services)	¥16,565	¥16,574 (\$152,296 thousand)
Balance at year-end (Accounts receivable – trade) (Millions of yen)	¥2,778	¥2,269 (\$20,852 thousand)
Relationship of related party 2	Depositing of funds	Depositing of funds
Transaction amounts (Millions of yen) (Depositing of funds)	¥2,222,500	¥2,053,500 (\$18,868,878 thousand)
Balance at year-end (Millions of yen) (Depositing of funds)	¥83,500	¥78,000 (\$716,714 thousand)
Transaction amounts (Millions of yen) (Interest receipt)	¥16	¥8 (\$77 thousand)
Balance at year-end (Millions of yen) (Accrued income)	¥0	¥0 (\$0 thousand)

Notes: 1. In the amounts above, consumption taxes were included in the outstanding balances at year end, but not in transaction amounts.

2. Transaction conditions and policy on determining transaction conditions

The terms and conditions applicable to the above transactions regarding data processing services and software development services were determined on an arm's length basis after presenting the Company's quotations and conducting price negotiations for each project, with reference to normal market prices and cost ratios.

The interest rates for the depositing of funds were determined on an arm's length basis and with reference to normal market interest rates.

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

Not applicable

(b) Notes regarding the parent company or important affiliates

(i) Parent company information

Sumitomo Corporation (Listed on the Tokyo, Nagoya and Fukuoka stock exchanges)

(ii) Summary of financial information of important affiliates

Not applicable

22. AMOUNTS PER SHARE

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Yen		U.S. dollars
Net assets	¥1,862.78	¥2,000.16	\$18.38
Earnings:			
Basic	268.64	300.50	2.76
Diluted	268.55	300.43	2.76

Note: Net profit per share and fully diluted net profit per share are calculated on the following basis:

Basic net profit per share was computed based on the net profit available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net profit per share was computed based on the net profit available for distribution to 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.

	Year ended March 31		Year ended March 31
	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Earnings per share:			
Profit attributable to owners of parent	¥ 27,892	¥ 31,201	\$286,702
Amount not attributable to common shareholders	—	—	—
Profit attributable to common shareholders	27,892	31,201	286,702
Weighted average number of common stock (Shares)	103,827,903	103,831,412	103,831,412
Diluted earnings per share:			
Adjustments to profit attributable to owners of parent (of which, change in holdings in equity method affiliates due to their issuance of subscription rights)	¥ — (—)	¥ — (—)	\$ — (—)
Increase in shares of common stock (Shares) (of which, exercise of subscription rights to shares)	35,558 (35,558)	26,622 (26,622)	26,622 (26,622)
Outline of dilutive shares excluded from the calculation of diluted net income per share because they have no dilutive effect	—	—	—

23. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

24. CONSOLIDATED SUPPLEMENTARY SCHEDULES

Short-term loans payable and long-term debts

	April 1 2019	March 31 2020	March 31 2020
	Millions of yen		Thousands of U.S. dollars
0.33% unsecured bonds (maturity period: from June 24, 2015 to June 24, 2020)	¥10,000	¥ 10,000 (10,000)	\$ 91,886 (91,886)
0.14% unsecured bonds (maturity period: from December 15, 2016 to December 15, 2021)	10,000	10,000	91,886
0.14% unsecured bonds (maturity period: from July 21, 2017 to July 21, 2022)	10,000	10,000	91,886
0.14% unsecured bonds (maturity period: from September 14, 2018 to September 14, 2023)	10,000	10,000	91,886
Total	¥40,000	¥ 40,000 (10,000)	\$367,545 (91,886)

Notes: 1. Brackets in the March 31 column show amounts scheduled to be repaid within one year.
2. The annual redemption schedule for the five years after March 31, 2020 is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥10,000	\$91,886
2022	10,000	91,886
2023	10,000	91,886
2024	10,000	91,886
2025	—	—

Schedule of borrowings

	April 1 2019	March 31 2020	March 31 2020	
	Millions of yen		Thousands of U.S. dollars	Maturity Period
Short-term loans, principally from banks, with average annual interest rate of 0.12%	¥15,000	¥15,400	\$141,505	—
Current portion of long-term loans payable	—	—	—	—
Current portion of lease obligation with average annual interest rate of 2.02%	843	836	7,688	—
Long-term loans (excluding current portion)	—	—	—	—
Lease obligations (excluding current portion), with average annual interest rate of 2.18%	1,909	1,581	14,529	From April 2021 to March 2029
Other interest bearing debt	—	—	—	—
Total	¥17,752	¥17,817	\$163,722	—

Notes: 1. The average interest rate represents a weighted average interest rate relative to the year-end balance of borrowings.
2. In cases where the Company and its consolidated subsidiaries have different fiscal year-ends, the schedule includes borrowings with maturity dates falling within one year of the Company's fiscal year-end.

Note: 3. Lease obligations (excluding the current portion scheduled for repayment within one year) within five years after March 31, 2020 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥634	\$5,826
2023	437	4,017
2024	351	3,230
2025	111	1,021

Schedule of asset retirement obligations

The schedule of asset retirement obligations is not presented as the amounts of asset retirement obligations as of the beginning and end of the year ended March 31, 2020 accounted for no more than 1% of the total liabilities and net assets as of the beginning and end of the year ended March 31, 2020.

Other

Quarterly information for the year ended March 31, 2020

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Millions of yen)	¥90,967	¥187,329	¥280,722	¥387,003
Profit before income taxes (Millions of yen)	8,002	19,993	32,821	43,961
Profit attributable to owners of parent (Millions of yen)	5,542	13,796	23,049	31,201
Net income per share (Yen)	¥ 53.38	¥ 132.88	¥ 221.99	¥ 300.50

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income per share (Yen)	¥53.38	¥79.50	¥89.12	¥78.51

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Thousands of U.S. dollars)	\$835,868	\$1,721,302	\$2,579,459	\$3,556,036
Profit before income taxes (Thousands of U.S. dollars)	73,529	183,711	301,583	403,948
Profit attributable to owners of parent (Thousands of U.S. dollars)	50,924	126,772	211,797	286,702
Net income per share (U.S. dollars)	\$ 0.49	\$ 1.22	\$ 2.03	\$ 2.76

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income per share (U.S. dollars)	\$0.49	\$0.73	\$0.81	\$0.72



Independent auditor's report

To the Board of Directors of SCSK Corporation:

Opinion

We have audited the accompanying consolidated financial statements of SCSK Corporation and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, statements of comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements

as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

前野 充次

Atsuji Maeno

Designated Engagement Partner

Certified Public Accountant

神塚 勲

Isao Kamizuka

Designated Engagement Partner

Certified Public Accountant

三上 伸也

Shinya Mikami

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

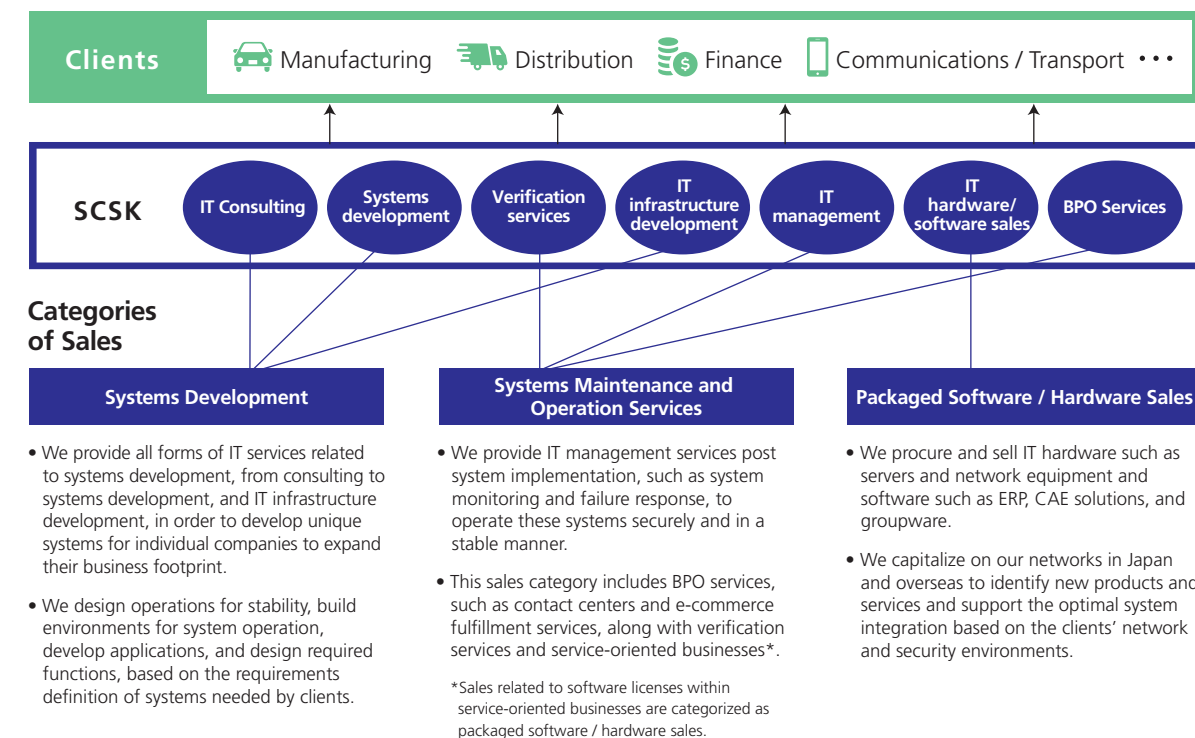
Tokyo Office, Japan

July 31, 2020

Information

SCSK's Operations

We offer a full lineup of IT services required for business, from IT consulting and systems development to verification services, IT infrastructure development, IT management, BPO services, and IT hardware/software sales. These empower us to deliver solutions to clients' business challenges and contribute to new value creation.



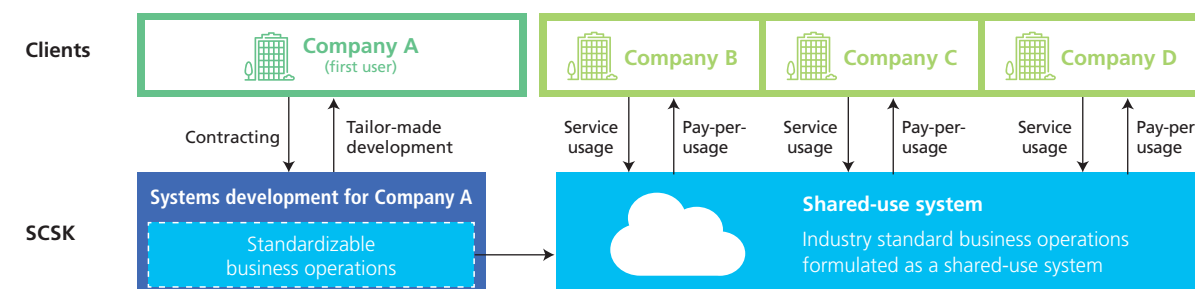
Service-Oriented Business Model

Many companies are actively investing in strategic IT for strengthening competitiveness and increasing corporate value. This has given rise to demand for IT services that reduce and eliminate manpower in business operations.

SCSK has expanded service-oriented businesses by actively utilizing its long-standing business know-how and intellectual properties, based on its in-depth experience with business operations unique to specific industries through close working relationships with countless clients. This business model involves identifying

standardization and generalization within business operations unique to specific industries, and then building shared-use systems to provide to clients in a pay-per-use type.

By providing subscription-based systems for industry standardized and generalized business operations or for domains where clients don't need to differentiate themselves, we can achieve even greater efficiencies and propel forward clients' business transformation.



Basic Information			
Established	October 25, 1969	Head office	Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo 135-8110, Japan TEL : +81-3-5166-2500 URL : https://www.scsk.jp/index_en.html
Capital	¥21,152 million		
Total number of employees	13,979 (Consolidated)		

Group Companies		
Japan		Overseas
<ul style="list-style-type: none">SCSK ServiceWare CorporationVeriServe CorporationJIEC Co., Ltd.*¹Minori Solutions Co., Ltd.SCSK KYUSHU CORPORATIONSCSK HOKKAIDO CORPORATIONSCSK PRESCENDO CORPORATIONSkeed Co., Ltd.CSI SOLUTIONS CorporationAllied Engineering Corporation	<ul style="list-style-type: none">WinTechnology CorporationSCSK SYSTEM MANAGEMENT CORPORATIONVA Linux Systems Japan KKSDC CorporationGran Manibus Co., Ltd.SCSK Nearshore Systems CorporationTokyo Green Systems CorporationARGO GRAPHICS Inc.*² <p><small>*1 JIEC Co., Ltd. merged with SCSK on April 1, 2020. *2 Company accounted for using the equity method</small></p>	<ul style="list-style-type: none">SCSK USA Inc.SCSK Europe Ltd.SCSK Shanghai LimitedSCSK Asia Pacific Pte. Ltd.PT SCSK Global IndonesiaSCSK Myanmar Ltd.

Investor Information			
Stock / Shareholder Information			
Class of stock	Common Stock	Stock listing	First Section of the Tokyo Stock Exchange
Number of shares authorized	200,000,000	Stock code	9719
Number of shares issued	104,181,803 (including 128,562 treasury shares)	Stock trading unit	100
Number of shareholders	27,544	Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
		Independent certified public accountant	KPMG AZSA LLC

Distribution of Shareholders (Common Stock)		
Shareholder composition		
	Number of Shareholders	Composition
Individuals and others	26,687	96.89%
Financial institutions	78	0.28%
Other companies	319	1.16%
Foreign companies, etc.	409	1.48%
Securities companies	50	0.18%
Treasury shares	1	0.00%
Total	27,544	100.00%

Distribution of shares		
	Number of Shares Held	Composition
Individuals and others	7,316,613	7.02%
Financial institutions	18,325,366	17.59%
Other companies	54,746,426	52.55%
Foreign companies, etc.	22,730,941	21.82%
Securities companies	933,895	0.90%
Treasury shares	128,562	0.12%
Total	104,181,803	100.00%

Major Shareholders		
Name of Shareholder	Number of Shares Held	Shareholding Ratio
1 SUMITOMO CORPORATION	52,697,159	50.64%
2 Japan Trustee Services Bank, Ltd. (Trust Account)	6,059,700	5.82%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	3,914,700	3.76%
4 SCSK Group Employee Stock Ownership Association	2,381,222	2.29%
5 Japan Trustee Services Bank, Ltd. (Trust Account 7)	1,181,100	1.14%
6 ARGO GRAPHICS INC.	1,015,500	0.98%
7 STANDARD LIFE ASSURANCE LIMITED-PENSION FUNDS	990,000	0.95%
8 CHASE NOMINEES RE JASDEC TREAT Y CLIENT A/C (GENERAL)	947,600	0.91%
9 Japan Trustee Services Bank, Ltd. (Trust Account 5)	925,500	0.89%
10 JP MORGAN CHASE BANK 385632	872,830	0.84%

Shareholding ratio is calculated exclusive of treasury stock.

History	
Sumisho Computer Systems Corporation	CSK Corporation
1968	Oct. Computer Services Corporation established in Okawacho, Higashi-ku (now Kitahama, Chuo-ku), Osaka-shi, Osaka
1969	Oct. Sumisho Computer Service Corporation established in Kitahama, Higashi-ku (now Kitahama, Chuo-ku), Osaka-shi, Osaka
1982	Jun. Listed in the Second Section of the Tokyo Stock Exchange
1985	Mar. Shifted to the First Section of the Tokyo Stock Exchange
1987	Oct. Established Sumisho Computer Service (USA), Inc. (now SCSK USA Inc.) Jan. Company name changed to CSK Corporation
1988	Feb. Tokyo Center No. 1 opened (now netXDC Tokyo Center 1)
1989	Feb. Listed on the Second Section of the Tokyo Stock Exchange
1990	May. Established Sumisho Computer Service (Europe) Ltd. (now SCSK Europe Ltd.)
1991	Sep. Shifted to the First Section of the Tokyo Stock Exchange Jan. Tokyo Center No. 2 opened (now netXDC Tokyo Center 2) Oct. Company name changed to Sumisho Computer Systems Corporation
2002	Oct. Data Center opened in Inzai, Chiba (now netXDC Chiba Center)
2005	Aug. Merged with Sumisho Electronics Co., Ltd. Oct. Shifted to a holding company structure. Company name was changed to CSK Holdings Corporation
2006	Dec. Acquired data center facilities in Sanda, Hyogo (now netXDC Sanda Center)
2007	Feb. Established Sumisho Computer Systems (Shanghai) Ltd. (now SCSK Shanghai Limited) Nov. Established Sumisho Computer Systems (Asia Pacific) Pte. Ltd. (now SCSK Asia Pacific Pte. Ltd.)
2010	Oct. 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

SCSK	
2011	Oct. Sumisho Computer Systems Corporation merged with CSK Corporation, with SCS as the surviving company and the new company named SCSK Corporation
2012	Jun. Main business headquarters changed to Toyosu, Koto-ku, Tokyo
2015	Apr. netXDC Chiba Center 2 opened in Inzai, Chiba
2018	Dec. netXDC Sanda Center 2 opened in Sanda, Hyogo Jun. Established PT SCSK Global Indonesia Established SCSK Myanmar Ltd.
2019	Oct. 50th anniversary of SCSK Corporation's founding

Global Network

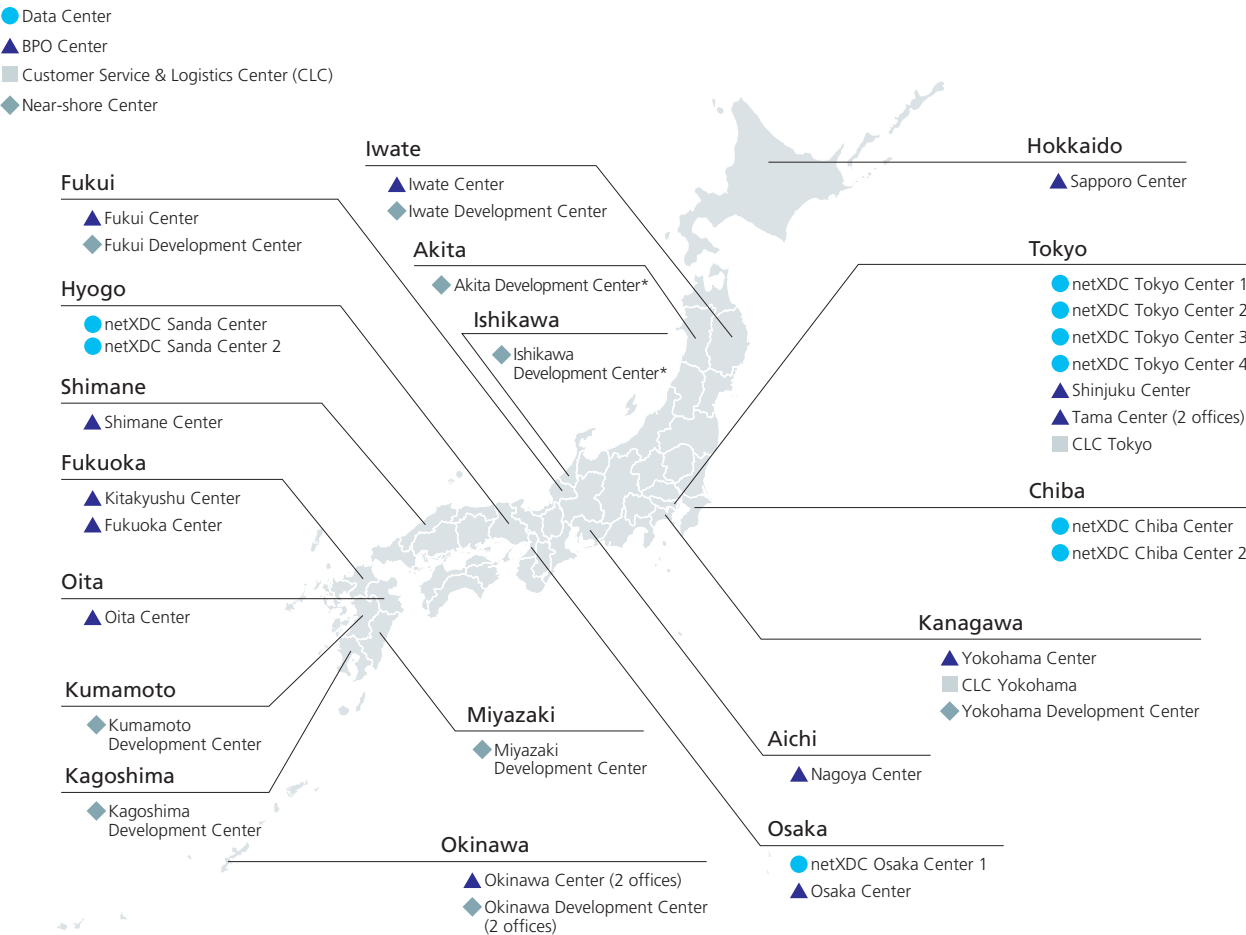
Overseas Network

Our worldwide network provides strong support for customers' global business development.



Domestic Network

Our domestic network provides high quality services with unwavering reliability and security.



* Opened on April 1, 2020

Glossary

○ AI (Artificial Intelligence)

An artificial system composed mainly of computers for handling sophisticated intellectual work and decisions that were only possible by people.

○ BPO (Business Process Outsourcing)

Outsourcing various business processes to a specialized firm.

○ BSW (Basic Software)

Operating system, drivers and middleware for ECU.

○ CAD (Computer-Aided Design)

Creating designs and drawings for industrial products, buildings, etc. using a computer.

○ CAE (Computer Aided Engineering)

A method of development where product design and structural analysis are conducted using computer simulation.

○ CRM (Customer Relationship Management)

An approach utilized for corporate management strategy in which various forms of data are obtained using IT and creating a database to analyze and use this data for various purposes.

○ DX (Digital Transformation)

The spread and penetration of IT transforming various aspects of people's lives for the better.

○ ECU (Electronic Control Unit)

A computer for controlling automobiles.

○ EDI (Electronic Data Interchange)

A mechanism that unifies information for business transactions in a standard form for electronic exchanges between companies.

○ ERP (Enterprise Resource Planning)

An approach to appropriately allocate and effectively utilize people, things, money and information forming the foundation of corporate management.

○ Fintech

A coined term combining "finance" and "technology."

○ IoT (Internet of Things)

A system where various things are connected through the Internet, enabling the communication of information or data on these things.

○ MaaS (Mobility as a Service)

A system that uses IT to seamlessly connect various forms of transportation, such as trains, buses, and taxis.

○ PLM (Product Lifecycle Management)

A method for comprehensively managing products within all processes from product development planning to design, production and user support after shipment.

○ RPA (Robotic Process Automation)

A system for streamlining and automating white collar work using rule engines, machine learning and artificial intelligence.

○ SaaS (Software as a Service)

A system for providing application software functions to customers over a network when needed.

○ SCM (Supply Chain Management)

A management method that seeks total optimization of distribution from raw materials and components to products, by sharing information on orders, inventory, sales, and logistics inside the company and with business partners.

○ SoR (System of Record)

A system designed with emphasis on recording and managing important business data.

○ SoE (System of Engagement)

A system that flexibly responds to constantly changing customer needs and behavior patterns with the purpose of building stronger relationships with customers.

○ Blockchain

A technology for creating a network that is difficult to disrupt or modify because data is spread across computers located around the world without a centralized computer.