SCSK Corporation
Analyst Meeting on Mobility Business Strategy
Q&A Session Summary

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Q. What is the adoption rate for basic automotive software, and how will this situation change going forward? Could you please offer an overview of the landscape?
A. We do not have a precise figure for the basic automotive software adoption rate. However, we do estimate that around half of the electronic control units in a single automobile employ the AUTOSAR standard. However, this does not mean that all electronic control units will be adopt this standard going forward as there are some units for which this standard cannot be applied. We expect to see a change in platforms at the timing of the integration of electronic control units. This change will likely occur in around a decade.

Q. Is model-based development included in the scope of the business for which you target a scale of net sales of ¥100.0 billion? What portion of the targeted sales are to be generated overseas?
A. The target includes model-based development. Overseas sales represent a portion of the sales projected in the mobility service provider business, but overseas sales are not included in the software defined vehicle supplier business. Projections for overseas sales will be adjusted based on our alliance with FPT Software Ltd. and on our global strategies going forward.

Q. Am I correct in assuming that, of the targeted business scale of ¥100.0 billion in net sales, 20% to 30% will come from existing businesses, 40% will come from the software defined vehicle supplier business, and 30% will come from the mobility service provider business?
Given that the selling prices for basic automotive software products are not particularly high, it seems like it might be difficult to accomplish this target merely by increasing the number of vehicles using SCSK's products. How does SCSK plan to grow its business? Also, how long do you think it will take to recover your investment in this area?
A. When we talk about development support, we are referring to resource businesses that hinge our ability to secure engineering capacity. Accordingly, we aim to double our capacity by 2030.
The most important point with regard to our efforts to accomplish our target of net sales of ¥100.0 billion will be the rising needs for standardized and shareable services in the electronic control unit software and software development and verification fields. We expect to see this trend emerge as automobile manufacturers focus on new architecture in the software defined vehicle supplier field. By capturing demand in these areas, we aim to grow our business to have a

substantive scale.

For example, it is estimated that engineering services provided to Japanese automobile manufacturers by European companies tend to entail projects of a scale of between ¥2.0 billion and ¥3.0 billion a piece. If we can apply our models to this market, and thereby achieve mass production, we should be able to further grow the scale of our business.

Automobiles require verification after every model change, not matter how small, in order to ensure safety. Accordingly, there is potential for SCSK to secure a significant scale of sales by receiving comprehensive outsourcing contracts for processes spanning from planning to verification.

Q. What type of timetable do you envision for the release of the next major software required for SCSK to become a tier-1 provider? Also, how does your approach differ from that taken thus far?

A. Basic automotive software itself will continue to provide value. Accordingly, we are expanding the scope of our product development efforts to include peripheral fields. In regard to the timing for the launch of QINeS-BSW, as we were unable to secure the cooperation of automobile manufacturers, SCSK completed and launched this product on its own. Customers have thus been able to actually use QINeS-BSW, and we have received praise for our accomplishments thus far. The main difference from our prior approach is that we are now engaged in joint development with automobile manufacturers. Through these activities, we seek to create, for example, development infrastructure, integrated enterprise data management tools, and tools with the interface capabilities necessary for incorporating condition requirements into platforms. We have also seen a certain degree of success in supplying development support services, such as the verification services we provide to automobile manufacturers.

Furthermore, SCSK possesses hardware-in-the-loop simulation infrastructure that allows us to supply related services to automobile manufacturers.

We are able provide verification solutions that combine such services, and we hope to standardize and build upon these solutions going forward.

Q. Given the target of net sales of ¥100.0 billion, it seems as though SCSK is anticipating sales of tens of billions of yen from each of the OEM manufacturers it serves. From the perspective of these customers, this would entail entrusting SCSK with a significant portion of operations. However, I also understand that OEM manufacturers are looking to increase use of their own products and are shifting to in-house production. Despite this trend, it is safe to assume that OEM manufacturers will entrust SCSK with an increased number of projects going forward? Also, what is SCSK's share for basic automotive software provided to OEM manufacturers and to what degree do you expect to grow this share going forward?

A. It is true that OEM manufacturers are increasingly turning to in-house production, but SCSK is developing a business model in which it is common for the Company to act as a component of such in-house production. We have thereby been successful at building mutually beneficial win-win relationships that allow the engineers of automobile manufacturers to focus on new development projects while SCSK handles the all of the minor development tasks that can arise, for example, from small changes to models. These relationships are made possible by the prior ties we had forged through development support service and platform businesses.

Our share for basic automotive software is likely very small. However, as OEM manufacturers probably want to avoid depending on SCSK as their primary source for such software, we are deploying a strategy of acting as a secondary provider.

Q. I understand that the V-model for software development has been around for a while. SCSK has stated its intent to grow its software defined vehicle supplier business going forward with a focus on developing software through a V-model process. Does this mean that SCSK was late to adopt the V-model development approach?

A. We have been using a V-model development approach since around 2004, and we have long history of standardizing architecture through model-based development and platform commercialization. Accordingly, it would be inaccurate to say that we were late to adopt the V-model development approach.

It is common for embedded technology engineers to be involved in the back-end processes of the V-model development process. At SCSK, however, we have a number of such engineers involved in the front-end processes. The goal of our software defined vehicle supplier business is to achieve growth by providing automobile manufacturers with services that help them shift resources from shortening and verifying development processes to planning new products. Examples of such services might include verified packages bundling QINeS-BSW with peripheral products to be developed going forward as well as consulting regarding the introduction of such services and outsourcing services that utilize offshore and nearshore development.

Q. I am correct in thinking that it will continue to be software development support services that make contributions to growing net sales?

A. Our outlook is a little different. SCSK aims to grow the portion of sales from high-price Tier-1 software. Our operations in this area are similar to consulting. Here, we seek to provide overall engineering support and to encourage customers to use SCSK products in the areas where we offer development support. In this manner, we look to engage in operations that encompass all areas of development projects, spanning from the front-end to the back-end processes.

Moreover, we will endeavor to increase the volume of services we supply in the software development support field while maintaining our current levels of profitability through development streamlining and efficiency improvements achieved by reusing commercialized products.

Q. We are seeing a clear trend toward electric vehicles. What type of user and customer bases do you envision for SCSK's mobility businesses in 2030. Also, do you, for example, expected to see market entry by overseas companies or by players from outside of the automotive industry?

A. Initially, our strategy was to develop the automotive software business to support Japanese automobile manufacturers. That is how we came up with the name QINeS, which is based on the word "queens." We sought to stand by and support Japanese automobile manufacturers, and thereby help make them into "kings." Our current business plan is focused predominately on Japanese manufacturers. However, we also see the possibility of supporting overseas manufacturers in localizing automotive software to meet their needs. Our alliance with FPT Software will be

one vessel for these activities.

Q. SCSK's automotive software business staff was stated to be comprised of around 200 people in 2013, but this staff has since grown, recently reaching the scale of 800 people. What size of staff do you think will be necessary in 2030 to achieve your net sales target?
A. We are still in the process of formulating estimates with this regard, but we expect that a development support staff of around 2,000 people will be necessary.

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