

SCSK Corporation
IR Meeting about SCSK's New Medium-Term Management Plan
Transcript of Presentation

Date: June 1, 2023 16:00-17:00

Speakers: Takaaki Touma, Representative Director and President

■ **Introduction**

I would like to thank you for taking time out of your busy schedules to join us today.

As you know, SCSK Group Medium-Term Management Plan (FY2023–FY2025) was announced on April 28, 2023. However, the only opportunity we have had to explain this plan has been the financial results briefing for the fiscal year ended March 31, 2023, that was held on the same day. This is why we chose to arrange today's meeting as an opportunity to delve deeper into the plan.

The reference materials for today are largely divided into three parts. The first part offers a look back at the fiscal year ended March 31, 2023, while the second provides an overview of our management plan and Grand Design 2030 and the third looks at the new Medium-Term Management Plan.

The first part is merely a review of what we talked about at the financial results briefing held on April 28, 2023. Accordingly, I would like to start with the overview of our management plan and Grand Design 2030 in the second part. Please look at slide 12.

■ **Overview of Management Plan [slide12]**

This slide provides an overview of our management plan.

In the upper middle portion of the slide, you will see the SCSK Group's corporate philosophy. This philosophy formed the basis for the material issues defined in 2020, under the previous Medium-Term Management Plan. These material issues are detailed on slide 13. The seven materials represent the specific issues requiring priority attention to ensure that SCSK can grow together with society. These issues were selected by evaluating a range of issues faced by society from a business perspective with an eye toward facilitating the exercise of our corporate philosophy.

Based on our corporate philosophy and the aforementioned material issues, we announced Grand Design 2030, which details our vision for the SCSK Group, together with the previous Medium-Term Management Plan. The new Medium-Term Management Plan has been positioned as the second phase of our journey toward accomplishing Grand Design 2030. However, as you are all aware, the operating environment is currently highly volatile and undergoing great change. Even in these uncertain times, we believe that there is significant potential for IT and digital technologies to be used to create new and unprecedented value

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for customers and the ever-changing society. Amid these conditions, it will be necessary for the SCSK Group to adopt a long-term perspective in assessing the fundamental changes in society if it is to achieve ongoing growth.

Framing such changes to industry structures and the operating environment as an opportunity, we promote sustainability management as a growth strategy with the aim of continuing to grow together with customers and society while uncovering new business opportunities through the use of our core competencies.

■ Grand Design 2030 [slide14]

With this slide, we will look at Grand Design 2030.

Positioning the aforementioned material issues as the compass for management, Grand Design 2030 puts forth our vision of transforming into a Co-Creative IT Company that can contribute to the realization of a sustainability society together with customers and society.

On the left side of the slide, you will find our definition of a Co-Creative IT Company. A basic policy for working toward becoming such a company is to pursue dramatic improvements in comprehensive corporate value, which includes human capital value in addition to economic and social value. We thereby aim to heighten the SCSK Group's fundamental business capabilities. Moreover, the top half of this slide describes the three management policies that will be implemented on our quest to become a Co-Creative IT Company. These policies are linked to core strategies of the new Medium-Term Management Plan, which we will be talking about later. Accordingly, this section can function as a reference for when we get to those strategies.

■ Operating Environment for SCSK Group [slide15]

This slide provides a look at the operating environment for the IT services industry. The course to be taken by system integrators like SCSK is being dictated by external factors, while the users of our services are increasingly turning toward in-house options for their IT needs.

Inside of the Group, we are feeling the limits of the earnings capacity of our traditional businesses. The SCSK Group is the No. 2 conglomerate in the industry when it comes to operating profit margins. However, our competitors have been recently improving their profitability, which has closed the gap between these companies and the Group. We therefore see a need to reorganize our business areas and redevelop our business models in order to achieve higher earnings capacity. This undertaking will require that we address three stagnations present within the organization.

These stagnations affect relationships with clients, business models, and our organizations and people. Given the current volatile and uncertain environment, ensuring the ongoing growth of the Group will require that we accurately identify the issues faced by customers and society and transform our business model so that we can supply IT services that address these issues.

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We are strongly committed to self-transformation founded on even more extensive reorganization of business areas and redevelopment of business models over the next three years.

■ **Positioning of Medium-Term Management Plan(FY2023-FY2025) [slide16]**

It is in this environment that we find ourselves entering the second phase of our journey to become a Co-Creative IT Company in 2030.

Under the new Medium-Term Management Plan, we will pursue dramatic improvements in comprehensive corporate value by reorganizing business areas and redeveloping business models to continue providing new value to customers and society. In addition, we intend to enact a basic policy of maximizing the market value of all employees based on the recognition that the growth of employees drives the growth of SCSK Group.

Some of you might wonder what we mean by "Comprehensive corporate value." The SCSK Group creates the social value and economic value society requires by utilizing its digital technology core competencies to identify business opportunities presented by social issues together with customers and society. At the same, we emphasize human capital value based on the recognition that it is the growth of our employees that drives the growth of the Company. When we speak of "Comprehensive corporate value," we are referring to the sum of this economic value, social value, and human capital value.

This might go without saying, but our approach toward Well-Being is something that is incredibly important to consider. Accordingly, the new Medium-Term Management Plan has also been positioned as a tool for entrenching our emphasis on Well-Being through the various workplaces of the Group in order to help provide employees' work fulfillment.

■ **Medium-Term Management Plan SCSK Group's Core Strategies [slide18]**

Moving on, I would now like to begin our detailed look at the new Medium-Term Management Plan. As shown on this side, the new plan is comprised of three core strategies and three managerial foundation reinforcement measures.

■ **Core Strategy 1 : Decisive Business Shifts –Three Shifts [slide19]**

The core strategy 1 is decisive business shifts. As I mentioned earlier, SCSK is suffering from three stagnations. For this reason, we have prescribed three business shifts designed to alleviate these stagnations.

The first of these three shifts is a shift toward high-potential business areas. As society becomes increasingly digitalized, we will seek to identify business areas expected to see growth and undertake decisive selection and concentration targeting these areas.

Second is a shift toward high-value-added areas. This shift is predicated on our targeting those high-value-added areas in which we can utilize our IT consulting functions along with other approaches to identify the issues faced by customers, markets, and society and actively propose solutions to said issues.

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Moreover, the insight we have accumulated thus far will be used to organically link SCSK's intellectual properties and to develop products and service bundles, after we have acquired the necessary advanced technologies. SCSK has a lot of experience developing systems scratch. However, the profit margins of systems developed using service bundles or SCSK intellectual properties tend to be at least around 10%, and sometimes 20- 30%, higher than those for systems developed from scratch. These higher margins are one of the reasons we are committed to undertaking this shift.

Lastly, we will shift toward high-productivity business models. In the past, our business model has been such that we would receive compensation based on the amount of labor we provide. Looking forward, we aim to shift toward a model in which we receive compensation based on the value of the services we provide. Standardizing our processes and consolidating our resources will be one way we go about this. This was also a focus under the previous Medium-Term Management Plan, but we look to further accelerate this shift under the new plan.

These three decisive shifts will be undertaken in all of the SCSK Group's businesses.

■ Core Strategy 2: Development of Market-Leading Businesses in Growth Markets [slide20]

The core strategy 2 is development of market-leading business in growth markets. This strategy is the main focus of the new Medium-Term Management Plan. Accordingly, we intend to utilize the resources and earnings generated through the core strategy 1 to advance this strategy 2.

By fully leveraging and applying the SCSK Group's cloud and digital technologies, we will seek to lead market growth and achieve rapid earnings growth in growing markets and technology areas related to cloud and digital technologies.

Through the implementation of the core strategy 2, we aim to grow the scale of sales from the applicable business areas, those listed on this slide, from the current ¥130.0 billion to ¥200.0 billion, which will represent an increase of ¥70.0 billion.

Of this ¥70.0 billion increase, ¥50.0 billion is expected to be attributable to modernization services for resolving social and customer issues, sales of innovation services for new value creation will contribute more than ¥10.0 billion, and also integration services supporting society's digitalization will contribute more than ¥10.0 billion.

■ Core Strategy 2: Development of Market-Leading Businesses in Growth Markets [slide21]

Next, I would like to look at the specific fields that will be targeted under the core strategy 2.

First is the manufacturing field. In this field, we supply enterprise resource planning (ERP) services to enterprises with a focus on system analysis program (SAP) services. SCSK provides services to a large number of manufacturers through its subdivision and other

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businesses, and we have amassed a significant amount of operational insight and expertise through this process. We also have a wide-ranging lineup of products that includes computer aided engineering and product lifecycle management offerings for upstream manufacturing areas. We therefore aim to move beyond the core areas of production and supply chain management to provide comprehensive support that includes after-sales services. Through this approach, SCSK will seek to transition to a business model that delivers even higher value.

Unfortunately, although our prior ERP teams have been cross-industrial organizations, they have not been effective at coordinating in specific industrial areas. This is due in part to the project spillover between teams. To rectify this issue, we integrated these teams to form a single organization in the fiscal year ending March 31, 2024. To be honest, I had expected that a significant amount of time would be required for reskilling training and other measures to get the new organization up to speed. However, members of the new organization were well versed on the manufacturing industry and also had a range of experience in systems development. This helped expedite the process, and we have thus already been able to start accommodating SAP businesses. Going forward, we intend to accelerate such personnel shifts.

In regard to ERP services, please look at the “Mid-sized company data-driven management support” section of the slide. SCSK offers its proprietary ProActive ERP package. Under the previous Medium-Term Management Plan, this package was redesigned to become a proprietary ERP tool for assisting in the digitalization and business transformation of the mid-sized companies that support the domestic economy. We have already released accounting, human resource, and wage management modules for this tool, and we plan to launch a new sales module in the fiscal year ending March 31, 2024. The 2021 merger of subsidiaries that gave rise to SCSK Minori Solutions Corporation was aimed at accelerating our ERP businesses to enable us to better explore the mid-sized company market. We thus intend to strengthen coordination with this company to grow our businesses in this area.

In the financial field, SCSK provides anti-money laundering products that are incredibly competitive on the global market. In fact, Japan’s Financial Services Agency has selected SCSK as an organization supporting projects for enhancing anti-money laundering measures. We are receiving subsidies as a result of this designation, and we are the only private-sector company to be chosen for this subsidy program, with the only other entity receiving subsidies under this program being a government organization. Financial crimes are becoming increasingly sinister. SCSK is committed to growing its anti-money laundering product business through the use of AI and other technologies in order to help combat these crimes. We currently have a share of around 50% among regional and other banks. At the same time, among non-bank entities we are seeing the rise of embedded finance, which entails embedding financial services into the non-financial businesses. There has been a strong trend in inquiries from companies seeking to adopt an embedded finance approach, and we are having a difficult time securing the resources needed to accommodate this robust demand.

One of the businesses born out of our efforts to commercialize digital transformation under the previous Medium-Term Management Plan was the turnkey asset management platform business. In this business, we seek to generate earnings by catering to the needs of financial

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product and service brokers. It will take some time before the idea of investing in such platforms becomes entrenched in Japan, but we have no doubts that this business will grow in the future.

Meanwhile, SCSK announced a business and capital alliance with MILIZE Inc. on April 26, 2023. This company boasts strength in relation to financial engineering, big data, and AI. By partnering with MILIZE to grow such financial businesses while embedding AI technologies, SCSK will endeavor to enhance its value proposition.

The last field detailed on this slide is business process modernization. SCSK ServiceWare Corporation is a Group company that is dedicated to business process outsourcing (BPO) services, and we are ramping up coordination with this company. It can be expected that IT staff shortages at customers will become increasingly more serious in the future. This situation is giving rise to a trend toward addressing IT staff shortages by pulling individuals from other areas to be reskilled as IT personnel. Amid this trend, we anticipate a widening range of opportunities for revising business processes. SCSK therefore looks to respond to such business process revisions by combining BPO and IT services into unique service offerings that can be used to approach to business divisions from the perspective of BPO.

On April 12, 2023, SCSK acquired Inet Support Inc. and converted this company into a wholly owned subsidiary. Going forward, we intend to continue to strengthen our business process modernization operations by engaging in such partnerships and acquisitions while also extracting human resources. We also expect to see innovations in customer contact points brought about by generative AI technologies like ChatGPT. The Company is therefore moving ahead with the investments deemed necessary with a focus on such technologies.

■ Core Strategy 2: Development of Market-Leading Businesses in Growth Markets [slide22]

The first area I would like to look at with this slide is healthcare. We began talking about our Dr2GO solution during the period of the previous Medium-Term Management Plan. We aim to strengthen this solution for addressing social issues related to such areas as workstyle reforms for the healthcare field while also creating an earnings foundation comprised of services based on data utilization. Furthermore, we commenced a business alliance with 4DIN Ltd. on May 31, 2023. This was coincidentally the same day that a frontpage article in *The Nikkei* newspaper was published speaking of how healthcare data can be used to further drug discovery and the development of measures for combating infectious diseases without the consent of the individual in question so long as said data is anonymized. It just so happens that 4DIN is a company specializing in anonymization processes, even holding patents with this regard. SCSK intends to continue exploring potential options for partnerships with the aim of increasing the value of Dr2GO and other healthcare businesses. Our businesses in this field are still quite small, but we aim to build upon and grow these businesses going forward.

Next, we will look at the mobility field. This is an area where we have struggled in the past. Fortunately, as we worked to become software-driven supplier, we have been joined by engineers from original equipment manufacturers the likes of which we previously could not have imagined. These engineers are committed to being valuable partners to SCSK. They

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have helped educate us on upstream automobile manufacturing processes. Moreover, these individuals can go beyond simply supporting downstream processes to take part in upstream engineering and even development within the Company. Meanwhile, we are increasing the value we provide through sales of licenses for QINeS-BSW products. As we seek to grow this business in upstream areas, we also intend to branch out into areas that are suited to the unique capabilities of SCSK.

Moving on, let us look at the security field. In this field, we have recently seen an increase in business negotiations pertaining to large-scale network security projects. The growing scale of business negotiations is itself a risk. As another emerging risk, we anticipate growth in new security markets pertaining to containers and web applications. However, we already prepared a number of products focused on such markets. SCSK is a company that has primarily been engaged in software development. We therefore intend to explore the unique approach toward security businesses that we can take given this history. We will also look at the possibility of establishing a dedicated company to grow our business in the security field.

Last is global business. Our forays in the global market are still in their early stages. Accordingly, we have narrowed the scope of our operations to target the ASEAN region, where we aim to develop a locally rooted business founded on the SCSK Group's competitive digital services and intellectual properties. Of course, we must also think about the Sumitomo Corporation Group and global digital transformation. We will therefore be dedicating efforts to these areas while taking full advantage of the opportunities they present.

■ Core Strategy 3: Advancement of Next-Generation Digital Businesses through Co-Creation with Society [slide23]

The core strategy 3 is advancement of next-generation digital businesses through co-creation with society. In accordance with this strategy, we will leverage our core business insight as well as the business design and new business development insight cultivated through efforts to commercialize digital transformation as we constantly explore new business possibilities in areas based on the SCSK Group's material issues. We will thereby work to create completely new, next-generation digital businesses that can achieve rapid growth.

In the lower righthand corner of this slide, you will find information on our approach toward the wealth management field. Our efforts in this field will be tied to the material issue of innovating for a brighter society as we seek to expand our lineup of services that help people enjoy their lives after retirement in the upcoming era in which people more frequently live to be one hundred.

Meanwhile, our initiatives in the security field are anticipated to contribute to building trust for a safe and secure society by addressing the ever more serious threat of cyberattacks. As an extension of the efforts to be advanced under the core strategy 2, we will strive to rapidly evolve our operations in the security field.

SCSK's green transformation initiatives are oriented toward global environmental contributions. We have already begun developing businesses that contribute to the green transformation of society through means such as promoting the use of renewable energy and assisting in carbon management. Specifically, we have launched a green transformation

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concierge service through collaboration and co-creation with Sumitomo Corporation and ABeam Consulting Ltd.

The core strategy 3 is not so much aimed at generating results under the current Medium-Term Management Plan as it toward laying the groundwork for growth under the next Medium-Term Management Plan. We therefore aim to ensure that we can effectively build the necessary foundations in order to increase the range of businesses that can contribute to the rapid growth of the SCSK Group over the long term.

■ Managerial Foundation Reinforcement Measures :Promotion of Technology-Driven Approach [slide24]

We will now move on to the discuss the managerial foundation reinforcement measures put forth by the Medium-Term Management Plan.

The first such measure is the promotion of a technology-driven approach. SCSK is an IT service company, and we therefore see a need to create technology-driven businesses that involve utilizing sophisticated and cutting-edge technologies to engage in co-creation with society. To facilitate these efforts, we recently reorganized the Research & Development Center to form the Technology Strategy Division. We are now poised to carry out advanced technology initiatives that coincide with the strategies of business groups.

I touched on this earlier, but we have dispatched several employees to the National Institute of Information and Communications Technology to take part in the development of natural language processing technologies like ChatGPT. These employees have been playing a central role in the development of a service known as Desse, which was later integrated into PrimeAgent. This service is an interactive AI-powered web agent that uses AI chatbots to provide various services to customers. SCSK has a number of engineers that are proficient in such technologies. These engineers are being consolidated in the Technology Strategy Division, which functions as our center of excellence. There, they are tasked with formulating our approach toward utilizing such technologies in the innovation of client contact points.

■ Managerial Foundation Reinforcement Measures : Maximization of Human Resource Value [slide25]

With this slide, we will look at our efforts toward the maximization of human resource value, the second of the three managerial foundation reinforcement measures. As has been mentioned, SCSK is pursuing dramatic improvements in comprehensive corporate value, of which human capital value is a part. To accomplish this goal, it will be imperative for us to develop a workplace environment that allows employees to fully exercise their skills while selecting business areas and developing business models in which they can excel. We thereby aim to maximize the market value of all employees and consequently the human capital value of the Company. For this perspective, we look to link our human resource portfolio to our business strategies while revising compensation and benefits systems. For example, the IT Skill Level Assessment is an internal program that has been in place at SCSK for a number of years. This program has been helping us track the skills of engineers. Moreover, jobs are defined based on the position level under this program, effectively making for a type of job-based compensation system. However, SCSK's compensation systems are

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not yet entirely based on job, and compensation is not 100% tied to skill assessments. We therefore see a need to revise our compensation and benefits systems to ensure that highly skilled individuals are awarded appropriately.

■ **Managerial Foundation Reinforcement Measures : Value-Driven Management** [slide26]

The last of the three managerial foundation reinforcement measures is value-driven management.

As you are aware, over the past five decades, it has been common for customers to interact directly with the IT systems divisions of system integrators and other IT companies and for these companies to be evaluated through somewhat of a point deduction approach, in which the effectiveness of systems was assumed and points were subtracted for bugs and other issues. Of course, this does not change the fact that we were motivated by the expressions of appreciation from our customers, but we still need to change this somewhat passive approach toward customers. Over the next five decades, I suspect that the IT industry will be subject to levels of scrutiny the likes of which it has never seen before. I am thus constantly mindful of the need for SCSK to become a company at which employees are motivated and provided with a clear sense of the contributions they are making to the society and to the success of customers and also feel the growth they are achieving in line with our material issues. Building such a company must start with employees having an understanding of matters such as our corporate philosophy, material issues, business vision, and business strategies. However, this understanding cannot just be a cognitive one; employees need to be able to truly internalize these principles in order to form a more personal connection with them.

This is one of the reasons I attended the kickoff meetings for all business groups to communicate my thoughts on the new Medium-Term Management Plan directly to employees in my own words. I am more committed than ever to providing employees with a workplace environment in which everyone can feel motivated and fulfilled.

■ **Management Targets (Financial) [slide27]**

This slide reiterates the information on our management targets provided at the financial results briefing for the fiscal year ended March 31, 2023, that was held on April 28, 2023.

Once again, we are targeting operating profit of at least ¥65.0 billion along with an operating profit margin of 12.5% or more in the fiscal year ending March 31, 2026. Growth investments will be advanced as necessitated by the core strategies of the Medium-Term Management Plan.

■ **Management Targets (Non-Financial) [slide28]**

In closing, please allow me to talk about the non-financial indicators for which we have set management targets.

We anticipate improvements in the non-financial performance of the Company going forward.

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To guide these improvements, we have set specific targets pertaining to our human resource portfolio and development measures, Well-Being and diversity and inclusion promotion, and the reduction of greenhouse gas emissions.

In regard to our human resource portfolio and development measures, we see a need for a staff of a least 500 individuals in consulting-related fields, initial upstream areas, and the areas of new business development and design. As of March 31, 2023, our staff of such individuals was just over 250 employees. While this might pale in comparison to a consulting firm, this staff is still a powerful asset for SCSK as a business company. Looking ahead, we hope to cultivate consulting and business design professionals that are familiar with frontline operations in a way that is unique to SCSK.

Through the ongoing cultivation of engineers with advanced technological capabilities, SCSK is bolstering its expertise and capabilities in relation to cloud and digital technologies. At the same time, we recognize the importance of fostering highly skilled project managers. The scale of projects has been growing at rapid pace in recent years, and projects have also been becoming increasingly complex. It is therefore critical for us to expand our staff of project managers capable of overseeing challenging projects while ensuring high levels of quality.

As for Well-Being and diversity and inclusion promotion, SCSK already has a reputation of being a company with a comfortable workplace environment. However, we also cannot deny that we might score low when it comes to motivation and fulfilment, though this is a common issue in the IT services industry. We have long been administering Companywide employee awareness surveys, and one of our goals is to raise the engagement and performance volatility scores gauged through these surveys. Lofty targets have been set for these scores, which we are working toward through Groupwide initiatives. Also, we are promoting Well-Being management alongside these efforts.

With this, I conclude my presentation. Thank you for your attention.

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