

**SCSK Corporation**  
**Consolidated Financial Results for the Six Months Ended September 30, 2024**  
**Q&A Session Summary**

Date: October 29, 2024 3:30-4:30 PM  
Speaker: Takaaki Touma, Representative Director and President  
Yasuhiko Oka, Managing Executive Officer

Q. The strong trends in orders suggest that there will be no concerns with regard to sales in the second half of the fiscal year ending March 31, 2025. However, it seems likely that some challenges will be faced with regard to profit. What is the outlook for the second half of the fiscal year?

A. Operating profit in the six-month period ended September 30, 2024, was in line with the previous equivalent period. This means that we will need to generate around ¥5.0 billion in operating profit during the second half of the fiscal year ending March 31, 2025, if we are to accomplish our target. There are three major factors that are expected to contribute to growth in operating profit in the second half of the fiscal year. The first of these three factors is the digital supply chain enterprise resource planning (ERP), mobility, and security businesses that were explained in reference of core strategy 2 of the Medium-Term Management Plan. These businesses posted substantial growth rates in the six-month period ended September 30, 2024. If this momentum were to continue throughout the second half of fiscal year, it will likely contribute to a large portion of the aforementioned ¥5.0 billion in operating profit. As the second factor, although unprofitable projects detracted ¥1.0 billion from operating profit in the second half of the fiscal year ended March 31, 2024, we do not expect to incur such projects in the second half of the fiscal year ending March 31, 2025. The third factor will be the measures to limit the appropriate costs as we proceed to conduct the necessary investments. Due to these factors, we anticipate that we will be able to achieve our operating profit target for the fiscal year ending March 31, 2025.

Q. Performance forecasts project higher profit during the second half of the fiscal year ending March 31, 2025. Can we anticipate performance in line with these forecasts?

A. Operating profit showed a slight increase in the six-month period ended September 31, 2024. Although the IT Business Solutions segment witnessed a ¥3.0 billion year-on-year decrease in segment profit, the other segments were collectively able to generate ¥3.0 billion in operating profit. Looking at the forecast for the second half of the fiscal year ending March 31, 2025, on a segment basis, we anticipate that the Industrial IT Business segment will make greater contributions to performance in the second half of the year than it did in the first half due to progress in development projects in digital supply chain, mobility, verification service, and other growth businesses. The absence of the ¥1.0 billion in losses on unprofitable projects incurred in the third quarter of the

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fiscal year ended March 31, 2024, will also be a factor contributing to the higher profit in this segment.

In the Financial IT Business segment, higher profit is projected as the strong trends in banking and securities industry projects seen during the first half of the fiscal year are expected to continue into the second half.

The IT Platform Solutions segment, meanwhile, is anticipated enjoy the benefits of strong performance in the security businesses, and projects related to network equipment, servers, and storage equipment are also expected to contribute to profit in the second half of the fiscal year ending March 31, 2025.

As for the IT Management Service segment, the earnings contributions from management service and data center businesses in the second half of the fiscal year will surpass those from the first half due to the benefits of second-half cost reductions and project progress.

Furthermore, the one-time expenses incurred in the IT Business Solutions segment in the six-month period ended September 30, 2024, are expected to dissipate in the second half of the fiscal year. These factors suggest that it will be possible to achieve an increase of ¥5.0 billion in operating profit in the second half of the fiscal year ending March 31, 2025.

Q. I understand that the investments conducted in ProActive operations in the fiscal year ending March 31, 2025, were something that was being considered from the start of the fiscal year. However, it also seems like the asset disposal losses rose suddenly. What were the reasons behind the phenomenon?

Also, is it correct to assume that costs in ProActive operations will decrease in the second half of the fiscal year, resulting in growth in profit?

A. In the fiscal year ending March 31, 2025, we intend to begin deploying the software as a service version of ProActive C4. For this reason, we were a bit conservative in setting our forecasts for the six-month period ended September 30, 2024, and we also ended up recording approximately ¥1.1 billion in losses on disposal of software assets related to ProActive operations.

We kicked off the ProActive C4 plan seven years ago.

However, given recent changes in the operating environment, such as the COVID-19 pandemic and advancements in AI technologies, we realized the need to differentiate our offerings in order to heighten their competitiveness through means such as incorporating AI as a prominent feature.

We also recognized that using prior technologies in pursuit of a high-profitability business might result in sacrifices to maintainability and productivity.

Given these circumstances, we decided to integrate ProActive with atWill, a solution for which we had already achieved successes by adopting an AI-driven development approach, and to transfer its functions to ProActive.

This move is anticipated to help us provide a differentiated, industry-specific, high-value-added solution. It will still take some time before we are able to release this product, but I am confident that it will prove to be a high-value-added package.

The losses recorded in the six-month period ended September 30, 2024, were one-time losses for disposal of certain ProActive assets and other reasons.

Such losses will not be incurred during the second half of the fiscal year ending March 31, 2025, and performance will recover as a result.

As for sales, while a degree of contributions will be seen as a result of incoming orders, we will not likely witness a full-fledged recovery until the fiscal year ending March 31, 2026, or beyond.

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Q. Was the deterioration of performance in business process outsourcing (BPO) operations limited to SCSK ServiceWare Corporation?

Also, it was mentioned that there was a need to reform business structures in BPO operations in response to changes in the structure of demand.

Does this mean that it will be difficult to recover performance in these operations in the second half of the fiscal year ending March 31, 2025?

Is there any chance that structural reform or other one-time expenses might be incurred during the second half of the year?

A. Yes, the deterioration of performance in BPO operations was limited to SCSK ServiceWare.

We do not anticipate that the one-time expenses incurred in relation to capital investments in centers and other measures in the six-month period ended September 30, 2024, will continue in the second half of the fiscal year ending March 31, 2025.

Accordingly, profit in BPO operations is projected to improve in the second half of the fiscal year. The operating environment for BPO operations continues to be challenging, and performance has been struggling in these operations since the COVID-19 pandemic.

This is why we are working to shift toward business modernization services, which has entailed costs for cultivating consultants and was thus a source of the costs incurred in the six-month period ended September 30, 2024.

However, we expect the rate of decline in profits in this area to decrease as the cultivated consultants begin contributing to earnings going forward.

Q. Incoming orders for systems development services appeared to be weak in the second quarter of the fiscal year ending March 31, 2025, in comparison to the previous equivalent period.

Am I correct in the understanding that this was a result of quantitative factors, such as the absence of previously recorded orders?

Also, what is the outlook for orders throughout the remainder of the fiscal year?

A. The absence of orders for banking industry projects placed downward pressure on the orders in the Financial IT Business and in overall systems development orders.

However, there has been no change in general business trends, and we therefore anticipate solid trends in orders throughout the remainder of the fiscal year. Regardless, it is difficult to predict order trends on a single-quarter basis given that digital supply chain and other projects have been growing larger and entailing longer periods.

Q. It was mentioned that performance for SAP services was brisk.

Has there been any differences in performance by industry or by field?

A. Firm growth in mobility business orders continued throughout the six-month period ended September 30, 2024.

In addition, the Industrial IT Business segment is witnessing strong performance characterized by the accumulation of SAP and non-SAP development orders from customers including those in the distribution and communication industries.

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Q. We are currently seeing significant changes in the stances toward investment of automobile manufacturers.

It has been stated that there have also been changes in engineering resource stocks.

What type of changes are being seen with this regard? Also, what is outlook going forward?

A. In the six-month period ended September 30, 2024, we undertook a massive expansion in the staff of our mobility business.

This was primarily accomplished through the acceleration of efforts to recruit mid-career individuals, such as engineers with experience at automobile manufacturers, particularly upstream process engineers, as well as individuals from other industries who are proficient at using embedded technologies.

At the same time, we have seen growth in demand for software-defined vehicles, a prior area of focus, as well as for in-vehicle infotainment development services.

Q. What trends have been seen in performance and in operations in businesses applicable under core strategy 2 of the Medium-Term Management Plan?

A. Profitability is high for mobility and SAP services.

The price of services is incredibly high in relation to consulting and implementation phase services. By growing operations in these areas, we expected to be able to deliver increases in profit that exceed those possible in convention businesses and thereby generate future earnings.

Q. How are net sales of enterprise resource planning (ERP) services?

A. Net sales of enterprise resource planning (ERP) services in the six-month period ended September 30, 2024, came to ¥19.4 billion, down ¥0.2 billion compared with ¥19.6 billion in the previous equivalent period.

The primary reason behind this decline was the absence of previously recorded ProActive orders related to Japan's new invoicing system.

Q. Trends in orders are strong, but at the same time costs are on the rise.

Given that reality, what is your outlook at the moment for the likelihood of SCSK achieving that targets set for the fiscal year ending March 31, 2026, the final year of the Medium-Term Management Plan?

A. To be frank, although we had hoped to bring these targets within sight during the fiscal year ending March 31, 2025, changes in the operating environment and technological progress have created various challenges that we still need to overcome.

The structural reforms in BPO operations and the evolution of ProActive were among our measures to tackle these challenges.

I do feel that we have made tangible progress toward overcoming these challenges and reaching the target of ¥65.0 billion set for operating profit in the fiscal year ending March 31, 2026, the final year of the Medium-Term Management Plan.

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