

SCSK Corporation and Consolidated Subsidiaries

Consolidated Financial Statements
for the Fiscal Year Ended March 31, 2023
and Independent Auditor's Report on the Financial Statements
and Internal Control Over Financial Reporting

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Independent Auditor’s Report on the Financial Statements
and
Internal Control Over Financial Reporting

June 22, 2023

To the Board of Directors of SCSK Corporation:

KPMG AZSA LLC
Tokyo Office, Japan

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Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

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Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of SCSK Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) provided in the Data Section in the company’s Annual Report, which comprise the consolidated statement of financial position as of March 31, 2023, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, in accordance with Article 193-2(1) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of “the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (hereinafter referred to as “IFRS”).

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the estimated total cost as the basis for net sales and provision for loss on construction contracts related to system development	
The key audit matter	How the matter was addressed in our audit
<p>As described in Note “3. Significant accounting policies (15) Net Sales” to the consolidated financial statements, SCSK Corporation and its consolidated subsidiaries (hereinafter, “SCSK”) recognize net sales from the system development contracts and other contracts that meet certain requirements (hereinafter, “the Contracts”) by applying the percentage-of-completion method. The percentage of completion is measured using the percentage of actual cost incurred by the end of the current fiscal year to the estimated total cost. As described in Note “25. Net Sales” to the consolidated financial statements, of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2023 was ¥14,661 million (of which ¥13,850 million was recognized in the current fiscal year and ¥811 million was recognized in prior fiscal years). In addition, as described in Note “3. Significant accounting policies (13) (a) Provision for loss on construction contracts” to the consolidated financial statements, SCSK recognizes estimated future losses as provision for loss on construction contracts when it is probable that the estimated total cost of fulfilling the obligations to contracted customers exceed the contract amount and the amount of expected loss can be reliably estimated. As described in Note “22. Provisions” to the consolidated financial statements, the amount of the provision for loss on construction contracts was ¥406 million as of the end of the current fiscal year.</p> <p>As stated above, the recognition of net sales associated with the Contracts and the measurement of provision for loss on construction contracts are both affected by the estimated total cost.</p> <p>Development projects under the Contracts have individuality in the content, such as specifications that vary according to customer requests. Due to facts identified or changes in circumstances that occurred after the commencement of the</p>	<p>The primary procedures we performed to assess the reasonableness of the estimated total cost included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain SCSK’s internal controls relevant to the process of determining the estimated total cost. In this assessment, we specifically focused our testing on the following:</p> <ul style="list-style-type: none"> ● controls to ensure that the estimated total cost was reasonable while considering the individuality of development projects; and ● controls to ensure that any changes in circumstances that occurred after the commencement of the Contracts were reflected within the estimated total cost in a timely manner. <p>(2) Assessment of the reasonableness of the estimated total cost</p> <p>In order to assess the appropriateness of key assumptions in estimating total cost, of the uncompleted projects under the Contracts, we selected contracts on which revision of the estimated total cost could potentially have a significant effect. In the selection process, we inspected the materials for the project status meetings held by the personnel responsible for the monitoring and used our own selection criteria. As the primary procedures performed for the selected Contracts, we:</p> <ul style="list-style-type: none"> ● Evaluated the reasonableness of the percentage of completion by inquiring of the personnel responsible for monitoring the progress status, reviewing relevant documents and comparing them with the percentage of completion in

<p>development projects, revision of the services and necessary work hours may be required. Estimate of total cost involves uncertainty due to the individuality of development projects, and changes in facts and circumstances as described above. Although total cost is estimated using cost accumulation methods based on certain data and assumptions such as services in line with development projects and necessary work hours, management's judgment thereon has a significant effect on the estimate of total cost.</p> <p>We therefore determined that our assessment of the reasonableness of the estimated total cost is of most significance in our audit of the consolidated statements for the current consolidated fiscal year, and accordingly, a key audit matter.</p>	<p>consideration of the cost occurrence patterns on previous similar projects.</p> <ul style="list-style-type: none"> ● Inquired of the appropriate management personnel (project control departments and the monitoring department), about any changes in circumstances that occurred after the commencement of the Contracts and their decision on a revision of the estimated total cost, and reviewed relevant documents. We also assessed whether changes in a project were reflected in the estimated total cost in a timely and appropriate manner in cases where there were facts such as additional work hours were required or the project was delayed. ● Compared the estimated total cost with supporting documents for cost accumulation on which the estimates were based, and evaluated whether appropriate costs were estimated in line with the content of the development project for the Contracts that were identified as having a high degree of estimation uncertainty.
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Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The Audit and Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 IFRS, 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 IFRS.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to 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. 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.
- 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 IFRS, 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.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of the Company as of March 31, 2023, in accordance with Article 193-2(2) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2023, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the Internal Control Report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Internal Control Report* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report 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 Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The audit and supervisory committee is responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor's Responsibilities for the Audit of the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision

and performance of the audit of the internal control report. 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 our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

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.

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.

Notes to the Reader of Audit Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan.

Management's Discussion and Analysis

SCSK Corporation and Consolidated Subsidiaries

1. OVERVIEW OF RESULTS

(1) Economic and Industry Trends

Forward-looking statements contained in this document are based on the judgement of SCSK Group as of March 31, 2023.

In the fiscal year ended March 31, 2023, the global economy was impacted by the rapid yen depreciation that followed from the massive interest rate increases instituted overseas to combat inflation, the rising resource prices resulted from the war in Ukraine, and concern for financial systems stemming from the collapse of a notable U.S. bank. Meanwhile, economic activity in Japan picked up as social activity was resumed amid the COVID-19 pandemic, contributing to a gradual recovery in the domestic economy.

The Japanese economy is anticipated see the return of a full-fledged recovery trend as fiscal and financial measures and growth strategies are advanced in an integrated manner while economic and social activities return to normal. However, there is a risk that downward pressure might be placed on the Japanese economy as a result of sluggish conditions overseas seen against a backdrop of global monetary tightening. In addition, caution is required with regard to supply restrictions and rises in raw material prices stemming from the potential prolongation of the war in Ukraine as well as the impacts of fluctuations in financial and capital markets.

In this economic environment, the IT services market continues to enjoy an upward trend in IT investment. This investment is being driven by a strong appetite for IT investment for growing businesses and bolstering competitiveness seen among a wide range of industries. Meanwhile, ongoing growth in demand for IT investment is expected amid conservative outlooks for business sentiment due to global rises in commodity prices and supply chain disruptions. Specific targets of demand will include transitioning from existing systems to cloud systems to accommodate the increasingly digital society.

Demand for IT investment continues to increase among our customers in the manufacturing industry. Outlets for this investment demand include strategic investments and the redevelopment of core systems for strengthening operating foundations. In the financial industry, demand was strong for investment for the purpose of developing money laundering and illegal transaction detection and prevention systems. As for the distribution industry, IT investment demand was up for core system development and operating foundation reinforcement applications.

In addition, consistent demand is being seen for cloud IT services along with continuous investment demand for redeveloping core systems to address the ends of software service periods. This demand is being driven by a robust appetite for improvements in operational efficiency and productivity. This situation is expected to generate ongoing demand for systems redevelopment and strategic IT investment demand prefaced on digital transformation.

(2) Consolidated Results

In the fiscal year ended March 31, 2023, net sales increased 7.7%, to ¥445,912 million, as a result of higher sales in all three sales segments, namely Systems Development, System Maintenance and Operation / Services, and Packaged

Software / Hardware Sales segments. This sales growth was driven by higher systems development demand and increased sales of maintenance and operation services and network security equipment seen amid ongoing rises in IT investment demand.

Operating profit rose 8.0% year on year, to ¥51,361 million. This outcome was a result of detractors from profit being counterbalanced by the benefits of increased sales and higher profit margins centered on systems development. Such detractors included higher expenses associated with business investments, such as the initially anticipated depreciation of data center and amortization of the in-house-developed ERP package ProActive C4, and expenses related to television commercial broadcasting aimed at enhancing corporate brand value. Other detractors included unprofitable projects.

Profit attributable to owners of the parent, meanwhile, increased 11.4%, to ¥37,301 million, as a result of valuation gains on investment securities.

2. Overview of Results by Reportable Segment

Performance by segment was as follows. Net sales represent the amount of sales to outside customers.

For the fiscal year ended March 31	Millions of yen					
	2022		2023		Comparison with previous fiscal year	
	Net Sales	Segment profit	Net Sales	Segment profit	Net Sales	Segment profit
Industrial IT Business	¥132,203	¥16,637	¥149,398	¥19,522	¥17,194	¥2,884
Financial IT Business	56,526	7,107	59,385	6,794	2,858	(312)
IT Business Solutions	63,327	5,972	68,724	7,314	5,397	1,342
IT Platform Solutions	83,969	12,003	88,456	12,833	4,486	829
IT Management Service	55,473	6,469	56,709	6,308	1,236	(161)
Others	22,826	1,599	23,223	1,618	396	18
Adjusted total	(177)	(2,235)	14	(3,029)	192	(794)
Total	414,150	47,555	445,912	51,361	31,761	3,806

Industrial IT Business

Net sales increased 13.0% year on year, to ¥149,398 million, and segment profit grew 17.3%, to ¥19,522 million. Factors behind this outcome included increased sales of verification services and higher core systems redevelopment service sales to the distribution industry along with growth in investment demand pertaining to automobiles, electric machinery, and other strategic manufacturing areas.

Financial IT Business

Net sales were up 5.1% year on year, to ¥59,385 million, following rises in fraud detection system development projects for the credit and leasing industries, DevOps projects, and large-scale license sales to the life and non-life insurance industries. Segment profit was down 4.4%, to ¥6,794 million, as a result of multiple unprofitable projects associated with

the banking industry.

IT Business Solutions

Net sales were up 8.5% year on year, to ¥ 68,724 million, and segment profit rose 22.5%, to ¥ 7,314 million, due to the firm performance of business process outsourcing (BPO) operations and core systems development projects centered on the manufacturing industry.

IT Platform Solutions

Net sales were up 5.3% year on year, to ¥88,456 million, and segment profit grew 6.9%, to ¥12,833 million, primarily due to the higher equipment sales to the specific customers in the communications industry and increased sales of network security products to wholesale distributors.

IT Management Service

Net sales were up 2.2% year on year, to ¥56,709 million, as a result of growth in the data center business. Segment profit, meanwhile, was down 2.5%, to ¥6,308 million, due to higher electricity bills as well as to increases in depreciation and operating expenses associated with newly constructed data centers.

Others

Net sales were up 1.7% year on year, to ¥ 23,223 million, and segment profit rose 1.2%, to ¥ 1,618 million.

3. Net Sales by Segment

Net sales in the Company's service-based sales segments, namely the Systems Development, System Maintenance and Operation / Services, and Packaged Software / Hardware Sales segments, were as follows:

	Millions of yen					
	2022		2023		Comparison with previous fiscal year	
	Amount	Share (%)	Amount	Share (%)	Amount	Change (%)
For the fiscal year ended March 31						
Systems Development	¥167,967	40.6	¥180,433	40.5	¥12,465	7.4
System Maintenance and Operation / Services	162,407	39.2	175,638	39.4	13,230	8.1
Packaged Software / Hardware Sales	83,776	20.2	89,841	20.1	6,064	7.2
Total	414,150	100.0	445,912	100.0	31,761	7.7

In Systems Development, net sales increased 7.4% year on year, to ¥180,433 million. This increase was seen as a result of the IT investment for developing core systems and strengthening operating foundations seen amid consistently strong IT investment demand from manufacturing and distribution industry customers.

In System Maintenance and Operation / Services, net sales increased 8.1% year on year, to ¥175,638 million.

Sales were up because of the steady performance in BPO operations stemming from higher contact center demand. Another beneficial factor was increases in the sales of data center business and verification services.

In Packaged Software / Hardware Sales, net sales increased 7.2% year on year, to ¥89,841 million, due to the higher sales of network security products.

4. Financial Position

Assets, Liabilities, and Equity

(1) Assets

Assets as of March 31, 2023, were ¥435,469 million, an increase of ¥27,860 million compared to March 31, 2022.

(a) Current assets

Current assets as of March 31, 2023, were ¥244,099 million, an increase of ¥14,043 million compared to March 31, 2022, as a result of increases in trade and other receivables and contract assets.

(b) Non-current assets

Non-current Assets as of March 31, 2023, were ¥191,370 million, an increase of ¥13,816 million compared to March 31, 2022, following increases due to purchase of property, plant and equipment and right-of-use assets.

(2) Liabilities

Liabilities as of March 31, 2023, were ¥163,066 million, an increase of ¥2,821 million compared to March 31, 2022.

(a) Current liabilities

Current liabilities as of March 31, 2023, were ¥108,367 million, an increase of ¥7,191 million compared to March 31, 2022, as a result of increases in interest-bearing debt and trade and other payables.

(b) Non-current liabilities

Non-current liabilities as of March 31, 2023, were ¥54,699 million, a decrease of ¥4,369 million compared to March 31, 2022, as a result of a decrease in bonds and borrowings attributable to the conversion of applicable bonds to current liabilities.

(3) Equity

Total equity as of March 31, 2023, was ¥272,403 million, an increase of ¥25,039 million compared to March 31, 2022.

The main factors behind this increase were profit attributable to owners of parent, in the amount of ¥37,301 million.

Factors that decreased equity included dividend payments of ¥7,286 million (¥23.34 per share) for the year-end dividend of the fiscal year ended March 31, 2022, and dividend payments of ¥8,119 million (¥26.00 per share) for the interim dividend of the fiscal year ended March 31, 2023.

5. Cash Flows

Cash and cash equivalents (“cash”) as of March 31, 2023, increased ¥173 million compared to March 31, 2022, to ¥121,425 million. The changes in each type of cash flow and the main factors for such changes are as follows.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities was ¥43,592 million (a decrease of ¥15,488 million in comparison to the previous fiscal year).

The main cash inflow factors were profit before tax of ¥53,336 million, depreciation and amortization of ¥20,629 million, and an increase in trade and other payables of ¥3,010 million. The main cash outflow factors were a decrease in trade and other receivables of ¥8,477 million, an increase in contract assets of ¥4,286 million, and payment for income taxes of ¥18,450 million.

(2) Cash Flows from Investing Activities

Net cash used in investing activities was ¥14,950 million (decrease of ¥22 million in comparison to the previous fiscal year).

The main cash outflow factors were payment for purchase of property, plant and equipment of ¥9,681 million, and purchase of intangible assets of ¥4,630 million.

(3) Cash Flows from Financing Activities

Net cash used in financing activities was ¥29,074 million (increased ¥3,268 million in comparison to the previous fiscal year).

The main cash inflow factor was proceeds from long-term debt of ¥12,250 million. The main cash outflow factors were repayments of loans and redemption of bonds of ¥17,000 million, repayments of lease liabilities of ¥8,998 million, dividend payments of ¥7,286 million (¥23.30 per share) for the year-end dividend of the fiscal year ended March 31, 2022, and dividend payments of ¥8,119 million (¥26.00 per share) for the interim dividend of the fiscal year ended March 31, 2023.

(4) Liquidity and Capital Resource

(a) Basic Policy and Capital Requirements

To advance the core strategies of the Medium-Term Management plan, the SCSK Group is conducting investment activities in the form of R&D investments for the purpose of developing intellectual properties and bolstering its intellectual property portfolio, capital investments for reinforcing management foundations, business and capital alliances with venture firms around the world with the aim of advancing research on cutting-edge technologies, and human resource investments for recruiting and cultivating consultants and engineers with sophisticated technical skills. In addition, the Group is constantly examining M&A transactions with the goal of acquiring technologies, insight, and resources that contribute to enhanced competitiveness in growth fields.

(b) Capital Procurement

In principle, the SCSK Group will fund these investment activities using cash flows from operating activities. However, the Group will also utilize a broad range of financing methods (loans from financial institutions, syndicated loans, the issuance

of various bonds, etc.), backed by its solid financial base as described below as necessary to address financing requirements.

On March 31, 2023, interest-bearing debt (comprised of bank loans, bond issuances, etc.) amounted to ¥77,916 million. In comparison, cash and cash equivalents stood at ¥121,425 million, surpassing the amount of interest-bearing debt and underscoring the Group's solid financial base.

With regard to the SCSK's ability to procure external funding, as of the publication of this report, the Company had 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.

The Group will continue to manage its finances with the aim of strengthening its financial base and improving its external fund procurement capability.

(c) 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 Group companies and centrally manages the funds at the Company as a means of ensuring adequate liquidity and optimizing funding efficiency.

In regard to shareholder returns, SCSK will enhance shareholder returns by heightening the dividend payout ratio in conjunction with performance growth while also allocating the Group's growing cash flow to business investments in growth fields based on a comprehensive examination of the Group's financial position, earnings trends, and internal reserves for future business investments.

Business Risks

SCSK Corporation and Consolidated Subsidiaries

1. Basic Risks Management Policies and Frameworks

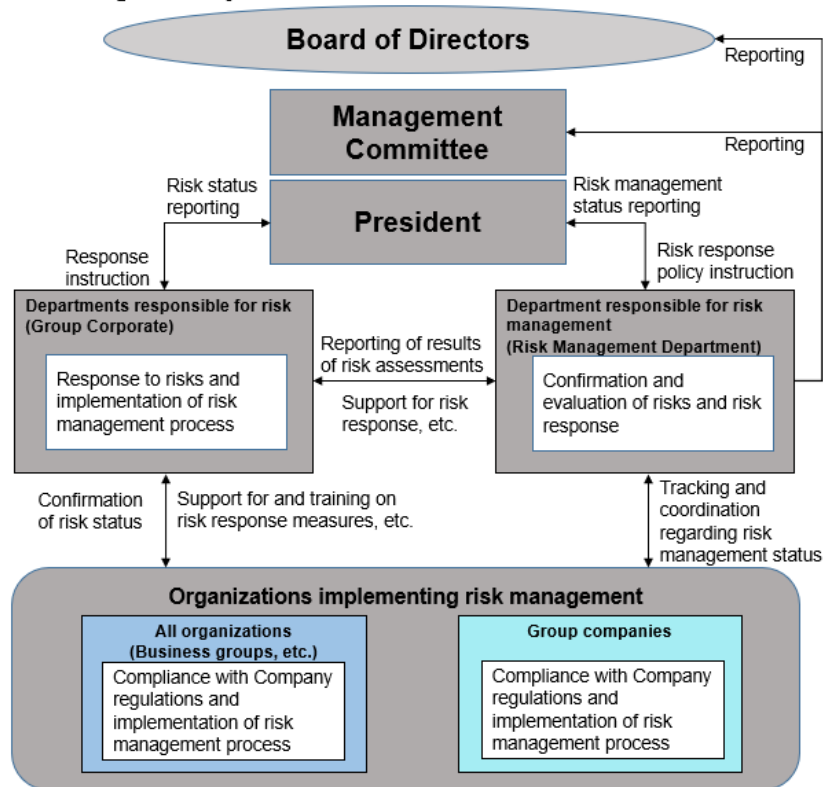
SCSK defines risk as the possibility of incurring loss and the possibility that returns obtained from business activities fall short of expectations. To ensure the stability of the SCSK Group's business activities and enhance corporate value, we examine all possible forms of risk during execution of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

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
Reinforcement of corporate structure	Limit losses from latent risks posed by business models to enable business continuity even when risks materialize
Maintenance of trust	Maintain and increase trust by ensuring legal compliance and fulfilling other corporate social responsibilities

SCSK has established the Risk Management Regulations and the Risk Management Department as a dedicated department in charge of risk management to facilitate the appropriate management of risks that could have a serious adverse effect on the SCSK Group's business. Based on these regulations, we conduct risk assessments (identify, analyze, and evaluate risks) for all organizations, including Group companies inside and outside of Japan, regularly on an annual basis. When conducting these assessments, the departments responsible for risks and business group and other organizations coordinate with the Risk Management Department to formulate risk scenarios, which are used to identify risks and quantitatively evaluate those risks based on two elements—the potential impact of the risk and possibility of materialization. Following these assessments, the Risk Management Department compiles Companywide risk maps to clearly illustrate the identified risks. For risks deemed to require priority attention, the characteristics of and circumstances surrounding the risks are evaluated to ensure appropriate countermeasures are implemented.

The Risk Management Department identifies and evaluates the risk management situation for the entire Company so that risk management activities can function appropriately. It also makes regular reports to the president and receives instructions on risk response policy as needed. Furthermore, the department reports on the overall situation of its activities first to the Management Committee and then to the Board of Directors.

Risk Management System



The SCSK Group is working to enhance risk management through the aforementioned risk management activities in order to adapt to the changing business environment.

2. 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, 2023.

(1) Risks Related to the Business Environment

The IT services industry in which SCSK Group operates is witnessing qualitative changes in the market due to progress in the trends toward cloud services and digital transformation. In addition, chronic shortages in IT human resources are being exacerbated and companies are increasingly turning to in-house options for their IT needs. Meanwhile, proactive effort is being made to address social issues as government bodies, companies, and other organizations take action toward creating a decarbonized, circular society amid rising sustainability awareness. At the same time, commodity prices and personnel expenses are soaring as a result of challenging energy market conditions stemming from Russia's prolonged invasion of Ukraine and other geopolitical risks. In this environment, changes in the operating or management environment may lead to major and rapid changes in IT investment appetite among customers, and these changes, as well as price competition within the industry significantly beyond the level being seen at present, could have an impact on the Group's results. In addition, the timing and scope of IT investment by customers are affected by the economic climate and factors such as interest rate and currency movements, which could have an indirect impact on the Group's results.

For this reason, the SCSK Group has defined practicing sustainability management as a growth strategy as its basic stance toward management. Based on this stance, the Group is utilizing its digital technology core competencies to identify business opportunities presented by social issues together with customers of various industries and business models as well as with society in its quest to create the economic and social value required by society. Unbound by its current business domain and models, the Group will select markets and business domains with the potential for growth in order to transition to business models with high profitability and productivity.

(2) Risks Related to Systems Development

The SCSK Group undertakes information systems development based on contracts with customer companies. However, as systems development projects becomes larger and increasingly complex and have 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 does business with many subcontractors, including nearshore development companies, to maintain production capacity, increase cost efficiency, and utilize technological capabilities and expertise. When doing business with subcontractors, there is the possibility that productivity and quality may not be maintained as expected.

The Group therefore strives to reduce risk through systematic efforts to ensure that unforeseen malfunctions do not arise in any part of the systems delivered through the establishment and implementation of Companywide standards covering aspects such as checks at the negotiation and estimate stages, management of project progress by specialist divisions, and quality checks, along with rigorous general inspections of subcontractors and progress and quality management for systems development operations.

(3) Risks Related to Addressing Technological Innovation

IT innovation is fast paced, and if there are delays in catching up with progress in existing or new technologies or rapid changes to technological standards in the IT services market, it could create the possibility that the Group's technical abilities and expertise become outdated and we lose our competitive edge. In this environment, if the Group is unable to predict or recognize trends in technological changes or even is able to predict but not able to respond appropriately to those changes, it could have an impact on the Group's results.

Therefore, the Group carries out the following strategic initiatives to respond to technological innovation in a timely and appropriate manner:

- Development of cutting edge and advanced technologies, analysis of technological trends in the market, monitoring of government IT strategies and priorities, and tracking of technology portfolio through R&D organization
- Promotion of systematic discovery of new technologies (including technological collaboration) through startup accelerators and corporate venture capital funds
- Advancement of initiatives aimed at improving employees' technological skills

In addition, the Group disperses the technologies and the procurement of products used to create systems and provide services while also promoting business operations that are not overly reliant on any particular technology, expertise, or product.

(4) Risks Related to Information Security

The SCSK Group supplies customers with various IT services, ranging from systems development to operation services, and through these operations the Group may come into possession of various types of confidential information, such as personal information held by customer companies and technical information related to systems. Given these circumstances, there is a possibility that confidential information could be compromised by such actions as leaks or manipulation through cyberattacks or human error. There is also the possibility that a customer's IT services may have to be stopped due to an operational defect in the customer's system or some other reason. As a result, the customer could seek compensatory damages and the Group could suffer a loss of trust, which could have an impact on results.

Therefore, the Group has introduced security systems and established a framework for accurately responding to the detection of a cyberattack. In addition to maintaining thorough compliance awareness among officers and employees, the Group implements programs to strengthen information security through awareness raising and training. These programs are also implemented targeting subcontractors that handle confidential information. In addition, the Group undertakes measures to strengthen information security, such as incorporating information security perspectives into Groupwide development standards and conducting information security audits. The Group requires subcontractors to fully comply with the Information Security Guidelines established by the Company, and we require subcontractors to 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 by carrying out on-site reviews (field audits), issuing instructions to make improvements, 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 operating companies and venture capital companies for the purpose of strengthening its solution provision capabilities, maintaining production capacity, acquiring and enhancing technical capabilities in cutting-edge areas, and maintaining the ability to procure the latest hardware and software. In addition, the Group purchases prototype products from these companies. Investments are also made for software development and service development in priority business and new business areas. The failure to generate returns from such investments as initially anticipated as a result of deterioration in earnings or shortfalls in the business plans of invested businesses or borrowers could have an impact on the Group's results.

Therefore, the Group has established a risk management structure and strives to enhance this structure to give thorough consideration to the entities to be invested in and to borrowers, their business plans, and the risks and projected returns on investments when making investment decisions. Steps are also taken to confirm and monitor the progress of plans after an investment is made.

(6) Risks Related to Intellectual Property

The SCSK Group sells and delivers software and hardware products developed and manufactured by outside vendors to a large number of customer companies, and there is the possibility of litigation against the Group 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 third parties and conduct in-house training and

raise awareness regarding intellectual property rights to ensure that the intellectual property rights of third parties 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.

Alterations to product specification following sudden and unexpected changes in vendors' business strategies or terminations of supplies due to international trends with the potential to halt the increasingly globalized supply chain could have an impact on the Group's results.

To cope with such circumstances, we utilize our own overseas offices and networks with the aim of gathering information on new products and technologies to keep pace with technological trends overseas, share our product sales strategies with vendors in Japan and overseas to maintain good relations, and facilitate stable product procurement by holding an appropriate amount of inventory if necessary.

(8) Risks Related to Large-Scale Natural Disasters

In the event of damages to the head office or other Group offices or assets concentrated in large metropolitan areas by a major natural disaster, such as an earthquake occurring directly beneath Tokyo or in the Nankai Trough; the occurrence of a major natural disaster caused by climate change; or the outbreak of a novel virus or other infectious disease with the potential to spread globally, the Group's results may be impacted.

To strengthen its structure to ensure business continuity in the event of unforeseen circumstances, the Group formulates business continuity plans and will establish 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 employee safety by allowing Group employees and partners of Group companies to work from home.

(9) Risks Related to Retaining and Development of Human Recourses

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

As it seeks to maintain a workplace environment that emphasizes the four perspectives of work–life balance, diversity and inclusion, health maintenance, and career development, the Group strives to hire, retain, and develop quality human resources in all of its business areas

(10) Risks Related to Sustainability

(a) Risks Related to Climate Change

Abnormal weather events, including storms and floods, have the potential to seriously impact the lives of people as well as the business activities of companies. Accordingly, there is a need for proactive action on the part of companies to contribute to the realization of a decarbonized society by helping reduce greenhouse gas emissions across society and embracing renewable energy. Given this situation, should the efforts of the SCSK Group to contribute to the realization of a decarbonized society be deemed insufficient, it could lead to a loss of business opportunities, diminished social reputation, and ultimately impacts on the Group's results.

For this reason, the Group has obtained certification from Science Based Targets for its medium- to long-term greenhouse gas emissions reduction targets and is aggressively advancing eco-friendly business activities to reduce emissions. In addition, contributions to the realization of a decarbonized society are made through co-creation with customers and partners in a wide range of industries. Information on the Group's carbon neutrality initiatives can be found on SCSK's corporate website. (https://www.scsk.jp/corp_en/csr/sustainability_policy.html)

(b) Risks Related to Human Rights

Respect for human rights is an important social responsibility for companies, as indicated by the United Nations adopting the Guiding Principles on Business and Human Rights. Accordingly, a lack of respect for human rights could result in decreased social trust for the SCSK Group and consequently impacts to the Group's results.

One of the promises in the SCSK Group's corporate philosophy is "respecting each other," which is meant to ensure that we respect the individuality and values of every person involved in our business operations and utilize their skills to the fullest. Based on this promise, the SCSK Group Human Rights Policy has been formulated to define our stance toward and responsibility of respecting the human rights of everyone who is impacted by the Group's business activities. In addition, a mechanism for human rights due diligence has been established to facilitate ongoing effort to identify, prevent, and mitigate the negative impacts on human rights that could be caused by the Group's operations or activities across the supply chain in order to fulfill our corporate social responsibility.

Consolidated Statement of Financial Position

SCSK Corporation and Consolidated Subsidiaries
March 31, 2022 and 2023

ASSETS	Notes	Millions of yen	
		2022	2023
Current assets			
Cash and cash equivalents	6	¥121,251	¥121,425
Trade and other receivables	7	74,259	82,909
Contract assets	25	10,104	14,411
Inventories	8	9,125	9,748
Other financial assets	15	1,082	199
Income taxes receivable	30	0	42
Other current assets	9	14,231	15,360
Total current assets		230,055	244,099
Non-current assets			
Property, plant and equipment	10	71,853	75,212
Right-of-use assets	12	41,434	45,781
Goodwill and intangible assets	11	26,495	26,984
Investments accounted for using equity method	14	10,177	11,252
Other receivables	7	8,012	8,094

Other financial assets	15	8,280	10,692
Deferred tax assets	30	3,249	2,118
Other non-current assets	9, 20	8,050	11,232
Total non-current assets		177,553	191,370
Total assets		¥407,609	¥435,469
		Millions of yen	
LIABILITIES	Notes	2022	2023
Current liabilities			
Trade and other payables	16	¥32,628	¥34,826
Contract liabilities	25	14,037	15,388
Employee benefits	20	10,540	10,889
Bonds and borrowings	17	16,996	21,945
Lease liabilities		9,164	10,773
Other financial liabilities	18	297	63
Income taxes payable	30	10,917	8,079
Provisions	22	278	406
Other current liabilities	19	6,313	5,994
Total current liabilities		101,175	108,367
Non-current liabilities			
Bonds and borrowings	17	19,462	9,782
Lease liabilities		33,348	35,415
Other payables	16	169	174
Employee benefits	20	1,956	1,982
Provisions	22	4,061	7,334
Other non-current liabilities	19	70	10
Total non-current liabilities		59,069	54,699
Total liabilities		160,245	163,066
Equity			
Share capital	21,23	21,152	21,285
Capital surplus	21	—	122
Retained earnings	23	223,300	246,812
Treasury shares	23	(293)	(286)
Other components of equity	23,32	2,761	3,976
Total equity attributable to owners of parent		246,921	271,909
Non-controlling interests		442	493
Total equity		247,363	272,403
Total liabilities and equity		¥407,609	¥435,469

Consolidated Statement of Income

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

	Notes	Millions of yen	
		2022	2023
Net sales	25	¥414,150	¥445,912
Cost of sales	26	(305,962)	(328,232)
Gross profit		108,187	117,679
Selling, general and administrative expenses	27	(60,780)	(66,491)
Other income	28	315	461
Other expenses	28	(167)	(288)
Operating profit		47,555	51,361
Finance income	29	94	1,651
Finance costs	29	(587)	(589)
Share of profit (loss) of investments accounted for using equity method	14	1,252	913
Profit before tax		48,315	53,336
Income tax expense	30	(14,816)	(15,999)
Profit		¥33,498	¥37,337
Profit attributable to			
Owners of parent		¥33,470	¥37,301
Non-controlling interests		28	35
Earnings per share (Yen)	31		
Basic earnings per share		¥107.20	¥119.44
Diluted earnings per share		107.20	119.44

Consolidated Statement of Comprehensive Income

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

	Notes	Millions of yen	
		2022	2023
Profit		¥33,498	¥37,337
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans		469	1,566
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income		77	211
Share of other comprehensive income of investments accounted for using equity method		12	73
Total of items that will not be reclassified to profit or loss		558	1,852
Items that may be reclassified to profit or loss			
Cash flow hedges		(13)	(467)
Exchange differences on translation of foreign operations		892	793
Share of other comprehensive income of investments accounted for using equity method		9	27
Total of items that may be reclassified to profit or loss		888	353
Total other comprehensive income, net of tax		1,447	2,205
Comprehensive income		¥34,945	¥39,542
Comprehensive income attributable to:			
Owners of parent		¥34,917	¥39,507
Non-controlling interests		28	35

Consolidated Statement of Changes in Equity

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

Millions of yen

	Notes	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at April 1 2021		¥21,152	¥—	¥203,893	¥(285)	¥2,114	¥226,874	¥464	¥227,338
Profit		—	—	33,470	—	—	33,470	28	33,498
Other comprehensive income	32	—	—	—	—	1,447	1,447	—	1,447
Comprehensive income		—	—	33,470	—	1,447	34,917	28	34,945
Issuance of new shares		—	—	—	—	—	—	—	—
Dividends of surplus	24	—	—	(14,567)	—	—	(14,567)	(50)	(14,618)
Changes in ownership interest in subsidiaries		—	—	—	—	—	—	—	—
Purchase of treasury shares		—	—	—	(11)	—	(11)	—	(11)
Disposal of treasury shares		—	(2)	—	4	—	2	—	2
Transfer from retained earnings to capital surplus		—	2	(2)	—	—	—	—	—
Transfer from other components of equity to retained earnings	32	—	—	507	—	(507)	—	—	—
Transfer to non-financial assets	32	—	—	—	—	(292)	(292)	—	(292)
Total transactions with owners		—	—	(14,062)	(7)	(800)	(14,870)	(50)	(14,920)
Balance at March 31 2022		21,152	—	223,300	(293)	2,761	246,921	442	247,363
Balance at April 1, 2022		21,152	—	223,300	(293)	2,761	246,921	442	247,363
Profit		—	—	37,301	—	—	37,301	35	37,337
Other comprehensive income	32	—	—	—	—	2,205	2,205	—	2,205
Comprehensive income		—	—	37,301	—	2,205	39,507	35	39,542
Issuance of new shares	21,23	132	132	—	—	—	264	—	264
Dividends of surplus	24	—	—	(15,405)	—	—	(15,405)	(59)	(15,465)
Changes in ownership interest in subsidiaries		—	—	—	—	—	—	75	75
Purchase of treasury shares		—	—	—	(3)	—	(3)	—	(3)
Disposal of treasury shares		—	(9)	—	10	—	0	—	0
Transfer from retained earnings to capital surplus		—	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	32	—	—	1,616	—	(1,616)	—	—	—
Transfer to non-financial assets	32	—	—	—	—	624	624	—	624
Total transactions with owners		132	122	(13,789)	6	(991)	(14,519)	15	(14,503)
Balance at March 31, 2023		¥21,285	¥122	¥246,812	¥(286)	¥3,976	¥271,909	¥493	¥272,403

Consolidated Statement of Cash Flows

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

	Notes	Millions of yen	
		2022	2023
Cash flows from operating activities			
Profit before tax		¥48,315	¥53,336
Depreciation and amortization		19,881	20,629
Impairment losses (reversal of impairment losses)		147	44
Finance income		(94)	(1,651)
Finance costs		587	589
Share of loss (profit) of investments accounted for using equity method		(1,252)	(913)
Decrease (increase) in trade and other receivables		(4,220)	(8,477)
Decrease (increase) in contract assets		3,136	(4,286)
Decrease (increase) in inventories		(1,414)	(622)
Increase (decrease) in trade and other payables		2,832	3,010
Increase (decrease) in contract liabilities		(554)	1,136
Increase (decrease) in employee benefits		(996)	(8)
Increase (decrease) in provisions		202	145
Other		(691)	(889)
Subtotal		65,877	62,042
Interest and dividends received		384	559
Interest paid		(506)	(558)
Income taxes refund (paid)		(6,674)	(18,450)
Net cash provided by (used in) operating activities		59,081	43,592
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,157)	(9,681)
Proceeds from sale of property, plant and equipment		8	0
Purchase of intangible assets		(3,927)	(4,630)
Proceeds from sale of intangible assets		73	44
Investments in equity accounted investees		(296)	(203)
Purchase of other financial assets		(683)	(1,264)
Proceeds from sales and redemptions of other financial assets		268	1,352
Other		(213)	(568)
Net cash provided by (used in) investing activities		(14,927)	(14,950)
Cash flows from financing activities			
Payments for repayments of loans and redemption of bonds	35	(25,100)	(17,000)
Proceeds from long-term debt	35	11,500	12,250
Proceeds from issuance of bonds	35	4,972	—
Repayments of lease liabilities	35	(9,086)	(8,998)
Capital contribution from non-controlling interests		—	75
Dividends paid	24	(14,567)	(15,406)
Dividends paid to non-controlling interests		(50)	(59)
Other		(9)	65
Net cash provided by (used in) financing activities		(32,342)	(29,074)
Effect of exchange rate changes on cash and cash equivalents		672	605
Net increase in cash and cash equivalents		12,483	173
Cash and cash equivalents at beginning of period	6	108,768	121,251
Cash and cash equivalents at end of period	6	¥121,251	¥121,425

Notes to Consolidated Financial Statements

SCSK Corporation and Consolidated Subsidiaries

3. REPORTING ENTITY

SCSK Corporation (“the Company”) is a company located in Japan. The address of the registered office and main business locations are disclosed on the Company’s website (<https://www.scsk.jp/>). The consolidated financial statements comprise the Company and its subsidiaries (“the Group”). The Group’s business lines and main activities are listed in “5. SEGMENT INFORMATION” of the notes.

The Group’s consolidated financial statements for the fiscal year ended March 31, 2023 were approved by Representative Director, President Takaaki Touma on June 22, 2023. Furthermore, the Group’s ultimate parent company is Sumitomo Corporation (“the Parent Company”).

4. BASIS FOR PRESENTATION

(1) Compliance with IFRS

The Company meets the requirements of “Specified Companies Complying with Designated International Accounting Standards” under Article 1 (2) of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.” Therefore, the financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) under the provision of Article 93 of the ordinance.

(2) Basis for Measurement

The Group’s consolidated financial statements are prepared based on cost, excluding certain items such as financial assets measured at fair value and assets and liabilities recognized in relation to retirement benefit plans listed in “3. SIGNIFICANT ACCOUNTING POLICIES.”

(3) Functional Currency and Presentation Currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency. All financial information presented in Japanese yen is rounded down to the nearest million yen.

(4) Early Adoption of New Standards

There are no new or amended standards or interpretations which were early adopted by the Group.

(5) Standards and Interpretation Guidance Issued but Not Yet Effective

There are no significant standards or interpretations that are not yet effective.

5. SIGNIFICANT ACCOUNTING POLICIES

The Group’s significant accounting policies are as follows. Unless otherwise stated, these policies apply to all fiscal years presented in the consolidated financial statements.

(1) Basis of Consolidation

(a) Subsidiaries

Subsidiaries are companies over which the Group has control. Control means having power over an investee, being exposed to variable returns arising from involvement in the investee, and having the ability to affect those returns through power over the investee.

The financial statements of a subsidiary are incorporated in the consolidated financial statements from the date of the Group's obtainment of control until the date of loss of control. If control remains even after the disposal of a portion of the Group's interest in a subsidiary, then the change in the Group's equity is accounted for as an equity transaction. The difference between the adjustment to non-controlling interest and the fair value of the consideration is directly recognized in equity as equity attributable to owners of the parent. In cases where control is lost, any gain or loss resulting from loss of control is recognized in profit or loss. In cases where the Company retains interest in a former subsidiary, that remaining interest is measured at fair value on the date of loss of control. Receivable and payable balances and transactions within the group as well as unrealized gains and losses arising from such transactions are eliminated in the consolidated financial statements.

(b) Associates

Associates are companies over which the Group exercises significant influence with regard to their financial and operating policies, but does not have control or joint control.

Investments in associates are accounted for by applying the equity method. Investment in associates is recognized at cost upon acquisition, including transaction costs. The Group's investment includes the corresponding amount of goodwill recognized upon acquisition. Furthermore, the Group's interest in the profit and loss and other comprehensive income of the associate from the date of obtaining significant influence until the date when significant influence is lost is recognized as adjustment in the investment amount in the associate.

The accounting policy of equity-method associates is adjusted as necessary to comply with the accounting policy of the Group.

Unrealized gains arising from transactions with equity method associates are deducted from the investment up to a limit of the Group's interest in the investee. Unrealized losses are deducted using the same method as unrealized gains, as long as there is no evidence of impairment.

If the Group's interest in loss exceeds its investment in the equity-method associate the carrying amount of that investment is written down to zero and no further losses are recognized, except in cases where the Group assumes or pays debts on behalf of the investee.

(2) Business Combinations

The Group accounts for business combinations using the acquisition method. Non-controlling interests are initially measured as a proportionate share in the identifiable net assets of the acquired company on the acquisition date.

If the total of a) the fair value of consideration paid, b) the amount of non-controlling interest of the acquired company, and c) in a business combination achieved in stages, the fair value of the acquirer's previously held interest in the acquired company on the date of obtaining control exceed the net value of identifiable assets acquired and liabilities assumed (usually, the fair value) on the date of acquisition, the excess amount is recognized as goodwill. On the other hand, if the total amount of consideration is lower than the net amount of identifiable assets acquired and liabilities

assumed a gain is recognized for the difference in profit or loss.

The transaction cost arising in relation to business combinations is accounted for as an expense when it is incurred, except for issuing costs of debt or equity instruments.

If the initial accounting treatment for business combinations is incomplete by the reporting fiscal year-end in which the business combination occurs then provisional amounts are recorded for incomplete items. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. Furthermore, the acquirer may also recognize additional assets or liabilities if the information obtained indicates such recognitions are necessary. The maximum length of the measurement period is one year from the acquisition date.

(3) Foreign Currency Translation

(a) Foreign currency transactions

Foreign currency transactions are translated into each Group company's functional currency at the spot foreign exchange rate on the date of the transaction.

Foreign currency denominated monetary assets and liabilities are translated into the functional currency at the prevailing exchange rate on the reporting date. Foreign currency denominated non-monetary assets and liabilities measured at fair value are translated into the functional currency at the prevailing exchange rate on the date that fair value is measured. Non-monetary items measured based on foreign currency denominated cost are translated at the prevailing exchange rate on the date of the transaction. Translation differences arising from translation and settlement are recognized in profit or loss.

However, translation differences arising from translation of the following are recognized in other comprehensive income.

- Investment in equity instruments measured at fair value through other comprehensive income

(b) Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisitions, are translated into the presentation currency at the prevailing exchange rate on the reporting date. Income and expenses of foreign operations are translated into the presentation currency at the average exchange rate for the applicable period, unless there have been significant fluctuations in the exchange rate during the period. Foreign currency translation differences are recognized in other comprehensive income, and except for the portion of the exchange rate translation difference allocated to a non-controlling interest are accumulated in foreign currency translation adjustments. Upon loss of control, significant influence or joint control due to disposal of a foreign operation, the accumulated amount of foreign currency translation adjustments related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal. When the Group partially disposes of its interest in a subsidiary but retains control, of the accumulated amount, the Group re-attributes the proportionate share of the cumulative amount to the non-controlling interest. Additionally, if the Group retains significant influence while only partially disposing of its interest in the associate, of the accumulated amount, the Group re-attributes the proportionate share of the cumulative amount to net income or loss.

(4) Financial Instruments

Financial instruments are initially recognized on the date on which the Group becomes a party to the contractual

provisions of the financial instrument. Regular way purchase of financial assets is recognized on the trade date.

(a) Non-derivative financial assets

When financial assets are initially recognized, financial assets are classified into the following groups based both on a business model for managing financial assets and on contractual cash flow characteristics of the financial assets:

Financial assets measured at amortized cost; financial assets measured at fair value through profit or loss; and financial assets measured at fair value through other comprehensive income.

The asset is derecognized in the event contractual rights to cash flow from the financial asset are expired, or the contractual right to receive cash flow from the financial asset is transferred and substantially all of the risk and rewards of ownership of the asset have been transferred.

(i) Financial assets measured at amortized cost

Financial assets that meet the following conditions are classified as financial assets measured at amortized cost.

- The financial asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are measured with any transaction costs directly attributable to the transaction added to fair value at the time of initial recognition. Note, however, that trade receivables that do not include a significant financing component are measured at transaction price. In addition, subsequent to initial recognition, impairment losses are deducted from the carrying amount of the total to which the effective interest method has been applied.

(ii) Financial assets measured at fair value through profit or loss

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value. Of those financial assets measured at fair value, those other than financial assets classified as measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss include equity instruments and debt instruments.

Financial instruments measured at fair value through profit or loss are measured at fair value at the time of initial recognition, while transaction costs directly attributable to the transaction are recognized in profit or loss at the time they occur. Subsequent to initial recognition, they are measured at fair value, with subsequent changes in fair value recognized in profit or loss.

(iii) Financial assets measured at fair value through other comprehensive income

Debt instruments measured at fair value that meet both of the following conditions are classified as debt instruments measured at fair value through other comprehensive income:

- The asset is held within a business model whose objective is to hold the asset in order to collect contractual cash flow and to sell the asset; and
- The contractual conditions of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments measured at fair value through other comprehensive income are initially recognized at fair value with any transaction costs arising directly from the transaction at the time of initial recognition. In addition, interest, foreign exchange gains or losses and impairment losses are recognized in profit or loss, while the change in fair value excluding these items is recognized in other comprehensive income.

If an investment in an equity instrument is not held for trading purposes, it is permitted to make an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income. The Group makes said designation for each financial instrument, classifying them as equity instruments measured at fair value through other comprehensive income.

Equity instruments measured at fair value through other comprehensive income are initially recognized at fair value with any transaction costs arising directly from the transaction at the time of initial recognition. In addition, they are measured at fair value following initial recognition, with subsequent changes in fair value recognized in other comprehensive income. In the event of derecognition (or if the fair value declines significantly), the cumulative total amounts recognized as other comprehensive income are transferred to retained earnings, and not to profit or loss.

Note that dividends are recognized in profit or loss, excluding cases in which said dividends clearly represent collection of the cost of the investment.

(b) Financial asset impairment

With regards to financial assets measured at amortization costs and debt instruments measured at fair value through other comprehensive income, the Group determines whether the credit risk related to those assets has increased significantly since initial recognition at the end of each reporting period. If the credit risk has increased significantly, an amount equal to lifetime expected credit losses is recognized as a loss allowance; if no significant increase in credit risk is found, an amount equal to the 12-month expected credit losses is recognized as a loss allowance.

Note, however, that for trade receivables and contract assets, an amount equal to lifetime expected credit losses is recognized as a loss allowance regardless of whether there has been a significant increase in credit risk since initial recognition.

When determining whether financial instrument credit risk has increased significantly since initial recognition, and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment, as well as forward-looking information.

The Company assumes credit risk as having increased significantly when financial assets are more than 30 days past due.

Objective evidence indicating financial asset credit impairment may include payment default or delinquency by the debtor, extension of deadline for debt collection under terms the Group might not have extended to the debtor under other circumstances, and indications of bankruptcy of the debtor or issuing company. Note that provisions for loss allowances are recognized in profit or loss.

(c) Non-derivative financial liabilities

Upon initial recognition, financial liabilities are measured at its fair value minus transaction costs. Subsequent to initial recognition, they are measured at amortized cost based on the effective interest method.

Financial liabilities are derecognized when the financial liabilities are extinguished, or in other words, when specific contractual liabilities are discharged, cancelled or expired.

(d) Derivatives and hedge accounting

The Group engages in derivative transactions of forward exchange contracts to hedge its foreign currency risk. When

initiating a hedge, the Group officially designates and documents the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. Said document includes identification of hedging instruments, items or transactions subject to hedging, the nature of risks being hedged, and the method of assessing the effectiveness of hedging when offsetting exposure to fluctuations in fair value or cash flow from hedged items arising from hedged risks. The Group expects these hedges to be highly effective when offsetting fluctuations in fair value or cash flow arising from hedged risks.

Derivatives are initially recognized at fair value. Subsequent to initial recognition, they are measured at fair value and any changes therein are treated as follows.

Cash flow hedge

The portion of the change in fair value of the derivative that is assessed to be an effective hedge is recognized in other comprehensive income. Any ineffective portion of the change in fair value of the derivative is immediately recognized in profit or loss.

Amounts recognized in other comprehensive income are transferred from other components of equity to profit or loss in the accounting period the hedged transaction affects profit or loss. However, when a planned hedge transaction subsequently results in recognition of a non-financial asset or non-financial liability, the amount recognized in other comprehensive income is treated as a revision of the initial carrying amount of the non-financial asset or non-financial liability.

When a hedging instrument is expired, sold, terminated or exercised, and it no longer meets the qualifying criteria for hedge accounting despite adjustments to the hedge ratio, hedge accounting is discontinued prospectively. If forecast transactions are no longer expected, the amount recognized in other comprehensive income is immediately transferred from other components of equity to profit or loss.

(e) Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and presented as a net amount when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously.

(5) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand, deposits available for withdrawal at any time, and short-term investments readily convertible to cash with a maturity of three months or less from the date of acquisition exposed to insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost includes purchase cost as well as all other costs incurred in bringing the inventories to their present location and condition. The cost of merchandise and finished goods is calculated using primarily the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

(7) Property, Plant and Equipment

(a) Recognition and measurement

The cost model is used for property, plant and equipment, measured by deducting cumulative depreciation and cumulative impairment losses from the costs.

The costs include costs directly related to acquisition of the asset, the cost initially estimated of dismantling and removing the asset and restoring the site on which it is located, as well as borrowing costs that fulfill the requirements for asset recording. When the useful life of the constituent components of property, plant and equipment varies by component, then they are accounted for as separate items (major components) of property, plant and equipment.

(b) Expenditures subsequent to acquisition

Expenditures arising after acquisition of property, plant and equipment are treated as expenses when they occur, in the case of normal repair and maintenance. They are recorded as assets in the case of expenditures related to primary replacements and improvements, limited to cases in which those expenditures are expected to provide future economic benefit to the Group.

(c) Depreciation

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful lives from the time they are available for use. Estimated useful lives for primary property, plant and equipment are as follows:

Buildings and structures: 2 to 50 years

Tools, furniture and fixtures: 2 to 15 years

Note that depreciation methods, residual values and useful lives are reviewed annually and adjusted as necessary.

(8) Goodwill and Intangible Assets

(a) Goodwill

Goodwill is not amortized, but is allocated among assets, cash-generating units or groups of cash-generating units identified based on the business region and type of business. Impairment tests are conducted periodically at least once a year, and whenever indications of impairment are identified. Impairment losses on goodwill are recognized in profit or loss, but are not reversed.

Following initial recognition, goodwill is shown as cost minus cumulative impairment losses.

(b) Intangible assets

The cost model is used for intangible assets, and carried at cost minus cumulative amortization and cumulative impairment losses.

Intangible assets acquired individually are measured at cost. The cost of intangible assets acquired through a business combination are measured by fair value on the date of the business combination.

Internal research expenses are recognized as expenses when they occur.

The total amount of internal development expenses, arising from the date they first meet all of the following conditions for recognition until development is completed, is recognized as an intangible asset: Development expenses are reliably measurable; are technically and commercially achievable; are highly likely to provide future economic benefit;

the Group intends to complete development, use or sell the asset, and sufficiently qualifies for those purposes.

Subsequent expenditures are recognized as assets only when they increase the future economic benefit associated with specific assets related to those expenditures.

Intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives of each asset. Estimated useful lives for primary intangible assets are as follows:

- Software: 3 to 5 years
- Other intangible assets: 5 to 20 years

Intangible assets with indefinite useful life or unavailable for use, are not amortized. Periodically at least once a year, and whenever indications of impairment exist, the recoverable amount of the asset is estimated.

Note that amortization methods, residual values and useful lives are reviewed annually and adjusted as necessary.

(9) Leases

At inception of a contract, the Group assesses whether the contract is a lease or contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group uses the definition of lease under IFRS 16, Leases, to assess whether or not the contract conveys the right to control the use of an identified asset.

(Leases as lessee)

The Group recognizes right-of-use assets and lease liabilities from the date of commencement. Right-of-use assets are initially measured at cost. The cost is calculated by adding the initially measured lease liability, adjusting lease payments made at or before the commencement date, adding the initial direct costs incurred and the estimated costs of the dismantling and removal of the underlying asset or restoration of the underlying asset or the site on which the asset is located, less any lease incentives already received.

Following initial recognition, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful life of the right-of-use assets is determined in the same manner as owned property, plant and equipment. Additionally, the amount of right-of-use assets is, if applicable, reduced through impairment loss and adjusted for any specified remeasurement of the lease liability.

Lease liabilities are initially measured at the present value of the unpaid lease payments at the commencement date of the lease discounted by the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be easily calculated, the Group uses its incremental borrowing rate, and generally, the Group uses the incremental borrowing rate as the discount rate.

The total of lease payments included in the lease liability measurement are comprised of the following:

- Fixed payments (including in-substance fixed payments)
- Variable lease payments that depend on an index or a rate. Initial measurement uses the index or rate as of the commencement date.
- The amount expected to be payable under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, lease payments during the term of an extension option if the Group is reasonably certain to exercise that option, and payments of penalties for early termination of a lease (except in cases where the Group is reasonably certain not to terminate

early).

Lease liabilities are measured at amortized cost using the effective interest method. In the event of a change in future lease payments resulting from a change in an index or rate, when the estimated amount of payments based on residual value guarantees changes, or when a determination of whether or not to exercise an option to purchase, extend or terminate a lease changes, the lease liability is remeasured. If the lease liability is remeasured, the corresponding revision will consist of either revising the carrying amount of the right-of-use asset or if the carrying amount of the right-of-use asset has been reduced to zero, it is recognized in profit or loss.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases of 12 months or less, including IT equipment. The Group recognizes lease payments related to these leases as expenses using the straight-line method over the lease term.

(Leases as lessor)

When the Group is the lessor, at inception of the lease it classifies leases as either finance leases or operating leases. In classifying the respective leases, the Group makes a comprehensive assessment of whether or not to transfer substantially all of the risk and economic value associated with ownership of the underlying asset. If transferred, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of this assessment, the Group considers specific indices such as whether the lease term represents the majority of the underlying asset's economic useful life.

When the contract includes both lease and non-lease components, the Group prorates the consideration on the contract through application of IFRS 15, Revenue from Contracts with Customers.

The Group recognizes lease payments from operating leases as revenue using the straight-line method over the lease term, and includes them in net sales.

(10) Impairment

Non-financial assets excluding inventories, deferred tax assets and non-current assets held for sale are assessed to determine if there are any indications that the asset may be impaired.

If indications of impairment exist, the amount of recoverable asset is measured by individual asset or cash-generating unit. Note that goodwill and intangible assets which are unavailable for use are not amortized, and impairment tests are conducted periodically at least once a year and each time there are indications of impairment.

In the impairment test, assets are consolidated in the smallest group of assets that through continued use generates cash inflows that are largely independent of the cash inflows from other assets or cash-generating units. Goodwill generated by business combinations is allocated to cash-generating units or cash-generating unit group which are expected to provide synergies from the combination. Because the Group's corporate assets do not generate independent cash inflows, if corporate assets show indications of impairment, the Group estimates the recoverable amount of the cash-generating units to which the corporate assets belong.

The recoverable amount is calculated using the higher of value in use and fair value less costs of disposal. Value in use is calculated by discounting future estimated cash flows to their present value by applying the pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

When the carrying amount of individual assets or cash-generating units exceeds their recoverable amount, impairment loss is recognized in profit or loss, and the carrying amount of said asset is reduced to the recoverable amount. Impairment losses recognized in relation to cash-generating units are allocated by first reducing the carrying amount of goodwill allocated to those cash-generating units, and next by proportionately reducing the carrying amount of other assets within those cash-generating units.

Impairment losses recognized for goodwill are not reversed. For impairment losses recognized for non-financial assets other than goodwill, the Company estimates the recoverable amount of the asset if there are indications that an impairment may no longer exist or may have decreased, and the impairment loss is reversed if the recoverable amount exceeds the carrying amount following impairment treatment. Note that reversal of impairment losses is limited to an extent not exceeding the carrying amount if, in past periods, there was no impairment loss recognized for said asset, with the difference between the recoverable amount and the carrying amount recognized in profit or loss.

(11) Employee Benefits

(a) Employee retirement benefits

The Group uses both defined benefit plans and defined contribution plans in its retirement benefit plans.

(i) Defined benefit plans

Defined benefit plans are those retirement benefit plans other than defined contribution plans (see (ii) below). The net amount of the present value of the defined benefit obligation and the fair value of the plan assets is recognized as liabilities or assets. The present value of the defined benefit obligation and related current and past service costs are calculated using the projected unit credit method.

The discount rate is calculated by setting a discount period based on a period until the expected benefit payment date of each future fiscal year, and is determined by reference to market yields as of the end of the reporting period on high-quality corporate bonds.

Service costs and net interest on the net amount of defined benefit obligations are recognized in profit or loss.

Changes in the amount resulting from remeasurement of the defined benefit plan are recognized together in other comprehensive income in the period in which they occur, and are immediately transferred to retained earnings. All past service costs are recognized in profit or loss when they occur.

(ii) Defined contribution plans

Defined contribution plans are those retirement benefit plans under which a fixed contribution is paid to another independent entity, but has no legal or constructive obligation to make further payments.

In defined contribution plans, the contribution to be paid under said plan is recognized as an expense at the time the employee renders the related service.

(b) Short-term employee benefits

Discounting is not applied to short-term employee benefits, which are recognized as an expense at the time the employee renders the related service.

In the case of bonuses and paid leave expenses, if there is a legal or constructive obligation to pay, and the obligation can be estimated reliably, the estimated amounts of payments under such plans are recognized as liabilities.

(12) Share-based Payments

(a) Equity-settled stock option plan

The Group's compensation plan for its directors (excluding outside directors) and executive officers used an equity-settled stock option plan. Stock options are estimated on grant-date fair value, and recognized as past years' expenses after considering the expected number of stock options once the rights are ultimately vested, and the same amount is recognized as a capital increase. The fair value of options granted is calculated using the Black-Scholes model, etc. with consideration given to the option terms.

(b) Transfer-restricted stock compensation plan

The Group adopts a transfer-restricted stock compensation plan as a share-based compensation plan.

Under the transfer-restricted stock compensation plan, compensation for services received is measured at fair value of the Company's shares at the grant date, and the amount of compensation for services is recognized as expenses and equity over the vesting period.

(13) Provisions

Calculation of the provisions is based on the best estimate of the amount for the future economic benefits outflows as of the reporting date. Outcomes that differ from the assumptions used in the estimates could result in significant adjustments to the amount of provisions in the consolidated financial statements in subsequent years. The following is a summary of the provisions recognized by the Group and the expected timing of the outflow of economic benefits:

(a) Provision for loss on constructed contracts

The Group monitors the actual and expected profit and loss on contracts with customers continuously. When it is probable that the estimated total cost of fulfilling the obligations to contracted customers exceed the contract amount and the amount of expected loss can be reliably estimated, the Group recognizes estimated future losses as provision for loss on construction contracts, based on the reviews of the contract progress and the future profit and loss expectations.

To recognize a provision for loss on construction contracts, the total cost of the Contracts (refer to (15)) needs to be reasonably estimated at the time the order is received, and the total cost needs to be adjusted to reflect the current best estimate after the commencement of the development project.

Development projects under the Contracts have individuality in the content, such as specifications that vary according to customer requests. Due to facts identified or changes in circumstances that occurred after the commencement of the development projects, update of the services and necessary work hours may be required. Estimate of total cost involves uncertainty due to the individuality of development projects, and changes in facts and circumstances as described above. Although total cost is estimated using cost accumulation methods based on certain data and assumptions such as services in line with development projects and necessary work hours, management's judgment thereon has a significant effect on the estimate of total cost.

Although the expected timing of the outflow of economic benefits will be affected by the progress of the contract and other factors, the majority of this obligation is expected to be realized during the following fiscal year.

(b) Asset retirement obligations

Asset retirement obligations are recognized as provisions against asset dismantling and removal costs, site restoration

costs, and expenditure arising from use of the asset, and added to the cost of said asset. Future estimated expenses and applied discount rates are reviewed each year, and when revisions are deemed necessary, they are treated as changes in accounting estimates.

(14) Equity

(a) Common stock

The issue price of equity instruments issued by the Company is recorded as capital stock and capital surplus, and direct issuing expenses (after consideration of tax effects) are deducted from capital surplus.

(b) Treasury shares

Treasury shares are valued at cost and deducted from capital. Gains or losses from the purchase, sale or retirement of treasury shares are not recognized as profit or loss. Note that the difference between carrying amount and consideration at time of disposal is recognized as capital surplus.

(c) Dividends

Dividends to the Company shareholders are recognized as liabilities in the period containing the date on which the dividend was approved by the Board of Directors.

(15) Net Sales

For transactions included in the scope of IFRS 15, Revenue from Contracts with Customers (hereinafter, "IFRS 15"), the Group recognizes net sales by applying the following five step approach:

Step 1: Identify the contract with a customer

Step 2: Identify performance obligations in the contract

Step 3: Determine the transaction price

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

Step 5: Recognize revenue when (or as) each performance obligation is satisfied

Identifying distinct performance obligations in contracts with customers

The Group recognizes net sales from contracts with customers for systems development and system maintenance and operation/services, along with packaged software/hardware sales. From among those contracts, the Group identifies distinct promised goods or services (i.e., performance obligations) and accounts for net sales in accordance with their performance obligations.

The Group separately accounts for the good or service, if a promised good or service is distinct where the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts, and a customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

Specifically, the Group identifies multiple goods or services that are included in a single contract, such as software sales and subsequent maintenance services, or hardware sales and their ancillary services, as a distinct performance obligation, if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (in other words, the good or service is capable of being distinct); and
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (in other words, the goods or services are distinct within the context of the contract)

Determining the transaction price

The Group measures the transaction price based on the consideration stated in the contract with a customer, excluding amounts collected for third parties. Additionally, when determining the transaction price, the Group considers the effects of variable consideration, constraining estimates of variable consideration, the existence of significant financing component in the contract, non-cash consideration, and consideration payable to a customer.

When there is a possibility of subsequent variability in the consideration receivable from these customers, the variable consideration is estimated and included in net sales. The variable consideration is estimated to the extent that it is highly probable that its inclusion will not result in a significant reversal in the amount of cumulative net sales that are recognized when the uncertainty has been subsequently resolved.

In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, the Group considers the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. The Group also considers the combined effect of the expected length of time between when it transfers the promised goods or services to the customer and when the customer pays for those goods or services and the prevailing interest rates in the relevant market. Since the Group expects at contract commencement that the time between the transfer of the goods or services to the customer and the time when the customer pays for those goods or services is within one year, it applies the practical expedient and makes no adjustment for significant financing components.

Allocating the transaction price to performance obligation

The Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to the customer. To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the stand-alone selling price at contract commencement of the distinct good or service underlying each performance obligation in the contract is determined and the transaction price is allocated in proportion to those stand-alone selling prices.

In cases where the independent selling price is not directly observable, the stand-alone selling price is estimated using the following method:

- Standalone selling prices for contracts with customers for systems development and system maintenance and operation/services are estimated mainly based on the expected cost plus a margin approach.
- Standalone selling prices for contracts with customers for packaged software/hardware sales are estimated mainly based on the adjusted market assessment approach.

Satisfaction of performance obligation

The Group recognizes net sales when or as the Group satisfies a performance obligation at a point in time or over time by transferring promised goods or services to a customer. The Group recognizes net sales over time if one of the following

criteria is met;

- a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs,
- b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or
- c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If none of the above is met, the Group recognizes net sales at the point in time when it is determined that control of an asset is transferred to a customer.

Performance obligations and net sales measurement methods by type of goods or services

(Contracts with customers for systems development and system maintenance and operation/services)

The Group's major transactions regarding contracts with customers for systems development and system maintenance and operation/services include IT consulting, systems development such as core systems, development, operation and management of dedicated data centers, maintenance and operation services for telecommunications network systems, verification services, IT infrastructure development, IT management, and business process outsourcing (BPO) services.

Supply of the above services usually corresponds to any of the following criteria: a) the customer simultaneously receives and consumes all of the benefits provided by the Group as the Group performs; b) the Group's performance creates or enhances an asset that the customer controls as the asset is created; or c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date and, therefore, is determined to be a performance obligation that is satisfied over time. If the progress toward complete satisfaction of the performance obligation can be reasonably measured, net sales from the service is recognized by measuring the progress. If the progress cannot be reasonably measured, net sales from a service is recognized only to the extent of the costs incurred if the Group expects to recover the costs until such time that the outcome of the performance obligation can be reasonably measured. In cases where there is deemed to be significant uncertainty regarding the collection of consideration, net sales are not recognized.

Net Sales for system development contracts and other contracts that meet certain requirements (hereinafter, "the Contracts"), is recognized by applying the percentage-of-completion method which is measured using the percentage of actual cost incurred by the end of the current fiscal year to the estimated total cost.

Development projects under the Contracts have individuality in the content, such as specifications that vary according to customer requests. Due to facts identified or changes in circumstances that occurred after the commencement of the development projects, update of the services and necessary work hours may be required. Estimate of total cost involves uncertainty because of the individuality of development projects, and changes in facts and circumstances as described above. Although total cost is estimated using cost accumulation methods based on certain data and assumptions such as services in line with development projects and necessary work hours, management's judgment thereon has a significant effect on the estimate of total cost. Where changes occur in the estimates of total costs incurred, the cumulative impact arising from a change of estimates is recognized in profit or loss in the period in which the changes become certain and possible to be estimated.

Net Sales on contracts for system development and ongoing system maintenance and operation/services other than the above is recognized by measuring the progress based on the period of services already provided over the entire

service period, in principle. Net sales from services billed on a per unit basis is recognized when the services are provided and become billable.

Invoices related to contracts for system development and system maintenance and operation/services are issued in accordance with contract conditions, and payment deadlines are usually set at the end of the following month in which the invoice is issued.

(Contracts with customers for packaged software/hardware sales)

The major transactions regarding contracts with customers for packaged software/hardware sales include hardware (such as various servers, client devices, storage devices, and telecommunications network devices) and packaged software.

Net sales are recognized when it is determined that control over the goods and services has been transferred to the customer for these contracts. To determine the point in time at which the control is transferred to the customer, the Group considers whether or not a) the Group has a present right to payment for the asset; b) the customer has legal title to the asset; c) the Group has transferred physical possession of the asset; d) the customer has the significant risks and rewards related to the ownership of the asset; and e) the customer has accepted the asset. This transfer generally corresponds to the date of the inspection by the customer. Net sales from sales of hardware such as various servers and network equipment, that requires installation and other services, is in principle recognized upon the customer's acceptance. In other areas, net sales from sales of standard hardware are recognized in principle upon delivery, where the control of the hardware is transferred to the customer. Invoices related to contracts for packaged software/hardware sales are issued in accordance with contract conditions, and payment deadlines are usually set at the end of the month following the invoice issuance month.

Agent transactions

In cases where the Group controls goods or services before transferring them to customers, net sales are recognized in a gross amount as a principal transaction. In cases where goods or services are not controlled, or if the Group's performance obligation is to arrange for the provision of goods or services, net sales are recognized in a net amount (amount equivalent to commission) as an agent transaction.

Contract assets and contract liabilities

Contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time.

Contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration or the amount is due from the customer.

The Group recognizes contract assets for consideration for the Contracts. Contract assets are reclassified as trade receivables when the Group's right to payment becomes unconditional. In addition, the Group recognizes contract liabilities for consideration received in advance from customers based on the Contracts. Contract liabilities are recognized as net sales over time, such as the expected contract time, in accordance with the method for measuring progress in satisfying performance obligations.

(16) Finance Income and Finance Costs

Finance income mainly comprises interest income, dividend income, and gains on derivatives (excluding gains on hedging

instruments that are recognized in other comprehensive income). Interest income is recognized as incurred using the effective interest method. Dividend income is recognized as of the date when the Group's right to receive payment is established.

Finance costs mainly comprise interest expenses and losses on derivatives (excluding losses on hedging instruments that are recognized in other comprehensive income). Interest expenses are recognized as incurred using the effective interest method.

(17) Income Taxes

Income taxes comprise current income tax and deferred income taxes.

Current income tax represents the estimated amount to be paid to or refunded from the taxation authorities, adjusted for income taxes payable and receivable until the previous year. The amounts of income taxes payable and receivable are based on optimal estimates of tax amounts expected to be paid or received, reflecting uncertainties related to income taxes (if applicable). These amounts are recognized in profit or loss for the current fiscal year, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income. Income taxes receivable and payable are offset when certain specific requirements are met.

Deferred tax assets and liabilities are determined using the tax rates expected to be applied to the period in which the assets will be realized or the liabilities settled, in accordance with tax laws enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are calculated based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax basis, and the carry forward of unused tax losses and unused tax credits. Deferred tax assets are recognized for deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Deferred tax assets and liabilities are not recognized for temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit at the time of transaction. Deferred tax liabilities are not recognized for deductible temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognized for deductible temporary differences associated with investments in subsidiaries, branches, and associates and interests in joint arrangements. However, such deferred tax liabilities are not recognized if the Group is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future. Moreover, deferred tax assets for deductible temporary differences arising from investments in subsidiaries, branches, and associates and interests in joint arrangements are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will be utilized.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

(18) Earnings per Share

Basic earnings per share is calculated by dividing profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, adjusted by the number of treasury shares during the period.

Diluted earnings per share is calculated by adjusting the effects of all dilutive potential ordinary shares.

(19) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are recognized as an expense in the period when they are incurred.

6. USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. However, actual results could differ from these estimates.

The estimates and their underlying assumptions are reviewed continuously. Revisions to accounting estimates are recognized in the accounting period in which the estimates are revised and in any future periods affected.

The following notes include information about the judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements.

- Revenue recognition (Note “3. SIGNIFICANT ACCOUNTING POLICIES, (15) Net Sales,” Note “25. NET SALES”)
- Measurement of provision for loss on construction contracts (Note “3. SIGNIFICANT ACCOUNTING POLICIES, (13) Provisions (1),” Note “22. PROVISIONS”)

In the future, actual results may differ from these estimates due to the occurrence of new facts.

7. SEGMENT INFORMATION

(1) Summary of reportable segments

The Group’s operating segments are the components of the Group for which discrete financial information is available and which are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Company formulates comprehensive domestic and overseas strategies pertaining to the products and services it offers according to the characteristics of client industries and IT service business areas, and develops businesses in accordance with these strategies.

Based on these business activities, the Company has defined the following six reportable segments: Industrial IT Business, Financial IT Business, IT Business Solutions, IT Platform Solutions, IT Management Service, and Others.

The Company determines its reportable segments by aggregating multiple operating segments into a single operating segment in cases in which the applicable operating segments share similarities with regard to each of the following economic characteristics: a) the nature of the products and services, b) the nature of the production processes, c) the type or class of customer for their products and services, d) the methods used to distribute their products or provide their services; and if applicable, e) the nature of the regulatory environment. The business activities of the Company’s reportable segments are as follows:

1) Industrial IT Business

This reportable segment provides various IT solutions through systems development and maintenance and operation services for core systems, manufacturing management systems, information management systems, supply chain management (SCM) systems, customer relationship management (CRM) systems, and other systems. This segment’s

services leverage the experience and knowhow that we have cultivated over many years. The clients of this segment are primarily companies in the manufacturing, communications, energy, distribution, service, and media industries.

Moreover, this reportable segment supplies the automotive industry with a wide range of solutions for automobile electronic control units on a global basis. These solutions include the development of embedded software through a model-based development approach, proprietary SCSK middleware (QINeS-BSW), software assessments, and process improvement measures.

2) Financial IT Business

This segment engages in systems development, maintenance, and operation services for financial institutions. As professionals that understand financial operations and possess a strong track record of creating sophisticated financial systems, members of this segment's staff support secure and efficient management and help clients implement their financial business strategies. The segment provides these services primarily to financial institutions, such as banks and trust banks as well as insurance, securities, lease, and credit companies.

3) IT Business Solutions

This segment provides a wide range of IT solutions. These solutions include e-commerce services and 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 services, for enterprise resources planning (ERP) and CRM products, such as the segment's internally developed ProActive ERP package, SAP, and Oracle offerings as well as Salesforce. In addition, this segment offers the type of business process outsourcing services that only an IT company can provide. These services merge support performed by human hands with IT.

4) IT Platform Solutions

This segment draws on solid technical capabilities and knowhow to leverage computer-aided design (CAD), computer aided engineering (CAE), and other advanced technologies in the fields of IT infrastructure and manufacturing. In this way, the IT Platform Solutions provides services and products that accurately address the needs of clients and offers flexible support for a wide range of client businesses.

5) IT Management Service

This segment develops solutions-oriented netXDC data centers, which boast robust facilities and high-level security, to provide clients 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 segment also supplies cloud infrastructure and offers its on-site SE support management services 24 hours a day, 365 days a year.

6) Others

This segment performs remote development (nearshore development) and provides other services out of Group companies that leverage the characteristics of its regional bases and the software development, system operation and management, system equipment sales, and consulting services it provides for a wide range of industries and business models.

The Others business did not meet the quantitative thresholds for reportable segments both in the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023.

(2) Restatement of reportable segments, etc.

In connection with partial revisions to the internal organization, the method for classifying reportable segments has been revised.

In addition, SCSK NEC Data Center Management, Ltd., and SCSK Automotive H&S Corporation were established on April 1, 2022, and November 1, 2022, respectively. These companies have been included in the scope of consolidation and are contained within the IT Management Service segment and Industrial IT Business segment, respectively.

Segment information for the fiscal year ended March 31, 2022, has been restated to reflect this change in reportable segments.

(3) Information on net sales, income (loss), assets, and other items by reportable segment

For the fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

	Millions of yen							Adjustments (Note 2)	Amount recorded in consolidated financial statements
	Reportable segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total		
Net sales									
Sales to external customers	¥132,203	¥56,526	¥63,327	¥83,969	¥55,473	¥22,826	¥414,328	¥(177)	¥414,150
Inter segment sales (Note1)	11,284	666	6,143	6,558	17,930	11,084	53,668	(53,668)	—
Total	143,488	57,193	69,471	90,527	73,403	33,911	467,996	(53,845)	414,150
Operating profit (loss)	16,637	7,107	5,972	12,003	6,469	1,599	49,790	(2,235)	47,555
Finance income									94
Finance costs									(587)
Share of profit (loss) of investments accounted for using equity method									1,252
Profit before tax									¥48,315

Millions of yen

Reportable segment									
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	Amount recorded in consolidated financial statements
Segment assets	¥48,349	¥14,930	¥25,035	¥44,243	¥72,197	¥27,589	¥232,346	¥175,262	¥407,609
Other items									
Depreciation and amortization	2,402	67	1,372	724	4,352	1,018	9,938	9,942	19,881
Impairment losses on non-financial assets	147	—	—	—	—	—	147	—	147
Investments accounted for using equity method	1,668	—	—	8,508	—	—	10,177	—	10,177
Capital expenditures	1,165	226	2,815	659	7,475	1,068	13,410	12,298	25,708

Notes: 1. Amounts for inter-segment sales are decided based on price negotiations made with reference to market prices.

2. Adjustments are as follows:

- (1) Sales to external customers represent a part of adjustment to reflect net sales as defined by IFRS. Operating profit (loss) is comprised of ¥(3,155) million in general corporate expenses that have not been allocated to the reportable segments and a ¥920 million adjustment to reflect net sales as defined by IFRS.
- (2) Adjustments to segment assets are corporate assets, etc. that are not allocated to each reportable segment.
- (3) Adjustments to depreciation and amortization are depreciation and amortization, etc. related to corporate assets.
- (4) Adjustments to capital expenditures represent capital expenditures related to corporate assets such as buildings.

For the fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

Millions of yen

Reportable segment									
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	Amount recorded in consolidated financial statements
Net sales									
Sales to external customers	¥149,398	¥59,385	¥68,724	¥88,456	¥56,709	¥23,223	¥445,897	¥14	¥445,912
Inter segment sales (Note1)	11,318	864	6,398	8,323	22,136	13,267	62,309	(62,309)	—
Total	160,716	60,249	75,123	96,780	78,846	36,491	508,207	(62,294)	445,912
Operating profit (loss)	19,522	6,794	7,314	12,833	6,308	1,618	54,391	(3,029)	51,361
Finance income									1,651
Finance costs									(589)
Share of profit (loss) of investments accounted for using equity method									913
Profit before tax									¥53,336

Millions of yen

	Reportable segment							Adjustments (Note 2)	Amount recorded in consolidated financial statements
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solution s	IT Management Service	Others	Total		
Segment assets	¥60,710	¥18,930	¥27,195	¥42,485	¥76,809	¥27,581	¥253,712	¥181,756	¥435,469
Other items									
Depreciation and amortization	2,239	158	1,980	734	4,931	1,201	11,246	9,383	20,629
Impairment losses on non-financial assets	42	—	—	—	—	1	44	—	44
Investments accounted for using equity method	1,830	—	—	9,422	—	—	11,252	—	11,252
Capital expenditures	1,075	545	2,440	1,003	6,757	701	12,524	13,683	26,208

Notes: 1. Amounts for inter-segment sales are decided based on price negotiations made with reference to market prices.

2. Adjustments are as follows:

- (1) Sales to external customers represent a part of adjustment to reflect net sales as defined by IFRS. Operating profit (loss) is comprised of ¥(3,925) million in general corporate expenses that have not been allocated to the reportable segments and a ¥896 million adjustment to reflect net sales as defined by IFRS.
- (2) Adjustments to segment assets are corporate assets, etc. that are not allocated to each reportable segment.
- (3) Adjustments to depreciation and amortization are depreciation and amortization, etc. related to corporate assets.
- (4) Adjustments to capital expenditures represent capital expenditures related to corporate assets such as buildings.

(4) Information about products and services

For information on the classification of product and service categories by reportable segment, please refer to note "25. NET SALES."

(5) Information about geographical areas

Disclosure is omitted as sales to external customers in Japan accounted for a majority of net sales on the consolidated statement of income.

(6) Information about major customers

There were no transactions with any single external customer that accounted for 10% or more of net sales.

8. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents on the consolidated statements of financial position as of March 31, 2022 and March 31, 2023 and the balance of cash and cash equivalents on the consolidated statements of cash flows are identical. Cash and cash equivalents are classified as financial assets measured at amortized cost.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows. Trade and other receivables are classified as financial assets measured at amortized cost.

As of March 31,	Millions of yen	
	2022	2023
Notes and accounts receivable – trade	¥72,252	¥80,817
Accounts receivable – other	1,746	1,887
Leasehold and guarantee deposits	7,683	7,959
Allowance for doubtful accounts	(38)	(65)
Other	629	406
Total	¥82,272	¥91,004
Current assets	¥74,259	¥82,909
Non-current assets	8,012	8,094
Total	¥82,272	¥91,004

10. INVENTORIES

The breakdown of inventories is as follows:

As of March 31,	Millions of yen	
	2022	2023
Merchandise	¥8,961	¥9,567
Supplies	164	180
Total	¥9,125	¥9,748

Note: The amounts of inventories recognized as expenses and included in cost of sales were ¥60,807 million and ¥64,770 million in the fiscal years ended March 31, 2022 and 2023, respectively.

The amounts of write-downs of inventories recorded in cost of sales were ¥6 million in the fiscal year ended March 31, 2022 and ¥3 million in the fiscal year ended March 31, 2023.

11. OTHER ASSETS

The breakdown of other assets is as follows:

As of March 31,	Millions of yen	
	2022	2023
Prepaid expenses	¥13,403	¥12,893
Long-term prepaid expenses	1,272	1,839
Retirement benefit assets	6,773	9,388
Other	833	2,471
Total	¥22,282	¥26,592
Current assets	¥14,231	¥15,360

Non-current assets	8,050	11,232
Total	¥22,282	¥26,592

12. PROPERTY, PLANT AND EQUIPMENT

(1) Reconciliation and Breakdown

Property, plant and equipment are assets for the Company's own use that do not meet the definition of investment property.

The reconciliation and breakdown of cost, and accumulated depreciation and impairment losses, of property, plant and equipment are as follows:

1) Cost

	Millions of yen					
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
As of April 1, 2021	¥60,549	¥25,705	¥8,829	¥5,736	¥11	¥100,832
Acquisition	3,435	2,174	—	5,424	2	11,037
Disposals	(1,166)	(1,822)	—	—	(1)	(2,990)
Transfers	476	510	—	(987)	—	—
Other increase or decrease	808	80	—	(309)	0	580
As of March 31, 2022	64,103	26,649	8,829	9,863	14	109,459
Acquisition	1,469	1,990	—	5,215	—	8,674
Disposals	(235)	(2,868)	—	—	—	(3,103)
Transfers	12,317	1,310	—	(13,629)	1	—
Other increase or decrease	3,281	74	—	(923)	0	2,433
As of March 31, 2023	¥80,936	¥27,156	¥8,829	¥525	¥16	¥117,464

2) Accumulated depreciation and impairment losses

	Millions of yen					
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
As of April 1, 2021	¥(16,858)	¥(16,616)	¥(1)	¥—	¥(10)	¥(33,486)
Depreciation	(4,020)	(2,952)	—	—	(1)	(6,974)
Impairment losses	—	(3)	—	—	—	(3)
Disposals	1,128	1,786	—	—	1	2,916
Other increase or decrease	(6)	(51)	—	—	(0)	(58)
As of March 31, 2022	(19,757)	(17,837)	(1)	—	(11)	(37,606)
Depreciation	(4,638)	(3,026)	—	—	(2)	(7,666)
Impairment losses	—	—	—	—	—	—
Disposals	228	2,853	—	—	—	3,081
Other increase or decrease	(12)	(45)	—	—	(0)	(58)

As of March 31, 2023	¥(24,178)	¥(18,057)	¥(1)	¥-	¥(14)	¥(42,251)
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3) Carrying amounts

	Millions of yen					Total
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	
As of April 1, 2021	¥43,690	¥9,089	¥8,828	¥5,736	¥1	¥67,345
As of March 31, 2022	44,346	8,811	8,828	9,863	2	71,853
As of March 31, 2023	56,757	9,098	8,828	525	2	75,212

Note: Depreciation and impairment losses of property, plant and equipment are included in cost of sales and selling, general and administrative expenses on the consolidated statements of income.

13. GOODWILL AND INTANGIBLE ASSETS

(1) Reconciliation and Breakdown

The reconciliation and breakdown of cost, and accumulated depreciation and impairment losses, of goodwill and intangible assets, are as follows:

1) Cost

	Millions of yen				Total
	Goodwill	Software	Customer-related assets	Other	
As of April 1, 2021	¥7,504	¥57,328	¥10,405	¥322	¥75,561
Additions	-	2,137	-	4	2,141
Acquisitions through internal development	-	1,653	-	-	1,653
Disposals	-	(1,690)	-	(1)	(1,691)
Other increase or decrease	-	204	-	0	204
As of March 31, 2022	7,504	59,632	10,405	326	77,869
Additions	-	2,078	-	1	2,080
Acquisitions through internal development	-	2,557	-	-	2,557
Disposals	-	(17,601)	-	(0)	(17,601)
Other increase or decrease	-	179	-	0	180
As of March 31, 2023	¥7,504	¥46,847	¥10,405	¥329	¥65,087

2) Accumulated depreciation and impairment losses

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
As of April 1, 2021	¥—	¥(48,354)	¥(650)	¥(167)	¥(49,171)
Depreciation	—	(3,147)	(520)	(0)	(3,668)
Impairment losses	—	(143)	—	—	(143)
Disposals	—	1,604	—	0	1,604
Other increase or decrease	—	4	—	—	4
As of March 31, 2022	—	(50,036)	(1,170)	(167)	(51,374)
Depreciation	—	(3,699)	(520)	(1)	(4,220)
Impairment losses	—	(44)	—	—	(44)
Disposals	—	17,556	—	0	17,556
Other increase or decrease	—	(19)	—	0	(19)
As of March 31, 2023	¥—	¥(36,242)	¥(1,690)	¥(168)	¥(38,102)

3) Carrying amounts

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
As of April 1, 2021	¥7,504	¥8,974	¥9,754	¥155	¥26,389
As of March 31, 2022	7,504	9,596	9,234	159	26,495
As of March 31, 2023	7,504	10,605	8,714	160	26,984

Notes: 1. Depreciation and impairment losses of intangible assets are included in cost of sales and selling, general and administrative expenses on the consolidated statements of income.

2. The carrying amounts of internally generated intangible assets related to software were ¥7,838 million and ¥8,895 million as of March 31, 2022 and March 31, 2023, respectively.

(2) Research and Development Expenses

Research and development expenses recognized on the consolidated statements of income were ¥1,097 million in the fiscal year ended March 31, 2022 and ¥1,058 million in the fiscal year ended March 31, 2023.

14. LEASES

(1) Leases as Lessee

The Group leases buildings for use as offices. Some of these contracts include the option to extend the lease term for a certain period after the contract expires, or to terminate it early before the contract expires. The Group estimates the lease term for offices to be 1 to 28 years. Moreover, some of these contracts include revision-of-rent clauses during the lease term.

Other than offices, the Group leases IT equipment and related items. The lease term for IT equipment and related

items is 1 to 9 years. Some of these contracts include leases with options that allow the Group to purchase the underlying asset at the expiration of the lease term. In some leases, the Group guarantees the residual value of the leased asset at the expiration of the lease term.

Some leases of IT equipment and related items include short-term leases and leases of low-value assets. Right-of-use assets and lease liabilities are not recognized for such leases.

The breakdown of right-of-use assets on March 31, 2022 and March 31, 2023 is as follows:

As of March 31,	Millions of yen	
	2022	2023
Class of underlying assets		
Buildings and structures	¥40,687	¥45,294
Tools, furniture and fixtures	634	381
Other	112	105
Total	¥41,434	¥45,781

The increase in right-of-use assets, expenses related to leases, and cash outflows in the fiscal years ended March 31, 2022 and 2023 are as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Depreciation of right-of-use assets		
Buildings and structures as underlying assets	¥8,880	¥8,455
Tools, furniture and fixtures as underlying assets	349	278
Others as underlying assets	8	6
Total depreciation of right-of-use assets	9,238	8,741
Interest on lease liabilities	433	396
Variable lease payments that are not included in the measurement of lease liabilities	—	—
Expenses relating to short-term leases	351	270
Expenses relating to leases of low-value assets	1,937	1,853
Income from subleases	—	—
Gains or losses on sale and leaseback transactions	—	—
Cash outflows related to leases	11,809	11,519
Increase in right-of-use assets	11,235	12,867

The maturity analysis of lease liabilities at the ends of the previous and current fiscal years is as described in “33. FINANCIAL INSTRUMENTS.”

(2) Leases as Lessor

• Operating leases

The Group leases some of the real estate it owns to third parties. The Group classifies these leases as operating leases

because not all the risks and rewards incidental to ownership of the underlying assets are substantially transferred. As of March 31, 2022 and March 31, 2023, the cost of lease assets was ¥2,010 million and ¥2,010 million, respectively, and the total of depreciation and accumulated impairment losses was ¥133 million and ¥187 million, respectively. These amounts are included in property, plant and equipment on the consolidated statements of financial position.

Revenue related to operating leases of owned real estate is shown in “25. NET SALES.”

The following table shows a maturity analysis of future undiscounted lease payments to be received related to operating leases as of March 31, 2022 and March 31, 2023.

As of March 31,	Millions of yen	
	2022	2023
Within 1 year	¥2,236	¥2,000
1 year to 2 years	1,997	1,312
2 years to 3 years	1,312	181
3 years to 4 years	181	78
4 years to 5 years	78	78
More than 5 years	96	17
Total	¥5,902	¥3,668

15. IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment test of cash-generating units (smallest identifiable groups) including goodwill

The primary balance of goodwill as of March 31, 2022 and March 31, 2023 is goodwill of ¥7,232 million recognized in connection with the acquisition of SCSK Minori Solutions Corporation, which is part of the Others segment.

The recoverable amount of SCSK Minori Solutions Corporation is calculated based on the value in use.

The value in use is calculated based on a three-year projection premised on historical performance and the most recent business plans approved by management.

The growth rate for future cash flows beyond the three-year projection period is determined to be 1.0%, taking into account the long-term average growth rates of the markets to which cash-generating units are affiliated and the national economy.

In addition, the discount rate used to calculate the value in use is determined to be 11.4% based on the pre-tax weighted average cost of capital.

An impairment test of intangible assets for which goodwill and useful lives cannot be determined in each fiscal year was performed. As a result, the test found no cash-generating units that have impaired intangible assets for which goodwill and useful lives cannot be determined.

As of March 31, 2023, the recoverable amount of SCSK Minori Solutions Corporation exceeded the carrying amount by ¥6,872 million. However, impairment losses could arise in the case where the pre-tax weighted average cost of capital increases by 4.2%.

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The Group has no individually material associates.

Individually immaterial associates

The carrying amount of the Group's share in individually immaterial associates, as well as the Group's shares in profit, other comprehensive income, and comprehensive income are as follows:

As of March 31,	Millions of yen	
	2022	2023
Carrying amount of interests	¥10,177	¥11,252

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
The Group's share		
Profit	¥1,252	¥913
Other comprehensive income	21	100
Comprehensive income	1,274	1,013

17. OTHER FINANCIAL ASSETS

(1) Breakdown of Other Financial Assets

The breakdown of other financial assets is as follows:

As of March 31,	Millions of yen	
	2022	2023
Items classified as financial assets measured at fair value through profit and loss		
Debt securities		
Bonds	¥1,202	¥199
Investment	849	1,428
Equity securities	2,019	4,070
Derivative assets	—	—
Other	223	119
Items classified as financial assets measured at fair value through other comprehensive income		
Equity securities	5,068	5,074
Total	¥9,362	¥10,892
Current assets	¥1,082	¥199
Non-current assets	8,280	10,692
Total	¥9,362	¥10,892

(2) Equity Instruments Designated as Measured at Fair Value through Other Comprehensive Income

Among the equity securities included in other financial assets, those constituting investment to be held by the Group over an extended period of time for strategic purposes are designated as financial assets (equity instruments) to be measured at fair value through other comprehensive income. Major holdings with respect to such financial assets and fair value thereof are as follows:

As of March 31,	Millions of yen	
	2022	2023
Stock		
ATLED Corp.	¥1,369	¥862
Nissay Information Technology Co., Ltd.	1,014	1,065
MicroAd, Inc.	999	1,161
Yakult Honsha Co., Ltd.	691	1,020
Quest Co., Ltd.	360	359
Daiwa Computer Co., Ltd.	312	281
Shin-nihon Computer Management Co., Ltd.	118	123
Other	201	199
Total	¥5,068	¥5,074

(3) Derecognition of Equity Instruments Measured at Fair Value through Other Comprehensive Income

The Group sells (derecognizes) financial assets measured at fair value through other comprehensive income for purposes that include reassessment of business relationships and business policies.

Upon derecognition during a fiscal period (or otherwise upon significant decrease in fair value), such cumulative amounts are reclassified to retained earnings and not reclassified to profit or loss. Fair value at the time of sale of financial assets measured at fair value through other comprehensive income, and cumulative gain or loss in that regard, is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Fair value at the time of sale	¥266	¥196
Cumulative gain (loss)	85	40

18. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows. Trade and other payables are all classified as financial liabilities measured at amortized cost.

As of March 31,	Millions of yen	
	2022	2023
Accounts payable – trade	¥24,856	¥27,568
Accounts payable	6,442	5,957
Deposits received	1,324	1,367
Other	173	106
Total	¥32,797	¥35,000
Current liabilities	¥32,628	¥34,826
Non-current liabilities	169	174

Total	¥32,797	¥35,000
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19. BONDS AND BORROWINGS

(1) Breakdown of Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

As of March 31,	Millions of yen		Average interest rate (%)	Maturity
	2022	2023		
Current portion of bonds payable	¥9,996	¥9,995	0.14	—
Bonds payable	14,962	4,982	0.14	—
Short-term borrowings	7,000	7,000	0.12	—
Current portion of long-term borrowings	—	4,950	0.14	—
Long-term borrowings except current portion	4,500	4,800	0.89	April 2027
Total	¥36,459	¥31,727	—	—
Current liabilities	¥16,996	¥21,945	—	—
Non-current liabilities	19,462	9,782	—	—
Total	¥36,459	¥31,727	—	—

Notes: 1. The average interest rates represent weighted average interest rates relative to the year-end balance of borrowings.

2. For maturity, please refer to (2) Details of Bonds.

(2) Details of Bonds

Details of bonds by issue are as follows:

As of March 31,	Millions of yen	
	2022	2023
0.14% unsecured bonds (maturity period: from July 21, 2017 to July 21, 2022)	¥9,996 (9,996)	¥—
0.14% unsecured bonds (maturity period: from September 14, 2018 to September 14, 2023)	9,985	9,995 (9,995)
0.14% unsecured bonds (maturity period: from June 8, 2021 to June 8, 2026)	4,976	4,982
Total	¥24,959 (9,996)	¥14,977 (9,995)

Note: Figures in parentheses in the as of March 31, 2022 and 2023 columns represent amounts scheduled to be repaid within one year.

20. OTHER FINANCIAL LIABILITIES

The breakdown of other financial liabilities is as follows:

As of March 31,	Millions of yen	
	2022	2023
Items classified as financial liabilities measured at fair value through profit and loss		
Derivative liabilities	¥297	¥63
Total	¥297	¥63
Current liabilities	¥297	¥63
Non-current liabilities	—	—
Total	¥297	¥63

21. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

As of March 31,	Millions of yen	
	2022	2023
Accrued consumption taxes	¥4,736	¥4,122
Accrued expenses	186	504
Other	1,461	1,378
Total	¥6,384	¥6,005
Current liabilities	¥6,313	¥5,994
Non-current liabilities	70	10
Total	¥6,384	¥6,005

22. EMPLOYEE BENEFITS

(1) Employee Retirement Benefits

1) Outline of benefit plans

The Company and certain consolidated subsidiaries mainly employ defined benefit corporate pension plans and defined contribution plans. Benefit levels under the defined benefit plans are calculated based on the accumulated amount of annual reserve using the expected annual salary and eligibility grade from the time of hire to retirement.

Although maintained in accordance with sound management practices, plan assets of the defined benefit corporate pension plans are exposed to investment risk pertaining to financial instruments. Moreover, the defined benefit obligation is measured on the basis of discount rates and other various actuarial assumptions, and is accordingly exposed to volatility risk with respect to such assumptions.

The defined contribution plans constitute post-employment benefit plans under which the employer pays fixed contributions into a separate entity and assumes no legal or constructive obligation to pay further contributions.

2) Defined benefit plans

a) Amounts recognized in the consolidated statements of financial position

Amounts recognized in the consolidated statements of financial position are as follows:

As of March 31,	Millions of yen	
	2022	2023
Present value of funded retirement benefit obligations (with plan assets)	¥80,738	¥75,591
Fair value of plan assets	(87,511)	(84,979)
Funded status	(6,773)	(9,388)
Present value of unfunded retirement benefit obligations (without plan assets)	1,948	1,974
Total net defined benefit liability (asset) recognized in the consolidated statement of financial position	¥(4,824)	¥(7,413)
Employee benefits (non-current liabilities)	¥1,948	¥1,974
Other non-current assets	(6,773)	(9,388)

b) Net defined benefit liabilities

Reconciliation from the opening balances to the closing balances with respect to net defined benefit liabilities and its components are as follows:

	Millions of yen		
	Present value of defined benefit obligations	Plan assets	Net defined benefit liability (assets)
Balance at April 1, 2021	¥81,804	¥85,424	¥(3,620)
Current service cost	3,281	—	3,281
Interest cost (income)	533	563	(29)
Benefits paid	(2,684)	(2,549)	(135)
Employer contributions	—	3,618	(3,618)
Remeasurements of net defined benefit liability			
Actuarial differences (demographics assumptions)	811	—	811
Actuarial differences (financial assumptions)	(1,567)	—	(1,567)
Experience adjustment	526	—	526
Return on plan assets	—	455	(455)
Prior service cost	(192)	—	(192)
Other changes	173	—	173
Balance at March 31, 2022	82,686	87,511	(4,824)
Current service cost	3,198	—	3,198
Interest cost (income)	669	715	(45)
Benefits paid	(3,987)	(3,866)	(121)
Employer contributions	—	3,551	(3,551)
Remeasurements of net defined benefit liability			
Actuarial differences (demographics assumptions)	777	—	777
Actuarial differences (financial assumptions)	(5,009)	—	(5,009)
Experience adjustment	(960)	—	(960)
Return on plan assets	—	(2,932)	2,932
Prior service cost	—	—	—
Other changes	190	—	190
Balance at March 31, 2023	¥77,565	¥84,979	¥(7,413)

c) Fair value by plan asset grouping

Fair values of major plan assets per plan asset grouping are as follows:

As of March 31,	Millions of yen					
	2022			2023		
	Quoted market price in an active market			Quoted market price in an active market		
	Available	Unavailable	Total	Available	Unavailable	Total
Cash and cash equivalents	¥1,955	¥—	¥1,955	¥2,586	¥—	¥2,586
Investment trust beneficiary certificates	—	65,322	65,322	—	61,132	61,132
Life insurance company general accounts	—	6,847	6,847	—	6,926	6,926
Others	—	13,385	13,385	—	14,335	14,335
Total	¥1,955	¥85,556	¥87,511	¥2,586	¥82,393	¥84,979

Management of the pension assets enlists the objective of securing long-term total proceeds under acceptable risk scenarios such that are necessary to ensure payment of pension benefits and other amounts over future periods. To achieve such aims, the Company makes appropriate investment choices and sets up asset portfolios with strategic asset mixes optimized for the future in terms of expected rates of return, risks, and other such considerations. Strategic asset mixes are reviewed as necessary taking into account a plan's extent of maturity, financial status and other such factors.

On respective reporting dates, the Company checks strategic asset mix and the actual proportional mix of holdings with respect to market values. The Company then promptly makes adjustments to asset holdings if it turns out valuations exceedingly deviate from acceptable ranges. At this point in time, the strategic asset mix comprises 77% investment trust beneficiary certificates (of which, 25% are equities and 52% are public and corporate bonds), 8% assets in life insurance company general account, and 15% other holdings. Meanwhile, the actual asset mix by market value comprises 72% investment trust beneficiary certificates (of which, 22% are equities and 50% are public and corporate bonds), 8% assets in life insurance company general account, and 20% other holdings.

The employer is to make fund contributions calculated by multiplying standard salaries of each employee by a certain percentage. The contributions largely consist of standard contributions for pension and lump sum payments, special contributions for amortization of past service liabilities, and office cost contributions for fund administration. The employer assumes obligation for payment of contributions to the fund.

Contribution amounts are recalculated at least once every five years for the sake of maintaining balance in terms of financial administration into the future, pursuant to laws and regulations. Verification is performed with respect to the fund on an annual basis, which involves checking whether pension assets are accumulating as planned and checking whether accumulation of pension assets aligns with benefits of past service periods. If such verification reveals a shortfall in contributions, the Company is to resolve the matter by means that include paying in special contributions.

The Company plans to make contributions of ¥3,406 million to plan assets for the following fiscal year.

d) Significant actuarial assumptions

The principal actuarial assumptions used in measuring present value of the defined benefit obligation are as follows:

As of March 31,	2022	2023
Discount rate (%)	0.82	1.31

Rate of salary increase (%)	3.50	3.66
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Assumptions regarding future longevity have been based on published statistics and mortality tables.

e) Sensitivity analysis of actuarial assumptions

The present value of the defined benefit obligation would have varied by the amounts shown below as of March 31, 2022 and as of March 31, 2023, if there had been discount rate volatility amounting to the percentages shown below, holding other assumptions constant. Sensitivity analysis is performed under the premise that other assumptions remain unchanged. However, in reality sensitivity analysis is susceptible to variance with respect to the other assumptions.

As of March 31,	2022	2023
Discount rate (%)	0.82	1.31
In the event of a 0.5% increase (Millions of yen)	¥(5,231)	¥(4,897)
In the event of a 0.5% decline (Millions of yen)	5,810	5,435

f) Maturity structure of defined benefit plans

The weighted average duration of the defined benefit obligation was 15 years and 15 years as of March 31, 2022 and 2023, respectively.

3) Defined contribution plans

Expenses associated with amounts contributed to the defined contribution plans were ¥1,586 million and ¥1,607 million for the fiscal years ended March 31, 2022 and 2023, respectively.

(2) Other Employee Benefits

Amounts recognized in the consolidated statements of financial position as short-term employee benefits and as long-term employee benefits other than those under defined benefit pension plans are as follows:

As of March 31,	Millions of yen	
	2022	2023
Employee benefits (current liabilities)	¥10,540	¥10,889
Employee benefits (non-current liabilities)	7	7

(3) Employee Benefit Expenses

For the fiscal years ended March 31, 2022 and 2023, the total employee benefit expenses included both in cost of sales and in selling, general and administrative expenses of the consolidated statements of income were ¥128,315 million and ¥133,766 million, respectively. The employee benefit expenses primarily consist of salaries and bonuses, legal welfare expenses, and retirement benefit expenses.

23. SHARE-BASED PAYMENTS

(1) Stock Option Plan

The Company has granted its directors and executive officers subscription rights to shares at no cost in the form of stock

options, having adopted a stock option plan from the fiscal year ended March 31, 2007 through the fiscal year ended March 31, 2010.

The stock options are to expire if not exercised during the exercisable period stipulated under the allotment agreement. The Company accounts for its stock option plan as an equity-settled share-based payment.

1) Stock Options to Which IFRS 2 Is Applied

Not applicable

2) Stock Options to Which IFRS 2 Is Not Applied (Stock Options Granted after November 7, 2002, but Vested Prior to the Transition Date)

a) Outline of stock options

Stock option	2007 Stock Option (the 2nd Grant)	2008 Stock Option (the 4th Grant)	2009 Stock Option (the 6th Grant)	2010 Stock Option (the 8th Grant)
Grantees' position	10 directors 14 executive officers	9 directors 12 executive officers	9 directors 16 executive officers	9 directors 14 executive officers
Number of granted stock options	Common stock 49,200 shares	Common stock 68,700 shares	Common stock 93,300 shares	Common stock 136,200 shares
Grant date	July 27, 2007	July 29, 2008	July 30, 2009	July 30, 2010
Expiration date	July 26, 2027	July 28, 2028	July 29, 2029	July 29, 2030

Note: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.

Accordingly, the number of granted stock options has been restated to reflect the converted figures after the stock split.

b) Changes in number of stock options and weighted average exercise price

For the fiscal year ended March 31, 2022

	The 2nd Grant		The 4th Grant		The 6th Grant		The 8th Grant	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Outstanding at April 1, 2021	1,800	¥1	3,900	¥1	10,500	¥1	39,900	¥1
Granted	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	(4,800)	1
Expired	—	—	—	—	—	—	—	—
Outstanding at March 31, 2022	1,800	1	3,900	1	10,500	1	35,100	1
Exercisable at March 31, 2022	—	¥—	—	¥—	3,300	¥1	24,000	¥1

For the fiscal year ended March 31, 2023

	The 2nd Grant		The 4th Grant		The 6th Grant		The 8th Grant	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Outstanding at April 1, 2022	1,800	¥1	3,900	¥1	10,500	¥1	35,100	¥1
Granted	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	(3,300)	1	(9,600)	1
Expired	—	—	—	—	—	—	—	—
Outstanding at March 31, 2023	1,800	1	3,900	1	7,200	1	25,500	1
Exercisable at March 31, 2023	—	¥—	—	¥—	3,300	¥1	19,200	¥1

The weighted average share prices at the date of exercise for stock options exercised during the fiscal year ended March 31, 2022 were ¥2,074 for the 8th Grant of stock options. The weighted average share prices at the date of exercise for stock options exercised during the fiscal year ended March 31, 2023 were ¥1,980 and ¥2,030 with respect to the 6th Grant and 8th Grant of stock options, respectively.

The weighted average remaining contractual lives of the outstanding stock options were 7.9 years and 6.8 years for the fiscal years ended March 31, 2022 and 2023, respectively.

Note: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021. The numbers of shares and the weighted average share prices have been calculated assuming the stock split was implemented at the beginning of the fiscal year ended March 31, 2022.

(2) Transfer-Restricted Stock Compensation Plan

The Company adopts the transfer-restricted stock compensation plan for the Company's directors (excluding outside directors), executive officers and senior corporate officers (hereinafter, "Directors, etc.") with the aim of motivating the Directors, etc. to contribute to the improvement of medium- to long-term business performance and the sustainable enhancement of corporate value to a greater degree than before.

Under the plan, the Company issues or disposes of shares of its common stock by granting monetary compensation claims to the Directors, etc. while having them contribute all of the claims to the Company as in-kind contribution in exchange for the shares. The transfer of shares is restricted until fulfilment of the requirements of the work conditions. For the accounting purpose, the transfer-restricted stock compensation plan is treated in the same way as equity-settled share-based payment.

1) Expenses in connection with the transfer-restricted stock compensation plan

Selling, general and administrative expenses ¥247 million

2) Number of shares granted during the period and its fair value

Grant date July 22, 2022
Number of shares granted 120,230 shares
Fair value at the grant date ¥2,201

(Note) The fair value at the grant date is based on the stock price at the grant date.

24. PROVISIONS

(1) Reconciliations and Breakdowns

Reconciliations of book value of provisions at the beginning and the end of the reporting period as well as breakdowns thereof are as follows:

	Millions of yen		
	Provision for loss on construction contracts	Asset retirement obligations	Total
As of April 1, 2021	¥58	¥3,651	¥3,709
Additional provisions during the year	259	828	1,088
Decrease during the period (intended use)	(57)	(422)	(480)
Decrease during the period (reversal)	—	—	—
Unwind of discount	—	22	22
Translation gains and losses	—	0	0
As of March 31, 2022	260	4,080	4,340
Additional provisions during the year	384	3,286	3,670
Decrease during the period (intended use)	(238)	(55)	(294)
Decrease during the period (reversal)	—	—	—
Unwind of discount	—	22	22
Translation gains and losses	—	1	1
As of March 31, 2023	¥406	¥7,334	¥7,740

As of March 31,	Millions of yen	
	2022	2023
Current liabilities	¥278	¥406
Non-current liabilities	4,061	7,334
Total	¥4,340	¥7,740

(2) Outline of Provisions, Expected Timing of Economic Benefits Outflows and Other Matters

Calculation of the provisions is based on the best estimate of the amount for the future economic benefits outflows as of the reporting date. Outcomes that differ from the assumptions used in the estimates could result in significant adjustments to the amount of provisions in the consolidated financial statements in subsequent years.

The following is a summary of the provisions recognized by the Group and the expected timing of the outflow of economic benefits:

(a) Provision for loss on construction contracts

The Group monitors the actual and expected profit and loss on contracts with customers continuously. When it is probable that the estimated total cost of fulfilling the obligations to contracted customers exceeds the contract amount and the amount of expected loss can be reliably estimated, the Group recognizes estimated future losses as provision for loss on construction contracts, based on the reviews of the contract progress and the future profit and loss expectations.

The amount of the provision for loss on construction contracts was ¥406 million as of the end of the current fiscal year.

To recognize a provision for loss on construction contracts, the total cost of the Contracts needs to be reasonably estimated at the time the order is received, and the total cost needs to be adjusted to reflect the current best estimate after the commencement of the development project.

Development projects under the Contracts have individuality in the content, such as specifications that vary according to customer requests. Due to facts identified or changes in circumstances that occurred after the commencement of the development projects, update of the services and necessary work hours may be required. Estimate of total cost involves uncertainty due to the individuality of development projects, and changes in facts and circumstances as described above. Although total cost is estimated using cost accumulation methods based on certain data and assumptions such as services in line with development projects and necessary work hours, management's judgment thereon has a significant effect on the estimate of total cost.

Although the expected timing of the outflow of economic benefits will be affected by the progress of the contract and other factors, the majority of this obligation is expected to be realized during the following fiscal year.

(b) Asset retirement obligations

Asset retirement obligations are recognized to provide for the obligation to restore assets to their original state related to real estate lease agreements principally involving buildings associated with offices and buildings associated with data centers. The Company accordingly records as asset retirement obligations amounts likely to be paid in the future, based on past performance and third-party estimates.

The expected timing of economic benefits outflows is subject to effects of future business plans and other such factors, but such outflows are expected to occur subsequent to one year having transpired from the last day of respective fiscal years.

25. CAPITAL AND OTHER COMPONENTS OF EQUITY

(1) Share Capital

The Company's number of authorized shares and number of issued shares are as follows:

For the fiscal year ended March 31,	Common stock (Shares)	
	2022	2023
Authorized shares	600,000,000	600,000,000
Issued shares		
Beginning of the year:	104,181,803	312,545,409
Changes during the year (Notes)	208,363,606	120,230
End of the year:	312,545,409	312,665,639

Notes: 1. The total number of authorized shares increased from 200,000,000 to 600,000,000 in accordance with a change in the Articles of Incorporation following a stock split implemented with an effective date of October 1, 2021 based on approval by the Board of Directors on July 30, 2021.

2. For the fiscal year ended March 31, 2022, the number of issued shares increased due to a three-for-one stock split of common stock with an effective date of October 1, 2021.

3. For the fiscal year ended March 31, 2023, the number of issued shares increased due to issuances of new shares for the transfer-restricted stock compensation.

For the fiscal year ended March 31,	Treasury stock (Common stock) (Shares)	
	2022	2023
Beginning of the year:	125,727	376,837
Changes during the year (Notes)	251,110	(11,423)
End of the year:	376,837	365,414

Notes: 1. The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.

2. Changes in the number of treasury shares during the fiscal year

At March 31, 2022

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

Stock split: 251,454 shares

Purchases of less-than-one-unit shares: 5,383 shares

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

Disposals of less-than-one-unit shares: 927 shares

Exercise of stock options: 4,800 shares

At March 31, 2023

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

Purchases of less-than-one-unit shares: 1,847 shares

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

Disposals of less-than-one-unit shares: 370 shares

Exercise of stock options: 12,900 shares

(2) Capital Surplus

Capital surplus consists of amounts generated from capital transactions not included in capital stock.

The Companies Act of Japan stipulates that over half of the capital contributed from the issue of shares must be included in capital stock and that the remainder must be included in legal capital surplus.

(3) Retained Earnings

Retained earnings consist of amounts recognized as profit or loss in the current and prior fiscal years and those reclassified from other comprehensive income.

The Companies Act stipulates that one-tenth of the amount of reductions in surplus due to dividend distributions funded by the surplus is to be accumulated as legal capital surplus or legal retained earnings until the total of legal capital surplus and legal retained earnings including retained earnings equals one-quarter of the share capital. Accumulated legal retained earnings may be appropriated to reduce capital deficits. They may also be drawn down pursuant to a resolution of a General Meeting of Shareholders.

The amount of the Company's retained earnings distributable as dividends pursuant to the Companies Act is measured based on the amount of retained earnings presented on the Company's separate financial statements prepared in accordance with Japanese generally accepted accounting principles (J-GAAP).

Moreover, the Companies Act imposes certain restrictions regarding measurement of the amount of retained earnings distributable as dividends. The Company distributes retained earnings within such constraints.

(4) Other Components of Equity

Other components of equity are as follows:

(a) Remeasurements of net defined benefit liabilities (assets)

This consists of the amount of change due to remeasurements of defined benefit plans.

(b) Net change in fair value of financial assets (equity instruments) measured at fair value through other comprehensive income

This consists of the cumulative amount of net change in fair value of financial assets (equity financial assets) measured at fair value through other comprehensive income. However, this excludes amounts already derecognized or otherwise reclassified to retained earnings upon significant decrease in fair value.

(c) Cash flow hedges

This consists either of reclassification adjustment to net profit or loss of the effective portion of gains or losses on cash flow hedging instruments under cash flow hedges, or of the remaining balance of non-financial assets acquired under hedged transactions, such as inventories not reclassified to book value.

(d) Exchange differences on translation of foreign operations

This consists of foreign currency translation differences arising from translation of the financial statements of foreign operations.

26. DIVIDENDS

(1) Dividend Payments

For the fiscal year ended March 31, 2022

Approved by	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
		Millions of yen	Yen		
Board Meeting held on April 28, 2021	Common stock	¥7,283	¥70.00	March 31, 2021	June 2, 2021
Board Meeting held on October 29, 2021	Common stock	¥7,283	¥70.00	September 30, 2021	December 1, 2021

Notes: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.

Dividends per share approved by the Board of Directors on October 29, 2021 reflect the amount before the stock split.

For the fiscal year ended March 31, 2023

Approved by	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
		Millions of yen	Yen		
Board Meeting held on April 28, 2022	Common stock	¥7,286	¥23.34	March 31, 2022	June 2, 2022
Board Meeting held on October 31, 2022	Common stock	¥8,119	¥26.00	September 30, 2022	December 1, 2022

(2) Dividends Whose Record Date Is Attributable to the Respective Fiscal Year but Whose Effective

Date Is to Be after the Balance Sheet Date

For the fiscal year ended March 31, 2022

Approved by	Types of shares	Source of funds	Total amount of dividends	Dividends per share	Record date	Effective date
			Millions of yen	Yen		
Board Meeting held on April 28, 2022	Common stock	Retained earnings	¥7,286	¥23.34	March 31, 2022	June 2, 2022

Notes: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.

Dividends per share approved by the Board of Directors on April 28, 2022 reflect the amount after the stock split.

For the fiscal year ended March 31, 2023

Approved by	Types of shares	Source of funds	Total amount of dividends	Dividends per share	Record date	Effective date
			Millions of yen	Yen		
Board Meeting held on April 28, 2023	Common stock	Retained earnings	¥8,119	¥26.00	March 31, 2023	June 2, 2023

27. NET SALES

(1) Disaggregation of Net Sales

Net sales are disaggregated based on principal service categories. The relationship between disaggregated net sales and the respective reportable segments is as follows.

For the fiscal year ended March 31, 2022

	Millions of yen								
	Reportable Segment						Total	Adjustments	Total
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others			
Systems Development	¥75,777	¥48,676	¥15,681	¥3,246	¥11,825	¥12,760	¥167,967	¥-	¥167,967
System Maintenance and Operation/Services	52,176	5,689	45,434	13,812	39,315	5,977	162,407	-	162,407
Packaged Software/Hardware Sales	4,249	2,160	2,212	66,910	4,332	4,088	83,954	(177)	83,776
Total	¥132,203	¥56,526	¥63,327	¥83,969	¥55,473	¥22,826	¥414,328	¥(177)	¥414,150
Net sales recognized from contracts with customers	¥132,203	¥56,526	¥63,327	¥83,969	¥53,716	¥22,826	¥412,571	¥(177)	¥412,393
Net sales recognized from other sources*2	-	-	-	-	1,757	-	1,757	-	1,757

Notes: 1. Figures are stated after eliminations of intercompany transactions.

2. Net sales recognized from other sources are due mainly to lease income (operating leases) in accordance with IFRS 16, and are included in "System Maintenance and Operation/ Services" in the disaggregated information of major service categories.

3. Of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2022 was ¥10,599 million (of which ¥10,253 million was recognized in the fiscal year ended March 31, 2022 and ¥345 million was recognized in prior fiscal years).

For the fiscal year ended March 31, 2023

Millions of yen

	Reportable Segment						Total	Adjustments	Total
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others			
Systems Development	¥85,331	¥48,681	¥19,634	¥2,979	¥10,451	¥13,355	¥180,433	¥-	¥180,433
System Maintenance and Operation/Services	59,750	7,053	47,073	14,770	41,127	5,862	175,638	-	175,638
Packaged Software/ Hardware Sales	4,315	3,650	2,016	70,707	5,130	4,006	89,826	14	89,841
Total	¥149,398	¥59,385	¥68,724	¥88,456	¥56,709	¥23,223	¥445,897	¥14	¥445,912
Net sales recognized from contracts with customers	¥149,398	¥59,385	¥68,724	¥88,456	¥54,472	¥23,223	¥443,660	¥14	¥443,674
Net sales recognized from other sources*2	-	-	-	-	2,237	-	2,237	-	2,237

Notes: 1. Figures are stated after eliminations of intercompany transactions.

2. Net sales recognized from other sources are due mainly to lease income (operating leases) in accordance with IFRS 16, and are included in "System Maintenance and Operation/ Services" in the disaggregated information of major service categories.

3. Of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2023 was ¥14,661 million (of which ¥13,850 million was recognized in the fiscal year ended March 31, 2023 and ¥811 million was recognized in prior fiscal years).

(2) Contract Balances

Balances of receivables, contract assets and contract liabilities from contracts with customers are as follows. Significant changes in contract assets and contract liabilities are the result of recognition of net sales, transfer to trade receivables and the receipt of cash consideration.

As of March 31,	Millions of yen	
	2022	2023
Receivables from contracts with customers	¥72,252	¥80,817
Allowance for doubtful accounts	(38)	(65)
Contract assets	10,104	14,411
Contract liabilities	14,037	15,388
Net sales recognized which were included in contract liability balances at the beginning of the period	8,514	9,050

Note: There is no significance in the amount of net sales recognized from performance obligations satisfied in the past periods in the fiscal years ended March 31, 2022 and 2023.

(3) Transaction Price Allocated to the Remaining Performance Obligations

The breakdown of period of net sales expected to be recognized in the future related to unsatisfied (or partially unsatisfied) performance obligations as of March 31, 2023 is as follows.

The Group does not apply the practical expedients of paragraph C5 (c) and paragraph 121 under IFRS 15 and includes performance obligations related to contracts that have an expected duration of one year or less. There are no significant amounts of consideration from contracts with customers that are not included in the transaction price.

As of March 31,	Millions of yen	
	2022	2023
Within 1 year	¥164,538	¥170,625
More than 1 year	43,959	31,894
Total	¥208,498	¥202,520

Note: The transaction prices allocated to the remaining performance obligations presented above include those related to lease income (operating leases) in accordance with IFRS 16. For details, please refer to “(2) Leases as Lessor” in “12. LEASES.”

(4) Incremental Costs to Obtaining and Fulfilling Contracts with Customers

There are no significant assets recognized from incremental costs to obtaining and fulfilling contracts with customers.

28. COST OF SALES

The breakdown of cost of sales is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Employee benefit expenses	¥95,076	¥98,090
Outsourcing costs	120,617	133,311
Commodity cost	60,807	64,770
Depreciation and amortization	14,226	14,940
Impairment losses	147	44
Others	15,086	17,075
Total	¥305,962	¥328,232

29. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general and administrative expenses is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Employee benefit expenses	¥33,238	¥35,675
Computer and related expenses	1,853	1,935
Depreciation and amortization	5,652	5,686
Outsourcing expenses	3,401	3,815
Taxes and dues	3,762	3,862
Education and book research expenses	1,602	1,619
Advertising expenses	1,685	2,692
Others	9,584	11,204
Total	¥60,780	¥66,491

30. OTHER INCOME AND EXPENSES

(1) Other Income

The breakdown of other income is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Gain on sale of fixed assets	¥3	¥0
Others	311	461
Total	¥315	¥461

(2) Other Expenses

The breakdown of other expenses is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Foreign exchange loss	¥49	¥-
Loss on sale of fixed assets	10	0
Loss on retirement of fixed assets	71	22
Others	35	265
Total	¥167	¥288

31. FINANCE INCOME AND FINANCE COSTS

(1) Finance Income

The breakdown of finance income is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Interest income based on the effective interest method		
Financial assets measured at amortized cost	¥40	¥123
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Dividends received from financial assets held at the end of the fiscal year	44	46
Dividends received from financial assets derecognized during the period	8	0
Financial assets measured at fair value through profit and loss		
Dividends received from financial assets held at the end of the fiscal year	-	-
Dividends received from financial assets derecognized during the period	-	-
Gain from valuation and realization of fair value		
Financial assets measured at fair value through profit and loss	0	1,481
Total	¥94	¥1,651

(2) Finance Costs

The breakdown of finance costs is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Interest cost based on the effective interest method		
Financial liabilities measured at amortized cost	¥502	¥497
Asset retirement obligations	22	22
Loss from valuation and realization of fair value		
Financial assets measured at fair value through profit and loss	62	68
Total	¥587	¥589

32. INCOME TAX

(1) Deferred Tax Assets and Deferred Tax Liabilities

Significant components of deferred tax assets and deferred tax liabilities were as follows:

For the fiscal year ended March 31, 2022

	Millions of yen					As of March 31, 2022
	As of April 1, 2021	Recognized through profit or loss	Recognized through other comprehensive income	Recognized directly in equity	Other (Note)	
Deferred tax assets						
Tax losses carried forward	¥106	¥(105)	¥—	¥—	¥0	¥1
Employee benefits	1,614	(385)	(207)	—	1	1,024
Property, plant and equipment	3,950	(225)	—	—	(4)	3,721
Intangible asset	465	126	—	—	1	593
Lease liability	11,825	636	—	—	—	12,461
Provision	1,171	203	—	—	—	1,375
Other	1,200	379	5	—	128	1,714
Total	20,335	630	(201)	—	126	20,891
Deferred tax liabilities						
Securities and other investments	(715)	18	(9)	—	—	(706)
Investments accounted for using equity method	(827)	(127)	5	—	—	(949)
Right-of-use assets	(11,592)	(612)	—	—	—	(12,205)
Goodwill and intangible assets	(3,003)	159	—	—	—	(2,843)
Other	(764)	(171)	—	—	—	(936)
Total	(16,903)	(734)	(4)	—	—	(17,641)
Net amount	¥3,432	¥(103)	¥(205)	¥—	¥126	¥3,249

Note: Other includes changes associated with items such as exchange differences on translation of foreign operations.

For the fiscal year ended March 31, 2023

	Millions of yen					As of March 31, 2023
	As of April 1, 2022	Recognized through profit or loss	Recognized through other comprehensive income	Recognized directly in equity	Other (Note)	
Deferred tax assets						
Tax losses carried forward	¥1	¥31	¥-	¥-	¥0	¥33
Employee benefits	1,024	(54)	(693)	-	1	278
Property, plant and equipment	3,721	(125)	-	-	(3)	3,592
Intangible asset	593	87	-	-	(0)	680
Lease liability	12,461	1,353	-	-	-	13,815
Provision	1,375	1,029	-	-	-	2,404
Other	1,714	133	206	-	(277)	1,777
Total	20,891	2,456	(486)	-	(278)	22,582
Deferred tax liabilities						
Securities and other investments	(706)	(521)	(79)	-	(1)	(1,309)
Investments accounted for using equity method	(949)	(139)	(24)	-	-	(1,113)
Right-of-use assets	(12,205)	(1,373)	-	-	-	(13,578)
Goodwill and intangible assets	(2,843)	263	-	-	-	(2,580)
Other	(936)	(944)	-	-	-	(1,880)
Total	(17,641)	(2,716)	(104)	-	(1)	(20,463)
Net amount	¥3,249	¥(260)	¥(590)	¥-	¥(280)	¥2,118

Note: Other includes changes associated with items such as exchange differences on translation of foreign operations.

Deferred tax assets and deferred tax liabilities stated on the consolidated statements of financial position are as follows:

As of March 31,	Millions of yen	
	2022	2023
Deferred tax assets	¥3,249	¥2,118
Deferred tax liabilities	-	-
Net amount	¥3,249	¥2,118

The following presents deductible temporary differences, tax losses carried forward, and tax credits carried forward for which no deferred tax asset has been recognized as of March 31, 2022 and 2023. Deductible temporary differences, tax losses carried forward, and tax credits carried forward are presented on a tax basis.

As of March 31,	Millions of yen	
	2022	2023
Deductible temporary differences	¥386	¥828
Tax losses carried forward		
Carry within 5 years	241	281
Carry over 5 years to 10 years	448	473
Tax credits carried forward	—	—
Total	¥1,076	¥1,583

Recognizing deferred tax assets involves assessing recoverability of such deferred tax assets taking into account the probability that deductible temporary differences or tax losses carried forward can be applied against future taxable profits. Upon having performed such assessment considering options regarding reversal of taxable temporary differences, expected future taxable profits, and tax planning, deferred tax assets are recognized where future taxable profits are deemed probable.

The aggregate amount of taxable temporary differences for which no deferred tax liabilities were recognized are as follows:

As of March 31,	Millions of yen	
	2022	2023
Total amount of temporary differences associated with investments in subsidiaries, branches, associates and joint ventures	¥7,222	¥8,358

The Company does not recognize deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, except when those profits are planned to be distributed at the end of the reporting period. Such deferred tax liabilities are not recognized given that the Group is able to control the timing for reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

(2) Income Tax Expense

The breakdown of income tax expense was as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Current tax expense	¥14,712	¥15,738
Deferred tax expense		
Decrease (increase) in temporary differences	(1)	292
Use of tax losses which were previously recognized	105	(31)
Total deferred tax expense	103	260
Total income tax expense	¥14,816	¥15,999

Note: Transition from consolidated taxation system to group tax sharing system is to take effect on April 1, 2022, in accordance with laws on tax reform in Japan promulgated in March 2020. The Company has completed the transition to a group tax sharing system on April 1, 2022. The effect of the taxation system change is insignificant.

(3) Reconciliation of Statutory Tax Rate

The principal items attributable to the difference between the statutory tax rate and the average actual tax rate are as follows:

For the fiscal year ended March 31,	2022	2023
Statutory tax rate	30.6%	30.6%
(Adjustments)		
Expenses not deductible for income tax purposes	0.1	0.2
Share of profit of equity-accounted investees	(0.7)	(0.7)
Valuation allowance	0.1	0.1
Tax credit	(0.2)	(0.7)
Other	0.7	0.5
Average actual tax rate	30.6%	30.0%

Note: The Company was subject to a 30.6% statutory tax rate in the fiscal year ended March 31, 2022, and a 30.6% statutory tax rate in the fiscal year ended March 31, 2023, calculated based on corporate, resident and enterprise tax in Japan. However, overseas subsidiaries are subject to income and other taxes of the locations in which they operate.

33. EARNINGS PER SHARE

Basic and diluted earnings per share attributable to owners of the company are calculated on the following basis.

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Basis of calculating basic earnings per share		
Profit attributable to owners of parent	¥33,470	¥37,301
Profit not attributable to owners of parent	—	—
Profit used for calculating basic earnings per share	33,470	37,301
Average number of common shares during the period (Shares)	312,221,214	312,309,327
Basic earnings per share (Yen)	¥107.20	¥119.44
Basis of calculating diluted earnings per share		
Profit used for calculating basic earnings per share	¥33,470	¥37,301
Adjustment	—	—
Profit used for calculating diluted earnings per share	33,470	37,301
Average number of common shares during the period (Shares)	312,221,214	312,309,327
Increased number of common shares due to subscription rights to shares (Shares)	—	—
Average number of diluted shares outstanding during the period (Shares)	312,221,214	312,309,327
Diluted earnings per share (Yen)	¥107.20	¥119.44

Note: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021. Basic earnings per share and diluted earnings per share have been calculated assuming the stock split was implemented at the beginning of the fiscal year ended March 31, 2021.

34. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME

(1) Other Components of Equity

For the fiscal years ended March 31, 2022 and 2023, components of and changes in other components of equity were as follows:

	Millions of yen				
	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Cash flow hedge	Remeasurements of defined benefit liabilities (assets)	Exchange differences on translation of foreign operations	Total
As of April 1, 2021	¥2,112	¥97	¥—	¥(95)	¥2,114
Other comprehensive income	51	(13)	507	902	1,447
Transfer to non-financial assets	—	(292)	—	—	(292)
Transfer to retained earnings	(0)	—	(507)	—	(507)
As of March 31, 2022	2,163	(208)	—	806	2,761
Other comprehensive income	264	(467)	1,587	821	2,205
Transfer to non-financial assets	—	624	—	—	624
Transfer to retained earnings	(28)	—	(1,587)	—	(1,616)
As of March 31, 2023	¥2,399	¥(50)	¥—	¥1,627	¥3,976

(This part is intentionally left blank.)

(2) Other Comprehensive Income

For the fiscal years ending March 31, 2022 and 2023, components of other comprehensive income and related tax effect amounts, as well as reclassification adjustments to profit or loss, are as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Net change in fair value of equity instruments measured at fair value through other comprehensive income		
Arising during the year	¥78	¥308
Reclassification adjustment to net income	—	—
Before tax effect adjustment	78	308
Tax effect	(1)	(96)
Net-of-tax amount	77	211
Cash flow hedge		
Arising during the year	(18)	(674)
Reclassification adjustment to net income	—	—
Before tax effect adjustment	(18)	(674)
Tax effect	5	206
Net-of-tax amount	(13)	(467)
Remeasurements of defined benefit liabilities (assets)		
Arising during the year	676	2,260
Reclassification adjustment to net income	—	—
Before tax effect adjustment	676	2,260
Tax effect	(207)	(693)
Net-of-tax amount	469	1,566
Exchange differences on translation of foreign operations		
Arising during the year	895	802
Reclassification adjustment to net income	—	—
Before tax effect adjustment	895	802
Tax effect	(2)	(8)
Net-of-tax amount	892	793
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	21	100
Reclassification adjustment to net income	—	—
Net-of-tax amount	21	100
Total other comprehensive income	¥1,447	¥2,205

35. FINANCIAL INSTRUMENTS

(1) Capital Management Policy

The Group undertakes capital management with the aim of achieving sustainable growth and increasing corporate value.

Primary indicators used with respect to capital management undertaken by the Group are as follows:

As of March 31,	2022	2023
Equity attributable to owners of parent per share (Notes 1) (Yen)	¥790.86	¥870.56
Equity ratio (Note 2) (%)	60.6	62.4
Return on equity (Note 3) (%)	14.1	14.4

Notes: 1. Total equity attributable to owners of parent/Number of shares issued as of the end of the respective fiscal year (excluding treasury shares)

2. Total equity attributable to owners of parent/Total assets

3. Profit attributable to owners of parent/Total equity attributable to owners of parent

The Group is not subject to any significant capital restrictions.

(2) Financial Risk Management

The Group's business activities are affected by the business environment and financial markets. Financial instruments held in the course of engaging in business activities are exposed to risks inherent to such financial instruments. Such risks primarily consist of: (a) market risk ((i) currency risk and (ii) interest rate risk), (b) credit risk, and (c) liquidity risk. The Group performs risk management according to the nature of such risks with the aim of preventing and mitigating financial risks.

The Group undertakes risk management by preventing the root causes of risks and thereby avoiding them. The Group strives to reduce the risks that it is unable to avoid. The Group does not enter into derivative contracts for speculative purposes, but utilizes derivatives to hedge the financial risks as follows.

(a) Market risk management

(i) Currency risk management

Whereas the Group is exposed to exchange rate volatility risk given that some of its trade and other receivables associated with exports and trade and other payables associated with imports are denominated in foreign currencies, it manages such risk through hedging transactions enlisting foreign exchange contracts.

a. Exposure to currency risk

The Group is exposed to risk of exchange rate volatility as follows. The exposure amounts do not include amounts hedged against exchange rate volatility risk using derivative transactions.

As of March 31,	Thousands of U.S. dollars	
	2022	2023
Trade and other receivables	\$707	\$737
Trade and other payables	1,260	1,178
Net exposure	\$(553)	\$(440)

b. Sensitivity analysis of currency risk

When it comes to financial instruments held by the Group at fiscal year-end, the monetary effect of 1% appreciation of the US dollar against the Japanese yen on profit is insignificant.

(ii) Interest rate risk management

The Group is exposed to risk of interest rate volatility given that it procures funds through means that include borrowing from financial institutions and issuing bonds for purposes that include securing working capital and acquiring non-current assets. The Group's fixed interest rate debt obligations are exposed to risk of changes in fair value caused by interest rate volatility. A portion of the interest-bearing debt held by the group is procured at variable interest rates, but the effect of interest rate volatility risk on the Group's profits is insignificant.

a. Exposure to interest rate risk

The Group is exposed to the risks of volatility in interest rates and fair value, as follows:

As of March 31,	Millions of yen	
	2022	2023
Floating-rate financial instruments		
Financial liabilities (bonds and borrowings)	¥7,000	¥7,450

As of March 31,	Millions of yen	
	2022	2023
Fixed-rate financial instruments		
Financial liabilities (bonds and borrowings)	¥29,459	¥24,277

b. Sensitivity analysis of interest rate risk

When it comes to financial instruments subject to variable interest rates held by the Group at fiscal year-end, the monetary effect of a 1% interest rate variance on profit is insignificant.

(b) Credit risk management

The Group is exposed to credit risk of customers and others with respect to financial assets measured at amortized cost among its trade and other receivables and contract assets.

The Group regularly monitors payment due dates and outstanding balances of individual customers, and assesses their creditworthiness. In addition, the Group manages credit, confirms the status of customer companies' credit and sets appropriate credit limits.

The credit risk assumed by the Group is not excessively concentrated on a single customer. Credit risk with respect to deposits and derivatives is limited given that both entail transactions with financial institutions that have high credit ratings.

Loss allowances are invariably measured at an amount equal to lifetime expected credit loss with respect to trade receivables and contract assets included in trade and other receivables stated in the consolidated statements of financial position (simplified approach).

For financial assets measured at amortized cost other than the above, loss allowance is measured at an amount equal to a 12-month expected credit loss, generally, but loss allowance is measured at an amount equal to lifetime expected credit loss when there has been a significant increase in credit risk of the financial asset since initial recognition, particularly when payment is more than 30 days overdue (general approach).

The Group deems financial assets for which credit risk has increased significantly to be in default upon having determined that recovery of a receivable in full or in part would be extremely difficult, particularly when a debtor has requested a substantial revision of payment terms because of significant financial difficulties being experienced by the debtor. The Group determines that a financial asset is credit impaired if it deems that the debtor is in default and if the debtor has embarked on bankruptcy or other such legal proceedings. The Group directly writes down the book value of financial assets with respect to amounts for which future recoverability is obviously not possible.

Amounts of expected credit loss are measured as follows:

- Trade receivables and contract assets

The simplified approach is applied in calculating expected credit loss. This involves classifying receivables and other such assets in accordance with counterparty credit risk profiles, determining a provision ratio taking into account forecasts of future economic conditions and other such factors, and multiplying the provision ratio by a ratio of past credit loss calculated based on such classifications.

- Other financial assets measured at amortized cost

The general approach is applied in calculating expected credit loss. As for financial assets for which credit risk is deemed not to have increased significantly, expected credit loss is calculated by multiplying the total book value of the financial assets by a provision ratio taking into account forecasts of future economic conditions and other such factors, and multiplying that by a ratio of past credit loss with respect to similar assets. As for financial assets for which credit risk is deemed to have increased significantly and credit-impaired financial assets, expected credit loss is calculated by subtracting total book value from the present value of estimated future cash flows discounted at the initial effective interest rate of the asset.

Maximum exposure to credit risk

Book values subsequent to impairment of financial assets presented in the consolidated financial statements constitute the Group's maximum exposure to credit risk of financial assets, without taking into account valuations of collateral acquired.

Total balance of assets subject to loss allowances

As of March 31,		Millions of yen	
		2022	2023
<u>Measurement of credit losses</u>	<u>Classification:</u>		
Simplified approach	—	¥82,913	¥95,544
Principle approach	Measured at an amount equal to the 12-month expected credit loss	9,501	9,937
	Measured at an amount equal to the 12-month expected credit loss (non-credit impaired)	—	—
	Measured at an amount equal to the 12-month expected credit loss (credit impaired)	—	—
Total		¥92,415	¥105,482

Note: Financial assets grouped together in the same category in this table generally have the same credit risk ratings.

Changes in loss allowances

Changes in loss allowances are as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023
Beginning of period	¥46	¥38
Increase	—	65
Decrease (intended use)	—	(37)
Decrease (reversal)	(8)	—
End of period	¥38	¥65

Note: Provision for and reversal of loss allowances are recorded in selling, general and administrative expenses in the consolidated statement of income.

(c) Liquidity risk management

The Group is subject to liquidity risk such that it could conceivably find itself unable to make payment by a due date when performing its obligations related to financial liabilities that are settled in cash and other financial assets.

Given that trade and other payables, bonds and borrowings, and other financial liabilities are exposed to liquidity risk, the Group manages such risk through initiatives that include preparing and updating timely financing plans as well as maintaining lines of credit to facilitate borrowing from financial institutions.

In addition, the Group aims to ensure sufficient liquidity while achieving optimal capital efficiency and has accordingly adopted a cash management system (CMS) that enables it to centrally manage funds by channeling surplus funds of respective Group companies to the Company.

(i) Non-derivative financial liabilities

Non-derivative financial liabilities listed by maturity date are as follows:

As of March 31, 2022

	Millions of yen				
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Trade and other payables	¥32,797	¥32,797	¥32,628	¥111	¥57
Bonds and borrowings	36,459	36,569	17,036	19,533	—
Lease liabilities	42,512	45,651	10,474	21,958	13,218
Total	¥111,769	¥115,018	¥60,138	¥41,603	¥13,276

As of March 31, 2023

	Millions of yen				
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Trade and other payables	¥35,000	¥35,000	¥34,826	¥110	¥63
Bonds and borrowings	31,727	31,948	22,015	9,933	—
Lease liabilities	46,188	50,989	9,565	21,674	19,749
Total	¥112,916	¥117,938	¥66,406	¥31,718	¥19,812

(ii) Derivatives

Derivatives listed by maturity date are as follows:

As of March 31, 2022

	Millions of yen				
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Forward exchange contracts					
Cash inflow	¥-	¥21,003	¥20,678	¥325	¥-
Cash outflow	297	21,301	20,994	307	-
Total	¥(297)	¥(297)	¥(316)	¥18	¥-

As of March 31, 2023

	Millions of yen				
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Forward exchange contracts					
Cash inflow	¥-	¥15,556	¥15,285	¥271	¥-
Cash outflow	63	15,620	15,351	268	-
Total	¥(63)	¥(63)	¥(66)	¥3	¥-

(3) Fair Value

The fair value hierarchy of financial instruments is categorized as follows.

Level 1: Quoted prices of identical assets or liabilities in active markets

Level 2: Directly or indirectly observable inputs regarding assets or liabilities other than the market prices in level 1

Level 3: Unobservable inputs not based on observable market data

(a) Fair value and carrying amount of financial instruments measured at amortized cost

For financial assets and liabilities measured at amortized cost that have short-term or variable interest conditions, the fair value is not disclosed since the fair value and the carrying amount in the consolidated statement of financial position are reasonably close. For those with long-term and fixed interest conditions, the differences between the fair value and the carrying amount in the consolidated statement of financial position are as follows:

As of March 31,	Millions of yen			
	2022		2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Other receivables				
Leasehold and guarantee deposits	¥7,683	¥7,571	¥7,959	¥7,665
Bonds and borrowings				
Bonds	14,962	14,964	4,982	4,984
Long-term borrowings	4,500	4,500	4,800	4,817
Other payables				
Deposits received	106	106	106	106

Method of measurement of fair value

For trade and other receivables, trade and other payables, bonds and borrowings that are classified as current items, the fair value is not disclosed since they are settled in a short period and the carrying amount is reasonably close to the fair value.

For non-current items, the fair values of financial assets and financial liabilities are estimated as follows and they are categorized as level 2 for measurement and disclosure of fair value.

Other receivables and other payables

(Lease deposits and guarantee deposits)

The future cash flows are estimated and discounted to present value using the risk-adjusted discount rate to calculate the fair value.

(Guarantee deposits received and long-term accounts payable)

These are measured by estimating the payment amount and discounting it to the present value using the risk-adjusted discount rate.

Bonds and borrowings

(Corporate bonds)

The fair value is calculated based on the market interest rate at the end of the fiscal year.

(Long-term borrowings)

These are calculated by discounting the total amount of principal and interest using an interest rate that would apply if an identical new borrowing were to be executed.

(b) Assets and liabilities that are measured at fair value on recurring basis

Assets and liabilities that are measured at fair value on recurring basis are as follows. Transfers of financial assets between levels are recognized at the end of the fiscal year. As of March 31, 2022 and 2023, no transfer was made between level 1 and level 2.

As of March 31, 2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivative assets	¥-	¥-	¥-	¥-
Equity securities	2,895	-	4,192	7,087
Debt securities	-	1,202	849	2,051
Other	-	-	223	223
Total	¥2,895	¥1,202	¥5,265	¥9,362
Other financial liabilities				
Derivative liabilities	¥-	¥297	¥-	¥297

Total	¥-	¥297	¥-	¥297
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Method of measurement of fair value of other financial assets and other financial liabilities

(Derivatives)

Derivatives are forward foreign exchange contracts. Their fair value is measured based on observable market data, and they are categorized as level 2.

(Equity securities)

For marketable equity securities, the fair value is measured using the market price, and if there is a market price in an active market they are categorized as level 1. For non-marketable equity securities, the fair value is estimated by a valuation model such as the comparable company valuation multiples using discounted future cash flow, earnings, profitability, and adjusted equity, etc. These are categorized as level 3.

(Debt securities)

Marketable debt securities are measured using the present market price for an identical security in a non-active market. These are categorized as level 2. Non-marketable debt securities are estimated from the net present value based on a discount rate calculated from the prevailing yield of securities with similar maturities and credit ratings traded on active markets, giving consideration to added adjustments for illiquid factors. These are categorized as level 3.

As of March 31, 2023

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivative assets	¥-	¥-	¥-	¥-
Equity securities	5,157	-	3,987	9,144
Debt securities	-	199	1,428	1,628
Other	-	-	119	119
Total	¥5,157	¥199	¥5,535	¥10,892
Other financial liabilities				
Derivative liabilities	¥-	¥63	¥-	¥63
Total	¥-	¥63	¥-	¥63

Note: The method for measuring fair value of other financial assets and other financial liabilities is the same as the one for the previous year.

(c) Information regarding measurement of fair values categorized as level 3

(i) Valuation process

The Group has established a management structure for measurement of fair values. This management structure includes a valuation team that undertakes overall responsibility for supervision of all important fair value measurements, including level 3 fair values and reports directly to the appropriate authority within the Company. The valuation team periodically reviews significant unobservable inputs and valuation adjustments. If third-party information in the form of a broker market or a pricing service is used in the measurement of fair values, the valuation team verifies evidence obtained from the third party to give grounds for the conclusion that the valuation meets the requirements of IFRS (including the fair value

hierarchy into which fair values estimated based on inputs from third parties are to be categorized).

Measurement of fair values related to level 3 financial instruments is conducted following the relevant internal regulations. When measuring the fair value, we use the valuation technique and inputs that best reflect the nature, characteristics, and risks of the financial instrument.

(ii) Sensitivity information on normal fair value measurement categorized as level 3

For financial instruments categorized as level 3, no significant changes in fair value are expected in cases where an unobservable input is changed to a reasonably conceivable alternative assumption.

(iii) Adjustment table for financial instruments categorized as level 3 from the balance at the beginning of the fiscal year to the balance at the fiscal year-end

An adjustment table for financial instruments categorized as level 3 from the balance at the beginning of the fiscal year to the balance at the fiscal year-end is as follows:

For the fiscal year ended March 31,	Millions of yen			
	2022		2023	
	FVTPL financial assets	FVTOCI financial assets	FVTPL financial assets	FVTOCI financial assets
Beginning of period	¥2,478	¥2,166	¥3,092	¥2,172
Total gains or losses				
Profit or loss	(46)	—	468	—
Other comprehensive income	—	51	—	56
Purchases	688	—	1,263	—
Disposals	(28)	(45)	(91)	(2)
Transfers between levels	—	—	(400)	(999)
Other	0	—	(24)	—
End of period	¥3,092	¥2,172	¥4,308	¥1,227

Gains and losses recognized in net profit and loss are included in finance income and finance costs in the consolidated statement of income. The amounts of gains and losses recognized in other comprehensive income, net of tax effects are included in net change in fair value of equity instruments designated as measured at fair value through other comprehensive income in the consolidated statement of comprehensive income. As of March 31, 2023, some financial assets are transferred from level 3 to level 1 in connection with the listing of the investees.

(4) Offsetting Financial Assets and Financial Liabilities

No material financial instruments have been offset on the consolidated statements of financial position on March 31, 2022 and March 31, 2023. In addition, there are no material financial instruments that have not been offset due to partial or complete non-fulfillment of offsetting conditions for financial assets and financial liabilities subject to an enforceable master netting agreement or similar agreement and recognized against the same counterparty.

(5) Hedge Accounting

The Group is exposed to foreign exchange market risks in its ordinary operating activities.

To manage these risks, the Group generally ascertains the net amount of risk, and mitigates the market risk using transactions that are effective for offsetting risk. Furthermore, in accordance with risk management strategy, the Group enters derivative transactions to mitigate the market risks to which it is exposed. To hedge against the market risks related to scheduled transactions, the Group enters derivative transactions corresponding to the total amount of risk. The Group applies hedge accounting for forecasted transactions that are highly probable (around 85–95% of the total).

In applying hedge accounting, to confirm the existence of an economic relationship in which the variation in the hedged cash flow arising from the hedged risk is offset by the variation in the cash flow of the hedging instrument, the Group periodically conducts a qualitative evaluation to see whether the critical terms of the hedged item and the hedging instrument are exactly matched or are closely matched and a quantitative evaluation of the offsetting relationship of the change in the value of the hedged item and the hedging instrument due to the same risk. Furthermore, the ineffective portion of the hedge is immediately recognized in profit and loss. Moreover, the ineffective portion of the hedges arising in the fiscal year due to unexpected reasons have not been particularly identified.

The Group applies an appropriate hedge ratio, making reference to the economic relationship and risk management strategy of the hedging instruments and hedged items.

Cash flow hedges

(i) Important derivatives designated for hedge accounting

Derivative assets and derivative liabilities are included in other financial assets and other financial liabilities on the consolidated statement of financial position.

Since the change in fair value used to calculate the ineffective portion of the hedge is insignificant it has been omitted.

As of March 31, 2022

Hedging instruments	Notional amount (Millions of yen)	Average exchange rate	Residual maturity	Carrying amount of the hedging instrument (Millions of yen)	
				Derivative assets	Derivative liabilities
Foreign currency exchange rate risk					
Forward exchange contracts (selling)	¥10,660	¥114.31 to U.S.\$1.00	Within 1 year	¥—	¥(633)
Forward exchange contracts (buying)	10,008	¥115.48 to U.S.\$1.00	0 to 2 years	335	—

As of March 31, 2023

Hedging instruments	Notional amount (Millions of yen)	Average exchange rate	Residual maturity	Carrying amount of the hedging instrument (Millions of yen)	
				Derivative assets	Derivative liabilities
Foreign currency exchange rate risk					
Forward exchange contracts (selling)	¥7,475	¥131.23 to U.S.\$1.00	Within 1 year	¥—	¥(66)
Forward exchange contracts (buying)	8,078	¥131.21 to U.S.\$1.00	0 to 2 years	3	—

(ii) Impact on the consolidated statements of income and comprehensive income

For purchasing transactions that are expected to be hedged, cash flow hedge surplus accrued in “other components of equity” is reclassified as an inventory asset adjustment upon recognition of inventory assets, and finally recognized in cost

of sales. Furthermore, if the hedged item is a planned sale transaction, it is recognized as sales revenue. Moreover, for an adjustment table of each of the components of equity and analysis of other comprehensive income, refer to “32. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME.”

36. RELATED PARTIES

(1) Transactions with Related Parties

1) Parent company, etc.

Transactions between the Group and related parties and balances of accounts receivable and accounts payable arising from such transactions are as follows:

For the fiscal year ended March 31,		Millions of yen	
		2022	2023
Attribute		Parent company	Parent company
Name of the company		Sumitomo Corporation	Sumitomo Corporation
Description of transaction			
Provision of IT solutions	Transaction amount	¥17,356	¥18,616
	Balance at year-end	2,695	4,249
Fund deposit agreement	Transaction amount (Depositing of funds)	1,062,500	897,000
	Transaction amount (Refund of funds)	1,074,000	889,000
	Balance at year-end	73,000	73,000
	Transaction amount (Interest receipt)	8	6
	Balance at year-end	0	0

Notes: 1. The transaction conditions are based on the same conditions with regard to payment period as for normal transactions with third parties.

2. For provision of IT solutions, the Company’s estimated price based on market prices and cost rate is presented, after price negotiations for each project.

3. The interest rates for the depositing of funds are determined with reference to normal market interest rates.

2) Directors, etc.

	Name	Relationship	Details of transactions	Amount (Millions of yen)
Director	Hideki Yamano	Representative Director, Chairman	In-kind contribution of monetary compensation claims (Note)	¥17
Director	Takaaki Touma	Representative Director, President	In-kind contribution of monetary compensation claims (Note)	17

Note: This in-kind contribution of monetary compensation claims is due to introduction of the transfer-restricted stock compensation plan.

(2) Remuneration for Management

Remuneration for management is as follows:

For the fiscal year ended March 31,	Millions of yen	
	2022	2023

Fixed compensation	¥287	¥254
Short-term performance-based compensation	101	62
Transfer-restricted stock compensation	—	50
Total	¥389	¥367

Notes: 1. Management refers to the directors of the Company in each consolidated fiscal year.

2. Fixed compensation includes post-employment benefit expenses of ¥21 million in the fiscal year ended March 31, 2022 and ¥4 million in the fiscal year ended March 31, 2023.

37. CASH FLOW INFORMATION

(1) Change in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

	Millions of yen		
	Bonds and borrowings	Lease liabilities	Total
As of April 1, 2021	¥45,056	¥40,587	¥85,643
Changes from financing cash flows:			
Payments for redemption of bonds	(10,000)	—	(10,000)
Proceeds from issue of bonds	4,972	—	4,972
Payments for repayments of loans	(15,100)	—	(15,100)
Proceeds from long-term debt	11,500	—	11,500
Payments for lease liabilities	—	(9,086)	(9,086)
Other changes:			
New lease and other lease-related changes (Note)	—	11,235	11,235
Other	30	(223)	(192)
As of March 31, 2022	36,459	42,512	78,972
Changes from financing cash flows:			
Payments for redemption of bonds	(10,000)	—	(10,000)
Proceeds from issue of bonds	—	—	—
Payments for repayments of loans	(7,000)	—	(7,000)
Proceeds from long-term debt	12,250	—	12,250
Payments for lease liabilities	—	(8,998)	(8,998)
Other changes:			
New lease and other lease-related changes (Note)	—	12,867	12,867
Other	18	(192)	(174)
As of March 31, 2023	¥31,727	¥46,188	¥77,916

Note: New lease and other lease-related changes include increases due to factors such as remeasurement of lease liabilities.

(2) Non-cash Transactions

For right-of-use asset increase due to acquisition during the fiscal year under review, please refer to “12. LEASES.”

38. MAJOR SUBSIDIARIES

Information on Major Subsidiaries

Major subsidiaries and associates are as follows. There were no subsidiaries that have significant non-controlling interests.

Name	Location	Main businesses	Proportion of voting power held by the Companies (Mar. 31, 2023)
SCSK ServiceWare Corporation	Koto-ku, Tokyo	BPO	100.0%
VeriServe Corporation	Chiyoda-ku, Tokyo	Verification services	100.0%
SCSK Minori Solutions Corporation	Koto-ku, Tokyo	Software development, system operations management, product sales	100.0%
SCSK KYUSHU CORPORATION	Fukuoka City, Fukuoka Prefecture	Software development and information processing	100.0%
SCSK HOKKAIDO CORPORATION	Sapporo City, Hokkaido	Software development and information processing	100.0%
SCSK PRESCENDO CORPORATION	Koto-ku, Tokyo	BPO	100.0% [0.0%]
SCSK USA Inc.	New York, U.S.A.	Software development and information processing	100.0%
SCSK Europe Ltd.	London, England	Software development and information processing	100.0%
SCSK Shanghai Ltd.	Shanghai, China	Software development and information processing	100.0%
SCSK Asia Pacific Pte. Ltd.	Singapore	Software development and information processing	100.0%
PT SCSK Global Indonesia	Jakarta, Indonesia	Software development and information processing	100.0% [1.0%]
SCSK Myanmar Ltd.	Yangon, Myanmar	Software development and information processing	100.0%
Skeed Co., Ltd.	Meguro-ku, Tokyo	Software development	100.0% [0.0%]
Allied Engineering Corporation	Koto-ku, Tokyo	Consulting, packaged software development and sales	100.0%
SCSK SYSTEM MANAGEMENT CORPORATION	Koto-ku, Tokyo	IT management business	100.0%
VA Linux Systems Japan K.K.	Koto-ku, Tokyo	Research and solution for Linux-based technologies	100.0%
SDC Corporation	Koto-ku, Tokyo	Network services	50.1%
Gran Manibus Co., LTD	Chiyoda-ku, Tokyo	Consulting service, advanced technology solution	94.3%
SCSK Nearshore Systems Corporation	Koto-ku, Tokyo	Software development and system maintenance	100.0%
SCSK NEC Data Center Management, Ltd.	Koto-ku, Tokyo	Provision of data center services and network services	62.5%
SCSK Automotive H&S Corporation	Koto-ku, Tokyo	Mobility-related software	100.0%
ARGO GRAPHICS Inc. (Note 1)	Chuo-ku, Tokyo	PLM solution business	21.8%
Diamond Head Co., Ltd.	Minato-ku, Tokyo	Production of fashion and apparel e-commerce sites and development and provision of e-commerce systems	24.3%

Notes: 1. Securities reports have been filed.

2. The percentage in square parentheses under "Proportion of voting power held by the Companies" indicates the indirect ownership.

39. SUBSEQUENT EVENTS

No subsequent events to report.

40. OTHER

Quarterly information for the fiscal year ended March 31, 2023

Cumulative period	1st quarter	2nd quarter	3rd quarter	Full year
Net sales (Millions of yen)	¥104,417	¥213,099	¥323,024	¥445,912
Profit before income taxes (Millions of yen)	10,100	23,439	36,858	53,336
Profit attributable to owners of parent (Millions of yen)	7,006	16,226	25,494	37,301
Basic earnings per share (Yen)	22.44	51.96	81.63	119.44

Quarterly accounting period	1st quarter	2nd quarter	3rd quarter	Full year
Basic earnings per share (Yen)	¥22.44	¥29.52	¥29.67	¥37.80

Internal Control Report

1. Framework of internal control over financial reporting

Takaaki Touma, Representative Director, President is responsible for designing and operating effective internal control over financial reporting of SCSK Corporation (“the Company”) and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "The Establishment of Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting (Council Opinion)" issued by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the basic elements of internal control are organically connected and integrally function to achieve the internal control objective to the extent reasonable. Therefore, there is a possibility that misstatements may not be completely prevented or detected by the internal control over financial reporting.

2. Assessment Scope, Timing and Procedures

The assessment of internal control over financial reporting was performed as of March 31, 2023 which is the end of this fiscal year. The assessment was performed in accordance with the assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("entity-level controls") and based on the results of this assessment, we selected business processes to be tested. Upon evaluating the effectiveness of the internal controls of the company, we analyzed these selected business processes, identified key controls that have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls.

We determined the necessary scope of assessment of internal control over financial reporting for the Company and its consolidated subsidiaries and equity-method associates from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined by taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of entity-level controls conducted for the Company and its consolidated subsidiaries, we reasonably determined the scope of assessment of internal controls over business processes. Consolidated subsidiaries and equity-method associates determined to have an insignificant quantitative and qualitative influence on the reliability of financial reporting are not included in the scope of assessment of entity-level controls.

Regarding the scope of assessment of internal control over business processes, we considered materiality over financial reporting of locations and/or business units to be tested based on the previous year's consolidated net sales (after the elimination of transactions between consolidated companies) and selected the locations and business units with net sales of approximately two-thirds of the total amount on a consolidated basis as "significant locations and/or business units." At selected significant locations and/or business units targeted for assessment, our scope of assessment included business processes leading to net sales, accounts receivable, contract assets and inventories as significant accounts that have a material impact on the business objectives of the Company. Further, in addition to selected significant locations and/or business units, we also included in the scope of assessment, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management's judgment and/or (iii) a

business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Results of assessment

As a result of the assessment described above, as of the end of this fiscal year, we concluded that the Company's internal control over financial reporting was effectively maintained.

4. Supplementary information

No material items to report.

5. Other

No material items to report.