



Create Our Future of Dreams

IT for the next delight

IT has the power to excite everyone in the world. This excitement brings us enjoyment, emotion, along with convenience and financial leeway to our everyday lives. Over the years, the SCSK Group has created, maintained, and carefully developed systems that underpin the world around us.

We value our people and respect one another. Found at the root of everything we do is our commitment to create an environment where employees can continue working for the long run with a sense of mission and purpose—to be a company brimming with a can-do attitude.

This commitment extends beyond the growth of SCSK to include the entire industry. We believe that SCSK can excite local communities and bring happiness to the world.

Today we find ourselves during a time of major transformation that occurs perhaps only once a century. This has exposed many industries to intense change and competition. We must cast away conventional approaches to the future and be willing and able to embrace changes in the management climate along with the growing diversity of services in demand. As a leader in the coming digital age and as a company that excites the world, SCSK is committed to unlocking the next stage of our growth.

SCSK will pave the way for the future as corporate group that appreciates those who have been involved in our success as well as that can be trusted by those who will play an integral role in our exciting future that has yet to come.



Corporate Philosophy

Our Mission

Create Our Future of Dreams

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

Our Promises

Respecting each other

We realize our potential by respecting each other.

Providing excellent service utilizing reliable technology

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

Sustaining growth from a global and future perspective

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

Code of Conduct

Challenge

Aim higher with future creating passion.

Commitment

Act with integrity and responsibility for our customers and society.

Communication

Facilitate teamwork with respect and understanding.



50th Anniversary

A system integrator at the heart of Japan's IT services industry

Since our establishment, SCSK has continued growing sustainably despite various economic cycles and financial crises.

Looking ahead to the Future

Becoming a leader in the digital age

SCSK is working hard to address changes in business climate, the growing diversity of services in demand, and social systems for a sustainable world. As digitalization drastically evolves, we will embrace "non-sequential transformations" and aim to be a company that excites the world.

Where we have been

Where we are today

Where we are going tomorrow

Boosted competitiveness through restructuring

Since 1969

Sumisho Computer Systems Corporation develops credibility and global support capabilities as a member of the Sumitomo Corporation Group

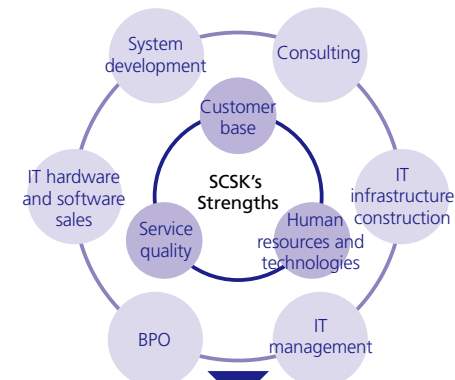
Since 1968

CSK Corporation builds a unique position as an unaffiliated company with a can-do attitude and proactive nature

Since 2011

SCSK Corporation is formed from the merger of these two companies with the goal of creating a new leader in the IT industry

Increasing earnings by reinforcing our overall capacities as a system integrator

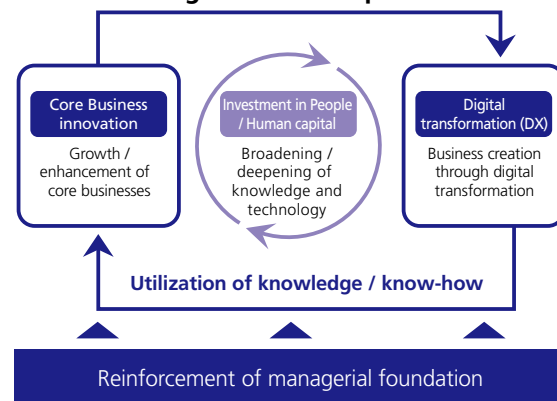


Posted seven straight years of higher profits on higher revenue since the merger*

*Operating profit basis

Initiatives aimed at the next stage of growth

Accelerate right and left business as 2 wheels with investing in human capital at the core



- 02 Corporate Philosophy
- 03 Concept Behind SCSK Report 2019
- 04 Contents / Editorial Policy

Who We Are

- 05 SCSK's Progress
- 07 Value Creation Process
- 09 Financial and Non-Financial Highlights

Our Vision and Strategy

- 11 President's Message
- 17 Message from the Director in Charge of Finance
- 20 Message from the Officer in Charge of Sustainability
- 23 Medium-Term Management Plan—Progress on Core Strategies
- 29 Initiatives Aimed at the Next Stage of Growth

31 Our Businesses

- 32 Sales Coordination Group
- 33 Manufacturing & Telecommunication Systems Business Group
- 34 Distribution & Media Systems Business Group
- 35 Financial Systems Business Group
- 36 Global System Solutions & Innovation Business Group
- 37 Business Solutions Group
- 38 Mobility Systems Group
- 39 IT Platform Solutions Group
- 40 IT Management Group

41 Management Resources

- 42 Human Resources Enhancement
- 45 Strengthening Technological and Development Capabilities
- 47 Strengthening of Relationships with Business Partners
- 49 Reinforcement of Customer Base
- 51 Promotion of Environmental Management

53 Management Structure

- 54 Corporate Governance
- 61 Compliance and Risk Management
- 63 List of Directors

65 Data Section

- 66 Eight Years of Main Financial and Non-Financial Data
- 68 Management's Discussion and Analysis
- 72 Business Risks
- 75 Consolidated Financial Statements
- 82 Notes to Consolidated Financial Statements
- 123 Independent Auditor's Report
- 124 Glossary
- 125 Corporate Data
- 127 External Recognition

Editorial Policy

Integrated Report 2019 has been compiled as an integrated report that contains information on performance and business strategies as well as non-financial information, such as that pertaining to sustainability activities.

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

Scope of report | SCSK and the SCSK Group **Publication date** | October 2019

Guidelines referenced

- U.N. Global Compact



- ISO 26000
SCSK has been practicing management based on the core subjects of ISO 26000 since 2012, and each division is working toward the related sustainability goals it has defined.
- The International Integrated Reporting Council (IIRC)'s International Integrated Reporting Framework
- Global Reporting Initiative (GRI) GRI Standards
- Ministry of Economy, Trade and Industry (METI)'s Guidance for Collaborative Value Creation

Important Information Regarding Report Terminology

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

Disclaimer

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

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Composition of Information Disclosure Media

Integrated Reporting



Integrated Report

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



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



We have continued to evolve and refine our strengths for half a century since our establishment.

Since 1969

SCS

Sumisho Computer Systems Corporation supports global business as a subsidiary of Sumitomo Corporation

Since 1968

CSK

CSK Corporation provides integrated IT services including systems development, maintenance and operation, and BPO, as an independent systems integrator

Further reinforcing strengths since the establishment of SCSK

Since 2011

SCSK

SCSK Corporation is formed from the merger of these two companies with the goal of creating a new leader in the IT industry

Corporate Philosophy

Create Our Future of Dreams



Customer base
> P49

We have built up strong relationships during the process of meeting our clients' IT needs.

We have deepened these relationships by using each other's customer bases to provide integrated services that used to be delivered separately to clients.



Human resources and technologies
> P42,45

We are building a workplace environment that produces innovation.

2013: Initiated *Smart Work Challenge*
2015: Introduced *Kenko Waku Waku Mileage program*
2016: Opened nearshoring office in Kagoshima
2017: Initiated *Dokodemo WORK*
2018: Introduced program for full-time employment of seniors
2019: Introduced Second Job (*Smart Work Plus*)



Service quality
> P46

We are promoting the standardization of system development in order to improve quality and streamline operations.

2012: Launched SE*
2013: Introduced service check system
2014: Distributed SE* guidebook company-wide
2016: Introduced SE* certification system
2016: Introduced SE* (Navi)

SCSK was formed in 2011 by the merger of Sumisho Computer Systems Corporation and CSK Corporation. Since the merger, we have combined our corporate cultures to successfully create the new and unique corporate culture of SCSK. By continually reinforcing SCSK's growth drivers such as customer base, human resources and technologies, and service quality, we have been able to establish a solid presence both financially and non-financially.

SCSK Today As of the fiscal year ended March 31, 2019

Non-Financial Indicators

Number of clients



More than 8,000 companies
>See P49

Number of female officers and female line managers



78
>See P44

Average Number of Paid Vacation Days Taken Annually



18.5days
>See P43

Average Monthly Overtime Hours



17hours 41minutes
>See P43

Number of participants in self-led IT human resources development events*



1,900
>See P45

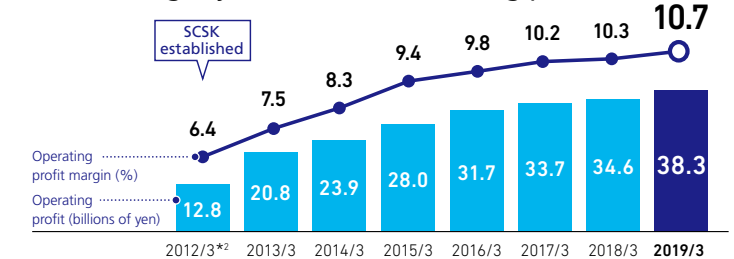
SE* compliance rate



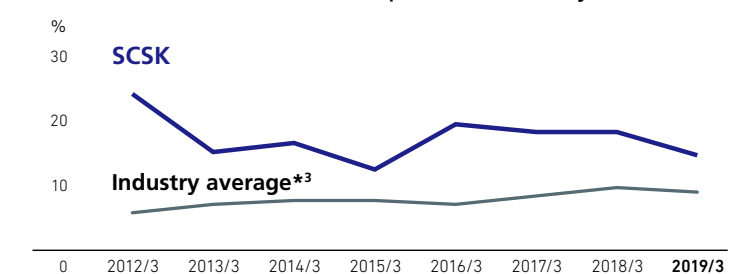
100%
>See P46

Financial Indicators

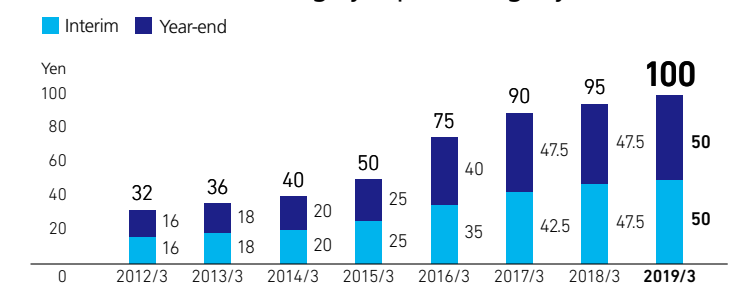
Seven straight years of record-breaking profits*¹



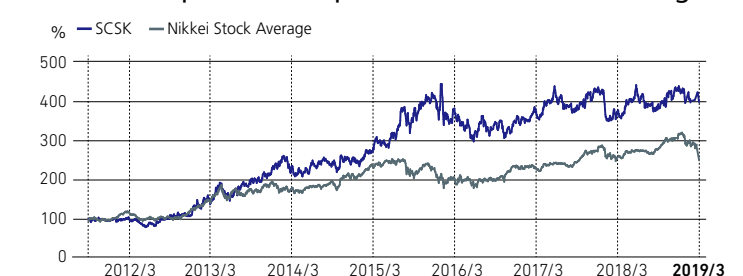
SCSK's ROE stands at the top of its industry



SCSK's dividend has roughly tripled in eight years



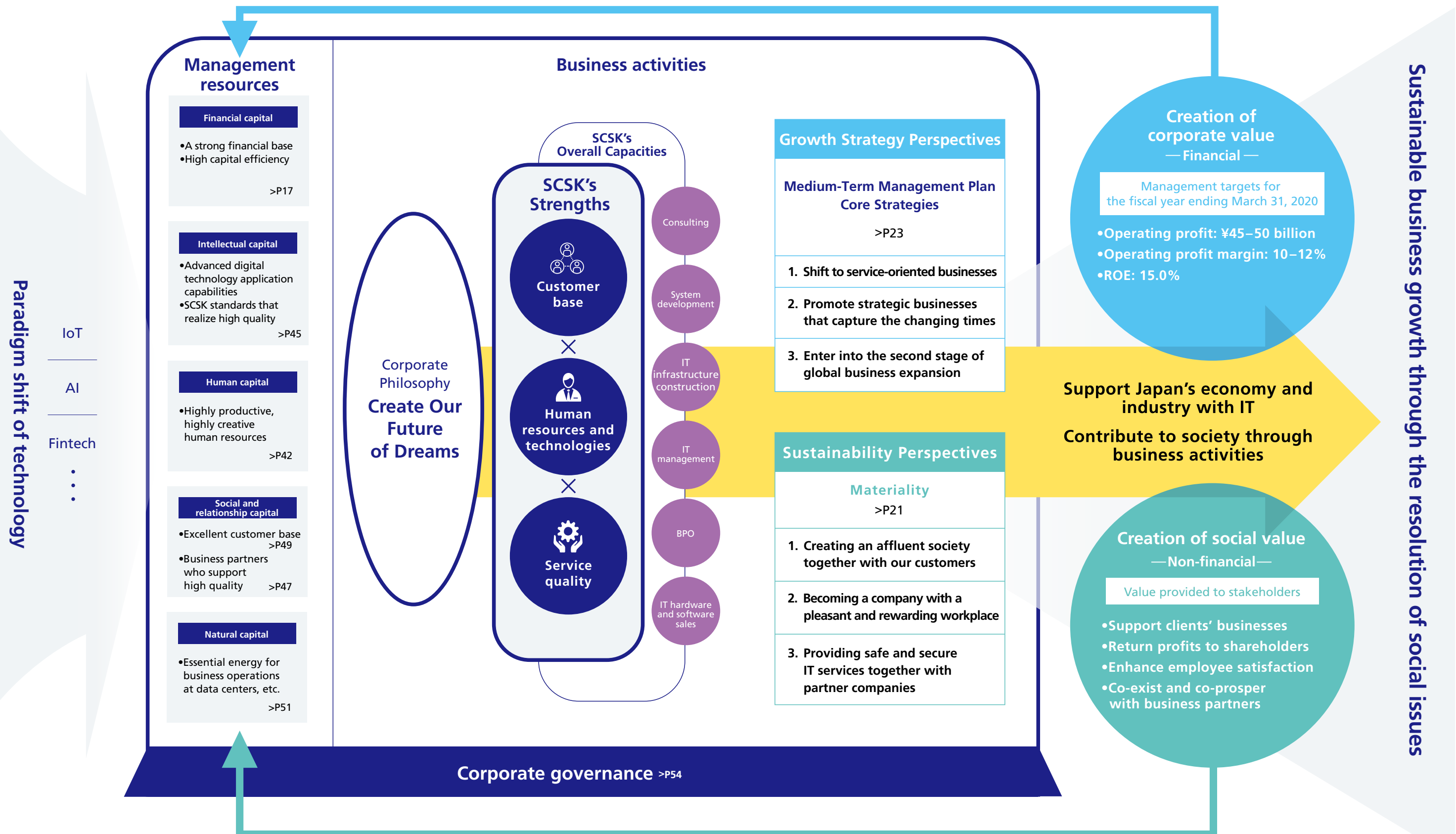
SCSK's stock price has outperformed the market average



* Events held by SCSK voluntarily open to employees to hone their skills, such as hackathons, lightning talks, and Technoco (cumulative number of participants in fiscal 2018; including some participants from outside the company)

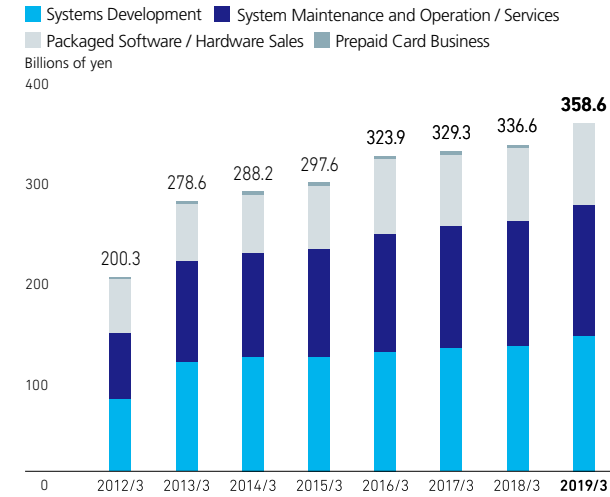
Aiming for Sustainable Business Growth While Enhancing Both Corporate Value and Social Value

SCSK harnesses its overall capacities to carry out business activities based on its wealth of management resources and solid management foundation with a correct understanding of changing technology. Under our management philosophy, "Create Our Future of Dreams," we use IT to support Japan's economy and industry, and aim for sustainable business growth, creating corporate value and social value by giving back to local communities.



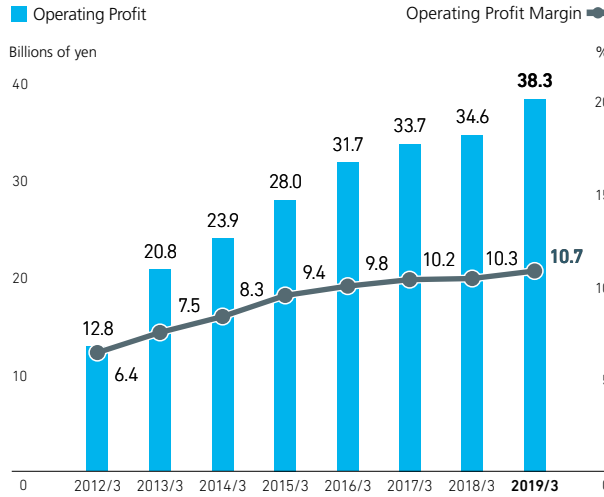
Financial Highlights

Net Sales



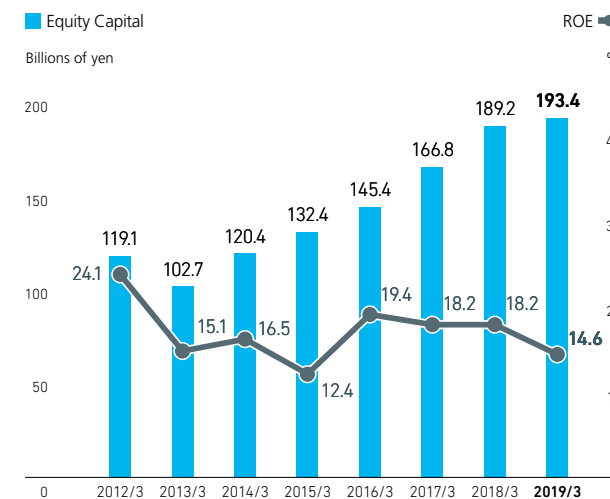
In the fiscal year ended March 31, 2019, net sales increased 6.5% over the previous year to ¥358.6 billion. This was driven by strong sales in both the system development business and maintenance, operation and service business on the back of strong demand for IT investments among clients in the manufacturing and distribution industries, which has been on the rise since the second half of the fiscal year ended March 31, 2018. In addition, sales in the system sales business also increased, centered on telecommunications clients.

Operating Profit / Operating Profit Margin



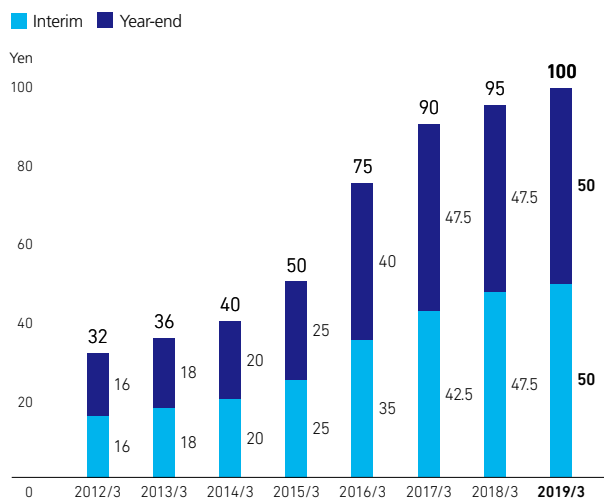
In the fiscal year ended March 31, 2019, operating profit jumped 10.9% to ¥38.3 billion, while the operating profit margin climbed to 10.7%, thanks to gains in profitability from further improvements in development productivity driven by better operational quality and streamlining measures, in addition to the increase in profits from rising sales.

Equity Capital / ROE



In the fiscal year ended March 31, 2019, equity capital increased 2.2% over the previous year to ¥193.4 billion, mainly attributable to an increase in net profit. Also, ROE came in at 14.6% owing to a 14.1% drop in net profit, due to a drop-off in gains on the transfer of equity shares, which totaled ¥10.7 billion in the previous fiscal year following the divestment of the quo card business.

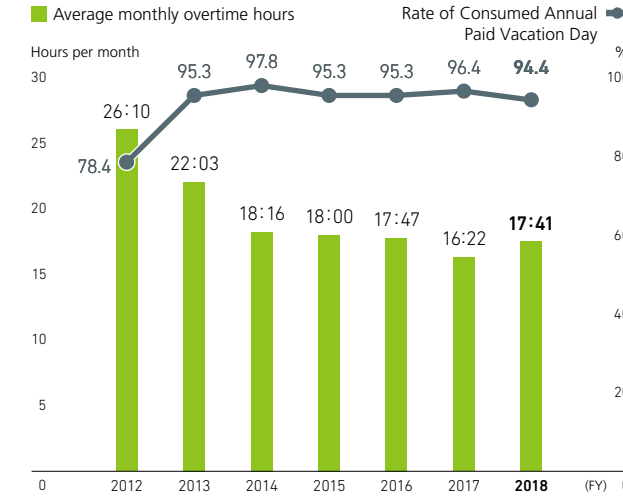
Cash Dividend per Share



In the fiscal year ended March 31, 2019, we paid a dividend of ¥100 per share, marking an increase of ¥5 from ¥95 per share in the previous year. The dividend was exactly as initially forecast based on a comprehensive review of business performance, financial condition, and dividend payout ratio, among other factors.

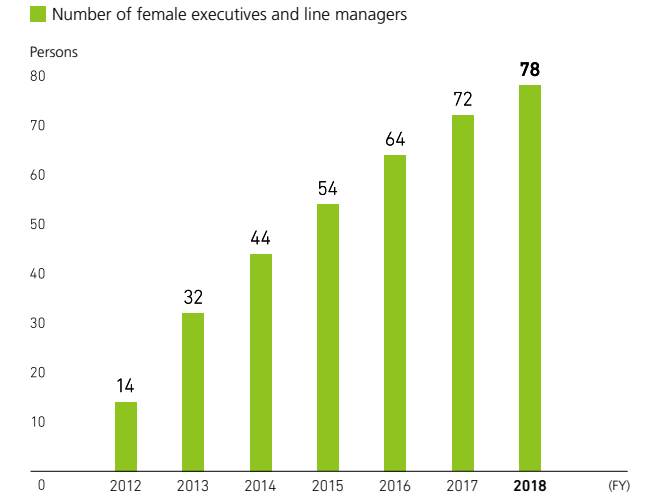
Non-Financial Highlights

Average Monthly Overtime Hours / Rate of Consumed Annual Paid Vacation Day (Average for All Employees)



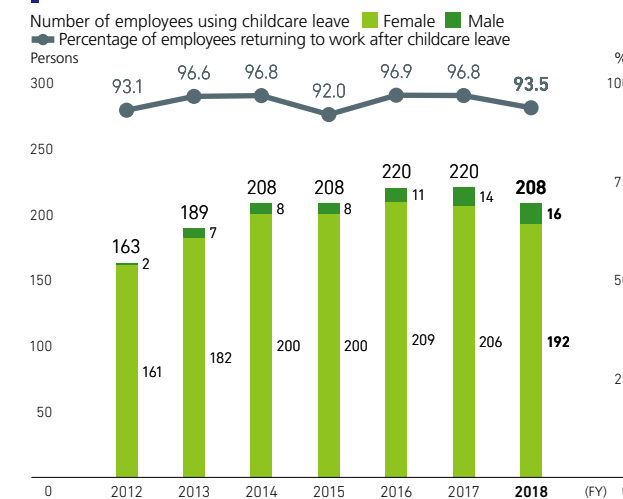
We are the first in the industry to begin working on working style reforms mainly involving reducing overtime hours and increasing the rate of consumed annual paid vacation days, in order to become a company with a pleasant and rewarding workplace. We were able to achieve significant results thanks to the creative ingenuity of each workplace, instead of using a uniform company-wide rule, such as banning overtime over a certain number of hours.

Number of Female Executives and Line Managers



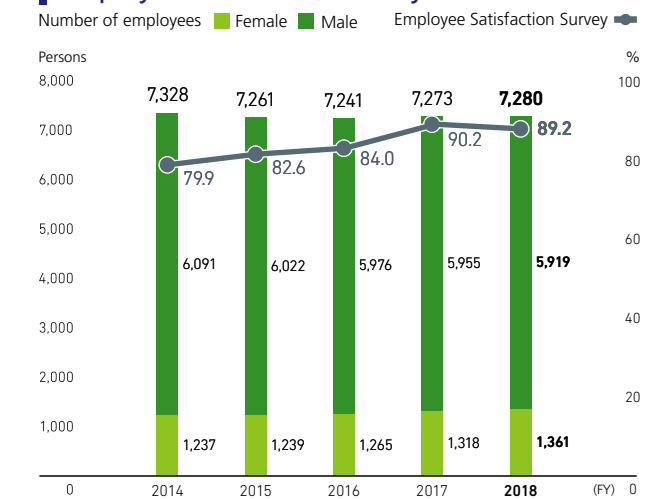
SCSK is working on human resource development and working style reforms aiming to be a company where female employees can contribute their talents. We have set a goal to have a combined total of 100 female executives and line managers to encourage the greater involvement of women in the workplace. We also support women's career development through training focused on challenges faced by women of each generation.

Number of Employees Using Childcare Leave / Percentage of Employees Returning to Work after Childcare Leave



We have expanded childcare leave and introduced various paid leave systems, and developed flexible work programs for supporting employees to balance their professional life with childcare needs. We have facilitated the smooth return to work for employees taking childcare leave and have various work-life balance programs in place to support employees in returning from paid leave at an early stage.

Number of Employees / Employee Satisfaction Survey



We maintain a high level of employee satisfaction (making us a pleasant, fulfilling place to work), based on the top-down promotion of working style reforms, improved work-life balance, and expanded scope of various systems and measures for diversity aimed at utilizing our diverse workforce.

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

We will continue to create new value required by our clients and society by transforming ourselves as an IT services firm to cope with the major changes taking place in the world today underpinned by digital transformation.

Tooru Tanihara

Representative Director
President and Chief Operating Officer



Q1

The year 2019 marked SCSK's 50th anniversary. What are your thoughts on this important milestone?

Looking back, 50 years ago Computer Services Corporation, the predecessor to the former CSK, and Sumisho Computer Service Corporation, the predecessor to the former Sumisho Computer Systems Corporation, were both established around the same time in Kitahama, Osaka. After a long history of tackling various challenges, exercising our ingenuity, overcoming adversity and sharing the joys of success, both companies merged to form SCSK in October 2011. After the post-merger integration process, we were able to create a new corporate culture. Each and every officer and employee has helped us to make solid progress toward establishing a strong earnings base. As a result, since the merger we have continued to post year-on-year increases in both sales and profits.

Here, I would like to touch upon our corporate philosophy announced at the time of the merger. I would like our corporate philosophy to serve as a compass that each and

every employee always keeps close in mind when interacting with clients, when thinking about their own career, and when needing to take a moment to reflect during a challenging time. Our corporate philosophy of "Create Our Future of Dreams" contains three promises.

The first of these promises is "Respecting each other." I believe that SCSK's greatest asset and the driving force behind our growth is our people. This is because we can only provide services that bring joy and excitement to our clients after ensuring each and every officer and employee is in good health mentally and physically and can contribute their skills to the fullest in workplaces where learning is encouraged and motivating work is assigned. Based on this belief, we were among the first companies in Japan to initiate working style reforms starting soon after the merger. Our employees' efforts and our innovation as an organization have proven to be an important foundation underpinning our businesses. As we continue aiming to be a company with a pleasant and rewarding workplace, we are promoting working style reforms, diversity, health and productivity management, and furthermore creating a corporate culture of continual learning. I want SCSK to be a company that respects each and every employee's individuality and values and provides a venue where they can maximize their potential together

and brings a sense of excitement to work.

The second promise is "Providing excellent service utilizing reliable technology." Since our founding, we have consistently stood by our clients during the course of our business activities. This basic stance remains unchanged now and into the future. This also aligns with my credo of "Always think from the client's perspective." Rather than following what the client says to the letter, this involves identifying the "true challenges" inherent the client's comments and thinking up solutions together.

Changes in the business climate during this age of digitalization have been remarkable and the pace of these changes will likely speed up in the future. Given this climate, we will bring joy and excitement to clients by helping to reinforce competitiveness. We will also reform our business models, which is an urgent task for clients, using progressive IT services, innovative ideas, and our passion.

The third promise is "Sustaining growth from a global and future perspective." To generate innovation truly indispensable to the world, we need to connect the most essential aspects of IT and business. For this reason, I believe that companies' IT investment will continue to change qualitatively. Amidst this, in order to fulfill our mission to society and enhance our existential value, we must create

social value through our core IT services business and make efforts to enhance corporate value, while bravely tackling change and continually growing for the benefit of the world and the future.

Based on these three promises and our 50 years of history, I recognize that SCSK's mission to society encompasses many areas. We need to make even greater efforts to increase corporate value and tackle the challenges of new value creation for society and clients together with stakeholders under our corporate philosophy of "Create Our Future of Dreams" and following the important keyword of "co-creation."

Q2

How was SCSK's performance in the fiscal year ended March 31, 2019?

Full-year business performance for the fiscal year ended March 31, 2019 featured record highs and the seventh straight year of higher profits* on higher sales since the merger.

The IT services market experienced robust demand for investment geared toward automation and reducing manpower to cope with working style reforms and labor shortages, as well as system investment to improve productivity. In addition, there has been rising demand for renewal investments of existing systems that had seen stagnant growth, owing to the migration of certain legacy systems to open systems. There was also strategic IT investment such as reinforcing strategic businesses or securing competitive advantages. As a result, investment increased throughout the year.

This robust demand for IT investment was sustained, despite growing uncertainty about the future of the world's political and economic situation, symbolized by US-China trade friction and the Brexit issue in the EU.

Moreover, while some sectors experienced weakness owing to the severe business climate, such as IT investment demand for clients in the financial industry, I believe current demand for IT investment is more than just transient in nature. We should see sustainable increases in demand for a certain period of time given the medium-to long-term investment cycle.

* Operating profit basis

Q3

SCSK is working to shift to service-oriented businesses due to the recent shortage of engineers. How is the progress of these efforts?

Through our Medium-Term Management Plan, we are working to transform our business structure by moving away from a labor-intensive business, with the aim of generating higher earnings growth. Toward this end, one of the plan's

Medium-Term Management Plan (2015/4-2020/3)



core strategies is "Shift to service-oriented businesses."

Our conventional systems development as well as maintenance and operation services are labor-intensive businesses that depend on engineers. Under this business structure, there could be a limit imposed on our growth potential given the engineer shortages that have become a recent challenge. Consequently, we have defined a business model with services provided in a pay-per-use format as "service-oriented businesses." This requires actively utilizing our long-standing business know-how and intellectual properties to identify domains for standardization and generalization and to build our own shared use systems in, for example, system domains that can be made more efficient within business operations unique to specific industries.

Net sales of these service-oriented businesses totaled ¥74 billion in the fiscal year ended March 31, 2019. We are seeing steady growth in the provision of SaaS-type ERP systems, along with subscription-based service models established with our intellectual properties. Demand for investments to reduce and eliminate manpower in business operations continues to rise steadily among our clients.

By continuing to push ahead with service-oriented businesses, I hope to fully satisfy the needs of our clients.

Meanwhile, we introduced SmartEpisode Plus (SE+), a standardized platform for development processes, for advanced systems development and infrastructure creation to address strategic IT investment unique to each company, with the goal of helping clients to grow their businesses. Furthermore, by promoting modularization, we are working to increase not only quality, but also productivity and profitability, enabling higher speed development. In terms of maintenance and operation services, too, we are offering standardized services with secured quality to promote remote and automated solutions that enhance productivity.

Q4

Tell us more about the automotive software systems business, which is one of the strategic businesses outlined in the core strategies.

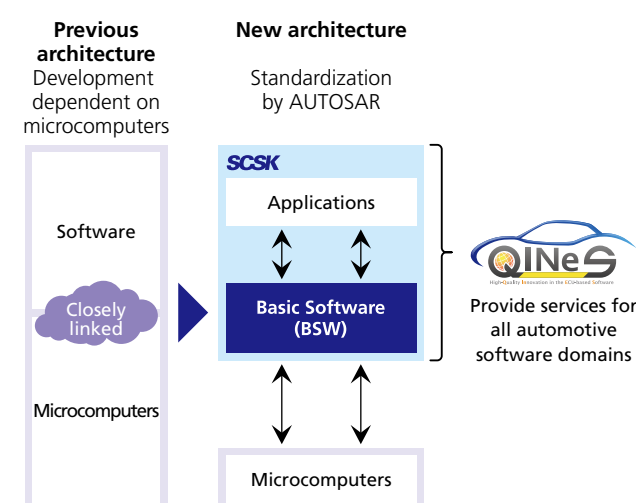
When we first announced the current Medium-Term Management Plan in April 2015, we anticipated that the volume of development work in the automotive industry would increase exponentially for ECUs that control automotive components. This is because the required functions of automotive software would become more sophisticated and complex geared toward advanced driving support and autonomous driving solutions. Also, given concerns about the shortage of development engineers, we recognized that

the automotive industry would face the serious challenges of shortening development lead time and reducing costs in the future. We developed new automotive basic software called QINeS-BSW, compliant with AUTOSAR, a standardized architecture framework for automotive platform software, as a way of resolving these challenges.

Recently, however, automakers have prioritized development aimed at realizing higher functioning domains such as advanced driver-assistance systems (ADAS) and autonomous driving. Because the shift has taken place more quickly than anticipated, I believe the standardization of architecture (introduction of AUTOSAR) across all automotive domains, including ECUs, has not kept pace. Given this, our recovery of investments in the automotive software systems business will take several more years than initially expected.

This does not mean that automotive industry has resolved its challenges, and there is no change in the climate where massive amounts of development and development costs need to be reduced in the future. I believe the potential offered by standardization of automotive platform software using AUTOSAR remains unchanged.

Since January 2018, we have signed contracts with a total of five companies including automakers and Tier 1 parts suppliers. As evidenced by the selection of QINeS-BSW as a partner for next-generation model development, we are making steady progress in the business.



Q5

What initiatives is SCSK implementing for its global expansion?

We refer to the market for supporting the overseas expansion, of Japanese companies in IT as the "Greater Japanese market." As an IT specialist, we aim to equip Japanese companies with the right tools to be competitive internationally. Currently, we are providing a broad range of services mainly to clients in various industries active globally, including our parent company, Sumitomo Corporation, and its group companies.

We have designated Southeast Asia as a priority region for supporting this overseas expansion, considering the future economic growth potential, strength of the Sumitomo Corporation Group's business foundation there, and the presence of Japanese companies. Especially, Indonesia and Myanmar have strong demand for high quality Japanese IT services, and it is possible to cooperate and collaborate with the strong business foundation of the Sumitomo Corporation Group located there. For this reason, there are opportunities for a number of different digital transformation projects. Given this, we have established local subsidiaries in Indonesia and Myanmar as our new hubs in Asia.

In October 2018, as a new attempt at global business expansion, in Asia we signed a comprehensive partnership agreement with FPT Corporation, Vietnam's largest IT services firm. Looking ahead, we will work closely with this company to expand the supply capacity of engineers and service domains.

Q6

Tell us about SCSK's earnings forecast for the fiscal year ending March 31, 2020.

The fiscal year ending March 31, 2020 is the final year of our current Medium-Term Management Plan. It is also the time to prepare for our next Medium-Term Management Plan. In addition to fully accomplishing the current Medium-Term Management Plan, we are aiming to build a solid structure that will enable us to get off to a strong start in terms of the key strategies in our next Medium-Term Management Plan, while maintaining the previous core strategies at the launch of the plan in the fiscal year ending March 31, 2021.

Currently, we are participating in accelerator programs in the United States mainly for IoT and Fintech and investing in venture funds with the goal of commercializing digital transformation and creating new business. We expect to expand our business in new directions by capitalizing on business opportunities from deals with new start-ups and chances for open innovation.

I do not believe we will see immediate results from these efforts this fiscal year, but we will make the necessary investments at the right time. This will enable us to usher in digital transformation for client businesses, and also co-create new businesses together with clients and explore business opportunities through collaboration among different industries where we connect clients together.

With this, our earnings forecast calls for net sales of ¥380 billion, operating profit of ¥41 billion, ordinary profit of ¥41 billion, and net profit of ¥28 billion. We will aim for an eighth consecutive year of higher profits on higher sales by making commensurate investments in our management measures in preparation for further growth, while taking full advantage of the earnings growth reflecting the strong business climate.

Consolidated Earnings Forecast for Fiscal 2019

	Fiscal 2018	Fiscal 2019 (Forecast)	Amount of change	Percentage of change
Net sales	¥358.6 billion	¥380 billion	+¥21.3 billion	+6.0%
Operating profit	¥38.3 billion	¥41 billion	+¥2.6 billion	+6.8%
Ordinary profit	¥38.6 billion	¥41 billion	+¥2.3 billion	+6.1%
Net profit	¥27.8 billion	¥28 billion	+¥0.1 billion	+0.4%

Q7

Tell us about the direction and outline of SCSK's next Medium-Term Management Plan.

Given the rapidly changing times, active initiatives have begun to ride this digital revolution into excellent opportunities for business expansion in various industries and fields. This digital revolution will rapidly speed up ICT and borderless solutions across all industries. I believe the future will require individual companies to pursue more than just digitalization; they will need to become disruptors to rebuild their own operations and business model to change the game.

Considering this situation, it will be important for SCSK to determine what exact business model reforms clients require using a vantage point that incorporates all industries, and then provide the support that clients need. We will achieve this by using our current client base of some 8,000 companies along with our long-standing expertise in operational systems for a number of industries and companies and our know-how in progressive technologies and solutions.

Therefore, we need to shift to digital transformation domains at the same time as promoting core business innovation in our existing business domains and pushing for increased profitability and enhancements in these businesses.

Increasing the profitability and enhancing core businesses involves not only pushing ahead with service-oriented businesses, but also advancing even further with the software engineering innovation we have introduced thus far, which includes Low-Code No-Code development, and systems that do not require infrastructure building or people in operation management. Toward this end, we established the *MONOKAKU* Center in April 2019 in an effort to create a service platform with exceptionally high quality and productivity in terms of our existing operations in the SoR* domain.

At the same time, we will increase the activities of the DX & Innovation Business Committee and establish the DX Center to launch co-creation-based DX initiatives with our main clients. This will allow us to strategically promote business creation utilizing digitalization. I believe that with our people, which represent our greatest asset, as the engine, we will be able to powerfully move ahead in core business innovation and digital transformation. In turn, this will contribute to our sustainable business growth and, by extension, new value creation.

Currently, we are finalizing the details of our next Medium-Term Management Plan, including the KPIs, so I plan to explain these in detail once the time is right.

* SoR (System of Record): A system designed with an emphasis on recording and managing important business data.

Q8

Tell us about SCSK's efforts to strengthen its corporate governance structure.

Currently, SCSK is the publicly-traded subsidiary of Sumitomo Corporation. I recognize that now is a time where management transparency and soundness are even more important than before. While establishing a management environment that ensures full independence as a listed company, we are working to maintain governance by further solidifying our relationship with Sumitomo Corporation, which is considered a key collaboration and co-creation partner operationally speaking.

Overall we are reinforcing and reviewing our corporate governance structure to build and develop the management system that best suits SCSK. We seek to ensure transparency to maintain and improve management efficiency and soundness. As part of this, in June 2016 we transitioned from a Company with an Audit and Supervisory Board to a Company with an Audit and Supervisory Committee, a majority of whose members are outside directors. Furthermore, in June 2017 we established the Governance Committee as an advisory body for the Board of Directors in order to secure impartiality and transparency as well as consider the shared interests of the Company and its shareholders in decision making by the Board of Directors and directors. From the standpoint of independence, this Committee is chaired by an outside director, and the majority of the members are outside directors including independent outside directors. We also reduced the number of directors from the previous fiscal year again to 11 while maintaining the ratio of independent outside directors at one-third or more.

Going forward, we will promote the further separation of management supervision from business execution, and continually work to reinforce our corporate governance structure, while fostering closer communication and discussions among inside directors and outside directors.

Q9

Finally, tell us about your vision for the future of SCSK.

SCSK aims to become a leading company in the IT services industry recognized by society as a top runner not only for its technological prowess and service quality, but also in various

aspects, from client satisfaction to human resources and management quality. Our ultimate goal is to become one of Japan's most prestigious companies both in name and reality, recognized as a strategic IT partner capable of creating true value together with clients.

In addition, today the world faces a number of challenges, such as climate change, scarcity of food due to the rising global population, and depletion of resources. Several complex and wide-reaching social and environmental issues have emerged in Japan, too, including a declining birthrate and aging population, energy issues, aging infrastructure, and the increase in natural disasters. By working to resolve various social issues through our core business of IT services and delivering new markets and business models to society with creativity and dynamism, we hope to continually create new value through IT and tackle reforms without fearing change, under our corporate philosophy of "Create Our Future of Dreams." In the process of doing this, we will help achieve a sustainable society. This is the form of sustainability SCSK seeks to achieve.

The SCSK Group's commitment over the past 50 years, now and in the future is embodied in the phrase "IT for the next delight."

I ask for your continued support as we move forward.





We are working to further increase profitability and capital efficiency as well as strengthen and expand our earnings capacity by continuing to actively invest in new business and undertake structural reforms with the goal of sustainable growth of corporate value and share value.

Tetsuya Fukunaga

Director,
Senior Managing Executive Officer

Results of Fiscal 2018

As for the results of fiscal 2018, we achieved record highs for both net sales and operating profit, marking the seventh straight fiscal year since the merger that we have posted higher sales and profit. In addition, the operating profit margin came in at 10.7%, which is also the highest on record. This strong performance reflects the favorable business climate and robust IT investment by clients. In particular, business from the manufacturing and distribution industries remained consistently strong throughout the year, exceeding our initial expectations, and in the financial industry, which has seen some weakness following a drop in major projects compared to last year, we launched projects for our main clients. As a result, these business results were in line with the upward revisions made to our earnings forecast during our third quarter financial results presentation.

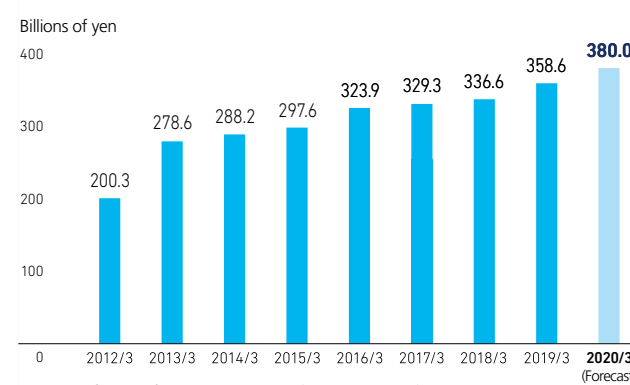
Demand for IT investment continues to grow among our

clients. This is driven by strategic investments for boosting competitiveness in all industries, as well as increasing investments for renewing various operational systems with the aim of reducing manpower, replacing various software and hardware that will reach the end of its service life over the coming years, and migrating legacy systems, which are mainly used in the manufacturing and financial industries, to open systems.

We were able to increase net sales by 6.5% thanks to our efforts to secure productivity including at outsourcing partners and improve productivity to address rising demand in the systems development business. This was also driven by projects to capture this robust demand from clients for IT investment along with growth in service-oriented businesses.

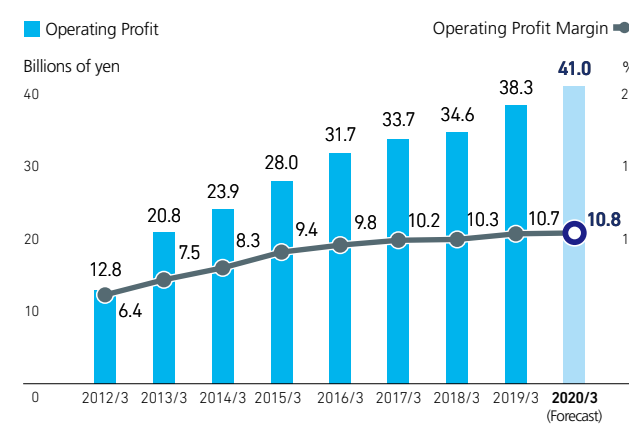
Operating profit fell short of the forecast that was revised upwardly at the third quarter financial results presentation. This was because of the early amortization

Net Sales



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

Operating Profit / Operating Profit Margin



of a little under ¥1 billion in certain business-use assets of the automotive software systems business at the end of the fiscal year. But compared to the previous fiscal year operating profit increased due to the effect of higher revenue and improved productivity and profitability.

Profitability is growing beyond our expectations. Operating profit margin increased 0.4% thanks to improving productivity and profitability on enhancements in our in-house development framework and the efficient use of business process outsourcing.

As for business trends, despite uncertainty over the political and economic situation around the world, we saw a 17.4% increase in SCSK's overall order book, buoyed by sustained strong sales mainly for the manufacturing and distribution industries.

Net profit fell 14.1% due mainly to the drop off in revenue following the ¥10.7 billion sale of our quo card business in the fiscal year ended March 31, 2018. Excluding the effects of this factor, net profit increased more than 30%.

Initiatives for Increasing Profitability

As part of our business structure reforms, SCSK is now actively working to shift from its existing business to a service-oriented business. Specifically, we aim to increase sales growth in service-oriented businesses by more than 10% per annum, with a focus on the SaaS business for ERP systems and the subscription-type IT services business, using our intellectual properties as a foundation. At the same time, we are striving to increase business profitability. Furthermore, in the fiscal year ending March 31, 2020, we will increase funding for business investment related costs by ¥2 to ¥3 billion compared to the previous year to actively develop new businesses.

SCSK is also striving to increase the productivity and profitability of our system development business by using its proprietary system development standard called SE* for all in-house system development projects and encouraging our main business partners to do the same.

In addition, to introduce the latest software engineering technology in our operations from the fiscal year ending March 31, 2020, we established the *MONOKAKU* Center to build a software engineering environment that will be used in a cross-functional manner across the company. By committing ourselves to software engineering innovation, which includes Low-Code No-Code development, and systems that do not require infrastructure building or people in operation management, we are actively working to improve productivity and operation quality and in the process further utilize our company-wide intellectual properties.

I believe that the above efforts by management are already appearing in the form of ongoing improvements in

various profit margins in our recent business results. At the same time, I feel we will be able to steadily increase business growth in the future.

Earnings Forecast for the Fiscal Year Ending March 31, 2020

In the fiscal year ending March 31, 2020, there is spreading uncertainty about the world's political and economic situations, caused partly by US-China trade friction. This has made it rather difficult to accurately forecast the intentions of clients in terms of their IT investment. Nevertheless, given consistent demand for IT investment by clients in the manufacturing and distribution industries in particular, as well as the growing order book at the end of March 2019, I believe this fiscal year has gotten off to an even stronger start than the previous one.

In the fiscal year ending March 31, 2020, SCSK will continue to fund investments in service-oriented businesses and the automotive software systems business, in order to transform this robust client demand into business revenue and steadily implement the core strategy in the final fiscal year of the Medium-Term Management Plan.

In addition, given the rapidly changing times, we will fund additional business investment related costs of between ¥2 and ¥3 billion together with existing strategy, which is commensurate with our business structure reform measures. This will include digital transformation, global expansion, software engineering innovation, and further expansion of employee training, as new management measures aimed at company growth during the next Medium-Term Management Plan.

Our operating profit forecast of ¥41 billion for this fiscal year is in the lower half of our strategic target range of ¥40 to ¥45 billion in our current Medium-Term Management Plan. After the current Medium-Term Management Plan, we will capitalize on the strong business climate while expanding business into new domains, in order to establish a sustainable and high growth business model as soon as possible.

Excluding these increased business investment costs, we anticipate operating profit will total between ¥43 and ¥44 billion this fiscal year. Consequently, compared to adjusted operating profit of ¥39.3 billion in the previous fiscal year, which excluded the impacts of early amortization of certain business-use assets in the automotive software systems business, the year-on-year growth rate of our operating profit will be at the 10% level.

Our Policies for Business Investment and Financing

The Group is working to transform its business structure in an effort to reinforce earnings power and increase corporate value over the medium term. Toward this end, we are promoting the core strategies laid out in the Medium-Term

Management Plan. Among these, we are actively investing in business development for promoting the strategic businesses of the service-oriented and automotive software systems.

In addition, to accelerate future business growth, we must reinforce our own businesses using a combination of outside technologies and services to transform our business structure. We will promote collaboration with venture businesses inside and outside of Japan through establishing corporate venture capital, investing in venture funds, and participating in accelerator programs, with the goal of contributing to business transformation and business creation through digital transformation based on cutting edge technologies such as IoT and AI, and our own original business model. In promoting this collaboration, we will expand business through our own business foundation while leveraging the progressive technologies and services of these venture businesses. We will also try to identify venture businesses with the technologies and services that can potentially solve the medium-term challenges facing clients' business strategies.

Further, we will continue to consider M&A details that will help to speed up business growth by reinforcing our client base or expanding service offerings, from the perspective of each business and the entire company. In promoting these business investments, we will require skills unlike our conventional businesses. To this end, we will also work on talent development, with an eye toward reinforcing our business investment promotion structure.

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

At the end of fiscal 2018, the SCSK Group's interest-bearing debt totaled ¥55 billion in the form of bank borrowings and corporate bonds. Cash and cash equivalents totaled ¥106.1 billion, far exceeding these debts, indicating our robust financial base.

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

Our Policies for Shareholder Returns

With regard to how we return our profits to shareholders, we aim to provide dividends in line with improvements in consolidated business results, while comprehensively taking into account financial position, earnings trends, dividend

payout ratio, and the need to maintain sufficient internal reserves for future business investments.

First, as forecasted, we paid out a full-year dividend of ¥100 per share for the fiscal year ended March 31, 2019, marking an increase of ¥5 from the ¥95 per share paid out in the previous year. This is based on a comprehensive review of business performance results, financial condition, dividend payout ratio and other factors.

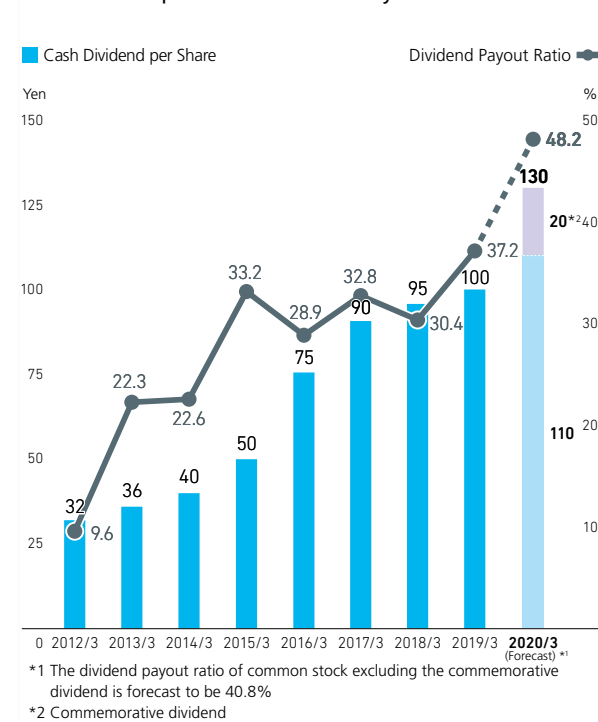
The forecast for the ordinary dividend for the fiscal year ending March 31, 2020 is ¥110 per share, a ¥10 increase from last fiscal year. This ensures our dividend payout ratio philosophy I have been talking about as part of our capital policy and dividend policy for some time now, maintaining a dividend payout ratio of at least 40% versus the earnings forecast for each fiscal year.

Furthermore, we plan to offer a special commemorative dividend of ¥20 per share to show our appreciation to shareholders and further return profits to them, given that we will celebrate our 50th anniversary in October 2019 and the improvements in our financial position as well as higher profitability expected this fiscal year.

As a result, the forecast for the full-year dividend for this fiscal year is ¥130 per share, marking an increase of ¥30.

Looking ahead, we intend to take full advantage of our continually growing cash flows as funds for business investments that support future growth. At the same time, we intend to increase dividends in line with anticipated performance improvements in order to enhance shareholder returns.

Cash Dividend per Share / Dividend Payout Ratio



We aim to co-create social value and economic value by working to resolve environmental and social issues through our business.

Yasuhiko Oka

Senior Executive Officer

Basic Approach to Sustainability

Today, the world faces a number of challenges that threaten the attainment of a sustainable society, including changing demographics, growing economic disparity, climate change, and resource depletion. Finding solutions to these challenges is an important task shared by humankind.

For example, the world requires substantially new innovations to resolve these issues threatening a sustainable society, as demanded in the UN's Sustainable Development Goals (SDGs) and Paris Agreement adopted at COP 21. I recognize that contributing to solutions to social issues as a company will also open up new markets and help establish new business models, which represent new growth opportunities.

Furthermore, there are growing demands from investors inside and outside of Japan for companies to disclose environment, social and governance (ESG) information, following the decision by Japan's Government Pension Investment Fund (GPIF), one of the world's largest public pension funds, to launch fully-fledged ESG investment in 2017. Actively engaging in ESG not only can mitigate mid-to long-term risks and improve earnings, but also generate understanding about the appropriate response to customers, employees, society and other stakeholders, and contribute to the sustainable growth of a company and society.

The IT services and solutions SCSK has provided for many years based on its technologies and expertise cultivated in various fields go far beyond helping clients to resolve challenges and increase competitiveness. They also help the whole society to be more sustainable by delivering new functions and mechanisms for resolving social issues.

To respond to such sophisticated social demands, it is

important to provide a dynamic and comfortable workplace environment where talent with excellent technical skills, proposal capabilities, and frontline strengths can deliver highly productive performance and contribute their skills to the fullest. From before the phrases "working style reforms" and "health and productivity management" became popular, SCSK has been a pioneer in implementing a number of measures for improving the workplace environment and promoting employees' health. In order to increase the quality of our services and solutions, we are working alongside our partners according to our proprietary development standards to develop, maintain and operate stable IT systems.

I believe that by having employees carry out business activities following our corporate philosophy, we will be able to fulfill our responsibility in helping to achieve the SDGs through our core business.

Today, we find ourselves at a major turning point in terms of society, economy and the environment. To "Create Our Future of Dreams," SCSK will continue its efforts aimed at a sustainable society, while working diligently to increase both corporate and social value.

SUSTAINABLE DEVELOPMENT GOALS



SCSK's Sustainability

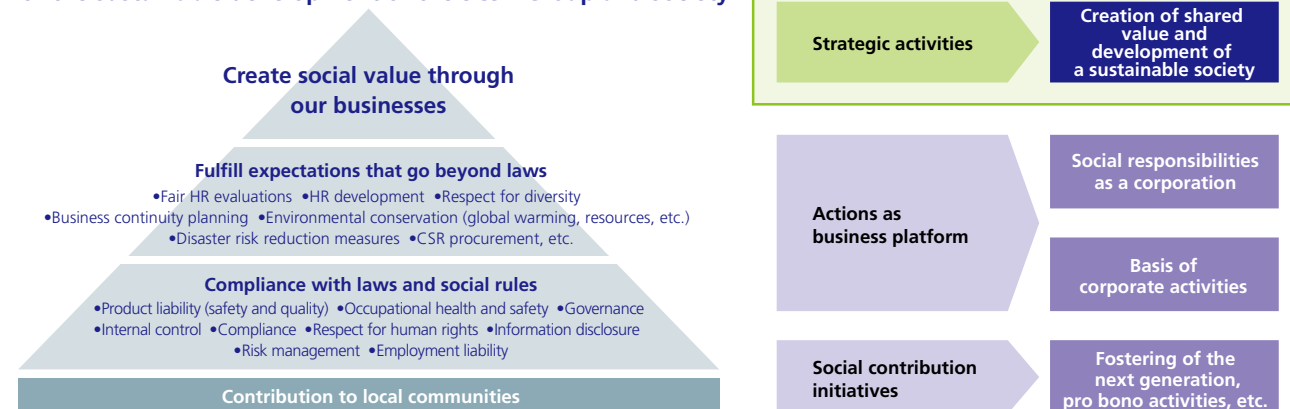
Following our Corporate Philosophy of “Create Our Future of Dreams,” the sustainability efforts of the SCSK Group are driven by “strategic activities” for fulfilling responsibilities to society through our business. These strategic activities are supported by “actions as a business platform” where we comply with laws, social rules and address situations beyond laws, and “social contribution initiatives” that help us to deepen our relationship with society as a good citizen.

Strategic activities involve solving social issues through our businesses while deepening engagement with each

category of stakeholder in an effort to help realize a sustainable society. We believe the process of generating social value, such as creating new solutions for complex social issues, enhances corporate value.

IT has contributed to solutions to various social issues to date. The importance and influence of IT will continue to grow, especially given the economic and social innovation driven by the digital transformation in recent years. Creating new value with IT and contributing to solutions to social issues represents the very essence of the SCSK Group's businesses, and our responsibility to society.

For the sustainable development of the SCSK Group and society



Materiality and Specific Initiatives

Materiality	Details of issues	Basic approach	SDGs	Specific initiatives	Pages
Creating an affluent society together with our customers	Through our IT services, we are working to improve convenience and help resolve social issues in response to stakeholder needs. Together with our customer companies, we aim to create a pleasant and affluent society.	We will contribute to solutions to complex social issues through the creation and provision of IT services and solutions needed by society. We will aim to achieve a sustainable society while creating both social value and corporate value together.		•Solutions to social issues through our businesses	P22
				•Enhance technological capabilities and develop capacity (response to digital technologies)	P45
				•Initiatives that help to reduce the effects on the environment	P51–52
Becoming a company with a pleasant and rewarding workplace	Under our aim of “becoming a company with a pleasant and rewarding workplace,” we have established four underlying themes: work-life balance, diversity, health and productivity management, and human resource development. We are now taking a number of initiatives with a focus on propagating these themes across the overall IT industry.	We are a pioneer in the industry in broadly promoting working style reforms. We carry out initiatives that help propagate effects across the entire IT industry.		•Promote work style reform aimed at becoming a company with a pleasant and rewarding workplace	P42–44
				•Promote a diverse workforce (diversity)	
				•Support for balancing work, childcare and nursing care	
Providing safe and secure IT services together with partner companies	In order for customers to be able to use our IT services safely and with peace of mind, we work together with our partner companies to achieve thorough information management, enhance information security, and improve quality.	In addition to initiatives for quality control, information security, personal information protection, and compliance, among others, we seek solutions to social issues by enhancing quality and productivity in the supply chain.		•Promote health and productivity management	P46 P47–48 P61
				•Enhance the quality of project management and development processes	
				•Enhance quality and productivity through collaboration with partner companies	

Examples of SCSK's Initiatives Contributing to the SDGs through Business

Example1 Detecting and Preventing Sophisticated and Stealthy Financial Crime

BankJavior® Pursuer

Related SDGs



Goal 9
Build sustainable and resilient financial system



Goal 16
Prevent organized financial crime and curtail illegal cash transactions

We build “monitoring systems” for financial institutions that detect “suspicious transactions” based on transaction data and account attributes and “filtering systems” that check whether customers, senders or beneficiaries are on an anti-social force or terrorist watch list. These systems underpin safe and secure financial transactions.

Applicable Social Issues

- Increasingly borderless and stealthy nature of money laundering and other financial crimes
- Growing damages from special fraud, such as bank transfer scams

Initiatives at SCSK

Develop systems that help detect and prevent illicit financial transactions

Effects

Protect financial assets and ensure safe and secure financial transactions

Example2 Developing Cyber Security Professionals

SECURE YOUR SITE

Related SDGs



Goal 4
Develop cyber security professionals with advanced specialty knowledge



Goal 9
Support secure operation of systems in an advanced information society



Goal 16
Develop environment for secure use of the Internet

Developing engineers capable of understanding and addressing the latest security threats will ensure the integrity of various systems used by companies and organizations. Recognizing the shortage today, SCSK is working to develop cyber security professionals in an organized and systematic manner. Human resources developed according to a specialized career path are playing an active role in the secure operations of clients' systems and our own data centers.

Applicable Social Issues

- Rising costs to combat increasing cyber crime (cyber attacks, illegal access, and information leakages, etc.)
- Increasing social unease

Initiatives at SCSK

- Develop advanced cyber security professionals in an organized and systematic manner
- Provide cutting edge security systems and management services

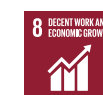
Effects

Reduce the possibility of security crime/incidents and provide more reliable and secure information platforms

Example3 Resolving Personnel Shortages Using AI

Desse

Related SDGs



Goal 8
Improve work environment and raise productivity using automation



Goal 9
Reduce operational burden with AI-powered automatic answering systems

We provide “Desse,” our own AI-powered question and answer system. Using this system, customer requests are interpreted and answered using a mascot character online, making it possible for customers to easily find the information they are searching for. This system helps clients to resolve personnel shortages, streamline operations and improve service quality by reducing the call rate at call centers.

Applicable Social Issues

- Labor shortage in call center industry (hiring difficulties and high turnover rate)

Initiatives at SCSK

Develop products that can automatically reply to customer inquiries online

Effects

Enhance operator morale/satisfaction and improve customer engagement by utilizing advanced skills, etc.

Shift to Service-Oriented Businesses

SCSK's Service-Oriented Businesses

While many companies are actively investing in strategic IT to boost competitiveness and enhance corporate value, there is growing demand for IT services for business operations that streamline and save labor. SCSK will use the service-oriented business to deliver solutions to those domains where client businesses do not need to differentiate and industry-standard or universal business operations, among those business operations requiring the streamlining and saving of labor.

SCSK has decided to focus on the service-oriented business because of its accumulated track record in delivering IT solutions to some 8,000 client companies mainly in the manufacturing, distribution, finance and communications industries. Our close relationships with these clients have helped us to develop in-depth knowledge of industry-specific business operations, which positions us to develop and provide IT services after identifying the standardizable parts.

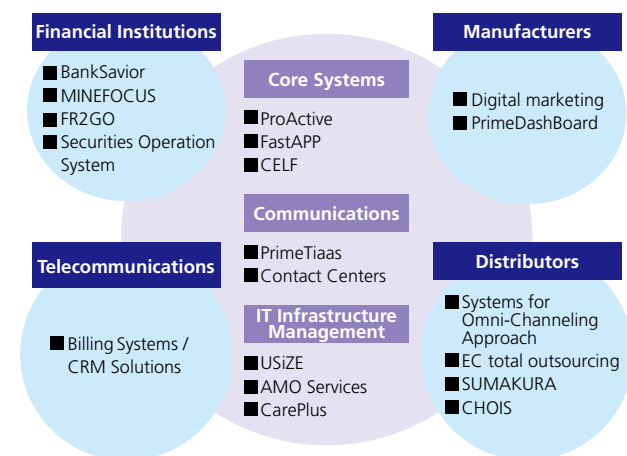
In a narrow sense, a service-oriented business involves

building common business operations as a shared use system and then providing this in a pay-per-usage format (see figure below: Service-Oriented Business Creation Model). In the fiscal year ended March 31, 2018, we changed our definition of certain service-oriented businesses in order to use a broader definition of the businesses toward which we are moving, away from a labor-intensive focus, in an effort to more substantively grow earnings.

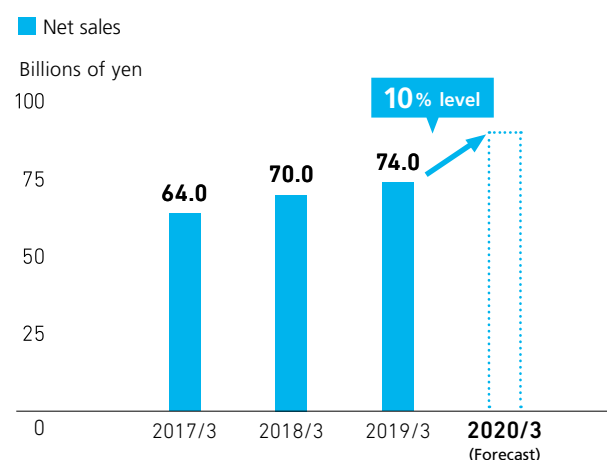
When taking into account this new broader definition of service-oriented business, sales grew at around 6% from ¥70 billion in the fiscal year ended March 31, 2018 to ¥74 billion in the fiscal year ended March 31, 2019. We are now aiming to achieve sales growth on the 10% level in the fiscal year ending March 31, 2020.

To achieve sustainable profit growth over the long-term, it is essential that we continue to shift to a service-oriented business, and we will continue focusing efforts toward this end.

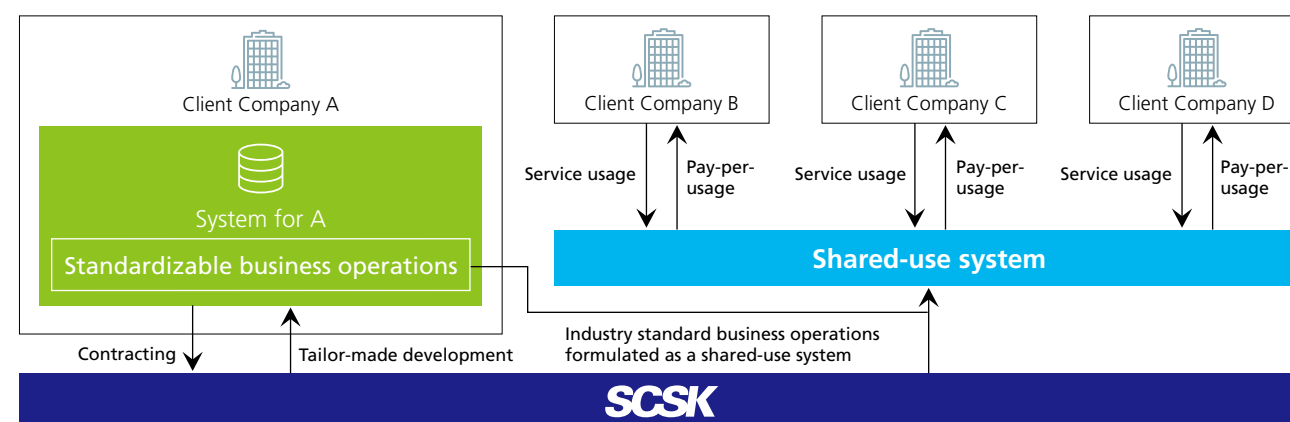
Examples of Service-Oriented Businesses



Trends in Service-Oriented Business Sales (New Definition Basis)



Service-Oriented Business Creation Model



Production Management Domain for the Manufacturing Industry

Recently, the manufacturing industry has been actively working to maintain and enhance frontline strengths, including working style reforms and improving productivity using IT, in order to address the emergence of labor shortages.

The creation and maximization of added-value with an eye toward enhancing competitiveness is a major theme for the industry. This necessitates a transformation in business models,

such as providing services and solutions in addition to products and reinforcing corporate foundation using an ecosystem. Amid these intense changes, SCSK identifies possible risks facing the manufacturing industry and deploys fully scalable technologies to enable the management of client companies to address these risks at any time with the prompt provision of a secure integrated systems environment as required by clients.

Service Example Supporting Constantly Changing Production Sites with Next-Generation Production Management Systems

With diversified customer needs and growing demand for short-time production and increased quality, the ability to provide high quality products in a speedy manner is critical. This requires the centralization and visualization of company information, real time updates of manufacturing processes, and the right responses.

However, many companies have different systems and management tools for each operation, such as sales management, inventory management, and cost management. This presence of different systems made it difficult to ascertain production information in real time.

As a result, SCSK completed atWill Template, which compiles operation functions essential to assembly and processing as a template utilizing our long-standing know-how on the production sites.

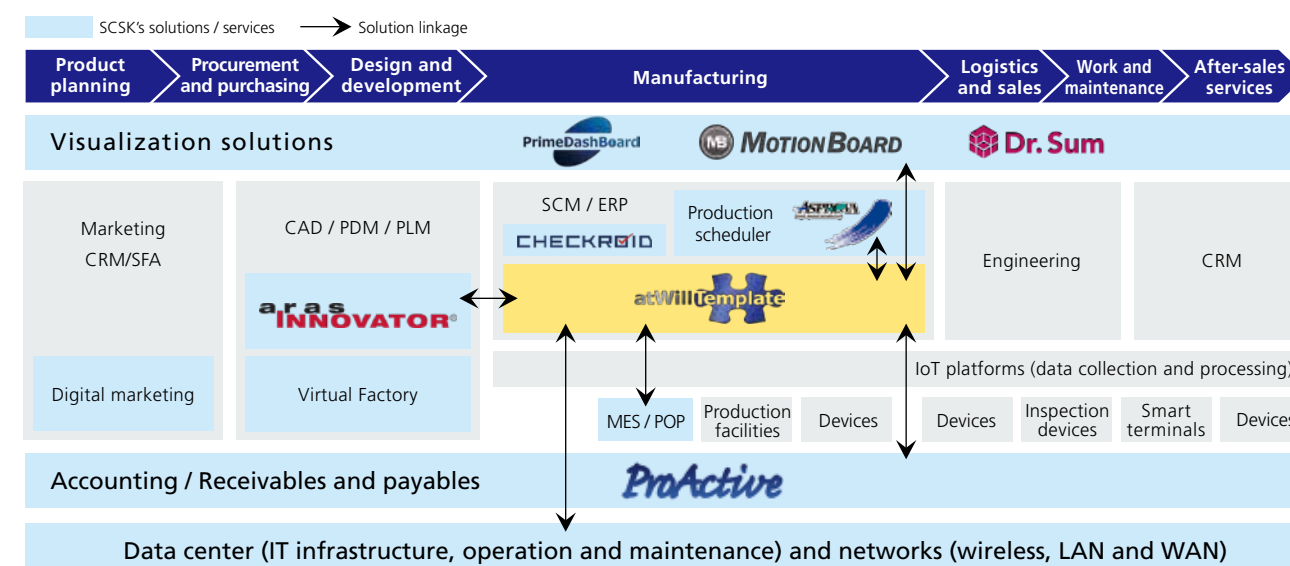
The atWill Template adopts a template concept for combining systems with operations to maintain the strengths of

the frontlines of Japan's manufacturing industry and sustain growth. It functions as a template for each operation in a manufacturing process, providing operation systems in line with the clients' scope of systematization in a speedy manner. Since partial introduction of operation templates is possible, atWill Template can flexibly accommodate introduction in phases based on a company's growth or business changes.

In addition, we are implementing linked functions with other solutions, which make it possible to easily build ERP systems linked seamlessly with visualization solutions in production sites or accounting systems.

Looking ahead, SCSK will continue to focus on trends in manufacturing, to further expand the number of templates for production operations and improve functionality based on client needs, while helping drive clients' business reforms forward by promoting centralization and visualization of company information.

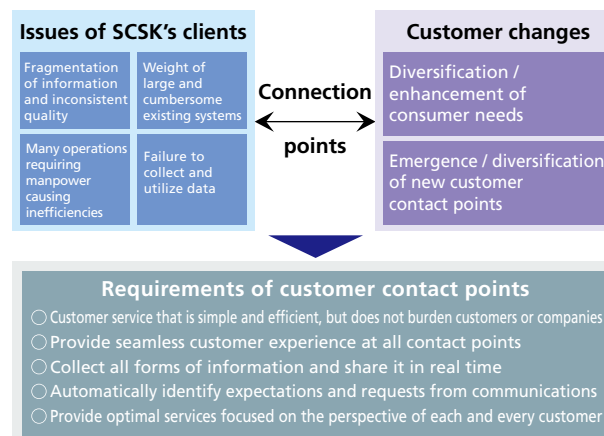
atWill Template System Linkages



Customer Contact Point Enhancement Domain

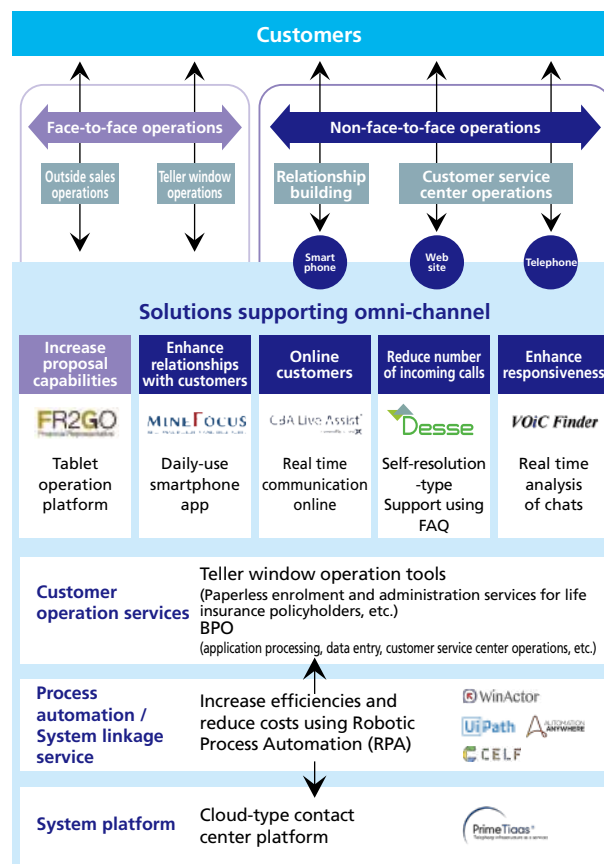
As the world ushers in a time where everything is connected to the Internet thanks to advancements in mobile computing, the ability of the customers of SCSK's clients to gather and disseminate information is growing. The strength and quality of connections with customers born through face-to-face and non-face-to-face contact points hold the key for future business success and are gaining attention as a management resource underpinning a company's competitiveness.

SCSK provides to its clients a full range of services in the customer contact point domain supporting the provision of services optimized to their individual customers. We accomplish this by identifying customer expectations based on communications at several contact points, which empowers us to help clients build and enhance connections with their customers.



Service Example Supporting All Channels of Financial Institutions

In recent years, it has become the norm to provide customer services in all channels; not just at traditional branches or sales offices. SCSK supports omni-channel services where customers can receive consistent services anywhere in all channels and modes. We deliver high quality service-oriented solutions demanded by financial institutions, while utilizing the latest technologies such as mobile solutions, AI technology, and Fintech in unison with the leading products of other companies.



Benefits for financial institutions

- Deliver omni-channel customer support through centralized management of customer information
- Reduce loss through automation and optimization of operations

Benefits for customers

- Peace of mind knowing communication / procedures are possible anytime and from anywhere
- Trust from receiving the latest information in an easy-to-understand format
- Affinity from being able to access the information they need quickly

Service Example Realizing Valuable Customer Contact Points with Next-Generation Contact Centers

The role of contact centers is undergoing significant changes due to the increasing diversity and integration of customer channels. Next-generation contact centers that can not only centrally manage data on individual purchase behaviors, but also analyze and utilize customer voices fulfill a strategic

function for companies that expand contact points with customers and contribute to increased loyalty.

SCSK provides cloud call center systems tailored to client needs by utilizing various solutions based on its long-standing know-how in call center operations.

Example of Client Solution | Jibun Bank Corporation

Providing All-Cloud Call Center for Customer Service Centers

Providing All the Necessary Services of a Call Center Completely by the Cloud

Jibun Bank's customer service center has underpinned the bank's growth since its founding as an important customer contact point channel.

The bank's customer service center has handled more than 400,000 calls every year using operators. However, it needed to develop system infrastructure, including platform and structure, to prepare for further business growth. As a result, in May 2017, the bank began examining ways to rationalize the utilization rate of operators and improve the quality of customer services through reducing average response time and preventing administrative errors.

Given this background, the bank highly rated SCSK's all-cloud call center system and decided to adopt it for its new call center with an eye on its future growth.

The new call center system combines the following cloud solutions:

•Voice Platform: SCSK Cloud Voice Platform Service-PrimeTiaas

The system can be provided in a pay-per-usage* format tailored to actual situation, achieving a high level of quality and security demanded by financial institutions despite it being provided on the cloud. The bank gave a positive evaluation to the system as a platform that can be utilized for an extended period of time

because it has a strong track record of linkages with Salesforce and it can be expanded to omni-channel platforms such as links with social media.

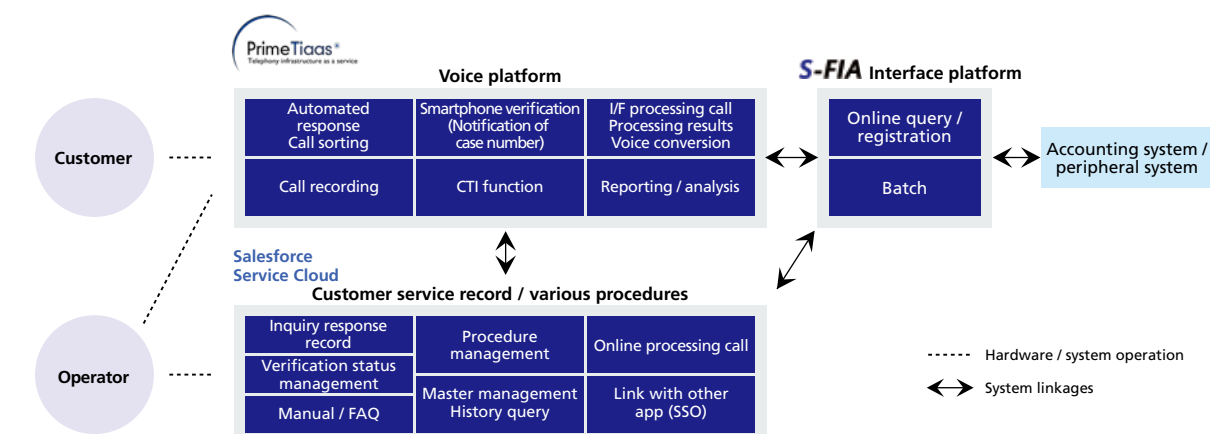
*Pay-per-usage applies to the usage fee for the basic system and partial services including telephones and headsets.

•Customer Service Records / Procedures: Salesforce.com Cloud Service Platform—Salesforce Service Cloud

The bank gave a high rating to the future potential of the platform itself because it can quickly adapt to changes in business trends, in addition to its extensive standard functions. The new system fully capitalizes on standard functions while providing a customer service top screen that displays customer information and inquiry history in a single glance. There are also additional functions including automation of complex condition determining logic in procedures. This is expected to greatly reduce average response time and prevent administrative errors.

•Accounting System Connection: SCSK's Interface

Platform using Framework for Financial Institutions—S-FIA
S-FIA is SCSK's proprietary integrated development environment for Java that can develop fast and high-quality applications for financial institutions, operate these systems in a highly reliable and secure manner, and provide scalability of new technologies. S-FIA has been adopted by a number of financial institutions. At the new call center, it is being utilized as an interface platform for connecting each cloud system and the accounting system.



Core Strategy
2

Promote Strategic Business that Captures the Changing Times

Developing BSW*1 for Worldwide Standards in Our Strength of the Mobility Domain

Automotive systems are seeing an increase in software size and greater system-wide complexity following advancements in autonomous driving and environmental measures. Given this, automakers and their suppliers are promoting the adoption of standard architecture for automotive software “AUTOSAR,” software development standards “Automotive SPICE,” functional safety standards “ISO 26262,” and “Model Based Development (MBD).”

SCSK has a strong track record in development of automotive systems for Japanese automakers. We also have many employees certified in ISO 26262 and Automotive SPICE. In 2019, we acquired ISO 26262 certification for SCSK’s software development standard process, called SE+ for Automotive. This guarantees that software developed by SCSK using SE+ for Automotive satisfies the safety level required of ISO 26262. Additionally, we were among the first to begin MBD and release basic software (BSW) compliant with

AUTOSAR, using our past knowledge in the field. We have since launched QINeS-BSW and are now providing related development support services. SCSK is capable of providing a full lineup of BSW as an automotive system platform and MBD support services underpinning automotive system development. Our capabilities support high-quality and high-efficiency automotive software development.

Going forward, SCSK will continue to contribute to the competitiveness of the Japanese automotive industry through one-stop services for automotive system development.



*1 BSW: Basic Software (corresponds to the operating system for the ECU, drivers, and middleware)
*2 SCSK’s QINeS offers a series of solutions focused on BSW compliant with AUTOSAR supporting high-quality and high-efficiency automotive software development.

AUTOSAR-Compliant QINeS-BSW RTOS Adopted by ADVICS Co., Ltd.

ADVICS adopted SCSK’s QINeS-BSW RTOS for the next-generation brake system control ECU it developed. Key points in high rating

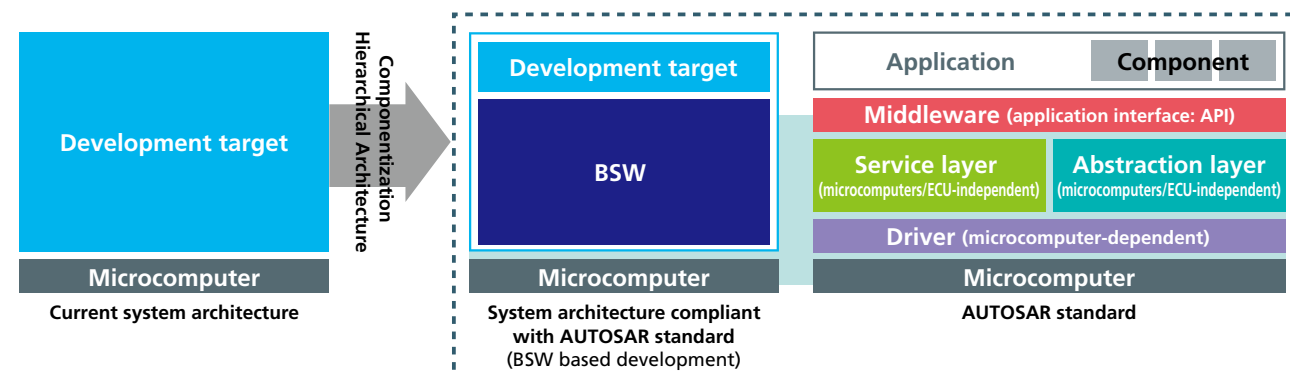
1. QINeS-BSW RTOS provides exceptional levels of responsiveness and reliability necessary for a high-performance, next-generation brake system to be proposed to completed automobile manufacturers and had to clear the requirements for ASIL D, the highest safety level under ISO 26262, a standard for automotive functional safety.
2. SCSK is an AUTOSAR vendor capable of providing the comprehensive line of services necessary for achieving higher levels of quality and efficiency in product development.

Mazda Motor Corporation Begins Verification of SCSK’s AUTOSAR-Compliant QINeS-BSW

The recent rise in the application of electronic control technologies has driven an increase in the number of electronic control units (ECUs) installed on automobiles. The scale of basic software (BSW) development projects has been growing in conjunction with this trend, contributing to a rise in the number of units equipped with BSW.

Realizing development efficiency in these endeavors requires that completed automobile manufacturers and ECU suppliers be provided with BSW that is standardized to match the various performance and safety requirements of units. Mazda has begun verification tests to assess the applicability of SCSK’s QINeS-BSW product with this regard. Looking ahead, SCSK will move forward with the verification of BSW on a standalone basis and the fostering of a related development environment while also proceeding with verification of functional safety requirements and concepts (FSR/FSC).

Composition of Automotive System



Core Strategy
3

Second Stage of Global Business Expansion

Reinforcing Global Business Structure Together with the Sumitomo Corporation Group

In recent years, global IT trends have changed dramatically and demands for IT systems are transitioning from operation efficiency to business creation using IT systems. The dissemination of cutting edge technology is expanding from the West Coast of the United States to Shenzhen, China. At the same time, Southeast Asia is garnering worldwide attention for its transformation from a labor market to an attractive consumer market.

In such a business environment, SCSK has defined the market where Japanese companies are expanding globally as the Greater Japanese Market. Our goal is to build the best possible partnerships with our clients in this market.

SCSK is utilizing the strength of the business foundation of its parent company, Sumitomo Corporation, and the Sumitomo Corporation Group and promoting the global expansion of various IT services, including strengthening the overseas offices of Japanese megabanks and helping build IT infrastructure for local subsidiaries.

As well as measures supporting the overseas expansion of clients, we are building up our structure for overseas markets to secure and enhance capabilities and further expand in global business domains.

SCSK actively supports clients seeking to expand globally using IT services backed by Japanese style security and reliability. At the same time, we help Japanese companies to improve operations and usher in technological innovations by quickly incorporating advanced technologies from around the world and providing them to Japanese companies.

Expanding into New Domains

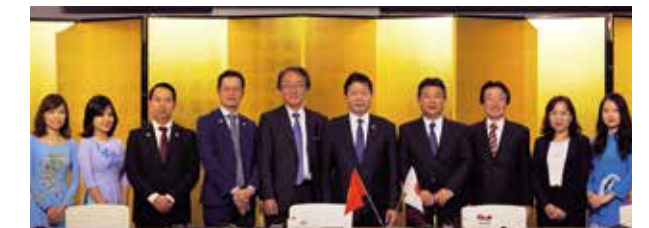
Until now, SCSK has established operations at six locations in the four regions outside of Japan, which are the United States, United Kingdom, China and Singapore. In order to capture growth of IT services and digital markets in emerging countries in Asia, we established new locations in Indonesia and Myanmar.

We are now preparing to expand into new businesses in the digital transformation and business IT domains in the Asia-Pacific region.

Building Strategic Partnerships Overseas

In October 2018, we concluded a memorandum of understanding on a comprehensive Asia Pacific region IT services business partnership with FPT Corporation (FPT), Vietnam’s largest IT firm.

This will enable us to support the overseas expansion of Japanese companies, coordinate development in the finance and automotive industries, joint development of SCSK’s strategic products, and joint development of globally-minded human resources. In the Asia-Pacific region, we will jointly provide IT services to Sumitomo Corporation’s businesses in the region and promote joint business development involving SCSK, Sumitomo Corporation, and FPT.



Signing ceremony for the memorandum of understanding on a business partnership with FPT

The SCSK Group’s Overseas Locations



● Existing locations ● New locations (fiscal 2019)

Becoming a Leading Company in the Digital World

Enhancing Businesses Using Software Engineering Innovation and Digital Transformation

Growth/Enhancement of Core Businesses

Initiatives in Software Engineering Innovation

Approaches to IT Contributing to Clients' Business Value

SCSK is ushering in software engineering innovation in order to become a co-creation partner that contributes to enhancing clients' business value by accommodating changes in the demand for IT systems around the world.

Standard Platforms for Realizing Software Engineering Innovation

SCSK has built a standard platform for using SmartEpisode Plus (SE+), our original process standard for system development, operation and management. This enables automation of infrastructure building and operation, the shift to Low-Code No-Code development, and closer collaboration between development and operation. As a result, the long-term, stable use of IT systems is possible by ensuring improved productivity and quality in development as well as the ease of maintenance and continuity required for systems in the corporate IT (problem-solving systems) domain.

Automation of Infrastructure Building and Operation

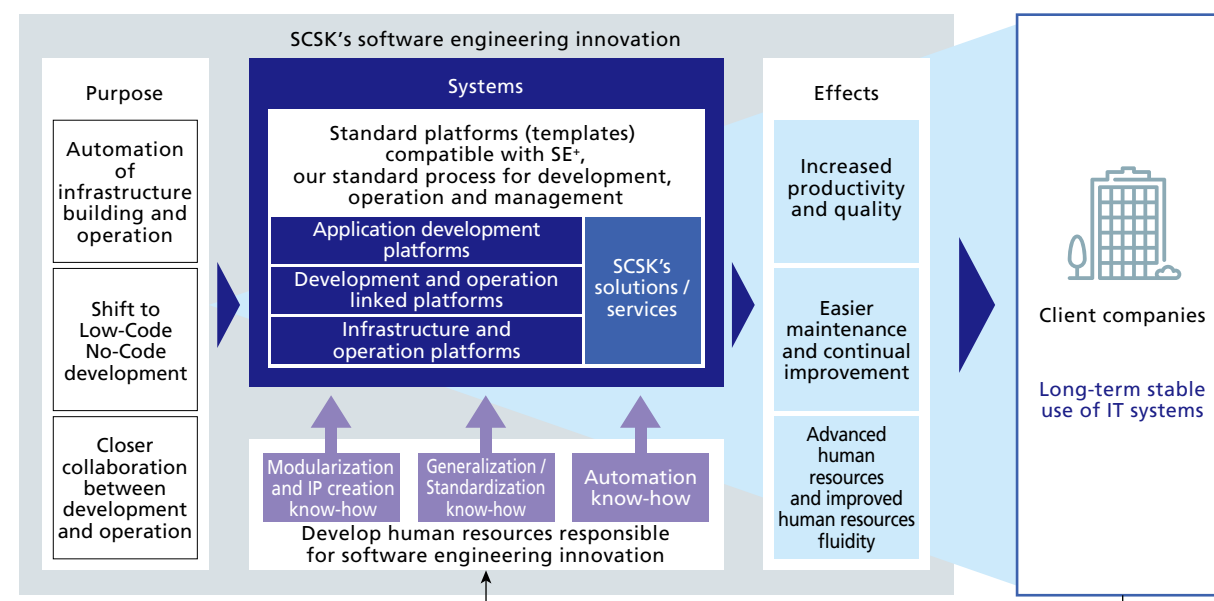
Standard platforms automate development and operation of an infrastructure environment based on a template prepared using standard specifications by combining client requirements into a standard platform, instead of establishing an environment and operation process for each project. SCSK is now working to streamline and, at the same time, improve quality by increasing use of standard specifications in projects. Furthermore, we will boost the number of projects using standard platforms to address the need for standardization based on the unique characteristics of each business domain.

Shift to Low-Code No-Code Development

Application development with standard platforms uses low-code or no-code development platforms (such as SCSK's original FastAPP, CELF, atWill Template, and S-FIA) that generate code or the interface based on the design results after assembling verified parts, instead of requiring code written from scratch. This encourages development with intellectual property using OSS and parts accumulated internally.

Low-Code No-Code Development can shorten the implementation and unit testing process, resulting in more focus on visualization and dialogue using prototypes in the

Summary of Software Engineering Innovation



requirements definition process as well as increased system quality. Because no code is written, the scope of maintenance can be narrowed while preventing dependence on individual skills, black boxing, and creation of legacy systems, enabling the long-term, stable use of applications.

Closer Collaboration between Development and Operation

To carry out the production release of applications with bug fixes or maintenance development in an efficient, safe and secure manner, we standardize and automate release processes including handover of development results to operation manager and test work conducted prior to release using our standard platforms. This speeds up and streamlines the release while improving quality using regression testing.

Moreover, by standardizing IT service management methods, we are able to step up information sharing between development and operation managers and quickly address system failures.

Promoting Software Engineering Innovation through Human Resources Development and Fully Capitalizing on IP

We are promoting the use of standard platforms for projects through human resources development. This includes training the engineers who use standard platforms and activities to raise awareness about the paradigm shift to new ways of development.

Furthermore, we will build a new system, organization and IT platform for implementing a cycle for fully capitalizing on intellectual property that shares and uses expertise and intellectual properties gained from the use of standard platforms. We will accelerate software engineering innovation through the use of intellectual properties by activating and instilling the accumulation and re-use of intellectual properties generated on the frontlines of our daily operations.

Aiming for Co-Creation of Business Value Together with Clients

Through software engineering innovation in the corporate IT domain, we will promote the fluidity of human resources and shift human resources to business IT domains, by enhancing human resources, reducing manpower and raising efficiencies, and working on solutions that do not depend on people.

In addition to human resources, such as training engineers to have multiple skills and adapt to agile development, we will also adopt standard platforms for advanced virtualization based on containers and server-less technologies, digital technologies such as AI and IoT, and agile development. By doing this, we will aim for flexibility in addressing the changing needs of business IT and to engage in value co-creation as a partner to clients.

Business Creation through Digital Transformation

Promoting Digital Transformation

Reinforcing Structure for Promoting Digital Transformation

In recent years, the evolution of Internet of Things (IoT), Big Data, Artificial Intelligence (AI), and other revolutionary digital technologies has been driving a trend toward companies in various business fields utilizing cutting-edge IT to undergo digital transformations aimed at enhancing existing business or developing new businesses. These efforts are anticipated to transform companies and society while also contributing to corporate growth.

SCSK newly established the cross-organizational DX & Innovation Business Committee effective November 1, 2018 to guide Companywide strategy development and commercialization initiatives in the digital transformation field.

The DX & Innovation Business Committee will be tasked with consolidating information regarding the wide-ranging needs of SCSK's customers and commercializing digital transformations through combinations of SCSK's various technologies and frameworks. By means of these initiatives, the committee will identify and develop technologies and intellectual properties that will be advantageous to the commercialization of digital transformations while also recruiting and cultivating human resources that are similarly beneficial. We thereby aim to heighten SCSK's ability to promote digital transformations.

Furthermore, in April 2019, we established the DX Center within the Business Support Group, with the goal of aiding digital transformations in clients' business models and processes, commercializing digital transformations for Sumitomo Corporation, and supporting commercialization of digital transformations using Companywide strengths and intellectual properties.

The DX Center works with the R&D Center for technical support concerning the latest technologies for commercializing digital transformations such as AI and IoT, and for supporting research and study. By doing so, it seeks to further speed up "the creation of next-generation business" cited in Sumitomo Corporation's Medium-Term Management Plan 2020 and promote digital transformations throughout the Sumitomo Corporation Group.

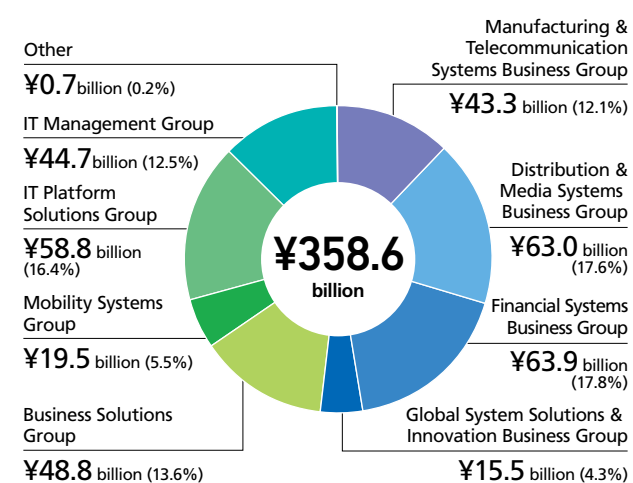
The experience and insight gained through this initiative will be fully utilized as we increasingly partner with other companies boasting new technologies and business models that relate to digital transformations. Through this approach, we hope to contribute, as a partner, to the transformation of the business models of a wide range of customers.

Our Businesses

Business Structure

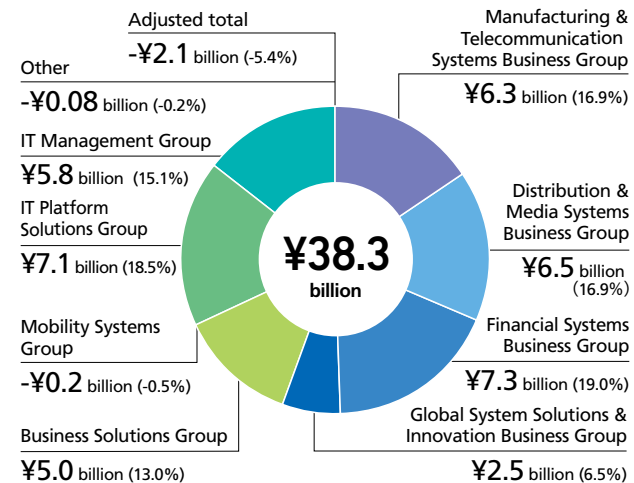


Distribution of Net Sales (March 2019)



*The Mobility Systems segment was newly established on April 1, 2019. Information disclosed on this page includes this new segment. See P69 for the performance of the former segment.

Distribution of Operating Profit (March 2019)



Sales Coordination Group

Officer in Charge

Masanori Furunuma

Executive Vice President
General Manager,
Sales Coordination Group



Business Overview

The Sales Coordination Group was newly established in fiscal 2018 as a cross-functional independent sales organization in order to better grasp customer needs and provide optimal services swiftly when needed.

We are responsible for account sales functions to pursue ways of increasing client profitability and optimizing costs as well as solution sales functions so that SCSK can deploy strategic solutions in markets, which positions us to continually contribute to maximizing clients' corporate value.

Mission

- Increase market share and share in clients' businesses by utilizing the Group's overall capacities
- Promote swift and optimized total solutions
- Develop new businesses that increase clients' corporate value

Policies

- Promote account plan (21 account groups)
Sustain client understanding and provide added value to become clients' true strategic IT partner
- Promote key solutions (customer contact points, progressive AI, working style reform)
Increase market share using marketing activities emphasizing the value of SCSK's solutions
- Identify new business and seek to actualize it
Develop competitive new businesses that respond to client and market needs

Core Business

The wave of digitalization brought about by digital transformation is causing companies' IT strategies to become an integral part of management strategy. As a result, companies' IT strategies require efforts not only in defensive IT (response to legacy systems), but also in proactive IT (response to business reform).

For this reason, our group has positioned the sourcing business and co-creation business as important measures. In addition, we are working to reinforce our sales foundation supporting these measures.

Through these initiatives, our group will continue to build the best possible partnerships with clients (strategic IT partnerships) and contribute to clients' business reforms.

- Promote sourcing business:** SCSK's strength is found in our ability to provide a full line-up of support, from development to operation and BPO, and the sourcing business represents an area where we can fully harness this strength. We will help clients to increase the efficiency and enhance their existing businesses in a speedy and optimal manner

using standardization and automation in each process including development, integration and operation, along with nearshore development and the operation of remote offices.

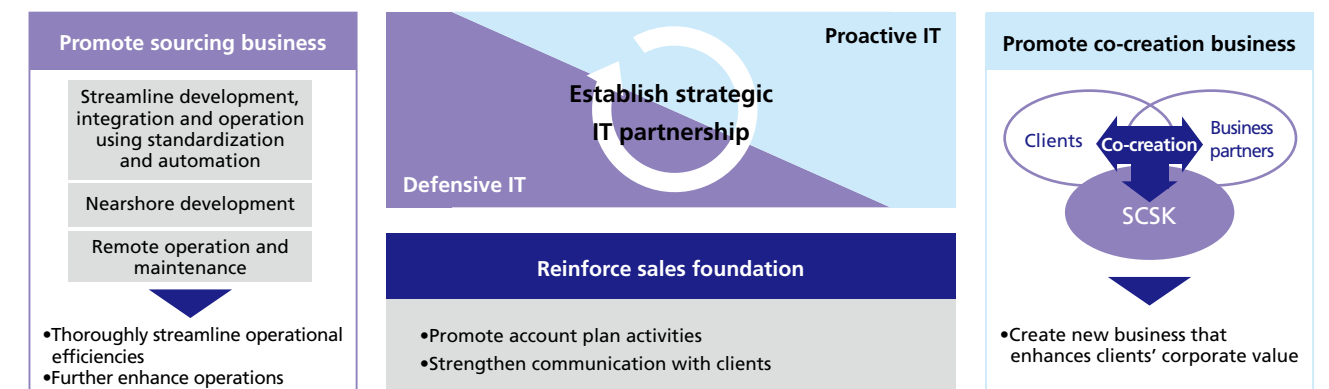
- Promote co-creation business:** SCSK maintains strong relationships with its clients and business partners. Using this strength, we will promote the co-creation business (creating new business together with clients and business partners by using AI, IoT and other cutting edge technologies) by facilitating inter-company collaboration in a speedy and efficient manner. This will enable us to help clients speed up new business creation.

- Reinforce sales foundation:** Through discussions closely tied to SCSK's management, we will powerfully promote account plan activities that correctly identify changes in clients and markets and help clients to enhance their corporate value. In addition, we will continue to solidify relationships with clients by reinforcing non-face-to-face marketing activities through the use of digital marketing (FRONTGATE* and other platforms).

*FRONTGATE
SCSK's web media that proposes hints and solutions for clients' business reform from among various progressive IT initiatives and solutions
<https://www.frontgate.jp>
(In Japanese only)



Core Business of Sales Coordination Group




Manufacturing & Telecommunication Systems Business Group

Officer in Charge

Takaaki Tuma

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



Business Overview

The Manufacturing & Telecommunication Systems Business Group provides systems development services as well as maintenance and operation services for a full range of operational processes. We cater to customers in a diverse range of industries such as manufacturing (including the automobile, electrical and electronic equipment, precision electronic equipment, food and fisheries, and pharmaceutical industries), telecommunications, and energy.

For manufacturing industries, in addition to the core systems of production and inventory management, and global supply chain management (SCM), our offerings include business support and sales management systems for strengthening business capabilities, and information infrastructure for aiding in stimulating internal communications and reforming work styles.

For the telecommunications industry, we provide customer

management operation systems that manage orders and billing for major mobile phone carriers, and for the energy industry, we develop new energy management systems through our involvement in highly specialized projects on energy policy and electricity deregulation.

Our group excels at delivering high quality services based on our wealth of operating knowledge and advanced technical prowess developed over time through our close-knit client relationships. In fiscal 2019, we will aim to achieve the management targets in the final fiscal year of the medium-term management plan. Since this is also the time to formulate and prepare for the next medium-term management plan, we will speed up initiatives to reinforce solutions services underpinning our future growth along with the commercialization of digital technologies such as AI, IoT and xR.

Core Business

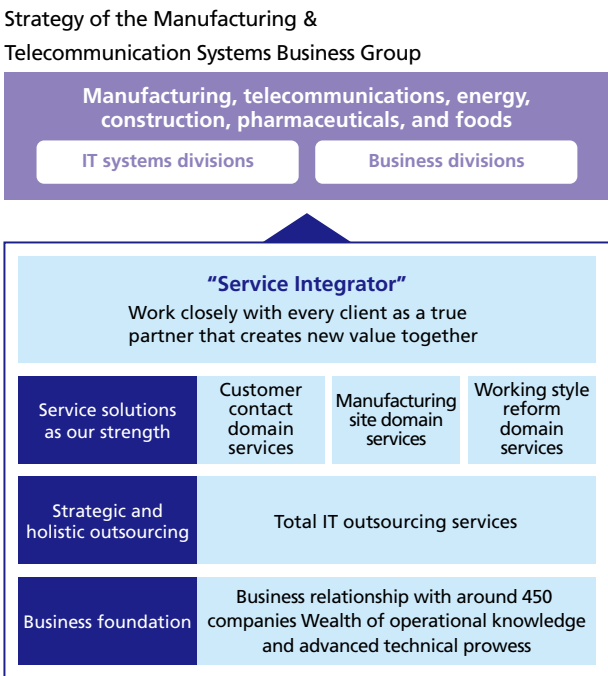
The Manufacturing & Telecommunication Systems Business Group will speed up its efforts to contribute to clients' management reforms under its policy of "establishing a solid position to support Japan's manufacturing, telecommunications and energy industries by leveraging 'services' and 'quality' unique to SCSK."

As the business climate undergoes intense change, we will work closely with each and every client and deepen our understanding of their needs so that clients can grow their businesses consistently and stably. We will also aim to become a true partner that creates new value and businesses together by working through, examining, and solving clients' management challenges.

In terms of services, we will capitalize on our group's experience and knowledge along with the SCSK Group's overall capacities to heighten our presence within clients as a "service integrator" capable of a truly wide range of operations, not just providing IT. Specifically, with our focus on the following strategic domain services, we will help clients to increase competitiveness and ensure that SCSK grows together with its clients.

- Strategic Domain Services**
- Customer contact domain aiming to utilize sales and marketing efficiently by administering all processes, from collection of product information internally to management and distribution
 - Production site domain aiming to find solutions to various issues faced on the production site by connecting data from product design to actual production results, using the production management template called atWill Template

- Working style reform domain that provides solutions based on cutting edge practical cases from SCSK's working style reforms to address Japan's declining labor population which is affecting every company in the country
- Strategic and holistic outsourcing to thoroughly raise the operational efficiencies of clients' IT system divisions and support the shift to strategic domains



Distribution & Media Systems Business Group

Officer in Charge

Atsushi Watanabe

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



Business Overview

The Distribution & Media Systems Business Group mainly provides IT solutions services specifically designed for client industries, particularly the distribution, services, and media industries.

For the distribution industry, our group provides "SUMAKURA," an integrated electronic data interchange (EDI) service, which supports system linkages for inter-company transactions among retailers, wholesalers, and consumer goods manufacturers.

In the real estate industry, we offer real estate sale

business support solutions as well as customer management solutions which tie together customer data.

For the media industry, our group provides a full range of IT support, from CRM optimization to enhancement of IT infrastructure, through our services for building sales and billing systems and providing maintenance services and network equipment for cable television companies.

As a new business venture, we are providing "CELf," a development tool for improving frontline operational efficiencies, as a cloud-based service.

Core Business

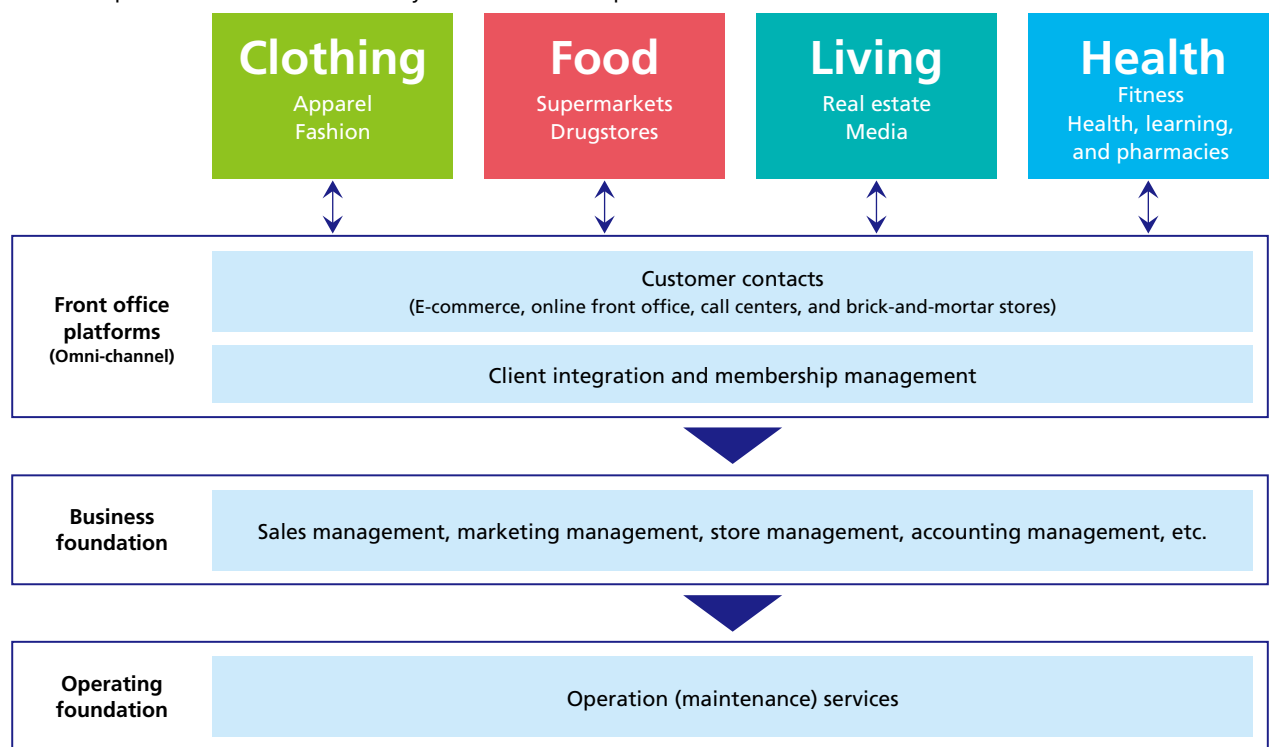
The Distribution & Media Systems Business Group is harnessing its ability to deliver a broad range of solutions to the distribution and media industries to strengthen services ranging from customer contact point services to operation and maintenance services for the domains of clothing, food, living, and health.

For the media industry, we will focus on providing the technologies and services needed for industry-wide reforms given that the barriers of telecommunications and broadcasting are falling due to the spread of new services such as online streaming services, and the industry

is considering providing solutions aimed at enhancing the customer experience (CX).

For the distribution and real estate industries, we will use our long-standing operational know-how in customer contact domains to provide comprehensive support to clients so that they can further expand the use of information obtained from various customer contact points in their business strategy and services, supporting reforms in customer contact points in the process. For the distribution industry, we will focus on promoting the e-commerce business this fiscal year.

Business Map of the Distribution & Media Systems Business Group



Financial Systems Business Group

Officer in Charge

Toshiaki Kudo

Managing Executive Officer
General Manager, Financial Systems Business Group



Business Overview

The Financial Systems Business Group offers a broad range of services, from system development, maintenance and operation to call centers and BPO for financial industry fields including banking, life and non-life insurance, securities, leasing, and credit cards.

In the financial industry, initiatives aimed at improving customer services using IT in order to differentiate one's business not only from other financial institutions but also new entrants are growing ever more expansive. These initiatives include not only conventional global expansion and the popularization of mobile internet transactions but also increasingly sophisticated customer targeting using Fintech, the revision of products and services, and the effective utilization of sales channels. With clients seeking to apply their management resources to their strategic management

challenges, we are utilizing our long-standing experience in these business fields and project management skills to promote operation-based outsourcing for the more effective and efficient development, operation and maintenance of legacy systems. Given that energizing business activities overseas is an important growth strategy for financial services companies, the Financial Systems Business Group is working with SCSK's worldwide network of offices to build a system where we play an important role as a service provider focused on local IT support.

Furthermore, through collaboration with SCSK's offices and venture capital mainly in Silicon Valley, we are working alongside clients to establish new business models by co-creating new services that capitalize on such information technologies as Fintech, AI, blockchain, and RPA.

Core Business

We will provide services focused on new financial functions compatible with a digital age by utilizing our long-standing acumen in business, while also continuing to provide a wide range of system development, maintenance and operation services for financial institutions. Our core businesses will be as follows.

First, we will aim to be a centerpiece of business that provides a full range of IT services given the move by leasing firms including Sumitomo Corporation Group companies to elevate their operations.

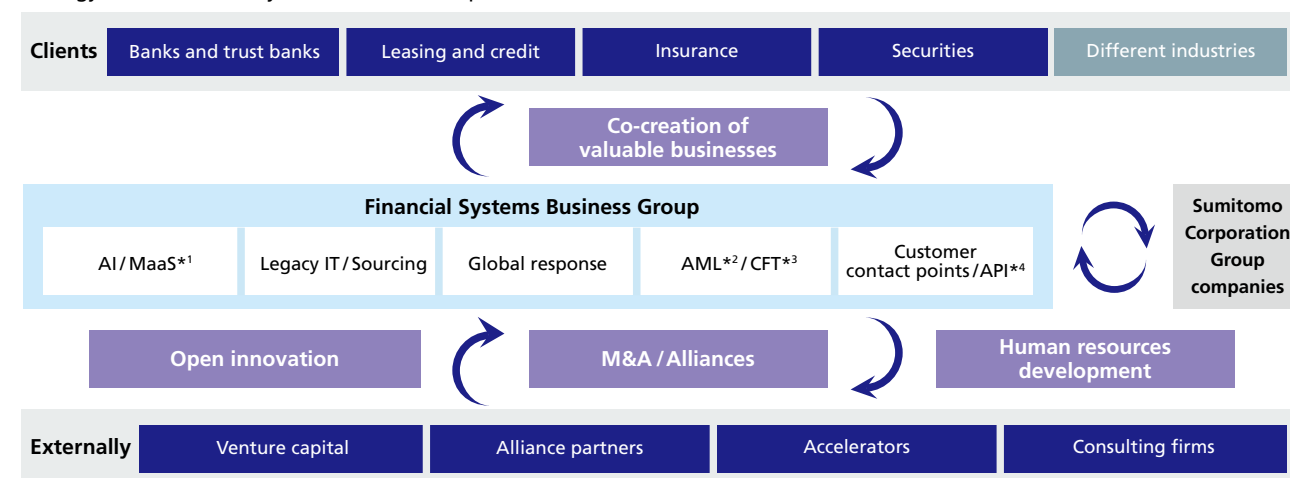
Also, we will harness SCSK's intellectual properties and services to support clients' efforts to enhance value and competitiveness by raising productivity and service level, while continuing to provide stable and high-quality maintenance

and operation services for financial institutions' large-scale legacy systems.

In addition, following the international expansion of financial institutions, we will work with SCSK's overseas offices and partner companies outside of Japan to reinforce our system capable of supporting platform systems and various financial services systems, from development to operation and maintenance, both inside and outside of Japan.

Furthermore, we will promote open innovation while working with corporate venture capital (CVC) and partner accelerators inside and outside of Japan to create new business models and develop the necessary human resources, in order to actualize business in core domains and further enhance these businesses.

Strategy of the Financial Systems Business Group



*1 MaaS: Mobility as a Service *2 AML: Anti-Money Laundering *3 CFT: Counter Financing of Terrorism *4 API: Application Programming Interface

Global System Solutions & Innovation Business Group

Officer in Charge

Kei Kato

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



Business Overview

The Global System Solutions & Innovation Business Group has eight overseas business sites spread across the four poles of SCSK USA (New York, Dallas, and Silicon Valley), SCSK EU (London), SCSK Shanghai (Shanghai), and SCSK Asia Pacific (Singapore), SCSK Indonesia (Jakarta) and SCSK Myanmar (Yangon). Our group's coverage extends to more than 100 sites in 65 countries across North America, Latin America, EMEA, China, Southeast Asia, and Oceania, providing services as a platform underpinning SCSK's global strategy. We supply Japanese companies that operate globally with core systems and infrastructure that support their global business operations.

In Japan, under our long-standing partnership with Sumitomo Corporation, we provide IT services via full

one-stop outsourcing, including the development, operation and maintenance of large-scale systems, as well as group management systems supporting the group's global management.

Outside of Japan, we support mainly clients in the finance, manufacturing, and distribution & services industries, as well as trading companies, including Sumitomo Corporation, which are globally active. In particular, we have adopted SAP S/4HANA Cloud and others for accounting systems required for starting consolidated global management, enabling their introduction in a short period of time as global shared-use platforms.

At our hub in Silicon Valley, through relationships with start-ups and various partners we are discovering new IT products and promoting R&D as an antenna of the cutting-edge technologies underpinning digital transformations.

Core Business

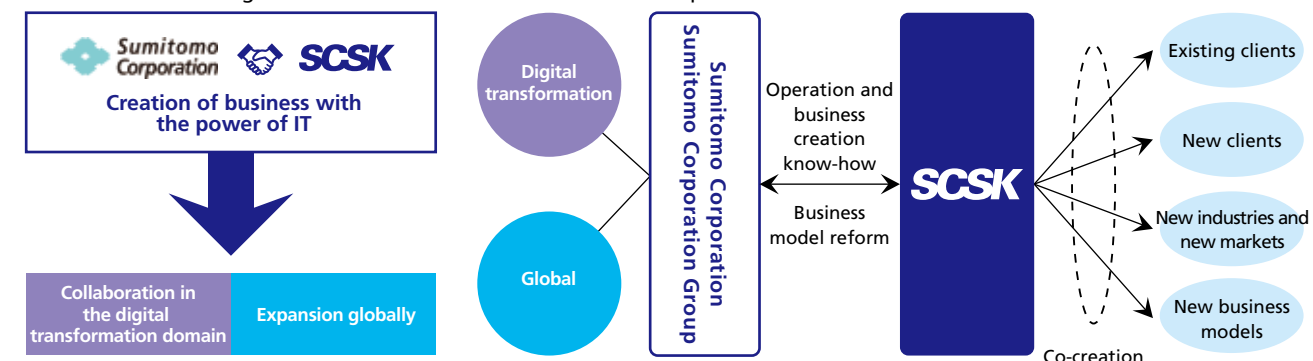
The Global System Solutions & Innovation Business Group has established the major goal of causing innovation with inventiveness and the power of IT, while creating an exciting picture of the future. Starting in fiscal 2018, we launched efforts in a partnership with Sumitomo Corporation to build a new business model using digital transformation.

From fiscal 2019, we will work with clients to create real new business and contribute to clients' further business growth by using our experience gained through proof-of-concept (PoC) in various sectors and fields along with company-wide knowledge, intellectual properties and network.

In terms of SCSK's global strategy, we will expand the number of overseas business sites and seek to increase

our support capabilities outside of Japan in consulting and service provision, with the goal of further expanding our platforms supporting clients. We are focusing on expanding our presence so that Japanese companies with aspirations to expand their businesses in the consumer region of Asia can gain a greater foothold. We will provide support to client businesses in a timely and pinpointed manner, while utilizing wide-reaching alliances with local partners. By expanding the services we offer to global companies, our group aims to support SCSK's efforts to expand its functions and domains as well as support clients in a satisfactory way as their comprehensive global IT partner.

Business Growth through Increased Collaboration with Sumitomo Corporation




Business Solutions Group

Officer in Charge

Hideki Tazai

Managing Executive Officer
General Manager,
Business Solutions Group



Business Overview

IT for maintenance of legacy systems or increasing operational efficiencies is seeing lower costs and greater standardization. On the other hand, IT for pushing a company ahead through business model innovation, new product development or client development now demands greater differentiation and a faster pace. As a result, IT service vendors need to strike the right balance for the shift from defensive IT investment to proactive IT investment to help evolve clients' businesses.

Core Business

The field of ERP, which serves as a platform operating system, is expected to see robust market growth centered on the shift to SaaS. The Business Solutions Group provides integrated services spanning from smooth system migration for clients introducing ERP to add-on development matched to defined operations, and maintenance services to ensure clients are able to use their ERP with ease over the medium to long term.

We offer SCSK's original Add-Value series delivering total services for the introduction of SAP S/4HANA, an ERP product by SAP. We will also enhance automation components with RPA and expand solutions for optimization from the perspective of not only systems divisions, but also user divisions that actually use ERP.

We plan to evolve SCSK's original ERP package called ProActive into products and services that contribute even more to clients' businesses and operations, by using BPO and linking up with AI-OCR, among others, as well as migrating

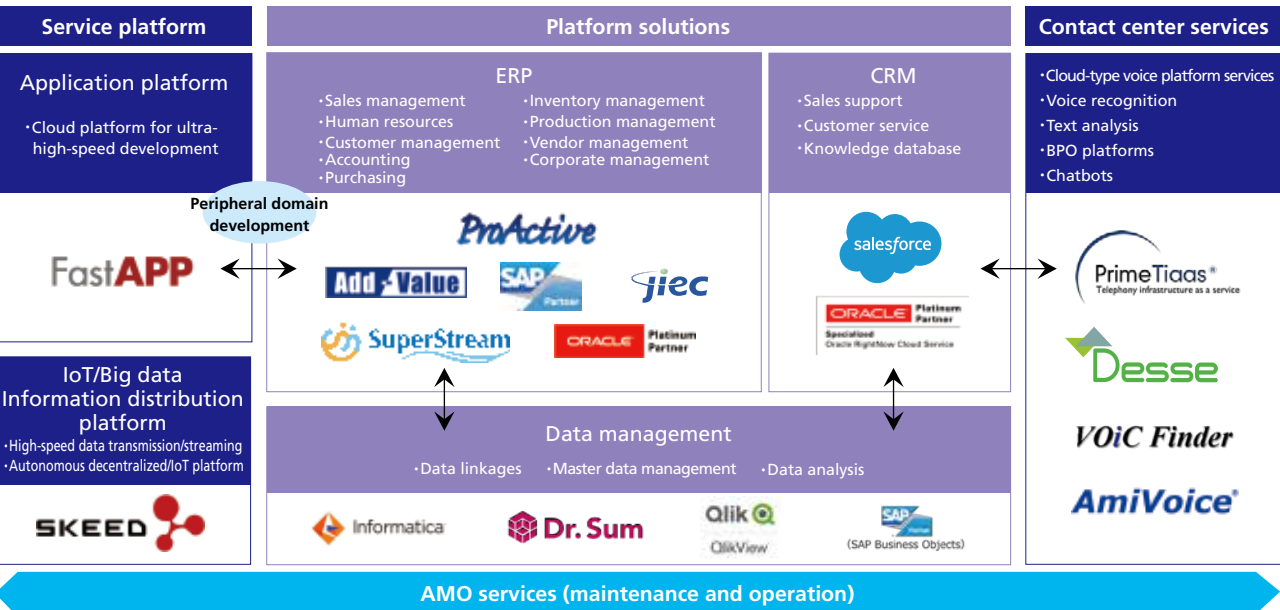
The Business Solutions Group delivers an integrated line-up of services from system introduction to customized development, operation and maintenance, with a focus on standard IT products and SCSK's original products covering every domain. In addition to stable functions and quality, we provide solutions that contribute to the business of clients from various sectors and business lines through medium- to long-term support.

to a business service provision model using enhanced SaaS.

In the contact center field, we will help build next-generation contact center platforms compatible with today's digitalization and multichannel solutions, by revamping SCSK's original voice platform called PrimeTiaas.

We will achieve a balance between optimization of contact center operation costs and increase in customer satisfaction by seamlessly linking multichannel customer contact points using SCSK's platforms, which include self-services for resolving issues using an AI chatbot, manned response by operations via email or chat, and premier voice response services requiring advanced specialization or complex communication. We will provide optimized contact center services tailored to clients' business lines and challenges through linkages with SCSK ServiceWare for facilitating the BPO business, including contact center operations.

Solutions Map of the Business Solutions Group



Mobility Systems Group

Officer in Charge

Makoto Nakamura

Managing Executive Officer
General Manager,
Mobility Systems Group



Business Overview

The Mobility Systems Group provides services and products related to the development of automotive software systems aimed at clients in the automotive industry.

We offer a broad range of solutions for the software used for the Electronic Control Unit (ECU) that controls a vehicle's onboard electronics. These solutions include development of embedded software using model-based development, provision of proprietary middleware (QINeS-BSW), software testing, and process improvement.

Core Business

Currently, the automotive industry is undergoing a once-in-a-century shift not witnessed since the first automobile was made. This era is described using the acronym CASE, which stands for connectivity, autonomous, shared & services, and electric, and are all occurring simultaneously.

In this business climate, we are building platforms for next-generation automotive software systems and development structures that support these systems, in order for our automaker and supplier clients to prepare for the new era ahead.

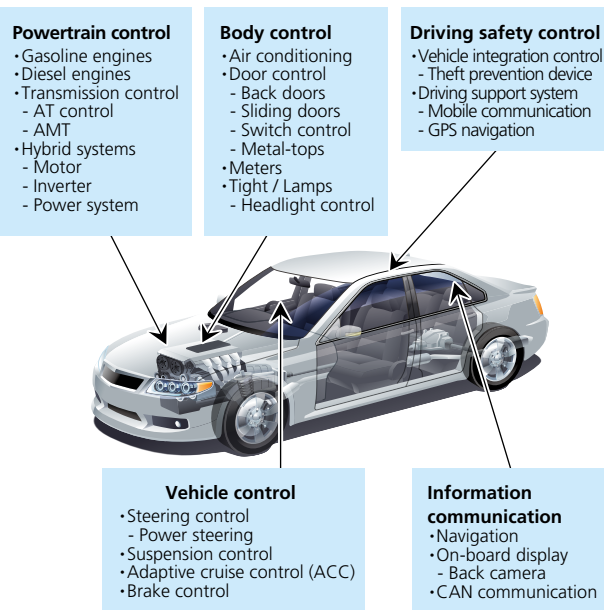
The Mobility Systems Group will provide products and services that connect seamlessly with model-based application development and implementation in each product domain, which is required for linked systems in the CASE era, by offering one-stop solutions to clients, from development environment and platform building to

The Mobility Systems Group has been developing automotive software systems for more than 35 years with a track record in many domains. During this time, we have also built strong relationships with clients by providing high quality output using specialized technologies such as A-SPICE, function safety, and AUTOSAR, as well as our high quality and efficient development processes honed to date. We will continue to help clients in the automotive industry to grow their business by using our long-standing know-how and credibility.

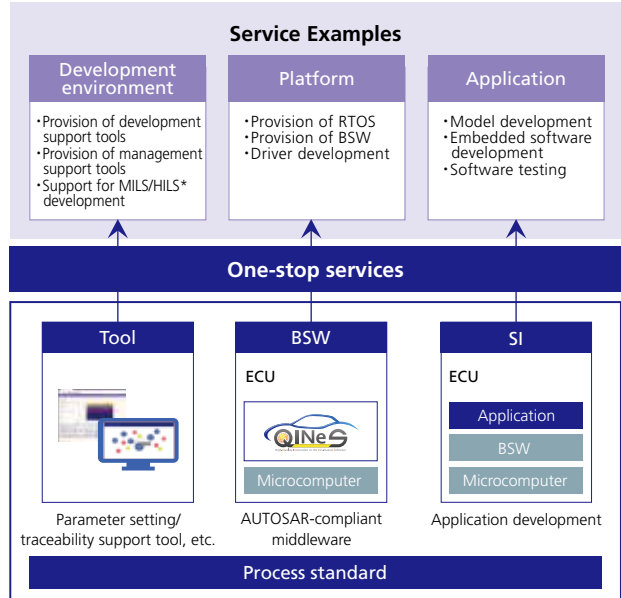
application development. Furthermore, we will assist clients with increasing the efficiency and level of their development work by building a uniform high-quality development system at our domestic hubs including nearshore offices, in addition to providing services on-site at clients' offices.

During this CASE era, automobiles will soon become an IoT device that communicates with the world around it, and as such, we anticipate that the business model for automotive solutions will undergo significant changes. With this future in mind, the Mobility Systems Group will continue to actively create new services, with an eye on partnerships with clients as well as industry-academia-government, under the slogan "creating the future of mobility society together," in order to expand integrated processing and cloud-linked services outside the vehicle, which will realize CASE.

SCSK's Development Track Record in Automotive Software Systems



Integrated Services Combining Apps and Platforms



*MILS: Model In the Loop Simulation HILS: Hardware In the Loop Simulation

IT Platform Solutions Group

Officer in Charge

Takashi Shinjo

Managing Executive Officer
General Manager,
IT Platform Solutions Group



Business Overview

The IT Platform Solutions Group offers product sales, development and support in the six main product lines of “network equipment,” “security,” “servers / storage,” “middleware,” “CAD / VR,” and “analysis solutions.”

These product lines offer a cutting-edge and unique lineup carefully selected through SCSK’s overseas subsidiaries

and the Sumitomo Corporation Group’s global network. We will coordinate and tailor this extensive lineup and our group’s engineering skills and know-how to client challenges to pave the way for real solutions, improving client satisfaction and expanding the business of the entire group.

Core Business

The IT Platform Solutions Group will expand our product line-up in the IT infrastructure market for promoting companies’ digital transformation.

Amidst this, we will turn our attention particularly to the middleware field, while focusing on automation, AI, and container*¹ in in fiscal 2019. Also, we will continue efforts in security equipment for addressing growing security risks, network equipment that supports “working style reforms” with IT infrastructure, and support service platform CarePlus.

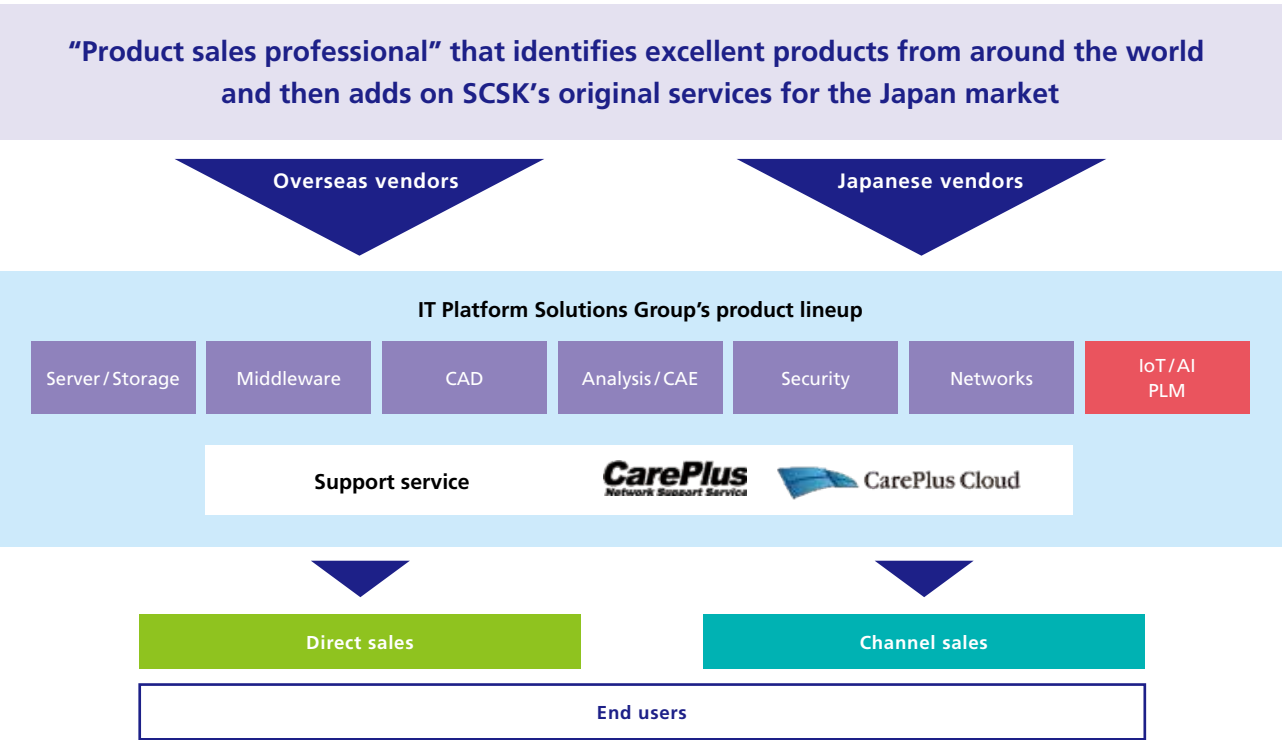
In the field of manufacturing, we will provide cutting-edge technology products and high-grade technology services, such as PLM*² and HPC*³ powered by digital engineering technologies, in addition to our conventional focus on analysis solutions, CAD and VR. In manufacturing industry

processes, we will offer platforms that connect real life and virtual reality in a speedy manner to support high quality manufacturing that does not rely on seasoned workers and that can address the future challenges of the manufacturing industry in terms of globalization.

As a new initiative, we will tackle the challenge of creating solutions and services powered by new technologies such as AI and IoT in order to establish new business fields for our group.

*1 Container is a one technology for realizing virtualization in quicker manner compared to conventional virtual machines. It also operates at a faster speed. Moreover, it can be easily relocated to other infrastructure environments.
*2 PLM stands for Product Lifecycle Management. PLM manages all process throughout the product life cycle using IT, resulting in innovative development processes as well as more efficient operations and enhanced competitiveness.
*3 HPC stands for High-Performance Computing. HPC is a large-scale and high-performance computer systems that can calculate vast amounts of data at a high speed.

Business Model of the IT Platform Solutions Group



IT Management Group

Officer in Charge

Tetsuya Ueda

Managing Executive Officer
General Manager,
IT Management Group



Business Overview

The IT Management Group is comprised of three businesses: “platform integration business,” which constructs IT system platforms; “on-premise business,” our on-site operation service, which supports everything from IT strategy planning to IT operation from the client’s perspective; and “data center business,” which protects important data via robust security features.

We respond to the diverse needs of clients using service integration that combines individual services from each business in an optimal manner. In addition, to flexibly address the challenges clients face at their overseas offices, we are stepping up collaboration with SCSK’s subsidiaries outside of Japan. These integrated services administered by each business and hub resolve client challenges in a prompt manner.

We help clients create value through the following three

Core Business

The philosophy of the IT Management Group’s business in terms of IT infrastructure that has the greatest impact on client companies is clearly shifting to “cloud-first” solutions. The trend to utilize cloud solutions, which are superior in many ways, such as asset-free management, response to the speed of change, and introduction of latest advanced technology, is picking up speed. This helps clients to enhance corporate value, boost competitiveness and grow their business.

Among the first to identify this move to cloud solutions, the IT Management Group has focused on USiZE, SCSK’s original cloud service. Based on our long-standing technology and services, we are now setting ourselves apart from competitors by enhancing connectivity with other cloud vendors to incorporate the services of these vendors into our solutions.

In addition, we will expand service offerings by continuing to invest in USiZE while also focusing on investing in human resources who can help deepen collaboration with other vendors’ cloud services. What’s more, we are expanding our cloud-based infrastructure development business by developing container engineers who will play an integral role in this future development along with Infrastructure as Code (IaC) training that seeks to raise efficiencies.

Furthermore, we will expand cloud service integration to provide services more in tune with clients’ needs or with an eye on the future, by enhancing our judgement ability and technical prowess combining various data and services provided over a cloud-based infrastructure, while working closely with business divisions covering other sectors.

At the same time, we are honing our technologies and systems for operating this infrastructure in a safe, reliable

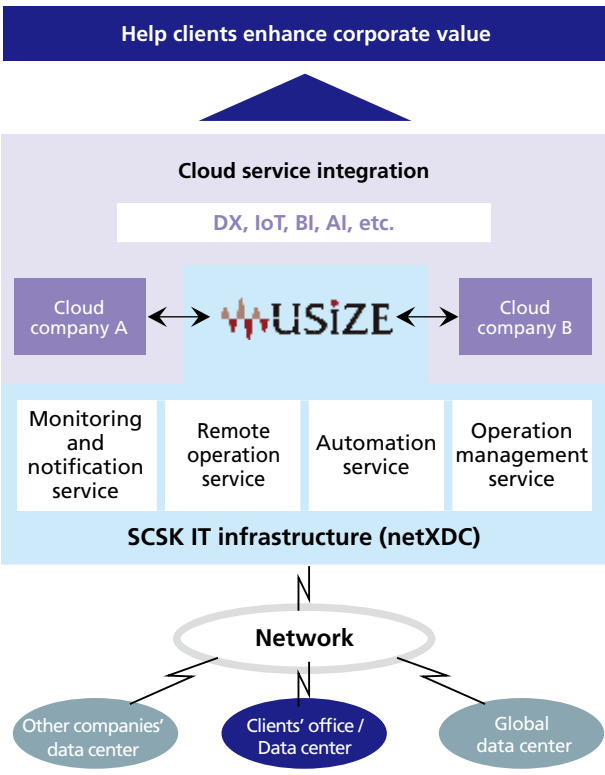
key phrases: “‘verification’ of stable IT services” where we use proprietary mechanisms to visualize various issues, “‘realization’ of continuously evolving IT services” where we strive to improve clients’ system operation quality, and “‘provision’ of IT services that generate client value” where we understand clients’ vision for value and pave the way to realize this vision.

The IT Management Group comprehensively supports the optimization of clients’ entire IT system platforms, from planning and construction to operation, management, and the proposal of improvements, via sophisticated management services. Through our IT services, we support our clients in mitigating management risks and enhancing corporate value.

Core Business

and low-cost manner. We are able to connect client offices and data centers, other companies’ data centers, and data centers located globally around SCSK’s netXDC data center for 24-7-365 operations similar to a single seamless entity using remote operation services and automation services.

Business Model of the IT Management Group



Management Resources

42 Human Resources Enhancement

- Basic Approach
- Human Resources Development
- Working Style Reforms
- Diversity / Work-Life Balance
- SCSK's Human Resources Strategy

45 Strengthening Technological and Development Capabilities

- Initiatives for Enhancing Technical and Development Capabilities
- Initiatives for Improving Operational Quality

47 Strengthening of Relationships with Business Partners

- Basic Approach and Action Policy
- Collaboration with Partner Companies

49 Reinforcement of Customer Base

- Basic Approach
- As a Reliable IT Partner

51 Promotion of Environmental Management

- Message from Our Environmental Officer
- Management of Climate Change Issues
- Environmental Action Plan
- Climate Change-Related Risks
- Third-Party Verification and Assurance
- Examples of Strategic Measures at Data Centers

We are creating a workplace environment where employees are excited about work and can fully harness their skills.

Basic Approach

For SCSK, the development of talent that can find solutions to customer and social issues through the creation and provision of high-value-added IT services represents a critical ingredient determining corporate value.

SCSK defines ideal talent as human resources who embody the Corporate Philosophy, human resources with outstanding mindset (positive human qualities), and human resources who keep growing proactively and continuously. We are now working hard to develop this kind of talent in-house. Furthermore, as our guiding policy for enhancing our human resources, we are focusing on cultivating creativity, building knowledge of IT and business, and developing an environment that encourages autonomous growth, under the slogan "expand and deepen knowledge and technology."

In addition to our human Resources development system, we have worked on realizing efficient working styles through working style reforms and building an environment where every one of our employees can fully contribute their skills. We are promoting initiatives for developing and harnessing the abilities of our diverse workforce, including rolling out the second Job (*Smart Work Plus*) program as an opportunity for employees to further expand their knowledge through various experiences.

Looking ahead, with the belief that the growth of our people will lead to the growth of the company, we will develop mechanisms that enable the autonomous growth of our employees and aim toward becoming a company with a pleasant and rewarding workplace.

Human Resources Development

Human Resources Development Program—SCSK i-University

SCSK i-University is a framework for providing all employees with opportunities for continual growth and learning. It represents a training program as well as a company-wide integrated human resources development program that includes systems and infrastructure for supporting active communication using the SCSK Learning Park. This program is used as a foundation to support the growth of each and every employee.

SCSK i-University

Learning and growth	Shared company-wide	Career development	Leadership development
	Division-specific	Specialized skills development	Basic business skills development
Communication		•Supplementing company-wide training •Development of skills unique to each business division	
Mechanisms and infrastructure		•Job category-based communication workshops •Workshops for departments in charge, divisions, and workplaces, etc. •Remote participation (training) •On-demand (e-learning) •SCSK Learning Park (training facility) •MA-N@vi (Learning Management System) •ProActive (HR management system)	

Diverse Career Development and Talent Building

Kotsukatsu—Supporting Self-Development

As we move toward a truly aging society, we must prepare for an era of longer working and longer learning as well as adapting to intense changes driven by technology. At SCSK, we have been implementing *Kotsukatsu* since fiscal 2017 as a way of promoting self-development among all employees, guided by the notion that steady effort is the key to success.

Kotsukatsu aims to build a mechanism for employees to motivate one another by encouraging independent learning (self-development) and sharing, in order to foster a learning culture, following working style reforms and health and productivity management. Outcomes from self-led learning activities outside of work that contribute to one's growth as a businessperson are shared as *Kotsukatsu*. The details of these activities are then published in a compilation internally to support the independent learning activities of every individual.

Second Job Program (*Smart Work Plus*)

SCSK instituted a Second Job program called *Smart Work Plus* in January 2019 with the objective of helping employees to broaden their experience and knowledge outside the company and to build new business connections. This program respects diverse working styles by allowing employees to work a second job or perform freelance work. It also provides the opportunity for talent from outside the company with advanced expertise to freelance at SCSK. The aim is to use their knowledge for new value creation, such as creating innovation at SCSK or pioneering new businesses.

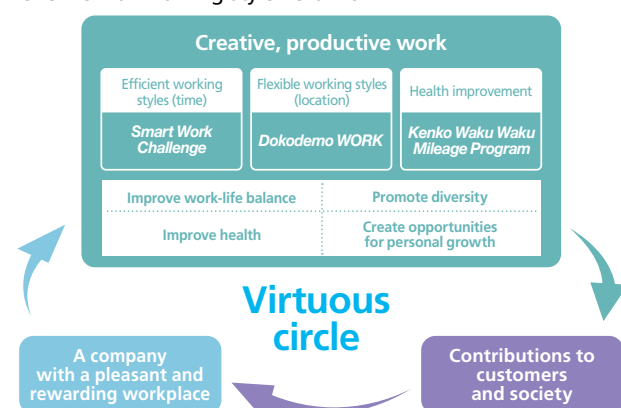


Working Style Reforms

Creating a Virtuous Circle through Working Style Reforms

SCSK has rolled out the *Smart Work Challenge* (efficient working styles), *Dokodemo WORK* (flexible working styles), and *Kenko Waku Waku Mileage program* (health improvement) initiatives in an effort to become a company with a pleasant and rewarding workplace. We can only provide the best services that make our customers happy and impressed if our employees are mentally and physically healthy, take pride in their work, and can deliver their best performance. We believe that this value produces a virtuous circle that can boost both the growth of the company and returns to stakeholders.

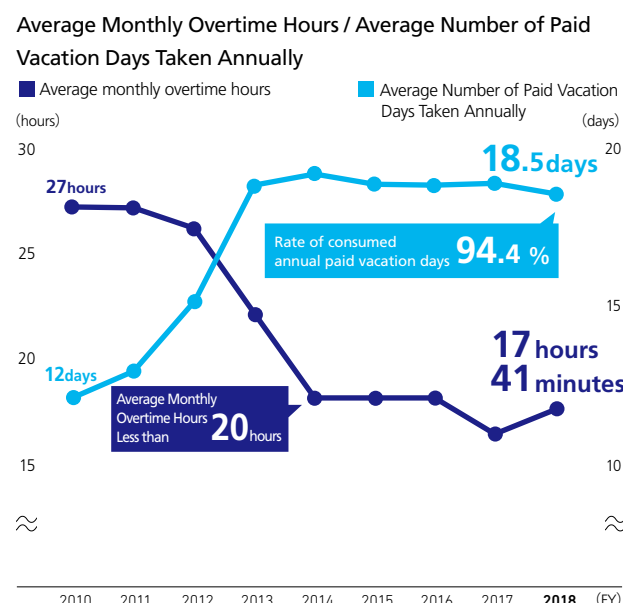
Overview of Working Style Reforms



Smart Work Challenge

In April 2013, we launched an initiative called *Smart Work Challenge 20** with the goal of reducing overtime work and encouraging employees to take paid vacation. Under this measure, each department has taken the lead to boost operating efficiencies and introduced a number of solutions of their own, such as returning the amount of overtime pay reduced back to employees in the form of an incentive or offering extra leave to support employees in unforeseen circumstances. By promoting a reduction in overtime and the use of paid vacation days together, we were able to significantly improve both simultaneously.

* Name changed to *Smart Work Challenge* in fiscal 2015.
 The incentive was eliminated in fiscal 2015 in favor of a monthly stipend.

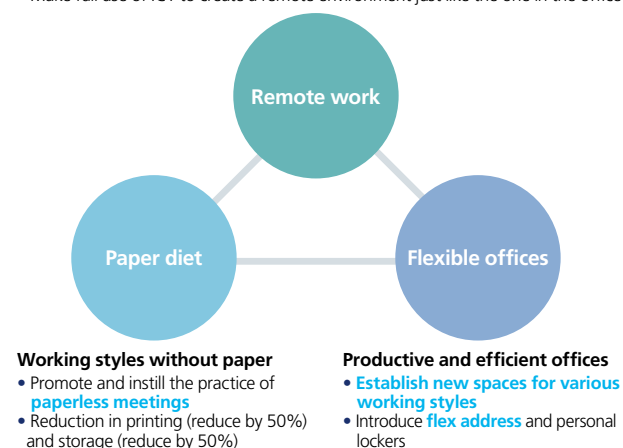


Creating New Working Styles with Dokodemo WORK (Work Anywhere Project)

SCSK launched *Dokodemo WORK*, an initiative to establish and practice new working styles enabling employees to work anytime from anywhere. *Dokodemo WORK* includes the three main measures of remote work, paper diet and flexible offices. The initiative was phased-in on a trial basis beginning in fiscal 2016, leading to the eventual company-wide rollout in fiscal 2017. Going forward, we will make further improvements to the mechanisms and environments in an effort to promote the mindset of focusing on results and not time or workplace.

Conceptual Diagram for Dokodemo WORK

- Working style not based on one's assigned desk**
- Employees able to work from home or at a satellite office two to three times per month
 - Make full use of ICT to create a remote environment just like the one in the office



Diversity / Work-Life Balance

Promotion of Women's Empowerment in the Workplace

We are working on human resources development and working style reforms to become a company where female employees can play a more dynamic and active role. We have addressed prolonged working hours which have become a major obstacle to women's empowerment. We have set a goal to have a combined total of 100 female executives and line managers to encourage the greater involvement of women in the workplace. We also support women's career development through training focused on challenges faced by women of each generation.

Leveraging the Skills of Seniors

With the population of seniors expected to increase rapidly in the future, we introduced the program for full-time employment of seniors in July 2018 to develop an environment where seniors can continue working until the age of 65. This system has allowed us to create an environment where seniors with a wealth of knowledge and experience can play an active role with greater peace of mind, as well as further enhance opportunities for them to tackle challenges in work suited to their abilities and offer compensation rewarding their contributions.

Comment from a Senior Playing an Active Role

Continuing my involvement in rewarding work in the same setting as before

Akihiro Kokufuda
 Assistant General Manager,
 Business Promotion Division
 IT Platform Solutions Group



I was rehired by the company as a full-time senior employee after mandatory retirement last December. I'm mainly in charge of developing engineers at the IT Technology Center (ITEC) inside the IT Platform Solutions Group. I really enjoy my work and the positive workplace environment, which is the same as before I retired. Essentially, nothing has changed.

Most of the engineers within the IT Platform Solutions Group are specialist engineers linked to product sales (I-class engineers). We are now building a development program unique to ITEC and fostering environmental improvements in order to build the skills of these I-class engineers into T-class engineers (talent with broad knowledge complementing a specialized domain). Although results are not immediate, I find this line of work to be very rewarding.

Looking ahead, in addition to talent development, I would like to support building a more comfortable work environment for engineers by improving their standing and workplace.

I'm strongly committed to engineers even now, so look forward to working until the next mandatory retirement at age 65, while keeping my eyes open to various fields, learning exciting new technologies, and receiving the support of those around me.

SCSK's Human Resources Strategy

Building appealing workplaces where all employees can thrive

Akihiko Harima
 Senior Executive Officer
 General Manager, Human Resources Group



At SCSK, under our corporate philosophy "Create Our Future of Dreams," we aim to become a company with a pleasant and rewarding workplace based on our promise of respecting each other. Toward this end, we are pursuing health and productivity management based on the notion that the health of employees forms the basis of everything we do.

Through our human resources measures to date, we have worked toward increasing productivity by reducing total working hours and increasing operational efficiencies, achieving diverse working styles, fostering awareness of health, establishing healthy habits, and creating a culture of learning. We will continue to develop attractive workplaces that respect diverse

values and where all employees can contribute their skills and special qualities over the long term with peace of mind in an effort to secure and retain talent. By investing in and developing our people with an eye toward more diverse, sophisticated and global operations, we aim to become a group of professionals capable of sustained value creation using our rich spirit and intellect geared toward self-led growth. This will also empower business reforms and our future growth. Looking ahead, we will solidify our position as a company that fully exercises our employees' potential and work toward human resources management that balances the sustainable growth of business with the future dreams of employees.

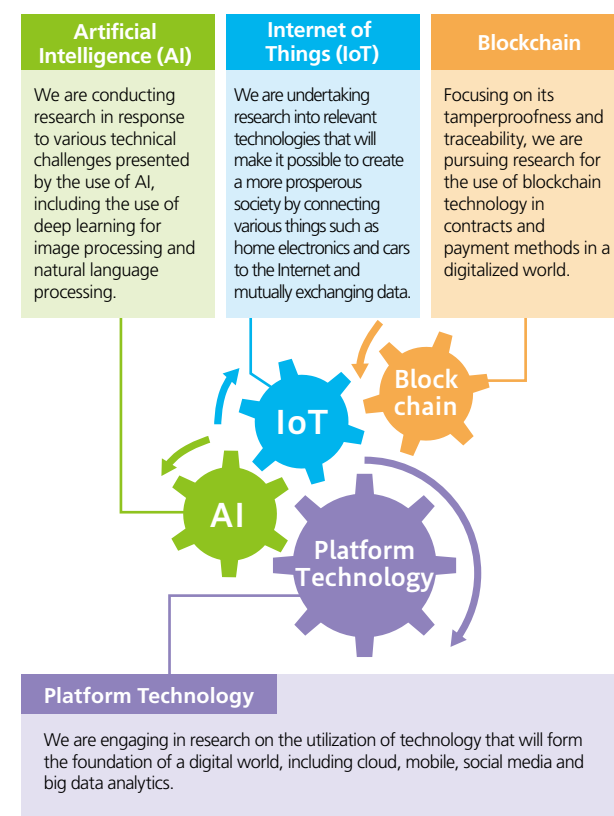
SCSK is responding to advances in digital technologies and raising the quality of project management.

Initiatives for Enhancing Technical and Development Capabilities

R&D for Digitization

Industries and people's living environments have undergone a variety of changes brought about by the popularization of technologies forming the foundation of a digitalized society, such as cloud, mobile, social media, and big data analytics, as well as new forms of AI such as machine learning and deep learning. Today, we are moving toward a more digital world that further integrates IT with our lives and company activities through IoT and blockchain, among others.

Focusing on technical trends causing such transformations, SCSK is investigating and examining leading-edge advanced technologies to address challenges such as sophistication and next-generation of IT environments, spearheaded by our R&D organizations. At the same time, SCSK is tackling commercialization research for enhancing and transforming our own products and services.



Technoco—A Hackathon for Cultivating Self-Led Talent in IT

To cultivate self-led engineers able to underpin SCSK's technologies as well as always keep an eye out for new technologies and trends, adapting accordingly, we hold

a hackathon called *Technoco* as a venue for SCSK Group employees to tackle the challenges of new technologies that are outside of their normal work duties. Employees from varying departments, jobs, and age groups form teams on the spot and then dedicate the next two days to developing an application. At the end of the event, teams give a demonstration to highlight how their application is used and the solutions they used. Winners are then selected based on judges' scoring.

Also, many employees attend the *Technoco Village* lightning talks held at various locations within the SCSK Group. At these talks, employees take the initiative in discussing and sharing the results of their daily research and topics of interest to foster a sense of learning independently.

In addition, we also hold joint events with peers in the same industry who endorse SCSK's initiatives.



Technoco (Hackathon) at Tama Center's Learning Park Technoco Village lightning talk

Initiatives for OSS

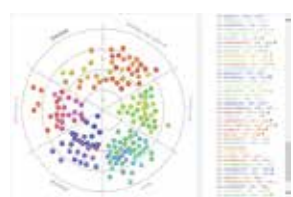
OSS is now being widely used by various systems, making itself an important element of IT platforms underpinning corporate systems and social infrastructure. At SCSK, we are working to promote the development and greater use of OSS from both usage and development / operations standpoints. At the same time, we are also actively building relationships with the community by holding workshops for OSS users involving OSS experts and other means.



Workshops for OSS Users

OSS Radar Scope

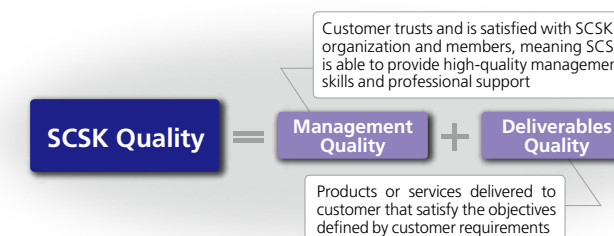
We rank the results of OSS evaluations according to SCSK's own criteria and map them on a radar chart, which provides a general idea of utility when selecting OSS.



Initiatives for Improving Operational Quality

SCSK's Philosophy on Quality

SCSK believes that customer satisfaction is the top priority when it comes to the quality provided by products and services. Accordingly, it is essential to improve the quality of operations in terms of both management and deliverables. We refer to the combination of these two types of quality as "SCSK Quality."



Delivering Greater Operational Quality with SE+

Starting in fiscal 2012, SCSK introduced process standards called "SmartEpisode Plus (SE+)" for project management and system development. SE+, which combines our long-standing frontline expertise, focuses on the quality of systems and services and contains the necessary basics and points for carrying out daily operations. SCSK utilizes SE+ for project management that ensures a consistent level of quality.

Visualizing Project Status with "SE+ (Navi)"

The projects SCSK implements are becoming larger in size and more complex as business grows. As a result, we developed SE+ (Navi) as a platform for project management based on SE+ and introduced it from fiscal 2016, with the goal of visualization and streamlining of project implementation.

SE+ (Navi) visualizes the status of a project, including quality and profitability, and results of various checks, which enables line managers to facilitate the project and senior management to make decisions quickly.

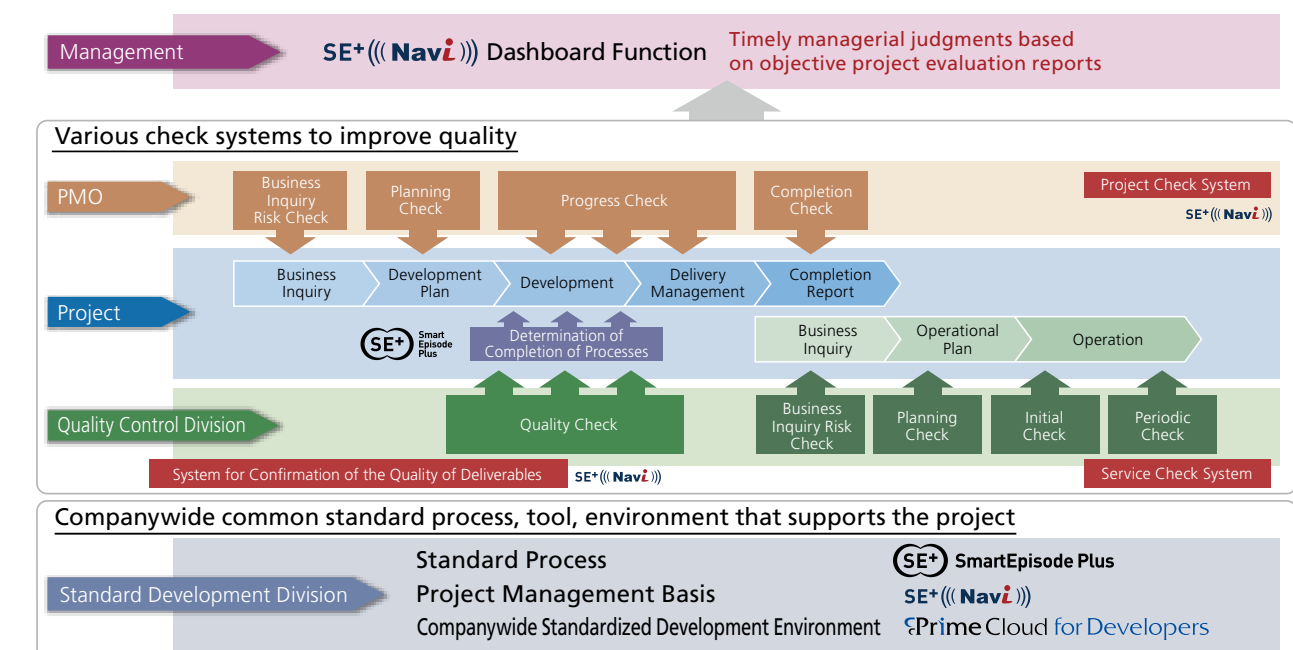
The adoption of SE+ (Navi) provides comprehensive visualization of development processes and project statuses, resulting in further improvements in development quality and productivity.

Framework Supporting Quality on a Companywide Basis

In addition to general quality control processes implemented in projects, we promote companywide quality improvement activities developed from a third-party perspective, such as Project Management Office (PMO) and quality control divisions, etc. Through these activities, we are raising quality throughout the entire period of projects and across the organization.

As a result, we are now better able to curtail unprofitable projects and ensure that quality checks and quality reports are prepared, leading to enhanced competitiveness through higher quality.

Framework Supporting Quality on a Companywide Basis



Through tie-ups with partner companies, we are working to enhance quality and productivity as well as usher in working style reforms.

Basic Approach and Action Policy

Promoting Initiatives Together with Partner Companies

In conducting its business, SCSK subcontracts tasks to various partner companies. Based on our Corporate Philosophy and Code of Conduct, we comply with laws and internal regulations and strive to provide safe and secure IT services with a commitment to fair and sincere business transactions with our partner companies.

As a company that handles the important information assets of customers, SCSK is committed to strengthening information security and ensuring thorough compliance together with its partner companies. Furthermore, we are working to improve operational quality and productivity, while pursuing working style reforms, including reforms at our partner companies who underpin our services, in order to provide a higher level of IT services.

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

Going forward, we aim to develop the IT industry into a more attractive industry by taking the lead in pursuing initiatives for addressing social issues in the supply chain in unison with our partner companies.

Purchasing Guidelines
<p>Challenge</p> <ul style="list-style-type: none"> • Aim to always improve quality and productivity through purchasing activities • Implement working style reforms together with partner companies to create an IT industry that attracts people <p>Commitment</p> <ul style="list-style-type: none"> • Comply with laws and social norms and carry out purchases with due consideration to social responsibilities • Build an effective and efficient supply chain fully mindful of sustainability <p>Communication</p> <ul style="list-style-type: none"> • Strive to build mutual understanding and trust through dialogue

Initiative Themes
<p>Operational Quality and Productivity Improvement</p> <ul style="list-style-type: none"> • Development and management standardization (SE+, etc.) • Collaboration from upper processes • Promotion of subcontracting <p>Working Style Reforms / Health and Productivity Management</p> <ul style="list-style-type: none"> • Sharing of health and productivity management measures / initiatives • Tracking of shared indicators <p>Ensure Compliance</p> <ul style="list-style-type: none"> • Enhancement of information security • Strict observance of laws related to outsourcing

Building Relationships through the Core Partner Program

SCSK designates main partner companies that help it achieve higher quality and productivity and engage in continuous and stable transactions as core partners. We share SCSK's business policy with these core partners so that they engage in business transactions with an understanding of the direction of our business.

We mutually assess each transaction with our partner companies in an effort to improve operational quality. In addition, we constantly work to build relationships with partner companies, which includes holding meetings on working style reforms to exchange information.

At the Core Partner Conference held annually, executive management from SCSK and its core partners meet to share information and network.

Through these initiatives, we are working hard to build trust with our core partners.



Core Partner Conference

Collaboration with Partner Companies

Improving Quality and Productivity

SCSK works continuously with its partner companies to constantly improve quality and productivity. By rolling out SCSK development standards (SE+) at partner companies, we are able to achieve stable system development, maintenance and operation. We are now undertaking initiatives aimed at a more advanced development and operation environment, which includes Low-Code No-Code development and systems that do not require infrastructure building or people in operation management, under the code name "software engineering innovation."

We are also promoting subcontracting to move away from our conventional business approach reliant on partner companies for resources. This is based on our belief that shifting to a business approach focused on collaboration with partner companies and requesting work of partner companies as subcontracting starting with upstream processes will enhance quality.

As a new measure starting this fiscal year, we are conducting mutual evaluations of individual projects together with core partners. The results are then analyzed and utilized to continuously improve quality and productivity.

Working Style Reforms / Health and Productivity Management

SCSK has promoted working style reforms together with partner companies in order to create an IT industry that attracts people.

Specifically, we share average overtime hours, Rate of Consumed Annual Paid Vacation Day and other indicators with core partners as well as present each company's detailed initiatives and results, which is helping us move toward more employee-friendly workplaces.

One outcome in fiscal 2018 from these initiatives was that the overtime hours of temporary workers fell below that of SCSK's permanent employees. In addition, the Rate of Consumed Annual Paid Vacation Day at core partners also rose. This indicates that our working style reforms are becoming steadily more entrenched at our partner companies.

Going forward, we will promote initiatives for working style reforms together with partner companies and continue endeavoring to make the IT industry a more worker-friendly and appealing place to work.

Thorough Compliance

SCSK requires that its partner companies fully comply with its Information Security Guidelines when they handle important information assets of its customers. We check compliance by regularly using confirmation sheets and field audits to provide guidance and ensure issues are corrected.

We also hold briefings to enhance information security and compliance not only inside the company, but also at our partner companies. Going forward, we will continue working to ensure robust information security and compliance so as to earn the trust of customers and society.

Comment from a Partner Company

Engaging in working style reforms together with SCSK

Masayuki Suzuki
CEO, PSC Inc.



PSC's philosophy since its founding has been "3S for all customers." This means that our most important value in our work is for all employees to contribute to the success, satisfaction and smiles of our customers.

First, however, employees must realize the 3S for themselves before they can provide it to all customers. We also recognize the importance of our employees' mental and physical wellbeing. As a result, we have worked on health and productivity management, following the example of SCSK.

Looking ahead, we will strive for working style reforms together with SCSK more actively than before so that we can be a company that brings smiles to its customers and employees.

TOPICS

Supply Chain CSR Policy

SCSK recognizes its social responsibilities in the supply chain in order to carry out purchasing activities considerate of CSR, and has formulated the Supply Chain CSR Policy. We will share this approach with our partner companies, while gaining their support and understanding, and work together on solutions to social issues.

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



For further details, please see our sustainability website.
https://www.scsk.jp/corp_en/csr/partner/index.html

SCSK is working to create new value together with clients as a strategic IT partner.

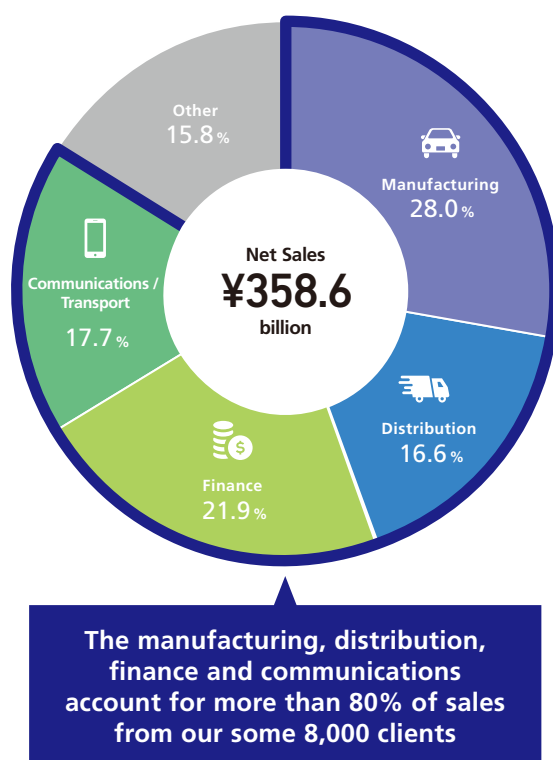
Basic Approach

Providing IT Services Truly Needed by Clients

For many years, SCSK has provided IT services to a broad range of industries, mainly manufacturing, distribution, finance and communications. Our strength can be found in our solid customer base covering major corporations in these industries along with various operational know-how and technologies that meet the unique needs of these industries when it comes to IT services.

These four industries account for some 80% of SCSK's 8,000 client companies. Through continually fulfilling their IT needs, we have developed a strong understanding of their strategies and operations and established solid relationships based on this knowledge. Through these relationships, we are able to listen to the voice of clients and understand their needs. This positions us to harness the overall capacities of the SCSK Group in providing a host of IT services to clients so that we pursue and deliver the true added-value needed by clients.

Net Sales Broken Down by Client Industry
(Fiscal Year Ended March 31, 2019)



As a Reliable IT Partner

Toward a Strategic IT Partner Capable of Addressing All the Needs of Main Clients

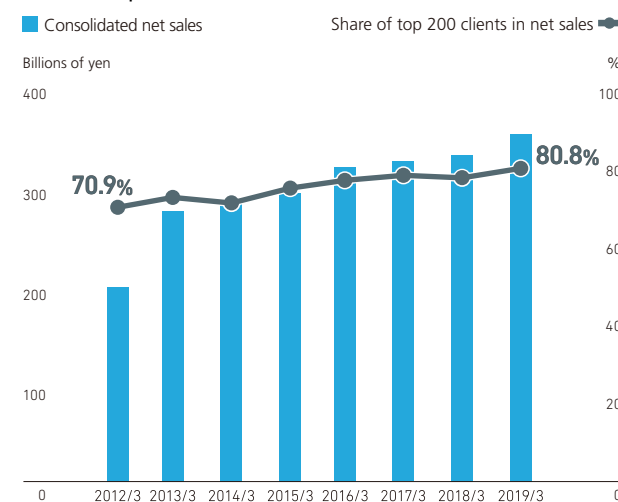
SCSK is promoting the "Shift to service-oriented businesses" as one of the core strategies in our Medium-Term Management Plan. We are developing services that generalize industry standard business operations by utilizing our expertise and know-how from our many years of experience in supporting companies' IT needs. Our services target our broad range of some 8,000 client companies in a subscription-based format.

In response to the strategic IT investment needs of individual clients seeking to expand their business, we have assigned engineers with experience in the particular industry to provide the most value-added systems and services for clients. In this manner, we have aimed to establish a presence as clients' top vendor.

As a result, the value of transactions with our top 200 clients in terms of net sales has continued to rise with each passing year since the merger. These clients now account for more than 80% of our consolidated net sales in the fiscal year ended March 31, 2019. This is because the domains and scale of business entrusted to SCSK by our key clients is growing.

Looking ahead, we will strive to further build relationships with clients as a reliable strategic IT partner by providing solutions that fully capitalize on the SCSK Group's overall capacities, based on the voice of clients and correct understanding of their needs.

Share of Top 200 Clients in Consolidated Net Sales



Example of Client Solution—Mitsubishi Estate Co., Ltd.

Achieving Living Value Management by Integrating Membership Organizations

Many companies are considering investments in the technology field as a way to address digital transformation. SCSK strives to deploy a diverse range of solutions that satisfy clients' business needs while also correctly identifying these needs for each target industry. These solutions include business expansion for the omni-channel in the distribution industry, addressing the trend of IoT and AI in the manufacturing industry, and the introduction of Fintech and AI in the financial industry.

In recent years, there have been major changes taking place in the market environment surrounding the housing business in Japan's real estate industry. The home sales market has faced the headwinds of such changes as a declining population and diversifying needs. As a result, there is growing importance not only for the flow-type business such as new condominium and detached home sales, but also the stock-type business such as remodeling and brokerage services. Given this background, Mitsubishi Estate recognized that it needed to urgently build a system across its entire group of companies that covers the lifetime needs of its customers, aimed at achieving further business growth. For this reason, we helped it integrate membership organizations run by its Group companies and restructured these into the Mitsubishi Estate Residence Club.

This initiative not only works for conventional customer contact points in person and in paper media, but also functions as a contact point for the entire Mitsubishi Estate Group that can disseminate information required by customers virtually at the right time.



Mitsubishi Estate Residence Club is a membership organization for some 600,000 households, making it the largest in the industry

Key Points of the Project

Mitsubishi Estate's Challenges

- There was an urgent need to address stock-type business growth including remodeling and brokerage services
- Sales measures, customer management and membership management were implemented by each Group company individually based on its own requirements
- Measures were implemented to increase customer loyalty on a group-wide basis rather than company-by-company

Problem-Solving Outcomes

- Group companies now mutually provide value by utilizing integrated customer information
- An integrated platform transcending the frameworks of each business has been successfully established
- The Group is able to provide information and services customers need based on their life stage in a centralized manner

SCSK was selected as a partner for this important initiative to build a value chain platform that each Mitsubishi Estate Group company in the housing business can utilize in a cross-functional manner. SCSK has been involved in corporate website development, from planning and building to operation, for more than 10 years under the WEBSAS brand. We have a top-class track record in large-scale projects using Microsoft Dynamics 365*. In addition to these, we have received strong marks for our project team structure.

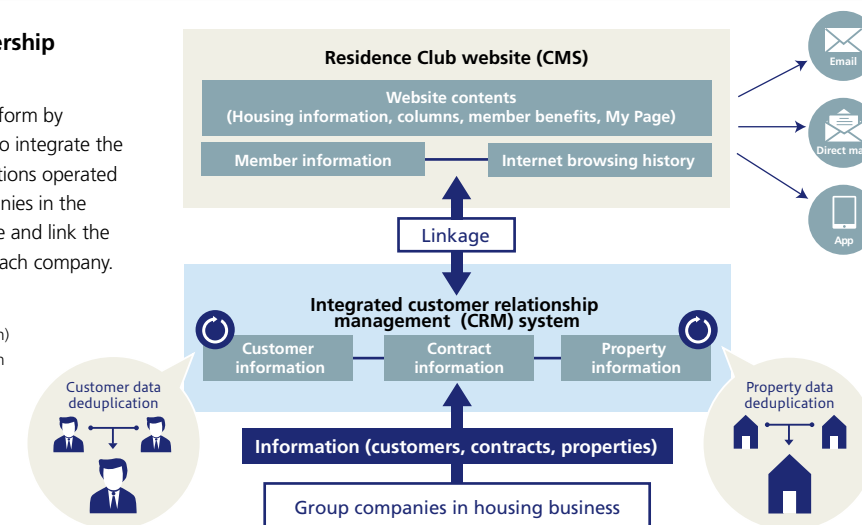
SCSK will work to further increase the functionality of products and solutions and contribute to the new business value creation of clients so that they can further expand their business strategies and grow their service offerings.

* Microsoft Dynamics 365:
An all-in-one solution covering all phases, from marketing, sales, and customer service to field service, that can smoothly share and utilize customer information

System Summary of Membership Organization Integration

SCSK established a value chain platform by employing the following solutions to integrate the four housing membership organizations operated by Mitsubishi Estate's Group companies in the housing business and to consolidate and link the customer information retained by each company.

- Microsoft Dynamics 365 (integrated CRM)
- TRILLIUM (sophisticated data deduplication)
- Sitecore (automation of marketing through website and email for members and digital contents management)
- ASTERIA Warp (data linkage)
- Azure (infrastructure)



We will analyze impacts on business due to climate change for risk reduction and create opportunities.

Message from Our Environmental Officer

Over the past few years, there have been flooding due to torrential rainfall in western Japan and scorching summer heat waves. Looking around the world, rising sea level, drought, and widespread forest fires due to lack of rainfall and rising temperatures represent some of the impacts of climate change and environmental issues that we have to face.

SCSK believes that impacts of climate change in particular represent a critical issue for management and pose a risk to the sustainable growth of our society.

At the same time, we consider our response to climate change as a new business opportunity that will create innovation, including new eco-friendly products and solutions and progressive services utilizing digital technology.

SCSK contributes to the reduction of environmental impacts across the whole of society through our core business, which is the development and introduction of efficient and effective IT systems and operation services. We also contribute

greatly to the business continuity of clients during times of disaster by offering resilient data centers and BCP solutions. We recognize that one of our core societal missions is to harness these strengths to create a society that can adapt to environmental changes and reduce environmental impacts in business processes, while working alongside clients in a broad range of industries and partner companies. We are now actively promoting initiatives aimed at this realization.

Going forward, we will continue to design and execute our own strategic environmental activities and contribute through our business activities, aimed at the realization of an affluent sustainable society, under our management philosophy of "Create our Future of Dreams."



Yasuhiko Oka
Senior Executive Officer

Management of Climate Change Issues

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

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

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

Environmental Action Plan

Since the Paris Agreement took effect in November 2016, the world has undergone considerable changes in an effort to realize a carbon-free society, such as the strengthening of emission standards on greenhouse gases, increasing ESG investment, and the market growth of environmental business.

At the same time, the challenge of protecting social systems from the increasingly noticeable impacts of climate change is becoming even more difficult for society.

Given this background, we have formed an original Environmental Action Plan that sets out the direction of "how to contribute to solutions for the social issues of climate change through our businesses," based on both our management philosophy of "Create our Future of Dreams," and the environmental policies of the Sumitomo Corporation Group, with the aim of promoting environmental activities typical of SCSK.

SCSK is a company that contributes to society through its business activities, namely the provision of IT services. As such, we aim to "create an affluent society together with our clients."

Environmental Action Plan

- 1. To collaborate with client companies with the aim of contributing to the realization of carbon-free societies**
Together with our clients, we intend to develop and establish efficient systems and IT infrastructure, etc. that contribute to reductions in greenhouse gases.
- 2. To contribute to the creation of resilient societies that respond to climate change risks**
We intend to contribute to the establishment of resilient societal infrastructure, by means of data centers that can be used as disaster recovery bases and the utilization of the latest technologies.
- 3. To realize sustainable corporate activities that take the environment into consideration**
Through the implementation of energy savings and the use of renewable energy sources, we intend to minimize the greenhouse gases emitted as a consequence of our business activities.

Climate Change-Related Risks

SCSK determines the areas to address for climate change related risks based on priorities established following identification and evaluation of the likelihood of occurrence, impact, and potential for discovery, detection and prevention of such risks per business.

In terms of regulatory risks we implement various measures including monitoring of environmental performance and upgrading of energy saving equipment in striving to conduct our business operations in a more highly efficient manner, as businesses in Japan over a certain size have the obligation to reduce their greenhouse gas emissions in accordance with the Act on the Rational Use of Energy, and some SCSK facilities are subject to this obligation.

As for physical risks, we have developed a standard of conduct and organizational system in preparation for contingencies, such as natural disasters. In addition, since fiscal 2015, we began promoting working styles considerate of the environment that do not require commuting or business trips by employees, including teleworking and online meetings, which are also options for minimizing impacts on work duties when public transportation is out of service due to events such as torrential rainfall.

For further details, please see our sustainability website.
https://www.scsk.jp/corp_en/csr/environment/index.html



Third Party Verification and Assurance

In fiscal 2018, we obtained a third-party assurance from Lloyd's Register Quality Assurance Limited concerning Scope 1 and 2 greenhouse gas emissions.

Going forward, we will continue to disclose reliable information.

The Independent Assurance Statement is available on the SCSK Website.

https://www.scsk.jp/corp_en/csr/pdf/assurance_statement_e.pdf



Examples of Strategic Measures at Data Centers

The mitigation of, and adaptation to effects of climate change are important factors in the operation of data centers. We are committed to developing highly efficient and resilient disaster-proof facilities with energy efficient operations.

Contribution of Reducing Environmental Impact: Promoting Green IT

We promote high efficiency and additional energy savings by utilizing energy efficient equipment, high efficiency inverter controlled centrifugal chillers, and outside air cooling systems in winter, as well as implementing fine air conditioning management. Performance is monitored using indices including PUE*.

In addition, we provide operational services through virtualization of servers, cloud services, and experienced engineers in contributing to the reduction of environmental impacts resulting from the use of IT by our clients.

*PUE (Power Usage Effectiveness): A metric that indicates the energy efficiency of a data center. It is calculated as "the overall facility-wide power consumption divided by IT device-related power consumption at the data center." The closer the resulting PUE value is to 1.0, the better the electricity consumption efficiency of the data center is deemed to be.

Contribute to the Creation of Societies Resilient in the Face of Climate Change

We strive to contribute to the business continuity of our clients by establishing and operating secure data centers that guard social infrastructure from natural disasters such as major typhoons and torrential rainfall caused by climate change.



netXDC Sanda Center 2

Management Structure

54 Corporate Governance

- Basic Policy
- Election and Dismissal of Directors and Procedures
- Stimulating Deliberations of the Board of Directors
- Evaluating the Effectiveness of the Board of Directors in Fiscal 2018
- Remuneration for Directors
- Internal Control
- Enhancing Information Disclosures and Communication
- Message from an Outside Director

61 Compliance and Risk Management

- Compliance
- Fair Transactions
- Risk Management

63 Officers Directors

- Board of Directors
- Executive Officers

SCSK is working to reinforce governance in order to enhance sustainable corporate value.

Basic Policy

Basic Approach

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

From this perspective, the SCSK Group considers raising the efficiency and soundness of management as well as

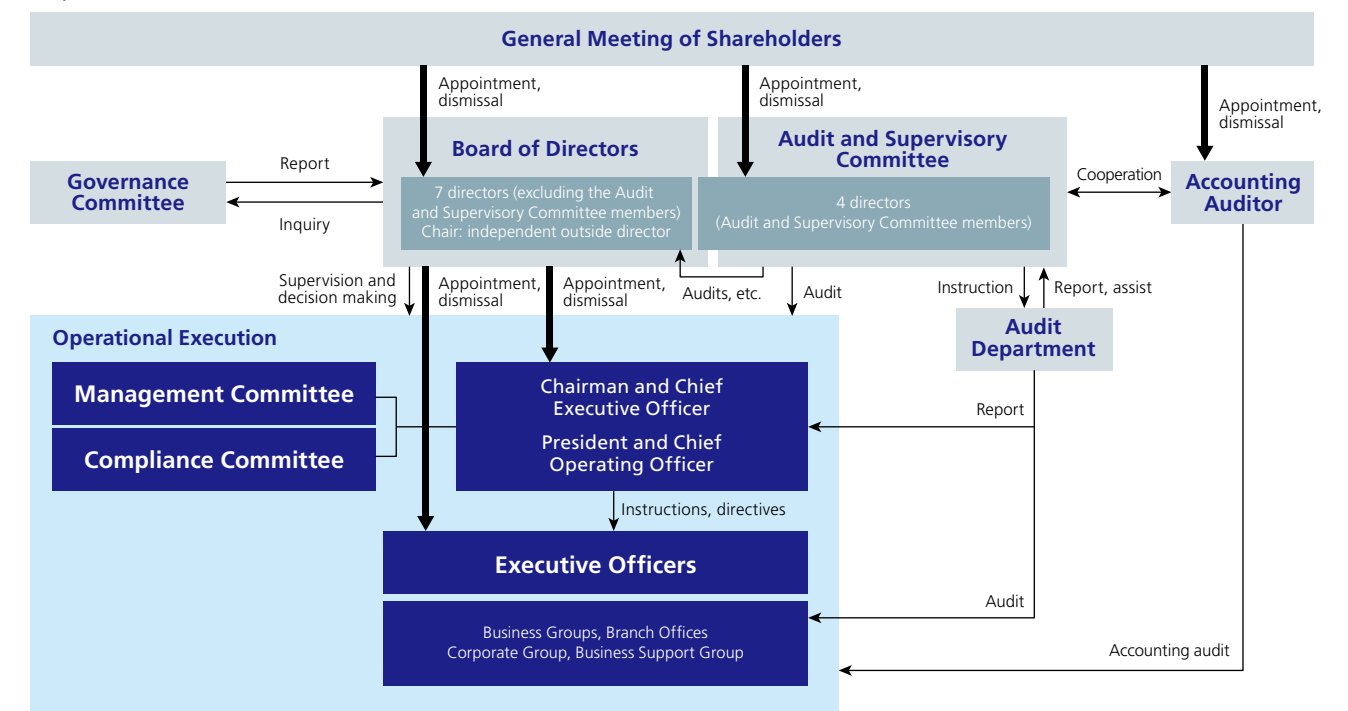
ensuring transparency in the decision-making process as the most basic components of its corporate governance. Rating these matters high among management priorities, we aim to build an optimal management structure that benefits SCSK the most.

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

Strengthening of Corporate Governance

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

Corporate Governance Structure



Board of Directors

As of June 25, 2019, SCSK's Board of Directors comprises 11 members, including four independent outside directors. The Board of Directors makes decisions on important management issues and supervises operational execution. The main matters discussed by the Board of Directors include matters stipulated by law, matters stipulated in company regulations, and important matters regarding management such as management strategy and management plans.

SCSK's Board of Directors meets in principle on a monthly basis, but also convenes extraordinary meetings when necessary. Meetings of the Board of Directors were held 13 times in fiscal 2018.

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

Executive Officers

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

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

Management Committee

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

Audit and Supervisory Committee

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

Governance Committee

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

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

Audit Department

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

Attendance Record of Board of Directors and Audit Supervisory Committee and Composition of Each Committee

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

Title	Name	Board of Directors	Audit and Supervisory Committee	Governance Committee*4
Representative Director Chairman and Chief Executive Officer	Masao Tabuchi	(11/11 meetings)	—	○
Representative Director President and Chief Operating Officer	Tooru Tanihara	(12/13 meetings)	—	○
Director Senior Managing Executive Officer	Tetsuya Fukunaga	(13/13 meetings)	—	—
Director Senior Managing Executive Officer	Kei Kato*3	—	—	—
Director Managing Executive Officer	Tatsuro Tamura*3	—	—	—
Director	Kazumasa Watanabe*3	—	—	—
Director *2	Kiyoto Matsuda	◎ (13/13 meetings)	—	○
Director (Audit and Supervisory Committee Member) (Full-time)	Yasunori Anzai	(13/13 meetings)	◎ (16/16 meetings)	—
Director (Audit and Supervisory Committee Member)*2	Kimitoshi Yabuki	(12/13 meetings)	○ (14/16 meetings)	◎
Director (Audit and Supervisory Committee Member) *2	Masaichi Nakamura	(12/13 meetings)	○ (16/16 meetings)	○
Director (Audit and Supervisory Committee Member)*2	Kazuko Shiraishi	(11/11 meetings)	○ (13/13 meetings)	○

*1 Attendance records from April 2018 to March 2019
*2 Outside Director
*3 Newly elected (from June 2019)
*4 One outside lawyer was also appointed as a member. The Governance Committee also deliberates on matters other than those concerning nomination and remuneration, and currently totals seven members.

Election and Dismissal of Directors and Procedures

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

The election and dismissal of candidates for directors that serve as members of the Audit and Supervisory Committee are determined by the Board of Directors with the consent of the Audit and Supervisory Committee, taking into account the results of examinations by the Governance Committee, a majority of whose members consists of independent outside directors. Directors that serve as members of the Audit and Supervisory Committee must have specialized knowledge and experience and be able to carry out audits from an objective standpoint.

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

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

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

Stimulating Deliberations of the Board of Directors

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

Additionally, the secretariat determines the annual

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

Evaluating the Effectiveness of the Board of Directors in Fiscal 2018

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

This self-evaluation and analysis was carried out by asking all directors to complete a questionnaire in February 2019 that was prepared with the help of an outside advisor. Anonymity was assured by having directors reply directly to the outside advisor. Based on the tabulation results from the outside advisor, analysis, discussion and evaluation was carried out at the regular meeting of the Board of Directors held in May 2019.

A summary of these results is as follows:

Responses to the questionnaire indicate generally positive assessments regarding the composition of the Board of Directors, appropriate management of transactions with conflicts of interest, open and constructive discussions, training of directors, information exchanges among outside directors, and general management matters. As a result, we believe that the overall effectiveness of the Board of Directors is being secured. In particular, in the previous fiscal year we took steps to improve training of directors and information exchanges among outside directors, which were issues pointed out in the previous questionnaire with regard to board effectiveness, and the results

of these initiatives are now appearing steadily.

Opinions were shared regarding deliberations on determining the company's management plan, succession planning and design of the remuneration system, indicating there is still room for improvement in further enhancing the functions of the Board of Directors and energizing discussions, among other areas.

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

Remuneration for Directors

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

The policies, procedures, and calculation methods, and individual amounts of remuneration of directors (excluding those directors that serve as members of the Audit and Supervisory Committee) are decided by the Board of Directors taking into account the results of examinations by the Governance Committee, a majority of whose members consists of independent outside directors, and views of the Audit and Supervisory Committee. Calculation methods take into account SCSK's business scale and the need to secure talented candidates, and individual remuneration amounts are determined in consideration of the accomplishments of specific directors and the company's business performance.

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

Performance-Linked Compensation Policy and Indicators

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

Target achievement rate =

Target achievement rate of net sales x 30% +

Target achievement rate of operating income x 70%

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

Position as executive officer	Base compensation	Performance-linked compensation
Chairman and Chief Executive Officer	67%	33%
President and Chief Operating Officer	67%	33%
Executive Vice President	68%	32%
Senior Managing Executive Officer	75%	25%

Internal Control

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

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

Enhancing Information Disclosures and Communication

Basic Policy

Information disclosure represents an important responsibility of management from the standpoint of ensuring the transparency and fairness of the company's decision making. We strive to carry out information disclosure in an appropriate and timely manner in order to help deepen understanding among various stakeholders, including shareholders and other investors, about decision making by SCSK's management and the company's business activities.

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

Reasons for Elections of Outside Directors

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

Remuneration of Directors in Fiscal 2018

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)			Number of eligible directors (persons)
		Basic remuneration	Bonus	Other	
Directors (excluding those directors that serve as Audit and Supervisory Committee members)	351	285	51	14	11
(of whom, outside directors)	(11)	(11)	(0)	(0)	(1)
Directors that serve as Audit and Supervisory Committee members	71	71	0	0	8
(of whom, outside directors)	(45)	(45)	(0)	(0)	(7)

■ Structure for Timely Disclosure

SCSK recognizes that a high level of management transparency is an important component of corporate governance. Also, as a measure to ensure this transparency, the company has established the following system for the disclosure of corporate information. Through this system, we work to disclose information in a timely, appropriate, and fair manner.

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

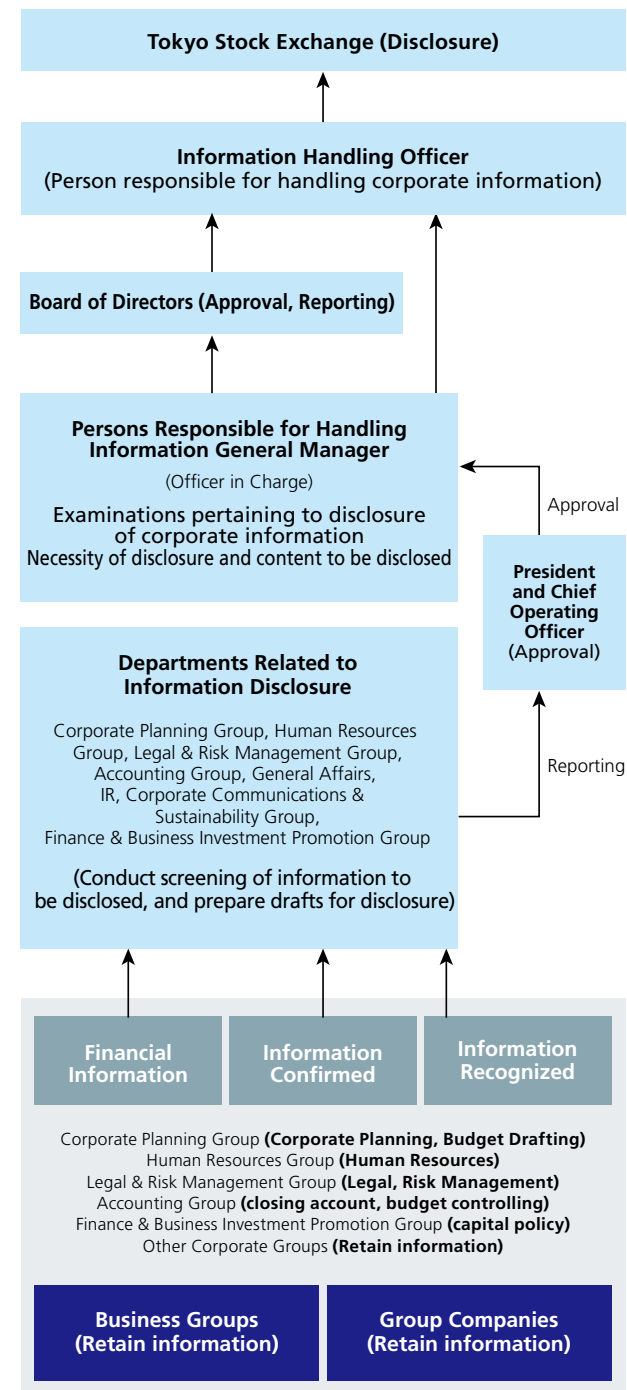
Communication with Shareholders and Other Investors

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

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

with shareholders and other investors inside and outside Japan are shared with management in an appropriate and timely manner for use in SCSK's business planning.

Structure for Timely Disclosure



Message from an Outside Director



Outside Director **Kazuko Shiraishi**

Short Curriculum Vitae

April 1974	Joined the Ministry of Foreign Affairs
August 1997	First Secretary, Embassy of Japan in Poland
January 2001	Deputy Consul General, Consulate-General of Japan in Atlanta
June 2003	Director, International Economic Agreement Division, Treaties Bureau
September 2004	Foreign Policy Coordinator, Policy Coordination Division, Foreign Policy Bureau
October 2005	Director, WTO Dispute Settlement Division, Economic Affairs Bureau
April 2007	Counsellor, Embassy of Japan in Poland
January 2012	Ambassador Extraordinary and Plenipotentiary of Japan to Lithuania
June 2015	Ambassador Extraordinary and Plenipotentiary of Japan for Women, Human Rights, Humanitarian Affairs, and the Arctic
June 2016	Ambassador in Charge of Arctic Affairs, Special Assistant to the Minister for Foreign Affairs
June 2018	Outside Director, SCSC (Audit and Supervisory Committee Member) (present position)
March 2019	External Director, MODEC, Inc. (present position)

SCSK's Progressive Governance System

One year has passed since I was elected outside director. During my time here, I have developed the impression that SCSK's governance is a step ahead of other companies in Japan. This is because an independent outside director serves as Chairman of the Board. This can be viewed as an effective way of enhancing the objectivity and effectiveness of the board, but I hear that very few companies have done so.

SCSK also has an established system for information sharing, including advanced explanations of proposal items and individual briefings. Thanks to this system, even I, in my first year as outside director, can fully understand not only proposal items, but also SCSK, including its operations and organizations. As a result, I have been able to actively contribute to discussions during board meetings.

Using My International Experience to Provide Supervision and Advice

I believe the role of an outside director is mainly the supervision over and advice to management along with monitoring for conflicts of interest, and fulfilling this role will be important for the Company's medium- to long-term growth. In this regard, the other outside directors of SCSK have some form of specialization as former corporate manager, lawyer, or certified public accountant. Since I have a different background, I am working to contribute with my ability to ask the right questions. This is because an important mission of an outside director is identifying latent risk through targeted questions.

I have lived and worked abroad for many years while I was with the Ministry of Foreign Affairs, during which time I took part in negotiations with foreign governments. I believe I can utilize this experience in helping SCSK during its global expansion. In addition, I have witnessed countless Japanese companies' overseas expansion during my overseas postings. As, such I am in a position to provide advice in terms of risk management. I hope to use these qualities, skills and experiences to benefit the company.

Promoting the Empowerment of Women and Diversity

I have previously served as Ambassador Extraordinary and Plenipotentiary of Japan for Women, Human Rights and Humanitarian Affairs, so I am particularly interested in the utilization of a diverse workforce. My first request as director was to set up an opportunity for dialogue with the staff of the Diversity Promotion Section. By asking detailed questions about the direction and current situation of promoting women's active involvement at SCSK, I found that the company truly values its people.

SCSK has worked on the empowerment of women and working style reforms since before the Japanese government advocated companies to do so. Today, it is considered one of Japan's leading companies in these areas. Last year, SCSK introduced a program allowing second jobs and a program for full-time employment of seniors. It makes me really happy to know that these were approved by the Board of Directors after I became outside director since they are proof positive that the company is supporting various working styles.

Long-term Vision Aimed at Social Value Creation

The social environment is experiencing a great deal of change. In particular, changes from digital-driven technological innovation have been quite remarkable. CSCSK's current medium-term management plan wraps up in March 2020, but I think a long-term vision with an eye on a 10- or 20-year time span is needed; rather than three or five years. Actually, just the other day I learned that CSCSK's systems are being used at the drugstore and supermarket I frequent. CSCSK is making people's lives more enriching and happier. I hope to deepen discussions about how to leverage such value from a long-term perspective.

Additionally, in terms of diversity, I would like to further support women's empowerment by using advancements in digitalization to streamline operations and enable progressive telework formats. I fully expect SCSK to play an important role in using the latest technologies based on outcomes from its own in-house working style reforms. I intend to provide all the support I can in my role as outside director.

We are working to foster a greater sense of corporate ethics and minimize business risks.

Compliance

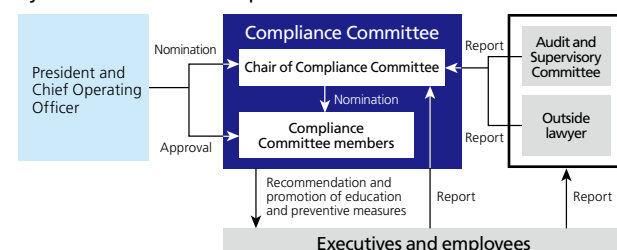
Basic Approach

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

Structure and System

Following our basic approach to compliance, we have established Compliance Rules and compiled a Compliance Manual as well as built an organizational structure for compliance. We have set up a Compliance Committee to follow through with our commitment to compliance. This committee determines and revises company-wide policies on compliance, maintains and manages the compliance system, coordinates with relevant departments, monitors implementation status and shares information.

System to Promote Compliance



Whistleblower System

We have established a whistleblower system for quickly resolving compliance violations and preventing such violations from occurring. This system enables employees of the SCSK Group or partner companies that notice a problem to report it directly by email and other methods to the Compliance Committee, Audit and Supervisory Committee, or a designated lawyer. The privacy of persons filing a report and related parties is protected along with the confidentiality of reported matters. Guarantees are in place to ensure persons who report a problem are not subjected to unfair treatment, and the system has been well used each year. Reports are handled appropriately and whistleblowers are informed of

all actions taken. The results of investigations and details of corrective measures are also reported to senior management and the Audit and Supervisory Committee.

Education and Training

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

Fair Transactions

Basic Approach

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

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

Risk Management

Basic Policy on Risk Management

To stabilize business activities and enhance corporate value, SCSK carries out ongoing risk management with the purpose of consistent performance and growth, reinforcing our corporate structure and maintaining trust, having envisioned various scenarios during the course of our business activities.

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

Definitions of Risk

At SCSK, we define risk as “the possibility for incurring losses or the possibility of returns from business activities deviating from expectations.” To manage risk exhaustively and efficiently, we categorize risk into the four types: hazard risk, strategic risk, financial risk and operational risk.

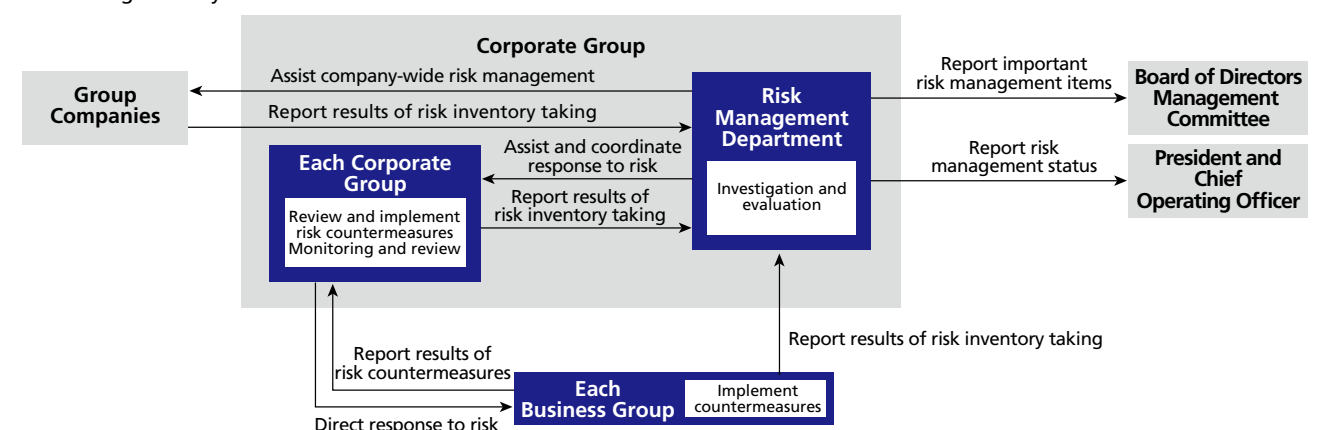
Hazard risk	Natural disasters, pandemics, accidents, crime cyberterrorism, etc.
Strategic risk	Business investment, technological innovation, talent strategy, country risk, etc.
Financial risk	Foreign exchange rates, interest rates, asset valuations, etc.
Operational risk	Organizational management, management of subsidiaries, commercial transactions, asset and investment management, information security, labor affairs, litigation, environment, system development, etc.

Risk Management System

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

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

Risk Management System



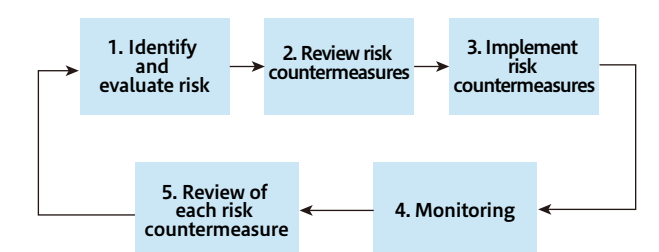
The Risk Management Department centrally identifies and evaluates the status of risk management from a company-wide perspective and regularly reports its findings to the President and Chief Operating Officer. Additionally, risks determined to require more focused countermeasures are defined as important risk management items, with countermeasures and implementation progress reported to the Management Committee and Board of Directors.

Risk Management Process

Under the risk management system described above, we continually implement a series of processes that include (1) Identify and evaluate risk; (2) Review risk countermeasures; (3) Implement risk countermeasures; (4) Monitoring; and (5) Review of each risk countermeasure. The goal of these processes is two-fold: consistent performance and growth, reinforce our corporate structure, and maintain trust, as well as adapt to changes in business climate.

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

The examination, implementation, monitoring and review of risk countermeasures are carried out every year for the entire company mainly by the Corporate Group responsible for each risk. In addition, the status of each process is also reported to the Management Committee and Board of Directors.



Board of Directors



Masao Tabuchi

Representative Director

Chairman and Chief Executive Officer, SCSK
Chief Health Officer



Tooru Tanihara

Representative Director

President and Chief Operating Officer, SCSK



Tetsuya Fukunaga

Director

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



Masaichi Nakamura

Outside Director
(Audit and Supervisory Committee Member)

Independent Director

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



Kazuko Shiraishi

Outside Director
(Audit and Supervisory Committee Member)

Independent Director

External Director, MODEC, Inc.



Kei Kato

Director

Senior Managing Executive Officer
General Manager, Global System Solutions &
Innovation Business Group
Deputy General Manager, DX & Innovation Business
Center and Research & Development Center
Corporate Officer of Sumitomo Corporation
Assistant to General Manager, Digital Business Division



Tatsuro Tamura

Director

Managing Executive Officer
General Manager, Corporate Planning
Corporate Officer, Sumitomo Corporation
Assistant to General Manager, Digital
Business Division



Kazumasa Watanabe

Director

Corporate Officer, Sumitomo Corporation
General Manager, Digital Business Division



Kiyoto Matsuda

Outside Director

Independent Director

Chairman of the Board

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



Yasunori Anzai

Director
(Audit and Supervisory Committee Member)

Assistant to General Manager,
Media & Digital Business Unit,
Sumitomo Corporation



Kimitoshi Yabuki

Outside Director
(Audit and Supervisory Committee Member)

Independent Director

Partner, Yabuki Law Offices
Outside Director, SUMITOMO LIFE INSURANCE
COMPANY

Executive Officers

Chairman and Chief Executive Officer	Masao Tabuchi		Hisanao Takei	Kazuhiko Abe
			Yoshiyuki Shinbori	Hiroyuki Miyagawa
President and Chief Operating Officer	Tooru Tanihara	Senior Executive Officers	Yoshinori Imai	Junichi Horie
			Shigehiro Seki	Kenji Toda
Executive Vice Presidents	Masanori Furunuma		Koichi Naito	Ken Takano
	Shozo Hirose		Yoshinori Kawashima	Hideyuki Miyashita
Senior Managing Executive Officers	Tatsuyasu Kumazaki		Akihiko Harima	Masahiro Otani
	Tetsuya Fukunaga		Takayuki Okuhara	Tomishige Tamura
	Masatoshi Endo		Tadashi Miyagawa	Masaaki Mori
	Kei Kato		Takaya Yamamoto	Takaaki Ishida
Managing Executive Officers	Toshiaki Kudo		Koji Watanabe	Shoji Shiuchi
	Tetsuya Ueda		Toshihiko Mitsuishi	Kenji Ichiba
	Hideki Tazai		Yukihiko Saito	Shu Wei
	Atsushi Innami		Yasuhiko Oka	Shunichiro Fukushima
	Makoto Nakamura		Mineo Yokoyama	Tomoo Kawana
	Atsushi Watanabe		Hiroyuki Komiya	Ikuo Uchiyama
	Takashi Shinjo	Executive Officers	Kan Takahashi	
	Yasushi Shimizu		Naoki Ike	
	Takaaki Tuma		Eri Kawanabe	
	Tatsuro Tamura		Akira Yamano	
	Yasuo Sugahara		Toshiya Uchida	

Data Section

- 66 Eight Years of Main Financial and Non-Financial Data
- 68 Management's Discussion and Analysis
- 72 Business Risks
- 75 Consolidated balance sheets
- 77 Consolidated Statements of Income
- 78 Consolidated Statements of Comprehensive Income
- 79 Consolidated Statements of Change in Net Assets
- 81 Consolidated Statements of Cash Flows
- 82 Notes to Consolidated Financial Statements
- 123 Independent Auditor's Report
- 124 Glossary
- 125 Corporate Data
- 127 External Recognition

Eight Years of Main Financial and Non-Financial Data

Consolidated Management Indicators

(Unit: millions of yen)

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

(Unit: millions of yen)

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

(Unit: millions of yen)

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

(Unit: yen)

Per Share Data								
BPS	860.37	991.48	1,161.29	1,276.37	1,401.00	1,607.74	1,822.54	1,862.78
EPS	334.19	161.39	177.26	150.71	259.72	274.16	312.95	268.64

Major Indicators								
ROE (%)	24.1	15.1	16.5	12.4	19.4	18.2	18.2	14.6
ROA (%)	7.9	7.1	8.0	9.4	9.8	9.7	10.5	12.5
Equity ratio (%)	39.6	31.8	37.9	39.6	41.2	42.8	62.3	61.4
Debt / Equity ratio (times)	0.46	0.83	0.47	0.42	0.34	0.36	0.24	0.28
Number of employees	11,995	11,797	11,689	11,754	11,769	11,910	12,054	12,365
Capital expenditures (millions of yen)	7,954	10,219	9,441	14,842	12,046	15,335	15,588	15,163
Depreciation and amortization (millions of yen)	5,380	6,690	6,841	6,865	8,003	8,972	11,245	10,530
R&D expenses (millions of yen)	417	566	449	267	117	266	280	725
Stock prices (yen)	1,312	1,835	2,781	3,365	4,400	4,420	4,595	4,935

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

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

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

*4 The figure as of March 31, 2012 includes ¥30.0 billion of preferred stocks assumed by the company in fiscal 2011 as a result of the merger with CSK Corporation. All of these preferred stocks were acquired from the financial institutions holding the shares on May 31, 2012, and based on a resolution passed at the Ordinary General Meeting of Shareholders held on June 27, 2012, all of these preferred stocks were cancelled on the same day, June 27, 2012.

Non-Financial Data

Data on Labor Practices		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Number of employees		7,490	7,385	7,328	7,261	7,241	7,273	7,280
	Male	6,254	6,162	6,091	6,022	5,976	5,955	5,919
	Female	1,236	1,223	1,237	1,239	1,265	1,318	1,361
Recruitment		93	90	99	122	162	202	233
Number of new recruits (newly graduated)	Male	68	61	67	80	104	121	155
	Female	25	29	32	42	58	81	78
Turnover	Turnover rate *1	2.6%	2.2%	2.0%	2.2%	2.3%	2.3%	2.3%
Diversity	Number of people with disabilities *2	139	153	171	179	219	248	263
	Number of female executives and line managers	14	32	44	54	64	72	78
	Number of non-Japanese employees	46	46	42	45	43	42	38
Work-life balance	Average monthly overtime hours *3	26 hours, 10 minutes per month	22 hours, 03 minutes per month	18 hours, 16 minutes per month	18 hours, 00 minutes per month	17 hours, 47 minutes per month	16 hours, 22 minutes per month	17 hours, 41 minutes per month
	Rate of consumed annual paid vacation days *3	78.4%	95.3%	97.8%	95.3%	95.3%	96.4%	94.4%
	Employee satisfaction *4	—	—	79.9%	82.6%	84.0%	90.2%	89.2%
	Number of employees using childcare leave	163 (Male:2, Female: 161)	189 (Male:7, Female: 182)	208 (Male:8, Female:200)	208 (Male:8, Female:200)	220 (Male:11, Female:209)	220 (Male:14, Female: 206)	208 (Male:16, Female:192)
	Percentage of employees returning to work after childcare leave	93.1%	96.6%	96.8%	92.0%	96.9%	96.8%	93.5%
	Number of employees using nursing care leave	3 (Male:2, Female: 1)	3 (Male:3, Female: 0)	4 (Male:4, Female:0)	1 (Male:1, Female:0)	3 (Male:1, Female:2)	6 (Male:2, Female:4)	1 (Male:1, Female:0)
	Number of employees using reduced work hour programs	182 (Male:2, Female: 180)	179 (Male:2, Female: 177)	191 (Male:2, Female: 189)	216 (Male:3, Female:213)	264 (Male:3, Female:261)	249 (Male:3, Female:246)	254 (Male:4, Female:250)
	Number of employees using maternity leave *5	86	76	74	85	76	70	62
	Number of employees using parental leave	187	184	152	169	145	143	131
	Number of employees using balance support leave *6	449 (Male:307, Female:142)	496 (Male:335, Female:161)	621 (Male:399, Female:222)	729 (Male:455, Female:274)	839 (Male:516, Female:323)	1,006 (Male:642, Female:364)	993 (Male:629, Female:364)
	Number of employees using child nursing leave	363 (Male:228, Female:135)	419 (Male:266, Female:153)	438 (Male:265, Female:173)	458 (Male:260, Female:198)	492 (Male:286, Female:206)	508 (Male:284, Female:224)	465 (Male:253, Female:212)
	Nursing care support seminars	3	3	16	14	17	21	11
	Number of seminars held (times)							
	Number of participants	192	155	1,088	1,126	1,630	1,523	715

*1 Voluntary resignation of full-time employees and specialized full-time employees (excluding mandatory retirement and job transfers, etc.). Number of persons as of April 1 each fiscal year used as the parameter.
*2 Employment ratio of the 10 Group companies in Japan certified as affiliates. Figures for each year are as of June 1.
*3 Average for all employees including those under the discretionary work system and supervisors.
*4 The results tabulated for “Agree” and “Agree somewhat.” The question in fiscal 2016 on “A company with a pleasant and rewarding workplace” was split into two from fiscal 2017.
*5 Available to pregnant women in half-day increments to allow them to take time off for various related ailments, such as morning sickness, and for prenatal checkups (10 days a year).
*6 Available in half-day increments for the following reasons (5 days a year).
• When the employee is providing nursing care to a family member (the employee’s spouse, or an equivalent person)
• When the employee must accompany his or her child to receive necessary vaccinations, or attend an event at his or her child’s school, up until the child graduates from junior high school
• When the employee goes to the hospital for infertility treatment

Environmental Performance Data		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 *2	FY2018 *2
Power consumption	Total (MWh) *1: Entire SCSK Group	89,808	91,266	93,013	88,931	78,985	84,450 (73,786)	91,861 (82,071)
	Offices in Japan (MWh) *1	18,057	16,463	15,072	14,124	13,687	25,384 (14,720)	24,373 (14,583)
	Data centers (MWh)	71,751	74,803	77,941	74,807	65,298	59,066	67,488
Fuel	Total (GJ)	3,572	3,768	1,945	2,613	2,521	2,789	2,605
	Kerosene (kl)	18	8	9	19	17	20	16
	Light oil (kl)	18	—	—	—	—	—	—
	Heavy oil A (kl)	14	20	21	20	18	23	12
	LPG (t)	19	39	—	—	—	—	—
	Utility gas (m³)	16,000	16,000	16,000	25,000	26,000	26,000	35,000
Heat (steam, warm water, cold water) energy usage (GJ)		2,346	2,595	3,395	2,590	3,268	2,822	11,510*3
Energy-derived (Scope 1 and Scope 2) CO ₂ emissions *1 (t-CO ₂)		41,393	47,341	48,636	45,612	39,820	42,783 (36,664)	43,632 (38,081)
Volume of office paper purchased (1,000 sheets)		37,771	33,363	32,577	34,390	29,234	23,079	20,250
General waste (t) *4		309	331	361	357	294	267	215
Recycling rate of general waste		77%	78%	85%	83%	79%	77%	73%
Industrial waste (t) *4		95	161	130	172	172	148	187
Recycling rate of industrial waste		100%	100%	100%	100%	100%	100%	100%
Annual average PUE at data centers	Tokyo Center 1	1.62	1.63	1.58	1.63	1.64	1.63	1.63
	Chiba Center	1.46	1.47	1.53	1.49	1.76	1.74	1.73
	Sanda Center	1.75	1.80	1.74	1.79	1.82	1.79	1.80

*1 Data for fiscal 2012 to fiscal 2016 only includes certain group companies. Data for fiscal 2017 and afterwards indicate electricity usage and CO₂ emissions for the entire SCSK Group.
*2 Parentheses indicate data within the same scope up to fiscal 2016.
*3 Cold water usage from certain locations that could not be calculated before were newly included from fiscal 2018.
*4 The company does not produce any hazardous waste from its business operations.

I. OVERVIEW OF RESULTS

1. Economic and Industry Trends

In the fiscal year ended March 31, 2019, the Company judged that the domestic economy was experiencing an ongoing modest recovery trend stimulated by economic conditions that were beneficial despite the sluggish conditions in certain export and production sectors. Specific examples of strong conditions included an upward trend in capital investment for implementing labor-saving measures to address labor shortfalls and the continuous improvement of the job market, which drove up wages and spurred a gradual recovery in consumer spending.

Our outlook for the domestic economy projects is that, in the midst of strong demand exhibited through capital investment and consumer spending, the modest recovery trend will continue. However, a growing sense of uncertainty is plaguing the global political and economic climate. Prominent concerns include, the risks of increased trade friction and economic recession in countries such as the United States and China stemming from the protectionist trade policies of the United States, issues surrounding the United Kingdom’s decision to leave the European Union, the threat of economic downturn in emerging and resource-rich countries, the potential for fluctuations in financial capital markets, and geopolitical risks. Accordingly, an ongoing review of economic trends is essential for making management decisions going forward.

In this environment, the IT services market experienced robust system demand for the purposes of automation, labor saving, and productivity improvement to address labor shortfalls through means including the implementation of working style reforms. We also saw the emergence of operational system upgrade demand aimed at addressing software and hardware that will be reaching the ends of their service periods and at transforming certain legacy systems into open systems.

At the same time, strategic IT investment demand, for applications such as reinforcing strategic businesses or securing a competitive edge, continues to rise among customer companies. In this manner, there was a general upward trend in overall IT investment demand.

In the manufacturing industry, there was a strong trend in demand for Internet of Things (IoT) related projects as well as for automotive embedded software development projects, which is more advanced in function and electrical equipment. In addition, we witnessed a robust deal flow in various areas of IT services businesses serving the manufacturing industry that was stimulated by a rise in demand for verification services for pre-market products, which are growing ever more sophisticated, and for business process outsourcing (BPO) services related to products and services.

In distribution, service, and other industries, IT services demand for reinforcing businesses showed a smooth rise,

particularly among customer companies engaging in consumer businesses. This demand was largely associated with investment related to e-commerce, customer relationship management (CRM), and big data analysis for the purposes of enhancing digital marketing initiatives and facilitating omni-channel retailing.

In the financial industry, performance was impacted by the rebound from previously strong investment trends following the conclusion of large-scale development projects for certain financial institutions, and numerous financial institutions limited their total investment expenditures in response to Japan’s negative interest rate policy. Looking ahead, demand for IT investment for augmenting operations is expected to show a robust growth. Targets of this investment will include measures for realizing more sophisticated online banking and Internet services, such as the application of FinTech, artificial intelligence (AI), and other new IT technologies, as well as the diversification of payment methods and the reinforcement and expansion of overseas operations.

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

2. Consolidated Results

In the fiscal year ended March 31, 2019, net sales, operating profit, and ordinary profit increased as a result of the aforementioned strong operating environment and IT investment demand trends, making for the seventh consecutive year of higher sales and profit.

Net sales increased 6.5% year on year, to ¥358,654 million, due in part to robust performance in systems development businesses and in maintenance and operation and services businesses against a backdrop of brisk demand for IT investment among customers in the manufacturing and distribution industries, an area in which an upward trend in demand emerged during the second half of the fiscal year ended March 31, 2018, and continued on throughout the fiscal year ended March 31, 2019. In addition, system sales increased mainly in communications industry customers.

Operating profit was up 10.9% year on year, to ¥38,378 million, due to the higher net sales coupled with improved profitability attributable to increased development productivity, which itself stemmed from efforts to boost work quality and streamline operations.

Ordinary profit grew 6.5%, to ¥38,650 million, as a result of the increase in operating profit. However, profit attributable to owners of parent decreased 14.1%, to ¥27,892 million,

due to the absence of the extraordinary income recorded in the previous fiscal year in association with the transfer of shares in QUO CARD Co., Ltd.

II. OVERVIEW OF RESULTS BY REPORTABLE SEGMENT

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

	(Millions of yen)					
	Year ended March 31, 2018		Year ended March 31, 2019		Change from previous fiscal year	
	Sales	Profit	Sales	Profit	Sales	Profit
Manufacturing & Telecommunication Systems Business	¥ 38,404	¥ 5,266	¥ 43,369	¥ 6,346	¥ 4,965	¥1,079
Distribution & Media Systems Business	58,176	7,019	63,054	6,599	4,877	(420)
Financial Systems Business	62,351	6,290	63,932	7,375	1,580	1,084
Global System Solutions & Innovation Business	13,260	2,243	15,560	2,558	2,300	314
Business Solutions	63,519	4,645	68,198	4,650	4,679	4
IT Platform Solutions	55,039	6,176	59,058	7,208	4,019	1,032
IT Management	42,184	5,096	44,780	5,877	2,596	781
Others	3,716	378	699	(41)	(3,017)	(420)
Adjustments	—	(2,515)	—	(2,196)	—	318
Total	¥336,654	¥34,602	¥358,654	¥38,378	¥22,000	¥3,775

■ **Manufacturing & Telecommunication Systems Business**
Net sales increased 12.9% year on year, to ¥43,369 million, and segment profit rose 20.5%, to ¥6,346 million. This segment benefited from the strong IT investment demand from automotive, electronic component, and construction industry customers seen throughout the fiscal year. In addition, orders from power and gas providers, which are included in this segment, continued to grow over the course of the fiscal year.

■ **Distribution & Media Systems Business**
Net sales rose 8.4% year on year, to ¥63,054 million, following brisk orders from customers in various industries engaged in consumer businesses and, on a customer industry basis, higher media system sales to communications industry customers. Segment profit, meanwhile, declined 6.0%, to ¥6,599 million, due to a rise in business investment expenses and diminished profitability in systems sales.

■ **Financial Systems Business**
Net sales rose 2.5% year on year, to ¥63,932 million, and segment profit grew 17.2%, to ¥7,375 million, thanks to the commencement of projects targeting insurance industry

customers and system upgrade demand from leasing industry customers, which offset the impacts of the rebound from the conclusion of large-scale projects.

■ **Global System Solutions & Innovation Business**
Net sales were up 17.3% year on year, to ¥15,560 million, and segment profit rose 14.0%, to ¥2,558 million, as a result of the steady flow of orders from the parent company.

■ **Business Solutions**
Net sales increased 7.4% year on year, to ¥68,198 million, as a result of the brisk demand for enterprise resource planning-related system upgrade investments and for outsourcing services as well as in service-oriented businesses. However, segment profit was relatively unchanged year on year at ¥4,650 million, due to the early depreciation of automotive systems basic software and other business assets.

■ **IT Platform Solutions**
Net sales increased 7.3% year on year, to ¥59,058 million, and segment profit rose 16.7%, to ¥7,208 million, due to increased sales of IT products to the manufacturing industry and sales of hardware to academic research institutions.

■ **IT Management**
Net sales were up 6.2% year on year, to ¥44,780 million, and segment profit grew 15.3%, to ¥5,877 million, thanks to firm demand for an array of platform system development and cloud IT services.

■ **Others**
All shares of stock in QUO CARD Co., Ltd., were transferred on December 1, 2017, and this company therefore had no impact on performance in the fiscal year ended March 31, 2019. As a result, net sales of ¥699 million, a year-on-year decrease of 81.2%, and segment loss of ¥41 million were recorded in the “Others” category.

III. NET SALES BY SALES SEGMENT

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

	(Millions of yen)					
	Year ended March 31, 2018		Year ended March 31, 2019		Comparison with previous fiscal year	
	Sales	Share (%)	Sales	Share (%)	Sales	Change (%)
Systems Development	¥128,387	38.1	¥140,092	39.1	¥11,704	9.1
System Maintenance and Operation/Services	129,071	38.3	134,132	37.4	5,061	3.9
Packaged Software/Hardware Sales	76,247	22.6	84,430	23.5	8,182	10.7
Prepaid Card Business	2,948	0.9	—	—	(2,948)	(100.0)
Total	¥336,654	100.0	¥358,654	100.0	¥22,000	6.5

In Systems Development, despite the absence of previously recorded large-scale development orders from certain financial industry customers, net sales rose 9.1%, to ¥140,092 million, due to solid performance in projects for customers in the manufacturing industry, the distribution industry, the financial industry, and the communications industry.

In System Maintenance and Operation/Services, as a result of strong performance in BPO services, particularly in the distribution and financial industries, combined with robust

demand for core systems and various cloud services related to IT infrastructure, net sales increased 3.9%, to ¥134,132 million.

In Packaged Software/Hardware Sales, net sales increased 10.7%, to ¥84,430 million, due to solid trends in sales of network IT equipment to certain communications industry customers and sales of hardware for academic research institutions.

In Prepaid Card Business, all shares of stock in QUO CARD were transferred on December 1, 2017, and this company therefore had no impact on performance in the fiscal year ended March 31, 2019.

IV. FINANCIAL POSITION

Assets, Liabilities and Net Assets

■ **Total Assets**
Assets as of March 31, 2019 were ¥314,844 million, an increase of 3.6% or ¥10,930 million compared to March 31, 2018.

■ **Liabilities**
Liabilities as of March 31, 2019 were ¥120,375 million, an increase of 12.2% or ¥13,062 million compared to March 31, 2018.

■ **Net Assets**
Net assets as of March 31, 2019 were ¥194,468 million, a decrease of 1.1% or ¥2,131 million compared to March 31, 2018.

The equity ratio stood at 61.4%. Net assets per share amounted to ¥1,862.78, an increase of ¥40.24 from March 31, 2018.

V. CASH FLOWS

Cash and cash equivalents ("cash") as of March 31, 2019, increased ¥6,330 million compared to March 31, 2018, to ¥106,198 million. The changes in each type of cash flow and the main factors for such changes are as follows.

■ Cash Flows from Operating Activities

Net cash provided by operating activities was ¥33,511 million (decreased ¥3,585 million compared to March 31, 2018).

The main cash inflow factors were profit before income taxes of ¥39,477 million, depreciation of ¥10,530 million, and an increase in notes and accounts payable – trade of ¥2,078 million. The main cash outflow factors were an increase in notes and accounts receivable – trade of ¥7,995 million, an increase in inventories of ¥2,213 million, and income taxes paid of ¥6,472 million.

■ Cash Flows from Investing Activities

Net cash used in investing activities was ¥7,163 million (increased ¥28,230 million compared to March 31, 2018).

The main cash inflow factor was an increase in proceeds from sales of property, plant and equipment of ¥8,168 million. The main cash outflow factors were payment for the acquisition of property, plant and equipment of ¥12,022 million and acquisition of intangible assets of ¥3,234 million.

■ Cash Flows from Financing Activities

Net cash used in financing activities was ¥19,995 million (increased ¥5,767 million compared to March 31, 2018).

The main cash inflow factor was proceeds from issuance of bonds of ¥10,000 million. The main cash outflow factors were payments from changes in ownership interests in subsidiaries that do not result in a change in scope of consolidation of ¥19,045 million, dividend payments of ¥4,941 million (¥47.5 per share) for the year-end dividend of the fiscal year ended March 31, 2018, and ¥5,202 million (¥50.0 per share) for the interim dividend of the fiscal year ended March 31, 2019.

■ Liquidity and Capital Resources

The Group has been advancing the aforementioned core strategies under the Medium-Term Management Plan in order to transform its business structure, thereby achieving high growth and high profitability and increasing its corporate value over the medium term. Notably, the Group seeks to establish and promote a wide range of service-oriented businesses and strategic businesses such as the automotive software systems business. To this end, the Group has

been pushing ahead with investments in data centers and various business development investments encompassing the IoT, AI, and DX-related fields. Moreover, the Group has been continuously acquiring cutting-edge technologies, strengthening its customer base, and considering M&As that will accelerate business growth.

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

The Group had interest-bearing debt of ¥57,752 million as of March 31, 2019 through bank loans and the issuance of bonds and suchlike. In comparison, cash and cash equivalents stood at ¥106,198 million, surpassing the amount of interest-bearing debt, indicating that the Group has achieved a solid financial base.

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

The Group will continue to conduct financial operations in an effort to strengthen its financial base and maintain and improve its external fund procurement capability.

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

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

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 June 25, 2019.

1. Risks Related to the Business Environment

The information services industry in which SCSK Group operates experiences intense competition among specialist IT service companies, from IT hardware vendors attempting to enter the IT service sector and from overseas companies.

Given this situation, changes in the business environment can lead to major and rapid changes in customers' IT investment needs, and these changes, as well as continued price competition within the industry significantly beyond the level being seen at this time, could have a major impact on the Group's results.

In addition, the Group provides a range of IT services to customer companies in a variety of industries and with various business formats, and the timing and scope of customers' IT investment are both directly and indirectly affected by the economic environment and factors such as interest rate and currency movements. Therefore, this could also have an impact on the Group's results.

2. Risks Related to Systems Development

The SCSK Group undertakes information systems development for customer companies. However, as systems development becomes increasingly complex with shorter delivery schedules, there is the possibility that costs will increase if quality cannot be maintained as planned, development cannot be completed as planned or development cannot be completed within the scheduled timeframe. This could have an impact on the Group's results. In addition, the Group uses many subcontractors, including nearshore development companies, to maintain production capacity, increase cost efficiency and utilize technological capabilities and expertise. With this use of subcontractors, there is the possibility that productivity and quality cannot be maintained as expected.

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

3. Risks Related to Addressing Technological Innovation

The information services industry in which the SCSK Group operates experiences extremely fast-paced technological

innovation, which creates the possibility that the Group's technologies, technical abilities, and expertise will become outdated. In addition, rapid changes in industry standards for the software and hardware used to construct the systems and provide the services of customers, which are the source of the Group's earnings, could lead to a loss of technical or price advantages for those systems and services. As a result, if the Group is unable to predict or recognize trends in technological changes or is able to predict but not able to respond appropriately to those changes, this could have an impact on the Group's results.

To appropriately respond to technological innovation in a timely manner, the Group promotes the enhancement of employees' capabilities and the systematic identification and acquisition of new technologies. In addition, the Group disperses the technical capabilities and product procurement capacity used to build systems and provide services. At the same time, it promotes business operations that are not overly reliant on any particular technology, expertise or product.

4. Risks Related to Information Security

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

Therefore, the Group has introduced security systems and established a framework for responding to the detection or occurrence of a cyberattack. In addition to maintaining thorough compliance and strengthening physical security measures, we implement programs to strengthen information security throughout education and training, including at subcontractors that handle confidential information. We require subcontractors to fully comply with the Information Security Guidelines established by the Company, and we work to ensure that subcontractors maintain the same levels of information security and information management as those of SCSK through regular monitoring of subcontractor compliance using confirmation sheets, as well as carrying out on-site reviews (field audits), issuing instructions to make fixes and conducting related measures at subcontractors when necessary.

5. Risks Related to Investment

The SCSK Group invests in or provides credit such as loans to operating companies and venture capital companies for the purpose of strengthening our solutions, maintaining production capacity, acquiring and enhancing technical capabilities in cutting-edge areas and maintaining the ability to procure the latest hardware and software and purchases prototype products from these companies. Investments are also made for packaged software development and service development in priority business and new business areas. The failure to get returns as initially anticipated as a result of deterioration in earnings or shortfalls in the business plans of the invested businesses or the borrowers could have an impact on the Group's results.

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

6. Risks Related to Litigation

The SCSK Group sells and delivers software and hardware products developed and manufactured outside the Group to a large number of customer companies, and there is the possibility of litigation arising as a result of infringement of intellectual property rights in connection with these business activities. The details and outcomes of such litigation could have an impact on the Group's result.

7. Risks Related to Fluctuations in Defined Benefit Pension Plan Assets and Assumptions

The plan assets in the Group pension fund increase and decrease as a result of investment performance. In addition, assumptions which are one of the components used in pension benefit accounting to calculate retirement benefit obligations fluctuate as a result of factors including the aging and retirement of employees and new employees enrolling in the pension program. Plan assets and assumptions are subject to change due to factors that are beyond the control of SCSK's management, and these changes could have an impact on the Group's results.

8. Risks Related to the Possibility of Recovery of Deferred Tax Assets

The Group recognized deferred tax assets that are expected to be recovered from taxable income arising from business transactions. However, the inability to recover these assets because of a shortfall from planned operating results or tax system revisions, including changes in tax rates, could necessitate reversals of deferred tax assets, which could have an impact on the Group's results.

9. Risks Related to Impairment on Non-Current Assets

The SCSK Group owns non-current assets such as land and structures that are used for offices, including leased offices, data centers, dormitories, and employee housing. Data centers and leased offices are classified with their respective business segment, and other assets are classified as corporate assets, and movements in land prices or the SCSK Group's performances could have an impact on the Group's results.

10. Risks Related to Product Procurement

The SCSK Group procures a wide range of specially selected hardware and software products in Japan and from overseas and supplies these products to customers. Sudden and unexpected changes in vendors' business strategies could result in changes in product specifications or the termination of supplies, which could have an impact on the Group's results.

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

11. Risks Related to Non-Recovery of Assets

The SCSK Group sells products, undertakes systems development and provides services to a large number of customer companies. The payment for many of these transactions takes place after the product or service is delivered. Deterioration in the customer company's financial position could lead to delay in the recovery of SCSK's claims or make recovery difficult, and this could have an impact on the Group's results.

Therefore, the Group manages credit, confirms the status of customer companies' credit and sets appropriate credit limits independently of the operating division and also regularly monitors the status of unpaid claims and recovery. Appropriate accounting measures, including the recording of allowances for doubtful accounts, are taken as necessary.

12. Risks Related to Large-Scale Natural Disasters

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

In order to strengthen its structure to ensure business continuity in the event of unforeseen circumstances, the Group has formulated business continuity plans and established backup offices where managerial duties can be performed and a disaster control headquarters in the event of such circumstances.

13. 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 and to develop human resources as originally planned, there could be an impact on the Group's results.

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

SCSK Corporation and Consolidated Subsidiaries
March 31, 2019 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Current assets:			
Cash and deposits	¥ 16,456	¥ 21,170	\$ 190,740
Notes and accounts receivable – trade (Note 7- ^{*4})	66,665	74,698	673,022
Lease receivables and investment assets	396	334	3,017
Merchandise and finished goods	5,137	7,831	70,561
Work in process (Note 7- ^{*3})	900	360	3,251
Raw materials and supplies	49	117	1,060
Deposits paid	83,340	85,028	766,093
Other	10,779	11,496	103,582
Allowance for doubtful accounts	(41)	(31)	(286)
Total current assets	183,684	201,007	1,811,044
Non-current assets:			
Property, plant and equipment:			
Buildings and structures, net (Note 7- ^{*2})	31,543	43,566	392,530
Tools, furniture and fixtures, net (Note 7- ^{*2})	7,802	9,233	83,190
Land	19,821	14,169	127,668
Leased assets, net (Note 7- ^{*2})	1,714	1,552	13,990
Construction in progress	12,581	2,310	20,815
Other, net (Notes 7- ^{*2})	1	0	1
Total property, plant and equipment	73,464	70,833	638,195
Intangible assets:			
Goodwill	84	53	481
Other	9,472	8,155	73,478
Total intangible assets	9,556	8,208	73,960
Investments and other assets:			
Investment securities (Note 7- ^{*1})	10,625	11,773	106,081
Long-term prepaid expenses	1,202	1,563	14,090
Lease and guarantee deposits	6,909	6,759	60,897
Deferred tax assets	17,297	13,709	123,521
Other	1,294	1,042	9,388
Allowance for doubtful accounts	(119)	(53)	(485)
Total investments and other assets	37,209	34,794	313,494
Total non-current assets	120,229	113,837	1,025,651
Total assets	¥303,914	¥314,844	\$2,836,695

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

LIABILITIES	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Current liabilities:			
Notes and accounts payable – trade	¥ 20,013	¥ 22,087	\$ 199,001
Short-term loans payable	10,000	15,000	135,147
Current portion of long-term loans payable	5,000	—	—
Lease obligations	975	843	7,596
Income taxes payable	4,802	4,898	44,135
Provision for bonuses	5,651	5,910	53,248
Provision for directors' bonuses	79	57	521
Provision for loss on construction contracts (Note 7- ^{*3})	329	228	2,059
Other	23,712	23,499	211,729
Total Current liabilities	70,564	72,525	653,440
Non-current liabilities:			
Bonds payable	30,000	40,000	360,392
Lease obligations	2,183	1,909	17,204
Provision for directors' retirement benefits	20	20	188
Net defined benefit liability	1,468	2,902	26,152
Asset retirement obligations	2,391	2,779	25,044
Long-term lease and guarantee deposited	603	154	1,389
Other	80	83	752
Total non-current liabilities	36,748	47,850	431,124
Total liabilities	107,313	120,375	1,084,565
Net assets			
Shareholders' equity:			
Capital stock	21,152	21,152	190,583
Capital surplus	1,299	—	—
Retained earnings	168,363	175,223	1,578,732
Treasury shares	(711)	(694)	(6,257)
Total shareholders' equity	190,104	195,681	1,763,058
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,274	2,076	18,707
Deferred gains or losses on hedges	(5)	(21)	(189)
Foreign currency translation adjustments	(154)	(182)	(1,643)
Remeasurements of defined benefit plans	(3,004)	(4,141)	(37,317)
Total accumulated other comprehensive income	(890)	(2,269)	(20,443)
Subscription rights to shares	57	40	368
Non-controlling interests	7,329	1,015	9,146
Total net assets	196,600	194,468	1,752,130
Total liabilities and net assets	¥303,914	¥314,844	\$2,836,695

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Net sales	¥336,654	¥358,654	\$3,231,417
Cost of sales (Note 8- ^{*7})	253,098	269,912	2,431,866
Gross profit	83,555	88,742	799,550
Selling, general and administrative expenses (Notes 8- ^{*1} , ^{*6})	48,953	50,363	453,769
Operating profit	34,602	38,378	345,780
Non-operating income			
Interest income	91	65	592
Dividend income	66	71	643
Share of profit of entities accounted for using equity method	537	750	6,762
Gain on sales of investment securities	56	—	—
Hoard profit of prepaid card	1,006	—	—
Other	313	173	1,561
Total non-operating income	2,071	1,061	9,559
Non-operating expenses			
Interest expenses	126	115	1,039
Loss on sales of investment securities	1	2	18
Bond issuance cost	48	48	435
Subsidiary stock acquisition-related cost	—	495	4,460
Other	206	128	1,155
Total non-operating expenses	382	789	7,110
Ordinary profit	36,291	38,650	348,230
Extraordinary income			
Gain on sales of non-current assets (Note 8- ^{*2})	2	371	3,345
Gain on sales of investment securities	10,756	1,024	9,229
Gain on sales of membership	—	0	2
Gain on step acquisitions	—	47	428
Total extraordinary income	10,759	1,443	13,005
Extraordinary losses			
Loss on retirement of non-current assets (Note 8- ^{*3})	750	57	514
Loss on sales of non-current assets (Note 8- ^{*4})	32	44	400
Non recurring depreciation on software	1,231	—	—
Impairment loss (Note 8- ^{*5})	1,425	—	—
Loss on sales of investment securities	10	1	14
Loss on valuation of investment securities	101	—	—
Loss on sales of membership	—	0	1
Loss on valuation of membership	10	—	—
Compensation expenses	—	294	2,657
Disaster loss	—	217	1,959
Total extraordinary losses	3,561	615	5,549
Profit before income taxes	43,489	39,477	355,686
Income taxes – current	6,093	6,567	59,171
Income taxes – deferred	4,099	4,221	38,032
Total income taxes	10,192	10,788	97,204
Profit	33,296	28,688	258,482
Profit attributable to non-controlling interests	807	796	7,178
Profit attributable to owners of parent	¥ 32,488	¥ 27,892	\$ 251,304

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

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Profit	¥33,296	¥28,688	\$258,482
Other comprehensive income:			
Valuation difference on available-for-sale securities	(48)	(185)	(1,675)
Deferred gains or losses on hedges	(0)	(15)	(139)
Foreign currency translation adjustments	(98)	(20)	(189)
Remeasurements of defined benefit plans, net of tax	(203)	(1,199)	(10,803)
Share of other comprehensive income of entities accounted for using equity method	45	(18)	(168)
Total other comprehensive income (Note 9)	(305)	(1,440)	(12,975)
Comprehensive income	¥32,990	¥27,248	\$245,506
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥32,197	¥26,513	\$238,882
Comprehensive income attributable to non-controlling interests	793	735	6,623

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

Consolidated Statements of Changes in Net Assets

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen					Millions of yen							
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2017	¥21,152	¥ 3,047	¥151,722	¥(8,425)	¥167,497	¥2,308	¥ (5)	¥ (73)	¥(2,829)	¥ (599)	¥ 70	¥ 6,706	¥173,674
Changes of items during period:													
Dividends of surplus	—	—	(9,883)	—	(9,883)	—	—	—	—	—	—	—	(9,883)
Profit attributable to owners of parent	—	—	32,488	—	32,488	—	—	—	—	—	—	—	32,488
Change in ownership interest of parent due to transactions with non-controlling interests	—	1	—	—	1	—	—	—	—	—	—	—	1
Purchase of treasury shares	—	—	—	(22)	(22)	—	—	—	—	—	—	—	(22)
Disposal of treasury shares	—	(5)	—	20	15	—	—	—	—	—	—	—	15
Retirement of treasury shares	—	(7,708)	—	7,708	—	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	5,965	(5,965)	—	—	—	—	—	—	—	—	—	—
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	7	7	—	—	—	—	—	—	—	7
Net changes of items other than shareholders' equity	—	—	—	—	—	(34)	(0)	(80)	(175)	(291)	(12)	622	319
Total changes of items during period	—	(1,747)	16,640	7,714	22,607	(34)	(0)	(80)	(175)	(291)	(12)	622	22,926
Balance at March 31, 2018	21,152	1,299	168,363	(711)	190,104	2,274	(5)	(154)	(3,004)	(890)	57	7,329	196,600
Balance at April 1, 2018	21,152	1,299	168,363	(711)	190,104	2,274	(5)	(154)	(3,004)	(890)	57	7,329	196,600
Changes of items during period:													
Dividends of surplus	—	—	(10,144)	—	(10,144)	—	—	—	—	—	—	—	(10,144)
Profit attributable to owners of parent	—	—	27,892	—	27,892	—	—	—	—	—	—	—	27,892
Change in ownership interest of parent due to transactions with non-controlling interests	—	(12,178)	—	—	(12,178)	—	—	—	—	—	—	—	(12,178)
Purchases of treasury shares	—	—	—	(11)	(11)	—	—	—	—	—	—	—	(11)
Disposals of treasury shares	—	(8)	—	28	19	—	—	—	—	—	—	—	19
Retirement of treasury shares	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	10,887	(10,887)	—	—	—	—	—	—	—	—	—	—
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(198)	(15)	(27)	(1,137)	(1,378)	(16)	(6,313)	(7,709)
Total changes of items during period	—	(1,299)	6,860	16	5,577	(198)	(15)	(27)	(1,137)	(1,378)	(16)	(6,313)	(2,131)
Balance at March 31, 2019	¥21,152	¥ —	¥175,223	¥ (694)	¥195,681	¥2,076	¥(21)	¥(182)	¥(4,141)	¥(2,269)	¥ 40	¥ 1,015	¥194,468

	Thousands of U.S. dollars (Note 2)					Thousands of U.S. dollars (Note 2)							
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2018	\$190,583	\$ 11,711	\$1,516,921	\$(6,408)	\$1,712,807	\$20,493	\$ (50)	\$(1,392)	\$(27,072)	\$ (8,021)	\$ 518	\$ 66,034	\$1,771,338
Changes of items during period:													
Dividends of surplus	—	—	(91,399)	—	(91,399)	—	—	—	—	—	—	—	(91,399)
Profit attributable to owners of parent	—	—	251,304	—	251,304	—	—	—	—	—	—	—	251,304
Change in ownership interest of parent due to transactions with non-controlling interests	—	(109,724)	—	—	(109,724)	—	—	—	—	—	—	—	(109,724)
Purchases of treasury shares	—	—	—	(102)	(102)	—	—	—	—	—	—	—	(102)
Disposals of treasury shares	—	(79)	—	254	174	—	—	—	—	—	—	—	174
Retirement of treasury shares	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	98,093	(98,093)	—	—	—	—	—	—	—	—	—	—
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(1,786)	(139)	(250)	(10,245)	(12,421)	(150)	(56,887)	(69,459)
Total changes of items during period	—	(11,711)	61,811	151	50,251	(1,786)	(139)	(250)	(10,245)	(12,421)	(150)	(56,887)	(19,208)
Balance at March 31, 2019	\$190,583	\$ —	\$1,578,732	\$(6,257)	\$1,763,058	\$18,707	\$(189)	\$(1,643)	\$(37,317)	\$(20,443)	\$ 368	\$ 9,146	\$1,752,130

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

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 43,489	¥ 39,477	\$ 355,686
Depreciation	10,013	10,530	94,877
Amortization of goodwill	49	30	275
Impairment loss	1,425	—	—
Increase (decrease) in allowance for doubtful accounts	(10)	(76)	(685)
Increase (decrease) in net defined benefit liability	(931)	(1,003)	(9,040)
Decrease (increase) in net defined benefit asset	13	—	—
Loss on retirement of non-current assets	750	57	514
Loss (gain) on sales of non-current assets	29	(326)	(2,944)
Non recurring depreciation on software	1,231	—	—
Loss (gain) on valuation of investment securities	101	—	—
Loss (gain) on sales of investment securities	(10,801)	(1,020)	(9,196)
Share of (profit) loss of entities accounted for using equity method	(537)	(750)	(6,762)
Loss (Gain) on step acquisitions	—	(47)	(428)
Interest and dividend income	(157)	(137)	(1,236)
Interest expenses paid on loans and bonds	126	115	1,039
Compensation expenses	—	294	2,657
Disaster loss	—	217	1,959
Decrease (increase) in investment securities for sale	2,091	—	—
Decrease (increase) in notes and accounts receivable – trade	(1,753)	(7,995)	(72,039)
Decrease (increase) in inventories	(513)	(2,213)	(19,945)
Decrease (increase) in guarantee deposits	(6,316)	—	—
Increase (decrease) in notes and accounts payable – trade	(1,073)	2,078	18,724
Increase (decrease) in deposits received of prepaid cards	1,790	—	—
Other, net	663	772	6,957
Subtotal	39,682	40,002	360,413
Interest and dividend income received	319	327	2,950
Interest expenses paid	(142)	(114)	(1,033)
Compensation expenses paid	—	(224)	(2,026)
Payments for loss on disaster	—	(6)	(54)
Income taxes (paid) refund	(2,763)	(6,472)	(58,317)
Net cash provided by (used in) operating activities	37,096	33,511	301,932
Cash flows from investing activities:			
Purchase of property, plant and equipment	(10,042)	(12,022)	(108,321)
Proceeds from sales of property, plant and equipment	16	8,168	73,600
Purchase of intangible assets	(3,865)	(3,234)	(29,146)
Purchase of investment securities	(892)	(1,274)	(11,487)
Proceeds from sales and redemption of investment securities	298	1,210	10,902
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 11-*)	(20,618)	—	—
Payments of short-term loans receivable	(8)	(208)	(1,876)
Collection of short-term loans receivable	7	154	1,390
Proceeds from withdrawal of investments in partnership	85	113	1,020
Payments for lease and guarantee deposits	(281)	(483)	(4,358)
Proceeds from collection of lease and guarantee deposits	255	614	5,536
Other, net	(349)	(199)	(1,799)
Net cash provided by (used in) investing activities	(35,394)	(7,163)	(64,541)
Cash flows from financing activities:			
Increase in short-term loans payable	10,000	15,000	135,147
Decrease in short-term loans payable	(10,000)	(10,000)	(90,098)
Repayments of long-term loans payable	(10,000)	(5,000)	(45,049)
Proceeds from issuance of bonds	10,000	10,000	90,098
Redemption of bonds	(15,000)	—	—
Repayments of lease obligations	(691)	(615)	(5,543)
Purchase of treasury shares	(22)	(12)	(113)
Proceeds from sales of treasury shares	2	2	24
Cash dividends paid	(9,883)	(10,144)	(91,399)
Dividends paid to non-controlling interests	(169)	(181)	(1,631)
Payments for acquisition of subsidiary's shares not resulting in a change in scope of consolidation	—	(19,045)	(171,593)
Net cash provided by (used in) financing activities	(25,763)	(19,995)	(180,160)
Effect of exchange rate change on cash and cash equivalents	(76)	(21)	(190)
Net increase (decrease) in cash and cash equivalents	(24,137)	6,330	57,040
Cash and cash equivalents at beginning of period	123,935	99,797	899,158
Increase in cash and cash equivalents from newly consolidated subsidiary	—	70	635
Cash and cash equivalents at end of period (Note 11-*)	¥ 99,797	¥106,198	\$ 956,833

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

SCSK Corporation and Consolidated Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Presentation

SCSK Corporation (“The Company”) and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain aspect in terms of the application and disclosure requirements of International Financial Reporting Standards (IFRS), and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

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

(2) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. In accordance with the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using the Equity Method” (PITF No. 24), the accompanying consolidated financial

statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRS or accounting principles generally accepted in the United States.

(3) Changes in Presentation

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

(4) U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in Japanese yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥110.99 to U.S.\$1.00, the prevailing exchange rate at March 31, 2019. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars.

(5) Foreign Currency Translation

(a) Translation of accounts

All short- and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the prevailing exchange rates on the balance sheet date. Gains and losses resulting from the translation are recognized in the consolidated statements of income as incurred.

(b) Financial statements denominated in foreign currencies

Balance sheets of foreign consolidated subsidiaries are translated into Japanese yen at the year-end rate except for shareholders’ equity accounts, which are translated at the historical rates. Statements of income of foreign consolidated subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

2. MATTERS RELATED TO THE ISSUE OF A GOING CONCERN

Not applicable

3. SIGNIFICANT ITEMS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Scope of Consolidation

(a) Consolidated subsidiaries: 20

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

Effective from April 1, 2018, VERISERVE OKINAWA TEST CENTER CORPORATION has been included in the scope of consolidation to reflect the increase in its importance to the consolidated financial statements.

(b) Major non-consolidated subsidiaries and affiliates

Skeed Co. Ltd.
Tokyo Green Systems Corporation
Gran Manibus Co., Ltd.

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

(2) Equity-Method Affiliates

(a) Affiliates (unconsolidated) accounted for by the equity method: 1

Gran Manibus Co., Ltd.

(b) Affiliates (consolidated) accounted for by the equity method: 1

ARGO GRAPHICS Inc.

Non-consolidated subsidiaries not accounted for by the equity method (Skeed Co. Ltd. and Tokyo Green Systems Corporation) are excluded from the method's application

because their overall importance within the Group is low and the impact on net profit, retained earnings and other factors would be minor.

Effective from April 1, 2018, VERISERVE OKINAWA TEST CENTER CORPORATION has been excluded from the scope of equity method application and included in the scope of consolidation to reflect the increase in its importance to the consolidated financial statements.

Effective October 1, 2018, the scope for Asian Frontier Co., Ltd. has been changed from an equity method affiliate into a non-consolidated equity-method affiliate following the acquisition of additional shares of this company's stock.

In addition, the name of Asian Frontier Co., Ltd. was changed to Gran Manibus Co., Ltd.

(3) Fiscal Year of Consolidated Subsidiaries

The fiscal year-end of SCSK Europe Ltd., SCSK Shanghai Limited, SCSK Asia Pacific Pte. Ltd. and one investment partnership is December 31. For those companies, preparation of the consolidated financial statements for the fiscal year ended March 31, 2019 is based on the financial statements for the period from January 1, 2018 through December 31, 2018.

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

(4) Significant Accounting Policies

(a) Valuation bases and valuation methods for assets

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

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

Available-for-sale securities:
Available-for-sale securities with fair value are stated at fair value at the balance sheet date. Valuation differences on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using the moving average method.

Available-for-sale securities without fair value are stated at the moving average cost. Investments in partnership considered as securities in accordance with the Financial Instruments and Exchange Act of Japan are stated at the amount of net shares based on their available financial statements at reporting dates designated by partnership agreements.

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

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

iii) Derivative transactions
Derivative transactions are carried at fair value.

(b) Depreciation method of significant assets

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

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

Software for internal use:
Capitalized costs of software for internal use are amortized using the straight-line method over the estimated useful life of the software (within 5 years).

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

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

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

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

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

(c) Recognition standards for allowances and provisions

i) Allowance for doubtful accounts
Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. The allowance for doubtful accounts consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual historical percentage of collection losses.

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

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

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

v) Provision for directors' retirement benefits
The Company and certain consolidated subsidiaries record provision for directors' retirement benefits based on an estimated amount payable to directors upon retirement. An estimate is based only on the period prior to the date of abolishment of the directors' retirement benefit plan, which was approved at the shareholders' meeting in previous years.

(d) Retirement benefits

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

ii) Recording methods of actuarial gains/losses and past service costs
Actuarial gains and losses are amortized by the straight-line method over a defined period not exceeding the average estimated remaining service period, which is mainly 5 to 13 years, beginning from the following fiscal year.

Past service costs are amortized by the straight-line method over a defined period not exceeding the average estimated remaining service period of mainly 1 to 12 years.

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

(e) Disposition method for deferred assets

Bond issuance cost:
Bond issuance cost is expensed in full when paid.

(f) Revenue recognition

Revenue from construction contracts:
The percentage of completion method is applied to contracts for which substantial progress toward certain results is reasonably dependable at the end of the fiscal year under review. The estimation of the degree of completion of a contract at the fiscal year-end is determined by the percentage of the cost incurred to the estimated total costs. The completed contract method is applied to other contracts.

(g) Derivative and hedge accounting

i) Hedge accounting methods
Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to operations, except for those that meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as a component of net assets. Appropriation treatment is applied for receivables and payables denominated in foreign currencies hedged by forward foreign exchange contracts. With appropriation treatment, receivables and payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for specific hedge accounting.

ii) Hedging instruments and hedged items
Hedging instruments:
Forward foreign exchange contracts

Hedged items:
Receivables and payables denominated in foreign currencies

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

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

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

(h) Amortization of goodwill

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

(i) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with insignificant risk of changes in value, maturities not exceeding three months at the time of purchase and Money Management Funds and other are considered to be cash and cash equivalents.

(j) Consumption taxes

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

(k) Application of consolidated taxation system

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

4. STANDARDS AND GUIDANCE NOT YET ADOPTED

The following standard and guidance were issued but not yet adopted.
— “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018)
— “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

i) Overview
The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:
Step 1: Identify contract(s) with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ii) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

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

5. CHANGES IN PRESENTATION

Consolidated Statements of Cash Flows
Provision of short-term loans was included in other, net under cash flows from investing activities in the previous fiscal year, but has been presented separately in the fiscal year under review as its importance has increased. In order to reflect the changes in this presentation, the amounts in consolidated financial statements for the previous fiscal year have been reclassified.

As a result, a net outflow of ¥357 million recorded as other, net under cash flows from operating activities in the consolidated statement of cash flow for the previous fiscal year has been reclassified as provision of short-term loans of ¥8 million and other, net of ¥349 million.

6. CHANGES DUE TO ADOPTION OF “PARTIAL AMENDMENTS TO ACCOUNTING STANDARD FOR TAX EFFECT ACCOUNTING”

Upon application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018 (hereinafter, “Statement No. 28”)) from the beginning of the fiscal year under review, the Company and its domestic subsidiaries have changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets are classified as part of investments and other assets and deferred tax liabilities are classified as part of non-current liabilities.

As a result, deferred tax assets of ¥7,556 million classified as current assets have been included in deferred tax assets (¥17,297 million) in investments and other assets.

Furthermore, in the notes related to tax effect accounting, the Company has additionally included Note 8 (excluding the total amount of valuation reserves) and Note 9 of the “Accounting Standard for Tax Effect Accounting” stipulated in paragraphs 3 to 5 of the “Statement No. 28.” However, this additional information is not disclosed for the previous fiscal year in accordance with the transitional treatments prescribed in paragraph 7 of the Statement No. 28.

7. CONSOLIDATED BALANCE SHEETS

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

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Investment Securities	¥4,930	¥5,632	\$50,746

*2 Accumulated depreciation of property, plant and equipment

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Accumulated depreciation of property, plant and equipment	¥46,388	¥46,628	\$420,118

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

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

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Work in process (Amount of inventories corresponding to provision for loss on construction contracts)	¥315	¥125	\$1,133

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

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

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Notes receivable	¥44	¥69	\$626

8. CONSOLIDATED STATEMENTS OF INCOME

*1 Major elements of “Selling, general and administrative expenses” for the years ended March 31, 2018 and 2019 were as follows:

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Salaries and bonuses	¥20,340	¥21,043	\$189,601
Retirement benefit expenses	1,319	1,709	15,398
Welfare expenses	4,546	4,765	42,939
Rent expenses	3,471	3,316	29,883
Depreciation	1,693	1,619	14,593
Business consignment expenses	2,763	2,504	22,566
Taxes and dues	3,117	3,034	27,336
Provision for bonuses	1,478	1,465	13,203
Provision for directors' bonuses	68	57	521

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

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ —	¥(1,363)	\$(12,285)
Tools, furniture and fixtures	2	1	14
Land	—	1,733	15,616
Total	¥ 2	¥ 371	\$ 3,345

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

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

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ 22	¥13	\$121
Tools, furniture and fixtures	41	39	352
Leased assets	2	1	12
Software	682	3	27
Other	1	0	0
Total	¥750	¥57	\$514

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

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ 0	¥—	\$ —
Tools, furniture and fixtures	31	44	400
Total	¥32	¥44	\$400

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

Year ended March 31, 2018

Location	Use	Type of assets
Edogawa-ku, Tokyo	Data center	Buildings and structures
Kita-ku, Osaka, Osaka Prefecture	Data center	Buildings and structures, and tools, furniture and fixtures

Property and equipment are classified into groups based on the respective type of business, which are the units for making investment decisions. In principle, the Group classifies business assets by the smallest unit independently generating cash flows based on business segments.

The Group decided to repurpose business assets as offices or close data center facilities classified under the IT Management Group. Based on these decisions, the Group recognized an impairment loss of ¥1,425 million by decreasing

the book value of the assets scheduled to be disposed of to the recoverable amount. The main components of the impairment loss were ¥1,384 million for buildings and structures and ¥40 million for tools, furniture and fixtures. In calculating the recoverable amount of those assets, the Group estimated the value in use based on future cash flows. As a result, the Group determined that the recoverable amount of those assets was zero since the current value in use based on future cash flows was found to be negative.

Year ended March 31, 2019

Not applicable

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

Year ended March 31		Year ended March 31
2018	2019	2019
Millions of yen		Thousands of U.S. dollars
¥280	¥725	\$6,537

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

Year ended March 31		Year ended March 31
2018	2019	2019
Millions of yen		Thousands of U.S. dollars
¥328	¥227	\$2,048

9. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table presents the components of reclassification adjustments and income tax of other comprehensive income for the years ended March 31, 2018 and 2019.

* Other comprehensive income:

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Valuation difference on available-for-sale securities:			
(Losses) gains arising during the year	¥ (17)	¥ (265)	\$ (2,396)
Reclassification adjustments for gains (losses) included in income statements	(53)	(2)	(18)
Before tax amounts	(70)	(268)	(2,414)
Tax (expenses) benefits	22	82	739
Subtotal, net of tax	(48)	(185)	(1,675)
Deferred gains or losses on hedges:			
(Losses) gains arising during the year	(0)	(22)	(200)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Before tax amounts	(0)	(22)	(200)
Tax (expenses) benefits	0	6	61
Subtotal, net of tax	(0)	(15)	(139)
Foreign currency translation adjustments:			
(Losses) gains arising during the year	(98)	(20)	(189)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Before tax amounts	(98)	(20)	(189)
Tax (expenses) benefits	—	—	—
Subtotal, net of tax	(98)	(20)	(189)
Remeasurements of defined benefit plans:			
(Losses) gains arising during the year	(45)	(2,437)	(21,962)
Reclassification adjustments for gains (losses) included in income statements	(252)	692	6,238
Before tax amounts	(297)	(1,745)	(15,723)
Tax (expenses) benefits	94	546	4,919
Subtotal, net of tax	(203)	(1,199)	(10,803)
Share of other comprehensive income of entities accounted for using equity method:			
(Losses) gains arising during the year	45	(18)	(168)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Subtotal, net of tax	45	(18)	(168)
Total other comprehensive income	¥(305)	¥(1,440)	\$ (12,975)

10. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Year ended March 31, 2018

(1) Number of issued shares

Class of shares	Number of shares at April 1, 2017	Increase	Decrease	Number of shares at March 31, 2018
Common Stock	107,986,403	—	3,804,600	104,181,803

Outline of reasons for changes:

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

Decrease due to the retirement of treasury shares: 3,804,600 shares

(2) Number of treasury shares

Class of shares	Number of shares at April 1, 2017	Increase	Decrease	Number of shares at March 31, 2018
Common Stock	4,177,266	4,476	3,818,824	362,918

Outline of reasons for changes:

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

Purchases of less-than-one-unit shares: 4,476 shares

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

Disposals of less-than-one-unit shares: 560 shares

Decrease due to the retirement of treasury shares: 3,804,600 shares

Exercise of subscription rights to shares: 9,500 shares

Decrease due to change in equity in entities accounted for using the equity method: 4,164 shares

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares			Number of shares outstanding at March 31, 2018	Amount outstanding at March 31, 2018 (Millions of yen)
			Number of shares outstanding at April 1, 2017	Increase	Decrease		
SCSK	Subscription rights as stock options	—	—	—	—	—	¥57

(4) Matters related to dividends**(a) Dividend payments**

Approved by	Types of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 28, 2017	Common Stock	¥4,941	¥47.50	March 31, 2017	June 2, 2017
Board Meeting held at October 30, 2017	Common Stock	¥4,941	¥47.50	September 30, 2017	December 1, 2017

(b) Dividends whose record date is attributable to the year ended March 31, 2018 but whose effective date is to be after the balance sheet date

Approved by	Types of shares	Source of funds	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 27, 2018	Common Stock	Accumulated income	¥4,941	¥47.50	March 31, 2018	June 5, 2018

Year ended March 31, 2019

(1) Number of issued shares

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

(2) Number of treasury shares

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

Outline of reasons for changes:

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

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

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

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

Exercise of subscription rights to shares: 12,900 shares

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares			Amount outstanding at March 31, 2019	
			Number of shares outstanding at April 1, 2018	Increase	Decrease	Number of shares outstanding at March 31, 2019	Thousands of U.S. dollars
SCSK	Subscription rights as stock options	—	—	—	—	—	¥40 \$368

(4) Matters related to dividends**(a) Dividend payments**

Approved by	Types of shares	Total amount of dividends		Dividends per share		Record date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Board Meeting held at April 27, 2018	Common Stock	¥4,941	\$44,525	¥47.50	\$0.42	March 31, 2018	June 5, 2018
Board Meeting held at October 29, 2018	Common Stock	¥5,202	\$46,874	¥50.00	\$0.45	September 30, 2018	December 3, 2018

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

Approved by	Types of shares	Source of funds	Total amount of dividends		Dividends per share		Record date	Effective date
			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Board Meeting held at April 26, 2019	Common Stock	Accumulated income	¥5,202	\$46,874	¥50.00	\$0.45	March 31, 2019	June 4, 2019

11. CASH FLOW INFORMATION

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

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Cash and deposits	¥16,456	¥ 21,170	\$190,740
Deposits paid	83,340	85,028	766,093
Cash and cash equivalents	¥99,797	¥106,198	\$956,833

*2 The significant components of assets and liabilities of companies that were deconsolidated as a result of the sale of shares

Year ended March 31, 2018

The breakdown of assets and liabilities at the time of sale following the deconsolidation of QUO CARD Co., Ltd. as a result of the sales of all shares held in this company, as well as the amount of shares sold and payments for the sale of shares, is as follows:

	Millions of yen
Current assets	¥106,132
Non-current assets	4,549
Current liabilities	(98,817)
Non-current liabilities	(53)
Other	(14)
Gain on transfer of business	10,706
Transaction price	22,500
Cash and cash equivalents	(43,118)
Net: Payments for sales of shares	¥ (20,618)

12. LEASE TRANSACTIONS

(1) Lessee – Finance leases

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

(a) Description of leased assets

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

(b) Calculation method of depreciation equivalents

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

(2) Lessee – Operating leases

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

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
As a lessee:			
Due within one year	¥ 3,639	¥3,409	\$30,715
Due over one year	9,263	6,346	57,177
Total	¥12,903	¥9,755	\$87,892

13. FINANCIAL INSTRUMENTS

(1) Matters related to financial instruments

For year ended March 31, 2018

(a) Policy for financial instruments

For the management of surplus funds, the Group's policy is to invest only in short-term deposits at banks and investment securities. The Group mainly raises funds through bank loans and corporate bonds and uses funds on hand. The Group does not use derivative instruments for speculative or trading purposes and only uses forward foreign exchange contracts to mitigate the risk of currency rate fluctuations for debts and credits denominated in foreign currencies.

(b) Types of financial instruments, related risks and risk management for financial instruments

Trade receivables such as trade notes and accounts receivable are exposed to customer credit risk.

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

The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships. Investment securities are exposed to market risk. The Group periodically reviews market prices of these securities in order to mitigate market risk.

Substantially all trade payables, such as trade notes and accounts payable, have payment due dates within one year and are exposed to liquidity risk.

Some trade payables denominated in foreign currency arising from import transactions are exposed to foreign currency exchange risk. The Group enters into forward foreign exchange contracts to reduce foreign currency exchange risk with financial institutions which have high credit ratings in order to reduce credit risk.

Short-term loans payable are mainly for raising working capital for operating transactions. These loans payable with the final due date in September 2018 are exposed to liquidity risk.

Bonds payable are issued and used mainly for capital expenditures. These bonds with the final due date in July 2022 are exposed to liquidity risk.

Trade payables, loans payables and bonds payable are exposed to liquidity risk, which is the risk of failing to settle as scheduled. The Company comprehensively manages the Group's cash flow by using CMS. In addition, the Company receives a monthly cash flow report from each Group company and maintains Group-wide cash management.

Regarding derivative transactions, forward foreign exchange contracts were entered into for the purpose of hedging foreign currency exchange risk deriving from trade payables and trade receivables denominated in foreign currencies.

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

The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

For year ended March 31, 2019

(a) Policy for financial instruments

For the management of surplus funds, the Group's policy is to invest only in short-term deposits at banks and investment securities. The Group mainly raises funds through bank loans and corporate bonds and uses funds on hand. The Group does not use derivative instruments for speculative or trading purposes and only uses forward foreign exchange contracts to mitigate the risk of currency rate fluctuations for debts and credits denominated in foreign currencies.

(b) Types of financial instruments, related risks and risk management for financial instruments

Trade receivables such as trade notes and accounts receivable are exposed to customer credit risk.

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

The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships. Investment securities are exposed to market risk. The Group periodically reviews market prices of these securities in order to mitigate market risk.

Substantially all trade payables, such as trade notes and accounts payable, have payment due dates within one year and are exposed to liquidity risk.

Some trade payables denominated in foreign currency arising from import transactions are exposed to foreign currency exchange risk. The Group enters into forward foreign exchange contracts to reduce foreign currency exchange risk with financial institutions which have high credit ratings in order to reduce credit risk.

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

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

Trade payables, loans payable and bonds payable are exposed to liquidity risk, which is the risk of failing to settle as scheduled. The Company comprehensively manages the Group's cash flow by using CMS. In addition, the Company receives a monthly cash flow report from each Group company and maintains Group-wide cash management.

Regarding derivative transactions, forward foreign exchange contracts were entered into for the purpose of hedging foreign currency exchange risk deriving from trade payables and trade receivables denominated in foreign currencies.

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

The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

(2) Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheets at March 31, 2018 and 2019 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

At March 31, 2018

	Carrying value ^(*a)	Fair value ^(*a)	Difference
	Millions of yen		
Assets:			
(1) Cash and deposits	¥ 16,456	¥ 16,456	¥ —
(2) Notes and accounts receivable – trade	66,665	66,665	—
(3) Deposits paid	83,340	83,340	—
(4) Investment securities			
Available-for-sale securities	5,158	5,158	—
Shares of subsidiaries and associates	4,630	8,164	3,534
(5) Lease and guarantee deposits	6,909	6,885	(23)
(6) Notes and accounts payable – trade	(20,013)	(20,013)	—
(7) Short-term loans payable	(10,000)	(10,000)	—
(8) Current portion of long-term loans payable	(5,000)	(5,000)	—
(9) Bonds payable	(30,000)	(30,084)	(84)
(10) Derivative transactions ^(*b)	(8)	(8)	—

(*a) Liabilities are presented in parentheses.

(*b) Receivables and payables incurred as a result of derivatives are presented on a net basis.

At March 31, 2019

	Carrying value ^(*a)	Fair value ^(*a)	Difference	Carrying value	Fair value	Difference
	Millions of yen			Thousands of U.S. dollars (Note 2)		
Assets:						
(1) Cash and deposits	¥ 21,170	¥ 21,170	¥ —	\$ 190,740	\$ 190,740	\$ —
(2) Notes and accounts receivable – trade	74,698	74,698	—	673,022	673,022	—
(3) Deposits paid	85,028	85,028	—	766,093	766,093	—
(4) Investment securities						
Available-for-sale securities	5,513	5,513	—	49,679	49,679	—
Shares of subsidiaries and associates	5,185	5,583	398	46,717	50,308	3,591
(5) Lease and guarantee deposits	6,759	6,695	(63)	60,897	60,321	(575)
(6) Notes and accounts payable – trade	(22,087)	(22,087)	—	(199,001)	(199,001)	—
(7) Short-term loans payable	(15,000)	(15,000)	—	(135,147)	(135,147)	—
(8) Bonds payable	(40,000)	(40,023)	(23)	(360,392)	(360,608)	215
(9) Derivative transactions ^(*b)	(30)	(30)	—	(273)	(273)	—

(*a) Liabilities are presented in parentheses.

(*b) Receivables and payables incurred as a result of derivatives are presented on a net basis.

Note 1. Matters related to the calculation method of the fair value of financial instruments, as well as securities and derivative transactions

For fiscal year ended March 31, 2018
(1) Cash and deposits, (2) Notes and accounts receivable – trade and (3) Deposits paid
Since these items are settled in a short period of time, their carrying value approximates fair value.
(4) Investment securities
The fair value of these securities is based on either quoted market prices or prices provided by the correspondent financial institutions. The carrying value is used as the fair value for certain securities with short-term maturities because the fair value is nearly equal to the carrying value.
(5) Lease and guarantee deposits
The fair value of lease and guarantee deposits with maturities exceeding one year is based on the present value discounted by reasonable rates.
(6) Notes and accounts payable – trade, (7) Short-term loans payable and (8) Current portion of long-term loans payable
Since these items are settled in a short period of time, their carrying value approximates fair value.
(9) Bonds payable
The fair value of bonds payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new bonds are issued.
(10) Derivative transactions
Information on the fair value of derivatives is included in Note 13, “Derivative transactions.”

For fiscal year ended March 31, 2019
(1) Cash and deposits, (2) Notes and accounts receivable – trade and (3) Deposits paid
Since these items are settled in a short period of time, their carrying value approximates fair value.
(4) Investment securities
The fair value of these securities is based on either quoted market prices or prices provided by the correspondent financial institutions. The carrying value is used as the fair value for certain securities with short-term maturities because the fair value is nearly equal to the carrying value.
(5) Lease and guarantee deposits
The fair value of lease and guarantee deposits with maturities exceeding one year is based on the present value discounted by reasonable rates.
(6) Notes and accounts payable – trade and (7) Short-term loans payable
Since these items are settled in a short period of time, their carrying value approximates fair value.
(8) Bonds payable
The fair value of bonds payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new bonds are issued.
(9) Derivative transactions
Information on the fair value of derivatives is included in Note 13, “Derivative transactions.”

Note 2. Financial instruments for which it is extremely difficult to determine the fair value

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars (Note 2)
Unlisted equity securities	¥409	¥ 551	\$4,968
Investments in partnership	427	523	4,716
Total	¥836	¥1,074	\$9,684

As the quoted market price was not available and it was extremely difficult to estimate future cash flows, the carrying values of the above financial instruments were not included in (4) Investment securities. Unlisted equity securities include the shares in non-consolidated subsidiaries and affiliates of ¥300 million and ¥447 million (\$4,029 thousand) at March 31, 2018 and 2019, respectively.

An impairment loss of ¥101 million was recognized on unlisted equity securities for the year ended March 31, 2018.

Note 3. The redemption schedule for monetary receivables and marketable securities with maturities at March 31, 2018 and 2019 was as follows:

At March 31, 2018

	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen			
Cash and time deposits	¥ 16,456	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	66,665	—	—	—
Deposits paid	83,340	—	—	—
Investment securities				
Available-for-sale securities with maturities:				
Corporate bonds	—	1,000	—	—
Total	¥166,462	¥1,000	¥ —	¥ —

Note: Available-for-sale securities of ¥40 million with scheduled amounts subject to change due to fluctuation in fair value were not included in available-for-sale securities with maturities in the above table.

At March 31, 2019

	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen				Thousands of U.S. dollars (Note 2)			
Cash and time deposits	¥ 21,170	¥ —	¥ —	¥ —	\$ 190,740	\$ —	\$ —	\$ —
Notes and accounts receivable – trade	74,698	—	—	—	673,022	—	—	—
Deposits paid	85,028	—	—	—	766,093	—	—	—
Investment securities								
Available-for-sale securities with maturities:								
Corporate bonds	—	1,200	—	—	—	10,811	—	—
Total	¥180,897	¥1,200	¥ —	¥ —	\$1,629,855	\$10,811	\$ —	\$ —

Note: Available-for-sale securities of ¥41 million (\$377 thousand) scheduled amounts subject to change due to fluctuation in fair value were not included in available-for-sale securities with maturities in the above table.

Note 4. Short-term loans payable and long-term debts

At March 31, 2018

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Millions of yen					
Short-term loans payable	¥10,000	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of long term loans payable	5,000	—	—	—	—	—
Corporate bonds	—	—	10,000	10,000	10,000	—
Total	¥15,000	¥ —	¥10,000	¥10,000	¥10,000	¥ —

At March 31, 2019

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Millions of yen						
Short-term loans payable	¥15,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	10,000	10,000	10,000	10,000	—
Total	¥15,000	¥10,000	¥10,000	¥10,000	¥10,000	¥ —

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Thousands of U.S. dollars						
Short-term loans payable	\$135,147	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate bonds	—	—	90,098	90,098	90,098	—
Total	\$135,147	\$ —	\$90,098	\$90,098	\$90,098	\$ —

14. INFORMATION ON SECURITIES

The following tables summarize acquisition cost and carrying value of securities with fair value.

(1) Available-for-sale securities with fair value

At March 31, 2018

	Carrying value	Acquisition cost	Difference
Millions of yen			
1. Securities with fair value exceeding acquisition cost:			
Equity securities	¥4,117	¥1,214	¥2,902
Debt securities:			
Governmental/municipal bonds	—	—	—
Corporate bonds	701	700	1
Other	—	—	—
Sub-total	4,818	1,914	2,904
2. Securities with fair value not exceeding acquisition cost:			
Equity securities	—	—	—
Debt securities:			
Governmental/municipal bonds	—	—	—
Corporate bonds	299	300	(0)
Other	40	50	(10)
Sub-total	339	350	(11)
Total	¥5,158	¥2,265	¥2,892

Note: Unlisted equity securities of ¥109 million and investments in partnership of ¥427 million were not included in the above table since the quoted market price was not available and it was extremely difficult to estimate future cash flows.

At March 31, 2019

	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
	Millions of yen			Thousands of U.S. dollars		
1. Securities with fair value exceeding acquisition cost:						
Equity securities	¥4,270	¥1,763	¥2,507	\$38,476	\$15,888	\$22,588
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	1,001	1,000	1	9,023	9,009	13
Other	—	—	—	—	—	—
Sub-total	5,272	2,763	2,508	47,500	24,897	22,602
2. Securities with fair value not exceeding acquisition cost:						
Equity securities	—	—	—	—	—	—
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	200	200	—	1,801	1,801	0
Other	41	50	(8)	377	457	(80)
Sub-total	241	250	(8)	2,178	2,259	(80)
Total	¥5,513	¥3,014	¥2,499	\$49,679	\$27,157	\$22,522

Note: Unlisted equity securities of ¥104 million (\$939 thousand) and investments in partnership of ¥523 million (\$4,716 thousand) were not included in the above table since the quoted market price was not available and it was extremely difficult to estimate future cash flows.

(2) Sales of available-for-sale securities

	Year ended March 31		Year ended March 31
	2018	2019	2019
Millions of yen			
Sales proceeds:			Thousands of U.S. dollars
Equity securities	¥259	¥1,210	\$10,902
Debt securities	—	—	—
Other	50	—	—
Aggregate gains:			
Equity securities	107	1,024	9,229
Debt securities	—	—	—
Other	—	—	—
Aggregate losses:			
Equity securities	1	3	33
Debt securities	—	—	—
Other	10	—	—

(3) Losses on valuation of available-for-sale securities with fair value

For the year ended March 31, 2018, losses on valuation of investment securities of ¥101 million were recognized.

With regard to equities for which quoted market prices were not available and which were extremely difficult to estimate future cash flows, if the effective price of such an equity declines due to factors such as a deterioration in the financial condition of the issuer, the Company determines whether or not impairment is necessary by considering factors such as the likelihood of a recovery in the future price.

Not applicable for the year ended March 31, 2019.

15. DERIVATIVE TRANSACTIONS

Derivative transactions for which hedge accounting has been applied

Currency-related

At March 31, 2018

Type of transaction	Hedged item	Notional amount	Portion due after one year included in notional amount	Fair value
Millions of yen				
Derivative transactions for which deferral hedge accounting has been applied				
Forward foreign exchange contracts				
Sell				
USD, GBP	Forecast transactions in	¥1,969	¥ —	¥ 36
Buy	foreign currency			
USD, EUR, GBP, SGD		3,686	236	(44)
Derivative transactions for which appropriation treatment has been applied				
Forward foreign exchange contracts				
Sell	Accounts			
USD, EUR, GBP	receivable – trade	929	—	(Note 2)
Buy	Accounts			
USD, EUR, GBP, SGD	payable – trade	938	—	(Note 2)
Total		¥7,524	¥236	¥ (8)

Notes: 1. Fair value was based on the prices obtained from financial institutions.

2. Forward foreign exchange contracts for which appropriation treatment had been applied were accounted for together with accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

At March 31, 2019

Type of transaction	Hedged item	Notional amount	Portion due after one year included in notional amount	Fair value	Notional amount	Portion due after one year included in notional amount	Fair value
		Millions of yen			Thousands of U.S. dollars		
Derivative transactions for which deferral hedge accounting has been applied							
Forward foreign exchange contracts							
Sell							
USD, GBP	Forecast transactions in	¥2,498	¥—	¥(43)	\$22,508	\$ —	\$(391)
Buy	foreign currency						
USD, EUR, GBP, SGD		2,360	90	13	21,268	819	118
Derivative transactions for which appropriation treatment has been applied							
Forward foreign exchange contracts							
Sell	Accounts						
USD, EUR, GBP	receivable – trade	1,612	—	(Note 2)	14,525	—	(Note 2)
Buy	Accounts						
USD, EUR, GBP, SGD	payable – trade	2,052	—	(Note 2)	18,488	—	(Note 2)
Total		¥8,523	¥90	¥(30)	\$76,791	\$819	\$(273)

Notes: 1. Fair value was based on the prices obtained from financial institutions.

2. Forward foreign exchange contracts for which appropriation treatment had been applied were accounted for together with accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

16. EMPLOYEES' PENSION AND RETIREMENT BENEFITS

(1) Outline of employees' pension and retirement benefit plans adopted by the Company

The Company and certain consolidated subsidiaries have defined benefit plans and defined contribution plans.

(2) Defined benefit plans

(a) Movement in retirement benefit obligations

	March 31		March 31
	2018	2019	2019
		Millions of yen	Thousands of U.S. dollars
Balance at beginning of the year	¥73,040	¥76,868	\$692,571
Service costs	3,148	3,235	29,154
Interest costs	569	524	4,728
Actuarial gains and losses	2,512	1,303	11,742
Benefits paid	(2,053)	(2,407)	(21,690)
Past service costs	(64)	—	—
Decrease from change in scope of consolidation	(406)	—	—
Others	121	121	1,098
Balance at the end of the year	¥76,868	¥79,647	\$717,605

(b) Movement in plan assets

	March 31		March 31
	2018	2019	2019
		Millions of yen	Thousands of U.S. dollars
Balance at beginning of the year	¥70,695	¥75,400	\$679,341
Expected return on plan assets	1,410	1,508	13,586
Actuarial gains and losses	2,403	(1,134)	(10,219)
Contributions paid by the employer	3,309	3,323	29,944
Benefits paid	(2,012)	(2,353)	(21,200)
Decrease from change in scope of consolidation	(401)	—	—
Others	(5)	—	—
Balance at the end of the year	¥75,400	¥76,744	\$691,452

(c) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	March 31		March 31
	2018	2019	2019
		Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligations	¥ 76,470	¥ 79,181	\$ 713,414
Plan assets	(75,400)	(76,744)	(691,452)
	1,070	2,437	21,961
Unfunded retirement benefit obligations	397	465	4,191
Total net asset for retirement benefits	1,468	2,902	26,152
Net defined benefit liability	1,468	2,902	26,152
Net defined benefit asset	—	—	—
Total net asset for retirement benefits	¥ 1,468	¥ 2,902	\$ 26,152

(d) Retirement benefit expenses

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Service costs	¥ 3,148	¥ 3,235	\$ 29,154
Interest costs	569	524	4,728
Expected return on plan assets	(1,410)	(1,508)	(13,586)
Net actuarial gains and losses amortization	(246)	707	6,378
Past service costs amortization	(13)	(15)	(139)
Other	282	371	3,345
Total retirement benefit expenses	¥ 2,330	¥ 3,316	\$ 29,880

(e) Remeasurements of defined benefit plans, before tax

Items included in the remeasurements of defined benefit plans, before tax, were as follows:

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Past service costs	¥ 50	¥ (15)	\$ (139)
Actuarial gains and losses	(348)	(1,729)	(15,583)
Total balance	¥(297)	¥(1,745)	\$ (15,723)

(f) Accumulated remeasurements of defined benefit plans

Items included in the accumulated remeasurements of defined benefit plans, before tax, were as follows:

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Past service costs that are yet to be recognized	¥ (141)	¥ (125)	\$ (1,133)
Actuarial gains and losses that are yet to be recognized	4,504	6,227	56,104
Total balance	¥4,363	¥6,101	\$54,970

(g) Plan assets

i) Categories of plan assets

The ratios of plan assets in each major category to total plan assets were as follows:

	March 31	
	2018	2019
Bonds	49%	49%
Equity securities	31%	28%
Cash and deposits	5%	5%
Assets in an insurer's general account	8%	8%
Hedge fund	5%	6%
Other	2%	4%
Total	100%	100%

ii) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(h) Actuarial assumptions

The principal actuarial assumptions (weighted average rate) were as follows:

	Year ended March 31	
	2018	2019
Discount rate	0.7%	0.6%
Long-term expected rate of return	2.0%	2.0%

(3) Defined contribution plans

Amounts which the Company and certain consolidated subsidiaries contributed to the defined contribution plans were ¥1,388 million and ¥1,404 million (\$12,653 thousand) for the years ended March 31, 2018 and 2019, respectively.

17. STOCK OPTIONS

(1) Outline, number and movement of stock options

(a) Outline of stock options

Stock option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Date of resolution	July 27, 2007	June 26, 2008	June 25, 2009	June 25, 2010
Grantees' position	10 directors 14 executive officers	9 directors 12 executive officers	9 directors 16 executive officers	9 directors 14 executive officers
The number of share options by types of shares (Note 1)	Common stock 16,400 shares	Common stock 22,900 shares	Common stock 31,100 shares	Common stock 45,400 shares
Date of grant	July 27, 2007	July 29, 2008	July 30, 2009	July 30, 2010
Vesting condition	No provisions	No provisions	No provisions	No provisions
Applicable period of service	No provisions	No provisions	No provisions	No provisions
Exercisable period	July 28, 2007– July 26, 2027	July 30, 2008– July 28, 2028	July 31, 2009– July 29, 2029	July 31, 2010– July 29, 2030
Number of subscription rights to shares (Note 2)	12 [6]	26 [13]	81 [57]	197 [197]
Class, content and number of shares issued upon exercise of stock acquisition rights (Note 2)	Common stock 1,200 shares [Common stock 600 shares] (Note 3)	Common stock 2,600 shares [Common stock 1,300 shares] (Note 3)	Common stock 8,100 shares [Common stock 5,700 shares] (Note 3)	Common stock 19,700 shares [Common stock 19,700 shares] (Note 3)
Amount to be paid upon exercise of subscription rights to shares (Yen) (Note 2)	1	1	1	1
Issue price and amount included in capital in case of the issuance of shares upon exercise of subscription rights to shares (Yen) (Note 2)	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1
Terms and conditions for the exercise of subscription rights to shares (Note 2)	*1	*2	*3	*4
	In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option entered into between the Company and the Holder.			
Matters concerning the transfer of subscription rights to shares (Note 2)	The transfer of the subscription rights to shares shall require the approval of the Board of Directors.			
Matters related to the issuance of subscription rights to shares in connection with organizational restructuring measures (Note 2)	Note 4	Note 4	Note 4	Note 4
Matters concerning provisions for the acquisition of subscription rights to shares (Note 2)	Note 5	Note 5	Note 5	Note 5

Notes:

1. The number of stock options by class of shares has been converted and stated as number of shares.

2. The information is presented as of March 31, 2019. Certain matters have changed during the period from March 31, 2019 to the end of the month (May 31, 2019) preceding the filing date of the Securities Report. This information is presented as of May 31, 2019 in brackets ("[]"). There have been no changes to other matters from March 31, 2019.

*1 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2025, they shall be able to exercise the rights on and after August 1, 2025.

*2 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2026, they shall only be able to exercise the rights on and after August 1, 2026.

*3 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2027, they shall be able to exercise the rights on and after August 1, 2027.

*4 The Holders can exercise the rights for only ten years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2028, they shall be able to exercise the rights on and after August 1, 2028.

3. In the event that the Company conducts a stock split or stock consolidation, the number of shares granted for each subscription right to shares shall be adjusted by the following formula: However, this adjustments will apply only to the number of shares granted for those subscription rights to shares that have not already been exercised prior to the relevant date. Fractions of less than one share arising from the adjustments shall be discarded.

Adjusted number of shares granted = Preadjusted number of shares granted x stock split or stock consolidation ratio

If the Company conducts a merger, a company split, share exchange or share transfer (hereinafter collectively "Mergers, etc."), a free distribution of the Company's shares, or any other event requiring an adjustment of the number of shares granted, the Company can make a reasonable adjustment of the number of shares granted, taking into account the terms and conditions of the Mergers, etc. and free distribution of shares.

4. Treatment of subscription rights to shares in the event of organizational restructuring measures

If the Company specifies in agreements, plans or other such documents prepared upon organizational restructuring that it will issue subscription rights to shares of a Restructured Company as set forth below, the Company shall issue subscription rights to shares of the Restructured Company to the original Holders based on the relevant organizational restructuring ratio.

(1) Mergers (only mergers under which the Company is to be dissolved)

A Restructured Company that will survive after the merger or a Restructured Company that will be established through the merger

(2) Absorption-type company split

A Restructured Company that succeeds to all or part of the rights and obligations with respect to the business that are held by the company that conducts the absorption-type company split

(3) Incorporation-type company split

A Restructured Company established through an incorporation-type company split

(4) Share exchange

A Restructured Company that acquires all of the issued shares of a company that conducts a share exchange

(5) Share transfer

A Restructured Company established through a share transfer

5. Provisions for acquiring subscription rights to shares

(1) If a Holder of subscription rights to shares fails to meet the conditions for exercising the subscription rights to shares, the Company may acquire the relevant subscription rights to shares at no cost.

(2) If a General Meeting of Shareholders approves a proposal for approval of a merger agreement under which the Company is to be dissolved, or a proposal for approval of a share exchange agreement or share transfer plan under which the Company is to become a wholly owned subsidiary, the Company is entitled to acquire the subscription rights to shares at no cost.

(Additional Information)

Notable matters that should be disclosed in "Outline of stock options" under "15. STOCK OPTIONS" have been disclosed collectively in the notes related to stock options.

(b) Number and movement of stock options

(i) Number of stock options

	Number of shares			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Non-vested:				
Outstanding at March 31, 2018	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Outstanding at March 31, 2019	—	—	—	—
Vested:				
Outstanding at March 31, 2018	2,000	3,900	9,400	29,200
Vested	—	—	—	—
Exercised	800	1,300	1,300	9,500
Forfeited	—	—	—	—
Outstanding at March 31, 2019	1,200	2,600	8,100	19,700

(ii) Price information of stock options

Year ended March 31, 2018

	Yen			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise	4,940	4,940	4,780	4,522
Fair valuation price (date of grant)	2,156	1,774	1,363	1,149

Year ended March 31, 2019

	Yen			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise	5,080	5,080	5,080	4,947
Fair valuation price (date of grant)	2,156	1,774	1,363	1,149

	U.S. dollars			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Average market price of the stock at the time of exercise	45.76	45.76	45.76	44.57
Fair valuation price (date of grant)	19.42	15.98	12.28	10.35

(2) Method of estimating exercised stock options

Since it is fundamentally difficult to reasonably estimate the number of options that will expire in the future, the number of options that have actually been forfeited is reflected.

18. INCOME TAXES

(1) The significant components of deferred tax assets and liabilities

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Accrued enterprise taxes	¥ 514	¥ 538	\$ 4,853
Accrued payable bonuses	1,818	1,917	17,280
Loss on valuation of membership	167	153	1,379
Provision for loss on construction contracts	101	70	637
Net defined benefit liability	452	896	8,073
Carryforward tax loss (Note 2)	40,723	18,398	165,770
Allowance for doubtful accounts	49	24	220
Depreciation	78	53	484
Impairment	1,031	933	8,414
Loss on valuation of investment pension plans	92	59	533
Asset retirement obligations	774	959	8,646
Others	670	675	6,082
Total gross deferred tax assets	46,473	24,681	222,376
Valuation reserve for carryforward tax loss (Note 2)	—	(7,854)	(70,771)
Valuation reserve for deductible temporary differences	—	(1,182)	(10,653)
Valuation allowance (Note 1)	(27,351)	(9,037)	(81,424)
Total deferred tax assets	19,122	15,644	140,951
Deferred tax liabilities			
Valuation differences on available-for-sale securities	(966)	(881)	(7,943)
Removal expenses for asset retirement obligations	(381)	(475)	(4,282)
Others	(476)	(577)	(5,204)
Total deferred tax liabilities	(1,824)	(1,934)	(17,429)
Net deferred tax assets	¥ 17,297	¥13,709	\$123,521

Notes:

1. The valuation reserve decreased by ¥18,313 million (\$165,005 thousand). This decrease was mainly due to a decline in the carryforward tax loss following the expiration of carryforward periods as of March 31, 2019.

2. Carryforward tax loss and its deferred tax assets by expiration periods

Year ended March 31, 2019

	Millions of yen						
	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Carryforward tax loss ^(a)	¥13,000	¥ 456	¥4,725	¥ 79	¥—	¥ 136	¥18,398
Valuation reserve	(7,531)	(115)	(28)	(48)	—	(131)	(7,854)
(Net) Deferred tax assets	5,469	340	4,697	30	—	4	10,543 ^(b)

	Thousands of U.S. dollars						
	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Carryforward tax loss ^(a)	\$117,135	\$ 4,111	\$42,579	\$ 715	\$—	\$ 1,228	\$165,770
Valuation reserve	(67,853)	(1,039)	(253)	(436)	—	(1,188)	(70,771)
(Net) Deferred tax assets	49,282	3,071	42,326	278	—	40	94,999

(a) The carryforward tax loss shown in the above table represents amounts after multiplying the statutory tax rate.

(b) A deferred tax asset of ¥10,543 million (\$94,999 thousand) was recognized for a carryforward tax loss of ¥18,398 million (\$165,770 thousand) (amount multiplied by the statutory tax rate). The deferred tax asset of ¥10,543 million (\$94,999 thousand) was recognized primarily for a portion of the Company's outstanding carryforward tax loss of ¥17,968 million (\$161,896 thousand) (amount multiplied by the statutory tax rate). No valuation reserve is recognized for the carryforward tax loss since the amount was determined to be recoverable based on expected future taxable income.

(2) The reconciliation between the statutory tax rate reflected in the consolidated statements of income and the effective tax rate for the years ended March 31, 2018 and 2019 was as follows:

	Year ended March 31	
	2018	2019
Statutory tax rates:	30.9%	30.6%
Effect of:		
Expenses not deductible for income tax purposes	0.3	0.4
Share of profit of entities accounted for using the equity method	(0.4)	(0.6)
Base portion of inhabitants' taxes	0.4	0.5
Change in valuation allowance	(0.9)	(4.0)
Retained earnings	2.2	0.2
Adjustments for carrying value of investment	(9.1)	—
Others	0.2	0.2
Effective tax rate	23.4%	27.3%

19. BUSINESS COMBINATIONS

Year ended March 31, 2018

Business divestiture (transfer of shares of subsidiary resulting in a change in scope of consolidation)

(1) Outline of business divestiture

(a) Name of company to whom the business was divested
T-Gaia Corporation

(b) Description of divested business
Consolidated subsidiary QUO CARD Co., Ltd.
Business description: Issuing of card (pre-paid type and other) and settlement services
Sales of card and card related apparatus, and related maintenance services

(c) Reason for business divestiture
QUO Card started its pre-paid card business in 1995 as an issuer of QUO CARD, a pre-paid card usable at various kinds of retailers all across Japan, regardless of the type of retailing, including convenience stores, book stores, drugstores, family restaurants and gas stations. Ever since, QUO Card has developed its pre-paid card business into what it is today, with more than 57,000 affiliated merchants and an accumulated issue amount of more than ¥1,000 billion at the end of September 2017.
Since the founding of QUO Card, SCSK has been seeking synergies for many years between its core businesses, the IT Services business and the QUO Card business. However, SCSK has yet to produce significant synergistic benefits that would contribute to the expansion of the two businesses. Against this backdrop, in order to focus its management resources even more on the core IT Services business, SCSK has decided to transfer all of its shares of QUO Card to T-Gaia. This move is part of SCSK's efforts to concentrate its resources on carefully selected strategic fields within its business portfolio.

(d) Date of business divestiture
December 1, 2017

(e) Other matters concerning the outline of the transaction, including the legal form
Transfer of shares in exchange for consideration in cash and related assets only

(2) Outline of the accounting treatment applied

(a) Amount of gain or loss on transfer
¥10,706 million

(b) Appropriate carrying amount of assets and liabilities related to the transferred business and significant components thereof

At March 31, 2018

	Millions of yen
Current assets	¥106,132
Non-current assets	4,549
Total assets	¥110,682
Current liabilities	¥ 98,817
Non-current liabilities	53
Total liabilities	¥ 98,870

(c) Accounting treatment
The Company has recorded the difference between the consolidated carrying amount and the sales price for the transferred shares as gain on sales of investment securities under extraordinary income.

(3) Name of reportable segment into which the divested business had been included

Prepaid Card Business

(4) Estimated profit or loss related to the divested business recorded on the consolidated statement of income for the year ended March 31, 2018

	Millions of yen
Net sales	¥2,948
Operating profit	222

Year ended March 31, 2019

Omitted as it is not significant to the Group.

20. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations carried on the consolidated balance sheets

(1) Overview of asset retirement obligations

Asset retirement obligations include the obligation to restore assets to their original state, etc., related to real estate lease agreements on the head office building and other office buildings.

(2) Calculation method for asset retirement obligations

The expected period of use is estimated as mainly 15 years from the acquisition of property, plant and equipment, and the amounts of asset retirement obligations are calculated by using a discount rate ranging from 0.143% to 1.744%.

(3) Changes in asset retirement obligations for the years ended March 31, 2018 and 2019

	March 31		March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥2,278	¥2,412	\$21,740
Increase due to acquisition of property and equipment	88	224	2,025
Adjustments due to passage of time	23	22	206
Decrease due to fulfillment of asset retirement obligations	(100)	(111)	(1,001)
Increase due to change in estimates (Note 1)	175	399	3,602
Decrease from change in scope of consolidation	(53)	—	—
Balance at end of period (Note 2)	¥2,412	¥2,949	\$26,572

Notes: 1. At March 31, 2018, it became clear that a cost required for the asset retirement increased. Thus, the Company added ¥175 million from the balance of asset retirement obligations as a change in estimate.
At March 31, 2019, it became clear that a cost required for the asset retirement increased. Thus, the Company increased the balance of asset retirement obligations by ¥399 million (\$3,602 thousand).
2. The balance at end of period for March 31, 2018 included ¥21 million of asset retirement obligations under other current liabilities.
The balance at end of period for March 31, 2019 included ¥169 million (\$1,527 thousand) of asset retirement obligations under other current liabilities.

21. SEGMENT INFORMATION

(1) Segment information

(a) Method of designating reportable segments

The Company designates its reportable segments according to the clients’ business category and business characteristics of IT services. The Board of Directors and the President and Chief Operating Officer decide the allocation of business resources, evaluate business performance and conduct other managerial duties in reference to these reportable segments, with such management decision directly reflected in the operations of those reportable segments.

The Company has designated seven reportable segments according to the clients’ business category and business characteristics of IT services: Manufacturing & Telecommunication Systems Business, Distribution & Media Systems Business, Financial Systems Business, Global System Solutions & Innovation Business, Business Solutions, IT Platform Solutions, and IT Management.

Businesses not included within the above are presented in aggregate as “Others.”

Presented below is an overview of the business activities for each of the reportable segments.

- (i) Manufacturing & Telecommunication Systems Business: This business group provides a wide range of IT solutions on a global scale. These solutions include core systems, manufacturing management systems, information management systems, supply chain management (SCM) systems, and customer relationship management (CRM) systems. The business group’s services leverage the experience and know-how it has cultivated over many years throughout the chain of operational processes from production to sales. The customers of this business are primarily companies in the manufacturing, telecommunications, and energy industries.
- (ii) Distribution & Media Systems Business: This business group provides IT solution packages configured from various core systems, information systems, SCM systems, CRM systems, and e-commerce systems, primarily to customers in the distribution, service, and media industries.
- (iii) Financial Systems Business: This business group engages in systems development, maintenance, and operation for financial institutions. As professionals that understand financial operations and possess a strong track record of creating sophisticated financial systems, members of this business group’s staff support secure and efficient management and help customers implement their financial business strategies. The business group provides these services primarily to financial institutions, such as banks and trust banks as well as insurance, securities, lease and credit companies.
- (iv) Global System Solutions & Innovation Business: This business group provides optimal IT solutions primarily to trading companies and the global bases of customers from among a lineup that includes core systems, information management systems, SCM systems and CRM systems.
- (v) Business Solutions: This business group provides a wide range of IT solutions. These solutions include automotive software systems for the automotive industry as well as application management outsourcing (AMO) services that cover the entire system lifecycle, from development and installation to maintenance and operation, for enterprise resources planning (ERP) and CRM products, such as the Company’s internally developed ProActive ERP package, SAP, and Oracle offerings as well as Salesforce. In addition, this business group offers the type of business process outsourcing services that only an IT company can provide. These services merge support provided by human workers with IT.
- (vi) IT Platform Solutions: This business group draws on solid technical capabilities and know-how to leverage cutting-edge technologies in the fields of IT infrastructure and manufacturing, including computer-aided design (CAD) and computer-aided engineering (CAE). In this way, IT Platform Solutions provides services and products that accurately address the needs of customers and offer flexible support for a wide range of customer businesses.
- (vii) IT Management: This business group develops solutions-oriented netXDC data centers, which boast robust facilities and high-level security, in east and west Japan to provide customers with proposal-based outsourcing services that address their management issues pertaining to operating cost reductions, infrastructure integration and optimization, governance enhancement, and business risk mitigation. The business group also supplies cloud infrastructure and on-site management services, along with SE support 24 hours a day, 365 days a year.

(b) Matters related to changes in reportable segments

Effective April 1, 2018, SCSK instituted organizational reforms with the goal of reinforcing the functions of business groups in order to enhance the Company’s integration capabilities to better contribute to the resolution of customers’ business issues and create and increase the number of unique core solutions.

As a result of these organizational reforms, the prior reportable segments of Manufacturing Systems Business, Telecommunication Systems Business, Distribution Systems Business, Business Solutions, and Business Services were reorganized to form the Manufacturing & Telecommunication Systems Business, Distribution & Media Systems Business, Financial Systems Business, Global System Solutions & Innovation Business, and Business Solutions segments. In addition, data center services, platform development, and other operations that had previously been developed on a customer segment basis were reorganized to form the IT Management segment.

Segment information for the fiscal year ended March 31, 2018, has been restated to reflect this change in reportable segments.

(2) Calculation of sales, profit, assets and other items by reportable segment

The accounting treatment for the Group’s reportable segments is generally the same as described in Note 1, “Summary of significant accounting policies.”

The segment profit figures stated in the reportable segments are based on operating profit. The intersegment sales or the intersegment figures are based on actual market prices.

(3) Sales, profit, assets and other items for each reportable segment

Segment data for the years ended March 31, 2018 and 2019 were as follows:

Year ended March 31, 2018

	Reportable segment					
	Manufacturing & Telecommunication Systems Business	Distribution & Media Systems Business	Financial Systems Business	Global System Solutions & Innovation Business	Business Solutions	IT Platform Solutions
Millions of yen						
Sales, income and assets by reportable segment						
Net sales:						
Sales to third parties	¥38,404	¥58,176	¥62,351	¥13,260	¥63,519	¥55,039
Inter-segment sales and transfers	906	1,036	519	7,315	5,221	6,476
Total	39,311	59,213	62,871	20,575	68,740	61,516
Segment income	5,266	7,019	6,290	2,243	4,645	6,176
Segment assets	10,457	17,571	19,801	7,574	20,805	26,570
Other items						
Depreciation and amortization	56	709	2,400	166	1,726	635
Investments in equity-method affiliates	—	—	—	—	104	4,630
Net increase in tangible/intangible fixed assets	191	2,431	392	280	1,771	746

	Reportable segment			Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Management	Other (Note 3)	Total		
Millions of yen					
Sales, income and assets by reportable segment					
Net sales:					
Sales to third parties	¥42,184	¥3,716	¥336,654	¥ —	¥336,654
Inter-segment sales and transfers	12,577	3,008	37,061	(37,061)	—
Total	54,761	6,725	373,716	(37,061)	336,654
Segment income	5,096	378	37,117	(2,515)	34,602
Segment assets	60,518	4,259	167,559	136,354	303,914
Other items					
Depreciation and amortization	3,671	255	9,622	1,622	11,245
Investments in equity-method affiliates	—	—	4,735	187	4,922
Net increase in tangible/intangible fixed assets	9,048	126	14,989	599	15,588

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(2,515) million to segment profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥136,354 million to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥1,622 million to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥187 million for investments in equity-method affiliates represented investments conducted as part of Companywide measures not allocated to any reportable segment.
(5) The adjustment of ¥599 million to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profit was reconciled to operating profit in the consolidated statements of income.
3. The "Other" category includes business segments that are not part of reportable segments, such as the Prepaid Card Business.

Year ended March 31, 2019

	Reportable segment					
	Manufacturing & Telecommunication Systems Business	Distribution & Media Systems Business	Financial Systems Business	Global System Solutions & Innovation Business	Business Solutions	IT Platform Solutions
Millions of yen						
Sales, income and assets by reportable segment						
Net sales:						
Sales to third parties	¥43,369	¥63,054	¥63,932	¥15,560	¥68,198	¥59,058
Inter-segment sales and transfers	1,096	903	869	5,505	5,338	6,971
Total	44,466	63,957	64,802	21,066	73,536	66,030
Segment income	6,346	6,599	7,375	2,558	4,650	7,208
Segment assets	12,412	19,966	22,535	8,930	23,358	30,664
Other items						
Depreciation and amortization	71	803	326	233	2,884	646
Investments in equity-method affiliates	—	—	—	—	—	5,185
Net increase in tangible/intangible fixed assets	69	1,419	74	697	1,740	654

	Reportable segment			Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Management	Other (Note 3)	Total		
Millions of yen					
Sales, income and assets by reportable segment					
Net sales:					
Sales to third parties	¥44,780	¥ 699	¥358,654	¥ —	¥358,654
Inter-segment sales and transfers	16,090	3,394	40,170	(40,170)	—
Total	60,871	4,093	398,825	(40,170)	358,654
Segment income	5,877	(41)	40,575	(2,196)	38,378
Segment assets	66,057	1,923	185,848	128,996	314,844
Other items					
Depreciation and amortization	3,893	239	9,099	1,430	10,530
Investments in equity-method affiliates	—	—	5,185	438	5,623
Net increase in tangible/intangible fixed assets	10,240	1	14,897	438	15,336

	Reportable segment					
	Manufacturing & Telecommunication Systems Business	Distribution & Media Systems Business	Financial Systems Business	Global System Solutions & Innovation Business	Business Solutions	IT Platform Solutions
Thousands of U.S. dollars						
Sales, income and assets by reportable segment						
Net sales:						
Sales to third parties	\$390,753	\$568,108	\$576,018	\$140,199	\$614,460	\$532,109
Inter-segment sales and transfers	9,883	8,138	7,836	49,605	48,094	62,810
Total	400,637	576,246	583,855	189,804	662,555	594,919
Segment income	57,178	59,461	66,451	23,049	41,901	64,951
Segment assets	111,835	179,893	203,036	80,460	210,452	276,284
Other items						
Depreciation and amortization	646	7,239	2,945	2,106	25,989	5,825
Investments in equity-method affiliates	—	—	—	—	—	46,717
Net increase in tangible/intangible fixed assets	627	12,792	667	6,283	15,685	5,895

	Reportable segment			Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Management	Other (Note 3)	Total		
Thousands of U.S. dollars					
Sales, income and assets by reportable segment					
Net sales:					
Sales to third parties	\$403,467	\$ 6,299	\$3,231,417	\$ —	\$3,231,417
Inter-segment sales and transfers	144,972	30,585	361,926	(361,926)	—
Total	548,439	36,884	3,593,343	(361,926)	3,231,417
Segment income	52,958	(377)	365,574	(19,793)	345,780
Segment assets	595,168	17,332	1,674,463	1,162,232	2,836,695
Other items					
Depreciation and amortization	35,077	2,153	81,985	12,891	94,877
Investments in equity-method affiliates	—	—	46,717	3,953	50,670
Net increase in tangible/intangible fixed assets	92,260	13	134,225	3,951	138,176

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(2,196) million (\$ (19,793) thousand) to segment profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥128,996 million (\$1,162,232 thousand) to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥1,430 million (\$12,891 thousand) to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥438 million (\$3,953 thousand) for investments in equity-method affiliates represented investments conducted as part of Companywide measures not allocated to any reportable segment.
(5) The adjustment of ¥438 million (\$3,951 thousand) to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profit was reconciled to operating profit in the consolidated statements of income.
3. The "Other" category includes business segments that are not part of reportable segments.

(4) Related information

Years ended March 31, 2018 and 2019

- (a) Information about products and services
Sales data by products and services for the years ended March 31, 2018 and 2019 was not presented as similar information was disclosed in the above segment information.
- (b) Information about geographic area
(i) Net sales
Sales data by geographic area for the years ended March 31, 2018 and 2019 was not presented as the sales of Japan represented more than 90% of net sales in the consolidated statements of income.
- (ii) Property, plant and equipment
Property, plant and equipment data by geographic area at March 31, 2018 and 2019 was not presented as property, plant and equipment located in Japan represented more than 90% of total property, plant and equipment in the consolidated balance sheets.
- (c) Information about major customers
Of the net sales to external customers, no customer accounted for 10% or more of net sales in the consolidated statement of income for the years ended March 31, 2018 and 2019.

(5) Information regarding impairment loss on fixed assets by reportable segment

Year ended March 31, 2018

	Millions of yen
Manufacturing & Telecommunication Systems Business	¥ —
Distribution & Media Systems Business	—
Financial Systems Business	—
Global System Solutions & Innovation Business	—
Business Solutions	—
IT Platform Solutions	—
IT Management	—
Others	—
Corporate assets and Eliminations	1,425
Total	¥1,425

Note: Impairment loss not allocated to any reportable segment amounted to ¥1,425 million. Details of this impairment loss are presented in Note 8, Consolidated Statements of Income-Impairment loss.

Year ended March 31, 2019

Not applicable

(6) Information regarding amortization of goodwill and remaining balances of goodwill by reportable segment

Year ended March 31, 2018

	Amortization of goodwill	Remaining balances
	Millions of yen	
Manufacturing & Telecommunication Systems Business	¥30	¥84
Distribution & Media Systems Business	—	—
Financial Systems Business	—	—
Global System Solutions & Innovation Business	—	—
Business Solutions	—	—
IT Platform Solutions	19	—
IT Management	—	—
Others	—	—
Corporate assets and Eliminations	—	—
Total	¥49	¥84

Year ended March 31, 2019

	Amortization of goodwill	Remaining balance	Amortization of goodwill	Remaining balance
	Millions of yen		Thousands of U.S. dollars	
Manufacturing & Telecommunication Systems Business	¥30	¥53	\$275	\$481
Distribution & Media Systems Business	—	—	—	—
Financial Systems Business	—	—	—	—
Global System Solutions & Innovation Business	—	—	—	—
Business Solutions	—	—	—	—
IT Platform Solutions	—	—	—	—
IT Management	—	—	—	—
Others	—	—	—	—
Corporate assets and Eliminations	—	—	—	—
Total	¥30	¥53	\$275	\$481

(7) Information on gain on bargain purchase by reportable segment

Year ended March 31, 2018

Not applicable

Year ended March 31, 2019

Not applicable

(8) Information about related parties

(a) Transactions between related parties

(i) Transactions between the Company and related parties

(A) Sumitomo Corporation

	Year ended March 31	
	2018	2019
Attribute	Parent Company	Parent Company
Name of the Company	Sumitomo Corporation	Sumitomo Corporation
Location	Chuo-ku, Tokyo	Chiyoda-ku, Tokyo
Common stock amount (Millions of yen)	¥219,278	¥219,448
		(\$1,977,193 thousands)
Type of business	Trading Company	Trading Company
Percentage of voting shares in the Company	Direct	Direct
	51.1%	51.0%
Relationship of related party 1	Providing of data processing services and software development services	Providing of data processing services and software development services
Transaction amounts (Millions of yen)		
(Sales of data processing services and software development services)	¥15,277	¥16,565
		(\$149,255 thousands)
Balance at year-end		
(Accounts receivable – trade)		
(Millions of yen)	¥2,664	¥2,778
		(\$25,032 thousands)
Relationship of related party 2	Depositing of funds	Depositing of funds
Transaction amounts (Millions of yen)	¥1,644,200	¥2,222,500
(Depositing of funds)		(\$20,024,326 thousands)
Balance at year-end (Millions of yen)	¥82,000	¥83,500
(Depositing of funds)		(\$752,320 thousands)
Transaction amounts (Millions of yen)	¥101	¥16
(Interest Receipt)		(\$144 thousands)
Balance at year-end (Millions of yen)	¥1	¥0
(Accrued income)		(\$1 thousands)

Notes: 1. In the amounts above, consumption taxes were included in the outstanding balances at year end, but not in transaction amounts.
2. Transaction conditions and policy on determining transaction conditions
The terms and conditions applicable to the above transactions regarding data processing services and software development services were determined on an arm's length basis after presenting the Company's quotations and conducting price negotiations for each project, with reference to normal market prices and cost ratios.
The interest rates for the depositing of funds were determined on an arm's length basis and with reference to normal market interest rates.

(B) Subsidiary of Sumitomo Corporation

Year ended March 31, 2018

Attribute	Company which has an identical parent company
Name of the Company	T-Gaia Corporation
Location	Shibuya-ku, Tokyo
Common stock amount (Millions of yen)	¥3,154
Type of business	Sales of mobile phones and agency businesses
Percentage of voting shares in the Company	N/A
Relationship of related party	Transferee of subsidiary's shares
Transaction amounts (Millions of yen) (Transfer price of the subsidiary's share)	¥22,500
Balance at year-end (Millions of yen)	—
Transaction amounts (Millions of yen) (Gain on transfer of business)	¥10,706
Balance at year-end (Millions of yen)	—

Notes: 1. In transaction amounts and the amounts of balance at year-end, consumption taxes were not included.
2. Transaction conditions and policy on determining transaction conditions
With regard to the transfer of shares, the Company determined the transferee through a competitive tender bid. The transfer price was determined only after requesting an independent calculation agent to calculate the value of shares and confirming that the transfer price fell within the range of the result of the independent calculation agent's valuation.

Year ended March 31, 2019

Not applicable

(ii) Transactions between the consolidated subsidiaries of the Company and related parties
Not applicable

(b) Notes regarding the parent company or important affiliates

(i) Parent company information
Sumitomo Corporation (Listed on the Tokyo, Nagoya and Fukuoka stock exchanges)

(ii) Summary of financial information of important affiliates
Not applicable

22. AMOUNTS PER SHARE

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Yen		U.S. dollars
Net assets	¥1,822.54	¥1,862.78	\$16.78
Earnings:			
Basic	312.95	268.64	2.42
Diluted	312.80	268.55	2.41

Note: Net profit per share and fully diluted net profit per share are calculated on the following basis:

Basic net profit per share was computed based on the net profit available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net profit per share was computed based on the net profit available for distribution to shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and subscription rights to shares.

Net assets per share was computed based on the net assets, excluding share subscription rights and minority interests, and the number of common stock outstanding at the year end.

	Year ended March 31		Year ended March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
Earnings per share:			
Profit attributable to owners of parent	¥ 32,488	¥ 27,892	\$251,304
Amount not attributable to common shareholders	—	—	—
Profit attributable to common shareholders	32,488	27,892	251,304
Weighted average number of common stock (Shares)	103,813,610	103,827,903	103,827,903
Diluted earnings per share:			
Adjustments to profit attributable to owners of parent (of which, change in holdings in equity method affiliates due to their issuance of subscription rights)	¥ — (—)	¥ — (—)	\$ — (—)
Increase in shares of common stock (Shares) (of which, exercise of subscription rights to shares)	51,745 (51,745)	35,558 (35,558)	35,558 (35,558)

Note: Outline of dilutive shares excluded from the calculation of diluted net profit per share because they have no dilutive effect.

23. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

24. CONSOLIDATED SUPPLEMENTARY SCHEDULES

Short-term loans payable and long-term debts

	April 1	March 31	March 31
	2018	2019	2019
	Millions of yen		Thousands of U.S. dollars
0.33% unsecured bonds			
(maturity period: from June 24, 2015 to June 24, 2020)	¥10,000	¥10,000	\$ 90,098
0.14% unsecured bonds			
(maturity period: from December 15, 2016 to December 15, 2021)	10,000	10,000	90,098
0.14% unsecured bonds			
(maturity period: from July 21, 2017 to July 21, 2022)	10,000	10,000	90,098
0.14% unsecured bonds			
(maturity period: from September 14, 2018 to September 14, 2023)	—	10,000	90,098
Total	¥30,000	¥40,000	\$360,392

Note: The annual redemption schedule for the five years after March 31, 2019 is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥ —	\$ —
2021	10,000	90,098
2022	10,000	90,098
2023	10,000	90,098
2024	10,000	90,098

Schedule of borrowings

	April 1	March 31	March 31	
	2018	2019	2019	
	Millions of yen		Thousands of U.S. dollars	Maturity Period
Short-term loans, principally from banks, with average annual interest rate of 0.11%	¥10,000	¥15,000	\$135,147	—
Current portion of long-term loans payable	5,000	—	—	—
Current portion of lease obligation with average annual interest rate of 1.97%	975	843	7,596	—
Long-term loans (excluding current portion)	—	—	—	—
Lease obligations (excluding current portion)	2,183	1,909	17,204	From May 2020 to May 2027
Other interest bearing debt	—	—	—	—
Total	¥18,158	¥17,752	\$159,948	—

Notes: 1. The average interest rate represents a weighted average interest rate relative to the year-end balance of borrowings.
2. In cases where the Company and its consolidated subsidiaries have different fiscal year-ends, the schedule includes borrowings with maturity dates falling within one year of the Company's fiscal year-end.

Note: 3. Lease obligations (excluding the current portion scheduled for repayment within one year) within five years after March 31, 2019 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥704	\$6,350
2022	523	4,718
2023	336	3,028
2024	248	2,239

Schedule of asset retirement obligations

The schedule of asset retirement obligations is not presented as the amounts of asset retirement obligations as of the beginning and end of the year ended March 31, 2019 accounted for no more than 1% of the total liabilities and net assets as of the beginning and end of the year ended March 31, 2019.

Other

Quarterly information for the year ended March 31, 2019

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Millions of yen)	¥80,166	¥167,424	¥255,917	¥358,654
Profit before income taxes (Millions of yen)	6,567	16,329	26,967	39,477
Profit attributable to owners of parent (Millions of yen)	4,301	10,836	17,765	27,892
Net income per share (Yen)	¥ 41.43	¥ 104.38	¥ 171.10	¥ 268.64

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income per share (Yen)	¥41.43	¥62.94	¥66.73	¥97.53

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Thousands of U.S. dollars)	\$722,284	\$1,508,460	\$2,305,775	\$3,231,417
Profit before income taxes (Thousands of U.S. dollars)	59,175	147,122	242,970	355,686
Profit attributable to owners of parent (Thousands of U.S. dollars)	38,755	97,638	160,062	251,304
Net income per share (U.S. dollars)	\$ 0.37	\$ 0.94	\$ 1.54	\$ 2.42

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income per share (U.S. dollars)	\$0.37	\$0.56	\$0.60	\$0.87



Independent Auditor's Report

To the Board of Directors of SCSK Corporation:

We have audited the accompanying consolidated financial statements of SCSK Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SCSK Corporation and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 26, 2019
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Glossary

- **AI (Artificial Intelligence)**
An artificial system composed mainly of computers for handling sophisticated intellectual work and decisions that were only possible by people.
- **BPO (Business Process Outsourcing)**
Outsourcing various business processes to a specialized firm.
- **BSW (Basic Software)**
Operating system, drivers and middleware for ECU.
- **CAD (Computer-Aided Design)**
Creating designs and drawings for industrial products, buildings, etc. using a computer.
- **CRM (Customer Relationship Management)**
An approach utilized for corporate management strategy in which various forms of data are obtained using IT and creating a database to analyze and use this data for various purposes.
- **DX (Digital Transformation)**
The spread and penetration of IT transforming various aspects of people's lives for the better.
- **ECU (Electronic Control Unit)**
A computer for controlling automobiles.
- **EDI (Electronic Data Interchange)**
A mechanism that unifies information for business transactions in a standard form for electronic exchanges between companies.
- **ERP (Enterprise Resource Planning)**
An approach to appropriately allocate and effectively utilize people, things, money and information forming the foundation of corporate management.
- **Fintech**
A coined term combining "finance" and "technology."
- **HPC (High Performance Computing)**
Computing with an extremely high volume of computation per unit of time.
- **IoT (Internet of Things)**
A system where various things are connected through the Internet, enabling the communication of information or data on these things.
- **MDM (Master Data Management)**
A methodology used to appropriately manage master data used as fundamental information for executing business operations within a corporate database.
- **PLM (Product Lifecycle Management)**
A method for comprehensively managing products within all processes from product development planning to design, production and user support after shipment.
- **POC (Proof of Concept)**
A test of the effectiveness of a hypothesis or concept performed prior to establishing a new project.
- **RPA (Robotic Process Automation)**
A system for streamlining and automating white collar work using rule engines, machine learning and artificial intelligence.
- **SaaS (Software as a Service)**
A system for providing application software functions to customers over a network when needed.
- **SCM (Supply Chain Management)**
A management method that seeks total optimization of distribution from raw materials and components to products, by sharing information on orders, inventory, sales, and logistics inside the company and with business partners.
- **SoR (System of Record)**
A system designed with emphasis on recording and managing important business data.
- **SoE (System of Engagement)**
A system that flexibly responds to constantly changing customer needs and behavior patterns with the purpose of building stronger relationships with customers.
- **VR (Virtual Reality)**
A technology that appeals to people's sensory organs and artificially creates an environment that feels real virtually, but is not real.
- **Omni-channel**
Enhancing customer convenience or creating more diverse purchase opportunities by integrating all sales and distribution channels (brick-and-mortar stores, online shopping sites, company website, TV shopping, catalog sales, direct mail and social media).
- **Digital marketing**
Carrying out product or brand promotions through digital media.
- **Blockchain**
A technology for creating a network that is difficult to disrupt or modify because data is spread across computers located around the world without a centralized computer.

Basic Information		
Established	October 25, 1969	Head office Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo 135-8110, Japan TEL : +81-3-5166-2500 URL : https://www.scsk.jp/index_en.html
Capital	¥21,152 million	
Total number of employees	12,365 (Consolidated)	

Group Companies		
Overseas	Domestic	
•SCSK USA Inc. •SCSK Europe Ltd. •SCSK Shanghai Limited •SCSK Asia Pacific Pte. Ltd.	•SCSK KYUSHU CORPORATION •SCSK HOKKAIDO CORPORATION •JIEC Co., Ltd. •WinTechnology Corporation •SCSK ServiceWare Corporation •VeriServe Corporation •SCSK PRESCENDO CORPORATION •Allied Engineering Corporation •CSI SOLUTIONS Corporation	•SCSK Nearshore Systems Corporation •VA Linux Systems Japan K.K. •SCSK SYSTEM MANAGEMENT CORPORATION •SDC Corporation •Skeed Co., Ltd. •TOKYO GREEN SYSTEMS CORPORATION •ARGO GRAPHICS Inc. •Gran Manibus Co., Ltd.

Investor Information		
Stock / Shareholder Information		
Class of stock	Common Stock	Stock listing First Section of the Tokyo Stock Exchange
Number of shares authorized	200,000,000	Stock code 9719
Number of shares issued	104,181,803 (including 130,504 treasury shares)	Stock trading unit 100
Number of shareholders	28,694	Shareholder registrar Sumitomo Mitsui Trust Bank, Limited
		Independent certified public accountant KPMG AZSA LLC

Distribution of Shareholders (Common Stock)		
Shareholder composition		
	Number of Shareholders	Composition
Individuals and others	27,862	97.10%
Financial institutions	81	0.28%
Other companies	323	1.13%
Foreign companies, etc.	384	1.34%
Securities companies	43	0.15%
Treasury shares	1	0.00%
Total	28,694	100.00%

Distribution of shares		
	Number of Shares Held	Composition
Individuals and others	7,701,368	7.39%
Financial institutions	20,470,666	19.65%
Other companies	54,747,071	52.55%
Foreign companies, etc.	20,049,065	19.24%
Securities companies	1,083,129	1.04%
Treasury shares	130,504	0.13%
Total	104,181,803	100.00%

Major Shareholders		
Name of Shareholder	Number of Shares Held	Shareholding Ratio
1 SUMITOMO CORPORATION	52,697,159	50.65%
2 Japan Trustee Services Bank, Ltd. (Trust Account)	6,632,300	6.37%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	3,998,800	3.84%
4 SCSK Group Employee Stock Ownership Association	2,464,250	2.37%
5 BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/ABERDEEN STANDARD SICAV I CLIENT ASSETS	1,079,000	1.04%
6 ARGO GRAPHICS INC.	1,015,500	0.98%
7 Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,014,900	0.98%
8 Japan Trustee Services Bank, Ltd. (Trust Account 7)	967,000	0.93%
9 THE BANK OF NEW YORK 133972	877,500	0.84%
10 JAPAN POST INSURANCE Co., Ltd.	870,400	0.84%

Note:The amount of treasury stock is excluded from the calculation of the shareholding ratios of the top 10 shareholders listed above. The shareholding ratio is calculated by dividing the number of shares held by shareholder by the number of shares outstanding (shares outstanding = total number of issued shares - treasury stock).

Global Network

Overseas Network

Our worldwide network provides strong support for customers’ global business development.



Domestic Network

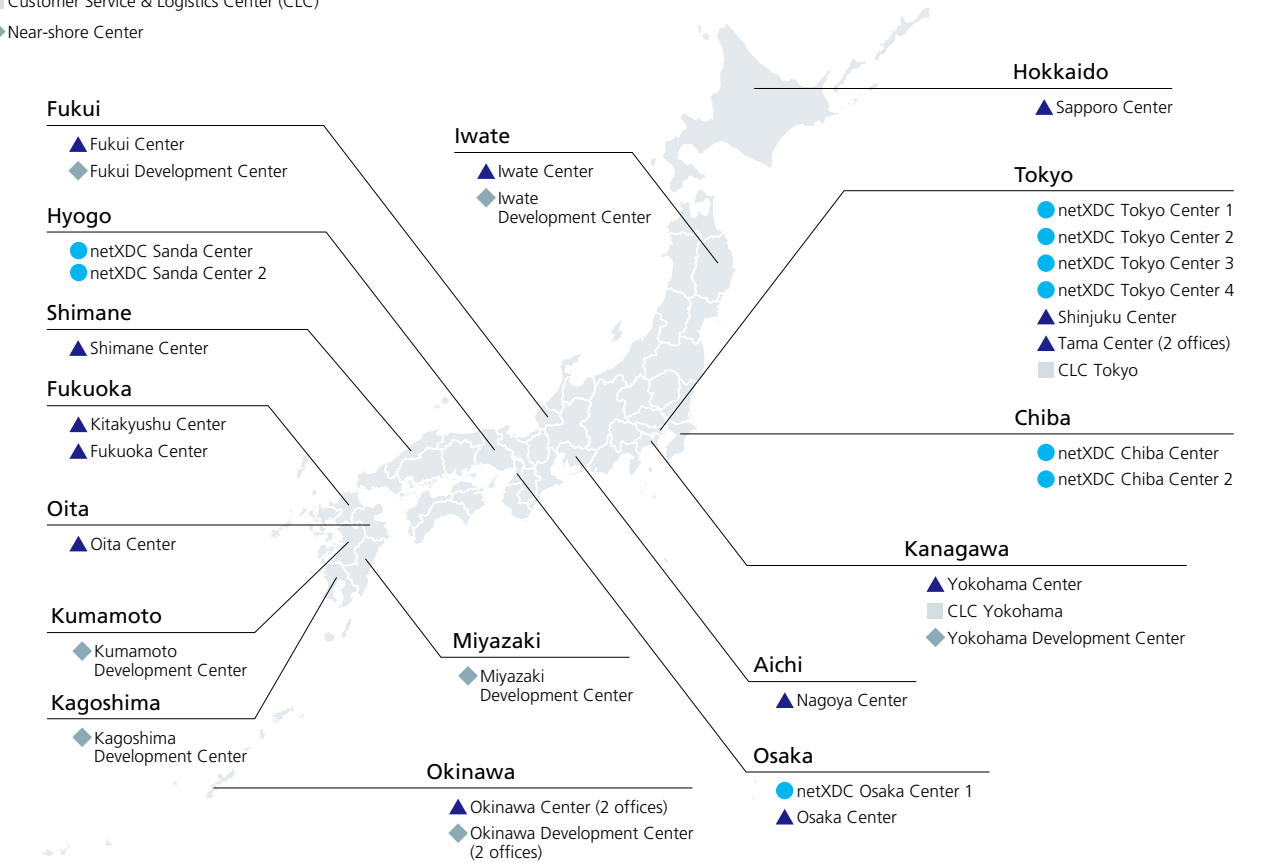
Our domestic network provides high quality services with unwavering reliability and security.

● Data Center

▲ BPO Center

■ Customer Service & Logistics Center (CLC)

◆ Near-shore Center



External Recognition

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

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

- Selected as "Brand of Companies Enhancing Corporate Value through Health & Productivity" jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (5 consecutive years since FY2014)



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



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



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



- Selected as "Nadeshiko Brand" designation jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (5 consecutive years since FY2014)



- Selected for the Diversity Management Selection 100 Prime (FY2018)



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



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



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



- Selected for inclusion in the MSCI Japan Empowering Women Index (WIN)



The inclusion of SCSK Corporation in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of SCSK Corporation by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

About the Cover and Back Cover of SCSK Report 2019



The cover and back cover of the *SCSK Report 2019* were designed after the advertisement commemorating our 50th anniversary published in the *Nikkei Daily* and displayed in the underground passage of Toyosu Station on the Tokyo Metro Yurakucho Line.

Fiscal 2019 is our 50th anniversary year.

The children appearing here are the children of SCSK employees. We believe our mission is to dedicate our fullest efforts to making the future a better place and making their dreams a reality.

As a leading company in digital society and as an exciting company, we are committed to achieving greater growth in the future, during this time when a sustainable society is truly needed.