



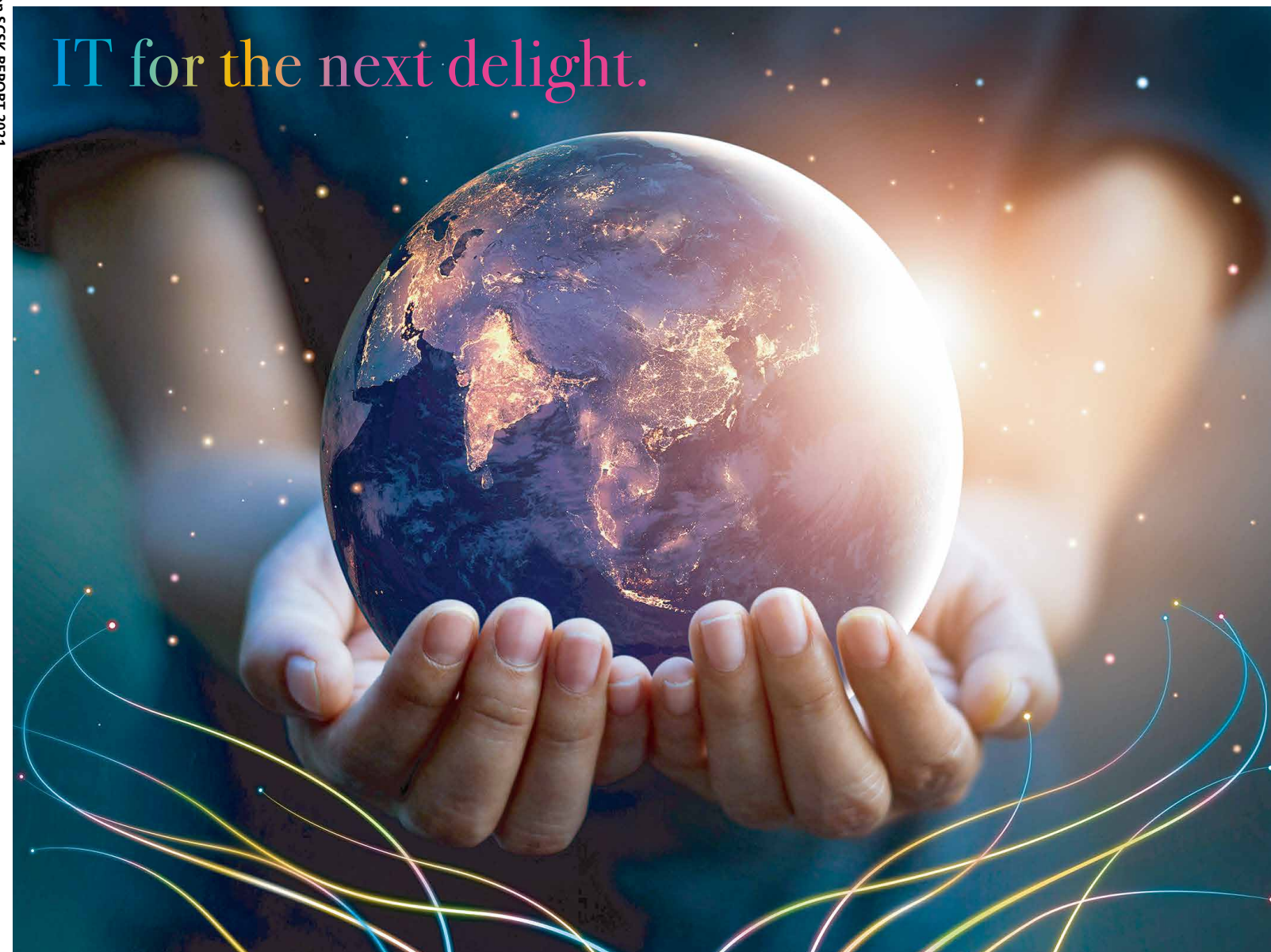
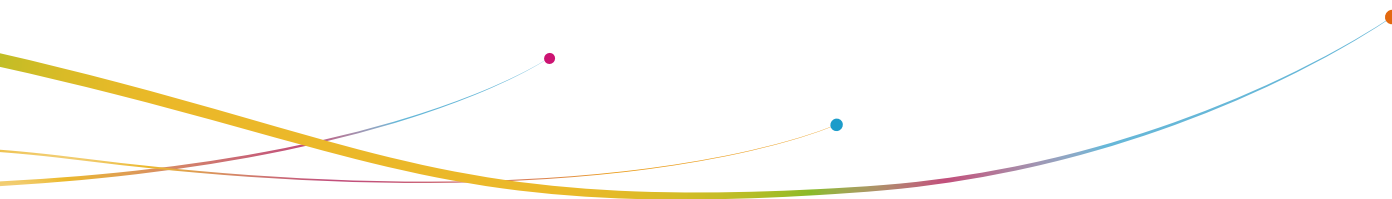
# SCSK REPORT 2021

From Apr. 1, 2020 to Mar. 31, 2021

SCSK Corporation SCSK REPORT 2021



IT for the next delight.



Create our Future of Dreams



## To Our Stakeholders

Thank you for your continued support and patronage of the SCSK Group. First, I would like to offer our condolences to those people who have lost their lives due to COVID-19 and extend our sympathies to those whose lives have been impacted during the pandemic.

The year 2021 marks the 10th anniversary since the SCSK Group was established in October 2011 with the merger of Sumisho Computer Systems Corporation and CSK Corporation. Following the merger, we created a new corporate philosophy, "Create Our Future of Dreams," under which we have worked to create a foundation for growth by quickly integrating both companies' organizations and talent and to utilize the reinforced business and client base from our integration. As a result, we have continued to increase both sales and profits. To provide a workplace environment where everyone at the SCSK Group can fully utilize their skills and talents, we have worked across the entire company on working style reforms as well as health and productivity management, creating a foundation for management that fully exercises our employees' potential.

The changes brought about by the utilization of IT and

digitalization in society have been further accelerated since 2020 due to the COVID-19 pandemic, greatly changing both business and our lifestyles. In order to achieve sustainable growth in such a climate of major change and uncertainty, the SCSK Group will need to address the various social issues impacting us through business activities by leveraging its management resources of technology and talent, and work toward new value creation. Sustainability management, which forms a focal point of our medium- to long-term growth strategy, will empower us to become a Co-Creative IT Company in 2030.

We prepared the Integrated Report 2021 with a focus on sustainability management to share our commitment to convey to stakeholders our real stance toward initiatives for new value creation and resolving social issues through the SCSK Group's business activities.

The SCSK Group will continue working on new value creation aimed at becoming a Co-Creative IT Company in 2030, expanding the scope of co-creation with clients and society through the promotion of sustainability management.

## Masao Tabuchi

Representative Director  
Chairman and Chief Executive Officer

## Philosophy

### 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.

## SCSK GROUP

#### Japan

SCSK ServiceWare Corporation  
VeriServe Corporation  
Minori Solutions Co., Ltd.\*1  
SCSK KYUSHU CORPORATION  
SCSK HOKKAIDO CORPORATION  
SCSK PRESCENDO CORPORATION

Skeed Co., Ltd.  
CSI SOLUTIONS Corporation\*1  
Allied Engineering Corporation  
WinTechnology Corporation\*1  
SCSK SYSTEM MANAGEMENT CORPORATION  
VA Linux Systems Japan KK

SDC Corporation  
Gran Manibus Co., Ltd.  
SCSK Nearshore Systems Corporation  
TOKYO GREEN SYSTEMS CORPORATION  
ARGO GRAPHICS Inc.\*2  
Diamond Head Co., Ltd.\*2

#### Overseas

SCSK USA Inc.  
SCSK Europe Ltd.  
SCSK Shanghai Limited  
SCSK Asia Pacific Pte. Ltd.  
PT SCSK Global Indonesia  
SCSK Myanmar Ltd.

As of March 31, 2021

\*1 Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, and WinTechnology Corporation will merge on October 1, 2021 to form SCSK Minori Solutions Corporation  
\*2 Company accounted for using the equity method.

Editorial Policy

Integrated Report 2021 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.

**Important Information Regarding Report Terminology**

The phrase “health and productivity management” appearing in this report is a registered trademark of the 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](https://www.scsk.jp/ir_en/index.html)

Sustainability Detailed Information  
Sustainability Website  
[https://www.scsk.jp/corp\\_en/csr/index.html](https://www.scsk.jp/corp_en/csr/index.html)

Scope of report	SCSK and the SCSK Group
Reporting period	FY2020 (April 2020 to March 2021) *Includes some information for FY2021
Publication date	October 2021 (The original Japanese report was published in August 2021, therefore, the information is as of August 2021.)
Guidelines referenced	<ul style="list-style-type: none"><li>U.N. Global Compact</li></ul> <div><p>This is our <b>Communication on Progress</b> in implementing the principles of the <b>United Nations Global Compact</b> and supporting broader UN goals. We welcome feedback on its contents.</p></div> <ul style="list-style-type: none"><li>ISO 26000</li><li>Value Reporting Foundation (VRF) International Integrated Reporting Framework</li><li>Global Reporting Initiative (GRI) GRI Standards</li><li>Ministry of Economy, Trade and Industry (METI)'s Guidance for Collaborative Value Creation</li></ul>

About the cover

The cover of the SCSK Report 2021 is based on a SCSK advertisement.

The visual of the glowing Earth wrapped in the warm embrace of human hands symbolizes that the future and society with aspirations will be created with our own hands. In addition, the sustainable lines representing SCSK Group's seven material issues placed around the hands holding the Earth illustrates the SCSK Group's sustainability management.



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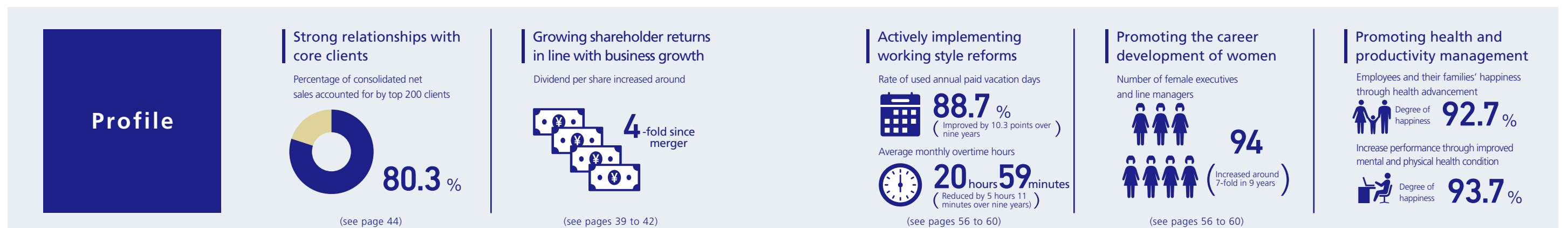
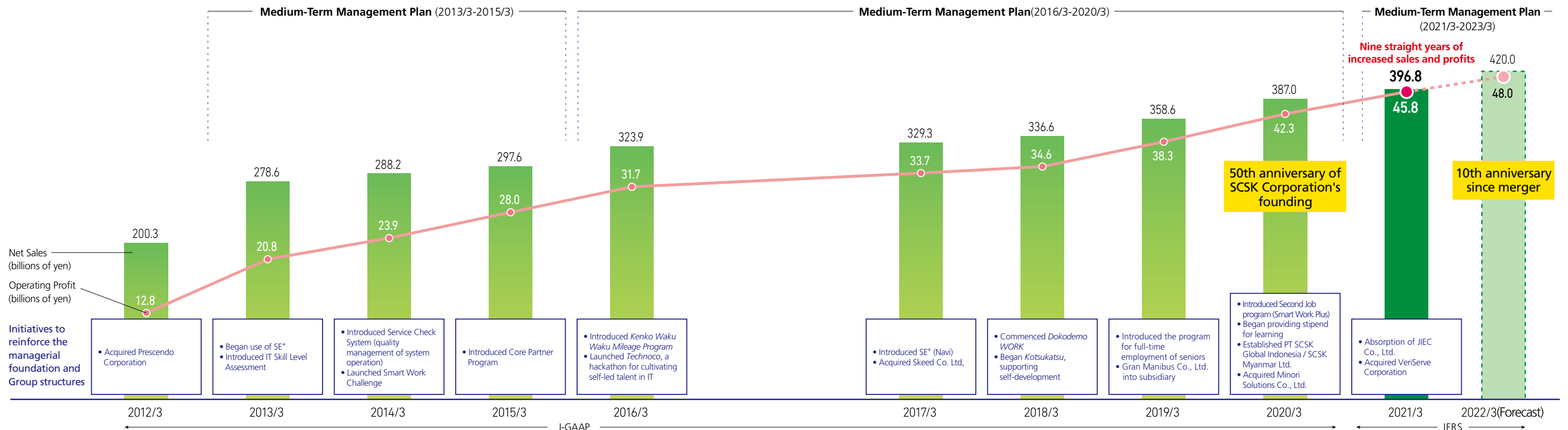
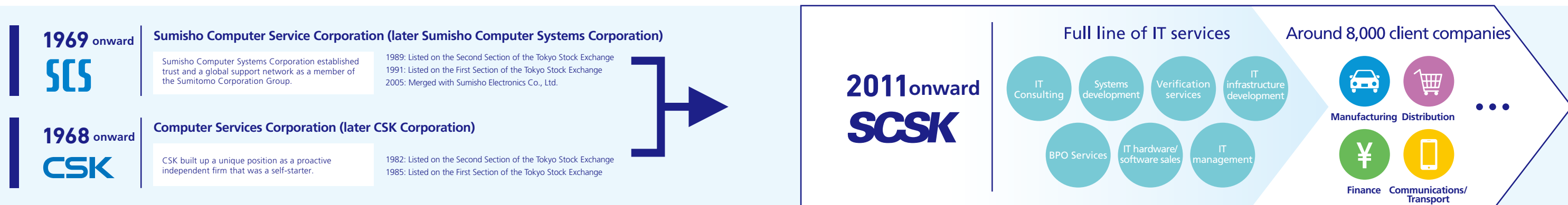
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# SCSK's History

SCSK established through the merger of Sumisho Computer Service Corporation (subsequently Sumisho Computer Systems Corporation) and Computer Services Corporation (subsequently CSK Corporation), marked its 50th anniversary in 2019 and will celebrate its 10th anniversary since the merger in October 2021.

We will continue growing together with stakeholders, aspiring to become a leading company in the IT services industry under our corporate philosophy of Create Our Future of Dreams.



The SCSK Group will promote sustainability management as a growth strategy. Our goal is to become a "Co-Creative IT Company" in 2030 through our efforts to create new value and resolve social issues through our businesses.

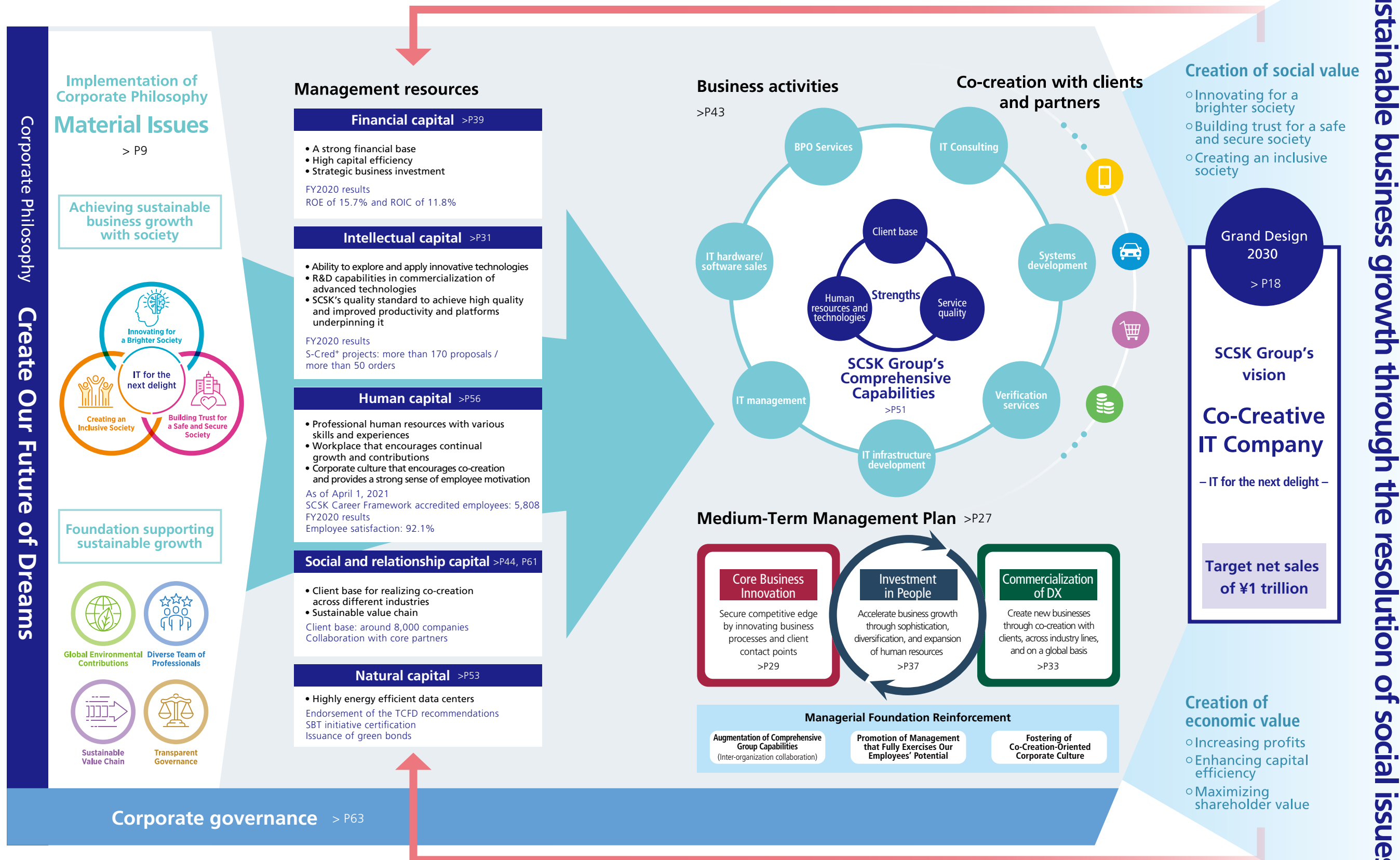
External Environment Surrounding the SCSK Group

### Paradigm shift of technology

AI/IoT  
Fintech  
xR  
5G  
CASE  
...

### Social issues

Climate change  
Health and welfare  
Human rights and education  
Diversity  
Work-life balance  
Regional and healthcare disparities  
...



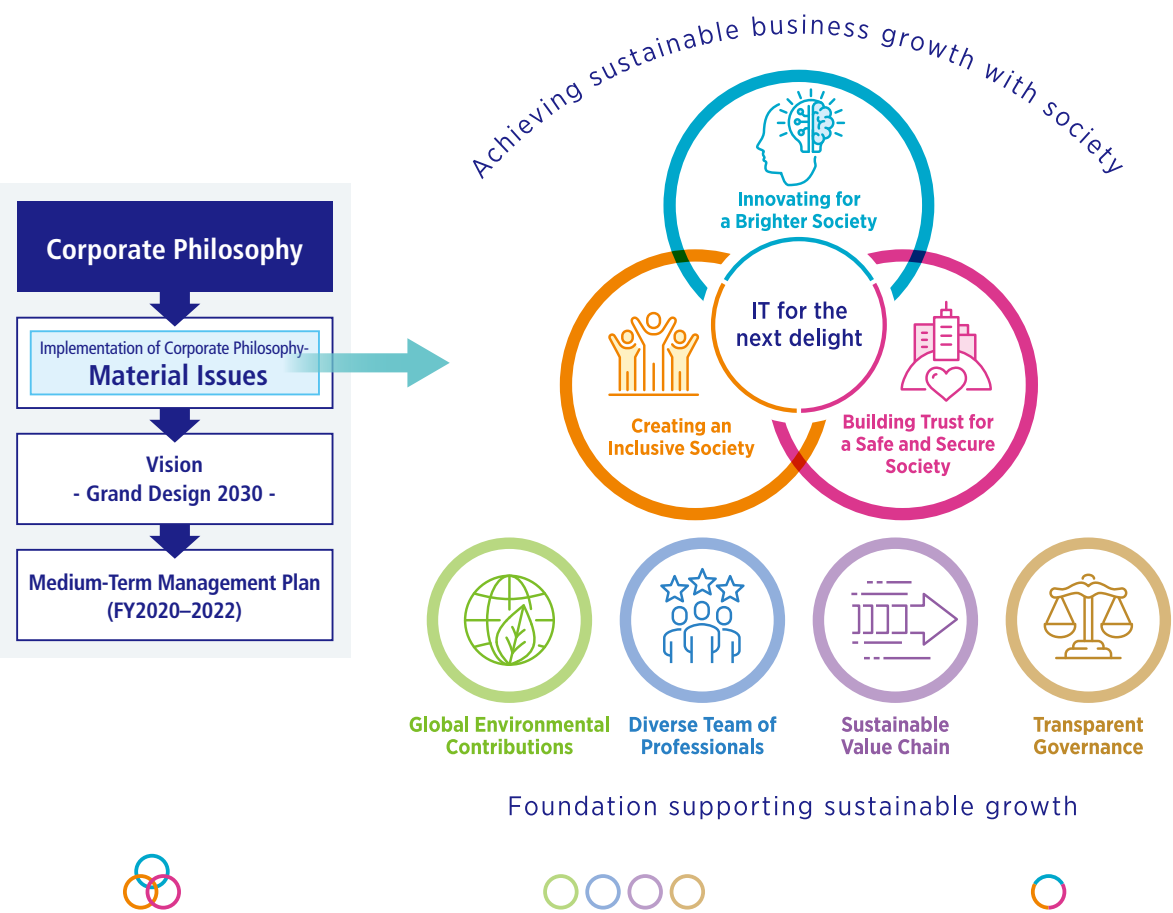
Sustainable business growth through the resolution of social issues

SCSK's Material Issues

Basic Approach

While AI and other cutting-edge technologies have made tremendous advances in recent years, social issues such as climate change and widening regional disparity have also intensified. In hand with this, companies irrespective of industry are being called on to conduct management aimed at resolving social issues through their business and achieving sustainable growth together with society.

Against this backdrop, the SCSK Group evaluated a range of issues faced by society from a business perspective, seeking to achieve its corporate philosophy of “Create Our Future of Dreams,” and specified the issues that it views as particularly important and that it should prioritize taking action on to achieve growth together with society as material issues.



Achieving sustainable business growth with society

We aim to achieve sustainable business growth by resolving social issues through our efforts to achieve the three qualities of society via our business activities. The three material issues are interrelated and connected to the concept of “IT for the next delight.”

Foundation supporting sustainable growth

The “foundation supporting sustainable growth” refers to creating the SCSK Group's management foundation by accelerating ESG-driven initiatives, and at the same time, creating a foundation to realize the upper three material issues.

IT for the next delight

“IT for the next delight” signifies that SCSK Group will continue achieving sustainable growth that supports people's happiness, even if the term IT is expressed using different words in the future.

Examples of Initiatives for Each Material Issue

Material Issues	Main Initiative Examples	Related SDGs
 <b>Innovating for a Brighter Society</b>	<p>While engaging in co-creation with our customers and partners with a focus on the major changes digital technology is bringing to industry and society, we create greater affluence and comfort by turning technology into innovation to address social challenges and create social value.</p> <ul style="list-style-type: none"><li>Swift and more appropriate accident handling using advanced accident detection (telematics accident detection service) &gt; P23</li><li>Speedy provision of optimal services using advanced customer contact points (altcircle) &gt; P36</li></ul>	  
 <b>Building Trust for a Safe and Secure Society</b>	<p>Our resilient and reliable business platforms connect customers and partners across industries and support increased safety and security for all by allowing companies to improve the quality of their business activities and people to have better everyday experiences.</p> <ul style="list-style-type: none"><li>Prevention of financial crimes and provision of reliable financial services (BankSavior® series) &gt; P24</li><li>Promotion of enhanced and efficient medical treatment, preventive medicine and health management (Pharmacy-Scope) &gt; P34</li></ul>	  
 <b>Creating an Inclusive Society</b>	<p>Our business is global and contributes to growth and development in many countries and regions. We use our understanding of technology and its impacts to help build more inclusive societies that offer more opportunities to more people.</p> <ul style="list-style-type: none"><li>Support for individual asset design tailored to a 100-year life (Japan version of TAMP) &gt; P25</li><li>Revitalization of local communities and economies through strategic expansion of nearshore network and use of DX in restoration of Shuri Castle &gt; P35</li></ul>	  
 <b>Global Environmental Contributions</b>	<p>We are addressing the impacts climate change is having on our business while helping create a better global environment by integrating environmental considerations into our business activities and creating and expanding environmentally sustainable business opportunities.</p> <ul style="list-style-type: none"><li>Response to climate change (acquisition of SBT Initiative certification and endorsement of TCFD recommendations)</li><li>Implementation of environmental management system &gt; P53</li><li>Green finance framework</li><li>Issuance of green bonds</li><li>Environmentally considerate data centers</li></ul>	 
 <b>Diverse Team of Professionals</b>	<p>We are a team of professionals with diverse expertise and experience and a shared set of values. Since we embrace diversity as a source of creativity, we strive to create workplaces and opportunities to engage our team and keep them growing professionally and as individuals.</p> <ul style="list-style-type: none"><li>Advancement of human resources aimed at value creation (talent development and career framework)</li><li>Promotion of diversity and inclusion penetration measures for utilizing diverse opinions, profiles and skills &gt; P56</li><li>Promotion of various health advancement measures aimed at achievement of our health and productivity management philosophy</li><li>Switching from working style reforms to rewarding workplace reforms (Initiatives for Working Style Innovation 2.1)</li></ul>	   
 <b>Sustainable Value Chain</b>	<p>We minimize any negative impacts associated with our value chain. In addition to service quality, we also work with partners to advance environmental and social goals such as sustainability, diversity, human rights and innovation to support our customers' sustainable growth.</p> <ul style="list-style-type: none"><li>Improvement of quality and productivity through collaboration with partner companies, promotion of working style reforms and health and productivity management, and thorough information security compliance &gt; P61</li><li>Sharing and implementation of sustainability policy</li></ul>	  
 <b>Transparent Governance</b>	<p>We conduct effective management oversight while ensuring transparency and compliance, and have established and maintain management frameworks for sound information and risk management.</p> <ul style="list-style-type: none"><li>Maintenance and enhancement of corporate governance systems to achieve sustainable growth &gt; P63</li><li>Compliance and consideration toward human rights</li><li>Implementation of appropriate risk management</li><li>Initiatives to strengthen information security and response to security incidents</li></ul>	





## Process for Compiling Material Issues

STEP 1

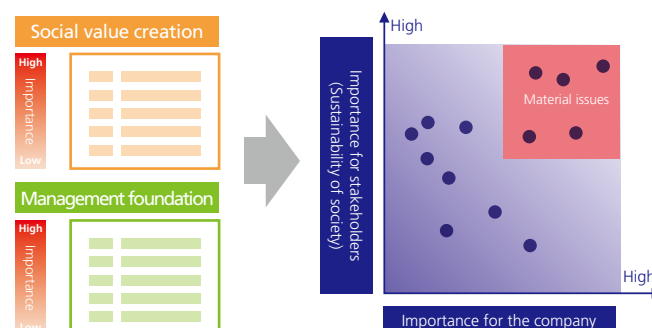
### Discussions from Perspectives of Social Value Creation and Management Foundation

- Identified social issues from the perspectives of social value creation and management foundation
  - Perspective of social value creation**  
Identified social issues to address from the perspective of achieving sustainable growth by resolving social issues through business (Co-creation with clients and society)
  - Perspective of management foundation**  
Identified social issues to consider from the perspective of mitigating negative impacts that business has on the environment and society (ISO 26000, SASB, GRI, ESG, SDGs)

STEP 2

### Mapping on matrix

- Held discussions on social issues identified in Step 1 from the perspectives of social value creation and management foundation to assess importance
- Assessed the importance of social issues for SCSK and for stakeholders from long-term perspective and mapped them to materiality matrix



STEP 3

### Preparation of draft material issues

- Prepared material issues considering importance for both management and stakeholders

STEP 4

### Dialogue with stakeholders

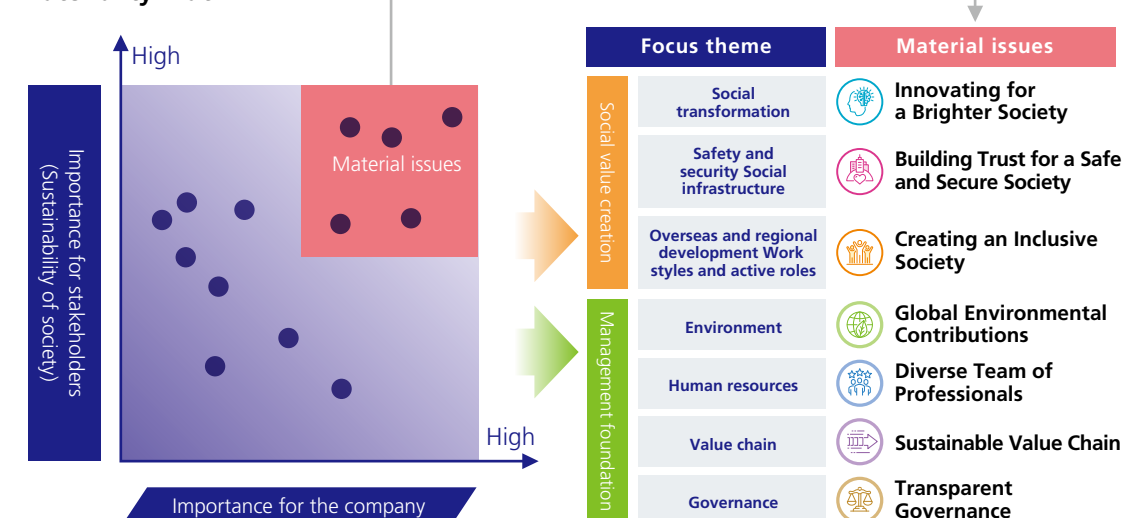
- Conducted interviews of stakeholders (employee questionnaire, outside experts, etc.)

STEP 5

### Formulation of material issues

- Formulated material issues after resolution passed by Management Committee and Board of Directors

### Materiality Matrix



## Sustainability Management Framework

The SCSK Group established the Sustainability Promotion Committee in order to promote sustainability management, which forms part of the Group's growth strategy. The committee confirms and reviews company-wide issues and initiatives related to sustainability and works to penetrate sustainability management across the entire SCSK Group. Chaired by the Executive Vice President, the committee is composed of Working Group 1 and Working Group 2.

Working Group 1 is chaired by the Executive Vice President and comprises members from the executive management team. It confirms and reviews the implementation status of

measures and any shortfalls in terms of sustainability and material issues.

Working Group 2 is chaired by an officer in charge who serves on Working Group 1 and comprises employees selected from Business Groups and Group Corporate as members. It discusses and reviews required matters regarding the fostering of a culture that understands sustainability and material issues. Working Group 2 members are expected to play a role as outspoken leaders of activities to promote the penetration of sustainability within the SCSK Group.

### Sustainability Management Framework



## Initiatives Aimed at Promoting Sustainability Management

### Beyond 2030

Committee for Discussing SCSK's Future led by Young Employees

We launched Beyond 2030 with the purpose of developing a corporate culture of self-starter employees who will be charged with sustainability management aimed at the sustainable growth of the SCSK Group.

Beyond 2030 is a program for young employees and future leaders selected from across the SCSK Group to think about and discuss the SCSK Group's future and contributions to society through its businesses.

Under this roughly six-month program, a select group of employees were placed into teams to discuss the SCSK Group's roles and growth strategies and to deepen discussions through exchanges with SCSK's executive management team and outside experts. Each team reported the results of discussions to top management and conducted opinion exchanges. Participants commented that they felt keenly aware of the importance of taking the initiative in thinking about the future. We plan to continue holding this program annually in FY2021 and beyond.

### Future Creation Program

We launched the SCSK Group Future Creation Program in October 2020 with the goal of creating businesses originating from the SCSK Group. The program aims to tackle the challenges of business creation and produce multiple entrepreneurs by using dynamic thinking that is outside the box.

The program solicited a broad range of business ideas from employees of the SCSK Group focused on the themes of "businesses that contribute to solutions to social issues visible from long-term social changes in a world with COVID-19," "businesses suited to the SCSK Group as it seeks to become a Co-Creative IT Company," and "businesses targeting several billions of yen in scale aimed at 2030."

In FY2020, a total of 32 ideas were received, with each undergoing document screening, presentation screening and final screening by outside experts and SCSK's executive management candidates. We plan on continuing to hold the program in FY2021 and beyond.

## Dialogue on Sustainability Management



## Masao Tabuchi

Representative Director  
Chairman and Chief Executive Officer

## Toshihiko Goto

Chief Executive Officer  
Sustainability Forum Japan

The SCSK Group has defined its goal for 2030 to become a Co-Creative IT Company. We are now implementing sustainable management as part of our growth strategy. On this occasion, we welcomed Toshihiko Goto, an expert on sustainability in Japan, to discuss the SCSK Group's sustainability management with Chairman Masao Tabuchi.

## Theme 1 SCSK's Role in an Evolving Society

## How do you see environmental changes surrounding corporations in Japan from the perspective of DX?

**Tabuchi:** Lately, I have noticed through my interaction with clients that the barriers between industries are gradually disappearing. Each company is working with other industries in order to survive and significantly transforming the arena of competition. The keyword to this change is "digital." With advances in digital technology, all sorts of information can now be connected within a platform. We are now in an era in which various everyday data is being used for digital technology where the boundaries are blended. For businesses, the reform of their business model to suit this new change in industrial structure, namely DX, is now in demand.

**Goto:** While the world's digitalization is accelerating, I think Japan still hasn't really caught on to the digital world proficiently. In particular, the old guard of major corporations may just be lagging behind. I feel that companies that cannot keep up with digitalization may disappear in the wake of capitalism and their future is bleak.

**Tabuchi:** I fully agree. The COVID-19 pandemic accelerated digitalization throughout society all at once, including making remote work a new normal. In the process of this shift, it is evident that Japanese society, both the government and business world included, is lagging behind the world in terms of going digital.

In the DX Report released by Japan's Ministry of Economy, Trade, and Industry in 2018, the phrase "2025 Digital Cliff" signaled the importance of DX, while the pandemic has made this a reality. The government is putting efforts into digitalization as a growth strategy, such as establishing the Digital Agency. The sense of urgency has rapidly increased among businesses, which are accelerating investments in the digital field. Given this situation, as DX is essential to elevating competitiveness, we recognize that IT services businesses such as SCSK have an ever increasing role and importance to fulfill.

**Goto:** Digitalization is just a means, and the real question is

how we can use it to advance management and society. Perhaps this is what clients and society are looking for from SCSK. While most companies are lagging behind in digitalization, as an IT professional, I hope SCSK will approach other businesses in joining forces to achieve reforms.

**Tabuchi:** You are right. This is the "co-creation" that we aspire to achieve. Previously, we engaged mainly in the contract

development business based on client requirements, but we are now shifting into a value-creation business as an entity that brings out new value while co-creating with various partners and clients. I believe the role we need to play is to work as a partner to co-create value through collaborative efforts in resolving the challenges of other businesses and society.

## What are your thoughts on the worldwide trend of climate change and decarbonization?

**Goto:** Excessive human activity is destroying forests, accelerating climate change and damaging biodiversity. It is becoming apparent that humankind may not survive if we maintain the status quo of economic and social structure symbolized by mass production, consumption and waste disposal.

To avoid this, the main focus of today's global economic activities is shifting towards keeping human activity within the Earth's capacity. In consideration of economic recovery and social development from the COVID-19 pandemic, the world has begun a green recovery which aims to achieve recovery while implementing environmental initiatives, including decarbonization.

**Tabuchi:** The Japanese government has announced its goal to reach carbon neutrality by 2050, putting technological development and businesses involved in energy conservation and carbon-free society in the limelight. This area is considered

where people, money, and things will concentrate, while the key word is still digitalization. In particular, both the efficient use and optimization of energy consumption require utilization of digital technology, and I see this market as an area that we should focus on.

**Goto:** Both the EU and the US are planning to make major investments in this green recovery and climate change measures. Some of the specific investments include promotion of renewable energy, decarbonization of energy systems, improvement of transportation efficiency and development of clean fuels. In other areas, IT is crucial to reducing the environmental impacts of businesses and society from the viewpoints of efficiency, energy saving and total optimization. I think SCSK carries a great responsibility in terms of developing new business models in the green recovery.

## Theme 2 SCSK's Sustainability Management

## What is your emphasis in promoting sustainability management?

**Tabuchi:** The sustainability management that we are promoting as a growth strategy aims to take on a variety of social issues and contribute to addressing them together with our clients and society, leveraging our core competence of digital technology. It strives to create new value necessary to society while also creating economic value at the same time.

To date, we have contributed indirectly to society through resolving issues of approximately 8,000 client companies. Going forward, we hope to make contributions to society from a more independent stance. As we embrace a new business, it is important to ultimately contribute to society, and as such the perspective of sustainability becomes imperative. This philosophy is the background to our commitment to promoting sustainability management as a growth strategy. If we work hand in hand with client companies or companies of different industries in harnessing each other's strengths to resolve issues through co-creation, it can become a powerful force to drive social reform. Our sustainability management sets out to achieve a Co-Creative IT Company, which embraces

the challenge of resolving social issues and expands the scope of co-creation as a business entity.

**Goto:** The current mainstream philosophy is to achieve sustainable development through a paradigm shift in world economic activities. In order to resolve economic and social issues, a new system and creative solutions with innovation are necessary, which requires the utilization of digital technology. This is a tremendous opportunity for businesses, and I think SCSK is extremely wise to position sustainability management as the base of its growth strategy.

**Tabuchi:** In an era where the world is intricately connected, it is important for practicing sustainability management to fully recognize what social issues our business is helping to address. We cannot be doing something we believe to be useful, which in the end is not all that helpful to society. Also, we need to minimize any negative impacts on the environment and society as much as we can. As the guiding compass, we have identified seven material issues.

**Goto:** SCSK's material issues consist of two streams: achieving



sustainable business growth with society (proactive/business opportunity perspective) and foundation supporting sustainable growth (defensive/risk management perspective). There are cases in the world where only the proactive is

emphasized while the defensive is neglected, but I find SCSK has struck a good balance to maintain both defensive and proactive aspects.

## How are you working towards achieving a Co-Creative IT Company?

**Tabuchi:** We have held a number of discussions and brainstorming sessions led by employees who will be charged as next generation leaders with an eye toward our future as a Co-Creative IT Company in 2030. These include a project to create venues and opportunities for employees to discuss our future goals and a company-wide new business development program aimed at resolving social issues.

In identifying material issues, we launched the Future Creation Project led mainly by young employees to deepen discussions. Building on this project, in FY2020 we initiated two projects called Beyond 2030 and Future Creation Program (see page 12).

Beyond 2030 is a program for young employees and future leaders to discuss the SCSK Group's future, growth strategies and contributions to society through its businesses. The results of these discussions are directly conveyed to top management for opinion exchanges. The Future Creation Program aims to commercialize business plans with a social issue perspective solicited from employees. The requirement for submission is businesses targeting several billions of yen in scale aimed at 2030. These initiatives are helping us to foster a co-creative corporate culture and raise awareness about sustainability management.

**Goto:** The key point to penetration of your long-term vision and material issues is incorporating the voices of young employees wherever possible. Millennials and Generation Z will be the ones who pave the way for future society. This is why their understanding and acceptance cannot be earned in a real sense without soliciting and embracing their opinions.

Previously, when I spoke with millennials and Generation Z about their vision for 2050, the key words they shared were wellbeing and the environment. I see that SCSK's material issues incorporate these perspectives. In that sense, I think it is very wonderful that you have adopted the opinions of young employees.

**Tabuchi:** Another point is organizational reforms we carried out to encourage co-creation both inside and outside the company. Today, when the combination of industry we talked about earlier is moving ahead, having organizations for each industry type is gradually losing meaning. The goal is to promote co-creation inside and outside the company in a flexible and agile manner while looking at the entire market, instead of the perspective of optimizing individual industries. There are two points to this. One is that we consolidated and integrated business divisions previously focused on individual industries and reorganized them into a larger framework. This has eliminated walls between divisions and made it easier to co-create cross-functionally within the company. Second is the establishment of a new dedicated department for new business development called the Global Digital Solution & Innovation Business Group. This organization is focused on new business development by consolidating employees, who had been dispersed within the company, along such themes as healthcare and customer experience (CX). Having employees who had worked for separate departments before come together to work on the same theme gives rise to co-creation internally and spreads co-creation with outside partners, which is essential to new business development. These organizational changes are expected to help propel co-creation forward in the future.



rewards. I believe the maintenance and enhancement of mental, physical, and social satisfaction will result in the wellbeing management that we are aiming for.

**Goto:** The employment market in Japan will also become more fluid in the future, while organizations that do not offer rewarding workplaces will be eliminated due to the outflow of human resources. Young generations are unbound by the

convention of lifetime employment and will change jobs in seeking an organization that befits their personal values. "Management that puts the solution of social issues at the center of strategy," and "corporate stance to provide maximum opportunities for self-learning and growth" are qualities that will echo in employees' minds and elicit commitment, which are what I see as unique features of SCSK.

## Please also share with us on your utilization of human resources in nearshoring offices.

**Tabuchi:** Regional revitalization is considered an important theme when thinking about the Japanese economy from a long-term perspective. It is one of the initiatives in our Medium-Term Management Plan to expand nearshoring offices (see page 52). Initially, we started with a focus on the use of IT engineering in rural areas as an alternative to offshoring operations, and we also wanted to respond to employees' desire to work in a rural or regional area or the area where they grew up. The COVID-19 pandemic has driven people from densely populated urban settings to less populated areas and allowed people to work globally from regional cities. This situation is a tailwind for our nearshore strategy. On top of the increased employment in regional areas, we can also easily provide employees with choices on work locations.

**Goto:** This is an initiative that is appropriate for the times. For those people who wish to live in rural areas that are kid-friendly and close to nature, this also contributes to their wellbeing.

**Tabuchi:** Expanding nearshoring offices benefits not only in terms of employment but also leads to regional

revitalization. The implementation of collaboration among academia, industry and government such as local governments, businesses and universities can lead to resolution of issues in local communities as well as promotion of the IT industry. In June 2021, we signed a cooperation agreement with Okinawa Prefecture on DX promotion for the restoration of Shuri Castle (see page 35). Along with the restoration of Shuri Castle, we are considering a number of projects including the enhancement of Shuri Castle Park and its vicinity through utilization of DX, and urban development that benefits both lifestyle and tourism. These are some examples of co-creation, which we would also like to expand into other regions.

**Goto:** The population concentration in large cities during rapid growth periods has resulted in the severe decline of regional economies. SCSK's nearshore strategy can bring positive influence to future regional development if it retains human resources locally, attracts more people from the outside and stimulates human interactions.

### Theme 3 Enhancing Corporate Value from a Medium- to Long-Term Perspective

## What are your initiatives aimed at enhancing employee job satisfaction?

**Tabuchi:** Our people's skills are what will achieve the goal of a Co-Creative IT Company. Based on the promise of respecting each other in our corporate philosophy, we have taken the lead in the IT services industry with working style reforms including reducing overtime work and encouraging employees to take paid vacation. We are also promoting health and productivity management with myself as the person in charge. As you mentioned earlier, creating a

friendly workplace improves employee morale and also links to enhanced performance. Moreover, we aim to evolve from working style reforms into rewarding workplace reforms going forward (see page 60). In order to feel job satisfaction both physically and mentally, it is crucial for one to experience both personal growth and resolving social issues through work. In our implementation of sustainability management, we will develop structures that enable employees to experience these

## Lastly, what is your intention behind setting the target of carbon neutrality by 2050?

**Tabuchi:** As we have incorporated sustainability management in our growth strategy, making a commitment to carbon neutrality is considered something we will unquestionably take on. We have set a target of making our greenhouse gas emissions zero by 2050, and announced our intention to be accredited under the SBT initiative and to endorse the recommendations of the TCFD (see page 53).

**Goto:** Climate change is the number one priority that needs to be addressed in the world. From early on, I have been appealing to businesses that they should declare carbon neutrality as a long-term goal. However, there were many companies in Japan

that hesitated as they worried about not meeting the goals. I am hopeful for SCSK to not only reach the target of carbon neutrality, but also lead the reforms in society towards the future of 2030 through co-creation with clients and society as well as unique value creation, and achieve sustainable growth.

**Tabuchi:** Businesses also grow through their help in addressing various social issues, including climate change. I hope we will occupy an indispensable existence to our multitude of stakeholders, from employees to clients, partners, shareholders and local communities through meeting their expectations.

Thank you very much for today.

## We will promote sustainability management as a growth strategy by tackling the new value creation required by society.



**Toru Tanihara**

Representative Director  
President and Chief Operating Officer

### Looking at the Trailing and Forward 10-Year Periods

#### Sales and profits increased for the ninth consecutive year driven by management that fully exercises employees' potential

October 2021 marks the 10th anniversary since the establishment of SCSK following the merger of the former Sumisho Computer Systems Corporation and former CSK Corporation. Looking back at the previous 10 years or so, our lifestyles and values have been transformed by a number of major events inside and outside of Japan, including the Great East Japan Earthquake of 2011 and the ongoing COVID-19 pandemic.

In our quest for growth while adapting to the intense social changes taking place around us, I once again find myself feeling keenly aware that people form the very essence of management and of the importance in management appealing to employees' hearts. Since taking over as president, I have always considered how SCSK as a corporation can fully exercise employees' potential. This has driven me to promote health and productivity management along with working style reforms which form the foundation for a workplace where employees are healthy and happy at work. As a result of our collective efforts toward these goals, SCSK has been widely recognized by institutions both inside and outside of Japan.

Additionally, I find it extremely important for SCSK to be a company with a creative and rewarding work environment. For this reason, I make it a point to be on the same page as employees by discussing frontline issues with them whenever

possible. Our ability to record nine consecutive years of increased sales and profits since the merger stands as a testament to the capabilities of our employees. Looking ahead, I will continue to promote management that fully exercises our employees' potential while appealing to the hearts of employees as top management.

#### Transforming into a Co-Creative IT Company in 2030

The IT services market continues to see robust growth, and I feel like SCSK is riding this growth wave. At the same time, however, I feel like SCSK's very future is threatened if we become complacent and simply maintain the status quo. This is because in the future there is a strong possibility for realignment and alliances within the industry to occur, resulting in a clear crop of winners and losers. For SCSK to come out on top, we need to clearly lay out what needs to be accomplished with an eye on 10 years into the future. Now is the time to carefully look back on the previous 10 years and consider how we can utilize the lessons learned over the next 10 years. From this sense of urgency and looking at this situation as a second founding of sorts, we formulated Grand Design 2030 and placed our unwavering corporate philosophy since our founding and material issues to be addressed in order to implement this corporate philosophy as the cornerstones of our sustainability management.

The SCSK Group has established and refined its strengths that include a full line-up of services, from systems development to maintenance, operation and BPO, and client base of some 8,000 companies. Our form of

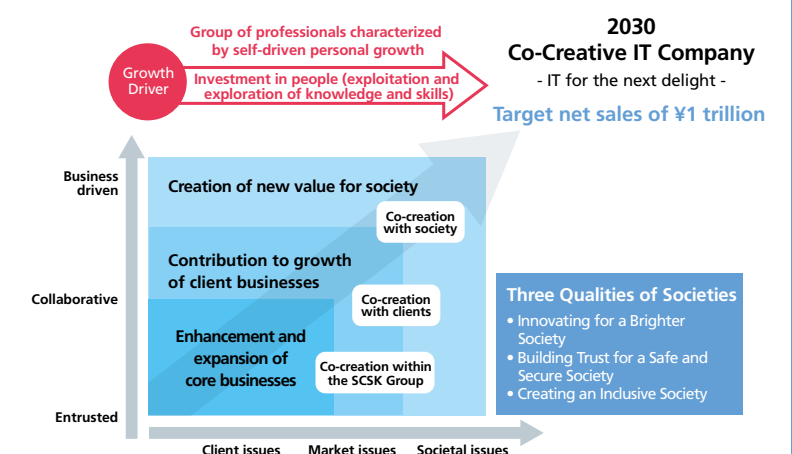
"co-creation" can be found in utilizing these strengths to transform ourselves and contribute to society alongside our clients. The traditional systems integration business tended to end with the delivery of outputs such as systems or services. SCSK, however, believes that value lies in helping clients to improve earnings and establish better reputations in society as a result of these outputs. Therefore, instead of simply being satisfied with delivery, we want to know all about the outcomes we provide—whether the systems and services we deliver have a positive impact on clients or society—to gain a more customer-oriented perspective. This is vital to not only our growth over the next 10 years, but over the longer term as well.

The key factor in becoming a Co-Creative IT Company is

to provide an environment where employees can tackle the challenge of new value creation. Without a corporate culture that embraces failure and change, employees will not have the courage to transform themselves. Since we formulated Grand Design 2030, I have reiterated that SCSK needs to change now and that young employees will be the ones who create the future of SCSK. During this time, I have seen a gradual change in employee mindset. A company begins with a dream and grows with passion. If our up-and-coming employees and others can combine their dreams and passion along with knowledge and skills while boldly tackling challenges and failures, I am convinced that SCSK will be able to reach its goals of becoming a Co-Creative IT Company with ¥1 trillion in net sales by 2030.

### About Grand Design 2030

The SCSK Group formulated Grand Design 2030 as its vision for 2030. This vision involves becoming a Co-Creative IT Company and reaching net sales of ¥1 trillion by taking the initiative in businesses that contribute to the resolution of social issues together with clients and partners. At the same time, we will contribute to the three qualities of societies, which consist of innovating for a brighter society, building trust for a safe and secure society and creating an inclusive society.





## Progress of the Medium-Term Management Plan

**Accelerating the speed of reforms in a new normal**

Making steady progress with the three-year Medium-Term Management Plan launched in April 2020 is extremely important when looking at 2030, the target year of Grand Design 2030. We are now moving forward with three basic strategies comprising Core Business Innovation, where we will achieve highly profitable and high productivity operations while streamlining core businesses, Commercialization of DX, where we will tackle the challenges of new business creation organically, and Investment in People, where we will encourage independence and autonomy in our employees to implement the first two strategies. We are now making efforts under the recognition that future growth will be unattainable without first completing this Medium-Term Management Plan, which will also enable us to come out on top in a new normal post COVID-19.

**Core Business Innovation**

Core Business Innovation entails upgrading our existing core businesses using “two innovations.”

First is *Monozukuri* innovations. Our development process standard SmartEpisode Plus (SE+) introduced in FY2012 is now being used not only internally, but also at partner companies as well, helping to reduce the number of unprofitable projects. In addition, we began utilizing *Monozukuri* innovation platform Smart Co-work on Relationship, Engineering and Design Plus (S-Cred+) (see page 31) in FY2020, with the number of

proposals exceeding 170 during the previous fiscal year and the number of project orders at around 50. We are also moving ahead quickly with the standardization of platform development for incorporating digital technology and cloud native development, resulting in around 100 function additions and changes. Through this platform, we are working toward further operational efficiency and comprehensively improving service quality.

Second is subdivision innovations. This involves positioning subdivisions, where we have carried out maintenance and operation services and development and maintenance closely tied to clients, as a foundation of co-creation, and working to transition from a full-time IT support to value-co-creating business model. I believe the key in producing new value can be found in fostering an environment that listens to the voice of clients. In this regard, the roughly 540 subdivisions employing more than 10,000 staff nationwide, along with the voice of clients accumulated therein are both valuable assets of the SCSK Group.

Service managers play a central role in creating value with clients at these subdivisions. Currently, we are moving ahead with plans to train 150 service managers during the three-year period from FY2020 to FY2022, and in FY2020 around 30 service managers completed their training and began work in their new role. Going forward, these service managers will propose business innovations on the frontlines of clients' operations using creative thought. Additionally, each subdivision is working on such initiatives as visualization of operations aimed at upgrading and preparation of business plans. By transforming subdivisions into a hub of information



dissemination, we will be able to pursue subdivision innovations consistently so that we can more accurately grasp the voice of clients and generate new co-creation opportunities as a result.

**Commercialization of DX**

Under Commercialization of DX, the SCSK Group is taking the lead in creating new services and businesses that can help resolve social issues through co-creation with various companies, including those from different industries.

The priority fields in Commercialization of DX include the mobility field, financial service platform field, healthcare field, and customer experience (CX) field. We are now in the process of developing innovative services in each of these fields (see page 34). For example, in the mobility field, we are working on a telematics accident detection service for automobiles using the SCSK Neural Network toolkit (SNN), a proprietary AI-driven solution, based on the growing problem of traffic accidents caused by elderly drivers. The next phase will be to commercialize this service together with insurance companies and automakers. Also, we are using SNN for various data related to driving that can be collected from devices such as drive recorders to roll out services to the market related to all aspects of car life, including driving support and vehicle maintenance. In turn, we are looking toward technologies that use sensors to collect traffic congestion information at highway interchanges and check parking space availability. In these fields, we have been growing the seeds that will form the roots of new business models while utilizing our track record in existing businesses, and now finally the time has come to harvest and reap the results.

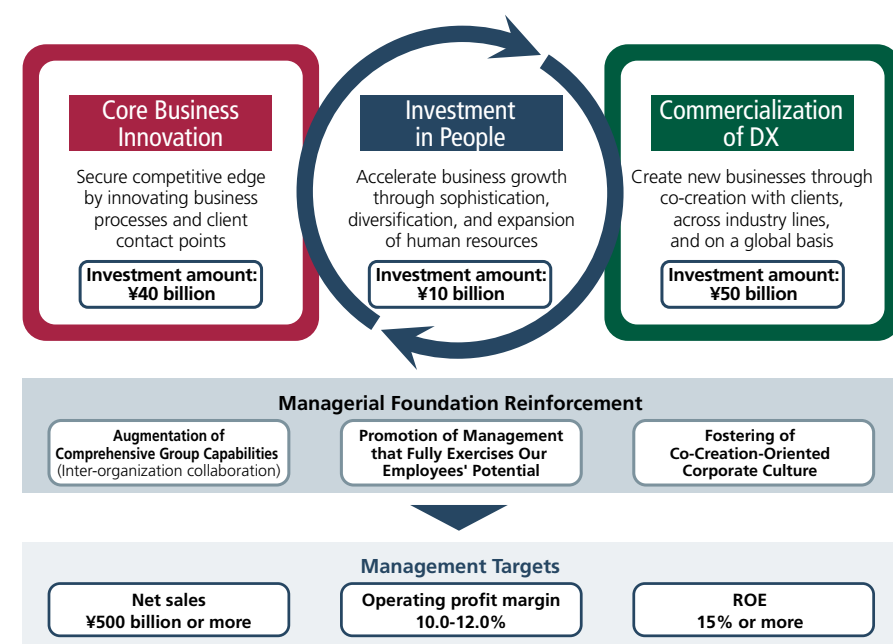
We are also looking at new businesses outside of these

four priority fields. From the perspective of social contributions using digitalization, the worldwide trend of carbon neutrality cannot prove successful without the power of IT. In Japan, with its aging society and declining birthrate, the restoration of agriculture and other primary industries has become a serious issue and the use of IT is vital to achieving reforms such as improved productivity. As an IT services company, we are excited about the prospects of providing solutions to the fields of renewable energy and agritech.

Toward this end, we are strengthening relationships with partners aimed at commercialization given the need to work closely with various types of partners than before. We are pursuing business and capital tie-ups with companies that possess technologies or business models that benefit the commercialization of DX and start-ups working on cutting edge technologies that will have a major impact on future businesses, while also utilizing venture funds and accelerators. In this manner, we have begun initiatives aimed at business development jointly with our partners. Connecting and linking different industries is an area where we excel; thus, we will accelerate the commercialization of DX by further promoting venture investments and exploring M&A opportunities.

**Investment in People**

As I discussed above, people stand at the very essence of our management style and people will be the key actors in the both Core Business Innovation and Commercialization of DX in our Medium-Term Management Plan. For this reason, the strategy in the Medium-Term Management Plan is expressed as “investment in people (human assets)” to embody this commitment. Employees' freedom of thought, independence,



Capital efficiency index ROIC maintenance target level: 10-12% (In the medium-term management plan period)



and spontaneity is critical to transforming the SCSK Group. The job of the executive management team is to establish an environment conducive to this. We will make it a point to invest in training and systems for an inclusive workplace centered on upgrades to the personnel system, promotion of diversity and inclusion, and increasing our workforce inside and outside of Japan. In FY2020, we introduced a new personnel system that enables the development of professionals through self-led learning and the performance-driven job promotions in order to increase job satisfaction through an evaluation system that is more objective and compensation based on skills and results.

Moreover, we will transform employee training with an eye toward SCSK's goals for the future. Currently, we are focusing on training that emphasizes refinement of creative insight. As part of this initiative, at Gran Manibus Co., Ltd., a consulting firm that is part of the SCSK Group, we are building a cycle of training our people to elevate their consultation skills for clients and then having them use this knowledge on the frontline to further hone their abilities and promote co-creation with clients.

We are committed to making investments in our people needed to carry out our strategies, which includes establishing the ADV (advanced) position with annual salary over ¥30 million, with the goal of acquiring premier IT talent that will drive our commercialization of DX.

■ Restructuring of Organizational Structure

The SCSK Group has steadily expanded its business operations over the last 10 years, but a major concern associated with this expansion is the creation of bureaucratic tendencies. The larger an organization becomes, the greater the tendency toward sectionalism and slower decision making. In addition, the digitalization of clients is expected to accelerate even further given the new normal. In order to achieve sustainable growth in the future, we have decided to embark on a restructuring of our organization based on the belief that eliminating barriers between Business Groups and promoting collaboration within a large framework will foster co-creation internally and externally and make it easier for young employees to contribute their skills.

Specifically, we consolidated and integrated Business Groups which until now had been divided by industry and function, establishing the two major organizations of the CORE Business Group and Next-CORE Business Group (see page 43). At present, the CORE Business Group covers our core businesses, where we are working to increase competitiveness by comprehensively reinforcing core business innovation targeting existing businesses.

Meanwhile, the Next-CORE Business Group is responsible for creating new businesses. Within this group, we newly established the Global Digital Solution & Innovation Business Group, representing a collection of businesses and talent

related to each theme such as healthcare and CX. This group will work diligently toward the creation of new businesses in each of the priority fields of Commercialization of DX.

As one of our initiatives for sustainable growth, we will reorganize the Group's subsidiaries aimed at tapping into new markets. In response to the growing mid-size company market, we will merge subsidiaries Minori Solutions, WinTechnology and CSI Solutions, each of which excels at the service business, to further solidify our approach and expand our client base.

■ Management Targets

Regrettably, the initial fiscal year of our Medium-Term Management Plan was impacted by the COVID-19 pandemic. The SCSK Group was forced to undertake business activities that were greatly restricted, but we managed to recover to a certain extent using business and sales activities that combined in-person meetings when appropriate with online work. As a result, the impact to our business was minimal. I believe this was also made possible by our subdivisions, which have been giving us a close presence on the frontline of client operations and allowing us to build relationships of trust for many years. Roughly half of our employees at subdivisions worked remotely now. Nevertheless, they used both remote work and face-to-face interactions where necessary after clarifying the priority of their work through direct dialogue with clients.

Future uncertainty caused by the COVID-19 pandemic is expected to persist for the time being, but we anticipate the overarching trend to be recovery. Since we have established an earnings model that secures profit margin, as long as we increase the top line, the bottom line will follow.

In FY2022, we aim to reach net sales of ¥500 billion or more, an operating profit margin of between 10.0 and 12.0%, and ROE of 15% or more. As for operating profit and ROE, figures for FY2020 indicate we are well on way to achieving these targets. New business creation will be vital to reaching our target of net sales at ¥500 billion. In addition to organic business growth, we will actively explore M&A opportunities that lead to synergies with the SCSK Group.

We will work toward completing our basic strategies using our new organizational and group structures.

Management Targets

	FY2020 Results	FY2022 Target
Net sales	¥396.8 billion	¥500 billion or more
Operating profit margin	11.6%	10.0-12.0%
ROE	15.7%	15% or more

Commitment to Reforms

Promoting Sustainability Management as a Growth Strategy

The world today is faced by a number of social and environmental issues including climate change, resource depletion and food scarcity. Japan, too, has seen a wide range of complex issues, such as a declining and aging population, energy issues, and an increase in natural disasters.

As I noted above, a company begins with a dream. My dream is to create a company that contributes to society and is indispensable to society. As society changes at an unprecedented speed, including the quicker diversification of people's lifestyles and values, I feel that corporate management requires a sustainability transformation (SX) that balances earnings and response to social and environmental issues. Given this, the SCSK Group will create businesses that utilize the Groups unique knowledge through its core IT services business and in the process contribute to solutions to social and environmental issues. While it is simple to say that we want to contribute to society, achieving the all of the SDGs is simply not possible through our own standalone efforts. However, by working together with clients, we can provide support aimed at reaching these goals. Therefore, it will be important to produce digital technologies that clearly contribute to social and environmental issues, such as carbon neutrality and agritech.

Companies are speeding up their efforts toward a carbon-free society aimed at mitigating climate change risk and environmental initiatives from the perspective of curtailing business continuity risks. Given this situation, the SCSK Group is proactively working to reduce its greenhouse gas emissions, eyeing the goal of net-zero Scope 1 and Scope 2 greenhouse gas emissions by 2050. Toward this end, we endorsed the TCFD's recommendations and obtained accreditation of our 1.5°C target under the SBT initiative (see page 53).

It is clear that IT-driven innovation and DX generate new value. This makes our mission extremely important. Our sustainability management as a growth strategy means creating new value needed by society while at the same time generating economic value, too. Going forward, we will continue to promote sustainability management as we seek to enhance corporate value over the medium to long term.



Regaining Trust with a Compliance-First Mentality

Finally, a former employee of SCSK was arrested in March 2021 by the Tokyo Metropolitan Police on suspicion of computer fraud. I have repeatedly stressed the importance of compliance through training and education for officers and employees, under my mantra of compliance first and people before technology.

However, this arrest shakes the very foundation of the trust that we have built up with clients and other stakeholders. I am keenly aware of my accountability as top management and I would like to offer my deepest apologies to those impacted by this crime and to our stakeholders.

As a preventive measure, we will upgrade our information security countermeasures and take a number of actions to reinforce security control measures from various angles including revamping our compliance and information security training program for all employees. I will become Chief Information Security Officer and oversee our efforts toward restoring trust.



## Innovating for a Brighter Society

### Background and Approach

In recent years, a number of environmental and social issues that threaten a sustainable society have grown more serious. This requires that not only countries and governments, but also all people and organizations including companies and communities work together to take action toward solutions to these issues.

Digital technologies such as AI and IoT are in the spotlight as integral to these solutions. The advancement of digital technologies represents an important key in resolving social issues considered to be impossible before. They are expected to play a vital role in this regard.

The SCSK Group has supported management foundations and the digitalization of Japanese companies using systems representing a culmination of its technologies

and know-how developed over many years in various fields. To address these increasingly complex social issues, we need to join forces with clients and partners from different industries to harness one another's strengths while utilizing digital technologies. This will become a major driving force behind the transformation of society and lead to more sustainable growth of society as a whole.

The SCSK Group will provide innovative businesses and services by further reinforcing its initiatives in technical innovation and DX promotion, aimed at balancing sustainable business growth and solutions to social issues. By expanding areas of co-creation with clients and society and working to find solutions to social issues, we will create a comfortable and vibrant future society.

### Examples of Initiatives

#### Launched the Telematics Accident Detection Service

##### Social issues in the background

- High occurrence of automobile accidents (traffic accidents involving the elderly drivers, road rage, and reckless driving)

##### Value provided to society by the SCSK Group

- Mitigation and prevention of traffic accidents
- Prompt and more appropriate handling of accidents

At present, an increase in the number of automobile accidents involving elderly drivers, road rage, and reckless driving has become a social issue in Japan. Also, with the popularization of connected cars and self-driving cars soon to become a reality, the automobile business environment is undergoing drastic changes.

At SCSK, we developed an accident detection algorithm utilizing our unique solution, the SCSK Neural Network (SNN) toolkit, and further enhanced accident detection within the Telematics\* Damage Service System, a new accident response service offered by Aioi Nissay Dowa Insurance using its cutting-edge technology as a pioneer of the industry.

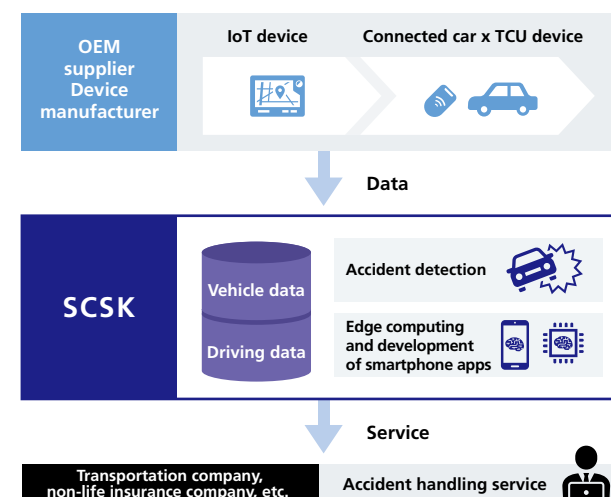
The Telematics Damage Service System revolutionizes the style of communication from the conventional passive communication, where insured customers have to contact their insurance company upon an accident, to active communication, where the insurance company reaches out to customers upon detecting a large impact based on various digital data received from the vehicle and devices. We aim to provide peace of mind to clients by achieving prompt and more appropriate handling of accidents.

The SCSK Group will work with clients and partners in

creating new businesses and services that society needs, which will help to develop a future society with greater affluence and comfort.

\*Telematics is a term coined by combining telecommunication with informatics, and refers to the system of providing various information and services using a mobile communication system and in-car devices such as car navigation and GSP.

#### Accident Detection Mechanism



## Building Trust for a Safe and Secure Society

### Background and Approach

With modern society transitioning to a digital society, IT has come to occupy an important position as a platform essential to the creation of new services and businesses for clients. As many activities become digitalized and data linkages accelerate, IT will become a huge social infrastructure connecting industries together, and the stable operation of IT will be vital to a safe and secure society.

At the same time, social infrastructure using multiple platforms will increase system complexity and accumulate vast amounts of highly confidential data including personal information. For this reason, sophisticated information security is also needed.

The SCSK Group has supported the development and operation of business platforms that connect a multitude of industries and clients. It is our role as IT professionals to provide IT as a form of social infrastructure securely and safely. In this regard, we maintain untold responsibility and social significance. The SCSK Group will support a safe and secure society by increasing the quality of daily living and corporate activities through the provision of resilient and trustworthy business platforms together with clients.

### Examples of Initiatives

#### BankSavior® Series Integrated AML Platform

##### Social issues in the background

- Increased number of financial crimes that are becoming more sophisticated and complex
- Increased cost due to enhanced measures to prevent financial crimes

##### Value provided to society by the SCSK Group

- Prevention of financial crimes
- Reliable financial services

Financial crimes such as money laundering, terrorist financing, remittance fraud and other communication fraud are becoming more sophisticated and complex by the day and is a major social issue.

It cases tremendous burden on financial institutions because of the costs associated with enhancing measures to prevent financial crimes and paperwork in response to more strict regulations imposed by the authorities.

To support early detection and prevention of financial fraud SCSK offers the BankSavior® Series as an integrated AML platform. The BankSavior® Series consists of three major functions.

1. Monitoring (BankSavior® Monitor): a function that monitors daily transactions and supports a series of operations from detection of suspicious transactions to reporting.
2. Filtering (BankSavior® Filter): a function that collates with multiple lists at once, including anti-social forces, targets of economic sanctions, government affiliates of each country, and politically exposed persons (PEPs).
3. Customer risk assessment (BankSavior® ScoreBoard): a function that centrally manages customer information and conducts an anti-money laundering (AML) risk

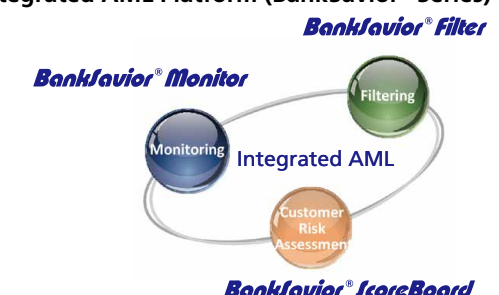
assessment for each customer based on their attributes and transaction information.

The risk assessment computed by BankSavior® ScoreBoard is automatically relayed to the BankSavior® Monitor to be utilized in monitoring.

Due to financial crimes are becoming more sophisticated and complex, coordination between the three functions of the BankSavior® Series will reduce the operational burdens of financial institutions as well as achieve a higher standard in AML management.

Through providing BankSavior® Series, we aim to prevent financial crimes and achieve reliable financial services, thereby contributing to a safe and secure society.

#### Integrated AML Platform (BankSavior® Series)





## Creating an Inclusive Society

### Background and Approach

The SCSK Group is actively expanding its business and offices globally while also using nearshoring. This is one measure for expanding the SCSK Group's businesses and resources, but at the same time, it also greatly contributes to the development of local communities.

By expanding our offices, we are providing employment opportunities in local communities and fostering excellent IT talent. In addition, sustained close cooperation with local partners, including ways of improving quality and promoting work style reforms, and other know-how, revitalizes the IT industry that contributes to corporate activities, improves the productivity and convenience of local communities and develops local economies.

In addition, we will contribute to a society where everyone shines by supporting working styles and lifestyles more in tune with individuals' needs, improving work-life balance and enhancing quality of life through businesses and services that help to resolve various issues in the way we work and live.

The SCSK Group is committed to contributing to the growth and development of each community through its business expansion that goes beyond regional and national boundaries and to creating a better society where each person can play an active role while making the most use of their diverse qualities through provision of services relevant to people's work and lifestyles.

### Examples of Initiatives

Financial Brokerage Platform (Japanese version of TAMP\*<sup>1</sup>) that supports asset management advice for individuals from financial brokers

#### Social issues in the background

- Necessity for asset formation for post-retirement as a result of increased average life expectancy
- Distortion of social security system due to declining birthrate and aging population

#### Value provided to society by the SCSK Group

- Asset design for the era of the 100-year-life. Promotion of turning savings into assets.
- Supporting IFAs\*<sup>2</sup> to provide asset management services in a more sophisticated and efficient way

While Japan's social security system is faced with various challenges due to the declining birthrate and aging population, as exemplified by the issue of retiring with less than ¥20 million, it is becoming more important to have one's own asset design in place in preparation for the era of the 100-year-life. In Japan, over half of household financial assets are in cash and deposits, and as such, it is crucial to promote the switch from savings to asset formation in order to grow assets over the medium to long-term. To do so, the existence of IFAs who support individual asset formation from a position that is independent of financial institutions is becoming more important.

As IFAs are able to purchase and sell various financial products independent of financial institutions, they excel at making proposals tailored to each client's perspective. On the other hand, there is a lack of solutions that enable comprehensive management of various financial assets for individuals, as well as difficulty to streamline collaboration with multiple financial institutions.

In order to address these challenges, SCSK provides the Financial Brokerage Platform (Japanese version of TAMP) that supports the business of financial brokers. The platform strives to support IFAs to provide services in a more

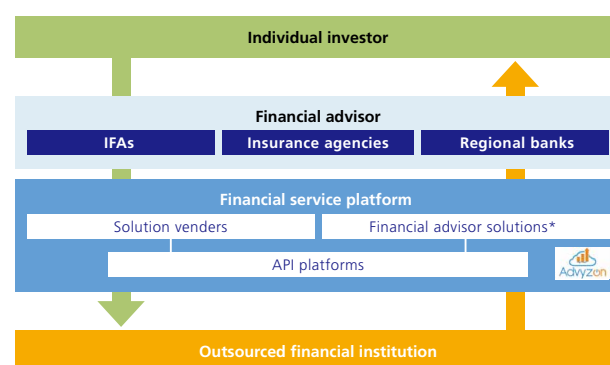
sophisticated and efficient way through its CRM-based solution capable of managing individual financial asset data, and API solution that connects IFAs to financial institutions.

Through our TAMP business, we aim to contribute to a more active society by supporting the promotion of turning savings into assets and contributing to the ample asset design for the era of the 100-year-life.

\*1 TAMP: Turnkey Asset Management Platform

\*2 IFAs: Independent Financial Advisors

#### Summary of the Financial Brokerage Platforms (Japanese TAMP)



\*Financial advisor solution to create a Japanese version of Advyzon provided by yHLSoft Inc. in the U.S.

### Pick Up

## SCSK's IT Services Supporting the New Normal

Given the COVID-19 pandemic, a new social transformation has taken place in Japan and around the world, with higher demand to improve the conventional way of business and working styles in order to keep business running with a greater sense of safety and security. The SCSK Group provides its know-how and various IT solutions it has amassed over the years in addressing the issues of clients and society.

#### Example of Initiatives (1)

### Offering free services for the business continuity of companies

We have provided the following services free of charge to support the safe and secure continuation of business for our clients as working style reform progresses rapidly as a result of the COVID-19 pandemic.

- **Telework option of PrimeTiaas, a cloud service for contact centers:** an optional service that supports operators working from home.
- **ProActive for SaaS pay slip viewing system:** a system that digitizes pay slips including salary, bonuses and lump sum payment, and enables employees to view details on a web browser.
- **Ordering data provision service for emergency use (utilizes SUMAKURA, which is responsible for the lifeline of the ordering system in the distribution industry):** an automatic ordering system for supermarkets.

- **10 management operations support apps\*:** applications that help reduce the management tasks for division heads, which have increased as a result of having a telework system in place.

\*The management operation support app is developed using CELF, a SCSK product. The use of CELF requires an additional charge.

#### Period that each service is available for free

PrimeTiaas: March 16 to September 30, 2020  
ProActive for SaaS: June 15 to September 30, 2020  
SUMAKURA: April 30 to September 30, 2020  
Management operations support app: no time limit

#### Example of Initiatives (2)

### Release of Pan de seek, as a COVID-19 solution using image analysis AI

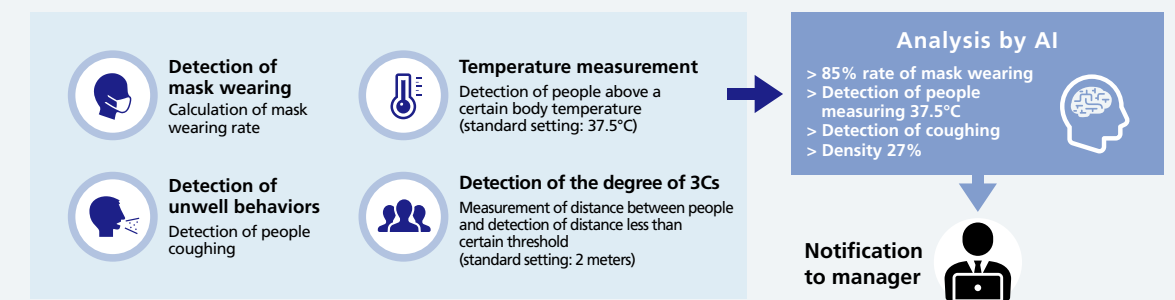


On September 3, 2020, we released Pan de seek, a solution that combines AI with camera images to comprehensively detect, analyze and notify the risks of COVID-19 infections.

The installation of a small camera loaded with four AI models (1. detection of mask wearing; 2. temperature measurement; 3. detection of unwell behaviors; and 4. detection of the degree of the 3Cs: closed spaces, crowded

places and close-contact settings) makes it possible to monitor remotely and in real time. Having this solution installed at public places with unspecified number of visitors, such as offices, public transit, and shopping malls, enables building or space managers who monitor visitors to ensure personal safety, as well as improves business efficiency and reduces the infection risks of visitors, thereby contributing to a sense of safety and security.

### System of Monitoring





# Medium-Term Management Plans



## Review of Core Strategies

### Pursue cross-selling

- Capitalized on expanded client base from the merger to promote company-wide cross-selling of services where both companies excel and increased sales.

### Expand the global solutions business

- Utilized track record in global markets to develop support system for Japanese companies' overseas operations, including expanded and reinforced overseas bases and business assistance, and increased relevant sales.

### Strengthen the cloud solutions business

- Newly established the netXDC Chiba Center 2. Expanded cloud-based IT services using our network of data centers, which is among the largest in the industry.

## Initiatives to managerial foundation reinforcement

### Operational Quality, Efficiency and Productivity

- FY2012 Began use of SE+
- FY2013 Introduced Service Check System (quality management of system operations)
- FY2014 Introduced Core Partner Program

### Pleasant, Fulfilling Place to Work / Promote Health and Productivity Management

- FY2013 Launched Smart Work Challenge
- FY2014 Reduced overtime work to less than 20 hours and achieved a rate of consumed annual paid vacation of 95% or greater

### Enhance Human Resource Capabilities

- FY2012 Introduced IT Skill Level Assessment

## Results and Review of Management Targets

	Target	FY2014 Results
Net sales	¥300 billion	¥2,976 billion
Operating Profit	¥25~30 billion	¥28 billion
Operating Profit Margin	8~10%	9.4%
ROE	10% or more	12.4%

- Promoted the true combination of both companies since the merger in October 2011 by developing a management foundation using various initiatives.
- Achieved business expansion driven by merger synergies as expected and fulfilled management targets.

### Shifting to service-oriented businesses

- Expanded service-oriented businesses that provide standardized and generalized business operations as shared-use systems utilizing our know-how, expertise and IP, and promoted the shift away from a labor-intensive business model.
- Expanded scale of business to about 20% of total net sales.

### Promoting strategic business

- Developed in-house BSW (basic software) as a platform for automotive software systems and brought to market our proprietary product QINeS-BSW.
- Experienced a delay in increasing profits compared to the initial plan due to changes in the automobile market. As a result, we did not turn a profit in this core strategy during the Medium-Term Management Plan.

### Enter into the second stage of global business expansion

- Promoted the further global business expansion of various IT services, including support for the IT needs of Japanese companies' local subsidiaries.
- Newly established bases in Myanmar and Indonesia to reinforce the business foundation in ASEAN.

### Operational Quality, Efficiency and Productivity

- FY2016 Introduced SE+ certification program
- Introduced SE+ (Navi)
- FY2018 Achieved 100% internal compliance with SE+

### Pleasant, Fulfilling Place to Work / Promote Health and Productivity Management

- FY2015 Introduced Kenko Waku Waku Mileage Program
- FY2017 Commenced Dokodemo WORK
- FY2018 Introduced the program for full-time employment of seniors
- FY2019 Introduced Second Job program (Smart Work Plus)

### Enhance Human Resource Capabilities

- FY2015 Launched Technoco, a hackathon for cultivating self-led talent in IT
- FY2016 Opened SCSK i-University
- FY2017 Began Kotsukatsu, supporting self-development
- FY2019 Began providing stipend for learning

	Target	FY2019 Results (J-GAAP)
Operating Profit	¥50 billion	¥42.3 billion
Operating Profit Margin	10~12%	10.9%
EPS	¥320	¥300
ROE	15%	15.6%

- Made steady progress with reinforcing the management foundation and transform business structure (move away from labor-intensive business model). Achieved high profit growth, with net sales growth rate at 5.4% CAGR and operating profit growth rate at 8.6% CAGR during the Medium-Term Management Plan.
- Although the profitability of strategic businesses is delayed, the operating income target of generating ¥40 to ¥45 billion from existing businesses and service-oriented businesses progressed according to plan.

# Medium-Term Management Plan (FY2020 to FY2022)

## Background to the Medium-Term Management Plan

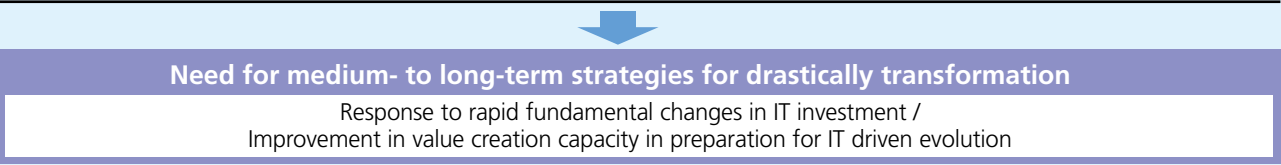
With major changes taking place in Japan's IT market, client trends, and technologies, the entire IT services industry requires structural changes and the SCSK Group faces a sense of urgency in that there will be limitations to the growth of its existing businesses simply by following the status quo of the past. At the same time, changes brought about by digitalization also represent an opportunity to create new value and toward this end, it will be essential for the SCSK Group to implement medium- to long-term strategies that fundamentally transform itself in order to unlock the next stage of its growth.

Furthermore, achieving sustainable growth will require management that contributes to solutions to social issues with a long-term perspective based on stakeholder values and the social influence of its operations.

The SCSK Group identified material issues for implementing its corporate philosophy of Create Our Future of Dreams. Taking this direction into consideration, we formulated Grand Design 2030 along with the Medium-Term Management Plan as a stepwise approach to achieve it.

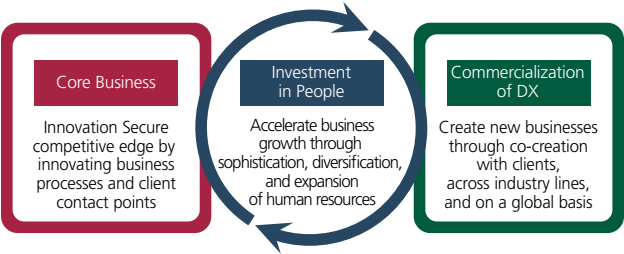
## Operating Environment for the SCSK Group

<b>Domestic IT Market</b>	<ul style="list-style-type: none"><li>Return to normal levels of demand despite modest growth trend</li><li>Fundamental changes fueled by cutting-edge technologies</li><li>Shift in human resource demand from problem solving oriented to value creation-oriented personnel</li><li>Transition toward in-house IT development as businesses become more intimately linked to IT</li><li>Intensification of competition to secure IT personnel with clients and other companies, etc.</li></ul>
<b>Client Trends</b>	<ul style="list-style-type: none"><li>Expanded provision of integrated, cross-industry services as digital transformations accelerate</li><li>Trend toward clients supplying IT services fueled by in-house digital transformations, etc.</li></ul>
<b>Technologies and Trends</b>	<ul style="list-style-type: none"><li>Emergence of solutions combining AI, IoT, 5G, sharing, API, etc. as de facto standard, etc.</li></ul>



## Core Strategies

To be the "Co-Creative IT Company in 2030" described in the Medium-Term Management Plan, SCSK will work on the three core strategies of Core Business Innovation, Commercialization of DX, and Investment in People, along with three managerial foundation reinforcement measures supporting these efforts: Augmentation of Comprehensive Group Capabilities, Promotion of Management that Fully Exercises Our Employees' Potential, and Fostering of Co-Creation-Oriented Corporate Culture. Through these, we will aim to expand our businesses globally.



## Management Targets

	FY2019 Result (IFRS)	FY2020 Results	FY2022 Target
Net sales	¥385.2 billion	¥396.8 billion	¥500 billion or more
Operating profit margin	10.4%	11.6%	10.0~12.0%
ROE	14.9%	15.7%	15% or more

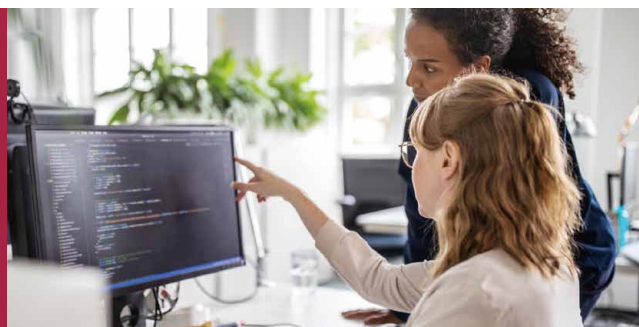
■ Capital efficiency index  
ROIC maintenance target level: 10~12% (In the medium-term management plan period)

## Managerial Foundation Reinforcement

- Augmentation of Comprehensive Group Capabilities** (Inter-organization collaboration)
  - Augmentation of comprehensive Group capabilities utilizing SCSK's strengths
- Promotion of Management that Fully Exercises Our Employees' Potential**
  - Transformation into a company at which employees are empowered to succeed
  - Diversity and inclusion
- Fostering of Co-Creation-Oriented Corporate Culture**
  - Linking and merging individual strengths in house
  - Learning from and utilization of others

## Core Strategies

## Progress of Core Business Innovation



## Basic Approach

Core Business Innovation will involve transforming the SCSK Group's business processes and client contact points from the two perspectives of *Monozukuri* innovation and subdivision innovation, with the goal of enhancement and expansion of core businesses.

Under *Monozukuri* innovation, SCSK is working to dramatically increase service quality, productivity, and flexibility centered on S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus), a *Monozukuri* innovation platform newly developed by SCSK. We are also striving to improve agility amid the changing business environment, diversify service models, and optimize both proactive and defensive IT.

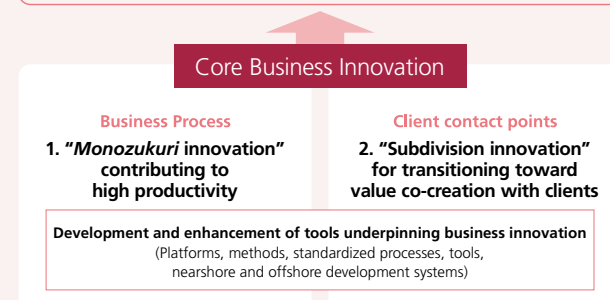
Subdivisions represent IT support organizations and teams located mainly at clients' place of business, and subdivision innovation is an initiative to further develop client relationships using these subdivisions as a hub of co-creation with clients. The goal is to shift from the conventional full-time IT support business format to a value-co-creating format that supports clients' business and IT strategies. At our subdivisions, service managers, whose role is to drive

subdivision innovation forward, take the lead in ensuring that we provide quick and optimal services utilizing the SCSK Group's remote locations and intellectual properties.

## Our Approach to Core Business Innovation

## System-Related Issues Facing Many Japanese Companies (2025 Digital Cliff\*)

- Legacy system issues (black box nature, obsolescence, expansiveness, and complexity)
- Inability to coordinate and utilize data through individual system optimization
- Lack of engineers at system-using companies, etc.



\* Quoted from the report on digital transformation (DX) published by the Ministry of Economy, Trade and Industry on September 7, 2018 entitled "Overcoming of '2025 Digital Cliff' Involving IT Systems and Full-fledged Development of Efforts for DX"

## Future Initiatives and Vision for Core Business Innovation

The SCSK Group is working on core business innovation in clients' proactive and defensive IT domains in an effort to deliver value to clients as a Co-Creative IT Company.

## Defensive IT Domain for Increasing Efficiency

We work closely with stakeholders and clients at their business locations to define and visualize requirements using operational templates and low-code prototype development. Based on the finalized requirements, systems are then developed at SCSK's offices (including nearshoring offices) while utilizing our intellectual properties, with the completed system delivered to the client.

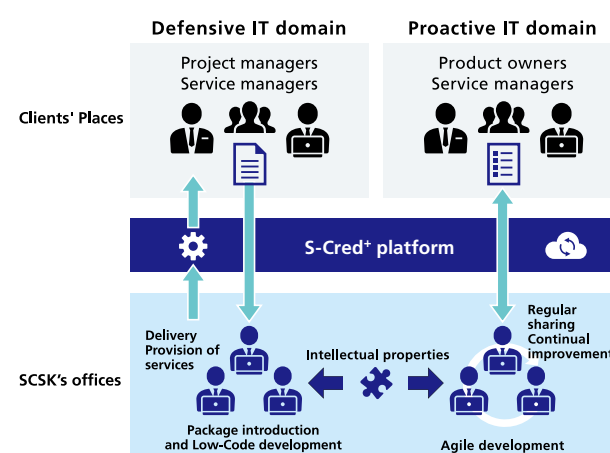
## Proactive IT Domain for Expanding Business

We will work alongside clients to provide necessary functions with a high degree of agility to support clients in incorporating IT into their business expansion plans.

Toward this end, we will organize development teams with product owners (clients) to identify the required product functions and help to maximize the business value

created while improving functions provided through the adoption of agile development.

## Vision of Core Business Innovation

Progress of *Monozukuri* Innovation

We are providing diverse IT services boasting high levels of quality, productivity, and flexibility centered on the S-Cred+ platform (see page 31).

## Introduction and Penetration of the S-Cred+ Platform

Since releasing the S-Cred+ platform in April 2020, aiming for penetration of this platform, we have established a structure including company-wide meetings on core business innovation and workshops promoting marketing and sales. In FY2020, we proposed over 170 S-Cred+ projects and won orders for over 50 projects utilizing S-Cred+ due to more use of cloud-based solutions and spread of Low-Code No-Code development. We also started a company-wide training program through which we are developing a cumulative total of 1,000 engineers.

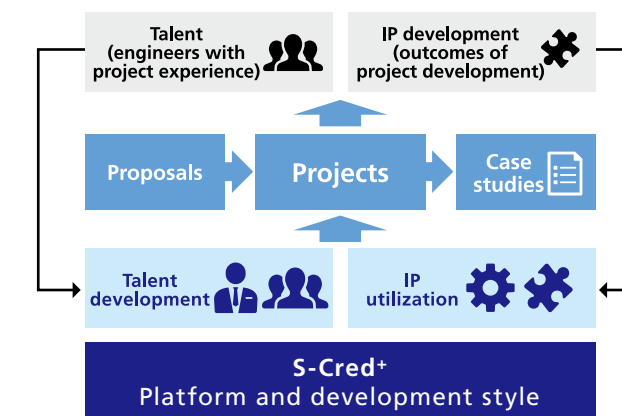
## Expansion of the S-Cred+ Platform

We held discussions with experts inside and outside the company on the direction of platforms and technologies provided on S-Cred+ to expand our initiatives in the proactive IT domain. In FY2020, we worked on platform building and standardization for cloud-native development and incorporating digital technologies such as AI and IoT. As a

## Main Results in FY2020

- Established company-wide structure for promoting *Monozukuri* innovation (company-wide meeting and workshops, etc.)
- S-Cred+ project proposals: over 170
- Number of project orders received: over 50
- Human resources trained: 1,000 cumulatively

result, we added or changed around 100 functions during the course of the fiscal year.

Overview of *Monozukuri* Innovation

## Progress of Subdivision Innovation

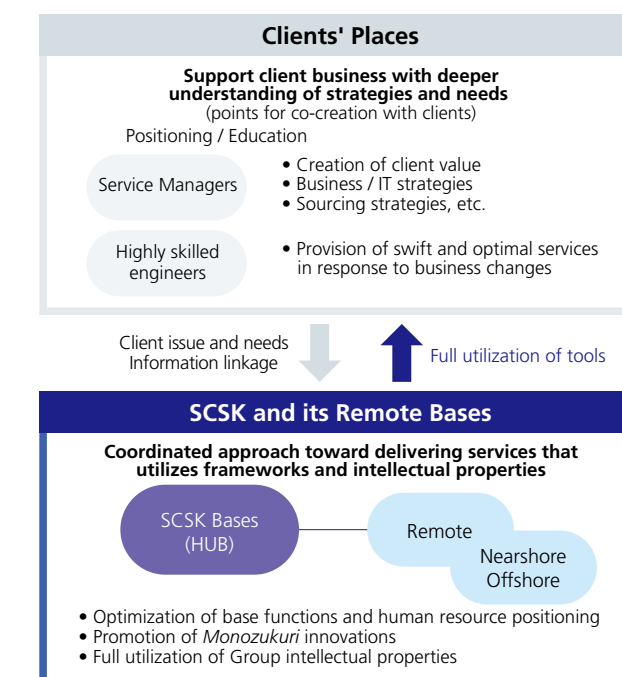
SCSK has subdivisions in more than 500 locations. We are now working to transform them into value-co-creating organizations by establishing innovative action plans for each location based on a client-oriented stance.

## Main Results in FY2020

- Company-wide structure established for promoting subdivision innovation (company-wide meeting and workshops)
- Service managers trained: 30 (plan to train 150 over three years)
- Introduction of subdivision management standardization tool (all subdivisions)
- Start of innovation plan formulation at the subdivision level (introduced at all subdivisions in FY2021)

utilization of the SCSK Group's intellectual properties. This will increase the maturation level of subdivisions and help us transition to a value co-creation process.

## Overview of Subdivision Innovation





## Pick Up

# S-Cred+ Supporting Systems Development in a Digital Era



## S-Cred+

At SCSK, we introduced SmartEpisode Plus (SE+), a process standard for project management and systems development, in FY2012 in realizing higher operational quality. Since then, we have worked to entrench this standard company-wide, and by implementing all development projects in compliance with SE+ we have improved quality.

S-Cred+ is a collective term that refers to SCSK's *Monozukuri* (software engineering) innovation aimed at delivering IT solutions that increase clients' business value by promoting further standardization using SE+ in response to the changing demands on IT systems around the world.

Based on the six concepts of Low-Code No-Code development, automation, standardization, utilization of intellectual properties, digitalization, and connection, we will establish the most optimal development style for each the defensive and offensive domains of IT.

## S-Cred+ Platform

On the S-Cred+ platform, it is possible to choose a development style such as low-code development or cloud native development after applying the package and template included according to the features of the system under development. In addition, S-Cred+ is equipped with optimized cloud and application platforms for this purpose. With the S-Cred+ platform as our flagship, we are consolidating the expertise and intellectual properties of the SCSK Group in optimizing the company's overall resources while promoting value creation.

### ■ Main functions

1. Equipped with infrastructure automation and operation automation platform (USIZE MSP) in April 2020
2. Equipped with SCSK's low-code development tools (atWill / CELF / FastAPP / S-FIA) in April 2020
3. Equipped with container platform and automated container release function in December 2020
4. Equipped with SCSK's DevOps platform (DevCond.) in March 2021
5. Equipped with SCSK's AI platform (SNN) and integrated with IoT platform in July 2021

## Future Expansion of S-Cred+

### ■ Expansion of platform

We will incorporate the functions of public cloud to expand the number of applicable projects.

In FY2021, we will make the platform (AWS version) compatible to the Osaka region and develop a disaster recovery response function and automatic response function during performance deterioration. In addition, we aim to make the platform applicable to more client projects through creating an Azure version.

### ■ Compatibility with cloud native

We will promote application development that utilizes container technology. This will be achieved by developing a container platform targeting multi-cloud (AWS, Azure, etc.) and a framework for cloud-native applications development. Furthermore, through standardization of server-less development, we will enable diverse cloud native development.

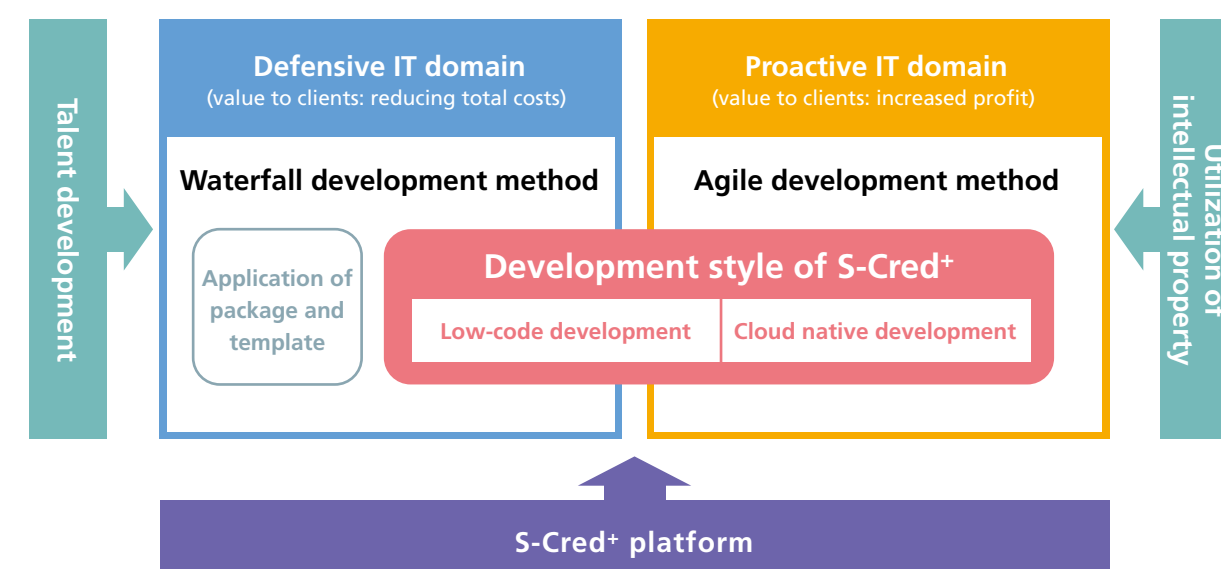
### ■ Promotion of intellectual property utilization

The utilization of intellectual property is positioned as the core of actualizing value creation and improvement of productivity and quality. Toward this end, we are currently establishing a system for promoting utilization of intellectual property.

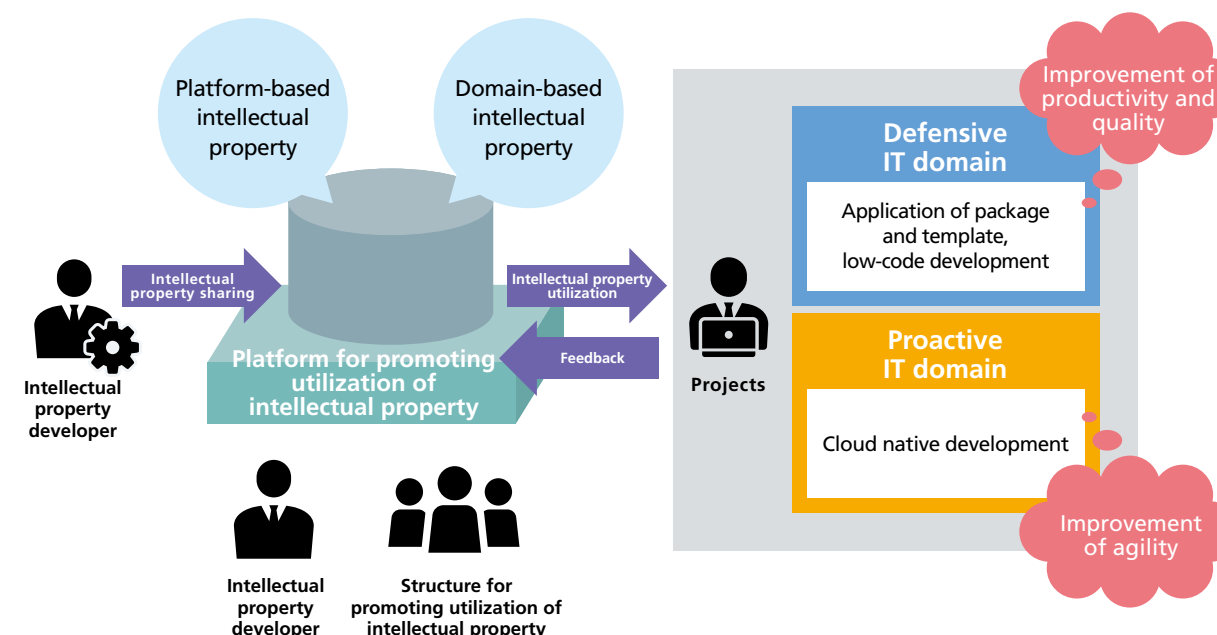
To reach this goal, we have organized and categorized intellectual property of the SCSK Group into "platform-based intellectual property," which include programs and components operated on the platform, and "domain-based intellectual property," which are dependent upon industry and duties such as case studies and business know-how. At present, we are developing a utilization process and platform that match the characteristics of these intellectual properties, while establishing a structure for promoting utilization of intellectual properties.

We will improve efficiency and achieve highly agile IT solutions by making records of parts developed and know-how acquired as well as by ensuring reuse of all available intellectual properties.

## Overview of S-Cred+



## Examples of Intellectual Property Utilization





## Core Strategies

## Progress of Commercialization of DX



## Basic Approach

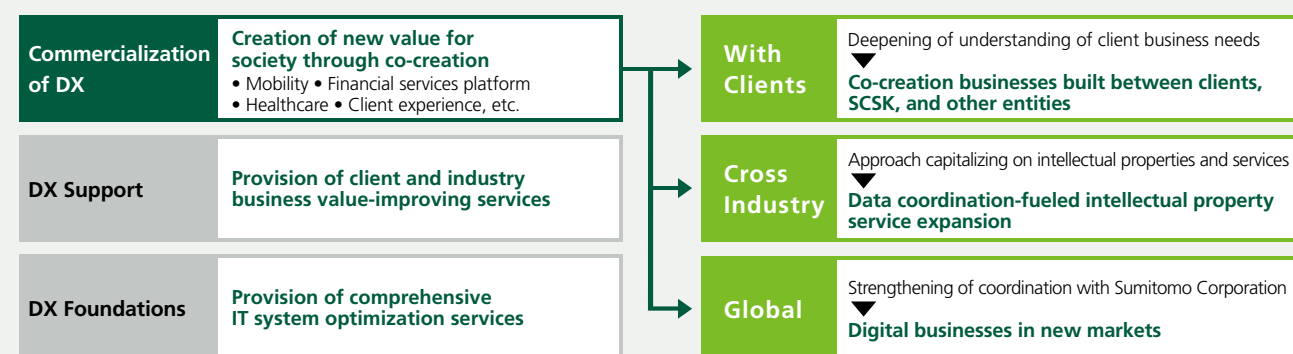
The digital transformation (DX) the SCSK Group is working on is broken down into "DX Foundations," "DX Support" and "Commercialization of DX."

DX Foundations and DX Support involve further accelerating our current initiatives in core businesses and supporting the growth of clients and industries. Commercialization of DX involves creating new value for

society through co-creation where SCSK takes the lead, unlike its conventional contract-based approach, while utilizing the strengths of core businesses.

Aimed at Commercialization of DX, one of the core strategies, the SCSK Group will focus on the three types of co-creation: "co-creation with clients," "co-creation cross targeted industry" and "global co-creation with Sumitomo Corporation."

## DX Undertaken by the SCSK Group



## Vision for Commercialization of DX

As digital technology advances, demand is growing for DX business which transforms business models, instead of simply carrying on our conventional ways of business.

The SCSK Group has provided IT services that fulfill client needs by utilizing its knowledge and operational expertise from its long-standing business relationships, along with the SCSK Group's unique solutions for clients in a host of industries. With the rapid advancement of digitalization, we are building a foundation for DX including enhancing IT systems for clients to speed up their deployment of DX and complete outsourcing to accelerate the strategic allocation of resources, while underpinning client- and industry-level DX. We are also actively providing digital solutions to clients.

With these initiatives as a foundation, the SCSK Group will become a Co-Creative IT Company that takes the lead

in creating innovative services and contributing to solutions to social issues in the process.

In terms of our initiatives for commercialization of DX, we are pursuing the following three types of co-creation. First is co-creation with clients where commercialization is achieved using the strengths of clients, various partners and the SCSK Group. Second is co-creation cross industry combining the various data and intellectual properties of different industries. Finally, third is global co-creation, where we harness the network of Sumitomo Corporation to roll out Japanese digitalization models around the world and work toward the advanced technologies and business models found in Europe and North America. Through these, we will generate new value for society, including providing industry-standard business platforms and creating businesses that transcend conventional industry boundaries.

## Progress in the four priority fields

The four fields of mobility, financial service platform, healthcare, and CX (customer experience) have been defined as the priority areas for the commercialization of DX, while business creation is in progress. The SCSK Group is conducting group-wide studies on what strength to harness and with whom it should co-create to approach

social issues in various fields to give rise to new value. We are starting to see progress in commercialization in terms of services released in each field.

SCSK will continue its efforts in "increasing and revising" in these priority fields, and enhance its capacity to create businesses.

## Mobility Field

## Branch out from shared connected platforms to telematics and MaaS fields

<b>Strengths</b>	Automotive equipment track record (embedded development / verification), traffic accident detection track record, etc.
<b>Co-Creation</b>	Sumitomo Corporation Group's business foundation base of clients in other industries
<b>Main progress</b>	Launched the Telematics Accident Detection Service which utilizes an accident detection algorithm (>P23)

## Financial Service Platform Field

## Provide financial service platforms for specific industries through broad-ranging co-creation

<b>Strengths</b>	Track record in development, operation, and BPO services for all industries, multi-payment technologies, etc.
<b>Co-Creation</b>	Client base, Sumitomo Corporation's overseas operating foundations, partners specializing in specific fields
<b>Main progress</b>	Offered the Financial Brokerage Platform (Japanese version of TAMP) as a business support platform targeting financial brokers (>P25)

## Healthcare Field

## Promote data-linkage between individuals and healthcare-related companies for healthcare system enhancement and streamlining preventative medicine and healthcare management

<b>Strengths</b>	Track record in wide-ranging healthcare fields
<b>Co-Creation</b>	Healthcare institutions, pharmaceutical industry, pharmaceutical wholesalers, pharmacies, health and life insurance industries
<b>Main progress</b>	Launched Pharmacy-Scope, which connects medical product distribution / prescription information provision services

## Customer Experience Field

## Help create greater levels of corporate value by aiding in the development of supply and value chains based on client input

<b>Strengths</b>	Call center, e-commerce, and fulfillment services, etc.
<b>Co-Creation</b>	Client base from multiple industries
<b>Main progress</b>	Launched "altcircle," a total service for customer contact points integrating digital marketing, digital communication, e-commerce and contact center operations (>P36)

## Enhancing partnerships for the Commercialization of DX

In order to accelerate DX business growth centered on the priority fields, it is essential to strengthen one's own business through combining internal and external services and technologies based on cutting-edge technology such as AI and IoT along with new business models. We will take on

commercialization of DX that realizes new value creation by utilizing combined services and technologies and collaborating with domestic and overseas partners to achieve business transformation and creation via DX.

## Example of collaboration system for commercialization of DX

## A joint-project launched with MOBILOTS through addressing issues in the transportation industry

In the transportation industry, while there's an accelerated increase in delivery volume due to heightened demand for e-commerce, there is also a growing shortage of drivers, making operation streamlining and optimization an urgent issue.

As MOBILOTS and the SCSK Group each develop their businesses related to automobiles and vehicles, a service

co-creation project was launched in FY2020 with the common goal of helping clients in resolving issues in the transportation industry. Through Logibiz UP!, a cloud service specialized for commercial vehicles, we provide total support to the operation of

**ロジビスUP!**

## Examples of Initiatives Aimed at Commercialization of DX

## SCSK and Okinawa Prefecture Concluded a Collaboration Agreement on Promoting DX in the Restoration of Shuri Castle

## Social issues in the background

- Impacts on the local community caused by over tourism and traffic congestion (tourism site during peak season)
- Need for sustainable community development balancing lifestyles and tourism (linking solutions to regional issues and tourism promotion)
- Further revitalization of local economy from utilization of historical heritage as tourism resources
- Growing concern over facility usage and event participation by tourists due to COVID-19 and growing burden placed on operators

## Value provided to society by the SCSK Group

- Increased tourist satisfaction through improved tourism experience and increased resident satisfaction through contributions to local issues and economies
- Initiatives to address local issues through co-creation and two-way communication
- Heritage-based community development through improved appeal of tourism resources utilizing history and culture
- Provision of safety and security to tourists and reduced burden of countermeasures placed on tourist destinations

## SCSK's Approach

In June 2021, Okinawa Prefecture and SCSK concluded a collaboration agreement for DX promotion in the restoration of Shuri Castle. The agreement aims to solve local issues and stimulate industry through new community development utilizing digital technologies in order to steadily promote the basic plan for the restoration of Shuri Castle.

The SCSK Group began operating in Okinawa in 1997 when it established CSK Systems Okinawa Co., Ltd. (currently, SCSK Nearshore Systems Corporation) in Naha City, Okinawa Prefecture as a company responsible for systems development of SCSK and its Group companies. Over the 24 years since then, we have focused on building a partnership with Okinawa Prefecture and on any social issues that Okinawa Prefecture faces including an aging society, medical and healthcare and wealth disparities.

As a result, we determined that Okinawa Prefecture is a location where we can engage in our mission because it provides a venue to put into practice our business and aligns with our policy of new value creation for society.

First, we will target the restoration of Shuri Castle considering the clarity of the issues and affinity with our intellectual properties. In the future, we will also consider resolving other social issues faced by Okinawa Prefecture. Furthermore, we will make this "Okinawa model" and its value available to other communities and businesses facing the same issues so that we can provide solutions for broader regions and establish a business entrenched in society.



Left: Toru Tanihara, Representative Director, President and Chief Operating Officer, SCSK  
Right: Denny Tamaki, Governor of Okinawa Prefecture

## Details of Collaboration Agreement

Areas	Main initiatives being considered
Further increase in the appeal of Shuri Park and the surrounding community	Effective utilization of tourism resources using mechanisms promoting a shift from destination (points) to community (areas) → Contributions to local economy and improvement in tourism experience
Community development that balances lifestyles and tourism	Resolution of traffic congestion and parking issues using mechanisms that promote voluntary changes in behavior of tourists (tourism business operators) → Increased satisfaction of communities and tourists
Novel approaches to tourist facilities in a new normal	Management of tourist facilities and events that suits new lifestyle patterns → Provision of safety and security to tourists and reduction of tourist destination burden from countermeasures
Creation of urban spaces where heritage can be experienced first hand	Improvement of heritage draw using scenery formation and building restoration, and fusion with digital contents concerning history → Achievement of appealing heritage-based community development
Matters concerning phased-in development and visible restoration	Visible restoration through dissemination using digital technology for phased-in development status → Creation of repeat demand through appropriate information dissemination
Other matters concerning promotion of community vitalization and contributions to local communities	Development of co-creation venues involving industry-government-academia and communities → Initiatives to address community issues using two-way communication and co-creation

## Launched "altcircle," a total service for customer contact points integrating digital marketing, digital communication, e-commerce and contact center operations

## Social issues in the background

- Spreading and advancing technologies as well as changes in behavior patterns during COVID-19
- Shift of shopping behavior from physical stores to e-commerce due to utilization of online environments and promotion of digitalization
- Shortage of digital talent necessary for promoting a digital shift

## Value provided to society by the SCSK Group

- Enhancement of social and company services through provision of systems mindful of various consumer preferences and needs
- Promotion of digital shift in society and among companies

## SCSK's Approach

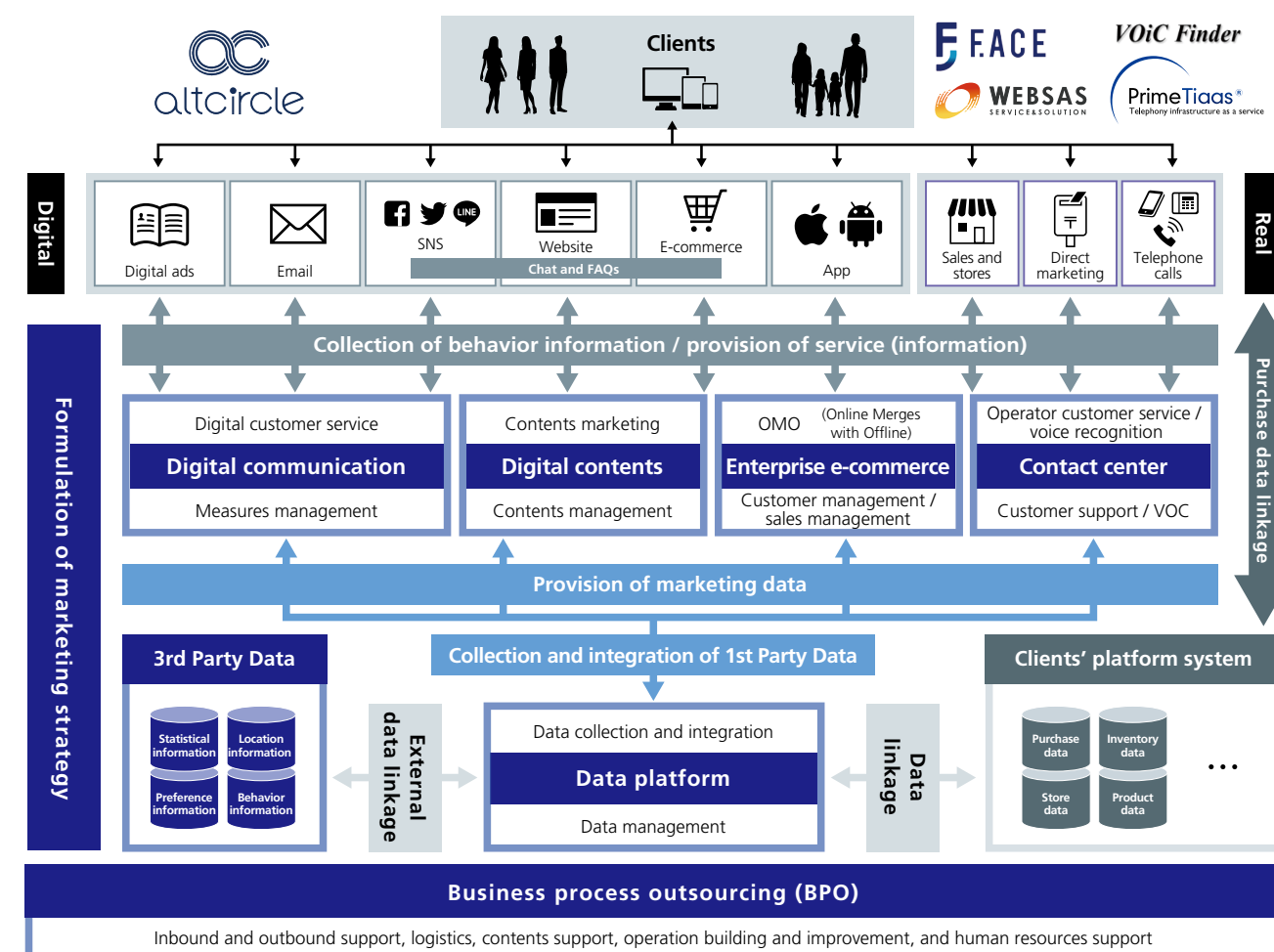
The customer contact point domains are currently crowded with many players providing a host of different solutions and services. Some companies have even launched initiatives to upgrade customer contact points while utilizing these solutions and services. However, many of these same companies are faced with the challenges of developing strategies and tactics along with systems and execution structures in an efficient and consistent manner.

The SCSK Group has launched "altcircle," a service that

provides consulting, systems, operational support and outsourcing in a one-stop setting to address the needs of customer contact points such as attracting customers, serving customers, and marketing products and services. This service enhances marketing and communication by combining and utilizing digital and real data.

We will contribute to the digital shift and business expansion by providing optimal services for achieving the ultimate customer experience in a speedy manner.

## Overview of "altcircle" CX Center Service





Core Strategies

Progress of Investment in People



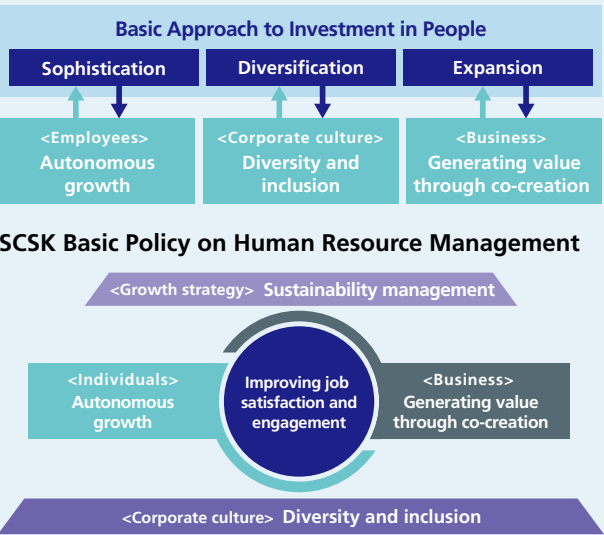
Basic Approach

The SCSK Group's greatest asset and most important growth driver is its people. We are actively investing in human resources while working in conjunction with the SCSK Basic Policy on Human Resource Management in aiming for sustainable growth centered on job satisfaction and engagement.

Investments in our people are made from the perspectives of sophistication, diversification, and expansion. Our ideal goal is to bring new value through co-creation with our clients and society in our business activities. We will do this through the continuous and autonomous growth of employees who identify with our business strategy within our corporate culture of diversity and inclusion which draws out individual abilities, regardless of personal attributes. We are also proactively growing our human resources both domestically and internationally to accelerate business growth.

Specifically, in order to capture and foster diverse talent capable of growing and transforming our business, we are implementing various initiatives following these three policies; 1) human resource management to actualize Core Business Innovation and Commercialization of DX; 2) improved

sophistication through coordination between business strategy and career development; and 3) establishment of a workstyle to ensure job satisfaction in adapting to the new normal.



Core Business Innovation, Commercialization of DX and Investment in People

The SCSK Group is optimizing its Investment in People according to the features of each business to accelerate their growth in aiming to achieve its core strategies of Core Business Innovation and Commercialization of DX.

**Expanding Nearshore System to Expedite Subdivision Innovation and Community Revitalization**

As part of its Medium-Term Management Plan launched in FY2020, the SCSK Group is actively expanding regional bases by strengthening the development capability of SCSK Nearshore Systems Corporation, the subsidiary mainly in charge of enhancement projects.\* This is an important initiative that provides quality support to the increased contract development following the sophistication of subdivisions driven by service managers. At the same time, it also contributes to the local employment and IT technology development.

Going forward, we will take on job creation, talent cultivation and working style reform, including work-life balance, in the IT field in regional cities through collaboration with local governments, partner companies, universities and other educational institutions. By making the local IT industry

attractive for people, we will contribute to sustainable development of communities where people can lead a vigorous and fulfilling life.

\*Maintenance projects that involve expanding and improving the functions of existing systems

**Expanding Business Design Talent**

SCSK has established a dedicated team for business design that accelerates the commercialization of DX through collaboration with Gran Manibus Co., Ltd., a consulting company under the SCSK Group. The team aims to achieve commercialization of DX and expand talent for business design through consolidating skilled human resources in business creation, business analysis, and technology design. We aim to increase the current system by two-fold within FY2021, and boost mid-career professionals in cultivating talent for business design for the entire Group together with Gran Manibus Co., Ltd.

Implementation of a New Human Resource System

As a basic initiative for Investment in People, we have launched a new human resource system in July 2020.

**Target Image for Launch of a New Human Resource System**

There are three goals for the new human resource system through further enhancing talent cultivation: 1) assign major responsibilities to employees who can exert their skills regardless of age or years of experience; 2) enable diverse human resources to autonomously develop their own skills and exert their abilities; 3) bring out the maximum potential of employees with compensation commensurate with responsibilities and capabilities.

on their strengths.

Also, we strive to cultivate employees who are self-starters with a mindset for embracing challenges and autonomous growth by visualizing employees' expertise in seven levels based on SCSK's career framework and give greater job responsibilities to those with a higher level of specialization.

**Fostering and Acquiring High-Level Talent**

In the IT industry, where technology is rapidly changing and becoming sophisticated, the value of human resources with advanced expertise is growing. Given this, SCSK has established ADV (advanced) positions as one of the new job positions under the new human resource system, which aims to cultivate and acquire highly specialized personnel who will lead core business innovation and commercialization of DX. This system enables employees to earn over ¥30 million per year and strives to expand human resources through both internal appointment and external hiring.

**Multiple-track Personnel and Career System**

We adopt a multi-track human resource system that provides the optimal training and compensation according to job expectations and responsibilities for each career path. This includes general manager positions for management and operations personnel who will be in charge of business growth through organizational operation, and professional positions for personnel to be dynamically evaluated based

Pick Up

Support for sophistication, diversification and expansion of human resources

**• Second Job Program (Smart Work Plus)**

The program aims to promote acquisition of skills and business experience outside the scope of SCSK through second jobs, as well as to employ specialized human resources from outside of the company to harness their knowledge and expertise in developing innovation and new

businesses, thereby contributing to provision of new value.

**• Re-join System**

The system allows retirees who are familiar with SCSK's culture to re-join the company with the hope they can quickly delve into work while harnessing their new experiences and skills acquired since their retirement.

Progress of our efforts

Initiative category	Connectivity to human resource investment	Themes
Human resource management to actualize Core Business Innovation and Commercialization of DX	Sophistication	<ul style="list-style-type: none"><li>Launched new human resource system and began operations</li><li>Enhanced the hiring of new graduates and mid-career professionals</li><li>Expanded the system of nearshore development</li><li>Expanded business design human resources</li><li>Promoted women's activities</li></ul>
	Diversification	
	Expansion	
Improved sophistication through coordination between business strategy and career development	Sophistication	<ul style="list-style-type: none"><li>Cultivation of professional human resources<ul style="list-style-type: none"><li>ICDP (Integrated Career Development Plan)</li><li>SCSK Career Framework and IT Skill Level Assessment</li><li>Human Resources Development Program: SCSK i-University</li></ul></li></ul>
	Diversification	
Establishment of a workstyle to ensure job satisfaction in adapting to the new normal	Diversification	<ul style="list-style-type: none"><li>Promotion of diversity and inclusion</li><li>Promotion of health and productivity management</li><li>Initiative to improve job satisfaction</li><li>Human resource management amid the COVID-19 pandemic</li></ul> <p>→ P56 Diverse Team of Professionals</p>
	Expansion	



# We aim for sustainable growth and enhanced capital efficiency by continuing with strategic investments under the Medium-Term Management Plan.

## Basic Policy on Financial and Capital Strategy

The SCSK Group will sustain aggressive investment as well as aim to further boost earnings power and enhance corporate value over the medium-term, in order to achieve sustainable growth into the future following the Medium-Term Management Plan that started in FY2020. In particular, as we transform our business portfolio through Core Business Innovation and Commercialization of DX, both cited as core strategies in the Medium-Term Management Plan, we are strategically deploying capital in areas that make our managerial foundation stronger and in key strategic domains.

SCSK will actively invest in these growth domains, while pursuing management focused on capital efficiency more so than before to unlock growth of high margin businesses and improve capital efficiency at the same time. As part of these efforts, the SCSK Group has established a strategic target to maintain ROE, a management indicator we have used for some time, of 15% or higher in FY2022. Also, we are using return on invested capital (ROIC)\* as a new benchmark for measuring capital efficiency during the Medium-Term Management Plan, with a target for business operations to maintain ROIC of between 10 and 12%.

The SCSK Group will follow the above growth strategy and strive to increase profits and operating cash flows through strategic business operations under the Medium-Term Management Plan. At the same time, we will expand the earnings base by reinforcing strategic

businesses after actively investing in new businesses and capital expenditures.

Our capital policy focuses on expanding medium-term funding abilities by securing agile and diverse financing methods in order to aggressively invest in our businesses. Toward this end, we will pursue optimization of capital and debt structure for maintaining and strengthening our robust financial position. Furthermore, we will continuously work to increase returns to shareholders centered on cash dividends through the sustainable improvement of corporate value and share value resulted from these management measures.

\*ROIC = NOPAT / Invested capital (Interest-bearing debt + Shareholders' equity) × 100  
NOPAT = Operating profit × (1 – Effective tax rate)  
Interest-bearing debt = Borrowings + Corporate bonds

## Initiatives for Increasing Profitability

Previously, the SCSK Group has actively shifted to a non-labor-intensive business model. Driven by the evolving IT business climate surrounding the Group and the accelerating IT investment of clients, we have been working to increase business profitability and sales growth of service-oriented businesses, mainly the SaaS business in platform systems and the subscription-based IT service business based on SCSK Group's intellectual property, achieving steady results in the process.

Additionally, as part of Core Business Innovation, we are working to improve service productivity, quality and

flexibility centered on our proprietary platform called S-Cred+. By utilizing the S-Cred+ platform, we are striving to improve productivity and profitability of the system development business, while seeking to optimize SoE/SoR and capitalize on the diversification of service models along with improved agility toward business change.

The results of these initiatives have started to materialize in the form of improvement in various profit margin indicators. By further reinforcing initiatives going forward, we will achieve even greater business growth and increased profitability.

## Business Investment

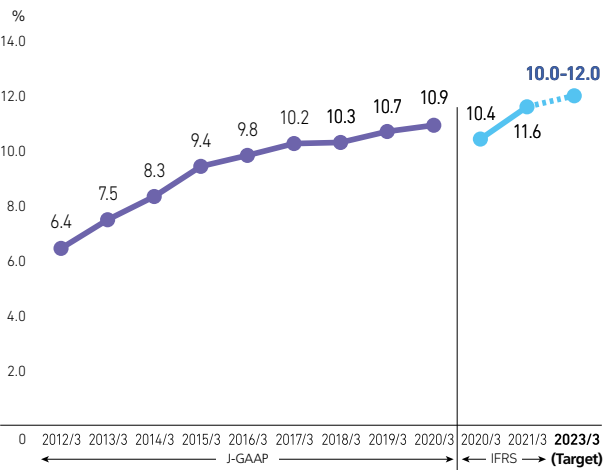
Recognizing the need for structural reforms in the entire IT services industry, the SCSK Group is working to convert its business structure in order to address the accelerating qualitative changes in IT investment. We are also implementing our Medium-Term Management Plan with the aim of enhancing corporate value. We expect to fund a total of ¥100 billion in investments over the next three years with a focus on Core Business Innovation, Commercialization of DX and Investment in People, which are the core strategies of the Medium-Term Management Plan. In making these business investments, we have developed talent who will support

aggressive and strategic sourcing and investment, and made enhancements to our business investment promotion framework, without over-focusing on existing businesses. In particular, in the domains of mobility, financial service platforms, healthcare and customer experience (CX), each considered important domains of Commercialization of DX, we are exploring business investment from multiple angles recognizing the need to build relationships with co-creation partners aimed at commercialization.

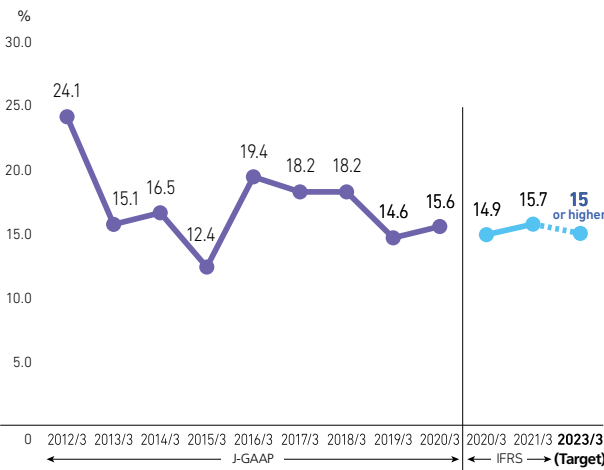
At the same time, we are working on resolving medium-term issues facing the business strategies of clients and on open innovation that maximizes value by combining the SCSK Group's services, technologies and know-how with the cutting edge technologies and services from external resources. Through our management of corporate venture capital (Presidio SCSK Digital Fund) established in Silicon Valley in the United States and our accelerator program in Japan (HAX Tokyo), we are actively investing in the R&D efforts and pursuing business and capital tie-ups with venture companies inside and outside of Japan, considering M&A as one option.

In the second year of our Medium-Term Management Plan, we plan to further work on enhancing the SCSK Group's client base and services, M&A that accelerates new value creation, and open innovation.

Operating Profit Margin



Return on Equity Attributable to Owners of Parent (ROE)



Investment Targets under the Medium-Term Management Plan

Core Strategies	Investment Targets	Investment Amount
Core Business Innovation	Augmenting functions of Managed Service Platforms (MSP) and <i>monozukuri</i> innovation platform (S-Cred+ platform)	¥30 billion
	Service-oriented business software	¥10 billion
Commercialization of DX	R&D investments for commercialization of DX	¥50 billion
	Priority fields (M&A, joint venture establishment, etc.)	
	Venture companies worldwide to drive cutting-edge R&D	
Investment in People	Enhancement of human resource recruitment and development efforts, improvement of compensation levels	¥10 billion

Total investment amount: ¥100 billion

## Funding

The SCSK Group intends to fund these investments required for reinforcing and expanding its business basically without raising capital by using cash flows from operating activities and internal reserves. However, 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 FY2020, the SCSK Group's interest-bearing debt totaled ¥45.1 billion in the form of bank borrowings and corporate bonds. Cash and cash equivalents totaled ¥108.7 billion, far exceeding these debts, indicating our robust financial base.

As for working capital on hand, we have a cash management system (CMS) at SCSK and our consolidated subsidiaries in Japan to centralize the surplus funds of all companies and manage them effectively. This makes it possible to supply funds to Group companies in an expedited manner, ensures ample liquidity at the Group level and allows us to optimize capital efficiency.

The SCSK Group has identified seven material issues, representing issues of particular importance and emphasis,

## Summary of Consolidated Balance Sheet (As of March 31, 2021)

(Unit: billions of yen)

<b>Current assets</b> 212.5	<b>Total liabilities</b> 153.0
Cash and cash equivalents 108.7	Borrowings / Corporate bonds 45.1
<b>Non-current assets</b> 167.8	<b>Net equity</b> 227.3

among the various issues faced by society, which form the basis for our sustainability management seeking out continuous growth together with society by finding solutions to social issues through our businesses. In February 2021, we established a new green finance framework with the goal of promoting sustainability management from a funding perspective. Furthermore, based on this framework, SCSK issued its first publicly-offered green bond in Japan (SCSK 8th Series Unsecured Straight Bond) in June 2021. The funds raised from this bond issuance will be allocated to the construction, improvement, acquisition and operation of the netXDC Chiba Center 3, which will be established as an environment-friendly datacenter with low energy consumption forming part of our datacenter network of seven sites in Japan.

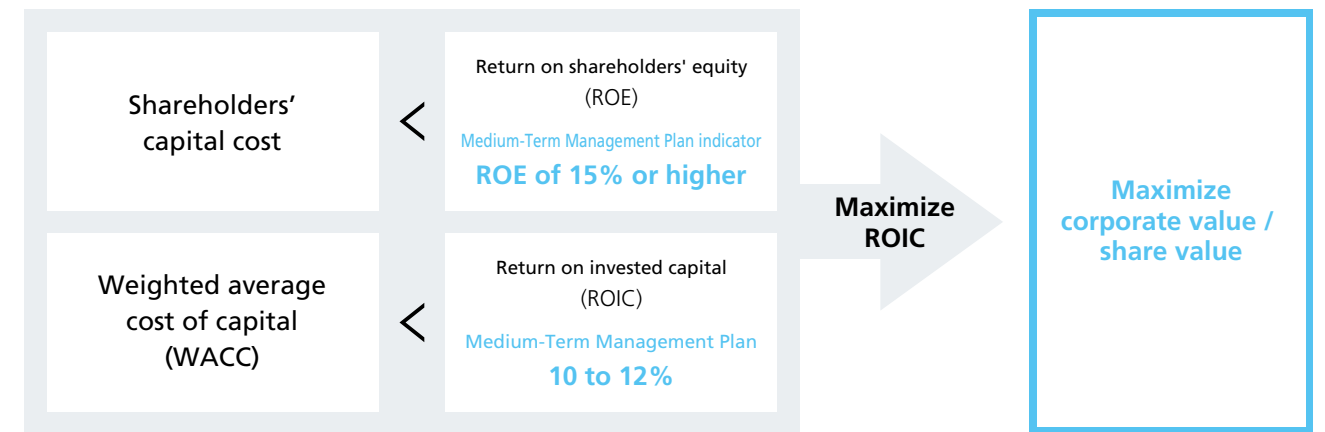
## Management Mindful of Capital Cost

Based on our Medium-Term Management Plan, the SCSK Group aims to further enhance earnings power over the medium term and increase corporate value by continuing with aggressive investments in order to achieve sustainable growth in the future. In particular, in moving ahead with business portfolio reforms through Core Business Innovation and Commercialization of DX, cited as core strategies of our Medium-Term Management Plan, we are making strategic investments in fields that contribute to the enhancement of our business base and key strategic domains.

We are pursuing management mindful of capital efficiency more so than before to grow high margin businesses and increase capital efficiently simultaneously, while promoting aggressive investment in growth domains.

In FY2020, ROE totaled 15.7%, driven mainly by the increase in net income. ROIC, too, is trending around the target range at 11.8%. Capital efficiency indicators, such as ROE, are currently at levels expected by management, but we will still continue working to maintain and increase capital efficiency while striking a balance between aggressive business investment and sound balance sheet management.

## Generate Returns in Excess of Capital Cost



## Returning Profits to Shareholders

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.

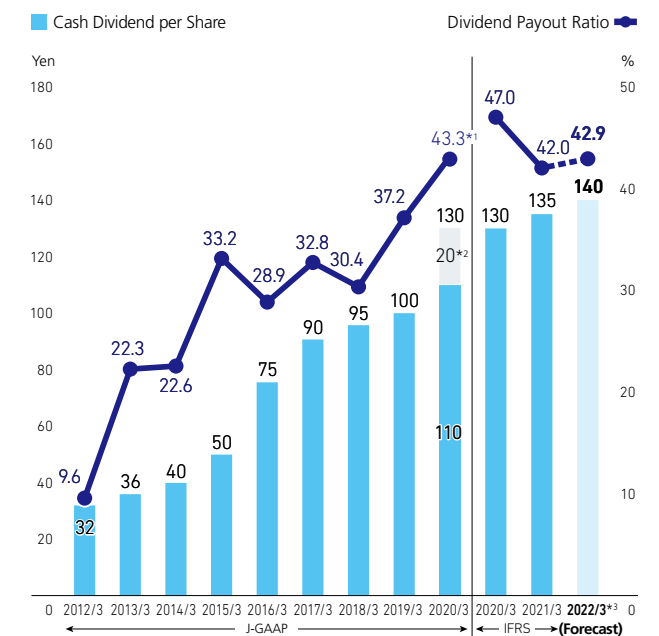
With strong full-year earnings performance, the full-year dividend for FY2020 totaled ¥135 per share, comprising a ¥70 per share year-end dividend, a ¥5 increase from the initial forecast, and an interim dividend of ¥65 per share. This equals a dividend payout ratio in excess of 40%.

The full-year dividend forecast for FY2021 calls for a dividend of ¥140 per share (comprising an interim dividend of ¥70 and year-end dividend of ¥70), based on our financial standing as well as the profit level forecast for this fiscal year. This represents an increase of ¥5 per share over the previous year for a dividend payout ratio of 40% or higher, which closely follows our capital policy and dividend policy. As a result, this will be the tenth consecutive year we have increased our dividend as a return of profits to shareholders.

Furthermore, SCSK will execute a one-for-three share split effective October 1, 2021 in order to further expand its investor base and make it easier for more investors to invest in the company. To adjust for this split, the year-end dividend forecast has been revised from ¥70 to ¥23.34, but

in effect the year-end dividend amount remains unchanged from the initial forecast for FY2021.

## Cash Dividend per Share / Dividend Payout Ratio



### Notes

1. Dividend payout ratio of ordinary dividend excluding commemorative dividend: 36.6%
2. Commemorative dividend marking the company's 50th anniversary
3. Dividend amount and dividend payout ratio on a pre-stock-split basis

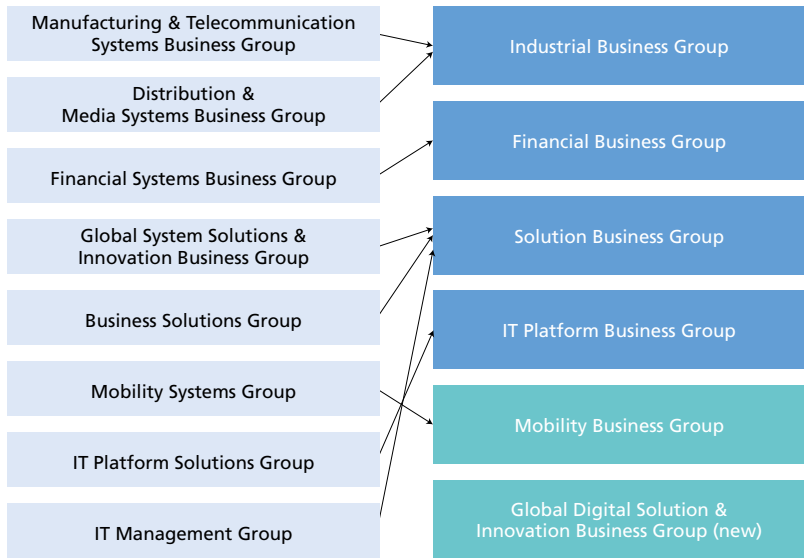
Business-Specific Strategies

CORE Business Group			Next-CORE Business Group		
<h3>Industrial Business Group</h3> <p><b>Business lines</b></p> <p>The Industrial Business Group enhances the business value of many clients involved in social infrastructure through systems integration that flexibly addresses operational issues, while harnessing its knowledge, technologies, experience and intellectual properties amassed over many years in such industries as manufacturing, distribution, communications, media and utilities, excluding finance.</p> <p><b>Strengths (competitive edge)</b></p> <ul style="list-style-type: none"><li>• Solid client base with more than 1,000 clients in a number of industries</li><li>• Strong relationships with clients through more than 160 subdivisions at clients' places of business</li><li>• Unique, high-quality and high-productivity solutions from the SCSK Group underpinning manufacturing and distribution industries where it has many years of experience</li></ul>	<h3>Financial Business Group</h3> <p><b>Business lines</b></p> <p>The Financial Business Group offers a broad range of services, from systems development, maintenance and operation to call centers and BPO services for financial industry fields including banking, life and non-life insurance, securities, leasing and credit cards. We are now working to enhance operations using our business base as a foundation for delivering greater value to markets, steadily responding to ever-changing client needs amid the trend of digitalization.</p> <p><b>Strengths (competitive edge)</b></p> <ul style="list-style-type: none"><li>• Knowledge and operational experience built up through systems development, maintenance, and operation services for a wide range of financial institutions</li><li>• Intellectual property and services that achieve a higher dimension of productivity and service level essential to increasing clients' competitiveness</li><li>• Team able to support clients from development to operation and maintenance of various systems to address the globalization of financial institutions</li></ul>	<h3>Solution Business Group</h3> <p><b>Business lines</b></p> <p>The Solution Business Group is working to resolve social issues together with clients as an IT strategic partner providing seamless outsourcing services from development to operations using such functions as infrastructure development, onsite operations and data center operations based on its proprietary service platform, development, operation and maintenance of ERP, CRM and data management, and development, maintenance and operation of the Sumitomo Corporation Group's core systems and peripheral systems.</p> <p><b>Strengths (competitive edge)</b></p> <ul style="list-style-type: none"><li>• Original service platform forming the basis of <i>Monozukuri</i> innovation mechanisms for development and operation standards</li><li>• Data center with robust connectivity and security supporting multi-cloud solutions</li><li>• Application management service that can be provided from development to maintenance and function expansion</li><li>• Partnerships with Sumitomo Corporation and its Group companies that create new businesses in the form of business IT and DX</li></ul>	<h3>IT Platform Business Group</h3> <p><b>Business lines</b></p> <p>The IT Platform Business Group provides products and support for the six product lines of security, networks, server and storage, middleware, CAD and simulation and CAE. We aim to improve customer satisfaction and expand the business of entire business group by constantly expanding product lineups to promote corporate DX, coordinating our extensive product lineups and the skills and know-how of our engineers to meet our customer needs, and leading them to solutions.</p> <p><b>Strengths (competitive edge)</b></p> <ul style="list-style-type: none"><li>• Service quality only possible by the SCSK Group that adds value to our leading product lineups sourced from around the world</li><li>• Engineers with broad knowledge and experience in a wide range of products</li><li>• Strong relationships built up over many years with vendors (suppliers), resellers and clients</li></ul>	<h3>Mobility Business Group</h3> <p><b>Business lines</b></p> <p>The Mobility Business Group provides a broad range of automotive software system solutions for clients in the auto industry, including model-based development, our proprietary product QINeS-BSW, software verification, and process development and improvement. In FY2021 and beyond, we will establish an integrated structure for providing services in the Out-Car domain, contributing to the business growth of clients.</p> <p><b>Strengths (competitive edge)</b></p> <ul style="list-style-type: none"><li>• Automotive software system development structure compatible with large-scale systems through development standardization process with functional safety process certification</li><li>• Timely understanding of needs through multiple contact points with clients</li><li>• Diverse experience, intellectual property and knowledge from 40 years of developing automotive software systems</li><li>• MaaS development in Out-Car domain using knowledge from In-Car domain</li></ul>	<h3>Global Digital Solution &amp; Innovation Business Group</h3> <p><b>Business lines</b></p> <p>The Global Digital Solution &amp; Innovation Business Group promotes commercialization of DX with other Business Groups by creating digital innovation utilizing cutting edge digital technologies and working closely with our global network (six overseas business sites) and Sumitomo Corporation aimed at creation of next-generation core businesses. Of the four priority fields, we are working to enhance businesses in the healthcare and customer experience domains to roll these out in society.</p> <p><b>Strengths (competitive edge)</b></p> <ul style="list-style-type: none"><li>• Digital technologies for IoT service platforms and AI</li><li>• Collaborative structure with the Sumitomo Corporation Group and strategic partners globally</li><li>• Know-how in resolving operational issues in the healthcare industry (pharmaceuticals, wholesaling, dispensing pharmacies and medical institutions)</li><li>• Full lineup of services for upgrading customer contact points (e-commerce, online, contact centers, BPO)</li></ul>

Transition to a New Business Group Structure

The SCSK Group reorganized its organizational structure with the goal of implementing strategies more dynamically, speeding up decision making, and promoting co-creation between organizations, in order to further expedite initiatives of the Medium-Term Management Plan launched in April 2020.

To accelerate initiatives for commercialization of DX, we established the Global Digital Solution & Innovation Business Group to focus on the creation of new businesses. After consolidating and integrating the former Business Groups, we restructured our organization under the CORE Business Group, representing Business Groups responsible for the SCSK Group's core businesses and the Next-CORE Business Group, representing Business Groups working toward the commercialization of next-generation core businesses.



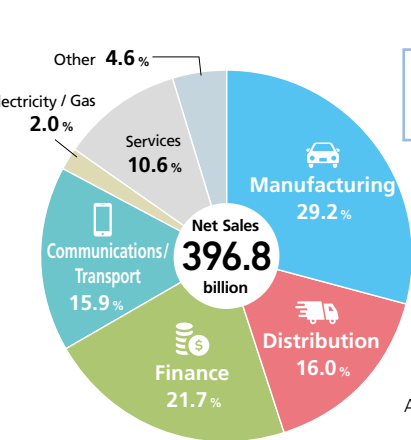
SCSK Group's Premier Client Base

During the course of providing IT solutions to numerous industries over many years, the SCSK Group has established solid relationships of trust with around 8,000 client companies spanning a multitude of industries, including manufacturing, distribution, finance, communications and transportation.

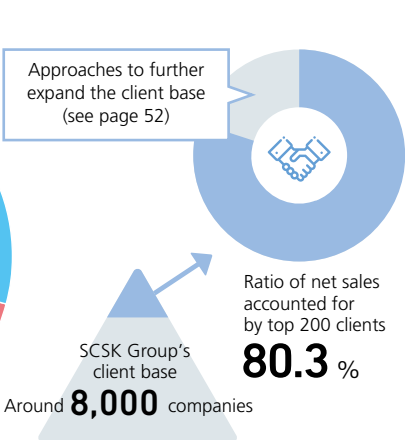
Since the merger, we have steadily expanded the domains and scale entrusted to us by our major clients with each passing year. Transactions with clients accounting for the top 200 in terms of sales exceeded 80% of consolidated net sales in FY2020. In addition, to achieve sustainable growth, we will focus on further expanding our client base positioning middle market companies, where growth is anticipated, as the target of business expansion (see page 52).

Going forward, we will work to further build relationships as a trusted strategic IT partner, while shifting to a "value co-creation business" that supports clients' business transformations by utilizing the relationships of trust built up with our clients over many years.

Net Sales Broken Down by Client Industry (FY2020)



Percentage of Consolidated Net Sales Accounted for by Top 200 Clients





## Industrial Business Group

Officer in Charge

**Atsushi Innami**  
Managing Executive Officer  
General Manager,  
Industrial Business Group



### Market Environment Analysis

#### Opportunities

- Growth of IT demand in response to new operating processes such as remote work and automation under the new normal
- Rising utilization of digital technology to address changes in consumer values and diversification of shopping behaviors
- Opportunities for new commercialization and fusion between emerging companies within a market that is undergoing consolidation due to Japan's declining population

#### Threats

- Changes in industrial structure and stagnant economy due to protraction of the pandemic
- Changes in clients' IT investment domains (shift from SoR to SoE domain)
- Shortage of digital talent for new business creation

### Strategy for Achieving Medium-Term Management Plan

The Industrial Business Group was reborn as part of the CORE Business Group after the integration of the Manufacturing & Telecommunication Systems Business Group and Distribution & Media Systems Business Group. Our group is building an organizational culture that values its people and ensures they take action with independent thinking and pursuing synergistic effects within the SCSK Group. We will contribute to clients' business value improvement through IT services and evolving our core businesses, including our safe and secure business foundation underpinning compliance, governance, and sustainable growth, and strive to create the Next-CORE Businesses offering new value to society.

#### 1. Establish Co-Creation Model

The Industrial Business Group aims to create new businesses by linking clients using its unique strengths such as large number of subdivisions at clients' place of business and broad coverage of business domains across the entire value chain. It is promoting co-creation activities using various methods that include development of intellectual properties for business creation, collaboration within SCSK such as the Global Digital Solution & Innovation Business Group and with other Group companies, and review of new services linking clients from different industries.

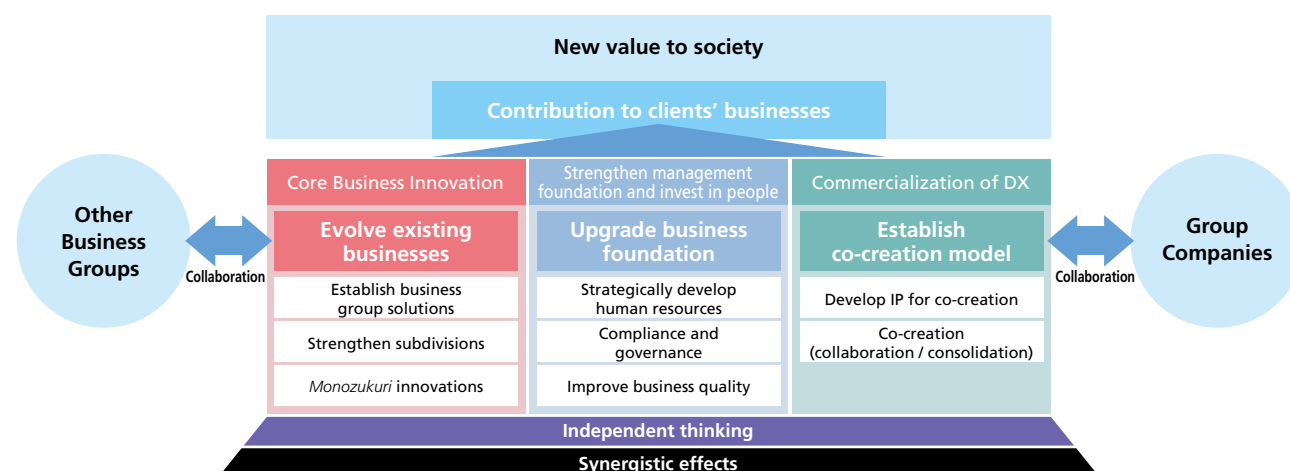
#### 2. Evolve Existing Businesses

In existing businesses, the Industrial Business Group is working to shift from a contract-based to a value creation model. For example, in the subdivision business at clients' business locations, it is promoting the use of remote offices to pursue efficiency and automation and the appointment of service managers seeking to increase clients' business value through close collaboration. In addition, using the S-Cred+ platform, it is providing high productivity and high quality systems safely and securely in response to changes in clients' businesses.

#### 3. Upgrade Business Base

Aimed at sustainable growth, the Industrial Business Group engages in data-driven business operations by developing IT platforms that visualize performance, talent and project status centrally. It is also working on developing human resources strategically, including establishing a dedicated department for business co-creation, training employees for cloud native accreditation, and training service managers to help strengthen the subdivision business.

#### Strategy for the Industrial Business Group



## Financial Business Group

Officer in Charge

**Toshiaki Kudo**  
Managing Executive Officer  
General Manager,  
Financial Business Group



### Market Environment Analysis

#### Opportunities

- Structural changes in financial markets caused by environmental changes such as full-scale DX, declining population, changes in behavioral patterns, and promotion of client-centric financial transactions
- Emergence of players providing new financial functions as a result of structural change
- Progress in the development of a new financial eco-system following the accelerated digitization of financial market amid the COVID-19 pandemic

#### Threats

- Declining number of large-scale systems development projects by financial institutions and contracting conventional system integration market due to growing use of the cloud
- Stagnant growth in labor-intensive business model following labor shortage in IT market and aging population

### Strategy for Achieving Medium-Term Management Plan

Our group aims to transform its business structure using two scenarios based on changes in clients' management environment, changes in social values, and structural changes in financial markets over the medium to long term due to COVID-19. The first scenario is an "enclave" where we seek the sophistication of core businesses using our organic strengths of knowledge and operational expertise gained from many years of systems development, maintenance and operation services for a wide range of financial institutions. The second scenario is an "exclave" where we create financial platform businesses using co-creation with various companies including clients and Fintech ventures.

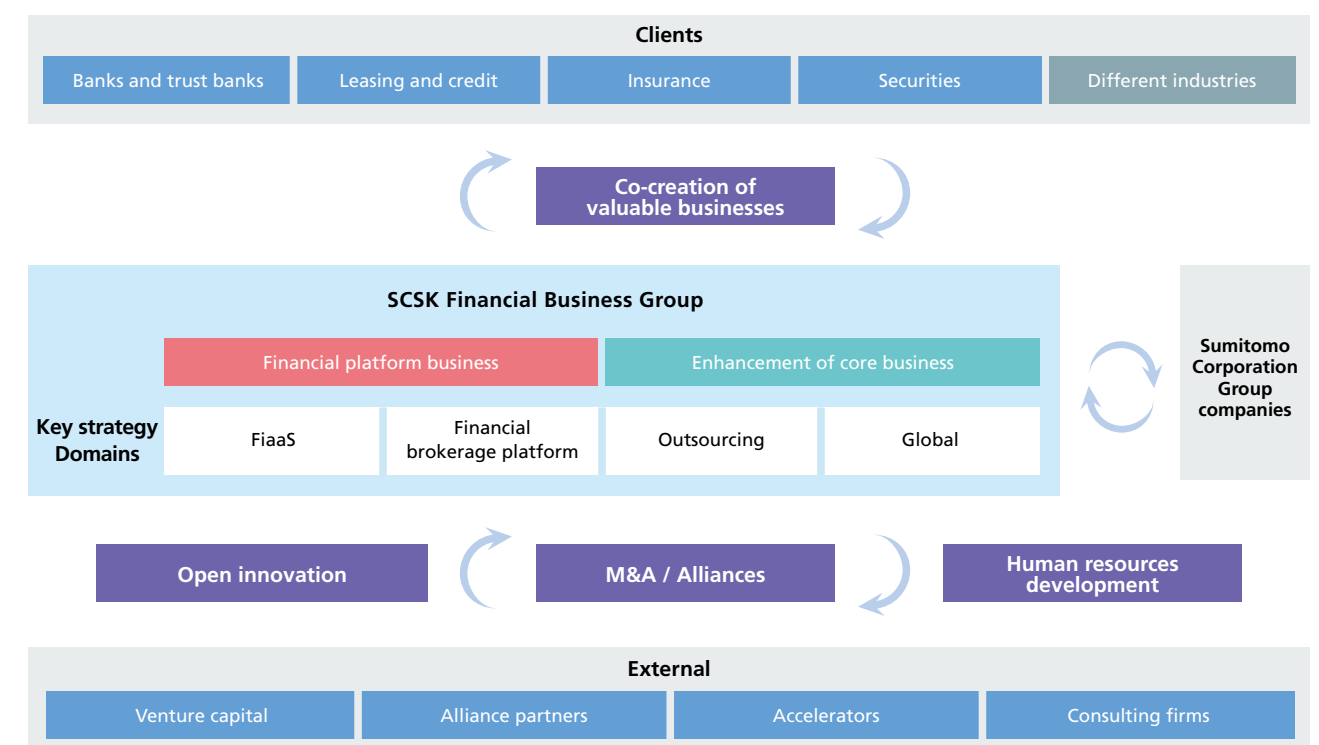
In terms of the enhancement of core business, we will increase added value by (1) providing sophisticated

technologies, (2) pursuing operational expertise; and (3) transforming service models. In particular, outsourcing and global are considered key strategic domains to achieve stable business growth and increase earnings power.

In terms of the financial platform business, over the interim we will focus on the key strategic domains of FaaS, Fintech on MaaS and financial brokerage platforms where our group has knowledge and where new market creation is anticipated. We will aim to create new businesses in these domains.

Through the steady promotion of these measures, we will support clients' digital technologies more so than before and establish the medium- to long-term vision for our group of becoming a digital financial provider that generates new value for society as a financial function.

#### Strategy for the Financial Business Group



## Solution Business Group

Officer in Charge

**Tetsuya Ueda**  
Managing Executive Officer  
General Manager,  
Solution Business Group



### Market Environment Analysis

#### Opportunities

- Further movement toward cloud computing and growing interest in data security
- Growing demand for IT investment driven by automation of operations within working style reforms due to diversification of lifestyles
- Increasing demand for rebuilding of core systems to transform clients' businesses and response to DX

#### Threats

- Commoditization and intensifying competition of the construction and operation domain due to expanded services of platformer
- Volume zone shift in application business due to more clients transitioning toward in-house IT development
- Rapid change in human resources skills criteria (shift in demand towards value creation type of human resources who understand both business and IT)

### Strategy for Achieving Medium-Term Management Plan

Our group has newly established the Solution Business Group by integrating the functions of the SC Systems Business Division, which handles IT services for the Sumitomo Corporation Group, dispersed among three major organizations of IT Management Group, the Business Solutions Group, and the Global System Solutions & Innovation Business Group FY2020. We will conduct efforts as outlined below following three main axes, namely, service business, which is to create distinguishable solutions, account business, which is to provide solutions that meet individual client's demands, and strengthening human resources with value creation skills, which is to support the previous axis.

Our service business provides a platform combining our data centers set apart by its connectivity, public cloud platforms such as AWS, Azure and Google Cloud together with service platforms consisting of S-Cred+ development and operation standard and USiZE multi-cloud environment. By integrating this platform with applications such as SAP, ProActiveC4 and Salesforce, we will create new services benefiting the entire SCSK Group, and provide support to a

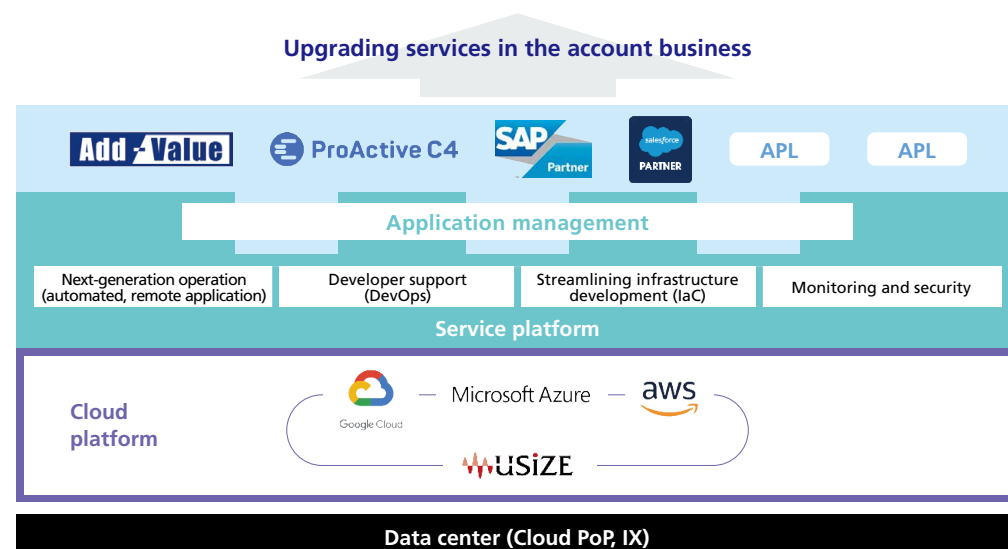
wider range of clients' IT strategies.

Our account business will accelerate its business enhancement targeting the Sumitomo Corporation Group. By consolidating application development with infrastructure construction and operation work, we are able to strengthen mutual rotation and information collaboration. The experience and know-how acquired through our business targeting the Sumitomo Corporation Group will be harnessed in expansion toward other companies as a model case for full outsourcing.

In terms of strengthening human resources, application engineers and infrastructure engineers are now able to work together under the same organization as a result of having consolidated three Business Groups together. We are cultivating full-stack engineers utilizing the mutual rotation policy.

Having different organizations come together on the current business axis has created a fusion effect in terms of function and human resources, as well as given rise to a system that enables us to provide a wider support to clients' IT strategy. As such, we believe this can further accelerate the cycle of the Medium-Term Management Plan.

#### Strategy for the Solution Business Group



Market expansion  
through the  
service business

## IT Platform Business Group

Officer in Charge

**Takashi Shinjo**  
Managing Executive Officer  
General Manager,  
IT Platform Business Group



### Market Environment Analysis

#### Opportunities

- Growing demand for network (5G / wireless), security (VPN / authentication) and communication platforms due to the spread of telework
- Acceleration of business efficiency, innovation and creation through AI-centered advanced data utilization to promote DX.

#### Threats

- Worldwide acceleration of new product development using new technologies
- Deterioration of competitiveness of existing products and decline or disappearance of their markets
- Major transformation of business caused by understanding / penetration of DX and declining labor population in Japan
- Difficulty in securing advanced engineers proficient in new technology

### Strategy for Achieving Medium-Term Management Plan

Our group formulated and is implementing a growth strategy for each product category. Since the six existing categories\* differ largely from category to category based on market environment, competition, and the SCSK Group's position, we believe the key to business growth is establishing a medium-term strategy for each product category and constantly reviewing it using the short-term PDCA cycle.

To implement the strategy for each product category, it will be important to foster and secure human resources. We are now working on fostering global and marketing talents who can contribute to establishment of an ecosystem for identifying and launching new products, or business promotion in product categories across corporate organizations. Additionally, in terms of the group's engineers, currently the most are "I-shaped" engineers that have advanced specialization in each product, so we also have established the IT Engineering Center as a specialist organization

focused on fostering "T-shaped" engineers with a wide range of specializations over multiple product categories.

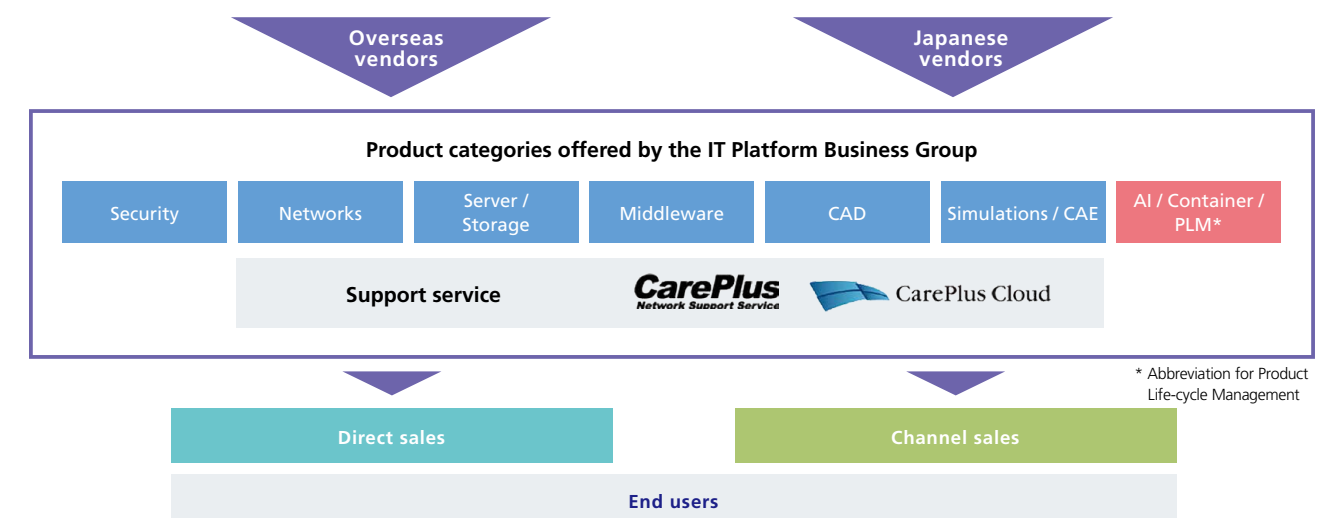
In parallel to the strategy formulation and implementation of our existing product categories, we also focus on AI, Container, and PLM as target areas with high expectations in the future, in order to create the seventh and eighth new product categories. As we are steadily acquiring new products and accumulating our know-how, we will continue to take on more challenges going forward.

In this manner, we will achieve business innovation through creating cutting-edge solutions and services in line with the market needs as a product sales professional, while being conscious of the dynamic resource shift towards products with higher growth potential, and realize constant growth through human resources development.

\*Six product lines of security, network, server and storage, middleware, CAD, and simulations and CAE

#### Strategy for the IT Platform Business Group

**"Product sales professional" identifies excellent products from around the world and provides SCSK Group's original services to Japanese market.**



\* Abbreviation for Product Life-cycle Management

## Mobility Business Group

Officer in Charge

**Makoto Nakamura**  
Managing Executive Officer  
General Manager,  
Mobility Business Group



### Market Environment Analysis

#### Opportunities

- Market expansion as a result of social issues and penetration of CASE technology
- Acceleration of dispersed development, simulation development and automation of development
- Increased weight of software in mobility development ("software-first" approach)
- Spread of telematics services through the transformation of automobiles into IoT devices

#### Threats

- Changes in the power structure and roles of the mobility industry due to the entry of different industries
- Shortage of development engineers in automotive software system and related software

### Strategy for Achieving Medium-Term Management Plan

Our group has defined its vision for 2030 as "Co-creative IT Company building a new mobility society by combining In-Car and Out-Car expertise", and is undertaking business transformation (qualitative shift in core domains plus business development in new domains) aimed at 2022.

#### Business Innovation (In-Car Domain)

##### • Software development assistance

Utilizing SCSK's standard software development process of "SE+ for Automotive", we are conducting subdivision innovation in order to establish a high quality and productive software development structure. Also, for the generally popularized dispersed developments, we are bringing back more projects and developing internally through co-creation between the SCSK Group's SCSK Nearshore Systems Corporation and offshore companies.

##### • Software Tier 1

We provide both software platform and application supported by QINeS (co-creation with automobile manufacturers). Furthermore, in order to strengthen the product business, we are undertaking co-creation with

engineering companies and device manufacturers in addition to business related to QINeS.

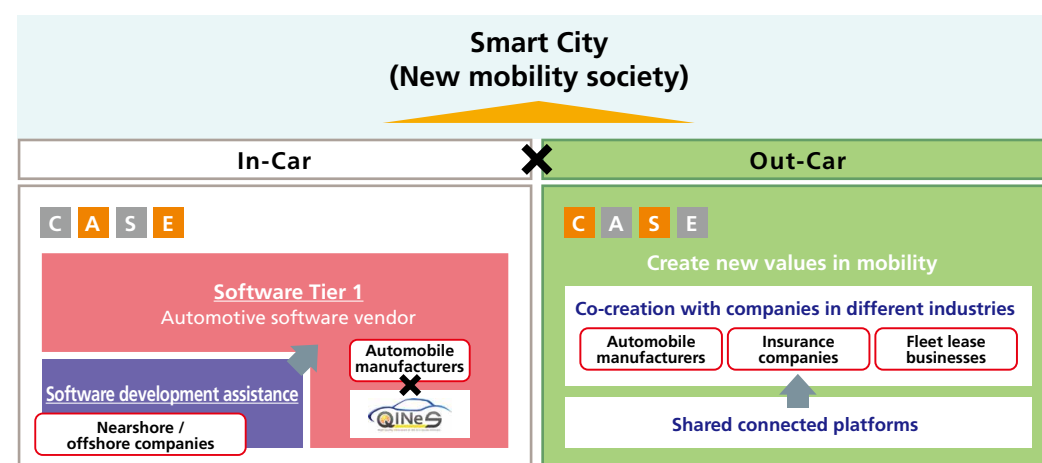
#### Commercialization of DX (Out-Car Domain)

The transformation of automobiles into IoT devices has largely changed the business environment. Our group has newly established the Connected Business Development Center to create new values including in the In-Car domain. We are considering promotion of co-creation with companies of different industries to provide services that encompass the overall lifecycle of automobiles.

#### Investment in People

We focus on developing and acquiring engineers in the In-Car domain, a core domain of the group. In addition to developing human resources with high level of knowledge to achieve optimal control, we are conducting strategic career recruitment. Also, we are making contributions to fostering talent at partner companies and secure human resources in the Out-Car domain for commercialization of DX.

### Strategy for the Mobility Business Group



## Global Digital Solution & Innovation Business Group

Officer in Charge

**Atsushi Watanabe**  
Managing Executive Officer  
General Manager, Global Digital  
Solution & Innovation  
Business Group



### Market Environment Analysis

#### Opportunities

- Review of social IT infrastructure due to rapid digitalization on a global scale
- Changes in the business eco system due to advances in new digital technology
- Digitization of customer contact point and rising importance of digital marketing
- Issues in social security and medical care systems due to the rapid increase of elderly population aged 75 or older

#### Threats

- Changes in the management environment and business model due to borderless market
- Behavioral change due to rapid societal change and response to a new lifestyle
- Shortage in human resources capable of driving business transformation through digital technology

### Strategy for Achieving Medium-Term Management Plan

Our group was newly established as a dedicated, specialized unit committed to creating new businesses on a global basis in order to accelerate the SCSK Group's efforts toward commercializing DX.

We will engage in the following core measures to establish a collective business entity led by the SCSK Group, improve the business metabolism in customer experience, healthcare and other fields, and ensure sustainable management.

#### New DX Business Concept

The group will conduct business theme creation and conceptualization in order to respond to social issues (material issues) and global mega trends.

As an example of business theme, we will take on the challenge to address issues such as efficient energy supply through spread and expansion of renewable energy, sustainable agricultural development, and promotion of smart agriculture that is adaptive to stable food production.

#### Enhance Capabilities (Enabler)

We promote the development of social implementation model using digital technology. Furthermore, we will enhance our capabilities through digital innovation, open innovation, and co-creation with clients and local communities.

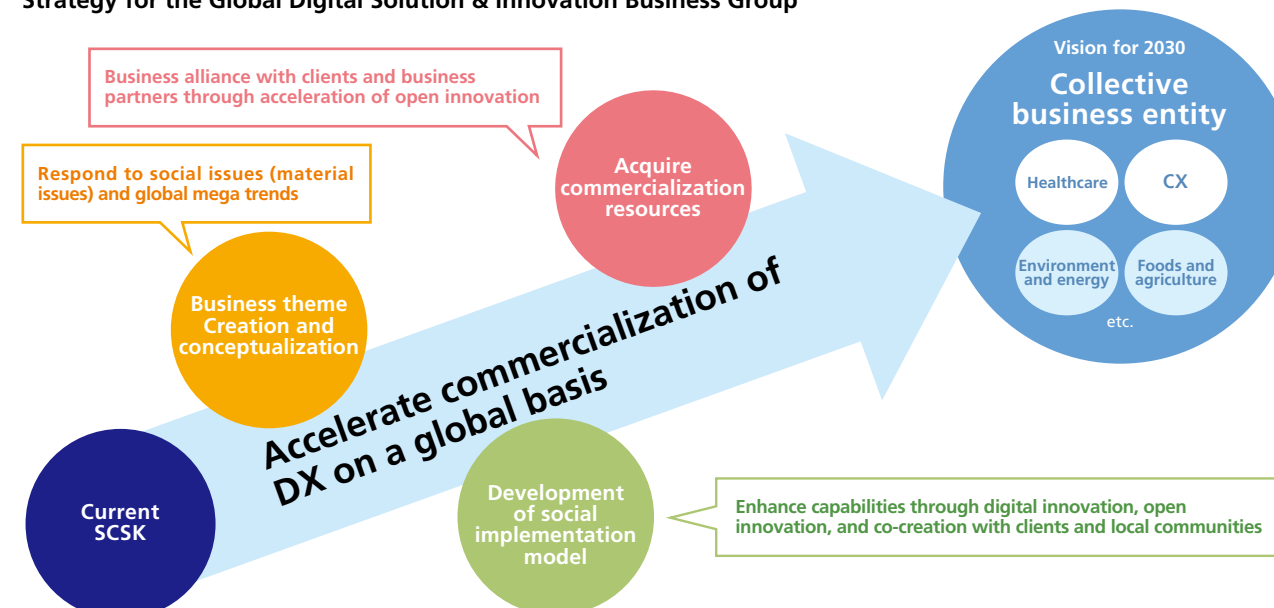
#### Acquire Necessary Management Resources

In order to augment the necessary resources for the commercialization, we will further accelerate open innovation activities and promote business alliance with clients and business partners.

#### Sustainability Management

Our goal is to establish a collective entity of new businesses led by the SCSK Group in 2030. Despite that we are restricted to conduct business in limited areas and markets in FY2021, we will actively tackle social issues and take on the design of businesses (commercialization).

### Strategy for the Global Digital Solution & Innovation Business Group





Pick Up

SCSK Group's Comprehensive Capabilities

The SCSK Group provides a full line of IT services from consulting to BPO to both domestic and international clients that support the society.

Augmentation of Comprehensive Group Capabilities is identified as one of the themes of reinforcement for the

management foundation in the Medium-Term Management Plan. The SCSK Group will strive to provide higher values to clients and further enhance its comprehensive capabilities by combining its diverse resources and knowledge accumulated over the years.

BPO (Business Process Outsourcing)

Our dedicated staff provides support to a part of the client's business outsourced together utilizing our many years of know-how. The services include contact center and EC fulfillment services.

IT hardware / software sales

We provide sales, construction, and support on products including security, network, server and storage, middleware, CAD, analysis and CAE.

IT management

We provide IT service management that entails maintenance, operation and ongoing improvement of various IT systems including on-premises and cloud in order to achieve stable operations and continuity in IT.

IT infrastructure development

We provide assessment for IT infrastructure optimization, IT infrastructure design and construction, as well as operational design for stable usage.



Clients

- Manufacturing
- Logistics / services
- Medical / healthcare
- Communications / media
- Public (gas / electricity)
- Banks
- Insurance
- Securities
- Credit / leasing

Group Companies and Their Businesses

Japan

SCSK ServiceWare Corporation	
VeriServe Corporation	
Minori Solutions Co., Ltd. *1	
SCSK KYUSHU CORPORATION	
SCSK HOKKAIDO CORPORATION	
SCSK PRESCENDO CORPORATION	
Skeed Co., Ltd.	
CSI SOLUTIONS Corporation *1	
Allied Engineering Corporation	
WinTechnology Corporation *1	
SCSK SYSTEM MANAGEMENT CORPORATION	
VA Linux Systems Japan K.K	
SDC Corporation	
Gran Manibus Co., Ltd.	
SCSK Nearshore Systems Corporation	

TOKYO GREEN SYSTEMS CORPORATION	
ARGO GRAPHICS Inc. *2	
Diamond Head Co., Ltd. *2	

\*1 Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, and WinTechnology Corporation are scheduled to be merged and launched as SCSK Minori Solutions Corporation on October 1, 2021.

\*2 Company accounted for using the equity method

Overseas

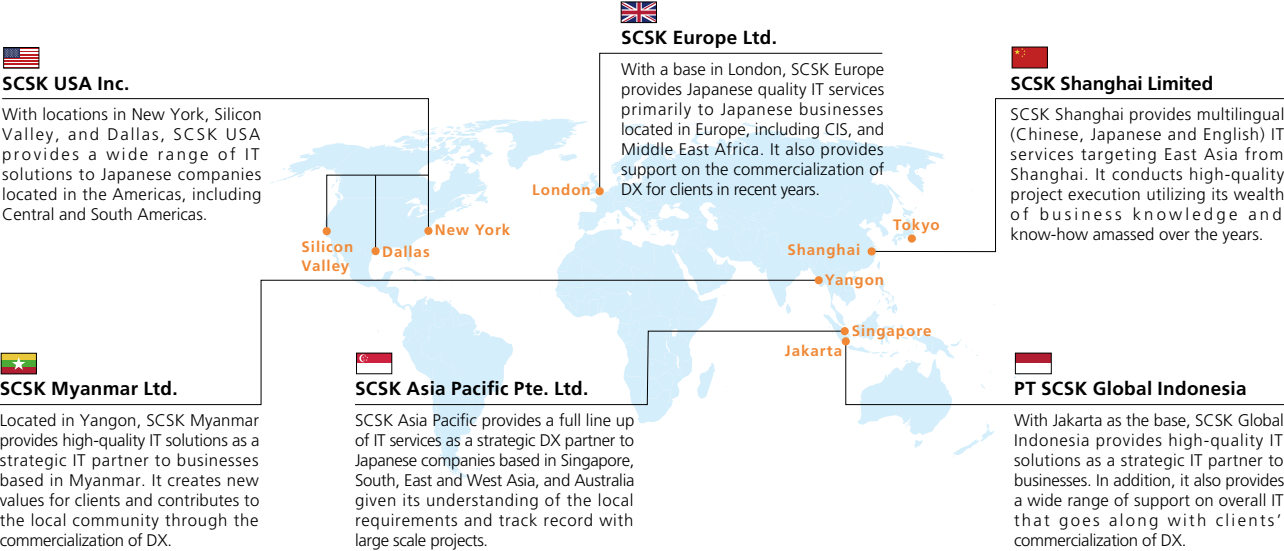
SCSK USA Inc.	
SCSK Europe Ltd.	
SCSK Shanghai Limited	
SCSK Asia Pacific Pte. Ltd.	
PT SCSK Global Indonesia	
SCSK Myanmar Ltd.	

- =BPO
- =Verification services
- =IT infrastructure development
- =IT hardware / software sales
- =IT Consulting
- =Systems development
- =IT management

As of March 31, 2021

SCSK's Global Network

The SCSK Group conducts IT business on a global basis with six locations in the Americas, Europe, China, and Asia.



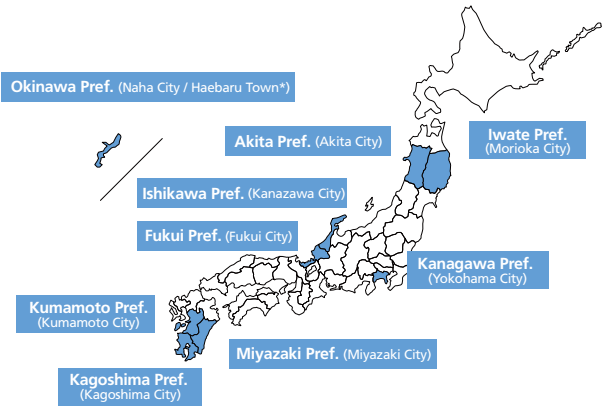
Expansion of Nearshore Business

As part of its new Medium-Term Management Plan, the SCSK Group will actively expand regional bases by positioning the expansion of our nearshore system as a key measure that will lead to the acceleration of business growth.

SCSK Nearshore Systems Corporation, a subsidiary responsible for the SCSK Group's nearshore development, opened new bases in Kagoshima in September 2016, in Kumamoto in November 2018, and in Akita and Ishikawa in April 2020. As of March 2021, the company operates 10 bases in 9 prefectures with a team of approximately 730.

The Group is now working to promote the active roles of women and seniors as well as to hire IT engineers looking to return home to regional communities in order to increase its workforce to 1,000 as soon as possible. It is also collaborating with partner companies who endorse the SCSK-NS model and support the long-term sustained implementation of enhancement projects for major corporations in urban centers at bases in regional locations.

Nearshore Development Bases



\*Transferred from one of the current locations with a new location opening in Urasoe City in fall 2021.

Cultivating New Markets with Group Reorganization

In order to continue growing while keeping in mind its progress to date, the SCSK Group will strengthen its approach on business expansion on a full scale with medium-sized business market that has room for growth as the target. Toward this end, we will restructure our Group companies on October 1, 2021 with the aim of establishing a new price point and develop a business model for this target market.

1. Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, and WinTechnology Corporation will be absorbed and merged into SCSK Minori Solutions Corporation, a surviving company that targets mainly mid-sized

businesses. The medium- to long-term sales target for the new company is aimed to be ¥50-100 billion.

2. The business targeting Kyushu region by Minori Solutions Co., Ltd. will be consolidated into SCSK Kyushu Corporation (absorption split), which will aim to become the No. 1 IT service company in the Kyushu region. The medium- to long-term sales target for the new company is aimed to be ¥10 billion.

We will exercise our comprehensive group capabilities to embrace the challenges of becoming a Co-Creative IT Company in 2030, and achieve net sales of ¥1 trillion, and further expand our client base.



# Global Environmental Contributions



## Background and Approach

In recent years, the review of social and economic systems is underway around the world driven by the growing seriousness of various environmental issues. Starting with the Paris Agreement in 2015, there has been a growing social movement to mitigate environmental impacts, which has included governments tightening environmental regulations, making commitments to carbon neutrality by 2050, expanding ESG investment, and rising awareness of the environment among stakeholders. The impacts of these developments are now spreading to corporate activities. Abnormal weather and wind and flood damage have untold impacts on social life and business activities. As a result, efforts to carbon-free societies for mitigating climate change risks and initiatives from the standpoint of containing business continuity risk are accelerating.

The SCSK Group actively supports responses to these social changes through its IT services. Our support for business transformation and greater operating efficiencies utilizing AI, IoT and cloud-based services not only helps to reduce clients' environmental impacts from the more efficient use of energy, but it also contributes to clients' business continuity during disasters by providing robust data centers and BCP solutions.

By working to reduce our own greenhouse gas emissions and mitigate environmental impacts, while collaborating with clients and partner companies from a broad range of industries, we will implement business activities adaptable to climate change and considerate of the environment as well as contribute to a better global environment through the creation and expansion of business opportunities.

## Management of Climate Change Issues

### Endorsement of the TCFD Recommendations

In April 2021, the SCSK Group endorsed the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)\*<sup>1</sup>. Following these recommendations, we will assess and analyze the risks and opportunities that climate change has on our business operations. We will further expand our disclosure of information on the results of this analysis and the SCSK Group's measures in response.

### Accreditation of Our 1.5°C Target by SBTi

In June 2021, the SCSK Group's medium- to long-term greenhouse gas reduction targets were accredited under the Science Based Targets initiative (SBTi)\*<sup>2</sup>.

Today, as the move toward digitalization of business accelerates, the role of data centers as a foundation supporting IT infrastructure will continue to grow. At the same time, data centers will consume ever larger amounts of electricity following the increase in data volume and higher performance nature of equipment.

SCSK's data centers have been working to reduce the amount of electricity they consume in order to lower our greenhouse gas emissions. Moving forward, we will

promote the use the natural energy and work toward further lowering greenhouse gas emissions. With the aim of achieving net-zero greenhouse gas emissions by 2050, we will work toward achieving a carbon-free society and contributing to the development of a sustainable society.

### SCSK Group's GHG Reduction Target

Scope1+2* <sup>3</sup>	<ul style="list-style-type: none"><li>Reduce emissions 47% by FY2030 compared to FY2019 (1.5°C target)</li><li>Reduce emissions 100% by 2050</li></ul>
Scope3* <sup>4</sup>	<ul style="list-style-type: none"><li>Reduce emissions 28% by FY2030 compared to FY2019</li></ul>

\*1 Task Force on Climate-Related Financial Disclosures: A task force established by the Financial Stability Board in order to reduce the risk of instability in financial markets related to climate change. The task force has presented a framework for companies who are voluntarily disclosing information on the climate-related risks and opportunities.

\*2 SBT (Science Based Targets) initiative: An initiative calling for companies to establish reduction targets consistent with scientific knowledge in order to stop the increase in average worldwide temperature.

\*3 Scope 1: Direct emissions of greenhouse gases from a company's own business activities

Scope 2: Indirect emissions associated with the use of electricity, heat and steam, etc., supplied by other companies.

\*4 Scope 3: Indirect emissions not included in Scope 1 and Scope 2 (emissions of other companies related to a company's own business activities).

## Management System for Climate Change Issues

SCSK has acquired ISO 14001 certification, which is an environmental management system standard. 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 Group in a company-wide manner.

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

## Third Party Verification and Assurance

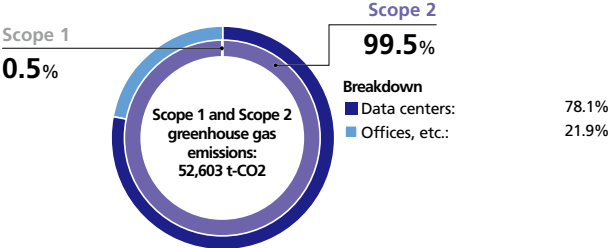
We obtain Third Party Verification and Assurance from Lloyd's Register Quality Assurance Limited concerning Scope 1, 2 and 3 emissions for the disclosure of greenhouse gas Emissions.

The Independent Assurance Statement is available on the SCSK Website.  
[https://www.scsk.jp/corp\\_en/csr/pdf/assurance\\_statement\\_e.pdf](https://www.scsk.jp/corp_en/csr/pdf/assurance_statement_e.pdf)

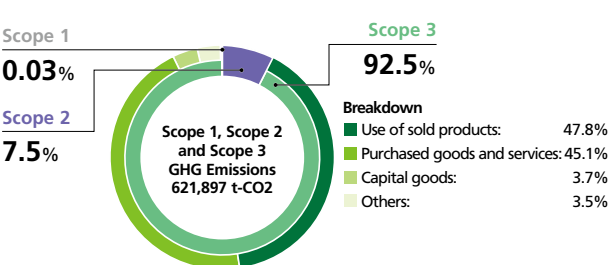


## Breakdown by Scope

Greenhouse Gas Emissions and Main Breakdown (Scope 1 and Scope 2) \*Data for FY2020



Greenhouse Gas Emissions and Main Breakdown (Scope 1, Scope 2 and Scope 3) \*Data for FY2019



\*The latest data for Scope 3 is as of FY2019; therefore, Scope 1 and Scope 2 data are also presented as of FY2019.

## Climate Change Risks and Opportunities

At the SCSK Group, we determine specific fields to take action based on a priority ranking of the frequency and

severity of risks and opportunities related to climate change.

### Main Opportunities

Resource Efficiency	• Growing demand for the efficient use of electricity and energy and for the use of IT to conserve energy
Products and Services	• Growing demand for products and services that help to lower greenhouse gas emissions
Resilience	• Rising demand for data centers resilient against natural disasters that contribute to business continuity

### Main Risks

Policies and Regulations	• Rising cost of responding to tighter regulations for reducing greenhouse gas emissions and new regulations (emissions trading, carbon taxes, etc.)
Physics	• Possibility of impacts on business continuity in case weather hazards destroy the SCSK Group's facilities and equipment
Others	• Impacts on financing or weakened reputation if initiatives to address climate change are perceived as passive

Establishment of Green Finance Framework

Establishment of Green Finance Framework

We have established a green finance framework to promote the SCSK Group's sustainability management in financing activities. The construction of eco-friendly data centers featuring energy conservation upgrades using the funds raised from this framework will benefit our contributions to the environment, which is one of our material issues.

Acquisition of Second Opinion

We obtained a second-party opinion\* to evaluate the suitability of the green finance framework from a third-party institution Sustainalytics.

We also engaged Daiwa Securities Co., Ltd. as the Structuring Agent\* to solicit advice on the establishment of this framework.

\* Structuring Agent: A party that supports the issuance of SDGs bonds through advice on the establishment of framework and acquisition of second-party opinion.

Use of Proceeds

The procured funds will be allocated to the financing and refinancing related to construction, remodeling, acquisition and operation of the netXDC Chiba Center 3. Furthermore, in June 2021 SCSK issued its first green bond based on this framework.

Name	• netXDC Chiba Center 3 (S13)
Location	• Inzai City, Chiba Prefecture
Site area	• Approx. 32,201 m²
Floor space	• Approx. 13,000 m²
Scheduled construction date	• March 2022
Building	• Steel-framed structure with seven floors (no basement level) and two rooftop floors featuring seismically reinforced foundation and vertical vibration damping
Power supply facilities	• Dual power supply system including mainline and preparatory line • Generator: N+1 redundancy offering 72 consecutive hours of operation without refueling • UPS: Flexible design with redundancy level changeable between each room
Cooling facilities	• N+1 redundancy (expandable to N+2)
Number of racks	• 1,600 racks
Total electricity capacity	• 20 MW

Features of netXDC Chiba Center 3

(1) Location (Inzai City)

Inzai City in Chiba Prefecture has established an image as the Ginza of data centers, attracting attention even from international firms. The reason for the interest is because of the city's low hazard risk from earthquakes or floods, highly convenient location, short distance from undersea cable landing stations, telecommunications quality, and lower costs.

(2) High Network Connectivity

The netXDC Chiba Center 3 will become a core data center providing hybrid cloud services connecting clients' IT assets and cloud services and multi-cloud connection services that easily enable connections with multiple clouds based on the intended use.

Our goal is to form a new interconnected ecosystem that can combine SCSK's systems integration services and open connection environment to services provided by internet service providers, IX businesses, and telecommunications carriers that we will attract and promote collaboration with.

(3) Environmental Considerations

We are working to adopt high efficiency equipment and minimize PUE\* by streamlining operations to mitigate environmental impacts. The data center will be run with the environment in mind by further promoting the use of natural energy and greater energy efficiency in line with our SBTi accreditation in an effort to lower greenhouse gas emissions.

\*An indicator that measures the energy efficiency of IT related facilities including data centers.



Diverse Team of Professionals



Background and Approach

With the full-fledged advent of a digital society, companies now must address the complex and diversified needs of society using sophisticated business activities incorporating the latest digital technologies. IT services companies such as SCSK play an important role in the utilization of sophisticated IT and the promotion of digitalization. To address such varied needs, we must foster and secure talent with a broad range of experience and knowledge, beyond conventional IT technologies.

The SCSK Group is implementing a number of measures to increase morale and fully draw out the motivation and skills of employees. We believe that increasing opportunities

and venues for interacting with different ideas, technologies and know-how, while having each employee embrace diverse values and personalities through the fostering of professional talent, promotion of diversity, and introduction of the second job program (Smart Work Plus) will lead to new value creation in the form of innovative businesses and services. Going forward, we will provide opportunities and workplaces that enable continual growth and involvement, while utilizing our diversity and expertise, so that our team of professionals can actively tackle the challenges of new value creation.

Fostering Professional Talent

Integrated Career Development Plan (iCDP)

We launched the Integrated Career Development Plan (iCDP) in order to speed up initiatives under our scheme to quickly develop diverse team of professionals. Centered on the Career Development Plan (CDP) system, where employees think about their own career and discuss with their supervisor, iCDP is a mechanism that assists autonomous, strategic, and integrated career development in a manner consistent with business strategy by increasing connectivity between CDP and the human resources development plans of each organization. CDP interviews are conducted with each employee based on the human resource policy following business strategy, and using the results, three-year development plans are formulated for each job type under SCSK Career Framework, which allows us to visualize the current situation and future vision of SCSK's human resources portfolio. Following these plans, we implement a development cycle in an integrated manner that comprises the following: (1) training programs; (2) practical experience through assignments (allocation of roles and work);

(3) accreditation and evaluation through the IT Skill Level Assessment; and (4) CDP interviews following the human resource policy for the subsequent fiscal year. Through this, we aim for systematic human resources development with an eye toward fulfilling our business strategy.

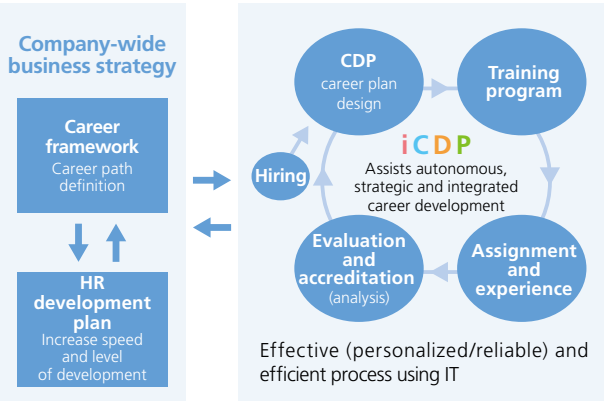
Human Resources Development Program —SCSK i-University

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. Recognizing that the active role of all employees drives SCSK's growth, common company-wide training is provided according to the five categories of career development, leadership development, global business skills development, specialized skills development and business skills development, with the goal of strengthening both mind (people skills) and skills (job skills), based on personnel grade and specialization level. In addition to training, we support employees' self-development, encouraging continuous learning that leads to self-growth and build mechanisms where employees can motivate one another to excel.

SCSK Career Framework and IT Skill Level Assessment

The IT Skill Level Assessment seeks to increase the specialized skills of employees and accredit outcomes according to seven levels based on the SCSK Career Framework to visualize the specialization of sales and engineering employees and support their continual growth. Essentially, we aim to effectively assist employees in their career growth by identifying gaps with target levels through

iCDP Workflow





the process of accreditation screening and the formulation of detailed human resources development plans by employee and organization. Also, we have established a specialized working group composed of experts from each job type that deliberates on accreditation screenings, carries out training activities geared toward job type, and examines a new career framework in response to the full-fledged arrival of the DX business.

SCSK Career Framework and Number of Accreditations (As of April 1, 2021)

Strategy	Business creators	BCR	755 persons
	Sales	SALS	
	Consultants	CONS	
	BASM service managers	SM-BASM	
	ITSM service managers	SM-ITSM	
Development	Project managers	PM	4,018 persons
	IT architects	ITA	
	AP specialists	APS	
	Embedded software development	EMSD	
	IT specialists	ITS	
Operations	Product specialists	PDS	873 persons
	Customer service	CS	
Staff	IT service management	ITSM	162 persons
	Engineering-related administrative support staff	MSS-T	
Total			5,808 persons

Mastering Skills Necessary for a Co-Creative IT Company

In order for SCSK to create businesses and services that provide new value for the SCSK Group as a “Co-Creative IT Company,” we give employees opportunities to learn design and innovator thought processes and behavioral patterns which are skills for thinking about and propelling new business development. This takes place at the same time as mastering leadership, management knowledge and management skills. In this manner, we are implementing programs that explore business ideas for achieving businesses essential to society through cooperation with client companies.

Fostering of Management Talent and Organizational Development

In our development of management talent who will help us achieve core business innovation and commercialization of DX, we are expanding training programs targeting general managers with the goal of enhancing organizational skills for broadening the reach of our existing businesses (deepening) and organizational skills for seeking out new business opportunities

(exploration). From FY2020, we began conducting an organization survey of all employees to speed up the organizational development cycle. We are working to maximize organizational performance by quantitatively understanding the strengths and issues of each organization based on employee awareness and by fostering diverse approaches to management through training that instills knowledge and enhances the management skills of manager level employees.

Fostering Global Mindsets

We have established training programs to foster the skills essential to an international business career along with the mindset required for SCSK’s global expansion. These programs help employees to master global business skills, raise their level of English proficiency, while also covering how each and every employee can remain competitive as truly global talent, regardless of the extent of their involvement in our global business operations.

Young Employee Career Development Program

In FY2020, we launched a career development program for young employees with the objective of having up-and-coming employees acquire multiple skills ahead of changes in future technology needs. Through this program, we are providing training on IT basics for employees to foster multiple skills in their first four years after being recruited as university graduates. In turn, we monitor the utilization of the knowledge learned and their attainment of practical skills. Furthermore, we conduct job rotations to unlock the further growth of young employees in a new environment different from their initial assignment by having them think autonomously about their own career through career and advice interviews. Through opportunities to learn about the organizational culture of different departments and come into contact with new clients and technologies, we encourage these employees to grow into multi-skilled talent with broader horizons who embrace diversity.

Developing IT Talent

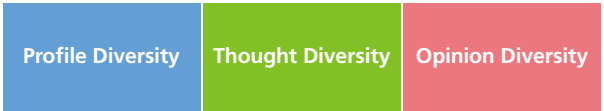
For mid-career employees and above, we have expanded job-specific curriculum for improving practical work skills. At the same time, we promote the development of elemental technology curriculum expected to grow in importance in the future, such as agile development, AI and IoT, and the acquisition of related qualifications, in order to secure talent in quality and quantity for addressing the full-fledged growth of the DX business. We are also focusing on talent development that aims to improve the practical skills of employees who will drive core business innovation and the commercialization of DX, which are the core strategies of our Medium-Term Management Plan.

Diversity and Inclusion

Basic Approach to Diversity and Inclusion

SCSK is promoting diversity and inclusion as a way to become a company with a pleasant and rewarding workplace where all employees can fully maximize their skills.

Diversity and inclusion at SCSK involves a number of measures to foster understanding and acceptance of diversity as an organization from the three standpoints of profile diversity, thought diversity and opinion diversity. Through these measures, we aspire to build upon organizational strengths as our diverse workforce acknowledges and understands one another as mutual partners. We aim to be a company that continuously creates new value-added services and achieves sustainable growth by fully drawing out the skills of its entire workforce and using this power to drive SCKS’s business growth.



System for Promoting Diversity and Inclusion

SCSK established an organization dedicated to the promotion of diversity and inclusion in 2012. Since then, we have implemented a number of initiatives for promoting women’s empowerment, leveraging the skills of seniors and supporting employment opportunities for people with disabilities.

Aiming for an inclusive workplace where our employees from varying backgrounds can respect one another and thrive professionally, we held seminars for all employees and rank-based training for instilling diversity and inclusion in FY2020. A web portal was also launched to promote the greater understanding and entrenchment of diversity and inclusion. The portal is regularly updated with information such as the importance of diversity and inclusion, our initiatives and messages from top management. Furthermore, our goal is to foster an organizational culture that contributes to business innovation and creation through the practice of diversity and inclusion. To this end, we have implemented a project under which organization leaders examine measures for diversity and inclusion and organizational revitalization, which they then implement and develop at their own organizations.

Initiatives for Empowering a Diverse Workforce Measures for Women

We are implementing a number of measures to achieve an organizational culture where women can truly shine, recognizing that these measures are a foundation for realizing a broader scope of diversity and inclusion. We have worked to foster and support the career development of women by establishing a target of reaching 100 female line managers,

which will encourage the active promotion of women in the workplace. Starting in FY2021, we have set targets of increasing the ratio of women in general manager positions to 12% and the number of female human resources with extremely advanced specializations to 150 (level 5 or higher in the SCSK IT Skill Level Assessment) in the five-year period leading up to March 2026, and we are promoting training to reach the targets. These targets have also been incorporated into board member targets, while initiatives for diversity and inclusion such as promoting the active role of women in the workplace, and their results are now part of board member evaluations.

Measures for Balancing Work with Childcare or Family Care

We are promoting the development of an inclusive workplace environment. This includes eliminating long working hours, using remote work and flex time systems to provide flexibility in workplace and working hours, and offering various leave programs so that employees from varying backgrounds can excel at work on the same stage.

Additionally, we have developed a program in response to women’s unique health issues and a program to support employees working reduced hours due to childcare or family care return to full-time work quickly. To complement these programs, we provide training that promotes understanding of these issues and seeks out solutions together, in an effort to foster an organizational culture and workplace environment where these programs are easily accessible to employees.

Measures for LGBT

We are working to develop an environment where all employees can work with peace of mind, which includes allowing same sex and common-law partners to be considered “spouse” under the company’s internal programs. Our policy is clearly laid out in the compliance manual, which explains the ban not only on sexual and power harassment, but also discrimination due to gender orientation. In addition to a hotline, we also hold seminars for all employees to promote understanding and conduct training for managers as well as employees in charge of human resources including at Group companies.

We hand out Ally\* stickers to those who request one to symbolize their commitment to understanding, supporting and assisting the LGBT community, and we established an Ally community where employees who identify as an LGBT Ally can discuss issues and SCSK’s measures for LGBT inclusion.



\*Ally is a collective term for people who support the LGBT community.

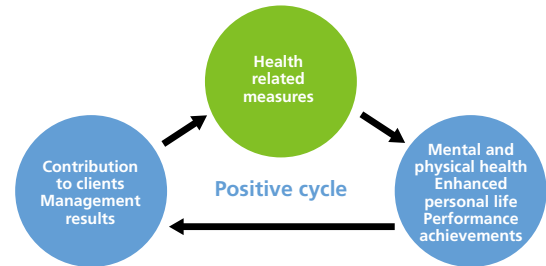
Health and Productivity Management

Principles for Health and Productivity Management

The first of Our Promises in the SCSK Corporate Philosophy of Create Our Future of Dreams is “respecting each other.” In 2015, SCSK established its principles for health and productivity management that proclaim health is the basis for everything, while our work rules stipulate the company and employees have a responsibility toward health maintenance and advancement. In this manner, we are working on health and productivity management as a way of investing in our people over the medium and long term.

Principles for Health and Productivity Management

The health of employees underpins the happiness of individual employees and their families as well as the development of the Company's business. It is only when employees are able to deliver their best performance due to being in good mental and physical health and feeling motivated in their work that the Company will be able to delight its customers with services of the highest caliber.



System for Promoting Health and Productivity Management

At SCSK, top management serves as the Chief Health Officer and works to foster penetration of the principles and related measures. In implementing various measures, we have established a dedicated department responsible for health and productivity management promotion while working closely with the employee mutual aid society and the health insurance association SCSK belongs to. In addition, through support to Group companies and sharing of know-how with partner companies, we are working to promote health and productivity management together with many stakeholders related to business operations.

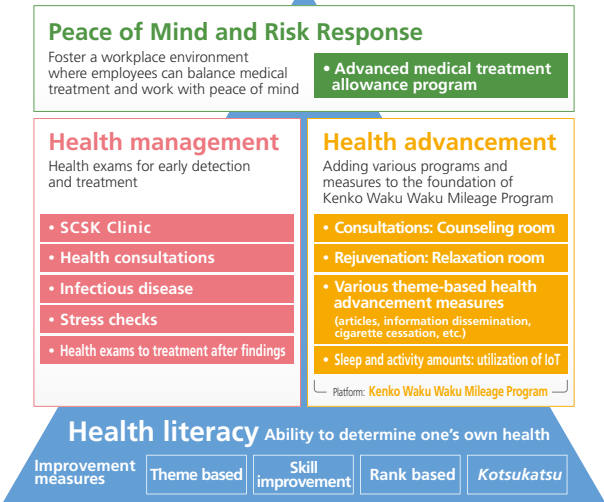
Initiatives for Health and Productivity Management

As a foundation for improving the health literacy of all employees, we continuously promote health and productivity management by integrating our measures for and health advancement, which instill good behaviors, and health management, which lead to early detection and treatment, along with measures for peace of mind and risk response, which help employees balance work and medical treatment. The *Kenko Waku Waku Mileage program*, one of the core

measures for health advancement, provides employees with points for taking part in and recording healthy activities, with incentives provided based on the number of points earned in one year. Since roll out in 2015, the program continues to be used by 99% of employees.

Our measures to increase health literacy involve broadly providing opportunities to cultivate the ability to determine one's own health. We provide contents following the health issues elucidated from the results of in-house surveys. In FY2020, around 2,000 employees participated in presentations and workshops on the theme of sleep and its significant impacts on productivity.

These initiatives have received high praise from external parties. SCSK received high marks in every item of the health and productivity management survey conducted by the Ministry of Economy, Trade and Industry, including management philosophy/policies, organized frameworks, specific systems/measures for implementation, and assessment/improvement. SCSK's strength can be found in our well balanced approach to health and productivity management. Our total score in the survey exceeded 680 points, which greatly surpasses the average score for companies of 500 points. This also marked the seventh consecutive year SCKS was selected as a “Brand of Companies Enhancing Corporate Value through Health & Productivity.”



Results and Future Policy for Health and Productivity Management

An in-house survey found that health advancement measures have led to changes in employee behavior and habits, such as decline in the ratio of employees who smoke. More and more employees feel a keen sense of health and productivity management penetration and feel like health advancement is having positive results at work. Indicators on employee health,

productivity and rewarding workplace have been improving with each passing year.

We will continue to promote health and productivity

management in the future so that our diverse workforce can continue to play an active role at work while maintaining their mental, physical and social health.

From Working Style to Rewarding Workplace Reforms

Initiatives for Working Style Reform 2.1

SCSK has been working continuously to create more efficient and flexible working styles since 2012 before the term working style reform was coined in Japan.

From 2020, we launched *Working Style Reform 2.1* to plan and execute new approaches to the concept for our offices and our location strategy with a focus on more productive work and remote work based on the rapidly changing social situation and business environment whose future remains difficult to predict. We believe that through these initiatives, improving employees' physical and mental health and increasing their motivation toward work will give rise to a positive cycle where we improve the service value provided to clients and increase stakeholder returns.

Smart Work Challenge

*Smart Work Challenge* launched in FY2013 is a core measure of SCSK for promoting the target of reducing average monthly overtime hours to less than 20 and ensuring employees take all of their annual paid vacation days every year.

From FY2014 to FY2019, we achieved our individual year targets of keeping overtime work at less than 20 hours

per month and ensuring that around 95% of annual paid vacation days were taken. However, in FY2020, we fell short of these targets attributed to the shift to new working styles combining office and remote work due to the COVID-19 pandemic. In FY2021, we will work to balance efficient and highly productive working styles with activities to better ourselves under the slogan “tackling the challenge of more sophisticated smart work,” aiming to become an autonomous group that can flexibly respond to changes in the business environment.

Initiatives for Rewarding Workplace Reforms

To achieve the SCSK Group's vision of becoming a “Co-Creative IT Company in 2030,” and driven by intense changes in business climate, we must pursue reforms that not only create a pleasant workplace environment, but also a rewarding one as well. As a pioneer in working style reform, and as a IT service company supporting social infrastructure, we will work to develop an organizational culture where our entire workforce can fully contribute their skills so that each and every employee grows autonomously and achieves a strong sense of reward at work in order for SCSK to provide co-creative value to society.

Human Resources Management During COVID-19

Response to COVID-19 and Situation of Working Styles

At SCSK, in addition to measures to stop the spread of the COVID-19 pandemic, we are promoting new working styles that deliver higher productivity and greater motivation while normalizing flexible work such as work from home. We set a target for an office utilization rate of under 50% and eliminated the cap on the number of times employees can work remotely. We also increased the remote work stipend to create an environment where employees can complete their work at home in a highly productive manner. As a result, we achieved our target for office utilization rate throughout the year in 2020.

We will continue managing our organization with an awareness of balance, to create working styles with optimal combinations of both remote work and work at the company.

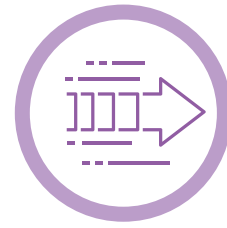
Recruitment Activities and Human Resources Development during COVID-19

We have shifted recruitment activities and human resources development to a combination of both in-person and online so that opportunities are provided without the restrictions of time and place. In terms of recruitment activities, we switched the entire selection process, from internships to interviews, to an online format, making it easier for students in remote locations or overseas to apply and promoting a more diverse workforce. We continued to provide learning opportunities through training for new hires by switching 90% of training programs conventionally held in person to an online format, with the exception of certain training programs that require group work.

Looking ahead, we will continue working to secure and foster a diverse workforce by carrying out recruitment activities and human resources development utilizing the benefits of both in-person and online formats.



## Sustainable Value Chain



### Background and Approach

Companies provide their customers with various products and services. The ability to deliver consistent and high-quality services to customers requires close collaboration with various partner companies in the value chain of business activities.

SCSK has worked with its partner companies to achieve high quality and productivity, carrying out initiatives jointly for utilizing SCSK's development standard (SE+) in systems development, maintenance and operation. We are also focusing on enhancing the work-life balance of partner company employees, including actively working toward greater operational efficiencies as working style reforms, in

addition to activities for consistent quality, such as mutual evaluation of each project.

Furthermore, demand for a responsible supply chain is rising from the perspectives of sustainability in recent years. To deal with this, we share the Supply Chain Sustainability Policy with partners and ask their understanding and acceptance in implementing these initiatives.

Going forward, SCSK will continue to support the sustainable growth of clients by providing high-quality, safe and secure services using a value chain that is conscious not only of quality, but also the environment and society.

### Various Policies in the Supply Chain

#### Purchasing Guidelines

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.

For details, please visit:  
[https://www.scsk.jp/corp\\_en/csr/fairpractices/partner.html](https://www.scsk.jp/corp_en/csr/fairpractices/partner.html)



#### Purchasing Guidelines

##### Challenge

- 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

##### Commitment

- 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

##### Communication

- Strive to build mutual understanding and trust through dialogue

#### Supply Chain Sustainability Policy

SCSK has established the Supply Chain Sustainability Policy, recognizing its social responsibilities in the supply chain for purchasing that is conscious of sustainability. We share this recognition with partner companies who we work closely with to resolve social issues while gaining their understanding and acceptance.

For details, please visit:  
[https://www.scsk.jp/corp\\_en/csr/fairpractices/supply\\_chain.html](https://www.scsk.jp/corp_en/csr/fairpractices/supply_chain.html)



#### Core Partner Conference

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. Once a year we host the Core Partner Conference. From FY2020 we began streaming video of the conference online due to the COVID-19 pandemic. We plan to continue holding the conference using this same format suited to the new normal.

### Collaboration with Partners

SCSK continues with its initiatives for improving quality and productivity together with partner companies. This has enabled us to provide stable systems development, maintenance and operation using the SCSK development standard (SE+). We are collaborating with partner companies on initiatives aimed at achieving more advanced development and operations by utilizing SCSK's proprietary *Monozukuri* innovation platform (S-Cred+).

In addition, SCSK mutually evaluates each project with partner companies, analyzing and utilizing these results toward continuous improvement of quality and productivity.

Moreover, in addition to our conventional defensive IT domains, we will begin working on domains with DX themes for clients (proactive IT domains).

Also, we are promoting working style reforms together with partner companies with the goal of creating an IT industry that attracts talent.

Toward this end, we are working closely with partner companies on solutions for more efficient operations and improving quality and productivity. As a positive outcome, overtime working hours are declining with each passing year for employees of both SCSK and partner companies. In recent years, we have actively rolled out telework as a flexible working style where employees can efficiently utilize their time and space in an effort to further enhance work-life balance.

Finally, SCSK requires its partner companies to comply with SCSK's Information Security Guidelines when handling information that is considered an important asset of clients. We ensure compliance and rectify any issues through regular briefings and field audits. To eliminate information security incidents, we will continue to ensure thorough information security compliance so that we can earn the strong trust of clients and society in the future.

#### Initiative Themes

Theme	Key point	Examples of initiatives
<b>Operational Quality and Productivity Improvement</b>	<ul style="list-style-type: none"> <li>• Development and management standardization (SE+, etc.)</li> <li>• Mutual evaluation of projects</li> </ul>	<ul style="list-style-type: none"> <li>• Rollout of SCSK development standards (SE+) and software engineering platform (S-Cred+) at partner companies for stable systems development, maintenance and operation</li> <li>• Sharing of results of mutual project evaluations with partner companies</li> </ul>
<b>Working Style Reforms / Health and Productivity Management</b>	<ul style="list-style-type: none"> <li>• Sharing of health and productivity management measures / initiatives</li> <li>• Enhancement of work-life balance</li> </ul>	<ul style="list-style-type: none"> <li>• Commendation of partner companies who achieve positive outcomes after sharing average overtime hours and rate of consumed annual paid vacation days as indicators with partner companies</li> <li>• Active introduction and promotion of telework as a flexible working style</li> </ul>
<b>Information Security Enhancement and Compliance Promotion</b>	<ul style="list-style-type: none"> <li>• Strict observance of laws related to Outsourcing</li> <li>• Enhancement of information security</li> </ul>	<ul style="list-style-type: none"> <li>• Requirement of partner companies to comply with SCSK's Information Security Guidelines and rectification and improvement of any issues through field audits</li> <li>• Briefings for partner companies to ensure and strengthen information security and compliance</li> </ul>

#### Comment from a Partner Company

##### Promoting working style reforms based on SCSK's initiatives

##### Hiroshi Hirayama

Representative Director and President  
System Research Co., Ltd.



SCSK is an industry leader when it comes to working style reforms. As SCSK's core partner, we have implemented similar reforms through offering opportunities for sharing measures and communication with SCSK.

As a result, we have reduced average overtime hours and increased the rate of consumed annual paid vacation days used, and we have been recognized in terms of our work-life balance and promotion of women's empowerment.

Going forward, we will further evolve our initiatives and tackle the challenge of earning certification as an organization with outstanding health and productivity management practices, as we seek to grow together as a core partner.





# Transparent Governance



## Background and Approach

Embracing its focus on corporate social responsibility, the SCSK Group implements sustainability management 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.

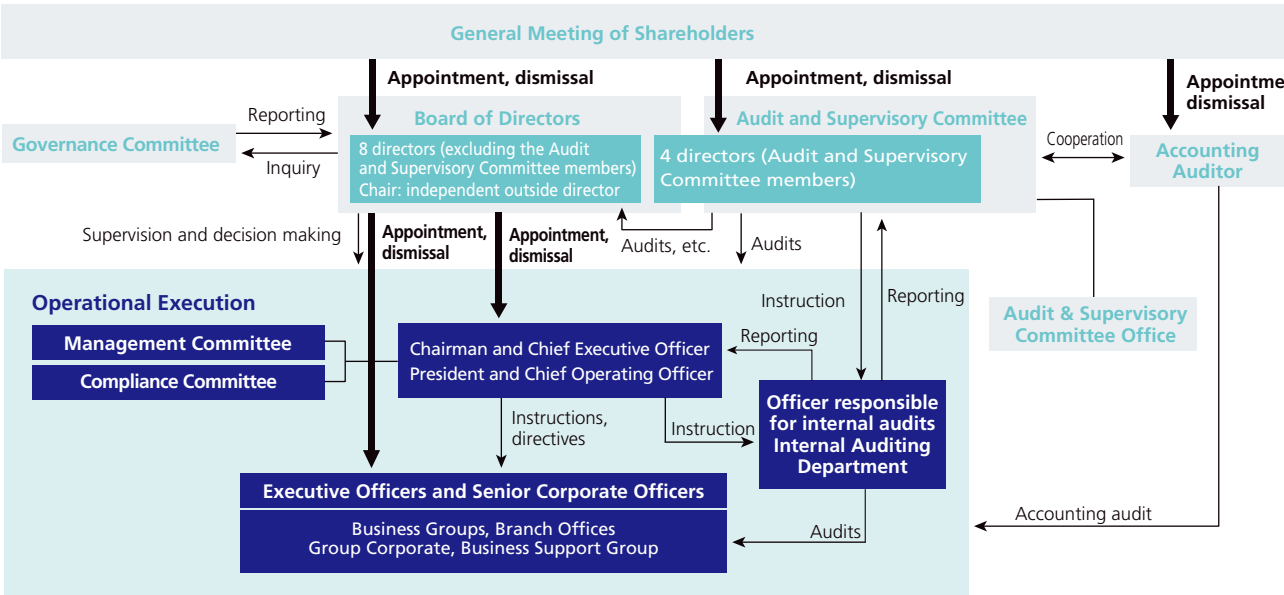
Rating these matters high among management priorities, we aim to build an optimal management structure that benefits SCSK the most.

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 28, 2016 onward	June 23, 2017 onward	June 26, 2018 onward	June 23, 2021 onward
Number of Directors	19 (4 Independent Outside Directors)	16 (6 Independent Outside Directors)	12 (4 Independent Outside Directors)	12 (5 Independent Outside Directors)
Institutional design	Transitioned to 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 outside directors)	Governance Committee (5 members including 3 independent outside directors)	Governance Committee (6 members including 4 independent outside directors)	Governance Committee (7 members including 5 independent outside directors)

## Corporate Governance Structure



## Board of Directors

As of June 23, 2021, SCSK's Board of Directors comprises 12 members, including five 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 20 times in FY2020.

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 and Senior Corporate Officers

SCSK's officer system consists of executive officers responsible for the business execution of the entire Group and senior corporate officers responsible for the operational execution of each business domain, and specifies the roles and responsibilities of each. Under this system, executive officers and senior corporate officers are responsible for business execution under the directives of the Chairman and Chief Executive Officer and President and Chief Operating Officer following the management policy approved 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 more effective operational execution and 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 and senior corporate officers, 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. The expertise of independent outside directors Kimitoshi Yabuki, Masaichi Nakamura and Kazuko Shiraishi is listed in "Reasons for Elections of Outside Directors and Summary of Their Expected Roles" found on page 66.

## Governance Committee

We have also established the Governance Committee, a majority of whose members are independent outside directors and an independent outside expert, 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, executive officers and senior corporate officers as well as the appointment and dismissal of directors.
- 4: Matters concerning the remuneration of directors, executive officers and senior corporate officers.
- 5: Other matters that the Board of Directors inquire about as necessary for ensuring the fairness of their decision making.

## Internal Auditing Department

SCSK's Internal Auditing Department is in charge of the company's internal audits. It 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 Internal Auditing Department reports the results of internal audits to the Chairman and Chief Executive Officer and the President and Chief Operating Officer and directly to the Audit and Supervisory Committee.

Composition of Board of Directors and Committees

◎: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	(20/20 meetings)	(-)	○
Representative Director President and Chief Operating Officer	Toru Tanihara	(20/20 meetings)	(-)	○
Director Executive Vice President	Koji Tamefusa*3	(-)	(-)	-
Director Senior Managing Executive Officer	Tetsuya Fukunaga	(20/20 meetings)	(-)	-
Director Senior Managing Executive Officer	Kei Kato	(20/20 meetings)	(-)	-
Director	Bin Haga	(16/18 meetings)	(-)	-
Director *2	Kiyoto Matsuda	◎ (20/20 meetings)	(-)	○
Director *2	Tetsuya Kubo*3	(-)	(-)	○
Director (Audit and Supervisory Committee Member) (Full-time)	Yasunori Anzai	(20/20 meetings)	◎ (16/16 meetings)	-
Director (Audit and Supervisory Committee Member)*2	Kimitoshi Yabuki	(20/20 meetings)	○ (15/16 meetings)	◎
Director (Audit and Supervisory Committee Member)*2	Masaichi Nakamura	(17/20 meetings)	○ (16/16 meetings)	○
Director (Audit and Supervisory Committee Member)*2	Kazuko Shiraishi	(20/20 meetings)	○ (16/16 meetings)	○

\*1 Attendance records from April 2020 to March 2021  
\*2 Outside Director  
\*3 Newly elected (from June 2021)  
\*4 One independent outside expert (lawyer) was also appointed as a member. The Governance Committee also deliberates on matters other than those concerning nomination and remuneration, and currently totals 8 members.

Policy on the Protection of Minority Shareholders

**Policy on the Protection of Minority Shareholders in Transactions with Parent Company**

SCSK engages in transactions with its parent company, Sumitomo Corporation, under the same conditions as other business counterparties without capital ties to ensure that minority shareholders are not subjected to disadvantages.

Important transactions are deliberated on in advance by the Governance Committee, a majority of whose members are independent outside directors and an independent outside expert. In turn, the Board of Directors determines whether to go ahead with the transaction based on the reports of the Governance Committee.

Furthermore, we ensure the fairness of transactions with the parent company by means of regular reporting to the Governance Committee.

**Policy on Protection of Minority Shareholders in Ensuring Independence from Parent Company**

From the perspective of protecting minority shareholders, the Board of Directors is composed of 12 directors including five independent outside directors without a conflict of interest with general shareholders (as of June 23, 2021). In this manner, SCSK independently supervises the execution of business and decision making on matters important to management.

In addition, we give appropriate consideration to the shared interests of SCSK and its shareholders. To ensure fairness and transparency, we have established the Governance Committee, a majority of whose members are independent outside directors and an independent outside expert, as an advisory committee to the Board of Directors.

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 the General Meeting of Shareholders after a resolution is passed 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 independent outside experts, 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 resolution of the Board of Directors and approval of shareholders 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 and independent outside experts. 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 various fields and corporate management.

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.

Reasons for Elections and Summary of Their Expected Roles

		Reasons for Elections and Summary of Their Expected Roles
Kiyoto Matsuda (Chairman of the Board)	Independent Director	Mr. Kiyoto Matsuda has a breadth of experience and a wealth of knowledge gained during the course of his long history as a manager coupled with a robust background as an outside director at listed companies. We believe that the management perspective cultivated through his work qualifies him to help enhance the functions that supervise the execution of SCSK’s operations and to offer advice on all areas of management, and we have thus selected him as an Outside Director.
Tetsuya Kubo	Independent Director	Mr. Tetsuya Kubo has a breadth of experience and wealth of knowledge pertaining to international operations. We believe that the management perspective cultivated through his work qualifies him to help enhance the functions that supervise the execution of SCSK’s operations and to offer advice on all areas of management, and we have thus selected him as an Outside Director.
Kimitoshi Yabuki	Audit and Supervisory Committee Member, Independent Director	Mr. Kimitoshi Yabuki has specialized knowledge and experience as an attorney. We believe that the legal perspective cultivated through his work qualifies him to help audit the execution of duties by Directors from an objective standpoint and to offer advice for enhancing SCSK’s corporate governance systems, and we have thus selected him as an Outside Director that also serves as an Audit and Supervisory Committee Member.
Masaichi Nakamura	Audit and Supervisory Committee Member, Independent Director	Mr. Masaichi Nakamura has specialized knowledge and experience as a certified public accountant. We believe that the financial and accounting perspective cultivated through his work qualifies to help audit the execution of duties by Directors from an objective standpoint and to offer advice for enhancing SCSK’s corporate governance systems, and we have thus selected him as an Outside Director who also serves as an Audit and Supervisory Committee Member.
Kazuko Shiraishi	Audit and Supervisory Committee Member, Independent Director	Kazuko Shiraishi has in-depth experience and broad insight as a diplomat. She was selected as an Outside Director and member of the Audit and Supervisory Committee because we believe the international perspectives accumulated through her career qualify her to contribute to objective audits of duties of directors at SCSK and to provide advice concerning global business expansion as well as diversity management.

Stimulating Deliberation on 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 FY2020

Every year, SCSK carries out 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 for FY2020 was carried out by asking all directors to complete a questionnaire in February 2021 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 2021.

A summary of these results is as follows: Responses to the questionnaire indicate generally positive assessments regarding follow-up on the progress of the Medium-Term Management Plan, remuneration system design, appropriate management of transactions with conflicts of interest, and general management matters. As a result, we believe that the overall effectiveness of the Board of Directors is being secured.

Regarding the succession plan, which was identified as an issue in the previous questionnaire on board effectiveness, improvement was seen in evaluations because of discussions held by the Board of Directors in FY2020.

In addition, we recognize that continual efforts should be made regarding regular reviews of the business portfolio and discussions on the formulation of the management plan with added focus on capital efficiency.

Opinions were collected about providing directors with opportunities for training, diversity of the Board of Directors, and specializations required of the Board of Directors. We also shared other tasks such as further improvement of the Board of Directors' functions and more frank discussions and opinion sharing.

Looking ahead, taking into account the results of this evaluation, SCSK's Board of Directors will swiftly address the issues identified 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 performance-linked compensation, within the maximum amount as determined at the Ordinary General Meeting of Shareholders.

The policies, procedures, and calculation methods, and level of remuneration of directors (excluding outside directors, part-time directors and those directors that serve as members of the Audit and Supervisory Committee) are decided by resolution of 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 independent outside experts. The Audit and Supervisory Committee confirms the validity of remuneration level based on roles and duties of directors considering the fairness of the calculation of remuneration and business performance.

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

Remuneration of Directors in FY2020

Category	Total remuneration (millions of yen)	Remuneration by type (millions of yen)			Number of people
		Basic remuneration	Performance-linked compensation, etc.	Non-monetary compensation, etc.	
Directors (excluding those directors that serve as Audit and Supervisory Committee members) (of whom, outside directors)	296 (12)	229 (12)	67 (-)	- (-)	8 (1)
Directors that serve as Audit and Supervisory Committee members (of whom, outside directors)	56 (36)	56 (36)	- (-)	- (-)	4 (3)

Policy and Indicators for Performance-Linked Compensation

SCSK emphasizes business performance and continuous profit growth. The source of performance-linked compensation and payout rate reflecting individual evaluations are determined based on the executive officer remuneration system. The method for calculating the amount of performance-linked compensation involves the determination of the total payout amount pursuant to operating profit growth rate and operating profit amount, and then after determining the bonus amount for each position, this amount varies based on the target achievement rate and individual evaluation for the applicable fiscal year. The weighting for the target achievement rate and individual evaluation is 80% and 20%, respectively.

Target achievement rate = Target achievement rate of net sales x 30% + Target achievement rate of operating income x 70%

Individual evaluation = Payout rate following individual evaluation based on the executive officer remuneration system

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	66%	34%
President and Chief Operating Officer	66%	34%
Executive Vice President	67%	33%
Senior Managing Executive Officer	73%	27%
Managing Executive Officer	76%	24%

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.

The SCSK Group is working to strengthen governance in order to reasonably guarantee the achievement of the four goals of (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, (3) compliance with laws and regulations related to business activities, and (4) safeguarding of assets during the course of its business operations.

Policy on Strategically-held Shares

SCSK owns the shares of business partners determined to contribute to the promotion of its business strategies and to benefit its sustainable growth and enhanced corporate value weighing the balance between return on investment of those shares and the company's cost of capital. Following this policy, shares determined to no longer carry significance or whose holding is no longer reasonable will be disposed of.

In addition, the validity of those holdings is reviewed and determined regularly on an annual basis holistically taking into account such quantitative factors as cost and benefit associated with those holdings and such qualitative factors as achievement of the purpose of those holdings

including maintaining or strengthening of the relationship with the business partner.

After the results of this review are compiled, they are reported to the Board of Directors along with the purpose, book value recorded on the balance sheet, valuation gain or loss, trailing three-year performance and business plan of the business partners, our future holding policy of each shares, and adequacy of each holding.

Those shares determined to lack purpose and validity after the review will be sold while considering the impacts on our business and markets.



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.

Structure for Timely Disclosure

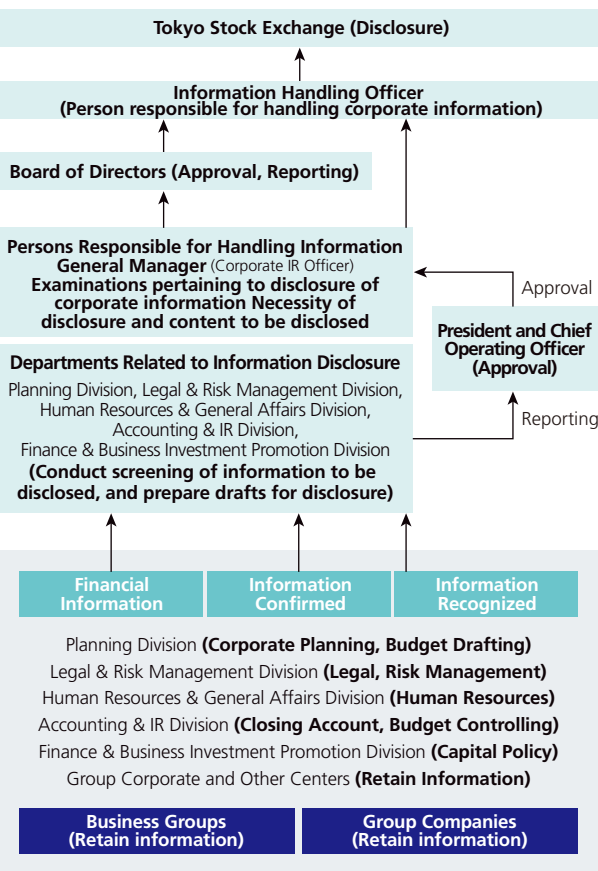
SCSK recognizes that a high level of management transparency is an important component of corporate governance. Also, as a measure to ensure this transparency, the company has established the following system for the disclosure of corporate information. Through this system, we work to disclose information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

- 1: The Planning Division, Legal & Risk Management Division, Human Resources & General Affairs Division, Accounting & IR Division, and Finance & Business Investment Promotion Division 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

Structure for Timely Disclosure



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.

Furthermore, we actively engage in IR activities. As a means to promoting engagement with shareholders and other investors, we hold quarterly briefings on financial results, and plan and conduct briefings as appropriate to deepen understanding about the SCSK’s operations. In FY2020, outside of Japan, many of the conventional investor conferences for institutional investors organized by securities companies were held online due to the impacts of COVID-19. In FY2021, SCSK will take a cautious approach to participating overseas conferences or holding IR meetings outside Japan, but will continue to engage in communication with overseas institutional investors by utilizing online meetings.

Compliance

Basic Approach

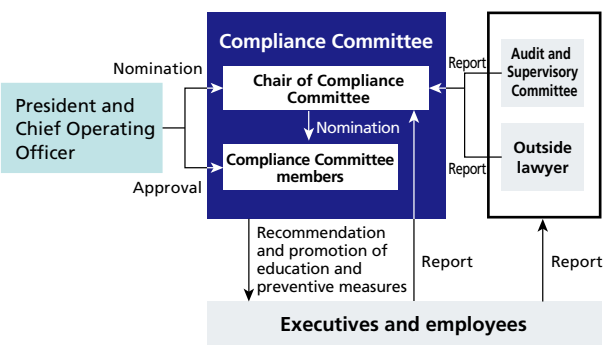
SCSK views compliance as observing laws and regulations, and acting with a high sense of ethics within the norms of society.

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 (or “speak up” system) for quickly resolving compliance violations and preventing such violations from occurring by enabling employees of the SCSK Group and partner companies to report and consult on problems they notice.

Contact Points and Reporting Methods

Employees may report a problem to any of the three following contact points by email or another method at their own discretion.

1. Chair of Compliance Committee
2. Audit and Supervisory Committee
3. Outside lawyer (reports may be anonymous)

Regardless of the point of contact, the privacy of the person filing the report and other related parties is strictly 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.

Investigating Matters

All reports and consultations are handled promptly. Investigation is conducted in cooperation with relevant departments based on policies established by the Chair of the Compliance Committee, when required.

The results of investigations are promptly informed to the whistleblower. 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

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

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

Consistent performance and growth	Increase the consistency of performance and ensure sustainable growth by administering operations so that actual results do not vary from forecasts.
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.

Risk Management System

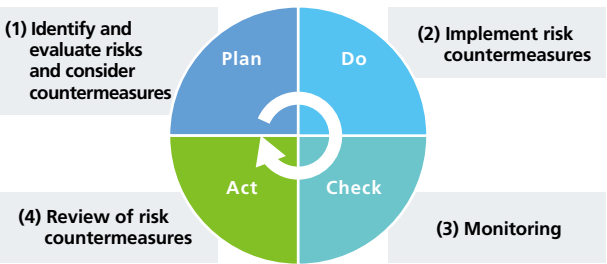
SCSK has established the Risk Management Regulations and the Risk Management Department as a dedicated department in charge of risk management, so that we can appropriately manage risks that could have a serious adverse effect on the SCSK Group's business.

Based on these regulations, we take stock of risks for all organizations including Group companies inside and outside of Japan regularly on an annual basis. The departments responsible for risk and the Risk Management Department jointly gather information on risks both internal and external to identify and evaluate risks facing the Group. Additionally, the Risk Management Department works with the departments responsible for risk so that countermeasures for risks determined to require more focused countermeasures based on evaluation are carried out as important risk management items.

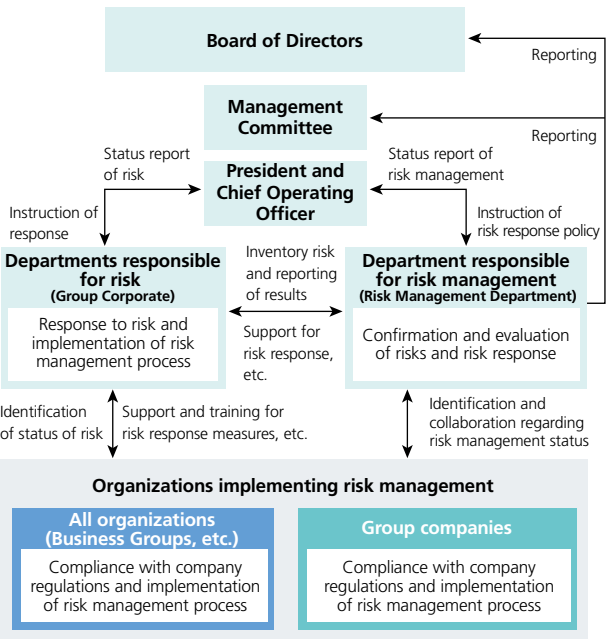
Each division of the Group Corporate is responsible for risks related to their individual operations and duties, and after implementing risk countermeasures based on evaluation, these divisions engage in monitoring of the situation and review of their countermeasures.

The heads of all organizations including Business Groups carry out risk management for their own respective organization through risk management processes.

Risk Management Process



Risk Management System Diagram



The Risk Management Department identifies and evaluates the risk management situation for the entire company so that these risk management activities function appropriately. It also makes reports to the President and Chief Operating Officer regularly to receive instructions on risk response policy as needed. The Risk Management Department also reports on the overall situation of its activities first to the Management Committee and then to the Board of Directors.

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

Initiatives to Strengthen Information Security

Management Frameworks for Information Security

SCSK considers information security to be one of management's top priorities. We have established the Chief Information Security Officer as the person in charge of building the information security structure and information security management system as well as the process for continual improvement.

The President serves as Chief Information Security Officer to increase mutual collaboration among information security related departments and implement information security measures across the entire company in unison with Business Groups.

Initiatives to Strengthen Information Security

Pursuant to our Basic Policy on Information Security, we have established and implemented regulations related to information security such as the Information Security

Management Regulations and the Personal Information Protection Policy. Aimed at further strengthening information security of our frontline operations, we are embedding appropriate operations for each frontline, implementation of security measures and inspections as operating processes into SmartEpisode Plus (SE+), a standard for process implementation during system development and operation.

Our information security training involves not only raising awareness and making regulations known, but also enhancing all employees and officers' awareness of engagement and corporate ethics as an IT services company that handles clients' important information assets.

SCSK is working to strengthen "defensive" information security and to actively address "proactive" information security as an important theme for contributing to "building trust for a safe and secure society" along with improving frontline operational quality and the commercialization of DX.

Response to Security Incidents

SCSK-CSIRT\* System

We have organized SCSK-CSIRT to ensure a prompt response and that minimize damages should a computer security incident occur.

Aimed at appropriate incident response, departments in charge of internal systems and departments responsible for cybersecurity work together to analyze incidents and discuss response policy and methods. They also work alongside external organizations, such as JPCERT and NISC.

Collaboration with related departments such as the Legal Department and Corporate Planning Department enables SCSK-CSIRT to correctly ascertain compliance, legal matters and impacts on business operations.

In this manner, SCSK-CSIRT consolidates information obtained through collaboration with related departments and determines a response promptly based on the degree of impacts.

\*SCSK-CSIRT (Computer Security Incident Response Team): A permanent organization that carries out activities in response to computer security incidents

Initiatives Aimed at Timely Initial Response Responding to Emergencies

To minimize damages should an incident occur, SCSKCSIRT has a system in place for determining the prompt shutdown of systems and restoration. It has also compiled response procedures as a set of rules that it shares internally in order to increase the effectiveness of responses.

Training and Drills

We are conducting information security training using e-learning to prevent damages from cyberattacks and conduct email drill for targeted attack.

In addition, we are carrying out tabletop drills based on incident scenarios so that the SCSK-CSIRT and related departments can collaborate smoothly and implement a swift response.

Response to Vulnerabilities

We have established security countermeasure standards for servers and cloud services accessible from the Internet. In addition, we regularly implement vulnerability analysis for these servers and services and conduct corrective actions.

Board of Directors

Current position(s) of directors as of June 23, 2021



Masao Tabuchi

Representative Director  
Chairman and Chief Executive Officer  
Chief Health Officer

Apr. 1980 Joined Sumitomo Corporation  
Apr. 2008 Corporate Officer of Sumitomo Corporation  
Apr. 2009 Corporate Officer of Sumitomo Corporation  
General Manager, Automotive Division, No.1  
Apr. 2012 Executive Officer of Sumitomo Corporation  
General Manager, Automotive Division, No.1  
Apr. 2013 Executive Officer of Sumitomo Corporation  
General Manager, Ship, Aerospace & Transportation Systems Division  
Apr. 2015 Managing Executive Officer of Sumitomo Corporation  
Chief Strategy Officer, Managing Executive Officer Responsible for Chubu Region  
Jun. 2015 Representative Director of Sumitomo Corporation  
Managing Executive Officer, Chief Strategy Officer, Managing Executive Officer Responsible for Chubu Region  
Apr. 2016 Representative Director of Sumitomo Corporation  
Managing Executive Officer  
Chief Strategy Officer  
Apr. 2017 Representative Director of Sumitomo Corporation  
Senior Managing Executive Officer, Chief Strategy Officer and Chief Information Officer  
Apr. 2018 Representative Director of Sumitomo Corporation  
Assistant to President and CEO  
Concurrent position as Advisor of SCSK  
Jun. 2018 Representative Director of SCSK  
Chairman and Chief Executive Officer  
Apr. 2019 Representative Director of SCSK  
Chairman and Chief Executive Officer  
Chief Health Officer  
Apr. 2021 Representative Director of SCSK (present)  
Chairman and Chief Executive Officer (present)  
Chief Health Officer (present)



Tetsuya Fukunaga

Director  
Senior Managing Executive Officer  
General Manager, Finance & Accounting  
General Manager, Finance & Business Investment Promotion Division

Apr. 1983 Joined The Long-Term Credit Bank of Japan, Ltd.  
Oct. 1999 Vice President, Corporate & Investment Banking Group, Chase Manhattan Bank  
Jun. 2000 CFO, Lycos Japan Inc.  
Dec. 2002 Adviser to Sumisho Electronics Co., Ltd.  
Feb. 2003 Director of Sumisho Electronics Co., Ltd.,  
Managing Executive Officer  
Apr. 2005 Executive Officer of SCSK  
Concurrent position as Director of Sumisho Electronics Co., Ltd.  
Jun. 2005 Director of SCSK, Executive Officer  
Apr. 2008 Director of SCSK, Managing Executive Officer  
Jun. 2008 Concurrent position as Outside Director of ARGO GRAPHICS Inc. (present)  
Apr. 2014 Director of SCSK,  
Senior Managing Executive Officer  
Apr. 2017 Director of SCSK, Executive Officer  
Chief Financial Officer  
Jun. 2017 Director of SCSK  
Apr. 2019 Senior Managing Executive Officer  
Director of SCSK  
Senior Managing Executive Officer  
Corporate Coordination Officer  
Apr. 2020 Director of SCSK  
Senior Managing Executive Officer  
Apr. 2021 Director of SCSK (present)  
Senior Managing Executive Officer (present)  
General Manager, Finance & Accounting (present)  
General Manager, Finance & Business Investment Promotion Division (present)



Toru Tanihara

Representative Director  
President and Chief Operating Officer  
Chief Information Security Officer

Apr. 1982 Joined COMPUTER SERVICE CORPORATION  
Jun. 2003 Executive Officer of CSK CORPORATION  
Oct. 2005 Executive Officer of CSK SYSTEMS CORPORATION  
Jun. 2007 Representative President of CSK-IT MANAGEMENT CORPORATION  
Mar. 2009 Executive Officer of CSK HOLDINGS CORPORATION  
Oct. 2010 Senior Managing Executive Officer of CSK CORPORATION  
Oct. 2011 Director of SCSK  
Senior Managing Executive Officer  
Apr. 2016 Representative Director & President of SCSK  
Apr. 2017 Representative Director of SCSK  
Jun. 2018 President and Chief Operating Officer  
Apr. 2021 Representative Director of SCSK (present)  
President and Chief Operating Officer (present)  
Chief Information Security Officer (present)



Kei Kato

Director  
Senior Managing Executive Officer  
Senior General Manager, Global Digital Solution & Innovation Business Group

Apr. 1982 Joined Sumitomo Corporation  
Apr. 2008 General Manager, Lease Business Department, Financial Service Division, Sumitomo Corporation  
Apr. 2012 Assistant General Manager, Financial Service Division, Sumitomo Corporation  
Nov. 2012 Assistant to General Manager for the Americas, Sumitomo Corporation  
May.2015 General Manager, Business Development Group in Sumitomo Corporation of Americas Group, Sumitomo Corporation of Americas  
Assistant General Manager for the Americas  
Apr. 2018 Corporate Officer of Sumitomo Corporation  
Assistant to General Manager, ICT Business Division  
Concurrent position as Managing Executive Officer of SCSK  
Oct. 2018 Corporate Officer of Sumitomo Corporation  
Assistant to General Manager, Digital Business Division  
Apr. 2019 Concurrent position as Senior Managing Executive Officer of SCSK  
Jun. 2019 Concurrent position as Director and Senior Managing Executive Officer of SCSK  
Aug.2020 Director of SCSK  
Apr. 2021 Senior Managing Executive Officer  
Director of SCSK (present)  
Senior General Manager, Global Digital Solution & Innovation Business Group (present)



Koji Tamefusa

Director  
Executive Vice President  
General Manager, Planning, Legal & Risk Management

Apr. 1983 Joined Sumitomo Corporation  
Apr. 2012 Corporate Officer of Sumitomo Corporation  
General Manager, New Industry Development & Cross-function Business Unit  
Apr. 2013 Corporate Officer of Sumitomo Corporation  
Assistant General Manager for Europe, Middle East, Africa & CIS  
General Manager, European Corporate Management Unit, Sumitomo Corporation  
Europe Group  
Apr. 2016 Corporate Officer of Sumitomo Corporation  
General Manager, Risk Management Department No. 5  
Apr. 2017 Executive Officer of Sumitomo Corporation  
Assistant to CFO  
May.2017 Executive Officer of Sumitomo Corporation  
Assistant to General Manager, Media, Network, Lifestyle Related Goods & Services Business Unit  
Jun. 2017 Concurrent position as Director and Senior Managing Executive Officer of SCSK  
Apr. 2019 Managing Executive Officer of Sumitomo Corporation  
Assistant CFO, Risk Management  
Concurrent position as Director of SCSK  
Jul. 2019 Managing Executive Officer of Sumitomo Corporation  
Assistant CFO, Risk Management  
Apr. 2021 Senior Managing Executive Officer of Sumitomo Corporation  
Assistant to General Manager, Media & Digital Business Unit  
Concurrent position as Executive Vice President of SCSK  
Concurrent position as General Manager, Planning, Legal & Risk Management  
Jun. 2021 Director of SCSK (present)  
Executive Vice President (present)  
General Manager, Planning, Legal & Risk Management (present)



Bin Haga

Director

Apr. 1986 Joined Sumitomo Corporation  
Oct. 2009 General Manager, Ship & Marine Project Department No. 2; Ship, Aerospace & Transportation Systems Division; Transportation & Construction Systems Business Unit; Sumitomo Corporation  
Apr. 2014 General Manager, Transportation Systems Unit in Sumitomo Corporation Europe Group, Sumitomo Corporation Europe Limited  
Apr. 2015 Corporate Officer of Sumitomo Corporation  
Chief Operating Officer, Sumitomo Corporation Europe Limited  
Apr. 2016 Corporate Officer of Sumitomo Corporation  
Chairman and Managing Director, Sumitomo Corporation Europe Limited  
Apr. 2017 Executive Officer of Sumitomo Corporation  
Chairman and Managing Director, Sumitomo Corporation Europe Limited  
Apr. 2018 Executive Officer of Sumitomo Corporation  
General Manager, Corporate Planning & Coordination Department  
Apr. 2020 Managing Executive Officer of Sumitomo Corporation (present)  
Assistant General Manager, Media & Digital Business Unit (present)  
Jun. 2020 General Manager, Digital Business Division (present)  
Concurrent position as Director of SCSK (present)



Kiyoto Matsuda

Outside Director  
Independent Director  
Chairman of the Board

Apr. 1975 Joined The Industrial Bank of Japan, Ltd.  
Apr. 2002 Executive Officer of Mizuho Corporate Bank, Ltd.  
Apr. 2004 Managing Executive Officer of Mizuho Corporate Bank, Ltd. (resigned in March 2007)  
Apr. 2007 Deputy President of Mizuho Securities Co., Ltd. (resigned in March 2008)  
Apr. 2008 Partner of Unison Capital, Inc. (resigned in March 2018)  
Mar. 2010 Outside Director of SANYO SHOKAI LTD. (resigned in May 2020)  
Dec. 2012 Chairman of the Board of TOPAZ CAPITAL, INC. (present)  
Jun. 2017 Outside Director of SCSK (present)  
Mar. 2018 Outside Director of Hotta Link Inc. (present)  
Jun. 2019 Outside Director of SURUGA bank Ltd. (present)



Kimitoshi Yabuki

Outside Director (Audit and Supervisory Committee Member)  
Independent Director

Apr. 1987 Joined Nagashima & Ohno  
May.1996 Partner of Yabuki Law Offices (present)  
Jun. 2008 Outside Director of Eisai Co., Ltd.  
Apr. 2010 Professor at Graduate School of International Corporate Strategy, Hitotsubashi University  
Jun. 2013 Outside Audit & Supervisory Board Member of Ricoh Company, Ltd.  
Jul. 2015 Outside Director of Sumitomo Life Insurance Company  
Jun. 2017 Outside Director (Audit and Supervisory Committee Member) of SCSK (present)  
Apr. 2021 President, Tokyo Bar Association (present)



Tetsuya Kubo

Outside Director  
Independent Director

Apr. 1976 Joined The Sumitomo Bank, Ltd.  
Jun. 2003 Executive Officer of Sumitomo Mitsui Banking Corporation  
General Manager, Hong Kong Branch  
Jul. 2006 Managing Executive Officer of Sumitomo Mitsui Banking Corporation  
Apr. 2008 Concurrent position as Managing Executive Officer of Sumitomo Mitsui Financial Group, Inc.  
Apr. 2009 Director and Senior Managing Executive Officer of Sumitomo Mitsui Banking Corporation  
Concurrent position as Senior Managing Executive Officer of Sumitomo Mitsui Financial Group, Inc.  
Apr. 2011 Director and Deputy President of Sumitomo Mitsui Banking Corporation (resigned in March 2013)  
Concurrent position as Deputy President and Executive Officer of Sumitomo Mitsui Financial Group, Inc.  
Concurrent position as Director of SMBC Nikko Securities Inc.  
Jun. 2011 Concurrent position as Director of Sumitomo Mitsui Financial Group, Inc. (resigned in March 2013)  
Apr. 2013 Representative Director, President & CEO of SMBC Nikko Securities Inc.  
Apr. 2016 Representative Director, Chairman of SMBC Nikko Securities Inc.  
Jun. 2016 Director of Sumitomo Mitsui Financial Group, Inc. (resigned in June 2020)  
Concurrent position as Representative Director, Chairman of SMBC Nikko Securities Inc. (resigned in March 2020)  
Apr. 2020 Advisor of SMBC Nikko Securities Inc.  
Jan. 2021 Director, Chairman of GCM Investments Japan K.K. (present)  
Jun. 2021 Outside Director of SCSK (present)



Masaichi Nakamura

Outside Director (Audit and Supervisory Committee Member)  
Independent Director

Oct. 1983 Joined Tetsuzo Ota & Co  
May.1999 Employee of Showa Ota & Co  
Aug.2008 Executive Director of Ernst & Young ShinNihon LLC  
Jul. 2014 Representative and Vice Director of Ernst & Young ShinNihon LLC  
Sep. 2016 Representative of Masaichi Nakamura CPA Office (present)  
Jun. 2017 Outside Director (Audit and Supervisory Committee Member) of SCSK (present)  
External Corporate Auditor of Sumitomo Heavy Industries, Ltd. (present)  
Jun. 2019 Outside Director (Audit/Supervisory Committee Member) of Terumo Corporation (present)



Yasunori Anzai

Director (Audit and Supervisory Committee Member)

Apr. 1981 Joined Sumitomo Corporation  
Jun. 2012 General Manager, Corporate Auditors' Administration Department, Sumitomo Corporation  
Jun. 2017 Assistant General Manager, Media, Network, Lifestyle Related Goods & Services Business Unit, Sumitomo Corporation  
Concurrent position as Director (Audit and Supervisory Committee Member) of SCSK  
Apr. 2018 Assistant General Manager, Media & ICT Business Unit, Sumitomo Corporation  
Oct. 2018 Assistant General Manager, Media & Digital Business Unit, Sumitomo Corporation  
Aug.2020 Director (Audit and Supervisory Committee Member) of SCSK (present)



Kazuko Shiraishi

Outside Director (Audit and Supervisory Committee Member)  
Independent Director

Apr. 1974 Entered the Ministry of Foreign Affairs  
Aug.1997 First Secretary, Embassy of Japan in Poland  
Jan. 2001 Consul General, Consulate-General of Japan in Atlanta  
Jun. 2003 General Manager, International Economic Treaty Office, International Economic Treaty Agreement Division, Treaty Bureau  
Sep. 2004 Policy Coordinator, Policy Coordination Division, Foreign Policy Bureau  
Oct. 2005 General Manager, WTO Dispute Settlement Division, International Trade Division, Economic Affairs Bureau  
Apr. 2007 Councilor, Embassy of Japan in Poland  
Jan. 2012 Ambassador Extraordinary and Plenipotentiary to Lithuania  
Jun. 2015 Ambassador for Women, Human Rights and Humanitarian Affairs and Ambassador in Charge of Arctic Affairs  
Jun. 2016 Ambassador in Charge of Arctic Affairs, Ministry of Foreign Affairs  
Jun. 2018 Outside Director (Audit and Supervisory Committee Member) of SCSK (present)  
Mar.2019 External Director of MODEC, Inc. (present)



Executive Officers and Senior Corporate Officers

Current position(s) of directors as of June 23, 2021

Chairman and Chief Executive Officer	Masao Tabuchi	Senior Corporate Officer	Koichi Naito Yoshinori Kawashima Akihiko Harima Takayuki Okuhara Tadashi Miyagawa Takaya Yamamoto Koji Watanabe Toshihiko Mitsuishi Yukihiko Saito Mineo Yokoyama Hiroyuki Komiya Kan Takahashi Akira Yamano Ken Takano Masahiro Otani Tomishige Tamura Masaaki Mori Takaaki Ishida Eri Kawanabe Hiroyuki Miyagawa Junichi Horie Kenji Toda Shoji Shiuchi Kenji Ichiba Shu Wei	Shunichiro Fukushima Tomoo Kawana Ikuo Uchiyama Shinji Miyanishi Toshihiko Kusakabe Osamu Kubo Yoshinari Kobayashi Yousuke Tsutaya Masaki Komine Tomoyuki Naruke Masayuki Tanabe Hideya Nakashima Yoshihiro Jinbo Toshiyuki Takahashi Mitsuru Oosawa Hideho Masuda Seiji Sato
President and Chief Operating Officer	Toru Tanihara			
Executive Vice President	Masatoshi Endo Koji Tamefusa			
Senior Managing Executive Officer	Tatsuyasu Kumazaki Tetsuya Fukunaga Kei Kato			
Managing Executive Officer	Toshiaki Kudo Tetsuya Ueda Hideki Tazai Atsushi Innami Makoto Nakamura Atsushi Watanabe Takashi Shinjo Yasushi Shimizu Takaaki Tuma Yasuo Sugahara Hisanao Takei Yoshiyuki Shinbori Shigehiro Seki Yasuhiko Oka			

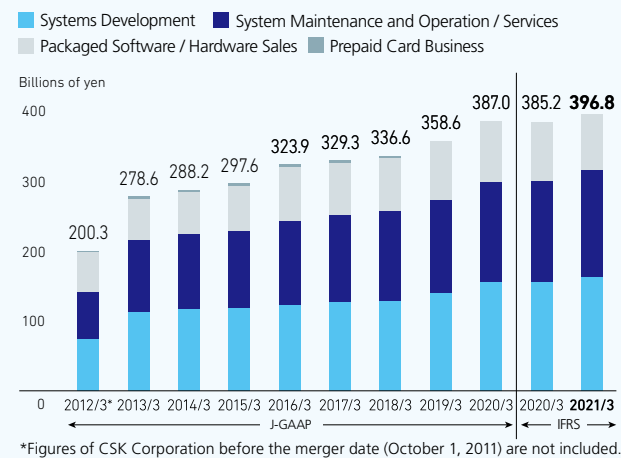


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# Financial and Non-Financial Highlights

## Net Sales

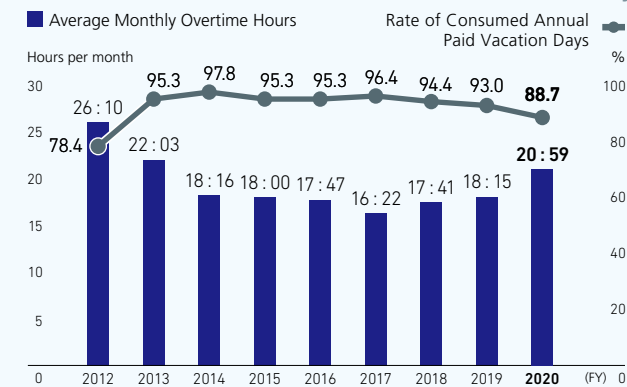


Under the Medium-Term Management Plan (FY2012 to FY2014) after the merger in October 2011, the Group capitalized on the expanded client base from the merger to promote cross-selling of services where both companies excel and increased sales. Under the Medium-Term Management Plan (FY2015 to FY2019), the Group transformed the business structure into a non-labor-intensive business model and achieved a compound annual growth rate of 5.4% for sales and 8.6% for operating profit. In FY2020, the first year of the Medium-Term Management Plan (FY2020 to FY2022), despite business activities being restricted by COVID-19, the Group achieved sales and profit growth for the ninth consecutive year since the merger, recording net sales of ¥396.8 billion, up 3.0% year on year, and operating profit of ¥45.8 billion, up 14.6% year on year, mainly due to further increase in demand for IT investment at client companies.

## Operating Profit / Operating Profit Margin

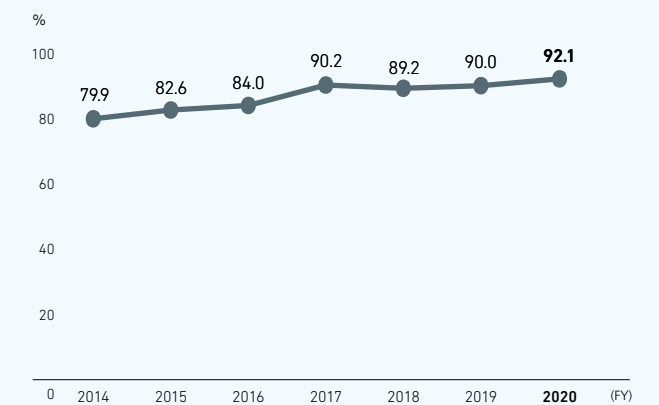


## Average Monthly Overtime Hours / Rate of Consumed Annual Paid Vacation Days



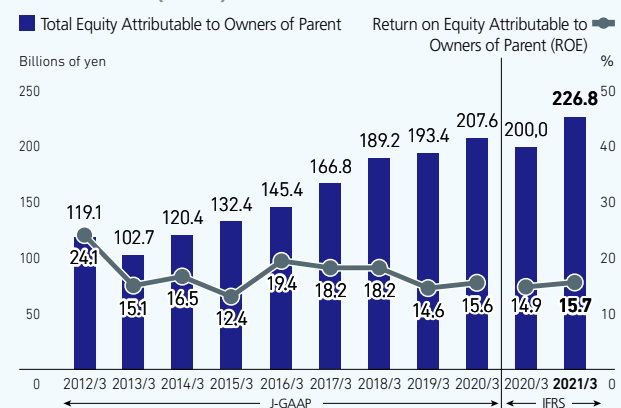
We tackled the challenge of working style reforms mainly intended to reduce average monthly overtime hours and improve the rate of consumed annual paid vacation days. We achieved significant results through strong leadership messages from top management and creativity at each workplace.

## Employee Satisfaction



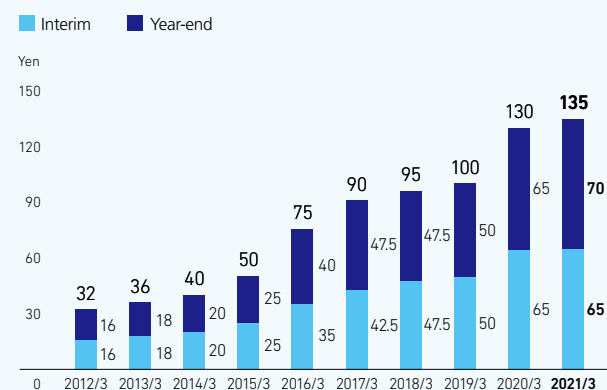
As a result of promoting working style reforms, improving work-life balance, and implementing diversity and inclusion measures to take advantage of diverse human resources, we have maintained employee satisfaction at a high level.

## Total Equity Attributable to Owners of Parent / Return on Equity Attributable to Owners of Parent (ROE)



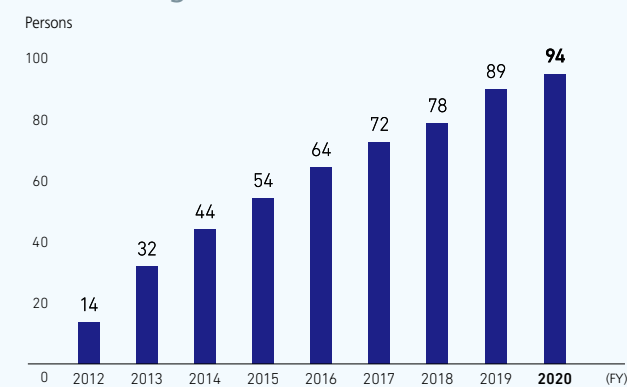
Backed by strong business results, total equity attributable to owners of parent has increased for eight consecutive years, except for FY2012 when it decreased owing to redemption of preferred shares. ROE during this period has also been maintained well above the industry standard of 9.2% due to the pursuit of management focused on capital efficiency.

## Cash Dividend per Share



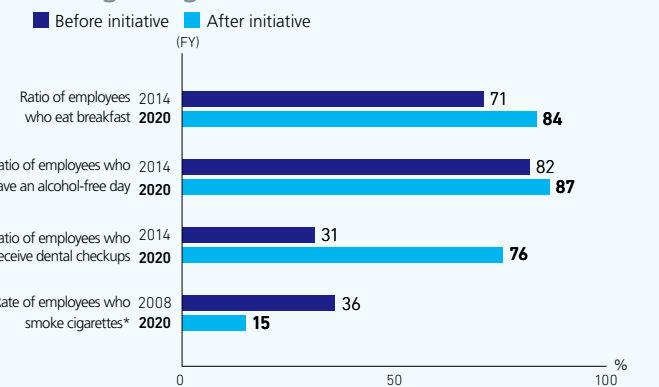
We have continued to provide dividends in line with increases in business results. The full-year dividend for FY2020 was ¥135 per share, a ¥5 increase from the previous fiscal year. This was the ninth consecutive year we have increased the dividend, and the dividend per share has increased around four-fold from ¥32 in FY2011 when the companies first merged.

## Number of Female Executives and Line Managers



Aiming to be a company that empowers women, we are training female executives and line managers, as well as promoting career development that addresses the challenges faced by each generation of female employees. Furthermore, from FY2021, we have set targets\* for the ratio of women in general manager positions and the number of female human resources with extremely advanced specializations.  
\*See page 58 for the numerical targets.

## Behavioral Changes from the Kenko Waku Waku Mileage Program



As a result of our initiatives that encourage employees to make better health related choices using the Kenko Waku Waku Mileage Program introduced in FY2015 as an all-hands-on-deck health promotion initiative, the changes have become embedded as habitual health related choices for many employees.

\*The rate of employees who smoke cigarettes compares with the figures before the smoke cessation program was implemented prior to the Kenko Waku Waku Mileage Program.

## Total Shareholder Return (TSR)



\*October 3, 2011 indexed as 100

Main Financial Data

Consolidated Management Indicators

J-GAAP						IFRS		(Unit: millions of yen)		(Unit: US \$ 1,000)		
Income Statements	2012/3*1	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2020/3	2021/3	2021/3*6
Net sales	200,326	278,634	288,236	297,633	323,945	329,303	336,654	358,654	387,003	385,295	396,853	3,584,621
Systems Development	73,811	112,316	117,597	117,843	124,470	127,051	128,387	140,092	155,835	156,190	163,090	1,473,135
System Maintenance and Operation / Services	68,296	104,284	107,577	110,720	119,170	125,802	129,071	134,132	143,429	143,410	152,518	1,377,641
Packaged Software / Hardware Sales	56,496	58,731	60,019	65,691	77,087	73,147	76,247	84,430	87,738	85,694	81,243	733,844
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	97,954	97,192	102,969	930,080
Gross profit margin (%)	23.1	23.1	23.8	24.3	24.1	24.8	24.8	24.7	25.3	25.2	25.9	25.9
SG&A expenses*3	33,490	43,663	44,749	44,466	46,235	48,040	48,953	50,363	55,628	57,144	57,090	515,680
Operating profit	12,879	20,803	23,974	28,003	31,785	33,714	34,602	38,378	42,326	40,048	45,878	414,400
Operating profit margin (%)	6.4	7.5	8.3	9.4	9.8	10.2	10.3	10.7	10.9	10.4	11.6	11.6
Ordinary profit	16,659	22,228	25,690	30,667	33,610	36,121	36,291	38,650	43,014	—	—	—
Profit attributable to owners of parent	25,669	16,730	18,387	15,638	26,956	28,458	32,488	27,892	31,201	28,765	33,435	302,010
(Unit: millions of yen) (Unit: US \$ 1,000)												
Cash Flows												
Cash flows from operating activities	22,249	25,156	35,342	29,707	34,730	37,161	37,096	33,511	48,950	55,710	50,219	453,614
Cash flows from investing activities	(8,112)	(249)	(26,045)	5,166	(9,473)	(11,982)	(35,394)	(7,163)	(27,338)	(27,484)	(20,586)	(185,953)
Free cash flows	14,137	24,907	9,297	34,873	25,257	25,178	1,702	26,348	21,612	28,226	29,633	267,661
Cash flows from financing activities	(7,965)	(5,512)	(33,739)	(8,395)	(12,338)	476	(25,763)	(19,995)	(16,309)	(22,923)	(32,488)	(293,457)
Cash and cash equivalents at end of period	63,661	83,247	59,004	85,713	98,445	123,935	99,797	106,198	111,695	111,695	108,768	982,464
(Unit: millions of yen) (Unit: US \$ 1,000)												
Financial Position												
Total assets	300,928	322,828	317,932	334,290	352,676	389,537	303,914	314,844	342,485	362,241	380,399	3,436,000
Total equity	124,419	108,208	126,159	138,536	151,546	173,674	196,600	194,468	208,072	200,405	227,338	2,053,462
Equity attributable to owners of parent	119,189	102,799	120,488	132,458	145,420	166,897	189,214	193,412	207,681	200,047	226,874	2,049,269
Interest-bearing debt + preferred shares **4	84,860	84,860	57,000	55,000	50,000	60,000	45,000	55,000	55,400	55,000	45,100	407,370
(Unit: yen) (Unit: US \$)												
Pre-share Information												
BPS	860.37	991.48	1,161.29	1,276.37	1,401.00	1,607.74	1,822.54	1,862.78	2,000.16	1,922.55	2,180.31	19.69
EPS	334.19	161.39	177.26	150.71	259.72	274.16	312.95	268.64	300.50	276.38	321.26	2.90
Annual dividend per share	32	36	40	50	75	90	95	100	130	130	135	1.21
Major Indicators												
Return on equity attributable to owners of parent (%)	24.1	15.1	16.5	12.4	19.4	18.2	18.2	14.6	15.6	14.9	15.7	15.7
Ordinary profit to assets ratio (ROA) (%)	7.9	7.1	8.0	9.4	9.8	9.7	10.5	12.5	13.1	—	—	—
Profit before tax to total assets ratio (ROA) (%)	—	—	—	—	—	—	—	—	—	11.7	12.5	12.5
Equity attributable to owners of parent ratio (%)	39.6	31.8	37.9	39.6	41.2	42.8	62.3	61.4	60.6	55.2	59.6	59.6
Debt / Equity ratio (times)	0.46	0.83	0.47	0.42	0.34	0.36	0.24	0.28	0.27	0.28	0.20	0.20
Number of employees	11,995	11,797	11,689	11,754	11,769	11,910	12,054	12,365	13,979	13,979	14,550	14,550
Capital expenditures (millions of yen)	7,954	10,219	9,441	14,842	12,046	15,335	15,588	15,163	13,604	20,759	38,972	\$352,024K
Depreciation and amortization (millions of yen)	5,380	6,690	6,841	6,865	8,003	8,972	11,245	10,530	10,358	17,303	18,437	\$166,535K
R&D expenses (millions of yen)	417	566	449	267	117	266	280	725	1,190	1,190	874	\$7,896K
Stock prices (yen)	1,312	1,835	2,781	3,365	4,400	4,420	4,595	4,935	4,815	4,815	6,560	\$59.25
Price-book ratio (PBR) (times)	1.5	1.9	2.4	2.6	3.1	2.7	2.5	2.6	2.4	2.5	3.0	3.0
Price-earnings ratio (PER) (times)	3.9	11.4	15.7	22.3	16.9	16.1	14.7	18.4	16.0	17.4	20.4	20.4
Total shareholder return (TSR) (%) *5	107.3	152.4	232.1	283.3	372.9	381.8	403.6	439.2	440.0	440.0	592.0	592.0

\*1 Figures of CSK Corporation 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 After transition to IFRS, values are presented including the other income and expenses.  
\*4 The figure as of March 31, 2012 includes ¥30.0 billion of preferred stock assumed by the company in FY2011 as a result of the merger with CSK Corporation.All of this preferred stock was 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. Interest-bearing debt is debt on which interest is paid excluding lease obligations.  
\*5 Calculated with the merger date (October 1, 2011) as 100%.

\*6 Solely for the convenience of the reader, the figures in Japanese yen have been translated into U.S. dollars at the rate of ¥110.71, the prevailing exchange rate at March 31, 2021. This translation should not be construed as a representation that the figures shown could be converted into U.S. dollars.



# Management’s Discussion and Analysis

## I. OVERVIEW OF RESULTS

### 1. Economic and Industry Trends

In the fiscal year ended March 31, 2021, the Japanese economy continued to recover as corporate business sentiment showed improvements. This recovery was seen regardless of the persistently challenging operating environment stemming from the global COVID-19 pandemic.

The Japanese economy is anticipated to continue to recover as the effects of various policies and improvements in overseas economies take place in tandem with measures for preventing the spread of COVID-19. However, there is a need for careful monitoring of the trends surrounding the pandemic in Japan and overseas along with scrutiny and decisiveness when judging economic trends for the purpose of making management decisions going forward.

In this economic environment, the IT services market was affected by disparities between the investment trends of clients due to the impacts of the COVID-19 pandemic. Regardless, clients continued to exhibit appetites for IT investment for purposes such as exploring the new normal and for redeveloping systems in preparation for digital transformations.

Regarding trends among our group’s client companies, manufacturing companies began to see a recovery in their business, and demand for next-generation system development and system upgrades emerged. At the same time, they continued to be motivated to invest in strategic business-related areas. As a result, IT investment demand trended upward.

In the distribution industry, conditions were firm, supported by core system redevelopment and other IT investment demand.

In the financial industry, there were increases in managed service demand and in IT development demand for the purpose of reinforcing and growing overseas operations in a manner that contributes to future business enhancement and expansion.

In addition, demand has been consistent for cloud-based IT services as well as for core system redevelopment projects for addressing software approaching the end of service periods. The backdrop for this demand was characterized by a strong appetite for investment for heightening operational efficiency and productivity and by shortages of in-house IT engineers at client companies.

Meanwhile, the digitization trend is accelerating in response to the new normal emerging amid the COVID-19 pandemic, as seen in moves to accommodate remote work and other non-face-to-face and contact-free workstyles. Looking ahead, strategic IT investment, particularly investment for enhancing client contacts points and redeveloping systems in preparation for digital transformations, is expected to continue.

### 2. Consolidated Results

In the fiscal year ended March 31, 2021, net sales increased 3.0% year on year, to ¥396,853 million. Although Packaged Software/Hardware Sales System sales declined, systems development, maintenance, and operation service sales were up.

Gross profit was up as a result of higher net sales and reductions in unprofitable projects, etc. Selling, general and administrative (SG&A) expenses were relatively unchanged year on year mainly due to a decrease in one-time expenses in the previous fiscal year, despite an increase in personnel expenses, etc. by an increase in the number of employees and the introduction of a new personnel system. As a result of the above, operating profit was up 14.6% year on year, to ¥45,878 million.

Profit attributable to owners of parent increased 16.2% year on year, to ¥33,435 million, as a result of the rise in operating profit as well as a decrease in corporate income taxes associated with tax exemptions for wage increases.

## II. OVERVIEW OF RESULTS BY REPORTABLE SEGMENT

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

For the fiscal year ended March 31	Millions of yen					
	2020		2021		Comparison with previous fiscal year	
	Net sales	Segment profit	Net sales	Segment profit	Net sales	Segment profit
Industrial IT Business	¥130,320	¥14,522	¥131,772	¥16,132	¥ 1,452	¥1,610
Financial IT Business	52,918	5,554	52,768	6,243	(150)	688
IT Business Solutions	52,121	4,869	54,783	5,583	2,661	714
IT Platform Solutions	90,397	10,186	82,931	11,298	(7,465)	1,111
IT Management Service	54,250	7,079	58,242	7,321	3,992	242
Others	5,404	(70)	16,362	1,285	10,958	1,355
Adjustments	(117)	(2,094)	(7)	(1,987)	109	107
Total	¥385,295	¥40,048	¥396,853	¥45,878	¥11,557	¥5,829

### ■ Industrial IT Business

In addition to the decline in verification services, the number of projects in the transportation, real estate, and power and gas industries shrank. However, system development increased in the manufacturing industry, including the automobile, food, and other industries, and in the communications industry. As a result, net sales increased 1.1% year on year to ¥131,772 million. Segment profit increased 11.1%, to ¥16,132 million, due to the higher sales and the benefits of reductions in unprofitable projects achieved in the previous fiscal year.

### ■ Financial IT Business

Net sales were relatively unchanged year on year, at ¥52,768 million, because projects for securities industry clients declined after peaking, a factor that counteracted the increase in systems development projects for banking industry clients. Segment profit, meanwhile, increased 12.4%, to ¥6,243 million, as profit was buoyed by the benefits of reductions in unprofitable projects achieved in the previous fiscal year.

### ■ IT Business Solutions

Net sales were up 5.1% year on year, to ¥54,783 million, and segment profit rose 14.7%, to ¥5,583 million, due to the strong performance of business process outsourcing (BPO) operations.

### ■ IT Platform Solutions

Net sales decreased 8.3% year on year, to ¥82,931 million, due to a decrease in sales of hardware to the manufacturing industry and delays in the development of next-generation network equipment for communications industry. Segment profit rose 10.9%, to ¥11,298 million, due to an increase in demand for network products and security products, which have relatively high profit margins.

### ■ IT Management Service

Net sales were up 7.4% year on year, to ¥58,242 million, and segment profit grew 3.4%, to ¥7,321 million, as a result of the strong performance of managed services for the manufacturing and financial industries.

### ■ Others

Due to the impacts of newly consolidated subsidiaries, net sales rose 202.8% year on year, to ¥16,362 million, while segment profit of ¥1,285 million was recorded, compared with segment loss of ¥70 million in the previous fiscal year.

III. NET SALES BY SEGMENT

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

For the fiscal year ended March 31	Millions of yen					
	2020		2021		Comparison with previous fiscal year	
	Amount	Share (%)	Amount	Share (%)	Amount	Change (%)
Systems Development	¥156,190	40.5	¥163,090	41.1	¥ 6,900	4.4
System Maintenance and Operation/Services	143,410	37.2	152,518	38.4	9,107	6.4
Packaged Software/Hardware Sales	85,694	22.2	81,243	20.5	(4,450)	(5.2)
Total	¥385,295	100.0	¥396,853	100.0	¥11,557	3.0

In Systems Development, net sales increased 4.4% year on year, to ¥163,090 million. Factors behind this increase included contributions from IT investment aimed at enhancing customer contact points, strategic business investment, and core system redevelopment projects. These factors were seen amid continuously brisk IT investment demand from the manufacturing, distribution, communications, and transportation industries.

In System Maintenance and Operation/Services, net sales increased 6.4% year on year, to ¥152,518 million. Despite a decrease in verification services, this increase was achieved on the back of expansion of managed services and consistently

strong performance in BPO businesses fueled by rising contact center demand.

In Packaged Software/Hardware Sales, net sales decreased 5.2% year on year, to ¥81,243 million due to a decrease in sales of server, storage and other hardware products for the automobile industry and a decrease in sales due to delays in the development of next-generation networking models for the communications industry, despite an expansion in demand for network products and security products and an increase in sales of network equipment to the communications industry in the aftermath of the COVID-19.

IV. FINANCIAL POSITION

Assets, Liabilities and Equity

■ Assets

Assets as of March 31, 2021 were ¥380,399 million, an increase of ¥18,157 million compared to March 31, 2020.

■ Liabilities

Liabilities as of March 31, 2021 were ¥153,060 million, a decrease of ¥8,774 million compared to March 31, 2020.

■ Equity

Equity as of March 31, 2021 was ¥227,338 million, an increase of ¥26,932 million compared to March 31, 2020.

The main factors behind this increase were profit attributable to owners of parent, in the amount of ¥33,435 million and remeasurements of net defined benefit liabilities (assets) of ¥6,167 million.

Factors that decreased equity included dividend payments of ¥6,763 million (¥65.00 per share, including a ¥10.00 per share dividend commemorating the Company's 50th anniversary) for the year-end dividend of the fiscal year ended March 31, 2020 and dividend payments of ¥6,763 million (¥65.00 per share) for the interim dividend of the fiscal year ended March 31, 2021.

V. CASH FLOWS

Cash and cash equivalents ("cash") as of March 31, 2021, decreased ¥2,927 million compared to March 31, 2020, to ¥108,768 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 ¥50,219 million (decreased ¥5,490 million in comparison to the previous fiscal year).

The main cash inflow factors were profit before income taxes of ¥46,557 million, depreciation of ¥18,433 million, a decrease in inventories of ¥2,348 million, and an increase in contract liabilities of ¥1,974 million. The main cash outflow factors were an increase in trade and other receivables of ¥3,211 million, a decrease in trade and other payables of ¥3,049 million, a decrease in employee benefits of ¥1,132 million, and income taxes paid of ¥7,684 million.

■ Cash Flows from Investing Activities

Net cash used in investing activities was ¥20,586 million (up ¥6,898 million in comparison to the previous fiscal year).

The main cash outflow factors were payment for the purchase of property, plant and equipment of ¥12,710 million, purchase of intangible assets of ¥4,554 million, and purchase of other financial assets of ¥2,350 million.

■ Cash Flows from Financing Activities

Net cash used in financing activities was ¥32,488 million (down ¥9,565 million in comparison to the previous fiscal year).

The main cash inflow factor is proceeds from long-term debt of ¥15,600 million.

The main cash outflow factors were payments for repayments of loans and redemption of bonds of ¥25,900 million, repayments of lease liabilities of ¥8,590 million, dividend payments of ¥6,763 million (¥65.0 per share) for the year-end dividend of the fiscal year ended March 31, 2020, and ¥6,763 million (¥65.0 per share) for the interim dividend of the fiscal year ended March 31, 2021.

■ Liquidity and Capital Resource

Basic Policy and Capital Requirements

The Group has been advancing the aforementioned core strategies under the Medium-Term Management Plan in order to transform its business structure, thereby achieving strong growth and high profitability over the medium term, amid a paradigm shift currently underway in technologies and other major changes, such as increasingly sophisticated customer requirements. The Group plans to invest in software and datacenters while advancing its existing businesses further, and

is proactively examining investments in business development on various fronts in order to facilitate digital transformation as a business, including the use of IoT and AI technologies. Moreover, the Group has been continuously acquiring cutting-edge technologies, strengthening its customer base, and considering M&As that will accelerate business growth.

Capital Procurement

The Group plans to use its own funds generated by the cash flow from operating activities to primarily 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 ¥85,643 million as of March 31, 2021 through bank loans and the issuance of bonds and suchlike. In comparison, cash and cash equivalents stood at ¥108,768 million, surpassing the amount of interest-bearing debt, underscoring the Group's 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.

Allocation of Management Resources and Approach to Shareholder Returns

With regard to working capital in hand, the Group has introduced a Cash Management System (CMS) at the Company and its domestic consolidated subsidiaries. Under this CMS, the Group pools surplus funds from 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 businesses related to digital transformation, a business area 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 our envisaged growth in earnings.

# Business Risks

The following risks could potentially have a significant impact on SCSK Group's business, operating results and/or financial position. Matters in this section regarding future developments are based on the Company's judgment as of March 31, 2021.

Although some countries overseas have succeeded in controlling an increase in people newly infected, COVID-19 trends in Japan and overseas still need to be closely monitored. There is a possibility that the COVID-19 pandemic may have an impact on the Group's performance, but the degree of that impact cannot be forecast now.

The Group's basic policy in response to the COVID-19 pandemic is not just to stop at taking temporary measures against it, but also to continue to promote highly productive, satisfying new working styles such as taking a flexible response to duties, including remote work.

The Group is implementing preventative measures complying with the government's New Lifestyle and the Guidelines for Preventing the Spread of Novel Coronavirus Disease formulated by the Japan Business Federation.

## 1. Risks Related to the Business Environment

The IT services industry in which SCSK Group operates is in a situation where qualitative change in the market is accelerating due to progress in moves to the cloud and digital transformation (DX). Meanwhile, significant social movements are being made to reduce the burden on the environment as global environment problems become increasingly serious, and there are growing efforts toward creating carbon-free societies. Under such an environment, changes in the business or management environments can lead to major and rapid changes in customers' IT investment willingness, and these changes, as well as price competition within the industry significantly beyond the level being seen at this time, could have an impact on the Group's results.

In addition, the timing and scope of customers' IT investment are affected by the economic environment and factors such as interest rate and currency movements, which could have a direct impact on the Group's results. For this reason, the Group has made sustainability management a growth strategy and provides value and value creation through IT services to customer companies in a variety of industries and with various business formats. To take a full-scale approach to the Commercialization of DX, a core strategy of the Group's medium-term management plan, the Group has defined the Next-CORE Business Group as the business group that will tackle the new businesses to form next-generation core business, and established a department to promote and implement the Commercialization of DX to focus on and specialize in new business creation.

## 2. Risks Related to Systems Development

The SCSK Group undertakes information systems development for customer companies. However, as systems development becomes larger, 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, as well as quality management for system development operations.

## 3. Risks Related to Addressing Technological Innovation

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

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

- Formed an R&D organization to develop cutting edge and advanced technologies and analyze technological trends in the market, and ascertains technologies possessed.
- Promotes systematic discovery of new technologies (including technological collaboration) through startup accelerators and corporate venture capital funds.
- Carries out initiatives aimed at improving employees' technological skills.

In addition, the Group disperses technologies and procurement used to build systems and provide services at the same time as promoting 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 IT services to customers from systems development through to operations, and through these operations can come to obtain various types of confidential information such as personal information held by customer companies and technical information related to systems. Under these circumstances, there is a possibility that confidential information could be subjected to such actions as leaks or manipulation through cyberattacks, human error or the like. Or there is the possibility that the customer's IT services may have to be stopped due to an operational defect in the customer's system or some other reason. As a result, the customer could seek compensatory damages and Group could suffer a loss of trust and it could have an impact on results.

Therefore, the Group has introduced security systems and established a framework for responding to the accurate detection of a cyberattack. In addition to maintaining thorough compliance awareness by officers and employees, the Group implements programs to strengthen information security throughout awareness raising and training, also including at subcontractors that handle confidential information. The Group requires subcontractors to fully comply with the Information Security Guidelines established by the Company, and we require subcontractors to maintain the same levels of information security and information management as those of SCSK through regular monitoring of subcontractor compliance using confirmation sheets, as well as carrying out on-site reviews (field audits), issuing instructions to make fixes and conducting related measures at subcontractors when necessary. The Group has taken out special insurance policies in preparation for any unforeseen information leaks.

## 5. Risks Related to Investment

The SCSK Group invests in operating companies and venture capital companies for the purpose of strengthening their 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 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 Intellectual Property

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

As a result, the Group may survey the intellectual property rights of customer companies and conduct in-house training and raise awareness regarding intellectual property rights to ensure that customer companies' intellectual property rights are not infringed.

## 7. Risks Related to Product Procurement

The SCSK Group procures a wide range of specially selected hardware and software products in Japan and from overseas, and supplies these products to customers.

Sudden and unexpected changes in vendors' business strategies, various world situations that could cause a halt in the increasingly globalized supply chain or other matters could have such results as changes in product specifications or the termination of supplies, which could have an impact on the Group's results.

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

## 8. 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 through a specialist organization and also regularly monitors the status of unpaid claims and recovery. The recording of allowances for doubtful accounts is conducted as necessary.

## 9. Risks Related to Large-Scale Natural Disasters

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, a major natural disaster caused by climate change, or the outbreak of a novel virus or other infectious disease with the potential to spread globally could have an impact on the Group's results.

To strengthen its structure to ensure business continuity in the event of unforeseen circumstances, the Group has formulated business continuity plans and established a disaster control headquarters and backup offices where managerial duties can be performed in the event of such circumstances. In addition, the SCSK Group strives to ensure employees' safety by allowing their employees and partners of its Group companies to work from home.

## 10. 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 its results.

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



# Consolidated Statement of Financial Position

SCSK Corporation and Consolidated Subsidiaries  
March 31, 2021 and 2020

		Millions of yen		
ASSETS	Notes	As of Apr. 1, 2019 (Transition Date)	2020	2021
Current assets				
Cash and cash equivalents	7	¥106,413	¥111,695	¥108,768
Trade and other receivables	8	64,543	66,772	69,855
Contract assets	26	11,859	13,765	13,224
Inventories	9	8,331	10,071	7,710
Income taxes receivable	31	56	24	56
Other financial assets	16	—	412	220
Other current assets	10	9,295	11,149	12,686
Total current assets		200,499	213,891	212,524
Non-current assets				
Property, plant and equipment	11	56,731	61,546	67,345
Right-of-use assets	13	25,772	26,099	39,353
Goodwill and intangible assets	12	8,433	25,242	26,389
Investments accounted for using equity method	15	6,070	7,253	8,805
Other receivables	8	7,613	7,890	8,581
Other financial assets	16	6,346	5,739	8,835
Deferred tax assets	31	18,951	12,967	3,432
Other non-current assets	10	1,576	1,610	5,131
Total non-current assets		131,497	148,350	167,875
Total assets		¥331,996	¥362,241	¥380,399

		Millions of yen		
LIABILITIES	Notes	As of Apr. 1, 2019 (Transition Date)	2020	2021
<b>Current liabilities</b>				
Trade and other payables	17	¥ 29,007	¥ 32,306	¥ 29,465
Contract liabilities	26	10,449	12,638	14,589
Liabilities for employee benefits	21	9,436	12,054	10,985
Bonds and borrowings	18	15,035	25,397	25,092
Lease liabilities		7,552	6,601	8,872
Other financial liabilities	19	30	—	—
Income taxes payable	31	3,710	3,773	3,091
Provisions	23	398	511	429
Other current liabilities	20	3,635	8,275	5,293
Total current liabilities		79,254	101,559	97,820
<b>Non-current liabilities</b>				
Bonds and borrowings	18	39,965	29,927	19,963
Lease liabilities		20,428	21,127	31,714
Other payables	17	154	207	203
Other financial liabilities	19	0	—	—
Employee benefits	21	2,923	5,821	7
Provisions	23	2,779	3,115	3,279
Other non-current liabilities	20	83	75	70
Total non-current liabilities		66,335	60,276	55,240
Total liabilities		145,589	161,835	153,060
<b>Equity</b>				
Share capital	24	21,152	21,152	21,152
Retained earnings	24	162,317	177,828	203,893
Treasury shares	24	(277)	(281)	(285)
Other components of equity	24, 33	2,216	1,347	2,114
Total equity attributable to owners of parent		185,409	200,047	226,874
Non-controlling interests		997	358	464
Total equity		186,407	200,405	227,338
Total liabilities and equity		¥331,996	¥362,241	¥380,399

# Consolidated Statement of Income

SCSK Corporation and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2021 and 2020

	Notes	Millions of yen	
		2020	2021
<b>Net sales</b>	26	¥ 385,295	<b>¥ 396,853</b>
Cost of sales	27	(288,102)	<b>(293,884)</b>
<b>Gross profit</b>		97,192	<b>102,969</b>
Selling, general and administrative expenses	28	(57,145)	<b>(57,168)</b>
Other income	29	355	<b>205</b>
Other expenses	29	(354)	<b>(128)</b>
<b>Operating profit</b>		40,048	<b>45,878</b>
Finance income	30	212	<b>160</b>
Finance costs	30	(658)	<b>(478)</b>
Share of profit (loss) of investments accounted for using equity method	15	976	<b>997</b>
<b>Profit before tax</b>		40,578	<b>46,557</b>
Income tax expense	31	(11,720)	<b>(13,011)</b>
<b>Profit</b>		¥ 28,857	<b>¥ 33,545</b>
Profit attributable to			
Owners of parent		¥ 28,765	<b>¥ 33,435</b>
Non-controlling interests		92	<b>110</b>
Earnings per share (Yen)	32		
Basic earnings per share		¥276.38	<b>¥321.26</b>
Diluted earnings per share		276.38	<b>321.26</b>

# Consolidated Statement of Comprehensive Income

SCSK Corporation and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2021 and 2020

	Notes	Millions of yen	
		2020	2021
<b>Profit</b>		¥28,857	<b>¥33,545</b>
<b>Other comprehensive income, net of tax</b>			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans		(919)	<b>6,167</b>
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income		915	<b>445</b>
Share of other comprehensive income of investments accounted for using equity method		(39)	<b>325</b>
Total of items that will not be reclassified to profit or loss		(44)	<b>6,938</b>
Items that may be reclassified to profit or loss			
Cash flow hedges		(19)	<b>143</b>
Exchange differences on translation of foreign operations		(34)	<b>(53)</b>
Share of other comprehensive income of investments accounted for using equity method		14	<b>(23)</b>
Total of items that may be reclassified to profit or loss		(38)	<b>67</b>
Total other comprehensive income, net of tax		(83)	<b>7,006</b>
<b>Comprehensive income</b>		¥28,773	<b>¥40,552</b>
<b>Comprehensive income attributable to</b>			
Owners of parent		¥28,680	<b>¥40,442</b>
Non-controlling interests		92	<b>109</b>

# Consolidated Statement of Changes in Equity

SCSK Corporation and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2021 and 2020

Millions of yen									
Notes	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity	
<b>Balance at April 1, 2019</b>	¥21,152	¥ —	¥162,317	¥(277)	¥ 2,216	¥185,409	¥ 997	¥186,407	
Profit	—	—	28,765	—	—	28,765	92	28,857	
Other comprehensive income	—	—	—	—	(83)	(83)	(0)	(83)	
Comprehensive income	—	—	28,765	—	(83)	28,680	92	28,773	
Dividends of surplus	25	—	(11,966)	—	—	(11,966)	(55)	(12,021)	
Changes in ownership interest in subsidiaries	—	(2,134)	—	—	—	(2,134)	(676)	(2,810)	
Purchase of treasury shares	—	—	—	(13)	—	(13)	—	(13)	
Disposal of treasury shares	—	(2)	—	9	—	6	—	6	
Transfer from retained earnings to capital surplus	—	2,137	(2,137)	—	—	—	—	—	
Transfer from other components of equity to retained earnings	—	—	849	—	(849)	—	—	—	
Transfer to non-financial assets	—	—	—	—	63	63	—	63	
Total transactions with owners	—	—	(13,254)	(3)	(786)	(14,044)	(731)	(14,775)	
<b>Balance at March 31, 2020</b>	21,152	—	177,828	(281)	1,347	200,047	358	200,405	
<b>Balance at April 1, 2020</b>	<b>21,152</b>	<b>—</b>	<b>177,828</b>	<b>(281)</b>	<b>1,347</b>	<b>200,047</b>	<b>358</b>	<b>200,405</b>	
Profit	—	—	<b>33,435</b>	—	—	<b>33,435</b>	<b>110</b>	<b>33,545</b>	
Other comprehensive income	—	—	—	—	<b>7,007</b>	<b>7,007</b>	<b>(1)</b>	<b>7,006</b>	
Comprehensive income	—	—	<b>33,435</b>	—	<b>7,007</b>	<b>40,442</b>	<b>109</b>	<b>40,552</b>	
Dividends of surplus	25	—	<b>(13,526)</b>	—	—	<b>(13,526)</b>	<b>(54)</b>	<b>(13,581)</b>	
Changes in ownership interest in subsidiaries	—	<b>(9)</b>	—	—	—	<b>(9)</b>	<b>50</b>	<b>40</b>	
Purchase of treasury shares	—	—	—	<b>(17)</b>	—	<b>(17)</b>	—	<b>(17)</b>	
Disposal of treasury shares	—	<b>(4)</b>	—	<b>13</b>	—	<b>8</b>	—	<b>8</b>	
Transfer from retained earnings to capital surplus	—	<b>14</b>	<b>(14)</b>	—	—	—	—	—	
Transfer from other components of equity to retained earnings	—	—	<b>6,170</b>	—	<b>(6,170)</b>	—	—	—	
Transfer to non-financial assets	—	—	—	—	<b>(69)</b>	<b>(69)</b>	—	<b>(69)</b>	
Total transactions with owners	—	—	<b>(7,371)</b>	<b>(4)</b>	<b>(6,239)</b>	<b>(13,615)</b>	<b>(3)</b>	<b>(13,619)</b>	
<b>Balance at March 31, 2021</b>	<b>¥21,152</b>	<b>¥ —</b>	<b>¥203,893</b>	<b>¥(285)</b>	<b>¥ 2,114</b>	<b>¥226,874</b>	<b>¥ 464</b>	<b>¥227,338</b>	

# Consolidated Statement of Cash Flows

SCSK Corporation and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2021 and 2020

Notes	Millions of yen	
	2020	2021
<b>Cash flows from operating activities</b>		
Profit before tax	¥ 40,578	<b>¥ 46,557</b>
Depreciation and amortization	16,782	<b>18,433</b>
Impairment losses (reversal of impairment losses)	508	—
Finance income	(212)	<b>(160)</b>
Finance costs	658	<b>478</b>
Share of loss (profit) of investments accounted for using equity method	(976)	<b>(997)</b>
Decrease (increase) in trade and other receivables	240	<b>(3,211)</b>
Decrease (increase) in contract assets	(1,905)	<b>539</b>
Decrease (increase) in inventories	(1,509)	<b>2,348</b>
Increase (decrease) in trade and other payables	2,222	<b>(3,049)</b>
Increase (decrease) in contract liabilities	2,113	<b>1,974</b>
Increase (decrease) in employee benefits	1,734	<b>(1,132)</b>
Increase (decrease) in provisions	252	<b>(452)</b>
Other	2,703	<b>(3,389)</b>
Subtotal	63,189	<b>57,939</b>
Interest and dividends received	381	<b>395</b>
Interest paid	(375)	<b>(431)</b>
Income taxes refund (paid)	(7,485)	<b>(7,684)</b>
Net cash provided by (used in) operating activities	55,710	<b>50,219</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(9,861)	<b>(12,710)</b>
Proceeds from sale of property, plant and equipment	1	<b>68</b>
Purchase of intangible assets	(3,183)	<b>(4,554)</b>
Proceeds from sale of intangible assets	—	<b>9</b>
Investments in equity-accounted investees	—	<b>(553)</b>
Purchase of other financial assets	(2,102)	<b>(2,350)</b>
Proceeds from sales and redemptions of other financial assets	49	<b>313</b>
Payments for acquisition of subsidiaries resulting in change in scope of consolidation	36	—
Other	202	<b>(808)</b>
Net cash provided by (used in) investing activities	(27,484)	<b>(20,586)</b>
<b>Cash flows from financing activities</b>		
Repayments of loans and redemption of bonds	36	(15,414)
Proceeds from long-term debt	36	15,300
Repayments of lease liabilities	36	(7,204)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(3,568)
Dividends paid	25	(11,967)
Dividends paid to non-controlling interests	—	(55)
Other	—	(13)
Net cash provided by (used in) financing activities	(22,923)	<b>(32,488)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(19)	<b>(71)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	5,281	<b>(2,927)</b>
<b>Cash and cash equivalents at beginning of period</b>	7	106,413
<b>Cash and cash equivalents at end of period</b>	7	¥111,695



# Notes to Consolidated Financial Statements

SCSK Corporation and Consolidated Subsidiaries

## 1. REPORTING ENTITY

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

The Group's business lines and main activities are listed in “5. SEGMENT INFORMATION” of the notes.

The Group's consolidated financial statements for the fiscal year ended March 31, 2021 were approved by Representative Director, President and Chief Operating Officer Toru Tanihara on June 23, 2021. Furthermore, the Group's ultimate parent company is Sumitomo Corporation (“the Parent Company”).

## 2. BASIS OF PREPARATION

### (1) Compliance with IFRS and Matters Related to First-time Adoption

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

The Group has adopted IFRS for the first time in the consolidated accounting period starting on April 1, 2020, and the date of transition to IFRS (“the Transition Date”) is April 1, 2019. Details regarding the impact of the transition to IFRS on the Group's financial position, operating results, and cash flows on the Transition Date and in year-on-year comparisons are described in Note “39. FIRST-TIME ADOPTION OF IFRS.”

With the exception of standards that are not early adopted and exemptions allowed under IFRS 1, First-time Adoption of International Financial Reporting Standards, the Group's accounting policy complies with IFRS effective as of March 31, 2021.

### (2) Basis for Measurement

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

### (3) Functional Currency and Presentation Currency

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

### (4) Early Adoption of New Standards

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

In transitioning from generally accepted accounting principles in Japan to IFRS, the Group selected certain exemption provisions of IFRS 1 to the retroactive application of other IFRSs that are listed in Note “39. FIRST-TIME ADOPTION OF IFRS.”

### (1) Basis of Consolidation

#### (i) Subsidiaries

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

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

#### (ii) Associates

Associates are companies over which the Group exercises significant influence with regard to their financial and operating policies, but does not have control or joint control. Investments in associates are accounted for applying the equity method.

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

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

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

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

### (2) Business Combinations

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

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

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

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

### (3) Foreign Currency Translation

#### (a) Foreign currency transactions

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

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

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

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

**(b) Foreign operations**

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

**(4) Financial Instruments**

Financial instruments are initially recognized on the date on which the Group becomes a party to the contractual provisions of the financial instrument. Regular way purchase of financial assets are recognized on the trade date.

**(a) Non-derivative financial assets**

When financial assets are initially recognized, financial assets are classified into the following groups based both on a business model for managing financial assets and on contractual cash flow characteristics of the financial assets: Financial assets measured at amortized cost; financial assets measured at fair value through profit or loss; and financial assets measured at fair value through other comprehensive income.

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

**(i) Financial assets measured at amortized cost**

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

- The financial asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(ii) Financial assets measured at fair value through profit or loss  
Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value. Of those financial assets measured at fair value, those other than financial assets classified as measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss include equity instruments for trading purposes and debt instruments held.

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

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

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

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

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

If an investment in an equity instrument is not held for trading purposes, it is permitted to make an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income. The Group makes

said designation for each financial instrument, classifying them as equity instruments measured at fair value through other comprehensive income.

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

**(b) Financial asset impairment**

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

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

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

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

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

**(c) Non-derivative financial liabilities**

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

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

**(d) Derivatives and hedge accounting**

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

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

**Cash flow hedge**

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

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

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

**(e) Offsetting financial assets and liabilities**

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

**(5) Cash and Cash Equivalents**

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

**(6) Inventories**

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

**(7) Property, Plant and Equipment****(a) Recognition and measurement**

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

The costs include costs directly related to acquisition of the asset, the cost initially estimated of dismantling and removing the asset and restoring the site on which it is located, as well as borrowing costs that fulfill the requirements for asset recording. Exemption provisions of IFRS 1 have been applied to the cost of specific land and property as of April 1, 2019 (the transition date of the Group), and the Group has elected to use as deemed cost the fair value of the property, plant and equipment items as of the transition date. When the useful life of the constituent components of property, plant and equipment varies by component, then they are accounted for as separate items (major components) of property, plant and equipment.

**(b) Expenditures following acquisition**

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

**(c) Depreciation**

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

Buildings and structures: 2 to 50 years

Tools, furniture and fixtures: 2 to 15 years

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

**(8) Goodwill and Intangible Assets****(a) Goodwill**

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

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

**(b) Intangible assets**

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

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

Internal research expenses are recognized as expenses when they occur.

The total amount of internal development expenses, arising from the date they first meet all of the following conditions for recognition until development is completed, is recognized as an intangible asset: Development expenses are reliably measurable; are technically and commercially achievable; are highly likely to provide future economic benefit; the Group completes development and intends to use or sell the said asset, and it is of sufficient quality for that purpose.

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

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

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

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

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

**(9) Leases**

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

**(Leases as lessee)**

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

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

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

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

- Fixed payments (including in-substance fixed payments)
- Variable lease payments that depend on an index or a rate. Initial measurement uses the index or rate as of the commencement date.
- The amount expected to be payable under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, lease payments

during the term of an extension option if the Group is reasonably certain to exercise that option, and payments of penalties for early termination of a lease (except in cases where the Group is reasonably certain not to terminate early).

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

**Short-term leases and leases of low-value assets**

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

**(Leases as lessor)**

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

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

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

**(10) Impairment**

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

If indications of impairment exist, the amount of recoverable asset is measured by individual asset or cash-generating unit. Note that goodwill and intangible assets which are unavailable for use are not amortized, and



impairment tests are conducted periodically at least once a year and each time there are indications of impairment.

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

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

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

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

### (11) Employee Benefits

#### (a) Employee retirement benefits

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

##### (i) Defined benefit plans

Defined benefit plans are those retirement benefit plans other than defined contribution plans (see (ii) below). The net amount of the present value of the defined benefit obligation

and the fair value of the plan assets is recognized as liabilities or assets. The present value of the defined benefit obligation and related current and past service costs are calculated using the projected unit credit method.

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

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

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

##### (ii) Defined contribution plans

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

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

#### (b) Short-term employee benefits

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

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

### (12) Share-based Payments

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

Note that the Group's stock options prior to the date of transition to IFRS were only vested options, so using the exemption provisions of IFRS 1, there are no stock options to which IFRS 2 "Share-based Payment" applies.

### (13) Provisions

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

#### (a) Provision for loss on construction contracts

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

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

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

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

#### (b) Asset retirement obligations

Asset retirement obligations are recognized as provisions against asset dismantling and removal costs, site restoration costs, and expenditure arising from use of the asset, and added to the cost of said asset. Future estimated expenses and applied discount rates are reviewed each year, and when revisions are deemed necessary, they are treated as changes in accounting estimates.

### (14) Equity

#### (a) Common stock

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

#### (b) Treasury shares

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

#### (c) Dividends

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

### (15) Net Sales

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

Step 1: Identify the contract with a customer

Step 2: Identify performance obligations in the contract

Step 3: Determine the transaction price

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

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

#### Identifying distinct performance obligations in contracts with customers

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

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

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

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

#### Determining the transaction price

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

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

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

#### Allocating the transaction price to performance obligation

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

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

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

#### Satisfaction of performance obligation

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

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

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

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

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

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

Supply of the above services usually corresponds to any of the following criteria: a) the customer simultaneously receives and consumes all of the benefits provided by the Group as the Group performs; b) the Group's performance creates or enhances an asset that the customer controls as the asset is created; or c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date and, therefore, is determined to be a performance obligation that is satisfied over time. If the progress toward complete satisfaction of the performance obligation can be

reasonably measured, net sales from the service is recognized by measuring the progress. If the progress cannot be reasonably measured, net sales from a service is recognized only to the extent of the costs incurred if the Group expects to recover the costs until such time that the outcome of the performance obligation can be reasonably measured. In cases where there is deemed to be significant uncertainty regarding the collection of consideration, net sales is not recognized.

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

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

Net Sales on contracts for system development and ongoing system maintenance and operation/services other than the above is recognized by measuring the progress based on the period of services already provided over the entire service period, in principle. Net sales from services billed on a per unit basis is recognized when the services are provided and become billable.

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

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

Net sales is recognized when it is determined that control over the goods and services has been transferred to the customer for these contracts. To determine the point in time at which the control is transferred to the customer, the Group

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

#### Agent transactions

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

#### Contract assets and contract liabilities

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

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

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

#### (16) Finance Income and Finance Costs

Finance income mainly comprises interest income, dividend income, foreign exchange gains and gains on derivatives (excluding gains on hedging instruments that are not recognized in other comprehensive income). Interest income is recognized as incurred using the effective interest method. Dividend income is recognized as of the date when the Group's right to receive payment is established.

Finance costs mainly comprise interest expenses, foreign exchange losses, and losses on derivatives (excluding losses on hedging instruments that are not recognized in other comprehensive income). Interest expenses are recognized as incurred using the effective interest method.

### (17) Income Taxes

Income taxes comprises of current income tax and deferred income taxes.

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

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

Deferred tax assets and liabilities are not recognized for temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business

combination and affects neither accounting profit nor taxable profit at the time of transaction. Deferred tax liabilities are not recognized for deductible temporary differences arising from the initial recognition of goodwill.

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

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

### (18) Earnings per Share

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

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

### (19) Borrowing Costs

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

## 4. USE OF ESTIMATES AND JUDGMENTS

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

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

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

- Revenue recognition (Note "3. SIGNIFICANT ACCOUNTING POLICIES, (15) Net Sales," Note "26. NET SALES")
- Measurement of provisions (Note "3. SIGNIFICANT ACCOUNTING POLICIES, (13) Provisions," Note "23. PROVISIONS")

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

## 5. SEGMENT INFORMATION

### (1) Summary of reportable segments

The Group's operating segments are the components of the Group for which discrete financial information is available and which are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Company defines business units according to client industry and IT service business area, and each business unit is responsible for formulating comprehensive domestic and overseas strategies pertaining to the products and services they offer and for developing their businesses in accordance with these strategies.

Based on these business activities, the Company has defined the following six reportable segments: Industrial IT Business, Financial IT Business, IT Business Solutions, IT Platform Solutions, IT Management Service, and Others. These segments are arranged by product and service category based on the Company's business units.

Multiple business segments have been consolidated into a single reportable segment in cases in which the applicable business segments share similarities with regard to each of the following economic characteristics: (1) the nature of the products and services, (2) the nature of the production processes, (3) the type or class of customer for their products and services, (4) the methods used to distribute their products or provide their services; and if applicable, (5) the nature of the regulatory environment. The business of the Company's reportable segments are as follows:

#### 1) Industrial IT Business

The Industrial IT Business segment is comprised of the Manufacturing & Telecommunication Systems Business, Distribution & Media Systems Business, Global System Solutions & Innovation Business, and Mobility Systems business segments.

- Manufacturing & Telecommunication Systems Business: This business segment 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. Our services leverage the experience and know-how that we have cultivated over many years throughout the chain of operational processes from production to sales. The clients of this business are primarily companies in the manufacturing, communications, and energy industries.
- Distribution & Media Systems Business: This business segment provides IT solution packages configured from various core systems, information management systems, SCM systems, CRM systems, and e-commerce systems primarily to clients in the distribution, service, and media industries.
- Global System Solutions & Innovation Business: This business segment provides optimal IT solutions primarily to trading companies and the global bases of clients from among a lineup that includes core systems, information management systems, SCM systems, and CRM systems.
- Mobility Systems: This business segment supplies the automotive industry and other clients with a wide range of solutions for automobile electronic control units on a global basis. These solutions include the development of embedded software through a model-based development approach, proprietary SCSK middleware (QINeS-BSW), software assessments, and process improvement measures.



2) Financial IT Business

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

3) IT Business Solutions

This segment provides a wide range of IT solutions. These solutions include contact center services as well as application management outsourcing (AMO) services that cover the entire system lifecycle, from development and installation to maintenance and operation, for enterprise resources planning (ERP) and CRM products, such as our internally developed ProActive ERP package, SAP, and Oracle offerings as well as Salesforce. In addition, this segment offers the type of business process outsourcing services that only an IT company can provide. These services merge support performed by human hands with IT.

4) IT Platform Solutions

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

5) IT Management Service

This segment develops solutions-oriented netXDC data centers, which boast robust facilities and high-level security, to provide clients with proposal-based outsourcing services that address their management issues pertaining to operating cost reductions, infrastructure integration and optimization, governance enhancement, and business risk mitigation. The segment also supplies cloud infrastructure and offers its on-site SE support management services 24 hours a day, 365 days a year.

6) Others

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

(2) Reorganization of reportable segments, etc.

April 1, 2020, the Manufacturing & Telecommunication Systems Business, Distribution & Media Systems Business, Global System Solutions & Innovation Business, and Mobility Systems segments were consolidated to form the new Industrial IT Business segment. This decision was made based on the judgment that these segments shared similarities with regard to each of the following economic characteristics: (1) the nature of the products and services, (2) the nature of the production processes, (3) the type or class of customer for their products and services, (4) the methods used to distribute their products or provide their services; and if applicable, (5) the nature of the regulatory environment. Also on this date, the Financial Systems Business segment was renamed the Financial IT Business segment, the Business Solutions segment was renamed the IT Business Solutions segment, and the name of the IT Platform Solutions segment was renamed the IT Platform Solutions segment. (In English remained unchanged, although it was renamed in Japanese.) In addition, following the absorption of JIEC Co., Ltd., on April 1, 2020, the businesses of this company that were previously included in the former Financial Systems Business segment were reallocated among the Industrial IT Business, Financial IT Business, IT Business Solutions, and IT Management Service segments.

Segment information for the fiscal year ended March 31, 2020, has been restated to reflect this change in reportable segments.

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

For the fiscal year ended March 31, 2020

	Millions of yen								Amount recorded in consolidated financial statements
	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	
Net sales									
Sales to external customers	¥130,320	¥52,918	¥52,121	¥90,397	¥54,250	¥ 5,404	¥385,413	¥ (117)	¥385,295
Inter-segment sales (Note 1)	11,449	1,735	5,527	6,971	15,423	4,935	46,044	(46,044)	—
Total	141,770	54,654	57,649	97,368	69,673	10,339	431,457	(46,161)	385,295
Operating profit (loss)	14,522	5,554	4,869	10,186	7,079	(70)	42,142	(2,094)	40,048
Finance income									212
Finance costs									(658)
Share of profit (loss) of investments accounted for using equity method									976
Profit before tax									¥ 40,578

	Millions of yen								Amount recorded in consolidated financial statements
	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	
Segment assets	¥47,482	¥14,540	¥16,502	¥36,234	¥63,116	¥28,920	¥206,796	¥155,444	¥362,241
Other items									
Depreciation and amortization	2,453	68	608	782	4,128	961	9,002	7,779	16,782
Impairment losses on non-financial assets	202	—	—	—	—	306	508	—	508
Investment in equity method associates	459	—	—	6,793	—	—	7,253	—	7,253
Capital expenditure	2,451	41	1,560	747	7,853	391	13,046	7,713	20,759

Notes: 1. Amounts for inter-segment transactions are decided based on price negotiations made with reference to market prices.  
2. Adjustments are as follows:  
(1) Adjustments to sales to external customers includes adjustment to reflect net sales to be in conformity with IFRS. Operating profit (loss) is comprised of ¥(1,568) million in general corporate expenses that have not been allocated to the reportable segments and a ¥(525) million adjustment to reflect net sales as defined by IFRS.  
(2) Adjustments to segment assets are corporate assets, etc. that are not allocated to each reportable segment.  
(3) Adjustments to depreciation and amortization are depreciation and amortization related to corporate assets.  
(4) Adjustments to capital expenditures represent capital expenditures related to corporate assets such as the head office building.

For the fiscal year ended March 31, 2021

	Millions of yen								
	Reportable Segment								Amount recorded in consolidated financial statements
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	
Net sales									
Sales to external customers	¥131,772	¥52,768	¥54,783	¥82,931	¥58,242	¥16,362	¥396,861	¥ (7)	¥396,853
Inter-segment sales (Note 1)	10,223	739	5,523	7,569	16,449	6,979	47,485	(47,485)	—
Total	141,995	53,507	60,306	90,501	74,692	23,342	444,346	(47,492)	396,853
Operating profit (loss)	16,132	6,243	5,583	11,298	7,321	1,285	47,865	(1,987)	45,878
Finance income									160
Finance costs									(478)
Share of profit (loss) of investments accounted for using equity method									997
Profit before tax									¥ 46,557

	Millions of yen								Amount recorded in consolidated financial statements
	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	
Segment assets	¥50,407	¥15,535	¥17,797	¥41,981	¥66,857	¥23,897	¥216,478	¥163,921	¥380,399
Other items									
Depreciation and amortization	2,305	56	778	765	4,502	1,238	9,646	8,787	18,433
Impairment losses on non-financial assets	—	—	—	—	—	—	—	—	—
Investment in equity method associates	1,058	—	—	7,747	—	—	8,805	—	8,805
Capital expenditure	2,784	158	2,294	631	10,077	767	16,714	22,258	38,972

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

2. Adjustments are as follows:

- (1) Adjustments to sales to external customers includes adjustment to reflect net sales to be in conformity with IFRS. Operating profit (loss) is comprised of ¥(2,916) million in general corporate expenses that have not been allocated to the reportable segments and a ¥929 million adjustment to reflect net sales as defined by IFRS.
- (2) Adjustments to segment assets are corporate assets, etc. that are not allocated to each reportable segment.
- (3) Adjustments to depreciation and amortization are depreciation and amortization related to corporate assets.
- (4) Adjustments to capital expenditures represent capital expenditures related to corporate assets such as the head office building.

#### (4) Information on products and services

For information on the classification of product and service categories by reportable segment, please refer to note "26. NET SALES."

#### (5) Information on geographical segments

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

#### (6) Information on major customers

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

## 6. BUSINESS COMBINATIONS

For the fiscal year ended March 31, 2020

### (1) Outline of business combination

(a) Name of acquiree and business description

Name of acquiree: Minori Solutions Co., Ltd.

Business description: Software development, system operations and management, system equipment sales

(b) Primary reason for business combination

To maximize the corporate value of both companies by pursuing a greater scale of business expansion and management strategies in step with current structural changes.

(c) Acquisition date

December 19, 2019

(d) How the acquirer obtained control of the acquiree

Acquisition of shares in exchange for cash

(e) Percentage of voting equity interests acquired

Percentage of voting equity interest held before the business combination: 10.45%

Percentage of voting equity interest after the acquisition 94.26%

### (2) Acquisition-date fair value of the total consideration transferred

	Millions of yen
	Amount
Consideration for acquisition	
Cash	¥19,479
Total fair value of consideration for acquisition	¥19,479

Note: The net expenditure associated with the acquisition of the subsidiary is presented in "36. CASH FLOW INFORMATION."

### (3) Acquisition-related costs for the business combination

Acquisition-related costs were ¥200 million and were recorded in profit or loss on the consolidated statement of income.

### (4) Fair value of assets acquired and liabilities assumed as of the acquisition date

	Millions of yen
	Amount
Cash and cash equivalents	¥ 6,889
Trade and other receivables	2,448
Other current assets	463
Property, plant and equipment	150
Intangible assets	10,800
Other non-current assets	1,506
Total assets	22,259
Current liabilities	1,945
Deferred tax liabilities	2,952
Other non-current liabilities	1,789
Total liabilities	6,687
Fair value of assets acquired and liabilities assumed (net)	¥15,571

The fair value of the acquired assets and liabilities, along with non-controlling interests, reflect comprehensive consideration including an assessment of the condition of finances and assets through due diligence performed by an external professional organization and a corporate valuation (based on the discounted cash flow method and the comparable peer company analysis method) performed by an external professional organization.

The consideration for acquisition is allocated to the assets acquired and liabilities assumed, based on the fair value as of the acquisition date. Provisional accounting treatment was applied because the allocation of the consideration for acquisition based on adjustments to the consideration

### (5) Goodwill

As a result of the acquisition, goodwill was recognized as follows:

	Millions of yen
Consideration for acquisition	¥19,479
Fair value of equity interest in Minori Solutions Co., Ltd. held by the Company immediately before the business combination	2,430
Non-controlling interests based on the proportionate share of the recognized amounts of assets and liabilities of Minori Solutions Co., Ltd.	893
Fair value of assets acquired and liabilities assumed (net)	15,571
Goodwill	¥ 7,232

The Company recognized a gain of ¥1,556 million due to the remeasurement of previously held interest of 10.45% in Minori Solutions Co., Ltd. This gain is included in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” under items that will not be reclassified to profit or loss in other comprehensive income.

Non-controlling interests are measured as the equity

For the fiscal year ended March 31, 2021

No significant matters were applicable.

## 7. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents on the consolidated statements of financial position as of the transition date, March 31, 2020 and March 31, 2021 and the balance of cash and cash equivalents on the consolidated statements of cash flows are identical. Cash and cash equivalents is classified as financial assets measured at amortized cost.

for acquisition and the fair value of identifiable assets and liabilities was not completed as of March 31, 2020. However, the allocation was completed in the fiscal year ended March 31, 2021. The amounts of the assets and liabilities as of the acquisition date have been revised from the initial provisionally calculated amounts based on the allocation of the consideration for acquisition.

The main revisions were an increase in intangible assets of ¥10,722 million, an increase in deferred tax liabilities of ¥3,180 million and a decrease in goodwill of ¥6,813 million. The finalized amount of goodwill is presented in “(5) Goodwill.”

interest of non-controlling shareholders in the fair value (net) of the assets acquired and liabilities assumed from the acquiree.

The main factors that make up goodwill were recognized from reasonable estimates of future excess earning power expected to be generated from business development. No amounts for goodwill are expected to be included in deductible expenses for tax purposes.

## 8. TRADE AND OTHER RECEIVABLES

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

	Millions of yen		
As of March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Notes and accounts receivable – trade	¥62,757	¥64,734	<b>¥68,177</b>
Accounts receivable – other	1,419	1,719	<b>1,385</b>
Leasehold and guarantee deposits	6,780	7,178	<b>8,000</b>
Allowance for doubtful accounts	(32)	(48)	<b>(46)</b>
Other	1,232	1,078	<b>920</b>
Total	¥72,157	¥74,662	<b>¥78,437</b>
Current assets	¥64,543	¥66,772	<b>¥69,855</b>
Non-current assets	7,613	7,890	<b>8,581</b>
Total	¥72,157	¥74,662	<b>¥78,437</b>

## 9. INVENTORIES

The breakdown of inventories is as follows:

	Millions of yen		
As of March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Merchandise	¥8,214	¥ 9,937	<b>¥7,566</b>
Supplies	117	133	<b>144</b>
Total	¥8,331	¥10,071	<b>¥7,710</b>

Note: The amounts of inventories recognized as expenses and included in cost of sales were ¥65,029 million and ¥59,574 million in the fiscal years ended March 31, 2020 and 2021, respectively. The amounts of write-downs of inventories recorded in cost of sales were ¥17 million in the fiscal year ended March 31, 2020 and ¥22 million in the fiscal year ended March 31, 2021.

## 10. OTHER ASSETS

The breakdown of other assets is as follows:

	Millions of yen		
As of March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Prepaid expenses	¥ 8,926	¥10,236	<b>¥10,860</b>
Long-term prepaid expenses	1,563	1,599	<b>1,500</b>
Retirement benefit asset	—	—	<b>3,620</b>
Other	381	924	<b>1,836</b>
Total	¥10,872	¥12,760	<b>¥17,818</b>
Current assets	9,295	11,149	<b>12,686</b>
Non-current assets	1,576	1,610	<b>5,131</b>
Total	¥10,872	¥12,760	<b>¥17,818</b>



## 11. PROPERTY, PLANT AND EQUIPMENT

### (1) Reconciliation and Breakdown

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

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

#### 1) Cost

	Millions of yen					Total
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	
As of April 1, 2019 (Transition Date)	¥47,836	¥22,918	¥8,829	¥ 2,310	¥11	¥ 81,906
Acquisition	3,455	2,207	—	4,604	2	10,269
Acquisitions through business combinations	56	59	34	—	—	150
Disposal	(1,092)	(2,153)	—	—	(1)	(3,247)
Transfers	806	1,037	—	(1,843)	—	—
Other increase or decrease	247	380	—	(325)	(0)	302
As of March 31, 2020	51,309	24,450	8,863	4,745	11	89,380
Acquisition	<b>5,192</b>	<b>1,967</b>	—	<b>6,073</b>	—	<b>13,233</b>
Disposal	<b>(366)</b>	<b>(775)</b>	<b>(34)</b>	—	—	<b>(1,176)</b>
Transfers	<b>3,885</b>	<b>61</b>	—	<b>(3,946)</b>	—	—
Other increase or decrease	<b>528</b>	<b>2</b>	—	<b>(1,136)</b>	<b>0</b>	<b>(605)</b>
As of March 31, 2021	<b>¥60,549</b>	<b>¥25,705</b>	<b>¥8,829</b>	<b>¥ 5,736</b>	<b>¥11</b>	<b>¥100,832</b>

#### 2) Accumulated depreciation and impairment losses

	Millions of yen					Total
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	
As of April 1, 2019 (Transition Date)	¥(11,630)	¥(13,531)	¥(1)	¥—	¥(11)	¥(25,174)
Depreciation	(2,901)	(3,005)	—	—	(0)	(5,908)
Disposal	1,085	2,114	—	—	1	3,201
Other increase or decrease	44	1	—	—	0	46
As of March 31, 2020	(13,402)	(14,420)	(1)	—	(9)	(27,833)
Depreciation	<b>(3,714)</b>	<b>(2,939)</b>	—	—	<b>(0)</b>	<b>(6,654)</b>
Disposal	<b>319</b>	<b>747</b>	—	—	—	<b>1,067</b>
Other increase or decrease	<b>(62)</b>	<b>(3)</b>	—	—	<b>(0)</b>	<b>(66)</b>
As of March 31, 2021	<b>¥(16,858)</b>	<b>¥(16,616)</b>	<b>¥(1)</b>	<b>¥—</b>	<b>¥(10)</b>	<b>¥(33,486)</b>

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

#### 3) Carrying amounts

	Millions of yen					Total
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	
As of April 1, 2019 (Transition Date)	¥36,206	¥ 9,386	¥8,828	¥2,310	¥0	¥56,731
As of March 31, 2020	37,907	10,029	8,862	4,745	1	61,546
As of March 31, 2021	<b>43,690</b>	<b>9,089</b>	<b>8,828</b>	<b>5,736</b>	<b>1</b>	<b>67,345</b>

## 12. GOODWILL AND INTANGIBLE ASSETS

### (1) Reconciliation and Breakdown

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

#### 1) Cost

	Millions of yen				Total
	Goodwill	Software	Customer-related assets	Other	
As of April 1, 2019 (Transition Date)	¥ 272	¥59,347	¥ —	¥319	¥59,939
Additions	—	1,541	—	—	1,541
Acquisitions through internal development	—	1,738	—	—	1,738
Acquisitions through business combinations	7,232	74	10,722	4	18,032
Disposals	—	(1,388)	(317)	(0)	(1,705)
Other increase or decrease	—	(251)	—	—	(251)
As of March 31, 2020	7,504	61,061	10,405	322	79,294
Additions	—	<b>2,010</b>	—	<b>1</b>	<b>2,011</b>
Acquisitions through internal development	—	<b>2,554</b>	—	—	<b>2,554</b>
Disposals	—	<b>(8,391)</b>	—	—	<b>(8,391)</b>
Other increase or decrease	—	<b>93</b>	—	<b>(1)</b>	<b>92</b>
As of March 31, 2021	<b>¥7,504</b>	<b>¥57,328</b>	<b>¥10,405</b>	<b>¥322</b>	<b>¥75,561</b>

#### 2) Accumulated depreciation and impairment losses

	Millions of yen				Total
	Goodwill	Software	Customer-related assets	Other	
As of April 1, 2019 (Transition Date)	¥—	¥(51,340)	¥ —	¥(165)	¥(51,506)
Depreciation	—	(3,257)	(447)	(2)	(3,706)
Impairment losses	—	(508)	—	—	(508)
Disposals	—	1,374	317	0	1,692
Other increase or decrease	—	(22)	—	—	(22)
As of March 31, 2020	—	(53,754)	(130)	(166)	(54,051)
Depreciation	—	<b>(2,941)</b>	<b>(520)</b>	<b>(1)</b>	<b>(3,462)</b>
Disposals	—	<b>8,351</b>	—	—	<b>8,351</b>
Other increase or decrease	—	<b>(10)</b>	—	<b>1</b>	<b>(9)</b>
As of March 31, 2021	<b>¥—</b>	<b>¥(48,354)</b>	<b>¥(650)</b>	<b>¥(167)</b>	<b>¥(49,171)</b>

#### 3) Carrying amounts

	Millions of yen				Total
	Goodwill	Software	Customer-related assets	Other	
As of April 1, 2019 (Transition Date)	¥ 272	¥8,006	¥ —	¥153	¥ 8,433
As of March 31, 2020	7,504	7,306	10,274	155	25,242
As of March 31, 2021	<b>7,504</b>	<b>8,974</b>	<b>9,754</b>	<b>155</b>	<b>26,389</b>

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

2. The carrying amount of internally generated intangible assets related to software were ¥5,865 million, ¥5,547 million and ¥7,079 million as of the transition date, March 31, 2020 and March 31, 2021, respectively.

### (2) Research and Development Expenses

Research and development expenses recognized on the consolidated statements of income were ¥1,190 million in the fiscal year ended March 31, 2020 and ¥874 million in the fiscal year ended March 31, 2021, and were recorded in selling, general and administrative expenses.

### 13. LEASES

#### (1) As Lessee

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

Other than offices, the Group leases IT equipment and related items. The lease term for IT equipment and related items is 1 to 9 years. Some of these contracts include leases with options that allow the Group to purchase the underlying asset at the expiration of the lease term. In some leases, the Group guarantees the residual value of the leased asset at the expiration of the lease term.

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

The breakdown of right-of-use assets on the transition date, March 31, 2020 and March 31, 2021 is as follows:

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Class of underlying assets			
Buildings and structures	¥24,197	¥24,958	<b>¥38,445</b>
Tools, furniture and fixtures	1,545	1,131	<b>788</b>
Other	28	9	<b>120</b>
Total	¥25,772	¥26,099	<b>¥39,353</b>

The increase in right-of-use assets, expenses related to leases, and cash outflows in the fiscal years ended March 31, 2020 and 2021 are as follows:

As of March 31	Millions of yen	
	2020	2021
Depreciation of right-of-use assets		
Buildings and structures as underlying assets	¥6,666	<b>¥ 7,889</b>
Tools, furniture and fixtures as underlying assets	481	<b>415</b>
Others as underlying assets	19	<b>12</b>
Total depreciation of right-of-use assets	7,167	<b>8,316</b>
Interest expenses related to lease liabilities	278	<b>354</b>
Variable lease payments that are not included in the measurement of lease liabilities	—	—
Expenses related to short-term leases	170	<b>263</b>
Expenses related to leases of low-value assets	1,696	<b>1,980</b>
Income from subleases	—	—
Gains or losses on sale and leaseback transactions	—	—
Cash outflows related to leases	9,349	<b>11,188</b>
Increase in right-of-use assets	7,381	<b>21,557</b>

The maturity analysis of lease liabilities at the transition date, the end of the previous fiscal year, and the end of the current fiscal year is as described in “34. FINANCIAL INSTRUMENTS.”

#### (2) As Lessor

##### • Operating leases

The Group leases some of the real estate it owns to third parties. The Group classifies these leases as operating leases because not all the risks and rewards incidental to ownership of the underlying assets are substantially transferred. As of March 31, 2020 and March 31, 2021, the cost of lease assets was ¥959 million and ¥1,868 million, respectively, and the total of depreciation and accumulated impairment losses was ¥22 million and ¥57 million, respectively. These amounts are included in property, plant and equipment on the consolidated statements of financial position.

Revenue related to operating leases of owned real estate is shown in note “26. NET SALES.”

The following table shows a maturity analysis of future undiscounted lease payments to be received related to operating leases as of the transition date, March 31, 2020 and March 31, 2021.

As of March 31	Millions of yen		
	Transition date (April 1, 2019)	2020	2021
Within 1 year	¥ 456	¥ 819	<b>¥1,687</b>
1 year to 2 years	819	970	<b>2,060</b>
2 years to 3 years	970	924	<b>1,847</b>
3 years to 4 years	924	616	<b>1,230</b>
4 years to 5 years	616	—	<b>102</b>
More than 5 years	—	—	—
Total	¥3,785	¥3,329	<b>¥6,928</b>

### 14. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

The primary balance of goodwill as of March 31, 2021 is goodwill of ¥7,232 million recognized in connection with the acquisition of Minori Solutions Co., Ltd., which is part of the Others segment.

The recoverable amount of Minori Solutions Co., Ltd. is calculated based on the value in use.

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

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

In addition, the discount rate used to calculate the value in use is determined to be 14.8% based on the pre-tax weighted average cost of capital.

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

As of March 31, 2021, the recoverable amount of Minori Solutions Co., Ltd. exceeded the carrying amount by ¥2,150 million. However, impairment losses could arise in the case where the pre-tax weighted average cost of capital increases by 1.4%.

Goodwill was not allocated to this cash generating unit due to the provisional accounting treatment applied in the fiscal year ended March 31, 2020.

## 15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

### Associates

#### Individually immaterial associates

The book value of the Group's interests in individually immaterial associates, as well as the Group's share of profits, other comprehensive income, and comprehensive income with respect to such associates are as follows:

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Carrying amount of interests	¥6,070	¥7,253	¥8,805

For the fiscal year ended March 31	Millions of yen	
	2020	2021
The Group's share		
Profit	¥976	¥ 997
Other comprehensive income	(25)	302
Comprehensive income	951	1,300

## 16. OTHER FINANCIAL ASSETS

### (1) Other Financial Assets

Other financial assets are as follows:

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Items classified as financial assets measured at fair value through profit and loss			
Debt securities			
Bonds	¥1,201	¥1,504	¥1,205
Investment	565	606	771
Equity securities	—	321	1,484
Derivative assets	—	33	140
Other	141	225	223
Items classified as financial assets measured at fair value through other comprehensive income			
Equity securities	4,438	3,461	5,231
Total	¥6,346	¥6,152	¥9,056
Current assets	¥ —	¥ 412	¥ 220
Non-current assets	6,346	5,739	8,835
Total	¥6,346	¥6,152	¥9,056

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

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

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Stock			
ATLED Corp.	¥ 721	¥ 742	¥1,364
MicroAd, Inc.	—	—	999
Nissay Information Technology Co., Ltd.	—	990	977
Yakult Honsha Co., Ltd.	820	677	593
Quest Co., Ltd.	278	252	388
Daiwa Computer Co., Ltd.	327	290	327
Sumitomo Mitsui Trust Holdings, Inc.	138	108	134
Shin-nihon Computer Management Co., Ltd.	97	101	104
Minori Solutions Co., Ltd.	1,453	—	—
Silicon Studio Corp.	253	—	—
Other	347	298	341
Total	¥4,438	¥3,461	¥5,231

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

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

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

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Fair value at the time of sale	¥2,797	¥13
Cumulative gain (loss)	1,755	2

Note: Cumulative gain (loss) in the previous fiscal year mainly comprised items associated with the acquisition of control of Minori Solutions Co., Ltd.  
For more information, refer to "6. BUSINESS COMBINATIONS."

## 17. TRADE AND OTHER PAYABLES

Trade and other payables are as follows. Trade and other payables are all classified as financial liabilities measured at amortized cost.

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Accounts payable – trade	¥22,111	¥25,054	¥22,282
Accounts payable	4,610	6,130	5,692
Deposits received	2,283	1,126	1,344
Other	154	202	349
Total	¥29,161	¥32,514	¥29,669
Current liabilities	¥29,007	¥32,306	¥29,465
Non-current liabilities	154	207	203
Total	¥29,161	¥32,514	¥29,669



## 18. BONDS AND BORROWINGS

### (1) Bonds and Borrowings

Bonds and borrowings are as follows:

As of March 31	Millions of yen			Average interest rate (%)	Maturity
	As of Apr. 1, 2019 (Transition Date)	2020	2021		
Current portion of bonds payable	¥ —	¥ 9,997	¥ 9,992	0.14	—
Bonds payable	39,887	29,927	19,963	0.14	—
Short-term borrowings	15,035	15,400	15,100	0.12	—
Current portion of long-term borrowings	—	—	—	—	—
Long-term borrowings except current portion	78	—	—	—	—
<b>Total</b>	<b>¥55,001</b>	<b>¥55,325</b>	<b>¥45,056</b>	<b>—</b>	<b>—</b>
Current liabilities	¥15,035	¥25,397	¥25,092	—	—
Non-current liabilities	39,965	29,927	19,963	—	—
<b>Total</b>	<b>¥55,001</b>	<b>¥55,325</b>	<b>¥45,056</b>	<b>—</b>	<b>—</b>

Notes: 1. The average interest rates represents weighted average interest rates relative to the year-end balance of borrowings.  
2. For maturity, please refer to (2) Details of Bonds.

### (2) Details of Bonds

Details of bonds by issue are as follows:

As of March 31	Balance at Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
0.33% unsecured bonds (maturity period: from June 24, 2015 to June 24, 2020)	¥ 9,987	¥ 9,997 (9,997)	¥ —
0.14% unsecured bonds (maturity period: from December 15, 2016 to December 15, 2021)	9,973	9,983	9,992 (9,992)
0.14% unsecured bonds (maturity period: from July 21, 2017 to July 21, 2022)	9,968	9,977	9,987
0.14% unsecured bonds (maturity period: from September 14, 2018 to September 14, 2023)	9,957	9,966	9,976
<b>Total</b>	<b>¥39,887</b>	<b>¥39,925 (9,997)</b>	<b>¥29,956 (9,992)</b>

Note: Figures in parentheses represent amounts scheduled to be repaid within one year.

## 19. OTHER FINANCIAL LIABILITIES

Other financial liabilities are as follows:

	Millions of yen		
As of March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Items classified as financial liabilities measured at fair value through profit and loss			
Derivative liabilities	¥30	¥—	¥—
Total	¥30	¥—	¥—
Current liabilities	¥30	¥—	¥—
Non-current liabilities	0	—	—
Total	¥30	¥—	¥—

## 20. OTHER LIABILITIES

Other liabilities are as follows:

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Accrued consumption taxes	¥1,130	¥6,365	¥4,062
Accrued expenses	1,295	625	43
Other	1,292	1,360	1,259
<b>Total</b>	<b>¥3,719</b>	<b>¥8,351</b>	<b>¥5,364</b>
Current liabilities	¥3,635	¥8,275	¥5,293
Non-current liabilities	83	75	70
<b>Total</b>	<b>¥3,719</b>	<b>¥8,351</b>	<b>¥5,364</b>

## 21. EMPLOYEE BENEFITS

### (1) Employee Retirement Benefits

#### 1) Outline of benefit plans

The Company and certain consolidated subsidiaries mainly employ defined benefit corporate pension plans and defined contribution plans. Benefit levels under the defined benefit plans are calculated based on monetary sums cumulated from commencement through to severance of employment, with respect to an annual reserve amount based on a recipient's estimated annual salary and their qualifications and job classification.

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

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

#### 2) Defined benefit plans

a) Amounts recognized in the consolidated statements of financial position

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

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Present value of funded retirement benefit obligations (with plan assets)	¥ 79,181	¥ 79,331	¥ 80,004
Fair value of plan assets	(76,744)	(75,147)	(85,424)
Funded status	2,437	4,183	(5,420)
Present value of unfunded retirement benefit obligations (without plan assets)	465	1,626	1,800
<b>Total net liabilities (assets) for retirement benefits</b>	<b>¥ 2,902</b>	<b>¥ 5,810</b>	<b>¥ (3,620)</b>
Liabilities for employee benefits (non-current liabilities)	¥ 2,902	¥ 5,810	¥ —
Other non-current assets	—	—	(3,620)

## b) Net defined benefit liabilities

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

	Millions of yen		
	Present value of defined benefit obligations	Plan assets	Net defined benefit liability
Balance at April 1, 2019	¥79,647	¥76,744	¥ 2,902
Current service cost	3,295	—	3,295
Interest cost (income)	432	431	1
Benefits paid	(2,609)	(2,602)	(6)
Employer contributions	—	3,374	(3,374)
Remeasurements of net defined benefit liability			
Actuarial differences (demographic assumptions)	(285)	—	(285)
Actuarial differences (financial assumptions)	(815)	—	(815)
Actual revision	135	—	135
Return on plan assets	—	(2,798)	2,798
Prior service cost	—	—	—
Effect of business combination	1,113	—	1,113
Other changes	44	—	44
Balance at March 31, 2020	80,958	75,147	5,810
Current service cost	<b>3,316</b>	—	<b>3,316</b>
Interest cost (income)	<b>490</b>	<b>453</b>	<b>37</b>
Benefits paid	<b>(2,899)</b>	<b>(2,797)</b>	<b>(101)</b>
Employer contributions	—	<b>3,508</b>	<b>(3,508)</b>
Remeasurements of net defined benefit liability			
Actuarial differences (demographic assumptions)	<b>(78)</b>	—	<b>(78)</b>
Actuarial differences (financial assumptions)	<b>(1,750)</b>	—	<b>(1,750)</b>
Actual revision	<b>1,528</b>	—	<b>1,528</b>
Return on plan assets	—	<b>9,112</b>	<b>(9,112)</b>
Prior service cost	<b>95</b>	—	<b>95</b>
Other changes	<b>143</b>	—	<b>143</b>
Balance at March 31, 2021	<b>¥81,804</b>	<b>¥85,424</b>	<b>¥(3,620)</b>

## c) Fair value by plan asset grouping

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

	Millions of yen								
	As of Apr. 1, 2019 (Transition Date)			2020			2021		
	Quoted market price in an active market			Quoted market price in an active market			Quoted market price in an active market		
As of March 31	Available	Unavailable	Total	Available	Unavailable	Total	Available	Unavailable	Total
Cash and cash equivalents	¥4,101	¥ —	¥ 4,101	¥10,733	¥ —	¥10,733	<b>¥5,187</b>	¥ —	<b>¥ 5,187</b>
Investment trust beneficiary certificates	—	58,642	58,642	—	50,269	50,269	—	<b>63,161</b>	<b>63,161</b>
Life insurance company general accounts	—	6,561	6,561	—	6,645	6,645	—	<b>6,723</b>	<b>6,723</b>
Others	—	7,438	7,438	—	7,498	7,498	—	<b>10,353</b>	<b>10,353</b>
Total	¥4,101	¥72,643	¥76,744	¥10,733	¥64,413	¥75,147	<b>¥5,187</b>	<b>¥80,237</b>	<b>¥85,424</b>

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

On respective reporting dates, the Company checks strategic asset mix and the actual proportional mix of holdings with respect to market values. The Company then promptly makes adjustments to asset holdings if it turns out valuations exceedingly deviate from acceptable ranges. At this point in time, the strategic asset mix comprises 77% investment trust beneficiary certificates (of which, 25% are equities and 52% are public and corporate bonds), 8% assets in life insurance company general account, and 15% other holdings. Meanwhile, the actual asset mix by market value comprises 74% investment trust beneficiary certificates (of which, 27% are equities and 47% are public and corporate

bonds), 8% assets in life insurance company general account, and 18% other holdings.

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

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

The Company plans to make contributions of ¥3,673 million to plan assets for the following fiscal year.

## d) Significant actuarial assumptions

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

As of March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Discount rate (%)	0.56	0.61	<b>0.66</b>
Rate of salary increase (%)	4.27	4.27	<b>3.40</b>

Assumptions regarding future longevity have been based on published statistics and mortality tables.

## e) Sensitivity analysis of actuarial assumptions

The present value of the defined benefit obligation would have varied by the amounts shown below as of March 31, 2020 and as of March 31, 2021, if there had been discount rate volatility amounting to the percentages shown below,

holding other assumptions constant. Sensitivity analysis is performed under the premise that other assumptions remain unchanged. However, in reality sensitivity analysis is susceptible to variance with respect to the other assumptions.

As of March 31	Millions of yen	
	2020	2021
Discount rate (%)	0.61	<b>0.66</b>
In the event of a 0.5% increase	¥(5,317)	<b>¥(5,173)</b>
In the event of a 0.5% decline	5,923	<b>5,740</b>

## f) Maturity structure of defined benefit plans

The weighted average duration of the defined benefit obligation was 15 years and 14 years as of March 31, 2020 and 2021, respectively.

## 3) Defined contribution plans

Expenses associated with amounts contributed to the defined contribution plans were ¥1,458 million and ¥1,542 million for the fiscal years ended March 31, 2020 and 2021, respectively.

(2) Other Employee Benefits

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

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Employee benefits (current liabilities)	¥9,436	¥12,054	¥10,985
Employee benefits (non-current liabilities)	20	11	7

(3) Employee Benefit Expenses

For the fiscal years ended March 31, 2020 and 2021, the total employee benefit expenses included both in cost of sales and in selling, general and administrative expenses of the consolidated statements of income were ¥117,172 million and ¥124,920 million, respectively. The employee benefit expenses primarily consist of salaries and bonuses, legal welfare expenses, and retirement benefit expenses.

22. SHARE-BASED PAYMENTS

The Company has granted its directors and executive officers subscription rights to shares at no cost in the form of stock options, having adopted a stock option plan from the fiscal year ended March 31, 2007 through the fiscal year ended March 31, 2010. The stock options are to expire if not exercised during the exercisable period stipulated under the allotment agreement. The Company accounts for its stock option plan as an equity-settled share-based remuneration.

Provisions of IFRS 2 (Share-based Payment) do not apply with respect to the stock options because the Company applied the exemption of IFRS 1 given that all subscription rights to shares have been vested as of the IFRS transition date (April 1, 2019).

(1) Stock Options to Which IFRS 2 Is Applied

Not applicable

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

1) Outline of stock options

Stock option	2007 Stock Option (the 2nd Grant)	2008 Stock Option (the 4th Grant)	2009 Stock Option (the 6th Grant)	2010 Stock Option (the 8th Grant)
Grantees' position	10 directors 14 executive officers	9 directors 12 executive officers	9 directors 16 executive officers	9 directors 14 executive officers
Number of granted stock options	Common stock 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
Date of expiration	July 26, 2027	July 28, 2028	July 29, 2029	July 29, 2030

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

For the fiscal year ended March 31, 2020

	The 2nd Grant		The 4th Grant		The 6th Grant		The 8th Grant	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Outstanding at April 1, 2019	1,200	¥ 1	2,600	¥ 1	8,100	¥ 1	19,700	¥ 1
Granted	—	—	—	—	—	—	—	—
Forfeited	(600)	1	(1,300)	1	(1,300)	1	—	—
Exercised	—	—	—	—	(1,500)	1	(2,600)	1
Expired	—	—	—	—	—	—	—	—
Outstanding at March 31, 2020	600	1	1,300	1	5,300	1	17,100	1
Exercisable at March 31, 2020	—	¥—	—	¥—	1,800	¥ 1	11,800	¥ 1

For the fiscal year ended March 31, 2021

	The 2nd Grant		The 4th Grant		The 6th Grant		The 8th Grant	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Outstanding at April 1, 2020	600	¥ 1	1,300	¥ 1	5,300	¥ 1	17,100	¥ 1
Granted	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	(1,800)	1	(3,800)	1
Expired	—	—	—	—	—	—	—	—
Outstanding at March 31, 2021	600	1	1,300	1	3,500	1	13,300	1
Exercisable at March 31, 2021	—	¥—	—	¥—	—	¥—	8,000	¥ 1

The weighted average share prices at the date of exercise for stock options exercised during the fiscal year ended March 31, 2020 were ¥4,880 and ¥5,373 with respect to the 2009 and 2010 stock options, respectively. The weighted average share prices at the date of exercise for stock options exercised during the fiscal year ended March 31, 2021 were ¥5,502 and ¥6,569 for the 2009 and 2010 stock options, respectively.

As of March 31, 2021, weighted average remaining contractual life of the outstanding stock options was 9.9 years and 8.9 years for the fiscal years ended March 31, 2020 and 2021, respectively.



## 23. PROVISIONS

### (1) Reconciliations and Breakdowns

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

	Millions of yen		
	Provision for loss on construction contracts	Asset retirement obligations	Total
As of April 1, 2019 (Transition Date)	¥ 228	¥2,949	¥3,177
Additional provisions during the year	507	375	882
Decrease during the period (intended use)	(228)	(227)	(456)
Decrease during the period (reversal)	—	—	—
Unwind of discount	—	23	23
Translation gains and losses	—	(1)	(1)
As of March 31, 2020	507	3,119	3,626
Additional provisions during the year	111	510	622
Decrease during the period (intended use)	(559)	—	(559)
Decrease during the period (reversal)	(1)	—	(1)
Unwind of discount	—	21	21
Translation gains and losses	—	(0)	(0)
As of March 31, 2021	¥ 58	¥3,651	¥3,709

	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
As of March 31			
Current liabilities	¥ 398	¥ 511	¥ 429
Non-current liabilities	2,779	3,115	3,279
Total	¥3,177	¥3,626	¥3,709

### (2) Outline of Provisions, Expected Timing of Economic Benefit Outflows and other matters

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

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

#### (a) Provision for loss on construction contracts

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

The amount of the provision for loss on construction contracts was ¥58 million as of the end of the current fiscal year.

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

Development projects under the Contracts have individuality in the content, such as specifications that vary according to customer requests. Due to facts identified or changes in circumstances that occurred after the commencement of the development projects, update of the services and necessary work hours may be required. Estimate of total cost involves uncertainty due to the individuality of development projects, and changes in facts and circumstances as described above. Although total cost is

estimated using cost accumulation methods based on certain data and assumptions such as services in line with development projects and necessary work hours, management's judgment thereon has a significant effect on the estimate of total cost.

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

#### (b) Asset retirement obligations

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

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

## 24. CAPITAL AND OTHER COMPONENTS OF EQUITY

### (1) Share Capital

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

	Common stock (Shares)		
	Authorized	Issued	Treasury stock
As of April 1, 2019	200,000,000	104,181,803	130,504
Changes during the year	—	—	(1,942)
As of March 31, 2020	200,000,000	104,181,803	128,562
Changes during the year	—	—	(2,835)
As of March 31, 2021	200,000,000	104,181,803	125,727

Note: Changes in the number of treasury shares during the fiscal year

At March 31, 2020

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

Purchases of less-than-one-unit shares: 2,404 shares

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

Disposals of less-than-one-unit shares: 246 shares

Exercise of subscription rights to shares: 4,100 shares

At March 31, 2021

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

Purchases of less-than-one-unit shares: 3,029 shares

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

Disposals of less-than-one-unit shares: 264 shares

Exercise of subscription rights to shares: 5,600 shares

### (2) Capital Surplus

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

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

### (3) Retained Earnings

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

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

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

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

(4) Other Components of Equity

Other components of equity are as follows:

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

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

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

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

(c) Cash flow hedges

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

(d) Exchange differences on translation of foreign operations

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

25. DIVIDENDS

(1) Dividend Payments

For the fiscal year ended March 31, 2020

Approved by	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
		Millions of yen	Yen		
Board Meeting held on April 26, 2019	Common Stock	¥5,202	¥50.00	March 31, 2019	June 4, 2019
Board Meeting held on October 30, 2019	Common Stock	¥6,763	¥65.00	September 30, 2019	December 2, 2019

Note: Dividends per share approved by the Board of Directors on October 30, 2019, include a commemorative dividend of ¥10.00 per share for the Company's 50th anniversary.

For the fiscal year ended March 31, 2021

Approved by	Types of shares	Total amount of dividends	Dividends per share	Record date	Effective date
		Millions of yen	Yen		
Board Meeting held on April 28, 2020	Common Stock	¥6,763	¥65.00	March 31, 2020	June 2, 2020
Board Meeting held on October 29, 2020	Common Stock	¥6,763	¥65.00	September 30, 2020	December 1, 2020

Note: Dividends per share approved by the Board of Directors on April 28, 2020, include a commemorative dividend of ¥10.00 per share for the Company's 50th anniversary.

(2) Dividends Whose Record Date Is Attributable to the Year Ended March 31, 2021 but Whose Effective Date Is to Be after the Balance Sheet Date

For the fiscal year ended March 31, 2020

Approved by	Types of shares	Source of funds	Total amount of dividends	Dividends per share	Record date	Effective date
			Millions of yen	Yen		
Board Meeting held on April 28, 2020	Common Stock	Accumulated income	¥6,763	¥65.00	March 31, 2020	June 2, 2020

Note: Dividends per share include a commemorative dividend of ¥10.00 per share for the Company's 50th anniversary.

For the fiscal year ended March 31, 2021

Approved by	Types of shares	Source of funds	Total amount of dividends	Dividends per share	Record date	Effective date
			Millions of yen	Yen		
Board Meeting held on April 28, 2021	Common Stock	Accumulated income	¥7,283	¥70.00	March 31, 2021	June 2, 2021

26. NET SALES

(1) Disaggregation of Net Sales

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

For the fiscal year ended March 31, 2020

	Millions of yen							
	Reportable Segment							Total
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	
Systems Development	¥ 73,094	¥46,346	¥14,369	¥ 3,985	¥14,655	¥3,384	¥155,836	¥ 354
System Maintenance and Operation/Services	50,445	4,912	36,038	14,339	35,796	1,897	143,429	(19)
Packaged Software/Hardware Sales	6,780	1,659	1,713	72,072	3,798	122	86,147	(452)
Total	¥130,320	¥52,918	¥52,121	¥90,397	¥54,250	¥5,404	¥385,413	¥(117)
Net sales recognized from contracts with customers	¥130,320	¥52,918	¥52,121	¥90,397	¥53,793	¥5,404	¥384,957	¥(117)
Net sales recognized from other sources*2	—	—	—	—	456	—	456	—

Notes: 1. Figures are stated after eliminations of intercompany transactions.  
2. Net sales recognized from other sources is due mainly to lease income (operating leases) in accordance with IFRS 16, and is included in "System Maintenance and Operation/Services" in the disaggregated information of major service categories.  
3. Of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2020 was ¥13,943 million (of which ¥12,806 million was recognized in the fiscal year ended March 31, 2020 and ¥1,137 million was recognized in prior fiscal years).

For the fiscal year ended March 31, 2021

	Millions of yen								
	Reportable Segment						Adjustments	Total	
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others			Total
Systems Development	¥ 75,304	¥46,127	¥13,887	¥ 3,610	¥13,616	¥11,173	¥163,720	¥(630)	¥163,090
System Maintenance and Operation/Services	50,608	5,037	37,505	14,816	39,780	4,828	152,577	(58)	152,518
Packaged Software/Hardware Sales	5,859	1,603	3,390	64,504	4,844	360	80,562	681	81,243
Total	¥131,772	¥52,768	¥54,783	¥82,931	¥58,242	¥16,362	¥396,861	¥ (7)	¥396,853
Net sales recognized from contracts with customers	¥131,772	¥52,768	¥54,783	¥82,931	¥57,173	¥16,362	¥395,792	¥ (7)	¥395,784
Net sales recognized from other sources*2	—	—	—	—	1,068	—	1,068	—	1,068

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

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

3. Of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2021 was ¥15,066 million (of which ¥12,850 million was recognized in the fiscal year ended March 31, 2021 and ¥2,216 million was recognized in prior fiscal years).

## (2) Contract Balances

Balances of receivables, contract assets and contract liabilities arising from contracts with customers are as follows:

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Receivables arising from contracts with customers	¥62,757	¥64,734	¥68,177
Allowance for doubtful accounts	(32)	(48)	(46)
Contract assets	11,859	13,765	13,224
Contract liabilities	10,449	12,638	14,589
Net sales recognized which were included in contract liability balances at the beginning of the period	—	7,293	7,887

Note: There is no significance in the amount of net sales recognized from performance obligation satisfied in the past periods on the fiscal years ended March 31, 2020 and 2021.

## (3) Transaction Price Allocated to the Remaining Performance Obligations

The breakdown of period of net sales expected to be recognized in the future related to unsatisfied (or partially unsatisfied) performance obligations as of March 31, 2021 is as follows;

The Group does not apply the practical expedients of paragraph C5 (c) and paragraph 121 under IFRS 15 and includes performance obligations related to contracts expected to be satisfied within 1 year. There are no significant amounts of consideration arising from contracts with customers that are not included in the transaction price.

As of March 31	Millions of yen	
	2020	2021
Within 1 year	¥134,640	¥150,837
More than 1 year	38,939	38,920
Total	¥173,579	¥189,757

Note: The transaction prices allocated to the remaining performance obligations presented above include those related to lease income (operating leases) in accordance with IFRS 16. For details, please refer to "(2) As Lessor" in note "13. LEASES."

## (4) Incremental Costs of Obtaining and Costs of Fulfilling Contracts with Customers

There are no significant assets recognized from incremental costs of obtaining a contract and costs to fulfill a contract with customers.

## 27. COST OF SALES

Cost of sales is as follows:

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Employee benefit expenses	¥ 86,025	¥ 92,680
Outsourcing costs	110,869	115,900
Commodity cost	65,029	59,574
Depreciation and amortization	11,980	13,019
Impairment loss	202	—
Others	13,995	12,709
Total	¥288,102	¥293,884

## 28. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses are as follows:

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Employee benefit expenses	¥31,146	¥32,239
Computer and related expenses	1,684	1,826
Depreciation and amortization	4,801	5,413
Business consignment expenses	2,663	2,940
Travel and transportation expenses	1,243	342
Taxes and dues	3,425	3,620
Research and development expenses	1,190	874
Education and book research expenses	1,162	1,422
Advertising expenses	1,536	1,167
Impairment loss	306	—
Others	7,985	7,320
Total	¥57,145	¥57,168

## 29. OTHER INCOME AND EXPENSES

### (1) Other Income

Other income is as follows:

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Gain on sale of fixed assets	¥ 10	¥ 0
Others	344	205
Total	¥355	¥205



**(2) Other Expenses**

Other expenses are as follows:

	Millions of yen	
For the fiscal year ended March 31	2020	2021
Foreign exchange loss	¥ 5	¥ 15
Loss on sale of fixed assets	6	30
Loss on retirement of property, plant and equipment	42	47
Others	300	34
Total	¥354	¥128

**30. FINANCE INCOME AND FINANCE COSTS****(1) Finance Income**

Finance income is as follows:

	Millions of yen	
For the fiscal year ended March 31	2020	2021
Interest income based on the effective interest method		
Financial assets measured at amortized cost	¥ 65	¥ 41
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Dividends received from financial assets held at the end of the fiscal year	36	45
Dividends received from financial assets derecognized during the period	42	—
Financial assets measured at fair value through profit and loss		
Dividends received from financial assets held at the end of the fiscal year	—	0
Dividends received from financial assets derecognized during the period	—	—
Gain from valuation and realization of fair value		
Financial assets measured at fair value through profit and loss	67	73
Total	¥212	¥160

**(2) Finance Costs**

Finance costs are as follows:

	Millions of yen	
For the fiscal year ended March 31	2020	2021
Interest cost based on the effective interest method		
Financial liabilities measured at amortized cost	¥413	¥453
Asset retirement obligations	23	21
Loss from valuation and realization of fair value		
Financial assets measured at fair value through profit and loss	220	3
Total	¥658	¥478

**31. INCOME TAXES****(1) Deferred Tax Assets and Deferred Tax Liabilities**

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

For the fiscal year ended March 31, 2020

	Millions of yen				
	As of Apr. 1, 2019 (Transition Date)	Recognized through profit or loss	Recognized through other comprehensive income	Recognized directly in equity	Other (Note)
As of Mar. 31, 2020					
Deferred tax assets					
Tax losses carried forward	¥10,543	¥(5,467)	¥ —	¥—	¥ (0)
Employee benefits	3,118	943	916	—	330
Property, plant and equipment	4,317	(150)	—	—	14
Intangible asset	679	(161)	—	—	(0)
Lease liability	7,505	107	—	—	4
Provision	1,030	128	—	—	5
Other	1,151	324	8	—	(44)
Total	28,346	(4,275)	924	—	309
Deferred tax liabilities					
Securities and other Investments	(896)	141	348	—	(50)
Investments in associates accounted for by the equity method	(515)	(106)	10	—	(2)
Right-of-use assets	(7,267)	(134)	—	—	—
Goodwill and intangible assets	(2)	138	—	—	(3,298)
Other	(712)	11	—	—	—
Total	(9,394)	50	358	—	(3,351)
Net amount	¥18,951	¥(4,224)	¥1,282	¥—	¥(3,042)

Note: Mainly attributable to acquisition due to business combination.

For the fiscal year ended March 31, 2021

	Millions of yen					As of Mar. 31, 2021
	As of Apr. 1, 2020	Recognized through profit or loss	Recognized through other comprehensive income	Recognized directly in equity	Other (Note)	
Deferred tax assets						
Tax losses carried forward	¥ 5,076	¥(4,969)	¥ —	¥—	¥—	¥ 106
Employee benefits	5,308	(449)	(3,246)	—	—	1,614
Property, plant and equipment	4,182	(232)	—	—	—	3,950
Intangible asset	517	(50)	—	—	—	465
Lease liability	7,617	4,207	—	—	—	11,825
Provision	1,164	7	—	—	—	1,171
Other	1,438	(201)	(63)	—	26	1,200
Total	25,304	(1,688)	(3,309)	—	26	20,335
Deferred tax liabilities						
Securities and Other Investments	(457)	(21)	(236)	—	—	(715)
Investments in associates accounted for by the equity method	(614)	(119)	(93)	—	—	(827)
Right-of-use assets	(7,402)	(4,190)	—	—	—	(11,592)
Goodwill and intangible assets	(3,162)	159	—	—	—	(3,003)
Other	(701)	(63)	—	—	—	(764)
Total	(12,337)	(4,235)	(329)	—	—	(16,903)
Net amount	¥ 12,967	¥(5,923)	¥(3,639)	¥—	¥26	¥ 3,432

Note: Mainly attributable to acquisition due to business combination.

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

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Deferred tax assets	¥18,951	¥12,967	¥3,432
Deferred tax liabilities	—	—	—
Net amount	¥18,951	¥12,967	¥3,432

The following presents deductible temporary differences, carryforward tax loss, and carryforward tax credits for which no deferred tax asset has been recognized as of the transition date, March 31, 2020 and 2021. Deductible temporary differences, carryforward tax loss, and carryforward tax credits are presented on a tax basis.

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Deductible temporary difference	¥ 445	¥ 640	¥ 713
Carryforward tax loss			
Carry within 5 years	7,727	250	177
Carry over 5 years to 10 years	323	395	403
Carryforward tax credits	—	—	—
Total	¥8,496	¥1,286	¥1,293

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

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

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Total amount of temporary differences associated with investments in subsidiaries, branches, associates and joint ventures	¥4,249	¥4,874	¥6,035

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

## (2) Income Tax Expense

Income tax expense is as follows:

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Current tax expense	¥ 7,496	¥ 7,088
Deferred tax expense		
Increase (decrease) in temporary differences	(1,242)	954
Use of losses carried forward which recognized	5,467	4,969
Total deferred tax expense	4,224	5,923
Total income tax expense	¥11,720	¥13,011

Note: Transition from consolidated taxation system to group taxation system is to take effect on April 1, 2022, in accordance with laws on tax reform in Japan promulgated in March 2020. The Company applied a consolidated taxation system and plans to transition to a group taxation system on April 1, 2022. The effect of the taxation system change is considered immaterial.

## (3) Reconciliation of Statutory Tax Rate

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

For the fiscal year ended March 31	2020	2021
Statutory tax rate	30.6%	30.6%
(Adjustment)		
Expenses not deductible for income tax purposes	0.3	0.3
Share of profit of equity-accounted investees	(0.7)	(0.7)
Valuation allowance	(1.4)	0.2
Tax credit	(0.1)	(2.9)
Other	0.3	0.4
Average actual tax rate	28.9%	27.9%

Note: The Company was subject to a 30.6% statutory tax rate in the fiscal year ended March 31, 2020, and a 30.6% statutory tax rate in the fiscal year ended March 31, 2021, calculated based on corporate, resident and enterprise tax in Japan. However, overseas subsidiaries are subject to income and other taxes of the locations in which they operate.

## 32. PER SHARE INFORMATION

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

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Basis of calculating basic earnings per share		
Profit attributable to owners of parent	¥28,765	<b>¥33,435</b>
Profit not attributable to owners of parent	—	—
Profit to calculate basic earnings per share	28,765	<b>33,435</b>
Average number of shares during the period (Shares)	104,078,717	<b>104,076,589</b>
Basic earnings per share (Yen)	¥276.38	<b>¥321.26</b>
Basis of calculating diluted earnings per share		
Profit to calculate basic earnings per share	¥28,765	<b>¥33,435</b>
Adjustment	—	—
Profit to calculate diluted earnings per share	28,765	<b>33,435</b>
Average number of shares during the period (Shares)	104,078,717	<b>104,076,589</b>
Increased number of shares due to subscription rights to shares (Shares)	—	—
Average number of diluted shares outstanding during the period (Shares)	104,078,717	<b>104,076,589</b>
Diluted earnings per share (Yen)	¥276.38	<b>¥321.26</b>

## 33. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME

### (1) Other Components of Equity

For the fiscal years ending March 31, 2020 and 2021, components of and changes in other components of equity are as follows:

	Millions of yen				
	Net change in fair value of equity instruments measured at fair value through other comprehensive income	Cash flow hedge	Remeasurements of defined benefit liabilities (assets)	Exchange differences on translating foreign operations	Total
As of April 1, 2019	¥ 2,237	¥ (21)	¥ —	¥ —	¥ 2,216
Other comprehensive income	866	(19)	(912)	(19)	(83)
Transfer to non-controlling interests	0	—	—	—	0
Transfer of non-financial assets	—	63	—	—	63
Transfer to retained earnings	(1,761)	—	912	—	(849)
As of March 31, 2020	1,343	23	—	(19)	1,347
Other comprehensive income	<b>774</b>	<b>143</b>	<b>6,164</b>	<b>(76)</b>	<b>7,006</b>
Transfer to non-controlling interests	<b>1</b>	—	—	—	<b>1</b>
Transfer of non-financial assets	—	<b>(69)</b>	—	—	<b>(69)</b>
Transfer to retained earnings	<b>(6)</b>	—	<b>(6,164)</b>	—	<b>(6,170)</b>
As of March 31, 2021	<b>¥ 2,112</b>	<b>¥ 97</b>	—	<b>¥(95)</b>	<b>¥ 2,114</b>

### (2) Other Comprehensive Income

For the fiscal years ending March 31, 2020 and 2021, components of other comprehensive income, as well as amounts of reclassification adjustment on related tax effect amounts and profit are as follows:

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Net change in fair value of equity instruments measured at fair value through other comprehensive income		
Arising during the year	¥ 552	<b>¥ 782</b>
Reclassification adjustment to net income	—	—
Before tax effect adjustment	552	<b>782</b>
Tax effect	362	<b>(336)</b>
Net-of-tax amount	915	<b>445</b>
Cash flow hedge		
Arising during the year	(27)	<b>207</b>
Reclassification adjustment to net income	—	—
Before tax effect adjustment	(27)	<b>207</b>
Tax effect	8	<b>(63)</b>
Net-of-tax amount	(19)	<b>143</b>
Remeasurements of defined benefit liabilities (assets)		
Arising during the year	(1,835)	<b>9,413</b>
Reclassification adjustment to net income	—	—
Before tax effect adjustment	(1,835)	<b>9,413</b>
Tax effect	916	<b>(3,246)</b>
Net-of-tax amount	(919)	<b>6,167</b>
Exchange differences on translating foreign operations		
Arising during the year	(29)	<b>(60)</b>
Reclassification adjustment to net income	—	—
Before tax effect adjustment	(29)	<b>(60)</b>
Tax effect	(4)	<b>7</b>
Net-of-tax amount	(34)	<b>(53)</b>
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	(25)	<b>302</b>
Reclassification adjustment to net income	—	—
Net-of-tax amount	(25)	<b>302</b>
Total other comprehensive income	¥ (83)	<b>¥ 7,006</b>



34. FINANCIAL INSTRUMENTS

(1) Capital Management Policy

The Group undertakes capital management with the aim of achieving sustainable growth and increasing corporate value. Primary indicators used with respect to capital management undertaken by the Group are as follows:

As of March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Equity attributable to owners of parent per share (Note 1) (Yen)	¥1,781.91	¥1,922.55	¥2,180.31
Equity ratio (Note 2) (%)	55.8	55.2	59.6
Return on equity (Note 3) (%)	—	14.9	15.7

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

The Group is not subject to any significant capital restrictions.

(2) Financial Risk Management

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

The Group undertakes risk management by preventing root causes and mitigate the risks. The Group does not enter into derivative contracts for speculative purposes, but utilizes derivatives to hedge the financial risks as follows.

(a) Market risk management

(i) Currency risk management

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

a. Exposure to currency risk

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

As of March 31	Thousands of U.S. dollars		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Trade and other receivables	\$ 203	\$ 106	\$ 467
Trade and other payables	1,580	1,961	1,767
Net exposure	\$(1,377)	\$(1,855)	\$(1,299)

b. Sensitivity analysis of currency risk

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

(ii) Interest rate risk management

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

a. Exposure to interest rate risk

The Group is exposed to risk of interest rate volatility as follows:

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Floating-rate financial instruments			
Financial liabilities (bonds and borrowings)	¥10,614	¥10,900	¥10,600

As of March 31	Millions of yen		
	As of Apr. 1, 2019 (Transition Date)	2020	2021
Fixed-rate financial instruments			
Financial liabilities (bonds and borrowings)	¥44,387	¥44,425	¥34,456

b. Sensitivity analysis of interest rate risk

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

(b) Credit risk management

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

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

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

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

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

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

Amounts of expected credit loss are measured as follows:

- Trade receivables and contract assets

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

- Other financial assets measured at amortized cost

The general approach is applied in calculating expected credit loss. As for financial assets for which there has not been a significant increase in credit risk since initial recognition, expected credit loss is calculated by multiplying the total book value of the financial assets by a provision ratio, a ratio of past credit loss with respect to similar assets taking into account forecasts

of future economic conditions, etc. As for financial assets for which there has been a significant increase in credit risk since initial recognition and credit-impaired financial assets, expected credit loss is calculated by subtracting total book value from the present value of estimated future cash flows discounted at the initial effective interest rate of the asset.

#### Maximum exposure to credit risk

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

#### Total balance of assets subject to loss allowances

		Millions of yen		
As of March 31		As of Apr. 1, 2019 (Transition Date)	2020	2021
Measurement of credit losses	Classification			
Simplified approach	—	¥75,739	¥79,487	<b>¥82,262</b>
Principle approach	Measured at an amount equal to the 12-month expected credit loss	8,310	8,988	<b>9,445</b>
	Measured at an amount equal to the 12-month expected credit loss (non-credit impaired)	—	—	—
	Measured at an amount equal to the 12-month expected credit loss (credit impaired)	—	—	—
Total		¥84,049	¥88,476	<b>¥91,708</b>

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

#### Changes in loss allowances

Changes in loss allowances are as follows:

		Millions of yen	
For the fiscal year ended March 31		2020	2021
Beginning of period		¥32	<b>¥48</b>
Increase		0	<b>0</b>
Decrease (intended use)		—	<b>(2)</b>
Decrease (reversal)		(6)	<b>(0)</b>
Other (increase due to business combinations)		22	—
End of period		¥48	<b>¥46</b>

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

#### (c) Liquidity risk management

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

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

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

#### (i) Non-derivative financial liabilities

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

#### Transition date (As of April 1, 2019)

		Millions of yen			
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Trade and other payables	¥ 29,161	¥ 29,161	¥29,007	¥ 151	¥ 2
Bonds and borrowings	55,001	55,327	15,119	40,208	—
Lease liabilities	27,980	30,500	8,539	14,594	7,366
Total	¥112,142	¥114,989	¥52,666	¥54,954	¥7,368

#### As of March 31, 2020

		Millions of yen			
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Trade and other payables	¥ 32,514	¥ 32,514	¥ 32,306	¥ 167	¥ 40
Bonds and borrowings	55,325	55,538	25,468	30,070	—
Lease liabilities	27,729	29,733	7,491	14,632	7,609
Total	¥115,568	¥117,786	¥65,266	¥44,869	¥7,649

#### As of March 31, 2021

		Millions of yen			
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Trade and other payables	<b>¥ 29,669</b>	<b>¥ 29,669</b>	<b>¥29,465</b>	<b>¥ 159</b>	<b>¥ 44</b>
Bonds and borrowings	<b>45,056</b>	<b>45,178</b>	<b>25,150</b>	<b>20,028</b>	—
Lease liabilities	<b>40,587</b>	<b>44,022</b>	<b>10,334</b>	<b>25,237</b>	<b>8,450</b>
Total	<b>¥115,312</b>	<b>¥118,870</b>	<b>¥64,950</b>	<b>¥45,424</b>	<b>¥8,494</b>

#### (ii) Derivatives

Derivatives listed by maturity date are as follows:

#### Transition date (As of April 1, 2019)

		Millions of yen			
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Forward exchange contracts					
Cash inflow	¥ —	¥8,536	¥8,445	¥90	¥—
Cash outflow	(30)	8,566	8,475	90	—
Total	¥(30)	¥ (30)	¥ (30)	¥ (0)	¥—

#### As of March 31, 2020

		Millions of yen			
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Forward exchange contracts					
Cash inflow	¥33	¥14,680	¥14,362	¥318	¥—
Cash outflow	—	14,647	14,329	317	—
Total	¥33	¥ 33	¥ 32	¥ 0	¥—

As of March 31, 2021

	Millions of yen				
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Forward exchange contracts					
Cash inflow	¥140	¥20,975	¥20,473	¥502	¥—
Cash outflow	—	20,835	20,343	492	—
Total	¥140	¥ 140	¥ 130	¥ 9	¥—

**(3) Fair Value**

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

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

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

Level 3: Unobservable inputs not based on observable market data

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

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

	Millions of yen					
	As of Apr. 1, 2019 (Transition Date)		2020		2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
As of March 31						
Other receivable						
Lease deposit and guarantee deposits	¥ 6,780	¥6,716	¥ 7,178	¥ 7,064	¥ 8,000	¥ 7,913
Bonds and borrowings						
Bonds	39,887	40,023	29,927	30,000	19,963	19,965
Long-term borrowings	78	78	—	—	—	—
Other liabilities						
Deposits received	154	154	156	156	153	153
Long-term other payable	—	—	51	51	49	49

Method of measurement of fair value

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

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

Other receivables and other payables

(Lease deposits and guarantee deposits)

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

(Guarantee deposits received and long-term accounts payable)

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

Bonds and borrowings

(Corporate bonds)

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

(Long-term borrowings)

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

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

Assets and liabilities that are measured at fair value on recurring basis are as follows. Reclassification of financial assets between levels are recognized at the end of the fiscal year. There were no important financial assets reclassified between levels in the previous fiscal year or the fiscal year under review.

Transition date (As of April 1, 2019)

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivative assets	¥ —	¥ —	¥ —	¥ —
Capital securities	4,270	—	167	4,438
Debt securities	—	1,201	565	1,766
Other	—	—	141	141
Total	¥4,270	¥1,201	¥874	¥6,346
Other financial liabilities				
Derivative liabilities	¥ —	¥ 30	¥ —	¥ 30
Total	¥ —	¥ 30	¥ —	¥ 30

Other financial assets and other financial liabilities

(Derivatives)

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

(Equity securities)

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

(Debt securities)

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

As of March 31, 2020

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivative assets	¥ —	¥ 33	¥ —	¥ 33
Capital securities	2,275	—	1,507	3,783
Debt securities	—	1,504	606	2,110
Other	—	—	225	225
Total	¥2,275	¥1,537	¥2,339	¥6,152
Other financial liabilities				
Derivative liabilities	¥ —	¥ —	¥ —	¥ —
Total	¥ —	¥ —	¥ —	¥ —

Note: The method for measuring the fair value of other financial assets and other financial liabilities is the same as on the transition date.



As of March 31, 2021

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivative assets	¥ —	¥ 140	¥ —	¥ 140
Capital securities	3,064	—	3,650	6,715
Debt securities	—	1,205	771	1,976
Other	—	—	223	223
Total	¥3,064	¥1,345	¥4,645	¥9,056
Other financial liabilities				
Derivative liabilities	¥ —	¥ —	¥ —	¥ —
Total	¥ —	¥ —	¥ —	¥ —

The method for measuring the fair value of other financial assets and other financial liabilities is the same as on the transition date.

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

#### (i) Valuation process

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

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

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

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

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

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

	Millions of yen			
	2020		2021	
	FVTPL financial assets	FVTOCI financial assets	FVTPL financial assets	FVTOCI financial assets
For the fiscal year ended March 31				
Beginning of period	¥ 707	¥ 167	¥1,152	¥1,186
Total gains or losses				
Profit or loss	(204)	—	68	—
Other comprehensive income	—	16	—	(10)
Purchases	637	1,010	1,352	999
Disposals	(70)	(8)	(93)	(9)
Other	83	—	(1)	—
End of period	¥1,152	¥1,186	¥2,478	¥2,166

Gains and losses recognized in net profit and loss are included in finance income and finance costs in the consolidated statement of income. The amounts of gains and losses recognized in other comprehensive income, net of tax effects are included in net change in fair value of equity instruments designated as measured at fair value through other comprehensive income in the consolidated statement of comprehensive income.

### (4) Offsetting Financial Assets and Financial Liabilities

No material financial instruments have been offset on the consolidated statements of financial position on the transition date, March 31, 2020 and March 31, 2021. In addition, there are no material financial instruments that have not been offset due to partial or complete non-fulfillment of offsetting conditions for financial assets and financial liabilities subject to an enforceable master netting agreement or similar agreement and recognized against the same counterparty.

### (5) Hedge Accounting

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

To manage these risks, the Group generally ascertained the net amount of risk, and mitigates the market risk using transactions that are effective for offsetting risk. Furthermore, in accordance with risk management strategy, the Group enters derivative transactions to mitigate the market risks to which it is exposed. To hedge against the market risks related to scheduled transactions, the Group enters derivative transactions corresponding to the total amount of risk. The Group applies hedge accounting for forecasted transactions that are highly probable (around 75–85% of the total).

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

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

### Cash flow hedges

#### (i) Important derivatives designated for hedge accounting

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

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

Transition date (As of April 1, 2019)

Hedging instruments	Notional amount (Millions of yen)	Average exchange rate	Residual maturity	Carrying amount of the hedging instrument (Millions of yen)	
				Derivative assets	Derivative liabilities
Foreign currency exchange rate risk					
Forward exchange contracts (selling)	¥4,110	¥108.93 to U.S.\$1.00	Within 1 year	¥—	¥(43)
Forward exchange contracts (buying)	4,412	¥108.83 to U.S.\$1.00	0 to 2 years	13	(0)

As of March 31, 2020

Hedging instruments	Notional amount (Millions of yen)	Average exchange rate	Residual maturity	Carrying amount of the hedging instrument (Millions of yen)	
				Derivative assets	Derivative liabilities
Foreign currency exchange rate risk					
Forward exchange contracts (selling)	¥6,376	¥107.94 to U.S.\$1.00	Within 1 year	¥—	¥(22)
Forward exchange contracts (buying)	8,247	¥107.87 to U.S.\$1.00	0 to 2 years	56	—

As of March 31, 2021

Hedging instruments	Notional amount (Millions of yen)	Average exchange rate	Residual maturity	Carrying amount of the hedging instrument (Millions of yen)	
				Derivative assets	Derivative liabilities
Foreign currency exchange rate risk					
Forward exchange contracts (selling)	¥ 8,822	¥105.70 to U.S.\$1.00	Within 1 year	¥ —	¥(333)
Forward exchange contracts (buying)	11,679	¥106.57 to U.S.\$1.00	0 to 2 years	473	—

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

For purchasing transactions that are expected to be hedged, cash flow hedge surplus accrued in “other components of equity” is reclassified as an inventory asset adjustment upon recognition of inventory assets, and finally recognized in cost of sales. Furthermore, if the hedged item is a planned sale transaction, it is recognized as sales revenue. Moreover, for an adjustment table of each of the components of equity and analysis of other comprehensive income, refer to “33. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME.”

35. RELATED PARTIES

(1) Transactions with Related Parties

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

For the fiscal year ended March 31	As of Apr. 1, 2019 (Transition Date)	2020	2021
Attribute	Parent Company	Parent Company	Parent Company
Name of the Company	Sumitomo Corporation	Sumitomo Corporation	Sumitomo Corporation
Relationship of related party 1	Providing of data processing services and software development services	Providing of data processing services and software development services	Providing of data processing services and software development services
Transaction amounts (Millions of yen)	—	¥16,719	¥18,525
Balance at year-end (Millions of yen)	¥3,138	¥2,804	¥4,157
Relationship of related party 2	Depositing of Funds	Depositing of Funds	Depositing of Funds
Transaction amounts (Depositing of funds) (Millions of yen)	—	¥1,024,000	¥742,500
Transaction amounts (Refund of funds) (Millions of yen)	—	¥1,029,500	¥736,000
Balance at year-end (Millions of yen)	¥83,500	¥78,000	¥84,500
Transaction amounts (Interest receipt) (Millions of yen)	—	¥8	¥6
Balance at year-end (Accrued income) (Millions of yen)	—	¥0	—

Notes: 1. In the amounts above, consumption taxes were included in the outstanding balances at the fiscal year-end, but not in transaction amounts. The balances at the fiscal year-end are based on the same conditions with regard to payment period as for normal transactions with third parties.  
2. For provision of IT solutions, the Company's estimated price based on market prices and cost rate is presented, and after price negotiations for each project, it is determined on an arm's length basis.  
3. The interest rates for the depositing of funds were determined on an arm's length basis and with reference to normal market interest rates.

(2) Remuneration of Management

Remuneration for management is as follows:

For the fiscal year ended March 31	Millions of yen	
	2020	2021
Basic compensation	¥252	¥285
Performance-based compensation, etc.	59	67
Total	¥311	¥352

Notes: 1. Management refers to the directors of the Company in each consolidated fiscal year.  
2. Basic compensation includes post-employment benefit expenses of ¥13 million in the fiscal year ended March 31, 2020 and ¥16 million in the fiscal year ended March 31, 2021.

36. CASH FLOW INFORMATION

(1) Payments for Acquisition in Subsidiaries Resulting in Change in Scope of Consolidation

Fiscal year ended March 31, 2020

Payments that resulted in the consolidation of Minori Solutions Co., Ltd. by acquisition of its shares are as follows:

	Millions of yen
	Amount
Consideration paid	¥(19,479)
Cash and cash equivalents	6,889
Payments for acquisition in subsidiaries resulting in change in scope of consolidation	¥(12,590)

For information about business combinations, refer to Note “6. BUSINESS COMBINATIONS.”

Fiscal year ended March 31, 2021

Not applicable

(2) Change in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

	Millions of yen		
	Bonds and borrowings	Lease liabilities	Total
As of April 1, 2019 (Transition Date)	¥ 55,001	¥27,980	¥ 82,981
Changes from financing cash flows			
Payments for redemption of bonds	—	—	—
Payments for repayments of loans	(15,414)	—	(15,414)
Proceeds from long-term debt	15,300	—	15,300
Repayments of lease liabilities	—	(7,204)	(7,204)
Other changes			
New leases (Note)	—	6,742	6,742
Changes arising from obtaining control of subsidiaries	400	639	1,039
Other	38	(428)	(389)
As of March 31, 2020	55,325	27,729	83,054
Changes from financing cash flows			
Payments for redemption of bonds	(10,000)	—	(10,000)
Payments for repayments of loans	(15,900)	—	(15,900)
Proceeds from long-term debt	15,600	—	15,600
Repayments of lease liabilities	—	(8,590)	(8,590)
Other changes			
New leases (Note)	—	21,557	21,557
Changes arising from business combinations	—	—	—
Other	30	(109)	(78)
As of March 31, 2021	¥ 45,056	¥40,587	¥ 85,643

Note: New leases include increases due to factors such as remeasurement of lease liabilities.

(3) Non-cash Transactions

For increases due to acquisition of right-of-use assets during the fiscal year under review, please refer to Note “13. LEASES.”

37. MAJOR SUBSIDIARIES

(1) Information on Major Subsidiaries

Major subsidiaries are as follows:

Name	Location	Main businesses	Equity ownership percentage (Mar. 31, 2021)
SCSK ServiceWare Corporation	Koto-ku, Tokyo	BPO	100.0%
VeriServe Corporation	Chiyoda-ku, Tokyo	Verification Services	100.0%
Minori Solutions Co., Ltd.	Shinjuku-ku, Tokyo	Software Development, System Operations Management, Product Sales	100.0%
SCSK KYUSHU CORPORATION	Fukuoka City, Fukuoka Prefecture	Software development and Information Processing	100.0%
SCSK HOKKAIDO CORPORATION	Sapporo City, Hokkaido	Software development and Information Processing	100.0%
SCSK PRESCENDO CORPORATION	Koto-ku, Tokyo	BPO	100.0%
SCSK USA Inc.	New York, U.S.A.	Software development and Information Processing	100.0%
SCSK Europe Ltd.	London, England	Software development and Information Processing	100.0%
SCSK Shanghai Limited	Shanghai, China	Software development and Information Processing	100.0%
SCSK Asia Pacific Pte. Ltd.	Singapore	Software development and Information Processing	100.0%
PT SCSK Global Indonesia	Jakarta, Indonesia	Software development and Information Processing	100.0%
SCSK Myanmar Ltd.	Yangon, Myanmar	Software development and Information Processing	100.0%
Skeed Co., Ltd.	Meguro-ku, Tokyo	Software development	100.0%
CSI SOLUTIONS Corporation	Shinjuku-ku, Tokyo	IT Management business	100.0%
Allied Engineering Corporation	Koto-ku, Tokyo	Consulting, Packaged software development and sales	100.0%
WinTechnology Corporation	Shinjuku-ku, Tokyo	Software development	100.0%
SCSK SYSTEM MANAGEMENT CORPORATION	Koto-ku, Tokyo	IT Management business	100.0%
VA Linux Systems Japan K.K.	Koto-ku, Tokyo	Research and solution for Linux-based technologies	100.0%
SDC Corporation	Koto-ku, Tokyo	Network services	50.1%
Gran Manibus Co., LTD.	Chiyoda-ku, Tokyo	Consulting Service, Advanced Technology Solution	94.3%
SCSK Nearshore Systems Corporation	Koto-ku, Tokyo	Software development and System Maintenance	100.0%

(2) Changes in Ownership Not Resulting In Loss of Control of Subsidiaries

The amount of impact on capital surplus due to changes in ownership not resulting in loss of control of subsidiaries is as follows:

	Millions of yen	
For the fiscal year ended March 31	2020	2021
Effect of equity transactions with non-controlling interests	¥(2,134)	¥(9)

Notes: 1. Concurrent appointments of directors includes executive officers of the Company.  
2. The Company submitted an annual securities report.

38. SUBSEQUENT EVENTS

Not applicable



39. FIRST-TIME ADOPTION OF IFRS

From the fiscal year ended March 2021, the Company prepares its first financial statements in accordance with IFRS. The most recent financial statements to be prepared in accordance with Japanese generally accepted accounting principles (J-GAAP) were the financial statements for the fiscal year ended March 31, 2020. Accordingly, the date of transition from J-GAAP to IFRS is April 1, 2019.

(1) Exceptions Specified under IFRS 1

Generally, IFRS requires that companies adopting IFRS for the first time apply IFRS retrospectively. However, IFRS 1 (First-time Adoption of International Financial Reporting Standards) specifies certain exceptions to the retrospective application, i.e. when the exceptions in IFRS 1 prohibit retrospective application or an entity avails itself of one of IFRS 1’s voluntary exemptions. The Company has adjusted for GAAP differences by modifying retained earnings and other components of equity, as of the transition date.

The voluntary exemptions utilized by the Company are as follows:

• Business combinations

Under IFRS 1, first-time adopters can utilize an exemption to the retrospective application of IFRS 3, Business Combinations, with regard to past business combinations. If retrospective application is performed, all aspects of the applicable business combination must be restated to reflect IFRS 3.

The Company has chosen not to retrospectively apply IFRS 3 to past business combinations. As a result, amounts of goodwill for business combinations before the transition date have not been adjusted and therefore still represent the book values under J-GAAP. In addition, impairment tests were performed on this goodwill as of transition date regardless of indication of impairment.

• Use of deemed cost

Under IFRS 1, first-time adopters have the option to use fair value as of the transition date as current deemed cost for properties, plants and equipment. The Company has opted to use fair value as of the transition date as IFRS deemed cost for some of its properties, plants and equipment as of the transition date.

• Foreign currency translation differences for foreign operations

Under IFRS 1, first-time adopters may choose to treat foreign currency translation differences for foreign operations on the transition date as zero. The Company has chosen to treat foreign currency translation differences from foreign

operations on the transition date as zero, and the resulting differences have been recognized in retained earnings.

• Designation of financial instruments recognized prior to transition date

Under IFRS 1, first-time adopters are allowed to elect to designate equity instruments in accordance with IFRS 9, Financial Instruments, financial assets measured at fair value through other comprehensive income based on the facts and circumstances of these financial instruments as of the transition date. The Company designated equity instruments held as of the transition date as financial assets measured at fair value through other comprehensive income based on the purpose of investments as of the transition date.

• Lease (as lessee)

Under IFRS 1, first-time adopters may choose to treat lease contracts outstanding on the transition date as leases under the new IFRS lease definition based on the facts and circumstances of these leases as of the transition date. Moreover, in the case of leases as the lessee, first-time adopters are able to measure all applicable lease liabilities and right-of-use assets as of the transition date when recognizing these liabilities and assets. The Company made the judgment of whether contracts outstanding as of the transition date contain leases based on the facts and circumstances of these leases as of the transition date. In addition, the Company measured lease liabilities as of the transition date at the present value of remaining lease payments, discounted by the lessee additional borrowing interest rate as of the transition date. Furthermore, right-of-use assets were measured at an amount equal to the lease liability at the transition date and IAS 36 (Impairment of Assets) was applied to right-of-use assets as of the IFRS transition date.

• Borrowing cost

IFRS 1 allows first-time adopters to choose not to retrospectively apply IAS 23 (Borrowing Costs) for borrowing expenses related to qualifying assets recognized before the transition date. The Company has elected not to retrospectively apply IAS 23 for borrowing expenses related to qualifying assets recognized before the transition date.

• Share-based payment

Under IFRS 1, first-time adopters are able to choose not to apply IFRS 2 (Share-based Payment) for stock compensation that was granted after November 7, 2002, that vested before the later of transition date and January 1, 2005. The Company has chosen not to apply IFRS 2 to stock compensation for which the rights were vested prior to the transition date.

(2) Exceptions under IFRS 1 to Prohibit Retrospective Application

IFRS prohibits the retrospective application to some items such as estimates, derecognition of financial assets and liabilities, hedge accounting, non-controlling interests, and classification and measurement of financial assets. The Company applies IFRS to these items prospectively from the transition date.

(3) Reconciliations

Reconciliations required under IFRS 1 are summarized in the table below. In these reconciliations, the amounts under “Reclassification” include adjustments that affect

neither retained earnings nor other components of equity, while the amounts under “Difference in recognition and measurement” include adjustments that affect retained earnings and other components of equity. In addition, “Difference in scope of consolidation” reflects the effect of consolidation of immaterial subsidiaries under IFRS. These were not consolidated under J-GAAP and alternatively accounted for using equity method.

Purchase price allocation for business combination and subsequent amortization includes purchase price allocation on acquisition of Minori Solutions Co., Ltd and subsequent amortization of goodwill and intangibles under J-GAAP.

Reconciliation of equity as of the transition date (As of April 1, 2019)

Millions of yen								
Accounts under J-GAAP	J-GAAP	Reclassifications	Difference in scope of consolidation	Differences in recognition and measurement	IFRS	Notes	Subjects of IFRS	
Assets							Assets	
Current assets							Current assets	
Cash and deposits	¥ 21,170	¥ 85,028	¥ 214	¥ —	¥106,413		Cash and cash equivalents	
Notes and accounts receivable – trade	74,698	(9,649)	21	(527)	64,543		Trade and other receivables	
	—	11,489	—	369	11,859		Contract assets	
Lease receivables and investment assets	334	(334)	—	—	—			
Merchandise and finished goods	7,831	(7,831)	—	—	—			
Work in process	360	(360)	—	—	—			
Raw materials and supplies	117	(117)	—	—	—			
	—	8,310	5	15	8,331		Inventories	
Deposits paid	85,028	(85,028)	—	—	—			
	—	56	—	—	56		Income taxes receivable	
Other	11,496	(1,593)	5	(613)	9,295		Other current assets	
Allowance for doubtful accounts	(31)	31	—	—	—			
Total current assets	201,007	—	247	(755)	200,499		Total current assets	
Non-current assets							Non-current assets	
Property, plant and equipment	70,833	(1,552)	9	(12,558)	56,731	F	Property, plant and equipment	
	—	1,581	—	24,190	25,772	G	Right-of-use assets	
Intangible assets	8,208	(8,208)	—	—	—			
	—	8,179	253	—	8,433	B	Goodwill and intangible assets	
	—	5,185	—	885	6,070		Investments accounted for using equity method	
Investment securities	11,773	(11,773)	—	—	—			
Long-term prepaid expenses	1,563	(1,563)	—	—	—			
Leasehold and guarantee deposits	6,759	(6,759)	—	—	—			
	—	7,592	21	—	7,613		Other receivables	
	—	6,730	(436)	52	6,346	A	Other financial assets	
Deferred tax assets	13,709	—	—	5,242	18,951	C	Deferred tax assets	
Other	1,042	534	—	—	1,576		Other non-current assets	
Allowance for doubtful accounts	(53)	53	—	—	—			
Total non-current assets	113,837	—	(152)	17,812	131,497		Total non-current assets	
Total assets	¥314,844	¥ —	¥ 95	¥17,056	¥331,996		Total assets	

Accounts under J-GAAP	Millions of yen					Notes	Subjects of IFRS
	J-GAAP	Reclassifications	Difference in scope of consolidation	Differences in recognition and measurement	IFRS		
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable – trade	¥ 22,087	¥ 7,155	¥ 17	¥ (253)	¥ 29,007		Trade and other payables
	—	10,428	20	—	10,449		Contract liabilities
	—	9,235	—	200	9,436	H	Employee benefits accruals
Short-term borrowings	15,000	—	35	—	15,035		Bonds and borrowings
Lease obligations	843	(843)	—	—	—		
	—	843	—	6,708	7,552	G	Lease liabilities
	—	30	—	—	30		Other financial liabilities
Income taxes payable	4,898	(1,202)	13	—	3,710		Income taxes payable
Provision for bonuses	5,910	(5,910)	—	—	—		
Provision for directors' bonuses (and other officers)	57	(57)	—	—	—		
Provision for loss on construction contracts	228	(228)	—	—	—		
	—	398	—	—	398		Provisions
Other	23,499	(19,849)	24	(39)	3,635		Other current liabilities
Total current liabilities	72,525	(0)	111	6,617	79,254		Total current liabilities
Non-current liabilities							Non-current liabilities
Bonds payable	40,000	—	78	(112)	39,965		Bonds and borrowings
Lease obligations	1,909	(1,909)	—	—	—		
	—	1,909	—	18,518	20,428	G	Lease liabilities
	—	154	—	—	154		Other payables
	—	0	—	—	0		Other financial liabilities
	—	2,923	—	—	2,923	D	Employee benefits
	—	2,779	—	—	2,779		Provisions
Provision for directors' retirement benefits (and other officers)	20	(20)	—	—	—		
Net defined benefit liability	2,902	(2,902)	—	—	—		
Asset retirement obligations	2,779	(2,779)	—	—	—		
Long-term lease and guarantee deposits	154	(154)	—	—	—		
Other	83	—	—	—	83		Other non-current liabilities
Total non-current liabilities	47,850	0	78	18,405	66,335		Total non-current liabilities
Total liabilities	¥120,375	¥ —	¥190	¥25,023	¥145,589		Total liabilities

Accounts under J-GAAP	Millions of yen					Notes	Subjects of IFRS
	J-GAAP	Reclassifications	Difference in scope of consolidation	Differences in recognition and measurement	IFRS		
Net assets							Equity
Shareholders' equity							Share capital
Capital stock	¥ 21,152	¥ —	¥ —	¥ —	¥ 21,152		
Capital surplus	—	40	—	(40)	—		
Retained earnings	175,223	—	(77)	(12,828)	162,317	I	Retained earnings
Treasury shares	(694)	—	—	417	(277)		Treasury shares
Total accumulated other comprehensive income	(2,269)	—	—	4,485	2,216	A, D, E	Other components of equity
Subscription rights to shares	40	(40)	—	—	—		
Non-controlling interests	1,015	—	(17)	—	997		Non-controlling interests
Total net assets	194,468	—	(95)	(7,966)	186,407		Total equity
Total liabilities and net assets	¥314,844	¥ —	¥ 95	¥ 17,056	¥331,996		Total liabilities and equity

## Reconciliation of equity as of March 31, 2020

Accounts under J-GAAP	Millions of yen					Notes	Subjects of IFRS
	J-GAAP	Purchase price allocation for business combinations and subsequent amortization	Reclassifications	Differences in recognition and measurement	IFRS		
Assets							Assets
Current assets							Current assets
Cash and deposits	¥ 32,072	¥ —	¥ 79,623	¥ —	¥111,695		Cash and cash equivalents
Notes and accounts receivable – trade	78,828	—	(11,024)	(1,031)	66,772		Trade and other receivables
	—	—	13,062	702	13,765		Contract assets
Lease receivables and investment assets	340	—	(340)	—	—		
Securities	299	—	(299)	—	—		
Merchandise and finished goods	9,150	—	(9,150)	—	—		
Work in process	671	—	(671)	—	—		
Raw materials and supplies	133	—	(133)	—	—		
	—	—	9,955	115	10,071		Inventories
Deposits paid	79,703	—	(79,703)	—	—		
	—	—	24	—	24		Income taxes receivable
	—	—	412	—	412		Other financial assets
Other	13,600	—	(1,803)	(647)	11,149		Other current assets
Allowance for doubtful accounts	(48)	—	48	—	—		
Total current assets	214,752	—	—	(861)	213,891		Total current assets
Non-current assets							Non-current assets
Property, plant and equipment	74,801	—	(1,384)	(11,870)	61,546	F	Property, plant and equipment
	—	—	1,394	24,704	26,099	G	Right-of-use assets
Intangible assets	21,384	10,274	(31,659)	—	—		
	—	(6,869)	31,650	461	25,242	B	Goodwill and intangible assets
	—	—	6,333	920	7,253		Investments accounted for using equity method
Investment securities	11,854	—	(11,854)	—	—		
Long-term prepaid expenses	1,599	—	(1,599)	—	—		
Leasehold and guarantee deposits	7,178	—	(7,178)	—	—		
	—	—	7,890	—	7,890		Other receivables
	—	—	5,666	73	5,739	A	Other financial assets
Deferred tax assets	10,044	(3,146)	—	6,068	12,967	C	Deferred tax assets
Other	918	—	692	—	1,610		Other non-current assets
Allowance for doubtful accounts	(50)	—	50	—	—		
Total non-current assets	127,732	259	—	20,357	148,350		Total non-current assets
Total assets	¥342,485	¥ 259	¥ —	¥ 19,496	¥362,241		Total assets

Millions of yen							
Accounts under J-GAAP	J-GAAP	Purchase price allocation for business combination and subsequent amortization	Reclassifications	Differences in recognition and measurement	IFRS	Notes	Subjects of IFRS
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable – trade	¥ 25,054	¥—	¥ 7,212	¥ 38	¥ 32,306		Trade and other payables
	—	—	12,638	—	12,638		Contract liabilities
	—	—	10,051	2,002	12,054	H	Employee benefits accruals
Short-term borrowings	15,400	—	10,000	(2)	25,397		Bonds and borrowings
Current portion of bonds	10,000	—	(10,000)	—	—		
Lease obligations	836	—	(836)	—	—		
	—	—	836	5,764	6,601	G	Lease liabilities
Income taxes payable	5,091	—	(1,317)	—	3,773		Income taxes payable
Provision for bonuses	6,972	—	(6,972)	—	—		
Provision for directors' bonuses (and other officers' bonuses)	65	—	(65)	—	—		
Provision for loss on construction contracts	507	—	(507)	—	—		
	—	—	511	—	511		Provisions
Other	29,960	—	(21,550)	(133)	8,275		Other current liabilities
Total current liabilities	93,889	—	—	7,669	101,559		Total current liabilities
Non-current liabilities							Non-current liabilities
Bonds payable	30,000	—	—	(72)	29,927		Bonds and borrowings
Lease obligations	1,581	—	(1,581)	—	—		
	—	—	1,581	19,546	21,127	G	Lease liabilities
	—	—	207	—	207		Other payables
	—	—	5,543	278	5,821	D	Employee benefits
	—	—	3,115	—	3,115		Provisions
Provision for directors' retirement benefits (and other officers' retirement benefits)	11	—	(11)	—	—		
Net defined benefit liability	5,532	—	(5,532)	—	—		
Asset retirement obligations	3,115	—	(3,115)	—	—		
Long-term lease and guarantee deposits	156	—	(156)	—	—		
Other	127	—	(51)	—	75		Other non-current liabilities
Total non-current liabilities	40,523	—	—	19,752	60,276		Total non-current liabilities
Total liabilities	¥134,413	¥—	¥ —	¥27,422	¥161,835		Total liabilities

Millions of yen							
Accounts under J-GAAP	J-GAAP	Allocation of costs through business combinations and subsequent amortization	Reclassifications	Differences in recognition and measurement	IFRS	Notes	Subjects of IFRS
Net assets							Equity
Capital stock	¥ 21,152	¥ —	¥ —	¥ —	¥ 21,152		Share capital
Capital surplus	—	429	(398)	(30)	—		
Retained earnings	191,881	(169)	429	(14,312)	177,828	I	Retained earnings
Treasury shares	(698)	—	—	417	(281)		Treasury shares
Total accumulated other comprehensive income	(4,655)	—	—	6,002	1,347	A, D, E	Other components of equity
Subscription rights to shares	30	—	(30)	—	—		
Non-controlling interests	361	—	—	(2)	358		Non-controlling interests
Total net assets	208,072	259	—	(7,925)	200,405		Total equity
Total liabilities and net assets	¥342,485	¥ 259	¥ —	¥19,496	¥362,241		Total liabilities and equity

## Reconciliation of income and comprehensive income of fiscal year ended March 31, 2020

Millions of yen							
Accounts under J-GAAP	J-GAAP	Purchase price allocation for business combinations and subsequent amortization	Reclassifications	Differences in recognition and measurement	IFRS	Notes	Subjects of IFRS
Net sales	¥387,003	¥ —	¥ —	¥(1,707)	¥385,295		Net sales
Cost of sales	289,048	51	198	(1,195)	288,102		Cost of sales
Gross profit	97,954	(51)	(198)	(511)	97,192		Gross profit
Selling, general and administrative expenses	55,628	270	1,108	138	57,145	B	Selling, general and administrative expenses
	—	—	352	3	355		Other income
	—	—	384	(30)	354		Other expenses
Operating profit	42,326	(321)	(1,340)	(616)	40,048		Operating profit
Non-operating income	1,280	—	(1,280)	—	—		
Non-operating expenses	592	—	(592)	—	—		
Ordinary profit	43,014	(321)	(42,692)	—	—		
Extraordinary income	2,028	—	(2,028)	—	—		
Extraordinary losses	1,080	—	(1,080)	—	—		
	—	—	2,032	(1,820)	212	A	Finance income
	—	—	168	489	658		Finance costs
	—	—	923	53	976		Share of profit (loss) of investments accounted for using equity method
Profit before income taxes	43,961	(321)	(187)	(2,873)	40,578		Profit before tax
Total income taxes	12,666	(152)	(187)	(604)	11,720		Income tax expense
Profit	¥31,294	¥(169)	¥ —	¥(2,268)	¥ 28,857		Profit
Profit attributable to							Profit attributable to
Owners of parent	¥31,201	¥(169)	¥ —	¥(2,267)	¥ 28,765		Owners of parent
Non-controlling interests	93	—	—	(0)	92		Non-controlling interests

Millions of yen							
Accounts under J-GAAP	J-GAAP	Purchase price allocation for business combinations and subsequent amortization	Reclassifications	Differences in recognition and measurement	IFRS	Notes	Subjects of IFRS
Profit	¥31,294	¥(169)	¥ —	¥(2,268)	¥28,857		Profit
Other comprehensive income							Other comprehensive income
							Items that will not be reclassified to profit or loss
Remeasurements of defined benefit plans, net of tax	(1,410)	—	—	490	(919)	D	Remeasurements of defined benefit pension plans
							Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
Valuation difference on available-for-sale securities	(981)	—	—	1,896	915	A	Share of other comprehensive income of investments accounted for using equity method
	—	—	(21)	(18)	(39)		Items that may be reclassified to profit or loss
Deferred gains or losses on hedges	44	—	—	(63)	(19)		Cash flow hedges
Foreign currency translation adjustment	(29)	—	—	(4)	(34)		Exchange differences on translation of foreign operations
Share of other comprehensive income of entities accounted for using equity method	(6)	—	21	—	14		Share of other comprehensive income of investments accounted for using equity method
							Total other comprehensive income, net of tax
Total other comprehensive income	(2,384)	—	—	2,300	(83)		
Comprehensive income	¥28,910	¥(169)	¥ —	¥ 32	¥28,773		Comprehensive income
Comprehensive income attributable to							Comprehensive income attributable to
Owners of parent	¥28,815	¥(169)	¥ —	¥ 35	¥28,680		Owners of parent
Non-controlling interests	95	—	—	(2)	92		Non-controlling interests



Notes on reconciliations

A. Financial instruments

Under J-GAAP, marketable securities were measured at fair value while non-marketable securities were generally measured at cost. Under IFRS, all equity instruments are measured at fair value. In addition, IFRS allow a first-time adopter to designate equity instruments at fair value through other comprehensive income at the date of transition. For the designated equity instruments, gains and losses on sale and valuation of the applicable equity instruments will not be recognized in net income.

B. Goodwill and intangible assets

Under J-GAAP, goodwill is amortized on straight-line method over the period in which said goodwill can be rationally estimated to have an impact. Under IFRS, goodwill recognized in business combinations is not amortized. Rather, impairment tests are performed on an annual basis and when there is an indication of impairment.

C. Deferred tax assets

Under J-GAAP, deferred tax assets were recognized based on “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Guidance No. 26). However, under IFRS deferred tax assets are recognized for deductible temporary differences and tax loss carryforwards to the extent that it is probable that future taxable profits will be available against which they can be used.

D. Employee benefits

Under J-GAAP, service costs, interest expenses, and expected return on plan assets related to defined benefit pension plans were recognized in net income. Actuarial differences and past service costs are deferred in other comprehensive income and then amortized through net income over a defined period.

Under IFRS, service costs and past service costs are recognized in net income. Net interest expense (income) is determined by applying a discount rate to net defined benefit liability (asset). In addition, remeasurement of net defined benefit liability (asset) is recognized in other comprehensive

income and immediately transferred to retained earnings through other components of equity without being reflected in net income. Remeasurements of defined benefit pension plans are comprised of actuarial differences on defined benefit liability and gains on plan assets (excluding interest received on plan assets).

E. Foreign currency translation differences for foreign operations

When applying IFRS, the Company chose to apply the exception for foreign currency translation differences for foreign operations described in IFRS 1. Accordingly, foreign currency translation differences from foreign operations as of the transition date were deemed to be zero, and the resulting differences were recognized in retained earnings.

F. Deemed cost

As part of the process of adopting IFRS, the Company applied the deemed cost exception under IFRS 1, using the fair value of certain property, plant and equipment at the transition date as the deemed cost.

As of the transition date, the book value of the property, plant and equipment for which deemed cost was applied was ¥44,116 million under J-GAAP and the fair value was ¥31,409 million, resulting in a ¥12,706 million decrease in property, plant and equipment as of the transition date.

G. Lease liabilities and right-of-use assets

Under J-GAAP, leases as a lessee were classified as either finance leases or operating leases, and the Company recognized the lease payments associated with operating leases as an expense over the lease term. Under IFRS, leases as a lessee are not classified as finance leases or operating leases, and lease liabilities and right-of-use assets are recognized in relation to lease transactions.

H. Accrued vacation

Under J-GAAP, short-term employee benefits for unused annual leave was not provided. Under IFRS, a provision is recognized for unused vacation.

I. Reconciliation of retained earnings

The impact of the aforementioned reconciliations on retained earnings are as follows (figures in parentheses ( ) represent downward adjustments).

	Millions of yen	
	As of Apr. 1, 2019 (Transition Date)	As of Mar. 31, 2020
Financial instruments (Note A)	¥ 265	¥ 148
Goodwill and intangible assets (Note B)	—	243
Deferred tax assets (Note C)	1,130	1,199
Employee benefits (Note D)	(4,141)	(6,663)
Foreign currency translation differences from foreign operations (Note E)	(182)	(182)
Deemed cost (Note F)	(8,815)	(8,340)
Lease liabilities and right-of-use assets (Note G)	(535)	(479)
Accrued vacation pay (Note H)	(139)	(140)
Others	(487)	(97)
Reconciliation amount of retained earnings <sup>(Note)</sup>	¥(12,905)	¥(14,312)

Note: The adjustment to retained earnings as of the transition date (April 1, 2019) is the sum of the differences in scope of consolidation and differences in recognition and measurement.

Adjustment of cash flows for the fiscal year ended March 31, 2020

While lease fee payments for operating leases were accounted for in operating cash flows under J-GAAP, these payments are reflected in repayments of lease liabilities in financing cash flows under IFRS. As a result, net cash provided by operating activities and net cash used in financing activities were increased by ¥6,613 million for the fiscal year ended March 31, 2020.

40. OTHER

(1) Other Information

Quarterly information for the fiscal year ended March 31, 2021

Cumulative period	1st quarter	2nd quarter	3rd quarter	Full year
Net sales (Millions of yen)	¥94,356	¥189,755	¥290,866	¥396,853
Profit before income taxes (Millions of yen)	10,474	21,536	34,440	46,557
Profit attributable to owners of parent (Millions of yen)	7,260	14,869	23,782	33,435
Basic earnings per share (Yen)	¥ 69.76	¥ 142.87	¥ 228.50	¥ 321.26

Quarterly accounting period	1st quarter	2nd quarter	3rd quarter	Full year
Basic earnings per share (Yen)	¥69.76	¥73.11	¥85.64	¥92.75

## **Internal Control Report**

### **1. Framework of internal control over financial reporting**

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

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

### **2. Assessment Scope, Timing and Procedures**

The assessment of internal control over financial reporting was performed as of March 31, 2021 which is the end of this fiscal year. The assessment was performed in accordance with the assessment standards for internal control over financial reporting generally accepted in Japan.

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

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

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

### **3. Results of assessment**

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

### **4. Supplementary information**

No material items to report.

### **5. Other**

No material items to report.

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

June 22, 2021

To the Board of Directors of SCSK Corporation:

KPMG AZSA LLC  
Tokyo Office, Japan

Isao Kamizuka (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Shinya Mikami (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Kenji Kasajima (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

**Report on the Audit of the Consolidated Financial Statements**

**Opinion**

We have audited the accompanying consolidated financial statements of SCSK Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) provided in the Data Section in the company’s Annual Report, which comprise the consolidated statement of financial position as of March 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, in accordance with Article 193-2(1) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of “the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (hereinafter referred to as “IFRS”).

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

Reasonableness of the estimated total cost as the basis for net sales and provision for loss on construction contracts related to system development	
The key audit matter	How the matter was addressed in our audit
As described in Note “3. Significant accounting policies (15) Net Sales” to the consolidated financial statements, SCSK Corporation and its consolidated subsidiaries (hereinafter, “SCSK”) recognize net sales from the system development contracts and other contracts that meet certain requirements (hereinafter, “the Contracts”) by applying the percentage-of-completion method. The percentage of completion is measured using the percentage of actual cost incurred by the end of the current fiscal year to the estimated total cost. As described in Note “26. Net Sales” to the consolidated financial statements, of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2021 was ¥15,066 million (of which ¥12,850 million was recognized in the current fiscal year and ¥2,216 million was recognized in prior fiscal years). In addition, as described in Note “3. Significant accounting policies (13) (a) Provision for loss on construction contracts” to the consolidated financial statements, SCSK recognizes estimated future losses as provision for loss on construction contracts when it is probable that the estimated total cost of fulfilling the obligations to contracted customers exceed the contract amount and the amount of expected loss can be reliably estimated. As described in Note “23. Provisions” to the consolidated financial statements, the amount of the provision for loss on construction contracts was ¥58 million as of the end of the current fiscal year. As stated above, the recognition of net sales associated with the Contracts and the measurement of provision for loss on construction contracts are both affected by the estimated total cost. Development projects under the Contracts have individuality in the content, such as specifications that vary according to customer requests. Due to facts identified or changes in circumstances that	The primary procedures we performed to assess the reasonableness of the estimated total cost included the following:  <b>(1) Internal control testing</b> We tested the design and operating effectiveness of certain SCSK’s internal controls relevant to the process of determining the estimated total cost. In this assessment, we specifically focused our testing on the following: <ul style="list-style-type: none"><li>● controls to ensure that the estimated total cost was reasonable while considering the individuality of development projects; and</li><li>● controls to ensure that any changes in circumstances that occurred after the commencement of the Contracts were reflected within the estimated total cost in a timely manner.</li></ul> <b>(2) Assessment of the reasonableness of the estimated total cost</b> In order to assess the reasonableness of key assumptions in estimating total cost, we selected uncompleted projects under the Contracts, on which revision of the estimated total cost could potentially have a significant effect. In the selection process, we inspected the materials for the project status meetings held by the personnel responsible for the monitoring and used our own selection criteria. As the primary procedures performed for the selected Contracts, we: <ul style="list-style-type: none"><li>● Evaluated the reasonableness of the percentage of completion by inquiring of the personnel responsible for monitoring the progress status, reviewing relevant documents and comparing them with the percentage of completion in consideration of the cost occurrence patterns on previous similar projects.</li><li>● Inquired of the appropriate management</li></ul>



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Report on the Audit of the Internal Control Report**

**Opinion**

We also have audited the accompanying internal control report of the Company as of March 31, 2021, in accordance with Article 193-2(2) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as of March 31, 2021, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

**Basis for Opinion**

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

accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and the Audit and Supervisory Committee or the Internal Control Report**

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

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

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

**Auditor’s Responsibilities for the Audit of the Internal Control Report**

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

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

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

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest required to be disclosed by the Certified Public Accountants Act of Japan**

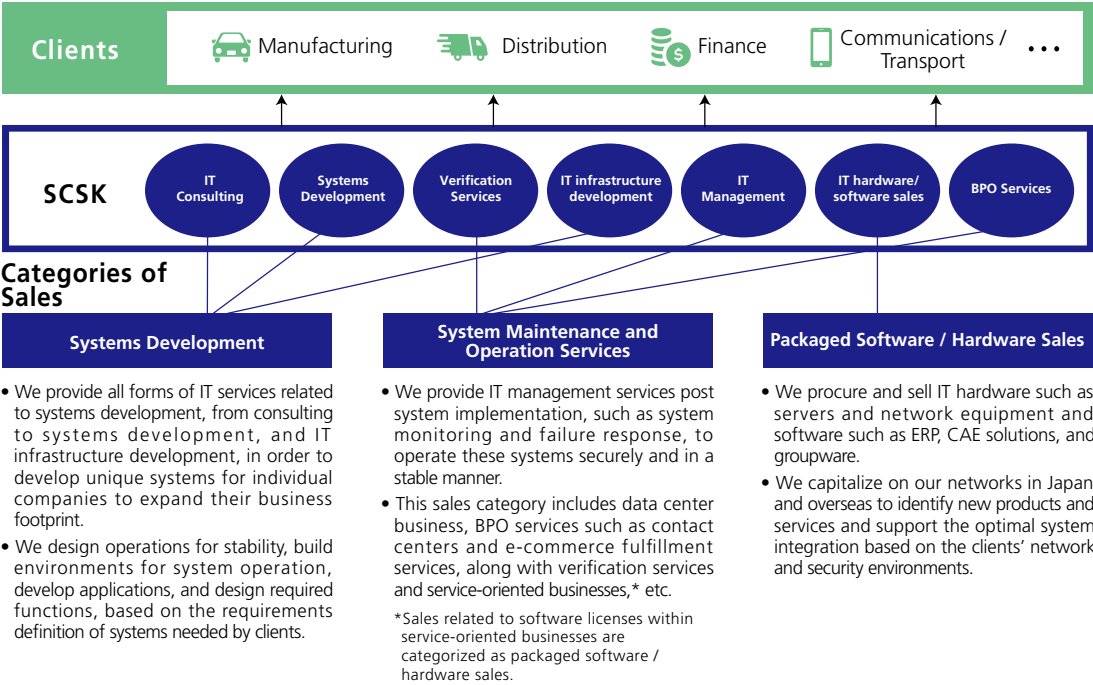
We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

**Notes to the Reader of Audit Report:**

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

SCSK’s Operations

We offer a full lineup of IT services required for business, from IT consulting to systems development, verification services, IT infrastructure development, IT management, IT hardware/software sales, and BPO services. These empower us to deliver solutions to clients’ business challenges and contribute to new value creation.



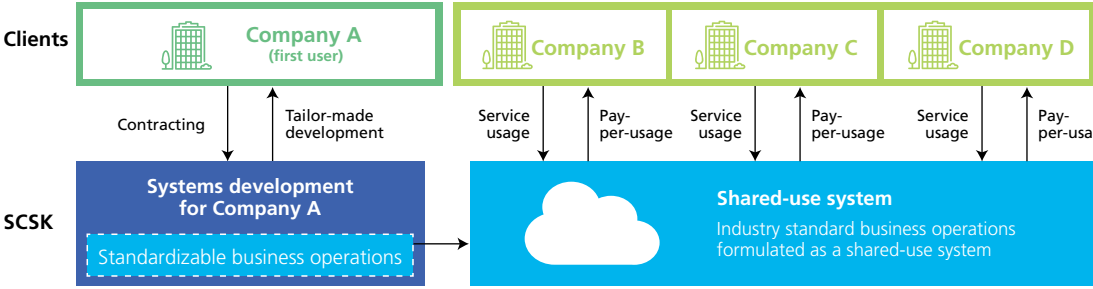
**Service-Oriented Business Model**

Many companies are actively investing in strategic IT for strengthening competitiveness and increasing corporate value. This has given rise to demand for IT services that reduce and eliminate manpower in business operations.

The SCSK Group has expanded service-oriented businesses by actively utilizing its long-standing business know-how and intellectual properties, based on its in-depth experience with business operations unique to specific industries through close working relationships with countless cliets. This

business model involves identifying standardization and generalization within business operations unique to specific industries, and then building the SCSK Group’s shared-use systems to provide to clients in a pay-per-use type.

By providing subscription-based systems for industry standardized and generalized business operations or for domains where clients don’t need to differentiate themselves, we can achieve even greater efficiencies and propel forward clients’ business transformation.



Main Non-Financial Data

Human Resources Data

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Number of employees	7,490	7,385	7,328	7,261	7,241	7,273	7,280	7,384	8,357
Male	6,254	6,162	6,091	6,022	5,976	5,955	5,919	5,940	6,664
Female	1,236	1,223	1,237	1,239	1,265	1,318	1,361	1,444	1,693

Hiring and Employment

Number of new recruits	93 (Male:68,Female:25)	90 (Male:61,Female:29)	99 (Male:67,Female:32)	122 (Male:80,Female:42)	162 (Male:104,Female:58)	205 (Male:122,Female:83)	234 (Male:156,Female:78)	227 (Male:140,Female:87)	312 (Male:196,Female:116)
Number of mid-career professionals hired *1	0 (Male:0,Female:0)	4 (Male:4,Female:0)	4 (Male:3,Female:1)	17 (Male:16,Female:1)	21 (Male:17,Female:4)	25 (Male:22,Female:3)	46 (Male:33,Female:13)	78 (Male:65,Female:13)	66 (Male:56,Female:10)
Average years of service	14 years 5 months	14 years 7 months	15 years 5 months	16 years 3 months	17 years 0 months	17 years 9 months	18 years 1 months	18 years 5 months	18 years 6 months
Turnover rate*2	2.6%	2.2%	2.0%	2.2%	2.3%	2.3%	2.3%	2.6%	1.9%

Diversity

Number of people with disabilities*3	139	153	171	179	219	248	263	262	275
Number of female executives and line managers	14	32	44	54	64	72	78	89	94
Number of non-Japanese employees	46	46	42	45	43	42	38	36	48

Work Life Balance

Average monthly overtime hours **4	26hours,10minutes per month	22hours,03minutes per month	18hours,16minutes per month	18hours,00minutes per month	17hours,47minutes per month	16hours,22minutes per month	17hours,41minutes per month	18hours,15minutes per month	20hours,59minutes per month
Rate of consumed annual paid vacation days **4	78.4%	95.3%	97.8%	95.3%	95.3%	96.4%	94.4%	93.0%	88.7%
Employee satisfaction*5	—	—	79.9%	82.6%	84.0%	90.2%	89.2%	90.0%	92.1%
Childcare leave	Number of users (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)	197 (Male:19,Female:178)	228 (Male:45,Female:183)
	Acquisition rate (Male:0.8%,Female:100%)	22.6% (Male:2.7%,Female:100%)	24.3% (Male:3.2%,Female:100%)	25.5% (Male:3.3%,Female:100%)	28.4% (Male:2.0%,Female:100%)	30.2% (Male:3.7%,Female:100%)	29.6% (Male:3.2%,Female:100%)	33.2% (Male:9.1%,Female:100%)	37.3% (Male:14.6%,Female:100%)
	Return rate (Male:100%,Female:92.9%)	96.6% (Male:100%,Female:96.4%)	96.8% (Male:100%,Female:96.6%)	92.0% (Male:100%,Female:91.6%)	96.9% (Male:100%,Female:96.5%)	96.8% (Male:100%,Female:96.4%)	93.5% (Male:100%,Female:92.7%)	95.7% (Male:100%,Female:94.8%)	98.3% (Male:100%,Female:97.5%)
	Average number of days taken (Male:197,Female:390)	388 (Male:125,Female:405)	392 (Male:139,Female:420)	371 (Male:114,Female:387)	377 (Male:95,Female:397)	360 (Male:102,Female:385)	369 (Male:68,Female:413)	377 (Male:89,Female:437)	337 (Male:65,Female:482)
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)	1 (Male:1,Female:0)	3 (Male:2,Female:1)
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)	265 (Male:7,Female:258)	274 (Male:6,Female:268)
Number of employees using maternity leave**6	86	76	74	85	76	70	62	63	47
Number of employees using parental leave	187	184	152	169	145	143	131	122	89
Number of employees using balance support leave*7	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)	1,068 (Male:669,Female:399)	860 (Male:497,Female:363)
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)	496 (Male:261,Female:235)	304 (Male:143,Female:161)
Nursing care support seminars **8	Number of seminars held (times) Number of participants	3 192	3 155	16 1,088	14 1,126	17 1,630	21 1,523	11 715	10 429

\*1 Total of mid-career professionals for full-time employees and specialized full-time employees  
\*2 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.  
\*3 Employment ratio of the 10 Group companies in Japan certified as affiliates. Figures for each year are as of June 1.  
\*4 Average for all employees including those under the discretionary work system and supervisors.  
\*5 The results tabulated for “Agree” and “Agree somewhat.” The question in FY2016 on “A company with a pleasant and rewarding workplace” was split into two from FY2017.  
\*6 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).  
\*7 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  
\*8 Partial changes were made to the seminar’s format from FY2020

Environmental Performance Data

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017*2	FY2018*2	FY2019*2	FY2020*2
Electricity 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)	110,440 (99,170)	126,000 (114,788)
Break down: Offices in Japan (MWh)*1	18,057	16,463	15,072	14,124	13,687	25,384 (14,720)	24,373 (14,583)	24,671 (13,849)	23,694 (12,482)
Data centers (MWh)	71,751	74,803	77,941	74,807	65,298	59,066	67,488	85,321	102,306
Fuel									
Total (GJ)*1	3,572	3,768	1,945	2,613	2,521	2,789	2,605	3,018	3,834
Break-down*1									
Kerosene (kl)	18	8	9	19	17	20	16	19	23
Light oil (kl)	18	—	—	—	—	—	—	—	—
Diesel (kl)	14	20	21	20	18	23	12	27	46
LPG (t)	19	39	—	—	—	—	—	—	—
Volatile oil (kl)	—	—	—	—	—	—	—	—	12
Utility gas (m³)	16,000	16,000	16,000	25,000	26,000	26,000	35,000	28,000	17,000
Heat consumption (steam, hot water, cold water)*1 (GJ)	2,346	2,595	3,395	2,590	3,268	2,822	11,510*3	13,029	16,265
CO2 Emissions (Scope1 and Scope2)*1 (t-CO2)	41,393	47,341	48,636	45,612	39,820	42,783 (36,664)	43,632 (38,081)	46,781 (40,828)	52,603 (46,658)
Volume of office paper purchased (1,000 sheets)	37,771	33,363	32,577	34,390	29,234	23,079	20,250	17,767	6,417
General waste (t)*4	309	331	361	357	294	267	215	203	140
Industrial waste (t)*4	95	161	130	172	172	148	187	159	16

Annual Average PUE at Data Centers

Tokyo Center 1	1.62	1.63	1.58	1.63	1.64	1.63	1.63	1.65	1.67
Chiba Center	1.46	1.47	1.53	1.49	1.76	1.74	1.73	1.65	1.66
Sanda Center	1.75	1.80	1.74	1.79	1.82	1.79	1.80	1.81	1.71

\*1 Data for FY2012 to FY2016 only includes certain group companies. Data for FY2017 and afterwards indicate electricity usage and CO2 emissions for the entire SCSK Group. Data for fuel and heat energy from FY2018 represents the total volume for the Group.  
\*2 Parentheses indicate data within the same scope up to FY2016.  
\*3 Cold water usage from certain locations that could not be calculated up to FY2017 were newly included from FY2018.  
\*4 The company does not produce any hazardous waste from its business operations.



# Non-Financial Analysis

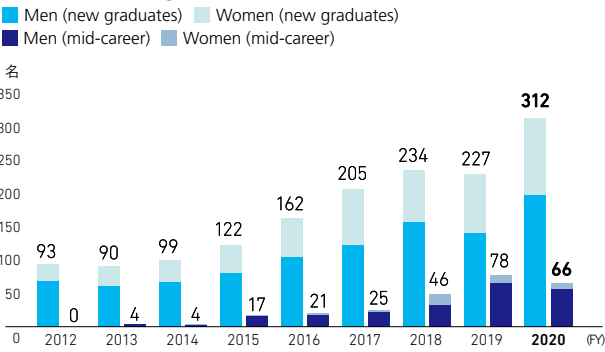
## Human Resources

### Hiring and Turnover Rates

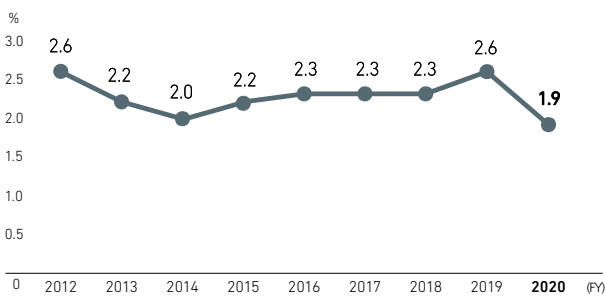
We have actively recruited new talent as the scale of our operations has grown. Most of these new hires were recruited out of university in anticipation of growth in the IT sector. In addition, in recent years we have stepped up mid-career recruitment efforts to actively hire talent with the skills that can make a difference right away. Going forward, we plan to stably secure the talent needed to power our sustainable business growth using recruitment of both university graduates and mid-career workers.

We have also developed a number of programs to assist the independent career development of employees and ensure they are placed in the right assignments. The CDP program that supports career development through interviews with supervisors involves assignments one to two years later and allocation of roles and duties taking into account the expectations of organizations based on the intent and targets of individual employees. We have also established a personnel recruitment program and internal free agent (FA) program where employees can request transfers. Giving employees the ability to choose their job helps us to build a workplace environment that increases employee motivation and empowers employees to achieve their career they desire from a long-term perspective. In FY2020, we launched the young employee career development program to accelerate the

### Trends in Hiring



### Trends in Turnover Rate



fostering of young employees. This program involves training-based job rotations that support young employees' career development through enhanced training options and interviews with career advisers.

As a result of these initiatives, the turnover rate has continued to trend below the industry average and in FY2020 it was 1.9%. We will continue to expand our support programs compatible not only with young employees but a wide range of age groups including mid-career and senior employees.

### Diversity and Inclusion

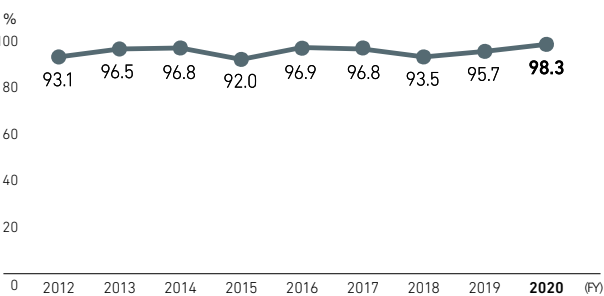
SCSK is working to promote diversity and inclusion with the goal of enhancing the performance of organizations by fully harnessing the skills of its diverse workforce. For example, we are encouraging human resources development and career development support for the active promotion of women under the target of reaching 100 women in officer and managerial positions. As of March 2021, this number amounted to 94, but the cumulative total of women trained and promoted exceeds the target of 100. Our efforts to improve workplace comfort have resulted in a return rate from maternity and childcare leave at close to 100%.

In addition, we introduced a program for the full-time employment of seniors with the purpose of further encouraging the active role of seniors with a wealth of knowledge and experience. Given that the number of employees reaching the age of 60 will increase going forward, we are developing a workplace environment where seniors with in-depth practical knowledge and experience can have a secure job and contribute their skills.

Aiming to foster a corporate culture that embraces and utilizes diversity, in FY2020 we held discussions among general manager level employees and higher on the vision for their respective organizations and formulated a detailed action plan for building organizations where people shine.

We will continue to implement measures that maintain and further develop our sound workplace environment where everyone, regardless of nationality, disability or sexual orientation, can continue to work.

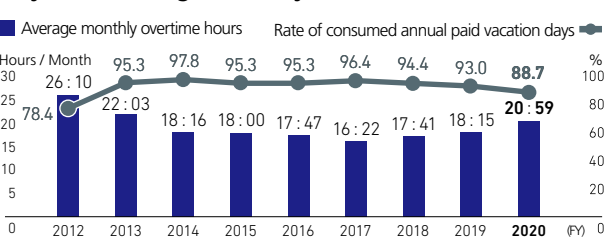
### Trends in Rate of Employees Returning to Work after Childcare Leave



### Work-Life Balance

SCSK is expanding its personnel systems and measures aiming for a workplace where each and every employee has access to flexible working styles based on their life stage and can fully contribute their skills while continuing to work with peace of mind. Among these efforts, Smart Work Challenge, initiated in FY2013, is a company-wide program with the targets of reducing average overtime hours to less than 20 per month and having employees take on average 20 days of annual paid vacation every year. After launching this program, we have continued to keep average overtime hours below 20 per month and the rate of consumed annual paid vacation days has trended around 95% since FY2014. In FY2020, however, average overtime hours totaled around 21 hours per month and the rate of consumed annual paid vacation days was about 89%. This is because of working styles combining office and remote work due to the COVID-19 pandemic, growing needs for new proposals and solutions tailored to a changing environment, increasing degree of difficulty of management duties, and employees not taking summer vacation as in typical years. Considering these factors, in FY2021 we will focus again on developing tools and the workplace environment so as to further increase the quality of communication among employees, achieve more efficient working styles, and ensure that employees can achieve self-growth by using the time created to enhance their expertise. We will also work collectively as a company to tackle the challenges of further upgrading smart work with an aim to become an independent group of professionals who can flexibly adapt to changes in the business environment.

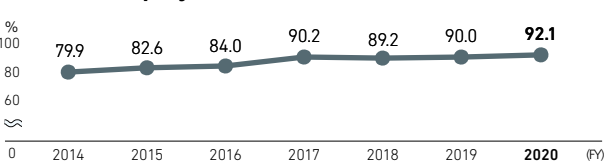
### Trends in Rate of Consumed Annual Paid Vacation Days and Average Monthly Overtime Hours



### Employee Satisfaction

We have been promoting measures for diversity and inclusion intended to promote working style reforms, improve work-life balance, and utilize our diverse workforce. As a result, employee satisfaction in terms of comfortable and rewarding workplace was around 92% on the employee awareness survey conducted annually.

### Trends in Employee Satisfaction



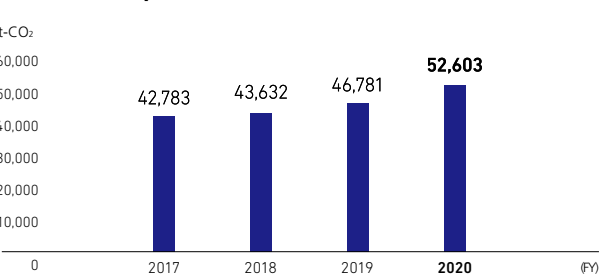
## Environment

### Environmental Initiatives at Data Centers

Around 80% of the SCSK Group's Scope 1 and Scope 2 greenhouse gas emissions are from the electricity consumption of our data centers. In recent years, the amount of electricity consumed by our data center is rising due to the growing number of clients using our data centers and the full-scale launch of operations at the Sanda Center 2 completed in FY2018. Electricity consumed by our data centers is expected to increase further owing to the start of operations at the Chiba Center 3 (see page 55) currently under construction.

Based on this situation, we will work to further reduce electricity consumption and use energy more efficiently by adopting high efficiency equipment and streamlining operations with the aim of lowering the environmental impacts of SCSK's data centers. Also, we are exploring ways to lower greenhouse gas emissions through the utilization of renewable energy.

### Trends in Scope 1+2 CO<sub>2</sub> Emissions



### Status of Environmental Targets for Our Offices

SCSK established office environment targets on office and site operations in 2015 as part of its environmental management system (EMS). Since then, we have been implementing initiatives to lower the environmental impacts of our offices. In FY2020, we achieved reductions greatly above and beyond targets for the amount of copier paper purchased and general waste emissions thanks to changes in work situation due to COVID-19 and our ongoing working style reforms. Looking ahead, we will continue to reduce environmental impacts through our EMS activities.

\*See page 164 for the amount of copier paper purchased and general waste emissions.

### Status of Office Environment Targets

Scope (total volume)	Targets*1	FY2020 results
Amount of copier paper purchased	20% or higher reduction	82.0% reduction*2
General waste emissions	5% or higher reduction	53.3% reduction*2

\*1 Compared to FY2015

\*2 Business locations with ISO certification only

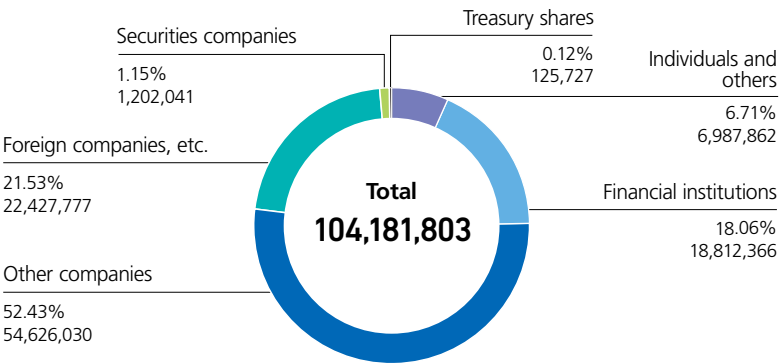
Basic Information			
Established	October 25, 1969	Head office	Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo 135-8110, Japan TEL: +81-3-5166-2500 URL: https://www.scsk.jp/index_en.html
Capital	¥21,152 million		
Total number of employees	14,550 (Consolidated)		

Group Companies		
Japan		Overseas
<div><div><ul style="list-style-type: none"><li>SCSK ServiceWare Corporation</li><li>VeriServe Corporation</li><li>Minori Solutions Co., Ltd.*1</li><li>SCSK KYUSHU CORPORATION</li><li>SCSK HOKKAIDO CORPORATION</li><li>SCSK PRESCENDO CORPORATION</li><li>Skeed Co., Ltd.CSI SOLUTIONS Corporation*1</li><li>Allied Engineering Corporation</li><li>WinTechnology Corporation*1</li></ul></div><div><ul style="list-style-type: none"><li>SCSK SYSTEM MANAGEMENT CORPORATION</li><li>VA Linux Systems Japan KK</li><li>SDC Corporation</li><li>Gran Manibus Co., Ltd.</li><li>SCSK Nearshore Systems Corporation</li><li>TOKYO GREEN SYSTEMS CORPORATION</li><li>ARGO GRAPHICS Inc.*2</li><li>Diamond Head Co., Ltd.*2</li></ul></div><div><ul style="list-style-type: none"><li>SCSK USA Inc.</li><li>SCSK Europe Ltd.</li><li>SCSK Shanghai Limited</li><li>SCSK Asia Pacific Pte. Ltd.</li><li>PT SCSK Global Indonesia</li><li>SCSK Myanmar Ltd.</li></ul></div></div>		
<div><div><p>*1 Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, and WinTechnology Corporation will merge on October 1, 2021 to form SCSK Minori Solutions Corporation</p><p>*2 Company accounted for using the equity method.</p></div></div>		

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 125,727 treasury shares)	Stock trading unit	100
Number of shareholders	25,752	Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
		Independent certified public accountant	KPMG AZSA LLC
* Based on the provisions of Article 184, paragraph 2 of the Companies Act and due to a resolution of the Board of Directors on July 30, 2021, SCSK is planning a one-for-three share split effective October 1, 2021.			

Distribution of Shareholders (Common Stock)

Shareholder composition



Major Shareholders

Name of Shareholder	Number of Shares Held	Shareholding Ratio
1 SUMITOMO CORPORATION	52,697,159	50.64%
2 Custody Bank of Japan, Ltd.(Trust Account)	6,241,400	6.00%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	4,255,400	4.09%
4 SCSK Group Employee Stock Ownership Association	2,376,745	2.28%
5 SSBTC CLIENT OMNIBUS ACCOUNT	1,381,993	1.33%
6 Custody Bank of Japan, Ltd.(Trust Account 7)	1,193,100	1.15%
7 STATE STREET CLIENT OMNIBUS ACCOUNT OM02	1,090,070	1.05%
8 ARGO GRAPHICS Inc.	1,015,500	0.98%
9 STATE STREET BANK AND TRUST COMPANY 505001	869,729	0.84%
10 STATE STREET BANK WEST CLIENT - TREATY 505234	765,192	0.74%

Shareholding ratio is calculated exclusive of treasury stock.

Global Network

Overseas Network

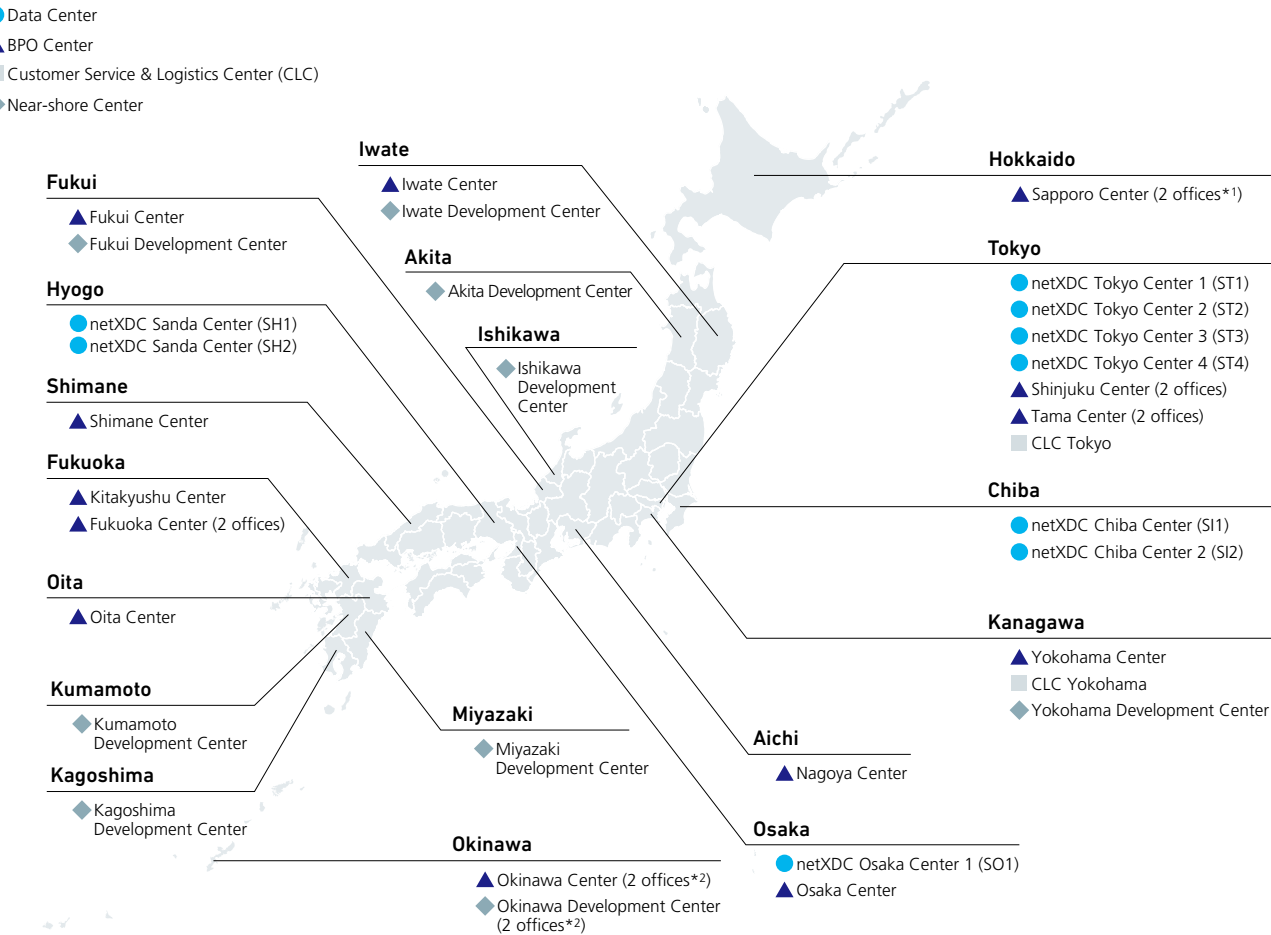
Our worldwide network provides strong support for customers’ global business development.



See “SCSK’s Global Network” on page 52 for more information about our overseas network.

Domestic Network

Our domestic network provides high-quality services with unwavering reliability and security.



\*1 The second business site was opened in May 2021.












\*2 Transferred from one of the current locations with a new location opening in Urasoe City in fall 2021.

Glossary

<p>○ <b>AI (Artificial Intelligence)</b></p> <p>An artificial system composed mainly of computers for handling sophisticated intellectual work and decisions that were only possible by people.</p>	<p>○ <b>ERP (Enterprise Resource Planning)</b></p> <p>An approach to appropriately allocate and effectively utilize people, things, money and information forming the foundation of corporate management.</p>
<p>○ <b>API (Application Programming Interface)</b></p> <p>This is a mechanism that makes possible the sharing of a portion of the functionality of application software.</p>	<p>○ <b>Fintech</b></p> <p>A coined term combining “finance” and “technology.”</p>
<p>○ <b>BPO (Business Process Outsourcing)</b></p> <p>Outsourcing various business processes to a specialized firm.</p>	<p>○ <b>IoT (Internet of Things)</b></p> <p>A system where various things are connected through the Internet, enabling the communication of information or data on these things.</p>
<p>○ <b>BSW (Basic Software)</b></p> <p>Operating system, drivers and middleware for ECU.</p>	<p>○ <b>MaaS (Mobility as a Service)</b></p> <p>A system that uses IT to seamlessly connect various forms of transportation, such as trains, buses, and taxis.</p>
<p>○ <b>CAD (Computer-Aided Design)</b></p> <p>Creating designs and drawings for industrial products, buildings, etc. using a computer.</p>	<p>○ <b>PLM (Product Lifecycle Management)</b></p> <p>A method for comprehensively managing products within all processes from product development planning to design, production and user support after shipment.</p>
<p>○ <b>CAE (Computer Aided Engineering)</b></p> <p>A method of development where product design and structural analysis are conducted using computer simulation.</p>	<p>○ <b>SaaS (Software as a Service)</b></p> <p>A system for providing application software functions to customers over a network when needed.</p>
<p>○ <b>CRM (Customer Relationship Management)</b></p> <p>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.</p>	<p>○ <b>SoR (System of Record)</b></p> <p>A system designed with emphasis on recording and managing important business data.</p>
<p>○ <b>DX (Digital Transformation)</b></p> <p>The spread and penetration of IT transforming various aspects of people's lives for the better.</p>	<p>○ <b>SoE (System of Engagement)</b></p> <p>A system that flexibly responds to constantly changing customer needs and behavior patterns with the purpose of building stronger relationships with customers.</p>
<p>○ <b>ECU (Electronic Control Unit)</b></p> <p>A computer for controlling automobiles.</p>	

External Recognition

SCSK’s initiatives have been recognized by a number of institutions inside and outside of Japan.

<ul style="list-style-type: none"><li>Received the Chairman's Prize at the 18th Telework Promotion Awards sponsored by the Japan Telework Association</li><li>Third 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, 2019 and 2020)</li></ul>  <ul style="list-style-type: none"><li>Received the Minister of Health, Labor and Welfare Award at the Good Career Company Awards 2019 organized by the Ministry of Health, Labour and Welfare</li></ul>  <p>GOOD CAREER COMPANY AWARD 2019 大賞</p> <ul style="list-style-type: none"><li>Awarded the Top Prize of "Platinum Career Award" organized by Toyo Keizai Inc. and supported by Cabinet Secretariat / Ministry of Health, Labor and Welfare.</li></ul>  <ul style="list-style-type: none"><li>Seventh consecutive year selected as "Brand of Companies Enhancing Corporate Value through Health &amp; Productivity" jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (FY2014, FY2015, FY2016, FY2017, FY2018, FY2019 and FY2020)</li></ul> 	<ul style="list-style-type: none"><li>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</li></ul>  <ul style="list-style-type: none"><li>Seventh consecutive year selected as "Nadeshiko Brand" designation jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (FY2014, FY2015, FY2016, FY2017, FY2018, FY2019 and FY2020)</li></ul>  <ul style="list-style-type: none"><li>Selected for THE DIVERSITY MANAGEMENT 2.0 PRIME (FY2018)</li></ul>  <ul style="list-style-type: none"><li>Third consecutive year received the Gold rating, the highest rating, in the PRIDE Index* (2018, 2019 and 2020)</li></ul> <p>*An index used by work with Pride, a volunteer organization with the mission of achieving comfortable workplaces for the LGBT community in Japan beyond the frameworks of companies and organizations.</p>  <ul style="list-style-type: none"><li>Fifth consecutive year (2017, 2018, 2019, 2020, and 2021) selected for inclusion in the Somo Sustainability Index (formerly SNAM Sustainability Index) established by Somo Asset Management Co., Ltd.</li></ul> 	<ul style="list-style-type: none"><li>Selected for inclusion in the 2017, 2018, 2019, 2020 and 2021 FTSE4 Good Index Series</li></ul>  <p>FTSE4Good</p> <ul style="list-style-type: none"><li>Selected for inclusion in the 2017, 2018, 2019, 2020 and 2021 FTSE Blossom Japan Index</li></ul>  <p>FTSE Blossom Japan</p> <ul style="list-style-type: none"><li>Selected for inclusion in the MSCI Japan ESG Select Leaders Index (2017, 2018, 2019, 2020 and 2021)</li></ul> <p>2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX</p> <ul style="list-style-type: none"><li>Selected for inclusion in the MSCI Japan Empowering Women Index (WIN) (2017, 2019, 2020 and 2021)</li></ul> <p>2021 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)</p>
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Technical Recognition

Digital technology is one of SCSK’s strengths, and we must always base our work on the latest cutting-edge technology in proposing the best, high-quality solutions for clients. SCSK’s technical capabilities have been recognized with receipt of the following certifications and awards.

- Certified as an APN Premier Consulting Partner under the AWS Partner Network (APN), the highest level in the Amazon Web Services, Inc. (AWS) Consulting Partner program (FY2019 and FY2020)
- Certified as a Google Cloud Partner (FY2020)
- Awarded the Information Technology Encouragement Award (for collaboration) at FY2020 (38th) Information Technology Award organized by Japan Institute of Information Technology (JIIT)
- Awarded Encouragement Award under FY2020 Best Customer Support of the Year award program organized by JIIT