SCSK REPORT 2022

From Apr. 1, 2021 to Mar. 31, 2022

IT for the Next Delight.

SCSK

Create Our Future of Dreams

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
SCSK Minori Solutions Corporation
SCSK KYUSHU CORPORATION
SCSK HOKKAIDO CORPORATION
SCSK PRESCENDO CORPORATION
Skeed Co., Ltd.
Allied Engineering Corporation
SCSK SYSTEM MANAGEMENT CORPORATION
VA Linux Systems Japan KK
SDC Corporation
SCSK NEC Data Center Management, Ltd.
Gran Manibus Co., Ltd.
SCSK Nearshore Systems Corporation
TOKYO GREEN SYSTEMS CORPORATION
ARGO GRAPHICS Inc.*
Diamond Head Co., Ltd.*

Overseas

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

As of April 1, 2022

* Company accounted for using the equity method.

Sustainable Lines

The sustainable lines are threads of light, which represent the SCSK Group's seven material issues. These threads express how the seven material issues navigate both the vision set by the Group to achieve sustainability management and become a Co-Creative IT Company and our actions to Create Our Future of Dreams with all of our stakeholders, thereby giving shape to our business.

Contents

Introduction

Part1 SCSK Group's Vision

Part2 Value Creation Through Business

Part3 Foundation Supporting Sustainable Growth

Data Section

Editorial Policy

SCSK Report 2022 has been compiled as an integrated report that contains information on performance and business strategies as well as non-financial information, such as that pertaining to sustainability activities.

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

Scope of report	SCSK and the SCSK Group
Publication date	October 2022 (The original Japanese report was published in August 2022, therefore, the information is as of August 2022)
Reporting period	FY2021 (April 2021 to March 2022) *Includes some information for FY2022

Guidelines referenced

- U.N. Global Compact

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

- ISO26000
- Value Reporting Foundation (VRF) International Integrated Reporting Framework
- Global Reporting Initiative (GRI) GRI Standards
- Ministry of Economy, Trade and Industry (METI)'s Guidance for Collaborative Value Creation

Important Information Regarding Report Terminology

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

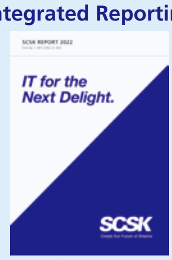
Disclaimer

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.

The company cannot be held responsible for losses resulting from information contained in this report. This report may not be reproduced or retransmitted without authorization.

Composition of Information Disclosure Media

Integrated Reporting



Integrated Report

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

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

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 celebrated 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.

1969 onward SCS

Sumisho Computer Service Corporation (later Sumisho Computer Systems Corporation)

Sumisho Computer Systems Corporation established trust and a global support network as a member of the Sumitomo Corporation Group

1989: Listed on the Second Section of the Tokyo Stock Exchange
1991: Listed on the First Section of the Tokyo Stock Exchange
2005: Merged with Sumisho Electronics Co., Ltd.

1968 onward CSK

Computer Services Corporation (later CSK Corporation)

CSK built up a unique position as a proactive independent firm that was a self-starter

1982: Listed on the Second Section of the Tokyo Stock Exchange
1985: Listed on the First Section of the Tokyo Stock Exchange

2011 onward SCSK

Providing a full lineup of services to a broad client base of approximately 8,000 companies utilizing the Group's comprehensive capabilities

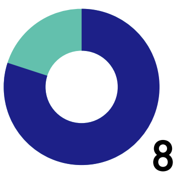
Clients

- Manufacturing
- Distribution/Services
- Medical/Healthcare
- Communications/Media
- Utilities (Gas/Electricity)
- Banking
- Insurance
- Securities
- Credit/Leasing

Profile

Strong relationships with core clients

Percentage of consolidated net sales accounted for by top 200 clients



80.6 %

(see page 40)

Growing shareholder returns in line with business growth

Dividend per share increased around

4.4-fold since merger

(see page 38)

Continuing with initiatives to increase productivity

Number of projects using S-Cred⁺

130 to date

Number of service managers trained

90

(see page 26)

Actively implementing working style reforms

Rate of used annual paid vacation days

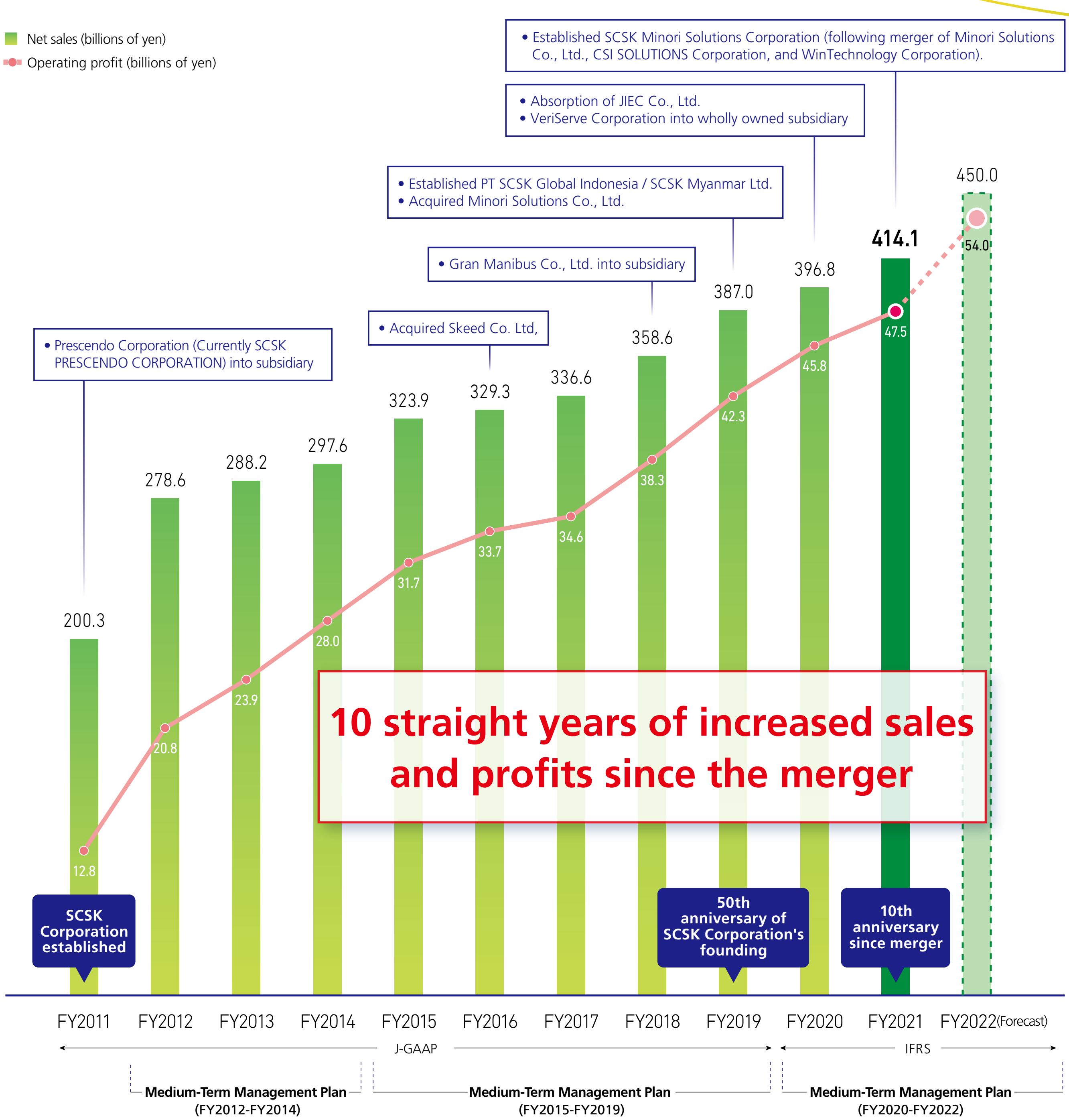
90.9 %

Average monthly overtime hours

21 hours 43 minutes

(see page 62)

Trends in Net Sales and Operating Profit



Promoting the career development of women

Number of female executives and line managers

92

(see page 86)

Promoting health and productivity management

Employees and their families' happiness through health advancement

Degree of happiness **91.2** %

Increase performance through improved mental and physical health condition

Degree of happiness **92.2** %

(see page 86)

Continuing to strengthen corporate governance

Ratio of independent outside directors serving on the Board of Directors

50 %

Ratio of independent outside directors serving on the Audit & Supervisory Committee

83 %

(see page 68)

Part
1

SCSK Group's Vision

Chairman's Message

SCSK continues working toward enhancing the Group's corporate value and realizing a sustainable society despite the constantly changing business environment.

Thank you for your continued support and patronage of the SCSK Group. My name is Hideki Yamano, Representative Director, Chairman and Chief Executive Officer. Together with Takaaki Touma, President and Chief Operating Officer, I am committed to growing the SCSK Group's corporate value and achieving sustainable growth.

Today, the world finds itself in the midst of unprecedented change. With the COVID-19 pandemic persisting, geopolitical risks are emerging and rapid changes are occurring in people's way of life and the business environment worldwide. Despite this uncertain and volatile environment, I am convinced that the SCSK Group is capable of achieving greater growth.

The importance of IT continues to grow within society. Without IT,not only corporate activities but also our daily lives would not be possible. With reliable and user-friendly IT services in demand, there will be more opportunities where the SCSK Group is truly indispensable.

FY2022 marks the 12th year since the SCSK Group was born. The source of our competitive strengths includes technical prowess and operational quality fostered and refined from the time of our predecessor companies, our strong relationships with clients and partners, and our human capital giving rise to both. Working style reforms along with health and productivity management are initiatives the SCSK Group has focused on for some time, and going forward we intend to evolve these efforts to continuously strengthen our management foundation, leading to job satisfaction and heightened value creation capabilities.

To achieve the SCSK Group's corporate philosophy of Create Our Future of Dreams, we are promoting sustainability management that seeks continuous growth together with society. We will fulfill our corporate responsibilities as a good corporate citizen by helping society to attain its vision for the future through our business activities. Now is the time to act particularly because of the threats to a safe and secure society and environmental sustainability caused by an uncertain world.

This fiscal year's integrated report covers our approaches to sustainability management according to the SCSK Group's material issues (see page 17) identified from top priority social issues we must address as a corporation. It conveys to stakeholders our commitment to move toward our vision for 2030 of becoming a Co-Creative IT Company.

I ask for your continued support as we move forward, making the SCSK Group grow together with society in a sustainable and highly dynamic manner.

Hideki Yamano

Representative Director
Chairman and Chief Executive Officer

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
・
・
・

Corporate Philosophy Create Our Future of Dreams

Implementation of Corporate Philosophy Material Issues

> P17

Achieving sustainable business growth with society

Foundation supporting sustainable growth

Management resources

Financial capital > P35

- A strong financial base
- High capital efficiency
- Strategic business investment

FY2021 results
ROE of 14.1% and ROIC of 11.8%, etc.

Intellectual capital > P25

- Ability to explore and apply innovative technologies
- R&D capabilities in commercialization of a dvanced technologies
- SCSK's quality standard to achieve high quality and improved productivity and platforms underpinning it

As of March 31, 2022
Number of S-Cred+ project orders: 130
Number of S-Cred+ engineers trained: 1,900

Human capital > P56

- Professional human resources with various skills and experiences
- Workplace that encourages continual growth and contributions
- Corporate culture that encourages co-creation and provides a strong sense of employee motivation

FY2021 results
SCSK Career Framework accredited employees: 5,950
Number of female executives and line managers: 92
Employee satisfaction: 91.8%

Social and relationship capital > P40, P63

- Client base for realizing co-creation across different industries
- Sustainable value chain

Client base: around 8,000 companies
Collaboration with core partners (hosted core partner conference nine years running), etc.

Natural capital > P52

- Highly energy efficient data centers

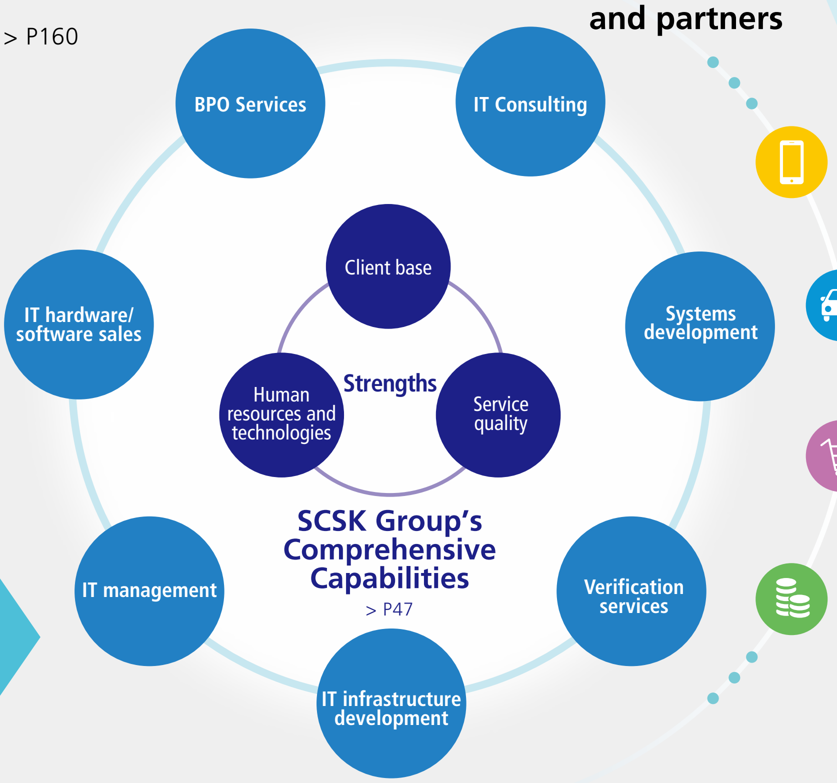
FY2021 results
Greenhouse gas emissions: approx. 15% reduction (compared to FY2019)
Expanded disclosure of information based on the TCFD recommendations
Issuance of green bonds, etc.

Corporate governance > P65

Sustainable business growth through the resolution of social issues

Business activities
> P160

Co-creation with clients and partners



Medium-Term Management Plan > P23

Core Business Innovation

Secure competitive edge by innovating business processes and client contact points
> P25

Investment in People

Accelerate business growth through sophistication, diversification, and expansion of human resources
> P33

Commercialization of DX

Create new businesses through co-creation with clients, across industry lines, and on a global basis
> P29

Managerial Foundation Reinforcement

- Augmentation of Comprehensive Group Capabilities (Inter-organization collaboration)
- Promotion of Management that Fully Exercises Our Employees' Potential
- Fostering of Co-Creation-Oriented Corporate Culture

Creation of social value

- Innovating for a brighter society
- Building trust for a safe and secure society
- Creating an inclusive

Grand Design 2030
> P19

SCSK Group's vision

Co-Creative IT Company

- IT for the next delight -

Target net sales of ¥1 trillion

Creation of economic value

- Increasing profits
- Enhancing capital efficiency
- Maximizing shareholder value

Expand management resources

SCSK seeks to become a Co-Creative IT Company that transcends conventional frameworks using the process of self-transformation to find solutions to social issues.

Takaaki Touma

Representative Director
President and Chief Operating Officer

My name is Takaaki Touma, Representative Director, President and Chief Operating Officer of SCSK Corporation. Since joining the company back in 1987, I have worked as a systems engineer and project manager primarily for clients in manufacturing. From my experience managing a number of projects I learned the importance of mutual understanding with project stakeholders, or the ability to think from the other person's point of view. A project manager must be able to align the awareness and mindsets of everyone involved in a project including not only project members, but also clients and partners, when it comes to the project's meaning and purpose. They must also ensure that everyone is on the same page when it comes to their commitment to success. With project stakeholders facing various constraints and conditions, a project manager must build solid relationships of trust by sharing the sense of achievement with everyone involved, having overcome difficulties and identified solutions by thinking from the other person's point of view. For me, project management was the real thrill of the job and brought me a great deal of joy.

I was a member of the project team established in October 2011 following the merger to develop a new corporate philosophy. I shared my belief that the concept should include value co-creation, where we create new value together with clients and partners. After much discussion, the team arrived at today's corporate philosophy of Create Our Future of Dreams. Since becoming President, I have received words of encouragement from stakeholders and come to understand the expectations placed on the SCSK Group. I believe our mission and existential value can be found in creating a brighter future by harnessing our built-up IT and operational knowledge together with clients, partners, and society.

Today, we find ourselves at a major turning point in history. Amid unprecedented environmental changes such as the COVID-19 pandemic and Russia's military invasion of Ukraine, the IT services demanded of the SCSK Group, too, are changing at an accelerating pace. Simply providing the same IT services as before will make it near impossible to resolve issues faced by clients and society or continue to grow.

The SCSK Group must actively transform itself in order to sustain growth during this time of major uncertainty in the business environment. I believe that we need to connect information, expand our imagination, predict the future, identify new business opportunities therein, and repeat verification using a shortened cycle. We will tackle the challenge of unwavering innovation in order to become a game changer that determines the direction of social transformation by affecting change for clients and society.

Toward Medium- to Long-Term Value Creation

Linking material issues to business and addressing them through the work of individual employees

The SCSK Group is promoting sustainability management aiming for continuous growth by contributing to solutions to social issues under our corporate philosophy of Create Our Future of Dreams. To engage in business based on co-creative approaches, in April 2020 the SCSK Group identified seven material issues forming the compass of our sustainability management. We evaluated the various issues facing society today from a business perspective and identified issues that the SCSK Group should prioritize in order to grow together with society.

The Sustainability Committee is spearheading efforts to proactively raise awareness among officers and employees so that we can address these seven material issues. Until FY2021, I served on this committee where I worked on sustainability management and spreading understanding of material issues, which serves as a guideline for our activities. Specifically, the committee discussed how to raise awareness and promote understanding of the SDGs and sustainability management among leadership and junior officers and employees, and how to address materiality in daily operations by linking them to business. Going forward, committee members will become the torchbearers in transforming employee and officer mindsets and addressing material issues, which in turn is expected to further accelerate the SCSK Group's sustainability management.

Progress of Medium-Term Management Plan

Achieving robust profitability using the S-Cred⁺ platform

The SCSK Group established a long-term vision of transforming into a Co-Creative IT Company in 2030 based on the direction of material issues. Since April 2020, we have been implementing our Medium-Term Management Plan (FY2020–FY2022) as the initial step to achieving this vision. Under this plan, following the three core strategies of Core Business Innovation, Commercialization of DX, and Investment in People, we seek a fundamental transformation of our business structure. Toward this end, we implemented a number of measures in FY2021, the second year of the plan.

We are carrying out Core Business Innovation from the two perspectives of *Monozukuri* innovations and subdivision innovations. In *Monozukuri* innovations, we are making steady progress with rolling out the functions of the S-Cred⁺ platform. This proprietary platform for development and operations increases productivity and achieves Low-Code No-Code development while at the same time ensures quality in system development and operation. Our goal is to improve productivity by 30% through labor savings and streamlining using this platform. I believe this will enable us to achieve robust profitability and further solidify the SCSK Group's competitive strengths in the industry.

We have already trained around 2,000 employees within the SCSK Group to be experts in S-Cred⁺. We are also making steady progress with infrastructure improvements for use by core partners, and we are in the process of developing a structure for utilizing this solution on the frontline of their business operations. From FY2022, we will enter the full-fledged rollout phase and we intend to use this platform for more than 30% of major development and operation projects as quickly as practical.

Subdivision innovations are designed to transform the subdivisions located at clients' place of business from being resident support-based to being value-co-creating organizations. This involves having each subdivision roll out DX proposals at business sites and training service managers who can actively make various proposals based on an understanding of clients' DX strategy and industry-wide issues. During the three-year period of the Medium-Term Management Plan, we target the development of 150 service managers, we have made steady progress having trained 90 by the end of FY2021. Also, we will promote with remote handling of long-term maintenance and operation projects with a certain scale, or with near-shoring utilizing domestic regional sites, so that each subdivision can utilize the outcomes in *Monozukuri* innovations and front office staff focus on advanced DX projects.

In FY2022, we will proactively propose digitalization solutions to clients, such as upgrading SoR for client DX, including generation of consulting projects utilizing the service managers we have developed.

Understanding the latest trends and tackling the challenges posed by commercialization of DX to drive future growth

With regard to Commercialization of DX, we continued to develop new businesses in FY2021 using more than 400 staff members, including business partners, with an investment exceeding ¥3 billion in the four priority fields of mobility, financial service platform, healthcare, and customer experience (CX).

For example, in August 2021, we launched services for the Japanese version of TAMP* in the financial service platform

field. Going forward, we plan to further expand these functions and services and tap into new customer segments, capturing the trend for Japanese asset management to shift from savings to investment given the protraction in Japan's ultra-low interest rate environment. In the healthcare field, as a demonstration experiment for resolving the regional issue of patient over-concentration at hospitals with advanced medicine, we introduced Dr2GO (see page 31), which promotes DX on the healthcare frontline at a regional core hospital and a number of other hospitals working with it. Including the mobility and CX fields, we aim to quickly commercialize and turn a profit with projects by continuing with around ¥4 billion in investment in FY2022 while examining market changes from the basic business plan and their countermeasures in a multidimensional manner. As a fifth field, we are also focusing on energy, which is expected to see substantial growth over the medium to long term for the realization of carbon neutrality. In the future, we will partner with Sumitomo Corporation to provide DX solutions including greenhouse gas emissions management and electricity management.

*TAMP (Turnkey Asset Management Platform): Business support platform for independent financial advisors (IFAs) who provide asset management advice to individuals

Investing ¥10 billion in our people over three years to strengthen the talent underpinning our growth strategy

The third core strategy is Investment in People. The SCSK Group plans to invest ¥10 billion in its people during the three years of the Medium-Term Management Plan. During the most recent two-year period when I served as the General Manager of Human Resources and General Affairs, we spent around ¥7 billion of this amount, focusing on developing and increasing human resources responsible for consulting aimed at realization of clients' DX strategies as well as strengthening and developing human resources with engineering and business skills required for commercialization of DX. Additionally, we introduced a new personnel system aiming to establish a work environment where human resources with advanced expertise can develop their career with peace of mind and to foster a culture where each and every employee can tackle new challenges with ambitious targets. I understand that this will make it possible to upgrade and expand human resource capabilities required for business growth and it is steadily progressing.

Moreover, the SCSK Group is proactively expanding its regional business sites from the standpoint of increasing human resources amid the growing competition for IT talent mainly in urban areas. Our workforce at regional business sites including SCSK Nearshore Systems Corporation, a development hub, VeriServe Corporation, which engages in verification business, and SCSK ServiceWare Corporation, a BPO business, increased from over 3,000 as of March 31, 2020 to a little less than 5,000. This expansion has been promoted for the past several years as the first stage, but in the next stage, while continuing with quantitative expansion, we will develop and utilize advanced talent at our regional business sites for accelerating regional DX solutions.

Working toward an operating profit margin of 12% while sustaining business investment for the future

In FY2021, we were able to achieve sales and profit growth for the 10th consecutive year even while investing in our businesses. Our earnings targets for FY2022, the final fiscal year of the Medium-Term Management Plan, include net sales of ¥450 billion, operating profit of ¥54 billion, net income of ¥38 billion, operating profit margin of 12.0% and ROE of 14.7%. The business environment is flashing positive signs despite the impacts of the ongoing COVID-19 pandemic which started around the announcement of the Medium-Term Management Plan and the recent uncertain political and economic situation. We will balance increased business investment for future growth and achievement of earnings targets while steadily capturing demand for IT investment among clients.

Some say the targets for FY2022 are rather ambitious given our growth rate over the past two years. However, I want us to be a corporate group that sets the bar high and provides a true sense of our future goals rather than setting targets low and making upward revisions. It is important that we continue finding and implementing measures to achieve these high targets. Based on the growth investments made over the past two years, results of our efforts to strengthen the business base, and our potential, I believe we are fully capable of achieving these targets, and I hope to clear them all to demonstrate our commitment to stock markets.

Future Business Policy

Conveying a sense of urgency that SCSK's future success is dependent upon looking beyond past success

Over the past decade, SCSK has conducted business with a strong conviction toward quality. Due to our enhancements to existing businesses and streamlining efforts, our operating profit margin has been among the highest in the industry. However, the gap separating us from other companies has been shrinking gradually. I believe it will be difficult to aim for a higher operating profit margin using conventional approaches. We need to review our approaches to work and change the very way we do business. In my eyes, it appears that the SCSK Group has fallen into a success trap, where client base, approaches to clients, business model and organizations have been firmly entrenched in place. That's why I always make sure that all officers and employees are aware of my commitment to making SCSK a true leader in the industry with higher goals, while having a healthy sense of urgency that we must transform ourselves beyond the status quo.

Four priority measures for transcending conventional frameworks

With this sense of urgency in mind, the first measure we will focus on is actively supporting the DX initiatives of clients. This will not only promote commercialization of DX as a new business, but also enable us to focus on proposal activities for the future development of DX in all client contact points, including projects currently underway, becoming an supporter of clients in realizing DX. DX projects can be found even within existing businesses. For example, SoR projects lead to DX in the sense of rebuilding a storehouse of live, useful data. At the end of such efforts, we find connected projects that generate value as DX, such as Sol and SoE. To bolster our lineup of competitive services and technologies in order to realize client DX, we will reinforce the consulting structure within the Group, including Gran Manibus Co., Ltd. We will also effectively utilize outside resources including M&A and strategic alliances to expand business with new and unique client approaches.

The second measure is to evolve our focus from clients to markets. The SCSK Group has a client base of approximately 8,000, and we plan individual business strategies for clients in the top 100 driving their respective industries. The importance of expanding business closely in tune with clients remains unchanged and we will continue to focus on. Going forward, however,we will need to capture high quality projects leading to the development and utilization of intellectual properties that laterally intersect client industries. By utilizing the S-Cred+ platform as a PaaS, we will seamlessly connect with the services of outside cloud vendors and core partners, in addition to IT services based on intellectual properties we developed. Thus, we will work toward strengthening our services as a cloud service integrator that provides diverse functions and services.

The third measure is the strategic strengthening of specified domains. It can be said that most of large-scale projects of systems development, mainly for core system, are on the basis of ERP package such as SAP and the number of projects from scratch is diminishing in these days. We have positioned the ERP business, which has a high margin and few unprofitable projects, as a strategic business and will now work to accelerate talent development and utilization of new technology platforms, such as SAP BTP. This will bolster our structure capable of completing large-scale projects. We will again revisit the positioning of the ProActive business—SCSK's proprietary ERP—within the SCSK Group and review our sales structure under the assumption of business collaboration with SCSK Minori Solutions Corporation to unlock robust business growth. Additionally, we will need to strengthen the global business, which had stagnated during the COVID-19 pandemic. Until now, we have expanded globally to primarily support the overseas business expansion of Japanese companies. Looking ahead, we will focus on markets cultivation, such as business expansion targeting local companies and commercialization of DX in Southeast Asia.

The fourth measure is boosting profitability through business transformation. As the operating profit margin gap with peers shrinks, we are looking to further increase operating profit margin to 15% or higher over the medium term. Toward this end, we will promote a shift to cloud service integrator and actively support the DX initiatives of clients, as noted above. We will also engage in business transformation through various means including reallocation of resources, and scaling down or pulling out of businesses with lower profitability. At the same time, we plan to create a talent portfolio compatible with new businesses and systematically develop and increase human resources with the technologies, knowledge and know-how needed for growing each business. We have already put into place proprietary mechanisms, such as the IT Skill Level Assessment and ADV (advanced) positions for highly specialized human resources (see page 58). We will now seek to strengthen functions so as to make these mechanisms more tailored to the needs of each business.

Promoting the well-being of our people and growing as a corporate group with "Value-Driven Management"

Finally, I would like to share my management philosophy. For two years from 2010, I served as General Manager of a Nishinihon business division. After working with many individuals at SCSK in this capacity, I found that making our people and their families happy is a key priority. This belief has only been solidified after serving the past two years as the General Manager of Human Resources and General Affairs. What is needed to increase the happiness of our people? Compensation and benefits are important, but there is more to it. Self-development through work and recognizing that work makes society a better place leads to a higher degree of happiness and well-being.

Additionally, the knowledge and skills required by the IT industry have increased markedly, and with the importance of IT in business strategy execution growing, there is a battle waging to acquire IT talent, including among clients. Amidst this, the ability to remain a company that attracts promising talent and provides a place for them to thrive professionally and personally represents the very lifeline of the SCSK Group, as talent is our biggest management resource. From this perspective, I will pursue management that takes working style reforms and *Smart Work Challenge* a step further so everyone at the SCSK Group feels a greater sense of purpose and motivation at work.

As President, in addition to promoting the well-being of our people, I also want to ensure that the SCSK Group fulfills its vital role as a part of social infrastructure serving businesses and communities. What do we need to achieve both? I believe that everyone at the SCSK Group must work toward value creation together while understanding and sympathizing with our corporate philosophy of Create Our Future of Dreams and our vision of becoming a Co-Creative IT Company.

Mutual understanding in which one thinks from the other's perspective will help us to provide new value for society and for people. I would like to call this way of thinking "Value-Driven Management", and promote this, closely involving our people and stakeholders, and make it the driving force behind providing great value to society not possible by a single person or single company. Using "Value-Driven Management" to resolve client and social issues will increase the well-being of our people and, at the same time, empower us to achieve sustainable growth as a corporate group. This is my management philosophy.

SCSK's Sustainability Management Framework

Sustainability Management Framework

The SCSK Group established the Sustainability Committee in order to promote sustainability management, which forms part of the Group's growth strategy. 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 representing the Group Corporate. It confirms and reviews the implementation status of the Company's measures in terms of sustainability and material issues along with future initiatives.

Working Group 2 is chaired by a general manager of Business Group, and comprises employees appointed by the General Manager of Business Groups or of Group Corporate as member. It discusses required matters regarding the SCSK Group's ideal approaches to sustainability management and initiatives to address material issues, and then reports to the Management Committee. Working Group 2 members are selected with the expectations that they will play a role as outspoken leaders of activities to promote the penetration of sustainability within the SCSK Group and fostering of a corporate culture that embraces sustainability.

Sustainability Management Framework

Chairman and Chief Executive Officer
President and Chief Operating Officer

Inquiry ↓ ↑ Reporting

Sustainability Committee
Chair: Executive Vice President

Working Group 1
Chair: Executive Vice President
Members: Officers in charge of Group Corporate
Responsibility: Confirms and reviews the implementation status of measures and any shortfalls in terms of sustainability and material issues

Working Group 2
Chair: General Manager of the Business Group
Members: Employees from each Business Group and Group Corporate nominated by Chair
Responsibility: Discusses and reviews required matters regarding the fostering of a culture that understands sustainability and material issues

Activities of Working Group 1

In implementing sustainability management, Working Group 1 discusses the matters the SCSK Group should address over the medium to long term, implementation status of measures for material issues and any shortfalls, based on the latest information on and developments in sustainability both in Japan and abroad.

After meeting a total of five times in FY2021, the working group reported its findings to the Management Committee and it is now implementing specific initiatives.

Main Review Themes of FY2021

Promoted sustainability management with a medium- to long-term management perspective

- Formulation of SCSK Group Human Rights Policy
- Information disclosures based on the TCFD recommendations
- Addition of items on sustainability management in the individual evaluations for officer remuneration
- Initiatives for the environment and human rights, including in the supply chain

TOPIC Formulation of SCSK Group Human Rights Policy

Under its corporate philosophy of "Create Our Future of Dreams", the SCSK Group is working to create a prosperous society together with its stakeholders aiming to become a company that contributes to society through its business activities. Toward this end, one of the promises in our corporate philosophy is "respecting each other," ensuring that we respect the individuality and values of every person involved in our business operations and utilize their skills to the fullest.

In June 2022, we formulated the SCSK Group Human Rights Policy based on such international guidelines as "International Bill of Human Rights" and "the Guiding Principles on Business and Human Rights".

This policy, which applies to the SCSK Group's officers and employees* as well as business partners, outlines our approaches and responsibilities for respecting human rights pursuant to our corporate philosophy and code of conduct as a corporate group that respects the human rights of all people affected by its business activities. Aimed at promoting business activities that respect human rights, and establishing a mechanism for human rights due diligence, we will continuously adhere to this policy to identify, prevent or mitigate the negative impacts on human rights that could be caused by our operations or activities within the supply chain, striving to fulfill our corporate social responsibility.

*Officers and employees of the SCSK Group (full-time employees, contract employees and part-time workers) as well as temporary employees carrying out the SCSK Group's business operations.

For details about the SCSK Group Human Rights Policy, please see here.
https://www.scsk.jp/corp_en/csr/social/humanrights.html

Activities of Working Group 2

Working Group 2 examines the SCSK Group's vision with regard to sustainability management as part of its growth strategy, while each subcommittee takes the lead in exploring various initiatives for promoting employee understanding of and fostering a corporate culture that embraces sustainability management and material issues as part of our efforts to achieve this vision. Monthly meetings are convened involving all subcommittee members to discuss measures, and share and confirm the status of reviews.

The findings of Working Group 2 are reported to the Management Committee to ensure activities are implemented companywide.

Comments from Working Group 2 Members

Sustainability management is being implemented through a bottom-up approach.
The key is to foster a sense of excitement to encourage participation in activities.

Reo Nishimura
Industrial Business Group

Naoko Okabe
Solution Business Group

Kumi Nakamura
Core Business Innovation Group

Working Group 2 is exploring ways to foster excitement toward sustainability management and material issues in a way that encourages employee participation, understanding and acceptance. The members of Working Group 2 come from each business group and corporate division and have varying backgrounds, which provides countless stimuli for activities. After recognizing the importance of understanding social issues through the activities, we started to put more focus on how SCSK can contribute to resolving the issues faced by clients.

As a bridge connecting departments, Working Group 2 aims to promote sustainability activities with a greater sense of unity by facilitating collaboration with sustainability promotion measures already being implemented internally.

SCSK's Material Issues

For details, please visit:
https://www.scsk.jp/corp_en/csr/materiarity/process.html

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

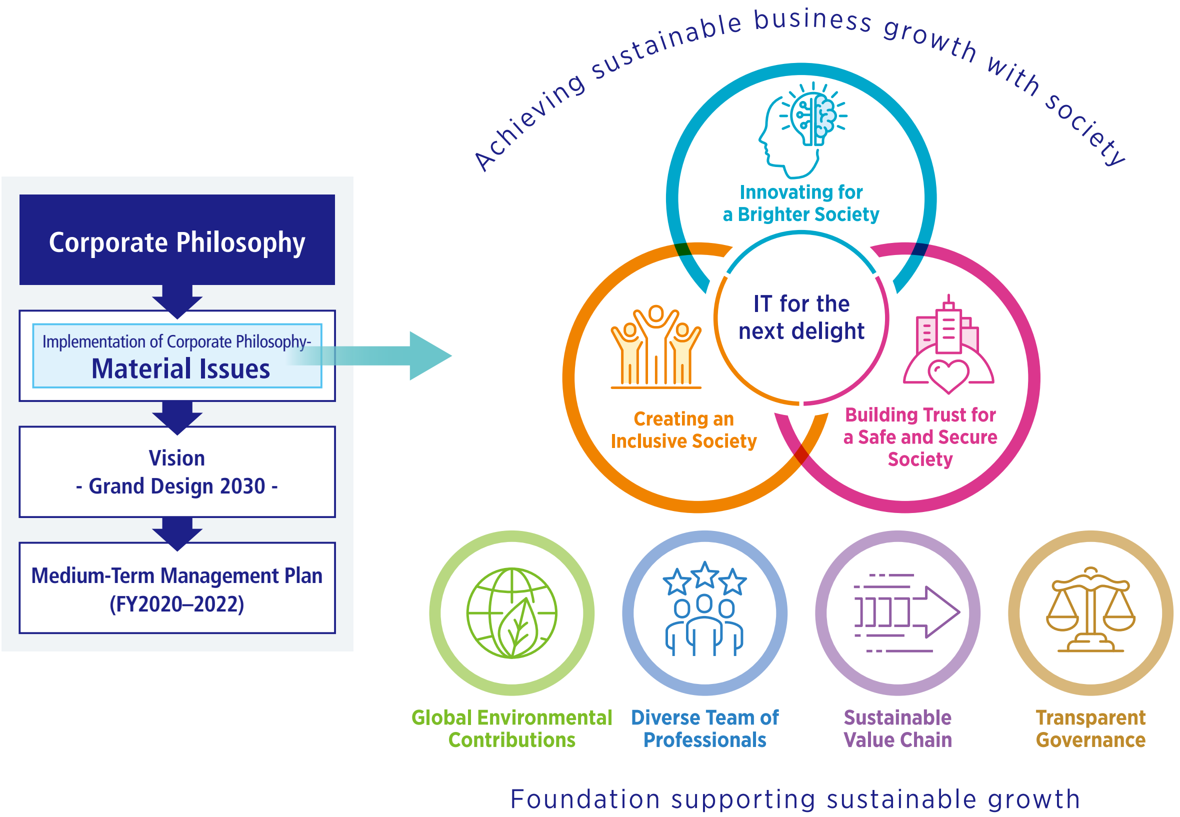
Formulation of material issues

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

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.

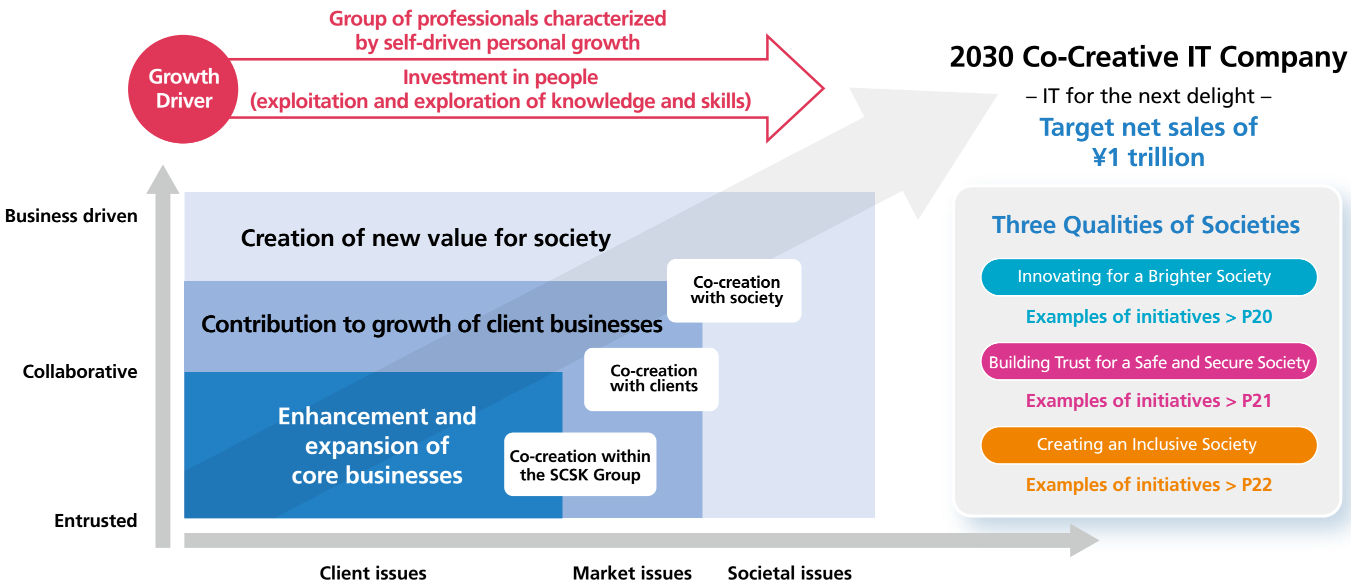
Examples of Initiatives for Each Material Issue

Material Issues		Main Initiative Examples and Results	Related SDGs
Innovating for a Brighter Society	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.	• Supporting the creation of new added value through utilization of data and realization of appropriate communication mindful of diverse users (altcircle) >P20 • Creating a mobility society of the future as a mobility servicer contributing to Smart City concepts >P30	9, 11, 17
Building Trust for a Safe and Secure Society	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.	• Swiftly providing highly secure business continuity environment using cloud-based security network services (SASE solutions) >P21 • Enhancing the performance, quality and efficiency of healthcare services and promoting preventive medicine (Dr2GO communication platform for healthcare professionals) >P31	9, 11, 17
Creating an Inclusive Society	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.	• Providing tailored lifestyle support through future asset formation (Asset Formation Lounge Efukuri, an asset formation platform for company employees) >P22 • Providing motorcycles, information and the joy of growth to people in Kenya looking to work (Rent-to-Own Motorcycle Service Bodaco of Honda Motor Co., Ltd.) >P28	8, 10, 17
Global Environmental Contributions	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.	• Promoting more efficient energy usage and utilization of non-fossil certificates aimed at reducing greenhouse gas emissions • Expanding disclosures based on the TCFD recommendations • Sharing and implementing activities to reduce greenhouse gas emissions with partner companies >P52	7, 13
Diverse Team of Professionals	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.	• Supporting the sustainable growth and career development of employees and promoting enhancement, diversification and expansion of human resources • Promoting diversity and inclusion measures focused on embracing individual skill sets and the diversity of people's views • Implementing health improvement measures and making efforts to shift from health and productivity management to well-being management • Shifting from working style reforms to rewarding workplace reforms >P56	3, 4, 5, 8
Sustainable Value Chain	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.	• Improvement of quality and productivity through collaboration with partner companies, promotion of introduction of health and productivity management, streamlining of contract-related work, and thorough information security compliance • Sharing of sustainability policy, explanation of human rights policy, and sharing and implementation of activities to reduce greenhouse gas emissions >P63	8, 9, 17
Transparent Governance	We conduct effective management oversight while ensuring transparency and compliance, and have established and maintain management frameworks for sound information and risk management.	• Strengthening of corporate governance systems to achieve sustainable growth, including increasing the ratio of independent outside directors >P68 • Implementation of initiatives aimed at compliance and respect for human rights >P15, P75 • Addition of restricted stock compensation system to the officer remuneration system • Implementation of appropriate risk management (business continuity plan and security incidents) >P76	16

Part 2 Value Creation Through Business

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.



Innovating for a Brighter Society

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.

Enhancing customer contact points and supporting new added-value creation driven by data utilization with altcircle

Social issues in the background

- Shortage of digital talent necessary for promoting a digital shift
- Delayed response to utilization of digital data
- Growing information gap among consumers attributed to digital literacy levels

Value provided to society

- Promotion of digital shift in society and among companies
- Creation of new added value driven by data utilization
- Realization of appropriate communication mindful of diverse users

Amid the acceleration of DX and digitalization within society and corporations, increasing contact points with customers, and overwhelming amounts of data, the use of data and enhancement of customer contact points is critical for companies to boost competitiveness. However, the use of data poses various challenges, including response to ever-changing technological trends, shortage of talent for data utilization, and difficulty of measuring the effects.

SCSK offers altcircle, a solution for delivering the best possible customer experience (CX) through the enhancement of constantly evolving contact points between corporations and customers. This solution features the following four characteristics.

(1) Constantly evolving platform:
The features of platform services, including digital marketing, digital communication and e-commerce, will always be updated based on future technological trends and market needs. In addition to the easy-to-use UI design, clients are also benefited from the efficient and effective support required for optimal communication.

(2) Consulting support for data utilization:
We provide one-stop services for various issues occurring in each step of data collection, aggregation and integration, data analysis and visualization and data utilization, which support data utilization and data-driven decision making.

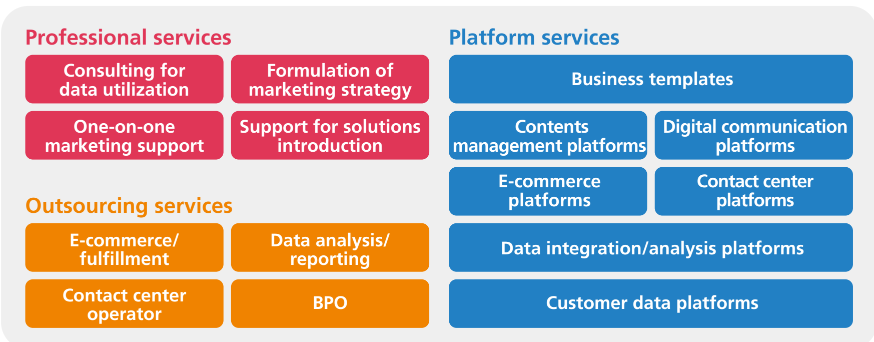
(3) One-on-one business support service:
Even in operations, a team with professional skills collaborates closely with clients to support business target attainment.

(4) One-stop service including outsourcing:
Comprehensive supports are available for clients who need to build contact center platforms, outsource businesses, develop logistics required of e-commerce businesses, or upload contents to e-commerce websites. By providing clients with high quality, personalized data for data utilization through altcircle, SCSK strives to enhance customer contact points and provide the best possible customer experiences together with new value, contributing to the creation of a comfortable and enriching future.

For details, please visit:
https://www.altcircle.jp/
(Japanese only)

Overview of altcircle

altcircle



Building Trust for a Safe and Secure Society

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.

SASE solutions swiftly provide clients with a business continuity environment during the COVID-19 pandemic

Social issues in the background

- Swift response to need for remote work during the COVID-19 pandemic
- Growing security threats posed by the sheer breadth of devices in use and sharp increase in remote work
- Declining performance due to rapid increase in data center workload

Value provided to society

- Prompt development of environment for sustaining business activities
- Provision of high level security based on zero trust architecture
- Mitigation of workload through cloud-based security network services

In response to the COVID-19 pandemic, nations around the world enacted a number of countermeasures to stop the spread of the virus including lockdowns and public health orders to avoid going out, causing major changes in our way of life.

Countless companies quickly introduced telework programs and systems in order to prevent employee infections while sustaining their business operations amidst this unprecedented situation.

Meanwhile, the workload placed on data centers, communication lines and network security devices increased due to the accelerated migration of operating systems and data once housed internally to the cloud, causing reduced operational efficiency of employees. Additionally, various issues materialized, including security threats posed by the spread of mobile devices and sheer breadth of devices in use along with finding ways to control these risks.

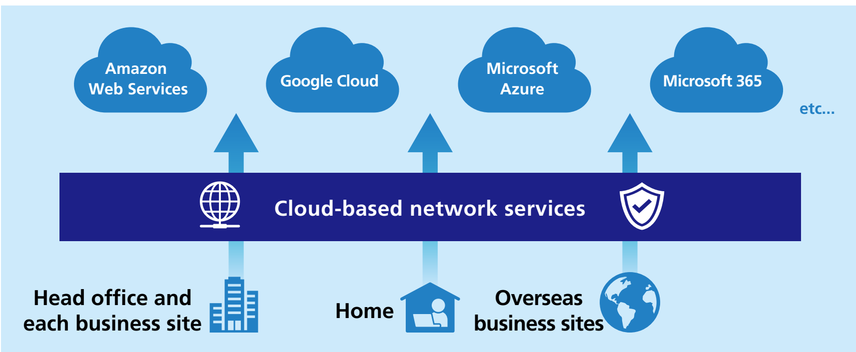
In such an environment, there has been growing interest in zero trust architecture because of its high affinity with cloud services that allows employees to work at any time, from anywhere and with peace of mind.

A zero trust architecture is based on the assumption of not trusting any source and only allowing users and devices with appropriate authentication to access approved applications or data. SCSK uses Secure Access Service Edge (SASE) solutions, a framework for providing network and security services based on zero trust architecture in a seamless manner on the cloud. This reduces network load and quickly provides a stable and secure network environment to clients with various working styles.

At SCSK, we provide the most optimal SASE solutions based on our wealth of knowledge, track record and trusted technological prowess; thereby supporting the corporate activities of clients and contributing to a safe and secure society.

For details, please visit:
https://www.scsk.jp/sp/sase/index.html
(Japanese only)

Conceptual Diagram of SASE



SCSK's solution lineup

Cato cloud, Prisma Access, Netskope, Zscaler, CISCO SASE

Creating an Inclusive Society

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.

Asset Formation Lounge Efukuri, a platform for workplace asset formation delivering peace of mind and easing money concerns of company employees

Social issues in the background

- Distortion of social security system due to declining birthrate and aging population
- Delayed response to asset formation due to a lack of financial literacy

Value provided to society

- Promotion of future asset formation through increased financial literacy
- Provision of life support tailored to individual needs

With social security and pension plans facing various challenges due to Japan's aging population, there is growing importance of personal asset formation among individuals in order to sustain an active role in the era of the 100-year life. Amidst this, more and more employees working at companies want to design a life plan including retirement based on detailed money simulations and receive optimized support during life events because it is difficult to accurately grasp how much income they will have before and after retirement and how much they will spend depending on their life plan. There is also a growing demand among companies to provide an employee benefits program that enables their people to lead a good life, including asset formation support.

SCSK offers Asset Formation Lounge Efukuri as a service in response to these two distinct needs.

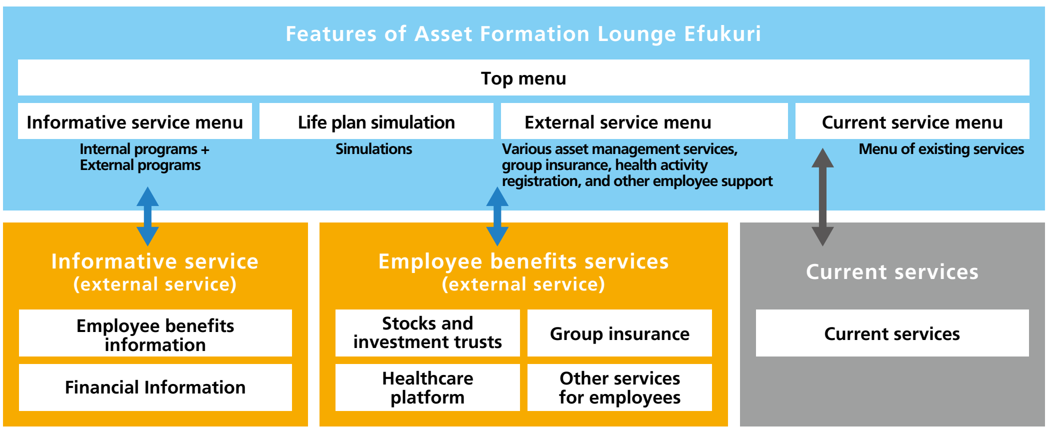
Efukuri supports asset formation closely in tune with future life plans. It uses life plan simulations based on personnel system, retirement benefits and pension plan to visualize a person's income and spending in detail, and provide useful financial knowledge that helps to increase financial literacy.

Based on the results of life plan simulations and detailed records of service, Efukuri recommends various external services tailored to an individual's own preferences, including nursing care, healthcare, childcare, education, and ceremonial occasions such as marriage. This makes it possible to support various life events in a timely and comprehensive manner. In addition to these services, Efukuri centrally manages scattered benefits information and company rules for different life events to provide services related to employee benefits in a one-stop fashion.

Through Efukuri, SCSK seeks to support the asset formation of company employees and ease their concerns about money. At the same time, through tailored lifestyle services, we deliver peace of mind and certainty toward the future, contributing to an inclusive society where people can play an active role.

For details, please visit:
https://www.scsk.jp/product/common/efukuri/index.html
(Japanese only)

Services provided by Asset Formation Lounge Efukuri



Medium-Term Management Plans

Medium-Term Management Plan **FY2012 to FY2014**	Medium-Term Management Plan **FY2015 to FY2019**

Review of Core Strategies

Medium-Term Management Plan FY2012 to FY2014

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 (SI2). Expanded cloud-based IT services using our network of data centers, which is among the largest in the industry.

Medium-Term Management Plan FY2015 to FY2019

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.

Initiatives to managerial foundation reinforcement

Medium-Term Management Plan FY2012 to FY2014

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

Medium-Term Management Plan FY2015 to FY2019

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

Results and Review of Management Targets

Medium-Term Management Plan FY2012 to FY2014

	Target	FY2014 Results
Net sales	¥300 billion	¥297.6 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.

Medium-Term Management Plan FY2015 to FY2019

	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

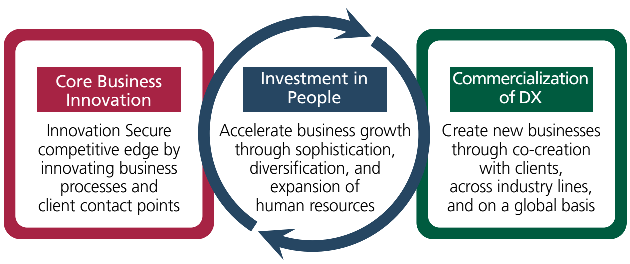
Domestic IT Market	• Return to normal levels of demand despite modest growth trend • Fundamental changes fueled by cutting-edge technologies • Shift in human resource demand from problem solving oriented to value creation-oriented personnel • Transition toward in-house IT development as businesses become more intimately linked to IT • Intensification of competition to secure IT personnel with clients and other companies, etc.
Client Trends	• Expanded provision of integrated, cross-industry services as digital transformations accelerate • Trend toward clients supplying IT services fueled by in-house digital transformations, etc.
Technologies and Trends	• Emergence of solutions combining AI, IoT, 5G, sharing, API, etc. as de facto standard, etc.

Need for medium- to long-term strategies for drastically transformation

Response to rapid fundamental changes in IT investment /
Improvement in value creation capacity in preparation for IT driven evolution

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.



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

Management Targets

	FY2022 Target	FY2022 Earnings Forecast	FY2021 Results
Net sales	¥500 billion or more	¥450.0 billion	¥414.1 billion
Operating profit margin	10.0 - 12.0%	12.0%	11.5%
ROE	15% or more	14.7%	14.1%

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

Progress of Core Business Innovation

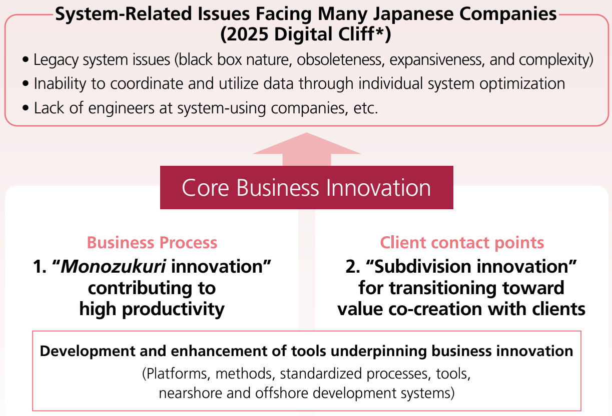
Basic Approach

Core Business Innovation will involve transforming the SCSK Group's business processes and client contact points from the two perspectives of *Monozukuri* (software engineering) 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 (SM), 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



*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

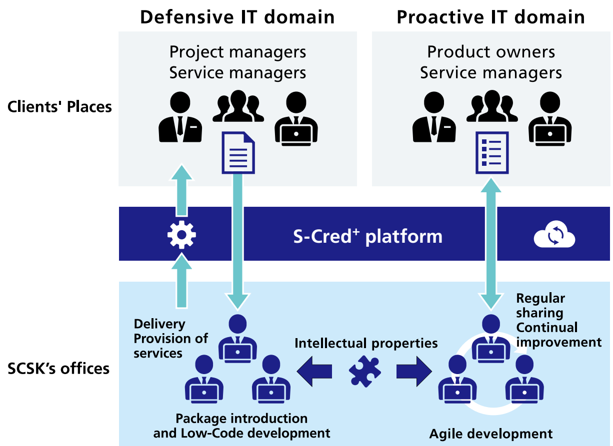
We work closely with stakeholders and clients at their business locations to define and visualize requirements using operational templates and low-code prototype development. Based on the finalized requirements, systems are then developed at SCSK's offices (including nearshoring offices) while utilizing 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 27).**

Main Results in FY2021

- Orders received of S-Cred+ projects: **130 to date**
- Number of S-Cred+ engineers trained: **1,900 to date**
- Promoted **agile development**

Introduction and Penetration of S-Cred+ Platform

With the spread of cloud computing and low-code development, we have received orders for a running total of 130 S-Cred+ projects over the past two years. In anticipation of further expansion of the S-Cred+ platform and low-code development, we have trained and developed a running total of 1,900 engineers.

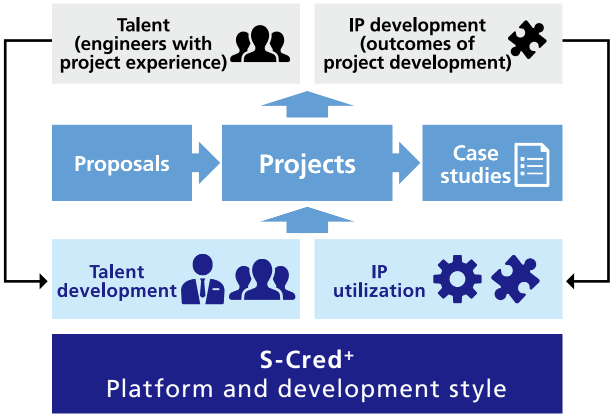
Expansion of S-Cred+ Platform

In April 2022, we integrated SCSK's in-house standard development environment into the S-Cred+ platform, and in May 2022, we released the S-Cred+ platform for Azure in addition to AWS. In July 2022, we released the SCSK standard Java development framework called the S-Cred+ Framework, which links with the S-Cred+ platform to enable cloud-native application development.

Promotion of Agile Development

In April 2021, we established the Agile Promotion Department, which has provided support to 94 projects for 57 organizations requiring agile development. In addition, we have provided knowledge-based education on agile development to about 5,000 employees and training to about 500 employees. As a result, about 330 employees have agile-related qualifications.

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 FY2021

- Employees who have completed the practical workshop on subdivision innovation for service managers: **90 to date** (plan calls for 150 over three years)
- Expanded **service manager development program**
- Added **Service Manager Subdivision Innovation** to SCSK IT Skill Level Assessment

Strengthening Client Contact Points and Proposal Capabilities

Most of our subdivisions are operated mainly at clients' business sites. Our relationship of trust built up with clients over the long term is a valuable asset and competitive advantage of the SCSK Group. In order to convert this asset into the value we provide to clients, we are working to strengthen our ability to propose services based closely on the strategies and needs of our clients.

With a focus on developing service managers, who stand at the core of strengthening client contact points, we launched a company-wide selective-type training called practical workshop on subdivision innovation for service managers starting in FY2020. The training begins with lectures on upstream approach methodology, followed by formulation of a hypothesis of the client's vision, interview with the actual client, and creation of a plan for subdivision activities based on the client's strategy and needs. At the end, findings are presented to executive management and a discussion is held on ways to improve the activity plan.

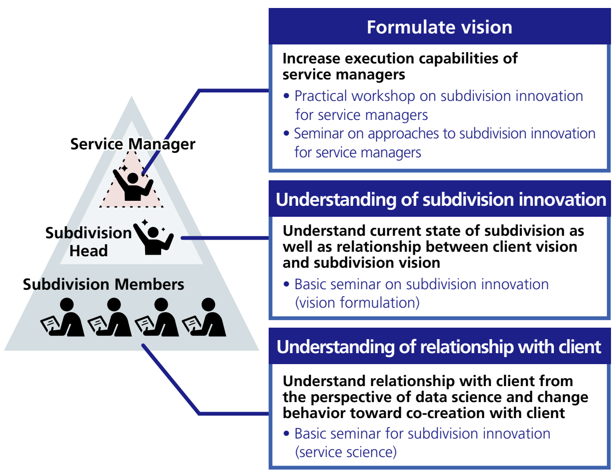
90 employees have already completed this training and they are now engaged in practical activities as a "co-creation promoter" to realize our medium- to long-term business and IT strategies (vision) together with clients at their business sites.

From FY2022, we will expand the seminar on approaches to subdivision innovation for service managers and the two basic seminars on subdivision innovation to deepen the understanding of approximately 2,800 members of lines and subdivisions who support service managers. This will enable us to speed up the practical activities of service managers.

Service Manager Development Program

Objectives

1. **Support the work of service managers who are core human resources for subdivision innovation**
2. **Broadly penetrate the philosophy behind subdivision innovation and encourage behavioral change toward co-creation with clients**



Focus

Supporting Core Business Innovation and Commercialization of DX with S-Cred+

S-Cred+

At SCSK, we introduced SmartEpisode Plus (SE+), a process standard for project management and systems development, in FY2012 for 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

The S-Cred+ platform was developed to automate environment construction and system operation based on the SCSK Group's know-how and knowledge gained from its extensive track record in cloud solutions. 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.

Future Expansion Plans for S-Cred+ Platform

Going forward, we will expand the functions of the S-Cred+ platform and promote its further utilization by working on the following three points of emphasis.

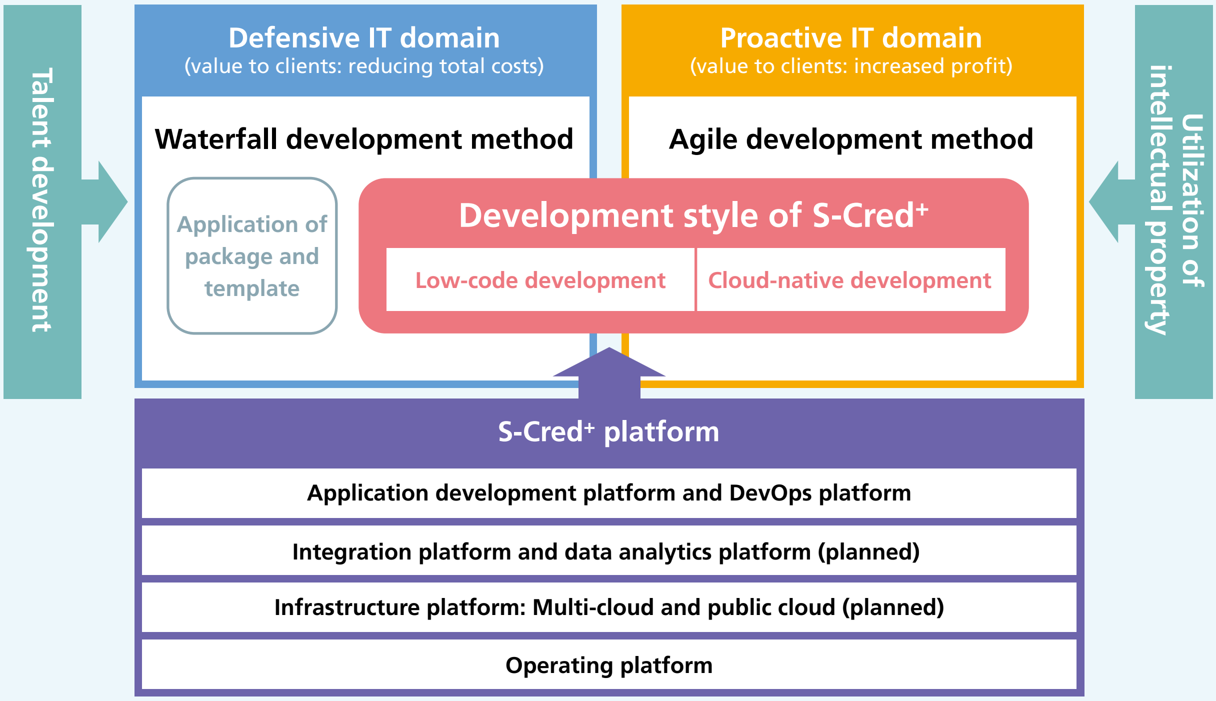
(1) Support for multi-cloud solutions that combine AWS, Azure and Google Cloud, and hybrid-cloud solutions through combination with data centers.

(2) Promote application development utilizing cloud functions centered on API* through combination with the S-Cred+Framework, an application development platform that supports cloud-native development.

(3) Support for an integration platform that links various functions and data such as SaaS and existing systems, and promote the unification and utilization of data in linked services and systems.

*Application Programming Interface: an intermediary that can share part of the functions of application software.

Overview of S-Cred+



For details, please visit:
https://www.scsk.jp/case/case-details/202206honda/index2.html
(Japanese only)

Voice of Client: Honda Motor Co., Ltd.

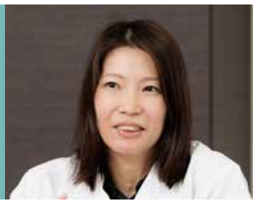
Rent-to-Own Motorcycle Service Bodaco Utilizing S-Cred+ Platform and FastAPP

The SCSK Group contributes to resolving social issues clients are addressing by providing IT services that utilize the technologies and knowledge it has cultivated over the years. This case study is part of our efforts toward creating an inclusive society, one of our material issues.

Providing Motorcycles, Information and the Joy of Growth to People in Kenya Looking to Work

Hodaka Mukohara
Group leader Chief engineer
EV Business Planning Dept.
Business Planning Division
Motorcycle Business Supervisory Unit
Honda Motor Co., Ltd.

Kobue Iwata
Assistant Chief Engineer
EV Business Planning Dept.
Business Planning Division
Motorcycle Business Supervisory Unit
Honda Motor Co., Ltd.



Mukohara | Over the past several years, Honda has been actively promoting the development of new mobility services beyond its conventional focus on manufacturing.

Honda's motorcycle business has the top market share in the world, but it lags behind Indian manufacturers in the African market. Given this, we conducted research locally on how to expand our business in the African market. We found that although motorcycle taxis are the main mode of transportation in Africa, many motorcycle taxi riders use rental motorcycles and continue to pay inflated rental fees to their owners. We came up with a business model called Bodaco, which allows a customer to rent a Honda motorcycle at an affordable initial cost, and after all payments are made the customer owns the motorcycle outright.

When starting the service, we needed a mechanism to manage the location of the motorcycle and how the rider uses it. Fortunately, Kenya has well established communication lines along with widespread electronic payment services, so Honda developed a prototype system utilizing this infrastructure. We selected SCSK as a partner to further refine the system for larger scale PoC implementation.

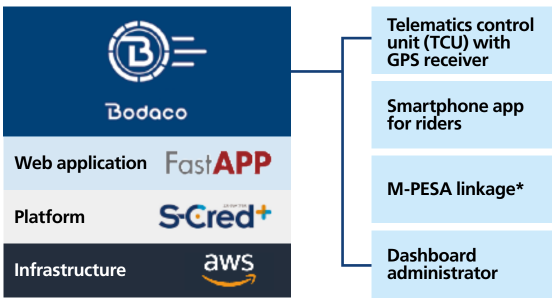
Iwata | In order to commercialize it as a new service, further system quality improvement and security enhancement were essential. We received a proposal from SCSK that could reduce costs and significantly shorten development time by adopting the company's unique solutions, S-Cred+ platform and FastAPP. Of course, Honda's own required level of security is also ensured. In September 2021, we released the new system assuming full-scale operation, and work load has been greatly reduced, as work to fix data defects that occurred frequently in the past have been eliminated.

Mukohara | This business model is based on Honda's fundamental principle of "producing locally where there is demand" and in accordance with local conditions, and it realizes Honda's vision to make the lives of people in the region including riders better. SCSK sympathized with our desire to generate new value by creating a business model together and making proposals with passion, not just by creating systems.

In the future, to ensure that we do not simply increase the number of rental motorcycles, saturating the motorcycle taxi market and preventing riders from earning money, we will research the local situation in detail and then localize and expand the service while providing both motorcycles and jobs in a well-balanced manner.

System Diagram of Bodaco

SCSK is building out Bodaco's motorcycle rental service platform using Amazon Web Services (AWS), the cloud construction and operation automation service S-Cred+ platform, and the low-code development platform FastAPP.



*Linkage with e-payment service in Kenya

Progress of Commercialization of DX

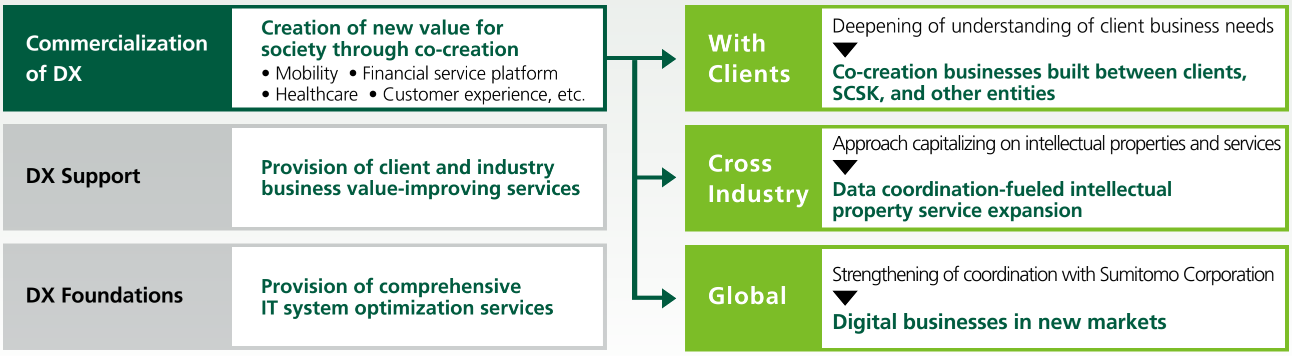
Basic Approach

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	Financial Service Platform	Healthcare	CX
Vision	Creation of a future for a mobility society as mobility service provider contributing to the Smart City concept	Provision of platform services generating new value using the investment chain connecting financial institutions and investors	Achieving more advanced, higher quality and more efficient healthcare services by linking people and healthcare companies with data	Support for the establishment of a value chain driven by client voices and enhancement of value created by companies
Strengths	Development of services in the Out-Car domain using our knowledge from the In-Car domain	Knowledge and track record in providing IT and BPO services for multiple financial institutions	Experience providing solutions in healthcare for 40 years and relationship with clients	Data-driven approach and service consulting using CX platform altcircle (see page 20)
Co-creation	Business foundation of Sumitomo Corporation Group and cross-industrial client base	Domestic and overseas IT servicers and client companies	Medical institutions, pharmaceuticals, pharmaceutical wholesaling, dispensing pharmacies, health insurance, and life insurance	Mix of clients from different sectors
Main areas of progress	Commercialization of Mobility Transformation (MX) services for insurance companies, fleet operators and lease companies, etc.	Full-scale launch of Japanese version of TAMP and financial brokerage platform for company employees called Efukuri (see page 22)	Completion of investment in and development of communication platform for healthcare professionals called Dr2GO (see page 31)	Operation of data platform in addition to provision of altcircle
Future initiatives and targets	Detailed approaches to markets by expanding service products and speeding up co-creation alliances for MX	Increasing the number of companies introducing the Japanese version of TAMP and Efukuri while expanding the market by launching related services	Launching new earnings base driven by the more efficient utilization of healthcare data and commercializing services for preventive medicine	Rolling out sector specific CX services, securing and utilizing original data, and promoting data businesses

Business Alliance with D Capital, Inc., Provider of DX PE Funds

In October 2021, SCSK formed a business alliance with D Capital, Inc. and since then we have been participating as a strategic partner in the D Capital No. 1 Investment Limited Partnership established by D Capital with the aim of increasing value through DX and appealing and creating corporate value.

This private equity (PE) fund managed by D Capital is the first of its kind in Japan consisting of investment professionals and DX professionals who are active on the frontline under the concept of DX x PE. The fund targets small and medium-sized enterprises (SMEs) in healthcare, BtoC, and manufacturing that have a strong business foundation in Japan and aim to increase corporate value through DX over the medium to long term.

Through its participation in the fund, SCSK aims not only to contribute to the promotion of DX at investee companies through the use of IT and digital technologies, but also to accelerate the commercialization of DX by utilizing the business fields of investees and examine co-creation businesses as well as develop advanced DX talent through these activities.

As of June 2022, the fund has invested in two companies. SCSK has been making PoC proposals to investee companies and dispatching employees to D Capital, and efforts to create value through co-creation with D Capital and investee companies have begun.

Fund Overview

- Name: D Capital No. 1 Investment Limited Partnership
- Targets: SMEs able to use DX to enhance corporate value (healthcare, BtoC, and manufacturing)
- Term: 10 years

Case Study

Streamlining Medical Care and Upgrading Healthcare Industries' Digital Marketing with Dr2GO

SCSK is working on commercialization of DX to create innovative services as a business entity and is aiming to become a Co-creative IT Company. Dr2GO, an example of this, is a solution that supports information sharing and communication within patient-centered healthcare teams, achieves working style reforms in hospitals, and upgrades the digital marketing of the healthcare industry. We asked two employees in charge of the development of Dr2GO, which was officially released in April 2022, about the background of development, the effects of its introduction, and future prospects.

Project Background

What were some of the issues leading up to the development of Dr2GO?

Uwabu: In recent years, a major problem in the healthcare industry has been long working hours of doctors stemming from a shortage of doctors. Working style reforms are urgently needed in healthcare. One of the solutions is the transition from the conventional attending physician system to the team attending physician system and the multiple attending physician system (hereinafter collectively referred to as "Team System"). However, with regard to information sharing, which is the linchpin of the Team System, analog communications still exist, such as verbal and whiteboard sharing of information on the frontline of medical care, which necessitates improving the efficiency of communication. I felt that SCSK could contribute to solving this problem.

Aoyagi: In terms of efficiency, there are issues not only in hospitals but also in communication between medical facilities. Patients who require specialized treatment, such as serious illnesses or major trauma, are discharged to their homes after treatment at acute hospitals or transferred to rehabilitation hospitals or convalescent hospitals. Coordination with the hospital receiving patients is carried out by Medical Social Workers (MSW) by telephone or fax, taking into account the patient's condition and social background. However, MSWs are often away from their desks due to the collection of information necessary for hospital transfer coordination or adjustments within the hospital, making it difficult to get ahold of them, and even when sending patient information by fax, it was inefficient because it was not most up to date information.

Emiko Uwabu
Healthcare Business Planning Dept.
Healthcare Business Division
Global Digital Solution & Innovation Business Group

Profile

Emiko Uwabu has been involved in the development of Dr2GO since 2018 after spending more than a decade in charge of a sales support system for a pharmaceutical company. She oversees the entire project implementation process as project manager.

Effectiveness

What changes have you observed as a result of introducing Dr2GO?

Uwabu: Dr2GO is a communication platform that can be used to share information on daily tasks in healthcare settings and it features functions to resolve the two problems mentioned earlier. The In-Hospital Communication Function enables communication while reviewing medical information in chat rooms for each patient linked to electronic medical records, making it possible to share information within the team more efficiently and to easily reference communications at a later date. Meanwhile, the Regional Medical Collaboration Function can be used to collectively search and propose transfer destinations according to the patient's condition, coordinate hospital transfers by chat, and link medical information, greatly streamlining hospital transfer tasks previously performed using telephone or fax.

Aoyagi: During the development of Dr2GO, we explored social implementation with the cooperation of one of the largest private hospitals in Western Japan that is also carrying out innovative initiatives in the Team System. A doctor working with us on social implementation commented that this system will change the way hospitals work on weekends. In the past, even if the doctor was supposed to be off during the weekend, in some cases they had to go the hospital to check on the condition of their patients. Introduction of Dr2GO has enabled operating by team. Since doctors can check a patient's condition from home via Dr2GO, doctors have commented that it is easier to determine whether they really need to be present. Of course, in order to handle such sensitive information, we pay close attention to the security of Dr2GO.

Uwabu: Dr2GO is used not only to share patient information but also to train young doctors. In a chat room, young doctors and attending physicians consult and provide advice on treatment plans. Previously, even if young doctors want to talk on the phone or in person, many attending physicians are too busy to make time. Now they can simply send a message to a chat room and wait for a response unless it is urgent and requires a phone call. By doing so, everyone's time is used more efficiently, and we have received feedback that communication has become smoother.

Harune Aoyagi

Healthcare Business
Planning Dept.
Healthcare Business Division
Global Digital Solution &
Innovation Business Group

Profile

Since joining SCSK, Harune Aoyagi has been involved in the development of a sales support system for a pharmaceutical company and in 2019 she volunteered to join the Dr2GO development team. As project leader, she is mainly responsible for regional medical collaboration services.

What are some of the devised points you made during development?

Aoyagi: SCSK's corporate philosophy is Create Our Future of Dreams. In the development of Dr2GO, we placed special emphasis on co-creation as well as creation of a future where the dreams of people can be fulfilled. We shared the goal of streamlining operations with hospitals, and from the viewpoint of IT experts, SCSK showed some examples from other industries and proposed a system that could also be used in the healthcare industry. On the other hand, we received various improvement proposals from the client regarding usability in the actual medical workflows. By combining each other's knowledge and constantly refining, we aimed to develop a solution that can solve problems in hospitals.

Uwabu: The key in Creating Our Future of Dreams is that some are reluctant to change the conventional business flow, so it is not enough to suddenly say, "Here's a new tool; please use it." By sharing our common goal and our mind "though it may be inconvenient at first, we'll eventually improve it by your feedback" with the key person of the team, and by asking them to lead the integration process in the field, we were able to create a cycle in which we encouraged use and paved the way toward the next improvement proposal. The initiative to have clients actually use what we have thought hard about and to create better things together through discussions is different from the way we have worked in the past, which was to faithfully systematize client requirements. This is also why I feel that this new approach is more rewarding than ever.

Aoyagi: I agree. Healthcare professionals are not IT professionals, and we have no experience in providing medical care. While the language and underlying knowledge are different, carefully imagining and hypothesizing the client's true issues and what the client really wants resulted in an easy-to-use Dr2GO. In fact, when we introduce Dr2GO to other medical facilities, many people have said they wanted this kind of tool all along or they are ready to use it immediately. This is why I feel that we managed to create a tool that is useful for resolving common problems in healthcare, and I think that it is one of the forms of sustainability management that the SCSK Group aims for. By further enhancing and popularizing the functions of Dr2GO, I believe that we will not only be able to resolve long working hour issue of doctors, but also realize regional medical collaboration in which key hospitals and primary care physicians share information and care for each patient.

Future Prospects

How do you plan to expand Dr2GO as a business?

Uwabu: Up until now, we have been at the stage of creating good solutions by working directly with medical facilities. In the future, while making further improvements, we plan to develop and monetize services that connect healthcare professionals and the healthcare industry such as pharmaceutical companies through the platform of Dr2GO. For example, MRs who are in charge of providing pharmaceutical information at pharmaceutical companies have been unable to meet with healthcare professionals in person due to visitation restrictions and the impacts of the COVID-19 pandemic. If they can use Dr2GO to provide product information more effectively, it will be possible to provide pharmaceutical companies with contact points with healthcare professionals, and provide healthcare professionals with information that supports the implementation of appropriate medical practices. I think Dr2GO will become a platform service beneficial to both parties.

Aoyagi: In order to increase its value as a platform, it is important to first increase the number of hospitals that use Dr2GO. I would like to establish Dr2GO as an indispensable communication platform for the frontline of healthcare and steadily advance social implementation to penetrate it more widely in society.

Uwabu: The patient's life continues not only during hospitalization but also after discharge. If we can connect data such as daily diet and exercise with Dr2GO, we should be able to provide great value to society. The Healthcare Business Division has teams in charge of hospitals, pharmaceutical companies as well as health promotion and self-care related companies. I believe that by utilizing the data collected and accumulated through Dr2GO, we can expand the possibilities for further resolving social issues throughout the division.

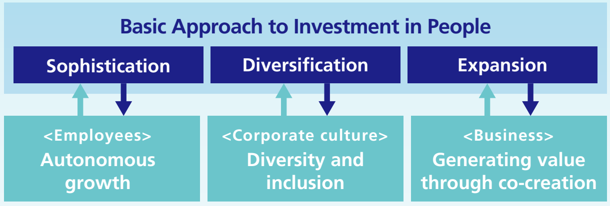
Progress of Investment in People

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.



SCSK Basic Policy on Human Resource Management

Progress of our efforts

Category	Priority Measures	Progress of Initiatives
Human resource management to actualize Core Business Innovation and Commercialization of DX	• Systems that better reflect corporate philosophy and business policies	• Introduced new multi-track human resource system • Revised evaluation and remuneration systems for executive officers and senior corporate officers
	• Systems and corporate culture where diverse talent can thrive	• Introduced second job program (Smart Work Plus) • Introduced the Senior Expert Program for continued employment of seniors aged 65 or older • Planned and implemented female line manager development program
	• Systems that promote the active roles of talent with specialist knowledge	• Newly introduced ADV (advanced) positions as a multi-track career path
Improved sophistication through coordination between business strategy and career development	• Effective re-skilling and up-skilling in line with strategies	• Developed service managers linked to core business innovation • Introduced re-skilling program for business design talent linked to commercialization of DX • Shifted human resources portfolio through re-skilling
	• Visualization of human capital and independent career formation	• Launched iCDP (Integrated Career Development Plan) • Implemented career development program and job rotation system for young employees
Establishment of a workstyle to ensure job satisfaction in adapting to the new normal	• Guidelines on new workstyle and workplace	• Promoted new working styles resulting in increased productivity and job satisfaction • Disseminated guidelines on new working styles • Initiated review of next-generation workplace strategy
	• Talent management utilizing individuality	• Planned and implemented D&I management advisory measures • Conducted survey on organizational effectiveness seeking to accelerate and entrench the organizational development cycle • Began review of new talent management, such as one-on-one interviews, feedback and retention, etc.
	• Initiatives that promote good mental and physical health of employees	• Evolved health related measures to include mental health initiatives • Promoted well-being management

See page 56 - Diverse Team of Professionals

SCSK's Human Resource Strategy as Viewed by the Officer in Charge of Human Resources

We will promote strategic investments in our people aimed at becoming a Co-Creative IT Company.

Yasushi Shimizu
Managing Executive Officer
General Manager, Human Resources & General Affairs

SCSK has been selected as a Health & Productivity Stock Selection, which recognizes us as a leader in working style reform and health and productivity management, for eighth consecutive years. We have also been a pioneer in working style reform within the IT industry. With a comfortable working environment in place, we have achieved high work quality and productivity through a high retention rate of employees and stable recruitment. In the process, we have fostered a "learning culture" in which each employee learns autonomously. Investment in people further strengthens and develops this management foundation, and also involves human capital management. In order to become a Co-Creative IT Company as set forth in Grand Design 2030, we will continuously implement the cycle of talent investment (plan, do and check) and promote management that enhances job satisfaction, well-being, and human capital.

1. Basic Cycle of Investment in People for Becoming a Co-Creative IT Company

To realize our management vision of becoming a Co-Creative IT Company, it is essential to link management strategy, human resources strategy, and each individual's desire to grow. To that end, it is also important that each aspect of human resource investment be promoted in an integrated and coordinated manner. The iCDP is an autonomous, strategic, and integrated career development platform that will assist in these efforts. In particular, the CDP, which shares career and development plans with superiors and team members and summarizes them as an organization's human resources portfolio, i-University, a company-wide education system, and the IT Skill Level Assessment, which defines the ideal image of human resources and examines and certifies achievement level, are mechanisms that form the foundation of iCDP. They also enhance human capital by cooperating with each other to promote investment in people.

2. Re-Skilling Program to Shift Human Resources Portfolio

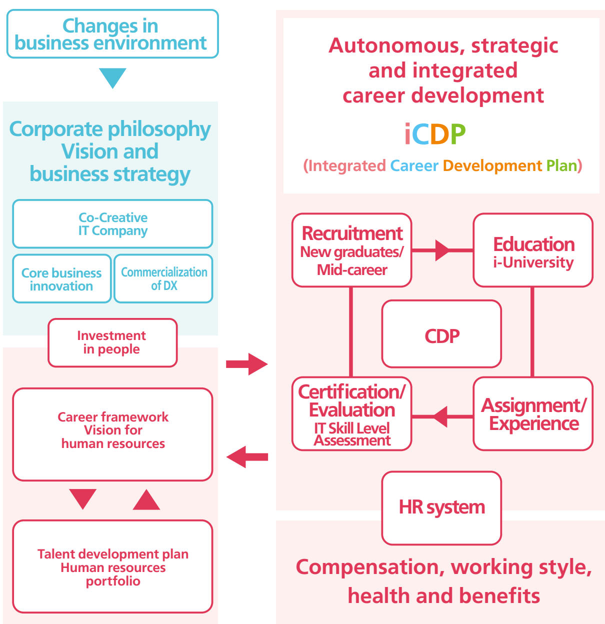
We are promoting a dynamic shift in the human resources portfolio in line with management strategies using re-skilling for professionals linked to business strategy and involving a change of job type, and literacy re-skilling where employees acquire new literacy. For professionals, we have introduced full-scale programs for service managers, who are key human resources for transforming and strengthening client contact points, and for business designers, who are key human resources for commercialization of DX. In this manner, we are promoting practical re-skilling. In the area of literacy, in addition to basic knowledge of technology such as DX, agile development, the cloud, AI, and data analysis, we are also expanding human skills such as thinking ability by updating them to match the times.

In addition, for young employees who are expected to form an important portfolio for a Co-Creative IT Company, we have introduced a medium- to long-term career development program that fosters diverse skills and the ability to respond to change. This will enable us to create a base of highly skilled human resources.

3. Autonomous Development of Organizations and People through Companywide Organizational Development

In an era of intense change and high uncertainty, the role of management is extremely important. In particular, the promotion of investment in people is an important duty of management. Therefore, we introduced a company-wide organizational development program in FY2020, and are promoting practical leadership development through organizational surveys and organizational development meetings. We are also working toward autonomous organizational transformation in each workplace and investment in people.

Basic Cycle of Investment in People



We will continue with strategic investments to achieve greater growth and increase shareholder returns in the final fiscal year of the Medium-Term Management Plan.

Yasuhiko Oka
Managing Executive Officer
In charge of Finance, Accounting and IR

Results for FY2021

In FY2021, both net sales and operating profit reached all-time highs, marking the 10th consecutive year of increased sales and profits since the merger.

As for the business environment, part of our operations was affected by the lack of product supply due to shortage of semiconductors and supply chain disruptions. However, client demand for digitalization remained robust despite the uncertainty of the COVID-19 pandemic. As a result, net sales increased by 4.4% year-on-year to ¥414.1 billion.

Clients' appetite for IT spending remains strong, and I feel that the tailwind on the business side continues as inquiries for large-scale projects have been increasing, especially since the second half of the fiscal year.

Operating profit rose 3.7% year-on-year to ¥47.5 billion, reflecting an increase in profitability stemming from an improvement in productivity and the effects of increased sales, despite an increase in unprofitable projects and larger business investment expenses.

The fact that we were able to secure earnings growth while undertaking business investments for future growth as planned should be viewed as a positive result of management in FY2021.

Earnings Forecast* for FY2022

I would like to review the outlook for Japan's economy in FY2022. There remain concerns such as the rise in raw material prices due to Russia's invasion of Ukraine, economic impacts caused by depreciation of the yen following the end of monetary easing policies overseas, and supply-side constraints due to supply chain disruptions.

Driven by the continued expansion of digitalization, however, IT investment demand is expected to continue growing, albeit somewhat inconsistent and based on careful selection of investments.

Under such circumstances, in FY2022, we aim to increase net sales by 8.7% to ¥450.0 billion. This is because of strong inquiries from steady demand for IT investment in the manufacturing and financial industries, along with the emergence of investment in ERP business systems with an

(Unit: billion yen)

	FY2021	FY2022 (Forecast)	Change	Rate of change
Net sales	414.1	**450.0**	35.8	8.7%
Operating profit	47.5	**54.0**	6.4	13.6%
Operating profit margin	11.5%	**12.0%**	-	-
Net income attributable to owners of parent	33.4	**38.0**	4.5	13.5%

*Announced on April 28, 2022.

eye toward enhanced functions as a DX platform.

In terms of the bottom line, operating profit is expected to increase by 13.6% to ¥54.0 billion, operating profit margin by 0.5 percentage point to 12.0%, and net profit attributable to owners of parent by 13.5% to ¥38.0 billion. While we will continue to make strategic investments, this spending will be absorbed by the effects of increased sales through the launch of large-scale development projects and productivity improvements through the full-scale operation of the S-Cred+ platform.

Basic Policy on Financial and Capital Strategy

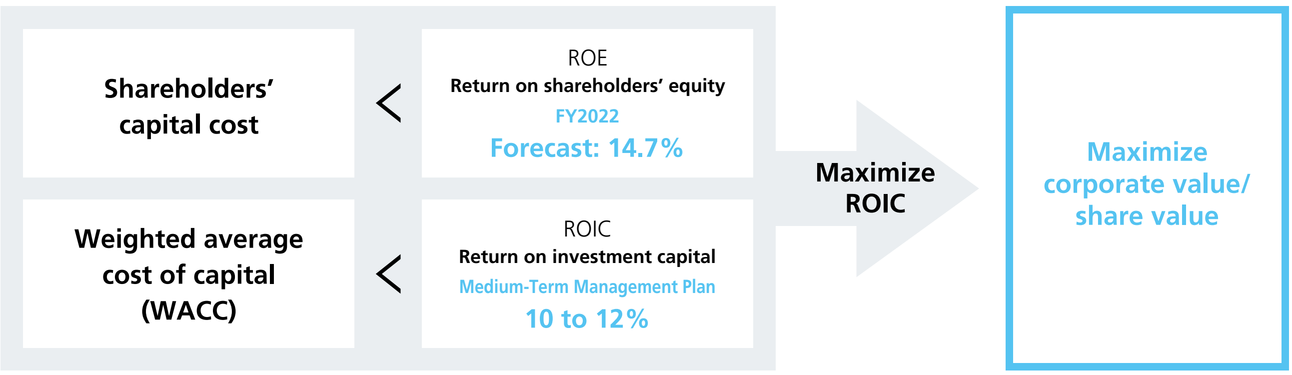
The SCSK Group will sustain aggressive investment as well as aim to further boost earnings power and enhance corporate value over the medium-term, in order to achieve sustainable growth into the future following the Medium-Term Management Plan that started in FY2020. In particular, as we transform our 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. We forecast ROE, a management indicator we have used for some time, will be at 14.7% 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%.

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 x (1 – Effective tax rate)
Interest-bearing debt = Borrowings + Corporate bonds

Generate Returns in Excess of Capital Cost



Initiatives for Sustained Business Growth

The SCSK Group has been actively promoting the transformation of its business structure to a non-labor-intensive business model in order to respond to changes in the business environment. Focusing on the SaaS-type business in platform systems and the subscription-based IT service business utilizing SCSK's intellectual property, we are working to achieve sales growth and improve business profitability in the service oriented business, and we are steadily building up our track record.

During the period of the current Medium-Term Management Plan, we anticipate investment totaling ¥100 billion over three years, including Core Business Innovation, Commercialization of DX, and Investment in People to support these investments, and we are working toward further business growth leading up to 2030.

In Core Business Innovation, we are working to improve the productivity and profitability of system development by promoting the use of the S-Cred+ platform (see page 27) to improve agility in response to business changes, to diversify service models, and to optimize SoE and SoR systems. Through training and awareness-raising activities for the SCSK Group's officers and employees, we have seen a gradual uptick in the number of engineers and the number of projects utilizing S-Cred+, and we will enter a full-fledged rollout phase in FY2022. Looking ahead, we will further expand the number of applicable projects to further improve profitability.

As structural changes occur throughout the IT service industry, the SCSK Group feels a sense of crisis that the limits of growth will be reached if we conduct business following our existing business model only. This has led us to work on Commercialization of DX (see page 29), which is a business model that differs from our conventional contract-based model in which we ourselves become the business entity that creates new value for society.

In addition to initiatives to realize commercialization in the key domains of mobility, financial service platform, healthcare, and CX, we are also working on open innovation leading to services that combine the SCSK Group's technologies and know-how with outside cutting-edge technologies and services, thereby maximizing the value of the former.

With regard to Investment in People (see page 33), we are implementing such measures as a new personnel system and enhancement of training programs in order to realize the sophistication, diversification, and expansion of human resources.

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 *monozukuri* 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 FY2021, the SCSK Group's interest-bearing debt totaled ¥36.4 billion in the form of bank borrowings and corporate bonds. Cash and cash equivalents totaled ¥121.2 billion, far exceeding these debts, indicating our robust financial base.

Based on an assessment of these ongoing initiatives and results to strengthen our financial base, as of January 2022, we held a credit rating of A* and our rating outlook was revised from stable to positive.

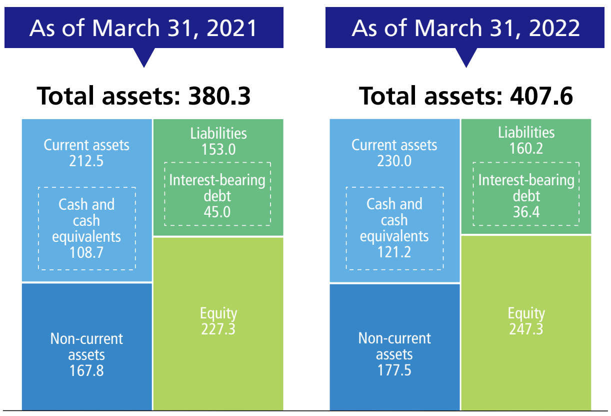
As for working capital on hand, we have a cash management system (CMS) at SCSK and our consolidated subsidiaries in Japan to centralize the surplus funds of all companies and manage them effectively. This makes it possible to supply funds to Group companies in an expedited manner, ensures ample liquidity 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, 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. All of the funds raised from this bond issuance were allocated to the

Summary of Consolidated Balance Sheet

(Unit: billions of yen)



Equity ratio attributable to owners of parent: 59.6%

Equity ratio attributable to owners of parent: 60.6%

*Long-term credit rating by Japan Credit Rating Agency, Ltd. (JCR) construction of the netXDC Chiba Center 3 (SI3), which is as an environment-friendly datacenter with low energy consumption forming part of our datacenter network of seven sites in Japan.

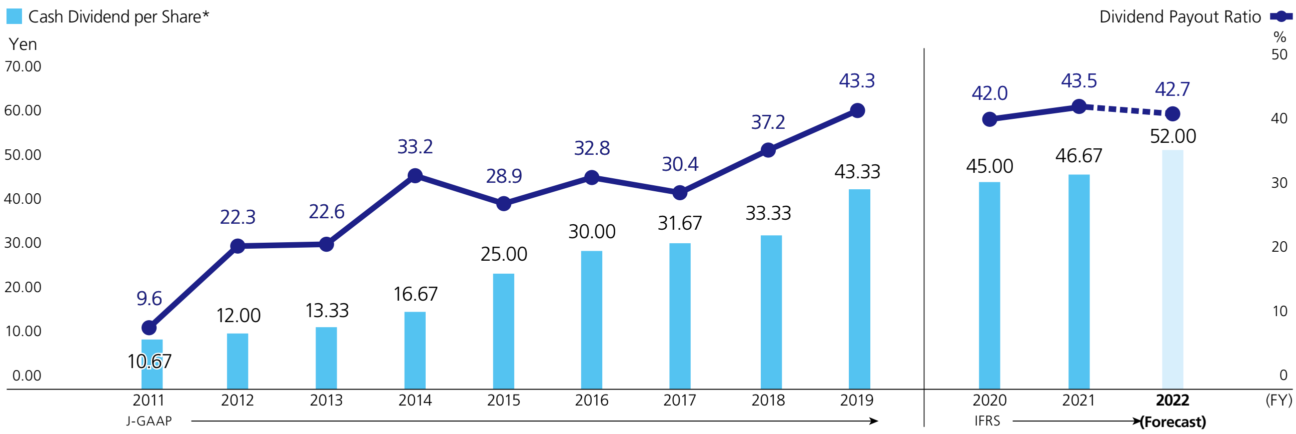
Returning Profits to Shareholders

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.

To create an environment conducive to investing and to further expand the investor base, SCSK carried out a 1-for-3 split of its shares on October 1, 2021. The year-end dividend for FY2021 was ¥23.34 per share (after the stock split), and together with the interim dividend of ¥70.00 (before the stock split), the annual dividend calculated assuming that the stock split was carried out at the beginning of the fiscal year was ¥46.67 per share (¥140.00 on a pre-stock split basis).

The full-year dividend forecast for FY2022 calls for a dividend of ¥52 per share (comprising an interim dividend of ¥26 and year-end dividend of ¥26), based on our financial standing as well as the profit level forecast for this fiscal year. This represents an increase of ¥5.33 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 11th consecutive year we have increased our dividend as a return of profits to shareholders.

Cash Dividend per Share / Dividend Payout Ratio



* Dividend per share and dividend payout ratio taking into account the stock split executed on October 1, 2021.

Approach to Cash Flow Allocation

The SCSK Group's ability to generate cash flow steadily increased buoyed by steady demand for digitalization at client companies and higher profits based on improved profitability achieved through greater productivity. During the period of the current Medium-Term Management Plan, cash flow from operating activities totaled ¥109.3 billion for the two years from FY2020 to FY2021. This exceeded the assumed investment amount of ¥100 billion for business growth over the three years.

With regard to the allocation of cash flows generated from operating activities, we prioritize the allocation of funds to growth investments, and then make investments in line with the three core strategies to implement the Medium-Term Management Plan. In particular, in the four key domains within Commercialization of DX, we believe that it is essential to strengthen relationships with co-creation partners to realize commercialization. Toward this end, we are considering business investment from various angles, such as the high growth strategy in the key domains of the SCSK Group and the acquisition of highly skilled talent with advanced digital technologies.

While actively undertaking growth investments on one hand, on the other we have allocated a cumulative total of approximately ¥28.1 billion over two years to dividends, taking into account earnings trends and internal reserves in preparation for future growth investments. In this manner, we will further enhance shareholder returns.

In addition, we have allocated a total of ¥18.9 billion over two years to reduce interest-bearing debt, and are working to optimize cash efficiency while leaving room to flexibly address other demands for funds, such as M&A.

Going forward, we will continue to examine the optimal capital structure mindful of capital costs, and aim to achieve both business growth through reinvestment of cash flows generated and a higher level of shareholder returns in line with profit growth.

Strategies by Business Group

CORE Business Group

Industrial Business Group

Business lines

The Industrial Business Group helps a large number of clients underpinning social infrastructure to increase business value. We accomplish this by working together to address market issues, client-specific issues, and growth measures through various IT services that contribute to new growth driven by business digitalization harnessing our accumulated knowledge, technologies and experience along with intellectual properties in manufacturing, distribution, communications, media and utilities, among other industries.

Strengths (competitive edge)

- Broad and diverse IT services supporting projects valued at over ¥100 billion and strong, wide-ranging client relationships
- Proprietary lineup of unique SCSK solutions directly tied to resolving client-specific issues created from broad and diverse IT services
- Complete compatibility with core solutions for clients' SoR and SoE needs using SAP, Salesforce and AWS, among others

Financial Business Group

Business lines

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 and create new businesses using our business foundation as a springboard for delivering greater value to markets, steadily responding to ever-changing client needs amid the trend of digitalization.

Strengths (competitive edge)

- Knowledge and operational experience built up through systems development, maintenance, and operation services for a wide range of financial institutions
- Intellectual property and services that achieve a higher dimension of productivity and service level essential to increasing clients' competitiveness
- Team able to support clients from development to operation and maintenance of various systems to address the globalization of financial institutions

Solution Business Group

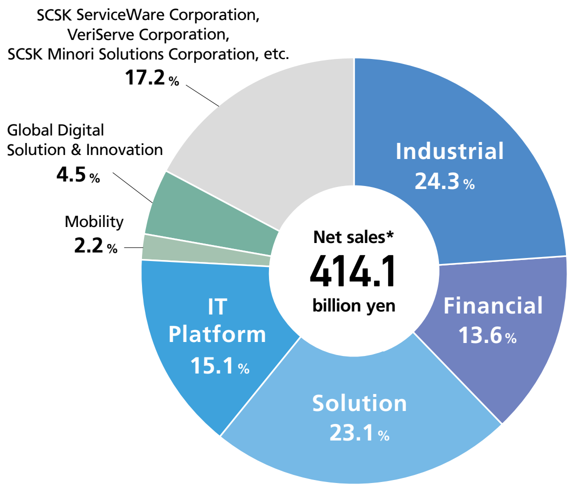
Business lines

The Solution Business Group provides optimized IT solutions tailored to the situation of each individual client. We comprise four businesses; namely, the ERP business, which develops and maintains platform systems such as SAP and ProActive, the cloud business, which provides the right IT environment for each client on the cloud, the secure connect business, which focuses on data center services, and the account business, which provides client-driven IT services.

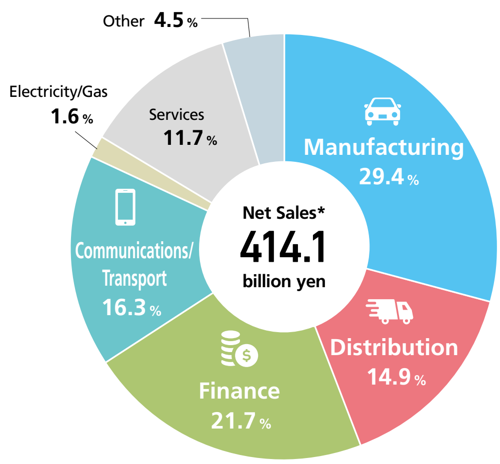
Strengths (competitive edge)

- Powerful co-creation system with clients and vendors in Japan and abroad
- Extensive track record in various ERP applications, including SAP and ProActive
- Provision of diverse cloud services and solutions covering infrastructure to application
- Cutting edge data centers in Japan with excellent connectivity with major cloud vendors and the Internet

Net Sales Broken Down by Business Group



Net Sales Broken Down by Client Industry



*FY2021

Next-CORE Business Group

IT Platform Business Group

Business lines

The IT Platform Business Group provides products and support for the seven product lines of Network, Security, Server & Storage, Middleware, CAD, CAE and PLM. We aim to improve customer satisfaction and expand the business of entire SCSK Group by constantly increasing our products that support company's DX and coordinating our extensive product lineups and the skills & know-how of our engineers to meet our customer needs.

Strengths (competitive edge)

- Service quality only possible by SCSK that adds value to our leading product lineups explored from around the world
- Engineers with broad knowledge and experience in a wide range of products
- Strong relationships built up over many years with vendors (suppliers), resellers and clients

Mobility Business Group

Business lines

The Mobility Business Group provides a broad range of automotive software system solutions for clients in the auto industry, including model-based development, our group's proprietary product QINeS-BSW, platform development supporting next-generation mobility development, and process building and improvement compliant with standards. We are also creating mobility services with our knowledge in automaking to help resolve social issues.

Strengths (competitive edge)

- One-stop development system, from application to platform
- Extensive development track record in advanced functions (autonomous driving and electrification)
- Automotive software system development structure following certified function and safety processes
- Service provision in Out-Car domain using knowledge from In-Car domain

Global Digital Solution & Innovation Business Group

Business lines

The Global Digital Solution & 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 (CX) domains to roll these out in society.

Strengths (competitive edge)

- Digital technologies for IoT service platforms and AI
- Collaborative structure with the Sumitomo Corporation Group and strategic partners globally
- Know-how in resolving operational issues in the healthcare industry (pharmaceuticals, wholesaling, dispensing pharmacies and medical institutions)
- Full lineup of services for upgrading customer contact points (e-commerce, online, contact centers, BPO)

SCSK Group's Premier Client Base

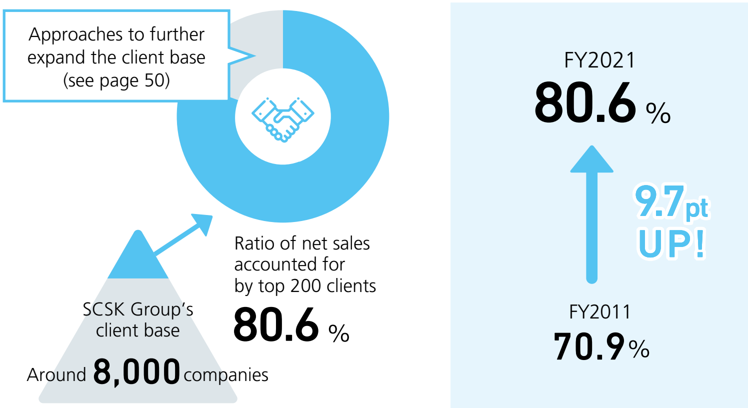
During the course of providing IT solutions to numerous industries over many years, the SCSK Group has established solid relationships of trust with around 8,000 client companies spanning a multitude of industries, including manufacturing, distribution, finance, communications and transportation.

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 FY2021.

In addition, to achieve sustainable growth, we will focus on further expanding our client base by strengthening our approach to middle market companies with efforts led by SCSK Minori Solutions Corporation (see page 50).

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.

Percentage of Consolidated Net Sales Accounted for by Top 200 Clients



Industrial Business Group

Officer in Charge

Tadashi Miyagawa
Managing Executive Officer
General Manager,
Industrial Business Group

Market Environment Analysis

Opportunities

- Shift to digital technology to address changes in consumer values and diversification of shopping behaviors
- M&A and new business opportunities that address changes in industrial structure and values
- Changes in clients' IT investments (shift from SoR to SoE)

Threats

- Sluggish economy caused by changes in social dynamics, including infectious disease
- Shortage of digital talent for new business creation

Progress of the Strategy for Achieving Medium-Term Management Plan

Having wrapped up the second year of the Medium-Term Management Plan, we are making steady progress with the establishment of our group's foundation focused on strengthening of earnings base, core business innovation, subdivision innovation, and shift to service model. In FY2022, we will once again return to the basics in working closely with clients to provide them with our strengths and value. At the same time, we will focus on four initiatives with an eye towards greater growth and our next Medium-Term Management Plan. We will now lay the groundwork for the next stage of growth where we receive the empathy of employees, clients and other stakeholders by implementing the account business strategy and solutions business strategy under core business innovation, positioned as our primary strategy, together with initiatives for commercialization of DX, and strengthening and human resources and management foundation that will underpin our business operations.

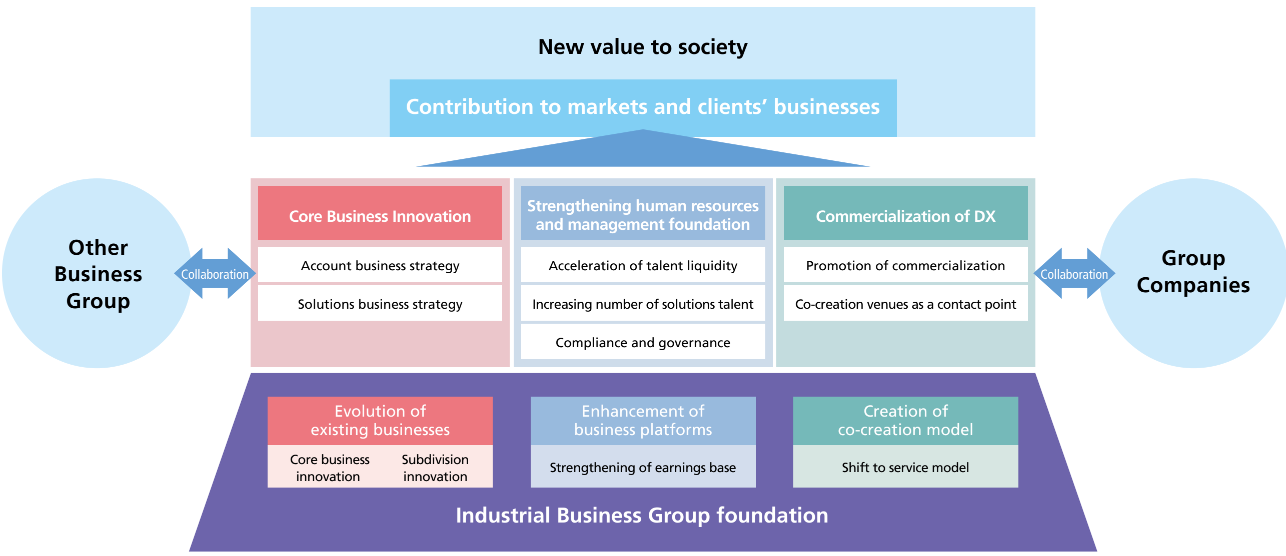
(1) Account business strategy
We will strengthen client relationships and resolve their fundamental issues together to enhance the business value of markets and clients.

(2) Solutions business strategy
We will again reinforce core solutions for clients' SoR and SoE, using SAP, Salesforce and AWS, among others, and provide services suited to industry and market needs. At the same time, we will harness SCSK's proprietary solutions directly tied to resolving client-specific issues to help increase business value of clients and markets.

(3) Commercialization of DX
We will create new business opportunities by establishing co-creation venues linked with various businesses as contact points, in addition to commercialization unique to our group.

(4) Strengthening human resources and management foundation
Aimed at the next stage of growth, we will accelerate the liquidity of talents and business domains. We will further strengthen data-driven business operations and enhancement of IT infrastructure centrally visualizing performance, talents information, and project status. We will also support the group's growth by ensuring compliance and governance together with strengthening our foundation for service quality that can provide robust security and peace of mind.

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 declining population, changes in behavioral patterns, and promotion of client-centric financial transactions
- Full-fledged move toward DX following structural changes and evolution of new financial ecosystems beyond industry lines

Threats

- Transitioning toward in-house development among financial institutions and gradual decrease in the number of large-scale system development projects
- Shortage of talent and growing competition to acquire talent in the IT market

Progress of the Strategy for Achieving Medium-Term Management Plan

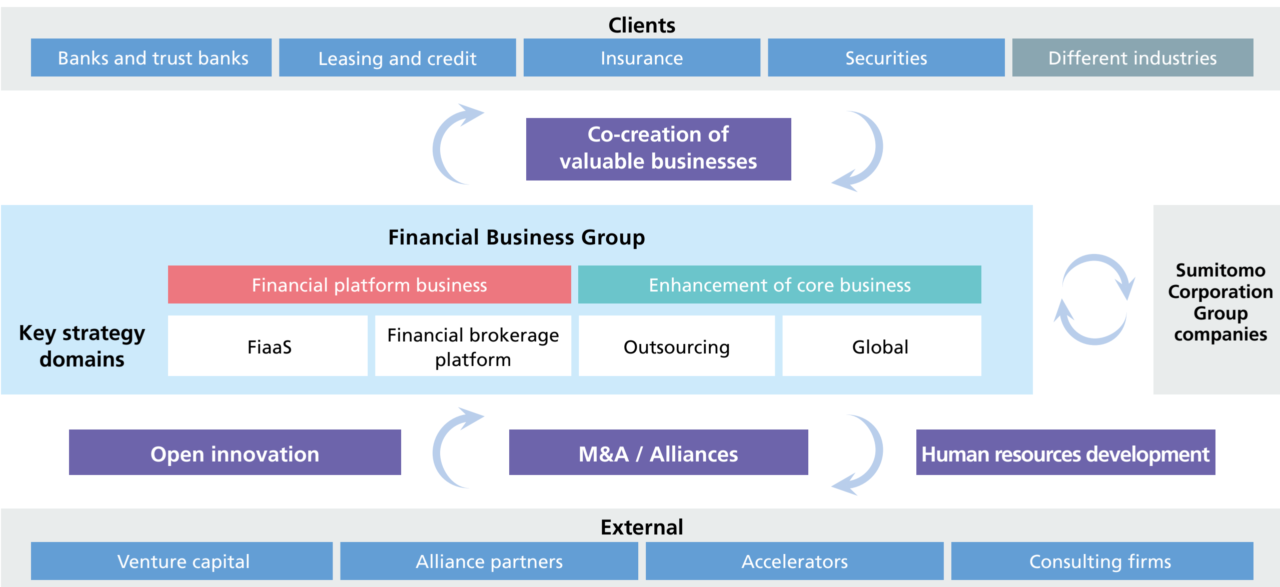
Our group aims to transform its business structure using two scenarios based on changes in the management environment of financial institutions, our main clients, and structural change in financial markets over the medium to long term. The first scenario is "enhancement of core business" where we seek sustainable business operations while shifting away from a labor-intensive business model and providing even more sophisticated IT services (DX services) using digital technologies to address the wide ranging management issues faced by financial institutions based on our expertise and operational knowledge gained through the systems integration business that has served a large number of financial institutions to date. The second scenario is creating and expanding new financial platform businesses based on structural change in financial markets using co-creation with various companies including clients and Fintech ventures.

In terms of enhancement of core business, we will increase the value of services provided by our group by (1) enhancing technical strengths and expanding technical domains; (2) further pursuing operational knowledge; and (3) promoting transformation of service model. With outsourcing and global as our key strategy domains, we will aim to achieve stable business growth and increase earnings power.

In terms of the financial platform business, we are working to create and expand businesses, having established FiaaS and financial brokerage platforms as key strategy domains because our group has strong expertise and new markets are expected to be created therein that contribute to solutions to social issues. We have already launched the anti-money laundering (AML) business centered on BankSavior, an integrated AML solution in the FiaaS domain, along with the Japanese version of TAMP business and Efukuri business (a financial brokerage platform business for employees of companies) in the financial brokerage domain (see page 22).

Through the steady and fast-paced promotion of measures covering these two scenarios, we will achieve the medium- to long-term vision for our group of becoming a digital financial provider that generates new value for changing society and financial markets.

Strategy for the Financial Business Group



Solution Business Group

Officer in Charge

Ken Takano
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 in working style reforms driven by 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) and shortage of engineers

Progress of the Strategy for Achieving Medium-Term Management Plan

Our group was restructured into four business segments to put into place a system for steadily implementing the Medium-Term Management Plan.

In the ERP business, we provide services mainly using SAP, the global standard ERP, and our own proprietary ERP called ProActive. In response to robust demand, we are working to increase human resources experienced in SAP S/4 HANA and release ProActive C4, a cloud-based ERP, which is compatible with the latest technologies. Starting with SoR, a management foundation, we are expanding into the SoE and SoI domains to achieve clients' digitalization needs.

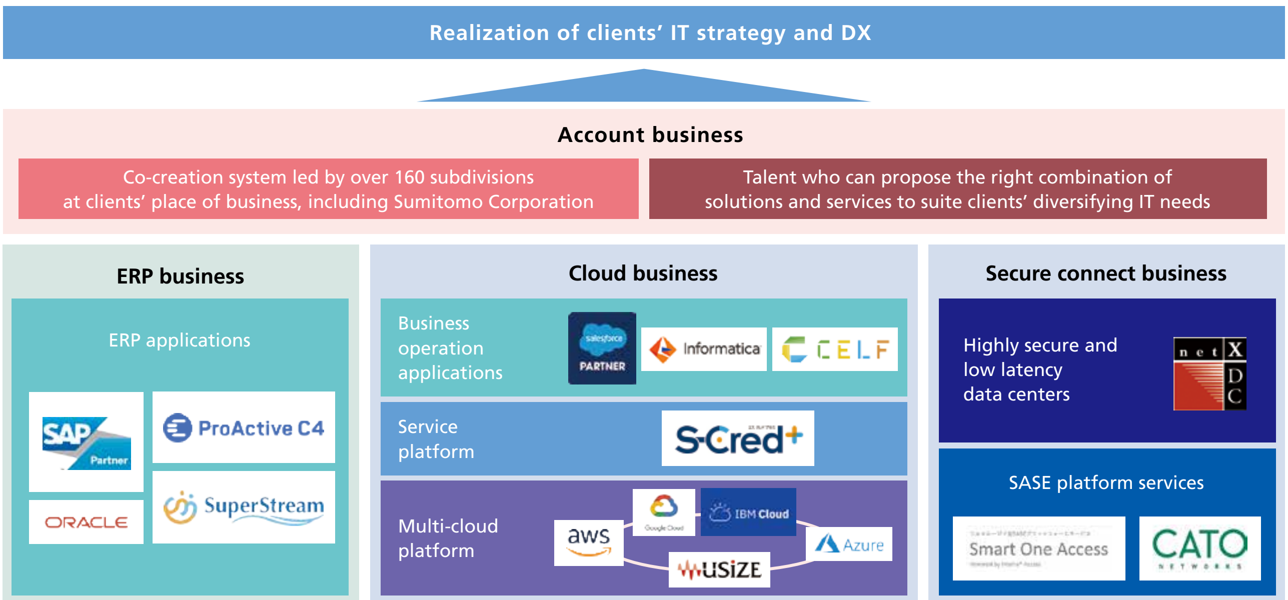
In the Cloud business, we offer a broad range of services and solutions, from infrastructure to application. Our group provides a multi-cloud environment combining our own proprietary cloud-based service USiZE along with the high-speed data transfer technology of SCSK Group company Skeed, in addition to the more traditional AWS, Azure and Google Cloud. We have also developed a one-stop service structure that makes proposals capitalizing on the features of Salesforce or CELF, our own app which makes it possible to develop business process apps even without specialist coding knowledge.

In the Secure connect business, as the use of a cloud-based IT environment grows, our group provides a highly secure and low latency environment mainly for our own data centers in response to the need for and importance of a hybrid environment blending the cloud with on-premise services. We completed the netXDC Chiba Center 3 in April 2022, and established a joint venture company with NEC Corporation in May 2022.

In the Account business, we provide a wide range of IT support services at our subdivisions located at clients' place of business. We are training service managers who can present customized proposals that capitalize on the characteristics of the three businesses mentioned above and carefully coordinate our service offerings in tune with the IT strategies of individual clients, thereby contributing to business growth.

With these core business segments, we will provide the right support to clients amid the diversification of their IT needs.

Strategy for the Solution Business Group



IT Platform Business Group

Officer in Charge

Masaki Komine
Managing Executive Officer
General Manager,
IT Platform Business Group

Market Environment Analysis

Opportunities

- Acceleration of business efficiency improvement, revolution and creation with advanced data utilization focusing on AI for digital transformation
- Growing demand for higher speed networks and response to security risks following the digital shift acceleration
- Expansion of PLM business by strengthening data management in the manufacturing industry

Threats

- Business opportunity losses due to delay of product supply caused by the worldwide semiconductor shortage
- Deterioration of competitiveness of existing products and decline or disappearance of their markets
- Difficulty acquiring advanced engineers in Japan due to declining labor force

Progress of the Strategy for Achieving Medium-Term Management Plan

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

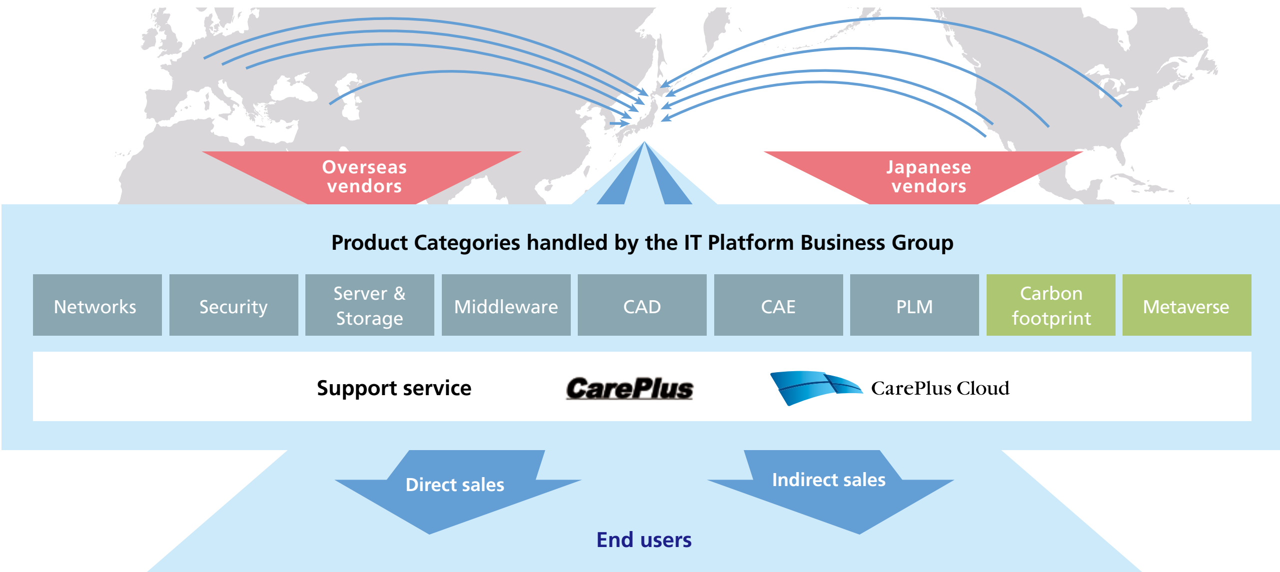
To implement the strategy for each product category, it will be important to foster and secure human resources. We are now working on fostering global and marketing talents who can contribute to establishment of an ecosystem for exploring and developing new product business, or business promotion in product categories across corporate organizations.

Additionally, in terms of our group's engineers, we require T-type (means "double major") engineers who have a wide range of knowledge, technological know-how, and experience, along with specific specializations. Therefore, at the IT Engineering Center, a specialist organization focused on engineer development, we are actively supporting engineers for initiatives in new technological fields. In parallel to the strategy formulation and implementation of our existing product categories, we also focus on carbon footprint and the metaverse as target areas with high expectations in the future, in order to create the eighth and ninth 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 transformation 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.

Strategy for the IT Platform Business Group

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



Mobility Business Group

Officer in Charge

Koji Watanabe
Managing Executive Officer
General Manager,
Mobility Business Group

Market Environment Analysis

Opportunities

- Penetration of CASE in mobility industry driven by the need to resolve social issues such as environmental problems and easing workload of drivers
- Accelerating response to shift from mobility hardware driven development to software first

Threats

- Changing power dynamics and roles of the mobility industry
- Lack of engineering talent for automotive software development

Progress of the Strategy for Achieving Medium-Term Management Plan

Our group engages in business covering three service areas in the constantly changing mobility domain aimed at becoming a mobility servicer that contributes to the Smart City concept by 2030.

Software Tier 1

We are actively promoting co-creation activities along with the expansion of services and products in an effort to become a SDV supplier to automakers. We are strengthening the product capabilities of QINeS-BSW developed by our group, and engaging in joint development to expand applications to domains including the electrification domain and to become a BSW*1 multi-vendor for automakers. Also, we are developing solutions to streamline the software development process amid growing investments in the development of integrated ECU*2 and vehicle OS.

Software Development Support

We are stepping up our development support in advanced function domains, and tackling challenges associated with the shift to advanced engineering services in order to address the growing complexity of client requests, such as autonomous driving and electrification. Moreover, we are actively working on legal response to cybersecurity and software updates.

To address the growing scale of software development, we are reinforcing our development structure using co-creation with SCSK Nearshore Systems Corporation and offshore companies.

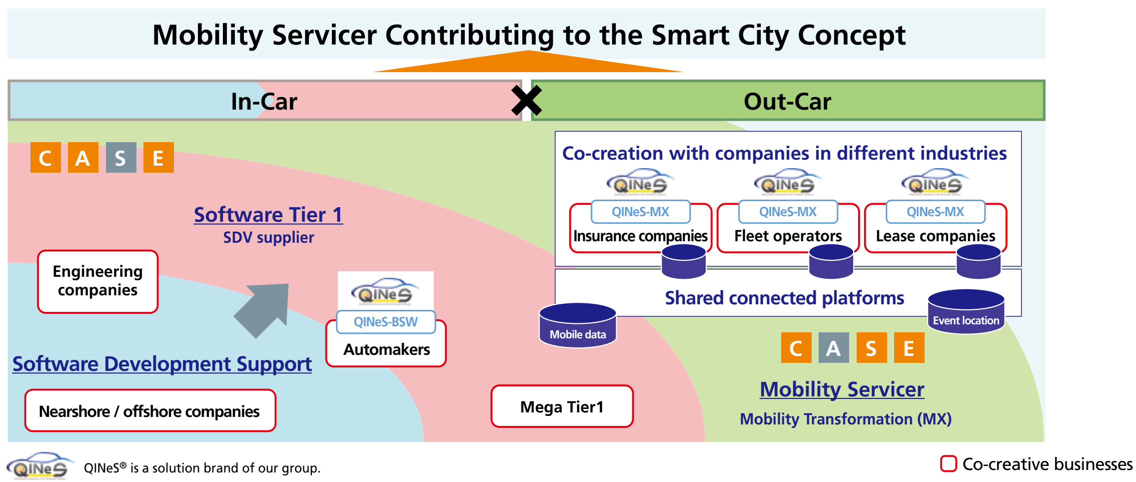
Mobility Servicer

Amid major changes in the business environment for mobility services, we are strengthening our ability to develop services that solve social issues and contribute to clients' businesses (maximization of client value).

Our goal is to become the No.1 mobility servicer supporting the Smart City concept. Toward this end, we are actively promoting co-creation with the Sumitomo Corporation Group and SCSK's around 8,000 client companies, and collaboration with government agencies and local governments, not to mention automakers and industry groups, to achieve a safe and secure mobility society that is people and environmentally friendly. We are exploring a new Mobility Transformation (MX) for the future linking the movement of people and things with business events in a virtual space.

*1 BSW: Basic Software
*2 ECU: Electronic Control Unit

Strategy for the Mobility Business Group



Global Digital Solution & Innovation Business Group

Officer in Charge

Tetsuya Ueda
Senior 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

Progress of the Strategy for Achieving Medium-Term Management Plan

Our group was newly established in FY2021 as a dedicated, specialized unit committed to creating new businesses in order to accelerate the efforts toward commercialization of DX, one of the SCSK Group's business strategies, on a global basis.

We are working on the following key measures with the aim of helping SCSK become a sustainable business group capable of addressing social issues by 2030.

Business Theme Creation and Conceptualization

Our group is creating and conceptualizing business themes that respond to social issues and global mega trends. Specifically, we have established a team to plan and promote commercialization in the energy domain which is now working toward achieving a sustainable society. Also, we will accelerate new value creation for social issues using the three approaches of co-creation with clients, co-creation with different targeted industries, and global co-creation with Sumitomo Corporation.

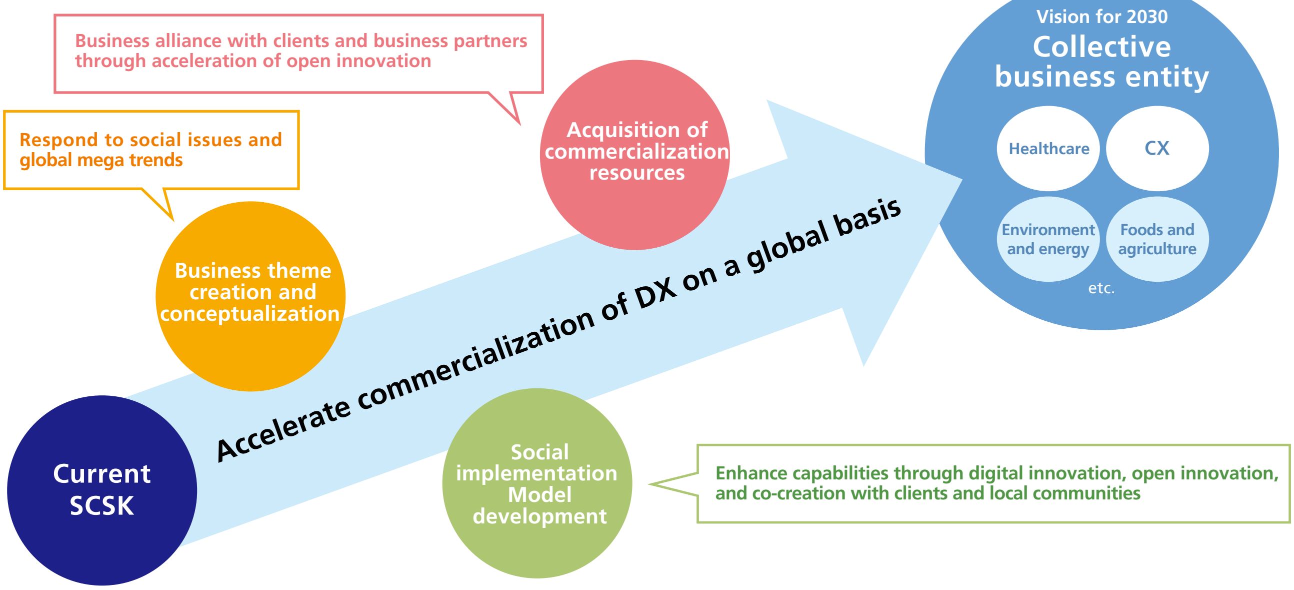
Development of Social Implementation Models

Our group is developing models for social implementation using digital technologies in an effort to enhance our capabilities through digital innovation, open innovation and co-creation with clients and local communities. For example, in the healthcare domain, we are using Dr2GO for working style reforms of healthcare professionals and streamlining regional medicine (see page 31).

Acquisition of Commercialization Resources

Our group is acquiring resources needed for commercialization in the form of co-creative partners and advanced DX talent, which includes SCSK's business partnership with D Capital, Inc. finalized in October 2021 (see page 30). In the customer experience (CX) domain, we are expanding the altcircle business aimed at enhanced customer contact points and new value creation (see page 20). In FY2022, we will set up a new organization responsible for business alliances, including with client companies and start-ups, to further speed up open innovation activities for commercialization of DX.

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 IT consulting to business process outsourcing (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.

Main Group Companies Supporting Our Extensive Service Lineup

SCSK ServiceWare Corporation

Services provided: BPO

As labor shortages in Japan become more serious, demand among companies to streamline operations, enhance cost competitiveness, and use outsourcing services is expected to grow at a brisk pace going forward. Moreover, changes in society caused by the COVID-19 pandemic have promoted a shift to working from home and moving contactless channels online. This has provided an opportunity for companies to reconsider their own approaches to business operations and served to speed up initiatives for operational transformation using digital technologies.

SCSK ServiceWare Corporation engages in the BPO business utilizing IT mainly for contact center and back office solutions. The company provides the right solutions tailored to the challenges of client businesses and frontline operations by organically linking its operational knowledge, IT and human resources.

VeriServe Corporation

Services provided: IT consulting, verification services

Today, the auto industry faces a once-a-century transformation. The roles and functions that software plays in vehicles is becoming more advanced and complex amid the rollout of CASE technologies, which has led to the growing importance of software verification from the standpoints of quality and safety. Moreover, the utilization of digital technologies has become a source of corporate competitiveness in every industry, which has increased demand for software verification underpinning the corporate software development process given the trend toward in-house software development and shortening development lead time using agile methodology.

VeriServe Corporation harnesses its roughly 40 years of technology and technical prowess as a pioneer in software verification to increase the quality of products and services across an extensive array of fields, from verification to consulting.

SCSK Minori Solutions Corporation

Services provided: IT Consulting, systems development, IT infrastructure development, IT management, IT hardware/software sales

The digitalization of medium-sized enterprises is considered indispensable to the sustainable growth of Japan's economy. The SCSK Group still has room to grow its presence in this market segment, which is expected to see a full-fledged move toward IT utilization for digitalization, working style reforms, and crisis management. Additionally, demand for IT investment intended to transform business models with and after COVID-19 is expected to grow.

SCSK Minori Solutions Corporation was established in October 2021 following the merger of three Group companies* with their own unique histories, characteristics and strengths. The company will support the digitalization of a broad range of clients, including medium-sized enterprises, using its comprehensive strengths in ICT based on its specialist knowledge in many industries and technical capabilities with virtualization, the cloud, and Microsoft technologies.

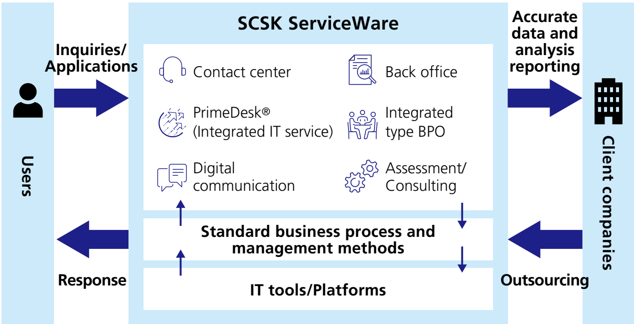
* Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, WinTechnology Corporation

SCSK ServiceWare Corporation

Atsushi Watanabe
President

Business Lines

Utilizing our competitive edge in business knowledge, IT, and human resources, we provide BPO services to an array of industries; these services include contact centers, technical support, help desks, and back-office operations. We are dedicated to providing support, tailored to meet the business challenges of our clients, by utilizing AI and RPA to optimize work processes and by providing assistance with operational reform and sales activities.



Strengths

- Ability to fully harness of our unique management system (e.g. SWC Management Framework) and knowledge, accumulated from various industries and processes
- Ability to introduce and use practical cutting-edge IT technology (a quintessential strength of SCSK Group)
- Ability to create various education programs and environments, where people are valued and adept at working for and co-creating with clients

Market Environment Analysis

Opportunities

- Could meet the needs for AI, automation, and other digital technologies that continue to advance
- Could meet the changes in business due to digitalization (this includes the diversification of customer touch points and the need for collaboration across industry boundaries)
- Could meet the needs for workforce security arising from the diversification of individual values and work styles

Threats

- Advancements in digitalization making labor-intensive services obsolete
- Companies (e.g. IT firms) from diverse industries entering into the BPO domain
- Japan’s declining birthrate and aging population reducing the labor supply

Business Policy

We aim to be a "Business Service Platformer" that continues to provide society with new, innovative values by organically combining our "business knowledge" x "IT" and "human resources" to provide services that act as optimal solutions, meeting the business and frontline challenges of our clients.

In addition, through co-creation with our clients and partners, we will also create and provide society with original values by transforming our services into universal platforms, serving as industrial pillars.

Making use of our procured business knowledge

Through our standard management approach, we collect operational data and know-how to optimize our business. In addition, by using this highly reusable storehouse of knowledge and through co-created projects with clients and partners, we are able to design efficient operational processes that help us tackle and solve many of today’s social issues.

Leveraging IT

By utilizing AI-OCR and RPA to further automate operations and reduce manpower, we build business processes that are non-dependent on human resources. We also intend to transform best practice processes for operations (co-created with customers and partners and best suited for use in IT) into services that serve as universal platforms, supporting the IT industry.

Raising talent inside an innovative corporate culture that loves challenges

We aim to create an environment that not only attracts but helps raise talent who drive business growth and productivity. We intend to accomplish this by refining our HR system, HR training initiatives, and work environment towards fostering talent with sought-after IT and digital skills.

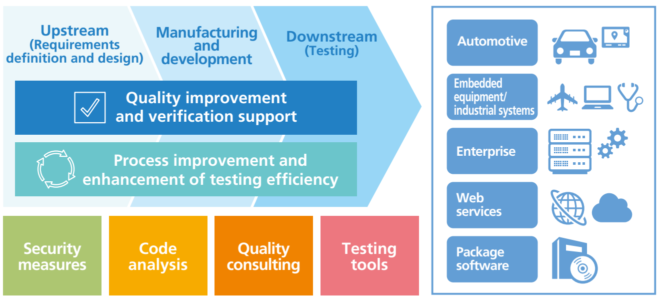
VeriServe Corporation

Yoshiyuki Shinbori
President

Business Lines

VeriServe Corporation is a pioneer in software verification services, having increased the quality of products and systems for more than 1,100 companies spanning 31,000 projects in a host of different areas, including automotive software, various digital devices, business systems, websites, package software and cyber security.

Full-stream support for QCD (quality, cost, delivery) in development



Strengths

- Ability to resolve frontline issues appropriately and flexibly using past experience and know-how in response to the unique quality challenges on clients' development frontline
- Research of how to use new IT to ensure quality and advanced research linked to the frontline of development
- Group of specialists in quality assurance with advanced technical prowess underpinned by the latest technical training and objective qualifications

Market Environment Analysis

Opportunities

- Realization of DX for streamlining operations or building strategic businesses implemented using public-private partnerships
- Emergence of new business lines and services following AI, 5G and other technological innovations
- Development of new social infrastructure systems beyond industry lines, such as MaaS

Threats

- Growing competition in the marketplace from peers' activities and new market entry
- Need to address quality assurance beyond just software to include the overall development process and strategy
- Shortage of IT engineers due to declining population in Japan

Business Policy

The name VeriServe Corporation indicates that it offers services covering the two "Vs" of "verification," corresponding to evaluations of whether design requirements have been satisfied, and "validation," corresponding to evaluations of whether the functions and performance align with the fundamental applications and purpose. For roughly 40 years since launching its software verification services in 1983, we have helped to increase the quality of products and services in various fields and situations.

Evolving with the Changes Taking Place Around Us

With interest recently growing in AI, DX, CASE, IoT, 5G/6G and the metaverse, the importance of software as a form of social infrastructure will only increase going forward. In light of this social environment, we have created a framework for verification services based on our wealth of experience and knowledge in order to offer highly efficient and top notch quality assurance and verification services.

Additionally, we strive to enhance quality assurance and verification technologies by carrying out research in collaboration with academic institutions and related organizations so that we can find the right solutions to client needs in terms of quality and technological innovation, both of which constantly change with the times.

Customer Driven

What forms the very essence of clients' challenges? We favor dialogue to explore and think about clients' challenges head on. Our goal is always to find the fundamental solution that goes beyond the immediate challenge. As IT evolves, there are always new needs in development.

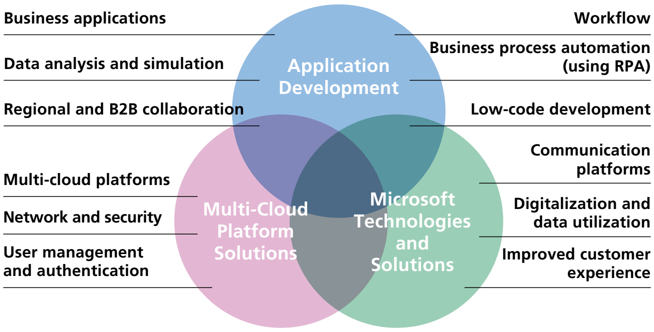
VeriServe Corporation continues to tackle the challenges of the unknown by harnessing its extensive track record.

SCSK Minori Solutions Corporation

Yuji Morishita
President

Business Lines

SCSK Minori Solutions Corporation was established in October 2021 following the merger of three SCSK Group companies. In addition to its conventional core businesses (system integration and platform), the company provides services that combine its strengths in application development, IT platform technologies and Microsoft technologies carried over from the three predecessor companies as part of its mission to support the growth of medium-sized enterprises using IT.



Strengths
- Specialized knowledge of both business and technologies in various sectors of industry and finance
- Track record in implementing solutions such as ERP for business process re-engineering
- Experience with IT platform development and operations in a wide range of formats, including on-premises and the cloud
- Consulting using Microsoft technologies and provision of proprietary solutions
- Digital engineering utilizing CAE

Market Environment Analysis

Opportunities
- Growing demand for digitalization of business processes among medium-sized enterprises and quantitative and qualitative shortage of IT service provision in this market segment
- Market growth of cloud-based services
- Shortage of IT talent at user companies

Threats
- Obsolescence of existing products and tougher competition among SaaS firms in Japan and abroad
- Intense competition to acquire IT talent

Business Policy

In the system integration and platform businesses, SCSK Minori Solutions Corporation will leverage the strengths of the former three companies to evolve and upgrade their businesses and develop cloud services. The company provides solutions to address the unique management challenges of middle market clients, such as speeding up decision making by management, standardizing and digitizing business processes, and building and operating IT platforms including security. It is also promoting a strategic shift of resources to focus on these core competencies.

In addition, SCSK Minori Solutions Corporation promotes human resource development and utilization, and is developing a management foundation seeking to become a company with a pleasant and rewarding workplace.

	Evolution and enhancement of core business		Tapping into middle market companies
Measures to strengthen business	Evolution and enhancement of SI business	Evolution and enhancement of platform business	Support for platform system implementation and utilization Business communication transformation Support to improve customer experience Support for digitalization and data utilization Total IT support
	Focus on core competencies (strategic resource shift)		
Measures to strengthen business foundation	Upgrades to management foundation and work environment		Increased marketing and promotions (digital marketing)
	Enhancement of human resources (software engineering, project management and sales)		

Part 3 Foundation Supporting Sustainable Growth

Environment

Global Environmental Contributions

… P52

Natural Capital

Social

Diverse Team of Professionals

… P56

Human Capital

Sustainable Value Chain

… P63

Social and Relationship Capital

Governance

Transparent Governance

… P65

For details about the background and approach to each material issue, please see here.
https://www.scsk.jp/corp_en/csr/index.html

Environment

Global Environmental Contributions

FY2021 Results

Greenhouse gas (Scope 1 and 2) reduction: Approx. 15%

* Base year for reduction is FY2019

Use of green electricity Approx. 30%

Expanded disclosures following the TCFD recommendations

SCSK Group's GHG Reduction Target

Acquired SBTi*1 Certification for 1.5°C Target

In June 2021, the SCSK Group set medium- to long-term greenhouse gas emission reduction targets and obtained certification under the SBT initiative (SBTi). In addition to actively engaging in environmentally friendly business activities to reduce greenhouse gas emissions, we view the transition to a carbon-free society as a business opportunity. We will contribute to the realization of a carbon-free society and the development of a sustainable society through co-creation with clients and partners across a wide range of industries.

SCSK Group's carbon-free Reduction Target

Scope 1 and 2*2	• Reduce emissions 47% by FY2030 compared to FY2019 (1.5°C target) • Reduce emissions 100% by 2050
Scope 3*3	• Reduce emissions 28% by FY2030 compared to FY2019

*1 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.

*2 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.

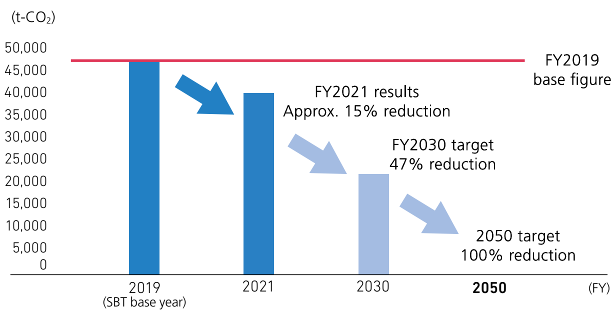
*3 Scope 3: Indirect emissions not included in Scope 1 and Scope 2 (emissions of other companies related to a company's own business activities)

Main Initiatives to Reduce Scope 1 and 2 Emissions

The SCSK Group's data centers account for approximately 80% of the Group's greenhouse gas emissions. Here, we are promoting the efficient use of energy by adopting high-efficiency equipment and improving operational efficiency, minimizing power consumption, and reducing greenhouse gases by utilizing renewable energy and non-fossil fuel energy certificates.

In FY2021, we reduced greenhouse gas emissions by approximately 21,043 tons by utilizing FIT non-fossil fuel energy certificates. As a result, the ratio of green electricity was approximately 30%.

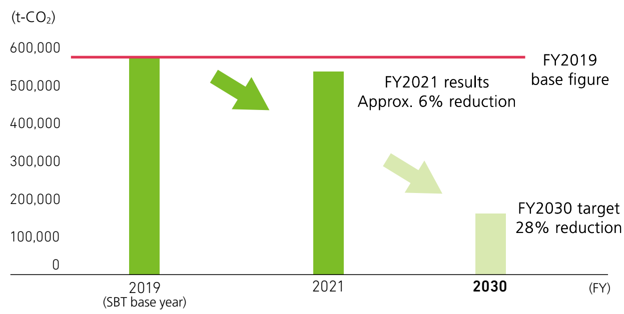
Scope 1 and 2 Emissions



Main Initiatives to Reduce Scope 3 Emissions

The SCSK Group established the Supply Chain Sustainability Policy, which sets out policies for addressing human rights, consideration for the working environment, and environmental issues including climate change. We explain this policy at the Core Partner Conference and briefings for partner companies. In FY2021, we explained to each core partner our initiatives to reduce greenhouse gas emissions, exchanged opinions on future reduction measures, and asked them to provide data on their own greenhouse gas emissions, while gaining their understanding.

Scope 3 Emissions



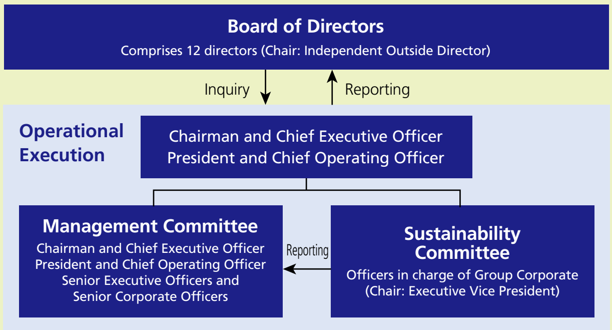
Information Disclosure based on TCFD Recommendations

Governance

The SCSK Group's Sustainability Committee, which serves as an advisory body to the Chairman and Chief Executive Officer and the President and Chief Operating Officer, examines and confirms company-wide issues related to climate change and other sustainability issues, as well as initiatives and measures.

The Sustainability Committee reports its findings to the Management Committee, and after further discussions are held at the Management Committee from a company-wide management perspective, the Sustainability Committee periodically reports to the Board of Directors, and the Board of Directors provides appropriate supervision.

Governance System for Climate Change and Composition of Meeting Bodies



Strategy

The data center business, which accounts for approximately 80% of the SCSK Group's greenhouse gas emissions and is largely impacted by climate change (carbon tax, environmental regulations, etc.), was selected as the target of scenario analysis. The physical and transition risks related to climate change were then ascertained and business opportunities were identified. The selected scenarios include the 4°C scenario and the 1.5°C scenario.

Overview of Main Risks

Transition risks include switching to renewable energy and energy-saving equipment due to the introduction of carbon taxes and the tightening of energy-saving regulations, and an increase in costs for measures such as the purchase of green electricity. In addition, physical risks include an increase in data center operation and recovery costs due to natural disasters, along with an increase in data center operating costs owing to higher air conditioning costs and power consumption required for cooling because of rising temperatures.

Overview of Main Opportunities

Main opportunities are increased demand for decarbonized data centers and resilient data centers, an increase in the volume of communication traffic and a growing need for the storage of large amounts of data due to the advent of a digital society in the future, and demand for peripheral services for the utilization of big data housed in data centers.

We evaluated the effect of these risks and opportunities on business according to a three-point scale of "+" or "-" (see page 54)

Overview of Each Scenario

4°C scenario

A scenario in which economic activities are prioritized, carbon regulations and the use of renewable energy do not progress, leaving the situation to run its course with natural disasters becoming more severe

1.5°C scenario

A scenario in which policies such as higher carbon taxes and tighter carbon emission regulations spread around the world and a proactive transition toward decarbonization progresses

Business Impact Assessment of 4°C Scenario

Although air conditioning costs will increase due to rising temperatures, the impact on business will be limited by continuous efforts to improve efficiency and labor savings. Since the sites for the construction of data center is selected after conducting preliminary surveys of areas that are less affected by natural disasters such as heavy rain and flooding, the impact of heavy rain and flooding was evaluated as small in this scenario analysis. On the other hand, we evaluated that business opportunities will increase from the perspective of BCP due to the greater intensity of natural disasters, and that it is possible to increase revenue by providing resilient data center services that respond to business opportunities.

Business Impact Assessment of 1.5°C Scenario

As policies such as carbon taxes and carbon emission regulations spread around the world, carbon prices and electricity prices will soar, increasing business costs. With regard to carbon pricing, it is possible to mitigate the impact of increased carbon prices by promoting initiatives in line with greenhouse gas emission reduction targets certified by the SBTi. In addition, although higher electricity prices are expected to increase electricity costs, we assessed that it would not have a significant impact on our business. Due to

For details about disclosures based on the TCFD Recommendations, please see here.
https://www.scsk.jp/corp_en/csr/pdf/tcfd_e.pdf

the global trend toward decarbonization, we found that clients' awareness of environmental consideration will increase, and the demand for decarbonized data centers will grow. SCSK has been promoting improvements in data center operation efficiency and energy-saving performance, such as advanced air conditioning control using AI and other technologies. Currently, in addition to existing initiatives, we are considering the active use of renewable energy in an effort to decarbonize our data centers. Looking ahead, we found that by promoting environmentally friendly decarbonized data center services, we will be able to increase revenue.

Assessment Results of Main Impacts

4°C scenario

Summary: Expected to see increased air conditioning costs from higher average temperature, occurrence of costs to address natural disasters, and rising demand for resilient data centers due to increased severity of natural disasters

Impact evaluation

Category	Major impact items	Impact on revenue*1 2030	Impact on revenue*1 2050
Sales	Increased demand for resilient data centers*2	++	+++
	Increased demand for data centers due to increased communication and data processing volumes	+	+
Costs	Fluctuations in electricity prices*3	−	++
	Rising electricity usage (air conditioning costs)	−	−−
	Rising costs for addressing physical risks	−	−−

1.5°C scenario

Summary: In response to higher costs caused by higher carbon taxes, it is possible to reduce carbon tax costs by working to reduce greenhouse gas emissions, and demand for decarbonized data centers is expected to increase

Impact evaluation

Category	Major impact items	Impact on revenue*1 2030	Impact on revenue*1 2050
Sales	Increased demand for decarbonized data centers and new services addressing changes in social environment	++	+++
	Increased demand for data centers due to increased communication and data processing volumes	+	+
Costs	Fluctuations in electricity prices	−	−−
	Higher carbon taxes*4	(−−)	(−−−)

*1 The effect of the main business impacts in each scenario on revenue is evaluated according to a relative three-point scale of "+" or "-".
*2 Costs for the establishment and operation of resilient data centers are not subject to estimation. Depending on the assumed scenario, the cost impact can be large.
*3 According to reports by the IEA and others, the electricity price in the 4°C scenario is assumed to increase in 2030 but decrease by 2050.
*4 It is assumed that by reducing greenhouse gas emissions, it will be possible to mitigate the impact of higher costs caused by higher carbon taxes.

Definition of Countermeasures

Going forward, we will continuously consider measures to avoid and mitigate risks and seize opportunities. Our aim is to improve the resilience of our business activities by implementing the measures we have formulated. Countermeasures are defined as follows.

Definition of Countermeasures for Climate Change-related Risks and Opportunities

Scenario	Direction of measures	Perspective of countermeasures	Examples of countermeasures
4°C scenario	Creation of new services	Expand resilient data centers	• Build new data centers designed to be resilient against disasters of greater intensity • Select data center sites considering the impacts from natural disasters • Establish mutual redundancies between data centers
Common to scenario	Energy conservation	Control electricity costs	• Procure electricity generated at night or at a low cost using new technology
		Control electricity usage	• Control air conditioning and electricity usage by utilizing IoT and AI or other new technologies
	Creation of new services	Effectively utilize waste heat from data centers	• Use waste heat from data centers for community development or in other business domains
1.5°C scenario	Renewable energy	Introduce renewable energy	• Promote virtual PPA through purchase of renewable energy certificates • Direct purchase of electricity generated from renewable energy (PPA) • Establish or acquire renewable energy power plants
	Creation of new services	Establish new services related to decarbonized data centers	• Create new services that address changes in legislation or social environment

Risk Management

With regard to climate change risks, the departments in charge of risks (Sustainability Promotion Department, each business group, etc.) and the department responsible for risk management (Risk Management Department) jointly collect information on risk items based on external reports and advice from external experts.

Risk items are integrated into the SCSK Group's risk management system, and a structure has been put into place to evaluate and manage them from a company-wide perspective.

In addition, risk items that have been evaluated and managed are reported to the Board of Directors after being reported to the Management Committee.

*See page 76 for our risk management system.

Indicators and Targets

To reduce greenhouse gas emissions, the SCSK Group has set medium- to long-term reduction targets that have been certified by the SBTi.

In addition to actively engaging in environmentally friendly business activities to reduce greenhouse gas emissions, we view the transition to a carbon-free society as a business opportunity. We will contribute to the realization of a carbon-free society and the development of a sustainable society through co-creation with clients and partners across a wide range of industries.

*See page 52 for our initiatives to reduce.

SCSK Group's GHG Reduction Target

Scope 1 and 2	• Reduce emissions 47% by FY2030 compared to FY2019 (1.5°C target) • Reduce emissions 100% by 2050
Scope 3	• Reduce emissions 28% by FY2030 compared to FY2019

Environmental Management

Environmental Management System

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.

Status of Environmental Targets for Our Offices

SCSK has been promoting initiatives to mitigate environmental impacts by establishing office environment targets on office and site operations in 2015 as part of its environmental management system (EMS). In FY2021, as in the previous year, owing in part to ongoing effects such as changes in work conditions during the COVID-19 pandemic and working style reforms, we achieved reductions greatly exceeding our targets for the amount of copier paper purchased and general waste emissions. We will continue to work to reduce environmental impacts through our EMS activities.

Achievement of Office Environment Targets

Scope (total volume)	FY2021 targets*1	FY2021 results
Amount of copier paper purchased	24% or higher reduction	85.7% reduction*2
General waste emissions	6% or higher reduction	47.5% reduction

*1 Compared to FY2015
*2 Business locations with ISO certification only

Initiatives for Recycling and Reducing Waste Electronics

SCSK delivers electronic devices, mainly used IT equipment, to contractors for recycling based on internal rules regarding data erasure.

In order to reduce waste, it is also important to keep the number of computers and mobile devices in use at an appropriate level by thoroughly managing and efficiently operating their inventory. SCSK is also working to rationalize the number of devices used by having a dedicated department centrally manage the inventory and operation status of business devices used by each business group.

Initiatives for the Efficient Use and Reduction of Water Resources

In order to ensure the stable performance of servers and other IT equipment, our data centers operate air conditioning and cooling facilities using water in some cases. SCSK monitors the temperature and humidity of each area and rack inside our data centers in real time and performs fine-tuned optimization to minimize waste and loss in air conditioning and cooling and reduce water consumption.

Third Party Verification and Assurance

We obtain third party verification and assurance from LRQA concerning Scope 1, 2 and 3 emissions for the disclosure of greenhouse gas emissions. We will continue striving to disclose highly reliable information in the future.

The Independent Assurance Statement provided by LRQA is available on the SCSK Website.
https://www.scsk.jp/corp_en/csr/pdf/assurance_statement_e.pdf

Training for Officers and Employees

We conduct training every year on the latest environmental trends and the SCSK Group's climate change issues and environmental initiatives to deepen understanding of SCSK's environmental initiatives.

Diverse Team of Professionals

FY2021 Results

Issued SCSK Health White Paper

Conducted the Young Employee Career Development Program for more than 1,200 employees

Selected as a brand under the Health & Productivity Stock Selection as well as a Nadeshiko Brand for eighth consecutive year

Fostering Professional Talent

Support for Autonomous Career Development

SCSK has created various measures and programs so that employees can take the lead in thinking about their career. For example, we offer career training at critical career junctions, have employees honestly evaluate themselves, and confirm the direction they want their career to move. In addition, for young employees, we have introduced career interviews and job rotations so that they can independently choose their career. We support the growth of employees and career independence from a long-term perspective through these measures and programs.

Career Development Plan (CDP) Program

With this program, employees share their career vision and review the strengths and weaknesses at meetings with their superior, and then assignments and responsibilities one to two years in the future are adjusted taking into consideration the expectations of the organization. In addition to serving as a venue to communicate various types of information, such as career vision and transfer desires, these meetings offer an opportunity for important dialogue regarding expectations based on the individual career goals and company's direction.

Personnel Recruitment Program (Job Challenge Program)

Through this program, departments in each group company that need human resources solicit recruits, employees who want to transfer to the department apply, and those that pass the recruiting departments screening are able to transfer. In this way, we support the growth and appropriate assignment of employees.

Internal Free Agent (FA) Program (Career Challenge Program)

With this program, employees can appeal to departments they want to join by registering their work history, skills, and desired work. Employees who receive an offer from their desired department can transfer following negotiations with and agreement by the desired department. In this way, SCSK supports efforts of individual employees to improve their skills and develop a career.

IT Skill Level Assessment

The IT Skill Level Assessment, which assesses employee IT skill level on a seven-level scale based on SCSK Career Framework, is a program that not only makes the specialization of sales and engineering employees visible, but also promotes employee growth. We work to effectively improve the IT skill level of employees by ascertaining gaps between the target level through assessment screening and having employees and organizations formulate concrete human resource training plans. In addition to creating a specialized working group composed of experts in each job type and conducting assessment screenings, we undertake numerous training activities, which include creating communities for each job, sharing cases, and supporting the creation of training curriculum.

At the same time, in order to become a Co-Creative IT Company in 2030, we are moving forward with the introduction of a career framework consisting of agile engineers, AI/data science engineers, and engineers with

<table>
<tr><th></th><th></th><th>Level 1–3</th><th>Level 4–7</th></tr>
<tr><td>Strategy</td><td>Job type (7)</td><td rowspan="4">Department certified (superior approved)</td><td rowspan="4">Company certified (screening meeting)</td></tr>
<tr><td>Development</td><td>Job type (4)</td></tr>
<tr><td>Operations</td><td>Job type (2)</td></tr>
<tr><td>Engineering</td><td>Job type (4)</td></tr>
<tr><td>Young employee career development</td><td>Skill improvement field (5)</td><td>Young employee career certification</td><td></td></tr>
</table>

multiples skills to support clients' DX. We will continue to promote efforts to strengthen specialization appropriate for the needs of the time.

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 re-skilling, with the goal of strengthening both mind (people skills) and skills (job skills), based on personnel grade and specialization level.

SCSK i-University

Learning and growth	Common company-wide	•Career development	
		•Leadership development	
		•Global business skills development	
		•Specialized skills development	
		•Re-skilling	Literacy
			Service manager
			Business designer
			Full-stack engineer
	Division specific	•Supplement company-wide training •Development of skills unique to each business group	
Communication		•Workshops for responsible departments, job types, etc.	
Mechanisms and infrastructure		•Online courses (group training and e-Learning) •SCSK Learning Park (training facility) •MA-N@vi (course management system) •ProActive (HR management system)	

Number of i-University Training participants*

Training category		Cumulative number of participants
Career development		691
Leadership development		1,594
Global business skills development		2,140
Specialized skills development		18,590
	Breakdown: Cloud	1,619
	AI	352
	Agile	4,839
	Other	11,780
Business skill development		2,075
Statistics		25,090

*Compiled by training category for FY2021.

HR portfolio shift through re-skilling

To reinforce job training that promotes core business innovation and commercialization of DX, we newly added re-skilling to the training system starting in FY2022. With this category, we will expand and offer not only a program for broadly mastering new literacy to reinforce basic skills, but also a practical training program accompanying job switch to service manager, business designer, and full-stack engineer, which are directly connected to the business strategy and will grow more important in the future.

Young Employee Career Development Program

In FY2020, we launched a career development program for young employees with the objective of fostering adaptability and having up-and-coming employees acquire multiple skills ahead of changes in future technology needs. Through this program, we are providing training on IT and business basics so that employees can acquire 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 offering them opportunities to 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 are working to get these employees to grow into multi-skilled talent with broader horizons who embrace diversity and are adaptable, considering their knowledge, skills, and experience.

Fostering of Management Talent and Organizational Development

In terms of fostering management talent to become a Co-Creative IT Company, SCSK has expanded its training program for general managers to strengthen strategy formulation for the organization they are responsible for. In addition, as part of efforts to build an organization appropriate for the execution of its strategy, we have conducted an organization survey completed by all employees since FY2020, which has made it possible to gain a quantitative understanding of the strengths and weaknesses of each organization from an employee perspective, allowing us to accelerate and instill an organization development cycle. By implementing training measures for department managers to raise the psychological safety and work engagement of department members and holding repeated dialogue among employees within the organization, we generate synergies between organizations and link this to maximizing the organization's performance.

Expanding Business Design Talent

To promote the commercialization of DX through co-creation with clients, other industries, and throughout the world, SCSK works to train business design talent. We promote practical workshop-style training programs that match the process based on the ideas of design thinking and lean startup. By further increasing training and learning opportunities for employees to acquire knowledge and skills necessary to create business, we will expand business design talent who promote commercialization of DX.

Fostering a Global Mindset

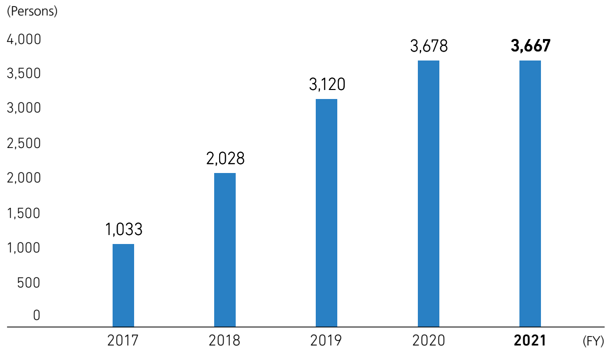
We focus on not only improving English skills and honing global skills, but also fostering a mindset geared toward expanding the IT business throughout the world. In an era of volatile global competition, each employee must truly reexamine what it means to be sustainable, and we offer programs in which employees look at what is important to be active on the world stage.

Promoting and Supporting Self-Development

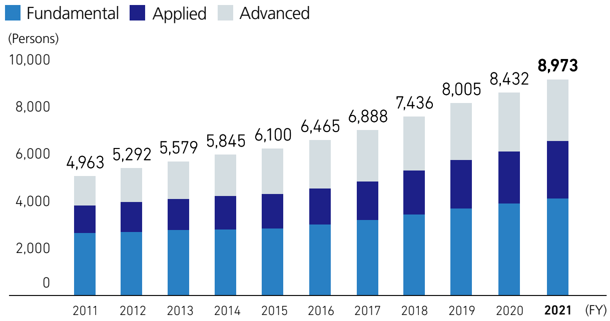
Guided by the notion that steady effort is the key to success, SCSK implements *Kotsukatsu* as a way of supporting our employees' efforts to engage in active learning. In addition to sharing various study activity examples that employees have applied for and supporting continuous learning that leads to growth, we aim to build a system in which employees boost each other.

In FY2022, we introduced a system so that employees can record their daily self-development activities through not only a PC but also smartphone. This encourages employees to make it a habit to steadily work to develop themselves and always record and review their activities. Furthermore, we promote and support the acquisition of qualifications through self-development by paying an incentive to some employees who pass the Information Technology Engineers Examination (ITEE).

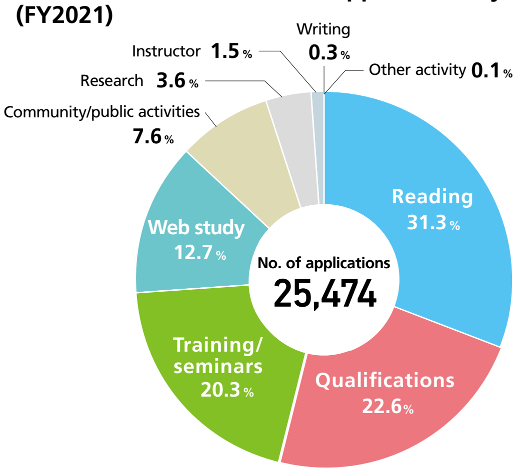
Kotsukatsu Applicants



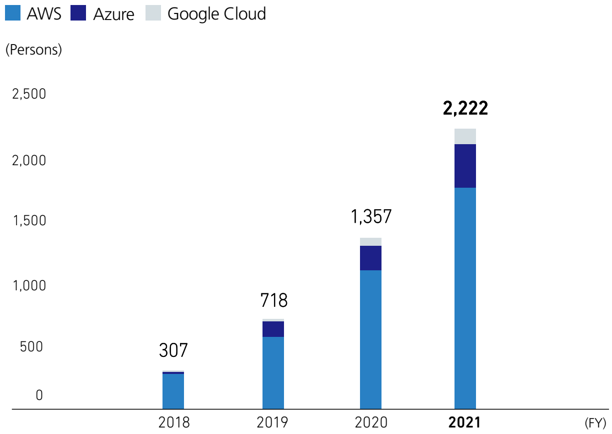
Holders of Information Technology Engineers Examination certificate



Kotsukatsu—Breakdown of applications by category (FY2021)



Holders of Cloud-related certificates



Systems Supporting More Advanced, Diverse, and Broader Personnel

Human Resource System

<Multiple-track Personnel and Career System>

SCSK has adopted a multiple-track personnel system that achieves optimal human resource training and compensation based on the expectations of and roles for each career path so that diverse human resources can independently develop their capabilities and demonstrate actual skills.

<Fostering and Acquiring High-Level Talent>

In the IT industry, which is characterized by major technical changes and growing sophistication, the value of human resources who possess advanced specialization are growing more valuable.

At SCSK, we have established ADV (advanced) positions within the human resource system in order to train and capture advanced specialists who can drive core business innovation and commercialization of DX. The system makes it possible to earn over ¥30 million annually, and we are working to expand promotion from inside the company and recruiting outside the company.

Second Job Program (Smart Work Plus)

The program encourages the acquisition of skills and business experience outside the scope of SCSK through second jobs and side businesses, as well as the hiring of specialized human resources from outside of the company to harness their knowledge and expertise in developing innovation and new business, thereby contributing to provision of new value.

Second Job Program participants (FY2021): 119 (115, second job; 4, side business)

Re-join System

Launched in FY2020, the system allows retirees who are familiar with SCSK's culture to re-join the company with the hope that they can quickly delve into work while harnessing their new experiences and skills acquired since their retirement.

Number of employees who rejoined the company through the Re-join System:10 (Total)

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 SCSK'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 leveraging the skills of seniors, women, and 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. A web portal and in-house magazine were 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

Promoting the active participation of 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. In FY2021, a total of 124 women were promoted to line managers.

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 IT Skill Level Assessment) over the five-year period from April 2021 through 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.

Promoting Participation by Seniors

With the goal of becoming an organization in which all human resources, regardless of age, continue to contribute and make the most of their skills, SCSK not only promotes the active participation of seniors, but also is working to create the necessary systems and environment as one of its important management issues so that we can achieve sustainable, developmental business expansion befitting the Co-Creative IT Company described in Grand Design 2030.

We have introduced the career planning for employees in 2013 as a comprehensive HR program for employees in the 50s or older and took the lead in the industry in implementing full employment through 65. Having positioned senior employees as SCSK's main human resources, in 2018, we introduced the program for full-time employment of seniors that makes it possible to employ people aged 60 to 65 as full-time employees and offer compensation that rewards their strong contributions to the organization. At the current time, more than 500 senior full-time employees make active contributions through their rich knowledge and experience.

Accompanying revisions to the Act on Stabilization of Employment of Elderly Persons, in July 2022, we introduced the Senior Expert Program, a system of continued employment for employees aged 65 or older based on certain standards. In this way, we will move forward with creating an environment in which human resources who possess strong specializations and maintain those skills are able to continue to make contributions at SCSK.

At SCSK, human resources are our assets. We are working to create an environment in which employees who maintain their advance specialization and continue to contribute by making the most of that specialization are positioned as "ideal senior talent" and all human resources, regardless of age, can make contributions.

Support 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 that make it possible to take time off down to the half day or hour, and thus creating a foundation 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

Childcare leave return rate (FY2021)

Men	100.0 %
Women	95.7 %

program to support employees working reduced hours due to childcare or family care return to full-time work quickly. To complement these programs, we work to support autonomous career development by holding seminars that promote understanding of these issues and seek out solutions together and roundtables to facilitate communication and sharing of information among employees.

Measures for LGBTQ

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 LGBTQ community, and we run an Ally community where employees who identify as an LGBTQ Ally can discuss issues and SCSK's measures for LGBTQ inclusion.

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

Results and Future Policy for Diversity and Inclusion

Beginning with working to promote female line managers, SCSK has steadily moved forward with creating a foundation for drawing out the capabilities of each and every employee, who possess diverse backgrounds, and these efforts have included building a workplace environment that supports the active participation of seniors.

SCSK's initiatives have been highly rated by outside parties, and as a company that strives to promote diversity and inclusion to create an organizational culture in which all employees, including women, can actively contribute, we have been selected as a Nadeshiko Brand by the Ministry of Economy, Trade and Industry (METI) and Tokyo Stock Exchange for eighth consecutive years.

With even greater focus on the skills of individuals and diversity in opinion, we are moving forward with creating an organizational culture that values diversity and inclusion and can draw those out as fully as possible.

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.

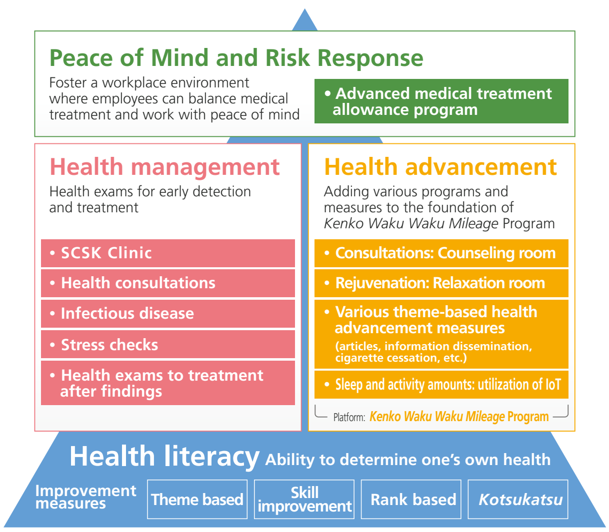
Principles for Health and Productivity Management
The health of employees underpins the happiness of individual employees and their families as well as the development of the Company's business. It is only when employees are able to deliver their best performance due to being in good mental and physical 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 has the position of Chief Health Officer. Furthermore, the Life Support Promotion Department, which plans and implements health-related measures, SCSK's Committee for Creating a Pleasant Workplace Environment, which is run by employees, and SCSK Health Insurance Society, which is responsible for insurance benefits and insurance business, work together to promote health and productivity management. In addition to having established several facilities staffed with various professionals, including not only industrial physicians, general physicians, and public health nurses and hospital nurses but also certified public psychologists and clinical psychologists, we offer support for employees continuing to work and various careers in collaboration with human resource-related organizations. We are also expanding activities to group companies, such as relaxation rooms staffed by licensed masseurs, while working to promote health and productivity management along with numerous stakeholders involved in operations, including partner companies, by providing various support and sharing know-how.

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, and thus support the independent health maintenance.



Distribution of SCSK Health White Paper to all Executives and Employees

In 2021, SCSK once again provided executives and employees with information on the health and productivity management principles and overall state of initiatives and prepared the SCSK Health White Paper, which covers the initiatives undertaken until then, in order to further promote independent health maintenance by each and every executive and employee. This white paper provides information on items such as health seminars and support systems, including the Chief Health Officer message and our thoughts on employee's state of health and treatment after findings. We are trying to further spread and instill health and productivity management by distributing this white paper to not only executives and employees but also their families.

Instilling Habits through the *Kenko Waku Waku Mileage* Program

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 its start in 2015, almost all executives and employees have participated in the program, and every year, there have been improvements in health-related behavior and attitudes, including those related to not only exercise (steps) and sleep but also meals, drinking, and smoking. COVID-19 resulted in a dramatic temporary decline in the average number of steps taken, but the number recovered from 6,731 steps in April 2020 to 8,338 steps in May 2022 as a result of the *Kenko Waku Waku Mileage* program, message from top management, reports at executive meetings, distribution of activity trackers, and other measures.

Improvement in Habits (FY2021)

		Comparison with before launch of *Kenko Waku Waku Mileage* program (FY2014)
Employees who do not eat breakfast	18.9%	Improved 10.4 ppt.
Employees who have an alcohol-free day	87.3%	Improved 4.8 ppt.
Employees who received dental checkups	43.9%	Improved 12.6 ppt.
Employees who smoke	14.1%	Improved 6.9 ppt.

Measures to Improve Health Literacy

Through measures to increase health literacy, we provide content appropriate for health issues hinted at in the results of in-house surveys in order to foster the "ability to determine one's own health." Since FY2020, we have conducted seminars and workshops on sleep which has a particularly strong impact on productivity, and about 2,000 employees have participated in these activities. We also conduct seminars to improve understanding of health issues unique to women and self-management capabilities, which more than 600 employees have participated in through FY2021. In addition, we cover various topics, such as meals, exercise, stiff shoulders, back pain, and health management of subordinates, and in FY2021, more than 2,900 people took part in related activities, which has resulted in high satisfaction.

Thoroughly Offering Health Exams and Treatment After Findings

Through health management measures, we offer health exams and treatment after findings in order to regularly check employee's state of health and quickly detect and treat problems. Every year, 100% of employees receive these health exams. After exams, we offer information on how to read the results and encourage the use of those results. In addition to recommending reexams linked to the *Kenko Waku Waku Mileage* program, we work with the SCSK Health Insurance Society and recommend employees to receive special health guidance. As a result of these efforts, 100% of employees asked to undergo a reexam did so, and 69.8% of employees received special health guidance.

Results 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. In addition, 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. SCSK's initiatives have won high praise from outside the company, and based on the Survey on Health and Productivity Management conducted by METI, we were selected as a brand under the Health & Productivity Stock Selection, by METI and Tokyo Stock Exchange as a company that thinks about employee's health management from a management perspective and strategically implements related efforts, for eighth consecutive years, since the 2015 when we were first selected.

Health and Productivity Management Results (FY2021)

Employees who feel they are healthy
88.2% (+3.7 ppt. compared to FY2014)

Performance demonstration level 80% or higher
84.2% (+0.8 ppt. compared to FY2018)

From Health and Productivity Management to Well-Being Management

By evolving its health and productivity initiatives undertaken over many years, SCSK is moving forward with efforts to implement well-being management based on the idea that "physical and mental health, satisfying and rewarding work, and a sense of being useful to society lead to happiness and well-being of each executive and employee." Recently, we have held presentations and training in which participants learn about the mechanism of happiness and mindfulness. Furthermore, we regularly assess the state of mental and physical health, workplace environment, and communication level, and conduct weekly pulse surveys, which make changes visible, and provide opportunities to use that for self-care and management. We plan to continue to evolve health and productivity management and promote well-being management, and respond to changes in the environment so that diverse human resources can continue to make contributions while being mentally, physically, and socially healthy.

From Working Style to Rewarding Workplace Reforms

Initiatives for Working Style Reform

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 a working style reform initiative 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 20 hours or less and ensuring employees take all of their annual paid vacation days every year.

Between FY2014 and FY2019, we achieved the target average number of overtime hours of 20 hours or less and target rate of consumed annual paid vacation days of about 95%. Since FY2020, it has not been possible to achieve those targets for various reasons, including changes to new working styles that combine in-office and remote work, because of COVID-19. Therefore, we conducted a New Working Style Survey and are promoting measures to solve these problems. One example of these efforts is discussing online communication etiquette, case-specific communication guide, and in-house examples in the *Communication Tips collection in the New Working Styles* issued in 2021 and supporting efforts to achieve highly productive and creative work through quality communication. Furthermore, since FY2021, we have been working to balance efficient, highly productive working styles and self-improvement activities, under the slogan "tackling the challenge of more sophisticated smart work," in order to create an independent organization that can flexibly responds to changes in the environment.

***Smart Work Challenge* (FY2021)**

Average monthly overtime hours
(unscheduled work hours)

21 hours 43 minutes

Rate of consumed annual paid vacation days

90.9 %

Initiatives for Rewarding Workplace Reforms

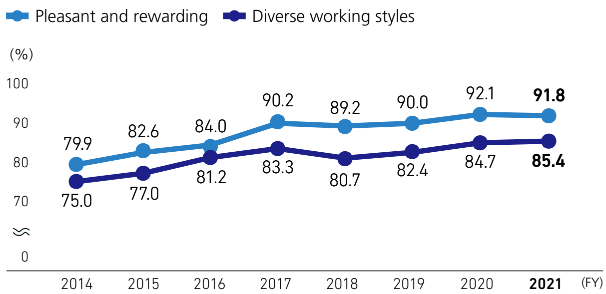
To achieve the SCSK Group's vision of becoming a "Co-Creative IT Company in 2030," and driven by intense changes in business climate, we must pursue reforms that not only create a pleasant workplace environment, but also a rewarding one as well. As a pioneer in working style reform, and as an IT service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

Employee Satisfaction

As a result of promoting various types of measures, including those related to diversity and inclusion, in order to promote working style reforms, improve work-life balance, and use diverse human resources, we have maintained a high level of employee satisfaction as a company with a pleasant and rewarding workplace in the employee awareness survey conducted annually.

Furthermore, as one of our measures related to respecting diversity and making it possible for anyone to work with peace of mind, we continually conduct training and seminars to raise employee awareness of the LGBTQ community and harassment. Employees of related partner companies also participate in some of the anti-harassment training, and in FY2021, more than 3,400 employees took the course.

Employee Satisfaction Survey Results



Results and Future Policy for Working Style Reforms

Through the *Smart Work Challenge*, which was launched in FY2013, we have worked to create a pleasant workplace environment for everyone and linked this to improving the health of employees and creating opportunities for self-growth. By continuing to "tackle the challenge of more sophisticated smart work," we will not only establish new working styles appropriate for SCSK and realize a rewarding working place for employees and business growth, but also contribute to the growth of clients' businesses and link this to the creation of new value for society.

Social

Sustainable Value Chain

FY2021 Results

Scale of outsourced business
+29.1%
(compared to FY2018)

Working style reforms at core partner companies
Rate of consumed annual paid vacation days
71.3% (average for past five years)
Average monthly overtime hours
16 hours, 8 minutes
(FY2021)

Core Partner Conference
Held 9th consecutive years

Basic Approach Toward Partner Companies

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 provides high-quality, safe, and reliable services by building long-lasting relationships with partner companies and establishing a sound value chain.

In addition, working with our partner companies on various issues, we will continue to contribute to the growth of the IT industry and aim to implement well-being management by increasing the added value within the value chain and promoting various efforts, including working style reforms, health and productivity management activities, and sustainability management.

Long-lasting Relationships With Partners that Lead the IT Industry

Improving Quality and Productivity

Along with partner companies, SCSK has continued to work to improve quality and productivity over many years, and is moving forward with stable system development, maintenance and operation using the SCSK development standard (SE+). We are also working with partner companies to leverage our proprietary *Monozukuri* innovation platform (S-Cred+) and achieve more advanced development and operation.

Furthermore, by conducting project-based mutual evaluations and analyzing and using those evaluations, we and our partner companies are continuing to increase quality and productivity.

Working Style Reforms and Health and Productivity Management

Stressing working style reforms and health and productivity management in order to create an IT industry that attracts talent, SCSK works with its partner companies to create an environment in which organizations can achieve high quality and productivity. We are also working to correct and eliminate the traditional practices of long work hours and unpaid overtime.

Furthermore, we are striving to help employees more fully realize a work-life balance by actively introducing telework as a flexible working style that makes it possible for individuals to make effective use of time and space.

Increasing Efficiency of Contract Operations

SCSK has dramatically increased not only its own but also partner companies' work efficiency by completing the massive number of contract procedures, which exceed 30,000 annually, through Web-EDI.* Making use of a seamless communication portal, we are also working to increase the quality of operations by linking important items related to regulatory and general compliance.

* Web-EDI (Electronic Data Interchange): a system for increasing work efficiency by conducting business transactions between companies over the Internet.

Thoroughly Implementing Information Security and Compliance

When handling information that is the important assets of clients, SCSK and its partner companies demand thorough compliance with Information Security Guidelines set by SCSK and undertake several other activities, such as regular briefings and field audits.

To eliminate information security incidents, we also thoroughly implement information security and compliance with partner companies, work to create a safe and reliable value chain that offers high value added, and win the trust of client and society.

Promoting Sustainability

Having received the understanding and consent of partner companies, SCSK undertakes IT industry sustainability promotion activities with those companies.

In addition to sharing with partner companies the SCSK Group Human Rights Policy formulated in May 2022, we conduct activities to raise awareness of respect for human rights. Furthermore, to reduce greenhouse gas emissions, including those from the supply chain, we not only share information on the various measures related to awareness of the climate change problem and reducing emission, but also promote initiatives to realize a sustainable society.

Initiative Themes

Theme	Key point	Examples of initiatives
Operational Quality and Productivity Improvement	**• Development and management standardization (SE^{+}, etc.)** **• Mutual evaluation of projects**	• Rollout of SCSK development standards (SE^{+}) and *Monozukuri* innovation platform (S-Cred^{+}) at partner companies for stable systems development, maintenance and operation • Improvement in quality and productivity by sharing results of mutual project evaluations with partner companies
Working Style Reforms/ Health and Productivity Management	**• Sharing of health and productivity management measures/initiatives** **• Enhancement of work-life balance**	• 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 • Active introduction and promotion of telework as a flexible working style
Improvement in Contract Management Efficiency	**• Increase in efficiency of contract procedures through use of Web-EDI** **• Sharing of communication portal**	• Elimination of the use of paper for outsourcing contract procedures through the use of SCSK's Web-EDI system (SE Link) (98% introduction rate) • Promotion of thorough regulatory compliance and important items through the communication of information to all partners using SE Link portal and two-way communication
Information Security Enhancement and Compliance Promotion	**• Strict observance of laws related to Outsourcing** **• Enhancement of information security**	• Requirement of partner companies to comply with SCSK's Information Security Guidelines and activities such as field audits • Briefings for all partner companies to ensure and strengthen information security and compliance
Sustainability Promotion	**• Sharing of sustainability policy** **• Explanation of SCSK Group Human Rights Policy, activities to reduce greenhouse gas emissions, etc.**	• Explanation of sustainability policy within the supply chain at all-partner briefings • Explanation of not only policy on respecting human rights and human rights due diligence, but also SCSK Group greenhouse gas emission reduction targets and various measures to reduce emissions

Collaboration with Partners

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 are working to deepen engagement and implement additional measures to improve quality and expand business. At our annual Core Partner Conference, we share business plans with participating companies and gain their understanding regarding the direction of business. In 2022, we held a hybrid conference that combined remote and face-to-face elements on account of COVID-19 pandemic.

Comment from a Partner Company

Working with SCSK to improve quality and meet the expectations of clients

Kenji Nakamura

President CEO
Daiwa Computer Co., Ltd.

Based on a corporate philosophy of valuing quality and technical capabilities, Daiwa Computer continues to undertake related efforts. Furthermore, we have not only actively worked to undertake various initiatives promoted by SCSK, such as breaking free of labor-intensive operations, shifting to in-house development, and offering bundled outsourcing operations, but also striven to improve quality and productivity and train human resources, which has resulted in numerous benefits. As we conduct mutual evaluations, we will take into consideration issues that we learn about and workplace opinions, seriously face and solve each and every issue, and do all that we can to meet the expectations of SCSK and end clients.

Message from Governance Committee Chair

I will further strengthen SCSK's governance with an emphasis on transparency and fairness under the new management structure.

Kimitoshi Yabuki
Outside Director (Audit and Supervisory Committee Member)
Chair of the Governance Committee

Strengthening Monitoring by the Governance Committee

As an outside director of SCSK, I have served as an Audit & Supervisory Committee member and chair of the Governance Committee since 2017. The Governance Committee was established in June 2017 and has two main purposes. One is to maintain transparency and fairness in transactions with the parent company Sumitomo Corporation and other companies that may involve conflicts of interest so as not to harm the interests of minority shareholders. To that end, the Governance Committee examines these transactions from a third-party perspective, submits reports to the Board of Directors, and then the Board of Directors decides whether or not to go ahead with the transaction based on the report. The other is to respond to requests for stronger governance in terms of nominations and remuneration. Since SCSK is a company with an Audit and Supervisory Committee, there is no Nomination Committee or Remuneration Committee, but the Governance Committee plays the same role.

The Governance Committee consists of the Conflict of Interest Advisory Subcommittee and the Nomination and Remuneration Advisory Subcommittee to fulfill these two purposes. To prevent conflicts of interest, the members of the former are comprised of solely outside directors and other outside experts such as attorneys. The latter, however, is also comprised of the Chairman and Chief Executive Officer and the President and Chief Operating Officer, in addition to outside directors, with the aim of listening to and reflecting the opinions of the executive side when necessary.

Succession Plan Reviewed Primarily by Outside Directors

In April 2022, Managing Executive Officer Takaaki Touma became President and Chief Operating Officer, ushering in a new management structure. The Company's outside directors, including myself, had a strong interest in the appointment of a new president, and we paid close attention to how to make the process highly transparent and fair. The executive side felt the same way, and there was a request that outside directors serving on the Governance Committee take the lead in considering the appointment process and have the matter resolved by the Board of Directors. Under this policy, the Nomination and Remuneration Advisory Subcommittee of the Governance Committee, which excludes the Chairman and Chief Executive Officer and the President and Chief Operating Officer on the executive side, selected and developed successors, examined succession plans including those processes, and then reported the results to the Board of Directors for resolution. The method was to narrow down the candidates at the Nomination and Remuneration Advisory Subcommittee based on the list of candidates submitted by the executive side, and also to consider a successor development plan. The details are as follows.

First, we started with specific discussions on each process mainly involving outside directors, and with regard to the candidate list, we determined that selecting a leader to further increase business performance based on the current growth strategy would be suitable for SCSK's current business situation, and considered candidates on the list based on recommendations from the Chairman and Chief Executive Officer and the President and Chief Operating Officer who know the company well. However, if performance is not necessarily going well and it is a time when fundamental changes are required, I think there is a possibility that we would expand our options both internally and externally, and we would directly express our opinions on candidates. There is no absolute right answer to succession plan, plank we should continue to plan according to the situation of the company.

Consistently Involved in Selection Process for New President and Chief Operating Officer

When narrowing down the candidates, we first reviewed each candidate's profile in detail and assessed their suitability. We focused on business management skills, industry understanding, thinking, imagination, and leadership. Next, we looked at how much experience they had with high-difficulty projects and what kind of results they achieved. Age and health condition were also added to the list of assessments. After that, in addition to business performance and future prospects, we also asked each candidate directly about their thoughts on how to grow the DX business, which is an important theme for SCSK.

In addition, since it is essential for top management to have a high level of personal integrity, outside directors interviewed some managers to discuss how much they trust and value the candidates. Once the process was completed up to this point, the qualifications of each candidate were unparalleled, but after repeated discussions among outside directors and consultations with the Chairman and Chief Executive Officer and the President and Chief Operating Officer, we asked the Governance Committee to approve the opinions of the outside directors and submit a report to the Board of Directors to recommend Mr. Touma as the candidate. In the end, the report of the Governance Committee was submitted to the Board of Directors, and the Board of Directors resolved to appoint Mr. Touma as the new President and Chief Operating Officer. I have served as an outside director for several companies in past, but this was the first time I was consistently involved in a top level human resource decision. I feel that this is proof that SCSK values transparency and fairness in its corporate governance.

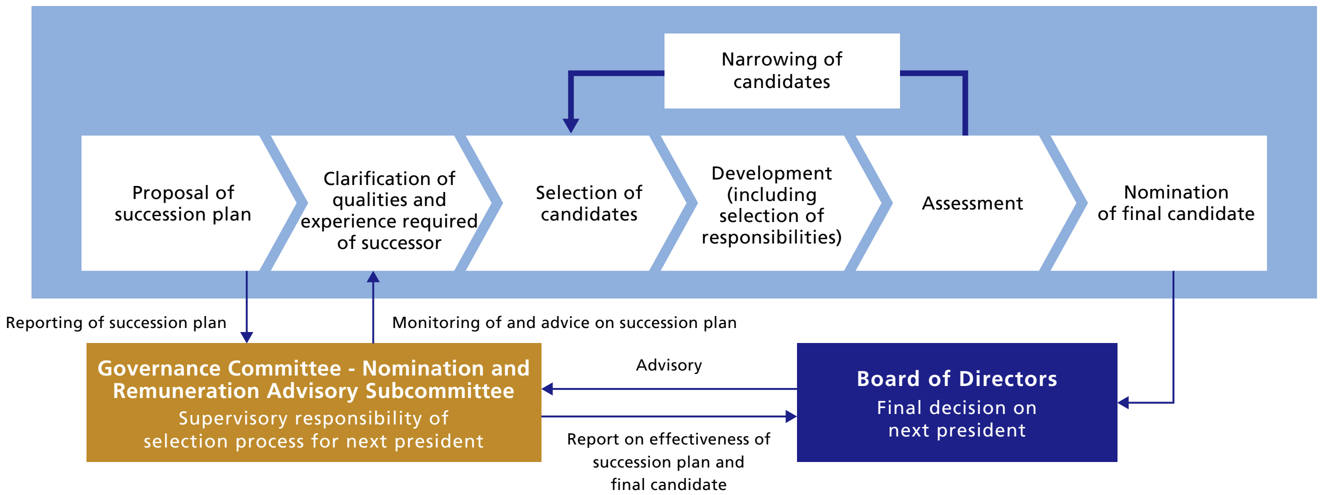
Toward an Officer Remuneration System Linked to Medium- to Long-Term Performance

In FY2021, the Nomination and Remuneration Advisory Subcommittee of the Governance Committee addressed revisions of the officer remuneration system in addition to the appointment of a new President and Chief Operating Officer. The key point of the revision was to introduce a restricted stock compensation system for directors (excluding outside directors, part-time directors and those directors that serve as members of the Audit and Supervisory Committee), Senior Executive Officers, and Senior Corporate Officers as medium- to long-term performance-linked compensation. Since an increase in stock prices due to improved business performance will lead to an increase in corporate value over the medium to long term, I believe that it is reasonable for the remuneration of top management and executives to be linked to share price. In addition, while cash compensation was previously the only performance-linked compensation, I believe that by dividing it into short-term (cash compensation) and medium- to long-term (stock-based compensation), the message of "aiming for both short-term business performance and medium- to long-term enhancement of corporate value" will be conveyed to investors and other stakeholders. With regard to the ratio of fixed compensation and performance-linked compensation, we reduced the fixed ratio and increased the ratio of performance-linked compensation.

Expectations for the Greater Enhancement of Corporate Value

Lastly, I would like to share my expectations regarding the new management structure and corporate governance. First, I would like Mr. Touma, who is at the top of the new management system, to demonstrate leadership firstly and teamwork secondly. I would like him to build an organization that has strong leadership and utilizes the abilities of individual team members, and enhances corporate value through business operations that make use of that team. I chose Mr. Touma as a candidate for the new President and Chief Operating Officer because I am convinced that he is a person who can accomplish this, and since we, the outside directors who were involved in the selection, also have a great responsibility, we will support him as much as possible. In future reorganizations, I will actively express my opinion from the perspective of diversity, such as the appointment of female employees, foreign nationals, and external human resources I believe that deepening discussions to that end is an important mission both as the chair of the Governance Committee and as an outside director.

Succession Plan for Executive Officers and the President and Chief Operating Officer



Message from Newly Appointed Outside Directors

Yasuo Miki

Outside Director (Audit and Supervisory Committee Member)

Profile

Apr. 1977 Joined NEC Corporation
Apr. 2004 General Manager, Process & CPG Industries Solutions Division of NEC Corporation
Oct. 2005 President of VMware K.K.
Mar. 2015 Chairman of VMware K.K.
Oct. 2018 Chief Technology Innovation Officer of The Tokyo Organising Committee of the Olympic and Paralympic Games

I will promote further reforms at SCSK incorporating the positives of Japanese and American companies.

I have been involved in IT my entire career. I spent the first 28 years in systems integration at NEC Corporation, followed by 15 years at VMware K.K., the Japanese subsidiary of a U.S. IT firm, where I served as president and chairman.

Even within the same IT industry, the management style and corporate culture are completely different between Japanese and American companies. For example, the balance between pursuing short-term gains and business growth over the medium to long term, management assuming the deep loyalty of employees to the company, management that clearly demarcates the roles of employees hired mid-career and who are new to the company, business growth through M&A, and the speed of management.

At VMware K.K., I strived to create a corporate culture that blended the best of both countries, including not only achievement of short-term quarterly targets, but also incorporating the medium- to long-term perspective favored by Japanese companies. On the other hand, many Japanese companies face the same challenges of boosting productivity, increasing the speed of management, as well as diversifying and getting the most out of their workforce. Additionally, the IT industry is changing rapidly, which requires constant transformation. Taking what I learned about management and culture at a U.S. company, I hope to incorporate the positives of American companies within SCSK, promote reforms, and contribute to the company's greater growth.

Sadayo Hirata

Outside Director (Audit and Supervisory Committee Member)

Profile

Apr. 1987 Joined Fujitsu Limited
Apr. 2011 Guest Associate Professor at Housei Business School of Innovation Management
Apr. 2013 Associate Professor, Graduate School of Engineering and Science at Shibaura Institute of Technology (present)
Oct. 2017 Member of Science Council of Japan (present)
Mar. 2019 Special Researcher at Japan Society for the Promotion of Science
Apr. 2020 Project Associate Professor, Graduate School of Engineering Department of Management Science and technology, Tohoku University (present)
Apr. 2021 Committee Member, High-Performance Computing Infrastructure Planning Committee of Ministry of Education, Culture, Sports, Science and Technology (present)

I will support SCSK's growth with emphasis on diversity and inclusion and DX.

Around the year 2000, when I was systems engineer at Fujitsu Limited developing super computers and assisting with the switch to digital terrestrial television broadcasting, there were a number of IT system failures around the world attributed to the gap between rapidly evolving IT and users. Unable to find a solution, I discussed with the President of Fujitsu who told me "The answer you seek can't be found inside the company; look elsewhere." This led to joint research with the Palo Alto Research Center (PARC), a wholly owned subsidiary of Xerox Corporation. Both PARC, which had invented a number of cutting edge technologies including microcontroller units, and IBM's basic research center were researching humans together with anthropologists to find a solution to the aforementioned gap. They showed me the importance of elucidating the distinctly human traits of diversity, irrationality, vagueness, mistakes, and prejudice, among others, making me become more aware of the need to optimize IT with people. As I researched this field myself, I was asked to speak at universities and I later taught innovation and value creation formally.

My mission as the second female outside director appointed by SCSK is to promote the coevolution of people and IT through digital transformation (DX) as well as to foster diversity and inclusion using my career experience. Both require a gardening type rather than a narrow Japanese garden type, and a design for growth rather than maintenance of a finished form. I hope that SCSK can lead the world in growth design for people and IT. I look forward to assisting SCSK toward this end by providing my own experiences and knowledge.

Transparent Governance

Governance Highlights

Percentage of Board of Directors members who are independent outside directors
50 %

Number of women independent outside directors
2

Added restricted stock compensation system to the executive officer remuneration system

Basic Approach and System for Corporate Governance

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.

Overview of Corporate Governance System (as of June 23, 2022)

Institutional design	Company with Audit and Supervisory Committee
Directors	12 (of which 6 are independent outside directors)
Chairman of the Board	Tetsuya Kubo (Independent Outside Director)
Audit and Supervisory Committee members	6 (of which 5 are independent outside directors)
Term of directors stipulated in Articles of Incorporation	Directors who are not Audit and Supervisory Committee members: 1 year Directors who are Audit and Supervisory Committee members: 2 years
Executive Officer system	Adopt

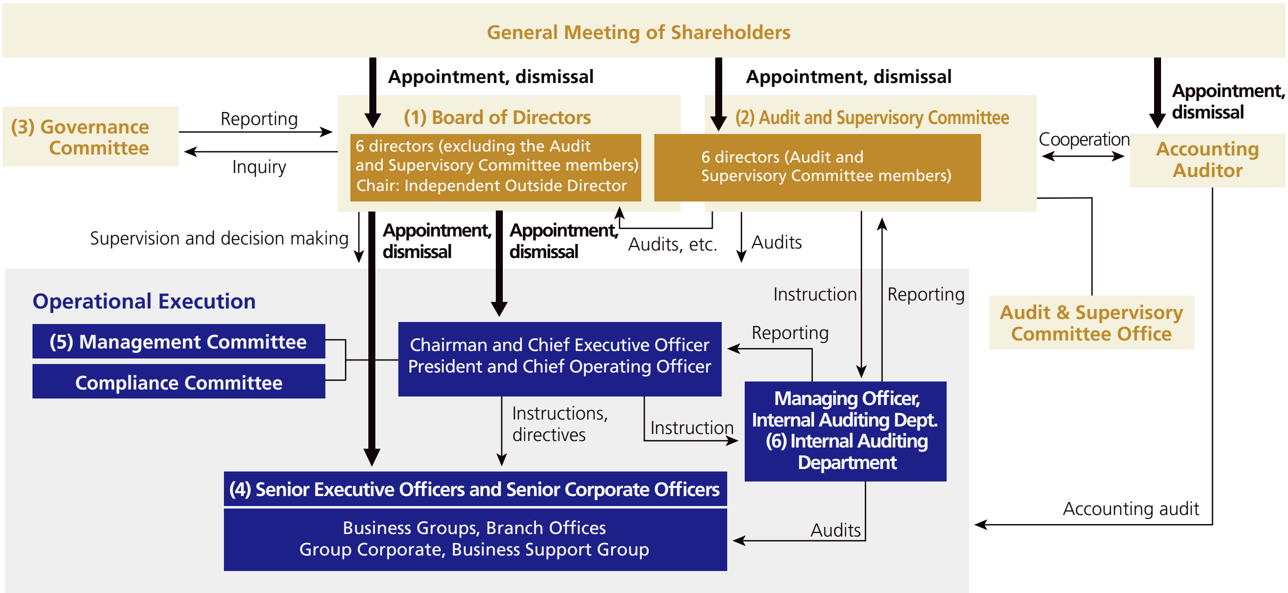
History of Efforts to Strengthen Corporate Governance

Inside officers / Outside officers / Independent outside officers (men) / Independent outside officers (women)

	Board of Directors*			Audit and Supervisory Committee*		Optional committee
	No. of officers	Ratio of directors who are independent outside directors	Chairman of the Board	No. of officers	Ratio of directors who are independent outside directors	
2017	16	38%		7	71%	
2018	12	33%		4	75%	
2019 to 2020	11	36%	Independent Outside Directors	4	75%	Governance Committee
2021	12	42%		4	75%	
2022	12	50%		6	83%	

*Number and Percentage after the General Meeting of Shareholders

Corporate Governance Structure



Name	Independent Outside Directors	Roles, systems, and initiatives
(1) Board of Directors Times met in FY2021: 14 Chairman of the Board: Independent Outside Director	6/12 Women: 2	• Makes decisions regarding important managerial issues and supervises execution of operations • Primarily examines matters stipulated by laws and regulations, matters stipulated by company regulations, and important managerial matters, including management strategy and management plan • Holds regular meetings (generally once a month) and extraordinary meetings (when necessary)
(2) Audit and Supervisory Committee Times met in FY2021: 15 Chair: Inside Director	5/6 Women: 2	• Conducts audits of the organization that make use of the internal control system, and audits and supervises the execution of operations from an independent and objective perspective • See page 70 "Reasons for Elections and Summary of Their Expected Roles" for knowledge possessed by independent outside directors
(3) Governance Committee		• Established as an advisory committee to the Board of Directors and other entities to ensure fairness and transparency and that consideration is given to the shared interests by SCSK and its shareholders when decisions are made by the Board of Directors, etc.
Conflict of Interest Advisory Subcommittee Times met in FY2021: 4 Chair: Independent Outside Director	7/7 Women: 2 Independent outside experts: 1	• Primarily deliberates on transactions that could involve a conflict of interest between SCSK and its directors, matters that require the approval of the Board of Directors as per the Companies Act, and transactions between SCSK and related parties that the Board of Directors or similar entities seek advice on as it is necessary to ensure the fairness of decision making by the Board of Directors • Composed of independent outside directors and independent outside experts
Nomination and Remuneration Advisory Subcommittee Times met in FY2021: 9 Chair: Independent Outside Director	6/8 Women: 2	• Primarily deliberates on matters such as criteria and process for selecting directors, Senior Executive Officers, and Senior Corporate Officers, selection and dismissal of directors, remuneration for directors, Senior Executive Officers, and Senior Corporate Officers, and matters that the Board of Directors or similar entities seek advice on as it is necessary to ensure the fairness of decision making by the Board of Directors

Name	Role, system, and initiatives
(4) Senior Executive Officers and Senior Corporate Officers	• Divided into Senior Executive Officers who are responsible for business execution throughout the SCSK Group and Senior Corporate Officers who are responsible for execution of operations in a particular business domain in order to clarify roles and responsibilities of officers • Senior Executive Officers and Senior Corporate Officers execute operations while following the instructions and orders of the Chairman and Chief Executive Officer and the President and Chief Operating Officer in line with management policies set by the Board of Directors
(5) Management Committee	• Separates business supervision and execution and clearly gives Senior Executive Officers and Senior Corporate Officers the authority and responsibility to execute routine operations under the Chairman and Chief Executive Officer and the President and Chief Operating Officer • Composed of Senior Executive Officers and established as an advisory body to the Chairman and Chief Executive Officer and the President and Chief Operating Officer related to important matters concerning business execution to further reinforce corporate governance and strengthen ability to conduct business
(6) Internal Auditing Department	• Examines and evaluates control activities and risk management related to overall management activities at SCSK, subsidiaries, etc., from various perspectives, including improving effectiveness and efficiency of operations and ensuring the reliability of financial reports • Reports on internal audit plans and results directly to the Board of Directors, Chairman and Chief Executive Officer, President and Chief Operating Officer, and Audit and Supervisory Committee

*As of June 23, 2022

Election and Dismissal of Directors and Procedures

When electing and dismissing directors (excluding those who are Audit and Supervisory Committee members), the Governance Committee and Nomination and Remuneration Advisory Subcommittee are consulted, and the election and dismissal is tabled at the General Meeting of Shareholders after being voted on by the Board of Directors and taking into consideration the opinion of the Audit and Supervisory Committee. In addition, for candidates for directors who are Audit and Supervisory Committee members, the approval of the Audit and Supervisory Committee is obtained, and then they are elected or dismissed through the same process.

As for the composition and number of Board of Directors members, decisions are made taking into consideration the skills that should be possessed by the SCSK's Board of Directors and the balance and diversity of skills possessed by each director.

To maintain and improve directors' supervision of execution of duties, independent outside directors about whom there are no concerns of conflict of interest with general shareholders will continue to be selected. Independent outside directors who possess management judgement based on a wide range of business activities attend Board of Directors meetings and provide advice to maximize corporate value.

Selection Criteria

Directors (excluding directors who are Audit and Supervisory Committee members)

- Possess knowledge, experience, and track record required of SCSK directors
- Can constructively participate in deliberations at Board of Directors meetings
- Possess outstanding management skills and insight into thoroughly adhering to laws, regulations, and corporate ethics
- For directors who also serve as executive officers, possess extensive knowledge in responsible fields

Directors who are Audit and Supervisory Committee members

- Possess specialized insight into and experience as director who is Audit and Supervisory Committee member and can conduct audits from an objective perspective

Outside Directors

- In addition to the above, possess specialized and broad insights into corporate management and various fields

Reasons for Elections and Summary of Their Expected Roles

Outside Directors		Reasons for Elections and Summary of Their Expected Roles
Tetsuya Kubo (Chairman of the Board)	Independent Director	Mr.Tetsuya Kubo possesses robust management experience gained over years of serving in important positions at major Financial institutions as well as wide-ranging knowledge pertaining to global businesses. We believe that the knowledge and insights that he has acquired through his career qualify him to help maintain and enhance the supervision of execution of operations at SCSK and to offer advice on all areas of management, and we have thus selected him as an Outside Director.
Kimitoshi Yabuki (Governance Committee Chair)	Audit and Supervisory Committee Member, Independent Director	Mr. Kimitoshi Yabuki has specialized knowledge and experience as an attorney and broad insights into social issues and human rights issues. We believe that the knowledge and insights he has acquired through his career qualify him to help maintain and enhance supervision of execution of operations at SCSK and to offer advice for overall management, 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 and broad insights into risk management. We believe that the experience and insights he has acquired through his career qualify him to help maintain and enhance supervision of execution of operations at SCSK and to offer advice for overall management. 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	Ms.Kazuko Shiraishi possesses a strong, global background as well as wide-ranging knowledge pertaining to environmental, social,and human rights issues gained in her role as a diplomat. She was selected as an Outside Director and Audit and Supervisory Committee member because we believe the experience and insights she has acquired through her career qualify her to help maintain and enhance supervision of execution of operations at SCSK and to offer advice for overall management.
Yasuo Miki	Audit and Supervisory Committee Member, Independent Director	Mr. Yasuo Miki possesses a breath of experience in maneging IT companies as well as wide-ranging technology knowledge. He was selected as an Outside Director and Audit and Supervisory Committee member because we believe the experience and insights he has acquired through his career qualify him to help maintain and enhance the supervision of execution of operations at SCSK and to provide advice on overall management.
Sadayo Hirata	Audit and Supervisory Committee Member, Independent Director	Ms. Sadayo Hirata has a wealth of experience as an engineer as well as academic insight pertaining to IT and technology management. She was selected as an Outside Director and Audit and Supervisory Committee member because we believe the experience and insights she has acquired through her career qualify her to help maintain and enhance supervision of execution of operations at SCSK and to provide advice on overall 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.

FY2021 Main Matters

- Matters related to corporate governance
- Matters related to organization and human resources
- Matters related to the execution of important operations (loans to and debt guarantees for subsidiaries, etc.)
- Matters related to the state of execution of operations (compliance, state of risk management, strategically-held shares, etc.)
- Matters related to progress in implementing Medium-Term Management Plan (progress in implementing sustainability management, etc.) etc.

Evaluating the Effectiveness of the Board of Directors

Initiatives to Improve the Effectiveness of the Board of Directors

Every year, SCSK carries out self-evaluation and analysis concerning the effectiveness of the Board of Directors since FY2016 in order to improve the functions of the Board of Directors and enhance corporate value as a result.

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.

Evaluation Method

As for the FY2021 self-evaluation and analysis, all directors who are Board of Directors members completed a questionnaire in February 2022 while receiving advice from an outside organization.

Anonymity was ensured by having directors submit completed questionnaires to the outside organization. After receiving a report on the results from the outside organization, an analysis, discussion, and evaluation were conducted at the Board of Directors meeting held in May 2022.

Evaluation/analysis Process

STEP1	STEP2	STEP3	STEP4
Have all directors complete questionnaire	Send completed questionnaires directly to outside organization to ensure anonymity	Analyze, discuss, and evaluate by the Board of Directors	Implement measures to improve the functioning taking into consideration evaluations

Main questionnaire items

- Items related to composition of the Board of Directors
- Items related to operations of the Board of Directors
- Items related to discussions by the Board of Directors
- Items related to Board of Directors' monitoring function
- Items related to support system for directors (including Audit and Supervisory Committee members) etc.

Summary of FY2021 Evaluation Results

- The following items received positive evaluations, indicating that in general the Board of Directors functions effectively.
  - Succession plan
  - Remuneration system design
  - Appropriate management of conflicts of interest
  - System for cooperation between Board of Directors and Internal Auditing Department
  - Overall operation, including content of advance explanations and timing of meetings
- There was an improvement in the evaluation of lively discussions and exchange of opinions, which were issues in the previous evaluations.

Issues and Future Initiatives

- There is an awareness that there should continue to be regular discussions and formulation of a management plan with a greater recognition of capital efficiency and review of the business portfolio.
- There was the opinion that there should be continuing training for directors and greater diversity within the Board of Directors while taking into consideration the skill matrix, and we will continue to undertake initiatives to improve the functioning of the Board of Directors.

Support and Training System for Directors

Outside Director Support System

Outside directors are provided with Board of Directors meeting material in advance and opportunities to receive advance explanations of items such as agendas. In addition, staff to aid outside directors who are Audit and Supervisory Committee members have been assigned to the Audit and Supervisory Committee Office.

Providing Training Opportunities for Directors

Both when and after taking up their position, directors have the opportunity to receive training so that they can acquire knowledge related to SCSK Group management and thus fulfill their roles and responsibilities.

Remuneration for Directors

Basic Policy on Remuneration for Directors and Procedures for Deciding Amount of Remuneration

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 Audit and Supervisory Committee members) are decided by resolution of the Board of Directors taking into account the results of examinations by the Governance Committee and Nomination and Remuneration Advisory Subcommittee, 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 Audit and Supervisory Committee members hold discussions regarding their own compensation pursuant to the provisions of Article 361, Paragraph 3 of the Companies Act.

Remuneration of Directors in FY2021

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, independent outside directors)	331 (21)	230 (21)	101 (-)	- (-)	9 (2)
Directors that serve as Audit and Supervisory Committee members (of whom, independent outside directors)	57 (36)	57 (36)	- (-)	- (-)	4 (3)

Policy and Indicators for Performance-Linked Compensation

(1) Short-term performance–linked compensation (cash compensation)

The amount of short-term performance–linked compensation is decided based on the executive officer remuneration system. Short-term performance–linked compensation is variable as it is calculated by adjusting the standard amount set for each director position based on the target achievement rate and individual evaluation for the particular year. The weight of the target achievement rate and individual performance are 60% and 40%, respectively.

Target achievement rate = Target achievement rate for net sales x 0.3 + target achievement rate for operating income x 0.7
Individual evaluation = payout rate proportional to individual evaluation based on executive officer remuneration system

As for individual evaluations, the efforts of each officer related to the Medium-Term Management Plan and sustainable management are evaluated, which functions as a sound incentive to achieve the SCSK management strategy and sustainable growth.

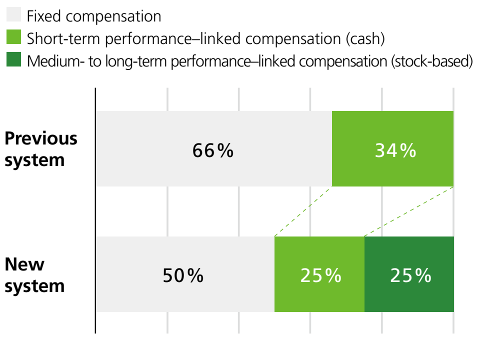
(2) Medium- to long-term performance–linked compensation (stock-based compensation)

To provide an incentive that embodies the sustained improvement in corporate value depicted in Grand Design 2030 and promote greater sharing of value with all shareholders, from FY2022 SCSK grants its directors (excluding outside directors, part-time directors and those directors that serve as Audit and Supervisory Committee members) restricted stock as compensation linked to medium- to long-term performance.

The restricted transfer period is generally from the day the restricted shares are granted until the day the person resigns as a SCSK officer in order to share shareholders value over the medium to long term.

Both Senior Executive Officers and Senior Corporate Officers are also granted restricted shares.

Weight of compensation assuming various performance-linked indicator targets are fully met
(Chairman and Chief Executive Officer and the President and Chief Operating Officer)



Compensation type		Payment method	Summary	Reflects individual evaluation
Fixed	Fixed compensation	Cash	Fixed amount for each director position paid monthly	No
Variable	Short-term performance–linked compensation	Cash	Standard amount set for each director position adjusted for target achievement rate and individual evaluation paid in June of the following year	Yes
	New Medium- to long-term performance–linked compensation	Stock	Restricted stock compensation granted each year and restriction on transfer eliminated when retiring	No

Policy on the Protection of Minority Shareholders

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

To protect minority shareholders, the Board of Directors consists of 12 directors, and 6 of those directors are independent outside directors, about whom there are no concerns about conflict of interest with general shareholders. The Board of Directors makes important management decisions and supervises the execution of operations from an independent perspective.

SCSK also gives appropriate consideration to the shared interest of SCSK and its shareholders and established the Governance Committee and the Conflict of Interest Advisory Subcommittee, which are composed of independent outside directors and independent outside experts, as advisory bodies to the Board of Directors in order to ensure fairness and transparency.

One SCSK director is from the parent company, and efforts are made to strengthen and expand the business foundation. Furthermore, material matters regarding the execution of operations when conducting business are decided based on agreement by the Board of Directors, which ensures the autonomy and independence of management decisions by SCSK, a listed company.

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

SCSK takes steps so that transactions with its parent company Sumitomo Corporation are not detrimental to minority shareholders.

In FY2021, sales to the parent company accounted for 5.2% of total net sales. The parent company places no constraints on business activities, and transaction terms are the same as those that would be applied to regular transactions with clients that we do not have a capital relationship. We recognize this as ensuring a certain level of independence.

As for those transactions that are material, advance consultations are held with the Governance Committee and the Conflict of Interest Advisory Subcommittee, and the Board of Directors decides whether to conduct the transaction after receiving a report from these bodies.

Furthermore, we ensure fairness by having reports on the state of business with the parent company regularly submitted to the Governance Committee and the Conflict of Interest Advisory Subcommittee.

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.

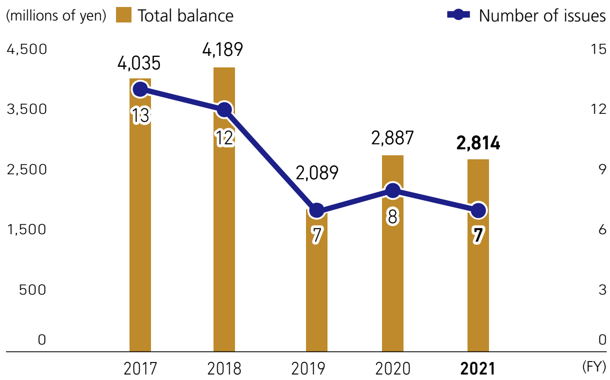
In addition, the validity of those holdings is reviewed and determined regularly on an annual basis holistically taking into account such quantitative factors as cost and benefit associated with those holdings and such qualitative factors as achievement of the purpose of those holdings including maintaining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

Strategically-held shares and number of remaining issues held

The number of issues fell from 13 in FY2017 to 7 in FY2021.



* In FY2019, the number declined due to a change in the purpose for holding shares of Minori Solutions Co., Ltd. (transformation into subsidiary) that SCSK hold.

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.

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 Group's management and the company's business activities.

The Group'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

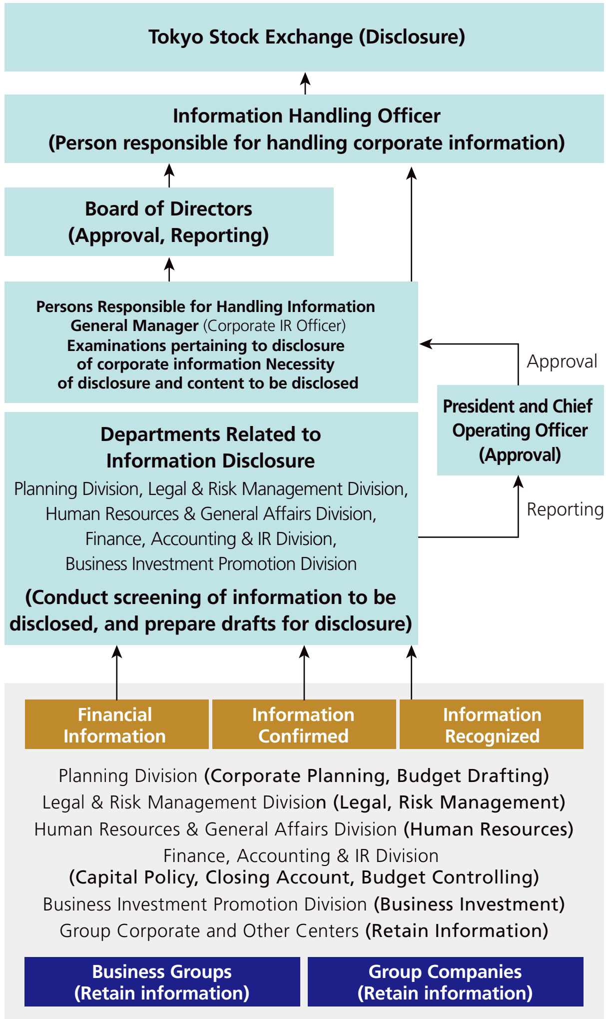
The SCSK Group recognizes that a high level of management transparency is an important component of corporate governance. Also, as a measure to ensure this transparency, the company has established the following system for the disclosure of corporate information. Through this system, we work to disclose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

1: The Planning Division, Legal & Risk Management Division, Human Resources & General Affairs Division, Finance, Accounting & IR Division, and 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.

Structure for Timely Disclosure



Communication with Shareholders and Other Investors

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

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 Group's operations. In FY2021, 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 FY2022, SCSK will take a cautious approach to participating in overseas conferences or holding IR meetings outside Japan, but will continue to engage in communication with overseas institutional investors by utilizing online meetings while focusing on points such as the state of COVID-19 infections.

Compliance System

Basic Approach

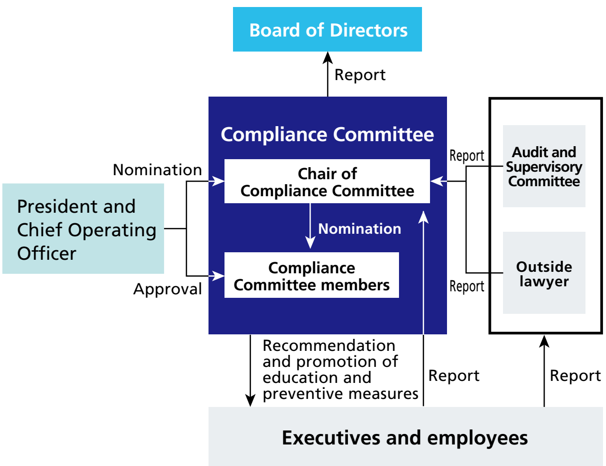
SCSK views compliance as observing laws and regulations, and acting with a high sense of ethics within the norms of society.

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 the Board of Directors, the Audit and Supervisory the Committee, Compliance Committee, and similar entities.

Disclosure of results

As stipulated in Compliance Rules, SCSK is moving forward with preparations to disclose within the company a summary of operating results to the extent that it does not hinder either proper execution of operations or the protection of confidentiality of interested parties, trust, honor, privacy, and other rights of interested parties.

Fair Transactions

The SCSK Compliance Manual clearly stipulates that the SCSK Group 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.

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 compliance meetings (group discussions on compliance), so that regardless of the situation the correct decision and action are taken following rules and regulations on compliance. We

FY2021 Training Results

Percent of employees who took compliance e-learning course	Times compliance meeting held
100 %	2 times/year

have compiled a Compliance Manual that contains detailed commentary on particularly important laws and regulations. We also strive to foster greater awareness of compliance by posting information on relevant laws and regulations and other matters, on each company's portal site.

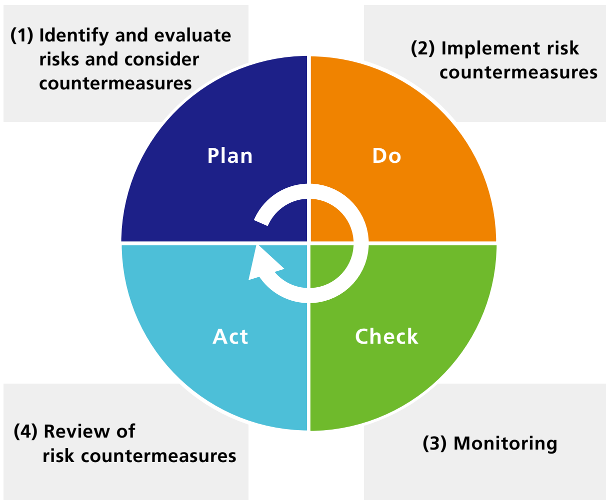
Risk Management

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 Process



Risk Management System

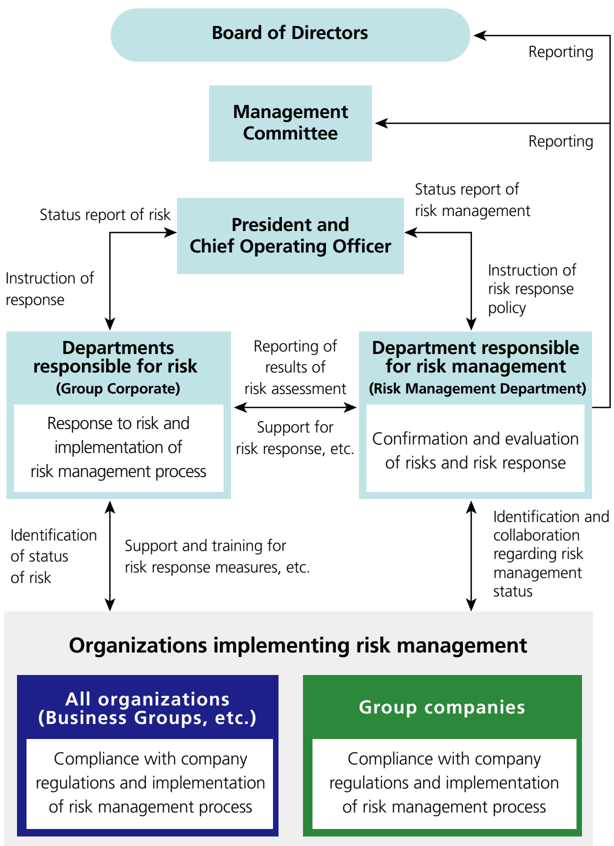
SCSK has established the Risk Management Regulations and the Risk Management Department as a dedicated department in charge of risk management, so that we can appropriately manage risks that could have a serious adverse effect on the SCSK Group's business.

Based on these regulations, we conduct risk assessments (identify, analyze, and evaluate risks) for all organizations including Group companies inside and outside of Japan regularly on an annual basis. When conducting these assessments, the departments responsible for risk and the department supervising risk management jointly gather information on risks both internal and external to identify and evaluate risks facing the Group in terms of the two elements—impact of risk and possibility of materialization. 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.

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.

Risk Management System Diagram



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

Concrete Risk Countermeasures

Emergency Response and Business Continuity Plan

In preparation for unforeseen emergencies that could have a major impact on the SCSK Group, such as major disasters and pandemics, SCSK has established rules of conduct and organizational frameworks. We are implementing a number of advanced measures, centered on the Disaster Risk Management Subcommittee, which is composed of related departments at each office and with the president or office manager serving as the person in charge. These measures include stockpiling food, water, and other supplies, conducting drills with the employee safety confirmation system, conducting training on setting up disaster headquarters, establishing a system to address emergencies that take place at night or on holidays, creating a disaster response website, and sharing information and raising awareness among employees through disaster response portal, e-learning and disaster preparedness seminars. Furthermore, we are working to ensure the effectiveness of the business continuity plan by conducting annual reviews.

Safety Confirmation Training

SCSK introduced its employee safety confirmation system, the purpose of which is to confirm and ascertain the safety of employees and their families and damage at the various offices when a disaster occurs and to quickly restore business, in 2011 and conducts regular training involving all employees.

Response rate for first drill (FY2022)

* 98.9% as of 3 hours after start of drill and 100% after 9 hours (the drill continues until all employees respond)

Initiatives Related to Risk Reduction at Homes Accompanying Changes in Workstyles

At SCSK, we are working on not only natural disaster countermeasures for offices but also activities to raise awareness about countermeasures for the home (disaster risk reduction at home) as a growing number of employees are teleworking because of changes in work styles. As part of this, we issue a Home Disaster Prevention Manual and Preventing, Water, Wind, and Landslide Damage Guide, and provide e-learning training to all employees and hold seminars for employees and their families. We are working to create a business continuity system by continuing to implement natural disaster countermeasures at both the office and homes.

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.

In addition to the above, the Information Security Management Department was established in October 2021 as an organization to aid the Chief Information Security Officer and manage and promote information security at SCSK.

The Information Security Management Department, which is under the Chief Information Security Officer, takes the lead in increasing mutual collaboration among information security related departments and implementing information security measures across the entire company in unison with Business Groups.

Initiatives to Strengthen Information Security

At SCSK, we have incorporated information security standards into SmartEpisode Plus (SE+), our standards for executing operations such as developing and operating systems.

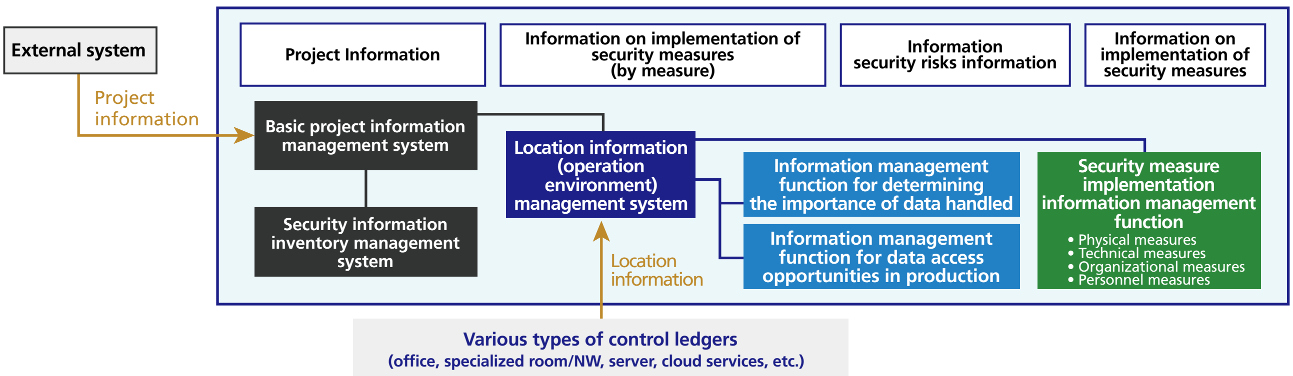
To protect information assets that are the important assets of clients, we are also making information handled and risks visible, building a system to evaluate and improve security measures (S-SIMS*), and continuing to undertake surveys and improvement activities covering 220 items and targeting all projects being undertaken, regardless of monetary amount or size.

As an IT business operator entrusted with the important information assets of clients, we will continue to improve engagement awareness and professional ethics through training for all employees.

*S-SIMS: SCSK Security Information Management System

Summary of the SCSK Security Information Management System (S-SIMS)

This is a system for obtaining an integrated understanding of and making visible the information security risks and state of security measures for each project and running through the PDCA cycle for appropriate information management by collaborating with worksites and organization line levels.



Response to Cyber Security Incidents

SCSK-CSIRT*[1] 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 information security management 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/CC*[2] and NISC*[3].

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.

*1 SCSK-CSIRT (Computer Security Incident Response Team): A permanent organization that carries out activities in response to computer security incidents
*2 JPCERT/CC (Japan Computer Emergency Response Team Coordination Center)
*3 NISC (National center of Incident readiness and Strategy for Cybersecurity)

Responding to Emergencies

- To minimize damages should an incident occur, SCSK-CSIRT 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

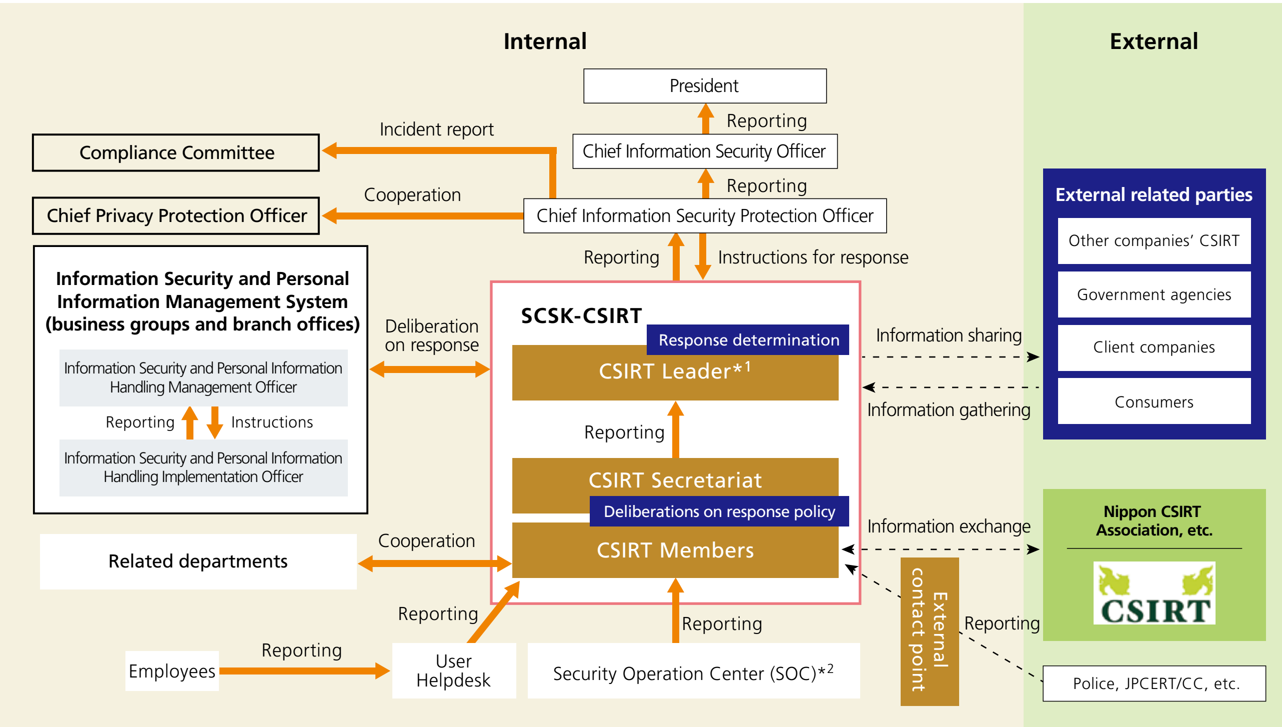
- We are conducting information security education using e-learning to prevent damages from cyberattacks, etc.
- We conduct email drill for targeted attack.
- In addition, we are carrying out tabletop drills based on incident scenarios so that the SCSK-CSIRT and related departments can collaborate smoothly and implement a swift response, etc.

Response to Vulnerabilities

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

SCSK-CSIRT System Diagram

Internal information contact route
External incident information sharing route



*1 The head of the group in the department responsible for cybersecurity or center director serves as the leader. At the current time, and SE+ Center Director is the leader (As of April 2022)
*2 SCSK has built a CSIRT system to handle cybersecurity incidents, and constantly cooperates with the Security Operation Center (SOC), which is responsible for monitoring networks and devices, including SCSK in-house network.

Board of Directors

*Current position(s) of directors as of June 23, 2022

				
Position / Name	Representative Director Chairman and Chief Executive Officer **Hideki Yamano**	Representative Director President and Chief Operating Officer **Takaaki Touma**	Director Executive Vice President **Koji Tamefusa**	Director Executive Vice President **Tetsuya Fukunaga**
Resume*1	Apr. 1983 Joined Sumitomo Corporation Apr. 2014 Corporate Officer of Sumitomo Corporation General Manager, Environment & Infrastructure Project Business Division Apr. 2016 Executive Officer of Sumitomo Corporation General Manager, Corporate Planning & Coordination Department Apr. 2018 Managing Executive Officer of Sumitomo Corporation Chief Strategy Officer and Chief Information Officer Jun. 2018 Representative Director of Sumitomo Corporation Managing Executive Officer, Chief Strategy Officer and Chief Information Officer Apr. 2020 Representative Director of Sumitomo Corporation Senior Managing Executive Officer, Chief Strategy Officer and Chief Information Officer Apr. 2022 Director of Sumitomo Corporation Senior Managing Executive Officer Assistant to General Manager, Media & Digital Business Unit Concurrent position as Adviser of SCSK Jun. 2022 Representative Director of SCSK (present) Chairman and Chief Executive Officer (present) Chief Health Officer (present)	Apr. 1987 Joined Sumisho COMPUTER SERVICE CORPORATION Apr. 2013 Executive Officer of SCSK Apr. 2016 Senior Executive Officer of SCSK Apr. 2018 Managing Executive Officer of SCSK, General Manager, Manufacturing & Telecommunication Systems Business Group Apr. 2020 Managing Executive Officer of SCSK, General Manager, Human Resources & General Affairs Group and Human Resources Development Group Apr. 2021 Managing Executive Officer of SCSK Apr. 2022 President and Chief Operating Officer of SCSK Jun. 2022 Representative Director of SCSK (present) President and Chief Operating Officer (present)	Apr. 1983 Joined Sumitomo Corporation Apr. 2012 Corporate Officer of Sumitomo Corporation 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. 2017 Executive Officer of Sumitomo Corporation May 2017 Executive Officer of Sumitomo Corporation Assistant to General Manager, Media, Network, Lifestyle Related Goods & Services Business Unit Concurrent position as Advisor of SCSK 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 Jun. 2021 Director of SCSK Executive Vice President Apr. 2022 Director of SCSK (present) Executive Vice President (present), Chief Information Security Officer (present) General Manager, Planning (present)	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. 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 Senior Managing Executive Officer Apr. 2021 Director of SCSK Senior Managing Executive Officer Apr. 2022 Director of SCSK (present) Executive Vice President of SCSK (present) General Manager, Business Investment Promotion Division (present)
Number of Company shares owned	0 shares	3,300 shares	0 shares	31,280 shares
Attendance for FY2021				
Board of Directors	—	—	12 out of 12 meetings	14 out of 14 meetings
Audit and Supervisory Committee	—	—	—	—
Governance Committee Composition				
Conflict of Interest Advisory Subcommittee*2				
Nomination and Remuneration Advisory Subcommittee	●	●		

*1 Present positions are marked with (present).
*2 In addition, one independent outside expert (lawyer) has been appointed as a committee member, bringing the total number of committee members to 7.

				
Position / Name	Director **Shunichi Aramaki**	Outside Director Independent Director Chairman of the Board **Tetsuya Kubo**	Director (Audit and Supervisory Committee Member) Chairman of the Audit and Supervisory Committee **Yasunori Anzai**	Outside Director (Audit and Supervisory Committee Member) Independent Director Chairman of the Governance Committee **Kimitoshi Yabuki**
Resume	Apr. 1996 Joined Sumitomo Corporation Apr. 2012 President & CEO of Presidio Ventures, Inc. Apr. 2015 Concurrent position as General Manager, Business Strategy Center Business Innovation Division of SCSK Assistant Managing Officer, Automotive Systems Business Division, Manufacturing Systems Business Group Apr. 2018 General Manager, Digital Solution Business Department, ICT Business Division, Media & ICT Business Unit of Sumitomo Corporation General Manager, Innovation & Investment Department Apr. 2019 General Manager, Digital Business Planning Department, Digital Business Division, Media & Digital Business Unit of Sumitomo Corporation Apr. 2021 Corporate Officer of Sumitomo Corporation Assistant General Manager, Digital Business Division General Manager, Digital Business Planning Department, Media & Digital Business Unit Apr. 2022 Corporate Officer of Sumitomo Corporation (present) General Manager, Digital Business Division, Media & Digital Business Unit (present) General Manager, Innovation & Investment Department (present) Jun. 2022 Director of SCSK (present)	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 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. 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. Concurrent position as Representative Director, Chairman of SMBC Nikko Securities Inc. 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)	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)	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
Number of Company shares owned	0 shares	0 shares	0 shares	200 shares
Attendance for FY2021				
Board of Directors	—	12 out of 12 meetings	14 out of 14 meetings	14 out of 14 meetings
Audit and Supervisory Committee	—	—	15 out of 15 meetings	15 out of 15 meetings
Governance Committee Composition				
Conflict of Interest Advisory Subcommittee		●		●
Nomination and Remuneration Advisory Subcommittee		●		●

Board of Directors

*Current position(s) of directors as of June 23, 2022

				
Position / Name	Outside Director (Audit and Supervisory Committee Member) **Independent Director** Masaichi Nakamura	Outside Director (Audit and Supervisory Committee Member) **Independent Director** Kazuko Shiraishi	Outside Director (Audit and Supervisory Committee Member) **Independent Director** Yasuo Miki	Outside Director (Audit and Supervisory Committee Member) **Independent Director** Sadayo Hirata
Resume	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)	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)	Apr. 1977 Joined NEC Corporation Apr. 2004 General Manager, Process & CPG Industries Solutions Division of NEC Corporation Oct. 2005 President of VMware K.K. Mar. 2015 Chairman of VMware K.K. Oct. 2018 Chief Technology Innovation Officer of The Tokyo Organising Committee of the Olympic and Paralympic Games Jun. 2022 Outside Director (Audit and Supervisory Committee Member) of SCSK (present)	Apr. 1987 Joined Fujitsu Limited Apr. 2011 Guest Associate Professor at Housei Business School of Innovation Management Apr. 2013 Associate Professor, Graduate School of Engineering and Science at Shibaura Institute of Technology (present) Oct. 2017 Member of Science Council of Japan (present) Mar. 2019 Special Researcher at Japan Society for the Promotion of Science Apr. 2020 Project Associate Professor, Graduate School of Engineering Department of Management Science and Technology, Tohoku University (present) Apr. 2021 Committee Member, High-Performance Computing Infrastructure Planning Committee of Ministry of Education, Culture, Sports, Science and Technology (present) Jun. 2022 Outside Director (Audit and Supervisory Committee Member) of SCSK (present)
Number of Company shares owned	0 shares	2,500 shares	100 shares	0 shares
Attendance for FY2021				
Board of Directors	12 out of 14 meetings	14 out of 14 meetings	—	—
Audit and Supervisory Committee	15 out of 15 meetings	15 out of 15 meetings	—	—
Governance Committee Composition				
Conflict of Interest Advisory Subcommittee	●	●	●	●
Nomination and Remuneration Advisory Subcommittee	●	●	●	●

Director Skills

Skill / Name	Corporate management	Finance / accounting	Technology	Organization / human resources	Marketing	Environmental / social / human rights	Legal / risk management	Global
Hideki Yamano	●			●	●	●		●
Takaaki Touma	●		●	●	●			
Koji Tamefusa						●	●	●
Tetsuya Fukunaga		●					●	●
Shunichi Aramaki					●			●
Tetsuya Kubo	●	●						●
Yasunori Anzai		●					●	
Kimitoshi Yabuki						●	●	
Masaichi Nakamura		●					●	
Kazuko Shiraishi						●		●
Yasuo Miki	●		●					
Sadayo Hirata			●	●				

Skills Required of the Board of Directors

The Company decides the size of its Board of Directors and its membership based on consideration of the diversity and balance of the skills of members. To assist in this process, the following list has been prepared of the skills deemed necessary in order to ensure that the Board of Directors is equipped with the knowledge, experience, and capacities required to advance the SCSK Group's growth strategies.

Skill	Display Name	Reason for Selection
Corporate management experience	Corporate management	Corporate management experience is necessary for assessing the opportunities and risks in the Company's diverse businesses and for guiding investments to help ensure ongoing growth. SCSK is promoting sustainability management as a growth strategy, meaning that it must position the resolution of various social issues as an earnings opportunity and actively contribute to the resolution of these issues. Corporate management experience is imperative for making appropriate management resource investment and other management decisions for this purpose.
Financial and accounting expertise and experience	Finance / accounting	Financial and accounting expertise and experience are crucial for accessing business growth potential and profitability in pursuit of high capital efficiency and for practicing timely and appropriate disclosure and highly transparent corporate governance.
Technological expertise, foresight, and experience	Technology	Technological expertise, foresight, and experience are needed for making appropriate management decisions pertaining to the introduction technologies in various fields for use in resolving corporate and social issues.
Organization and human resource management expertise and experience	Organization / human resources	Organization and human resource management expertise and experience are required to ensure that the Company can offer opportunities and organizations in which professionals with diverse skills and backgrounds can share a common set of values and grow and succeed while exercising their individuality and expertise.
Expertise and experience pertaining to market and economic environments and trends	Marketing	Expertise and experience pertaining to market and economic environments and trends are necessary to identify the issues that may emerge from social or economic changes and to guide the appropriate development and provision of solutions for addressing these issues.
Expertise and experience pertaining to environmental, social, and human rights issues	Environmental / social / human rights	Expertise and experience pertaining to environmental, social, and human rights issues are imperative to accurately assessing social issues related to global warming, human rights, regional disparities, and other factors and to identifying the areas in which SCSK can contribute to the resolution of such issues. These skills are also vital to enabling SCSK to develop sound value chains and fulfill other social responsibilities.
Legal and risk management expertise and experience	Legal / risk management	Legal and risk management expertise and experience are required to ensure strict compliance and highly effective oversight of management as well as to the development and implementation of appropriate management systems for risks and other matters.
Global business expertise and experience	Global	Global business expertise and experience are vital to the Company's efforts to capitalize on the growth opportunities presented by global digitization trends.

Senior Executive Officers and Senior Corporate Officers

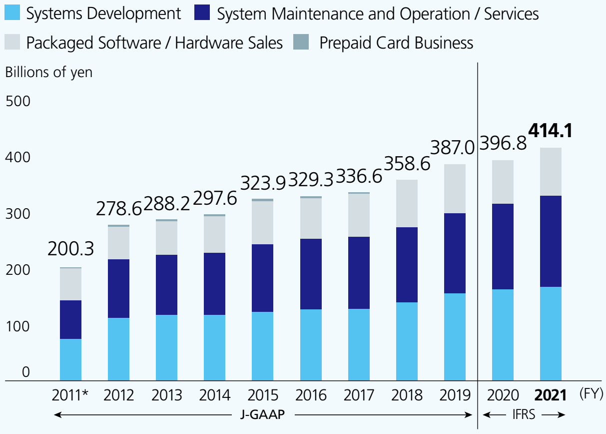
*Current position(s) of directors as of June 23, 2022

Chairman and Chief Executive Officer	Hideki Yamano
President and Chief Operating Officer	Takaaki Touma
Executive Vice President	Koji Tamefusa Tetsuya Fukunaga
Senior Managing Executive Officer	Tetsuya Ueda Atsushi Watanabe
Managing Executive Officer	Toshiaki Kudo Hideki Tazai Makoto Nakamura Yasushi Shimizu Yasuo Sugahara Yoshiyuki Shinbori Yasuhiko Oka Tadashi Miyagawa Koji Watanabe Mineo Yokoyama Ken Takano Masaki Komine
Senior Corporate Officer	Yoshinori Kawashima Akihiko Harima Takayuki Okuhara Takaya Yamamoto Toshihiko Mitsuishi Yukihiko Saito Kan Takahashi Masahiro Otani Masaaki Mori Takaaki Ishida Eri Kawanabe Junichi Horie Kenji Toda Shoji Shiuchi Kenji Ichiba Shu Wei Shunichiro Fukushima Ikuo Uchiyama Toshihiko Kusakabe Osamu Kubo Yoshinari Kobayashi Yousuke Tsutaya
Senior Corporate Officer	Tomoyuki Naruke Masayuki Tanabe Hideya Nakashima Yoshihiro Jinbo Toshiyuki Takahashi Mitsuru Osawa Hideho Masuda Seiji Sato Atsushi Sugiyama Kenji Inoue Jun Kawamura Hiroshi Ogasawara Satoshi Kitao Seiya Otsuka Tadashi Takakura

Data Section

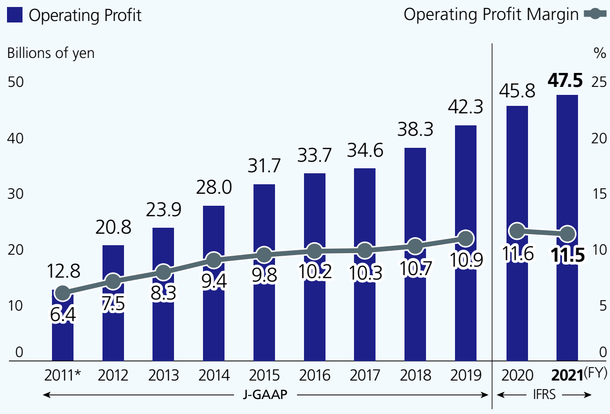
Financial and Non-Financial Highlights

Net Sales



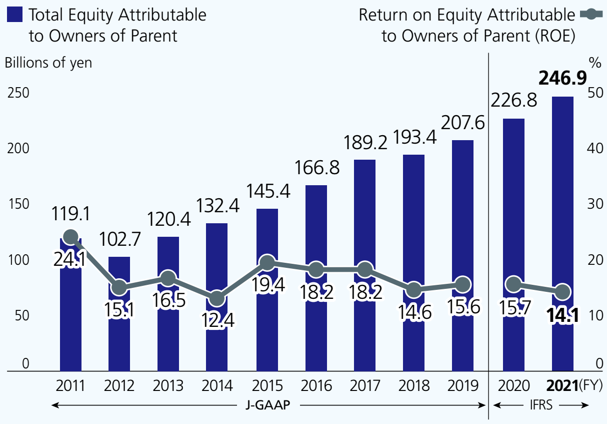
*Figures of CSK Corporation before the merger date (October 1, 2011) are not included.

Operating Profit / Operating Profit Margin



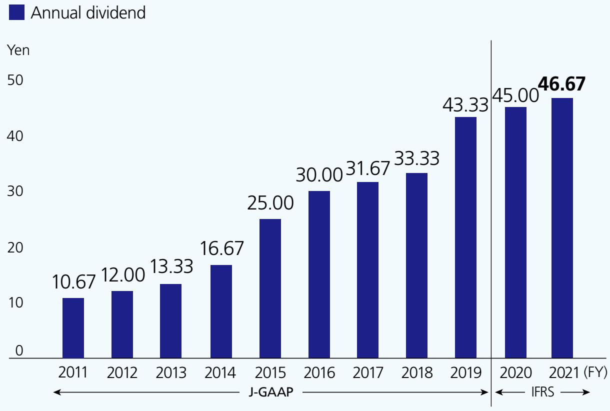
Under the Medium-Term Management Plan (FY2012 to FY2014) after the merger in October 2011, the Group capitalized on the expanded client base from the merger to promote cross-selling of services where both companies excel and increased sales.
Under the Medium-Term Management Plan (FY2015 to FY2019), the Group transformed the business structure into a non-labor-intensive business model and made steady progress in enhancing its management foundation, and, as a result, achieved a compound annual growth rate of 5.4% for sales and 8.6% for operating profit.
Under the Medium-Term Management Plan (FY2020 to FY2022), the Group has positioned Core Business Innovation, Commercialization of DX, and Investment in People as its core strategies to transform its core business and create new businesses. Since the start of the plan, as we continued to conduct business under COVID-19 restrictions, society's digitization has accelerated amid the shift to a new normal, not the least of which is demand for IT investment among client companies gradually shifting to an uptick. Given such business conditions, despite the increased business investment cost following the strategy of the Medium-Term Management Plan, the Group achieved an average annual growth rate of 3.7% for sales and 9.0% for operating profit over the two-year period up to FY2021, marking 10 consecutive years of sales and profit growth.

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 nine 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 10.2% due to the pursuit of management focused on capital efficiency.

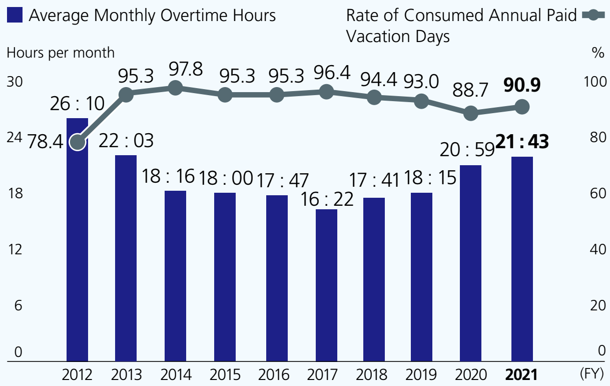
Cash Dividend per Share*



We have continued to provide dividends in line with increases in business results. The annual dividend for FY2021 was ¥46.67 per share, a ¥1.67 increase from the previous fiscal year. This was the 10th consecutive year we have increased the dividend, and the dividend per share has increased about 4.4-fold from ¥10.67 in FY2011 when the companies first merged.

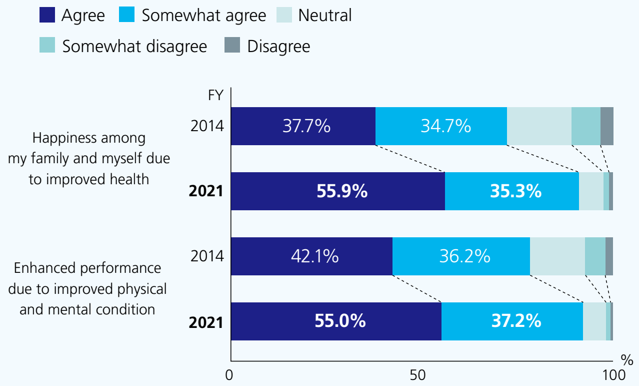
*The Group conducted a one-for-three split of its common stock on October 1, 2021. For the past data, retractive revisions were made accordingly.

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



Since FY2013, we have 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. Since 2021, we have been promoting an optimal balance between efficient and highly productive work styles and self-improvement activities.

Rating of Health and Productivity Management



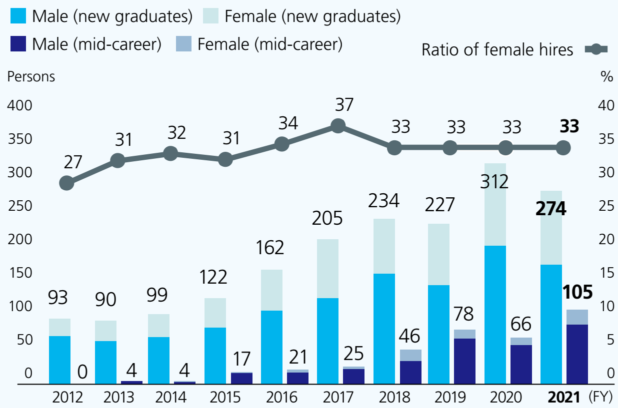
Since FY2015, we have been promoting Health and Productivity Management as part of our management strategy. Over the years, the percentage of employees who feel happiness in themselves and at home as a result of improved health as well as enhanced performance at work from better mental and physical condition is steadily increasing through such initiatives implemented as the *Kenko Waku Waku Mileage* Program.

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 59 for the numerical targets.

Recruitment



*FY2020 increases included from Group company integration.

In line with our expanded business scale, we have been focusing on the recruitment of new graduates. However, in recent years we have also stepped up mid-career recruitment, which provides immediate impact in implementing business strategies. We are also actively engaged in the recruitment of women, with a ratio of female hires at just over 30%. We aim to secure a stable number of human resources in terms of both new graduate and mid-career recruitment necessary for the sustainable growth of our business.

Main Financial Data

Consolidated Management Indicators

J-GAAP

Income Statements (FY)	2011*1	2012	2013	2014	2015
Net sales	200,326	278,634	288,236	297,633	323,945
Systems Development	73,811	112,316	117,597	117,843	124,470
System Maintenance and Operation / Services	68,296	104,284	107,577	110,720	119,170
Packaged Software / Hardware Sales	56,496	58,731	60,019	65,691	77,087
Prepaid Card Business*2	1,722	3,302	3,042	3,378	3,217
Gross profit	46,370	64,466	68,724	72,469	78,021
Gross profit margin(%)	23.1	23.1	23.8	24.3	24.1
SG&A expenses*3	33,490	43,663	44,749	44,466	46,235
Operating profit	12,879	20,803	23,974	28,003	31,785
Operating profit margin(%)	6.4	7.5	8.3	9.4	9.8
Ordinary profit	16,659	22,228	25,690	30,667	33,610
Profit attributable to owners of parent	25,669	16,730	18,387	15,638	26,956

Cash Flows					
Cash flows from operating activities	22,249	25,156	35,342	29,707	34,730
Cash flows from investing activities	(8,112)	(249)	(26,045)	5,166	(9,473)
Free cash flows	14,137	24,907	9,297	34,873	25,257
Cash flows from financing activities	(7,965)	(5,512)	(33,739)	(8,395)	(12,338)
Cash and cash equivalents at end of period	63,661	83,247	59,004	85,713	98,445

Financial Position					
Total assets	300,928	322,828	317,932	334,290	352,676
Total equity	124,419	108,208	126,159	138,536	151,546
Equity attributable to owners of parent	119,189	102,799	120,488	132,458	145,420
Interest-bearing debt + preferred shares*4	84,860	84,860	57,000	55,000	50,000

Pre-share Information*5					
BPS	286.79	330.49	387.10	425.46	467.00
EPS	111.40	53.80	59.09	50.24	86.57
Annual dividend per share	10.67	12.00	13.33	16.67	25.00

Major Indicators					
Return on equity attributable to owners of parent (%)	24.1	15.1	16.5	12.4	19.4
Ordinary profit to assets ratio (ROA) (%)	7.9	7.1	8.0	9.4	9.8
Profit before tax to total assets ratio (ROA) (%)	–	–	–	–	–
Equity attributable to owners of parent ratio (%)	39.6	31.8	37.9	39.6	41.2
Debt / Equity ratio (times)	0.46	0.83	0.47	0.42	0.34
Number of employees	11,995	11,797	11,689	11,754	11,769
Capital expenditures (millions of yen)	7,954	10,219	9,441	14,842	12,046
Depreciation and amortization (millions of yen)	5,380	6,690	6,841	6,865	8,003
R&D expenses (millions of yen)	417	566	449	267	117
Stock prices (yen)*5	437.3	611.7	927.0	1,121.7	1,466.7
Price-book ratio (PBR) (times)	1.5	1.9	2.4	2.6	3.1
Price-earnings ratio (PER) (times)	3.9	11.4	15.7	22.3	16.9
Total shareholder return (TSR) (%)*6	107.3	152.4	232.0	283.3	372.9

*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 SCSK carried out a one-for-three split of its common stock on October 1, 2021. Previous years' financial data is presented with values converted after the stock split.
*6 Calculated with the merger date (October 1, 2011) as 100%.

IFRS

(Unit: millions of yen) (Unit: US $ 1,000)

	2016	2017	2018	2019	2019	2020	**2021**	**2021*7**
	329,303	336,654	358,654	387,003	385,295	396,853	**414,150**	**3,383,859**
	127,051	128,387	140,092	155,835	156,190	163,090	**167,967**	**1,372,392**
	125,802	129,071	134,132	143,429	143,410	152,518	**162,407**	**1,326,965**
	73,147	76,247	84,430	87,738	85,694	81,243	**83,776**	**684,502**
	3,302	2,948	–	–	–	–	**–**	**–**
	81,754	83,555	88,742	97,954	97,192	102,969	**108,187**	**883,959**
	24.8	24.8	24.7	25.3	25.2	25.9	**26.1**	**26.1**
	48,040	48,953	50,363	55,628	57,144	57,090	**60,632**	**495,402**
	33,714	34,602	38,378	42,326	40,048	45,878	**47,555**	**388,556**
	10.2	10.3	10.7	10.9	10.4	11.6	**11.5**	**11.5**
	36,121	36,291	38,650	43,014	–	–	**–**	**–**
	28,458	32,488	27,892	31,201	28,765	33,435	**33,470**	**273,470**

(Unit: millions of yen) (Unit: US $ 1,000)

	37,161	37,096	33,511	48,950	55,710	50,219	**59,081**	**482,729**
	(11,982)	(35,394)	(7,163)	(27,338)	(27,484)	(20,586)	**(14,927)**	**(121,968)**
	25,178	1,702	26,348	21,612	28,226	29,633	**44,153**	**360,760**
	476	(25,763)	(19,995)	(16,309)	(22,923)	(32,488)	**(32,342)**	**(264,260)**
	123,935	99,797	106,198	111,695	111,695	108,768	**121,251**	**990,701**

(Unit: millions of yen) (Unit: US $ 1,000)

	389,537	303,914	314,844	342,485	362,241	380,399	**407,609**	**3,330,412**
	173,674	196,600	194,468	208,072	200,405	227,338	**247,363**	**2,021,112**
	166,897	189,214	193,412	207,681	200,047	226,874	**246,921**	**2,017,498**
	60,000	45,000	55,000	55,400	55,325	45,056	**36,459**	**297,894**

(Unit: yen) (Unit: US $)

	535.91	607.51	620.93	666.72	640.85	726.77	**790.86**	**6.46**
	91.39	104.32	89.55	100.17	92.13	107.09	**107.20**	**0.87**
	30.00	31.67	33.33	43.33	43.33	45.00	**46.67**	**0.38**

	18.2	18.2	14.6	15.6	14.9	15.7	**14.1**	**14.1**
	9.7	10.5	12.5	13.1	–	–	**–**	**–**
	–	–	–	–	11.7	12.5	**12.3**	**12.3**
	42.8	62.3	61.4	60.6	55.2	59.6	**60.6**	**60.6**
	0.36	0.24	0.28	0.27	0.28	0.20	**0.15**	**0.15**
	11,910	12,054	12,365	13,979	13,979	14,550	**14,938**	**14,938**
	15,335	15,588	15,163	13,604	20,759	38,972	**25,708**	**210,056**
	8,972	11,245	10,530	10,358	17,303	18,437	**19,881**	**162,440**
	266	280	725	1,190	1,190	874	**1,097**	**8,967**
	1,473.3	1,531.7	1,645.0	1,605.0	1,605.0	2,186.7	**2,101.0**	**17.16**
	2.7	2.5	2.6	2.4	2.5	3.0	**2.7**	**2.7**
	16.1	14.7	18.4	16.0	17.4	20.4	**19.6**	**19.6**
	381.8	403.6	439.1	439.9	439.9	591.8	**582.3**	**582.3**

*7 Sorely for the convenience of the reader, the figures in Japanese yen have been translated into U.S. dollars at the rate of ¥122.39, the prevailing exchange rate at March 31, 2022. 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, 2022, the Japanese economy showed signs of a gradual recovery, such as improved business sentiment seen amid COVID-19 vaccine rollouts. Regardless, the volatile global political and economic conditions resulted in economic stagnation.

The Japanese economy is anticipated to continue to see a recovery while social and economic activities return to normal, due in part to the support of ongoing government finance and fiscal measures. However, raw material prices are rising and the monetary easing policies of overseas countries are being revised as a result of Russia's invasion of Ukraine. These factors are having economic repercussions in the form of yen depreciation and ensuing commodity price increases. There is thus a need to carefully monitor these impacts along with the supply limitations resulting from supply chain disruptions.

In this economic environment, IT investment by client companies continues to expand in the IT services market. Investment is expected to accelerate in conjunction with economic recovery going forward as customer's exhibit increasing appetites for IT investment for purposes including growing business operations, by means such as redeveloping systems in response to the swift development of a digital society, and bolstering competitiveness as they explore the new normal. These trends are anticipated to advance amid efforts to ascertain the performance repercussions of rising raw material prices as well as the business impacts of prolonged global supply chain disruption.

Customers in the manufacturing industry exhibited strong demand for IT investment. Targets of this investment demand included digitization as well as the redevelopment of core systems and production management systems for strengthening operating foundations. In the financial industry, IT investment demand continues to show a growth trend due in part to the ongoing presence of projects for reinforcing and expanding overseas operations largely from banks. IT demand is also rising in the communications industry, with specific focuses of this demand including investment for enhancing online and other customer contact points and for bolstering networks.

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, digitization investment 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, 2022, net sales increased 4.4% year on year, to ¥414,150 million. This increase was a result of higher sales in the Systems Development, System Maintenance and Operation/Services, and Packaged Software/Hardware Sales segments achieved amid growth in systems development demand among manufacturers; higher IT investment demand among banks, securities companies, and other financial industry customers; and rises in systems development demand among communications industry customers. Other factors included network equipment sales to communications industry customers and large-scale hardware sales to automotive companies and academic research institutions.

Gross profit rose as a result of higher net sales and increased productivity stemming from efforts to improve operational quality. Selling, general and administrative (SG&A) expenses were up due to business investments in line with the core strategies of SCSK's medium-term management plan. Regardless, operating profit increased 3.7% year on year, to ¥47,555 million, because of the higher net sales and improvements in productivity.

Profit attributable to owners of parent increased 0.1% year on year, to ¥33,470 million, as a result of the decrease in corporate income taxes associated with tax exemptions for wage increases applied in the previous fiscal year.

II. OVERVIEW OF RESULTS BY REPORTABLE SEGMENT

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

	Millions of yen					
	2021		**2022**		Comparison with previous fiscal year	
For the fiscal year ended March 31	Net sales	Segment profit	Net sales	Segment profit	Net sales	Segment profit
Industrial IT Business	¥132,249	¥16,214	**¥135,768**	**¥16,676**	¥ 3,519	¥ 462
Financial IT Business	52,768	6,243	**56,526**	**6,653**	3,757	410
IT Business Solutions	54,783	5,583	**56,872**	**5,559**	2,089	(24)
IT Platform Solutions	77,444	10,904	**83,969**	**11,884**	6,525	980
IT Management Service	56,728	6,983	**58,477**	**7,412**	1,749	429
Others	22,886	1,936	**22,713**	**1,599**	(173)	(336)
Adjusted total	(7)	(1,987)	**(177)**	**(2,232)**	(170)	(245)
Total	¥396,853	¥45,878	**¥414,150**	**¥47,555**	¥17,297	¥1,677

■ Industrial IT Business

Despite the conclusion of development projects for the gas industry, net sales increased 2.7% year on year, to ¥135,768 million, and segment profit grew 2.9%, to ¥16,676 million. Factors behind this outcome included higher systems development sales to the automotive and communications industries as well as increased sales of verification services.

■ Financial IT Business

Net sales were up 7.1% year on year, to ¥56,526 million, following a rise in the number of systems development projects for banks and securities industries, and segment profit rose 6.6%, to ¥6,653 million.

■ IT Business Solutions

Despite the conclusion of development projects for the distribution industry, net sales were up 3.8% year on year, to ¥56,872 million, due to the firm performance of business process outsourcing (BPO) operations and core systems development projects. Segment profit down 0.4%, to ¥5,559 million, due to the investment related expenses for expanding contact center business bases that continued to be incurred from the first half of the fiscal year forward.

■ IT Platform Solutions

Net sales were up 8.4% year on year, to ¥83,969 million, and segment profit grew 9.0%, to ¥11,884 million, due to the higher sales of network equipment to the communications industry and increased sales of large-scale hardware products to the automotive industry and academic research institutions.

■ IT Management Service

Net sales were up 3.1% year on year, to ¥58,477 million, and segment profit grew 6.2%, to ¥7,412 million primarily due the growth of the data center business in response to demand for cloud services.

■ Others

Net sales were down 0.8% year on year, to ¥22,713 million, as a result of segment changes following a Group reorganization and segment profit fell 17.4%, to ¥1,599 million, due to expenses incurred in relation to the merging of subsidiaries that formed SCSK Minori Solutions Corporation.

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:

	Millions of yen					
	2021		**2022**		Comparison with previous fiscal year	
For the fiscal year ended March 31	Amount	Share (%)	Amount	Share (%)	Amount	Change (%)
Systems Development	¥163,090	41.1	**¥167,967**	**40.6**	¥ 4,876	3.0
System Maintenance and Operation/Services	152,518	38.4	**162,407**	**39.2**	9,888	6.5
Packaged Software/Hardware Sales	81,243	20.5	**83,776**	**20.2**	2,532	3.1
Total	¥396,853	100.0	**¥414,150**	**100.0**	¥17,297	4.4

In Systems Development, net sales increased 3.0% year on year, to ¥167,967 million. This increase was seen as a result of the contributions of core systems development projects and production management system redevelopment projects for reinforcing operating foundations and the IT investment for strengthening customer contact points seen amid consistently strong IT investment demand from communications and manufacturing industry customers as well as from banking industry customers.

In System Maintenance and Operation/Services, net sales increased 6.5% year on year, to ¥162,407 million. Sales were up because of the steady performance in BPO operations stemming from higher contact center demand witnessed amongst the shift toward contact-free, non-face-to-face operations. Another beneficial factor was increases in the sales of data center business, management services, and verification services.

In Packaged Software/Hardware Sales, net sales increased 3.1% year on year, to ¥83,776 million, due to the higher sales of large-scale hardware products to the automotive industry and academic research institutions and increased sales of network equipment to the communications industry.

IV. FINANCIAL POSITION

Assets, Liabilities and Equity

■ Assets

Assets as of March 31, 2022, were ¥407,609 million, an increase of ¥27,209 million compared to March 31, 2021.

(a) Current assets

Current assets as of March 31, 2022, were ¥230,055 million, an increase of ¥17,531 million compared to March 31, 2021, as increases in cash and cash equivalent and trade and other receivables outweighed a decrease in contract assets.

(b) Non-current assets

Non-current Assets as of March 31, 2022, were ¥177,553 million, an increase of ¥9,678 million compared to March 31, 2021, as increases due to purchase of property, plant and equipment and right-of-use assets.

■ Liabilities

Liabilities as of March 31, 2022, were ¥160,245 million, an increase of ¥7,184 million compared to March 31, 2021.

(a) Current liabilities

Current liabilities as of March 31, 2022, were ¥101,175 million, an increase of ¥3,355 million compared to March 31, 2021, as increases in income taxes payable outweighed a decrease due to repayment of interest-bearing debt.

(b) Non-current liabilities

Non-current liabilities as of March 31, 2022, were ¥59,069 million, an increase of ¥3,829 million compared to March 31, 2021, as increases in interest-bearing debt.

■ Equity

Total equity as of March 31, 2022, was ¥247,363 million, an increase of ¥20,025 million compared to March 31, 2021.

The main factor behind this increase was profit attributable to owners of parent, in the amount of ¥33,470 million.

Factors that decreased equity included dividend payments of ¥7,283 million (¥70.00 per share) for the year-end dividend of the fiscal year ended March 31, 2021 and dividend payments of ¥7,283 million (¥70.00 per share) for the interim dividend of the fiscal year ended March 31, 2022.

V. CASH FLOWS

Cash and cash equivalents (“cash”) as of March 31, 2022, increased ¥12,483 million compared to March 31, 2021, to ¥121,251 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 ¥59,081 million (increased ¥8,861 million in comparison to the previous fiscal year).

The main cash inflow factors were profit before tax of ¥48,315 million, depreciation and amortization of ¥19,881 million, a decrease in contract assets of ¥3,136 million, and an increase in trade and other payables of ¥2,832 million. The main cash outflow factors were an increase in trade and other payables of ¥4,220 million, an increase in inventories of ¥1,414 million, and payment for income taxes of ¥6,674 million.

■ Cash Flows from Investing Activities

Net cash used in investing activities was ¥14,927 million (increased ¥5,659 million in comparison to the previous fiscal year).

The main cash outflow factors were payment for purchase of property, plant and equipment of ¥10,157 million, and purchase of intangible assets of ¥3,927 million.

■ Cash Flows from Financing Activities

Net cash used in financing activities was ¥32,342 million (increased ¥145 million in comparison to the previous fiscal year).

The main cash inflow factor was proceeds from long-term debt of ¥11,500 million. The main cash outflow factors were repayments of loans and redemption of bonds of ¥25,100 million, repayments of lease liabilities of ¥9,086 million, dividend payments of ¥7,283 million (¥70.0 per share) for the year-end dividend of the fiscal year ended March 31, 2021, and dividend payments of ¥7,283 million (¥70.0 per share) for the interim dividend of the fiscal year ended March 31, 2022.

■ 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 ¥78,972 million as of March 31, 2022 through bank loans and the issuance of bonds and suchlike. In comparison, cash and cash equivalents stood at ¥121,251 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/Positive Long-term Issuer Rating from the Japan Credit Rating Agency, Ltd. and maintains good relationships with its principal trading financial institutions. The Group is therefore confident that it has sufficient capability for procuring the necessary operating and investment capital to expand and operate its businesses.

The Group will continue to conduct financial operations aimed at strengthening its financial base and maintaining and improving its external fund procurement capability.

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, 2022.

Although COVID-19 infection conditions have started to show signs of improvement owing to progress on COVID-19 vaccinations around the world, the outlook remains still uncertain due to the emergence of COVID-19 variants and their spread. Continued vigilance of trends in Japan and overseas is needed. There is a possibility that the COVID-19 pandemic may have a direct or indirect impact on the Group's performance, and management decisions should continue to be made cautiously under these conditions.

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.

As part of its measures to prevent the spread of COVID-19, the Group conducts workplace COVID-19 vaccinations, along with 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 among governments, companies and others toward creating carbon-free societies. In addition, insecurity in world affairs and global economic uncertainty have been increasing because of Russia's invasion of Ukraine. 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 present, 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 does business with many subcontractors, including nearshore development companies, to maintain production capacity, increase cost efficiency and utilize technological capabilities and expertise. When doing business with subcontractors, there is the possibility that productivity and quality 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 also undertakes measures to strengthen information security, such as incorporating information security perspectives into the Company-wide development standards and conducting information security audits. The Group requires subcontractors to fully comply with the Information Security Guidelines established by the Company, and we require subcontractors to maintain the same levels of information security and information management as those of SCSK through regular monitoring of subcontractor compliance using confirmation sheets, as well as 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, 2022 and 2021

		Millions of yen	
ASSETS	Notes	2021	**2022**
Current assets			
Cash and cash equivalents	6	¥108,768	**¥121,251**
Trade and other receivables	7	69,855	**74,259**
Contract assets	25	13,224	**10,104**
Inventories	8	7,710	**9,125**
Other financial assets	15	220	**1,082**
Income taxes receivable	30	56	**0**
Other current assets	9	12,686	**14,231**
Total current assets		212,524	**230,055**
Non-current assets			
Property, plant and equipment	10	67,345	**71,853**
Right-of-use assets	12	39,353	**41,434**
Goodwill and intangible assets	11	26,389	**26,495**
Investments accounted for using equity method	14	8,805	**10,177**
Other receivables	7	8,581	**8,012**
Other financial assets	15	8,835	**8,280**
Deferred tax assets	30	3,432	**3,249**
Other non-current assets	9, 20	5,131	**8,050**
Total non-current assets		167,875	**177,553**
Total assets		¥380,399	**¥407,609**

LIABILITIES	Notes	2021	2022
		Millions of yen	
Current liabilities			
Trade and other payables	16	¥ 29,465	**¥ 32,628**
Contract liabilities	25	14,589	**14,037**
Employee benefits	20	10,985	**10,540**
Bonds and borrowings	17	25,092	**16,996**
Lease liabilities		8,872	**9,164**
Other financial liabilities	18	—	**297**
Income taxes payable	30	3,091	**10,917**
Provisions	22	429	**278**
Other current liabilities	19	5,293	**6,313**
Total current liabilities		97,820	**101,175**
Non-current liabilities			
Bonds and borrowings	17	19,963	**19,462**
Lease liabilities		31,714	**33,348**
Other payables	16	203	**169**
Employee benefits	20	7	**1,956**
Provisions	22	3,279	**4,061**
Other non-current liabilities	19	70	**70**
Total non-current liabilities		55,240	**59,069**
Total liabilities		153,060	**160,245**
Equity			
Share capital	23	21,152	**21,152**
Retained earnings	23	203,893	**223,300**
Treasury shares	23	(285)	**(293)**
Other components of equity	23, 32	2,114	**2,761**
Total equity attributable to owners of parent		226,874	**246,921**
Non-controlling interests		464	**442**
Total equity		227,338	**247,363**
Total liabilities and equity		¥380,399	**¥407,609**

Consolidated Statement of Income

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2021

		Millions of yen	
	Notes	2021	**2022**
Net sales	25	¥ 396,853	**¥ 414,150**
Cost of sales	26	(293,884)	**(305,962)**
Gross profit		102,969	**108,187**
Selling, general and administrative expenses	27	(57,168)	**(60,780)**
Other income	28	205	**315**
Other expenses	28	(128)	**(167)**
Operating profit		45,878	**47,555**
Finance income	29	160	**94**
Finance costs	29	(478)	**(587)**
Share of profit (loss) of investments accounted for using equity method	14	997	**1,252**
Profit before tax		46,557	**48,315**
Income tax expense	30	(13,011)	**(14,816)**
Profit		¥ 33,545	**¥ 33,498**
Profit attributable to			
Owners of parent		¥ 33,435	**¥ 33,470**
Non-controlling interests		110	**28**
Earnings per share (Yen)	31		
Basic earnings per share		¥107.09	**¥107.20**
Diluted earnings per share		107.09	**107.20**

Consolidated Statement of Comprehensive Income

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2021

	Notes	Millions of yen	
		2021	**2022**
Profit		¥33,545	**¥33,498**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans		6,167	**469**
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income		445	**77**
Share of other comprehensive income of investments accounted for using equity method		325	**12**
Total of items that will not be reclassified to profit or loss		6,938	**558**
Items that may be reclassified to profit or loss			
Cash flow hedges		143	**(13)**
Exchange differences on translation of foreign operations		(53)	**892**
Share of other comprehensive income of investments accounted for using equity method		(23)	**9**
Total of items that may be reclassified to profit or loss		67	**888**
Total other comprehensive income, net of tax		7,006	**1,447**
Comprehensive income		¥40,552	**¥34,945**
Comprehensive income attributable to			
Owners of parent		¥40,442	**¥34,917**
Non-controlling interests		109	**28**

Consolidated Statement of Changes in Equity

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2021

	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
		Millions of yen							
Balance at April 1 2020		¥21,152	¥—	¥177,828	¥(281)	¥ 1,347	¥200,047	¥358	¥200,405
Profit		—	—	33,435	—	—	33,435	110	33,545
Other comprehensive income		—	—	—	—	7,007	7,007	(1)	7,006
Comprehensive income		—	—	33,435	—	7,007	40,442	109	40,552
Dividends of surplus	24	—	—	(13,526)	—	—	(13,526)	(54)	(13,581)
Changes in ownership interest in subsidiaries		—	(9)	—	—	—	(9)	50	40
Purchase of treasury shares		—	—	—	(17)	—	(17)	—	(17)
Disposal of treasury shares		—	(4)	—	13	—	8	—	8
Transfer from retained earnings to capital surplus		—	14	(14)	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	6,170	—	(6,170)	—	—	—
Transfer to non-financial assets		—	—	—	—	(69)	(69)	—	(69)
Total transactions with owners		—	—	(7,371)	(4)	(6,239)	(13,615)	(3)	(13,619)
Balance at March 31 2021		21,152	—	203,893	(285)	2,114	226,874	464	227,338
Balance at April 1, 2021		**21,152**	**—**	**203,893**	**(285)**	**2,114**	**226,874**	**464**	**227,338**
Profit		**—**	**—**	**33,470**	**—**	**—**	**33,470**	**28**	**33,498**
Other comprehensive income		**—**	**—**	**—**	**—**	**1,447**	**1,447**	**—**	**1,447**
Comprehensive income		**—**	**—**	**33,470**	**—**	**1,447**	**34,917**	**28**	**34,945**
Dividends of surplus	24	**—**	**—**	**(14,567)**	**—**	**—**	**(14,567)**	**(50)**	**(14,618)**
Changes in ownership interest in subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of treasury shares		**—**	**—**	**—**	**(11)**	**—**	**(11)**	**—**	**(11)**
Disposal of treasury shares		**—**	**(2)**	**—**	**4**	**—**	**2**	**—**	**2**
Transfer from retained earnings to capital surplus		**—**	**2**	**(2)**	**—**	**—**	**—**	**—**	**—**
Transfer from other components of equity to retained earnings		**—**	**—**	**507**	**—**	**(507)**	**—**	**—**	**—**
Transfer to non-financial assets		**—**	**—**	**—**	**—**	**(292)**	**(292)**	**—**	**(292)**
Total transactions with owners		**—**	**—**	**(14,062)**	**(7)**	**(800)**	**(14,870)**	**(50)**	**(14,920)**
Balance at March 31, 2022		**¥21,152**	**¥—**	**¥223,300**	**¥(293)**	**¥ 2,761**	**¥246,921**	**¥442**	**¥247,363**

Consolidated Statement of Cash Flows

SCSK Corporation and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2021

		Millions of yen	
	Notes	2021	**2021**
Cash flows from operating activities			
Profit before tax		¥ 46,557	**¥ 48,315**
Depreciation and amortization		18,433	**19,881**
Impairment losses (reversal of impairment losses)		—	**147**
Finance income		(160)	**(94)**
Finance costs		478	**587**
Share of loss (profit) of investments accounted for using equity method		(997)	**(1,252)**
Decrease (increase) in trade and other receivables		(3,211)	**(4,220)**
Decrease (increase) in contract assets		539	**3,136**
Decrease (increase) in inventories		2,348	**(1,414)**
Increase (decrease) in trade and other payables		(3,049)	**2,832**
Increase (decrease) in contract liabilities		1,974	**(554)**
Increase (decrease) in employee benefits		(1,132)	**(996)**
Increase (decrease) in provisions		(452)	**202**
Other		(3,389)	**(691)**
Subtotal		57,939	**65,877**
Interest and dividends received		395	**384**
Interest paid		(431)	**(506)**
Income taxes refund (paid)		(7,684)	**(6,674)**
Net cash provided by (used in) operating activities		50,219	**59,081**
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,710)	**(10,157)**
Proceeds from sale of property, plant and equipment		68	**8**
Purchase of intangible assets		(4,554)	**(3,927)**
Proceeds from sale of intangible assets		9	**73**
Investments in equity accounted investees		(553)	**(296)**
Purchase of other financial assets		(2,350)	**(683)**
Proceeds from sales and redemptions of other financial assets		313	**268**
Other		(808)	**(213)**
Net cash provided by (used in) investing activities		(20,586)	**(14,927)**
Cash flows from financing activities			
Payments for repayments of loans and redemption of bonds	35	(25,900)	**(25,100)**
Proceeds from long-term debt	35	15,600	**11,500**
Proceeds from issuance of bonds	35	—	**4,972**
Repayments of lease liabilities	35	(8,590)	**(9,086)**
Dividends paid	24	(13,526)	**(14,567)**
Dividends paid to non-controlling interests		(54)	**(50)**
Other		(16)	**(9)**
Net cash provided by (used in) financing activities		(32,488)	**(32,342)**
Effect of exchange rate changes on cash and cash equivalents		(71)	**672**
Net increase (decrease) in cash and cash equivalents		(2,927)	**12,483**
Cash and cash equivalents at beginning of period	6	111,695	**108,768**
Cash and cash equivalents at end of period	6	¥108,768	**¥121,251**

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, 2022 were approved by Representative Director, President and Chief Operating Officer Takaaki Touma on June 23, 2022. Furthermore, the Group's ultimate parent company is Sumitomo Corporation ("the Parent Company").

2. BASIS FOR PRESENTATION

(1) Compliance with IFRS

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

(2) Basis for Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Early Adoption of New Standards

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

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

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

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.

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

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

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

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

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

(2) Business Combinations

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

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

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

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

(3) Foreign Currency Translation

(a) Foreign currency transactions

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

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

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

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

(b) Foreign operations

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

(4) Financial Instruments

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

(a) Non-derivative financial assets

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

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

(i) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

(b) Financial asset impairment

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

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

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

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

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

(c) Non-derivative financial liabilities

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

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

(d) Derivatives and hedge accounting

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

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

Cash flow hedge

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

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

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

(e) Offsetting financial assets and liabilities

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

(7) Property, Plant and Equipment

(a) Recognition and measurement

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

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

(b) Expenditures subsequent to acquisition

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

(c) Depreciation

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

Buildings and structures: 2 to 50 years

Tools, furniture and fixtures: 2 to 15 years

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

(8) Goodwill and Intangible Assets

(a) Goodwill

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

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

(b) Intangible assets

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

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

Internal research expenses are recognized as expenses when they occur.

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

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

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

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

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

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

(9) Leases

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

(Leases as lessee)

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

(Leases as lessor)

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

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

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

(10) Impairment

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

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

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

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

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

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

(11) Employee Benefits

(a) Employee retirement benefits

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

(i) Defined benefit plans

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

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

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

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

(ii) Defined contribution plans

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

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

(b) Short-term employee benefits

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

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

(12) Share-based Payments

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.

(13) Provisions

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

(a) Provision for loss on constructed contracts

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

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

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

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

(b) Asset retirement obligations

Asset retirement obligations are recognized as provisions against asset dismantling and removal costs, site restoration costs, and expenditure arising from use of the asset, and added to the cost of said asset. Future estimated expenses and applied discount rates are reviewed each year, and when revisions are deemed necessary, they are treated as changes in accounting estimates.

(14) Equity

(a) Common stock

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

(b) Treasury shares

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

(c) Dividends

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

(15) Net Sales

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

Step 1: Identify the contract with a customer
Step 2: Identify performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation in the contract
Step 5: Recognize revenue when (or as) each performance obligation is satisfied

Identifying distinct performance obligations in contracts with customers

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

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

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

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

Determining the transaction price

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

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

In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, the Group considers the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. The

Group also considers the combined effect of the expected length of time between when it transfers the promised goods or services to the customer and when the customer pays for those goods or services and the prevailing interest rates in the relevant market. Since the Group expects at contract commencement that the time between the transfer of the goods or services to the customer and the time when the customer pays for those goods or services is within one year, it applies the practical expedient and makes no adjustment for significant financing components.

Allocating the transaction price to performance obligation

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

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

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

Satisfaction of performance obligation

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

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

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

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

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

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

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

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

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

Net Sales on contracts for system development and ongoing system maintenance and operation/services other than the above is recognized by measuring the progress based on the period of services already provided over the entire service period, in principle. Net sales from services billed on a per unit basis is recognized when the services are provided and become billable.

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

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

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

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

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

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

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

(16) Finance Income and Finance Costs

Finance income mainly comprises interest income, dividend income, and gains on derivatives (excluding gains on hedging instruments that are recognized in other comprehensive income). Interest income is recognized as incurred using the effective interest method. Dividend income is recognized as of the date when the Group's right to receive payment is established.

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

(17) Income Taxes

Income taxes comprise current income tax and deferred income taxes.

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

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

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

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

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

(18) Earnings per Share

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

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

(19) Borrowing Costs

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

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

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

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 formulates comprehensive domestic and overseas strategies pertaining to the products and services it offers according to the characteristics of client industries and IT service business areas, and develops businesses in accordance with these strategies.

Based on these business activities, the Company has defined the following six reportable segments: Industrial

IT Business, Financial IT Business, IT Business Solutions, IT Platform Solutions, IT Management Service, and Others.

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

1) Industrial IT Business
This reportable segment provides various IT solutions through systems development and maintenance and operation services for core systems, manufacturing management systems, information management systems, supply chain management (SCM) systems, customer relationship management (CRM) systems, e-commerce systems and other systems. This segment's services leverage the experience and knowhow that we have cultivated over many years. The clients of this segment are primarily companies in the manufacturing, communications, energy, distribution, service, and media industries.

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

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

3) IT Business Solutions
This segment provides a wide range of IT solutions. These solutions include contact center services as well as application management outsourcing (AMO) services that cover the entire system lifecycle, from development and installation to maintenance and operation services, for enterprise resources planning (ERP) and CRM products, such as the segment's internally developed ProActive ERP package, SAP, and Oracle offerings as well as Salesforce. In addition, this segment offers the type of business process outsourcing services that only an IT company can provide. These services merge support performed by human hands with IT.

4) IT Platform Solutions
This segment draws on solid technical capabilities and 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
This segment performs remote development (nearshore development) and provides other services out of Group companies that leverage the characteristics of its regional bases and the software development, system operation and management, system equipment sales, and consulting services it provides for a wide range of industries and business models. The Others business did not meet the quantitative thresholds for reportable segments both in the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022.

(2) Restatement of reportable segments, etc.
In connection with the merger of Minori Solutions Co., Ltd., CSI Solutions Corporation, and WinTechnology Corporation on October 1, 2021, CSI SOLUTIONS Corporation, which was previously included in the IT Platform Solutions segment, and WinTechnology Corporation, which was previously included in the IT Management Service segment, were restated to the Others segment, which includes SCSK Minori Solutions Corporation.

Moreover, in connection with the transfer of Minori Solutions' operations in Kyushu to SCSK KYUSHU Corporation through an absorption-type split on the same date, those operations were reclassified from Others to Industrial IT Business in the reportable segments. Following these segment reclassifications, segment information for the fiscal year ended March 31, 2021, has been restated to reflect these changes in reportable segments.

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

For the fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021)

Millions of yen

	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	Amount recorded in consolidated financial statements
Net sales									
Sales to external customers	¥132,249	¥52,768	¥54,783	¥77,444	¥56,728	¥22,886	¥396,861	¥ (7)	¥396,853
Inter-segment sales (Note 1)	10,223	739	5,523	6,722	16,275	8,942	48,426	(48,426)	—
Total	142,472	53,507	60,306	84,167	73,004	31,829	445,287	(48,434)	396,853
Operating profit (loss)	16,214	6,243	5,583	10,904	6,983	1,936	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

	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments (Note 2)	Amount recorded in consolidated financial statements
Segment assets	¥50,575	¥15,535	¥17,797	¥40,624	¥66,413	¥25,531	¥216,478	¥163,921	¥380,399
Other items									
Depreciation and amortization	2,310	56	778	745	4,491	1,264	9,646	8,787	18,433
Impairment losses on non-financial assets	—	—	—	—	—	—	—	—	—
Investments accounted for using equity method	1,058	—	—	7,747	—	—	8,805	—	8,805
Capital expenditures	2,784	158	2,294	621	10,038	817	16,714	22,258	38,972

Notes: 1. Amounts for inter-segment sales are decided based on price negotiations made with reference to market prices.
2. Adjustments are as follows:
(1) Adjustments to sales to external customers include adjustment to reflect net sales to be in conformity with IFRS. Operating profit 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, etc. related to corporate assets.
(4) Adjustments to capital expenditures represent capital expenditures, etc. related to corporate assets such as the head office building.

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

	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	**¥135,768**	**¥56,526**	**¥56,872**	**¥83,969**	**¥58,477**	**¥22,713**	**¥414,328**	**¥ (177)**	**¥414,150**
Inter-segment sales (Note 1)	**10,480**	**666**	**6,021**	**6,558**	**17,734**	**11,118**	**52,579**	**(52,579)**	**—**
Total	**146,248**	**57,193**	**62,894**	**90,527**	**76,211**	**33,831**	**466,907**	**(52,756)**	**414,150**
Operating profit (loss)	**16,676**	**6,653**	**5,559**	**11,884**	**7,412**	**1,599**	**49,787**	**(2,232)**	**47,555**
Finance income									**94**
Finance costs									**(587)**
Share of profit (loss) of investments accounted for using equity method									**1,252**
Profit before tax									**¥ 48,315**

	Millions of yen								
	Reportable Segment								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)	
Segment assets	**¥50,682**	**¥14,931**	**¥21,419**	**¥44,243**	**¥73,470**	**¥24,556**	**¥229,304**	**¥178,305**	**¥407,609**
Other items									
Depreciation and amortization	**2,224**	**67**	**1,143**	**724**	**4,593**	**1,185**	**9,938**	**9,942**	**19,881**
Impairment losses on non-financial assets	**147**	**—**	**—**	**—**	**—**	**—**	**147**	**—**	**147**
Investments accounted for using equity method	**1,668**	**—**	**—**	**8,508**	**—**	**—**	**10,177**	**—**	**10,177**
Capital expenditures	**1,234**	**226**	**2,740**	**659**	**7,480**	**1,069**	**13,410**	**12,298**	**25,708**

Notes: 1. Amounts for inter-segment sales are decided based on price negotiations made with reference to market prices.
2. Adjustments are as follows:
(1) Sales to external customers represent a part of adjustment to reflect net sales as defined by IFRS. Operating profit (loss) is comprised of ¥(3,152) million in general corporate expenses that have not been allocated to the reportable segments and a ¥920 million adjustment to reflect net sales as defined by IFRS.
(2) Adjustments to segment assets are corporate assets, etc. that are not allocated to each reportable segment.
(3) Adjustments to depreciation and amortization are depreciation and amortization, etc. related to corporate assets.
(4) Adjustments to capital expenditures represent capital expenditures related to corporate assets such as buildings.

(4) Information about products and services

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

(5) Information about geographical areas

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

(6) Information about major customers

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

6. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents on the consolidated statements of financial position as of March 31, 2021 and March 31, 2022 and the balance of cash and cash equivalents on the consolidated statements of cash flows are identical. Cash and cash equivalents are classified as financial assets measured at amortized cost.

7. 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	2021	**2022**
Notes and accounts receivable – trade	¥68,177	**¥72,252**
Accounts receivable – other	1,385	**1,746**
Leasehold and guarantee deposits	8,000	**7,683**
Allowance for doubtful accounts	(46)	**(38)**
Other	920	**629**
Total	¥78,437	**¥82,272**
Current assets	¥69,855	**¥74,259**
Non-current assets	8,581	**8,012**
Total	¥78,437	**¥82,272**

8. INVENTORIES

The breakdown of inventories is as follows:

	Millions of yen	
As of March 31	2021	**2022**
Merchandise	¥7,566	**¥8,961**
Supplies	144	**164**
Total	¥7,710	**¥9,125**

Note: The amounts of inventories recognized as expenses and included in cost of sales were ¥59,574 million and ¥60,807 million in the fiscal years ended March 31, 2021 and 2022, respectively. The amounts of write-downs of inventories recorded in cost of sales were ¥22 million in the fiscal year ended March 31, 2021 and ¥6 million in the fiscal year ended March 31, 2022.

9. OTHER ASSETS

The breakdown of other assets is as follows:

As of March 31	Millions of yen 2021	2022
Prepaid expenses	¥10,860	**¥13,403**
Long-term prepaid expenses	1,500	**1,272**
Retirement benefit asset	3,620	**6,773**
Other	1,836	**833**
Total	¥17,818	**¥22,282**
Current assets	¥12,686	**¥14,231**
Non-current assets	5,131	**8,050**
Total	¥17,818	**¥22,282**

10. PROPERTY, PLANT AND EQUIPMENT

(1) Reconciliation and Breakdown

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

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

1) Cost

	Millions of yen					
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
As of April 1, 2020	¥51,309	¥24,450	¥8,863	¥ 4,745	¥11	¥ 89,380
Acquisition	5,192	1,967	—	6,073	—	13,233
Disposal	(366)	(775)	(34)	—	—	(1,176)
Transfers	3,885	61	—	(3,946)	—	—
Other increase or decrease	528	2	—	(1,136)	0	(605)
As of March 31, 2021	60,549	25,705	8,829	5,736	11	100,832
Acquisition	**3,435**	**2,174**	**—**	**5,424**	**2**	**11,037**
Disposal	**(1,166)**	**(1,822)**	**—**	**—**	**(1)**	**(2,990)**
Transfers	**476**	**510**	**—**	**(987)**	**—**	**—**
Other increase or decrease	**808**	**80**	**—**	**(309)**	**0**	**580**
As of March 31, 2022	**¥64,103**	**¥26,649**	**¥8,829**	**¥ 9,863**	**¥14**	**¥109,459**

2) Accumulated depreciation and impairment losses

	Millions of yen					
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
As of April 1, 2020	¥(13,402)	¥(14,420)	¥(1)	¥—	¥ (9)	¥(27,833)
Depreciation	(3,714)	(2,939)	—	—	(0)	(6,654)
Disposal	319	747	—	—	—	1,067
Other increase or decrease	(62)	(3)	—	—	(0)	(66)
As of March 31, 2021	(16,858)	(16,616)	(1)	—	(10)	(33,486)
Depreciation	**(4,020)**	**(2,952)**	**—**	**—**	**(1)**	**(6,974)**
Impairment losses	**—**	**(3)**	**—**	**—**	**—**	**(3)**
Disposals	**1,128**	**1,786**	**—**	**—**	**1**	**2,916**
Other increase or decrease	**(6)**	**(51)**	**—**	**—**	**(0)**	**(58)**
As of March 31, 2022	**¥(19,757)**	**¥(17,837)**	**¥(1)**	**¥—**	**¥(11)**	**¥(37,606)**

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

3) Carrying amounts

	Millions of yen					
	Buildings and structures	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
As of April 1, 2020	¥37,907	¥10,029	¥8,862	¥4,745	¥1	¥61,546
As of March 31, 2021	43,690	9,089	8,828	5,736	1	67,345
As of March 31, 2022	**44,346**	**8,811**	**8,828**	**9,863**	**2**	**71,853**

11. 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				
	Goodwill	Software	Customer-related assets	Other	Total
As of April 1, 2020	¥7,504	¥61,061	¥10,405	¥322	¥79,294
Additions	—	2,010	—	1	2,011
Acquisitions through internal development	—	2,554	—	—	2,554
Disposals	—	(8,391)	—	—	(8,391)
Other increase or decrease	—	93	—	(1)	92
As of March 31, 2021	7,504	57,328	10,405	322	75,561
Additions	**—**	**2,137**	**—**	**4**	**2,141**
Acquisitions through internal development	**—**	**1,653**	**—**	**—**	**1,653**
Disposals	**—**	**(1,690)**	**—**	**(1)**	**(1,691)**
Other increase or decrease	**—**	**204**	**—**	**0**	**204**
As of March 31, 2022	**¥7,504**	**¥59,632**	**¥10,405**	**¥326**	**¥77,869**

2) Accumulated depreciation and impairment losses

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
As of April 1, 2020	¥—	¥(53,754)	¥ (130)	¥(166)	¥(54,051)
Depreciation	—	(2,941)	(520)	(1)	(3,462)
Disposals	—	8,351	—	—	8,351
Other increase or decrease	—	(10)	—	1	(9)
As of March 31, 2021	—	(48,354)	(650)	(167)	(49,171)
Depreciation	**—**	**(3,147)**	**(520)**	**(0)**	**(3,668)**
Impairment losses	**—**	**(143)**	**—**	**—**	**(143)**
Disposals	**—**	**1,604**	**—**	**0**	**1,604**
Other increase or decrease	**—**	**4**	**—**	**—**	**4**
As of March 31, 2022	**¥—**	**¥(50,036)**	**¥(1,170)**	**¥(167)**	**¥(51,374)**

3) Carrying amounts

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
As of April 1, 2020	¥7,504	¥7,306	¥10,274	¥155	¥25,242
As of March 31, 2021	7,504	8,974	9,754	155	26,389
As of March 31, 2022	**7,504**	**9,596**	**9,234**	**159**	**26,495**

Notes: 1. Depreciation and impairment losses of intangible assets are included in cost of sales and selling, general and administrative expenses on the consolidated statements of income.
2. The carrying amounts of internally generated intangible assets related to software were ¥7,079 million and ¥7,838 million as of March 31, 2021 and March 31, 2022, respectively.

(2) Research and Development Expenses

Research and development expenses recognized on the consolidated statements of income were ¥874 million in the fiscal year ended March 31, 2021 and ¥1,097 million in the fiscal year ended March 31, 2022.

12. LEASES

(1) Leases as Lessee

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

Other than offices, the Group leases IT equipment and related items. The lease term for IT equipment and related items is 1 to 9 years. Some of these contracts include leases with options that allow the Group to purchase the underlying asset at the expiration of the lease term. In some leases, the Group guarantees the residual value of the leased asset at the expiration of the lease term.

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

The breakdown of right-of-use assets on March 31, 2021 and March 31, 2022 is as follows:

	Millions of yen	
As of March 31	2021	**2022**
Class of underlying assets		
Buildings and structures	¥38,445	**¥40,687**
Tools, furniture and fixtures	788	**634**
Other	120	**112**
Total	¥39,353	**¥41,434**

The increase in right-of-use assets, expenses related to leases, and cash outflows in the fiscal years ended March 31, 2021 and 2022 are as follows:

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Depreciation of right-of-use assets		
Buildings and structures as underlying assets	¥ 7,889	**¥ 8,880**
Tools, furniture and fixtures as underlying assets	415	**349**
Others as underlying assets	12	**8**
Total depreciation of right-of-use assets	8,316	**9,238**
Interest on lease liabilities	354	**433**
Variable lease payments that are not included in the measurement of lease liabilities	—	**—**
Expenses relating to short-term leases	263	**351**
Expenses relating to leases of low-value assets	1,980	**1,937**
Income from subleases	—	**—**
Gains or losses on sale and leaseback transactions	—	**—**
Cash outflows related to leases	11,188	**11,809**
Increase in right-of-use assets	21,557	**11,235**

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

(2) Leases as Lessor

• Operating leases

The Group leases some of the real estate it owns to third parties. The Group classifies these leases as operating leases because not all the risks and rewards incidental to ownership of the underlying assets are substantially transferred. As of March 31, 2021 and March 31, 2022, the cost of lease assets was ¥1,868 million and ¥2,010 million, respectively, and the total of depreciation and accumulated impairment losses was ¥57 million and ¥133 million, respectively. These amounts are included in property, plant and equipment on the consolidated statements of financial position.

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

The following table shows a maturity analysis of future undiscounted lease payments to be received related to operating leases as of March 31, 2021 and March 31, 2022.

	Millions of yen	
As of March 31	2021	**2022**
Within 1 year	¥1,687	**¥2,236**
1 year to 2 years	2,060	**1,997**
2 years to 3 years	1,847	**1,312**
3 years to 4 years	1,230	**181**
4 years to 5 years	102	**78**
More than 5 years	—	**96**
Total	¥6,928	**¥5,902**

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

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

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

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

In addition, the discount rate used to calculate the value in use is determined to be 13.4% based on the pre-tax weighted average cost of capital.

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

As of March 31, 2022, the recoverable amount of SCSK Minori Solutions Corporation exceeded the carrying amount by ¥5,485 million. However, impairment losses could arise in the case where the pre-tax weighted average cost of capital increases by 4.1%.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The Group has no individually material associates.

Individually immaterial associates

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

	Millions of yen	
As of March 31	2021	**2022**
Carrying amount of interests	¥8,805	**¥10,177**

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
The Group's share		
Profit	¥ 997	**¥1,252**
Other comprehensive income	302	**21**
Comprehensive income	1,300	**1,274**

15. OTHER FINANCIAL ASSETS

(1) Breakdown of Other Financial Assets

The breakdown of other financial assets is as follows:

	Millions of yen	
As of March 31	2021	**2022**
Items classified as financial assets measured at fair value through profit and loss		
Debt securities		
Bonds	¥1,205	**¥1,202**
Investment	771	**849**
Equity securities	1,484	**2,019**
Derivative assets	140	**—**
Other	223	**223**
Items classified as financial assets measured at fair value through other comprehensive income		
Equity securities	5,231	**5,068**
Total	¥9,056	**¥9,362**
Current assets	¥ 220	**¥1,082**
Non-current assets	8,835	**8,280**
Total	¥9,056	**¥9,362**

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

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

	Millions of yen	
As of March 31	2021	**2022**
Stock		
ATLED Corp.	¥1,364	**¥1,369**
Nissay Information Technology Co., Ltd.	977	**1,014**
MicroAd, Inc.	999	**999**
Yakult Honsha Co., Ltd.	593	**691**
Quest Co., Ltd.	388	**360**
Daiwa Computer Co., Ltd.	327	**312**
Sumitomo Mitsui Trust Holdings, Inc.	134	**—**
Shin-nihon Computer Management Co., Ltd.	104	**118**
Other	341	**201**
Total	¥5,231	**¥5,068**

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

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

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

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Fair value at the time of sale	¥13	**¥266**
Cumulative gain (loss)	2	**85**

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."

16. TRADE AND OTHER PAYABLES

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

	Millions of yen	
As of March 31	2021	**2022**
Accounts payable – trade	¥22,282	**¥24,856**
Accounts payable	5,692	**6,442**
Deposits received	1,344	**1,324**
Other	349	**173**
Total	¥29,669	**¥32,797**
Current liabilities	¥29,465	**¥32,628**
Non-current liabilities	203	**169**
Total	¥29,669	**¥32,797**

17. BONDS AND BORROWINGS

(1) Breakdown of Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

As of March 31	Millions of yen 2021	**2022**	Average interest rate (%)	Maturity
Current portion of bonds payable	¥ 9,992	**¥ 9,996**	0.14	—
Bonds payable	19,963	**14,962**	0.14	—
Short-term borrowings	15,100	**7,000**	0.11	—
Current portion of long-term borrowings	—	**—**	—	—
Long-term borrowings except current portion	—	**4,500**	0.09	September 2023
Total	¥45,056	**¥36,459**	—	—
Current liabilities	¥25,092	**¥16,996**	—	—
Non-current liabilities	19,963	**19,462**	—	—
Total	¥45,056	**¥36,459**	—	—

Notes: 1. The average interest rates represent weighted average interest rates relative to the year-end balance of borrowings.
2. For maturity, please refer to (2) Details of Bonds.

(2) Details of Bonds

Details of bonds by issue are as follows:

As of March 31	Balance at Millions of yen 2021	**2022**
—% unsecured bonds (maturity period: from December 15, 2016 to December 15, 2021)	¥ 9,992 (9,992)	**¥ — (—)**
0.14% unsecured bonds (maturity period: from July 21, 2017 to July 21, 2022)	9,987	**9,996 (9,996)**
0.14% unsecured bonds (maturity period: from September 14, 2018 to September 14, 2023)	9,976	**9,985**
0.14% unsecured bonds (maturity period: from June 8, 2021 to June 8, 2026)	—	**4,976**
Total	¥29,956 (9,992)	**¥24,959 (9,996)**

Note: Figures in parentheses in the as of March 31, 2021 and 2022 columns represent amounts scheduled to be repaid within one year.

18. OTHER FINANCIAL LIABILITIES

The breakdown of other financial liabilities is as follows:

As of March 31	Millions of yen 2021	**2022**
Items classified as financial liabilities measured at fair value through profit and loss		
Derivative liabilities	¥—	**¥297**
Total	¥—	**¥297**
Current liabilities	¥—	**¥297**
Non-current liabilities	—	**—**
Total	¥—	**¥297**

19. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	Millions of yen	
As of March 31	2021	**2022**
Accrued consumption taxes	¥4,062	**¥4,736**
Accrued expenses	43	**186**
Other	1,259	**1,461**
Total	¥5,364	**¥6,384**
Current liabilities	¥5,293	**¥6,313**
Non-current liabilities	70	**70**
Total	¥5,364	**¥6,384**

20. EMPLOYEE BENEFITS

(1) Employee Retirement Benefits

1) Outline of benefit plans

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

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

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

2) Defined benefit plans

a) Amounts recognized in the consolidated statements of financial position

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

	Millions of yen	
As of March 31	2021	**2021**
Present value of funded retirement benefit obligations (with plan assets)	¥ 80,004	**¥ 80,738**
Fair value of plan assets	(85,424)	**(87,511)**
Funded status	(5,420)	**(6,773)**
Present value of unfunded retirement benefit obligations (without plan assets)	1,800	**1,948**
Total net defined benefit liability (asset) recognized in the consolidated statement of financial position	¥ (3,620)	**¥ (4,824)**
Employee benefits (non-current liabilities)	¥ —	**¥ 1,948**
Other non-current assets	(3,620)	**(6,773)**

b) Net defined benefit liabilities

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

	Millions of yen		
	Present value of defined benefit obligations	Plan assets	Net defined benefit liability (assets)
Balance at April 1, 2020	¥80,958	¥75,147	¥ 5,810
Current service cost	3,316	—	3,316
Interest cost (income)	490	453	37
Benefits paid	(2,899)	(2,797)	(101)
Employer contributions	—	3,508	(3,508)
Remeasurements of net defined benefit liability			
Actuarial differences (demographic assumptions)	(78)	—	(78)
Actuarial differences (financial assumptions)	(1,750)	—	(1,750)
Experience adjustment	1,528	—	1,528
Return on plan assets	—	9,112	(9,112)
Prior service cost	95	—	95
Other changes	143	—	143
Balance at March 31, 2021	81,804	85,424	(3,620)
Current service cost	**3,281**	**—**	**3,281**
Interest cost (income)	**533**	**563**	**(29)**
Benefits paid	**(2,684)**	**(2,549)**	**(135)**
Employer contributions	**—**	**3,618**	**(3,618)**
Remeasurements of net defined benefit liability			
Actuarial differences (demographics assumptions)	**811**	**—**	**811**
Actuarial differences (financial assumptions)	**(1,567)**	**—**	**(1,567)**
Experience adjustment	**526**	**—**	**526**
Return on plan assets	**—**	**455**	**(455)**
Prior service cost	**(192)**	**—**	**(192)**
Other changes	**173**	**—**	**173**
Balance at March 31, 2022	**¥82,686**	**¥87,511**	**¥(4,824)**

c) Fair value by plan asset grouping

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

	Millions of yen					
	2021			**2022**		
	Quoted market price in an active market			Quoted market price in an active market		
As of March 31	Available	Unavailable	Total	Available	Unavailable	Total
Cash and cash equivalents	¥5,187	¥ —	¥ 5,187	**¥1,955**	**¥ —**	**¥ 1,955**
Investment trust beneficiary certificates	—	63,161	63,161	**—**	**65,322**	**65,322**
Life insurance company general accounts	—	6,723	6,723	**—**	**6,847**	**6,847**
Others	—	10,353	10,353	**—**	**13,385**	**13,385**
Total	¥5,187	¥80,237	¥85,424	**¥1,955**	**¥85,556**	**¥87,511**

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 75% investment trust beneficiary certificates (of which, 28% are equities and 47% are public and corporate bonds), 8% assets in life insurance company general account, and 17% 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 ¥3,827 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	2021	**2022**
Discount rate (%)	0.66	**0.82**
Rate of salary increase (%)	3.40	**3.50**

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, 2021 and as of March 31, 2022, 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.

	Millions of yen	
As of March 31	2021	**2022**
Discount rate (%)	0.66	**0.82**
In the event of a 0.5% increase	(5,173)	**¥(5,231)**
In the event of a 0.5% decline	5,740	**5,810**

f) Maturity structure of defined benefit plans

The weighted average duration of the defined benefit obligation was 14 years and 15 years as of March 31, 2021 and 2022, respectively.

3) Defined contribution plans

Expenses associated with amounts contributed to the defined contribution plans were ¥1,542 million and ¥1,586 million for the fiscal years ended March 31, 2021 and 2022, 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:

	Millions of yen	
As of March 31	2021	**2022**
Employee benefits (current liabilities)	¥10,985	**¥10,540**
Employee benefits (non-current liabilities)	7	**7**

(3) Employee Benefit Expenses
For the fiscal years ended March 31, 2021 and 2022, 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 ¥124,920 million and ¥128,315 million, respectively. The employee benefit expenses primarily consist of salaries and bonuses, legal welfare expenses, and retirement benefit expenses.

21. 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.

(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 49,200 shares	Common stock 68,700 shares	Common stock 93,300 shares	Common stock 136,200 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

Note: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021. Accordingly, the number of granted stock options has been restated to reflect the converted figures after the stock split.

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

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	1,800	¥ 1	3,900	¥ 1	15,900	¥ 1	51,300	¥ 1
Granted	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	(5,400)	1	(11,400)	1
Expired	—	—	—	—	—	—	—	—
Outstanding at March 31, 2021	1,800	1	3,900	1	10,500	1	39,900	1
Exercisable at March 31, 2021	—	¥—	—	¥—	—	¥—	24,000	¥ 1

For the fiscal year ended March 31, 2022

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

The weighted average share prices at the date of exercise for stock options exercised during the fiscal year ended March 31, 2021 were ¥1,834 and ¥2,190 with respect to the 6th Grant and 8th Grant of stock options, respectively. The weighted average share prices at the date of exercise for stock options exercised during the fiscal year ended March 31, 2022 were ¥2,074 for the 8th Grant of stock options.

As of March 31, 2022, the weighted average remaining contractual life of the outstanding stock options was 8.9 years and 7.9 years for the fiscal years ended March 31, 2021 and 2022, respectively.

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

22. 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, 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
Additional provisions during the year	**259**	**828**	**1,088**
Decrease during the period (intended use)	**(57)**	**(422)**	**(480)**
Decrease during the period (reversal)	**—**	**—**	**—**
Unwind of discount	**—**	**22**	**22**
Translation gains and losses	**—**	**0**	**0**
As of March 31, 2022	**¥ 260**	**¥4,080**	**¥4,340**

	Millions of yen	
As of March 31	2021	**2022**
Current liabilities	¥ 429	**¥ 278**
Non-current liabilities	3,279	**4,061**
Total	¥3,709	**¥4,340**

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

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

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

(a) Provision for loss on construction contracts

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

The amount of the provision for loss on construction contracts was ¥260 million as of the end of the current fiscal year.

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

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

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

(b) Asset retirement obligations

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

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

23. 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)	
For the fiscal year ended March 31	2021	**2022**
Authorized shares	200,000,000	**600,000,000**
Issued shares		
Beginning of the year:	104,181,803	**104,181,803**
Changes during the year (Notes)	—	**208,363,606**
End of the year:	104,181,803	**312,545,409**

Notes: 1. The total number of authorized shares increased from 200,000,000 to 600,000,000 in accordance with a change in the Articles of Incorporation following a stock split implemented with an effective date of October 1, 2021 based on approval by the Board of Directors on July 30, 2021.
2. The Company implemented a three-for-one stock split of common stock with an effective date of October 1, 2021. As a result, the total number of issued shares increased from 104,181,803 to 312,545,409.

	Treasury stock (Common stock) (Shares)	
For the fiscal year ended March 31	2021	**2022**
Beginning of the year:	128,562	**125,727**
Changes during the year (Notes)	(2,835)	**251,110**
End of the year:	125,727	**376,837**

Notes: 1. The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.
2. Changes in the number of treasury shares during the fiscal year
At March 31, 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 stock options: 5,600 shares
At March 31, 2022
The increase in the number of treasury shares was due to the following:
Stock split: 251,454 shares
Purchases of less-than-one-unit shares: 5,383 shares
The decrease in the number of treasury shares was due to the following:
Disposals of less-than-one-unit shares: 927 shares
Exercise of stock options: 4,800 shares

(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.

24. DIVIDENDS

(1) Dividend Payments

For the fiscal year ended March 31, 2021

Approved by	Types of shares	Total amount of dividends Millions of yen	Dividends per share Yen	Record date	Effective date
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.

For the fiscal year ended March 31, 2022

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

Notes: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.
Dividends per share approved by the Board of Directors on October 29, 2021 reflect the amount before the stock split.

(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, 2021

Approved by	Types of shares	Source of funds	Total amount of dividends Millions of yen	Dividends per share Yen	Record date	Effective date
Board Meeting held on April 28, 2021	Common stock	Retained earnings	¥7,283	¥70.00	March 31, 2021	June 2, 2021

For the fiscal year ended March 31, 2022

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

Notes: The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.
Dividends per share approved by the Board of Directors on April 28, 2022 reflect the amount after the stock split.

25. NET SALES

(1) Disaggregation of Net Sales

Net sales are disaggregated based on principal service categories. The relationship between disaggregated net sales and the respective reportable segments is as follows. From the 3rd quarter, the Company has revised its classification method for reportable segments. Accordingly, segment information for the fiscal year ended March 31, 2021 has been restated to reflect information prepared based on the revised classification method.

For the fiscal year ended March 31, 2021

	Millions of yen								
	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments	Total
Systems Development	¥ 75,781	¥46,127	¥13,887	¥ 3,508	¥12,397	¥12,018	¥163,720	¥(630)	¥163,090
System Maintenance and Operation/Services	50,608	5,037	37,505	13,247	39,541	6,636	152,577	(58)	152,518
Packaged Software/ Hardware Sales	5,859	1,603	3,390	60,688	4,789	4,231	80,562	681	81,243
Total	¥132,249	¥52,768	¥54,783	¥77,444	¥56,728	¥22,886	¥396,861	¥ (7)	¥396,853
Net sales recognized from contracts with customers	¥132,249	¥52,768	¥54,783	¥77,444	¥55,659	¥22,886	¥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 are due mainly to lease income (operating leases) in accordance with IFRS 16, and are included in "System Maintenance and Operation/Services" in the disaggregated information of major service categories.
3. Of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 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).

For the fiscal year ended March 31, 2022

	Millions of yen								
	Reportable Segment								
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total	Adjustments	Total
Systems Development	**¥ 77,371**	**¥48,676**	**¥14,381**	**¥ 3,246**	**¥11,719**	**¥12,572**	**¥167,967**	**¥ —**	**¥167,967**
System Maintenance and Operation/Services	**53,753**	**5,689**	**40,446**	**13,812**	**42,688**	**6,016**	**162,407**	**—**	**162,407**
Packaged Software/ Hardware Sales	**4,643**	**2,160**	**2,044**	**66,910**	**4,070**	**4,124**	**83,954**	**(177)**	**83,776**
Total	**¥135,768**	**¥56,526**	**¥56,872**	**¥83,969**	**¥58,477**	**¥22,713**	**¥414,328**	**¥(177)**	**¥414,150**
Net sales recognized from contracts with customers	**¥135,768**	**¥56,526**	**¥56,872**	**¥83,969**	**¥56,720**	**¥22,713**	**¥412,571**	**¥(177)**	**¥412,393**
Net sales recognized from other sources*2	**—**	**—**	**—**	**—**	**1,757**	**—**	**1,757**	**—**	**1,757**

Notes: 1. Figures are stated after eliminations of intercompany transactions.
2. Net sales recognized from other sources are due mainly to lease income (operating leases) in accordance with IFRS 16, and are included in "System Maintenance and Operation/Services" in the disaggregated information of major service categories.
3. Of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2022 was ¥10,599 million (of which ¥10,253 million was recognized in the fiscal year ended March 31, 2022 and ¥345 million was recognized in prior fiscal years).

(2) Contract Balances

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

	Millions of yen	
As of March 31	2021	**2022**
Receivables from contracts with customers	¥68,177	**¥72,252**
Allowance for doubtful accounts	(46)	**(38)**
Contract assets	13,224	**10,104**
Contract liabilities	14,589	**14,037**
Net sales recognized which were included in contract liability balances at the beginning of the period	7,887	**8,514**

Note: There is no significance in the amount of net sales recognized from performance obligations satisfied in the past periods in the fiscal years ended March 31, 2021 and 2022.

(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, 2022 is as follows.

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

	Millions of yen	
As of March 31	2021	**2022**
Within 1 year	¥150,837	**¥164,538**
More than 1 year	38,920	**43,959**
Total	¥189,757	**¥208,498**

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

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

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

26. COST OF SALES

The breakdown of cost of sales is as follows:

For the fiscal year ended March 31	Millions of yen 2021	2022
Employee benefit expenses	¥ 92,680	**¥ 95,076**
Outsourcing costs	115,900	**120,617**
Commodity cost	59,574	**60,807**
Depreciation and amortization	13,019	**14,226**
Impairment losses	—	**147**
Others	12,709	**15,086**
Total	¥293,884	**¥305,962**

27. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

For the fiscal year ended March 31	Millions of yen 2021	2022
Employee benefit expenses	¥32,239	**¥33,238**
Computer and related expenses	1,826	**1,853**
Depreciation and amortization	5,413	**5,652**
Outsourcing expenses	2,940	**3,401**
Taxes and dues	3,620	**3,762**
Education and book research expenses	1,422	**1,602**
Advertising expenses	1,167	**1,511**
Others	8,537	**9,758**
Total	¥57,168	**¥60,780**

28. OTHER INCOME AND EXPENSES

(1) Other Income

The breakdown of other income is as follows:

For the fiscal year ended March 31	Millions of yen 2021	2022
Gain on sale of fixed assets	¥ 0	**¥ 3**
Others	205	**311**
Total	¥205	**¥315**

(2) Other Expenses

The breakdown of other expenses is as follows:

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Foreign exchange loss	¥ 15	**¥ 49**
Loss on sale of fixed assets	30	**10**
Loss on retirement of fixed assets	47	**71**
Others	34	**35**
Total	¥128	**¥167**

29. FINANCE INCOME AND FINANCE COSTS

(1) Finance Income

The breakdown of finance income is as follows:

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Interest income based on the effective interest method		
Financial assets measured at amortized cost	¥ 41	**¥40**
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	45	**44**
Dividends received from financial assets derecognized during the period	—	**8**
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	73	**0**
Total	¥160	**¥94**

(2) Finance Costs

The breakdown of finance costs is as follows:

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Interest cost based on the effective interest method		
Financial liabilities measured at amortized cost	¥453	**¥502**
Asset retirement obligations	21	**22**
Loss from valuation and realization of fair value		
Financial assets measured at fair value through profit and loss	3	**62**
Total	¥478	**¥587**

30. INCOME TAX

(1) Deferred Tax Assets and Deferred Tax Liabilities

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

For the fiscal year ended March 31, 2021

	Millions of yen					
	As of Apr. 1, 2020	Recognized through profit or loss	Recognized through other comprehensive income	Recognized directly in equity	Other (Note)	As of Mar. 31, 2021
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 accounted for using 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

For the fiscal year ended March 31, 2022

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

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

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

	Millions of yen	
As of March 31	2021	2022
Deferred tax assets	¥3,432	¥3,249
Deferred tax liabilities	—	—
Net amount	¥3,432	¥3,249

The following presents deductible temporary differences, tax losses carried forward, and tax credits carried forward for which no deferred tax asset has been recognized as of March 31, 2021 and 2022. Deductible temporary differences, tax losses carried forward, and tax credits carried forward are presented on a tax basis.

	Millions of yen	
As of March 31	2021	2022
Deductible temporary differences	¥ 713	¥ 386
Tax losses carried forward		
Carry within 5 years	177	241
Carry over 5 years to 10 years	403	448
Tax credits carried forward	—	—
Total	¥1,293	¥1,076

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

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

	Millions of yen	
As of March 31	2021	**2022**
Total amount of temporary differences associated with investments in subsidiaries, branches, associates and joint ventures	¥6,035	**¥7,222**

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

(2) Income Tax Expense

The breakdown of income tax expense was as follows:

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Current tax expense	¥ 7,088	**¥14,712**
Deferred tax expense		
Decrease (increase) in temporary differences	954	**(1)**
Use of tax losses which were previously recognized	4,969	**105**
Total deferred tax expense	5,923	**103**
Total income tax expense	¥13,011	**¥14,816**

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 insignificant.

(3) Reconciliation of Statutory Tax Rate

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

For the fiscal year ended March 31	2021	**2022**
Statutory tax rate	30.6%	**30.6%**
(Adjustments)		
Expenses not deductible for income tax purposes	0.3	**0.1**
Share of profit of equity-accounted investees	(0.7)	**(0.7)**
Valuation allowance	0.2	**0.1**
Tax credit	(2.9)	**(0.2)**
Other	0.4	**0.7**
Average actual tax rate	27.9	**30.6**

Note: The Company was subject to a 30.6% statutory tax rate in the fiscal year ended March 31, 2021, and a 30.6% statutory tax rate in the fiscal year ended March 31, 2022, 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.

31. EARNINGS PER SHARE

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

For the fiscal year ended March 31	Millions of yen 2020	**2021**
Basis of calculating basic earnings per share		
Profit attributable to owners of parent	¥33,435	**¥33,470**
Profit not attributable to owners of parent	—	**—**
Profit used for calculating basic earnings per share	33,435	**33,470**
Average number of common shares during the period (Shares)	312,229,768	**312,221,214**
Basic earnings per share (Yen)	¥107.09	**¥107.20**
Basis of calculating diluted earnings per share		
Profit used for calculating basic earnings per share	¥33,435	**¥33,470**
Adjustment	—	**—**
Profit used for calculating diluted earnings per share	33,435	**33,470**
Average number of common shares during the period (Shares)	312,229,768	**312,221,214**
Increased number of common shares due to subscription rights to shares (Shares)	—	**—**
Average number of diluted shares outstanding during the period (Shares)	312,229,768	**312,221,214**
Diluted earnings per share (Yen)	¥107.09	**¥107.20**

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

32. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME

(1) Other Components of Equity

For the fiscal years ended March 31, 2021 and 2022, components of and changes in other components of equity were as follows:

	Millions of yen				
	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Cash flow hedge	Remeasurements of defined benefit liabilities (assets)	Exchange differences on translation of foreign operations	Total
As of April 1, 2020	¥1,343	¥ 23	¥ —	¥ (19)	¥ 1,347
Other comprehensive income	774	143	6,164	(76)	7,006
Transfer to non-controlling interests	1	—	—	—	1
Transfer to non-financial assets	—	(69)	—	—	(69)
Transfer to retained earnings	(6)	—	(6,164)	—	(6,170)
As of March 31, 2021	2,112	97	—	(95)	2,114
Other comprehensive income	**51**	**(13)**	**507**	**902**	**1,447**
Transfer to non-controlling interests	**—**	**—**	**—**	**—**	**—**
Transfer to non-financial assets	**—**	**(292)**	**—**	**—**	**(292)**
Transfer to retained earnings	**(0)**	**—**	**(507)**	**—**	**(507)**
As of March 31, 2022	**¥2,163**	**¥(208)**	**¥ —**	**¥806**	**¥ 2,761**

(2) Other Comprehensive Income

For the fiscal years ending March 31, 2021 and 2022, components of other comprehensive income and related tax effect amounts, as well as reclassification adjustments to profit or loss, are as follows:

	Millions of yen	
For the fiscal year ended March 31	2021	**2022**
Net change in fair value of equity instruments measured at fair value through other comprehensive income		
Arising during the year	¥ 782	**¥ 78**
Reclassification adjustment to net income	—	**—**
Before tax effect adjustment	782	**78**
Tax effect	(336)	**(1)**
Net-of-tax amount	445	**77**
Cash flow hedge		
Arising during the year	207	**(18)**
Reclassification adjustment to net income	—	**—**
Before tax effect adjustment	207	**(18)**
Tax effect	(63)	**5**
Net-of-tax amount	143	**(13)**
Remeasurements of defined benefit liabilities (assets)		
Arising during the year	9,413	**676**
Reclassification adjustment to net income	—	**—**
Before tax effect adjustment	9,413	**676**
Tax effect	(3,246)	**(207)**
Net-of-tax amount	6,167	**469**
Exchange differences on translation of foreign operations		
Arising during the year	(60)	**895**
Reclassification adjustment to net income	—	**—**
Before tax effect adjustment	(60)	**895**
Tax effect	7	**(2)**
Net-of-tax amount	(53)	**892**
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	302	**21**
Reclassification adjustment to net income	—	**—**
Net-of-tax amount	302	**21**
Total other comprehensive income	¥ 7,006	**¥1,447**

33. 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	2021	**2022**
Equity attributable to owners of parent per share (Notes 1, 4) (Yen)	¥726.77	**¥790.86**
Equity ratio (Note 2) (%)	59.6	**60.6**
Return on equity (Note 3) (%)	15.7	**14.1**

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.
4. The Company implemented a three-for-one stock split of its common stock with an effective date of October 1, 2021.
Equity attributable to owners of the parent per share has been calculated assuming the stock split was implemented at the beginning of the fiscal year ended March 31, 2021.

The Group is not subject to any significant capital restrictions.

(2) Financial Risk Management

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

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

(a) Market risk management

(i) Currency risk management

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

a. Exposure to currency risk

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

	Thousands of U.S. dollars	
As of March 31	2021	**2022**
Trade and other receivables	$ 467	**$ 707**
Trade and other payables	1,767	**1,260**
Net exposure	$(1,299)	**$ (553)**

b. Sensitivity analysis of currency risk

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

(ii) Interest rate risk management

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

a. Exposure to interest rate risk

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

	Millions of yen	
As of March 31	2021	**2022**
Floating-rate financial instruments		
Financial liabilities (bonds and borrowings)	¥10,600	**¥7,000**

	Millions of yen	
As of March 31	2021	**2022**
Fixed-rate financial instruments		
Financial liabilities (bonds and borrowings)	¥34,456	**¥29,459**

b. Sensitivity analysis of interest rate risk

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

(b) Credit risk management

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

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

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

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

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

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

Amounts of expected credit loss are measured as follows:

• Trade receivables and contract assets

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

• Other financial assets measured at amortized cost

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

Maximum exposure to credit risk

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

Total balance of assets subject to loss allowances

As of March 31		Millions of yen 2021	2022
Measurement of credit losses	Classification		
Simplified approach	—	¥82,262	**¥82,913**
Principle approach	Measured at an amount equal to the 12-month expected credit loss	9,445	**9,501**
	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		¥91,708	**¥92,415**

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

Changes in loss allowances

Changes in loss allowances are as follows:

For the fiscal year ended March 31	Millions of yen 2021	2022
Beginning of period	¥48	**¥46**
Increase	0	**—**
Decrease (intended use)	(2)	**—**
Decrease (reversal)	0	**(8)**
End of period	¥46	**¥38**

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

(c) Liquidity risk management

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

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

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

(i) Non-derivative financial liabilities

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

As of March 31, 2021

	Millions of yen				
	Carrying amount	Contractual cash flow	Within 1 year	1 to 5 years	Over 5 years
Trade and other payables	¥ 29,669	¥ 29,669	¥29,465	¥ 159	¥ 44
Bonds and borrowings	45,056	45,178	25,150	20,028	—
Lease liabilities	40,587	44,022	10,334	25,237	8,450
Total	¥115,312	¥118,870	¥64,950	¥45,424	¥8,494

As of March 31, 2022

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

(ii) Derivatives

Derivatives listed by maturity date are as follows:

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	¥—

As of March 31, 2022

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

(3) Fair Value

The fair value hierarchy of financial instruments is categorized as follows.
Level 1: Quoted prices of identical assets or liabilities in active markets
Level 2: Directly or indirectly observable inputs regarding assets or liabilities other than the market prices in level 1
Level 3: Unobservable inputs not based on observable market data

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

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

	Millions of yen			
	2021		**2022**	
As of March 31	Carrying amount	Fair value	Carrying amount	Fair value
Other receivables				
Leasehold and guarantee deposits	¥ 8,000	¥ 7,913	**¥ 7,683**	**¥ 7,571**
Bonds and borrowings				
Bonds	19,963	19,965	**14,962**	**14,964**
Long-term borrowings	—	—	**4,500**	**4,500**
Other payables				
Deposits received	153	153	**106**	**106**
Long-term other payables	49	49	**62**	**62**

Method of measurement of fair value

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

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

Other receivables and other payables

(Lease deposits and guarantee deposits)
The future cash flows are estimated and discounted to present value using the risk-adjusted discount rate to calculate the fair value.
(Guarantee deposits received and long-term accounts payable)
These are measured by estimating the payment amount and discounting it to the present value using the risk-adjusted discount rate.

Bonds and borrowings

(Corporate bonds)
The fair value is calculated based on the market interest rate at the end of the fiscal year.
(Long-term borrowings)
These are calculated by discounting the total amount of principal and interest using an interest rate that would apply if an identical new borrowing were to be executed.

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

Assets and liabilities that are measured at fair value on recurring basis are as follows. 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.

As of March 31, 2021

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivative assets	¥ —	¥ 140	¥ —	¥ 140
Equity 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	¥ —	¥ —	¥ —	¥ —

Method of measurement of fair value of other financial assets and other financial liabilities

(Derivatives)

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

(Equity securities)

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

(Debt securities)

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

As of March 31, 2022

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

Note: The method for measuring the fair value of other financial assets and other financial liabilities is the same as on March 31, 2021.

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

(i) Valuation process

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

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

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

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

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

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

	Millions of yen			
	2021		**2022**	
For the fiscal year ended March 31	FVTPL financial assets	FVTOCI financial assets	FVTPL financial assets	FVTOCI financial assets
Beginning of period	¥1,152	¥1,186	**¥2,478**	**¥2,166**
Total gains or losses				
Profit or loss	68	—	**(46)**	**—**
Other comprehensive income	—	(10)	**—**	**51**
Purchases	1,352	999	**688**	**—**
Disposals	(93)	(9)	**(28)**	**(45)**
Other	(1)	—	**0**	**—**
End of period	¥2,478	¥2,166	**¥3,092**	**¥2,172**

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 March 31, 2021 and March 31, 2022. In addition, there are no material financial instruments that have not been offset due to partial or complete non-fulfillment of offsetting conditions for financial assets and financial liabilities subject to an enforceable master netting agreement or similar agreement and recognized against the same counterparty.

(5) Hedge Accounting

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

To manage these risks, the Group generally ascertains the net amount of risk, and mitigates the market risk using transactions that are effective for offsetting risk. Furthermore, in accordance with risk management strategy, the Group enters derivative transactions to mitigate the market risks to which it is exposed. To hedge against the market risks related to scheduled transactions, the Group enters derivative transactions corresponding to the total amount of risk. The Group applies hedge accounting for forecasted transactions that are highly probable (around 75–85% of the total).

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

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

Cash flow hedges

(i) Important derivatives designated for hedge accounting

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

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

As of March 31, 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	—

As of March 31, 2022

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

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

For purchasing transactions that are expected to be hedged, cash flow hedge surplus accrued in "other components of equity" is reclassified as an inventory asset adjustment upon recognition of inventory assets, and finally recognized in cost of sales. Furthermore, if the hedged item is a planned sale transaction, it is recognized as sales revenue. Moreover, for an adjustment table of each of the components of equity and analysis of other comprehensive income, refer to "32. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME."

34. RELATED PARTIES

(1) Transactions with Related Parties

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

For the fiscal year ended March 31		Millions of yen 2021	**2022**
Attribute		Parent company	**Parent company**
Name of the company		Sumitomo Corporation	**Sumitomo Corporation**
Description of transaction			
Provision of IT solutions	Transaction amount	¥ 18,525	**¥ 17,356**
	Balance at year-end	4,157	**2,695**
Fund deposit agreement	Transaction amount (Depositing of funds)	742,500	**1,062,500**
	Transaction amount (Refund of funds)	736,000	**1,074,000**
	Balance at year-end	84,500	**73,000**
	Transaction amount (Interest receipt)	6	**8**
	Balance at year-end	0	**0**

Notes: 1. The transaction conditions are based on the same conditions with regard to payment period as for normal transactions with third parties.
2. For provision of IT solutions, the Company's estimated price based on market prices and cost rate is presented, 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 are determined on an arm's length basis and with reference to normal market interest rates.

(2) Remuneration for Management

Remuneration for management is as follows:

For the fiscal year ended March 31	Millions of yen 2021	**2022**
Basic compensation	¥285	**¥287**
Performance-based compensation, etc.	67	**101**
Total	¥352	**¥389**

Notes: 1. Management refers to the directors of the Company in each consolidated fiscal year.
2. Basic compensation includes post-employment benefit expenses of ¥16 million in the fiscal year ended March 31, 2021 and ¥21 million in the fiscal year ended March 31, 2022.

35. CASH FLOW INFORMATION

(1) Change in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

	Millions of yen		
	Bonds and borrowings	Lease liabilities	Total
As of April 1, 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
Payments for lease liabilities	—	(8,590)	(8,590)
Other changes			
New lease and other lease-related changes (Note)	—	21,557	21,557
Other	30	(109)	(78)
As of March 31, 2021	45,056	40,587	85,643
Changes from financing cash flows			
Payments for redemption of bonds	**(10,000)**	**—**	**(10,000)**
Proceeds from issue of bonds	**4,972**	**—**	**4,972**
Payments for repayments of loans	**(15,100)**	**—**	**(15,100)**
Proceeds from long-term debt	**11,500**	**—**	**11,500**
Payments for lease liabilities	**—**	**(9,086)**	**(9,086)**
Other changes			
New lease and other lease-related changes (Note)	**—**	**11,235**	**11,235**
Other	**30**	**(223)**	**(192)**
As of March 31, 2022	**¥ 36,459**	**¥42,512**	**¥ 78,972**

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

(2) Non-cash Transactions

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

36. MAJOR SUBSIDIARIES

(1) Information on Major Subsidiaries

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

Name	Location	Main businesses	Equity ownership percentage (Mar. 31, 2022)
SCSK ServiceWare Corporation	Koto-ku, Tokyo	BPO	100.0%
VeriServe Corporation	Chiyoda-ku, Tokyo	Verification services	100.0%
SCSK Minori Solutions Corporation (Note 2)	Koto-ku, Tokyo	Software development, system operations management, product sales	100.0%
SCSK KYUSHU CORPORATION	Fukuoka City, Fukuoka Prefecture	Software development and information processing	100.0%
SCSK HOKKAIDO CORPORATION	Sapporo City, Hokkaido	Software development and information processing	100.0%
SCSK PRESCENDO CORPORATION	Koto-ku, Tokyo	BPO	100.0%
SCSK USA Inc.	New York, U.S.A.	Software development and information processing	100.0%
SCSK Europe Ltd.	London, England	Software development and information processing	100.0%
SCSK Shanghai Ltd.	Shanghai, China	Software development and information processing	100.0%
SCSK Asia Pacific Pte. Ltd.	Singapore	Software development and information processing	100.0%
PT SCSK Global Indonesia	Jakarta, Indonesia	Software development and information processing	100.0%
SCSK Myanmar Ltd.	Yangon, Myanmar	Software development and information processing	100.0%
Skeed Co., Ltd.	Meguro-ku, Tokyo	Software development	100.0%
Allied Engineering Corporation	Koto-ku, Tokyo	Consulting, packaged software development and sales	100.0%
SCSK SYSTEM MANAGEMENT CORPORATION	Koto-ku, Tokyo	IT management business	100.0%
VA Linux Systems Japan K.K.	Koto-ku, Tokyo	Research and solution for Linux-based technologies	100.0%
SDC Corporation	Koto-ku, Tokyo	Network services	50.1%
Gran Manibus Co., LTD	Chiyoda-ku, Tokyo	Consulting service, advanced technology solution	94.3%
SCSK Nearshore Systems Corporation	Koto-ku, Tokyo	Software development and system maintenance	100.0%
ARGO GRAPHICS Inc. (Note 1)	Chuo-ku, Tokyo	PLM solution business	21.8%
Diamond Head Co., Ltd.	Minato-ku, Tokyo	Production of fashion and apparel e-commerce sites and development and provision of e-commerce systems	24.3%

Notes: 1. Securities reports have been filed.
2. On October 1, 2021, Minori Solutions Co., Ltd. carried out a business integration with WinTechnology Corporation and CSI SOLUTIONS Corporation through an absorption-type merger, forming SCSK Minori Solutions Corporation.
3. On April 1, 2022, the Company established SCSK NEC Data Center Management, Ltd. and made it a consolidated subsidiary.

(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	2021	**2022**
Effect of equity transactions with non-controlling interests	¥(9)	**¥—**

37. SUBSEQUENT EVENTS

No subsequent events to report

38. OTHER

Quarterly information for the fiscal year ended March 31, 2022

Cumulative period	1st quarter	2nd quarter	3rd quarter	Full year
Net sales (Millions of yen)	¥99,210	¥200,025	¥302,754	¥414,150
Profit before income taxes (Millions of yen)	11,130	22,857	35,156	48,315
Profit attributable to owners of parent (Millions of yen)	7,703	15,784	24,257	33,470
Basic earnings per share (Yen)	¥24.67	¥50.55	¥77.69	¥107.20

Quarterly accounting period	1st quarter	2nd quarter	3rd quarter	Full year
Basic earnings per share (Yen)	¥24.67	¥25.88	¥27.14	¥29.51

Internal Control Report

1. Framework of internal control over financial reporting

Takaaki Touma, 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, 2022 which is the end of this fiscal year. The assessment was performed in accordance with the assessment standards for internal control over financial reporting generally accepted in Japan.

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

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

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

3. Results of assessment

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

4. Supplementary information

No material items to report.

5. Other

No material items to report.

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

June 23, 2022

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, 2022, 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, 2022, 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.

<table>
<tr><th colspan="2">Reasonableness of the estimated total cost as the basis for net sales and provision for loss on construction contracts related to system development</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As described in Note “3. Significant accounting policies (15) Net Sales” to the consolidated financial statements, SCSK Corporation and its consolidated subsidiaries (hereinafter, “SCSK”) recognize net sales from the system development contracts and other contracts that meet certain requirements (hereinafter, “the Contracts”) by applying the percentage-of-completion method. The percentage of completion is measured using the percentage of actual cost incurred by the end of the current fiscal year to the estimated total cost.
As described in Note “25. Net Sales” to the consolidated financial statements, of the Contracts for which net sales are recognized by applying the percentage-of-completion method, the amount of net sales related to those in progress as of March 31, 2022 was ¥10,599 million (of which ¥10,253 million was recognized in the current fiscal year and ¥345 million was recognized in prior fiscal years).
In addition, as described in Note “3. Significant accounting policies (13) (a) Provision for loss on construction contracts” to the consolidated financial statements, SCSK recognizes estimated future losses as provision for loss on construction contracts when it is probable that the estimated total cost of fulfilling the obligations to contracted customers exceed the contract amount and the amount of expected loss can be reliably estimated. As described in Note “22. Provisions” to the consolidated financial statements, the amount of the provision for loss on construction contracts was ¥260 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 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.</td>
<td>The primary procedures we performed to assess the reasonableness of the estimated total cost included the following:

(1) Internal control testing
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:
• controls to ensure that the estimated total cost was reasonable while considering the individuality of development projects; and
• controls to ensure that any changes in circumstances that occurred after the commencement of the Contracts were reflected within the estimated total cost in a timely manner.

(2) Assessment of the reasonableness of the estimated total cost
In order to assess the appropriateness of key assumptions in estimating total cost, of the uncompleted projects under the Contracts, we selected contracts on which revision of the estimated total cost could potentially have a significant effect. In the selection process, we inspected the materials for the project status meetings held by the personnel responsible for the monitoring and used our own selection criteria. As the primary procedures performed for the selected Contracts, we:
• 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.
• Inquired of the appropriate management personnel (project control departments and the monitoring department), about any changes in circumstances that occurred after the commencement of the Contracts and their decision on a revision of the estimated total cost, and reviewed relevant documents. We also assessed whether changes in a project were reflected in the estimated total cost in a timely and appropriate manner in cases where there were facts such as additional work hours were required or the project was delayed.</td></tr>
</table>

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.	• 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.

Other Information

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of the Company as of March 31, 2022, in accordance with Article 193-2(2) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2022, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the Internal Control Report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Internal Control Report* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Internal Control Report

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

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

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

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

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

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

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

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Audit Report:

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

SCSK Group'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.

Clients: Manufacturing | Distribution | Finance | Communications / Transport | ...

SCSK's full line-up of services

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 Consulting

We support IT strategy formulation based on clients' management strategies, formulation of IT plans for each business area, and steps leading up to actualizing IT strategy.

Systems development

We meet a wide range of development needs from System of Record (SoR), which demands high quality and System of Engagement (SoE) that requires promptness.

Verification services

We conduct software evaluation and verification based on our long years of experience and unique verification theory, using cutting-edge technology and objective test cases.

IT infrastructure development

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

Sales Segment

Systems Development

- We provide all forms of IT services related to systems development, from IT consulting to systems development, and IT infrastructure development, in order to develop unique systems for individual companies to expand their business footprint.
- We design operations for stability, build environments for system operation, develop applications, and design required functions, based on the requirements definition of systems needed by clients.

System Maintenance and Operation / Services

- We provide IT management services post system implementation, such as system monitoring and failure response, to operate these systems securely and in a stable manner.
- This sales category includes data center business, BPO services such as contact centers and e-commerce fulfillment services, along with verification services and service-oriented businesses,* etc.

*Sales related to software licenses within service-oriented businesses are categorized as packaged software / hardware sales.

Packaged Software / Hardware Sales

- We procure and sell IT hardware such as servers and network equipment and software such as ERP, CAE solutions, and groupware.
- We capitalize on our networks in Japan and overseas to identify new products and services and support the optimal system integration based on the clients' network and security environments.

Main Non-Financial Data

Human Resources Data

Consolidated*1

		(FY)	2017	2018	2019	2020	2021
Number of employees			12,054	12,289	13,979	14,405	**14,938**
	By Gender	Male	9,605	9,702	10,921	11,106	**11,371**
		Female	2,449	2,587	3,058	3,299	**3,567**
	By Region	Japan	11,814	12,026	13,665	14,086	**14,592**
		Asia	96	109	151	153	**162**
		Americas	77	85	83	80	**82**
		Europe	67	69	80	86	**102**

Non-Consolidated*1

				2017	2018	2019	2020	2021
Number of employees				7,273	7,280	7,384	8,357	**8,462**
	By Gender	Male		5,955	5,919	5,940	6,664	**6,692**
		Female		1,318	1,361	1,444	1,693	**1,770**
	By age	20s	Male	434	520	585	798	**893**
			Female	252	304	358	479	**536**
			Total	686	824	943	1,277	**1,429**
		30s	Male	1,434	1,207	1,036	1,090	**1,000**
			Female	578	524	478	485	**461**
			Total	2,012	1,731	1,514	1,575	**1,461**
		40s	Male	2,000	1,949	1,916	2,104	**2,077**
			Female	379	401	441	524	**529**
			Total	2,379	2,350	2,357	2,628	**2,606**
		50s	Male	1,898	1,997	2,075	2,221	**2,175**
			Female	106	128	163	195	**230**
			Total	2,004	2,125	2,238	2,416	**2,405**
		60s	Male	189	245	328	451	**546**
			Female	3	5	4	10	**15**
			Total	192	250	332	461	**561**
Number of female executives and line managers				72	78	89	94	**92**
Number of non-Japanese employees				42	38	36	48	**47**
Number of people with disabilities*2				247	263	262	275	**270**
Number of new recruits			Male	122	156	140	196	**170**
			Female	83	78	87	116	**104**
			Total	205	234	227	312	**274**
Number of mid-career professionals hired *3			Male	22	33	65	56	**84**
			Female	3	13	13	10	**21**
			Total	25	46	78	66	**105**
Average years of service			Male	19.3	19.8	20.3	20.0	**20.1**
			Female	12.5	12.3	12.3	12.3	**12.4**
			Total	17.8	18.1	18.4	18.5	**18.4**
Average Annual Salary*4 (thousands of yen)				7,261	7,257	7,359	7,526	**7,522**
Turnover*5			Male	140	146	165	149	**176**
			Female	35	40	27	28	**43**
			Total	175	186	192	177	**219**
Turnover Rate*5*6 (%)			Male	2.2	2.3	2.6	2.1	**2.5**
			Female	2.5	2.8	1.8	1.6	**2.3**
			Total	2.3	2.3	2.6	1.9	**2.2**

		(FY)	2017	2018	2019	2020	2021
Average monthly overtime hours*[7] (hours/month)			16:22	17:41	18:15	20:59	**21:43**
Annual paid vacation*[7]	**Average days taken** (days)		19	19	18	17.3	**17.8**
	Acquisition rate (%)		96.4	94.4	93.0	88.7	**90.9**
Percentage of teleworking*[7]*[8] (%)			9.2	5.7	7.4	58.0	**61.8**
Number of employees using childcare leave		**Male**	14	16	19	45	**53**
		Female	206	192	178	183	**162**
		Total	220	208	197	228	**215**
	Acquisition rate (%)	**Male**	3.7	3.2	9.1	14.6	**27.7**
		Female	100.0	100.0	100.0	100.0	**100.0**
		Total	30.2	29.6	33.2	37.3	**50.4**
	Return rate (%)	**Male**	100.0	100.0	100.0	100.0	**100.0**
		Female	96.4	92.7	94.8	97.5	**95.7**
		Total	96.8	93.5	95.7	98.3	**97.3**
	Average number of days taken (days)	**Male**	102	68	89	65	**29**
		Female	385	413	437	482	**413**
		Total	360	369	377	337	**268**
Number of employees using extended nursing care leave		**Male**	2	1	1	2	**1**
		Female	4	0	0	1	**1**
		Total	6	1	1	3	**2**
Number of employees using nursing care leave		**Male**	146	158	162	145	**141**
		Female	26	26	30	26	**29**
		Total	172	184	192	171	**170**
Number of employees using reduced work hour programs		**Male**	3	4	7	6	**7**
		Female	246	250	258	268	**253**
		Total	249	254	265	274	**260**
Number of employees using maternity leave*[9]			70	62	63	47	**41**
Number of employees using parental leave			143	131	122	89	**86**
Number of employees using balance support leave*[10]		**Male**	642	629	669	497	**475**
		Female	364	364	399	363	**370**
		Total	1,006	993	1,068	860	**845**
Number of employees using child nursing leave		**Male**	284	253	261	143	**198**
		Female	224	212	235	161	**208**
		Total	508	465	496	304	**406**
Average annual hours of training per employee (hours)			–	–	–	60	**62**
Number of trainees dispatched overseas			13	14	15	5	**12**
Number of employees with a Career Development Plan (CDP)			6,906	7,118	7,110	8,170	**8,315**
Number of transferees using the personnel recruitment program and internal free agent (FA) program*[11]			80	84	100	42	**93**

*1 Data is calculated as of March 31 each fiscal year except where noted.
*2 Figures as of June 1 each fiscal year including main domestic Group companies with certification as special purpose subsidiary or affiliated company.
*3 Total of mid-career professionals for full-time employees and specialized full-time employees
*4 Average annual salary of full-time employees, specialized full-time employees and senior full-time employees.
*5 Voluntary resignation of full-time employees and specialized full-time employees (excluding mandatory retirement and job transfers, etc.).
*6 Number of employees as of April 1 each fiscal year used as the parameter.
*7 Average for all employees including those under the discretionary work system and supervisors.
*8 Removed the limit on the number of times teleworking in February 2020 (used to be limited to eight times per month [except where special circumstances otherwise warranted it]).
*9 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).
*10 Paid leave that can be taken in half-day increments (up to a total of five days per year) to care for a family member, to accompany his/her child to receive necessary vaccinations or health exams or attend an event at his/her child's school, up until the child graduates from junior high school, or to undergo infertility treatments in a hospital.
*11 Personnel recruitment takes place twice annually and internal FA is once annually. However, personnel recruitment took place only once in FY2020.

Human Resources Data

			2017	2018	2019	2020	2021
(FY)			2017	2018	2019	2020	**2021**
Number of employees certified under the IT Skill Level Assessment*12 (Lv1 to Lv7)			5,484	5,108	5,214	5,116	**5,950**
SCSK Career Frame	**Strategic job types**	**Business Creator**	646	663	696	680	**722**
		Sales					
		Consultant					
		Service Manager BASM					
		Service Manager ITSM					
		Marketing					
	Development job types	**Project Manager**	3,183	2,907	2,943	2,843	**2,919**
		AP Specialist					
		Embedded Software Development					
		Administrative Support Staff - Engineering					
	Operations job types	**Customer Service**	860	796	796	787	**802**
		IT Service Management					
	Engineering job types	**IT Architect**	795	742	779	806	**966**
		IT Specialist					
		Product Specialist					
		R&D Expert					
	Young employee career development (development, infrastructure, systems management, embedded, sales)*13		–	–	–	–	**541**
Regular health exam uptake rate (%)			100.0	100.0	100.0	100.0	**100.0**
Reexam rate*14 (%)			54.5	58.7	100.0	99.1	**100.0**
Special health guidance participation rate*14 (%)			31.4	48.4	67.5	68.8	**69.8**
Rate of employees requiring specified health guidance*14 (%)			21.9	22.3	21.0	23.0	**20.5**
Stress check uptake rate (%)			91.6	90.6	91.6	93.7	**92.1**
Number of employees on leave*15			45	43	52	59	**69**
***Kenko Waku Waku Mileage* Program participation rate** (%)			100.0	99.9	98.8	99.5	**98.8**
Number of participants in health literacy training*16			479	530	1,750	4,061	**2,925**
Health behaviors and habits	**Average number of steps**		9,923	9,929	9,675	7,478	**7,925**
	Employees who do not eat breakfast*17 (%)		11.8	15.1	14.6	16.5	**18.9**
	Dental exam uptake rate*18 (%)		49.5	48.0	46.5	42.2	**43.9**
	Short sleeping hours*19 (%)		14.8	15.0	11.8	9.6	**9.3**
	Employees who smoke (%)		17.8	16.1	16.0	15.0	**14.1**
Indicators on physical/ mental health, job satisfaction and productivity	**Subjective health*20**		87.2	84.4	86.5	89.1	**88.2**
	Work engagement*21		–	47.2	49.2	55.3	**51.8**
	Presenteeism (performance demonstration level)*22		–	83.4	83.5	86.2	**84.2**
	Absenteeism*23		–	65.1	67.0	75.4	**70.8**
Employee satisfaction*24 (%)			90.2	89.2	90.0	92.1	**91.8**

*12 A program that certifies IT skills according to seven levels based on SCSK Career Framework.
*13 Defined as Lv1 to Lv3.
*14 Data for each fiscal year is calculated as of August 31 of the following year.
*15 Number of employees on leave due to non-occupational injury or illness.
*16 Total number of participants in training on the themes of diet, exercise, sleep, women's health, and by age group in any given fiscal year.
*17 The percentage of employees who responded, "I rarely eat breakfast (0 to 3 times a week)."
*18 The percentage of employees who answered "Two or more times per year" or "One time per year" in response to the question, "Dental exams are believed to be necessary one to two times per year. How frequently do you receive dental exams?"
*19 The percentage of employees who answered "Less than 5 hours" in response to the question, "How much sleep do you normally get?"
*20 The percentage of employees who answered "I'm healthy" or "I'm more healthy than unhealthy" in response to the question, "What is your health condition?"
*21 Measured using the nine-item Ultrecht Work Engagement Scale (UWES). Results represent a tabulation of positive responses.
*22 The percentage of employees who answered at least 80% in response to the question, "What is your performance demonstration level over the previous month?"
*23 The percentage of employees who answered "0 hours" in response to the question, "How many work hours did you take off or make adjustments due to a health issue in the previous three months?"
*24 The percentage of employees who answered "Agree" or "Agree somewhat" in response to the question on employee satisfaction that SCSK is a "A company with a pleasant and rewarding workplace."

Environmental Performance Data

			(FY)	2017	2018	2019	2020	2021
Electricity consumption (1,000 kWh)	**Total: Entire SCSK Group**			84,450	91,861	110,440	126,000	**147,531**
	Break down	**Offices**		25,384	24,373	25,119	23,694	**25,020**
		Data centers		59,066	67,488	85,321	102,306	**122,511**
Fuel	**Total** (quantity in GJ)			2,803	2,631	3,013	3,823	**4,651**
	Break down	**Kerosene** (kl)		20	16	19	23	**40**
		Light oil (kl)		–	–	–	–	**1**
		Diesel (kl)		23	12	27	46	**39**
		Gasoline (kl)		–	–	–	12	**26**
		Utility gas (1,000 m^3)		26	35	28	17	**16**
Steam, hot water, cold water (quantity in GJ)*1				2,822	15,655	17,721	16,265	**14,004**
Volume of office paper purchased (1,000 sheets)				23,079	20,250	17,767	6,417	**5,156**
General waste (t)*2				267	215	203	140	**149**
Industrial waste (t)*2				148	187	159	16	**44**

*1 Scope of calculating cooling water usage expanded from FY2018.
*2 The company does not produce any hazardous waste from its business operations.

(Unit: t-CO_2)

Greenhouse gas emissions	(FY)	2017	2018	2019	2020	2021
Scope1	**Direct emissions**	170	149	184	249	307
Scope2	**Indirect emissions from energy**	42,613	43,483	46,597	52,354	39,537
Scope3	**Other indirect emissions**	–	–	575,116	538,328	493,934
Total		–	–	**621,897**	**590,930**	**533,778**

Scope3 Breakdown by category						
Category 1	**Purchased goods and services**	–	–	259,173	250,615	231,542
Category 2	**Capital goods**	–	–	21,092	27,572	24,302
Category 3	**Fuel- and energy-related activities (not included in Scope 1 or Scope 2)**	–	–	7,992	9,031	10,456
Category 4	**Upstream transportation and distribution*1**	–	–	–	–	–
Category 5	**Waste generated in operations**	–	–	343	273	315
Category 6	**Business travel**	–	–	6,155	917	1,270
Category 7	**Employee commuting**	–	–	5,604	4,951	3,440
Category 8	**Upstream leased assets*2**	–	–	–	–	–
Category 9	**Downstreamtransportation and distribution*1**	–	–	–	–	–
Category 10	**Processing of sold products*3**	–	–	–	–	–
Category 11	**Use of sold products**	–	–	274,735	244,947	222,592
Category 12	**End-of-life treatment of sold products**	–	–	22	22	16
Category 13	**Downstream leased assets*4**	–	–	–	–	–
Category 14	**Franchises*5**	–	–	–	–	–
Category 15	**Investments*6**	–	–	–	–	–
Total		–	–	**575,116**	**538,328**	**493,934**

*1 Transportation costs calculated in Category 1.
*2 Office leasing calculated in Scope 1 and 2.
*3 Not applicable because the Company does not manufacture or sell intermediate products.
*4 Not applicable because the company does not engage in the property leasing business.
*5 Not applicable because the Company does not engage in the franchise business.
*6 Not applicable because the Company is not an investment business.

Annual Average PUE at Data Centers (FY)	2017	2018	2019	2020	2021
Tokyo Center 1	1.63	1.64	1.65	1.67	**1.68**
Chiba Center	1.74	1.73	1.65	1.66	**1.68**
Sanda Center	1.79	1.80	1.81	1.71	**1.74**

Basic Information

Established	October 25, 1969
Capital	¥21,152 million
Total number of employees	14,938 (Consolidated)
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

Base Information

Toyosu Head Office	Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo TOYOSU FORESIA, 3-2-24, Toyosu, Koto-ku, Tokyo
Odaiba Office	Tradepia Odaiba, 2-3-1, Daiba, Minato-ku, Tokyo
Nishinihon Kitahama Office	Osaka Shoken Torihikijo Bldg. , 1-8-16, Kitahama, Chuo-ku, Osaka-shi, Osaka
Nishinihon Senri Office	Sumitomo Corporation Senri Bldg. , 1-2-2, Shinsenri Nishimachi, Toyonaka-shi, Osaka
Nishinihon Sakaisujihonmachi Office	FORECAST Sakaisujihonmachi Bldg. ,1-6-29, Kyutaromachi,Chuo-ku, Osaka-shi, Osaka
Nishinihon Honmachi Office	Metlife Honmachi Square Bldg. ,2-5-7, Honmachi, Chuo-ku, Osaka-shi, Osaka
Chubu Office	SC Fushimi BLDG. , 2-16-26, Nishiki, Naka-ku, Nagoya-shi, Aichi
Hiroshima Office	Urban View Grand Tower Bldg. , 4-1, Kamihatchobori, Naka-ku, Hiroshima-shi, Hiroshima
Kyushu Office	Hakata kangen Bldg. , 3-30-23, Hakata-ekimae, Hakata-ku, Fukuoka-shi, Fukuoka
Tama Center Office	SCSK Tama Center Bldg. , 2-3, Sannoushita, Tama-shi, Tokyo
SCSK Group Okinawa Center Office	4-35-2, Gusukuma, Urasoe-shi, Okinawa

Group Companies

(As of April 1, 2022)

Japan

SCSK ServiceWare Corporation	BPO
VeriServe Corporation	IT Consulting, Verification services
SCSK Minori Solutions Corporation	IT Consulting, Systems development, IT infrastructure development, IT management, IT hardware / software sales
SCSK KYUSHU CORPORATION	Systems development, IT management
SCSK HOKKAIDO CORPORATION	Systems development, IT infrastructure development, IT management, IT hardware / software sales
SCSK PRESCENDO CORPORATION	IT Consulting, BPO
Skeed Co., Ltd.	IT Consulting, Systems development, IT hardware / software sales
Allied Engineering Corporation	IT Consulting, Systems development, IT hardware / software sales
SCSK SYSTEM MANAGEMENT CORPORATION	IT management
VA Linux Systems Japan KK	IT Consulting, Systems development, Verification services
SDC Corporation	IT infrastructure development, IT management, IT hardware / software sales
SCSK NEC Data Center Management, Ltd.	IT management
Gran Manibus Co., Ltd.	IT Consulting
SCSK Nearshore Systems Corporation	Systems development
TOKYO GREEN SYSTEMS CORPORATION	
ARGO GRAPHICS Inc.*	IT hardware / software sales
Diamond Head Co., Ltd.*	Systems development, BPO

*Company accounted for using the equity method.

Overseas

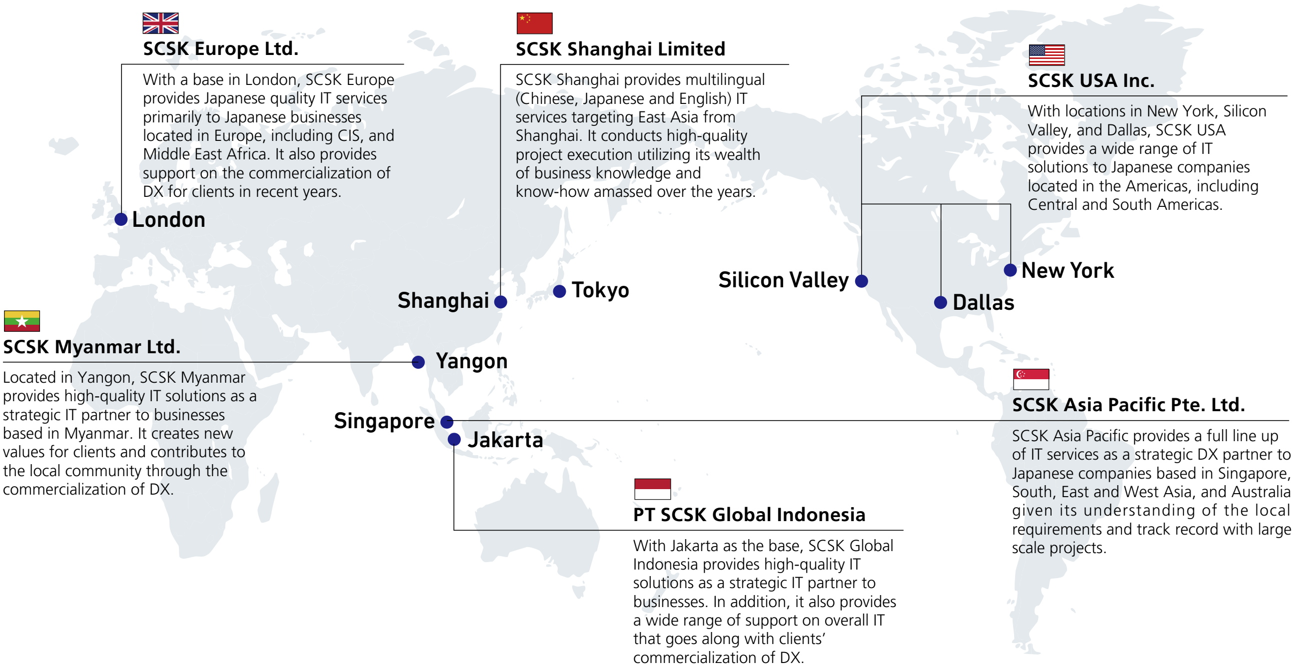
SCSK USA Inc.	IT Consulting, Systems development, IT infrastructure development, IT management, IT hardware / software sales
SCSK Europe Ltd.	IT Consulting, Systems development, IT infrastructure development, IT management, IT hardware / software sales
SCSK Shanghai Limited	IT Consulting, Systems development, IT infrastructure development, IT management
SCSK Asia Pacific Pte. Ltd.	IT Consulting, Systems development, Verification services, IT infrastructure development, IT management, IT hardware / software sales
PT SCSK Global Indonesia	IT Consulting, Systems development, IT infrastructure development, IT management
SCSK Myanmar Ltd.	IT Consulting, Systems development, IT infrastructure development, IT management

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

Global Network

Overseas Network

Our worldwide network provides strong support for customers' global business development.



SCSK Europe Ltd.

With a base in London, SCSK Europe provides Japanese quality IT services primarily to Japanese businesses located in Europe, including CIS, and Middle East Africa. It also provides support on the commercialization of DX for clients in recent years.

SCSK Shanghai Limited

SCSK Shanghai provides multilingual (Chinese, Japanese and English) IT services targeting East Asia from Shanghai. It conducts high-quality project execution utilizing its wealth of business knowledge and know-how amassed over the years.

SCSK USA Inc.

With locations in New York, Silicon Valley, and Dallas, SCSK USA provides a wide range of IT solutions to Japanese companies located in the Americas, including Central and South Americas.

SCSK Myanmar Ltd.

Located in Yangon, SCSK Myanmar provides high-quality IT solutions as a strategic IT partner to businesses based in Myanmar. It creates new values for clients and contributes to the local community through the commercialization of DX.

SCSK Asia Pacific Pte. Ltd.

SCSK Asia Pacific provides a full line up of IT services as a strategic DX partner to Japanese companies based in Singapore, South, East and West Asia, and Australia given its understanding of the local requirements and track record with large scale projects.

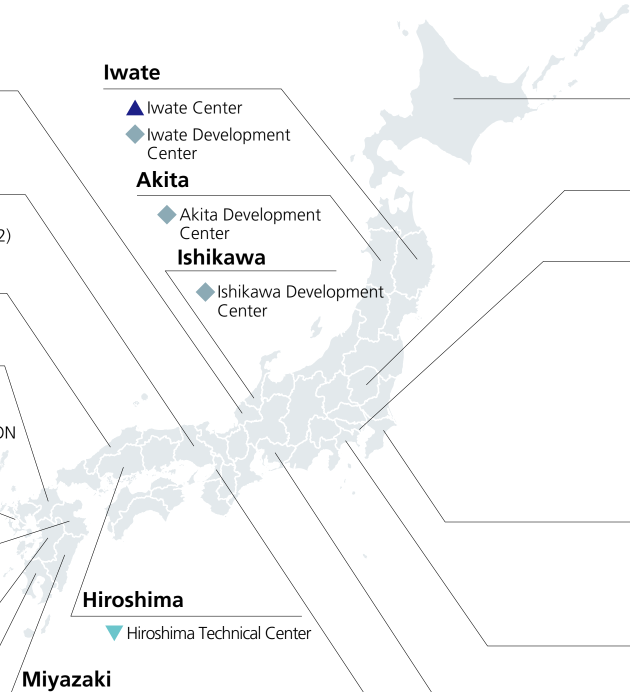
PT SCSK Global Indonesia

With Jakarta as the base, SCSK Global Indonesia provides high-quality IT solutions as a strategic IT partner to businesses. In addition, it also provides a wide range of support on overall IT that goes along with clients' commercialization of DX.

Domestic Network

Our domestic network provides high-quality services with unwavering reliability and security.

● Data Center
▲ BPO Center
◆ Near-shore Center
■ Customer Service & Logistics Center (CLC)
▼ Verification Center



Fukui
- ▲ Fukui Center
- ◆ Fukui Development Center

Hyogo
- ● netXDC Sanda Center (SH1)
- ● netXDC Sanda Center 2 (SH2)

Shimane
- ▲ Shimane Center

Fukuoka
- ▲ Kitakyushu Center
- ▲ Fukuoka Center (2 offices)
  SCSK KYUSHU CORPORATION

Nagasaki
- ◆ Nagasaki Development Center*3

Oita
- ▲ Oita Center
- ◆ Oita Development Center*1

Kumamoto
- ◆ Kumamoto Development Center

Kagoshima
- ◆ Kagoshima Development Center

Iwate
- ▲ Iwate Center
- ◆ Iwate Development Center

Akita
- ◆ Akita Development Center

Ishikawa
- ◆ Ishikawa Development Center

Hiroshima
- ▼ Hiroshima Technical Center

Miyazaki
- ◆ Miyazaki Development Center

Okinawa
- ▲ Okinawa Center (2 offices)
- ◆ Okinawa Development Center (2 offices)
- ▼ Okinawa Test Center
  SCSK Group Okinawa Center Office

Hokkaido
- ▲ Sapporo Center (2 offices)
  SCSK HOKKAIDO CORPORATION

Tochigi
- ▼ Utsunomiya Technical Center

Tokyo
- ● netXDC Tokyo Center 1 (ST1)
- ● netXDC Tokyo Center 2 (ST2)
- ● netXDC Tokyo Center 3 (ST3)
- ● netXDC Tokyo Center 4 (ST4)
- ▲ Shinjuku Center (2 offices)
- ▲ Tama Center (3 offices)
- ■ CLC Tokyo
- ▼ Nishi-Shinjyuku Technical Center

Chiba
- ● netXDC Chiba Center (SI1)
- ● netXDC Chiba Center 2 (SI2)
- ● netXDC Chiba Center 3 (SI3)*2

Kanagawa
- ▲ Yokohama Center
- ◆ Yokohama Development Center

Aichi
- ▲ Nagoya Center
- ▼ Kariya Technical Center

Osaka
- ● netXDC Osaka Center 1 (SO1)
- ▲ Osaka Center

*1 Opened in April 2022
*2 Opened in May 2022
*3 Opened in July 2022

Investor Information

Stock / Shareholder Information

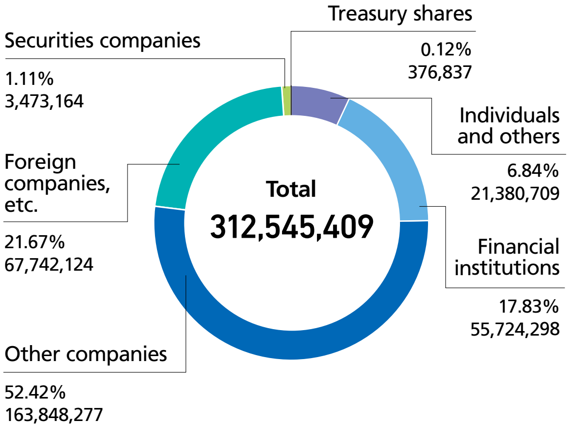
Class of stock	Common Stock
Number of shares authorized	600,000,000
Number of shares issued*	312,545,409 (including 376,837 treasury shares)
Number of shareholders	26,880

Stock listing	Tokyo Stock Exchange, Prime Market
Stock code	9719
Stock trading unit	100
Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
Independent certified public accountant	KPMG AZSA LLC

*On July 22, 2022, the Company issued new shares as restricted stock compensation, increasing the number of issued shares by 120,230 to 312,665,639 shares.

Distribution of Shareholders (Common Stock)

Shareholder composition

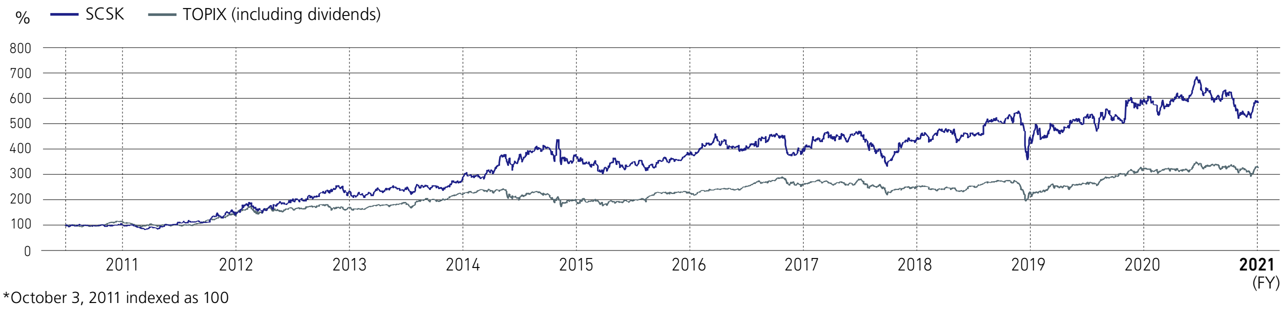


Major Shareholders

	Name of Shareholder	Number of Shares Held	Shareholding Ratio*
1	SUMITOMO CORPORATION	158,091,477	50.64%
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	25,347,200	8.12%
3	Custody Bank of Japan, Ltd. (Trust Account)	18,164,200	5.82%
4	SCSK Group Employee Stock Ownership Associaon	7,010,677	2.25%
5	SSBTC CLIENT OMNIBUS ACCOUNT	4,965,032	1.59%
6	STATE STREET CLIENT OMNIBUS ACCOUNT OM02	4,073,710	1.30%
7	ARGO GRAPHICS Inc.	3,046,500	0.98%
8	STATE STREET BANK WEST CLIENT - TREATY 505234	2,489,276	0.80%
9	STATE STREET BANK AND TRUST COMPANY 505001	2,379,705	0.76%
10	JP MORGAN CHASE BANK 385047	1,929,174	0.62%

*Shareholding ratio is calculated exclusive of treasury stock.

Total Shareholder Return(TSR)



*October 3, 2011 indexed as 100

About the cover

The cover of SCSK Report 2022 is based on SCSK's first television commercial featuring Mio Imada, which has been broadcast since April 2022.

Based on SCSK blue, which is the corporate color, it expresses the essence of SCSK as a leader in IT innovation with a contemporary style and a simple yet bold design.

Please see the full commercial on the official SCSK YouTube channel below.

The official SCSK YouTube channel「SCSK GROUP」
https://www.youtube.com/c/SCSKGROUP

External Recognition

SCSK's initiatives have been recognized by a number of institutions inside and outside of Japan.

- Certified with 4.5 stars in the Fifth Nikkei Smart Work Management Survey that selects leading companies working to revolutionize productivity through working style reform
- Eighth consecutive year selected as a Health and Productivity Stock Selection jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange
- Recognized as Certified Outstanding Health & Productivity Management Organization (Large Enterprise Category) "White 500" for sixth consecutive year by Nippon Kenko Kaigi (certifying entity)
- 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
- Eighth consecutive year selected as "Nadeshiko Brand" designation jointly organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange
- Selected for THE DIVERSITY MANAGEMENT 2.0 PRIME (FY2018)
- For the fourth consecutive year, received the Gold rating, the highest rating, in the PRIDE Index* for LGBT-related initiatives

*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.

- Sixth consecutive year selected for inclusion in the Sompo Sustainability Index (formerly SNAM Sustainability Index) established by Sompo Asset Management Co., Ltd.
- Sixth consecutive year selected for inclusion in the FTSE4Good Index Series
- Sixth consecutive year selected for inclusion in the FTSE Blossom Japan Index
- Certified for inclusion in the FTSE Blossom Japan Sector Relative Index

FTSE Russell confirms that SCSK Corporation has been independently assessed according to the index criteria, and has satisfied the requirements to become a constituent of the FTSE Blossom Japan Sector Relative Index. The FTSE Blossom Japan Sector Relative Index is used by a wide variety of market participants to create and assess responsible investment funds and other products.

- Selected for inclusion in the MSCI Japan ESG Select Leaders Index for the sixth consecutive year

2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

- Selected for inclusion in the MSCI Japan Empowering Women Index (WIN) for the fourth consecutive year and the fifth time

2022 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

THE INCLUSION OF SCSK CORPORATION IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF SCSK CORPORATION BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

Technical Certification and Recognition

(Excerpts from press releases published between April 1, 2021 and March 31, 2022)

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.

April 23, 2021	Received Sales Award in SuperStream Partner Award 2021
May 14, 2021	Certified as a Google Cloud™ Looker™ Consulting Partner
June 1, 2021	Awarded Professional of the Year for the second consecutive year at AWS Certification Award 2020 and multiple SCSK engineers selected under the AWS Partner Network commendation program
June 7, 2021	Selected as Digital Transformation Certified Company by the Ministry of Economy, Trade and Industry
June 18, 2021	Received Enterprise Market of the Year in A10 Japan Partner Award 2020
June 24, 2021	Received ASTERIA Partner of the Year (ranked first in annual sales performance) for the second consecutive year at ASTERIA Warp Partner Award 2021
September 16, 2021	Received double award for AgileWorks Sales of the Year [Sales Volume Category] and Expansion of the year in ATLED Award 2020
October 15, 2021	Validated for Amazon Connect Service Delivery Program
November 30, 2021	Received Special Award in CYBER INDEX AWARDS 2021
January 27, 2022	Received Channel Partner Award in INFINIDAT Channel Partner Awards
March 30, 2022	Received Marketing Success Award in SAP AWARD OF EXCELLENCE 2022

*These press releases are published only in Japanese.

IT for the next delight.

SCSK

Printed in Japan