



SCSK Corporation SCSK REPORT 2017

SCSK REPORT 2017

Fiscal year ended March 31, 2017



Create our Future of Dreams



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Editorial Policy

Integrated Report 2017 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 corporate social responsibility (CSR) 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	September 2017
Guidelines referenced <ul style="list-style-type: none"> U.N. Global Compact SCSK has been participating in the U.N. Global Compact since 2007. We support the Compact's 10 principles relating to human rights, labor, the environment, and anti-corruption, and reflect this support in our business activities. ISO 26000 SCSK has been practicing management based on the core subjects of ISO 26000 since 2012, and each division is working toward the related CSR goals it has defined. The International Integrated Reporting Council (IIRC)'s International Integrated Reporting Framework Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, Fourth Edition (G4) 			



Important Information Regarding Report Terminology

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

Disclaimer

This report is intended to provide information about the performance and business strategies of the SCSK Group and is not intended to solicit the purchase or sales of shares in Group companies. 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 should not be reproduced or retransmitted without authorization.

Composition of Information Disclosure Media



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.

External Recognition

- Three consecutive years ranking among the top companies in the overall rankings of Nikkei Inc.'s survey of companies that fully exercise their employees' potential (ranked first in 2014 and 2015 and third in 2016)
- Placed No. 1 in the CSR Company Ranking 2015 and 2016 compiled by Toyo Keizai Inc. in the area of effective talent management
- Selected for the FY2017 FTSE Blossom Japan Index
- Awarded the top prize (the Minister of Health, Labour and Welfare's Prize) in the large company division of the Ministry of Health, Labour and Welfare's first "Awards for Enterprises and Workplaces with Pleasant Working Environments and High Productivity"
- Achieved the top ranking as an "Eruboshi" certified excellent company based on the Act of Promotion of Women's Participation and Advancement in the Workplace
- Selected for the FY2017 FTSE4 Good Index Series
- Third consecutive year selected as "Nadeshiko Brand" designation jointly hosted by the Tokyo Stock Exchange (TSE) and the Ministry of Economy, Trade and Industry (METI) (FY2014, FY2015, and FY2016)
- Selected for the MSCI Japan ESG Select Leaders Index and the MSCI Japan Empowering Women Index (WIN)
- First ever winner of the Japan Investor Relations Association's Best IR Award (FY2016)
- Third consecutive year selected as "Brand of Companies Enhancing Corporate Value through Health & Productivity" jointly hosted by the TSE and METI (FY2014, FY2015, and FY2016)



FTSE Blossom Japan



優良企業賞



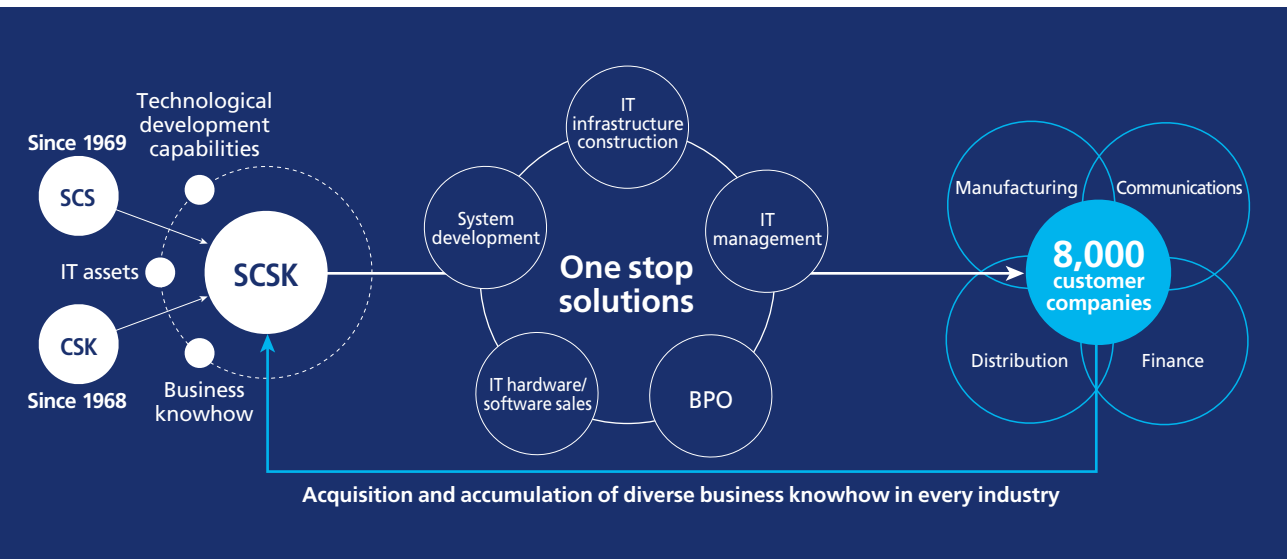
FTSE4Good



2017 健康経営銘柄

Supporting Customers' Businesses in Creating New Value

Using expertise cultivated over many years in the manufacturing, communications, distribution, and financial industries as a base, SCSK, not only provides optimum services for resolving customer challenges and enhancing competitiveness, but also demonstrates its presence as a partner which efficiently satisfies industry shared IT needs via standardization services to produce new value together with customers.



The Accumulation of Top Class Business Knowhow in the Manufacturing, Communications, Distribution, and Finance Industries

Approximately 80% of SCSK's 8,000 client companies are involved in the manufacturing, communications, distribution, and finance industries. For a quarter of a century, we have gained expertise in strategies and business operations while continuously meeting the IT needs of our customers in these four industries, building robust relationships of trust based on our deep understanding of these industries. At the same time, SCSK has also focused its efforts on improving the quality of project management and application development, achieving both high profitability and high customer satisfaction.



Technological Development as well as Proposal Making Capabilities which Meet the Distinct Strategic IT Needs of Individual Companies as well as Industry Standard IT Needs

Leveraging the experience gained through exploring and helping to resolve the challenges of a multitude of customers, SCSK offers high added value IT services which match individual company strategy, contributing to the enhancement of our customers' competitiveness. On the other hand, using our expertise in industry-specific business operations as a base, we develop and provide service-oriented businesses which offer shared use systems for industry standard operations while taking into account their versatility and compatibility with existing systems.



Building a One Stop Solution Framework Able to Take on All of Our Customers' Business Challenges

From IT infrastructure construction to application development/implementation, and post system launch maintenance and operation, SCSK offers one stop services able to take on the increasingly diverse and complex challenges of our customers. SCSK provides powerful support for customer businesses, particularly teleshopping and contact center businesses, through BPO (Business Process Outsourcing) services which leverage the SCSK Group's own management knowhow.

Working to Be a Company That Continually Grows and Takes Care of Its People

To achieve consistent growth over the medium to long term, it is vital that all of our employees are healthy, active, and have a sense of purpose. SCSK is united in its commitment to create such an environment across all of its organizations. Under the strong leadership of senior management, we were among the first in the industry to usher in working style reforms focused mainly on cutting back overtime hours and increasing the rate of consumed annual paid vacation days. Our efforts have begun to see steady successes and now we are seeking to build on them.



Working Style Reforms Launched in Earnest by Management

At the time SCSK was formed, the executive management team made a declaration to reduce working hours while generating greater added value than before in order to become a company with a pleasant and rewarding workplace. To break through the stereotype that the IT industry and overtime work go hand in hand, we were among the first in the industry to create a vision and work in various ways toward equalizing workloads and assigning the right people to the right jobs. After developing the necessary systems, we have fostered a culture that believes in working efficiently in a well modulated way, instead of simply working long hours.



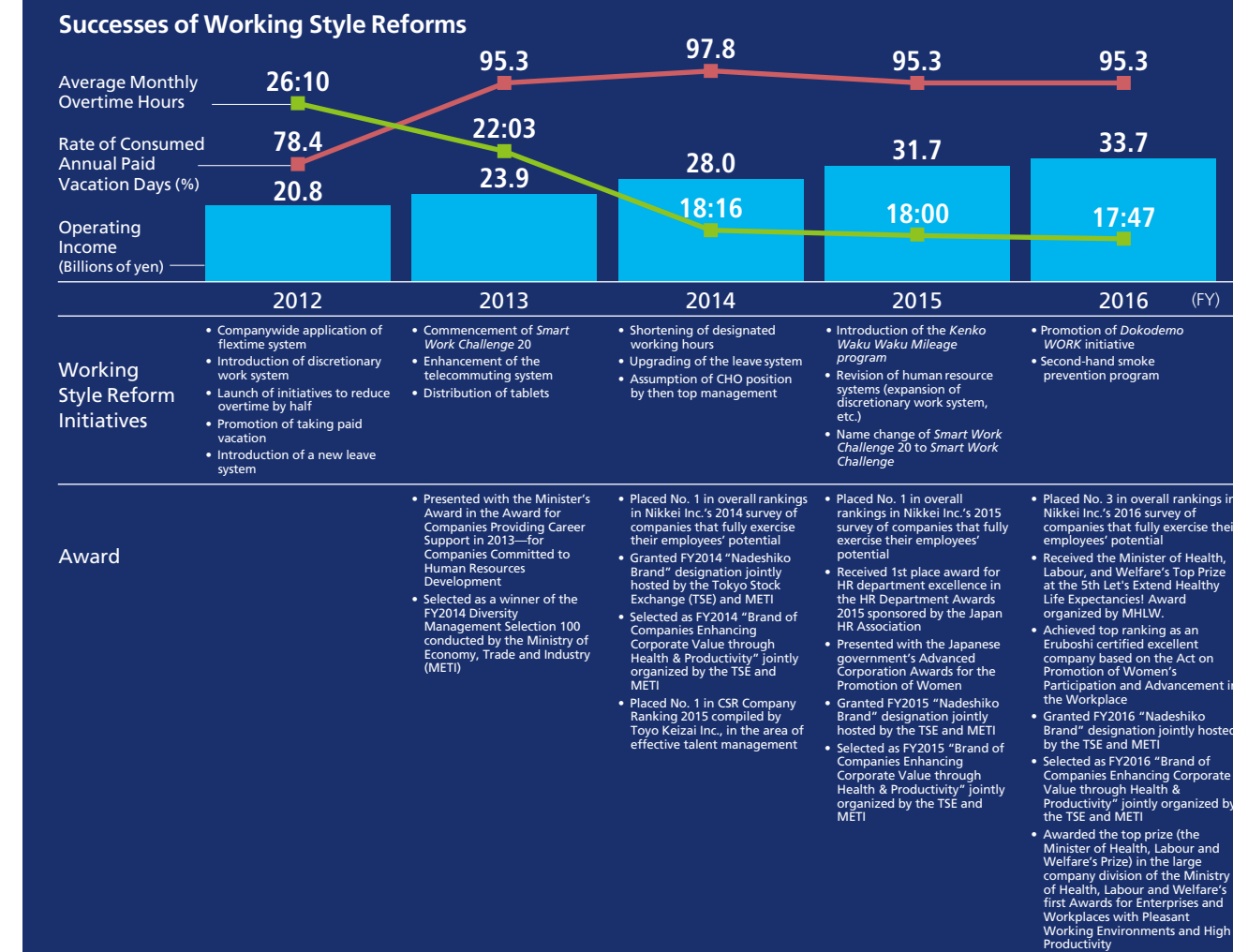
Smart Work Challenge for Working More Efficiently and *Dokodemo WORK* as a New Working Style

In April 2013, we launched *Smart Work Challenge 20* as a companywide initiative, under which various measures were taken with the goal of having all employees take all 20 days of annual paid leave and reducing the average monthly overtime hours to less than 20 hours. Specific initiatives aimed at improvement were considered and implemented individually by each department. This format had the added benefit of helping invigorate workplace communication and improve teamwork and organizational strengths, which led to further innovation. In 2016, we launched a *Dokodemo WORK* (Work Anywhere Project) initiative as a new working style. This involves improving employees' work-life balance by promoting teleworking. We are gradually expanding the scope of eligible organizations and will soon roll out this initiative companywide after identifying and remedying any issues.



Further Evolution in Working Style Reforms

Our activities to date have raised greater awareness within SCSK about cutting back on working hours and improving operational quality. In July 2015, we made changes to our personnel system, including expanding the discretionary labor system, so that employees rethink the way they work and achieve greater successes. These initiatives have been lauded outside the company, and, as such, we would now like to share these practices not only with peers in our industry, but also with Japan as a whole, including other industries, to encourage similar working style reforms. Meanwhile, in addition to the working style reforms we currently have underway, we aim to be a company where all employees, regardless of gender, age or nationality, are mentally and physically healthy, actively contribute, and feel a sense of purpose.

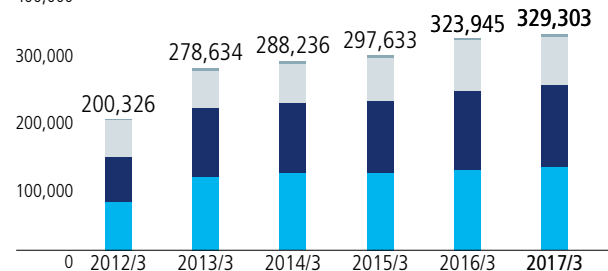


Financial Highlights

Net Sales

¥329.3billion

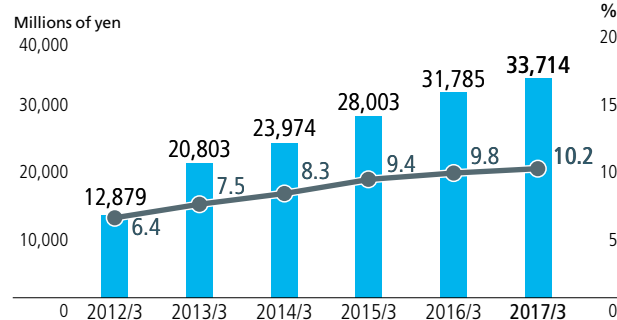
■ Systems Development ■ System Maintenance and Operation / Services
■ Packaged Software / Hardware Sales ■ Prepaid Card Business
Millions of yen



Operating Profit Margin

10.2%

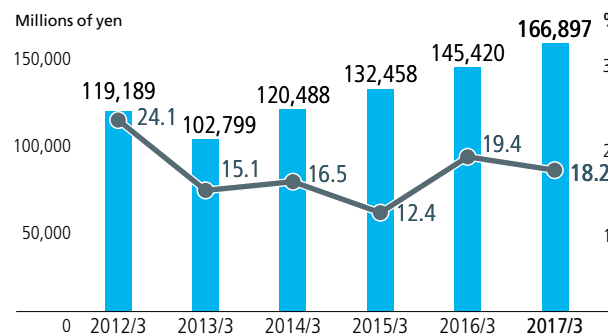
■ Operating profit ■ Operating profit margin



ROE

18.2%

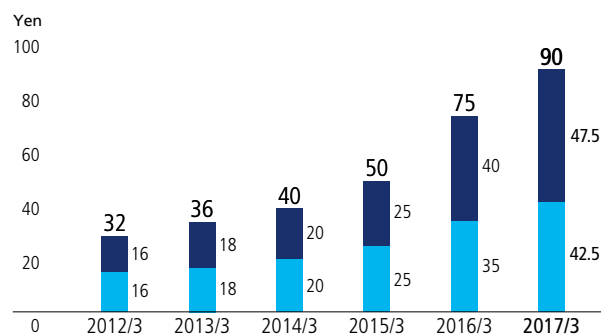
■ Equity capital ■ ROE



Dividend Payments

¥90

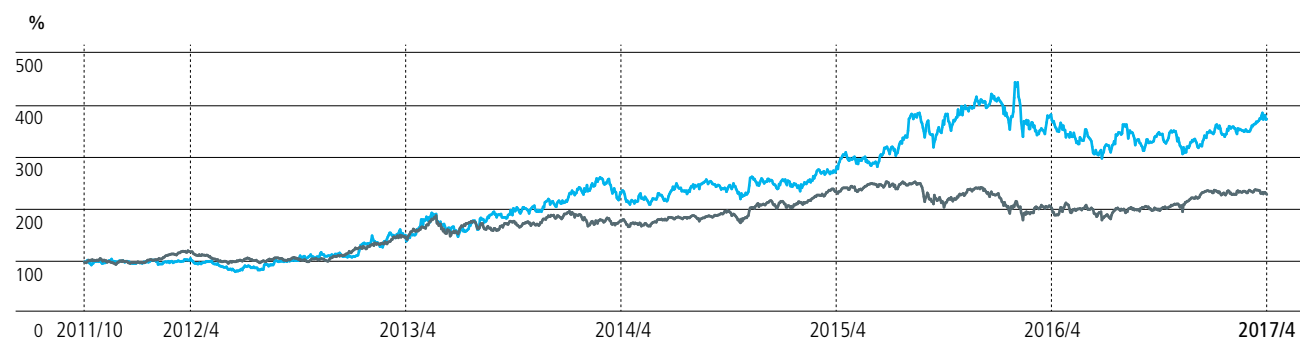
■ Six-month period-end ■ Year-end



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

Stock Price Trends

— SCSK — Nikkei 225



* October 3, 2011 (at the time of the merger) set at 100

SCSK Corporation: Financial Indicators (Consolidated)

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

Cash Flows	(Millions of yen)
Cash flows from operating activities	22,249
Cash flows from investing activities	(8,112)
Free cash flows*2	14,137
Cash flows from financing activities	(7,965)
Cash and cash equivalents at end of period	63,661

Financial Position	(Millions of yen)
Total assets	300,928
Net assets	124,419
Equity capital	119,189
Interest-bearing debt + Preferred shares*3	84,860

Per Share Data	(Yen)
BPS	860.37
EPS	334.19

Major Indicators	
ROE (%)	24.1
ROA (%)	7.9
Equity ratio (%)	39.6
Debt/Equity ratio (Times)	0.46
Number of employees	11,995
Capital expenditures (Millions of yen)	7,954
Depreciation and amortization (Millions of yen)	5,380
R&D expenses (Millions of yen)	417
Stock prices (Yen)	1,312

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

*2. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

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

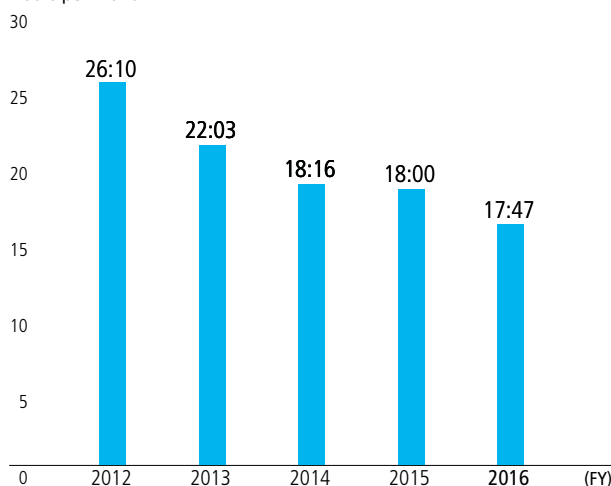
Non-Financial Highlights

Average Monthly Overtime Hours
(Average for All Employees)*²

17:47

■ Average Monthly Overtime Hours

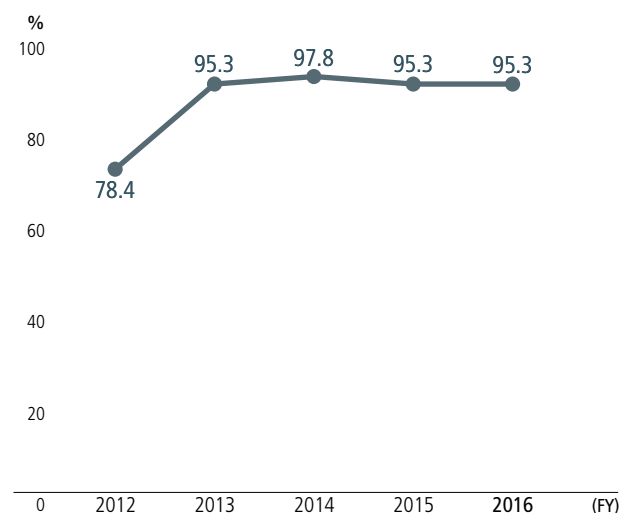
Hours per month



Rate of Consumed Annual
Paid Vacation Days*²

95.3%

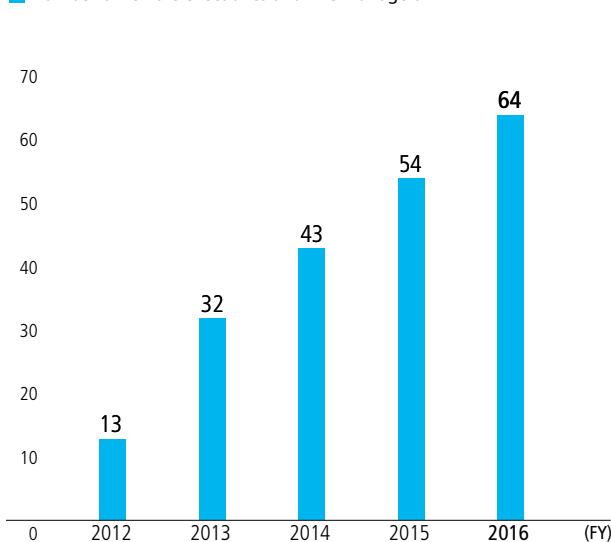
◆ Ratio of Employees Taking Annual Paid Leave



Number of female executives
and line managers

64

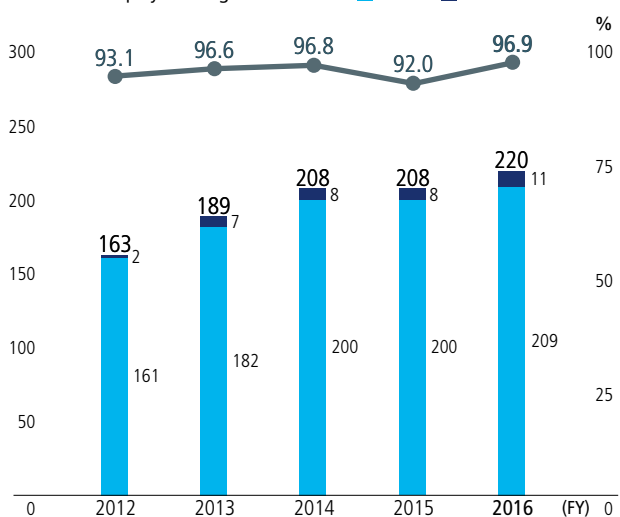
■ Number of female executives and line managers



Percentage of employees
returning to work after
childcare leave

96.9%

◆ Percentage of employees returning to work after childcare leave
■ Number of employees using childcare leave ■ Female ■ Male



SCSK Corporation, Non-Consolidated Index

Data on Labor Practices		FY2012	FY2013	FY2014	FY2015	FY2016
Number of employees		7,494	7,385	7,328	7,261	7,241
	Male	6,257	6,162	6,091	6,022	5,976
	Female	1,127	1,223	1,237	1,239	1,265
Recruitment		93	90	99	122	162
	Male	68	61	67	80	104
	Female	25	29	32	42	58
Diversity	Number of new recruits (newly graduated)					
	Male	139	153	171	179	219
	Female	13	32	43	54	64
	Number of non-Japanese employees	46	46	42	45	43
Work-life balance	Average monthly overtime hours* ²	26 hours, 10 minutes per month	22 hours, 03 minutes per month	18 hours, 16 minutes per month	18 hours, 00 minutes per month	17 hours, 47 minutes per month
	Rate of consumed annual paid vacation days* ²	78.4%	95.3%	97.8%	95.3%	95.3%
	Number of employees using childcare leave	163 (Male: 2, Female: 161)	189 (Male: 7, Female: 182)	208 (Male: 8, Female: 200)	208 (Male: 8, Female: 200)	220 (Male: 11, Female: 209)
	Percentage of employees returning to work after childcare leave	93.1%	96.6%	96.8%	92.0%	96.9%
	Number of employees using nursing care leave	3 (Male: 2, Female: 1)	3 (Male: 3, Female: 0)	4 (Male: 4, Female: 0)	1 (Male: 1, Female: 0)	3 (Male: 1, Female: 2)
	Number of employees using reduced work hour programs	182 (Male: 2, Female: 180)	179 (Male: 2, Female: 177)	191 (Male: 2, Female: 189)	216 (Male: 3, Female: 213)	264 (Male: 3, Female: 261)
	Number of employees using maternity leave* ³	86	76	74	85	76
	Number of employees using parental leave	187	184	152	169	145
	Number of employees using balance support leave* ⁴	449 (Male: 307, Female: 142)	496 (Male: 335, Female: 161)	621 (Male: 399, Female: 222)	729 (Male: 455, Female: 274)	839 (Male: 516, Female: 323)
	Number of employees using child nursing leave	363 (Male: 228, Female: 135)	419 (Male: 266, Female: 153)	438 (Male: 265, Female: 173)	458 (Male: 260, Female: 198)	492 (Male: 286, Female: 206)
Nursing care support seminars	Number of seminars held (Times)	3	3	16	14	17
	Number of participants	192	155	1,088	1,126	1,630

Data on Environmental Impact		FY2012	FY2013	FY2014	FY2015	FY2016
Power consumption	Total (MWh)	89,808,000kWh	91,266,000kWh	93,013,000kWh	88,931,000kWh	78,985,000kWh
	Breakdown					
	Offices in Japan (MWh)	18,057,000kWh	16,463,000kWh	15,072,000kWh	14,124,000kWh	13,687,000kWh
	Data centers (MWh)	71,751,000kWh	74,803,000kWh	77,941,000kWh	74,807,000kWh	65,298,000kWh
Data on Environmental Impact	Thermal energy consumption (GJ)	879,979GJ	894,101GJ	911,181GJ	867,229GJ	772,540GJ
	CO ₂ emissions from fuel combustion (t-CO ₂)	41,393t-CO ₂	47,341t-CO ₂	48,636t-CO ₂	45,612t-CO ₂	39,820t-CO ₂
	Volume of office paper purchased (Sheet)	37,771,000	33,363,000	32,577,000	34,390,000	29,234,000
	General waste (t)	309t	331t	361t	357t	294t
	General waste recycling rate	77%	78%	85%	83%	79%
	Industrial waste (t)	95t	161t	130t	172t	172t
	Industrial waste recycling rate	100%	100%	100%	100%	100%
	Total waste (t)* ⁵	404t	492t	491t	529t	466t
Annual average PUE at data centers	Tokyo Center 1	1.62	1.63	1.58	1.63	1.64
	Tokyo Center 2	1.75	1.78	1.79	1.82	1.87
	Chiba Center	1.46	1.47	1.53	1.49	1.76
	Sanda Center	1.75	1.80	1.74	1.79	1.82

*1. Employment ratio of the 10 Group companies in Japan certified as affiliates. Figures for each year are as of June 1.

*2. Average for all employees including those under the discretionary work system and supervisors

*3. 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.

*4. When the employee is providing nursing care to a family member (the employee's spouse, or a family member (within the second degree) of the employee or the employee's spouse).

However, this does not include family members who have received nursing care authorization.

A. When the employee must accompany his or her child to receive necessary vaccinations, or attend an event at his or her child's school, up until the child graduates from elementary school (extended to until the child graduates from junior high school starting April 2017)

B. When the employee goes to the hospital for infertility treatment (all applicable employees are granted 5 days per year)

*5. SCSK does not produce hazardous waste from its business operations.

SCSK's Committed to being a Strategic IT Partner that Always Thinks from the Customers' Perspective



Tooru Tanihara
President

Review of the Previous Fiscal Year

Q1 This is your second year as President of SCSK. How would you look back on your past year at the helm of the company?

A1 I have worked to instill across the company our stance of always thinking from the customers' perspective as a strategic IT partner.

Since being appointed as President of SCSK in April 2016, I have found that steering the company has been more difficult than I previously imagined, and I am reminded of the importance of my duties every day. I rely heavily on my management creed of always thinking from the customers' perspective in my decision making and execution of duties as head of the company.

Thinking from the customers' perspective refers to more than just doing as the customer says. It involves identifying the customers' true challenges from interactions with them and presenting solutions. The latest technologies such as IoT and AI are garnering a great deal of attention as of late, but these merely represent a tool for solutions, and not the solution itself. Our challenge is how we can help our customers achieve transformation of business models by utilizing these tools for enhancement of sales and profits. Our mission is to make full use of our insight and guide them to reach the optimal solution.

SCSK "To-be" Model



This means, we need to talk to our customers face to face in the field to engage and understand each other. After joining CSK in 1982, for 16 years I worked in various positions, but always very close to the front lines of business, working side by side with customers from nearly every sector. During that time, I always paid close attention to, and asked myself whether my work was helping improve customers' corporate value. As the need for proactive IT aimed at business growth or enhancing corporate value grows, this stance of thinking from the customer's perspective will enable us to deliver proposals that truly impress our customers. I believe such an approach will entitle us to become a strategic partner to our customers.

Therefore, since becoming President of SCSK, I have continually talked to our people about the importance of always thinking from the customer's perspective. Perhaps because I have urged them to do so, recently I feel like we have visited our customers more often than before, and greatly elevated the level of communication with customers so that now we can reflect what we learned in actual proposals.

On the earnings front, as I mentioned, we have seen customers' proactive IT investments become more vigorous, which in fiscal 2016 helped us to achieve higher profit on higher sales for the fifth consecutive year since the merger. We were also able to post a record high operating profit. As a result, we increased our dividend for the fifth consecutive year. In fiscal 2017, we will work on capturing robust demand for IT investment and strive to enhance productivity and operational quality across all businesses so as to maintain and grow our earnings capacity.

Forecasts for Fiscal 2017

	Fiscal 2016	Fiscal 2017 (Forecast)	Change
Net sales	¥329.3 billion	¥340 billion	+3.2%
Operating profit	¥33.7 billion	¥36 billion	+6.8%
Ordinary profit	¥36.1 billion	¥37 billion	+2.4%
Profit attributable to owners of parent	¥28.4 billion	¥24.5 billion	-13.9%
Dividend	¥90	¥95	—

Progress of Medium-Term Management Plan

Q2 Can you explain the positioning of the Medium-Term Management Plan?

A2 We have established three core strategies as our medium- to long-term growth step.

Japan's IT services industry is a battleground of intense competition with listed companies alone numbering over 200. For this reason, I believe that the industry will see consolidation and elimination of companies sometime in the future. The SCSK Group must find ways to survive these turbulent times where just about anything could happen. Therefore, we will further reinforce our business base and aim to become a leading company in the industry.

The SCSK Group's strength, aligned with the realization of this goal, is the fact that businesses of our Group range extensively from consulting and system development to building IT infrastructure, IT management, business process outsourcing (BPO), and sales of IT hardware and software, which enables us to provide a full lineup of every IT service

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

**Transform Business Structure
(To a Non-Labor-Intensive Business) / Dynamic Growth
Strategy Aiming to Achieve High Profit Growth**

Core Strategies

1. Shift to service- oriented businesses
2. Promote strategic businesses that capture the changing times
3. Enter into the second stage of global business expansion

Strengthen Management Base

1. Seek operational quality
2. Improve business profitability
3. Enhance operational efficiency
4. Pleasant, fulfilling place to work / Promote health and productivity management.
5. Enhance human resource capabilities

required by any business. This is made possible from our many years of experience working with a number of customers to solve a variety of challenges, and then putting these results into our systems and services.

As the next step in achieving medium- to long-term growth while harnessing these strengths, we launched a five-year Medium-Term Management Plan in April 2015. Within this plan, we have created three core strategies, under which we have committed management resources to shift to service-oriented businesses and promote strategic businesses. After accomplishing these two strategies, we will turn our attention to the second stage of global business expansion as a professional IT service provider which supports overseas expansion of Japanese companies.

Q3 Can you detail SCSK's progress with shifting to service-oriented businesses?

A3 We are making steady progress with transforming our business portfolio with the goal of moving away from labor-intensive businesses.

Conventional system development as well as operation and maintenance services are labor-intensive businesses. This means that labor costs increased as the number of orders rose. In contrast, as the future decline in the labor force is close to becoming a reality, even if we seek to maximize profits with our current business model, we will face constraints in terms of the number of engineers, which will cap our corporate growth eventually.

In this sense, we will pursue a strategy of creating businesses that do not rely on the number of engineers and gearing toward service-oriented businesses. This involves identifying domains from industry-specific operations where further efficiency can be achieved using standardized systems and providing pay-per-use services, by fully leveraging SCSK's long-standing knowhow and intellectual properties. In 2002, we were the first in Japan to begin offering pay-per-use cloud



services, and I was actually involved with the launch of this service. However, service-oriented businesses refer to more than just cloud services. They actually mean a full lineup of services that combine many solutions we now offer, including such a cycle that starts from consulting, operations and runs through to evaluation and analysis.

Net sales of service-oriented businesses have grown from around ¥44 billion in fiscal 2015 to ¥50 billion in fiscal 2016, marking a 14% jump year on year. They now account for over 15% of total sales, compared to more than 13% before, which indicates we are making steady progress with transforming our business portfolio. In fiscal 2017, we will aim to further expand these service-oriented businesses, commit human resources and various business investments, create new business models and deliver new solutions to customers.

Q4 Can you detail SCSK's progress in promoting strategic businesses?

A4 Following our business plan, we are making progress in the automotive systems business, which stands at the heart of our strategic businesses.

The automotive systems business represents one of our strategic businesses. With rising demand for better environmental performance and autonomous driving, automotive system development projects have become more complex and large-scale with each passing year. Therefore, shortening the duration of automotive system development and lowering costs have become important challenges for the auto industry.

To address these issues, in October 2015 we launched Japan's first automotive basic software compliant with AUTOSAR called QINeS-BSW, which makes it possible to develop electronic control units (ECU) efficiently. SCSK is proud of the fact it is among the leaders in the industry within this domain. Although I cannot disclose information about specific development projects underway, I can say that at the moment we are proceeding according to plan. I feel like we will see a major order and contract before the end of the year.

I believe that the automobiles of tomorrow will become another information device where data is linked and shared over a network. In other words, there is still a great deal of potential in new markets and businesses centered on automobiles. With such a future in mind, SCSK will build a business model in the domain of software so that it will play a leading role in the auto and manufacturing industries that underpin Japan's economy. This represents the mission of the SCSK Group, which is working to become a leader in the IT industry.

Utilization of Human Resources

Q5 What is your approach to human resource development, which is essential to achieving the company's strategies?

A5 We will combine the skills and knowhow of seniors and others with mid-career and junior employees.

Our most important asset is our people. One of the greatest challenges we face in terms of human resources is combining the skills and knowhow of different generations. How to address this issue may be one of the toughest challenges I face as a corporate executive.

This is because skills and development styles vary between generations, given the major changes taking place in technical trends. For example, many of our senior workers over the age of 50 have experience with large-scale development projects epitomized by third generation online systems. In contrast, mid-career employees from in their late thirties to forties mainly develop business applications, while nearly none have experience in large-scale development, which is the same for our younger employees.

In particular, junior and mid-career employees must take on the challenge of learning new technologies and development styles. Large-scale development projects require collaboration between the many project members and the skill to manage a large-scale project. Therefore, for projects above a certain scale, such as system integration, we involve employees from a wide range of age groups, from junior to senior, so that they can fully contribute their skills and experience. At the same time, members are able to absorb skills and knowhow from one another.

Also, we are expanding opportunities for senior employees to contribute, including setting up mechanisms for encouraging highly experienced senior employees to pass down their skills and knowhow to others in order to thoroughly raise the level of our organizational strengths. At the same time, I want our junior employees to have the freedom to be the drivers of new innovation, and for this reason, I have set up an open business development program soliciting ideas about new businesses from all SCSK Group employees, regardless of age.

Q6 SCSK was among the first in Japan to focus on working style reforms. What results have you seen thus far?

A6 We are encouraging our people to change the way they think about work to achieve both shortened working hours and improved productivity.

To become a leading company in the IT services industry, we must be a company where employees have a sense of pride and motivation in everything they do. Based on this thought, we were among the first in the industry to focus on working style reforms from even before the merger, with the goal of becoming a company with pleasant and rewarding workplaces. These include reducing overtime, encouraging paid vacation to be taken, and improving the workplace environment. Through these initiatives, we have changed the way we think about work and working styles. For three consecutive years since 2014, we have kept average monthly overtime work below 20 hours while 95% of annual paid vacation days were taken.

In recognition of these results, SCSK received the top prize (the Minister of Health, Labour and Welfare's Prize) in the large company division of the Ministry of Health, Labour and Welfare's first Awards for Enterprises and Workplaces with Pleasant Working Environments and High Productivity announced in March 2017. Furthermore, we were granted the "Nadeshiko Brand and Health and Productivity Management Brand" designations for the third consecutive year (fiscal 2014, fiscal 2015, and fiscal 2016), demonstrating our working style reforms have earned high praise from the market.

Going forward, we will expand our working style reform initiatives to our business partners with the goal of leading the industry forward in this area.

Reinforcement of the Management Base

Q7 What types of initiatives are you implementing to reinforce corporate governance?

A7 We are pursuing management transparency and soundness by separating the supervision of management and business execution

The SCSK Group has the unique experience of undergoing a parent-subsiary listing as well as a number of mergers over the past 15 years. In recent years, there is growing demand for management transparency and soundness, including complying with Japan's Corporate Governance Code. In June 2016, we transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee that is comprised of a majority of outside directors. Since then, we have worked to heighten management soundness and efficiency by further reinforcing the Board of Directors' supervision of management and corporate governance.

Five years after the birth of SCSK, we decided to appoint an outside director independent from the operations of the company as the chair of meetings of the Board of Directors in order to build a Board with greater management transparency. In June 2017, we reduced the number of directors from 19 to 16, while increasing the number of independent outside directors, including Audit and Supervisory Committee members, from four to six. Additionally, we made changes to our Board so that it consists of outside directors and executive officers in charge of the Corporate Group, which further clarifies our separation of business execution and supervision. Going forward, we will continue to reinforce our corporate governance system.



Vision for the Medium- to Long-term

Q8 What is your future vision for the company?

A8 I aim to make SCSK recognized as "a leading company" in everything we do.

A leading company in the IT services industry as defined by SCSK refers to a company recognized by society as first-class in everything it does, including not only technical capabilities and service quality, but also customer satisfaction, human resources, and management quality. My mission as President is to ensure we become such a company.

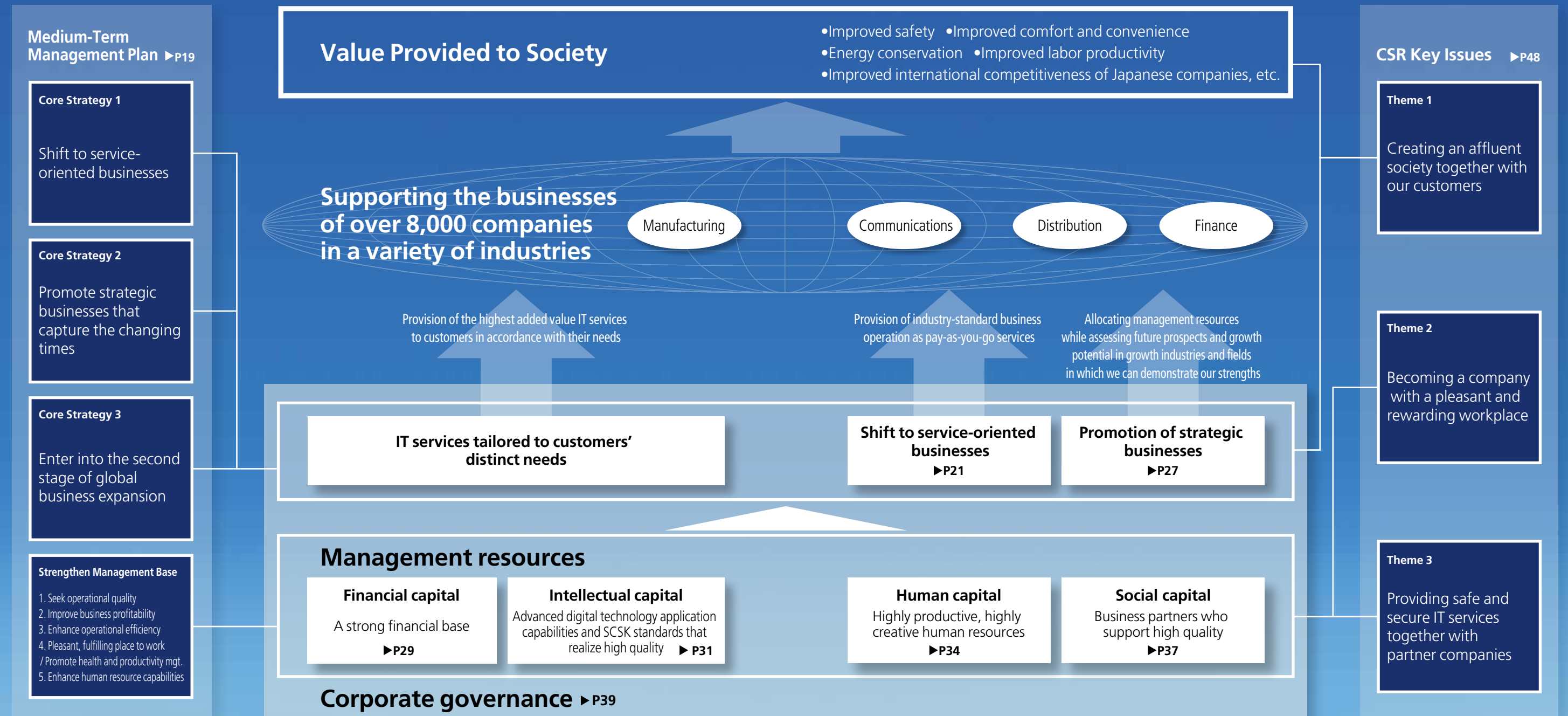
To realize this vision, it will be critical to thoroughly think from the customer's perspective. Looking at our customers' business environment today, advancement in digital technologies has resulted in growing competition that is spilling over sector and industry lines. One effective solution for overcoming this competition that has gotten my attention is collaboration with different industries. Our mission is to provide services and systems that innovate business models and can link customers from different industries using IT as a tool.

On the other hand, exercising our people's potential as we move toward becoming a leading company recognized as first-class by all is a key ingredient in my approach to management. We will now implement a number of initiatives for working style reforms and for health and productivity management, which includes tie-ups with our business partners.

Through these initiatives, the SCSK Group will build trust with all of its stakeholders, including customers, shareholders, business partners, employees, and local communities, while aiming to achieve sustainable growth under its corporate philosophy of "Create Our Future of Dreams."

I ask for your continued support as we move forward.

Creating Value for Society by Supporting Customers' Businesses



Accurately understanding customer needs

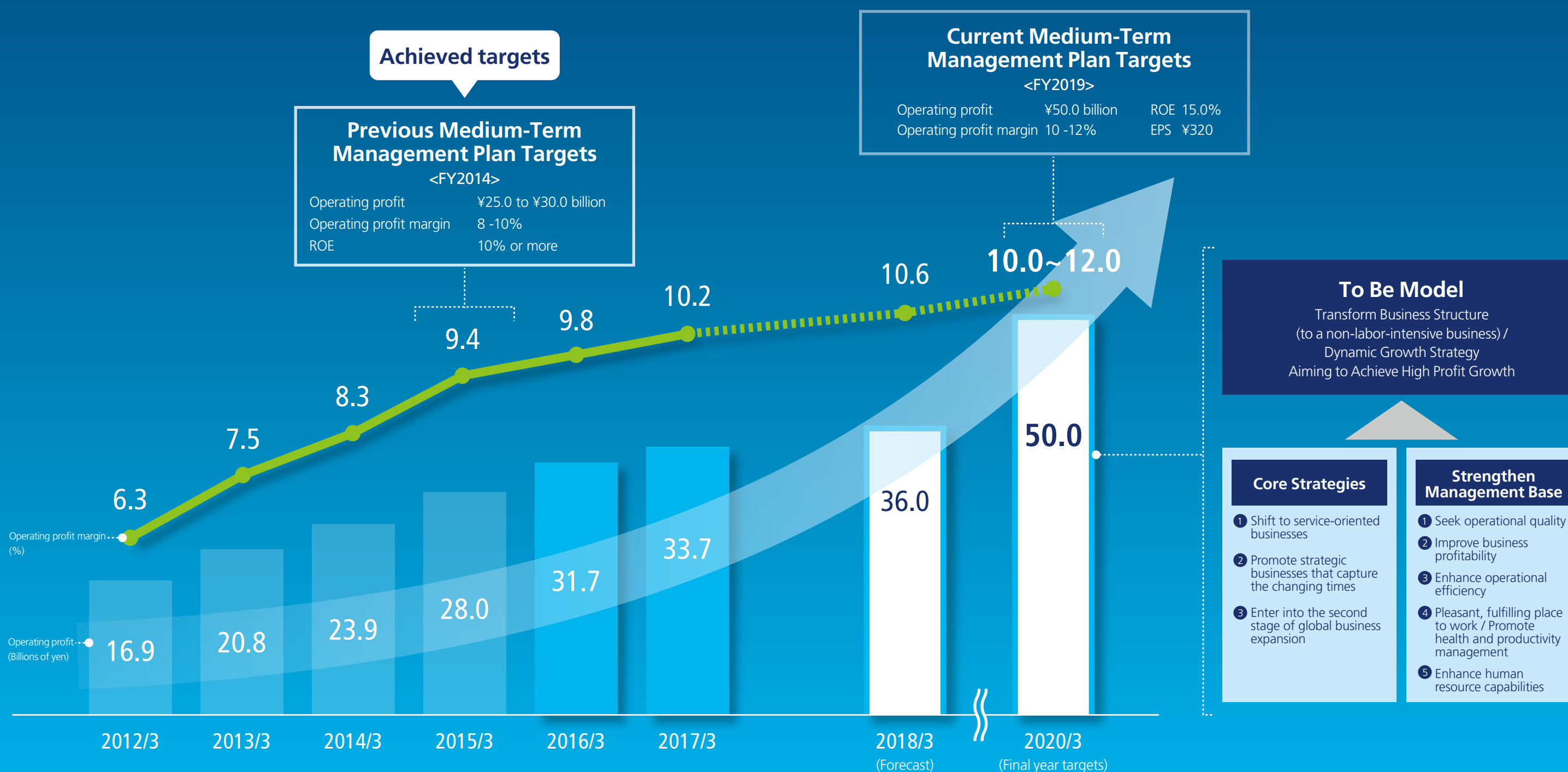
- Development of new businesses through the application of advanced IT
- Competitiveness enhancement through strategic IT investment
- Global business development
- IT operation cost reduction
- Business continuity planning (BCP) and disaster countermeasures
- Ensuring information security, etc.

Ensuring a Medium-Term Growth Trajectory and Achieving the Medium-Term Management Plan Targets

We will achieve sustained growth by committing management resources and strengthening our business portfolio, including shifting to a service-oriented business model and launching strategic businesses.

Previous Medium-Term Management Plan

Current Medium-Term Management Plan



* Fiscal 2011 performance figures are the total of the full-year results of SCSK and the first-half (April–September 2011) results of CSK Corporation.

SCSK is aiming to switch to a business structure that is stable and has strong earnings power by making maximum use of expertise accumulated through conventional businesses.

SCSK's Service-Oriented Businesses

Leveraging our expertise in standardizing industry-specific operations to provide IT service solutions which support customer business operation without the need for customers to own the IT assets themselves

Today, due to advancements in digital technologies like the Internet of Things (IoT), FinTech, and Artificial Intelligence (AI), strategic IT needs for management and business look only to further increase. In other words, the majority of companies are investing in strategic IT to enhance their corporate value and strengthen their competitiveness. Meanwhile, these same companies have a need to introduce IT services which will support their business operations efficiently and at low cost.

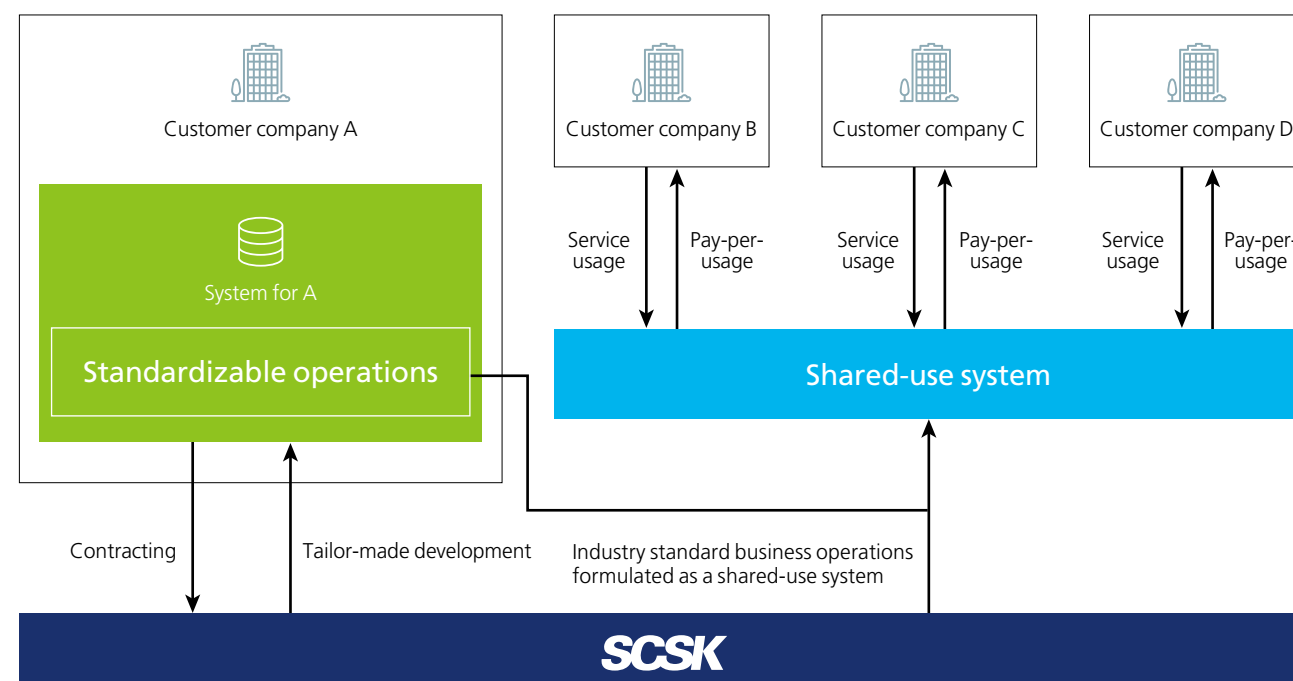
In order to meet these needs, SCSK puts its focus on its service-oriented businesses. Service-oriented businesses are industry-standard business operations provided as pay-per-usage IT services via shared-use systems built by SCSK making maximum use of its accumulated knowhow and intellectual properties, with a focus on the industries of manufacturing, communications, distribution, and finance. As an example, since this business is provided on a pay-per-usage basis, a customer could make speedy use of high quality services without the need for a large initial investment in implementation costs; meanwhile, this helps SCSK to build a stable earnings base.

Meanwhile, as a diverse variety of cloud and other IT services launch one after the other and competition becomes more

intense, SCSK has decided to include service-oriented businesses in its growth strategy. This decision is backed by over 40 years of continuing success in meeting the IT needs of some 8,000 customers centering around the manufacturing, communications, distribution, and financial industries. SCSK is closely involved with numerous customers and employs great numbers of engineers thoroughly versed in industry-specific business operations, enabling SCSK to determine which operations can be standardized and provide them as IT services which also give consideration to their versatility and compatibility with existing systems.

However, not all of our conventional system development businesses, tailored to the specific customer, can be transitioned to service-oriented businesses. SCSK engineers, equipped with industry expertise and system architecture experience, will continue to provide customized solution development for strategic IT needs. Further, SCSK will continue to accumulate knowhow and expertise in cutting edge digital technologies through these efforts and leverage them in the development of service-oriented businesses which offer even greater added value.

Service-Oriented Business Creation Model



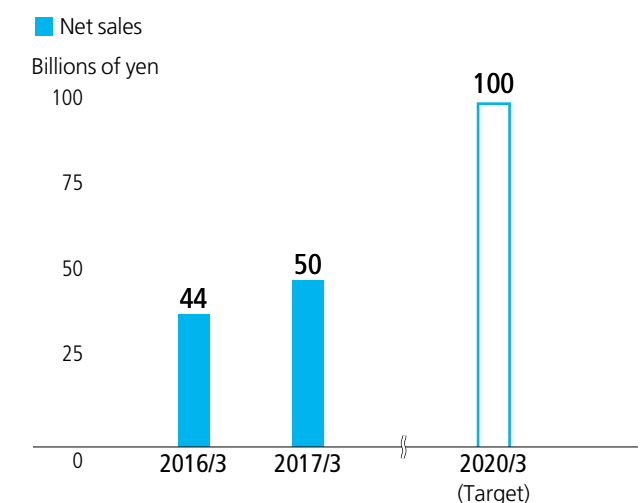
Future outlook

Promoting service-oriented businesses in all industries with the aim of achieving ¥100 billion in sales by the final year of our Medium-Term Management Plan

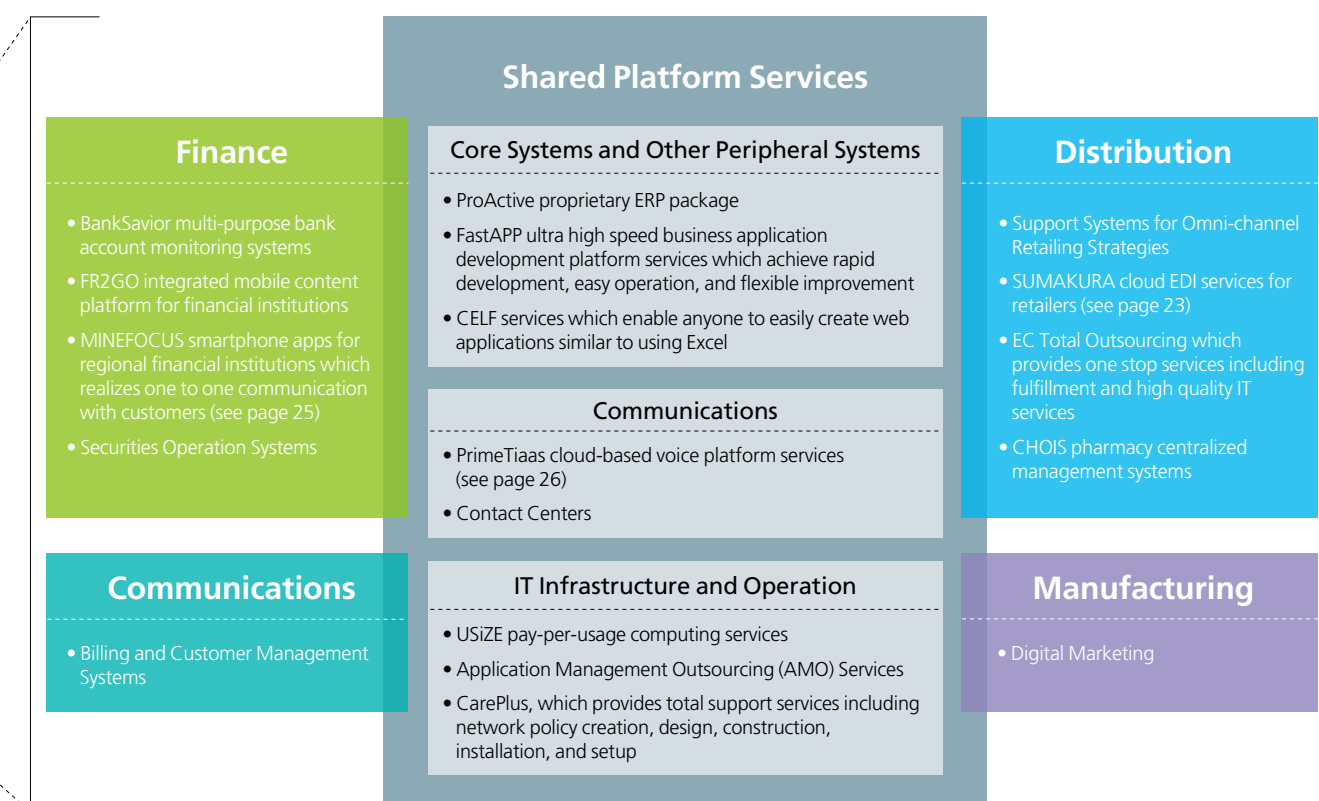
In addition to services tailored to specific industries, SCSK is also developing services which can be applied to all sectors and industries such as our USiZE IT infrastructure services as well as various BPO services including contact center businesses. Further, SCSK is also assertively moving forward with the creation of new services such as the construction of a SaaS-style service combining USiZE with our ProActive Enterprise Resources Planning (ERP) package, as well as the launch of proof of concept projects for new non-life insurance industry services making use of AI.

SCSK has set forth a goal of increasing sales from service-oriented businesses to ¥100 billion in fiscal year ending March 31, 2020 by continuing to expand these services. Sales in fiscal 2015 were ¥44 billion and grew steadily to ¥50 billion in fiscal 2016, and we see the shift of SCSK's business portfolio proceeding solidly.

Service-Oriented Business Sales



Example Service-Oriented Businesses



Example 1 Powerful Support for Improving Productivity in the Distribution Industry SUMAKURA—IT Infrastructure Evolved from EDI

Standard Systems for Coordinating Manufacturing, Distribution, and Sales Transaction Information The Birth of a Distribution BMS*¹

In Japan, the JCA protocol*² has come to be widely used as a measure for optimizing retail operations, but this protocol posed the problems of technological antiquation and individual retail business specifications. Accordingly, Distribution BMS was established in 2007 as the only standard for the distribution industry in 2007.

Distribution BMS has become a shared infrastructure for activities which aim to coordinate information between the so-called three layers of distribution—manufacturing (manufacturers), distribution (wholesalers), and sales (retailers)—and optimize overall supply chain management (SCM).

However, there were challenges involved in its popularization. Small and medium-sized companies in particular face numerous difficulties, including costs such as facilities investment, verifying cost-effectiveness, and securing appropriate personnel for system implementation. The means chosen for resolving these issues in order to promote the diffusion of Distribution BMS was the creation of shared use services promoted by four major distribution organizations*³.

*1: Distribution BMS: An abbreviation for Distribution Business Message Standards. A new standard for EDI able to be used uniformly by companies involved in the distribution industry.

*2: JCA protocol: A data exchange protocol established in 1982 by the Japan Chain Stores Association and the (former) Ministry of International Trade and Industry.

*3: Four major distribution organizations: The Japan Supermarkets Association, All Japan Supermarket Association, New Supermarket Association of Japan, and Japan Voluntary Chain Association.

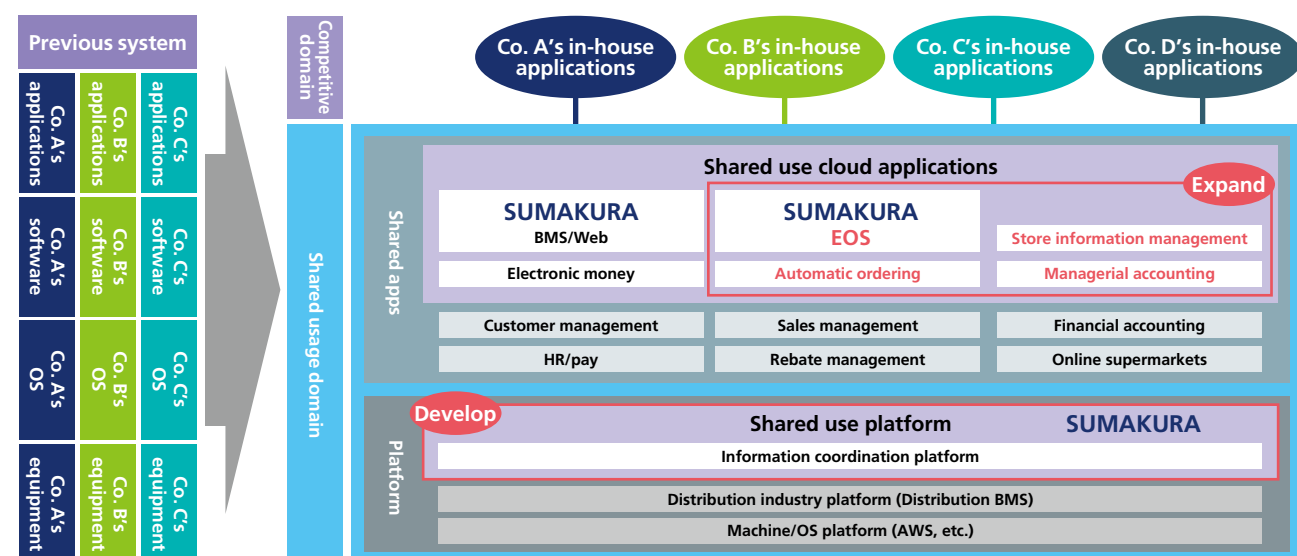
A Model Project for Improving Productivity of the Retail Industry Via Industry-Wide Standardization Realizing a Shared Use Service

What was created in response to the desires of four major distribution organizations was SCSK's SUMAKURA, which overcomes the challenges of reducing the costs involved in implementing Distribution BMS, creating an operation support system, and (particularly for small and medium-sized companies) releasing efficacy verification cases.

By taking what had previously commonly been on-premises and making it a cloud (shared usage) service, SCSK succeeded in lowering prices. SCSK, which has experience in value added network business, also took the knowhow accumulated by providing integrated EDI to the distribution industry and combined it with the industry standard of Distribution BMS to create a system able to provide high quality services which meet customer needs 24 hours a day, 365 days a year. The result has been SUMAKURA being implemented in 140 companies with a focus on supermarkets since its release less than five years ago, with over 20 billion EDI records processed annually.

The benefits of implementing SUMAKURA first and foremost are the standardization of business operations and productivity increases thanks to the elimination of sales slips. SCSK has worked to increase SUMAKURA's recognition and efficacy verification cases of individual implementations have been published in specialist journals and a variety of other media as well as on the official SUMAKURA website. These efforts were presented as an example for improving productivity via industry-wide standardization in *Retail Industry Productivity Improvement Manual: A Collection of Knowhow Gained from Model Projects* released by the Ministry of Economy, Trade and Industry in February 2017.

SUMAKURA as a Shared Use Service



Evolving from Distribution Industry EDI to Lifelines Smart Cloud Lifelines

In 10 strategic public-private joint projects, outlined in Japan Revitalization Strategy 2016 for achieving a nominal GDP of ¥600 trillion, a target was set to double the growth rate of the labor productivity of the service industry from 0.8% (in 2013) to 2% (in 2020).

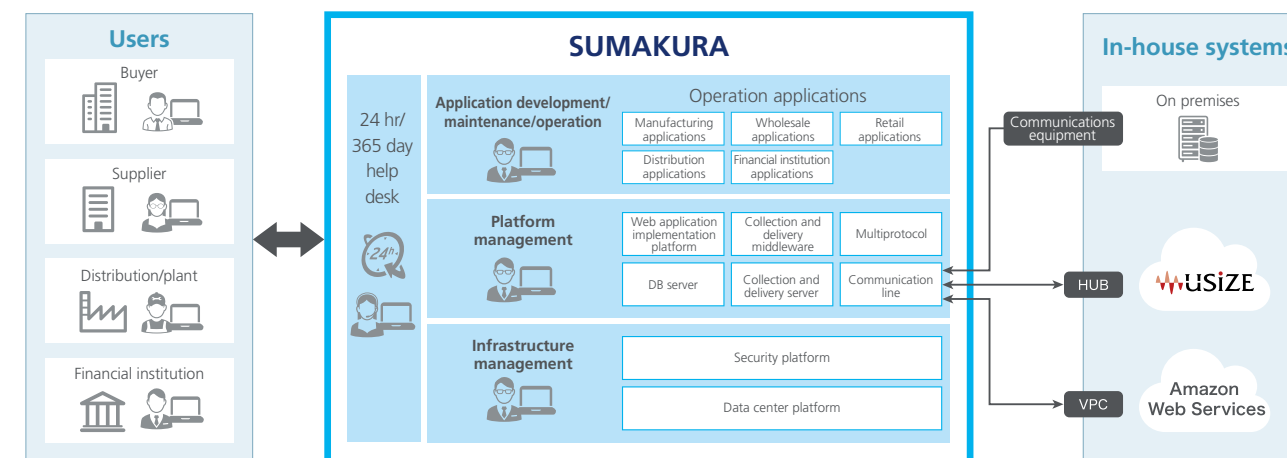
At its heart, Distribution BMS is a tool for improving labor productivity by aiming to optimize overall SCM. To date, SCSK has worked to popularize SUMAKURA within the scope of B2B retail and wholesaling under SCM. Now that SCSK has achieved a certain degree of diffusion, however, we are setting our sights on a new evolution for SUMAKURA.

Our aim is to expand application of SUMAKURA to the entirety of SCM—evolving SUMAKURA into a service which provides powerful support not only for retail and wholesaling, or, partial optimization, but also improving overall productivity in the industry by coordinating with plants, distribution centers, financial institutions and others. Accordingly, we have redefined our existing supermarket cloud EDI services as smart cloud lifelines.

Further, in order to make SUMAKURA an IT "lifeline" in the distribution industry, we are expanding beyond enabling the elimination of sales slips and paper to RPA*⁴, including peripheral EDI processes which relate to in-house work and the consumer customers of retailers, turning it into a service which will realize increased productivity throughout the distribution industry. SCSK intends to continue evolving its services in order to contribute to the issues of work style reform and labor shortages being promoted by the national government and faced directly by the distribution industry.

*4 RPA: Robotic process automation

Aiming to Evolve SUMAKURA into a System Coordination Platform Service



VOICE

Aiming to Be a Platform for Next-Generation Information Systems!



Norio Eguchi
Executive Director
Japan Supermarkets Association

The Japan Supermarkets Association worked to promote the use of Distribution BMS as an industry standard in order to modernize and optimize the mechanisms of distribution. And to this end, we collaborated with SCSK Corporation to create the SUMAKURA shared use service. We provided SUMAKURA to member companies and strove to expand its functionality and scope, creating an environment which made it possible to provide the latest features to companies making use of SUMAKURA. As SUMAKURA came to be used more and more, we came to believe that it could serve as a platform for next-generation information systems, and began conducting research. If we could evolve SUMAKURA into a shared use platform for next-generation information systems, we believed we could make it possible for companies using SUMAKURA to make use of the latest features without the need for significant financial outlays or effort. Further, we felt that by connecting shared applications with proprietary ones, we could not only reduce costs for users but also build systems unique to each company. Aiming to develop SUMAKURA as a platform, we will continue to work with SCSK Corporation and seek to make great strides in this area.

Example 2 MINEFOCUS—A Smartphone Application for Regional Financial Institutions which Realizes One-to-One Communication with Customers

Making Use of FinTech, AI, and Other Cutting-Edge Technologies to Contribute to the Improvement of Customer Services at Regional Financial Institutions

In recent years, FinTech is being applied more and more by financial institutions with the aim of optimizing existing operations and making effective use of expertise. Financial institutions have also increasingly implemented the latest technologies in their business systems and services, in addition to launching smartphone-based applications. In response, SCSK combined its long years of financial expertise with advanced technologies like FinTech to develop the MINEFOCUS smartphone applications as a service-oriented business for regional financial institutions.

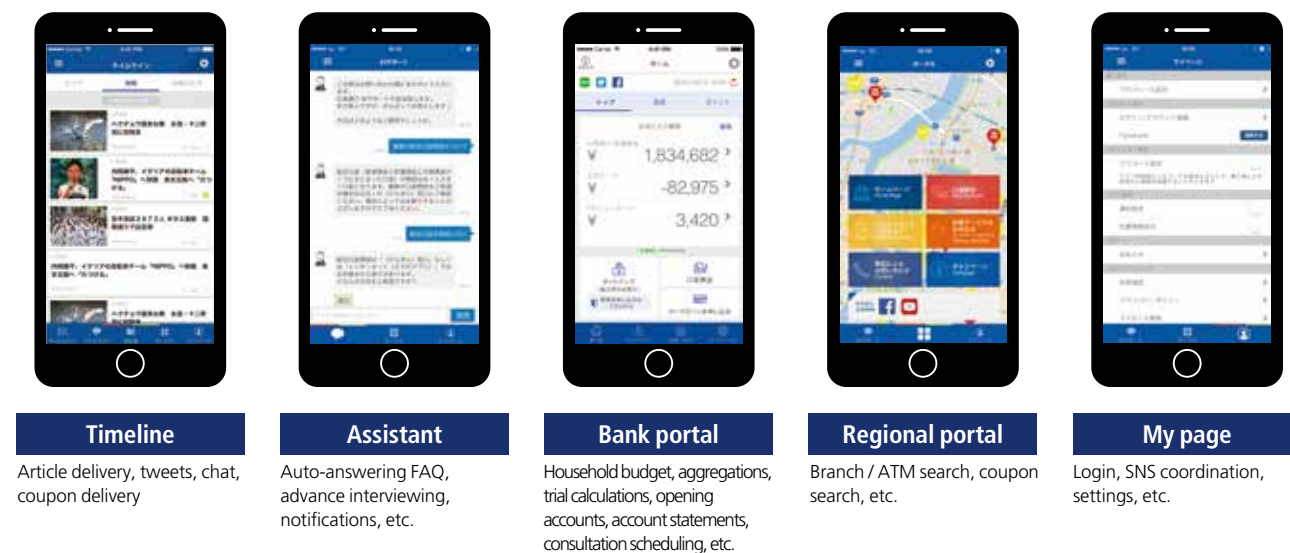
MINEFOCUS is equipped with portal functions such as opening accounts, branch / ATM searching as well as interactive, AI-based FAQs, household budgeting, and personal page capabilities. MINEFOCUS provides powerful support for one-to-one communication with users, serving as a new channel between

regional financial institutions and their users. Through MINEFOCUS, users naturally come to want to talk with and ask questions to their financial institutions, and it contributes to the creation of new business opportunities for regional financial institutions.

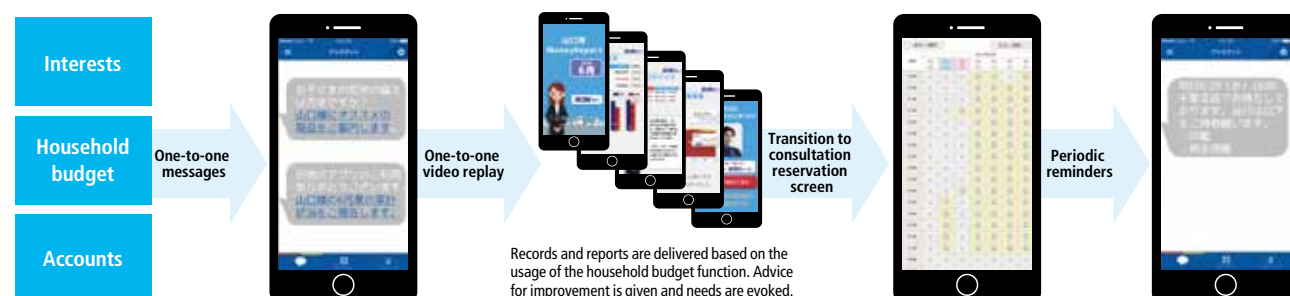
Aiming to Provide MINEFOCUS to Regional Financial Institutions Nationwide

MINEFOCUS first began service in November 2016 as “Hirogin App,” an application provided by Hiroshima Bank headquartered in Hiroshima Prefecture. Since March 2017, MINEFOCUS has also been provided as the “Nanto Bank Smartphone App by Nanto Bank” headquartered in Nara Prefecture. Going forward, SCSK is aiming to offer MINEFOCUS to 20 banks over a three year period by evolving MINEFOCUS into a smartphone application which offers services closely connected with daily life of regional communities and which can be enjoyably used.

MINEFOCUS Basic Menu



Example usage One-to-one dialogue and video are created automatically based on user interests and household financial status, evoking latent desires. Through the simple and convenient interface, the users will be steadily guided towards regional financial institution business goals exactly at the moment they desire to discuss or ask questions.



Example 3 PrimeTiaas—A Cloud Service for Contact Centers which Provides a Communications Platform for Companies and Their Users

Supporting Rapid and Low Cost Contact Center Set Up

PrimeTiaas is a service-oriented business which provides contact centers with necessary functions via the cloud. Because customers do not need to construct or possess facilities in-house, initial costs are kept low; the need for maintenance is also eliminated. In addition, standard features are set up for customers, making it possible to start operation in as short a time as two months.

Further, an IP network is established on a dedicated environment not shared with any other customer, ensuring a high level of confidence and security. PrimeTiaas can also support CRM (Customer Relationship Management) systems and linking with customer's development systems, enabling flexible construction of contact centers suited to a customer's specific goals and purposes. These merits have been highly appreciated by our customers and today PrimeTiaas is used at some 5,500 desks in approximately 40 companies.

Creating a Next-Generation Contact Center Platform Suited to Multichannelization

As multichannelization in the world accelerates with the rapid spread of the Internet and smartphones, contact centers play an essential role in EC businesses and they are also increasingly positioned more and more significantly as part of marketing strategies. Against this backdrop, the distribution industry is seeing more and more investments made in omni-channel strategies which integrate real stores, EC sites, and all sales channels. In 2016, the domestic contact center services market was ¥785 billion; in 2019 it is estimated to reach ¥1 trillion.

In order to meet these market needs, SCSK began offering PrimeTiaas in February 2017 as an omni-channel contact center

system, which provides integrated management of matters such as inquiries from all channels. Going forward, SCSK is aiming to provide PrimeTiaas with marketing automation features to analyze and utilize accumulated data, contributing to the improvement of customer competitiveness and helping to expand customer sales.

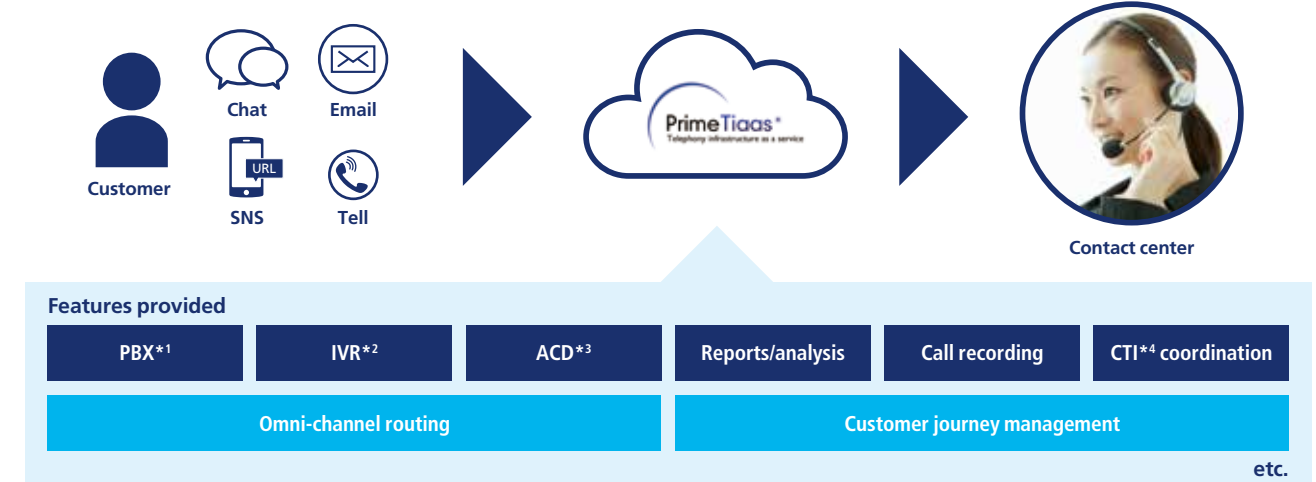
VOICE

We place importance on listening to customers' worries or pains sympathetically to provide them with consultations that draw out and maximize their attractiveness. Accordingly, the voices of our customers are the lifeline of our business. With our previous environment, we experienced many problems relating to voice quality and issues caused by aging equipment, and these problems were a primary hindrance to our ability to provide the kind of high quality services we were aiming for. In order to eliminate this situation, we built our new voice platform with PrimeTiaas. In addition to improving contact center operations, we have experienced numerous other benefits with PrimeTiaas, including reduced costs and a strengthened BCP. We look forward to continued high quality service with PrimeTiaas.



Yasutaka Nakai
Assistant Manager
Information System Division
Aderans Co., Ltd.

PrimeTiaas Overview



*1 PBX: Private Branch eXchange *2 IVR: Interactive Voice Response *3 ACD: Automatic Call Distribution *4 CTI: Computer Telephony Integration

We are focusing management resources in the automotive systems business to grow it into one of our core businesses in the future.

Changes in the Environment Surrounding the Automotive Systems Business

Features of automobiles are becoming more advanced, resulting in complex automotive control systems which are enabled through significantly increased scale of development

Automotive Systems Becoming More Complex and Sophisticated

In recent years, the computerization of automobiles has been progressing rapidly. Today's automobiles need a high degree of comfort, safety, environmental performance, and reliability. For example, features for comfort and safety include parking assistance systems, lane departure warning systems, and pre-crash safety systems that minimize damage during collision, while features for environmental performance include hybrid and electric vehicles. To enable these latest features, electronics technologies have become indispensable in the field of advanced automotive development.

As the features of automobiles have become more sophisticated every year, the number of ECUs* installed in automobiles, the complexity of automotive systems, and the scale of development have each increased significantly. As a result, automobiles that used to install controlling programs with total 10 million to 20 million steps per vehicle now require more than

100 million steps to develop. In other words, automobile development today requires 10 times the manpower than before.

* ECU: Electronic Control Unit

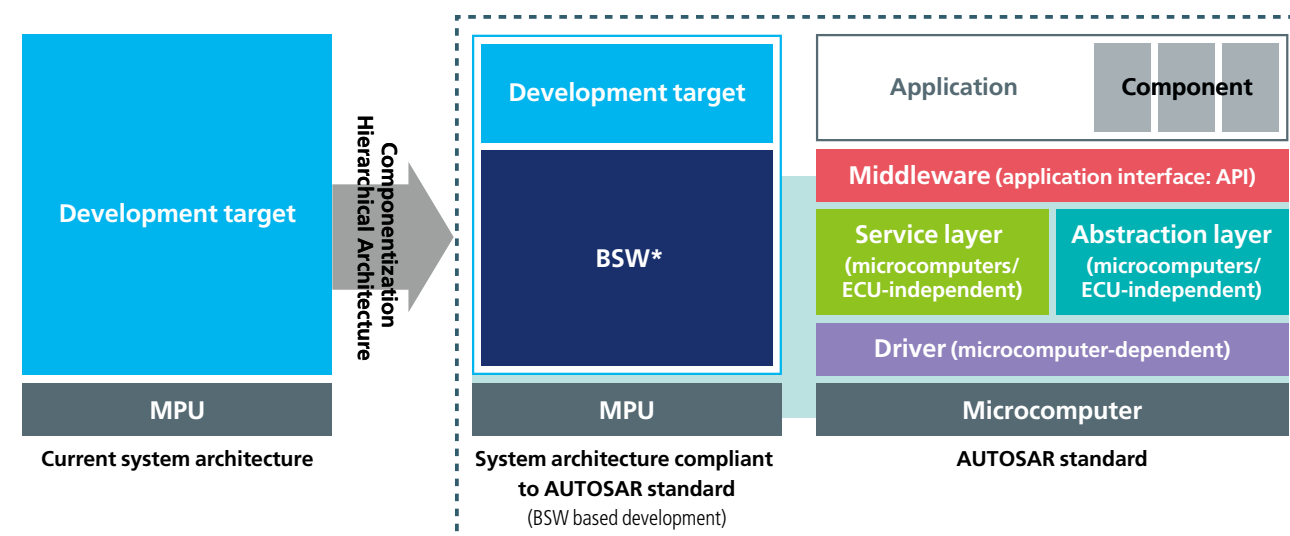
Issues Facing the Automotive Industry

As the volume of automotive software development continues to grow, it is no longer possible for human labor alone to work on it. In addition, it has become more critical for the automakers to ensure the reliability of the entire automobile which uses this gigantic volume of automotive software.

As a solution, automakers and suppliers are focusing and actively working on new methods for quickly developing large-scale and highly reliable automotive software. This includes implementation of AUTOSAR,* a standard for automotive systems, as well as model based development to comply with Automotive SPICE.

* AUTOSAR: Standard for automotive platform software

Composition of Automotive System



* BSW: Basic Software (OS, Driver, Middleware within ECU)

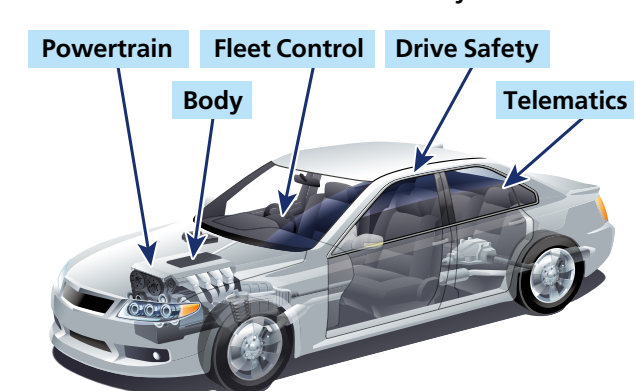
Commitment to the Standardization of Automotive System Development

Efficient development of automotive systems by deploying AUTOSAR system architecture

SCSK has been developing embedded systems for a wide range of industries since the 1970s. When the automotive industry began deploying microcomputers, we expanded our embedded systems effort into the automotive domain.

Our development in the automotive domain ranges from engines to air conditioning, doors, steering, and/or GPS. Today,

SCSK's Track Record in Automotive Systems



we hold a high market share in ECU model based development for Japanese automakers.

In recent years, automotive systems have become more sophisticated and the development process more complex. SCSK has more than fifty engineers certified in Automotive SPICE, a software development standard for the European auto industry. This ensures we have accumulated expertise based on experience and track record.

SCSK was among the first to develop and utilize BSW compliant software based on the international standard, "AUTOSAR." This effort enables us to efficiently develop automotive systems by abstracting layers equivalent to conventional operating systems, drivers, and middleware. By leveraging SCSK's many years of unique experience and knowhow in shifting legacy systems into open systems and cloud-based systems, SCSK is able to offer architectural changes in automotive systems.

One-Stop Services for Automotive System Development

Providing QINeS products, a one-stop service based on AUTOSAR compliant BSWs

SCSK began shipping QINeS-BSW Ver. 1.0 in October 2015. Currently, we launched QINeS-BSW Ver. 2.0, an automotive basic software product compliant with AUTOSAR Classic Platform R4.2.2 in April 2017. This product supports the latest ECU software functions, such as multicore CPUs to enable advanced driving support, ECU security, and high speed communication. It also marks the first of its kind BSW product developed in Japan that is compliant with AUTOSAR R4.2.

In addition to QINeS-BSW, SCSK offers peripheral services required for development as a one-stop shop. We not only support new development methods and processes using BSW, but also offer services such as development tools that enable

automatic program generation and test automation, consulting for training, and application development as a professional service. By providing a comprehensive suite of services as a one-stop shop, we support a more sophisticated and efficient overall development process for the automotive industry.



CFO Message

We will continue to increase shareholder returns while actively investing in businesses that will support the future growth of the company.

Tetsuya Fukunaga

Director, CFO
Senior Managing Executive Officer



Overview of Performance in Fiscal 2016 and Outlook for Fiscal 2017

In fiscal 2016, we posted increased sales and profit that outpaced initial forecasts, while achieving a record high operating profit.

Net sales were up 1.7% year on year. Despite a relative decline in major projects such as system development for securities industry customers and system sales for telecommunications industry customers that supported results in previous year, demand remained robust for system development for manufacturing industry and financial industry customers and net sales from maintenance and operation services businesses increased mainly for manufacturing industry, distribution industry and financial industry customers.

Operating profit rose 6.1% year on year. This was attributable to an increase in sales that boosted profits as well as improved development productivity associated with steady measures to improve and raise the quality and efficiency of operations, despite an increase in various costs, including business investment related costs and higher costs from legislative and other external factors, such as the size-based corporate tax system and an increase in retirement benefit costs.

Ordinary profit increased 7.5% year on year owing to an increase in operating profit and gains on investments. Profit attributable to owners of parent increased 5.6% year on year, driven by an increase in operating revenue, gains on various investments and tax effects.

As for the outlook for fiscal 2017, uncertainty remains regarding the future IT investment trends of customers, given economic and political uncertainty around the world, including the new US administration and geopolitical risk in the Middle East and East Asia. However, we foresee strong demand for system investments to continue mainly in the financial industry based on

our current deal flow and order trends, while the operation and maintenance services business is expected to see a stable business climate, including for the manufacturing and distribution industries.

Therefore, we will work to maintain and expand earnings capacity by fully harnessing this stable deal flow and further enhance our earnings base by striving to improve productivity and operational quality further in all of businesses. We will also commit considerable management resources to invest in solidifying future business growth, and focus on shifting to service-oriented businesses, even this is still at an early stage. At the same time, we will steadily make progress with launching strategic businesses and focus on restructuring our business portfolio.

With the above as the basic scenario for business operations in fiscal 2017, we forecast net sales of ¥340 billion, up 3.2% year on year, operating profit of ¥36 billion, up 6.8% year on year, ordinary profit of ¥37 billion, up 2.4% year on year, and profit attributable to owners of parent of ¥24.5 billion, down 13.9% year on year.

In fiscal 2017, we plan to conduct considerable business investments given our strong focus on the basic strategies of the Medium-Term Management Plan, and still aim to achieve increases in both sales and profit in fiscal 2017 in our budget, as was the case with fiscal 2016. This includes strategic investments in automotive software system development, expenses in various developments for creating service-oriented businesses and marketing, as well as an increase in investments for further advancing our in-house development standards and building smart office.

Profit attributable to owners of parent is forecast to decline compared to the previous year. This is because in fiscal 2016 we booked ¥4.5 billion in deferred tax assets due to tax effects, but in fiscal 2017 we do not foresee that these same deferred tax assets will be realized as tax effects.

Financial Position

SCSK considers return on equity (ROE), which is used to measure capital efficiency, as one of its most important management indicators, from the standpoint of aiming to further enhance corporate value through a continual expansion of its businesses. We have released our targets for ROE and are committed to the effective use of shareholders' equity.

In fiscal 2016, the balance of cash, deposits and deposits paid totaled ¥125.5 billion underpinned by robust operating cash flows, while the equity ratio climbed 1.6 percentage points from 41.2% in fiscal 2015 to 42.8%.

Looking forward, we will steadily work to further increase shareholders' equity as well as reinforce our balance sheet and financial base by further increasing earnings and operating cash flows. Also, we will make capital expenditures to grow our earnings base and continually invest in strategic businesses, while securing agile and diverse sources of financing. We will allocate capital to returning profits to shareholders and work toward continually improving corporate value and our equity value.

Our Policies for Shareholder Returns

With regard to returning 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 investment.

Since the merger, we have continued to increase dividend payments in conjunction with earnings growth. In fiscal 2016, we recorded our highest ever operating profit and profit attributable to owners of parent came in higher than the initial forecast. Comprehensively taking into account these results, in fiscal 2016, we increased our year-end dividend ¥5 from the initial forecast of ¥42.5 to ¥47.5 per share. As a result, our full-year dividend increased by ¥5, from ¥85 to ¥90 per share.

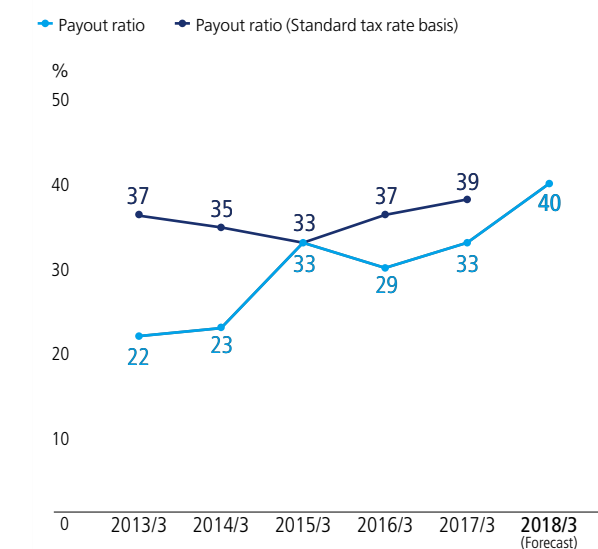
For fiscal 2017, we will continue targeting a dividend payout ratio of approximately 40%, the same as in fiscal 2016. Based on this target and in consideration of our strong financial position, we plan to offer a full-year dividend of ¥95 per share, marking an increase of ¥5, based on our forecast for additional business growth. This will mark our sixth consecutive year of increasing our dividend. Looking ahead, we intend to take full advantage of our continually growing cash flows as funds for investments in

service-oriented businesses and strategic businesses that will support future growth. At the same time, we will increase dividends in line with anticipated performance improvements in order to enhance shareholder returns.

Lastly, please be aware that the targeted dividend payout ratio up to fiscal 2016 is based on the forecast amount of profit attributable to owners of parent calculated on a standard tax rate basis* excluding the effects of factors such as the tax benefit of the net losses carried forward. For fiscal 2017, we do not anticipate special tax effects in our earnings forecast, so our dividend payout ratio target is based on our earnings forecast.

* Standard tax rate basis
"Standard tax rate basis" refers to calculations of corporate income taxes conducted on an effective tax rate basis excluding the effects of the tax-saving measures that take advantage of the net loss carry forwards inherited from CSK at the time of the merger. Accordingly, standard tax rate basis is the method for tax calculation based on the effective tax rate excluding the deferred tax assets recorded each year up until fiscal 2016.

Payout Ratio



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

Initiatives for Enhancing Technical and Development Capabilities

R&D for Digitization

The IT revolution epitomized by Social/Mobile/Analytics/Cloud (SMAC) that began several years ago has now become firmly entrenched in society and the corporate sector. Also, the use of deep learning, an evolved form of artificial intelligence (AI) technology, is now gradually getting underway.

The emergence of these new technologies has created such trends as the Omnichannel, IoT, and FinTech. As a result, customers have a growing interest in getting the most out of IT that promotes the digitization of their business.

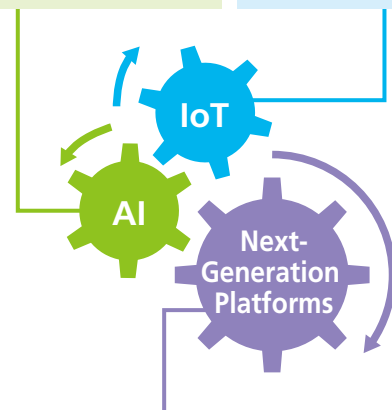
Having focused on this trend, SCSK is carrying out trend surveys and verification of basic technologies covering the next generation of AI, IoT and IT environments, mainly through its dedicated in-house R&D organizations. We are also working on commercialization research with the goal of strengthening and innovating our own products and services.

Artificial Intelligence (AI)

We are conducting research in response to various technical challenges presented by the use of AI, including the use of deep learning for image processing and natural language processing.

Internet of Things (IoT)

We are carrying out surveys and verifications of various technologies related to IoT, including IoT platforms handling big data and network technologies suitable for IoT.



Next-Generation Platforms

We are developing technologies for making corporate systems compatible with cloud or mobile platforms, technologies for replacing the fundamental elements of systems with new technologies, service coordination technologies required for digitization, and technologies for streamlining the labor needed for development and operations as well as for automation.

Providing Opportunities That Encourage Employees to Take Notice and Tackle Challenges

Since fiscal 2015, SCSK has held a hackathon called *Technoco* as a venue for employees to tackle the challenges of new technologies that are outside of their normal work duties. *Technoco* is an event open to all employees regardless of job category, skill level or age, with employees forming teams to concentrate on developing apps. The apps are then evaluated and awarded based on use of technology, creativity and innovativeness.

In August 2016, we set up *Technoco Village* (Hacker Space) as a place for employees to hone their technical skills on a daily basis.

Going forward, SCSK will provide opportunities for employees to take notice of technologies and continually offer venues for employees to network and expand their individual capabilities, aiming to further energize our technological initiatives.



Technoco (Hackathon)



Technoco Village lightning talk

Initiatives for OSS*

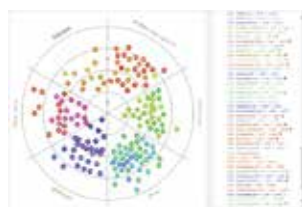
OSS is now being widely used by various systems, making it an important element of IT platforms underpinning corporate systems and social infrastructure. At SCSK, we are working to promote the development and greater use of OSS from both usage and development/operations standpoints. At the same time,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



Workshops for OSS Users

OSS Radar Scope

OSS Radar Scope is an innovative radar chart developed by SCSK that ranks the results of OSS evaluations according to SCSK's own criteria. It provides a general idea of utility when selecting OSS.

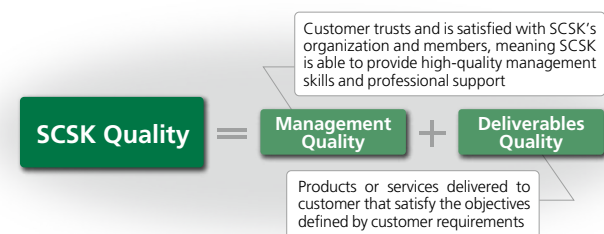


* OSS: Open Source Software

Standardization of Project Management and Development Processes

SCSK's Philosophy on Quality

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



Delivering Greater Operational Quality with SE*

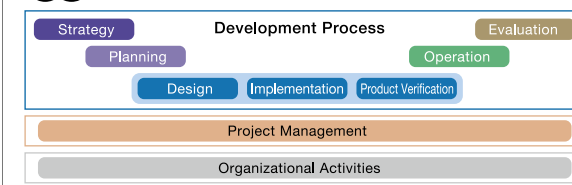
Process standardization is vital to ensuring the profitability of a project. This includes processes to control risks and create outcomes with robust quality.

Starting in fiscal 2012, we introduced process standards called

What is SE*?

SE* is a proprietary standard created by SCSK for systemizing project management and system development processes based on SCSK's accumulated project execution knowledge. This standard defines consistent quality for IT services provided by SCSK.

SE* SmartEpisode Plus



SmartEpisode Plus (SE*) for project management and system development. This has allowed us to carry out project management that ensures consistent quality.

Since introducing SE*, we have worked to create an environment conducive to using SE*, develop human resources who can use SE*, and take steps to encourage the adoption of SE*. As a result, 85% of our projects up to fiscal 2016 used SE*. In fiscal 2017, we are aiming to increase this percentage to 100%. The greater use of SE* will enable us to further improve quality across the entire organization.

Visualizing Project Status with SE* (Navi)

We developed SE* (Navi) as a platform for project management and introduced it from fiscal 2016.

SE* (Navi) visualizes the status of a project, including quality and profitability, among other indicators, enabling line managers to facilitate the project and senior management to make decisions quickly. Also, some of SE*'s project management processes have been functionalized, making it possible to streamline project management.

We will utilize SE* (Navi) to thoroughly visualize development processes and project status to further enhance development quality and productivity.

SE* Master Certification Program for HR Development

Instilling process standards requires not only the right environment and systems, but also human resources development.

Starting in fiscal 2016, SCSK launched the SE* Master certification program for recognizing human resources with SE* skills as well as an SE* certification test. In the first six months a total of more than 1,400 employees passed the test and obtained certification. This number is currently on the rise.

In addition, SE* introduction leaders have been appointed in every department, various training and briefings are being held, and a guidebook has been published and distributed in order to develop human resources capable of using SE*.

History Since the Launch of SE*

FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
<ul style="list-style-type: none"> Expanded application of project check system Introduced quality check system Began applying SE* 	<ul style="list-style-type: none"> Introduced service check system 	<ul style="list-style-type: none"> Distributed SE* guidebooks to all employees 	<ul style="list-style-type: none"> Shared case studies related to risk analysis results Introduced risk management sheets Enhanced education programs 	<ul style="list-style-type: none"> Launched SE* (Navi) Introduced SE* certification test system 	
Launch of SE*	Initiatives aimed at introducing SE* companywide	HR development for SE*	Toward further quality improvements with SE* (Navi)		

For further details, please see our CSR website.
http://www.scsk.jp/corp_en/csr/solution/index.html



Initiatives for Improving Operational Quality

Framework Supporting Quality on a Companywide Basis

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

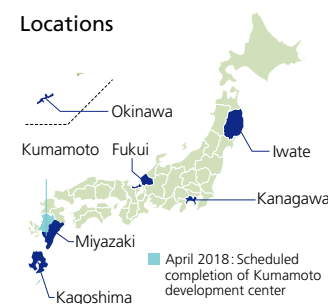
Enhancing Competitiveness by Curtailing Unprofitable Projects and Elevating Quality

In fiscal 2016, we started using a project management platform called SE* (Navi) that helps visualize the results of checks and the project status. This has enabled us to discover and address issues in projects at the organization level.

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

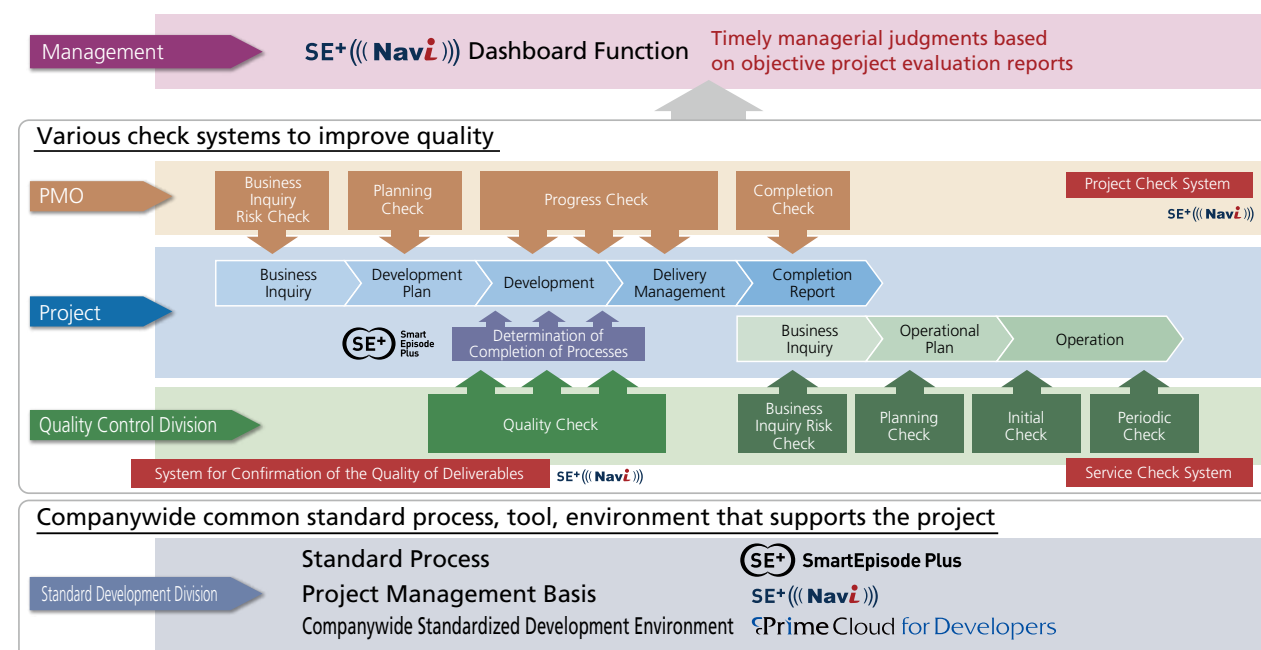
Initiatives in Nearshore Development

SCSK Nearshore Systems Corporation, a subsidiary of SCSK that engages in nearshore development^{*1}, is actively hiring workers, utilizing the diversity of its staff, which include those individuals seeking to work in rural areas and senior citizen employees, and collaborating with locally based IT companies to expand its office network in order to quickly increase its workforce from 500 as of March 2017 to 1,000. SCSK is working to relocate its enhancement development^{*2} covered by its offices in the Greater Tokyo Metropolitan Area to rural areas. By creating IT employment opportunities at regional offices through collaboration with local governments and educational institutions and deploying SCSK's working style reforms regionally, we are striving daily to build a network of development centers where employees can live a fulfilling professional and private life in good health.



*1. Nearshore development: Systems development activities performed at domestic offices outside of Tokyo
*2. Enhancement development: Maintenance development services that entail improving and refining existing systems to enhance performance and quality or expand systems, and/or add new features

Framework Supporting Quality on a Companywide Basis



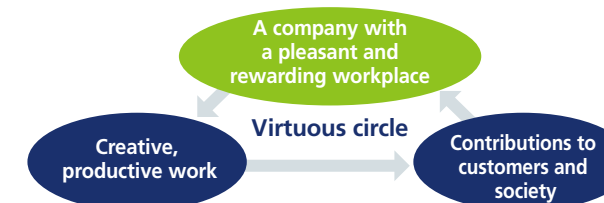
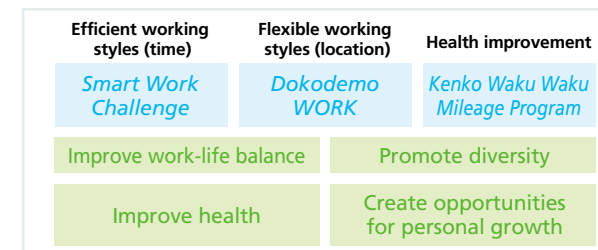
We are creating a workplace environment where employees are excited about work and can fully harness their skills.

Promotion of Working Style Reforms

Creating a Virtuous Circle through Working Style Reforms

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

Overview of Working Style Reforms



Smart Work Challenge

In April 2013, we launched the *Smart Work Challenge* 20* program. *Smart Work Challenge* 20 is named after the purpose of the program—endeavoring (“challenge”) to achieve the goal (“20”) through more efficient (“smart”) labor (“work”) and its stated goal of “20” refers to employees taking 20 paid vacation days a year as well as limiting average monthly overtime to less than 20 hours. Under this initiative, we have encouraged each department to work independently on raising the efficiencies of their operations and have introduced a number of new systems. These include an incentive (special bonus) paid out when the targets for overtime work reduction and paid vacation days taken are achieved so as to return the amount of reduced overtime compensation to employees, backup leave for

unforeseen situations after taking all annual paid vacation days, company days off for weekdays in between two consecutive national holidays (systematic granting of annual paid vacation day), and authentication rules where the person approving overtime work is changed to a higher ranking supervisor in stages based on the number of hours (section manager to president). By promoting both reduced overtime and the taking of paid vacation simultaneously, we have been able to make significant strides in reducing overtime work and ensuring employees take their annual paid vacation days.

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

Changes in Average Monthly Overtime Hours and Consumed Annual Paid Vacation Days

8 years ago	Average Monthly Overtime Hours: 35 hours	Consumed Annual Paid Vacation Days: 13 days
	Significant reduction	Promote 100% rate
Today	Average Monthly Overtime Hours: 18 hours	Consumed Annual Paid Vacation Days: 19 days

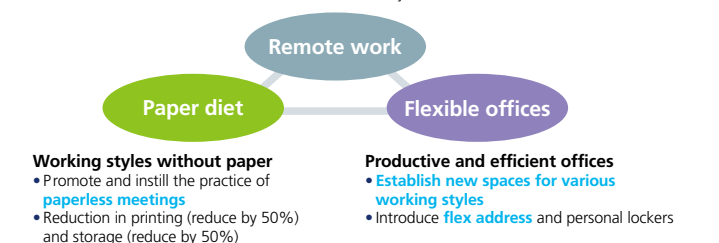
Creating New Working Styles with Dokodemo WORK

SCSK launched *Dokodemo WORK*, an initiative to establish and practice new working styles enabling employees to work anytime from anywhere. *Dokodemo WORK* includes three main measures implemented simultaneously. These are remote work that allows employees to work from home or a satellite office, paper diet where efforts are made to reduce both printing and storage involving paper, a major hurdle to remote work, and flexible offices that transform conventional offices with the flex address system and space set aside for varying working styles.

We are gradually expanding the scope of eligible organizations and will soon roll out this initiative companywide after identifying and resolving any issues. Management is also repeatedly getting the message out about *Dokodemo WORK* and sharing best practices across the company. Going forward, we will make further improvements to *Dokodemo WORK*'s mechanisms and environment in an effort to promote the mindset of focusing on results and not time or workplace.

Conceptual Diagram for Dokodemo WORK

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





Work-Life Balance

Support for Balancing Work and Childcare

SCSK aims to enable employees going through life events, such as childbirth or childcare, to work in a flexible manner. To facilitate a smooth return to work for employees taking childcare leave and to ensure that they can continue working with enthusiasm, we periodically hold seminars on issues related to returning to work after such leave. These seminars serve as opportunities for these employees and their supervisors to deepen their understanding about balancing work and childcare and about supporting such efforts.

In addition, we have established balance support leave that comprises up to five days of paid vacation in addition to ordinary annual paid vacation days. Employees can take this leave to attend school events until their child or children graduate from junior high school. Also, annual paid vacation days can be taken on an hourly or half-day basis, enabling flexible working styles when combined with telework.

Comments from an employee raising a child

My child is in the second grade of elementary school and I'm now able to attend more school events. By combining telework with hourly paid vacation, I am now able to balance work with my childcare duties together with my wife. This has been a really big help for our household. It's really great that after 6:00 p.m. I can now look over my oldest daughter's homework and give my youngest daughter a bath.



Yasuhiro Kato
 Sect. III,
 Customer Support Dept.,
 ProActive Business Solutions Div.

Daily schedule	
9:00	Start work (from home)
12:00	Lunch (with youngest daughter)
15:30	Take oldest daughter to piano lesson (hourly paid vacation for one hour)
16:30	Back to work
17:30	Finish work; pick up oldest daughter from piano lesson
After 18:00	Look over oldest daughter's homework and give youngest daughter a bath

Support for Balancing Work and Nursing Care

We offer various forms of assistance, including flexible work programs, for employees who are providing nursing care to a

family member. In addition to flex time, employees can take advantage of reduced work hours or telework to help balance their work and nursing care needs. We also have special leave for such situations, including nursing care leave and balance support leave. In addition, since fiscal 2014, we have held a seminar on basic nursing care knowledge for line managers ranked section manager and above and all employees over the age of 40. To date, a cumulative total of 4,191 employees (58% of all employees) have attended this seminar.

Comments from an employee providing nursing care

- I was suddenly faced with providing nursing care to a family member, but I was completely lost in terms of what arrangements to make and felt considerable stress. I consulted with an outside professional paid for by the company who explained in detail about all the arrangements, which eased my stress level greatly. The company's leave programs proved to be a big help, too, from the early stages of my family member's hospitalization.
- There was a time when I had to take a large number of holidays over a short period of time to attend medical appointments with my parents, which is when I took balance support leave. The *Smart Work Challenge* makes it easy to take annual paid vacation, so I was also able to use these days to take time off from work. I'm really grateful that the company offers these types of support programs.

Diversity

Promotion of Women's Empowerment in the Workplace

In addition to human resources development and working style reforms, we have actively sought to develop work-life balance support programs in an effort to become a company where female employees can contribute their talents so that they can achieve work-life balance without over extending themselves. Among these, we are focusing on working style reforms that reduce overtime and make taking paid vacation easier so as to eliminate prolonged working hours, which have become a major obstacle to women's empowerment. We have set a goal to have a combined total of 100 female executives and line managers in fiscal 2018 to encourage the greater involvement of women in the workplace. We also support women's career development through training focused on the challenges faced by women of each generation.

Promoting the Active Involvement of Employees Over the Age of 60

We have established an employment program that enables employees aged 60 or older who desire to continue working at the company until the age of 65. We are working to provide diverse

career options and opportunities to learn about career planning and life planning for employees in their 50s and 60s to help ensure the economic stability of employees in their old age. We also aid employees in their efforts to accumulate the assets necessary for realizing their life plans.

Health and Productivity Management

Kenko Waku Waku Mileage Program for Improving employees' health

We introduced the *Kenko Waku Waku Mileage Program* in April 2015 to help improve the health of employees in order to prevent illness and to better enable employees to work in a productive and creative manner. The program comprises a points system through which employees earn "mileage" points for the five good habits for maintaining or improving their health or based on the results of their annual health checkups. Based on the number of points accumulated over the course of one year, an employee may be awarded incentive payments.

Incentives are paid out for points earned on an individual basis and on an organizational basis. This encourages greater efforts through friendly competition among different organizations.

Major Achievements	FY2014	FY2016
Improved ratio of employees walking for exercise	34%	74%
Improved ratio of employees eating breakfast	71%	88%
Improved ratio of employees having no alcohol days	82%	90%
Improved ratio of employees undergoing dental examinations	31%	75%
Reduced ratio of employees who smoke	21%	19%

Human Resource Development

Employee Career Development

The Career Development Plan system provides employees with an opportunity to think about their career and discuss it during meetings with their supervisor. The primary goal of this system is to allow supervisors to plan position, role, and duty allocations for one to two years in the future based on the aspirations and goals of individual employees as well as the expectations of the organization. Meanwhile, we have established the Job Challenge

System to facilitate the growth of employees and energize our organization by placing the right people in the right jobs. We have also introduced the Internal Free Agent System, which is designed to help individual employees work in their desired field. Through these systems, we help employees exercise autonomy in actively advancing their careers.

SCSK i-University HR Development System

SCSK i-University was established as a framework for providing all employees with opportunities for ongoing growth and learning. This program supplies comprehensive companywide human resource development systems based on a broad definition that includes traditional education systems as well as support for enhancing communication utilizing SCSK Learning Park and programs for learning about systems and infrastructure. Based on this system and on the belief that it is the efforts of all employees that will drive SCSK's growth, we will support the growth of every employee through SCSK i-University.

SCSK i-University

Learning and Growth	Shared company-wide	Career development	Leadership development
	Division-specific	Specialized skills development	Basic business skills development
Communications	Division-specific	<ul style="list-style-type: none"> Supplementing companywide training Development of skills unique to each business division 	
		<ul style="list-style-type: none"> Job category-based communication workshop Workshops for departments in charge, divisions and workplaces, etc. 	
Mechanisms and infrastructure	Division-specific	<ul style="list-style-type: none"> Remote participation (training) On demand (e-learning) SCSK Learning Park (training facility) MA-N@vi (e-learning) ProActive (HR management system) 	

IT Skill Level Assessment

The IT Skill Level Assessment seeks to improve the specialized skills of employees and provide certification of the results. This system certifies employees' specialized sales and technical skills and knowledge as belonging to one of seven levels based on SCSK's career framework*. The goal is to visualize the specialization of sales and technical employees and to provide an environment where employees can continue to grow.

Certification screenings are conducted by exceptionally talented IT-related employees selected from throughout the company. This system also helps provide a framework within which employees are able to plan their career over the medium to long term.

* SCSK's career framework consists of 14 job categories in 35 specialty fields, which are defined according to seven levels based on the necessary skills and knowledge, taking into account the characteristics of SCSK's businesses as well as the Skill Standards for IT Professionals (ITSS), Embedded Technology Skill Standards (ETSS), and Users' Information Systems Skill Standards (UISS).

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

For further details, please see our CSR website.
http://www.scsk.jp/corp_en/csr/fairpractices/partner.html



Basic Approach and Action Policy

Promoting Initiatives Together with Partner Companies

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

As a company that handles the important information assets of customers, SCSK is committed to strengthening information security and ensuring thorough compliance together with its partner companies.

We are working to improve operational quality and productivity, while pursuing working style reforms, including reforms at our partner companies who underpin our services, in order to provide a higher level of IT services.

SCSK has also established its basic corporate stance toward purchasing within its Purchasing Guidelines. In accordance with these guidelines, we define and implement themes for specific initiatives together with partner companies.

Going forward, we aim to develop the IT industry into a more attractive industry by pursuing such initiatives in unison with our partner companies.

Purchasing Guidelines

Challenge

- Aim to always improve quality and productivity through purchasing activities
- Implement working style reforms together with partner companies to create an IT industry that attracts people

Commitment

- Comply with laws and social norms and carry out purchases that consider social responsibilities
- Build an effective and efficient supply chain fully mindful of sustainability

Communication

- Strive to build mutual understanding and trust through dialogue

Initiative Themes

Operational Quality and Productivity Improvement

- Proposals and collaboration from early process phases
- Development and manage standardization (SE⁺, etc.)
- Promotion of subcontracting

Working Style Reforms / Health and Productivity Management

- Sharing of health and productivity management measures/initiatives
- Tracking of shared indicators

Ensure Compliance

- Enhancement of information security
- Strict observance of laws related to outsourcing

Building Relationships through the Core Partner Program

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

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

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

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



Fiscal 2017 Core Partner Conference

Collaboration with Partner companies

Improving Quality and Productivity

SCSK is constantly working to improve quality and productivity not only within the company, but also together with partner companies.

We encourage partner companies to introduce the SCSK development standards (SE⁺) so as to improve quality levels, and we ask that core partners work with us in the SCSK standard development environment, which includes the super high speed development tool called FastAPP and the cloud-based development environment called PrimeCloud for Developers.

Moreover, we assess quality and productivity together with our partner companies on a project by project basis. In turn, we analyze and utilize the results in an effort to continually improve quality and productivity together.

Introduction of Working Style Reforms

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

First, we established the Working Style Reform Promotion conference together with core partners, which we will now hold regularly. At these meetings, we share indicators such as average overtime hours and the rate of consumed annual paid vacation days and present specific efforts and achievements. This ensures

we are all working toward creating workplaces that are even more comfortable. We also set up a consultation desk for core partners that supports and facilitates their adoption of working style reforms.

We are now undertaking similar initiatives with other partner companies as part of our ongoing commitment to make the IT industry a more comfortable and attractive industry.

Strengthening Information Security and Thorough Compliance

SCSK requires that its partner companies fully comply with its Information Security Guidelines when they handle important information assets of its customers. We monitor business partner compliance regularly using confirmation sheets and, when necessary, we carry out field audits and instruct them to make fixes.

We also regularly hold briefings on information security and compliance for our partner companies. During these briefings, we give an update on information security guidelines, related laws and legal revisions to ensure and strengthen both information security and compliance. Inside the company, we provide similar information security and compliance training for outsourcing and conduct in-house checks.

Going forward, we will continue taking the necessary steps to ensure robust information security and compliance so as to earn the trust of customers and society.

Message from a Business Partner

We are working on working style reforms while sharing our knowledge together with SCSK.

The IT industry is still faced with a major shortage of workers, which has made it difficult to set up a team to address inquiries from customers. The key to overcoming this situation is adopting working style reforms that enable the IT industry to attract talent.

Working style reforms improve employee health and increase motivation. Working style reforms also require further improvements in productivity. I expect that there are business opportunities here. In this sense, I am very grateful to SCSK, which is an industry leader in terms of working style reforms.

In April this year, we established a department dedicated to promoting working style reforms. In the future, I look forward to continuing to share knowledge with SCSK as well as other partners in order to usher in working style reforms across the entire IT industry.



Ken Ohno
 President & COO
 COMTURE CORPORATION

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

Basic Policy

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

From this perspective, the 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 befits SCSK.

TOPICS

Reinforcing Corporate Governance

SCSK established the Nomination and Remuneration Advisory Committee in December 2015 and transitioned to a company with an Audit and Supervisory Committee in June 2016 with the purpose of strengthening the supervising function of the Board of Directors, reinforcing corporate governance and heightening the soundness and effectiveness the management. In April 2017, we eliminated directors with specific titles and appointed an outside director as the Chairman of the Board, in order to further separate supervision from business execution and take additional steps to reinforce corporate governance.

In June 2017, we slimmed down the Board of Directors from 19 directors to 16 as well as appointed seven Audit and Supervisory Committee members (six of which are outside directors) and appointed seven outside directors (six of which are independent directors). These changes were made to take a further step in separating management and business execution and reinforcing supervision of the Board of Directors, while enabling agile decision making.

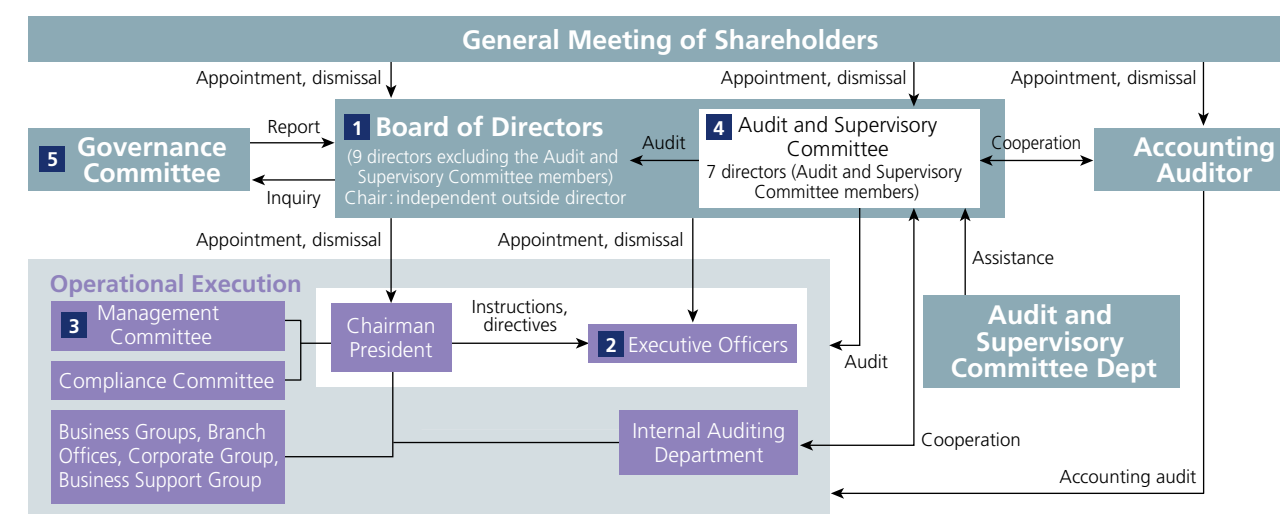
Establishment of the Governance Committee

We have also established the Governance Committee, chaired by an independent outside director and whose members consist of a majority of outside directors including independent outside directors, as an advisory committee to the Board of Directors and other meeting bodies. This committee is charged with ensuring fairness and transparency, and consideration is given to the interests shared by the Company and its shareholders, during decision making by directors and the Board of Directors.

The Governance Committee deliberates on the following matters and reports to the Board of Directors and other meeting bodies.

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

Corporate Governance Structure



1 Board of Directors

As of June 23, 2017, the Company's Board of Directors comprised 16 members, including seven outside directors, of which six were independent directors. The Board of Directors makes decisions on important management issues and supervises operational execution. In addition, the Company has concluded a liability limitation agreement with directors (excluding directors who also act as executive officers) for the minimum liability amount stipulated in Article 425-1 of the Companies Act, pursuant to Article 427-1 of the Companies Act and Article 29-2 of the Articles of Incorporation.

2 Executive Officers

SCSK introduced an executive officer system on January 1, 2005. Through this system, executive officers are assigned responsibility for areas of operational execution based on the directions of the chairman and president and act in accordance with the management policies decided by the Board of Directors. This system clarifies that authority for making decisions on important management matters and supervising operational execution collectively resides with the Board of Directors. In addition, the system allows for the establishment and strengthening of supervising systems to ensure that effective operational execution can be conducted based on swifter decisions regarding management policies by the Board of Directors. In these ways, the executive officer system contributes to the enhanced corporate governance of the Company.

3 Management Committee

The Management Committee, made up of executive officers including the chairman and the president, has been established to function as an advisory body to the chairman and president with regard to important operational execution matters. This committee was created with the aim of strengthening both corporate governance and operational execution capabilities by creating a system with clear separation of management supervision and execution functions in which executive officers, the chairman and president, have authority and responsible for matters of daily operational execution.

4 Audit and Supervisory Committee

SCSK has established the Audit and Supervisory Committee in charge of audits and supervision which forms the auditing system of SCSK together with the supervision of operational execution by the Board of Directors. The Audit and Supervisory Committee comprises seven directors, including six outside directors as members, of which five are independent directors. The committee receives reports on important audit-related matters, based on which it holds discussions and makes decisions.

5 Governance Committee

See page 39 for details.

Appointment and Election of Directors

Candidates for executive management and directors (excluding those directors that serve as members of the Audit and Supervisory Committee) are determined by the Board of Directors based on certain criteria after deliberation by the Governance Committee, which mainly consists of independent outside directors. These criteria include the necessary knowledge, experience and track record to serve in an executive management position or as a director, the ability to contribute to constructive discussion at meetings of the Board of Directors, excellent management skills and understanding of compliance with laws and regulations, high levels of corporate ethics, and for directors who also act as executive officers, sufficient knowledge in the field they are in charge of. Candidates for directors that serve as members of the Audit and Supervisory Committee are examined by the

Governance Committee, which mainly consists of independent outside directors, and determined by the Board of Directors with the consent of the Audit and Supervisory Committee. Directors that serve as members of the Audit and Supervisory Committee must have specialized knowledge and experience and be able to carry out audits from an objective standpoint.

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

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

Audit System

The Internal Auditing Department is the department in charge of the Company’s overall internal audit system under the direct supervision of the president. It carries out auditing of the Company’s main offices, including subsidiaries and affiliates, in accordance with the fiscal year auditing plan as well as investigating the status of the Company’s operations and assets, then reports the results of audits directly to the president. The Internal Auditing Department is independent from the Audit and Supervisory Committee, but it reports the internal auditing plan and internal auditing results to the Audit and Supervisory Committee.

The Audit and Supervisory Committee exchanges information and familiarizes itself with the auditing activities of the accounting auditor through regular meetings. Members of the Committee also attend audit review meetings of the accounting auditor, attend inventory audits in person, and work to improve the quality and efficiency of auditing.



The foundation of the Company’s auditing system includes internal audits, Accounting and Supervisory Committee audits, and external audits. To elevate the effectiveness of this three-pillar audit system as well as improve the overall quality of audits and promote organic cooperation and mutual supplementation, the Audit and Supervisory Committee and Internal Auditing Department , as well as the Audit and Supervisory Committee and accounting auditor, regularly hold meetings in an effort to reinforce close mutual cooperation between each other, including reports of the auditing plan and auditing results as well as the exchange of information and attending audits in person.

The Internal Control Department pursues mutual cooperation with the Audit and Supervisory Committee, Internal Auditing Department and accounting auditor through the exchange of information and views regularly and as needed to raise the effectiveness of the roles of each.



Reason for Election of Outside Directors

		Reason
Kiyoto Matsuda (Chairman of the Board)	Independent Director	Kiyoto Matsuda has a breadth of experience and a wealth of knowledge in corporate management. He has been selected since we believe the experience and knowledge accumulated through his professional capacity qualify him to supervise the execution of operations of the Company.
Yoshiharu Takano	Audit and Supervisory Committee Member	Yoshiharu Takano has been a Corporate Auditor at SCSK since FY2013. He has been selected since we believe his accumulated experience and knowledge throughout his work qualify him to audit the Company’s directors’ execution of duties from an objective standpoint, and we have selected him to be an outside director and a member of the Audit and Supervisory Committee.
Shigeki Yasunami	Audit and Supervisory Committee Member Independent Director	Shigeki Yasunami has specialized knowledge and experience that he has developed as a certified public accountant, and has been a corporate auditor at SCSK since FY2011. He has been elected since we believe his accumulated experience and knowledge through his work qualify him to audit the company’s directors’ execution of duties from an objective standpoint, and we have selected him to be an outside director and a member of the Audit and Supervisory Committee.
Yuko Yasuda	Audit and Supervisory Committee Member Independent Director	Yuko Yasuda has a wealth of experience and extensive knowledge as management of corporations. She has been elected as outside director and member of the Audit and Supervisory Committee since we believe her accumulated experience and knowledge garnered through her career qualify her to audit the company’s directors’ execution of duties from an objective standpoint.
Shigenobu Aikyo	Audit and Supervisory Committee Member Independent Director	Shigenobu Aikyo has a wealth of experience and extensive knowledge of management of corporations. He has been elected as outside director and member of the Audit and Supervisory Committee because we believe the experience and knowledge that he has accumulated through his career qualify him to supervise SCSK’s Directors execution of duties from an objective standpoint.
Kimitoshi Yabuki	Audit and Supervisory Committee Member Independent Director	Kimitoshi Yabuki has specialized knowledge and experience as an attorney. He has been elected as outside director and member of the Audit and Supervisory Committee because we believe the experience and knowledge accumulated through his career qualify him to audit the execution of duties by Directors from an objective standpoint.
Masaichi Nakamura	Audit and Supervisory Committee Member Independent Director	Masaichi Nakamura has been elected as outside director and member of the Audit and Supervisory Committee because he is qualified for carrying out audits of directors’ execution of duties objectively based on his professional experience and knowledge and his specialized knowledge and experience as a certified public accountant.

Remuneration for Directors

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

The policies, procedures, and calculation methods, and exact amounts of remuneration of directors (excluding those directors that serve as members of the Audit and Supervisory Committee) are discussed by the Governance Committee and then decided by the Board of Directors. Calculation methods take into account the Company's business scale and the need to secure talented candidates, and individual remuneration amounts are determined in consideration of the accomplishments of specific directors and the Company's business performance. Remuneration amounts for directors that serve as members of the Audit and Supervisory Committee are decided through discussions by the Audit and Supervisory Committee.

Bonuses for directors and executive officers have been linked to business performance with the goal of elevating the motivation and morale of directors and executive officers as well as further increasing profits and reinforcing the Company's business structure.

Remuneration of Directors and Corporate Auditors

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)			Number of eligible Directors/ Corporate Auditors (persons)
		Basic remuneration	Bonus	Other	
Directors (excluding those directors that serve as Audit and Supervisory Committee Members)	706	473	182	50	22
(of whom, outside directors)	(10)	(10)	(0)	(0)	(2)
Directors that serve as Audit and Supervisory Committee members	39	38	0	1	4
(of whom, outside directors)	(39)	(38)	(0)	(1)	(4)
Corporate auditors	15	14	0	0	4
(of whom, outside directors)	(9)	(8)	(0)	(0)	(3)

Enhanced Disclosure of Information

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 management's decision making and the Company's business activities.

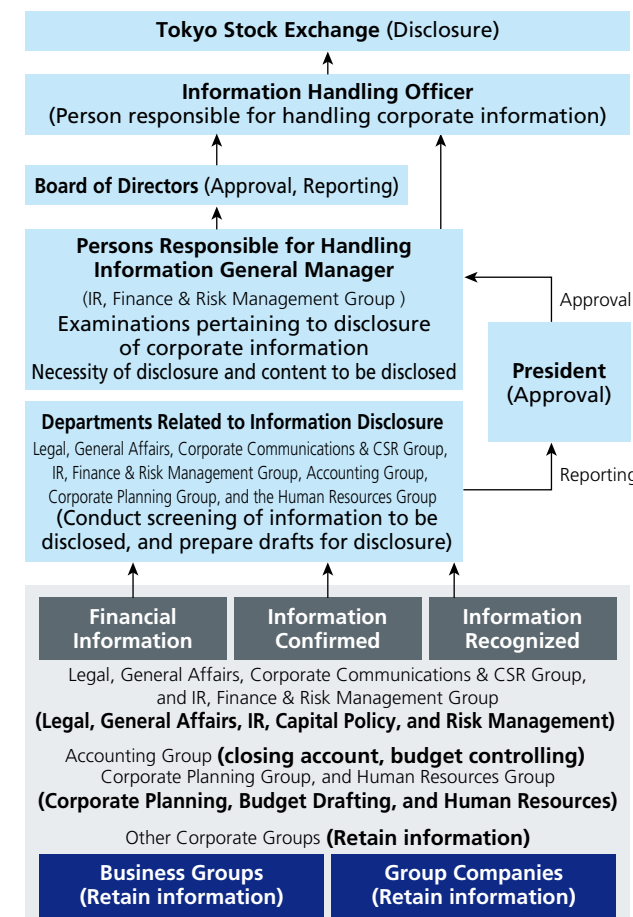
The Company's basic policy on information disclosures is to disclose information in a proactive manner. In addition to disclosures on operating results and financial information pursuant to laws and regulations, non-financial information deemed material by the Company is also communicated using various means, including the corporate website and SCSK report.

Structure for Timely Disclosure

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

- 1 The Legal, General Affairs, Corporate Communications & CSR Group; the IR, Finance & Risk Management Group; the Accounting Group; the Corporate Planning Group; and the Human Resources Group carry out the effective collection of information that is subject to disclosure, screen what is to be disclosed, and prepare drafts for disclosure.
- 2 Upon receiving authorization from the President and Executive 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

SCSK actively holds constructive communication with shareholders and other investors according to a scope and means acceptable in order to contribute to sustainable growth and the enhancement of medium- to long-term corporate value. We have appointed a director to be in charge of IR, who heads up the Company's structure for promoting constructive communication with shareholders and other investors. This director is responsible for establishing an internal system for disclosing information on the Company's 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 director and shareholders and other investors whenever possible.

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

External Evaluations of IR Activities

Selected as No. 1 company in the computer software division for the third consecutive year at the 22nd (Fiscal 2016) Excellence in Corporate Disclosure hosted by the Securities Analysts Association of Japan



Ranked No. 1 for the software sector in Most Honored Company category of the 2017 All-Japan Executive Team Rankings of Institutional Investor LLC

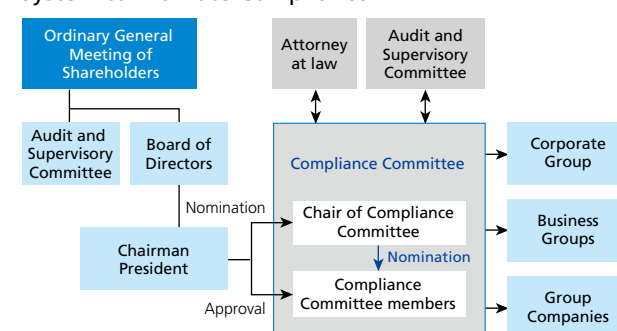
We are working to foster a greater sense of corporate ethics and minimize business risks.

Compliance

The Company 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 expects its directors and employees to conduct themselves in a sincere and appropriate manner as members of society and the Company. 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.

We have established the Compliance Rules, created the CSK Compliance Manual, and developed an organizational structure for compliance-related efforts. Furthermore, SCSK has established the Compliance Committee in order to carry out proper compliance implementation. We also hold a variety of compliance-related training sessions to enable employees to make correct decisions and take actions that do not violate compliance under any circumstances. In addition, an internal reporting system has been implemented to facilitate the prevention and early resolution of compliance violations.

System to Promote Compliance



Participation rate in training of Compliance Manual and its pledge training (e-learning) in fiscal 2016

100%

* Intended for all employees

Fair Transactions

The SCSK Compliance Manual clearly stipulates measures for ensuring fair trading as specific rules about compliance. Its standards include a Code of Business Activities, which sets forth requirements for appropriately utilizing dispatch and subcontract work and respecting and protecting intellectual property rights. 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.

Information Security

To protect information assets from various threats and to fulfill its social mission, SCSK has established and is operating the Information Security Management System. We are continuously evaluating risks to information assets and ensuring the effectiveness of countermeasures for these risks. To ensure that each of our employee, as well as everyone that does business with SCSK, understands our Information Security Management System, including the Basic Policy, we engage in extensive educational activities, such as holding training courses on information security and the protection of personal information. We also require our subcontractors to adhere strictly to the Information Security Guidelines that we have established, in accordance with Article 21 of our Commercial Transactions Code, and we are working to prevent occurrences of issues related to information security. Furthermore SCSK's Information Security Management System has received ISO 27001:2013 certification.

Protection of Personal Information

Strongly recognizing the importance of protecting personal information, SCSK complies with laws and ordinances on the handling of personal information, guidelines stipulated by administrative authorities, and other regulations. We have also established a Personal Information Protection Policy that we make known to employees as well as all related parties engaged

in our business operations. Additionally, we have established a Personal Information Protection Management System* that is compliant with JIS Q 15001, which we implement, maintain and continually improve.

* A management system that includes policies, structures, plans, implementation, as well as confirmation and review of operations for the protection of personal information.

Risk Management

SCSK has established the Risk Management Regulation in relation to the risks it may be exposed to during its business activities. This regulation divides risks into four categories: (1) strategic risk, including market, business opportunity and investment risk; (2) operational risk, including litigation, environmental and labor affairs risk; (3) financial risk, including inventory and foreign exchange risk; and (4) hazard risk, including natural disaster, information system, accident/malfunction risk. SCSK makes efforts to thoroughly understand and anticipate risks both inside and outside the Company and makes recommendations to its management on how to address risks. In this way, SCSK works to maintain and enhance its credibility as a corporation. At the same time, in the case that a risk materializes, the Company works to minimize losses and maintain stable business activities.

Emergency Response and Business Continuity Plans

To prepare for the occurrence of large-scale disasters, pandemics and other unforeseen circumstances that may have a grave impact on SCSK and the SCSK Group, the Company has established rules of conduct and organizational frameworks to respond to emergencies. The Company, led by the Disaster Risk Management Subcommittee, is taking a number of advanced measures, such as stockpiling food, water and other supplies; conducting drills for adopting an employee safety confirmation system and setting up disaster headquarters; establishing a system to address emergencies that take place at night or on holidays; and sharing information and raising awareness among employees through the disaster response portal, e-learning and disaster preparedness seminars. Furthermore, the Company re-examines its current business continuity plan (BCP) each year for further improvement.

SCSK is also working to reinforce its disaster response measures based on an assessment of the effectiveness of these

measures conducted by a risk management consulting company. Taking into account the promotion of telecommuting that forms part of our working style reforms, we are working on measures to reinforce disaster preparedness at home, including distributing the Disaster Preparedness Handbook to all employees.

Through these activities, we are working collectively as a Group to ensure our BCP is highly effective.



Disaster Preparedness Handbook (front cover)



Disaster Risk Management Subcommittee



Project to assess the effectiveness of disaster countermeasures GAP analysis workshop

We carry out systematic CSR activities with the goal of being a company that contributes to society through its business activities.

For further details, please see our CSR website.
http://www.scsk.jp/corp_en/csr/index.html



Message from the Officer in Charge of CSR

Our Corporate Philosophy of "Our Future of Dreams" can only be achieved with a sustainable society. Therefore, we recognize that solving social issues is an urgent task.

For this reason, each employee must tackle challenges with enthusiasm (Challenge), we must take responsible actions while working on the issues directly facing customers and society (Commitment), and we must mutually respect and work with colleagues (Communication). At the same time, it is necessary that we remain in touch with society and maintain a continual awareness of the

issues we face.

We use IT services to create new value and support the businesses of our customers. Making indirect contributions to society that help resolve social issues by solving the issues of customers is one aspect of SCSK's CSR activities. We are now making progress toward building an affluent society through the synergies yielded from the IT services business and solutions to social issues.

Koji Tamefusa

Director, Senior Managing Executive Officer

SCSK's CSR

Contributing to Society through Business Activities

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

Fulfilling social responsibilities through our business activities

involves solving social issues through our businesses while deepening engagement with each category of stakeholder in an effort to help develop a sustainable society. We believe the process of generating social value, such as creating and providing solutions for complex social issues, enhances corporate value.

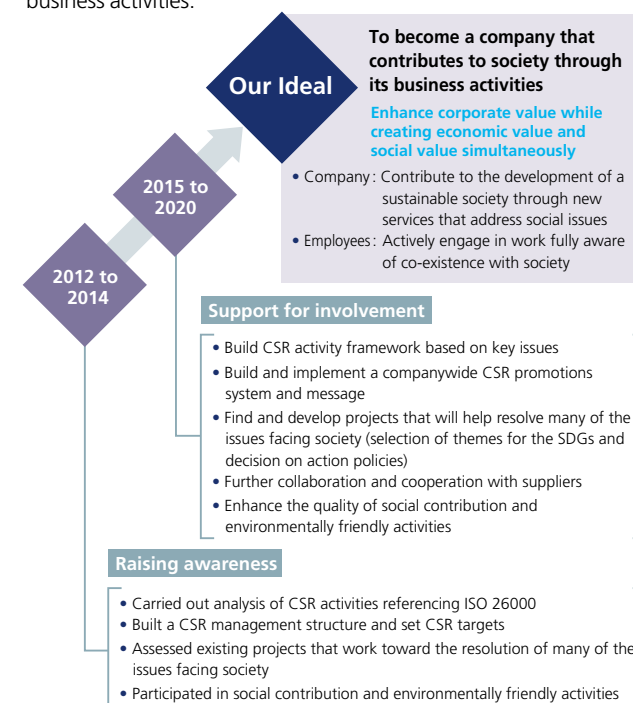
IT has helped to solve a number of social issues over the years, and today the importance of IT continues to grow. The SCSK Group actively utilizes advanced IT such as AI, IoT and FinTech in research aimed at innovation creation and in developing new businesses. The act of creating brand new value and helping solve social issues represents the fundamental essence of the SCSK Group's businesses as well as the social responsibility we must fulfill.

New CSR themes (proactive CSR)



Systematic CSR Activities Geared Toward Becoming the Company We Aspire to Be

SCSK undertakes systematic CSR activities with the aim of becoming a company that contributes to society through its business activities.



Initiatives for the SDGs

We are now making preparations in order to contribute to the fulfillment of the United Nations Sustainable Development Goals (SDGs). In fiscal 2016, we held a seminar for employees on the SDGs as a way of raising awareness internally. This seminar educated employees about the SDGs and what SCSK can do to contribute to the effort. We have also provided training to senior management about the SDGs. Meanwhile, we created posters to promote the SDGs and displayed them inside the company to raise awareness.



Poster featuring executives and employees as models

SCSK has assessed CSR Key Issues together with stakeholders that it must address over the medium to long term given the needs of society and the impacts they will have on SCSK's management. Going forward, we will implement our medium-term management strategy and initiatives for CSR Key Issues so that we continually deliver value to society through our business activities.

CSR Key Issues for the Medium to Long Term

To contribute to society through our business activities, we need to clarify the issues we must address as a company and promote solutions within our business activities.

CSR Key Issues and Measures

Key Issues	Details of issues	Basic Approach	Specific initiatives	Pages
Creating an affluent society together with our customers	Through our IT services, we are working to improve convenience and help resolve social issues in response to stakeholder needs. Together with our customer companies, we aim to create a pleasant and affluent society.	We consider the provision and expansion of business to be a CSR activity aimed at the realization of a sustainable society. With this in mind, we create and implement businesses in all of our business domains that directly correlate to solutions to social issues.	<ul style="list-style-type: none"> Resolution of social issues through products and services Creation of employment opportunities and development of human resources for IT in rural areas Implementation of innovative and progressive research and service development Adoption of programs where we can launch new businesses and tackle the challenges of new technologies 	52-60 33 31 31
Becoming a company with a pleasant and rewarding workplace	Under our aim of "becoming a company with a pleasant and rewarding workplace," we have established four underlying themes: work-life balance, diversity, health management, and human resource development. We are now taking a number of initiatives with a focus on propagating these themes across the overall IT industry.	We are a pioneer in the industry in broadly promoting working style reforms. We carry out initiatives that help propagate effects across the entire IT industry.	<ul style="list-style-type: none"> Introduction of working style reforms (Smart Work Challenge / Dokodemo WORK) Assistance for work-life balance Promotion of women's empowerment in the workplace Health and productivity management (Kenko Waku Waku Mileage program) 	5-6 34 35-36
Providing safe and secure IT services together with partner companies	In order for customers to be able to use our IT services safely and with peace of mind, we work together with our partner companies to achieve thorough information management, enhance information security, and improve quality.	In addition to initiatives for quality control, information security, personal information protection, and compliance, among others, we seek solutions to social issues by enhancing efficiency and quality in the supply chain.	<ul style="list-style-type: none"> Enhancement of efficiency and quality in the supply chain through collaboration with partners Information security / Personal information protection Compliance Quality control 	37-38 45 32



Michihiko Kanegae
Representative Director
Chairman, SCSK



Tooru Tanihara
Representative Director
President, SCSK



Daisuke Mikogami
Representative Director
Executive Vice President
General Manager, Corporate Planning
Officer in Charge, Information Systems/
Business Process Reengineering, SCSK
Managing Executive Officer,
Sumitomo Corporation



Kiyoto Matsuda
Outside Director
Independent Director
Chairman of the Board
Partner, Unison Capital, Inc.
Outside Director, Sanyo Shokai Ltd.



Yasunori Anzai
Outside Director
(Audit and Supervisory Committee Member)
Assistant General Manager, Media, Network,
Lifestyle Related Goods & Services Business Unit,
Sumitomo Corporation



Yoshiharu Takano
Outside Director
(Audit and Supervisory Committee Member)



Tetsuya Fukunaga
Director
Senior Managing Executive Officer
Officer in Charge, IR, Finance & Risk Management
General Manager, IR, Finance & Risk Management
Group, SCSK
Outside Director, Argo Graphics Inc.



Masatoshi Endou
Director
Senior Managing Executive Officer
General Manager, SE Plus Center, Development Center,
Purchasing and Business Coordination Group
Assistant General Manager, Manufacturing Systems
Business Group, in Charge of PMO
Assistant General Manager, Distribution Systems
Business Group, in Charge of PMO,
General Manager, Development Center, SCSK



Koji Tamefusa
Director
Senior Managing Executive Officer
Chief Health Officer
General Manager, Legal, General Affairs,
Corporate Communications & CSR
Officer in Charge, Internal Auditing,
Human Resources, Accounting, SCSK
Executive Officer, Sumitomo Corporation



Shigeki Yasunami
Outside Director
(Audit and Supervisory Committee Member)
Independent Director
Representative, Yasunami Certified
Public Accounting Office



Yuko Yasuda
Outside Director
(Audit and Supervisory Committee Member)
Independent Director
Managing Director,
Russell Reynolds Associates Japan, Inc.
A member of The Board of Trustees of
the Japan Association of Corporate Executives
Outside Director, Showa Shell Sekiyu K.K.



Shigenobu Aikyo
Outside Director
(Audit and Supervisory Committee Member)
Independent Director
Outside Director, Hashimoto Sogyo Holdings Co., Ltd.
Outside Director, MODEC, Inc.
Outside Director, Sanyo Chemical Industries, Ltd.
Outside Director, DAIHEN Corporation
Outside Director, NICHICON CORPORATION



Hiroyuki Koike
Director
Corporate Officer,
General Manager, ICT Business Division,
Media, ICT, Lifestyle
Related Goods & Services Business Unit,
Sumitomo Corporation
Director, T-Gaia Corporation
President, SC VENTURE, INC.



Akira Tsuyuguchi
Director
President & CEO,
Sumitomo Mitsui Auto Service Company, Limited
President & CEO,
SMA Support Co., Ltd.



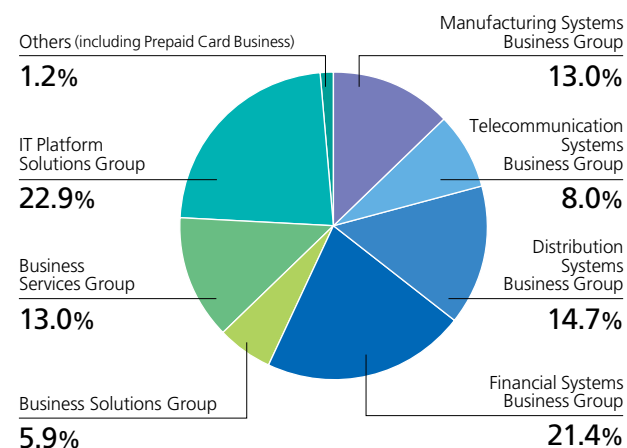
Kimitoshi Yabuki
Outside Director
(Audit and Supervisory Committee Member)
Independent Director
Partner, Yabuki Law Offices
Professor, Graduate School of International
Corporate Strategy, Hitotsubashi University,
Outside Director,
SUMITOMO LIFE INSURANCE COMPANY



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

Business Overview by Segment

Distribution of Net Sales (2017/3)



Manufacturing Systems Business Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 40.4	2016/3 3.0
2017/3 42.6	2017/3 3.2

Telecommunication Systems Business Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 24.5	2016/3 4.2
2017/3 26.2	2017/3 5.2

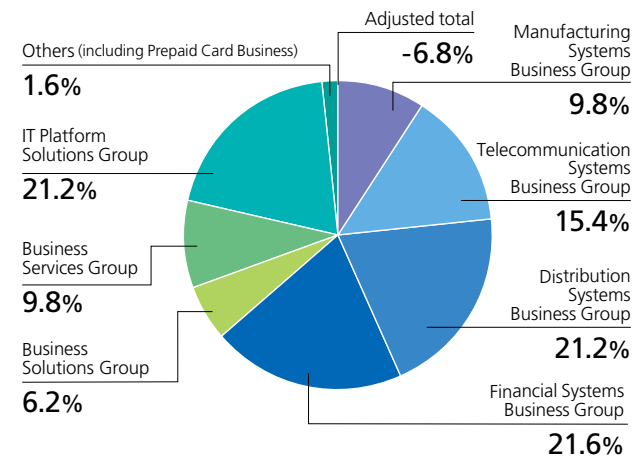
Distribution Systems Business Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 48.5	2016/3 6.8
2017/3 48.2	2017/3 7.1

Financial Systems Business Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 70.8	2016/3 8.3
2017/3 70.5	2017/3 7.2

Distribution of Operating Income (2017/3)



Business Solutions Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 19.0	2016/3 1.5
2017/3 19.2	2017/3 2.0

Business Services Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 39.2	2016/3 2.8
2017/3 42.8	2017/3 3.3

IT Platform Solutions Group

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 77.1	2016/3 6.3
2017/3 75.3	2017/3 7.1

Others (including Prepaid Card Business)

Net sales (Billions of yen)	Operating income (Billions of yen)
2016/3 3.9	2016/3 0.5
2017/3 4.0	2017/3 0.5

Manufacturing Systems Business Group

Growing with Customers and Heightening the International Competitiveness of Japan's Manufacturing Industry

Katsuya Imoto
Managing Executive Officer
General Manager,
Manufacturing Systems Business Group



Business Overview

The Manufacturing Systems Business Group provides systems development services as well as maintenance and operation services for the full range of operational processes. Supplying these services on a global scale, we cater to customers in a diverse range of manufacturing industries, including the automobile, electrical and electronic equipment, precision electronic equipment, and food and fisheries industries.

Our offerings are characterized by high quality services steeped in the rich operational knowledge and sophisticated technological capabilities we have developed through close interaction with customers. In addition to the core manufacturing industry systems of production and inventory management, and global supply chain management (SCM), these offerings also include business support and sales management systems for strengthening business capabilities, and information infrastructure for aiding in stimulating internal communication and reforming work styles.

Fiscal 2017 Initiatives

The Manufacturing Systems Business Group has adopted "establishing a solid position to support the Japanese manufacturing industry by leveraging services and quality unique to SCSK" as its main policy. Under this policy, the group is

accelerating the following initiatives to contribute to customers' management reforms.

First and foremost, we will earnestly engage with customers on an individual basis, striving always to develop the deepest possible understanding of customers. We aim to be a true partner, who will be able to struggle together, think together, and devise and aid in the development of solutions together regarding customers' management issues.

In addition, the Manufacturing Systems Business Group will harness its experience and expertise as well as the comprehensive strengths of the SCSK Group to further enhance SCSK's unique manufacturing industry services. Examples include product information management (PIM) systems which can be efficiently applied in sales and marketing and used to manage all processes from the collection of information on products dispersed throughout a company to their control and distribution, as well as management dashboards which make use of the Internet of Things (IoT) to assist in the execution of swift management decisions.

Through these efforts, we aim to contribute to the further development of the manufacturing industry, which is one of Japan's main industries and employs approximately 10 million people.

CASE STUDY

Realizing an Affluent Society via Digital Marketing

With the growth of IT and the diversification of customer contact points, there is a need for well-timed, efficient interaction with customers. Particularly in the manufacturing industry, there is an enormous amount of information on products and product life cycles are short as well, resulting in finding the best management method, as well as its optimization, becoming serious challenges. Further, when expanding globally, translating information into multiple languages and the speed with which promotional information is developed are also important considerations. In order to overcome these challenges, the speedy management and delivery of product information is essential. In order to achieve these tasks, SCSK provides PIM* systems through which product and promotional information can be centrally managed to optimize their delivery to websites, catalogs, and all media forms. Through the provision of PIM-centered web solutions, the Manufacturing Systems Business Group will provide customers with further added value. The group will also harness its abundance of achievements in the manufacturing industry to contribute to sales promotion utilizing digital marketing while furthering the realization of an affluent society.

* PIM: Product Information Management



Mitsuru Oosawa
General Manager,
Sales Promotion Dept.
Business Promotion Div.

Telecommunication Systems Business Group

Clearing a Path for Growth in the Communications, Energy, and Media Fields

Kenji Mukai
Managing Executive Officer
General Manager, Telecommunication Systems Business Group



Business Overview

The Telecommunication Systems Business Group provides optimal integration services which combine a variety of IT solutions for core systems for BSS* areas in the communications, energy, and media industries.

For the communications industry, we provide services such as the construction of customer management and business systems which handle tasks such as order reception/placement and billing for major mobile network operators. We also provide maintenance and operation services for the same.

For the energy industry, we are involved in projects in highly specialized areas related to energy policies and electricity deregulation, and engage in the construction of new energy management systems.

For the media industry, we are responsible for the construction of sales and billing systems for cable television operators and other companies, as well as maintenance services for the same. We also provide full support for IT-related operations, from customer relationship management (CRM) optimization to strengthening IT infrastructure.

* BSS: Business Support Systems

Fiscal 2017 Initiatives

The one commonality between the three industries of communications, energy, and media to which the Telecommunication Systems Business Group provides services is their desire to enhance their customer bases. In fiscal 2017, we will be promoting the digital transformation of the customer information management systems we have developed.

As part of this initiative, we will be making use of next-generation technologies such as the Internet of Things and AI while proactively assisting our customers in increasing the value of customer information in their businesses.

In addition, in anticipation of a time of destructive innovation, we have established a new, dedicated organization in the group specifically concerned with business innovation. In a time when the business environments of our customers are undergoing extreme change, we aim to create new services and business models looking 10 years ahead so that our customers' businesses can continue to develop stably.

Distribution Systems Business Group

Refining Strengths and Providing Services with a Competitive Edge

Tatsujiro Naito
Managing Executive Officer
General Manager, Distribution Systems Business Group



Business Overview

The Distribution Systems Business Group provides IT solution services specifically designed for customer industries, particularly trading, real estate, pharmaceuticals, supermarkets, and food. In the trading industry, our biggest customer is Sumitomo Corporation and its group companies, to which we provide IT services via full, one-stop outsourcing, from planning to maintenance and operation, supporting the group's consolidated global management.

In the distribution industry, we provide SUMAKURA, an electronic data interchange (EDI) service which is compliant with the distribution business message standards (BMSs) endorsed by the four largest organizations in the supermarket industry, in turn supporting the operation of a vast number of supermarkets nationwide, from major chains to small and medium businesses. In the real estate industry, we offer real estate sale business support solutions as well as customer management solutions which tie together diverse customer data. In the pharmaceutical industry, we provide data analysis services for the field of clinical development and offer sales support systems for medical representatives (MRs).

With these offerings, we maintain a leading share in the sales and marketing solutions area of the pharmaceutical industry.

Globally, in tandem with IT, we help Japanese companies to be more competitive and globalized in Japan and four other countries.

Fiscal 2017 Initiatives

We will harness the knowhow we have obtained through the full outsourcing services we provide to Sumitomo Corporation, as well as the strengths of our abundant lineup of solutions specifically designed for the real estate, pharmaceutical, supermarket chains and food industries, to provide customers with services that will enhance their competitiveness.

Particularly in the distribution industry, omni-channel approaches such as those in the retail industry are steadily expanding and taking hold. Against this backdrop, we will offer "Next Trend," a new service for implementing and bringing about the success of omni-channel business initiatives, providing our customers with total support, from omni-channel systems to marketing analysis and policy execution, data management platforms, enterprise systems, and operation outsourcing.

CASE STUDY

Contributing to Improved Convenience and Work Style Reform through Website Problem-Solving

With the popularization of smartphones and tablets, web services have become an indispensable part of everyday life. At many companies, ensuring website support for multiple types of devices and managing as well as making use of vast quantities of data have become true challenges. SCSK offers a solution to these challenges—WEBSAS, a full-line service which covers everything from website planning (including design, content plans, and website strategy drafting) to construction, Content Management Systems (CMS) implementation, maintenance, and operation.

WEBSAS is used by a variety of our customers in areas such as the real estate and pharmaceutical industries to achieve high quality information provision through the improvement of smartphone and tablet usability, the central management of decentralized data, and better operation. In addition, WEBSAS also aids in the creation of new services and the shortening of working hours by reducing Workload and optimizing operations. SCSK contributes to improved societal convenience and the reformation of customer working styles and is working towards the creation of a future filled with dreams.



Satoshi Kitao
General Manager,
Services Systems Dept.
Distribution Systems Business Div. III

CASE STUDY

Promoting the Application of Nearshoring in System Development and Contributing to the Creation of Regional Employment

Today, securing superior IT talent has become a challenge in the IT industry. In addition, in Japan, the work force is concentrating in the major metropolitan areas where the jobs are, resulting in an increasingly severe problem of regional disparities.

SCSK is working with SCSK Nearshore Systems Corporation and SCSK KYUSHU CORPORATION to build a remote development system which makes use of talented human resources living in rural areas. Since starting remote development in fiscal 2011, we have engaged in continuous human resources training and system building to ensure business quality and improve development productivity. At the same time, we have also steadily expanded the scale of our remote development activities, enabling us to provide stable and continuous system development services.

We will continue working with both companies to further expand the scale of remote development and contribute to rural development through the creation of stable employment and regional revitalization in rural areas.



Makoto Nakayama
General Manager,
Telecommunication Systems Dept. I,
Telecommunication &
Public Sector Systems Business Div.

Financial Systems Business Group I

Creating the Future of the Financial Industry Together with Our Customers

Masanori Furunuma
Executive Vice President
General Manager, Financial Systems Business Group I



Business Overview

Financial Systems Business Group I provides a wide array of services primarily for the life and non-life insurance market, from system development, maintenance, and operation, to call centers and BPO services.

Today, insurance companies are proactively engaged in information gathering and investigations into the latest technology trends, in addition to examining what fields to apply these technologies in. Financial Systems Business Group I is enhancing the quality of its ICT services through technologies such as AI, FinTech, and telematics, and is preparing systems which will aid customers in achieving their goals.

In addition, as customers seek to apply their management resources to their strategic management challenges, we are utilizing our experience we have accumulated in those business fields and project management skills to promote full outsourcing services tooled to specific business fields which will provide one-stop services including maintenance, operation, and development for existing systems.

Further, as our insurance industry customers are working to improve their growth potential in overseas markets in addition to increasing their investment and acquisition activity centering on ASEAN nations, SCSK is preparing to take up the role as a local system integrator.

Fiscal 2017 Initiatives

Like many industries, the insurance industry is experiencing a revolution in business patterns through the use of AI. In turn, Financial Systems Business Group I is actively pursuing initiatives in this new field. The group has concluded a tie-up agreement with Preferred Networks, a deep learning pioneer, particularly in the fields of image analysis and natural language processing. Together with this, we have also established a new department dedicated to the promotion of business making use of AI, providing us with a foundation for seriously engaging in this field. We have already launched proof of concept projects using machine learning for insurance companies in the fields of damage investigations and payment assessment, and, going forward, we intend to engage in even more contracts and expand the number of fields in which we apply this technology. We will promote initiatives harnessing AI which will change the very nature of conventional insurance.

In addition to the above, we have developed a system for over-the-counter insurance sales using tablets which allows applications to be completed paperlessly, improving customer satisfaction and reducing workloads. We will promote the implementation of this system to all manner of sales organizations, including regional banks. Due to the aging of society, Japan is facing challenges regarding medical and nursing care for senior citizens, and we in turn are aiming to create a new service—a cross-industry platform in which we will partner with medical and nursing care providers, users, and insurance companies.

CASE STUDY

Supporting the Health of Each and Every Life Insurance Subscriber with IT

As Japanese society experiences an extreme aging of its population, it is feared that economic growth will be affected by the increasing burdens of medical costs and nursing, as well as the shrinking work force. In addition to the need for solutions to these macro challenges, it is the desire of individual people as well as their families that they be able to remain healthy even into old age.

Seeking to respond to this societal demand, the life insurance industry offers a variety of relevant products and services. SCSK provides a service system which helps life insurance subscribers to be able to live healthily and happily. It is believed that when these subscribers are healthy, not only does it resolve the issues of medical costs, nursing, and the work force, it also makes the individual subscribers and their families happy, which in turn gives them more energy, leading to quality improvements and the creation of new services and technologies. Together with our customers, SCSK will continue to support people's health and the realization of a more productive and fulfilling society through IT.



Kazushiro Maki
Section II
Insurance Systems Sales Dept.
Financial Systems Business Div. I

Financial Systems Business Group II

Grasping the Trends Behind Drastic Change in the Financial Industry to Create New Services

Shozo Hirose
Senior Managing Executive Officer
General Manager, Financial Systems Business Group II



Business Overview

Financial Systems Business Group II offers system development, maintenance, and operation services for financial industry fields other than life and non-life insurance, including banking, securities, leasing, and credit cards.

In the financial industry today, initiatives aimed at improving customer services using IT in order to differentiate one's business from that of other financial institutions are growing ever more expansive. These initiatives include not only conventional global expansion and the popularization of mobile internet transactions but also increasingly sophisticated customer targeting using FinTech, the revision of products and services, and the efficient utilization of sales channels.

Financial Systems Business Group II has built systems which make it possible to provide Japanese-style detailed and attentive services even overseas. Through these systems, we support the overseas expansion of Japanese financial institutions utilizing our international network. The group is also striving to further enhance its accumulated wealth of financial expertise and is working with customers to create new services and new business models which harness information technologies such as FinTech, AI, block chains, and Robotic Process Automation (RPA).

Fiscal 2017 Initiatives

Financial Systems Business Group II is seeking to establish business models for providing ICT services for the financial industry, including such services as system development, maintenance, and operation, as well as call center and BPO services.

In addition, in line with the global expansion of Japanese financial institutions, the group is accelerating the construction of a global service support system which will be able to provide one-stop outsourcing services covering everything from the development of core systems and all manner of financial service systems for their corporate clients to the operation of those systems.

Further, the group is utilizing the wealth of intellectual assets it has acquired to build service-oriented businesses and promote reforms to its earnings model. This will be combined with the creation of new business models harnessing FinTech and other underlying technologies to aid Japanese financial institutions in increasing their international competitiveness.

In supporting the overseas expansion of Japanese financial institutions, Financial Systems Business Group II will deploy human resources at overseas locations in countries leading the FinTech field and promote information gathering. The group will also promote the cultivation of global personnel able to handle advanced challenges in various business fields in the financial industry through business operations at overseas locations.

CASE STUDY

Contributing to the Creation of Safe and Secure Society through Anti-Money Laundering Systems

The financial institutions of today require risk management systems for dealing with antisocial forces, money laundering, and financing for terrorism.

In order to meet this need, SCSK provides customers with combinations of anti-money laundering systems as appropriate to each customer's situation. Examples include monitoring systems which periodically detect suspicious transactions in accumulated data and filtering systems which check whether the individuals involved, such as customers, remittance senders, and remittance recipients, match known antisocial force members and terrorists.

The methods of financial crime grow more complex and clever on a daily basis. In turn, regulations are growing stricter, increasing the burdens of financial institutions. SCSK is working to create new services which combine our accumulated wealth of financial expertise and all of our existing services with AI and other new technologies to create a safe and secure society together with our customers.



Yoshinori Tasaki
General Manager, Sales Dept.
Financial Systems Business Div. III

Business Solutions Group

Providing Solutions through Original Products and Services

Masahiko Suzuki
Executive Vice President
General Manager, Business Solutions Group



Business Overview

The Business Solutions Group provides customers with a broad array of solutions, composed of our original products and services, which contribute to their businesses.

We offer business solutions such as our proprietary ProActive ERP package, and our original Application Management Outsourcing (AMO) services which support customers throughout their entire system lifecycle—including ERP, CRM, as well as all manner of data coordination and analysis tools—in the form that is optimum to each customer. We also offer FastAPP, a proprietary high speed system development and implementation framework service to meet needs for swift development, easy operation, and flexible improvement of business applications.

For call centers, we provide solutions such as the PrimeTiaas multichannel framework, Desse AI-powered question and answer system, and VOICFinder natural language text analysis tool.

For automobile ECU development, a field undergoing rapid computerization, we offer QINeS, a one-stop product and service solution for areas such as Basic Software (BSW), including real time OS, development and management process creation, education, and support services for application development services.

Fiscal 2017 Initiatives

Based on the core strategies of the current Medium-Term Management Plan, the Business Solutions Group will accelerate the shift toward proprietary services backed by SCSK's intellectual property and IT assets. We will expand the scope of the services we offer, focusing in particular on FastAPP, PrimeTiaas, and cloud-based ERP and CRM as solutions for an age where systems are implemented and utilized without owning them directly oneself.

As a measure to reinforce our business foundation, we aim to expand our services by working to ensure our engineers are multi-skilled as well as continuing to accumulate knowhow and creating templates of them. Further, we will engage in staff rotation and resource reallocation in order to cultivate human resources able to provide efficient and advanced services. Through these initiatives, we aim to further enhance service synergy and fortify our ability to provide useful services for the entirety of the system lifecycle, including development, implementation, maintenance, and operation.

In addition, in order to achieve our Medium-Term Management Plan, we aim to make use of our group's products and services not only in our own business areas but in all of SCSK's business groups for every industry.

Business Services Group

Combining Human Effort with IT to Support a Variety of Businesses

Tatsuyasu Kumazaki
Senior Managing Executive Officer
General Manager, Business Services Group



Business Overview

The Business Services Group comprises SCSK ServiceWare Corporation, VeriServe Corporation, and SCSK PRESCENDO CORPORATION, as well as the Business Promotion Division, which is in charge of sales support and new business planning and promotion for SCSK Group companies.

Harnessing business knowhow in such industries as financial, telecommunications, distribution, and manufacturing, SCSK ServiceWare utilizes contact centers which integrate real people and digital technologies to provide total BPO services, from marketing to technical support.

As the development of the Internet of Things and other systems for improving convenience in society grow increasingly sophisticated and complex, VeriServe offers pioneering software verification services as the first such dedicated company in Japan from a third party perspective independent from the development side.

SCSK PRESCENDO CORPORATION provides total e-commerce outsourcing services with a focus on the apparel and lifestyle goods industries. More specifically, SCSK PRESCENDO CORPORATION offers an integrated set of services necessary for the operation of e-commerce sites, from website and order reception/placement system construction and product photography, dimension taking, and copy creation; to warehouse management and merchandise delivery.

Fiscal 2017 Initiatives

The application of IT as a means of internal corporate optimization has become a commodity and we now exist in a time where there is a need to utilize IT to realize a higher quality of social life. The Internet and cloud services have taken hold as social infrastructure, and this is causing person-to-person behavioral patterns, including business transactions, to change. In addition, technologies which connect things to things are going to become ever more common in every place imaginable in society, and, among other effects, this will expand the possibilities of manufacturing in turn.

Based on these trends, the SCSK Group provides comprehensive services which harness its strengths as one of the largest system providers in Japan able to offer both integrated IT services, from system construction to operation; and a variety of BPO services. As one of the Business Services Group's latest initiatives, SCSK ServiceWare offers tools which support the diversification of communication between client corporations and their customers through digital channels. In addition, VeriServe offers services which support the enhancement of industrial products such as those in the automotive industry, while SCSK PRESCENDO CORPORATION provides solutions which enable inventory adjustment through omni-channel approaches connecting e-commerce sites and physical stores.

CASE STUDY

FastAPP—A Solution Able to Respond Swiftly to a Rapidly Changing Society via IT

Amidst a dizzyingly changing society, new businesses and services must be established to meet the needs of companies for improving convenience and problem solving. In response, it is necessary to swiftly develop business applications to keep up with these shifting business needs.

SCSK supports our customers in establishing new businesses and services through FastApp. FastApp is a secure and reliable managed service which combines a framework for developing and implementing useable applications at ultra high speeds together with a full array of support services, from roll out support to utilization consulting. FastApp is also able to coordinate flexibly with existing systems and other services. SCSK will meet the changing needs of our customers through IT and, together with them, realize a pleasant and affluent society.



Jun Hayakawa
General Manager,
Innovative Development Dept.
AMO Business Div. 1

CASE STUDY

Contributing to the Creation of a Safe Society by Improving System Development Traceability

Self-driving cars and smart cities are just two examples of the advancement of new social and lifestyle infrastructure. The systems which support this infrastructure are massive and complex, and it is no easy task to ascertain how the requirements of upstream processes have been realized from development documents. When these cannot be accurately confirmed, development processes may be omitted, in addition to delays resulting from causal investigations and responses to malfunctions. The management of development traceability is particularly paramount in automotive, financial, and other systems which significantly affect human lives as well as social and lifestyle foundations.

SCSK has begun offering ConTrack, an ALM* tool for managing development documents, which supports compliance with international functional safety standards for automotive systems while also realizing ease of use. Through ConTrack, SCSK will aid in the improvement of system development traceability and contribute to the creation of a safer and more livable society for all.

* Application lifecycle management (ALM): Comprehensively managing the entire application/software development and operation lifecycle to improve software quality and development productivity.



Toshihiro Yamamoto
Manager
Business Development Section
Sales Promotion Dept.
Business Promotion Div.

IT Platform Solutions Group

Aiding the Construction of Customers' IT Infrastructure via Total Support Services

Naoaki Mashimo
Managing Executive Officer
General Manager, IT Platform Solutions Group



Business Overview

The IT Platform Solutions Group combines servers, storage, network equipment, and security products in line with customer needs to provide optimum IT infrastructure environments. We also offer IT solutions for the manufacturing industry, such as design, analysis, and production preparation tools which support manufacturing processes, as well as IT solutions for telecommunications carriers and other highly specialized products.

In order to provide the latest technologies in these areas, we strive to pioneer world-leading and unique products through a global network which includes local overseas subsidiaries and the Sumitomo Corporation Group.

Our group also deploys support services for these products. CarePlus is our proprietary brand of total support services for IT infrastructure equipment. By expanding the CarePlus menu of services, we aim to enlarge our maintenance service business while at the same time enhancing the added value of existing businesses, improving customer satisfaction, and growing business for the IT Platform Solutions Group as a whole.

Fiscal 2017 Initiatives

We aim to further cultivate key customers in our existing product sales business via tight coordination with other business groups and SCSK Group companies. In addition, we will establish a new division specializing in business for telecommunications carriers, one of our key focuses, with the aim of expanding business. Further, we will proactively enhance our ability to discover new products and cultivate new global talent by sending more employees to work at our subsidiaries in U.S., as well as by dispatching more staff to Europe.

We will improve the ease of use of CarePlus, the IT Platform Solutions Group's mainline support service, by expanding the number of products, and by adding survey and report functionality. In addition, we will be launching CarePlus Cloud, a new cloud service brand, as part of the CarePlus service platform to enable customers and partners to use CarePlus as an IT support service platform as well.

CASE STUDY

IPS Cable Simulation—Software which Contributes to Improving Car Environmental Performance

Automobiles are comprised of over 30 thousand parts. Among these many parts, the wire harness has come to significantly affect vehicle weight due to the increasing computerization of automobiles. Accordingly, there is a need to reduce weight by reducing the number of wires used as well as by making them thinner and decreasing their length. In addition, the copper found in wire harnesses comprises around 80% of the copper used in removable components and thus wire harnesses have also become one of the most important parts requiring a recyclable design.

Despite being a key component, wire harnesses have traditionally been difficult to inspect and test. SCSK, however, has made it possible to inspect and verify wire harnesses via computer. SCSK's IPS Cable Simulation software makes it possible to verify optimum wire length, view the ease with which wire can be laid, check for obstruction by surrounding machinery, and design the optimum wire harness layout in real time 3D. Realizing the optimum layout for a harness reduces vehicle weight, improves fuel consumption, and cuts CO₂ emissions while also improving ease of disassembly and reducing the need for prototyping.

Through the provision of a wide variety of software, SCSK contributes to an environmentally friendly society.



Koichi Higuchi
General Manager
Analysis Solutions Dept.
Engineering Solutions Div.

IT Management Group

Creating the Future Together with Customers through the Comprehensive Strengths of IT Management Services

Tetsuya Ueda
Managing Executive Officer
General Manager, IT Management Group



Business Overview

The IT Management Group is comprised of three businesses: Platform integration, which constructs IT system platforms; our on-site operation service, which supports everything from IT operation to IT strategy creation from the customer's perspective; and our data center business, which protects important data via robust security features.

These businesses also coordinate to provide our cloud services, combining components such as servers, networks, and security in the optimum configuration for all manner of environments based on management and business concerns.

The IT Management Group comprehensively supports the optimization of customers' entire IT system platforms, from planning and construction to operation, management, and the proposal of improvements, via sophisticated management services. Through our IT services, we indirectly support our customers in enhancing their management and business efficiency and contribute to the improvement of their growth potential, business continuity, and sound management.

Fiscal 2017 Initiatives

Taking as our policy the shifting of our business model from a labor-oriented business to a service-oriented model, we are striving to enhance our business domains and strengthen our data center business.

To start, we will establish a system which will enable us to meet the diverse needs of our customers at an even higher level. We will do this by enhancing our business domains through the promotion of the standardization and automation of operations, expanding security specialists' area of operation, and hybrid operation services that combine monitoring and operation services performed by our engineers stationed on customer premises and at our data centers.

Meanwhile, we will also strengthen our data center business by accelerating the standardization of system operation services, including networks, security and cloud computing, and by expanding service-oriented business focusing on solutions which utilize our data centers. In addition, we will promote the use of our data centers and cloud services, particularly among existing customers, to acquire full outsourcing contracts and improve our profitability. Through these initiatives, we will strengthen the market competitiveness of our data center business.

CASE STUDY

Supporting Our Customers' Work Style Reforms with IT

In Japan, the declining birthrate and aging population is resulting in a shrinking labor force and an increasing number of persons requiring nursing care. In turn, working style reform has become an urgent challenge.

SCSK provides customers located both in Japan and around the world with schedulers viewable by all relevant personnel; communication platforms such as meeting systems through which members can participate in meetings regardless of where they are physically located; thin clients able to access network servers whether an employee is on company grounds, at home, or on the move; and security systems which ensure that all of the above systems can be used safely and securely. In turn, these systems make it possible for our customers to engage in efficient work styles which are not held captive to specific times and places. In addition, we also contribute to the permeation of corporate philosophy into business activities through the use of internal information portals, another example of a communications platform offered by SCSK.

Going forward, SCSK will continue to support customers' work style reforms with IT.



Toshiyuki Takahashi
Deputy General Manager
IT Architecture Integration Div.

Financial Section

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Management's Discussion and Analysis

I. OVERVIEW OF RESULTS

1. Economic and Industry Trends

In the fiscal year ended March 31, 2017, the Japanese economy continued to display a moderate recovery trend. This trend was supported in part by the economic stimulus measures implemented by the Japanese government as well as by the monetary easing measures and interest rate policies instituted by the Bank of Japan.

Specifically, corporate earnings grew as production activities picked up, and we are witnessed improvements in the job market along with increases in the real total compensation of workers. These factors led us to judge that the economy was displaying an overall trend toward recovery.

Our outlook for the economy is that, in the midst of ongoing improvements in the job market and in wages, the recovery trend will continue. However, a persistent sense of uncertainty is plaguing the global political and economic climate. Prominent concerns include the unpredictable state of government affairs under the new administration in the United States, geopolitical risks in the Middle East and East Asia, issues surrounding the United Kingdom's decision to leave the European Union, and the threat of economic downturn in Asian and other emerging and resource-rich countries. Accordingly, scrutiny is imperative in judging these economic trends.

In this environment, the IT services market saw an increase in overall IT investment demand. SCSK witnessed a rise in both conventional replacement demand from corporate customers seeking for productivity and efficiency improvements purposes and strategic IT investment demand for reinforcing strategic businesses or securing a competitive edge.

Strategic IT investment and IT services demand increased in the manufacturing industry and the distribution industry, contributing to solid deal flow in both industries. In the manufacturing industry, such demand was directed toward compatibility with the Internet of Things (IoT), which is anticipated to enter into a full-fledged proliferation period, as well as toward strategic globalization initiatives; verification services for pre-market products, which are growing ever more sophisticated; and business process outsourcing (BPO) services related to products and services. In the distribution industry, this demand was largely associated with investment related to e-commerce, customer relationship management (CRM), and big data analysis for the purposes of enhancing digital marketing initiatives and facilitating omni-channel retailing.

In the financial industry, we are witnessing robust demand for redevelopment of operational systems to boost the

competitiveness or heighten the operational efficiency of customers seen primarily among major financial institutions in the banking and insurance sectors. In addition, IT investment demand is growing smoothly, particularly for systems development purposes aimed at boosting competitiveness, examples of which include the application of FinTech, artificial intelligence (AI) and other new IT technologies to cultivate retail businesses or address the emergence of more sophisticated settlement systems.

In addition, demand for various cloud-based IT services has been on the rise in IaaS, PaaS and other IT infrastructure sectors against a backdrop of a strong appetite among customer companies for investment to boost competitiveness and heighten operational efficiency and a lack of IT employees at these companies. A similar increase was seen in demand for IT services in the operational system field, although limited to certain sectors.

2. Consolidated Results

Looking at the Company's operating results for the fiscal year ended March 31, 2017, consolidated net sales increased 1.7% year on year to ¥329,303 million. This increase came on the back of robust system development among manufacturing and financial industry customers as well as increases in sales of system maintenance and operation services seen primarily among customers in the manufacturing industry, the distribution industry and the financial industry. These factors offset a decline in large-scale projects from the previous fiscal year due to an absence of systems development projects for securities companies and systems sales projects for communications industry customers.

Operating profit increased 6.1% to ¥33,714 million. In addition to the boost to profit from the higher sales, operating profit benefited from improved development productivity due to measures for heightening operational quality and increasing efficiency. These factors helped absorb a rise in expenses that included higher regulatory system- and operating environment-related costs, such as size-based corporate taxes and retirement benefit expenses, as well as increased business investment-related expenses.

Ordinary profit increased 7.5% to ¥36,121 million, following the increase in operating profit and the recording of gains on investments. Meanwhile, profit attributable to owners of parent increased 5.6% to ¥28,458 million, due to the higher operating profit, various tax benefits and gains on investments.

II. OVERVIEW OF RESULTS BY REPORTABLE SEGMENT

Business results by reportable segment follow. Net sales by segment are based on sales to external customers.

	(Millions of yen)					
	Year ended March 31, 2016		Year ended March 31, 2017		Change from previous fiscal year	
	Amount	Segment Profit	Amount	Segment Profit	Amount	Segment Profit
Manufacturing Systems Business	¥ 40,481	¥ 3,001	¥ 42,694	¥ 3,290	¥ 2,212	¥ 288
Telecommunication Systems Business	24,545	4,212	26,248	5,206	1,703	993
Distribution Systems Business	48,577	6,822	48,280	7,133	(297)	310
Financial Systems Business	70,887	8,359	70,529	7,296	(358)	(1,063)
Business Solutions	19,052	1,592	19,289	2,087	237	494
Business Services	39,273	2,840	42,811	3,303	3,538	462
IT Platform Solutions	77,135	6,316	75,379	7,138	(1,755)	822
Prepaid Card Business	3,217	225	3,302	278	85	53
Other	774	313	766	260	(8)	(53)
Adjusted total	—	(1,898)	—	(2,278)	—	(379)
Total	¥323,945	¥31,785	¥329,303	¥33,714	¥ 5,358	¥ 1,928

■ Manufacturing Systems Business

Net sales increased 5.5% to ¥42,694 million, and segment profit increased 9.6% to ¥3,290 million, due to the solid trend in orders from automobile and electronic component manufacturers that continued on from the third quarter.

■ Telecommunication Systems Business

Net sales grew 6.9% to ¥26,248 million, while segment profit increased 23.6% to ¥5,206 million, thanks to the robust amount of system development orders from major communications carriers and other customers.

■ Distribution Systems Business

Net sales decreased 0.6% to ¥48,280 million, due to the conclusion of several small-to medium-sized systems development projects that were carried over from the previous fiscal year. However, segment profit increased 4.6% to ¥7,133 million, as profitability improved following a decline in unprofitable projects.

■ Financial Systems Business

Net sales were relatively unchanged year on year at ¥70,529 million as the impacts of the absence of previously recorded large-scale orders from securities companies were counterbalanced by the strong sales targeting banks and insurance companies. Segment profit, meanwhile, decreased 12.7% to ¥7,296 million, because projects with particularly high profitability were recorded in the previous fiscal year and because profit in the fiscal year ended March 31, 2017, was impacted by the start of new businesses, a drop in profitability and the presence of unprofitable projects.

■ Business Solutions

Net sales increased 1.2% to ¥19,289 million, in reflection of strong enterprise resource planning (ERP) sales. Similarly, segment profit increased 31.0% to ¥2,087 million, due to increased productivity and the relatively high level of profitability seen among projects undertaken in the fiscal year ended March 31, 2017.

■ Business Services

Net sales increased 9.0% to ¥42,811 million, and segment profit increased 16.3% to ¥3,303 million, thanks to brisk demand for BPO services. This demand was seen in relation to the needs for product support and verification services in the manufacturing industry and for various outsourcing services in the distribution industry.

■ IT Platform Solutions

Net sales decreased 2.3% to ¥75,379 million, due to the rebound from previously recorded large-scale orders from communications industry customers. However, segment profit increased 13.0% to ¥7,138 million, due to increases in the margins of certain IT product sales operations.

■ Prepaid Card Business

Net sales grew 2.6% to ¥3,302 million, while segment profit increased 23.5% to ¥278 million, as a result of the strong performance in prepaid card issuance and other related businesses.

■ Other

Net sales (facility maintenance and rent income, etc.) decreased 1.0% to ¥766 million, and segment profit decreased 16.9% to ¥260 million.

III. NET SALES BY SEGMENT

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

	(Millions of yen)					
	Year ended March 31, 2016		Year ended March 31, 2017		Comparison with previous fiscal year	
	Amount	Share (%)	Amount	Share (%)	Amount	Change (%)
Systems Development	¥124,470	38.4	¥127,051	38.6	¥ 2,581	2.1
System Maintenance and Operation/Services	119,170	36.8	125,802	38.2	6,631	5.6
Packaged Software/Hardware Sales	77,087	23.8	73,147	22.2	(3,939)	(5.1)
Prepaid Card Business	3,217	1.0	3,302	1.0	85	2.6
Total	¥323,945	100.0	¥329,303	100.0	¥ 5,358	1.7

In Systems Development, despite the absence of previously recorded large-scale orders from securities companies, net sales increased 2.1% to ¥127,051 million, as a result of solid performance in projects for the manufacturing industry and the financial industry.

In System Maintenance and Operation/Services, as a result of strong performance in BPO services, particularly in the manufacturing and distribution industries, combined with robust demand for various cloud services related to IT infrastructure, net sales increased 5.6% to ¥125,802 million.

In Packaged Software/Hardware Sales, net sales decreased 5.1% to ¥73,147 million, due to the rebound from previously recorded large-scale IT network equipment sales orders from communications industry customers.

In Prepaid Card Business, net sales increased 2.6% to ¥3,302 million, as a result of the strong performance in prepaid card issuance and other related businesses.

IV. FINANCIAL POSITION

■ Total Assets

Assets as of March 31, 2017 were ¥389,537 million, an increase of 10.5% or ¥36,860 million compared to March 31, 2016.

■ Liabilities

Liabilities as of March 31, 2017 were ¥215,862 million, an increase of 7.3% or ¥14,733 million compared to March 31, 2016.

■ Net Assets

Net assets as of March 31, 2017 were ¥173,674 million, an increase of 14.6% or ¥22,127 million compared to March 31, 2016.

V. CASH FLOWS

Cash and cash equivalents ("cash") increased by ¥25,489 million year on year to ¥123,935 million. The increase or decrease in each cash flow type and the main factors for such changes are as follows.

■ Cash Flows from Operating Activities

Net cash provided by operating activities was ¥37,161 million.

The main cash inflow factors were profit before income taxes of ¥35,827 million, depreciation of ¥8,972 million and ¥1,689 million increase in cash in response to an increase in accounts payable - trade. The main cash outflow factor was a decrease of ¥7,927 million in response to an increase in guarantee deposits.

■ Cash Flows from Investing Activities

Net cash used in investing activities was ¥11,982 million.

The main cash outflow factors were payments for the acquisitions of ¥7,876 million in property, plant and equipment and ¥6,725 million in intangible assets.

■ Cash Flows from Financing Activities

Net cash provided by financing activities was ¥476 million.

The main cash inflow factor was the issuance of bonds of ¥10,000 million. The main cash outflow factors were dividend payments of ¥4,160 million (¥40 per share) for the year-end dividends for the fiscal year ended March 31, 2016 and ¥4,421 million (¥42.5 per share) for the interim dividends for the fiscal year ended March 31, 2017.

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 June 23, 2017.

1. Risks Related to the Business Environment

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

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

In addition, the Group provides a range of IT services to customer companies in a variety of industries and with various business formats, and the timing and scope of customers' IT investment is both directly and indirectly affected by the economic environment and factors like interest rate and currency movements. Furthermore, the Prepaid Card Business faces the possibility of competition arising from other payment methods, and this could also have an impact on the Group's results.

2. Risks Related to Systems Development

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

The Group therefore strives to reduce risk through systematic efforts to ensure that unforeseen malfunctions do not arise in the overall systems delivered, through checks at the negotiation and estimate stages, management of the project's progress by specialist divisions, quality checks, general inspections of subcontractors and progress and quality management for system development operations.

3. Risks Related to Addressing Technological Innovation

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

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

4. Risks Related to Information Security

From systems development through to the operational stage, the SCSK Group handles various types of confidential information, including personal information held by customer companies and technical information related to customer companies' systems. In the event this confidential information were to be leaked or altered because of a computer virus, unauthorized access, human error, damage to the customer's system or for any other reason, the customer could seek compensatory damages and the Group could suffer a loss of confidence that could have an impact on the Group's results.

Therefore, in addition to maintaining thorough compliance and strengthening physical security measures, we implement programs to strengthen information security throughout education and training, including at subcontractors that handle confidential information. We also work to insure that subcontractors maintain the same levels of information security and information management as those of SCSK through on-site reviews at subcontractors when necessary.

5. Risks Related to Investment

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

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

6. Risks Related to Litigation

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

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

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

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

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

9. Risks Related to Impairment on Non-current Assets

As of March 31, 2017, the SCSK Group owned land and structures with a book value of ¥54,684 million. These assets are used for offices, including leased offices, data centers, dormitories, and employee housing. Data centers and leased offices are classified with their respective business segment, and other assets are classified as corporate assets, and movements in land prices or the SCSK Group's performances could have an impact on the Group's results.

In the period under review, impairment losses were booked with regard to the facilities which were decided to be sold. As a result of the assessment, for non-current assets categorized by business segment, no item was regarded as impaired.

10. Risks Related to Product Procurement

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

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

11. Risks Related to Non-recovery of Assets

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

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

12. Risks Related to Large-Scale Natural Disasters

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

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

13. Risks Related to Retaining and Development of Human Recourses

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

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

Consolidated Balance Sheets

SCSK Corporation and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
ASSETS			
Current assets:			
Cash and deposits (Note 5-* ²)	¥ 27,363	¥ 20,840	\$ 243,905
Notes and accounts receivable - trade	65,764	63,373	586,188
Lease receivables and investment assets	378	458	3,369
Securities	—	800	—
Operational investment securities (Note 5-* ²)	6,056	10,110	53,986
Merchandise and finished goods	6,779	5,373	60,431
Work in process (Note 5-* ⁴)	341	752	3,045
Raw materials and supplies	50	53	450
Deferred tax assets	7,602	7,392	67,762
Deposits paid	98,171	79,004	875,046
Guarantee deposits (Note 5-* ²)	45,359	37,443	404,305
Other	14,486	12,613	129,124
Allowance for doubtful accounts	(47)	(41)	(427)
Total current assets	272,306	238,175	2,427,189
Non-current assets:			
Property, plant and equipment			
Buildings and structures, net (Note 5-* ³)	34,863	34,119	310,754
Tools, furniture and fixtures, net (Note 5-* ³)	7,759	7,632	69,167
Land	19,821	20,583	176,674
Leased assets, net (Note 5-* ³)	1,580	1,261	14,092
Construction in progress	4,518	3,271	40,276
Other, net (Note 5-* ³)	2	4	24
Total property, plant and equipment	68,546	66,872	610,989
Intangible assets			
Goodwill	133	232	1,194
Other	11,691	8,297	104,215
Total intangible assets	11,825	8,529	105,409
Investments and other assets			
Investment securities (Note 5-* ¹)	9,564	8,075	85,252
Long-term prepaid expenses	1,220	1,242	10,876
Net defined benefit asset	13	10	124
Lease and guarantee deposits	6,889	6,855	61,408
Deferred tax assets	18,248	21,969	162,652
Other	1,046	1,256	9,324
Allowance for doubtful accounts	(124)	(311)	(1,108)
Total investments and other assets	36,857	39,098	328,531
Total non-current assets	117,230	114,500	1,044,930
Total assets	¥389,537	¥352,676	\$3,472,120

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
LIABILITIES			
Current liabilities:			
Notes and accounts payable - trade	¥ 21,362	¥ 19,679	\$ 190,415
Short-term loans payable	10,000	10,000	89,134
Current portion of bonds	15,000	—	133,701
Current portion of long-term loans payable	10,000	5,000	89,134
Lease obligations	988	980	8,808
Income taxes payable	2,262	3,725	20,166
Provision for bonuses	6,418	6,275	57,206
Provision for directors' bonuses	195	258	1,738
Provision for loss on construction contracts (Note 5-* ⁴)	50	984	449
Deposits received of prepaid cards	91,828	83,788	818,506
Other (Note 5-* ²)	25,814	25,562	230,091
Total current liabilities	183,919	156,255	1,639,355
Non-current Liabilities:			
Bonds payable	20,000	25,000	178,269
Long-term loans payable	5,000	10,000	44,567
Lease obligations	1,667	1,435	14,863
Provision for directors' retirement benefits	20	24	186
Net defined benefit liability	2,359	5,759	21,028
Asset retirement obligations	2,278	2,056	20,310
Long-term lease and guarantee deposited	532	526	4,744
Other	84	72	756
Total non-current liabilities	31,943	44,873	284,726
Total liabilities	215,862	201,129	1,924,082
NET ASSETS			
Shareholders' equity:			
Capital stock	21,152	21,152	188,544
Capital surplus	3,047	3,054	27,161
Retained earnings	151,722	131,886	1,352,372
Treasury shares	(8,425)	(8,444)	(75,101)
Total shareholders' equity	167,497	147,649	1,492,977
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,308	1,556	20,579
Deferred gains or losses on hedges	(5)	(89)	(46)
Foreign currency translation adjustment	(73)	169	(656)
Remeasurements of defined benefit plans	(2,829)	(3,866)	(25,217)
Total accumulated other comprehensive income	(599)	(2,229)	(5,341)
Subscription rights to shares	70	88	624
Non-controlling interests	6,706	6,038	59,776
Total net assets	173,674	151,546	1,548,038
Total liabilities and net assets	¥389,537	¥352,676	\$3,472,120

Consolidated Statements of Income

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Net sales	¥329,303	¥323,945	\$2,935,229
Cost of sales (Note 6- ^{*8})	247,548	245,923	2,206,511
Gross profit	81,754	78,021	728,717
Selling, general and administrative expenses (Notes 6- ^{*1} , ^{*7})	48,040	46,235	428,204
Operating profit	33,714	31,785	300,513
Non-operating income:			
Interest income	68	99	610
Dividend income	67	60	599
Share of profit of entities accounted for using equity method	477	344	4,258
Gain on sales of investment securities	375	89	3,343
Hoard profit of prepaid card	1,564	1,376	13,941
Other	176	310	1,573
Total non-operating income	2,729	2,279	24,327
Non-operating expenses:			
Interest expenses	162	197	1,450
Bond issuance cost	48	48	430
Other	111	209	992
Total non-operating expenses	322	455	2,873
Ordinary profit	36,121	33,610	321,967
Extraordinary income:			
Gain on sales of non-current assets (Note 6- ^{*2})	15	1	136
Gain on sales of investment securities	671	159	5,982
Total extraordinary income	686	160	6,119
Extraordinary losses:			
Loss on retirement of non-current assets (Note 6- ^{*3})	80	87	720
Loss on sales of non-current assets (Note 6- ^{*4})	34	14	306
Impairment loss (Note 6- ^{*5})	37	356	337
Loss on valuation of investment securities	7	—	69
Loss on sales of membership	0	—	0
Loss on valuation of membership	3	2	32
Office transfer related expenses (Note 6- ^{*6})	—	374	—
Compensation expenses	816	76	7,273
Total extraordinary losses	980	912	8,740
Profit before income taxes	35,827	32,858	319,345
Income taxes—current	3,875	4,151	34,539
Income taxes—deferred	2,679	964	23,880
Total income taxes	6,554	5,116	58,420
Profit	29,273	27,742	260,925
Profit attributable to non-controlling interests	814	786	7,260
Profit attributable to owners of parent	¥ 28,458	¥ 26,956	\$ 253,665

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

Consolidated Statements of Comprehensive Income

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Profit	¥29,273	¥27,742	\$260,925
Other comprehensive income:			
Valuation difference on available-for-sale securities	745	(915)	6,643
Deferred gains or losses on hedges	84	(73)	750
Foreign currency translation adjustment	(229)	(160)	(2,049)
Remeasurements of defined benefit plans, net of tax	1,051	(6,828)	9,370
Share of other comprehensive income of entities accounted for using equity method	(0)	(115)	(0)
Total other comprehensive income (Note 7)	1,650	(8,092)	14,713
Comprehensive income	¥30,923	¥19,650	\$275,638
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥30,088	¥19,175	\$268,195
Comprehensive income attributable to non-controlling interests	835	474	7,443

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

Consolidated Statements of Changes in Net Assets

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen					Millions of yen							
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥21,152	¥3,054	¥111,171	¥(8,471)	¥126,907	¥2,520	¥(16)	¥ 361	¥ 2,684	¥ 5,550	¥106	¥5,971	¥138,536
Changes of items during period:													
Dividends of surplus	—	—	(6,240)	—	(6,240)	—	—	—	—	—	—	—	(6,240)
Profit attributable to owners of parent	—	—	26,956	—	26,956	—	—	—	—	—	—	—	26,956
Change in ownership interest of parent due to transactions with non-controlling interests	—	7	—	—	7	—	—	—	—	—	—	—	7
Purchase of treasury shares	—	—	—	(22)	(22)	—	—	—	—	—	—	—	(22)
Disposal of treasury shares	—	(7)	—	42	34	—	—	—	—	—	—	—	34
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	7	7	—	—	—	—	—	—	—	7
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(963)	(73)	(192)	(6,550)	(7,780)	(18)	66	(7,731)
Total changes of items during period	—	(0)	20,715	26	20,742	(963)	(73)	(192)	(6,550)	(7,780)	(18)	66	13,010
Balance at March 31, 2016	21,152	3,054	131,886	(8,444)	147,649	1,556	(89)	169	(3,866)	(2,229)	88	6,038	151,546
Balance at April 1, 2016	21,152	3,054	131,886	(8,444)	147,649	1,556	(89)	169	(3,866)	(2,229)	88	6,038	151,546
Changes of items during period:													
Dividends of surplus	—	—	(8,582)	—	(8,582)	—	—	—	—	—	—	—	(8,582)
Profit attributable to owners of parent	—	—	28,458	—	28,458	—	—	—	—	—	—	—	28,458
Change in ownership interest of parent due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	—	(0)
Purchases of treasury shares	—	—	—	(10)	(10)	—	—	—	—	—	—	—	(10)
Disposals of treasury shares	—	(6)	—	27	20	—	—	—	—	—	—	—	20
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	2	2	—	—	—	—	—	—	—	2
Change of scope of equity method	—	—	(40)	—	(40)	—	—	—	—	—	—	—	(40)
Net changes of items other than shareholders' equity	—	—	—	—	—	752	84	(243)	1,036	1,630	(18)	668	2,279
Total changes of items during period	—	(7)	19,835	18	19,847	752	84	(243)	1,036	1,630	(18)	668	22,127
Balance at March 31, 2017	¥21,152	¥3,047	¥151,722	¥(8,425)	¥167,497	¥2,308	¥ (5)	¥ (73)	¥(2,829)	¥ (599)	¥ 70	¥6,706	¥173,674

	Thousands of U.S. dollars (Note 2)					Thousands of U.S. dollars (Note 2)							
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$188,544	\$27,224	\$1,175,566	\$(75,267)	\$1,316,067	\$13,874	\$(797)	\$ 1,510	\$(34,459)	\$(19,871)	\$ 789	\$53,821	\$1,350,806
Changes of items during period:													
Dividends of surplus	—	—	(76,496)	—	(76,496)	—	—	—	—	—	—	—	(76,496)
Profit attributable to owners of parent	—	—	253,665	—	253,665	—	—	—	—	—	—	—	253,665
Change in ownership interest of parent due to transactions with non-controlling interests	—	0	—	—	0	—	—	—	—	—	—	—	0
Purchases of treasury shares	—	—	—	(94)	(94)	—	—	—	—	—	—	—	(94)
Disposals of treasury shares	—	(62)	—	242	180	—	—	—	—	—	—	—	180
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	18	18	—	—	—	—	—	—	—	18
Change of scope of equity method	—	—	(362)	—	(362)	—	—	—	—	—	—	—	(362)
Net changes of items other than shareholders' equity	—	—	—	—	—	6,704	750	(2,167)	9,242	14,530	(164)	5,955	20,321
Total changes of items during period	—	(62)	176,806	166	176,910	6,704	750	(2,167)	9,242	14,530	(164)	5,955	197,231
Balance at March 31, 2017	\$188,544	\$27,161	\$1,352,372	\$(75,101)	\$1,492,977	\$20,579	\$ (46)	\$ (656)	\$(25,217)	\$ (5,341)	\$ 624	\$59,776	\$1,548,038

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

Consolidated Statements of Cash Flows

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 35,827	¥ 32,858	\$ 319,345
Depreciation	8,972	8,003	79,973
Amortization of goodwill	98	89	877
Impairment loss	37	356	337
Increase (decrease) in allowance for doubtful accounts	(181)	52	(1,614)
Increase (decrease) in net defined benefit liability	(1,805)	62	(16,089)
Decrease (increase) in net defined benefit asset	(3)	(1,096)	(30)
Loss on retirement of non-current assets	80	87	720
Loss (gain) on sales of non-current assets	19	12	170
Loss (gain) on valuation of investment securities	7	—	69
Loss (gain) on sales of investment securities	(1,046)	(248)	(9,326)
Share of (profit) loss of entities accounted for using equity method	(477)	(344)	(4,258)
Interest and dividend income	(135)	(159)	(1,210)
Interest expenses paid on loans and bonds	162	197	1,450
Decrease (increase) in investment securities for sale	3,964	8,784	35,341
Decrease (increase) in notes and accounts receivable - trade	(2,441)	226	(21,762)
Decrease (increase) in inventories	(994)	(1,102)	(8,864)
Decrease (increase) in guarantee deposits	(7,927)	(12,655)	(70,661)
Increase (decrease) in notes and accounts payable - trade	1,689	1,958	15,056
Increase (decrease) in deposits received of prepaid cards	8,039	6,584	71,660
Other, net	(240)	(2,948)	(2,140)
Subtotal	43,646	40,718	389,044
Interest and dividend income received	285	324	2,541
Interest expenses paid	(160)	(191)	(1,426)
Compensation expenses paid	(825)	(664)	(7,353)
Payments for office transfer related expenses	—	(2,508)	—
Income taxes (paid) refund	(5,785)	(2,948)	(51,565)
Net cash provided by (used in) operating activities	37,161	34,730	331,240
Cash flows from investing activities:			
Proceeds from withdrawal deposit	—	351	—
Purchase of securities	—	(3,900)	—
Proceeds from sales and redemption of securities	700	4,000	6,239
Purchase of property, plant and equipment	(7,876)	(7,946)	(70,204)
Proceeds from sales of property, plant and equipment	1,278	9	11,392
Purchase of intangible assets	(6,725)	(3,524)	(59,947)
Purchase of investment securities	(403)	(59)	(3,600)
Proceeds from sales and redemption of investment securities	1,263	562	11,260
Payments for transfer of business	—	(211)	—
Collection of short-term loans receivable	6	7	59
Proceeds from withdrawal of investments in partnership	126	235	1,128
Payments for lease and guarantee deposits	(227)	(224)	(2,025)
Proceeds from collection of lease and guarantee deposits	153	1,010	1,365
Other, net	(277)	216	(2,477)
Net cash provided by (used in) investing activities	(11,982)	(9,473)	(106,809)
Cash flows from financing activities:			
Increase in short-term loans payable	10,000	10,000	89,134
Decrease in short-term loans payable	(10,000)	(10,000)	(89,134)
Proceeds from long-term loans payable	5,000	—	44,567
Repayments of long-term loans payable	(5,000)	(10,000)	(44,567)
Proceeds from issuance of bonds	10,000	10,000	89,134
Redemption of bonds	—	(5,000)	—
Repayments of lease obligations	(778)	(691)	(6,938)
Purchase of treasury shares	(10)	(23)	(96)
Proceeds from sales of treasury shares	14	16	131
Cash dividends paid	(8,582)	(6,240)	(76,496)
Dividends paid to non-controlling interests	(166)	(137)	(1,486)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(262)	—
Net cash provided by (used in) financing activities	476	(12,338)	4,248
Effect of exchange rate change on cash and cash equivalents	(165)	(104)	(1,477)
Net increase (decrease) in cash and cash equivalents	25,489	12,813	227,202
Cash and cash equivalents at beginning of period	98,445	85,713	877,488
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(81)	—
Cash and cash equivalents at end of period (Note 9)	¥123,935	¥ 98,445	\$1,104,690

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

Notes to Consolidated Financial Statements

SCSK Corporation and Consolidated Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Presentation

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

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

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

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

(2) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

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

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

foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRS or accounting principles generally accepted in the United States.

(3) Changes in presentation

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

In order to reflect changes in this presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

(4) U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in Japanese yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥112.19 to U.S.\$1.00, the rate of exchange prevailing at March 31, 2017. This translation should not be construed as a representation that the amounts shown have been converted into U.S. dollars at such rate.

(5) Foreign currency translation

(a) Translation of accounts

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

(b) Financial statements denominated in foreign currencies

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

2. MATTERS RELATED TO THE ISSUE OF A GOING CONCERN

Not applicable

3. SIGNIFICANT ITEMS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Scope of Consolidation

(a) Consolidated subsidiaries: 20

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

(b) Major non-consolidated subsidiaries and affiliates

Skeed Co. Ltd.
VERISERVE OKINAWA TEST CENTER CORPORATION
Tokyo Green Systems Corporation

Skeed Co. Ltd. became a subsidiary through the acquisition of additional shares of stock.

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

(2) Equity-Method Affiliates

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

VERISERVE OKINAWA TEST CENTER CORPORATION

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

ARGO GRAPHICS Inc.

Non-consolidated subsidiaries not accounted for by the equity method (Skeed Co. Ltd. and Tokyo Green Systems Corporation) are excluded from the method's application because their overall importance within the Group is low and the impact on net profit, retained earnings and other factors would be minor.

ATLED CORP. was excluded from the scope of equity method application for the nine-month period ended December 31, 2016, as it ceased to be an affiliate following a partial sale of the company's stock held by the Company.

(3) Fiscal Year of Consolidated Subsidiaries

Subsidiaries, SCSK Europe Ltd., SCSK Shanghai Limited, SCSK Asia Pacific Pte. Ltd. and one partnership are consolidated using their financial statements at their respective fiscal year-end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. All significant inter-company balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from intercompany transactions are eliminated.

(4) Accounting Policies

(a) Valuation bases and valuation methods for important assets

i) Securities

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

Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for by the equity method are stated at the moving average cost.

Available-for-sale securities:

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

Available-for-sale securities without fair value are stated at the moving average cost.

Investments in partnership considered as securities in accordance with the Financial Instruments and Exchange Act of Japan are stated at the amount of net shares based on their available financial statements at reporting dates designated by partnership agreements.

ii) Inventories

Merchandise and finished goods:

Merchandise and finished goods are principally stated using the specific identification method with a write-down in the amount of carrying value as a result of declines in profitability.

Work in process:

Work in process is stated by the specific identification method write-down in the carrying value as a result of declines in profitability.

iii) Derivative transactions

Derivative transactions are carried at fair value.

(b) Depreciation method of important assets

i) Property and equipment (excluding leased assets)

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

ii) Intangible assets (excluding leased assets)

Software for external sales:

Capitalized costs of software developed for external sales are amortized as the higher of (a) the amount based on projected sales amounts, or (b) the amount equally allocated for the remaining period (within 3 years).

Software for internal use:

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

Other intangible assets:

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

iii) Leases

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

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

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

iv) Long-term prepaid expenses

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

(c) Standards for reporting important allowances

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for directors' bonuses

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

iv) Provision for loss on construction contracts

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

v) Provision for directors' retirement benefits

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

(d) Retirement benefits

i) Calculation method for retirement benefit obligation

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

ii) Recording methods of actuarial gains/losses and past service costs

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

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

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

iii) Application of simplified method for small-sized enterprises

Certain consolidated subsidiaries apply the simplified method that assumes the amount required for voluntary resignation at the end of the term to be the retirement benefit obligation in computing net defined benefit liability and retirement benefit costs.

(e) Disposition method for deferred assets

Bond issuance cost:

Bond issuance cost is expensed in full when paid.

(f) Revenue recognition

i) Revenue from construction contracts

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

ii) Prepaid card sales

Upon issuance of prepaid cards, the face value is recognized as “Deposits received of prepaid cards,” with subsequent deductions as the cards are used.

The Group estimates any remaining value of the prepaid cards that are considered unlikely to be used, based on the requirement under Japan’s Corporation Tax Act, which takes into account the year of issuance for the basis of estimation. Any amounts that are determined to be unlikely used are recognized as “Hoard profits of prepaid cards” in Non-operating profit with subsequent deductions from “Deposits received of prepaid cards.”

(g) Derivative and hedge accounting

i) Hedge accounting methods

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

ii) Hedging instruments and hedged items

Hedging instruments:

Forward foreign exchange contracts

Hedged items:

Receivables and payables denominated in foreign currencies

iii) Hedging policy

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

iv) Assessment of hedge effectiveness

Hedge effectiveness is not assessed at the balance sheet

date since forward foreign exchange contracts with the same amounts and maturities denominated in the same foreign currencies, based on risk management policies, are appropriated when the forward foreign exchange contracts are entered into. Therefore, their following correlation in exchange fluctuations is fully confirmed.

v) Other

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

(h) Operational investment securities

Marketable securities held for gaining financial revenue for operational purposes are classified as operational investment securities. Financial revenue such as interest derived from the operational investment securities is included in net sales of the consolidated statements of income.

(i) Amortization of goodwill

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

(j) Cash and cash equivalents

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

(k) Consumption taxes

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

(l) Application of consolidated taxation system

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

Changes in Accounting Policies:

Not applicable

Changes in Presentation Methods:

Not applicable

Changes in Accounting Estimates:

Not applicable

4. ADDITIONAL INFORMATION

The Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No.26”)) from the current fiscal year.

5. CONSOLIDATED BALANCE SHEETS

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

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Investment Securities	¥4,427	¥4,193	\$39,464

*2 Pledged assets

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Cash and deposits	¥1,600	¥1,500	\$14,261

The above assets were pledged as collateral for other current liabilities of ¥1,774 million (\$15,814 thousand) and ¥1,602 million at March 31, 2017 and 2016, respectively.

Operational investment securities and guarantee deposits of ¥51,382 million (\$457,992 thousand) and ¥47,472 million were lodged as security deposits pursuant to “the Act on Settlement” at March 31, 2017 and 2016, respectively.

*3 Accumulated depreciation of property, plant and equipment

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Accumulated depreciation of property, plant and equipment	¥43,589	¥40,569	\$388,529

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

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

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Work in process	¥ —	¥389	\$ —

6. CONSOLIDATED STATEMENTS OF INCOME

*1. Major elements of “Selling, general and administrative expenses” for the years ended March 31, 2017 and 2016 were as follows:

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Salaries and bonuses	¥19,813	¥19,718	\$176,608
Retirement benefit expenses	1,089	960	9,714
Welfare expenses	4,454	4,455	39,706
Rents expenses	3,381	3,480	30,137
Depreciation	1,831	1,829	16,321
Business consignment expenses	2,555	2,226	22,781
Taxes and dues	2,939	2,227	26,200
Provision for bonuses	1,723	1,664	15,358
Provision for directors' bonuses	195	258	1,738

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

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ 1	¥—	\$ 11
Tools, furniture and fixtures	2	1	23
Land	11	—	98
Software	0	0	1
Total	¥15	¥ 1	¥136

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

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥26	¥12	\$232
Tools, furniture and fixtures	34	65	307
Leased assets	—	0	—
Software	20	1	180
Other	0	7	0
Total	¥80	¥87	¥720

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

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ 2	¥—	\$ 19
Tools, furniture and fixtures	32	13	287
Software	—	1	—
Total	¥34	¥14	\$306

*5 Impairment loss

Year ended March 31, 2017

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

Use	Location	Type of assets
Company Dormitory	Tama City, Tokyo	Land, buildings and structures

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

The Group decided to sell an employee dormitory previously classified as a corporate asset and recognized an impairment loss of ¥37 million (\$337 thousands) by

decreasing its book value to the recoverable amount. The main components of the impairment loss were ¥23 million (\$209 thousands) for land and ¥14 million (\$128 thousands) for buildings and structures. The recoverable amount was the net selling value based on the contracted price.

The sale of the facility that was decided to be sold has been completed.

Year ended March 31, 2016

The Group recognized impairment loss on the following asset groups:

Use	Location	Type of assets
Training facility	Souraku-gun, Kyoto	Land
Business assets	Koutou-ku, Tokyo	Software

Property and equipment are classified into groups based on the respective type of business, which are the units for making investment decisions.

Dormant assets and business assets associated with a business for which a decision was made to restructure or withdraw from the business are grouped by individual unit.

For the year ended March 31, 2016, the Group recognized an impairment loss of ¥258 million for business assets associated with a business for which a decision was made to withdraw from the business by decreasing the book

value to the recoverable amount.

The recoverable amount is generally determined by its value in use. The Group determined that the recoverable amount of those assets was zero since their future cash flows were expected to be negative.

In addition, the Group decided to sell a training facility classified as a dormant asset and recognized an impairment loss of ¥98 million by decreasing its book value to the recoverable amount, which was the net selling value based on the contracted price.

*6 Office transfer related expenses

For year ended March 31, 2016

Office transfer related expenses included mainly rents incurred during the restoration period for the year ended March 31, 2016.

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

Year ended March 31		Year ended March 31
2017	2016	2017
Millions of yen		Thousands of U.S. dollars
¥266	¥117	\$2,378

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

Year ended March 31		Year ended March 31
2017	2016	2017
Millions of yen		Thousands of U.S. dollars
¥49	¥977	\$441

7. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table presents components of reclassification adjustment and income tax of other comprehensive income for the years ended March 31, 2017 and 2016.

* Other comprehensive income:

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Valuation difference on available-for-sale securities:			
(Losses) gains arising during the year	¥1,370	¥(1,419)	\$12,213
Reclassification adjustments for gains (losses) included in income statements	(297)	12	2,650
Before tax amounts	1,072	(1,407)	9,562
Tax (expenses) benefits	(327)	492	(2,919)
Subtotal, net of tax	745	(915)	6,643
Deferred gains or losses on hedges:			
Losses arising during the year	121	(105)	1,085
Reclassification adjustments for gains included in income statements	—	—	—
Before tax amounts	121	(105)	1,085
Tax (expenses) benefits	(37)	31	(334)
Subtotal, net of tax	84	(73)	750
Foreign currency translation adjustment:			
(Losses) gains arising during the year	(229)	(160)	(2,049)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Before tax amounts	(229)	(160)	(2,049)
Tax (expenses) benefits	—	—	—
Subtotal, net of tax	(229)	(160)	(2,049)
Remeasurements of defined benefit plans:			
(Losses) gains arising during the year	2,433	(8,879)	21,688
Reclassification adjustments for gains (losses) included in income statements	(912)	(1,047)	(8,134)
Before tax amounts	1,520	(9,926)	13,553
Tax (expenses) benefits	(469)	3,098	(4,183)
Subtotal, net of tax	1,051	(6,828)	9,370
Share of other comprehensive income of entities accounted for using equity method:			
(Losses) gains arising during the year	(0)	(115)	(0)
Reclassification adjustments for gains (losses) included in income statements	—	—	—
Subtotal, net of tax	(0)	(115)	(0)
Total other comprehensive income	¥1,650	¥(8,092)	\$14,713

8. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Year ended March 31, 2017

(1) Number of issued shares

Class of shares	Number of shares at April 1, 2016	Increase	Decrease	Number of shares at March 31, 2017
Common Stock	107,986,403	—	—	107,986,403

(2) Number of treasury shares

Class of shares	Number of shares at April 1, 2016	Increase	Decrease	Number of shares at March 31, 2017
Common Stock	4,189,210	2,610	14,554	4,177,266

Outline of reasons for changes:

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

Purchases of shares of less than one unit: 2,610 shares

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

Disposals of shares of less than one unit: 437 shares

Exercise of subscription rights to shares: 13,000 shares

Decrease due to change in equity in entities accounted for using the equity method: 1,117 shares

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares			Amount outstanding at March 31, 2017 (Millions of yen)
			Number of shares outstanding at April 1, 2016	Increase	Decrease	
SCSK	Subscription rights as stock options	—	—	—	—	¥70

(4) Matters related to dividends

(a) Dividend payments

Approved by	Types of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 28, 2016	Common Stock	¥4,160	¥40.00	March 31, 2016	June 7, 2016
Board Meeting held at October 28, 2016	Common Stock	¥4,421	¥42.50	September 30, 2016	December 1, 2016

(b) Dividends whose record date is attributable to the year ended March 31, 2017 but whose effective date is to be after the balance sheet date

Approved by	Types of shares	Source of funds	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 28, 2019	Common Stock	Accumulated income	¥4,941	¥47.50	March 31, 2017	June 2, 2017

Year ended March 31, 2016

(1) Number of issued shares

Class of shares	Number of shares at April 1, 2015	Increase	Decrease	Number of shares at March 31, 2016
Common Stock	107,986,403	—	—	107,986,403

(2) Number of treasury shares

Class of shares	Number of shares at April 1, 2015	Increase	Decrease	Number of shares at March 31, 2016
Common Stock	4,208,816	5,365	24,971	4,189,210

Outline of reasons for changes:

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

Purchases of shares of less than one unit: 5,365 shares

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

Disposals of shares of less than one unit: 410 shares

Exercise of subscription rights to shares: 20,600 shares

Decrease due to change in equity in entities accounted for using the equity method: 3,961 shares

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares			Number of shares outstanding at March 31, 2016	Amount outstanding at March 31, 2016 (Millions of yen)
			Number of shares outstanding at April 1, 2016	Increase	Decrease		
SCSK	Subscription rights as stock options	—	—	—	—	—	¥88

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

Approved by	Types of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 28, 2015	Common Stock	¥2,600	¥25.00	March 31, 2015	June 4, 2015
Board Meeting held at October 30, 2015	Common Stock	¥3,640	¥35.00	September 30, 2015	December 1, 2015

(b) Dividends whose record date is attributable to the year ended March 31, 2016 but whose effective date is to be after the balance sheet date

Approved by	Types of shares	Source of funds	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board Meeting held at April 28, 2016	Common Stock	Accumulated income	¥4,160	¥40.00	March, 31, 2016	June, 7, 2016

9. CASH FLOW INFORMATION

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

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Cash and deposits	¥ 27,363	¥ 20,840	\$ 243,905
Securities	—	800	—
Deposits paid	98,171	79,004	875,046
Total	¥125,535	¥100,645	\$1,118,952
Time deposits with original maturities of more than three months or those submitted as collateral for loans payable	(1,600)	(1,500)	(14,261)
Bonds investment trusts and government bonds with original maturities of more than three months	—	(700)	—
Cash and cash equivalents	¥123,935	¥ 98,445	\$1,104,690

10. LEASE TRANSACTIONS**(1) Lessee – Finance leases**

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

(a) Description of leased assets

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

(b) Calculation method of depreciation equivalents

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

(2) Lessee – Operating leases

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

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
As a lessee:			
Due within one year	¥ 2,911	¥ 2,913	\$ 25,950
Due over one year	10,974	13,886	97,822
Total	¥13,886	¥16,799	\$123,772

11. FINANCIAL INSTRUMENTS

(1) Matters related to financial instruments

For year ended March 31, 2017

(a) Policy for financial instruments

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

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

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

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

A subsidiary which operates the Prepaid Card Business holds debt securities as operational investment securities. The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships. These securities are exposed to market risk. The Group periodically reviews market prices of these securities in order to mitigate market risk.

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

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

Short-term loans payable are mainly for raising working capital for operating transactions. These loans payable with the final due date in September 2017 are exposed to liquidity risk.

Deposits received of prepaid cards related to the Prepaid Card Business, which the subsidiary operates, are no-interest bearing financial obligations. Although deposits received of prepaid cards are not exposed to risk of interest rate fluctuations, they are exposed to liquidity risk.

Bonds payable are issued and used mainly for capital expenditures. These bonds with the final due date in December 2021 are exposed to liquidity risk.

The purpose of long-term loans payable is to procure funds needed to secure working capital mainly in connection with operating transactions. The final repayment for long-term loans payable deadline is September 2018. Long-term loans payable are exposed to liquidity risk.

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

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

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

The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

For year ended March 31, 2016

(a) Policy for financial instruments

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

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

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

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

A subsidiary which operates the Prepaid Card Business holds debt securities as operational investment securities. The Group holds investment securities which mainly consist of stocks issued by companies with which the Group has business relationships. These securities are exposed to market risk. The Group periodically reviews market prices of these securities in order to mitigate market risk.

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

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

Short-term loans payable are mainly for raising working capital for operating transactions. These loans payable with the final due date in September 2016 are exposed to liquidity risk.

Deposits received of prepaid cards related to the Prepaid Card Business, which the subsidiary operates, are no-interest bearing financial obligations. Although deposits received of prepaid cards are not exposed to risk of interest rate fluctuations, they are exposed to liquidity risk.

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

Long-term loans payable mainly consist of the syndicated loans provided by 22 main banks. This syndicated loans due in May 2017 with variable interest rates are exposed to liquidity risk as well as the risk of interest rate fluctuations.

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

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

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

The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

(2) Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheets at March 31, 2017 and 2016 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Year Ended March 31, 2017					
	Carrying value ^(*)a)	Fair value ^(*)a)	Difference	Carrying value	Fair value	Difference
	Millions of yen			Thousands of U.S. dollars (Note 2)		
Assets:						
(1) Cash and deposits	¥ 27,363	¥ 27,363	¥ —	\$ 243,905	\$ 243,905	\$ —
(2) Notes and accounts receivable - trade	65,764	65,764	—	586,188	586,188	—
(3) Operational investment securities:						
Available-for-sale securities	6,056	6,056	—	53,986	53,986	—
(4) Deposits paid	98,171	98,171	—	875,046	875,046	—
(5) Guarantee deposits	45,359	45,359	—	404,305	404,305	—
(6) Investment securities						
Available-for-sale securities	4,393	4,393	—	39,158	39,158	—
Shares of subsidiaries and associates	4,216	5,529	1,313	37,580	49,284	11,703
(7) Lease and guarantee deposits	6,889	6,879	(9)	61,408	61,322	(86)
(8) Notes and accounts payable - trade	(21,362)	(21,362)	—	(190,415)	(190,415)	—
(9) Short-term loans payable	(10,000)	(10,000)	—	(89,134)	(89,134)	—
(10) Current portion of bonds payable	(15,000)	(15,000)	—	(133,701)	(133,701)	—
(11) Current portion of long-term loans payable	(10,000)	(10,000)	—	(89,134)	(89,134)	—
(12) Deposits received of prepaid cards	(91,828)	(91,828)	—	(818,506)	(818,506)	—
(13) Bonds payable	(20,000)	(20,094)	(94)	(178,269)	(179,108)	839
(14) Long-term loans payable	(5,000)	(5,000)	(0)	(44,567)	(44,567)	(0)
(15) Derivative transactions ^(*)b)	(7)	(7)	—	(67)	(67)	—

(*)a) Liabilities are presented in parentheses.

(*)b) Receivables and payables incurred as a result of derivatives are presented on a net basis.

	Year Ended March 31, 2016		
	Carrying value ^(*)a)	Fair value ^(*)a)	Difference
	Millions of yen		
Assets:			
(1) Cash and deposits	¥ 20,840	¥ 20,840	¥ —
(2) Notes and accounts receivable - trade	63,373	63,373	—
(3) Securities			
Held-to-maturity debt securities	700	700	—
Available-for-sale securities	100	100	—
(4) Operational investment securities:			
Available-for-sale securities	10,110	10,110	—
(5) Deposits paid	79,004	79,004	—
(6) Guarantee deposits	37,443	37,443	—
(7) Investment securities			
Available-for-sale securities	2,897	2,897	—
Shares of subsidiaries and associates	3,913	4,109	196
(8) Lease and guarantee deposits	6,855	6,851	(3)
(9) Notes and accounts payable - trade	(19,679)	(19,679)	—
(10) Short-term loans payable	(10,000)	(10,000)	—
(11) Current portion of long-term loans payable	(5,000)	(5,000)	—
(12) Deposits received of prepaid cards	(83,788)	(83,788)	—
(13) Bonds payable	(25,000)	(25,073)	(73)
(14) Long-term loans payable	(10,000)	(9,988)	11
(15) Derivative transactions ^(*)b)	(129)	(129)	—

(*)a) Liabilities are presented in parentheses.

(*)b) Receivables and payables incurred as a result of derivatives are presented on a net basis.

Note 1. Matters related to the calculation method of the fair value of financial instruments, and securities and derivative transactions

For fiscal year ended March 31, 2017

(1) Cash and deposits, (2) Notes and accounts receivable - trade and (4) Deposits paid

Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Operational investment securities, and (6) Investment securities

The fair value of these securities is based on either quoted market prices or prices provided by the correspondent financial institutions. The carrying value is used as the fair value for certain securities with short-term maturities because the fair value is nearly equal to the carrying value.

(5) Guarantee deposits

Guarantee deposits are mainly guarantee deposits for issuance pursuant to "the Act on Settlement." The carrying value is used as the fair value because guarantee deposits are expected to be settled in a short period of time and the fair value is nearly equal to the carrying value.

(7) Lease and guarantee deposits

The fair value of lease and guarantee deposits with maturities exceeding one year is based on the present value discounted by reasonable rates.

(8) Notes and accounts payable - trade, (9) Short-term loans payable, (10) Current portion of bonds payable and (11) Current portion of long-term loans payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

(12) Deposits received of prepaid cards

Deposits received of prepaid cards are obligations to pay usage amounts reported in notifications from stores where the "QUO card" prepaid card is usable and its fair value is based on its carrying value since they are settled in a short period of time

(13) Bonds payable

The fair value of bonds payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new bonds are issued.

(14) Long-term loans payable

The fair value of long-term loans payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new long-term loans are incurred.

(15) Derivative transactions

Information on the fair value of derivatives is included in Note 13, "Derivative transactions."

For fiscal year ended March 31, 2016

(1) Cash and deposits, (2) Notes and accounts receivable - trade and (5) Deposits paid

Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Securities, (4) Operational investment securities, and (7) Investment securities

The fair value of these securities is based on either quoted market prices or prices provided by the correspondent financial institutions. The carrying value is used as the fair value for certain securities with short-term maturities because the fair value is nearly equal to the carrying value.

(6) Guarantee deposits

Guarantee deposits are mainly guarantee deposits for issuance pursuant to "the Act on Settlement." The carrying value is used as the fair value because guarantee deposits are expected to be settled in a short period of time and the fair value is nearly equal to the carrying value.

(8) Lease and guarantee deposits

The fair value of lease and guarantee deposits with maturities exceeding one year is based on the present value discounted by reasonable rates.

(9) Notes and accounts payable - trade, (10) Short-term loans payable, (11) Current portion of long-term loans payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

(12) Deposits received of prepaid cards

Deposits received of prepaid cards are obligations to pay usage amounts reported in notifications from stores where the "QUO card" prepaid card is usable and its fair value is based on its carrying value since they are settled in a short period of time

(13) Bonds payable

The fair value of bonds payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new bonds are issued.

(14) Long-term loans payable

The fair value of long-term loans payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new long-term loans are incurred.

(15) Derivative transactions

Information on the fair value of derivatives is included in Note 13, "Derivative transactions."

Note 2. Financial instruments for which it is extremely difficult to determine the fair value

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars (Note 2)
Unlisted equity securities	¥320	¥ 516	\$2,857
Investments in partnership	634	749	5,654
Total	¥955	¥1,265	\$8,512

As quoted market price was not available and it was extremely difficult to estimate future cash flows, the carrying value of the above financial instruments were not included in investment securities.

Note 3. The redemption schedule for monetary receivables and marketable securities with maturities at March 31, 2017 and 2016 was as follows:

	March 31, 2017							
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen				Thousands of U.S. dollars (Note 2)			
Cash and deposits	¥ 27,363	¥ —	¥ —	¥ —	\$ 243,905	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	65,764	—	—	—	586,188	—	—	—
Deposits paid	98,171	—	—	—	875,046	—	—	—
Guarantee deposits	45,359	—	—	—	404,305	—	—	—
Operational investment securities and investment securities								
Available-for-sale securities								
with maturities:	—	—						
Government/municipal bonds	3,924	2,039	—	—	34,984	18,177	—	—
Corporate bonds	—	300	—	—	—	2,674	—	—
Total	¥240,583	¥2,339	¥—	¥—	\$2,144,431	\$20,851	\$—	\$—

Note: Available-for-sale securities of ¥83 million (\$744 thousand) with scheduled amounts subject to change due to fluctuation in fair value were not included in available-for-sale securities with maturities in the above table.

	March 31, 2016			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen			
Cash and deposits	¥ 20,840	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	63,373	—	—	—
Deposits paid	79,004	—	—	—
Guarantee deposits	37,443	—	—	—
Securities, operational investment securities and investment securities				
Held-to-maturity debt securities	700	—	—	—
Available-for-sale securities				
with maturities:				
Government/municipal bonds	3,903	5,964	—	—
Corporate bonds	—	—	—	—
Total	¥205,265	¥5,964	¥—	¥—

Note: Available-for-sale securities of ¥88 million scheduled amounts subject to change due to fluctuation in fair value were not included in available-for-sale securities with maturities in the above table.

Note: 4 Short-term loans payable and long-term debts

Fiscal Year ended March 31, 2017

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Millions of yen					
Short-term loans payable	¥10,000	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of corporate bonds	15,000	—	—	—	—	—
Current portion of long-term loans payable	10,000	—	—	—	—	—
Corporate bonds	—	—	—	10,000	10,000	—
Loans payable	—	5,000	—	—	—	—
Total	¥35,000	¥5,000	¥—	¥10,000	¥10,000	¥—

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Thousands of U.S. dollars					
Short-term loans payable	\$ 89,134	\$ —	\$ —	\$ —	\$ —	\$ —
Current portion of corporate bonds	133,701	—	—	—	—	—
Current portion of long-term loans payable	89,134	—	—	—	—	—
Corporate bonds	—	—	—	89,134	89,134	—
Loans payable	—	44,567	—	—	—	—
Total	\$311,970	\$44,567	\$—	\$89,134	\$89,134	\$—

Fiscal Year ended March 31, 2016

	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	Millions of yen					
Short-term loans payable	¥10,000	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of long-term loans payable	5,000	—	—	—	—	—
Corporate bonds	—	15,000	—	—	10,000	—
Loans payable	—	10,000	—	—	—	—
Total	¥15,000	¥25,000	¥—	¥—	¥10,000	¥—

12. INFORMATION ON SECURITIES

The following tables summarize acquisition cost, carrying value and fair value of securities with fair value.

(1) Held-to-maturity debt securities with fair value

Year ended March 31, 2017

Not Applicable

Year ended March 31, 2016

	March 31, 2016		
	Carrying value	Fair value	Difference
	Millions of yen		
1. Securities with fair value exceeding book value:			
Governmental/municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	—	—	—
2. Securities with fair value not exceeding book value:			
Governmental/municipal bonds	—	—	—
Corporate bonds	—	—	—
Other	700	700	—
Subtotal	700	700	—
Total	¥700	¥700	¥—

(2) Available-for-sale securities with fair value

Year ended March 31, 2017

	March 31, 2017					
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
	Millions of yen			Thousands of U.S. dollars		
1. Securities with fair value exceeding acquisition cost:						
Equity securities	¥ 4,009	¥1,247	¥2,762	\$35,735	\$11,116	\$24,619
Debt securities:						
Governmental/municipal bonds	6,056	5,994	62	53,986	53,432	554
Corporate bonds	300	300	0	2,678	2,674	4
Other	—	—	—	—	—	—
Subtotal	10,366	7,541	2,824	92,401	67,223	25,178
2. Securities with fair value not exceeding acquisition cost:						
Equity securities	—	—	—	—	—	—
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	83	101	(17)	744	904	(160)
Subtotal	83	101	(17)	744	904	(160)
Total	¥10,450	¥7,643	¥2,806	\$93,145	\$68,127	\$25,017

Note: Unlisted equity securities of ¥320 million (\$2,857 thousand) and investments in partnership of ¥634 million (\$5,654 thousand) were not included in the above table since quoted market price was not available and it was extremely difficult to estimate future cash flows.

Year ended March 31, 2016

	March 31, 2016		
	Carrying value	Acquisition cost	Difference
	Millions of yen		
1. Securities with fair value exceeding acquisition cost:			
Equity securities	¥ 2,689	¥ 1,080	¥1,609
Debt securities:			
Governmental/municipal bonds	10,110	9,959	151
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	12,800	11,039	1,761
2. Securities with fair value not exceeding acquisition cost:			
Equity securities	118	120	(1)
Debt securities:			
Governmental/municipal bonds	—	—	—
Corporate bonds	—	—	—
Other	189	201	(12)
Subtotal	307	322	(14)
Total	¥13,108	¥11,361	¥1,746

Note: Unlisted equity securities of ¥516 million and investments in partnership of ¥749 million were not included in the above table since quoted market price was not available and it was extremely difficult to estimate future cash flows.

(3) Sales of available-for-sale securities

Year ended March 31, 2017 and 2016

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Sales proceeds:			
Equity securities	¥931	¥562	\$8,300
Debt securities	0	—	7
Other	—	—	—
Aggregate gains:			
Equity securities	¥804	¥248	\$7,174
Debt securities	0	—	7
Other	—	—	—
Aggregate losses:			
Equity securities	—	—	—
Debt securities	—	—	—
Other	—	—	—

(4) Losses on valuation of available-for-sale securities with fair value

Not applicable

13. DERIVATIVE TRANSACTIONS

Year ended March 31, 2017

Derivative transactions for which hedge accounting has been applied

Currency-related

		March 31, 2017					
Type of transaction	Hedged item	Notional amount	Portion due after one year included in notional amount	Fair value	Notional amount	Portion due after one year included in notional amount	Fair value
		Millions of yen			Thousands of U.S. dollars		
Derivative transactions for which deferral hedge accounting has been applied							
Forward foreign exchange contracts							
Sell							
USD, GBP	Forecast transactions in foreign currency	¥ 825	¥—	¥ 17	\$ 7,360	\$ —	\$ 154
Buy							
USD, EUR, GBP, SGD		2,952	84	(24)	26,321	752	(222)
Derivative transactions for which appropriation treatment has been applied							
Forward foreign exchange contracts							
Sell							
USD, GBP	Accounts receivable - trade	505	—	*2	4,506	—	*2
Buy							
USD, EUR, GBP, SGD	Accounts payable - trade	1,928	—	*2	17,189	—	*2
Total		¥6,212	¥84	¥ (7)	\$55,377	\$752	\$ (67)

Notes: 1. Fair value was based on the prices obtained from financial institutions.

2. Forward foreign exchange contracts for which appropriation treatment had been applied were accounted for together with accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

		March 31, 2016		
Type of transaction	Hedged item	Notional amount	Portion due	Fair value
			after one year included in notional amount	
Millions of yen				
Derivative transactions for which deferral hedge accounting has been applied				
Forward foreign exchange contracts				
Sell				
USD, GBP	Forecast transactions in	¥ 338	¥ —	¥ 6
Buy	foreign currency			
USD, EUR, GBP, RMB, SGD		2,941	103	(135)
Derivative transactions for which appropriation treatment has been applied				
Forward foreign exchange contracts				
Sell	Accounts			
USD, GBP	receivable - trade	418	—	*2
Buy	Accounts			
USD, EUR, GBP, SGD	payable - trade	1,063	—	*2
Total		¥4,761	¥103	¥(129)

Notes: 1. Fair value was based on the prices obtained from financial institutions.

2. Forward foreign exchange contracts for which appropriation treatment had been applied were accounted for together with accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

14. EMPLOYEES' PENSION AND RETIREMENT BENEFITS

(1) Outline of employees' pension and retirement benefit plans adopted by the Company

The Company and certain consolidated subsidiaries have defined benefit plans and defined contribution plans. Some consolidated domestic subsidiaries calculate retirement benefit obligations using a simplified method.

(2) Defined benefit plans

(a) Movement in retirement benefit obligations, except for subsidiaries applying the simplified method.

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥72,404	¥63,584	\$645,370
Service costs	3,172	2,837	28,279
Interest costs	469	718	4,183
Actuarial gains and losses	(653)	6,648	(5,829)
Benefits paid	(1,618)	(1,446)	(14,426)
Past service costs	(912)	—	(8,133)
Other	54	62	488
Balance at end of period	¥72,915	¥72,404	\$649,931

(b) Movement in plan assets, except for subsidiaries applying the simplified method

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥66,656	¥65,670	\$594,138
Expected return on plan assets	1,335	1,322	11,900
Actuarial gains and losses	866	(2,231)	7,724
Contributions paid by the employer	3,328	3,343	29,669
Benefits paid	(1,618)	(1,446)	(14,426)
Other	—	(2)	—
Balance at end of period	¥70,568	¥66,656	\$629,006

(c) Movement in net defined benefit liability applying the simplified method

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥ 1	¥(9)	\$ 9
Retirement benefit costs	1	16	16
Benefits paid	(0)	(1)	(1)
Contributions to fund	(5)	(5)	(45)
Balance at end of period	¥(2)	¥ 1	\$(21)

(d) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Funded retirement benefit obligations	¥ 73,029	¥ 72,517	\$650,943
Plan assets	(70,695)	(66,779)	630,141
	2,333	5,737	20,801
Unfunded retirement benefit obligations	11	11	103
Total net asset for retirement benefits	2,345	5,748	20,904
Net defined benefit liability	2,359	5,759	21,028
Net defined benefit asset	(13)	(10)	(124)
Total net asset for retirement benefits	¥ 2,345	¥ 5,748	\$ 20,904

Note: The above mentioned amounts include the plans which used the simplified method.

(e) Retirement benefit expenses

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Service costs	¥ 3,172	¥ 2,837	\$ 28,279
Interest costs	469	718	4,183
Expected return on plan assets	(1,335)	(1,322)	(11,900)
Net actuarial gains and losses amortization	(71)	(1,052)	(639)
Past service costs amortization	(840)	5	(7,495)
Retirement benefit expenses by the simplified method	1	16	16
Other	285	223	2,546
Total retirement benefit expenses	¥ 1,681	¥ 1,425	\$ 14,990

(f) Remeasurements of defined benefit plans, before tax

Items included in the remeasurements of defined benefit plans, before tax were as follows:

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Past service costs	¥ 71	¥ 5	\$ 638
Actuarial gains and losses	1,448	(9,931)	12,914
Total balance	¥1,520	¥(9,926)	\$13,552

(g) Accumulated remeasurements of defined benefit plans

Items included in the accumulated remeasurements of defined benefit plans, before tax, were as follows:

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Past service costs that are yet to be recognized	¥ (90)	¥ (18)	\$ (806)
Actuarial gains and losses that are yet to be recognized	4,148	5,597	36,980
Total balance	¥4,058	¥5,578	\$36,174

(h) Plan assets

i) Categories of plan assets

The ratios of plan assets in each major category to total plan assets were as follows:

	March 31	
	2017	2016
Bonds	48%	51%
Equity securities	29%	26%
Cash and time deposits	4%	3%
Assets in an insurer's general account	9%	9%
Hedge fund	9%	9%
Other	1%	2%
Total	100%	100%

ii) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(i) Actuarial assumptions

The principal actuarial assumptions were as follows:

	(weighted average rate)	
	Year ended March 31	
	2017	2016
Discount rate	0.8%	0.6%
Long-term expected rate of return	2.0%	2.0%

(3) Defined contribution plans

Amounts which the Company and certain consolidated subsidiaries contributed to the defined contribution plans were ¥1,332 million (\$11,873 thousand) and ¥1,252 million for the years ended March 31, 2017 and 2016, respectively.

15. STOCK OPTIONS

(1) Amount of income and expenses related to the stock option plans and the account recorded for the years ended March 31, 2017 and 2016 were as follows:

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Gain on reversal of subscription rights to shares	¥ —	¥ —	\$ —

(2) Outline of stock options

Stock Option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
Grantees' Position	10 directors 14 executive officers	9 directors 12 executive officers	9 directors 16 executive officers	9 directors 14 executive officers	9 directors 14 executive officers
Number of Options Granted	Common stock 16,400 shares	Common stock 22,900 shares	Common stock 31,100 shares	Common stock 50,000 shares	Common stock 45,400 shares
Date of Grant	July 27, 2007	July 29, 2008	July 30, 2009	July 30, 2010	July 30, 2010
Vesting Condition	*1	*2	*3	*4	*5
Applicable Period of Service	No provisions	No provisions	No provisions	July 30, 2010 – June 30, 2012	No provisions
Exercisable Period	July 28, 2007 – July 26, 2027	July 30, 2008 – July 28, 2028	July 31, 2009 – July 29, 2029	July 1, 2012 – June 30, 2015	July 31, 2010 – July 29, 2030

Notes: Number of subscription rights to shares was expressed in number of shares to be issued upon exercise.

*1 The Holders can exercise the rights for only two years from the day following the date when they lose positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2025, they shall only be able to exercise the rights on and after August 1, 2025. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of the Board of Directors and the general meeting of shareholders held on June 27, 2007 for the year ended March 31, 2007.

*2 The Holders can exercise the rights for only two years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2026, they shall only be able to exercise the rights on and after August 1, 2026. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of the Board of Directors and the general meeting of shareholders held on June 26, 2008 for the year ended March 31, 2008.

*3 The Holders can exercise the rights for only two years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2027, they shall only be able to exercise the rights on and after August 1, 2027. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of the Board of Directors and the general meeting of shareholders held on June 25, 2009 for the year ended March 31, 2009.

*4 The Holders need to be in the position of director, corporate auditor or executive officer of the Company or its subsidiaries and affiliates at the time of exercise of the rights. This shall not apply where the Holders retire as directors, corporate auditors or executive officers of the Company or its subsidiaries and affiliates at the expiration of their terms, or where the Board of Directors of the Company recognizes that there is a justifiable reason. In this case, the Holders shall only be able to exercise the rights for one year from one day later than either the day of occurring such causes or July 1, 2012. Succession of stock options shall not be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of the Board of Directors and the general meeting of shareholders held on June 25, 2010 for the year ended March 31, 2010.

*5 The Holders can exercise the rights for only 10 years from the initial day of exercise period. Notwithstanding the foregoing, if the Holders will not reach the initial day of exercise period until July 31, 2028, they shall only be able to exercise the rights on and after August 1, 2028. In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option based on a resolution of the Board of Directors and the general meeting of shareholders held on June 25, 2010 for the year ended March 31, 2010.

(3) Number and movement of stock options

The following tables were based on the stock options which existed for the years ended March 31, 2016 and 2017. The number of stock options was expressed in number of shares to be issued upon exercise.

	Number of shares				
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
Non-vested:					
Outstanding at April 1, 2015	—	—	—	—	—
Granted	—	—	—	—	—
Forfeited	—	—	—	—	—
Vested	—	—	—	—	—
Outstanding at March 31, 2016	—	—	—	—	—
Granted	—	—	—	—	—
Forfeited	—	—	—	—	—
Vested	—	—	—	—	—
Outstanding at March 31, 2017	—	—	—	—	—
Vested:					
Outstanding at April 1, 2015	5,200	10,000	19,200	11,000	42,200
Vested	—	—	—	—	—
Exercised	1,800	2,400	3,300	11,000	2,100
Forfeited	—	—	—	—	—
Outstanding at March 31, 2016	3,400	7,600	15,900	—	40,100
Vested	—	—	—	—	—
Exercised	800	2,900	4,300	—	5,000
Forfeited	—	—	—	—	—
Outstanding at March 31, 2017	2,600	4,700	11,600	—	35,100

(4) Price information of stock options

	Year ended March 31, 2017				
	Yen				
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1	¥ —	¥ 1
Average market price of the stock at the time of exercise	4,430	4,242	4,060	—	4,160
Fair valuation price (date of grant)	2,156	1,774	1,363	—	1,149

	Year ended March 31, 2017				
	U.S. dollars				
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01	\$ —	\$ 0.01
Average market price of the stock at the time of exercise	39.48	37.81	36.18	—	37.70
Fair valuation price (date of grant)	19.21	15.81	12.14	—	10.24

	March 31, 2016				
	Yen				
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2010 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1	¥1,376	¥ 1
Average market price of the stock at the time of exercise	4,750	4,547	4,492	3,565	4,675
Fair valuation price (date of grant)	2,156	1,774	1,363	284	1,149

(5) Method of estimating exercised stock options

Since it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have actually been forfeited is reflected.

16. INCOME TAXES**(1) The significant components of deferred tax assets and liabilities**

	March 31		March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Accrued enterprise taxes	¥ 484	¥ 445	\$ 4,316
Accrued payable bonuses	2,084	2,024	18,581
Loss on valuation of membership	165	166	1,470
Net defined benefit liability	723	1,771	6,449
Payable for integration to retirement pension plans	0	264	3
Tax losses carried forward	45,969	49,772	409,751
Loss on valuation of goods	16	18	150
Allowance for doubtful accounts	52	108	471
Depreciation	43	93	385
Impairment	194	504	1,733
Unrecognized profit of prepaid cards	4,153	3,662	37,022
Loss on valuation of investment securities	61	1,584	551
Asset retirement obligations	728	656	6,497
Office transfer related expenses	—	500	—
Other	800	1,146	7,135
Total gross deferred tax assets	55,480	62,720	494,519
Valuation allowance	(27,791)	(31,902)	(247,715)
Total deferred tax assets	27,688	30,818	246,803
Deferred tax liabilities:			
Valuation differences on available-for-sale securities	(991)	(664)	(8,841)
Removal expenses for asset retirement obligations	(402)	(398)	(3,590)
Net defined benefit asset	(4)	(3)	(40)
Other	(439)	(390)	(3,916)
Total deferred tax liabilities	(1,838)	(1,456)	(16,388)
Net deferred tax assets	¥ 25,850	¥ 29,362	\$ 230,414

(2) The reconciliation between the statutory tax rate reflected in the consolidated statements of income and the effective tax rate for the years ended March 31, 2017 and 2016 was as follows:

	March 31	
	2017	2016
Statutory tax rates:	30.90%	33.10%
Effect of:		
Expenses not deductible for income tax purposes	0.5	0.6
Amortization of goodwill	0.1	0.1
Share of profit of entities accounted for using the equity method	(0.4)	(0.3)
Base portion of inhabitants' taxes	0.5	0.5
Change in valuation allowance	(11.6)	(22.3)
Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulation	—	5.3
Other	(1.6)	(1.3)
Effective tax rate	18.3%	15.6%

(3) Revisions to the amounts of deferred tax assets and liabilities due to changes in the tax rates of the Japanese Corporation Tax

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016, the statutory tax rate utilized for the measurement of deferred tax assets and liabilities in the current fiscal year changed from the previous year.

As a result, the amounts of the deferred tax assets (after deducting the deferred tax liabilities) increased by JPY 286 million.

17. BUSINESS COMBINATIONS

Disclosure is omitted due to the lack of materiality.

18. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations carried on the consolidated balance sheets

(1) Overview of asset retirement obligations

Asset retirement obligations include the obligation to restore assets to their original state, etc., related to real estate lease agreements on the head office building and other office buildings.

(2) Calculation method for asset retirement obligations

The expected period of use is estimated as mainly 15 years from the acquisition of property, plant and equipment, and the amounts of asset retirement obligations are calculated by using a discount rate ranging from 0.123% to 1.744%

(3) Changes in asset retirement obligations for the years ended March 31, 2017 and 2016

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥2,101	¥1,652	\$18,731
Increase due to acquisition of property and equipment	137	471	1,221
Adjustment due to passage of time	23	23	213
Decrease due to fulfillment of asset retirement obligations	(79)	(36)	(710)
Decrease due to change in estimates *1	95	(9)	854
Balance at end of period *2	¥2,278	¥2,101	\$20,310

Notes: 1. At March 31, 2017, it became clear that a cost required for the asset retirement increased. Thus, the Company added ¥95 million (\$854 thousand) to the balance of asset retirement obligations as a change in estimate.

At March 31, 2016, it became clear that a cost required for the asset retirement decreased. Thus, the Company decreased the balance of asset retirement obligations by ¥9 million.
2. The balance at end of period for the year ended March 31, 2016 included ¥45 million of asset retirement obligations under other current liabilities, respectively.

19. SEGMENT INFORMATION

(1) Segment information

(a) Method of designating reportable segments

The Company designates its reportable segments according to the clients' business category and business characteristics of IT services. The Board of Directors and the President decide on the allocation of business resources, evaluate business performance and conduct other such managerial duties in reference to these reportable segments, with such managerial decision making directly reflected in the pursuit of business activities within those reportable segments.

The Company has designated eight reportable segments according to the clients' business category and business characteristics of IT services: Manufacturing Systems Business, Telecommunication Systems Business, Distribution Systems Business, Financial Systems Business, Business Solutions, Business Services, IT Platform Solutions and Prepaid Card Business.

Businesses not included within the above are presented in the aggregate as "Other."

Presented below is an overview of the business activities of each of the reportable segments.

- (i) Manufacturing Systems Business: This business group provides a wide range of IT solutions on a global scale. These solutions include the business' core field of automotive embedded systems, as well as enterprise systems, manufacturing management systems, management information systems and SCM/CRM. Our services leverage the experience and know-how that we have cultivated over many years throughout the chain of operational processes, from production to sales. The customers

of this business are principally companies in the manufacturing industry.

- (ii) Telecommunication Systems Business: This business group provides optimal integrated services through combinations of various IT solutions. These include enterprise systems, management information systems, CRM and service systems. The customers of this business are principally companies in the communications, energy and media industries.
- (iii) Distribution Systems Business: This business group provides a combination of various IT solutions. These include enterprise systems, management information systems, SCM, CRM and e-commerce websites. The customers of this business are principally companies in the distribution, trading, service and pharmaceutical industries. In addition, this business supports overseas business expansion by providing optimal IT solutions to customers aiming to expand their business overseas.
- (iv) Financial Systems Business: This business group engages in system development, maintenance and operation for financial institutions. As professionals who understand financial operations and possess a strong track record of creating sophisticated financial systems, this business supports safe and effective management and works toward achieving a financial business strategy based on trust. The Financial Systems Business provides these services primarily to financial institutions such as banks and trust banks, as well as insurance, securities, lease and credit companies.

- (v) Business Solutions: This business group provides application management outsourcing (AMO) services that cover the entire system life cycle, from implementation and development to maintenance and operation. These services, which are provided in the optimal format for customers' business objectives, are centered on ERP and CRM products, such as ProActive, SAP, Oracle and Salesforce.
- (vi) Business Services: This business group provides solutions that combine human operations and IT into BPO services that only an IT company can deliver. These include a variety of BPO services provided via our 13 call centers and contact centers in Japan; third-party verification services, such as systems and security verification; and total outsourcing services for e-commerce that utilize our three fulfillment centers in the Tokyo metropolitan area.
- (vii) IT Platform Solutions: This business group draws on solid technical capabilities and know-how to leverage CAD, CAE and other advanced technologies in the fields of IT infrastructure and manufacturing. In this way, IT Platform Solutions

provides services and products that accurately address the needs of customers and offers flexible support for a wide range of customer businesses.

- (viii) Prepaid Card Business: This business group provides issuing and settlement services for prepaid cards, develops and markets card systems, etc.

(b) Matters related to changes in reportable segments

(2) Calculation of sales, profit, assets and other items by reportable segment

The accounting treatment for the Group's reportable segments is generally the same as described in Note 1, "Summary of significant accounting policies."

The segment profit figures stated in the reportable segments are based on operating profit. The intersegment sales or the intersegment figures are based on actual market prices.

In accordance with the revision of certain internal organizations in the fiscal year ended March 31, 2017, the amounts of sales and profit for each reportable segment in the previous fiscal year were prepared to conform to the presentation after the revision of the reportable segments.

(3) Sales, profit, assets and other items for each reportable segment

Segment data for the years ended March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017						
Reportable segment						
Manufacturing Systems Business	Tele-communication Systems Business	Distribution Systems Business	Financial Systems Business	Business Solutions	Business Services	
Millions of yen						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	¥42,694	¥26,248	¥48,280	¥70,529	¥19,289	¥42,811
Intersegment sales and transfers	3,927	2,416	9,249	955	3,377	2,378
Total	46,621	28,665	57,529	71,484	22,667	45,189
Segment profit	3,290	5,206	7,133	7,296	2,087	3,303
Segment assets	22,878	9,397	38,847	31,331	11,258	13,005
Other items						
Depreciation and amortization	1,157	523	2,138	1,065	1,744	394
Investments in equity-method affiliates	—	—	—	—	—	101
Net increase in tangible/intangible fixed assets	2,935	761	3,413	3,864	1,230	762

Year ended March 31, 2017								
Reportable segment					Adjustments	Amount recorded in the consolidated financial statements		
IT Platform Solutions	Prepaid Card Business	Other	Total					
Millions of yen								
Sales, profit and assets by reportable segment								
Net sales:								
Sales to third parties	¥75,379	¥ 3,302	¥ 766	¥329,303	(Note 1) ¥ —	(Note 2) ¥329,303		
Intersegment sales and transfers	5,975	1	2,970	31,251	(31,251)	—		
Total	81,355	3,303	3,736	360,555	(31,251)	329,303		
Segment profit	7,138	278	260	35,992	(2,278)	33,714		
Segment assets	30,767	66,373	4,217	228,077	161,459	389,537		
Other items								
Depreciation and amortization	822	74	180	8,102	869	8,972		
Investments in equity-method affiliates	4,216	—	—	4,317	—	4,317		
Net increase in tangible/intangible fixed assets	1,375	34	3	14,382	953	15,335		

Year ended March 31, 2017						
Reportable segment						
Manufacturing Systems Business	Tele-communication Systems Business	Distribution Systems Business	Financial Systems Business	Business Solutions	Business Services	
Thousands of U.S. dollars						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	\$380,555	\$233,967	\$430,345	\$628,663	\$171,935	\$381,599
Intersegment sales and transfers	35,005	21,543	82,445	8,513	30,108	21,196
Total	415,560	255,511	512,790	637,177	202,043	402,795
Segment profit	29,325	46,406	63,582	65,033	18,603	29,442
Segment assets	203,928	83,763	346,267	279,268	100,353	115,922
Other items						
Depreciation and amortization	10,319	4,665	19,060	9,498	15,550	3,520
Investments in equity-method affiliates	—	—	—	—	—	905
Net increase in tangible/intangible fixed assets	26,164	6,791	30,430	34,446	10,968	6,793

	Year ended March 31, 2017						
	Reportable segment				Adjustments	Amount recorded in the consolidated financial statements	
	IT Platform Solutions	Prepaid Card Business	Other	Total			
	Thousands of U.S. dollars						
Sales, profit and assets by reportable segment							
Net sales:					(Note 1)	(Note 2)	
Sales to third parties	\$671,895	\$ 29,436	\$ 6,830	\$2,935,229	\$ —	\$2,935,229	
Intersegment sales and transfers	53,258	13	26,479	278,562	(278,562)	—	
Total	725,154	29,449	33,309	3,213,791	(278,562)	2,935,229	
Segment profit	63,624	2,483	2,318	320,820	(20,307)	300,513	
Segment assets	274,243	591,616	37,592	2,032,957	1,439,162	3,472,120	
Other items							
Depreciation and amortization	7,331	662	1,610	72,219	7,753	79,973	
Investments in equity-method affiliates	37,580	—	—	38,485	—	38,485	
Net increase in tangible/intangible fixed assets	12,264	304	34	128,198	8,497	136,695	

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(2,278) million (\$(2,307) thousand) to segment profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥161,459 million (\$1,439,162 thousand) to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥869 million (\$7,753 thousand) to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥953 million (\$8,497 thousand) to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profit was reconciled to operating profit in the consolidated statements of income.

Year ended March 31, 2016						
Reportable segment						
Manufacturing Systems Business	Tele-communication Systems Business	Distribution Systems Business	Financial Systems Business	Business Solutions	Business Services	
Millions of yen						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	¥40,481	¥24,545	¥48,577	¥70,887	¥19,052	¥39,273
Intersegment sales and transfers	3,531	1,747	11,194	563	2,839	2,343
Total	44,013	26,292	59,772	71,451	21,892	41,617
Segment profit	3,001	4,212	6,822	8,359	1,592	2,840
Segment assets	20,489	9,655	35,814	28,881	11,127	12,023
Other items						
Depreciation and amortization	1,025	498	1,992	644	1,714	392
Investments in equity-method affiliates	—	—	182	—	—	89
Net increase in tangible/intangible fixed assets	2,584	547	2,671	1,005	1,212	499

Year ended March 31, 2016						
	Reportable segment				Adjustments	Amount recorded in the consolidated financial statements
	IT Platform Solutions	Prepaid Card Business	Other	Total		
Millions of yen						
Sales, profit and assets by reportable segment						
Net sales:						
Sales to third parties	¥77,135	¥ 3,217	¥ 774	¥323,945	(Note 1) ¥ —	(Note 2) ¥323,945
Intersegment sales and transfers	6,251	1	2,109	30,583	(30,583)	—
Total	83,386	3,218	2,884	354,528	(30,583)	323,945
Segment profit	6,316	225	313	33,684	(1,898)	31,785
Segment assets	29,774	59,182	4,841	211,790	140,886	352,676
Other items						
Depreciation and amortization	630	83	177	7,159	843	8,003
Investments in equity-method affiliates	3,913	—	—	4,185	—	4,185
Net increase in tangible/intangible fixed assets	930	134	3	9,589	2,457	12,046

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(1,898) million to segment profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥140,886 million to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥843 million to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥2,457 million to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profit was reconciled to operating profit in the consolidated statements of income.

(4) Related information

Years ended March 31, 2017 and 2016

(a) Information about products and services

Sales data by products and services for the years ended March 31, 2017 and 2016 was not presented as similar information was disclosed in the above segment information.

(b) Information about geographic area

(i) Net sales

Sales data by geographic area for the years ended March 31, 2017 and 2016 was not presented as the sales of Japan represented more than 90% of net sales in the consolidated statements of income.

(ii) Property, plant and equipment

Property, plant and equipment data by geographic area at March 31, 2017 and 2016 was not presented as property, plant and equipment located in Japan represented more than 90% of total property, plant and equipment in the consolidated balance sheets.

(c) Information about major customers

Year ended March 31, 2017

Of the net sales to external customers, no customer accounted for 10% or more of net sales in the consolidated statements of income for the year ended March 31, 2017.

Year ended March 31, 2016

	Year ended March 31, 2016		
	Net sales		Related Segment
	Millions of yen	Thousands of U.S. dollars	
Sales to Jupiter Telecommunications Co.,Ltd.	¥33,280	\$296,642	Telecommunication Systems Business IT Platform Solutions

Note: Sales do not include those to entities within the customer’s corporate group.

(5) Information regarding impairment loss on fixed assets by reportable segment

Information regarding impairment loss on fixed assets by reportable segment for the year ended March 31, 2017 was shown below.

	Year ended March 31	
	2017	
	Millions of yen	Thousands of U.S. dollars
	Amortization Amount	
Manufacturing Systems Business	¥—	\$ —
Telecommunication Systems Business	—	—
Distribution Systems Business	—	—
Financial Systems Business	—	—
Business Solutions	—	—
Business Services	—	—
IT Platform Solutions	—	—
Prepaid Card Business	—	—
Other	—	—
Corporate assets and eliminations	37	337
Total	¥37	\$337

Note: Impairment loss not allocated to any reportable segment amounted to ¥37 million (\$337 thousands). Details of this impairment loss are presented in Note 6, Consolidated Statements of Income-Impairment loss.

Information regarding impairment loss on of fixed assets by reportable segment is shown below.

	Year ended March 31	
	2016	
	Millions of yen	
Manufacturing Systems Business	¥ —	
Telecommunication Systems Business	—	
Distribution Systems Business	258	
Financial Systems Business	—	
Business Solutions	—	
Business Services	—	
IT Platform Solutions	—	
Prepaid Card Business	—	
Other	—	
Corporate assets and eliminations	98	
Total	¥356	

Note: Impairment loss not allocated to any reportable segment amounted to ¥98 million. Details of these impairment loss are presented in Note 6, Consolidated Statements of Income-Impairment loss.

(6) Information regarding amortization of goodwill and remaining balances of goodwill by reportable segment

Information regarding amortization of goodwill and remaining balances by reportable segment for the years ended March 31, 2017 and 2016 is shown below.

	Year ended March 31			
	2017			
	Amortization of goodwill	Remaining balance	Amortization of goodwill	Remaining balance
	Millions of yen		Thousands of U.S. dollars	
Manufacturing Systems Business	¥15	¥114	\$136	\$1,021
Telecommunication Systems Business	—	—	—	—
Distribution Systems Business	—	—	—	—
Financial Systems Business	—	—	—	—
Business Solutions	—	—	—	—
Business Services	20	—	184	—
IT Platform Solutions	54	19	481	172
Prepaid Card Business	—	—	—	—
Other	8	—	75	—
Corporate assets and eliminations	—	—	—	—
Total	¥98	¥133	\$877	\$1,194

	Year ended March 31	
	2016	
	Amortization of goodwill	Remaining balance
	Millions of yen	
Manufacturing Systems Business	¥ —	¥ —
Telecommunication Systems Business	—	—
Distribution Systems Business	—	—
Financial Systems Business	—	—
Business Solutions	—	—
Business Services	20	20
IT Platform Solutions	52	203
Prepaid Card Business	—	—
Other	16	8
Corporate assets and eliminations	—	—
Total	¥89	¥232

(7) Information on gain on bargain purchase by reportable segment

There was no information on gain on bargain purchase by reportable segment for the years ended March 31, 2017 and 2016.

(8) Information about related parties

(a) Transactions between related parties

(i) Transactions between the Company and related parties

(A) Sumitomo Corporation

Attribute	Year ended March 31	
	2017	2016
Parent company	Parent company	Parent company
Name of the Company	Sumitomo Corporation	Sumitomo Corporation
Location	Chuo-ku, Tokyo	Chuo-ku, Tokyo
Common stock amount (millions of yen)	¥219,278 (¥1,954,531 thousand)	¥219,278
Type of business	Trading company	Trading company
Percentage of voting shares in the Company	Direct 51.1%	Direct 51.1%
Relationship of related party 1	Providing of data processing services and software development services	Providing of data processing services and software development services
Transaction amounts (millions of yen): (Sales of data processing services and software development services)	¥14,642 (¥130,518 thousand)	¥14,934
Balance at year-end: (Accounts payable - trade) (millions of yen)	¥2,667 (¥23,776 thousand)	¥2,551
Relationship of related party 2	Depositing of Funds	
Transaction amounts (millions of yen) (Depositing of funds)	¥1,092,100 (¥9,743,379 thousands)	
Balance at year-end (millions of yen) (Depositing of funds)	¥97,000 (¥864,604 thousands)	
Transaction amounts (millions of yen) (Interest receipt)	¥77 (¥692 thousands)	
Balance at year-end (millions of yen) (Accrued income)	¥1 (¥10 thousands)	

Notes: 1. In the amounts above, consumption taxes were included in the outstanding balances at year end, but not in transaction amounts.

2. Transaction conditions and policy on determining transaction conditions

The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.

(B) Subsidiary of Sumitomo Corporation

(Unit: Millions of yen)	
	Year ended March 31
	2016
Attribute	Company which has an identical parent company
Name of the Company	Sumitomo Shoji Financial Management Co., Ltd.
Location	Chuo-ku, Tokyo
Common stock amount	¥100
Type of business	Financing
Percentage of voting shares in the Company	N/A
Relationship of related party	Deposit of funds
Transaction amounts (depositing of funds) *2	¥623,700
Transaction amounts (interest income) *2	¥179
Balance at year-end (deposits paid):	¥78,000
Accrued income	¥17

Notes: 1. In transaction amounts and the amounts of balance at year-end, consumption taxes were not included.

2. Transaction conditions and policy on determining transaction conditions

The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.

Transactions between the consolidated subsidiaries of the Company and related parties

Not applicable

(b) Notes regarding the parent company or important affiliates

(i) Parent company information

Sumitomo Corporation (Listed on the Tokyo, Nagoya and Fukuoka stock exchanges)

(ii) Summary of financial information of important affiliates

Not Applicable

20. AMOUNTS PER SHARE

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Yen		U.S. dollars
Net assets	¥1,607.74	¥1,401.00	\$14.33
Earnings:			
Basic	274.16	259.72	2.44
Diluted	273.96	259.28	2.44

Note: Net profit per share and fully diluted net profit per share are calculated on the following basis.

Basic net profit per share was computed based on the net profit available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net profit per share was computed based on the net profit available for distribution to shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and subscription rights to shares.

Net assets per share was computed based on the net assets, excluding share subscription rights and minority interests, and the number of common stock outstanding at the year end.

	Year ended March 31		Year ended March 31
	2017	2016	2017
	Yen		U.S. dollars
Earnings per share:			
Profit attributable to owners of parent	¥ 28,458	¥ 26,956	\$ 253,665
Amount not attributable to common shareholders	—	—	—
Profit attributable to common shareholders	28,458	26,956	253,665
Weighted average number of shares of common stock	103,803,262	103,789,208	103,803,262
Diluted earnings per share:			
Profit attributable to owners of parent adjustment	(3)	(25)	(27)
(of which, change in holdings in equity method affiliates due to their issuance of subscription rights)	(3)	(25)	(27)
Increase in shares of common stock:	63,042	77,192	63,042
Exercise of subscription rights to shares	(63,042)	(77,192)	(63,042)

Outline of dilutive shares excluded from the calculation of diluted net profit per share because they have no dilutive effect.

21. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

22. CONSOLIDATED SUPPLEMENTARY SCHEDULES

Short-term loans payable and long-term debts

	Balance at March 31		Balance at March 31
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
0.50% unsecured bonds	¥ 10,000	¥ 10,000	\$ 89,134
(maturity period: from May 29, 2012 to May 29, 2017)	(10,000) ^{2*}		(89,134)
0.34% unsecured bonds	5,000	5,000	44,567
(maturity period: from March 14, 2013 to March 14, 2018)	(5,000) ^{1*}		(44,567)
0.33% unsecured bonds			
(maturity period: from June 24, 2015 to June 24, 2020)	10,000	10,000	89,134
0.14% unsecured bonds			
(maturity period: from December 15, 2016 to December 15, 2021)	10,000	—	89,134
Total	35,000	25,000	311,970
	(15,000) ^{1*}		(133,701)

Note: 1. The annual redemption schedule for the five years after March 31, 2017 is as follows:

Year ending March 31	March 31	
	2017	
	Millions of yen	Thousands of U.S. dollars
2018	¥15,000	\$133,701
2019	—	—
2020	—	—
2021	10,000	89,134
2022	10,000	89,134

Note: 2. Figures included in parentheses in the “Balance at March 31, 2017 ” column represent the current portion of bonds scheduled for redemption within one year.

Schedule of borrowings

	Balance at			Maturity Period
	March 31 of	April 1 of	March 31 of	
	2017	2016	2017	
	Millions of yen		Thousands of U.S. dollars	
Short-term loans principally from banks, with average annual interest rate of 0.11%	¥10,000	¥10,000	\$89,134	—
Current portion of long-term loans principally from banks with average annual interest rate of 0.11%	10,000	5,000	89,134	—
Current portion of lease obligation with average annual interest rate of 2.20%	988	980	8,808	—
Long-term loans (excluding current portion)	5,000	10,000	44,567	Sept. 2018
Lease obligations (excluding current portion)	1,667	1,435	14,863	From April 2018 to Oct. 2025
Other interest bearing debt	—	—	—	—
Total	¥27,655	¥27,415	\$246,508	—

Notes: 1. The average interest rate represents a weighted average interest rate relative to the year-end balance of borrowings.

2. In cases where the Company and its consolidated subsidiaries have different fiscal year-ends, the schedule includes borrowings with maturity dates falling within one year of the Company's fiscal year-end.

Note: 3. The repayment schedule for long-term borrowings (excluding the current portion scheduled for repayment within one year) within five years after March 31, 2017 is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥5,000	\$44,567
2020	—	—
2021	—	—
2022	—	—

Note: 4. Lease obligations (excluding the current portion scheduled for repayment within one year) within five years after March 31, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥662	\$5,901
2020	431	3,843
2021	273	2,439
2022	138	1,238

Schedule of asset retirement obligations

The schedule of asset retirement obligations is not presented as the amounts of asset retirement obligations as of the beginning and end of the year ended March 31, 2017 accounted for no more than 1% of the total liabilities and net assets as of the beginning and end of the year ended March 31, 2017.

Others

Quarterly information for the year ended March 31, 2017

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Millions of yen)	¥75,352	¥157,412	¥239,047	¥329,303
Profit before income taxes (Millions of yen)	¥ 6,743	¥ 15,738	¥ 25,730	¥ 35,827
Profit attributable to owners of parent (Millions of yen)	¥ 7,296	¥ 13,286	¥ 20,253	¥ 28,458
Net profit per share (Yen)	¥ 70.30	¥ 128.00	¥ 195.12	¥ 274.16

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net profit per share (Yen)	¥70.30	¥57.71	¥67.12	¥79.04

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Thousands of U.S. dollar)	\$671,655	\$1,403,089	\$2,130,739	\$2,935,229
Profit before income taxes (Thousands of Dollar)	\$ 60,108	\$ 140,288	\$ 229,350	\$ 319,345
Profit attributable to owners of parent (Thousands of U.S. dollar)	\$ 65,039	\$ 118,432	\$ 180,532	\$ 253,665
Net profit per share (U.S. dollars)	\$ 0.62	\$ 1.14	\$ 1.73	\$ 2.44

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net profit per share (U.S. dollars)	\$0.62	\$0.51	\$0.59	\$0.7



Independent Auditor's Report

To the Board of Directors of SCSK Corporation:

We have audited the accompanying consolidated financial statements of SCSK Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SCSK Corporation and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 27, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Basic Information

(As of March 31, 2017)

Established	October 25, 1969	Head office	Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo 135-8110, Japan
Capital	¥21,152 million		TEL : +81-3-5166-2500
Total number of employees	11,910 (Consolidated)		URL : http://www.scsk.jp/index_en.html

Group Companies

(As of April 1, 2017)

Overseas

- SCSK USA Inc.
- SCSK Europe Ltd.
- SCSK Shanghai Limited
- SCSK Asia Pacific Pte. Ltd.

Domestic

- SCSK KYUSHU CORPORATION
- SCSK HOKKAIDO CORPORATION
- JIEC Co., Ltd.
- WinTechnology Corporation
- SCSK ServiceWare Corporation
- VeriServe Corporation
- SCSK PRESCENDO CORPORATION
- Allied Engineering Corporation
- CSI SOLUTIONS Corporation
- QUO CARD Co., Ltd.
- SCSK Nearshore Systems Corporation
- VA Linux Systems Japan K.K.
- SCSK SYSTEM MANAGEMENT CORPORATION
- SDC Corporation
- Skeed Co., Ltd.
- TOKYO GREEN SYSTEMS CORPORATION
- ARGO GRAPHICS Inc. *

* Company accounted for using the equity method

Investor Information

(As of March 31, 2017)

Stock / Shareholder Information

Class of stock	Common Stock	Stock listing	First Section of the Tokyo Stock Exchange
Number of shares authorized	200,000,000	Stock code	9719
Number of shares issued	107,986,403 (including 3,951,825 treasury shares)	Stock trading unit	100
Number of shareholders	33,126	Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
		Independent certified public accountant	KPMG AZSA LLC

Distribution of Shareholders (Common Stock)

Shareholder composition

Type of Investor	Number of Investors	Composition
Individuals and others	32,272	97.43%
Financial institutions	70	0.21%
Other companies	364	1.10%
Foreign companies, etc.	372	1.12%
Securities companies	47	0.14%
Treasury shares	1	0.00%
Total	33,126	100.00%

Distribution of shares

Type of Investor	Number of Investors	Composition
Individuals and others	8,629,786	7.99%
Financial institutions	18,664,466	17.28%
Other companies	54,804,637	50.76%
Foreign companies, etc.	21,285,973	19.71%
Securities companies	649,716	0.60%
Treasury shares	3,951,825	3.66%
Total	107,986,403	100.00%

Major Shareholders

Name of Shareholder	Number of Shares Held	Shareholding Ratio
1 SUMITOMO CORPORATION	52,697,159	50.65%
2 Japan Trustee Services Bank, Ltd. (Trust Account)	5,969,300	5.74%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	3,524,000	3.39%
4 SCSK Group Employee Stock Ownership Association	2,587,792	2.49%
5 BNP PARIBAS SEC SERVICES LUXEMBOURG/JASDEC/ABERDEEN GLOBAL CLIENTASSETS	1,399,800	1.35%
6 Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,062,900	1.02%
7 ARGON GRAPHICS Inc.	1,015,500	0.98%
8 Japan Trustee Services Bank, Ltd. (Trust Account 5)	985,900	0.95%
9 JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	969,708	0.93%
10 Japan Trustee Services Bank, Ltd. (Trust Account 2)	719,000	0.69%

Note: SCSK owns 3,951,825 treasury shares, but these are excluded from the major shareholders list and calculations of shareholding ratios shown above.

Global Network

(As of April 1, 2017)

Overseas Network

Our worldwide network provides strong support for customers' global business development.



Domestic Network

Our domestic network provides high quality services with unwavering reliability and security.

