SCSK REPORT 2018

Fiscal year ended March 31, 2018

SCSK Corporation SCSK REPORT 2018

Create Our Future of Dreams

Printed in Japan

Editorial Policy

Integrated Report 2018 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	October 2018

Guidelines referenced

- **U.N. Global Compact**

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

We welcome feedback on its contents.

- **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) GRI Standards**

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

Integrated Reporting

Integrated Report

Investor Relations Detailed Information

Investor Relations Website

https://www.scsk.jp/ir_en/index.html

CSR Detailed Information

CSR Website

https://www.scsk.jp/corp_en/csr/index.html

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 1st in 2014 and 2015 and 3rd in 2016)
- Placed as a top company in the CSR Company Ranking compiled by Toyo Keizai Inc. in the area of effective talent management (1st in 2015 and 2016; and 2nd in 2017)
- 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"
- Received the Grand Prize at the Nikkei DUAL's Awards for Companies Conducive to Working Parents and Childcare organized by Nikkei BP
- Received the Chairman's Prize at the 18th Telework Promotion Awards organized by the Japan Telework Association
- Received the Human Resources Prize at "The NIKKEI Smart Work Awards 2018" organized by Nikkei Inc.
- Selected for the MSCI Japan ESG Select Leaders Index
- 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
- Fourth 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, FY2016, and FY2017)

NADESHIKO BRAND 2018

- Fourth consecutive year selected as "Brand of Companies Enhancing Corporate Value through Health & Productivity" jointly hosted by the TSE and METI (FY2014, FY2015, FY2016, and FY2017)

2018 健康経営銘柄

- Selected for the FY2017 and FY2018 FTSE4 Good Index Series

FTSE4Good

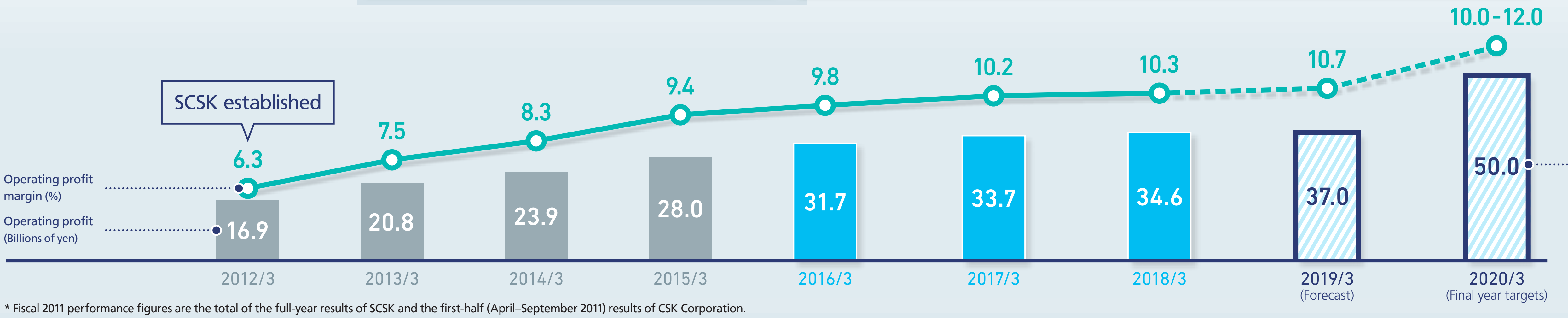
- Selected for the FY2017 and FY2018 FTSE Blossom Japan Index

FTSE Blossom Japan

Aiming to Continually Enhance Corporate Value While Evolving Management

Previous Medium-Term Management Plan (2013/3-2015/3)

Current Medium-Term Management Plan (2016/3-2020/3)



Management targets for the fiscal year ending March 31, 2020

Operating profit: ¥50.0 billion
Operating profit margin: 10-12%
ROE: 15.0%
EPS: ¥320

* 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.

Medium-Term Management Plan

Previous plan: **We were able to attain our targets by promoting true integration and pursuing merger synergies while strengthening our earnings base.**

Core Strategies
①Pursue cross-selling ②Expand the global solutions business ③Strengthen the cloud solutions business

Core Initiatives
①Improve profitability (organizational strength) ②Enhance human resource capabilities
③Improve operational productivity

Current plan: **We will shift to service-oriented businesses and commit management resources to enhancing business, including launching strategic businesses, to achieve sustained growth.**

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

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

→ **Support Japan's economy and industry with IT**

CSR Promotion

Previous plan: **We worked to improve current situation analysis and management systems, referring to international guidelines such as the UN Global Compact and ISO 26000.**

- Carried out analysis of CSR activities referring to ISO 26000
- Built a CSR management structure and set CSR targets
- Assessed existing projects that work toward the resolution of many of the issues facing society
- Participated in social contribution and environmentally friendly activities

Current plan: **We organized CSR activities according to materiality (material issues) and are now reinforcing efforts to improve the quality of these activities.**

- Build framework for CSR activities based on materiality (material issues)
- Build and implement a companywide CSR promotions system and message
- Find and develop projects that will help resolve many of the issues facing society (selection of themes for the SDGs and decisions on action policies)
- Further collaboration and cooperation with suppliers
- Enhance the quality of social contribution and environmentally friendly activities

→ **Contribute to society through business activities**

Initiatives for Reinforcing Infrastructure Supporting Business

Promotion of Working Style Reforms

- **Prior to merger-: Improve work environment** »»
- **2013-: Commencement of *Smart Work Challenge*** Reduce overtime hours and promote full use of paid vacations »»
- **2015-: Introduction of the *Kenko Waku Waku Mileage program*** Assess daily health actions and health exam results to support the maintenance and improvement of health »»
- **2016-: Promotion of *Dokodemo WORK* initiative** Create new work styles possible anywhere and at anytime »»

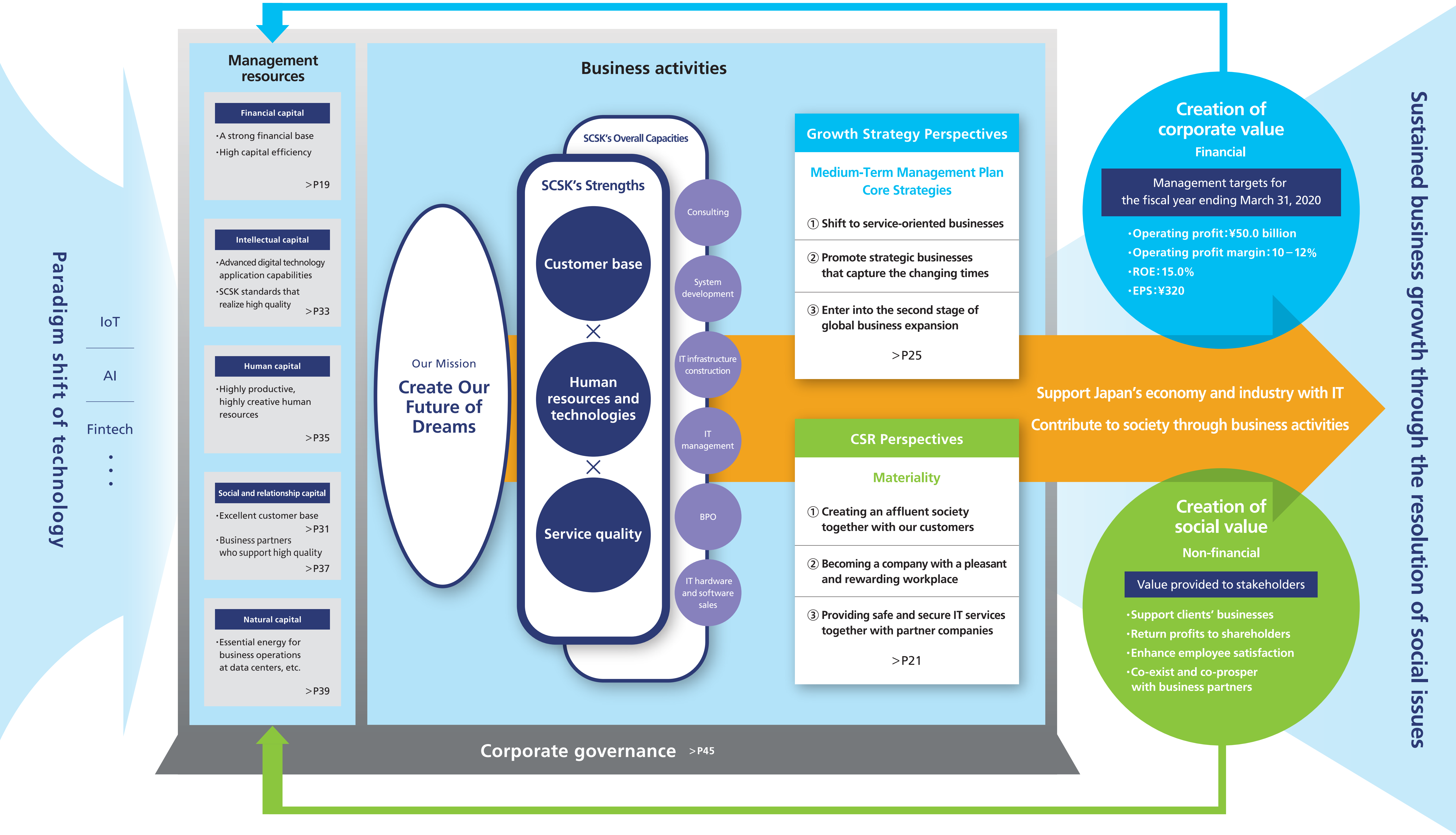
→ **Increase the productivity of each and every employee**

Strengthen Corporate Governance

- **2015** Established Nominating and Remuneration Advisory Committee
- **2016** Transitioned to a company with an Audit and Supervisory Committee, where the Committee is composed of a majority of Outside Directors
- **2017** Abolished directors with specificities; Slimmed down the Board of Directors (goal to reach one-third independent Outside Directors); Established Governance Committee
- **2018** Further slimmed down the Board of Directors (one-third independent Outside Directors)

→ **Increase efficiency and soundness of management**

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



SCSK's Value Creation
Message from Management
Growth Strategies
Management Resources
Management Structure
Our Businesses
Financial Section

We will harness SCSK's overall capacities to contribute to value creation in our clients' businesses.

In the Auto Industry

Streamlining Development of Advanced and Complex Automotive Systems

Based on our wealth of experience in developing automotive systems with Japanese automakers, we are contributing to more efficient development of advanced and complex automotive systems by providing automotive basic software, "QINeS BSW," compliant with worldwide standards and peripheral services.

＞P29

In the Distribution and Retail Industries

Supporting Omni-Channel Evolution

We offer total support including backyard BPO services, such as SUMAKURA, an integrated EDI service for the distribution industry used by around 350 client companies. This positions us to help expand sales opportunities and increase productivity of distribution and retail companies increasingly focused on the omni-channel business.

＞P27

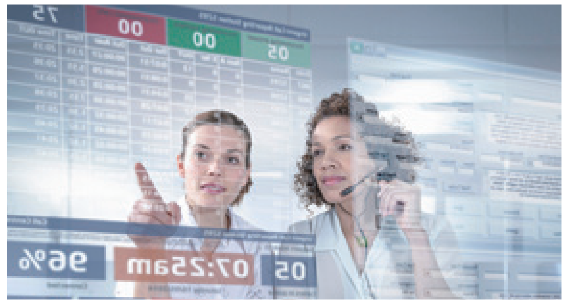
Providing Service Platforms Harnessing Our Overall Capacities

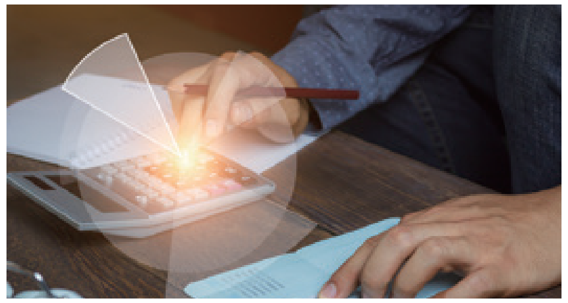
In Multiple Industries Such as Distribution, Finance and Service

Helping Enhance Customer Services with AI

We build highly accurate FAQ search systems using Desse, an AI-powered interactive web agent system, enabling 24-hour, 365-day-a-year user support without relying on people.

＞P26





In the Finance Industry

Assisting Regional Financial Institutions to Enhance Customer Value

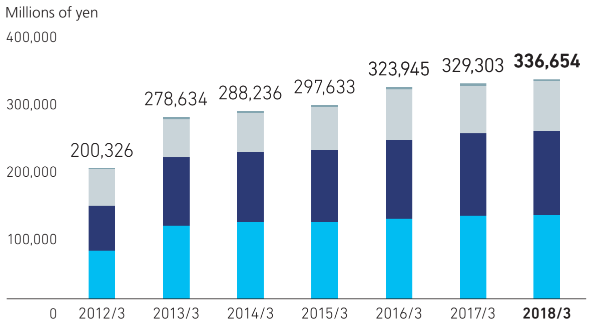
Our smartphone app for regional financial institutions, called MINEFOCUS, combines our long-standing know-how in finance with leading technologies to promote communication between financial institutions and users and to help create business opportunities.

Financial Highlights

In the fiscal year ended March 31, 2018, we captured robust demand for IT investment, while making growth investments aimed at the shift to a service-oriented business model and the promotion of strategic new businesses. We marked the sixth consecutive year of higher profit on higher sales since the merger, and our operating profit margin was also the highest on record. As a result, we increased our cash dividend per share for the sixth consecutive year.

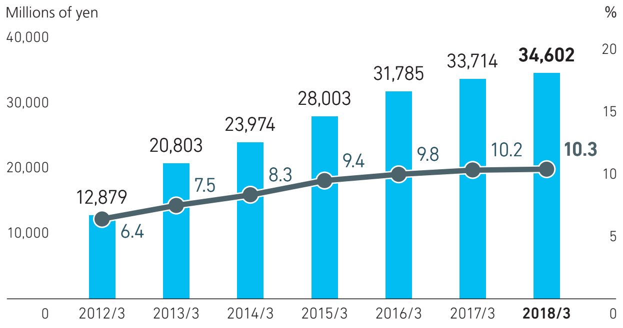
Net Sales

Systems Development / System Maintenance and Operation / Services / Packaged Software / Hardware Sales / Prepaid Card Business



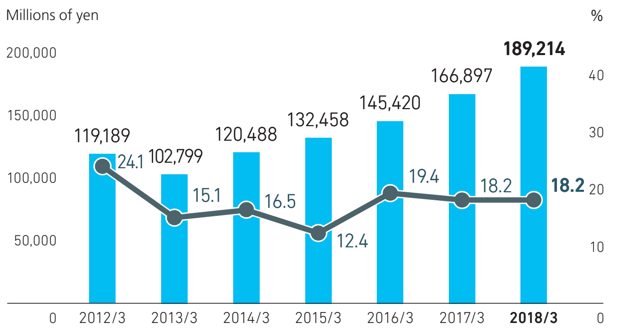
Operating Profit / Operating Profit Margin

Operating profit / Operating profit margin



Equity Capital / ROE

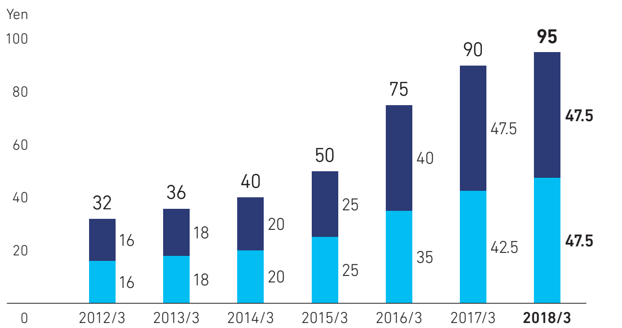
Equity capital / ROE



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

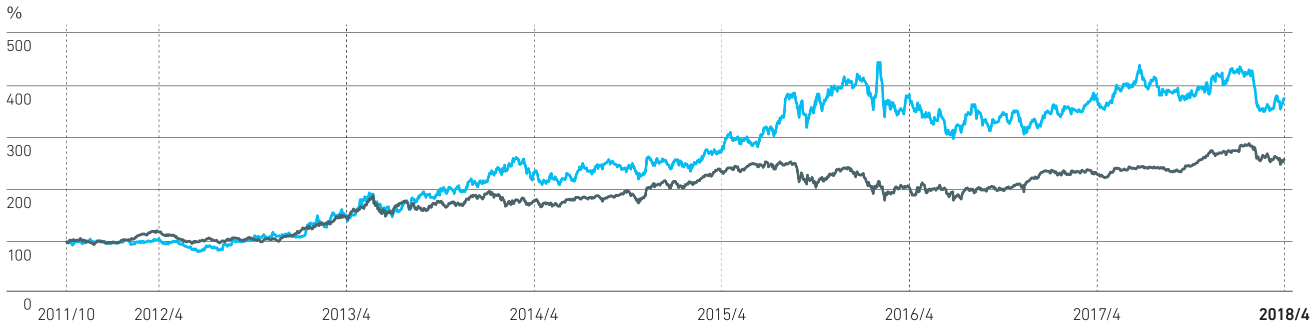
Cash Dividend per Share

Six-month period-end / Year-end



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

Cash Flows (Millions of yen)	2012/3*1	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
Cash flows from operating activities	22,249	25,156	35,342	29,707	34,730	37,161	**37,096**
Cash flows from investing activities	(8,112)	(249)	(26,045)	5,166	(9,473)	(11,982)	**(35,394)**
Free cash flows*3	14,137	24,907	9,297	34,873	25,257	25,178	**1,702**
Cash flows from financing activities	(7,965)	(5,512)	(33,739)	(8,395)	(12,338)	476	**(25,763)**
Cash and cash equivalents at end of period	63,661	83,247	59,004	85,713	98,445	123,935	**99,797**

Financial Position (Millions of yen)	2012/3*1	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
Total assets	300,928	322,828	317,932	334,290	352,676	389,537	**303,914**
Net assets	124,419	108,208	126,159	138,536	151,546	173,674	**196,600**
Equity capital	119,189	102,799	120,488	132,458	145,420	166,897	**189,214**
Interest-bearing debt + preferred shares*4	84,860	84,860	57,000	55,000	50,000	60,000	**45,000**

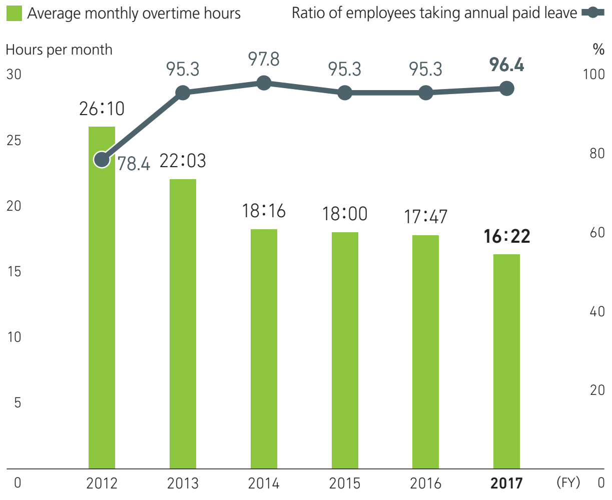
Per Share Data (Yen)	2012/3*1	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
BPS	860.37	991.48	1,161.29	1,276.37	1,401.00	1,607.74	**1,822.54**
EPS	334.19	161.39	177.26	150.71	259.72	274.16	**312.95**

Major Indicators	2012/3*1	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
ROE (%)	24.1	15.1	16.5	12.4	19.4	18.2	**18.2**
ROA (%)	7.9	7.1	8.0	9.4	9.8	9.7	**10.5**
Equity ratio (%)	39.6	31.8	37.9	39.6	41.2	42.8	**62.3**
Debt / Equity ratio (times)	0.46	0.83	0.47	0.42	0.34	0.36	**0.24**
Number of employees	11,995	11,797	11,689	11,754	11,769	11,910	**12,054**
Capital expenditures (millions of yen)	7,954	10,219	9,441	14,842	12,046	15,335	**15,588**
Depreciation and amortization (millions of yen)	5,380	6,690	6,841	6,865	8,003	8,972	**11,245**
R&D expenses (millions of yen)	417	566	449	267	117	266	**280**
Stock prices (yen)	1,312	1,835	2,781	3,365	4,400	4,420	**4,595**

*1 Figures of CSK before the merger date (October 1, 2011) are not included
*2 All the shares of QUO CARD Co., Ltd., which constitutes Prepaid Card Business, was transferred as of December 1, 2017.
*3 Free cash flows = Cash flows from operating activities + Cash flows from investing activities
*4 The figure as of March 31, 2012 includes ¥30.0 billion of preferred stocks assumed by the company in fiscal 2011 as a result of the merger with CSK Corporation. All of these preferred stocks were acquired from the financial institutions holding the shares on May 31, 2012, and based on a resolution passed at the Ordinary General Meeting of Shareholders held on June 27, 2012, all of these preferred stocks were cancelled on the same day, June 27, 2012.

Non-Financial Highlights

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

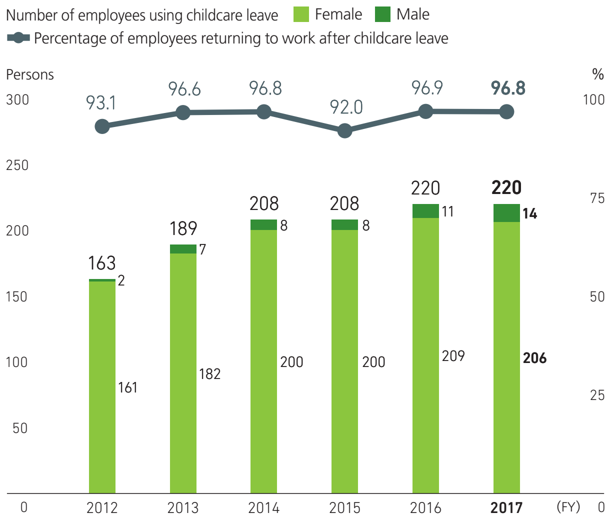


We are the first in the industry to begin working on working style reforms mainly involving reducing overtime hours and increasing the rate of consumed annual paid vacation days, in order to become a company with a pleasant and rewarding workplace. Our efforts have begun to see steady success and now we are seeking to build on this.

Number of Female Executives and Line Managers

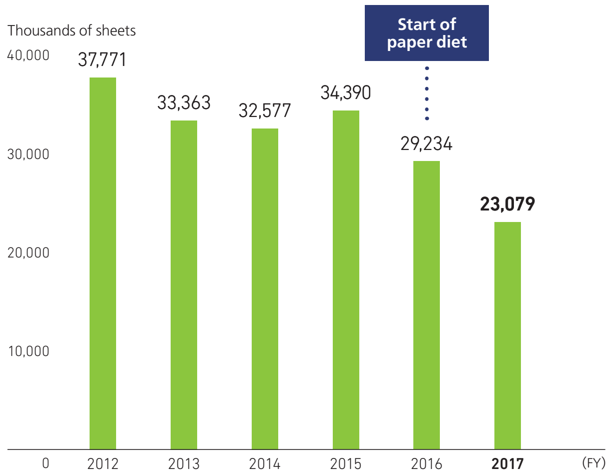
SCSK is working on human resource development and working style reforms aiming to be a company where female employees can contribute their talents. We have set a goal to have a combined total of 100 female executives and line managers to encourage the greater involvement of women in the workplace. We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

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



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

Reduction in Amount of Office Paper Purchases as a Result of SCSK's Paper Diet



SCSK launched *Dokodemo WORK*, an initiative to establish and practice new working styles enabling employees to work anytime from anywhere. Our paper diet initiative that seeks to reduce paper, a major hurdle to remote work, in terms of printing and storage, has helped us to reduce printing of paper documents. As a result, the amount of office paper we purchase has been reduced successfully as well.

SCSK Corporation, Non-Consolidated Index

Data on Labor Practices			FY2012	FY2013	FY2014	FY2015	FY2016	**FY2017**
Number of employees			7,490	7,385	7,328	7,261	7,241	**7,273**
		Male	6,254	6,162	6,091	6,022	5,976	**5,955**
		Female	1,236	1,223	1,237	1,239	1,265	**1,318**
Recruitment	Number of new recruits (newly graduated)		93	90	99	122	162	**202**
		Male	68	61	67	80	104	**121**
		Female	25	29	32	42	58	**81**
Diversity	Number of people with disabilities*1		139	153	171	179	219	**248**
	Number of female executives and line managers		14	32	44	54	64	**72**
	Number of non-Japanese employees		46	46	42	45	43	**42**
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	**16 hours, 22 minutes per month**
	Rate of consumed annual paid vacation days*2		78.4%	95.3%	97.8%	95.3%	95.3%	**96.4%**
	Number of employees using childcare leave		163 (Male:2, Female:161)	189 (Male:7, Female:182)	208 (Male:8, Female:200)	208 (Male:8, Female:200)	220 (Male:11, Female:209)	**220 (Male:14, Female:206)**
	Percentage of employees returning to work after childcare leave		93.1%	96.6%	96.8%	92.0%	96.9%	**96.8**
	Number of employees using nursing care leave		3 (Male:2, Female:1)	3 (Male:3, Female:0)	4 (Male:4, Female:0)	1 (Male:1, Female:0)	3 (Male:1, Female:2)	**6 (Male:2, Female:4)**
	Number of employees using reduced work hour programs		182 (Male:2, Female:180)	179 (Male:2, Female:177)	191 (Male:2, Female:189)	216 (Male:3, Female:213)	264 (Male:3, Female:261)	**249 (Male:3, Female:246)**
	Number of employees using maternity leave*3		86	76	74	85	76	**70**
	Number of employees using parental leave		187	184	152	169	145	**143**
	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)	**1,006 (Male:642, Female:364)**
	Number of employees using child nursing leave		363 (Male:228, Female:135)	419 (Male:266, Female:153)	438 (Male:265, Female:173)	458 (Male:260, Female:198)	492 (Male:286, Female:206)	**508 (Male:284, Female:224)**
	Nursing care support seminars	Number of seminars held (times)	3	3	16	14	17	**21**
		Number of participants	192	155	1,088	1,126	1,630	**1,523**

*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 (10 days a year).
*4 Available in half-day increments for the following reasons (5 days a year).
- When the employee is providing nursing care to a family member (the employee's spouse, or an equivalent person)
- When the employee must accompany his or her child to receive necessary vaccinations, or attend an event at his or her child's school, up until the child graduates from junior high school
- When the employee goes to the hospital for infertility treatment

Environmental Performance Data				FY2012	FY2013	FY2014	FY2015	FY2016	**FY2017*2**
Environmental performance data	Power consumption	Total (MWh)*1		89,808	91,266	93,013	88,931	78,985	**84,450 (73,786)**
		Breakdown	Offices in Japan (MWh)*1	18,057	16,463	15,072	14,124	13,687	**25,384 (14,720)**
			Data centers (MWh)	71,751	74,803	77,941	74,807	65,298	**59,066**
	Fuel	Total (GJ)		3,572	3,768	1,945	2,613	2,521	**2,789**
		Breakdown	Kerosene (kl)	18	8	9	19	17	**20**
			Heavy oil A (kl)	14	20	21	20	18	**23**
			LPG (t)	19	39	—	—	—	**—**
			Utility gas (m³)	16,000	16,000	16,000	25,000	26,000	**26,000**
	Heat (steam, warm water, cold water) energy usage (GJ)			2,346	2,595	3,395	2,590	3,268	**2,822**
	Energy-derived (Scope 1 and Scope 2) CO_2 emissions*1 (t-CO_2)			41,393	47,341	48,636	45,612	39,820	**42,783 (36,664)**
	Volume of office paper purchased (1,000 sheets)			37,771	33,363	32,577	34,390	29,234	**23,079**
	General waste (t)			309	331	361	357	294	**267**
	Industrial waste (t)			95	161	130	172	172	**148**
Annual average PUE at data centers	Tokyo Center 1			1.62	1.63	1.58	1.63	1.64	**1.63**
	Tokyo Center 2			1.75	1.78	1.79	1.82	1.87	**1.93**
	Chiba Center			1.46	1.47	1.53	1.49	1.76	**1.74**
	Sanda Center			1.75	1.80	1.74	1.79	1.82	**1.79**

*1 Data for fiscal 2012 to fiscal 2016 only includes certain group companies. Data for fiscal 2017 indicates electricity usage and CO_2 emissions for the entire SCSK Group.
*2 Parentheses indicate data within the same scope up to fiscal 2016.

SCSK will fully capitalize on its intellectual property and know-how to deliver optimal services, always thinking from the client's perspective.

Tooru Tanihara
President and Chief Operating Officer

Review of the Previous Fiscal Year

Q1

How was SCSK's performance in the fiscal year ended March 31, 2018?

In the fiscal year under review, we achieved higher profit on higher sales for the sixth consecutive year since the establishment of SCSK, and broke records in terms of profitability.

However, for the first three quarters of the year we posted lower profit on higher sales. This was because of a greater than expected increase in upfront costs associated with the shift to a service-oriented business model especially during the first half. Another factor was delays in the launches of major projects expected to take off in the systems development business for financial industry clients. Since the beginning of the second half, the business growth trend recovered following the launch of some major projects for financial industry clients and better-than-expected progress in the systems development business for the manufacturing industry. In particular, during the fourth quarter alone, operating profit was up 26% over the previous year, marking the highest ever quarterly profit in our history.

During fiscal 2018, we will further expand our earnings base by capturing the robust demand for IT investments and by focusing on various management measures aimed at growing the earnings capacity of our businesses, beginning with our core strategies.

Performance for Fiscal 2017 and Forecasts for Fiscal 2018

	Fiscal 2017	Fiscal 2018 (Forecast)	Change
Net sales	¥336.6 billion	¥345 billion	+2.5%
Operating profit	¥34.6 billion	¥37 billion	+6.9%
Ordinary profit	¥36.2 billion	¥37.5 billion	+3.3%
Profit attributable to owners of parent	¥32.4 billion	¥25 billion	−23.1%

Q2

SCSK made a downward revision to its full-year earnings forecast (fiscal 2017) in the third quarter, marking the first time it has done so since the merger in October 2011. As the President, what are your thoughts? Also, will this revision affect the future direction of the company?

As you pointed out, this marked the first downward revision to our full-year earnings forecast since the merger, but I feel we can hold our heads high knowing that, compared to the previous year, we recorded higher profits on higher sales and this was our best performance ever since the merger. Nevertheless, frankly speaking as the head of the company, being forced to make downward revisions after falling short of initial expectations is a frustrating feeling. Moreover, I'm afraid this has also caused worry among our shareholders, investors and other stakeholders. Yet, my management philosophy is that numbers don't lie. In this sense, I take this downward revision seriously and I would like to explain the company's direction and management strategy aimed at further growth, including looking back on last year's performance.

Fiscal 2017 marked the third year of our Medium-Term Management Plan ending in fiscal 2019. During this year, the entire company worked together to speed up the "shift to a service-oriented business," one of the core strategies in this plan, and transform SCSK's business structure. These initiatives left me thinking that there is still much more to do in shifting our long-standing corporate nature from providing original and unique systems tailored to individual clients to building standardized systems and providing systems to clients on a pay-as-you-go basis. In other words, transforming our business structure is no simple task. I do feel keenly aware, though, that the thinking of our executive officers and employees has gradually changed from year one to year two and from year two to year three. Also, I know for sure that we have the technologies and capabilities to identify common industry needs or universal systems that will not be limited to a particular industry, and then build standardized and generalized systems, based on more than four decades of providing various IT services that meet the individual needs of clients. Utilizing these strengths, I hope to speed up the transformation of our business structure.

The business climate of the IT services industry where SCSK operates is strong. I believe that SCSK can shift to a service-oriented business without adversely impacting performance, even if the necessary upfront costs rise for business investment, R&D and marketing to expand service-oriented businesses and existing businesses. This is why I have focused on transforming our business structure.

Unfortunately, in fiscal 2017, major projects did not materialize as we expected because of delays in the launch of planning phase projects and postponement of add-on projects in businesses for financial industry clients. While this rather unique circumstance forced us to make downward revisions, I believe the direction and strategy of the company remain sound.

Conventional system development as well as maintenance and operation services are archetypical labor-intensive businesses. Even if we were to maximize earnings from this business structure, as long as there are limitations in terms of the supply of talented system engineers, at some point in the future we will hit the growth wall so to speak. Consequently, the strategy of "shift to a service-oriented business"——one that does not rely on the supply of system engineers, but rather maximizes the company's accumulated business know-how along with intellectual properties and IT assets and is based atop these intellectual properties——is very important, I believe, in the sense that we will be able to largely expand SCSK's future growth potential.

To achieve sustained earnings growth over the long term, it is imperative that we shift from a labor-intensive to a service-oriented business. Looking ahead, we will make the proper business investments in the future and continually work toward this goal, keeping up the pace of reforms into a service-oriented business.

In terms of scale, full-year sales for fiscal 2017 in the service-oriented business totaled 70.5 billion yen, up 10% over the previous year. In fiscal 2018, we will continue the shift, aiming to achieve 10% growth in these sales.

Progress of Core Strategies under the Medium-Term Management Plan

Q3

You have shown a strong commitment to shift to a service-oriented business. How will SCSK balance initiatives in the service-oriented business with its existing businesses?

Let me start with a brief overview of the market. As of late, the nature of our clients' IT investments is changing. In the past, clients mainly focused on raising efficiencies for smoother running internal systems and greater convenience for the people using systems. Today, with the future decline in Japan's labor population becoming visible, this domain demands labor-saving solutions where systems are built following the ideal of operations that don't require the involvement of people. At the same time, there is growing strategic IT investment for reinforcing clients' own businesses and competitiveness. This domain involves unique systems for industry and individual companies, one where investment is made in differentiation by clients themselves. This requires advanced IT services. This domain is where we must tackle the challenge of advanced solutions to help clients address their own challenges.

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	Strengthen Management Base
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	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

Amidst this climate, I believe it is important to think, together with clients, of the optimal systems for reinforcing their businesses and about new operations, instead of considering this new domain as an extension of our existing businesses.

Harnessing our more than four decades of industry-specific technologies, know-how and talent in each industry, SCSK has delivered client-specific systems development along with maintenance and operation services. This is precisely why SCSK will shift to service-oriented business for industry standardized and generalized operation systems in domains where clients don't require differentiation, but at the same time use our advanced existing businesses to accommodate clients' strategic IT investments.

Q4

What is the status of SCSK's initiatives for the promotion of strategic businesses and globalization of operations?

Recently, the words "digital transformation" have begun to stand on their own, which makes transforming our business model into one that uses technological innovation, including AI, IoT and Fintech, all the more urgent. I believe, however, that currently clients find themselves vexed in terms of the gap with reality, given the steady evolution of technologies. As a result, our proposals need to deliver IT services by calling upon our insight in order to achieve the added value our clients demand, so as to improve clients' business value, instead of simply delivering the latest technologies and equipment.

We need to transform ourselves so that we can truly deliver IT services and added value required by clients in sync with the times. Our core strategies represent the path to this transformation.

The new businesses cited within "promotion of strategic businesses," one of these core strategies, require that SCSK acquire considerable the market share as a frontrunner during the early period of new markets and create a foundation for completely new businesses. SCSK is an IT services company with Japanese companies as clients. Companies driving Japan's economy intend to reinforce their businesses, examine strategic IT investments, seek out more efficient and labor-saving approaches to business, and require IT services. By fulfilling these needs, SCSK wants to help pave the way for the future of Japan's economy and become a leader behind Japan's economic development.

Therefore, our take on "global expansion" involves supporting the overseas expansion of corporate Japan from the IT field. We refer to this market as the Greater Japanese Market. As a group of IT professionals, SCSK will lead the way in proposing solutions that will empower Japanese companies to take on the world.

The automotive systems business represents one aspect of the promotion of strategic businesses, including global expansion. Here, I would like to provide an update about this important business. As for QINeS BSW, one of our newest automotive system businesses, we are attempting to adopt the same ubiquitous standardization in the IT services industry for automotive systems, following the auto industry's software standards. The AUTOSAR standard, which is growing mainly in Europe, represents a concrete movement toward this standardization. Initially, at the time of planning the Medium-Term Management Plan, we envisioned that AUTOSAR compliance, i.e., standardization, in Japan will involve automotive system development in various fields.

However, reality was different from our assumptions. Demand in the area of advanced functionalities such as advanced driver-assistance systems (ADAS) and autonomous driving was pulled significantly up from our time schedule, and as a result, we need to establish functions at an early stage for fiscal 2019 or fiscal 2020. Function development for these model years has to be compliant with system development methods of so-called legacy systems before AUTOSAR compliance.

Meanwhile, with urgent demand for not only autonomous driving, but also further expanding functionality including electric vehicle (EV) development, at the current point in time specific responses to AUTOSAR are being examined, prepared and implemented by OEM and Tier 1 parts suppliers for the full-fledged shift to high performance functions in automotive systems.

Given this climate, there are many more deals today than we initially anticipated. Of course, this is good news for SCSK, but each deal and project requires many individualized and specific development requirements for each company, and the required domains are wide-ranging, too. As such, with our resources alone we simply cannot capture all of these deals at the current point in time. This is why it is difficult for us to pursue scalability with our business model today.

As such, we determined that turning a profit in this business, which was initially planned to be achieved during the current Medium-Term Management Plan, will inevitably lag behind.

However, business development investment will continue to be implemented according to the initial plan so that we will secure a leading position as a developer of cutting- edge technologies in the automotive systems business.

Although I noted delays in the initial plan, we aim to implement various measures to quickly generate profits and recover upfront investments at the earliest possible stage.

Reinforcing Infrastructure Supporting Business Strategy

Q5

What are your thoughts about developing the human resources needed for implementing these business strategies?

Earlier I mentioned that the words "digital transformation" have begun to stand on their own, which makes transforming our business model into one that uses technological innovation all the more urgent. To transform our business model together with clients, it is vital that we not only develop human resources with an eye on technological innovation, but also ensure that our executive officers and employees are healthy and feel a sense of purpose. The combination of the ensuing added value generated from this will underpin SCSK's performance.

We have been pushing forward with work style reforms, such as reducing overtime and encouraging employees to take paid vacation, for four consecutive years since 2014. Over this time, we have lowered average monthly overtime hours to less than 20 and achieved a greater than 95% consumption rate of annual paid vacation days. In addition, we are implementing various measures aimed at improving the health of our executive officers and employees by creating an environment that enables work styles in sync with their private lives and business operation cycles. These involve fostering a pleasant, fulfilling workplace as well as the pursuit of work-life balance and diversity.

In recognition of these initiatives, SCSK received the Human Resources Prize at the NIKKEI Smart Work Awards 2018 organized by Nikkei Inc. SCSK has also been granted the "Nadeshiko Brand" and "Health and Productivity Management Brand" designations for four consecutive years. This shows that our work style reforms are recognized by the market.

Such initiatives are also recognized by clients. I have spoken to a number of clients about our initiatives. We also share these initiatives with our business partners and promote work style reforms together.

Q6

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

As part of our efforts to reinforce corporate governance, in June 2016 SCSK transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee composed of a majority of outside directors. In addition, we reduced the number of directors from 19 to 16 in June 2017 and increased the number of independent outside directors, including Audit and Supervisory Committee members, from four to six.

Furthermore, in June 2018, we reduced the number of directors responsible for the supervision of management from 16 to 12, while maintaining at least a one-third ratio of independent outside directors, in order to increase closer communication and discussions between independent directors and non-independent directors.

SCSK will continue to reinforce its corporate governance system in pursuit of greater management transparency and soundness, along with promoting the separation of supervision and execution of management.

SCSK's Future "To-Be" Model

Q7

What is your future vision for the company, including initiatives for the upcoming fiscal year?

I believe the target of the Medium-Term Management Plan is a stepping stone for the future. With an eye on the future and establishing a foundation for sustained high earnings growth, we will commit management resources to the core strategies of "shift to a service-oriented business" and "promote strategic businesses" while speeding up the transformation of our business structure. On top of this, we will continue to focus efforts on the "second stage of our global business expansion" as well.

This fiscal year, we established the Sales Coordination Group, which is dedicated to understanding the added value solutions required by clients and using company-wide service resources to meet these needs comprehensively. By fully leveraging our intellectual properties and know-how while placing ourselves in the shoes of clients, we will deliver optimal customer-first services. We will also be able to create new services by identifying the values of our more than 8,000 clients through a constant awareness of value born from various forms of communication with them. Additionally, I believe that SCSK's duty is to provide services and systems in order to complete the transformation of our business model currently underway by using IT as a tool to connect with clients in different industries, instead of just carrying on with the status quo. For this reason, I am always talking to our executive officers and employees about the importance of tackling the challenge of reform.

Our goal is to become a leading company in the IT services industry that is recognized by society as first-class in everything it does, including not only technical capabilities and service quality, but also client satisfaction, human resources and management quality.

I believe that we will be unable to reach this future vision simply by maintaining the current status quo. Under our corporate philosophy "Create Our Future of Dreams," SCSK will tackle the challenge of reform, achieve a further evolution, support Japan's economy and industries with IT, create new value through IT, and "create together" a future required by clients and society. This spirit of "co-creation" will empower us to achieve our future "To-Be" model.

I ask for your continued support as we move forward.

CFO's Message

We will continue to improve corporate value and our equity value by allocating funds to ongoing business investments and shareholder returns, driven by positive business trends and robust operating cash flows.

Tetsuya Fukunaga
Director, CFO
Senior Managing Executive Officer

Overview of Performance in Fiscal 2017 and Outlook for Fiscal 2018

As for the results of fiscal 2017, although we saw operating profit fall below initial forecasts for the first time since the merger, we posted increased sales and profit for the sixth consecutive year since the merger, which ended in the highest profit ever, partly supported by record-high operating profit in the fourth quarter.

Net sales were up 2.2% year on year. In addition to system development businesses for customers in the manufacturing, distribution and telecommunications industries, we recorded strong sales from maintenance and operation services businesses for financial industry customers.

Operating profit rose 2.6% year on year. In the first half, the system development business for the financial industry saw lackluster performance, and profitability was affected by an increase in business investment related costs for the promotion of service-oriented businesses, as well as new strategic businesses, causing profits to fall below the previous year. However, in the second half, profitability recovered to previous-year levels, as operating profit rose on higher revenues over the course of the entire year.

Ordinary profit increased 0.5% year on year attributable to an increase in operating profit. Profit attributable to owners of parent increased 14.2% year on year, buoyed by an extraordinary profit related to the share transfer of our former wholly-owned subsidiary QUO CARD Co., Ltd. in the third quarter.

As for the outlook for fiscal 2018, uncertainty persists regarding the future IT investment trends of customers, given economic and political uncertainty around the world. Nevertheless, in light of the strong demand for IT investment among manufacturing industry customers seen since the second half of fiscal 2017 and our deal flow in the system development business for financial industry customers, I believe business trends for fiscal 2018 will be generally more positive than fiscal 2017. Consequently, we will continue to fund upfront costs related to business investments for the promotion of service-oriented businesses so that we can transform these positive business trends into profits. I expect that we will be in a position to achieve considerable increases in both sales and profit.

With the above as the basic scenario for business operations in fiscal 2018, we forecast net sales of ¥345 billion, up 2.5% year on year, operating profit of ¥37 billion, up 6.9% year on year, ordinary profit of ¥37.5 billion, up 3.3% year on year, and profit attributable to owners of parent of ¥25 billion, down 23.1% year on year.

As for the profit attributable to owners of parent, without the extraordinary profit generated by the share transfer of QUO CARD Co., Ltd. booked in fiscal 2017, the figure is forecasted to decline in fiscal 2018.

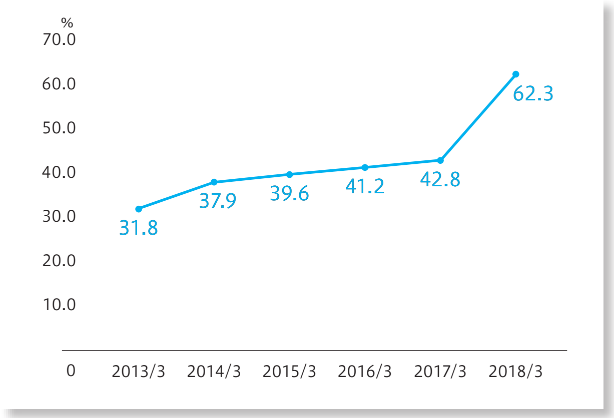
Financial Position

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

In fiscal 2017, over ¥100 billion in assets and liabilities were excluded from the scope of consolidation following the share transfer of our former subsidiary QUO CARD Co., Ltd. on December 1, 2017. In addition to earnings for fiscal 2017, our various financial ratios improved greatly as a result of this share transfer. For example, our equity ratio jumped from 42.8% at the end of fiscal 2016 to 62.3% at the end of fiscal 2017.

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 funding. We will allocate our capital to increase shareholder returns and work toward continually improving corporate value and our equity value.

Equity Ratio



Our Policies for Business Investment and Financing

The SCSK Group is promoting core strategies within its Medium-Term Management Plan that call for restructuring its business portfolio with the aim of increasing earnings growth and corporate value over the medium-term. In particular, in order to build and promote myriad service-oriented businesses and new strategic businesses such as the automotive systems business, we are moving forward with various forms of business development investment, including those related to IoT and AI, as well as investment in data centers. Moreover, we will continue to examine the acquisition of cutting edge technologies, reinforcement of customer base, or M&A deals that accelerate business growth.

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

At the end of fiscal 2017, the SCSK Group's interest-bearing debt totaled ¥45 billion in the form of bank borrowings and corporate bonds. Cash and cash equivalents totaled ¥99.7 billion, far exceeding these debts, indicating our robust financial base.

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

Our Policies for Shareholder Returns

With regard to how we return our profits to shareholders, we aim to provide dividends in line with improvements in consolidated business results, while comprehensively taking into account financial position, earnings trends, dividend payout ratio, and the need to maintain sufficient internal reserves for future business investments.

Every year since the merger, we have continued to increase dividend payments in conjunction with earnings growth. In fiscal 2017, profit attributable to owners of parent came in higher than initial forecasts. Taking into account that this was attributable to a one-off extraordinary profit related to the share transfer of QUO CARD Co., Ltd. in the third quarter, in fiscal 2017, we set our year-end dividend at ¥47.5 per share as initially planned, and increased our full-year dividend as initially planned by ¥5, from ¥90 in fiscal 2016 to ¥95 per share.

For the dividend forecast for fiscal 2018, we will continue targeting a dividend payout ratio of approximately 40% versus our earnings forecast for each fiscal year, following our policy on payout ratio discussed as part of our capital and dividend policies. Based on our financial position and expected increases in earnings, we plan to offer a full-year dividend of ¥100 per share, marking an increase of ¥5, in order to return even more profits to shareholders. This will mark the seventh 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 support future growth. At the same time, we will increase dividends in line with anticipated performance improvements in order to enhance shareholder returns.

Message from the Officer in Charge of CSR

We will aim to enhance corporate value and achieve a sustainable society by helping to resolve social issues through the IT services we provide.

Koji Tamefusa

Director,
Senior Managing Executive Officer

Message from the Officer in Charge of CSR

The roles and responsibilities of companies are changing greatly.

The world has achieved economic growth, but at what cost? There is now a mountain of issues facing humankind, including environmental destruction and growing economic disparities. As required by the United Nations' Sustainable Development Goals and the Paris Agreement at COP21, companies need to take responsibility and take action because they have been the benefactors of economic growth. Contributing to solutions will give us access to untapped markets and help us build new business models. For this reason, we recognize that these efforts are also new growth opportunities for SCSK.

Under our Corporate Philosophy of "Create Our Future of Dreams," we continue to work toward our dreams of the future and a better tomorrow for our employees, customers and all stakeholders through our business activities.

The IT services and solutions provided by the SCSK Group based on our long-standing technologies and expertise in a variety of fields not only help to solve clients' challenges and enhance their competitiveness, they can also create new functions and mechanisms that contribute to solutions to social issues.

In order to respond to the advanced needs of resolving these issues, it is important that we provide a workplace where human resources with superior technical, proposal, and frontline capabilities can work productively and dynamically and contribute their skill sets to the fullest. This is why SCSK is working to maintain a work environment where employees can work in a healthy manner and to provide opportunities for them to learn new technologies. At the same time, it is important that these initiatives be implemented not only internally at SCSK, but also at the partner companies we do business with. We consider our social responsibilities in the supply chain to be wide reaching. We will continue to work together toward solutions to social issues while obtaining the understanding and endorsement of partner companies.

Today we find ourselves at a major turning point in many areas, including society, the economy and the environment. The Group will continually create a high degree of value while carrying out its business activities responsibly in order to realize "Our Future of Dreams" for all stakeholders. This will also position us to contribute to solutions to social issues. SCSK will continue with its efforts aimed at the achievement of a sustainable society while enhancing both corporate value and social value, for the benefit of the next generation and our future world.

SCSK's CSR

Helping Resolve Social Issues through New Value Creation

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.

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

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

Materiality

Materiality (Key Themes from the ESG Point of View) and Initiatives

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. SCSK has assessed materiality 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 Plan and initiatives for materiality so that we continually deliver value to society through our business activities.

Materiality and Initiatives

Materiality	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 will contribute to solutions to complex social issues through the creation and provision of IT services and solutions needed by society. We will aim to achieve a sustainable society while creating both social value and corporate value together.	●Solutions to social issues through our businesses	P23-24
			●Enhance technological capabilities and develop capacity (response to digital technologies)	P33
			●Initiatives that help to reduce the effects on the environment	P39-40
Becoming a company with a pleasant and rewarding workplace	Under our aim of "becoming a company with a pleasant and rewarding workplace," we have established four underlying themes : work–life balance, diversity, health and productivity management, and human resource development. We are now taking a number of initiatives with a focus on propagating these themes across the overall IT industry.	We are a pioneer in the industry in broadly promoting working style reforms. We carry out initiatives that help propagate effects across the entire IT industry.	●Promote work style reform aimed at becoming a company with a pleasant and rewarding workplace	P35-36
			●Promote a diverse workforce (diversity)	
			●Support for balancing work, childcare and nursing care	
			●Promote health and productivity management	
Providing safe and secure IT services together with partner companies	In order for customers to be able to use our IT services safely and with peace of mind, we work together with our partner companies to achieve thorough information management, enhance information security, and improve quality.	In addition to initiatives for quality control, information security, personal information protection, and compliance, among others, we seek solutions to social issues by enhancing quality and productivity in the supply chain.	●Enhance the quality of project management and development processes	P34
			●Enhance quality and productivity through collaboration with partner companies	P37-38
			●Compliance	P50

Examples of Our Solutions to Social Issues

SCSK is helping to solve complex social issues through the creation and provision of IT services and solutions required by society.

Example 1 Detecting and Preventing Sophisticated and Stealthy Financial Crime

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

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

Initiatives at SCSK
Develop systems that help detect and prevent illicit financial transactions
BankSavior® Pursuer

Effects
Protect financial assets and ensure safe and secure financial transactions

Related SDGs
- Goal 9: Build sustainable and resilient financial system
- Goal 16: Prevent organized financial crime and curtail illegal cash transactions

Example 2 Developing Cyber Security Professionals

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

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

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

SecureYourSite

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

Related SDGs
- Goal 4: Develop cyber security professionals with advanced specialty knowledge
- Goal 9: Support secure operation of systems in an advanced information society
- Goal 16: Develop environment for secure use of the Internet

Example 3 Resolving Personnel Shortages Using AI

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

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

Initiatives at SCSK
Develop products that can automatically reply to customer inquiries online
Desse

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

Related SDGs
- Goal 8: Improve work environment and raise productivity using automation
- Goal 9: Reduce operational burden with AI-powered automatic answering systems

Example 4 Supporting Automobile Design for a Brighter Future

Harnessing our more than three decades of knowledge and know-how in the development of automotive systems, in 2015 SCSK began providing "QINeS," basic software (BSW) made in Japan compliant with AUTOSAR. SCSK also offers one-stop services for providing BSW engineering tools and management support tools, building optimal processes and supporting education, QINeS introduction and application development, contributing to the development of high quality and high efficiency automotive systems.

Applicable Social Issues
- Environmental issues such as exhaust gas detoxification and reduction of CO_2 emissions
- Safety and security such as traffic accident prevention and mobility for an aging society

Initiatives at SCSK
Provide high-efficiency and high-quality solutions that support the development of complex and advanced automotive systems, given rising importance of IT in automobiles
QINeS

Effects
Provide high-quality automotive systems to reduce environmental impacts and realize a safe and secure automotive society

Related SDGs
- Goal 3: Reduce traffic fatalities and injuries by preventing accidents using safe, secure automotive systems
- Goal 9: Support technological development following evolution of electronic devices in automobiles

Example 5 Enhancing Productivity and Competitiveness in the Manufacturing Industry

The atWill Template helps to quickly build systems which can adapt to changing environments and harness each company's strengths with templates of necessary operational functions for the manufacturing industry based on our long-standing know-how. Furthermore, we offer additional original, program-less functions using high-speed development tools to deliver production management systems in sync with operations at a lower cost and shorter turnaround time. This powerful assistance toward improving the production site positions SCSK to help increase productivity and enhance competitiveness of the manufacturing industry.

Applicable Social Issues
- Response to advancements in digitalization, such as AI/IoT, and dramatic changes in industrial structure
- Shortage of labor at manufacturing sites

Initiatives at SCSK
Support the increased profitability of factories and improved quality by visualizing quality at the company level through an accurate understanding of cost price
atWill Template

Effects
Improve frontline strengths and productivity and create new added value in the manufacturing industry

Related SDGs
- Goal 9: Provide operational functions as a template to powerfully support improvements at the production site

Example 6 Supporting Streamlined Operations and Work Style Reform with Easy-to-Use Web-Based Systems

We created a simple web-based system enabling companies to streamline intricate calculation work in Excel using a "Do It Yourself" approach. Standardizing, streamlining and automating work increases productivity. The RPA function also contributes to reduced working hours and improved operational quality.

Applicable Social Issues
- Declining population and declining working age population caused by declining birth rate and aging
- Growing criticism of prolonged working hours (spread of work-life balance)

Initiatives at SCSK
- Enable Excel-based work on web-based systems
- Robotic Process Automation (RPA)

CELF

Effects
Achieve work style reforms that increase productivity and maintain employee health

Related SDGs
- Goal 8: Achieve work-life balance through greater operational efficiency
- Goal 9: Support automation of operational processing using ICT services

Shift to Service-Oriented Businesses

We are providing standardizable business operations as pay-per-usage IT services by fully harnessing our in-depth knowledge gained from our experience providing IT services to countless clients.
We are now shifting to a stable corporate structure capable of generating consistently strong earnings.

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

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

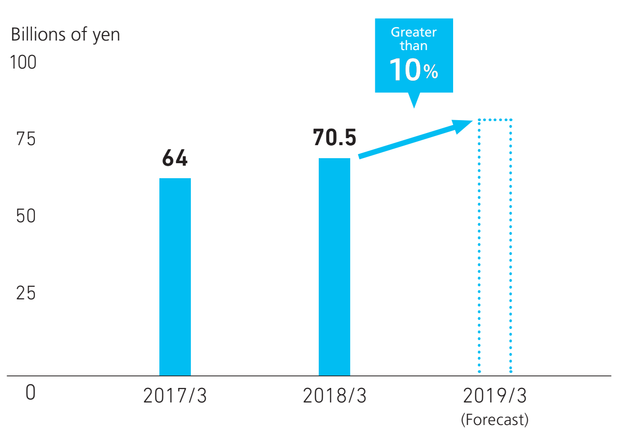
SCSK has decided to focus on the service-oriented business because of its accumulated track record in delivering IT solutions to some 8,000 client companies mainly in the manufacturing, distribution, finance and communications industries. Our close relationships with these clients have helped us to develop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

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

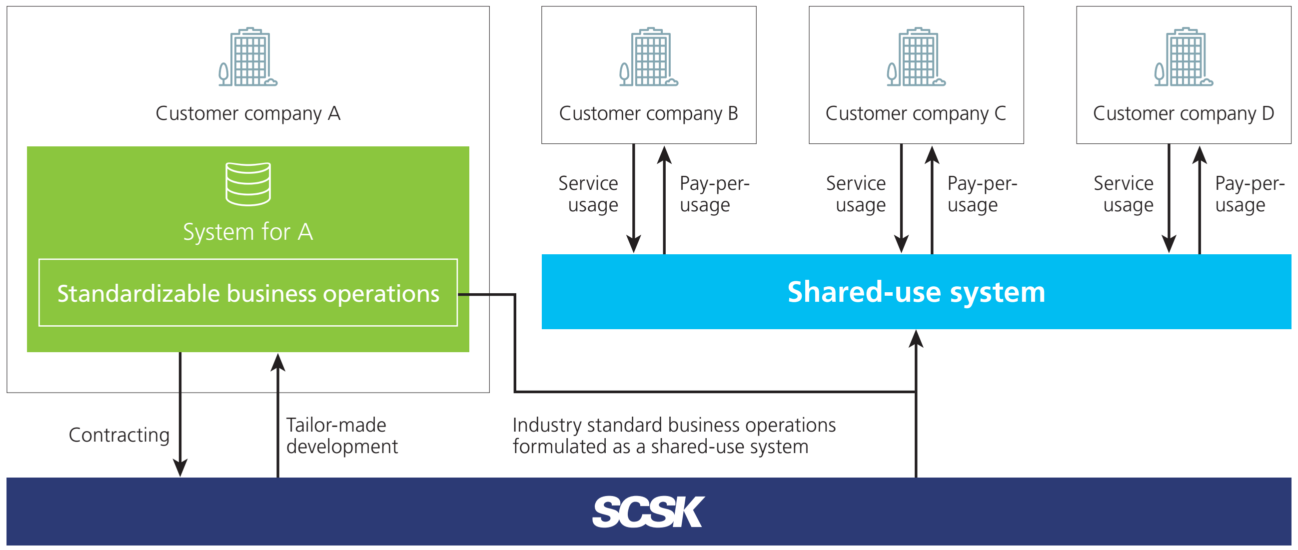
When taking into account this new broader definition of service-oriented business, sales grew at around 10% from 64 billion yen in the fiscal year ended March 31, 2017 to 70.5 billion yen in the fiscal year ended March 31, 2018. We are now aiming to achieve greater than 10% sales growth in the fiscal year ending March 31, 2019.

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

Service-Oriented Business Sales



Service-Oriented Business Creation Model



CLOSE UP 1 **Desse — AI-powered Interactive Web Agent (Multilingual Chatbot)**

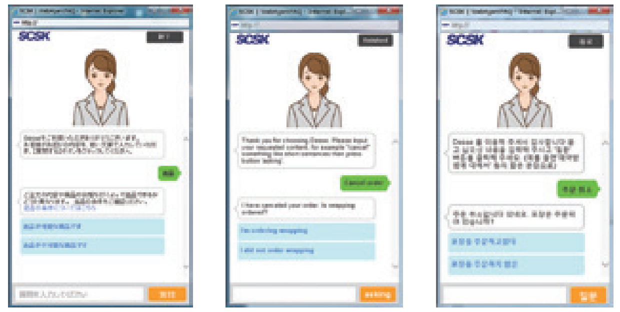
Contributing to Enhanced Customer Satisfaction and Operational Streamlining through Automatic Responses to User Questions

With the spread of computers and smartphones, there is growing importance for user support in all products and services, while the ability to quickly search and answer questions has become a major source of value. For companies, responding to inquiries by telephone and email has become a major workload, which has given rise to the need to streamline these operations using their websites.

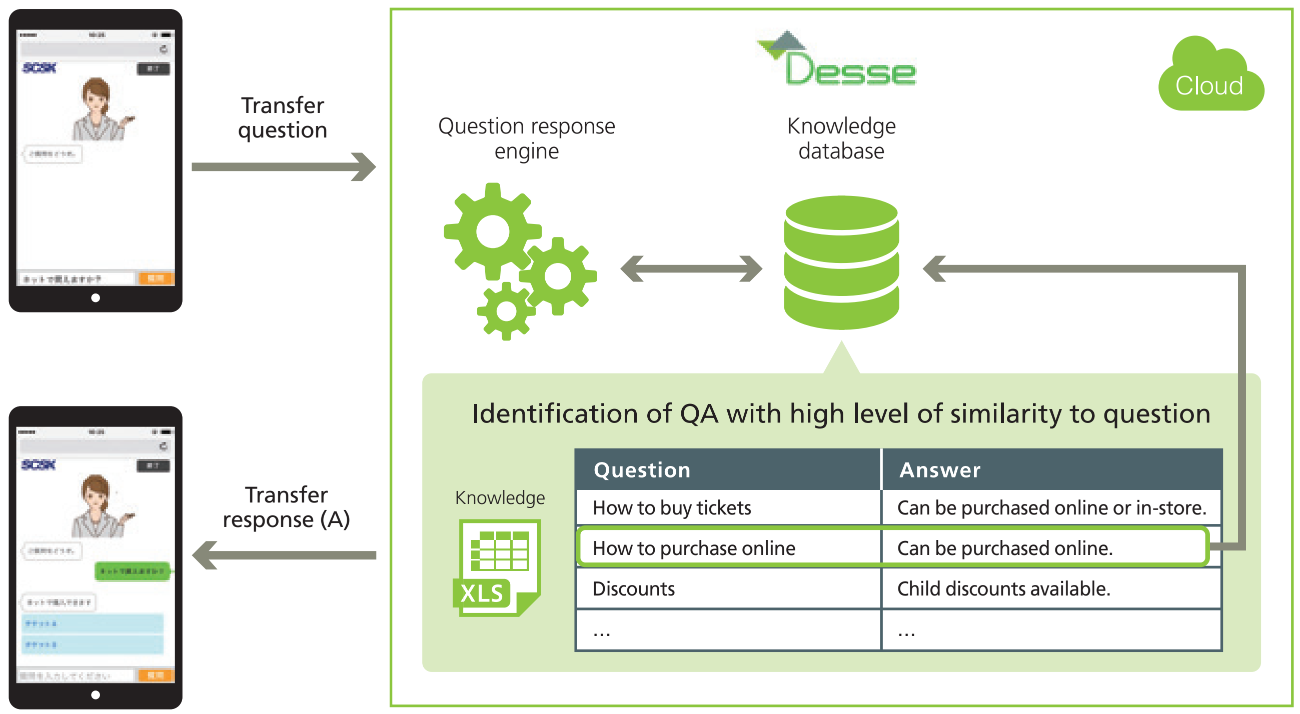
Given these needs, SCSK developed Desse, an AI-powered interactive web agent. For many years, SCSK has been involved in the development of voice recognition systems and text mining, and we have accumulated know-how in customer support through operations at our call centers. Desse represents the fusion of these development experiences and operational know-how.

Desse uses a mascot character as an online concierge for websites that automatically responds to user questions. Most FAQ search systems only present information on keywords, requiring users to find the information they are looking for from a vast amount of information. In response, Desse features a function where users interact with the agent to narrow down responses, which greatly supports the problem solving process. As a result, Desse achieves 24-hour, 365-days-a-year user support in multiple languages, contributing to enhanced customer satisfaction as well as operational streamlining and work-style reform by reducing the need for human-based responses.

Multilingual Model


Japanese English Korean

Desse's Functions



CLOSE UP 2 Next Trend—Paving the Way for the Success of the Distribution Industry's Omni-Channel Strategy

Distribution Industry Requires Business Reforms Given the Omni-Channel and Labor Shortages

With the spread of the Internet and smartphones, we find ourselves in an era where consumers can enjoy shopping freely through multiple sales channels, including not only brick-and-mortar stores, but also e-commerce sites and social media.

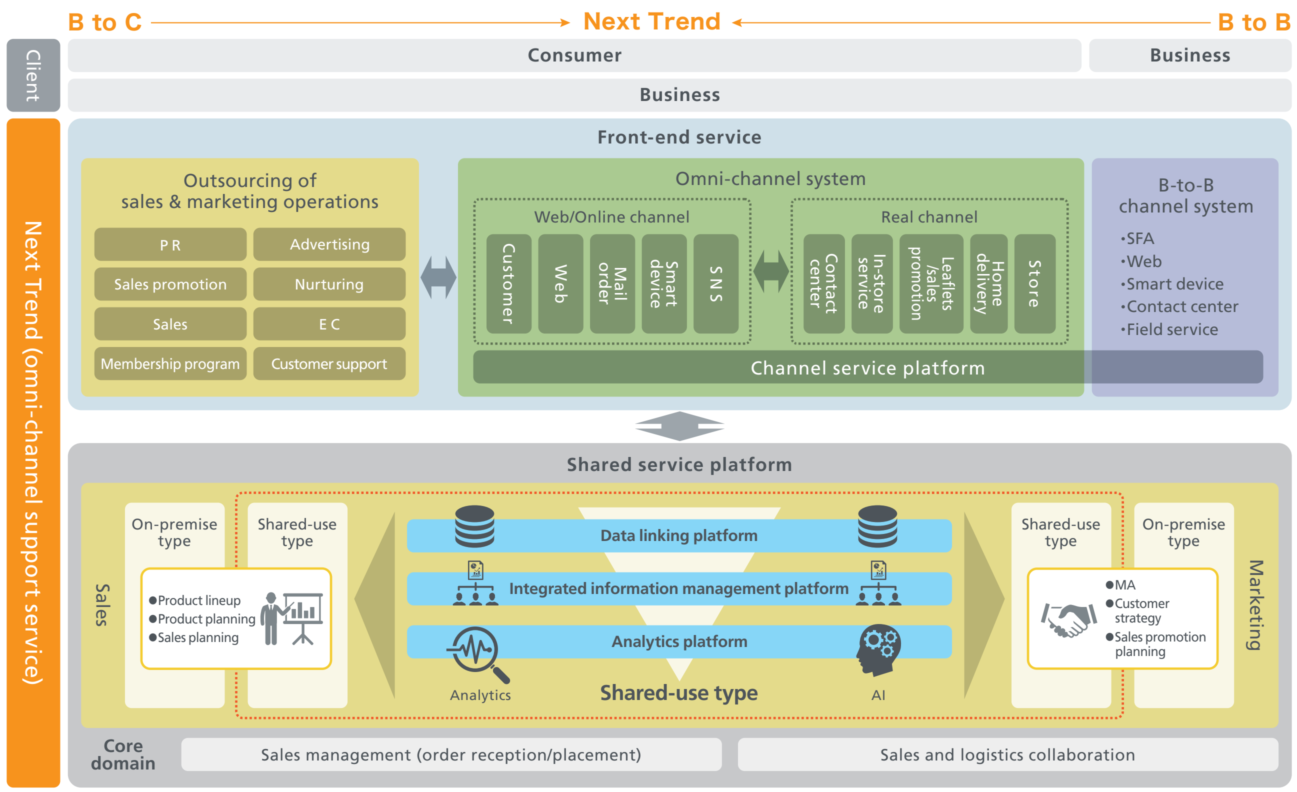
As sales channels become more diverse and complex, omni-channel strategy has become a major underlying trend in the distribution industry. This strategy involves building systems for the integrated management of sales channel information to enhance customer satisfaction and maximize sales opportunities. Meanwhile, physical stores continue to face difficulty securing the workforce needed, and as a result, streamlining store operations and increasing productivity using IT has become an important challenge.

Delivering Total Support to Omni-Channel Strategy using Our Experience and Know-How in IT Systems for the Distribution Industry

SCSK has a track record in developing and implementing a number of projects in merchandising systems and marketing. Every year, we do business with more than 900 clients in this domain. Among these, the integrated EDI service for the distribution industry provided under the SUMAKURA brand is being used by around 350 client companies as a powerful tool supporting increased productivity.

In June 2017, we launched a new brand of omni-channel support service for the distribution industry called Next Trend utilizing the know-how gained through the above track record. Next Trend offers total support from omni-channel systems such as web, e-commerce and contact centers to analysis, planning and implementation services for the sales and marketing fields, data linkage and management analysis platforms for CRM and customer management, and core domains and business outsourcing services underpinning the backyard of the distribution industry.

Overview of Next Trend



SUMAKUMA—First Installment of New Services under the Next Trend Brand

SCSK launched SUMAKUMA Shop Reader, an analytics support service for stores, in August 2017 as the first installment of the SUMAKUMA service lineup under the Next Trend brand. This service analyzes sales data such as ID-POS across three segments such as sales floor, products and customers, and visualizes results weekly so that busy store managers can determine store measures instantaneously.

We plan to expand the lineup in fiscal 2018 based on the Next Trend concept, including not only Shop Reader for corporate data analysis, but also a corporate environmental data analysis service and marketing implementation service based on the results of analysis.

SCSK aims to introduce services for more than 3,000 stores across 30 companies in the distribution and retail industries over the next three years up to 2020 through the expansion of SUMAKUMA services.

Customer Voice

Enabling fact-based decision-making by all stores through the visualization of information beneficial to store operations and easy use of data in stores

Toshihiro Fujino
Corporate Officer
General Manager of the Information Systems Department, Information Systems Division, Inageya Co., Ltd.

SUMAKUMA Shop Reader is a service built atop repeated discussions and confirmations with SCSK on the information needed by store managers to make decisions and how to display it so as to reflect the views of veteran store managers and Inageya's sales & marketing concepts. Using this service, even relatively inexperienced store managers can plan and implement more effective marketing strategies, which we expect to raise the bar when it comes to store management capabilities.

Even after the launch, we have been working to continually improve the service by listening to feedback and requests from store managers actually using it to determine how to make the service even more effective. In addition, we hope to improve our users' manual by including this tool in the PDCA cycle of store management to enable decision making based on objective facts about store management.

Currently, we are working to improve visualization linked with our sales policies. Looking ahead, we will have more staff involved in store management to use this service while considering the strategic aspects of Inageya's business. In turn, we expect to make improvements and find solutions to make the sales floor even better and to build a win-win relationship with SCSK.

Promotion of Strategic Businesses

We are focusing management resources on growth industries such as the automotive systems business and business development powered by AI and on fields where we can capitalize on our strengths, in an effort to cultivate the core businesses of tomorrow.

CLOSE UP 1 Development of BSW Compliant with Worldwide Standards

Helping to streamline the development of advanced automotive systems

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

SCSK has a strong track record in development of automotive systems for Japanese automakers. We also have many employees certified in ISO 26262 and Automotive SPICE. Additionally, we were among the first to begin MBD and release basic software (BSW) compliant with AUTOSTAR, using our past knowledge in the field. We have since launched QINeS BSW and are now providing related development support services. SCSK is capable of providing a full lineup of BSW as an automotive system platform and MBD support services underpinning automotive system development. Our capabilities support high-quality and high-efficiency automotive software development. Going forward, SCSK will continue to contribute to the competitiveness of the Japanese automotive industry through one-stop services for automotive system development.

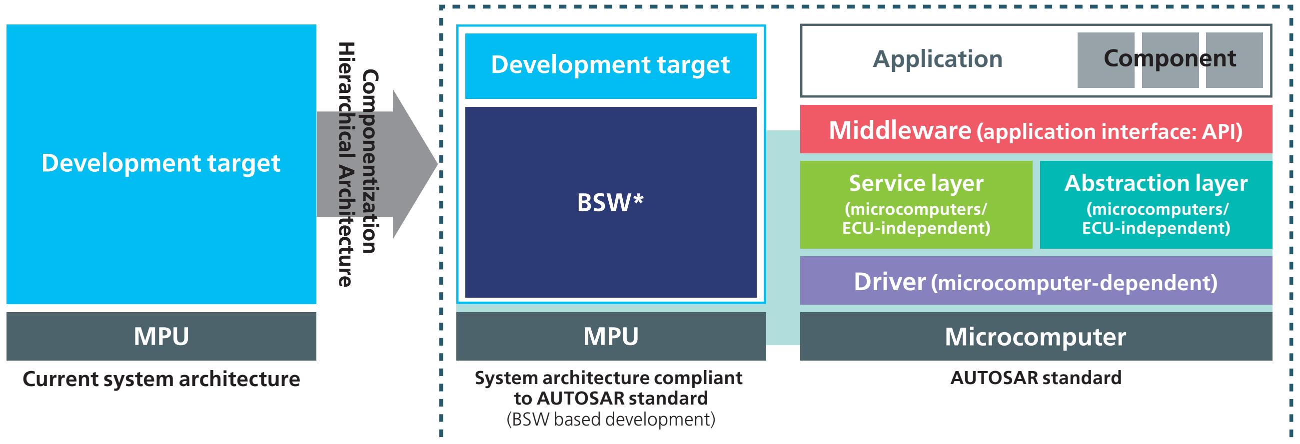
Adopted by Sanden AC for its next-generation electric compressor for automotive air conditioning

Sanden Automotive Components (Sanden AC) holds a 25% share of the worldwide market for compressors used in automotive air conditioning systems. Sanden AC is now developing a next-generation model of electric compressor for EVs and HEVs amid growing global demand for these vehicles. To ensure this next-generation model is used by a large number of automakers, Sanden AC needed to complete development in a short period of time while maintaining a high standard of quality. It also needed to standardize the platform portion of automotive software so that it was compliant with AUTOSAR. Sanden AC decided to work with SCSK as a partner for next-generation model development based on its comprehensive assessment of the functions, quality, and support services provided by SCSK through "QINeS BSW."

Adopted by MITSUBA for its electronic control unit (ECU) for power liftgates

MITSUBA is a global supplier of electrical components for four-wheeled vehicles that enhance automobile safety and comfort. The company is currently developing a next-generation power liftgate model. MITSUBA selected SCSK as its development partner based on our presence as a "Japanese BSW vendor," ability to clear "16-bit CPU requirements for reducing development costs," and the functionality and quality of "QINeS BSW." SCSK will contribute to the expansion of sales of MITSUBA's products in global markets by providing BSW that fulfills AUTOSAR requirements from automakers around the world.

Composition of Automotive System



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

CLOSE UP 2 Promoting Business Development with Artificial Intelligence (AI)

Consolidating AI Resources Internally and Externally to Create Strategic Businesses

Technologies such as IoT and AI are ushering in a paradigm shift that will dramatically transform both society and companies. Viewing this change as a major growth opportunity, SCSK is developing solutions powered by AI, machine learning and other cutting-edge technologies for various industries.

In October 2017, we established the AI Strategy Planning Office as a company-wide organization to head up efforts for speeding up such development. The AI Strategy Planning Office manages the AI know-how built up by the SCSK Group in such industries as manufacturing, distribution, communications and finance, with the goal of creating new AI-powered businesses using the latest trends in technology. It is also working to develop AI engineers and strengthen professional talent in the field of AI within the SCSK Group. We will now combine our AI technologies together with such technologies and systems as big data, IoT and Robotic Process Automation (RPA) to provide solutions to client challenges across a broader spectrum.

SCSK's AI Strategy Explained by a Key Person

The AI Strategy Planning Office is heading up business planning and efforts to boost proposal capabilities and marketing both inside and outside the company.

Strengths in AI technology for voice recognition, language analysis and image recognition

SCSK began researching AI about 30 years ago, around the time of the "Second AI Boom." At that time, we worked on expert systems and machine translation. About 10 years ago we turned our attention back to AI and developed a solution for call centers using natural language processing and machine learning. Through these efforts, the fields where we accumulated the most technologies are voice recognition and language analysis.

For example, we analyzed conversations with customers at call centers using voice recognition and AI to come up with "Desse," an AI-powered interactive online agent, and "VOiC," a next-generation VOC analysis service. We have also created a number of base models for image recognition and sensor data as well as natural language processing using deep learning. Based on these models, we develop and provide the SCSK Neural Network toolkit (SNN), which can easily create unique AI models tailored to clients' needs through additional learning of client data and know-how.

In this manner, we have promoted the use of AI technology, but until now each business division has worked separately on these solutions, resulting in talent and know-how spread across different organizations. The AI Strategy Planning Office was established to both consolidate and step up our capabilities in the AI business. The AI Strategy Planning Office not only plans company-wide strategy and business approaches, we conduct market research on AI and marketing, and explore opportunities for partnerships and investments in outside companies. Our next step is to develop talent such as AI planners and engineers. Furthermore, we hope to spread approaches to the AI business across the entire company.

Actively expanding business through AI proposals to clients

Given the recent "AI Boom," we receive a large volume of inquiries from clients. However, simply wanting to use AI does not mean an AI project will go smoothly. For this reason, it is important that we find out, together with the client, exactly what challenges the client wants to solve using AI. On top of this, we will expand the business by providing optimal proposals to clients in both the fields of voice recognition/language analysis and image recognition/video analysis. Additionally, Sumitomo Corporation, our parent company, is attempting to raise the competitiveness of around 1,000 companies it invests in using AI and IoT. These companies represent a multitude of industries, so we hope to actively share information about SCSK's AI technologies.

Today, a large number of companies provide AI solutions, but very few are able to offer systematically integrated systems. In the future a variety of AI and systems will be combined into single solutions. Toward this end, we will harness SCSK's know-how to deliver total services.

Akira Yamano
Executive Officer
General Manager, AI Strategy Planning Office

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

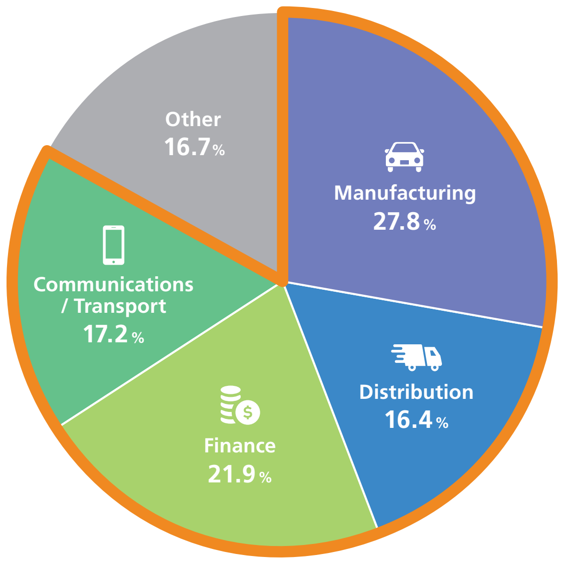
Basic Approach

Providing IT Services Truly Needed by Clients

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

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

Net Sales Broken Down by Client Industry
(Fiscal Year Ended March 31, 2018)



The manufacturing, distribution, finance and communications account for more than 80% of sales from our 8,000 clients

Structural Reinforcement

Organizational Restructuring to Accommodate Various IT Needs

While accelerating the shift to a service-oriented business, one of the core strategies of the Medium-Term Management Plan ending in March 2020, in April 2018 we carried out organizational reforms that will enable us to address the sophisticated strategic IT needs of clients given the digital transformation taking place in the world today.

First, we established the Sales Coordination Group in order to respond to the IT needs of core clients in a prompter manner using the overall capacities of the SCSK Group. The Sales Coordination Group is responsible for deepening relationships with clients using the overall capacities of the SCSK Group based on a correct understanding of clients' management challenges and needs. In addition, the Sales Coordination Group markets specific IT services that can be rolled out by the entire SCSK Group strategically, such as customer contact point services for next-generation contact centers, omni-channel and digital marketing, together with cutting-edge AI solutions and working style reform solutions, in an effort to increase SCSK's market share.

Next, in an effort to further expand service-oriented businesses, we combined the former Business Solutions Group responsible for business development using SCSK's intellectual properties and the Business Services Group in charge of business process outsourcing into the new Business Solutions Group. Furthermore, we reorganized and consolidated industry-specific business divisions with the goal of reinforcing our integration capabilities aimed at resolving client challenges and creating and expanding core solutions unique to SCSK.

Also, given the trend toward cloud-based systems, we consolidated data centers, including in the security domain, and business organizations covering IT infrastructure development along with maintenance and operation services within the IT Management Group, which is responsible for overall IT infrastructure.

Under this new organizational structure, we will work to enhance services for clients by further building relationships with clients and capitalizing on the overall capacities of the SCSK Group.

Example of Partnership with Client

Launched Solution Service Together with Murata Manufacturing for Raising the Productivity of Production Sites

Today, many companies are considering investments in technology as a way to respond to digital transformation. SCSK is working to deploy a number of service-oriented businesses that apply new technologies to meet the needs of clients. These efforts are underpinned by a correct understanding of new business needs in each of our target industries, which includes IoT and AI in the manufacturing industry, omni-channel business development in the distribution industry, and the introduction of Fintech and AI in the finance industry.

In the domain of IoT, SCSK is working together with Murata Manufacturing on smart factory automation. As part of efforts to promote the solutions business in this area, we commercialized the "facility utilization visualization software" used by Murata Manufacturing for more than a decade in the form of "m-FLIP™," a productivity improvement solution, for use by other companies in the manufacturing industry. SCSK has launched sales of this solution as a partner. With Murata Manufacturing providing services to support introduction and post-introduction data utilization and SCSK offering integration services including sales, we will be able to deliver a one-stop solution for helping clients raise productivity.

Client Engagement

Hosting of Events and Seminars

SCSK hosts a number of events and seminars for clients in order to contribute to solutions to various challenges. These opportunities help us to understand clients' challenges in terms of current business and future growth. They also provide insight into potential solutions. We believe this is where SCSK's true value is on display.

Recently, we hosted a "Working Style Reforms" seminar introducing ways in which we used IT to create working style reforms in our own operations. In aiming to become a company with a "pleasant and rewarding workplace," we have ushered in working style reforms since 2012. As a result, our initiatives have placed us among the top companies in the overall ranking of Nikkei Inc.'s survey of companies that have fully exercised their employees' potentials for three consecutive years since 2014. Taking this into account, we used the seminar to introduce SCSK's unique approach to working style reforms using IT along with the development of new systems and the results of reforms.

Looking ahead we will continue to host special lectures by outside speakers tailored to individual event themes, workshops including clients that introduce specific examples of solutions and information on cutting edge IT, and networking sessions for event participants. This will position us to build upon our status as a strategic IT partner to clients.

Booth at the 29th Design Engineering & Manufacturing Solution Expo (DMS)

SCSK Monozukuri CAE Seminar 2018

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

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

Initiatives for Enhancing Technical and Development Capabilities

R&D for Digitization

Industries and people's living environments have undergone a variety of changes brought about by the popularization of Social/Mobile/Analytics/Cloud (SMAC) as well as new forms of AI such as machine learning and deep learning. Today, we are moving toward a more digital world that further integrates IT with our lives and company activities through FinTech and IoT.

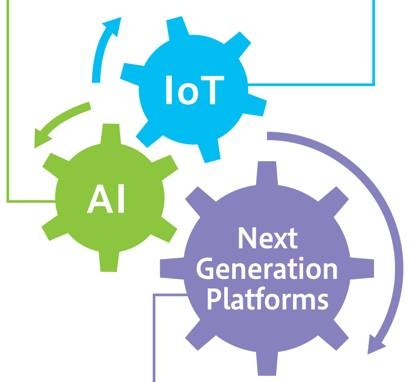
Focusing on technical trends causing such transformations, SCSK is investigating and examining leading-edge advanced technologies to address challenges such as sophistication and next-generation of IT environments, spearheaded by our R&D organizations. At the same time, SCSK is tackling commercialization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

Internet of Things (IoT)

Today, various things are connected to the Internet, including not only information communication devices such as computers but also home appliances and vehicles. These connections are enriching society through mutual controls of information exchanges. Relevant research is now taking place for further advancement of this connected society.

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.



Next-Generation Platforms

In recent years, there is a growing need for developing and operating corporate systems efficiently on the cloud, which provides an optimal environment on the Internet. Therefore, SCSK is working on technical development aimed at labor-saving and automation of development and operations. This includes technologies for systems linked with external services and technologies for migrating existing systems to new technologies.

Providing Employees with Opportunities to Learn New Technologies

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

Also, many employees attend the *Technoco Village* lightning talks held at various locations within the SCSK Group. At these talks, employees take the initiative in discussing and sharing the results of their daily research and topics of interest. This provides a venue for employees to stimulate one another's thought processes and build their personal networks.

SCSK will continue to develop these venues so as to nurture free-minded engineers who can adapt to change and who are always on the lookout for new technologies and trends that can transform SCSK's own technologies.

Technoco (Hackathon) at Tama Center's Learning Park

Technoco Village lightning talk

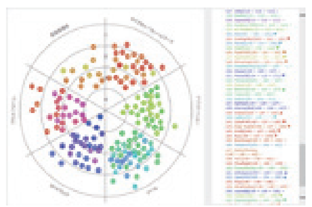
Initiatives for OSS*

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

Workshops for OSS Users

OSS Radar Scope

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

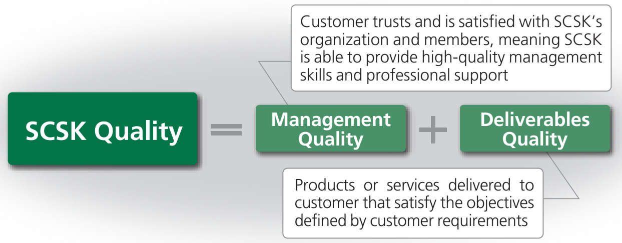


* OSS: Open Source Software

Initiatives for Improving Operational Quality

SCSK's Philosophy on Quality

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



Delivering Greater Operational Quality with SE+

Starting in fiscal 2012, we introduced process standards called "SmartEpisode Plus (SE+)" for project management and system development. This has allowed us to carry out project management that ensures consistent quality. SE+ combines SCSK's long-standing frontline knowledge. It focuses on the quality of systems and services and contains the necessary basics and points for carrying out daily operations.

Visualizing Project Status with "SE+ (Navi)"

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

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

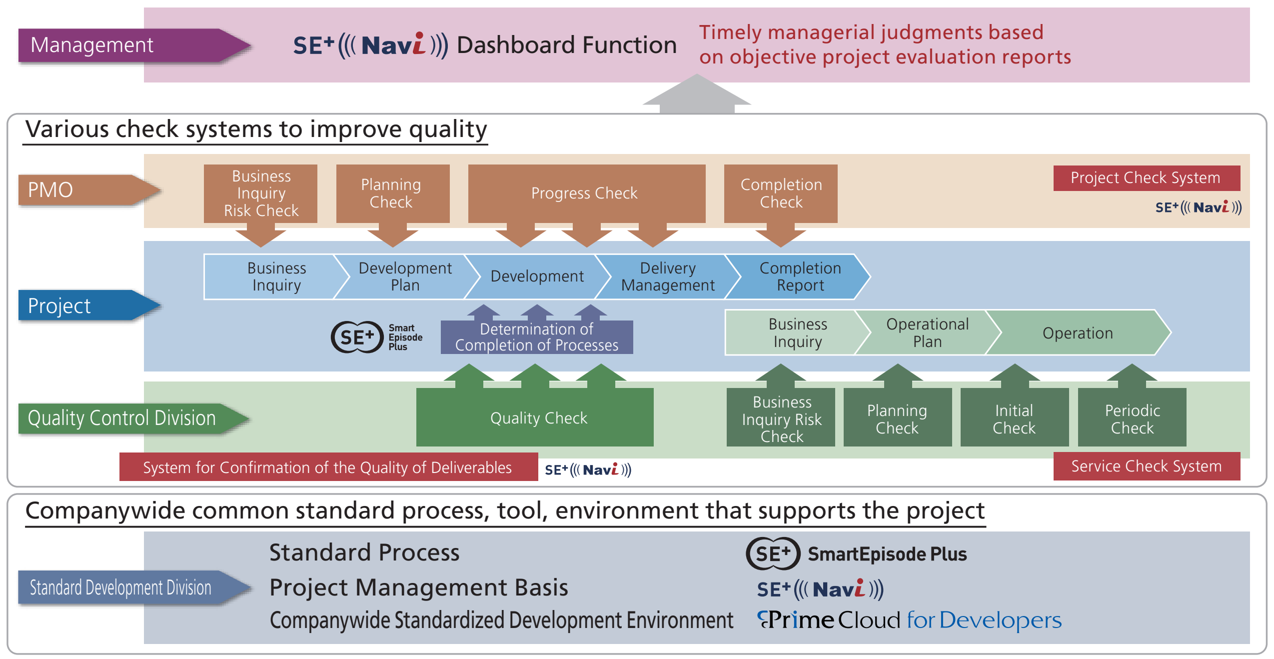
The adoption of SE+ (Navi) provides comprehensive visualization of development processes and project statuses, resulting in further improvements in development quality and productivity.

Framework Supporting Quality on a Companywide Basis

In addition to general quality control processes implemented in projects, we promote companywide quality improvement activities developed from a third-party perspective (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.

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

Framework Supporting Quality on a Companywide Basis



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

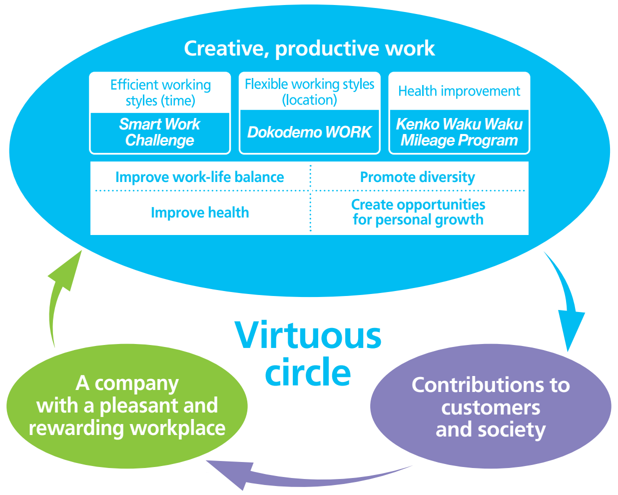
For further details, please see our CSR website.
https://www.scsk.jp/corp_en/csr/diversity/index.html

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 its goal ("20") through more efficient ("smart") labor ("work"). 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, a fixed overtime stipend in which 20 hours' worth of overtime is paid monthly regardless of whether any overtime occurred or not, 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), super flex time (elimination of core time and expansion of flexible hours), and authentication rules where the person authorizing overtime work is changed to a higher ranking supervisor in stages based on the smaller authorized number of overtime 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

	Average Monthly Overtime Hours	Consumed Annual Paid Vacation Days
Fiscal 2008	35 hours	13 days
	Significant reduction	Promote 100% rate
Fiscal 2017	16 hours	19 days

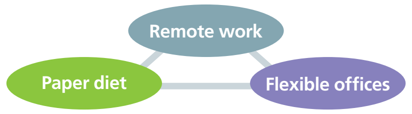
Creating New Working Styles with *Dokodemo WORK*

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*, which allows employees to work from home, a satellite office or other workspaces, a *paper diet*, in which 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 without fixed seating assignments and space set aside for varying working styles, including seating for concentration and booth seating similar to a restaurant.

Since fiscal 2016, we gradually expanded the scope of eligible organizations and rolled out this initiative company-wide in fiscal 2017 after identifying and resolving issues. Management is also repeatedly getting the message out and sharing best practices to establish a climate where it is easier for employees to take advantage of *Dokodemo WORK*. Going forward, we will make further improvements to *Dokodemo WORK*'s mechanisms and environments in an effort to promote the mindset of *focusing on results* and not time or workplace.

Conceptual Diagram for *Dokodemo WORK*

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



Working styles without paper
- Promote and instill the practice of **paperless meetings**
- Reduction in printing (reduce by 50%) and storage (reduce by 50%)

Productive and efficient offices
- **Establish new spaces for various working styles**
- Introduce **flex address** and personal lockers

Health and Productivity Management

SCSK promotes health and productivity management under the belief that employee health represents the key to everything. This belief is also clearly stated in our employment regulations. We believe that we can deliver services that satisfy and impress clients when employees can contribute their individual skill sets to the maximum extent possible through workplace initiatives that benefit employees' mental and physical health and to make work more exciting and rewarding.

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.

Work-Life Balance and Diversity

SCSK is working to expand its lineup of programs and measures with the goal of creating workplaces where employees can contribute their skill sets to the fullest and continue working with peace of mind, while choosing from a variety of working styles in sync with their own individual life stage.

History of SCSK's Diversity Efforts

General	Women's empowerment	Career for employees in their 50s and 60s	Hiring and empowerment of people with disabilities	Achievements
2012 ●Established Diversity Promotion Section **2016** ●Began providing e-learning on diversity	**2013** ●Established target for number of female executives and launched development program ●Launched return-to-work assistance program for employees returning from childcare leave	**2013** ●Launched the re-employment program which extends the retirement age to 65 ●Introduced career planning for employees aged between 50 and 60 **2014** ●Began holding a nursing care seminar required for employees aged 40 or older, general managers and section managers **2018** ●Revised career planning for employees in their 50s and 60s ●Introduced program for full-time employment of seniors (making them permanent empioyees from age 60 to 65)	**1992** ●Established TOKYO GREEN SYSTEMS CORPORATION as special subsidiary company **2007** ●Set up a relaxation room for employees **2011** ●Expanded range of work to agriculture business	**2014** ●Selected as a winner of the Diversity Management Selection 100 **2015** ●Presented with the Japanese government's Advanced Corporation Awards for the Promotion of Women **2017** ●Received the Grand Prize at the Nikkei DUAL's Awards for Companies Conducive to Working Parents and Childcare organized by Nikkei BP ●Awarded the top prize in the large company division of the "Awards for Enterprises and Workplaces with Pleasant Working Environments and High Productivity" sponsored by the Ministry of Health, Labour and Welfare **2018** ●Received the Human Resources Prize at "The NIKKEI Smart Work Awards 2018" organized by Nikkei Inc. ●Granted the "Nadeshiko Brand" and "Brand of Companies Enhancing Corporate Value through Health & Productivity" designations for four consecutive years

Launched the *Smart Work Challenge* in 2013 / Introduced the *Kenko Waku Waku Mileage program* in 2015

Support for Balancing Work and Childcare

We have actively developed systems supporting work-life balance to ensure employees can balance their professional lives with childcare needs. We have introduced various paid leave systems and expanded childcare leave, and now have flexible work programs in place offering work styles that do not depend upon time or place. We have also introduced financial assistance measures to defray costs associated with work-life balance to support employees in returning from paid leave at an early stage.

Support for Balancing Work and Nursing Care

We offer various forms of assistance, including flexible work programs, which make balancing work and nursing care simple and easy, with the goal of never losing an employee due to nursing care needs. Employees can take advantage of flexible work programs, reduced work hours or telework, as well as special leave for such situations, including nursing care leave and balance support leave. In addition, we hold a seminar on basic nursing care knowledge and related programs for all employees aged 40 or older and all general managers and section managers.

Promotion of Women's Empowerment in the Workplace

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

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.
https://www.scsk.jp/corp_en/csr/partner/index.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. Furthermore, we are working to improve operational quality and productivity, while pursuing working style reforms, including reforms at our partner companies who underpin our services, in order to provide a higher level of IT services.

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 taking the lead in pursuing initiatives for addressing social issues in the supply chain 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 with due consideration to social responsibilities
- Build an effective and efficient supply chain fully mindful of sustainability

Communication

- Strive to build mutual understanding and trust through dialogue

Initiative Themes

Operational Quality and Productivity Improvement

- Development and manage standardization (SE*, etc.)
- Collaboration from upper processes
- 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 core partners meet to share information and network.

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

Collaboration with Partner Companies

Improving Quality and Productivity

SCSK is constantly working to improve operational 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 operational 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.

Promotion of Working Style Reforms

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

Within this initiative, we established the Working Style Reform Promotion Conference and hold its regular meetings together with core partners. 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.

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.

TOPICS

Promotion of CSR in the Supply Chain

SCSK recognizes the following with regard to its social responsibilities in the supply chain in order to carry out purchasing activities considerate of CSR. We share this approach with our partner companies and work together on solutions to social issues.

Promotion of CSR in the Supply Chain

1. Consideration of human rights issues
- We will respect human rights and never be complicit in human rights violations.
- We will prevent forced labor, overwork, child labor and work for unfairly low wages.
- We will never discriminate in hiring.
- We will respect employees' right to collective bargaining in order to facilitate smooth dialogue between management and labor.

2. Consideration of labor environment
- We will provide employees with a safe, hygienic and healthy work environment.

3. Consideration of employees' health
- We will strive to improve the health of employees.

4. Initiatives for environmental issues
- We work to use resources and energy effectively and strive to prevent environmental pollution based on our awareness of climate change and other environmental issues.
- We will work to reduce waste and water usage and give due consideration to biodiversity.

5. Initiatives for quality and safety
- We will strive to carry out education and in-house evaluation in order to ensure the quality and safety of products and services.

6. Initiatives for business continuity
- We will strive toward sound corporate management to ensure business continuity.

7. Compliance with laws, regulations and social norms
- We will comply with relevant laws and regulations both domestically and overseas as well as international rules to thoroughly engage in fair transactions as well as prevent all forms of corruption, including coercion and bribery.

8. Initiatives for information security
- We will thoroughly manage information, enhance information security, and reinforce the protection of personal information.

9. Initiatives for communities and society
- We will strive to build positive relationships with local communities through collaboration as a member of the local community.

10. We will disclose information pertaining to the above in a timely and appropriate manner.

We aim to realize an affluent, sustainable society by contributing to the reduction of environmental burden worldwide.

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

Message from Our Corporate Environmental Officer

At present, environmental issues such as climate change and resource depletion are having an impact on companies in various industries; as such, it is an important theme from a business strategy perspective.

Of the prevailing environmental issues, SCSK believes that "climate change" is a particularly important theme that ought to be prioritized. For this reason, we have drawn up an Environmental Action Plan which defines the direction of our environmental activities.

At SCSK, our core business is the provision of IT services. Through the development and implementation of efficient and effective IT systems and data center operation, we play an important role in reducing the environmental burden of society as a whole. At the same time, we are able to contribute significantly to the business continuity of our clients in times of disaster with our durable data centers and BCP solutions. However, we also recognize that one of our core societal missions is to improve society by reducing environmental burden and facilitating adaptations to environmental changes through our business activities. To this end, we intend to collaborate with our clients and partner companies and actively strive to engage in such initiatives.

In addition, SCSK is seeking to steadily promote reductions in its own energy consumption and CO_2 emissions, reduce the amount of water used for air-conditioning and cooling at our data centers, and recycle waste electronic equipment. We have designated these themes that are intimately connected to our business, and we are carrying out initiatives accordingly.

In order to carry out these initiatives in a cross-departmental manner, at SCSK we have established a company-wide environmental management system, and we host environmental preservation meetings at which we report on and share information regarding our environmental activities. Using these management systems, going forward we intend to continue to design and execute our own strategic environmental activities.

Yasuhiko Oka
Senior Executive Officer

Basic Approach to Climate Change Issues

Issues such as disasters caused by climate change, water and food shortages, and depletion of natural resources are becoming more serious. Since the "Paris Agreement" entered into force in November 2016, the world has undergone considerable changes in an effort to realize a carbon-free society.

SCSK believes that efforts to resolve the social issue of climate change not only involve our responsibility to society and risk countermeasures for compliance with laws and regulations, but also create business opportunities. For this reason, we consider climate change to be an important theme to address through our business activities. Toward this end, we are providing various IT solutions for the more efficient operation of data centers and for reducing energy use and greenhouse gas emissions.

We are working to identify themes highly relevant to our businesses and carry out initiatives under these themes. These include recycling waste electronic equipment and reducing water usage for air-conditioning and cooling at data centers, which addresses the issue of water resource depletion, a recent issue of growing concern internationally.

We will continue to contribute through our business activities aimed at the realization of an affluent sustainable society, under our management philosophy "Create our Future of Dreams," while working closely with clients in various industries, education and research institutions, and partner companies.

Environmental Policy and Environmental Action Plan

SCSK promotes environmental activities in conformance with the environmental policies and systems of Sumitomo Corporation and its Group companies.

Based both on our "Corporate Philosophy" and the "environmental policies" of the Sumitomo Corporation Group, we have formed an "Environmental Action Plan" that sets out the direction of "our activities to contribute to solutions to the social issue of climate change through our businesses." SCSK is a company that contributes to society through its business activities, namely the provision of IT services. As such, we aim to "create an affluent society together with our clients."

Environmental Action Plan

1. To collaborate with client companies with the aim of contributing to the realization of carbon-free societies

   Together with our clients, we intend to develop and establish efficient systems and IT infrastructure, etc. that contribute to reductions in greenhouse gases.

2. To contribute to the creation of resilient societies that respond to climate change risks

   We intend to contribute to the establishment of resilient societal infrastructure, by means of data centers that can be used as disaster recovery bases and the utilization of the latest technologies.

3. To realize sustainable corporate activities that take the environment into consideration

   Through the implementation of energy savings and the use of renewable energy sources, we intend to minimize the greenhouse gases emitted as a consequence of our business activities.

Management of Climate Change Issues

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

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

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

Examples of Initiatives to Combat Climate Change Issues

Boosting Energy Efficiency at Data Centers

We are promoting further energy conservation and higher efficiency facilities through careful, high-quality operation of air-conditioning along with capital expenditures for upgrading and improving performance of facilities. The performance of these efforts is monitored using indicators such as PUE value*.

Our durable data centers are set up and operated so as to protect social infrastructure from natural disasters, given the increased incidence of major typhoons and tornadoes that is expected to occur due to climate change.

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

Energy Conservation Activities at Offices

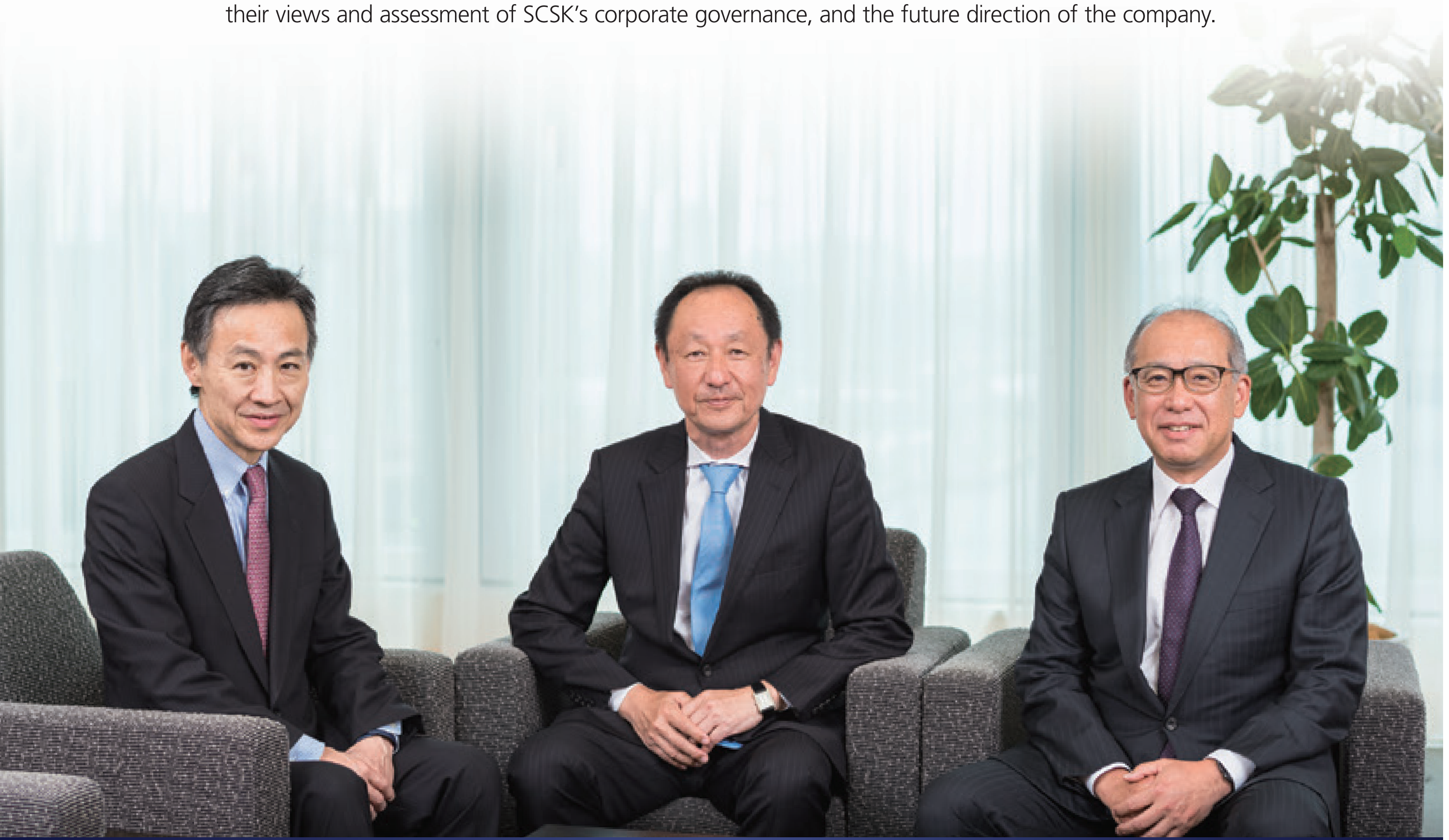
In fiscal 2013, SCSK was among the first in the industry to establish a working style reform program called the *Smart Work Challenge*. We are now working to increase operational efficiency and reduce overtime work as well as promote energy conservation at offices and to lower our environmental burden. For example, in fiscal 2015, we began promoting working styles considerate of an environment that does not require the movement of employees, including teleworking and remote meetings.

We continue to carry out power saving activities in our offices every day and have introduced a casual business attire, as well as "Cool Biz" in the summer and "Warm Biz" in the winter.

netXDC Chiba Center 2

Outside Directors Round-Table Discussion

One year has passed since three experts having a variety of specializations were appointed as Outside Directors of SCSK. These three individuals were invited to sit down together to discuss the past year, their views and assessment of SCSK's corporate governance, and the future direction of the company.



Kimitoshi Yabuki
Outside Director
Audit and Supervisory Committee Member

×

Kiyoto Matsuda
Outside Director
Chairman of the Board

×

Masaichi Nakamura
Outside Director
Audit and Supervisory Committee Member

Theme 1 Role and Mission of Outside Directors

What are your thoughts about the role of an outside director and what viewpoints do you value as outside director?

Yabuki I'm aware of two roles that an outside director plays. As described in the Corporate Governance Code, the first role involves discussing and advising executive officers whether the operations laid out in the company's Medium-Term Management Plan are being carried out according to the plan, and whether the plan should be reviewed based on the progress. The second role is supervising, on behalf of shareholders, whether operations are being executed appropriately and in compliance with laws.

Nakamura I agree that advising and supervision are two important roles of an outside director. In my case, I believe the company expects me to provide advice based on my experience and expertise as a certified public accountant. This is my responsibility.

In terms of supervision, I've experienced a number of accounting audits for major corporations, so I have looked at examples for how to create organizations so that the company will grow soundly or avoid fraud, or how to respond to fraud if it actually occurs. I hope to fulfill my responsibility of supervision, taking into account my experiences.

Matsuda I have experience as an outside director, but this was my first time serving as the Chairman of the Board. Honestly, the past year was one of trial and error, so I feel like I can play an even greater role this year.

However, the one point I keep in mind, both in my role as meeting chair and as outside director, is that I am a proxy for stakeholders outside of the company, particularly shareholders. I make it a point to not make an effort to understand what I don't understand objectively and to avoid reading too much into the situation. I strive to manage the proceedings while clarifying anything that is unclear or the pros and cons with regard to individual agenda items. This ensures that I fulfill my role of oversight and my accountability to stakeholders outside the company.

Looking back on the past year as outside director, how do you evaluate SCSK's corporate governance?

Matsuda Overall, I feel that SCSK is extremely aware of corporate governance. All executive directors have a strong commitment to strengthen governance in earnest.

Following Japan's adoption of the Corporate Governance Code in 2015, companies have tended to take a superficial approach to compliance, but I feel SCSK and its executive directors have demonstrated their commitment to fundamentally tackle all aspects of governance, including the difficult parts.

As an example, SCSK is currently a company with an Audit and Supervisory Committee and not a company with a committee governance structure, and it has separately established a Governance Comittee. This committee is chaired by Mr. Yabuki and comprises mainly outside directors as members. It deliberates on material matters and reports back to the Board. The committee is operated with a high degree of objectivity. SCSK's commitment to governance can also be seen in its appointment of an outside director as Chairman of the Board.

Yabuki Over the past year, I feel that SCSK uses an extremely large amount of information. One important aspect of Board meetings is for the right information to be conveyed to us, outside directors so that we can state our insight and views based on this information. In this sense, SCSK carries out various forms of preliminary explanations, to which sufficient time is dedicated. In addition, there are also informal gatherings such as networking sessions held several times a year, ensuring ample opportunity for outside directors to meet executive officers and exchange views with them.

I'm also a member of the Audit and Supervisory Committee, so I ask full-time committee members about information, too. As a result, I feel I'm able to audit and supervise based on a sufficient volume of information.

Theme 2 Invigorating Deliberations

How do you feel about the operation of Board meetings? Are discussions carried out actively?

Matsuda I feel like deliberations are changing for the better with every Board meeting. Enough time is now dedicated to discussions on medium-term management strategy, which is one of the primary roles of the Board of Directors per the Corporate Governance Code. At the same time, thorough discussions also take place on resolutions as required of publicly traded companies by the Companies Act.

One aspect that has improved is preliminary explanations, as mentioned a little earlier by Mr. Yabuki. Careful and thorough explanations are given in advance, which helps resolve simple questions, so Board meetings can better focus on the points in question. Consequently, members of the Board can now engage in deliberations with complete focus.

Yabuki To enrich Board meetings, I feel it is very important to determine how to convey information and what that is. All information contains good information as well as information on problems and issues. It is important to share both extensively.

SCSK provides outside directors with the right amount of information we need to comprehend matters. Because of this, I feel that the staff that takes care of preparations for us are doing a proper job and the company has a strong secretariat structure supporting the Board.

Matsuda Discussions during Board meetings are quite active. At meetings, everyone contributes and meetings never end without objections. Everyone takes part in active discussions on material proposals, while deliberations will be continued when a clear conclusion is not reached at a Board meeting.

Of course, there is always room for improvement. This includes my role of meeting chair. Taking into account the progress in the right direction, I can say without a doubt that the roles and functions of the Board are growing stronger.

Nakamura As for the word, progress, used by Mr. Matsuda, I feel keenly aware through my participation in Board meetings over the previous year that the Board is improving gradually.

Since transitioning to a company with an Audit and Supervisory Committee, matters concerning the execution of business are now discussed by executive directors, while medium- to long-term matters are discussed by the Board. So that outside directors get involved in discussions as appropriate, the status of each business division is now reported at Board meetings. I also feel that the selection of agenda items is appropriate.

Theme 3 Monitoring of the Medium-Term Management Plan

Three years have passed since SCSK's Medium-Term Management Plan launched in 2015. What did you feel over the past year through you monitoring efforts?

Nakamura Monitoring represents one of the important roles of the Board. The most important element of monitoring is the Medium-Term Management Plan.

Yabuki I agree. As I mentioned earlier, stating our views on the company's medium- to long-term management policies is one of our important duties as outside directors.

The core element of these policies is formed by the Medium-Term Management Plan.

Matsuda The current Medium-Term Management Plan has passed the mid-way point and is now entering the third corner. However, comparing the time when the plan was formulated to today indicates that all industries, not just the IT industry, are experiencing rapid changes. Amidst this, it's only natural that the business climate of SCSK is also undergoing major changes. I feel like we are at a major cross-road as to in what direction we will head.

This is because I feel there are elements of doubt and worry as to whether we are a little off course at the moment, even if the underlying direction is correct. This is based on an examination of the company's detailed targets and measures.

The Fourth Industrial Revolution brought about by IoT, AI and other technological innovations is fundamentally changing Japan's industrial structure. "Digitalization" has become a buzz word as of late. SCSK should be an extremely important player in digitalization and I think the company has the potential to fulfill such a role. Given this vantage point, I believe that we as outside directors need to once again discuss how each of the themes may have changed today.

Yabuki A plan does not end once it's created. We meet every month to discuss matters based on the plan, including how to make it run more smoothly, if need be, and how to make improvements. As Mr. Matsuda mentioned, if we are really going to review the Medium-Term Management Plan, we must sit down and consider how to review it.

The Medium-Term Management Plan was established to convey to investors how SCSK will grow and work toward realizing its dreams and targets. However, sometimes things don't always go according to plan. The worst case scenario, if things do go wrong, would be to ignore reality and waste the entire time failing to reach the targets and not reflecting upon what went wrong.

If we are unable to achieve a target, it means that somewhere we failed to reach for it. The reason for this must be explained properly to shareholders after reviewing what happened. Only after repeating this process annually do we arrive at a Medium-Term Management Plan that can be used as a guideline. Even if we don't reach a target, there is meaning as long as we explain why. By doing so, we can form a basis for the next Medium-Term Management Plan and have information for presenting the company's future vision to shareholders.

Matsuda Looking ahead, formulating the next Medium-Term Management Plan will be a very important step for SCSK. As I said earlier, today all industries are experiencing rapid changes, not just the IT industry. Therefore, I feel that we need to have a sense of urgency in our duties, since we stand at a cross-road in terms of our future growth and the future continuity of the company.

Although we are not experts in IT, we are committed to taking full advantage of our experiences and expertise to ensure SCSK is heading in the right direction.

Nakamura The Medium-Term Management Plan is an element of monitoring, but it's also a tool for showing both internally and externally the company's view about the future direction. By creating a new Medium-Term Management Plan involving not only executive officers, but also the entire company including frontline workers, this process should be beneficial in developing the next generation of management. In this sense, it is an extremely important element for the company.

Theme 4 Future Issues and Targets

Lastly, what are your ambitions in your second terms as outside directors?

Yabuki I feel like the past year ended just as I became familiar with the company. In my second year, I hope to create more opportunities to meet not only with executive officers, but also frontline workers so that I can get a real sense of the company and fulfill my role as an outside director.

Specifically, I would like to hold discussions with younger frontline workers to understand their thoughts and feelings.

Nakamura Similar to Mr. Yabuki, I feel like I spent the past year getting to know the company. Because of the detailed explanations of secretariat staff, I might think I have understood all aspects of the company. But I feel like I need to interact directly with frontline workers so that I can provide advice and supervision with a better understanding of SCSK's culture.

Matsuda I would like to strive to continually improve the operation of the Board of Directors. I regret that over the past year we were unable to hold discussions on the succession plan and composition of the Board, as required by the Corporate Governance Code. Looking forward, I hope to more actively discuss these issues.

Also, we would like to provide some form of input to the company as outside directors. We should share various information including examples from other industries and world economic trends to encourage members of the Board to think about other issues not directly related to agenda items. For example, "what do you think about the things happening in the United States now?"

Of course, this is something that I will need help with. Although such an initiative may inconvenience outside directors, executive directors and secretariat staff, I hope these stakeholders will join me in further enriching the Board of Directors.

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.

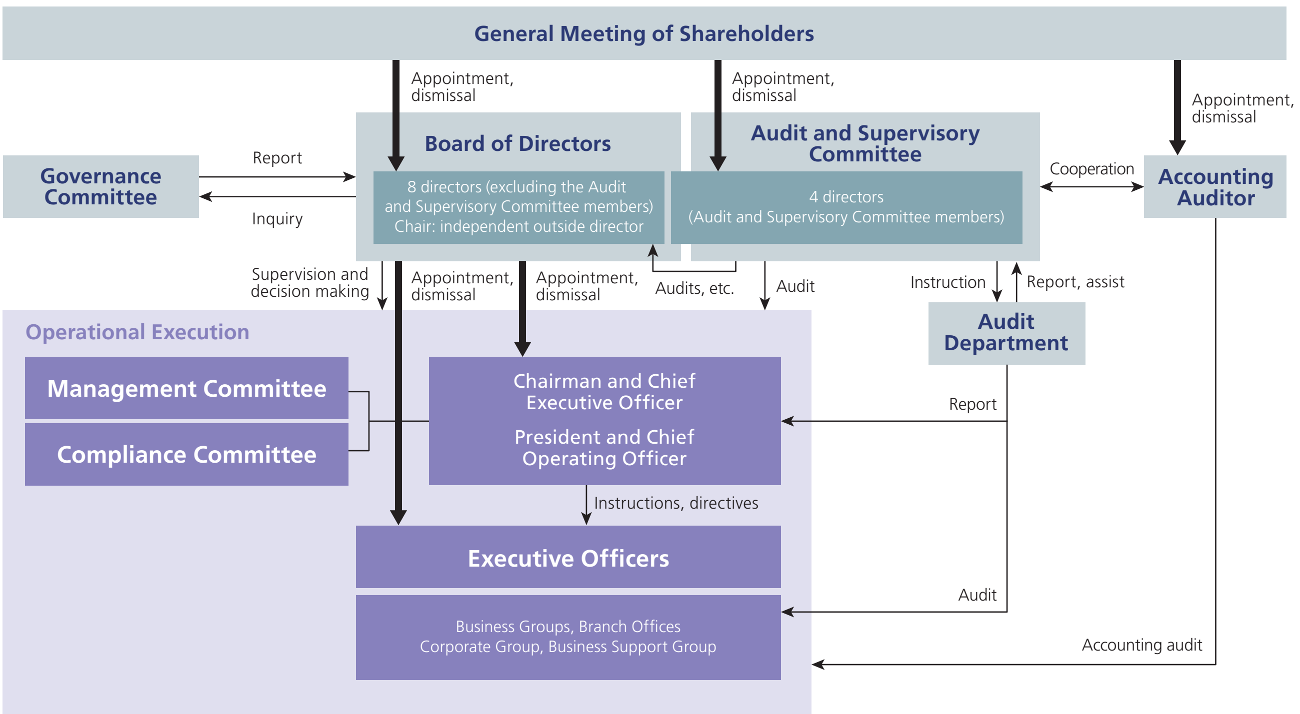
From this perspective, the Group considers raising the efficiency and soundness of management as well as ensuring transparency in the decision making process as the most basic components of its corporate governance. Rating these matters high among management priorities, we aim to build an optimal management structure that benefits SCSK.

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

Strengthening of Corporate Governance

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

Corporate Governance Structure



Board of Directors

As of June 26, 2018, the company's Board of Directors comprises 12 members, including four independent outside 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, etc.) for the minimum liability amount stipulated in Article 425-1 of the Companies Act, pursuant to Article 427-1 of the Companies Act and Article 29-2 of the Articles of Incorporation.

Executive Officers

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

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

Management Committee

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

Audit and Supervisory Committee

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

Governance Committee

We have also established the Governance Committee, 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 that 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 that the Board of Directors or other meeting bodies inquire about as necessary for ensuring the fairness of their decision making.

Audit Department

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

Appointment and Election of Directors

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

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

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

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

Stimulating Deliberations of the Board of Directors

The secretariat of the Board of Directors led mainly by the Legal Department strives to enhance documents for the Board of Directors and to ensure discussions during meetings of the Board of Directors are active and substantial by conducting prior explanations for part-time directors.

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

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 business career qualify him to maintain and improve the supervision of the execution of operations of the company.
Kimitoshi Yabuki	Audit and Supervisory Committee Member Independent Director	Kimitoshi Yabuki has specialized knowledge and experience as an attorney. He has been elected as an outside director and member of the Audit and Supervisory Committee because we believe the experience and knowledge accumulated through his career qualify him to audit the execution of duties by directors 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.
Kazuko Shiraishi	Audit and Supervisory Committee Member Independent Director	Kazuko Shiraishi has been elected as outside director and member of the Audit and Supervisory Committee because she is qualified for carrying out audits of directors' execution of duties objectively based on her professional experience and knowledge and her breadth of experience and broad insight concerning international situation.

Evaluating the Effectiveness of the Board of Directors in Fiscal 2017

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

This self-evaluation and analysis was carried out by asking all directors to complete a questionnaire in February 2018 that was prepared with the help of an outside organization.

Anonymity was assured by having directors reply directly to the outside organization. Based on the tabulation results from the outside organization, analysis, discussion and evaluation was carried out at the regular meeting of the Board of Directors held in May 2018.

Generally, responses were positive with regard to the supervision of remuneration structure and remuneration system, establishment and supervision of the internal control and risk management systems, as well as overall operations including provision of documents to the Board of Directors in advance and prior explanations. As a result, we believe that the effectiveness of the Board of Directors as a whole is secured.

Meanwhile, views were provided about the succession plan, training for directors and discussions among outside directors, highlighting issues such as further improvements to the functions of the Board of Directors and stimulating discussions.

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

Remuneration for Directors

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

The policies, procedures, and calculation methods, and individual amounts of remuneration of directors (excluding those directors that serve as members of the Audit and Supervisory Committee) are decided by the Board of Directors taking into account the results of examinations by the Governance Committee, which mainly consists of independent outside directors, and views of the Audit and Supervisory Committee. 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 in Fiscal 2017

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)			Number of eligible directors (persons)
		Basic remuneration	Bonus	Other	
Directors (excluding those directors that serve as Audit and Supervisory Committee members)	424	329	69	25	19
(of whom, outside directors)	(10)	(10)	(–)	(–)	(2)
Directors that serve as Audit and Supervisory Committee members	87	84	–	1	7
(of whom, outside directors)	(71)	(68)	(–)	(1)	(6)

Enhancing Information Disclosures and Communication

Basic Policy

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

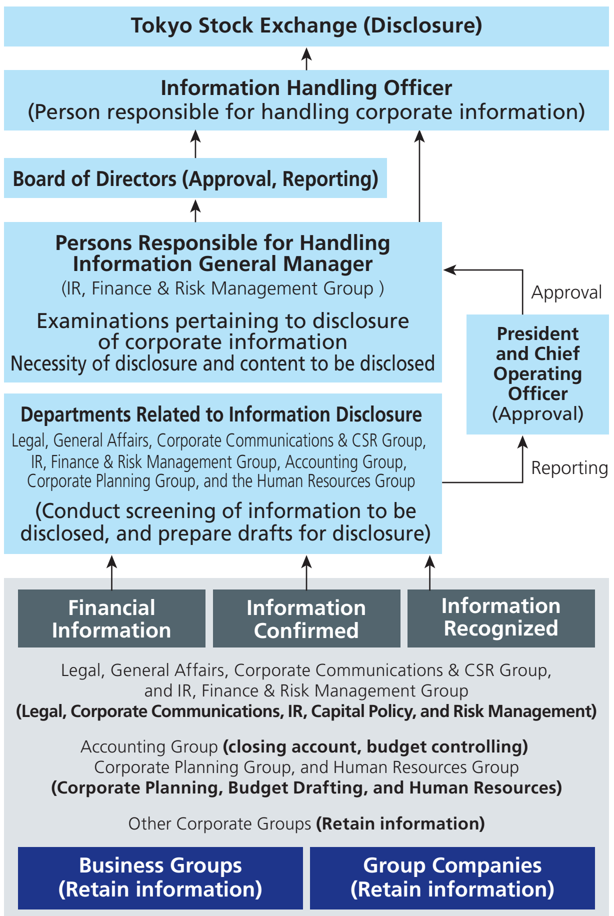
1: The Legal, General Affairs, Corporate Communications & CSR Group; the IR, Finance & Risk Management Group; the Accounting Group; the Corporate Planning Group; and the Human Resources Group carry out the effective collection of information that is subject to disclosure, screen what is to be disclosed,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

Communication with Shareholders and Other Investors

SCSK actively holds constructive communication with shareholders and other investors according to a scope and means acceptable in order to contribute to sustainable growth and the enhancement of medium- to long-term corporate value. We have 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 mainly 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 with investors. Opinions received through communication with shareholders and other investors inside and outside Japan are shared with management in an appropriate and timely manner for use in the company's business planning.

Structure for Timely Disclosure



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

Compliance

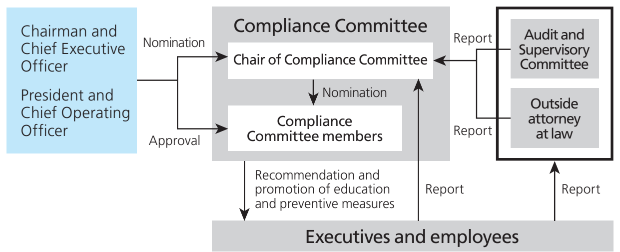
Basic Approach

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 considers acting sincerely and appropriately as members of society and the company as the most important principle for director and employee conduct. Each individual director and employee is responsible for his/her own actions based on the concept of compliance, and strives to produce results that fulfill the social responsibility of the entire company as an organization.

Structure and System

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

System to Promote Compliance



Whistleblower System

We have established a whistleblower system for quickly resolving compliance violations and preventing such violations from occurring. This system enables employees of Group companies or partner companies that notice a problem to report it directly to the Compliance Committee, Audit and Supervisory Committee, or a designated attorney at law. The privacy of persons filing a report and related parties is protected along with the confidentiality of reported matters. Guarantees are in place to ensure persons who report a problem are not subjected to unfair treatment. Reports are handled appropriately and whistleblowers are informed of all actions taken.

Education and Training

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

Fair Transactions

Basic Approach

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

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

Risk Management

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.

Board of Directors

Masao Tabuchi
Representative Director

Chairman and Chief Executive Officer, SCSK

Tooru Tanihara
Representative Director

President and Chief Operating Officer, SCSK

Daisuke Mikogami
Representative Director

Executive Vice President

General Manager, Corporate Planning and AI Strategies

Officer in Charge, Information Systems, SCSK

Managing Executive Officer, Sumitomo Corporation

Tetsuya Fukunaga
Director

Senior Managing Executive Officer

General Manager, IR, Finance & Risk Management

General Manager, IR, Finance & Risk Management Group, SCSK

Outside Director, Argo Graphics Inc.

Koji Tamefusa
Director

Senior Managing Executive Officer
Chief Health Officer

General Manager, Legal, General Affairs, Corporate Communications & CSR

Officer in Charge, Human Resources, SCSK

Executive Officer, Sumitomo Corporation

Toshikazu Nambu
Director

Senior Managing Executive Officer, General Manager, Media & ICT Business Unit, Sumitomo Corporation

Akira Tsuyuguchi
Director

President & CEO, Sumitomo Mitsui Auto Service Company, Limited

Kiyoto Matsuda
Outside Director

Independent Director

Chairman of the Board

Chairman of the Board, TOPAZ CAPITAL, INC.

Outside Director, Sanyo Shokai Ltd.

Outside Director, Hotto Link Inc.

Yasunori Anzai
Director
(Audit and Supervisory Committee Member)

Assistant to General Manager, Planning & Coordination Dept., Media & ICT Business Unit, Sumitomo Corporation

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.

Kazuko Shiraishi
Outside Director
(Audit and Supervisory Committee Member)

Independent Director

Special Envoy for EXPO 2025 OSAKA, KANSAI, JAPAN

Conciliation Commissioner, Tokyo Family Court

Executive Officer

Chairman and Chief Executive Officer
Masao Tabuchi

President and Chief Operating Officer
Tooru Tanihara

Executive Vice President
Masahiko Suzuki
Masanori Furunuma
Daisuke Mikogami

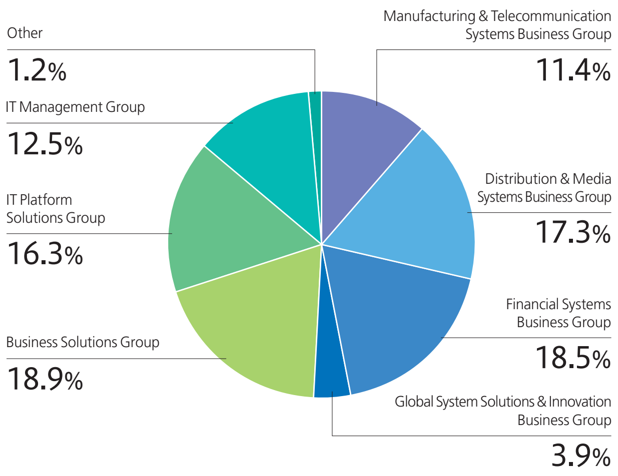
Senior Managing Executive Officer
Shozo Hirose
Tatsuyasu Kumazaki
Tetsuya Fukunaga
Masatoshi Endo
Koji Tamefusa

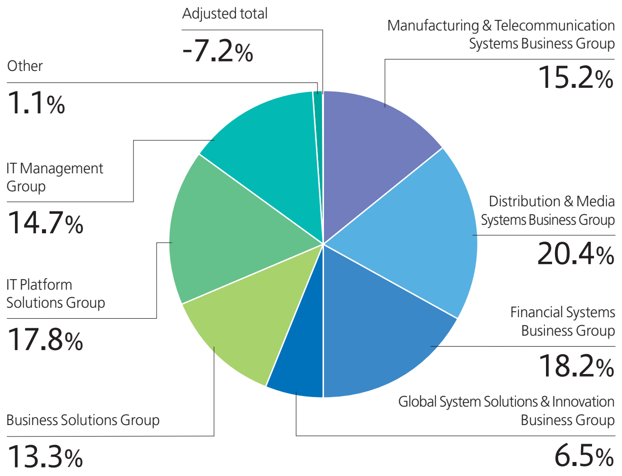
Managing Executive Officer
Toshiaki Kudo
Tetsuya Ueda
Hideki Tazai
Makoto Nakamura
Atsushi Watanabe
Kei Kato
Takashi Shinjo
Yasushi Shimizu
Takaaki Touma

Senior Executive Officer
Yoshinori Imai
Yoshimi Jouo
Noboru Itoh
Shigehiro Seki
Hisanao Takei
Koichi Naito
Yoshinori Kawashima
Akihiko Harima
Shoichi Kondo
Takayuki Okuhara
Yuji Ueno
Tadashi Miyagawa
Takaya Yamamoto
Koji Watanabe
Toshihiko Mitsuishi
Takashi Mizuno
Yukihiko Saito
Yasuhiko Oka
Mineo Yokoyama
Hiroyuki Komiya

Executive Officer
Kan Takahashi
Naoki Ike
Eri Kawanabe
Akira Yamano
Toshiya Uchida
Kazuhiko Abe
Hiroyuki Miyagawa
Jiyunichi Horie
Kenji Toda
Ken Takano
Hideyuki Miyashita
Masahiro Otani
Tomishige Tamura
Masaaki Mori
Takaaki Ishida
Shoji Shiuchi

At a Glance





Business Structure

Sales Coordination Group

Building the Best Partnerships with SCSK's Collective Strengths Based on the Voices of Customers

Masanori Furunuma
Executive Vice President
General Manager, Sales Coordination Group

Market Climate

IT (AI and other leading technologies) is now becoming a critical component of a company's management strategy, driven by the wave of digital transformation generated by the evolution of IT. Many companies across all industries are looking to transform their business model using IT in order to further increase corporate value and competitiveness. Greater expectations than ever before are being placed on IT firms, with particular emphasis given to their role in developing more diverse and sophisticated customer interactions as well as work style reforms.

Business Overview

SCSK established the Sales Coordination Group in fiscal 2018 as an independent sales organization in order to better grasp customer needs and provide optimal services swiftly when needed. Our group is structured in a way to create new added value by consolidating a number of functions. We are responsible for account sales to propose solutions for increasing client profitability and optimizing costs as well as marketing solutions for deploying strategic solutions in markets. Moreover, we are in charge of the development of new businesses in tune with changes in market climate.

There are three main pillars of the Sales Coordination Group's business policy.

- Correctly understand the issues of each individual client and work to find solutions to these issues utilizing the resources of the SCSK Group to the fullest.
- Deploy optimal solutions for important challenges shared by clients in the same industry, or for the same operation, to markets in user-friendly formats.
- Develop new services in tune with changes in market climate that help to increase clients' corporate value and competitiveness.

Based on the above three pillars of our business policy, the Sales Coordination Group will utilize the resources of the SCSK Group to the fullest in addressing all the needs of clients to speed up the process by which SCSK delivers optimal total solutions.

Fiscal 2018 Initiatives

The Sales Coordination Group, always "listening sincerely to the voices of customers" first, will work to understand clients' management challenges and needs correctly and swiftly as it harnesses SCSK's collective strengths to build optimal partnership with clients.

We have established the following three main measures to accomplish this vision.

(1) We will carry out account planning activities in a more powerful manner. We will engage in in-depth discussions with management thoroughly and individually based on the situation and relationship of each client. This will allow us to understand the medium- to long-term issues of clients in a correct and holistic manner as well as continually establish policies for helping clients grow their business. We will share these activities with the rest of the company so that the entire SCSK Group is involved in our solutions.

(2) We will combine organically the resources and strengths (solutions including AI) of the SCSK Group into services to address important themes such as developing "more diverse and sophisticated customer interactions" as well as "working style reforms." In turn, these services will pave the way for solving clients' challenges.

(3) As for incubation of new services, we will aim to generate new business value for clients by collaborating and co-creating with partner companies such as Sumitomo Corporation, based on SCSK's long-standing and advanced technical prowess.

Manufacturing & Telecommunication Systems Business Group

Helping Clients Gain Competitiveness in the Manufacturing, Telecommunications and Energy Industries

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

Market Climate

Manufacturing industries continue to invest large sums in IT services. In 2018 and beyond, manufacturing industries are expected to grow faster than the market average, driven by the global integration of core systems, greater use of the cloud, and IoT.

Japan's telecommunications industry is expected to see demand for 5G mobile telecommunications, infrastructure development for cloud services, and customer-oriented service domains for cultivating new customers and retaining existing customers, given the growing difficulty of differentiation among three mobile operators.

Business Overview

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

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

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

Our group excels at delivering high quality services based on our wealth of operating knowledge and advanced technical prowess developed over time through our close-knit client relationships.

Fiscal 2018 Initiatives

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

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

In terms of services, we will capitalize on our group's experience and knowledge along with the SCSK Group's collective strengths to heighten our presence within clients as a "service integrator" capable of a truly wide range of operations, not just providing IT.

As for quality, we will communicate more closely with clients than before and ensure that everyone at our group is committed in their daily work to achieving a standard of service quality that exceeds client expectations.

Distribution & Media Systems Business Group

With Operational Quality, a Top Priority, Each of Us is Working to Enhance Clients' Corporate Value

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

Market Climate

The distribution industry is seeing more diversity in consumer behavior from the popularization of the Internet and smartphones. Given intense market competition, more sophisticated customer interaction and enhanced customer satisfaction achieved with omni-channel and digital marketing have become important issues for companies in terms of providing optimal services to their customers. In addition, improving operational efficiencies with automation or unmanned systems is an urgent task because of growing labor shortages at retail stores and other outlets.

In the media industry, new services such as Internet video distribution services have begun, eliminating the barrier between telecommunications and broadcasting. As a result, providing diverse services to customers will pose a challenge for the future.

Business Overview

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

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

In the real estate industry, we offer real estate sale business support solutions as well as customer management solutions which tie together customer data.

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

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

Fiscal 2018 Initiatives

We will further solidify the services we provide to clients by capitalizing on the strengths of our broad mix of solutions for the distribution and media industries.

We will offer total support, from "omni-channel functions" to "marketing analysis and implementation," "data management platforms," "core domains" and "business process outsourcing," by providing "Next Trend" for establishing and achieving omni-channel success in the distribution industry. For the real estate and consumer goods industries, we will deliver CRM solutions and help clients to advance customer interactions.

For the media industry, we will provide the technologies needed for industry-wide reforms.

Additionally, as a new business venture, our group will contribute to alleviating issues such as labor shortages at stores, including those of the retail industry, through the automation of cash registers using AI.

Financial Systems Business Group

Creating New Services in Sync with Major Changes in the Financial Industry

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

Market Climate

The domestic financial industry is curbing conventional IT investment owing to the impacts of negative interest rates, labor shortages from Japan's declining population, and "working style reforms," but at the same time the industry is speeding up efforts for operational efficiencies and improving productivity with IT, in addition to investments in customer contact points to boost earnings. From changes in management environment, including the entry of companies from other industries using Fintech, financial companies are in the process of shifting to new business models and efforts have begun at corporate restructuring to promote a digital transformation through IT.

Business Overview

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

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

With clients seeking to apply their management resources to their strategic management challenges, we are utilizing our long-standing experience in these business fields and project management skills to promote operation-based outsourcing for the more effective and efficient development, operation and maintenance of existing systems. As financial industry companies are expanding business activities overseas, especially in ASEAN, in search of growth potential, we are preparing to take up the role of local system integrator. Our group is also working to create new business models by creating, with clients, new services that harness information technologies such as Fintech, AI, blockchain, and Robotic Process Automation (RPA).

Fiscal 2018 Initiatives

The Financial Systems Business Group is seeking to expand "service-oriented businesses," given the gradual shift in ICT service format for the financial industry from ownership to pay-per-use.

While focusing on our conventional services ranging from systems development, maintenance and operation to call centers and BPO, our group will harness its long-standing financial industry knowledge and intellectual properties to establish service-oriented businesses and reform profit models. At the same time, we will help financial institutions to increase competitiveness by creating new business models using Fintech and other elemental technologies.

With the global expansion of Japanese financial institutions, we will speed up our efforts to establish a global service support system that can deliver solutions from development to operation of core systems and various financial service systems for corporate clients.

Global System Solutions & Innovation Business Group

Creating IT Services that Help Transform Business Models Based on Global Trends

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

Market Climate

Global IT trends have changed remarkably in recent years, as needs for systems are shifting from operational efficiencies to business creation centered on systems. The stage is now shifting from a defensive to proactive posture and from core systems to digital transformation. Globally, the hub of cutting edge technology has expanded from the west coast of the United States to Shenzhen, China and other locations, while East Asia is now in the spotlight after transforming from a labor-intensive region to a consumer power.

Business Overview

The Global System Solutions & Innovation Business Group has six overseas business sites spread across the four poles of SCSK USA (New York), SCSK EU (London), SCSK Shanghai, and SCSK AP (Singapore). Our group's coverage extends to 200 sites in 38 countries across North America, Latin America, EMEA, China, Southeast Asia, and Oceania, providing services as a platform underpinning SCSK's global strategy. We supply Japanese companies with core systems and infrastructure that support their global business operations. In Japan, under our long-standing partnership with Sumitomo Corporation, we provide IT services via full one-stop outsourcing, including the development, operation and maintenance of large-scale systems, as well as group management systems supporting the group's global management.

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

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

Fiscal 2018 Initiatives

Starting this fiscal year, we have launched activities under a new partnership with Sumitomo Corporation aimed at building new business models driven by digital transformation. Through proof of concept (POC) projects in various sectors and operational fields, these activities seek to create real new businesses together with clients. We will leverage SCSK's company-wide knowledge, intellectual properties and networks in this endeavor. Our vision is to "cause innovation with inventiveness and the power of IT, while creating an exciting picture of the future."

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

Business Solutions Group

Continually Contributing to the Evolution of Clients' Businesses Using an Array of Solutions, from Introduction and Maintenance of Core Operating Systems to BPO

Masahiko Suzuki
Executive Vice President
General Manager, Business Solutions Group

Market Climate

IT for system maintenance and streamlining operations continues to see standardization and lower costs, while IT for pushing a business forward, including business model transformation, product development and customer acquisition, now requires differentiation and greater speed in execution. Clients require partners who can balance this shift from "defensive IT investment" to "proactive IT investment," and evolve their business.

Business Overview

The Business Solutions Group delivers both "integrated IT services, spanning from system development to operation," and a "broad range of BPO services, from contact centers to operational outsourcing." We are one of the largest divisions in Japan to offer resources combining both IT and BPO. We will develop unique products and services in individual domains.

In particular, the Business Solutions Group offers a wide range of original SCSK solutions that contribute to clients' businesses in a variety of sectors and business formats with a comprehensive lineup of original IT products and BPO solutions.

- ERP : SCSK's "ProActive" as well as SAP, Oracle, SuperStream, etc.
- CRM : "PrimeTiaas," a multichannel platform used as a solution for contact centers, "Desse," an AI-powered chatbot, "VOiC Finder," a natural language text analysis tool, and Salesforce
- MDM : "Informatica," a solution that seamlessly integrates data in various systems regardless of format
- IT outsourcing services : "Application Management Outsourcing (AMO) services" that deliver optimal services throughout the system lifecycle, including ERP, CRM, and MDM, etc.
- Ultra high-speed development : An ultra high-speed system development and implementation platform called "FastAPP" for quickening development, making operations simpler and improving flexibility
- Automotive systems : "QINeS" for services including domestic Basic Software (BSW) compliant with AUTOSAR for automotive ECU development (see page 29)

- BPO Services (SCSK ServiceWare)
  - Contact centers for marketing and technical support
  - Outsourcing from front office to back office operations
  - PrimeDesk, a help desk for in-house system operation

Fiscal 2018 Initiatives

The ERP field involving core operating systems is expected to see robust market growth centered on the shift to SaaS and addition of functions such as high-speed processing and AI.

As for the BPO field, automation of customer support is growing, driven by multichannel solutions and voice recognition technologies, which will expand service domains. There is expected to be demand for administrative outsourcing as part of operational reforms associated with the introduction of RPA to address growing labor shortages.

In addition to our current efforts, we are working in particular to further improve the functions of our original products and services and to provide a broader range of solutions that contribute to client businesses.

- Develop a next-generation cloud-based ERP service "Next ProActive"
- "Add-Value Series" for expanding original templates compatible with SAP S/4HANA
- Release of "ConTrack," a solution for system development document traceability management tools
- Release of a platform for autonomous and dispersed networks "SkeedOZ," a network solution using dispersed computing technologies and network control technologies

- BPO services (promoting the combination of IT and BPO)
  - Promoting global compatibility of contact centers
    Multilingual chatbot service powered by Desse and VOiC Finder, etc.
  - Advancing business process outsourcing
    Automation and streamlining of operations using RPA

IT Platform Solutions Group

Providing IT Platforms that Resolve Issues from the Clients' Perspective

Takashi Shinjo
Managing Executive Officer
General Manager, IT Platform Solutions Group

Market Climate

The IT Platform Solutions Group mainly does business in four markets. In the "servers/storage" market, the largest of these markets, the increasing use of the cloud makes it difficult to forecast how the market will be affected. Meanwhile, in the "security/network" market, information security has become a major challenge of all companies regardless of industry, and investment in this area is expected to continue in the future. The "middleware" market is expected to see further expanding underpinned by the promotion of digital transformations. The "manufacturing" market, too, is expected to see growth, given robust investments by clients mainly in major manufacturing industries, such as automakers.

Business Overview

The IT Platform Solutions Group offers product sales, development and support in the six main product lines of "network equipment," "security," "servers/storage," "middleware," "CAD/VR," and "analysis solutions." These product lines offer a cutting-edge and unique lineup carefully selected through SCSK's overseas subsidiaries and the Sumitomo Corporation Group's global network. We will coordinate and tailor this extensive lineup and our group's engineering skills and know-how to client challenges to pave the way for real solutions, improving client satisfaction and expanding the business of the entire group.

In addition, this fiscal year we launched "SCSK IT Platform Navigator," a proprietary website introducing innovative information on IT platforms and examples of strategic introduction. This website shares customer-centered, practical problem-solving solutions with an eye on IT platforms.

Fiscal 2018 Initiatives

In the IT infrastructure market, we will focus efforts on the middleware market to promote digital transformations, including "improving operational processes" and "automation." Also, we will continue efforts in security equipment for addressing growing security risks, network equipment that supports "working style reforms" with IT infrastructure, and support service platforms.

In the field of manufacturing, we will provide cutting-edge technology products and high-grade technology services, such as Product Lifecycle Management (PLM) and High-Performance Computing (HPC) powered by digital engineering technologies, in addition to our conventional focus on analysis solutions, CAD and VR.

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

IT Management Group

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

Tetsuya Ueda
Managing Executive Officer
General Manager, IT Management Group

Market Climate

In the climate surrounding SCSK, client IT infrastructure is transitioning to the cloud and technologies are becoming commoditized. As a result, the conventional develop-and-operate business alone will make differentiation difficult.

At the same time, strong demand is expected in the future for the utilization of new technologies, such as AI, IoT, and Fintech, as a key to corporate management. This requires more advanced IT technologies and sophisticated operational management capabilities in IT infrastructure services.

Business Overview

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

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.

We help clients create value through the following three key phrases: "'verification' of stable IT services" where we use proprietary mechanisms to visualize various issues, "'realization' of continuously evolving IT services" where we strive to improve clients' system operation quality, and "'provision' of IT services that generate client value" where we understand clients' vision for value and pave the way to realize this vision.

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

Fiscal 2018 Initiatives

With our policy in the Medium-Term Management Plan of shifting of our business model from a labor-oriented business to a service-oriented model, we will work on the following measures with the "promotion of data center utilization," "advanced IT management," and "expansion of the information security business" as key themes.

- Promotion of data center utilization: We will propose the use of data centers and cloud services tailored to each individual client's challenges to acquire full outsourcing contracts and increase market share, enhancing our competitiveness in the process.
- Advanced IT management: We will advance management domains through our wide-ranging roles in the operations of clients' information systems departments by delivering various hybrid services along with the greater sophistication of business through promotion of standardization, automation, and remote solutions as well as expansion in the security operation domain.
- Expansion of the information security business: We will further step up hiring and development of security engineers and speed up our transformation into an integrated security management business that utilizes our strengths in on-site operation services and data centers.

By implementing the above, we will contribute to clients' value creation using SCSK's collective strengths in IT management, including onsite and remote, construction and operation, cloud, system operation, and security management, as well as hybrid solutions combining these.

Glossary

AI (Artificial Intelligence)
An artificial system composed mainly of computers for handling sophisticated intellectual work and decisions that were only possible by people.

BPO (Business Process Outsourcing)
Outsourcing various business processes to a specialized firm.

BSW (Basic Software)
Operating system, drivers and middleware for ECU.

CAD (Computer-Aided Design)
Creating designs and drawings for industrial products, buildings, etc. using a computer.

CRM (Customer Relationship Management)
An approach utilized for corporate management strategy in which various forms of data are obtained using IT and creating a database to analyze and use this data for various purposes.

ECU (Electronic Control Unit)
A computer for controlling automobiles.

EDI (Electronic Data Interchange)
A mechanism that unifies information for business transactions in a standard form for electronic exchanges between companies.

ERP (Enterprise Resource Planning)
An approach to appropriately allocate and effectively utilize people, things, money and information forming the foundation of corporate management.

Fintech
A coined term combining "finance" and "technology."

HPC (High Performance Computing)
Computing with an extremely high volume of computation per unit of time.

IoT (Internet of Things)
A system where various things are connected through the Internet, enabling the communication of information or data on these things.

MDM (Master Data Management)
A methodology used to appropriately manage master data used as fundamental information for executing business operations within a corporate database.

PLM (Product Lifecycle Management)
A method for comprehensively managing products within all processes from product development planning to design, production and user support after shipment.

POC (Proof of Concept)
A test of the effectiveness of a hypothesis or concept performed prior to establishing a new project.

RPA (Robotic Process Automation)
A system for streamlining and automating white collar work using rule engines, machine learning and artificial intelligence.

SaaS (Software as a Service)
A system for providing application software functions to customers over a network when needed.

SCM (Supply Chain Management)
A management method that seeks total optimization of distribution from raw materials and components to products, by sharing information on orders, inventory, sales, and logistics inside the company and with business partners.

VR (Virtual Reality)
A technology that appeals to people's sensory organs and artificially creates an environment that feels real virtually, but is not real.

Omni-channel
Enhancing customer convenience or creating more diverse purchase opportunities by integrating all sales and distribution channels (brick-and-mortar stores, online shopping sites, company website, TV shopping, catalog sales, direct mail and social media).

Digital transformation
The spread and penetration of IT transforming various aspects of people's lives for the better.

Digital marketing
Carrying out product or brand promotions through digital media.

Blockchain
A technology for creating a network that is difficult to disrupt or modify because data is spread across computers located around the world without a centralized computer.

Financial Section

I. OVERVIEW OF RESULTS

1. Economic and Industry Trends

In the fiscal year ended March 31, 2018, the Company judged that the overall recovery trend in the domestic economy was continuing amid solid domestic and overseas demand. The corporate sector saw improved corporate earnings and business sentiment supported by the continuation of the upward trend in exports and the gradual increase in production levels. In the consumer sector, we witnessed higher consumer spending buoyed by an improved job market along with other indicators that pointed to economic recovery.

Our outlook for the economy is that, in the midst of ongoing improvements in corporate earnings, the job market, and wages, the gradual recovery trend will continue. However, a sense of uncertainty is plaguing the political and economic climate around the world, which is becoming increasingly characterized by protectionism. Prominent concerns include geopolitical risks in the Middle East and East Asia, the state of government affairs under the current administration in the United States, and issues regarding the United Kingdom's decision to leave the European Union. Accordingly, scrutiny is imperative in judging economic trends for the purpose of making management decisions going forward.

In this environment, the IT services market saw the emergence of IT investment demand among customers in relation to business model reforms and digital transformation. This market also benefited from robust system upgrade investment demand from customers, which included demand for IT investment aimed at improving productivity, boosting efficiency, and reducing labor requirements as part of working style reforms and efforts to address labor shortages. In this manner, there was a general upward trend in overall IT investment demand.

In the manufacturing industry, the deal flow, which had remained stable previously, started gaining strength during the second half of the fiscal year under review. This trend was being driven in part by the need for compatibility with the Internet of Things (IoT), which is entering into a full-fledged proliferation period, and for responding to the trend toward self-driving cars, other highly functional vehicles, and electric automotive systems. This solid deal flow was also supported by demand for verification services for pre-market products, which are becoming more sophisticated, and for business process outsourcing (BPO) services related to products and services.

In distribution, service, and other industries, strategic IT investment and IT services demand for business enhancement purposes is on the rise, particularly among customers engaging in consumer businesses. This demand was largely associated with investment related to e-commerce, customer relationship management (CRM), and big data analysis for the purposes of enhancing digital marketing initiatives and facilitating omni-channel retailing.

In the financial industry, despite the rebound from previously strong investment demand following the conclusion of large-scale projects of certain customers, systems development and other IT investment demand for boosting competitiveness is proving to be firm overall, primarily among customers in the banking and insurance sectors. Specific investment targets include the development of systems for the application of FinTech, artificial intelligence (AI), or other new IT technologies and the realization of more sophisticated overseas operations and Internet services.

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 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 application field, although here it was limited to certain sectors.

2. Consolidated Results

Looking at the Company's operating results for the fiscal year ended March 31, 2018, consolidated net sales increased 2.2% year-on-year, to ¥336,654 million, following strong performance in systems development businesses serving the manufacturing industry, the distribution industry, and the communications industry as well as in maintenance and operation and services businesses catering to the financial industry.

Operating profit was up 2.6% year-on-year, to ¥34,602 million, following a recovery in profitability during the second half of the fiscal year as well as the income growth accompanying an increase in full-year sales. These factors counteracted the decline in operating profit in the six-month period ended September 30, 2017, which was a result of lackluster performance, lack of effective action in systems development businesses targeting the financial industry as well as reduced profitability stemming from higher business investment-related expenses associated with the promotion of service-oriented businesses and new strategic businesses.

Ordinary profit was up 0.5% year-on-year, to ¥36,291 million, due to the higher operating profit. Profit attributable to owners of parent increased 14.2%, to ¥32,488 million, as a result of the extraordinary income recorded following the gain on the transference of shares in QUO CARD Co., Ltd., on December 1, 2017.

II. OVERVIEW OF RESULTS BY REPORTABLE SEGMENT

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

(Millions of yen)

	Year ended March 31, 2017		Year ended March 31, 2018		Change from previous fiscal year	
	Amount	Segment Profit	Amount	Segment Profit	Amount	Segment Profit
Manufacturing Systems Business	¥ 40,194	¥ 4,269	¥ 40,784	¥ 4,714	¥ 589	¥ 445
Telecommunication Systems Business	26,758	5,308	27,313	5,548	555	239
Distribution Systems Business	45,792	6,603	47,137	6,641	1,345	37
Financial Systems Business	70,543	7,369	69,630	7,137	(912)	(231)
Business Solutions	23,754	1,440	25,731	1,658	1,976	217
Business Services	42,811	3,302	44,467	3,049	1,655	(253)
IT Platform Solutions	75,379	7,159	77,873	8,043	2,493	884
Other	4,068	538	3,716	378	(351)	(159)
Adjustments	—	(2,278)	—	(2,569)	—	(291)
Total	¥329,303	¥33,714	¥336,654	¥34,602	¥7,351	¥ 887

■ Manufacturing Systems Business

Net sales increased 1.5%, to ¥40,784 million, and segment profit rose 10.4%, to ¥4,714 million, due to solid trends in systems development orders from the automotive industry and the machinery manufacturing industry.

■ Telecommunication Systems Business

Net sales grew 2.1%, to ¥27,313 million, and segment profit increased 4.5%, to ¥5,548 million, due to the robust system development and maintenance, and operation and service orders from major communications carriers.

■ Distribution Systems Business

Net sales increased 2.9%, to ¥47,137 million, and segment profit rose 0.6%, to ¥6,641 million, supported by a large appetite for IT investment in the digital marketing field among customers.

■ Financial Systems Business

Net sales were down 1.3%, to ¥69,630 million, due to the heavy impacts of the absence of previously recorded large-scale orders from the banking industry, a factor that was accounted for in initial forecasts. Segment profit, similarly, decreased 3.1%, to ¥7,137 million, as a result of the lower sales and the impacts of unprofitable projects. Currently, certain large-scale projects for the insurance industry are starting up, and the Company projects more favorable business trends going forward.

■ Business Solutions

Net sales increased 8.3%, to ¥25,731 million, and segment profit was up 15.1%, to ¥1,658 million, following impressive performance in enterprise resources planning (ERP)-related projects and the smooth commencement of service-oriented businesses based on SCSK intellectual properties.

■ Business Services

Net sales increased 3.9%, to ¥44,467 million, thanks to brisk demand for BPO services. Meanwhile, segment profit declined 7.7%, to ¥3,049 million, due to increases in marketing expenses and in business investment expenses associated with the opening of a service center aimed at reinforcing business operations through the development of new e-commerce services and the provision of BPO services.

■ IT Platform Solutions

Net sales were up 3.3%, to ¥77,873 million, and segment profit increased 12.3%, to ¥8,043 million, due to higher sales of IT products to customers in the manufacturing industry and the communications industry.

■ Other

Net sales, including sales of the prepaid card business, decreased 8.7%, to ¥3,716 million, following the transference of all shares of stock in QUO CARD Co., Ltd., which operated the prepaid card business, on December 1, 2017. Segment profit was down 29.7%, to ¥378 million, for the same reason. As a result of the transference of QUO CARD's stock, the prepaid card business was excluded from the scope of consolidation and included in the "Other" category to reflect the reduced materiality of the prepaid card business.

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 Business segments are described below.

(Millions of yen)

	Year ended March 31, 2017		Year ended March 31, 2018		Comparison with previous fiscal year	
	Amount	Share (%)	Amount	Share (%)	Amount	Change (%)
Systems Development	¥127,051	38.6	¥128,387	38.1	¥1,336	1.1
System Maintenance and Operation/Services	125,802	38.2	129,071	38.3	3,269	2.6
Packaged Software/Hardware Sales	73,147	22.2	76,247	22.7	3,100	4.2
Prepaid Card Business	3,302	1.0	2,948	0.9	(354)	(10.7)
Total	¥329,303	100.0	¥336,654	100.0	¥7,351	2.2

In Systems Development, despite the absence of previously recorded large-scale development orders from financial industry customers, net sales rose 1.1%, to ¥128,387 million, due to solid performance in projects for customers in the manufacturing industry, the distribution industry, and the communications industry.

In System Maintenance and Operation/Services, as a result of strong performance in BPO services, particularly in the distribution and financial industries, combined with robust demand for various cloud services related to IT infrastructure, net sales increased 2.6%, to ¥129,071 million.

In Packaged Software/Hardware Sales, net sales increased 4.2%, to ¥76,247 million, due to solid demands for hardware and software from the manufacturing industry and for network IT equipment demands from the communication industry.

IV. FINANCIAL POSITION

Assets, Liabilities and Net Assets

All shares of stock held in QUO CARD Co., Ltd., which had previously been included in the Other segment, were transferred on December 1, 2017. Accordingly, QUO CARD Co., Ltd. was excluded from the scope of consolidation.

■ Total Assets

Assets as of March 31, 2018 were ¥303,914 million, a decrease of ¥85,623 million compared to March 31, 2017.

■ Liabilities

Liabilities as of March 31, 2018 were ¥107,313 million, a decrease of ¥108,549 million compared to March 31, 2017.

■ Net Assets

Net assets as of March 31, 2018 were ¥196,600 million, an increase of ¥22,926 million compared to March 31, 2017.

The equity ratio stood at 62.3%. Net assets per share amounted to ¥1,822.54, an increase of ¥214.80 from March 31, 2017.

V. CASH FLOWS

Cash and cash equivalents ("cash") as of March 31, 2018, decreased ¥24,137 million compared to March 31, 2017, to ¥99,797 million. The main reason for this decrease was a cash outflow of ¥20,618 million due to the transference of all shares of stock held in QUO CARD Co., Ltd. on December 1, 2017. The changes in each type of cash flow and the main factors for such changes are as follows.

■ Cash Flows from Operating Activities

Net cash provided by operating activities was ¥37,096 million, down ¥65 million from the previous fiscal year.

The major factors increasing cash were profit before income taxes of ¥43,489 million and depreciation of ¥10,013 million. The major factors reducing cash were increase in notes and accounts receivable – trade of ¥1,753 million, increase in guarantee deposits of ¥6,316 million, decrease in notes and accounts payable – trade of ¥1,073 million, and gain on sales of investment securities of ¥10,801 million.

■ Cash Flows from Investing Activities

Net cash used in investing activities was ¥35,394 million, down ¥23,411 million from the previous fiscal year.

The major cash outflows were purchase of property, plant and equipment of ¥10,042 million, purchase of intangible assets of ¥3,865 million, and payments for sales of shares of subsidiaries resulting in a change in the scope of consolidation of ¥20,618 million.

■ Cash Flows from Financing Activities

Net cash used in financing activities was ¥25,763 million, down ¥26,240 million from net cash provided in the previous fiscal year.

The major factor increasing cash was proceeds from the issuance of bonds of ¥10,000 million.

The major factors reducing cash were repayments of long-term loans payable of ¥10,000 million, redemption of bonds of ¥15,000 million, and dividend payments of ¥4,941 million (¥47.5 per share) for the year-end dividend for the fiscal year ended March 31, 2017, and ¥4,941 million (¥47.5 per share) for the interim dividend for the fiscal year ended March 31, 2018.

■ Liquidity and Capital Resources

The Group has been advancing the aforementioned core strategies under the Medium-Term Management Plan in order to transform its business structure, thereby achieving high growth and high profitability and increasing its corporate value over the medium term. Notably, the Group seeks to establish and promote a wide range of service-oriented businesses and strategic businesses such as the automotive software systems business. To this end, the Group has been pushing ahead with investments in data centers and various business development investments encompassing the IoT and AI-related fields. Moreover, the Group has been continuously acquiring cutting-edge technologies, enhancing its customer base and considering M&As that will accelerate business growth.

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

The Group had interest-bearing debt of ¥48,158 million as of March 31, 2018 through bank loans and the issuance of bonds and suchlike. In comparison, cash and cash equivalents stood at ¥99,797 million, surpassing the amount of interest-bearing debt, indicating that the Group has achieved a solid financial base.

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

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 26, 2018.

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 such as interest rate and currency movements. Therefore, this could also have an impact on the Group's results.

2. Risks Related to Systems Development

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

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

3. Risks Related to Addressing Technological Innovation

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

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

4. Risks Related to Information Security

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

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

5. Risks Related to Investment

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

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

6. Risks Related to Litigation

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

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

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

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

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

9. Risks Related to Impairment on Non-current Assets

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

In the period under review, impairment losses were booked with regard to assets related to data centers which were decided to be repurposed offices or closed. However, as a result of the assessment as of March 31, 2018, 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 such as an earthquake occurring directly beneath Tokyo or in the Nankai Trough or the outbreak of a new type of influenza or other infectious disease with the potential to spread globally could have an impact on the Group's results.

In order to strengthen its structure to ensure business continuity in the event of unforeseen circumstances, the Group has formulated business continuity plans and 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 their business areas.

Consolidated Balance Sheets

SCSK Corporation and Consolidated Subsidiaries
March 31, 2018 and 2017

ASSETS	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Current assets:			
Cash and deposits (Note 5-*2)	¥ 27,363	**¥ 16,456**	**$ 154,903**
Notes and accounts receivable – trade (Note 5-*5)	65,764	**66,665**	**627,497**
Lease receivables and investment assets	378	**396**	**3,733**
Operational investment securities (Note 5-*2)	6,056	**—**	**—**
Merchandise and finished goods	6,779	**5,137**	**48,356**
Work in process (Note 5-*4)	341	**900**	**8,476**
Raw materials and supplies	50	**49**	**465**
Deferred tax assets	7,602	**7,556**	**71,128**
Deposits paid	98,171	**83,340**	**784,455**
Guarantee deposits (Note 5-*2)	45,359	**—**	**—**
Other	14,486	**10,779**	**101,460**
Allowance for doubtful accounts	(47)	**(41)**	**(394)**
Total current assets	272,306	**191,240**	**1,800,083**
Non-current assets:			
Property, plant and equipment:			
Buildings and structures, net (Note 5-*3)	34,863	**31,543**	**296,905**
Tools, furniture and fixtures, net (Note 5-*3)	7,759	**7,802**	**73,440**
Land	19,821	**19,821**	**186,569**
Leased assets, net (Note 5-*3)	1,580	**1,714**	**16,139**
Construction in progress	4,518	**12,581**	**118,424**
Other, net (Note 5-*3)	2	**1**	**12**
Total property, plant and equipment	68,546	**73,464**	**691,492**
Intangible assets:			
Goodwill	133	**84**	**790**
Other	11,691	**9,472**	**89,164**
Total intangible assets	11,825	**9,556**	**89,955**
Investments and other assets:			
Investment securities (Note 5-*1)	9,564	**10,625**	**100,017**
Long-term prepaid expenses	1,220	**1,202**	**11,314**
Net defined benefit asset	13	**—**	**—**
Lease and guarantee deposits	6,889	**6,909**	**65,033**
Deferred tax assets	18,248	**9,740**	**91,687**
Other	1,046	**1,294**	**12,181**
Allowance for doubtful accounts	(124)	**(119)**	**(1,127)**
Total investments and other assets	36,857	**29,652**	**279,107**
Total non-current assets	117,230	**112,673**	**1,060,554**
Total assets	¥389,537	**¥303,914**	**$2,860,637**

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

LIABILITIES	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Current liabilities:			
Notes and accounts payable – trade	¥ 21,362	**¥ 20,013**	**$ 188,381**
Short-term loans payable	10,000	**10,000**	**94,126**
Current portion of bonds	15,000	**—**	**—**
Current portion of long-term loans payable	10,000	**5,000**	**47,063**
Lease obligations	988	**975**	**9,179**
Income taxes payable	2,262	**4,802**	**45,207**
Provision for bonuses	6,418	**5,651**	**53,195**
Provision for directors' bonuses	195	**79**	**746**
Provision for loss on construction contracts (Note 5-*4)	50	**329**	**3,100**
Deposits received of prepaid cards	91,828	**—**	**—**
Other (Note 5-*2)	25,814	**23,712**	**223,196**
Total current liabilities	183,919	**70,564**	**664,198**
Non-Current liabilities:			
Bonds payable	20,000	**30,000**	**282,379**
Long-term loans payable	5,000	**—**	**—**
Lease obligations	1,667	**2,183**	**20,555**
Provision for directors' retirement benefits	20	**20**	**197**
Net defined benefit liability	2,359	**1,468**	**13,821**
Asset retirement obligations	2,278	**2,391**	**22,513**
Long-term lease and guarantee deposited	532	**603**	**5,678**
Other	84	**80**	**758**
Total non-current liabilities	31,943	**36,748**	**345,904**
Total liabilities	215,862	**107,313**	**1,010,102**
NET ASSETS			
Shareholders' equity:			
Capital stock	21,152	**21,152**	**199,104**
Capital surplus	3,047	**1,299**	**12,234**
Retained earnings	151,722	**168,363**	**1,584,743**
Treasury shares	(8,425)	**(711)**	**(6,694)**
Total shareholders' equity	167,497	**190,104**	**1,789,387**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,308	**2,274**	**21,409**
Deferred gains or losses on hedges	(5)	**(5)**	**(52)**
Foreign currency translation adjustments	(73)	**(154)**	**(1,455)**
Remeasurements of defined benefit plans	(2,829)	**(3,004)**	**(28,282)**
Total accumulated other comprehensive income	(599)	**(890)**	**(8,380)**
Subscription rights to shares	70	**57**	**542**
Non-controlling interests	6,706	**7,329**	**68,986**
Total net assets	173,674	**196,600**	**1,850,535**
Total liabilities and net assets	¥389,537	**¥303,914**	**$2,860,637**

Consolidated Statements of Income

SCSK Corporation and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2018	2018
Net sales	¥329,303	**¥336,654**	**$3,168,813**
Cost of sales (Note 6-*7)	247,548	**253,098**	**2,382,332**
Gross profit	81,754	**83,555**	**786,481**
Selling, general and administrative expenses (Notes 6-*1, *6)	48,040	**48,953**	**460,781**
Operating profit	33,714	**34,602**	**325,699**
Non-operating income:			
Interest income	68	**91**	**857**
Dividend income	67	**66**	**625**
Share of profit of entities accounted for using equity method	477	**537**	**5,057**
Gain on sales of investment securities	375	**56**	**534**
Hoard profit of prepaid card	1,564	**1,006**	**9,476**
Other	176	**313**	**2,948**
Total non-operating income	2,729	**2,071**	**19,501**
Non-operating expenses:			
Interest expenses	162	**126**	**1,189**
Loss on sales of investment securities	—	**1**	**13**
Bond issuance cost	48	**48**	**454**
Other	111	**206**	**1,945**
Total non-operating expenses	322	**382**	**3,602**
Ordinary profit	36,121	**36,291**	**341,599**
Extraordinary income:			
Gain on sales of non-current assets (Note 6-*2)	15	**2**	**27**
Gain on sales of investment securities	671	**10,756**	**101,249**
Total extraordinary income	686	**10,759**	**101,276**
Extraordinary losses:			
Loss on retirement of non-current assets (Note 6-*3)	80	**750**	**7,060**
Loss on sales of non-current assets (Note 6-*4)	34	**32**	**303**
Non-recurring depreciation on software	—	**1,231**	**11,589**
Impairment loss (Note 6-*5)	37	**1,425**	**13,417**
Loss on sales of investment securities	—	**10**	**102**
Loss on valuation of investment securities	7	**101**	**954**
Loss on sales of membership	0	**—**	**—**
Loss on valuation of membership	3	**10**	**96**
Compensation expenses	816	**—**	**—**
Total extraordinary losses	980	**3,561**	**33,523**
Profit before income taxes	35,827	**43,489**	**409,352**
Income taxes – current	3,875	**6,093**	**57,359**
Income taxes – deferred	2,679	**4,099**	**38,582**
Total income taxes	6,554	**10,192**	**95,941**
Profit	29,273	**33,296**	**313,410**
Profit attributable to non-controlling interests	814	**807**	**7,603**
Profit attributable to owners of parent	¥ 28,458	**¥ 32,488**	**$ 305,806**

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2018	2018
Profit	¥29,273	**¥33,296**	**$313,410**
Other comprehensive income:			
Valuation difference on available-for-sale securities	745	**(48)**	**(459)**
Deferred gains or losses on hedges	84	**(0)**	**(3)**
Foreign currency translation adjustments	(229)	**(98)**	**(925)**
Remeasurements of defined benefit plans, net of tax	1,051	**(203)**	**(1,914)**
Share of other comprehensive income of entities accounted for using equity method	(0)	**45**	**423**
Total other comprehensive income (Note 7)	1,650	**(305)**	**(2,878)**
Comprehensive income	¥30,923	**¥32,990**	**$310,531**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥30,088	**¥32,197**	**$303,066**
Comprehensive income attributable to non-controlling interests	835	**793**	**7,465**

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, 2018 and 2017

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

	Thousands of U.S. dollars (Note 2)												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2017	$199,104	$ 28,682	$1,428,112	$(79,307)	$1,576,592	$21,731	$(49)	$ (693)	$(26,629)	$(5,640)	$ 659	$63,124	$1,634,736
Changes of items during period:													
Dividends of surplus	**—**	**—**	**(93,028)**	**—**	**(93,028)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(93,028)**
Profit attributable to owners of parent	**—**	**—**	**305,806**	**—**	**305,806**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**305,806**
Change in ownership interest of parent due to transactions with non-controlling interests	**—**	**9**	**—**	**—**	**9**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9**
Purchases of treasury shares	**—**	**—**	**—**	**(209)**	**(209)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(209)**
Disposals of treasury shares	**—**	**(50)**	**—**	**194**	**143**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**143**
Retirement of treasury shares	**—**	**(72,553)**	**—**	**72,553**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer to capital surplus from retained earnings	**—**	**56,147**	**(56,147)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Change in treasury shares arising from change in equity in entities accounted for using equity method	**—**	**—**	**—**	**73**	**73**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**73**
Change of scope of equity method	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(321)**	**(3)**	**(761)**	**(1,653)**	**(2,740)**	**(117)**	**5,861**	**3,003**
Total changes of items during period	**—**	**(16,447)**	**156,630**	**72,612**	**212,795**	**(321)**	**(3)**	**(761)**	**(1,653)**	**(2,740)**	**(117)**	**5,861**	**215,799**
Balance at March 31, 2018	**$199,104**	**$ 12,234**	**$1,584,743**	**$ (6,694)**	**$1,789,387**	**$21,409**	**$(52)**	**$(1,455)**	**$(28,282)**	**$(8,380)**	**$ 542**	**$68,986**	**$1,850,535**

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2018	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 35,827	**¥ 43,489**	**$ 409,352**
Depreciation	8,972	**10,013**	**94,257**
Amortization of goodwill	98	**49**	**470**
Impairment loss	37	**1,425**	**13,417**
Increase (decrease) in allowance for doubtful accounts	(181)	**(10)**	**(99)**
Increase (decrease) in net defined benefit liability	(1,805)	**(931)**	**(8,763)**
Decrease (increase) in net defined benefit asset	(3)	**13**	**131**
Loss on retirement of non-current assets	80	**750**	**7,060**
Loss (gain) on sales of non-current assets	19	**29**	**275**
Non-recurring depreciation on software	—	**1,231**	**11,589**
Loss (gain) on valuation of investment securities	7	**101**	**954**
Loss (gain) on sales of investment securities	(1,046)	**(10,801)**	**(101,668)**
Share of (profit) loss of entities accounted for using equity method	(477)	**(537)**	**(5,057)**
Interest and dividend income	(135)	**(157)**	**(1,483)**
Interest expenses paid on loans and bonds	162	**126**	**1,189**
Decrease (increase) in investment securities for sale	3,964	**2,091**	**19,687**
Decrease (increase) in notes and accounts receivable – trade	(2,441)	**(1,753)**	**(16,503)**
Decrease (increase) in inventories	(994)	**(513)**	**(4,830)**
Decrease (increase) in guarantee deposits	(7,927)	**(6,316)**	**(59,450)**
Increase (decrease) in notes and accounts payable – trade	1,689	**(1,073)**	**(10,101)**
Increase (decrease) in deposits received of prepaid cards	8,039	**1,790**	**16,854**
Other, net	(240)	**663**	**6,241**
Subtotal	43,646	**39,682**	**373,521**
Interest and dividend income received	285	**319**	**3,010**
Interest expenses paid	(160)	**(142)**	**(1,337)**
Compensation expenses paid	(825)	**—**	**—**
Income taxes (paid) refund	(5,785)	**(2,763)**	**(26,014)**
Net cash provided by (used in) operating activities	37,161	**37,096**	**349,179**
Cash flows from investing activities:			
Proceeds from sales and redemption of securities	700	**—**	**—**
Purchase of property, plant and equipment	(7,876)	**(10,042)**	**(94,525)**
Proceeds from sales of property, plant and equipment	1,278	**16**	**158**
Purchase of intangible assets	(6,725)	**(3,865)**	**(36,388)**
Purchase of investment securities	(403)	**(892)**	**(8,403)**
Proceeds from sales and redemption of investment securities	1,263	**298**	**2,813**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9-*2)	—	**(20,618)**	**(194,072)**
Collection of short-term loans receivable	6	**7**	**73**
Proceeds from withdrawal of investments in partnership	126	**85**	**804**
Payments for lease and guarantee deposits	(227)	**(281)**	**(2,650)**
Proceeds from collection of lease and guarantee deposits	153	**255**	**2,402**
Other, net	(277)	**(357)**	**(3,366)**
Net cash provided by (used in) investing activities	(11,982)	**(35,394)**	**(333,155)**
Cash flows from financing activities:			
Increase in short-term loans payable	10,000	**10,000**	**94,126**
Decrease in short-term loans payable	(10,000)	**(10,000)**	**(94,126)**
Proceeds from long-term loans payable	5,000	**—**	**—**
Repayments of long-term loans payable	(5,000)	**(10,000)**	**(94,126)**
Proceeds from issuance of bonds	10,000	**10,000**	**94,126**
Redemption of bonds	—	**(15,000)**	**(141,189)**
Repayments of lease obligations	(778)	**(691)**	**(6,508)**
Purchase of treasury shares	(10)	**(22)**	**(212)**
Proceeds from sales of treasury shares	14	**2**	**25**
Cash dividends paid	(8,582)	**(9,883)**	**(93,028)**
Dividends paid to non-controlling interests	(166)	**(169)**	**(1,591)**
Net cash provided by (used in) financing activities	476	**(25,763)**	**(242,504)**
Effect of exchange rate change on cash and cash equivalents	(165)	**(76)**	**(719)**
Net increase (decrease) in cash and cash equivalents	25,489	**(24,137)**	**(227,199)**
Cash and cash equivalents at beginning of period	98,445	**123,935**	**1,166,559**
Cash and cash equivalents at end of period (Note 9-*1)	¥123,935	**¥ 99,797**	**$ 939,359**

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 ¥106.24 to U.S.$1.00, the rate of exchange prevailing at March 31, 2018. 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: 19

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
SCSK Nearshore Systems Corporation
VA Linux Systems Japan KK
SCSK SYSTEM MANAGEMENT CORPORATION
SDC Corporation
One investment partnership and one silent partnership

All shares of stock held in QUO CARD Co., Ltd., were transferred on December 1, 2017, and this company was excluded from the scope of consolidation thereafter.

(b) Major non-consolidated subsidiaries and affiliates

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

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: 2

ARGO GRAPHICS Inc.
Asian Frontier Co.,Ltd

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.

Asian Frontier Co.,Ltd, has been included within the scope of equity method application from the third quarter ended December 31, 2017, following the acquisition of the shares of this company's stock.

(3) Fiscal Year of Consolidated Subsidiaries

The fiscal year-end of SCSK Europe Ltd., SCSK Shanghai Limited, SCSK Asia Pacific Pte. Ltd. and one investment partnership is December 31. For those companies, preparation of the consolidated financial statements for the fiscal year ended March 31, 2018 is based on the financial statements for the period from January 1, 2017 through December 31, 2017.

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

(4) Significant Accounting Policies

(a) Valuation bases and valuation methods for assets

i) Securities

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

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 of writing down the book value to reflect a decline in the profitability.

Work in process:

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

iii) Derivative transactions

Derivative transactions are carried at fair value.

(b) Depreciation method of 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 at the higher of (a) the amount based on projected sales amounts, or (b) the amount equally allocated for the remaining period (within 3 years).

Software for internal use:

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

Other intangible assets:

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

iii) Leases

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

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

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

iv) Long-term prepaid expenses

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

(c) Recognition standards for allowances and provisions

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for directors' bonuses

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

iv) Provision for loss on construction contracts

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

v) Provision for directors' retirement benefits

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

(d) Retirement benefits

i) Calculation method for retirement benefit obligation

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

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

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

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

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

(e) Disposition method for deferred assets

Bond issuance cost:

Bond issuance cost is expensed in full when paid.

(f) Revenue recognition

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 profit of prepaid card" in Nonoperating 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

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

v) Other

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

(h) 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 other 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.

4. STANDARDS AND GUIDANCE NOT YET ADOPTED

The following guidance were issued but not yet adopted.

-1 "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018 (hereinafter, "Guidance No. 28"))

-2 "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018 (hereinafter, "Guidance No. 26"))

i) Overview

The above guidances were revised with regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type1' according to the guidance.

ii) Effective date

Effective from the beginning of the fiscal year ending March 31, 2019.

iii) Effects of the application of the guidance

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

The following standard and guidance were issued but not yet adopted.

-3 "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)

-4 "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

i) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contract(s) with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ii) Effective date

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

iii) Effects of the application of the standard and guidance

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

5. CONSOLIDATED BALANCE SHEETS

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

	March 31		March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Investment securities	¥4,427	**¥4,930**	**$46,413**

*2 Pledged assets

	March 31		March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Cash and deposits	¥1,600	**¥ —**	**$ —**

The above assets were pledged as collateral for other current liabilities of ¥1,774 million at March 31, 2017. In addition to the foregoing, operational investment securities and guarantee deposits of ¥51,382 million were lodged as security deposits pursuant to Article 14-1 of the Payment Services Act at March 31, 2017.

*3 Accumulated depreciation of property, plant and equipment

	March 31		March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Accumulated depreciation of property, plant and equipment	¥43,589	**¥46,388**	**$436,639**

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

	March 31		March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Work in process (Amount of inventories corresponding to provision for loss on construction contracts)	¥ —	**¥315**	**$2,965**

*5 Notes maturing as of the fiscal year-end are treated as settled on the relevant clearing dates.
Since the fiscal year-end fell on a holiday for financial institutions, the following amounts of notes maturing as of the fiscal year-end are included in the balance as of the fiscal year-end.

	March 31		March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Notes receivable	¥ —	**¥44**	**$417**

6. CONSOLIDATED STATEMENTS OF INCOME

*1 Major elements of "Selling, general and administrative expenses" for the years ended March 31, 2017 and 2018 were as follows:

	Year ended March 31		Year ended March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Salaries and bonuses	¥19,813	**¥20,340**	**$191,461**
Retirement benefit expenses	1,089	**1,319**	**12,423**
Welfare expenses	4,454	**4,546**	**42,791**
Rent expenses	3,381	**3,471**	**32,679**
Depreciation	1,831	**1,693**	**15,944**
Business consignment expenses	2,555	**2,763**	**26,010**
Taxes and dues	2,939	**3,117**	**29,339**
Provision for bonuses	1,723	**1,478**	**13,916**
Provision for directors' bonuses	195	**68**	**640**

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

	Year ended March 31		Year ended March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ 1	**¥ —**	**$ —**
Tools, furniture and fixtures	2	**2**	**27**
Land	11	**—**	**—**
Software	0	**—**	**—**
Total	¥15	**¥ 2**	**$ 27**

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

	Year ended March 31		Year ended March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥26	**¥ 22**	**$ 209**
Tools, furniture and fixtures	34	**41**	**392**
Leased assets	—	**2**	**26**
Software	20	**682**	**6,423**
Other	0	**1**	**9**
Total	¥80	**¥750**	**$7,060**

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

	Year ended March 31		Year ended March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Buildings and structures	¥ 2	**¥ 0**	**$ 7**
Tools, furniture and fixtures	32	**31**	**295**
Total	¥34	**¥32**	**$303**

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

Year ended March 31, 2017

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 by decreasing its book value to the recoverable amount. The main components of the impairment loss were ¥23 million for land and ¥14 million 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, 2018

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

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

The Group decided to repurpose business assets as offices or close data center facilities classified under the IT Management Group. Based on these decisions, the Group recognized an impairment loss of ¥1,425 million ($13,417 thousand) by decreasing the book value of the assets scheduled to be disposed of to the recoverable amount. The main components of the impairment loss were ¥1,384 million ($13,033 thousand) for buildings and structures and ¥40 million ($383 thousand) for tools, furniture and fixtures. In calculating the recoverable amount of those assets, the Group estimated the value in use based on future cash flows. As a result, the Group determined that the recoverable amount of those assets was zero since the current value in use based on future cash flows was found to be negative.

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

Year ended March 31		Year ended March 31
2017	**2018**	**2018**
Millions of yen		Thousands of U.S. dollars
¥266	**¥280**	**$2,639**

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

Year ended March 31		Year ended March 31
2017	**2018**	**2018**
Millions of yen		Thousands of U.S. dollars
¥49	**¥328**	**$3,088**

7. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table presents the components of reclassification adjustments and income tax of other comprehensive income for the years ended March 31, 2017 and 2018.

* Other comprehensive income:

	Year ended March 31		Year ended March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Valuation difference on available-for-sale securities:			
(Losses) gains arising during the year	¥1,370	**¥ (17)**	**$ (167)**
Reclassification adjustments for gains (losses) included in income statements	(297)	**(53)**	**(499)**
Before tax amounts	1,072	**(70)**	**(666)**
Tax (expenses) benefits	(327)	**22**	**207**
Subtotal, net of tax	745	**(48)**	**(459)**
Deferred gains or losses on hedges:			
(Losses) gains arising during the year	121	**(0)**	**(4)**
Reclassification adjustments for gains (losses) included in income statements	—	**—**	**—**
Before tax amounts	121	**(0)**	**(4)**
Tax (expenses) benefits	(37)	**0**	**1**
Subtotal, net of tax	84	**(0)**	**(3)**
Foreign currency translation adjustments:			
(Losses) gains arising during the year	(229)	**(98)**	**(925)**
Reclassification adjustments for gains (losses) included in income statements	—	**—**	**—**
Before tax amounts	(229)	**(98)**	**(925)**
Tax (expenses) benefits	—	**—**	**—**
Subtotal, net of tax	(229)	**(98)**	**(925)**
Remeasurements of defined benefit plans:			
(Losses) gains arising during the year	2,433	**(45)**	**(425)**
Reclassification adjustments for gains (losses) included in income statements	(912)	**(252)**	**(2,376)**
Before tax amounts	1,520	**(297)**	**(2,801)**
Tax (expenses) benefits	(469)	**94**	**887**
Subtotal, net of tax	1,051	**(203)**	**(1,914)**
Share of other comprehensive income of entities accounted for using equity method:			
(Losses) gains arising during the year	(0)	**45**	**423**
Reclassification adjustments for gains (losses) included in income statements	—	**—**	**—**
Subtotal, net of tax	(0)	**45**	**423**
Total other comprehensive income	¥1,650	**¥(305)**	**$(2,878)**

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: Number of shares outstanding at April 1, 2016	Number of shares: Increase	Number of shares: Decrease	Number of shares: Number of shares outstanding at March 31, 2017	Amount outstanding at March 31, 2017 (Millions of yen)
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, 2017	Common Stock	Accumulated income	¥4,941	¥47.50	March 31, 2017	June 2, 2017

Year ended March 31, 2018

(1) Number of issued shares

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

Outline of reasons for changes:

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

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

(2) Number of treasury shares

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

Outline of reasons for changes:

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

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

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

Disposals of shares of less than one unit: 560 shares

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

Exercise of subscription rights to shares: 9,500 shares

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

(3) Subscription rights to shares

Company Name	Description of subscription rights to shares	Type of shares for subscription rights	Number of shares: Number of shares outstanding at April 1, 2017	Number of shares: Increase	Number of shares: Decrease	Number of shares: Number of shares outstanding at March 31, 2018	Amount outstanding at March 31, 2018: Millions of yen	Amount outstanding at March 31, 2018: Thousands of U.S. dollars
SCSK	Subscription rights as stock options	—	—	**—**	**—**	**—**	**¥57**	**$542**

(4) Matters related to dividends

(a) Dividend payments

Approved by	Types of shares	Total amount of dividends: Millions of yen	Total amount of dividends: Thousands of U.S. dollars	Dividends per share: Yen	Dividends per share: U.S. dollars	Record date	Effective date
Board Meeting held at April 28, 2017	Common Stock	¥4,941	$46,513	¥47.50	$0.44	March 31, 2017	June 2, 2017
Board Meeting held at October 30, 2017	Common Stock	¥4,941	$46,514	¥47.50	$0.44	September 30, 2017	December 1, 2017

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

Approved by	Types of shares	Source of funds	Total amount of dividends: Millions of yen	Total amount of dividends: Thousands of U.S. dollars	Dividends per share: Yen	Dividends per share: U.S. dollars	Record date	Effective date
Board Meeting held at April 27, 2018	Common Stock	Accumulated income	¥4,941	$46,516	¥47.5	$0.44	March 31, 2018	June 5, 2018

9. CASH FLOW INFORMATION

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

	Year ended March 31		Year ended March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Cash and deposits	¥27,363	**¥16,456**	**$154,903**
Deposits paid	98,171	**83,340**	**784,455**
Total	125,535	**99,797**	**939,359**
Time deposits with original maturities of more than three months or those submitted as collateral for loans payable	(1,600)	**—**	**—**
Cash and cash equivalents	¥123,935	**¥99,797**	**$939,359**

*2 The significant components of assets and liabilities of companies that were deconsolidated as a result of the sale of shares
Year ended March 31, 2018
The breakdown of assets and liabilities at the time of sale following the deconsolidation of QUO CARD Co., Ltd. as a result of the sales of all shares held in this company, as well as the amount of shares sold and payments for the sale of shares, is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥106,132**	**$ 998,992**
Non-current assets	**4,549**	**42,819**
Current liabilities	**(98,817)**	**(930,134)**
Non-current Liabilities	**(53)**	**(502)**
Other	**(14)**	**(163)**
Gain on transfer of business	**10,706**	**100,773**
Transaction price	**22,500**	**211,784**
Cash and cash equivalents	**(43,118)**	**(405,856)**
Net: Payments for sales of shares	**¥ (20,618)**	**$(194,072)**

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	2018	2018
	Millions of yen		Thousands of U.S. dollars
As a lessee:			
Due within one year	¥ 2,911	**¥ 3,639**	**$ 34,256**
Due over one year	10,974	**9,263**	**87,195**
Total	¥13,886	**¥12,903**	**$121,452**

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 deadline for the final repayment of long-term loans payable 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 from trade payables and trade receivables denominated in foreign currencies.

(c) Supplementary explanation regarding matters related to fair value of financial instruments
The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

For year ended March 31, 2018

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

(b) Types of financial instruments, related risks and risk management for financial instruments
Trade receivables such as trade notes and accounts receivable are exposed to customer credit risk.

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

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

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

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

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

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

Trade payables, loans payable and bonds payable are exposed to liquidity risk, which is the risk of failing to settle as scheduled. The Company comprehensively manages the Group's cash flow by using 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 from trade payables and trade receivables denominated in foreign currencies.

(c) Supplementary explanation regarding matters related to fair value of financial instruments
The notional amounts of derivative transactions in the notes (derivative transactions) do not necessarily represent the amount of market risk associated with the derivative transactions.

(2) Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheets at March 31, 2017 and 2018 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
	Millions of yen		
Assets:			
(1) Cash and deposits	¥ 27,363	¥ 27,363	¥ —
(2) Notes and accounts receivable – trade	65,764	65,764	—
(3) Operational investment securities:			
Available-for-sale securities	6,056	6,056	—
(4) Deposits paid	98,171	98,171	—
(5) Guarantee deposits	45,359	45,359	—
(6) Investment securities			
Available-for-sale securities	4,393	4,393	—
Shares of subsidiaries and associates	4,216	5,529	1,313
(7) Lease and guarantee deposits	6,889	6,879	(9)
(8) Notes and accounts payable – trade	(21,362)	(21,362)	—
(9) Short-term loans payable	(10,000)	(10,000)	—
(10) Current portion of bonds payable	(15,000)	(15,000)	—
(11) Current portion of long-term loans payable	(10,000)	(10,000)	—
(12) Deposits received of prepaid cards	(91,828)	(91,828)	—
(13) Bonds payable	(20,000)	(20,094)	(94)
(14) Long-term loans payable	(5,000)	(5,000)	(0)
(15) Derivative transactions (*b)	(7)	(7)	—

(*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, 2018

	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	**¥ 16,456**	**¥ 16,456**	**¥ —**	**$ 154,903**	**$ 154,903**	**$ —**
(2) Notes and accounts receivable – trade	**66,665**	**66,665**	**—**	**627,497**	**627,497**	**—**
(3) Deposits paid	**83,340**	**83,340**	**—**	**784,455**	**784,455**	**—**
(4) Investment securities						
Available-for-sale securities	**5,158**	**5,158**	**—**	**48,555**	**48,555**	**—**
Shares of subsidiaries and associates	**4,630**	**8,164**	**3,534**	**43,586**	**76,850**	**33,264**
(5) Lease and guarantee deposits	**6,909**	**6,885**	**(23)**	**65,033**	**64,813**	**(220)**
(6) Notes and accounts payable – trade	**(20,013)**	**(20,013)**	**—**	**(188,381)**	**(188,381)**	**—**
(7) Short-term loans payable	**(10,000)**	**(10,000)**	**—**	**(94,126)**	**(94,126)**	**—**
(8) Current portion of long-term loans payable	**(5,000)**	**(5,000)**	**—**	**(47,063)**	**(47,063)**	**—**
(9) Bonds payable	**(30,000)**	**(30,084)**	**(84)**	**(282,379)**	**(283,173)**	**794**
(10) Derivative transactions	**(8)**	**(8)**	**—**	**(76)**	**(76)**	**—**

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

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

For fiscal year ended March 31, 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, 2018

(1) Cash and deposits, (2) Notes and accounts receivable – trade and (3) Deposits paid
Since these items are settled in a short period of time, their carrying value approximates fair value.
(4) Investment securities
The fair value of these securities is based on either quoted market prices or prices provided by the correspondent financial institutions. The carrying value is used as the fair value for certain securities with short-term maturities because the fair value is nearly equal to the carrying value.
(5) Lease and guarantee deposits
The fair value of lease and guarantee deposits with maturities exceeding one year is based on the present value discounted by reasonable rates.
(6) Notes and accounts payable – trade, (7) Short-term loans payable, (8) Current portion of long-term loans payable
Since these items are settled in a short period of time, their carrying value approximates fair value.
(9) Bonds payable
The fair value of bonds payable is based on the present value of total principal and interest discounted by the interest rate to be applied if similar new bonds are issued.
(10) Derivative transactions
Information on the fair value of derivatives is included in Note 13, "Derivative transactions."

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

	March 31		March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars (Note 2)
Unlisted equity securities	¥320	**¥409**	**$3,855**
Investments in partnership	634	**427**	**4,020**
Total	¥955	**¥836**	**$7,875**

As the quoted market price was not available and it was extremely difficult to estimate future cash flows, the carrying values of the above financial instruments were not included in Investment securities. Unlisted equity securities include ¥211 million and ¥300 million ($2,826 thousand) in shares in non-consolidated subsidiaries and affiliates at March 31, 2017 and 2018, respectively.

An impairment loss of ¥101 million ($954 thousand) was recognized on unlisted equity securities for the year ended March 31, 2018.

Note 3. The redemption schedule for monetary receivables and marketable securities with maturities at March 31, 2017 and 2018 was as follows:

At March 31, 2017

	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen			
Cash and time deposits	¥ 27,363	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	65,764	—	—	—
Deposits paid	98,171	—	—	—
Guarantee deposits	45,359	—	—	—
Operational investment securities and Securities, operational investment securities and investment securities				
Available-for-sale securities with maturities:				
Government/municipal bonds	3,924	2,039	—	—
Corporate bonds	—	300	—	—
Total	¥240,583	¥2,339	¥ —	¥ —

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

At March 31, 2018

	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of yen				Thousands of U.S. dollars (Note 2)			
Cash and time deposits	**¥ 16,456**	**¥ —**	**¥ —**	**¥ —**	**$ 154,903**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable – trade	**66,665**	**—**	**—**	**—**	**627,497**	**—**	**—**	**—**
Deposits paid	**83,340**	**—**	**—**	**—**	**784,455**	**—**	**—**	**—**
Investment securities								
Available-for-sale securities with maturities:								
Corporate bonds	**—**	**1,000**	**—**	**—**	**—**	**9,412**	**—**	**—**
Total	**¥166,462**	**¥1,000**	**¥ —**	**¥ —**	**$1,566,857**	**$9,412**	**$ —**	**$ —**

Note: Available-for-sale securities of ¥40 million ($377 thousand) scheduled amounts subject to change due to fluctuation in fair value were not included in available-for-sale securities with maturities in the above table.

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

At March 31, 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	¥ —

At March 31, 2018

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

	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	$ 94,126	$ —	$ —	$ —	$ —	$ —
Current portion of long-term loans payable	47,063	—	—	—	—	—
Corporate Bonds	—	—	94,126	94,126	94,126	—
Total	$141,189	$ —	$94,126	$94,126	$94,126	$ —

12. INFORMATION ON SECURITIES

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

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

At March 31, 2017

	Carrying value	Acquisition cost	Difference
	Millions of yen		
1. Securities with fair value exceeding acquisition cost:			
Equity securities	¥ 4,009	¥1,247	¥2,762
Debt securities:			
Governmental/municipal bonds	6,056	5,994	62
Corporate bonds	300	300	0
Other	—	—	—
Subtotal	10,366	7,541	2,824
2. Securities with fair value not exceeding acquisition cost:			
Equity securities	—	—	—
Debt securities:			
Governmental/municipal bonds	—	—	—
Corporate bonds	—	—	—
Other	83	101	(17)
Subtotal	83	101	(17)
Total	¥10,450	¥7,643	¥2,806

Note: Unlisted equity securities of ¥109 million and investments in partnership of ¥634 million were not included in the above table since the quoted market price was not available and it was extremely difficult to estimate future cash flows.

At March 31, 2018

	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	¥4,117	¥1,214	¥2,902	$38,759	$11,435	$27,324
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	701	700	1	6,599	6,588	10
Other	—	—	—	—	—	—
Sub-total	4,818	1,914	2,904	45,358	18,023	27,334
2. Securities with fair value not exceeding acquisition cost:						
Equity securities	—	—	—	—	—	—
Debt securities:						
Governmental/municipal bonds	—	—	—	—	—	—
Corporate bonds	299	300	(0)	2,819	2,823	(4)
Other	40	50	(10)	377	477	(100)
Sub-total	339	350	(11)	3,196	3,301	(105)
Total	¥5,158	¥2,265	¥2,892	$48,555	$21,325	$27,229

Note: Unlisted equity securities of ¥109 million ($1,028 thousand) and investments in partnership of ¥427 million ($4,020 thousand) were not included in the above table since the quoted market price was not available and it was extremely difficult to estimate future cash flows.

(2) Sales of available-for-sale securities

	Year ended March 31 2017	Year ended March 31 2018	Year ended March 31 2018
	Millions of yen		Thousands of U.S. dollars
Sales proceeds:			
Equity securities	¥931	¥259	$2,438
Debt securities	0	—	—
Other	—	50	477
Aggregate gains:			
Equity securities	804	107	1,010
Debt securities	0	—	—
Other	—	—	—
Aggregate losses:			
Equity securities	—	1	13
Debt securities	—	—	—
Other	¥ —	¥ 10	$ 102

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

Not applicable for the year ended March 31, 2017.

For the year ended March 31, 2018, losses on valuation of investment securities of ¥101 million ($954 thousand) were recognized.

With regard to equities for which quoted market prices were not available and which were extremely difficult to estimate future cash flows, if the effective price of such an equity declines due to factors such as a deterioration in the financial condition of the issuer, the Company determines whether or not impairment is necessary by considering factors such as the likelihood of a recovery in the future price.

SCSK's Value Creation
Message from Management
Growth Strategies
Management Resources
Management Structure
Our Businesses
Financial Section

13. DERIVATIVE TRANSACTIONS

Derivative transactions for which hedge accounting has been applied
Currency-related

At March 31, 2017

Type of transaction	Hedged item	Notional amount	Portion due after one year included in notional amount	Fair value
		Millions of yen		
Derivative transactions for which deferral hedge accounting has been applied				
Forward foreign exchange contracts				
Sell	Forecast transactions in foreign currency			
USD, GBP		¥ 825	¥—	¥ 17
Buy				
USD, EUR, GBP, SGD		2,952	84	(24)
Derivative transactions for which appropriation treatment has been applied				
Forward foreign exchange contracts				
Sell				
USD, GBP	Accounts receivable – trade	505	—	(Note 2)
Buy				
USD, EUR, GBP, SGD	Accounts payable – trade	1,928	—	(Note 2)
Total		¥6,212	¥84	¥ (7)

Notes: 1. Fair value was based on the prices obtained from financial institutions.
2. Forward foreign exchange contracts for which appropriation treatment had been applied were accounted for together with accounts payable and accounts receivable designated as hedged items. Therefore, their fair values were included in the fair value of the hedged accounts payable and accounts receivable.

At March 31, 2018

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	Forecast transactions in foreign currency						
USD, GBP		**¥1,969**	**¥ —**	**¥ 36**	**$18,540**	**$ —**	**$ 340**
Buy							
USD, EUR, GBP, SGD		**3,686**	**236**	**(44)**	**34,701**	**2,224**	**(416)**
Derivative transactions for which appropriation treatment has been applied							
Forward foreign exchange contracts							
Sell							
USD, EUR, GBP	Accounts receivable – trade	**929**	**—**	(Note 2)	**8,753**	**—**	(Note 2)
Buy							
USD, EUR, GBP, SGD	Accounts payable – trade	**938**	**—**	(Note 2)	**8,830**	**—**	(Note 2)
Total		**¥7,524**	**¥236**	**¥ (8)**	**$70,825**	**$2,224**	**$ (76)**

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.

(2)Defined benefit plans
(a) Movement in retirement benefit obligations

	Year ended March 31 2017	Year ended March 31 2018	Year ended March 31 2018
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥72,528	**¥73,040**	**$687,508**
Service costs	3,172	**3,148**	**29,631**
Interest costs	469	**569**	**5,361**
Actuarial gains and losses	(653)	**2,512**	**23,653**
Benefits paid	(1,658)	**(2,053)**	**(19,331)**
Past service costs	(912)	**(64)**	**(602)**
Decrease from change in scope of consolidation	—	**(406)**	**(3,826)**
Other	95	**121**	**1,142**
Balance at end of period	¥73,040	**¥76,868**	**$723,536**

(b) Movement in plan assets

	Year ended March 31 2017	Year ended March 31 2018	Year ended March 31 2018
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥66,779	**¥70,695**	**$665,432**
Expected return on plan assets	1,335	**1,410**	**13,278**
Actuarial gains and losses	866	**2,403**	**22,625**
Contributions paid by the employer	3,333	**3,309**	**31,147**
Benefits paid	(1,618)	**(2,012)**	**(18,942)**
Decrease from change in scope of consolidation	—	**(401)**	**(3,779)**
Other	(1)	**(5)**	**(47)**
Balance at end of period	¥70,695	**¥75,400**	**$709,714**

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

	March 31 2017	March 31 2018	March 31 2018
	Millions of yen		Thousands of U.S. dollars
Funded retirement benefit obligations	¥ 72,714	**¥ 76,470**	**$ 719,793**
Plan assets	(70,695)	**(75,400)**	**(709,714)**
	2,019	**1,070**	**10,078**
Unfunded retirement benefit obligations	326	**397**	**3,742**
Total net asset for retirement benefits	2,345	**1,468**	**13,821**
Net defined benefit liability	2,359	**1,468**	**13,821**
Net defined benefit asset	(13)	**—**	**—**
Total net asset for retirement benefits	¥ 2,345	**¥ 1,468**	**$ 13,821**

(d) Retirement benefit expenses

	Year ended March 31		Year ended March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Service costs	¥ 3,172	**¥ 3,148**	**$ 29,631**
Interest costs	469	**569**	**5,361**
Expected return on plan assets	(1,335)	**(1,410)**	**(13,278)**
Net actuarial gains and losses amortization	(71)	**(246)**	**(2,320)**
Past service costs amortization	(840)	**(13)**	**(123)**
Other	287	**282**	**2,662**
Total retirement benefit expenses	¥ 1,681	**¥ 2,330**	**$ 21,931**

(e) 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	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Past service costs	¥ 71	**¥ 50**	**$ 479**
Actuarial gains and losses	1,448	**(348)**	**(3,281)**
Total balance	¥1,520	**¥(297)**	**$(2,801)**

(f) Accumulated remeasurements of defined benefit plans

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

	March 31		March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Past service costs that are yet to be recognized	¥ (90)	**¥ (141)**	**$ (1,330)**
Actuarial gains and losses that are yet to be recognized	4,148	**4,504**	**42,400**
Total balance	¥4,058	**¥4,363**	**$41,069**

(g) Plan assets

i) Categories of plan assets

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

	March 31	
	2017	**2018**
Bonds	48%	**49%**
Equity securities	29%	**31%**
Cash and deposits	4%	**5%**
Assets in an insurer's general account	9%	**8%**
Hedge fund	9%	**5%**
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.

(h) Actuarial assumptions

The principal actuarial assumptions (weighted average rate) were as follows:

	Year ended March 31	
	2017	**2018**
Discount rate	0.8%	**0.7%**
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 and ¥1,388 million ($13,067 thousand) for the years ended March 31, 2017 and 2018, respectively.

15. STOCK OPTIONS

(1) Outline, number and movement of stock options

(a) Outline of stock options

Stock option	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Date of resolution	July 27, 2007	June 26, 2008	June 25, 2009	June 25, 2010
Grantees' position	10 directors 14 executive officers	9 directors 12 executive officers	9 directors 16 executive officers	9 directors 14 executive officers
The number of share options by types of shares (Note 1)	Common stock 16,400 shares	Common stock 22,900 shares	Common stock 31,100 shares	Common stock 45,400 shares
Date of grant	July 27, 2007	July 29, 2008	July 30, 2009	July 30, 2010
Vesting condition	No provisions	No provisions	No provisions	No provisions
Applicable period of service	No provisions	No provisions	No provisions	No provisions
Exercisable period	July 28, 2007– July 26, 2027	July 30, 2008– July 28, 2028	July 31, 2009– July 29, 2029	July 31, 2010– July 29, 2030
Number of subscription rights to shares (Note 2)	20 [12]	39 [26]	94 [81]	292 [267]
Class, content and number of shares issued upon exercise of stock acquisition rights (Note 2)	Common stock 2,000 shares [Common stock 1,200 shares] (Note 3)	Common stock 3,900 shares [Common stock 2,600 shares] (Note 3)	Common stock 9,400 shares [Common stock 8,100 shares] (Note 3)	Common stock 29,200 shares [Common stock 26,700 shares] (Note 3)
Amount to be paid upon exercise of subscription rights to shares (Yen) (Note 2)	1	1	1	1
Issue price and amount included in capital in case of the issuance of shares upon exercise of subscription rights to shares (Yen) (Note 2)	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1	Issue price 1 Amount included in capital 1
Terms and conditions for the exercise of subscription rights to shares (Note 2)	*1	*2	*3	*4
	In the case where the Holders die, succession of their share subscription rights by heirs shall be permitted. Other terms and conditions shall be stipulated in the Agreement on Stock Option entered into between the Company and the Holder.			
Matters concerning the transfer of subscription rights to shares (Note 2)	The transfer of the subscription rights to shares shall require the approval of the Board of Directors.			
Matters related to the issuance of subscription rights to shares in connection with organizational restructuring measures (Note 2)	Note 4	Note 4	Note 4	Note 4
Matters concerning provisions for the acquisition of subscription rights to shares (Note 2)	Note 5	Note 5	Note 5	Note 5

Notes:
1. The number of stock options by class of shares has been converted and stated as number of shares.
2. The information is presented as of March 31, 2018. Certain matters have changed during the period from March 31, 2018 to the end of the month (May 31, 2018) preceding the filing date of the Securities Report. This information is presented as of May 31, 2018 in brackets ("[ ]"). There have been no changes to other matters from March 31, 2018 .
 *1 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2025, they shall be able to exercise the rights on and after August 1, 2025.
 *2 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2026, they shall only be able to exercise the rights on and after August 1, 2026.
 *3 The Holders can exercise the rights for only two years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2027, they shall be able to exercise the rights on and after August 1, 2027.
 *4 The Holders can exercise the rights for only ten years from the day following the date when they lose their positions of director or executive officer of the Company (hereinafter, the "initial day of exercise period"). Notwithstanding the foregoing, if the Holders will not reach the initial day of the exercise period until July 31, 2028, they shall be able to exercise the rights on and after August 1, 2028.
3. In the event that the Company conducts a stock split or stock consolidation, the number of shares granted for each subscription right to shares shall be adjusted by the following formula: However, this adjustments will apply only to the number of shares granted for those subscription rights to shares that have not already been exercised prior to the relevant date. Fractions of less than one share arising from the adjustments shall be discarded.
 Adjusted number of shares granted = Preadjusted number of shares granted x stock split or stock consolidation ratio
 If the Company conducts a merger, a company split, share exchange or share transfer (hereinafter collectively "Mergers, etc."), a free distribution of the Company's shares, or any other event requiring an adjustment of the number of shares granted, the Company can make a reasonable adjustment of the number of shares granted, taking into account the terms and conditions of the Mergers, etc. and free distribution of shares.
4. Treatment of subscription rights to shares in the event of organizational restructuring measures
 If the Company specifies in agreements, plans or other such documents prepared upon organizational restructuring that it will issue subscription rights to shares of a Restructured Company as set forth below, the Company shall issue subscription rights to shares of the Restructured Company to the original Holders based on the relevant organizational restructuring ratio.
 (1) Mergers (only mergers under which the Company is to be dissolved)
  A Restructured Company that will survive after the merger or a Restructured Company that will be established through the merger
 (2) Absorption-type company split
  A Restructured Company that succeeds to all or part of the rights and obligations with respect to the business that are held by the company that conducts the absorption-type company split
 (3) Incorporation-type company split
  A Restructured Company established through an incorporation-type company split
 (4) Share exchange
  A Restructured Company that acquires all of the issued shares of a company that conducts a share exchange
 (5) Share transfer
  A Restructured Company established through a share transfer
5. Provisions for acquiring subscription rights to shares
 (1) If a Holder of subscription rights to shares ceases to meet the conditions for exercising the subscription rights to shares, the Company may acquire the relevant subscription rights to shares at no cost.
 (2) If a General Meeting of Shareholders approves a proposal for approval of a merger agreement under which the Company is to be dissolved, or a proposal for approval of a share exchange agreement or share transfer plan under which the Company is to become a wholly owned subsidiary, the Company is entitled to acquire the subscription rights to shares at no cost.

(Additional Information)
Notable matters that should be disclosed in "Outline of stock options" under "15. STOCK OPTIONS" have been disclosed collectively in the notes related to stock options.

(b) Number and movement of stock options

(i) Number of stock options

	Number of shares			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Non-vested:				
Outstanding at March 31, 2017	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Outstanding at March 31, 2018	—	—	—	—
Vested:				
Outstanding at March 31, 2017	2,600	4,700	11,600	35,100
Vested	**—**	**—**	**—**	**—**
Exercised	**600**	**800**	**2,200**	**5,900**
Forfeited	**—**	**—**	**—**	**—**
Outstanding at March 31, 2018	**2,000**	**3,900**	**9,400**	**29,200**

(ii) 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, 2018

	Yen			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	**¥ 1**	**¥ 1**	**¥ 1**	**¥ 1**
Average market price of the stock at the time of exercise	**4,940**	**4,940**	**4,780**	**4,522**
Fair valuation price (date of grant)	**2,156**	**1,774**	**1,363**	**1,149**

	U.S. dollars			
	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option
Exercise price	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**
Average market price of the stock at the time of exercise	**46.49**	**46.49**	**44.99**	**42.56**
Fair valuation price (date of grant)	**20.29**	**16.69**	**12.82**	**10.81**

(2) Method of estimating exercised stock options

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

16. INCOME TAXES

(1) The significant components of deferred tax assets and liabilities

	March 31		March 31
	2017	**2018**	**2018**
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Accrued enterprise taxes	¥ 484	**¥ 514**	**$ 4,839**
Accrued payable bonuses	2,084	**1,818**	**17,114**
Loss on valuation of membership	165	**167**	**1,574**
Net defined benefit liability	723	**452**	**4,262**
Payable for integration to retirement pension plans	0	**—**	**—**
Tax losses carried forward	45,969	**40,723**	**383,313**
Loss on valuation of goods	16	**2**	**27**
Allowance for doubtful accounts	52	**49**	**466**
Depreciation	43	**78**	**734**
Impairment	194	**1,031**	**9,712**
Unrecognized profit of prepaid cards	4,153	**—**	**—**
Loss on valuation of investment securities	61	**92**	**868**
Asset retirement obligations	728	**774**	**7,292**
Other	800	**768**	**7,233**
Total gross deferred tax assets	55,480	**46,473**	**437,439**
Valuation allowance	(27,791)	**(27,351)**	**(257,447)**
Total deferred tax assets	27,688	**19,122**	**179,991**
Deferred tax liabilities:			
Valuation differences on available-for-sale securities	(991)	**(966)**	**(9,100)**
Removal expenses for asset retirement obligations	(402)	**(381)**	**(3,586)**
Net defined benefit asset	(4)	**—**	**—**
Other	(439)	**(476)**	**(4,489)**
Total deferred tax liabilities	(1,838)	**(1,824)**	**(17,176)**
Net deferred tax assets	¥ 25,850	**¥ 17,297**	**$ 162,815**

(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 2018 was as follows:

	Year ended March 31	
	2017	**2018**
Statutory tax rates:	30.9%	**30.9%**
Effect of:		
Expenses not deductible for income tax purposes	0.5	**0.3**
Amortization of goodwill	0.1	**0.0**
Share of profit of entities accounted for using the equity method	(0.4)	**(0.4)**
Base portion of inhabitants' taxes	0.5	**0.4**
Change in valuation allowance	(11.6)	**(0.9)**
Retained earnings	0.1	**2.2**
Adjustments for carrying value of investment	—	**(9.1)**
Other	(1.6)	**0.2**
Effective tax rate	18.3%	**23.4%**

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

The Tax Cuts and Jobs Act was enacted in the U.S. on December 22, 2017. As a result, the federal corporate income tax rate applicable to the Company's U.S. consolidated subsidiaries was reduced from 35% to 21%.

There is no significant impact of this change in tax rate.

17. BUSINESS COMBINATIONS

Business divestiture (transfer of shares of subsidiary resulting in a change in scope of consolidation)

(1) Outline of business divestiture

(a) Name of company to whom the business was divested

T-Gaia Corporation

(b) Description of divested business

Consolidated subsidiary QUO CARD Co., Ltd.

Business description: Issuing of card (pre-paid type and other) and settlement services

Sales of card and card related apparatus, and related maintenance services

(c) Reason for business divestiture

QUO Card started its pre-paid card business in 1995 as an issuer of QUO CARD, a pre-paid card usable at various kinds of retailers all across Japan, regardless of the type of retailing, including convenience stores, book stores, drugstores, family restaurants and gas stations. Ever since, QUO Card has developed its pre-paid card business into what it is today, with more than 57,000 affiliated merchants and an accumulated issue amount of more than ¥1,000 billion at the end of September 2017.

Since the founding of QUO Card, SCSK has been seeking synergies for many years between its core businesses, the IT Services business and the QUO Card business. However, SCSK has yet to produce significant synergistic benefits that would contribute to the expansion of the two businesses. Against this backdrop, in order to focus its management resources even more on the core IT Services business, SCSK has decided to transfer all of its shares of QUO Card to T-Gaia. This move is part of SCSK's efforts to concentrate its resources on carefully selected strategic fields within its business portfolio.

(d) Date of business divestiture

December 1, 2017

SCSK's Value Creation
Message from Management
Growth Strategies
Management Resources
Management Structure
Our Businesses
Financial Section

(e) Other matters concerning the outline of the transaction, including the legal form
Transfer of shares in exchange for consideration in cash and related assets only

(2) Outline of the accounting treatment applied
(a) Amount of gain or loss on transfer
¥10,706 million ($100,773 thousand)

(b) Appropriate carrying amount of assets and liabilities related to the transferred business and significant components thereof

At March 31, 2018

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥106,132**	**$ 998,992**
Non-current assets	**4,549**	**42,819**
Total assets	**¥110,682**	**$1,041,811**
Current liabilities	**¥ 98,817**	**$ 930,134**
Non-current liabilities	**53**	**502**
Total liabilities	**¥ 98,870**	**$ 930,636**

(c) Accounting treatment
The Company has recorded the difference between the consolidated carrying amount and the sales price for the transferred shares as gain on sales of investment securities under extraordinary income.

(3) Name of reportable segment into which the divested business had been included
Prepaid Card Business

(4) Estimated profit or loss related to the divested business recorded on the consolidated statement of income for the year ended March 31, 2018

Year ended March 31, 2018

	Millions of yen	Thousands of U.S. dollars
Net sales	**¥2,948**	**$27,751**
Operating profit	**222**	**2,093**

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 2018

	Year ended March 31		Year ended March 31
	2017	2018	2018
	Millions of yen		Thousands of U.S. dollars
Balance at beginning of period	¥2,101	**¥2,278**	**$21,447**
Increase due to acquisition of property and equipment	137	**88**	**837**
Adjustments due to passage of time	23	**23**	**219**
Decrease due to fulfillment of asset retirement obligations	(79)	**(100)**	**(944)**
Decrease due to change in estimates (Note 1)	95	**175**	**1,654**
Decrease from change in scope of consolidation	—	**(53)**	**(502)**
Balance at end of period (Note 2)	¥2,278	**¥2,412**	**$22,712**

Notes: 1. At March 31, 2017, it became clear that the cost required for the asset retirement increased. Thus, the Company added ¥95 million to the balance of asset retirement obligations as a change in estimate.
At March 31, 2018, it became clear that a cost required for the asset retirement increased. Thus, the Company increased the balance of asset retirement obligations by ¥175 million ($1,654 thousand).
2. The balance at end of period for the year ended March 31, 2018 included ¥21 million ($198 thousand) of asset retirement obligations under other current liabilities.

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 and Chief Operating Officer 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 seven 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, and IT Platform Solutions.

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

Presented below is an overview of the business activities for 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 enterprise systems, manufacturing management systems, management information systems and SCM/CRM. Their services leverage the experience and know-how that 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.

SCSK's Value Creation
Message from Management
Growth Strategies
Management Resources
Management Structure
Our Businesses
Financial Section

(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. In addition, this business group offers a wide range of IT solutions in fields including the focus area of automotive software systems.

(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 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.

(b) Matters related to changes in reportable segments

Effective from April 1, 2017, the Company changed part of its organization.

All shares of stock held in QUO CARD Co., Ltd., which conducted the Prepaid Card Business, were transferred on December 1, 2017. Accordingly, this company was excluded from the scope of consolidation and the Prepaid Card Business was included under the "Other" category.

Segment information for the year ended March 31, 2017 has been restated to reflect this change.

(2) Calculation of sales, profit, assets and other items by reportable segment

The accounting treatment for the Group's reportable segments is generally the same as described in Note 1, "Summary of significant accounting policies."

The segment profit figures stated in the reportable segments are based on operating profit. The intersegment sales or the intersegment figures are based on actual market prices.

(3) Sales, profit, assets and other items for each reportable segment

Segment data for the years ended March 31, 2017 and 2018 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, income and assets by reportable segment						
Net sales:						
Sales to third parties	¥40,194	¥26,758	¥45,792	¥70,543	¥23,754	¥42,811
Inter-segment sales and transfers	3,656	1,213	9,102	955	3,540	2,378
Total	43,851	27,971	54,895	71,498	27,294	45,189
Segment income	4,269	5,308	6,603	7,369	1,440	3,302
Segment assets	18,822	11,183	36,817	31,958	11,788	12,944
Other items						
Depreciation and amortization	1,459	617	1,575	1,057	903	388
Investments in equity-method affiliates	—	—	—	—	—	101
Net increase in tangible/intangible fixed assets	1,875	944	2,863	3,821	2,090	746

	Reportable segment				
	IT Platform Solutions	Other (Note 3)	Total	Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	Millions of yen				
Sales, income and assets by reportable segment					
Net sales:					
Sales to third parties	¥75,379	¥ 4,068	¥329,303	¥ —	¥329,303
Inter-segment sales and transfers	5,975	3,007	29,828	(29,828)	—
Total	81,355	7,076	359,131	(29,828)	329,303
Segment income	7,159	538	35,992	(2,278)	33,714
Segment assets	31,371	70,577	225,463	164,073	389,537
Other items					
Depreciation and amortization	853	253	7,110	1,861	8,972
Investments in equity-method affiliates	4,216	—	4,317	—	4,317
Net increase in tangible/intangible fixed assets	1,435	35	13,813	1,522	15,335

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(2,278) million to segment profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥164,073 million to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥1,861 million to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥1,522 million to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profit was reconciled to operating profit in the consolidated statements of income.
3. The "Other" category includes business segments that are not part of reportable segments, such as the Prepaid Card Business.

Year ended March 31, 2018

	Reportable segment					
	Manufacturing Systems Business	Tele-communication Systems Business	Distribution Systems Business	Financial Systems Business	Business Solutions	Business Services
	Millions of yen					
Sales, income and assets by reportable segment						
Net sales:						
Sales to third parties	¥40,784	¥27,313	¥47,137	¥69,630	¥25,731	¥44,467
Inter-segment sales and transfers	3,205	1,255	9,639	1,449	4,100	1,988
Total	43,990	28,569	56,777	71,079	29,831	46,455
Segment income	4,714	5,548	6,641	7,137	1,658	3,049
Segment assets	21,190	13,321	36,613	30,136	12,255	13,780
Other items						
Depreciation and amortization	1,495	560	1,479	2,918	1,544	464
Investments in equity-method affiliates	—	—	—	—	—	104
Net increase in tangible/intangible fixed assets	2,369	2,446	4,192	2,065	1,940	597

	Reportable segment			Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Platform Solutions	Other (Note 3)	Total		
	Millions of yen				
Sales, income and assets by reportable segment					
Net sales:					
Sales to third parties	¥77,873	¥3,716	¥336,654	¥ —	¥336,654
Inter-segment sales and transfers	6,361	3,008	31,009	(31,009)	—
Total	84,234	6,725	367,664	(31,009)	336,654
Segment income	8,043	378	37,171	(2,569)	34,602
Segment assets	34,634	4,259	166,191	137,722	303,914
Other items					
Depreciation and amortization	904	174	9,541	1,703	11,245
Investments in equity-method affiliates	4,630	—	4,735	187	4,922
Net increase in tangible/intangible fixed assets	1,279	30	14,922	665	15,588

	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, income and assets by reportable segment						
Net sales:						
Sales to third parties	$383,887	$257,095	$443,693	$655,407	$242,197	$418,553
Inter-segment sales and transfers	30,176	11,816	90,737	13,639	38,597	18,718
Total	414,063	268,911	534,431	669,046	280,794	437,272
Segment income	44,379	52,223	62,513	67,183	15,607	28,703
Segment assets	199,463	125,389	344,633	283,659	115,356	129,709
Other items						
Depreciation and amortization	14,072	5,277	13,926	27,467	14,538	4,371
Investments in equity-method affiliates	—	—	—	—	—	984
Net increase in tangible/intangible fixed assets	22,303	23,026	39,460	19,443	18,268	5,626

	Reportable segment			Adjustments (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	IT Platform Solutions	Other (Note 3)	Total		
	Thousands of U.S. dollars				
Sales, income and assets by reportable segment					
Net sales:					
Sales to third parties	$732,994	$34,985	$3,168,813	$ —	$3,168,813
Inter-segment sales and transfers	59,877	28,315	291,880	(291,880)	—
Total	792,872	63,301	3,460,694	(291,880)	3,168,813
Segment income	75,711	3,563	349,884	(24,184)	325,699
Segment assets	326,000	40,091	1,564,302	1,296,334	2,860,637
Other items					
Depreciation and amortization	8,510	1,645	89,809	16,037	105,847
Investments in equity-method affiliates	43,586	—	44,571	1,762	46,333
Net increase in tangible/intangible fixed assets	12,042	291	140,462	6,267	146,730

Notes: 1. Adjustments were as follows:
(1) The adjustment of ¥(2,569) million ($(24,184) thousand) to segment profit represented general corporate expenses that were not allocated to a reportable segment.
(2) The adjustment of ¥137,722 million ($1,296,334 thousand) to segment assets represented corporate assets that were not allocated to a reportable segment.
(3) The adjustment of ¥1,703 million ($16,037 thousand) to depreciation represented charges to corporate assets that were not allocated to a reportable segment.
(4) The adjustment of ¥187 million ($1,762 thousand) for investments in equity-method affiliates represents investments conducted as part of Companywide measures not allocated to any reportable segment.
(5) The adjustment of ¥665 million ($6,267 thousand) to net increase in tangible/intangible fixed assets represented investments in corporate assets, including the Company's headquarters building.
2. Segment profit was reconciled to operating profit in the consolidated statements of income.
3. The "Other" category includes business segments that are not part of reportable segments, such as the Prepaid Card Business.

(4) Related information

Years ended March 31, 2017 and 2018

(a) Information about products and services

Sales data by products and services for the years ended March 31, 2017 and 2018 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 2018 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 2018 was not presented as property, plant and equipment located in Japan represented more than 90% of total property, plant and equipment in the consolidated balance sheets.

(c) Information about major customers

Of the net sales to external customers, no customer accounted for 10% or more of net sales in the consolidated statement of income for the years ended March 31, 2017 and 2018.

(5) Information regarding impairment loss on fixed assets by reportable segment

Year ended March 31, 2017

	Millions of yen
Manufacturing Systems Business	¥—
Telecommunication Systems Business	—
Distribution Systems Business	—
Financial Systems Business	—
Business Solutions	—
Business Services	—
IT Platform Solutions	—
Other	—
Corporate assets and Eliminations	37
Total	¥37

Note: Impairment loss not allocated to any reportable segment amounted to ¥37 million. Details of this impairment loss are presented in Note 6, Consolidated Statements of Income-Impairment loss.

Year ended March 31, 2018

	Millions of yen	Thousands of U.S. dollars
Manufacturing Systems Business	¥ —	$ —
Telecommunication Systems Business	—	—
Distribution Systems Business	—	—
Financial Systems Business	—	—
Business Solutions	—	—
Business Services	—	—
IT Platform Solutions	—	—
Other	—	—
Corporate assets and Eliminations	**1,425**	**13,417**
Total	**¥1,425**	**$13,417**

Note: Impairment loss not allocated to any reportable segment amounted to ¥1,425 million ($13,417 thousand). 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

Year ended March 31, 2017

	Amortization of goodwill	Remaining balances
	Millions of yen	
Manufacturing Systems Business	¥30	¥114
Telecommunication Systems Business	—	—
Distribution Systems Business	—	—
Financial Systems Business	—	—
Business Solutions	—	—
Business Services	20	—
IT Platform Solutions	38	19
Other	8	—
Corporate assets and Eliminations	—	—
Total	¥98	¥133

Year ended March 31, 2018

	Amortization of goodwill	Remaining balance	Amortization of goodwill	Remaining balance
	Millions of yen		Thousands of U.S. dollars	
Manufacturing Systems Business	**¥30**	**¥84**	**$287**	**$790**
Telecommunication Systems Business	—	—	—	—
Distribution Systems Business	—	—	—	—
Financial Systems Business	—	—	—	—
Business Solutions	—	—	—	—
Business Services	—	—	—	—
IT Platform Solutions	**19**	—	**182**	—
Other	—	—	—	—
Corporate assets and Eliminations	—	—	—	—
Total	**¥49**	**¥84**	**$470**	**$790**

(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 2018.

(8) Information about related parties

(a) Transactions between related parties

(i) Transactions between the Company and related parties

(A) Sumitomo Corporation

	Year ended March 31	
	2017	**2018**
Attribute	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	**¥219,278**
		($2,063,995 thousand)
Type of business	Trading Company	**Trading Company**
Percentage of voting shares in the Company	Direct	**Direct**
	51.1%	**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	**¥15,277**
		($143,801 thousand)
Balance at year-end:		
(Accounts receivable – trade)		
(Millions of yen)	¥2,667	**¥2,664**
		($24,893 thousand)
Relationship of related party 2		**Depositing of Funds**
Transaction amounts (Millions of yen)	¥1,092,100	**¥1,644,200**
(Depositing of funds)		**($15,476,280 thousand)**
Balance at year-end (Millions of yen)	¥97,000	**¥82,000**
(Depositing of funds)		**($771,837 thousand)**
Transaction amounts (Millions of yen)	¥77	**¥101**
(Interest Receipt)		**($951 thousand)**
Balance at year-end (Millions of yen)	¥1	**¥1**
(Accrued income)		**($9 thousand)**

Notes: 1. In the amounts above, consumption taxes were included in the outstanding balances at year end, but not in transaction amounts.
2. Transaction conditions and policy on determining transaction conditions
The terms and conditions applicable to the above transactions regarding data processing services and software development services were determined on an arm's length basis after presenting the Company's quotations and conducting price negotiations for each project, with reference to normal market prices and cost ratios.
The interest rates for the depositing of funds were determined on an arm's length basis and with reference to normal market interest rates.

(B) Subsidiary of Sumitomo Corporation

Year ended March 31, 2017

Not applicable

Year ended March 31, 2018

Attribute	Company which has an identical parent company
Name of the Company	**T-Gaia Corporation**
Location	**Shibuya-ku, Tokyo**
Common stock amount (Millions of yen)	**¥3,154**
	($29,688 thousand)
Type of business	**Sales of mobile phones and agency businesses**
Percentage of voting shares in the Company	**N/A**
Relationship of related party	**Transferee of subsidiary's shares**
Transaction amounts (Millions of yen)	**¥22,500**
(Transfer price of the subsidiary's share)	**($211,784 thousand)**
Balance at year-end (Millions of yen)	**—**
Transaction amounts (Millions of yen)	**¥10,706**
(Gain on transfer of business)	**($100,773 thousand)**
Balance at year-end (Millions of yen)	**—**

Notes: 1. In transaction amounts and the amounts of balance at year-end, consumption taxes were not included.
2. Transaction conditions and policy on determining transaction conditions
With regard to the transfer of shares, the Company determined the transferee through a competitive tender bid. The transfer price was determined only after requesting an independent calculation agent to calculate the value of shares and confirming that the transfer price fell within the range of the result of the independent calculation agent's valuation.

(ii) Transactions between the consolidated subsidiaries of the Company and related parties

Not applicable

(b) Notes regarding the parent company or important affiliates

(i) Parent company information

Sumitomo Corporation (Listed on the Tokyo, Nagoya and Fukuoka stock exchanges)

(ii) Summary of financial information of important affiliates

Not applicable

20. AMOUNTS PER SHARE

	Year ended March 31 2017	Year ended March 31 2018	Year ended March 31 2018
	Yen		U.S. dollars
Net assets	¥1,607.74	**¥1,822.54**	**$17.15**
Earnings:			
Basic	274.16	**312.95**	**2.94**
Diluted	273.96	**312.80**	**2.94**

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 2017	Year ended March 31 2018	Year ended March 31 2018
	Millions of yen		Thousand of U.S. dollars
Earnings per share:			
Profit attributable to owners of parent	¥28,458	**¥32,488**	**$305,806**
Amount not attributable to common shareholders	—	**—**	**—**
Profit attributable to common shareholders	28,458	**32,488**	**305,806**
Weighted average number of common stock (Shares)	103,803,262	**103,813,610**	
Diluted earnings per share:			
Adjustments to profit attributable to owners of parent	(3)	**—**	**—**
(of which, change in holdings in equity method affiliates due to their issuance of subscription rights)	(3)	**—**	**—**
Increase in shares of common stock (Shares)	63,042	**51,745**	
(of which, exercise of subscription rights to shares)	63,042	**51,745**	

Note: 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

	April 1 2017	March 31 2018	March 31 2018
	Millions of yen		Thousands of U.S. dollars
0.50% unsecured bonds (maturity period: from May 29, 2012 to May 29, 2017)	¥10,000	¥ —	$ —
0.34% unsecured bonds (maturity period: from March 14, 2013 to March 14, 2018)	5,000	—	—
0.33% unsecured bonds (maturity period: from June 24, 2015 to June 24, 2020)	10,000	10,000	94,126
0.14% unsecured bonds (maturity period: from December 15, 2016 to December 15, 2021)	10,000	10,000	94,126
0.14% unsecured bonds (maturity period: from July 21, 2017 to July 21, 2022)	—	10,000	94,126
Total	¥35,000	¥30,000	$282,379

Note: The annual redemption schedule for the five years after March 31, 2018 is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ —	$ —
2020	—	—
2021	10,000	94,126
2022	10,000	94,126
2023	10,000	94,126

Schedule of borrowings

	April 1 2017	March 31 2018	March 31 2018	
	Millions of yen		Thousands of U.S. dollars	Maturity Period
Short-term loans, principally from banks, with average annual interest rate of 0.12%	¥10,000	¥10,000	$ 94,126	—
Current portion of long-term loans principally from banks with average annual interest rate of 0.10%	10,000	5,000	47,063	—
Current portion of lease obligation with average annual interest rate of 1.85%	988	975	9,179	—
Long-term loans (excluding current portion)	5,000	—	—	—
Lease obligations (excluding current portion)	1,667	2,183	20,555	From May 2019 to Jan. 2027
Other interest bearing debt	—	—	—	—
Total	¥27,655	¥18,158	$170,924	—

Notes: 1. The average interest rate represents a weighted average interest rate relative to the year-end balance of borrowings.
2. In cases where the Company and its consolidated subsidiaries have different fiscal year-ends, the schedule includes borrowings with maturity dates falling within one year of the Company's fiscal year-end.

Note: 3. Lease obligations (excluding the current portion scheduled for repayment within one year) within five years after March 31, 2018 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥749	$7,059
2021	591	5,571
2022	405	3,814
2023	214	2,019

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, 2018 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, 2018.

Other

Quarterly information for the year ended March 31, 2018

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Millions of yen)	¥77,219	¥163,466	¥244,851	¥336,654
Profit before income taxes (Millions of yen)	¥ 4,446	¥ 14,239	¥ 33,740	¥ 43,489
Profit attributable to owners of parent (Millions of yen)	¥ 2,844	¥ 12,034	¥ 25,495	¥ 32,488
Net income per share (Yen)	¥ 27.40	¥ 115.93	¥ 245.59	¥ 312.95

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income per share (Yen)	¥27.40	¥88.53	¥129.66	¥67.36

(Cumulative period)	1st Quarter	2nd Quarter	3rd Quarter	Full Year
Net sales (Thousands of U.S. dollars)	$726,840	$1,538,649	$2,304,698	$3,168,813
Profit before income taxes (Thousands of U.S. dollars)	$ 41,854	$ 134,034	$ 317,584	$ 409,352
Profit attributable to owners of parent (Thousands of U.S. dollars)	$ 26,771	$ 113,278	$ 239,979	$ 305,806
Net income per share (U.S. dollars)	$ 0.25	$ 1.09	$ 2.31	$ 2.94

(Quarterly accounting period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income per share (U.S. dollars)	$0.25	$0.83	$1.22	$0.63

KPMG

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, 2018 and 2017, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SCSK Corporation and its consolidated subsidiaries as at March 31, 2018 and 2017, 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, 2018 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, 2018
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, 2018)

Established	October 25, 1969
Capital	¥21,152 million
Total number of employees	12,054 (Consolidated)
Head office	Toyosu Front, 3-2-20, Toyosu, Koto-ku, Tokyo 135-8110, Japan TEL : +81-3-5166-2500 URL : https://www.scsk.jp/index_en.html

Group Companies

(As of April 1, 2018)

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
- 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.*
- Asian Frontier Co., Ltd*

*Company accounted for using the equity method

Investor Information

(As of March 31, 2018)

Stock / Shareholder Information

Class of stock	Common Stock
Number of shares authorized	200,000,000
Number of shares issued	104,181,803 (including 141,641 treasury shares)
Number of shareholders	30,411
Stock listing	First Section of the Tokyo Stock Exchange
Stock code	9719
Stock trading unit	100
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	29,551	97.17%
Financial institutions	82	0.27%
Other companies	338	1.11%
Foreign companies, etc.	388	1.28%
Securities companies	51	0.17%
Treasury shares	1	0.00%
Total	30,411	100.00%

Distribution of shares

Type of Investor	Number of Shares Held	Composition
Individuals and others	8,019,520	7.70%
Financial institutions	17,914,066	17.19%
Other companies	54,756,137	52.56%
Foreign companies, etc.	22,519,372	21.62%
Securities companies	831,067	0.80%
Treasury shares	141,641	0.13%
Total	104,181,803	100.00%

Major Shareholders

	Name of Shareholder	Number of Shares Held	Shareholding Ratio
1	SUMITOMO CORPORATION	52,697,159	50.65%
2	Japan Trustee Services Bank, Ltd. (Trust Account)	5,485,500	5.27%
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	2,739,500	2.63%
4	SCSK Group Employee Stock Ownership Association	2,506,252	2.41%
5	BNP PARIBAS SEC SERVICES LUXEMBOURG / JASDEC / ABERDEEN GLOBAL CLIENT ASSETS	1,666,964	1.60%
6	ARGO GRAPHICS Inc.	1,015,500	0.98%
7	JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	969,708	0.93%
8	BNYM TREATY DTT 15	923,236	0.89%
9	Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	894,300	0.86%
10	Japan Trustee Services Bank, Ltd. (Trust Account5)	865,200	0.83%

Note: The amount of treasury stock is excluded from the calculation of the shareholding ratios of the top 10 shareholders listed above. The shareholding ratio is calculated by dividing the number of shares held by shareholder by the number of shares outstanding (shares outstanding = total number of issued shares - treasury stock).

Global Network

(As of April 1, 2018)

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.