Summary of Question and Answer Session at Earnings Call for the 1st Quarter of Fiscal Year Ending March 31, 2018

Q. Profit suffered a sharp year-on-year decrease during the three-month period ended June 30, 2017. With regard to the upfront expenses associated with a new systems development order from a securities industry customer, one of the main factors behind this decrease, when do you expect expenses to be offset?

A. We anticipate that they will be offset by revenues from this project earned during the second quarter or later in the fiscal year.

Q. Even given that you are able to offset the expenses associated with the new systems development order from a securities industry customer with revenues earned, do you expect SCSK to be able to achieve its target of a 29% year-on-year increase in operating profit for the second quarter of the fiscal year ending March 31, 2018?

A. We had initially estimated operating profit of approximately ¥10.0 billion in the second quarter of the fiscal year ending March 31, 2018, and our full-year target was set accordingly. Also, we assume that we will be able to offset the expenses associated with the new systems development order from a securities industry customer with the revenues earned from this order. Accordingly, there have been no changes to our forecasts for the six-month period ending September 30, 2017, and the fiscal year ending March 31, 2018.

Q. It feels as though it has been a long time since losses from unprofitable projects were recorded. What are the causes behind this situation?

A. Although losses from unprofitable projects were almost nonexistent in the three-month period ended June 30, 2016, generally, on a full-year basis, around ¥1.0 billion worth of losses have been incurred from such projects each fiscal year - that have been the case for the last five fiscal years. Considering that, the unprofitable projects in the period under review were not special cases. There were three unprofitable projects, and all of these projects are scheduled for completion during the first half of the fiscal year. As has been mentioned, we operates our business based on the assumption that ¥1.0 billion worth of losses from unprofitable projects will be incurred each fiscal year, and this year is no exception.

Q. Losses from unprofitable projects amounted to ¥0.4 billion in the three-month period ended June 30, 2017. Will total losses remain within the annually budgeted amount of ¥1.0 billion on a full-year basis?

A. The unprofitable projects that produced losses during the period under review were all of the usual type of systems development project. Moreover, all of these projects are expected to be completed within the first half of the fiscal year. As such, we anticipate that total losses will be within the projected amount of ¥1.0 billion on a full-year basis.

Q. What was the actual figure for sales from service-oriented businesses during the three-month period ended June 30, 2017, and what is the Company's forecast for full-year sales from these businesses?

A. The figure for sales from service-oriented businesses for the three-month period ended June 30, 2017, is only for internal use and is not for disclosure. On a full-year basis, however, we are projecting an increase of around 15% over the sales figure of ¥50.0 billion from the fiscal year ended March 31, 2017, or, in other words, sales from service-oriented businesses of between ¥57.0 billion and ¥58.0 billion.

Q. Could you please offer some details with regard to the upfront expenses associated with the new systems development order from a securities industry customer? Specifically, I would like to know about the amount of these expenses, how they were treated on the statements of income and the reasons for this treatment, and your thoughts on how the situation will develop with regard to these expenses.

A. We are still in the process of negotiating a contract with the customer in question. However, we anticipate that this order will generate revenues of more than ¥1.0 billion. With regard to the project itself, as we have explained in the past, we have developed a securities service platform, a project that entailed shared use of the license for this platform, and have begun providing a securities processing system to a certain securities firm by utilizing this platform. This system represents a service-oriented business, and we plan to provide this system to other customers going forward. The project in question is one instance of this system being provided.

We have been moving ahead with the development of this project prior to the conclusion of a contract with the consent of the customer. As the contract is still being negotiated, we chose to employ an accounting treatment of recording only the upfront expenses based on internal rules and the advice of the accounting auditor.

Looking ahead, we expect to be able to cover for these upfront expenses with revenues earned through the project. Of course, we plan to finish the project itself, but the total revenues from the project will not be particularly high. We ask for your understanding with this regard.

Q. With regard to the aforementioned new systems development order from a securities industry customer, am I correct in understanding that this order has been incorporated into forecasts and that only upfront expenses were recorded during the three-month period ended June 30, 2017, because a contract has not yet been concluded? In addition, is it safe to assume that these expenses were recorded on a cost of sales basis and that, if these expenses are excluded, actual profitability of the Company’s business improved?

A. The understanding that only upfront expenses were recorded in the three-month period ended June 30, 2017, is correct. In addition, these expenses were indeed recorded on a cost of sales basis. Also, if this project and other specific initially anticipated profit detractors are excluded, we have continued to achieve improvements in both productivity and profitability. To be precise, the operating margin would have increased by between 0.2 and 0.3 percentage point year on year in the three-month period ended June 30, 2017, if these factors are excluded.

Q. In regard to orders, I understand that the factors decreasing systems development orders as well as orders for maintenance and operation services included delays in the renewal of certain contracts, as was mentioned previously. If these delays are excluded, how were trends in orders?

A. As has already been explained, the impact of a new systems development order from a securities industry customer on systems development orders was significant, causing a year-on-year decline. As we were unable to conclude a contract for this order during the three-month period ended June 30, 2017, this order has not yet been recorded as received. Accordingly, it should go without saying that, if we had been able to conclude this contract, we would have seen a net year-on-year increase in orders.

As for maintenance and operation services orders, the impact of the delay in contract renewals was approximately ¥2.0 billion. As such, we would like you to understand that we are witnessing a solid increase in orders as we shift to service-oriented businesses.

Q. It was explained that a decline in the scale of orders from certain electronic components manufacturers impacted sales to manufacturers. In regard to this decline in order scales, does this simply mean that orders have reached their peak or does it represent a change in plans?

A. There are two elements behind the decline in the scale of orders. First, some orders have indeed reached their peak. Secondly, the start of development is behind schedule for certain orders. Still, we believe that deal flow from the manufacturing industry has been strong overall.

Q. When sales to the Sumitomo Group are excluded, consolidated net sales were relatively unchanged year on year in the three-month period ended June 30, 2017. Was this outcome the result of some change in demand trends? Also, has there been any change to the Company's outlook for certain industries, perhaps due to a trend toward delays in the progress of projects or some other factor?

A. We expect to see the commencement of projects beginning in the second quarter and then more noticeably in the second half of the fiscal year. This situation was, in part, accounted for our initial forecasts. We have seen no particular change in trends regarding to the deal flow. However, it is true that we are witnessing delays in the progress of certain projects for the financial industry. Nevertheless, projects trends are in line with our forecasts for the manufacturing, distribution, and service industries, and we expect to be able to make up for the delays in financial industry projects on a full-year basis.

Q. What is your outlook with regard to expenses, including the upfront expenses incurred in the three-month period ended June 30, 2017, going forward?

A. The increase in expenses described in the operating results briefing was, of course, within the scope of our full-year operating profit forecast of ¥36.0 billion. Looking at specific expense items, depreciation and amortization related to automotive software is projected to increase by between ¥500 million and ¥600 million on full-year basis. Meanwhile, the full-year increase in expenses for starting up service-oriented businesses should be roughly four times the increase of ¥250 million seen in the first quarter. Full-year losses from unprofitable projects are expected to remain within the budgeted amount of ¥1.0 billion, as explained previously. As for marketing expenses, we invested a notable amount at the beginning of the fiscal year. However, we still anticipate that total selling, general and administrative expenses will be contained within the amount projected for the fiscal year ending March 31, 2018, in the “Supplementary Information(Data Book)” that was released at the beginning of the fiscal year, even when these marketing expenses are included.