

Foresight in sight

Nihon Unisys Group

Integrated Report 2017

For the Year Ended March 31, 2017



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The Philosophy of Nihon Unisys

The Corporate Philosophy of Nihon Unisys represents the Company's identity, and the realization of this philosophy is the underlying theme for all of the Company's business activities.

1 Corporate Philosophy / Nihon Unisys Group Charter of Corporate Behavior

The Nihon Unisys Group's Path for Value Creation

Value Creation Story

This section provides an explanation on the Nihon Unisys Group's business model and strengths as well as on the business strategies the Group is implementing to become the corporate group it aims to be and to realize sustainable value creation.

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Management Message

The Company's CEO and CFO talk about the current state of the Nihon Unisys Group as well as the policies the Group is establishing to become the corporate group it aims to be.

15 Message from the CEO



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Corporate Philosophy / Nihon Unisys Group Charter of Corporate Behavior

Corporate Philosophy

Our Mission

Work with all people to contribute to creating a society that is friendly to people and the environment

Our Vision

Be a group that strives to be sensitive to the expectations and needs of society and that thinks through how ICT can contribute to meet them

Our Values

- 1. Pursuit of High Quality and High Technology**
Always have the latest knowledge that is useful for society while improving our skills
- 2. Respect for Individuals and Importance of Teamwork**
Identify each other's good points, encourage each other to improve those good points and harness the strengths of each person
- 3. Attractive Company for Society, Customers, Shareholders and Employees**
Listen sincerely to our stakeholders to improve our corporate value

Nihon Unisys Group Charter of Corporate Behavior

We will meet our responsibilities towards society and the environment to protect the future of our children.

- 1. Act with coexistence of people and the environment as the highest priority**
- 2. Always act according to the principles of social responsibility**
- 3. Sincerely work on the core subjects and issues of social responsibility**

* Principles of social responsibility

The seven key principles of ISO 26000, the international guidance relating to social responsibility: Accountability, transparency, ethical behavior, respect for stakeholder interests, respect for the rule of law, respect for international norms of behavior, and respect for human rights.

* Core subjects and issues of social responsibility

The seven core subjects of ISO 26000, the international guidance relating to social responsibility: Organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, community involvement and development, and relevant issues related to each of the core subjects.

Initiatives for Value Creation

Foundation Supporting Value Creation

Financial / Corporate Information

This section explains Nihon Unisys' business strategy for the creation of corporate value as well as its strategy for human resources, with a particular focus on the initiatives the Company is implementing under the Mid-Term Management Plan.

- 23 Main Topics for FY2016
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This section illustrates how Nihon Unisys fulfills its social responsibility. At the same time, the section provides explanations on how the Company is establishing trust-based relationships with its stakeholders through such efforts as the strengthening of its corporate governance, which acts as the foundation supporting sustainable corporate value creation, and the implementation of initiatives toward sustainability.

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Corporate Statement

Foresight in sight

This corporate statement expresses the Nihon Unisys Group vision toward 2020.

“Foresight” consists of foreseeing and understanding industry changes, customer needs, and future social issues in advance, and “in sight” has the double meaning of being able to see and understand things combined with the meaning of “insight.”

We will look upon the next generation and gain a deep understanding of the problems of customers and society as fast as possible with our experience and insight that go beyond conventional knowledge. Using this foresight, we are dedicated to combining our ICT assets, wisdom, and ideas to provide the best types of solutions and services to customers, and also offer new business models and business ecosystems.

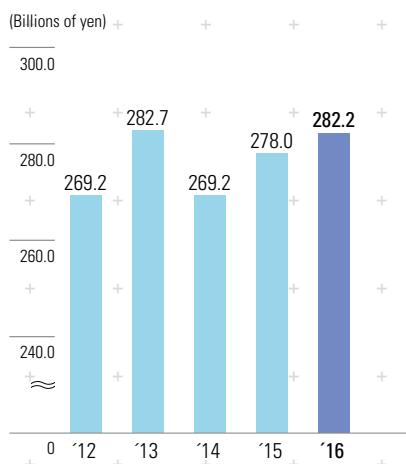


Financial Highlights Nihon Unisys and Its Consolidated Subsidiaries

Fiscal Years Ending March 31

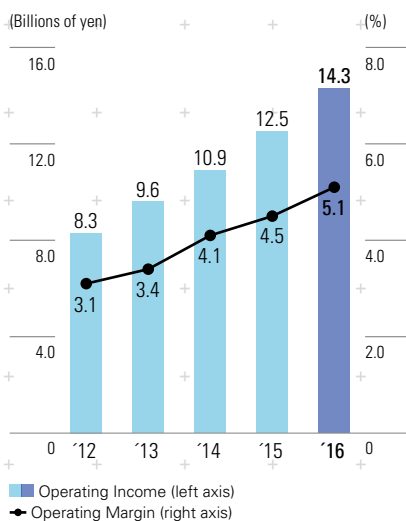
Net Sales

Net sales were up 1.5% year on year, to ¥282.2 billion, due to the strong performance in the Outsourcing and Hardware segments. By market, the Company recorded a solid performance in the finance, utilities, services and others.



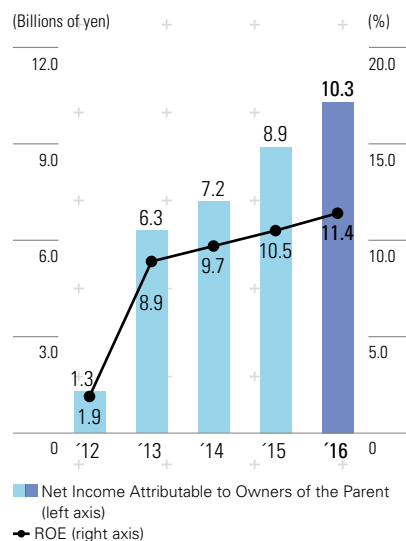
Operating Income / Operating Margin

Operating income rose 14.3%, to ¥14.3 billion, thanks to an increase in sales in the Outsourcing segment and an improvement in profitability. In addition, the operating margin continued to improve steadily.



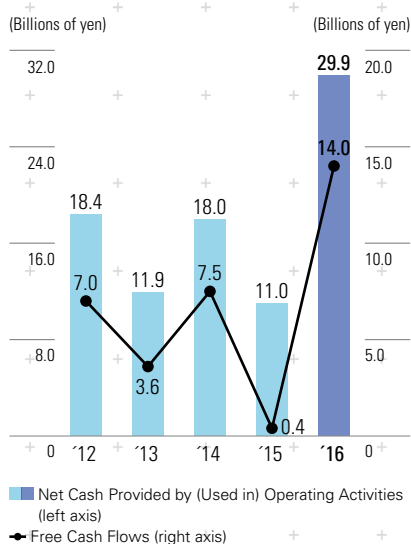
Net Income Attributable to Owners of the Parent / ROE

Net income attributable to owners of the parent was up following the increase in operating income. ROE improved 0.9 of a percentage point, to 11.4%, due in part to the improvement in the operating margin.



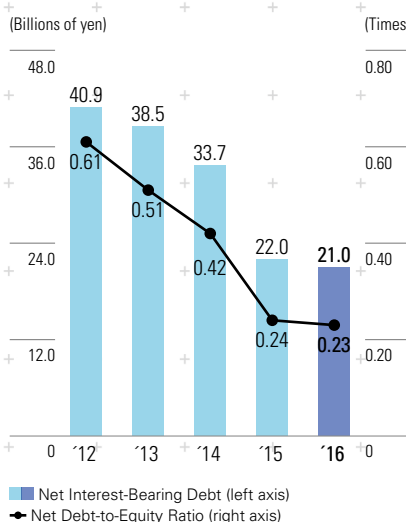
Net Cash Provided by (Used in) Operating Activities / Free Cash Flows

Net cash provided by (used in) operating activities stood at ¥29.9 billion, up ¥18.9 billion, following the collection of accounts receivable-trade. In addition, the Company recorded a positive free cash flow of ¥14.0 billion, up ¥13.6 billion.



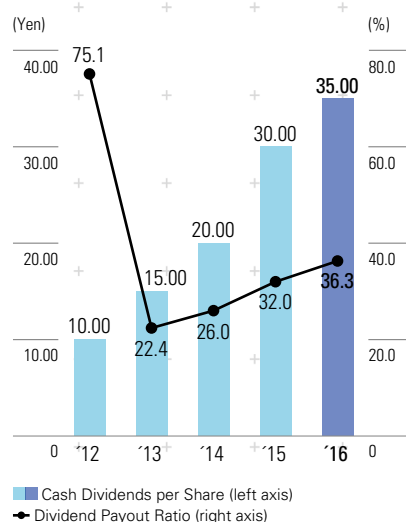
Net Interest-Bearing Debt / Net Debt-to-Equity Ratio

As the Company continued to push forward with improvements to its financial condition, net interest-bearing debt came to ¥21.0 billion, a decrease of ¥1.0 billion, and the net debt-to-equity ratio improved to 0.23 times, down 0.01 of a point.



Cash Dividends per Share / Dividend Payout Ratio

The Company paid a cash dividend of ¥35 per share (dividend payout ratio of 36.3%), making FY2016 the fifth consecutive year of dividend increases. Under the Mid-Term Management Plan, the Company aims to strengthen shareholder returns and maintain a dividend payout ratio of around 30%.



Millions of yen

	FY2012	FY2013	FY2014	FY2015	FY2016
Fiscal Year					
Net sales	¥269,170	¥282,691	¥269,155	¥278,039	¥282,249
Gross profit	63,545	63,611	63,442	64,610	66,728
Selling, general and administrative expenses	55,234	54,036	52,517	52,085	52,413
Operating income	8,311	9,575	10,925	12,525	14,315
Profit before income taxes	2,638	8,158	11,226	11,719	13,553
Net income attributable to owners of the parent	1,251	6,305	7,246	8,920	10,261
Capital investment	12,352	8,573	14,191	11,631	14,781
Depreciation and amortization	10,440	10,321	9,821	9,488	9,315
Research and development costs	4,861	4,660	4,337	4,036	3,454
Net cash provided by (used in) operating activities	18,448	11,889	18,037	10,990	29,922
Net cash provided by (used in) investing activities	(11,443)	(8,289)	(10,548)	(10,566)	(15,906)
Free cash flows	7,004	3,600	7,489	424	14,015
Net cash provided by (used in) financing activities	(8,985)	(151)	(12,887)	(8,185)	(11,757)
Fiscal Year-End					
Total assets	¥197,780	¥202,468	¥199,772	¥193,095	¥192,694
Net assets	67,917	76,017	81,976	91,214	90,773
Cash and cash equivalents	25,275	28,724	23,326	15,565	17,824
Net interest-bearing debt	40,858	38,473	33,665	22,020	21,003
Shareholders' equity	66,505	74,796	81,021	90,374	89,918
Per Share Information					
Basic net income per share (Yen)	¥ 13.31	¥ 67.08	¥ 77.07	¥ 93.71	¥ 96.49
Net assets per share (Yen)	707.57	795.61	861.53	847.51	896.39
Cash dividends per share (Yen)	10.00	15.00	20.00	30.00	35.00
Dividend payout ratio (%)	75.1	22.4	26.0	32.0	36.3
Other Information					
Operating margin (%)	3.1	3.4	4.1	4.5	5.1
Return on equity (ROE) (%)	1.9	8.9	9.7	10.5	11.4
Equity ratio (%)	33.6	36.9	40.6	46.8	46.7
Net debt-to-equity ratio (Times)	0.61	0.51	0.42	0.24	0.23

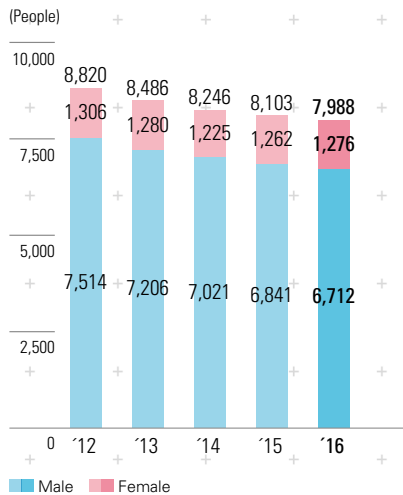


Non-Financial Highlights

Fiscal Years Ending March 31

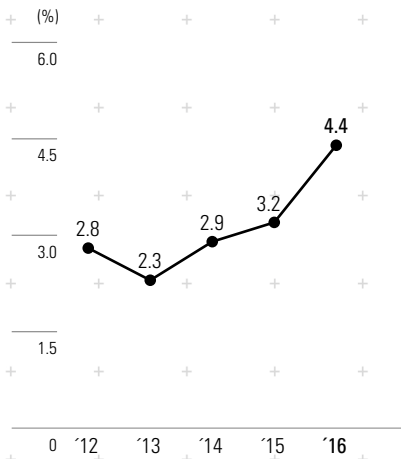
Consolidated Number of Employees

The number of Nihon Unisys employees on a consolidated basis was down 115 year on year, to 7,988. While the number of employees has been decreasing due to mandatory retirement, the Company continues recruitment activities aimed at securing outstanding human resources.



Ratio of Management Positions Held by Women*¹

The ratio of management positions held by women rose 1.1 points, to 4.4%. With the goal of raising this ratio to 10%*² by 2020, the Company is earnestly moving forward with efforts to promote active roles for women.

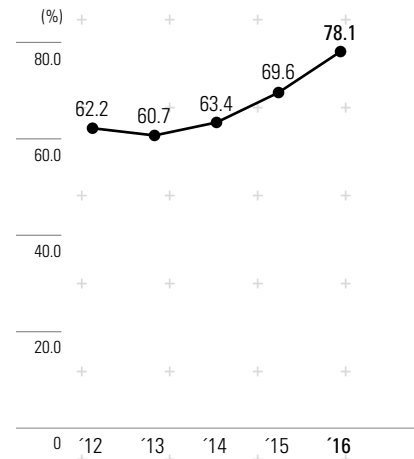


*1 As of April 1. Nihon Unisys (non-consolidated basis) for up to and including FY2013 and Group consolidated basis (Nihon Unisys and UNIADDEX) for FY2014 and onward.

*2 Non-consolidated target for Nihon Unisys, Ltd.

Paid Leave Utilization Rate*

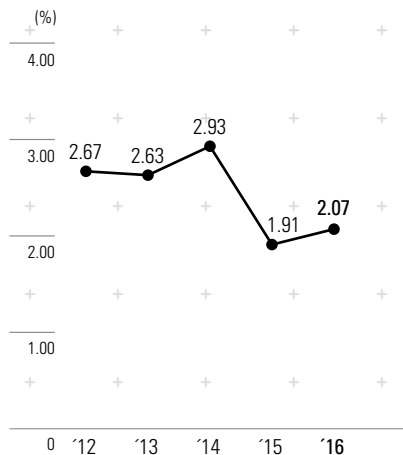
The paid leave utilization rate increased 8.5 points, to 78.1%. In FY2017, Nihon Unisys aims for a paid leave utilization rate of 90%. To this end, the Company will make efforts to improve productivity through work style reforms while promoting various policies to encourage the use of paid leave and reform its corporate culture.



* Nihon Unisys (non-consolidated basis) for up to and including FY2013 and Group consolidated basis (Nihon Unisys and UNIADDEX) for FY2014 and onward.

Employee Turnover Rate*

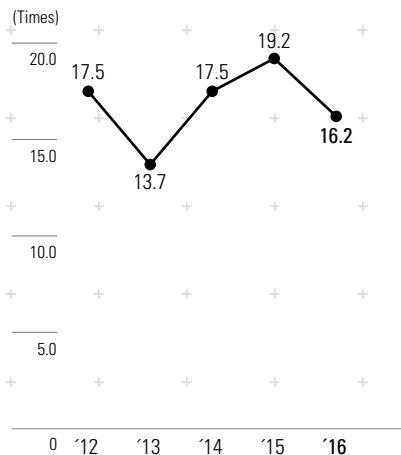
The employee turnover rate stood at 2.07%, maintained at a continued low level as the Company worked to enhance communication with its employees based on its human resource development policy. Going forward, the Company will continue to make concerted efforts to establish an employee-friendly working environment.



* Up to and including FY2013, figures are for Nihon Unisys, UNIADDEX, and USOL Holdings, as well as seven other regional companies and Netmarks (now UNIADDEX). For FY2014, figures are for Nihon Unisys, UNIADDEX, USOL Tokyo, and six other regional companies. Figures are on a Group consolidated basis (Nihon Unisys and UNIADDEX) for FY2015 and onward.

Average Monthly Overtime Hours Worked per Employee*

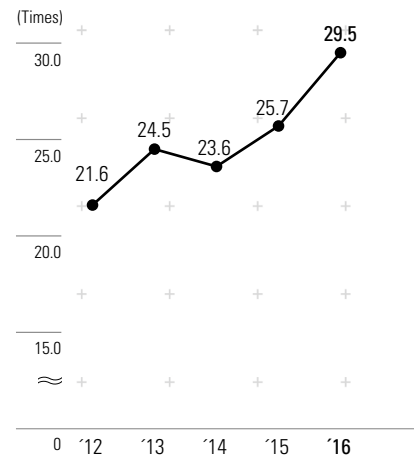
The average monthly overtime hours worked per employee was 16.2 hours, a year-on-year decrease of three hours. The Company will continue its efforts to improve productivity through policies that promote work style reforms and other measures.



* Figures are for Nihon Unisys (non-consolidated basis).

Annual Training Time per Employee*

The annual training time per employee was 29.5 hours, a year-on-year increase of 3.8 hours. The Company has been implementing a wide variety of initiatives with the aim of taking on challenges to create business ecosystems and bring about innovations one after another.



* Group consolidated basis (Nihon Unisys and UNIADDEX).

Human Resource Data

	FY2012	FY2013	FY2014	FY2015	FY2016
Consolidated number of employees (people)	8,820	8,486	8,246	8,103	7,988
Average years of service* ¹ (years)	18.0	18.5	18.9	19.4	19.7
Average age* ¹ (years)	42.7	43.3	43.7	44.2	44.6
Paid leave utilization rate* ² (%)	62.2	60.7	63.4	69.6	78.1
Ratio of differently abled employees* ² (%)	1.76	1.78	1.74	1.87	1.99
Ratio of management positions held by women* ³ (%)	2.8	2.3	2.9	3.2	4.4
Employee turnover rate* ⁴ (%)	2.67	2.63	2.93	1.91	2.07
Average monthly overtime hours worked per employee* ¹ (times / month)	17.5	13.7	17.5	19.2	16.2
Annual training time per employee (times)	21.6	24.5	23.6	25.7	29.5

Scope of calculation: The consolidated Nihon Unisys Group (Nihon Unisys and UNIADDEX). Consolidated number of employees is excluded.

*1 Figures are for Nihon Unisys (non-consolidated).

*2 Nihon Unisys (non-consolidated basis) for up to and including FY2013.

*3 Nihon Unisys (non-consolidated basis) for up to and including FY2014.

*4 FY2014 figure is for Nihon Unisys, UNIADDEX, USOL Tokyo, and six other regional companies. Up to and including FY2013, figures are for Nihon Unisys, UNIADDEX, USOL Holdings and seven other regional companies, and Netmarks (now UNIADDEX).

Environmental Data

	FY2012* ¹	FY2013* ¹	FY2014* ¹	FY2015* ²	FY2016* ³
CO ₂ emissions (t)* ⁴	17,417	18,855	21,804	19,792	18,464
CO ₂ emissions intensity (t / m ²)* ⁵	0.1708	0.1595	0.1940	0.1787	0.1598
Amount of energy used (kl)* ⁶	9,830	11,120	10,521	10,049	9,411
Energy consumption intensity (kl / m ²)* ⁵	0.0904	0.0938	0.0899	0.0836	0.0751

*1 Scope of calculation: Nihon Unisys, USOL Tokyo, as well as six other regional companies, UEL, Cambridge Technology Partners, AFAS, UNIADDEX, International Systems Development, A-tas, TRADE VISION, Nihon Unisys Business, Nihon Unisys Accounting, the health insurance society, and the corporate pension fund

*2 Scope of calculation: Nihon Unisys, UEL, Cambridge Technology Partners, AFAS, UNIADDEX, International Systems Development, A-tas, TRADE VISION, Nihon Unisys Business, the health insurance society, and the corporate pension fund

*3 Scope of calculation: Nihon Unisys, UEL, Cambridge Technology Partners, AFAS, UNIADDEX, International Systems Development, TRADE VISION, Nihon Unisys Business, the health insurance society, and the corporate pension fund

*4 The Company uses the emission coefficient officially announced by energy companies (electric power and gas) to calculate CO₂ emissions of target sites (buildings) (for crude oil and other fuels, the Company uses the emission coefficient officially announced by the Ministry of the Environment). Scope of calculation: The Nihon Unisys Group.

*5 Intensity: Per unit area of offices; Scope of calculation: The Nihon Unisys (non-consolidated).

*6 Amount of energy used: Crude oil equivalent; Scope of calculation: The Nihon Unisys Group.

Number of Qualified Information Processing Engineers*

(People)

Qualification Examination	As of April 2015	As of April 2016	As of April 2017
Information Technology Passport	86	106	117
Information Security Management	—	—	59
Fundamental Information Technology Engineer	2,243	2,272	2,286
Applied Information Technology Engineer	1,055	1,073	1,074
Information Technology Strategist	46	49	51
System Architect	261	252	243
Project Manager	137	140	144
Network Specialist	300	299	301
Database Specialist	131	147	151
Embedded Systems Specialist	9	8	10
Information Technology Service Manager	59	62	58
System Auditor	35	37	35
Information Security Specialist	354	370	389
Total	4,716	4,815	4,918

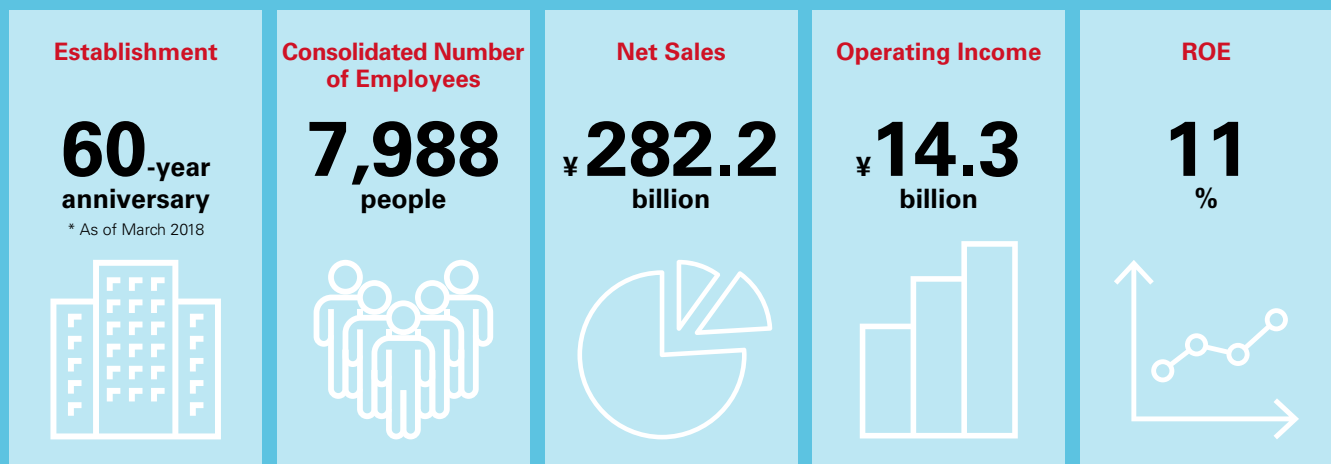
* Group consolidated basis (Nihon Unisys and UNIADDEX).

The Nihon Unisys Group's Path for Value Creation

Nihon Unisys' Business Model

The Nihon Unisys Group offers services that optimize the ICT environments of customers from a wide variety of industries. At the same time, the Group works to resolve social issues by extending such services beyond existing business categories and industries.

Basic Information * FY2016 Actual



Contributing to the Creation of a Society That is Friendly to Both People and the Environment

Assembling and delivering an optimal ICT environment that realizes service models



Business domains

Solutions Domains

- The utilization of information
- CRM and customer contact
- Office communication
- SRM and electronic procurement and purchases
- SCM and logistics
- The environment and energy
- ERP and business resource management
- Corporate educational activities
- BCP and disaster response
- Payment settlement

Building on its conventional system integration (SI) business, the Nihon Unisys Group is pursuing the full-scale development of ICT businesses, such as cloud computing and virtualization services, and enhancing its service lineup. In doing so, the Group has put in place a structure that can meet the needs of its customers in a prompt and flexible manner.

Also, amid a business environment in which changes are occurring more rapidly, a company cannot realize sustainable growth by simply adopting a traditional conservative stance. As such, it is necessary for companies across a broad range of industries to create completely new business models. Based on these circumstances, the Group is promoting "business ecosystems" that encourage collaboration beyond the boundaries of individual industries.

As major social problems cannot be solved by one type of industry alone, cross-industry collaboration is essential. Accordingly, the Nihon Unisys Group, which possesses the know-how to build the necessary platforms for business ecosystems in various types of industries and vendor channels, will become a catalyst for promoting business ecosystems by forming connections between different industries that go beyond existing business categories. In this way, the Group aims to resolve social issues (the Group's major services are listed on P.13-14).

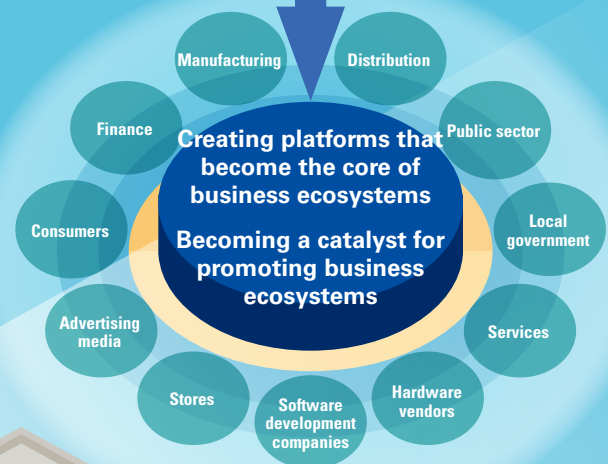
The Nihon Unisys Group's Unique Presence in the ICT Industry

Toward the creation of business ecosystems, we are pursuing utilization value from the provision of value

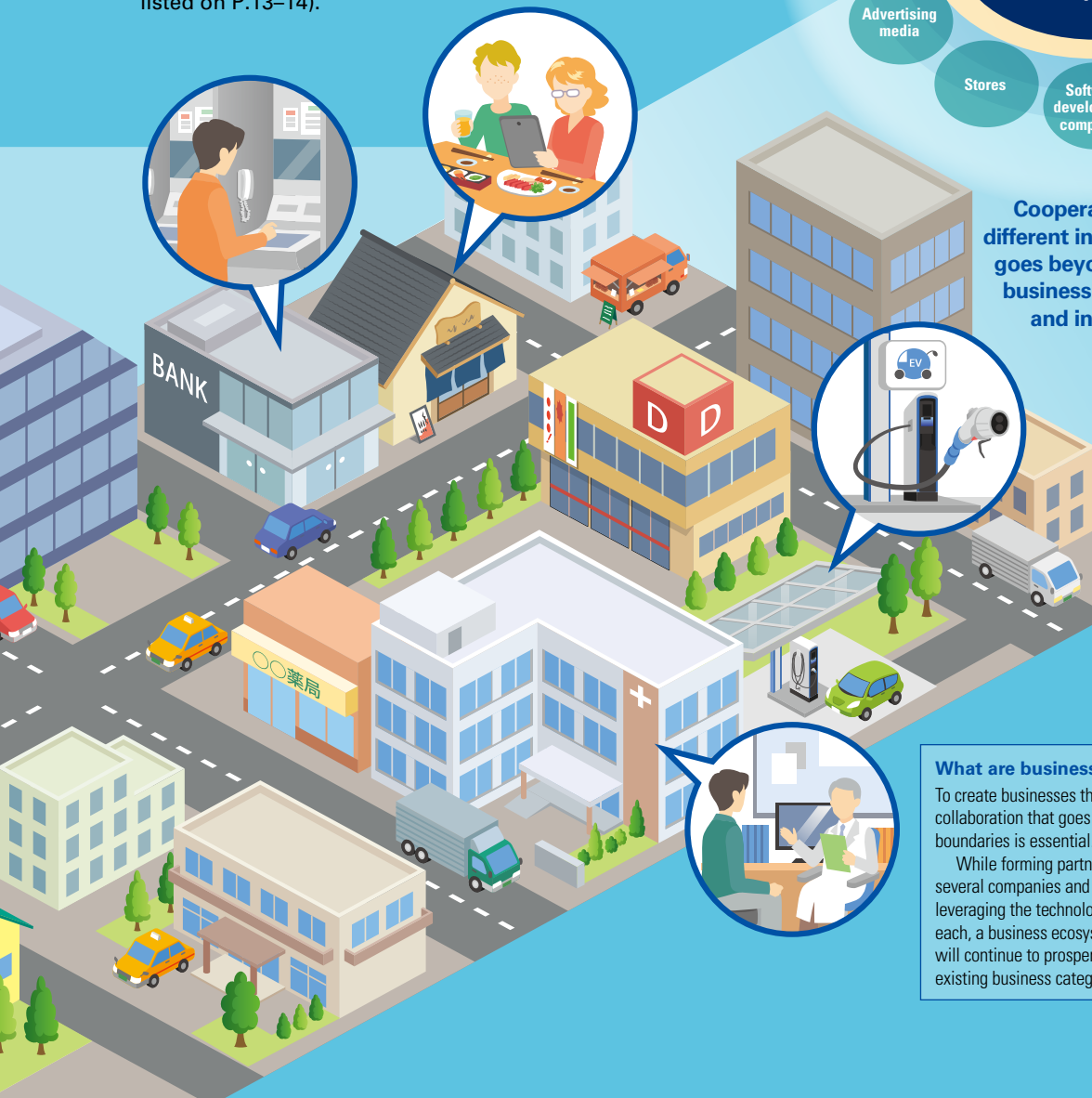
Customer value

Differentiation

Profitability



Cooperation with different industries that goes beyond existing business categories and industries



What are business ecosystems?

To create businesses that resolve social issues, collaboration that goes beyond industrial boundaries is essential.

While forming partnerships between several companies and organizations and leveraging the technologies and strengths of each, a business ecosystem is a system that will continue to prosperously co-exist beyond existing business categories and industries.

Nihon Unisys' Strengths and Management Resources

Through the development of systems for our customers, we have cultivated four strengths that will support our future business growth. Going forward, we will leverage these strengths to form connections between our various customers, users, services, and vendors, thereby shifting to an approach in which we create new value and realize innovation.

Strengths

1

Collaborative Relationships with Customers from Various Types of Industries

Stable foundation of customers in a broad range of fields, including finance, manufacturing, distribution, and public service



Strengths

2

Capabilities for Enabling Successful System Implementation

Ability to steadily establish and operate large-scale systems

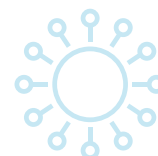


Strengths

3

Capabilities for Enabling One-Stop Support That is Free from Vendor Lock-in

Ability to respond to everything from upstream consulting to system development, introduction, management, and maintenance



Strengths

4

Capabilities for Designing and Delivering New Services

Ability to create business ecosystems cultivated through efforts in social infrastructure and co-creation businesses



A Foundation to Support Value Creation by Making the Most of Management Resources

We are building a suitable management system in pursuit of continuous expansion by making the most of the management resources that support corporate value creation for the Nihon Unisys Group. In addition, along with strengthening risk management in order to understand and respond to likely business risks, we are working to build relationships of trust with all our stakeholders based on the social contributions resultant of our corporate value.

Corporate Governance

A mechanism of corporate governance that enables management to make prompt and sound management decisions under appropriate and effective supervision is indispensable for enabling the Nihon Unisys Group to continuously grow and increase its mid- and long-term corporate value, and the Company shall create, maintain, and ceaselessly improve this mechanism (P.35).

Risk Management

We are taking measures to prevent risks from appearing in each department based on the Nihon Unisys Group Risk Management System and are also establishing a system through which the Risk Management Committee can accurately respond to risks with major repercussions on Group management (P.37). In regard to business continuity risks such as earthquakes and new pandemics, we are creating, continuously revising, and improving business continuity plans (BCPs) from customer, safety assurance, and restoration of internal operations perspectives.

Management Resources

FY2016 Actual

Sales by Market



Number of Customers

Over **5,000** companies*1

*1 Nihon Unisys, UNIADEX.

Number of Qualified Information Processing Engineers (As of April 1, 2017)

4,918 people*2

*2 Nihon Unisys, UNIADEX.

Proven track record in providing mission critical systems that move society

Nihon Unisys' Business Model (P7-8)



Nihon Unisys Group Employees

7,988 people

Human resources that support the Nihon Unisys Group

Locations

Japan: Locations covering the entire country, from Hokkaido to Okinawa

Overseas: Eight locations

(the United States, China, Indonesia, Thailand, Singapore, the Philippines, Malaysia, and Vietnam)

Number of Engineer Vendors

Over **450** companies

News Releases on Products and Services

60 articles annually

Multiple services that create business ecosystems (P23-30)

Active investment toward spurring innovation

Investments in Creating Innovation (P24)
Reform of Corporate Culture and Strengthening of Human Resource Capabilities (P31)

Project Management

The Group has instituted a thorough and multifaceted system for assessing risk by the Project Review Committee at both the proposal and implementation stages. It is also working to implement effective measures for preventing cost overruns and detecting problems at an early stage by enhancing the project management system, increasing productivity by systematizing and standardizing the system development method, and implementing the Andon system, which detects problems in a project at an early stage, as well as implementing a cycle of improvement that includes the review of problems to ascertain their true causes and implement fundamental countermeasures (P.37).

Quality Assurance

The Group determines quality standards, such as the categorization of systems in use by their degree of social importance, problem occurrence rates, and the number of days needed to complete the response to a problem, and establishes systems to respond to problems. In addition, in regard to the occurrence of problems, the Group is working to provide information to related in-house departments through a problem reporting system and to rapidly implement responses to problems. The Group is also working to raise the quality of systems in use by implementing evaluation and improvement activities through periodic system maintenance.

Value Chain

We are working to continuously provide safe products and services throughout the entire value chain, which includes business partners such as suppliers and vendors.

As demand on corporations to pursue compliance, human rights, and the environment rise worldwide, we need to conduct sustainable business activities throughout the entire supply chain, both inside and outside Japan. Through these very efforts, we can prevent damage to corporate value over the medium to long term.

Path for Value Creation toward 2020

We are working to achieve innovation and take on the creation of forward-looking businesses and services based on the Nihon Unisys Group's mid-term vision for 2020 and corporate statement —Foresight in sight®—and with business ecosystems at the heart of these efforts.

2012 >>> 2014

Striving for Corporate Innovation

A Long History of Cultivating Management Resources and Strength

Forming an information society and contributing to development and through reform and challenge

Required Changes

In order to continue being our customers' first choice, we at the Nihon Unisys Group must keep striving for innovation and insight while always imagining the future—what kind of company we should be and what role we should play in the world.

Mid-Term Management Plan (2012→2014) Key Policies and Results

1. Expand core businesses

- Development of core systems and solutions
- Enhancement of infrastructure services

2. Take on new businesses

- Establishment of cooperative / BPO businesses and social infrastructure businesses
- Creation of service-oriented businesses (payment platforms, etc.)
- Collaboration with Dai Nippon Printing Co., Ltd.
- Development of local businesses (local healthcare, etc.)

3. Enhance management foundations

- Making the most of human resources and cost restructuring
- Reduction of unprofitable projects through enhancements to business risk management
- Strengthening of financial position

Our History of Reform and Challenge

1950-

We contributed to the formation of Japan's current information society by delivering the first commercial computers

1955

Installed Japan's first commercial computers at the Tokyo Stock Exchange, Inc. and Nomura Securities Co., Ltd.

At a time when the growth of the securities industry demanded the accelerated mechanization of administrative work, we imported large computers from the USA and installed them.



1980-

We contributed to the progress of society by providing business solutions to support various industries

1991

Launched the integrated CAD / CAM system "CADCEUS®"

Our CADCEUS® was the first domestically-produced 3D CAD / CAM system, used for various manufacturing businesses including automobiles, electric appliances, component fabrication, and metal molds.

2000-

We contributed to the growth of customers and society by always seizing technological advances and creating systems that could be used to offer new services

2007

Introduced core-banking system BankVision®, the world's first "full-banking" system based on the Windows® platform

BankVision® was a large-scale, mission-critical system which was designed as an open system to enable rapid system development for the provision of new banking products and services.

From Value Provided in Services to Users >>>

>>>



2015 >>>

Reform and Growth: Business Model Reform

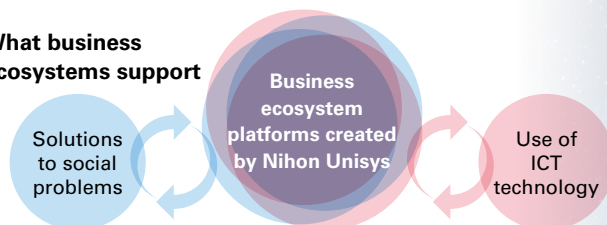
Mid-Term Management Plan

Our three-year mid-term management plan, began in FY2015. The three years of the plan will be a time of reform to move us forward in preparation for FY2020. The whole Group will come together in pursuit of the key strategies of this plan, which include taking on challenges in digital and life innovation for the purpose of creating business ecosystems and reform in business ICT platforms, which support those efforts.

Our Mid-Term Vision

Mobilize services based on interconnected businesses. Build our future through ICT advances.

What business ecosystems support



Strategic Policies

Challenge 1

Digital Innovation P.25

Create new value in digital economy area

Strategic Policies Providing services and platforms that will help companies operate digital businesses in the fastest and most optimum manner beyond the boundaries of individual industries.

Challenge 2

Life Innovation P.27

Create service businesses that will serve our society better

Strategic Policies Creating service businesses that will serve our society better and operating them as part of our business portfolio.

Reform

Business ICT Platforms P.29

Provide services that accelerate service delivery

Strategic Policies Promoting the industrialization of services* in order to accelerate our service delivery, and revising the service portfolio to include the capabilities of combining the services of the Group and others and providing them in the fastest and most optimum manner.

Reform of Corporate Culture and Strengthening of Human Resource Capabilities P.31

Reforming the corporate culture to foster innovation and encouraging employees to create new business models

Investment Strategies P.24

Focusing on investments in Challenges and Reform categories as well as Strengthening of Human Resource Capabilities

* Industrialization of services: Efficient provision of services through automation, standardization, and componentization.

2015-

Provision of New Mechanisms to Unite Differing Businesses in the Growing Digital Economy Field

2017

Alipay®, the online payment service, is now being offered in roughly 13,000 Lawson convenience stores Japanwide

As the provider of the Alipay® payment service, the biggest mobile payment service in the world and a part of Ant Financial, we began offering the Alipay® service at Lawson stores across the country (12,921 as of the end of December 2016) in January 2017.

Separation of the Chinese payment service and charge point businesses to create Canal Payment Service, Ltd.

In the payment business, further growth in demand for the Chinese payment service and charge point businesses is expected moving forward. With the goal of achieving quicker and more active business expansion, we established Canal Payment Service, Ltd. in March 2017.

To Service Use Value for Users >>>



We create business ecosystems aimed at resolving social problems and connecting differing industries, as stars connect to form constellations, on the basis of services that perform.

The Nihon Unisys Group has been engaging in a variety of new initiatives in a wide range of fields. We are also working to incorporate past services and initiatives into businesses and solutions designed to address new social issues in an approach that is holistic in many areas, and so, little by little, widening the scope of our efforts.

With the progression of digital transformation in society, we aim to unite differing industries from the user's perspective, build business ecosystems, and address social issues moving forward.



Supporting Lives



Inbound Tourism

Implementation of the Strategic Policies

Open and Closed Strategy, Open Innovation Strategy P.24

In addition to a closed intellectual property (IP) strategy in core areas that are the source of competitive advantage, such as the Group's proprietary technologies and know-how, we are incorporating a market-open IP strategy that allows mutual growth and devising ways to expand its benefits to the Group as part of our Open and Closed Strategy.

There is a need to collaborate with new partners who have ideas or possess technologies the Group lacks, and this requires an "ability to discern"

that can assess those ideas and technologies. We are advancing measures to hone this "ability to discern" as part of our Open Innovation Strategy.



Investments in Creating Innovation P.24

As part of our efforts to pursue digital and life innovation, we established Canal Ventures (total balance under fund management: ¥5 billion) in June 2017. Furthermore, we are proceeding with business partnerships with startups in cooperation with the Leaders for Change Program without delay.



Leaders for Change Program P.32

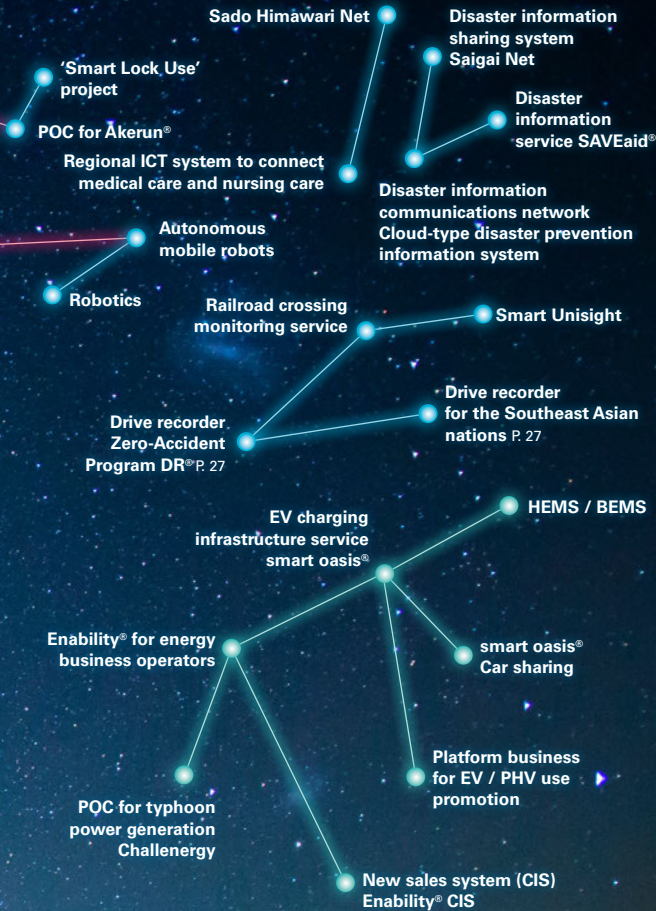
The Nihon Unisys Group is aiming for transition to a business structure that allows it to make continuous improvements to its business performance. To this end, the Leaders for Change Program is being implemented to cultivate independent leaders who adopt high targets and, with tremendous conviction, take the initiative to determine relevant issues and work to achieve the Group's aspirations.



>>> 2017

Expansion and Growth

Regional Safety and Disaster Prevention



Next Generation Energy

2020

Striving to grow into the frontrunner of future business scenarios

The Nihon Unisys Group's Vision

We are aiming to realize innovative services that with time will become commonplace

Workstyle Foresight®


P.33

We are enacting a variety of policies to support healthy and flexible work styles with the goal of encouraging new business creation and personal growth by providing the space necessary for the rich creation of ideas while respecting the individual lives of our employees.



Foresight in sight

Message from the CEO



As a catalyst for the creation of business ecosystems, we will realize collaboration that goes beyond existing business categories and industries, working to generate shared value while we grow and develop together with society as a whole.

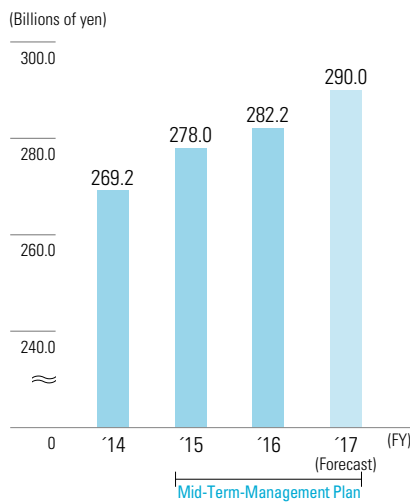
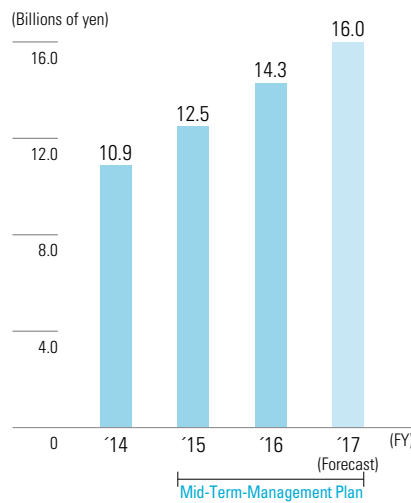
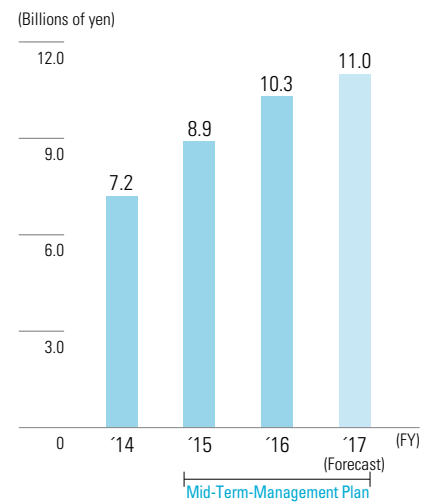
Akiyoshi Hiraoka
President & CEO

Looking Back on FY2016

FY2016 was not only my first year serving as President & CEO, it was also the second year of the current three-year mid-term management plan. After recently reexamining the concept of ICT itself, the Nihon Unisys Group has now established itself as a catalyst for business ecosystems and has been pursuing a broad range of initiatives together with its customers under the aim of creating innovative services.

As a result of such initiatives, we recorded a solid business performance in FY2016, once again realizing increases in both sales and profits, which were driven by our outsourcing business centered on finance, distribution, and services. Particularly from a profit standpoint, we made significant improvements, with operating income rising 14.3% year on year, and operating margin recovering to the 5% range for the first time since the global financial crisis. At the same time, we set a record high for net income attributable to owners of the parent, which realized double-digit growth of 15.0%.

FY2017, the final year of the mid-term management plan, represents a very important year for us in which we will complete the structural reforms we have thus far promoted while preparing ourselves to make the leap toward the next stage of growth. I believe that we are already off to a solid start of the year, which has given us a foothold for accomplishing these tasks.

Net Sales**Operating Income****Net Income Attributable to Owners of the Parent****Mid-Term Management Plan: Challenge & Reform**

Overall, I believe that we have been making solid progress under the mid-term management plan. We have been moving forward with the plan's strategic policies, including the expansion of "digital innovation" and "life innovation," two domains in which we are taking on new challenges, and the enhancement of "business ICT platforms," a domain in which we are pursuing reforms, and these policies have been steadily achieving results.

In the domain of digital innovation, we have strengthened our presence in the market related to transaction settlements, which continues to grow, by establishing core platforms such as electronic value cards. As part of our efforts in this domain, we are promoting e-money payment services aimed at Chinese visitors to Japan and charge point services for prepaid cards that can be charged at convenience stores and other locations. Both of these services are expected to see an increase in demand going forward. In FY2016, with the aim of accelerating and actively expanding businesses involving these services, we concentrated and separated relevant Group functions to establish Canal Payment Service, Ltd. Furthermore, for our various businesses related to transaction settlements, we worked to increase the number of merchant stores that accept prepaid and other cards, in addition to enhancing the lineup of cards that can be used at these locations. Going forward, we will accelerate similar efforts with the aim of realizing a cashless society. These kinds of transaction settlement-related businesses exemplify our platform-based profit model, which differs from conventional models that focus on contract-based system integration businesses. As these kinds of services become popularized throughout the world, we can anticipate a dramatic increase in profits. By creating a large number of platform-based services, we will work to enhance our profitability moving forward.

For life innovation, connections have formed between the lineup of services we have been offering, and these connections are becoming stronger. For example, we have recently commenced the provision of a one-stop support platform for the multi-site shared office program of Mitsui Fudosan Co., Ltd. This shared business platform covers everything from managing client information and reservations to conducting billing processes. For the development of this platform, not only did we draw on the collaborative relationship we have previously established with Mitsui Fudosan, we also leveraged the experience and knowledge that we accumulated through the aforementioned electronic value card business, as well as through such projects as the development of smart oasis®, a battery-charging infrastructure system service for electric vehicles and other vehicles, and smartaxi®, a cloud-based taxi dispatch system. While continuing to fully utilize this experience and knowledge, we intend to spur new innovation in the sharing economy market, which is expected to undergo rapid growth in the future, through collaboration with other companies that transcend existing business categories and industries.

In business ICT platforms, we have been advancing a shift to service-based businesses through the expansion of implementation-type projects and other means. At the same time, we have been making significant improvements in productivity through the "industrialization of services," which involves standardizing

Situation of Efforts in the Areas as Envisaged in the Mid-Term Management Plan



business and development processes, turning elemental technologies into IP, and reusing existing IP. In addition, we have been creating frameworks for combining our assets with the assets of other companies and organizations and accelerating demonstration projects and concept verification for new businesses. In these ways, FY2016 was a year in which we made great strides in establishing a structure that enables prompt business expansion in the domain of business ICT platforms.

Investment Strategy That Supports Innovation

Business ecosystems represent a framework in which companies that share a vision pursue collaboration that goes beyond conventional business categories and industries, making efforts to leverage their respective technologies and strengths with the aim of realizing mutual prosperity. Within these ecosystems, the role of the Nihon Unisys Group is to freely combine internal and external assets to create a platform that can act as the ecosystem’s core.

Two strategies are necessary to fulfill this role: an open innovation strategy and an open and closed strategy. An open innovation strategy rejects a solely in-house approach and provides a method for creating innovative businesses through the effective utilization of outstanding external technologies and ideas. Meanwhile, while maintaining an open approach to intellectual property development, an open and closed strategy emphasizes a closed approach within core domains that represent the source of the Group’s competitiveness, including proprietary technologies and know-how. In this way, an open and closed strategy aims to maximize profits by utilizing these two approaches.

To support open innovation, a solid investment strategy is key. In Japan, we are participating as a partner company in “TECH PLANTER,” a program that aims to discover promising venture capitals. In addition, we have invested in the Real Tech Fund, which is Japan’s largest fund that specializes in technology. Overseas, we have worked closely with our U.S.-based subsidiary to establish relationships with startup companies and venture capitals, which have helped us move forward with research on technological trends. Furthermore, in FY2016, we invested in a fund of funds in Silicon Valley. Through efforts such as these, we have acquired state-of-the-art local information and business models and are working to combine these with our diverse expertise and assets. In doing so, we aim to create new businesses that leverage Fintech while collaborating with regional financial institutions.

Innovation Born from the Strategic Policy “Reform of Corporate Culture and Strengthening of Human Resource Capabilities”

One strategic policy of our mid-term management plan is the reform of corporate culture and strengthening of human resource capabilities.

Recently, the expectations customers have of the Nihon Unisys Group have been changing significantly. Before, our customers expected us to offer “value through provision” as an IT vendor by establishing and steadily operating systems in accordance with specifications, budgets, and deadlines that were all determined in advance. However, these days, customers are asking us to provide “value through utilization,” which involves making proposals for services and business models that, when utilized, allow customers to enhance their competitiveness.

What we need to do now is rapidly catch up with the changing business environment and customer needs, in addition to responding to future social issues. Upon doing so, it is necessary for us to combine our knowledge, ideas, and unique ICT to not only provide services that are better tailored to our customers but also create such services ourselves. This ambition is embedded in our corporate statement “Foresight in sight®,” and to make this ambition a reality, the presence of in-house “reform-minded leaders,” who can spearhead efforts to promote reforms and pursue new challenges, is an absolute necessity.

With an awareness of this need, I oversaw a project seven years ago to establish private after-hours classes for the purpose of fostering human resources and designing new businesses. These in-house classes have expanded into a broad range of companywide activities, including coaching training, which helps cultivate future organization managers; the M3 project, which aims to raise the awareness of mid-career employees; and the Next Principal program, which focuses on new business creation. Furthermore, to spur ideas for new businesses at an even faster pace, we frequently hold morning meetings in which the corporate officers participate and engage in various discussions. Through these means, we hope to foster over 300 reform-minded leaders.

Also, from the perspective of organizational management, we have transitioned from a vertical organization to an integrated one to encourage open and frank communication that transcends position, age, and gender. Within this new organization, our comprehensive marketing department has been providing cross-organizational support for discovering new business opportunities. From the perspective of technologies, we have put in place a structure where the Nihon Unisys Technology Research Development Center provides support for discovering new technologies.

Additionally, we have made drastic changes to the way we evaluate employee performance. I am constantly telling our employees that the number of failures represents a KPI for achieving success. With the pursuit of new challenges sometimes comes failure, and even in the case that a project does not go smoothly, if those involved in the project were able to acquire valuable knowledge from that experience, then that failure was far from unproductive. We have shortened the amount of time that our engineers have to allocate to projects and encourage them to devote more time to researching social issues. This move reflects the changes we have made to our employee performance evaluations, which now place emphasis on rewarding employees who undertake new challenges and department managers who encourage the pursuit of new challenges.



Efforts to Reform Working Styles and Promote Diversity

As part of our efforts to reform our corporate culture, we are actively undertaking initiatives to address such issues as working style reform, diversity promotion, and health management in order to enhance employee motivation.

We have labeled our efforts toward working style reform as “Workstyle Foresight®.” Through Workstyle Foresight®, we are implementing a wide range of initiatives aimed at establishing healthy and lively working styles from the perspective of four kinds of reforms: “working style awareness reform,” which encourages telecommuting; “environmental reform,” which promotes the establishment of satellite offices and other measures; “process reform,” which supports reforms to meetings and business processes and allows for approval to be received electronically; and “system reform,” which utilizes ICT tools. Through the further promotion of these initiatives, we have been able to steadily improve productivity.

The promotion of diversity is extremely significant in terms of improving corporate value. If a workplace does not allow a group of employees with diverse personalities to sufficiently leverage their respective strengths, then bringing about innovation is simply not possible. Additionally, we believe that celebrating and leveraging diversity helps us flexibly respond to social changes and needs and enables us to improve our risk management capabilities. Based on this belief, we are striving to foster a corporate culture in which a wide variety of talent, including women and people with disabilities, can play an active role.

In regard to our efforts to promote the active role of women, there is little disparity between men and women in the average number of years of employment at Nihon Unisys, and for over ten years, more than 90% of female employees have returned to work after giving birth. These facts exemplify our deeply rooted culture of continuous employment. Moreover, we actively promote women to a variety of positions, including those at the management level. We are also working to improve the ratio of women in management positions. While keeping in mind that perspectives regarding work and the work-life balance differ from person to person, we will continue to devise a wide array of policies aimed at promoting an active role for our female employees.

Through the efforts I have mentioned, we will take steps to reform management styles and foster a culture that spurs innovation, in addition to enhancing the lifestyles of our employees and supporting their personal growth. In doing so, we will create services and businesses that will lead the way for the future.

Strengthening Our Corporate Governance

Effective corporate governance and internal control systems are essential if we wish to realize sustainable growth and improve our corporate value. To this end, we are making concerted efforts to establish, maintain, and constantly improve such systems.

From the perspective of reinforcing our management supervisory and oversight functions, we appointed an additional independent outside director in FY2017, which means that three of the Company’s nine directors are now independent outside directors. As the Board of Directors becomes more diverse, we believe that we can engage in livelier discussions pertaining to improving corporate value at Board meetings and other important meetings. In addition, through the introduction of the corporate officer system, we aim to separate the supervision of management from its execution and to enable prompt business execution.

Also, following such developments as reinforced collaboration between Group companies, the shift to service-based businesses, and the progression of digitization in society, we anticipate that the business risks we are exposed to will continue to diversify going forward. As such, the Nihon Unisys Group intends to respond to these circumstances by further enhancing the risk management structure it has in place. Also, while the Group’s operations center on Japan, we have appointed external advisors from overseas in order to reflect a more global perspective in our management.

Approach to Resolving Social Issues through Business Ecosystems

A radical qualitative shift is currently occurring in IT-related markets. While there continues to be robust demand for corporate investments, the target of these investments is transitioning from back office operations (core systems) to front office operations, such as enhancing customer contact points. We are also



seeing the emergence of new technologies such as the Internet of Things (IoT), AI, and robotics. Furthermore, disruptive innovation, which shatters existing systems and industrial barriers to create new markets, is occurring more frequently in all areas of the economy following the progression of digitization and the easing of various regulations. Going forward, we believe that the shift toward disruptive innovation will bring about a new playing field for IT-related businesses, and we are approaching a time when it will be difficult for corporations to succeed using only conventional methods to assess the business environment.

However, we view these changes not as a risk but rather as a tremendous business opportunity. As a society, there are a massive number of issues we need to resolve related to the environment, medical treatment, education, disaster prevention, and regional revitalization. By having a wide range of companies pool together their respective strengths to form a business ecosystem, we are now able to address issues that would be impossible to resolve by a single company alone. Business ecosystems fulfill the role of discovering the best possible resolution to social issues through the application of the latest technologies. In an even greater sense, business ecosystems and the corporations who comprise them also play the role of gathering together various players with ideas that not only change society but also create an entirely new society. In addition, business ecosystems can help form a path for fulfilling the social responsibilities stipulated by the Sustainable Development Goals (SDGs) of the United Nations as well as for realizing Society 5.0, a policy proposed by the Japanese government.

With that being said, large-scale businesses and frameworks cannot be created all of the sudden. It is first necessary to establish fundamental platforms leveraging existing technologies and services and then develop these platforms into business ecosystems. Going forward, we intend to be a catalyst for this process.

The Nihon Unisys Group has accumulated an abundance of technologies and know-how together with our many customers. We introduced Japan's first commercial computer, have a long track record as a system integrator and service provider, and have developed systems for a broad range of businesses and industries. The experience and knowledge these accomplishments have bestowed upon us represent a perfect reusable management resource. Another one of our strengths is the fact that, as a multivendor, we are not entangled in a web of corporate alliances. We therefore have the freedom to pursue business collaborations without experiencing a great deal of resistance. In addition to this, we have a large number of employees with solid experience in project development and extraordinary coordination capabilities. All of these strengths provide us with a clear competitive edge when it comes to actually developing systems.

Supported by our expansive network and the solid trust-based relationships we have with our customers, we will grow and develop together with society as a whole by meeting customer and social needs and generating shared value. I would like to ask our shareholders and other investors for their continued guidance and encouragement as we pursue these endeavors going forward.

Akiyoshi Hiraoka

Akiyoshi Hiraoka
President & CEO

Message from the CFO

Through continuous efforts to reinforce our profitability and financial base, we will work to meet the expectations of our shareholders and other investors.

Toshio Mukai
Representative Director
Executive Corporate Officer
CFO



Moving to the Next Stage for Improving Profitability and Financial Condition

In FY2016, the second year of our mid-term management plan, we were once again able to achieve increases in sales and profit, with profits showing particularly high growth in the double digits. In addition, our operating margin has improved to the 5% range for the first time since FY2008, and we set a record high for net income attributable to owners of the parent. We also lowered our net debt-to-equity ratio 0.01 of a point, to 0.23 times, as a result of efforts to reduce our net interest-bearing debt. In these ways, FY2016 was a year in which we made significant progress in terms of improving our profitability and financial condition.

Looking at the current business environment, the market size for IT services is expected to continue to expand throughout 2020. Under these circumstances, the outsourcing business helped drive the overall strong performance of the Nihon Unisys Group in FY2016, backed by solid demand for investment centered on finance, distribution, and services. This in turn allowed the Group to significantly improve its profit margin. Additionally, as result of efforts by the Project Review Committee and the R&D / Investment Committee to strengthen our structure for project management, we were once again successful in keeping all of our projects in the black in FY2016, much as we did in FY2015.

While we have been achieving a solid business performance in recent years, we are not necessarily satisfied with our current level of success. To realize further improvement in corporate value going forward, we will continue our efforts to improve profitability through such means as enhancing the efficiency of our operational processes and establishing our elemental technologies as intellectual properties. At the same time, we will strive to establish a new, highly profitable business model through the creation of business ecosystems. Furthermore, we will continue to pursue initiatives aimed at reducing our SG&A expenses through enhanced operational efficiency. In these ways, we will aim to further improve profitability from both proactive and defensive standpoints without being satisfied with the current situation.

Implementing an Investment Strategy for Future Growth

For our investment strategy, in addition to the business ICT platform domain, we are carrying out capital investments and R&D investments in a wide variety of other domains aimed at realizing growth for our services businesses. These domains include digital innovation, which relates to transaction settlement and customer contact, and life innovation, which responds to regional revitalization and energy-related issues.

In addition to these kinds of investments, we are also pursuing strategic investment in businesses and funds in order to create new businesses while responding to the rapid changes occurring in the external

Trends in Business Performance

	FY2014	FY2015	FY2016	FY2017 (Forecast)	FY2020 (Target)
Operating Income	¥10.9 billion	¥12.5 billion	¥14.3 billion	¥16.0 billion	—
Operating Margin	4.1%	4.5%	5.1%	5.5%	8–9%
ROE	9.7%	10.5%	11.4%	12%	15% or higher
Net Debt-to-Equity Ratio	0.42 times	0.24 times	0.23 times	0.17 times	—

Dividend Payout Ratio**30%**

Bolster shareholder returns with the aim of reaching a 30% payout ratio

environment. In FY2016, we invested in a Fintech-oriented fund in the United States and, in FY2017, we established Canal Ventures, Ltd. (which manages a fund totaling ¥5.0 billion) as a new venture capital. In the same year, giving consideration to global business expansion, we created Canal Globe, Ltd. with the aim of making genuine advancements in our overseas businesses. Going forward, we will continue to explore a variety of investment opportunities geared toward creating value through innovation.

Supporting this kind of proactive investment strategy is our strong financial base. As we are continuing to make solid progress in reducing our net interest-bearing debt, we expect the net debt-to-equity ratio to decline further by the end of FY2017.

Forecast for Accomplishing Numerical Targets and Policy on Shareholder Returns

FY2017 marks the third and final year of the mid-term management plan. As I have previously mentioned, we are currently making significant improvements in our profitability and working to realize an operating margin of 5.5%. In addition, ROE rose to 11.4% in FY2016, thereby allowing us to reach our targeted ROE of between 11% and 13%. By steadily enhancing performance indices such as these, I believe we can attain our management target of realizing an operating margin of 8% to 9% and ROE of 15% or higher in FY2020.

With regard to our shareholder return policy, we have achieved dividend increases for five consecutive years since FY2012, and in FY2016 we paid dividends of ¥35 per share. We previously targeted a dividend payout ratio of around 20%. However, in light of the success we had in strengthening our financial position under the previous mid-term management plan, we have adopted and are implementing a policy under our current plan of raising this ratio to 30%. We will examine policies to further enhance our shareholder returns under the next mid-term management plan while also giving consideration to maintaining a healthy balance between shareholder returns and growth investments.

Aiming to Further Enhance the Trust-Based Relationships We Have with Our Shareholders and Other Investors

We are working to provide our shareholders and other investors with fair and easy-to-understand explanations of the Group's corporate management and business activities. We are also creating opportunities to engage in active communication with these parties. In addition, we are working to appropriately convey the various opinions we receive through such communication to the Company's executive management and Board of Directors. We are leveraging the constructive dialogue we have with our shareholders within our efforts to improve management quality. We are also taking proactive measures to address various social issues and needs. Through these means, we will move forward with the creation of an even better society.

Without a doubt, numerical performance is the major prerequisite for receiving a high evaluation from capital markets. Going forward, we will continue our efforts to strengthen and enhance our profitability as well as our financial base, which supports that profitability. In doing so, we will further enhance the trust-based relationships we have with all of our stakeholders.

We appreciate and gratefully anticipate the ongoing support of all our shareholders and other investors.




Initiatives for Value Creation

The Nihon Unisys Group launched the current three-year mid-term management plan in FY2015.

The Group believes that the three-year period covered by the plan represents a time for innovation that will allow it to take a drastic leap toward becoming the corporate group it aims to be in 2020.

As a strategic policy under the mid-term management plan, the Group will work as one to take on challenges in the areas of digital innovation and life innovation to create business ecosystems, in addition to promoting innovations in business ICT platforms. Furthermore, to underpin these efforts, the Group will move forward with the reform of its corporate culture and the strengthening of its human resource capabilities.

Main Topics for FY2016

April 2016	<ul style="list-style-type: none"> Appointed Akiyoshi Hiraoka as president & CEO 	
May 2016	<ul style="list-style-type: none"> Commenced verification test of WaviSaviNavi®, a navigations support service for foreign visitors to Japan, at Itamae-sushi stores Commenced joint venture with “Challenergy” Inc. aimed at realizing the practical application of the world’s first wind power generation system capable of producing energy from typhoons 	
June 2016	<ul style="list-style-type: none"> Launched Samurai Trip®, a travel website for foreign visitors to Japan 	
July 2016	<ul style="list-style-type: none"> Commenced the provision of HOTRICO®, a service platform for information on mobile food sales 	
August 2016	<ul style="list-style-type: none"> The Chikuho Bank, Ltd. decided on the adoption of POWER EGG®, a solution service that supports work reforms 	
September 2016	<ul style="list-style-type: none"> Began sales of BANK_FIT-Zero®, a tablet solution service for next-generation bank branch systems of financial institutions (P.25) 	
October 2016	<ul style="list-style-type: none"> Started provision of drive recorder service in Southeast Asia (P.27) UNIADDEX started provision of a comprehensive ITO service that expands the scope of IT outsourcing services 	
November 2016	<ul style="list-style-type: none"> Commenced provision of a cloud-based digital library service with read aloud function to the Japan Digital Library Service Began offering Intelligent Agent Services born from Rinza®, the Company’s open artificial intelligence technology system (P.24) 	
December 2016	<ul style="list-style-type: none"> Renewed video surveillance services and began offering Smart Unisight 	
January 2017	<ul style="list-style-type: none"> Together with 08Works Co., Ltd. and Parco Co., Ltd., selected to participate in a project of the Tokyo Metropolitan Industrial Technology Research Institute aimed at revitalizing the robotics industry Started operations of Web API disclosure service for BankVision®, an open account system for financial institutions (P.30) Began offering the online payment service Alipay® at approximately 13,000 Lawson stores across Japan (P.26) 	
February 2017	<ul style="list-style-type: none"> Cambridge Technology Partners, Ltd. ranked as one of the best companies in the “Fulfilling Company” Survey (P.33) Nihon Unisys, Ltd. and UNIADDEX, Ltd. received “Excellent Enterprise of Health and Productivity Management 2017” (P.33) Nihon Unisys, Ltd. received the Award of Excellence from the Working Women’s Empowerment Forum (P.34) Began offering an IoT business platform service with an IoT device management function that enables the automatic operation and operational monitoring of IoT devices Decided to invest in a fund of funds in Silicon Valley centered on the Fintech sector (P.24) 	
March 2017	<ul style="list-style-type: none"> Established Canal Payment Service, Ltd., a spin-off company operating Chinese payment and settlement services and Charge Point services (P.26) Commenced provision of a service that analyzes people flow and combines video analysis technologies with fundamental IoT technologies Implemented the second round of demonstration experiment projects that utilize NAVii®, the autonomous mobile service robot developed by Fellow Robots Inc., at Yamada Denki stores 	

Status of Ongoing Initiatives

Open Innovation

Initiatives to Create Businesses through Open Innovation

To create new businesses through open innovation, there is a need to collaborate with new business partners who have ideas or possess technologies that the Nihon Unisys Group lacks, and this requires an "ability to discern," which enables the Group to identify those ideas and technologies. Centered on its U.S.-based subsidiary NUL System Services Corporation (NSSC), established in 2006, the Group has been establishing relationships with startup companies and venture capitals, working with such companies to pursue joint research on technological trends as well as initiatives to create new businesses and reform work styles.

Technological Strategy

Image for ICT Utilization by Customers in the Next Three to Five Years

To realize the transformation to a digital society, the Nihon Unisys Group has been presenting Technology Foresight® every year since 2009. Technology Foresight® offers predictions on the use of ICT over the next few years based on research and studies related to market, customer, and technological trends. Using these predictions, the Group gives consideration to the kinds of ICT it should provide to customers going forward.

As an example of such ICT, the Group has compiled the AI-related technologies and expertise it has cultivated within Rinza®, which the Group leveraged to commence the provision of Intelligent Agent Service RinzaTalk™ in November 2016. This service connects and integrates technologies that represent the basic components of intelligent agents and promptly provides them to customers. By combining these services with IoT and big data technologies, the Group will enhance the applicable capabilities and performance of AI-related technologies with the aim of creating business ecosystems.

Technology Foresight

Investments in Creating Innovation

Establishment of Canal Ventures and Creation of a ¥5.0 Billion Fund

With the aim of continuously bringing about innovation, Nihon Unisys established Canal Ventures, Ltd., which conducts venture capital businesses. Also, in June 2017, the Company established the Canal Ventures Collaboration Fund 1, a venture capital fund totaling ¥5.0 billion.

By participating in the ecosystems created through startups and venture capitals while working to create innovative businesses as a corporate venture capital of the Nihon Unisys Group, Canal Ventures will realize digital transformation that contributes to society. In addition, Canal Ventures will make continuous efforts to spur innovation.



Decision to Invest in a Fund of Funds in Silicon Valley

In February 2017, Nihon Unisys decided to carry out a ¥1.0 billion investment in NSV Wolf Capital, a fund of funds created by NetService Ventures, which operates the fund primarily in the Fintech domain. Through this investment, the Company will be able to acquire information from overseas startup companies, primarily in Silicon Valley. This investment will also allow the Company to leverage Fintech to accelerate the creation of new business together with regional financial institutions.



Digital Innovation

Offering Services and Platforms That Form Connections between Industries and Accelerate and Optimize the Digital Business of Corporations

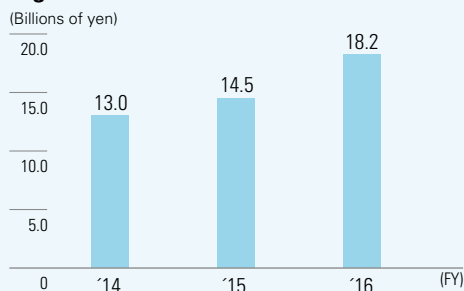
In the digital economy domain, the increased use of ICT has advanced collaboration that goes beyond existing business types and industries and has also given rise to new markets. To establish a competitive edge in this domain, the Nihon Unisys Group is turning its intellectual properties (IP) such as payment systems into services. At the same time, the Group is providing services and platforms that form connections between cloud services and various smart devices, thereby accelerating and optimizing digital businesses.

Major Initiatives during FY2016 and Progress Going Forward

Nihon Unisys' payment-related services aimed at achieving a cashless society are growing steadily. Building on its conventional prepaid card businesses, Nihon Unisys established a new company in FY2016 that will operate Chinese payment and settlement services and Charge Point services, which are expected to see a further increase in demand. Moreover, the Company is strengthening its service lineup in the customer contact domain by implementing demonstration projects that provide service support to customers using robots as well as by commencing the sales of tablet solutions geared toward regional financial institutions.

Going forward, the Company will continue its efforts to provide a broad range of services and platforms aimed at creating new business ecosystems.

Digital Innovation Net Sales



TOPIC 1

Commencing Operations of the "Bank Branch Innovation Platform™" Together with Asahi Shinkin Bank with the Aim of Eliminating Office Work

Nihon Unisys offers BANK_FIT-NE®, a next-generation bank branch system equipped with groundbreaking functions such as Japan's first real-time centralization function and a sales mode function. Through this system, the Company has been providing support for innovating the frontline operations of bank branches. In September 2016, the Company commenced sales of the tablet solution BANK_FIT-Zero®, which acts as a new addition to the BANK_FIT-NE® system lineup, with the aim of eliminating the need for forms, personal seals, and verification processes and reducing the burden of office work at branch offices. In October 2017, the Company commenced the operations of the "Bank Branch Innovation Platform™," which combines BANK_FIT-NE® and BANK_FIT-Zero®, at branch offices of Asahi Shinkin Bank. The introduction of this platform offers customers a far more enjoyable experience when visiting branch offices as they no longer have to wait in lines nor do they need to fill out forms. At the same time, this platform can be expected to reinforce branch offices as the source of profits by allowing them to apply the effects of business process reengineering in customer-oriented proposal activities and new business development.



TOPIC 2

Resolving Social Issues through Payment-Related Businesses Aimed at the Creation of a Cashless Society

In June 2011, the Nihon Unisys Group made a prompt entrance into the “value card business” (gift cards and prepaid cards) within the market of financial-related services, which was expected to grow significantly at that time. With this business acting as the core for business ecosystems that encourage collaboration with various business partners, the Company made efforts to create a new cashless society. In addition, expanding from the value card business, the Group has gradually developed Chinese payment and settlement services, Charge Point services, payment-linked marketing activities, and global brand prepaid card services.

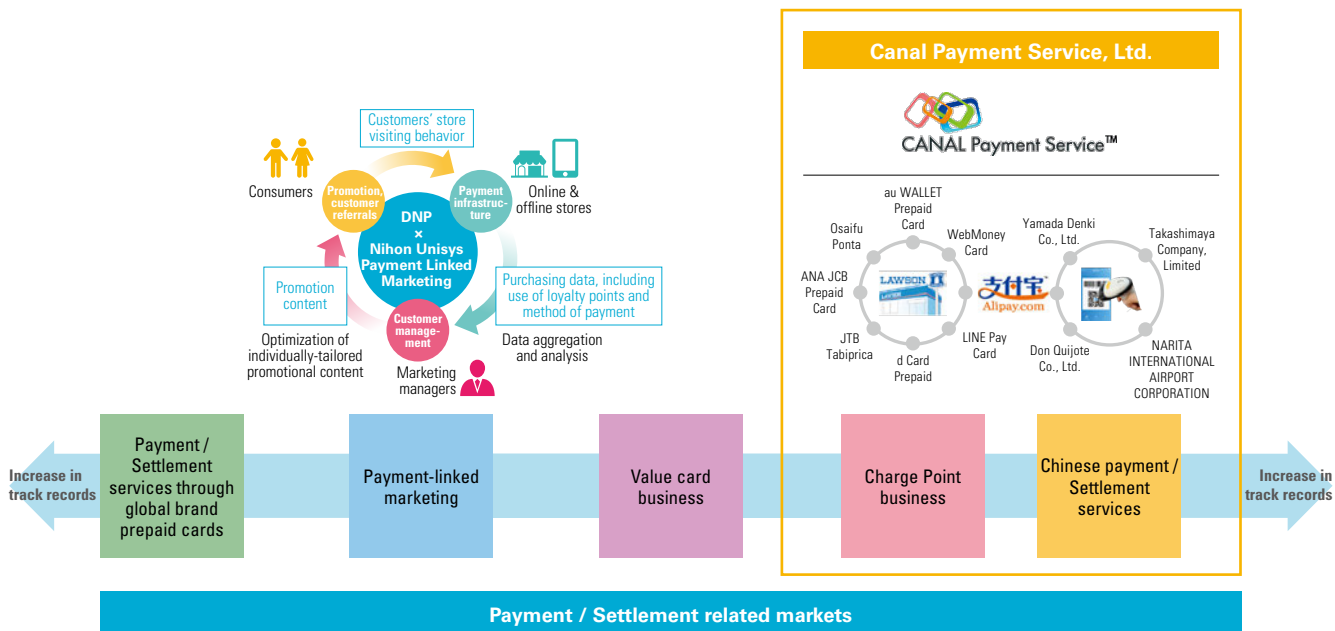
For Chinese payment and settlement services, the Group began offering Alipay®, one of the world’s largest mobile payment services that operates under the corporate umbrella of Ant Financial, in December 2015. Since then, the Group has rolled out a variety of Alipay® services for such companies as Yamada-Denki Co., Ltd., Takashimaya Co., Ltd., Don Quijote Co., Ltd., and Narita International Airport Corporation.

In January 2017, the Group began offering Alipay® services to approximately 13,000 Lawson stores across Japan.

Additionally, as part of its payment-related businesses, the Group established Canal Payment Service, Ltd. in March 2017 with the aim of accelerating and actively expanding businesses involving Chinese payment and settlement services and Charge Point services, for which demand is anticipated to grow further.

Going forward, the Group aims to offer services that are beneficial to both consumers and business operators. To this end, the Group will promote the use of cashless payment services, which are being developed in both the public and private sectors in Japan.

Payment-Related Businesses of the Nihon Unisys Group





Life Innovation

Creating Services That Enrich Society and Operating Them as Part of a Service Portfolio

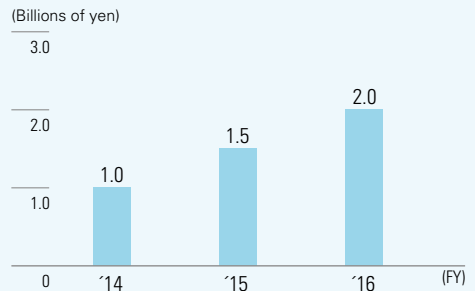
Nihon Unisys Group is taking on challenges to create new businesses in the life innovation domain. By forming links between services to establish business ecosystems, the Company aims to resolve the various social issues facing Japan, such as the declining birthrate and aging population, regional revitalization, and issues related to energy. Over the short to medium term, the Group will create user-based and community-based ecosystems. Over the long term, through the utilization of next-generation technologies, the Group will create services that enrich society and promote these services as part of its service portfolio.

Major Initiatives during FY2016 and Progress Going Forward

The lineup of new services the Nihon Unisys Group offers has formed new connections between industries. These connections have become essential elements to business ecosystems aiming for the resolution of social issues. To build on its well-established ICT systems for local medical treatment and nursing care as well as its childcare support services, the Group promoted initiatives in FY2016 aimed at expanding its business domains to include shared business platform services, tourism-related services, and other services. Furthermore, in an effort in overseas business expansion, the Group began providing drive recorder services—for which it has a strong track record in Japan—to countries in Southeast Asia.

Going forward, the Group will promptly expand its business by creating links between the various services it offers in an effort to contribute to the resolution of social issues.

Life Innovation Net Sales



TOPIC 1

Commencing the Provision of Drive Recorder Service in Southeast Asia

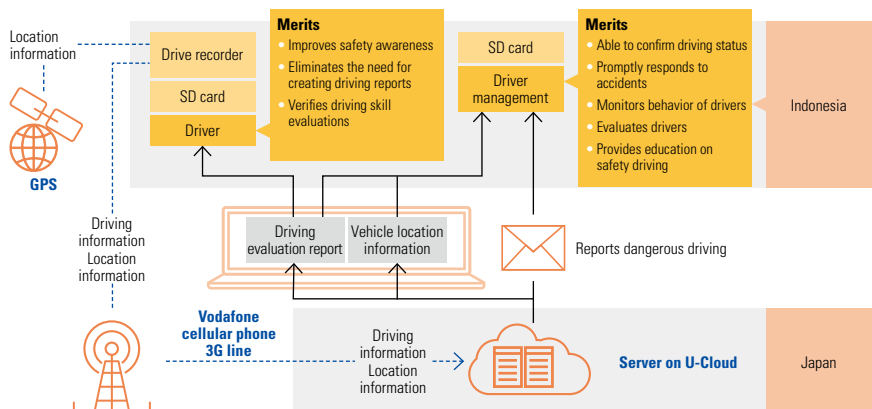
Since 2009, Nihon Unisys has been offering transportation service providers with the Zero-Accident Program DR (Drive Recorder) service. For customers who use a wide range of vehicles, this program has helped meet such needs as reducing the number of accidents, lessening the burden of vehicle management, and providing eco-friendly support by reducing CO₂ emissions.

Furthermore, in October 2016, the Company began offering ANZEN FleetView™, the overseas version of the Zero-Accident Program DR service, in Indonesia.

ANZEN FleetView™ was developed as an overseas version of the Zero-Accident Program DR service and responds to the need for reducing automotive accidents, enabling eco-friendly driving, and lowering costs. ANZEN FleetView™ also allows transportation

service providers to realize safe, high-quality services. Going forward, the Company aims to extend the Zero-Accident Program DR service into other countries in Southeast Asia while also expanding peripheral services.

Overview of ANZEN FleetView™



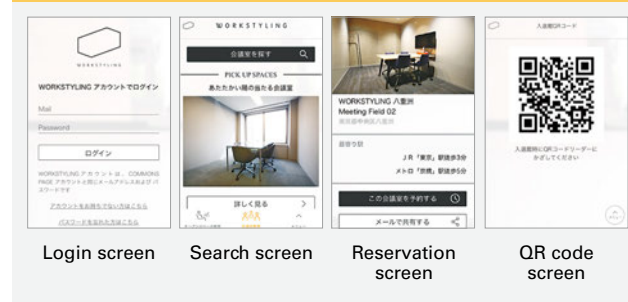
TOPIC 2

Establishing Business Ecosystems That Support the Future Sharing Economy through Shared Business Platform Services

For users of WORKSTYLING®, a multi-site shared office program for corporate clients established by Mitsui Fudosan Co., Ltd., Nihon Unisys has started to offer systems that provide a broad range of support, from managing client information and reservations to conducting billing processes. As a framework that underpins these support systems, the Company has also commenced the sale of shared business platform services to shared business operators. The Company will expand sales of these platform services by adding a feature that allows business operators to share spaces such as parking lots, hotels, vehicles, and private rooms. With its sights set on the future of the sharing economy, which is expected to expand significantly by 2020, the Company plans to develop platform services for sharing places and objects owned not only by business operators but also by individuals as well.

Multi-Site Shared Office Program WORKSTYLING®

Providing systems to shared office users that support client information management and reservation and billing processes



TOPIC 3

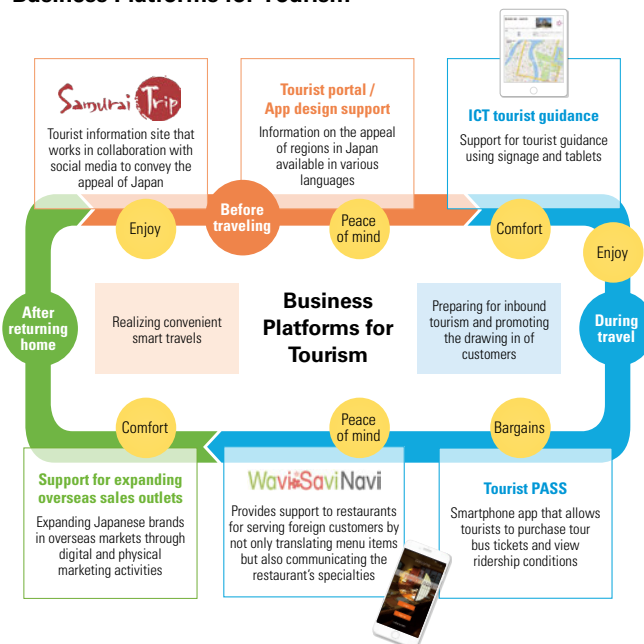
Creating Business Ecosystems for Tourism That Realize Regional Revitalization through the Provision of Business Platforms for Tourism

By forging connections between local communities, tourists, and business operators through ICT, the Nihon Unisys Group aims to create business ecosystems for tourism that realize regional revitalization, thereby establishing a relationship with these groups as a valuable partner that stimulates regional economies. Through the creation of business platforms for tourism, the Group will provide services to tourists and business operators in accordance with local demands for DMO*1 and DMC.*2

In addition, Nihon Unisys was chosen to be a participant in the Ministry of Economy, Trade and Industry's Project for Promoting the Creation of New IoT-based Business (IoT-based Omotenashi Demonstration Projects) under the FY2016 Supplementary Budget. In Kumamoto, Tottori, and Shimane prefectures, which were chosen as targets of this project, the Company has already commenced demonstration projects for tourism services aimed at foreign visitors. The Company is moving forward with preparations for the scheduled commencement of similar projects in Nagasaki on December 1, 2017.

Moreover, the Company aims for the practical application and nationwide rollout of these services, with its sights set on expanding the services to 10 different regions by FY2020.

Business Platforms for Tourism



*1 DMO (Destination Management [Marketing] Organization): An organization that is well-versed in the tourism resources of a particular region, such as sightseeing spots, and works with the local community to create new tourist attractions.

*2 DMC (Destination Management Company): A company that promotes tourism in local areas.



Business ICT Platforms

Promoting the Industrialization of Services* to Accelerate Service Delivery and Revising the Service Portfolio to Combine Internal and External Services and Provide Them in the Fastest and Optimal Manner

For business ICT platforms, an area of reform, Nihon Unisys Group is taking the initiative to set up ICT platforms that the existing business domains of customers, as well as business ecosystems, amid the rapidly occurring changes in customer business environments. The Group is also promoting initiatives to provide services to customers in the fastest and best way possible.

In order to speedily provide elite services to customers, innovations to conventional business models are required. To this end, not only is the Nihon Unisys Group leveraging its IP within and outside the Group through its open and closed strategy, it is also advancing a shift to service-based businesses by reusing IP and turning them into services and by promoting implementation-type businesses.

* Industrialization of services: efficient provision of services through automation, standardization, and componentization.

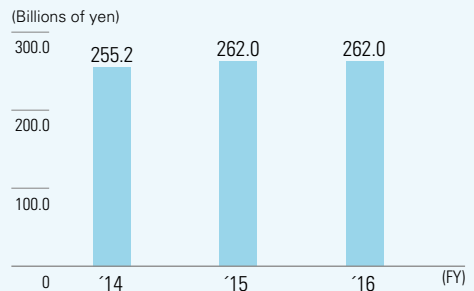
Major Initiatives during FY2016 and Progress Going Forward

To advance the shift to service-based businesses, the Company is promoting efforts to standardize development methods and operational processes and reuse intellectual properties created in the past while also working to increase the number of implementation-type businesses. In doing so, the Company has been realizing a certain level of success in improving profitability.

In FY2016, Nihon Unisys worked to improve profitability by expanding implementation-type solution businesses geared toward retail stores and direct sales and by continuing to reuse its accumulated IP and software components. In addition, the Company developed solutions focused on the frontline and strategic operations of finance companies and established a solid track record with the new business operators that emerged after the deregulation of the retail electric power industry.

Moreover, the Company's Business Service Division made efforts to strengthen a service-based business structure, create new businesses, carry out demonstration projects, and accelerate the pace for providing proof of concept. Going forward the division will help promote further innovation to the Company's business model.

Business ICT Platforms Net Sales



TOPIC 1

Providing Platforms That Promptly Create Optimal Services with the Aim of Realizing Business Ecosystems

To create business ecosystems, the Nihon Unisys Group is providing IoT platforms that act as a framework for promptly creating optimal services.

The Group offers an IoT business platform service that realizes one-stop services covering everything from providing device networks such as sensors to collecting, transmitting, processing, and analyzing data. In addition, by utilizing the IoT services of Microsoft® Azure®, this IoT business platform service can provide the scalability needed for IoT systems. In FY2016, this service was enhanced with an IoT device management function that enables the automatic operation and operational monitoring of IoT devices. In addition, the

Group began offering a service that analyzes people flow, which breaks down video taken with installed cameras to acquire information on the movement of people and their attributes (gender, age, etc.). In FY2017, by installing edge computers at our offices that can process large volumes of data, we are working to further enhance our service lineup through the provision of such services as IoT edge processing services, which allow for optimal data processing and real-time feedback.

* Microsoft® and Azure® IoT Suite are registered trademarks and trademarks of Microsoft Corporation in the United States and other countries.

TOPIC
2
Providing the Next-Generation Open Account System BankVision® as well as an Unprecedented Service Platform

From the second half of the 1990s, Nihon Unisys has been working to create open systems for the fundamental operations of banks. As a culmination of these efforts, the Company began the operations of the open account system BankVision® in May 2007. BankVision® draws on not only the operational and system know-how the Company has cultivated over many years in the field of bank fundamentals but also on the introduction of new technology “object-orientation.”

Furthermore, through the application of MIDMOST® open middleware, BankVision® realizes the necessary levels of reliability and security for fundamental bank operations while also being able to flexibly support new technologies and functions.

Commencing Operations of New Systems at Ogaki Kyoritsu Bank

In May 2017, Ogaki Kyoritsu Bank commenced operations of new systems centered on BankVision®. Within the project to develop these new systems for Ogaki Kyoritsu Bank, Nihon Unisys worked to shift the bank away from conventional systems by simultaneously implementing the open account system BankVision® and the international open account system OpenE'ARK®. By utilizing Microsoft's Windows Server® and SQL Server® as the system foundations, these new systems realize bank account system operations through an open system environment.

Starting Operations of Web API* Open Services

The Nihon Unisys Group began offering Web API* open services in January 2017. This service connects expansive features of BankVision® with services and businesses in a wide variety of industries outside of banking.

The open system Web API disclosure service realizes a horizontal specialization model for both banks and companies in other industries. This model allows banks to collaborate with businesses from different industries, thereby helping them create new user experiences and cultivate a new base of customers that they could not acquire on their own. In these ways, the Web API disclosure service is expected to act as a catalyst for innovation within the business models of banks.

In January 2017, we began offering a service that uses the functions of BankVision® to create Web API. During the fall of this year, we plan to commence Resonatex™, an open API platform service that enables Web API disclosure.

Going forward, the Group will continue to strengthen the sales structure of BankVision® as an open account system that can respond to the wide range of needs banks have. At the same time, the Group aims to lead the way in establishing an unprecedented service foundation that allows the Group to grow together with regional financial institutions.

* API (Application Programming Interface): API is an interface mechanism used when functions or data are retrieved between various software components.

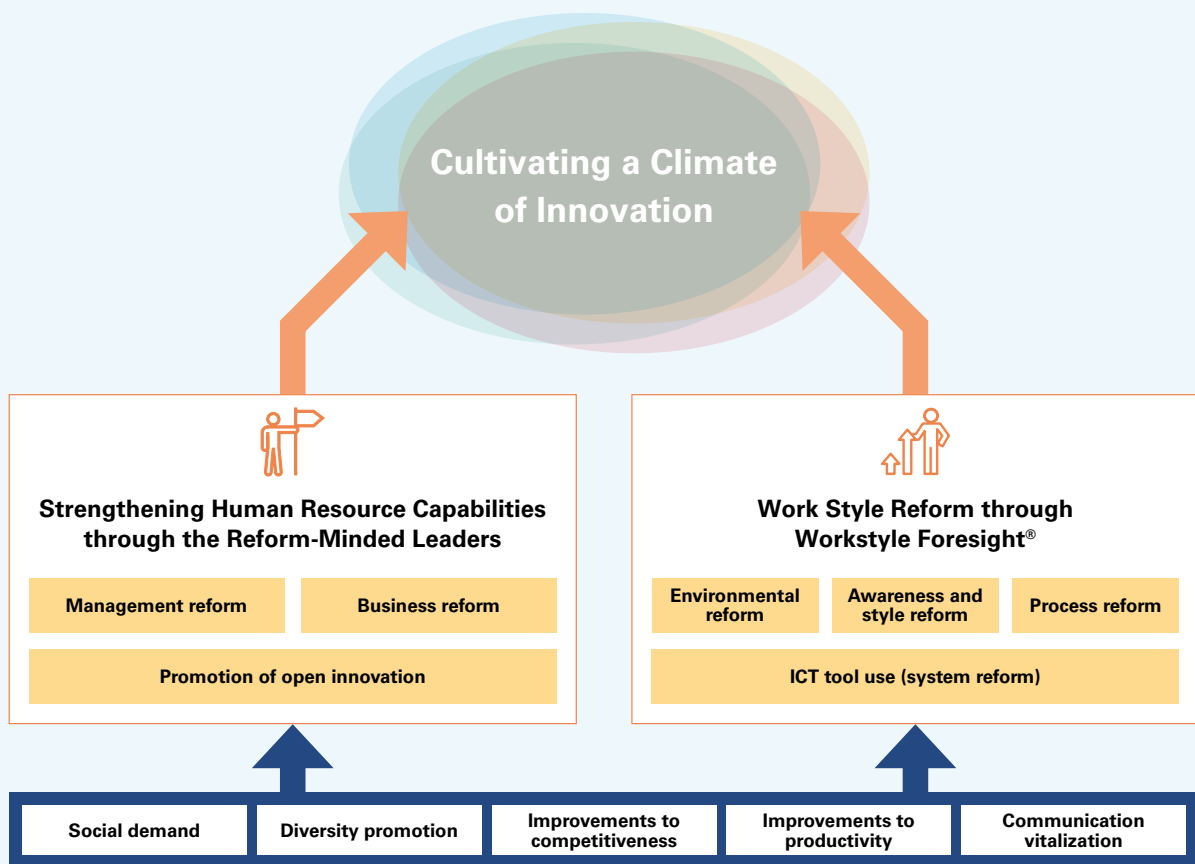
Operational Performance of the Next-Generation Open Account System BankVision®
Value created through collaboration between users of the highly original BankVision® system




Reform of Corporate Culture and Strengthening of Human Resource Capabilities

Human resources are the Nihon Unisys Group’s biggest asset and its most important source of value creation.

Innovative human resources capable of creating groundbreaking businesses are indispensable to building the business ecosystems necessary to achieve our vision for 2020. In order to cultivate an environment that is supportive of innovation, we are actively making efforts toward reform of corporate culture and strengthening of human resource capabilities.



We are promoting our Leaders for Change Program among our human resources and pursuing initiatives geared at changing employee and management mindsets and work styles in support of creating new businesses. Specific initiatives include coaching training for managers, the M3 project, where select young and mid-level employees examine issues from the perspective of management and create proposals for resolving them, and the Next Principal program, which fosters human resources that can create new businesses on their own initiative.

We have also begun Morning Challenge sessions, where corporate officers participate in discussions in order to invigorate activities for creating new businesses.

In terms of reforming corporate culture, under the Workstyle Foresight® initiative, we have endeavored to reform working styles through such means as encouraging telecommuting and establishing satellite offices. Going forward, we will continue to effectively leverage ICT, the strength of the Nihon Unisys Group, to bring about further changes in the work environment, business processes, awareness, and working styles.

Through these initiatives, we aim to achieve three measures aimed at creating businesses and services that are ahead of the curve. These are: reforming management style, enhancing the lifestyles of our employees and supporting their personal growth, and fostering a culture that spurs innovation.



The Nihon Unisys Group's Mechanisms to Stimulate New Business Creation through the Reform-Minded Leaders

TOPIC 1

Next Principal: To Discover and Cultivate Human Resources Capable of Creating New Businesses

The Nihon Unisys Group refers to human resources who are capable of creating new businesses as "principal human resources." Next Principal began in FY2010 and is a business innovation program for employees that aims to discover and cultivate young human resources capable of creating new businesses. As a program designed to cultivate the next generation of innovative human resources, Next Principal provides a place for passionate employees to practice creating new businesses and offers fresh and inviting opportunities to learn and train. As of FY2016, 276 employees have participated in the program.

This program aims to foster human resources that can accomplish the following tasks: discover and conceive value that is brand new to the world, independently practice developing new ideas for new businesses, and coordinate diverse human resources and organizations to work together in accomplishing set goals.



Special Characteristics of the Next Principal Program

- Guidance from external advisors with experience in creating new businesses
- Space to examine business plans for new business creation
- Emphasis on external opportunities for learning and practicing

Results

Cloud-based taxi assignment system smartaxi®



First generation

Cloud-based childcare support service ChiReaff Space®



Third generation

TOPIC 2

Morning Challenge to Invigorate Business Creation Activities

Through open innovation involving industry-transcending partnerships with companies that possess new technologies and ideas, the Nihon Unisys Group aims to design an even brighter future, one that could not be achieved on its own initiative, through business ecosystems.

To stimulate ideas from all employees regarding new business creation, we have been holding "Morning Challenge," a meeting held by the CMO for engaging in discussion, approximately once a month since February 2017. Employees and corporate officers participate in these meetings, with the corporate officers adopting the standpoint of investors. By incorporating new, external seeds and business models, Morning Challenge works to flesh out specific ideas for new business.

Objectives of Morning Challenge

- Provide information to the entire Company regarding open innovation trends and the channels available for utilizing open innovation
- Accelerate and encourage examinations for businesses using perspectives and ideas that go beyond industrial barriers
- Spreading the joy of working with management to come up with ideas for business creation
- Improve external presentation and communication abilities





Work style reform through Workstyle Foresight®

The Nihon Unisys Group’s vision for work style reform—Workstyle Foresight®—means that every year our approach to work style undergoes changes carried out with foresight. We implement a wide variety of policies through Workstyle Foresight® that aim for lively and healthy work styles. These policies encourage the development of new business and the individual growth of employees by providing leeway for the creation of bold ideas while placing importance on employees’ private lives. Policies include sharing ideas and methods to reduce overtime and to improve the number of paid vacation days taken (P.5), responding to the need for diverse work styles with satellite offices and open seating arrangements, and sharing information on ICT tools that can be applied to new ways of working. Furthermore, in our Foresight in sight® activities*, we are pushing forward with Workstyle Foresight® by having employees engage proactively in activities to create new value and reform business.

* Foresight in sight® activities: Reform activities that target a wide range of general employees.



Foresight in sight® activities

Workstyle Foresight®

We are pursuing healthy and flexible work styles with the goal of encouraging new business creation and personal growth by providing the space necessary for the rich creation of ideas while respecting the individual lives of our employees.

Environmental reform	Awareness and style reform	Process reform
Satellite offices Open seating arrangements Modernization of conference rooms	Flexibility in overtime activities Telecommuting / Telework Paperless operation	Meeting reform Electronic approval Operational reform
ICT tool use (system reform)		
Cloud first (use of Office 365®) Mobile first (mobiGate®) Use of Skype® for Business Use of internal SNS		

FOCUS ON

Selected as One of the Best Companies in the “Fulfilling Company” Survey

The Group’s Cambridge Technology Partners was ranked as the second most “fulfilling company” in the 100-999 employees category in 2017 by the Great Place to Work® Institute. The company was particularly lauded for the close connection between employee awareness and corporate initiatives.



Health Management

Nihon Unisys Group believes that healthy employees raise corporate value. Based on this belief, we are actively working on promoting employee health while approaching health management as a management issue together with work style reform. President & CEO Akiyoshi Hiraoka promotes health management from his position in top management as Chief Health Officer (CHO). In FY2016, a health and lifestyle improvement challenge was initiated to raise employee awareness of health issues. In addition, Nihon Unisys and UNIADDEX

received “Excellent Enterprise of Health and Productivity Management 2017” certification from the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.



2017
健康経営優良法人
 Health and productivity
 ホワイト500

Promotion of Diversity Activities

Diversity Foresight®: Diversity in Support of the Nihon Unisys Group's Management Strategy

The Nihon Unisys Group is cultivating a climate of diversity and inclusion in its Diversity Foresight® plan for diversity promotion. With improving business performance by enabling diverse human resources to show their abilities as our mission, we hope to use diversity policies to become a company that creates business ecosystems that value diversity and inclusion by 2020.

As part of the Nihon Unisys Group's initiatives to make the best use of diversity, we are proceeding with a number of policies, including promoting the active participation of female employees in the workplace (raising the ratio of management positions held by women to 10%* by 2020), establishing systems and mechanisms that enable diverse human

resources to actively participate, creating businesses that leverage diversity, and implementing work style reforms.

In October 2017, we received the highest "Eruboshi" certification by the Minister of Health, Labour and Welfare, which acknowledges companies that implement outstanding efforts to promote the active role of women based on the Act of Promotion of Women's Participation and Advancement in the Workplace.

Moving forward, we will pursue advancements in diversity management and examine plans for diversity promotion policies and systems as part of our management strategy, raise awareness among regular and management-level employees, and disclose progress and external links.

* On a non-consolidated basis for Nihon Unisys, Ltd.

Diversity Foresight®—The Nihon Unisys Group's Diversity & Inclusion Efforts

- Goals** Establish an environment that enables the active participation of diverse human resources and cultivate a climate accepting of diversity
- Vision** Become a company that creates business ecosystems that value diversity and inclusion

Three-Step D&I Promotion Plan

STEP 1 Work style reform

Expand use of telecommuting, revise existing systems, encourage male employees to take childcare leave

STEP 2 Human resource cultivation

Reform management values, promote the active participation of women, persons with disabilities, and human resources with global experience, improve policies on caregiving

STEP 3 Business contributions

Cultivate organizations, environments, and climates conducive to the active participation of diverse human resources, increase diversity in human resources active in business, contribute to the creation of business ecosystems



FOCUS ON

Received the Award for Excellence from the Working Women's Empowerment Forum



Nihon Unisys received the award for excellence from the Working Women's Empowerment Forum, part of Japan Productivity Center, a public interest incorporated foundation. The Working Women's Empowerment Forum awards recognize companies that conduct original and inventive initiatives to raise productivity by promoting the active participation of women in the workplace and empowering women and serve as an example for other companies.

We received the award for our policies to encourage work-life balance, including our work-from-home system, which led to the creation of a more comfortable work environment and expanded telecommuting, and initiatives to support new business creation that takes advantage of the ideas and perspectives of our female employees. Moving forward, we will continue to work to increase our competitive edge in an ever-changing business environment and achieve sustainable growth.



Foundation Supporting Value Creation

We are building suitable management systems in order to make the most of Nihon Unisys Group's management resources, and to continuously increase these resources, which support improvements in corporate value.

Corporate Governance

Basic Views

A mechanism of corporate governance that enables management to make prompt and sound management decisions under appropriate and effective supervision is indispensable for enabling the Nihon Unisys Group to continuously grow and increase its mid- and longterm corporate value, and the Company shall create, maintain, and ceaselessly improve this mechanism.

Furthermore, Nihon Unisys believes that a company's raison d'être lies in its contribution to society. Based on this belief, the Company stipulates as part of its corporate philosophy, "Listen sincerely to our stakeholders to improve our corporate value" in order to create relationships of trust with all stakeholders, and it shall proceed with its business activities in accordance with this principle.

Corporate Governance Structure

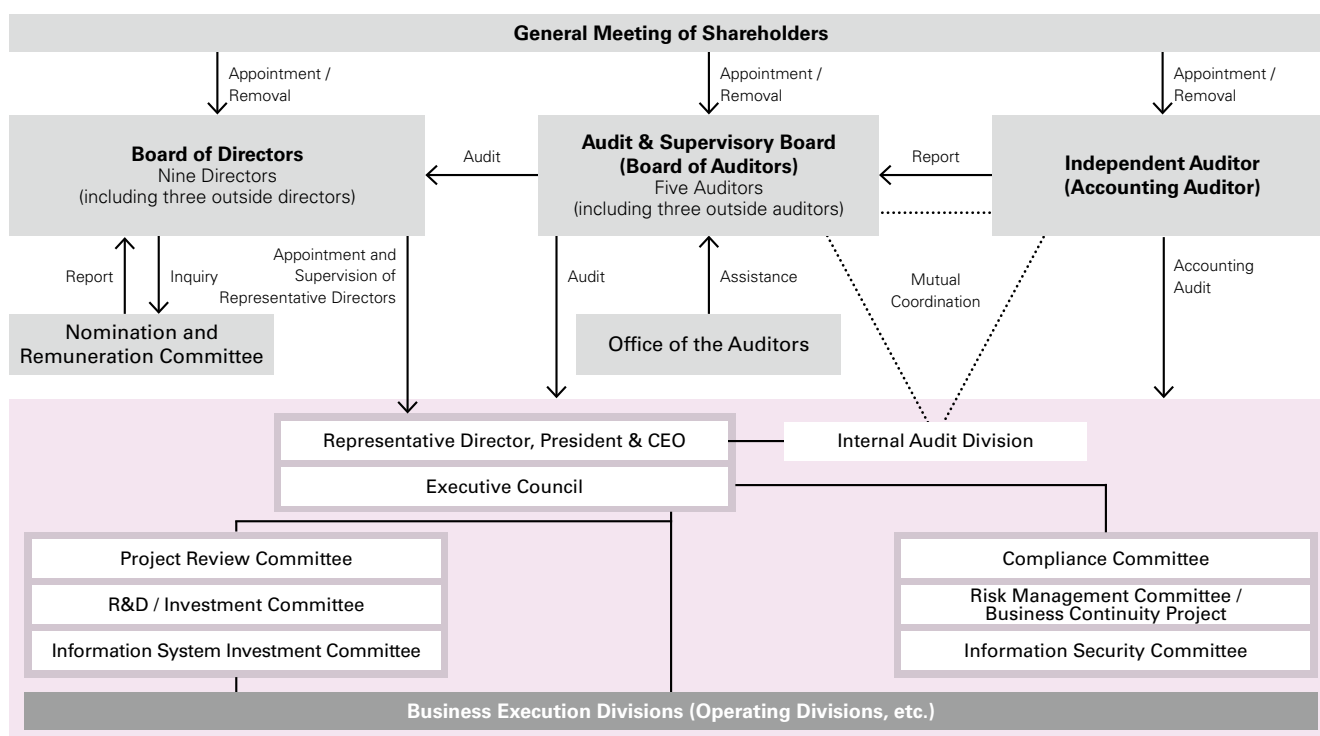
The Company has judged that an audit system that includes outside auditors is effective for supervising management, and thus has adopted the system of having a Board of Auditors. Given the drastically changing nature of the Company's industry, its Board of Directors consists of five internal directors who are well-versed in the state of the Company and its industry and also four directors from outside institutions who are expected to use their abundant management experience, give advice on management as a whole from their external,

objective, and expert perspectives, and operate as an efficient supervisory body to management. In anticipation of these three factors, we have appointed four directors from outside institutions (three of whom serve as independent outside directors).

We think this makes the Company capable of more objective and broad-based decision making as well as more effective supervision of its business execution.

Corporate Governance and Internal Control

As of June 28, 2017



* Note that the Company has put the CSR Committee and the Management of Technology (MOT) Committee in place as advisory bodies in addition to the above.

Board of Directors

The Board of Directors is composed of nine directors, including three independent outside directors (two of whom are female). It meets every month as a general rule. The Board of Directors receives reports on and decides on key matters for the Company. The term of directorship is set at one year in order to establish a flexible management system capable of responding to changes in the management environment and to clarify the management responsibilities of directors.

In FY2016, the Board of Directors met 11 times, holding discussions on various issues related to management.

The attendance ratio of Board of Directors' meetings was 100.0% for outside directors and 95.4% for outside Audit & Supervisory Board members.

Despite satisfying the legal requirements for outside directors, executives who are Nihon Unisys's principal shareholders are judged strictly and conservatively and as of FY2017 no longer serve as outside directors. This is why our number of outside directors has decreased. However, our number of independent officers has increased by one, leaving us with a system capable of highly efficient management supervision.

Board of Directors' Structure

FY2016: Nine directors

(As of June 28, 2016)

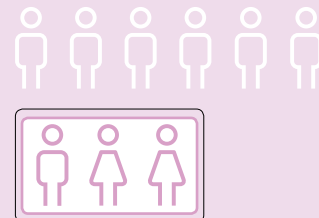
- Outside directors: **Four**
- Independent outside directors: **Two**



FY2017: Nine directors

(As of June 28, 2017)

- Outside directors: **Three**
- Independent outside directors: **Three**



The Audit & Supervisory Board

There are five Audit & Supervisory Board members (herein also referred to as "auditors"), including three independent outside auditors (one of whom is female). Two are full-time auditors. Auditors attend key meetings (such as those of the Board of Directors) and examine the state of the Company's performance and assets. In addition, by exercising their authority related to the appointment or dismissal of accounting auditors and the determination of remuneration, the Audit & Supervisory Board members audit the performance of the directors in their professional duties and conduct investigations pertaining to internal control systems. They are assisted in accomplishing their duties by dedicated personnel assigned

to the Office of the Auditors in order to enhance the effectiveness and smoothness of audit operations by auditors.

In FY2016, the Audit & Supervisory Board met 13 times, with an attendance ratio for outside Audit & Supervisory Board members of 94.2%.

Internal Audit Department

The Internal Audit Department has been established as an internal body under the direct control of the president & CEO to assess the effectiveness and efficiency of internal controls across the Group.

FOCUS ON

Evaluation of Effectiveness of the Board of Directors



Nihon Unisys surveyed all of its directors and auditors regarding the structure, operation, and deliberation status and so forth of the FY2016 Board of Directors. After deliberating the results from the survey, it evaluated the effectiveness of its Board of Directors. As a result, it was confirmed that the Board in its member numbers and structure is well balanced in terms of knowledge, experience, and skills and is appropriately operated when it comes to management supervision through administration of and deliberation at Board of Directors' meetings.

Furthermore, along with continuing to improve information dissemination to deepen understanding of business operations by outside directors, we are making use of the diverse knowledge and experience of our Board members to further discussion on ESG (environmental, social, and governance) and business strategy contributing to continuous value creation.

The Company will endeavor to further improve the effectiveness of the Board of Directors through analysis and evaluation every year going forward.

Business Execution Structure

<p>Executive Council</p>	<p>The Executive Council consists of representative directors and directors who concurrently serve as corporate officers and has been established as a body to make efficient decisions regarding key matters relating to business execution.</p>
<p>Various Committees</p>	<p>Various committees have been established in order to deliberate on specific management issues relating to business execution by the directors from practical perspectives. These are the Project Review Committee, the R&D / Investment Committee, the Information Systems Investment Committee, the Compliance Committee, the Risk Management Committee, the Business Continuity Project, and the Information Security Committee. Furthermore, the CSR Committee and Management of Technology (MOT) Committee have been established as advisory bodies.</p>
<p>Corporate Officer System</p>	<p>The Company has adopted a system of corporate officers in order to separate the supervision of management from its execution and to enable prompt business execution.</p>
<p>System for Approval via Circulation of Drafts for Deliberation</p>	<p>In regard to matters that are important from a management perspective, we are building and operating systems that not only reflect the expert opinions of the relevant heads of corporate staff, but arrive at decisions via deliberation between head directors and members of decision-making bodies (committees) and executive councils.</p>

■ Project Management Risks

The Project Review Committee manages a thorough and multifaceted system for assessing risk at both the proposal and implementation stages while also working to increase the profits of the Company's service businesses.

At meetings of the Project Review Committee, the committee examines business risks of system services and long-term business activities as well as the suitability of measures against said risks and determines the advisability of project

implementation. In addition, for projects in operation, the committee conducts various reviews of project management on a regular basis in such ways as receiving third-party opinions on quality assurance. The committee also monitors the status of business risks and risk mitigation measures and conducts budget control and assessment of various project plans. When necessary, the committee carries out revisions to project plans.

Internal Control System

The Nihon Unisys Group has strived to establish, operate, and continuously improve its internal control system as follows in order to achieve the aims of internal control: improving the effectiveness and efficiency of business, ensuring the reliability of financial reports, compliance with laws and regulations on business activities, and preservation of Company assets.

■ Improving the Effectiveness and Efficiency of Business

The Group has established a mid-term management plan and specific management targets, and it strives to develop systems that will improve operational effectiveness and efficiency.

■ Ensuring the Reliability of Financial Reports

The Company's management and employees have conducted themselves in compliance with the basic policy for appropriate financial reporting established by the Group set forth for ensuring the reliability of financial reporting.

■ Compliance with Laws and Regulations on Business Activities

In recognition of compliance as one of the most critical issues to the execution of business operation, the Group has established the Nihon Unisys Group Charter of Corporate Behavior, the Group Compliance Basic Regulations, and the Nihon Unisys Group Code of Conduct, based on which all of the Group's employees act ethically in compliance with laws and regulations, social norms, and in-house regulations.

■ Preservation of Company Assets (Risk Management)

The Nihon Unisys Group is faced with various kinds of risk in connection with its operating business activities. The Company has developed a common risk classification system for the Group to share and centralize the management of risks throughout the entire Group. Furthermore, it has developed preventive measures and countermeasures against the occurrence of risk events in order to safeguard its assets.

Accordingly, the Company has established a Risk Management Committee and Business Continuity Project chaired by the chief risk management officer (CRMO) to unify, lead, and manage risk management across the entire Group.

Remuneration of Directors and Audit & Supervisory Board Members

Policy and Procedure for Deciding Remuneration for Directors

Directors are in principle paid according to their professional responsibilities, with a focus on performance-based pay and taking into account market-rate salaries and employees' salary levels. Remuneration for directors consists of a fixed monthly salary, annual performance-based bonuses using net income attributable to owners of the parent as an indicator, and stock options for performance-based compensation system. Non-executive directors, such as outside directors, are paid a fixed monthly salary only. The exact amount of remuneration is decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee, which partly consists of one or more independent outside directors, within the amount as decided by resolution at general shareholders' meetings.

It was resolved at the 49th Ordinary General Meeting of Shareholders held on June 25, 1993, that the monthly remuneration amount is a maximum of ¥35 million per month. It was resolved at the 72nd Ordinary General Meeting of Shareholders held on June 28, 2016, that the total amount of directors' bonus is limited to ¥100 million per year, with the payment standard set at 0.5% of net income attributable to owners of the parent for the time being.

Performance-Based Remuneration

With the aim of increasing director motivation to contribute to continuous improvement in the Company's performance and corporate value, the Company has been issuing stock options to directors based on a system of linking remuneration to performance introduced in FY2012.

In addition to these stock options, the Company provides directors with incentives to contribute to cultivating a sound corporate spirit. At the same time, in order to clarify director responsibility in terms of business performance, the Company introduced performance-based bonuses in FY2016 that use net income attributable to owners of the parent as an indicator.

Remuneration for Auditors

Auditors are compensated without linking pay to performance in order to ensure the effectiveness of auditing from an independent perspective. Their fixed monthly remuneration is decided as a result of discussions among auditors.

It was resolved at the 62nd Ordinary General Meeting of Shareholders held on June 22, 2006, that the monthly remuneration amount for auditors is a maximum of ¥8 million per month.

Total Remuneration for Directors and Audit & Supervisory Board Members with Subtotals for Each Type of Remuneration and Numbers of Recipients (FY2016)

Classification	Total Remuneration Paid (Millions of yen)	Remuneration Paid by Type (Millions of yen)			Recipients (People)
		Basic Remuneration	Stock Options	Bonuses	
Directors (Excluding Outside Directors)	266	209	26	30	6
Audit & Supervisory Board members (Excluding Outside Audit & Supervisory Board Members)	28	28	—*1	—*1	2
Outside Directors and Outside Audit & Supervisory Board Members	82	82	—*1	—*1	9

Notes: 1. Outside directors and outside Audit & Supervisory Board members do not receive stock options or bonuses.
2. Figures shown in millions of yen have been rounded down to the nearest million.

Policy Regarding Constructive Dialogue with Our Shareholders and Other Investors

In addition to disclosing information at a suitable time and in an appropriate manner, Nihon Unisys believes that repeatedly engaging in mutual dialogue with its shareholders and other investors leads to the fair evaluation of the Company's value. The Company places great significance on the opinions of its shareholders and other investors and regularly reports these opinions to its management in a timely manner. These opinions are then put to use in making improvements to the Company's overall management.

Initiatives during FY2016

In addition to holding briefing sessions on financial results each quarter, the Company made efforts to engage in constructive dialogue with a wide variety of investors through such means as holding small meetings, responding privately

to domestic investors, and fielding inquiries from overseas investors during visits. We also created opportunities to appropriately explain our corporate value, such as holding facility tours and publishing integrated reports.



Awarded Commendation Award in Daiwa IR's Internet IR Awards in 2016 for the 15th consecutive year.

Messages from the Outside Directors

Go Kawada

Outside Director, Independent



To realize effective corporate governance, the Nihon Unisys Group is making daily efforts to strengthen its corporate governance policies. As part of these efforts, Nihon Unisys added an additional independent outside director, which means that three out of the Company's nine directors are now independent outside directors.

The Group's efforts to promote diversity center on Diversity Foresight®. Utilizing the capabilities of a diverse group of talent to achieve solid business results, the Group aims to leverage Diversity Foresight® in order to become a business ecosystem creator that gains strength from the celebration of diversity by 2020. In addition, as business risks are expected to diversify going forward, the Group is working to realize a structure that can verify and appropriately respond to risks in the event an issue should occur. In doing so, the Group aims to enhance its risk management. From the perspective of an outside director, I will conduct oversight to ensure that the management of Nihon Unisys is fair and transparent. I will also make clear to the Company that there are many different ways of viewing and approaching the various issues it faces, and I will ensure that we as outside directors fulfill our respective roles in this regard. In doing so, I hope to put forth an even greater effort so that the Group can realize improvement in its corporate value over the medium to long term.

Reasons for Appointment

Mr. Kawada possesses sophisticated knowledge in the fields of tax services and accounting and has an abundance of experience as an outside director. He was appointed as an outside director in hopes that he will leverage his knowledge and experience to provide advice to the Company's management and to oversee the actions of management from an objective and fair standpoint.

Other Important Positions Held by Mr. Kawada

Outside auditor at DAIREI CO., LTD.

Biography

- 1967.4 Joined the National Tax Agency. Since then, Mr. Kawada served as Head of the Kaibara Taxation Office, Osaka Regional Taxation Bureau, Consul of the Consulate-General of Japan in San Francisco, Director, at the Office of International Operation of the National Tax Agency, Commissioner's Secretariat Director, Administration Office, Collection Department of the National Tax Agency, Regional Commissioner of the Sendai Regional Taxation Bureau.
- 1996.9 Started practice as certified tax accountant
- 1997.4 Professor at Department of Politics and Economics, Kokushikan University
- 2002.6 Chairman, Yamada & Partners Certified Public Tax Accountants' Co.
- 2003.4 Professor at Department of Economics, Kokugakuin University
- 2004.4 Professor at Graduate School of Global Business, Meiji University
- 2004.6 Outside Auditor at BANDAI Co., Ltd.
- 2006.6 Outside Auditor at Murata Manufacturing Co., Ltd.
- 2012.6 Outside Auditor, DAIREI CO., LTD. (present)
- 2013.6 Outside Director, Independent, Nihon Unisys, Ltd. (present)
- 2015.5 Outside Director, Gulliver International Co., Ltd. (current IDOM Inc.) (present)
- 2015.6 Advisor, Yamada & Partners Certified Public Tax Accountants' Co. (present)

Ayako Sonoda

Outside Director, Independent



Various issues are spreading around the world, including large-scale disasters caused by abnormal weather as well as issues related to the labor environment and human rights. ESG investments aim to put an end to such issues and have been rapidly expanding in recent years, with total investment amounts exceeding ¥2,500 trillion. As such, ESG investment has been thrust into the mainstream. The Nihon Unisys Group has formally declared its corporate philosophy as "working with all people to contribute to creating a society that is friendly to people and the environment." While the trend toward ESG investment has brought about certain risks for the Group, it has also presented the Group with an opportunity to realize sustainable growth by creating value through the resolution of social issues. In addition, over US\$12 trillion* worth of economic value is expected to be generated by 2030 through the efforts of corporations to achieve the Sustainable Development Goals (SDGs), adopted by the United Nations. At the moment, the Nihon Unisys' Board of Directors holds passionate discussions on how to spur innovation. However, to realize unprecedented and radical innovation and realize a true corporate transformation, it is necessary for Nihon Unisys Group to foster a diverse organizational culture that celebrates differing opinions. It is also necessary to cultivate talent that can lead innovation and take on challenges without the fear of failing. Furthermore, it is crucial that the Company's top management makes a clear commitment to these kinds of efforts and pursues them at an accelerated pace. I believe that Nihon Unisys Group has a great number of strengths that will allow it to accomplish these tasks. Going forward, I hope to help the Company create long-term value through the establishment of new, one-of-a-kind business ecosystems for not only Japan but also the entire world.

Reasons for Appointment

Ms. Sonoda has a strong track record in supporting the CSR activities and environmental management of a large number of companies. She has also accumulated a great deal of experience through her efforts to promote an active role for women. Ms. Sonoda was appointed as an outside director so that she may offer the Company's management advice from a multifaceted perspective.

Other Important Positions Held by Ms. Sonoda

Representative Director of Cre-en Incorporated
Secretary-General of the Sustainability Forum Japan
Director of the Japan Sustainable Investment Forum
Representative Director of the Mirai RITA Foundation

Biography

- 1988.8 Established Cre-en Incorporated and assumed position of Representative Director (present)
- 2003.10 Secretary-General, Sustainability Forum Japan (present)
- 2004.6 Director, Japan Sustainability Investment Forum (present)
- 2015.6 Outside Director, Independent, Nihon Unisys, Ltd. (present)
- 2017.2 Representative Director, Mirai RITA Foundation (present)

* A preliminary calculation by the World Business Council for Sustainable Development.

Chie Sato

Outside Director, Independent



The Nihon Unisys Group is a corporate group that grew alongside the economic development of post-war Japan. Amid Japan's current economic stagnation, Nihon Unisys is facing three major issues that are also affecting a large number of other Japanese companies: globalization, utilizing young people and women, and bringing about innovation.

At the moment, Nihon Unisys is approaching a period of transformation in which it must rethink its conventional business model and organization. This period is part of the necessary process of going from an outstanding Japanese company to a first-class global company.

In the midst of undergoing this transformation, it is of the utmost importance that Nihon Unisys establish a set of guiding principles for determining the areas that it must change in order to become a first-class global company. By collecting a wide variety of information from an objective and outside standpoint and making proposals to the Company's management based on such information, I intend to fulfill my responsibilities as an outside director.

Nihon Unisys possesses superior technologies and expertise, in addition to outstanding employees who are extremely diligent in their work. Going forward, I plan to make even greater efforts to assist Nihon Unisys, a company that is brimming with potential, in further improving its corporate value.

Reasons for Appointment

As an author, Ms. Sato has written numerous literary works for business schools in the United States. She has also been active as a business strategy consultant for the Boston Consulting Group, thereby giving her an abundance of management-related experience and knowledge. Ms. Sato was appointed as an outside director in hopes that she will offer effective advice and support from an objective and expert perspective in regards to the Company's efforts to promote business model transformation.

Other Important Positions Held by Ms. Sato

Member of the Professional Graduate Business School Certified Evaluation and Accreditation Committee, the Japan University Accreditation Association
Member of the Tokyo Broadcasting System Television (TBS) Program Practice Council

Biography

1992.4 Joined Japan Broadcasting Corporation (NHK)
2001.5 Graduated from Columbia Business School
2001.8 Joined the Boston Consulting Group
2003.6 Joined the Walt Disney Company (Japan) Ltd.
2012.1 Became independent as author and consultant
2014.4 Member of the Professional Graduate Business School Certified Evaluation and Accreditation Committee, The Japan University Accreditation Association (present)
2016.4 Tokyo Broadcasting System Television (TBS) Program Practice Council Member (present)
2017.6 Outside Director, Independent, Nihon Unisys, Ltd. (present)

Directors, Audit & Supervisory Board Members, and Corporate Officers

(As of June 28, 2017)

Directors**Akiyoshi Hiraoka**Representative Director,
President & CEO,
CHO**Susumu Mukai**Representative Director,
Executive Corporate Officer,
CAO, CCO**Toshio Mukai**Representative Director,
Executive Corporate Officer,
CFO**Noboru Saito**Senior Corporate Officer,
CMO**Koji Katsuya**Senior Corporate Officer,
CDO**Morihiro Muramoto**

Director

Go KawadaDirector
(Outside Director, Independent)**Ayako Sonoda**Director
(Outside Director, Independent)**Chie Sato**Director
(Outside Director, Independent)**Audit & Supervisory Board Members****Shinji Kuriyama**

Auditor (Full-Time)

Etsuo UchiyamaOutside Auditor, Independent
(Full-Time)**Shigemi Furuya**

Auditor (Part-Time)

Harumi Kojo

Outside Auditor, Independent

Norimitsu Yanai

Outside Auditor, Independent

Corporate Officers

Senior Corporate Officers

Hirokazu Konishi
Kazuo Nagai

Superior Corporate Officers

Michihiko Tsunoda
Norihiko Murata

Corporate Officers

Hiroki Hyodo
Shinobu Sasao
Yasuhide Hatta**Hirofumi Hashimoto**
Kazuo Sato
Takashi Hayashi**Kensuke Kohno**
Mitsuru Tamura
Tatsuya Sugai

Quality Assurance

Our Approach to Quality Assurance

The level of quality expected of information systems for social infrastructure has been rising. Accordingly, the Nihon Unisys Group has created and developed structures and frameworks for quality assurance to ensure that it is able to provide its customers with high-quality products and services. The Group

implements thorough quality assurance activities for its software, hardware, and services, with the aim of “becoming an enterprise that can be fully trusted with customer systems and services, from proposal and development to maintenance and operation.”

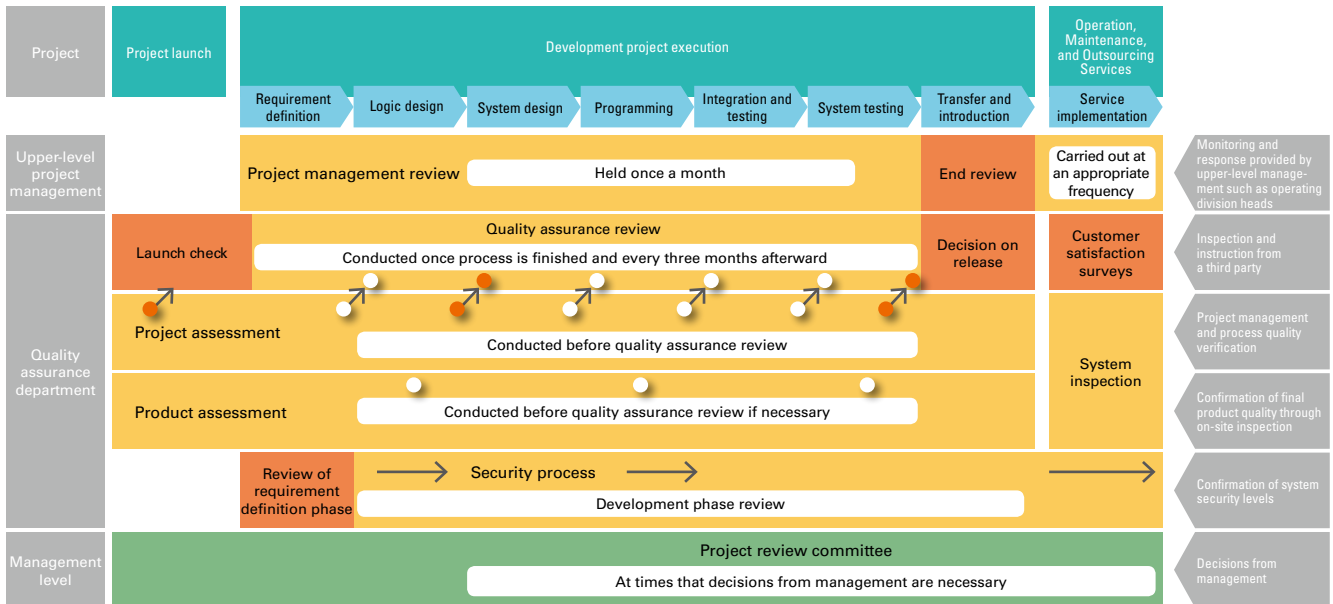
Quality Assurance Procedures in Development, Operation, Maintenance, and Outsourcing Services

In the quality assurance processes for developing systems for customers, we not only carry out quality control activities for overall project development, we also perform verifications on a continuous and cross-organizational basis to offer assurance that the project is operating soundly and that the quality of the finished product is secured from an external perspective as well. We also have in place corrective measures to address issues when necessary.

Furthermore, even after the development of a customer’s system is complete, we continuously verify the quality of operation, maintenance, outsourcing, and other services we offer

to ensure that the system can be used with peace of mind.

Additionally, in the Quality Assurance Department, we routinely confirm system soundness and work to prevent the occurrence of any malfunctions in our operation, maintenance, and outsourcing services using our System Inspection Checklist. This checklist is based on the Guidelines for Improving the Reliability of Information Systems, which was announced by the Ministry of Economy, Trade and Industry, but also includes malfunction prevention measures formulated by the Company.



Improving Customer Satisfaction Levels

The Nihon Unisys Group earnestly considers the wide variety of opinions it receives from customers, whether it be feedback directly received from customers in its day-to-day operations, answers to customer satisfaction surveys that are

conducted after newly developed systems come online, or customer comments received at its call centers. These valuable opinions are steadily put to use in making improvements at each Group company and within each division.

Efforts toward Sustainability

Initiatives to Meet Social Demands

Nihon Unisys Group's corporate mission is to "work with all people to contribute to creating a society that is friendly to people and the environment." In order to realize this mission, we are pursuing corporate value creation by addressing a variety of social problems with the aim of achieving sustainable growth hand in hand with society.

The world is facing many social issues that need to be resolved, from planet-wide climate change to poverty and inequality, as well as the various issues resulting from a low birth rate coupled with an ageing population, which represents the most pressing issue that Japan faces today. In September 2015, the UN adopted its Sustainable Development Goals (SDGs). In January 2016, the Japanese cabinet approved the 5th Science and Technology Basic Plan, which proposes "Society 5.0" (digitalization across all levels of society) as a vision for the nation. Industry, government, and academia are working together on a number of initiatives to make this vision a reality.

Expectations that corporations should attempt to address the diverse problems facing society in addition to pursuing economic development are rising.

The Group is expanding its base of customers and partners, as well as the areas in which it conducts business, globally. We conduct CSR activities under the ISO 26000 guidelines that form the Social Responsibility Guidance Standards. Moreover, we have signed on to the UN Global Compact and continue to work to uphold the 10 principles based on human rights, labor, the environment, and anti-corruption. Referencing these international guidelines has allowed us to improve the way we respond to social issues. By moving forward with CSR management, we hope to earn the trust of and continue to meet the expectations of all our stakeholders.



Establishment of CSR Materiality

We established and are pursuing CSR materiality with the goal of earning the trust of society by meeting social expectations and demands, and by such means contribute to sustainable growth for the Group.

In defining our version of materiality, we consulted with experts, giving full consideration not only to outside initiatives such as SDGs and the disclosure categories demanded by external monitoring institutions, but also the opinions of our stakeholders (customers, shareholders and other investors, business partners, the people of local communities, and employees), which we obtained through surveys.

CSR Materiality for the Nihon Unisys Group

1. Addressing social issues through the business ecosystem
2. Building resilient social infrastructure using ICT
3. Sustainable provision of safe and secure products and services throughout the value chain
4. Diversity promotion
5. Implementation of health management

The Nihon Unisys Group's Environmental Activities

Nihon Unisys Group has established "ICT for the earth" as the slogan for its environmental activities. As an ICT company, our goal is to contribute to easing the burden on the environment, efficient utilization of resources, and the creation of a sustainable society. On top of our business activities, we are working to decrease electricity and paper use as well as promote the three Rs (reduce, reuse, recycle), in addition to purchasing equipment and system components that represent as low an environmental impact as possible. We are also contributing to creating business models that reduce the burden on the environment and to improving the operating efficiency as well as curbing the environmental impact of our clients' business activities through our ICT solutions.

Acquired ISO 14001: 2015 certification

The Nihon Unisys Group has acquired the ISO 14001: 2015 certification, which represents international standards for environmental management systems.

Date of first certification:

April 9, 2003

Scope of acquisition:

116 worksites of five companies
(As of April 3, 2017)



Overview and Analysis of Results for FY2016

Financial Highlights

Net sales increased 1.5% year on year, to
¥282,249 million,
due to growth in the
Outsourcing segment.

Operating income rose 14.3% year on year, to
¥14,315 million,
resulting from such factors
as a rise in sales and
improvement in profits.

Net income attributable to owners of the parent was up 15.0%, to
¥10,261 million,
following the increase in
operating income.

In the fiscal year under review, the Japanese economy continued its gradual recovery as a result of improvements in employment and income environments. However, future prospects have become unclear due to issues such as economic slowdowns in emerging economies, BREXIT, and the effects of a new administration in the United States on financial markets, which may be cause for concern. Meanwhile,

in addition to uncertainty in worldwide economies and changes in financial and capital markets, investment in software has largely leveled off and competition with rival companies is intensifying in the Japanese information services market, and it is likely the business environment surrounding the Company will remain harsh.

Analysis of Results of Operations

■ Net Sales

Consolidated net sales were up 1.5% year on year, to ¥282,249 million, as a result of outsourcing and hardware sales.

Financial results for each segment are as follows.

■ System Services

The System Services segment consists of contracted software development, system-related services, and consulting. Net sales in this segment down 0.2%, to ¥89,608 million, and segment profit decreased 1.4%, to ¥23,491 million.

■ Support Services

The Support Services segment includes support services for software, maintenance services for hardware, and installation services, among others. Net sales in this segment were down 2.3%, to ¥54,074 million, while segment profit was up 1.1%, to ¥15,016 million.

■ Outsourcing

The Outsourcing segment consists of the contracted administration of information systems and other services. Net sales in this segment increased 13.4%, to ¥45,927 million, and segment profit rose 20.9%, to ¥10,633 million.

■ Software

The Software segment involves the provision of software under a user license agreement. Sales in this segment declined 0.9%, to ¥29,733 million, and segment profit fell 4.5%, to ¥7,025 million.

■ Hardware

The Hardware segment consists of the provision of hardware under a sales or lease contract. Net sales in this segment increased 0.4%, to ¥54,099 million, and segment profit grew 14.4%, to ¥8,447 million.

■ Other

The Other segment comprises businesses such as optical line services and equipment installation not included in reportable segments. Net sales for this segment were up 3.9%, to ¥8,808 million, while segment profit declined 11.4%, to ¥2,116 million.

Note: Segment profit has been adjusted based on operating income as recorded on the Company's consolidated statement of income. The total of all above segment profit figures is ¥66,728 million. By deducting the reconciliations amount of ¥52,413 million, which includes research and development costs, amortization of goodwill, and selling, general and administrative expenses not allocated to specific segments, the operating income figure of ¥14,315 million will be reached. The figures above do not include consumption tax, etc.

■ Operating Income

Gross profit increased ¥2,117 million, or 3.3%, to ¥66,728 million, thanks to improvements in the profit margin. Despite a ¥442 million decrease in selling expenses, selling, general and administrative expenses rose ¥327 million, or 0.6%, to ¥52,413 million, due to a ¥769 million increase in general and administrative expenses, including R&D and other costs. As a result of these factors, operating income rose ¥1,789 million, or 14.3%, to ¥14,315 million.

■ Net Income Attributable to Owners of the Parent

In other income (expenses), because office transfer expenses of ¥575 million were recorded in the previous fiscal year, net gains (losses) improved ¥137 million year on year to losses of

¥299 million despite a decrease in gains on sales of investment securities.

As a result, net income attributable to owners of the parent increased ¥1,340 million year on year, or 15.0%, to ¥10,261 million.

Analysis of Financial Condition

■ Analysis of the Balance Sheet

At the end of FY2016, the Group's total assets amounted to ¥192,694 million, down ¥400 million compared with the end of the previous fiscal year. Current assets were down ¥4,265 million, due to a decrease in the inventories balance. Total non-current assets rose ¥3,864 million, due to an increase in investments securities.

Total liabilities increased ¥39 million, to ¥101,921 million, due to an increase in interest-bearing liabilities, despite a decrease in liabilities associated with retirement benefits and other factors.

Total equity decreased ¥440 million, to ¥90,773 million, due to dividend payments and the acquisition of treasury shares. The equity ratio declined 0.1 percentage points, to 46.7%.

■ Analysis of Cash Flows

Cash and cash equivalents at the end of FY2016 increased ¥2,259 million, to ¥17,824 million. This increase was due to the fact that net cash provided by operating activities was used for investment in computers for sales activities and software for outsourcing purposes along with the repayment of loans payable.

■ Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥29,922 million (an increase of ¥18,932 million from the previous fiscal year). This reflects proceeds of ¥13,553 million in income before income taxes (up ¥1,833 million from the previous fiscal year) as well as cash-increasing factors, such as noncash expenses of ¥9,232 million in depreciation and amortization and a decrease in inventories of ¥4,229 million.

■ Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥15,906 million (an increase of ¥5,340 million from the previous fiscal year). This mainly reflected the fact that the Company used ¥5,967 million (up ¥2,010 million from the previous fiscal year) to purchase property, plant and equipment, such as computers for sales activities, and ¥8,059 million (up ¥906 million from the previous fiscal year) to purchase intangible assets, primarily investments in software for outsourcing.

■ Cash Flows from Financing Activities

Net cash used in financing activities was ¥11,757 million (an increase of ¥3,570 million from the previous fiscal year). This was largely due to the acquisition of ¥11,131 million (up ¥11,130 million from the previous fiscal year) in treasury stock as well as a dividend payment of ¥3,481 million (up ¥3,570 million from the previous fiscal year).

■ Outlook for FY2017

We plan on recording net sales of ¥290,000 million in FY2017, representing a year-on-year increase of 2.7%. As for profits, with increased net sales and further improved profitability, we forecast an 11.8% increase in operating income, to ¥16,000 million, and a 7.2% increase in net income attributable to owners of the parent, to ¥11,000 million.

Consolidated Performance Forecasts for FY2017

(Millions of yen)

	FY2016	FY2017 (Forecast)	Change
Net sales	282,249	290,000	+2.7%
Operating income	14,315	16,000	+11.8%
Net income attributable to owners of the parent	10,261	11,000	+7.2%

Consolidated Balance Sheet

Nihon Unisys, Ltd. and Consolidated Subsidiaries
March 31, 2017

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Current Assets:			
‡ Cash and cash equivalents (Notes 3 and 15)	¥17,824	¥15,565	\$158,873
‡ Accounts receivable—trade (Notes 5 and 15)	70,276	70,447	626,402
‡ Inventories (Note 6)	7,710	11,939	68,723
‡ Deferred tax assets (Note 9)	6,308	6,195	56,226
‡ Other	16,196	18,538	144,362
‡ Allowance for doubtful accounts	(59)	(164)	(526)
‡ Total current assets	<u>118,255</u>	<u>122,520</u>	<u>1,054,060</u>
Property, Plant and Equipment:			
‡ Land	619	619	5,517
‡ Buildings and structures (Note 7)	12,312	12,720	109,742
‡ Machinery and equipment (Note 7)	37,589	37,621	335,048
‡ Other	1,820	1,582	16,223
‡ Total	<u>52,340</u>	<u>52,542</u>	<u>466,530</u>
‡ Accumulated depreciation	<u>(35,820)</u>	<u>(38,522)</u>	<u>(319,280)</u>
‡ Net property, plant and equipment	<u>16,520</u>	<u>14,020</u>	<u>147,250</u>
Investments and Other Assets:			
‡ Investment securities (Notes 4 and 15)	16,225	13,960	144,621
‡ Investments in associated companies	1,759	1,658	15,679
‡ Goodwill	837	920	7,461
‡ Software (Note 7)	21,602	19,934	192,548
‡ Lease deposits	6,873	6,981	61,262
‡ Asset for retirement benefits (Note 10)	946	833	8,432
‡ Deferred tax assets (Note 9)	1,463	4,175	13,040
‡ Other	8,214	8,094	73,215
‡ Total investments and other assets	<u>57,919</u>	<u>56,555</u>	<u>516,258</u>
Total	<u>¥192,694</u>	<u>¥193,095</u>	<u>\$1,717,568</u>

Thousands of
U.S. Dollars
(Note 1)

LIABILITIES AND EQUITY	Millions of Yen		2017
	2017	2016	
Current Liabilities:			
Short-term bank loans (Notes 8 and 15)	¥350	¥475	\$3,120
Current portion of long-term debt (Notes 8 and 15)	11,007	16,015	98,110
Current portion of convertible bonds (Notes 8 and 15)		1,086	
Commercial paper	6,000		53,481
Accounts payable—trade (Note 15)	22,610	22,941	201,533
Accounts payable—other	2,473	2,117	22,043
Income taxes payable (Note 9)	1,966	1,173	17,524
Accrued expenses	9,985	8,922	89,001
Advances received	13,839	13,637	123,353
Allowance for loss on contract development	313	55	2,790
Asset retirement obligations		517	
Other	7,905	8,335	70,460
Total current liabilities	76,448	75,273	681,415
Long-Term Liabilities:			
Long-term debt (Notes 8 and 15)	20,283	18,915	180,792
Long-term accounts payable—other	250	87	2,228
Liability for retirement benefits (Note 10)	2,071	5,127	18,460
Asset retirement obligations	1,133	974	10,099
Other	1,736	1,505	15,473
Total long-term liabilities	25,473	26,608	227,052
Commitments and Contingent Liabilities (Note 14)			
Equity (Notes 11 and 12):			
Common stock—authorized, 300,000,000 shares; issued, 109,663,524 shares in 2017 and 2016	5,483	5,483	48,872
Capital surplus	14,201	14,201	126,580
Retained earnings	80,005	73,365	713,121
Treasury shares—at cost 9,351,876 shares in 2017 and 3,035,300 shares in 2016	(13,592)	(3,745)	(121,152)
Deposit for subscriptions to treasury shares		6	
Stock acquisition rights	294	269	2,621
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	4,626	4,298	41,234
Deferred gain (loss) on derivatives under hedge accounting	2	(16)	18
Remeasurements of defined benefit plan, net of tax	(806)	(3,217)	(7,184)
Total accumulated other comprehensive income	90,213	90,644	804,110
Non-controlling interests	560	570	4,991
Total equity	90,773	91,214	809,101
Total	¥192,694	¥193,095	\$1,717,568

See notes to consolidated financial statements.

Consolidated Statement of Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net sales	¥282,249	¥278,039	\$2,515,812
Cost of sales (Note 10)	215,521	213,429	1,921,035
Gross profit	66,728	64,610	594,777
Selling, general and administrative expenses (Notes 10 and 13)	52,413	52,085	467,181
Operating income	14,315	12,525	127,596
Other income (expenses):			
Interest and dividend income	359	419	3,200
Interest expense	(195)	(250)	(1,738)
Gain on sales of investment securities (Note 4)	101	435	900
Loss on impairment of long-lived assets (Note 7)	(337)	(18)	(3,004)
Equity in earnings of associated companies	79	62	704
Sales promotion premium	93	69	829
Loss on sales and retirement of noncurrent assets	(53)	(208)	(472)
Gain on reversal of subscription rights to shares	64	188	570
Settlement package	(694)	(219)	(6,186)
Office transfer expenses (Note 7)		(575)	
Other—net	(179)	(709)	(1,595)
Other expenses—net	(762)	(806)	(6,792)
Income before income taxes	13,553	11,719	120,804
Income taxes (Note 9):			
Current	1,766	1,389	15,741
Deferred	1,489	1,371	13,272
Total income taxes	3,255	2,760	29,013
Net income	10,298	8,959	91,791
Net income attributable to non-controlling interests	37	39	330
Net income attributable to owners of the parent	¥10,261	¥8,920	\$91,461
Per Share Amounts (Notes 2.t and 18):	Yen	Yen	U.S. Dollars
Basic net income	¥96.49	¥93.71	\$0.86
Diluted net income	96.05	82.33	0.86
Cash dividends applicable to the year	35.00	30.00	0.31

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net income	¥10,298	¥8,959	\$91,791
Other comprehensive income (Note 17):			
Unrealized gain (loss) on available-for-sale securities	328	(1,213)	2,924
Deferred gain (loss) on derivatives under hedge accounting	17	(5)	151
Remeasurements of defined benefit plans, net of tax	2,411	(9,221)	21,490
Total other comprehensive income (loss)	2,756	(10,439)	24,565
Comprehensive income (loss)	¥13,054	¥(1,480)	\$116,356
Total comprehensive income (loss) attributable to (Note 17):			
Owners of the parent	¥13,017	¥(1,519)	\$116,026
Non-controlling interests	37	39	330

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands	Millions of Japanese Yen					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock -at cost	Deposit for subscriptions to treasury stock	Stock acquisition rights
Balance, March 31, 2015	94,040	¥5,483	¥15,282	¥68,032	¥(19,283)	¥3	¥367
Cumulative effect of accounting change			(1,081)	287			
Balance, April 1, 2015 (as restated)	94,040	5,483	14,201	68,319	(19,283)	3	367
Net income attributable to owners of the parent				8,920			
Cash dividends				(2,352)			
Conversion of convertible bonds	12,512			(1,510)	15,444		
Purchase of treasury stock					(1)		
Disposal of treasury stock	76			(12)	95	(3)	
Deposit for subscriptions to treasury stock						6	
Net changes in items							(98)
Net changes during the year	12,588			5,046	15,538	3	(98)
Balance, March 31, 2016	106,628	5,483	14,201	73,365	(3,745)	6	269
Net income attributable to owners of the parent				10,261			
Cash dividends				(3,484)			
Conversion of convertible bonds				(127)	1,212		
Purchase of treasury stock	(7,357)				(11,131)		
Disposal of treasury stock	1,041			(10)	72	(6)	
Net changes in items							25
Net changes during the year	(6,316)			6,640	(9,847)	(6)	25
Balance, March 31, 2017	100,312	¥5,483	¥14,201	¥80,005	¥(13,592)		¥294

	Millions of Japanese Yen					
	Accumulated other comprehensive income					
	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defined benefit plans, net of tax	Total	Non-controlling interests	Total equity
Balance, March 31, 2015	¥5,511	¥(11)	¥6,004	¥81,388	¥588	¥81,976
Cumulative effect of accounting change				(794)		(794)
Balance, April 1, 2015 (as restated)	5,511	(11)	6,004	80,594	588	81,182
Net income attributable to owners of the parent				8,920		8,920
Cash dividends				(2,352)		(2,352)
Conversion of convertible bonds				13,934		13,934
Purchase of treasury stock				(1)		(1)
Disposal of treasury stock				80		80
Deposit for subscriptions to treasury stock				6		6
Net changes in items	(1,213)	(5)	(9,221)	(10,537)	(18)	(10,555)
Net changes during the year	(1,213)	(5)	(9,221)	(10,050)	(18)	(10,032)
Balance, March 31, 2016	4,298	(16)	(3,217)	90,644	570	91,214
Net income attributable to owners of the parent				10,261		10,261
Cash dividends				(3,484)		(3,484)
Conversion of convertible bonds				1,085		1,085
Purchase of treasury stock				(11,131)		(11,131)
Disposal of treasury stock				56		56
Net changes in items	328	18	2,411	2,782	(10)	2,772
Net changes during the year	328	18	2,411	(431)	(10)	(441)
Balance, March 31, 2017	¥4,626	¥2	¥(806)	¥90,213	¥560	¥90,773

	Thousands	Thousands of U.S. Dollars (Note 1)					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock -at cost	Deposit for subscriptions to treasury stock	Stock acquisition rights
Balance, March 31, 2016	106,628	\$48,872	\$126,580	\$653,935	\$(33,381)	\$53	\$2,398
Net income attributable to owners of the parent				91,461			
Cash dividends				(31,054)			
Conversion of convertible bonds				(1,132)	10,803		
Purchase of treasury stock	(7,357)				(99,216)		
Disposal of treasury stock	1,041			(89)	642	(53)	
Net changes in items							223
Net changes during the year	(6,316)			59,186	(87,771)	(53)	223
Balance, March 31, 2017	100,312	\$48,872	\$126,580	\$713,121	\$(121,152)		\$2,621

	Thousands of U.S. Dollars (Note 1)					
	Accumulated other comprehensive income					
	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defined benefit plans, net of tax	Total	Non-controlling interests	Total equity
Balance, March 31, 2016	\$38,310	\$(142)	\$(28,674)	\$807,951	\$5,080	\$813,031
Net income attributable to owners of the parent				¥91,461		¥91,461
Cash dividends				(31,054)		(31,054)
Conversion of convertible bonds				9,671		9,671
Purchase of treasury stock				(99,216)		(99,216)
Disposal of treasury stock				500		500
Net changes in items	2,924	160	21,490	24,797	(89)	24,708
Net changes during the year	2,924	160	21,490	(3,841)	(89)	(3,930)
Balance, March 31, 2017	\$41,234	\$18	\$(7,184)	\$804,110	\$4,991	\$809,101

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Operating Activities:			
Income before income taxes	¥13,553	¥11,719	\$120,804
Adjustments for:			
Income taxes paid	(1,326)	(347)	(11,819)
Loss on impairment of long-lived assets	337	18	3,004
Depreciation and amortization	9,232	9,405	82,289
Amortization of goodwill	84	84	749
Net gain on sales of investment securities	(58)	(435)	(517)
Decrease (increase) in accounts receivable—trade	171	(2,326)	1,524
Decrease (increase) in inventories	4,229	(2,038)	37,695
Decrease (increase) in advances paid	1,028	(834)	9,163
Decrease in interest and dividends receivable	3	3	27
(Increase) decrease in asset for retirement benefits	(113)	6,344	(1,007)
Increase (decrease) in remeasurement of defined benefit plans	3,387	(13,442)	30,190
(Decrease) increase in liability for retirement benefits	(3,056)	4,245	(27,241)
Decrease in accounts payable—trade	(331)	(2,291)	(2,950)
Decrease in interest payable	(7)	(88)	(62)
Increase in accrued expenses	1,063	1,230	9,475
Increase (decrease) in allowance for loss on contract development	258	(1,633)	2,300
Increase in other allowance	207	824	1,845
Other—net	1,261	552	11,239
Total adjustments	16,369	(729)	145,904
Net cash provided by operating activities	29,922	10,990	266,708
Investing Activities:			
Proceeds from sales of property, plant and equipment	2	8	18
Payments for purchases of property, plant and equipment	(5,967)	(3,958)	(53,186)
Payments for purchases of software	(7,411)	(7,153)	(66,058)
Proceeds from sales of investment securities	239	1,196	2,130
Payments for purchases of investment securities	(2,081)	(711)	(18,549)
Proceeds from redemption of investment securities	300		2,674
Payments for asset retirement obligations	(439)		(3,913)
Other—net	(549)	52	(4,893)
Net cash used in investing activities	(15,906)	(10,566)	(141,777)
Financing Activities:			
Net decrease in short-term bank loans	(125)	(3,525)	(1,114)
Proceeds from long-term debt	12,375	13,275	110,304
Repayments of long-term debt	(16,015)	(15,115)	(142,749)
Proceeds from sales and leasebacks	1,079		9,618
Repayments of other debt	(455)	(482)	(4,056)
Increase in commercial paper	6,000		53,481
Purchase of treasury stock	(11,131)	(1)	(99,216)
Cash dividends	(3,481)	(2,350)	(31,028)
Cash dividends to non-controlling interests	(46)	(49)	(410)
Other—net	42	62	374
Net cash used in financing activities	(11,757)	(8,185)	(104,796)
Net increase (decrease) in Cash and Cash Equivalents	2,259	(7,761)	20,135
Cash and Cash Equivalents, Beginning of Year	15,565	23,326	138,738
Cash and Cash Equivalents, End of Year	¥17,824	¥15,565	\$158,873

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2017

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 financial statements to conform them to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nihon Unisys, Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(a) **Consolidation** – The consolidated financial statements as of March 31, 2017 include the accounts of the Company and its 11 (11 as of March 31, 2016) significant subsidiaries and one (one as of March 31, 2016) associated company accounted for by the equity method (collectively, the "Group").

For the year ended March 31, 2017, the Company set up a wholly-owned subsidiary, CANAL PAYMENT SERVICE co. Ltd., and included it in the scope of consolidation. A-tas, Ltd. was dissolved and excluded from the scope of consolidation.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The remaining 6 (7 as of March 31, 2016) unconsolidated subsidiaries are excluded from the scope of consolidation because the portion of its assets, net income (loss), retained earnings and others that correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

The remaining 6 (7 as of March 31, 2016) unconsolidated subsidiaries and 11 (11 as of March 31, 2016) associated companies not accounted for by the equity method are excluded from the scope of the equity method because the portion of its net income (loss), retained earnings and others which correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is amortized using the straight-line method over 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

(b) **Cash equivalents** – Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

(c) **Inventories** – Inventories held for sale are stated at the lower of cost, determined by the moving-average method, or net selling value.

Maintenance service parts inventory is stated at the lower of cost, determined by the specific identification method, or net selling value.

(d) **Investment securities** – Investment securities are classified and accounted for depending on management’s intent. These are classified as available-for-sale securities or held-to-maturity securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

The cost of securities sold is determined based on the moving-average method.

Nonmarketable available-for-sale securities are stated at cost as determined by the moving-average method. For other-than-temporary declines in fair value, nonmarketable available-for-sale securities are reduced to net realizable value by a charge to income.

Held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost.

(e) **Allowance for doubtful accounts** – The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(f) **Property, plant and equipment** – Property, plant and equipment are stated at cost. Depreciation of rental and computer for outsourcing service included in machinery and equipment is mainly computed by the straight-line method over the useful life, which is principally five years, with no residual value.

Depreciation of buildings and structures and other machinery and equipment is mainly computed by the straight-line method.

Useful lives range from 4 to 50 years for buildings and structures. Machinery and equipment held for lease are depreciated by the straight-line method over the respective lease periods. The useful lives for lease assets are the periods of the respective leases.

(g) **Software** – Software development costs, incurred through the completion of a Beta version of specific software for sale to the market, are charged to income as incurred. Costs incurred subsequent to the completion of the Beta version are capitalized as software.

Software for sale to the market is amortized at the greater of either the amount to be amortized in proportion of the actual sales of the software during the current year to the estimated total sales over the estimated salable years of the software or the amount to be amortized by the straight-line method over the estimated salable years, principally over three years.

Software for internal use is amortized by the straight-line method over the estimated useful lives, principally over five years.

Software held for leasing is depreciated by the straight-line method over the respective lease periods.

(h) **Long-lived assets** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) **Allowance for loss on contract development** – An allowance for loss on contract development is provided for at an estimated amount of probable losses to be incurred in future years on software development contracts that cost ¥50 million (\$446 thousand) or more.

- (j) **Retirement and Pension Plans** – The Company and a certain subsidiary have defined benefit corporate pension plans (cash balance plans) and defined contribution pension plans covering substantially all of their employees. Other consolidated subsidiaries have defined benefit pension plans, defined contribution pension plans, and severance lump-sum payment plans. The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity accumulated other comprehensive income, after adjusting for tax effects, and are recognized in profit or loss mainly over 10 years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.
- The Company and a certain subsidiary participate in the New Career Support Program (the “NCSP”) to assist certain employees in retiring before their mandatory retirement age. The Company and a certain subsidiary provide for the estimated future payments to be paid under the NCSP and include this amount in liability for retirement benefits.
- (k) **Asset Retirement Obligations** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- (l) **Stock options** – The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.
- (m) **Construction contracts** – For software development contracts that cost ¥ 50 million (\$446 thousand) or more for the fiscal years ended March 31, 2017 and 2016, the percentage-of-completion method is adopted only if the percentage of completion can be reasonably determined. For other contracts, the completed-contract method is applied. The percentage of completion is mainly evaluated by Earned Value Management (“EVM”). EVM divides deliverables defined on the contract, such as software and related documents, by work phase. EVM defines percentages of completion as the ratio of earned value of work phase completed during the fiscal year divided by the entire work phase.
- (n) **Research and development costs** – Research and development costs are charged to income as incurred.
- (o) **Leases** – Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.
- (p) **Income taxes** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income.
- The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- The Company and certain of its subsidiaries have applied the consolidated taxation system.
- The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

(q) **Appropriations of retained earnings** – Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(r) **Foreign currency transactions** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

(s) **Derivatives and hedge accounting** – The Company and certain subsidiaries use a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps, as a means of hedging exposure to foreign currency and interest rate risks. The Company and certain subsidiaries do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows:

(1) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on trades, except for derivatives which qualify for hedge accounting, are recognized in the consolidated statement of income.

(2) For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposure in the procurement of merchandise from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate exposures on certain liabilities. The interest rate swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets. However, in cases where interest rate swaps qualify for hedge accounting and meet specific matching criteria, the net amount to be paid or received under the interest rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(t) **Per-share information** – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.

Diluted net income per share of common stock assumes full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

(u) **Accounting Changes and Error Corrections** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) Changes in Accounting Policies—When a new accounting policy is applied following the revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

(v) Accounting Standards for Business Combinations and Consolidated Financial Statements –

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary, while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(w) Changes in Presentation – Reclassifications have been made to prior periods to conform to the current year presentation;

(1) Consolidated statement of income - "Sales promotion premium," which was previously included in "Other" under "Other income (expenses)", is separately disclosed as the amount is deemed material in the current year.

"Foreign exchange gain," which was previously separately disclosed, is included in "Other-net" from the fiscal year ended March 31, 2017 as the amount is deemed immaterial. The amount included in "Other-net" for the year ended March 31, 2016 was ¥96 million. Similarly, "Environmental expense" and "Loss on impairment of investment securities" are also included in "Other-net" due to their immateriality. The amounts included in "Other-net" for the year ended March 31, 2016 were ¥(619) million and ¥263 million, respectively.

(2) Consolidated statement of cash flows - "Decease (increase) in advances paid," which was previously included in "Other-net," is separately disclosed as the amount is deemed material in the current year.

"Loss on impairment of investment securities," which was previously disclosed separately, is included in "Other-net" from the fiscal year ended March 31, 2017 as the amount is deemed immaterial. The amount included in "Other-net" as of March 31, 2016 was ¥263 million.

3. Cash equivalents

Cash equivalents at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash and time deposits	¥17,824	¥15,565	\$158,873
Total	¥17,824	¥15,565	\$158,873

The following summarizes the details of significant non-cash transactions in connection with the exercise of stock acquisition rights of convertible bonds.

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Decrease in capital surplus	¥127	¥1,510	\$1,132
Decrease in treasury stock	1,212	15,444	10,803
Decrease in convertible bonds	1,086	13,934	9,680

Investment securities as of March 31, 2017 and 2016 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Current:			
Trust fund investments and other		¥357	
Total		¥357	
Noncurrent:			
Equity securities	¥15,694	¥13,840	\$139,888
Trust fund investments and other	531	120	4,733
Total	¥16,225	¥13,960	\$144,621

The costs and aggregate fair values of investment securities at March 31, 2017 and 2016, were as follows:

	<i>Millions of Yen</i>			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Available-for-sale securities:				
Equity securities	¥7,895	¥6,624	¥(59)	¥14,460
Other	34	6		40
Total	¥7,929	¥6,630	¥(59)	¥14,500
Held-to-maturity securities				
March 31, 2016				
Available-for-sale securities:				
Equity securities	¥6,417	¥6,190	¥(73)	¥12,534
Other	34	4		38
Total	¥6,451	¥6,194	¥(73)	¥12,572
Held-to-maturity securities	¥300			¥300

	<i>Thousands of U.S. Dollars</i>			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Available-for-sale securities:				
Equity securities	\$70,372	\$59,043	\$(526)	\$128,889
Other	303	53		356
Total	\$70,675	\$59,096	\$(526)	\$129,245
Held-to-maturity securities				

Unlisted equity securities are not included in the tables above since the fair value of the unlisted equity securities cannot be reliably determined due to the following reasons: their market prices are not readily available and it is not possible to estimate the future cash flows. As at March 31, 2017 and 2016, the carrying values of unlisted equity securities were ¥1,725 million (\$15,376 thousand) and ¥1,445 million, respectively.

Information regarding available-for-sale securities which were sold during the years ended March 31, 2017 and 2016, were as follows:

March 31, 2017	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	¥239	¥101	¥(43)
Other			
Total	¥239	¥101	¥(43)
March 31, 2016			
Available-for-sale securities:			
Equity securities	¥994	¥435	
Other	202		
Total	¥1,196	¥435	

March 31, 2017	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	\$2,130	\$900	\$(383)
Other			
Total	\$2,130	\$900	\$(383)

Impairment losses on available-for-sale equity securities for the years ended March 31, 2017 and 2016, were ¥32 million (\$285 thousand) and ¥263 million, respectively.

5. Accounts receivable—trade

Costs and estimated earnings recognized with respect to construction contracts which were accounted for by the percentage-of-completion method at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Costs and estimated earnings	¥8,502	¥4,947	\$75,782
Amount billed	(2,013)	(821)	(17,943)
Total	¥6,489	¥4,126	\$57,839

6. Inventories

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Work in process	¥1,685	¥2,342	\$15,019
Merchandise and finished products	5,708	9,374	50,878
Supplies	317	223	2,826
Total	¥7,710	¥11,939	\$68,723

7. Long-lived assets

The Group reviewed its long-lived assets for impairment as of March 31, 2017 and 2016. As for certain assets used for application services, the Group determined that the total of expected future cash flows was below their carrying value. On the other hand, the Group decided to dispose certain internal use assets. As a result, the Group recognized an impairment loss as summarized below. The carrying amounts of the relevant assets were written down to their recoverable amount.

The recoverable amounts of those asset groups were measured at their value in use, which is calculated by discounting future cash flows using a discount rate of 5.0%. The asset group, for which the recoverable amount of value in use is negative, is calculated as zero. Loss on impairment of long-lived assets for the years ended March 31, 2017 and 2016, consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Internal use assets:			
Buildings and structures	¥6	¥430	\$53
Other (equipment)	4	45	36
Total	¥10	¥475	\$89

The amounts above were included in office transfer expenses of ¥575 million for the year ended March 31, 2016.

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Application services:			
Machinery and equipment		¥1	
Software		17	
Other	¥327		\$2,915
Total	¥327	¥18	\$2,915

8. Short-term bank loans and long-term debt

Short-term bank loans of ¥350 million (\$3,120 thousand) and ¥475 million at March 31, 2017 and 2016, respectively, bore interest at a rate of approximately 0.41%.

Long-term debt and convertible bonds at March 31, 2017 and 2016, consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Unsecured loans from banks and insurance companies, 0.24% to 0.64%, due serially to 2022	¥31,290	¥34,930	\$278,902
Euro Yen zero coupon convertible bonds due 2016		1,086	
Total	31,290	36,016	278,902
Less current portion	(11,007)	(17,101)	(98,110)
Long-term debt and convertible bonds, less current portion	¥20,283	¥18,915	\$180,792

The annual maturities of long-term debt and convertible bonds as of March 31, 2017 for the next five years are as follows:

<u>Year Ending March 31,</u>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
2018	¥11,007	\$98,110
2019	5,493	48,962
2020	5,105	45,503
2021	4,405	39,264
2022	5,280	47,063
Total	¥31,290	\$278,902

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances, if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

9. Income taxes

The Group is subject to Japanese national and local income taxes which resulted in normal effective statutory tax rates of approximately 30.9% for the year ended March 31, 2017 and 33.1% for the year ended March 31, 2016.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current assets:			
Deferred tax assets:			
Accrued bonuses	¥2,591	¥2,260	\$23,095
Inventory valuation	1,387	1,443	12,363
Tax loss carryforwards	972	757	8,664
Revenue recognized for tax purposes	460	511	4,100
Accrued business and office taxes	366	270	3,262
Unrealized profit of inventories	130	151	1,159
Allowance for loss on contract development	97	36	865
Deferred loss on derivatives under hedge accounting		7	
Other	875	961	7,799
Total	6,878	6,396	61,307
Less valuation allowance	(569)	(192)	(5,072)
Total	¥6,309	¥6,204	\$56,235
Deferred tax liabilities:			
Deferred gain on derivatives under hedge accounting			
Other	¥(1)	¥(9)	\$(9)
Total	¥(1)	¥(9)	\$(9)
Net current deferred tax assets	¥6,308	¥6,195	\$56,226
	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Noncurrent assets:			
Deferred tax assets:			
Tax loss carryforwards	¥3,916	¥5,903	\$34,905
Loss on impairment of long-lived assets	1,652	2,083	14,725
Depreciation expense	1,844	2,162	16,436
Revenue recognized for tax purposes	720	1,180	6,418
Liability for retirement benefits	577	1,435	5,143
Unrealized gain (loss) on available-for-sale securities	5		45
Other	1,240	1,227	11,052
Total	9,954	13,990	88,724
Less valuation allowance	(5,900)	(7,544)	(52,589)
Total	¥4,054	¥6,446	\$36,135
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	¥(1,957)	¥(1,827)	\$(17,444)
Asset for retirement benefits	(292)	(257)	(2,603)
Other	(342)	(187)	(3,048)
Total	¥(2,591)	¥(2,271)	\$(23,095)
Net noncurrent deferred tax assets	¥1,463	¥4,175	\$13,040

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016, was as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.1%
Expenses not deductible for income tax purposes	1.3	2.0
Nontaxable items	(0.4)	(1.0)
Decrease in valuation allowance	(10.3)	(16.1)
Effect of difference between effective tax rate and actual effective tax rate		2.1
Amount of per capita local tax	0.9	1.1
Amortization of goodwill	0.2	0.2
Equity in earnings of associated companies	(0.2)	(0.2)
Effect of change of tax rate	0.6	1.8
Other—net	1.0	0.6
Actual effective tax rate	<u>24.0%</u>	<u>23.6%</u>

At March 31, 2017, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥13,740 million (\$122,471 thousand), which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

<u>Year Ending March 31,</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2020	¥6,265	\$55,843
2021	5,490	48,935
2024	1,985	17,693
Total	<u>¥13,740</u>	<u>\$122,471</u>

The “Act for Partial Amendment of the ‘Act for Partial Amendment of the Consumption Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security’” (the Act No. 85 of 2016) and the “Act for Partial Amendment of the ‘Act for Partial Amendment of the Local Tax Act and the Local Allocation Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security’” (the Act No. 86 of 2016) were passed by the National Diet on November 18, 2016 and an increase in the consumption tax to 10% was postponed from April 1, 2017 to October 1, 2019. Accordingly, regarding (i) the abolition of the Local Corporation Special Surtax and the restoration of the Corporate Enterprise Tax, (ii) amendment to the tax rate for Local Corporation Tax and (iii) amendment to the rate for the business levy of Local Inhabitant Tax, the effective fiscal year ending was also postponed from the fiscal year starting on or after April 1, 2017 to the fiscal year starting on or after October 1, 2019.

There is no change in the normal effective statutory tax rate for the calculation of deferred tax assets and liabilities, the tax rates are changed between the national tax and local taxes. As a result, the amount of deferred tax assets, net of the amount of deferred tax liabilities, was decreased by ¥85 million (\$758 thousand) and income taxes-deferred was increased by the same amount.

10. Retirement and Pension Plans

The Company and certain subsidiaries have defined benefit corporate pension plans (cash balance plans) and defined contribution pension plans covering substantially all of their employees.

Other consolidated subsidiaries have defined benefit pension plans, defined contribution pension plans, and severance lump-sum payment plans.

Some consolidated subsidiaries participate in a multi-employer plan for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. Therefore, it is accounted for using the same method as a defined contribution plan.

Certain consolidated subsidiaries, in the calculation of liabilities and retirement benefit costs related to retirement benefits, apply the simplified method and account for the liability for retirement benefits based on retirement benefit obligation for payments by the voluntary retirement.

Changes in the liability for retirement benefit obligations for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Retirement benefit obligation, beginning of year (as previously reported)	¥111,925	¥102,195	\$997,638
Service cost	2,350	2,143	20,947
Interest cost	514	1,215	4,582
Actuarial losses	17	11,413	152
Payments for retirement benefit	(4,898)	(5,041)	(43,659)
Retirement benefit obligation, end of year	¥109,908	¥111,925	\$979,660

Changes in the pension assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Pension assets, beginning of year	¥107,936	¥108,819	\$962,082
Expected return on assets	1,619	1,632	14,431
Actuarial gains (losses)	592	(1,413)	5,277
Contributions from the employer	3,781	3,917	33,702
Payments for retirement benefit	(4,887)	(5,019)	(43,560)
Pension assets, end of year	¥109,041	¥107,936	\$971,932

Assets related to retirement benefits and debt retirement benefits that have been recorded in the consolidated balance sheet and year-end balance of pension assets and retirement benefit obligations for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥(109,260)	¥(111,333)	\$(973,884)
Plan assets	109,041	107,936	971,932
Total	(219)	(3,397)	(1,952)
Unfunded defined benefit obligation	(648)	(592)	(5,776)
Net asset arising from defined benefit obligation	¥(867)	¥(3,989)	\$(7,728)
Liability for retirement benefits	¥(1,813)	¥(4,822)	\$(16,160)
Asset for retirement benefits	946	833	8,432
Net asset arising from defined benefit obligation	¥(867)	¥(3,989)	\$(7,728)

The liability for retirement benefits on the consolidated balance sheets at March 31, 2017 and 2016, included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Allowance for the "NCSP"	¥536	¥563	\$4,778
Current portion	(278)	(258)	(2,478)
Net noncurrent portion	¥258	¥305	\$2,300

Total charges relating to allowance for the NCSP for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Allowance for the "NCSP"	¥170	¥192	\$1,515

The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were set forth as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Service cost *1	¥2,350	¥2,143	\$20,947
Interest cost	514	1,215	4,582
Expected return on assets	(1,619)	(1,632)	(14,432)
Cost of actuarial gains and losses	2,812	(617)	25,065
Retirement benefit cost of defined benefit plans	¥4,057	¥1,109	\$36,162
Other *2	¥977	¥1,106	\$8,708

*1 Retirement benefit cost of consolidated subsidiaries using the simplified method is included in the service cost.

*2 "Other" is the sum of (i) the amount of contribution required for the defined contribution pension plan, (ii) payment by the retirement prepaid system to prepaid retired employees, and (iii) the amount of contribution that is required for a multi-employer plan.

In addition, contributions to defined contribution pension plans in the year ended March 31, 2017 and 2016 were ¥829 million (\$7,389 thousand) and ¥934 million, respectively, and contributions to multi-employer plan to be accounted for as well as to a defined contribution pension plan in the year ended March 31, 2017 and 2016 were ¥11 million (\$98 million) and ¥10 million, respectively.

Amounts recognized in other comprehensive income as remeasurements of defined benefit plan (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Actuarial gains (losses)	¥3,387	¥(13,442)	\$30,190

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Unrecognized actuarial losses	¥1,166	¥4,553	\$10,393

Breakdown of pension assets:

	2017	2016
Bonds	54%	57%
Life insurance	14	14
Stocks	12	10
Cash and cash equivalents	3	2
Other	17	17
Total	100%	100%

Method of determining the expected rate of return on plan assets:

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

Major actuarial assumptions:

	2017	2016
Discount rate	mainly 0.45%	mainly 0.45%
Expected rate of return on plan assets	mainly 1.5%	mainly 1.5%
Expected salary increase rate	mainly 3.4% (average)	mainly 3.4% (average)

Although the discount rate used for the Company and certain subsidiaries at the beginning of the year ended March 31, 2016 was 1.2%, it was determined at March 31, 2016 that changes to the discount rate during the period had affected the amount of retirement benefit obligation. The discount rate was therefore adjusted to 0.45% for the Company and certain subsidiaries at March 31, 2016.

11. Equity

The significant provisions in the Companies Act of Japan (the "Companies Act") that affect financial and accounting matters are summarized below:

(1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having a board of directors, (2) having independent auditors, (3) having a board of corporate auditors and (4) the term of service of the directors being prescribed as one year rather than the normal two year term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(2) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of common stock.

Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(3) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. Stock options

The Company's granted stock options as of March 31, 2017, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2009 Stock Option	7 directors; 424 employees; 21 subsidiaries' directors; 256 subsidiaries' employees	991,900 shares	August 7, 2009	¥864 \$7.70	From July 1, 2011 to June 30, 2016
2012 Stock Option	6 directors; 16 employees; 4 subsidiaries' directors; 10 subsidiaries' employees	200,600 shares	July 17, 2012	¥1 \$0.01	From July 1, 2013 to June 30, 2043
2013 Stock Option	6 directors; 16 employees; 4 subsidiaries' directors; 9 subsidiaries' employees	261,200 shares	July 12, 2013	¥1 \$0.01	From July 1, 2014 to June 30, 2044
2015 Stock Option	4 directors; 16 employees; 3 subsidiaries' directors; 13 subsidiaries' employees	164,800 shares	July 13, 2015	¥1 \$0.01	From July 1, 2016 to June 30, 2046
2016 Stock Option	5 directors; 14 employees; 5 subsidiaries' directors; 6 subsidiaries' employees	168,000 shares	July 14, 2016	¥1 \$0.01	From July 1, 2017 to June 30, 2047

The Company's stock option activity was as follows:

	2009 Stock Option (Shares)	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)
For the year ended March 31, 2016					
<u>Nonvested</u>					
March 31, 2015—Outstanding					
Granted				164,800	
Canceled					
Vested				164,800	
March 31, 2016—Outstanding					
<u>Vested</u>					
March 31, 2015—Outstanding	413,300	18,500	107,300		
Vested				164,800	
Exercised	75,700	600			
Canceled	3,600			78,200	
March 31, 2016—Outstanding	334,000	17,900	107,300	86,600	
For the year ended March 31, 2017					
<u>Nonvested</u>					
March 31, 2016—Outstanding					
Granted					168,000
Canceled					
Vested					168,000
March 31, 2017—Outstanding					
<u>Vested</u>					
March 31, 2016—Outstanding	334,000	17,900	107,300	86,600	
Vested					168,000
Exercised	56,100		2,000		
Canceled *1	277,900				83,000
March 31, 2017—Outstanding		17,900	105,300	86,600	85,000
Exercise price	¥864 \$7.70	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise	¥1,324 \$11.80		¥1,432 \$12.76		
Fair value price at grant date	¥215 \$1.92	¥553 \$4.93	¥706 \$6.29	¥1,256 \$11.20	¥1,174 \$10.46

*1 This represents the number of stock options issued in 2016 that were cancelled during the year ended March 31, 2017 due to the failure to achieve the performance targets for the year ended March 31, 2017.

The Assumptions Used to Measure the Fair Value of the 2016 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	32.131%
Estimated remaining outstanding period:	4.82 years
Estimated dividend:	¥30 (\$0.27) per share
Risk free interest rate:	(0.353)%

13. Research and development costs

Research and development costs charged to income were ¥3,454 million (\$30,787 thousand) and ¥4,037 million for the years ended March 31, 2017 and 2016, respectively.

14. Leases

The minimum rental commitments under noncancellable operating leases at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥800	¥623	\$7,131
Due after one year	1,794	1,880	15,990
Total	¥2,594	¥2,503	\$23,121

15. Financial Instruments and Related Disclosures

(1) Policy for financial instruments

The Group uses financial instruments, mainly bank loans and bonds. Cash surpluses, if any, are invested in low-risk financial assets. All derivative transactions are entered into, not for speculative purposes, but to manage exposure to financial risks incorporated within its business.

(2) Nature and extent of risks arising from financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Payment terms of payables, such as trade notes and trade accounts, are less than one year. Payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Bank loans, commercial paper, and bonds are mainly used to fund its ongoing operations. Certain bank loans are exposed to market risks from changes in variable interest rates. Derivatives mainly include forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of payables, and from changes in interest rates of bank loans. Please see Note 16 for more details about derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a customer's failure to repay its obligation according to the contractual terms. Receivables such as trade notes and trade accounts are exposed to customer credit risk. The Company manages its credit risk for receivables on the basis of internal guidelines to identify and minimize the default risk of customers in the early stages. The internal guidelines include conducting a credit investigation of a new customer to limit its credit amount, periodically reviewing the status of customers, and monitoring of payment terms and balances of each customer by the business administration department and the credit department.

The Company's subsidiaries also manage their credit risk on the basis of the same basic internal guidelines as the Company's.

Market risk management (foreign currency exchange rate risk and interest rate risk)

With respect to the risk of market price fluctuations of investment securities, the Group monitors market values and/or financial position of issuers, which are the Group's customers and suppliers, on a regular basis to determine whether to continue to hold such securities, taking into consideration the relation with those customers and suppliers of the Group.

Exchange rate risk of trade payables denominated in foreign currency is hedged principally by forward foreign currency contracts. Interest rate swaps and embedded derivatives are used to manage exposure to market risks from changes in interest rates for certain bank loans.

Execution and custody of derivative transactions by the corporate treasury department have been approved by the directors based on internal guidelines. The transaction data has been reported to the directors and corporate auditors on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Company and its subsidiaries cannot meet their contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial plans prepared and updated by the Company's corporate treasury department, based on reports from the Company's subsidiaries and its internal departments.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Such valuation reflects variable factors and may result in a different amount depending on assumptions.

The contract amounts of derivatives shown in Note 16 do not measure the Group's exposure to market risk.

(a) Fair values of financial instruments

Fair values of financial instruments as of March 31, 2017 and 2016 were as follows:

March 31, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥17,824	¥17,824	
Accounts receivable—trade	70,276	70,276	
Investment securities	14,500	14,500	
Total	¥102,600	¥102,600	
Short-term bank loans	¥350	¥350	
Accounts payable—trade	22,610	22,610	
Commercial paper	6,000	6,000	
Long-term debt *1	31,290	31,257	¥33
Total	¥60,250	¥60,217	¥33
Derivatives *2	¥2	¥2	
March 31, 2016			
Cash and cash equivalents	¥15,565	¥15,565	
Accounts receivable—trade	70,447	70,447	
Investment securities	12,872	12,872	
Total	¥98,884	¥98,884	
Short-term bank loans	¥475	¥475	
Accounts payable—trade	22,941	22,941	
Convertible bonds	1,086	1,466	(380)
Long-term debt *1	34,930	34,997	(67)
Total	¥59,432	¥59,879	¥(447)
Derivatives *2	¥(23)	¥(23)	

Thousands of U.S. Dollars

March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	\$158,873	\$158,873	
Accounts receivable—trade	626,402	626,402	
Investment securities	129,245	129,245	
Total	\$914,520	\$914,520	
Short-term bank loans	\$3,120	\$3,120	
Accounts payable—trade	201,533	201,533	
Commercial paper	53,481	53,481	
Long-term debt *1	278,901	278,607	\$294
Total	\$537,035	\$536,741	\$294
Derivatives *2	\$18	\$18	

*1 Long-term debt includes the current portion.

*2 Assets and liabilities from derivative transactions are netted, with net liabilities presented in parentheses.

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Accounts receivable—trade

The carrying values of accounts receivable—trade approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. The fair values of mutual funds are measured at the market price.

Fair value information for investment securities by classification is included in Note 4.

Accounts payable—trade, short-term bank loans, and commercial paper

The carrying values of accounts payable—trade, short-term bank loans, and commercial paper approximate fair value because of their short maturities.

Convertible bonds

The fair value is based on the price obtained from the financial institution.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the assumed borrowing rate applied if the debt of the same interest and principal were newly financed. Interest rate swaps which qualify for hedge accounting and which meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. The fair values of items (i.e., floating rate loans from banks and insurance companies) hedged by such interest rate swaps are determined by discounting the total cash flows of those hedged items and hedging instruments at the estimated rate applied if the debt of the same interest and principal were financed.

As for long-term loans with embedded derivatives, the price of embedded derivatives is obtained from the financial institution and included in the fair value of long-term debt.

Derivatives

Fair value information for derivatives is included in Note 16.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Investments in unconsolidated subsidiaries and associated companies	¥1,686	¥1,658	\$15,028
Investments in equity instruments that do not have a quoted market price in an active market	¥1,234	¥1,305	10,999
Other	¥490	¥138	\$4,368

(5) Maturity analysis for financial assets and securities with contractual maturities

	<i>Millions of Yen</i>			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2017				
Cash and cash equivalents	¥17,824			
Accounts receivable—trade	70,276			
Investment securities				
Available-for-sale securities:				
(1) Debt securities				
(2) Other		¥24		¥467
Total	¥88,100	¥24		¥467

March 31, 2016				
Cash and cash equivalents	¥15,565			
Accounts receivable—trade	70,447			
Investment securities				
Available-for-sale securities:				
(1) Debt securities				
(2) Other	56	¥31	¥50	
Held-to-maturity securities:	300			
Total	¥86,368	¥31	¥50	

	<i>Thousands of U.S. Dollars</i>			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2017				
Cash and cash equivalents	\$158,873			
Accounts receivable—trade	626,402			
Investment securities				
Available-for-sale securities:				
(1) Debt securities				
(2) Other		\$214		\$4,163
Total	\$785,275	\$214		\$4,163

*Please see Note 8 for annual maturities of long-term debt.

16. Derivatives

The Company and certain subsidiaries enter into foreign currency forward contracts to hedge exchange rate risk associated with certain liabilities denominated in foreign currencies. The Company also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Company's and certain subsidiaries' business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions and credible general trading companies, the Company and certain subsidiaries do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company and certain subsidiaries have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

No derivative transactions to which hedge accounting is not applied existed at March 31, 2017 and 2016.

Derivative transactions to which hedge accounting is applied at March 31, 2017 and 2016, were as follows:

	<i>Millions of Yen</i>			Fair Value
	Hedged Item	Contract Amount	Contract amount due after one year	
March 31, 2017				
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥282		¥2
- Forward contracts applied for designated transactions	Payables	622		(*) ²
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt	1,650	¥1,650	(*) ³
March 31, 2016				
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥342		¥(5)
- Forward contracts applied for designated transactions	Payables	843		(*) ²
Non-deliverable forward contracts:				
Buying Korean Won:				
- Deferral hedge	Payables	171		(0)
Interest rate swaps:				
- Hedge accounting	Long-term debt	3,000		(18)
- Fixed-rate payment and floating-rate receipt	Long-term debt	7,650	1,650	(*) ³

March 31, 2017	<i>Thousands of U.S. Dollars</i>			
	Hedged Item	Contract Amount	Contract amount due after one year	Fair Value
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	\$2,514		\$18
- Forward contracts applied for designated transactions	Payables	5,544		(*) ²
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt	14,707	14,707	(*) ³

*1 The fair values of derivative transactions are measured at the quoted price obtained from the financial institutions.

*2 Payables denominated in foreign currencies covered by a forward exchange contract are translated at the contracted rates if the forward contracts qualify for hedge accounting.

*3 The above interest rate swaps which qualify for hedge accounting and which meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair values of such interest rate swaps are included in those of the hedged items (i.e., long-term debt).

In addition to the above, as of March 31, 2017 and 2016, the Company held ¥3,750 million (\$33,425 thousand) of long-term loans, which include embedded derivatives.

The embedded derivatives substantially fix the interest rates of the loans and the fair value of these derivatives is included in the fair value of the long-term loans.

17. Comprehensive income

The components of other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥409	¥(1,654)	\$3,646
Reclassification adjustments to profit or loss	43	(188)	383
Amount before income tax effect	453	(1,842)	4,038
Income tax effect	(125)	629	(1,114)
Total	¥328	¥(1,213)	\$2,924
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥9	¥(24)	\$80
Reclassification adjustments to profit or loss	16	13	143
Amount before income tax effect	25	(11)	223
Income tax effect	(8)	6	(72)
Total	¥17	¥(5)	\$151
Deferred gain (loss) on defined benefit plans:			
Gains (losses) arising during the year	¥576	¥(12,825)	\$5,134
Reclassification adjustments to profit or loss	2,811	(617)	25,056
Amount before income tax effect	3,387	(13,442)	30,190
Income tax effect	(976)	4,221	(8,700)
Total	¥2,411	¥(9,221)	\$21,490
Total other comprehensive income (loss)	¥2,756	¥(10,439)	\$24,565

18. Net income per share

A reconciliation of the differences between basic and diluted net income (loss) per share ("EPS") for the years ended March 31, 2017 and 2016, is as follows:

	Net Income	Weighted- average shares	EPS	
	<i>Millions of Yen</i>	<i>Thousands of shares</i>	<i>Yen</i>	<i>U.S. Dollars</i>
For the year ended March 31, 2017				
Basic EPS				
Net income available to common shareholders	¥10,261	106,343	¥96.49	\$0.86
Effect of dilutive securities:				
Convertible bonds	(0)	116		
Warrants	0	374		
Diluted EPS—Net income for computation	¥10,261	106,833	¥96.05	\$0.86
For the year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	¥8,920	95,187	¥93.71	
Effect of dilutive securities:				
Convertible bonds	(45)	12,281		
Warrants	4	375		
Diluted EPS—Net income for computation	¥8,879	107,843	¥82.33	

19. Related-party transactions

There were no significant transactions with related-parties for the year ended March 31, 2017.

For the year ended March 31, 2016, the Company had transactions with an affiliate as follows:

Name and location: Dai Nippon Printing Co., Ltd., Shinjuku-ku, Tokyo

Capital: ¥114,464 million

Business description: Information communication

Voting rights: Direct 19.5%

Relationship: Business alliance, acceptance of system services, interlocking directors

Transactions: Operating transactions of ¥4,019 million,

Account name and balance: Accounts receivable—trade and other ¥2,879 million

1) Consumption taxes are not included in the transaction amount, but included in the ending balance.

2) The terms and conditions for transactions are determined on an arm's-length basis.

20. Segment information

For the years ended March 31, 2017 and 2016

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group consists of five segments – system services, support services, outsourcing, software, and hardware. The "System Services" segment consists of contracted software development, system-related services, and consulting. The "Support Services" segment consists of support services for software, support services for hardware, and installation services. The "Outsourcing" segment consists of contracted administration of information systems and others. The "Software" segment consists of providing software under a software license agreement. The "Hardware" segment consists of providing hardware under a sales contract or a lease contract.

(2) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of significant accounting policies."

(3) Information about sales, profit (loss), assets and other items is as follows:

	Millions of Yen									
	2017									
	Reportable segment						Total	Other 1)	Total	Reconcili- ations 2)
System Services	Support Services	Out- sourcing	Software	Hardware	Total					
Sales	¥89,608	¥54,074	¥45,927	¥29,733	¥54,099	¥273,441	¥8,808	¥282,249		¥282,249
Segment profit	23,491	15,016	10,633	7,025	8,447	64,612	2,116	66,728	¥(52,413)	14,315
Segment assets	1,628	1,899	21,954	4,760	3,921	34,162	228	34,390	158,304	192,694
Other:										
Depreciation	130	218	4,890	1,658	736	7,632	81	7,713	1,519	9,232
Increase in property, plant and equipment and intangible assets	149	183	8,159	2,277	268	11,036	78	11,114	3,668	14,782
Loss on impairment of long-lived assets			327			327		327	10	337
Goodwill:										
Amortization									83	83
Balance									837	837

1) The "Other" category, which is not included in a specific reportable segment, consists of installation and other businesses.

2) Reconciliation of segment profit of ¥(52,413) million consists of selling, general and administrative expenses of ¥(48,875) million not allocable to the reportable segments, research and development costs of ¥(3,454) million and amortization of goodwill of ¥(83) million. Reconciliation of segment assets of ¥158,304 million consists of corporate assets not allocable to the reportable segments. Reconciliation of depreciation expense of ¥1,519 million consists of depreciation expense of corporate assets not allocable to the reportable segments.

Reconciliation of the increase in property, plant and equipment and intangible assets of ¥3,668 million consists of increase in corporate assets not allocable to the reportable segments.

3) Segment profit is reconciled to operating income in the consolidated statement of income.

Millions of Yen

2016

	Reportable segment						Other 1)	Total	Reconciliations 2)	Consolidated 3)
	System Services	Support Services	Out-sourcing	Software	Hardware	Total				
Sales	¥89,829	¥55,362	¥40,497	¥30,003	¥53,874	¥269,565	¥8,474	¥278,039		¥278,039
Segment profit	23,834	14,849	8,798	7,358	7,382	62,221	2,389	64,610	¥(52,085)	12,525
Segment assets	2,149	2,119	21,828	4,977	4,819	35,892	293	36,185	156,910	193,095
Other:										
Depreciation	136	302	4,812	1,612	809	7,671	89	7,760	1,645	9,405
Increase in property, plant and equipment and intangible assets	58	121	5,175	2,201	958	8,513	81	8,594	3,038	11,632
Loss on impairment of long-lived assets			18			18		18	475	493
Goodwill:										
Amortization									84	84
Balance									920	920

1) The "Other" category, which is not included in a specific reportable segment, consists of installation and other businesses.

2) Reconciliation of segment profit of ¥(52,085) million consists of selling, general and administrative expenses of ¥(47,965) million not allocable to the reportable segments, research and development costs of ¥(4,036) million and amortization of goodwill of ¥(84) million. Reconciliation of segment assets of ¥156,910 million consists of corporate assets not allocable to the reportable segments.

Reconciliation of depreciation expense of ¥1,645 million consists of depreciation expense of corporate assets not allocable to the reportable segments.

Reconciliation of the increase in property, plant and equipment and intangible assets of ¥3,038 million consists of increase in corporate assets not allocable to the reportable segments.

3) Segment profit is reconciled to operating income in the consolidated statement of income.

<i>Thousands of U.S. Dollars</i>										
2017										
	Reportable segment						Other 1)	Total	Reconcili- ations 2)	Consoli- dated 3)
	System Services	Support Services	Out- sourcing	Software	Hardware	Total				
Sales	\$798,716	\$481,986	\$409,368	\$265,024	\$482,209	\$2,437,303	\$78,509	\$2,515,812		\$2,515,812
Segment profit	209,386	133,844	94,777	62,617	75,292	575,916	18,861	594,777	\$(467,181)	127,596
Segment assets	14,511	16,927	195,686	42,428	34,950	304,501	2,032	306,533	1,411,035	1,717,568
Other:										
Depreciation	1,159	1,943	43,587	14,779	6,560	68,027	722	68,749	13,540	82,289
Increase in property, plant and equipment and intangible assets	1,328	1,631	72,725	20,296	2,389	98,369	695	99,064	32,695	131,759
Loss on impairment of long-lived assets			2,915			2,915		2,915	89	3,004
Goodwill:										
Amortization									740	740
Balance									7,461	7,461

1) The "Other" category, which is not included in a specific reportable segment, consists of installation and other businesses.

2) Reconciliation of segment profit of \$(467,181) million consists of selling, general and administrative expenses of \$(435,645) million not allocable to the reportable segments, research and development costs of \$(30,787) million and amortization of goodwill of \$(740) million.

Reconciliation of segment assets of \$1,411,035 million consists of corporate assets not allocable to the reportable segments.

Reconciliation of depreciation expense of \$13,540 million consists of depreciation expense of corporate assets not allocable to the reportable segments.

Reconciliation of the increase in property, plant and equipment and intangible assets of \$32,695 million consists of increase in corporate assets not allocable to the reportable segments.

3) Segment profit is reconciled to operating income in the consolidated statement of income.

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2017 and 2016, is as follows:

(1) Industry segments

Industry segment information is not presented because the Group operates in a single segment of the industry that provides computers, software and other related products, as well as various kinds of related services.

(2) Geographical segments

Geographical segment information is not presented because the Japanese portion of the Group's consolidated net sales contributed more than 90% of total net sales.

(3) Sales to foreign customers

Information on sales to foreign customers is not presented because the amount contributed to an insignificant percentage of consolidated net sales.

21. Subsequent events

At the general shareholders' meeting held on June 28, 2017, the Company's shareholders approved the following appropriation of retained earnings:

Appropriations of retained earnings

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Cash dividends, ¥17.50 (\$0.16) per share	¥1,755	¥15,643



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Nihon Unisys, Ltd.:

We have audited the accompanying consolidated balance sheet of Nihon Unisys, Ltd. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's 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, the auditor considers 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, but 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 referred to above present fairly, in all material respects, the consolidated financial position of Nihon Unisys, Ltd. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2017

Corporate Data (As of March 31, 2017)

Company Name	Nihon Unisys, Ltd.	Independent Auditor	Deloitte Touche Tohmatsu LLC
Established	March 29, 1958		Headquarters: 1-1-1 Toyosu, Koto-ku, Tokyo 135-8560, Japan
Paid-in Capital	¥5,483 million		Regional Headquarters: Kansai (Osaka), Chubu (Nagoya), and Kyushu (Fukuoka)
Description of Business	Services business including cloud computing and outsourcing; computer and network system sales / rentals; software development and sales; system-related services	Business Offices	Regional Offices: Hokkaido (Sapporo), Tohoku (Sendai), Niigata (Niigata), Hokuriku (Kanazawa), Shizuoka (Shizuoka), and Chugoku (Hiroshima)
Number of Employees	7,988 (consolidated)		

Overview of Group Companies

Business process	Company name	Ownership	Capital stock (Millions of yen)	FY2016 net sales (Millions of yen)
	Nihon Unisys, Ltd.		5,483	170,281
Marketing and Business Development and Consulting	UEL Corporation	100%	100	4,415
	Cambridge Technology Partners, Ltd.	100%	10	1,383
	AFAS Inc.	100%	100	1,010
	Canal Payment Service, Ltd.*1	100%	—	—
Total Infrastructure Services	UNIADEX, Ltd.	100%	750	127,204
	S&I Co., Ltd.	95%	490	9,200
System Services	USOL VIETNAM Co., Ltd.	100%	—	616
	International Systems Development Co., Ltd.	69%	40	2,002
	G&U System Service, Ltd.	51%	50	1,618
Outsourcing	TRADE VISION, Ltd.	75%	200	335
Group Shared Services	Nihon Unisys Business, Ltd.*2	100%	20	1,265

Group companies other than the above (non-consolidated companies):

UEL (Thailand) Co., Ltd., Netmarks Information Technology (Shanghai) Co., Ltd., UNIAID Co., Ltd., Beijing Unity Information Technology Co., Ltd., and NUL System Services Corporation

*1. Canal Payment Service, Ltd. was established on March 10, 2017.

*2. Nihon Unisys Business, Ltd. was dissolved on April 2, 2017.

Editorial Policy

This report aims to communicate the Group's medium-to-long-term growth and improvements in corporate value to a wide range of stakeholders, including shareholders and investors. The report has been compiled as an integrated report that introduces an overview of how the Group creates value through the presentation of both financial and non-financial information.

Tools for the Disclosure of Financial and Non-Financial Information

Integrated Report 2017 is available as either a printed booklet or as a PDF from our corporate website. A broader range of detailed information is also available on our website. In addition, we release various information disclosure tools at the request of stakeholders.

Website	Integrated Report (PDF)	Overall Corporate Activities	Financial Information	Non-Financial Information
	<i>Integrated Report</i> http://www.unisys.co.jp/invest-e/ir/ar.html	Corporate Website http://www.unisys.co.jp/e/	"Investor Relations" Section http://www.unisys.co.jp/invest-e/index.html	"CSR" Section http://www.unisys.co.jp/csr/ (Available only in Japanese)
Printed Booklet	Integrated Report 2017			

Stock Information (As of March 31, 2017)

Classification of Shareholders

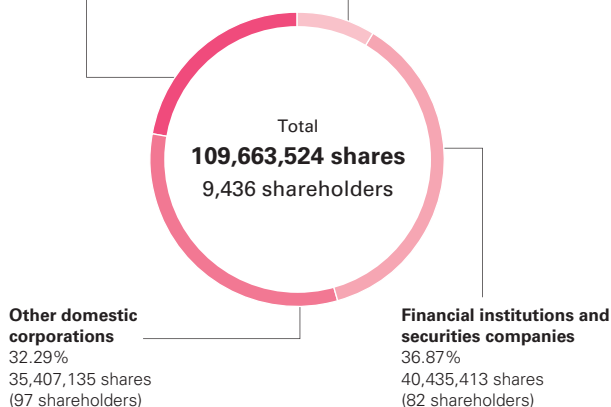
Number of shares issued	109,663,524 shares
Number of shareholders	9,436 shareholders

Foreign corporations and individuals

22.06%
24,191,463 shares
(210 shareholders)

Individuals

8.78%
9,629,513 shares
(9,047 shareholders)



Other domestic corporations

32.29%
35,407,135 shares
(97 shareholders)

Financial institutions and securities companies

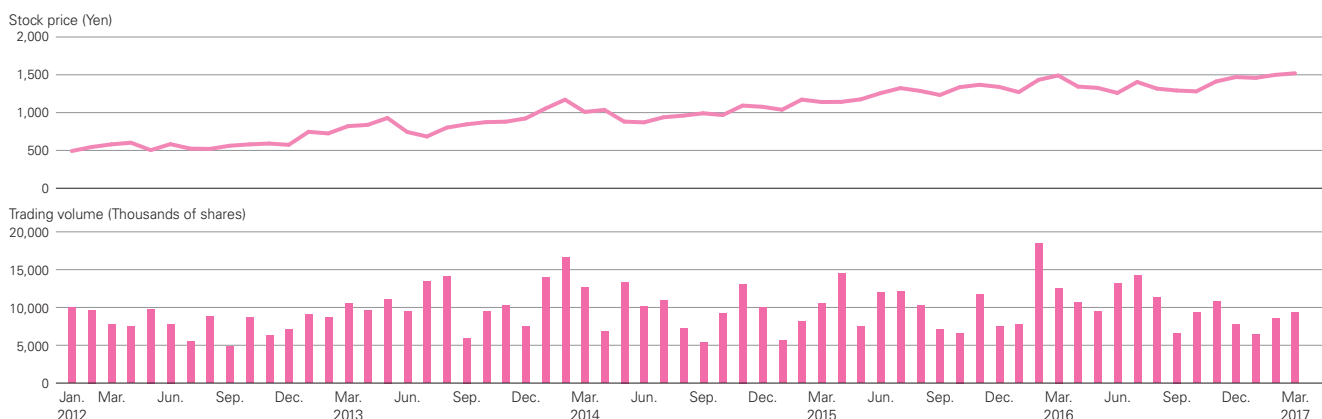
36.87%
40,435,413 shares
(82 shareholders)

Principal Shareholders

Name	Number of shares held (Thousands of shares)	Holding ratio (%)
Dai Nippon Printing Co., Ltd.	20,727	18.90
Japan Trustee Services Bank, Ltd. (Trust account)	12,352	11.26
The Master Trust Bank of Japan, Ltd. (Trust account)	7,644	6.97
The Norinchukin Bank	4,653	4.24
Japan Trustee Services Bank, Ltd. (Trust account 9)	3,413	3.11
J.P. Morgan Bank Luxembourg S.A. 380578	3,007	2.74
Mitsui & Co., Ltd.	2,448	2.23
Nihon Unisys Employees' Shareholding Society	2,273	2.07
Government of Norway	2,171	1.98
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,847	1.68

* Nihon Unisys, Ltd. retains 9,350,622 treasury shares (holding ratio: 8.52%).

Stock Price Information



Scope of the Report

In principle, the scope of the report consists of Nihon Unisys and the companies of the Nihon Unisys Group (consolidated subsidiaries and non-consolidated subsidiaries), and it is individually noted when the scope differs.

Period of the Report

In this report, fiscal year (FY) refers to the period beginning April 1 and ending March 31. In principle, this report covers FY2016 (April 1, 2016, to March 31, 2017), with activities during past fiscal years and conditions following FY2016 also reported as necessary.

Notes Concerning

Forward-Looking Statements

The statements contained in this report, which refer to the Group's current plans and projections, other than historical facts, represent forward-looking statements made based on judgments and assumptions in accordance with the information currently available. Please note that actual results may differ from the forecasts due to fluctuations in risks and uncertainties and changes in economic conditions.

Reference Guidelines

- International Integrated Reporting Framework from the International Integrated Reporting Council
- GRI Sustainability Reporting Guidelines Version 4.0
- ISO 26000 / JIS Z 26000

Issued

- November 2017
(Previous issues: The Japanese version of the previous *Integrated Report* was issued in November 2016, with the English version being issued in December 2016.)
- The next issue is scheduled for September 2018.

Corporate Statement

Foresight in sight

This corporate statement expresses the Nihon Unisys Group vision toward 2020.

“Foresight” consists of foreseeing and understanding industry changes, customer needs, and future social issues in advance, and “in sight” has the double meaning of being able to see and understand things combined with the meaning of “insight.”

Using this foresight to foresee the next generation and gain a deep understanding of the problems of customers and society as fast as possible with our experience and insight that goes beyond conventional knowledge, we are dedicated to combining our ICT assets, wisdom, and ideas to provide the best types of solutions and services to customers, and also offer new business models and business ecosystems. It is our strong desire to leverage strengths including our DNA as a pioneer in mainframe computing, deep understanding of and relationships of trust with customers built upon a customer-first (U&U) spirit, and multi-vendor support in order to strengthen our potential as a strategic partner for customers and to create completely new businesses with our foresight and imagination.

Nihon Unisys, Ltd.

1-1-1 Toyosu, Koto-ku, Tokyo 135-8560, Japan

Finance Department

URL: <http://www.unisys.co.jp>

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