

Nihon Unisys Group

Integrated Report 2019

For the Year Ended March 31, 2019

UNISYS



Foresight in sight

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



Engagement Agenda

1

Goal



Helping to resolve social issues by creating business ecosystems

2

Path



Mid-term management plan and progress

3

Ability to Support Growth



Enhancing mechanisms that support sustainable growth

Foresight in sight

Our corporate statement expresses the Nihon Unisys Group’s 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 utilize our foresight to gain a deep understanding of the problems of customers and society as quickly as possible, drawing on 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 solutions and services to customers, and also to offer new business models and business ecosystems.

Contents

Corporate Philosophy/Corporate Statement.....	1	Overview and Analysis of Results.....	48
The Changing Nihon Unisys Group.....	2	10-Year Summary.....	50
Value Creation Process.....	4	Consolidated Financial Statements.....	52
Business Model.....	6	Notes to Consolidated Financial Statements.....	58
Value Creation in Priority Areas.....	8	ESG Information.....	80
Financial and Non-Financial Highlights.....	10	Corporate Information.....	82
Overview of Mid-Term Management Plan.....	14		
The President & CEO on Strategy.....	15		
The CFO on Financial and Sustainability Strategies.....	20		
Mid-Term Management Plan Initiatives.....	22		
Materiality (Material Sustainability Issues).....	26		
Value Creation Drivers.....	28		
Human Resource Strategy.....	30		
Risk Management.....	34		
Corporate Governance.....	39		
Messages from Outside Directors.....	44		
Directors, Audit & Supervisory Board Members, and Corporate Officers.....	46		

The Changing Nihon Unisys Group

In the more than 60 years since it introduced the first commercial computers in Japan, the Nihon Unisys Group, as a leading system integrator, has been building the systems that support today's information society and industries. Based on our experience and track record, we play a central role in providing platforms for realizing digital transformation that leads to the creation of business ecosystems that connect different types/categories of businesses across conventional boundaries. In doing so, we are working with our customers and partners to create new value for a better society and to help resolve social issues.

Transition from a System Integrator to a Platform Provider

Introduction of the first commercial computers in Japan, contributing to the formation of Japan's modern-day information society

Contribution to the development of society by identifying the needs of customers and providing business solutions that support industry

- 1947 Yoshizawa Kiki, the predecessor to Nippon Remington Univac Kaisha, Ltd., established
- 1958 Nippon Remington Univac Kaisha, Ltd. (currently Nihon Unisys, Ltd.) established
- 1968 Nippon Remington Univac Kaisha, Ltd. changed its name to Nippon Univac Kaisha, Ltd.
- 1971 Nippon Univac Kaisha, Ltd. listed on the first section of the Tokyo Stock Exchange
- 1988 Nippon Univac Kaisha, Ltd.

Main Achievements

- 1955 Installed Japan's first commercial computers at Tokyo Stock Exchange, Inc. and Nomura Securities Co., Ltd.



- 1977 Launched FAST software for financial institutions
- 1991

- 1967 Launched Japan's first online banking process

Changes in Portfolio

Composition of Net Sales



Net Sales (Bar chart)
Operating Income (Line chart)

* Nihon Unisys non-consolidated Maintenance services, software, etc.

1950 1970 1980 1990

Value and Functions Required of ICT

Greater business efficiency and cost reduction

Support for management decision-making and business expansion

Mainframes

Client servers

Solutions

ERP packages

Mobile services

Creation of systems that anticipate technological advances, which will enable the provision of new services

Creation of business ecosystems to resolve social issues by providing platforms to connect different industries

and Burroughs Corporation merged to establish Nihon Unisys, Ltd.

- 1997 Total infrastructure service subsidiary UNIADEX, Ltd. established

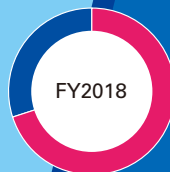
Launched the integrated CAD/CAM system CADCEUS®



- 2007 Introduced core banking system BankVision®, the world's first "full-banking" system based on the Windows® platform
- 2009 Started providing the smart oasis® charging infrastructure system for electric vehicles
- 2009 Started providing Zero-Accident Program DR service to help reduce automobile accidents and promote safe and energy-efficient driving



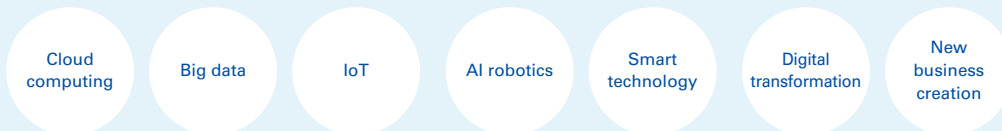
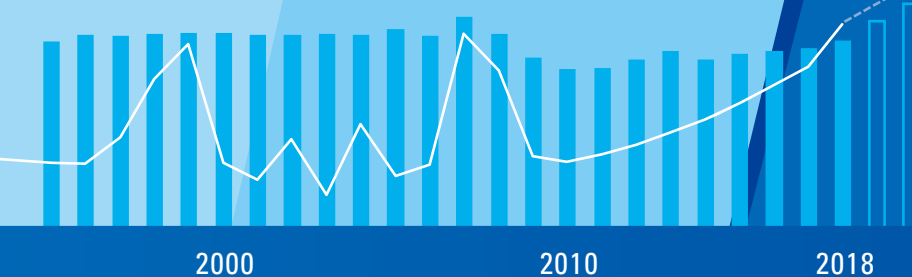
- 2013 Capital alliance with Dai Nippon Printing Co., Ltd. to strengthen business foundation for expansion in new markets
- 2017-2018 Established Canal Payment Service, Ltd., a payment and settlement-related business subsidiary, and formed a business and capital alliance with JCB Co., Ltd. and CARDNET
- 2013 Began operation of the world's first open technology-based domestic airline passenger system
- 2017 Start of Resonatex® open API platform service



P. 6

FY2018 Achievements

Net Sales	Operating Income
¥299.0 billion	¥20.6 billion (Record high)



Value Creation Process

The Nihon Unisys Group uses its value creation drivers and other management resources, which are strengths it has been cultivating since its founding, as the source of its competitive advantage in creating and providing services that originate from the various social issues underlying the challenges faced by customers. In doing so, we have established a value creation process that achieves both economic and social value.

Corporate Philosophy and Management Vision of the Nihon Unisys Group

Corporate Philosophy

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

The Significance of the Existence of the Nihon Unisys Group

A corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and partners

To become a core capable of creating business ecosystems that connect different types and categories of businesses across conventional boundaries, and to provide platforms capable of digital transformation

Corporate Statement

Foresight in sight

Act to create unprecedented businesses with foresight and insight

P. 1

Social Changes Recognized by the Nihon Unisys Group

Sources of Competitive Advantages of the Nihon Unisys Group

Value Creation Drivers P. 28–29 — Strengths —

- Relationships with customers and partners in various industries
- Capabilities for enabling successful system implementation
- Capabilities for enabling one-stop support that is free from vendor lock-in
- Capabilities for designing and delivering new services

Human Resources Who Can Create Value Independently P. 30–33

- Human resources who share the vision and strategies for creating value independently
- Human resources who generate innovation based on original ideas and by transforming their skill sets

Solid Financial Base P. 20–21

- High capital efficiency
- Strategic investment

Foundation for Creating Value P. 34–47

Corporate Governance P. 39–47

- Diversity in directors and Audit & Supervisory Board members
- Comprehensive succession planning
- Effective functioning of the Board of Directors
- Transparent and fair remuneration system

Risk Management P. 34–38

- Secure human resources that can create high added value
- Thorough technical and quality management
- Promote advanced cyber security strategy
- Enhance the service-centered value chain

Realizing a virtuous cycle of the trust of customers and further business

Business Model

Core ICT Area (Existing business area)

Provide a combination of optimal ICT environments to realize service models

Help to resolve various social that utilize the strengths and Nihon Unisys Group

Management Strategies/Initiatives

Mid-Term Management Plan

Foresight in sight 2020 P. 14

>>>

Rapid shift to a digital society
Super-smart Society 5.0*

* A new society in which IoT, AI, big data and other new technologies are incorporated into every industry and every facet of social life to create innovation that resolves social issues in ways that meet individual needs

Under our mid-term management plan “Foresight in sight® 2020,” which started in FY2018, we are conducting business activities centered on four priority areas with an awareness of achieving the UN’s Sustainable Development Goals (SDGs). We are aiming for sustainable growth by creating new market opportunities for the Group and expanding business ecosystems.

sustainable growth by gaining society and by pursuing opportunities

of the Nihon Unisys Group P. 6-7

Priority Areas

Play a central role in providing platforms for realizing the digital transformation that leads to the creation of business ecosystems that connect different types/categories of businesses across conventional boundaries

issues by providing services digital technologies of the

Value Created by the Nihon Unisys Group
— Creating economic and social value —

Provide ICT solution services that address customer management issues and resolve the various social issues underlying the challenges faced by customers

Value Creation in Priority Areas

P. 8-9

Neobanks

Financial services at your fingertips

Digital Acceleration

Realizing more prosperous and comfortable lives

Smart Towns

Creating a safe, secure and sympathetic society

Assets Guardian

Resolving issues in aging social infrastructure with IoT and AI technologies

Toward a Vibrant Future

— Realizing a Sustainable Society —

Toward a sustainable society where “no one will be left behind” ahead of the achievement of the SDGs



Sustainable development goals for 2030 that have received worldwide consensus

Promoting business activities that the Nihon Unisys Group is uniquely capable of, with the intention of helping to achieve the SDGs by 2030

Main Related SDGs



Materiality (Material Sustainability Issues) P. 26-27

Changes in society’s expectations and demands of companies

Expectation of resolving social issues through business/Spread of the concept of ESG

Changes in the business environment

Intensifying competition due to entrants from other industries

Business Model

The Nihon Unisys Group offers services that optimize the ICT environments of customers in various industries, and works to help resolve social issues by connecting services beyond the boundaries of industry and business type. This section provides an overview of the Group's business and business areas.

Nihon Unisys Group Business

Services Provided by the Nihon Unisys Group

During its history of more than 60 years, the Nihon Unisys Group has supported the development of Japan's ICT as a system integrator. We provide integrated services from analysis to solutions for the management issues for customers in a wide range of fields including finance, manufacturing, distribution, public facilities and service providers.

Now, the Group is evolving further. In addition to providing the optimal services for customer needs, we anticipate social changes in collaboration with customers and partners to realize digital transformation as we evolve into a platform provider that helps to resolve social issues.

Business Areas of the Nihon Unisys Group

The Nihon Unisys Group operates in two business areas: the priority areas newly identified in mid-term management plan "Foresight in sight 2020," and the core ICT area, the existing business area in which the Group supports customers' ICT environments.

The priority areas are business fields in which we believe we can utilize the Group's assets together with our customers and partners in markets where solutions to social issues are needed and medium-to-long-term growth is expected.

Currently, the core ICT area, in which we have a customer base and a track record built over many years, accounts for about 90% of the Group's net sales. Using our accomplishments in the core ICT area as a foundation, we are establishing and expanding businesses in our priority areas, where growth is forecast. By doing so, we intend to increase earnings and help to resolve social issues.

Business Segments

Services

System Services: Provision of ICT strategy consulting services, contracted software development, technology support services, etc.

Support Services: Software and hardware maintenance and installation support, etc.

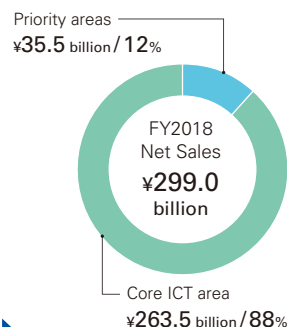
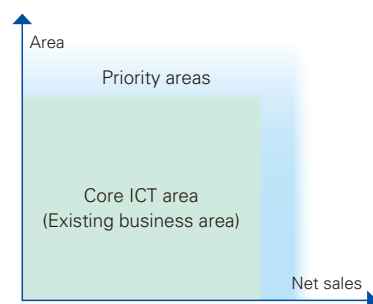
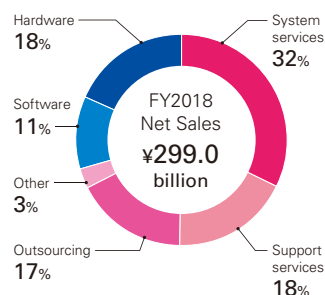
Outsourcing: Contracted administration of information systems, service-type and fee-for-service outsourcing using cloud computing and other methods, etc.

Other: Communication line service and electrical installation work, training services, etc.

Product Sales

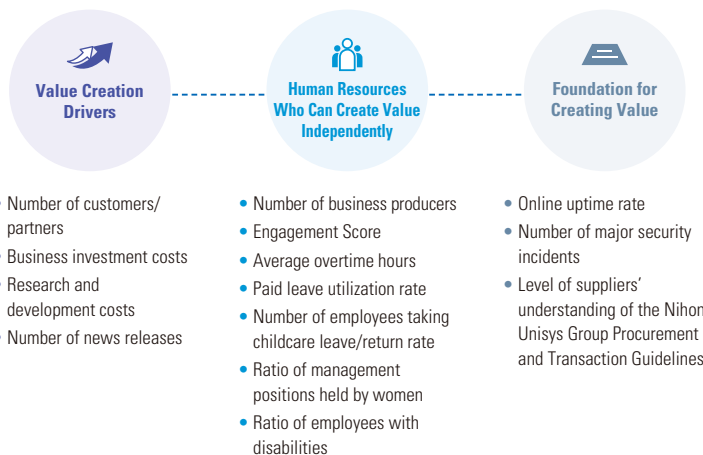
Software: Provision of optimal software that is free from vendor lock-in, including sale of the Group's related solutions

Hardware: Sale and rental of the optimal equipment that is free from vendor lock-in



Relationship between KPIs and Non-Financial Indicators in Improving Corporate Value

To achieve sustainable growth, the Nihon Unisys Group must enhance its ability to design business ecosystems by independently creating value. We believe that monitoring indicators for a quantitative understanding of the non-financial information the Group considers important can have a significant impact on improving corporate value in the future. These indicators will also lead to the establishment and expansion of businesses in the priority areas of the mid-term management plan and improved productivity in our core ICT area. With the resulting increase in profitability, we aim to achieve our KPI for FY2020 of an operating margin of 8% or more.



Priority Areas

Neobanks

Digital Acceleration

Smart Towns

Assets Guardian

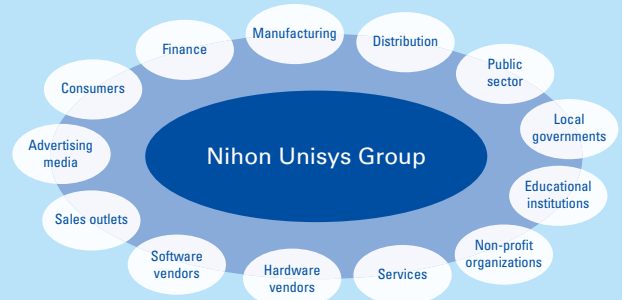
P. 8-9

Providing Platforms for Helping to Resolve Social Issues Together with Customers and Partners

In the four priority areas defined in the mid-term management plan – Neobanks, Digital Acceleration, Smart Towns, and Assets Guardian – we conduct cross-functional activities beyond the boundaries of each area, depending on the social issues involved.

Since social issues cannot be resolved by a single industry, cross-industry collaboration is essential, so we will focus on the creation of business ecosystems that connect our own assets with our partners and external services to provide them to customers as a platform, thus helping to resolve social issues. To achieve this objective, we will leverage our capabilities for designing and delivering new services and other Group strengths to create new businesses and discover latent value.

Concept of Business Ecosystem



A "business ecosystem" is a system formed from partnerships between multiple companies and organizations, leveraging the technologies and strengths of each, and which will continue to prosperously co-exist beyond the boundaries of industry and business type.

Core ICT Area (Existing Business Area)

Quickly and Flexibly Providing Optimal ICT Environments to Customers

We quickly and flexibly provide optimal ICT environments for our customers by utilizing the strengths we have been cultivating as a system integrator: collaborative relationships with customers and partners in various industries; capabilities for enabling successful system implementation; and capabilities for enabling one-stop support that is free from vendor lock-in.

We have accumulated experience and a track record in a wide range of fields including finance, manufacturing, distribution, the public sector and services, and bring together that extensive development experience, business knowledge and know-how to provide services and products that help realize our customers' strategies.

Combining Optimal ICT Environments for Service Models



Examples of Solutions

- Accounting systems for financial institutions
- Information utilization
- IT outsourcing services
- Cloud infrastructure
- CRM/customer contact
- Office communications
- SRM/electronic procurement/purchasing
- SCM/distribution
- ERP and resource management
- BCP and disaster countermeasures
- Other ICT solutions in general

Concentrate Management Resources

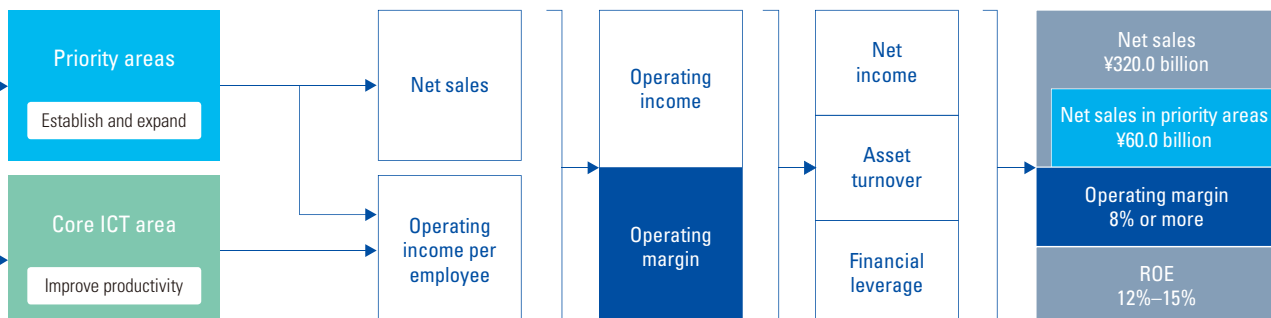
Increase Profitability

Improve Corporate Value

Business areas

ROE

Numerical targets for FY2020



Value Creation in Priority Areas

In its mid-term management plan that started in FY2018, the Nihon Unisys Group reassessed the significance of its existence and redefined itself as “a corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and partners.” Moreover, we view taking the initiative in resolving social issues with an awareness of the SDGs as offering opportunities for the Group’s further growth.

Neobanks

Financial services at your fingertips

Promote business digitalization in coordination with financial institutions and other companies in order to improve convenience for ordinary citizens and revitalize industries to address the widening economic disparities between large cities and local regions.

Social Issues to Help Resolve

- Low birthrate and aging society
- Digitalization
- Labor shortage
- Shift to cashless economy
- Disparity in regional economies
- Customer orientation (emphasis on user interface and experience)
- Financial inclusion
- Collaboration between industries

Main Related SDGs



Nihon Unisys Group Assets (Strengths) Utilized

- IT implementation capabilities in the financial industry cultivated over many years
- A network of regional financial institutions enabled by our track record of providing core systems

Target Markets

- Joint creation of new markets with financial institutions and fintech companies
- Management areas that improve quality of life through collaboration with different industries

Services Provided

- Core banking platforms (BankVision® and others)
- Open API platform Resonatex®
- Payment/Settlement platforms (Origami Pay® and others)
- Front office apps (Fortune Pocket® and others)
- Content management (Money Concierge) and others



Digital Acceleration

Realizing more prosperous and comfortable lives in a society in which digital technologies are ubiquitous

Re-create relationships among manufacturers, wholesalers/retailers and consumers by accelerating business digitalization efforts and visualizing economic activities to improve convenience of ordinary citizens and revitalize industries.

Social Issues to Help Resolve

- Aging society
- Diversification of values
- Information explosion
- Digital divide
- Shopping inaccessibility
- Labor shortage
- Rise of disruptive businesses
- Rapid acceleration of digitalization

Main Related SDGs



Nihon Unisys Group Assets (Strengths) Utilized

- Expertise in creating comprehensive electronic purchasing systems from introduction to measurement of effects
- Partnership with Dai Nippon Printing Co., Ltd., which has printing and information technologies

Target Markets

- Corporate advertising and sales promotion market
- ICT market for digital transformation

Services Provided

- Smart Campaign
- Panel surveys
- Gift Card Mall
- Autonomous AI robot services



Based on this belief, we have set priority areas where we can utilize the Group’s assets in markets that expect medium-to-long-term growth on the basis of resolving social issues. We have concentrated management resources on these priority areas and are conducting business activities together with our customers and partners. The Group aims to achieve both its own sustainable growth and the sustainable development of society by creating social and economic value centered on these priority areas.

Smart Towns

Creating a safe, secure and sympathetic society where people can lead healthy, comfortable and active lives

Create a people-centered sympathetic society by linking transportation, health, energy, tourism and other services to address social issues such as the super-aging society and population concentration in urban areas.

Social Issues to Help Resolve	Main Related SDGs
<ul style="list-style-type: none"> Population concentration in urban areas/regional depopulation Super-aging society Medical care issues Transportation network maintenance Energy and environmental problems Tourism infrastructure development Utilization of idle assets 	

Nihon Unisys Group Assets (Strengths) Utilized

- Cooperative schemes encompassing industry-government-academia, local businesses and consumers
- Open innovation schemes in collaboration with companies, startups and local businesses
- Expertise in constructing data distribution platforms for the creation of data utilization services

Target Markets

- Transportation
- Health
- Energy
- Tourism
- Urban development/urban planning

Services Provided

- Next-generation mobility services (MaaS)
- Wellness and community services (health promotion)
- Energy-related services Enability®, smart oasis®
- Sharing services (carsharing, storage)
- Service for inbound tourists FESTRAVEL®
- Data distribution/utilization service platforms



Assets Guardian

Providing solutions to safeguard key assets for comfortable lives and work using new technologies such as IoT and AI as well as the digitalized wisdom of skilled workers

Reform business environments and improve business productivity through the use of IoT and AI technologies for issues such as aging public infrastructure and the aging engineer population.

Social Issues to Help Resolve	Main Related SDGs
<ul style="list-style-type: none"> Natural disaster damage prevention Facility obsolescence and safety measures Shortage of skilled engineers and workers More efficient infrastructure inspection and diagnosis Building facility efficiency improvement Streamlining of manufacturing sites Streamlining of distribution sites Streamlining of store and facility operations 	

Nihon Unisys Group Assets (Strengths) Utilized

- Expertise in operating systems for facility management and maintenance
- Provision of various solutions for improving operational efficiency

Target Markets

- Inspection of environmental and public facilities
- Building facility maintenance
- Production facility/warehouse management
- Store facility management

Services Provided

- Remote monitoring and remote work support (Marutto Tenken, MUDEN and others)
- Image AI/deep learning platforms (BRaVS and others)
- Analysis of attributes of members, crowd flow and dwell time (JINRYU® and others)
- Shared platforms for IoT services (Distributed IoT Business Platform and others)

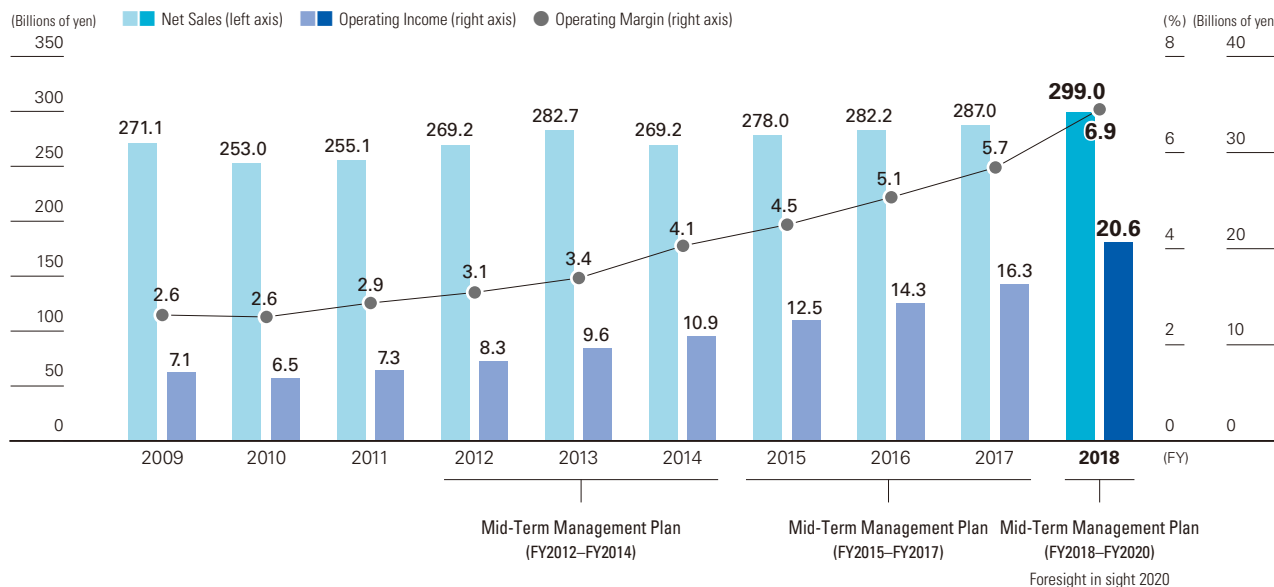


Financial and Non-Financial Highlights

(Nihon Unisys, Ltd. and Consolidated Subsidiaries)

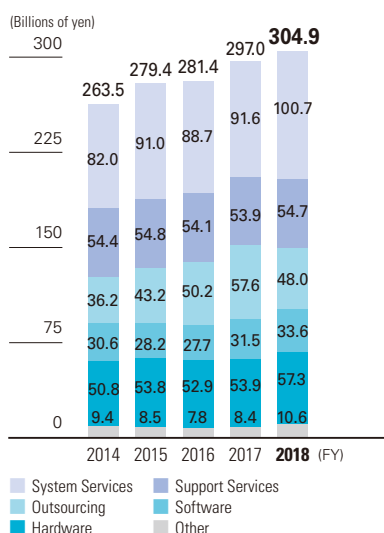
Financial Indicators

Net Sales, Operating Income & Operating Margin



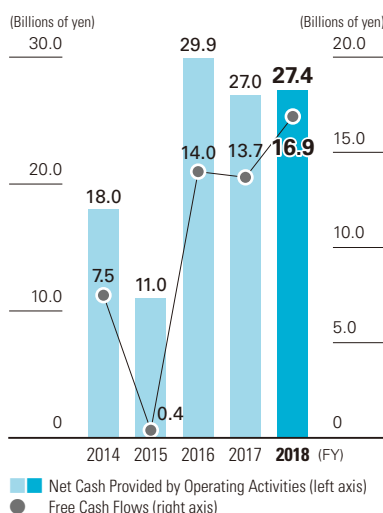
Under mid-term management plan (FY2012–FY2014), we worked to reinforce the management foundation by reviewing the cost structure, conducting risk management and enhancing our financial condition. Under the next plan, mid-term management plan (FY2015–FY2017), we stabilized business performance through productivity improvement and other measures, and innovated our business model to further improve profitability. In FY2018, the first year of the current mid-term management plan (FY2018–FY2020), we identified priority areas and worked to established and expand business in these areas. As a result, both net sales and operating income grew steadily. The operating margin has improved by 2.6 times over the past 10 years.

Orders Received by Segment



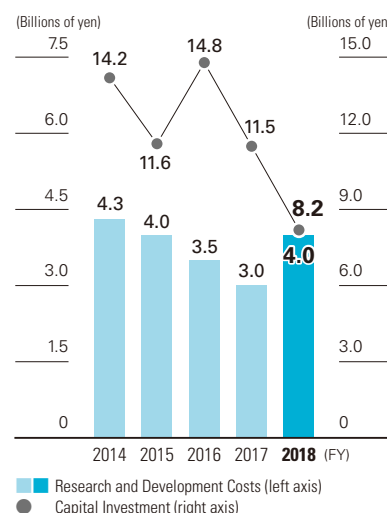
In a favorable environment for demand, orders for System Services were firm, and we steadily acquired orders for recurring businesses such as Support Services and Outsourcing.

Net Cash Provided by Operating Activities & Free Cash Flows



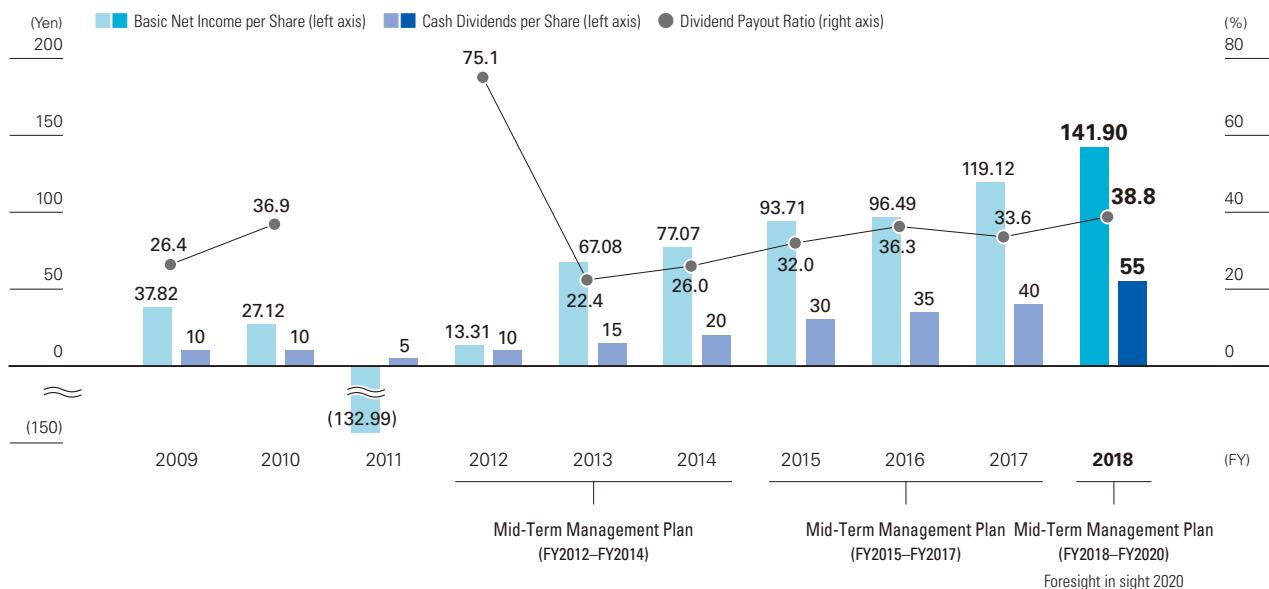
While we continue to invest for growth in our priority areas and new technology areas, improved profitability has increased our ability to generate free cash flows.

Research and Development Costs & Capital Investment



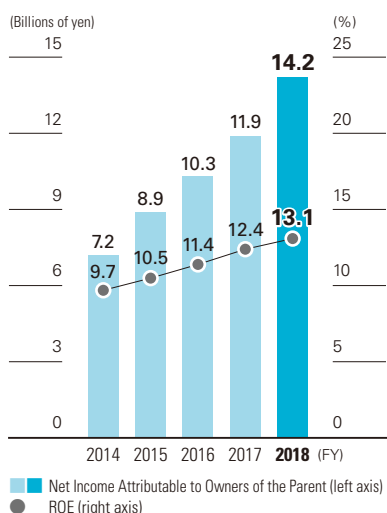
We have been continuously investing in R&D to create new services in our priority areas and making capital investments in outsourcing services in our core ICT area.

Basic Net Income per Share, Cash Dividends per Share & Dividend Payout Ratio



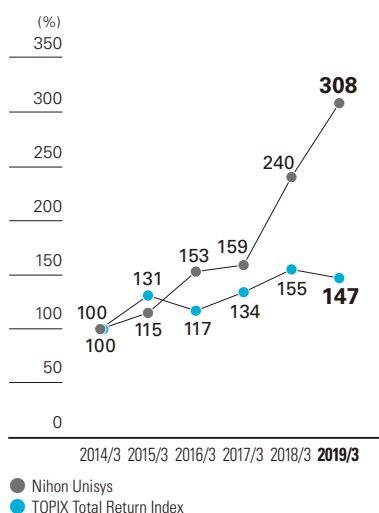
Net income was weak from FY2009 to FY2012, but the profit level steadily improved due to initiatives such as business model transformation, labor productivity improvement and elimination of unprofitable projects implemented during the mid-term management plan beginning in FY2012. Cash dividends per share have increased for seven consecutive years, and we are working to enhance shareholder returns, raising the targeted consolidated dividend payout ratio to 40% in mid-term management plan (FY2018–FY2020).

Net Income Attributable to Owners of the Parent & ROE



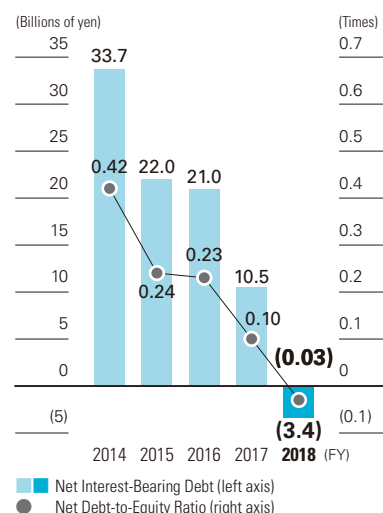
Net income has steadily increased in line with earnings growth in our core business. Since FY2015, we have continued to set new record highs, with ROE exceeding 13% in FY2018 due to increased profits.

Total Shareholder Return (TSR)



Total shareholder return (TSR) in FY2018 was significantly higher than the TOPIX Total Return Index. Stock price has been on an upward trend over the past five years due to steady business results.

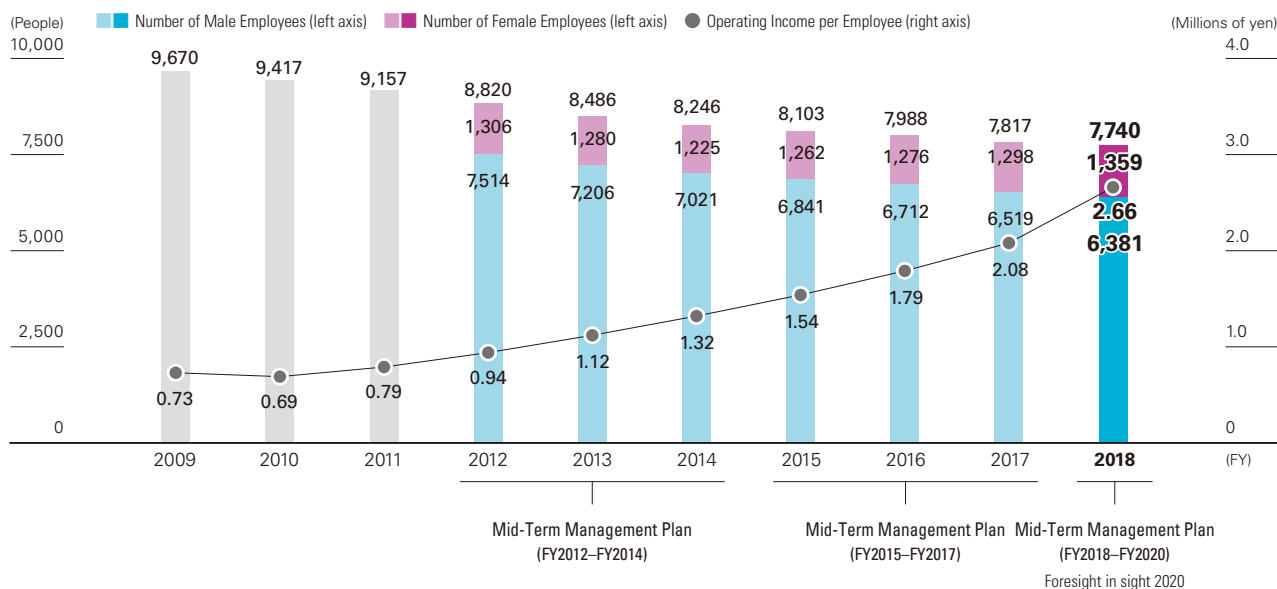
Net Interest-Bearing Debt & Net Debt-to-Equity Ratio



As a result of ongoing improvement of our financial condition, mainly by reducing interest-bearing debt, the net debt-to-equity ratio has improved to -0.03 in FY2018.

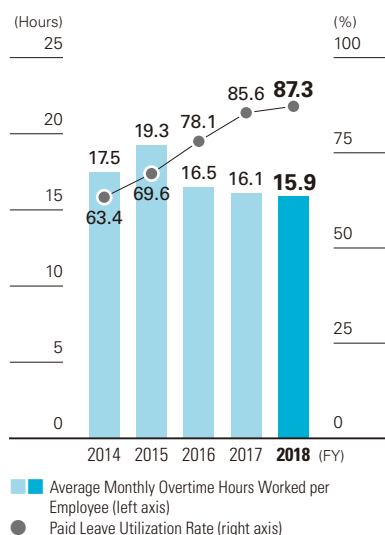
Non-Financial Indicators

Number of Employees (by Gender) & Operating Income per Employee



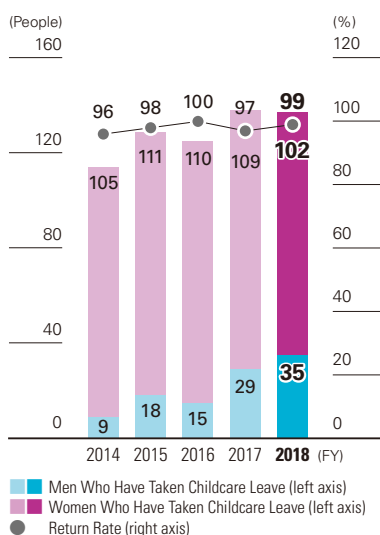
Since mid-term management plan (FY2012–FY2014), we have been focusing on reforming our personnel system and human resource development as a priority issue, and implemented various measures under the theme of promoting work style reform and improving productivity. As a result, operating income per employee has increased by 3.6 times over the past 10 years. In addition, we are conducting recruiting activities and human resource development measures with a medium-to-long-term perspective in an effort to secure and develop diverse human resources who are able to think independently and generate innovation.

Average Monthly Overtime Hours Worked per Employee*1 & Paid Leave Utilization Rate*2



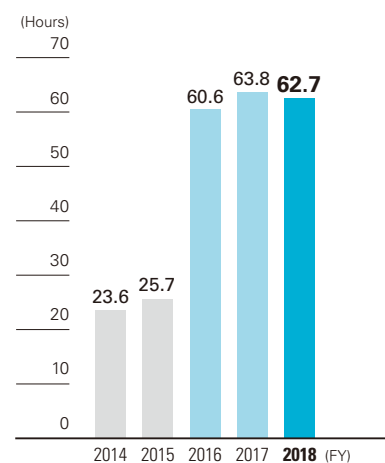
We have been striving to reduce average overtime hours by promoting flexibility in overtime activities and other measures, working to improve the paid leave utilization rate, and implementing work style reform and health management.

Employees Taking Childcare Leave (by Gender)*3 & Return Rate*2



We have established systems for balancing work and child-rearing, and more male employees have been taking childcare leave in recent years. The return rate to work after childcare leave has exceeded 95% for over 10 years.

Annual Training Hours per Employee*2, 4



Based on our human resource strategy, we are expanding training, including dispatch to external programs, with the aim of developing employees who can create businesses and who can acquire or improve their skills in new technological areas.

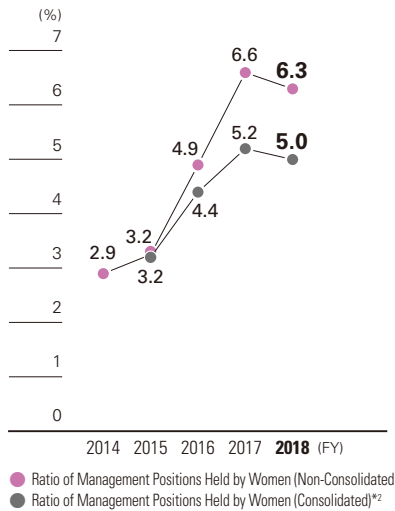
Scope of Calculation

*1. Nihon Unisys for FY2014. Nihon Unisys and UNIADDEX for FY2015 and thereafter. *2. Nihon Unisys and UNIADDEX

*3. Nihon Unisys, UNIADDEX, USOL Tokyo and six other regional companies for FY2014. Nihon Unisys and UNIADDEX for FY2015 and thereafter.

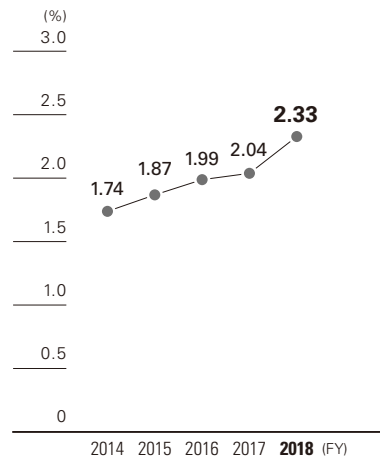
*4. Includes only the number of training hours for employee training program CAMP (Curriculum for Ambitious Managers and Professionals) up to and including FY2015.

Ratio of Management Positions Held by Women



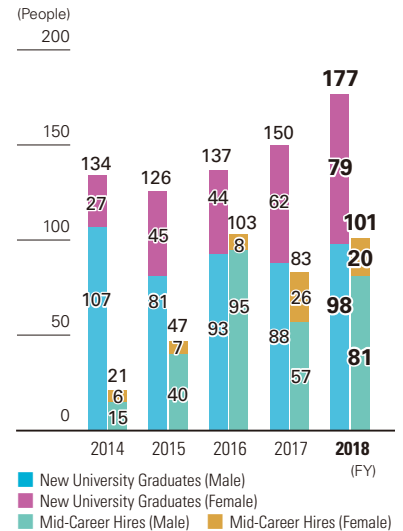
We promote the active participation of women as a core measure for promoting diversity. One of our targets for material issues (sustainability) is to achieve a ratio of 10% of management positions (non-consolidated) held by women by FY2020.

Ratio of Employees with Disabilities*2



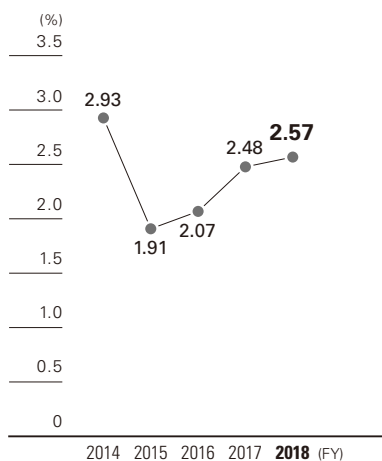
In February 2018, we established NUL Accessibility, Ltd., which primarily handles web accessibility inspections. It was certified as a special subsidiary company in February 2019, and we are working to expand opportunities for people with disabilities.

Number of People Hired*5



In addition to recruiting new university graduates from a medium-to-long-term perspective, we actively recruit mid-career human resources with specific skills who will be immediate assets in new fields. Recruiting of new female graduates is also at a high level.

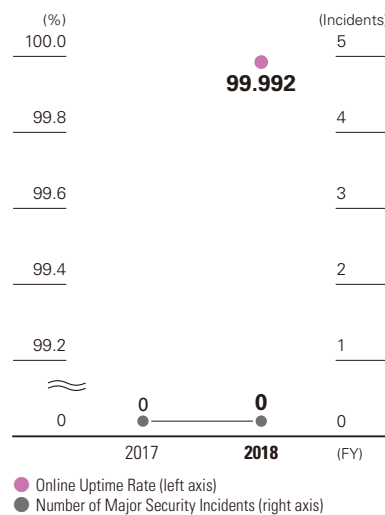
Employee Turnover Rate*3



We conduct ongoing efforts to create good workplace environments, proactively promote young employees and improve employee engagement. Our employee turnover rate is well below the industry average (11.8%*).

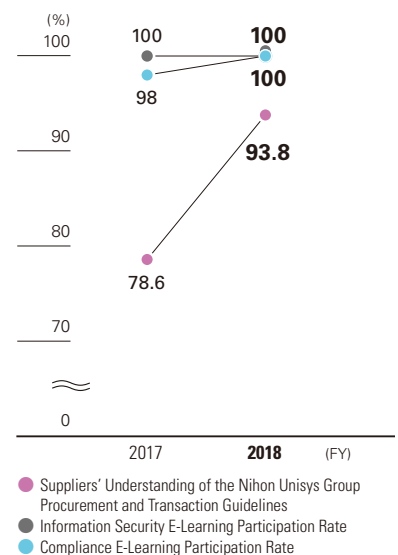
* Source: Ministry of Health, Labour and Welfare, *Survey on Employment Trends*, information and communications industry employee turnover rate

Online Uptime Rate*2, 6 & Number of Major Security Incidents*7, 8



Since FY2018, the online uptime rate has been set at 99.990% or more as an indicator of stable system operation. The number of major security incidents remains zero.

Suppliers' Understanding of the Nihon Unisys Group Procurement and Transaction Guidelines*8 & E-Learning Participation Rate*7, 8



To provide safe, secure products and services, we strive to improve the level of our suppliers' understanding of the Nihon Unisys Group Procurement and Transaction Guidelines, and conduct e-learning on information security and compliance.

*5. Nihon Unisys and consolidated subsidiaries in Japan *6. Began calculating from FY2018
 *7. Nihon Unisys and its wholly owned subsidiaries in Japan *8. Began calculating from FY2017

Overview of Mid-Term Management Plan

FY2020 will be the final year of the Nihon Unisys Group's mid-term management plan "Foresight in sight 2020," and a milestone that will usher us into the next era. Utilizing the foundation of innovation we have established and our experience and track record cultivated through ICT, we will help to resolve social issues by creating business ecosystems in collaboration with customers in all industries. By doing so, we will continue to provide value as a sustainable company.

Plan	Mid-Term Management Plan (FY2012–FY2014)	Mid-Term Management Plan (FY2015–FY2017)
Vision	Corporate Transformation for Sustainable Growth	Business Model Transformation
Results	<p>Added the ability to design and implement new services to our existing strengths</p> <p>Took a social perspective to create business ecosystems that link different industries</p> <ul style="list-style-type: none"> Regional healthcare networks, energy management <p>Collaboration with Dai Nippon Printing Co., Ltd., which has strengths in the content field</p> <ul style="list-style-type: none"> Built a marketing platform <p>Provided payment/settlement platforms as a service business</p> <ul style="list-style-type: none"> Electronic value cards, etc. <p>Strengthened financial condition</p>	<p>Took on challenges in new business areas and strengthened our foundation for further growth</p> <p>Challenges in the Areas of Digital Innovation and Life Innovation</p> <ul style="list-style-type: none"> Due to business expansion, earnings improved and the number of potential new businesses increased in multiple areas <p>Innovation in the Business ICT Platform Area</p> <ul style="list-style-type: none"> Raised profitability through concentration on the Nihon Unisys Group's areas of strength and improved labor productivity <p>Corporate Culture and Workforce Reform</p> <ul style="list-style-type: none"> Promoted a change in skill sets in line with business model transformation <p>Implementation of Investment Strategies</p> <ul style="list-style-type: none"> Proactively promoted investments in business partners in Japan and overseas as well as a Fund of Funds (FoF)
Issues	<p>Strategies</p> <ul style="list-style-type: none"> Address business model transformation through global and cross-industry collaboration, etc. <p>Business Environment</p> <ul style="list-style-type: none"> Address major changes in the social environment resulting from expansion of digitalization and the emergence of new consumers Creation of a new business platform to address the spread of the cloud and usage-based services 	<p>Strategies</p> <ul style="list-style-type: none"> Expand and monetize businesses in the areas of digital innovation and life innovation Further raise labor productivity and improve ability to provide services in the business ICT platform area Promote further growth in employee skill sets and diversity Shift to capital and investment policies for growth <p>Business Environment</p> <ul style="list-style-type: none"> Address the decline in system integration needs due to the emergence of business-related ICT services Address the risk that a delay in responding to the digital shift will impede growth Address the risk of hardware and software market contraction due to commoditization Address the aging workforce and mismatched skills Address the risk of a slowdown in growth of Japan's ICT market

Mid-Term Management Plan (FY2018–FY2020)

Foresight in sight 2020

Become a sustainable company and achieve a sustainable growth cycle predicated on resolving, through business activities in our priority areas, social issues in the context of customer issues.

Key Initiatives

- Selection and concentration on priority areas** P. 6–9
P. 22–25

Establish priority areas in the markets where medium-to-long-term growth is expected on the basis of resolving social issues. Concentrate management resources on the priority areas where customers and business partners can make use of the Group's assets.
- Strengthening relationships with customers to increase their added value** P. 15–19

Strengthen relationships with customers to become their strategic business partner. Cooperate with customers in creating and operating ICT assets, conducting digital transformation and creating new businesses.
- Strengthening capability to provide platforms that support business** P. 22–25

Strengthen the value creation process leading to the resolution of social issues. Create platforms where Group assets are linked with business partners and customers as well as third-party services. Provide platforms as part of business ecosystems.
- Corporate culture reform** P. 30–33

Improve corporate and organizational capabilities to enable a flexible response to changing demands. Develop a corporate culture where employees are encouraged to enhance their skill sets and take on challenges. Promote diversity and inclusion. Implement reform of business processes and internal systems.
- Investment strategies** P. 20–21

Continue to promote strategic investments that are necessary for growth such as those in the priority areas and in advanced technologies. Investment in service development such as platform creation.

Numerical Targets	FY2018 Results	FY2019 Forecast	FY2020 Target
Operating Margin	6.9%	7.5%	8% or more
Net Sales (Net Sales in Priority Areas)	¥299.0 billion (¥35.5 billion)	¥307.0 billion (¥45.0 billion)	¥320.0 billion (¥60.0 billion)
ROE	13.1%	—	12%–15%
Dividend Payout Ratio	38.8%	40.8%	40% (Target)

The President & CEO on Strategy

We will provide service platforms that connect different industries. These platforms are assets that we make available to society with the aim of helping resolve a wide range of social issues through co-creation.

Akiyoshi Hiraoka

Representative Director, President & CEO, CHO



The Significance of the Nihon Unisys Group

Creating Business Ecosystems to Help Resolve Social Issues

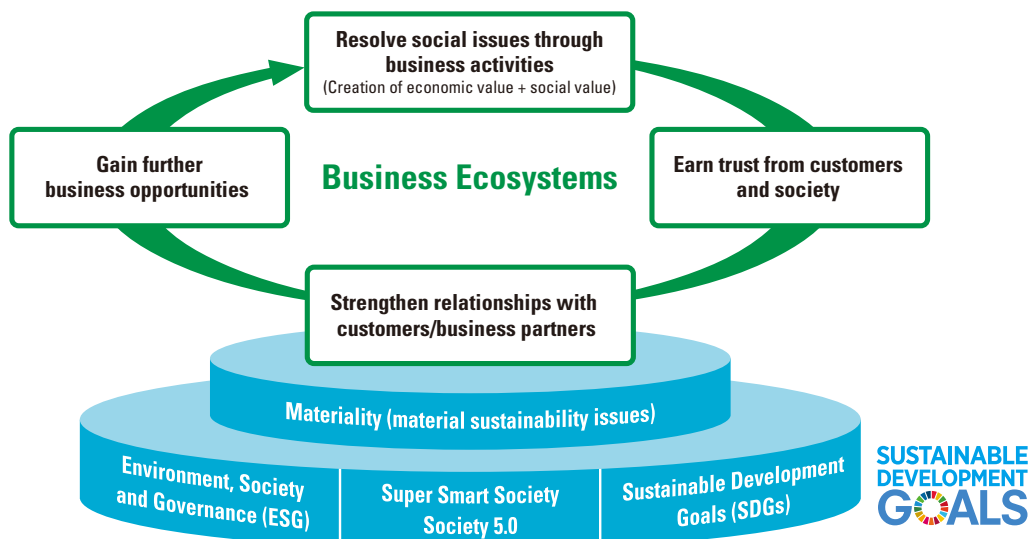
For over 60 years since its founding, the Nihon Unisys Group has contributed to the creation and development of Japan's information society while flexibly responding to contemporary changes as a pioneering system integrator. In recent years, demands from our customers have changed significantly as social values have changed. In addition to "value through provision" – constructing and steadily operating systems in accordance with customer specifications – it has become common for businesses to also offer services with "value

through utilization." These services enable customers to select from among a standard menu of platforms, which gives the customer a competitive advantage.

Economic, political and social changes are also accelerating worldwide. We have been plunged into an era in which we can see worldwide events essentially in real time, with information from continually updated news sites and social media. With further progress likely in "visualization" and "visual control," greater transparency and integrity will be demanded from information and service providers. Consumers will be expected to make the most appropriate judgments based on the information provided.

In these rapidly changing times, we reviewed the

Sustainable Growth Cycle for the Nihon Unisys Group



significance of the Nihon Unisys Group in 2018, and resolved to confront social issues head-on as “a corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and partners.” The Nihon Unisys Group signed the UN Global Compact in 2014, and has continued to implement measures to support its ten principles in the areas of human rights, labour, environment and anti-corruption. We will also do our utmost to contribute to the achievement of the UN’s Sustainable Development Goals (SDGs). I understand that because we are now able to see events happening around the world, the SDGs act as guideposts to keep us from deviating from the development of a sustainable society.

Resolving social issues requires collaboration with customers and partners across the conventional boundaries of different types and categories of businesses, rather than acting alone. Therefore, in order to help resolve larger social issues, we intend to provide platforms that connect different industries to form business ecosystems. The foundation that will make this possible is the core ICT area that is the Nihon Unisys Group’s strength. A feature of this business is that it not only reinforces relationships with customers through the process of creating the optimal ICT environment for them, but also allows us to discover and establish new best practices and turn them into Group strengths and assets. The markets that have come into focus through using these assets are the four priority areas set forth in our mid-term management plan “Foresight in sight 2020”: Neobanks, Digital Acceleration, Smart Towns,

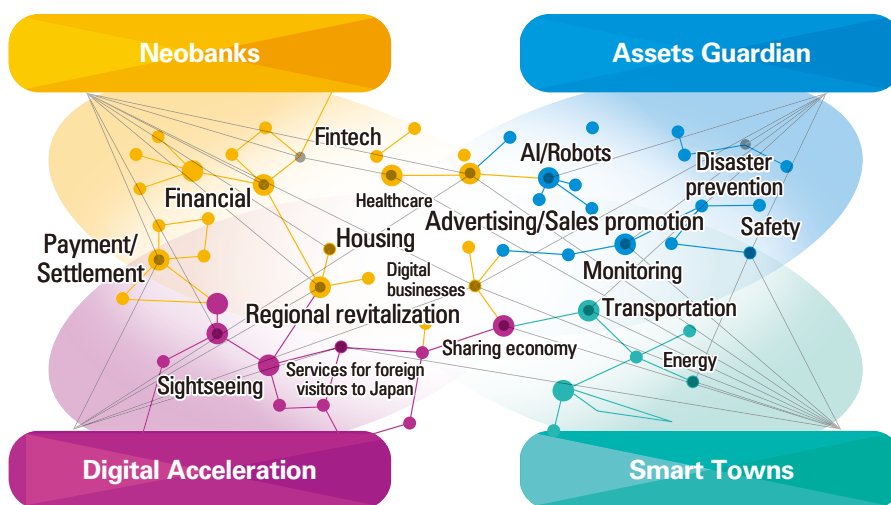
and Assets Guardian. By expanding and advancing our core ICT area and these priority areas, we aim to be a partner capable of creating ICT environments that support our customers’ operations and helping to resolve new social issues. Moreover, because modern society expects companies to demonstrate their recognition of and response to social issues, we believe that the business ecosystems we provide will serve to accelerate our customers’ digital transformation.

Mid-Term Management Plan: Progress and Evaluation

Revealing Ways to Resolve Social Issues through the Creation of New Markets

Under the previous mid-term management plan, we divided our numerous innovative services into several areas as we worked to group each “star,” or service, into “constellations,” or platforms. The essence of the current mid-term management plan is to visualize new markets where we can help resolve the social issues that became apparent during the previous plan. We established four priority areas where the Nihon Unisys Group can fully utilize its assets and incorporate them into its strategies. By concentrating management resources in these priority areas, we are working to create new markets and help resolve social issues. In addition, we are focusing on creating business ecosystems by providing the Group’s assets to customers as platforms in collaboration with partners and external services in various businesses and industry categories.

The Nihon Unisys Group’s Four Priority Areas



By conducting these initiatives during the three-year period from FY2018 to FY2020, we will strengthen relationships with customers, partners, and local communities, and realize a growth cycle of resolving individual issues through the provision of advanced services.

Looking back at FY2018, the first year of the mid-term management plan, sales increased in our core ICT area due to substantial demand for system construction from customers in a wide range of industries. In priority areas, sales increased ¥8.5 billion compared with FY2017 due to solid performance, including at Group companies, by fee-based businesses such as QR code and barcode payment/settlement services and the mobility service platform centered on carsharing, and digital transformation-related businesses in areas such as strengthening customer contact points. As a result, both operating income and net income reached record highs, bringing us within range of achieving our consolidated performance targets for FY2020, the final year of the mid-term management plan.

Over the past year, our employees have been working together with determination to create new services through digital transformation. Stepping up our cross-functional activities that go beyond the boundaries dividing each of our priority areas and our departments has led to the creation of a series of markets at an earlier stage than we had expected. It has become apparent to us that bundling services to create business ecosystems has revealed a way to resolve a wider range of social issues that could not be addressed by a single company.

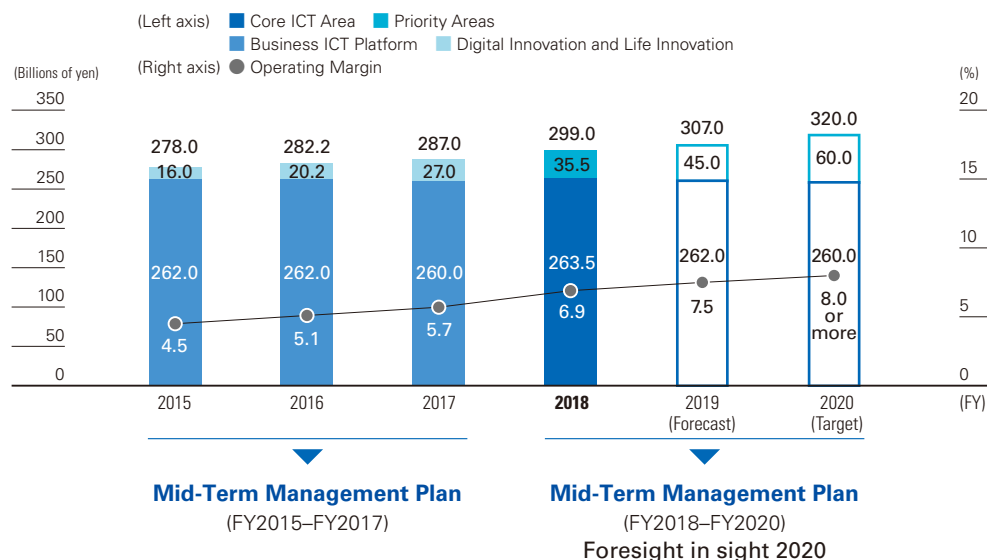
Enhancing Human Resources through Corporate Culture Reform

Fostering an Organizational Culture That Facilitates Innovation

In building business ecosystems to help resolve social issues together with customers and partners in various industries, the Nihon Unisys Group considers human resources to be not just its core, but its driving force. Corporate culture reform is a key initiative of the mid-term management plan, and we are promoting improvement in corporate and organizational ability to respond quickly to change and enhance employee skills.

As we near the halfway point of the three-year mid-term management plan, I feel that our corporate culture has clearly changed as a result of this key initiative. Employee attitudes have evolved – employees can now perceive things over a longer time span and work to create products the market truly wants. I believe an organizational culture has steadily taken hold in which employees are encouraged to take on challenges unconstrained by previous experience or conventional wisdom. A representative example is the increase in activity through mutual collaboration across business departments. Initially, many employees felt it was difficult to create new businesses while promoting the existing core ICT area, and there were even disagreements between departments. However, linking various services resulted in strong business performance. Furthermore, as attention from the public increased, employees came to realize that creating business ecosystems also helped to resolve social issues and has ultimately led to their own

Net Sales & Operating Margin



personal growth. As we share our unique assets among all departments and help to resolve a wide range of social issues through cooperation between organizations and departments, as a Group we are also sharing personal values and fostering an understanding of the importance of providing value to customers.

On the other hand, we must continue to change without becoming complacent about the evolution generated by this virtuous cycle. In that regard, I believe promoting diversity is essential. A key factor in promoting diversity is intrapersonal diversity, or diversity within each individual. An individual who takes on multiple roles finds it easier to accept the opinions and values of other diverse individuals, thus facilitating innovation. In addition to creating a system that evaluates results across departments, we intend to create a system for evaluating individuals that considers these multiple roles in addition to their skills and competencies.

Future Value Creation

Corporate Group That Offers Society a Shared Assets Platform

To formulate a long-term management strategy, the Nihon Unisys Group is currently conducting multilateral discussions of its vision for society in 2030. By 2030, everything around us will be connected to servers or the cloud via networks

using IoT, with dramatic expansion of the scope of use of AI and robots, which is expected to remove a variety of barriers. The Group intends to provide business ecosystems and platforms that can match people who want to help resolve social issues with the services, products and experiences that will enable them to do so. We will offer them as shared assets for society – in other words, a digital commons™. I will explain by giving some examples.

Over the past few years, the number of foreign visitors to Japan has increased rapidly, and the concentration of people at popular tourist destinations has led to a decline in the appeal of certain areas. In collaboration with local governments, partner companies and universities, the Nihon Unisys Group has created a service platform that encourages tourists to travel to multiple regions with attractive tourist destinations, thus providing them with more pleasant vacation experiences. Proof-of-concept has begun in numerous regions. In addition, the issue of food loss is likely to lead to demands for a digital commons™ in the food distribution industry. For service platforms that use IoT and AI, for example, we will roll out solutions that raise the efficiency of the food distribution value chain. We will link producers and consumers to create a system that minimizes food loss throughout the entire value chain. Moreover, the Group may soon be able to establish and offer society a shared asset that allows consumers to easily select only electricity generated from natural sources.

Progress of Key Initiatives

<p>1. Selection and concentration on priority areas P. 6–9 P. 22–25</p>	<p>Priority areas</p> <ul style="list-style-type: none"> • Number of news releases for new service announcements and proof-of-concept: 90 (FY2018) • Increase in digital transformation-related system construction projects for a wide range of industries
<p>2. Strengthening relationships with customers to increase their added value</p>	<ul style="list-style-type: none"> • Expanded use of QR code and barcode payment/settlement services and the mobility service platform centered on carsharing • Net sales in priority areas FY2017: ¥27.0 billion* (ratio of net sales: approx. 9%) FY2018: ¥35.5 billion (ratio of net sales: approx. 12%) FY2019 (forecast): ¥45.0 billion (ratio of net sales: approx. 15%)
<p>3. Strengthening capability to provide platforms that support business P. 22–25</p>	<p>* FY2017 results are the total of sales of Digital Innovation and Life Innovation under the previous mid-term management plan</p> <p>Core ICT area</p> <ul style="list-style-type: none"> • Increase in system development projects for a wide range of industries including finance, manufacturing, distribution and service • Expansion of IT outsourcing services at subsidiaries
<p>4. Corporate culture reform P. 30–33</p>	<ul style="list-style-type: none"> • Human Resource Foresight™ (strategic personnel reform) newly established and launched in FY2019 • Cultivation of human resources to create innovation through the ongoing Next Principal program and other methods • Promotion of diversity management by establishing a career development support system and expanding various training programs
<p>5. Investment strategies P. 20–21</p>	<ul style="list-style-type: none"> • Continuation and expansion of investments in service providers, global and domestic partners, startups and funds to strengthen priority areas • Continued investment in software and hardware for outsourcing business in the core ICT area

To resolve more complex social issues by realizing this kind of digital commons™, I think that our knowledge and expertise in system integration focused on technology – strong points since our establishment – will be insufficient on their own. Going forward, we will supplement system integration with knowledge of social engineering, enabling us to consider rationality on a social and global scale. We will also build expertise in behavioral science to help us understand the principles governing human behavior. This will help us evolve into a corporate group capable of implementing better service platforms for society.

In addition, for any asset shared with society, trust is key. Reliability is essential in technologies related to areas such as management of digital data accumulated in our daily lives, the authenticity of information in the news or on social media, and personal privacy. Under these conditions, it is imperative that we set up a governance process with multiple partners within the framework of business ecosystems. This will enable us to establish the digital trust indispensable for reliable economic activity and secure daily lives. Feedback and feedforward loops are critical for this purpose. By using our experience and data as the basis for both comprehending risks and making predictions to capture opportunities, we will enhance both general corporate governance and governance of business ecosystems.

Ongoing “Ambidextrous Management” to Create Change in Society

During the past few years, an innovative organizational culture has permeated the Company, enabling us to create a series of problem-solving services that are likely to be disseminated widely throughout the world. Linking these services that existed as single “stars” to create even larger “constellations” has broadened the scope of our ability to contribute to society at a single stroke. Through this series of initiatives, we were able to achieve significant results in improving both our business performance and the level of our employees’ thinking and skill sets. To realize the digital commons™ of the future, we aim to be a highly autonomous corporate organization that can spur social innovation while ensuring a stable revenue base. The key to doing so will be “ambidextrous management” that involves an ongoing process of “knowledge deepening” that thoroughly investigates existing businesses to improve them, and “knowledge exploration” that seeks out and combines intellectual property from other departments. As we continue to take on challenges on our own, we will also share our results with the customers, partners and local communities that are part of the Group’s business ecosystems. At the same time, we will devote ourselves to realizing a digital commons™ built through trust, which everyone can use and which helps to resolve social issues. As we move toward that future, you can look forward to great things from the Nihon Unisys Group.



The CFO on Financial and Sustainability Strategies



As we shift to a more proactive management stance of strategic investment in our priority areas, we will also promote sustainability initiatives and enhance disclosure.

Toshio Mukai

Representative Director, Executive Corporate Officer, CFO

Shifting to a More Proactive Management Stance of Aggressive Investment in Priority Areas

During our previous mid-term management plan (FY2015–FY2017), the Nihon Unisys Group improved profitability and promoted a sounder balance sheet by eliminating unprofitable projects and enhancing project management. Having increased shareholders' equity and reduced interest-bearing debt, we are at the stage of shifting from our previous "reactive" management stance of bolstering our financial base to a more "proactive" stance.

Under "Foresight in sight 2020," our current mid-term management plan that started in FY2018, we intend to further improve our profitability by investing strategically in four priority areas (see pages 8–9) to shift to full-fledged proactive management underpinned by our stronger financial base.

We have made our operating margin the most important key performance indicator (KPI) for management under the mid-term management plan. We consider the target of 8% or more by FY2020 to be no more than a baseline, and are aiming higher. In addition, our target for ROE is 12% to 15%. We plan to fulfill our duty as a listed company to create shareholder value by improving the equity spread while remaining cognizant of the cost of capital.

FY2018 Results Exceeded Our Plans. We Have Raised Awareness in Business Divisions to Meet Mid-Term Management Plan Targets

In FY2018, the first year of our current mid-term management plan, the operating margin was 6.9%, net sales totaled ¥299.0 billion and net sales in priority areas totaled ¥35.5 billion, each of which exceeded our plans. Moreover, we achieved ROE of 13.1% and a consolidated dividend payout ratio of 38.8%, as we made a smooth start toward our FY2020 targets. The effects of our productivity improvement measures and enhanced project management initiatives have been accumulating year after year, resulting in eight consecutive fiscal years of improvement in our operating margin.

In FY2018, we started an initiative to further improve ROE by instilling an awareness of the importance of working capital management in business divisions. In each business division, we focus on improving the capital turnover ratio and set a cash conversion cycle (CCC) target of 60 days or less on a consolidated basis. We have been working to establish a process that allows each division to devise a plan for achieving its own target, and then put that plan into action.

We have been conducting ongoing discussions with each business site to raise awareness of the balance sheet and cash flow, in addition to traditional management indicators such as net sales and operating income. These efforts have resulted in a CCC below the target level of 60 days as well as remarkable improvement in the level of employee awareness of capital efficiency and profitability.

Strengthening Screening to Minimize Investment Risk as We Steadily Conduct Strategic Investment

Our investment strategy is a core element of "Foresight in sight 2020," with plans to invest a total of ¥60 billion in three areas during the three-year term of the plan.

The Nihon Unisys Group has three areas of investment: (1) strategic investment in business companies, startups, and funds to expand business in the priority areas; (2) investment in research and development to expand new services; and (3) capital investment in existing businesses in our core ICT area.

In FY2018, we invested ¥3 billion in business companies and startups. Our subsidiary Canal Ventures, Ltd. handles corporate venture capital functions, increasing seed investments and investments in early-stage startups. Through hands-on involvement in our investees' business development, we are making progress in generating synergy with our priority areas as well as in human resource development and networking. As we accumulate greater expertise, we intend to build our own style of "innovative work."

We allocated ¥4 billion for investment in R&D, mainly to strengthen businesses in priority areas, including planning and development of new businesses and creation of business platforms that connect different industries. We are stepping up investment to further accelerate these initiatives in FY2019.

We devoted ¥8.2 billion in capital expenditures to updating the hardware and software that form the basis of our outsourcing business, among other purposes. Capital expenditures may

increase if we take on outsourcing projects that require us to own hardware, software or other equipment and undertake system operation in response to customer requirements. The amount of capital investment will increase or decrease depending on future trends in our outsourcing projects.

When selecting investments, we thoroughly analyze risk and return and conduct screening using investment criteria such as cash flow-based internal rate of return (IRR) and profitability. At the same time, we set conditions for withdrawal from each investment. After making the investment, we monitor pre-set KPIs and take prompt measures if performance is subpar.

For shareholder returns, we have established a policy of returning profits based on a performance-linked allocation while comprehensively considering cash flow, the balance between cash flow and investment for growth, accumulated equity and other factors. Under the mid-term management

plan, we will maintain stable dividends and increase the dividend payout ratio from 30% under the previous plan to 40%. Based on this policy, we plan to increase annual dividends per share for FY2019 by ¥10 to ¥65.

Enhancing Sustainability Initiatives and Disclosure to Further Improve Corporate Value

In aiming to further increase corporate value, we will focus on sustainability.

The Nihon Unisys Group is a signatory to the UN Global Compact. We conduct corporate activities based on the recognition that we play an important role in helping to achieve a sustainable society through initiatives for human rights, labour, environment, and anti-corruption.

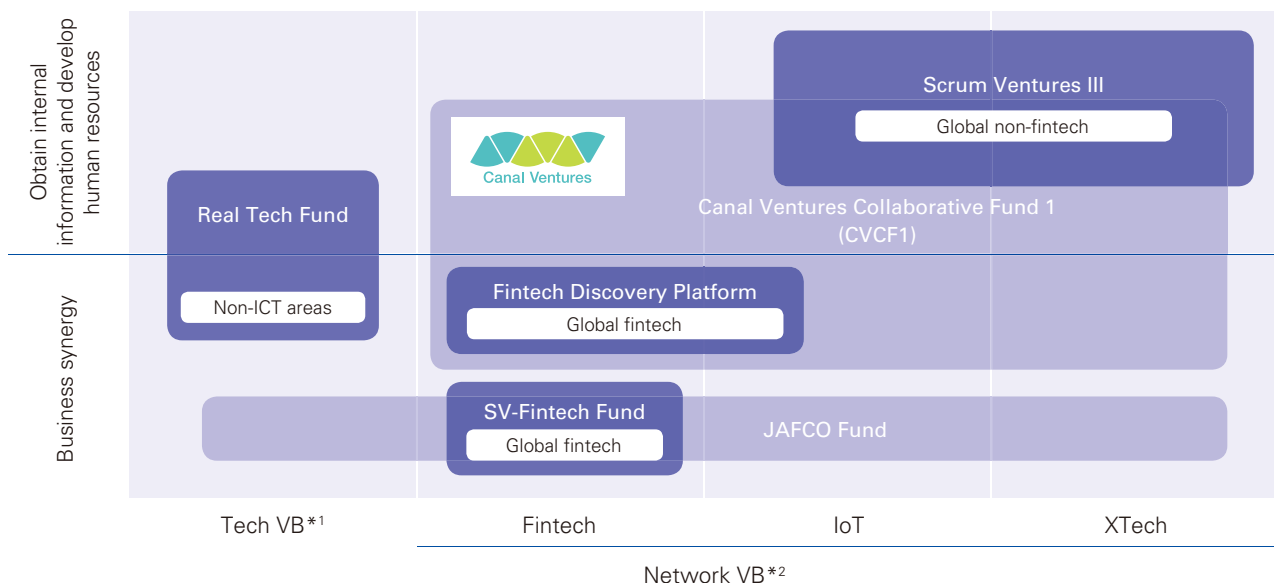
The Group has been taking on the challenge of helping to resolve social issues through its businesses. We continue conducting development of services such as energy management systems that contribute to resolving climate change and other environmental issues. At the same time, we have begun analyzing the impact of climate change on management to address related issues that require aggressive corporate efforts. Going forward, we intend to focus on disclosing appropriate information in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

In addition to actively disclosing our sustainability initiatives to investors, we will engage in in-depth discussions of the Group's sustainable growth that will result from helping to realize a sustainable society. In doing so, we will continue to maintain both our excellent reputation and the trust of our stakeholders.

Investment Strategy

		(Billions of yen)		
(FY)		2017	2018	2018–2020
Strategic investment		2.8	3.0	Allocate funds flexibly to each investment area over the three years of the plan, with assumed total investment of approximately ¥60 billion
Investment in developing services	R&D	3.0	4.0	
	Capital expenditures	11.5	8.2	

Nihon Unisys Group Investment in Startup Companies



*1. Tech VB: Venture businesses (startup companies) that have R&D-based innovative technologies in the fields of machine engineering and biotechnology

*2. Network VB: Venture businesses (startup companies) that grow based on the capabilities and networks of people in management positions and the creation of ecosystems

Mid-Term Management Plan Initiatives

The Nihon Unisys Group has been conducting cross-functional activities in dealing with social issues beyond the boundaries of the four priority areas set forth in mid-term management plan "Foresight in sight 2020." In this section, we introduce examples of initiatives that are enabling us to clearly identify opportunities for creating new markets.

Major Highlights of FY2018

News Releases	Topics
April 2018	<ul style="list-style-type: none"> Started open API service for a core banking system for credit unions
May 2018	<ul style="list-style-type: none"> Created San-in Tourism Business Platform to revitalize the local economy Invested in Kakaxi, Inc. and entered the information industry to create new value from IoT data with KAKAXI, an IoT device for monitoring agricultural land
June 2018	<ul style="list-style-type: none"> Business and capital alliance with Natsume Research Institute Co., Ltd. Began investigating the creation of services using the world's most advanced pupil analysis technology for quantifying human emotions
July 2018	<ul style="list-style-type: none"> Launched smart oasis® for charging platform P. 23 <ul style="list-style-type: none"> Provided Honda Charging Service to Honda Motor Co., Ltd. Provided Volkswagen Charging Card to Volkswagen Group Japan KK Started joint research with Euglena Co., Ltd. into predicting production levels of euglena for use as a biofuel using the IoT business platform and the AI technologies of Rinza®
August 2018	<ul style="list-style-type: none"> Started proof-of-concept (POC) related to tourism marketing using regional data created through the utilization of AI and IoT technology (Matsue, Shimane Prefecture)
September 2018	<ul style="list-style-type: none"> Invested in SV-Fintech Fund, a Japan-U.S. fintech development fund, to accelerate business creation through open innovation Launched service to help raise work efficiency at logistics facilities P. 25
October 2018	<ul style="list-style-type: none"> Started POC for regional economy revitalization through electronic voucher sales services using blockchain technology (Aizu Kitakata Global Club) Started POC for an autonomous mobile security robot equipped with an AI surveillance camera inside Seibu Shinjuku Station Business and capital alliance with JCB Co., Ltd. and Japan Card Network Co., Ltd. for the promotion of QR code and barcode payment/settlement P. 24
November 2018	<ul style="list-style-type: none"> Started full-scale operation of AI robots at some stores of United Super Markets Holdings Inc. P. 25 Launched the OpenTrusty® Approval Information and History Management Service, the pharmaceutical industry's first cloud-based drug approval information management service
December 2018	<ul style="list-style-type: none"> Started cooperation with several companies for the provision of FESTRAVEL®, a tourism and entertainment forum Started a project to study the increase in utility value of non-fossil fuel energy certificates Coordination between The Hyakugo Bank, Ltd. and Origami Pay® (Origami Inc.) for direct payments through bank accounts using the open API platform Resonatex® Started business feasibility study for next-generation mobility services (Keihan Bus Co., Ltd.) Completely redesigned the iPhone version of Fortune Pocket®, an app for managing personal assets
January 2019	<ul style="list-style-type: none"> Addition of traffic violation notification function that utilizes real-time image analysis technology to the drive recorder of Fichu Inc.'s Zero-Accident Program DR®, which employs AI algorithms Provided carsharing mobile service platform smart oasis® for Carsharing to JR East Rental & Lease Co., Ltd. P. 24
February 2019	<ul style="list-style-type: none"> Entered into a comprehensive partnership agreement with Tokyo Central Association of Japan Agricultural Cooperatives and Tokyo University of Agriculture for the development of urban agriculture Launched CoreBAE™, a concierge service for corporate customers that uses AI, for regional financial institutions Expanded functionality of Enability® in response to the end of the feed-in tariff (FIT) system P. 23 Entered into a collaboration agreement with Nagano Prefecture and the University of Nagano to resolve social issues through social innovation POC for self-driving shuttle bus in Otsu, Shiga Prefecture (Otsu, Keihan Bus Co., Ltd.)
March 2019	<ul style="list-style-type: none"> Started cooperation with Mitsui Sumitomo Insurance Co., Ltd. and Doreming Asia Pte. Ltd. to provide Doreming Insurance Sales Service



Initiatives That Enable Us to Clearly Identify Opportunities for Creating New Markets

<div style="background-color: #4CAF50; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">1</div> <p>Sustainable Energy Society ▶ P. 23</p>	<div style="background-color: #FF9800; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">2</div> <p>Toward Smart Living ▶ P. 24</p>	<div style="background-color: #E91E63; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">3</div> <p>Response to a Shrinking Labor Force ▶ P. 25</p>
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1 Sustainable Energy Society

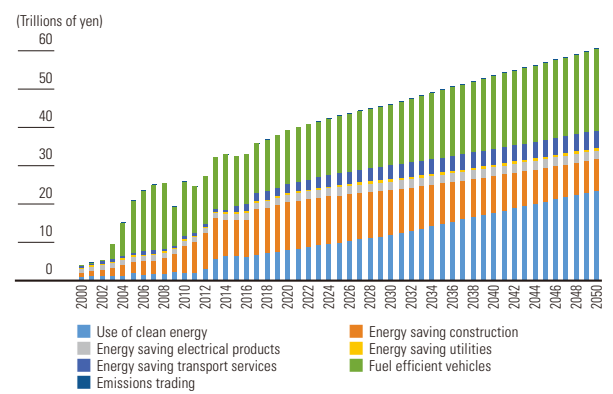


Contribute to Creating a Clean and Sustainable Energy Society

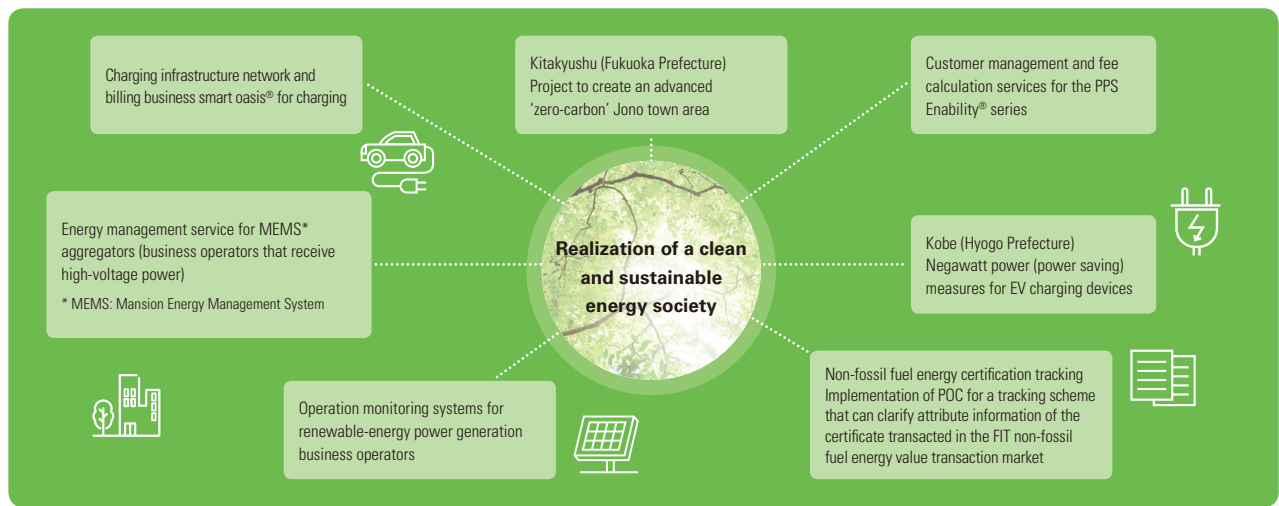
Climate change related to global warming is an urgent social issue that requires an immediate response. There is growing demand to build a power infrastructure that can deliver low environmental impact and provide a stable supply of energy. The Nihon Unisys Group is finding applications for the energy-related system development know-how it has been cultivating from the perspective of building a sustainable energy society that will support future needs, and is now growing significantly as an energy-related business group. We provide solutions that help reduce energy costs and CO₂ emissions while ensuring improved operational efficiency and user convenience, such as charging infrastructure for electric and plug-in hybrid vehicles and HEMS*¹/BEMS.*² The Group will continue to collaborate with various partners as it incorporates cutting-edge IoT and AI technologies in its initiatives to create a clean and sustainable energy society.

*1. HEMS: Home Energy Management System
*2. BEMS: Building Energy Management System

Estimated Domestic Market (Global Warming Countermeasures)



Source: Ministry of the Environment, Japan's Market/Employment Size of Environmental Industries (FY2018)
"Results of Future Domestic Estimates (Global Warming Countermeasures)"



Highlights

Providing smart oasis® for charging, a Charging Infrastructure Service Platform for EVs and PHVs

In 2009, Nihon Unisys began providing smart oasis® for charging, a charging infrastructure service platform for electric vehicles (EVs) and plug-in hybrid vehicles (PHVs), ahead of other companies. The platform enables member management, service management and charging plus payment/settlement functions using multitenancy,*³ premised on market entry by multiple players in view of the anticipated shift to electric vehicles. Charging service providers*⁴ can issue charging cards quickly and manage chargers while minimizing their initial investment.

By providing cloud-based system functions, we will respond to diversifying customer needs quickly and flexibly, and achieve an ongoing competitive advantage for charging service providers and charger installers.*⁵



*3. Shared use by multiple operators
*4. A corporation that provides a charging service for electric vehicles. After concluding a contract for use with an electric vehicle user, an authentication card is issued.
*5. Corporations that install chargers to provide charging services

Responding to the Liberalization of Retail Electric Power with the Enability® Series of Cloud-Based Solutions for Power Retailers

The Enability® series is a cloud service that integrates the system construction know-how we have cultivated in the power industry.

Starting with the energy management system and fee calculation system for power distributors that began in 2013, the Enability® series has expanded to include services for electric power retailers. In April 2016, we released Enability CIS, Enability Order and Enability Portal, covering all the functions required of electric power retailers from taking applications to switching, fee calculation, billing and visualization of electricity usage. In July 2019, we added new functions for high-voltage customers. We also plan to add functions in anticipation of the end of the feed-in tariff (FIT) system for fixed-price purchases, which is scheduled for November 2019. Going forward, we will continue to further expand the services we offer.

By providing the Enability® series, we not only support the efficient operation of retailers, but also aim to realize services that meet the diverse needs of customers.



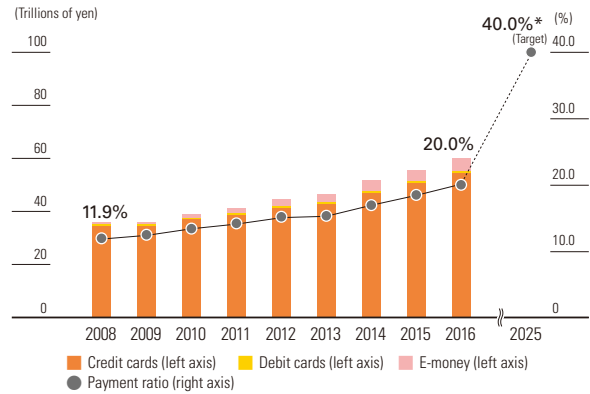


Creation of a Smart Consumer Society through the Sharing and Cashless Economies

In Japan, the spread of the sharing and cashless economies is accelerating. The domestic market for sharing businesses is expanding year by year, and demand for sharing business platforms is expected to grow further due to the increase in users and the emergence of new needs. As for the cashless economy, the Japanese government has set a target for raising the ratio of cashless payments to approximately 40% by 2025.

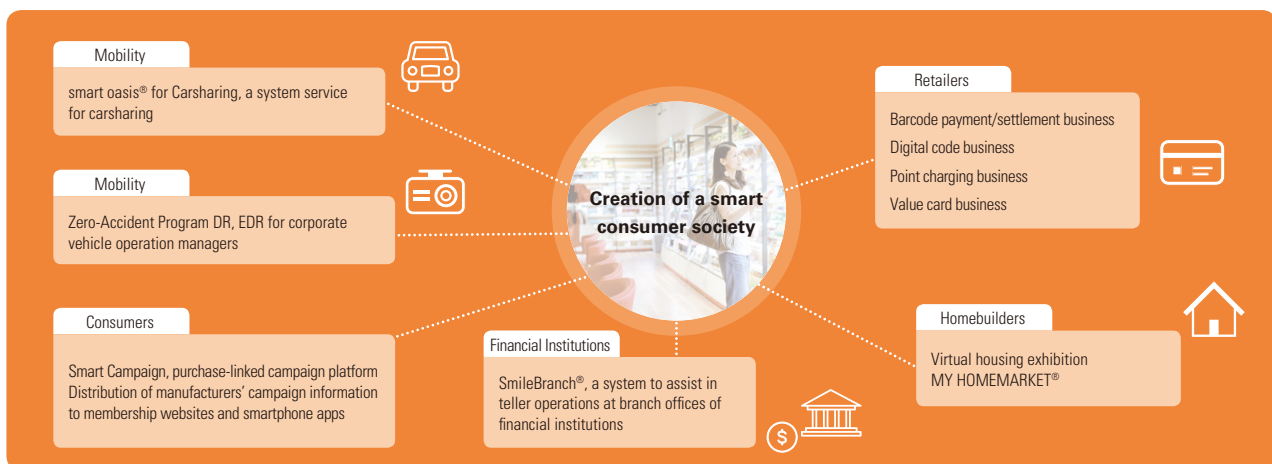
Under these circumstances, the Nihon Unisys Group will offer various services that address the sharing and cashless economies. We want to help create a society that gives consumers control over information so that they can flexibly choose more sustainable products and services, thus reducing social costs and achieving a safe, secure consumer society.

Total Cashless Payments for Private Consumption Expenditures in Japan & Payment Ratio



Source: Ministry of Economy, Trade and Industry, *Cashless Vision*

* Targets set by the Ministry of Economy, Trade and Industry in April 2018



Highlights

Promoting the Next-Generation Carsharing Service Platform smart oasis® for Carsharing

Nihon Unisys has been expanding its car-related services, including being the first to launch a vehicle charging infrastructure service platform in 2009. In anticipation of the future adoption and expansion of carsharing, we are promoting smart oasis® for Carsharing, a system service platform for multi-tenant use. Carsharing operators can start service with a small initial investment and a short introduction period.

The smart oasis® series boasts the highest number of introductions in Japan as a Mobility Service (MaaS) platform. So far, it has been adopted by Nissan Motor Co., Ltd., JR East Rental & Lease Co., Ltd. and others as a carsharing service platform. It has also been adopted by Honda Motor Co., Ltd., Volkswagen Group Japan KK and others as a charging infrastructure service platform. Going forward, we will continue to provide MaaS platforms while also utilizing AI and big data to create revolutionary next-generation mobility services that enable more convenient and secure transportation.



Further Expanding QR Code and Barcode Payment/Settlement Service in Cooperation with JCB Co., Ltd. and Japan Card Network Co., Ltd. and Promoting Cashless Payments (Canal Payment Service, Ltd.)

In keeping with the transition to a cashless society, Nihon Unisys established a subsidiary, Canal Payment Service, Ltd., in March 2017 to offer payment/settlement services centered on the barcode payment/settlement business*6 and charge point business.*7 In October 2018, we agreed to cooperate on QR code and barcode payment/settlement with Japan's credit card industry leader JCB Co., Ltd. and its subsidiary Japan Card Network Co., Ltd. Canal Payment Service is conducting various initiatives in cooperation with the two companies, including creation of a safe and secure payment environment as a designated network center for Smart Code,*8 which is provided by JCB. We aim to expand business in this field, where usage is expected to increase, and will help to realize a safe, secure and convenient consumer society and the reduction of social costs by promoting cashless transactions.



*6. A business providing one-stop services that include arranging terminals necessary for code payment and connecting payment networks

*7. A business that aims to increase reloading fee revenue by increasing the number of locations where prepaid card users can reload their cards

*8. A code payment/settlement service that conforms with the plans of Payments Japan Association

3 Response to a Shrinking Labor Force

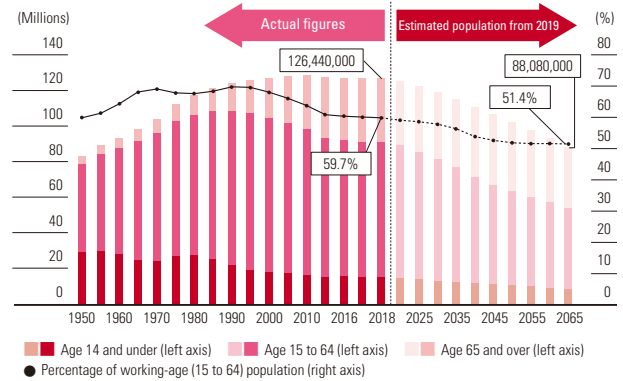
Use New Technologies Such as AI and Robots to Help Improve Labor Productivity for Sustainable Economic Growth

In Japan, labor shortages associated with a shrinking labor force are becoming increasingly serious. In the fields of manufacturing, sales and service, efforts are increasing to resolve related problems by introducing AI, robots and other new technologies to do the work that people do manually. The Nihon Unisys Group supports its customers' problem-solving with AI technologies that integrate the text analysis, data mining technology,^{*9} statistical analysis and deep learning technology it has cultivated over many years, together with expert technical skills in a variety of business categories. We will help to improve labor productivity and promote a society where the use of service robots is commonplace.

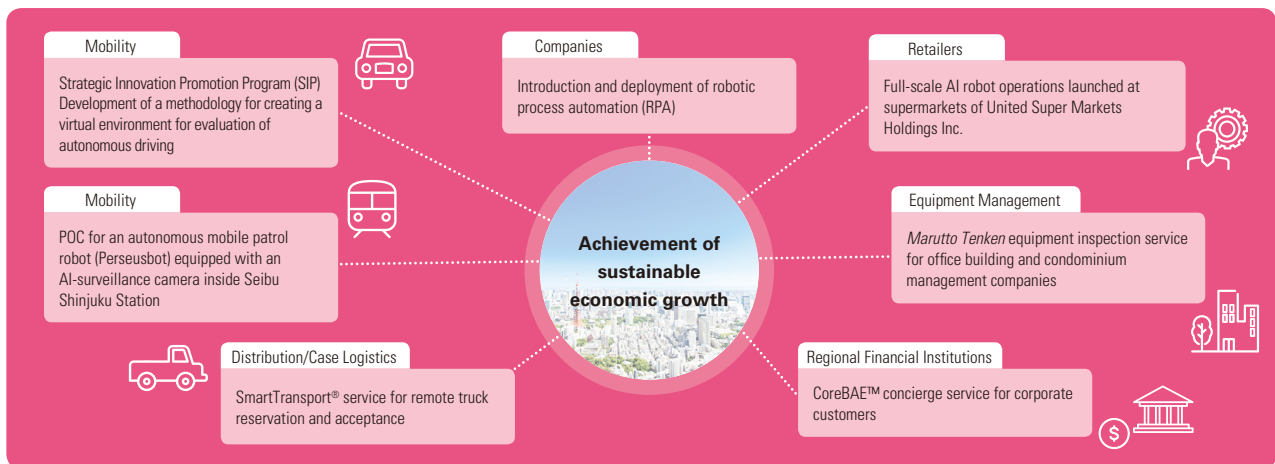
In July 2018, the Group established Rinza®Lab as a place for co-creation to generate new value that connects different types and categories of businesses to support customers' digital transformation. By collaborating and co-creating with customers through Rinza®Lab, we are working to resolve problems and to create new businesses that transcend business types and categories.

*9. An analytical method for discovering patterns and meaning in data using statistical analysis

Population of Japan



Source: Up to 2018: Ministry of Internal Affairs and Communications, "Population Estimate" (as of October 1 of each year); from 2020 onward, prepared by Nihon Unisys based on the National Institute of Population and Social Security Research, "Population Projections for Japan (2017): Medium-fertility and medium-mortality projections"



Highlights

Helping to Reduce Truck Waiting Time and Improve Warehouse Work Efficiency with the SmartTransport® Remote Truck Reservation and Acceptance Service

In the logistics industry, truck drivers are overworked and labor shortage is an issue. One reason is that the length of waiting time for loading and unloading trucks is a problem. In addition, a single location can take several hours, which can lead to prolonged warehouse work and environmental problems in the surrounding area due to exhaust gas.

To resolve these problems, which affect both transportation and warehouse companies, Nihon Unisys utilized the intellectual property it has cultivated as an IT partner in the logistics industry and enlisted the cooperation of major companies specializing in low-temperature logistics to systematize the entire process from remote reservations of truck arrival time via smartphone or PC and automated acceptance to summoning the next truck in line. We will continue to help resolve problems by providing SmartTransport® using an SaaS^{*10} distribution model.



*10. SaaS (Software as a Service): A model for providing software functions as a service via the Internet, rather than being sold as a conventional software package

Start of Full-Scale Operation of Japan's First Supermarket AI Robot Operations with United Super Markets Holdings Inc.

In November 2018, Nihon Unisys started operation of autonomous mobile AI robots that were researched and developed jointly with United Super Markets Holdings Inc. (UMS) at some supermarkets of Kasumi Co., Ltd., an operating company of UMS.

These AI robots reduce the workload of store staff by operating autonomously to take and analyze photos of store shelves when the store is empty after closing, then using the results for point-of-purchase (POP) checks and other purposes. The AI robots' sensors detect obstacles and illuminate the shelves while being filmed so they can be used after the store lights have been turned off. This is the first attempt in a supermarket in Japan at full-scale operation of AI robots capable of autonomous operation, automatic photography and image analysis. We will gradually add new functions and promote initiatives to improve worker efficiency.



Materiality (Material Sustainability Issues)

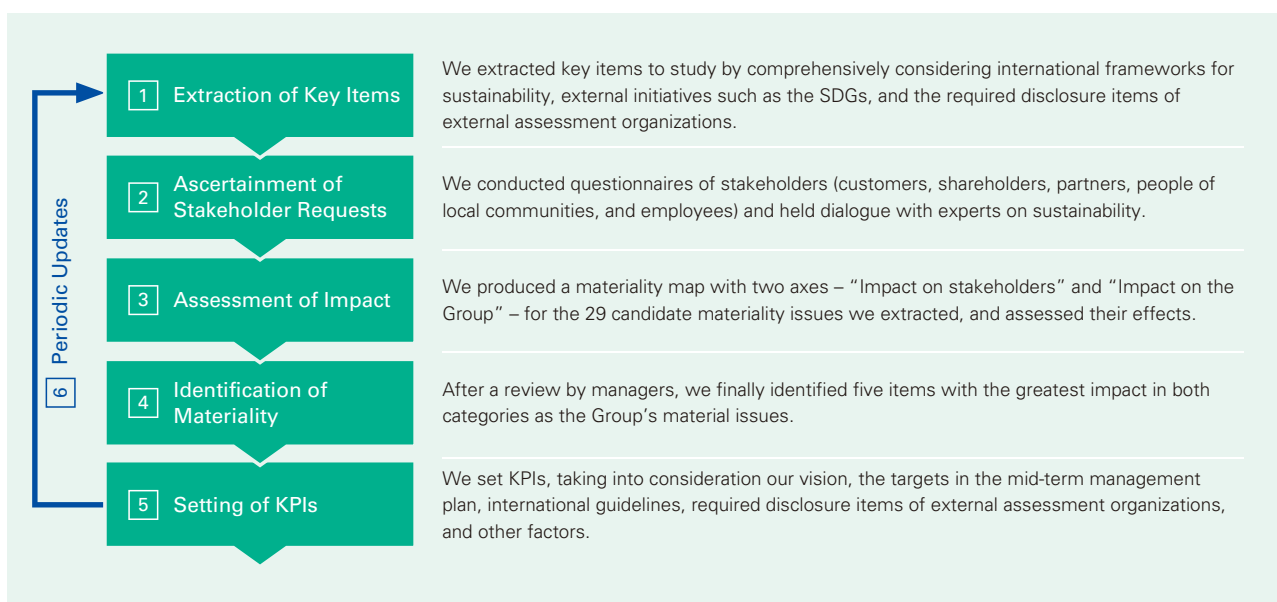
The purpose of the Nihon Unisys Group, based on our corporate philosophy, is to be “a corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and partners.” As such, we are making sincere efforts to address environmental and social issues. In addition, we strive to be a sustainable enterprise through our contributions to the sustainable development of society, and have identified our material sustainability issues.

Sustainability Initiatives and Identification of Materiality

We recognize that a sustainable society is the foundation of the sustainable growth of a company. Therefore, we want to establish a sustainable growth cycle for the Nihon Unisys Group by providing services that resolve social issues based on corporate activities that take ESG (environmental, social and governance) perspectives into consideration.

To be a sustainable company, in 2016 we identified the material sustainability issues that we should prioritize, focusing on two aspects: “realization of a sustainable society” and “establishment of a sustainable growth cycle for the Nihon Unisys Group.” Since FY2017, we have set and are working toward targets for these materiality issues.

Process of Determining and Updating Materiality



Awareness of Social Issues and Participation in Initiatives

The Sustainable Development Goals (SDGs) were adopted by the UN in September 2015. In Japan, various collaborative initiatives among industry, government and academia are being carried out to achieve Society 5.0, the vision proposed in the 5th Science and Technology Basic Plan adopted by the Cabinet Office in January 2016. Companies are increasingly expected to contribute not only to economic development, but also to resolving various social issues.






In its mid-term management plan, the Group has set the policy of resolving social issues. We will focus on the creation of business ecosystems that connect different types and categories of businesses across conventional boundaries. Through our execution of this plan, we will pursue sustainability for both ourselves and society by contributing to the achievement of Society 5.0 and the SDGs.



Moreover, in light of the increasingly global scope of our cooperating customers, partners and regions where we do business, the Group signed on to the UN Global Compact in March 2014 and continues to work to uphold its 10 principles for human rights, labour, environment and anti-corruption.



With reference to these goals set in Japan and internationally and through support for related initiatives, we strive to recognize social issues and enhance our responsiveness to society’s needs. By doing so, we aim to be a company that continues to earn the trust and meet the expectations of stakeholders.

Materiality	Path to establishment of a sustainable growth cycle for the Nihon Unisys Group		Relevant SDGs
	Social value provided	Economic value gained	
 <p>Resolving social issues with business ecosystems</p> <ul style="list-style-type: none"> Value Creation in Priority Areas P. 8-9 Mid-Term Management Plan Initiatives P. 22-25 	<p>We will continue to take on the challenge of creating a new, more fulfilling society by resolving social issues that cannot be handled by a single company. We will accomplish this with innovative solutions and the provision of new services through the creation of business ecosystems.</p>	<p>In the medium to long term, this will contribute to aspects such as expansion of the Group's earnings. During the mid-term management plan, we will implement measures to establish and expand business in our priority areas. We will also work to increase sales in our priority areas as well as improve profitability.</p>	 <p>×</p> <p>Four priority areas</p> <ul style="list-style-type: none"> Neobanks Digital Acceleration Assets Guardian Smart Towns
 <p>Building resilient social infrastructure using ICT</p> <ul style="list-style-type: none"> Technology and Quality P. 36 Cyber Security P. 37 	<p>By providing ICT services as reliable and sustainable social infrastructure, we will contribute to the realization of a resilient society where people can live with peace of mind.</p>	<p>In the medium to long term, this will contribute to aspects such as maintaining and enhancing the Group's customer base by earning the trust of customers and society. We have set targets for the online uptime rate as well as for the number of information security incidents.</p>	  
 <p>Sustainable provision of safe and secure products and services throughout the value chain</p> <ul style="list-style-type: none"> Value Chain P. 38 	<p>We comply with laws and social norms in Japan and overseas. We work to provide safe and secure products and services throughout the value chain while also contributing to the realization of a sustainable society through measures such as considering human rights and reducing environmental impact.</p>	<p>In the medium to long term, this will contribute to aspects such as building relationships of trust with customers and partners, reducing business risks and securing excellent partners. In the mid-term management plan, we are using barometers such as the degree of understanding of our Procurement and Transaction Guidelines among suppliers as indicators associated with strengthening relationships with customers/partners.</p>	  
 <p>Promotion of diversity Implementation of health management</p> <ul style="list-style-type: none"> Human Resource Strategy P. 30-33 	<p>We employ diverse human resources and contribute to the realization of a society where anyone can work with good health and peace of mind. We will also adapt to the declining working-age population in Japan by improving labor productivity.</p>	<p>In the medium to long term, we believe that diverse human resources working in good mental and physical health will lead to higher productivity and an increase in innovation. In addition, this will contribute to areas such as increasing engagement and attracting top talent. In the mid-term management plan, we have connected this to corporate culture reform, and have set indicators including the ratio of management positions held by women, the percentage of employees with disabilities, average monthly overtime hours worked per employee, and paid leave utilization rate.</p>	   

▶ See our website for more details on our sustainability initiatives.
<https://www.unisys.co.jp/csr/> (Available in Japanese only)

Value Creation Drivers — Strengths —



Since the Nihon Unisys Group was established, we have cultivated four strengths – our value creation drivers – in the course of responding to the diverse needs of our customers. These strengths are the source of our competitive advantage, and are also key factors in enhancing corporate value. Based on these strengths, we will play a central role in the creation of business ecosystems for resolving social issues in cooperation with our various stakeholders.

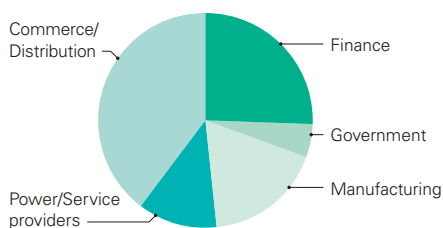
Relationships with Customers and Partners in Various Industries

The Nihon Unisys Group has a stable customer base of more than 5,000 companies*¹ in a wide range of fields, including finance, manufacturing, distribution, public utilities and service providers. In addition to leveraging our track record of supporting activities among various user businesses through the Japan Unisys Users Association*² and other organizations for over 30 years, we are cooperating with startup companies, alliance partners and others in creating business ecosystems that connect different categories of businesses across conventional boundaries. We plan to step up our efforts to resolve social issues together with various companies.

Number of Customers*¹

Over **5,000** companies

Breakdown of Sales by Market (FY2018)



*1. Total of Nihon Unisys and UNIADEX.
*2. An association of users of Nihon Unisys Group services

Broad Customer Base

Finance	Banks, credit unions, central organizations of a cooperative financial institution, and securities, insurance, leasing companies, etc.
Government	Government offices, local governments, related organizations, schools and nursery schools, medical facilities, etc.
Manufacturing	Automobiles, printing, housing, media, precision instruments, food, pharmaceuticals, etc.
Commerce/Distribution	Retail, wholesale, mail-order, apparel, distribution, trading companies, etc.
Power/Service providers, etc.	Electricity and gas, information and communications, transport, road services, real estate, travel, etc.

Capabilities for Enabling Successful System Implementation

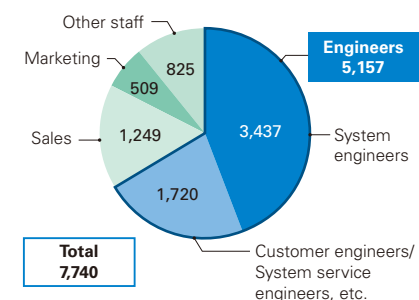
Since it installed Japan's first large-scale commercial computer in 1955, Nihon Unisys has built and provided a variety of ICT systems that support society and industry by sincerely addressing the issues facing various industries and deepening relationships with customers. We have the ability to reliably build and operate digital business platforms based on the needs and requirements of each project.

Customer Satisfaction Survey

2019–2020
System Development
Related Services
(Manufacturers) category
1st place
Nikkei Computer, August 22,
2019 edition

Composition of Employees

(As of March 31, 2019)



Provision of Systems That Support the Foundations of Society

The Nihon Unisys Group provides a wide range of services that support the foundations of society through creation and innovation of computer systems.

We moved to open core banking systems in the latter half of the 1990s, and began operating BankVision®, a Windows®-based core system, in 2007. This system is now in stable operation at 10 banks as of September 2019. In 2016, we initiated a project to provide core banking systems via a cloud service platform.




In the airline industry, we worked with All Nippon Airways Co., Ltd. in 2013 to overhaul its core systems for domestic reservations, ticketing and boarding with the first open system among the world's major airline companies. This enables system repairs and upgrades to be implemented quickly and at lower cost.



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

One of the Group’s unique value creation drivers is its ability to deliver one-stop support that is free from vendor lock-in by optimally combining and providing the products of various manufacturers, without sticking to any specific manufacturer. We offer one-stop ICT services from upstream consulting to system design, development, operation and maintenance, and support services including training.

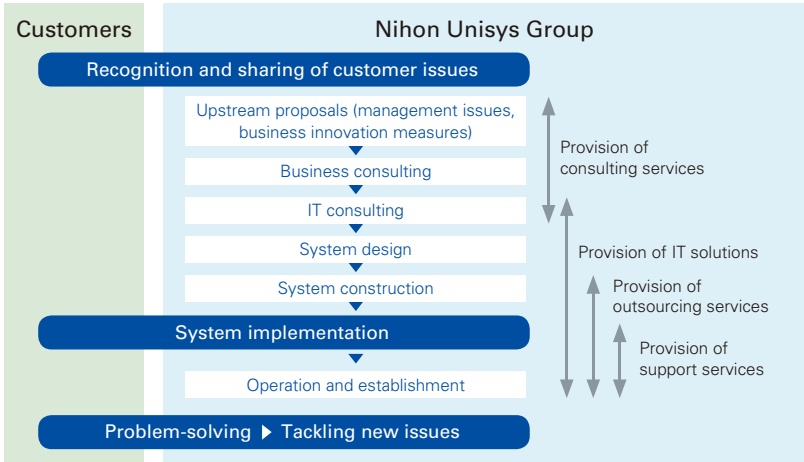
Products of every manufacturer  Development partners **Over 450 companies**

Locations

Japan
Nationwide from Hokkaido to Okinawa

Overseas (As of March 31, 2019)
Eight countries
(United States, China, Indonesia, Thailand, Singapore, the Philippines, Malaysia and Vietnam)

Our One-Stop Services



Capabilities for Designing and Delivering New Services

We are strengthening our ability to create new services with foresight. In addition, we are producing innovations and creating unique businesses by investing in startup companies and specialized funds and actively building relationships with alliance partners.

Number of News Releases (FY2018)

90

Amount Invested*3 (FY2018)

¥15.1 billion

Other investment in human capital:

¥3.5 billion

*3. Total of research and development costs, capital expenditures and business investments



Initiatives to Spur Innovation

Human Resource Development P. 30–33

- Next Principal, Ideathon/Hackathon, T3 activities
- Participation as a partner in TECH PLANTER

Strategic Investment P. 20–21

Canal Ventures, Ltd.
Investment in and management of a fund for the purpose of strengthening and expanding business in priority areas

NUL System Services Corporation
Establishment of relationships with startup companies and venture capital firms and research of technology trends, etc.

Research and Development P. 20–21

Development projects that led to product releases and services in FY2018

- CoreBAE™, a corporate customer concierge service for regional financial institutions
- Renewal of Fortune Pocket®, an app for managing personal assets
- OpenTrusty® approval information history management service, a cloud service utilizing the intellectual property of OpenApproval®, a drug approval information management service that has the top share in the pharmaceutical industry

Development projects that started since the beginning of FY2019

- Development of usage-based services that standardize core banking system specifications for credit unions
- Joint research and development of autonomous AI robots that replace manual shelf-checking and stocktaking work in response to Japan’s labor shortage

We are also conducting future-oriented research and development in areas such as AI, spatial awareness and quantum software.

Human Resource Strategy



The Nihon Unisys Group's Approach to Human Resources

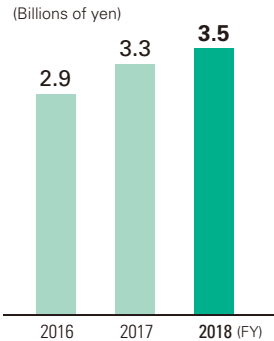
The Nihon Unisys Group considers human resources to be an important corporate asset and the driving force for the Company's sustainable growth and improvement in corporate value over the medium to long term.

Since FY2016, the Group has been visualizing and breaking down annual trends in its investment in human capital, which has amounted to approximately ¥3 billion each year. We consider ongoing investment in human capital indispensable for continuing to resolve social issues as they change with the times.

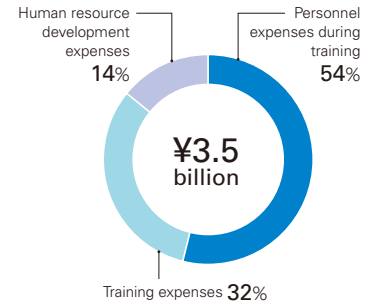
Building business ecosystems to resolve social issues together with our customers and partners requires creating new solutions and providing platforms. To achieve these objectives, we believe it is essential to develop human resources who can discern social issues and design business ecosystems.

Based on this approach to human resources, the Group has been conducting measures with three emphases: transformation of ideas and skill sets; penetration of vision and strategies; and creation of innovation. Specifically, we have been conducting human resource development programs that encourage employees to create new businesses on their own, personnel evaluations that stress challenges taken on by employees, and

Nihon Unisys Group Investment in Human Resources

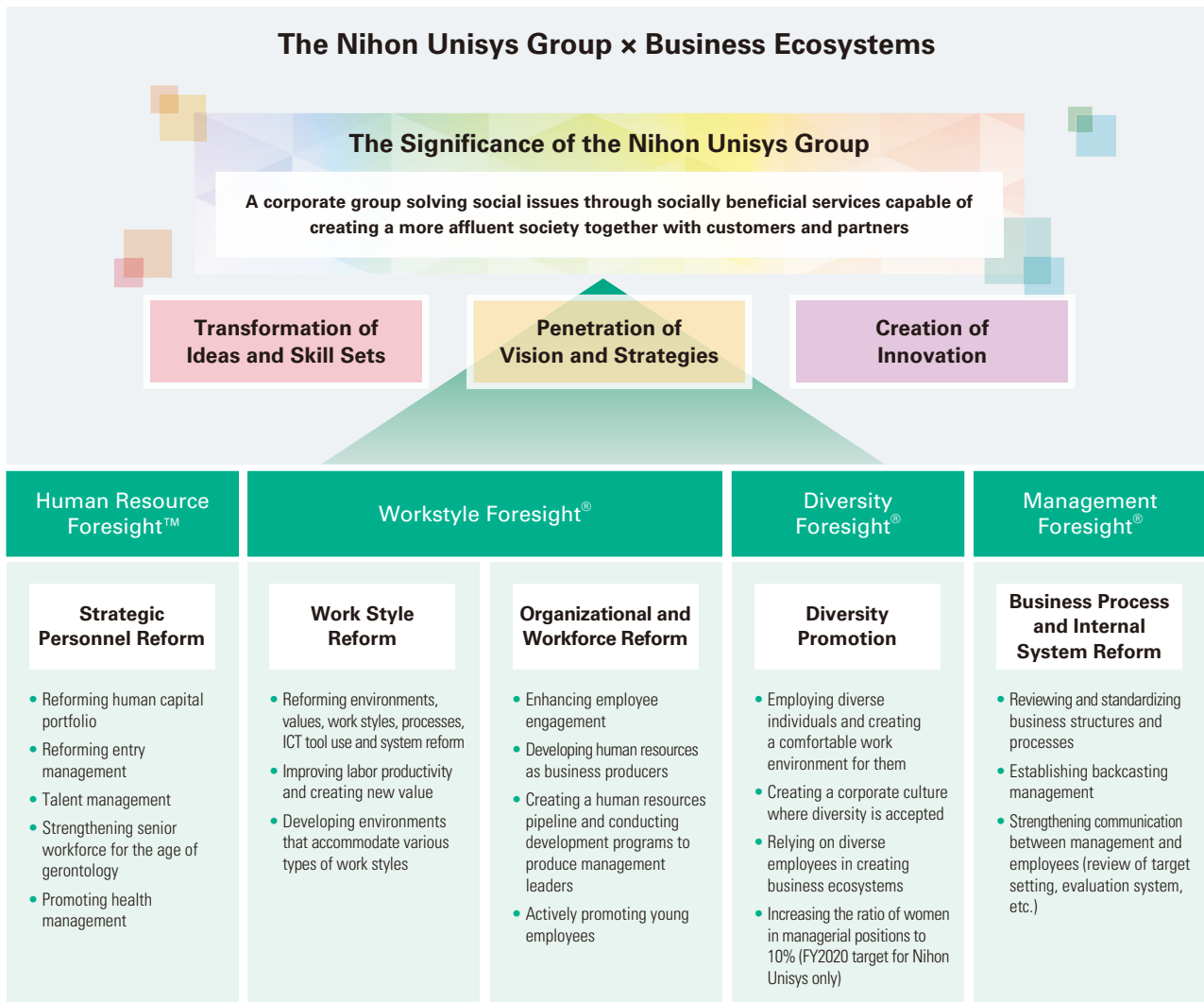


FY2018 Investment in Human Resources



work style reform. These initiatives have increased our pool of human resources capable of acting as "business producers," leading to the creation of numerous new businesses and a positive reputation for the Group.

Human Resource Strategy in the Mid-Term Management Plan



Since FY2012, we have been working on our human resource strategy as a key measure of our mid-term management plans. Under our previous mid-term management plan (FY2015–FY2017), we implemented numerous bold initiatives to create new business models and ecosystems that require collaboration across business types and categories, including transitioning from a vertical to an integrated organization. Going forward, we consider it essential to cultivate employees with the ability to strategically utilize the outcomes of the previous mid-term management plan in conducting their duties while involving their colleagues, as well as the ability to generate greater value by involving external human resources.

Based on this approach, under mid-term management plan

Human Resource Foresight

Strategic Personnel Reform

To provide business ecosystems and platforms in keeping with our efforts to become a highly autonomous corporate organization with a culture capable of transforming society, we must conduct strategic personnel reforms. We are therefore moving forward with new initiatives to reform our human resource system, which we have positioned as a pillar of corporate culture reform under the name “Human Resource Foresight™.” To produce a deeper pool of human resources capable of using their intrapersonal diversity to promote sustainable innovation, we visualize human resources development by defining roles in terms of business execution. This enables us to make strategic assignments, and to acquire and enhance human resources with a view toward the future (human capital portfolio transformation).

In addition, the Group believes that happy employees who

“Foresight in sight 2020,” which started in FY2018, we have set corporate culture reform as a key measure. For corporate culture reform, we are promoting a human resource strategy with four pillars: Human Resource Foresight™ for strategic personnel reform in light of changes in our internal and external environment; Workstyle Foresight® that promotes work style reform and organizational and workforce reform; Diversity Foresight® to practice and promote diversity; and Management Foresight® for business process and internal system reform. Through these pillars, which promote the transformation of each employee’s ideas and skill sets, the penetration of vision and strategies and the creation of innovation, we will create business ecosystems that lead directly to the resolution of social issues.

are both physically and mentally healthy will generate the high productivity and fertile imaginations that lead to corporate development. We have strategically implemented various initiatives to increase employees’ interest in health and to energize health promotion activities.

Main Strategic Personnel Reform (Health Management) Initiatives in FY2018

- Held events and seminars related to mental and physical health (Badminton with participation of company team, RIZAP health seminar, mindfulness sessions, etc.)
- Implemented health point program to earn daily points by improving lifestyle habits
- Introduced health promotion app offering expert coaching
- Provided healthy menus in employee cafeterias and held health measurement event

Workstyle Foresight

Work Style Reform

Japan has become more active in promoting work style reform, backed by social demands to address the nation’s declining birthrate and aging population, work-life balance, and globalization. The Nihon Unisys Group believes that by providing an environment that nurtures creativity while valuing individual lifestyles, it can facilitate both new business creation and individual growth. Therefore, in addition to improving the working environment and systems in response to these demands, we are conducting four Group-wide measures to promote work style reform that will instill a corporate culture that creates new value based on positive change in personal values and work styles.

Currently, we are aiming to establish work styles without time or location restrictions and highly productive work styles through measures such as setting up satellite offices at various locations in Tokyo, free-address workspace at the head office, telework and flexibility in overtime activities.*1 Technical departments conduct T3 (Time to think) activities in which all employees set aside time each week for work other than their assigned duties, such as coming up with ideas for new businesses and research. The time for these activities is created by reviewing meetings and duties to determine their relevance, and conducting operational reforms to improve efficiency. In addition to improving the working environment and systems to support diverse work styles, we will promote work style reform by encouraging a transformation in personal values and work styles.

Four Types of Work Style Reform

Environmental Reform	Personal Values and Work Style Reform	Process Reform
<ul style="list-style-type: none"> • Strategic facility management (Consolidation and optimization of business locations) 	<ul style="list-style-type: none"> • Flexibility in overtime activities • Telecommuting/Telework • Paperless operation • T3 	<ul style="list-style-type: none"> • Meeting reform • Review and standardization of business structure and processes • Foresight in sight activities
ICT Tool Use (System Reform)		
<ul style="list-style-type: none"> • Cloud first (use of Office 365®) • Mobile first (moconavi®) • Use of Skype® for Business • Use of internal social media 		

Main Work Style Reform Initiatives and Results in FY2018

- Flexibility in overtime activities: 100% achievement rate in FY2018 (Nihon Unisys non-consolidated)
- More than 60% of head office employees participated in Telework Days*
- 180,000 satellite office users (cumulative as of May 2019)
- Expansion of free-address workspace at head office/consolidation of offices dispersed throughout Tokyo at head office
- Implemented T3 activities for employees to come up with new business ideas other than their assigned duties

* A national work style reform project organized by the Ministry of Internal Affairs and Communications, the Ministry of Health, Labour and Welfare, the Ministry of Economy, Trade and Industry, the Ministry of Land, Infrastructure, Transport and Tourism, the Cabinet Secretariat, the Cabinet Office, the Tokyo Metropolitan Government and other related organizations

*1. Achievement of one or more months with “zero overtime” (5 hours or less) during the year

Organizational and Workforce Reform

The Nihon Unisys Group cannot achieve its professed goal of becoming a corporate group that resolves social issues using its strengths as a conventional system integrator alone. We believe we can help resolve larger social issues by organically connecting the foundation we have cultivated in our existing businesses with the ability to design new services in Group priority areas. To do so, we need to be an organization in which each employee acquires new knowledge and skills, generates change independently, and continues to boldly take on challenges. We are now accelerating organizational and workforce reform by implementing new or continuing existing programs aimed at improving employee engagement, cultivating human resources capable of business generation and management, and actively promoting young employees, among other measures.

In addition, under our succession plan*² for senior management we are creating a human resource pipeline and implementing programs to continuously produce management leaders.

*2. [Succession plan: P. 41](#)

Implementing a PDCA Cycle Using Engagement Surveys

In improving employee engagement so that we can design new business models and maximize our ability to offer these models to society, it is important to create mechanisms and organizations that enable each department to go through its own plan-do-check-act (PDCA) cycle.

In the Nihon Unisys Group, we regularly conduct engagement surveys to visualize employee attitudes and organizational issues. These surveys are given to all Group employees, and we use the findings to create the necessary mechanisms and structures. In FY2018, the response rate was 93.0%. After conducting the surveys, we analyze the results, including those from management. Based on the results of this analysis and advice from external consultants, the person in charge in each department designates issues to be addressed and establishes an action plan for his or her own department. In addition, we conduct regular workshops and surveys once a month for specified departments. We also monitor the progress of the action plans. As a result of action plans carried out to reform the corporate culture led by the heads of each department or group, our Engagement Score (ES), an indicator measuring the level of employee engagement, improved significantly in FY2018. In FY2019, we will continue to develop programs focused on further improving engagement as we cultivate management personnel with the skills necessary to lead an organization.

Main Organizational and Workforce Reform Initiatives and Results in FY2018

- Next Principal: Total of 322 participants from FY2010 to FY2018
- Two people dispatched to India in FY2017, followed by two others to an innovation program in Singapore in FY2018
- Eleven people dispatched through the external dispatch program

Cultivating Human Resources for New Business Creation

To cultivate human resources who can create new businesses by anticipating and ascertaining future social issues, it is important to promote the skills that will enable people to realize businesses that combine existing technologies and business know-how with their own ideas. At the same time, we will foster a mindset that views business creation as enjoyable. Based on this approach, the Group has conducted the Next Principal program since FY2010 to discover and cultivate human resources who can create new businesses independently. As of FY2018, a total of 322 employees have participated in the program. We also conduct initiatives to turn employees into innovative human resources. These initiatives include dispatch to an Acceleration Program overseas, a New Business Creation Support Project in which all employees are free to submit business plans (outstanding plans are commercialized), and the Morning Challenge, where all employees including top management gather to share trends in open innovation.

In addition, we incorporate outside perspectives through methods such as a program to dispatch employees outside the Group and offering opportunities to consult with external advisors.



Morning Challenge: Discussion with Noboru Saito (Director, Senior Corporate Officer and CMO)

Moreover, with the emergence of megaclouds and a stream of other new technologies in recent years, it has become important to cultivate and enhance human resources who can raise their skills in fields such as design thinking and data science to develop and monetize new technologies as businesses. Therefore, in addition to developing high-level data scientists with business, analytical and IT engineering skills, we are also focusing on developing cloud engineers with facility in various PaaS*³ services.

*3. PaaS (Platform as a Service): A model for providing platform functions to service providers and users as a service

Results Created through the Next Principal Program and Other Initiatives

- smartaxi® cloud-based taxi dispatch system
- ChiReaff Space® cloud-based childcare support service
- smart oasis® mobility service platform
- Storage service platform
- Fortune Pocket® personal asset management support service
- Resonatex® open API disclosure platform



Diversity Foresight

Diversity Promotion

In recent years, the corporate operating environment has been changing and diversifying at an accelerating pace. We aim to create business ecosystems through collaboration with companies and organizations with diverse values across business and industry boundaries, so we ourselves must also have the diversity that enables us to create a wide range of services. The Nihon Unisys Group's diversity management spurs innovation and leads to value creation by providing an environment and systems that enable diverse human resources to fully display their capabilities.

To facilitate a balance between work and life events such as childcare and nursing care, we have established career development support mechanisms. We have set up in-house systems that go beyond legal requirements as well as offer correspondence courses for employees on childcare leave. We also hold an annual seminar for all Group executives and employees to communicate the thoughts of top management.

Moreover, managers are required to attend training by level and theme (including childcare, nursing care and empowerment of women) to accelerate the development of human resources who can practice diversity management. We also conduct an educational program by level to establish a human resources pipeline for female employees. In addition, we implement ongoing measures to support LGBT employees and people with disabilities.

Going forward, we will proactively promote measures to increase intrapersonal diversity by offering the chance to take on various challenges and roles.



Award Ceremony for New Diversity Management Selection 100 (Ministry of Economy, Trade and Industry)

Main Diversity Promotion Initiatives and Results in FY2018

- Ratio of managerial positions held by women: Increased from 3.2% in FY2015 to 7.4% as of April 2019 (Nihon Unisys non-consolidated)
- Held a Diversity Top Seminar conducted by an external expert (for all Group employees)
- Held a seminar and conducted e-learning on LGBT issues

Management Foresight

Business Process and Internal System Reform

By reviewing all internal rules and systems and squarely tackling an overhaul of management, including innovating business processes and establishing pipeline management, the Nihon Unisys Group aims to transform into an organization capable of carrying out its vision and strategies. In addition, we will begin reforming our organizational culture by establishing backcasting management that starts from the objectives we have set, then works backward to determine what we must do now to get there, and by strengthening communication between management and employees.

To ensure that we achieve our objectives going forward, we have introduced and deployed the new Visualized Management Method® (VMM). A feature of VMM is that it determines KPIs through backcasting to set concrete goals. In addition to visualizing and sharing achievement status on a monitoring board, it encourages behavioral change through coaching, leading to steady execution of KPIs and achievement of goals. In FY2018, we also formulated the Visualized Process & Resource Management Method™ (VPMM), a framework that can be used throughout the Group to visualize business processes and improve efficiency. We are aiming for further developments utilizing this framework in FY2019.

External Recognition in FY2018

 <p>Telework Pioneer Top Hundred Telework Pioneers Minister of Internal Affairs and Communications Award (Ministry of Internal Affairs and Communications)</p>	 <p>IKUMEN AWARD 2018 Ikumen Company Award 2018 Grand Prize in Work-Life Balance Support Category (Ministry of Health, Labour and Welfare)</p>	 <p>NADESHIKO BRAND 2019 2018 Nadeshiko Brand (Semi-Nadeshiko) (Ministry of Economy, Trade and Industry; Tokyo Stock Exchange)</p>	 <p>健康経営優良法人 2019 Health and productivity ホワイト500 2019 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500) (Ministry of Economy, Trade and Industry; Nippon Kenko Kaigi)</p>
 <p>DIVERSITY MANAGEMENT SELECTION 2019 100 FY2018 New Diversity Management Selection 100 (Ministry of Economy, Trade and Industry)</p>	 <p>プラチナくらみん Platinum Kurumin Certification (Minister of Health, Labour and Welfare)</p>	 <p>work with Pride Gold 2018 PRIDE Index 2018 Gold (highest) rating (Work with Pride)</p>	

Risk Management



Approach to Risk Management

Risks such as large-scale disasters, scandals and information security threats are becoming more diverse and complex day by day. Consequently, the Nihon Unisys Group considers risk management, which is intended to predict potential events to avoid or reduce loss, to be an important foundation supporting the resolution of social issues and value creation.

Risk Management to Support Sustainable Value Creation

For sustainable value creation, a company needs a well-defined business model that combines sustainability and growth. The Nihon Unisys Group recognizes the following factors that can pose a threat to the continuation and growth of its business

model and implements measures to avoid and mitigate their impact. The Group also views them as significant opportunities for new growth and ongoing enhancement of competitiveness.

Overview of Threats, Countermeasures and Opportunities Related to Main Risks

Business and Other Risks	Threats	Countermeasures	Opportunities
Impact of economic trends and the market environment	<ul style="list-style-type: none"> Decrease in corporate willingness to invest Deteriorating business environment due to intensifying competition and other factors Slower-than-expected progress of the cashless society and spread of the sharing economy 	<ul style="list-style-type: none"> Generate ongoing innovation and strengthen ability to respond to diversifying customer needs by securing high-value-added human resources Identify technologies that will become strengths and invest in them based on a technology strategy 	<ul style="list-style-type: none"> Establishing and expanding businesses in priority areas, including businesses related to the cashless and sharing economies Providing services that attract customers
Procurement	<ul style="list-style-type: none"> Worsening relationships with partners Serious failures due to service malfunctions, security incidents, etc. Declining social credibility and brand image 	<ul style="list-style-type: none"> Periodic screening of partners Quality control of products and services handled 	<ul style="list-style-type: none"> Increasing added value by enhancing collaboration with cooperating companies and partners
Intellectual property rights	<ul style="list-style-type: none"> Infringement of intellectual property rights by third parties Expenses associated with disputes over intellectual property rights Cases where the necessary licenses or other documents cannot be obtained Cases where intellectual property rights assumed by a partner company cannot be utilized in an alliance 	<ul style="list-style-type: none"> Acquire intellectual property rights Thoroughly investigate intellectual property rights of partner companies Secure necessary rights in alliance agreements 	<ul style="list-style-type: none"> Creating new services and platforms, including in priority areas Improving social credibility
Project management	<ul style="list-style-type: none"> Extensions of scheduled delivery and cost overruns Increased safety and security risks due to diversification of products and services 	<ul style="list-style-type: none"> Ensure that all operations have been evaluated by the Project Review Committee Systematize and standardize system development methods Implement early detection system for project-related issues and other measures 	<ul style="list-style-type: none"> Securing a stable revenue base as productivity increases and cost overruns decrease Improving customer satisfaction Providing secure services and platforms to customers
System failure	<ul style="list-style-type: none"> Serious failures due to system malfunction or cyberattack Declining social credibility and brand image Compensation for damages 	<ul style="list-style-type: none"> Conduct quality assurance review during system development and system inspection before and after start-up, among other measures Respond promptly to system failures and prevent materialization of risks 	
Information security	<ul style="list-style-type: none"> Leaks of confidential customer information or personal information Cyberattacks 	<ul style="list-style-type: none"> Establish a project framework for formulating and promoting strategies to respond to cybersecurity risks Take out security-related insurance coverage 	
Human resources	<ul style="list-style-type: none"> Impact on maintaining technological superiority, competitiveness and sustainable growth potential due to a shortage of high-value-added human resources 	<ul style="list-style-type: none"> Hire new university graduates with a medium-to-long-term perspective Enhance training and systems for acquisition of more advanced skills Support the active participation of diverse human resources by promoting diversity measures 	<ul style="list-style-type: none"> Securing high-value-added human resources Creating new services and platforms, including in priority areas
Investment	<ul style="list-style-type: none"> Insufficient return on investment Inconsistency with partners' management strategy Business growth below initial expectations 	<ul style="list-style-type: none"> For each investment project, carefully examine the advisability and other aspects of the business plan in the R&D/Investment Committee, Project Review Committee and Executive Council to minimize investment risk 	<ul style="list-style-type: none"> Creating new services and platforms, including in priority areas Developing high-value-added human resources with the ability to judge investments Increasing return on investment
Compliance	<ul style="list-style-type: none"> Personnel and labor issues Declining social credibility, compensation incurred for damages and rejection by major customers due to serious compliance violations such as inadequate handling of data 	<ul style="list-style-type: none"> Establish a compliance promotion system by formulating the Nihon Unisys Group Charter of Corporate Behavior, the Group Compliance Basic Regulations and the Nihon Unisys Group Code of Conduct 	<ul style="list-style-type: none"> Secure high-value-added human resources
Natural and other disasters	<ul style="list-style-type: none"> Catastrophic damage from natural disasters such as earthquakes or from terrorist acts Restrictions on providing services or other business activities due to an outbreak of infectious disease, etc. 	<ul style="list-style-type: none"> Formulate, continuously review and upgrade a business continuity plan (BCP) from the perspectives of ensuring safety, internal business recovery, and customer service 	<ul style="list-style-type: none"> Improving social credibility Expanding disaster-related businesses and contributing to the creation of a sustainable society

Risk Management System

The Group has established a Risk Management Committee chaired by the chief risk management officer (CRMO) to take prompt and appropriate countermeasures against various risks that may have a serious impact on management. The CRMO reports the activities of the Risk Management Committee to the Executive Council and the Board of Directors.

The Risk Management Committee has prepared a Group-wide risk classification system to share information about risks throughout the Group and conduct centralized management. Currently, about 130 risk management items are classified into categories including information control risks, system development risks, and natural disaster and accident risks. For each item, the department, committee or other party responsible for risk control formulates administrative regulations, concrete preventive measures and countermeasures.

In addition, risk management themes are set and reviewed each fiscal year so that risk control departments can identify new risk management items.

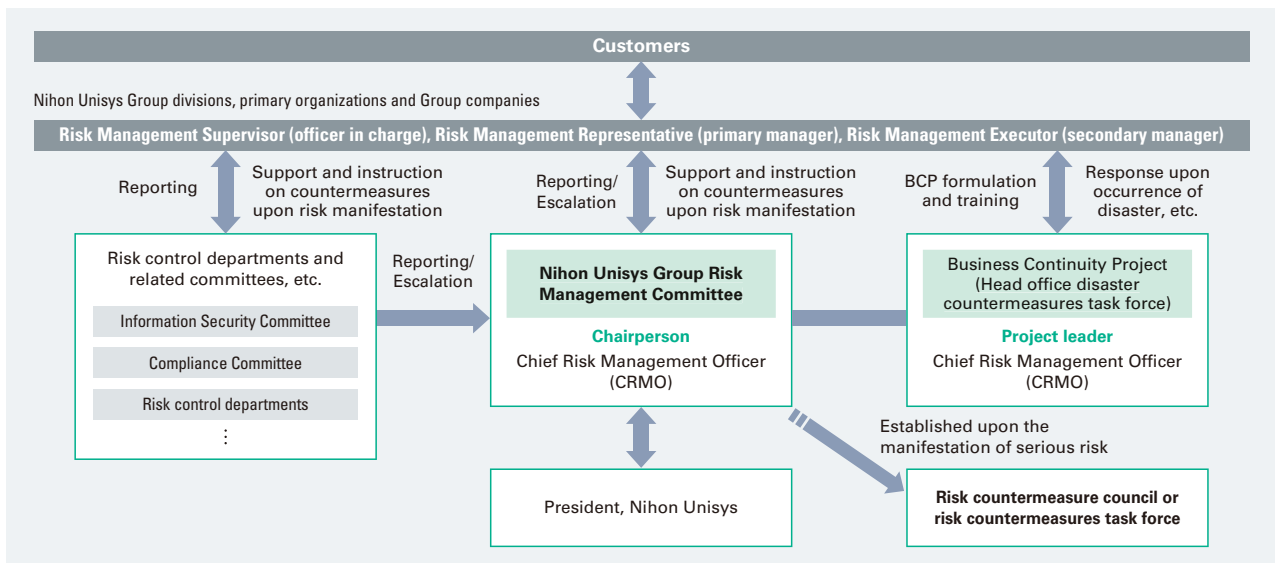
In FY2018, we designated the following three areas as priority measures for risk management. The first was strengthening risk management functions for the entire Group, which included ascertaining the status of risk management at Group companies and incorporating newly established and other companies into the Group risk management system. The second was further

improving the risk management skills of Group executives and employees, which included conducting training corresponding to each position, such as for officers and managers, and distributing information on basic risk response. The third was continuously improving and upgrading the risk management system. To steadily promote these measures, we carry out the PDCA cycle. This cycle includes understanding and monitoring risk cases throughout the year, planning improvement measures based on newly emerging issues, and raising awareness and knowledge of risks among all employees.

For business continuity risks in the event a company undergoes serious damage due to events such as a large-scale earthquake or a new strain of influenza, a Business Continuity Project with the CRMO as project leader decides on a BCP from the perspectives of ensuring safety, restoring Group operations and responding to customers. It also has set and implements business continuity management (BCM) plans, including ongoing revisions and improvements to plans.

We will continue to strengthen our risk management system by reviewing risk management items and the system itself based on changes in the business environment and other factors to establish target and priority measures and implement countermeasures and training accordingly.

Risk Management Structure



Response to Risks

Among the various risks recognized by the Nihon Unisys Group, the following introduces countermeasures for risks related to human resources, technology and quality, cyber security and the environment.

Approach to Risks Relating to Human Resources

Competition to acquire IT human resources is becoming increasingly severe in Japan as a result of factors including the shrinking labor force due to the declining birthrate and aging population, and advances in digital transformation. Securing high-value-added human resources who can generate continuous innovation and respond to diversifying customer needs is a key issue for the Nihon Unisys Group. We understand

that a lack of such human resources could have an impact on our technological advantages and our sustainable growth.

Therefore, to acquire and cultivate high-value-added human resources, the Group takes a medium-to-long-term perspective in hiring new university graduates and mid-career applicants whose skills can be put to use immediately, then conducting various development measures to enhance training and

systems so they can acquire more advanced skills. By promoting diversity, we also support the empowerment of diverse human resources, including women and seniors. Moreover, to stably secure human resources who support the Group's sustainable growth over the medium to long term, we are maintaining and expanding our core ICT business and providing new technologies to customers as well as reviewing the role of partners in the Group and strengthening relationships to create new business value together with them.

Human Resource Strategy: P. 30-33

Promotion of Compliance

The creation of new businesses and other initiatives are likely to make compliance-related risks more diversified and complex. These risks could have an impact on the Group's

business results. Such risks include personnel and labor issues such as long working hours, power harassment and sexual harassment, improper handling of data associated with the future increase in businesses that use and apply data or provide services, and the occurrence of other serious compliance violations that lead to a decline in the social credibility of the Group, payment of compensation for damages incurred or reconsideration of business transactions by major business partners.

To help prevent the manifestation of such risks, 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, which all Group executives and employees adhere to, while also complying with all laws and regulations, social norms, other in-house regulations, and behaving in an ethical manner.

Approach to Risks Relating to Technology and Quality

Improving Technologies and Identifying Technological Fields

The digitalization wave is surging worldwide, with the creation of a stream of new technologies and services. We are aware that having an accurate understanding of the impact of technological evolution and social change on the business environment is important in determining the direction of technology to be provided to customers. Our ability to do so is a key element for the future growth of the Nihon Unisys Group.

The Group has set forth its image of ICT utilization three to five years in the future, viewed from the perspectives of politics and the economy, market and customer trends, and trends in advanced technology, under the name Technology Foresight®. At the same time, to respond to the advent of Society 5.0 and to help resolve social issues, we have established a portfolio that encompasses all of our technology strategies, and we are identifying our technological strengths and investing in R&D.

Moreover, to continue to ensure a technological advantage and to respond to social issues and customer demands, it will be important to continually support improvements in our employees' technological capabilities. As partners in the digital age, Group employees are working to acquire the ability to visualize businesses that combine multiple technologies including AI and fintech, as well as the skill to manage the planning and construction phases of service design.

Identifying Technological Fields to Address



Quality Assurance System for Products and Services

The systems and services provided by the Group range widely from core systems for customer operations and products for elements of the social infrastructure such as finance and electric power to services for consumers such as payment and settlement services and e-commerce. With a more sophisticated level of quality expected for the information systems that are used as social infrastructure, establishment of a comprehensive quality assurance system for system services is essential for the Group to continue its business and create value.

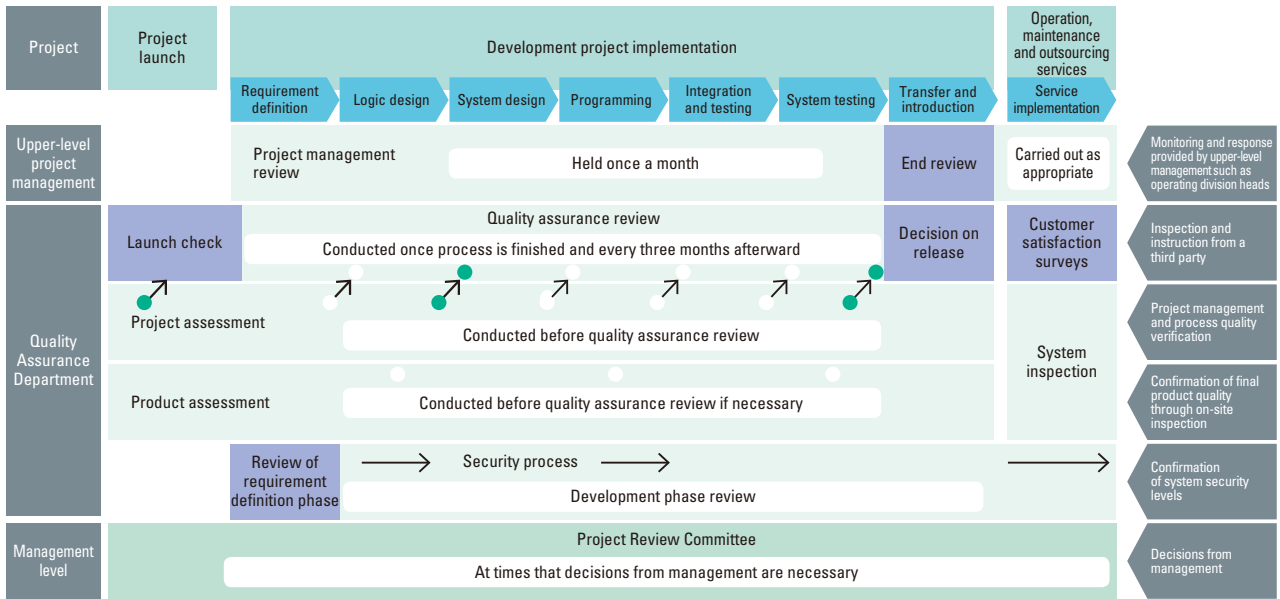
The Group has created a standard business process for system development called Information Services Business Process (ISBP) and has established a quality assurance system to provide high-quality products and services.

In each system development project, quality control activities by project workers as well as project soundness and quality are confirmed by multiple layers of the organization not directly involved in the running of the project, and corrective measures are taken as necessary. The Project Review Committee conducts a thorough, multifaceted assessment of risks at the project proposal and implementation stages. We also continue to increase productivity by systematizing and standardizing system development methods and implementing measures such as the Andon system for detecting problems in a project at an early stage. We also conduct ongoing checks of the quality of operation and maintenance services after system delivery.

For system failures, in addition to establishing mechanisms for a prompt response in the event a failure occurs, we work to prevent risks from materializing through cross-divisional cooperation throughout the Group using a failure reporting system that shares information with relevant departments.

We strive to improve specific aspects of quality such as confidentiality, fault tolerance, recoverability and stability through methods including conducting quality assurance reviews during system development and system inspections before and after operation, and setting quality targets for operation and maintenance services.

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



Approach to Risks Relating to Cyber Security

Due to its focus on ICT, the Nihon Unisys Group considers information management to be its highest priority, but due to daily increases in the number and sophistication of cyberattacks, it also recognizes cyber security risks as an important management issue. The Information Security Committee, which is chaired by the Chief Information Security Officer (CISO), formulated a cybersecurity strategy based on the Ministry of Economy, Trade and Industry’s Cyber Security Management Guidelines and other principles. This strategy sets forth a vision, goals and action plan for continuously practicing cyber security management, and promotes various wide-ranging security measures. To support this strategy, we have established the Cyber Security Strategy Promotion Project to promote a cross-organizational system in cooperation with related departments and organizations within the Group, under the umbrella of the Information Security Committee. We have also set up and operate a computer security incident response team (CSIRT) that specializes in preventing cyberattacks and responding to incidents, and an internal Security Operation Center to monitor and analyze threats to Group networks and servers.

In addition, to respond appropriately and promptly to increasingly complex and evolving threats to information security, we offer e-learning for all Group employees and level-based group training, cyber security training and drills for engineers, and systematic training for cooperating companies. We also devise measures to continuously raise awareness of security and embed it in our corporate culture through methods such as automatically displaying messages on information security when employees start up their PCs. **P. 13**

For cyberattacks in general, which have been quite frequent in recent years, we are using external case studies as original teaching materials to foster a sense of crisis and awareness.

To improve the security of our customers’ business bases and as one of the foundations on which our value creation is predicated, we will continue to implement cyber security as is appropriate of a corporate group that seeks to resolve social issues.

► **Nihon Unisys Group Information Security Policy**
https://www.unisys.co.jp/com/info_security/
 (Available in Japanese only)

Overview of Cyber Security Strategy

Vision	Cyber Security Foresight® Provide a proactive and secure environment to grow into a business ecosystem creator that connects diverse companies				
Mission	Realizing the cyber security required to be a corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and partners				
Objectives	<ol style="list-style-type: none"> 1. Provide secure platforms for customers and partners as a basis for business ecosystems 2. Maintain and improve the management quality of the Group so that it is chosen by customers and partners with peace of mind 3. Establish secure environments in which each employee can protect information assets and collaborate with various people on site 				
Measures	System measures Customer systems and services Provide highly secure services and platforms	Internal systems Continuously provide a safe environment	Visualization measures Disclose and share information	Organizational and process measures Build systems that are not vulnerable to cyberattacks	Human resource measures Improve the skills, abilities and awareness of Group officers and employees

Approach to Risks Relating to the Value Chain

Holding the view that collaboration with all kinds of cooperating companies and partners is indispensable for increasing added value, the Group procures hardware, software and services from suppliers in Japan and overseas as it works to provide innovative services and solutions that lead to the resolution of social issues. For this reason, changes to product specifications or the suspension of the supply of products or services due to factors such as unforeseen changes in the business strategy or deterioration in the business conditions of customers, or the occurrence of serious damage due to factors such as defects in procured services or security incidents, or similar events could have an impact on the Group's business results, including a decline in its social credibility and brand image. We conduct periodic inspections of suppliers and quality control of the products and services we handle as measures to prevent such occurrences.

We are also working to enhance productivity by promoting new resource procurement strategies. We consider it essential to further enhance our value chain by raising the basic level of productivity and responding with the speed required of a service-oriented business. In addition to establishing development and operation processes, we are generating synergies with tech partners in fields such as AI, IoT and RPA.

Moreover, intellectual property rights and other rights necessary for the Group to conduct its business could have an impact on business results. Consequently, in addition to acquiring intellectual property rights, we strive to fully investigate the intellectual property rights of partner companies and secure the necessary rights through partnership agreements.

Respect for Human Rights throughout the Value Chain

The Group Compliance Basic Policy and the Nihon Unisys Group Code of Conduct state that in addition to complying with laws and regulations, the Group does not discriminate on the basis of factors including race, creed, gender, social status, religion, nationality, age, sexual preference, and physical or intellectual disability. We respect the human rights and diverse cultures and customs of all our stakeholders, including employees, supply chains and communities where we conduct business.

In addition, we have established the Nihon Unisys Group Procurement and Transaction Guidelines, which promote the non-use of conflict minerals, and aim to conduct procurement based on these guidelines. Every year, we conduct annual surveys of our major suppliers to confirm their non-use of conflict minerals, among other matters. **P. 13**

Approach to the Environment

In accordance with the Nihon Unisys Group Environmental Policy, the Group has introduced an environmental management system that conforms to ISO 14001. In addition to complying with environmental laws and regulations, we also take international frameworks such as the UN's SDGs into consideration in conducting business activities that take into account the effective use of resources and energy, climate change response, and biodiversity. In addition, we have established Green Procurement Guidelines for our value chain to promote procurement of products and services with a low environmental impact together with our suppliers as we strive to realize our corporate philosophy to "Work with all people to contribute to creating a society that is friendly to people and the environment."

Response to Climate Change

The impact of climate change is becoming apparent worldwide. According to the Global Risks Report 2019 published by the World Economic Forum, environmental risks such as extreme weather due to climate change are the most significant global risks likely to occur in the next decade. Since the Paris Agreement took effect in November 2016, efforts to achieve a balance between CO₂ emissions and absorption in the second half of the century have accelerated worldwide, and in June 2019, Japan's Cabinet approved the draft "Long-Term Strategy under the Paris Agreement as a Growth Strategy" toward a carbon-free society. Against the threat of climate change, the future sustainable development of society will require mitigation measures such as the reduction of CO₂ emissions, which are believed to be a cause of global warming, together with adaptation strategies to prepare for and deal with the impacts that can be expected in the future.

Given this situation, the Nihon Unisys Group recognizes the importance of identifying and properly responding to the factors

behind climate change that will impact its medium-to-long-term corporate value and the sustainability of its business model.

Concrete measures to respond to climate change are urgently needed. The area where the Group will be able to make the greatest contribution is providing the services that customers and society will need to mitigate and adapt to climate change through ICT, centered on business ecosystems. We view this as a medium-to-long-term growth opportunity. The Group will combine the ability to design and realize new services, which is one of its strengths, with the technologies and know-how it has cultivated as it looks ahead not only to the decarbonization of the economy, but also future changes in society such as Japan's rapidly declining birthrate and aging population, and the world's finite resources. We will establish a robust, sustainable growth cycle as we create value by developing and providing services that help to resolve the problems of climate change and other environmental issues.

Example Services

• Initiatives for a Sustainable Energy Society **P. 23**

- Smart oasis[®] for charging
- Enability[®] series and others

• Saigai Net

A disaster information collection and sharing tool that enables understanding of what is happening in real time using time series data recording

• MUDEN Monitoring Service

Remote service for monitoring equipment and the environment using hardware suitable for an outdoor environment, a network and a cloud service

• Saicamera ZERO

A disaster surveillance camera service developed in collaboration with the Japan Meteorological Agency for live monitoring during a disaster

Corporate Governance



Basic Stance

A mechanism of corporate governance that enables management to make prompt and sound management decisions under appropriate and effective supervision is indispensable to the Nihon Unisys Group's continuous growth and increase in medium-to-long-term corporate value. The Company shall create, maintain, and ceaselessly improve this mechanism.

Furthermore, Nihon Unisys believes that a company's raison d'être lies in its ability to contribute 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 shall proceed with its business activities in accordance with this principle.

Corporate Governance Structure

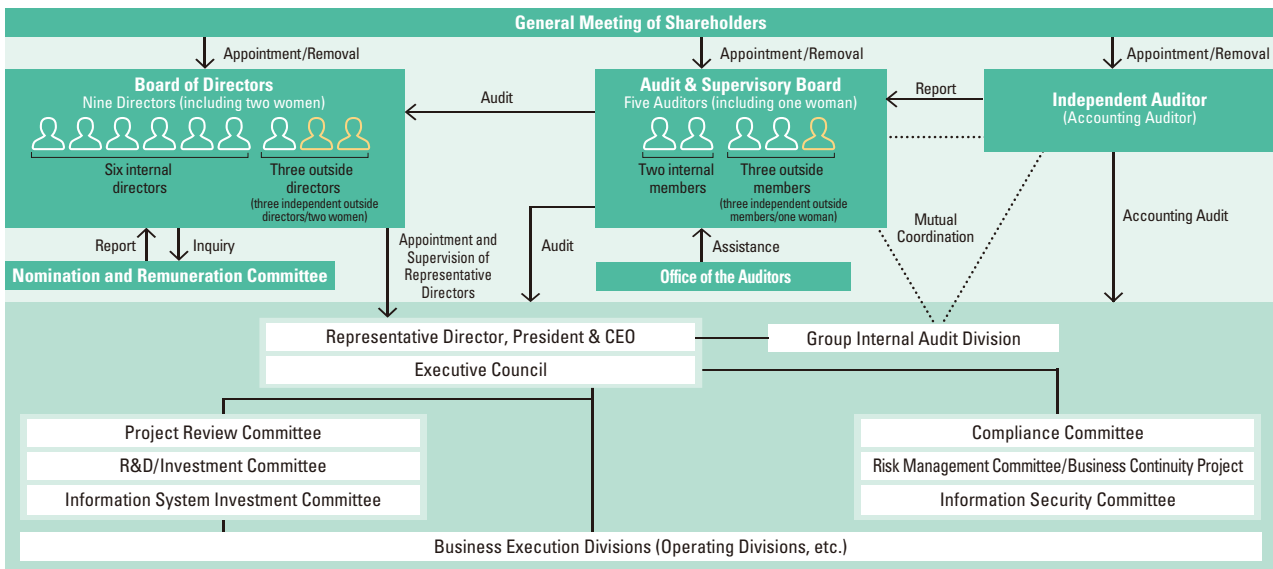
Nihon Unisys has judged that in order to realize effective corporate governance for the value creation process to create business ecosystems, an audit system that includes supervision by the Board of Directors and auditing by outside auditors is effective for monitoring management, and thus has adopted an Audit & Supervisory Board structure.

Given the decision-making speed required in light of the

changing market environment, the Company aims to make decisions that combine a broader perspective with objectivity and transparency as well as to ensure the effectiveness of supervisory functions related to the execution of duties. It will accomplish this by utilizing internal directors who are well-versed in the state of the Company and its industry and appointing persons with extensive business experience and expertise as outside directors.

Corporate Governance Structure

(As of June 26, 2019)



Nomination and Remuneration Committee

An advisory committee to the Board of Directors that deliberates and reports on matters pertaining to the appointment, removal and remuneration of directors and Audit & Supervisory Board members. One of the four members is an independent outside director, who serves as chairperson. The attendance of the independent outside director and the agreement of all members, including the independent outside director, are required when making resolutions.

Executive Council

The Executive Council is a decision-making body for deciding important matters of business execution. Members are representative directors and directors who concurrently serve as corporate officers and senior corporate officers, and meetings are held weekly, in principle.

Various Other Committees: Deliberate on Individual Management Issues Related to Directors' Execution of Duties from a Practical Point of View

Project Review	Determines the business risks and appropriate countermeasures for important development and service businesses, and decides whether to implement such countermeasures. Also evaluates actual results versus forecasts for such projects and requests a review as necessary.
R&D/Investment	Deliberates on the advisability of plans for businesses, products and services based on the Group's priority areas, and decides whether to invest in such plans. Also evaluates actual results versus forecasts for such plans and requests a review as necessary.
Information System Investment	Deliberates on the advisability of cost, effectiveness, applied technologies and other matters for the Group's own system development and operation and decides whether to invest in such systems. Also evaluates actual results versus forecasts for such plans and requests a review as necessary.
Compliance	Oversees compliance programs such as Group compliance education and internal reporting.
Risk Management/Business Continuity Project	Handles various risks that exert a material impact on Group management and ensures business continuity.
Information Security	Formulates strategies for overall Group security and personal information protection, and considers and promotes various measures based on those strategies.

Background of Nihon Unisys' Governance Structure

The Nihon Unisys Group aims to further expand its business opportunities by resolving social issues through its business activities and earning trust from customers and society. Achieving this sustainable growth cycle and creating business ecosystems requires the establishment and operation of an effective corporate governance structure that enables transparent and speedy decision making for the evolution of its business models and the value creation process.

In addition, in creating business ecosystems, it will be important to engage with an even wider range of stakeholders. Therefore, the Nihon Unisys Group ensures the diversity of its directors and Audit & Supervisory Board members, and considers a succession plan for speedy evolution of the Group

to be a priority item for the establishment and operation of the Group's corporate governance structure. To promote such a structure, the Group is also focusing on strengthening its remuneration system for directors and Audit & Supervisory Board members to improve corporate value, in addition to continuously implementing the PDCA cycle.

The following explains the corporate governance structure of the Nihon Unisys Group and the four associated priority items mentioned above: (1) diversity in directors and Audit & Supervisory Board members; (2) the succession plan; (3) evaluation of the effectiveness of the Board of Directors; and (4) the remuneration system.

Initiatives to Enhance Corporate Governance

	(FY)	Main Initiatives	Details/Objectives
Overall Corporate Governance	2001	Introduced corporate officer system	Separation of management supervision and execution and more efficient business execution
	2004	Changed the term of office of directors from two years to one year	Establishment of a flexible management structure and clarification of directors' responsibilities
	2015	Established Corporate Governance and Internal Control Principles	Clarification of basic approach to corporate governance and internal control and its structure/management policy
		Revised the regulations of the Board of Directors, etc.	Revision of agenda standards at Board of Directors meetings
		Established Nomination and Remuneration Committee	To obtain the involvement and advice of an outside independent director on the appointment, removal and remuneration of directors and Audit & Supervisory Board members
Diversity in Directors and Audit & Supervisory Board Members Priority Item ①	2002	Appointed outside directors (4 persons)	Strengthening of supervisory functions
		Increased the number of outside Audit & Supervisory Board members (3 outside members out of 4)	Strengthening of audit system
	2013	Raised the ratio of outside directors to at least one-third (3 outside directors out of 9)	Improvement of management transparency and objectivity
		Increased the number of outside Audit & Supervisory Board members by one (4 outside members out of 5)	Strengthening of the audit system
	2015	Increased the number of female outside directors by one (from 3 to 4)	Strengthening of diverse viewpoints
		Established Evaluation Criteria for Independence of Outside Directors	Clarification of the Company's standards for independence
2016	Revised the evaluation criteria for independence in the Evaluation Criteria for Independence of Outside Officers	Clarification of independence criteria for outside Audit & Supervisory Board members	
2017	Decreased the number of outside directors and Audit & Supervisory Board members* (3 outside directors and 3 Audit & Supervisory Board members)	Stricter interpretation of definition of outside officers	
Succession Plan Priority Item ②	2016	Formulated a succession plan for the CEO and others	Sustainable growth
	2018	Launched the Management Leader Program as part of the succession plan for the CEO and others	Selection and cultivation of candidates for senior management, including the CEO
Expanded the scope of the succession plan to include senior management			
Evaluation of Effectiveness of the Board of Directors Priority Item ③	2016	Started evaluation of the effectiveness of the Board of Directors	Ensuring time for adequate discussion and deliberation, improvement of the quality of deliberation
		Advanced the delivery period for meeting materials and the starting time of Board of Directors meetings, expanded training	
2018	Evaluated effectiveness in FY2017 with the support of a third party	Use of objective analysis by external experts for evaluation	
Remuneration System Priority Item ④	2012	Introduced performance-based remuneration system for directors (excluding outside directors) and corporate officers	Increase in motivation to contribute to improving business results and corporate value
	2016	Introduced performance-linked bonuses	

* Directors and Audit & Supervisory Board members who serve concurrently as officers of a principal shareholder are no longer designated as outside officers, although they meet the legal requirements for outside officers, due to the Company's rigorous and conservative determination.

Diversity in Directors and Audit & Supervisory Board Members Priority Item 1

Creating new business models and business ecosystems requires collaboration with companies and organizations with diverse values, without regard to their specific business category or industry. Therefore, the Company recognizes the importance of ensuring diversity in the Board of Directors.

The Company's Board of Directors consists of nine members, one-third or more of whom are independent outside directors (two of whom are women). The backgrounds of outside directors are diverse, and specialists familiar with management, taxation, the SDGs and other matters have been appointed. At meetings of the Board of Directors,

multifaceted discussions that utilize the expertise of each director are conducted. The term of office for directors has been set at one year in order to establish a flexible management system that can respond to changes in the business environment and to clarify management responsibilities. A majority of the Audit & Supervisory Board are independent outside members, including one attorney and one certified public accountant. One member is a woman.

The Company intends to continue emphasizing diversity in appointing various human resources, while also considering the promotion of younger members.

(As of June 26, 2019)

	Total Members	Outside Members		Percentage of Board of Directors or Audit & Supervisory Board
		(Women)	Independent Officers	
Board of Directors	9	3* (2)	3	33.3%
Audit & Supervisory Board	5	3* (1)	3	60.0%
Total	14	6 (3)	6	42.9%

* Nihon Unisys has four directors and four Audit & Supervisory Board members from outside the Company. From FY2017, one director and one Audit & Supervisory Board member who serve concurrently as officers of a principal shareholder are no longer designated as outside officers, although they meet the legal requirements for outside officers, due to the Company's rigorous and conservative determination.

Roles and Expectations of Outside Directors

Name	Independent	Attendance at Board of Directors Meetings (April 2018–March 2019)	Main Roles and Expectations
Go Kawada	Yes	12/12	Mr. Kawada has abundant experience as an outside director as well as sophisticated professional knowledge and expertise in the fields of taxation and accounting. The Company believes that he will be able to utilize his experience and knowledge as well as expertise in giving advice on the management of the Company, and supervise management from an objective and neutral perspective as an outside director.
Ayako Sonoda	Yes	12/12	The Company expects Ms. Sonoda to utilize her abundant experience supporting many companies from the standpoint of CSR and environmental management as well as her dedication to various activities promoting the employment and utilization of female workers. Therefore, she is in a position to give advice to the Company's management from multiple perspectives as an outside director.
Chie Sato	Yes	12/12	Ms. Sato has abundant management experience and expertise as evidenced in her numerous books about business schools in the United States. Furthermore, she played an active role as management strategy consultant in the Boston Consulting Group. The Company expects her to give effective advice and support to the Company in promoting business model reforms from an objective and professional perspective as an outside director.

Succession Plan Priority Item 2

Nihon Unisys regards a succession plan for its senior management including the CEO as another priority item for accelerating its evolution. To ensure the transparency of the selection process, the Nomination and Remuneration Committee, which includes an independent outside director, deliberates and reports to the Board of Directors.

In this plan, integrity is the basis of the seven core competencies listed on the right that have been set as important qualifications required of senior management. The Committee believes that the degree to which each requirement is displayed may vary depending on the business environment.

In FY2018, the Company launched the Management Leader Program for managers above a specified level to select and cultivate candidates for senior management, including the CEO. The program includes sessions with experts from inside and outside the Company, self-evaluations and evaluations by superiors conducted with reference to the seven competencies, and challenging assignments.

Requirements (Qualifications/Competencies)	
1	Foresight
2	Insight
3	Determination
4	Innovation
5	Passion
6	Execution
7	Diversity & Inclusion

Evaluation of Effectiveness of the Board of Directors Priority Item ③

To continuously improve corporate value, Nihon Unisys considers it important for the Board of Directors to enhance governance by fully deploying its functions, including ensuring the appropriateness of operations. Every year since FY2016, the Company has analyzed and evaluated the effectiveness of the Board of Directors in the previous fiscal year and worked to improve its functionality.

In FY2018, the Company set and implemented action policies for issues pointed out in the FY2017 evaluation of the effectiveness of the Board of Directors, including clarifying the selection criteria for directors and specifying a succession plan for senior management. The FY2018 evaluation of Board of Directors effectiveness has verified the status of those efforts. The evaluation method began with administering open questionnaires to all directors and Audit & Supervisory Board members and compiling them internally. The

Company then requested an external consultant to analyze the survey content and, based on the results of that analysis, deliberated on and assessed the current situation of the Board of Directors and areas for improvement.

As shown below, although the results received a high evaluation overall, there was a need for deeper discussions on each theme and new recommendations for further enhancing the governance structure. Based on these results, in FY2019 the Company has begun measures to clarify the selection criteria and procedures for outside directors, to review the remuneration system and to further deepen discussion of themes related to the essence of management, such as business strategy, corporate culture reform, sustainability and expansion of the scope of compliance, among others.

Initiatives to Improve the Effectiveness of the Board of Directors

Results of FY2017 Evaluation and Policies for FY2018

FY2017 Evaluation	<ul style="list-style-type: none"> • In the composition of the Board of Directors, the members' awareness, experience, and expertise are well-balanced • For the operation of the Board of Directors, lively and open discussions are regularly conducted, and discussion of medium-to-long-term management policies and strategies is sufficient • Members in charge of business execution provide sufficient information to the Board of Directors on investors and analyst evaluations
Policies for FY2018	<ol style="list-style-type: none"> (1) Re-confirm the role and functions of the Board of Directors and then clarify the criteria for appointing and removing internal and outside directors (2) Create more specific succession plans for senior management (3) Share detailed information on Executive Council discussions with outside directors (4) Increase opportunities for information exchange among outside directors and with Audit & Supervisory Board members

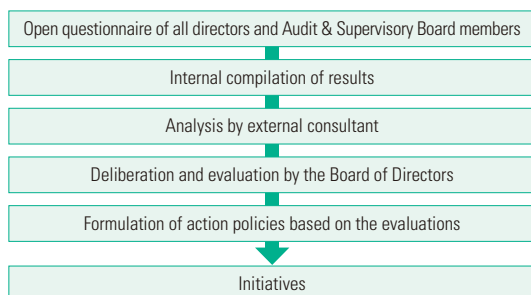
Actions Taken in FY2018

- (1)
 - Reconfirmed the function and role of the Company's Board of Directors
 - Expanded the scope of the succession plan to include senior management (directors concurrently serving as corporate officers)
 - Clarified criteria for dismissal of directors
- (2)
 - Launched the Management Leader Program
 - Expanded the scope of the succession plan to include senior management
 - The Board of Directors discussed the status of the succession plan
- (3)
 - Clarified points at issue and deepened discussions by sharing key Executive Council review points and providing advance information on important agenda items to be submitted to the Board of Directors
- (4)
 - Conducted discussions (three times in total) on strategies and governance both among independent outside directors, and between the independent outside directors and the representative directors
 - Audit & Supervisory Board members and non-executive directors exchanged information and opinions (three times in total)

Results of FY2018 Evaluation and Policies for FY2019

FY2018 Evaluation	<ul style="list-style-type: none"> • Further clarification is needed for the selection criteria for outside directors in part three of Action (1) above. Improvement has been made in the other items. • "Size and composition of the Board of Directors," "Operation of the Board of Directors (lively and open discussions)," "Officer training," and "Feedback to the Board of Directors on investor and analyst evaluations of the Company" continued to receive high evaluations in FY2018 • More in-depth discussion is needed on themes related to the essence of management • Appointment of an independent outside director as chairperson of the Nomination and Remuneration Committee and reconsideration of the remuneration system for directors and Audit & Supervisory Board members are needed
Actions to Be Taken in FY2019	<ul style="list-style-type: none"> • Appoint an independent outside director as chairperson of the Nomination and Remuneration Committee in FY2019 <ol style="list-style-type: none"> (1) Clarify the selection criteria and procedures for outside directors (2) Review the remuneration system so that executive remuneration functions as a sound incentive for sustainable growth (3) Review the operation of the Board of Directors and further deepen discussions on business strategies, corporate culture reform, sustainability, expansion of the scope of compliance and other themes related to the essence of management

Effectiveness Evaluation Process



Evaluation Items

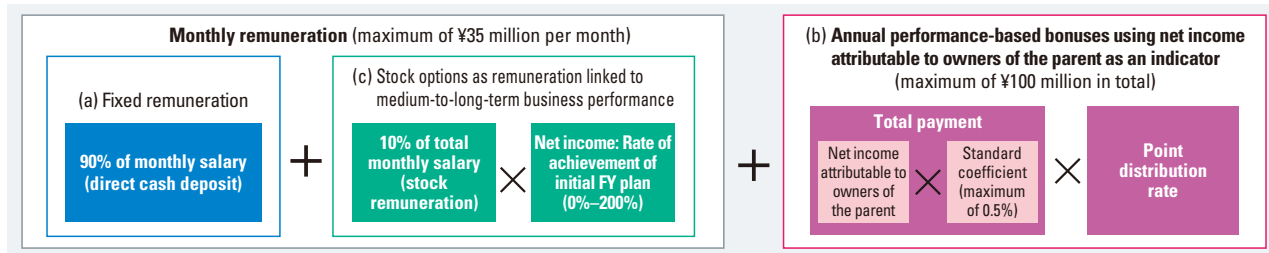
- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Role/functions of directors 2. Progress of action policies for FY2018, which were determined after evaluating effectiveness in the previous fiscal year 3. Size and composition of the Board of Directors 4. Operation of the Board of Directors 5. Composition and role of the Nomination and Remuneration Committee 6. Operation of the Nomination and Remuneration Committee | <ol style="list-style-type: none"> 7. Officer training 8. Support system for non-executive directors 9. Role of and expectations for Audit & Supervisory Board members 10. Relationship with various stakeholders 11. Overall effectiveness of corporate governance structure and Board of Directors 12. Self-assessment |
|---|--|
- (57 questions in total)

Remuneration System Priority Item 4

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 remuneration (a monthly salary paid 90% in direct cash deposits), (b) annual performance-based bonuses using net income attributable to owners of the parent as an indicator, and (c) stock options as remuneration linked to medium-to-long-term business performance (appropriated from 10% of total monthly salary paid). Stock

options may not be exercised while the director or other grantee is in office at the Company or one of its subsidiaries. Non-executive directors, such as outside directors, are paid a fixed monthly salary only, without taking business performance into account. The exact amount of remuneration is decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee, which includes one or more independent outside directors, within the amount as decided by resolution at general shareholders' meetings.

Director Remuneration



Total Remuneration in FY2018 for Directors and Audit & Supervisory Board Members with Subtotals for Each Type of Remuneration and Numbers of Recipients

Classification	Total Remuneration Paid (Millions of yen)	Remuneration Paid by Type (Millions of yen)			Recipients
		(a) Fixed Remuneration	(c) Stock Options	(b) Bonuses	
Directors (Excluding outside directors)	284	214	27 ^{*1}	42 ^{*1}	7
Audit & Supervisory Board members (Excluding outside Audit & Supervisory Board members)	33	33	— ^{*2}	— ^{*2}	3
Outside directors and outside Audit & Supervisory Board members	55	55	— ^{*2}	— ^{*2}	6

*1. One non-executive director is not eligible to receive stock options or bonuses.

*2. Outside directors and outside Audit & Supervisory Board members are not eligible to receive stock options or bonuses.

*3. Figures shown in millions of yen have been rounded down to the nearest million.

Policy Regarding Constructive Dialogue with Shareholders and Other Investors

In addition to disclosing information to its shareholders and other investors at a suitable time and in an appropriate manner, the Nihon Unisys Group engages in proactive investor relations activities, centered on its president and CFO, in the belief that repeatedly engaging in mutual dialogue leads to the fair assessment of its value. The Group places great significance on the opinions of its shareholders and other investors and reports these opinions to its management and the Board of Directors in a timely manner. These opinions are then used in making improvements to the Company's overall management.

Initiatives in FY2018

In addition to holding financial results briefings each quarter, the Nihon Unisys Group strives for constructive dialogue with investors in venues such as small meetings, individual interviews in Japan and visits to overseas investors. The Group is also taking steps to appropriately explain its corporate value through methods including holding business briefings and issuing integrated reports.

Cross-Shareholdings

The Company may sometimes hold shares of its business partners if, by maintaining or strengthening its relationship with such business partner based on its evaluation of the growth potential and prospects of the business partner, they are deemed to contribute to the enhancement of the corporate value of the Nihon Unisys Group in ways such as leading to expansion of revenue. The Company acquires such shares after adjudicating the appropriateness of acquiring them pursuant to its internal regulations. Upon acquisition of shares, each year the Company's Board of Directors examines the appropriateness of holding such shares. Based on that examination, the Company proceeds with selling shares that are judged to have poor economic rationality,

while considering factors such as the impact on the market. In FY2018, the Company sold 16 stocks (including 5 unlisted stocks) based on the results of this examination. For shares held as of March 31, 2019, the Company confirmed stocks for which its policy is to sell due to the diminished significance of holding by examining the sustainability of the purpose of such shareholding and consistency with its business strategies from a medium-to-long-term perspective. For other stocks, after confirming the appropriateness of continuing to hold such shares, the Company verified related revenue such as dividends and related profit in business transactions to confirm that it was generally higher than the cost of capital.

► See the Company's website for details on corporate governance and internal control.
<https://www.unisys.co.jp/invest-e/com/governance.html>

• Corporate Governance and Internal Control Principles • Corporate Governance Report

Messages from Outside Directors

Nihon Unisys has named three people with diverse backgrounds as outside directors because it recognizes the importance of diversity on the Board of Directors. Each outside director will provide effective advice and recommendations from an objective viewpoint to support the transition to a new business model and work to further enhance corporate value.



Go Kawada

Director
(Outside Director and Independent Officer)

Career Background: P. 46

As an independent outside director, I serve as the chairperson of the Nomination and Remuneration Committee.

I have been an independent outside director of Nihon Unisys for six years. I think the Company's governance system has been steadily strengthened and improved during that period.

One example of that was my own appointment as chairperson of Nomination and Remuneration Committee in June 2019. Prior to that, I had served as a member of that committee, but while the Company generally earned high marks in the evaluation of the effectiveness of the Board of Directors and in a governance survey conducted by an independent financial institution in FY2018, one issue that was raised was that it would be preferable to appoint an outside director as chairperson of the Nomination and Remuneration Committee. Improvements like that are discussed by the Board of



Ayako Sonoda

Director
(Outside Director and Independent Officer)

Career Background: P. 46

We are in an era where long-term scenario planning will be necessary to strengthen corporate governance.

I am in my fifth year as an outside director, and I am sensing big changes. Discussions by the Board of Directors are livelier, sensitivity to risk is higher, and innovation and diversity are actively being promoted.

I believe that stronger leadership by the Board of Directors in establishing a corporate culture that promotes innovation while respecting stakeholders is important for the Nihon Unisys Group's sustainable growth and creation of medium-to-long-term corporate value.

As for sustainability, discussions at Board of Directors meetings on the topics of ESG and the SDGs have also increased. The Group has been in the forefront of Japanese companies in advancing the SDGs through its business activities, including offering energy-



Chie Sato

Director
(Outside Director and Independent Officer)

Career Background: P. 47

I will bring a different perspective as we work together to achieve our vision.

I am now in my third year as an outside director of Nihon Unisys. I often hear from informed people overseas that "the biggest problem of Japanese companies is that they do not change." Yet I strongly feel that this company is seriously trying to change.

First, discussions at Board of Directors meetings have become very energetic. All directors and Audit & Supervisory Board members participate in discussions, and we now have in-depth debate about not only investments but also matters such as the Company's vision, sustainability initiatives, succession planning, and risk management. Second, the approach of employees toward their work has changed from passive to proactive. They propose ideas that not only meet customer needs, but go beyond that. This is

Directors and quickly implemented. I think that's very good.

In nominating the next generation of management, I want to fulfill my role as committee chair by carefully assessing candidates based on my experience as an outside officer of various companies, while ensuring the transparency of the process. As part of the management succession plan, an exchange of opinions between the Company's corporate officers and outside directors began in FY2019, and we plan to have in-depth discussions on management and other matters face-to-face.

In addition, I will keep continue to keep a close watch on the Group's risk management. In our industry, unprofitable projects are a risk that has a major impact on operations. In the past, there were cases where I was conscious of the possibility of damage occurring due to excessive risk-taking, so I will continue to monitor operations with that in mind.

Some compliance-related risks may be hard to discern from within

a company because of industry practices or other reasons. From my experience in other industries, I believe that close oversight from outside is necessary, so I will monitor those risks carefully. To exercise effective governance as an outside director, sharing information on risk with those in charge of business execution is critical. At the Company, important information is promptly conveyed to outside directors, which is another aspect I appreciate.

Lastly, the Group has racked up a number of impressive achievements, such as contribution to communities by employees and receipt of various awards, even though they are not widely publicized either internally or externally. It is important to remind employees about the Company's good points by telling them about these achievements from an outsider's point of view. I want to continue to perform my role while keeping in mind that outside directors should also be there for employees.

related services from early on. Looking ahead, measures to respond to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, including formulation of a very-long-term decarbonization vision targeting 2050, are also urgently needed. Nihon Unisys sees these measures as potential business opportunities, and is already conducting scenario planning on a trial basis to connect them to long-term digital innovation while dealing with various uncertainties (risks).

Also key to value creation and sustainable growth are development of human resources, including management leaders, and promotion of diversity within the Company. The Nihon Unisys Group is focusing on these issues as part of its corporate culture reform.

The Company offers various employee development programs,

and I myself have served as an instructor of a management leader training program. I gave lectures while keeping in mind that development of people who are good at predicting future trends and who can generate big ideas for solving global problems will be the key to creating corporate value from now on. In promotion of diversity, which is positioned as a materiality issue, the Company is taking active steps for the empowerment of women in the workplace, and the results are steadily emerging.

I am committed to fulfilling my role as an outside director by making proactive proposals and engaging in discussions on these issues at Board of Directors meetings and in other settings to ensure that the Group can continue to grow as a corporate group that resolves social issues.

leading to the creation of a number of new businesses. Third, there are more opportunities for women to participate in management. A woman has been appointed to each of the positions of corporate officer, CEO of an overseas subsidiary, as well as outside director and outside Audit & Supervisory Board member. Fourth, an independent outside director has been appointed as chairperson of the Nomination and Remuneration Committee. This will further raise the level of the Company's governance.

FY2019 is the second year of mid-term management plan "Foresight in sight 2020." The mission we should achieve and our priority areas are clearly presented in the plan. The greatest challenges, I think, will be increasing the speed of change and raising profitability.

In this context, an important role of outside directors is to provide different perspectives that might be overlooked in the Executive Council. At Board of Directors meetings, I want to draw on my management experience at a major global corporation as well as my management consulting experience to actively express my opinions from the viewpoint of global standards, take a broader perspective and reflect the perspective of various stakeholders.

The Nihon Unisys Group has excellent technologies that it can be proud of, as well as highly capable employees. I will do everything in my power as an outside director to increase the corporate value of a company that has so much potential.

Directors, Audit & Supervisory Board Mem

(As of June 26, 2019)

Directors



Apr. 1980 Joined Nihon Unisys, Ltd.
Apr. 2002 General Manager, Business Aggregation, Nihon Unisys, Ltd.
Jun. 2002 Corporate Officer, Nihon Unisys, Ltd.
Jun. 2005 Director, Senior Corporate Officer, Nihon Unisys, Ltd.
Apr. 2007 Director, Superior Senior Corporate Officer, Nihon Unisys, Ltd.
Jun. 2007 Superior Senior Corporate Officer, Nihon Unisys, Ltd.
Apr. 2011 Executive Corporate Officer, Nihon Unisys, Ltd.
Jun. 2011 Representative Director, Executive Corporate Officer, Nihon Unisys, Ltd.
Apr. 2016 Representative Director, President & CEO, Nihon Unisys, Ltd. (present)

Akiyoshi Hiraoka

Representative Director,
President, Chief Executive Officer
(CEO), Chief Health Officer (CHO)



Apr. 1976 Joined Nihon Unisys, Ltd.
Apr. 2004 Corporate Officer, Nihon Unisys Software Kaisha, Ltd.
Jan. 2006 Corporate Officer, Nihon Unisys Solutions, Ltd.
Apr. 2007 S-BITS Project Group Manager, SW & Services Division, Nihon Unisys, Ltd.
Apr. 2009 Corporate Officer, Nihon Unisys, Ltd.
Apr. 2011 Senior Corporate Officer, Nihon Unisys, Ltd.
Jun. 2012 Representative Director, Senior Corporate Officer, Nihon Unisys, Ltd.
Apr. 2016 Representative Director, Executive Corporate Officer, Nihon Unisys, Ltd. (present)

Susumu Mukai

Representative Director,
Executive Corporate Officer,
Chief Compliance Officer (CCO)



Apr. 1978 Joined Mitsui & Co., Ltd.
Apr. 2007 Senior Vice President & Chief Financial Officer, Mitsui & Co. (U.S.A.), INC.
Jun. 2010 Internal Auditor, Internal Auditing Division, Mitsui & Co., Ltd.
Apr. 2012 Corporate Officer, General Manager, Accounting, Nihon Unisys, Ltd.
Apr. 2014 Senior Corporate Officer, Nihon Unisys, Ltd.
Jun. 2014 Director, Senior Corporate Officer, Nihon Unisys, Ltd.
Apr. 2015 Representative Director, Senior Corporate Officer, Nihon Unisys, Ltd.
Apr. 2016 Representative Director, Executive Corporate Officer, Nihon Unisys, Ltd. (present)

Toshio Mukai

Representative Director,
Executive Corporate Officer,
Chief Financial Officer (CFO)



Apr. 1986 Joined Nihon Unisys, Ltd.
Apr. 2004 General Manager, Industry & Commerce 2, Nihon Unisys, Ltd.
Apr. 2009 General Manager, Industry & Commerce, Nihon Unisys, Ltd.
Apr. 2010 General Manager, Industry & Commerce 2, Nihon Unisys, Ltd.
Apr. 2012 General Manager, Business Services, Nihon Unisys, Ltd.
Apr. 2013 Corporate Officer, Nihon Unisys, Ltd.
Apr. 2016 Senior Corporate Officer, Nihon Unisys, Ltd.
Jun. 2016 Director, Senior Corporate Officer, Nihon Unisys, Ltd. (present)

Noboru Saito

Director, Senior Corporate
Officer, Chief Marketing
Officer (CMO)



Jan. 1985 Joined Nihon Unisys, Ltd.
Jul. 2007 Senior Project Manager, S-BITS Project, SW & Services, Nihon Unisys, Ltd.
Apr. 2011 General Manager, Financial 3, Nihon Unisys, Ltd.
Apr. 2012 Deputy Division Manager, Financial Business Division; General Nihon Unisys, Ltd.
Apr. 2014 Corporate Officer, General Manager, Corporate Planning, Nihon Unisys, Ltd.
Apr. 2016 Senior Corporate Officer, Nihon Unisys, Ltd.
Jun. 2016 Director, Senior Corporate Officer, Nihon Unisys, Ltd. (present)

Koji Katsuya

Director, Senior Corporate
Officer, Chief Digital Officer
(CDO), Chief Administrative
Officer (CAO)



Dec. 1992 General Manager of 2nd Research & Development Department, Manufacturing Technology Integration Laboratory, Strategic Manufacturing & Information Control System Division, Dai Nippon Printing Co., Ltd.
Oct. 2000 General Manager of 1st Technical Department, Production Division, Business Form & Securities Printing Operations (concurrently serving as) General Manager of Business Form & Securities Printing Laboratory, Dai Nippon Printing Co., Ltd.
Apr. 2002 General Manager of Production Division, DNP Data Techno Co., Ltd.
Jun. 2003 President, DNP Data Techno Co., Ltd.
Oct. 2009 General Manager of Research & Development Center, Dai Nippon Printing Co., Ltd.
Jun. 2010 Corporate Officer; General Manager of Research & Development Center, General Manager of Corporate R&D Division, Dai Nippon Printing Co., Ltd.
Jun. 2011 Corporate Officer, Dai Nippon Printing Co., Ltd.
Jun. 2014 Senior Corporate Officer, General Manager, 3rd Division Advanced Business Center, Dai Nippon Printing Co., Ltd.
Apr. 2018 Senior Corporate Officer, General Manager, 3rd Division Advanced Business Center, Dai Nippon Printing Co., Ltd. (present)
Jun. 2018 Director, Nihon Unisys, Ltd. (present)

Toshiki Sugimoto

Director



Apr. 1967 Joined the National Tax Agency; Head of the Kaibara Taxation Office, Osaka Regional Taxation Bureau; Consul of the Consulate-General of Japan in San Francisco; Director, 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
Sep. 1996 Started practice as a certified tax accountant
Apr. 1997 Professor, Department of Politics and Economics, Kokushikan University
Jun. 2002 Chairman, Yamada & Partners Certified Public Tax Accountants' Co.
Apr. 2003 Professor, Department of Economics, Kogakuin University
Apr. 2004 Professor, Graduate School of Global Business, Meiji University
Jun. 2004 Outside Auditor, BANDAI Co., Ltd.
Jun. 2006 Outside Auditor, Murata Manufacturing Co., Ltd.
Jun. 2012 Outside Auditor, DAIREI CO., LTD. (present)
Jun. 2013 Outside Director, Nihon Unisys, Ltd. (present)
May 2015 Outside Director, Gulliver International Co., Ltd. (present: IDOM)
Jun. 2015 Advisor, Yamada & Partners Certified Public Tax Accountants' Co. (present)

Go Kawada

Outside Director,
Independent Officer



Aug. 1988 Established Cre-en Incorporated and assumed position of Representative Director (present)
Oct. 2003 Secretary-General, Sustainability Forum Japan (specified nonprofit corporation) (present)
Jun. 2004 Director, Japan Sustainability Investment Forum (specified nonprofit corporation) (present)
Jun. 2015 Outside Director, Nihon Unisys, Ltd. (present)
Feb. 2017 Representative Director, Mirai RITA Foundation (general incorporated foundation) (present)

Ayako Sonoda

Outside Director,
Independent Officer

bers, and Corporate Officers



Chie Sato
Outside Director,
Independent Officer

Apr. 1992 Joined Japan Broadcasting Corporation (NHK)
May 2001 Graduated from Columbia Business School
Aug. 2001 Joined the Boston Consulting Group
Jun. 2003 Joined the Walt Disney Company (Japan) Ltd.
Jan. 2012 Became independent as author and consultant
Apr. 2014 Member of the Professional Graduate Business School Certified Evaluation and Accreditation Committee, The Japan University Accreditation Association (present)
Apr. 2016 Tokyo Broadcasting System Television (TBS) Program Practice Council Member (present)
Jun. 2017 Outside Director, Nihon Unisys, Ltd. (present)



Hirofumi Hashimoto
Auditor

Jun. 1992 Manager of Control Section, Planning & Control Department, Business Form & Securities Printing Operations, Dai Nippon Printing Co., Ltd.
Jan. 1997 P.T. DNP Indonesia
Apr. 2002 General Manager of Planning & Control Department, Commercial Planning Operations, Dai Nippon Printing Co., Ltd.
Apr. 2007 General Manager of Dynamic Advanced Communication Division, Commercial Planning Operations, Dai Nippon Printing Co., Ltd.
Nov. 2009 General Manager of Strategic Business Planning Department, Dai Nippon Printing Co., Ltd.
Jun. 2015 Corporate Officer, General Manager of Strategic Business Planning Department, Dai Nippon Printing Co., Ltd.
Oct. 2017 Corporate Officer, General Manager of Strategic Business Planning & Development Division, Dai Nippon Printing Co., Ltd.
Apr. 2018 Corporate Officer in charge of Strategic Business Planning & Development Division, Value Creation & Promotion Division, Dai Nippon Printing Co., Ltd.
Jun. 2018 Auditor, Nihon Unisys, Ltd. (present)
Senior Corporate Officer in charge of Strategic Business Planning & Development Division, Value Creation & Promotion Division, Dai Nippon Printing Co., Ltd.
May 2019 Senior Corporate Officer in charge of Strategic Business Planning & Development Division, Value Creation & Promotion Division, Sanaicho Office, Dai Nippon Printing Co., Ltd. (present)

Audit & Supervisory Board Members



Shinji Kuriyama
Full-Time Auditor

Apr. 1980 Joined Nihon Unisys, Ltd.
Apr. 2005 Director, Business Promotion, Business Management, Nihon Unisys, Ltd.
Apr. 2008 General Manager, Product Planning, Nihon Unisys, Ltd.
Apr. 2010 General Manager, Service and Product Planning, Nihon Unisys, Ltd.
Apr. 2013 General Manager, Chubu Regional Headquarters, Nihon Unisys, Ltd.
Apr. 2015 General Manager, Service and Product Planning, Nihon Unisys, Ltd.
Jun. 2016 Auditor (present)



Harumi Kojo
Outside Auditor,
Independent Officer

Apr. 1976 Admitted as an attorney-at-law in Japan
Jun. 1983 LLM at the University of Virginia School of Law, Master of Laws
Apr. 2001 Served as judge in the Tokyo High Court, Intellectual Property Division
Oct. 2005 Joined Sakai Mimura Law Office (name at the time)
Jan. 2015 Established Sakurazaka Law Offices (as Partner) (present)
Jun. 2017 Outside Auditor, Nihon Unisys, Ltd. (present)



Etsuo Uchiyama
Full-Time Auditor,
Outside Auditor,
Independent Officer

Apr. 1979 Joined The Norinchukin Bank
Jul. 1999 General Manager, Nagano Branch, The Norinchukin Bank
Jan. 2001 General Manager, Branch Administration Department, Planning Division, The Norinchukin Bank
Jul. 2003 General Manager, Sendai Branch, The Norinchukin Bank
Jul. 2005 General Manager, Coordination Division, The Norinchukin Bank
Jun. 2007 Managing Director, Member of the Board, The Norinchukin Bank
Jun. 2009 President & CEO, Nochu Business Support Co., Ltd.
Jun. 2014 Outside Auditor, Nihon Unisys, Ltd. (present)



Norimitsu Yanai
Outside Auditor,
Independent Officer

Nov. 1981 Joined Showa Audit Corporation (present: Ernst & Young ShinNihon LLC)
Mar. 1985 Registered as a Certified Public Accountant with the Japanese Institute of Certified Public Accountants (JICPA)
Jul. 1996 Partner of Showa Ota & Co. (present: Ernst & Young ShinNihon LLC)
Jul. 2000 Ernst & Young London
May 2002 Senior Partner of Ernst & Young ShinNihon LLC
Sep. 2007 Ernst & Young New York
Apr. 2009 Head of Multinational Client (MNC) Division, Ernst & Young ShinNihon LLC
Jul. 2011 Deputy Head of Assurance Division 3, Ernst & Young ShinNihon LLC
Jan. 2016 Part-time Auditor, Japan Pension Service (present)
Jun. 2017 Outside Auditor, Nihon Unisys, Ltd. (present)

Corporate Officers

Hirokazu Konishi
Senior Corporate Officer

Kazuo Nagai
Senior Corporate Officer

Norihiko Murata
Senior Corporate Officer

Hiroki Hyodo
Corporate Officer

Yasuhide Hatta
Corporate Officer

Hirofumi Hashimoto
Corporate Officer

Mitsuru Tamura
Corporate Officer

Tatsuya Sugai
Corporate Officer

Teruhisa Tanaka
Corporate Officer

Tsuneo Hoshi
Corporate Officer

Tetsuya Fujito
Corporate Officer

Gakuji Watanabe
Corporate Officer

Kumiko Shirai
Corporate Officer

Ken Tanaka
Corporate Officer

Naoshi Nagashima
Corporate Officer

Yuji Takeuchi
Corporate Officer

Naoya Okuyama
Corporate Officer

Takashi Sasaki
Corporate Officer

Hideki Moriguchi
Corporate Officer

Isao Miyata
Corporate Officer

Takashi Miyashita
Corporate Officer

Note: As part of its development of human resources that advocates a spirit of challenge, as of April 1, 2018 Nihon Unisys, Ltd. has introduced a system in which corporate officers retain the status of employee separate from its traditional delegation-type corporate officer system to proactively increase opportunities for the appointment of young employees.

Overview and Analysis of Results

(Nihon Unisys, Ltd. and consolidated subsidiaries)

Summary of FY2018 Results

Net Sales ¥299.0 billion Plan: ¥295.0 billion Year-on-year change: +¥12.1 billion (+4.2%) Growth in system services and outsourcing services	Net Sales in Priority Areas ¥35.5 billion Plan: ¥35.0 billion Year-on-year change: +¥8.5 billion*	
Operating Income ¥20.6 billion Plan: ¥18.0 billion Year-on-year change: +¥4.3 billion (+26.3%) Set new record high due to the increase in sales and improved profitability of system services	Operating Margin 6.9% Plan: 6.1% Year-on-year change: +1.2 points	ROE 13.1% Plan: 12%–15% Year-on-year change: +0.7 points

* FY2017 result defined as the total of "Digital Innovation" and "Life Innovation" net sales under the previous mid-term management plan.

In FY2020, which is the final year of mid-term management plan "Foresight in sight 2020," the core indicators for the Nihon Unisys Group will be improvement in the operating margin and expansion of business in priority areas. Targets are an operating margin of 8% or more, ¥320 billion in net sales, and ¥60 billion in net sales in priority areas, all on a consolidated basis.

During the period of mid-term management plan (FY2018–FY2020), the target for ROE is 12% to 15%, and the Group is working to enhance shareholder returns by achieving a consolidated dividend payout ratio of 40%. In FY2018, the first year of the plan, all indicators exceeded the plan for the year. ROE was 13.1% and the consolidated dividend payout ratio was 38.8%.

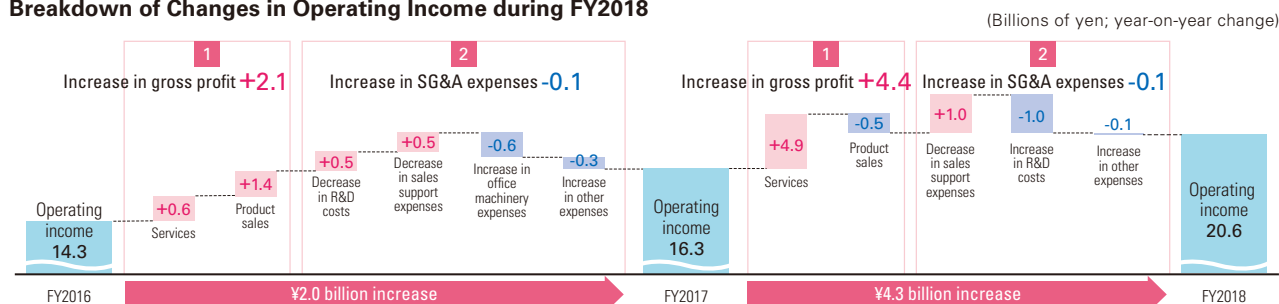
Operating Results [Consolidated Statement of Income: P. 54](#)

Net sales were ¥299.0 billion, an increase of ¥12.1 billion, or 4.2%, compared with the previous fiscal year, as a result of the expansion of digital transformation-related business and steady performance by system services and outsourcing services.

Gross profit increased ¥4.4 billion, or 6.3%, compared with the previous fiscal year, mainly due to increased profit from system services and outsourcing services. On the other hand, selling, general and administrative (SG&A) expenses increased

by just ¥0.1 billion, or 0.1% because selling expenses decreased due to the impact of downsizing of projects and expansion of agile software development, while research and development costs increased as a result of new business development. As a result, operating income was ¥20.6 billion, an increase of ¥4.3 billion, or 26.3%, compared with the previous fiscal year.

Breakdown of Changes in Operating Income during FY2018



Summary of Operating Results

(Billions of yen)

(FY)	2014	2015	2016	2017	2018	Change	Change (%)
Net sales	269.2	278.0	282.2	287.0	299.0	12.1	4.2
System services	83.4	89.8	89.6	90.5	96.0	5.5	6.0
Support services	55.2	55.4	54.1	52.8	53.6	0.8	1.4
Outsourcing	38.6	40.5	45.9	48.0	51.1	3.1	6.5
Software	30.7	30.0	29.7	33.1	33.9	0.8	2.3
Hardware	51.3	53.9	54.1	54.1	54.7	0.6	1.1
Other	9.8	8.5	8.8	8.4	9.8	1.3	16.0
Gross profit	63.4	64.6	66.7	68.8	73.2	4.4	6.3
System services	21.2	23.8	23.5	24.0	27.4	3.4	14.2
Support services	16.3	14.8	15.0	15.1	15.3	0.2	1.1
Outsourcing	7.7	8.8	10.6	10.8	12.0	1.2	11.4
Software	8.7	7.4	7.0	9.0	7.2	-1.7	-19.3
Hardware	7.0	7.4	8.4	8.0	9.1	1.2	14.9
Other	2.6	2.4	2.1	2.0	2.2	0.1	5.8
SG&A expenses	52.5	52.1	52.4	52.5	52.5	0.1	0.1
Operating income	10.9	12.5	14.3	16.3	20.6	4.3	26.3
(Operating margin)	4.1%	4.5%	5.1%	5.7%	6.9%	1.2 pts.	—
Net income attributable to owners of the parent	7.2	8.9	10.3	11.9	14.2	2.3	19.2

1 Results by Segment

		FY2018 Results
Services	System Services	The scope of the increase in gross profit expanded as a result of booking small- and medium-sized projects in the fourth quarter, mainly for digital transformation. Ongoing measures to improve productivity have been gradually showing results, and profitability steadily improved. Sales ↑ Gross profit ↑
	Support Services	Despite one-time costs for consolidating support bases, sales and gross profit increased due to an increase in demand for ancillary services related to the increase in product sales. Sales ↑ Gross profit ↑
	Outsourcing	Sales and gross profit increased due to the expansion of prioritized service-type and fee-based businesses, the effect of increased sales from a new project for a local government and an increase in outsourcing projects at a consolidated subsidiary, and the contribution from improvements in operational efficiency. Sales ↑ Gross profit ↑
Product sales	Software	Sales increased slightly, but gross profit decreased due to the absence of the many highly profitable projects recorded in the previous fiscal year. Sales ↑ Gross profit ↓
	Hardware	Sales and gross profit increased due to highly profitable projects for a financial institution and an electric power company, as well as sales of AI-related equipment. Sales ↑ Gross profit ↑

Strategy
Continue to expand high-value-added businesses and further improve profitability.
Continue to reform the cost structure through measures such as consolidating support bases to improve profitability.
Continue to aim for further business expansion through growth of service-type and fee-based businesses such as QR code and barcode payment/settlement services and platform development in the fields of energy management and MaaS in addition to conventional outsourcing services such as contracted administration of information systems and related services.
Increase profit by strengthening sales of front office solutions for enabling customer interaction.
Although a shift to the cloud is underway, primarily for servers, work to maintain or improve the profit level from product demand that is expected to remain unaffected by the shift, such as network product and IoT/AI-related equipment.

2 SG&A Expenses

Although selling expenses decreased due to a decrease in sales support expenses, general and administrative expenses increased due to an increase in research and development

costs for development of new services and other purposes.

As a result, SG&A expenses were ¥52.5 billion, an increase of ¥0.1 billion, or 0.1%, compared with the previous fiscal year.

Main Expenses

		(FY)	2014	2015	2016	2017	2018	Change
(Selling expenses)	Sales support expenses		6.3	6.1	5.6	5.1	4.1	-1.0
(General and administrative expenses)								
	Wages		25.1	25.6	25.2	25.5	26.4	0.9
	Retirement benefit expenses		1.1	0.8	1.9	1.9	1.0	-0.9
	Research and development costs		4.3	4.0	3.5	3.0	4.0	1.0
(Other)			15.7	15.6	16.3	17.0	17.0	0.1
SG&A expenses			52.5	52.1	52.4	52.5	52.5	0.1

Financial Condition Consolidated Balance Sheet: P. 52-53 Consolidated Statement of Cash Flows: P. 56

Net assets at the end of FY2018 increased ¥11.9 billion from a year earlier to ¥116.6 billion due to an increase in net income attributable to owners of the parent. As a result, ROE increased 0.7 points to 13.1%, the equity ratio increased 2.0 points to 54.2%, and net assets per share increased ¥115.69 to ¥1,142.41.

An important focus of the mid-term management plan is the investment strategy, which is premised on investments totaling

about ¥60 billion for FY2018–FY2020. For these investments, the Group intends to flexibly allocate funds to each investment area while observing the progress of each business and achievement of quantitative targets.

The necessary funds will basically be provided by cash flows and cash on hand generated from businesses in the core ICT area and priority areas where future growth is expected.

Business Environment

According to the Bank of Japan's Tankan survey ("Short-Term Economic Survey of Enterprises in Japan"), although investments in software decreased in some industries in FY2018, overall investment levels remained high. On the other hand, with the rapid advance of digitalization, customer requirements for ICT services are becoming more sophisticated and diverse, and competition is intensifying due to the entry of companies from different industries. We recognize that the environment in which the Nihon Unisys Group operates will become increasingly severe. Despite this, sales and gross profit in FY2018 increased as a result of the Group's efforts to meet customer demand for digital transformation and expansion of prioritized service-type and fee-based businesses.

Growth in Software Investment

		(FY)	2014	2015	2016	2017	2018
	Manufacturing		5.1	3.9	-5.1	6.3	6.1
	Non-Manufacturing		0.6	0.0	5.6	7.5	3.6
	All Industries (Manufacturing + Non-Manufacturing)		2.0	1.2	2.1	7.1	4.3
	Financial Institutions		-6.1	32.4	8.8	11.2	-9.8
	All Industries + Financial Institutions		0.1	7.8	3.9	8.5	-0.4

Source: Bank of Japan, *Short-Term Economic Survey of Enterprises in Japan* ("Tankan")

10-Year Summary

(Nihon Unisys, Ltd. and consolidated subsidiaries)

	FY2009	FY2010	FY2011
Fiscal Year			
Net sales	¥271,085	¥252,990	¥255,123
Operating income	7,106	6,527	7,311
Net income attributable to owners of the parent	3,627	2,575	(12,499)
Capital investment	15,541	12,678	11,559
Depreciation and amortization	13,425	15,328	12,155
Research and development costs	4,272	5,525	4,913
Net cash provided by (used in) operating activities	14,500	21,708	13,430
Net cash provided by (used in) investing activities	(14,701)	(11,168)	(10,642)
Free cash flows	(200)	10,539	2,788
Net cash provided by (used in) financing activities	(10,371)	(5,587)	(5,947)
Orders received	271,689	250,848	267,894
Fiscal Year-End			
Total assets	¥218,067	¥207,282	¥190,084
Total equity	76,927	76,770	63,223
Net interest-bearing debt	56,387	48,507	46,906
Shareholders' equity	75,494	75,514	61,923
Per Share Information			
Basic net income per share (Yen)	¥ 37.82	¥ 27.12	¥(132.99)
Net assets per share (Yen)	787.12	803.52	658.90
Cash dividends per share (Yen)	10.00	10.00	5.00
Other Information			
Dividend payout ratio (%)	26.4	36.9	—
Operating margin (%)	2.6	2.6	2.9
Return on equity (ROE) (%)	4.9	3.4	(18.2)
Equity ratio (%)	34.6	36.4	32.6
Net debt-to-equity ratio (Times)	0.75	0.64	0.76
Operating income per employee	0.73	0.69	0.79
Human Resource Data ^{*1}			
Consolidated number of employees	9,670	9,417	9,157
Paid leave utilization rate ^{*2} (%)	68.0	62.4	64.4
Ratio of employees with disabilities ^{*2} (%)	1.65	1.65	1.66
Ratio of management positions held by women ^{*3} (%)			
Employee turnover rate ^{*4} (%)			
Average monthly overtime hours worked per employee ^{*3}			
Annual training hours per employee ^{*5}			
Environmental Data ^{*6}			
Energy consumption intensity (kl/m ²)		0.1052	0.0889
CO ₂ emissions intensity (t/m ²)		0.1585	0.1193

Scope of calculation

*1. Nihon Unisys and UNIADEx

*2. Nihon Unisys up to and including FY2013. Nihon Unisys and UNIADEx for FY2014 and thereafter.

*3. Nihon Unisys up to and including FY2014. Nihon Unisys and UNIADEx for FY2015 and thereafter.

(Millions of yen)

FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
¥269,170	¥282,691	¥269,155	¥278,039	¥282,249	¥286,977	¥299,030
8,311	9,575	10,925	12,525	14,315	16,333	20,623
1,251	6,305	7,246	8,920	10,261	11,949	14,238
12,352	8,573	14,191	11,631	14,781	11,473	8,183
10,440	10,321	9,821	9,488	9,315	10,363	11,653
4,861	4,660	4,337	4,036	3,454	2,998	3,959
18,448	11,889	18,037	10,990	29,922	26,955	27,439
(11,443)	(8,289)	(10,548)	(10,566)	(15,906)	(13,227)	(10,586)
7,004	3,600	7,489	424	14,015	13,728	16,852
(8,985)	(151)	(12,887)	(8,185)	(11,757)	(12,977)	(8,227)
259,551	309,790	263,478	279,415	281,394	296,956	304,874
¥197,780	¥202,468	¥199,772	¥193,095	¥192,694	¥197,279	¥211,422
67,917	76,017	81,976	91,214	90,773	104,674	116,616
40,858	38,473	33,665	22,020	21,003	10,529	(3,375)
66,505	74,796	81,021	90,374	89,918	103,001	114,638
¥ 13.31	¥ 67.08	¥ 77.07	¥ 93.71	¥ 96.49	¥ 119.12	¥ 141.90
707.57	795.61	861.53	847.51	896.39	1,026.72	1,142.41
10.00	15.00	20.00	30.00	35.00	40.00	55.00
75.1	22.4	26.0	32.0	36.3	33.6	38.8
3.1	3.4	4.1	4.5	5.1	5.7	6.9
1.9	8.9	9.7	10.5	11.4	12.4	13.1
33.6	36.9	40.6	46.8	46.7	52.2	54.2
0.61	0.51	0.42	0.24	0.23	0.10	(0.03)
0.94	1.12	1.32	1.54	1.79	2.08	2.66
8,820	8,486	8,246	8,103	7,988	7,817	7,740
62.2	60.7	63.4	69.6	78.1	85.6	87.3
1.76	1.78	1.74	1.87	1.99	2.04	2.33
2.8	2.3	2.9	3.2	4.4	5.2	5.0
2.67	2.63	2.93	1.91	2.07	2.48	2.57
17.5	13.7	17.5	19.3	16.5	16.1	15.9
21.6	24.5	23.6	25.7	60.6	63.8	62.7
0.0904	0.0938	0.0826	0.0797	0.0681	0.0687	0.0659
0.1708	0.1595	0.1711	0.1570	0.1336	0.1308	0.1220

*4. Nihon Unisys, UNIADDEX, and USOL Holdings, as well as seven other regional companies and Netmarks (now UNIADDEX) for FY2013. Nihon Unisys, UNIADDEX, USOL Tokyo, and six other regional companies for FY2014. Nihon Unisys and UNIADDEX for FY2015 and thereafter.

*5. Nihon Unisys and UNIADDEX. Includes only the number of training hours for employee training program CAMP (Curriculum for Ambitious Managers and Professionals) up to and including FY2015.

*6. Nihon Unisys up to and including FY2013. Nihon Unisys, 16 other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2014. Nihon Unisys, eight other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2015. Nihon Unisys, seven other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2016. Nihon Unisys, ten other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2017 and thereafter.

Consolidated Balance Sheet

Nihon Unisys, Ltd. and Consolidated Subsidiaries
March 31, 2019

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Current Assets:			
Cash and cash equivalents (Notes 3 and 15)	¥27,201	¥18,575	\$245,076
Accounts receivable—trade (Notes 5 and 15)	72,480	68,650	653,032
Inventories (Note 6)	10,282	6,765	92,639
Prepaid expenses	12,012	11,360	108,226
Other	6,352	5,165	57,230
Allowance for doubtful accounts	(57)	(56)	(514)
Total current assets	<u>128,270</u>	<u>110,459</u>	<u>1,155,689</u>
Property, Plant and Equipment:			
Land	599	599	5,397
Buildings and structures (Note 7)	12,760	12,589	114,965
Machinery and equipment (Note 7)	38,331	39,322	345,355
Other	2,411	2,107	21,723
Total	<u>54,101</u>	<u>54,617</u>	<u>487,440</u>
Accumulated depreciation	<u>(39,851)</u>	<u>(38,224)</u>	<u>(359,050)</u>
Net property, plant and equipment	<u>14,250</u>	<u>16,393</u>	<u>128,390</u>
Investments and Other Assets:			
Investment securities (Notes 4 and 15)	21,120	20,439	190,287
Investments in associated companies	2,806	2,916	25,282
Goodwill	1,288	753	11,605
Software (Note 7)	19,983	22,253	180,043
Lease deposits	6,776	6,877	61,051
Asset for retirement benefits (Note 10)	7,088	3,557	63,862
Deferred tax assets (Note 9)	1,657	4,183	14,929
Other	8,491	9,764	76,502
Allowance for doubtful accounts	(307)	(315)	(2,766)
Total investments and other assets	<u>68,902</u>	<u>70,427</u>	<u>620,795</u>
Total	<u>¥211,422</u>	<u>¥197,279</u>	<u>\$1,904,874</u>

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Current Liabilities:			
Short-term bank loans (Notes 8 and 15)	¥1,050	¥1,350	\$9,460
Current portion of long-term debt (Notes 8 and 15)	5,255	5,492	47,347
Accounts payable—trade (Note 15)	26,009	21,820	234,336
Accounts payable—other	2,626	2,989	23,660
Income taxes payable (Note 9)	2,906	2,067	26,183
Accrued expenses	11,155	10,533	100,505
Advances received	15,762	14,458	142,013
Allowance for loss on contract development	653	227	5,883
Other	9,184	9,190	82,746
Total current liabilities	<u>74,600</u>	<u>68,126</u>	<u>672,133</u>
Long-Term Liabilities:			
Long-term debt (Notes 8 and 15)	16,635	21,153	149,878
Long-term accounts payable—other	17	17	153
Liability for retirement benefits (Note 10)	653	846	5,883
Asset retirement obligations	1,132	1,128	10,199
Other	1,769	1,335	15,939
Total long-term liabilities	<u>20,206</u>	<u>24,479</u>	<u>182,052</u>
Commitments and Contingent Liabilities (Note 14)			
Equity (Notes 11 and 12):			
Common stock—authorized, 300,000,000 shares; issued, 109,663,524 shares in 2019 and 2018	5,483	5,483	49,401
Capital surplus	14,909	14,361	134,327
Retained earnings	97,894	88,185	882,007
Treasury shares—at cost			
9,314,175 shares in 2019 and 9,340,521 shares in 2018	(13,541)	(13,578)	(122,002)
Stock acquisition rights	432	370	3,892
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	6,562	6,547	59,122
Foreign currency translation adjustment	(31)	6	(279)
Deferred gain (loss) on derivatives under hedge accounting	1		9
Remeasurements of defined benefit plan, net of tax	3,362	1,997	30,292
Total accumulated other comprehensive income	<u>115,071</u>	<u>103,371</u>	<u>1,036,769</u>
Non-controlling interests	<u>1,545</u>	<u>1,303</u>	<u>13,920</u>
Total equity	<u>116,616</u>	<u>104,674</u>	<u>1,050,689</u>
Total	<u>¥211,422</u>	<u>¥197,279</u>	<u>\$1,904,874</u>

See notes to consolidated financial statements.

Consolidated Statement of Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2019	2018	2019
Net sales	¥299,030	¥286,977	\$2,694,207
Cost of sales (Note 10)	<u>225,860</u>	<u>218,174</u>	<u>2,034,958</u>
Gross profit	73,170	68,803	659,249
Selling, general and administrative expenses (Notes 10 and 13)	<u>52,547</u>	<u>52,470</u>	<u>473,439</u>
Operating income	20,623	16,333	185,810
Other income (expenses):			
Interest and dividend income	475	417	4,280
Interest expense	(99)	(127)	(892)
Gain on sales of investment securities (Note 4)	133	5	1,198
Loss on valuation of investment securities	(775)	(30)	(6,983)
Loss on impairment of long-lived assets (Note 7)	(362)	(576)	(3,262)
Equity in losses of associated companies	(574)	(22)	(5,172)
Sales promotion premium	95	45	856
Loss on sales and retirement of noncurrent assets	(14)	(73)	(126)
Gain on transfer of business		108	0
Settlement package		(606)	0
Loss on investments in partnership	(177)	(128)	(1,595)
Other—net	166	185	1,497
Other expenses—net	<u>(1,132)</u>	<u>(802)</u>	<u>(10,199)</u>
Income before income taxes	19,491	15,531	175,611
Income taxes (Note 9):			
Current	3,150	1,977	28,381
Deferred	1,907	1,488	17,182
Total income taxes	<u>5,057</u>	<u>3,465</u>	<u>45,563</u>
Net income	<u>14,434</u>	<u>12,066</u>	<u>130,048</u>
Net income attributable to non-controlling interests	196	117	1,766
Net income attributable to owners of the parent	<u>¥14,238</u>	<u>¥11,949</u>	<u>\$128,282</u>
Per Share Amounts (Notes 2.t and 18):	<i>Yen</i>	<i>Yen</i>	<i>U.S. Dollars</i>
Basic net income	¥141.90	¥119.12	\$1.28
Diluted net income	141.40	118.68	1.27
Cash dividends applicable to the year	55.00	40.00	0.50

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2019	2018	2019
Net income	¥14,434	¥12,066	\$130,048
Other comprehensive income (Note 17):			
Unrealized gain on available-for-sale securities	15	1,921	135
Deferred gain (loss) on derivatives under hedge accounting	1	(1)	9
Remeasurements of defined benefit plans, net of tax	1,365	2,803	12,298
Share of other comprehensive income of entities accounted for using equity method	(38)	5	(342)
Total other comprehensive income	<u>1,343</u>	<u>4,728</u>	<u>12,100</u>
Comprehensive income	<u>¥15,777</u>	<u>¥16,794</u>	<u>\$142,148</u>
Total comprehensive income attributable to (Note 17):			
Owners of the parent	¥15,581	¥16,677	\$140,382
Non-controlling interests	196	117	1,766

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	Thousands	Millions of Yen				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock -at cost	Stock acquisition rights
Balance, March 31, 2017	100,312	¥5,483	¥14,201	¥80,005	¥(13,592)	¥294
Net income attributable to owners of the parent				11,949		
Cash dividends				(3,762)		
Purchase of treasury stock					(1)	
Disposal of treasury stock	11			(7)	15	
Change in ownership interest of parent due to transactions with non-controlling interests			160			
Net changes in items						76
Net changes during the year	11		160	8,180	14	76
Balance, March 31, 2018	100,323	¥5,483	¥14,361	¥88,185	¥(13,578)	¥370
Net income attributable to owners of the parent				14,238		
Cash dividends				(4,515)		
Purchase of treasury stock					(1)	
Disposal of treasury stock	26			(14)	38	
Change in ownership interest of parent due to transactions with non-controlling interests			548			
Net changes in items						62
Net changes during the year	26		548	9,709	37	62
Balance, March 31, 2019	100,349	¥5,483	¥14,909	¥97,894	¥(13,541)	¥432

	Millions of Yen						
	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustment	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, 2017	¥4,626		¥2	¥(806)	¥90,213	¥560	¥90,773
Net income attributable to owners of the parent					11,949		11,949
Cash dividends					(3,762)		(3,762)
Purchase of treasury stock					(1)		(1)
Disposal of treasury stock					8		8
Change in ownership interest of parent due to transactions with non-controlling interests					160		160
Net changes in items	1,921	¥6	(2)	2,803	4,804	743	5,547
Net changes during the year	1,921	6	(2)	2,803	13,158	743	13,901
Balance, March 31, 2018	¥6,547	¥6	¥	¥1,997	¥103,371	¥1,303	¥104,674
Net income attributable to owners of the parent					14,238		14,238
Cash dividends					(4,515)		(4,515)
Purchase of treasury stock					(1)		(1)
Disposal of treasury stock					24		24
Change in ownership interest of parent due to transactions with non-controlling interests					548		548
Net changes in items	15	(37)	1	1,365	1,406	242	1,648
Net changes during the year	15	(37)	1	1,365	11,700	242	11,942
Balance, March 31, 2019	¥6,562	¥(31)	¥1	¥3,362	¥115,071	¥1,545	¥116,616

Thousands of U.S. Dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock -at cost	Stock acquisition rights
Balance, March 31, 2018	\$49,401	\$129,390	\$794,530	\$(122,335)	\$3,333
Net income attributable to owners of the parent			128,282		
Cash dividends			(40,679)		
Purchase of treasury stock				(9)	
Disposal of treasury stock			(126)	342	
Change in ownership interest of parent due to transactions with non-controlling interests		4,937			
Net changes in items					559
Net changes during the year		4,937	87,477	333	559
Balance, March 31, 2019	\$49,401	\$134,327	\$882,007	\$(122,002)	\$3,892

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income				Total	Non-controlling interests	Total equity
	Unrealized gain on available- for-sale securities	Foreign currency translation adjustment	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defined benefit plans, net of tax			
Balance, March 31, 2018	\$58,987	\$54		\$17,994	\$931,354	\$11,740	\$943,094
Net income attributable to owners of the parent					128,282		128,282
Cash dividends					(40,679)		(40,679)
Purchase of treasury stock					(9)		(9)
Disposal of treasury stock					216		216
Change in ownership interest of parent due to transactions with non-controlling interests					4,937		4,937
Net changes in items	135	(333)	\$9	12,298	12,668	2,180	14,848
Net changes during the year	135	(333)	9	12,298	105,415	2,180	107,595
Balance, March 31, 2019	\$59,122	\$(279)	\$9	\$30,292	\$1,036,769	\$13,920	\$1,050,689

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2019	2018	2019
Operating Activities:			
Income before income taxes	¥19,491	¥15,531	\$175,610
Adjustments for:			
Income taxes paid	(2,413)	(1,676)	(21,741)
Loss on impairment of long-lived assets	362	576	3,262
Depreciation and amortization	11,537	10,280	103,946
Amortization of goodwill	116	84	1,045
Equity in losses of associated companies	574	22	5,172
Net gain on sales of investment securities	(127)	(2)	(1,144)
Loss on valuation of investment securities	775	30	6,983
(Increase) decrease in accounts receivable—trade	(3,830)	1,626	(34,508)
(Increase) decrease in inventories	(3,516)	945	(31,679)
Increase in advances paid	(1,083)	(329)	(9,758)
Decrease in interest and dividends receivable	2	2	18
Increase in asset for retirement benefits	(3,531)	(2,611)	(31,814)
Increase in remeasurement of defined benefit plans	1,966	4,044	17,713
Decrease in liability for retirement benefits	(192)	(1,226)	(1,730)
Increase (decrease) in accounts payable—trade	4,189	(789)	37,742
Decrease in interest payable	(1)	(2)	(9)
Increase in accrued expenses	622	548	5,604
Increase (decrease) in allowance for loss on contract development	426	(85)	3,838
(Decrease) increase in other allowance	(318)	116	(2,865)
Other—net	2,390	(129)	21,536
Total adjustments	7,948	11,424	71,611
Net cash provided by operating activities	27,439	26,955	247,221
Investing Activities:			
Proceeds from sales of property, plant and equipment	27	26	243
Payments for purchases of property, plant and equipment	(2,925)	(3,665)	(26,354)
Payments for purchases of software	(4,667)	(6,916)	(42,049)
Proceeds from sales of investment securities	271	37	2,442
Payments for purchases of investment securities	(2,308)	(2,812)	(20,795)
Origination of loans to associated companies	(230)		(2,072)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(733)		(6,604)
Proceeds from transfer of business		110	
Other—net	(21)	(7)	(189)
Net cash used in investing activities	(10,586)	(13,227)	(95,378)
Financing Activities:			
Net decrease in short-term bank loans	(300)	1,000	(2,703)
Proceeds from long-term debt	738	6,363	6,649
Repayments of long-term debt	(5,493)	(11,008)	(49,491)
Proceeds from sales and leasebacks	1,099	1	9,902
Repayments of other debt	(594)	(462)	(5,352)
Decrease in commercial paper		(6,000)	
Cash dividends	(4,511)	(3,759)	(40,643)
Cash dividends to non-controlling interests	(64)	(42)	(577)
Proceeds from sales of shares of subsidiaries without changes in the scope of consolidation	900	930	8,109
Other—net	(2)		(18)
Net cash used in financing activities	(8,227)	(12,977)	(74,124)
Net increase in Cash and Cash Equivalents	8,626	751	77,719
Cash and Cash Equivalents, Beginning of Year	18,575	17,824	167,357
Cash and Cash Equivalents, End of Year	¥27,201	¥18,575	\$245,076

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2019

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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 financial statements to conform them to the classifications used in 2019.

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 ¥110.99 to \$1, the approximate rate of exchange at March 31, 2019. 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, 2019 include the accounts of the Company and its 13 (13 as of March 31, 2018) significant subsidiaries and two (two as of March 31, 2018) associated companies accounted for by the equity method (collectively, the "Group").

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 7 (7 as of March 31, 2018) unconsolidated subsidiaries are excluded from the scope of consolidation because the portion of their assets, net income (loss), retained earnings, and other amounts that correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

The remaining 7 (7 as of March 31, 2018) unconsolidated subsidiaries and 12 (12 as of March 31, 2018) associated companies are not accounted for by the equity method because the portion of their net income (loss), retained earnings, and other amounts 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 the reasonably estimated amortization period of 20 years or less.

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.

Investments in partnership are valued at the net amount proportionate to the Company's ownership interests, based on the financial statements for the most recent fiscal year available.

(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 rent and computers for outsourcing services 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 versions 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, which is principally over three years. Software for internal use is amortized by the straight-line method over the estimated useful lives, principally over five to ten 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 (\$450 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 accumulated other comprehensive income in equity, 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 (\$450 thousand) or more for the years ended March 31, 2019 and 2018, 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.
- (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 that 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) New Accounting Pronouncements

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

The Company expects to apply the accounting standard and guidance effective April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

(x) Changes in Presentation

Effective April 1, 2018, the Company adopted the "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" (ASBJ Statement No. 28, February 16, 2018) and changed its presentation of deferred tax assets and liabilities on the balance sheet and notes thereto.

Due to this change, ¥5,397 million of deferred tax assets, which was previously shown under current assets, is included in the deferred tax assets under investments and other assets. Additionally, ¥1,357 million of deferred tax liabilities, which was previously included in "Other" under long-term liabilities, is net against deferred tax assets since deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority shall be net out. As a result, the total assets as of March 31, 2018 decreased by ¥1,357 million compared to the previously disclosed financial statements.

In addition to above, reclassifications have been made to prior periods to conform to the current year presentation;

(1) **Consolidated statement of income** – The following accounts which were previously included in "Other-net" are disclosed as separate line items from the year ended March 31, 2019 since the amounts became significant: "Sales promotion premium," "Gain on sales of investment securities," "Equity in losses of associated companies" and "Loss on valuation of investment securities." The amounts included in "Other-net" for the year ended March 31, 2018 are reclassified to respective accounts to conform to the presentation for the year ended March 31, 2019.

(2) **Consolidated statement of cash flows** – The following accounts which were previously included in "Other-net" under respective cash flow activities are disclosed as separate line items from the year ended March 31, 2019 since the amounts became significant: "Equity in losses of associated companies," "Loss on valuation of investment securities" and "Proceeds from sales and leasebacks." The amounts included in corresponding "Other-net" for the year ended March 31, 2018 are reclassified to respective accounts to conform to the presentation for the year ended March 31, 2019.

"Payments for asset retirement obligations," which was previously disclosed separately, is included in "Other-net" under investing activities from the year ended March 31, 2019, as the amount is deemed immaterial. The amount included in "Other-net" for the year ended March 31, 2018, was ¥8 million. Similarly, "Purchase of treasury stock" is also included in "Other-net" under financing activities due to its immateriality. The amount included for the year ended March 31, 2018 was ¥(1) million.

3. Cash equivalents

Cash equivalents at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Cash and time deposits	¥27,201	¥18,575	\$245,076
Total	¥27,201	¥18,575	\$245,076

4. Investment securities

Investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Trust fund investments and other	¥2		\$18
Total	¥2		\$18
Noncurrent:			
Equity securities	¥18,937	¥18,982	\$170,619
Trust fund investments and other	2,183	1,457	19,668
Total	¥21,120	¥20,439	\$190,287

The costs and aggregate fair values of investment securities at March 31, 2019 and 2018, were as follows:

March 31, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	¥7,544	¥9,401	¥(156)	¥16,789
Other	34	7		41
Total	¥7,578	¥9,408	¥(156)	¥16,830

March 31, 2018	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	¥7,897	¥9,490	¥(204)	¥17,183
Other	34	6		40
Total	¥7,931	¥9,496	¥(204)	¥17,223

March 31, 2019	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	\$67,970	\$84,701	\$(1,406)	\$151,265
Other	306	63		369
Total	\$68,276	\$84,764	\$(1,406)	\$151,634

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, 2019 and 2018, the carrying values of unlisted securities were ¥4,291 million (\$38,661 thousand) and ¥3,215 million, respectively.

Information regarding available-for-sale securities sold during the years ended March 31, 2019 and 2018, were as follows:

March 31, 2019	<i>Millions of Yen</i>		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	¥272	¥133	¥(5)
Other			
Total	¥272	¥133	¥(5)

March 31, 2018	<i>Millions of Yen</i>		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	¥37	¥5	¥(3)
Other			
Total	¥37	¥5	¥(3)

March 31, 2019	<i>Thousands of U.S. Dollars</i>		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	\$2,451	\$1,198	\$(45)
Other			
Total	\$2,451	\$1,198	\$(45)

Impairment losses on available-for-sale equity securities for the years ended March 31, 2019 and 2018, were ¥775 million (\$6,983 thousand) and ¥30 million, respectively.

5. Accounts receivable—trade

Costs and estimated earnings recognized with respect to construction contracts accounted for by the percentage-of-completion method at March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Costs and estimated earnings	¥4,911	¥4,351	\$44,247
Amount billed	(207)	(330)	(1,865)
Total	¥4,704	¥4,021	\$42,382

6. Inventories

Inventories at March 31, 2019 and 2018, consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Work in process	¥1,948	¥1,426	\$17,551
Merchandise and finished products	8,248	5,211	74,313
Supplies	86	128	775
Total	¥10,282	¥6,765	\$92,639

7. Long-lived assets

The Group reviewed its long-lived assets for impairment as of March 31, 2019 and 2018. As for certain assets used for application services, the Group determined that the total of expected future cash flows was below their carrying value.

As for internal use assets, certain assets were determined to be disposed of as of March 31, 2019, and the future use of certain systems was no longer expected as of March 31, 2018. 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 amounts.

The recoverable amounts of those asset groups were measured at their value in use. 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, 2019 and 2018, consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Internal use assets:			
Software		¥119	
Buildings and structures	¥74		\$667
Other (equipment)	15		135
Total	¥89	¥119	\$802
	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Application services:			
Machinery and equipment		¥15	
Software	¥244	234	\$2,198
Other	29	208	262
Total	¥273	¥457	\$2,460

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

Short-term bank loans of ¥1,050 million (\$9,460 thousand) and ¥1,350 million at March 31, 2019 and 2018, bore interest at a rate of approximately 0.27% and 0.25%, respectively.

Long-term debt and convertible bonds at March 31, 2019 and 2018, consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Unsecured loans from banks and insurance companies, 0.23% to 0.45%, due serially to 2025	¥21,890	¥26,645	\$197,225
Total	21,890	26,645	197,225
Less current portion	(5,255)	(5,492)	(47,347)
Long-term debt less current portion	¥16,635	¥21,153	\$149,878

The annual maturities of long-term debt and convertible bonds subsequent to March 31, 2019 are as follows:

<i>Year Ending March 31</i>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
2020	¥5,255	\$47,347
2021	5,467	49,257
2022	4,318	38,904
2023	5,750	51,806
2024		
2025	1,100	9,911
Total	¥21,890	\$197,225

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 30.6% and 30.9% for each of the years ended March 31, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Current assets:			
Deferred tax assets:			
Accrued bonuses	¥2,887	¥2,700	\$26,011
Depreciation expense	1,600	1,493	14,416
Loss on impairment of long-lived assets	1,333	1,536	12,010
Inventory valuation	1,066	1,040	9,604
Tax loss carryforwards	690	2,965	6,217
Revenue recognized for tax purposes	392	828	3,532
Accrued business and office taxes	370	326	3,334
Asset retirement obligations	346	345	3,117
Liability for retirement benefits	206	231	1,856
Allowance for loss on contract development	200	71	1,802
Allowance for doubtful accounts	111	112	1,000
Unrealized profit of inventories	86	123	775
Other	1,549	1,570	13,956
Total	10,836	13,340	97,630
Less valuation allowance	(3,938)	(4,993)	(35,481)
Total	¥6,898	¥8,347	\$62,149
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	¥(2,811)	¥(2,812)	\$(25,327)
Asset for retirement benefits	(2,169)	(1,088)	(19,542)
Other	(261)	(264)	(2,351)
Total	¥(5,241)	¥(4,164)	\$(47,220)
Net current deferred tax assets	¥1,657	¥4,183	\$14,929

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, 2019 and 2018, was as follows:

	2019	2018
Normal effective statutory tax rate	30.6%	30.9%
Expenses not deductible for income tax purposes	0.7	1.0
Nontaxable items	(0.3)	(0.3)
Decrease in valuation allowance	(5.4)	(9.5)
Effect of difference between effective tax rate and future effective tax rate	(0.1)	0.4
Amount of per capita local tax	0.7	0.8
Amortization of goodwill	0.2	0.2
Equity in losses of associated companies	0.9	
Other—net	(1.4)	(1.2)
Actual effective tax rate	25.9%	22.3%

The Company omitted the disclosure of tax loss carryforwards due to immateriality in amount at March 31, 2019.

10. Retirement and Pension Plans

The Company and UNIADDEX, Ltd. have defined benefit corporate pension plans (cash balance plans) and defined contribution pension plans (retirement benefit prepayment plan option is also available) covering substantially all of their employees. Other consolidated subsidiaries have defined benefit corporate pension plans, defined contribution pension plans, and severance lump-sum payment plans.

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 voluntary retirement.

Changes in the liability for retirement benefit obligations for the years ended March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Retirement benefit obligation, beginning of year (as previously reported)	¥107,328	¥109,908	\$967,006
Service cost	2,199	2,271	19,813
Interest cost	494	505	4,451
Actuarial losses	(1,695)	(289)	(15,272)
Payments for retirement benefit	(4,872)	(5,067)	(43,896)
Retirement benefit obligation, end of year	¥103,454	¥107,328	\$932,102

Changes in the pension assets for the years ended March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Pension assets, beginning of year	¥110,197	¥109,041	\$992,855
Expected return on assets	1,653	1,636	14,893
Actuarial gains (losses)	(485)	885	(4,370)
Contributions from the employer	3,277	3,677	29,525
Payments for retirement benefit	(4,715)	(5,042)	(42,480)
Pension assets, end of year	¥109,927	¥110,197	\$990,423

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, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Funded defined benefit obligation	¥(102,839)	¥(106,640)	\$(926,561)
Plan assets	109,927	110,197	990,423
Total	7,088	3,557	63,862
Unfunded defined benefit obligation	(615)	(688)	(5,541)
Net asset (liabilities) arising from defined benefit obligation	¥6,473	¥2,869	\$58,321
Liability for retirement benefits	¥(615)	¥(688)	\$(5,541)
Asset for retirement benefits	7,088	3,557	63,862
Net asset (liabilities) arising from defined benefit obligation	¥6,473	¥2,869	\$58,321

The liability for retirement benefits on the consolidated balance sheets at March 31, 2019 and 2018, included the following liabilities:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Allowance for the "NCSP"	¥158	¥375	\$1,423
Current portion	(120)	(216)	(1,081)
Net noncurrent portion	¥38	¥158	\$342

Total charges relating to allowance for the NCSP for the years ended March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Allowance for the "NCSP"	¥(106)	¥19	\$(955)

The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were set forth as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Service cost *1	¥2,199	¥2,271	\$19,813
Interest cost	494	505	4,451
Expected return on assets	(1,653)	(1,635)	(14,893)
Cost of actuarial gains and losses	756	2,869	6,811
Retirement benefit cost of defined benefit plans	¥1,796	¥4,010	\$16,182
Other *2	¥1,090	¥1,089	\$9,821

*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 years ended March 31, 2019 and 2018, were ¥940 million (\$8,469 thousand) and ¥936 million, respectively, and contributions to a multi-employer plan to be accounted for and to a defined contribution pension plan in the years ended March 31, 2019 and 2018, were ¥9 million (\$81 thousand) and ¥11 million, respectively.

Amounts recognized in other comprehensive income as remeasurements of defined benefit plans (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Actuarial gains (losses)	¥1,966	¥4,044	\$17,713

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Unrecognized actuarial losses	¥(4,844)	¥(2,878)	\$(43,644)

Breakdown of pension assets:

	<i>Millions of Yen</i>	
	2019	2018
Bonds	49%	48%
Life insurance	14	14
Stocks	10	12
Cash and cash equivalents	10	12
Other	17	14
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:

	2019	2018
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 3.5% (average)	mainly 3.4% (average)

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, 2019, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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
2017 Stock Option	5 directors; 13 employees; 3 subsidiaries' directors; 6 subsidiaries' employees	94,000 shares	July 14, 2017	¥1 \$0.01	From July 1, 2018 to June 30, 2048
2018 Stock Option	5 directors; 10 employees; 4 subsidiaries' directors; 5 subsidiaries' employees	56,000 shares	July 13, 2018	¥1 \$0.01	From July 1, 2019 to June 30, 2049

The Company's stock option activity was as follows:

	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)	2017 Stock Option (Shares)	2018 Stock Option (Shares)
For the year ended March 31, 2018						
<u>Nonvested</u>						
March 31, 2017—Outstanding						
Granted					94,000	
Canceled						
Vested					94,000	
March 31, 2018—Outstanding						
<u>Vested</u>						
March 31, 2017—Outstanding	17,900	105,300	86,600	85,000		
Vested					94,000	
Exercised	1,400	7,400	1,800			
Canceled *1					44,700	
March 31, 2018—Outstanding	16,500	97,900	84,800	85,000	49,300	
For the year ended March 31, 2019						
<u>Nonvested</u>						
March 31, 2018—Outstanding						
Granted						56,000
Canceled						
Vested						56,000
March 31, 2019—Outstanding						
<u>Vested</u>						
March 31, 2018—Outstanding	16,500	97,900	84,800	85,000	49,300	
Vested						56,000
Exercised	2,600	14,200	5,100	4,900		
Canceled *1						22,600
March 31, 2019—Outstanding	13,900	83,700	79,700	80,100	49,300	33,400
Exercise price	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise	¥2,692 \$24.25	¥2,632 \$23.71	¥2,624 \$23.64	¥2,588 \$23.32		
Fair value price at grant date	¥553 \$4.98	¥706 \$6.36	¥1,256 \$11.32	¥1,174 \$10.58	¥1,728 \$15.57	¥2,572 \$23.17

*1 This represents the number of stock options issued but cancelled during the year of issuance due to failure to achieve the performance targets for the respective year.

Assumptions Used to Measure the Fair Value of the 2018 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	27.517%
Estimated remaining outstanding period:	3.89 years
Estimated dividend:	¥40 (\$0.36) per share
Risk-free interest rate:	(0.117)%

13. Research and development costs

Research and development costs charged to income were ¥3,959 million (\$35,670 thousand) and ¥2,998 million for the years ended March 31, 2019 and 2018, respectively.

14. Leases

The minimum rental commitments under noncancellable operating leases at March 31, 2019 and 2018 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Due within one year	¥666	¥774	\$6,001
Due after one year	354	1,020	3,189
Total	¥1,020	¥1,794	\$9,190

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 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 relationship 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.

*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

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

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 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 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>
	2019	2018	2019
Investments in unconsolidated subsidiaries and associated companies	¥2,734	¥2,843	\$24,633
Investments in equity instruments that do not have a quoted market price in an active market	¥2,147	¥1,799	\$19,344
Other	¥2,144	¥1,416	\$19,317

(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, 2019				
Cash and cash equivalents	¥27,201			
Accounts receivable—trade	72,480			
Investment securities				
Available-for-sale securities:				
Other	2		¥1,180	¥1,420
Total	¥99,683		¥1,180	¥1,420

	<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, 2018				
Cash and cash equivalents	¥18,575			
Accounts receivable—trade	68,650			
Investment securities				
Available-for-sale securities:				
Other		¥14	¥137	¥1,266
Total	¥87,225	¥14	¥137	¥1,266

	<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, 2019				
Cash and cash equivalents	\$245,076			
Accounts receivable—trade	653,032			
Investment securities				
Available-for-sale securities:				
Other	18		\$10,632	\$12,794
Total	\$898,126		\$10,632	\$12,794

*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, 2019 and 2018.

Derivative transactions to which hedge accounting is applied at March 31, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
March 31, 2019				
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥72		¥2
- Forward contracts applied for designated transactions	Payables	427		(*) ²
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt			(*) ³

<i>Millions of Yen</i>				
<u>March 31, 2018</u>	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥8		¥0
- Forward contracts applied for designated transactions	Payables	497		(*) ²
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt			(*) ³
<i>Thousands of U.S. Dollars</i>				
<u>March 31, 2019</u>	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	\$649		\$18
- Forward contracts applied for designated transactions	Payables	3,847		(*) ²
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt			(*) 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, 2019 and 2018, the Company held ¥2,375 million (\$21,398 thousand) and ¥3,063 million of long-term loans, respectively, 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, 2019 and 2018, were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
(Losses) gains arising during the year	¥(162)	¥2,786	\$(1,460)
Reclassification adjustments to profit or loss	175	(4)	1,577
Amount before income tax effect	13	2,782	117
Income tax effect	2	(861)	18
Total	¥15	¥1,921	\$135
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥1	¥(1)	\$9
Reclassification adjustments to profit or loss			
Amount before income tax effect	1	(1)	9
Income tax effect	(0)	0	0
Total	¥1	¥(1)	\$9
Deferred gain (loss) on defined benefit plans:			
Gains arising during the year	¥1,211	¥1,175	\$10,911
Reclassification adjustments to profit or loss	755	2,868	6,802
Amount before income tax effect	1,966	4,043	17,713
Income tax effect	(601)	(1,240)	(5,415)
Total	¥1,365	¥2,803	\$12,298
Share of other comprehensive income in associated companies accounted for using equity method:			
(Losses) gains arising during the year	¥(37)	¥5	\$(333)
Total other comprehensive income (loss)	¥1,343	¥4,728	\$12,100

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, 2019 and 2018, 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, 2019				
Basic EPS				
Net income available to common shareholders	¥14,238	100,337	¥141.90	\$1.28
Effect of dilutive securities:				
Convertible bonds				
Warrants		360		
Diluted EPS—Net income for computation	¥14,238	100,697	¥141.40	\$1.27
For the year ended March 31, 2018				
Basic EPS				
Net income available to common shareholders	¥11,949	100,315	¥119.12	
Effect of dilutive securities:				
Convertible bonds				
Warrants		362		
Diluted EPS—Net income for computation	¥11,949	100,677	¥118.69	

19. Related-party transactions

There were no significant transactions with related parties for the years ended March 31, 2019 and 2018.

20. Segment information

For the years ended March 31, 2019 and 2018

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 for which 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 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									
	2019									
	Reportable segments					Total	Other (1)	Total	Reconcil- iations (2)	Consoli- dated (3)
System Services	Support Services	Out- sourcing	Software	Hardware						
Sales	¥95,973	¥53,579	¥51,148	¥33,877	¥54,677	¥289,254	¥9,776	¥299,030		¥299,030
Segment profit	27,357	15,289	11,994	7,239	9,133	71,012	2,158	73,170	¥(52,547)	20,623
Segment assets	1,799	1,215	20,376	5,281	5,092	33,763	252	34,015	177,407	211,422
Other:										
Depreciation	109	137	6,805	2,053	490	9,594	111	9,705	1,832	11,537
Increase in property, plant and equipment and intangible assets	139	77	4,719	1,525	174	6,634	34	6,668	1,515	8,183
Loss on impairment of long-lived assets			272			272		272	90	362
Goodwill:										
Amortization									116	116
Balance									1,288	1,288

(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 ¥(52,547) million consists of selling, general and administrative expenses of ¥(48,472) million not allocable to the reportable segments, research and development costs of ¥(3,959) million, and amortization of goodwill of ¥(116) million.

Reconciliation of segment assets of ¥177,407 million consists of corporate assets not allocable to the reportable segments.

Reconciliation of depreciation expense of ¥1,832 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 ¥1,515 million consists of an 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									
	2018									
	Reportable segments						Other (1)	Total	Reconcil- iations (2)	Consoli- dated (3)
System Services	Support Services	Out- sourcing	Software	Hardware	Total					
Sales	¥90,509	¥52,822	¥48,017	¥33,103	¥54,098	¥278,549	¥8,428	¥286,977		¥286,977
Segment profit	23,960	15,123	10,765	8,966	7,950	66,764	2,039	68,803	¥(52,470)	16,333
Segment assets	1,573	1,459	21,686	5,076	3,998	33,792	199	33,991	164,645	198,636
Other:										
Depreciation	104	281	5,693	1,814	579	8,471	72	8,543	1,737	10,280
Increase in property, plant and equipment and intangible assets	95	85	6,782	2,450	369	9,781	48	9,829	1,644	11,473
Loss on impairment of long-lived assets			457			457		457	119	576
Goodwill:										
Amortization									83	83
Balance									753	753

(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 ¥(52,470) million consists of selling, general and administrative expenses of ¥(49,388) million not allocable to the reportable segments, research and development costs of ¥(2,998) million, and amortization of goodwill of ¥(84) million.

Reconciliation of segment assets of ¥164,645 million consists of corporate assets not allocable to the reportable segments.

Reconciliation of depreciation expense of ¥1,737 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 ¥1,644 million consists of an increase in corporate assets not allocable to the reportable segments.

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

	Thousands of U.S. Dollars									
	2019									
	Reportable segments						Other (1)	Total	Reconcil- iations (2)	Consoli- dated (3)
System Services	Support Services	Out- sourcing	Software	Hardware	Total					
Sales	\$864,700	\$482,737	\$460,834	\$305,226	\$492,630	\$2,606,127	\$88,080	\$2,694,207		\$2,694,207
Segment profit	246,482	137,751	108,064	65,222	82,287	639,806	19,443	659,249	\$(473,439)	185,810
Segment assets	16,209	10,947	183,584	47,581	45,878	304,199	2,270	306,469	1,598,405	1,904,874
Other:										
Depreciation	982	1,234	61,312	18,497	4,415	86,440	1,000	87,440	16,506	103,946
Increase in property, plant and equipment and intangible assets	1,252	694	42,517	13,740	1,568	59,771	306	60,077	13,650	73,727
Loss on impairment of long-lived assets			2,451			2,451		2,451	811	3,262
Goodwill:										
Amortization									1,045	1,045
Balance									11,605	11,605

(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 \$(473,439) million consists of selling, general and administrative expenses of \$(436,724) million not allocable to the reportable segments, research and development costs of \$(35,670) million, and amortization of goodwill of \$(1,045) million.

Reconciliation of segment assets of \$1,598,405 million consists of corporate assets not allocable to the reportable segments.

Reconciliation of depreciation expense of \$16,506 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 \$13,650 million consists of an 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, 2019 and 2018, 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 26, 2019, 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, ¥30.00 (\$0.27) per share	<u>¥3,010</u>	<u>\$27,120</u>

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, 2019, 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, 2019, 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 26, 2019

ESG Information

The Nihon Unisys Group's ESG Initiatives

Environment

- Value Creation in Priority Areas [P. 8-9](#)
- Response to the Environment [P. 38](#)

- Providing ICT services that contribute to climate change mitigation and adaptation
- Promoting effective use of resources and energy, response to climate change and business activities that consider biodiversity

Social

- Value Creation in Priority Areas [P. 8-9](#)
- Human Resource Strategy [P. 30-33](#)
- Risk Management [P. 34-38](#)

- Helping to realize a resilient society where people can live with peace of mind by providing safe and secure services throughout the value chain
- Developing human resources who can detect social issues and design business ecosystems

Governance

- Corporate Governance [P. 39-47](#)

- Establishment and operation of a corporate governance structure that enables transparent and speedy decision making that is effective in the evolution of business models and the value creation process

Initiatives Leading to Improved Corporate Value

- Providing solutions and services that help reduce environmental impact and improve energy efficiency (cloud services, environment-related solutions, etc.)
- Use of an environmentally friendly data center
- Procurement of products and services with low environmental impact in accordance with Green Procurement Guidelines
- Acquisition of ISO 14001 environmental management system certification

- Development of human resources capable of responding in new technology fields and development of management leaders
- Promoting diversity (increasing the ratio of female managers, appointing female executives, ensuring diversity in the Board of Directors and the Audit & Supervisory Board)
- Work style reform, reduction of overtime, telework, promotion of health management
- Promotion of cyber security strategy (acquisition of ISO 27001 information security management system certification)
- Acquisition of Privacy Mark certification

- Nomination and Remuneration Committee: Chaired by an independent outside director
- Remuneration system for directors and Audit & Supervisory Board members: Introduction of performance-based remuneration system and stock option system
- Capital efficiency: Establishment of target ROE level during the term of the mid-term management plan
- Shareholder returns: Policy of stable, performance-linked returns to shareholders
- Evaluation of effectiveness of the Board of Directors: Conducted yearly

Participation in Global Initiatives, Acquisition of Third-Party Certifications

- UN Global Compact
- ISO 14001
- ISO/IEC 27001:2013, JIS Q 27001:2014
- ISO 9001
- Privacy Mark certification

External Evaluations

- Top Hundred Telework Pioneer Award from the Minister for Internal Affairs and Communications
- Ikumen Company Award 2018 Grand Prize, Work-Life Balance Support Category
- 2018 Nadeshiko Brand (Semi-Nadeshiko)
- 2019 Certified Health & Productivity Management Outstanding Organization (White 500)
- FY2018 New Diversity Management Selection 100
- Platinum Kurumin certification
- Eruboshi certification
- PRIDE Index 2018 Gold (highest) rating and others

**Initiatives Leading to Reduced Risk
(Improved Sustainability)**

- Establishment of an environmental activity promotion system (internal environmental audit, legal compliance)
- Environmental preservation activities (conducting environmental education for all Group employees, reducing energy consumption, promoting recycling, etc.)

- Creation of a quality assurance system (obtaining ISO 9001 certification)
- Establishment of Procurement and Transaction Guidelines for the supply chain
- Respect for human rights (creation of guidelines for preventing harassment, etc.)
- Ensuring employee health and safety (implementation of hygiene committee initiatives, health management)
- Promotion of compliance (establishment of an employee consultation desk)
- Formulation of a BCP

- Structure: Company with Audit & Supervisory Board
- Board of Directors: 9 directors (including 3 independent outside directors)
- Audit & Supervisory Board: 5 members (including 3 independent outside members)
- Advisors: None

Main ESG Data

P. 12-13 P. 50-51 Website

(FY)

Related Indicators and Other Information	2016	2017	2018
Energy consumption (kl)* ¹	9,411	7,927	7,613
Greenhouse gas emissions (t-CO ₂)* ¹	18,464	15,100	14,107
Energy consumption intensity (kl/m ²)* ¹	0.0681	0.0687	0.0659
Greenhouse gas emissions intensity (t/m ²)* ¹	0.1336	0.1308	0.1220
Recycling rate* ²	58.9%	68.8%	78.5%
Ratio of management positions held by women* ³	4.4%	5.2%	5.0%
Ratio of female employees	16.0%	16.6%	17.6%
Ratio of employees with disabilities* ³	1.99%	2.04%	2.33%
Average monthly overtime hours worked per employee* ³	16.5	16.1	15.9
Paid leave utilization rate* ³	78.1%	85.6%	87.3%
Employee turnover rate* ³	2.07%	2.48%	2.57%
Board of Directors/Audit & Supervisory Board	Board of Directors: 33% are independent outside directors (3 of 9 directors) Audit & Supervisory Board: 60% are independent outside members (3 of 5 directors)		
Shareholder Returns	Policy: Aim for a 40% dividend payout ratio (FY2018–FY2020) Actual: 38.8% (FY2018), 7 consecutive years of dividend increases since FY2012		
Capital Efficiency (ROE)	Plan: 12%–15% (FY2018–FY2020) Actual: 13.1% (FY2018), maintained at 10% or higher since FY2015		

*1. Nihon Unisys and 7 other companies, Nihon Unisys Health Insurance Society, Nihon Unisys Corporate Pension Fund for FY2016. Nihon Unisys and 10 other companies, Nihon Unisys Health Insurance Society, Nihon Unisys Corporate Pension Fund for FY2017 and thereafter.

*2. Recycling rate at head office *3. Nihon Unisys and UNIADDEX

Inclusion in ESG Indexes

- MSCI Japan ESG Select Leaders Index
- MSCI Japan Empowering Women Index (WIN)
- S&P/JPX Carbon Efficient Index



► See our website for more details on our sustainability initiatives.
<https://www.unisys.co.jp/csr/> (Available in Japanese only)

The inclusion of Nihon Unisys, Ltd. in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of Nihon Unisys, Ltd. by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

Corporate Information

(As of March 31, 2019)

Corporate Data

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	7,740 (consolidated)		Other: Sapporo Techno-Center, Tokyo Education Center, and Izu Executive Center

Overview of the Nihon Unisys Group

Business process	Company name
Marketing and Business Development and Consulting	Nihon Unisys, Ltd.
	UEL Corporation
	Cambridge Technology Partners, Ltd.
	AFAS Inc.
	Canal Payment Service, Ltd.
	Canal Globe, Ltd.
	Canal Ventures, Ltd.
	Canal Ventures Collaboration Fund 1 Investment Limited Partnership
Total Infrastructure Services	UNIADEX, Ltd.
	S&I Co., Ltd.
System Services	USOL VIETNAM Co., Ltd.
	International Systems Development Co., Ltd.
	G&U System Service, Ltd.
Outsourcing	TRADE VISION, Ltd.

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., NUL System Services Corporation, and NUL Accessibility, Ltd.

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 2019 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)

<https://www.unisys.co.jp/invest-e/ir/ar.html>

Overall Corporate Activities

<https://www.unisys.co.jp/e/>

Investor Relations

<https://www.unisys.co.jp/invest-e/>

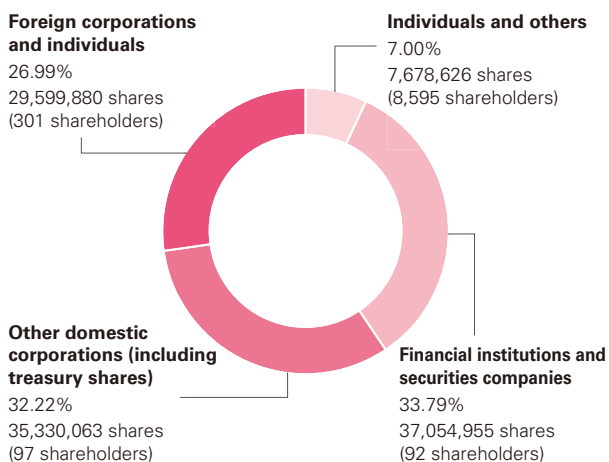
Sustainability Information
(Japanese only)

<https://www.unisys.co.jp/csr/>

Stock Information

Classification of Shareholders

Number of shares issued	109,663,524 shares
Number of shareholders	9,085 shareholders

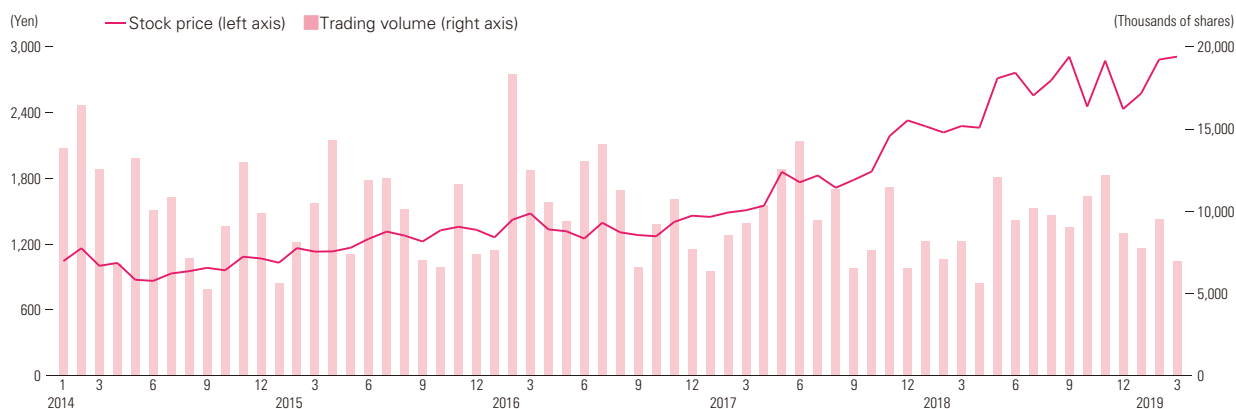


Principal Shareholders

Name	Number of shares held (Thousands of shares)	Holding ratio (%)
Dai Nippon Printing Co., Ltd.	20,727	20.65
Japan Trustee Services Bank, Ltd. (Trust account)	10,450	10.41
The Master Trust Bank of Japan, Ltd. (Trust account)	8,820	8.78
The Norinchukin Bank	4,653	4.63
Mitsui & Co., Ltd.	2,448	2.43
GOVERNMENT OF NORWAY	2,139	2.13
Nihon Unisys Employees' Shareholding Society	1,821	1.81
ANA HOLDINGS INC.	1,794	1.78
THE BANK OF NEW YORK MELLON 140040	1,355	1.35
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account, Mitsubishi Electric Corporation Account)	1,271	1.26

Note: Nihon Unisys, Ltd. retains 9,314,175 treasury shares (holding ratio: 8.49%).

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 the following year. In principle, this report covers FY2018 (April 1, 2018 to March 31, 2019), with activities during past fiscal years and conditions following FY2018 also reported as necessary.

Notes Concerning Forward-Looking Statements

Statements in this report that refer to the current plans, projections or strategies of Nihon Unisys, Ltd. or the Nihon Unisys Group, 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, and the Group makes no guarantee of the reliability of such forecasts. This information is also subject to change without notice. The purpose of this report is to provide information for use as a reference in making investment decisions, and it has not been prepared to solicit investment. Nihon Unisys, Ltd. assumes no liability for any damages resulting from the use of this report.

Reference Guidelines

- International Integrated Reporting Framework from the International Integrated Reporting Council
- Sustainability Reporting Standards 2016 from the Global Reporting Initiative (GRI)
- ISO 26000, JIS Z 26000
- Guidance for Collaborative Value Creation from the Ministry of Economy, Trade and Industry of Japan



Issued

- November 2019

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Finance Department

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We welcome feedback on its contents.