

Analysis of Results of Operations, Financial Condition, and Cash Flows

Analysis of Results of Operations

In the fiscal year under review, ended March 31, 2011, the Japanese economy saw the recovery of exports, production, and corporate income. However, severe operating conditions persisted due to the Japanese economy's dependence on other economies, coupled with the effects of the Great East Japan Earthquake, which occurred on March 11, 2011. In the information service market, investment in information systems by corporations was more or less consistent with the previous fiscal year's levels. However, the sense of uncertainty in the market grew and the harsh operating environment continued.

Net Sales

In this environment, consolidated net sales decreased ¥18,095 million year on year, or 6.7%, to ¥252,990 million, due to lower sales in all segments.

Financial results for each segment are as follows.

● System Services

The System Services segment consists of contracted software development, system-related services, and consulting. Net sales in this segment decreased 9.0%, to ¥73,521 million.

● Support Services

The Support Services segment consists of support services for software, support services for hardware, and installation services. Net sales in this segment decreased 5.1%, to ¥53,974 million.

● Outsourcing

The Outsourcing segment consists of contracted administration of information system and others. Net sales in this segment decreased 2.8%, to ¥28,424 million.

● Netmarks Services

The Netmarks Services segment consists of network system integration. Net sales in this segment decreased 8.0%, to ¥20,293 million.

● Software

The Software segment consists of providing software under a software license agreement. Net sales in this segment decreased 4.7%, to ¥26,813 million.

● Hardware

The Hardware segment consists of providing hardware under a sales contract or a lease contract. Net sales in this segment decreased 9.4%, to ¥34,816 million.

● Other

The Other segment comprises businesses not included in other reportable segments, such as the printing business. Net sales in this segment decreased 2.4%, to ¥15,149 million.

Note: The figures cited above do not include consumption tax.

Operating Income

Gross profit decreased ¥3,043 million year on year, or 4.4%, to ¥65,881 million, due to lower net sales subsequently resulting in lower income.

Selling, general and administrative expenses decreased ¥2,464 million, or 4.0%, to ¥59,354 million. This was due to the effects of cost reduction measures resulting in decreases in employee salaries of ¥1,512 million, retirement benefits of ¥762 million, OA expenses of ¥631 million, and office expenses of ¥380 million. These decreases helped offset a ¥1,252 million increase in R&D expenditure.

As a result of the above, operating income decreased ¥579 million, or 8.1%, to ¥6,527 million.

Net Income

Net income decreased ¥1,052 million, or 29.0%, to ¥2,575 million.

While there was an increase in gain on sales of investments in subsidiaries and associated companies, however, this could not compensate for the effects of a one-time amortization of goodwill and the adoption of the Accounting Standard for Asset Retirement Obligations.

Analysis of Financial Condition

Balance Sheet

At the end of the fiscal year under review, the total assets of the Nihon Unisys Group amounted to ¥207,282 million, representing a year-on-year decrease of ¥10,785 million.

Total current assets at the end of the fiscal year decreased ¥7,850 million due to a ¥10,995 million decrease in accounts receivable-trade and a ¥1,840 million decrease in inventories, which offset a ¥4,953 million increase in cash and cash equivalents. Total non-current assets decreased ¥2,935 million as a result of year-on-year decreases of ¥2,193 million in net property, plant and equipment, including machinery and equipment and ¥1,164 in goodwill.

Total liabilities decreased ¥10,628 million, to ¥130,512 million, primarily as the result of lower accounts payable-trade and the Company's efforts to repay its debt.

Total equity decreased ¥157 million, to ¥76,770 million. Net income increased retained earnings, although the payment of cash dividends and the recording of a loss on retirement of treasury stock

that occurred as a result of the share exchange conducted when acquiring NETMARKS INC. as a wholly owned subsidiary resulted in a decrease in assets. The shareholders' equity ratio was 1.8 percentage points higher at 36.4%.

Analysis of Cash Flows

Cash and cash equivalents (hereinafter referred to as "cash") for the fiscal year under review increased ¥4,953 million, to ¥30,414 million. This reflects the fact that cash provided by operating activities was used to invest in non-current assets, through means such as the development of ICT services software, and to retire debt.

● Cash Flows from Operating Activities

Net cash provided by operating activities in the fiscal year under review totaled ¥21,708 million, an increase of ¥7,208 million year on year. Major inflows included ¥3,840 million in income before income taxes and minority interests, down ¥1,566 million, and non-cash items such as ¥13,374 million in depreciation and amortization, up ¥165 million, and decrease in accounts receivable–trade of ¥10,130 million, compared with increase in accounts receivable–trade of ¥3,968 million in the previous fiscal year. Major outflows included decrease in accounts payable–trade of ¥3,165 million, up ¥1,646 million, and decrease in allowance for restructuring charges of ¥2,609 million, down ¥943 million.

● Cash Flows from Investing Activities

Net cash used in investing activities was ¥11,168 million, down ¥3,533 million year on year. This mainly reflects the fact that the Company used ¥3,320 million in payments for purchases of property, plant and equipment such as computers for sales activities, ¥1,023 million less than was used in the previous fiscal year, and ¥7,720 million in payments for purchases of software in relation to the development of software for ICT services, ¥3,184 less than was used in the previous fiscal year.

● Cash Flows from Financing Activities

Net cash used in financing activities during the fiscal year under review was ¥5,587 million, a decrease of ¥4,784 million year on year. Major inflows included ¥15,988 million in proceeds from long-term debt, an increase of ¥188 million, and net increase in commercial paper of ¥4,000 million, compared with net decrease in commercial paper of ¥2,000 million in the previous fiscal year. Major outflows include net decrease in short-term bank loans of ¥5,700 million, down ¥1,329 million, and ¥16,652 million in repayments of long-term debt, up ¥1,300 million.

Working Capital Requirements

The Nihon Unisys Group requires sufficient operating capital to pay for outsourced systems and support services as well as to purchase computers and software for sales, leasing, and outsourcing purposes. Operating capital is also required to meet operating expenses such as manufacturing costs and selling, general and administrative expenses. Operating expenses consist primarily of personnel costs, sales support costs, and R&D expenditure. The main components of sales support costs and R&D expenditure are personnel costs for systems engineers. The Group's policy is to meet our operating capital requirements for these purposes mainly from net cash provided by operating activities.

To ensure reliable, flexible access to funds and improve our financial efficiency, the Group has established commitment lines with five banks. The unused balance of these commitment lines as of March 31, 2011, stood at ¥15,000 million.

Dividend Policy

The Company will seek to continue issuing stable shareholder returns based on the understanding that the increase of corporate value is the most important means of repaying shareholders. The Company will target a 20% consolidated dividend payout pursuant to the policy of paying dividends in accordance with performance. The dividend amount will be decided by making due consideration for such factors as securing internal reserves for business development and also comprehensively considering the business environment.

The Company follows our basic policy of paying dividends from retained earnings twice a year through interim and year-end dividends. Year-end dividends are decided at the general shareholders' meeting, while the Board of Directors is responsible for determining the interim dividend.

For the year ended March 31, 2011, targeting stable dividend payments, the Company paid annual dividends of ¥10.00 per share, consisting of an interim dividend of ¥5.00 per share and a year-end dividend of ¥5.00 per share, equivalent to the previous fiscal year.