Foresight in sight

Nihon Unisys Group

Integrated Report 2016

For the Year Ended March 31, 2016

Corporate Philosophy

Our Mission

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

Our Vision

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

Our Values

1. Pursuit of High Quality and High Technology

Always have the latest knowledge that is useful for society while improving our skills

2. Respect for Individuals and Importance of Teamwork

Identify each other's good points, encourage each other to improve those good points and harness the strengths of each person

3. Attractive Company for Society, Customers, Shareholders and Employees

Listen sincerely to our stakeholders to improve our corporate value

Nihon Unisys Group Charter of Corporate Behavior

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

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

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

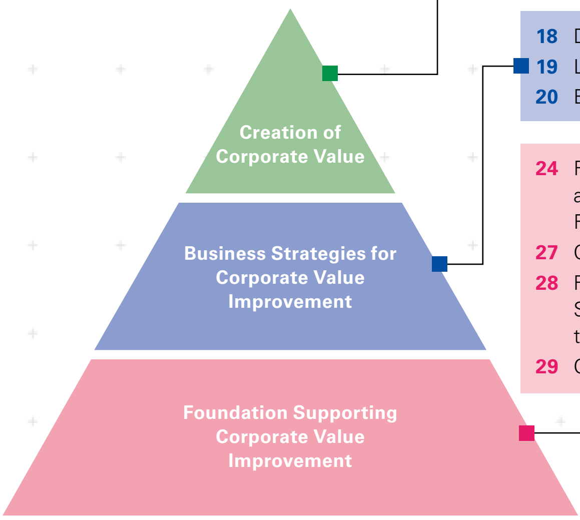
*** Core subjects and issues of social responsibility**
The seven core subjects of ISO 26000, the international guidance relating to social responsibility: Organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, community involvement and development,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

Foresight in sight

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

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

Composition of *Integrated Report 2016*



Contents

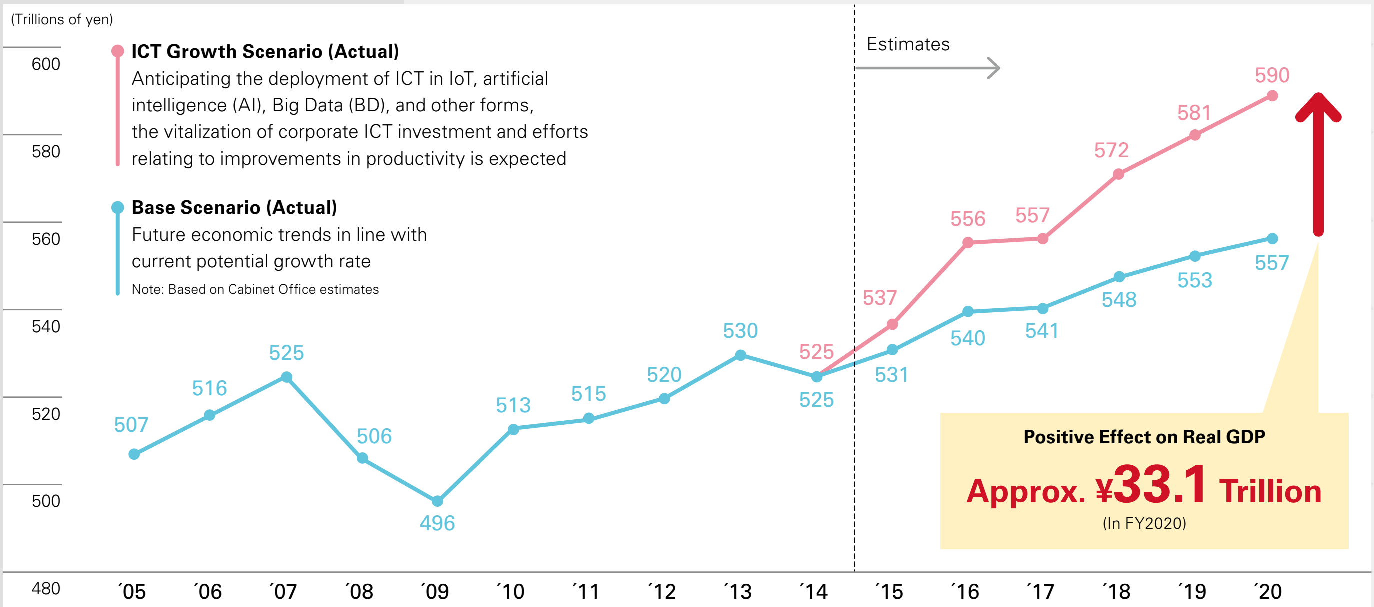
Three Elements We Want to Share toward Our Vision

As We Approach Major Turning Point Due to Digital Revolution, ICT Is Having Significant Impact on Society

Our lifestyles are currently about to undergo major changes. The factors accelerating those changes are digital capabilities. By means of small, inexpensive, and high-performance digital devices crammed full of our personal data and ICT—including cloud services, social media, and IoT*—that is now more deeply integrated into society than ever before, the era when everything is freely connected and linked together is presenting itself. The times are changing, the pace of change is accelerating, and the time when companies could continue to innovate independently has come to an end. Possessing a variety of value, several companies share visions and strategies, and business ecosystems that achieve prosperous co-existence are being formed by ongoing collaboration. We will become a business ecosystem core, and a great deal of effort will be required in continuing to create services and businesses that have anticipated the future.

* IoT (Internet of Things): Interconnection of various elements within the Internet infrastructure

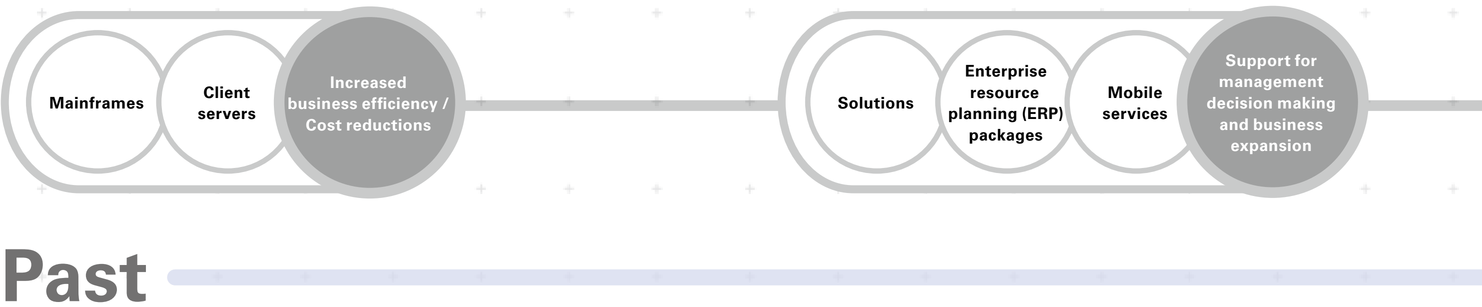
Positive Effect on Real GDP in ICT Growth Scenario



Reference: Based on "2015 WHITE PAPER Information and Communications in Japan" (Ministry of Internal Affairs and Communications)
http://www.soumu.go.jp/johotsusintokei/whitepaper/ja/h28/pdf/n1300000.pdf

Role Changes Being Demanded of the IT Industry

From Value Provided in Services to Users



1 Strategic Positioning

Q For what is Nihon Unisys aiming?

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

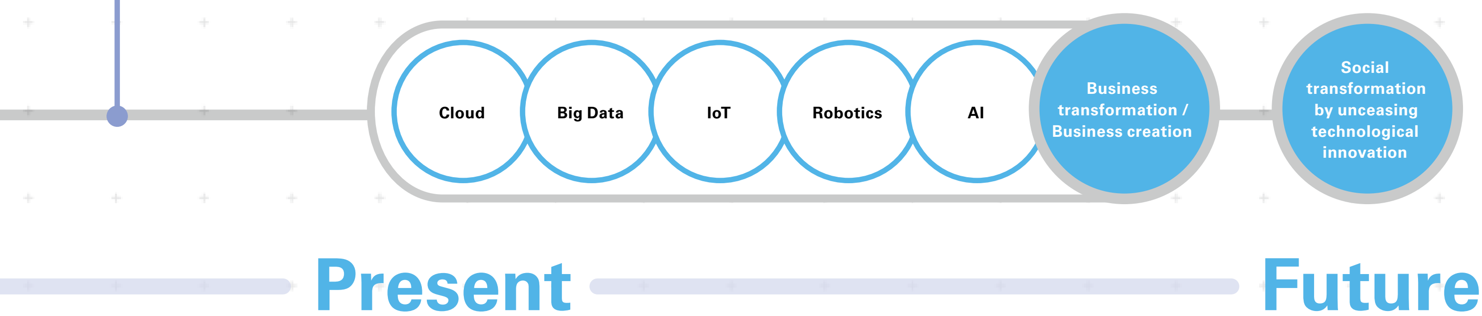
To Realize the Vision for which We are Aiming

- **We will create business ecosystems that connect different industries and solve social problems**
  Amid the innovative services that continue to be created by the diversification of business models and the more widespread use of IoT, the Nihon Unisys Group will become the core in business ecosystems, in which a variety of companies collaborate, to create innovative services.

- **Why is the Nihon Unisys Group focusing on business ecosystems?**
- The creation of businesses that have the solving of social problems as their starting points is needed to survive in an era in which business is already falling victim to the advances made in digitization.
- As major social problems cannot be solved by one type of industry alone, what is needed are business ecosystems that will undertake collaboration beyond the boundaries of individual industries.
- At that time, we believe it will be advantageous for the Nihon Unisys Group, which possesses the know-how to build the platforms that will be called for by business ecosystems in certain types of industry and vendor channels, to become the core of such business ecosystems.

Business Ecosystem Model

To Service Use Value for Users



2

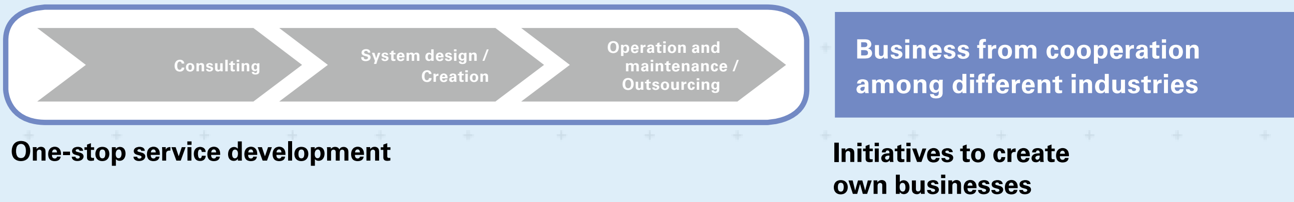
Strategy

Q In what way is Nihon Unisys involved?

A In providing the platforms that will become the core of business ecosystems, we aim to create a combination of internal and external assets.

Fulfilling the role of a catalyst that promotes the growth of business ecosystems, we are giving thought to what extent we can derive business by extending platforms.

Nihon Unisys Group Business Model



3

Organization Capability

Q What are the strengths that will make your vision a reality?

A These strengths are the advanced technological capabilities and an extensive customer base accumulated in the course of our 58-year history.

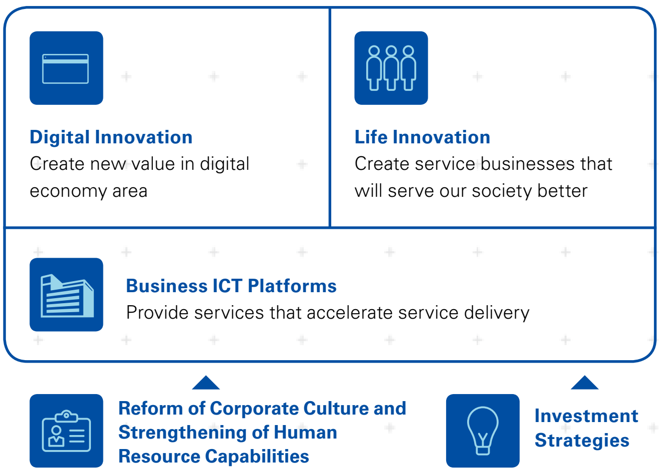
We installed Japan's first commercial computer, created the systems that underpin society and industry, and, with the quality of these systems increasing dramatically, paved the way to today's information society. As a systems integrator and service provider, the Nihon Unisys Group meets the needs of the times, was the first to build up a track record in the form of ICT services, and has strong, long-standing relationships of trust that have been built with customers on the basis of technological capabilities, field capabilities, and our creed of placing the customer first.

Mid-Term Management Plan

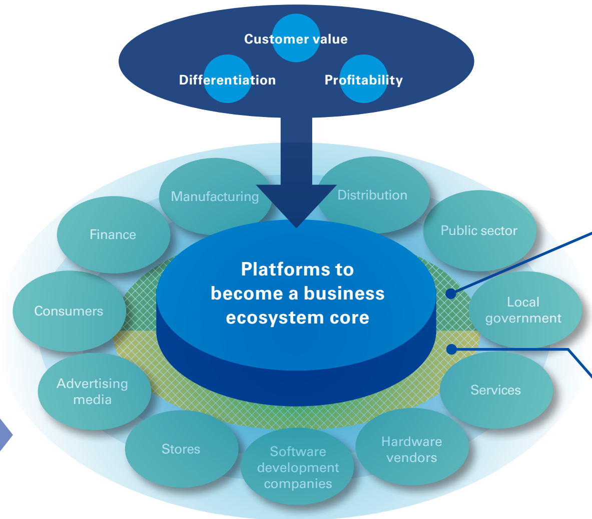
Toward the realization of our vision, we launched our new three-year mid-term management plan in FY2015.

Taking on the challenges in the areas of digital innovation and life innovation, the Group is working as one to promote, as a strategic policy, the reform of business ICT platforms that underpin these areas.

Our Mid-Term Vision
Mobilize services based on interconnected businesses.
Build our future through ICT advances.



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



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

What is a business ecosystem?

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

The Nihon Unisys Group will create platforms to become a business ecosystem core and aims to create a combination of internal and external assets.

Open and Closed Strategy

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

Open Innovation Strategy

There is a need to collaborate with new partners who have ideas or possess technologies the Group lacks, and this requires an "ability to discern" that can assess those ideas and technologies. We are advancing measures to hone this "ability to discern."

Strengths for Creating Business Ecosystems

Strength 1
Collaborative relationships with customers from various types of industries

Strength 2
Capabilities for enabling successful system implementation

Strength 3
Capabilities for enabling one-stop support that is free from vendor lock-in

Strength 4
Capabilities for designing and delivering new services

Strategic Policies: Implementation of Five Measures for Reform

Challenges

Digital Innovation

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

Life Innovation

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

Reform

Business ICT Platforms

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

Reform of Corporate Culture and Strengthening of Human Resource Capabilities

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

Investment Strategies

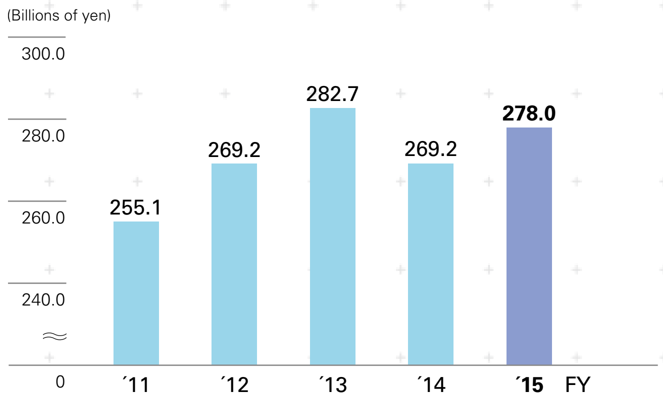
Focusing on investments in Challenges and Reform categories as well as Strengthening of Human Resource Capabilities

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

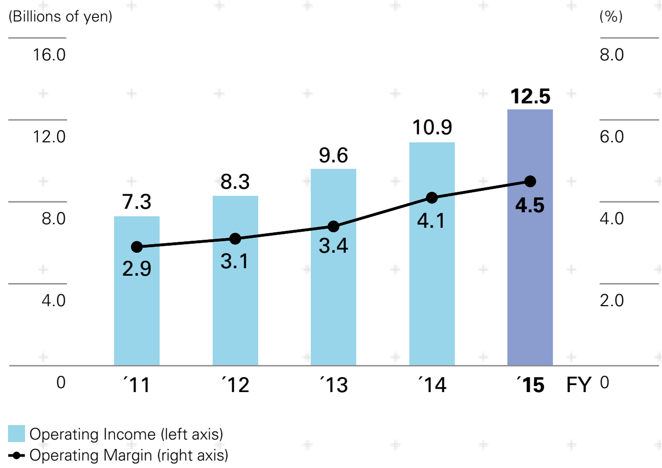
Financial Highlights

Nihon Unisys and Its Consolidated Subsidiaries

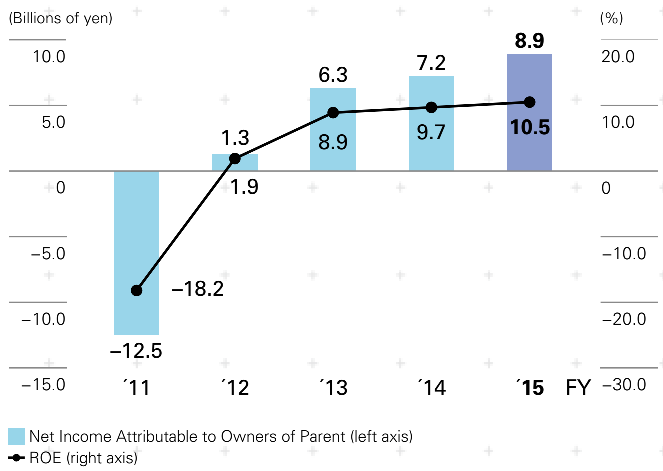
Net Sales



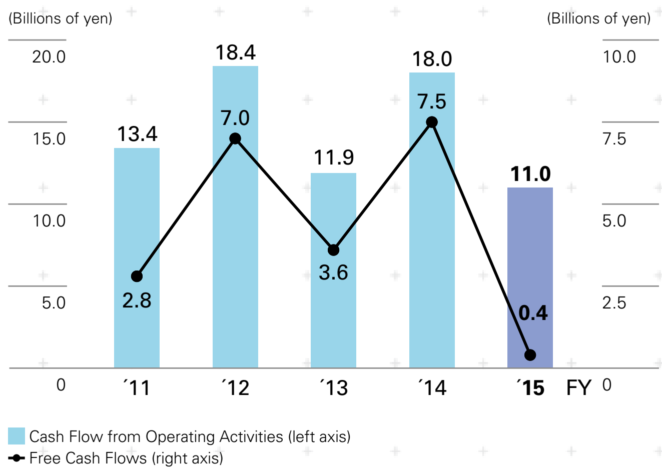
Operating Income / Operating Margin



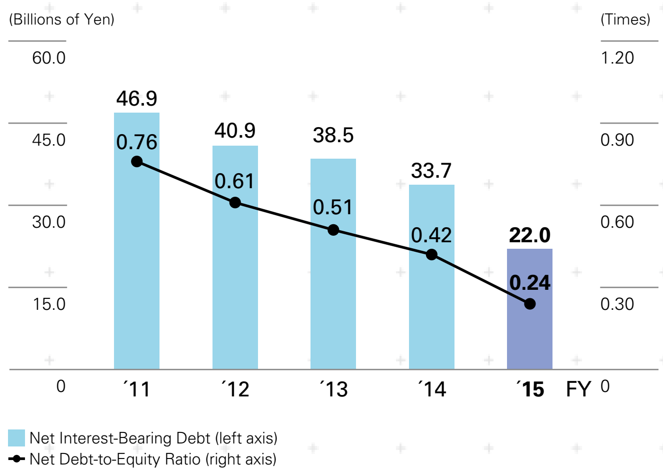
Net Income Attributable to Owners of Parent / ROE



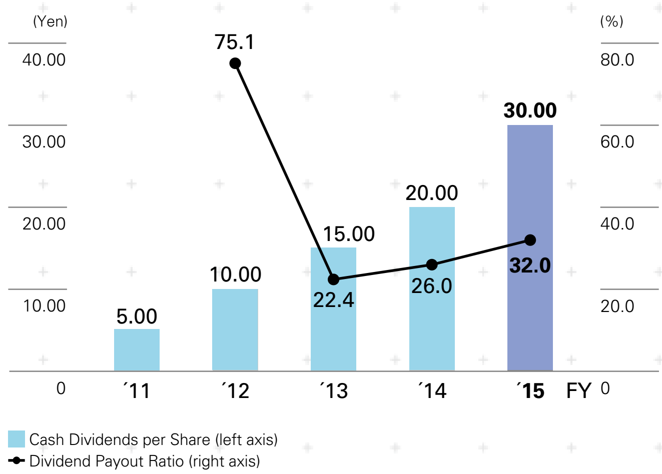
Cash Flow from Operating Activities / Free Cash Flows



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

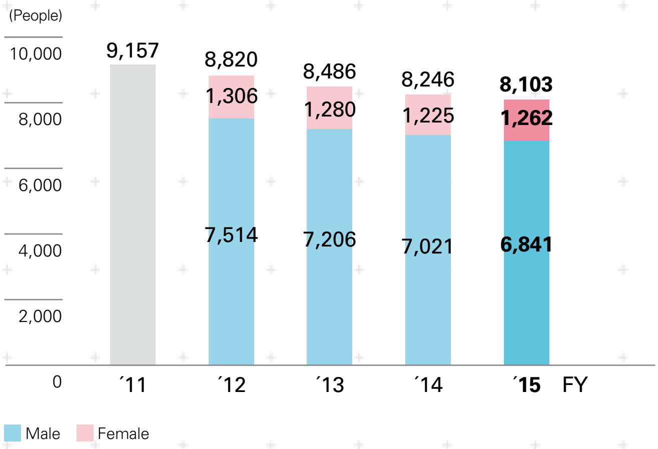


Cash Dividends per Share / Dividend Payout Ratio

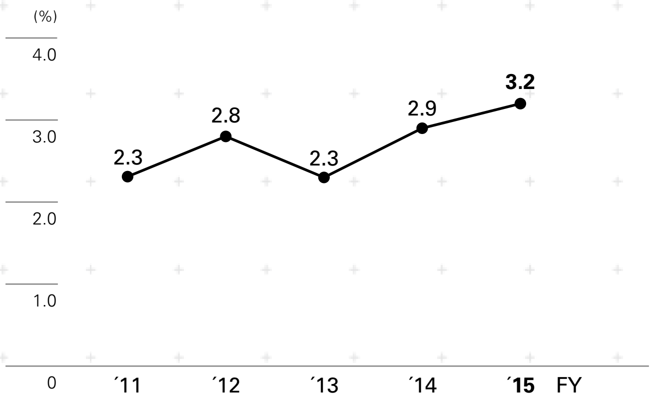


Non-Financial Highlights

Number of Employees (Consolidated)

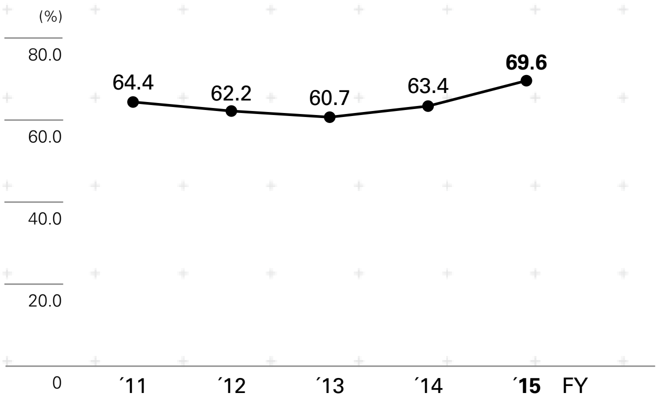


Ratio of Management Positions Held by Women



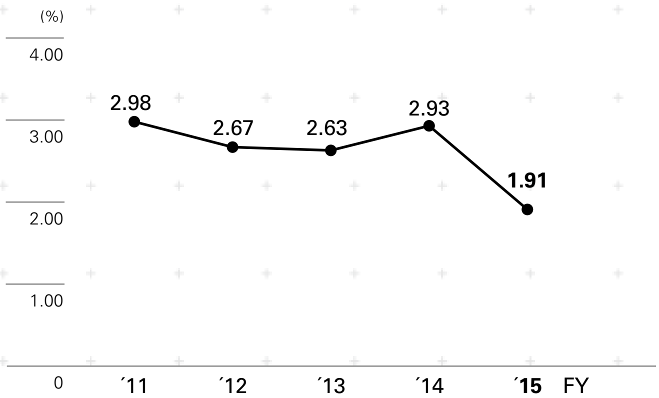
Note: As of April 1 for Nihon Unisys and UNIADEX. Nihon Unisys (non-consolidated basis) for up to and including FY2014.

Paid Leave Utilization Rate



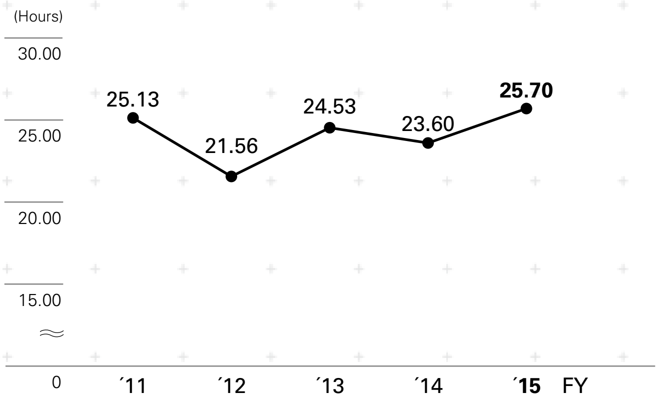
Note: Nihon Unisys and UNIADEX. Nihon Unisys (non-consolidated basis) for up to and including FY2013.

Employee Turnover Rate



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

Training Time per Employee



Number of Qualified Information Processing Engineers

(People)

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

Note: Nihon Unisys and UNIADEX

Message from the CEO

President & CEO

Akiyoshi Hiraoka

Foresight in sight®
I would like us to rapidly catch up with the changes in our business environment and aim to become the core of business eco-systems, in which a variety of companies cooperate beyond the confines of the existing business categories of industries.

I would like to take this opportunity to gratefully request that all shareholders and investors continue to lend their exceptional support and encouragement. I respectfully report that I assumed the office of president and CEO of Nihon Unisys, Ltd., in April 2016. In addition to having been engaged in the promotion of marketing strategies in my previous capacity as chief marketing officer (CMO), I was deeply involved in the drafting of "Innovative Challenge Plan," the three-year mid-term management plan that commenced in FY2015, the fiscal year ended March 31, 2016. My appointment as president and CEO has coincided with the second year of the mid-term management plan, and I recognize that it is my mission to steadily promote strategies designed to achieve the plan while bringing about an improvement in the corporate value of the Nihon Unisys Group.

We have consistently followed a long-standing customer-first policy, and there are two strengths that are considered immutable. One is having in our DNA the ability to design and steadily complete to the very end robust systems that can continue to operate stably 24 hours a day, 365 days a year. The other is prioritizing what is best suited for the customer without regard to our own products and thus being able to combine a variety of products and provide one-stop and multi-vendor services. As they have been highly appreciated by our customers thus far, we will continue to safeguard these two strengths as something that is constant in the years ahead.

In contrast, in keeping with the changing times, there are things that we must change. In our conventional system integration (SI) business, "value provided"—offering of optimal services to meet customer demands—has been important. However, amid the technological innovation that is today intensifying, customers are concerned about how best to utilize the new technologies, which are being created in quick succession, in their own businesses. Furthermore, as the pace of technological innovation is extremely fast, services are being provided from customer demands as they were before, and there is a fear that service provision will lag behind technological innovation.

To respond to a situation of this kind, foresight and insight are of the utmost importance. By preparing ahead of time services that allow customers to sense the "use value," it will be possible to provide the necessary services for many customers at lightning speed. I strongly believe that having foresight and insight will certainly become essential elements in business growth in the years to come.

In fact, this is the very thought encapsulated in our corporate statement toward 2020, Foresight in sight®. The message is that the Nihon Unisys Group will resolve the quickly recognized problems of its customers and of society through foresight that predicts the next generation, understand with an insight that defies experience and convention while combining the ICT assets, wisdom, and ideas at its disposal, and become a company capable of providing the most appropriate solutions and services as well as new business models and business ecosystems for its customers.

Having been appointed president and CEO, I too would like to continue to confront challenges on a daily basis with a readiness to give added impetus to initiatives designed to bring to fruition the thoughts encapsulated in Foresight in sight®.

Utilized in everything, ICT is reaching the point where it will be integrated into society, and I believe that the possibility exists that what we call the "IT industry" will disappear in the near future.

Our Aim to Create Business Ecosystems That Help Resolve Society's Problems

As regards the results for FY2015, the first year of the mid-term management plan, we were able to achieve increases in sales and profit. Particularly with regard to operating income, there was a significant 14.6% increase in profitability compared with the previous fiscal year, and the foundations for the second year were put into place.

As we make progress with the mid-term management plan, I am getting the strong feeling that, in addition to the advances in digitization, the speed of technological innovation is becoming very fast. The boundaries of conventional business categories and industries are not as clear, it is becoming very difficult to view things as being an extension from the past, and it is becoming a turbulent era in which existing businesses are being destroyed. Utilized in everything, ICT is reaching the point where it will be integrated into society, and I believe that the possibility exists that what we call the "IT industry" will disappear in the near future. We are facing a major transitionary phase due to such a digital revolution, and I wonder if it could be that we have entered an era in which we re-examine our own raison d'être.

In this kind of environment, while leveraging the strengths of the Nihon Unisys Group, we announced our determination to promote the reform of our business model in the mid-term management plan to clarify the position we will take and the type of company we are aiming to be in the future. We are regarding the impact on society of the digital revolution as an opportunity, not as a risk. Come the time when, due to the technological revolution, technology creates new businesses and all elements are connected by the IoT, we will have reached the stage at which we will be able to solve the range of social issues that Japan is facing by means of ICT. However, it will be difficult for one company alone to solve social issues. Going beyond existing business categories and industries, having various industries collaborate and examine solutions together, and furthermore establishing those solutions economically as businesses are the business ecosystems for which the Nihon Unisys Group is aiming. As the entity that will become the core of those business ecosystems, we will fulfill the role of catalyst that matches up companies. Leveraging the track record that the Nihon Unisys Group has built up in the ICT field, we will create business ecosystems in partnership with our customers and continue to create new value. This is essentially the thinking behind the mid-term management plan.

Creating business ecosystems will require the platforms to support them. The technological capabilities that enable the building of robust and stable platforms that are regarded as a Nihon Unisys Group strength, and our wide-ranging customer base, form the cornerstone in the creation of business ecosystem platforms. Furthermore, in addition to being a multi-vendor, as the Group is moderate in size, being a "friction-free" corporate entity, with no friction or resistance from the companies participating in the platforms, is also a unique strength.

On the other hand, a problem lies in the sense of speed. For example, building a platform for a business ecosystem over the course of two years is slow. To have a sense of speed requires foreseeing changes and making preparations in advance to provide the system quickly. That is why I consider it essential to boldly take on unprecedented challenges and to hone the capabilities that will create business ecosystems with foresight and insight, as encapsulated in Foresight in sight®.

Responses to Business Ecosystem Creation and Establishment of New Revenue Model

To provide case studies of the Nihon Unisys Group actually joining forces with external partners, building platforms that form the core of a business ecosystem to address a social issue that is gaining a sustainable advantage, I would like to outline our Value Card Mall business and smart oasis®.

Designed to address the social issue of realizing a cashless society, the "value card" gift card mall business is a business model that

Differing from previous business models, the platform-type business model is characterized by a dramatic increase in revenue when widely used for services across the world.

operates card malls through which convenience stores, volume sellers, and stores selling mobile phones are connected with various card (gift card / prepaid card) issuing companies. The platform that operates this Value Card Mall is the core of a business ecosystem. In this business, when a card is sold, the amount of revenue that comes to the Nihon Unisys Group will be in proportion to the volume of sales made with that card. We launched the business around five years ago, but that does not mean that initially it was all smooth sailing. However, as online shopping has become commonplace and demand for cards has risen as one method of payment for young people, the business is currently very profitable.

The smart oasis® battery-charging infrastructure system service for electric vehicles (EVs) and plug-in hybrid vehicles (PHVs) provides user authentication and billing functions as well as information on the location and availability of charging devices. By foreseeing not only the evolution of technology but also the wave of system deregulation known as the deregulation of energy, including electric power, the Nihon Unisys Group was able to position itself to quickly provide an innovative platform. By having done so, we are meeting the expectation of increasing the speed at which customers enter the business.

The platform-type revenue model, which differs from previous SI contract-type business models, is thus characterized by a dramatic increase in revenue when widely used for services across the world. Due to the success stories that have emerged, I think we have reached the stage where they can also be interpreted by employees with a real sense of success, and there is also a real feeling that customer expectations will become greater.

Benefitting From the Tailwind of Higher IT Investment, Heading toward an Improvement in Profit Margin by the Industrialization of Services, and Taking on New Challenges

The current business environment is helping to provide impetus. The areas that utilize ICT and technology are expanding considerably, and customer investment in IT will shift from previous investment for reasons of operational efficiency to investment for the business front line and the purposes of participating in business ecosystems. Investment will increase particularly in the manufacturing and service industries as well as in the energy field, such as electric power due to system deregulation.

However, with regard to the contracting out of systems according to requests from customers using existing resources alone, since we cannot escape entirely from the conventional business model, we are considering the building up of intellectual property (IP) and software components connected with the building of business ecosystem platforms while conducting SI business. I call this the "industrialization of services," and reusing accumulated IP and software components enables responses to the same volume of business as before but with fewer employees. This also frees the surplus employees to focus on new value-added activities, such as the building of business ecosystem platforms. By simultaneously carrying out such operations in both attack and defense, I would like to devise improvements in productivity while improving profitability. We are already promoting Companywide initiatives toward the achievement of these goals.

Taking on of Challenges without Fear of Failure to Make Us a Great Partner beyond Our Customers' Expectations

In this way, while promoting strategies and initiatives toward the achievement of the mid-term management plan, I realize that changes have appeared in employee awareness and even in the initiatives. I myself, since before being appointed president and CEO, boldly took on the challenges of new businesses while continuing to manage. Thus I experienced not only success, but also a lot of failure, too. By having taken the lead in demonstrating that kind of attitude, employees are also feeling that they have reached the stage at which they will boldly take on the challenges of new services and businesses without fear of failure. Even since the start of FY2016, many new services have been launched in a short period of time, and the fact that employees' proactive efforts have led to actual services and commercialization is being seen in tangible forms.

Collaborating with venture companies and start-ups that possess unique technologies or business models, I would like to create business ecosystems that have a sense of speed.

Moreover, the expectations from customers with regard to the Nihon Unisys Group are also undergoing change. Previously, we had been receiving favorable comments that showed a sense of confidence and trust, such as "the Nihon Unisys Group always does its best for me." However, reflecting new expectations of the Group, we have been receiving comments such as "the Nihon Unisys Group is a good partner for proposing something new or for helping us make considerations," in large amounts. I regard this as a very positive change.

In order for these kinds of changes to steadily take root in the organization, I am considering adding changes to in-house project management techniques. The previous mainstream management technique had been to mainly review projects and bring risks to light in order to steadily safeguard quality and cost as well as meet deliveries. Naturally, these are necessary in projects requiring the building of stable, robust systems and represent a management method that will be continued in the years to come. On the other hand, the creation of business ecosystems requires drawing on a factor to which there is no simple answer, the future of change. For that reason, as an innovative management method, both senior management and those in charge of projects are gradually spreading the coaching-type management method, which generates ideas and comes up with answers, and putting an emphasis on training.

In this way, bringing to fruition the shift to a position that creates business ecosystems necessitates that each and every employee regards the shift as his or her own responsibility and creates new services and businesses through individual duties. To lead projects to create business ecosystems and enable their commercialization, I believe it will be necessary for at least 300 people, so to speak reform-minded leaders, to advance reforms and confront challenges. For that reason, I want to actively look into introducing management methods and training systems that will improve people's foresight and insight.

Coming into Contact with Innovative Technologies Not Seen from Senior Management Positions

Extremely important strategies for creating business ecosystems are open innovation strategies under an in-house approach as well as an open and closed strategy. Open innovation strategies involve finding and collaborating with new partners that have ideas and possess technologies that we do not have at our disposal and effectively utilizing and combining superior external capabilities to lead to innovative business models and services.

For that reason, I am actively initiating direct contact with a view to collaborating with venture companies and start-ups that possess unique technologies or business models.

From the point of view of these kinds of companies, business partners are necessary to help them utilize their technologies and business models as well as to provide venues for field trials. We enjoy business relationships with many excellent customers, and providing the venues for field trials by connecting the companies with our customers enables the forming of good relationships for both parties.

This brings me to our open and closed strategy. We tend to lose our existence value when we leave all of our technologies "open." We therefore will pursue in-house development for technologies that are better to be kept "closed."

In this way, we will have contact with a variety of companies, advance the acquisition of external technologies and services with a sense of speed, and link them to the creation of business ecosystems.

"Only those who are taking on challenges now will be able to change the future." Based on the sentiments encapsulated in Foresight in sight®, the Nihon Unisys Group will continue to evolve.

Systems That Bring Joy to Employees' Eyes and Fostering a Culture Where Taking Challenges Is Allowed

As I mentioned earlier, fostering the valuable human resources whom we consider reform-minded leaders will drive the creation of business ecosystems. For that reason, although I am planning to look into a number of initiatives, one precedent is private after-hours class referred to as the Principal Project that I personally held during my time as CMO. Under the previous review-type management method, only risks were checked. This made making connections to new challenges difficult, so I established a private after-hours class to change the situation. Deciding on a series of topics lasting three months, I brought together about 30 people and provided a forum to facilitate free discussion through which I aimed to bring joy to all the participants' eyes and the creation of new businesses.

Although there were few ideas that could actually be commercialized, senior management endorses activities of this kind, and I feel that the young generation and mid-career employees were greatly stimulated by them. In actual fact, there have been moves by employees who cannot wait for the next series to plan projects privately themselves.

These kinds of initiatives are serving as a trigger, and the Nihon Unisys Group culture of being full of vitality and able to take on progressive challenges is taking root, while its management style, inspired by these initiatives, has gradually begun to change.

Expecting Active Participation of Human Resources through Working Style Reform and Promotion of Diversity

To improve employees' motivation for work, I am actively engaged in working style reform and the promotion of diversity as well as health management.

In working style reform, I am aiming for a shift to working styles more oriented toward a work-life balance by introducing IT infrastructure upgrades, the utilization of satellite offices, working from home, and other initiatives.

In addition, in the initiatives designed toward greater diversity, we are addressing the creation of a culture in which human resource groupings, including women and people with disabilities, are able to take on an active role. In encouraging the more prominent participation of women, we have encouraged the promotion of women to a variety of positions and to the management level. We are also working to improve the ratio of women in management positions, but since ways of thinking with regard to work and the work-life balance are seen to differ from person to person, amid the diverse values we are not confining ourselves to those areas alone, and I would like to actively promote a raft of measures geared toward the advancement of women.

Despite being centered on its domestic businesses, the Nihon Unisys Group is utilizing non-Japanese management advisors from outside to be able to incorporate global perspectives. In giving consideration to the significance and effects of diversity in this manner, I would like to encourage the utilization of human resources that will lead to improvements in corporate value in the years to come.

In Closing

By continuing to take on challenges, the Nihon Unisys Group will create new value, and a society that is more sustainable will be realized. The corporate value of the customers involved will be improved as much as our own. The strong idea that "only those who are taking on challenges now will be able to change the future" is thus encapsulated in Foresight in sight®. Aside from improving corporate value, the challenges we are facing are linked to finding solutions for society's problems. I would like to encourage the employees working at the Nihon Unisys Group to by all means experience the self-fulfillment that will come from being able to accomplish these solutions through their own efforts.

While kindly asking all our shareholders and investors to anticipate the emergence of a Nihon Unisys Group that is pushing toward the realization of its aims, I gratefully look forward to your continued guidance and encouragement in the years to come.

Message from the CFO

Toshio Mukai
Representative Director, Executive Corporate Officer
Chief Financial Officer

We will promote disciplined financial strategies that strike a balance between being pro-active and defensive to bring about ongoing improvements in profitability.

Advancing Improvements in Financial Position while Improving Profitability

The first year of the Mid-term Management Plan that we launched in FY2015 has ended, a year in which we achieved increases in net sales and operating income. With regard to operating income, we improved our operating income and operating margins for the fifth consecutive year, and our profitability is improving steadily. Furthermore, having achieved an equity ratio of 47%, a six-point improvement from the previous fiscal year, and reduced the net D/E ratio to 0.24 times, a 0.17-point improvement, we are also making steady progress in strengthening our financial base. In addition to measures designed to create new earnings drivers, such as businesses involving collaboration with different industries, I believe that this progress has come as a result of initiatives taken from both proactive and defensive standpoints, including the control of system development costs and a reduction in selling, general and administrative expenses.

As CFO, I have been facing the challenges involved in building a strong financial position. In addition to working to curb cash outflow through the reduction of selling, general and administrative expenses, the improvement in operating margin came as a result of thorough controls placed on system development costs and focusing on holding cost increases in check. A fundamental theme in business management, the reductions in system development costs and selling, general and administrative expenses need to be addressed on an ongoing basis. Not satisfied with the current situation, we will work on making further improvements going forward.

Market Environment Surrounding Nihon Unisys Group and Moves toward Improved Operating Margin

For the Nihon Unisys Group, which has customers in a wide range of industries, such as in finance, manufacturing, distribution, and power generation, customers' plans to invest capital in IT services have a major bearing on management. Currently, there are concerns about the effects of yen appreciation and the negative interest rate, but my feeling is that we can expect market expansion in IT services up until 2020 amid the many positive elements in IT investment that mainly include the various Abenomics measures, the staging of the 2020 Tokyo Olympics and Paralympics, and deregulation in the electricity and gas sectors.

In FY2015, assisted by these factors, we were able to achieve operating income of ¥12.5 billion and the targets for the first year of the Mid-term Management Plan. However, although improving year on year, the operating margin remains at a level below 5%, with which I am still not satisfied. The Company has set an operating margin target of 8% to 9% for FY2020. To achieve this figure, in addition to defensive measures that include cost reductions and more precise risk management, we will be working to establish highly profitable innovative business models through the creation of business ecosystems.

At the same time, to support the growth strategies that are the drivers of the Mid-term Management Plan, I consider it important that we promote disciplined financial strategies and devise ways to expand business capital while controlling the net D/E ratio.

Investment Strategy Balance toward Future Growth

With regard to investment strategy, we will maintain our existing capital investment and R&D investment in the Business ICT Platforms area. At the same time, we will conduct R&D investment with the aim of building platforms linked to future revenue earnings in the fields of electronic settlement and marketing in the Digital Innovation area as well as the energy, medical, and childcare fields in the Life Innovation area.

In the case of R&D expenses, however, cutbacks have been enacted since commencement of the plan. This is because speed is of the essence in the business ecosystems for which the Nihon Unisys Group is aiming, and we are more forcefully promoting on the one hand the open innovation strategies shifting from an in-house approach and, on the other, policies to actively utilize the technologies from venture companies and start-ups through the open and closed strategy.

In addition to capital and R&D investments, there is one more important investment, which is business investment. Due to the sudden changes in the business environment, we are also considering the possibility of business alliances and capital tie-ups as one means of bringing our business strategy to fruition. In the years to come, I would like to examine a range of opportunities, including global projects.

ROE Target and Shareholder Return Policy

Considering ROE as a comprehensive indicator of capital efficiency, we stated the stable realization of ROE of 11% to 13% as a target in the Mid-term Management Plan. In FY2015, we achieved ROE of 10.5%, and thus we were finally able to exceed the 10% level. In the years to come, we will do our utmost to achieve the target values by accelerating the transformation to a high-value-added business model and further expanding profit. In addition, I would like to achieve ROE of 15% or more in FY2020 by having each business division bear the responsibility not only for profit or loss but also for the balance sheet and cash flow as well as by having the divisions put into effect autonomous business operations and investment decisions.

With regard to the shareholder return policy, we have maintained dividend increases since FY2012, and in FY2015 we paid dividends of ¥30 per share. Previously, the payout ratio was set at around 20%, but because we have achieved constant results in terms of the improvement in our financial position, we are enhancing profit distribution under the Mid-term Management Plan and have decided to aim for a dividend payout ratio of 30%.

Toward Constructive Dialogue with Shareholders and Investors

Up to now, we have been actively involved in dialogue with all our shareholders and investors and utilized the opinions received in the improvement of management quality. From now on, we also intend to make concerted efforts to gain high approval from capital markets by promoting more active communication. In recent years, we believe that the relationship of trust between the Company and our investors has grown deeper through our achievements in improving performance. I would like to make the trust our shareholders and investors have in us more robust by taking IR activities to a new level and deepening people's understanding of the Nihon Unisys Group.

I think that, as a matter of course, the important points to be evaluated will be performance in terms of numerical aspects, including results. As explained previously, we will achieve the numerical target for ROE and work to realize stable dividends for all shareholders by raising profitability while strengthening our financial base. While addressing risk management, we will realize growth by boldly and resolutely taking on challenges in the years to come.

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

Business Strategies
for Corporate Value Improvement

Growth Strategy to Realize the Mid-Term Management Vision

- Digital Innovation
- Life Innovation
- Business ICT Platforms

Technological Strategy / R&D Underpinning Growth Strategy

Under the Mid-Term Management Plan, we set out the strategic policies that we are addressing as two challenges (Digital Innovation and Life Innovation) and one reform (Business ICT Platforms). Here, we would like to present progress reports on those strategic policies and outline our technological strategies as well as the R&D geared toward those ends.

Case Study Presentation: Digital Innovation

Developing payment-linked marketing business compatible with global brands that realize a range of cashless payments and settlements

Working with Dai Nippon Printing Co., Ltd. (DNP), Nihon Unisys is engaged in business in the payment-linked marketing field.

Payment-linked marketing is a business platform that seamlessly links sales promotions and customers to induce consumers to visit a store, the in-store payment infrastructure, and the customer management conducted in the back office. By analyzing a combination of consumer information and payment information (shopping behavior information), the system can provide appropriate content at the right time and in a suitable way, realizing efficient promotion and customer referrals.

As one initiative being taken in payment infrastructure, Nihon Unisys has started to provide prepaid and debit payment and settlement services for global brands.* An outline of each of these services is given below.

In addition to the manufacture and issuance of cards, Nihon Unisys and DNP together provide a one-stop service that combines business process outsourcing (BPO) services and payment-linked marketing.

Global Brand Prepaid Card Payment and Settlement Service Defined

This is a prepaid electronic payment and settlement service for global brand prepaid cards that can be used at merchants participating in global brands, such as Visa, MasterCard, and JCB. Having jointly developed the basic functions needed for the introduction and operation of global prepaid payment and settlement services, Nihon Unisys has commenced the provision of cloud services for the card-issuing companies.

Global Brand Debit Payment and Settlement Service Defined

This is an immediate account debit-system electronic payment and settlement service that can be used at Visa, MasterCard, JCB, and other card merchants all over the world.

By means of cloud services, this service provides the basic functions needed for settlement, including the coordination of transaction processing, membership management, and links to accounting systems, as well as nighttime service coverage and the building and operation of websites geared toward members.

Compared with cases where they have developed their own in-house systems, financial institutions are able to introduce global brand debit services at lower cost and with shorter lead times. Furthermore, in addition to building and operating the systems, Nihon Unisys and DNP provide bundled services, including the manufacture and issuance of IC cards and authentication services for when cards are used for online shopping, and thereby contribute to reducing the operational burdens placed on financial institutions.

* Global brands: International payment and settlement card brands, such as Visa, MasterCard, JCB, etc.

Focus on

Hokkoku Bank Debit Card with Visa payWave® Used with Hokkoku Visa Debit Card™

As the first domestic user of the global brand debit settlement service, Hokkoku Bank, Ltd., started to issue the Hokkoku Visa Debit Card™ with attached Visa payWave®* contactless IC Visa brand debit payment service functions on April 1, 2016.

The new card will allow for shopping across the world at more than 38 million merchants accepting Visa, including Internet stores, 24 hours a day, 365 days a year. The usage fee is immediately deducted from the Hokkoku Bank ordinary savings account to which the card is registered. In addition, points are awarded according to the amount of money spent.

Furthermore, Hokkoku Bank will start issuing integrated cards that include a cash card in October 2016.

Hokkoku Bank Visa Debit Card™

* Visa payWave®: A contactless payment and settlement solution provided by Visa Worldwide.

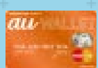
Charge Point Business for Prepaid Cards Launched at Lawson Stores Nationwide

Nihon Unisys is developing its Charge Point business, which enables the charging of prepaid cards such as global brand prepaid cards.

We commenced charging services for the JCB Premo Card,*1 issued by JCB Co., Ltd., at Lawson convenience stores nationwide on July 1, 2015, and currently (as of September 2016) have deployed the au WALLET Prepaid Card,*2 LINE Pay Card,*3 JTB Tabiprica,*4 and other charging services, enabling card users to charge their cards at Lawson stores 24 hours a day, 365 days a year.

To increase convenience for card users, we will expand the types of card that can be charged and increase the number of charging locations.

JCB Premo Card



au WALLET Prepaid Card

LINE Pay Card

JTB Tabiprica

*1 JCB Premo Card: This is a new prepaid card issued by JCB Co., Ltd. Including Lawson convenience stores, the card can be used at more than 300,000 stores across Japan, such as department stores, home appliance stores, and leisure and amusement facilities as well as for Internet shopping.

*2 au WALLET Prepaid Card: Issued by KDDI Corporation, Okinawa Cellular Telephone Company, and WebMoney Corporation, the au WALLET Prepaid Card can be used for shopping at 39.6 million MasterCard® merchant stores. (Reference: Nilson Report, June 2015)

*3 LINE Pay Card: Issued by LINE Pay Corporation, the LINE Pay Card is a prepaid card that can be used for shopping at approximately 31 million JCB merchant stores in Japan and overseas.

*4 JTB Tabiprica: Issued by JTB Corporation, the JTB Tabiprica is a prepaid card that can be used for shopping at approximately nine million JCB merchant stores in Japan.

Case Study Presentation: Life Innovation

smartaxi® Cloud-Based Taxi Assignment System

By causing the smartaxi® cloud-based taxi assignment system and a smartphone payment and settlement service to work in unison, Nihon Unisys has realized and is providing a service from taxi assignment to credit card payment by means of a single tablet computer.

Previously, when credit card payment and settlement systems were introduced for taxi business operators, it was necessary to purchase a special terminal and negotiate a rate of commission with the credit card company, which was both costly and time-consuming.

Since tablet computers and cloud-based technologies are utilized for smartaxi®, the system can be installed for less of an initial investment outlay and in a shorter amount of time. Leveraging these distinctive features, the system has enabled the introduction of seamless credit card payment and settlement by adding "credit settlement," which, in addition to the utilization of a tablet computer installed in the taxi, makes use of smartphone settlement services. Enabling taxi users to pay by credit card has also led to improved convenience.

In August 2015, we added new functions on a smartphone taxi assignment app for passengers that displays the taxis that are available for hire in the vicinity and the time required for a taxi to arrive. Following the addition of these new functions, when arranging a taxi in advance passengers are now able to have some idea of how long it will take for a taxi to come. Also, enabling passengers to check the whereabouts of the taxi they have ordered via the app reduces the frustration of time spent waiting.

In the years to come, while leveraging the versatility and expandability that are characteristic of tablet computers and cloud-based technologies as well as incorporating customer feedback, we will continue to make progress with the system to further improve convenience for customers and taxi users alike.

smartaxi® Characteristics

1. Enables significant reduction in initial introduction costs
2. Enables short-term installation and use by monthly billing system, as provided by cloud-based service
3. Very few dead zones as system uses mobile phone lines (IP wireless)
4. Dedicated taxi dispatch center unnecessary as usable over a wide area
5. Provides taxi users with smartphone taxi assignment app
6. Other

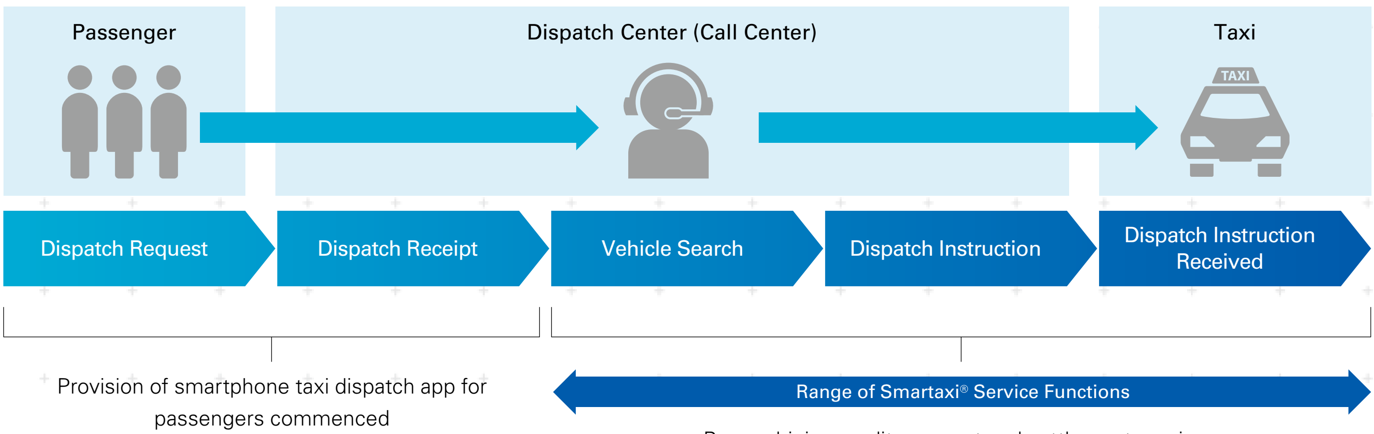
- The GPS information carried in a smartphone installed in the taxi is transmitted to the dispatch center in real time, and the vehicle's location displayed on a map. The operator is able to automatically dispatch the vehicle nearest to the taxi user's current location.

- Also linkable with cloud-based, fully automated interactive voice response (IVR)* taxi dispatch system

* Fully automated IVR taxi dispatch system: A computer system that automatically gives voice responses. The service automatically dispatches the nearest taxi after receiving a phone call from a pre-registered number and the computer has verified the customer's information.

Outline of smartaxi® System

Taxi Dispatch Flowchart



Provision of smartphone taxi dispatch app for passengers commenced

Enables fully automated taxi dispatch without going through operator (optional function)

By combining credit payment and settlement services, credit payment and settlement is enabled through the use of a tablet computer.

Case Study Presentation: Business ICT Platforms

Development commenced of IoT business platform service targeting analysis of images from cameras and devices such as sensors

The Nihon Unisys Group has commenced development work for the provision of an IoT business platform service. This service will realize one-stop services, from the provision of devices such as sensors and networks to the gathering and distribution as well as processing and analysis of data.

Currently attracting attention, IoT is utilized in a wide range of fields, not only ICT and manufacturing equipment but also in medical, energy management, and disaster monitoring, and is becoming indispensable for enriching people's lives. The corporate trend is for increased activity, and it is being said that in 2010 the global IoT-related market will have reached approximately ¥356 trillion.

In the meantime, the scope of the building of systems to utilize IoT will be expanding from devices, such as sensors and cameras, to networks, data gathering, and distribution as well as machine learning. Systems will require wider knowledge, and the cost and time required to build them will become an issue.

In solving these problems and utilizing IoT, where speed counts, the Nihon Unisys Group is making progress with the development of IoT business platform services that combine the technologies and know-how related to sensor and device development as well as networks possessed by UNIADEX to rapidly respond to customers' needs.

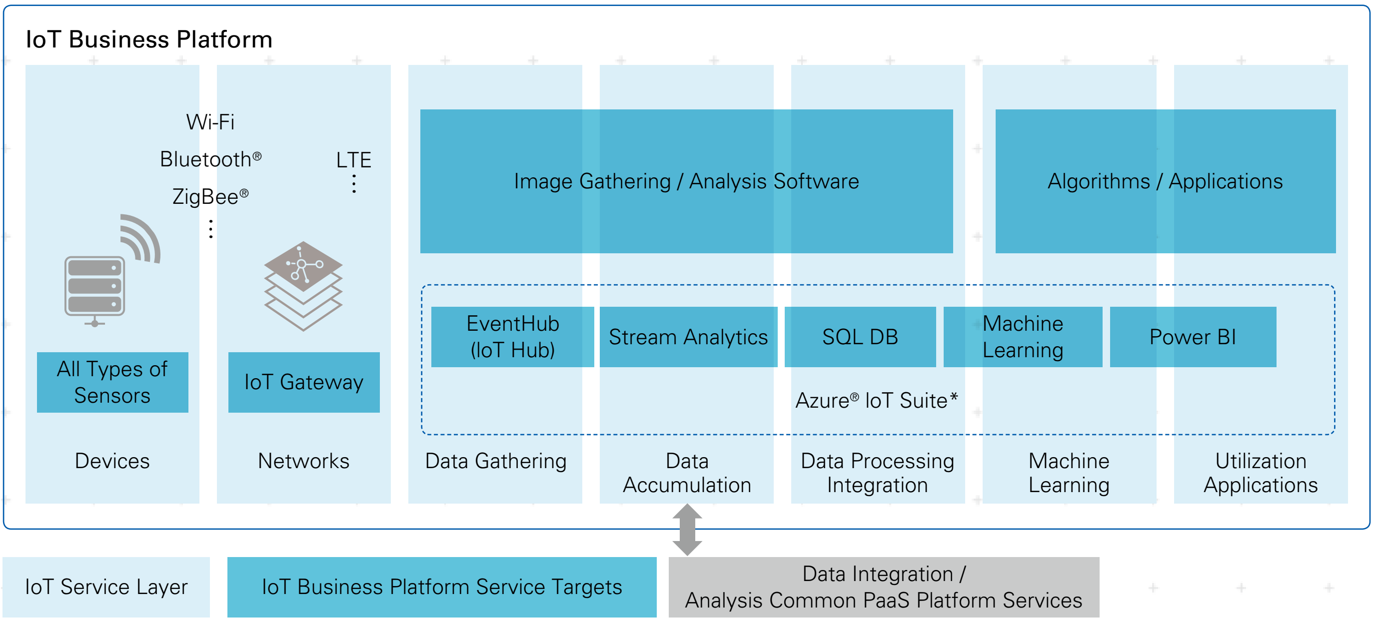
IoT Business Platform Service Characteristics

- One-stop provision of vertically integrated services
  Apart from the development of IoT business platform services, we are advancing the development of sensor devices, device applications, and the ZigBee® network. Through these developments, we will provide one-stop, vertically integrated services that include devices and networks.

- Provision of machine learning / Big Data analysis functions
  The IoT business platform will enable the analysis of Big Data by combining the data integration / analysis common platform as a service (PaaS) data utilization platform, which includes machine learning functions. In addition to the visualization of acquired data, the platform will enable the provision of further business value, such as risk prediction by learning and analysis as well as the discovery of new business opportunities.

- Utilizing Microsoft IoT products
  Based on our strong partnership with Microsoft Japan Co., Ltd., we plan to build the platforms that will form the core of IoT services that will be provided by the Microsoft® Azure® cloud-based services product.

Schematic Outline of IoT Business Platform Services



* Azure® IoT Suite is a service to be provided by Microsoft Corporation.

Technological Strategy

CASE 1 Demonstration Experiment Projects Utilizing NAVii™, the Autonomous Mobile Service Robot Developed by Fellow Robots

In December 2015, Nihon Unisys began the handling in Japan of the NAVii™ autonomous mobile service robot developed and supplied by the U.S. company Fellow Robots, Inc. Conducting demonstration experiment projects with the NAVii™ robot that took place at a Yamada Denki consumer electronics store from February 2016 and at a PARCO department store from July 2016, Nihon Unisys verified aspects of the presentation and guidance given by the support robot in multiple languages on product sales floors and facilities for retail industry customers who had come to the stores.

The plan from now on is to make efforts to realize the provision of greater added value and enhanced business efficiency by combining the NAVii™ robot's characteristic autonomous navigation function with various types of sensors.

Overview of Fellow Robots

Headquartered in Silicon Valley in the United States, Fellow Robots, Inc., employs a diverse workforce that includes specialists in robotics, software, design, and marketing. While closely collaborating with partner companies, Fellow Robots is working to improve the retail customer experience by means of advanced robot technologies.

CASE 2 Demonstration Experiment Project in Office Space Utilizing Akerun™ Smart Lock Robot Using Smartphone as Key

Nihon Unisys conducted a demonstration experiment project that utilized an Akerun™ robot from the Japanese company Photosynth Inc. to realize unmanned reception areas and a working space that enables the smooth payment of charges by IoT. Akerun™ is an IoT device that can operate a door lock with a thumb turn by means of a smartphone app. Focusing on the "keys" even on IoT devices, Nihon Unisys is making headway in its examination of value-creating services for new tenants.

For this demonstration experiment, consideration was given to enabling the speedy provision of new working styles and working spaces by combining Akerun™ with the of know-how Nihon Unisys in building a range of platform services.

Focus on

BITS2016 Held

Every year, the Group holds the Nihon Unisys Group Business & ICT Strategy (BITS) forum as a venue for showcasing its latest technologies to customers. At the BITS forum held in June 2016, the Group displayed the latest examples in each of three key areas outlined in Mid-term Management Plan: Digital Innovation, Life Innovation, and Business ICT Platforms.

Research and Development

Research and Development Policy

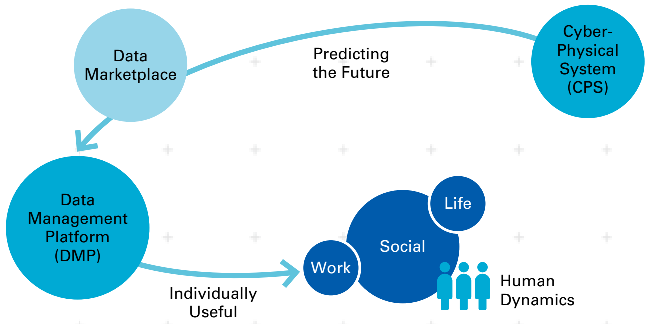
While aiming to create business ecosystems, it is desirable for the Nihon Unisys Group to be a company that is full of ideas and capable of responding to the needs and demands of society and its customers. It is the Group's R&D policy to quickly turn an idea that has been created into an excellent service.

At the Nihon Unisys Technology Research Development Center that serves as the Company's R&D hub, the focus is on promoting researchers who evaluate domestic and overseas technologies with a global view, combine the technologies effectively, perform activities in a quick manner, and always seek to further their high degree of expertise.

CASE 1 Data Analytics and Management

Database management is a management activity that retrieves the required amount and volume of a data set of a certain quality at an appropriate cost and that provides the data set to the requesting party in a timely manner.

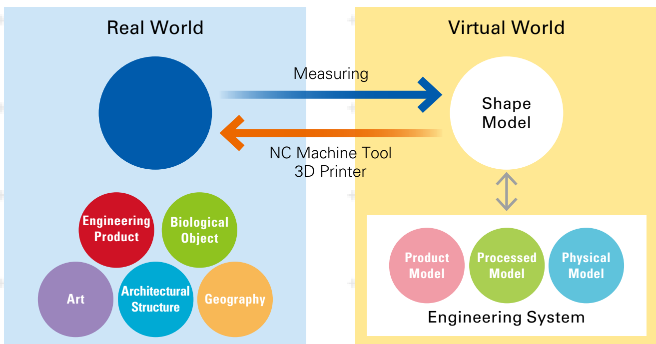
Nihon Unisys has been researching data integration environments and data modeling in addition to its previously accumulated know-how in data analytics to provide individually useful information for predicting the future from huge amounts of data. Since much of the mining and analysis work using data in the cloud handles sensitive and personal information, we are also working on the development of technologies and policies for data protection and data anonymization as well as for the continuous control of data.



CASE 2 Coupling Real and Digital Worlds

One of the issues with distributed computing is how to achieve effective interaction between humans and information technology. Research into mixed reality (MR), which focuses on the relationships between the real and virtual worlds, has been growing as a solution to this problem.

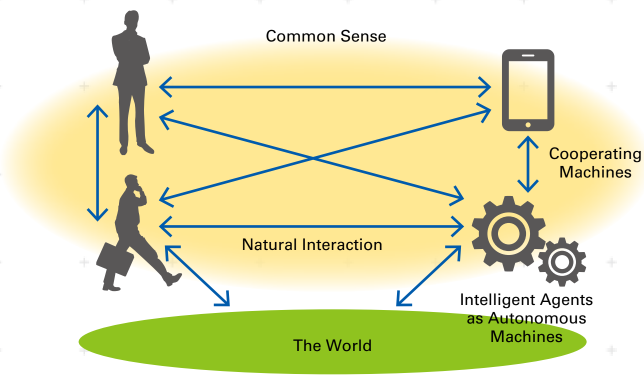
In the business world, 3D printers have become popular in addition to numerically controlled (NC) machines as a technology to generate real-world objects from models created in virtual spaces. On the other hand, the technologies that generate the digital objects from the real-world scanned data obtained by 3D measuring instruments, such as computerized axial tomography (CAT) scanners and contactless measurement devices, are still lacking in precision. Nihon Unisys is therefore working on research in this area by advancing its rich know-how obtained through the development of CAD/CAM/CG products and polygon processing.



CASE 3 Artificial Intelligence

Novel algorithms for massive data computing in parallel have evolved together with the advancements in computing platform technologies. However, many applications are being devised to which such algorithms have never previously been used.

Gaining particular attention are the mechanical learning functions, such as image recognition and natural language understanding, which enable the autonomous recognition of surroundings and the making of judgments. In addition to these efforts, at Nihon Unisys we are working on artificial intelligence applications that will even solve issues by asking appropriate questions. To that end, we are bringing to fruition common sense—human intuitive cognitive ability—by artificial means and conducting research to capture the meanings and intentions hidden in words in everyday scenarios and situations in the same way as humans do through natural conversations and interactions with people.



Supporting Foundation
for Corporate Value Improvement

Reform of Corporate Culture and Strengthening of Human Resource Capabilities to Achieve the Mid-term Management Vision

Organizational Reform / Strengthening of Human Resource Capabilities / Work Style Reform / Promotion of Diversity

CSR Management

Corporate Governance

Overview of Directors, Audit & Supervisory Board Members, and Corporate Officers

Responsible Dialogue with Shareholders and Other Investors

Responsible Customer Service

As a central tactic that supports the business strategies of the Mid-term Management Plan, the Nihon Unisys Group is working to implement its Reform of Corporate Culture and Strengthening of Human Resource Capabilities.

In addition to the above, this section introduces the Group's CSR management, corporate governance, and responsible dialogue with stakeholders, which form the supporting foundation for its efforts to improve corporate value.

Reform of Corporate Culture and Strengthening of Human Resource Capabilities

Message from the CAO: What We Aim for through Initiatives for Change

I assumed the role of chief administrative officer (CAO) from April 2016. "CAO" may be an unfamiliar term to many, but the position entails the execution of operations for the entire Nihon Unisys Group and the overseeing of corporate planning, personnel, institutional development, and all aspects of administration. The Mid-term Management Plan that the Nihon Unisys Group is currently undertaking places the achievement of the Reform of Corporate Culture and Strengthening of Human Resource Capabilities as one of its central strategies. In promoting the Reform of Corporate Culture and Strengthening of Human Resource Capabilities, we are tackling a wide variety of issues with vision and insight.

In order to achieve this reform, we are giving consideration to corporate value systems and sustainable competitiveness as well as clarifying the people, organizations, and work styles that embody these concepts. We also believe there is a need to formulate policies that maintain a long-term and continuous focus on people and organizations while also monitoring the degree to which our current organization agrees with our business environment and corporate strategies. Guided by this belief, the Nihon Unisys Group is pushing forward with reforms to its organization, human resources, and work styles.

Furthermore, in pursuit of management that makes the most of diverse human resources, we respect the viewpoints and values of female employees and employees with disabilities and are making Groupwide efforts to bring about reform.

Susumu Mukai
Representative Director, Executive Corporate Officer, CAO & CCO

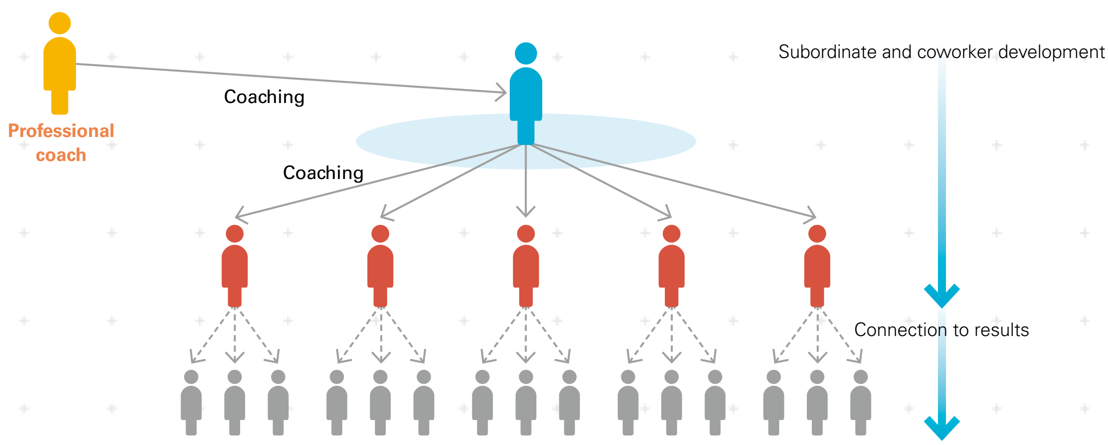
Organizational Reform

Programs Related to Organizational Reform

The Nihon Unisys Group is aiming for the continuous improvement of its organizational culture. The Group's upper management, which forms the central core of the Group's organization, is implementing an administrative management and human resource development program to help lead the Group's organization and make improvements to its organizational culture.

The administrative management and human resource development program includes practical business reform workshops to improve the ability of management to lead organizations by understanding necessary components for management reform; a basic coaching program to learn coaching techniques to promote change while developing and leading involvement with a wide range of stakeholders; and an external dispatch program aimed at cross-industrial associations and cross-disciplinary knowledge and skill acquisition, among others.

Furthermore, we are promoting M3 project activities, where select early- and mid-career employees examine prominent management issues and make proposals to management through cross-organizational activities.



Strengthening of Human Resource Capabilities

Leaders for Change Program

The Nihon Unisys Group is aiming for transition to a business structure that allows it to make continuous improvements to its business performance. To this end, the Leaders for Change program is being implemented to cultivate independent leaders who adopt high targets and, with tremendous conviction, take the initiative to determine relevant issues, and work to achieve the Group's aspirations.
A leader for change is an employee that demonstrates leadership, urges innovative conduct around them, and creates an organizational culture that inspires reform and challenges.

Activities in the Leaders for Change program include Next Principal, which works to develop human resources that can build new businesses on their own initiative; proposal creation workshops, which aim for high-quality sales activities through the creation of highly accurate hypotheses; and enhancement coaching, which strives to transform the behavior of employees so that they are able to help strengthen and expand the business areas of existing customers.

Work Style Reform

Workstyle Foresight

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

Environment	Styles and values	Processes	Systems
• Satellite offices • Open seating arrangements • Meeting room renovations	• Overtime reduction • Taking of paid vacations encouraged • Telecommuting • Smartwork (telework) • Paperless operation	• Business reform workshops (administrative management policies) • Reform of meeting procedures	• Enhancement of network • Expansion of VPN connections • Promotion of the use of an instant messaging service and internal SNS • Use of information sharing software

Promotion of Health Management (Establishment of CHO Position)

Through the promotion of health management and diversity, the Nihon Unisys Group aims to become a corporate enterprise that values and makes the most of its employees. The Group is pursing initiatives in workplace reforms in an effort to change its corporate culture under its Mid-term Management Plan. To that end, the Group commenced the promotion of health management with the establishment of the position of chief health officer (CHO), which is held by Akiyoshi Hiraoka concurrently with his position as president & CEO.

We preserve the mental and physical health of our employees by providing an environment to ensure high productivity and comfort. Furthermore, the sound mental and physical health of employees will lead to a virtuous circle of even higher productivity. Specifically, we are launching Big Data mapping that will be used in various policy decisions moving forward, including analyzing the correlation between the workplace environment and blood pressure and other data from employee health exams.

Promotion of Diversity

Promoting Female Participation

Diverse abilities are indispensable to creating a business ecosystem. At the Nihon Unisys Group, we are promoting the participation of female employees and those with disabilities, among others, for the purpose of improving corporate value. Of these such efforts, our top priority is promoting the participation of women.

For 10 consecutive years at Nihon Unisys, over 90% of female employees have returned to work after giving birth. There is also not much difference between male and female employees in the average number of years of employment, signifying a deeply rooted culture of continuous employment. In order to contribute to further growth in corporate value moving forward, we aim to build a human resource pipeline to ensure the constant presence of candidates for promotion from the staff level to the management level, and that employees deserving of promotion are advanced. Furthermore, we and are earnestly moving forward with policies to promote active roles for women, widen their field of participation, and advance their careers. By 2020, we hope to achieve 10% in terms of management positions held by women.

Moreover, we are working toward policies that allow male employees to both work and participate in child rearing and, in anticipation of an aging society, allow employees to balance work with providing nursing care for family members. In these ways, we are striving to create a culture where all of our employees can achieve success while maintaining a work–life balance.

Sports Promotion Activities
The Nihon Unisys Corporate Badminton Team

The Nihon Unisys Corporate Badminton Team was established in 1989. In an overall effort to encourage corporate sports, we promote the activities of our badminton team. This section provides some background information on why Nihon Unisys, a company that offers IT solutions, decided to become involved in the sport of badminton.

Badminton as the Symbol of the Company

The inspiration behind the creation of the badminton team was a plan to raise employee morale after the 1988 merger with Nippon Univac and Burroughs. We established a goal for the team of sending a player from the Company to compete in the Olympics, and with the success that the team enjoyed its significance became even greater in terms of contributing Companywide to the promotion of sports. The badminton team has already grown to produce Olympic and world championship athletes, but we believe that what is important is revitalizing all of Japanese badminton, while at the same time striving for human resource development. From this perspective, the team is connected to the reforms in corporate culture and human resources that we have adopted in the Mid-term Management Plan and, as such, we will continue to promote this initiative going forward.

CSR Management

The Nihon Unisys Group's CSR Mindset

We consider the Nihon Unisys Group's CSR activities to be the realization of our corporate philosophy, "Work with all people to contribute to creating a society that is friendly to people and the environment." We continue to strive to gain the trust of all stakeholders through our contributions to resolving social issues and providing value to society, as well as through our initiatives based on ISO 26000 standards—the guidelines for our CSR activities—that work to meet the demands of society.

Promotion of CSR Activities in Accordance with ISO 26000

Guided by ISO 26000, the Nihon Unisys Group promotes CSR activities in accordance with plan–do–check–act (PDCA) cycles.

We have determined the content and targets of our initiatives and conduct regular reviews with the goal of becoming the company we aim to be based on each of the seven ISO 26000 core subjects. The content of our initiatives takes into account particularly important social issues such as business strategies and socially responsible investment (SRI) as well as the opinions of stakeholders.

The themes of our main priority initiatives in FY2015 included respect for human rights, promotion of diversity, and promotion of CSR activities via supply chains.

Participation in the United Nations Global Compact

In March 2014, the Nihon Unisys Group became a signatory of the United Nations Global Compact (hereafter UNGC), an international initiative for sustainable growth in the global community. We also signed on with the UNGC local network in Japan, the Global Compact Network Japan (GCNJ).

UN GLOBAL COMPACT
Network Japan
WE SUPPORT

Promotion of CSR via Supply Chains

Through the establishment of our Procurement Code of Conduct in all our procurement and trade activities, including the procurement of hardware, software, and service products, as well as the outsourcing of information-based products and service contracts, we implement fair and transparent procurement, complying with both domestic and international laws, regulations, and social norms. We also promote the procurement of products and services with lower environmental impact, in addition to procurement from suppliers who actively promote environmental preservation. Furthermore, we make sure that the hardware products we procure do not use conflict minerals, which fund activities in conflict-affected regions.

Employee CSR Training

We conduct e-learning sessions on CSR for all Group employees in order to instill a thorough awareness of CSR in the conduct of all employees.

In FY2015, we carried out e-learning sessions in eight different CSR-related fields, with an average attendance rate of 95.6%.

External Assessments

- Nihon Unisys
  Continued inclusion in the Morningstar Socially Responsible Investment Index (MS-SRI Index) as of July 27, 2016
  (Morningstar Japan KK)

MS-SRI Morningstar Socially Responsible Investment Index

- Cambridge Technology Partners
  Ranked as the second most "fulfilling company" (25–99 employees category) in February 2016
  (Great Place To Work® Institute)

GREAT PLACE TO WORK® Best Workplaces 2016 Japan

Focus on

Resolving Social Issues through Business Ecosystems

Resolving social issues in Business ICT Platforms

Commencement of a Collaborative Business for the Practical Application of Typhoon Turbine Systems

Nihon Unisys and Challenergy Inc. agreed to jointly pursue the development and commercialization of next-generation wind power generation services capable of producing energy from typhoons and strong winds. Next-generation wind power generation services combine Challenergy's vertical axis Magnus wind power generator and Nihon Unisys' Enability® series and IoT business platform service. They offer a one-stop service for remote operation monitoring services such as commissioning statuses of generators and anomaly detection.

The Nihon Unisys Group is working toward the development of IoT business platforms. The next-generation wind power generation services we aim to offer mark the first step in this process. As such, we are pushing forward with building remote operation monitoring systems for wind power generation equipment.

Moving forward, in addition to working to expand the Digital Innovation and Life Innovation fields as laid out in the Mid-term Management Plan, we are promoting joint ventures and active innovation projects making full use of the open and closed strategy.

A vertical axis Magnus wind power generator

Resolving Social Issues in Life Innovation

Providing the Cloud-Based Childcare Support Service ChiReaff Space® to Nurseries across Japan

Against the background of women's social advancement and long waiting lists for placement in daycare centers, a new system for the purpose of expanding funds for childcare has been enacted in April 2015 by the Japanese government's Cabinet Office. As the childcare industry undergoes significant changes, there is a need for ensuring sufficient nursery personnel working at daycare centers and creating an environment in which parents can leave their children with peace of mind.

Nihon Unisys has developed the ChiReaff Space® childcare support service, which, in addition to improving the efficiency of nursery schools in such ways as managing child attendance and employee shifts, helps boost the quality of documents and plans centered on childcare work based on data taken from 40,000 kindergarteners across Japan.

Nihon Unisys provides support to nursery schools seeking to improve the quality of their childcare. In doing so, the Company hopes to create communities involved in childcare and a society that cherishes children.

What is ChiReaff Space®?

Concept

To help raise children affectionately, we offer childcare support and peace of mind for their parents.

We are building an environment focused on the growth of each and every child, where they are able to develop a sense of self.

We aim for a society where communities and the people in them nurture and have compassion for children.

Corporate Governance

Basic Views

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

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

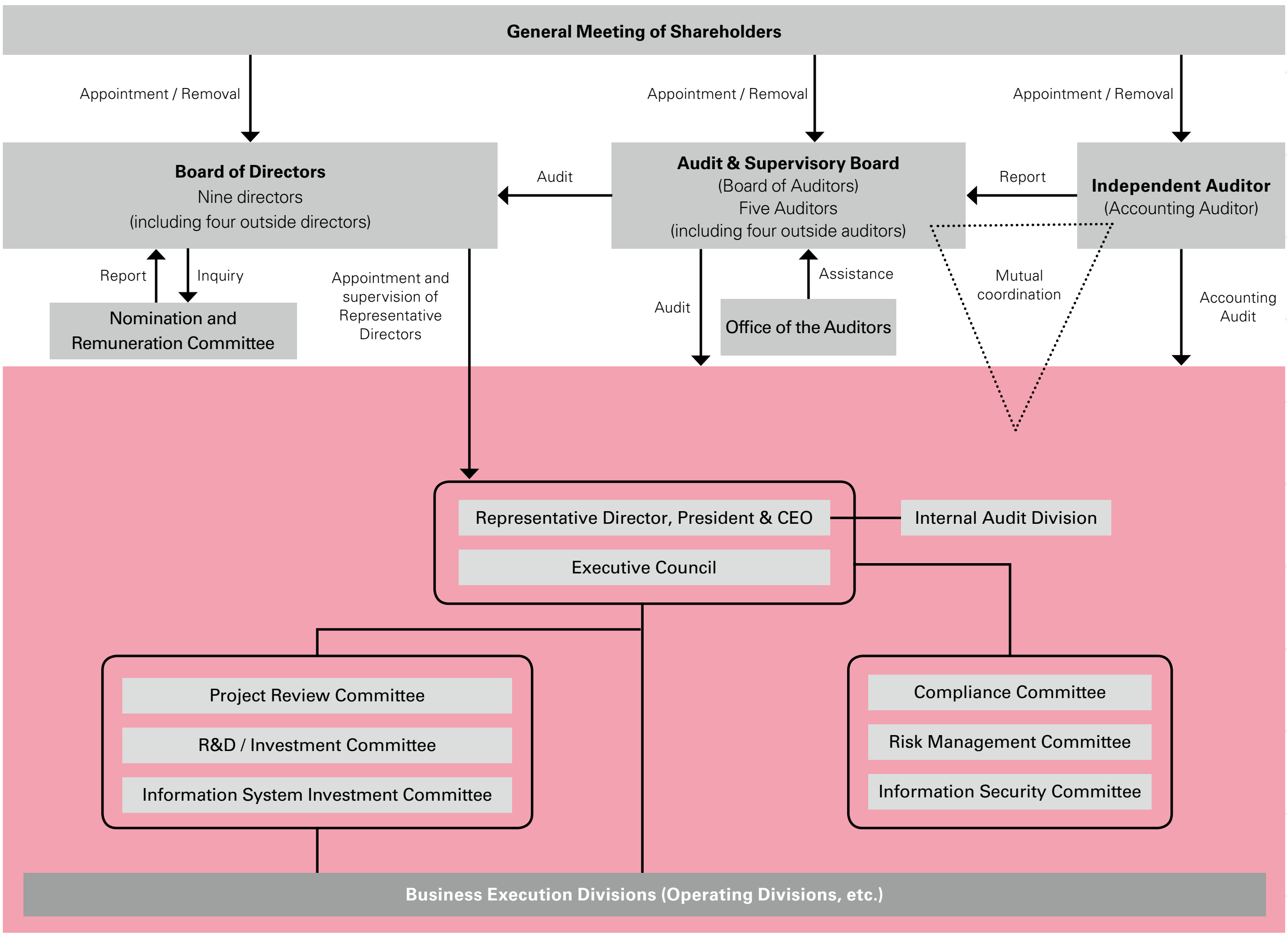
Corporate Governance Structure

The Company has judged that an audit system that includes outside auditors is effective for supervising management, and thus has adopted the system of having a Board of Auditors.

Given the drastically changing nature of the Company's industry, its Board of Directors consists of five internal directors who are well-versed in the state of the Company and its industry and also four outside directors who are expected to use their abundant management experience, give advice on management as a whole from their external, objective, and expert perspectives, and operate as an efficient supervisory body to management. We think this makes the Company capable of more objective and broad-based decision making as well as more effective supervision of its business execution.

Corporate Governance and Internal Control

As of June 28, 2016



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

Board of Directors

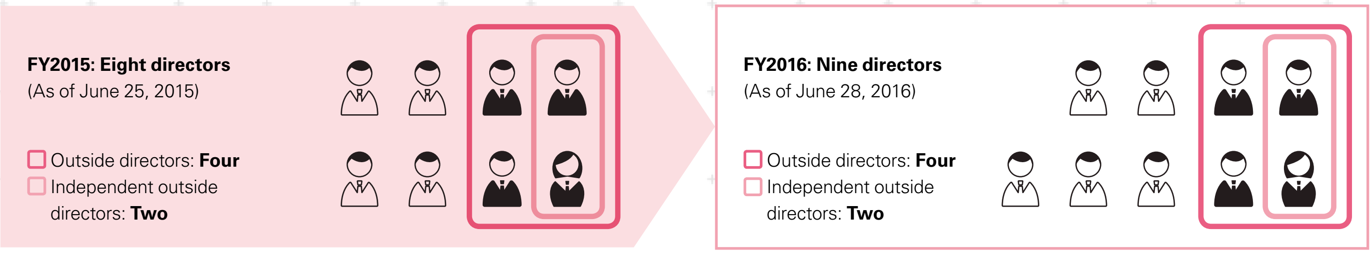
The Board of Directors is composed of nine directors, including four outside directors (one of whom is female). It meets every month as a general rule. The Board of Directors receives reports on and decides on key matters for the Company. The term of directorship is set at one year in order to establish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

In FY2015, the Board of Directors met 11 times, holding discussions on various issues related to management. The attendance ratio of Board of Directors' meetings was 87.5% for outside directors and 93.2% for outside Audit & Supervisory Board members.

Establishment of Nomination and Remuneration Committee

Nihon Unisys shall establish as an advisory committee to the Board of Directors the "Nomination and Remuneration Committee," which deliberates and reports on matters pertaining to the appointment, removal and remuneration of executives. The Committee shall consist of several directors, including at least one independent outside director.

Board of Directors' Structure



The Audit & Supervisory Board

There are five Audit & Supervisory Board members (herein also referred to as "auditors"), including four outside auditors. Three are full-time auditors. Auditors attend key meetings (such as those of the Board of Directors), examine the state of the Company's performance and assets, and audit the performance of the directors in their professional duties. They are assisted in accomplishing their duties by dedicated personnel assigned to the Office of the Auditors in order to enhance the effectiveness and smoothness of audit operations by auditors.

In FY2015, the Audit & Supervisory Board met 13 times, with an attendance ratio for outside Audit & Supervisory Board members of 90.4%.

Internal Audit Department

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

Focus on

Evaluation of Effectiveness of the Board of Directors

Nihon Unisys surveyed all of its directors and auditors regarding the structure, operation, and deliberation status and so forth of the FY2015 Board of Directors. After deliberating the results from the survey, it evaluated the effectiveness of its Board of Directors. As a result, it was confirmed that the Board in its member numbers and structure is well balanced in terms of knowledge, experience, and skills; it is appropriately operated, where, through discussion, the effectiveness of the management team can be overseen; and also the audit system has been enhanced. Furthermore, it was confirmed that in future the Company will further improve the provision of information, as a whole, to outside directors; improve training for directors; and enhance communications between external executives and internal executives. The Company will endeavor to further improve the effectiveness of the Board of Directors through analysis and evaluation every year going forward.

Corporate Governance

Business Execution Structure

Executive Council	The Executive Council consists of representative directors and directors who concurrently serve as corporate officers and has been established as a body to make efficient decisions regarding key matters relating to business execution.
Various Committees	Various committees have been established in order to deliberate on specific management issues relating to business execution by the directors from practical perspectives. These are the Business Review Committee, the Investment Committee, the Information Systems Investment Committee, the Compliance Committee, the Risk Management Committee, and the Information Security Committee. Furthermore, the CSR Committee and Management of Technology (MOT) Committee have been established as advisory bodies.
Corporate Officer System	The Company has adopted a system of corporate officers in order to separate the supervision of management from its execution and to enable prompt business execution.

Remuneration of Directors and Audit & Supervisory Board Members

Policy and Procedure for Deciding Remuneration for Directors

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

It was resolved at the 49th Ordinary General Meeting of Shareholders held on June 25, 1993, that the monthly remuneration amount is a maximum of ¥35 million per month.

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

Performance-Linked Remuneration

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

Remuneration for Auditors

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

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

Total Remuneration for Directors and Audit & Supervisory Board Members with Subtotals for Each Type of Remuneration and Numbers of Recipients (FY2015)

Classification	Total Remuneration Paid (Millions of yen)	Remuneration Paid by Type (Millions of yen)			Recipients (People)
		Basic Remuneration	Stock Options	Bonuses	
Directors (Excluding Outside Directors)	219	198	21	–	6
Audit & Supervisory Board members (Excluding Outside Audit & Supervisory Board Members)	28	28	–*1	–*1	1
Outside Directors and Outside Audit & Supervisory Board Members	80	80	–*1	–*1	9

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

Internal Control System

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

Improving the Effectiveness and Efficiency of Business

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

Ensuring the Reliability of Financial Reports

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

Compliance with Laws and Regulations on Business Activities

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

Preservation of Company Assets (Risk Management)

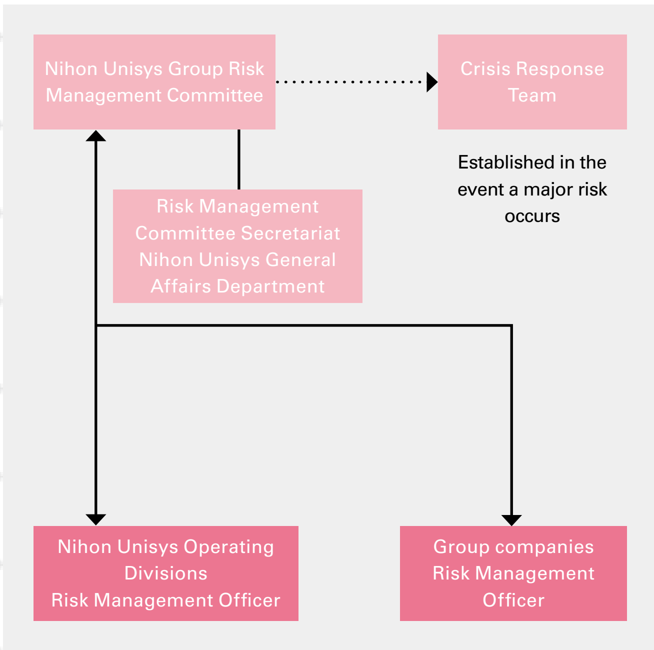
The Nihon Unisys Group is faced with various kinds of risk in connection with its operating business activities. The Company has developed a common risk classification system for the Group to share and centralize the management of risks throughout the entire Group. Furthermore, it has developed preventive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

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

The Risk Management Committee has established a common risk classification system in order to share and centralize the management of risks throughout the entire Group. The system currently has approximately 130 risk management categories such as information management risks, system development risks, and disasters or accident-related risks. Staff departments or committees responsible for controlling such risk items have established management regulations as well as specific preventive measures and countermeasures in an event of a risk arising.

In the event of a material risk arising despite these measures, the department in which such risk arises or relevant committee promptly reports to the Risk Management Committee - Business Continuity Project. A Risk Countermeasure Meeting or Risk Countermeasures HQ is then established according to the severity of the risk in order to deal with the situation appropriately.

Risk Management Structure of Nihon Unisys Group



Corporate Governance / Business and Other Risks

Information Security

The Nihon Unisys Group deals with the business information and information systems of its customers. As such, we work to ensure a uniform level of information security at each Group company and partner company. As of July 2016, 12 Group companies and affiliated organizations had received ISO 27001 (ISMS) certification, and eight Group companies had received PrivacyMark certification.

Promotion Structure

As a promotional structure for information security, the Group has established the Information Security Committee, the Security Promotion Team, the Group Management Council, and the Computer Security Incident Response Team (CSIRT). In addition, through integrated audits of information security management systems and personal information management systems, the Group is working to enhance the efficiency of its activities to promote security as well as to reduce the burden of frontline divisions.

Establishing and Expanding a Security-Oriented Culture

With the aim of further establishing a security-oriented culture, we place alerts on the intranet screen that appears when employees turn on their computers. We also implement training for information security officers and organization managers, new employees, and mid-career employees as well as e-learning programs that target all employees. In addition, we systematically carry out training aimed at partner companies.

Furthermore, we conduct training on how to deal with targeted e-mail attacks as part of our efforts to respond to cyber security risks. Through this training, participants gain firsthand experience of a cyberattack by actually receiving a fake targeted e-mail. In doing so, the training works to foster an awareness among employees toward the dangers of cyberattacks and have them develop a sense of ownership and responsibility. The training also allows employees to gain an understanding on how to appropriately respond in the event of a cyberattack.

Additionally, in order to promote the proactive utilization of information from the perspective of security, we make use of the remote access service SASTIK® as well as mobiGate®, a service that allows employees to securely access in-house systems from their smartphone or cellular device. In these ways, we have in place an environment where all employees can access the Company's intranet in a highly secure manner even from outside the Company.

Business and Other Risks

Risks related to the Group's businesses and finances that have the possibility of having a material effect on the decisions of investors are as follows. Note that forward-looking statements contained in this document are based on the understanding of the Group as of the end of the fiscal year under review.

(1) Impact from Economic Trends and the Market Environment

The business results and financial conditions of the Group may be affected by a number of factors including reluctance to invest in information systems, unexpectedly intense price competition, and delayed response to technological advancement due to economic trends and shifts in the information service market. They may also be affected by a worsening of the business environment as a result of changes in regulations and systems such as laws, taxation, and accounting systems or changes in social infrastructure such as power and communications.

(2) Project Management Risks

The Group is engaged in many different system development projects. However, intensified competition has meant that customers are continually demanding more sophisticated systems, resulting in projects becoming increasingly complex. Accordingly, if a problem arises in a development project, there is a risk that the problem will require greater-than-expected costs and time to resolve, which could lead to a cost overrun. To avoid such a risk, the Group has instituted a thorough and multifaceted system for assessing risk by the Project Review Committee at both the proposal and implementation stages. It is also working to implement effective measures for preventing cost overruns and detecting problems at an early stage by enhancing the project management system, increasing productivity by systematizing and standardizing the system development method, and implementing the Andon system, which detects problems in a project at an early stage, as well as implementing a cycle of improvement that includes the review of problems to ascertain their true causes and implement fundamental countermeasures.

(3) System Failure Risks

The systems and services provided by the Group have a significant effect on important administrative systems of customers and on social infrastructure. In the event of a major failure due to a system malfunctioning, an operational mistake, etc., involving these systems and services, the business results of the Group could be affected by such factors as a decline in society's trust in the Group, a decline in the Group's brand image, and the payment of compensation for damages that have occurred.

Accordingly, the Group determines quality standards, such as the categorization of systems in use by their degree of social importance, problem occurrence rates, and the number of days needed to complete the response to a problem, and establishes systems to respond to problems. In addition, in regard to the occurrence of problems, the

Group is working to provide information to related in-house departments through a problem reporting system and to rapidly implement responses to problems. The Group is also working to raise the quality of systems in use by implementing evaluation and improvement activities through periodic system maintenance.

(4) Risks Associated with Investment Decisions

The Group makes large investments with the aim of providing new products and services to strengthen its competitiveness and expand its businesses. When such investments are made, the Project Review Committee, the R&D / Investment Committee, and above them the Executive Council carefully determine the appropriateness of business plans and other factors. However, there is no guarantee that an adequate return on investment will always be achieved. If the Group is unable to achieve an adequate return, then its business results may be affected.

(5) Information Control Risks

The Group has many opportunities to access customers' confidential personal and / or corporate information, as well as information on the Group itself, through business activities related to the development and provision of information systems. We therefore consider information control to be a top priority in order to hold information in strict confidence and take all possible measures for appropriate management of information as a member of the ICT industry. To cope with the small possibility of an information leak in an emergency case that is beyond conventional imagination, the Group has insurance contracts to address the situation up to a certain extent. However, in the case that damage repair expenses are higher than the overall amount of contract coverage, or in the case that the leak has resulted in severe damage to the Group's reputation, there is the possibility that the business results and financial conditions of the Group would be severely affected.

(6) Risks Associated with the Retention of Skilled Engineers

The shortage of skilled engineers in the information services industry is a significant issue. If we are unable to recruit high-caliber engineers to meet our needs, this could have a material impact on the Group's ability to secure technological advantages. The Company is working to address this issue by creating an environment in which Group personnel can acquire high-level skills. To this end, we have instituted a wide range of personnel development measures, including career planning and other support systems, as well as programs to enhance employee abilities.

(7) Intellectual Property Rights Risks

In conducting its business activities, the Group makes concerted efforts to protect its intellectual property in such ways as acquiring patent rights for its proprietary technologies, products, and services as well as intellectual property rights such as trademarks. At the same time, the Group takes meticulous care not to infringe upon the intellectual property rights of third parties. However, in addition to the possibility of a third party infringing on the Group's intellectual property rights, disputes may arise based on a third party's claim that one of the Group's products or services infringes upon their intellectual property rights. In such an event, the Group could potentially incur expenses.

Furthermore, with regard to intellectual property and other rights that are necessary in conducting the Group's business, the Group may be unable to provide a certain product or service in the event the Group is unable to acquire licenses from specific right holders as planned. As a result, the business results and financial conditions of the Group may be affected.

(8) Risks Associated with Key Supplier Relations

The Company procures hardware, software, and services from suppliers in Japan and overseas and provides them to customers. 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 supplier companies could affect the Group's business results.

In addition, we handle the import, sales, and maintenance services of Unisys Corporation-made computers and other products in Japan, while Unisys Corporation grants us the use of its trademarks, technical information, and assistance. The trading relationship with Unisys Corporation has been secure, but if the relationship became unbalanced and can not be sustained this would have a material impact on the Group's business results.

(9) Exchange Rate Fluctuation Risks

The Group imports and sells Unisys Corporation-made computers and other foreign-made products. Thus, the Group's procurements in foreign currency denominations could be exposed to fluctuations in foreign exchange rates. To avoid such risks, the Group takes risk-hedging measures through forward exchange contracts. The Group's purchases denominated in foreign currency totaled ¥17,500 million in FY2015.

(10) Compliance Risks

The Group's business activities are exposed to the risk of lawsuits and legal action by third parties, and depending on the outcomes of such events it could result in having to pay unexpectedly large amounts of damage compensation and ultimately affect the Group's business results. For this reason, the Group has established the Nihon Unisys Group Action Guidelines, the Group Compliance Basic Regulations, and the Nihon Unisys Director and Employee Code of Conduct, based on which all of the Group's employees conduct ethical behavior in compliance with laws and regulations, social norms, and in-house regulations.

(11) Natural Disaster Risks

The occurrence of a natural disaster, such as an earthquake or infectious disease outbreak, could cause damage to or otherwise result in the loss of social infrastructure of one or more of the Group's major business bases. Such a disaster could also impact many of our suppliers or employees or result in a situation in which the Group must restrict its business activities to ensure the safety or maintain the well-being of such suppliers or employees. If such a disaster were to occur, the Group would have to incur significant expenses to respond to the damages, which could greatly impact service provision or other business activities and ultimately affect the Group's business results. Therefore, in preparation for such an occurrence or a situation where such an occurrence is anticipated, the Group is striving to establish a structure based on which its operations could be maintained.

Overview of Directors, Audit & Supervisory Board Members, and Corporate Officers (As of June 28, 2016)

Directors

Akiyoshi Hiraoka
Representative Director,
President & CEO,
Chief Health Officer (CHO)

Susumu Mukai
Representative Director,
Executive Corporate Officer,
CAO & CCO

Toshio Mukai
Representative Director,
Executive Corporate Officer,
CFO

Noboru Saito
Senior Corporate Officer,
CMO

Koji Katsuya
Senior Corporate Officer,
CSO & CIO

Go Kawada
Director
(Independent Outside Director)

Takeshi Yamada
Director
(Outside Director)

Ayako Sonoda
Director
(Independent Outside Director)

Morihiro Muramoto
Director
(Outside Director)

Audit & Supervisory Board Members

Akihiro Imura
Standing Corporate Auditor
(Outside Audit & Supervisory
Board Member)

Etsuo Uchiyama
Standing Corporate Auditor
(Outside Audit & Supervisory
Board Member)

Shinji Kuriyama
Standing Corporate Auditor

Shigemi Furuya
Outside Audit & Supervisory
Board Member

Masao Noda
Outside Audit & Supervisory
Board Member

Corporate Officers

Superior Corporate Officers

Masayuki Okada
Michihiko Tsunoda

Corporate Officers

Minoru Tasaki
Kouichi Ishiyama
Hirokazu Konishi
Hiroki Hyodo
Keiji Matsuo
Shinobu Sasao
Kazuo Nagai
Yasuhide Hatta
Hirofumi Hashimoto
Kazuo Sato
Takashi Hayashi
Kensuke Kohno

Messages from the Outside Directors

Go Kawada
Director (Independent Outside Director)

Under the guidance of Akiyoshi Hiraoka, who was appointed president & CEO of Nihon Unisys in April 2016, the Nihon Unisys Group is making unified efforts on a daily basis to reach the targets of its Mid-term Management Plan and to realize its medium-term vision towards 2020.

Without limiting itself to its conventional position as a so-called system integrator, the Group is aiming to become a corporate enterprise that creates business ecosystems backed by long-cultivated technological capabilities and that contributes to the resolution of social issues. I believe the Group is beginning to see some results in this pursuit.

With regard to the workplace environment of its employees, the Group has long been undertaking initiatives such as promoting diversity. Recently, President & CEO Hiraoka has created the position of chief health officer (CHO) and appointed himself to that position in an effort to encourage health management. By further promoting this effort, the Group is working to create an environment that can leverage the abilities of its human resources to their full potential.

In addition, to fulfill its social responsibilities as a corporate enterprise the Group has been making continuous efforts to bolster its corporate governance. An example of such effort is the establishment of the Nomination and Remuneration Committee. I would like to contribute to the realization of transparent and fair management for the Group by actively giving advice from the perspective of an independent officer.

Going forward, I will put forth even more effort to help the Group achieve improvements in its corporate value over the medium-to-long-term.

Ayako Sonoda
Director (Independent Outside Director)

As stated in the "Message from the CEO," major progress is being made this fiscal year in encouraging diversity, reforming work styles, and promoting health management which places value on employee health. I personally held lectures three times on the topic of promoting diversity management and believe that diversity represents the source of innovation. On the basis of accepting a wide range of value systems, I would like to see the Group aspire to become an organization that can draw on the full potential of its employees by taking on the challenge of promoting diverse, future-oriented work styles. Within the corporate governance of British companies, high priority is recently being given to sharing beliefs and value systems among employees, fostering and instilling an inclusive corporate culture, and comprehending the actual conditions in which employees work. I believe that there is a connection between diversity promotion and the achievement of these kinds of work styles.

As for the formulation of CSR materiality, the Group is incorporating the opinions of external stakeholders as it moves forward with preparations for business strategy initiatives and examinations of non-financial key performance indicators (KPIs). Global sustainable development goals (SDGs) for 2030 were agreed upon at the UN General Assembly in 2015. If life innovation, one of the strengths of Nihon Unisys, is viewed as a theme of these SDGs, then that will lead to a wide range of business opportunities. From the next fiscal year and on, I hope that through backcasting, the Group decides what kind of enterprise it aims to be in 2030—a year that will bring joy to employees' eyes—and discovers an excellent theory of change to act as its innovation strategy.

Responsible Dialogue with Our Shareholders and Other Investors

Policy Regarding Constructive Dialogue with Our Shareholders and Other Investors

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

1. Basic Concepts	The Company's president & CEO and CFO take the lead in carrying out investor relations (IR) activities, so that timely and appropriate information is delivered to all shareholders and investors.
2. IR Activities	The Company has established a department dedicated to IR and collaborates with related departments and each Group company to make appropriate disclosures of information.
3. Methods for Dialogue	The Company strives to explain how the Company is managed and how its operations work by providing shareholders and investors with opportunities for dialogue, such as briefing sessions about financial results and operations, as well as facility tours.
4. System for Sharing Opinions and Concerns Expressed by Stakeholders	The Company provides appropriate feedback to management executives and the Board of Directors regarding the opinions and concerns expressed by shareholders and investors.
5. Management of Insider Information	The Company sets a certain period of time as a silence period before making an announcement of financial results in order to prevent any information leaking before the announcement and ensure fairness. During this period, the Company refrains from responding to questions or inquiries about or commenting on financial results. Furthermore, the Company has put in place the Insider Trading Management Regulations and strives to prevent insider information from being leaked.

Initiatives during FY2015

In addition to holding briefing sessions on financial results each quarter, the Company made efforts to engage in constructive dialogue with a wide variety of investors through such means as holding small meetings, responding privately to domestic investors, and fielding inquiries from overseas investors during visits. We also created opportunities to appropriately explain our corporate value, such as holding briefing sessions on the business strategies in our Mid-term Management Plan as well as publishing integrated reports.

Responsible Customer Service

Quality Assurance

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

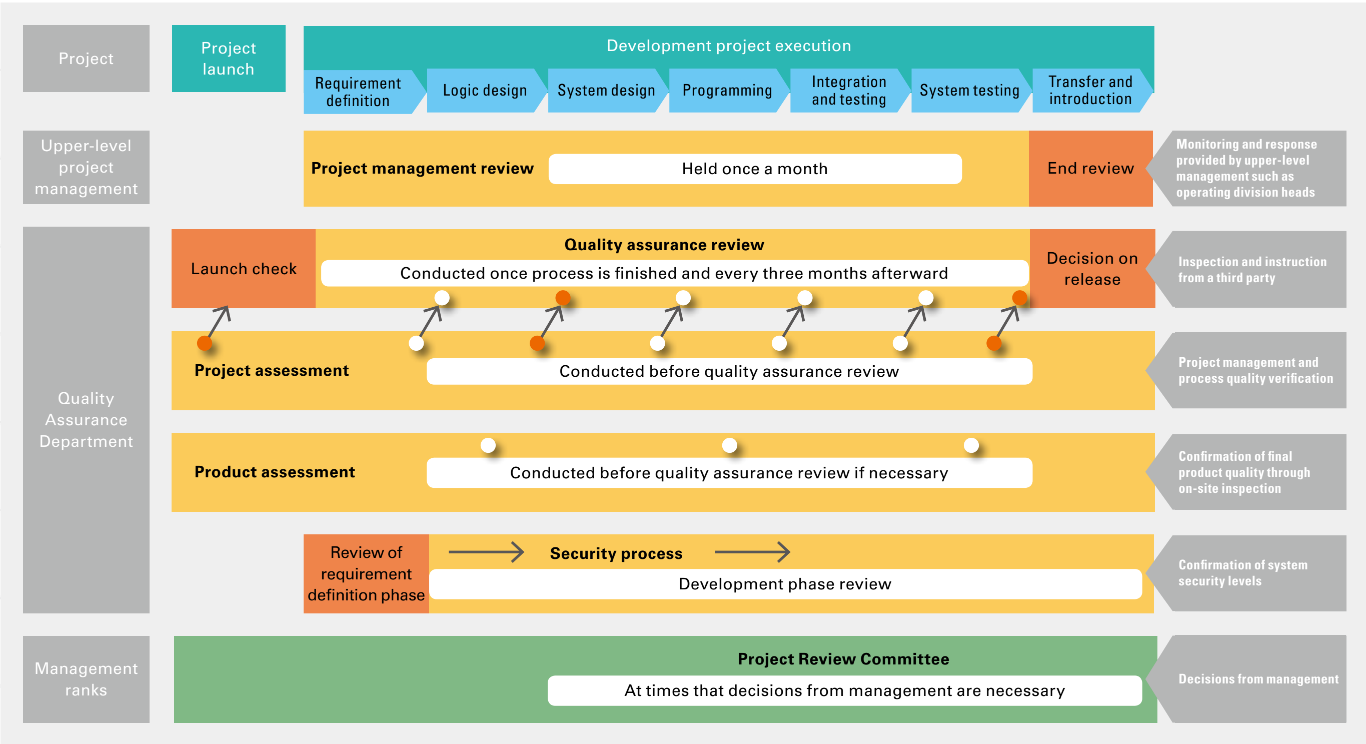
The Group implements thorough quality assurance activities for its software, hardware, and services, with the aim of "becoming an enterprise that can be fully trusted with customer systems and services, from proposal and development through to maintenance and operation."

Quality Assurance Procedures in Each Development Process

In the quality assurance processes for developing systems for customers, we not only carry out quality control activities for overall project development but also perform verifications on a continuous and multilevel basis to ensure that a project is operating soundly from the external side and that the quality of the finished product is secured. We also have in place corrective measures to address any issues that may occur.

Furthermore, even after the development of a customer's system is complete, we continuously verify the quality of operation, maintenance, outsourcing, and other services we offer to ensure that the system can be used with peace of mind.

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



Improving Customer Satisfaction Levels

The Nihon Unisys Group earnestly considers the wide variety of opinions it receives from customers, whether it be feedback directly received from customers in its day-to-day operations, answers to customer satisfaction surveys that are conducted after newly developed systems come online, or customer comments received at its call centers. These valuable opinions are steadily put to use in making improvements at each Group company and within each division.

Furthermore, in Customer Satisfaction Survey 2016–2017 conducted by *Nikkei Computer*, a comprehensive IT-related journal published by Nikkei Business Publications, Inc. (Nikkei BP), Nihon Unisys won first prize in the IT Consulting and Upstream Design-Related Services (Manufacturers) and System Development-Related Services (Manufacturers) divisions. In the same survey, UNIADEX, Ltd., won first prize in the System Operation-Related Services (Information service providers) division for the fifth consecutive year.

On the whole, the Nihon Unisys Group received first prizes in three divisions, reflecting the high reputation customers have of the Group's comprehensive services, which span from IT consulting and upstream design to system development and operation.

Financial Summary Nihon Unisys, Ltd., and Its Consolidated Subsidiaries

	FY2005	FY2006	FY2007	FY2008
Fiscal year				
Net sales	¥317,487	¥307,455	¥337,759	¥310,127
Gross profit	68,934	63,196	86,031	80,109
Selling, general and administrative expenses	63,868	56,918	66,382	64,226
Operating income	5,066	6,278	19,649	15,883
Profit before income taxes	4,319	6,312	10,216	(13,023)
Net income attributable to owners of the parent	1,889	3,434	2,546	(8,819)
Capital investment	19,119	21,570	33,928	22,984
Depreciation and amortization	15,735	13,808	15,685	14,837
Research and development costs	6,111	5,152	4,998	4,494
Net cash provided by (used in) operating activities	18,977	8,814	18,592	46,300
Net cash provided by (used in) investing activities	(19,303)	(32,271)	(29,103)	(20,248)
Free cash flows	(326)	(23,457)	(10,511)	26,051
Net cash provided by (used in) financing activities	5,169	15,857	8,815	(11,600)
Fiscal year-end				
Total assets	¥243,931	¥237,862	¥258,458	¥233,546
Net assets	80,850	87,018	86,341	75,465
Cash and cash equivalents	30,827	23,226	21,603	36,046
Net interest-bearing debt	34,359	55,492	77,786	54,380
Shareholders’ equity	80,850	86,121	84,930	74,038
Per share information				
Basic profit (loss) per share (Yen)	¥ 17.77	¥ 35.97	¥ 26.54	¥ (91.96)
Net assets per share (Yen)	857.54	897.36	885.88	771.94
Cash dividends per share (Yen)	7.50	7.50	12.00	15.00
Dividend payout ratio (%)	42.2	20.9	45.2	–
Other information				
Operating margin (%)	1.6	2.0	5.8	5.1
Return on equity (ROE) (%)	2.1	4.1	3.0	(11.1)
Equity ratio (%)	33.1	36.2	32.9	31.7
Net debt-to-equity ratio (Times)	0.43	0.64	0.92	0.73

(Millions of yen)

FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
¥271,085	¥252,990	¥255,123	¥269,170	¥282,691	¥269,155	¥278,039
68,924	65,881	63,562	63,545	63,611	63,442	64,610
61,818	59,354	56,251	55,234	54,036	52,517	52,085
7,106	6,527	7,311	8,311	9,575	10,925	12,525
5,406	3,840	590	2,638	8,158	11,226	11,719
3,627	2,575	(12,499)	1,251	6,305	7,246	8,920
15,541	12,678	11,559	12,352	8,573	14,191	11,631
13,425	15,328	12,155	10,440	10,321	9,821	9,488
4,272	5,525	4,913	4,861	4,660	4,337	4,036
14,500	21,708	13,430	18,448	11,889	18,037	10,990
(14,701)	(11,168)	(10,642)	(11,443)	(8,289)	(10,548)	(10,566)
(200)	10,539	2,788	7,004	3,600	7,489	424
(10,371)	(5,587)	(5,947)	(8,985)	(151)	(12,887)	(8,185)
¥218,067	¥207,282	¥190,084	¥197,780	¥202,468	¥199,772	¥193,095
76,927	76,770	63,223	67,917	76,017	81,976	91,214
25,461	30,414	27,255	25,275	28,724	23,326	15,565
56,387	48,507	46,906	40,858	38,473	33,665	22,020
75,494	75,514	61,923	66,505	74,796	81,021	90,374
¥ 37.82	¥ 27.12	¥(132.99)	¥ 13.31	¥ 67.08	¥ 77.07	¥ 93.71
787.12	803.52	658.90	707.57	795.61	861.53	847.51
10.00	10.00	5.00	10.00	15.00	20.00	30.00
26.4	36.9	–	75.1	22.4	26.0	32.0
2.6	2.6	2.9	3.1	3.4	4.1	4.5
4.9	3.4	(18.2)	1.9	8.9	9.7	10.5
34.6	36.4	32.6	33.6	36.9	40.6	46.8
0.75	0.64	0.76	0.61	0.51	0.42	0.24

Overview and Analysis of Results for FY2015

Financial Highlights

Net sales increased 3.3% year on year, to ¥278,039 million, due to growth in the System Services and Outsourcing segments.

Operating income rose 14.6% year on year, to ¥12,525 million, resulting from such factors as a rise in sales and improvement in service profits.

Net income attributable to owners of the parent was up 23.1%, to ¥8,920 million, following the increase in operating income.

With the overall increase in software investment in the domestic information services market during the fiscal year under review, a full-fledged recovery is expected to continue going forward. However, the Group continues to face a harsh operating environment as there are concerns over Japan's economy suffering downward pressure from factors such as uncertain global conditions as well as intensified competition within the industry.

Analysis of Results of Operations

Net Sales

Consolidated net sales were up 3.3% year on year, to ¥278,039 million, as a result of strong system services and hardware sales. In addition, starting from the fiscal year under review, we have adopted such new standards as the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013). As a result, "net income" is now listed as "net income attributable to owners of the parent."

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 rose 7.7%, to ¥89,829 million, and segment profit increased 12.3%, to ¥23,834 million.

■ Support Services

The Support Services segment includes support services for software, maintenance services for hardware, and installation services, among others. Net sales in this segment were up 0.2%, to ¥55,362 million, while segment profit was down 9.1%, to ¥14,849 million.

■ Outsourcing

The Outsourcing segment consists of the contracted administration of information systems and other services. Net sales in this segment increased 4.8%, to ¥40,497 million, and segment profit rose 14.7%, to ¥8,798 million.

■ Software

The Software segment involves the provision of software under a user license agreement. Sales in this segment declined 2.4%, to ¥30,003 million, and segment profit fell 15.3%, to ¥7,358 million.

■ Hardware

The Hardware segment consists of the provision of hardware under a sales or lease contract. Net sales in this segment increased 4.9%, to ¥53,874 million, and segment profit grew 5.7%, to ¥7,382 million.

■ Other

The Other segment comprises businesses such as optical line services and equipment installation not included in reportable segments. Net sales for this segment were down 13.5%, to ¥8,474 million, while segment profit declined 6.3%, to ¥2,389 million.

Note: Segment profit has been adjusted based on operating income as recorded on the Company's consolidated statement of income. The total of all above segment profit figures is ¥64,610 million. By deducting the reconciliations amount of ¥52,085 million, which includes research and development costs, amortization of goodwill, and selling, general and administrative expenses not allocated to specific segments, the operating income figure of ¥12,525 million will be reached. The figures above do not include consumption tax, etc.

Operating Income

Gross profit increased ¥1,168 million, or 1.8%, to ¥64,610 million, thanks to higher net sales. Selling, general and administrative expenses fell ¥432 million, or 0.8%, to ¥52,085 million, as a result of a ¥271 million decrease in selling expenses brought about by lower sales support costs, in addition to a ¥161 million decrease in general and administrative expenses achieved through efforts to control R&D and other costs. As a result of these factors, operating income rose ¥1,600 million, or 14.6%, to ¥12,525 million.

Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent was ¥8,920 million, as expenses related to moving offices totaling ¥574 million were recorded as an extraordinary loss. This represented an increase of ¥1,674 million, as net income attributable to owners of the parent was ¥7,246 million in the previous fiscal year due to the recording of special retirement expenses totaling ¥1,401 million.

Analysis of Financial Condition

Analysis of the Balance Sheet

At the end of FY2015, the Group's total assets amounted to ¥193,095 million, down ¥6,677 million compared with the end of the previous fiscal year. Current assets were down ¥53 million, due to a ¥7,761 million decrease in cash and deposits, which offset increases of ¥2,325 million in accounts receivable–trade and ¥2,697 million in merchandise and finished products. Total non-current assets declined ¥6,624 million, due to a ¥6,343 million decrease in net defined benefit asset and other factors.

Total liabilities decreased ¥15,914 million, to ¥101,881 million, partly attributable to the further conversion of convertible bonds into shares and the repayment of loans payable.

Total equity increased ¥9,237 million, to ¥91,214 million, due mainly to the further conversion of convertible bonds into shares and the decrease in net defined benefit asset. The equity ratio improved 6.2 percentage points, to 46.8%.

Analysis of Cash Flows

Cash and cash equivalents at the end of FY2015 decreased ¥7,761 million, to ¥15,565 million. This decrease was due to the fact that net cash provided by operating activities was used for investment in computers for sales activities and software for outsourcing purposes along with the repayment of loans payable.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥10,990 million (a decrease of ¥7,047 million from the previous fiscal year). This reflects proceeds of ¥11,719 million in profit before income taxes (up ¥493 million from the previous fiscal year) as well as cash-increasing factors, such as noncash expenses of ¥9,405 million in depreciation and amortization, and cash-decreasing factors, such as an increase of ¥2,325 million in accounts receivable–trade.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥10,566 million (an increase of ¥17 million from the previous fiscal year). This mainly reflected the fact that the Company used ¥3,957 million (down ¥1,300 million from the previous fiscal year) to purchase property, plant and equipment, such as computer sales activities, and ¥7,152 million (down ¥713 million from the previous fiscal year) to purchase intangible assets, primarily investments in software for outsourcing.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥8,185 million (a decrease of ¥4,700 million from the previous fiscal year). This was largely due to a repayment of short-term loans payable of ¥3,525 million (up ¥6,775 million from the previous fiscal year) as well as a dividend payment of ¥2,349 million (up ¥704 million from the previous fiscal year).

Outlook for FY2016

We plan on recording net sales of ¥285,000 million in FY2016, representing a year-on-year increase of 2.5%. As for profits, with increased net sales and further improved profitability, we forecast an 11.8% increase in operating income, to ¥14,000 million, a 13.5% rise in ordinary income, to ¥13,800 million, and a 12.1% increase in net income attributable to owners of the parent, to ¥10,000 million.

Consolidated Performance Forecasts for FY2016

(Millions of yen)

	FY2015	FY2016 (Forecast)	Change
Net sales	278,039	285,000	+2.5%
Operating income	12,525	14,000	+11.8%
Net income attributable to owners of the parent	8,920	10,000	+12.1%

Consolidated Financial Statements

Consolidated Balance Sheet

Nihon Unisys, Ltd. and Consolidated Subsidiaries
March 31, 2016

ASSETS	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
Current Assets:			
Cash and cash equivalents (Notes 3 and 15)	**¥15,565**	¥23,326	**$138,135**
Accounts receivable—trade (Notes 5 and 15)	**70,447**	68,121	**625,195**
Inventories (Note 6)	**11,939**	9,901	**105,955**
Deferred tax assets (Note 9)	**6,195**	5,919	**54,979**
Other	**18,538**	15,451	**164,518**
Allowance for doubtful accounts	**(164)**	(144)	**(1,455)**
Total current assets	**122,520**	122,574	**1,087,327**
Property, Plant and Equipment:			
Land	**619**	619	**5,493**
Buildings and structures (Note 7)	**12,720**	12,193	**112,886**
Machinery and equipment (Note 7)	**37,621**	39,821	**333,875**
Other	**1,582**	1,581	**14,040**
Total	**52,542**	54,214	**466,294**
Accumulated depreciation	**(38,522)**	(40,103)	**(341,871)**
Net property, plant and equipment	**14,020**	14,111	**124,423**
Investments and Other Assets:			
Investment securities (Notes 4 and 15)	**13,960**	16,434	**123,891**
Investments in associated companies	**1,658**	1,591	**14,714**
Goodwill	**920**	1,798	**8,165**
Software (Note 7)	**19,934**	19,076	**176,908**
Lease deposits	**6,981**	7,865	**61,954**
Asset for retirement benefits (Note 10)	**833**	7,177	**7,393**
Deferred tax assets (Note 9)	**4,175**	1,033	**37,052**
Other	**8,094**	8,113	**71,831**
Total investments and other assets	**56,555**	63,087	**501,908**
Total	**¥193,095**	¥199,772	**$1,713,658**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
Current Liabilities:			
Short-term bank loans (Notes 8 and 15)	**¥475**	¥4,000	**$4,215**
Current portion of long-term debt (Notes 8 and 15)	**16,015**	15,115	**142,128**
Current portion of convertible bonds (Notes 8 and 15)	**1,086**		**9,638**
Accounts payable—trade (Note 15)	**22,941**	25,231	**203,594**
Accounts payable—other	**2,117**	2,323	**18,788**
Income taxes payable (Note 9)	**1,173**	383	**10,410**
Accrued expenses	**8,922**	7,692	**79,180**
Advances received	**13,637**	12,214	**121,024**
Allowance for loss on contract development	**55**	1,688	**488**
Asset retirement obligations	**517**		**4,588**
Other	**8,335**	9,002	**73,971**
Total current liabilities	**75,273**	77,648	**668,024**
Long-Term Liabilities:			
Long-term debt (Notes 8 and 15)	**18,915**	21,655	**167,865**
Convertible bonds (Notes 8 and 15)		15,088	
Long-term accounts payable—other	**87**	143	**772**
Liability for retirement benefits (Note 10)	**5,127**	881	**45,501**
Deferred tax liabilities (Note 9)		66	
Asset retirement obligations	**974**	1,335	**8,644**
Other	**1,505**	980	**13,356**
Total long-term liabilities	**26,608**	40,148	**236,138**
Commitments and Contingent Liabilities (Notes 14)			
Equity (Notes 11 and 12):			
Common stock—authorized, 300,000,000 shares; issued, 109,663,524 shares in 2016 and 2015	**5,483**	5,483	**48,660**
Capital surplus	**14,201**	15,282	**126,029**
Stock acquisition rights	**269**	367	**2,387**
Retained earnings	**73,365**	68,032	**651,092**
Treasury stock—at cost 3,035,570 shares in 2016 and 15,623,600 shares in 2015	**(3,745)**	(19,283)	**(33,236)**
Deposit for subscriptions to treasury shares	**6**	3	**53**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	**4,298**	5,511	**38,143**
Deferred gain (loss) on derivatives under hedge accounting	**(16)**	(11)	**(142)**
Remeasurements of defined benefit plan, net of tax	**(3,217)**	6,004	**(28,549)**
Total	**90,644**	81,388	**804,437**
Non-controlling interests	**570**	588	**5,059**
Total equity	**91,214**	81,976	**809,496**
Total	**¥193,095**	¥199,772	**$1,713,658**

Consolidated Statement of Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2016	2015	**2016**
Net sales	**¥278,039**	¥269,155	**$2,467,510**
Cost of sales (Note 10)	**213,429**	205,713	**1,894,116**
Gross profit	**64,610**	63,442	**573,394**
Selling, general and administrative expenses (Notes 10 and 13)	**52,085**	52,517	**462,239**
Operating income	**12,525**	10,925	**111,155**
Other income (expenses):			
Interest and dividend income	**419**	496	**3,718**
Interest expense	**(250)**	(401)	**(2,219)**
Gain on sales of investment securities (Note 4)	**435**	1,249	**3,860**
Loss on impairment of investment securities	**(263)**	(22)	**(2,334)**
Foreign exchange gain	**96**	77	**852**
Loss on impairment of long-lived assets (Note 7)	**(18)**	(111)	**(160)**
Equity in earnings of associated companies	**62**	54	**550**
Loss on sales and retirement of noncurrent assets	**(208)**	(124)	**(1,846)**
Gain on reversal of subscription rights to shares	**188**	290	**1,668**
Gain on revision of retirement benefit plan (Note 10)		152	
Special retirement expenses		(1,401)	
Settlement package	**(219)**	(35)	**(1,944)**
Environmental expenses	**(619)**		**(5,493)**
Office transfer expenses	**(575)**		**(5,103)**
Other—net	**146**	77	**1,298**
Other income (expenses)—net	**(806)**	301	**(7,153)**
Income before income taxes	**11,719**	11,226	**104,002**
Income taxes (Note 9):			
Current	**1,389**	480	**12,327**
Deferred	**1,371**	3,443	**12,167**
Total income taxes	**2,760**	3,923	**24,494**
Net income	**8,959**	7,303	**79,508**
Net income attributable to non-controlling interests	**39**	57	**346**
Net income attributable to owners of the parent	**¥8,920**	¥7,246	**$79,162**
Per Share Amounts (Notes 2.t and 18):	*Yen*		***U.S. Dollars***
Basic net income	**¥93.71**	¥77.07	**$0.83**
Diluted net income	**82.33**	66.72	**0.73**
Cash dividends applicable to the year	**30.00**	20.00	**0.27**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2016	2015	**2016**
Net income	**¥8,959**	¥7,303	**$79,508**
Other comprehensive income (Note 17):			
Unrealized gain (loss) on available-for-sale securities	**(1,213)**	2,074	**(10,765)**
Deferred gain (loss) on derivatives under hedge accounting	**(5)**	10	**(44)**
Remeasurements of defined benefit plans, net of tax	**(9,221)**	4,339	**(81,834)**
Total other comprehensive income (loss)	**(10,439)**	6,423	**(92,643)**
Comprehensive income (loss)	**¥(1,480)**	¥13,726	**$(13,135)**
Total comprehensive income (loss) attributable to (Note 17):			
Owners of the parent	**¥(1,519)**	¥13,669	**$(13,481)**
Non-controlling interests	**39**	57	**346**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Thousands	*Millions of Japanese Yen*					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock -at cost	Deposit for subscriptions to treasury shares
Balance, March 31, 2014	94,012	¥5,483	¥15,282	¥661	¥68,268	¥(19,318)	
Cumulative effect of accounting change					(5,833)		
Balance, April 1, 2014 (as restated)	94,012	5,483	15,282	661	62,435	(19,318)	
Net income attributable to owners of the parent					7,246		
Cash dividends					(1,645)		
Purchase of treasury stock	(1)					(1)	
Disposal of treasury stock	29				(4)	36	
Deposit for subscriptions to treasury shares							3
Net changes in items				(294)			
Net changes during the year	28			(294)	5,597	35	3
Balance, March 31, 2015	94,040	5,483	15,282	367	68,032	(19,283)	3
Cumulative effect of accounting change (Note 2.v)			(1,081)		287		
Balance, April 1, 2015 (as restated)	94,040	5,483	14,201	367	68,319	(19,283)	3
Net income attributable to owners of the parent					8,920		
Cash dividends					(2,352)		
Conversion of convertible bonds	12,512				(1,510)	15,444	
Purchase of treasury stock						(1)	
Disposal of treasury stock	76				(12)	95	(3)
Deposit for subscriptions to treasury shares							6
Net changes in items				(98)			
Net changes during the year	12,588			(98)	5,046	15,538	3
Balance, March 31, 2016	106,628	¥5,483	¥14,201	¥269	¥73,365	¥(3,745)	¥6

	Millions of Japanese Yen					
	Accumulated other comprehensive income					
	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defied benefit plan, net of tax	Total	Non-controlling interests	Total equity
Balance, March 31, 2014	¥3,437	¥(21)	¥1,666	¥75,458	¥559	¥76,017
Cumulative effect of accounting change				(5,833)		(5,833)
Balance, April 1, 2014 (as restated)	3,437	(21)	1,666	69,625	559	70,184
Net income attributable to owners of the parent				7,246		7,246
Cash dividends				(1,645)	(28)	(1,673)
Purchase of treasury stock				(1)		(1)
Disposal of treasury stock				32		32
Deposit for subscriptions to treasury shares				3		3
Net changes in items	2,074	10	4,338	6,128	57	6,185
Net changes during the year	2,074	10	4,338	11,763	29	11,792
Balance, March 31, 2015	5,511	(11)	6,004	81,388	588	81,976
Cumulative effect of accounting change (Note 2.v)				(794)		(794)
Balance, April 1, 2015 (as restated)	5,511	(11)	6,004	80,594	588	81,182
Net income attributable to owners of the parent				8,920		8,920
Cash dividends				(2,352)		(2,352)
Conversion of convertible bonds				13,934		13,934
Purchase of treasury stock				(1)		(1)
Disposal of treasury stock				80		80
Deposit for subscriptions to treasury shares				6		6
Net changes in items	(1,213)	(5)	(9,221)	(10,537)	(18)	(10,555)
Net changes during the year	(1,213)	(5)	(9,221)	10,050	(18)	10,032
Balance, March 31, 2016	¥4,298	¥(16)	¥(3,217)	¥90,644	¥570	¥91,214

	Thousands	*Thousands of U.S. Dollars (Note 1)*					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock -at cost	Deposit for subscriptions to treasury shares
Balance, March 31, 2015	94,040	$48,660	$135,623	$3,257	$603,763	$(171,131)	$27
Cumulative effect of accounting change (Note 2.v)			(9,594)		2,547		
Balance, April 1, 2015 (as restated)	94,040	48,660	126,029	3,257	606,310	(171,131)	27
Net income attributable to owners of the parent					79,162		
Cash dividends					(20,873)		
Conversion of convertible bonds	12,512				(13,400)	137,061	
Purchase of treasury stock						(9)	
Disposal of treasury stock	76				(107)	843	(27)
Deposit for subscriptions to treasury shares							53
Net changes in items				(870)			
Net changes during the year	12,588			(870)	44,782	137,895	26
Balance, March 31, 2016	106,628	$48,660	$126,029	$2,387	$651,092	$(33,236)	$53

	Thousands of U.S. Dollars (Note 1)					
	Accumulated other comprehensive income					
	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defied benefit plan, net of tax	Total	Non-controlling interests	Total equity
Balance, March 31, 2015	$48,908	$(98)	$53,284	$722,293	$5,218	$727,511
Cumulative effect of accounting change (Note 2.v)				(7,047)		(7,047)
Balance, April 1, 2015 (as restated)	48,908	(98)	53,284	715,246	5,218	720,464
Net income attributable to owners of the parent				79,162		79,162
Cash dividends				(20,873)		(20,873)
Conversion of convertible bonds				123,661		123,661
Purchase of treasury stock				(9)		(9)
Disposal of treasury stock				709		709
Deposit for subscriptions to treasury shares				53		53
Net changes in items	(10,765)	(44)	(81,833)	(93,512)	(159)	(93,671)
Net changes during the year	(10,765)	(44)	(81,833)	89,191	(159)	89,032
Balance, March 31, 2016	$38,143	$(142)	$(28,549)	$804,437	$5,059	$809,496

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2016	2015	**2016**
Operating Activities:			
Income before income taxes	**¥11,719**	¥11,226	**$104,002**
Adjustments for:			
Income taxes paid	**(347)**	(1,107)	**(3,080)**
Loss on impairment of long-lived assets	**18**	111	**160**
Depreciation and amortization	**9,405**	9,747	**83,466**
Amortization of goodwill	**84**	137	**745**
Gain on sales of investment securities	**(435)**	(1,249)	**(3,860)**
Loss on impairment of investment securities	**263**	22	**2,334**
Increase in accounts receivable—trade	**(2,326)**	(163)	**(20,643)**
(Increase) decrease in inventories	**(2,038)**	3,868	**(18,087)**
Decrease in interest and dividend receivable	**3**	3	**27**
Decrease (increase) in asset for retirement benefits	**6,344**	(6,551)	**56,301**
(Decrease) increase in remeasurements of defined benefit plan	**(13,442)**	6,298	**(119,294)**
Increase (decrease) in liability for retirement benefits	**4,245**	(2,243)	**37,673**
(Decrease) increase in accounts payable—trade	**(2,291)**	796	**(20,332)**
Decrease in interest payable	**(88)**	(85)	**(781)**
Increase in accrued expenses	**1,230**	13	**10,916**
Decrease in allowance for loss on contract development	**(1,633)**	(1,584)	**(14,492)**
Increase (decrease) in other allowance	**824**	(238)	**7,313**
Other—net	**(545)**	(964)	**(4,835)**
Total adjustments	**(729)**	6,811	**(6,469)**
Net cash provided by operating activities	**10,990**	18,037	**97,533**
Investing Activities:			
Proceeds from sales of property, plant and equipment	**8**	243	**71**
Payments for purchases of property, plant and equipment	**(3,958)**	(5,258)	**(35,126)**
Payments for purchases of software	**(7,153)**	(7,721)	**(63,481)**
Proceeds from sales of investment securities	**1,196**	2,630	**10,614**
Payments for purchases of investment securities	**(711)**	(457)	**(6,310)**
Proceeds from redemption of investment securities		100	
Other—net	**52**	(85)	**462**
Net cash used in investing activities	**(10,566)**	(10,548)	**(93,770)**
Financing Activities:			
Net (decrease) increase in short-term bank loans	**(3,525)**	3,250	**(31,283)**
Proceeds from long-term debt	**13,275**		**117,812**
Repayments of long-term debt	**(15,115)**	(13,940)	**(134,141)**
Repayments of other debt	**(482)**	(550)	**(4,278)**
Purchase of treasury stock	**(1)**	(1)	**(9)**
Cash dividends	**(2,350)**	(1,646)	**(20,856)**
Cash dividends to non-controlling interests	**(49)**	(28)	**(435)**
Other—net	**62**	28	**551**
Net cash used in financing activities	**(8,185)**	(12,887)	**(72,639)**
Net decrease in Cash and Cash Equivalents	**(7,761)**	(5,398)	**(68,876)**
Cash and Cash Equivalents, Beginning of Year	**23,326**	28,724	**207,011**
Cash and Cash Equivalents, End of Year	**¥15,565**	¥23,326	**$138,135**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

1. Basis of presenting consolidated financial statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 financial statements to conform them to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nihon Unisys, Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.68 to $1, the approximate rate of exchange at March 31, 2016. 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, 2016 include the accounts of the Company and its 11 (18 as of March 31, 2015) significant subsidiaries and one (one as of March 31, 2015) associated company accounted for by the equity method (collectively, the "Group").

On April 1, 2015, USOL Hokkaido Co., Ltd., USOL Tohoku Co., Ltd., USOL Tokyo Co., Ltd., USOL Chubu Co., Ltd., USOL Kansai Co., Ltd., USOL Chugoku Co., Ltd. and USOL Kyushu Co., Ltd., which were the Company's consolidated subsidiaries in the previous fiscal year, were merged with the Company, which is the surviving company, through an absorption-type merger and excluded from the scope of consolidation.

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

The remaining 7 (8 as of March 31, 2015) unconsolidated subsidiaries are excluded from the scope of consolidation because the portion of its assets, net income (loss), retained earnings and others that correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

The remaining 7 (8 as of March 31, 2015) unconsolidated subsidiaries and 11 (10 as of March 31, 2015) associated companies not accounted for by the equity method are excluded from the scope of the equity method because the portion of its net income (loss), retained earnings and others which correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

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

(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 inventories are stated at the lower of cost determined by the specific identification method or net selling value.

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

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

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

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

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

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

(f) Property, plant and equipment – Property, plant and equipment are stated at cost. Depreciation of rental and outsourcing computers 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 6 to 50 years for buildings and structures. The useful lives for lease assets are the periods of the respective leases. Machinery and equipment held for lease are depreciated by the straight-line method over the respective lease periods.

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

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

Software for internal use is amortized by the straight-line method over the estimated useful lives, principally over five years. Software held for leasing is depreciated by the straight-line method over the respective lease periods.

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

(i) Allowance for loss on contract development - The allowance for loss on contract development is provided for at an estimated amount of probable losses to be incurred in future years on the software development contracts that cost ¥50 million ($444 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. In addition, some of the consolidated subsidiaries have implemented a defined contribution pension plan in the fiscal year ended March 31, 2015, by which part of the defined benefit pension plan was terminated.

Actuarial gains and losses are recognized using the straight-line method over the average of the estimated remaining service period (mainly 10 years for the fiscal years ended March 31, 2016 and 2015) starting in the following year.
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 the certain subsidiary provide for the estimated future payments to be paid under the NCSP and include this amount as a liability for retirement benefits.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(1) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(3) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

The company applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective March 31,2014, and for (3) above, effective April 1, 2014.

(k) Asset Retirement Obligations – In March 2008, the ASBJ issued, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the 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 – ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

The Group has applied the accounting standard for stock options to those granted on and after May 1, 2006.

(m) Construction contracts – For software development contracts that cost ¥50 million ($444 thousand) or more for the fiscal years ended March 31, 2016 and 2015, 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 trade, except for derivatives which qualify for hedge accounting, are recognized in the consolidated statement of income.

(2) For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of 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*** – In December 2009, the ASBJ issued 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 under this standard and guidance are as follows:

(1) *Changes in Accounting Policies* – When a new accounting policy is applied following 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.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2013.

(v) ***New Accounting Standard Applied***

Accounting Standards for Business Combinations and Consolidated Financial – In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest—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. Under the previous accounting standard, 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 an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income—In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination—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. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, 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.

(e) Acquisition-related costs—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied retrospectively for all applicable transactions which occurred in the past.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

The cumulative effects from the retrospective application of (a) and (e) above at April 1, 2015, have been reflected within capital surplus and retained earnings at April 1, 2015.

As a result, goodwill and capital surplus at April 1, 2015 decreased by ¥793 million ($7,038 thousand) and ¥1,081 million ($9,594 thousand), respectively, and retained earnings at April 1, 2015 increased by ¥287 million ($2,547 thousand). Operating income and income before income taxes for the year ended March 31, 2016 increased by ¥53 million ($470 thousand).

Further, diluted net income per share for the year ended March 31, 2016 increased by ¥0.56 ($0.00) and ¥0.49 ($0.00), respectively.

(w) New Accounting Pronouncements

***Tax Effect Accounting*—** On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and there will be no impact by the applying the new guidance in future applicable periods.

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

(1) ***Consolidated statement of income*** - “Settlement package,” which was previously included in "Other" among Other income (expenses), is separately disclosed as the amount is deemed material.

(2) ***Consolidated statements of cash flows*** - "(Decrease) increase in deposit received," which was previously separately disclosed, is included in "Other" from the fiscal year ended March 31, 2016 as the amount is deemed immaterial. The amount included in "Other" as of March 31, 2015 was ¥503 million.

3. Cash equivalents

Cash equivalents at March 31, 2016 and 2015 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Cash and time deposits	**¥15,565**	¥23,326	**$138,135**
Total	**¥15,565**	¥23,326	**$138,135**

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Decrease in capital surplus	**¥1,510**		**$13,400**
Decrease in treasury stock	**15,444**		**137,061**
Decrease in convertible bonds	**13,934**		**123,661**

4. Investment securities

Investment securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Current:			
Trust fund investments and other	**¥357**	¥76	**$3,168**
Total	**¥357**	¥76	**$3,168**
Noncurrent:			
Equity securities	**¥13,840**	¥15,812	**$122,826**
Trust fund investments and other	**120**	622	**1,065**
Total	**¥13,960**	¥16,434	**$123,891**

The costs and aggregate fair values of investment securities at March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	**¥6,417**	**¥6,190**	**¥(73)**	**¥12,534**
Other	**34**	**4**		**38**
Total	**¥6,451**	**¥6,194**	**¥(73)**	**¥12,572**
Held-to-maturity securities	**¥300**			**¥300**
March 31, 2015				
Available-for-sale securities:				
Equity securities	¥6,635	¥8,029	¥(103)	¥14,561
Other	236	34	(3)	267
Total	¥6,871	¥8,063	¥(106)	¥14,828
Held-to-maturity securities	¥300		¥(2)	¥298

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	**$56,949**	**$54,934**	**$(648)**	**$111,235**
Other	**302**	**36**		**338**
Total	**$57,251**	**$54,970**	**$(648)**	**$111,573**
Held-to-maturity securities	**$2,662**			**$2,662**

Information regarding available-for-sale securities which were sold during the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	**¥994**	**¥435**	
Other	**202**		
Total	**¥1,196**	**¥435**	
March 31, 2015			
Available-for-sale securities:			
Equity securities	¥2,424	¥1,249	
Other	206		
Total	¥2,630	¥1,249	

	Thousands of U.S. Dollars		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	**$8,821**	**$3,860**	
Other	**1,793**		
Total	**$10,614**	**$3,860**	

Impairment losses on available-for-sale equity securities for the years ended March 31, 2016 and 2015, were ¥263 million ($2,334 thousand) and ¥22 million, respectively.

5. Accounts receivable—trade

Costs and estimated earnings recognized with respect to construction contracts which were accounted for by the percentage-of-completion method at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Costs and estimated earnings	**¥4,947**	¥4,883	**$43,903**
Amount billed	**821**	1,055	**7,286**
Total	**¥4,126**	¥3,828	**$36,617**

6. Inventories

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Work in process	**¥2,342**	¥2,875	**$20,785**
Merchandise and finished products	**9,374**	6,676	**83,191**
Supplies	**223**	350	**1,979**
Total	**¥11,939**	¥9,901	**$105,955**

7. Long-lived assets

The Group reviewed its long-lived assets for impairment as of March 31, 2016 and 2015. As a result, the Group recognized an impairment loss as summarized below due to disposal of those units and continuous operating losses. The carrying amounts of the relevant assets were written down to the recoverable amount.

The recoverable amounts of those asset groups were measured at their value in use, and 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, 2016 and 2015, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Internal use assets:			
Buildings and structures	**¥430**		**$3,816**
Software		¥91	
Other (equipment)	**45**		**399**
Total	**¥475**	¥91	**$4,215**

The amounts above were included in office transfer expenses of ¥575 million ($5,103 thousand) for the year ended March 31, 2016.

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Application services:			
Machinery and equipment	**¥1**		**$9**
Software	**17**	¥91	**151**
Total	**¥18**	¥19	**$160**

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

Short-term bank loans of ¥475 million ($4,215 thousand) and ¥4,000 million at March 31, 2016 and 2015, respectively, bore interest at a rate of approximately 0.41%.

Long-term debt and convertible bonds at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Unsecured loans from banks and insurance companies, 0.24% to 1.04%, due serially to 2022	**¥34,930**	¥36,770	**$309,993**
Euro Yen zero coupon convertible bonds due 2016	**1,086**	15,088	**9,637**
Total	**36,016**	51,858	**319,630**
Less current portion	**(17,101)**	(15,115)	**(151,765)**
Long-term debt and convertible bond, less current portion	**¥18,915**	¥36,743	**$167,865**

The annual maturities of long-term debt and convertible bond as of March 31, 2016, for the next five years are as follows:

Year Ending March 31,	*Millions of Yen*	*Thousands of U.S. Dollars*
2017	**¥17,101**	**$151,766**
2018	**8,652**	**76,784**
2019	**3,013**	**26,739**
2020	**2,125**	**18,859**
2021	**5,125**	**45,483**
Total	**¥36,016**	**$319,631**

As is customary in Japan, collateral must be provided under certain circumstance, if requested by a lending bank, and such bank has the right to offset cash deposited with it against any debts or obligations that become due and, in the case of default or certain other specified events, against all debts payable to the bank. The Group has never received such a request.

The issue price of the convertible bonds due in June 2016 is 101.5% of the face value of the bonds. The conversion price was ¥1,114.0 per share at June 20, 2013 and adjusted to ¥1,112.1 per share at June 25, 2015. If all the outstanding convertible bonds had been exercised at March 31, 2016, 976 thousand shares of common stock would have been issued.
The conversion price of the convertible bonds is subject to adjustments to reflect stock splits and certain other events. In the 72nd Ordinary General Meeting of Shareholders held on June 28, 2016, the dividend for FY2016 has been determined to be ¥30 per share. As a result, the conversion price was adjusted to ¥1,104.2. Each stock acquisition right may be exercised at any time during the period from July 4, 2013 to June 6, 2016.

9. Income taxes

The Group is subject to Japanese national and local income taxes which resulted in a normal effective statutory tax rate of approximately 33.1% for the year ended March 31, 2016 and 35.6% for the year ended March 31, 2015.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Current assets:			
Deferred tax assets:			
Accrued bonuses	**¥2,260**	¥1,945	**$20,057**
Inventory valuation	**1,443**	1,062	**12,806**
Tax loss carryforwards	**757**	957	**6,718**
Revenue recognized for tax purposes	**511**	493	**4,535**
Allowance for loss on contract development	**36**	558	**319**
Accrued business and office taxes	**270**	140	**2,396**
Unrealized profit of inventories	**151**	61	**1,340**
Deferred loss on derivatives under hedge accounting	**7**		**62**
Others	**961**	937	**8,530**
Total	**6,396**	6,153	**56,763**
Less valuation allowance	**(192)**	(222)	**(1,704)**
Total	**¥6,204**	¥5,931	**$55,059**
Deferred tax liabilities:			
Deferred gain on derivatives under hedge accounting		¥(5)	
Others	**¥(9)**	(7)	**$(80)**
Total	**¥(9)**	¥(12)	**$(80)**
Net current deferred tax assets	**¥6,195**	¥5,919	**$54,979**

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Noncurrent assets:			
Deferred tax assets:			
Tax loss carryforwards	**¥5,903**	¥8,623	**$52,387**
Loss on impairment of long-lived assets	**2,083**	2,470	**18,486**
Depreciation expense	**2,162**	2,327	**19,187**
Liability for retirement benefits	**1,435**	191	**12,735**
Deferred loss on derivatives under hedge accounting		8	
Revenue recognized for tax purposes	**1,180**	1,204	**10,472**
Others	**1,227**	1,124	**10,890**
Total	**13,990**	15,947	**124,157**
Less valuation allowance	**(7,544)**	(10,064)	**(66,951)**
Total	**¥6,446**	¥5,883	**$57,206**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**¥(1,827)**	¥(2,455)	**$(16,214)**
Asset for retirement benefits	**(257)**	(2,329)	**(2,281)**
Others	**(187)**	(132)	**(1,659)**
Total	**¥(2,271)**	¥(4,916)	**$(20,154)**
Net noncurrent deferred tax assets	**¥4,175**	¥967	**$37,052**

Net noncurrent deferred tax assets at March 31, 2016 and 2015, included in the consolidated balance sheet were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Deferred tax assets—noncurrent	**¥4,175**	¥1,033	**$37,052**
Deferred tax liabilities—noncurrent		(66)	
Net deferred tax assets—noncurrent	**¥4,175**	¥967	**$37,052**

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, 2016 and 2015, was as follows:

	2016	2015
Normal effective statutory tax rate	**33.1%**	35.6%
Increase (decrease) in valuation allowance	**(16.1)**	(20.8)
Effect of change of tax rate	**1.8**	16.2
Expenses not deductible for income tax purposes	**2.0**	1.7
Amortization of goodwill	**0.2**	0.4
Amount of per capita local tax	**1.1**	1.0
Equity in earnings of associated companies	**(0.2)**	(0.2)
Nontaxable items	**(1.0)**	(1.7)
Effect of difference between effective tax rate and actual effective tax rate	**2.1**	2.4
Other—net	**0.6**	0.3
Actual effective tax rate	**23.6%**	34.9%

At March 31, 2016, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥20,053 million, which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2019	**¥1,642**	**$14,572**
2020	**10,944**	**97,125**
2021	**5,490**	**48,722**
2024	**1,977**	**17,545**
Total	**¥20,053**	**$177,964**

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.9% from 32.3% and for the fiscal year beginning on or after April 1, 2017, to approximately 30.6%.
In addition, deduction of net operating loss carryforwards will be limited for the fiscal year beginning on or after April 1, 2016, to 65% of earnings prior to adjustment for tax loss carryforwards, for the fiscal year beginning on or after April 1, 2017, to 55%, and for the fiscal year beginning on or after April 1, 2018, to 50%.

The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥133 million ($1,180 thousand) and remeasurements of defined benefit plan by ¥25 million ($222 thousand), and increase unrealized gain on available-for-sale securities by ¥101 million ($896 thousand) in the consolidated balance sheet as of March 31, 2016. In addition, income taxes — deferred increased in the consolidated statement of income for the year then ended by ¥209 million ($1,855 thousand).

10. Retirement and Pension Plans

The Company and 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.

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

Part of the 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 personal reason payments.

Some consolidated subsidiaries shifted part of the defined benefit pension plan to a defined contribution pension plan in the fiscal year ended March 31, 2015.

Changes in the liability for retirement benefit obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Retirement benefit obligation, beginning of year (as previously reported)	**¥102,195**	¥96,751	**$906,949**
Cumulative effect of accounting change		¥8,566	
Retirement benefit obligation, beginning of year (as restated)	**¥102,195**	105,317	**$906,949**
Service cost	**2,143**	2,307	**19,018**
Interest cost	**1,215**	1,243	**10,783**
Actuarial (gains) losses	**11,413**	(237)	**101,287**
Payments for retirement benefit	**(5,041)**	(5,258)	**(44,737)**
Decrease in relation to the shift of pension plan to defined contribution pension plan		(1,177)	
Retirement benefit obligation, end of year	**¥111,925**	¥102,195	**$993,300**

Changes in the pension assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Pension assets, beginning of year	**¥108,819**	¥102,856	**$965,735**
Expected return on assets	**1,632**	1,542	**14,483**
Actuarial gains (losses)	**(1,413)**	6,210	**(12,540)**
Contributions from the employer	**3,917**	4,134	**34,762**
Payments for retirement benefit	**(5,019)**	(5,102)	**(44,542)**
Decrease in relation to the shift of pension plan to defined contribution pension plan		(821)	
Pension assets, end of year	**¥107,936**	¥108,819	**$957,898**

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, 2016 and 2015, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Funded defined benefit obligation	**¥(111,333)**	¥(101,642)	**$(988,045)**
Plan assets	**107,936**	108,819	**957,898**
total	**(3,397)**	7,177	**(30,147)**
Unfunded defined benefit obligation	**(592)**	(553)	**(5,254)**
Net liability arising from defined benefit obligation	**¥(3,989)**	¥6,624	**$(35,401)**
Liability for retirement benefits	**¥(4,822)**	¥(553)	**$(42,794)**
Asset for retirement benefits	**833**	7,177	**7,393**
Net liability arising from defined benefit obligation	**¥(3,989)**	¥6,624	**$(35,401)**

The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were set forth as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Service cost *1	**¥2,143**	¥2,307	**$19,018**
Interest cost	**1,215**	1,243	**10,783**
Expected return on assets	**(1,632)**	(1,541)	**(14,483)**
Cost of actuarial gains and losses	**(617)**	(145)	**(5,476)**
Retirement benefit cost of defined benefit plans	**¥1,109**	¥1,864	**$9,842**
Other *2	**¥1,106**	¥1,085	**$9,815**
Gain on revision of retirement benefit plan *3		¥(152)	

*1 Retirement benefit cost of consolidated subsidiaries using the simplified method is included in the service cost.
*2 "Other" means the sum of (i) the amount of contribution required for the defined contribution pension plan, (ii) payment by the retirement prepaid system to prepaid retired employees, and (iii) the amount of contribution that is required for a multi-employer plan.
In addition, contributions to defined contribution pension plans in the year ended March 31, 2016 and 2015 were ¥934 million ($8,289 thousand) and ¥847 million, respectively, and contributions to multi-employer plan to be accounted for as well as to a defined contribution pension plan in the year ended March 31, 2016 and 2015 were ¥10 million ($89 million) and ¥91 million, respectively.
*3 Profits arising since some of the consolidated subsidiaries revised their retirement benefit plans have been recorded in other income as gain on revision of retirement benefit plan.
*4 In addition to the above, the Company recorded special retirement expenses of ¥1,401 million in other expenses for the fiscal year ended March 31, 2015, due to a significant increase in the number of employees who applied to the New Career Support Program (the "NCSP") which is special in nature, such as in terms of the paid amount and application period, compared with the "ordinary" NCSP.

Amounts recognized in other comprehensive income as remeasurements of defined benefit plan (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Actuarial gains (losses)	**¥(13,442)**	¥6,298	**$(119,294)**

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Unrecognized actuarial (gains) losses	**¥4,553**	¥(8,889)	**$40,406**

Breakdown of pension assets:

	2016	2015
Bonds	**57 %**	55 %
Life insurance	**14**	11
Stocks	**10**	10
Real estate		4
Cash and cash equivalents	**2**	3
Other	**17**	17
Total	**100 %**	100 %

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

Assumptions of major actuarial:

	2016	2015
Discount rate	**mainly 0.45%**	mainly 1.2%
Expected rate of return on plan assets	**mainly 1.5%**	mainly 1.5%
Expected salary increase rate	**mainly 3.4% (average)**	mainly 3.4% (average)

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

The liability for retirement benefits at March 31, 2016 and 2015, included the following liabilities:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Allowance for the "NCSP"	**¥563**	¥549	**$4,997**
Current portion	**(258)**	(220)	**(2,290)**
Net noncurrent portion	**¥305**	¥329	**$2,707**

Total charges relating to allowance for the NCSP for the years ended March 31, 2016 and 2015 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Allowance for the NCSP	**¥192**	¥380	**$1,704**

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 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, 2016, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2008 Stock Option	8 directors; 395 employees; 23 subsidiaries' directors; 265 subsidiaries' employees	963,600 shares	August 15, 2008	¥1,791 $15.89	From July 1, 2010 to June 30, 2015
2009 Stock Option	7 directors; 424 employees; 21 subsidiaries' directors; 256 subsidiaries' employees	991,900 shares	August 7, 2009	¥864 $7.67	From July 1, 2011 to June 30, 2016
2012 Stock Option	6 directors; 16 employees; 4 subsidiaries' directors; 10 subsidiaries' employees	200,600 shares	July 17, 2012	¥1 $0.01	From July 1, 2013 to June 30, 2043
2013 Stock Option	6 directors; 16 employees; 4 subsidiaries' directors; 9 subsidiaries' employees	261,200 shares	July 12, 2013	¥1 $0.01	From July 1, 2014 to June 30, 2044
2015 Stock Option	4 directors; 16 employees; 3 subsidiaries' directors; 13 subsidiaries' employees	164,800 shares	July 13, 2015	¥1 $0.01	From July 1, 2016 to June 30, 2046

The Company's stock option activity was as follows:

	2008 Stock Option (Shares)	2009 Stock Option (Shares)	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2015 Stock Option (Shares)
For the year ended March 31, 2015					
Nonvested					
March 31, 2014—Outstanding					
Granted					
Canceled					
Vested					
March 31, 2015—Outstanding					
Vested					
March 31, 2014—Outstanding	453,900	445,000	18,500	107,300	
Vested					
Exercised		29,000			
Canceled	6,300	2,700			
March 31, 2015—Outstanding	447,600	413,300	18,500	107,300	
For the year ended March 31, 2016					
Nonvested					
March 31, 2015—Outstanding					
Granted					164,800
Canceled					
Vested					164,800
March 31, 2016—Outstanding					
Vested					
March 31, 2015—Outstanding	447,600	413,300	18,500	107,300	
Vested					164,800
Exercised		75,700	600		
Canceled	447,600	3,600			78,200
March 31, 2016—Outstanding	0	334,000	17,900	107,300	86,600
Exercise price	¥1,791 $15.89	¥864 $7.67	¥1 $0.01	¥1 $0.01	¥1 $0.01
Average stock price at exercise	- -	¥1,313 $11.65	¥1,202 $10.67	- -	- -
Fair value price at grant date	¥397 $3.52	¥215 $1.91	¥553 $4.91	¥706 $6.27	¥1,256 $11.15

The Assumptions Used to Measure the Fair Value of the 2015 Stock Option	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	33.979 %
Estimated remaining outstanding period:	2.40 years
Estimated dividend:	¥20 per share
Risk free interest rate:	0.015 %

13. Research and development costs

Research and development costs charged to income were ¥4,037 million ($35,827 thousand) and ¥4,337 million for the years ended March 31, 2016 and 2015, respectively.

14. Leases

The minimum rental commitments under noncancellable operating leases at March 31, 2016 and 2015 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2016	2015	**2016**
Due within one year	**¥623**	¥483	**$5,529**
Due after one year	**1,880**	1,870	**16,684**
Total	**¥2,503**	¥2,353	**$22,213**

15. Financial Instruments and Related Disclosures

(1) Policy for financial instruments

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

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

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

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a customer's failure to repay 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 from 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 exchange risk and interest rate risk)

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

Currency exchange risk of foreign currency trade payables 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 concerned based on internal guidelines. The transaction data has been reported to the directors concerned and corporate auditors on a monthly basis.

Liquidity risk management

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

(4) Fair values of financial instruments

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

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

(a) Fair values of financial instruments

Fair values of financial instruments as of March 31, 2016 and 2015 were as follows:

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	**¥15,565**	**¥15,565**	
Accounts receivable—trade	**70,447**	**70,447**	
Investment securities	**12,872**	**12,872**	
Total	**¥98,884**	**¥98,884**	
Short-term bank loans	**¥475**	**¥475**	
Current portion of long-term debt	**16,015**	**16,070**	**¥(55)**
Accounts payable—trade	**22,941**	**22,941**	
Convertible bonds	**1,086**	**1,466**	**(380)**
Long-term debt	**18,915**	**18,927**	**(12)**
Total	**¥59,432**	**¥59,879**	**¥(447)**
Derivatives *	**¥(23)**	**¥(23)**	
March 31, 2015			
Cash and cash equivalents	¥23,326	¥23,326	
Accounts receivable—trade	68,121	68,121	
Investment securities	15,128	15,126	¥2
Total	¥106,575	¥106,573	¥2
Short-term bank loans	¥4,000	¥4,000	
Current portion of long-term debt	15,115	15,187	¥(72)
Accounts payable—trade	25,231	25,231	
Convertible bonds	15,088	16,863	(1,775)
Long-term debt	21,655	21,748	(93)
Total	¥81,089	¥83,029	¥(1,940)
Derivatives *	¥12	¥12	

March 31, 2016	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	**$138,135**	**$138,135**	
Accounts receivable—trade	**625,195**	**625,195**	
Investment securities	**114,235**	**114,235**	
Total	**$877,565**	**$877,565**	
Short-term bank loans	**$4,215**	**$4,215**	
Current portion of long-term debt	**142,128**	**142,616**	**$(488)**
Accounts payable—trade	**203,594**	**203,594**	
Convertible bonds	**9,638**	**13,010**	**(3,372)**
Long-term debt	**167,865**	**167,971**	**(106)**
Total	**$527,440**	**$531,406**	**$(3,966)**
Derivatives *	**$(204)**	**$(204)**	

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

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

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

Derivatives
Fair value information for derivatives is included in Note 16.

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

	Millions of Yen 2016	2015	Thousands of U.S. Dollars 2016
Investments in unconsolidated subsidiaries and associated companies	**¥1,658**	¥1,591	**$14,714**
Investments in equity instruments that do not have a quoted market price in an active market	**¥1,305**	¥1,251	**$11,581**
Other	**¥138**	¥130	**$1,225**

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

	Millions of Yen			
March 31, 2016	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**¥15,565**			
Accounts receivable—trade	**70,447**			
Investment securities				
Available-for-sale securities:				
(1) Debt securities				
(2) Other	**56**	**¥31**	**¥50**	
Held-to-maturity securities:	**300**			
Total	**¥86,368**	**¥31**	**¥50**	
March 31, 2015				
Cash and cash equivalents	¥23,326			
Accounts receivable—trade	68,121			
Investment securities				
Available-for-sale securities:				
(1) Debt securities				
(2) Other	76	¥54		
Held-to-maturity securities:		300		
Total	¥91,523	¥354		

	Thousands of U.S. Dollars			
March 31, 2016	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**$138,135**			
Accounts receivable—trade	**625,195**			
Investment securities				
Available-for-sale securities:				
(1) Debt securities				
(2) Other	**497**	**$275**	**$444**	
Held-to-maturity securities:	**2,662**			
Total	**$766,489**	**$275**	**$444**	

* 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 foreign exchange 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, 2016 and 2015.

Derivative transactions to which hedge accounting is applied at March 31, 2016 and 2015, were as follows:

		Millions of Yen		
March 31, 2016	Hedged Item	Contract Amount	Contract amount due after one year	Fair Value
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	**¥342**		**¥(5)**
- Forward contracts applied for designated transactions	Payables	**843**		**(*)**
Non-deliverable forward contracts:				
Buying Korean Won:				
- Deferral hedge	Payables	**171**		**(0)**
Interest rate swaps:				
- Hedge accounting	Long-term debt	**3,000**		**(18)**
- Fixed-rate payment and floating-rate receipt	Long-term debt	**7,650**	**1,650**	
March 31, 2015				
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥2,117		¥14
- Forward contracts applied for designated transactions	Payables	1,832		
Interest rate swaps:				
- Hedge accounting	Long-term debt	3,000	¥3,000	(27)
- Fixed-rate payment and floating-rate receipt	Long-term debt	12,650	7,650	(*)

		Thousands of U.S. Dollars		
March 31, 2016	Hedged Item	Contract Amount	Contract amount due after one year	Fair Value
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	**$3,035**		**$(44)**
- Forward contracts applied for designated transactions	Payables	**7,481**		**(*)**
Non-deliverable forward contracts:				
Buying Korean Won:				
- Deferral hedge	Payables	**1,518**		**(0)**
Interest rate swaps:				
- Hedge accounting	Long-term debt	**26,624**		**(160)**
- Fixed-rate payment and floating-rate receipt	Long-term debt	**67,891**	**14,643**	**(*)**

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

* 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.
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).

As of March 31, 2016, the Company held ¥3,750 million ($33,280 thousand) of long-term loans with embedded derivative which substantially fixed interest rate of the loan. The fair value of this derivative is included in the fair value of long-term debt.

17. Comprehensive income

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	**¥(1,654)**	¥4,042	**$(14,679)**
Reclassification adjustments to profit or loss	**(188)**	(1,180)	**(1,668)**
Amount before income tax effect	**(1,842)**	2,862	**(16,347)**
Income tax effect	**629**	(788)	**5,582**
Total	**¥(1,213)**	¥2,074	**$(10,765)**
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	**¥(24)**	¥5	**$(213)**
Reclassification adjustments to profit or loss	**13**	9	**115**
Amount before income tax effect	**(11)**	14	**(98)**
Income tax effect	**6**	(4)	**54**
Total	**¥(5)**	¥10	**$(44)**
Deferred gain (loss) on defined benefit plans:			
Gains (losses) arising during the year	**¥(12,825)**	¥6,447	**$(113,818)**
Reclassification adjustments to profit or loss	**(617)**	(149)	**(5,476)**
Amount before income tax effect	**(13,442)**	6,298	**(119,294)**
Income tax effect	**4,221**	(1,959)	**37,460**
Total	**¥(9,221)**	¥4,339	**$(81,834)**
Total other comprehensive income	**¥(10,439)**	¥6,423	**$(92,643)**

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, 2016 and 2015, is as follows:

For the year ended March 31, 2016	Net Income *Millions of Yen*	Weighted-average shares *Thousands of shares*	EPS *Yen*	 *U.S. Dollars*
Basic EPS				
Net income available to common shareholders	¥8,920	95,187	¥93.71	$0.83
Effect of dilutive securities:				
Convertible bonds	(45)	12,281		
Warrants	4	375		
Diluted EPS—Net income for computation	¥8,879	107,843	¥82.33	$0.73

For the year ended March 31, 2015	Net Income *Millions of Yen*	Weighted-average shares *Thousands of shares*	EPS *Yen*
Basic EPS			
Net income available to common shareholders	¥7,246	94,018	¥77.07
Effect of dilutive securities:			
Convertible bonds	(48)	13,465	
Warrants		389	
Diluted EPS—Net income for computation	¥7,198	107,872	¥66.72

19. Related-party transactions

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

Name and location: Dai Nippon Printing Co., Ltd., Shinjuku-ku, Tokyo
Capital: ¥114,464 million ($1,015,832 thousand)
Business description: Information communication
Voting right: Direct 19.5%
Relationship: Business alliance, acceptance of system services, interlocking directors
Transactions: Operating transactions ¥4,019 million ($35,667 thousand),
Account name and balance: Accounts receivable—trade and other ¥2,879 million ($25,550 thousand)
1) Consumption taxes are not included in the transaction amount, but included in the ending balance.
2) The terms and conditions for transactions are determined on an arm's-length basis.

There were no transactions with related-parties for the year ended March 31, 2015.

20. Segment information

For the years ended March 31, 2016 and 2015

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

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, 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									
	2016									
	Reportable segment									
	System Services	Support Services	Out-sourcing	Software	Hardware	Total	Other 1)	Total	Reconcil-iations 2)	Consol-idated 3)
Sales	¥89,829	¥55,362	¥40,497	¥30,003	¥53,874	¥269,565	¥8,474	¥278,039		¥278,039
Segment profit	23,834	14,849	8,798	7,358	7,382	62,221	2,389	64,610	¥(52,085)	12,525
Segment assets	2,149	2,119	21,828	4,977	4,819	35,892	293	36,185	156,910	193,095
Other:										
Depreciation	136	302	4,812	1,612	809	7,671	89	7,760	1,645	9,405
Increase in property, plant and equipment and intangible assets	58	121	5,175	2,201	958	8,513	81	8,594	3,038	11,632
Loss on impairment of long-lived assets			18			18		18	475	493
Goodwill:										
Amortization									84	84
Balance									920	920

1) The "Other" category, which is not included in a specific reportable segment, consists of installation and other businesses.
2) Reconciliation of segment profit of ¥(52,085) million consists of selling, general and administrative expenses of ¥(47,965) million not allocable to the reportable segments, research and development costs of ¥(4,036) million and amortization of goodwill of ¥(84) million.
Reconciliation of segment assets of ¥156,910 million consists of corporate assets not allocable to the reportable segments.
Reconciliation of depreciation expense of ¥1,645 million consists of depreciation expense of corporate assets not allocable to the reportable segments.
Reconciliation of increase in property, plant and equipment and intangible assets of ¥3,038 million consists of increase in corporate assets not allocable to the reportable segments.
3) Segment profit is reconciled to operating income in the consolidated statement of income.

	Millions of Yen									
	2015									
	Reportable segment									
	System Services	Support Services	Out-sourcing	Software	Hardware	Total	Other [1)]	Total	Reconcil-iations [2)]	Consol-idated [3)]
Sales	¥83,404	¥55,246	¥38,646	¥30,728	¥51,337	¥259,361	¥9,794	¥269,155		¥269,155
Segment profit	21,215	16,331	7,668	8,692	6,985	60,891	2,551	63,442	¥(52,517)	10,925
Segment assets	2,970	3,230	18,118	3,373	5,562	33,253	372	33,625	166,147	199,772
Other:										
Depreciation	174	346	4,333	1,805	828	7,486	127	7,613	2,134	9,747
Increase in property, plant and equipment and intangible assets	200	338	7,842	1,555	673	10,608	97	10,705	3,546	14,251
Loss on impairment of long-lived assets			19			19		19	91	110
Goodwill:										
Amortization									137	137
Balance									1,798	1,798

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 ¥(52,517) million consists of selling, general and administrative expenses of ¥(48,043) million not allocable to the reportable segments, research and development costs of ¥(4,337) million and amortization of goodwill of ¥(137) million.
Reconciliation of segment assets of ¥166,147 million consists of corporate assets not allocable to the reportable segments.
Reconciliation of depreciation expense of ¥2,134 million consists of depreciation expense of corporate assets not allocable to the reportable segments.
Reconciliation of increase in property, plant and equipment and intangible assets of ¥3,546 million consists of increase in corporate assets not allocable to the reportable segments.

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

	Thousands of U.S. Dollars									
	2016									
	Reportable segment									
	System Services	Support Services	Out-sourcing	Software	Hardware	Total	Other [1)]	Total	Reconcil-iations [2)]	Consol-idated [3)]
Sales	**$797,204**	**$491,321**	**$359,398**	**$266,268**	**$478,115**	**$2,392,306**	**$75,204**	**$2,467,510**		**$2,467,510**
Segment profit	**211,519**	**131,780**	**78,080**	**65,300**	**65,513**	**552,192**	**21,201**	**573,393**	**$(462,238)**	**111,155**
Segment assets	**19,072**	**18,805**	**193,717**	**44,169**	**42,767**	**318,530**	**2,600**	**321,130**	**1,392,528**	**1,713,658**
Other:										
Depreciation	**1,207**	**2,680**	**42,705**	**14,306**	**7,180**	**68,078**	**790**	**68,868**	**14,598**	**83,466**
Increase in property, plant and equipment and intangible assets	**515**	**1,073**	**45,927**	**19,533**	**8,502**	**75,550**	**719**	**76,269**	**26,961**	**103,230**
Loss on impairment of long-lived assets			**160**			**160**		**160**	**4,215**	**4,375**
Goodwill:										
Amortization									**745**	**745**
Balance									**8,165**	**8,165**

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 $(462,238) million consists of selling, general and administrative expenses of $(425,674) million not allocable to the reportable segments, research and development costs of $(35,819) million and amortization of goodwill of $(745) million.
Reconciliation of segment assets of $1,392,528 million consists of corporate assets not allocable to the reportable segments.
Reconciliation of depreciation expense of $14,598 million consists of depreciation expense of corporate assets not allocable to the reportable segments.
Reconciliation of increase in property, plant and equipment and intangible assets of $26,961 million consists of increase in corporate assets not allocable to the reportable segments.

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

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2016 and 2015, 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 our consolidated net sales contributed to 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. Business combination

The Company, in accordance with the resolution at the Company's Board of Directors' meeting on December 25, 2014, implemented an absorption-type merger on April 2015, whereby the Company merged wholly owned subsidiaries USOL Hokkaido Co., Ltd., USOL Tohoku Co., Ltd., USOL Tokyo Co., Ltd., USOL Chubu Co., Ltd., USOL Kansai Co., Ltd., USOL Chugoku Co., Ltd., and USOL Kyushu Co., Ltd., with the Company as the surviving corporation.

(a) Overview

(1) Name and description of business

Merging company
Name: Nihon Unisys, Ltd. (the Company)
Description of business: Provision of system-related services and sales of computer systems

Merged companies
Name: USOL Hokkaido Co., Ltd., USOL Tohoku Co., Ltd., USOL Tokyo Co., Ltd., USOL Chubu Co., Ltd., USOL Kansai Co., Ltd., USOL Chugoku Co., Ltd., and USOL Kyushu Co., Ltd. (consolidated subsidiaries of the Company)
Description of business: Provision of system-related services

(2) Date of business combination April 1, 2015

(3) Legal form of business combination
An Absorption-type merger with this Company as the surviving company, and USOL Hokkaido Co., Ltd., USOL Tohoku Co., Ltd., USOL Tokyo Co., Ltd., USOL Chubu Co., Ltd., USOL Kansai Co., Ltd., USOL Chugoku Co., Ltd. , And USOL Kyushu Co., Ltd. as the absorbed companies

(4) Company name after business combination Nihon Unisys, Ltd. (the Company)

(5) Other Matters

The Company aims to accelerate its service speed by consolidating its management resources for the implementation of the mid-term management plan, "Innovative Challenge Plan," announced on December 1, 2014.

(b) Summary of Implemented Accounting Processes

The transaction was accounted for as a business combination among entities under common control, pursuant to ASBJ Statement No.21, "Accounting Standard for Business Combinations," and ASBJ Guidance No.10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

22. Subsequent events

At the general shareholders' meeting held on June 28, 2016, the Company's shareholders approved the following appropriation of retained earnings:

Appropriations of retained earnings

	Millions of Yen	*Thousands of U.S. Dollars*
Cash dividends, ¥15.0 ($0.13) per share	**¥1,599**	**$14,191**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Nihon Unisys, Ltd. and its consolidated subsidiaries as of March 31, 2016, 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, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 28, 2016

Corporate Data (As of March 31, 2016)

Company Name	Nihon Unisys, Ltd.
Established	March 29, 1958
Paid-in Capital	¥5,483 million
Description of Business	Services business including cloud computing and outsourcing; computer and network system sales / rentals; software development and sales; system-related services
Number of Employees	8,103 (consolidated)
Independent Auditor	Deloitte Touche Tohmatsu LLC
Business Offices	Headquarters: 1-1-1 Toyosu, Koto-ku, Tokyo 135-8560, Japan Regional Headquarters: Kansai (Osaka), Chubu (Nagoya), and Kyushu (Fukuoka) Regional Offices: Hokkaido (Sapporo), Tohoku (Sendai), Niigata (Niigata), Hokuriku (Kanazawa), Shizuoka (Shizuoka), and Chugoku (Hiroshima)

Overview of Group Companies

Business process	Company name	Ownership	Capital stock (Millions of yen)	FY2015 net sales (Millions of yen)	Number of employees
	Nihon Unisys, Ltd.		5,483	167,856	4,241
Marketing and Business Development and Consulting	UEL Corporation	100%	100	4,512	184
	Cambridge Technology Partners, Ltd.	100%	10	1,502	88
	AFAS Inc.	100%	100	1,097	42
Total Infrastructure Services	UNIADEX, Ltd.	100%	750	125,542	2,859
	S&I Co., Ltd.	95%*	490	8,613	156
System Services	USOL VIETNAM Co., Ltd.	100%	–	552	145
	International Systems Development Co., Ltd.	69%	40	2,130	129
	G&U System Service, Ltd.	51%	50	1,429	64
Outsourcing	TRADE VISION, Ltd.	75%	200	555	4
Group Shared Services	Nihon Unisys Business, Ltd.	100%	20	1,615	116

Group companies other than the above (non-consolidated companies):
UEL (Thailand) Co., Ltd., Netmarks Information Technology (Shanghai) Co., Ltd., UNIAID Co., Ltd., Beijing Unity Information Technology Co., Ltd., and NUL System Services Corporation
A-tas, Ltd., was dissolved on March 31, 2016 (FY2015 net sales: ¥2,063 million; employees at March 31, 2016: 75).
* Equity share of UNIADEX, 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

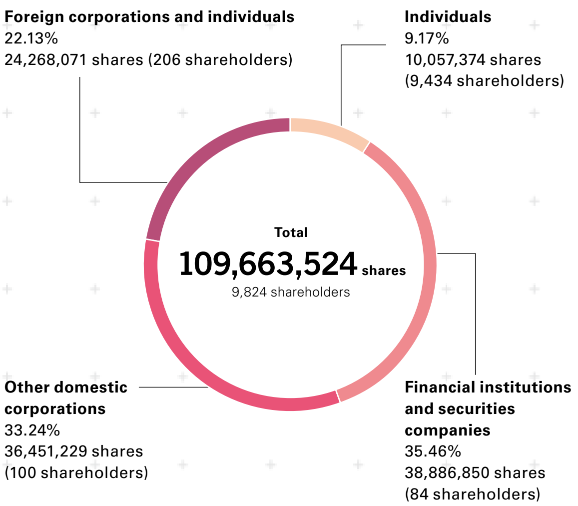
Integrated Report 2016 is available as either a printed booklet or as a PDF from our corporate website. A broader range of detailed information is also available on our website. In addition, we release various information disclosure tools at the request of stakeholders.

Website	*Integrated Report* (PDF)	Overall corporate activities	Financial information	Non-financial information
	Integrated Report http://www.unisys.co.jp/invest-e/ir/ar.html	Corporate Website http://www.unisys.co.jp/e/	"Investor Relations" Section http://www.unisys.co.jp/invest-e/index.html	"CSR" Section http://www.unisys.co.jp/csr/ (Available only in Japanese)
Printed booklet	*Integrated Report 2016*			

Stock Information (As of March 31, 2016)

Classification of Shareholders

Number of shares issued	109,663,524 shares
Number of shareholders	9,824 shareholders

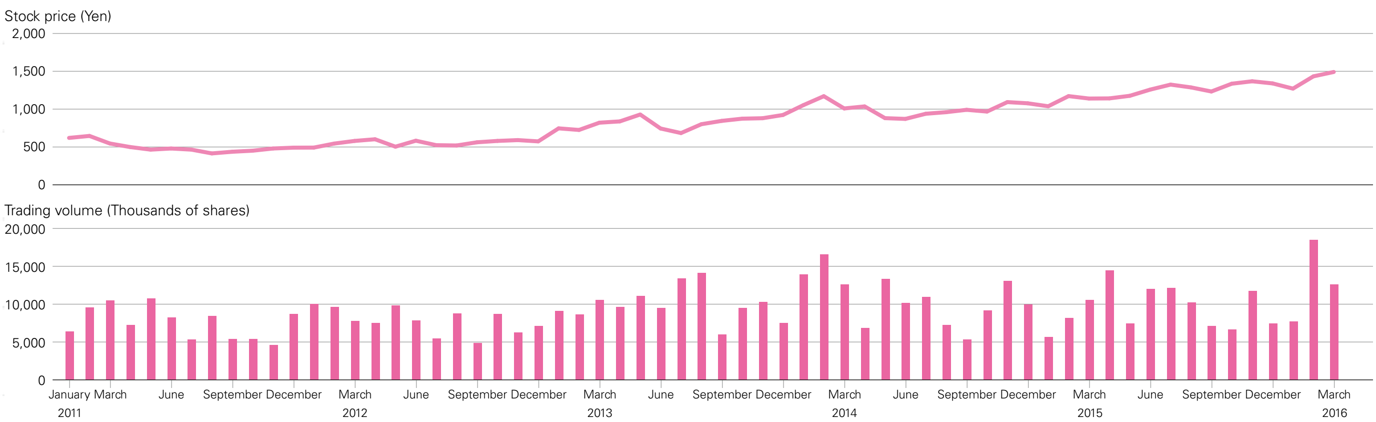


Principal Shareholders

Name	Number of shares held (Thousands of shares)	Holding ratio (%)
Dai Nippon Printing Co., Ltd.	20,727	18.90%
Japan Trustee Services Bank, Ltd. (Trust account)	11,500	10.48%
Mitsui & Co., Ltd.	9,798	8.93%
The Master Trust Bank of Japan, Ltd. (Trust account)	6,683	6.09%
The Norinchukin Bank	4,653	4.24%
J.P. Morgan Bank Luxembourg S.A. 380578	4,283	3.90%
Chase Manhattan Bank GTS Clients Account Escrow	3,885	3.54%
Japan Trustee Services Bank, Ltd. (Trust account 9)	3,402	3.10%
Nihon Unisys Employees' Shareholding Society	2,434	2.21%
Goldman Sachs International	1,972	1.79%

* Nihon Unisys, Ltd., retains 3,034,316 treasury shares (holding ratio: 2.76%).

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.

Notes Concerning Forward-Looking Statements

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

Period of the Report

In this report, fiscal year (FY) refers to the period beginning April 1 and ending March 31. In principle, this report covers FY2015 (April 1, 2015, to March 31, 2016), with activities during past fiscal years and conditions following FY2015 also reported as necessary.

Reference Guidelines

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

Issued

- November 2016
  (Previous issues: The Japanese version of the previous *Integrated Report* was issued in September 2015, with the English version being issued in October 2015.)
- The next issue is scheduled for September 2017.

Corporate Statement

Foresight in sight

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

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

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

Cover Photo

This photo expresses the Nihon Unisys Group's stance of embracing future challenges through the creation of new worlds by looking at everything from a broad perspective with a point of view that is different from the usual (unique angle*).

*** Unique Angle**

The Nihon Unisys Group's identity that visually represents the "Foresight in sight" world view

A "unique angle" is a new perspective that defies experience and common sense, foresees the future, provides a deep insight into things, and serves as the trigger that spawns a variety of ideas.
The unique angle is expressed by utilizing graphic element motifs that include photos duplicated in an unusual way and the guide grids and filters used in photography.

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