UNISYS

Nihon Unisys Group

Integrated Report 2018

For the Year Ended March 31, 2018

Foresight in sight

Corporate Philosophy

Our Mission

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

Our Vision

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

Our Values

1. Pursuit of High Quality and High Technology

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

2. Respect for Individuals and Importance of Teamwork

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

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

Listen sincerely to our stakeholders to improve our corporate value

Corporate Statement

Foresight in sight

This corporate statement expresses the Nihon Unisys Group vision toward 2020. "Foresight" consists of foreseeing and understanding industry changes, customer needs, and future social issues in advance, and "in sight" has the double meaning of being able to see and understand things combined with the meaning of "insight."

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

Contents

Engagement Agenda

Introducing our three-point agenda for engaging in dialogue with our investors

Engagement Agenda 1

Business Model Transformation to Create a Competitive Advantage

From a system integrator to a company that resolves social issues with business ecosystems

P. 2–19

Engagement Agenda 2

A Value Creation Driver

Our four human resource-driven strengths and our HR strategies for improving our pool of human capital

P. 20–25

Engagement Agenda 3

Strengthening the Foundations That Support Value Creation

Strengthening corporate governance and risk management for sustainable value creation

P. 26–37

2 A Value Creation Driver

3 Strengthening the Foundations That Support Value Creation

Financial/ Corporate Information

The Changing Nihon Unisys Group and Its History of Value Creation

From a System Integrator to a Platform Provider

During its 60-year history, the Nihon Unisys Group has supported the development of information and communications technology (ICT) in Japan as a system integrator. Now, the Group is evolving further. In addition to providing the value demanded by society, we are transforming into a platform provider that anticipates social changes and helps to resolve social issues.

Value and Functions Required of ICT

From 1950: Greater business efficiency and cost reduction > **From 1980: Support for management decision-making and business expansion**

Mainframes
Client servers
Solutions
ERP packages
Mobile services

Value for Society and Nihon Unisys Group Initiatives

Introduction of the first commercial computers in Japan, contributing to the formation of Japan's information society that has continued to the present > **Contribution to the development of society by understanding the needs of various customers and providing business solutions that support industry**

Changes in business infrastructure in response to changing times > **Centralized processing systems with mainframes** > **Distributed processing systems with client servers**

Main Achievements Nihon Unisys Group History

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

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

1991
Launched the integrated CAD/CAM system CADCEUS®

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

Society 5.0

SUSTAINABLE DEVELOPMENT GOALS

From 2000: Support for structural reform

From 2015: Business innovation/ business creation

From 2018: Resolution of social issues

Cloud computing

Big data

IoT

AI robotics

Smart technology

Digital transformation

New business creation

Creation of systems that anticipate technological advances to enable the provision of new services

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

Services utilizing new technologies

Cloud-based information systems

Platforms that enable collaboration across the boundaries of industry and business type

2007
Introduced core banking system BankVision®, the world's first "full-banking" system based on the Windows® platform

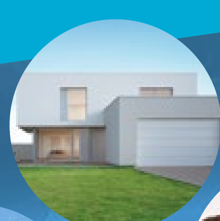
BankVision® was a large-scale, mission-critical system designed as an open system to enable rapid system development for the provision of new banking products and services.

2011
Entered the payment and settlement business with the launch of the "value card business" (gift cards and prepaid cards)

Starting with the value card business, we are working to help realize a new cashless society by rolling out a series of services including various mobile payment services, the Charge Point business, payment-linked marketing and global brand prepaid card services.

2017
Start of Resonatex® open API platform service

The use of an open API platform enables seamless, on-demand linkage between financial institutions and the various services offered by business entities in a secure environment, allowing the provision of new financial services in line with consumers' needs.



Value Creation Process

As a platform provider that creates business ecosystems to resolve social issues, we are establishing a value creation process using the value creation drivers and foundations unique to the Nihon Unisys Group.

Through the implementation of the mid-term management plan "Foresight in sight 2020" that has begun in FY2018, we will aim for sustainable growth by more firmly establishing our value creation process.

Corporate Philosophy

Our Mission

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

The Significance of the Existence of the Nihon Unisys Group

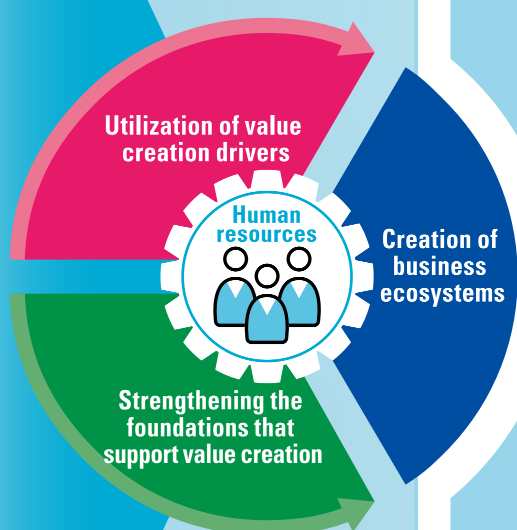
'A corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and business partners'

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

P. 6–7 Improving Sustainability by Resolving Social Issues

Social Changes Addressed by the Nihon Unisys Group

Spread of ESG	Super-smart society **Society 5.0**	Sustainable Development Goals **(SDGs)**



Strategies for Creating Value

Mid-Term Management Plan

Key Initiatives

- Selection and concentration on priority areas
- Strengthening relationships with customers to increase their added value
- Strengthening capability to provide platforms capable of business support
- Corporate culture reform
- Investment strategies

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

P. 10–19

Foresight in sight 2020

Social Issues to Be Resolved

Creation of platforms for business ecosystems

Priority Areas	Social Issues & Industry Trends	
Neobanks	• Low birthrate and aging society • Labor shortage • Disparity in regional economies • Financial inclusion	• Digitalization • Cashless economy • Customer orientation (emphasis on user interface and experience) • Collaboration between industries
Digital Acceleration	• Aging society • Digital divide • Shopping inaccessibility • Labor shortage	• Diversification of values • Information explosion • Rise of disruptive businesses • Rapid acceleration of digitalization
Smart Towns	• Aging society • Depopulation • Population decrease • Urbanization and population concentration	• Medical care issues • Tourism infrastructure development • Transportation network maintenance • Utilization of idle assets
Assets Guardian	• Natural disaster damage prevention • Crime prevention and safety measures at facilities • Shortage of skilled engineers and workers • Streamlining of manufacturing sites	• Facility obsolescence and safety measures • Measures to improve efficiency at facilities • Greater marketing precision • Capturing demand overseas

Value Creation Process

Value Creation Drivers P. 20–22

Collaborative Relationships with Customers from Various Industries

Broad Customer Base

- Financial institutions
- Manufacturing
- Commerce/Retail
- Power/Service

Customers

Over **5,000** companies*

Capabilities for Enabling Successful System Implementation

Providing Mission Critical Systems That Keep Society Moving

A proven track record

Number of Qualified Information Processing Engineers (As of April 1, 2018)

4,955 people*

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

Locations

Japan	Nationwide from Hokkaido to Okinawa
Overseas	Eight countries (United States, China, Indonesia, Thailand, Singapore, the Philippines, Malaysia and Vietnam)

Engineer Vendors

Over **450** companies

Capabilities for Designing and Delivering New Services

News Releases on Products and Services

FY2016 **60** ▸ FY2017 **117**

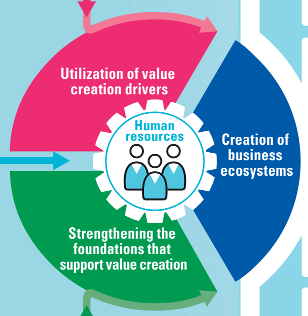
Active Investment to Spur Innovation

FY2017

¥**17.3** billion

Total of strategic investment, research and development and capital expenditures

Source of Value Creation: Human Resources P. 23–25



Corporate Governance

Percentage of Independent Outside Directors **33.3%**

Percentage of Female Directors **22.2%**

- Increased diversity of directors and Audit & Supervisory Board members
- Improved effectiveness of the Board of Directors
- Formulation of succession plan
- Advanced officer remuneration system

Risk Management

- Identification and monitoring of risk cases throughout the year
- Preparation and operation of management regulations and concrete preventive measures and countermeasures in case risks materialize

▸

- Establishment of a Risk Management Committee to centralize control of Group-wide risks
- Convocation and establishment of a council or task force for countermeasures according to the degree of impact when a risk materializes

Technology and Quality Management

- Quality assurance in project development
- Ensuring technological capability to cope with environmental changes
- Productivity improvement through systematization and standardization of system development methods

▸

- Establishment of Project Review Committee for multifaceted assessment of risks
- Establishment of a system that enables prompt action when a failure occurs

Value Chain Management

- Shift from a focus on individual projects to a service-oriented value chain
- Surveys of business partners for prompt response to environmental regulations and other rules

▸

- Provision of solutions and services to resolve social issues with business partners
- Establishment of a safe procurement system based on Procurement and Transaction Guidelines

Cyber Security Management

- Development and promotion of a strategy to deal with cyber security risks
- Enhancement of training for all employees and implementation of systematic training for business partners

▸

- Establishment of Information Security Committee and formulation of strategy
- Establishment of Group Security Operation Center to monitor and analyze network threats

The Foundations That Support Value Creation P. 26–37

* Total of Nihon Unisys and UNIADEX.

Strategies for Creating Value

Mid-Term Management Plan

Key Initiatives

- Selection and concentration on priority areas
- Strengthening relationships with customers to increase their added value
- Strengthening capability to provide platforms capable of business support
- Corporate culture reform
- Investment strategies

P. 10–19

Foresight in sight 2020

Providing Services That Benefit Society

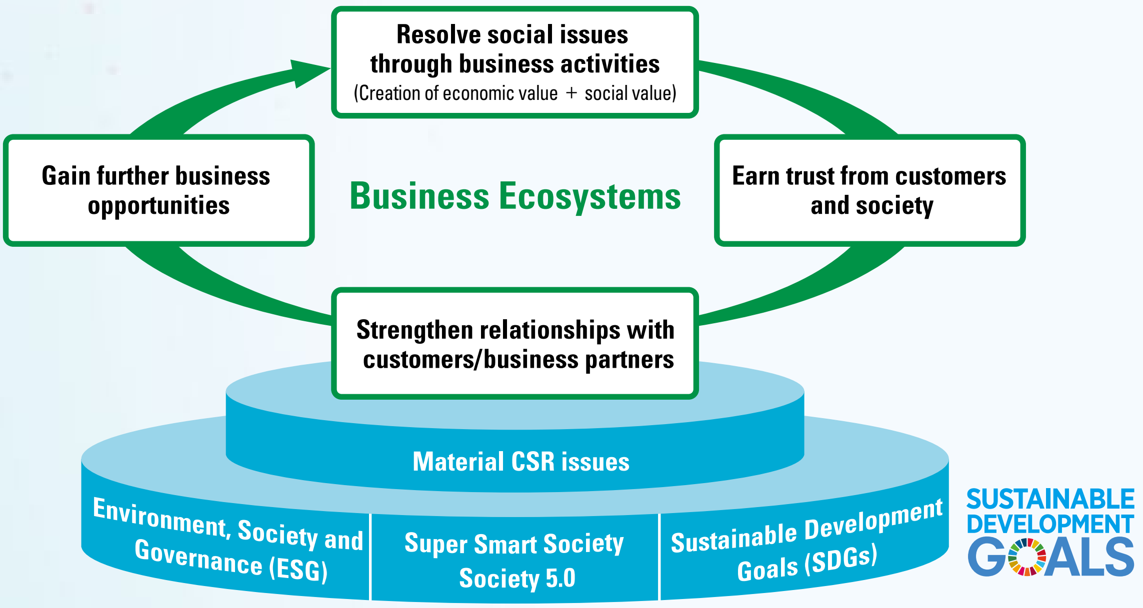
Priority Areas	Mission	Services	Target Markets
Neobanks	**Financial services at your fingertips** Promote business digitalization in coordination with financial institutions and companies in order to improve convenience for ordinary citizens and revitalize industries to address the widening economic disparities between large cities and local regions.	• Core banking platforms (BankVision® and others) • Open API platform Resonatex® • Payment/Settlement platforms (Origami Pay® and others) • Front office apps (Fortune Pocket® and others) • Inter-company collaborative information platform	• Digital bank domain jointly created by financial institutions and fintech companies • New services through collaboration with companies other than financial institutions
Digital Acceleration	**Realizing a proposal-based society that erases the boundary between real and digital** Re-create relationships among manufacturers, wholesalers/retailers and consumers by accelerating efforts of business digitalization and visualizing economic activities to improve convenience of ordinary citizens and revitalize industries.	• Smart Campaign • Panel surveys • Gift Card Mall • Business accelerator	• Corporate advertising and sales promotion market • ICT market for digital transformation
Smart Towns	**Creating compassionate communities where companies and residents help each other** Enable comfortable environments for ordinary citizens affected by issues such as population concentration in urban areas and the labor demand-supply gap, by coordinating services such as energy, transportation, health care and tourism.	• Enability® • Ride sharing • Car sharing • Experience • Engagement • Healthcare and monitoring for well-being	• Energy industry • Transportation industry • Health industry • Tourism industry
Assets Guardian	**Providing solutions to safeguard key assets for comfortable lives and work using new technologies such as IoT and AI as well as the digitalized wisdom of skilled workers** Reform business environments and improve business productivity through the use of IoT and AI technologies for issues such as aging public infrastructure and the aging engineer population.	• Remote monitoring and remote work support • Automatic work records and anomaly detection • Automatic image recognition • Analysis of crowd flow, dwell time and attributes of members	• Inspection of environmental and public facilities • Building facility maintenance • Shared use of production facilities • Store facility management

Improving Sustainability by Resolving Social Issues

The Nihon Unisys Group states in its corporate philosophy that it will "Work with all people to contribute to creating a society that is friendly to people and the environment." To realize this goal, we aim to contribute to the sustainable development of society and achieve sustainable growth as a company.

Through our business activities in the priority areas of our mid-term management plan, we work to resolve the social issues underlying the problems experienced by customers and take measures to respond to the expectations and demands of society, with reference to ISO 26000 guidance standards for social responsibility. In FY2017, we identified material corporate social responsibility (CSR) issues for prioritizing and setting the targets that we are working toward.

Sustainable Growth Cycle for the Nihon Unisys Group



Recognition of Social Issues and Participation in Initiatives

Various collaborative initiatives among industry, government and academia are being conducted to achieve the Sustainable Development Goals (SDGs) that were adopted at the United Nations in September 2015 and Society 5.0, proposed in the 5th Science and Technology Basic Plan endorsed by Japan's Cabinet Office in January 2016. Companies are increasingly expected to contribute not only to economic development, but also to resolving various social issues.

In its mid-term management plan, the Group has set the objective of resolving social issues, centered on the creation of business ecosystems that connect different industries and business types across conventional boundaries. In doing so, we will pursue sustainability for both ourselves and society by contributing to the achievement of Society 5.0 and the SDGs.

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

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

Material CSR issues

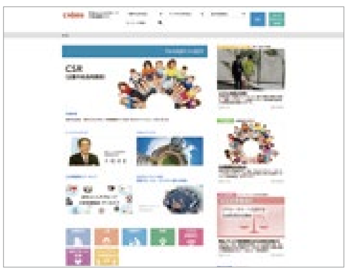
For materiality, we consulted with experts, giving full consideration not only to outside initiatives such as SDGs and the disclosure categories demanded by external monitoring institutions, but also the opinions of our stakeholders (customers, shareholders and other investors, business partners, the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

Materiality	Vision	Details: Pages in this report	Details: Sustainability information on our website
Resolving social issues with business ecosystems	A company that continues to take on the challenge of creating a new, more fulfilling society by creating business ecosystems together with partners from various industries and business types to resolve social issues that cannot be handled by a single company	• Overview of Mid-Term Management Plan "Foresight in sight 2020" P. 10–11 • Strategies for Our Four Priority Areas P. 16–17 • Value Creation Drivers P. 20–22	• Resolving Social Issues through Business Activities • Environment
Building resilient social infrastructure using ICT	A company that can utilize its ICT assets to provide ICT services as reliable and sustainable social infrastructure to realize a resilient society	• Technology and Quality Management • Cyber Security Management P. 27–29	• Organizational Governance • Consideration for Customers
Sustainable provision of safe and secure products and services throughout the value chain	A company that complies with laws and social norms in Japan and overseas, builds relationships of trust with its customers and business partners, and works to provide safe and secure products and services throughout the value chain, while also contributing to the realization of a sustainable society through measures such as considering human rights and reducing environmental impact	• Value Chain Management P. 28–29	• Human Rights • Environment • Fair Business Practices
Promotion of diversity	A company that generates innovation to resolve a wide range of social issues by accepting differences in sensibilities, values and work styles due to gender, age, nationality or other attributes and actively making use of those differences to empower diverse human resources	• Human Resource Strategy P. 23–25	• Labor Practices
Implementation of health management	A company that enhances and advances productivity and creativity by promoting the physical and mental health and happiness of its employees		

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

- Dialogue with Stakeholders
- Approach to and Initiatives for Respecting Human Rights
- Environmental Activities (Policy/Management/Environmental Data)
- Social Contribution Activities (Policy and Regulations/International Cooperation/Support for People with Disabilities/Regional Contribution)

and others



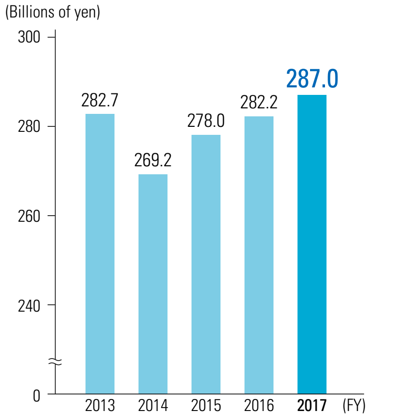
Performance Highlights

Financial Performance (Nihon Unisys and Consolidated Subsidiaries)

Through efforts to transform our business model, improve productivity and eliminate unprofitable projects, among other measures, we have been steadily improving operating income, the operating margin and other measures of profitability. We are using the free cash flow generated by stable profits to reduce interest-bearing debt while increasing dividends.

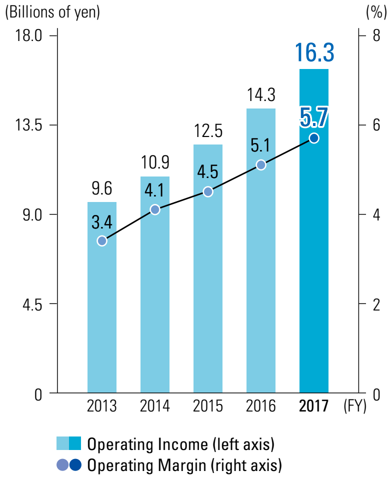
Net Sales

Due to the expansion of service-oriented businesses, net sales have been growing steadily, mainly from Outsourcing and System Services.



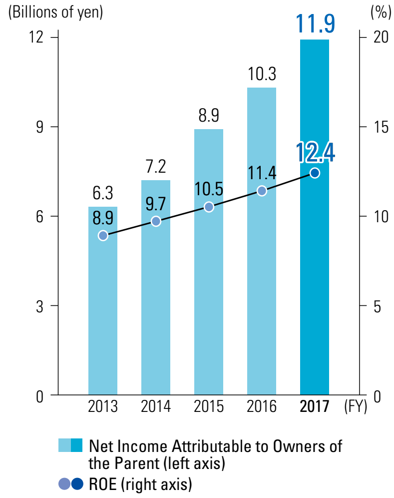
Operating Income & Operating Margin

Due to factors including a shift to a profitability-focused business model and the improved profitability of System Services, operating income increased for the seventh consecutive fiscal year and the operating margin steadily improved.



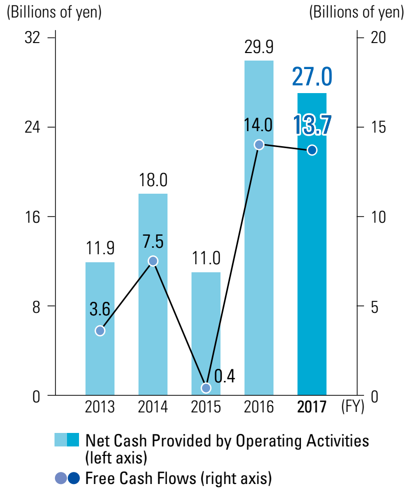
Net Income Attributable to Owners of the Parent & ROE

Net income has steadily increased along with the increase in operating income. We have continued to set new record highs since FY2015, and ROE has also improved.



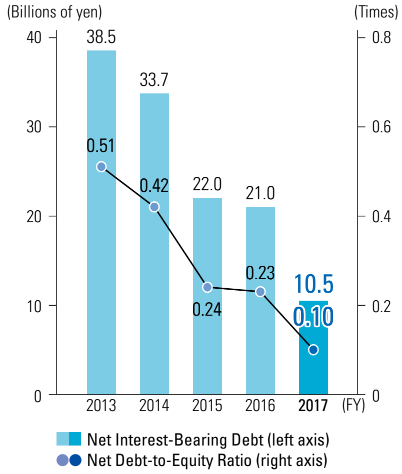
Net Cash Provided by Operating Activities & Free Cash Flows

While continuing to make investments for growth, our ability to generate free cash flow is also growing due to improved profitability and other factors.



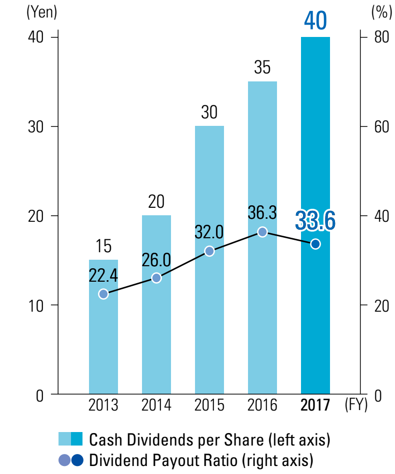
Net Interest-Bearing Debt & Net Debt-to-Equity Ratio

As we have continued to improve our financial condition, net interest-bearing debt has decreased and the net debt-to-equity ratio has steadily improved.



Cash Dividends per Share & Dividend Payout Ratio

Under our previous mid-term management plan (FY2015–FY2017), we strengthened returns to shareholders with a target payout ratio of 30%. Cash dividends per share have increased for six consecutive years.

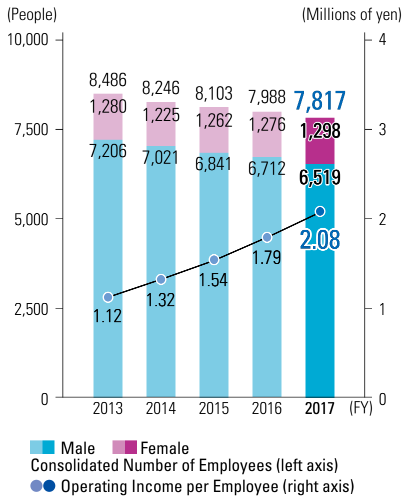


Non-Financial Performance

By promoting reforms of our corporate culture and workforce under our previous mid-term management plan (FY2015–FY2017), we have worked to foster a culture that generates innovation and to improve productivity. As a result, the ratio of management positions held by women, the paid leave utilization rate and average monthly overtime hours have continued to improve, and operating income per employee has steadily increased.

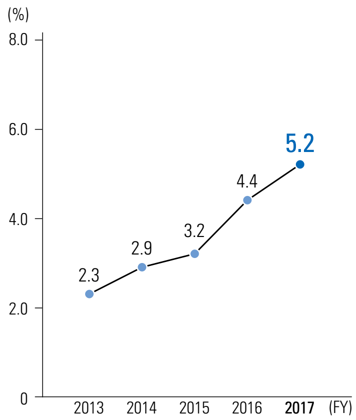
Consolidated Number of Employees & Operating Income per Employee

As we strengthen recruiting to secure capable human resources, operating income per employee has steadily increased due to improved productivity, despite a decline in the consolidated number of employees due to retirement and other factors.



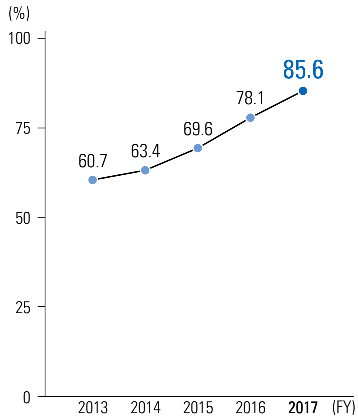
Ratio of Management Positions Held by Women[*1]

We are promoting diversity measures for the active participation of diverse human resources. Regarding the empowerment of women, we are making steady progress toward achieving a ratio of 10%[*2] of management positions held by women in FY2020.



Paid Leave Utilization Rate[*3]

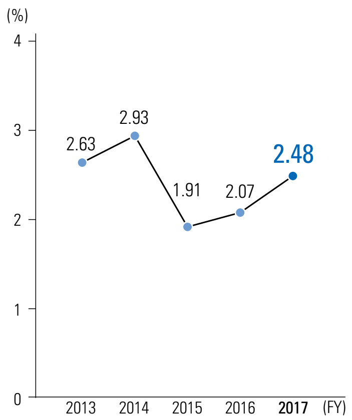
To generate innovation, we have been promoting work style reform and health management, and worked toward a targeted 90% paid leave utilization rate in the final year of the previous mid-term management plan.



Employee Turnover Rate[*4]

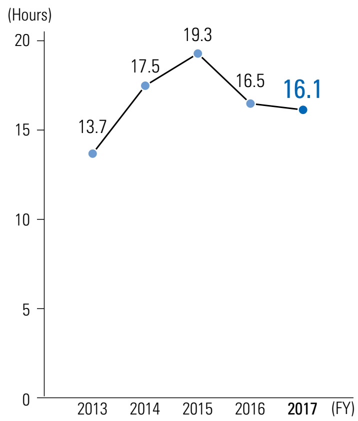
As a result of promoting the creation of a workplace environment where it is easy to continue to work and other measures, the employee turnover rate has been below the industry average (10.5%).

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



Average Monthly Overtime Hours Worked per Employee[*1]

We are working to reduce average overtime hours per employee by promoting balanced work styles with the aim of improving productivity.



Number of Qualified Information Processing Engineers[*5]

We are working to cultivate engineers with advanced skills to respond to changes in the business environment and to generate innovation.

Qualification Examination	Number of People
Information Technology Passport	132
Information Security Management	100
Fundamental Information Technology Engineer	2,261
Applied Information Technology Engineer	1,076
Information Technology Strategist	46
System Architect	234
Project Manager	147
Network Specialist	305
Database Specialist	158
Embedded Systems Specialist	11
Information Technology Service Manager	60
System Auditor	32
Information Security Specialist	393
Total	**4,955**

Scope of calculation

*1. Nihon Unisys up to and including FY2014, Nihon Unisys and UNIADEX for 2015 and thereafter

*2. Nihon Unisys only

*3. Nihon Unisys for FY2013, Nihon Unisys and UNIADEX for 2014 and thereafter

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

*5. Nihon Unisys and UNIADEX as of April 1, 2018

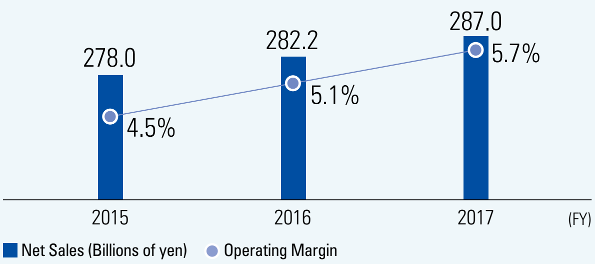
Overview of Mid-Term Management Plan "Foresight in sight 2020"

Mid-Term Management Plan (FY2015–FY2017)

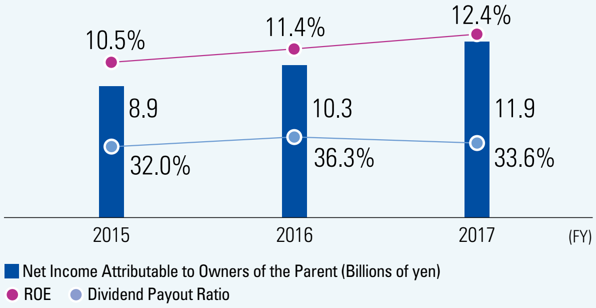
Qualitative Review of the Previous Mid-Term Management Plan

We took on challenges in new business areas and tackled reforms to strengthen our foundation for a transformation into a platform provider.

Net Sales & Operating Margin



Net Income Attributable to Owners of the Parent, ROE & Dividend Payout Ratio



Vision

Business Model Transformation

Results

We took on challenges in new business areas and strengthened our foundation for further growth.

Challenge Areas	**Digital Innovation and Life Innovation**	• Business expansion contributed to earnings • The number of potential new businesses increased in multiple areas
Reform Areas	**Business ICT Platform**	• Achieved improvements in Group-wide labor productivity and profitability through concentration on the Nihon Unisys Group's areas of strength
Human Resource and Investment Initiatives	**Corporate Culture and Workforce Reform**	• Promoted a change in skill sets in line with business model transformation
	Investment Strategies	• Proactively promoted investments in business partners in Japan and overseas as well a Fund of Funds (FoF)

Issues

Strategies

- Expand and monetize businesses in the digital innovation/life innovation field
- Further raise labor productivity and improve ability to provide services in the business ICT platform field
- Promote further changes in employee skill sets and diversity
- Shift to capital and investment policies for growth

Business Environment

- Address the decline in system integration needs due to the emergence of business-related ICT services
- Address the risk that a delay in responding to the digital shift will impede growth
- Address the risk of hardware and software market contraction due to commoditization
- Address the aging workforce and mismatched skills
- Address the risk of a slowdown in growth of Japan's ICT market

Mid-Term Management Plan (FY2018–FY2020)
Foresight in sight 2020

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

Foresight in sight 2020

Numerical Targets

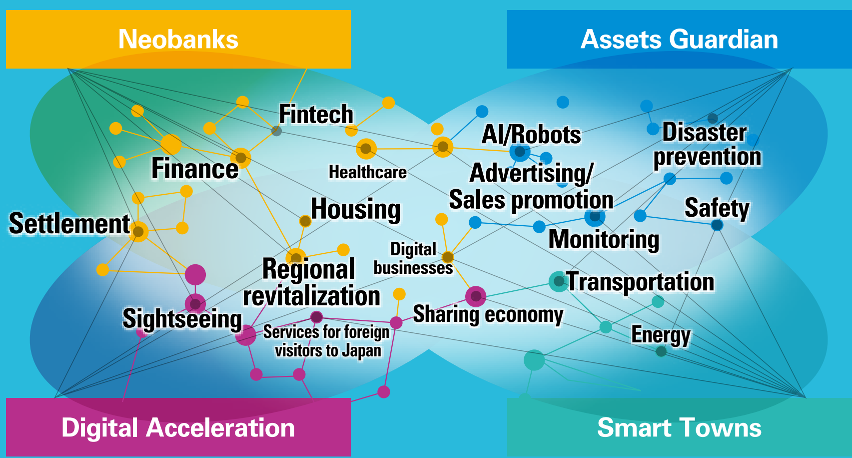
Operating Margin	Net Sales (In priority areas)	ROE	Dividend Payout Ratio
8% or more (FY2020)	**¥320.0 billion (¥60.0 billion)** (FY2020)	**12%–15%**	**40% (Target)**
Aim to improve profitability by increasing efficiency in existing areas, as well as establishing and expanding our priority areas.	Prioritize profitability to enable a targeted net sales increase in the priority areas.	Continue to improve ROE with a target range of 12% to 15% during the mid-term management plan.	Increase shareholder returns by targeting a 40% dividend payout ratio during the mid-term management plan.

Key Initiatives

1 Selection and concentration on priority areas

Establish priority areas in the markets where medium-to-long-term growth is expected on the basis of resolving social issues. Concentrate management resources on the priority areas where customers and business partners can make use of the Group's assets.

P. 16–17



2 Strengthening relationships with customers to increase their added value P. 12–17

Strengthen relationships with customers to become their strategic business partner. Cooperate with customers in creating and operating ICT assets, conducting digital transformation and creating new businesses.

3 Strengthening capability to provide platforms capable of business support P. 20–22

Strengthen the value creation process leading to the resolution of social issues. Create platforms where Group assets are linked with business partners and customers as well as third-party services. Provide platforms as part of the business ecosystem.

4 Corporate culture reform P. 23–25

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

5 Investment strategies P. 18–19

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

The President & CEO on Growth Strategy

We aim to resolve social issues by transforming into a platform provider.

Akiyoshi Hiraoka
Representative Director, President & CEO, CHO

The Nihon Unisys Group × Business Ecosystems

The Significance of the Existence of the Nihon Unisys Group

'A corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and business partners'
To become a core capable of creating business ecosystems that connect different types/categories of businesses across conventional boundaries, and to provide platforms capable of digital transformation.

Increase businesses and promote efforts to reform workforce and corporate culture in specified priority areas where the Group provides value.

Improve corporate value through efforts to resolve social issues together with customers and business partners.

Looking Back on Our 60-Year History

Reexamining the Significance of Our Existence

In March 2018, the Nihon Unisys Group celebrated the 60th anniversary of its founding. Starting with the introduction of the first commercial computers in Japan, we have responded to the needs of each era as a pioneer systems integrator and service provider, taking pride in our contribution to the formation and development of Japan's information society. This is the result of our emphasis on relationships of trust with customers and our longstanding efforts to help resolve business and social issues.

Meanwhile, customer expectations of the Group have changed significantly in recent years. In the past, we were expected to offer "value through provision" by establishing and steadily operating systems in accordance with fixed specifications, budgets and deadlines. Recently, however, there has been growing demand from customers for a collaborative approach to considering services and business models that will enable them to improve their competitiveness based on a comprehensive overview of potential future trends. Changes in the operating environment are accelerating, and customers no longer have clear requirements for specifications. Under these circumstances, I sense that the end is looming for the conventional systems integrator business model of listening to customer requests and then spending years fulfilling them. Therefore, in anticipation of customer needs we are preparing a lineup of services that will enable us to select and provide the ones that will lead to competitive advantages for our customers. In other words, we believe a business offering "value through utilization" of these services will become the mainstream.

Amid the progress of this qualitative transformation in ICT-related markets, we reexamined the significance of our existence and redefined the company we want to be: A company that can squarely face mounting social issues and create business ecosystems together with various industries and business types to promptly provide services directly linked to resolving those issues. During our previous mid-term management plan (FY2015–FY2017), we focused on building a platform to support these business ecosystems. "Foresight in sight®," our corporate statement formulated during this period, incorporates our ambition to refine our own foresight and insight to create innovative services that will become the norm.

Overview of the Previous Mid-Term Management Plan

Period of Transition to a Platform-Based Business Model

The three years of the previous mid-term management plan (FY2015–FY2017) were positioned as a period of transition toward our vision for the Group. During that period, we created many innovative services as a catalyst for business ecosystems while securing profit through our traditional systems integration business. However, at that time these new services had not yet provided the foundation for business ecosystems; rather, each was like a solitary "star." Therefore, in the final year of the plan, we classified our individual services into a number of areas and began activities to connect the stars into "constellations," or platforms that could offer greater value through utilization. After conducting test marketing of these platforms, we believe that they can help to resolve social issues while also leading to the creation of new markets.

On the other hand, to transform ourselves while continuing to meet customer requirements in our contract-based systems integration business, our employees need the leeway to take on new challenges. We are therefore focusing on eliminating unprofitable projects, which use up a tremendous number of work hours, and reducing our engineers' workload to open up time for them to tackle new things. Encouraging employees to work on generating new ideas that will lead to the resolution of social issues has led each employee to emphasize working efficiency and has also given rise to many new services that will eventually help to resolve those issues. We have had no unprofitable projects since FY2015, which has enabled us to achieve substantial improvements in productivity and profitability.

Over the past three years, in each of our organizations we have also been taking the approach of establishing a coaching culture that encourages employees to take on challenges without fear of failure, rather than a review culture aimed at preventing failure. This has made it easier for employees who want to do interesting new things to come forward. This approach has become a major driving force in creating various services. I sense that employees feel confident that what they have been doing is right, since our corporate performance is also on the rise.

Concentrating Management Resources on Priority Areas

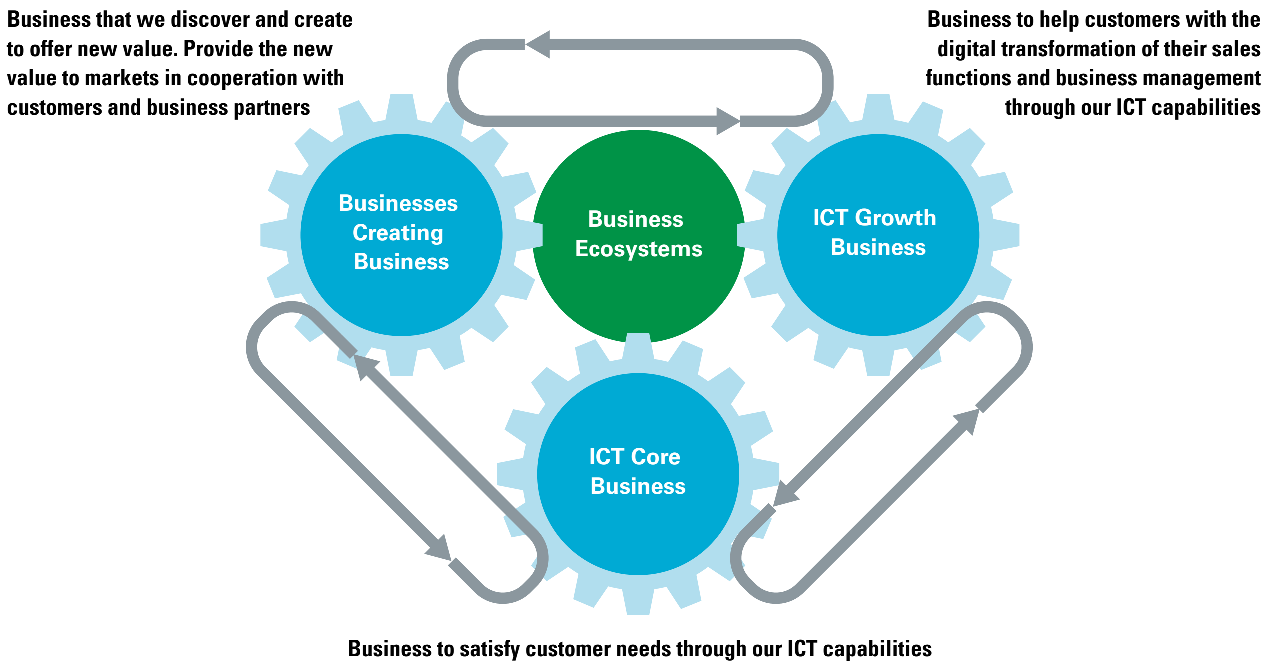
Under the mid-term management plan covering the three years starting with FY2018, we will bring our corporate statement “Foresight in sight®” to fruition with a strong awareness of our significance and vision for the Group described above. Each of our employees will use their insight, which is unfettered by past experiences and the conventional wisdom, to gain a deep understanding of the social needs and issues they have observed with the foresight they have developed. We also plan to achieve a sustainable growth cycle that generates new businesses through co-creation with our customers and business partners.

The key point is to first envision new markets that can be created to resolve social issues and then determine priority areas where we can make full use of the Group’s assets. Specifically, we will work to create new markets and resolve social issues by concentrating management resources on the four priority areas of “Neobanks,” “Digital Acceleration,” “Smart Towns” and “Assets Guardian” (P. 16-17). In each of these areas, we aim to work together with customers for their digital transformation, leading to the creation of new businesses and the discovery of latent value, which in turn will further strengthen our relationships with them. In addition, we will concentrate on creating business ecosystems, in which we provide Group assets to customers as platforms in cooperation with business partners and third-party services.

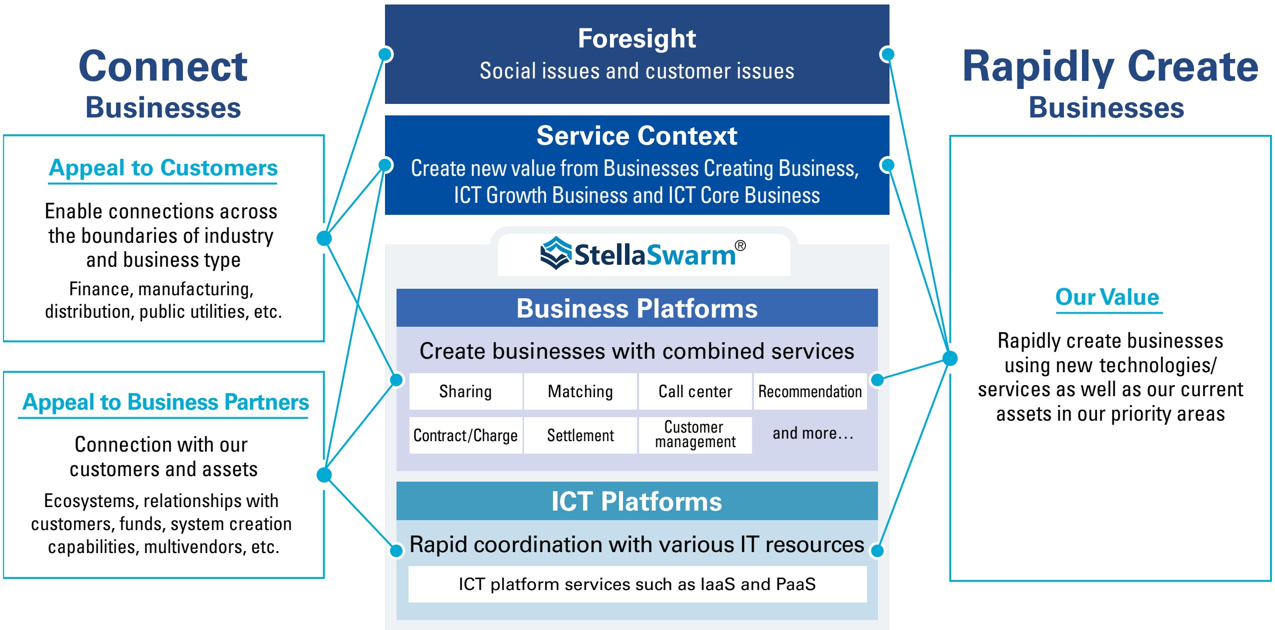
For example, in considering the social issue of regional revitalization in Japan, even after digital payment and settlement services have spread to non-urban areas, most of the fees and data generated in those areas will simply be sent back to the corporate headquarters or, in some cases, outside Japan to a global corporation. To revitalize these regions, it will be important to create a mechanism for money and data to be returned there through advances in digitalization. Therefore, in the priority area of Neobanks, by building platforms that combine digital payment and settlement with multiple lifestyle services in regional communities, we aim to offer a cyclical model in which the newly created flow of people, money and data are reinvested back into the community. By establishing this model, we will halt regional decline and contribute to sustainable growth, which will include people relocating to these areas from cities as well as foreign visitors to Japan.

In this way, this mid-term management plan will address various social issues, and in so doing strengthen our relationships with customers, business partners and local communities and achieve a growth cycle that increases business opportunities while resolving individual issues.

Strengthening Relationships with Customers to Increase Their Added Value



Strengthening Capability to Provide Platforms That Can Support Business



Ongoing Corporate Culture Reform

Creating Business Ecosystems with Employees Who Can Get Others Involved

One of the key initiatives of the mid-term management plan is corporate culture reform. This was also at the core of the previous mid-term management plan, because transforming our organization and human resources is indispensable for taking on new challenges. I realize that investors attach great importance to how management views and handles organizational issues, and I regard human resource strategy as the core of value creation.

Our reforms so far have included decisive measures to take the in-house classes we established eight years ago for fostering human resources and designing new businesses and to roll them out into a Group-wide program. The goal was to transition from a vertical to an integrated organization, and to fundamentally revise our employee evaluations to emphasize the pursuit of new challenges. Building on these results, we intend to conduct a three-dimensional strategy under the mid-term management plan to evolve into an organization that enhances employee engagement and that can create business ecosystems.

We believe that the key to developing human resources in the future will be cultivating the ability to get others involved. Business ecosystems require cooperation across the boundaries of industry and business type, which is out of the question if one cannot first go outside the boundary of one's own organization. Therefore, we began thoroughly breaking down the walls between our organizations under the previous mid-term management plan. The next objective for employees is not just to go beyond their organizations, but also to involve those around them. To create business ecosystems, it is necessary to give employees the ability to involve people who play diverse roles in various departments as they accomplish their duties. Moreover, they must also involve people from outside the Company to give rise to large-scale value that a single company cannot achieve on its own. The diagram of the interlocked gears for strengthening relationships (P. 14), which is a key initiative of the mid-term management plan, is also a diagram of our human resource development. Gears do not turn unless they have a relationship with other gears. This means that we want our employees not simply to discharge their duties in our traditional core businesses, but to be involved in the business of creating other businesses and growth businesses.

Diversity is indispensable for creating business ecosystems. We regard empowering women as fundamental to fostering the acceptance of all kinds of diversity, and to establishing an innovative corporate culture. At the same time, in terms of the diversity of attributes, I believe it will be important for each individual to play multiple roles, requiring a sort of "internal diversity." Human resources who exhibit a diverse range of attributes are more likely to accept the values and opinions of diverse peers, making it easier to give rise to innovation.

What I want to emphasize here is that an organization transformed by the consciousness of its members, rather than by rules, is a strong organization. I will take the lead in reforming our corporate culture with a strong desire to create an organization that does not produce employees who are critical or overly competitive with each other.

Quantitative Targets

For FY2020, the final year of the mid-term management plan, we have set a consolidated performance target of ¥320 billion in net sales, ¥60 billion of which we plan to achieve by creating and expanding business in the four priority areas below.

For our operating margin, an indicator of profitability we consider particularly important, we are aiming for 8% or more by increasing efficiency in existing areas and expansion in our priority areas. Through improvements in profitability under the previous mid-term management plan, we were able to establish a foundation for growth, which we intend to further strengthen under the current plan. As a result, we have set a target range for ROE of 12% to 15% during the current plan. We will also enhance shareholder returns by raising the dividend payout ratio with a target of 40%.

Toward Future Value Creation

Giving Consumers Control over Information

In linking our accumulated digital capabilities with the strengths of our customers and business partners to create business ecosystems, I believe our ultimate goal is to give each consumer and businessperson control over information. Many people believe that individuals already have control over information and independently choose products and services based on information they have obtained from multiple channels. However, people today mostly base their selection on convenience and price. Nevertheless, looking ahead, products and services that are beneficial to the Earth and society are more likely to be chosen by individuals. Individuals making choices with a strong awareness of this factor will be helping to resolve major issues that are difficult for a single company to address.

These choices are not widely available because control of information is still on the side of product and service providers. The Nihon Unisys Group intends to build a business model that incorporates platforms for providing information, enabling a shift of control over information to individuals as well as to companies in diverse industries

Strategies for Our Four Priority Areas

Case studies: P. 20–22 Value Creation Drivers

Neobanks

Support the Creation of New Financial Services

- To achieve regional revitalization, which is a major issue in Japan, support household finances and raise productivity by integrating financial services into living and business spaces through alliances with other industries as well as fintech and other leading-edge technologies. Eliminate regional disparities in economic activity and other areas for the benefit of society.
- Using digitalization and API alliances to expand the three major functions of finance – the financial intermediary function, credit creating function and payment/settlement function – provide concierge services for savings, investment and financing premised on a lifespan of 100 years, smartphone payment/settlement services that can be used for digital marketing with a reduced initial outlay for companies and retail stores, and platforms that support productivity improvements for regional companies, among other services.
- By combining the above, form and provide business platforms that create new value through cooperation among different industries.

Digital Acceleration

Support the Growth of Service Companies

- Promote digital acceleration in areas such as visualization of lifestyles and economic activities to restructure the relationship between service providers, aiming for sustainable growth and development of consumers seeking truly essential information and encounters.
- For such promotion, conceptualize three types of business based on cooperation with service providers.
  - Businesses that handle marketing communications, such as approaches to sales promotion based on big data analysis.
  - Businesses with performance-linked compensation based on partnerships with customers.
  - Businesses in the digital front office field. Contribute to sales growth and the acquisition of new loyal customers through the visualization of purchasing behavior linked with mission-critical data, which is an area of strength for Nihon Unisys, in addition to services that analyze website traffic and propose improvements.

and business types. In addition, as a company with the ability to provide these platforms, we consider the international targets of the SDGs to be a vision and objective we share with our business partners in creating business ecosystems, and believe they are closely connected to the creation of a society of sustainable coexistence.

Continuing to Inspire Our Employees

Most of the system construction and ICT services the Nihon Unisys Group has been involved in are intangible and invisible. However, by transforming into a company focused on resolving social issues, we will receive appropriate recognition for the platforms we build. This change is likely to increase the positive feedback we receive on the clear improvements we make in society and the convenience our services offer. In other words, the results of our work will become visible, enabling people to appreciate them. Moreover, we will make stakeholders more aware of our results. I am convinced that we will be able to communicate the Group's businesses more clearly to investors and the families of employees.

With the redefinition of the significance of our existence and our efforts to reform our business model, a sense of excitement has arisen throughout the Group. I very much want us to evolve into a company that can spread this excitement more widely. As the person in charge of managing the Group, I, too, have been considering the significance of my own existence and have concluded that it lies in continuing to inspire our employees.

I will continue my efforts so that our shareholders and investors can also look forward to the future growth of the Nihon Unisys Group with a sense of excitement. In doing so, I request their continued guidance and encouragement.

Smart Towns

Aim for Creation of Better Local Communities

- Focus on businesses in the smart town field with the aim of resolving social issues such as Japan's labor shortage due to the declining birthrate and aging population, transportation infrastructure maintenance and disaster prevention.
- Build new services in cooperation with partner companies and startup companies, centered on the Group's existing assets such as payment/settlement and information provision services for foreign visitors to Japan and a dispatch platform for taxi ride sharing. Combine these services to promote the creation of reciprocal platforms.
- Start to build an infrastructure that supports data distribution. Create new value and services by distributing municipal and corporate data across industry boundaries. In addition, combine the Group's assets and data distribution to support the development of highly convenient and appealing local communities.

Assets Guardian

Resolve Issues in the Field of Social Infrastructure

- Plan and propose innovative solutions based on new ideas using AI and IoT for the urgent issue of Japan's aging social infrastructure, which was mainly developed during its period of rapid economic growth. Provide support for more efficient work and a reduced burden on the skilled technicians and workers who have been maintaining various types of infrastructure including roads, railways, power stations and public facilities.
- For example, conduct demonstration experiments jointly with power companies to monitor slopes near power stations using various sensors to predict landslides and other phenomena in the maintenance and management of hydroelectric power plants.
- In collaboration with construction consulting companies and universities, participate in remote diagnostics of bridges and other concrete structures using remote diagnostics with video data rather than on-site visual inspection by qualified engineers.

The CFO on Financial Strategy

We will shift from the stage of securing a foothold to a full-scale growth trajectory.

Toshio Mukai
Representative Director, Executive Corporate Officer, CFO

Looking back on the previous mid-term management plan that ended in FY2017, we have made our business results more predictable and our balance sheet sounder. Our measures included working to eliminate unprofitable projects in the systems integration business, which has a major impact on our performance, and disseminating detailed project management know-how throughout each department. We are also making strategic investments to create highly profitable service-oriented businesses with the aim of improving corporate value over the medium to long term. As a result, in FY2017 we posted operating income of ¥16.3 billion, an operating margin of 5.7%, and record-high net income attributable to owners of the parent of ¥11.9 billion. At the same time, we were able to lay the groundwork for improved profitability and financial soundness going forward, with shareholders' equity of ¥103.0 billion, an equity ratio of 51.9%, and a net debt-to-equity ratio of 0.1 times.

Having prepared ourselves to take a proactive stance through our efforts to date, we formulated a mid-term management plan beginning in FY2018 to place the Nihon Unisys Group on a full-scale growth trajectory. To improve profitability, which remains a priority theme, we will work to improve productivity in our core ICT area, which generates stable cash flow, and establish a high-profit service-oriented business model while making focused investments in growth areas. We aim to achieve further growth through these measures, with a target operating margin of 8% or more in the final fiscal year of the plan.

Using Previous Mid-Term Management Plan Initiatives as the Groundwork for FY2020

I would like to begin by looking at our business environment. I believe the environment in which the Nihon Unisys Group operates will become increasingly severe. With the rapid advance of digitalization everywhere, customer needs for ICT services are becoming more sophisticated and diverse, and competition is intensifying due to the entry of companies from different industries.

Against this backdrop, we formulated a mid-term management plan with the belief that enhancing activities that help build a sustainable society will lead to ongoing improvement in our corporate value. We aim to be a company that resolves social issues by providing value that benefits society together with our customers and business partners.

Investment Strategies to Expand Priority Areas

In the new mid-term management plan, "investment strategies" is one of the key initiatives for future growth.

The Group's investments are broadly divided into three areas. First is strategic investment in business companies, startups and funds to expand our business in priority areas. Second is investment in R&D to develop new services. Third is capital expenditures to conduct existing businesses in our core ICT area.

For us, strategic investment is not for capital gains. Rather, it is for activities to build partnerships through the selection of companies with technical information related to our four priority areas or knowledge linked to our profit model, and thus to increase business profit. To succeed in

Overview of Investment Strategies

Strategic Investments		• Further focus on priority areas, continue and increase investments in service providers that are expected to generate synergies • Continue and increase investments in and M&A of business partners that have advanced technologies and expertise in Japan and overseas • Continue and increase investments in startup companies and specialized funds in priority areas
Service Development Investments	R&D	• Implement proof-of-concept (POC) activities in coordination with various stakeholders, accelerate efforts related to open innovation and continue to acquire expertise and knowledge • Strengthen research and development in priority areas and specified advanced technologies (AI, IoT, etc.) • Create services to further strengthen capability to provide business platforms; strengthen related technical capabilities
	Capital Investment	• Continue investments in our outsourcing business and business platforms

the ICT industry of the future, we must develop service-oriented businesses into a mainstay of our business portfolio, and these strategic investments are one aspect of that policy.

For investment in R&D, we will continue to invest in platforms for providing services and in various demonstration experiments in areas where we can expect future growth, without being constrained by our current business results or operating environment.

Capital expenditures will mainly be devoted to updating the hardware and software that form the basis of our outsourcing business.

In choosing where to invest, after sufficiently analyzing risks and returns, we determine investment criteria such as internal rate of return based on cash flow and profitability while setting conditions for withdrawal from each project. We also monitor the KPIs set in advance after making the investment and strive to take immediate action if the investment does not work out.

We envision making total investments of around ¥60 billion during the three years of the mid-term management plan. We intend to flexibly allocate funds to each investment area while keeping an eye on the progress of each business and the achievement of quantitative targets.

Frontline Management: The Key to Achieving Our Targets

Next, I would like to explain the Group's stance on financial and capital strategies, particularly regarding ROE. I believe that improving ROE is a duty of listed companies, and in the new mid-term management plan, we have set a target range for ROE of 12% to 15%.

To improve ROE, it is important to not simply set a target, but to create a process in which employees themselves decide what they need to do at each business site to achieve the target, and then put it into practice. For profitability, we set a target operating margin for each business site and promote thorough cost control and expansion of high-profit businesses. In addition, we will work to achieve the mid-term management plan target of an operating margin of 8% or more and to improve our net margin. Another new initiative under this plan is to incorporate measures for improving asset turnover at each business site to increase ROE. We intend to increase the asset turnover rate by setting a target for the cash conversion cycle according to the characteristics of each business.

At this point, I would like to touch briefly on returns to shareholders. The Company has established a policy of returning profits based on a performance-linked allocation while comprehensively considering cash flow, the balance between cash flow and investment for growth, accumulated equity and other factors. During the previous mid-term management plan, we returned profits to shareholders with a dividend payout ratio of around 30%. To further enhance shareholder returns under the new mid-term management plan, we plan to raise the dividend payout ratio to around 40% and to continue to increase dividends in line with income growth. In FY2018, we plan to pay a dividend of ¥50 per share, for total cash dividends of ¥5.0 billion.

Strengthening Corporate Governance and Risk Management

For the Group to achieve sustainable growth, we need both a business strategy and the robust management base to support it. Accordingly, we will further enhance corporate governance and continue to conduct appropriate business management while paying particular attention to the thorough penetration of compliance awareness.

In addition, we will strengthen our existing risk management for project management, system failures and other matters. At the same time, we intend to enhance our investment decision-making and management techniques by systematizing our cash flow model and monitoring methods. In this way, we will address the future expansion of our service-oriented businesses as a company that provides the platforms that support business ecosystems.

I realize that there have been a growing number of opportunities for meaningful dialogue with shareholders and investors on the matters that will be indispensable for the medium-to-long-term growth of the Group. These matters include transforming our business model to resolve social issues, which is the significance of the Group's existence, and providing support for achieving that goal by enhancing human resource development, governance and risk management. We will continue deepening dialogue with our stakeholders by working to disclose accurate and easy-to-understand information on our business activities and performance, including non-financial aspects, as we work to further improve our corporate value.

Numerical Targets P. 40–41 Overview and Analysis of Results for FY2017

	FY2017 (Actual)	FY2020 (Target)
Operating Margin	5.7%	**8% or more**
Net Sales	¥287.0 billion	**¥320 billion**
Net Sales in Priority Areas	¥27.0 billion	**¥60 billion**
ROE	12.4%	**12%–15%**
Dividend Payout Ratio	33.6%	**Around 40%**

Value Creation Drivers

Leveraging the Unique Strengths of the Nihon Unisys Group to Create New Services

The four strengths that link to value creation for the Group have been cultivated through meeting diverse needs for system construction and service development over the 60 years since our founding. By leveraging and combining these strengths, we are creating new services that help to resolve social issues. As we continue to create services that are the first of their kind, we believe we can play a key role in connecting our customers, end users, services, vendors and various other stakeholders to stimulate the creation of business ecosystems.

Value Creation from Linking Our Four Human Resource-Driven Strengths

Collaborative Relationships with Customers from Various Industries → Capabilities for Enabling Successful System Implementation → Capabilities for Enabling One-Stop Support That Is Free from Vendor Lock-in → Capabilities for Designing and Delivering New Services

Source of Value Creation: Human Resources

Collaborative Relationships with Customers from Various Industries

- Over 5,000 customers.[*1] Stable customer base in a broad range of fields including finance, manufacturing, distribution, public utilities and service providers.
- A track record of support for inter-company activities across the boundaries of industry and business type through the Japan Unisys Users Association[*2] and other organizations.

Capabilities for Enabling Successful System Implementation

- Installation of Japan's first large-scale commercial computers. Built and provided diverse ICT systems that support society and industry by taking on challenges and deepening relationships in various industries.
- Number of qualified information processing engineers: 4,955.[*3] Ability to reliably build and operate digital business platforms based on project needs and requirements.

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

- Advantage of freedom from vendor lock-in to offer the optimal combination of products from various manufacturers.
- Ability to provide one-stop support for everything from upstream consulting to introduction, operation, maintenance and training based on successful system implementation.

Capabilities for Designing and Delivering New Services

- Ability to create new services with Foresight.
- Establishment of relationships with startup companies and venture capital to generate innovation.
- Construction of core platforms for business ecosystems through a combination of internal and external assets.

*1. Sum of Nihon Unisys and UNIADEX
*2. An association of users of Nihon Unisys Group services
*3. Sum of Nihon Unisys and UNIADEX. As of April 1, 2018 P. 9

Highlights of FY2017 (Services released: 117)

April 2017	• Began providing a support system from management of client information and reservations to billing for Mitsui Fudosan's WORKSTYLING® multi-site shared office program for corporate clients together with Mitsui Fudosan Co., Ltd. • Utilizing our storage service platform, Pony Cleaning (operated by Hodaka Co., Ltd.) launched a net-based delivery, cleaning and storage service for clothing.
June 2017	• Developed a next-generation taxi system for Kokusai Motorcars Co., Ltd. using smartaxi®, a cloud-based taxi dispatch system. Operation began in FY2017 with approximately 3,200 vehicles in Tokyo.
September 2017	• Launched Resonatex®, an open API platform service that enables disclosure via Web API.
October 2017	• Launched Fortune Pocket®, an app for managing personal assets. • Developed MY HOME MARKET®, the first net-based virtual housing exhibition, together with JIBUNHOUSE, Inc. • Began demonstration experiment of multifunctional robot Siriusbot™ for store guidance and inventory confirmation at ikebukuro PARCO department store.
December 2017	• Launched smart oasis® for Carsharing mobility service platform for the Nissan e-share mobi service of Nissan Motor Co., Ltd. • Began sales of AirInsight® Maintenance support service using IoT and machine learning for maintenance-related businesses through UNIADEX, Ltd.
March 2018	• Began sales of RinzaTalk® platform service, a managed service for intelligent agents.

Case Study 1

Providing New Services Using Our Storage Service Platform

Smart Towns

Collaborative Relationships with Customers from Various Industries | **Capabilities for Enabling Successful System Implementation** | **Capabilities for Enabling One-Stop Support That Is Free from Vendor Lock-in** | **Capabilities for Designing and Delivering New Services**

Source of Value Creation: Human Resources

- Provision of services that link the Nihon Unisys Group's ICT platform with warehouse and home delivery networks owned by Japan Post Co., Ltd. and others.
- Development of a platform through collaboration among various service providers based on our expertise in supporting inter-company business activities across the boundaries of industry and business type.

- Provision of business systems for customer management, inspection control, storage, retrieval and shipping management to service providers via the cloud.

- Implementation of a program for attracting customers to e-commerce sites based on our technologies and experience in building various ICT systems that support society and industry. Provide support for promotion, the ICT platform and home delivery/warehouse infrastructure.
- Contribution to further business growth and the creation of new added value as a mediator and consultant for business collaborations.

- Linkage of diverse service providers, including cleaning businesses, housekeeping agencies and the real estate industry, to provide a highly convenient storage service for end users.
- Formation of a business ecosystem that takes advantage of technologies and assets held by individual service providers.
- Expansion of the scope of service raises further possibilities for industry.

Achieve commercialization by interlinking formerly discrete needs through this service. Evolve into a sharing platform.

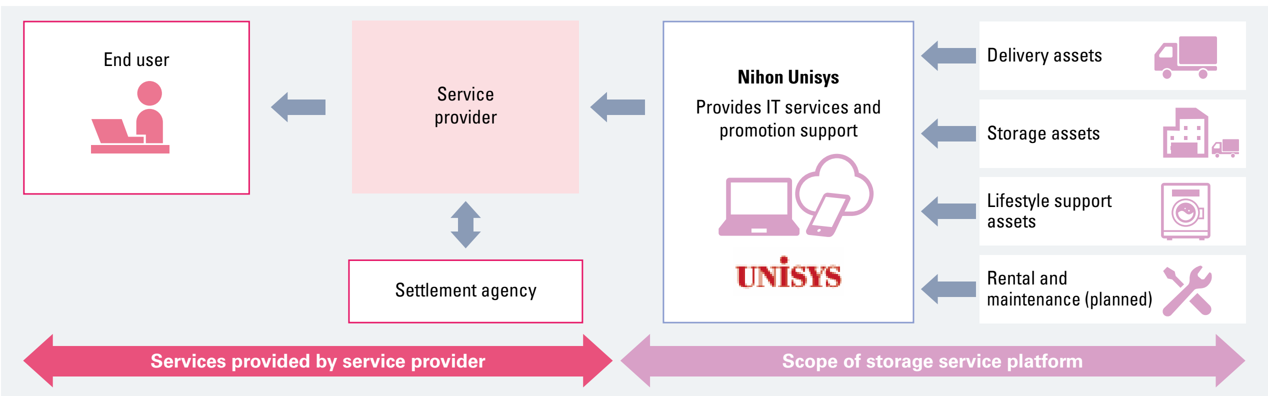
Business Overview

Many people living in large cities face the problem of limited storage space due to the housing environment. The Nihon Unisys Group, which has established partnerships with various industries, has focused on the home delivery and storage functions of the transportation and warehousing industry and the assets of service companies that handle lifestyle support. We have built a storage service platform that links these elements through an ICT infrastructure. We provide cloud-based business systems such as customer management, and inspection control and functions such as promotion support. Furthermore, we have built a platform for sharing services such as charging spots for electric vehicles and dining spaces. The system implementation and one-stop support capabilities we have accumulated through these projects are also utilized in this platform.

Utilizing this platform, Pony Cleaning (operated by Hodaka Co., Ltd.) launched a delivery and storage service for clothing and bedding, and the housekeeping agency Bears Co., Ltd. started a storage service for all kinds of belongings.

We provide growth opportunities for companies by supporting the launch of new businesses that focus on latent needs in society. We also support the realization of comfortable and relaxed lifestyles with new services for consumers.

Diagram of Storage Service Platform



Case Study 2

Evolution of Payment/Settlement Services to Achieve a Cashless Society

Neobanks

Digital Acceleration

Collaborative Relationships with Customers from Various Industries → **Capabilities for Enabling Successful System Implementation** → **Capabilities for Enabling One-Stop Support That Is Free from Vendor Lock-in** → **Capabilities for Designing and Delivering New Services**

Source of Value Creation: Human Resources

- Wide-ranging relationships in fields including finance, commerce/distribution and service providers.
- Opening of a variety of special interest group meetings and forums for the spread and utilization of fintech. Opportunities for opinion exchanges and information gathering activities with various industries, including domestic and overseas payment/settlement service and blockchain companies.

- Creation of mission-critical ICT infrastructure, such as core banking systems, through interactions with financial institutions and financial service providers. A track record of reliable operation.

- Ability to develop and support the infrastructure indispensable for economy building and expansion through cashless, direct payment/settlement.

- Early entrant in the expanding payment/settlement market. Development of a platform in cooperation with various partners.
- Accumulation and utilization of various data in cooperation with payment/settlement service and distribution companies to jointly develop digital marketing and other services.

Create business ecosystems with global and local partners.
Contribute to the anticipated advent of a genuine cashless society.

Business Overview

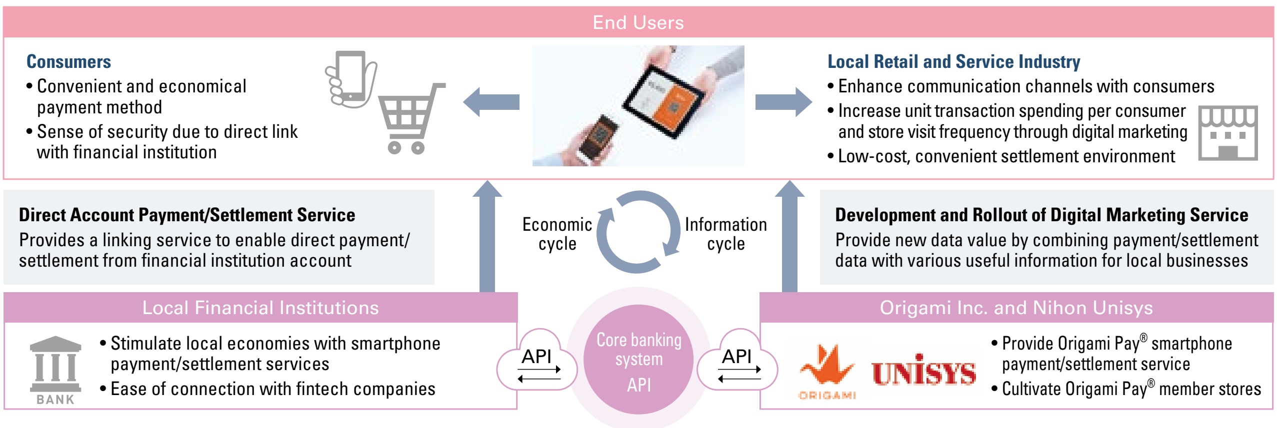
In Japan, where a high proportion of payments are made in cash, the transition to a cashless society is under way. The Nihon Unisys Group was an early entrant into the payment/settlement market with the launch of its value card business in 2011. We have expanded our range of services to include various types of barcode payment/settlement services and charge point services.

In 2018, through an alliance with Origami Inc., which provides the Origami Pay® smartphone payment/settlement service, we started offering a new service platform for real-time payments via an API gateway*4 that connects directly to accounts at financial institutions. This service platform was realized by fully utilizing and integrating the unique strengths of the Group, which has continued to promote the evolution of its services.

Through this payment/settlement service platform, we will provide consumers with a smart, highly convenient, cashless environment. For financial institutions, we will support profit structure and business model innovation through the development and rollout of digital marketing methods based on the data we will accumulate. Moreover, for retailers and service providers, we will offer not only a payment/settlement service platform, but also high-value-added services such as digital marketing that utilizes settlement data.

*4. An application for easily linking the online functions of a core banking system, which is the backbone of financial institutions, with the services of other systems.

Overview of Services through the Alliance with Origami Inc.



Human Resource Strategy

Enhancing Development of Human Resources to Drive Improvement in Corporate Value

The Nihon Unisys Group considers human resources to be an important corporate asset and the driving force for a company's sustainable growth and improvement in corporate value over the medium to long term. We aim to build business ecosystems for resolving social issues together with our customers and partners. In doing so, creating new solutions to provide platforms for customers is crucial, and human resources are at the core of this effort.

With all this in mind, we have made corporate culture reform one of the key initiatives of our mid-term management plan. We are promoting three supporting measures: Workstyle Foresight® for promoting organizational, workforce and work style reform; Diversity Foresight® for promoting diversity; and Management Foresight® for review and reform of internal systems and business processes. Through these measures, we will reform our corporate culture in the pursuit of building business ecosystems by encouraging the transformation of each employee's ideas and skill sets, the penetration of our vision and strategies and the creation of innovation.

The Nihon Unisys Group × Business Ecosystems

The Significance of the Existence of the Nihon Unisys Group

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

Transformation of Ideas and Skill Sets	Penetration of Vision and Strategies	Creation of Innovation

Workstyle Foresight®		Diversity Foresight®	Management Foresight®
Organizational and Workforce Reform	**Work Style Reform**	**Diversity Promotion**	**Business Process and Internal System Reform**
• Enhancing employee engagement • Developing human resources as business producers • Developing management leaders • Actively promoting young employees	• Reforming environment, values, work styles and arrangements • Improving labor productivity and creating new value • Developing environments that accommodate various types of work styles	• Employing diverse individuals and creating a comfortable work environment for them • Creating a corporate culture where diversity is accepted • Relying on diverse employees in creating business ecosystems • Increasing the ratio of women in managerial positions to 10% (FY2020 target for Nihon Unisys only)	• Reviewing and standardizing business structures and processes • Establishing backcasting management • Strengthening communication between management and employees

Workstyle Foresight®

Organizational and Workforce Reform

We cannot achieve our professed goal of becoming a company that resolves social issues using our strengths as a conventional system integrator alone. To be an organization capable of acquiring new knowledge and skills and of transforming itself, we will promote organizational and workplace reform by improving employee engagement, cultivating human resources capable of business production and management, and actively promoting young employees, among other measures.

Response to New Technological Fields

With the successive emergence of megacloud and other new technologies, we recognize the importance of cultivating and enhancing human resources who can improve their capabilities in fields such as design thinking and data science to develop and monetize new technologies as businesses. Therefore, in addition to holding analytical exercises using big data-related technologies to cultivate data scientists, we are focusing on developing cloud technicians who can utilize various PaaS*1 services. Our other measures to cultivate advanced technicians include programming training for AI and other new technologies from the new employee stage and training in building a cloud platform on an actual machine.

*1. Platform as a Service: Providing platform functions to service providers and users as a service.

Promoting Acceleration Programs

Since FY2010, we have been conducting the Next Principal[*2] program, which cultivates "principal human resources" capable of creating new businesses on their own. As of FY2017, a total of 299 people have participated in the program. As one aspect of the program, we conduct Acceleration Programs that aim to develop human resources responsible for creating new businesses as well as to produce actual new businesses. We dispatched two people to the Commence-Mint startup school in Bangalore, India in FY2017 and two people to an innovation program in Singapore held by the Digital Business Innovation Center in FY2018. By encouraging interactions with people outside the Group, we hope that dispatched employees will extend their own knowledge and skills, and turn the ideas they bring back from these projects into businesses for Nihon Unisys.

*2. A Nihon Unisys human resources innovation program that aims to discover and cultivate human resources who create new business.

Implementing a PDCA Cycle Using Engagement Surveys

We understand the importance of creating an organization in which each department goes through its own plan-do-check-act (PDCA) cycle to improve engagement in order to maximize overall capabilities. At Nihon Unisys, we conduct engagement surveys to visualize employee attitudes and organizational issues, and use our findings to create such an organization.

After conducting the surveys, we analyze the responses, including those from management. Based on the results of this analysis and advice from external consultants, the person in charge in each department designates issues to be addressed and establishes an action plan for his or her own organization. In addition, we conduct regular workshops and surveys once a month for specified departments. We also monitor the progress of their action plans.

Through initiatives that utilize these survey results, we will work for improvements in FY2018 focusing on the penetration of the newly announced mid-term management plan, with the aim of further improving organizational capabilities.

Work Style Reform

In the Nihon Unisys Group, we believe that by providing space to create while respecting employee lifestyles, we enable both new business creation and personal growth. We are promoting work style reform not simply by improving working environments and systems to address diverse ways of working, but also by encouraging a transformation in personal values and working styles.

Four Types of Work Style Reform

Environmental Reform	Personal Values and Work Style Reform	Process Reform
• Strategic facility management (Restructuring and optimization of business locations)	• Flexibility in overtime activities • Telecommuting/Telework • Paperless operation • Health management	• Meeting reform • Review and standardization of business structure and processes • Foresight in sight activities

ICT Tool Use (System Reform)

- Cloud first (use of Office 365®)
- Mobile first (mobiGate®)
- Use of Skype® for Business
- Use of internal social media (SNS)

Promoting Flexibility in Overtime Activities

In the Nihon Unisys Group, we believe that innovation is effectively generated by enabling a flexible work style, not through month after month of overtime and a daily grind of pressing deadlines. Conducting a systematic overhaul of the way employees use their working hours leads to a change in awareness of time management and improved productivity. To this end, we promote flexibility in overtime activities for employees to achieve one or more months with zero overtime.[*3] The achievement rate was 95.4% in FY2017 and we are aiming for 100% in FY2018.

*3. Achievement of one or more months with "zero overtime" (5 hours or less) during the year.

Encouraging Telework

Since October 2017, we have expanded and enhanced our existing telecommuting program to encourage telework among all employees. Our goal is to generate productivity improvements and innovative ideas by enabling work styles without time or location restrictions. In addition to working at home and satellite office telecommuting, the program also covers work from non-home locations.

T3 Activities

The Nihon Unisys Group is conducting T3 (Time to think) activities based on the idea that reform does not come about by itself, but is purposely generated. The T3 activities are an initiative to ensure that all employees in technical departments set aside time each week for work other than their assigned duties, such as coming up with ideas for new businesses and research. We carry out business reforms geared toward greater efficiency by creating time through methods such as cutting down unnecessary meetings and work. Through the introduction of these reforms, we hope to sow the seeds of value from ideas generated in our workplaces.

Diversity Foresight®

Diversity Promotion

Creating business ecosystems requires collaboration with companies and organizations with diverse values that go beyond any one industry or business. Nihon Unisys must establish its own unique diversity and inclusion by fostering a corporate culture that embraces differences, starting with support for the hiring, deployment and success of diverse human resources.

Diversity Management

Above all, promoting diversity requires the understanding of managers and the practice of diversity management. We therefore conduct mandatory training on diversity management for management staff by theme (including child care, nursing care and empowerment of women) and by level. In addition, we offer e-learning for all Nihon Unisys employees to promote understanding of the significance of diversity and hold a Diversity Top Seminar conducted by an external expert once a year for all Group employees.

Promoting the Active Participation of Women in the Workplace

Nihon Unisys regards promoting the active participation of women in the workplace as a top priority in promoting diversity in terms of both social demands and its own strategies. Our aim is not simply to increase the number of female managers, but to establish a human resources pipeline with the appropriate female personnel at each level from young employees to senior managers and officers. To do so, we are conducting a variety of measures including a diversity promotion program consisting of a training course, on-the-job training and networking for the levels of manager candidates, mid-level staff and young employees. We also provide e-learning and correspondence courses for employees on childcare leave, workshops for returning employees, and career development support before and after childcare leave.

We are steadily achieving results (see the inset upper right) and will continue to foster a corporate climate and environment where all human resources can actively participate, starting with the creation of an environment that helps to empower women.

Main Results

- Achieving a ratio of managerial positions held by women of 10% (Nihon Unisys only) by FY2020 is a CSR materiality target. The ratio has increased from 3.2% in FY2015 to 6.5% as of April 2018.
- Two of the nine directors are women.
- Received the "Eruboshi" certification, the highest of the three certification levels, from the Minister of Health, Labour and Welfare in October 2017
- Selected for the MSCI Japan Empowering Women Index (WIN) in December 2017.
- The first female corporate officer was appointed in April 2018.

Management Foresight®

Business Process and Internal System Reform

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

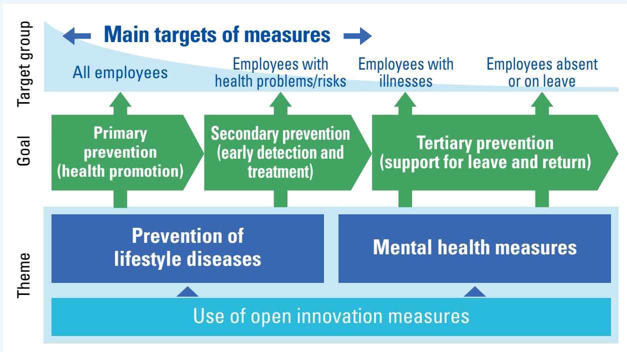
Introducing the Visualized Management Method

To ensure that we achieve our objectives, we have introduced and deployed the new Visualized Management Method (VMM™). A feature of the VMM is that it determines KPIs through backcasting to set concrete goals. In addition to visualizing and sharing achievement status on a monitoring board, it encourages behavioral change through coaching, leading to steady execution of KPIs and achievement of goals.

Measures for Health Management

The Nihon Unisys Group believes that employees who are happy and healthy both mentally and physically are highly productive and creative, leading to corporate development. Therefore, Group companies and their health insurance societies work together to raise employee awareness of health and health resources, as well as to promote health measures. As in the previous fiscal year, in FY2017 both Nihon Unisys and its subsidiary UNIADEX received "Excellent Enterprise of Health and Productivity Management 2018" (White 500) certification from the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

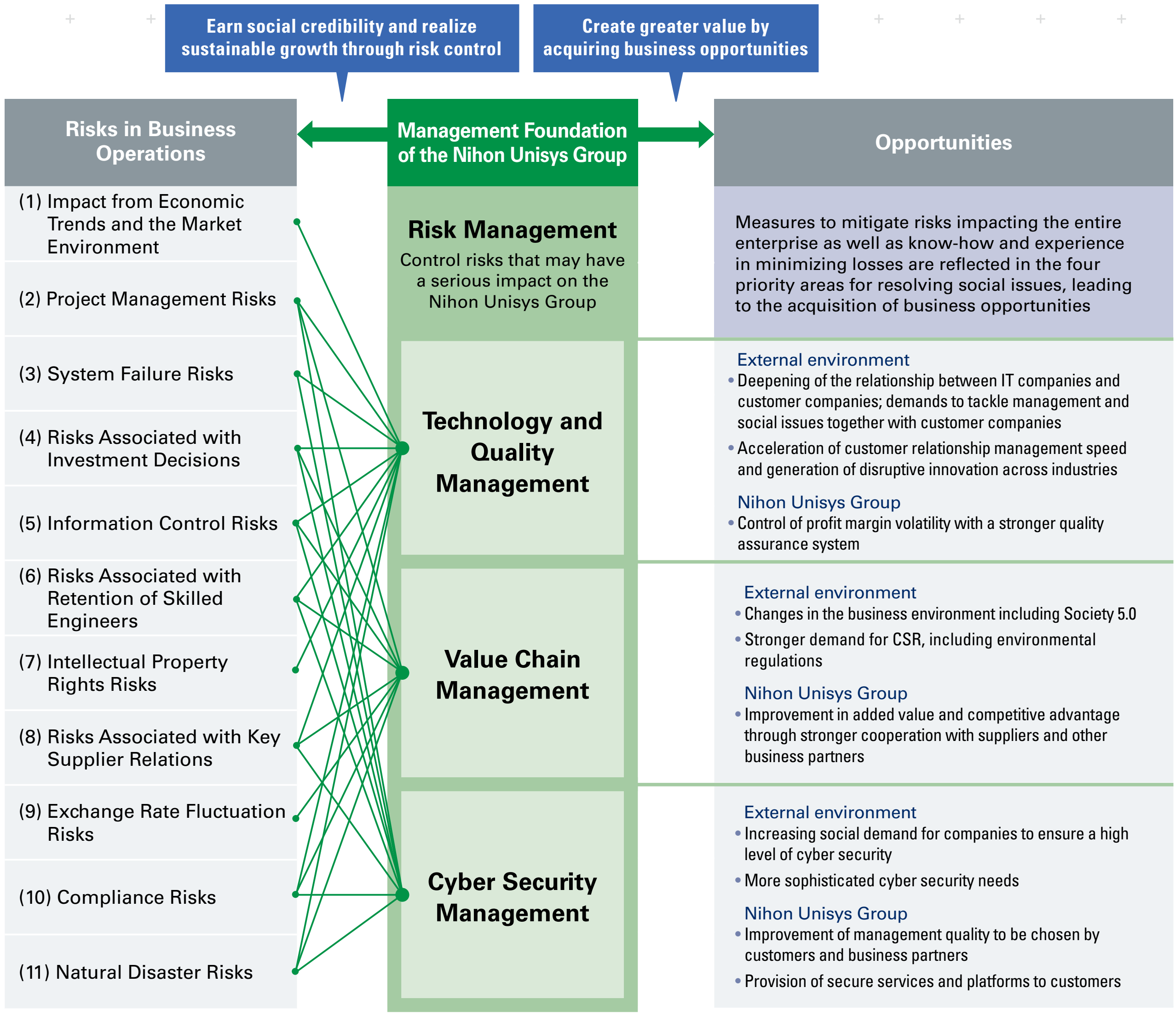
Policies to Promote Health Management



Risk Management

Strengthening Risk Management That Supports Value Creation

The Nihon Unisys Group recognizes and establishes systems to appropriately control various risks arising from changes in its operating environment such as rapid advances in digitalization, greater sophistication and diversification of customer needs, and intensified competition due to the entry of businesses from different industries. To strengthen the management foundation for the Group's sustainable growth, we will continue to expand risk management and reduce these risks.



Risk Management

Risks such as large-scale disasters, scandals and information security threats are becoming more diverse and complex each year. Risk management, which is intended to predict potential events to avoid or reduce loss, is an integral part of business management today. For the Nihon Unisys Group, risk management is also an important foundation supporting the resolution of social issues and value creation.

We recognize the importance of the following three risks in Group management.

(1) Project management and system failure risks
Response: Technology and Quality Management

(2) Information control risks
Response: Cyber Security Management

(3) Business continuity risk in the event of a breakdown of the infrastructure required for business activities caused by factors such as an earthquake directly under the Tokyo Metropolitan area or a pandemic of a new strain of influenza (disaster risk)

The Group has established a Risk Management Committee chaired by the chief risk management officer (CRMO) to take prompt and appropriate countermeasures against various risks that may have a serious impact on management, including the above risks.

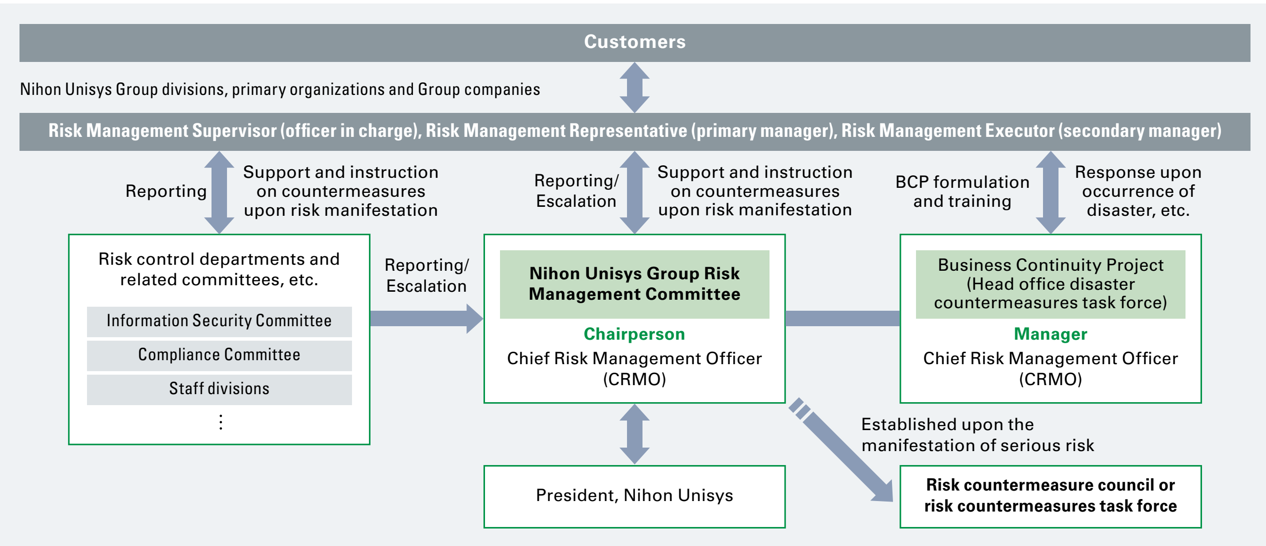
The Risk Management Committee has prepared a Group-wide risk classification system to share information about risks throughout the Group and conduct centralized management. Currently, about 130 risk management items are classified into categories including information control risks, system development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

For business continuity risks such as an earthquake or a new strain of influenza, a Business Continuity Project working group headed by the CRMO decides on business continuity management (BCM) from the perspectives of ensuring safety, restoring Group operations and responding to customers. It also makes ongoing revisions and improvements to plans.

In FY2017, we designated the following three areas as priority measures for risk management. The first was strengthening risk management for the entire Group, which included reviewing the risk management and initial response frameworks of Group companies and incorporating newly established and other companies into the Group risk management system. The second was improving resilience to risk at each site, which included conducting training corresponding to each position, such as for officers and managers, and distributing information on basic risk response. The third was accelerating the response to business changes, which included enhancing the ability to respond to new business risks. To steadily promote these measures, we have been carrying out the PDCA cycle. This cycle includes understanding and monitoring risk cases throughout the year, planning improvement measures based on newly emerging issues, and raising awareness and knowledge of risks among all employees.

We will continue to strengthen our risk management structure by establishing targets and priority measures based on changes in the business environment and other factors, and implementing countermeasures and training according to the priority measures.

Risk Management Structure



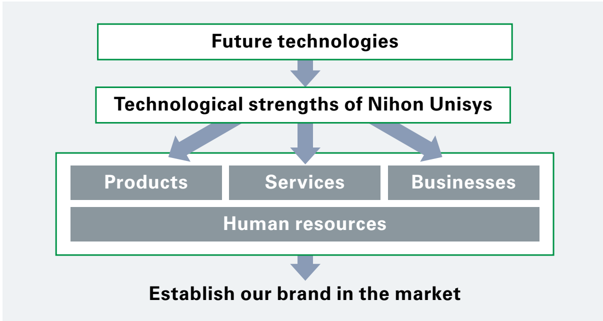
Technology and Quality Management

As the environment of the information services market changes, service design will become a pillar of earnings for the Nihon Unisys Group. To continue to ensure a technological advantage and to respond to social issues and customer requests, it will be important to continually support improvements in our employees' technological capabilities.

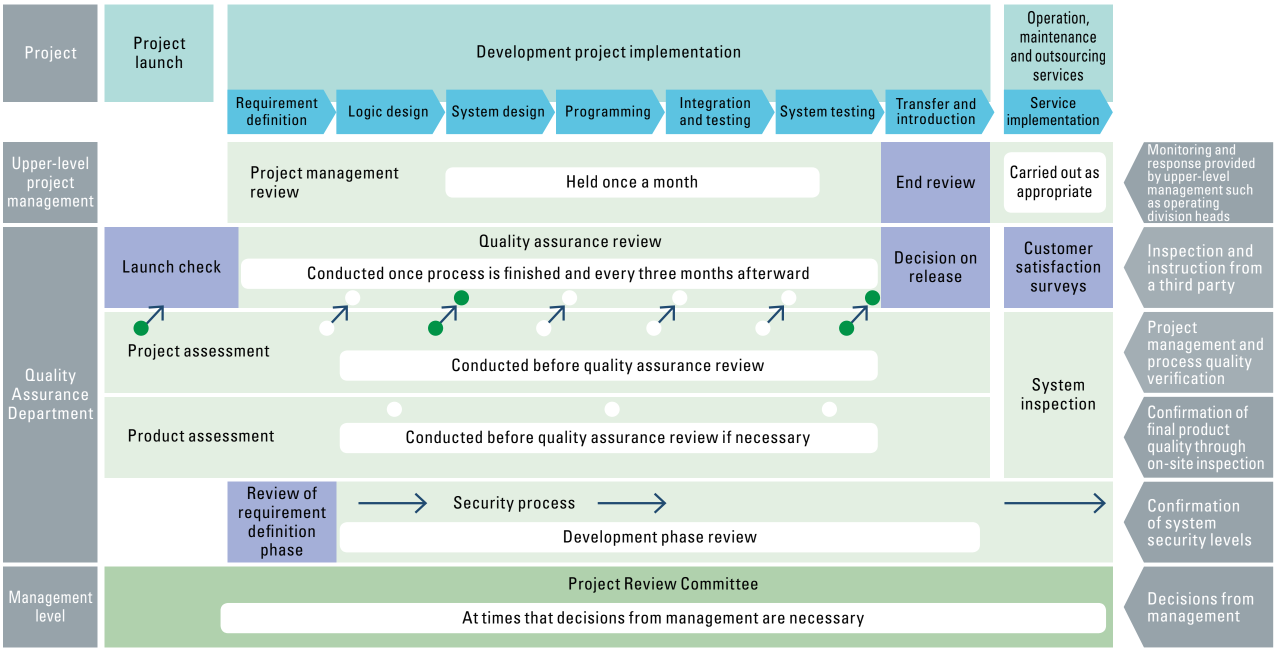
In the projects the Group handles, problem-solving will be extremely difficult if we are only able to take conventional approaches based on specific technologies and solutions. In other words, our employees must have the ability to conceptualize businesses that make lateral use of multiple technologies including big data, fintech and AI, as well as the skill to manage the planning and construction phases of service design. To enable our employees to acquire these capabilities, we conduct programs for generating new businesses, such as T3 (Time to think), Next Principal, Acceleration Programs and the Planetarium Initiative, and hold technical symposiums and technology training meetings. P. 24

In individual system development projects, we have established a framework for quality assurance in light of more sophisticated customer requirements and greater project complexity. The Project Review Committee conducts a thorough, multifaceted assessment of risks at the project proposal and implementation stages. We also continue to increase productivity by systematizing and standardizing system development methods and implementing measures such as the Andon system, which detects problems in a project at an early stage. In addition to implementing Group-wide measures to prevent failures in systems we operate and maintain, we have established a system that enables prompt action in the event a failure occurs.

Creating Products, Services and Businesses Linked to Our Technology Strategy



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



To prevent cost overruns and detect potential problems at an early stage, we review problematic cases and processes after project completion to identify the causes of problems and implement an improvement cycle for fundamental countermeasures. Due to these measures to strengthen project management, there have been no unprofitable projects during the past three years. This has been a factor in our stable business performance.

A thorough quality assurance system for delivery systems and services is one of the foundations of the Group's business continuity and value creation. We will use this foundation to continue to promote greater inter-departmental cooperation, including among on-site and back office locations, which will lead to sales growth and cost reductions.

Value Chain Management

With rapid advances in the way that services are provided and the digitalization of all kinds of information, there are growing needs to transform the value chain across industries and business types to create new services from the perspective of end users. Consequently, the Nihon Unisys Group has begun initiatives to enhance its approach to value creation by changing its traditional value chain, which focused on individual projects, into a service-oriented value chain. Through this change, we believe that we can combine the assets of Group companies/organizations from the perspective of overall optimization. By making full use of Group assets in cooperation with diverse business partners, we will be able to concentrate on creating new businesses and providing services using technologies such as AI, image analysis and digital marketing.

Cooperation with diverse business partners is indispensable for raising our competitive advantage by generating added value during the system development life cycle.

In the Group's value chain, the stages of system design, construction, operation and maintenance in particular are executed in close collaboration with many cooperating companies. In addition, we work to provide solutions and services that help resolve social issues together with business partners who supply hardware, software, services and other items.

Moreover, to fulfill our social responsibility in the value chain, we conduct procurement from business partners who promote environmental conservation and who supply products and services with low environmental impact. We have also established Procurement and Transaction Guidelines that promote the non-use of conflict minerals, which provide a source of funds in regions of conflict. We regularly explain the Group's philosophy on CSR activities and initiatives to our business partners and request their understanding and cooperation. For major business partners, we conduct annual CSR surveys on environmental conservation and other issues.

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

Cyber Security Management

Information security threats are now a management risk for all companies. In light of this business environment, the Group has established an Information Security Committee chaired by the chief information security officer (CISO). Based on guiding principles including the Ministry of Economy, Trade and Industry's Cyber Security Management Guidelines, which were revised in November 2017, the Committee has formulated and is promoting a cyber security strategy consisting of system-related measures to deal with cyber security risk and organizational and process-related measures from FY2018. To support this strategy, under the umbrella of the Information Security Committee we have established a computer security incident response team (CSIRT) that specializes in preventing cyberattacks and responding to incidents. We have also set up and operate an internal Security Operation Center to monitor and analyze threats to Group networks and servers.

To respond appropriately and promptly to increasingly complex and evolving threats to information security, the Nihon Unisys Group offers e-learning for all employees and level-based group training, cyber security training and drills for engineers, and systematic training for cooperating companies. We also devise measures to continuously raise awareness of security and embed it in corporate culture through methods such as automatically displaying messages on information security when employees start up their PCs. For cyberattacks in general, which have been occurring frequently in recent years, we are using external case studies as original teaching materials to foster a sense of crisis and awareness.

We will implement the cyber security required for resolving social issues to improve the security of our customers' business bases as one of the foundations that support value creation.

Overview of Cyber Security Strategy

Vision

Cyber Security Foresight™

Provide a proactive and secure environment to grow into a business ecosystem creator that connects diverse companies

Mission

Realizing the cyber security required to be a corporate group solving social issues through socially beneficial services capable of creating a more affluent society together with customers and business partners

Objectives

1. Provide secure platforms for customers and partners as a basis for business ecosystems
2. Maintain and improve the management quality of the Group so that it is chosen by customers and partners with peace of mind
3. Establish secure environments in which each employee can protect information assets and collaborate with various people on site

Measures

System measures

- **Customer systems and services**: Provide highly secure services and platforms
- **Internal systems**: Continuously provide a safe environment

Visualization measures: Disclose and share information

Organizational and process measures: Build systems that are not vulnerable to cyberattacks

Human resource measures: Improve the skills, abilities and awareness of Group officers and employees

Corporate Governance

Supporting a Sustainable Growth Cycle: Enhancing Corporate Governance

The Nihon Unisys Group aims to acquire further business opportunities by resolving social issues through its business activities and earning trust from customers and society. To achieve this sustainable growth cycle and create a business ecosystem, a mechanism of corporate governance that enables management to make prompt and sound management decisions under appropriate and effective supervision is indispensable. This section centers on four priority items for the Group.

Basic Stance

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

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

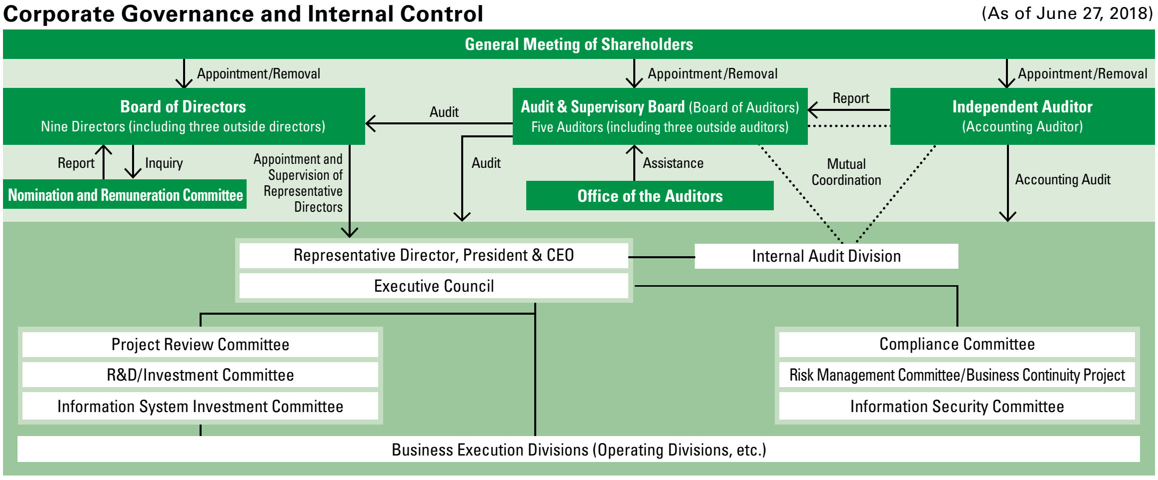
Corporate Governance Structure

Nihon Unisys has judged that an audit system that includes supervision by the Board of Directors and audits by outside auditors is effective for monitoring management, and thus has adopted a Board of Auditors.

Given the drastically changing nature of its industry, the Company aims to realize decision-making that combines a broader perspective with objectivity as well as highly effective supervision of the execution of duties. It will accomplish this by having its Board of Directors center on internal directors who are well-versed in the state of the Company and its industry and appointing persons with extensive business experience and expertise as outside directors.

Corporate Governance and Internal Control

(As of June 27, 2018)



Nomination and Remuneration Committee

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

Executive Council

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

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

Project Review	Deliberates on and evaluates the advisability of implementation plans for important system services projects and other matters
R&D/Investment	Deliberates on and evaluates the advisability of business investments, including business plans for products and services and capital participation
Information System Investment	Deliberates on cost, effectiveness, suitability of applied technologies and other matters for the Company's own system projects to determine agreement or disagreement with investments
Compliance	Oversees compliance programs such as Group compliance education and internal reporting
Risk Management/ Business Continuity Project	Oversees response to risks that exert a material impact on Group management and other matters
Information Security	Promotes Group cyber security strategy and personal information protection strategy

Size and Diversity of the Board of Directors and the Audit & Supervisory Board Priority Item 1

- The Company maintains an appropriate number of members that can effectively and efficiently exercise the functions of the Board of Directors.
- The Company has appointed nine directors with diverse and extensive careers and knowledge, with independent outside directors, including two women, accounting for at least one-third of the total.
- A majority of the Audit & Supervisory Board consists of independent outside members, including one lawyer and one certified public accountant, one of whom is a woman.
- The attendance rates of outside directors at Board of Directors meetings and of outside Audit & Supervisory Board members at Board of Directors and Audit & Supervisory Board meetings are both 100% (the Board of Directors met 11 times and the Audit & Supervisory Board met 15 times in FY2017).

(As of June 27, 2018)

	Total Members	Outside Members		Percentage of Board of Directors or Audit & Supervisory Board	
			Independent Officers	Independent Officers	Women
Directors	9 (including 2 women)	3*1	3	33.3%	22.2%
Audit & Supervisory Board Members	5 (including 1 woman)	3*1	3	60.0%	20.0%
Total	14 (including 3 women)	6	6	42.9%	21.4%

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

Evaluation of Effectiveness of the Board of Directors Priority Item 2

The Board of Directors has been working to improve its effectiveness by conducting self-evaluations since FY2015.

FY2017 was a year for formulating the new mid-term management plan. Consequently, in response to a determination at the time of the evaluation in FY2016 of the need to deepen discussion on creating the new mid-term management plan, the Board of Directors conducted multiple deliberations regarding the new plan after establishing study meetings on the Nihon Unisys Group's businesses and other matters. These deliberations included officers from outside the Company and provided occasions for exchange of opinions among management. Study meetings and other meetings for all directors and Audit & Supervisory Board members on matters such as ESG investment and management to master and update the knowledge and information necessary for discussion on the plan were also held.

In addition, from the viewpoint of seeking a governance structure suitable for the Company in the future based on the acceleration of business model reform in the mid-term management plan that will begin in FY2018, the effectiveness of the Board of Directors was evaluated with the support of an external consultant*2 in FY2017. As shown below, the result was an overall high evaluation. However, because new issues were pointed out, the Board of Directors will make efforts to address those issues in FY2018.

*2. Japan Board Review Co., Ltd. distributed and compiled results for an anonymous questionnaire, conducted individual interviews and prepared a report. Based on the report, the Board of Directors has analyzed its current status and points for improvement and is deliberating and evaluating its future direction.

	Evaluation
Composition of the Board of Directors	• Members' awareness, experience and expertise are well-balanced
Operation of the Board of Directors	• Lively and open discussions are regularly conducted • Discussion of medium-to-long-term management policies and strategies is also sufficient
Investor/Analyst Evaluation	• Members in charge of business execution provide sufficient information to the Board of Directors

Points Indicated		Policies for FY2018
Greater discussion of assessment of risk and return is needed. Consideration of the future composition of the outside directors is desirable.	➡	**Re-confirm the role and functions of the Board of Directors and then clarify the criteria for appointing and removing internal and outside directors.**
Clearer plans for succession of senior management and outside directors are needed.	➡	**Create more specific succession plans for senior management.**
Enhanced information sharing and clarification of issues with outside directors before Board of Directors meetings is needed.	➡	**Share detailed information on Executive Council discussions with outside directors.**
Consideration of measures to strengthen cooperation among outside directors and with Audit & Supervisory Board members is needed.	➡	**Increase opportunities for information exchange among outside directors and with Audit & Supervisory Board members.**

Succession Plan for the CEO of Nihon Unisys Group **Priority Item 3**

To ensure the transparency of the selection process of the CEO, the Nomination and Remuneration Committee, which includes an independent outside director, deliberates on a succession plan for the CEO and others, and reports to the Board of Directors.

In the plan, integrity is the basis of the seven required competencies listed on the right that have been set as important qualifications required of the CEO and others for sustainable improvement in corporate value.

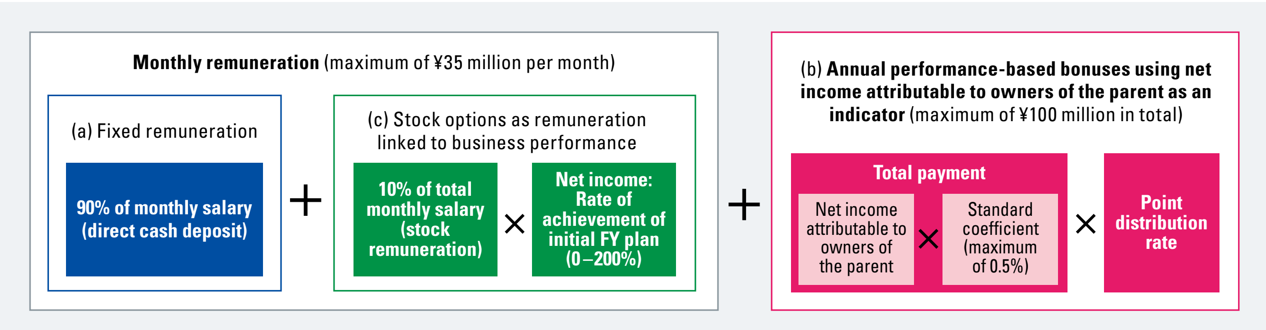
In addition, the Committee believes that the degree to which each requirement is displayed may vary depending on the business environment (period of transformation/change, period of continuation/expansion).

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

Remuneration of Directors and Audit & Supervisory Board Members **Priority Item 4**

Directors are in principle paid according to their professional responsibilities, with a focus on performance-based pay and taking into account market-rate salaries and employees' salary levels. Remuneration for directors consists of: (a) fixed remuneration (a monthly salary paid 90% in direct cash deposits), (b) annual performance-based bonuses using net income attributable to owners of the parent as an indicator, and (c) stock options as remuneration linked to medium-to-long-term business performance (appropriated from 10% of total monthly salary paid). Stock options may not be exercised while the director or other grantee is in office at the Company or one of its subsidiaries. Non-executive directors, such as outside directors, are paid a fixed monthly salary only, without taking business performance into account. The exact amount of remuneration is decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee, which includes one or more independent outside directors, within the amount as decided by resolution at general shareholders' meetings.

Director Remuneration



Total Remuneration in FY2017 for Directors and Audit & Supervisory Board Members with Subtotals for Each Type of Remuneration and Numbers of Recipients

Classification	Total Remuneration Paid (Millions of yen)	Remuneration Paid by Type (Millions of yen)			Recipients
		(a) Fixed Remuneration	(c) Stock Options	(b) Bonuses	
Directors (Excluding outside directors)	270	210	24*3	35*3	6
Audit & Supervisory Board members (Excluding outside Audit & Supervisory Board members)	30	30	—*4	—*4	2
Outside directors and outside Audit & Supervisory Board members	62	62	—*4	—*4	11

*3. One non-executive director is not eligible to receive stock options or bonuses.
*4. Outside directors and outside Audit & Supervisory Board members are not eligible to receive stock options or bonuses.
*5. Figures shown in millions of yen have been rounded down to the nearest million.

Policy Regarding Constructive Dialogue with Shareholders and Other Investors

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

Initiatives during FY2017

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. The Company also created opportunities to appropriately explain the corporate value of the Nihon Unisys Group, such as holding business briefings and facility tours and publishing an integrated report.

Initiatives to Enhance Corporate Governance

FY	Main Initiatives	Details/Objectives
2001	• Introduced corporate officer system	Separation of management supervision and execution and more efficient business execution
2002	• Appointed outside directors (4 persons)	Strengthening of supervisory functions
	• Increased the number of outside Audit & Supervisory Board members (3 outside members out of 4)	Strengthening of audit system
2004	• Change in the term of office of directors from two years to one year	Establishment of a flexible management structure and clarification of directors' responsibilities
2012	• Introduced performance-based remuneration system for directors (excluding outside directors) and corporate officers	Increase in motivation to contribute to improving business results and corporate value
2013	• Raised the ratio of outside directors to at least one-third (3 outside directors out of 9)	Improvement of management transparency and objectivity
	• Increased the number of outside Audit & Supervisory Board members by one (4 outside members out of 5)	Strengthening of the audit system
2015	• Increased the number of female outside directors by one (from 3 to 4)	Strengthening of diverse viewpoints
	• Japan's Corporate Governance Code established · Established Corporate Governance and Internal Control Principles	· Clarification of basic approach to corporate governance and internal control and its structure/management policy
	· Established Evaluation Criteria for Independence of Outside Directors	· Clarification of the Company's standards for independence
	· Established Nomination and Remuneration Committee	· To obtain the involvement and advice of an outside independent director on the appointment, removal and remuneration of directors and Audit & Supervisory Board members
	· Revision of the regulations of the Board of Directors, etc.	· Revision of agenda standards at Board of Directors meetings
2016	• Started evaluation of the effectiveness of the Board of Directors Advanced the delivery period for meeting materials and the starting time of Board of Directors meetings, expanded training	Ensuring time for adequate discussion and deliberation, improvement of the quality of deliberation
	• Formulated a succession plan for the CEO and others	Sustainable growth
	• Revised the evaluation criteria for independence in the Evaluation Criteria for Independence of Outside Officers	Clarification of independence criteria for outside Audit & Supervisory Board members
2017	• Decreased the number of outside directors and Audit & Supervisory Board members*6 (3 outside directors and 3 Audit & Supervisory Board members)	Stricter interpretation of outside officers
2018	• Evaluated effectiveness in FY2017 with the support of a third party	Use of objective analysis by external experts for evaluation

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

▶ See the Company's website for detailed information on corporate governance and internal control.
https://www.unisys.co.jp/invest-e/com/governance.html

- Corporate Governance and Internal Control Principles
- Corporate Governance Report

Roundtable Discussion among Outside Directors

Go Kawada
Outside Director

Ayako Sonoda
Outside Director

Chie Sato
Outside Director

Strengthening and enhancing corporate governance will be essential for the Nihon Unisys Group to improve corporate value under its mid-term management plan. In April 2018 of the plan's first year, a third party evaluated the effectiveness of the Board of Directors. Based on the results of the evaluation, the three independent outside directors held a roundtable discussion, using their diverse expertise and viewpoints to consider the challenges the Group faces, the role of the Board of Directors, the succession plan and other matters.

Issues for the Nihon Unisys Group and the Role Played by Outside Directors

Kawada: To begin with, what are your views on what investors expect from outside directors and the role we should play?
Sonoda: In today's stock market, there is a notable trend toward investing in companies where sustainable growth can be expected rather than just short-term results. Under these circumstances, I am conscious of making statements with a long-term time frame in mind and pointing out issues from various perspectives. As a CSR consultant, I have been involved in analyzing and guiding various companies, and all sorts of problems arise at companies that lack diversity and make decisions based solely on internal logic. I hope to use my experience to properly reflect the views of diverse stakeholders at Board of Directors meetings. I think there is a growing need to utilize the diverse perspectives of external human resources, even as the Company conducts the business model transformation set forth in the mid-term management plan.

It is important to ascertain the various risks the Group faces from an independent standpoint and sound a warning at an early stage.

Sato: I am also trying to provide different perspectives that might be overlooked at the Executive Council, where internal officers and employees hold discussions. At Board of Directors meetings, I intend to be proactive in pointing out other possible options and the rationality of investment. Currently, the Group is in the middle of its transformation and generating many new business models, so we need to give greater consideration to whether those business models can increase sales and secure profit. I want to give meaningful advice on these points based on my experience at a global company and a consulting firm. What is your opinion, Mr. Kawada?
Kawada: Business activities entail various risks. I believe that one of the key roles of a director is to check on how the management team views and devises countermeasures to those risks, as well as the effectiveness of the countermeasures. For example, some compliance risks are difficult to notice inside a company due to industry practices and other factors. We have experience as directors at other companies, so it will become increasingly important for us to sound a warning at an early stage based on the information we obtain from meetings with Audit & Supervisory Board members and other sources.
Sato: One thing shareholders strongly expect from us as outside directors is to promptly perceive and control risks that lead to damage to corporate value.
Sonoda: Over the past three years, I have noticed very significant changes at Board of Directors meetings along with the major changes in the nature of the Company's business. As someone who has been watching these events for a longer time, what changes do you see occurring, Mr. Kawada?
Kawada: I have been making suggestions on risk management from the viewpoint of taxation and accounting, but with the

My role is to make statements with a medium-to-long-term time frame and reflect the perspective of various stakeholders at Board of Directors meetings.

increase in the number of outside directors, things have clearly become livelier lately as Board members offer various opinions on investments and other matters.
Sato: Just in the past year, I can see that governance has become more effective. For example, the executives take the outside directors' comments seriously and show a real willingness to make whatever improvements they can.
Kawada: Both the members of the Board of Directors and the employees are very serious, and it is a corporate culture of open discussion.
Sato: Yes. They also truly value their customers. I think that is why they have so many longstanding relationships. In addition, each of them has surprisingly deep expertise. On the other hand, global expansion and new business development will require broader perspectives and approaches. I believe that providing those perspectives and approaches will be the role of the outside directors.
Sonoda: As business outside Japan becomes more important for the future growth of the Nihon Unisys Group, discussion of strategy, methods of developing human resources and the like are becoming livelier. I am looking forward to the future of the Group as it sets its sights on an overseas rollout of its business ecosystems to become "a corporate group resolving social issues through socially beneficial services capable of creating a more affluent society together with customers and business partners."
I also expect the Group to continue evolving in consideration of its future customers.

Changing the Structure and Management of the Board of Directors to Strengthen Governance

Kawada: In April 2018, a third-party evaluation of the effectiveness of the Board of Directors was conducted. What do you think of the results of this evaluation?
P. 31 Evaluation of Effectiveness of the Board of Directors
Sato: It provided a lot of information that one would not get to hear just from attending Board of Directors meetings. In particular, it revealed that executives and outside directors have a shared awareness of issues, as well as what they expect of us. Based on the evaluation results, I made efforts to improve myself.
Sonoda: I realized the same things as Ms. Sato. Previously, we only filled out a questionnaire, but this time we were also interviewed by an external expert. Looking at the report, which reflected those findings, I understood that we share the same concerns and awareness of problems. It made the issues before us clear and I think we have gained a foothold for resolving them.
Kawada: Even if we are unable to achieve immediate results, I think you could say we have laid the groundwork for resolving these issues through medium-to-long-term efforts.
Sato: Consideration of the composition of the outside directors was listed as one of the policies for FY2018. I think we should discuss what kind of candidates are desirable and the appropriate ratio of outside directors on the Board of Directors.
Kawada: In the evaluation, many respondents said that someone with experience in corporate management is preferable, and I agree. However, we need to discuss what kind of candidates are appropriate for a company of this size and in this rapidly changing operating environment.
Sonoda: In today's world, young people in their teens and twenties have been launching one business after another based on new concepts that make a profit while resolving social issues. From the perspective of establishing a pipeline of next-generation management personnel linked to the Company's succession plan, I think it will be possible to choose from capable people in their twenties or thirties who are taking on challenges in new businesses. They will take the lead in instilling the approach of linking the Group's vision to the SDG targets throughout the Group.
Sato: Some companies incorporate a quantitative evaluation of management personnel by an external organization in their succession plans for CEO and other senior management positions. I think Nihon Unisys should also consider establishing objective standards to make its succession plan clearer, which was brought up in the Board of Directors evaluation as an issue to be addressed.
Kawada: What are your thoughts on the management of the Board of Directors?
Sato: Explanations of agenda items by executives at Board meetings tend to take a long time. If more information could be provided beforehand, we could devote more time to discussion at the meetings.
Sonoda: We should have more time for discussion of measures to internally disseminate the new mid-term management plan and future business strategies.
Sato: I get the impression that giving too much priority to the outside directors' comments makes the members from inside the Company reluctant to speak up. Requesting the opinion of each Board member on important agenda items is likely to further stimulate discussion.
Kawada: That's true. In the future, I think it might sometimes be better to shorten the section for reported matters a bit, then focus on a theme for each meeting and take more time for discussion. The outside directors will provide support for achieving the Group's target of sustainable improvement in corporate value through transforming its business model. We should remain fully aware of this mission as we work to strengthen governance by exchanging information with management, employees, and Audit & Supervisory Board members.

I want to give meaningful advice through the process of ascertaining whether the new business model will secure sufficient profit.

Directors, Audit & Supervisory Board Members, and Corporate Officers

(As of June 27, 2018)

Directors

Akiyoshi Hiraoka

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

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

Koji Katsuya

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

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

Susumu Mukai

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

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

Toshiki Sugimoto

Director

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

Toshio Mukai

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

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

Go Kawada

Outside Director, Independent Officer

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

Noboru Saito

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

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

Ayako Sonoda

Outside Director, Independent Officer

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

Chie Sato
Outside Director,
Independent Officer

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

Hirofumi Hashimoto
Auditor

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

Audit & Supervisory Board Members

Shinji Kuriyama
Full-Time Auditor

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

Harumi Kojo
Outside Auditor,
Independent Officer

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

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

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

Norimitsu Yanai
Outside Auditor,
Independent Officer

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

Corporate Officers

Hirokazu Konishi Senior Corporate Officer	**Kazuo Nagai** Senior Corporate Officer	**Norihiko Murata** Superior Corporate Officer	**Hiroki Hyodo** Corporate Officer	**Yasuhide Hatta** Corporate Officer	**Hirofumi Hashimoto** Corporate Officer
Kazuo Sato Corporate Officer	**Takashi Hayashi** Corporate Officer	**Mitsuru Tamura** Corporate Officer	**Tatsuya Sugai** Corporate Officer	**Tsuneo Hoshi** Corporate Officer	**Tetsuya Fujito** Corporate Officer
Gakuji Watanabe Corporate Officer	**Kumiko Shirai** Corporate Officer	**Ken Tanaka** Corporate Officer	**Naoshi Nagashima** Corporate Officer	**Yuji Takeuchi** Corporate Officer	**Naoya Okuyama** Corporate Officer

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

Selected Data

Financial Data (Nihon Unisys, Ltd. and consolidated subsidiaries)

(Millions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Fiscal Year					
Net sales	¥282,691	¥269,154	¥278,039	¥282,249	**¥286,977**
Gross profit	63,611	63,442	64,610	66,728	**68,803**
Selling, general and administrative expenses	54,036	52,517	52,085	52,413	**52,470**
Operating income	9,575	10,925	12,525	14,315	**16,333**
Profit before income taxes	8,158	11,226	11,719	13,553	**15,531**
Net income attributable to owners of the parent	6,305	7,246	8,920	10,261	**11,949**
Capital investment	8,573	14,191	11,631	14,781	**11,473**
Depreciation and amortization	10,321	9,821	9,488	9,315	**10,363**
Research and development costs	4,660	4,337	4,036	3,454	**2,998**
Net cash provided by (used in) operating activities	11,889	18,037	10,990	29,922	**26,955**
Net cash provided by (used in) investing activities	(8,289)	(10,548)	(10,566)	(15,906)	**(13,227)**
Free cash flows	3,600	7,489	424	14,015	**13,728**
Net cash provided by (used in) financing activities	(151)	(12,887)	(8,185)	(11,757)	**(12,977)**
Fiscal Year-End					
Total assets	¥202,468	¥199,772	¥193,095	¥192,694	**¥198,636**
Total equity	76,017	81,976	91,214	90,773	**104,674**
Cash and cash equivalents	28,724	23,326	15,565	17,824	**18,575**
Net interest-bearing debt	38,473	33,665	22,020	21,003	**10,529**
Shareholders' equity	74,796	81,021	90,374	89,918	**103,001**
Per Share Information					
Basic net income per share (Yen)	¥ 67.08	¥ 77.07	¥ 93.71	¥ 96.49	**¥ 119.12**
Net assets per share (Yen)	795.61	861.53	847.51	896.39	**1,026.72**
Cash dividends per share (Yen)	15.00	20.00	30.00	35.00	**40.00**
Other Information					
Dividend payout ratio (%)	22.4	26.0	32.0	36.3	**33.6**
Operating margin (%)	3.4	4.1	4.5	5.1	**5.7**
Return on equity (ROE) (%)	8.9	9.7	10.5	11.4	**12.4**
Equity ratio (%)	36.9	40.6	46.8	46.7	**51.9**
Net debt-to-equity ratio (Times)	0.51	0.42	0.24	0.23	**0.10**
Operating income per employee	1.12	1.32	1.54	1.79	**2.08**

Non-Financial Data

	FY2013	FY2014	FY2015	FY2016	FY2017
Human Resource Data					
Consolidated number of employees	8,486	8,246	8,103	7,988	**7,817**
Average years of service*1	18.5	18.9	19.4	19.7	**20.4**
Average age*1	43.3	43.7	44.2	44.6	**45.2**
Paid leave utilization rate*2 (%)	60.7	63.4	69.6	78.1	**85.6**
Ratio of employees with disabilities*2 (%)	1.78	1.74	1.87	1.99	**2.04**
Ratio of management positions held by women*3 (%)	2.3	2.9	3.2	4.4	**5.2**
Employee turnover rate*4 (%)	2.63	2.93	1.91	2.07	**2.48**
Average monthly overtime hours worked per employee*3	13.7	17.5	19.3	16.5	**16.1**
Annual training hours per employee*5	24.5	23.6	25.7	29.5	**28.1**
Environmental Data*6					
CO_2 emissions (t)	18,855	21,804	19,792	18,464	**15,100**
CO_2 emissions intensity (t/m^2)	0.1595	0.1711	0.1570	0.1336	**0.1308**
Amount of energy used (kl)	11,120	10,521	10,049	9,411	**7,927**
Energy consumption intensity (kl/m^2)	0.0938	0.0826	0.0797	0.0681	**0.0687**

Scope of calculation

*1. Nihon Unisys

*2. Nihon Unisys for FY2013, Nihon Unisys and UNIADEX for FY2014 and thereafter

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

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

*5. Nihon Unisys and UNIADEX

*6. Nihon Unisys, 16 other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund up to and including FY2014 (CO_2 emissions intensity and energy consumption intensity in FY2013 for Nihon Unisys). Nihon Unisys, eight other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2015. Nihon Unisys, seven other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2016. Nihon Unisys, ten other companies, Nihon Unisys Health Insurance Society and Nihon Unisys Corporate Pension Fund for FY2017

Overview and Analysis of Results for FY2017

(Nihon Unisys, Ltd. and consolidated subsidiaries)

Analysis of Results of Operations

During the fiscal year ended March 31, 2018 (FY2017), the Japanese economy continued its gradual recovery due to improvements in the employment and income environment as well as in corporate earnings. However, the future remained unpredictable due to uncertain overseas political and economic factors such as Brexit (the United Kingdom's withdrawal from the European Union), policy management by the U.S. administration, and heightened geopolitical risks arising from the situation in North Korea. Investments in software remained basically unchanged in the Japanese information services market, maintaining a relatively high level.

Analysis of Income Statement

FY2017 was the final year of the mid-term management plan that the Nihon Unisys Group launched in FY2015. The Group has been conducting the growth strategies of expanding digital innovation and life innovation and reforming business ICT platforms, as well as other key strategies including reforming corporate culture and strengthening human resource capabilities.

Through these measures, the Group intends to transform its business model and improve profitability. In FY2017, the operating margin was 5.7%, an increase of 0.6 percentage points compared with the previous fiscal year, and net income attributable to owners of the parent set a record high for the third consecutive year.

Results by Segment

System Services
(Contracted software development, system engineering services and consulting)

- Sales and segment profit increased due to factors including projects for financial institutions, the retail industry and the transportation industry. For the third consecutive year, no projects were unprofitable.

P. 24 T3 Activities, P. 27 Technology and Quality Management

- Amid efforts to reduce the time engineers spend on development projects to enable them to focus on creating new businesses, sales of system services increased and productivity improved. The segment will work to expand high-value-added business and further improve profitability by continuing to increase productivity.

Support Services
(Software and hardware maintenance, installation support and related services)

- Despite a decline in sales due to the expiration of contracts and other factors, the segment secured a slight increase in profit from measures to cut costs such as outsourcing expenses. Although sales are trending downward amid the transition to the cloud, the segment intends to improve profitability by continuing its efforts to reduce costs.

Outsourcing
(Contracted administration of information systems and related services)

- Sales increased due to the expansion of small and medium-sized service-oriented businesses utilizing platforms for settlement and sharing, in addition to new operation of an account system for financial institutions. Segment profit was on par with the previous fiscal year, when the segment posted strong returns from highly profitable projects.

Case studies: P. 20–22 Value Creation Drivers

- In addition to its business for financial institutions, where orders are accumulating, the segment will further expand its operations by offering the assets it has acquired as a business platform.

Software
(Provision of software under a user license agreement)

- Sales of in-house software such as customer contact solutions for financial institutions was firm, and together with sales of e-commerce solutions and other products for the retail industry, sales and segment profit increased year on year. The segment will continue to focus on sales of front office solutions for enabling customer interaction.

Hardware
(Provision of hardware under a sales or rental agreement)

- Although sales were on par with the previous fiscal year, segment profit declined as highly profitable projects were recorded in the previous fiscal year. With the progress of the transition to the cloud centering on server-related businesses, the segment will work to maintain and improve its level of earnings, with demand expected for products that are not affected by the shift to the cloud, such as network products and new IoT-related devices.

Other
(Optical line services, equipment installation and other businesses)

- Sales and segment profit both decreased year on year.

(Billions of yen)

	FY2016	FY2017	Change	Change (%)
Net sales	282.2	**287.0**	4.7	1.7%
System Services	89.6	**90.5**	0.9	1.0%
Support Services	54.1	**52.8**	–1.3	–2.3%
Outsourcing	45.9	**48.0**	2.1	4.6%
Software	29.7	**33.1**	3.4	11.3%
Hardware	54.1	**54.1**	–0.0	–0.0%
Other	8.8	**8.4**	–0.4	–4.3%
Gross profit	66.7	**68.8**	2.1	3.1%
System Services	23.5	**24.0**	0.5	2.0%
Support Services	15.0	**15.1**	0.1	0.7%
Outsourcing	10.6	**10.8**	0.1	1.2%
Software	7.0	**9.0**	1.9	27.6%
Hardware	8.4	**8.0**	–0.5	–5.9%
Other	2.1	**2.0**	–0.1	–3.7%
Selling, general and administrative expenses	52.4	**52.5**	0.1	0.1%
Operating income	14.3	**16.3**	2.0	14.1%
[Operating margin]	[5.1%]	**[5.7%]**	0.6 pts	—
Net income attributable to owners of the parent	10.3	**11.9**	1.7	16.4%

Selling, General and Administrative Expenses

- Although selling expenses decreased ¥0.5 billion due to factors including a ¥0.4 billion decrease in sales support expenses, general and administrative expenses increased ¥0.6 billion due to an increase in office machinery expenses and other factors. As a result, selling, general and administrative expenses increased.

Analysis of Financial Condition

The Group is working to strengthen its financial base by enhancing its earnings capabilities and continually improving cash flow. To do so, it is increasing its financial soundness by generating operating cash flow while increasing equity to reliably achieve its profit plans. The Group is also using free cash flow to reduce interest-bearing debt while steadily making investments necessary for growth.

	FY2016	FY2017
Equity ratio*1 (%)	46.7	**51.9**
Ratio of cash flow to interest-bearing debt*2 (Years)	1.3	**1.1**
Interest coverage ratio*3 (Times)	148.5	**209.9**

*1. Equity ratio = Equity ÷ Total assets
*2. Ratio of cash flow to interest-bearing debt = Interest-bearing debt ÷ Cash flow
*3. Interest coverage ratio = Cash flow ÷ Interest payments
*4. The above indicators are calculated using financial figures on a consolidated basis.
*5. Cash flow indicated above is cash flows from operating activities.

Analysis of Balance Sheet

- Total assets as of the end of FY2017 increased ¥5.9 billion from a year earlier to ¥198.6 billion due to an increase in investment securities and other factors.
- Liabilities decreased ¥8.0 billion from a year earlier to ¥94.0 billion due to repayment of interest-bearing debt and other factors.
- Total equity increased ¥13.9 billion from a year earlier to ¥104.7 billion due to an increase from net income and other factors.

(Billions of yen)

	FY2016	FY2017	Change
Total assets	192.7	**198.6**	5.9
Liabilities	101.9	**94.0**	–8.0
Total equity	90.8	**104.7**	13.9

Analysis of Cash Flows

- Cash and cash equivalents as of the end of FY2017 were ¥18.6 billion, an increase of ¥0.8 billion compared with the beginning of the fiscal year. This was due to the allocation of cash provided by operating activities to investments in computers for business activities, software for outsourcing and other purposes, in addition to repayment of interest-bearing debt.
- Net cash provided by operating activities totaled ¥27.0 billion (a decrease of ¥3.0 billion from the previous fiscal year). Income before income taxes was ¥15.5 billion, and factors increasing net cash included ¥10.3 billion in depreciation and amortization, which is a non-cash expenditure, and a ¥1.6 billion decrease in accounts receivable – trade.
- Net cash used in investing activities was ¥13.2 billion (a decrease of ¥2.7 billion from the previous fiscal year), mainly due to ¥3.7 billion in payments for purchases of property, plant and equipment including computers for business activities and ¥6.9 billion in payment for purchase of intangible assets, primarily investments in software for outsourcing.
- Net cash used in financing activities was ¥13.0 billion (an increase of ¥1.2 billion from the previous fiscal year) due to expenditures of ¥6.0 billion for redemption of commercial paper and cash dividends totaling ¥3.8 billion.

(Billions of yen)

	FY2016	FY2017	Change
Net cash provided by (used in) operating activities	29.9	**27.0**	–3.0
Net cash provided by (used in) investing activities	(15.9)	**(13.2)**	2.7
Free cash flows	14.0	**13.7**	–0.3
Net cash provided by (used in) financing activities	(11.8)	**(13.0)**	–1.2
Cash and cash equivalents, end of year	17.8	**18.6**	0.8

Consolidated Balance Sheet

Nihon Unisys, Ltd. and Consolidated Subsidiaries
March 31, 2018

ASSETS	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
Current Assets:			
Cash and cash equivalents (Notes 3 and 15)	**¥18,575**	¥17,824	**$174,840**
Accounts receivable—trade (Notes 5 and 15)	**68,650**	70,276	**646,178**
Inventories (Note 6)	**6,765**	7,710	**63,677**
Deferred tax assets (Note 9)	**5,398**	6,308	**50,809**
Prepaid expenses	**11,360**	11,079	**106,928**
Other	**5,165**	5,117	**48,616**
Allowance for doubtful accounts	**(56)**	(59)	**(527)**
Total current assets	**115,857**	118,255	**1,090,521**
Property, Plant and Equipment:			
Land	**599**	619	**5,638**
Buildings and structures (Note 7)	**12,589**	12,312	**118,496**
Machinery and equipment (Note 7)	**39,322**	37,589	**370,124**
Other	**2,107**	1,820	**19,833**
Total	**54,617**	52,340	**514,091**
Accumulated depreciation	**(38,224)**	(35,820)	**(359,789)**
Net property, plant and equipment	**16,393**	16,520	**154,302**
Investments and Other Assets:			
Investment securities (Notes 4 and 15)	**20,439**	16,225	**192,385**
Investments in associated companies	**2,916**	1,759	**27,447**
Goodwill	**753**	837	**7,088**
Software (Note 7)	**22,253**	21,602	**209,460**
Lease deposits	**6,877**	6,873	**64,731**
Asset for retirement benefits (Note 10)	**3,557**	946	**33,480**
Deferred tax assets (Note 9)	**142**	1,463	**1,337**
Other	**9,764**	8,531	**91,905**
Allowance for doubtful accounts	**(315)**	(317)	**(2,965)**
Total investments and other assets	**66,386**	57,919	**624,868**
Total	**¥198,636**	¥192,694	**$1,869,691**

LIABILITIES AND EQUITY	Millions of Yen 2018	2017	Thousands of U.S. Dollars (Note 1) 2018
Current Liabilities:			
Short-term bank loans (Notes 8 and 15)	**¥1,350**	¥350	**$12,707**
Current portion of long-term debt (Notes 8 and 15)	**5,492**	11,007	**51,694**
Commercial paper		6,000	
Accounts payable—trade (Note 15)	**21,820**	22,610	**205,384**
Accounts payable—other	**2,989**	2,473	**28,134**
Income taxes payable (Note 9)	**2,067**	1,966	**19,456**
Accrued expenses	**10,533**	9,985	**99,143**
Advances received	**14,458**	13,839	**136,088**
Allowance for loss on contract development	**227**	313	**2,137**
Other	**9,190**	7,905	**86,503**
Total current liabilities	**68,126**	76,448	**641,246**
Long-Term Liabilities:			
Long-term debt (Notes 8 and 15)	**21,153**	20,283	**199,106**
Long-term accounts payable—other	**17**	250	**160**
Liability for retirement benefits (Note 10)	**846**	2,071	**7,963**
Asset retirement obligations	**1,128**	1,133	**10,617**
Deferred tax liabilities (Note 9)	**1,357**		**12,773**
Other	**1,335**	1,736	**12,566**
Total long-term liabilities	**25,836**	25,473	**243,185**
Commitments and Contingent Liabilities (Note 14)			
Equity (Notes 11 and 12):			
Common stock—authorized, 300,000,000 shares; issued, 109,663,524 shares in 2018 and 2017	**5,483**	5,483	**51,610**
Capital surplus	**14,361**	14,201	**135,175**
Retained earnings	**88,185**	80,005	**830,055**
Treasury shares—at cost 9,340,521 shares in 2018 and 9,351,876 shares in 2017	**(13,578)**	(13,592)	**(127,805)**
Deposit for subscriptions to treasury shares			
Stock acquisition rights	**370**	294	**3,482**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**6,547**	4,626	**61,625**
Foreign currency translation adjustment	**6**		**56**
Deferred gain (loss) on derivatives under hedge accounting		2	
Remeasurements of defined benefit plan, net of tax	**1,997**	(806)	**18,797**
Total accumulated other comprehensive income	**103,371**	90,213	**972,995**
Non-controlling interests	**1,303**	560	**12,265**
Total equity	**104,674**	90,773	**985,260**
Total	**¥198,636**	¥192,694	**$1,869,691**

See notes to consolidated financial statements.

Consolidated Statement of Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of Yen		U.S. Dollars (Note 1)
	2018	2017	**2018**
Net sales	**¥286,977**	¥282,249	**$2,701,214**
Cost of sales (Note 10)	**218,174**	215,521	**2,053,595**
Gross profit	**68,803**	66,728	**647,619**
Selling, general and administrative expenses (Notes 10 and 13)	**52,470**	52,413	**493,882**
Operating income	**16,333**	14,315	**153,737**
Other income (expenses):			
Interest and dividend income	**417**	359	**3,925**
Interest expense	**(127)**	(195)	**(1,195)**
Loss on impairment of long-lived assets (Note 7)	**(576)**	(337)	**(5,422)**
Equity in earnings of associated companies		79	**0**
Loss on sales and retirement of noncurrent assets	**(73)**	(53)	**(687)**
Gain on transfer of business	**108**		**1,017**
Gain on reversal of subscription rights to shares		64	**0**
Settlement package	**(606)**	(694)	**(5,704)**
Loss on investments in partnership	**(128)**		**(1,205)**
Other—net	**183**	15	**1,723**
Other expenses—net	**(802)**	(762)	**(7,549)**
Income before income taxes	**15,531**	13,553	**146,188**
Income taxes (Note 9):			
Current	**1,977**	1,766	**18,609**
Deferred	**1,488**	1,489	**14,006**
Total income taxes	**3,465**	3,255	**32,615**
Net income	**12,066**	10,298	**113,573**
Net income attributable to non-controlling interests	**117**	37	**1,101**
Net income attributable to owners of the parent	**¥11,949**	¥10,261	**$112,472**

Per Share Amounts (Notes 2.t and 18):	*Yen*	*Yen*	*U.S. Dollars*
Basic net income	**¥119.12**	¥96.49	**$1.12**
Diluted net income	**118.68**	96.05	**1.12**
Cash dividends applicable to the year	**40.00**	35.00	**0.38**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	**2018**
Net income	**¥12,066**	¥10,298	**$113,573**
Other comprehensive income (Note 17):			
Unrealized gain on available-for-sale securities	**1,921**	328	**18,082**
Deferred (loss) gain on derivatives under hedge accounting	**(1)**	17	**(9)**
Remeasurements of defined benefit plans, net of tax	**2,803**	2,411	**26,383**
Share of other comprehensive income of entities accounted for using equity method	**5**	(0)	**47**
Total other comprehensive income	**4,728**	2,756	**44,503**
Comprehensive income	**¥16,794**	¥13,054	**$158,076**
Total comprehensive income attributable to (Note 17):			
Owners of the parent	**¥16,677**	¥13,017	**$156,975**
Non-controlling interests	**117**	37	**1,101**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Nihon Unisys, Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2018

	Thousands	*Millions of Japanese Yen*					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock -at cost	Deposit for subscriptions to treasury stock	Stock acquisition rights
Balance, March 31, 2016	106,628	¥5,483	¥14,201	¥73,365	(3,745)	¥6	¥269
Net income attributable to owners of the parent				10,261			
Cash dividends				(3,484)			
Conversion of convertible bonds				(127)	1,212		
Purchase of treasury stock	(7,357)				(11,131)		
Disposal of treasury stock	1,041			(10)	72	(6)	
Net changes in items							25
Net changes during the year	(6,316)			6,640	(9,847)	(6)	25
Balance, March 31, 2017	100,312	¥5,483	¥14,201	¥80,005	¥(13,592)		¥294
Net income attributable to owners of the parent				11,949			
Cash dividends				(3,762)			
Purchase of treasury stock					(1)		
Disposal of treasury stock	11			(7)	15		
Change in ownership interest of parent due to transactions with non-controlling interests			160				
Net changes in items							76
Net changes during the year	11		160	8,180	14		76
Balance, March 31, 2018	100,323	¥5,483	¥14,361	¥88,185	¥(13,578)		¥370

	Millions of Japanese Yen						
	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustment	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defined benefit plans, net of tax	Total	Non-controlling interests	Total equity
Balance, March 31, 2016	¥4,298		(16)	(3,217)	¥90,644	¥570	¥91,214
Net income attributable to owners of the parent					10,261		10,261
Cash dividends					(3,484)		(3,484)
Conversion of convertible bonds					1,085		1,085
Purchase of treasury stock					(11,131)		(11,131)
Disposal of treasury stock					56		56
Net changes in items	328		18	2,411	2,782	(10)	2,772
Net changes during the year	328		18	2,411	(431)	(10)	(441)
Balance, March 31, 2017	¥4,626		¥2	¥(806)	¥90,213	¥560	¥90,773
Net income attributable to owners of the parent					11,949		11,949
Cash dividends					(3,762)		(3,762)
Purchase of treasury stock					(1)		(1)
Disposal of treasury stock					8		8
Change in ownership interest of parent due to transactions with non-controlling interests					160		160
Net changes in items	1,921	6	(2)	2,803	4,804	743	5,547
Net changes during the year	1,921	6	(2)	2,803	13,158	743	13,901
Balance, March 31, 2018	¥6,547	¥6		¥1,997	¥103,371	¥1,303	¥104,674

	Thousands of U.S. Dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Treasury stock -at cost	Deposit for subscriptions to treasury stock	Stock acquisition rights
Balance, March 31, 2017	$51,610	$133,669	$753,059	$(127,937)		$2,767
Net income attributable to owners of the parent			112,472			
Cash dividends			(35,410)			
Purchase of treasury stock				(9)		
Disposal of treasury stock			(66)	141		
Change in ownership interest of parent due to transactions with non-controlling interests		1,506				
Net changes in items						715
Net changes during the year		1,506	76,996	132		715
Balance, March 31, 2018	$51,610	$135,175	$830,055	$(127,805)		$3,482

	Thousands of U.S. Dollars (Note 1)						
	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustment	Deferred gain (loss) on derivatives under hedge accounting	Remeasurements of defined benefit plans, net of tax	Total	Non-controlling interests	Total equity
Balance, March 31, 2017	$43,543		$19	$(7,587)	$849,143	$5,271	$854,414
Net income attributable to owners of the parent					¥112,472		¥112,472
Cash dividends					(35,410)		(35,410)
Purchase of treasury stock					(9)		(9)
Disposal of treasury stock					75		75
Change in ownership interest of parent due to transactions with non-controlling interests					1,506		1,506
Net changes in items	18,082	56	(19)	26,384	45,218	6,994	52,212
Net changes during the year	18,082	56	(19)	26,384	123,852	6,994	130,846
Balance, March 31, 2018	$61,625	$56		$18,797	$972,995	$12,265	$985,260

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	**2018**
Operating Activities:			
Income before income taxes	**¥15,531**	¥13,553	**$146,188**
Adjustments for:			
Income taxes paid	**(1,676)**	(1,326)	**(15,776)**
Loss on impairment of long-lived assets	**576**	337	**5,422**
Depreciation and amortization	**10,280**	9,232	**96,762**
Amortization of goodwill	**84**	84	**791**
Net gain on sales of investment securities	**(2)**	(58)	**(19)**
Decrease in accounts receivable—trade	**1,626**	171	**15,305**
Decrease in inventories	**945**	4,229	**8,895**
(Increase) decrease in advances paid	**(329)**	1,028	**(3,097)**
Decrease in interest and dividends receivable	**2**	3	**19**
Increase in asset for retirement benefits	**(2,611)**	(113)	**(24,576)**
Increase in remeasurement of defined benefit plans	**4,044**	3,387	**38,065**
Decrease in liability for retirement benefits	**(1,226)**	(3,056)	**(11,540)**
Decrease in accounts payable—trade	**(789)**	(331)	**(7,427)**
Decrease in interest payable	**(2)**	(7)	**(19)**
Increase in accrued expenses	**548**	1,063	**5,158**
(Decrease) increase in allowance for loss on contract development	**(85)**	258	**(800)**
Increase in other allowance	**116**	207	**1,092**
Other—net	**(77)**	1,261	**(725)**
Total adjustments	**11,424**	16,369	**107,530**
Net cash provided by operating activities	**26,955**	29,922	**253,718**
Investing Activities:			
Proceeds from sales of property, plant and equipment	**26**	2	**245**
Payments for purchases of property, plant and equipment	**(3,665)**	(5,967)	**(34,497)**
Payments for purchases of software	**(6,916)**	(7,411)	**(65,098)**
Proceeds from sales of investment securities	**37**	239	**348**
Payments for purchases of investment securities	**(2,812)**	(2,081)	**(26,468)**
Proceeds from redemption of investment securities		300	
Payments for asset retirement obligations	**(8)**	(439)	**(75)**
Proceeds from transfer of business	**110**		**1,035**
Other—net	**1**	(549)	**9**
Net cash used in investing activities	**(13,227)**	(15,906)	**(124,501)**
Financing Activities:			
Net decrease in short-term bank loans	**1,000**	(125)	**9,413**
Proceeds from long-term debt	**6,363**	12,375	**59,893**
Repayments of long-term debt	**(11,008)**	(16,015)	**(103,615)**
Repayments of other debt	**(462)**	(455)	**(4,349)**
(Decrease) increase in commercial paper	**(6,000)**	6,000	**(56,476)**
Purchase of treasury stock	**(1)**	(11,131)	**(9)**
Cash dividends	**(3,759)**	(3,481)	**(35,382)**
Cash dividends to non-controlling interests	**(42)**	(46)	**(395)**
Proceeds from sales of shares of subsidiaries without changes in the scope of consolidation	**930**		**8,754**
Other—net	**2**	1,121	**18**
Net cash used in financing activities	**(12,977)**	(11,757)	**(122,148)**
Net increase in Cash and Cash Equivalents	**751**	2,259	**7,069**
Cash and Cash Equivalents, Beginning of Year	**17,824**	15,565	**167,771**
Cash and Cash Equivalents, End of Year	**¥18,575**	¥17,824	**$174,840**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

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 2017 financial statements to conform them to the classifications used in 2018.

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 ¥106.24 to $1, the approximate rate of exchange at March 31, 2018. 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, 2018 include the accounts of the Company and its 13 (11 as of March 31, 2017) significant subsidiaries and two (one as of March 31, 2017) associated companies accounted for by the equity method (collectively, the "Group").

For the year ended March 31, 2018, Canal Globe, Ltd., a newly established company, and others are included in the scope of consolidation. Nihon Unisys Business, Ltd. was dissolved and excluded from the scope of consolidation. Further, for the year ended March 31, 2018, PT. INDIVARA SEJAHTERA MANDIRI is included in associated companies accounted for by the equity method due to acquisition of its shares.

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 (6 as of March 31, 2017) unconsolidated subsidiaries are excluded from the scope of consolidation because the portion of their assets, net income (loss), retained earnings, and other amounts that correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

The remaining 7 (6 as of March 31, 2017) unconsolidated subsidiaries and 12 (11 as of March 31, 2017) associated companies not accounted for by the equity method are excluded from the scope of the equity method because the portion of their net income (loss), retained earnings, and other amounts which correspond to the Company's equity are immaterial and the effect on the accompanying consolidated financial statements is insignificant.

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) *Property, plant and equipment* – Property, plant and equipment are stated at cost. Depreciation of rent and computers for outsourcing services included in machinery and equipment is mainly computed by the straight-line method over the useful life, which is principally five years, with no residual value.
Depreciation of buildings and structures and other machinery and equipment is mainly computed by the straight-line method. Useful lives range from 4 to 50 years for buildings and structures. Machinery and equipment held for lease are depreciated by the straight-line method over the respective lease periods. The useful lives for lease assets are the periods of the respective leases.

(g) *Software* – Software development costs, incurred through the completion of a Beta version of specific software for sale to the market, are charged to income as incurred. Costs incurred subsequent to the completion of the Beta 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 to ten years. Software held for leasing is depreciated by the straight-line method over the respective lease periods.

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

(i) *Allowance for loss on contract development* – An allowance for loss on contract development is provided for at an estimated amount of probable losses to be incurred in future years on software development contracts that cost ¥50 million ($471 thousand) or more.

(j) *Retirement and Pension Plans* – The Company and a certain subsidiary have defined benefit corporate pension plans (cash balance plans) and defined contribution pension plans covering substantially all of their employees. Other consolidated subsidiaries have defined benefit pension plans, defined contribution pension plans, and severance lump-sum payment plans.
The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within accumulated other comprehensive income in equity, after adjusting for tax effects, and are recognized in profit or loss mainly over 10 years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.
The Company and a certain subsidiary participate in the New Career Support Program (the “NCSP”) to assist certain employees in retiring before their mandatory retirement age. The Company and a certain subsidiary provide for the estimated future payments to be paid under the NCSP and include this amount in liability for retirement benefits.

(k) *Asset Retirement Obligations* – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(l) *Stock options* – The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

(m) ***Construction contracts*** – For software development contracts that cost ¥ 50 million ($471 thousand) or more for the years ended March 31, 2018 and 2017, the percentage-of-completion method is adopted only if the percentage of completion can be reasonably determined. For other contracts, the completed-contract method is applied.
The percentage of completion is mainly evaluated by Earned Value Management ("EVM"). EVM divides deliverables defined on the contract, such as software and related documents, by work phase. EVM defines percentages of completion as the ratio of earned value of work phase completed during the fiscal year divided by the entire work phase.

(n) ***Research and development costs*** – Research and development costs are charged to income as incurred.

(o) ***Leases*** – Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

(p) ***Income taxes*** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income.
The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
The Company and certain of its subsidiaries have applied the consolidated taxation system.

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

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

(s) ***Derivatives and hedge accounting*** – The Company and certain subsidiaries use a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps, as a means of hedging exposure to foreign currency and interest rate risks. The Company and certain subsidiaries do not enter into derivatives for trading or speculative purposes.
Derivative financial instruments are classified and accounted for as follows:
(1) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on trades, except for derivatives that qualify for hedge accounting, which are recognized in the consolidated statement of income.
(2) For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.
Foreign currency forward contracts are utilized to hedge foreign currency exposure in the procurement of merchandise from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.
Interest rate swaps are utilized to hedge interest rate exposures on certain liabilities. The interest rate swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets. However, in cases where interest rate swaps qualify for hedge accounting and meet specific matching criteria, the net amount to be paid or received under the interest rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(t) ***Per-share information*** – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.
Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.
Diluted net income per share of common stock assumes full exercise of outstanding warrants.
Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

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

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

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

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

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

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

(w) *New Accounting Pronouncements*

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

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

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

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

(1) **Consolidated statement of income** – "Sales promotion premium," which was previously separately disclosed, is included in "Other–net" from the year ended March 31, 2018, as the amount is deemed immaterial. The amount included in "Other–net" for the year ended March 31, 2017, was ¥93 million. Similarly, "Gain on sales of investment securities" is also included in "Other–net" due to its immateriality. The amount included in "Other–net" for the year ended March 31, 2017, was ¥101 million.

(2) **Consolidated statement of cash flows** – "Proceeds from sales and leasebacks," which was previously disclosed separately, is included in "Other–net" from the year ended March 31, 2018, as the amount is deemed immaterial. The amount included in "Other–net" as of March 31, 2017, was ¥1,079 million.

3. Cash equivalents

Cash equivalents at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Cash and time deposits	¥18,575	¥17,824	$174,840
Total	¥18,575	¥17,824	$174,840

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*
	2018	2017	2018
Decrease in capital surplus		¥127	
Decrease in treasury stock		1,212	
Decrease in convertible bonds		1,086	

4. Investment securities

Investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Noncurrent:			
Equity securities	¥18,982	¥15,694	$178,671
Trust fund investments and other	1,457	531	13,714
Total	¥20,439	¥16,225	$192,385

The costs and aggregate fair values of investment securities at March 31, 2018 and 2017, were as follows:

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

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	¥7,895	¥6,624	¥(59)	¥14,460
Other	34	6		40
Total	¥7,929	¥6,630	¥(59)	¥14,500

	Thousands of U.S. Dollars			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Equity securities	$74,332	$89,326	$(1,920)	$161,738
Other	320	57		377
Total	$74,652	$89,383	$(1,920)	$162,115

Unlisted equity securities are not included in the tables above since the fair value of the unlisted equity securities cannot be reliably determined due to the following reasons: their market prices are not readily available and it is not possible to estimate the future cash flows. As at March 31, 2018 and 2017, the carrying values of unlisted securities were ¥3,215 million ($30,261 thousand) and ¥1,725 million, respectively.

Information regarding available-for-sale securities which were sold during the years ended March 31, 2018 and 2017, were as follows:

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

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

	Thousands of U.S. Dollars		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale securities:			
Equity securities	$348	$47	$(28)
Other			
Total	$348	$47	$(28)

Impairment losses on available-for-sale equity securities for the years ended March 31, 2018 and 2017, were ¥30 million ($282 thousand) and ¥32 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, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Costs and estimated earnings	¥4,351	¥8,502	$40,954
Amount billed	(330)	(2,013)	(3,106)
Total	¥4,021	¥6,489	$37,848

6. Inventories

Inventories at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Work in process	¥1,426	¥1,685	$13,422
Merchandise and finished products	5,211	5,708	49,050
Supplies	128	317	1,205
Total	¥6,765	¥7,710	$63,677

7. Long-lived assets

The Group reviewed its long-lived assets for impairment as of March 31, 2018 and 2017. As for certain assets used for application services, the Group determined that the total of expected future cash flows was below their carrying value.
As for internal use assets, the future use of certain systems was no longer expected as of March 31, 2018, and certain assets were determined to be disposed of as of March 31, 2017. As a result, the Group recognized an impairment loss as summarized below. The carrying amounts of the relevant assets were written down to their recoverable amounts.
The recoverable amounts of those asset groups were measured at their value in use. The asset group for which the recoverable amount of value in use is negative is calculated as zero.
Loss on impairment of long-lived assets for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Internal use assets:			
Software	¥119		$1,120
Buildings and structures		¥6	
Other (equipment)		4	
Total	¥119	¥10	$1,120

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Application services:			
Machinery and equipment	¥15		$141
Software	234		2,203
Other	208	¥327	1,958
Total	¥457	¥327	$4,302

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

Short-term bank loans of ¥1,350 million ($12,707 thousand) and ¥350 million at March 31, 2018 and 2017, bore interest at a rate of approximately 0.25% and 0.41%, respectively.
Long-term debt and convertible bonds at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Unsecured loans from banks and insurance companies, 0.28% to 0.34%, due serially to 2024	¥26,645	¥31,290	$250,800
Total	26,645	31,290	250,800
Less current portion	(5,492)	(11,007)	(51,694)
Long-term debt and convertible bonds, less current portion	¥21,153	¥20,283	$199,106

The annual maturities of long-term debt and convertible bonds as of March 31, 2018, for the next five years are as follows:

Year Ending March 31	*Millions of Yen*	*Thousands of U.S. Dollars*
2019	¥5,492	$51,694
2020	5,255	49,463
2021	5,268	49,586
2022	3,780	35,580
2023	5,200	48,946
2024	1,650	15,531
Total	¥26,645	$250,800

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

9. Income taxes

The Group is subject to Japanese national and local income taxes which resulted in normal effective statutory tax rates of approximately 30.9% for each of the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Current assets:			
Deferred tax assets:			
Accrued bonuses	¥2,700	¥2,591	$25,414
Inventory valuation	1,040	1,387	9,789
Tax loss carryforwards	757	972	7,125
Revenue recognized for tax purposes	436	460	4,104
Accrued business and office taxes	326	366	3,069
Unrealized profit of inventories	123	130	1,158
Allowance for loss on contract development	71	97	668
Other	826	875	7,775
Total	6,279	6,878	59,102
Less valuation allowance	(881)	(569)	(8,293)
Total	¥5,398	¥6,309	$50,809
Deferred tax liabilities:			
Deferred gain on derivatives under hedge accounting	¥(0)	¥(0)	$(0)
Other	(0)	(1)	(0)
Total	¥(0)	¥(1)	$(0)
Net current deferred tax assets	¥5,398	¥6,308	$50,809

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Noncurrent assets:			
Deferred tax assets:			
Tax loss carryforwards	¥2,208	¥3,916	$20,783
Loss on impairment of long-lived assets	1,536	1,652	14,458
Depreciation expense	1,493	1,844	14,053
Revenue recognized for tax purposes	392	720	3,690
Liability for retirement benefits	231	577	2,174
Unrealized gain (loss) on available-for-sale securities		5	
Other	1,200	1,240	11,295
Total	7,060	9,954	66,453
Less valuation allowance	(4,112)	(5,900)	(38,705)
Total	¥2,948	¥4,054	$27,748
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	¥(2,812)	¥(1,957)	$(26,468)
Asset for retirement benefits	(1,088)	(292)	(10,241)
Other	(263)	(342)	(2,475)
Total	¥(4,163)	¥(2,591)	$(39,184)
Net noncurrent deferred tax (liabilities) assets	¥(1,215)	¥1,463	$(11,436)

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, 2018 and 2017, was as follows:

	2018	2017
Normal effective statutory tax rate	30.9%	30.9%
Expenses not deductible for income tax purposes	1.0	1.3
Nontaxable items	(0.3)	(0.4)
Decrease in valuation allowance	(9.5)	(10.3)
Effect of difference between effective tax rate and future effective tax rate	0.4	
Amount of per capita local tax	0.8	0.9
Amortization of goodwill	0.2	0.2
Equity in earnings of associated companies		(0.2)
Effect of change of tax rate		0.6
Other—net	(1.2)	1.0
Actual effective tax rate	22.3%	24.0%

At March 31, 2018, the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥7,120 million ($67,018 thousand), 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*
2021	¥5,135	$48,334
2024	1,985	18,684
Total	¥7,120	$67,018

10. Retirement and Pension Plans

The Company and UNIADEX, Ltd. have defined benefit corporate pension plans (cash balance plans) and defined contribution pension plans (retirement benefit prepayment plan option is also available) covering substantially all of their employees.
Other consolidated subsidiaries have defined benefit corporate pension plans, defined contribution pension plans, and severance lump-sum payment plans.
Certain consolidated subsidiaries, in the calculation of liabilities and retirement benefit costs related to retirement benefits, apply the simplified method and account for the liability for retirement benefits based on retirement benefit obligation for payments by voluntary retirement.
Certain consolidated subsidiaries have joined the newly established multi-employer pension fund, a successor to the previous multi-employer pension fund which was liquidated upon the approval of the Minister of Health, Labor and Welfare on July 1, 2017. There is no additional obligation assumed as of March 31, 2018, in relation to the liquidation.

Changes in the liability for retirement benefit obligations for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Retirement benefit obligation, beginning of year (as previously reported)	¥109,908	¥111,925	$1,034,526
Service cost	2,271	2,350	21,376
Interest cost	505	514	4,753
Actuarial losses	(289)	17	(2,720)
Payments for retirement benefit	(5,067)	(4,898)	(47,694)
Retirement benefit obligation, end of year	¥107,328	¥109,908	$1,010,241

Changes in the pension assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Pension assets, beginning of year	¥109,041	¥107,936	$1,026,365
Expected return on assets	1,636	1,619	15,399
Actuarial gains (losses)	885	592	8,330
Contributions from the employer	3,677	3,781	34,610
Payments for retirement benefit	(5,042)	(4,887)	(47,458)
Pension assets, end of year	¥110,197	¥109,041	$1,037,246

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, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Funded defined benefit obligation	¥(106,640)	¥(109,260)	$(1,003,765)
Plan assets	110,197	109,041	1,037,246
Total	3,557	(219)	33,481
Unfunded defined benefit obligation	(688)	(648)	(6,476)
Net asset (liabilities) arising from defined benefit obligation	¥2,869	¥(867)	$27,005
Liability for retirement benefits	¥(688)	¥(1,813)	$ (6,476)
Asset for retirement benefits	3,557	946	33,481
Net asset (liabilities) arising from defined benefit obligation	¥2,869	¥(867)	$27,005

The liability for retirement benefits on the consolidated balance sheets at March 31, 2018 and 2017, included the following liabilities:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Allowance for the "NCSP"	¥375	¥536	$3,530
Current portion	(216)	(278)	(2,033)
Net noncurrent portion	¥158	¥258	$1,487

Total charges relating to allowance for the NCSP for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Allowance for the "NCSP"	¥19	¥170	$179

The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were set forth as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Service cost *1	¥2,271	¥2,350	$21,376
Interest cost	505	514	4,753
Expected return on assets	(1,635)	(1,619)	(15,390)
Cost of actuarial gains and losses	2,869	2,812	27,006
Retirement benefit cost of defined benefit plans	¥4,010	¥4,057	$37,745
Other *2	¥1,089	¥977	$10,250

*1 Retirement benefit cost of consolidated subsidiaries using the simplified method is included in the service cost.
*2 “Other” is the sum of (i) the amount of contribution required for the defined contribution pension plan, (ii) payment by the retirement prepaid system to prepaid retired employees, and (iii) the amount of contribution that is required for a multi-employer plan.
In addition, contributions to defined contribution pension plans in the years ended March 31, 2018 and 2017, were ¥936 million ($8,810 thousand) and ¥829 million, respectively, and contributions to a multi-employer plan to be accounted for and to a defined contribution pension plan in the years ended March 31, 2018 and 2017, were ¥11 million ($104 thousand) and ¥11 million, respectively.

Amounts recognized in other comprehensive income as remeasurements of defined benefit plans (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Actuarial gains (losses)	¥4,044	¥3,387	$38,065

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Unrecognized actuarial losses	¥(2,878)	¥1,166	$(27,090)

Breakdown of pension assets:

	2018	2017
Bonds	48%	54%
Life insurance	14	14
Stocks	12	12
Cash and cash equivalents	12	3
Other	14	17
Total	100%	100%

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

	2018	2017
Discount rate	mainly 0.45%	mainly 0.45%
Expected rate of return on plan assets	mainly 1.5%	mainly 1.5%
Expected salary increase rate	mainly 3.4% (average)	mainly 3.4% (average)

11. Equity

The significant provisions in the Companies Act of Japan (the “Companies Act”) that affect financial and accounting matters are summarized below:
(1) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria such as (1) having a board of directors, (2) having independent auditors, (3) having a board of corporate auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.
Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

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

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

(3) Treasury stock and treasury stock acquisition rights

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

12. Stock options

The Company's granted stock options as of March 31, 2018, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option	6 directors; 16 employees; 4 subsidiaries' directors; 10 subsidiaries' employees	200,600 shares	July 17, 2012	¥1 $0.01	From July 1, 2013 to June 30, 2043
2013 Stock Option	6 directors; 16 employees; 4 subsidiaries' directors; 9 subsidiaries' employees	261,200 shares	July 12, 2013	¥1 $0.01	From July 1, 2014 to June 30, 2044
2015 Stock Option	4 directors; 16 employees; 3 subsidiaries' directors; 13 subsidiaries' employees	164,800 shares	July 13, 2015	¥1 $0.01	From July 1, 2016 to June 30, 2046
2016 Stock Option	5 directors; 14 employees; 5 subsidiaries' directors; 6 subsidiaries' employees	168,000 shares	July 14, 2016	¥1 $0.01	From July 1, 2017 to June 30, 2047
2017 Stock Option	5 directors; 13 employees; 3 subsidiaries' directors; 6 subsidiaries' employees	94,000 shares	July 14, 2017	¥1 $0.01	From July 1, 2018 to June 30, 2048

The Company's stock option activity was as follows:

	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)	2017 Stock Option (Shares)
For the year ended March 31, 2017					
Nonvested					
March 31, 2016—Outstanding					
Granted				168,000	
Canceled					
Vested				168,000	
March 31, 2017—Outstanding					
Vested					
March 31, 2016—Outstanding	17,900	107,300	86,600		
Vested				168,000	
Exercised		2,000			
Canceled *1				83,000	
March 31, 2017—Outstanding	17,900	105,300	86,600	85,000	
For the year ended March 31, 2018					
Nonvested					
March 31, 2017—Outstanding					
Granted					94,000
Canceled					
Vested					94,000
March 31, 2018—Outstanding					
Vested					
March 31, 2017—Outstanding	17,900	105,300	86,600	85,000	
Vested					94,000
Exercised	1,400	7,400	1,800		
Canceled *1					44,700
March 31, 2018—Outstanding	16,500	97,900	84,800	85,000	49,300
Exercise price	¥1 $0.01	¥1 $0.01	¥1 $0.01	¥1 $0.01	¥1 $0.01
Average stock price at exercise	¥2,230 $20.99	¥2,098 $19.75	¥2,201 $20.72		
Fair value price at grant date	¥553 $5.21	¥706 $6.65	¥1,256 $11.82	¥1,174 $11.05	¥1,728 $16.27

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

Assumptions Used to Measure the Fair Value of the 2017 Stock Option	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	31.152%
Estimated remaining outstanding period:	4.68 years
Estimated dividend:	¥35 ($0.33) per share
Risk-free interest rate:	(0.065)%

13. Research and development costs

Research and development costs charged to income were ¥2,998 million ($28,219 thousand) and ¥3,454 million for the years ended March 31, 2018 and 2017, respectively.

14. Leases

The minimum rental commitments under noncancellable operating leases at March 31, 2018 and 2017 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Due within one year	¥774	¥800	$7,285
Due after one year	1,020	1,794	9,601
Total	¥1,794	¥2,594	$16,886

15. Financial Instruments and Related Disclosures

(1) Policy for financial instruments

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

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

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

(3) Risk management for financial instruments

Credit risk management

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

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

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

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

Exchange rate risk of trade payables denominated in foreign currency is hedged principally by forward foreign currency contracts.

Interest rate swaps and embedded derivatives are used to manage exposure to market risks from changes in interest rates for certain bank loans.

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

Liquidity risk management

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

(4) Fair values of financial instruments

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

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

(a) Fair values of financial instruments

Fair values of financial instruments as of March 31, 2018 and 2017, were shown below. The financial instruments whose fair value is extremely difficult to determine are not included in the following tables.

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥18,575	¥18,575	
Accounts receivable—trade	68,650	68,650	
Investment securities	17,223	17,223	
Total	¥104,448	¥104,448	
Short-term bank loans	¥21,820	¥21,820	
Accounts payable—trade	1,350	1,350	
Long-term debt *1	26,645	26,625	¥(19)
Total	¥49,815	¥49,795	¥(19)
Derivatives *2	¥0	¥0	

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥17,824	¥17,824	
Accounts receivable—trade	70,276	70,276	
Investment securities	14,500	14,500	
Total	¥102,600	¥102,600	
Short-term bank loans	¥350	¥350	
Accounts payable—trade	22,610	22,610	
Commercial paper	6,000	6,000	
Long-term debt *1	31,290	31,257	¥33
Total	¥60,250	¥60,217	¥33
Derivatives *2	¥2	¥2	

	Thousands of U.S. Dollars		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$174,840	$174,840	
Accounts receivable—trade	646,178	646,178	
Investment securities	162,114	162,114	
Total	$983,132	$983,132	
Short-term bank loans	$205,384	$205,384	
Accounts payable—trade	12,707	12,707	
Long-term debt *1	250,800	250,612	$(179)
Total	$468,891	$468,703	$(179)
Derivatives *2			

*1 Long-term debt includes the current portion.
*2 Assets and liabilities from derivative transactions are netted, with net liabilities presented in parentheses.

Cash and cash equivalents
The carrying values of cash and cash equivalents approximate fair value because of their short maturities.
Accounts receivable—trade
The carrying values of accounts receivable—trade approximate fair value because of their short maturities.
Investment securities
The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. The fair values of mutual funds are measured at the market price.
Fair value information for investment securities by classification is included in Note 4.
Accounts payable—trade, short-term bank loans, and commercial paper
The carrying values of accounts payable—trade, short-term bank loans, and commercial paper approximate fair value because of their short maturities.
Convertible bonds
The fair value is based on the price obtained from the financial institution.
Long-term debt
The fair values of long-term debt are determined by discounting the cash flows related to the debt at the assumed borrowing rate applied if debt of the same interest and principal were newly financed. Interest rate swaps which qualify for hedge accounting and which meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. The fair values of items (i.e., floating rate loans from banks and insurance companies) hedged by such interest rate swaps are determined by discounting the total cash flows of those hedged items and hedging instruments at the estimated rate applied if debt of the same interest and principal were financed.
As for long-term loans with embedded derivatives, the price of embedded derivatives is obtained from the financial institution and included in the fair value of long-term debt.
Derivatives
Fair value information for derivatives is included in Note 16.

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Investments in unconsolidated subsidiaries and associated companies	¥2,843	¥1,686	$26,760
Investments in equity instruments that do not have a quoted market price in an active market	¥1,799	¥1,234	$16,933
Other	¥1,416	¥491	$13,328

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

	Millions of Yen			
March 31, 2018	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	¥18,575			
Accounts receivable—trade	68,650			
Investment securities				
Available-for-sale securities:				
Other		¥14	¥137	¥1,266
Total	¥87,225	¥14	¥137	¥1,266

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

March 31, 2018	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
	Thousands of U.S. Dollars			
Cash and cash equivalents	$174,840			
Accounts receivable—trade	646,178			
Investment securities				
Available-for-sale securities:				
Other		$132	$1,290	$11,916
Total	$821,018	$132	$1,290	$11,916

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

16. Derivatives

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

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

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

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

No derivative transactions to which hedge accounting is not applied existed at March 31, 2018 and 2017.

Derivative transactions to which hedge accounting is applied at March 31, 2018 and 2017, were as follows:

March 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Millions of Yen			
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥8		¥0
- Forward contracts applied for designated transactions	Payables	497		(*)[2]
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt			(*)[3]

March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Millions of Yen			
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	¥282		¥2
- Forward contracts applied for designated transactions	Payables	622		(*)[2]
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt	1,650	¥1,650	(*)[3]

March 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Thousands of U.S. Dollars			
Foreign currency forward contracts:				
Buying U.S. Dollars:				
- Deferral hedge	Payables	$75		$0
- Forward contracts applied for designated transactions	Payables	4,678		(*)[2]
Interest rate swaps:				
- Fixed-rate payment and floating-rate receipt	Long-term debt			(*)[3]

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

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

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

In addition to the above, as of March 31, 2018 and 2017, the Company held ¥3,063 million ($28,831 thousand) and ¥3,750 million of long-term loans, respectively, which include embedded derivatives.

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

17. Comprehensive income

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥2,786	¥409	$26,224
Reclassification adjustments to profit or loss	(4)	43	(38)
Amount before income tax effect	2,782	453	26,186
Income tax effect	(861)	(125)	(8,104)
Total	¥1,921	¥328	$18,082
Deferred gain (loss) on derivatives under hedge accounting:			
(Losses) gains arising during the year	¥(1)	¥9	$(9)
Reclassification adjustments to profit or loss		16	
Amount before income tax effect	(1)	25	(9)
Income tax effect	0	(8)	0
Total	¥(1)	¥17	$(9)
Deferred gain (loss) on defined benefit plans:			
Gains (losses) arising during the year	¥1,175	¥576	$11,060
Reclassification adjustments to profit or loss	2,868	2,811	26,995
Amount before income tax effect	4,043	3,387	38,055
Income tax effect	(1,240)	(976)	(11,672)
Total	¥2,803	¥2,411	$26,383
Share of other comprehensive income in associated companies accounted for using equity method:			
Gains (losses) arising during the year	¥5	¥(0)	$47
Total other comprehensive income (loss)	¥4,728	¥2,756	$44,503

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, 2018 and 2017, is as follows:

	Net Income	Weighted-average shares	EPS	
For the year ended March 31, 2018	*Millions of Yen*	*Thousands of shares*	*Yen*	*U.S. Dollars*
Basic EPS				
Net income available to common shareholders	¥11,949	100,315	¥119.12	$1.12
Effect of dilutive securities:				
Convertible bonds				
Warrants		362		
Diluted EPS—Net income for computation	¥11,949	100,677	¥118.69	$1.12
For the year ended March 31, 2017				
Basic EPS				
Net income available to common shareholders	¥10,261	106,343	¥96.49	
Effect of dilutive securities:				
Convertible bonds	(0)	116		
Warrants	0	374		
Diluted EPS—Net income for computation	¥10,261	106,833	¥96.05	

19. Related-party transactions

There were no significant transactions with related parties for the years ended March 31, 2018 and 2017.

20. Segment information

For the years ended March 31, 2018 and 2017

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

(1) Description of reportable segments

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

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

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

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

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

(1) The "Other" category, which is not included in a specific reportable segment, consists of installation and other businesses.
(2) Reconciliation of segment profit of ¥ (52,470) million consists of selling, general and administrative expenses of ¥ (49,388) million not allocable to the reportable segments, research and development costs of ¥(2,998) million, and amortization of goodwill of ¥(84) million.
Reconciliation of segment assets of ¥164,645 million consists of corporate assets not allocable to the reportable segments.
Reconciliation of depreciation expense of ¥1,737 million consists of depreciation expense of corporate assets not allocable to the reportable segments.
Reconciliation of the increase in property, plant and equipment and intangible assets of ¥1,644 million consists of an increase in corporate assets not allocable to the reportable segments.
(3) Segment profit is reconciled to operating income in the consolidated statement of income.

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

(1) The "Other" category, which is not included in a specific reportable segment, consists of installation and other businesses.
(2) Reconciliation of segment profit of ¥ (52,413) million consists of selling, general and administrative expenses of ¥ (48,875) million not allocable to the reportable segments, research and development costs of ¥ (3,454) million, and amortization of goodwill of ¥ (83) million.
Reconciliation of segment assets of ¥158,304 million consists of corporate assets not allocable to the reportable segments.
Reconciliation of depreciation expense of ¥1,519 million consists of depreciation expense of corporate assets not allocable to the reportable segments.
Reconciliation of the increase in property, plant and equipment and intangible assets of ¥3,668 million consists of an increase in corporate assets not allocable to the reportable segments.
(3) Segment profit is reconciled to operating income in the consolidated statement of income.

	Thousands of U.S. Dollars									
	2018									
	Reportable segments									
	System Services	Support Services	Out-sourcing	Software	Hardware	Total	Other (1)	Total	Reconcil-iations (2)	Consoli-dated (3)
Sales	$851,929	$497,195	$451,967	$311,587	$509,206	$2,621,884	$79,330	$2,701,214		$2,701,214
Segment profit	225,527	142,348	101,327	84,394	74,831	628,427	19,192	647,619	$(493,882)	153,737
Segment assets	14,806	13,733	204,122	47,779	37,632	318,072	1,873	319,945	1,549,746	1,869,691
Other:										
Depreciation	979	2,645	53,586	17,075	5,450	79,735	677	80,412	16,350	96,762
Increase in property, plant and equipment and intangible assets	894	800	63,837	23,061	3,473	92,065	452	92,517	15,474	107,991
Loss on impairment of long-lived assets			4,302			4,302		4,302	1,120	5,422
Goodwill:										
Amortization									781	781
Balance									7,088	7,088

(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 $(493,882) million consists of selling, general and administrative expenses of $(464,872) million not allocable to the reportable segments, research and development costs of $(28,219) million, and amortization of goodwill of $(791) million.
Reconciliation of segment assets of $1,549746 million consists of corporate assets not allocable to the reportable segments.
Reconciliation of depreciation expense of $16,350 million consists of depreciation expense of corporate assets not allocable to the reportable segments.
Reconciliation of the increase in property, plant and equipment and intangible assets of $15,474 million consists of an increase in corporate assets not allocable to the reportable segments.
(3) Segment profit is reconciled to operating income in the consolidated statement of income.

Information about industry segments, geographical segments, and sales to foreign customers of the Group for the years ended March 31, 2018 and 2017, is as follows:

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

(2) Geographical segments
Geographical segment information is not presented because the Japanese portion of the Group’s consolidated net sales contributed more than 90% of total net sales.

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

21. Subsequent events

At the general shareholders’ meeting held on June 27, 2018, 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, ¥20.00 ($0.19) per share	¥2,006	$18,882

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

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, 2018, 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, 2018, 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 27, 2018

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information (As of March 31, 2018)

Corporate Data

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	7,817 (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) Other: Sapporo Techno-Center, Tokyo Education Center, and Izu Executive Center

Overview of Group

Business process	Ownership	Company name	Capital stock (Millions of yen)	FY2017 net sales (Millions of yen)
		Nihon Unisys, Ltd.	5,483	167,808
Marketing and Business Development and Consulting	100%	UEL Corporation	100	4,427
	100%	Cambridge Technology Partners, Ltd.	10	1,809
	100%	AFAS Inc.	100	778
	100%	Canal Payment Service, Ltd.	100	373
	100%	Canal Globe, Ltd.*1	100	46
	100%	Canal Ventures, Ltd.*2	100	83
	100%	Canal Ventures Collaboration Fund 1 Investment Limited Partnership*3	1,000	—
Total Infrastructure Services	100%	UNIADEX, Ltd.	750	132,252
	51%	S&I Co., Ltd.	490	8,702
System Services	100%	USOL VIETNAM Co., Ltd.	—	598
	69%	International Systems Development Co., Ltd.	40	2,017
	51%	G&U System Service, Ltd.	50	1,564
Outsourcing	75%	TRADE VISION, Ltd.	200	506

Group companies other than the above (non-consolidated companies):
UEL (Thailand) Co., Ltd., Netmarks Information Technology (Shanghai) Co., Ltd., UNIAID Co., Ltd., Beijing Unity Information Technology Co., Ltd., NUL System Services Corporation, and NUL Accessibility, Ltd.
*1. Canal Globe, Ltd. was founded on April 3, 2017.
*2. Canal Ventures, Ltd. was founded on May 19, 2017.
*3. Canal Ventures Collaboration Fund 1 Investment Limited Partnership was founded on June 9, 2017.

Editorial Policy

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

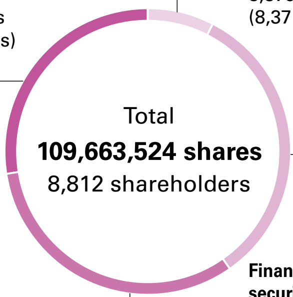
Tools for the Disclosure of Financial and Non-Financial Information
Integrated Report 2018 is available as either a printed booklet or as a PDF from our corporate website. A broader range of detailed information is also available on our website. In addition, we release various information disclosure tools at the request of stakeholders.

Website	Integrated Report (PDF)	Overall Corporate Activities	Financial Information	Sustainability Information (Japanese only)
	https://www.unisys.co.jp/invest-e/ir/pdf/ir2018_e/pdf	https://www.unisys.co.jp/e/index	https://www.unisys.co.jp/invest-e/index	https://www.unisys.co.jp/csr/

Stock Information

Classification of Shareholders

Number of shares issued	109,663,524 shares
Number of shareholders	8,812 shareholders

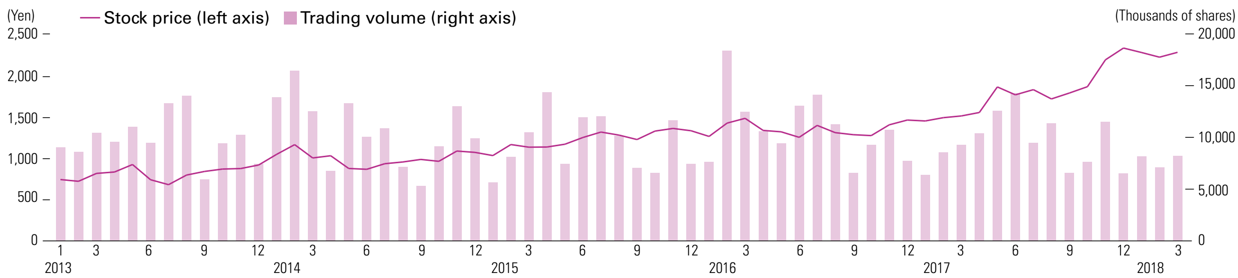


Principal Shareholders

Name	Number of shares held (Thousands of shares)	Holding ratio (%)
Dai Nippon Printing Co., Ltd.	20,727	20.66
Japan Trustee Services Bank, Ltd. (Trust account)	10,104	10.07
The Master Trust Bank of Japan, Ltd. (Trust account)	6,507	6.48
The Norinchukin Bank	4,653	4.63
GOVERNMENT OF NORWAY	2,571	2.56
Mitsui & Co., Ltd.	2,448	2.44
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,381	2.37
Nihon Unisys Employees' Shareholding Society	1,983	1.97
ANA HOLDINGS INC.	1,794	1.78
J.P. Morgan Bank Luxembourg S.A. 380578	1,662	1.65

Note: Nihon Unisys, Ltd. retains 9,340,521 treasury shares (holding ratio: 8.51%).

Stock Price Information



External Evaluation

MSCI Japan ESG Select Leaders Index

A comprehensive ESG index made up of companies on the MSCI Japan IMI Top 500 Index selected for high ESG ratings. Nihon Unisys was selected in June 2018.

MSCI Japan Empowering Women (WIN) Select Index

An index of companies on the MSCI Japan IMI Top 500 Index with high gender diversity. Nihon Unisys was selected in December 2017.

Scope of the Report

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

Period of the Report

In this report, fiscal year (FY) refers to the period beginning April 1 and ending March 31 the following year. In principle, this report covers FY2017 (April 1, 2017 to March 31, 2018), with activities during past fiscal years and conditions following FY2017 also reported as necessary.

Use of Trademarks

All product names, trademarks and registered trademarks are the property of their respective owners. All company, product and service names used in this report that are not the property of the Nihon Unisys Group are for identification purposes only. Use of these names, trademarks and brands does not imply any form of endorsement or affiliation.

Notes Concerning Forward-Looking Statements

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

Reference Guidelines

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

Issued

- November 2018
  (Previous issue: The Japanese version of the previous *Integrated Report* was issued in October 2017, with the English version being issued in November 2017.)
- The next issue is scheduled for September 2019.

Nihon Unisys, Ltd.

1-1-1 Toyosu, Koto-ku, Tokyo 135-8560, Japan
Finance Department
https://www.unisys.co.jp/e/
TEL: 81-3-5546-4111