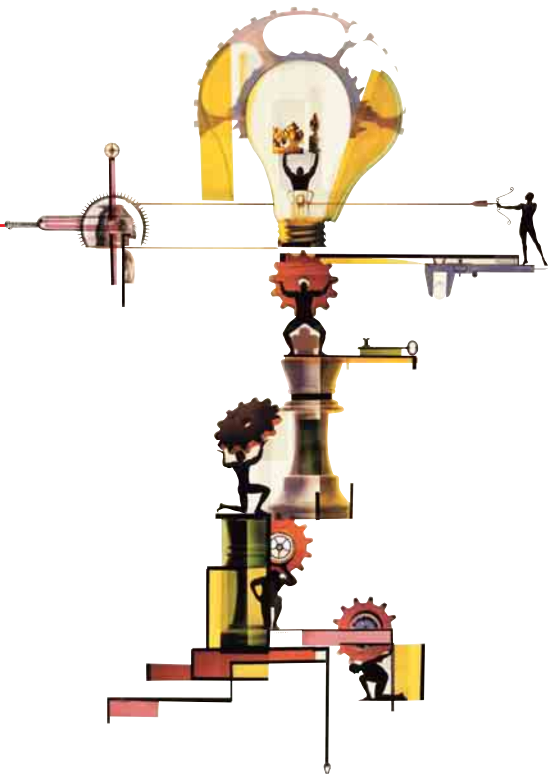
UNISYS

Nihon Unisys, Ltd.

ANNUAL REPORT 2004

For the year ended March 31, 2004



Profile

Nihon Unisys, Ltd. and its consolidated subsidiaries, aiming to be "the best IT partner for customers," provide customers with such services as consulting, system integration, support services and outsourcing services, as well as best solutions integrating state-of-the-art server platforms, networks, and software products.

Since its foundation in 1958, Nihon Unisys Group has been sustaining the competitiveness of Japanese companies by designing and constructing information systems. For more than four decades, we have acquired and polished technical skills and have accumulated experience and knowledge serving leading customers and their information systems in various industries, while leveraging the strong capabilities and expertise of alliance partners. It can be said that "leading & reliable" encapsulates the essence of Nihon Unisys Group today.

Japanese companies now view IT as the catalyst for reforming their business models. Information technology is extending its reach, growing beyond merely being a means for operational streamlining to become a strategic management tool essential for corporate wellbeing and survival.

Nihon Unisys Group aims to become a customer value creating company through IT support and services to sharpen and reinforce customers' competitiveness, financial position and corporate strengths.

Contents

Letter From the President & CEO

In the year under review, Japan's economy moved toward a gradual recovery, supported by rising exports, particularly to the U.S. and to Asian countries, a recovery in corporate earnings and capital investments, and a buoyant stock market. Expectations rose for a rebound in investment in information systems as some businesses resumed strategic investments, but a majority of companies remained guarded about their investment plans and the price of services continued to slide. As a result, we continued to face a demanding operating environment.

In these challenging circumstances, Nihon Unisys Group (the Group) leveraged its technological expertise and the trust it has won from clients to expand the customer base and diversify into new business areas, concentrating on upstream proposal capabilities and on new technology. Combining these initiatives with increased specialization, the higher productivity achieved by consolidating various functions within the Group and implementation of a range of cost-cutting initiatives, the Group reinforced its foundation for growth.

Consolidated business results for the year under review fell short of expectations mainly because of intensifying price competition and the cost of up-front investment. However, it was also a year in which we planted the seeds of new businesses as we acquired new customers and put into play our strengths in large-scale Windows® applications. There are encouraging signs that the Group is positioned for renewed growth.

The Group will concentrate on developing value-added businesses centering on consulting at the business modeling consultation, information security, outsourcing and other service businesses, while at the same time reinforcing the total capabilities of the Group to increase the level of specialization and enhance productivity, thus becoming even more competitive. We will complement these moves with further reform of our cost structure and final completion of our corporate reform program, thus quickly restoring operating performance.

I would like to extend my sincere appreciation to our shareholders and investors for their continued support and understanding.

June 2004

Seiichi Shimada
President & CEO

Review of Operations

Provide Consistent Services From Upstream to Downstream Through Group Reorganization

In the IT industry during the fiscal year ended March 31, 2004, growth in IT spending by companies declined for the third consecutive year. Prices for products and goods eroded further, as did prices for system services due to increased use of off-shore resources like China and India. However, in the coming years, the proliferation of ubiquitous network/digital electric appliances and the expansion of service offerings like outsourcing services are expected to spark a recovery and put the industry back on a growth track.

Under these circumstances, the Group focused and polished the following three capabilities under the Re-Enterprising2003 management policy as a measure for management reform in the fiscal year under review.

(a) Capability to make proposals to help customers resolve management issues

(b) System development capability

(c) System operation & support capability

For the first capability (a), we formed a division called the “Business Development Center,” which undertakes the business areas of management/IT consulting, planning, marketing and global business development. We have collected both internal and external resources so as to improve our skills in making proposals on how to make best use of IT in business operations while resolving issues that customers have. Also, we realigned business units by customer segment to enhance our communication capability with customers as well as our domain knowledge. Each business unit team and the Business Development Center are working together to maximize value creation for customers.

We installed an “Advisory Committee for Enterprise Transformation (ACTion),” inviting participation from the most prominent intellectuals at home and abroad, and started advocating winning scenarios for becoming a value creating company.

Regarding the second capability (b), we transferred and consolidated system service functions at Nihon Unisys Software Kaisha, Ltd. and the other group system service companies in order to improve our system development capability and productivity.

To enhance support functions for hardware and software in the third capability (c), we transferred and consolidated relevant functions at UNIADEX, Ltd. so as to reinforce ROI (Return on Investment)-improving supportability during operation and maintenance phases.

Through these efforts, we have gained some good results. For example, the number of upstream proposals and consulting activities increased. Our SI (Systems Integration) business with .NET expanded. And we attracted new customers with the high-performance Windows® server “ES7000.” Development also started on a new mission critical open transaction system for financial customers. New customers in the financial, manufacturing and distribution industries were successfully won and many new names were added in the business areas of broadband and outsourcing services.

In particular, in the areas of software and services, we made extra efforts to reinforce our services capabilities, introducing new products and services relating to broadband and ubiquitous computing systems like "Information Wharf®," software that handles data for ubiquitous devices, "IPLocks-DSAS," a remote database monitoring/control system, "IP NAVICASTER," an IP broadcasting system, and an auto-application system for a security patch for Windows.

Lower Income Despite Higher Net Sales

Due to the modest and slow recovery in IT spending by companies, time-consuming decision-making on investments and other factors, net sales for the fiscal year ended March 31, 2004 were ¥309,418 million on a consolidated basis (up 0.2% from the previous year). Operating income decreased to ¥3,166 million (down 64.2%), due to the increase of net periodic benefit costs and the occurrence of non-profitable system services projects. Net income was ¥3,922 million (down 53.0%). Dividend per share for the fiscal year under review was ¥7.50, including an interim dividend of ¥3.75, the same amount as in the previous fiscal year.

Promote the Re-Enterprising2004 Management Policy to Restructure Management

During the fiscal year ending March 31, 2005, although forecasts call for a steady rebound in capital investments in the IT industry, systems-related investments are likely to remain lackluster. Pressure to lower prices is also expected to mount during the year.

Under such circumstances, the Group is strongly promoting Re-Enterprising2004 to accomplish our management goal of "Re-Enterprising," as we strive to improve business results. Under Re-Enterprising2004, we aim to transform into a leading IT service company by polishing expertise and improving the productivity of each organization, while strengthening the Group's management base by improving its cost structure.

Main Points of Re-Enterprising2004

- *Strengthen cost competitiveness*
  Restructure costs from the ground up (service productivity of 10% or higher, shared services, etc.)
- *Create new businesses*
  Promote a strategy of greater selectivity and focus and an organized approach to new areas
- *Strengthen group management*
  Further restructure functions to maximize advantages, and strengthen sales chain formation and expertise
- *Independence-minded human resource development*
  Human resource training plans according to business profile, and early-stage selection/short-term training through the TOPGUN Program

Business Outline

Aiming to Become a Customer-Value-Creating Company

Nihon Unisys Group is Committed to Creating Value for its Customers Through IT Services.

Japanese companies now view IT as the catalyst for reforming their business models. IT is extending its reach, growing beyond merely being a means for operational streamlining to becoming a strategic management tool essential for corporate wellbeing and survival.

Nihon Unisys Group creates value for its customers by providing integrated IT solutions services that extend from the identification to the solution of corporate issues. We do this by domain knowledge that arcs across business endeavors: from finance and manufacturing to transportation and the public sector, a cross-industry know-how that we integrate with the total capabilities of the Group.

Consulting Services

The Group's consulting services assure seamless execution of all processes from formulation of business strategies to implementation of IT systems. The Group's expertise in IT supports companies in fully realizing their business strategies using IT, in a three-stage process that opens with "Business Innovation" proposals that recommend management reforms and business strategies. In the second stage, "Business Consulting," we elaborate on these proposals to develop business process flows and IT strategies. The third stage, "IT Consulting," sees the implementation of these plans.

The Group's strength lies in the ability to swiftly "Materialize" customers' management strategies and corporate vision through the smooth coordination and integration of all necessary processes, from upstream business consulting to downstream implementation and system integration.

IT Solutions

The Group provides a range of IT solutions in such areas as integration of information/data assets, improved customer relations, raising customer satisfaction, and speedier management—common issues that crop up in the course of running any business.

In domain-specific solutions, the Group is immersed in the development of second-generation main systems and branch office systems for Japan's financial sector, in document-management integration and electronic-application systems for government offices and agencies and municipal governments, and in providing optimized solutions for manufacturing, distribution and medical industries. We also provide support from a cross-industry perspective through provision of ERP, SRM, and CRM solutions. Enterprise resource planning systems are the core of the key information systems that provide a framework for BtoB transactions. Our supplier-relations management system offers strategic procurement and purchasing solutions and our customer relationship management system is an important means to raise profitability.

We resolve customers' business issues speedily and seamlessly by bringing together IT services that draw on skills we have cultivated in over 45 years as a system integrator, hardware offering outstanding reliability and optimized software, cutting-edge network technologies and security systems.

We have a dedicated team that is deeply involved in Microsoft® .NET technology applications. Microsoft .NET is drawing increased attention as an effective tool for interconnecting business processes that also offers superior cost performance.

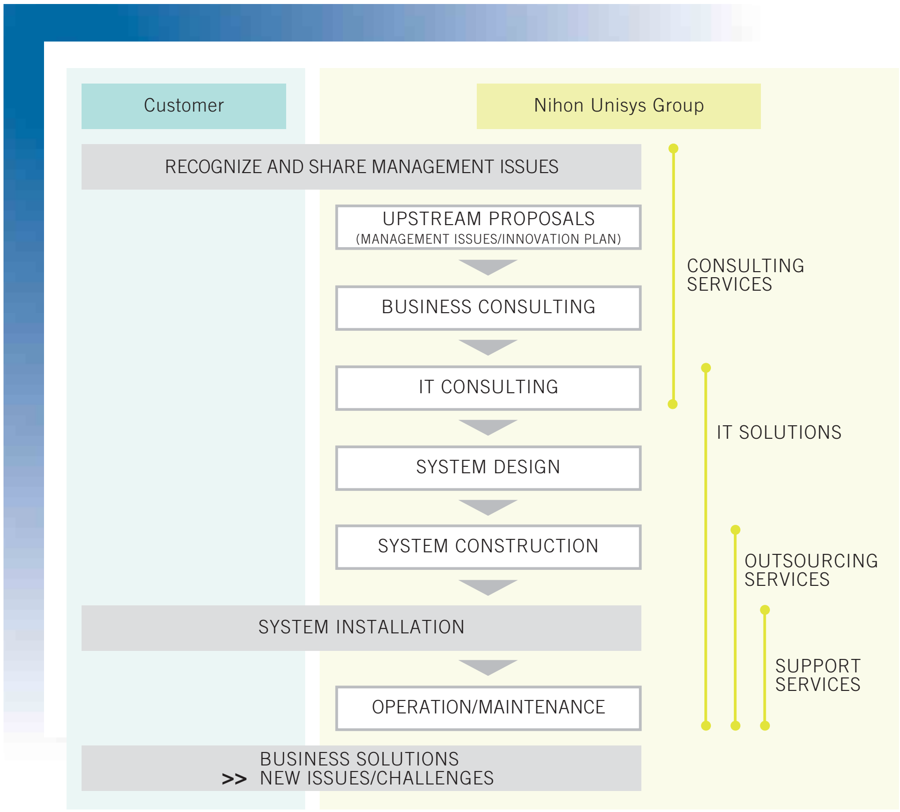
Outsourcing Services

Outsourcing was originally a means to improve the efficiency of a company's related businesses and indirect business domains, but now it is a strategic management tool. Tapping the specialized knowledge and know-how of the outsourcing service provider frees corporate resources for investment in core businesses and helps resolve management issues. The Group provides outsourcing services that enhance the efficiency of the entire business process, from core IT applications to related business processes, in a timely manner. The Group is uniquely positioned to realize these comprehensive capabilities through experience and know-how gained from deep involvement in developing core IT strategies, including main system construction and network development, maintenance and operation.

The Group also provides a variety of outsourcing services, from application management outsourcing (AMO) for the full life cycle of an application to high security outsourcing, for the development of information security systems.

Support Services

The Group provides an extensive range of support services for systems ranging from main systems to multi-vendor open systems. Our support services are backed by advanced technological skills and a complete support organization. Our support services are highly rated by customers, as is repeatedly evidenced by their top rankings in customer satisfaction surveys.



Case Studies

".NET" Technology Applications

e-Carté—A Strategic IT System for Nippon Travel Agency Co., Ltd.

The Group developed e-Carté, a .NET-based large-scale Windows® system, for Nippon Travel Agency Co., Ltd. (NTA). As one of Japan's major travel agencies, NTA is concerned with providing a high level of customer support. The customer and sales management system that we completed in April 2004 is designed to enhance the quality of customer service, expand customer relations management functions and re-engineer business processes at branch offices.

Adoption of .NET technology to build an open environment Windows system, one based on Web services for both customer and sales management, assured interoperability of the e-Carté system with NTA's legacy systems, including its finance and reservation management systems and e-commerce system. The goal was to develop an integrated environment whereby functions could be smoothly handled on a single system.

An additional benefit of e-Carté is that deployment of XML*-based applications enables communication and data sharing with travel-related IT systems at NTA's business partners. The system will assure fast, flexible BtoB interfacing well into the future with the IT systems of airlines and hotels, key partners for any travel agency

business. The .NET-based system can be developed and deployed quickly, and also has the inbuilt flexibility required for future system expansion. The final result is outstanding cost performance allied with the potential to develop new business models.

Partnership for Developing a Mission Critical System

The Group has past experience of building mission-critical systems on the large-scale Windows server "ES7000" in cooperation with Microsoft Corporation. Furthermore, Nihon Unisys provides seamless solutions, from upstream to downstream, using Microsoft® .NET technologies. This powerful partnership with Microsoft and an excellent track record underpins development of this main system in a Windows environment, the first of its kind in the travel industry.

**XML: Extensible Markup Language*
XML is an advanced version of the HyperText Markup Language (HTML), the authoring language used to create documents on the Web. XML allows seamless data exchange and interoperability in BtoB applications, such as e-commerce.

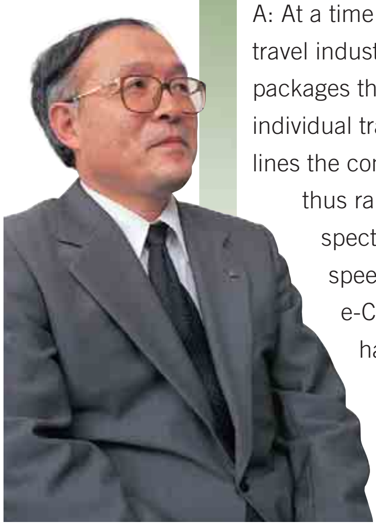
Interview with Mr. Tsuneo Kinoshita, an Executive Officer of NTA, on the development of the revolutionary e-Carté, large-scale customer management open environment system for the travel industry.

Q: What were your objectives and how did you go about development of the e-Carté system?

A: At a time of diversifying customer needs, the travel industry has to gear itself to handle travel packages that meticulously address the needs of individual travelers. The e-Carté system streamlines the complex process flow at branch offices, thus raising efficiency, and stores a broad spectrum of data in databases to offer speedy, precision service. At present, the e-Carté system is in the early phase and handles primary data for customer management. Plans call for adding a second function to cover marketing.

Q: What factors led to the choice of Nihon Unisys Group as the development partner for e-Carté?

A: Nihon Unisys has an outstanding track record in system development, proven reliability as a vendor, and the ability to develop and deliver solutions. These were the primary factors that influenced NTA in selecting Nihon Unisys Group as its partner. From the standpoint of solutions for an open environment system, NTA rated Nihon Unisys Group highly not just for its capabilities in the .NET technologies but its overall ability to provide total support. Nihon Unisys Group's technological prowess and solution providing capability gave us a clear competitive advantage, since the project involved development of a new open system with a unique design concept and interoperability with a legacy system designed primarily for the reservation service. Building a relationship of trust through close communication was the critical factor in the successful development of a complex system like this.



Mr. Tsuneo Kinoshita, *Executive Officer,*
Nippon Travel Agency Co., Ltd.

Close Up

Business Innovation Office

Strengthening Upstream Proposal Capabilities to Provide Customers with Cutting-edge Solutions to Management Issues

Business Innovation Office —A Step to Transforming Nihon Unisys Group into a Customer-Value-Creating Company

The Group established the Business Innovation Office (BIO) in June 2003 as a core division dedicated to enhancing our upstream sales and proposal development capabilities. The move was an essential element of our "Re-Enterprising" introduced in 2001, a management policy designed to transform the Group into a truly "Customer-Value-Creating Company."

BIO brings together professional consultants from outside management consultancies with proven track records and in-house consultants well experienced in defining IT system development proposals. As of April 2004, BIO had a staff of 50 and, going forward, anticipates boosting this number to 100 by the end of March 2005.

BIO's primary concerns are sales of the Group SI and services, as well as

Koichi Ikegami,
Chief Business Innovation Officer/
Senior Partner,
Business Innovation Office

sales assistance, to the top management of potential customers; to develop and implement management strategies and other upstream proposals to deliver solutions that support customers in resolving management issues; and developing and implementing strategic business proposals for customers. BIO's activities also include planning and holding seminars, publishing papers in various media, publishing books, and management of the Advisory Committee for Enterprise Transformation (ACTion), a venue where leaders from business and academia can debate issues that management will have to contend with in the future.

Importance of Cutting-edge Solutions to Address Management Issues

Today, management and IT are two sides of the same coin. It is next to impossible to envisage effective IT system development that does not embrace a full understanding of the management environment and the issues that confront management. Management's expectations of IT systems now go beyond mere operational streamlining to include strengthening competitiveness and the creation of new business models.

The scope of IT systems is also expanding. The focus was once on optimizing systems for a specific division, which soon gave way to optimized corporate systems. Present systems now go beyond the company to include interested third parties, such as customers and suppliers. As a result of this evolution, decision-making authority on IT spending has shifted upward, from the division manager level to top management, and it often involves the corporate planning division supporting top management.

BIO's strategy of providing cutting-edge solutions to resolve management issues fully embodies these considerations. Now, BIO makes proposals directly to top management and corporate planning divisions not only to division managers.

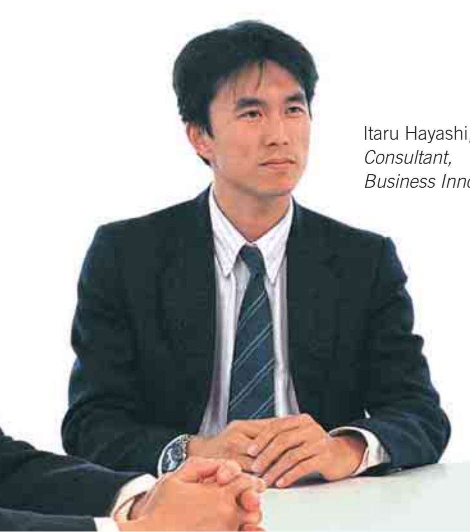
Today, customers expect solutions that go well beyond the simple use of IT, to include HR strategies and clear plans for organizational reform.

Seamless Service Embracing the Customers' Entire Value Chain

The Group has built a structure to deliver seamless services, from upstream consulting by BIO to system development and outsourcing. This positions the Group as a provider of the most advanced solutions for identifying and resolving management issues in all processes of a value chain, from upstream to downstream, all delivered through dialog, study and implementation in cooperation with the customer.

The competitive advantage that gives the Group the capability to provide total solutions is rooted in the extensive experience of our approximately 1,500 salespeople and 5,800 engineers in building mission-critical main systems, in our strategic decision to forge ahead as a pioneer in open systems, and in our exposure to the development and supply of cutting-edge technology solutions. Our customer base of more than 7,000 corporate clients in Japan and our outstanding reputation in system construction, maintenance and operation stand as testimony to our achievements.

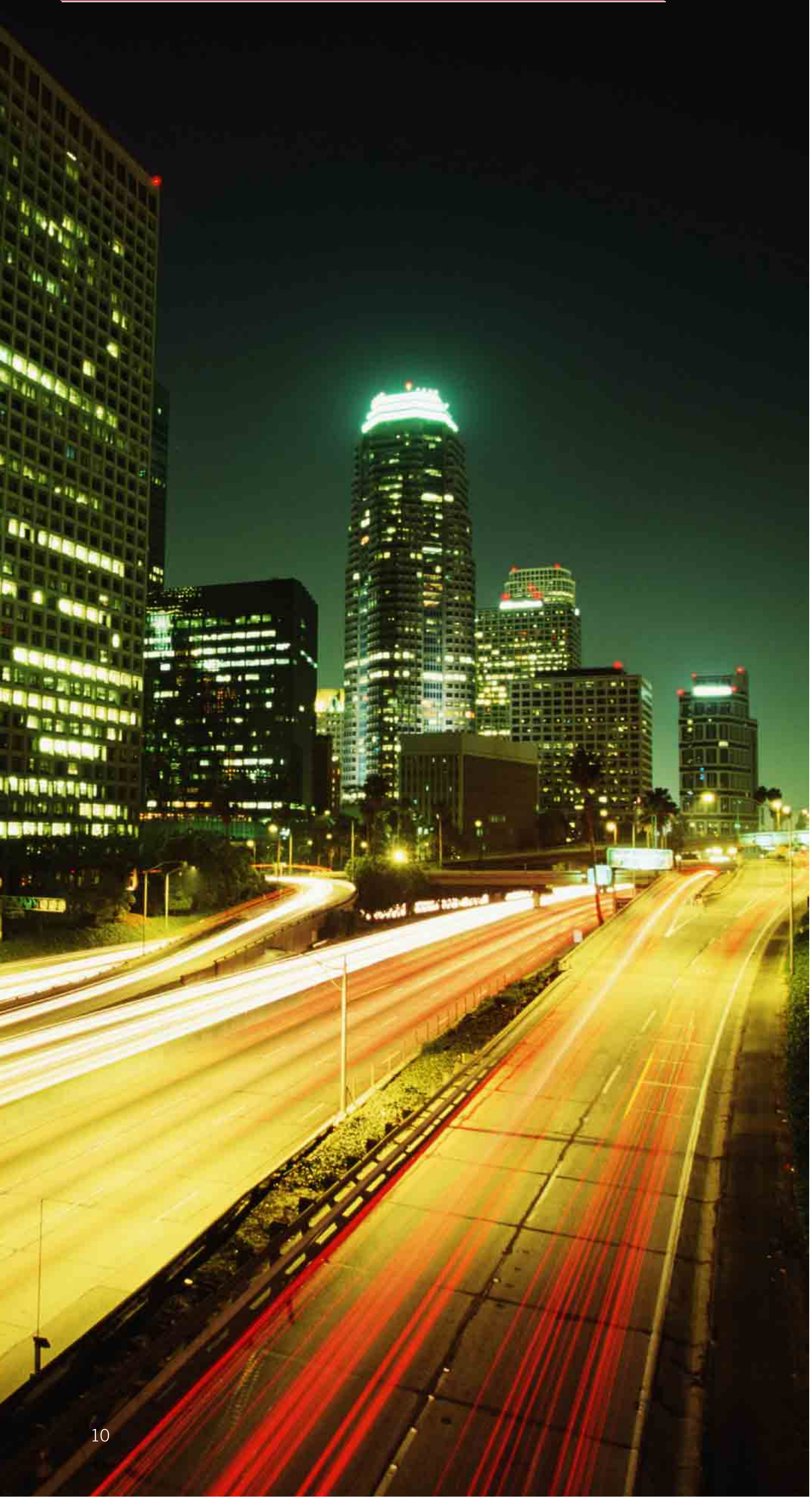
Nihon Unisys Group is committed to continuing reform that facilitates the provision of effective, efficient and highly advanced solutions that make us virtually a part of our customer companies. As we do this, we will become an essential and trusted partner for our customers.



Itaru Hayashi,
Consultant,
Business Innovation Office

Takakazu Imai,
Senior Partner,
Business Innovation Office

Topics in Fiscal Year Ended March 31, 2004



Large-scale Windows®-based Systems

The Group actively proposes and builds Windows-based mission critical main systems for enterprises, a market segment largely overlooked so far. In December 2003, The Hyakugo Bank, Ltd. announced the selection of the Group as its partner in the development of its next-generation main system. We will develop a large-scale Windows-based core business system for the bank, including a core banking system. Our outstanding record in developing large-scale Windows-based systems supported us in winning this first-ever order for a Windows-based main system from a bank. Needless to say, this is an unprecedented development in the banking sector. Microsoft's .NET Framework enables rapid systems development and ensures flexible scalability in the future. The Group's dedicated .NET team, the largest in the industry, backs up development with unrivaled technical expertise. Together with the Windows server "ES7000," ideal for large-scale open systems, these potent tools will allow the Group to continue to develop large-scale Windows-based systems.

Our large-scale Windows-based systems also act as main systems in major manufacturing companies, in service businesses and in administrative and other public agencies. The Group has demonstrated the excellence of its .NET-related system integration expertise and today .NET is synonymous with the Group. The Group has more than 700 engineers specializing in .NET technologies. Our ability to take on new technology challenges, combined with the trust we have built up with our customers, supports our customers' real time business on their IT platforms. The Group will continue to create value for customers by delivering .NET technologies that maximize customer benefits.

Unisys Enterprise Server ES7000 Series

Linux-based Enterprise Systems

The Group, building on its strong presence in mainframes, UNIX and Windows, is diversifying into support services for Linux, the open source operating system. We supported this move with the October 2003 establishment of the "Linux Business Center", which provides one-stop Linux support, from consulting and system integration (SI) to post-installation maintenance support service. Linux offers several advantages, including low initial deployment costs and superior security. Businesses have started to seriously consider Linux systems, even for mission-critical systems, on the strength of improved enterprise applications and the support now available. Administrative and other public offices, backed by the e-Japan project, are also considering Linux systems. Drawing on a wealth of experience in large-scale system development, one of its core strengths, and its extensive SI services across multiple hardware, the Group started marketing integrated Linux packaged software, including security and other solutions, hardware, installation and support services, in February 2004. The Group is committed to expanding its Linux business by supplying superior service and the solutions that users require.

Future Scenario: Evolving From a Winner to a Value Creator "Advisory Committee for Enterprise Transformation (ACTion)"

In October 2003, the Group established the "Advisory Committee for Enterprise Transformation (ACTion)," a venue for debating issues related to overcoming the range of concerns today's corporations face and transforming them into high-value-added enterprises. Businesses today find themselves in a very difficult operating environment and in many business sectors companies are being forced to restructure operations. IT has an important role to play as companies try to reform operations in a bid to develop new business models. ACTion has invited leaders from business and academia to join and holds regular meetings and talk sessions with members. The first meeting, in November 2003, proved an enormous success, as discussion ranged over two vital themes: Value Demanded by Customers and The New Phase of Global Competition.

The Group widely reports on the content of the debates and proposals made at the meetings through messages it distributes, and by developing scenarios for providing higher added value to its customers, allowing them to transform themselves and join the ranks of the value creators. Formulating IT strategies for realizing such scenarios strengthens the Group's capabilities in developing upstream proposals.

UNIADEX Actively Promoting IP Telephony Business

UNIADEX, Ltd., a wholly owned subsidiary of Nihon Unisys, specializing in support services and network construction, is now strengthening its position in IT management (MSP) services such as network monitoring and IT asset management, in addition to actively diversifying into IP telephony, storage networking and Linux-related businesses.

In IP telephony operations, the company is actively promoting the use of the IP telephone, a telecommunications system based on Internet protocols, in response to strong needs for curbing telecommunications costs at enterprises. The number of IP telephones installed by UNIADEX to date already tops 10,000. UNIADEX is also pioneering IP broadcasting systems for manufacturing facilities, having installed a system at Nippon Steel Corporation's Kimitsu Works. Plans call for developing IP broadcasting solutions for distribution businesses and for the public sector, in addition to schools, hospitals and other public facilities.

UNIADEX is also a leader in the development of IP telephony solutions for corporate call centers and is also expanding its solution menu that transcends a range of applications such as telephone directory systems. Leveraging the competitive advantage derived from its ability to provide one-stop solutions, UNIADEX expects to install more than 50,000 IP telephones in fiscal 2005.

Corporate Governance

Nihon Unisys Group is strengthening corporate governance as we put in place a more transparent and efficient management system.

Corporate Governance System

Nihon Unisys has adopted the corporate auditor system. The Board of Directors comprises 17 members and as a rule meets once a month. The Board has two functions: setting policies on important management issues and overseeing the execution of business by reviewing reports on major activities. The company has four auditors, including two full-time auditors. In accordance with the audit policies and audit schedule drawn up by the Board of Corporate Auditors, the auditors monitor the way in which the Board of Directors carries out its duties by attending its meetings, as well as other important management meetings, in addition to examining the company's operations and finances.

Following the reelection of directors and auditors at the Annual General Shareholders' Meeting held on June 25, 2004, the company now has four outside directors and three outside auditors. Furthermore, a proposal to shorten the term of office of directors from two years to one was approved by shareholders. This move further promotes establishment of a dynamic management system capable of responding flexibly to changes in the operating environment while clarifying the responsibilities of board members.

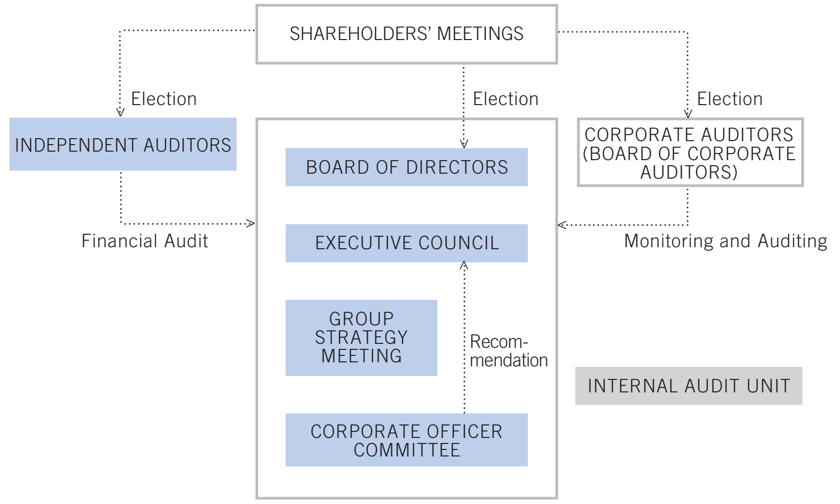
In order to reinforce the management structure, Nihon Unisys in July 2001 introduced the Corporate Officer System to separate management and business execution functions.

Moreover, we have established two committees, the Executive Council, composed of representative directors, to speed up decision-making and the Corporate Officer Committee, consisting of corporate officers to debate and advise the Executive Council on important corporate issues.

In addition to the above, the Group Strategy Meeting debates issues related to group strategies and makes decisions on important inter-company issues.

The Internal Audit Unit has the responsibility of conducting objective internal audits and reporting its findings to the top management.

Nihon Unisys Corporate Governance System



Directors, Auditors and Corporate Officers

(As of June 25, 2004)

Standing left to right: Keiji Shiratori, Gary L. Paul, Naoya Kashiwagi
Seated left to right: Alfred G. C. Tong, Seiichi Shimada, Shoichi Kajikawa

Directors

President & CEO
Seiichi Shimada

Executive Vice President
Alfred G. C. Tong

Representative Director & Executive Corporate Officer
Shoichi Kajikawa

Representative Director & Chief Financial Officer
Keiji Shiratori

Representative Director & Senior Financial Officer
Gary L. Paul

Representative Director & Senior Corporate Officer
Naoya Kashiwagi

Managing Directors & Senior Corporate Officers
Motonori Saeki
Masanori Matsumori
Fumio Horikawa
Yoshikazu Niwa
Alberto G. Lapuz

Managing Directors, Part-Time
Yasunori Fujita
Tsutomu Fukunaga
Tetsuya Matsuoka
Shinjiro Ogawa
Janet B. Wallace
Leo C. Daiuto

Auditors

Corporate Auditors
Makoto Iwanaga
Seimin Hirafuku

Corporate Auditors, Part-Time
Minoru Sadayasu
Katsuhisa Kiyozuka

Corporate Officers

Senior Corporate Officer
Koji Suzuki

Corporate Officers
Yoichi Harada
Toshihiko Kato
Akiyoshi Hiraoka
Masami Kobayashi
Ryuji Tatsuno
Shigeru Inoue
Hitoshi Tayama
Nozomu Ikawa
Minoru Tasaki
Masayuki Fujisawa
Kouzo Kiyokawa

Social Responsibilities

Nihon Unisys Group is determined to meet its commitments to "Corporate Social Responsibility." As a responsible corporate citizen, the company promotes socially responsible corporate activities. These include compliance activities to ensure adherence to laws and international regulations, a crisis management system to deal with major contingencies facing the business and the company, business activities sensitive to environmental stress and social service activities. Under our program to raise awareness of social issues, we will set up the "CSR Committee" in August 2004.

Environmental Conservation Activities

In April 2003, a number of group companies received ISO 14001 certification, and in March 2004 we expanded the scope to include our regional headquarters, branches and affiliates. In fiscal 2005, all the Group firms and sites—10 companies and 149 sites—plan to be ISO 14001 certified.

We also met fiscal 2004 targets for reducing paper usage, waste and electricity. Nihon Unisys has set 37 environmental protection targets. Our achievement rate in fiscal 2004 topped 80% for 36 of those targets. We have made efforts to develop and provide our Earth-friendly business models to customers through our IT services, under the philosophical concept of "What IT can do for the Earth." All our business activities include environmental management targets.

Nihon Unisys Group: Major Environmental Activities

1. Contributing to the environment via provision of systems
Providing IT services enables customers to boost logistics efficiency and optimize inventories, while e-Learning and teleconferencing help to raise operational efficiency. Together, these improvements reduce customers' impact on the natural environment.

2. Eco-office activities
In the offices where it conducts business, the Group is reducing its environmental footprint by lowering electricity usage and paper consumption, and enacting better waste separation and sorting.

3. Recycling of PCs and related parts
The Group collects, recycles and reuses post-consumer PCs and repairable PC parts.

4. Green procurement
The Group has established Green Procurement Guidelines for purchasing the products used to create environmentally friendly IT systems from suppliers.

5. Green purchasing
The Group purchases office supplies and furnishings that meet criteria stipulated in Japan's Law on Promoting Green Purchasing, designed to encourage the purchase of environmentally friendly products by the national government and other entities.

Compliance

We pay every attention to raising awareness of compliance and understanding of its importance. The “Nihon Unisys Group Code of Conduct” defines the basic principles that guide us in our business activities while the “Compliance Guidelines” provide essential advice on compliance. Group companies promote these standards and compliance programs through the work of a Chief Compliance Officer (CCO). At the Group level, the Group Compliance Committee, bringing together the CCOs of all group firms, promotes compliance programs and best practices throughout the Group.

Risk Management

The Group has established a Risk Management Committee to identify and respond to risks that are likely to impact on the Group’s business. The Committee is charged with formulating credible responses to any risks and with establishing risk management methodologies that enable a swift and precise response and limit damage should any risks materialize.

The Information Security Committee is responsible for issues related to information security for the Group. The Comprehensive Security Committee (the former Information Security Committee upgraded in fiscal 2005) is responsible for group-wide information security, mandated to promote measures based on the Group’s security policy.

Contributing to the Community

The Group contributes to a broad range of cultural and community activities: activities through our IT business, Mecenat/sports support activities (Mecenat is French for support of the arts and culture), regional community activities and voluntary participation of employees in community activities.

Violinist Narimichi Kawabata © Victor

Through our involvement in Mecenat, we have been supporting violinist Narimichi Kawabata in his work to promote music since 1998. As a part of the activity, we invite the physically challenged members of society to Kawabata’s concerts and our employees greet and support the guests at concert halls.

Our regional community activities include invitation of junior and senior high school students with interest in IT to visit our facilities.

Financial Highlights

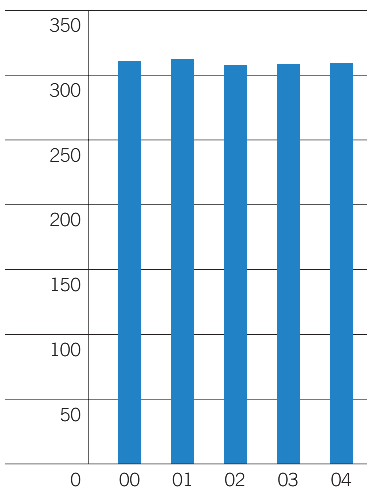
Nihon Unisys, Ltd.
Years Ended March 31, 2004, 2003 and 2002 (Consolidated Basis)

	Millions of Yen			Thousands of U.S. Dollars (Note)
	2004	2003	2002	2004
Net Sales	¥309,418	¥308,838	¥307,898	$2,927,600
Operating Income	3,166	8,836	4,686	29,956
Net Income (Loss)	3,922	8,347	(7,832)	37,109
Total Assets	226,691	223,293	257,608	2,144,867
	Yen			**U.S. Dollars (Note)**
Per Share Amounts:				
Net Income (Loss)	¥35.57	¥75.46	¥(71.64)	$0.34
Cash Dividends Applicable to the Year	7.50	7.50	7.50	0.07

(Note) Yen amounts have been translated into U.S. dollars, for convenience only, at ¥105.69=U.S.$1, which was the rate prevailing on March 31, 2004.

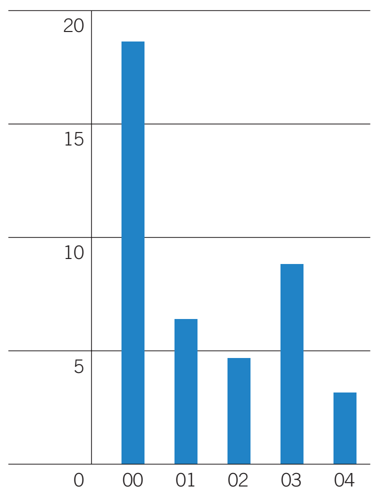
Net Sales

(Billions of Yen)



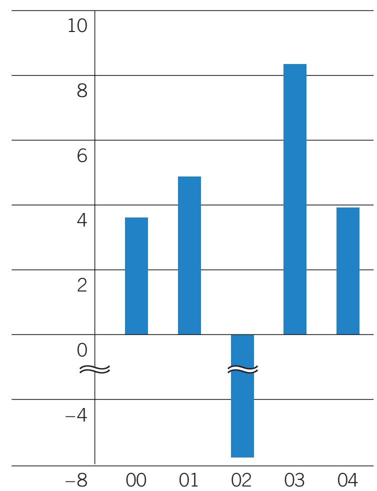
Operating Income

(Billions of Yen)



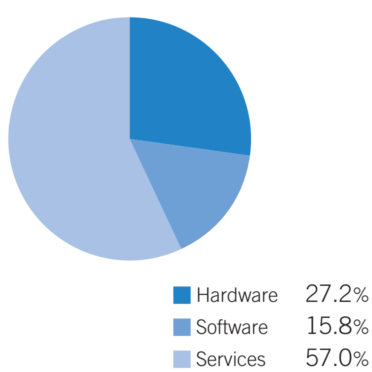
Net Income (Loss)

(Billions of Yen)

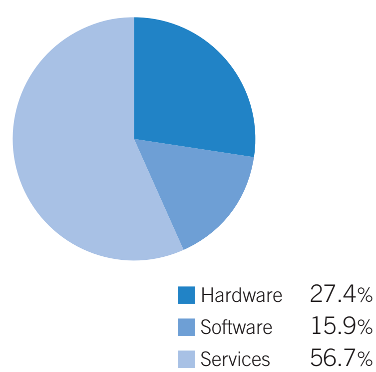


Composition of Net Sales

2003



2004



Results of Operations and Financial Condition

Net Sales

Due to modest and slow recovery of IT spending by companies and time-consuming decision-making on investments and other factors, net sales for the fiscal year ended March 31, 2004 were ¥309,418 million on a consolidated basis (up 0.2% from the previous year). In a breakdown of net sales by business category, the outsourcing business sustained steady growth. However, sales of system services and support services were sluggish, resulting in a ¥732 million decrease in sales in the services business to ¥175,337 million (down 0.4%). Sales of software were ¥49,200 million (up 0.8%), almost the same level as a year ago. Although computer rentals continued decreasing, sales of hardware increased by ¥934 million, to ¥84,881 million (up 1.1%), driven by increased sales of open products. Net sales at consolidated subsidiaries, including UNIADEX, Ltd., steadily expanded to ¥63,635 million (up 16.9%).

In a look at net sales according to major market trends, sales to financial institutions edged 2.2% lower and remained soft as major clients reined in capital expenditures. The manufacturing sector, however, saw sales increase a brisk 4.0%, as did the commercial and distribution sectors, where sales were a combined 4.3% higher.

Operating Income/Net Income

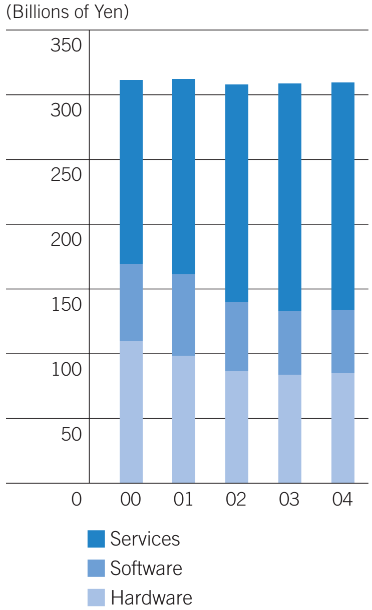
With regard to profit, profitability worsened due to decreased unit prices in the services business and the occurrence of non-profitable system services projects. Additional factors that pushed up costs included net periodic benefit costs, change of the social insurance taxation system from a monthly salary basis to an annual income basis, and proactive investments in R&D. As a result, operating income was ¥3,166 million (down 64.2%). We recorded an extraordinary gain from sales of property at the Company's former Akasaka headquarters. Meanwhile, we recognized an extraordinary loss for the amendment of the pension plan. As a result, net income was ¥3,922 million (down 53.0%).

Financial Condition

Total assets for the Nihon Unisys Group as of March 31, 2004 were ¥226,691 million, up ¥3,398 million, as prepaid pension costs led to an increase in investments and other assets. This outweighed reductions in inventories and the sale of fixed assets.

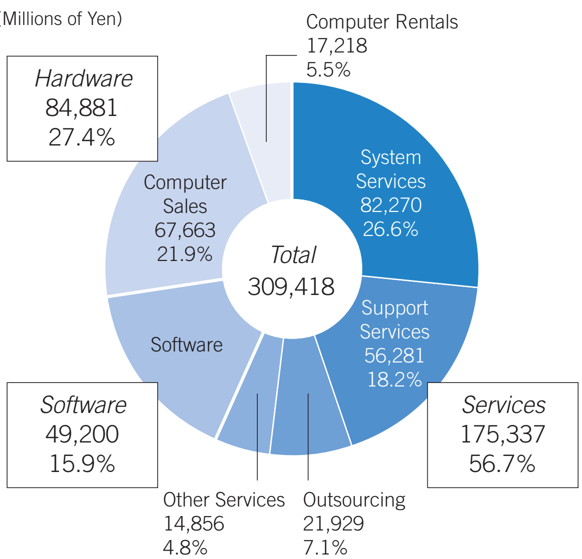
Net Sales

(Billions of Yen)



Composition of Net Sales

(Millions of Yen)



The Group continued efforts to lower interest-bearing debts. Total liabilities, however, increased ¥2,110 million year on year to ¥131,655 million, as the transfer of part of the Group's pension plan to a defined contribution plan, in line with pension reforms, led to the posting of accrued expenses. The balance of interest-bearing debts was ¥37,398 million, a contraction of ¥18,582 million compared to the previous fiscal year-end, helping the Group to gain a more sound financial position.

Shareholders' equity was ¥94,471 million, up ¥2,407 million year on year. This was attributable to a ¥3,057 million increase in retained earnings and an increase of ¥1,328 million in net unrealized gain on available-for-sale securities, offsetting ¥1,978 million for the purchase of treasury stocks accompanying adoption of the stock option program. The shareholders' equity ratio was 0.5 percentage point higher at 41.7%.

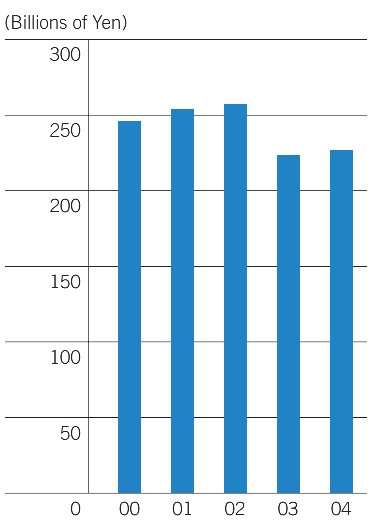
Cash Flows

The Group generated ¥17,729 million of free cash flows (up ¥22,325 million from a year earlier) due mainly to proceeds from the sale of property at its former Akasaka headquarters. The cash was primarily used for the repayment of interest-bearing debts. As a result, cash and cash equivalents, end of year were ¥26,909 million after adding the cash and cash equivalents of newly consolidated subsidiaries, beginning of year.

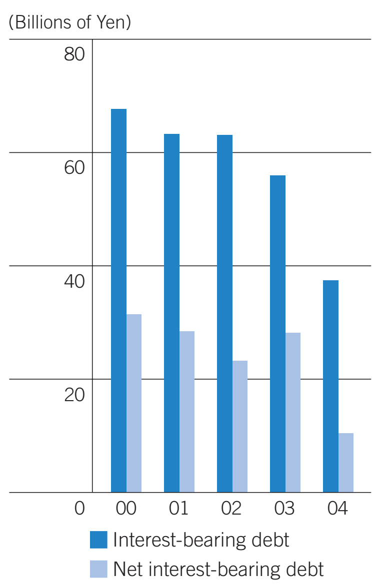
The Group generated ¥16,436 million of cash from operating activities (down ¥3,855 million). Income before income taxes and minority interests was ¥8,900 million (down ¥6,741 million). While the Group subtracted a gain of ¥11,945 million from sales of property, plant and equipment, depreciation and amortization decreased to ¥20,109 million (down ¥1,123 million).

The net cash provided by investing activities was ¥1,293 million (compared to ¥24,887 million in net cash used a year ago) thanks to proceeds of ¥14,719 million (up ¥14,522 million) from sales of property, plant and equipment such as the former Akasaka headquarters. Meanwhile, the Group used ¥10,591 million (down ¥2,462 million) of cash for purchases of intangible fixed assets such as software for sale or for the outsourcing business and ¥8,954 million (up ¥8,278 million) for purchases of property, plant and equipment such as computers for sale.

Total Assets

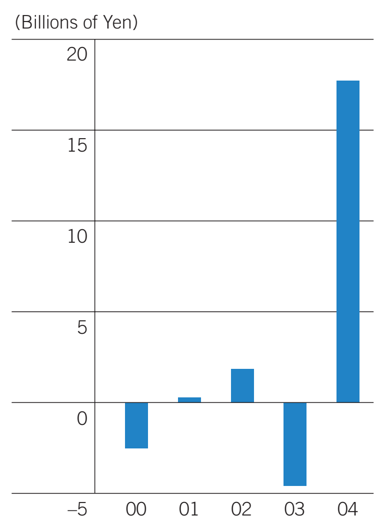


Interest-bearing Debt (Net Interest-bearing Debt)



(Note) Net interest-bearing debt= Interest-bearing debt–Cash and cash equivalents

Free Cash Flows



The net cash used in financing activities was ¥18,734 million (up ¥11,243 million) as a result of efforts to reduce interest-bearing debts such as short-term borrowings (¥5,411 million), long-term loans payable (¥3,544 million), and commercial paper (¥6,000 million). The Group also used ¥1,978 million of cash for purchases of treasury stocks.

Working Capital Requirements

Nihon Unisys Group requires working capital for the following: fees paid to outsourcers for Group system and support services, purchases of computers and software for sale, purchases of computers and software for lease and outsourcing, production expenses, and operating expenses such as selling, general and administrative expenses. Personnel, sales support and R&D costs are the main components of operating expenses. The bulk of sales support and R&D costs is tied to personnel expenses for system engineers vital to these areas. Our policy is to utilize operating cash flows to cover these working capital requirements.

Business Risks

The following is a summary of significant risk factors, those discussed in the financial section and the section on the description of business, that could have a material impact on investment decisions.

(1) Nihon Unisys Group, as the sole authorized distributor in Japan of Unisys Corporation, imports and markets computers and other IT equipment manufactured by Unisys Corporation of the United States. As a result, our foreign currency-denominated purchases were ¥18,572 million in the fiscal year ended March 2004, which exposes us to risk from fluctuations in foreign currency exchange. The company uses forward foreign exchange contracts to hedge exposure to exchange rate fluctuations in foreign-currency-denominated purchases.

(2) Nihon Unisys Group develops a range of custom-made computer systems for its customers. Delivery lead times are getting shorter and projects are becoming larger and more complex amid intensifying competition. In these circumstances, the Group may have to bear heavy debugging costs, should problems emerge during system development, resulting in cost overruns. While the Group employs strict project control methodologies, cost overruns in certain projects affected our results of operations in the consolidated fiscal year under review. To prevent any further cost overruns, the Group has reinforced its project management system, instituting mandatory project reviews from the early stages of its projects—from the estimation and project proposal stages—in addition to introducing measures to raise cost awareness and stepping up training of project managers. Nihon Unisys Group also sets aside contingency reserves for projects likely to have a significant impact on business results.

(3) Nihon Unisys is a Mitsui & Co., Ltd. and Unisys Corporation affiliate, with each holding 28.50% of total voting rights.
Nihon Unisys is the sole authorized distributor of computers and other IT equipment manufactured by Unisys Corporation. The company imports, markets and services computers and other equipment made by Unisys Corporation. The company has rights to Unisys Corporation's trademarks and also receives technical information and support from the latter. Mitsui & Co., Ltd. acts as the purchasing agent on behalf of the company for the import of Unisys Corporation products handled by Nihon Unisys.

Consolidated Balance Sheets

Nihon Unisys, Ltd.
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2004	2003	2004
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 26,909	¥ 27,831	$ 254,603
Accounts receivable-trade (Note 15)	83,680	79,208	791,749
Inventories (Note 5)	10,973	15,617	103,823
Deferred tax assets (Note 7)	9,494	8,379	89,829
Other current assets	7,004	8,417	66,269
Allowance for doubtful accounts	(83)	(96)	(785)
Total current assets	137,977	139,356	1,305,488
Property, Plant and Equipment:			
Land	903	1,672	8,544
Buildings and structures	14,288	18,699	135,188
Machinery and equipment	124,149	137,737	1,174,652
Total	139,340	158,108	1,318,384
Accumulated depreciation	(109,873)	(120,331)	(1,039,578)
Net property, plant and equipment	29,467	37,777	278,806
Investments and Other Assets:			
Investment securities (Note 4)	8,209	7,056	77,671
Investments in unconsolidated subsidiaries and associated companies	302	363	2,857
Software	16,359	12,434	154,783
Lease deposits	9,770	12,449	92,440
Prepaid pension costs (Note 8)	13,551		128,215
Deferred tax assets (Note 7)	9,007	12,102	85,221
Other assets	2,049	1,756	19,386
Total investments and other assets	59,247	46,160	560,573
Total	¥ 226,691	¥ 223,293	$ 2,144,867

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 1,140	¥ 6,551	$ 10,786
Current portion of long-term debt (Note 6)	5,829	6,288	55,152
Accounts payable-trade (Note 15)	42,919	40,460	406,084
Accounts payable-other (Note 15)	9,662	4,119	91,418
Commercial paper		6,000	
Income taxes payable (Note 7)	2,874	654	27,193
Accrued expenses	13,565	12,528	128,347
Other current liabilities	13,931	14,662	131,810
Total current liabilities	89,920	91,262	850,790
Long-term Liabilities:			
Long-term debt (Note 6)	26,554	29,833	251,244
Long-term accounts payable-other (Note 15)	9,943	1,631	94,077
Liability for retirement benefits (Note 8)	2,533	4,070	23,966
Deferred tax liabilities (Note 7)	369		3,491
Other long-term liabilities	2,336	2,749	22,103
Total long-term liabilities	41,735	38,283	394,881
Minority Interests	565	1,684	5,346
Commitments and Contingent Liabilities (Notes 11, 12, and 14)			
Shareholders' Equity (Notes 13 and 16.a)*:*			
Common stock, authorized, 300,000,000 shares; issued 109,663,524 shares	5,483	5,483	51,878
Capital surplus	15,282	15,282	144,593
Retained earnings	73,543	70,486	695,837
Net unrealized gain on available-for-sale securities	2,143	815	20,276
Total	96,451	92,066	912,584
Treasury stock-at cost 2,504,107 shares in 2004 and 3,528 shares in 2003	(1,980)	(2)	(18,734)
Total shareholders' equity	94,471	92,064	893,850
Total	¥226,691	¥223,293	$2,144,867

Consolidated Statements of Income

Nihon Unisys, Ltd.
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Net Sales (Note 15)	¥309,418	¥308,838	$2,927,600
Cost of Sales (Note 15)	234,937	230,165	2,222,888
Gross Profit	74,481	78,673	704,712
Selling, General and Administrative Expenses (Note 9)	71,315	69,837	674,756
Operating Income	3,166	8,836	29,956
Other Income (Expenses):			
Interest and dividend income	153	156	1,448
Interest expense	(575)	(883)	(5,441)
Income from building rental	435	544	4,116
Gain on sales of securities (Note 4)	1,262	20	11,941
Foreign exchange gain	69	70	653
Gain on exemption from future pension obligation of the governmental program (Note 8)		7,798	
Gain on sales of property, plant and equipment	11,945	2	113,019
Legal settlement	(153)		(1,448)
Loss on revision of the retirement benefit scheme (Note 8)	(5,480)		(51,850)
Restructuring charges (Note 10)	(1,753)		(16,586)
Other-net	(169)	(902)	(1,599)
Other income-net	5,734	6,805	54,253
Income before Income Taxes and Minority Interests	8,900	15,641	84,209
Income Taxes (Note 7):			
Current	3,317	1,097	31,384
Deferred	1,495	5,982	14,145
Total Income Taxes	4,812	7,079	45,529
Minority Interests in Net Income	166	215	1,571
Net Income	¥ 3,922	¥ 8,347	$ 37,109

Per Share Amounts (Note 2.n):	Yen		U.S. Dollars
Net income	¥35.57	¥75.46	$0.34
Cash dividends applicable to the year	7.50	7.50	0.07

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nihon Unisys, Ltd.
Years Ended March 31, 2004 and 2003

	Thousands	Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Treasury Stock
Balance, April 1, 2002	109,663	¥5,483	¥15,282	¥63,006	¥1,292	¥ (0)
Net income				8,347		
Cash dividends, ¥7.5 per share				(822)		
Bonuses to directors				(25)		
Decrease of retained earnings for newly consolidated subsidiaries				(20)		
Net decrease in unrealized gain on available-for-sale securities					(477)	
Increase in treasury stock	(3)					(2)
Balance, March 31, 2003	109,660	5,483	15,282	70,486	815	(2)
Net income				3,922		
Cash dividends, ¥7.5 per share				(816)		
Bonuses to directors				(72)		
Increase of retained earnings for newly consolidated subsidiaries				23		
Net increase in unrealized gain on available-for-sale securities					1,328	
Increase in treasury stock	(2,501)					(1,978)
Balance, March 31, 2004	107,159	¥5,483	¥15,282	¥73,543	¥2,143	¥(1,980)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Treasury Stock
Balance, March 31, 2003	$51,878	$144,593	$666,913	$ 7,711	$ (19)
Net income			37,109		
Cash dividends, $0.07 per share			(7,721)		
Bonuses to directors			(681)		
Increase of retained earnings for newly consolidated subsidiaries			217		
Net increase in unrealized gain on available-for-sale securities				12,565	
Increase in treasury stock					(18,715)
Balance, March 31, 2004	$51,878	$144,593	$695,837	$20,276	$(18,734)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd.
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Operating Activities:			
Income before income taxes and minority interests	¥ 8,900	¥ 15,641	$ 84,209
Adjustments for:			
Income taxes paid	(1,140)	(3,881)	(10,786)
Depreciation and amortization	20,109	21,232	190,264
Special retirement expense paid		(16,531)	
Gain on sales of property, plant and equipment	(11,945)	(2)	(113,019)
Gain on sales of securities	(1,262)	(20)	(11,941)
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
(Increase) decrease in accounts receivable-trade	(4,145)	6,176	(39,219)
Decrease in inventories	4,655	6,392	44,044
Decrease (increase) in interest and dividend receivable	0	(35)	0
Increase (decrease) in accounts payable-trade	2,471	(656)	23,380
Decrease in interest payable	(35)	(37)	(331)
Decrease in liability for retirement benefits	(1,602)	(11,066)	(15,158)
Other-net	430	3,078	4,068
Total adjustments	7,536	4,650	71,302
Net cash provided by operating activities	16,436	20,291	155,511
Investing Activities:			
Proceeds from sales of property, plant and equipment	14,719	197	139,266
Payments for purchases of property, plant and equipment	(8,954)	(17,232)	(84,719)
Proceeds from sales of software	4,509		42,662
Payments for purchases of software	(10,431)	(8,130)	(98,694)
Proceeds from sales of investment securities	2,332	448	22,065
Payments for purchases of investment securities	(493)	(240)	(4,665)
Net (increase) decrease in other assets	(389)	70	(3,681)
Net cash provided by (used in) investing activities	1,293	(24,887)	12,234
Financing Activities:			
Net decrease in short-term borrowings	(5,411)	(3,618)	(51,197)
Proceeds from long-term debt	2,550	1,420	24,127
Repayments of long-term debt	(6,094)	(8,210)	(57,659)
Proceeds from other borrowings		233	
Repayments of other borrowings	(194)	(484)	(1,835)
Net (decrease) increase in commercial paper	(6,000)	6,000	(56,770)
Redemption of bonds		(10,000)	
Proceeds from issuance of bonds		8,000	
Payments for purchases of treasury stock	(1,978)	(2)	(18,715)
Cash dividends	(816)	(822)	(7,721)
Cash dividends to minority interests	(791)	(8)	(7,484)
Net cash used in financing activities	(18,734)	(7,491)	(177,254)
Net Decrease in Cash and Cash Equivalents	(1,005)	(12,087)	(9,509)
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	83	65	785
Cash and Cash Equivalents, Beginning of Year	27,831	39,853	263,327
Cash and Cash Equivalents, End of Year	¥ 26,909	¥ 27,831	$ 254,603

See notes to consolidated financial statements.

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 Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of 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 to the 2003 consolidated financial statements to conform to the classifications used in 2004.

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 translation 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 ¥105.69 to $1, the rate of exchange at March 31, 2004. 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, 2004 include the accounts of the Company and its 17 significant (16 for the year ended March 31, 2003) subsidiaries (together, the "Group").

Under the control concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated.

Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Investments in the remaining 2 unconsolidated subsidiaries and 5 associated companies (3 subsidiaries and 6 associated companies for the year ended March 31, 2003) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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 is being amortized using the straight-line method over a period of 5 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 eliminated.

(b) *Cash equivalents*—Cash equivalents are short-term investments which mature or become due within three months of the date of acquisition, that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

(c) *Inventories*—Computers for sale and other merchandise and supplies are generally stated at cost using the moving-average method.

(d) *Investment securities*—Investment securities are classified and accounted for, depending on management's intent. All securities are classified as available-for-sale 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 shareholders' equity.

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

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

(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 on evaluation of potential losses in the receivables outstanding.

(f) *Property, plant and equipment*—Property, plant and equipment are stated at cost.

Depreciation of rental computers included in machinery and equipment is computed by the declining-balance method over 5 years with no residual value.

Depreciation of buildings and structures is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. Depreciation of other machinery and equipment is computed by the declining-balance method.

Useful lives range from 6 to 50 years for buildings and structures and from 2 to 20 years for machinery and equipment.

(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 3 years.

Software for internal use is amortized by the straight-line method over the estimated useful lives, generally 5 years.

(h) *Retirement benefits*—The Company and certain subsidiaries have a contributory pension plan covering substantially all of their employees. Other consolidated subsidiaries have non-contributory pension plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation determined as of April 1, 2000, is being amortized over 10 years.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service period (10 years) starting in the following year. Prior service cost is amortized in expenses using the straight-line method over the average of the estimated remaining service period (10 years).

Effective March 1, 1994, the Company introduced as part of its human resources program, the New Career Support Program (the "NCSP"), to assist certain employees in retiring from the Company before their mandatory retirement age. The Company provides for the estimated future payments to be paid under the NCSP, and includes this amount as a liability for retirement benefits.

Retirement benefits to directors and corporate auditors are provided at the amount that would be required if all directors and corporate auditors retired at the balance sheet date, and includes this amount as a liability for retirement benefits.

(i) *Income taxes*—The provision for income taxes is computed based on the pretax income included in the consolidated statements 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.

(j) *Leases*—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

(k) *Appropriation of retained earnings*—Appropriations of retained earnings are reflected in the financial statements the year following shareholders’ approval.

(l) *Foreign currency transactions*—All 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 consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

(m) *Derivatives and hedge accounting*—The Company uses 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 does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in 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 of short-term debt. The interest 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.

(n) *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 into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants.

Diluted net income per share is not disclosed because it is anti-dilutive.

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

(o) *New accounting pronouncements*—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be 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.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash and time deposits	¥26,952	¥27,879	$255,010
Less-time deposits with maturities over 3 months	(43)	(48)	(407)
Total	¥26,909	¥27,831	$254,603

4. Investment securities

Investment securities as of March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Non-current			
Equity securities	¥8,209	¥7,036	$77,671
Debt securities		20	
Total	¥8,209	¥7,056	$77,671

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,310	¥3,654	¥ 55	¥6,909
March 31, 2003				
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,327	¥1,761	¥376	¥5,712
Debt securities	20	0		20
Total	¥4,347	¥1,761	¥376	¥5,732

	Thousands of U.S. Dollars			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$31,318	$34,573	$520	$65,371

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale:			
Equity securities	¥1,300	¥1,324	$12,300

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥2,332 million ($22,065 thousand) and ¥277 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥1,288 million ($12,187 thousand) and ¥26 million ($246 thousand), respectively, for the year ended March 31, 2004 and ¥38 million and ¥20 million, respectively, for the year ended March 31, 2003.

5. Inventories

Inventories at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Work in process	¥ 2,877	¥ 3,295	$ 27,221
Merchandise and finished products	7,954	12,171	75,258
Supplies	142	151	1,344
Total	¥10,973	¥15,617	$103,823

6. Short-term borrowings and long-term debt

Short-term bank loans of ¥1,140 million ($10,786 thousand) and ¥6,551 million bore interest at an approximate annual average rate of 1.36% and 0.68% at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
0.74% unsecured bonds due 2008	¥ 8,000	¥ 8,000	$ 75,693
Unsecured loans from banks and insurance companies, 0.67% to 2.51%, due serially to 2009	23,550	27,094	222,821
Other borrowings	833	1,027	7,882
Total	32,383	36,121	306,396
Less current portion	(5,829)	(6,288)	(55,152)
Net long-term debt	¥26,554	¥29,833	$251,244

The annual maturities of long-term debt at March 31, 2004 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 5,829	$ 55,152
2006	8,626	81,616
2007	1,311	12,404
2008	12,217	115,593
2009	4,400	41,631
Total	¥32,383	$306,396

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

7. Income taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Current assets:			
Accrued bonuses	¥ 3,761	¥ 3,504	$ 35,585
Accounts payable-other (amount transferred to the defined contribution plan)	2,301		21,771
Inventory valuation	1,314	1,287	12,433
Accrued expenses	888		8,402
Allowance for maintenance service	459	398	4,343
Accrued business tax	364	165	3,444
Tax loss carryforwards	200	2,572	1,892
Others	207	453	1,959
Total	¥ 9,494	¥ 8,379	$ 89,829
Non-current assets:			
Depreciation expenses	¥ 8,439	¥ 8,365	$ 79,847
Tax loss carryforwards	4,434	3,885	41,953
Long term accounts payable-other (amount transferred to the defined contribution plan)	3,864		36,560
Liability for retirement benefits	818	1,569	7,739
Amortization expenses of deferred assets	437	1,653	4,135
Others	1,245	1,187	11,779
Total	19,237	16,659	182,013
Less valuation allowance	(149)	(124)	(1,409)
Total	¥ 19,088	¥16,535	$180,604
Deferred tax liabilities:			
Prepaid pension costs	(5,515)		(52,181)
Reserve for special taxation measures law in Japan	(3,146)	(3,469)	(29,766)
Net unrealized gain on available-for-sale securities	(1,471)	(594)	(13,918)
Others	(318)	(370)	(3,009)
Total	(10,450)	(4,433)	(98,874)
Net deferred tax assets	¥ 8,638	¥12,102	$ 81,730

Net deferred tax assets at March 31, 2004 were included in the Consolidated Balance Sheets as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets-non-current	¥9,007	$85,221
Deferred tax liabilities-non-current	(369)	(3,491)
Net deferred tax assets	¥8,638	$81,730

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004 and 2003, was as follows:

	2004	2003
Normal effective statutory tax rate	42%	42%
Expenses not deductible for income tax purposes	4	2
Amount of per-capita local tax	1	0
Effect of tax rate change		1
Difference of tax rate change	6	
Other-net	1	(0)
Actual effective tax rate	54%	45%

At March 31, 2004 the Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥11,386 million ($107,730 thousand) which are available to be offset against taxable income in future years. These tax loss carry forwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 16	$ 151
2010	11,186	105,838
2011	184	1,741
Total	¥11,386	$107,730

8. Retirement benefits

The Group has severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on June 25, 2002. As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥7,798 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

Effective April 1, 2004, the Company and a certain subsidiary altered the pension plan to a point system, and implemented a defined contribution pension plan and an optional plan of advances of severance indemnities by which a portion (approximately 30%) of the former defined benefit pension plan was terminated, and a cash balance plan to which the rest of the former defined benefit pension plan was altered. The Company applied accounting treatments specified in the guidance issued by the Accounting Standards Board of Japan. The effect of this transfer was to decrease income before income taxes and minority interests by ¥5,480 million ($51,850 thousand) and was recorded as a loss on revision of the retirement benefit scheme in the income statement for the year ended March 31, 2004.

The liability for retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥101,353	¥119,556	$ 958,965
Fair value of plan assets	(80,253)	(48,948)	(759,325)
Unrecognized transitional obligation	(12,538)	(16,813)	(118,630)
Unrecognized prior service cost	12,001	(21)	113,549
Unrecognized actuarial loss	(32,039)	(50,372)	(303,141)
Prepaid pension costs	13,551		128,215
Net liability	¥ 2,075	¥ 3,402	$ 19,633

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 4,157	¥ 4,451	$ 39,332
Interest cost	2,966	3,262	28,063
Expected return on plan assets	(1,894)	(2,577)	(17,920)
Amortization of transitional obligation	2,425	2,709	22,944
Amortization of prior service cost	7	(63)	66
Recognized actuarial loss	5,491	3,032	51,954
Loss on pension plan amendments	5,480		51,850
Gain on exemption from future pension obligation of the governmental program		(7,798)	
Net periodic benefit costs	¥18,632	¥ 3,016	$176,289

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	10 years	10 years

The liability for retirement benefits at March 31, 2004 and 2003 included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Allowance for the NCSP	¥ 287	¥ 486	$ 2,715
Current portion	(135)	(199)	(1,277)
Net periodic benefit costs	152	287	1,438
Allowance for directors' and corporate auditors' retirement benefits	306	381	2,895
Total	¥ 458	¥ 668	$ 4,333

Amounts payable to directors and corporate auditors are subject to the approval of the shareholders.

Total charges relating to allowance for directors' and corporate auditors' retirement benefits and allowance for the NCSP for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Allowance for directors and corporate auditors	¥ 119	¥148	$ 1,126
One-time payments to employees participating in the NCSP	1,040	512	9,840
Total	¥1,159	¥660	$10,966

9. Research and development costs

Research and development costs charged to income were ¥6,915 million ($65,427 thousand) and ¥6,610 million for the years ended March 31, 2004 and 2003, respectively.

10. Restructuring charges

Restructuring charges reported as an extraordinary loss in the accompanying consolidated statements of income consist of a ¥949 million ($8,979 thousand) loss on disposal of inventories and other assets due to withdrawal from the secondhand market carried out in the restructuring as a part of "Re-enterprising," the company's management policy, and ¥804 million ($7,607 thousand) nonrecurring depreciation of software due to a review of business strategies in engineering workstations.

11. Leases

The Group leases certain machinery, computer equipment, software, office space and other assets.

Total rental expenses for the years ended March 31, 2004 and 2003 were ¥10,315 million ($97,597 thousand) and ¥9,685 million, respectively, including ¥2,105 million ($19,917 thousand) and ¥689 million of lease payments under finance leases agreements that do not transfer ownership of the leased property to the lessee.

Income from equipment leases for the year ended March 31, 2003 was ¥164 million.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003, was as follows:

[For Lessee]

	Millions of Yen					
			2004			2003
	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total
Acquisition cost	¥3,462	¥8,964	¥12,426	¥1,570	¥4,873	¥6,443
Accumulated depreciation	1,075	2,027	3,102	252	815	1,067
Net leased property	¥2,387	¥6,937	¥ 9,324	¥1,318	¥4,058	¥5,376

	Thousands of U.S. Dollars		
			2004
	Machinery and Equipment	Software	Total
Acquisition cost	$32,756	$84,814	$117,570
Accumulated depreciation	10,171	19,179	29,350
Net leased property	$22,585	$65,635	$ 88,220

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥2,579	¥1,207	$24,401
Due after one year	6,845	4,218	64,765
Total	¥9,424	¥5,425	$89,166

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Depreciation expense	¥2,016	¥648	$19,075
Interest expense	141	65	1,334
Total	¥2,157	¥713	$20,409

Depreciation expense and interest expense, which are not reflected in the accompanying statements of operations, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 4,386	$ 41,498
Due after one year	12,063	114,136
Total	¥16,449	$155,634

12. Commitments and contingent liabilities

Contingent liabilities at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans to employees for housing	¥4,927	$46,617

13. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount of retained earnings available for dividends under the Code was ¥64,593 million ($611,155 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

At the general shareholders' meeting held on June 26, 2003, the Company's shareholders approved the following stock option plan. The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 713,100 shares of the Company's common stock in the period from July 1, 2005 to June 30, 2010. The option will be exercisable at ¥962. In the event that the shares are split or consolidated, the exercise price shall be adjusted in accordance with the following formula. Decimal fractions less than one share shall be rounded up.

$$\text{Adjusted exercise price} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

14. Derivatives

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies. The Company also enters into interest rate swap contracts to manage its interest rate exposures on short-term debt. Subsidiaries do not enter into derivative transactions.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Company's 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 does not anticipate any losses arising from credit risk.

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

All the derivative transactions are excluded from disclosure of market value information as they qualify for hedge accounting.

15. Related party transactions

Transactions with Unisys Corporation and Mitsui & Co., Ltd., major shareholders of the Company, for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Sales:			
Unisys Corporation	¥ 30	¥ 400	$ 284
Mitsui & Co., Ltd.	1,695	807	16,037
Total	¥ 1,725	¥ 1,207	$ 16,321
Purchases:			
Unisys Corporation	¥16,429	¥17,683	$155,445
Mitsui & Co., Ltd.	10,904	14,615	103,170
Total	¥27,333	¥32,298	$258,615

Transaction balances due to or from Unisys Corporation and Mitsui & Co., Ltd. at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Accounts receivable-trade:			
Mitsui & Co., Ltd.	¥ 892	¥ 266	$ 8,440
Accounts payable-trade:			
Unisys Corporation	¥1,463	¥2,434	$13,842
Mitsui & Co., Ltd.	2,799	4,499	26,483
Total	¥4,262	¥8,720	$40,325
Accounts payable-other:			
Mitsui & Co., Ltd.	¥1,183	¥1,787	$11,193
Long-term accounts payable-other:			
Mitsui & Co., Ltd.	¥ 448	¥1,631	$ 4,239

16. Subsequent events

At the general shareholders' meeting held on June 25, 2004, the Company's shareholders approved the following appropriations of retained earnings, stock option plan for the Company's directors and key employees and the purchase of treasury stock:

(a) Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3.75 ($0.03) per share	¥402	$3,804
Bonuses to directors	30	284

(b) Stock option plan—The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 700 thousand shares of the Company's common stock in the period from July 1, 2006 to June 30, 2011. The exercise price will be determined by the average closing price of the per share value of the Company's common stock for the month prior to the month in which the options are issued and the closing price for the day in which the options are issued.

(c) Purchase of treasury stock—The Company is authorized to repurchase up to 1,500 thousand shares of the Company's common stock (aggregate amount of ¥1,500 million) as treasury stock until the next general shareholders' meeting.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3)3457 7321
Fax: +81(3)3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Nihon Unisys, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 25, 2004

Member of
Deloitte Touche Tohmatsu

Corporate Data

(As of March 31, 2004)

Name	Nihon Unisys, Ltd.
Head Office	1-1, Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan
Established	March 29, 1958
Capital	¥5,483 million
Business Activities	1. Sales and rentals of computer systems 2. Sales and development of software 3. Various system-related services 4. Outsourcing services 5. Telecommunication business, information processing services and database services 6. Contracts, planning, executions and controls of constructions for building and installation of systems above, etc.

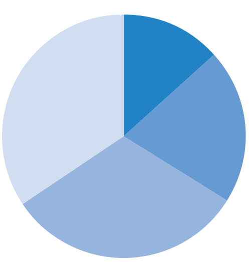
Common Stock

Authorized:	300,000,000 shares
Issued:	109,663,524 shares
Listing:	Tokyo Stock Exchange First Section

Shareholders

Number of Shareholders: 13,273

Classification of Shareholders:



Individuals	14,675,744 shares (12,907 shareholders)	13.38%
Financial Institutions and Securities Companies	22,087,143 shares (103 shareholders)	20.14%
Other Domestic Corporations	34,993,244 shares (169 shareholders)	31.91%
Foreign Corporations and Individuals	37,907,393 shares (94 shareholders)	34.57%

Principal Shareholders:

Name	Number of shares held (Thousands)	Holding ratio of voting rights (%)
Mitsui & Co., Ltd.	30,524	28.50
Unisys Corporation	30,524	28.50
Japan Trustee Services Bank, Ltd. (Trust Account)	6,723	6.28
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,126	4.79
Nihon Unisys, Ltd. (Treasury Stock)	2,504	–
Nihon Unisys Employees' Shareholding Society	2,171	2.03
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account/Mitsubishi Electric Corporation Account)	1,671	1.56
The Mellon Bank Treaty Clients Omnibus	1,001	0.94
Northern Trust Co. (AVFC) Sub Account American Client	703	0.66
Sumitomo Realty & Development Co., Ltd.	675	0.63

Employees

8,729 (Consolidated basis)

3,042 (Non-consolidated basis)

Consolidated Subsidiaries

(As of July 1, 2004)

Company name	Principal business	Capital (Millions of yen)	Equity held by Nihon Unisys (%)
Network & Support Services			
UNIADEX, Ltd.	Offering total IT services to meet the needs of customers, including construction, operation and maintenance of networks	750	100.0
System Services			
Nihon Unisys Software Kaisha, Ltd.	Covering a broad spectrum of IT activities ranging from developing application systems, infrastructure and strategic integrative systems/ pursuing the latest technologies to apply and implement	300	100.0
Nihon Unisys Excelutions, Ltd.	Developing 3D CAD/CAM and housing CAD systems as well as business solutions and services	100	100.0
Hokkaido Soft Engineering Co., Ltd.	Developing and selling software as well as offering information processing services in Hokkaido	30	100.0
Tohoku Soft Engineering Co., Ltd.	Providing systems and services utilizing IT technology and services in the Tohoku region	50	100.0
Chubu Soft Engineering Co., Ltd.	Developing, selling and maintaining systems utilizing IT technology in the Chubu region	50	100.0
Kansai Soft Engineering Co., Ltd.	Based in the Kansai region, providing total IT services from research, analysis, and proposal making, to development, operation and maintenance of information systems	50	100.0
Hiroshima Soft Engineering Co., Ltd.	Situated in Hiroshima, developing, implementing and maintaining systems for clients in industries such as finance, distribution and local governments	50	100.0
Kyushu Soft Engineering Co., Ltd.	Focusing mainly on Kyushu, developing software, providing systems engineering services and conducting training/education-related business	50	100.0
International Systems Development Co., Ltd.	Providing locally attached services utilizing the latest technology and know-how in the Okinawa region	40	42.5
Internet			
Nihon Unisys Information Systems, Ltd.	Implementing Internet-based businesses in the areas of ISP, ASP, BSP (business service), HSP (hosting, housing) and CSP (contents)	150	100.0
Outsourcing & Supply			
A-tas, Ltd.	Offering a complete outsourcing services around-the-clock (7x24) based on highly reliable technology and practices	50	81.2
TRADE Vision, Ltd.	Providing outsourcing services in the commodity-futures business segment	200	67.0
Nihon Unisys Supply, Ltd.	Producing and selling IT-related items and providing printing and shipping services as well as selling computer supplies	315	85.0
Personnel Training Services			
Nihon Unisys Learning Co., Ltd.	Providing IT resource consulting services, seminars and Web-based training programs	50	100.0
Group Services			
Nihon Unisys Business, Ltd.	Shared services center providing administrative work services common to group companies including procurement and logistics services of commodity items as well as dealing with matters of general affairs, welfare, insurance, travel, etc.	20	100.0

Nihon Unisys, Ltd.

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

http://www.unisys.co.jp/

PRINTED WITH SOY INK™

Printed in Japan on recycled paper