

An abstract graphic consisting of several overlapping circles and lines in various colors (red, blue, green, orange) that intersect at a central point on the left side of the page. The circles are thin and semi-transparent, creating a layered effect. The lines are straight and extend from the central intersection point towards the top right and bottom right of the page.

Nihon Unisys, Ltd.

Annual Report 2005

For the year ended March 31, 2005

Nihon Unisys, Ltd. and its consolidated subsidiaries, aiming to be a “leading IT service company” to create value 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 edge & trust” 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.

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Disclaimer

Performance forecasts and other statements contained in this report that are not a matter of historical fact are deemed to be forward-looking.

While Nihon Unisys, Ltd. and its management believed at the time of the issue, that these judgments were reasonable, actual results may differ materially due to changes in risks, economic conditions and other factors.

■ Message from the President & CEO



We would like to extend our sincere appreciation to all shareholders and shareholders for their continued support.

I was appointed President & CEO by a resolution of the General Shareholders' Meeting and Board of Directors Meeting held on June 23, 2005. I pledge that I shall make my best efforts to contribute to the growth of the Nihon Unisys Group and of society.

In Japan, a gradual economic recovery is leading to a progressive increase in corporate IT (Information Technology) spending, however the IT market situations for the fiscal year ended March 2005 still remained tough. The uncertain outlook forced corporations to take a cautious stance with regard to IT spending. At the same time, prices were deflated and competition became increasingly severe. Against this background, Nihon Unisys Group has completed the "Re-Enterprising" management reform program, which has resulted in some solid achievements promising future growth in such areas as large orders from new customers.

Over the next two years, Nihon Unisys Group will embark on the "Marching Plan" management reform program, which aims to make us the "leading IT service company." Through the Marching Plan, we will aim to further strengthen our

"high value-added solution delivery capability," and leverage that strength to efficiently expand our market share. Concurrently, we proactively undertake outsourcing services, new businesses, professional human resource development and other areas destined for growth in the future. The name "Marching Plan" incorporates the idea of "marching on growth with customers."

Until now, I have been in the position of a user, thinking of how to use IT to create the maximum value-added business operations. In the future, while taking advantage of that experience, I would like to contribute to the creation of additional value in our customers' businesses, thus making Nihon Unisys Group grow along with them.

Lastly, I would like to ask our shareholders and investors for their continued support and understanding in the future.

June 2005

Katsuto Momii
President & CEO

■ Review of Operations

Business Environment

In the fiscal year ended March 2005, Japan's economy recovered modestly, supported by solid capital spending. However, there were some uncertainties over the outlook for rising crude oil/raw material prices and the international circumstances. In the IT industry, corporate IT spending was on a modest recovery trend but deflated prices and intensified competition have resulted in continued difficult business situations.

Under these circumstances, Nihon Unisys Group has strengthened its comprehensive group power, in the final year of the "Re-Enterprising" mid-term business plan, in which the Group aimed at becoming a company to create value for customers.

Focus on Outsourcing Services

The Group's outsourcing business recorded 12.0% growth in sales, thanks to increasing orders for the core system from new customers, primarily in the financial industry. Our strengths such as our core support track record, system construction capability, accumulated know-how, and reliability have been highly evaluated, which facilitated gaining new customers. In addition, we have focused on offering proposals on business process outsourcing, that is, for customers to outsource a portion of their operations.

We expect the outsourcing business will continue to grow strongly and it will generate solid profit sources over the long term. We will continue to make efforts to build it into our company's core business base.

Enhanced the Upstream Approach

IT plays a vital role in differentiating corporate strategies. Nihon Unisys Group participates as a business consultant from the upstream stage of resolving customers' business issues. We enhanced the framework to provide end-to-end services including "high-quality system construction" and "maintenance and operation services offering a high level of satisfaction." As a result, the number of upstream consulting orders doubled and moreover, large system orders from new customers were received. Orders from new customers as well as those for new business domains from existing customers have been increasing.

Challenging Advanced Technology and New Businesses

Nihon Unisys Group is aggressively challenging new business areas as we aim to adopt a corporate culture with "speed & challenge spirit". Particularly in the field of ubiquitous computing, we have moved ahead of the industry in experiments and demonstrations. This has resulted in promising business opportunities to propose adopting IC tags and provide support services for them for industries such as manufacturing, retail, and services. IC tags are entering into a practical usage stage. In addition, we are promoting new businesses start-ups such as entering into an intellectual property-related business by purchasing an equity stake in intellectual property consulting firm SBI Intechstra Co., Ltd., a member of the Softbank Finance Group.

Order Trend

Orders received this year amounted to ¥278,590 million, up 1.2% from the previous year, thanks to an increase in orders from new customers as well as large orders from financial

institutions, mainly in outsourcing services. Orders received, including letter of intent prior to formal contracts, have also been strong, up 9.0% from the previous year.

Results for the Fiscal Year Under Review

Consolidated sales in the fiscal year ended March 2005 were flattish at ¥308,869 million (down 0.2% from the previous year), partly due to a delay in the recovery of the IT market. Nevertheless, operating income increased significantly to ¥10,414 million (up 229.0%). Price deflation was more than offset by progress in cost structure reform, productivity improvement in system services, and measures to prevent unprofitable orders.

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 year.

Mid-Term Business Plan

Nihon Unisys Group will embark on the “Marching Plan” management reform program over the next two years. Continuing in the direction set by the previous management plan of “Re-Enterprising”, the Group aims to become a consistently-growing “leading IT service company” with the new program.

With the “Marching Plan”, we will be promoting a “knowledge-intensive business model”, which aims to provide high value-added services to customers, without being dragged into a price war. We will further strengthen our advanced solution delivery capability through the upstream approach and leverage our intellectual properties, such as the accumulated experience and knowledge to be utilized within the Group. By raising values provided to customers, we aim to improve profitability.

We will also invest aggressively in establishing a solid base for future growth. We will foster the professional staff needed for the “leading IT service company” and enter into new promising business domains.

Our financial targets are ¥325 billion in consolidated sales and ¥11.5 billion in operating income in the fiscal year ending March 2007. By thorough implementation of the “Marching Plan” by the whole Group, we envision becoming a “leading IT service company” with significant growth expected in the third year.

Marching Plan: Four Major Points

Marching Plan 1: Market strategy – Thoroughly select and focus on core businesses.

Marching Plan 2: Service Business Strategy – Promote customer value creation.

Marching Plan 3: Group Strategy – Further reinforce comprehensive group power.

Marching Plan 4: Human Resources Strategy – Invest aggressively in human resources.



Aiming to Become a “Leading IT Service Company” to Create Value for Customers

Differentiation with IT strategies has become an indispensable element for companies that try to establish competitive advantages in their respective market.

Nihon Unisys Group provides IT services by fully utilizing our know-how across various industries and our experience in a wide range of industries which include finance, manufacturing, distribution, and public services. By integrating the strengths of our group companies, we also get involved with our customers' operations and provide a comprehensive range of IT services from identifying management issues to coming up with solutions.

Nihon Unisys Group aims to become a “leading IT service company” by creating value for customers and by evolving together with them.

Consulting Services

Nihon Unisys Group offers corporate customers IT solution services: from consulting services, formulating business strategies, to implementing and maintaining IT systems. We have established a framework to provide end-to-end services. Namely, we participate as a business consultant from the discussion stage of measures to resolve customers' business issues, formulate IT system plan through IT consulting. The Group's strength lies in this service structure.

IT Solutions

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

For business customers we offer various solutions for issues specific to industries such as finance, government & municipal offices, manufacturing, distribution and medical industries. We are also aggressively challenging new business areas as we aim to adopt a corporate culture with “speed & challenge spirit”. Particularly in the field of ubiquitous computing, we have moved ahead of the industry in experiments and demonstrations.

Moreover, we are aggressively challenging promising areas such as alliances with business partners and start-up businesses.



Outsourcing Services

Outsourcing was originally a means to reduce costs by asking a specialized company to take charge of one part of a business process. But now it has become a management tool to strategically utilize the expertise and know-how of the outsourcee company. Nihon Unisys Group provides outsourcing services that improve the entire business process from core IT applications to related business processes. Our service is based on our experience and know-how of various industries and businesses, which have been gained from deep involvement in developing kernel IT strategies for our customers, including core system construction, network development, maintenance, and operations.

Support Services

Nihon Unisys Group provides an extensive range of support services from mainframes to multi-vendor open systems. Our support services are backed by advanced technological skills and a thoroughgoing internal support structure. Our support services are highly rated by corporate customers, as is repeatedly evidenced by our top rankings in various customer satisfaction surveys.

Strategies for Financial Solutions

Reaffirming our reputation of “Nihon Unisys for the Financial Industry”

In December 2003, Nihon Unisys announced the development of a mission critical accounting system for banks, based on Microsoft’s Windows®. Announcing the attempt for the world’s first Windows-based full banking system was big news in the financial and IT industries. Nihon Unisys has announced more joint projects with other financial institutions, and are consequently garnering more attention in the financial industry.

Mr. Matsumori, Senior Corporate Officer in charge of businesses in the financial industry, talked about what actions Nihon Unisys is taking for financial solutions.

The challenge for the financial industry is to reform their business model.

Why have you started developing new platform for financial systems?

Our customers in the financial industry are facing the issues of how to quickly reform their business model and how to respond flexibly to changing environments. They cannot survive unless they promptly take the appropriate measures. Since financial institutions are not manufacturing products but providing services, the way to raise corporate value for them is to provide better services faster. Our customers have also been keenly aware of these issues.

When looking at the issues of business model reform and value enhancement from an IT-based viewpoint, the conventional system of putting everything in a large mainframe cannot respond to changes in a quick and flexible manner. For example, if some institution plans to

eliminate passbooks for demand deposits operation, not only that task but all the other operation programs have to be modified. If each operation has an independent program base, it would be easily modified. That’s why we decided developing a new platform.

The time has come to prove the performance of “Nihon Unisys for the Financial Industry”

What was the aim in developing an “open system for mission critical accounting system?”

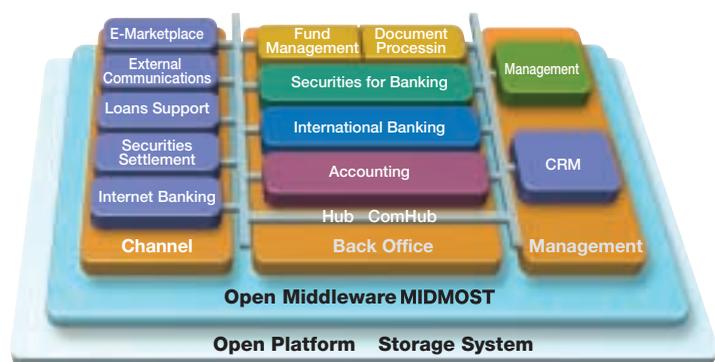
In the past, we had been recognized highly in the financial industry as “Nihon Unisys for the Financial Industry” but this was followed by an inactive period. About four to five years ago, we began taking measures with an aim to become “Nihon Unisys for the Financial Industry” once again. A core element of our strategy was to “become No.1 by challenging the areas unexplored by competitors.” That’s

UNIFINE™

(Unisys Financial-Solutions on New Environment)

Nihon Unisys’ Next Generation Financial Solution Suite

Nihon Unisys has developed “UNIFINE”, the next generation financial solution suite. It enables financial operations to run safely and securely in the open-based system environment such as Windows. It is based on the experience and knowledge Nihon Unisys has long accumulated through development and application of various business systems for financial institutions as solution packages. “UNIFINE” offers highly secure and reliable solutions at low cost. Regulatory changes and management needs can be reflected on the system in a quick and accurate way, thanks to the architecture which has a common platform and design considering inter-connection among different business systems.



how our challenge to build an open system platform was started. The financial business package with an open platform took shape with “UNIFINE”, the next generation financial solution suite.

How have financial institutions responded to the new system?

We will provide the new open system platform to Tokyo Financial Exchange Inc., to be introduced this year; IY Bank Co., Ltd., to be launched next year; and The Hyakugo Bank, Ltd., for a launch planned in 2007. The new system platform is becoming more reliable and our reputation “for open systems, ask Nihon Unisys” is strengthening. We have received more inquiries from financial institutions than initially expected.

Promotion of the new open system platform, together with outsourcing services.

What are the strategies for moving forward?

We think we have completed meeting the challenge to become “Nihon Unisys for the Financial Industry” again and we are entering into the next stage of proving our performance.

In the meantime, the businesses of outsourcing, for operation and maintenance of financial systems are important for us to secure stable revenue and earnings. We seek to stabilize our customer base through outsourcing, and to offer our new open system platform at the same time. We have already opened outsourcing centers in Hokkaido, Tokyo, and Kansai, which are used by many regional banks and credit associations (shinkin banks). These operations give our customers the advantage of minimizing their costs. Certainly when customers want to have their own system operation, we offer them an independent package incorporating the new system platform. Recently, three regional banks based in Kyushu

have decided to use our joint operation.

We anticipate potential customers under negotiation will also join. We aim to become a leading vendor for regional financial institutions.

Over the next five to ten years, many financial institutions are expected to shift to a new system platform which is open and flexible, like the one offered by our company. We believe we have a considerable advantage, being ahead of our competitors.

What issues do you anticipate in the future?

A characteristic of the new open system platform is that each operation is independently managed and can be changed quickly to respond to changes in the environment. It is like clothes, which can be changed easily according to the circumstances. In order to sustain the top position, we need to promptly offer the right clothes (new services) on demand, depending on changes in the environment. We have started building an internal framework to meet our challenge.

I would like to ask our shareholders and investors for their understanding and support for “Nihon Unisys for the Financial Industry.”



*Representative Director &
Senior Corporate Officer*
Masanori Matsumori

**The accelerating trend of ubiquitous computing:
More practical use of IC tags**

Computers are used all over the places these days and a “ubiquitous” world is becoming a reality. In particular, IC (integrated chip) tags, which are one of the major technologies that will help realize ubiquitous world, have been rapidly adopted for practical use.

Nihon Unisys Group is playing a proactive role in constructing a new system using IC tags.

Distribution revolution in the nursing care equipment rental industry

An example of the practical use of IC tags is “One’s Heart”, the distribution system of nursing care rental equipment, jointly developed by Nihon Unisys, Heartwell Co., Ltd. (a nursing care equipment rental company), and Senko Co., Ltd. (a distributor with nationwide coverage). An IC tag is attached to each piece of rental equipment such as wheelchairs and nursing beds and its record of inventory, usage and repair is monitored and controlled on a real time basis. The system will help increase rental turnover ratios, reduce inventories, etc. Furthermore, the use of IC tags facilitates observance of disposal regulations through strict product control and developing new products by analyzing the rental data.



EXPO 2005 AICHI JAPAN

Experiments on information management of equipment & materials

At Nippon-kan (Japan Pavilion) in EXPO 2005 AICHI JAPAN, Nihon Unisys jointly with EX CORPORATION and Dai Nihon Printing Co., Ltd. is conducting an experiment in managing the “re-use” information of equipment and materials. The project is part of the exhibition theme of “re-use” in the

recycle-based society and was sponsored by Ministry of Economy, Trade and Industry. Each piece of equipment or material for “re-use” is identified with IC tags. The accumulated data are managed and can be used to judge a value for “re-use”.

Nihon Unisys Group is conducting various experiments for a “ubiquitous” society using advanced technology. In addition, we make proposals and provide supports for using IC tags for operations in manufacturing, retail, etc.



Supported establishment of the foreign exchange margin trading market for Tokyo Financial Exchange Inc.

Nihon Unisys has received an order to develop a system for the foreign exchange margin trading market to be opened this fiscal year by Tokyo Financial Exchange Inc. (TFX).

Nihon Unisys was selected as a strategic partner for TFX’s first retail business in opening a foreign exchange margin trade market, because of its superior electronic trading system, technical capability to build a flexible market system promptly, knowledge in systems of foreign exchange trading and futures trading, capability and reliability in total services including operational outsourcing.

Nihon Unisys will strive to fully meet their expectations. By utilizing next generation financial solutions as promoted by our company and building high-quality reliable systems in a short period of time, we aim to receive system management outsourcing order and fully support transparent trading of TFX. This will be the first Windows®-based system in Japan used for a trading system.

Enhanced products to support financial institutions' back-office operations of market trading activities (i.e. market securities, fund)

Nihon Unisys is providing reliable and efficient systems to support the back-office operations of market trading activities such as securities transaction and fund transaction by banks and other financial institutions.

Products such as the "Siatol Series" (a package for securities management operations) and the "TRUST Series" (a package for trust business operations) have already been well received but we will continue to develop new products and methods of using services, which accommodate the recent structural changes ahead of others.

As part of the efforts, Nihon Unisys, Tosho System Service Co., Ltd., and Sumisho Computer Systems Corporation have agreed to co-operate to develop the "fund settlement solution", an on-line system for the settlement of funds and government bonds between the Bank of Japan and financial institutions. The three companies have also started providing the "next generation securities management solution" to accommodate the trend for paperless and digitized marketable securities.

Nihon Unisys Group will strive to develop various business solutions for financial institutions, by making the maximum use of our long-accumulated experience, know-how, and wide customer base.

Capital alliance with an aim to strengthen intellectual property-related businesses

Nihon Unisys made an equity participation in intellectual property consulting firm SBI Intechstra Co., Ltd., member of the Softbank Finance Group. Both firms are jointly working on developing a new intellectual property management system.

In recent years, the trading of intellectual properties such as patents and trademark rights has been increasing and many companies are required to manage their intellectual properties and to strategically use them. Intechstra has provided consulting services to many of Japan's listed companies and others and has accumulated know-how in intellectual property assessment while Nihon Unisys Group has superior technology as an IT provider and a proven track record. With synergetic effects, this business area will be strengthened and expanded centering on providing an information platform for intellectual property management.

Wireless IP telephony system using mobile phones has been well received.

UNIADEX, Ltd., a wholly-owned subsidiary of Nihon Unisys, has provided IP telephony system mainly using FOMA® mobile phones. The system allows phones to be used as ordinary mobile phones outside the company and as wireless intra-company phones inside the company.

Many companies have shown interest in this new telephone system called Mobile Centrex which reduces telecommunication costs and improves operational efficiency. For example, an employee no longer needs both a fixed-line phone on his desk and a mobile phone.

In addition, branches and offices in remote locations can be included in the corporate IP telephony system, which thus contributes to a significant reduction in telecommunication costs. Moreover, since each employee has his/her own direct telephone, there is no need to handle a call to other employees. Even when an employee goes out, calls from customers are quickly connected with no waiting since calls are automatically transferred to mobile phones. There are also functions such as to confirm whether employees are at their desk or not or to integrate with other systems.

UNIADEX first introduced the system internally and confirmed its effects. In the meantime, they have accumulated know-how in its construction and utilization and now are providing safe, easy-to-use system solutions with high scalability. These new generation telephony systems are anticipated to be rapidly adopted by many companies in the future.



Note: Microsoft and Windows are trademarks or registered trademarks of Microsoft Corporation in the U.S. and other countries.
FOMA® is a trademark or a registered trademark of NTT DoCoMo, Inc.

■ Directors, Auditors and Corporate Officers

(as of June 23, 2005)



Standing left to right : Naoya Kashiwagi, Keiji Shiratori, Gary L. Paul, Masanori Matsumori
Seated left to right : Katsuto Momii, Alfred G. C. Tong

Directors

President & CEO
Katsuto Momii

Executive Vice President
Alfred G. C. Tong

*Representative Director &
Chief Financial Officer*
Keiji Shiratori

*Representative Director &
Senior Financial Officer*
Gary L. Paul

*Representative Directors &
Senior Corporate Officers*
Naoya Kashiwagi
Masanori Matsumori

*Managing Directors &
Senior Corporate Officers*
Motonori Saeki
Fumio Horikawa
Alberto G. Lapuz
Koji Suzuki
Akiyoshi Hiraoka

Managing Directors, Part-Time
Tsutomu Fukunaga
Osamu Maruyama
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
Toshihiko Kato

Corporate Officers
Yoichi Harada
Masami Kobayashi
Ryuji Tatsuno
Shigeru Inoue

Hitoshi Tayama
Nozomu Ikawa
Minoru Tasaki
Masayuki Fujisawa

■ Corporate Governance

Nihon Unisys Group is strengthening corporate governance as we aim at speedy decision making to respond to changes in the business environment, as well as improving accountability and transparency in business.

“Nihon Unisys Group Corporate Charter” sets action standards to contribute to the sustainable growth of society for all in its role as a good corporate citizen. The details of our corporate governance policy are as follows.

Enhance and Fulfill Corporate Governance

1. Nihon Unisys Group shall maintain and enhance the corporate governance structure with high ethical standards and transparency.
2. The Group shall disclose corporate information in a timely manner and maintain transparency in management.
3. The Group shall take appropriate measures against various risks which may have a material impact on our operations. When a risk or a potential risk emerges, we shall promptly take appropriate measures to deal with it.

Corporate Governance System

Corporate Authorities

The Company has adopted the Corporate Auditor System and has introduced the Corporate Officer System to separate management and business execution functions.

Board of Directors

The Board of Directors, consisting of 17 directors including 4 outside directors, holds meetings once a month as a rule. The Board decides important management issues and reviews reporting on major activities.

Since the fiscal year ended March 2005, the term of a director was shortened from two years to one year, in order to establish a flexible management structure to respond to changes in business environment and to clarify responsibility of directors.

Audit System

The Company has four auditors, two are full-time auditors (including one outside auditor.) The number of outside auditors has expanded to three since the fiscal year ended March 2003. In accordance with the audit policies and the audit schedule drawn up by the Board of Corporate Auditors, the auditors monitor the way the Board of Directors carries out its duties by attending its meetings, as well as other important management meetings, and by overseeing the company's operations and finances.

Nihon Unisys is statutorily audited by independent public

accounting firm Deloitte Touche Tohmatsu. The Company does not have any conflict of interest with the accounting firm in terms of personnel, financial, or business relationships. In addition, the public accounting firm Deloitte Touche Tohmatsu separately audits our major group companies.

The Group's Internal Audit System is monitored by the Internal Audit Unit and by similar units set up at two major subsidiaries. They conduct internal audits of all divisions of the Group. The Company's Internal Audit Unit is responsible for auditing the appropriateness and effectiveness of the internal management system and to report the results to the top management with suggestions for improvement and correction of any problems if necessary. When needed, the president directly delivers instructions for improvement as the “President's message”. The Internal Audit Unit then monitors the results of improvement and correction. In addition, the acquired audit information is reported to the Unit managers and also to our public accounting firm, Deloitte Touche Tohmatsu, in order to speed up improvements and to share the information broadly. The Internal Audit Unit cooperates and works closely with the Board of Corporate Auditors. The meetings to discuss internal audits and the audit plan drawn up by the Board of Corporate Auditors are attended by the auditors as well. The Internal Audit Unit regularly reports to the Board on the common audit themes for the whole Group.

Business Execution Structure

The Company introduced the Corporate Officer System to separate management and business execution functions in July 2001, as part of the effort to create the management and control organizations.

The Executive Council, which is composed of all representative directors, was also established to promptly discuss and decide priority management issues. The Corporate Officer Committee, which comprises of all corporate officers, has been set up to discuss important corporate issues and to submit recommendations to the Executive Council.

Moreover, with an aim to strengthen comprehensive group power, Group Strategy Meetings have been organized to discuss group strategies and to make decisions about important issues concerning companies in the Group.

Internal Control System

Nihon Unisys Group has been promoting the adoption of a systematic approach coordinated among its group companies focusing on “Compliance”, “Risk Management”, and “Security.” Details of these activities are available in the

section on “Corporate Social Responsibilities (CSR).”

For preparing financial statements, the work assignment and the responsible departments have been clarified and each department has built an appropriate system to conduct its operations. The Company’s important information, including these financial statements, has been directed by the internal information control system which also covers subsidiaries, in accordance with the Corporate Guidelines on these matters. We pay attention to disclosing financial results and other facts which may have a material impact on the investment decisions of investors in a timely manner. Furthermore, based on our judgment we fairly and proactively disclose on our website and in other media information which could help investors understand our company.

Concerning measures to protect personal information, the Basic Policy of Privacy Information Protection has been set up and Chief Privacy Officer (CPO) was appointed. We follow the guidelines to encourage secure management and appropriate handling of privacy information and familiarize our directors and employees, through educational and training programs, with the issues of protecting privacy information.

Compensation of Directors

Details on compensation of the Company’s directors

	Directors		Auditors		Total	
	Number of persons	Allowance (Millions of Yen)	Number of persons	Allowance (Millions of Yen)	Number of persons	Allowance (Millions of Yen)
Compensation based on the Articles of Corporation or a resolution of the General Shareholders’ Meetings	12	246	5	42	17	289
Directors’ bonus determined by appropriation of retained earnings	11	30	—	—	11	30
Retirement benefits determined by a resolution of the General Shareholders’ Meetings	4	0	2	30	6	31
Total	—	277	—	73	—	350

Note: Limit of compensation set by a resolution of the General Shareholders’ Meeting
For directors: ¥35 million per month
For auditors: ¥4.5 million per month

Fees for the Public Accounting Firm

Details of fees to be paid to the public accounting firm, Deloitte Touche Tohmatsu (for the fiscal year ended March 2005)

Fees for auditing based on the contract	33 million of Yen
Fees for works other than the above	3 million of Yen

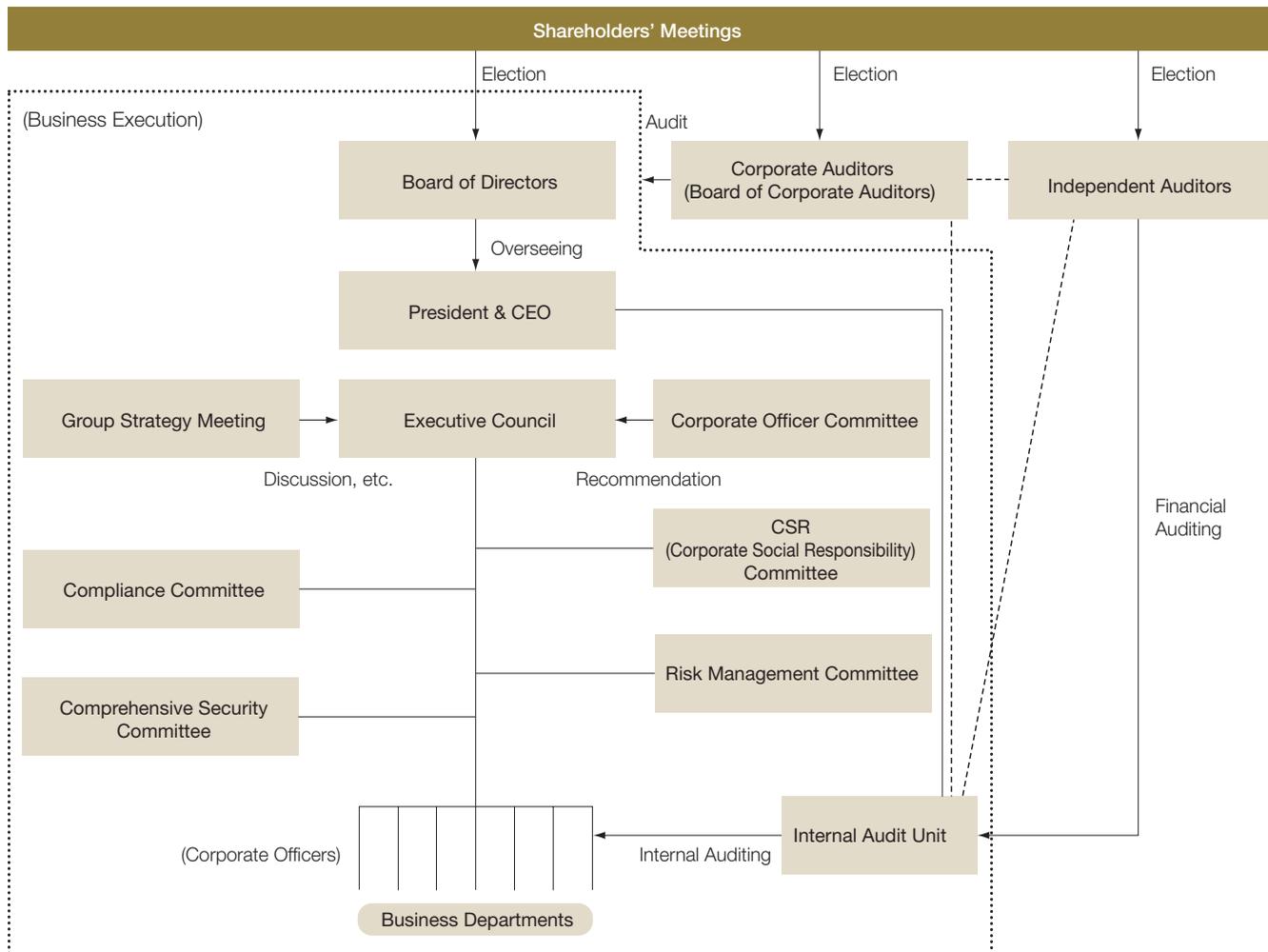
Note: Other fees are for consulting services on accounting matters.

Outline of the conflict of interests in personnel, financial capital, and trading relationships between the Company and outside directors and outside auditors

Four outside directors of the Company belong to Mitsui & Co., Ltd. and Unisys Corporation, our major shareholders,

... serving as corporate officers and others. In addition, two of three outside auditors came from these companies. Mitsui and Unisys have a trading relationship with the Company. We do not have any capital or trading relationship with any outside director or outside auditor.

Nihon Unisys Corporate Governance System



■ Corporate Social Responsibilities (CSR)



Nihon Unisys Group CSR Report 2005
(Japanese Only)

Nihon Unisys Group established “CSR Promotion Committee” in August 2004, and has been promoting the adoption of a systematic approach coordinated among its group companies under the common slogan “What IT can do for the society and the people.” This campaign focuses on “Environment”, “Compliance”, “Risk Management”, and “Security” from a viewpoint of “Corporate Social Responsibilities (CSR).”

In fiscal year 2006, we established a new “CSR Department” with a “CSR Promotion Office”, dedicated to enhancing the campaign activities. A “CSR Committee”, consisting of directors concerned, has also been established to act as a council on CSR policies for the whole group. Through transparent management, we will keep striving to become a company trusted by customers and society, and to contribute to customers’ value creation through our operations.

Ecological Activities

“What IT can do for the Earth” is the underlying philosophy of Nihon Unisys Group’s ecological activities. We aim to help build a sustainable society and to reduce the environmental impact on customers and on society through business activities as an IT company. In March 2005 all the Group firms and sites – 11 companies, 112 sites, and 206 divisions – acquired ISO 14001 certification.

The Group has also reduced per-person usage of copy paper and electricity and has raised the ratio of separation of recyclable waste for three consecutive years since fiscal year 2003. We achieved 58 of our 60 environmental protection targets with more than 80% achievement rate.

Compliance

The Group promotes compliance programs and best practices. Nihon Unisys Group defines the basic principles that directors and employees shall follow while “Compliance Guidelines” provide a communication route for advice and reporting.



Group companies promote these standards and compliance programs, which include the appointment of a Chief Compliance Officer (CCO). At the Group level, the “Compliance Committee”, bringing together the CCOs of all group firms, promotes the coordinated compliance programs.

Risk Management

The Group has established a “Risk Management Committee” to identify and respond to the risks of our operations. The Committee is charged with formulating credible responses to any risks and with establishing risk management methodologies that enable a swift and precise response by all employees and limit damage should any risks occur. Since Japan’s Personal Information Protection Law became effective in April 2005, Nihon Unisys Group has reviewed and reinforced its risk management system to clarify the system. Unit managers have been given roles and the responsibilities for risk control, an action essential for thorough execution of the plan.

Information Security

The Group has the “Comprehensive Security Committee” which has drawn up measures to enhance information security on a mid to long-term basis, in accordance with the guidelines set by the Ministry of Economy, Trade and Industry. In fiscal year 2005, we are coordinating group-wide security efforts, based on “Nihon Unisys Group Total Information Security Strategies.”

Our information security measures shall be followed by Group companies to help realize the best security practices in the industry. Moreover, we believe that we can contribute to improving the level of information security in Japan, by advancing customers’ information security levels.

Contributing to Society

The Group supports various community activities as a “good corporate citizen”, in accordance with our “Nihon Unisys Group Corporate Charter.” Our purpose is to contribute to the sound development of society and communities.

We invite junior and senior high school students to visit our facilities and teachers to participate in a study program in private companies. Our regional community activities include clean-ups in the areas around the headquarters and supporting cultural activities in local communities. Through our involvement in philanthropy, we have been supporting violinist Narimichi Kawabata in his musical activities since 1998. We invite the physically challenged members of society to Kawabata’s concerts and our employees take care of these guests at concert halls.



Violinist Narimichi Kawabata
©Victor Entertainment, Inc.

Financial Highlights

Nihon Unisys, Ltd.

Years Ended March 31, 2005, 2004 and 2003 (Consolidated Basis)

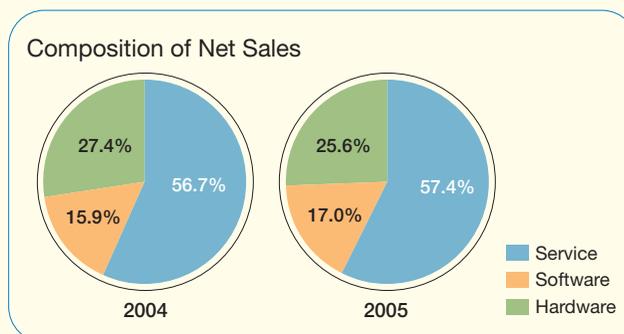
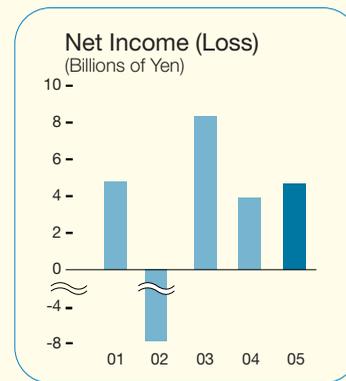
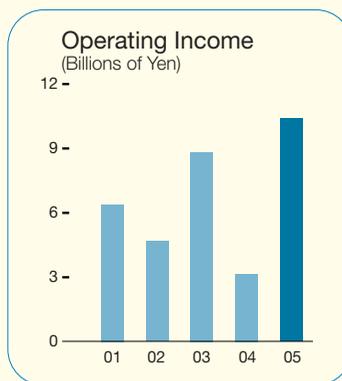
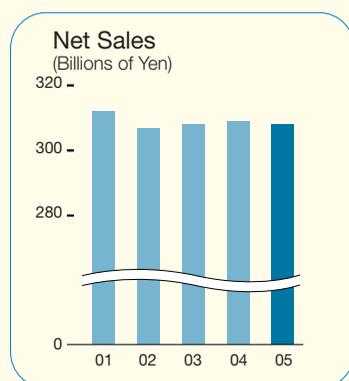
	Millions of Yen			Thousands of U.S. Dollars (Note)
	2005	2004	2003	2005
Net Sales	¥ 308,869	¥309,418	¥308,838	\$2,876,143
Operating Income	10,414	3,166	8,836	96,974
Net Income	4,717	3,922	8,347	43,924
Total Assets	222,155	226,691	223,293	2,068,675

	Yen			U.S. Dollars (Note)
	2005	2004	2003	2005

Per Share Amounts:

Net Income	¥43.34	¥35.57	¥75.46	\$0.40
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 ¥107.39=U.S.\$1 prevailing on March 31, 2005.



Results of Operations and Financial Conditions

Net Sales

Net sales for the fiscal year ended March 31, 2005 were similar to a year ago at ¥308,869 million (down 0.2% from the previous year). While sales of outsourcing services and software grew, sales of hardware and system services were sluggish due to competition and pricing pressure. Net sales at consolidated subsidiaries, including UNIADDEX, Ltd., continued to grow firmly to ¥70,491 million (up 10.8%).

A breakdown of net sales by business category is as follows:

(1) Services

Sales of services increased by ¥2,114 million to ¥177,451 million, (up 1.2%). Sales of system services declined from a year ago, due to lower prices caused by severe competition. However, the outsourcing business continued to grow steadily thanks to expanded regular business with large-lot customers.

(2) Software

Software sales were ¥52,405 million (up 6.5%), an increase of ¥3,205 million from the previous year, thanks to large orders and a growth in open solution software sales.

(3) Hardware

Hardware sales declined by ¥5,868 million to ¥79,013 million (down 6.9%). In addition to a declining trend in lease income, sales of servers were sluggish.

In terms of sales composition, services accounted for 57.4% of total sales (vs. 56.7% in the previous year), software represented 17.0% (vs. 15.9%), and hardware the remaining 25.6% (vs. 27.4%).

Looking at net sales by major end markets, sales to the manufacturing sector and the commercial and distribution sector grew steadily by 4.2% and 3.1% respectively from the previous year. On the other hand, sales to public agencies declined by 8.5%. While sales to financial institutions fell 2.1%, sales from the next year onward are

expected to contribute to earnings, thanks to an increase in new customers and a significant growth in orders.

Orders received this year amounted to ¥278,560 million, up 1.2% from the previous year, thanks to new customers as well as large orders from financial institutions, mainly in outsourcing services. Moreover, orders received, including indications prior to formal contracts, have been strong, up 9% from the previous year.

Operating Income/Net Income

Cost of sales in the fiscal year under review decreased by ¥1,995 million to ¥232,941 million (down 0.8% from the previous year) but the ratio improved 0.5 percentage points. This was due to improved profitability and the impact from measures such as the cost structure reform promoted under the previous "Re-Enterprising" business plan, and a revision of the pension plan.

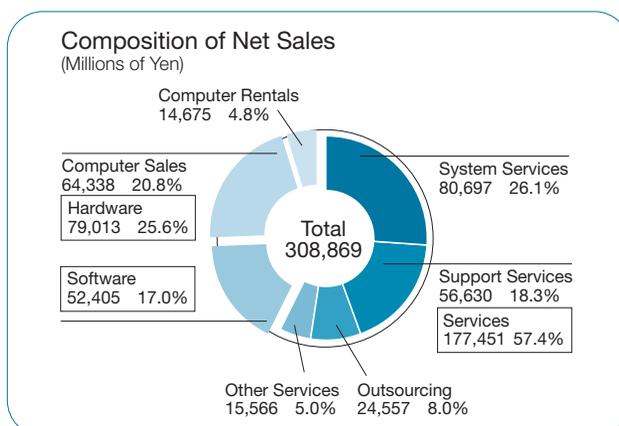
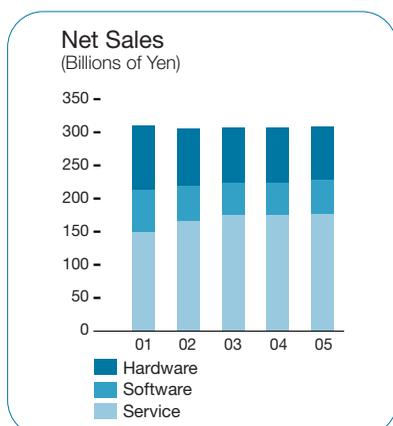
Selling, general, and administrative expenses have decreased by ¥5,802 million to ¥65,514 million (down 8.1%). Similarly to the cost of sales, measures such as the reform of our cost structure and revision of the pension plan contributed to the decrease. In addition, we have made further efforts in reducing expenses.

As a result, operating income more than tripled: an increase of ¥7,248 million to ¥10,414 million (up 229.0%), despite lower selling prices for hardware, software, and others.

Net income ended at ¥4,717 million (up 20.3%). For implementing a revision of the special retirement support system, a ¥1,292 million support fund in the transition period was recorded as other expenses. Other income were recorded in the last fiscal year from the sale of the former Akasaka headquarters building, the net income growth rate was lower compared to the operating income growth rate.

Financial Condition

Total assets decreased by ¥4,536 million to ¥222,155 million. Current assets increased by ¥2,541 million due to a ¥4,243 million increase in inventories for advance



installment of lease equipment as well as equipment for outsourcing. On the other hand, net property, plant and equipment decreased by ¥6,991 million due to depreciation and amortization. Investment and other assets also decreased by ¥86 million mainly for the reversal of prepaid pension costs in spite of purchasing software for outsourcing.

Liabilities were ¥124,711 million, down ¥6,944 million from the end of the previous year. While interest-bearing debt has increased in order to meet capital requirement for purchasing assets for outsourcing, accrued expenses generated from last year's implementation of the pension system reform were paid down this year.

Shareholders' equity increased by ¥2,422 million to ¥96,893 million thanks to a ¥3,848 million increase in retained earnings, although purchases of treasury stocks cost us ¥1,433 million. The shareholders' equity ratio was 1.9 percentage points higher at 43.6%.

Cash Flows

Cash and cash equivalents at the end of the fiscal year amounted to ¥25,984 million, down ¥925 million from the beginning of the year. Cash required for purchasing computers for outsourcing as well as for investing in software development exceeded cash flows from operating activities. The balance was partially offset by cash from financial activities such as issuance of commercial papers.

The Group generated ¥12,113 million cash from operating activities (down ¥4,323 million from the previous year). Income before income taxes and minority interests was ¥8,809 million (down ¥91 million) and non-cash depreciation costs were ¥18,363 million (down ¥1,746 million). There were also some changes in accounts receivable, inventories, and accounts payable.

Net cash used in investing activities was ¥16,671 million (compared to ¥1,293 million cash provided a year ago). Purchases of property, plant and equipment such as computers for outsourcing amounted to ¥5,410 million (down ¥3,544 million) while purchases of software for outsourcing rose to ¥11,481 million (up ¥890 million).

Net cash provided by financing activities amounted to ¥3,633 million (compared to ¥18,734 million cash used a year ago). The Group received proceeds of ¥6,000 million from issuance of commercial paper (compared to expenses of ¥6,000 million a year ago) but spent ¥1,433 million on purchasing treasury stocks (down ¥545 million) and ¥803 million (down ¥13 million) on dividend payments.

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 sales, 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.

The Group established a commitment line agreement for special loans with five banks, in order to improve capital efficiency and to assure stability and mobility in financing. The outstanding amount of the commitment line was ¥15,000 million on March 31, 2005.

Business Risks

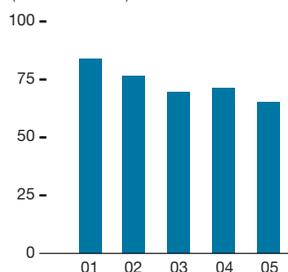
The following is a summary of significant risk factors, discussed in the description of business and the financial section, which could have a material impact on investment decisions.

Risks listed below were identified by Nihon Unisys Group as of the end of the fiscal year ended March 2005.

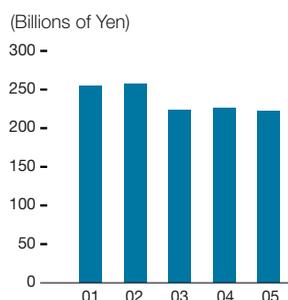
(1) Impacts from economic trends and the market environment

In the IT service industry where Nihon Unisys Group operates, corporate IT investment has gradually been recovering but prices for IT equipment and services have been on a declining trend since corporate users have

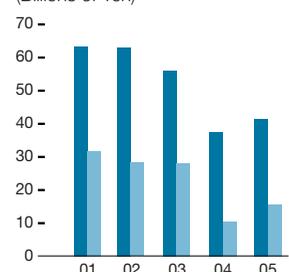
Selling, General and Administrative Expenses
(Billions of Yen)



Total Assets



Interest-bearing Debt/ Net Interest-bearing Debt
(Billions of Yen)



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

reinforced cost reduction efforts and have emphasized return on investment (ROI). Under these market conditions, severer-than-expected price competition and delayed adoption of technological advances may materially affect our financial and business performance.

(2) Project management risks

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. To prevent cost overruns and to detect problems at the early stages, the Group has reinforced its project management system.

(3) Exchange rate risks

As the sole authorized distributor of Unisys Corporation in Japan, Nihon Unisys Group 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 ¥15,721 million in the fiscal year ended March 2005, which exposes us to risk from fluctuations in foreign currency exchange. The company uses forward foreign exchange contracts to hedge the risk of change in foreign currency exchange rates.

(4) Information control risks

Nihon Unisys Group is exposed to not only the internal information but also the confidential information of many customers as well as personal information owned by our customers for developing and providing information systems through our operations. Being in the IT industry, we are fully aware of importance of information control. We control information with the maximum security and care. In order to prepare for an unexpected accident, we have taken out an insurance policy for a certain amount. However, if damages were to cost significantly more than the amount insured or if we suffered loss or damage of

reputation, it would have a material impact on the Group's business results.

(5) Intellectual property risks

The Group utilizes intellectual properties related to various computer programs in our operations. If we cannot acquire or hold licenses for these programs, it may have a material impact on our operations.

In addition, there is a possibility that the Group could face legal action with regard to intellectual properties on computer programs. It may be costly and could significantly affect our business results.

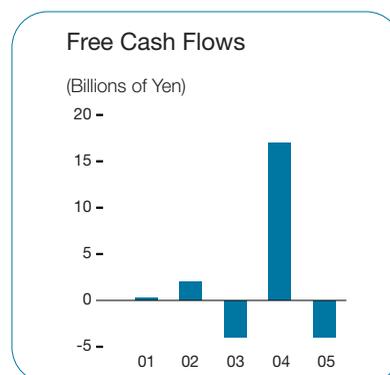
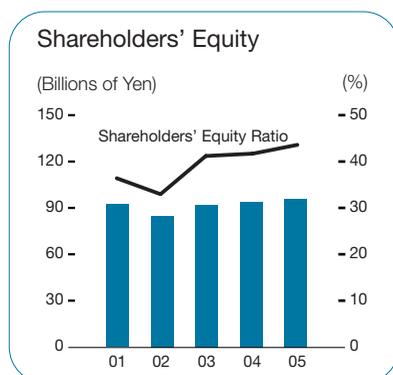
(6) Natural disaster risks, etc.

The Group's major offices and other facilities could be damaged or destroyed by natural disasters such as earthquakes. The resultant repair or substitution may cost a significant amount and sales and other operations as well as the Group's business results may be profoundly affected.

(7) Relationship with significantly-related companies

Nihon Unisys is an affiliate of Mitsui & Co., Ltd. and Unisys Corporation, with each holding 28.90% 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 a purchasing agent on behalf of the company for the import of the Unisys Corporation products handled by Nihon Unisys. The trading relationship with Unisys Corporation has been steady but if the relationship becomes difficult and cannot be sustained, it would have a material impact on the Group's business results.



Consolidated Balance Sheets

Nihon Unisys, Ltd.
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 25,984	¥ 26,909	\$ 241,959
Accounts receivable—trade (Note 16)	85,150	83,680	792,904
Inventories (Note 5)	15,216	10,973	141,689
Deferred tax assets (Note 7)	9,067	9,494	84,431
Other current assets	5,196	7,004	48,385
Allowance for doubtful accounts	(95)	(83)	(885)
Total current assets	140,518	137,977	1,308,483
Property, Plant and Equipment:			
Land	903	903	8,409
Buildings and structures	14,399	14,288	134,081
Machinery and equipment	87,737	124,149	816,994
Total	103,039	139,340	959,484
Accumulated depreciation	(80,563)	(109,873)	(750,191)
Net property, plant and equipment	22,476	29,467	209,293
Investments and Other Assets:			
Investment securities (Note 4)	8,544	8,209	79,560
Investments in unconsolidated subsidiaries and associated companies	315	302	2,933
Software	19,420	16,359	180,836
Lease deposits	9,515	9,770	88,603
Prepaid pension costs (Note 8)	11,859	13,551	110,430
Deferred tax assets (Note 7)	8,027	9,007	74,746
Other assets	1,481	2,049	13,791
Total investments and other assets	59,161	59,247	550,899
Total	¥222,155	¥226,691	\$2,068,675

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 994	¥ 1,140	\$ 9,256
Current portion of long-term debt (Note 6)	8,651	5,829	80,557
Accounts payable—trade (Note 16)	39,556	42,919	368,340
Accounts payable—other (Note 16)	4,429	9,662	41,242
Commercial paper (Note 6)	6,000		55,871
Income taxes payable (Note 7)	2,102	2,874	19,574
Accrued expenses	14,534	13,565	135,338
Other current liabilities	13,159	13,931	122,535
Total current liabilities	89,425	89,920	832,713
Long-term Liabilities:			
Long-term debt (Note 6)	23,803	26,554	221,650
Long-term accounts payable—other (Note 16)	6,013	9,943	55,992
Liability for retirement benefits (Note 8)	2,369	2,533	22,060
Deferred tax liabilities (Note 7)	530	369	4,935
Other long-term liabilities	2,571	2,336	23,941
Total long-term liabilities	35,286	41,735	328,578
Minority Interests	551	565	5,131
Commitments and Contingent Liabilities (Notes 11, 12 and 14)			
Shareholders' Equity (Notes 4, 13 and 17.a):			
Common stock, authorized, 300,000,000 shares; issued 109,663,524 shares	5,483	5,483	51,057
Capital surplus	15,282	15,282	142,304
Retained earnings	77,391	73,543	720,653
Net unrealized gain on available-for-sale securities	2,150	2,143	20,020
Total	100,306	96,451	934,034
Treasury stock-at cost 4,005,488 shares in 2005 and 2,504,107 shares in 2004	(3,413)	(1,980)	(31,781)
Total shareholders' equity	96,893	94,471	902,253
Total	¥222,155	¥226,691	\$2,068,675

Consolidated Statements of Income

Nihon Unisys, Ltd.

Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Net Sales (Notes 16)	¥308,869	¥309,418	\$2,876,143
Cost of Sales (Note 16)	232,941	234,937	2,169,113
Gross profit	75,928	74,481	707,030
Selling, General and Administrative Expenses (Note 9)	65,514	71,315	610,056
Operating income	10,414	3,166	96,974
Other Income (Expenses):			
Interest and dividend income	208	153	1,937
Interest expense	(463)	(575)	(4,312)
Income from building rental	19	435	177
Gain on sales of securities (Note 4)	480	1,262	4,470
Foreign exchange gain (loss)	(65)	69	(605)
Gain on sales of property, plant and equipment	17	11,945	158
Legal settlement		(153)	
Loss on revision of the retirement benefit scheme (Note 8)	(88)	(5,480)	(820)
Restructuring charges (Note 10)		(1,753)	
Special retirement expense	(1,292)		(12,031)
Other-net	(422)	(169)	(3,920)
Other income (expenses)-net	(1,606)	5,734	(14,946)
Income before Income Taxes and Minority Interests	8,809	8,900	82,028
Income Taxes (Note 7):			
Current	2,488	3,317	23,168
Deferred	1,562	1,495	14,545
Total income taxes	4,050	4,812	37,713
Minority Interests in Net Income	42	166	391
Net Income	¥ 4,717	¥ 3,922	\$ 43,924

	Yen	U.S. Dollars
Per Share Amounts (Note 2.n and 15):		
Basic net income	¥43.34	¥35.57
Diluted net income	43.33	0.40
Cash dividends applicable to the year	7.50	7.50

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nihon Unisys, Ltd.

Years Ended March 31, 2005 and 2004

	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, 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)
Net income				4,717		
Cash dividends, ¥7.5 per share				(803)		
Bonuses to directors				(66)		
Net increase in unrealized gain on available-for-sale securities					7	
Increase in treasury stock	(1,501)					(1,433)
Balance, March 31, 2005	105,658	¥5,483	¥15,282	¥77,391	¥2,150	¥(3,413)

	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, 2004	\$51,057	\$142,304	\$684,821	\$19,955	\$(18,437)	
Net income			43,924			
Cash dividends, \$0.07 per share			(7,477)			
Bonuses to directors			(615)			
Net increase in unrealized gain on available-for-sale securities				65		
Increase in treasury stock					(13,344)	
Balance, March 31, 2005	\$51,057	\$142,304	\$720,653	\$20,020	\$(31,781)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd.
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Operating Activities:			
Income before income taxes and minority interests	¥ 8,809	¥ 8,900	\$ 82,028
Adjustments for:			
Income taxes paid	(3,389)	(1,140)	(31,558)
Depreciation and amortization	18,363	20,109	170,994
Gain on sales of property, plant and equipment	(17)	(11,945)	(158)
Gain on sales of securities	(480)	(1,262)	(4,470)
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
Increase in accounts receivable—trade	(1,472)	(4,145)	(13,707)
(Increase) Decrease in inventories	(4,243)	4,655	(39,510)
Increase in interest and dividend receivable	(1)		(9)
(Decrease) Increase in accounts payable—trade	(3,360)	2,471	(31,288)
Decrease in interest payable		(35)	
Decrease in liability for retirement benefits	(90)	(1,602)	(838)
Other—net	(2,007)	430	(18,690)
Total adjustments	3,304	7,536	30,766
Net cash provided by operating activities	12,113	16,436	112,794
Investing Activities:			
Proceeds from sales of property, plant and equipment	22	14,719	205
Payments for purchases of property, plant and equipment	(5,410)	(8,954)	(50,377)
Proceeds from sales of software		4,509	
Payments for purchases of software	(11,481)	(10,431)	(106,909)
Proceeds from sales of investment securities	554	2,332	5,159
Payments for purchases of investment securities	(451)	(493)	(4,200)
Net increase (decrease) in other assets	95	(389)	884
Net cash (used in) provided by investing activities	(16,671)	1,293	(155,238)
Financing Activities:			
Net decrease in short-term borrowings	(146)	(5,411)	(1,361)
Proceeds from long-term debt	5,900	2,550	54,940
Repayments of long-term debt	(5,629)	(6,094)	(52,416)
Repayments of other borrowings	(200)	(194)	(1,862)
Net increase (decrease) in commercial paper	6,000	(6,000)	55,871
Payments for purchases of treasury stock	(1,433)	(1,978)	(13,344)
Cash dividends	(803)	(816)	(7,477)
Cash dividends to minority interests	(56)	(791)	(521)
Net cash provided by (used in) financing activities	3,633	(18,734)	33,830
Net Decrease in Cash and Cash Equivalents	(925)	(1,005)	(8,614)
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year		83	
Cash and Cash Equivalents, Beginning of Year	26,909	27,831	250,573
Cash and Cash Equivalents, End of Year	¥ 25,984	¥26,909	\$241,959

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd.

Years Ended March 31, 2005 and 2004

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 2004 consolidated financial statements to conform to the classifications used in 2005.

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 ¥107.39 to \$1, the rate of exchange at March 31, 2005. 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, 2005 include the accounts of the Company and its 10 significant (17 for the year ended March 31, 2004) 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 3 unconsolidated subsidiaries and 4 associated companies (2 subsidiaries and 5 associated companies for the year ended March 31, 2004) 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.

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 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 over 3 years.
Software for internal use is amortized by the straight-line method over the estimated useful lives, principally over 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 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).
The Company and a certain subsidiary participate in the New Career Support Program (the "NCSP") to assist certain employees in retiring before their mandatory retirement age. The Company and the certain subsidiary provide for the estimated future payments to be paid under the NCSP, and include this amount as a liability for retirement benefits.
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. This amount is included 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, currency options 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 and currency options are utilized to hedge foreign currency exposures in procurement of merchandises 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.

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 Group 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, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash and time deposits	¥25,994	¥26,952	\$242,052
Less-time deposits with maturities over 3 months	(10)	(43)	(93)
Total	¥25,984	¥26,909	\$241,959

4. Investment securities

Investment securities as of March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Non-current			
Equity securities	¥8,387	¥8,209	\$78,099
Debt securities	100		931
Trust fund investments and other	57		530
Total	¥8,544	¥8,209	\$79,560

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,293	¥3,661	¥39	¥6,915
Debt securities	100			100
Total	¥3,393	¥3,661	¥39	¥7,015

March 31, 2004

Securities classified as:				
Available-for-sale:				
Equity securities	¥3,310	¥3,654	¥55	¥6,909

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Securities classified as:				
Available-for-sale:				
Equity securities	\$30,664	\$34,090	\$363	\$64,391
Debt securities	931			931
Total	\$31,595	\$34,090	\$363	\$65,322

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥1,472	¥1,300	\$13,708
Trust fund investments and other	57		530
Total	¥1,529	¥1,300	\$14,238

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥554 million (\$5,159 thousand) and ¥2,332 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥480 million (\$4,470 thousand), for the year ended March 31, 2005 and ¥1,288 million and ¥26 million, respectively, for the year ended March 31, 2004.

5. Inventories

Inventories at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
	Work in process	¥ 3,379	¥ 2,877
Merchandise and finished products	11,626	7,954	108,259
Supplies	211	142	1,965
Total	¥15,216	¥10,973	\$141,689

6. Short-term borrowings and long-term debt

Short-term bank loans of ¥994 million (\$9,256 thousand) and ¥1,140 million bore interest at an approximate annual average rate of 1.43% and 1.36% at March 31, 2005 and 2004, respectively.

Commercial paper of ¥6,000 million (\$55,871 thousand) bore interest at a rate of 0.01% at March 31, 2005.

Long-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
0.74% unsecured bonds due 2008	¥ 8,000	¥ 8,000	\$ 74,495
Unsecured loans from banks and insurance companies, 0.69% to 2.51%, due serially to 2012	23,821	23,550	221,817
Other borrowings	633	833	5,895
Total	32,454	32,383	302,207
Less current portion	(8,651)	(5,829)	(80,557)
Net long-term debt	¥23,803	¥26,554	\$221,650

The annual maturities of long-term debt as of March 31, 2005 for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 8,651	\$ 80,557
2007	2,261	21,054
2008	13,142	122,376
2009	4,400	40,972
2010 and thereafter	4,000	37,248
Total	¥32,454	\$302,207

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 40.7% and 42.1% for the years ended March 31, 2005 and 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Current assets:			
Accrued bonuses	¥ 4,482	¥ 3,761	\$ 41,736
Accounts payable–other (amount transferred to the defined contribution plan)	1,228	2,301	11,435
Inventory valuation	1,366	1,314	12,720
Accrued expenses	871	888	8,111
Allowance for maintenance service fee	344	459	3,203
Accrued business tax	358	364	3,334
Tax loss carryforwards		200	
Others	418	207	3,892
Total	¥ 9,067	¥ 9,494	\$ 84,431
Non-current assets:			
Depreciation expenses	¥ 7,713	¥ 8,439	\$ 71,822
Tax loss carryforwards	4,591	4,434	42,751
Long term accounts payable–other (amount transferred to the defined contribution plan)	2,425	3,864	22,581
Liability for retirement benefits	909	818	8,465
Others	1,229	1,682	11,444
Total	16,867	19,237	157,063
Less valuation allowance	(187)	(149)	(1,741)
Total	¥16,680	¥ 19,088	\$155,322
Deferred tax liabilities:			
Prepaid pension costs	(4,774)	(5,515)	(44,455)
Reserve for special taxation measures law in Japan	(2,664)	(3,146)	(24,807)
Net unrealized gain on available-for-sale securities	(1,478)	(1,471)	(13,763)
Others	(267)	(318)	(2,486)
Total	(9,183)	(10,450)	(85,511)
Net deferred tax assets	¥ 7,497	¥ 8,638	\$ 69,811

Net deferred tax assets at March 31, 2005 were included in Consolidated Balance Sheets as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets-non-current	¥8,027	\$74,746
Deferred tax liabilities-non-current	(530)	(4,935)
Net deferred tax assets	¥7,497	\$69,811

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004, was as follows:

	2005	2004
Normal effective statutory tax rate	40.7%	42.1%
Expenses not deductible for income tax purposes	3.0	4.0
Amount of per-capita local tax	0.9	1.0
Difference of tax rate change		5.9
Other-net	1.4	1.1
Actual effective tax rate	46.0%	54.1%

At March 31, 2005 the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥4,591 million (\$42,751 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 2	\$ 19
2010	4,428	41,233
2011	100	931
2012	61	568
Total	¥4,591	\$42,751

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.

Effective April 1, 2004, the Company and a certain subsidiary restructured 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 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 and was recorded as loss on revision of the retirement benefit scheme in the income statement for the year ended March 31, 2004.

Effective October 1, 2004, 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 50%) of 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 ¥ 88 million (\$820 thousand) and was recorded as loss on revision of the retirement benefit scheme in the income statement for the year ended March 31, 2005.

The liability for retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 99,893	¥101,353	\$ 930,189
Fair value of plan assets	(84,481)	(80,253)	(786,676)
Unrecognized transitional obligation	(10,421)	(12,538)	(97,039)
Unrecognized prior service cost	10,921	12,001	101,695
Unrecognized actuarial loss	(25,884)	(32,039)	(241,028)
Prepaid pension costs	11,859	13,551	110,430
Net liability	¥ 1,887	¥ 2,075	\$ 17,571

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 2,888	¥ 4,157	\$ 26,892
Interest cost	2,004	2,966	18,661
Expected return on plan assets	(2,341)	(1,894)	(21,799)
Amortization of transitional obligation	2,097	2,425	19,527
Amortization of prior service cost	(1,208)	7	(11,249)
Recognized actuarial loss	4,074	5,491	37,936
Payment to a defined benefit pension plan and other	1,025		9,545
Loss on revision of the retirement benefit scheme	88	5,480	820
Net periodic benefit costs	¥ 8,627	¥18,632	\$ 80,333

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	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, 2005 and 2004 included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Allowance for the NCSP	¥ 299	¥ 287	\$ 2,784
Current portion	(124)	(135)	(1,154)
Net periodic benefit costs	175	152	1,630
Allowance for directors' and corporate auditors' retirement benefits	307	306	2,859
Total	¥ 482	¥ 458	\$ 4,489

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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Allowance for directors and corporate auditors	¥107	¥119	\$ 997
Allowance for employees participating in the NCSP	113		1,052
Total	¥220	¥119	\$2,049

9. Research and development costs

Research and development costs charged to income were ¥5,885 million (\$54,800 thousand) and ¥6,915 million for the years ended March 31, 2005 and 2004, respectively.

10. Restructuring charges

Restructuring charges reported as an other expenses in the accompanying consolidated statement of income consist of ¥949 million 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 nonrecurring depreciation of software due to a review of business strategies in engineering workstations for the years ended March 31, 2004.

11. Leases

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

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥9,881 million (\$92,010 thousand) and ¥10,315 million, respectively, including ¥2,837 million (\$26,418 thousand) and ¥2,105 million of lease payments under finance leases agreements that do not transfer ownership of the leased property to the lessee.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, 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, 2005 and 2004 were as follows:

[For Lessee]

	Millions of Yen					
	2005			2004		
	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total
Acquisition cost	¥3,907	¥9,534	¥13,441	¥3,462	¥8,964	¥12,426
Accumulated depreciation	1,843	3,704	5,547	1,075	2,027	3,102
Net leased property	¥2,064	¥5,830	¥ 7,894	¥2,387	¥6,937	¥ 9,324

	Thousands of U.S. Dollars		
	2005		
	Machinery and Equipment	Software	Total
Acquisition cost	\$36,382	\$88,779	\$125,161
Accumulated depreciation	17,162	34,491	51,653
Net leased property	\$19,220	\$54,288	\$ 73,508

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥2,740	¥2,579	\$25,514
Due after one year	5,296	6,845	49,316
Total	¥8,036	¥9,424	\$74,830

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense	¥2,718	¥2,016	\$25,310
Interest expense	161	141	1,499
Total	¥2,879	¥2,157	\$26,809

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

The minimum rental commitments under noncancellable operating leases at March 31, 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 4,987		\$ 46,438
Due after one year	8,202		76,376
Total	¥13,189		\$122,814

12. Commitments and contingent liabilities

Contingent liabilities at March 31, 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Guarantees of bank loans to employees for housing	¥4,137		\$38,523

13. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are 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, which is included in capital surplus. The Code permits Japanese 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 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 (a component of retained earnings) 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 Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. 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.

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. The amount of retained earnings available for dividends under the Code was ¥ 67,406 million (\$ 627,675 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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, exercise price shall be adjusted in accordance with the following formula. Decimal fractions less than one share shall be rounded up.

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

At the general shareholders' meeting held on June 25, 2004, 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 692,700 shares of the Company's common stock in the period from July 1, 2006 to June 30, 2011. The option will be exercisable at ¥952. In the event that the shares are split or consolidated, 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 and currency options 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. Reconciliation of the differences between basic and diluted net income per share ("EPS")

Reconciliation of the differences between basic and diluted EPS for the year ended March 31, 2005 was as follows:

	Millions of Yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥4,617	106,523	¥43.34	\$0.40
Effect of Dilutive Securities				
Warrants		46		
Diluted EPS				
Net income for computation	¥4,617	106,569	¥43.33	\$0.40

Diluted EPS for the year ended March 31, 2004 was not disclosed because it was anti-dilutive.

16. Related party transactions

Transactions with Unisys Corporation and Mitsui & Co., Ltd., major shareholders of the Company, for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Sales:			
Unisys Corporation	¥ 29	¥ 30	\$ 270
Mitsui & Co., Ltd.	1,205	1,695	11,221
Total	¥ 1,234	¥ 1,725	\$ 11,491
Purchases:			
Unisys Corporation	¥15,370	¥16,429	\$143,123
Mitsui & Co., Ltd.	9,570	10,904	89,115
Total	¥24,940	¥27,333	\$232,238

Transaction balances due to or from Unisys Corporation and Mitsui & Co., Ltd. at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Accounts receivable—trade:			
Unisys Corporation	¥ 7		\$ 65
Mitsui & Co., Ltd.	247	¥ 892	2,300
Total	¥ 254	¥ 892	\$ 2,365
Accounts payable—trade:			
Unisys Corporation	¥1,126	¥1,463	\$10,485
Mitsui & Co., Ltd.	2,639	2,799	24,574
Total	¥3,765	¥4,262	\$35,059
Accounts payable—other:			
Mitsui & Co., Ltd.	¥ 462	¥1,183	\$ 4,302
Long-term accounts payable—other:			
Mitsui & Co., Ltd.		¥ 448	

17. Subsequent events

At the general shareholders' meeting held on June 23, 2005, the Company's shareholders approved the following appropriations of retained earnings and stock option plan for the Company's directors and key employees:

(a) *Appropriations of retained earnings*

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3.75 (\$0.07) per share	¥396	\$3,687
Bonuses to directors	¥ 55	\$ 512

(b) *Stock option plan* – The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 750 thousand shares of the Company's common stock in the period from July 1, 2007 to June 30, 2012. 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.

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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, 2005 and 2004, 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, 2005 and 2004, 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.



June 23, 2005

Corporate Data

(as of March 31, 2005)

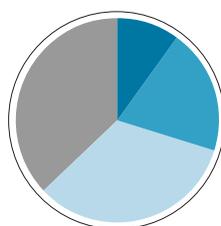
Name	Nihon Unisys, Ltd.
Head Office	1-1, Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan
Established	March 29, 1958
Capital	¥5,483 million
Business Activities	Consulting services IT Solutions Outsourcing services Support services System-related services Sales of computer systems (hardware and software)

Common Stock

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

Shareholders

Number of Shareholders:	9,572
Classification of Shareholders:	



Individuals	10,933,015 shares (9,177 shareholders)	9.97%
Financial Institutions and Securities Companies	21,708,587 shares (114 shareholders)	19.80%
Other Domestic Corporations	36,368,329 shares (145 shareholders)	33.16%
Foreign Corporations and Individuals	40,653,593 shares (136 shareholders)	37.07%

Principal Shareholders:

Name	Number of shares held (thousands)	Holding ratio (%)
Mitsui & Co., Ltd.	30,524	27.84
Unisys Corporation	30,524	27.84
Japan Trustee Services Bank, Ltd. (Trust Account)	5,790	5.28
Nihon Unisys, Ltd. (Treasury Stock)	4,005	3.65
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,549	3.24
Nihon Unisys Employees' Shareholding Society	2,132	1.94
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account/Mitsubishi Electric Corporation Account)	1,271	1.16
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	1,161	1.06
Trust & Custody Services Bank, Ltd. (Trust Account B)	956	0.87
Goldman Sachs International	783	0.71

Employees

8,675 (Consolidated basis)
1,983 (Non-consolidated basis)

Consolidated Subsidiaries

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
Systems Services			
Nihon Unisys Solutions, Ltd.	Providing optimum solutions to customers through the combination of high level skills and sophisticated strategic ideas which interconnect customers' strategies and leading edge technology	440	100.0
Nihon Unisys Excelutions, Ltd.	Developing 3D CAD/CAM and housing CAD systems as well as business solutions and services	100	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
Outsourcing & Supply			
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
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
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
Personnel Training Services			
Nihon Unisys Learning Co., Ltd.	Providing IT resource consulting services, seminars and Web-based training programs	50	100.0
Group Shared 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.

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



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