Annual Report 2007

For the year ended March 31, 2007

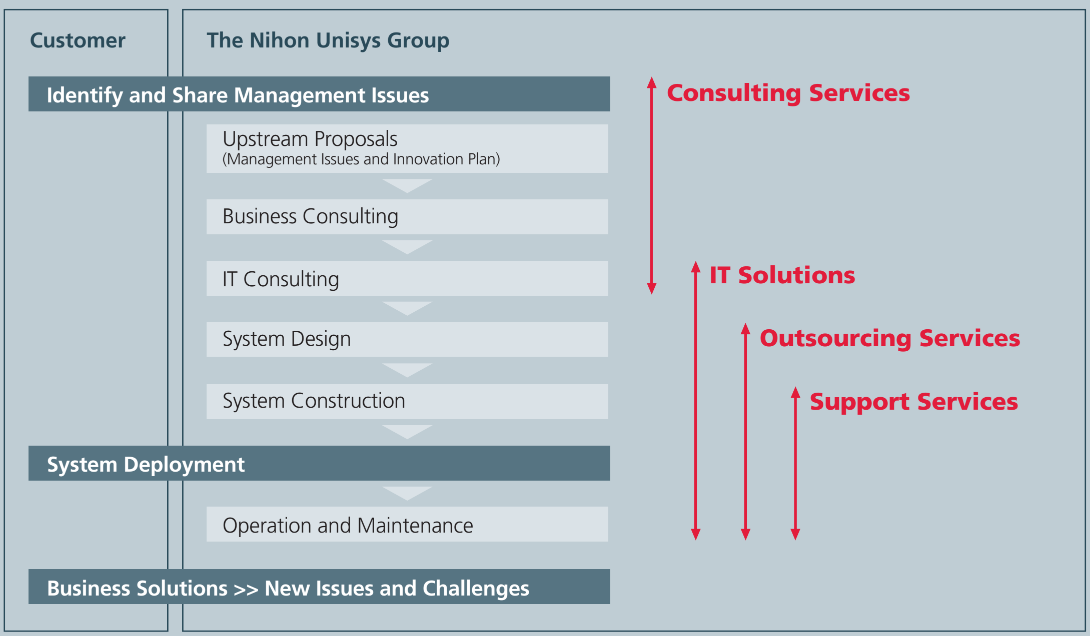
Nihon Unisys, Ltd.

A Company That Creates Value for Its Customers

The Nihon Unisys Group Provides Information Technology (IT) Services That Enable Customers to Create New Value.

Japanese companies are now in the midst of a re-formulation of their business models by focusing most strongly on IT strategies. IT strategy is no longer limited only to achieving higher operational efficiencies; it has actually become an important device for realizing management strategies that will ensure survival.

The Nihon Unisys Group supports value creation for customers by integrating IT solutions services, from the identification of customer management issues to the provision of actual solutions. To achieve this, we will leverage the expertise that we have achieved from our businesses in a broad range of industries (finance, manufacturing, distribution and public sector services) as well as by maximizing the total capabilities of the Group.



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Message from the President & CEO

We will pursue a group-wide effort to enhance corporate value by increasing profitability and accelerating growth.

I would like to offer my sincere gratitude to our shareholders and investors for their exceptional and continued support.

The Nihon Unisys Group is committed to its future vision of transforming into a high-growth corporate group under the management concept of sharing value with our customers — “U&U” (Users & Unisys).

Towards realizing this vision, in the fiscal year ended March 2007, we sought to both identify new business opportunities and expand existing ones according to our four priority initiatives: enhancing research and development (R&D); strengthening our collaboration with Mitsui & Co.; promoting M&A; and developing our global business. Also, we promoted quality assurance in order to become a corporate group on which customers can completely rely.

Specifically, as part of our efforts to enhance R&D, we reinforced our Open Source Software (OSS) promotion system, therefore allowing us to make a full-scale entrance into the OSS business. In developing our global business, we established USOL Vietnam Corporation as our base for overseas software development, where around 120 local engineers have already been engaged in development activities. In February 2007, our subsidiary UNIADEX, Ltd. signed a comprehensive operational partnership agreement with KDDI. This established a service delivery structure that combined their respective competitive advantages. In the area of quality assurance, we launched a Quality Assurance Review as well as midway reviews of development projects, and we sought to bolster our project support system as part of our ongoing effort to improve our quality assurance system.

In the fiscal year ending March 2008, through a continued commitment and strengthening of these arrangements, we will strive hard to both increase revenue and expand business. These aims will be achieved by enhancing profitability and carefully monitoring the ICT* market, respectively.

With the continued support and encouragement of our shareholders and investors, we will remain committed to pursuing a group-wide effort that will further enhance corporate value and achieve sustainable growth.

June 2007

Katsuto Momii
President & CEO

* ICT: Information Communication Technology, an overall term for technologies related to information and communication.

Highlights

1 In the fiscal year ended March 2007, operating income and net income rose, despite a decline in net sales, due to the positive impact of cost reductions.

2 We expect a significant increase in profit in the fiscal year ending March 2008 due to the absence of the lump-sum payment for license fees related to trademark rights.

Business Environment

Severe Conditions Persist in the Information Service Market

The Japanese economy gradually expanded in the fiscal year ended March 2007, although issues of concern have arisen for the future outlook such as the slowdown in capital expenditures and sluggish personal consumption.

In the information service market, business conditions are expected to remain harsh despite gradual growth in corporate demand, as companies seek to reduce costs and maintain a cautious stance on investments, and as the prices of IT-related products are expected to continue falling in the foreseeable future.

Review of Operations

Growth in Profit Accomplished Despite a Decline in Net Sales

Under these circumstances, the Nihon Unisys Group reinforced its three-fold structure of sales, development and maintenance and endeavored to provide integrated services to customers.

On the other hand, due to the impact of partially delaying the reporting of sales for large-scale projects into the next fiscal year and the promoting of selective order-taking that emphasizes risk and profitability, net sales fell by 3% from the previous year to ¥307,455 million.

In regard to profit, while declining net sales had a negative impact, selling, general and administrative expenses showed a significant decrease due to aggressive cost reductions, and operating income rose by 24% on the year to ¥6,278 million, while net income surged 82% on the year to ¥3,434 million.

We expect significant increases in profit in the fiscal year ending March 2008, due to the absence of a lump-sum payment on license fees to Unisys Corporation.

Profit Distribution Policy

Pursuing a Distribution Policy That Reflects Consolidated Financial Performance

Recognizing that increasing corporate value constitutes the most important return we can provide to shareholders. Nihon Unisys strives to ensure a stable, continuous distribution of profit, and has decided to pay dividends of ¥7.50 per share for the fiscal year under review, unchanged from the previous year.

In the future, we will follow a dividend policy that reflects our financial performance and intend to gradually increase dividends to achieve a consolidated dividend payout ratio* of 20%. In determining the amount of dividends, we will seek to secure sufficient retained earnings to support business development. Also, we will consider the overall state of funding needs for investing in corporate growth and the management environment.

* **Dividend Payout Ratio:** Ratio of total dividends to net income.

The Nihon Unisys Group Strategy

Seeking Full-Scale Business Expansion Centered on the Strengthening of Two Core Business Systems

In the fiscal year ending March 2008, we will strengthen our service and ICT business systems to further enhance profitability and accelerate growth.

Transformation into a High-Growth Corporate Group

Full-Scale Business Expansion

Enhanced Profitability

Accelerated Growth

Strengthened Service System

Strengthening Our Service System so as to Enhance Profitability

Reorganizing Our Services to Integrate Sales Force and SEs
We will further strengthen the integration of our service system, which combines our sales force and SE, by transferring SEs from our system development subsidiary Nihon Unisys Solutions to Nihon Unisys.

Strengthening Regional Services
We will bring our services closer to customers by establishing a development company in each region.

Restructuring into a Project-Based Organization
We will strengthen optimal resource management by restructuring the systems division into a flat, project-based organization.

Reinforcing Support and Screening Systems
Support System: We will enhance our support system by establishing a new structure for providing support at each stage, from identifying business opportunities to presenting proposals.
Screening System: We will reinforce our system for screening project proposals and reviewing ongoing projects.

Strengthened ICT Business System

Quickly Establishing a Total Service System for the High-Growth ICT Market to Accelerate Growth

Providing Total ICT Service
We will provide comprehensive ICT services that encompass network services and system architecture, operation and maintenance/support, through a partnership with KDDI Corporation.

Establishing a Multi-Vendor ICT Service Platform
We will build our ICT service platform based on advanced UNIADEX maintenance/support technologies (software, servers, networking) to expand our business.

Strengthening Network-Related Businesses
We will further bolster the network domain targeted by UNIADEX and expand business by strengthening our system architecture capabilities and network integration technologies.

Business Summary by Market

The Nihon Unisys Group Offers Optimal One-Stop IT Solutions to Customers of a Wide Range of Industries through Group Collaboration.

Financial

Proportion of Sales
(FY ended March 2007)

Establishing a Market Presence Based on Our Track Record in Regional Banking Systems Domain

We observed steadily expanding business in the financial sector as our next-generation open core banking system for regional banks began full-scale operations in May 2007 at the Hyakugo Bank, our first client for the system, leading several other regional banks to choose to adopt our system.

In the fiscal year ending March 2008, we will seek to both solidify our position in the regional bank market and concentrate our resources on winning new users in the credit union market. We will also endeavor to develop new markets by expanding our share in the insurance and trust bank sectors.

Manufacturing, Commerce and Distribution

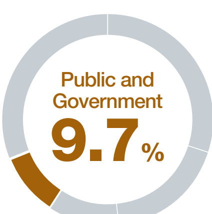
Proportion of Sales
(FY ended March 2007)

Providing Solutions across the Entire Spectrum of Industries

In the fiscal year under review, motivation for IT investments recovered in the manufacturing sector, centered on mid-scale enterprises, and the Nihon Unisys Group enjoyed a steady rise in the number of projects in new areas.

The distribution sector is also exhibiting active demand in response to the transition to open systems. In the fiscal year ending March 2008, we will aggressively develop solutions across the entire spectrum of industries, including the retail, mail-order and apparel businesses. In particular, we will particularly focus on strategic solutions that enable rapid customer business reform by linking distribution and logistics with IT.

Public and Government



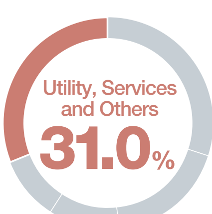
Proportion of Sales
(FY ended March 2007)

Developing Solutions that Maximize Our Strengths in Core Operational Domains

Under governmental guidance, we will actively provide IT support to the central government and local governments, while also seeking to secure a new profit base by adopting an upstream approach.

In addition, we will seek to boost sales of solutions that allow us to maximize our strengths in the core domains of the Nihon Unisys Group, such as personnel, payroll and document management and waterworks operations.

Utility, Services and Others



Proportion of Sales
(FY ended March 2007)

Focusing on High-Growth Fields to Create High Value-Added Businesses

We will focus on fields with high-growth potential, such as medicine, telecommunications, logistics, travel, and media and entertainment to develop high value-added businesses.

In the field of air transportation, we aim to become the only group of specialists armed with the required levels of knowledge and technological capability.

Front-Line Solutions

The Nihon Unisys Group Delivers Solutions across Diverse Fields to Enhance the Prosperity and Comfort of the Society of the Future.

In the Field of Finance

Developing and Operating a Common Banking System to Support Credit Unions That Underpin Regional Economies

With the advance of financial liberalization, transaction volume as well as products and services are expanding at credit unions, which serve as the backbone of regional economies. This in turn requires more powerful processing capability, stability and security in the core banking systems upon which mission-critical tasks depend.

In response, the Nihon Unisys Group developed a common core banking system that can be shared by several credit unions. This system is operated at three outsourcing centers in Japan for credit unions. While the system reduces costs, we also incorporated a mechanism for flexibly responding to requirements of individual products and services that quickly address the evolving business environment and customer needs.

In the Field of Cutting-Edge Technology

Cooperating in Tests for IC Tag Applications That Allow Constant Monitoring of Product Volume and Location

IC tags are attracting attention as a new technology for bringing revolutionary change into the flow of goods and information.

In February 2007, we conducted a proof of concept test for inventory control using IC tags in a joint effort with Yamada Denki (project commissioned by the Ministry of Economy, Trade and Industry). IC tags were used to automatically collect information on the movement of the product, such as receipt, storage and sales, thereby enabling real-time confirmation of the quantity and location of each product via an information terminal carried by store staff.

Staff will no longer need to make trips to the stock room and can concentrate on serving customers, which is expected to lead to better customer service and sales growth.

In the Field of Retail

Buy What You Want, When You Want! Developing a New System That Introduces Innovation to Convenience Store Ordering Operations

How often have customers gone to a convenience store just to discover that what they are looking for is out of stock? To provide a measure of relief to dissatisfied consumers, am/pm Japan began operating the Recommended Ordering System in November 2006 at approximately 1,000 stores nationwide.

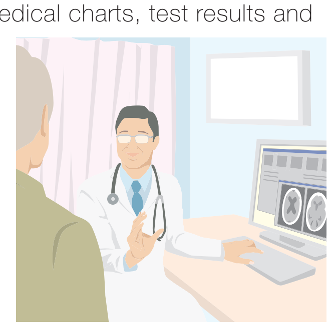
The system automatically calculates the optimal number of orders for daily merchandise such as rice balls and boxed lunches based on location, weather conditions, regional events and other data. The ordering preferences of individual stores can also be reflected in the ideal calculations, resulting in an efficient and sufficient product inventory.

In the Field of Medicine

Effective Medical Collaboration to Provide Region-Wide Healthcare for Residents

The increased aging of the population has resulted in a separation of functions in which daily care is sought at neighborhood clinics while detailed examinations and advanced treatment are provided at general hospitals.

The Nihon Unisys Group and the JA Hiroshima General Hospital developed a system for sharing clinical data such as electronic medical charts, test results and CT images with regional clinics via the Internet. We support the health of local residents through the effective collaboration of general hospitals and regional clinics.



Corporate Governance

The Nihon Unisys Group strives to reinforce and enhance its corporate governance through such measures as separating management functions from business execution functions, and appointing outside managing directors and outside corporate auditors. Thus, we will quickly make decisions in response to a changing business environment, clarify management accountability, and increase business transparency. Our goal through these actions is to consistently raise our corporate value.

As part of these measures, the Board of Directors adopted a resolution on the Basic Policy on the Establishment of an Internal Control System in May 2006. The policy seeks to ensure effective and efficient operation by each company in the Nihon Unisys Group. It stipulates systems for implementing appropriate organizational development, establishment, revision or discontinuation of guidelines and rules, communication of information, and audits.

Management Functions

Board of Directors

The Board of Directors consists of 10 managing directors, including 2 outside managing directors, and meets in principle once a month. The Board decides and reports on key corporate issues. The term of office for managing directors is one year to secure a flexible management structure that can quickly respond to the changing business environment and to clarify the accountability of managing directors.

Business Execution Functions

Corporate Officer System

Nihon Unisys has adopted a Corporate Officer System in an active effort to separate the functions of management oversight and business execution.

Executive Council

The Executive Council, composed of representative directors, undertakes quick, efficient decision making as an entity that deliberates and decides on material matters related to the execution of business.

Committees

To bring a practical perspective to the deliberation of specific management issues related to the execution of responsibilities by directors, we have established various committees, including the Compliance Committee, the CSR Committee, the Environmental Activity Committee, the Risk Management Committee, the Security Committee, the R&D/Investment Committee and the Project Review Committee.

Collective Decision Making System

To deal with issues that require decisions beyond the authority of first-tier unit managers, we developed and operate a system of approval in which responsible corporate officers or representative directors collectively decide based on due consideration of expert opinions presented by related corporate staff managers.

Audit System

Audit by Corporate Auditors

There are four corporate auditors, including three full-time corporate auditors, two of whom are outside corporate auditors. Based on the Audit Standard of Auditors, audit policy and audit plan formulated by the Board of Corporate Auditors, corporate auditors attend meetings of the Board of Directors and other important meetings, and also review the status of operations and assets, thereby monitoring the execution of responsibilities by managing directors. They also audit the status of management of Group companies and concurrently seek to enhance the quality of management.

Accounting Audit

Nihon Unisys undergoes statutory audits by the independent public accounting firm Deloitte Touche Tohmatsu, with whom the Company maintains no conflicts of interest in terms of personnel, financial or business relationships. Deloitte Touche Tohmatsu also conducts a separate audit of major Group companies.

Internal Audit

The Internal Audit Division, a 29-member organization within Nihon Unisys, conducts internal audits of all divisions across the Nihon Unisys Group. The Internal Audit Division audits the appropriateness and efficiency of internal controls and reports to top management on the results of the audit and suggests improvements and corrective actions as required. It also confirms the results of these actions.

Information regarding audits, including audit results, is disclosed to unit managers to accelerate the pace of improvements and corrective actions and to share them with other divisions. In addition, information is provided to Deloitte Touche Tohmatsu to exchange opinions.

The Internal Audit Division and the Board of Corporate Auditors maintain a close collaborative relationship. They exchange opinions on the audit plan formulated by the Board of Corporate Auditors, while the corporate auditors, in turn, attend review sessions on internal audit of business divisions. The Internal Audit Division also provides regular audit reports on issues concerning the entire Group.

Corporate Social Responsibilities (CSR)

The Nihon Unisys Group pursues Corporate Social Responsibility (CSR) under the slogan "What IT can do for society and people." We have established a CSR Committee that formulates our overall CSR policies and initiatives, and committees for pursuing activities and responding to issues concerning individual areas such as compliance, risk management, information security and ecological activities. These committees formulate policies and initiatives for each area and promote them throughout the entire Group. As an example of our proactive involvement in activities that contribute to society as a good corporate citizen, employees voluntarily organized a group in 2006 called Uniheart, which undertakes social contribution activities.

Information Security

Advanced information security is essential for further winning the trust of our customers as the ideal IT partner.

The Nihon Unisys Group established the Information Security Committee in fiscal year ended March 1991 and has been pursuing measures to enhance information security. In addition, we formulated the Nihon Unisys Group's Information Security Comprehensive Strategy in 2004, which defines mid- to long-term measures on information security, and the entire Group has been working together to reinforce our security measures.

Nihon Unisys obtained unified certification for ISO/IEC 27001 in 2006, and aims to obtain unified certification for all Group companies in 2007.

Compliance

Compliance with laws, social norms and corporate codes of conduct and the pursuit of ethical business practices form the foundation for fulfilling corporate social responsibility.

Therefore, the Nihon Unisys Group established the Basic Compliance Policy, which all employees are expected to observe, and the Basic Compliance Rules based on this policy. The Basic Compliance Rules stipulate the organizational structure for promoting compliance and the communication channels (whistle-blowing system) for consulting on and reporting employee concerns and questions regarding compliance.

We also distribute the Compliance Handbook, which describes specific codes of conduct, to all Group employees and hold seminars and e-learning programs to raise awareness among employees.

Risk Management

To consistently maximize corporate value over the long term, it is important to quickly respond to risks facing the Company.

To that end, the Nihon Unisys Group established the Risk Management Committee. We have categorized risks for management into those related to information, goods, products and services, disasters and accidents (crime and damage) and the environment, and have implemented measures for preventing the occurrence of specific types of risk.

Business Continuity Plan (BCP)

In constructing and operating information systems that represent key assets for our customers, the Nihon Unisys Group recognizes that its corporate social responsibility is to maintain customers' businesses even at times of major disasters. Therefore, we are formulating a business continuity plan and pursuing Business Continuity Management (BCM) for its implementation.

As part of these efforts, we developed the Business Continuity Support System, which maps out information on customers and service staff, enabling optimal staff allocation, the effective relaying of commands and progress management in the event of disaster. In addition, we set up a remote backup center, since securing the safe operation of customers' systems depends on securing the operation of the Nihon Unisys Group's own mission critical systems.

Social Contribution

The Nihon Unisys Group values participation in each local region and community.

For example, we undertake clean-ups in the neighborhood surrounding our Head Office (Toyosu, Koto Ward, Tokyo), and encourage exchanges with local shopping areas and residents. We also support voluntary activities by employees, such as charity events and donations, and provide IT solutions that contribute to the promotion of cultural activities such as athletic events and concerts.

Ecological Activities

The Nihon Unisys Group is engaged in reducing environmental burden through the utilization of IT, such as the 'e-environment' system for electronic approval and document management, e-learning and a teleconferencing system. We also encourage environmental activities at companies in the supply chain through the provision of the Green Procurement Meister system, which supports green procurement by electric and electronic equipment makers.

In 2006, ISO 14001 certification was expanded to 10 companies, 94 divisions and 149 sites within the Nihon Unisys Group.

Directors, Corporate Auditors and Corporate Officers

President & CEO
Katsuto Momii

Representative Director &
Executive Corporate Officer
Keiji Shiratori

Representative Director &
Executive Corporate Officer
Tsutomu Fukunaga

Representative Director &
Senior Corporate Officer
Naoya Kashiwagi

Representative Director &
Senior Corporate Officer
Masanori Matsumori

Representative Director &
Senior Corporate Officer
Motonori Saeki

Representative Director &
Senior Corporate Officer
Fumio Horikawa

Representative Director &
Senior Corporate Officer
Koji Suzuki

Managing Directors

Managing Director, Part-Time
Hiroshi Ito

Managing Director, Part-Time
Osamu Takahashi

Corporate Auditors

Corporate Auditor
Makoto Iwanaga

Corporate Auditor
Seimin Hirafuku

Corporate Auditor
Hideo Gamou

Corporate Auditor, Part-Time
Katsuhisa Kiyozuka

Corporate Officers

Superior Senior Corporate Officer
Akiyoshi Hiraoka

Senior Corporate Officer
Toshihiko Kato

Senior Corporate Officer
Yoichi Harada

Senior Corporate Officer
Ryuji Tatsuno

Senior Corporate Officer
Hitoshi Tayama

Senior Corporate Officer
Masayuki Fujisawa

Senior Corporate Officer
Tsutomu Takahashi

Senior Corporate Officer
Kei Sawada

Senior Corporate Officer
Shigeru Inoue

Senior Corporate Officer
Shigehiko Inaizumi

Senior Corporate Officer
Ayumi Takagi

Superior Corporate Officer
Osamu Maruyama

Corporate Officer
Masami Kobayashi

Corporate Officer
Minoru Tasaki

Corporate Officer
Kozo Kiyokawa

Corporate Officer
Yasuaki Ohta

Corporate Officer
Makoto Akiyama

Corporate Officer
Yoshio Umehara

Corporate Officer
Choei Okabe

Corporate Officer
Mitsuo Matsuura

Financial Highlights

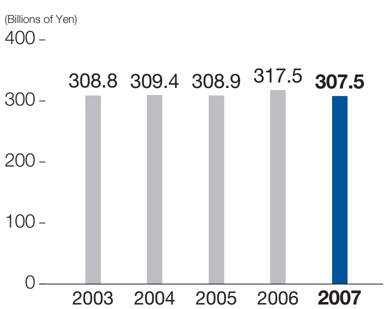
Nihon Unisys, Ltd.
Years Ended March 31, 2007, 2006 and 2005 (Consolidated Basis)

	Millions of Yen			Thousands of U.S. Dollars (Note)
	2007	2006	2005	**2007**
Net sales	**¥ 307,455**	¥ 317,487	¥ 308,869	**$ 2,604,447**
Operating income	**6,278**	5,066	10,414	**53,180**
Net income	**3,434**	1,889	4,717	**29,086**
Total assets	**237,862**	243,931	222,155	**2,014,927**

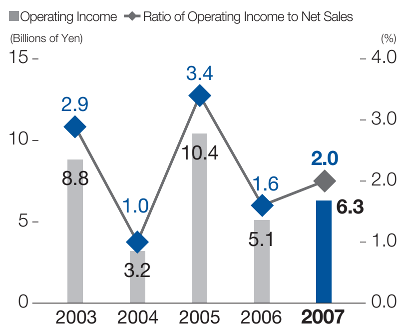
	Yen			U.S. Dollars (Note)
	2007	2006	2005	**2007**
Per share amounts:				
Basic net income	**¥ 35.97**	¥ 17.77	¥ 43.34	**$ 0.30**
Diluted net income	**35.75**	17.71	43.33	**0.30**
Cash dividends applicable to the year	**7.50**	7.50	7.50	**0.06**

(Note) Yen amounts have been translated into U.S. dollars, for convenience only, at ¥118.05 = U.S.$1 prevailing on March 31, 2007.

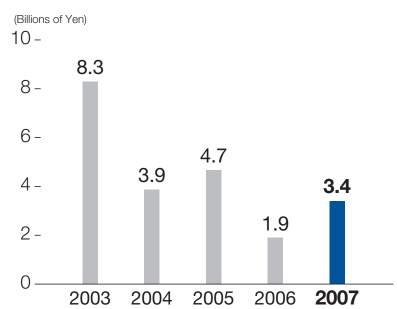
Net Sales



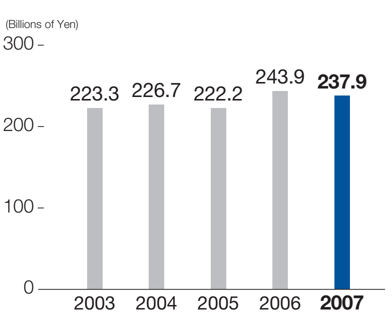
Operating Income / Ratio of Operating Income to Net Sales



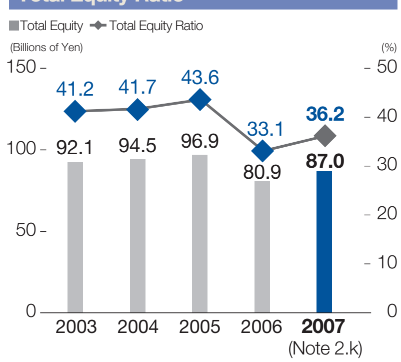
Net Income



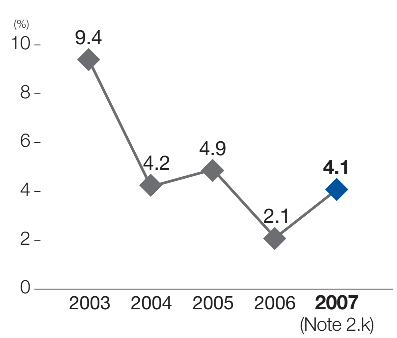
Total Assets



Total Equity / Total Equity Ratio



Return on Equity



See notes to consolidated financial statements.

Analysis of Results of Operations and Financial Condition

Results of Operations

Net Sales

While corporate investments in information technology remained active, factors such as demands for price discounts were prevalent, resulting in a demanding competitive environment, and as we also selectively accepted orders emphasizing risk and profitability, sales of hardware and system services declined significantly. Against this background, total consolidated net sales for the fiscal year under review decreased by ¥10,032 million, or 3.2%, from the previous year to ¥307,455 million.

The breakdown of net sales by business category is provided below:

(1) Services

Sales of services decreased by ¥2,292 million, or 1.2%, from the previous year to ¥193,179 million, partly due to the delaying of final acceptance for some large-scale projects into the next fiscal year.

(2) Software

Sales of software decreased by ¥1,466 million, or 3.0%, from the previous year to ¥47,973 million despite the reporting of sales from large-scale mainframe projects, due to a decline in the sales of open source solutions.

(3) Hardware

Sales of hardware decreased by ¥6,274 million, or 8.6%, from the previous year to ¥66,303 million, due to sluggish sales of open servers and the selective reduction of projects in order to emphasize profitability, in addition to declining income from computer rentals.

By business category, services accounted for 62.8% of total sales (compared with 61.5% in the previous year), software remained the same, representing 15.6% and hardware accounted for the remaining 21.6% (compared with 22.9%).

Operating Income

Gross profit decreased by ¥5,738 million, or 8.3%, from the previous year to ¥63,196 million. While profit margins improved for hardware and software, increased costs on unprofitable system development projects and the effects of a change in the settlement method for sales support expenses, in addition to the decline in sales, caused gross profit to fall.

Selling, general and administrative expenses decreased by ¥6,950 million, or 10.9%, from the previous year to ¥56,918 million, as retirement benefit obligations fell ¥2,255 million and sales support expenses declined by ¥3,791 million.

As a result, operating income increased by ¥1,212 million, or 23.9%, from the previous year to ¥6,278 million.

Net Income

While we reported interest expense and unrealized loss on valuation of securities, income before income taxes and minority interests improved by ¥1,993 million, which was offset by an increase in foreign exchange gain. As a result, net income increased by ¥1,545 million, or 81.8%, from the previous year to ¥3,434 million.

Financial Condition

Balance Sheets

Total assets of the Nihon Unisys Group decreased by ¥6,069 million from the end of the previous year to ¥237,862 million.

Current assets decreased by ¥25,711 million to ¥134,053 milion, as cash and cash equivalents fell ¥7,601 million, license fees of $112,500 thousand paid to Unisys Corporation were realized as costs and accounts receivable-trade fell by ¥4,199 million due to a decline in sales. Investments and other assets increased by ¥20,850 million to ¥83,687 million due to the acquisition of software for outsourcing and the increase in investment securities.

Total liabilities were ¥150,844, down by ¥11,567 million.

Although payments for the purchase of outsourcing assets and licensing rights rose and interest-bearing debt increased in response to financing needs for purchasing investment securities, there was a decrease in accounts payable-trade, in part due to the payment of license fees to Unisys Corporation.

Equity totaled ¥87,018 million. Equity after subtracting minority interests increased by ¥5,338 million, due to proceeds from the sale of treasury stock and net profit.

Cash Flows

Cash and cash equivalents for the fiscal year under review decreased by ¥7,601 million from the beginning of the fiscal year to ¥23,226 million as of the end of the fiscal year. Licensing fees including trademarks paid to Unisys Corporation and funding needs related to the development of software for outsourcing were primarily met by financing activities such as new loans.

Working Capital Requirements

The Group requires working capital for fees paid to outsourcers for Group system and support services, purchasing computers and software for sales, leasing and outsourcing as well as 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 are tied to personnel expenses for system engineers vital to these areas. The policy of the Group is to utilize operating cash flows to cover these working capital requirements.

The Group established a commitment line agreement for special loans from five banks to improve capital efficiency and to assure stability and flexibility in financing activities. The outstanding amount of the commitment line was ¥15 billion as of March 31, 2007.

Business and Other Risks

Factors that may materially affect decisions by investors with respect to the business of the Nihon Unisys Group include the following. References to the future contained herein are based on the understanding of the Group (Nihon Unisys and its consolidated subsidiaries) as of the end of the fiscal year under review.

(1) Impact from Economic Trends and the Market Environment

In the IT service industry, in which the Nihon Unisys Group operates, demands have been gradually stronger on the basis of steady recovery of corporate performance, although prices for IT equipment and services have been declining as corporate users have reinforced cost reduction efforts and emphasized return on investment (ROI). Under these market conditions, greater-than-expected price competition and the delayed adoption of technological advances may materially affect our financial and business performance.

(2) Project Management Risks

The Nihon Unisys Group develops a range of customized computer systems for its customers. Delivery lead times are becoming shorter and projects are growing in size and complexity amid intensifying competition. Under 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 strengthened its project management system.

(3) Exchange Rate Risks

As the sole authorized distributor of Unisys Corporation in Japan, the Nihon Unisys Group imports and markets computers and other IT equipment manufactured by Unisys Corporation in the United States. As a result, our foreign currency-denominated purchases were ¥13,005 million in the fiscal year ended March 2007, which exposes us to risks from fluctuations in foreign currency exchange. The Company uses forward foreign exchange contracts to hedge the risk of changes in foreign currency exchange rates.

(4) Information Control Risks

In the course of developing and providing information systems through our operations, the Nihon Unisys Group is exposed not only to internal information but also the confidential information of many customers as well as personal information owned by customers. As a participant in the IT industry, we are fully aware of the importance of information management. We control information with maximum security and care. To prepare for an unexpected accident, we have taken out an insurance policy for a given amount. However, if damages were to cost significantly more than the amount insured or if we were to suffer loss or damage to our reputation, the Group's business results could be impacted.

(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 as planned, it may have an impact on our operations.

In addition, there is a possibility the Group could face legal action with regard to intellectual properties associated with computer programs. This can be costly and could affect our business results.

(6) Litigation Risks

The Nihon Unisys Group endeavors to practice consistent compliance to conduct sound and transparent business activities. However, there is a possibility the Company may face litigation or legal procedures against it, regardless of whether any violation of law was actually committed, which may impact the business performance of the Group.

(7) 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, materially impacting sales and other operations. The Group's business results may be profoundly affected. Therefore, the Group is engaged in business contingency activities.

(8) Relations with Key Supplier

Nihon Unisys is the sole authorized distributor of computers and other IT equipment manufactured by Unisys Corporation. The Company imports and markets computers and other equipment made by Unisys Corporation, and provides support services in Japan. The Company has rights to Unisys Corporation's trademarks and also receives technical information and support from the latter. The trading relationship with Unisys Corporation has been steady but if the relationship becomes strained and can no longer be maintained, it would have an impact on the Group's business results.

(9) Risks Related to the Hiring of High-Level Engineers

The shortage of high-level engineers has become a pressing issue for the IT service industry, and if the Group fails to secure the required number of such engineers, it may affect its business performance. For this reason, we are actively reforming our personnel systems to create a working environment in which Group personnel can comfortably pursue their tasks. Furthermore, with respect to our system service structure, we are planning to abolish the conventional organizational framework to introduce a system that allocates personnel on a project basis with the goal of enabling high-level engineers in the Group to concentrate more fully on their projects and perform their tasks with greater efficiency. We are also actively reinforcing training and other programs for human resource development.

Consolidated Balance Sheets

Nihon Unisys, Ltd.
March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2007	2006	2007
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 4)	¥ 23,226	¥ 30,827	$ 196,747
Accounts receivable-trade (Note 18)	76,510	80,709	648,115
Inventories (Note 6)	17,078	19,322	144,668
Deferred tax assets (Note 8)	11,128	10,373	94,265
Other current assets	6,492	18,597	54,994
Allowance for doubtful accounts	(381)	(64)	(3,227)
Total current assets	134,053	159,764	1,135,562
Property, Plant and Equipment (Note 11)**:**			
Land	848	848	7,183
Buildings and structures	14,151	14,037	119,873
Machinery and equipment	82,297	83,993	697,137
Total	97,296	98,878	824,193
Accumulated depreciation	(77,174)	(77,548)	(653,740)
Net property, plant and equipment	20,122	21,330	170,453
Investments and Other Assets:			
Investment securities (Note 5)	20,298	10,981	171,944
Investments in unconsolidated subsidiaries and affiliated companies	1,256	315	10,640
Software (Note 11)	29,450	23,020	249,471
Lease deposits	9,192	9,370	77,865
Deferred tax assets (Note 8)	9,789	7,263	82,922
Prepaid pension costs (Note 9)	12,036	10,455	101,957
Other assets (Note 11)	1,666	1,433	14,113
Total investments and other assets	83,687	62,837	708,912
Total	¥ 237,862	¥ 243,931	$ 2,014,927

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2007	2006	**2007**
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term borrowings (Note 7)	**¥ 19,050**	¥ 5,960	**$ 161,372**
Current portion of long-term debt (Note 7)	**19,042**	2,261	**161,305**
Commercial paper (Note 7)	**13,000**	20,000	**110,123**
Accounts payable-trade (Note 18)	**32,789**	53,820	**277,755**
Accounts payable-other (Note 18)	**4,923**	4,258	**41,703**
Income taxes payable (Note 8)	**4,515**	3,051	**38,247**
Accrued expenses	**13,008**	14,810	**110,191**
Other current liabilities	**14,098**	15,489	**119,424**
Total current liabilities	**120,425**	119,649	**1,020,120**
Long-term Liabilities:			
Long-term debt (Note 7)	**26,400**	35,342	**223,634**
Long-term accounts payable-other	**390**	2,882	**3,304**
Liability for retirement benefits (Note 9)	**1,454**	1,959	**12,317**
Deferred tax liabilities (Note 8)	**580**	525	**4,913**
Negative goodwill (Notes 2.v and 3)	**79**		**669**
Other long-term liabilities (Note 12)	**1,516**	2,054	**12,842**
Total long-term liabilities	**¥ 30,419**	¥ 42,762	**$ 257,679**
Minority Interests		¥ 670	
Commitments and Contingent Liabilities (Notes 12, 13, 14 and 17)			
Equity (Notes 2.k, 14, 17, 19.a and 19.b)**:**			
Common stock, authorized, 300,000,000 shares; issued, 109,663,524 shares in 2007 and 109,663,524 shares in 2006	**¥ 5,483**	¥ 5,483	**$ 46,446**
Capital surplus	**15,515**	15,288	**131,427**
Stock acquisition rights	**66**		**559**
Retained earnings	**81,457**	78,388	**690,021**
Net unrealized gain on available-for-sale securities	**2,840**	3,285	**24,058**
Deferred gain on derivatives under hedge accounting	**6**		**51**
Foreign currency translation adjustments	**(1)**		**(8)**
Treasury stock deposit	**0**	3	**0**
Treasury stock-at cost, 13,691,439 shares in 2007 and 15,418,890 shares in 2006	**(19,178)**	(21,597)	**(162,457)**
Total	**86,188**	80,850	**730,097**
Minority interests	**830**		**7,031**
Total equity	**87,018**	80,850	**737,128**
Total	**¥ 237,862**	¥ 243,931	**$ 2,014,927**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nihon Unisys, Ltd.
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2007	2006	**2007**
Net sales (Note 18)	**¥ 307,455**	¥ 317,487	**$ 2,604,447**
Cost of sales (Notes 3 and 18)	**244,259**	248,553	**2,069,115**
Gross profit	**63,196**	68,934	**535,332**
Selling, general and administrative expenses (Notes 3 and 10)	**56,918**	63,868	**482,152**
Operating income	**6,278**	5,066	**53,180**
Other income (expenses):			
Interest and dividend income	**245**	170	**2,075**
Interest expense	**(709)**	(457)	**(6,006)**
Income from building rental		13	
Gain on sales of securities (Note 5)	**328**	170	**2,778**
Unrealized loss on valuation of securities (Note 5)	**(341)**	(132)	**(2,889)**
Foreign exchange gain (loss)	**308**	(288)	**2,609**
Gain on sales of property, plant and equipment	**3**	225	**25**
Impairment loss (Note 11)		(380)	
Special retirement expense		(117)	
Equity in earnings of affiliated company	**47**		**398**
Other-net	**153**	49	**1,296**
Other income (expenses)-net	**34**	(747)	**286**
Income before income taxes and minority interests	**6,312**	4,319	**53,466**
Income taxes (Note 8):			
Current	**5,501**	3,663	**46,599**
Deferred	**(2,790)**	(1,327)	**(23,634)**
Total income taxes	**2,711**	2,336	**22,965**
Minority interests in net income	**167**	94	**1,415**
Net income	**¥ 3,434**	¥ 1,889	**$ 29,086**

	Yen		U.S. Dollars
Per Share Amounts (Notes 2.j, 15 and 17)**:**			
Basic net income	**¥ 35.97**	¥ 17.77	**$ 0.30**
Diluted net income	**35.75**	17.71	**0.30**
Cash dividends applicable to the year	**7.50**	7.50	**0.06**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Nihon Unisys, Ltd.
Years Ended March 31, 2007 and 2006

	Thousands	Millions of Yen											
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjust-ments	Treasury Stock Deposit	Treasury Stock-at Cost	Total	Minority Interests	Total Equity
Balance, March 31, 2005	105,658	¥ 5,483	¥ 15,282		¥ 77,391	¥ 2,150				¥ (3,413)	¥ 96,893		¥ 96,893
Net income					1,889						1,889		1,889
Cash dividends, ¥7.50 per share					(792)						(792)		(792)
Bonuses to directors and corporate auditors					(100)						(100)		(100)
Increase in capital surplus			6								6		6
Net increase in unrealized gain on available-for-sale securities						1,135					1,135		1,135
Paid-in treasury stock deposit									¥ 3		3		3
Purchase of treasury stock	(11,413)									(18,184)	(18,184)		(18,184)
Balance, March 31, 2006	94,245	5,483	15,288		78,388	3,285			3	(21,597)	80,850		80,850
Reclassified Balance as of March 31, 2006												¥ 670	670
Net income					3,434						3,434		3,434
Cash dividends, ¥3.75 per share, applicable to the prior financial year					(353)						(353)		(353)
Cash dividends, ¥3.75 per share, applicable to the current financial year					(359)						(359)		(359)
Bonuses to directors and corporate auditors					(29)						(29)		(29)
Changes of newly-consolidated company accounted for under equity method					376						376		376
Paid-in treasury stock deposit									0		0		0
Purchase of treasury stock	(1)									(2)	(2)		(2)
Disposal of treasury stock	1,728		448							1,723	2,171		2,171
Exercise of stock option			(221)						(3)	698	474		474
Net change in item other than those in shareholder's equity				¥ 66		(445)	¥ 6	¥ (1)			(374)	160	(214)
Net change in the year	1,727		227	66	3,069	(445)	6	(1)	(3)	2,419	5,338	160	5,498
Balance, March 31, 2007	**95,972**	**¥ 5,483**	**¥ 15,515**	**¥ 66**	**¥ 81,457**	**¥ 2,840**	**¥ 6**	**¥ (1)**	**¥ 0**	**¥ (19,178)**	**¥ 86,188**	**¥ 830**	**¥ 87,018**

	Thousands of U.S. Dollars (Note1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized (Loss) on Available-for-Sale Securities	Deferred Gain on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjust-ments	Treasury Stock Deposit	Treasury Stock-at Cost	Total	Minority Interests	Total Equity
Balance, April 1, 2006	$ 46,446	$ 129,504		$ 664,024	$ 27,827			$ 25	$ (182,948)	$ 684,878		$ 684,878
Reclassified Balance as of March 31, 2006											$ 5,676	5,676
Net income				29,086						29,086		29,086
Cash dividends, ¥3.75 per share, applicable to the prior financial year				(2,990)						(2,990)		(2,990)
Cash dividends, ¥3.75 per share, applicable to the current financial year				(3,041)						(3,041)		(3,041)
Bonuses to directors and corporate auditors				(246)						(246)		(246)
Changes of newly-consolidated company accounted for under equity method				3,188						3,188		3,188
Treasury stock deposit								0		0		0
Purchase of treasury stock									(18)	(18)		(18)
Disposal of treasury stock		3,795							14,596	18,391		18,391
Exercise of stock option		(1,872)						(25)	5,913	4,016		4,016
Net change in item other than those in shareholder's equity			$ 559		(3,769)	$ 51	$ (8)			(3,167)	1,355	(1,812)
Net change in the year		1,923	559	25,997	(3,769)	51	(8)	(25)	20,491	45,219	1,355	46,574
Balance, March 31, 2007	**$ 46,446**	**$ 131,427**	**$ 559**	**$ 690,021**	**$ 24,058**	**$ 51**	**$ (8)**	**$ 0**	**$ (162,457)**	**$ 730,097**	**$ 7,031**	**$ 737,128**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd.
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note1)
	2007	2006	2007
Operating Activities:			
Income before income taxes and minority interests	¥ 6,312	¥ 4,319	$ 53,466
Adjustments for:			
Income taxes paid	(3,896)	(2,850)	(33,003)
Depreciation and amortization	13,808	15,736	116,967
Gain on sales of property, plant and equipment	(3)	(225)	(25)
Gain on sales of securities	(328)	(171)	(2,778)
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease in accounts receivable-trade	4,390	4,478	37,188
Decrease (Increase) in inventories	2,243	(4,106)	19,000
(Increase) Decrease in interest and dividend receivable	(1)	1	(8)
(Decrease) Increase in accounts payable-trade	(21,052)	14,248	(178,331)
Increase (Decrease) in interest payable	42	(15)	356
(Decrease) in liability for retirement benefits	(477)	(80)	(4,041)
Other-net	7,776	(12,358)	65,872
Total adjustments	2,502	14,658	21,197
Net cash provided by operating activities	8,814	18,977	74,663
Investing Activities:			
Proceeds from sales of property, plant and equipment	26	339	220
Payments for purchases of property, plant and equipment	(6,898)	(7,735)	(58,433)
Payments for purchases of software	(14,668)	(11,265)	(124,252)
Proceeds from sales of investment securities	436	300	3,693
Payments for purchases of investment securities	(10,998)	(788)	(93,164)
Payments for the purchase of newly consolidated subsidiaries, net of cash acquired	(150)		(1,271)
Other-net	(19)	(154)	(161)
Net cash used in investing activities	(¥ 32,271)	(¥ 19,303)	($ 273,368)
Financing Activities:			
Net increase in short-term borrowings	¥ 13,090	¥ 4,966	$ 110,885
Proceeds from long-term debt	10,100	13,800	85,557
Repayments of long-term debt	(2,050)	(8,446)	(17,366)
Repayments of other borrowings	(211)	(205)	(1,787)
Net (Decrease) Increase in commercial paper	(7,000)	14,000	(59,297)
Proceeds from sales of treasury stock	2,171		18,391
Payments for purchases of treasury stock	(2)	(18,263)	(18)
Proceeds from exercise of stock option	474	88	4,016
Cash dividends	(712)	(794)	(6,031)
Cash dividends to minority interests	(3)	(1)	(25)
Other		24	
Net cash provided by financing activities	15,857	5,169	134,325
Effect of exchange rate changes on cash and cash equivalents	(1)		(8)
Net (Decrease) Increase in Cash and Cash Equivalents	(7,601)	4,843	(64,388)
Cash and Cash Equivalents, Beginning of Year	30,827	25,984	261,135
Cash and Cash Equivalents, End of Year	¥ 23,226	¥ 30,827	$ 196,747

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd.
Years Ended March 31, 2007 and 2006

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 ("IFRS").

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for "the Statement of Changes in Equity," which is effective for fiscal years ending on or after May 1, 2006. The Consolidated Statement of Shareholders' Equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan ("Japanese GAAP") and has been renamed "the Consolidated Statement of Changes in Equity" in the current fiscal year.

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 2006 consolidated financial statements to conform to the classifications used in 2007.

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 ¥118.05 to $1, the rate of exchange at March 31, 2007. 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, 2007 include the accounts of the Company and its 19 significant (11 for the year ended March 31, 2006) subsidiaries and 1 affiliated company accounted for under equity method (together, the "Group").

On June 1, 2006, Nihon Unisys Solutions, Ltd. ("USOL") established USOL Vietnam Corporation ("USOLV") specializing in offshore development in Hanoi, Socialist Republic of Vietnam, in order to respond to the increasing orders for system development and to acquire highly skilled overseas information technology ("IT") engineers.

On July 1, 2006, UNIADEX, Ltd. ("UAL"), which is 100% shares of stock owned by the Company and is the surviving company, merged the Nihon Unisys Information Systems, Ltd. ("UIS"), which was a 100% shares of stock owned by the Company, to create the synergy.

On August 1, 2006, the Company acquired 100% shares of stock of Cambridge Technology Partners Ltd. ("CTP") from Novell, Inc. CTP provides end-to-end service, including strategic consulting services, technology-enabled solutions and maintenance services.

The results of operations for CTP are included in the Company's Consolidated Statements of Income from November 1, 2006 to March 31, 2007 because CTP adopted fiscal year ending October 31 before the acquisition.

On October 2, 2006, the Company acquired additional shares of stock of Kiyo Information Systems, Ltd. ("KJS", "J" comes from "Joho" which means information in English) to acquire highly skilled IT engineers for financial-institution oriented outsourcing service. The additional acquisition of shares of KJS stock increased the Company's share from 19.6% to 41.8% and KJS is accounted for under equity method.

The results of operations for KJS are included in the Company's Consolidated Statements of Income from October 1, 2006.

On March 1, 2007, USOL established the local system developing companies: USOL Hokkaido Co., Ltd., USOL Tohoku Co., Ltd., USOL Kanto Co., Ltd., USOL Chubu Co., Ltd., USOL Kansai Co., Ltd., USOL Chugoku Co., Ltd., USOL Kyusyu Co., Ltd. to transfer system service business other than system developing phase.

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

Investments in the remaining 3 unconsolidated subsidiaries and 4 affiliated companies (3 subsidiaries and 4 affiliated companies for the year ended March 31, 2006) 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.

Cost in excess of the net assets of subsidiaries acquired is amortized on a straight-line basis over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

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

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

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

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes reported in a separate component of 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) **Long-lived assets** – In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the ASBJ issued ASBJ 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 Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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.

(i) **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.

(j) **Stock options** – On December 27, 2005, the ASBJ issued ASBJ Statement No 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the Consolidated Balance Sheets, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied the new accounting standard for stock options to those granted on and after May 1, 2006. The effect of adoption of this accounting standard for the year ended March 31, 2007 was to decrease income before income taxes and minority interests by ¥66 million ($559 thousand).

(k) **Presentation of equity** – On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The Consolidated Balance Sheets as of March 31, 2007 is presented in line with this new accounting standard.

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

(m) **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.

(n) **Bonuses to directors and corporate auditors** – Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriations of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥46 million ($390 thousand).

(o) **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.

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

(q) **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 statements of operations to the extent that they are not hedged by forward exchange contracts.

(r) **Foreign currency financial statements** – The balance sheet accounts of the consolidated foreign subsidiary is translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiary is translated into yen at the current exchange rate as of the balance sheet date.

(s) **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, with gains or losses recognized in the 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.

(t) **Per share information** – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised 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.

(u) **Revision of technical information/support fee and license fee agreement** – The Company entered into "Revision of technical information/support fee and license fee agreement" (the "Revision") with Unisys Corporation. The Revision included an agreement upon onetime payment covering two years for a license without a termination period, and also about quarterly fixed amount payment for high-level technical information/support necessary for the support services to the Company's customers.

Details of Agreement Changes
1) License fee

		Thousands of U.S. Dollars
Consideration:		$ 225,000
Contract period:	April 1, 2005~	
Payment date:	October 2005	112,500
	October 2006	112,500

License fee has been expensed in 2 years ended at the March 31, 2007.

2) Provision of high-level technical information/support necessary for support services

Consideration:	Annual fee $20,000 for first 5 years and negotiable thereafter
Contract period:	5 years starting April 1, 2005 with extension clause
Payment date:	Quarterly basis

(v) New accounting pronouncements

(1) Measurement of inventories – Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

(2) Lease accounting – On March 30, 2007, the ASBJ issued ASBJ Statement No 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

(3) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements – Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either IFRS or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to minority interests

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. Change in treating cost incurred by USOL

A part of organizational restructuring to increase the Group's synergy, USOL is regarded as a cost center being specialized in developing software and systems in the current financial year. The method of cost settlement between the Company and USOL has changed, such that all costs incurred by USOL are recorded as Cost of manufacturing which is included in Cost of sales on the Consolidated Statement of Income. Sales support activity incurred by USOL is regarded as an indirect activity.

On the Consolidated Statements of Income, cost of sales support activity incurred by USOL was recorded on Selling, General, and Administrative ("SGA") expenses in the prior financial year and is recorded on Cost of manufacture in the current financial year.

The net effect of this change is to decrease SGA expenses ¥2,980 million ($25,244 thousand) and is to increase Cost of sales ¥2,370 million ($20,076 thousand), Operating income ¥609 million ($5,159 thousand), Income before income taxes and minority interests ¥609 million ($5,159 thousand) on the Consolidated Statement of Income.

The net effect of this change is to increase Inventory ¥489 million ($4,142 thousand) and Software ¥120 million ($1,017 thousand) on the Consolidated Balance Sheets.

4. Cash and cash equivalents

Cash and cash equivalents at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Cash and time deposits	**¥ 23,236**	¥ 30,837	**$ 196,832**
Less-time deposits with maturities over 3 months	**(10)**	(10)	**(85)**
Total	**¥ 23,226**	¥ 30,827	**$ 196,747**

5. Investment securities

Investment securities as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Non-current:			
Equity securities	**¥ 20,076**	¥ 10,805	**$ 170,064**
Debt securities	**150**	147	**1,270**
Trust fund investments and other	**72**	29	**610**
Total	**¥ 20,298**	¥ 10,981	**$ 171,944**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 13,909**	**¥ 5,206**	**¥ (448)**	**¥ 18,667**
Debt securities	**50**		**(0)**	**50**
Other	**34**	**10**		**44**
Total	**¥ 13,993**	**¥ 5,216**	**¥ (448)**	**¥ 18,761**
March 31, 2006				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,741	¥ 5,547	¥ 12	¥ 9,276
Debt securities	50		3	47
Total	¥ 3,791	¥ 5,547	¥ 15	¥ 9,323

	Thousands of U.S. Dollars			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 117,823**	**$ 44,100**	**$ (3,795)**	**$ 158,128**
Debt securities	**425**			**425**
Other	**288**	**85**		**373**
Total	**$ 118,536**	**$ 44,185**	**$ (3,795)**	**$ 158,926**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥ 1,409**	¥ 1,529	**$ 11,936**
Debt securities	**100**	100	**845**
Trust fund investments and other	**28**	29	**237**
Total	**¥ 1,537**	¥ 1,658	**$ 13,018**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥436 million ($3,693 thousand) and ¥300 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥328 million ($2,778 thousand) and ¥170 million, for the year ended March 31, 2007 and 2006 respectively.

6. Inventories

Inventories at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Work in process	¥ 6,749	¥ 5,752	$ 57,171
Merchandise and finished products	10,117	13,402	85,701
Supplies	212	168	1,796
Total	¥ 17,078	¥ 19,322	$ 144,668

7. Short-term borrowings and long-term debt

Short-term bank loans of ¥19,050 million ($161,372 thousand) and ¥5,960 million bore interest at an approximate annual average rate of 0.87% and 0.51% at March 31, 2007 and 2006, respectively.

Commercial paper of ¥13,000 million ($110,123 thousand) and ¥20,000 million bore interest at a rate of 0.37% and 0.08% at March 31, 2007 and 2006 respectively.

Long-term debt at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
0.74% unsecured bonds due 2008	¥ 8,000	¥ 8,000	$ 67,768
Unsecured loans from banks and insurance companies, 0.70% to 1.53%, due serially to 2012	37,225	29,175	315,332
Other borrowings	217	428	1,839
Total	45,442	37,603	384,939
Less current portion	(19,042)	(2,261)	(161,305)
Net long-term debt	¥ 26,400	¥ 35,342	$ 223,634

The annual maturities of long-term debt as of March 31, 2007 for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 19,042	$ 161,305
2009	7,950	67,345
2010	9,100	77,086
2011	6,400	54,214
2012	2,950	24,989
Total	¥ 45,442	$ 384,939

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.

8. 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% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Current assets:			
Deferred tax assets:			
Accrued bonuses	**¥ 3,564**	¥ 4,602	**$ 30,191**
Accounts payable-other (amount transferred to the defined contribution plan)	**1,079**	1,162	**9,140**
Inventory valuation	**2,955**	1,759	**25,032**
Accrued expenses	**824**	788	**6,980**
Allowance for maintenance service fee	**383**	347	**3,244**
Accrued business tax	**552**	428	**4,676**
Tax loss carry forwards	**892**		**7,556**
Others	**955**	1,295	**8,090**
Total	**11,204**	10,381	**94,909**
Less valuation allowance	**(72)**	(8)	**(610)**
Total	**¥ 11,132**	¥ 10,373	**$ 94,299**
Deferred tax liabilities:			
Deferred gain on derivatives under hedge accounting	**¥ (4)**		**$ (34)**
Total	**¥ (4)**		**$ (34)**
Net, current deferred tax assets	**¥ 11,128**	¥ 10,373	**$ 94,265**
Non-current assets:			
Deferred tax assets:			
Depreciation expenses	**¥ 15,879**	¥ 12,545	**$ 134,511**
Tax loss carryforwards	**151**	204	**1,279**
Long term accounts payable-other (amount transferred to the defined contribution plan)		1,131	
Liability for retirement benefits	**514**	816	**4,354**
Impairment loss	**83**	155	**703**
Others	**1,023**	1,144	**8,666**
Total	**17,650**	15,995	**149,513**
Less valuation allowance	**(181)**	(545)	**(1,533)**
Total	**¥ 17,469**	¥ 15,450	**$ 147,980**
Deferred tax liabilities:			
Prepaid pension costs	**¥ (4,794)**	¥ (4,202)	**$ (40,610)**
Reserve for special taxation measures law in Japan	**(1,352)**	(2,037)	**(11,453)**
Net unrealized gain on available-for-sale securities	**(1,949)**	(2,259)	**(16,510)**
Others	**(165)**	(214)	**(1,398)**
Total	**¥ (8,260)**	¥ (8,712)	**$ (69,971)**
Net, non-current deferred tax assets	**¥ 9,209**	¥ 6,738	**$ 78,009**

Net deferred tax assets at March 31, 2007 were included in the Consolidated Balance Sheets as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets-non-current	**¥ 9,789**	**$ 82,922**
Deferred tax liabilities-non-current	**(580)**	**(4,913)**
Net deferred tax assets	**¥ 9,209**	**$ 78,009**

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, 2007 and 2006, was as follows:

	2007	2006
Normal effective statutory tax rate	40.7%	40.7%
(Decrease) Increase in valuation allowance	(5.7)	8.5
Expenses not deductible for income tax purposes	6.6	6.7
Amount of per-capita local tax	1.3	1.8
Tax reduction for IT investment promotion		(1.7)
Other-net	0.1	(1.9)
Actual effective tax rate	43.0%	54.1%

At March 31, 2007 the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥2,577 million ($21,829 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Tax loss carryforwards schedule

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 26	$ 220
2011	204	1,728
2012	121	1,025
2013		
2014	2,226	18,856
Total	¥ 2,577	$ 21,829

9. 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 payments from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 100,596	¥ 100,252	$ 852,147
Fair value of plan assets	(116,218)	(110,085)	(984,481)
Unrecognized transitional obligation	(6,253)	(8,337)	(52,969)
Unrecognized prior service cost	8,472	9,698	71,766
Unrecognized actuarial loss	2,572	(482)	21,787
Prepaid pension costs	12,036	10,455	101,957
Net liability	¥ 1,205	¥ 1,501	$ 10,207

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 2,695	¥ 2,858	$ 22,829
Interest cost	2,001	1,992	16,950
Expected return on plan assets	(3,293)	(2,529)	(27,895)
Amortization of transitional obligation	2,084	2,084	17,654
Amortization of prior service cost	(1,226)	(1,222)	(10,385)
Recognized actuarial loss	1,671	3,854	14,155
Payment to a defined benefit pension plan and other	1,066	1,047	9,030
Net periodic benefit costs	¥ 4,998	¥ 8,084	$ 42,338

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
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, 2007 and 2006 included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Allowance for the NCSP	¥ 421	¥ 420	$ 3,566
Current portion	(197)	(180)	(1,669)
Net periodic benefit costs	224	240	1,897
Allowance for directors' and corporate auditors' retirement benefits	25	218	213
Total	¥ 249	¥ 458	$ 2,110

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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Allowance for directors and corporate auditors	¥ 32	¥ 108	$ 271
Allowance for employees participating in the NCSP	156	234	1,321
Total	¥ 188	¥ 342	$ 1,592

10. Research and development costs

Research and development costs charged to income were ¥5,152 million ($43,643 thousand) and ¥6,111 million for the years ended March 31, 2007 and 2006, respectively.

11. Long-lived assets

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2007 and 2006 and, as a result, recognized an impairment loss of none and ¥380 million, respectively, as other expense for leasing asset, software, and the other assets providing internet service group of the business category due to a continuous operating loss of that unit and the carrying amount of the relevant leasing asset was written down to the recoverable amount. The recoverable amount of that business category group was measured at its value in use and the discount rate used for computation of present value of future cash flows was 3%.

12. Leases

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

Total rental expenses including lease payments for the years ended March 31, 2007 and 2006 were ¥9,267 million ($78,501 thousand) and ¥9,723 million, respectively.

For the years ended March 31, 2007 and 2006, the Group recorded an impairment loss of none and ¥128 million, respectively, on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities – other.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance lease, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2007 and 2006 was as follows:

[For Lessee]

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total
Acquisition cost	¥ 2,480	¥ 9,236	¥ 11,716	¥ 3,825	¥ 9,906	¥ 13,731	$ 21,008	$ 78,238	$ 99,246
Accumulated depreciation	1,296	6,419	7,715	2,179	5,483	7,662	10,978	54,375	65,353
Accumulated impairment loss	88	18	106	106	22	128	745	152	897
Net leased property	¥ 1,096	¥ 2,799	¥ 3,895	¥ 1,540	¥ 4,401	¥ 5,941	$ 9,285	$ 23,711	$ 32,996

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Due within one year	**¥ 2,231**	¥2,597	**$ 18,899**
Due after one year	**1,769**	3,615	**14,985**
Total	**¥ 4,000**	¥6,212	**$ 33,884**

Depreciation expense, interest expense and impairment loss under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Depreciation expense	**¥ 2,572**	¥ 2,824	**$ 21,787**
Reversal of allowance for impairment loss on leased property	**54**		**457**
Interest expense	**78**	123	**661**
Impairment loss		128	
Total	**¥ 2,650**	¥ 3,075	**$ 22,448**

Depreciation expense and interest expense, which are not reflected in the accompanying Consolidated 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, 2007, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	**¥ 3,333**	**$ 28,234**
Due after one year		
Total	**¥ 3,333**	**$ 28,234**

13. Commitments and contingent liabilities

Contingent liabilities at March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans to employees for housing	**¥ 2,858**	**$ 24,210**

14. Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends – Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus – The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) **Treasury stock and treasury stock acquisition rights** – The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

15. Stock options

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 30 business days in which the options are issued and the closing price for the day in which the options are issued.

The granted stock option as of March 31, 2007 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2003 Stock Option	10 directors 533 employees 15 subsidiaries' directors 14 subsidiaries' employees	713,100 shares	September 3, 2003	¥ 962 $ 8.15	From July 1, 2005 to June 30, 2010
2004 Stock Option	10 directors 513 employees 27 subsidiaries' directors 324 subsidiaries' employees	692,700 shares	September 7, 2004	¥ 952 $ 8.06	From July 1, 2006 to June 30, 2011
2005 Stock Option	10 directors 403 employees 12 subsidiaries' directors 276 subsidiaries' employees	749,000 shares	December 16, 2005	¥ 1,763 $ 14.93	From July 1, 2007 to June 30, 2012
2006 Stock Option	10 directors 250 employees 20 subsidiaries' directors 514 subsidiaries' employees	522,900 shares	November 7, 2006	¥ 2,434 $ 20.62	From July 1, 2008 to June 30, 2013

The stock option activity is as follows:

For the year ended March 31, 2004	2003 Stock Option (Shares)	2004 Stock Option (Shares)	2005 Stock Option (Shares)	2006 Stock Option (Shares)
Non-vested				
March 31, 2003 – Outstanding				
Granted	713,100			
Canceled	9,300			
Vested				
March 31, 2004 – Outstanding	703,800			
Vested				
March 31, 2003 – Outstanding				
Vested				
Exercised				
Canceled				
March 31, 2004 – Outstanding				

For the year ended March 31, 2005	2003 Stock Option (Shares)	2004 Stock Option (Shares)	2005 Stock Option (Shares)	2006 Stock Option (Shares)
Non-vested				
March 31, 2004 – Outstanding	703,800			
Granted		692,700		
Canceled	12,800	4,700		
Vested				
March 31, 2005 – Outstanding	691,000	688,000		
Vested				
March 31, 2004 – Outstanding				
Vested				
Exercised				
Canceled				
March 31, 2005 – Outstanding				

For the year ended March 31, 2006	2003 Stock Option (Shares)	2004 Stock Option (Shares)	2005 Stock Option (Shares)	2006 Stock Option (Shares)
Non-vested				
March 31, 2005 – Outstanding	691,000	688,000		
Granted			749,000	
Canceled	2,100	8,400	5,600	
Vested	688,900			
March 31, 2006 – Outstanding		679,600	743,400	
Vested				
March 31, 2005 – Outstanding				
Vested	688,900			
Exercised	88,800			
Canceled	1,000			
March 31, 2006 – Outstanding	599,100			

For the year ended March 31, 2007				
Non-vested				
March 31, 2006 – Outstanding		**679,600**	**743,400**	
Granted				**522,900**
Canceled		**2,000**	**6,800**	**2,000**
Vested		**677,600**		
March 31, 2007 – Outstanding			**736,600**	**520,900**
Vested				
March 31, 2006 – Outstanding	**599,100**			
Vested		**677,600**		
Exercised	**247,000**	**251,500**		
Canceled	**500**	**1,100**		
March 31, 2007 – Outstanding	**351,600**	**425,000**		
Exercise price	**¥ 962** **$ 8.15**	**¥ 952** **$ 8.06**	**¥ 1,763** **$ 14.93**	**¥ 2,434** **$ 20.62**
Average stock price at exercise	**¥ 1,922** **$ 16.28**	**¥ 1,950** **$ 16.52**		
Fair value price at grant date				**¥ 520** **$ 4.40**

The assumptions used to measure fair value of 2006 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	35%
Estimated remaining outstanding period:	4.15 years
Estimated dividend:	¥7.50 per share
Interest rate with risk free:	1.079%

16. 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.

17. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
For the year ended March 31, 2007	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	**¥ 3,434**	**95,457**	**¥ 35.97**	**$ 0.30**
Effect of Dilutive Securities				
Warrants		**578**		
Diluted EPS				
Net income for computation	**¥ 3,434**	**96,035**	**¥ 35.75**	**$ 0.30**

	Millions of Yen	Thousands of shares	Yen
For the year ended March 31, 2006	Net income	Weighted average shares	EPS
Basic EPS			
Net income available to common shareholders	¥ 1,860	104,675	¥ 17.77
Effect of Dilutive Securities			
Warrants		732	
Diluted EPS			
Net income for computation	¥ 1,860	105,407	¥ 17.71

18. Related party transactions

Significant transactions with Mitsui & Co., Ltd., major shareholders of the Company, for the years ended March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Sales:			
Mitsui & Co., Ltd.	**¥ 699**	¥ 457	**$ 5,921**
Total	**¥ 699**	¥ 457	**$ 5,921**
Purchases:			
Mitsui & Co., Ltd.	**¥ 6,775**	¥ 7,978	**$ 57,391**
Total	**¥ 6,775**	¥ 7,978	**$ 57,391**

Transaction balances due to or from Mitsui & Co., Ltd. at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Accounts receivable-trade:			
Mitsui & Co., Ltd.	**¥ 366**	¥ 324	**$ 3,100**
Total	**¥ 366**	¥ 324	**$ 3,100**
Accounts payable-trade:			
Mitsui & Co., Ltd.	**¥ 1,426**	¥ 2,143	**$ 12,080**
Total	**¥ 1,426**	¥ 2,143	**$ 12,080**

Loans with Mitsui & Co. Financial Services Ltd., sister company of the Company, for the years ended March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Loans:			
Mitsui & Co. Financial Services Ltd.	**¥ 13,964**	¥ 13,742	**$ 118,289**
Total	**¥ 13,964**	¥ 13,742	**$ 118,289**

The loan amounts above are the interim average balance of short-term loans. There were no transaction balances due to Mitsui & Co. Financial Services Ltd. at March 31, 2007 and 2006.

19. Subsequent events

At the general shareholders' meeting held on June 28, 2007, the Company's shareholders approved the appropriations of retained earnings and stock option plan for the Group's directors and key employees:

(a) Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3.75 ($0.03) per share	**¥ 359**	**$ 3,041**

(b) Stock option plan – At the general shareholders' meeting, shareholders entrusted the Board of Directors with the plan details.

Outline of the stock option plan

Apportionment:	The Group's directors and key employees
Maximum number of shares of the Company's common stock to be issued:	750 thousands of shares of the Company's common stock
Exercise period:	5 years. The Board of Directors will set the commencement date to be 2 years or more after the Board's approval.
Exercise price:	1.1 multiplied by the higher of the average closing price of shares of the Company's common stock appearing on the Tokyo Stock Exchange ("TSE") Board for the 20 business days prior to the day in which the options are issued or the closing price of shares of the Company's common stock appearing on the day in which the options are issued.

(c) Acquisition of shares of NETMARKS INC. – Based on the Company's Board of Directors' approval of Takeover Bid ("TOB") against NETMARKS INC., the Company completed its acquisition of NETMARKS INC. through tender offerings from March 5, 2007 to May 31, 2007. As a result, NETMARKS INC. became a consolidated subsidiary of the Company as below:

(1) The reason and the purpose of acquisition

NETMARKS INC., the listed company on the TSE, provides high-quality network services and the purpose of acquisition is to create the synergies by combining high-quality network services with the Group's system integration services.

(2) Outline of the acquired company

1. Name:	NETMARKS INC.
2. Business:	Design, construction and maintenance of network system
3. Foundation date:	March 18, 1997
4. Location:	1-3-12 Moto Akasaka Minato-ku Tokyo, Japan
5. Name of the representative:	Jun Ohhashi
6. Common stock:	¥2,970 million ($25,159 thousand)
7. Outstanding number of shares of common stock:	173,372 shares, excluding treasury stock

(3) Scale of NETMARKS INC.

Common stock:	¥2,970 million ($25,159 thousand)
Number of employee:	1,015
Sales:	¥51,959 million ($440,144 thousand)
Net income:	¥(4,274) million ($(36,205) thousand)
Total asset:	¥29,118 million ($246,658 thousand)
Net asset:	¥2,510 million ($21,262 thousand)

Numbers of scale of NETMARKS INC. comes from the Financial Report for the fiscal year ended March 31, 2007 of NETMARKS INC., which was announced on May 10, 2007.

On June 4, 2007, NETMARKS INC. announced that they plan to restate on the current and prior years' financial statements. Those financial statements are for years ending March 31, 2004, 2005, 2006 and 2007. KPMG AZSA & Co., the auditor of NETMARKS INC., has not finished their audits.

(4) Outline of the acquired shares

Number of shares purchased:	115,909 shares
Total value and purchase price per share:	¥9,308 million ($78,848 thousand), ¥80,304 ($680) per share
Resulting percentage of the Group's ownership:	67.13%, including 480 shares owned by UAL

(5) Financing and method of payment

The purchase was financed by cash in hand and borrowings.

Deloitte.

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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, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, 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.

As discussed in Note 19(c) to the consolidated financial statements, Nihon Unisys, Ltd. obtained control over NETMARKS INC. on May 31, 2007 through the acquisition of issued shares obtained in tender offerings.

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

Deloitte Touche Tohmatsu

June 28, 2007

Corporate Profile and Stock Information

As of March 31, 2007

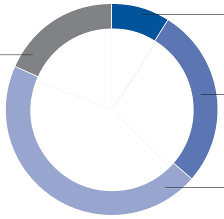
Corporate Profile

Name	Nihon Unisys, Ltd.
Established	March 29, 1958
Capital	¥5,483 million
Business Activities	Consulting IT solutions Outsourcing Support and system-related services Sales of computer systems (hardware and software)
Number of Employees	8,527 (consolidated basis)
Independent Auditor	Deloitte Touche Tohmatsu
Business Offices	Head Office : 1-1 Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan Regional Headquarters : Kansai (Osaka), Chubu (Nagoya), Kyushu (Fukuoka) Regional Offices : Hokkaido (Sapporo), Tohoku (Sendai), Niigata (Niigata), Hokuriku (Kanazawa), Shizuoka (Shizuoka), Chugoku (Hiroshima)

Stock Information

Number of Shares Issued	109,663,524 shares
Listing	Tokyo Stock Exchange First Section
Number of Shareholders	9,402

Classification of Shareholders



Principal Shareholders

Name	Number of shares held (thousands)	Holding ratio (%)
Mitsui & Co., Ltd.	30,524	27.84
Nihon Unisys, Ltd. (Treasury Stock)	13,691	12.48
Japan Trustee Services Bank, Ltd. (Trust Account)	9,727	8.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,526	5.04
Goldman Sachs International	3,989	3.64
The Norinchukin Bank	3,953	3.61
Bank of New York GCM Client Accounts EISG	3,588	3.27
All Nippon Airways Co., Ltd.	1,794	1.64
Nihon Unisys Employees' Shareholding Society	1,693	1.54
Morgan Stanley and Company Inc.	1,282	1.17

Group Companies

As of March 31, 2007

Marketing, Business Development & Consulting

Consulting, sales and marketing
Nihon Unisys, Ltd. (2,002 employees)

Consulting services
Cambridge Technology Partners, Ltd. (41 employees)

Network & Support Services

Network and support services
UNIADEX, Ltd. (2,383 employees)

System Services

IT solution services
Nihon Unisys Solutions, Ltd.*1 (3,051 employees)

CAD/CAM system-related services
Nihon Unisys Excelutions, Ltd. (261 employees)

IT solution services based in Okinawa
International Systems Development Co., Ltd. (107 employees)

IT solution services for the distribution and manufacturing sectors
G&U System Service, Ltd. (71 employees)

System development base in Vietnam
USOL Vietnam Corporation (66 employees)

Region-based IT solution services
USOL Kanto Co., Ltd.*2 *3
USOL Hokkaido Co., Ltd.*2
USOL Tohoku Co., Ltd.*2
USOL Chubu Co., Ltd.*2
USOL Kansai Co., Ltd.*2
USOL Chugoku Co., Ltd.*2
USOL Kyushu Co., Ltd.*2

Outsourcing & Supply

Computer supply services
Nihon Unisys Supply, Ltd. (174 employees)

IT outsourcing services
A-tas, Ltd. (105 employees)

Outsourcing services for the futures trading industry
TRADE Vision, Ltd. (4 employees)

Application, outsourcing services
UX Business Co., Ltd. (non-consolidated company)

Human Resources Development Services

Education-related services
Nihon Unisys Learning Co. (33 employees)

Group Shared Services

Group shared operations and various services
Nihon Unisys Business, Ltd. (229 employees)

Group accounting operations services
Nihon Unisys Accounting Co., Ltd. (non-consolidated company)

U.S. base
NUL System Services Corporation (non-consolidated company)

Numbers in brackets ( ) denote employees included in consolidated accounting.

*1 As of April 1, 2007, Nihon Unisys Solutions transferred its system service business to Nihon Unisys (excludes development process for each region). In addition, USOL Holdings Co. Ltd. was established on April 2, 2007, to launch a new structure for undertaking centralized management and guidance over regional development companies.

*2 Seven regional development companies were established on March 1, 2007, and began operations starting April 1. There were no employees as of March 31.

*3 As of April 1, 2007, USOL Kanto changed its name to USOL Tokyo.

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http://www.unisys.co.jp

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