

UNISYS

FINANCIAL STATEMENTS
1998

Nihon Unisys, Ltd.

PROFILE

Nihon Unisys, Ltd., is one of the largest system integrators in Japan.

Established in 1958, we have contributed to the development of computerization through designing and building information systems in various industries.

We provide our customers with the most appropriate “Solution” by combining 40 years of business experience with industry know-how and expertise in system integration.

— To enhance customers’ competitiveness in their marketplace, Nihon Unisys is offering state-of-the-art Information Technologies (IT) and the highest level of Information Services (IS).



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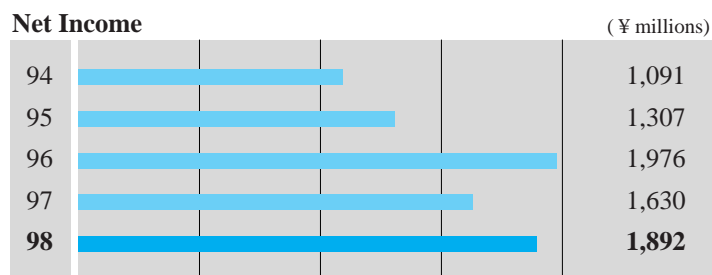
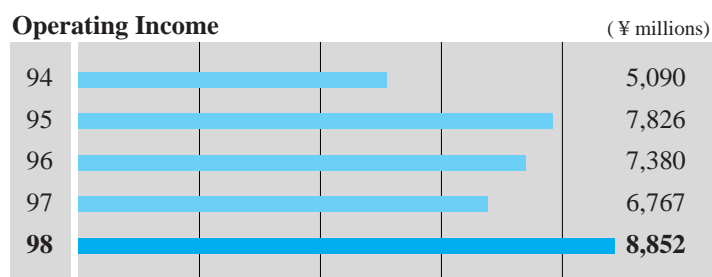
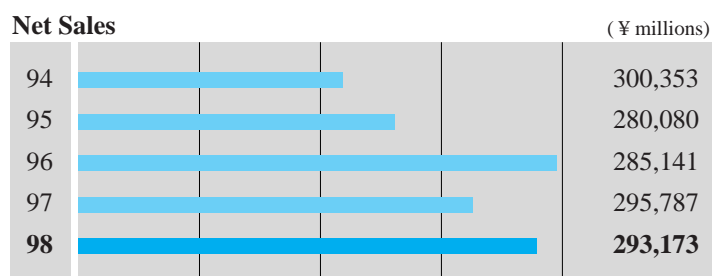
FINANCIAL HIGHLIGHTS

Nihon Unisys, Ltd.
Years Ended March 31, 1998, 1997 and 1996 (Non-consolidated Basis)

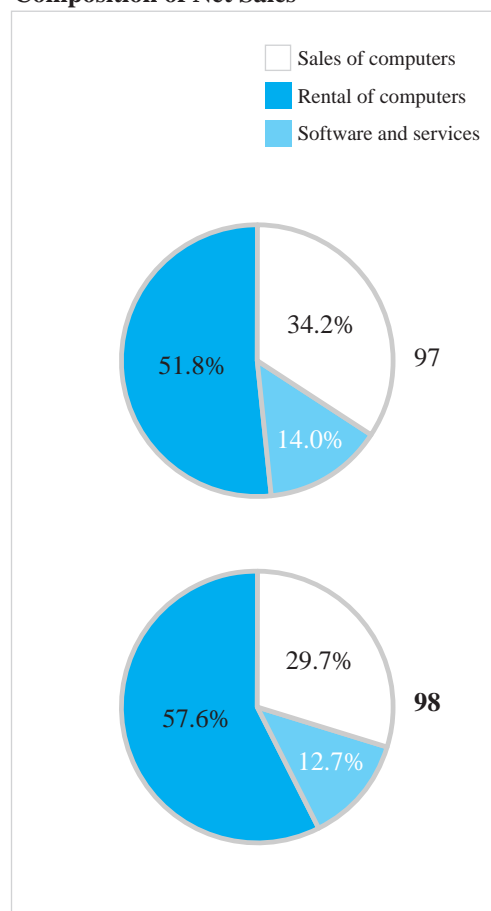
	Millions of Yen			Thousands of U.S. Dollars(Note)
	1998	1997	1996	1998
Net Sales	¥ 293,173	¥ 295,787	¥ 285,141	\$ 2,219,326
Operating Income	8,852	6,767	7,380	67,010
Net Income	1,892	1,630	1,976	14,322
Total Assets	252,967	263,928	260,919	1,914,966

Per Share Amounts:	Yen			U.S. Dollars
	Net Income	¥ 17.25	¥ 14.86	¥ 18.02
Cash dividends applicable to the year	7.50	7.50	7.50	0.06

(Note) Yen amounts have been translated into dollars, for convenience only, at ¥132.10=U.S.\$1 prevailing on March 31, 1998.



Composition of Net Sales



OVERVIEW

It is my pleasure to report the overview of the Company's operations for fiscal year 1998, ended March 31, 1998.

During fiscal year 1998, the Japanese economy was inactive and stagnant due to deceleration of domestic demands caused by hike of consumption tax rate and decrease of public investments as well as looming anxiety for the financial Big Bang, etc.

Every vendor in the IT industry, which is in the midst of rapid changes like proliferation of internet, network computing and so on, has made strenuous efforts to develop and market various products to grow its businesses of software and services not to mention hardware.

Under such circumstances, we have striven to spur our software and service businesses while at the same time providing variety of hardware products represented by latest-technology-build-in enterprise servers.

Specifically, in the hardware field, efforts were made not only to announce *Clear Path Server*, *HMP IX4000 series*, which realizes optimum cohabitation in the open environments but also to keep providing enterprise servers like *NX4000 series*. Meanwhile, in order to respond to rapid progress of the client/server business, we have never spared our efforts to expand sales of UNIX

and PC products through timely introduction of new models.

As for the software field, we have prepared and promoted various solution software products adopting state-of-the-art technologies meeting user needs so as to grow our software business. We have reinforced functionalities of *SYSTEM V*, now very popular next generation corporate information infrastructure, and *CADCEUS*, integrated CAD/CAM system. To prepare for the financial Big Bang, we started marketing *SIATOL21*, securities information management & analysis total solution package. Also we have aggressively challenged new areas represented by EC/CALS.

In the growing service business field, we have made extra utmost efforts by offering various services not to mention system services as well as strengthening high-value-added consulting business and internet/intranet-related businesses. As for the year 2000 problem, we have initiated and taken appropriate actions including establishment of a subsidiary in 1997 called UNIADDEX, as a professional company serving in the rapidly growing network computing business area.

*UNIX is a registered trademark in the United States and other countries, licensed exclusively through X/Open Company Limited.

PERFORMANCE

With regard to the financial results of the Company, service business grew fairly steadily, however, net sales from hardware business did not as some of IT investments were put off reflecting unclear views on the economic trend. As a result, net sales totaled ¥293,173 million (\$2,219,326 thousand), down 0.9% from previous year.

Meanwhile, profitability rose even under the very tight price competition. We have tackled and improved our economic structure especially

focusing on service business areas. As a result, operating income grew 30.8% from previous year to ¥8,852 million (\$67,010 thousand). And net income grew 16.1% to ¥1,892 million (\$14,322 thousand).

Net sales from software and service businesses increased 10.2% to ¥168,818 million (\$1,277,956 thousand) while that of hardware (sales/rental of computers) decreased by 12.8% to ¥124,355 million (\$941,370 thousand).

OUTLOOK

It is projected that the Japanese economy will continue to be nebulous and intransparent more than ever because the driving force to recover the economy including individual consumption is still very weak although there are some positive signs in the economy stimulus package announced by the government.

Although we have a recognition that the IT industry in Japan will continue to be in very difficult conditions as it has been, we will strive to grow our business more by enhancing our

expertise in software and service business, pushing forward our efforts to reform profit generating structure and further cementing our relationship with group companies.

We are firmly determined to make every endeavor to improve our company operation more efficiently to upgrade the overall performance of the Company. Your continued help and support including constructive suggestions would be always very valuable and highly appreciated.



Junichi Amano
President & CEO

NON-CONSOLIDATED BALANCE SHEETS

Nihon Unisys, Ltd.
March 31, 1998 and 1997

ASSETS	Millions of Yen		Thousands of U.S. Dollars(Note 1)
	1998	1997	1998
Current Assets:			
Cash	¥2,012	¥7,217	\$15,231
Time deposits	15,760	3,769	119,304
Marketable securities (Note 3)	10,781	13,236	81,612
Accounts receivable-trade (Note 12)	91,080	98,022	689,478
Inventories (Note 4)	18,736	24,057	141,832
Short-term investments	16,800	20,345	127,176
Other current assets (Note 12)	7,959	6,391	60,250
Allowance for doubtful accounts	(1,068)	(687)	(8,085)
Total current assets	162,060	172,350	1,226,798
Property, Plant and Equipment:			
Land	2,233	2,024	16,904
Buildings and structures	14,080	14,057	106,586
Rental computers	157,446	180,511	1,191,870
Machinery and equipment	28,465	29,294	215,480
Total	202,224	225,886	1,530,840
Accumulated depreciation	(148,758)	(168,869)	(1,126,101)
Net property, plant and equipment	53,466	57,017	404,739
Investments and Other Assets:			
Investment securities (Note 3)	610	548	4,618
Investments in subsidiaries and affiliates	2,139	2,191	16,192
Software development costs	10,129	6,713	76,677
Lease deposits	20,054	20,146	151,809
Other assets	4,509	4,963	34,133
Total investments and other assets	37,441	34,561	283,429
Total	¥252,967	¥263,928	\$1,914,966

See notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars(Note 1)
	1998	1997	1998
Current Liabilities:			
Short-term borrowings (Note 5)	¥38,760	¥47,560	\$293,414
Current portion of long-term debt (Note 5)	7,260	18,343	54,958
Accounts payable-trade (Note 12)	58,169	63,621	440,341
Income taxes payable (Note 6)	2,509	659	18,993
Accrued expenses	12,299	12,721	93,104
Other current liabilities (Note 7)	12,709	10,939	96,208
Total current liabilities	<u>131,706</u>	<u>153,843</u>	<u>997,018</u>
Long-term Liabilities:			
Long-term debt (Note 5)	32,436	18,096	245,541
Long-term accounts payable (Note 12)	9,737	12,763	73,709
Liability for retirement benefits (Note 7)	6,238	7,358	47,222
Other long-term liabilities	805	833	6,094
Total long-term liabilities	<u>49,216</u>	<u>39,050</u>	<u>372,566</u>
Commitments and Contingent Liabilities (Note 9)			
Shareholders' Equity (Notes 10 and 13):			
Common stock, ¥50 par value - authorized, 300,000,000 shares; issued and outstanding, 109,663,524 shares	5,483	5,483	41,506
Additional paid-in capital	15,282	15,282	115,685
Legal reserve	1,371	1,371	10,379
Retained earnings	49,909	48,899	377,812
Total shareholder's equity	<u>72,045</u>	<u>71,035</u>	<u>545,382</u>
Total	¥252,967	¥263,928	\$1,914,966

NON-CONSOLIDATED STATEMENTS OF INCOME

Nihon Unisys, Ltd.
Years Ended March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars(Note 1)
	1998	1997	1998
Net Sales (Note 12):			
Sales of computers	¥87,005	¥101,291	\$658,630
Rental of computers	37,350	41,347	282,740
Software and services	168,818	153,149	1,277,956
Total net sales	293,173	295,787	2,219,326
Cost of Sales (Note 12)	180,968	180,115	1,369,932
Gross Profit	112,205	115,672	849,394
Selling, General and			
Administrative Expenses	103,353	108,905	782,384
Operating Income	8,852	6,767	67,010
Other Income (Expenses):			
Interest and dividend income	795	780	6,018
Interest expense (Note 12)	(2,712)	(2,683)	(20,530)
Income from building rental	628	407	4,754
(Loss) gain on sales of securities	(553)	370	(4,186)
Loss on devaluation of securities	(1,213)	(675)	(9,182)
Exchange loss	(235)	(669)	(1,779)
Other-net	490	53	3,709
Other expenses-net	(2,800)	(2,417)	(21,196)
Income before Income Taxes	6,052	4,350	45,814
Income Taxes (Note 6)	4,160	2,720	31,492
Net Income	¥1,892	¥1,630	\$14,322

Per Share Amounts (Note 2.n):

	Yen		U.S. Dollars
Net income	¥17.25	¥14.86	\$0.13
Cash dividends applicable to the year	7.50	7.50	0.06

See notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nihon Unisys, Ltd.
Years Ended March 31, 1998 and 1997

	Thousands	Millions of Yen			
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance, April 1, 1996	109,664	¥5,483	¥15,282	¥1,371	¥48,152
Net income					1,630
Cash dividends, ¥7.5 per share					(823)
Bonuses to directors and corporate auditors					(60)
Balance, March 31, 1997	109,664	5,483	15,282	1,371	48,899
Net income					1,892
Cash dividends, ¥7.5 per share					(822)
Bonuses to directors and corporate auditors					(60)
Balance, March 31, 1998	109,664	¥5,483	¥15,282	¥1,371	¥49,909

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
Balance, March 31, 1997	\$41,506	\$115,685	\$10,379	\$370,167
Net income				14,322
Cash dividends, \$0.06 per share				(6,223)
Bonuses to directors and corporate auditors				(454)
Balance, March 31, 1998	\$41,506	\$115,685	\$10,379	\$377,812

See notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Nihon Unisys, Ltd.

Years Ended March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars(Note 1)
	1998	1997	1998
Operating Activities:			
Net income	¥1,892	¥1,630	\$14,322
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,373	23,995	176,934
Loss on disposal of property, plant and equipment	1,325	1,771	10,030
Write-off of software development costs	2,500	15	18,925
Loss (gain) on sales of securities	553	(370)	4,186
Loss on devaluation of securities	1,213	675	9,182
Write-off of investment in subsidiary	-	465	-
Loss from forgiveness of short-term loans receivable from subsidiary	-	115	-
Other-net	(800)	(979)	(6,055)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable-trade	6,942	(6,788)	52,551
Decrease (increase) in inventories	5,321	(2,608)	40,280
(Increase) decrease in other current assets	(1,568)	1,360	(11,870)
Decrease in lease deposits	92	46	697
Decrease (increase) in other assets	446	(516)	3,376
(Decrease) increase in accounts payable-trade	(5,451)	529	(41,264)
Increase (decrease) in income taxes payable	1,850	(2,047)	14,005
Decrease in accrued expenses	(422)	(959)	(3,194)
Increase in other current liabilities	1,770	1,606	13,399
(Decrease) increase in long-term accounts payable	(3,026)	3,858	(22,907)
Decrease in other long-term liabilities	(28)	(26)	(212)
Total adjustments	34,090	20,142	258,063
Net cash provided by operating activities	35,982	21,772	272,385

	Millions of Yen	1997	Thousands of U.S. Dollars(Note 1)
	1998		1998
Investing Activities:			
Proceeds from sales of marketable securities	¥10,147	¥9,661	\$76,813
Payments for purchases of marketable securities	(9,421)	(9,758)	(71,317)
Decrease in short-term investments	3,545	2,713	26,836
Payments for purchases of property, plant and equipment..	(17,709)	(23,381)	(134,058)
Payments for purchases of investment securities	(99)	(53)	(750)
Payment for purchase of investments in subsidiaries and affiliates	(18)	(200)	(136)
Proceeds from sales of investments in subsidiaries and affiliates	70	-	530
Payments for purchases of software	(9,346)	(4,212)	(70,749)
Net cash used in investing activities	(22,831)	(25,230)	(172,831)
Financing Activities:			
Net (decrease) increase in short-term borrowings	(8,800)	8,900	(66,616)
Proceeds from long-term debt	21,600	500	163,513
Repayments of long-term debt	(18,343)	(9,170)	(138,857)
Cash dividends	(822)	(823)	(6,223)
Net cash used in financing activities	(6,365)	(593)	(48,183)
Net Increase (decrease) in Cash and Cash Equivalents	6,786	(4,051)	51,371
Cash and Cash Equivalents, Beginning of Year	10,986	15,037	83,164
Cash and Cash Equivalents, End of Year	¥17,772	¥10,986	\$134,535
Additional Cash Flow Information:			
Interest paid	¥2,692	¥2,747	\$20,378
Income taxes paid	2,173	4,701	16,450

See notes to non-consolidated financial statements.

Nihon Unisys, Ltd.

Years Ended March 31, 1998 and 1997

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS.....

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Nihon Unisys, Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The non-consolidated statements of cash flows are not required as part of the basic financial statements in Japan but are presented herein as additional information.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in

order to present them in a form which is more familiar to readers outside Japan.

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132.10 to \$1, the approximate rate of exchange at March 31, 1998. 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.

Certain reclassifications have been made to the 1997 financial statements to conform to the classifications used in 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....

(a) **Non-consolidation** - The financial statements do not include the accounts of subsidiaries. Investments in subsidiaries (ownership greater than 50%) and affiliates (20% - 50% ownership) are stated at cost.

Consolidation of the Company's subsidiaries would not significantly change the total assets, net sales, or net income reported in the accompanying non-consolidated financial statements. See Note 14 for consolidated financial data for the years ended March 31, 1998 and 1997.

(b) **Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Company considers all time deposits to be cash equivalents.

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

(d) **Marketable and Investment Securities** - Listed securities included in marketable and investment

securities are stated at the lower of cost or market, cost being determined by the average method. Securities traded on the over-the-counter market and other securities are stated at cost determined by the average method.

(e) **Allowance for Doubtful Accounts** - Allowance for doubtful accounts is provided at the maximum amount allowable for tax purposes plus management's estimate of the collectibility of individual doubtful accounts. Up to and including the year ended March 31, 1997, an allowance for doubtful accounts had been provided at the maximum amount allowable for tax purposes.

The change was made effective April 1, 1997, since some customers experienced financial difficulties due to a difficult economic environment in Japan and collectibility of accounts receivable from them has become questionable.

The effect of this change is to decrease income before taxes for the year ended March 31, 1998, by ¥433 million (\$3,278 thousand).

(f) **Property, Plant and Equipment** - Property, plant and equipment are stated at cost.

Depreciation of rental computers is computed by the declining-balance method over six years with no residual value. Depreciation of machinery and equipment is computed by the declining-balance method with no residual value based on useful lives prescribed by the tax regulations. Depreciation of buildings and structures is computed by the declining-balance method with an estimated 10% residual value based on useful lives prescribed by the tax regulations.

Useful lives range from 3 to 65 years for buildings and structures and from 2 to 20 years for machinery and equipment.

(g) **Software Development Costs** - Software development costs are amortized over the estimated useful life of the related software.

(h) **Allowance for Maintenance Services** - The estimated future costs of maintenance services for computers under warranty are provided based on prior experience and are included in other current liabilities.

(i) **Retirement Benefits and Pension Plan** - At February 1, 1993, unfunded employees' retirement benefits were transferred to a non-contributory funded employees' pension plan. As a result, except for the benefits under the New Career Support Program (the "NCSP"), the Company's employees' retirement benefits were covered 100% by the non-contributory and contributory funded pension plans.

Under the non-contributory funded employees' pension plan, annual contributions to the funds, which include normal costs and amortization of prior service costs, are charged to income when paid. The prior service costs are amortized over 10 years. The excess portion of the liability for employees' retirement benefits resulting from transferring from the unfunded plan to the funded non-contributory pension plan is reversed over 10 years.

The Company also has a contributory funded employees' pension plan. The annual contribution to the fund, which include normal costs and amortization of prior service costs, are charged to income when paid. The prior service costs are amortized over 13 years.

Effective March 1, 1994, the Company introduced as

part of its human resources program the NCSP to help mid-/ higher- aged employees to retire from the Company before the mandatory retirement age. Effective April 1, 1995, the estimates of the future payments are provided for as allowance for annual compensation of salary in the NCSP.

The Company provides for an allowance for directors' and corporate auditors' retirement benefits calculated in accordance with the Company's rules, and includes this amount in liability for retirement benefits.

(j) **Income Taxes** - Income taxes are provided for amounts currently payable for each year. The tax effect of temporary differences between income for tax and financial reporting purposes is not recorded.

(k) **Leases** - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not 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.

(l) **Appropriations of Retained Earnings** - Appropriations of retained earnings at each year end are reflected in the financial statements in the following year after shareholders' approval has been obtained.

(m) **Foreign Currency Transactions** - Transactions denominated in foreign currencies are translated into Japanese yen at approximate exchange rates prevailing when such transactions occur. Current receivables and payables are translated at exchange rates prevailing on the balance sheet date or, when forward exchange contracts are made, at such forward exchange rates. Assets and liabilities other than current receivables and payables are translated at approximate rates prevailing when acquired or incurred.

(n) **Per Share Information** - The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

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

3. MARKETABLE AND INVESTMENT SECURITIES

Carrying amounts and aggregate market values of current and non-current marketable securities at March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Current:				
Carrying amounts	¥10,781	¥13,236		\$81,612
Aggregate market value	14,988	23,219		113,459
Unrealized gain	¥4,207	¥9,983		\$31,847
Non-current:				
Carrying amounts	¥610	¥548		\$4,618
Aggregate market value	610	548		4,618
Unrealized gain	-	-		-

4. INVENTORIES

Inventories at March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Merchandise	¥18,621	¥23,900		\$140,961
Supplies	115	157		871
Total	¥18,736	¥24,057		\$141,832

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Short-term bank loans	¥25,760	¥32,560		\$195,004
Commercial paper	13,000	15,000		98,410
Total	¥38,760	¥47,560		\$293,414

Short-term bank loans bore interest at an approximate annual average rate of 1.25% and 0.89% at March 31, 1998 and 1997, respectively.

The commercial paper was due within periods ranging from 74 to 94 days and bore interest at annual rates ranging from 1.20% to 1.76% at March 31, 1998.

Long-term debt at March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>1998</u>	<u>1997</u>	<u>1998</u>
5.35% unsecured bonds due 1998	¥ -	¥10,000	\$ -
5.55% unsecured bonds due 2000	10,000	10,000	75,700
2.05% unsecured bonds due 2002	10,000	-	75,700
Unsecured loans from banks and insurance companies, 1.50% to 5.92%, due serially to 2004	19,696	16,439	149,099
Total	39,696	36,439	300,499
Less current portion	(7,260)	(18,343)	(54,958)
Net	<u>¥32,436</u>	<u>¥18,096</u>	<u>\$245,541</u>

The annual maturities of long-term debt at March 31, 1998, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
1999	¥7,260	\$54,958
2000	10,310	78,047
2001	5,760	43,603
2002	164	1,242
2003	16,100	121,877
2004 and thereafter	102	772
Total	<u>¥39,696</u>	<u>\$300,499</u>

As is customary in Japan, security must be given under certain circumstances, if requested by a lending bank, and such a 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.

6. INCOME TAXES.....

The Company is subject to a number of taxes based on income which, in the aggregate, resulted in an effective statutory tax rate of approximately 51%. The effective tax rates in the accompanying non-consolidated statements of income differed from the effective statutory rate due

principally to non-recognition of the tax effects of temporary differences between tax and financial reporting and certain expenses that are permanently non-deductible for tax purposes.

7. LIABILITY FOR RETIREMENT BENEFITS AND PENSION PLAN

The Company's funded employees' pension plans cover 100% of the benefits due to employees other than those under the NCSP, and are fully funded, except for unamortized prior service costs. Retirement benefits are determined on the basis of their length of service, rate of pay at the time of termination and certain other factors. If the termination is involuntary, the employee is entitled to greater payment than in the case of voluntary termination in certain circumstances.

The assets of the pension funds totaled ¥84,336million (\$638,429 thousand) at March 31, 1997 (the most recent date of available information).

The liability for retirement benefits at March 31, 1998 and 1997, was as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Employees	¥5,226	¥6,315		\$39,562
Directors and corporate auditors	424	531		3,209
Total	<u>5,650</u>	<u>6,846</u>		<u>42,771</u>
Retirees participating in the NCSP	834	694		6,313
Current portion (other current liabilities)	(246)	(182)		(1,862)
Net	<u>588</u>	<u>512</u>		<u>4,451</u>
Total	<u>¥6,238</u>	<u>¥7,358</u>		<u>\$47,222</u>

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

Total charges relating to retirement benefits for the years ended March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Contributions to funded plans	¥5,533	¥5,499		\$41,885
Reversal of allowance for employees' retirement benefits	(1,089)	(1,089)		(8,244)
Provision for directors and corporate auditors	123	135		931
One-time Payments to employees participating in the NCSP	1,641	1,178		12,423
Provision for the NCSP allowance	321	196		2,430
Total	<u>¥6,529</u>	<u>¥5,919</u>		<u>\$49,425</u>

8. LEASES

The total lease payments under finance lease agreements that do not transfer ownership of the leased property to the lessee were ¥69 million (\$522 thousand) and ¥67 million for the years ended March 31, 1998 and 1997, respectively.

Pro forma information of leased property such as

acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 1998 and 1997, was as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	1998	1997		1998
<u>Machinery and equipment</u>				
Acquisition cost	¥241	¥268		\$1,824
Accumulated depreciation	105	121		793
Net leased property	¥136	¥147		\$1,031
Obligations under finance leases:				
	Millions of Yen		Thousands of U.S. Dollars	
	1998	1997		1998
Due within one year	¥60	¥62		\$458
Due after one year	76	85		573
Total	¥136	¥147		\$1,031

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying statements of income, computed by the

straight-line method was ¥69 million (\$522 thousand) and ¥67 million for the years ended March 31, 1998 and 1997, respectively.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of bank loans to employees for housing and the lease agreement of a subsidiary amounting to ¥9,743 million (\$73,753 thousand) and ¥225 million (\$1,701 thousand), respectively, at March 31, 1998.

Annual rental expense, primarily for office space, was approximately ¥8,658 million (\$65,539 thousand) and ¥8,951 million for the years ended March 31, 1998 and 1997, respectively.

10. SHAREHOLDERS' EQUITY

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors.

The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may be paid upon resolution of the Board of Directors subject to certain limitations imposed by the Code. Year-end dividends are reflected in the non-consolidated statements of shareholders' equity when authorized.

The Special Taxation Measures Law of Japan permits a company to take as tax deductions certain reserves if provided through the appropriation of retained earnings. Under Japanese tax laws such reserves included in retained earnings must be reversed to taxable income in future years. Such reserves amounted to ¥5,918 million (\$44,799 thousand) at March 31, 1998.

11. DERIVATIVES

The Company enters into derivatives agreements within the range of ordinary transactions as a means of managing the exposure to fluctuation in foreign exchange rates and interest rates in business activities.

The Company enters into interest rate swap agreements as a means of reducing financial costs and hedging the exposure to long-term fluctuation in interest rates. The Company also enters into foreign exchange forward contracts and currency options as a means of hedging foreign exchange risk associated with accounts payable in foreign currencies. The Company does not hold or issue these derivatives for trading purposes.

Interest rate swaps, foreign exchange forward contracts and currency options that the Company enters into are subject to market risk. Because the counterparties to these derivatives are limited to major credible banks, securities companies, general trading companies, the Company does not anticipate any losses arising from credit risk.

The Finance Department controls the execution and control of derivatives in accordance with internal policies. The executions of derivatives are approved by the director who controls its department and are reported to the Accounting Department.

The Finance Department reviews contract amounts and fair values of derivatives on a daily basis, and controls to avoid exceeding the internally pre-determined limits.

The Company had the following derivatives contracts outstanding at March 31, 1998 and 1997:

	Millions of Yen				Thousands of U.S. Dollars	
	1998		1997		1998	
	Contract Amount	Fair Value	Contract Amount	Fair Value	Contract Amount	Fair Value
Forward exchange contracts:						
Buying U.S.\$	¥3,151	¥3,361	¥2,502	¥2,730	\$23,852	\$25,439
Currency options	247	16			1,869	121
Interest rate swaps:						
Fixed rate receipt, floating rate payment			5,000			
Fixed rate payment, floating rate receipt	5,000	(108)	2,000		37,850	(819)
Floating rate receipt, floating rate payment	5,000	(68)	5,000		37,850	(511)

The fair values of forward exchange contracts and currency options are estimated by market prices for contracts with similar terms or obtaining quotes from brokers, for the year ended March 31, 1998, and by spot rate at the balance sheet date for the year ended March 31, 1997.

The fair values of interest rate swaps are the estimated amount that the Company would receive or pay to terminate the swaps at the balance sheet date. The 1997 information was not required.

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the balance sheet at year end are not subject to the disclosure of market value information.

The contract amounts of the interest rate swaps do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

12. RELATED PARTY TRANSACTIONS

Transactions with Unisys Corporation and Mitsui & Co., Ltd. which are major shareholders and the Company's subsidiaries and affiliates for the years ended March 31, 1998 and 1997, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Sales:				
Unisys Corporation	¥12	¥30		\$91
Mitsui & Co., Ltd.	1,847	3,567		13,982
Subsidiaries and affiliates	3,895	1,630		29,485
Total	<u>¥5,754</u>	<u>¥5,227</u>		<u>\$43,558</u>
Purchases:				
Unisys Corporation	¥24,609	¥24,375		\$186,290
Mitsui & Co., Ltd.	42,317	56,687		320,341
Subsidiaries and affiliates	38,840	25,529		294,020
Total	<u>¥105,766</u>	<u>¥106,591</u>		<u>\$800,651</u>
Interest expenses:				
Mitsui & Co., Ltd.	¥731	¥796		\$5,534
Subsidiaries and affiliates	34	33		257
Total	<u>¥765</u>	<u>¥829</u>		<u>\$5,791</u>

Transaction balances due to or from Unisys Corporation, Mitsui & Co., Ltd. and the Company's subsidiaries and affiliates at March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	<u>1998</u>	<u>1997</u>		<u>1998</u>
Accounts receivable-trade:				
Unisys Corporation	¥4	¥9		\$30
Mitsui & Co., Ltd.	1,457	1,349		11,030
Subsidiaries and affiliates	800	527		6,056
Total	<u>¥2,261</u>	<u>¥1,885</u>		<u>\$17,116</u>
Other current assets - subsidiaries and affiliates	<u>¥1,917</u>	<u>¥1,416</u>		<u>\$14,512</u>
Accounts payable-trade:				
Unisys Corporation	¥2,466	¥4,721		\$18,668
Mitsui & Co., Ltd.	22,852	26,764		172,990
Subsidiaries and affiliates	8,407	5,712		63,641
Total	<u>¥33,725</u>	<u>¥37,197</u>		<u>\$255,299</u>
Long-term accounts payable-Mitsui&Co., Ltd.	<u>¥9,737</u>	<u>¥12,763</u>		<u>\$73,709</u>

13. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 25, 1998, the Company's shareholders approved the following appropriations of retained earnings and the purchase of treasury stock for retirement and related reduction of retained earnings:

a. Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3.75 (\$0.03) per share.....	¥411	\$3,111
Bonuses to directors and corporate auditors	60	454

b. Purchase of treasury stock for retirement and related reduction of retained earnings

The Company is authorized to repurchase, at management's discretion, of up to 10 million shares of the Company's stock for the purpose of canceling the shares by crediting such amounts against retained earnings.

14. CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data for the years ended March 31, 1998 and 1997, were set forth below:

	Millions of Yen		Thousands of U.S. Dollars
	<u>1998</u>	<u>1997</u>	<u>1998</u>
Net sales	¥306,670	¥308,857	\$2,321,499
Operating income	9,035	6,379	68,395
Net income	2,317	2,303	17,540
Total assets	265,719	274,820	2,011,499
Property, plant and equipment	57,086	60,959	432,142
Total shareholders' equity	75,915	74,482	574,678
	Yen		U.S. Dollars
Net income per share	¥21.13	¥21.00	\$0.16

**Deloitte Touche
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13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530Telephone : (03)3457-7321
Facsimile : (03)3769-8508

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

We have examined the non-consolidated balance sheets of Nihon Unisys, Ltd. as of March 31, 1998 and 1997, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Nihon Unisys, Ltd. as of March 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Our examinations 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 to the non-consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 25, 1998

Name	Nihon Unisys, Ltd.
Head Office (Registered Head Office)	1-1, Toyosu 1-chome, Koto-ku, Tokyo 135-8560 Japan 17-51, Akasaka 2-chome, Minato-ku, Tokyo 107-0052 Japan)
Established	March 29, 1958
Capital	¥5,483 million
Business Activities	<ol style="list-style-type: none"> 1. Sales and rentals of computer systems 2. Sales and production of software 3. Various system-related services 4. Telecommunication business, information processing services and data base services 5. Contracts, planning, executions and controls of constructions for building and installation of systems above, etc.

Common Stock

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

Shareholders

Number of Shareholders: 4,253

Principal Shareholders:

Name	Number of shares held (thousands)	(%)
Unisys Corporation	32,535	29.67
Mitsui & Co., Ltd.	32,520	29.66
Sumitomo Fudosan Finance Co., Ltd.	9,690	8.84
Nihon Unisys Employees' Shareholding Society	2,344	2.14
Mitsubishi Electric Corporation	2,152	1.96
The Daiwa Bank, Ltd. Pension Trust Fund Management Division	1,638	1.49
The Sakura Bank, Ltd.	1,415	1.29
The Mitsui Trust and Banking Company, Limited	1,310	1.19
The Yasuda Trust and Banking Company, Limited	969	0.88
Specified Money Trusts (Trustee: The Daiwa Bank, Ltd.)	901	0.82

(Note) The number of shares held by Mitsui & Co., Ltd. and Unisys Corporation shown above are from the shareholders' list. However, the actual number of shares they own as of March 31, 1998 are as follows.

Mitsui & Co., Ltd.	32,530 shares (29.66%)
Unisys Corporation	32,515 shares (29.65%)

Employees 6,677

Major Subsidiaries and Affiliated Companies

Company Name	Capital (¥ millions)	Equity held by Nihon Unisys (%)
Nihon Unisys Supply Ltd.*	315	85
UNIADEX Ltd.*	200	100
Nihon Unisys Software Kaisha	300	100
Hiroshima Soft Engineering Co., Ltd.	50	64.5
Soft Excel Co., Ltd.	100	72.5
Kayu Soft Engineering Co., Ltd.	190	70
Nihon Unisys Information Systems, Ltd.	150	100
O.S. Engineering Co., Ltd.	50	100
Nihon Unisys Business, Ltd.	20	100
Hokkaido Soft Engineering Co., Ltd.	30	45
Tohoku Soft Engineering Co., Ltd.	50	49
Chubu Soft Engineering Co., Ltd.	50	49
Kansai Soft Engineering Co., Ltd.	50	47
Kyushu Soft Engineering Co., Ltd.	50	45
Kokusai System Co., Ltd.	40	42.5

*Consolidated Subsidiary

Board of Directors

(as of June 25, 1998)

Name	Title
Junichi Amano*	President & CEO
James L. Page*	Executive Vice President
Koichi Masuda*	Senior Executive Managing Director
Kenji Nagaoka*	Executive Managing Director
James L. Murtaugh*	Executive Managing Director
Yosuke Torii*	Executive Managing Director
Takashi Suzuki	Managing Director
Muneaki Tachibana	Managing Director
Kiyoshi Kitamura	Managing Director
Koki Kimita	Managing Director
Tatsuo Toyama	Managing Director
Syoichi Kajikawa	Managing Director
Makoto Motoike	Managing Director
Tatsuo Takayama	Director
Ayao Yamazaki	Director
Shin Higashitsuji	Director
Koichi Kikumoto	Director
Hajime Takeuchi	Director
Hidenori Suzuki	Director
Yasunori Fujita	Director
Tainen Hidaka	Director
Grant W. Carlson	Director
Takashi Kitaoka	Director
Kazuo Sato	Director
Shoei Utsuda	Director
Fumio Otsuka	Director
George R. Gazerwitz	Director
Gerald A. Gagliardi	Director
Robert H. Brust	Director
Dewaine L. Osman	Director
Leo C. Daiuto	Director
Takashi Fujita	Statutory Auditor
Yasufumi Yamazaki	Statutory Auditor
Kiyoshi Doi	Auditor

*Representative Director

Products & Services

Enterprise Servers

ITASCA Series
HMP IX Series
HMP NX Series, etc.

Open Products

UNIX Servers, Workstations
PC AQUANTA Series
Solution Server RX-7000 Series, etc.

Peripherals

Cash Disk Units
Magnetic Disk Units
Japanese-language Printers
Terminals, etc.

Communications Systems

Communications Control Units
Digital PBX
Ethernet LAN
Switching HUB, Router, etc.

Software

Basic Software
Database Software
Network Software
Solution for Various Industries
ERP Solution
Various Open Software, etc.

Services

Consultation Services
System Engineering Services
Maintenance Services
Education/Training Services
Network Integration Services
Desktop Services
Outsourcing Business
Facilities-related Services, etc.

