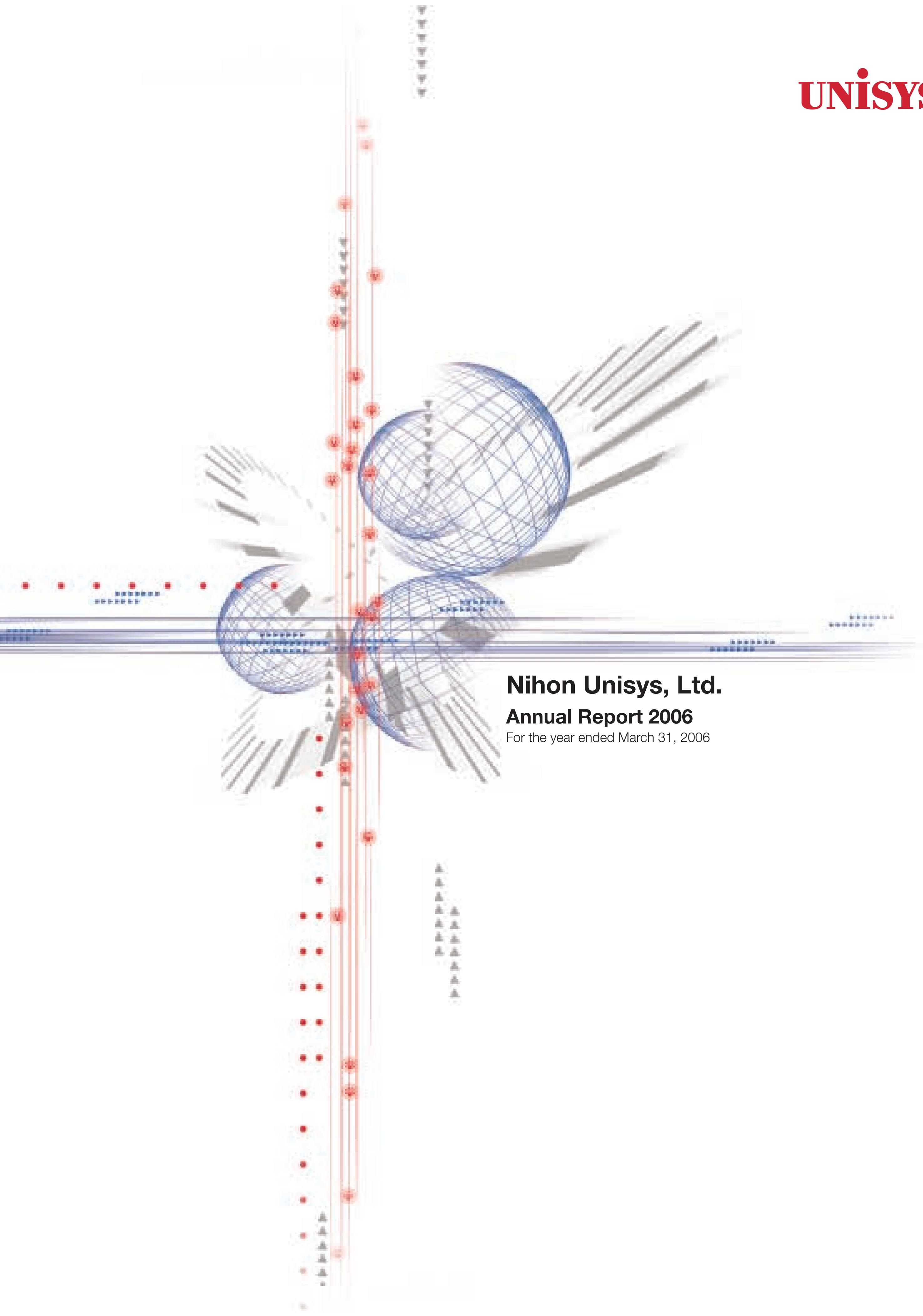


Nihon Unisys, Ltd.

Annual Report 2006

For the year ended March 31, 2006

Blending IT and management…or to put it a different way, combining fundamental business activities and the power of IT to both rediscover and realize different or new values of the business. We at the Nihon Unisys Group provide comprehensive IT solution services to our customers by way of the combined forces of our sales, development, and maintenance staff. Leveraging on our experience and cross-sector know-how in a wide variety of areas including financial, manufacturing, commerce and distribution, public and utility service fields, we build systems from our customers' standpoint and strongly support their management innovation via IT.

As an IT service partner who understands customers better than anybody else, we dedicate ourselves to helping customers create value and to grow together with all stakeholders.

CONTENTS

Disclaimer

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

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

We are firmly executing initiatives to become a high-growth company.

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

In November of last year, the Nihon Unisys Group put out its management vision “To become a high-growth corporate group setting itself the ‘challenge towards ¥500 billion in revenue’ ” and took the first steps towards its realization.

Until recently, we have been implementing initiatives to improve management efficiency and now we are dedicated to creating business opportunities for future growth in the fiscal year ending March 2007. To that end, four reinforcing measures will be implemented: 1) enhancing research and development (R&D), 2) deploying global business, 3) coordinated strengthening with Mitsui & Co., and 4) proceeding with mergers and acquisitions (M&A).

At the same time, we are making efforts to strengthen our revenue base. One way is through promoting shared services (consolidating the Group's staff functions). By April 2006, each group company's staff, in total around 450 members, were consolidated by function. We plan to improve profitability by improving the efficiency of our business processes and by shifting part of our back-office staff to front line sales and technical positions. Further, we have been providing services for our customers through the trinity of our three major companies, Nihon Unisys (sales and marketing), Nihon Unisys Solutions (systems development) and UNIADEX (operation and support) while concentrating the related costs to Nihon Unisys. In this way, each sales person at Nihon Unisys is now more aware of group-wide costs at the point of sale and this will help to considerably strengthen our revenue management.

We are confident that the execution of these initiatives will ensure the early achievement of our management vision of a "high-growth corporation."

For the two years until the fiscal year ending March 2007, we will be affected by a temporary increase in the cost of license fees of trademark rights. However, this will be significantly reduced in the following term and we are targeting operating income of ¥18 billion for the term ending March 2008, even after considering our aggressive investments for expansion.

I warmly thank the shareholders and investors for their continued understanding and support in the future.

June 2006

Katsuto Momii
President and CEO

- The Nihon Unisys Group increased consolidated sales by ¥8,618 million to ¥317,487 million (up 2.8% from the previous year), due to a significant rise in service sales where demand was strong, more than offsetting a fall in sales of mainframe products.
- Operating income declined by ¥5,348 million to ¥5,066 million (down 51.4%), mainly due to the temporary cost increase caused by the revision in the agreement for license fees, etc. with Unisys Corporation. Net income was ¥2,827 million less than in the previous year, at ¥1,889 million (down 59.9%).

Business Environment

In the fiscal year ended March 2006, Japan's economic recovery led to a gradual improvement in corporate information technology (IT) spending and demand for service business has been increasing. On the other hand, this year fell into a replacement period for mainframe products and the Nihon Unisys Group was negatively impacted by the trend to adopt open systems for small equipment.

In addition, following the revision in the agreement with Unisys Corporation, the Nihon Unisys Group incurred a temporary cost increase, which negatively affected earnings for the year. The revision has not changed our status as the sole authorized distributor of computers and other products manufactured by Unisys Corporation and we will maintain a close relationship with Unisys Corporation.

Business Development

In the financial industry, our core banking systems went live at one major credit bank and two other financial institutions in January 2006, on schedule. This success has demonstrated our group's high level of product development abilities as well as project management capabilities. We plan to keep launching more core banking systems for regional banks in the future.

In the apparel and distribution businesses such as temperature controlled logistics and mail-order sales, orders from new customers have increased steadily.

In addition, we are aggressively entering into new business areas using IT technologies. One example is our participation in the project to build Japan's first prison without bars by utilizing IC tags.

Order Trends

Orders received this year amounted to ¥305.1 billion, up 10% from the previous year. Orders in system services, such as development operations, continued to show particular strength, increasing 14% year-over-year to ¥97.8 billion.

We expect to receive more orders in the short term, as we have already received preliminary orders from several regional banks for our core banking system using open technologies.

Growth Plan

Under the management vision "To become a high-growth corporate group setting itself the 'challenge of reaching ¥500 billion in revenue' ", the Nihon Unisys Group aims to grow by strengthening our revenue foundation through "Four Reinforcement Measures" and steadily implementing the "Basic Strategies."

Four Reinforcement Measures

• Research & Development (R&D) Enhancement

Reinforce our technological advantage by continuous research and development in next generation technologies. In addition, promote the development of technologies and products which can become core elements of our IT solution services.

• Global Deployment

Explore opportunities to pursue businesses outside of Japan.

• Enhanced Collaboration with Mitsui & Co.

Expand business opportunities by coordinated strengthening with Mitsui & Co., one of Japan's major trading companies which creates businesses in a wide range of industries.

• Mergers & Acquisitions (M&A) Promotion

Explore M&A opportunities in order to expand and deepen our business domains.

Basic Strategies

• Marketing Strategy

Expand core businesses steadily by strengthening our marketing capabilities. Concentrate our resources in core technological areas to provide better solutions for our customers.

• Group Strategy

Reinforce comprehensive group power through the trinity of our three major companies, by further clearly defining the roles and functions of each group company.

• Service Business Strategy

Enhance productivity and competitiveness by promoting a knowledge-intensive model.

• Human Resources Strategy

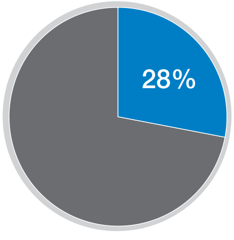
Foster human resources based on the group strategy which aims at creating a top ranking corporate group. Improve the work environment and establish a workplace where employees can be happy and content.

Revision of the Agreement with Unisys Corporation on Technical Information/Support Fee and License Fee

In October 2005, the Nihon Unisys Group and Unisys Corporation agreed to revise the fee structure for the technical information and support provided by Unisys Corporation and use of the Unisys trademark. Our group used to pay an amount based on a set standard each year. After the revision, the license fee of $225 million will be paid as a lump sum during the first two years, while the technical support fee of $20 million will be paid every year with a revision in five years. License fee payment will be completed by the fiscal year ending March 2007 and the payment to Unisys Corporation will be significantly reduced from the fiscal year ending March 2008.

Financial

Proportion of Sales
(FY ended March 2006)



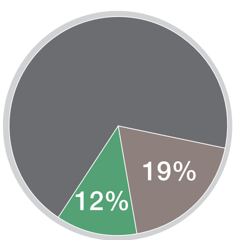
Overview

While service sales remained firm in the financial sector for the term ended March 2006, there was an overall drop of ¥3.3 billion on the previous year to ¥89.6 billion as a result of a decline in mainframe sales. Accordingly, financial sales accounted for 28% of total sales.

Although overall competition remains fierce, demand continues to rise centered on the outsourcing area. For the term ending March 2007, assuming a respite in the decline of mainframe sales, we expect service sales to be the driving force for overall sales increase.

Manufacturing/Commerce and Distribution

Proportion of Sales
(FY ended March 2006)



Manufacturing
Commerce and Distribution

Overview

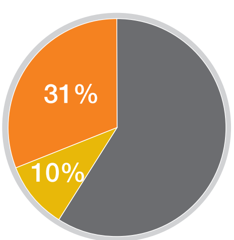
Manufacturing/commerce and distribution sales for the term ended March 2006 increased by ¥4.5 billion on the previous term to ¥98.5 billion, accounting for 31% of total sales.

Cost awareness is strong and price competition is becoming fierce in the manufacturing industry. However, there is increasingly active IT investment centered on the automotive industry.

The Company has a large share in the temperature controlled logistics and mail order markets and business opportunities in these areas are expanding through system redeployment.

Public and Government/Utility and Services

Proportion of Sales
(FY ended March 2006)



Public and Government
Utility, Services and Other

Overview

Public and government/utility and service sales for the term ended March 2006 increased by ¥7.4 billion on the previous term to ¥129.4 billion, accounting for 41% of total sales.

A review of system procurement processes in central government offices and ministries led to an increase of new market entry opportunities and aggressive business development is being sought. Also, our scale of business expanded even more through offering solution packages for areas in which the Company has been successful such as municipalities, medical institutions and the travel industry.

TOPICS

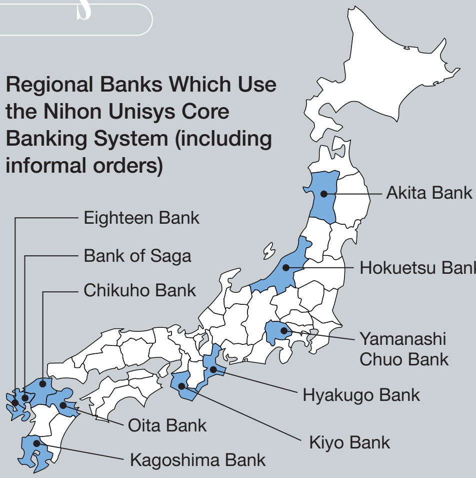
Regional Banks Increasingly Adopt the Nihon Unisys Open Core Banking System

Financial institutions which install Nihon Unisys' open core banking system are increasing. Especially at regional banks, following Hyakugo Bank three Kyushu based banks: Chikuho Bank, Bank of Saga and the Eighteenth Bank made informal orders to install the system in May 2005, as did Kiyo Bank in November.

Including our existing customers, there will be ten regional banks which use the Nihon Unisys core banking system.

Nihon Unisys has rich experience and know-how in developing systems for financial institutions, leads the industry in the development of open systems, and plans to further expand its market share in the financial market.

Regional Banks Which Use the Nihon Unisys Core Banking System (including informal orders)



TOPICS

Nihon Unisys Installs ASKUL's New Customer Service System

ASKUL Corporation, Japan's largest catalog-sales company for office supplies, has launched its new customer service system. Nihon Unisys has offered its rich experience and know-how of advanced technology and outsourcing services to the development of the new CRM (customer relationship management) system which uses a customer database to offer high quality customer service. ASKUL began using the new system in January 2006, integrating the management of its new customer service site "ASKUL Concierge Desk" and the existing "Contact Center." Customer service representatives at each site use the new system to offer precise, detailed customer service.

TOPICS

Reservation System for ANA Domestic Flights to be Rebuilt Using Nihon Unisys Open Technology

All Nippon Airways' (ANA) reservation system for domestic flights, which is the largest of its type in Japan, will be renewed using Nihon Unisys open technology. For the renewal of its system for domestic flight reservation, ticketing and boarding services, ANA chose Nihon Unisys following an evaluation of the company's know-how in the airline industry and its thorough knowledge of the overall ANA systems environment. An agreement was reached for a long term, ten year comprehensive contract for the domestic reservation system. ANA's migration to the open system which provides the best combination of price and performance will enable them to reduce IT costs and to offer new services faster.

The Nihon Unisys Group practices corporate governance that enhances transparency and quality of management by separating management function and business execution function, and leveraging outside managing directors and outside corporate auditors, in order to realize swift decision making that responds to changes of business environment, and enhance accountability and transparency in business.

Organizations

Board of Directors

The Board of Directors consisting of 12 managing directors including two outside managing directors holds meetings once a month as a rule. The Board decides and reviews reporting on important management issues. Also, the term of managing director is one year in order to establish a flexible management structure to quickly respond to changes in business environment and to clarify responsibility of managing directors.

Business Execution Structure

Corporate Officer System

The Corporate Officer System was introduced to separate management and business execution functions, as part of the effort to enhance the business management structure.

Executive Council

The Executive Council consisting of full-time managing directors and others was established to discuss and decide material matters for business execution, in order to facilitate swift and efficient decision-making.

Committees

Compliance Committee, CSR Committee, Environmental Activity Committee, Risk Management Committee, Security Committee, R&D/Investment Committee, Proposal & Project Review Committee (PPRC) and other committees are established, in order to deliberate from practical viewpoints, individual business issues performed by managing directors.

Audit System

Audit System by Corporate Auditors

There are three corporate auditors: two full-time corporate auditors and one outside corporate auditor. Pursuant to Audit Standard of Auditors, audit policies and audit plan drawn up by the Board of Corporate Auditors, they observe the status of business execution by managing directors by attending meetings of Board of Directors, meetings of Executive Council and other important meetings, and periodically holding liaison meetings with president and other managing directors, corporate officers and CCO.

Status of Accounting Audit

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

Status of Internal Audit

The Group's system for internal audit is represented by Internal Audit, company-wide audit organization consisting of 30 employees of internal audit units that used to be at two major subsidiaries. Internal Audit audits the appropriateness and effectiveness of internal control, and reports to the top management the results with suggestions for improvement and correction of any problems if necessary. Internal Audit then monitors results of improvement and correction.

Audit information including audit result is disclosed to unit managers in order to accelerate and share improvements, and also disclosed to Deloitte Touche Tohmatsu for exchanging views.

Internal Audit and Board of Corporate Auditors collaborate by exchanging opinions about audit plan made by Board of Corporate Auditors and by corporate auditors attending at a review session of internal audit about sales divisions etc. Common audit themes for the whole Group are similarly addressed by mutual collaboration.

Directors, Auditors and Corporate Officers

(As of June 22, 2006)

Standing left to right : Tsutomu Fukunaga , Naoya Kashiwagi , Masanori Matsumori , Motonori Saeki
Seated left to right : Katsuto Momii , Keiji Shiratori

President & CEO
Katsuto Momii

Representative Director & Chief Financial Officer
Keiji Shiratori

Representative Directors & Senior Corporate Officers
Naoya Kashiwagi
Masanori Matsumori
Tsutomu Fukunaga
Motonori Saeki

Managing Directors & Senior Corporate Officers
Fumio Horikawa
Koji Suzuki
Akiyoshi Hiraoka

Managing Director & Corporate Officer
Osamu Maruyama

Managing Directors, Part-Time
Hiroshi Ito
Shinjiro Ogawa

Corporate Auditors
Makoto Iwanaga
Seimin Hirafuku

Corporate Auditor, Part-Time
Katsuhisa Kiyozuka

Senior Corporate Officer
Toshihiko Kato

Corporate Officers
Yoichi Harada
Masami Kobayashi
Ryuji Tatsuno
Shigeru Inoue
Hitoshi Tayama
Nozomu Ikawa
Minoru Tasaki
Masayuki Fujisawa
Tsutomu Takahashi

The Nihon Unisys Group has been engaged in business activities that respect relationship with various stakeholders such as customers, employees, shareholders & investors, and communities & society. In particular, as an IT company whose mission is to solve customers' problems through our daily business operation, the Group is involved in Corporate Social Responsibility (CSR) activities under the common slogan "What IT can do for the society and the people".

Ecological Activities

"What IT can do for the Earth" is the underlying philosophy of the Nihon Unisys Group and our engagement in maintaining global environment is positioned as one of our priority issues of management. We provide value-additive IT solutions to our customers and at the same time promote environmentally-friendly business activities steadily.

In concrete terms, we support our customers to improve operational efficiency, reduce environmental burden, and utilize resources efficiently, by providing IT products and services that contribute to their efforts for higher productivity and energy savings. Through these activities, we contribute to reducing environmental burden of society, promoting more efficient utilization of resources, preventing global warming, and building a sustainable society.

Within the Group, we make efforts to realize an enhanced operational efficiency, a reduction of environmental burden, an efficient utilization of resources, by leveraging IT for teleconference, computerized catalogue, server integration, and e-learning. Also, we encourage to cut back electricity use, promote paperless, and separate recyclable waste for preventing global warming and exhaustion of resources.

Compliance

Nihon Unisys Group is engaged in compliance practice as a whole by establishing the 'Compliance Basic Rules' that stipulates organization structure and communication route for consultation and report, whistle-blowing system, pursuant to basic policies about compliance that should be followed by executives and regular employees.

Also, the 'Compliance Handbook' concretely stipulating code of conduct about compliance is distributed to all executives and regular employees of the Group. Furthermore, a thorough and enhanced compliance awareness is promoted by continued efforts of education and enlightenment such as seminars and education programs via Intranet and e-learning.

Risk Management

The Group has managed risks that may affect materially the Group business management by establishing "Risk Management Committee" that mainly intends to take countermeasures to various risks such as risks concerning information, products and services, disasters and accidents (crimes and damages), and environment. Arrangements for addressing risks have been made that enable all employees to make concerted efforts for risk minimization and business continuity if material risks should occur.

Also, material risks involved in large-scale development projects that may impact significantly the profitability of the Group are alleviated by sharing risk information at meetings of 'Project Quality Center' participated in by the management. Furthermore, considerations about business continuity activities are advanced in a cross-organizational manner, as exemplified by an establishment of organization of business continuity promotion.

Information Security

Pursuant to the 'Nihon Unisys Group's Information Security Comprehensive Strategy', guidelines for addressing information security, the Group has promoted various information security measures. It has made enhancement efforts for information security from a more comprehensive and broader viewpoint by establishing the 'Nihon Unisys Group's Information Security Comprehensive Strategy, II' enhanced guidelines that reflect changes of internal and external environment about information security in this fiscal year.

A realization of the industry-leading level of information security is aimed by swiftly implementing various kinds of measures at each company of the Group pursuant to the 'Nihon Unisys Group Information Security Comprehensive Strategy, II' in future. At the same time, the Group will contribute to an enhancement of information security level in Japan by strongly supporting customer companies to advance their information security levels.

Contributing to Society

The Group proactively supports various community activities by leveraging its characteristics of IT business, in order to contribute to a sound and affluent development of society and communities.

Our effort of contributing to society through business activities has been exemplified by our educational activities of many years, in particular, of realizing visits by students at our facilities and participations by teachers in training programs for private companies. Our regional community activities include clean-ups in the Toyosu area where we are headquartered, and supports for cultural activities in local communities.

Since the fiscal year ended March 2006, a special program of vacation and leave of absence from office for supporting social contribution activities has been implemented to help employees perform volunteer activities. In April 2006, employees voluntarily established an organization for social contribution activities, the "Uniheart".

The Group also supports cultural and artistic activities such as performed by violinist Narimichi Kawabata, as well as sports promotion.

Financial Highlights

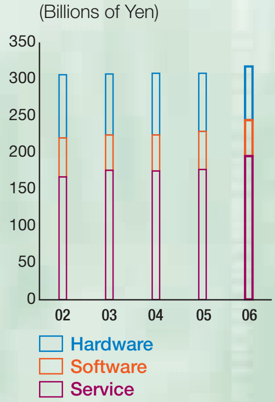
Nihon Unisys, Ltd.
Years Ended March 31, 2006, 2005 and 2004 (Consolidated Basis)

	Millions of Yen			Thousands of U.S. Dollars (Note)
	2006	2005	2004	2006
Net sales	¥ 317,487	¥308,869	¥309,418	$2,702,707
Operating income	5,066	10,414	3,166	43,126
Net income	1,889	4,717	3,922	16,081
Total assets	243,931	222,155	226,691	2,076,539

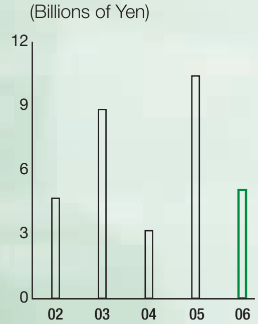
	Yen			U.S. Dollars (Note)
	2006	2005	2004	2006
Per share amounts:				
Basic net income	¥17.77	¥43.34	¥35.57	$0.15
Diluted net income	17.71	43.33	—	0.15
Cash dividends applicable to the year	7.50	7.50	7.50	0.06

(Note) Yen amounts have been translated into U.S. dollars, for convenience only, at ¥117.47=U.S.$1 prevailing on March 31, 2006.

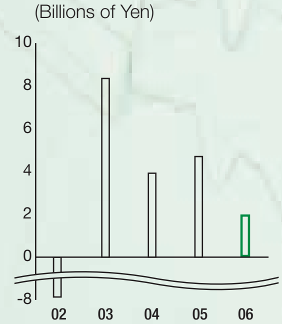
Net Sales
(Billions of Yen)



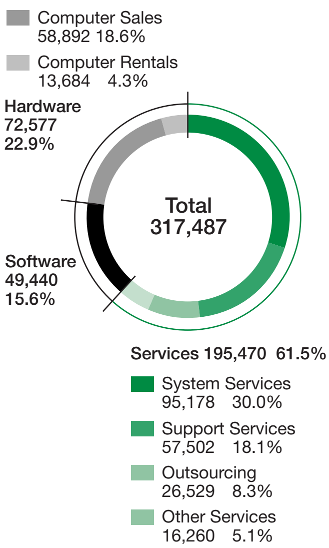
Operating Income
(Billions of Yen)



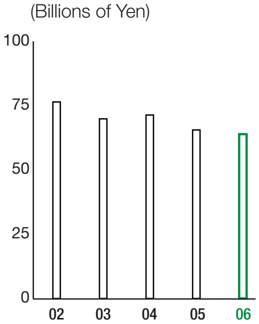
Net Income (Loss)
(Billions of Yen)



Composition of Net Sales
(Millions of Yen)



Selling, General and Administrative Expenses
(Billions of Yen)



RESULTS OF OPERATIONS

Net Sales

Despite a gradual recovery of corporate investment in information technology in Japan, due to pressure for price discount increased by fiercer competition, the information technology industry still finds itself in a demanding environment. Against this backdrop, total net sales for this fiscal year on a consolidated basis increased by ¥8,618 million, or 2.8%, from the previous year to ¥317,487 million, due to an increase in sales of system services, although hardware sales and software sales remained weak.

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

(1)Services

Services sales increased by ¥18,020 million, or 10.2%, to ¥195,470 million. System services sale significantly increased by 17.9% from the previous year, due to a strong increase in medium-size projects against the backdrop of a recovery trend in the Japanese economy, in addition to smooth transition of large-scale development projects obtained in the previous year.

(2)Software

Software sales decreased by ¥2,966 million, or 5.7%, to ¥49,440 million, because of a fall in mainframe large-scale projects in contrast to the previous year, despite an increase in open solution sales.

(3)Hardware

Hardware sales decreased by ¥6,436 million, or 8.1%, to ¥72,577 million, due to sluggish sales in addition to a tendency of decreasing lease income of mainframe.

In terms of sales composition, services accounted for 61.5% of total sales (vs. 57.5% in the previous year), software represented 15.6% (vs. 17.0%), and hardware the remaining 22.9% (vs. 25.6%).

Operating Income

Gross profit decreased by ¥6,993 million, or 9.2%, to ¥68,934 million. Gross profit from services, mainly in system services, increased by ¥3,435 million but profit from hardware and software decreased by ¥7,090 million, as a ¥2,510 million increase in the open products was more than offset by a ¥9,600 million decrease in the mainframe products. Also, gross profit was impacted by a temporary increase in costs of ¥3,338 million because the Company entered into “Revision of Technical Information/Support Fee and License Fee Agreement” (the “Revision”) with Unisys Corporation.

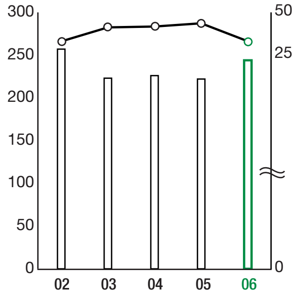
Selling, general, and administrative expenses stood at ¥63,868 million, down by ¥1,646 million, or 2.5%, mainly due to a reduction in office automation expenses of ¥817 million and sales support expenses of ¥727 million.

As a result, operating income decreased significantly, by ¥5,348 million, or 51.4%, to ¥5,066 million.

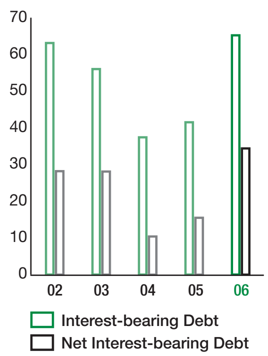
Net Income

Other income and expenses amounted to a net loss of ¥747 million, which was ¥859 million less than in the previous year, mainly due to a decrease in special retirement expenses. With regard to extraordinary items, a ¥225 million gain from sale of fixed assets was booked and ¥380 million impairment loss on fixed assets for business use was booked by adopting the accounting standard on impairment losses on fixed assets. As a result, net income was ¥1,889 million, down ¥2,827 million, or 59.9%.

Total Assets
(Billions of Yen ; LH)
Shareholders' Equity Ratio
(% ; RH)

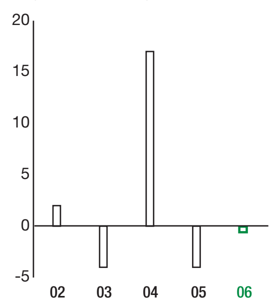


Interest-bearing Debt
Net Interest-bearing Debt
(Billions of Yen)



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

Free Cash Flows
(Billions of Yen)



FINANCIAL CONDITIONS

Balance Sheets

Total assets increased by ¥21,776 million to ¥243,931 million from the previous year.

Current assets increased by ¥19,246 million due to other current assets of ¥18,597 million recorded because of the Revision, as well as inventories' increase of ¥4,106 million. Net property, plant and equipment decreased by ¥1,146 million mainly due to purchase of machinery and equipment. Investments and other assets increased by ¥3,676 million mainly for purchase of software.

Total liabilities were ¥162,411 million, up ¥37,699 million from the end of the previous year, due to the booking of an accounts payable–trade in connection with the Revision with Unisys Corporation, an increase in interest-bearing debt in order to purchase outsourcing assets, pay higher license fees, and meet capital requirement for purchasing treasury stock,.

Shareholders' equity decreased to ¥80,850 million by ¥16,043 million due to the fact that treasury stock increased by ¥18,184 million as the Company repurchased part of its stocks held by Unisys Corporation. Shareholders' equity ratio was 33.1%, which was 10.5 percentage points lower, compared to a year ago.

Cash Flows

Cash and cash equivalents of this fiscal year (hereinafter referred to as 'cash') required for purchasing computers for outsourcing, investing in software development, and repurchasing a portion of stocks of the Company held by Unisys Corporation that used to be related to the Company exceeded cash provided by operating activities. The balance was offset by cash provided by financial activities such as new loans and issuance of commercial papers. As a result, cash and cash equivalents at the end of the term was ¥30,827 million, up by ¥4,843 million from the beginning of the term.

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 is 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 with five banks, in order to improve capital efficiency and to assure stability and mobility in financing activities. The outstanding amount of the commitment line was ¥15,000 million on March 31, 2006.

Major risks about the Nihon Unisys Group's business are as follows:

Impacts from Economic Trends and Market Environment

In the IT service industry where the Nihon Unisys Group operates, corporate IT investment has gradually been recovering but prices for IT equipment and services have been on a declining trend since corporate users have reinforced cost reduction efforts and have emphasized return on investment (ROI). Under these market conditions, severer-than-expected price competition and delayed adoption of technological advances may materially affect our financial and business performance.

Project Management Risks

The Nihon Unisys Group develops a range of custom-made computer systems for its customers. Delivery lead times are getting shorter and projects are becoming larger and more complex amid intensifying competition. In these circumstances, the Group may have to bear heavy debugging costs, should problems emerge during system development, resulting in cost overruns. To prevent cost overruns and to detect problems at the early stages, the Group has reinforced its project management system.

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 ¥14,202 million in the fiscal year ended March 2006, which exposes us to risk from fluctuations in foreign currency exchange. The Company uses forward foreign exchange contracts to hedge the risk of changes in foreign currency exchange rates.

Information Control Risks

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 our customers for developing and providing information systems through our operations. Being in the IT industry, we are fully aware of importance of information control. We control information with the maximum security and care. In order to prepare for an unexpected accident, we have taken out an insurance policy for a certain amount. However, if damages were to cost significantly more than the amount insured or if we suffered loss or damage to our reputation, it would have a material impact on the Group's business results.

Intellectual Property Risks

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

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

Natural Disaster Risks, etc.

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

Relations with Important Supplier

Nihon Unisys is the sole authorized distributor of computers and other IT equipment manufactured by Unisys Corporation. The Company imports, markets and services computers and other equipment made by Unisys Corporation. The Company has rights to Unisys Corporation's trademarks and also receives technical information and support from the latter. The trading relationship with Unisys Corporation has been steady but if the relationship becomes difficult and cannot be sustained, it would have a material impact on the Group's business results.

NIHON UNISYS, LTD.
MARCH 31, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 30,827	¥ 25,984	$ 262,424
Accounts receivable–trade (Note 16)	80,709	85,150	687,061
Inventories (Note 5)	19,322	15,216	164,485
Deferred tax assets (Note 7)	10,373	9,067	88,303
Other current assets	18,597	5,196	158,313
Allowance for doubtful accounts	(64)	(95)	(545)
Total current assets	159,764	140,518	1,360,041
Property, Plant and Equipment (Note 10)**:**			
Land	848	903	7,219
Buildings and structures	14,037	14,399	119,494
Machinery and equipment	83,993	87,737	715,017
Total	98,878	103,039	841,730
Accumulated depreciation	(77,548)	(80,563)	(660,152)
Net property, plant and equipment	21,330	22,476	181,578
Investments and Other Assets:			
Investment securities (Note 4)	10,981	8,544	93,479
Investments in unconsolidated subsidiaries and associated companies	315	315	2,682
Software (Note 10)	23,020	19,420	195,965
Lease deposits	9,370	9,515	79,765
Deferred tax assets (Note 7)	7,263	8,027	61,829
Prepaid pension costs (Note 8)	10,455	11,859	89,001
Other assets (Note 10)	1,433	1,481	12,199
Total investments and other assets	62,837	59,161	534,920
Total	¥243,931	¥222,155	$2,076,539

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 5,960	¥ 994	$ 50,736
Current portion of long-term debt (Note 6)	2,261	8,651	19,247
Accounts payable–trade (Note 16)	53,820	39,556	458,159
Accounts payable–other (Note 16)	4,258	4,429	36,248
Commercial paper (Note 6)	20,000	6,000	170,256
Income taxes payable (Note 7)	3,051	2,102	25,973
Accrued expenses	14,810	14,534	126,075
Other current liabilities	15,489	13,159	131,855
Total current liabilities	119,649	89,425	1,018,549
Long-term Liabilities:			
Long-term debt (Note 6)	35,342	23,803	300,860
Long-term accounts payable-other	2,882	6,013	24,534
Liability for retirement benefits (Note 8)	1,959	2,369	16,677
Deferred tax liabilities (Note 7)	525	530	4,469
Other long-term liabilities (Note 11)	2,054	2,571	17,485
Total long-term liabilities	42,762	35,286	364,025
Minority Interests	670	551	5,704
Commitments and Contingent Liabilities (Notes 11, 12, 13 and 15)			
Shareholders' Equity (Notes 4, 13, 15 and 17.a)**:**			
Common stock,			
authorized, 300,000,000 shares;			
issued, 109,663,524 shares and outstanding			
94,244,634 shares in 2006 and 105,658,036 shares in 2005	5,483	5,483	46,676
Capital surplus	15,288	15,282	130,144
Retained earnings	78,388	77,391	667,301
Net unrealized gain on available-for-sale securities	3,285	2,150	27,965
Total	102,444	100,306	872,086
Treasury stock deposit	3		26
Treasury stock–at cost			
15,418,890 shares in 2006 and 4,005,488 shares in 2005	(21,597)	(3,413)	(183,851)
Total shareholders' equity	80,850	96,893	688,261
Total	¥243,931	¥222,155	$2,076,539

NIHON UNISYS, LTD.
YEARS ENDED MARCH 31, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Net sales (Note 16)	¥317,487	¥308,869	$2,702,707
Cost of sales (Note 16)	248,553	232,941	2,115,885
Gross profit	68,934	75,928	586,822
Selling, general and administrative expenses (Note 9)	63,868	65,514	(543,696)
Operating income	5,066	10,414	43,126
Other income (expenses):			
Interest and dividend income	170	208	1,447
Interest expense	(457)	(463)	(3,890)
Income from building rental	13	19	111
Gain on sales of securities (Note 4)	170	480	1,447
Foreign exchange loss	(288)	(65)	(2,452)
Gain on sales of property, plant and equipment	225	17	1,915
Loss on revision of the retirement benefit scheme		(88)	
Impairment loss (Note 10)	(380)		(3,235)
Special retirement expense	(117)	(1,292)	(996)
Other–net	(83)	(422)	(706)
Other income (expenses)–net	(747)	(1,606)	(6,359)
Income before income taxes and minority interests	4,319	8,809	36,767
Income taxes (Note 7):			
Current	3,663	2,488	31,183
Deferred	(1,327)	1,562	(11,297)
Total income taxes	2,336	4,050	19,886
Minority interests in net income	94	42	800
Net income	¥ 1,889	¥ 4,717	$ 16,081

	Yen		U.S. Dollars
Per Share Amounts (Notes 2.o and 15)**:**			
Basic net income	¥17.77	¥43.34	$0.15
Diluted net income	17.71	43.33	0.15
Cash dividends applicable to the year	7.50	7.50	0.06

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nihon Unisys, Ltd.
Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-Sale Securities	Treasury Stock Deposit	Treasury Stock
Balance, March 31, 2004	107,159	¥5,483	¥15,282	¥73,543	¥2,143		¥ (1,980)
Net income				4,717			
Cash dividends, ¥7.5 per share				(803)			
Bonuses to directors				(66)			
Net increase in unrealized gain on available-for-sale securities					7		
Increase in treasury stock	(1,501)						(1,433)
Balance, March 31, 2005	105,658	5,483	15,282	77,391	2,150		(3,413)
Net income				1,889			
Cash dividends, ¥7.5 per share				(792)			
Bonuses to directors				(100)			
Increase in capital surplus			6				
Net increase in unrealized gain on available-for-sale securities					1,135		
Treasury stock deposit						¥3	
Increase in treasury stock	(11,413)						(18,184)
Balance, March 31, 2006	**94,245**	**¥5,483**	**¥15,288**	**¥78,388**	**¥3,285**	**¥3**	**¥(21,597)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-Sale Securities	Treasury Stock Deposit	Treasury Stock
Balance, March 31, 2005	$46,676	$130,093	$658,815	$18,303		$ (29,054)
Net income			16,081			
Cash dividends, $0.07 per share			(6,742)			
Bonuses to directors			(853)			
Increase in capital surplus		51				
Net increase in unrealized gain on available-for-sale securities				9,662		
Treasury stock deposit					$26	
Increase in treasury stock						(154,797)
Balance, March 31, 2006	**$46,676**	**$130,144**	**$667,301**	**$27,965**	**$26**	**$(183,851)**

See notes to consolidated financial statements.

NIHON UNISYS, LTD.
YEARS ENDED MARCH 31, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Operating Activities:			
Income before income taxes and minority interests	¥ 4,319	¥ 8,809	$ 36,767
Adjustments for:			
Income taxes paid	(2,850)	(3,389)	(24,262)
Depreciation and amortization	15,736	18,363	133,958
Gain on sales of property, plant and equipment	(225)	(17)	(1,915)
Gain on sales of securities	(171)	(480)	(1,456)
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
Decrease (Increase) in accounts receivable–trade	4,478	(1,472)	38,120
Increase in inventories	(4,106)	(4,243)	(34,954)
Decrease (Increase) in interest and dividend receivable	1	(1)	9
Increase (Decrease) in accounts payable–trade	14,248	(3,360)	121,291
Decrease in interest payable	(15)		(128)
Decrease in liability for retirement benefits	(80)	(90)	(681)
Other–net	(12,358)	(2,007)	(105,201)
Total adjustments	14,658	3,304	124,781
Net cash provided by operating activities	18,977	12,113	161,548
Investing Activities:			
Proceeds from sales of property, plant and equipment	339	22	2,886
Payments for purchases of property, plant and equipment	(7,735)	(5,410)	(65,847)
Payments for purchases of software	(11,265)	(11,481)	(95,897)
Proceeds from sales of investment securities	300	554	2,554
Payments for purchases of investment securities	(788)	(451)	(6,708)
Net (decrease) increase in other assets	(154)	95	(1,311)
Net cash used in investing activities	(19,303)	(16,671)	(164,323)
Financing Activities:			
Net increase (decrease) in short-term borrowings	4,966	(146)	42,275
Proceeds from long-term debt	13,800	5,900	117,477
Repayments of long-term debt	(8,446)	(5,629)	(71,899)
Repayments of other borrowings	(205)	(200)	(1,745)
Net increase in commercial paper	14,000	6,000	119,179
Proceeds from sales of treasury stock	88		749
Payments for purchases of treasury stock	(18,263)	(1,433)	(155,469)
Cash dividends	(794)	(803)	(6,759)
Cash dividends to minority interests	(1)	(56)	(9)
Other	24		204
Net cash provided by financing activities	5,169	3,633	44,003
Net Increase (Decrease) in Cash and Cash Equivalents	4,843	(925)	41,228
Cash and Cash Equivalents, Beginning of Year	25,984	26,909	221,196
Cash and Cash Equivalents, End of Year	¥ 30,827	¥ 25,984	$ 262,424

See notes to consolidated financial statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2005 consolidated financial statements to conform to the classifications used in 2006.

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 ¥117.47 to $1, the rate of exchange at March 31, 2006. 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, 2006 include the accounts of the Company and its 11 significant (10 for the year ended March 31, 2005) subsidiaries (together, the "Group").

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

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

Investments in the remaining 3 unconsolidated subsidiaries and 4 associated companies (3 subsidiaries and 4 associated companies for the year ended March 31, 2005) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

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

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

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

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

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

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

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

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

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

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

(g) *Software* – Software development costs, incurred through the completion of a Beta version of specific software for sale to the market, are charged to income as incurred. Costs incurred subsequent to the completion of the Beta version are capitalized as software.

Software for sale to the market is amortized at the greater of either the amount to be amortized in proportion of the actual sales of the software during the current year to the estimated total sales over the estimated salable years of the software or the amount to be amortized by the straight-line method over the estimated salable years, principally over 3 years.

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

(h) *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 Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets.

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.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥ 380 million ($ 3,235 thousand).

(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) *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.

(k) *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.

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

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

(n) *Derivatives and hedge accounting* – The Company uses a variety of derivative financial instruments, including foreign currency forward contracts, currency options and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

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

The foreign currency forward contracts and currency options are utilized to hedge foreign currency exposures in procurement of merchandises from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate exposures of short-term debt. The interest swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets. However, in cases where interest rate swaps qualify for hedge accounting and meet specific matching criteria, the net amount to be paid or received under the interest rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(o) *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.

(p) *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 our customers.

		Thousands of U.S. Dollars
Details of Agreement Changes		
1) License fee		
Consideration:		$225,000
Contract period:	April 1, 2005–	
Payment date:	October 2005	112,500
	October 2006	112,500

License fee will be expensed in 2 years beginning from the April 1, 2005.

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

The Company has booked the following amounts for the Revision:

		Millions of Yen	Thousands of U.S. Dollars
Consolidated Balance Sheet			
Current Asset	Other current assets	¥12,733	$108,394
Current Liability	Accounts payable–trade	12,972	110,428
Consolidated Income Statement			
Cost of Sales		¥14,665	$124,840

(q) New Accounting Pronouncements

(1) Business Combination and Business Separation – In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, Accounting for Business Combinations, and on December 27, 2005 the Accounting Standards Board of Japan (ASBJ) issued Accounting Standard for Business Separations and ASBJ Guidance No.10, Guidance for Accounting Standard for Business Combinations and Business Separations. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

(2) Stock options – On December 27, 2005, the ASBJ issued 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 balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' 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.

(3) 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 appropriation 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.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Cash and time deposits	¥30,837	¥25,994	$262,509
Less-time deposits with maturities over 3 months	(10)	(10)	(85)
Total	¥30,827	¥25,984	$262,424

4. Investment securities

Investment securities as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current			
Equity securities	¥10,805	¥8,387	$91,981
Debt securities	147	100	1,251
Trust fund investments and other	29	57	247
Total	¥10,981	¥8,544	$93,479

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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
March 31, 2005				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,293	¥3,661	¥39	¥6,915
Debt securities	100			100
Total	¥3,393	¥3,661	¥39	¥7,015

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$31,846	$47,221	$102	$78,965
Debt securities	426		26	400
Total	$32,272	$47,221	$128	$79,365

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥1,529	¥1,472	$13,016
Debt securities	100		851
Trust fund investments and other	29	57	247
Total	¥1,658	¥1,529	$14,114

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥300 million ($2,554 thousand) and ¥554 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥170 million ($1,447 thousand) and ¥480 million, for the year ended March 31, 2006 and 2005 respectively.

5. Inventories

Inventories at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Work in process	¥ 5,752	¥ 3,379	$ 48,966
Merchandise and finished products	13,402	11,626	114,089
Supplies	168	211	1,430
Total	¥19,322	¥15,216	$164,485

6. Short-term borrowings and long-term debt

Short-term bank loans of ¥5,960 million ($50,736 thousand) and ¥994 million bore interest at an approximate annual average rate of 0.51% and 1.43% at March 31, 2006 and 2005, respectively.

Commercial paper of ¥20,000 million ($170,256 thousand) and ¥6,000 million bore interest at a rate of 0.08% and 0.01% at March 31, 2006 and 2005 respectively.

Long-term debt at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
0.74% unsecured bonds due 2008	¥ 8,000	¥ 8,000	$ 68,102
Unsecured loans from banks and insurance companies, 0.67% to 2.51%, due serially to 2012	29,175	23,821	248,361
Other borrowings	428	633	3,644
Total	37,603	32,454	320,107
Less current portion	(2,261)	(8,651)	(19,247)
Net long-term debt	¥35,342	¥23,803	$300,860

The annual maturities of long-term debt as of March 31, 2006 for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 2,261	$ 19,247
2008	19,042	162,102
2009	5,300	45,118
2010	5,500	46,820
2011 and thereafter	5,500	46,820
Total	¥37,603	$320,107

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

7. Income taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Current assets:			
Accrued bonuses	¥ 4,602	¥ 4,482	$ 39,176
Accounts payable–other (amount transferred to the defined contribution plan)	1,162	1,228	9,892
Inventory valuation	1,759	1,366	14,974
Accrued expenses	788	871	6,708
Allowance for maintenance service fee	347	344	2,954
Accrued business tax	428	358	3,643
Others	1,295	418	11,024
Total	10,381	9,067	88,371
Less valuation allowance	(8)		(68)
Total	¥10,373	¥ 9,067	$ 88,303
Non-current assets:			
Depreciation expenses	¥12,545	¥ 7,713	$106,793
Tax loss carryforwards	204	4,591	1,737
Long term accounts payable–other (amount transferred to the defined contribution plan)	1,131	2,425	9,628
Liability for retirement benefits	816	909	6,946
Impairment loss	155		1,319
Others	1,144	1,229	9,739
Total	15,995	16,867	136,162
Less valuation allowance	(545)	(187)	(4,639)
Total	¥15,450	¥16,680	$131,523
Deferred tax liabilities:			
Prepaid pension costs	(4,202)	(4,774)	(35,771)
Reserve for special taxation measures law in Japan	(2,037)	(2,664)	(17,340)
Net unrealized gain on available-for-sale securities	(2,259)	(1,478)	(19,230)
Others	(214)	(267)	(1,822)
Total	(8,712)	(9,183)	(74,163)
Net deferred tax assets	¥ 6,738	¥ 7,497	$ 57,360

Net deferred tax assets at March 31, 2006 were included in Consolidated Balance Sheets as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets–non-current	¥7,263	$61,829
Deferred tax liabilities–non-current	(525)	(4,469)
Net deferred tax assets	¥6,738	$57,360

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, 2006 and 2005, was as follows:

	2006	2005
Normal effective statutory tax rate	40.7%	40.7%
Increase in valuation allowance	8.5	
Expenses not deductible for income tax purposes	6.7	3.0
Amount of per-capita local tax	1.8	0.9
Tax reduction for IT investment promotion	(1.7)	
Other–net	(1.9)	1.4
Actual effective tax rate	54.1%	46.0%

At March 31, 2006 the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥489 million ($4,163 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 60	$ 511
2011	137	1,166
2012	210	1,788
2013	82	698
Total	¥489	$4,163

8. Retirement benefits

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

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

The liability for retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 100,252	¥ 99,893	$ 853,426
Fair value of plan assets	(110,085)	(84,481)	(937,133)
Unrecognized transitional obligation	(8,337)	(10,421)	(70,971)
Unrecognized prior service cost	9,698	10,921	82,558
Unrecognized actuarial loss	(482)	(25,884)	(4,103)
Prepaid pension costs	10,455	11,859	89,001
Net liability	¥ 1,501	¥ 1,887	$ 12,778

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 2,858	¥2,888	$ 24,330
Interest cost	1,992	2,004	16,958
Expected return on plan assets	(2,529)	(2,341)	(21,529)
Amortization of transitional obligation	2,084	2,097	17,741
Amortization of prior service cost	(1,222)	(1,208)	(10,403)
Recognized actuarial loss	3,854	4,074	32,808
Payment to a defined benefit pension plan and other	1,047	1,025	8,912
Loss on revision of the retirement benefit scheme		88	
Net periodic benefit costs	¥ 8,084	¥8,627	$ 68,817

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
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, 2006 and 2005 included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Allowance for the NCSP	¥ 420	¥ 299	$ 3,575
Current portion	(180)	(124)	(1,532)
Net periodic benefit costs	240	175	2,043
Allowance for directors' and corporate auditors'retirement benefits	218	307	1,856
Total	¥ 458	¥ 482	$ 3,899

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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Allowance for directors and corporate auditors	¥108	¥107	$ 919
Allowance for employees participating in the NCSP	234	113	1,992
Total	¥342	¥220	$2,911

9. Research and development costs

Research and development costs charged to income were ¥6,111million ($52,022 thousand) and ¥5,885 million for the years ended March 31, 2006 and 2005, respectively.

10. Long-lived assets

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥380 million ($3,235 thousand) 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%. The recoverable amount of that business category group was measured at its net selling price determined by quotation from a third-party vendor.

11. 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, 2006 and 2005 were ¥9,723 million ($82,770 thousand) and ¥9,881 million, respectively.

For the year ended March 31, 2006, the Group recorded an impairment loss of ¥128 million ($1,090 thousand) 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, 2006 and 2005 was as follows:

[For Lessee]

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total
Acquisition cost	¥3,825	¥9,906	¥13,731	¥3,907	¥9,534	¥13,441	$32,562	$84,328	$116,890
Accumulated depreciation	2,179	5,483	7,662	1,843	3,704	5,547	18,549	46,676	65,225
Accumulated impairment loss	106	22	128				903	187	1,090
Net leased property	¥1,540	¥4,401	¥ 5,941	¥2,064	¥5,830	¥ 7,894	$13,110	$37,465	$ 50,575

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥2,597	¥2,740	$22,108
Due after one year	3,615	5,296	30,774
Total	¥6,212	¥8,036	$52,882

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥2,824	¥2,718	$24,040
Interest expense	123	161	1,047
Impairment loss	128		1,090
Total	¥3,075	¥2,879	$26,177

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

The minimum rental commitments under noncancellable operating leases at March 31, 2006, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥4,912	$41,815
Due after one year	3,290	28,007
Total	¥8,202	$69,822

12. Commitments and contingent liabilities

Contingent liabilities at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans to employees for housing	**¥3,455**	**$29,412**

13. Shareholders' equity

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

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

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

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥49,939 million ($425,121 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

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

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be 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) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also 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 Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. 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 shareholders' 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 shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, 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.

At the general shareholders' meeting held on June 25, 2004, the Company's shareholders approved the following stock option plan. The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 692,700 shares of the Company's common stock in the period from July 1, 2006 to June 30, 2011. The option will be exercisable at ¥952. In the event that the shares are split or consolidated, exercise price shall be adjusted in accordance with the following formula. Decimal fractions less than one share shall be rounded up.

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

At the general shareholders' meeting held on June 23, 2005, the Company's shareholders approved the following stock option plan. The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 749,000 shares of the Company's common stock in the period from July 1, 2007 to June 30, 2012. The option will be exercisable at ¥1,763. In the event that the shares are split or consolidated, exercise price shall be adjusted in accordance with the following formula. Decimal fractions less than one share shall be rounded up.

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

14. Derivatives

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

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

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

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

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

15. Reconciliation of the differences between basic and diluted net income per share (“EPS”)

Reconciliation of the differences between basic and diluted EPS for the year ended March 31, 2006 and 2005 were as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
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**	**$0.15**
Effect of Dilutive Securities				
Warrants		**732**		
Diluted EPS				
Net income for computation	**¥1,860**	**105,407**	**¥17.71**	**$0.15**

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

16. Related party transactions

Transactions with Unisys Corporation and Mitsui & Co., Ltd., major shareholders of the Company, for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Sales:			
Unisys Corporation	**¥ 268**	¥ 29	**$ 2,281**
Mitsui & Co., Ltd.	**457**	1,205	**3,890**
Total	**¥ 725**	¥ 1,234	**$ 6,171**
Purchases:			
Unisys Corporation	**¥35,877**	¥15,370	**$305,414**
Mitsui & Co., Ltd.	**7,978**	9,570	**67,915**
Total	**¥43,855**	¥24,940	**$373,329**

Transaction balances due to or from Unisys Corporation and Mitsui & Co., Ltd. at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Accounts receivable–trade:			
Unisys Corporation	¥ 8	¥ 7	$ 68
Mitsui & Co., Ltd.	324	247	2,758
Total	¥ 332	¥ 254	$ 2,826
Accounts payable–trade:			
Unisys Corporation	¥16,088	¥1,126	$136,954
Mitsui & Co., Ltd.	2,143	2,639	18,243
Total	¥18,231	¥3,765	$155,197
Accounts payable–other:			
Mitsui & Co., Ltd.	¥ 15	¥ 462	$ 128

Unisys Corporation, an affiliate of the Company, sold all of the shares in the Company (30,224,900 shares) on March 15, 2006 and is no longer an affiliate of the Company at March 31, 2006. However, the Company will continue to act as the sole marketing agent for Unisys Corporation-made computers in Japan.

Transactions with Mitsui & Co. Financial Services Ltd., sister company of the Company, for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Loan:			
Mitsui & Co. Financial Services Ltd.	¥13,742	¥10,556	$116,983
Total	¥13,742	¥10,556	$116,983

Other transaction is the interim average balance of short-term loan.

Transaction balances due to Mitsui & Co. Financial Services Ltd., sister company of the Company, were 0 balance at March 31, 2006 and 2005.

17. Subsequent events

At the general shareholders' meeting held on June 22, 2006, the Company's shareholders approved the following appropriations of retained earnings and stock option plan for the Company's directors and key employees:

(a) *Appropriations of retained earnings*

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3.75 ($0.03) per share	¥353	$3,005
Bonuses to directors	¥ 18	$ 153

(b) *Stock option plan* – The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 702 thousands of the Company's common stock shares in the period from July 1, 2008 to June 30, 2013. 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.

(c) *Disposition of treasury stock* – At the board of directors' meeting held on May 25, 2006, the Company's board of directors approved to sell 1,230 thousand shares of treasury stock to All Nippon Airways Co., Ltd. (ANA). On June 2, 2006, the Company announced that the treasury stock would be sold at ¥2,171 million ($18,481 thousand). The transaction was consummated and completed on June 26, 2006.

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 (the "Group") as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nihon Unisys, Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, 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 2(h) to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

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 22, 2006

(AS OF MARCH 31, 2006)

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

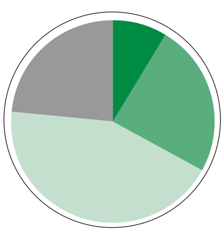
Common Stock

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

Shareholders

Number of Shareholders: 7,905

Classification of Shareholders:



Individuals	9,475,762 shares (7,532 shareholders)	8.64%
Financial Institutions and Securities Companies	26,685,038 shares (102 shareholders)	24.33%
Other Domestic Corporations	47,793,031 shares (128 shareholders)	43.58%
Foreign Corporations and Individuals	25,709,693 shares (143 shareholders)	23.45%

Principal Shareholders:

Name	Number of shares held (thousands)	Holding ratio (%)
Mitsui & Co., Ltd.	30,524	27.84
Nihon Unisys, Ltd. (Treasury Stock)	15,418	14.06
Japan Trustee Services Bank, Ltd. (Trust Account)	6,838	6.24
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,265	4.80
Goldman Sachs International	5,246	4.78
The Norinchukin Bank	3,953	3.61
Morgan Stanley and Company International Limited	2,505	2.28
Lehman Brothers International (Europe)	1,975	1.80
Nihon Unisys Employees' Shareholding Society	1,975	1.80
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,883	1.72

Employees

8,508 (Consolidated basis)
1,902 (Non-consolidated basis)

Consolidated Subsidiaries

Company name	Principal business	Capital (Millions of yen)	Equity held by Nihon Unisys (%)
Network & Support Services			
UNIADEX, Ltd.	Offering total IT services to meet the needs of customers, including construction, operation and maintenance of networks	750	100.0
Systems Services			
Nihon Unisys Solutions, Ltd.	Providing optimum solutions to customers through the combination of high level skills and sophisticated strategic ideas which interconnect customers' strategies and leading edge technology	440	100.0
Nihon Unisys Excelutions, Ltd.	Developing 3D CAD/CAM and housing CAD systems as well as business solutions and services	100	100.0
International Systems Development Co., Ltd.	Providing locally attached services utilizing the latest technology and know-how in the Okinawa region	40	42.5
G&U System Service, Ltd.	Providing large-scale IT full outsourcing services, solution development and application in commercial and manufacturing sectors	50	51.0
Outsourcing & Supply			
Nihon Unisys Supply, Ltd.	Producing and selling IT-related items and providing printing and shipping services as well as selling computer supplies	315	85.0
A-tas, Ltd.	Offering complete outsourcing services around-the-clock (7x24) based on highly reliable technology and practices	50	81.2
TRADE Vision, Ltd.	Providing outsourcing services in the commodity-futures business segment	200	67.0
Internet			
Nihon Unisys Information Systems, Ltd.*	Implementing Internet-based businesses in the areas of ISP, ASP, BSP (business service), HSP (hosting, housing) and CSP (contents)	150	100.0
Personnel Training Services			
Nihon Unisys Learning Co., Ltd.	Providing IT resource consulting services, seminars and Web-based training programs	50	100.0
Group Shared Services			
Nihon Unisys Business, Ltd.	Shared services center providing administrative work services common to group companies including procurement and logistics services of commodity items as well as dealing with matters of general affairs, welfare, insurance, travel, etc.	20	100.0

* Effective as of July 1, 2006, Nihon Unisys Information Systems, Ltd. was consolidated with UNIADEX, Ltd.

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