UNISYS

50th Anniversary

Annual Report 2008

For the year ended March 31, 2008

Nihon Unisys, Ltd.

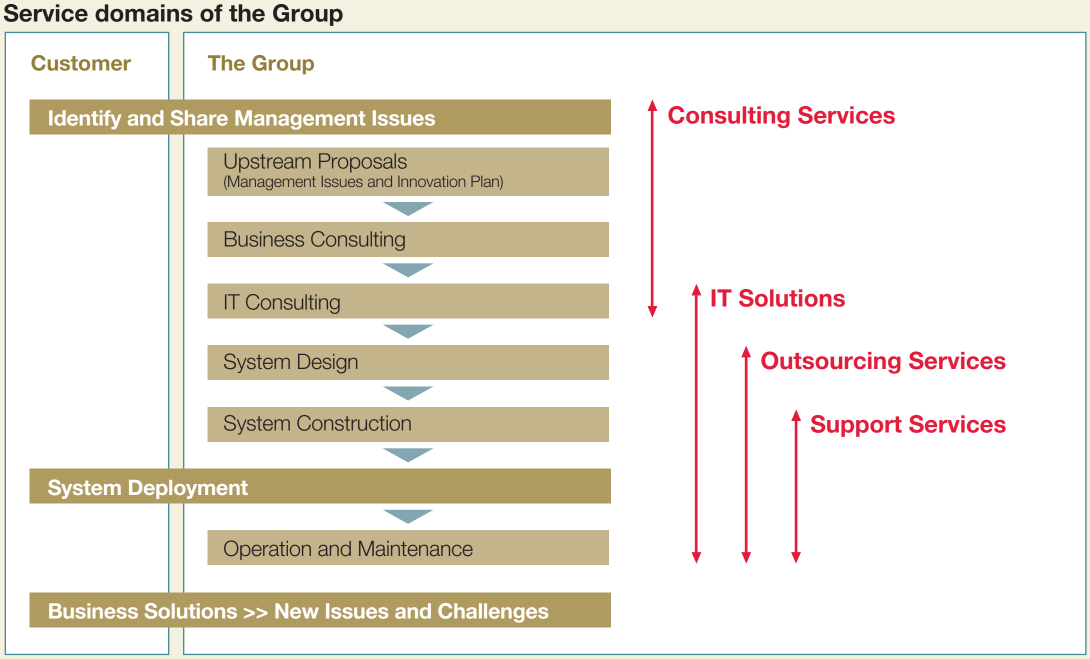
A Company That Creates Value for Its Customers

The Nihon Unisys Group (the "Group") provides IT services that enable customers to create new value.

Today, Japanese companies are deploying IT strategies as a central component in reformulating their business models. No longer limited to achieving higher operational efficiencies, IT has become an essential tool in realizing management strategies for sustainable corporate growth.

The Group supports customers in creating value by providing integrated services—starting with identifying customer management issues and ultimately providing the solutions—by fully leveraging the track record and cross-sector expertise we have gained across a broad range of industries, namely finance, manufacturing, distribution, and the public sector, as well as by maximizing the total capabilities of the Group.

Service domains of the Group



Contents

A corporate group shareholders can continue to trust and count on for the next 50 years and beyond

Nihon Unisys, Ltd. (the “Company”) celebrated its 50th anniversary in March 2008. Over this half century, the role of IT has evolved dramatically into a social infrastructure that is as indispensable for our daily lives as electricity and water. More recently, with the ongoing development of a network environment centered on the Internet, IT is now broadening into Information and Communication Technology (“ICT”)* that expands considerably the possibilities for connecting people.

In this context, the Group will launch a full-scale entrance into the ICT service business in the fiscal year ending March 2009. With our newly established ICT Services division as the core organization, we will provide a rich variety of services available anywhere, anytime by simply connecting to a network. In June 2007, we had bolstered our network services by bringing NETMARKS Inc. (“NM”) under our umbrella, enabling us to combine system integration and network integration to offer comprehensive services from consulting to system construction, maintenance, and operation. This new initiative will position us among the top corporate groups in Japan for multi-vendor and one-stop services.

At the same time, we will strive to further enhance profitability by strengthening our corporate organization through such efforts as quality improvement and cost structure optimization.

With the steadfast support and encouragement of our shareholders and investors, we will continue to increase corporate value by achieving sustainable growth to remain a corporate group worthy of the highest trust and expectations.

* The term ICT (Information and Communication Technology) represents the integration of IT with communication, a concept that is becoming more widely adopted. For example, just as the useful functions of telephone and television become immediately available when connected to a network, new businesses starting up today can immediately gain access to necessary operating systems, anytime, anywhere, and safely by connecting computers and mobile phones to networks. And with no restrictions on location, we can expect to see increasing use of telecommuting as well as a revitalization of local communities. See page 5 for more details.

June 2008

Katsuto Momii
President & CEO

Highlights

1 Sales and profit growth for services led to a rise in net sales and operating income.

2 We expect a third consecutive year of increases in operating income in the fiscal year ending March 2009.

Business Environment

IT Demand Remains Firm

Although the Japanese economy continued to sustain solid corporate earnings in the fiscal year under review, uncertainties remained, including the softening of the U.S. economy caused by the subprime mortgage loan crisis, subsequent insecurity in volatile financial capital markets, and rising crude oil prices.

In the information services market, IT demand remained firm thanks to the solid performance of the corporate sector; however, operating conditions continued to be difficult with corporate cost cutting and cautious investment policies focusing on Return on Investment ("ROI").

Review of Operations

Significant Growth in Operating Income

Under these circumstances, the Group focused on the key initiatives of improving quality and profitability in the system service business, and strengthening the ICT business structure to accelerate growth.

We also concentrated on bolstering our core system development business. Particularly in the financial area, we began operating a banking system on the Windows platform for a regional bank in May 2007, and enhanced our solutions for diverse business sectors toward future business expansion.

As a result, net sales increased by ¥30.3 billion from the previous fiscal year to ¥337.8 billion, due to favorable growth in our services business, such as consulting and system design and construction, and the inclusion of NM in the scope of consolidation.

With regard to profit, operating income increased by ¥13.4 billion from the previous year to ¥19.6 billion, due to the improved profitability of our system services and the elimination of license fees to Unisys Corporation. Net income, however, decreased by ¥0.9 billion to ¥2.5 billion, partially due to the additional amortization of goodwill of ¥8.1 billion.

Outlook for the Next Fiscal Year

Expected Growth in Sales and Profit Led by System Services

We expect net sales, still led by sales in services, to increase by ¥7.2 billion from the previous year to ¥345.0 billion in the fiscal year ending March 2009.

With regard to profit, we expect operating income to increase by ¥2.4 billion from the previous year to ¥22.0 billion, as we further enhance the profitability of services businesses and improve our cost structure. Net income is expected to rise by ¥8.5 billion from the previous year to ¥11.0 billion due to the absence of additional goodwill amortization recorded in the fiscal year ending March 2008.

Profit Distribution Policy

Planning Gradual Increase in Dividends According to Performance

The Company has adopted a basic policy of paying dividends in accordance with our financial performance from the fiscal year ending March 2008. We intend to gradually increase dividends to achieve our medium-term target for consolidated annual dividend payout ratio of 20%.

We decided to pay dividends of ¥12.0 per share for the fiscal year under review and plan to pay dividends of ¥15.0 per share for the fiscal year ending March 2009.

ICT services to be launched in the fiscal year ending March 2009

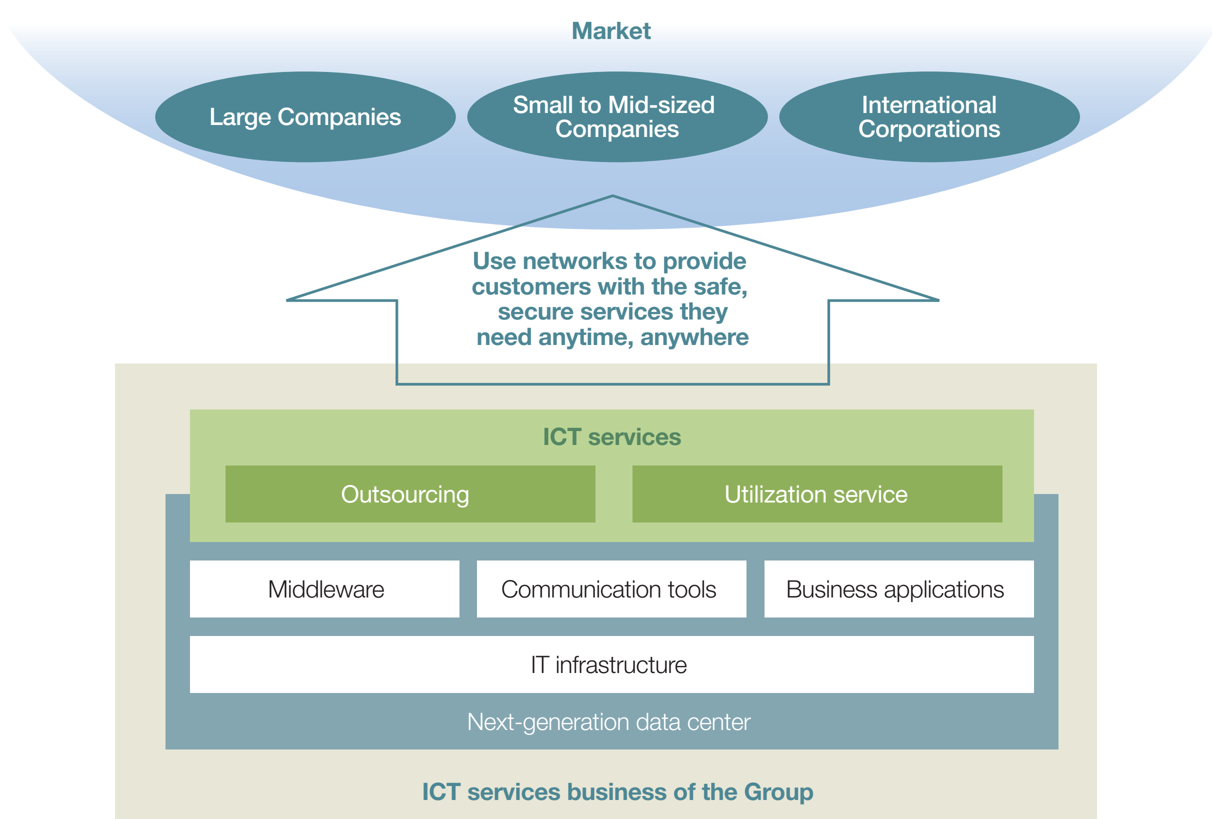
In addition to our existing system development business, the Group will start full-scale operations of ICT services in the fiscal year ending March 2009.

The latest ICT offerings are hosted services that customers can safely use anywhere, anytime, without worry by simply connecting computers and mobile phones to a network, which provides access to functions that customers require, such as software sharing and email services.

In the future, by applying these characteristics of ICT services to provide ready access to just the services clients need from the most advanced offerings, we will strive to expand our target market beyond large corporations, now our primary customers, to encompass medium-sized companies and international enterprises.

We will also aggressively develop outsourcing services in which customer systems are operated at our data center to provide additional ICT services.

ICT Services Businesses



Feature

50 Years of Nihon Unisys

A half-century of history that parallels the use of computers in Japan

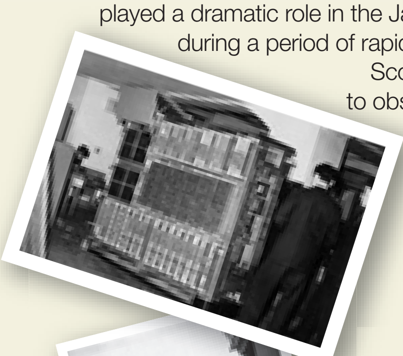
Since its establishment in 1958, the dawn of the computer age in Japan, the Nihon Unisys Group has created pioneering solutions that unlock the IT potential. In this section, we look back at 50 years of milestone achievements supporting the development of a wide range of industries.

1955
A pioneer in the history of computer utilization in Japan, the UNIVAC120 commercial computer*

In 1955, the UNIVAC120, the first commercial computer in Japan, was installed at the Tokyo Stock Exchange ("TSE") and Nomura Securities Co., Ltd. Demonstrating calculation processing capabilities far surpassing punch card systems used at that time for business processing, the UNIVAC120 played a dramatic role in the Japanese securities market during a period of rapid economic growth.

Scores of visitors arrived daily to observe the first commercial computer in Japan at the TSE.

* The UNIVAC120 was installed by Yoshizawa Kaikeiki Co., Ltd.; operations were subsequently passed to Nippon Remington Univac Kaisha, Ltd. (predecessor of Nihon Unisys, Ltd.).



UNIVAC120 installed at the TSE. (top)
Nobel Prize winner Dr. Hideki Yukawa observes the UNIVAC120. (bottom)

1988
Largest domestic reservation system for the airline industry begins operations

As competition in the airline industry began heating up in Japan in the early 1980s, the full-scale use of computers was focused on strengthening customer service and improving management efficiency.

As part of this trend, Nihon Unisys developed the largest domestic reservation system for airline companies. This system was able to handle a massive number of reservations in a short period of time and realized stable, round-the-clock operations, 365 days a year. Since operations started in 1988, the system has long remained in use in the industry while adding the latest functions.

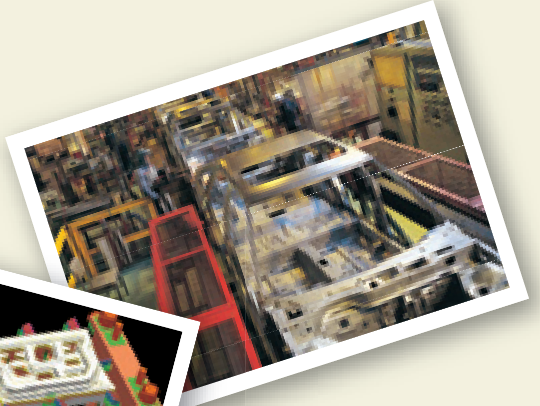
1963
First global campaign in the computer industry launched through television and newspapers

In 1963, coinciding with the release of the compact UNIVAC1004, the Bumblebee* Campaign was launched around the world. It is said this first attempt in the industry substantially expanded the foothold of computer usage.

The campaign successfully made the computer, rare at the time, seem more familiar through demonstrations of the UNIVAC1004 in a number of TV programs and other media in Japan.

* The Bumblebee Campaign was so named for comparing the UNIVAC1004 to a bumblebee, in the sense of transforming corporate losses into energy.

The UNIVAC1004, featured in TV programs at the time.



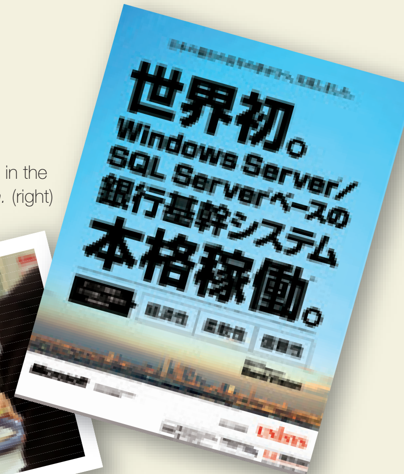
CADCEUS® operating panel. (left)

1991
First truly domestic 3D CAD/CAM system provides support for advanced manufacturing

CAD/CAM systems use computers to dramatically boost efficiency for product design and manufacturing processes that required complex logic and calculations. Today, these systems are widely used in diverse manufacturing fields in Japan, including automobiles, machinery, and construction.

Nihon Unisys has been moving forward with the development of computer graphics and numerical control technology since 1965, and in 1991, developed the first truly domestic 3D CAD/CAM system, CADCEUS®, thereby contributing to improving the quality and speed of manufacturing in Japan.

Advertisement placed in the *Nihon Keizai Shimbun.* (right)



2007
The world's first Windows® based full banking system* starts operations

In 2007, BankVision®, a core banking open system based on the Windows platform, was launched. This was the first system in the world to handle all primary banking operations in the Windows environment.

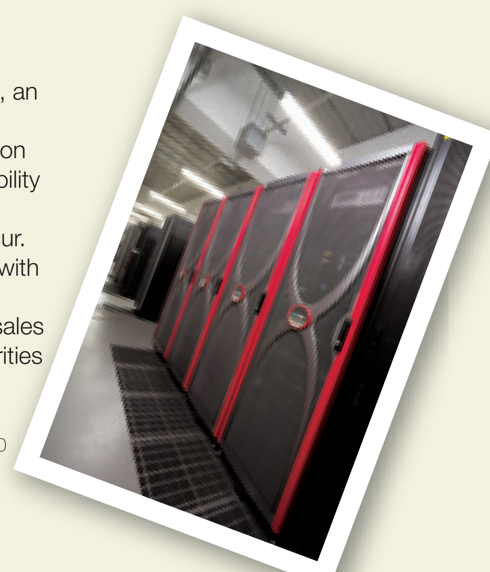
BankVision fully applies state-of-art information technology, which has also drawn significant attention from overseas, and has the advantage of flexibly adding or modifying system functions. For that reason, BankVision facilitates an expanded time frame for ATM transactions and bank hours on holidays as well as making new financial instruments available in a shorter period of time. In the future, the introduction of BankVision is scheduled to be phased in at more financial institutions, mainly regional banks.

* A full banking system supports the main bank operations. With UNIFINE®, a next-generation financial solutions system, Nihon Unisys is providing a product line for realizing a full banking system.

2000
The ES7000, a large-scale Windows® Server with the world's highest reliability, scalability and processing power

With the business environment evolving at a dizzying pace, an information system to support core corporate business operations was required to realize faster system construction and to more easily accommodate modifications and scalability once operation has started, while maintaining stability for interruption-free system operation even when troubles occur.

The ES7000, which debuted in 2000, met these needs with the highest capacity in the world. This product has been adopted for many large-scale systems, including Internet sales for leading travel agencies, online trading for Internet securities brokers, and major mail order companies, among others.



Enterprise server ES7000

The Group strives to reinforce and enhance its corporate governance through such measures as separating management functions from business execution functions, and appointing outside Managing Directors and outside Corporate Auditors.

Thus, we will quickly make decisions in response to a changing business environment, clarify management accountability, and increase business transparency. Our goal through these actions is to consistently increase our corporate value.

Management Functions

Board of Directors

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

Business Execution Functions

Corporate Officer System

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

Executive Council

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

Committees

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

Collective Decision Making System

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

Audit System

Audit by Corporate Auditors

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

Accounting Audit

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

Internal Audit

The Internal Audit division, a 35-member organization within the Company, conducts internal audits of all divisions across the Group. The Internal Audit division audits the appropriateness and efficiency of internal controls and reports to top management on the results of audits and suggests improvements and corrective actions as required. It also confirms the results of these actions.

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

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

The Group has adopted the theme, "What IT can do for society and people," as the pillar of its CSR activities. We have established a CSR committee to review and determine the basic policy for overall CSR activities.

In addition, we have set up the Compliance Committee, the Risk Management Committee, the Security Committee, and the Environmental Activity Committee as well as business continuity projects. These committees formulate policies and initiatives in each area and promote their implementation throughout the Group.

Information Security

Being in the position of managing customer information and information systems, the Group is striving to steadily enhance security levels to maintain its reputation as a reliable, trustworthy partner for customers.

To this end, we set up the Information Security Committee in fiscal year 1990. In addition, we formulated the Group's first Information Security Comprehensive Strategy in 2004 and the second Information Security Comprehensive Strategy in 2006, with the Group working in concert to reinforce our information security measures from the mid- to long-term perspective.

As a result, by the end of the fiscal year ended March 2008, virtually the Group had obtained ISO 27001 (ISMS) certification and seven companies obtained the Privacy Mark certification. Starting in 2008, the Group will promote various cross-sectional measures with the Information Security Comprehensive Strategy 2008 as the cornerstone.

Compliance

Compliance with laws and regulations, social norms, and corporate regulations along with a commitment to ethical business practices is at the very heart of fulfilling corporate social responsibility.

In accordance with the Basic Compliance Policy, the Group has established Basic Compliance Rules that stipulate organizational structure and systemized communication channels for consulting and reporting. In addition, the Group is striving to strengthen compliance by implementing and managing those rules.

Risk Management

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

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

Business Continuity Plan (BCP)

The Group has been pursuing business continuity efforts since 2005, strongly aware of our social responsibility to maintain business support for customer information system operations even at times of large-scale disasters.

Based on our Business Continuity Plan, we have been working to establish an organizational structure, secure the necessary resources for business continuity, and realize cooperation with neighboring companies and local communities. Since 2007, we have been advancing countermeasures against new strains of the influenza virus.

Contributions to Society

The Group is contributing to the sound and affluent development of regions and society in general by utilizing its features as an IT company.

To support the sound growth of the next generation in an IT society, we offer training and seminars for high school students and school teaching staff, and we contribute to international exchanges and foster youth through the Company's badminton club. In addition, we support various voluntary activities by employees centered on the social contribution club, Uni-Heart, so that the desires and actions of individual employees will lead to the realization of a prosperous society.

Environmental Conservation

To play an active role in forming a sustainable society, the Group obtained ISO 14001 certification and continuously conducts EMS-based activities.

We are promoting the reduction of the Group's environmental burden through such channels as Information Technology for e-learning and teleconference. In addition, we are making progress in healthy Work Life Balance ("WLB") by providing options for the various working styles possible through IT. Furthermore, IT services provided by the Group contribute to reducing the environmental burden (for example, reducing CO_2 emissions) of our customers' business operations.

Directors, Corporate Auditors and Corporate Officers

President & CEO
Katsuto Momii

Representative Director &
Executive Corporate Officer
Keiji Shiratori

Representative Director &
Executive Corporate Officer
Tsutomu Fukunaga

Representative Director &
Senior Corporate Officer
Naoya Kashiwagi

Representative Director &
Senior Corporate Officer
Masanori Matsumori

Representative Director &
Senior Corporate Officer
Motonori Saeki

Representative Director &
Senior Corporate Officer
Fumio Horikawa

Representative Director &
Senior Corporate Officer
Koji Suzuki

Managing Directors

Managing Director, Part-Time
Toshihiro Soejima

Managing Director, Part-Time
Osamu Takahashi

Corporate Auditors

Corporate Auditor
Shun-ichi Miyazaki

Corporate Auditor
Hideo Gamou

Corporate Auditor
Hiroshi Nomura

Corporate Auditor, Part-Time
Katsuhisa Kiyozuka

Corporate Officers

Superior Senior Corporate Officer
Akiyoshi Hiraoka

Senior Corporate Officer
Toshihiko Kato

Senior Corporate Officer
Yoichi Harada

Senior Corporate Officer
Ryuji Tatsuno

Senior Corporate Officer
Hitoshi Tayama

Senior Corporate Officer
Masayuki Fujisawa

Senior Corporate Officer
Tsutomu Takahashi

Senior Corporate Officer
Kei Sawada

Senior Corporate Officer
Shigeru Inoue

Senior Corporate Officer
Shigehiko Inaizumi

Senior Corporate Officer
Ayumi Takagi

Senior Corporate Officer
Yasushi Kado

Superior Corporate Officer
Osamu Maruyama

Corporate Officer
Masami Kobayashi

Corporate Officer
Minoru Tasaki

Corporate Officer
Kozo Kiyokawa

Corporate Officer
Yasuaki Ohta

Corporate Officer
Makoto Akiyama

Corporate Officer
Yoshio Umehara

Corporate Officer
Choei Okabe

Corporate Officer
Mitsuo Matsuura

Corporate Officer
Shigeru Kurokawa

Corporate Officer
Yutaka Ogawa

Financial Highlights

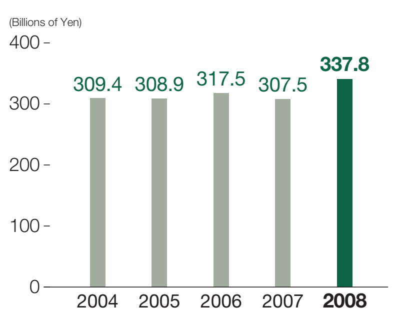
Nihon Unisys, Ltd.
Years Ended March 31, 2008, 2007 and 2006 (Consolidated Basis)

	Millions of Yen			Thousands of U.S. Dollars (Note)
	2008	2007	2006	**2008**
Net sales	**¥ 337,759**	¥ 307,455	¥ 317,487	**$ 3,371,185**
Operating income	**19,649**	6,278	5,066	**196,116**
Net income	**2,546**	3,434	1,889	**25,412**
Total assets	**258,458**	237,862	243,931	**2,579,680**

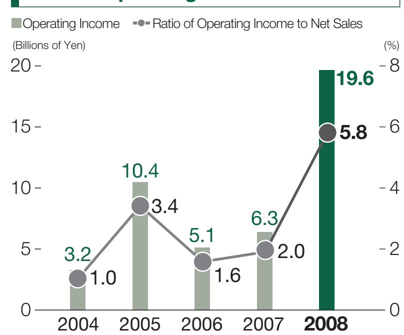
	Yen			U.S. Dollars (Note)
	2008	2007	2006	**2008**
Per share amounts:				
Basic net income	**¥ 26.54**	¥ 35.97	¥ 17.77	**$ 0.26**
Diluted net income	**26.47**	35.75	17.71	**0.26**
Cash dividends applicable to the year	**12.00**	7.50	7.50	**0.12**

(Note) Yen amounts have been translated into U.S. dollars, for convenience only, at ¥100.19 = U.S.$1 prevailing on March 31, 2008.

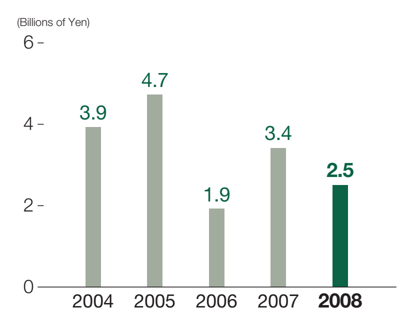
Net Sales



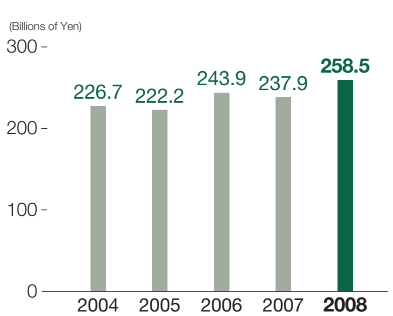
Operating Income / Ratio of Operating Income to Net Sales



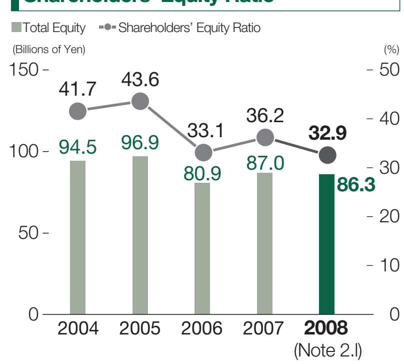
Net Income



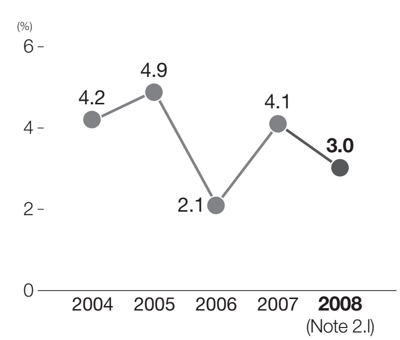
Total Assets



Total Equity / Shareholders' Equity Ratio



Return on Equity



See notes to consolidated financial statements.

Results of Operations

Net Sales

In the Japanese information services market, despite continued robust corporate IT investment on the back of solid corporate earnings performance, business conditions remained harsh as corporations continued to cut costs and maintain cautious investment policies focused on ROI. Under these circumstances, the Group observed significant growth in the sales of services due to increased sales of system services and the inclusion of NM in the scope of consolidation. As a result, total consolidated net sales for the fiscal year under review increased by ¥30,304 million, 9.9%, from the previous year to ¥337,759 million.

The breakdown of net sales by business category is as follows.

(1) Services

Sales of services increased by ¥51,606 million, 26.7%, from the previous year to ¥244,785 million, due to the growth in sales of system services and the inclusion of NM in the scope of consolidation.

(2) Software

Sales of software decreased by ¥8,753 million, 18.2%, from the previous year to ¥39,220 million, due to the absence of large-scale projects reported in the previous year and as we concentrated on profitable projects, leading to reduced sales from projects with low profitability.

(3) Hardware

Sales of hardware decreased by ¥12,549 million, 18.9%, from the previous year to ¥53,754 million, due to the selective reduction of projects to emphasize profitability, as was done with software business. Declining income from computer rentals also contributed to the decrease.

By business category, services accounted for 72.5% of total sales (compared with 62.8% in the previous year), software accounted for 11.6% (compared with 15.6%) and hardware accounted for the remaining 15.9% (compared with 21.6%).

Note: the amounts above do not include consumption tax, etc.

Operating Income

Gross profit increased by ¥22,835 million, 36.1%, from the previous year to ¥86,031 million, due to higher profits in system services and the elimination of license fees to Unisys Corporation, despite an increase in the depreciation burden for outsourcing.

Selling, general and administrative expenses increased by ¥9,464 million, 16.6%, from the previous year to ¥66,382 million, primarily due to an increase of ¥4,859 million in employee salaries and a rise of ¥1,547 million in consignment fees.

As a result, operating income increased by ¥13,371 million, 213.0%, to ¥19,649 million.

Net Income

Other income decreased by ¥9,467 million from the previous year, primarily due to an increase in interest expense of ¥481 million, a decrease in foreign exchange income of ¥314 million, and additional amortization of goodwill of ¥8,075 million.

As a result, net income decreased by ¥888 million, 25.9%, from the previous year to ¥2,546 million.

Financial Condition

Balance Sheets

Total assets of the Group increased by ¥20,596 million from the end of the previous year to ¥258,458 million.

Current assets increased by ¥12,108 million from the end of the previous year to ¥146,161 million, as a ¥1,623 million decrease in cash and cash equivalents was more than offset by a ¥12,154 million increase in accounts receivable-trade and a ¥2,254 million increase in other current assets.

Fixed assets increased by ¥8,488 million from the end of the previous year to ¥112,297 million, as software, mainly used for outsourcing services, increased by ¥6,668 million and goodwill increased by ¥1,722 million.

Liabilities increased by ¥21,273 million from the end of the previous year to ¥172,117 million, as we took on new loans to cover the cost of acquiring fixed assets, such as NM shares, and development of software for outsourcing.

Total equity decreased by ¥677 million from the end of the previous year to ¥86,341 million, and the equity ratio decreased by 3.3 percentage points to 32.9%.

Cash Flows

Cash and cash equivalents for the fiscal year under review decreased by ¥1,623 million from the beginning of the fiscal year to ¥21,603 million as of the end of the fiscal year. Costs to acquire shares in NM and funding needs related to the development of software for outsourcing were primarily met by financing activities such as new loans.

Working Capital Requirements

The Group requires working capital for fees paid to outsourcers for the Group's system and support services, purchasing computers and software for sales, leasing and outsourcing as well as production expenses and operating expenses such as selling, general and administrative expenses. Personnel, sales support and R&D costs are the main components of operating expenses.

The bulk of sales support and R&D costs are tied to personnel expenses for system engineers vital to these areas. The policy of the Group is to utilize operating cash flows to cover these working capital requirements.

The Group established a commitment line agreement for special loans from five banks to improve capital efficiency and to assure stability and flexibility in financing activities. The outstanding amount of the commitment line was ¥15 billion as of March 31, 2008.

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

(1) Impact from Economic Trends and the Market Environment

In the IT service industry, demand has been gradually stronger on the basis of steady recovery in corporate performance. On the other hand, the business environment has continued to be challenging as corporate users have continued cost reduction efforts and made careful investments to emphasize ROI. Under these market conditions, greater-than-expected price competition and the delayed adoption of technological advances may materially affect the Group financial and business performance.

(2) Project Management Risks

The Group develops a range of customized computer systems for its customers. Delivery lead times are becoming shorter and projects are growing in size and complexity amid intensifying competition. Under these circumstances, the Group may have to bear heavy debugging costs should problems emerge during system development, resulting in cost overruns. To prevent cost overruns and to detect problems at the early stages, the Group has strengthened its project management system.

(3) Exchange Rate Risks

As the sole authorized distributor of Unisys Corporation in Japan, the Company 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 ¥19,242 million in the fiscal year ended March 2008, which exposes us to risks from fluctuations in foreign currency exchange. The Company uses forward foreign exchange contracts to hedge the risk of changes in foreign currency exchange rates.

(4) Information Control Risks

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

(5) Intellectual Property Risks

The Group utilizes intellectual properties related to various computer programs in our operations. If we cannot acquire or hold licenses for these programs as planned, it may have an impact on our operations. In addition, there is a possibility the Group could face legal action with regard to intellectual properties associated with computer programs. This can be costly and could affect our business results.

(6) Litigation Risks

The Group makes every effort to consistently practice compliance and conduct sound and transparent business activities. However, it is possible for the Company to face litigation or legal proceedings even if no violation of law has actually occurred, which could impact the business performance of the Group.

A lawsuit is currently pending in court between NM, our consolidated subsidiary, and DigitalDesign Co., Ltd. ("DigitalDesign"). DigitalDesign filed preliminary claims for damages (¥1,317 million and delinquency charges) and demanded an amount equivalent to the sale/purchase price (¥1,189 million and delinquency charges) or restitution (¥1,258 million and delinquency charges plus ¥1,189 million and delinquency charges). Meanwhile, NM filed a countercharge against DigitalDesign to demand payment of an uncollected sales/purchase price (¥1,104 million and delinquency charges). In connection with this litigation, Niscom Inc. instituted a claim against NM for the payment of contracted work (¥42 million and delinquency charges). This action was combined with the case filed by DigitalDesign and is also being disputed in court.

NM is taking every possible step to maintain and collect the outstanding payment as well as to avoid a loss; however, it is difficult to accurately estimate the impact on the business results of NM and the Group. Should the court grant a claim for damages, a claim to return an amount equivalent to the sale/purchase price or a claim for restitution against NM by these two companies, a loss equivalent in amount to the respective claim is likely to occur.

(7) Natural Disaster Risks, etc.

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

(8) Relations with Key Supplier

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

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

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

Consolidated Balance Sheets

Nihon Unisys, Ltd.
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 3)	**¥ 21,603**	¥ 23,226	**$ 215,620**
Investment securities-due within one year (Note 4)	**50**		**499**
Accounts receivable-trade (Note 17)	**88,664**	76,510	**884,959**
Inventories (Note 5)	**17,489**	17,078	**174,558**
Deferred tax assets (Note 7)	**10,085**	11,128	**100,659**
Other current assets	**8,746**	6,492	**87,294**
Allowance for doubtful accounts	**(476)**	(381)	**(4,750)**
Total current assets	**146,161**	134,053	**1,458,839**
Property, Plant and Equipment:			
Land	**848**	848	**8,464**
Buildings and structures	**14,895**	14,151	**148,668**
Machinery and equipment	**83,137**	82,297	**829,793**
Other assets	**14**		**140**
Total	**98,894**	97,296	**987,065**
Accumulated depreciation	**(77,744)**	(77,174)	**(775,965)**
Net property, plant and equipment	**21,150**	20,122	**211,100**
Investments and Other Assets:			
Investment securities (Note 4)	**17,540**	20,298	**175,067**
Investments in unconsolidated subsidiaries and affiliated companies	**1,167**	1,256	**11,648**
Goodwill	**1,722**		**17,187**
Software	**36,118**	29,450	**360,495**
Lease deposits	**9,570**	9,192	**95,519**
Prepaid pension costs (Note 8)	**14,087**	12,036	**140,603**
Deferred tax assets (Note 7)	**8,939**	9,789	**89,220**
Other assets	**2,004**	1,666	**20,002**
Total investments and other assets	**91,147**	83,687	**909,741**
Total	**¥ 258,458**	¥ 237,862	**$ 2,579,680**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term borrowings (Note 6)	**¥ 14,500**	¥ 19,050	**$ 144,725**
Current portion of long-term debt (Note 6)	**8,750**	19,042	**87,334**
Commercial paper (Note 6)	**12,500**	13,000	**124,763**
Accounts payable-trade (Note 17)	**34,745**	32,789	**346,791**
Accounts payable-other	**1,968**	4,923	**19,643**
Income taxes payable (Note 7)	**3,121**	4,515	**31,151**
Accrued expenses	**12,745**	13,053	**127,208**
Other current liabilities	**16,487**	14,053	**164,557**
Total current liabilities	**104,816**	120,425	**1,046,172**
Long-term Liabilities:			
Long-term debt (Note 6)	**63,650**	26,400	**635,293**
Long-term accounts payable-other	**342**	390	**3,414**
Liability for retirement benefits (Note 8)	**1,555**	1,454	**15,521**
Negative goodwill	**70**	79	**699**
Deferred tax liabilities (Note 7)	**1,053**	580	**10,510**
Other long-term liabilities (Note 10)	**631**	1,516	**6,298**
Total long-term liabilities	**67,301**	30,419	**671,735**
Commitments and Contingent Liabilities (Notes 10, 11, 12 and 16)			
Equity (Notes 12, 16, and 18)**:**			
Common stock, authorized, 300,000,000 shares; issued, 109,663,524 shares in 2008 and 109,663,524 shares in 2007	**5,483**	5,483	**54,726**
Capital surplus	**15,495**	15,515	**154,656**
Stock acquisition rights	**285**	66	**2,845**
Retained earnings	**83,047**	81,457	**828,896**
Net unrealized gain on available-for-sale securities	**241**	2,840	**2,405**
Deferred gain (loss) on derivatives under hedge accounting	**(39)**	6	**(390)**
Foreign currency translation adjustments	**22**	(1)	**220**
Treasury stock deposit		0	
Treasury stock-at cost, 13,792,475 shares in 2008 and 13,691,439 shares in 2007	**(19,319)**	(19,178)	**(192,824)**
Total	**85,215**	86,188	**850,534**
Minority interests	**1,126**	830	**11,239**
Total equity	**86,341**	87,018	**861,773**
Total	**¥ 258,458**	¥ 237,862	**$ 2,579,680**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nihon Unisys, Ltd.
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Net sales (Note 17)	**¥ 337,759**	¥ 307,455	**$ 3,371,185**
Cost of sales (Note 17)	**251,728**	244,259	**2,512,506**
Gross profit	**86,031**	63,196	**858,679**
Selling, general and administrative expenses (Note 9)	**66,382**	56,918	**662,563**
Operating income	**19,649**	6,278	**196,116**
Other income (expenses):			
Interest and dividend income	**429**	245	**4,282**
Interest expense	**(1,190)**	(709)	**(11,877)**
Gain on sales of investment securities (Note 4)	**655**	328	**6,538**
Loss on valuation of investment securities	**(876)**	(341)	**(8,743)**
Foreign exchange gain (loss)	**(6)**	308	**(60)**
Gain on sales of property, plant and equipment		3	
Additional amortization of goodwill (Note 2.a)	**(8,075)**		**(80,597)**
Equity in earnings of affiliated companies	**43**	47	**429**
Other-net	**(413)**	153	**(4,122)**
Other income (expenses)-net	**(9,433)**	34	**(94,150)**
Income before income taxes and minority interests	**10,216**	6,312	**101,966**
Income taxes (Note 7):			
Current	**3,764**	5,501	**37,569**
Deferred	**4,187**	(2,790)	**41,791**
Total income taxes	**7,951**	2,711	**79,360**
Minority interests in net income	**(281)**	167	**(2,806)**
Net income	**¥ 2,546**	¥ 3,434	**$ 25,412**

	Yen		U.S. Dollars
Per Share Amounts (Notes 13 and 16)**:**			
Basic net income	**¥ 26.54**	¥ 35.97	**$ 0.26**
Diluted net income	**26.47**	35.75	**0.26**
Cash dividends applicable to the year	**12.00**	7.50	**0.12**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Nihon Unisys, Ltd.
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen											
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available -for-Sale Securities	Deferred Gain (Loss) on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjust- -ments	Treasury Stock Deposit	Treasury Stock-at Cost	Total	Minority Interests	Total Equity
Balance, March 31, 2006	94,245	¥ 5,483	¥ 15,288		¥ 78,388	¥ 3,285			¥ 3	¥ (21,597)	¥ 80,850		¥ 80,850
Reclassified Balance as of March 31, 2006												¥ 670	670
Net income					3,434						3,434		3,434
Cash dividends, ¥3.75 per share, applicable to the prior financial year					(353)						(353)		(353)
Cash dividends, ¥3.75 per share, applicable to the current financial year					(359)						(359)		(359)
Bonuses to directors and corporate auditors					(29)						(29)		(29)
Changes of newly-consolidated company accounted for under equity method					376						376		376
Paid-in treasury stock deposit									0		0		0
Purchase of treasury stock	(1)									(2)	(2)		(2)
Disposal of treasury stock	1,728		448							1,723	2,171		2,171
Exercise of stock option			(221)						(3)	698	474		474
Net changes of items				¥ 66		(445)	¥ 6	¥ (1)			(374)	160	(214)
Balance, March 31, 2007	95,972	5,483	15,515	66	81,457	2,840	6	(1)	0	(19,178)	86,188	830	87,018
Net income					2,546						2,546		2,546
Cash dividends					(936)						(936)		(936)
Decrease resulting from increase in consolidated subsidiaries					(20)						(20)		(20)
Purchase of treasury stock	(147)									(205)	(205)		(205)
Exercise of stock option	46		(20)						(0)	64	44		44
Net changes of items				219		(2,599)	(45)	23			(2,402)	296	(2,106)
Balance, March 31, 2008	**95,871**	**¥ 5,483**	**¥ 15,495**	**¥ 285**	**¥ 83,047**	**¥ 241**	**¥ (39)**	**¥ 22**		**¥ (19,319)**	**¥ 85,215**	**¥ 1,126**	**¥ 86,341**

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available -for-Sale Securities	Deferred Gain (Loss) on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjust- -ments	Treasury Stock Deposit	Treasury Stock-at Cost	Total	Minority Interests	Total Equity
Balance, March 31, 2007	$ 54,726	$ 154,856	$ 659	$ 813,025	$ 28,346	$ 60	$ (10)	$ 0	$ (191,416)	$ 860,246	$ 8,284	$ 868,530
Net income				25,412						25,412		25,412
Cash dividends				(9,341)						(9,341)		(9,341)
Decrease resulting from increase in consolidated subsidiaries				(200)						(200)		(200)
Purchase of treasury stock									(2,047)	(2,047)		(2,047)
Exercise of stock option		(200)						(0)	639	439		439
Net changes of items			2,186		(25,941)	(450)	230			(23,975)	2,955	(21,020)
Balance, March 31, 2008	**$ 54,726**	**$ 154,656**	**$ 2,845**	**$ 828,896**	**$ 2,405**	**$ (390)**	**$ 220**		**$ (192,824)**	**$ 850,534**	**$ 11,239**	**$ 861,773**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd.
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Operating Activities:			
Income before income taxes and minority interests	**¥ 10,216**	¥ 6,312	**$ 101,966**
Adjustments for:			
Income taxes paid	**(5,143)**	(3,896)	**(51,332)**
Depreciation and amortization	**15,170**	13,808	**151,412**
Amortization of goodwill and negative goodwill	**8,590**	7	**85,737**
Gain on sales of property, plant and equipment		(3)	
Gain on sales of investment securities	**(655)**	(328)	**(6,538)**
Decrease in accounts receivable-trade	**2,390**	4,390	**23,855**
Decrease in inventories	**4,779**	2,243	**47,699**
Decrease (Increase) in interest and dividend receivable	**1**	(1)	**10**
Decrease in accounts payable-trade	**(5,112)**	(21,052)	**(51,023)**
Increase in interest payable	**13**	42	**130**
Decrease in liability for retirement benefits	**(95)**	(477)	**(948)**
Other-net	**(11,562)**	7,769	**(115,401)**
Total adjustments	**8,376**	2,502	**83,601**
Net cash provided by operating activities	**18,592**	8,814	**185,567**
Investing Activities:			
Proceeds from sales of property, plant and equipment	**791**	26	**7,895**
Payments for purchases of property, plant and equipment	**(8,251)**	(6,898)	**(82,354)**
Payments for purchases of software	**(14,802)**	(14,668)	**(147,739)**
Proceeds from sales of investment securities	**1,180**	436	**11,778**
Payments for purchases of investment securities	**(1,332)**	(10,998)	**(13,295)**
Payments for the purchase of newly consolidated subsidiaries, net of cash acquired (Note 14)	**(6,677)**	(150)	**(66,643)**
Other-net	**(12)**	(19)	**(120)**
Net cash used in investing activities	**(29,103)**	(32,271)	**(290,478)**
Financing Activities:			
Net (Decrease) Increase in short-term borrowings	**(10,500)**	13,090	**(104,801)**
Proceeds from long-term debt	**40,150**	10,100	**400,739**
Repayments of long-term debt	**(18,825)**	(2,050)	**(187,893)**
Repayments of other borrowings	**(217)**	(211)	**(2,166)**
Net Decrease in commercial paper	**(500)**	(7,000)	**(4,991)**
Proceeds from sales of treasury stock		2,171	
Payments for purchases of treasury stock	**(204)**	(2)	**(2,036)**
Proceeds from exercise of stock option	**44**	474	**439**
Cash dividends	**(936)**	(712)	**(9,341)**
Cash dividends to minority interests	**(142)**	(3)	**(1,417)**
Other	**(55)**		**(550)**
Net cash provided by financing activities	**8,815**	15,857	**87,983**
Effect of exchange rate changes on cash and cash equivalents	**23**	(1)	**230**
Net Decrease in Cash and Cash Equivalents	**(1,673)**	(7,601)	**(16,698)**
Cash and Cash Equivalents, Beginning of Year	**23,226**	30,827	**231,819**
Cash and cash equivalents of newly-consolidated subsidiaries, Beginning of Year	**50**		**499**
Cash and Cash Equivalents, End of Year	**¥ 21,603**	¥ 23,226	**$ 215,620**

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 Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").

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 in the 2007 financial statements to conform to the classifications used in 2008.

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 translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to $1, the approximate rate of exchange at March 31, 2008. 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, 2008 include the accounts of the Company and its 23 significant (19 for the year ended March 31, 2007) subsidiaries and 2 affiliated (1 for the year ended March 31, 2007) company accounted for under equity method (together, the "Group").

On April 1, 2007, UX Business Co., Ltd. ("UXB"), which was an unconsolidated subsidiary for the year ended March 31, 2007, became a consolidated subsidiary because materiality has increased.

Japanese GAAP does not require retroactive adjustments of consolidation of UXB for the past financial statements. Consolidation of UXB is reported as a decrease in Retained Earnings on the Consolidated Statements of Changes in Equity.

On June 1, 2007, the Company acquired 67.13% shares of NETMARKS INC. ("NM"), which is a listed company on the Tokyo Stock Exchange ("TSE") Board. NM became the Company's consolidated subsidiary and its subsidiaries, NETMARKS SUPPORT & SERVICE INC. ("NSAS") and S&I Co., Ltd. ("S&I"), also became the Company's consolidated subsidiaries. JAPAN TELECOM NETWORK SYSTEMS CO., LTD. ("JTNS"), NM's affiliated company, is accounted for under equity method by NM. Resulting from consolidation of NM, JTNS is accounted for under equity method by the Company. The results of operations for JTNS are included in the Company's Consolidated Statements of Income from June 1, 2007.

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

Investments in the remaining 4 unconsolidated subsidiaries and 12 affiliated companies (3 subsidiaries and 4 affiliated companies for the year ended March 31, 2007) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess cost of an acquisition over the fair value of subsidiaries' net assets acquired is amortized on a straight-line basis over 5 or 20 years.

For the year ended March 31, 2008, the Company additionally amortized goodwill as an expense in accordance with paragraph 32(1) of Japanese Institute of Certified Public Accountant ("JICPA") Accounting Committee Report No.7 "Practical Guidance for Consolidation Procedures Related to Equity Accounts in Consolidated Financial Statements."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) **Long-lived assets** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) **Bond issuance cost** – Bond issuance costs are charged to income as incurred.

(j) **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 (3 or 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.

(k) **Stock options** – The ASBJ Statement No.8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the Consolidated Balance Sheets, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

The Company has applied the accounting standard for stock options to those granted on and after May 1, 2006.

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

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

(n) **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. All other leases are accounted for as operating leases.

(o) **Bonuses to directors and corporate auditors** – Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(p) **Income taxes** – The provision for income taxes are 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.

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

(r) **Foreign currency transactions** – All short-term and long-term 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 income statement to the extent that they are not hedged by forward exchange contracts.

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

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

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

(t) **Derivatives and hedge accounting** – The Company and certain subsidiaries use 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 and certain subsidiaries do not enter into derivatives for trading or speculative purposes.

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

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

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

(u) **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.

(v) **New accounting pronouncements**

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

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

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

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

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

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

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

(4) Construction contracts – Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Cash and time deposits	**¥ 21,613**	¥ 23,236	**$ 215,720**
Less-time deposits with maturities over 3 months	**(10)**	(10)	**(100)**
Total	**¥ 21,603**	¥ 23,226	**$ 215,620**

4. Investment securities

Investment securities as of March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Current:			
Debt securities	**¥ 50**		**$ 499**
Total	**¥ 50**		**$ 499**
Non-current:			
Equity securities	**¥ 16,987**	¥ 20,076	**$ 169,548**
Debt securities	**100**	150	**998**
Trust fund investments and other	**453**	72	**4,521**
Total	**¥ 17,540**	¥ 20,298	**$ 175,067**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 14,631**	**¥ 2,100**	**¥ (1,284)**	**¥ 15,447**
Debt securities	**50**		**(0)**	**50**
Other	**334**	**5**	**(13)**	**326**
Total	**¥ 15,015**	**¥ 2,105**	**¥ (1,297)**	**¥ 15,823**

March 31, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 13,909	¥ 5,206	¥ (448)	¥ 18,667
Debt securities	50		(0)	50
Other	34	10		44
Total	¥ 13,993	¥ 5,216	¥ (448)	¥ 18,761

	Thousands of U.S. Dollars			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 146,033**	**$ 20,960**	**$ (12,816)**	**$ 154,177**
Debt securities	**499**		**(0)**	**499**
Other	**3,334**	**50**	**(130)**	**3,254**
Total	**$ 149,866**	**$ 21,010**	**$ (12,946)**	**$ 157,930**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Available-for-sale:			
Equity securities	**¥ 1,540**	¥ 1,409	**$ 15,371**
Debt securities	**100**	100	**998**
Trust fund investments and other	**127**	28	**1,267**
Total	**¥ 1,767**	¥ 1,537	**$ 17,636**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥1,180 million ($11,778 thousand) and ¥436 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥655 million ($6,538 thousand) and ¥328 million, for the year ended March 31, 2008 and 2007, respectively.

5. Inventories

Inventories at March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Work in process	**¥ 7,457**	¥ 6,749	**$ 74,429**
Merchandise and finished products	**9,792**	10,117	**97,734**
Supplies	**240**	212	**2,395**
Total	**¥ 17,489**	¥ 17,078	**$ 174,558**

6. Short-term borrowings and long-term debt

Short-term bank loans of ¥14,500 million ($144,725 thousand) and ¥19,050 million bore interest at an approximate annual average rate of 1.08% and 0.87% at March 31, 2008 and 2007, respectively.

Commercial paper of ¥12,500 million ($124,763 thousand) and ¥13,000 million bore interest at a rate of 0.69% and 0.37% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
1.38% unsecured bonds due 2013	**¥ 10,000**		**$ 99,810**
0.74% unsecured bonds due 2008		¥ 8,000	
Unsecured loans from banks and insurance companies, 1.00% to 1.83%, due serially to 2013	**62,400**	37,225	**622,817**
Other borrowings		217	
Total	**72,400**	45,442	**722,627**
Less current portion	**(8,750)**	(19,042)	**(87,334)**
Net long-term debt	**¥ 63,650**	¥ 26,400	**$ 635,293**

The annual maturities of long-term debt as of March 31, 2008 for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	**¥ 8,750**	**$ 87,334**
2010	**14,675**	**146,472**
2011	**14,850**	**148,218**
2012	**15,450**	**154,207**
2013	**18,675**	**186,396**
Total	**¥ 72,400**	**$ 722,627**

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, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Current assets:			
Deferred tax assets:			
Accrued bonuses	**¥ 4,090**	¥ 3,564	**$ 40,822**
Accounts payable-other (amount transferred to the defined contribution plan)	**20**	1,079	**200**
Inventory valuation	**2,170**	2,955	**21,659**
Accrued expenses	**324**	824	**3,234**
Allowance for maintenance service fee	**343**	383	**3,423**
Accrued business tax	**423**	552	**4,222**
Tax loss carry forwards	**4,069**	892	**40,613**
Others	**943**	955	**9,412**
Total	**12,382**	11,204	**123,585**
Less valuation allowance	**(2,297)**	(72)	**(22,926)**
Total	**¥ 10,085**	¥ 11,132	**$ 100,659**
Deferred tax liabilities:			
Deferred gain on derivatives under hedge accounting		¥ (4)	
Total		¥ (4)	
Net, current deferred tax assets	**¥ 10,085**	¥ 11,128	**$ 100,659**
Non-current assets:			
Deferred tax assets:			
Depreciation expenses	**¥ 13,572**	¥ 15,879	**$ 135,463**
Tax loss carryforwards	**132**	151	**1,317**
Liability for retirement benefits	**557**	514	**5,559**
Impairment loss	**21**	83	**210**
Others	**1,516**	1,023	**15,131**
Total	**15,798**	17,650	**157,680**
Less valuation allowance	**(1,057)**	(181)	**(10,550)**
Total	**¥ 14,741**	¥ 17,469	**$ 147,130**
Deferred tax liabilities:			
Prepaid pension costs	**¥ (5,681)**	¥ (4,794)	**$ (56,702)**
Reserve for special taxation measures law in Japan	**(701)**	(1,352)	**(6,997)**
Net unrealized gain on available-for-sale securities	**(332)**	(1,949)	**(3,314)**
Others	**(141)**	(165)	**(1,407)**
Total	**¥ (6,855)**	¥ (8,260)	**$ (68,420)**
Net, non-current deferred tax assets	**¥ 7,886**	¥ 9,209	**$ 78,710**

Net deferred tax assets at March 31, 2008 were included in the Consolidated Balance Sheets as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets-non-current	**¥ 8,939**	**$ 89,220**
Deferred tax liabilities-non-current	**(1,053)**	**(10,510)**
Net deferred tax assets	**¥ 7,886**	**$ 78,710**

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, 2008 and 2007, was as follows:

	2008	2007
Normal effective statutory tax rate	40.7%	40.7%
Increase (Decrease) in valuation allowance	5.0	(5.7)
Expenses not deductible for income tax purposes	2.6	6.6
Amortization of goodwill and negative goodwill	34.2	
Tax credit	(3.6)	
Unrecognized deferred tax on unrealized intercompany profit	(1.6)	
Amount of per-capita local tax	1.2	1.3
Other-net	(0.7)	0.1
Actual effective tax rate	77.8%	43.0%

At March 31, 2008 the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥9,552 million ($95,339 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Tax loss carryforwards schedule:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 97	$ 968
2013	9	90
2014	8,174	81,585
2015	1,272	12,696
Total	¥ 9,552	$ 95,339

8. Retirement benefits

The Group has severance payment plans for employees. 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 lump-sum severance payments from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 105,202	¥ 100,596	$ 1,050,025
Fair value of plan assets	(104,962)	(116,218)	(1,047,630)
Unrecognized transitional obligation	(4,168)	(6,253)	(41,601)
Unrecognized prior service cost	7,246	8,472	72,323
Unrecognized actuarial (gain) loss	(16,096)	2,572	(160,655)
Prepaid pension costs	14,087	12,036	140,603
Net liability	¥ 1,309	¥ 1,205	$ 13,065

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 2,705	¥ 2,695	$ 26,999
Interest cost	2,022	2,001	20,182
Expected return on plan assets	(3,482)	(3,293)	(34,754)
Amortization of transitional obligation	2,084	2,084	20,800
Amortization of prior service cost	(1,279)	(1,226)	(12,766)
Recognized actuarial loss	1,531	1,671	15,281
Payment to a defined benefit pension plan and other	1,238	1,066	12,357
Net periodic benefit costs	¥ 4,819	¥ 4,998	$ 48,099

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**Mainly 3.0%**	3.0%
Amortization period of prior service cost	**3 or 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, 2008 and 2007 included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Allowance for the NCSP	**¥ 421**	¥ 421	**$ 4,202**
Current portion	**(196)**	(197)	**(1,956)**
Net periodic benefit costs	**225**	224	**2,246**
Allowance for directors' and corporate auditors' retirement benefits	**21**	25	**210**
Total	**¥ 246**	¥ 249	**$ 2,456**

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, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Allowance for directors and corporate auditors	**¥ 8**	¥ 32	**$ 80**
Allowance for employees participating in the NCSP	**149**	156	**1,487**
Total	**¥ 157**	¥ 188	**$ 1,567**

9. Research and development costs

Research and development costs charged to income were ¥4,998 million ($49,885 thousand) and ¥5,152 million for the years ended March 31, 2008 and 2007, respectively.

10. 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, 2008 and 2007 were ¥10,354 million ($103,344 thousand) and ¥9,267 million, respectively.

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, 2008 and 2007 was as follows:

[For Lessee]

	Millions of Yen						Thousands of U.S. Dollars		
	2008			2007			**2008**		
	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total
Acquisition cost	**¥ 4,233**	**¥ 7,062**	**¥ 11,295**	¥ 2,480	¥ 9,236	¥ 11,716	**$ 42,250**	**$ 70,486**	**$ 112,736**
Accumulated depreciation	**1,846**	**5,762**	**7,608**	1,296	6,419	7,715	**18,425**	**57,511**	**75,936**
Accumulated impairment loss	**43**	**5**	**48**	88	18	106	**429**	**50**	**479**
Net leased property	**¥ 2,344**	**¥ 1,295**	**¥ 3,639**	¥ 1,096	¥ 2,799	¥ 3,895	**$ 23,396**	**$ 12,925**	**$ 36,321**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 1,676**	¥ 2,231	**$ 16,728**
Due after one year	**2,042**	1,769	**20,381**
Total	**¥ 3,718**	¥ 4,000	**$ 37,109**

Depreciation expense, reversal of allowance for impairment loss, and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Depreciation expense	**¥ 2,531**	¥ 2,572	**$ 25,262**
Reversal of allowance for impairment loss on leased property	**38**	54	**379**
Interest expense	**78**	78	**779**
Total	**¥ 2,647**	¥ 2,704	**$ 26,420**

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

The minimum rental commitments under noncancellable operating leases at March 31, 2008, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	**¥ 11**	**$ 110**
Due after one year	**5**	**50**
Total	**¥ 16**	**$ 160**

11. Commitments and contingent liabilities

Contingent liabilities at March 31, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans to employees for housing	**¥ 2,459**	**$ 24,543**

12. Equity

The significant provisions in the Corporate Law of Japan (the “Corporate Law”) that affect financial and accounting matters are summarized below:

(a) Dividends

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

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

(b) Increases / decreases and transfer of common stock, reserve and surplus

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

(c) Treasury stock and treasury stock acquisition rights

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

13. Stock options

The granted stock options as of March 31, 2008 of the Company is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2003 Stock Option	10 directors 533 employees 15 subsidiaries' directors 14 subsidiaries' employees	713,100 shares	September 3, 2003	¥ 962 $ 9.60	From July 1, 2005 to June 30, 2010
2004 Stock Option	10 directors 513 employees 27 subsidiaries' directors 324 subsidiaries' employees	692,700 shares	September 7, 2004	¥ 952 $ 9.50	From July 1, 2006 to June 30, 2011
2005 Stock Option	10 directors 403 employees 12 subsidiaries' directors 276 subsidiaries' employees	749,000 shares	December 16, 2005	¥ 1,763 $ 17.60	From July 1, 2007 to June 30, 2012
2006 Stock Option	10 directors 250 employees 20 subsidiaries' directors 514 subsidiaries' employees	522,900 shares	November 7, 2006	¥ 2,434 $ 24.29	From July 1, 2008 to June 30, 2013
2007 Stock Option	8 directors 352 employees 30 subsidiaries' directors 250 subsidiaries' employees	746,300 shares	November 15, 2007	¥ 1,712 $ 17.09	From November 1, 2009 to October 31, 2014

The stock option activity of the Company is as follows:

For the year ended March 31, 2007	2003 Stock Option (Shares)	2004 Stock Option (Shares)	2005 Stock Option (Shares)	2006 Stock Option (Shares)	2007 Stock Option (Shares)
Non-vested					
March 31, 2006 – Outstanding		679,600	743,400		
Granted				522,900	
Canceled		2,000	6,800	2,000	
Vested		677,600			
March 31, 2007 – Outstanding			736,600	520,900	
Vested					
March 31, 2006 – Outstanding	599,100				
Vested		677,600			
Exercised	247,000	251,500			
Canceled	500	1,100			
March 31, 2007 – Outstanding	351,600	425,000			
For the year ended March 31, 2008					
Non-vested					
March 31, 2007 – Outstanding			**736,600**	**520,900**	
Granted					**746,300**
Canceled			**3,700**	**7,900**	**4,700**
Vested			**732,900**		
March 31, 2008 – Outstanding				**513,000**	**741,600**
Vested					
March 31, 2007 – Outstanding	**351,600**	**425,000**			
Vested			**732,900**		
Exercised	**25,700**	**20,500**			
Canceled		**500**	**9,100**		
March 31, 2008 – Outstanding	**325,900**	**404,000**	**723,800**		
Exercise price	**¥ 962** **$ 9.60**	**¥ 952** **$ 9.50**	**¥ 1,763** **$ 17.60**	**¥ 2,434** **$ 24.29**	**¥ 1,712** **$ 17.09**
Average stock price at exercise	**¥ 1,490** **$ 14.87**	**¥ 1,490** **$ 14.87**			
Fair value price at grant date				**520** **$ 5.19**	**396** **$ 3.95**

The assumptions used to measure fair value of 2007 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	34.5 %
Estimated remaining outstanding period:	4.46 years
Estimated dividend:	¥7.50 per share
Interest rate with risk free:	1.049 %

The granted stock options as of March 31, 2008 of NM is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	4 directors 52 employees	2,784 shares	July 31, 2002	¥ 50,625 $ 505.29	From July 1, 2004 to March 31, 2010
2003 Stock Option	27 employees	1,088 shares	September 30, 2003	¥ 111,250 $ 1,110.39	From July 1, 2005 to March 31, 2010
2004 Stock Option	2 employees	136 shares	July 30, 2004	¥ 335,261 $ 3,346.25	From July 1, 2006 to March 31, 2011
2005 Stock Option	1 directors 1 employees	588 shares	July 29, 2005	¥ 328,030 $ 3,274.08	From July 1, 2007 to March 31, 2012

The stock option activity of NM is as follows:

For the year ended March 31, 2008	2002 Stock Option (Shares)	2003Stock Option (Shares)	2004 Stock Option (Shares)	2005 Stock Option (Shares)
Non-vested				
March 31, 2007 – Outstanding				
Granted				**558**
Canceled				
Vested				**558**
March 31, 2008 – Outstanding				
Vested				
March 31, 2007 – Outstanding	**1,152**	**812**	**136**	
Vested				**588**
Exercised				
Canceled	**528**	**460**	**88**	**88**
March 31, 2008 – Outstanding	**624**	**352**	**48**	**500**
Exercise price	**¥ 50,625 $ 505.29**	**¥ 111,250 $ 1,110.39**	**¥ 335,261 $ 3,346.25**	**¥ 328,030 $ 3,274.08**

The granted stock options as of March 31, 2008 of S&I is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2004 Stock Option	4 directors 2 auditors 8 employees	135 shares	November 1, 2004	¥ 138,800 $ 1,385.37	From November 1, 2006 to March 31, 2014
2005 Stock Option	6 directors 53 employees	237 shares	July 1, 2005	¥ 180,000 $ 1,796.59	From July 1, 2007 to March 31, 2015
2006 Stock Option	5 directors 2 auditors 71 employees	229 shares	July 1, 2006	¥ 193,000 $ 1,926.34	From July 1, 2008 to March 31, 2016
2007 Stock Option	5 directors 44 employees	162 shares	July 1, 2007	¥ 151,000 $ 1,507.14	From July 1, 2009 to March 31, 2017

The stock option activity of S&I is as follows:

For the year ended March 31, 2008	2004 Stock Option (Shares)	2005 Stock Option (Shares)	2006 Stock Option (Shares)	2007 Stock Option (Shares)
Non-vested				
March 31, 2007 – Outstanding	115	190	198	
Granted				162
Canceled	15	46	52	14
Vested				
March 31, 2008 – Outstanding	100	144	146	148
Vested				
March 31, 2007 – Outstanding				
Vested				
Exercised				
Canceled				
March 31, 2008 – Outstanding				
Exercise price	¥ 138,800 $ 1,385.37	¥ 180,000 $ 1,796.59	¥ 193,000 $ 1,926.34	¥ 151,000 $ 1,507.14

The assumptions used to measure fair value of 2007 Stock Option

Estimate method: Comparable peer company analysis and Discounted Cash Flow method

14. Cash Flow Information

On June 1, 2007, the Company acquired 67.13% shares (including 480 shares owned by UNIADEX, Ltd. ("UAL")) of NM and NM became the Company's consolidated subsidiary. The followings are the details of NM's assets and liabilities at the commencement of consolidation and acquisition cost and cash expenditure for NM:

	Millions of Yen
Current asset	25,934
Non-current asset	5,142
Goodwill	9,917
Current liability	(24,771)
Non-current liability	(6,352)
Minority interests	(305)
Acquisition cost of NM	9,565
Cash and cash equivalents of NM	(2,888)
Net cash used for NM acquisition	6,677

15. Derivatives

The Company and certain subsidiaries enter 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 and certain subsidiaries' 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 and certain subsidiaries do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company and certain subsidiaries 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.

16. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
For the year ended March 31, 2008:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥ 2,546	95,942	¥ 26.54	$ 0.26
Effect of Dilutive Securities				
Warrants		270		
Diluted EPS				
Net income for computation	¥ 2,546	96,212	¥ 26.47	$ 0.26

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

17. Related party transactions

Significant transactions with Mitsui & Co., Ltd., major shareholders of the Company, for the years ended March 31, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Sales:			
Mitsui & Co., Ltd.	**¥ 1,003**	¥ 699	**$ 10,011**
Total	**¥ 1,003**	¥ 699	**$ 10,011**
Purchases:			
Mitsui & Co., Ltd.	**¥ 6,420**	¥ 6,775	**$ 64,078**
Total	**¥ 6,420**	¥ 6,775	**$ 64,078**

Transaction balances due to or from Mitsui & Co., Ltd. at March 31, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Accounts receivable-trade:			
Mitsui & Co., Ltd.	**¥ 371**	¥ 366	**$ 3,703**
Total	**¥ 371**	¥ 366	**$ 3,703**
Accounts payable-trade:			
Mitsui & Co., Ltd.	**¥ 788**	¥ 1,426	**$ 7,865**
Total	**¥ 788**	¥ 1,426	**$ 7,865**

Loans with Mitsui & Co. Financial Services Ltd., sister company of the Company, for the years ended March 31, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Loans:			
Mitsui & Co. Financial Services Ltd.	**¥ 15,112**	¥ 13,964	**$ 150,833**
Total	**¥ 15,112**	¥ 13,964	**$ 150,833**

The loan amounts above are the interim average balance of short-term loans. There were no transaction balances due to Mitsui & Co. Financial Services Ltd. at March 31, 2008 and 2007.

18. Subsequent events

At the general shareholders' meeting held on June 27, 2008, the Company's shareholders approved the appropriations of retained earnings and stock option plan for the Group's Directors and key employees:

(a) Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥6.00 ($0.06) per share	**¥ 575**	**$ 5,739**

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

Outline of the stock option plan

Apportionment:	The Group's Directors and key employees
Maximum number of shares of the Company's common stock to be issued:	56.2 thousands of shares of the Company's common stock
Exercise period:	5 years. The Board of Directors will set the commencement date to be 2 years or more after the Board's approval.
Exercise price:	1.1 multiplied by the higher of the average closing price of shares of the Company's common stock appearing on the TSE Board for the 20 business days prior to the day in which the options are issued or the closing price of shares of the Company's common stock appearing on the day in which the options are issued.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Nihon Unisys, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nihon Unisys, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 27, 2008

Corporate Profile and Stock Information

As of March 31, 2008

Corporate Profile

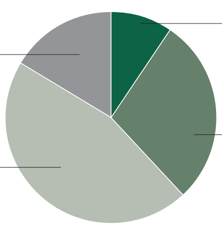
Name	Nihon Unisys, Ltd.
Established	March 29, 1958
Capital	¥5,483 million
Business Activities	Consulting IT solutions Outsourcing Support and system-related services Sales of computer systems (hardware and software)
Number of Employees	9,512 (consolidated basis)
Independent Auditor	Deloitte Touche Tohmatsu
Business Offices	Head Office : 1-1 Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan Regional Headquarters : Kansai (Osaka), Chubu (Nagoya), Kyushu (Fukuoka) Regional Offices : Hokkaido (Sapporo), Tohoku (Sendai), Niigata (Niigata), Hokuriku (Kanazawa), Shizuoka (Shizuoka), Chugoku (Hiroshima)

Stock Information

Number of Shares Issued 109,663,524 shares

Number of Shareholders 9,381

Classification of Shareholders



Principal Shareholders

Name	Number of shares held (thousands)	Holding ratio (%)
Mitsui & Co., Ltd.	30,524	27.84
Japan Trustee Services Bank, Ltd. (Trust Account)	8,571	7.82
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,248	5.70
The Norinchukin Bank	4,653	4.24
Goldman Sachs International	4,421	4.03
The Nomura Trust and Banking Co., Ltd. (Investment Account)	1,880	1.71
All Nippon Airways Co., Ltd.	1,794	1.64
Nihon Unisys Employees' Shareholding Society	1,768	1.61
Chase Manhattan Bank GTS Clients Account Escrow	1,609	1.47
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account/Mitsubishi Electric Corporation Account)	1,271	1.16

Note: In addition to the above, Nihon Unisys, Ltd. retains 13,791,221 treasury shares (holding ratio: 12.58%).

Group Companies

As of March 31, 2008

Marketing, Business Development & Consulting

Consulting, sales and marketing
Nihon Unisys, Ltd. (4,386 employees)

Consulting services
Cambridge Technology Partners, Ltd. (49 employees)

Network & Support Services

Network and support services
UNIADEX, Ltd. (2,532 employees)

Network services
NETMARKS INC. (495 employees)
NETMARKS SUPPORT AND SERVICE INC. (65 employees)
S&I Co., Ltd. (181 employees)

System Services

IT solution services
USOL HOLDINGS Co. Ltd. (3 employees)
- USOL Hokkaido Co., Ltd. (108 employees)
- USOL Tohoku Co., Ltd. (38 employees)
- USOL Tokyo Co., Ltd. (269 employees)
- USOL Chubu Co., Ltd. (119 employees)
- USOL Kansai Co., Ltd. (57 employees)
- USOL Chugoku Co., Ltd. (69 employees)
- USOL Kyushu Co., Ltd. (49 employees)
- USOL Vietnam Corporation (96 employees)

CAD/CAM system-related services
Nihon Unisys Excelutions, Ltd. (267 employees)

IT solution services based in Okinawa
International Systems Development Co., Ltd. (135 employees)

IT solution services for the distribution and manufacturing sectors
G&U System Service, Ltd. (72 employees)

Outsourcing & Supply

Computer supply services
Nihon Unisys Supply, Ltd. (168 employees)

IT outsourcing services
A-tas, Ltd. (95 employees)

Outsourcing services for the futures trading industry
TRADE Vision, Ltd. (5 employees)

Application, outsourcing services
UX Business Co., Ltd. (1 employees)

Group Shared Services

Group shared operations and various services
Nihon Unisys Business, Ltd. (221 employees)

Personnel Training Services
Nihon Unisys Learning Co. (32 employees)

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

U.S. base
NUL SYSTEM SERVICES CORPORATION (non-consolidated company)

Note: Numbers in brackets (　) denote employees included on a consolidated basis.

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