

UNISYS

Re-Enterprising

Annual Report 2003

For the year ended March 31, 2003

Nihon Unisys, Ltd.

Profile

Nihon Unisys, Ltd., aiming to be “the best IT partner for customers,” has been providing customers with such services as system integration, support services and outsourcing services as well as best solutions integrating state-of-the-art server platforms, network, software products and so on.

Since its foundation in 1958, Nihon Unisys has been sustaining competitiveness of the Japanese companies by designing and constructing information systems. For more than four decades, we have acquired and polished technical skills and have accumulated experience and knowledge serving leading customers with their information systems in various industries while leveraging strong powers and expertise of alliance partners. It can be said that “leading & reliability” is Nihon Unisys today.

Along with the progress and proliferation of E-business and broadband, the business environments have been changing rapidly. Strategic use of IT is a quite important part of management strategy and a crucial key for success. The change is an opportunity. Our mission is to create possibility of new business for customers. By providing the best solutions quick responsive to the change of the times, Nihon Unisys strives to be a “Customer-Value-Creating Company” that helps customers enhance their edge-cutting competitiveness.

CONTENTS

1	Letter from the President & CEO
1	Interview with Seiichi Shimada, President & CEO
4	Re-Enterprising
6	Topics
7	Social Activities
8	Board of Directors
9	Financial Highlights
10	Results of Operations and Financial Conditions
12	Consolidated Balance Sheets
14	Consolidated Statements of Operations
15	Consolidated Statements of Shareholders' Equity
16	Consolidated Statements of Cash Flows
17	Notes to Consolidated Financial Statements
31	Independent Auditors' Report
32	Corporate Data

Letter from the President & CEO



There is no doubt that the information system is becoming increasingly important as a core of management strategies for corporations in Japan, although the macro economy has remained in an uncertain environment. Nihon Unisys strives to become the best IT partner for customers by promoting “customer-value-creative” activities and expanding earnings.

On behalf of the members of the Board, I would like to extend my sincere appreciation to our shareholders for their continued support and understanding.

June 2003

A handwritten signature in black ink, consisting of the letters 'S.' followed by a stylized 'Sh' and a long horizontal line extending to the right.

Seiichi Shimada
President & CEO

Interview with Seiichi Shimada, President & CEO

Nihon Unisys is completing to build a base for future growth with “Re-Enterprising 2003”. Seiichi Shimada, President & CEO, discussed about the aim of the management plan named “Re-Enterprising” and the future strategies.

Building a Base to Leap into a New Growth Track

Q. Nihon Unisys launched a new management plan named “Re-Enterprising” in November 2001. How has the plan progressed?

A. We started the “Re-Enterprising” program to change ourselves into “New Nihon Unisys” that has growth engine and cutting-edge competitiveness. This is the operational reform program to strengthen our capabilities in service and software areas, and to reinforce our earnings structure, organizations, and ways of doing businesses.

In May 2002 the “Re-Enterprising 2002” program was launched with emphasis on enhancing cost competitiveness and expanding service businesses. Among the 50 action plans, 46 plans have already been completed. We have made steady progress in the cost structure reform and in capturing new businesses. As a result, Nihon Unisys has further shifted into services. The ratio of service and software businesses reached 73% of total sales and is expected to increase more.

Q. You launched “Re-Enterprising 2003” this year.

A. Yes. The fiscal year ending March 2004 is the final year of the Re-Enterprising program when we plan to complete building a base for future growth. In the “Re-Enterprising 2003”, we will strengthen solution providing capabilities to customers’ problems and accomplish our group restructuring. We aim to create value to our customers. Thus, we are establishing a system which enables us to offer seamless, professional services to our customers, as a group. While Nihon Unisys remains to be in charge of marketing and business development, Nihon Unisys Software

Our group offers seamless services to our customers

UNIADDEX
Nihon Unisys

Nihon Unisys Software
Nihon Unisys Exelutions
Hokkaido Soft Engineering
Tohoku Soft Engineering
Chubu Soft Engineering

Kansai Soft Engineering
Hiroshima Soft Engineering
Kyushu Soft Engineering
Information Systems Development

Nihon Unisys Information Systems
A-tas
TRADE Vision

Nihon Unisys Business
Nihon Unisys Accounting
NUL System Services Corporation

Nihon Unisys Learning
O.S. Engineering
Nihon Unisys Supply

Group restructuring has led us to become more focused and specialized.



Kaisha, Ltd. and other software subsidiaries will take a task of system development and planning and UNIADDEX, Ltd. will specialize in network and support service businesses. The group restructuring program has been so broad-based that approximately 20% of our group employees of 8,600

have moved into different offices. We are confident that this program will streamline our functions and improve our overall productivity and expertise. Moreover, it will allow us to provide more flexible and quick services to our clients.

Q. In the fiscal year ended March 2003, sales in the outsourcing business in the service division grew by 66% from the last year. Will you talk about this high growth?

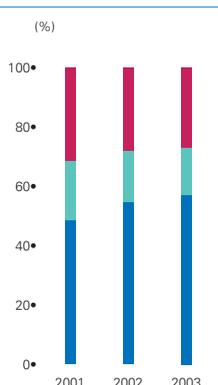
A. Certainly. The fiscal year ended March 2003 was another tough year when various customers postponed their investments in the IT areas. Under that environment, I am pleased to report that the growth in outsourcing and other areas contributed to record an overall increase in sales, albeit slightly. In Japan we are finally seeing the trend to outsource non-core operations by companies that are concentrating on their core businesses and are trying to reduce costs. Nihon Unisys' IT service business unit is receiving more orders, thanks to our customers' recognition on our long-term track record and technical expertise. Moreover, we have other areas with high growth potential such as the business process outsourcing (BPO) and the high security outsourcing service, that is in accordance with the international standard.

In the area of hardware business, pricing competition remains severe but our ES7000 series, which are the large-scale, high-performance Windows® servers, are receiving good reputation and are to be introduced in more areas in the future.

Furthermore, businesses led by UNIADDEX, Ltd. and other consolidated subsidiaries are contributing favorably.

Composition of Net Sales

■ Hardware
■ Software
■ Services



Industry Conditions and Nihon Unisys' Positioning

Q. What is your current thinking on the IT industry and its future potential?

A. The growth area is rapidly shifting from hardware to software and services. Last year could be identified as the first year of broadband in Japan. This year can then become the first year of the ubiquitous society in Japan. Despite the IT recession, demand for services and software is steadily increasing while the network keeps upgraded (i.e., diffusion of the broadband network) and the E-businesses continue to expand. Thus, there is no doubt the IT business has a high growth potential. However, it is highly competitive on a global scale, with consistent technological innovations at the same time. Therefore, I should say that it is not an easy business.

Q. In your view, what are the key reasons that corporations select Nihon Unisys as a partner for their IT management initiatives?

A. Nihon Unisys has the accumulated technological strength, the proven track record, and in-depth business knowledge that we have gained from our numerous innovative customers in a diversified range of industries. We receive high confidence of our customers in building and managing reliable systems. We aim to become the "best IT partner" with our customers by using our



strength and by refining solution providing power to customers' problems. In other words, Nihon Unisys will strive to evolve from a product vendor to a solution provider that creates value to our customers.

In my view, the IT revolution is progressing into the second stage and IT strategies have become more and more important for corporations. The first stage was to invest in hardware. The second stage is focused on investment in services and software and in how to make the best use of the system and equipment. We are seeing such development in software, networks, servers, etc. Corporations nowadays have to share and utilize information within the organization in a timely manner.

Nihon Unisys has established a Business Development Center in order to enhance our consulting capabilities, particularly at the initial stage of customers' projects, and to promote new business opportunities. In

addition, we are restructuring our group organization, promoting the 10% productivity improvement campaign, and reinforcing our internal training programs with an objective to become more cost competitive.

Q. Nihon Unisys has been strong in business with financial institutions. How do you look at the business trend by customers?

A. Sales to financial institutions increased by 5.7% from the previous year to account for 31% of total sales in the fiscal year ended March 2003. It was partly contributed by the system reinforcement by the Norinchukin Bank and the integration of some Shinkin Banks. We are also strong in the securities system of banks. The recent changes such as the reform of the securities settlement system and the relaxing of business fields are expanding our business chances. In addition to financial institutions, Nihon Unisys has a strong market share in the fields such as the electric power industry, the automobiles and other manufacturing industries, and the retail industry. In the retail industry, Nihon Unisys is demonstrating a particular strength in apparels and direct marketing, that are growing nicely.

Together with Shareholders

Q. What is the most important message you want to deliver to your shareholders?

A. Nihon Unisys' management has a clear vision that is shared by all employees. It is to improve our earnings structure consistently. Our best assets are high technical expertise and willingness of our employees, a broad customer base, and the long-accumulated in-depth knowledge and know-how. These assets are hard to show but we are doing our best to realize consistent growth in earnings by using these assets and to raise the stock market's recognition and evaluation on Nihon Unisys.

One of my management principles is to "Do now, without fail, up to accomplishment". I always remind myself as well as to our employees. If we keep making efforts without giving it up, that leads to business inventions and developments. Another belief of mine is "Go forward, positively, without hesitation and without pretending a know-it-all". Challenging into a new task may result into a failure but we should not run away. I have experienced that a precious trustworthy relationship can be nourished with business friends and partners when we do not run away from a challenging task.

Q. How do you want to develop a relationship with individual shareholders and investors?

A. I am grateful that many individuals and corporations have been shareholders of Nihon Unisys. We are making our best efforts to disclose timely and accurate information to our shareholders. For instance, we began a quarterly result announcement from the October-December quarter in 2002. And we are presenting up-to-date, in-depth information on our Web site, and our bi-annual analysts meetings can be viewed by shareholders and investors on our Web site.

We are determined to become an attractive high-growth company for our shareholders by maximizing corporate value through aggressive management reforms.

To be a “Customer-Value-Creating Company”.

“Re-Enterprising”: Aiming to be a New Nihon Unisys

We launched a new management policy named “Re-Enterprising” in November 2001.

“Re-Enterprising” is a coinage which means to re-establish an enterprise and to reform an enterprise by changing the way of businesses. It symbolizes Nihon Unisys that is ever evolving in anticipation of changes in the environment where the IT spending is shifting its emphasis from hardware into software and services and where new business models are emerging consistently.

Under “Re-Enterprising,” we had embarked on the management reforms to evolve into new Nihon Unisys and had set the following five policies:

1. Customer-value-creating company
2. Sharpen cost competitiveness
3. Innovate corporate culture
4. Polish & utilize each individual’s expertise and potential
5. Reinforce group strategy

Further Reinforcement of “Re-Enterprising”

Re-Enterprising 2002

We facilitated self-innovating activities under the policy of “Re-Enterprising 2002.”

Evolving the initial “Re-Enterprising” policies, Nihon Unisys announced the second program named “Re-Enterprising 2002” in May 2002. Aiming to be a customer-value-creating company, we identified “Business Creation” as a basic theme and advocated the following three action policies:

1. Provide high customer value for competitive prices
2. Develop new business models/sources of earnings
3. Judge, behave and act as professionals

As for the first action policy, “Provide high customer value for competitive price,” we strove to provide high value-added propositions by reinforcing service and marketing capability, while polishing consulting and project management skills and renovating training programs. Regarding the second action policy, “Develop new business models/sources of earnings,” we expanded outsourcing and security business, facilitated new businesses combining and connecting heterogeneous businesses into a form of aggregation business. Also, we promoted network business putting focus on broadband. As for the third, “Judge, behave and act as professionals,” we addressed HR system reform, and promoted compliance and risk management consciousness. Also, we renovated management-training programs while opening in-house business school.

As a result, we captured new accounts in outsourcing business in the financial, manufacturing and distribution industries. We received orders in advanced business areas like aggregation and broadband businesses. New models of large and high performance Windows® server, “ES7000” series, helped to grow business and to get new accounts. Furthermore, information sharing and decision-making speed were enhanced. Every effort in various areas was made in order to transform into “New Nihon Unisys.” In particular, as a new challenge in the service business area, we started dealing with BPO, business process outsourcing. Besides, we formed a dedicated team

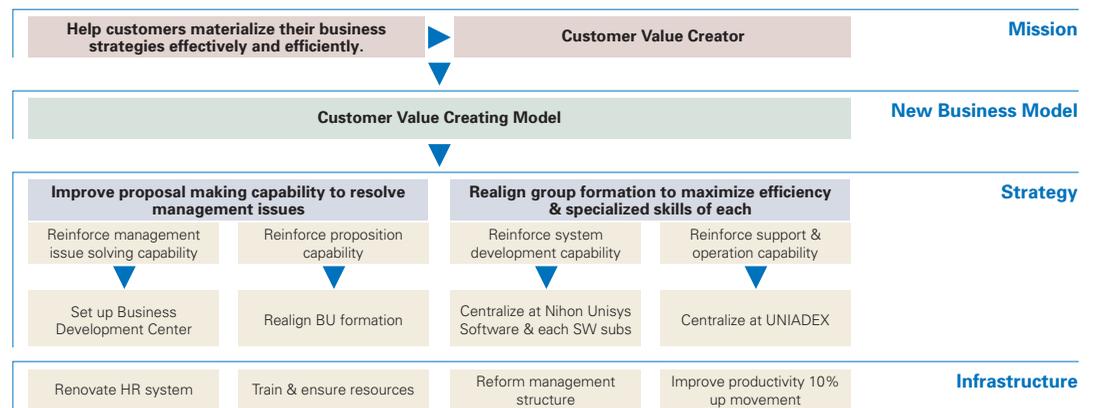
for “Microsoft®.NET,” announced new service menu structure, reinforced consulting capability and so on in order to strengthen IT service capability overall. Meanwhile, in the area of group management, we made every effort to maximize our group power by clarifying the missions and enhancing expertise of each group company.

Every effort was made to sharpen cost competitiveness and expand service business both of which were addressed in “Re-Enterprising 2002,” as a result, we were able to achieve substantial cost reduction, enhance operational/management efficiency through BPR (business process reengineering) and improve service business profitability. Earnings for the year ended March 2003 increased greatly from a year ago and the base infrastructure to get back on the growth track has improved remarkably.

Re-Enterprising 2003

Mission: Materialize customers’ business strategies effectively & efficiently

The “Re-Enterprising 2003”, announced in 2003, is the final stage of “Re-Enterprising” programs and has set a goal in building a solid base as a “Customer-Value-Creating Company” in IT industry. In order to achieve this goal, we have the following five policies centered on the Group’s strategic development, placing service businesses as a core operation.

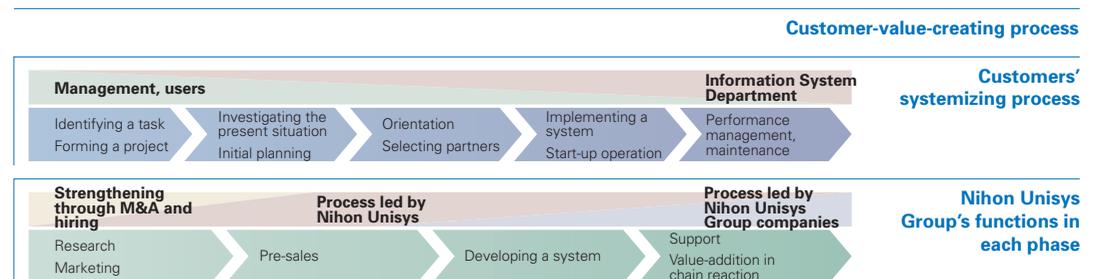


1. Realign organization structure in sync with business scenario based on customer-value-creating process
2. Maximize synergy through group management
3. Reform management structure
4. Select & focus businesses
5. Innovate HR system and train/ensure necessary resources

The followings are specific actions of “Re-Enterprising 2003.”

- Establish “Business Development Center” to reinforce capability to help customers resolve management issues
- Realign business units to improve proposal-making capability
- Centralize functions at subsidiaries to improve efficiency and expertise through realignment of group formation

In addition to the above, we will initiate various activities in order to be a leading IT service company. Nihon Unisys, as Nihon Unisys group, will be reborn as a true “customer-value-creating company.”



Aggressively promoting outsourcing businesses

Nihon Unisys' outsourcing business receives contracts from customers to operate and manage their systems. Thanks to the customers' high evaluation of our management capabilities, it has been showing a significant growth. In order to accelerate growth of the business, we are expanding BPO (business process outsourcing) which receives the customers' specific operations including IT operations. We are also beginning AMO (application management outsourcing) which receives the life cycle management of the process application software.

Nihon Unisys aims to become an "IT Service Company" by identifying IT services centered in six main areas including BPO as our core businesses.



Nihon Unisys' measures toward the ubiquitous society

The ubiquitous society means that every product will become available to anybody, anytime, anywhere in the society by using products that are equipped with computers and connected to network. Nihon Unisys has been focusing on the objective identification technology, which is one of the ubiquitous technologies and has been making various experiments to realize the ubiquitous society in this area.

First, we have developed the IT architecture named "ROMA (Resource Operation Management Architecture)". With ROMA under this ubiquitous environment, all kinds of information and data are collected and managed by using equipment and tools such as wireless IC tags (RFID) and measuring sensors. Being combined together with corporate operation systems such as distribution systems and customer management systems, ROMA enables to make operations more efficient, to improve accuracy, and to create new services. Nihon Unisys is also conducting demonstrative experiments by using mobile equipment and wireless IC tags, jointly with some retail and transportation companies.

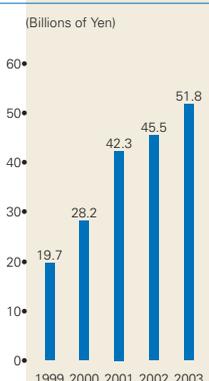
Furthermore, telematics is another focused area of Nihon Unisys. We are using a test vehicle which installs the most updated technology equipment with an aim to develop some new businesses.

Introduction of our group companies: UNIADDEX is growing nicely.

UNIADDEX, Ltd., a fully-owned subsidiary of Nihon Unisys, is an IT service company which supports building clients' IT infrastructure for productivity improvement. In the fiscal year ended March 2003, sales increased by 14% from the last year to ¥51.8 billion, thanks to growth in network system installation and support services. UNIADDEX received many orders to build a large-scale network, realized new cooperative businesses with some vendors, and newly captured some major customers. Under the severe economic environment for Japanese companies, not to mention for the IT industry, UNIADDEX is expected to continue showing high growth, thanks to the high reputation for its solution architecture, "Managed IT Services". In the fiscal year ending March 2004, UNIADDEX will focus on MSP (management service provider) businesses such as receiving orders for system management and operation. In addition, the company will aggressively promote businesses in network storage installation, IP telephony, IT security, and global support to Japanese companies that are operating internationally.



Net Sales of UNIADDEX



Environmental conservation activities —What IT can do for the Earth—

Nihon Unisys Group has been working in active consideration for environmental conservation. As a measure to save energy and natural resources, we have participated in the Green Power Certification System implemented by Japan Natural Energy Company Limited. We have effectively used one million kWh p.a. of wind power through this system and have contributed to conserve fossil fuel and to lower carbon dioxide emissions by 357 tons annually. Moreover, we have made efforts to provide the Earth-friendly business models to our customers through our products and services.

In April 2003, some of our group companies were certified for ISO14001 from Japan Audit and Certification Organization for Environment and Quality (JACO), by identifying our philosophy of “What IT can do for the Earth”.

Sites that earned the certification in April 2003

Nihon Unisys, Ltd.
UNIADEX, Ltd.
Nihon Unisys Software Kaisha, Ltd.
Nihon Unisys Information Systems, Ltd.
Nihon Unisys Learning Corporation (Headquarters and offices in Tokyo)

Environmental conservation activities in the fiscal year 2003

We promoted environmental conservation activities with an aim to reduce environmental stress, which is harmful to the global environment. We set the goal in reduction of power consumption and copy paper and in improvement in the rate of waste disposal by type.

- Reduction in power consumption
 - Target: 0.2% reduction vs. the fiscal year 2002
 - Actual result: 5.5% reduction y-o-y
- The rate of waste disposal by type
 - Result of 89.1% vs. target of 70%

Furthermore, Nihon Unisys Group sees that our IT services are to facilitate customers’ operational efficiency, which is in essence to promote saving in energy and resources. Thus, based on our belief that the core of our operation matches customers’ environment management targets and actions of reducing environmental stress, all of our divisions worked aggressively to achieve their own “environment-friendly targets” and numerical goals.

Environmental conservation activities in the fiscal year 2004

We are continuing to expand our environmental conservation activities. We plan to further reduce power consumption and copy paper and to raise the rate of waste disposal by type. Each division is also enhancing their activities with their own “environment-friendly targets”.

Moreover, the following sites are expected to earn ISO14001 in the year under review.

Sites that are due to acquire the certification in the year under review

- Nihon Unisys, Ltd. (Kansai Branch, Chubu Branch, Kyushu Branch, Hokkaido Branch, Tohoku Branch, Niigata Branch, Hokuriku Branch, Shizuoka Branch, Chugoku Branch, and Toyota Sales Office)
- Nihon Unisys Business, Ltd. (Headquarters and branches)
- Nihon Unisys Accounting Co., Ltd. (Headquarters and branches)

Website on environmental activities: <http://www.unisys.co.jp/eco/>



Compliance activities

Nihon Unisys finds that compliance is an important management issue with an increasing social demand. Our group has defined the compliance basic principles as a core of our compliance activities. We have embarked on a group-wide compliance program, which included appointment of a CCO (Chief Compliance Officer), assignment of a field compliance member in each division, and setting up the group compliance committee.

Moreover, in order to raise our employees’ understanding in compliance, we have distributed the compliance handbook to all employees and have organized the e-Learning program and the training sessions. We will further enhance our compliance activities in the future.

Board of Directors

(as of June 26, 2003)



Standing left to right: Keiji Shiratori, Gary L. Paul, Naoya Kashiwagi
Seated left to right: Thomas K. Yam, Seiichi Shimada, Shoichi Kajikawa

Name	Title
Seiichi Shimada	President & CEO
Thomas K. Yam	Executive Vice President
Shoichi Kajikawa	Representative Director & Executive Corporate Officer
Keiji Shiratori	Representative Director & Chief Financial Officer
Gary L. Paul	Representative Director & Senior Financial Officer
Naoya Kashiwagi	Representative Director & Senior Corporate Officer
Motonori Saeki	Managing Director & Senior Corporate Officer
Masanori Matsumori	Managing Director & Senior Corporate Officer
Fumio Horikawa	Managing Director & Senior Corporate Officer
Yoshikazu Niwa	Managing Director & Senior Corporate Officer
Alberto G. Lapuz	Managing Director & Senior Corporate Officer
Yasunori Fujita	Managing Director, Part-Time
Tsutomu Fukunaga	Managing Director, Part-Time
Yasuo Hayashi	Managing Director, Part-Time
Yoshiyuki Izawa	Managing Director, Part-Time
George R. Gazerwitz	Managing Director, Part-Time
Leo. C. Daiuto	Managing Director, Part-Time
Osamu Haruyama	Corporate Auditor
Tatsuo Toyama	Corporate Auditor
Minoru Sadayasu	Corporate Auditor, Part-Time
Katsuhisa Kiyozuka	Corporate Auditor, Part-Time

Corporate Officers

Name
Yoichi Harada
Toshihiko Kato
Koji Suzuki
Osamu Maruyama
Shigehiko Inaizumi
Tadashi Suzuki
Akiyoshi Hiraoka
Masami Kobayashi
Ryuji Tatsuno
Shigeru Inoue
Hitoshi Tayama
Nozomu Ikawa
Minoru Tasaki

Financial Highlights

Nihon Unisys, Ltd.

Years Ended March 31, 2003, 2002 and 2001 (Consolidated Basis)

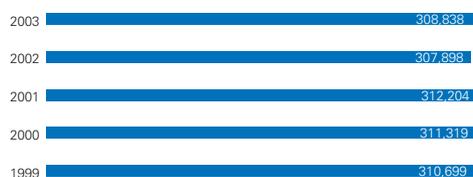
	Millions of Yen			Thousands of U.S. Dollars (Note)
	2003	2002	2001	2003
Net Sales	¥308,838	¥307,898	¥312,204	\$2,569,368
Operating Income	8,836	4,686	6,393	73,511
Net Income (Loss)	8,347	(7,832)	4,876	69,443
Total Assets	223,293	257,608	254,261	1,857,679

Per Share Amounts:	Millions of Yen			Thousands of U.S. Dollars (Note)
	2003	2002	2001	2003
Net Income (Loss)	¥75.46	(¥71.64)	¥43.89	\$0.63
Cash Dividends Applicable to the Year	7.50	7.50	7.50	0.06

(Note) Yen amounts have been translated into U.S. dollars, for convenience only, at ¥120.20=U.S.\$1 prevailing on March 31, 2003.

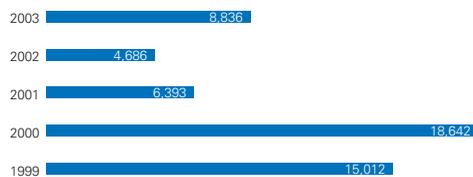
Net Sales

(Millions of Yen)



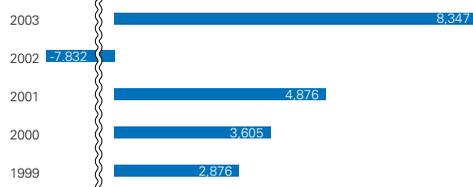
Operating Income

(Millions of Yen)



Net Income (Loss)

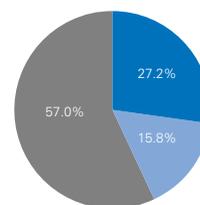
(Millions of Yen)



Composition of Net Sales

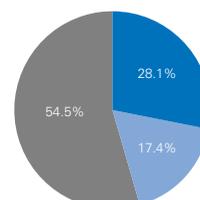
2003

■ Hardware
■ Software
■ Services



2002

■ Hardware
■ Software
■ Services



Results of Operations

Despite of some bright aspect in export business to the Asian market, the Japanese economy was in the midst of tough conditions during the term due to rising uncertainty of the U.S. economy caused by the military strike against Iraqi regime, prolonging disposition of bad debts by the financial institutions, sluggishness of the stock market and so on.

In the IT industry, price erosion continued making price competition tougher and tougher. The recovery of the market environments was delaying more than expected under the reluctance of IT spending by corporate customers and stagnancy of capital investments by communication carriers despite of bright signs in some areas. However, from the long-term viewpoint, there were some movements that stimulate growth like e-Japan Project, rapid proliferation of broadband and ubiquitous networking initiation. The base trend seems to be good for expansion.

In such circumstances, Nihon Unisys, Ltd. (the "Company") executed aggressive business activities under the "Re-Enterprising 2002." As a result, we captured new accounts in outsourcing business in the financial, manufacturing and distribution industries. We got orders in advanced business areas like aggregation and broadband businesses. New models of large and high performance Windows server, "ES7000" series, helped to grow business and to get new accounts. In the area of skill improvement, we are certified with "CMM Level 3," "CMMI Level 3" and "ISMS" (Information Security Management System). Information sharing and decision-making speed were enhanced. Every effort in various areas was made in order to transform into a "new Nihon Unisys." In particular, as a new challenge in the service business area, we started offering "PowerRental® High Security Service," dealing with BPO, business process outsourcing. Besides, we formed a dedicated team for "Microsoft®.NET," announced new service menu structure, reinforced consulting capability and so on in order to strengthen IT service capability overall.

Meanwhile, in the area of group management, sales and support functions of CAD/CAM were centralized at Nihon Unisys Excelutions, Ltd. Nihon Unisys Learning Corporation was spun off as an education/training company with e-Learning service capability. By clarifying the missions and enhancing expertise of each group company, we made every effort to maximize our group power.

With regard to the consolidated financial results, net sales increased to ¥308,838Million (up 0.3% from a year ago) despite of restraint or postponement of IT spending caused by sluggish economy.

Breaking down the net sales, service businesses showed a steady growth particularly in outsourcing business and UNIADDEX's support service. On the other hand, sales of hardware and software decreased due to declining hardware rental and sluggish open software businesses.

Operating income increased to ¥8,836M (up 88.5%) thanks to decrease of retirement benefit cost as a result of returning the government's portion of the pension fund in addition to cost structure reform and SG&A reduction. Net income showed a substantial increase marking ¥8,347M (¥7,832M loss in the previous year) booking entry of ¥7,798M into the extraordinary gains as a positive impact reflecting the return of the government's portion of the pension fund.

Sales of service business increased to ¥176,069M (up 4.9%) while those of software and hardware decreased to ¥48,823M (down 8.6%) and ¥83,947M (down 3.0%), respectively. In other words, service business accounted for 57.0% (54.5% a year ago) while software and hardware 15.8% (17.4%) and 27.2% (28.1%), respectively.

* Windows is the registered trademark of Microsoft Corporation in the U.S. and other countries.

Financial Conditions

As a result of continuing effort to pursuit capital efficiency, Nihon Unisys Group's balance sheets showed a steady improvement. Current assets decreased by ¥27,616M compared to a year ago as a result of accelerated collection of accounts receivable. Investments and other assets also decreased by ¥6,654M due to amortization of software and decline in market value of investment securities, reflecting the sluggish stock markets.

With regard to the debt side, total liabilities decreased by ¥41,577M from the year-ago period. Although the Company issued ¥8,000M straight bonds in March 2003 in order to strengthen working capital, we aggressively repaid long- and short-term borrowings and redeemed straight bonds (¥10,000M). Furthermore, the company paid special retirement expense of ¥16,531M, which was reversed from the prior year's accounts payable-other. Liability for retirement benefits was decreased as a result of exemption from future pension obligation of the governmental program.

As for shareholders' equity, it increased by ¥7,001M from a year ago thanks to the appropriation of net income of ¥8,347M.

Consolidated Balance Sheets

Nihon Unisys, Ltd.
March 31, 2003 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 27,831	¥ 39,853	\$ 231,539
Accounts receivable-trade (Note 14)	79,208	85,384	658,968
Inventories (Note 5)	15,617	22,009	129,925
Deferred tax assets (Note 7)	8,379	12,627	69,709
Other current assets	8,417	7,283	70,025
Allowance for doubtful accounts	(96)	(183)	(798)
Total current assets	139,356	166,973	1,159,368
Property, Plant and Equipment:			
Land	1,672	1,672	13,910
Buildings and structures	18,699	18,553	155,566
Machinery and equipment	137,737	134,688	1,145,899
Total	158,108	154,913	1,315,375
Accumulated depreciation	(120,331)	(117,091)	(1,001,090)
Net property, plant and equipment	37,777	37,822	314,285
Investments and Other Assets:			
Investment securities (Note 4)	7,056	9,170	58,702
Investments in unconsolidated subsidiaries and associated companies	363	453	3,020
Software	12,434	13,546	103,444
Lease deposits	12,449	14,231	103,569
Deferred tax assets (Note 7)	12,102	13,490	100,682
Other assets	1,756	1,923	14,609
Total investments and other assets	46,160	52,813	384,026
Total	¥ 223,293	¥ 257,608	\$ 1,857,679

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 6,551	¥ 10,169	\$ 54,501
Current portion of long-term debt (Note 6)	6,288	18,431	52,313
Accounts payable-trade (Note 14)	40,460	41,093	336,606
Accounts payable-other	2,331	18,032	19,393
Commercial paper	6,000		49,917
Income taxes payable (Note 7)	654	3,439	5,441
Accrued expenses	12,528	14,202	104,226
Other current liabilities	16,450	18,940	136,855
Total current liabilities	91,262	124,306	759,252
Long-term Liabilities:			
Long-term debt (Note 6)	29,833	26,731	248,195
Liability for retirement benefits (Note 8)	4,070	15,065	33,860
Other long-term liabilities (Note 14)	4,380	5,020	36,439
Total long-term liabilities	38,283	46,816	318,494
Minority Interests	1,684	1,423	14,010
Commitments and Contingent Liabilities (Notes 10, 11, and 13)			
Shareholders' Equity (Notes 12 and 15.a):			
Common stock, no par value- authorized, 300,000,000 shares; issued 109,663,524 shares	5,483	5,483	45,616
Capital surplus	15,282	15,282	127,138
Retained earnings	70,486	63,006	586,406
Net unrealized gain on available-for-sale securities	815	1,292	6,780
Total	92,066	85,063	765,940
Treasury stock-at cost 3,528 shares in 2003 and 514 shares in 2002	(2)	(0)	(17)
Total shareholders' equity	92,064	85,063	765,923
Total	¥223,293	¥257,608	\$1,857,679

Consolidated Statements of Operations

Nihon Unisys, Ltd.

Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Net Sales (Note 14)	¥308,838	¥307,898	\$2,569,368
Cost of Sales (Note 14)	230,165	228,706	1,914,850
Gross Profit	78,673	79,192	654,518
Selling, General and Administrative Expenses (Note 9)	69,837	74,506	581,007
Operating Income	8,836	4,686	73,511
Other Income (Expenses):			
Interest and dividend income	156	309	1,298
Interest expense	(883)	(1,033)	(7,346)
Income from building rental	544	498	4,526
Gain on sales of securities	20	880	167
Foreign exchange gain	70	92	582
Gain on exemption from future pension obligation of the governmental program	7,798		64,875
Special retirement expense		(16,531)	
Restructuring charges		(1,453)	
Other-net	(900)	(151)	(7,488)
Other income (expenses)-net	6,805	(17,389)	56,614
Income (Loss) before Income Taxes and Minority Interests	15,641	(12,703)	130,125
Income Taxes (Note 7):			
Current	1,097	5,008	9,126
Deferred	5,982	(9,896)	49,767
Total Income Taxes	7,079	(4,888)	58,893
Minority Interests in Net Income	215	17	1,789
Net Income (Loss)	¥ 8,347	(¥ 7,832)	\$ 69,443

Per Share Amounts (Note 2.o):

	Yen	U.S. Dollars
Net income (Loss)	¥75.46	(¥71.64) \$0.63
Cash dividends applicable to the year	7.50	7.50 0.06

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nihon Unisys, Ltd.

Years Ended March 31, 2003 and 2002

	Thousands	Millions of Yen				
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain on Available-for- Sale Securities	Treasury Stock
Balance, April 1, 2001	109,664	¥5,483	¥15,282	¥71,720		¥(0)
Net loss				(7,832)		
Cash dividends, ¥7.5 per share				(822)		
Bonuses to directors				(60)		
Net increase in unrealized gain on available-for-sale securities					¥1,292	
Increase in treasury stock						(0)
Balance, March 31, 2002	109,664	5,483	15,282	63,006	1,292	(0)
Net income				8,347		
Cash dividends, ¥7.5 per share				(822)		
Bonuses to directors				(25)		
Decrease of retained earnings for newly consolidated subsidiaries				(20)		
Net decrease in unrealized gain on available-for-sale securities					(477)	
Increase in treasury stock						(2)
Balance, March 31, 2003	109,664	¥5,483	¥15,282	¥70,486	¥ 815	¥(2)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain on Available-for- Sale Securities	Treasury Stock
Balance, March 31, 2002	\$45,616	\$127,138	\$524,176	\$10,749	\$ (0)
Net income			69,443		
Cash dividends, \$0.06 per share			(6,839)		
Bonuses to directors			(208)		
Decrease of retained earnings for newly consolidated subsidiaries			(166)		
Net decrease in unrealized gain on available-for-sale securities				(3,969)	
Increase in treasury stock					(17)
Balance, March 31, 2003	\$45,616	\$127,138	\$586,406	\$ 6,780	\$(17)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nihon Unisys, Ltd.

Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Operating Activities:			
Income (Loss) before income taxes and minority interests	¥ 15,641	¥(12,703)	\$ 130,125
Adjustments for:			
Income taxes paid	(3,881)	(6,935)	(32,288)
Depreciation and amortization	21,232	20,647	176,639
Special retirement expense		16,531	
Special retirement expense paid	(16,531)		(137,529)
Gain on sales of securities	(20)	(880)	(167)
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
Decrease in accounts receivable-trade	6,176	15,354	51,382
Decrease (Increase) in inventories	6,392	(4,220)	53,178
(Increase) Decrease in interest and dividend receivable	(35)	12	(291)
Decrease in accounts payable-trade	(656)	(12,931)	(5,458)
Decrease in interest payable	(37)	(10)	(308)
(Decrease) Increase in liability for retirement benefits	(11,066)	4,131	(92,063)
Other-net	3,076	2,595	25,591
Total adjustments	4,650	34,294	38,686
Net cash provided by operating activities	20,291	21,591	168,811
Investing Activities:			
Proceeds from sales of property, plant and equipment	197	213	1,639
Payments for purchases of property, plant and equipment	(17,232)	(11,996)	(143,361)
Payments for purchases of software	(8,130)	(10,011)	(67,637)
Proceeds from sales of investment securities	448	2,662	3,727
Payments for purchases of investment securities	(240)	(728)	(1,997)
Net decrease in other assets	70	113	582
Net cash used in investing activities	(24,887)	(19,747)	(207,047)
Financing Activities:			
Net decrease in short-term borrowings	¥ (3,618)	¥ (2,138)	\$ (30,100)
Proceeds from long-term debt	1,420	12,600	11,814
Repayments of long-term debt	(8,210)	(7,827)	(68,303)
Proceeds from other borrowings	233	1,408	1,938
Repayments of other borrowings	(484)	(130)	(4,026)
Net increase in commercial paper	6,000		49,917
Redemption of bonds	(10,000)		(83,195)
Proceeds from issuance of bonds	8,000		66,556
Payments for purchases of treasury stock	(2)	(0)	(17)
Cash dividends	(822)	(822)	(6,839)
Cash dividends to minority interests	(8)	(6)	(66)
Net cash (used in) provided by financing activities	(7,491)	3,085	(62,321)
Net (Decrease) Increase in Cash and Cash Equivalents	(12,087)	4,929	(100,557)
Cash and Cash Equivalents of Newly Consolidated			
Subsidiaries, Beginning of Year	65	50	540
Cash and Cash Equivalents, Beginning of Year	39,853	34,874	331,556
Cash and Cash Equivalents, End of Year	¥ 27,831	¥39,853	\$ 231,539

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Unisys, Ltd.

Years Ended March 31, 2003 and 2002

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2002 consolidated financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nihon Unisys, Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.20 to \$1, the approximate rate of exchange at March 31, 2003. 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, 2003 include the accounts of the Company and its 16 significant (15 for the year ended March 31, 2002) subsidiaries (together, the "Group").

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

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

Investments in the remaining 3 unconsolidated subsidiaries and 6 associated companies (3 subsidiaries and 7 associated companies for the year ended March 31, 2002) 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.

Prior to April 1, 1999, the excess of the cost of the Company's investments in consolidated subsidiaries over its equity in the net assets at the respective dates of acquisition, is being amortized over a period of 5 years. Effective April 1, 1999, the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized using the straight-line method over a period of 5 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) Bond issue cost - Bond issue cost is charged to income as incurred.

(i) **Retirement benefits** - The Company and certain subsidiaries have a contributory pension plan covering substantially all of their employees. Other consolidated subsidiaries have non-contributory pension plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation determined as of April 1, 2000, is being amortized over 10 years.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service period (10 years) starting in the following year. Prior service cost is amortized in expenses using the straight-line method over the average of the estimated remaining service period (10 years).

Effective March 1, 1994, the Company introduced as part of its human resources program, the New Career Support Program (the "NCSP"), to assist certain employees in retiring from the Company before their mandatory retirement age. The Company provides for the estimated future payments to be paid under the NCSP, and includes 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, and includes this amount as a liability for retirement benefits.

(j) **Income taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(k) **Leases** - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

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

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

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

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

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

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

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

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash and time deposits	¥27,879	¥34,901	\$231,938
Short term investments		5,000	
Less-time deposits with maturities over 3 months	(48)	(48)	(399)
Total	¥27,831	¥39,853	\$231,539

4. Investment securities

Marketable and investment securities as of March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Non-current			
Equity securities	¥7,036	¥9,144	\$58,536
Debt securities	20	26	166
Total	¥7,056	¥9,170	\$58,702

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
March 31, 2003				
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,327	¥1,761	¥376	¥5,712
Debt securities	20	0		20
Total	¥4,347	¥1,761	¥376	¥5,732
March 31, 2002				
Securities classified as:				
Available-for-sale:				
Equity securities	¥5,460	¥2,824	¥624	¥7,660
Debt securities	25	1	0	26
Total	¥5,485	¥2,825	¥624	¥7,686

	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
March 31, 2003				
Securities classified as:				
Available-for-sale:				
Equity securities	\$35,998	\$14,651	\$3,128	\$47,521
Debt securities	166	0		166
Total	\$36,164	\$14,651	\$3,128	\$47,687

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		Thousands of U.S. Dollars
	Millions of Yen		
	2003	2002	2003
Available-for-sale:			
Equity securities	¥1,324	¥1,315	\$11,015

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥277 million (\$2,304 thousand) and ¥2,843 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥38 million (\$316 thousand) and ¥20 million (\$166 thousand), respectively, for the year ended March 31, 2003 and ¥913 million and ¥33 million, respectively, for the year ended March 31, 2002.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥20	\$166

5. Inventories

Inventories at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Work in process	¥ 3,295	¥ 3,956	\$ 27,413
Merchandise and finished products	12,171	17,928	101,256
Supplies	151	125	1,256
Total	¥15,617	¥22,009	\$129,925

6. Short-term borrowings and long-term debt

Short-term bank loans of ¥6,551 million (\$54,501 thousand) and ¥10,169 million bear interest at an approximate annual average rate of 0.68% and 0.75% at March 31, 2003 and 2002, respectively.

Long-term debt at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
2.05% unsecured bonds due 2002		¥10,000	
0.74% unsecured bonds due 2008	¥ 8,000		\$66,556
Unsecured loans from banks and insurance companies, 0.69% to 2.51%, due serially to 2009	27,094	33,884	225,408
Other borrowings	1,027	1,278	8,544
Total	36,121	45,162	300,508
Less current portion	(6,288)	(18,431)	(52,313)
Net long-term debt	¥29,833	¥26,731	\$248,195

The annual maturities of long-term debt at March 31, 2003 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 6,288	\$ 52,313
2005	5,804	48,286
2006	8,101	67,396
2007	811	6,747
2008	12,217	101,639
2009	2,900	24,127
Total	¥36,121	\$300,508

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 42% for the years ended March 31, 2003 and 2002.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Current assets:			
Accrued bonuses	¥ 3,504	¥ 3,045	\$29,151
Tax loss carry forwards	2,572		21,398
Inventory valuation	1,287	562	10,707
Allowance for maintenance service	398	501	3,311
Accrued business tax	165	484	1,373
Accrued expense of special retirement expense		6,959	
Others	453	1,076	3,769
Total	¥ 8,379	¥12,627	\$69,709
Non-current assets:			
Depreciation expenses	¥ 8,365	¥ 7,927	\$69,593
Tax loss carry forwards	3,885		32,321
Amortization expenses of deferred assets	1,653	3,493	13,752
Liability for retirement benefits	1,569	5,957	13,053
Others	1,187	1,115	9,875
Total	16,659	18,492	138,594
Less valuation allowance	(124)	(121)	(1,032)
Total	¥16,535	¥18,371	\$137,562
Deferred tax liabilities:			
Reserve for special taxation measures law in Japan	(3,469)	(3,506)	(28,860)
Others	(964)	(1,375)	(8,020)
Total	(4,433)	(4,881)	(36,880)
Net deferred tax assets	¥12,102	¥13,490	\$100,682

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2003 and 2002, is as follows:

	2003	2002
Normal effective statutory tax rate	42%	42%
Expenses not deductible for income tax purposes	2	(3)
Amount of per-capita local tax	0	(1)
Effect of tax rate change	1	
Other – net	(0)	0
Actual effective tax rate	45%	38%

On March 31, 2003, a tax reform law was enacted in Japan, which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The effect of this change on deferred taxes in the consolidated statements of operations for the year ended March 31, 2003 was an increase of approximately ¥97 million (\$807 thousand).

At March 31, 2003 the Company and certain consolidated subsidiaries have tax loss carry forwards aggregating approximately ¥15,340 million (\$127,621 thousand) which are available to be offset against taxable income in future years. These tax loss carry forwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 110	\$ 915
2008	15,230	126,706
Total	<u>¥15,340</u>	<u>\$127,621</u>

8. Retirement benefits

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

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

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on November 1, 2002. As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥7,798 million (\$64,875 thousand) in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥41,303 million (\$343,619 thousand) as at March 31, 2003.

The liability for retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥119,556	¥184,232	\$994,642
Fair value of plan assets	(48,948)	(97,768)	(407,221)
Unrecognized transitional obligation	(16,813)	(32,840)	(139,875)
Unrecognized prior service cost	(21)	3,972	(175)
Unrecognized actuarial loss	(50,372)	(43,360)	(419,068)
Net liability	¥ 3,402	¥ 14,236	\$ 28,303

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost	¥ 4,451	¥ 6,817	\$ 37,030
Interest cost	3,262	5,485	27,138
Expected return on plan assets	(2,577)	(4,485)	(21,439)
Amortization of transitional obligation	2,709	4,125	22,537
Amortization of prior service cost	(63)	(203)	(524)
Recognized actuarial loss	3,032	2,392	25,225
Gain on exemption from future pension obligation of the governmental program	(7,798)		(64,875)
Net periodic benefit costs	¥ 3,016	¥14,131	\$ 25,092

Assumptions used for the years ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	2.5%	2.75%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	10 years	10 years

The liability for retirement benefits at March 31, 2003 and 2002 included the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Allowance for the NCSP	¥ 486	¥ 740	\$ 4,043
Current portion	(199)	(271)	(1,655)
Net periodic benefit costs	287	469	2,388
Allowance for directors' and corporate auditors' retirement benefits	381	360	3,169
Total	¥ 668	¥ 829	\$ 5,557

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, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Allowance for directors and corporate auditors	¥148	¥ 148	\$1,231
One-time payments to employees participating in the NCSP	512	1,085	4,260
Allowance for the NCSP		209	
Total	¥660	¥1,442	\$5,491

9. Research and development costs

Research and development costs charged to income were ¥6,610 million (\$54,992 thousand) and ¥6,429 million for the years ended March 31, 2003 and 2002, respectively.

10. Leases

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

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥9,685 million (\$80,574 thousand) and ¥9,511 million, respectively, including ¥689 million (\$5,732 thousand) and ¥441 million of lease payments under finance leases agreements that do not transfer ownership of the leased property to the lessee.

Income from equipment leases for the years ended March 31, 2003 and 2002 were ¥164 million (\$1,364 thousand) and ¥211 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002, was as follows:

[For Lessee]

	Millions of Yen					
	2003			2002		
	Machinery and Equipment	Software	Total	Machinery and Equipment	Software	Total
Acquisition cost	¥1,570	¥4,873	¥6,443	¥281	¥2,700	¥2,981
Accumulated depreciation	252	815	1,067	148	332	480
Net leased property	¥1,318	¥4,058	¥5,376	¥133	¥2,368	¥2,501

	Thousands of U.S. Dollars		
	2003		
	Machinery and Equipment	Software	Total
Acquisition cost	\$13,062	\$40,540	\$53,602
Accumulated depreciation	2,097	6,780	8,877
Net leased property	\$10,965	\$33,760	\$44,725

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥1,207	¥ 502	\$10,042
Due after one year	4,218	1,999	35,091
Total	¥5,425	¥2,501	\$45,133

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion for the year ended March 31, 2002.

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation expense	¥648	¥441	\$5,391
Interest expense	65		541
Total	¥713	¥441	\$5,932

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

[For Lessor]

	Millions of Yen
	2002
Machinery and equipment	
Acquisition cost	¥1,410
Accumulated depreciation	1,067
Net leased property	¥ 343

Receivables under finance leases:

	Millions of Yen
	2002
Due within one year	¥ 157
Due after one year	210
Total	¥ 367

The amount of receivables under finance leases includes the imputed interest income portion.

Depreciation expense, which is reflected in the accompanying consolidated statements of operations, computed by the straight-line method was ¥139 million (\$1,156 thousand) and ¥184 million for the years ended March 31, 2003 and 2002, respectively.

11. Commitments and contingent liabilities

Contingent liabilities at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans to employees for housing	¥5,711	\$47,512

12. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

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

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥60,576 million (\$503,960 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

13. Derivatives

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies. The Company also enters into interest rate swap contracts to manage its interest rate exposures on short-term debt.

Subsidiaries do not enter into derivative transactions.

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

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

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

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

14. Related party transactions

Transactions with Unisys Corporation and Mitsui & Co., Ltd., major shareholders of the Company, for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Sales:			
Unisys Corporation	¥ 400	¥ 742	\$ 3,328
Mitsui & Co., Ltd.	807	1,817	6,714
Total	¥ 1,207	¥ 2,559	\$ 10,042
Purchases:			
Unisys Corporation	¥17,683	¥16,995	\$147,113
Mitsui & Co., Ltd.	14,615	14,854	121,589
Total	¥32,298	¥31,849	\$268,702

Transaction balances due to or from Unisys Corporation and Mitsui & Co., Ltd. at March 31, 2003 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Accounts receivable-trade:			
Unisys Corporation	¥ 46	¥ 187	\$ 383
Mitsui & Co., Ltd.	266	432	2,213
Total	¥ 312	¥ 619	\$ 2,596
Accounts payable-trade:			
Unisys Corporation	¥2,434	¥2,352	\$20,250
Mitsui & Co., Ltd.	6,286	6,752	52,296
Total	¥8,720	¥9,104	\$72,546
Long-term accounts payable- Mitsui & Co., Ltd	¥1,631	¥2,413	\$13,569

15. Subsequent events

At the general shareholders' meeting held on June 26, 2003, the Company's shareholders approved the following appropriations of retained earnings, stock option plan for the Company's directors and key employees and the purchase of treasury stock:

(a) Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3.75 (\$0.03) per share	¥411	\$3,419
Bonuses to directors	¥ 50	\$416

(b) **Stock option plan** - The plan provides for granting options to the Group's directors, executors and key employees to purchase up to 750,000 shares of the Company's common stock in the period from July 1, 2005 to June 30, 2010. The exercise price will be determined by the average closing price of the per share value of the Company's common stock for the month prior to the month in which the options are issued and the closing price for the day in which the options are issued.

(c) **Purchase of treasury stock** - The Company is authorized to repurchase up to 2,500 thousand shares of the Company's common stock (aggregate amount of ¥2,000 million) as treasury stock until the next general shareholders meeting.

Tohatsu & Co.

MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530, Japan

Tel :+81 -3-3457-7321
Fax :+81 -3-3457-1694
www.tohatsu.co.jp

**Deloitte
Touche
Tohatsu**

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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices 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 Tohatsu

June 26, 2003

Corporate Data

(as of March 31, 2003)

Name	Nihon Unisys, Ltd.
Head Office	1-1, Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan (Registered Head Office* 17-51, Akasaka 2-chome, Minato-ku, Tokyo 107-0052, Japan)
Established	March 29, 1958
Capital	¥5,483 million
Business Activities	1. Sales and rentals of computer systems 2. Sales and production of software 3. Various system-related services 4. Telecommunication business, information processing services and database services 5. Contracts, planning, executions and controls of constructions for building and installation of systems above, etc.

Common Stock

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

Shareholders

Number of Shareholders:	14,150
Principal Shareholders:	

Name	Number of shares held	
	(thousands)	(%)
Mitsui & Co., Ltd.	30,524	27.84
Unisys Corporation	30,524	27.84
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,415	4.94
Japan Trustee Services Bank, Ltd. (Trust Account)	4,025	3.67
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account. Mitsubishi Electric Corporation Account)	1,852	1.69
Nihon Unisys Employees' Shareholding Society	1,808	1.65
UFJ Trust Bank Limited (Trust Account "A")	1,570	1.43
Asset Management Service Trust Bank (Pension Trust)	1,314	1.20
Pension Trust Fiduciary, Mitsui Asset Trust Bank (Account "3")	1,064	0.97
Pension Trust Fiduciary, Mitsui Asset Trust Bank (Account "2")	679	0.62

Employees	8,587 (Consolidated basis) 4,496 (Non-consolidated basis)
------------------	--

* Registered head office is to be changed to 1-1, Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan on August 1, 2003.

Consolidated Subsidiaries

Company name	Principal business	Capital (¥ millions)	Equity held by Nihon Unisys (%)
Nihon Unisys Supply, Ltd.	Sales of computer supplies	315	85.0
UNIADEX, Ltd.	Providing of network design, construction, and computer maintenance services	200	100.0
Nihon Unisys Software Kaisha, Ltd.	Providing of software development	300	100.0
Nihon Unisys Information Systems, Ltd.	Providing of outsourcing and network services	150	100.0
Nihon Unisys Excelutions, Ltd.	Providing of software development	100	100.0
O.S. Engineering Co., Ltd.	Manufacturing, installation and adjustment of computer peripherals, etc.	50	100.0
A-tas, Ltd.	Providing of outsourcing services	50	50.2
TRADE Vision, Ltd.	Providing of outsourcing services	200	67.0
Nihon Unisys Business, Ltd.	Management of facilities	20	100.0
Hokkaido Soft Engineering Co., Ltd.	Providing of software development	30	45.0
Tohoku Soft Engineering Co., Ltd.	Providing of software development	50	49.0
Chubu Soft Engineering Co., Ltd.	Providing of software development	50	49.0
Kansai Soft Engineering Co., Ltd.	Providing of software development	50	47.0
Hiroshima Soft Engineering Co., Ltd.	Providing of software development	50	75.0
Kyushu Soft Engineering Co., Ltd.	Providing of software development	50	45.0
International Systems Development Co., Ltd.	Providing of software development	40	42.5

Selected Products & Services

Enterprise Servers

ClearPath Plus Server Series
HMP LX Series, etc.

Open Products

UNIX Servers, Workstations
Enterprise Windows® Server, ES Series, rE Series
Solution Server RX-7000 Series, etc.

Peripherals

Storage Systems
Japanese-Language Printers
Network Products
Document Systems
Terminals for Various Industries, etc.

Software

Basic Software
Database Software
Network Software
Solution for Various Industries
EC-Related Software
CRM Solution
ERP Solution
Various Open Software, etc.

Services

Consultation Services
System Engineering Services
Maintenance/Support Services
Outsourcing Services
Application Service Provider "asaban.com"
MSP (Management Service Provider) Services
Education/Training Services
Network Integration Services
Integrated Security Services
Facilities-Related Services, etc.

Unisys Enterprise Server
ES7000 Series



Nihon Unisys, Ltd.

1-1, Toyosu 1-chome, Koto-ku, Tokyo 135-8560, Japan

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



Printed in Japan on recycled paper

All rights Reserved, ©2003 Nihon Unisys, Ltd.