

## Financial Report for the Six-Month Period Ended September 30, 2003 (Consolidated)

## Nihon Unisys, Ltd.

--Listing: Tokyo Stock Exchange First Section, Code 8056 (URL <http://www.unisys.co.jp>)

--Representative: Seiichi Shimada, President &amp; CEO

--Date of the Meeting of the Board of Directors to Settle Interim Accounts: October 31, 2003

--Adoption of the U.S. GAAP: None

## 1. Business Results for Interim Period of FY2004 (From April 1, 2003 to September 30, 2003)

## (1) Results of Operations

|                         | Net Sales       | Change | Operating Income | Change | Recurring Profit | Change |
|-------------------------|-----------------|--------|------------------|--------|------------------|--------|
|                         | millions of yen | %      | millions of yen  | %      | millions of yen  | %      |
| Current Interim Period  | 136,720         | (0.2)  | 1,141            | (61.6) | 2,111            | (33.2) |
| Previous Interim Period | 136,941         | 1.4    | 2,970            | -      | 3,158            | -      |
| Previous Fiscal Year    | 308,838         |        | 8,835            |        | 9,014            |        |

|                         | Net Income      | Change | Earnings per Share | Diluted Earnings per Share |
|-------------------------|-----------------|--------|--------------------|----------------------------|
|                         | millions of yen | %      | yen                | yen                        |
| Current Interim Period  | 718             | (88.2) | 6.58               | -                          |
| Previous Interim Period | 6,079           | -      | 55.44              | -                          |
| Previous Fiscal Year    | 8,346           |        | 75.46              | -                          |

Notes) 1. Equity in net income (loss) of subsidiaries and affiliates

Current interim period: - millions of yen

Previous interim period: - millions of yen

Previous fiscal year: - millions of yen

2. Average number of shares outstanding (consolidated)

Current interim period: 109,229,522 shares

Previous interim period: 109,662,690 shares

Previous fiscal year: 109,661,829 shares

3. Change in accounting policies: None

4. Percentages above represent increase/decrease over preceding interim period.

## (2) Financial Standings

|                         | Total Assets    | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity per Share |
|-------------------------|-----------------|----------------------|----------------------------|--------------------------------|
|                         | millions of yen | millions of yen      | %                          | yen                            |
| Current Interim Period  | 201,109         | 91,836               | 45.7                       | 850.41                         |
| Previous Interim Period | 212,194         | 90,572               | 42.7                       | 825.92                         |
| Previous Fiscal Year    | 223,292         | 92,063               | 41.2                       | 838.88                         |

Note) Number of shares outstanding (consolidated)

September 30, 2003: 107,991,796 shares

September 30, 2002: 109,662,370 shares

March 31, 2003: 109,659,996 shares

## (3) Cash Flows

|                         | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents, End of Period |
|-------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|                         | millions of yen                      | millions of yen                      | millions of yen                      | millions of yen                          |
| Current Interim Period  | 14,047                               | (5,837)                              | (10,147)                             | 25,976                                   |
| Previous Interim Period | 13,030                               | (12,857)                             | (10,786)                             | 29,305                                   |
| Previous Fiscal Year    | 20,291                               | (24,887)                             | (7,491)                              | 27,831                                   |

## (4) Matters concerning the scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 17

Number of non-consolidated subsidiaries accounted for under the equity method: 0

Number of affiliates accounted for under the equity method: 0

## (5) Changes in the scope of consolidation and application of the equity method

Consolidation: Increase 1 Decrease 0

Equity method: Increase 0 Decrease 0

## 2. Earnings Forecast for FY2004 (from April 1, 2003 to March 31, 2004)

|           | Net Sales       | Recurring Profit | Net Income      |
|-----------|-----------------|------------------|-----------------|
|           | millions of yen | millions of yen  | millions of yen |
| Full-Year | 324,000         | 9,800            | 4,900           |

Reference) Expected net income per share (full-year basis): 44.71 yen

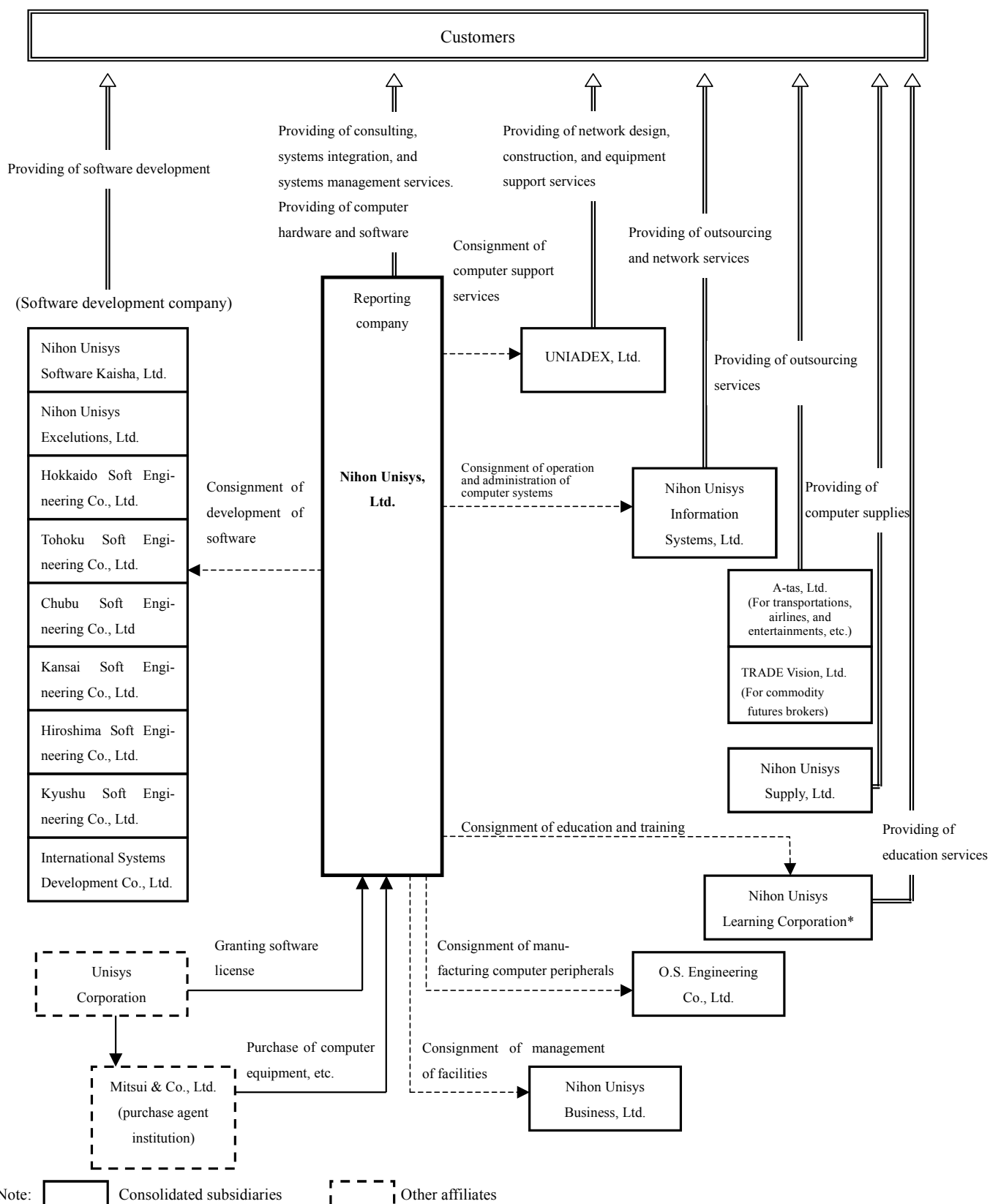
Notes) 1. All amounts less than one million yen are rounded down.

2. The above forecast relies on judgments and assumptions based on information available at present, and is subject to changes in risks, uncertainties, economy, and other factors that could cause actual results to be materially different from expectations. For the prerequisite for the forecast, please see page 6.

\*This financial report is solely a translation of Japanese "Chukan Kessan Tanshin," including attachments, for the convenience of readers who prefer English translation.

# 1. State of the Corporate Group

The following is a chart in which the state of the corporate group is shown by business activity:



\* Nihon Unisys Learning Corporation has been newly consolidated from FY2004 because of its increased significance.

## 2. Management Policy

### (1) Management policy, strategy and target

Under the new management policy, “Re-Enterprising,” Nihon Unisys Group has been striving to be “a leading IT service company” as a customer-value-creating company that helps customers execute business strategies efficiently, effectively and quickly.

This fiscal year is the final year of “Re-Enterprising” that was launched in November 2001. We are focusing and polishing the following three capabilities under the “Re-Enterprising2003.”

- (a) Capability to make proposals to help customers resolve management issues
- (b) Capability of system development
- (c) Capability of system operation & support

As for the first one (a), we formed a division called “Business Development Center” which undertakes the business areas of management/IT consulting, planning, marketing and global business development. We have collected both internal and external resources so as to improve our skills of making proposals on how to make best use of IT in business operation while resolving issues that customers have. Also, we realigned business units by size and industry to enhance our communication capability with customers as well as our domain knowledge. Each team of business unit and Business Development Center are working together to maximize values creation for customers.

Regarding the second one (b), we transferred and consolidated system service functions at Nihon Unisys Software Kaisha and local software houses of Nihon Unisys Group in order to improve system development capability and productivity. To this end, about 1,000 system engineers were seconded to Nihon Unisys Software Kaisha in July 2003.

In order to enhance support functions of hardware and software in the third capability (c), we transferred and consolidated relevant functions at UNIADDEX so as to reinforce ROI-improving supportability in operation and maintenance phases. To this end, some 400 support engineers were seconded to UNIADDEX in July 2003.

The major objective of “Re-Enterprising” is to be a leading IT service company by interlinking each dedicated service organization in each responsible area and maximizing the synergy of Nihon Unisys Group. The target of operating income this fiscal year, ending March 2004, is ¥9,000 million on a consolidated basis.

(2) Profit sharing policy

Our basic policy regarding profit sharing is to return profit without intermittence by reducing cost and reinforcing financial structure while developing/marketing competitive products and services while making strategic investments, grasping needs of the market.

(3) Concept and actions regarding corporate governance

With regard to corporate governance, as a part of refurbishment of management structure, we have been promoting separation of management and business execution introducing corporate officer system in July 2001. Also, we increased an outside corporate auditor last year. We are facilitating compliance formation as Nihon Unisys Group so as to enhance corporate governance.

In addition, early this year, to reinforce overall power of Nihon Unisys Group, we installed Group Strategy Meeting and Group Top Management Meeting under Nihon Unisys' Executive Council.

Besides, we acquired 100% equity of 6 local software houses in July so as to improve group's total power.

In the meantime, in order to execute compliance without fail, we started compliance training program on the web in August and September, which was mandate for all employees of Nihon Unisys Group.

(4) Relations with related parties

Nihon Unisys, Ltd., a joint venture established by Mitsui & Co., Ltd. and Unisys Corporation, is marketing and selling Unisys products in the Japanese market. We have been collaborating with Unisys Corporation through various projects and programs both in software and hardware development and also in marketing areas. Such products are imported via Mitsui & Co., Ltd. The three companies are in the very close relations.

(5) Challenges the company faces

The overriding challenge every company faces today is how to deploy core businesses efficiently under the rapidly changing environments. IT is indispensable to succeed in such challenge. Although the competition in the IT industry is quite tough, Nihon Unisys Group has committed itself to making utmost efforts in acquiring new technologies and creating services while aiming to provide high quality and seamless services from consultation, system development, operation support and outsourcing so as to help customers resolve their issues from the viewpoint of IT.

We continue investing in the growth areas to get our management structure stronger while making efforts to improve cost structure of Nihon Unisys Group.

Aiming to be a leading IT service company and the best IT partner for customers, we will maximize the group synergy through organized and efficient collaboration among group companies not to mention business units so as to eventually grow our business, earnings and profit.

### 3. Results of Operations and Financial State

#### 1. Results of Operations

##### (1) Overview of the six months ended September 30, 2003

There were some bright signs of recovery of the Japanese economy like active stock market, rise in capital expenditures, decrease of bankruptcy, and so on. However, concerns about deflation, yen appreciation, etc. are not eliminated yet. The movement towards recovery is yet to be stable.

As for IT spending by companies, the demands for PC and servers are on the increase but those for information processing services, system integration and application software are on the decrease. Overall, tough conditions are continuing.

However, the basic trend of economy seems to be on the growth side from a long-term viewpoint. “e-Japan II Plan” is in full-scale deployment phase. Broadband is rapidly proliferating. Some specific movements are sprouting up to materialize ubiquitous networking.

Under such circumstances, Nihon Unisys declared “Re-Enterprising2003” which was mentioned before and conducted aggressive business activities leveraging high customer satisfaction in the industry as our strength.

In the rapidly growing outsourcing business area, we have won new accounts in such industries like financial, manufacturing, distribution and services. Meanwhile, we are focusing new business models of outsourcing business such as “BPO (Business Process Outsourcing),” “AMO (Application Management Outsourcing)” and “High Security Services.”

Consulting business and access to new accounts are increasing through reinforced formation in upstream consulting area.

We have hired strong resources from consulting firms as well as training and fostering internal resources implementing “Trusted Advisor Certification Program” and “Consultant Training Program.”

As a new business model, we have established alliances with Yahoo Japan Corporation and DreamArts Corporation in “Enterprise Information Portal (EIP)” business area.

We have acquired No. 1 recognition as system integrator of “Microsoft®.NET” which is of great use in acquiring users of our solution framework “Bizaction® for .NET,” development methodology, “LUCINA® for .NET” and IT consulting service tool, “LUCINA.”

Jointly with Japan Airlines Company, Ltd. we have started experiment of wireless IC tag (RFID) in its air cargo system. Challenges to materialize the ubiquitous society are on the way including e-ticketing,

telematics, etc.

In the meantime, our platform products were reinforced, for instance, 64-bit processor models were added to ES7000 series, which are gaining a solid confidence of the market as a strong Windows<sup>®</sup> server that can undertake transactions in the mission critical area of banking business.

In parallel with those business activities, we are certified “ISO14001,” “CMMI Level 3 (certification for maturity level of software development)” and “ISMS (Information Security Management System)” We have the largest population in terms of PMCC/PMS holders (certification for project managers) in the industry. We have been continuing every effort in gaining confidence of customers as a reliable business partner.

With regard to our consolidated financial results, there were some bright signs such as upturn of the stock market and recovery in IT spending, which, however, were yet to directly contribute to sales growth of the company’s 1st half revenue. Although services revenue such as system services and outsourcing grew on a steady basis, sales of hardware and software did not grow as expected. As a result, net sales declined 0.2% from a year ago to ¥136,720Million.

As for profitability, despite of contribution by high-margin software sales, increase of net periodic benefit costs, personnel expense to strengthen our proposal-making capability and R&D expense made operating income decline to ¥1,141M, down 61.6% from a year ago. Meanwhile, although there were gains from sales of investment securities through acceleration of dissolvment of cross-holding stocks, etc., both recurring profit and net income decreased to ¥2,111M (down 33.2%) and ¥718M (down 88.2%) respectively. In the corresponding term of last year, there was ¥7,798M of extraordinary gain as a result of exemption from future pension obligation of the governmental program.

Net sales being broken down, sales of services business increased slightly to ¥79,272M (up 2.0% from a year ago) while those of software and hardware decreased to ¥22,166M (down 1.4%) and ¥35,282M (down 4.1%) respectively. In other words, services business accounted for 58.0% (56.7% a year ago) of the net sales while software and hardware marked 16.2% (16.4%) and 25.8% (26.9%) respectively.

Considering our full-year forecast and stable return to shareholders, we have determined to pay ¥3.75 per share as interim dividend, the same amount paid a year ago.

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

## (2) Outlook for the year ending March 31, 2004

The second half market environments are still uncertain, however, recovery of IT spending is expected being supported by positive signs of the Japanese economy. Continued growth of service business is expected. Net sales will be up some 5% from a year ago as planned initially.

Although cost increase is projected in the second half in such area as services business and reinforcement of sales power, operating income will show a slight increase from a year ago and recurring profit will grow some 9% from a year ago to ¥9,800M as a result of sales of investment securities, etc.

The extraordinary gain from sales of our property (ex-Akasaka headquarters building) in the second half is to be offset with the necessary cost to reform the corporate pension system, etc., which is under study now. As a result, net income will be ¥4,900M as planned initially.

## 2. Financial State

As for cash and cash equivalents, the cash demand for investing activities like purchase of sales-purpose computers, etc. was generated through operating activities. The surplus is used to reduce interest-bearing debts, etc. As a result, the total amount decreased by ¥1,937M from a year ago. Adding the cash equivalent of a newly consolidated subsidiary, the closing balance became ¥25,976M.

The company generated ¥14,047M of cash (up ¥1,016M from a year ago) from operating activities. The first half net income before income taxes and minority interests was ¥2,121M (down ¥8,777M from a year ago). Depreciation and amortization expense decreased to ¥9,621M, down ¥850M and so was accounts receivable-trade.

The net cash used in investing activities was ¥5,837M (down ¥7,019M from a year ago). The major payments were for property and equipment like computers (¥5,330M, down ¥4,227M) and intangible fixed assets like software or outsourcing business (¥4,109M, up ¥532M). The major items of income were proceeds from sales of intangible fixed assets (¥2,009M, up ¥2,009M) and investment securities (¥1,402M, up ¥1,076M).

The net cash used in financing activities was ¥10,147M (down ¥639M from a year ago) due to net decrease in short-term borrowings (¥1,781M, down ¥1,421M) and purchases of treasury stocks (¥1,251M).

|  | Six months ended<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|--|---|---|
| Shareholders' equity ratio (%)                 | 45.7                                      | 42.7                                      |
| Shareholders' equity ratio at market value (%) | 46.1                                      | 46.5                                      |
| Debt repayment period (years)                  | 1.6                                       | 2.0                                       |
| Interest coverage ratio                        | 44.3                                      | 25.0                                      |

Notes) Shareholders' equity ratio: shareholders' equity/total assets

Shareholders' equity ratio at market value: market value of common shares/total assets

Debt repayment period (years): interest-bearing debts/cash flows from operating activities

Interest coverage ratio: cash flows from operating activities/interest expense

\* The above ratios are calculated on a consolidated basis.

## 4. Consolidated Financial Statements

**CONSOLIDATED STATEMENTS OF INCOME**

|   | Six months<br>ended<br>September 30,<br>2003 | Six months<br>ended<br>September 30,<br>2002 | Year<br>ended<br>March 31,<br>2003 |
|---|--|--|------------------------------------|
|   | Millions of yen                              | Millions of yen                              | Millions of yen                    |
| Net sales   | 136,720                                      | 136,941                                      | 308,838                            |
| Cost of sales   | 100,037                                      | 100,220                                      | 230,165                            |
| Gross profit  | 36,683                                       | 36,720                                       | 78,673                             |
| Selling, general and administrative expenses                                    | 35,541                                       | 33,750                                       | 69,837                             |
| Operating income  | 1,141  | 2,970  | 8,835                              |
| Non-operating income  |  |  |                                    |
| Interest and dividend income  | 91   | 94   | 156                                |
| Gain on sales of listed securities  | 707  | 23   | 10                                 |
| Other   | 524  | 615  | 1,067                              |
| Non-operating expenses  |  |  |                                    |
| Interest expense  | 304  | 504  | 883                                |
| Other   | 49   | 40   | 172                                |
| Recurring profit  | 2,111  | 3,158  | 9,014                              |
| Extraordinary gains   |  |  |                                    |
| Gain on exemption from future pension obligation<br>of the governmental program | -  | 7,798  | 7,798                              |
| Reversal of allowance for doubtful accounts                                     | -  | 54   | -                                  |
| Other   | 48   | 4  | 11                                 |
| Extraordinary losses  |  |  |                                    |
| Loss on devaluation of investment securities                                    | 10   | 70   | 1,065                              |
| Other   | 27   | 46   | 118                                |
| Income before income taxes and minority interests                               | 2,121  | 10,899                                       | 15,640                             |
| Income taxes-current  | 1,249  | 397  | 1,096                              |
| Income taxes-deferred   | 79   | 4,339  | 5,982                              |
| Minority interests in net income  | 73   | 82   | 215                                |
| Net income  | 718  | 6,079  | 8,346                              |

**CONSOLIDATED BALANCE SHEETS**

|  | September 30,<br>2003 | September 30,<br>2002 | March 31,<br>2003 |
|--|-----------------------|-----------------------|-------------------|
|  | Millions of yen       | Millions of yen       | Millions of yen   |
| <b>(ASSETS)</b>                                |                       |                       |                   |
| <b>Current assets</b>                          |                       |                       |                   |
| Cash and time deposits                         | 26,021                | 29,350                | 27,878            |
| Notes receivable and accounts receivable-trade | 55,767                | 54,796                | 79,208            |
| Inventories                                    | 20,265                | 24,440                | 15,617            |
| Deferred tax assets                            | 7,568                 | 13,228                | 8,379             |
| Other  | 8,760                 | 5,416                 | 8,369             |
| Allowance for doubtful accounts                | (100)                 | (67)                  | (96)              |
| <b>Total current assets</b>                    | <b>118,283</b>        | <b>127,164</b>        | <b>139,356</b>    |
| <b>Fixed assets</b>                            |                       |                       |                   |
| <b>Property and equipment</b>                  |                       |                       |                   |
| Machinery, equipment and vehicles              | 24,436                | 27,821                | 26,538            |
| Other  | 10,572                | 11,493                | 11,238            |
| <b>Total property and equipment</b>            | <b>35,008</b>         | <b>39,314</b>         | <b>37,776</b>     |
| <b>Intangible fixed assets</b>                 |                       |                       |                   |
| Software                                       | 13,136                | 13,786                | 12,433            |
| Other  | 509                   | 387                   | 353               |
| <b>Total intangible fixed assets</b>           | <b>13,646</b>         | <b>14,174</b>         | <b>12,786</b>     |
| <b>Investments and other assets</b>            |                       |                       |                   |
| Investment securities                          | 8,103                 | 9,135                 | 7,419             |
| Deferred tax assets                            | 12,300                | 8,631                 | 12,102            |
| Lease deposits                                 | 12,346                | 12,374                | 12,449            |
| Other  | 2,095                 | 2,096                 | 2,096             |
| Allowance for doubtful accounts                | (675)                 | (697)                 | (694)             |
| <b>Total investments and other assets</b>      | <b>34,170</b>         | <b>31,541</b>         | <b>33,372</b>     |
| <b>Total fixed assets</b>                      | <b>82,825</b>         | <b>85,030</b>         | <b>83,936</b>     |
| <b>Total assets</b>                            | <b>201,109</b>        | <b>212,194</b>        | <b>223,292</b>    |

|   | September 30,<br>2003 | September 30,<br>2002 | March 31,<br>2003 |
|---|-----------------------|-----------------------|-------------------|
|   | Millions of yen       | Millions of yen       | Millions of yen   |
| <b>( LIABILITIES )</b>  |                       |                       |                   |
| <b>Current liabilities</b>  |                       |                       |                   |
| Notes payable and accounts payable-trade                              | 29,239                | 31,612                | 40,460            |
| Short-term borrowings   | 4,770                 | 9,809                 | 6,551             |
| Current portion of long-term loans payable                            | 6,354                 | 9,317                 | 6,094             |
| Income taxes payable  | 1,318                 | 442                   | 654               |
| Accrued expenses  | 13,309                | 12,370                | 12,527            |
| Allowances  | 1,107                 | 1,162                 | 1,144             |
| Other   | 16,518                | 18,717                | 23,830            |
| <b>Total current liabilities</b>                                      | <b>72,617</b>         | <b>83,433</b>         | <b>91,261</b>     |
| <b>Long-term liabilities</b>  |                       |                       |                   |
| Bonds   | 8,000                 | -                     | 8,000             |
| Long-term loans payable   | 20,923                | 24,457                | 21,000            |
| Allowance for retirement and severance benefits                       | 2,077                 | 5,352                 | 3,402             |
| Other allowances  | 554                   | 803                   | 667               |
| Other   | 4,448                 | 6,028                 | 5,213             |
| <b>Total long-term liabilities</b>                                    | <b>36,004</b>         | <b>36,642</b>         | <b>38,283</b>     |
| <b>Total liabilities</b>  | <b>108,621</b>        | <b>120,075</b>        | <b>129,544</b>    |
| <b>Minority interests</b>   | <b>650</b>            | <b>1,546</b>          | <b>1,683</b>      |
| <b>( SHAREHOLDERS' EQUITY )</b>                                       |                       |                       |                   |
| Common stock  | 5,483                 | 5,483                 | 5,483             |
| Capital surplus   | 15,281                | 15,281                | 15,281            |
| Retained earnings   | 70,744                | 68,630                | 70,486            |
| Net unrealized gain on securities                                     | 1,581                 | 1,177                 | 814               |
| Treasury stock  | (1,254)               | (0)                   | (2)               |
| <b>Total shareholders' equity</b>                                     | <b>91,836</b>         | <b>90,572</b>         | <b>92,063</b>     |
| <b>Total liabilities, minority interests and shareholders' equity</b> | <b>201,109</b>        | <b>212,194</b>        | <b>223,292</b>    |

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

|   | Six months<br>ended<br>September 30,<br>2003 | Six months<br>ended<br>September 30,<br>2002 | Year<br>ended<br>March 31,<br>2003 |
|---|--|--|------------------------------------|
|   | Millions of yen                              | Millions of yen                              | Millions of yen                    |
| (Capital surplus)                               |  |  |                                    |
| Capital surplus at beginning of period          | 15,281                                       | 15,281                                       | 15,281                             |
| Capital surplus at end of period                | 15,281                                       | 15,281                                       | 15,281                             |
| (Retained earnings)                             |  |  |                                    |
| Retained earnings at beginning of period        | 70,486                                       | 63,006                                       | 63,006                             |
| Increase in retained earnings                   | 741  | 6,079  | 8,346                              |
| Net income                                      | 718  | 6,079  | 8,346                              |
| Increase due to newly consolidated subsidiaries | 23   | -  | -                                  |
| Decrease in retained earnings                   | 483  | 455  | 866                                |
| Cash dividends                                  | 411  | 411  | 822                                |
| Bonuses to directors                            | 72   | 24   | 24                                 |
| Decrease due to newly consolidated subsidiaries | -  | 19   | 19                                 |
| Retained earnings at end of period              | 70,744                                       | 68,630                                       | 70,486                             |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | Six months<br>ended<br>September 30,<br>2003 | Six months<br>ended<br>September 30,<br>2002 | Year<br>ended<br>March 31,<br>2003 |
|--|--|--|------------------------------------|
|  | Millions of yen                              | Millions of yen                              | Millions of yen                    |
| Cash flows from operating activities                         |  |  |                                    |
| Income before income taxes and minority interests            | 2,121  | 10,899                                       | 15,640                             |
| Depreciation and amortization                                | 9,621  | 10,471                                       | 21,232                             |
| Gain on sales of investment securities                       | (755)  | (27)   | (20)                               |
| Decrease in allowances                                       | (1,490)                                      | (9,299)                                      | (11,380)                           |
| Decrease in accounts receivable-trade                        | 23,766                                       | 30,588                                       | 6,176                              |
| (Increase) decrease in inventories                           | (4,637)                                      | (2,431)                                      | 6,391                              |
| Decrease in accounts payable-trade                           | (11,202)                                     | (9,487)                                      | (656)                              |
| Other-net  | (2,523)                                      | 2,704  | 4,116                              |
| Subtotal   | 14,900                                       | 33,417                                       | 41,501                             |
| Interest and dividend received                               | 91   | 59   | 121                                |
| Interest paid  | (317)  | (521)  | (919)                              |
| Special retirement expense paid                              | -  | (16,530)                                     | (16,530)                           |
| Income taxes paid  | (627)  | (3,393)                                      | (3,880)                            |
| Net cash provided by operating activities                    | 14,047                                       | 13,030                                       | 20,291                             |
| Cash flows from investing activities                         |  |  |                                    |
| Purchases of property and equipment                          | (5,330)                                      | (9,558)                                      | (17,232)                           |
| Proceeds from sales of property and equipment                | 500  | 123  | 196                                |
| Purchases of intangible fixed assets                         | (4,109)                                      | (3,577)                                      | (8,129)                            |
| Proceeds from sales of intangible fixed assets               | 2,009  | -  | -                                  |
| Purchases of investment securities                           | (319)  | (210)  | (240)                              |
| Proceeds from sales of investment securities                 | 1,402  | 325  | 448                                |
| Other-net  | 9  | 40   | 70                                 |
| Net cash used in investing activities                        | (5,837)                                      | (12,857)                                     | (24,887)                           |
| Cash flows from financing activities                         |  |  |                                    |
| Net decrease in short-term borrowings                        | (1,781)                                      | (360)  | (3,618)                            |
| Proceeds from long-term loans payable                        | 1,600  | 200  | 1,420                              |
| Repayments of long-term loans payable                        | (1,417)                                      | (309)  | (8,209)                            |
| Redemption of bonds  | -  | (10,000)                                     | (10,000)                           |
| Proceeds from issuance of bonds                              | -  | -  | 8,000                              |
| Purchases of treasury stock                                  | (1,251)                                      | (0)  | (2)                                |
| Cash dividends paid  | (411)  | (411)  | (822)                              |
| Other-net  | (6,886)                                      | 94   | 5,741                              |
| Net cash used in financing activities                        | (10,147)                                     | (10,786)                                     | (7,491)                            |
| Net decrease in cash and cash equivalents                    | (1,937)                                      | (10,613)                                     | (12,087)                           |
| Cash and cash equivalents, beginning of period               | 27,831                                       | 39,853                                       | 39,853                             |
| Cash and cash equivalents of newly consolidated subsidiaries | 83   | 64   | 64                                 |
| Cash and cash equivalents, end of period                     | 25,976                                       | 29,305                                       | 27,831                             |

## **Summary of Significant Accounting Policies**

### 1. Scope of consolidation

(1) The consolidated financial statements for the six months ended September 30, 2003 include the accounts of Nihon Unisys, Ltd. (the "Company") and its 17 consolidated subsidiaries (together, the "Group"). Some of the most significant subsidiaries are as follows.

Nihon Unisys Supply, Ltd.  
 UNIADDEX, Ltd.  
 Nihon Unisys Software Kaisha, Ltd.

Nihon Unisys Learning Corporation has been newly consolidated from this period due to its increased significance.

(2) Number of non-consolidated subsidiaries: 2

Two subsidiaries are not consolidated, as the effect of their assets, sales, net income (loss) and retained earnings on the accompanying consolidated financial statements would not be material.

### 2. Equity method

Investments in two unconsolidated subsidiaries including NUL Systems Service Corporation and five affiliates including Unistaff Co., Ltd. are not accounted for by the equity method, but stated at cost, as the effect of the accounts of those companies, either as aggregate or as individual companies, on net income (loss) and retained earnings of the consolidated financial statements would not be material.

### 3. Interim period end of consolidated subsidiaries

International Systems Development Co., Ltd (ISD), a consolidated subsidiary, has an interim period end (June 30) different from that of the consolidated financial statements. The consolidated financial statements are prepared using ISD's financial statements as of June 30 with adjustments necessary for consolidation made for significant transactions that occurred over the period between the interim period end of the subsidiary and that of the consolidated financial statement.

### 4. Accounting policies

(1) Valuation standard and method of significant assets

#### a. Securities

Other securities whose fair value is readily determinable:

Stated at fair value as of the balance sheet date, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The cost of securities sold is determined by the moving-average method.

Other securities whose fair value is not readily determinable:

Stated at cost determined by the moving-average method

#### b. Derivatives

Stated at fair value

#### c. Inventories

Computer merchandise:

Stated at cost determined primarily by the moving-average method

Parts for maintenance services and other:

Stated at cost determined by the moving-average method

(2) Depreciation and amortization methods for significant fixed assets

a. Computers for rental and outsourcing (reported in "machinery, equipment and vehicles")

Depreciation of computers for rental and outsourcing is computed over 5 years with no residual value, in accordance with the terms and conditions of rental and outsourcing.

b. Software

Software for sale to the market:

Amortized at the greater of either the amount to be amortized in proportion of the actual sales of the software during the current period 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:

Amortized by the straight-line method over the estimated useful lives, generally 5 years.

(3) Allowances

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.

Allowance for retirement and severance benefits:

To prepare for the retirement and severance benefits for employees, the amount accrued by September 30, 2003 based on projected benefit obligations and estimated plan assets at March 31, 2003 is accounted for as the allowance for retirement and severance benefits.

The transitional obligation 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 from the following year.

(4) Foreign currency translation

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

(5) Leases

Finance leases other than those deemed to transfer ownership of the leased property to the lessee are accounted for in the same manner as operating leases.

(6) Hedge accounting

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of merchandises from overseas suppliers. Interest rate swaps are utilized to hedge interest rate exposures of short-term debt.

For derivatives used for hedging purposes, if derivatives qualify for hedge accounting, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(7) Consumption taxes

Consumption tax is separately accounted for by excluding it from each transaction amount.

5. Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows includes cash, time deposits and

short-term investments which mature or become due within 3 months of the date of acquisition, that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

## Notes to Consolidated Balance Sheets

|   | <u>September 30, 2003</u><br>Millions of yen | <u>September 30, 2002</u><br>Millions of yen | <u>March 31, 2003</u><br>Millions of yen |
|---|--|--|--|
| 1. Accumulated depreciation of property and equipment | 119,036                                      | 120,584                                      | 120,331                                  |
| 2. Liabilities for guarantee                          | 5,334  | 6,067  | 5,711                                    |

## Notes to Consolidated Statements of Cash Flows

Reconciliation of cash and time deposits on the balance sheets to cash and cash equivalents is as follows:

|   | <u>September 30, 2003</u><br>Millions of yen | <u>September 30, 2002</u><br>Millions of yen | <u>March 31, 2003</u><br>Millions of yen |
|---|--|--|--|
| Cash and time deposits                      | 26,021                                       | 29,350                                       | 27,878                                   |
| Time deposits with maturities over 3 months | (45)   | (45)   | (47)                                     |
| Cash and cash equivalents                   | 25,976                                       | 29,305                                       | 27,831                                   |

## 5. Segment Information

### (1) Business segment information

Since the Group's operations involve a single business segment under which the Group provides computers, software, associated products and related services, there is no statement of business segment information.

### (2) Geographic segment information

Since the Company has no consolidated subsidiaries and branch overseas, there is no statement of geographic segment information.

### (3) Overseas sales

Since the overseas sales are insignificant in proportion to the consolidated net sales, the statement of overseas sales is omitted.

## 6. Production, Orders Received and Sales

### (1) Production

|                 | Six months ended<br>September 30, 2003 | Percent change from<br>six months ended<br>September 30, 2002 |
|-----------------|--|---|
|                 | Millions of yen                        | %   |
| System services | 42,483                                 | +10.8   |
| Software        | 7,603                                  | +23.5   |
| Total           | 50,086                                 | +12.6   |

### (2) Orders received

|          | Orders received                        |   | Backlog            |   |
|----------|--|---|--------------------|---|
|          | Six months ended<br>September 30, 2003 | Percent change from<br>six months ended<br>September 30, 2002 | September 30, 2003 | Percent change from<br>September 30, 2002 |
|          | Millions of yen                        | %   | Millions of yen    | %   |
| Services | 87,211                                 | (4.7)   | 81,145             | (14.2)                                    |
| Software | 16,385                                 | (13.6)  | 21,926             | (23.4)                                    |
| Hardware | 36,174                                 | (9.9)   | 20,993             | (40.8)                                    |
| Total    | 139,770                                | (7.2)   | 124,066            | (21.8)                                    |

Notes: Backlog is the amount expected to be filled within a year.

Prior to April 1, 2003, orders received and backlog were calculated based on informal declarations of intension by customers. Effective April 30, 2003, orders received and backlog are calculated based on contracts. If those amounts for the six months ended September 30, 2002 had been calculated in the same manner as in the six months ended September 30, 2003, percent changes from the six months ended September 30, 2002 would be, as for orders received, 2.4% increase in services, 7.1% decrease in software, 4.5% decrease in hardware, and 0.6% decrease in total orders received; as for backlog, 3.0% decrease in service, 23.4% decrease in software, 29.9% decrease in hardware, and 12.8% decrease in total backlog.

### (3) Sales

|          | Six months ended<br>September 30, 2003 | Percent change from<br>six months ended<br>September 30, 2002 |
|----------|--|---|
|          | Millions of yen                        | %   |
| Services | 79,272                                 | +2.0  |
| Software | 22,166                                 | (1.4)   |
| Hardware | 35,282                                 | (4.1)   |
| Total    | 136,720                                | (0.2)   |

## 7. Securities

### September 30, 2003

#### 1. Other securities whose fair value is readily determinable

|                       | <u>Acquisition cost</u><br>Millions of yen | <u>Carrying amount</u><br>Millions of yen | <u>Difference</u><br>Millions of yen |
|-----------------------|--|---|--------------------------------------|
| (1) Equity securities | 3,645                                      | 6,430                                     | 2,784                                |
| (2) Debt securities   | 20   | 20  | 0                                    |
| Total                 | 3,665                                      | 6,450                                     | 2,785                                |

#### 2. Securities whose fair value is not readily determinable

| Other securities                                      | Millions of yen |
|---|-----------------|
| Unlisted equity securities (excluding OTC securities) | 1,593           |

### September 30, 2002

#### 1. Other securities whose fair value is readily determinable

|                       | <u>Acquisition cost</u><br>Millions of yen | <u>Carrying amount</u><br>Millions of yen | <u>Difference</u><br>Millions of yen |
|-----------------------|--|---|--------------------------------------|
| (1) Equity securities | 5,354                                      | 7,366                                     | 2,012                                |
| (2) Debt securities   | 20   | 20  | 0                                    |
| (3) Other             | 50   | 49  | (1)                                  |
| Total                 | 5,424                                      | 7,435                                     | 2,011                                |

#### 2. Securities whose fair value is not readily determinable

| Other securities                                      | Millions of yen |
|---|-----------------|
| Unlisted equity securities (excluding OTC securities) | 1,589           |

### March 31, 2003

#### 1. Other securities whose fair value is readily determinable

|                       | <u>Acquisition cost</u><br>Millions of yen | <u>Carrying amount</u><br>Millions of yen | <u>Difference</u><br>Millions of yen |
|-----------------------|--|---|--------------------------------------|
| (1) Equity securities | 4,326                                      | 5,711                                     | 1,384                                |
| (2) Debt securities   | 20   | 20  | 0                                    |
| Total                 | 4,346                                      | 5,731                                     | 1,384                                |

#### 2. Securities whose fair value is not readily determinable

| Other securities                                      | Millions of yen |
|---|-----------------|
| Unlisted equity securities (excluding OTC securities) | 1,324           |

## Financial Report for the Six-Month Period Ended September 30, 2003 (Non-Consolidated) Nihon Unisys, Ltd.

--Listing: Tokyo Stock Exchange First Section, Code 8056 (URL <http://www.unisys.co.jp>)

--Representative: Seiichi Shimada, President & CEO

--Date of the Meeting of the Board of Directors to Settle Interim Accounts: October 31, 2003

--Interim dividends plan: Exist

--The interim dividends will be paid starting from December 10, 2003.

--Trading unit share plan: Exist (100 shares per trading unit share)

### 1. Business Results for Interim Period of FY2004 (From April 1, 2003 to September 30, 2003)

#### (1) Results of Operations

|                         | Net Sales       | Change | Operating Income | Change | Recurring Profit | Change |
|-------------------------|-----------------|--------|------------------|--------|------------------|--------|
|                         | millions of yen | %      | millions of yen  | %      | millions of yen  | %      |
| Current Interim Period  | 110,999         | (4.2)  | 328              | (77.2) | 3,375            | 63.3   |
| Previous Interim Period | 115,822         | (3.1)  | 1,443            | -      | 2,067            | 37.9   |
| Previous Fiscal Year    | 259,598         |        | 4,723            |        | 5,689            |        |

|                         | Net Income      | Change | Earnings per Share | Diluted Earnings per Share |
|-------------------------|-----------------|--------|--------------------|----------------------------|
|                         | millions of yen | %      | yen                | yen                        |
| Current Interim Period  | 2,498           | (50.4) | 22.88              | -                          |
| Previous Interim Period | 5,042           | 226.0  | 45.98              | -                          |
| Previous Fiscal Year    | 6,282           |        |                    | -                          |

Notes) 1. Average number of shares outstanding  
 Current interim period: 109,229,522 shares  
 Previous interim period: 109,662,690 shares  
 Previous fiscal year: 109,661,829 shares

2. Change in accounting policies: None

3. Percentages above represent increase/decrease over preceding interim period.

#### (2) Dividends

|                         | Interim Dividends per Share | Annual Dividends per Share |
|-------------------------|-----------------------------|----------------------------|
|                         | yen                         | yen                        |
| Current Interim Period  | 3.75                        | -                          |
| Previous Interim Period | 3.75                        | -                          |
| Previous Fiscal Year    | -                           | 7.50                       |

#### (3) Financial Standings

|                         | Total Assets    | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity per Share |
|-------------------------|-----------------|----------------------|----------------------------|--------------------------------|
|                         | millions of yen | millions of yen      | %                          | yen                            |
| Current Interim Period  | 176,650         | 85,060               | 48.2                       | 787.65                         |
| Previous Interim Period | 188,463         | 83,064               | 44.1                       | 757.45                         |
| Previous Fiscal Year    | 197,843         | 83,529               | 42.2                       | 761.25                         |

Notes) 1. Number of shares outstanding  
 September 30, 2003: 107,991,796 shares  
 September 30, 2002: 109,662,370 shares  
 March 31, 2003: 109,659,996 shares

2. Number of treasury stocks  
 September 30, 2003: 1,671,728 shares  
 September 30, 2002: 1,154 shares  
 March 31, 2003: 3,528 shares

### 2. Earnings Forecast for FY2004 (from April 1, 2003 to March 31, 2004)

|           | Net Sales       | Recurring Profit | Net Income      | Annual Dividends per Share |      |
|-----------|-----------------|------------------|-----------------|----------------------------|------|
|           |                 |                  |                 | Year-End                   |      |
|           | millions of yen | millions of yen  | millions of yen | yen                        | yen  |
| Full-year | 264,000         | 6,900            | 4,100           | 3.75                       | 7.50 |

Reference) Expected earnings per share (full-year basis): 37.50 yen

Notes) 1. All amounts less than one million yen are rounded down.

2. The above forecast relies on judgments and assumptions based on information available at present, and is subject to changes in risks, uncertainties, economy, and other factors that could cause actual results to be materially different from expectations. For the prerequisite for the forecast, please see page 6.

**\*This financial report is solely a translation of Japanese "Chukan Kessan Tanshin," including attachments, for the convenience of readers who prefer English translation.**

## 9. Non-consolidated Financial Statements

### NON-CONSOLIDATED STATEMENTS OF INCOME

|   | Six months<br>ended<br>September 30,<br>2003 | Six months<br>ended<br>September 30,<br>2002 | Year<br>ended<br>March 31,<br>2003 |
|---|--|--|------------------------------------|
|   | Millions of yen                              | Millions of yen                              | Millions of yen                    |
| Net sales   | 110,999                                      | 115,822                                      | 259,598                            |
| Cost of sales   | 82,001                                       | 86,965                                       | 197,985                            |
| Gross Profit  | 28,998                                       | 28,857                                       | 61,612                             |
| Selling, general and administrative expenses                                    | 28,669                                       | 27,413                                       | 56,889                             |
| Operating income  | 328  | 1,443  | 4,723                              |
| Non-operating income  |  |  |                                    |
| Interest and dividend income  | 2,075  | 434  | 553                                |
| Gain on sales of listed securities  | 700  | 23   | 10                                 |
| Other   | 600  | 678  | 1,335                              |
| Non-operating expenses  |  |  |                                    |
| Interest expense  | 280  | 478  | 823                                |
| Other   | 50   | 34   | 109                                |
| Recurring profit  | 3,375  | 2,067  | 5,689                              |
| Extraordinary gains   |  |  |                                    |
| Gain on sales of fixed assets   | 140  | 52   | 70                                 |
| Gain on exemption from future pension obligation<br>of the governmental program | -  | 6,674  | 6,674                              |
| Reversal of allowance for doubtful accounts                                     | -  | 59   | 12                                 |
| Other   | 47   | 2  | 6                                  |
| Extraordinary losses  |  |  |                                    |
| Loss on devaluation of investment securities                                    | -  | 70   | 1,048                              |
| Other   | 14   | 44   | 100                                |
| Income before income taxes  | 3,549  | 8,740  | 11,303                             |
| Income taxes-current  | 60   | 3  | 181                                |
| Income taxes-deferred   | 990  | 3,694  | 4,839                              |
| Net income  | 2,498  | 5,042  | 6,282                              |
| Retained earnings carried forward   | 41,924                                       | 36,667                                       | 36,667                             |
| Interim cash dividends  | -  | -  | 411                                |
| Unappropriated retained earnings  | 44,423                                       | 41,709                                       | 42,538                             |

**NON-CONSOLIDATED BALANCE SHEETS**

|  | September 30,<br>2003 | September 30,<br>2002 | March 31,<br>2003 |
|--|-----------------------|-----------------------|-------------------|
|  | Millions of yen       | Millions of yen       | Millions of yen   |
| <b>(ASSETS)</b>                                |                       |                       |                   |
| <b>Current assets</b>                          |                       |                       |                   |
| Cash and time deposits                         | 22,124                | 25,344                | 23,715            |
| Notes receivable and accounts receivable-trade | 44,930                | 45,024                | 67,286            |
| Inventories                                    | 11,109                | 17,343                | 9,122             |
| Deferred tax assets                            | 4,110                 | 10,042                | 5,718             |
| Short-term loans receivable                    | 10,435                | 9,285                 | 7,316             |
| Other  | 7,192                 | 3,859                 | 6,629             |
| Allowance for doubtful accounts                | (64)                  | (48)                  | (75)              |
| Total current assets                           | 99,840                | 110,851               | 119,713           |
| <b>Fixed assets</b>                            |                       |                       |                   |
| <b>Property and equipment</b>                  |                       |                       |                   |
| Computers for rental and outsourcing           | 23,904                | 25,652                | 25,937            |
| Other  | 7,868                 | 9,021                 | 8,804             |
| Total property and equipment                   | 31,773                | 34,673                | 34,741            |
| <b>Intangible fixed assets</b>                 |                       |                       |                   |
| Software                                       | 11,734                | 12,190                | 11,032            |
| Other  | 253                   | 260                   | 256               |
| Total intangible fixed assets                  | 11,988                | 12,451                | 11,288            |
| <b>Investments and other assets</b>            |                       |                       |                   |
| Investment securities                          | 10,133                | 10,818                | 9,115             |
| Deferred tax assets                            | 10,369                | 6,851                 | 10,293            |
| Lease deposits                                 | 11,419                | 11,522                | 11,537            |
| Other  | 1,780                 | 1,966                 | 1,818             |
| Allowance for doubtful accounts                | (655)                 | (671)                 | (665)             |
| Total investments and other assets             | 33,048                | 30,487                | 32,099            |
| Total fixed assets                             | 76,809                | 77,612                | 78,130            |
| Total assets                                   | 176,650               | 188,463               | 197,843           |

|   | September 30,<br>2003 | September 30,<br>2002 | March 31,<br>2003 |
|---|-----------------------|-----------------------|-------------------|
|   | Millions of yen       | Millions of yen       | Millions of yen   |
| <b>( LIABILITIES )</b>                            |                       |                       |                   |
| <b>Current liabilities</b>                        |                       |                       |                   |
| Notes payable and accounts payable-trade          | 29,089                | 29,621                | 36,929            |
| Short-term borrowings                             | 3,400                 | 8,420                 | 5,260             |
| Current portion of long-term loans payable        | 6,354                 | 9,309                 | 6,094             |
| Income taxes payable                              | 28                    | 26                    | 27                |
| Accrued expenses                                  | 6,968                 | 7,885                 | 7,866             |
| Allowances  | 1,025                 | 1,155                 | 1,142             |
| Other   | 12,560                | 16,225                | 22,135            |
| Total current liabilities                         | 59,425                | 72,644                | 79,455            |
| <b>Long-term liabilities</b>                      |                       |                       |                   |
| Bonds   | 8,000                 | -                     | 8,000             |
| Long-term loans payable                           | 20,923                | 24,457                | 21,000            |
| Allowance for retirement and severance benefits   | -                     | 3,275                 | 1,865             |
| Other allowances                                  | 443                   | 723                   | 563               |
| Other   | 2,797                 | 4,299                 | 3,429             |
| Total long-term liabilities                       | 32,164                | 32,755                | 34,859            |
| <b>Total liabilities</b>                          | <b>91,590</b>         | <b>105,399</b>        | <b>114,314</b>    |
| <b>( SHAREHOLDERS' EQUITY )</b>                   |                       |                       |                   |
| <b>Common stock</b>                               | <b>5,483</b>          | <b>5,483</b>          | <b>5,483</b>      |
| <b>Capital surplus</b>                            |                       |                       |                   |
| Additional paid-in capital                        | 15,281                | 15,281                | 15,281            |
| <b>Retained earnings</b>                          |                       |                       |                   |
| Legal reserve                                     | 1,370                 | 1,370                 | 1,370             |
| Voluntary reserve                                 | 18,193                | 18,040                | 18,040            |
| Unappropriated retained earnings                  | 44,423                | 41,709                | 42,538            |
| Total retained earnings                           | 63,987                | 61,121                | 61,949            |
| Net unrealized gain on securities                 | 1,561                 | 1,178                 | 816               |
| Treasury stock-at cost                            | (1,254)               | (0)                   | (2)               |
| <b>Total shareholders' equity</b>                 | <b>85,060</b>         | <b>83,064</b>         | <b>83,529</b>     |
| <b>Total liabilities and shareholders' equity</b> | <b>176,650</b>        | <b>188,463</b>        | <b>197,843</b>    |

(Notes)

1. Accumulated depreciation of property and equipment
2. Liabilities for guarantee

Millions of yen

111,856

4,586

Millions of yen

111,936

5,280

Millions of yen

113,382

4,964