



October 31, 2005

## Consolidated Financial Report for the Six-Month Period Ended September 30, 2005

### Nihon Unisys, Ltd.

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

--Representative: Katsuto Momii, President & CEO

--Date of the Meeting of the Board of Directors to Settle Interim Accounts: October 31, 2005

--Parent Company: Mitsui & Co., Ltd. (Code Number: 8031) and other 1 company Voting Rights: 28.9%

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

#### 1. Business Results for the Six-Month Period Ended September 30, 2005 (from April 1, 2005 to September 30, 2005)

##### (1) Results of operations

	Net Sales	Change	Operating Income	Change	Recurring Profit	Change
	millions of yen	%	millions of yen	%	millions of yen	%
Six Months Ended 9/30/05	134,528	(3.2)	483	(86.8)	475	(87.4)
Six Months Ended 9/30/04	138,907	1.6	3,667	221.2	3,778	79.0
Fiscal Year Ended 3/31/05	308,868		10,413		10,533	

	Net Income	Change	Earnings per Share	Diluted Earnings per Share
	millions of yen	%	yen	yen
Six Months Ended 9/30/05	64	(94.1)	0.61	0.61
Six Months Ended 9/30/04	1,090	51.8	10.19	-
Fiscal Year Ended 3/31/05	4,716		43.34	43.33

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

Current interim period: - million yen  
 Previous interim period: - million yen  
 Previous fiscal year: - million yen  
 Current interim period: 105,660,498 shares  
 Previous interim period: 107,036,803 shares  
 Previous fiscal year: 106,523,292 shares

2. Average number of shares outstanding (consolidated)

3. Change in accounting policies: None

4. Percentages above represent increase (decrease) over a year-ago period.

##### (2) Financial standings

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	millions of yen	millions of yen	%	yen
September 30, 2005	234,063	96,674	41.3	914.89
September 30, 2004	203,932	94,350	46.3	885.10
March 31, 2005	222,155	96,892	43.6	916.10

Note) Number of shares outstanding (consolidated) September 30, 2005: 105,666,331 shares  
 September 30, 2004: 106,598,761 shares  
 March 31, 2004: 105,658,036 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
Six Months Ended 9/30/05	3,248	(7,808)	3,610	25,034
Six Months Ended 9/30/04	8,568	(7,228)	(2,712)	25,536
Fiscal Year Ended 3/31/05	12,112	(16,671)	3,633	25,983

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

Number of consolidated subsidiaries: 11

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 the Fiscal Year Ending March 31, 2006 (from April 1, 2005 to March 31, 2006)

	Net Sales	Operating Income	Recurring Profit	Net Income
	millions of yen	millions of yen	millions of yen	millions of yen
Full-Year	315,000	4,000	3,700	1,700

Reference) Expected earnings per share (full-year basis): 15.15 yen

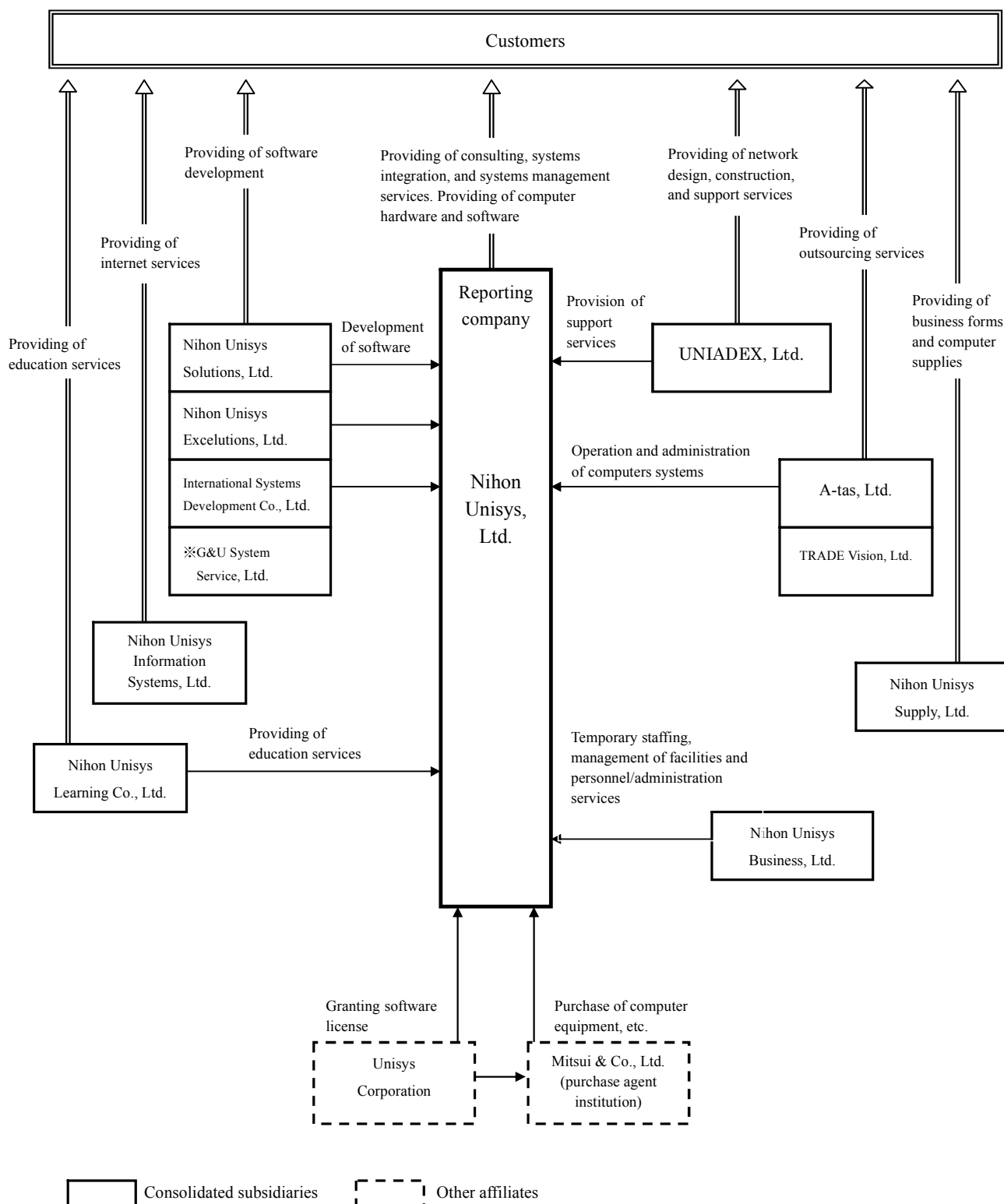
Notes) 1. All amounts less than one million yen are rounded down.

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 8.

**\*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:



※G&U System Service, Ltd. was established on September 2, 2005 and began its business activity from October 1, 2005.

## **2. Business Management Policy**

### (1) Basic Policy in Business Management, and Management Indexes as Business Strategies and Targets

The Nihon Unisys Group (the Group) provides one-stop services, ranging from upstream consulting to systems design, establishment and maintenance support. To achieve this, the entire Group is doing its utmost under the close tie-up among Nihon Unisys, Ltd., UNIADDEX, Ltd. and Nihon Unisys Solutions, Ltd., aiming to offer seamless and high-quality services.

During the first half of fiscal year under review, the Group focused on acquiring new clients through upstream approaches such as consulting services and advancing into an uncultivated market. This resulted in increasing orders received in new fields. Particularly in the “financial market,” which the Group focuses on for the current fiscal year, we won orders for outsourcing services of new account systems from financial institutions. Such development suggests that The Nihon Unisys Group is constructing the foundation to get on a growth track.

The Group is also making great efforts jointly with clients to create business opportunities, by realizing the “fusion of management and IT” and flexibly responding to “changes of market environments.” To this end, we are further strengthening management base, training personnel, and expanding investments in development of outsourcing services.

We will continue to reform our cost structure and further promote business efficiency.

The Group aims to post ¥315.0 billion in consolidated net sales for the fiscal year ending March 31, 2006 and ¥4.0 billion in operating income.

### (2) Profit Sharing Policy

The Company endeavors to improve corporate value, by strengthening earnings power through more efficient business operations and by enhancing financial position. Under our basic policy for distributing profits, we proactively plan and develop highly-competitive products and make strategic investments, using retained reserves, while paying stable dividends.

### (3) Our Concept for Corporate Governance and Present-Day Situations of Realizing the Concept

<Basic Concept for Corporate Governance>

The Nihon Unisys Group has been solidifying the concept for Corporate Governance as a tacit to aim a rapid decision-making system responsive to changes in business environment, improvements in clarification of business responsibilities and operation process transparencies.

In order to contribute to a sustainable growth of the society, to which we belong, as a good corporate citizen, we have already set up an action norm “The Nihon Unisys Group Code of Conduct”, which stipulates with regard to corporate governance as follows:

[Enhancement and fulfillment of Corporate Governance System]

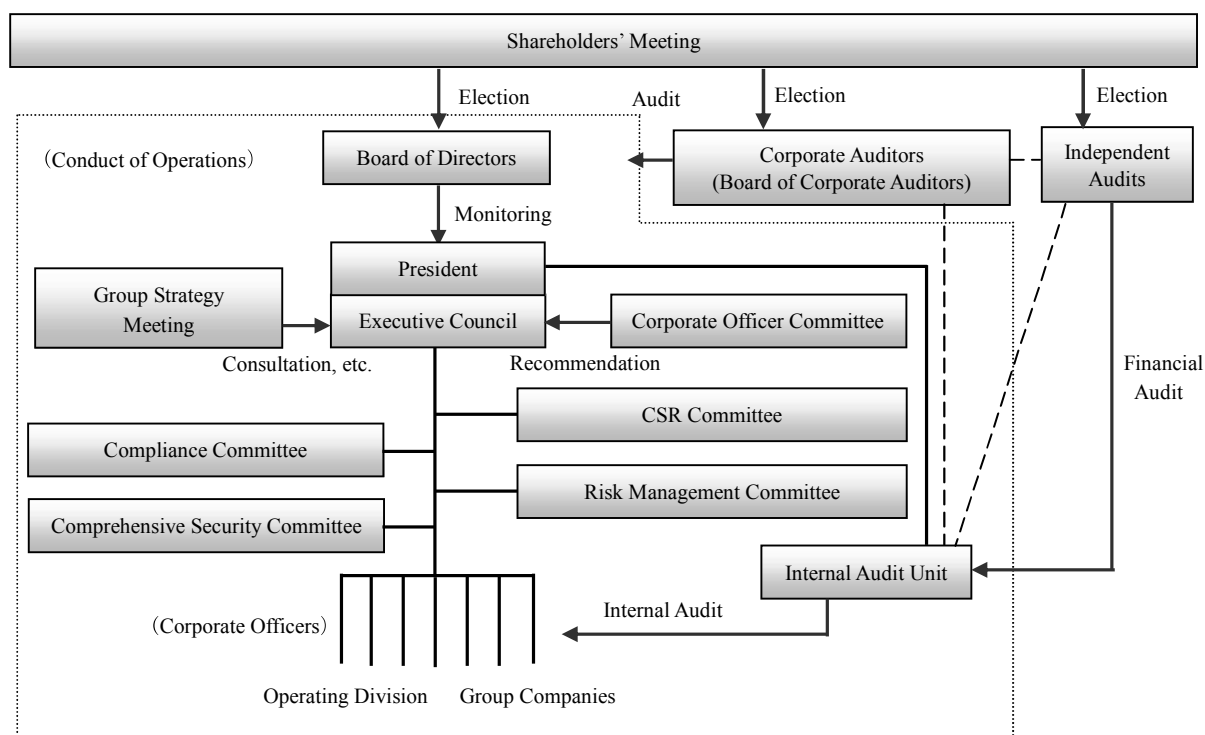
The Nihon Unisys Group hereby endeavors to intensify an internal administration system and to strengthen and fulfill the corporate governance system for the purpose of enhancing its corporate value on the consecutive basis.

- 1) The Nihon Unisys Group endeavors, as its total group-compounding organization, to sustain and strengthen the corporate governance system with its business ethics and transparency stationed at high stage.
- 2) The Nihon Unisys Group endeavors to properly disclose corporate information at well-timed opportunities, and to intend to improve corporate business transparency.
- 3) The Nihon Unisys Group endeavors to properly cope with various risks as they may seriously affect the business management and administration of The Nihon Unisys Group. We endeavor to take immediate and proper measures to cope with those risks, in the cases that those risks have already taken place, or that the risks may imminently break out.

<Present-Day Situations of Realizing the Corporate Governance Concept>

On April 1, 2004, both presidents of UNIADEX, Ltd. and Nihon Unisys Solutions, Ltd. were appointed as corporate officers. It means that we consider both companies are managed by two as corporate officers of Nihon Unisys, Ltd. It clarified our management policy that Nihon Unisys conduct management with UNIADEX and Nihon Unisys Solutions in an integrated manner.

Nihon Unisys Corporate Governance System



## (4) Matters Concerned with Parent Companies

## 1) Trade styles and/or other related matters of parent companies

Parent Companies	Properties	Ownership share (%) by parent companies of voting shares	Trade styles or names of the Stock Exchange(s) in which those parent companies' stocks are listed
Mitsui & Co.	In the case that a listed company happens to be a company related with another company, the subject company corresponds to the said another company.	28.9	First Sections of Tokyo, Osaka, and Nagoya Stock Exchanges, and Sapporo, Fukuoka Stock Exchanges, and US NASDAQ (ADR).
Unisys Corporation	In the case that a listed company happens to be a company related with another company, the subject company corresponds to the said another company.	28.9	Those Stock Exchanges stationed in New York, Switzerland, Amsterdam, Brussels, and London

## 2) Matters concerning business transactions with the parent company and others

We are a representative agent in sale of Unisys Corporation-made computers and other products. We handle the import, sale and maintenance services of those computers and other products here within the national territory of Japan, while Unisys Corporation grants us the use of its trademark, technical information and assistance. Our purchase of those products from Unisys Corporation is transacted by way of Mitsui & Co., as an agent for the purchase trade.

## (5) Tasks to be Dealt with by the Company

Prices still keep declining, especially prices of hardware, though IT investment by private corporations is on the up.

As market environment changes, The Nihon Unisys Group will actively promote investment in research and development and human-resources fostering for differentiation by providing high-quality services and solutions which are properly grasping market needs. We will also strive to establish its stable foundation to be a continually growing company by improving cost structures and financial position.

### **3. Results of Business Operations and Financial Conditions**

#### 1. Results of Business Operations

##### (1) Overview of the six-month period ended September 30, 2005

In the first half of fiscal year under review, the Japanese economy showed a steady recovery trend, with corporate IT investments improving mainly in the systems service field. However, the business environments remained uncertain due to a hike in prices of raw materials, centering on oil, and uncertain outlook for demand from overseas markets.

Under these circumstances, The Nihon Unisys Group continued to “raise expertise and productivity” at every member company of the Group under the mid-term business plan “Marching Plan,” which covers fiscal 2006-2007. We also actively strove to establish the foundation for a future growth, by promoting the outsourcing business to stabilize corporate structure in the future, making R&D investments to increase competitive edge, and training employees to have capabilities to contribute to growing business.

The role of IT at companies is shifting from merely improving their operational efficiency to supporting the management in making vital decisions. In view of this, The Nihon Unisys Group had enhanced the “upstream approach” for resolving customers’ business issues. All member firms of the Group worked hard so that the upstream approach led to receiving orders for high-quality “one-stop services,” the Group’s strength, aiming to be a “leading IT service company.”

By client sector, in the financial industry, demand for IT rose, as the business climate improved, earnings picked up, and firms entered the industry from different sectors taking advantage of deregulations. Hence, the Group’s solutions strategies for the financial market fared well. In the logistics industry, we increased our presence in the sectors of customer relationship management (CRM) and refrigerated logistics, as well as the direct marketing sector in which the Group has an edge over rivals. This enabled us to receive large-lot orders from new clients. In the technology field, advanced ubiquitous technologies (such as IC tags, *Mobile Wallet*<sup>®</sup>, etc.) began to be used in practical businesses, which created new businesses. We also tried to apply such ubiquitous technologies to the open systems environment, through the development of MIDdleware Mission critical Open SysTem (MIDMOST<sup>®</sup>), the fruit of high technologies cultivated in the mainframe field. In addition, we aggressively advanced into new businesses through new schemes including: participation in private finance initiative (PFI) projects; and establishment of joint ventures with client companies’ information system divisions aimed at providing services in specific markets.

As notified previously, we made “Revision of Technical Information/Support Fee and License Fee Agreement with Unisys Corporation.” Since its foundation, Nihon Unisys, Ltd. has been acting as the sole agent for marketing Unisys Corporation-made computers in Japan, and both companies have signed a technical information/support and license fee agreement. As it is time for renewal of consideration

for license, etc. this fiscal year, we had reviewed terms of this agreement, taking into account recent changes in the Japanese market. Both parties agreed on the basic matters and the agreement was revised.

Revision is about onetime payment over two years for license without termination period, and also about quarterly fixed amount payment for high-level technical information/support necessary for our clients' support services.

<Details of Agreement Changes>

1) License fee

Consideration:	Onetime payment of US\$225 million
Contract period:	Effective April 1, 2005 (without expiry)
Payment date:	October 2005: US\$112.5 million October 2006: US\$112.5 million

2) Provision of high-level technical information/support necessary for support services

Consideration:	Annual fee of US\$20 million (renegotiation after 5 years)
Contract period:	5 years starting April 1, 2005 (renewal after 5 years)
Payment date:	Quarterly basis

In the first half of fiscal year under review, sales of services, mainly system services, rose, while sales of software and hardware related to mainframes declined. Consolidated net sales were ¥134,528 million, up 3.2% from the previous year's corresponding period. Profits improved thanks to an increase in service productivity and reduction of various expenses. Meanwhile, the Group sustained temporary costs of about ¥2.4 billion in association with the revision of technical information/support fee and license fee agreement with Unisys Corporation. As a result, operating income dived 86.8% year on year to ¥483 million, recurring profit also tumbled 87.4% to ¥475 million, and net income plunged 94.1% to ¥64 million. Of the total, sales of services grew ¥5,442 million, or 6.9%, from a year earlier to ¥83,983 million, supported by buoyant systems services and strong outsourcing business. However, software sales dropped ¥4,090 million, or 17.4%, to ¥19,441 million and hardware sales decreased ¥5,730 million, or 15.6%, to ¥31,104 million, influenced by a fall in mainframe-related sales.

In terms of sales composition, services accounted for 62.4%, compared with 56.6% in the previous year, software represented 14.5%, down from 16.9% a year earlier, and hardware the remaining 23.1%, down from 26.5%.

We will pay a ¥3.75 per share dividend for the first half of the current fiscal year, unchanged from the previous year, giving due consideration to earnings outlook for the entire year as well as to providing shareholders with stable returns on their investments.

## (2) Prospects for the entire year

For the entire year, the Company expects consolidated net sales to be ¥315.0 billion as originally projected, with service sales faring well, although prices of hardware and software will likely decline and mainframe-related sales are estimated to decrease.

With regard to profits, the Company will likely have a cost burden of about ¥3.6 billion in association with the revision of technical information/support fee and license fee agreement with Unisys Corporation. Amid the intense competition, sales of hardware and software are expected to slow and profit margin is forecast to decrease. The Company also predicts that some of systems service operations will become unprofitable and that support service contracts will decrease. Hence, we expect operating income to be ¥4.0 billion, with recurring profit at ¥3.7 billion and net income at ¥1.7 billion, unchanged from those announced earlier when earnings outlook was revised.

## 2. Financial Condition

Since cash expenditures principally for investing activity including purchases of computers for business use exceeded cash provided by operating activities, financing was made primarily by issuing commercial paper. As a result, cash and cash equivalents at September 31, 2005 decreased by ¥949 million from half a year ago to ¥25,034 million.

The company generated ¥3,248 million (down ¥5,320 million from the year-ago period) of cash from operating activities. The income before income taxes and minority interests was ¥348 million (down ¥1,796 million). Depreciation and amortization expense, a non-cash expense, was ¥7,304 million (down ¥1,824 million). The account receivable was reduced by ¥16,453 million (down ¥5,197 million) due to the collection of credit account. The purchase liabilities are increased by ¥15,695 million (up ¥ 25,088 million). These factors generated the cash from operating activities. On the other hand, there was an increase in prepaid expenses regarding license fees, etc. of ¥18,958 million which is included in “other-net”.

The net cash used in investing activities was ¥7,808 million (up ¥580 million). This includes expenditures for the purchases of property and equipment such as computers for business use of ¥2,187 million (down ¥451 million), and for the purchases of intangible fixed assets such as software for sales and outsourcing of ¥ 5,680 million (up ¥587 million).

The net cash provided by financing activities was ¥3,610 million (compared to ¥2,712 million cash used a year-ago period) that in the year-ago period was expenditures of ¥2,712 million). This includes net increase in commercial paper of ¥8 billion (Up ¥8 billion), and repayments of long-term loans payable of ¥3,939 million (up ¥2,262 million)

	Six months ended September 30, 2005	Six months ended September 30, 2004	Six months ended September 30, 2003
Shareholders' equity ratio (%)	41.3	46.3	45.7
Shareholders' equity ratio at market value (%)	50.2	43.3	46.1
Debt repayment period (years)	6.9	2.0	1.6
Interest coverage ratio	13.3	36.3	44.3

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 paid

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

### 3. Risks in Business Operations

Major risks involved with the Group's businesses go as follows:

#### (1) Influences by an economy trend and market environment

In the information service industry the Group inhabits, service prices have been on the continued decline because corporate users have been solidifying their stances to reduce costs and focus on ROI (Return on Investments), though IT investments by corporations have been on the gradual recovery. In this market circumstance, any occurrence of serious situations such as delayed responses in technological innovations, intensified price competitions beyond ordinary imagination may affect the financial conditions and business results of the Company.

#### (2) Project management risks

The Group concurrently promotes many projects of system developments. In a business environment of intensified competitions, however, there are explosively increasing hard-to-handle projects with features of being installation-term-shortened, scale-enlarged, or complicated. Once there occurs a problem in the development process of any project, a large sum of money will be sure to be consumed for repair operations, which may result in a failed deficit project with possible revenues outnumbered by development cost. To avoid such risks, we have implemented effective measures to prevent and earlier spot deficit-ridden cases by intensifying the project management system.

#### (3) Risks exposed to fluctuations in foreign exchange rates

The Company is a wholesale agent here in Japan in sales of Unisys-made computers and other products, and handles the businesses of import and sales of those computers in the national territory of Japan. Thus, the Group's purchase in foreign-currency denomination totaled to ¥5,060 million for

the six-month term ended September 2005, which purchase may be exposed to fluctuations in foreign exchange rates. To avoid such risks, the Company places risk-hedging measures through exchange contracts.

(4) Information control risks

The Group has many opportunities to access to confidential personal and/or corporate information, including its own one, by way of our business activities of developing and/or providing information systems. Therefore, we regard it at the top priority issue to keep information in strict confidence, because we inhabit in the information industry. To cope with even a micro-scale possibility of information leakage out of an emergency case beyond ordinary imagination, we have indeed placed, on such possible cases, insurance contracts with insurance money piled up to some extent. However, in the case that damage-repairing expenses outnumber the contract-coverage amount, or in the case that the leakage has made the Group's social reputation fall to the ground, there will be a serious possibility of affecting the business results.

(5) Intellectual property risks

The Group use intellectual property right concerning a great number of computer programs on the routine work of promoting business operations. Thus, any failure in acquisition or maintenance of property right licenses, on the contrary to prefixed schedules, may affect the Group's business activities.

In addition, there will be a possibility that the Group may be one of parties concerned with intellectual right litigation on computer programs, and as a result, any occurrence of incurred expenses may affect the Group's business records.

(6) Natural disaster risks

In the case that those natural disasters such as earthquakes have done destructive damages and losses to major business bases of the Group, a huge amount of repair or replacement expenses may be needed, concurrently give huge-scale impacts on sales and other business activities, and ultimately affect the Group's business records.

(7) Relations with important affiliated companies

We are an affiliate related with Mitsui & Co. and Unisys Corporation, both of which own our voting stocks respectively at the share of 28.9%.

We are a representative agent in sale of Unisys Corporation-made computers and other products. We handle the import, sale and maintenance services of those computers and other products here within the national territory of Japan, while Unisys Corporation grants us the use of its trademark, technical information and assistance. Our purchase of those products from Unisys Corporation is

transacted by way of Mitsui & Co., as an agent for the purchase trade. The trading relationship with Unisys Corporation has been steady but if the relationship becomes difficult and cannot be sustained, it would have a material impact on the Group's business results.

## 4. Consolidated Financial Statements

**CONSOLIDATED STATEMENTS OF INCOME**

	Six months ended September 30, 2005	Six months ended September 30, 2004	Year ended March 31, 2005
	Millions of yen	Millions of yen	Millions of yen
Net sales	134,528	138,907	308,868
Cost of sales	104,205	102,781	232,941
Gross profit	30,322	36,125	75,927
Selling, general and administrative expenses	29,839	32,458	65,514
Operating income	483	3,667	10,413
Non-operating income			
Interest and dividend income	134	137	208
Gain on sales of listed securities	60	119	207
Other	108	192	333
Non-operating expenses			
Interest expense	230	235	463
Other	80	102	166
Recurring profit	475	3,778	10,533
Extraordinary gains			
Gain on sales of fixed assets	10	15	16
Gain on sales of investment securities	-	268	271
Other	25	-	17
Extraordinary losses			
Loss on sales and disposals of fixed assets	40	33	72
Loss on devaluation of investment securities	116	68	80
Special retirement expense	-	1,291	1,291
Write-down of telephone subscription right	-	304	304
Other	7	219	282
Income before income taxes and minority interests	348	2,144	8,808
Income taxes-current	896	809	2,691
Income taxes-refunded	-	(203)	(203)
Income taxes-deferred	(638)	435	1,561
Minority interests in net income	25	13	41
Net income	64	1,090	4,716

**CONSOLIDATED BALANCE SHEETS**

	September 30, 2005	September 30, 2004	March 31, 2005
	Millions of yen	Millions of yen	Millions of yen
<b>(ASSETS)</b>			
<b>Current assets</b>			
Cash and time deposits	25,044	25,575	25,993
Notes receivable and accounts receivable-trade	68,696	62,027	85,149
Inventories	23,515	17,008	15,215
Deferred tax assets	8,417	10,807	9,067
Prepaid expenses	17,262	5,191	4,111
Other	2,097	924	1,075
Allowance for doubtful accounts	(84)	(74)	(95)
Total current assets	144,950	121,460	140,518
<b>Fixed assets</b>			
Property and equipment			
Machinery, equipment and vehicles	13,154	17,511	15,087
Other	7,085	7,673	7,388
Total property and equipment	20,440	25,184	22,476
Intangible fixed assets			
Software	21,828	17,602	19,419
Other	125	179	144
Total intangible fixed assets	21,953	17,782	19,564
<b>Investments and other assets</b>			
Investment securities	9,088	8,035	8,858
Deferred tax assets	9,539	7,700	8,027
Prepaid pension costs	11,174	12,763	11,859
Other	17,630	11,539	11,380
Allowance for doubtful accounts	(514)	(533)	(528)
Total investments and other assets	46,918	39,505	39,596
Total fixed assets	89,112	82,472	81,636
Total assets	234,063	203,932	222,155

	September 30, 2005	September 30, 2004	March 31, 2005
	Millions of yen	Millions of yen	Millions of yen
<b>( LIABILITIES )</b>			
<b>Current liabilities</b>			
Notes payable and accounts payable-trade	55,271	33,533	39,555
Short-term borrowings	1,010	983	994
Current portion of long-term loans payable	5,244	7,891	8,446
Commercial paper	14,000	-	6,000
Income taxes payable	722	937	2,101
Accrued expenses	11,643	12,178	14,533
Allowances	940	1,147	1,067
Other	16,241	18,073	16,726
<b>Total current liabilities</b>	<b>105,253</b>	<b>74,744</b>	<b>89,424</b>
<b>Long-term liabilities</b>			
Bonds	8,000	8,000	8,000
Long-term loans payable	14,637	14,081	15,375
Deferred tax liabilities	894	628	529
Allowance for retirement and severance benefits	1,768	2,016	1,886
Other allowances	513	414	481
Other	5,719	9,121	9,013
<b>Total long-term liabilities</b>	<b>31,534</b>	<b>34,262</b>	<b>35,286</b>
<b>Total liabilities</b>	<b>136,788</b>	<b>109,007</b>	<b>124,711</b>
<b>Minority interests</b>	<b>600</b>	<b>574</b>	<b>551</b>
<b>( SHAREHOLDERS' EQUITY )</b>			
Common stock	5,483	5,483	5,483
Capital surplus	15,282	15,281	15,281
Retained earnings	76,959	74,164	77,390
Net unrealized gain on securities	2,353	1,877	2,150
Deposit of the execution of stock option rights	0	-	-
Treasury stock	(3,406)	(2,455)	(3,413)
<b>Total shareholders' equity</b>	<b>96,674</b>	<b>94,350</b>	<b>96,892</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>234,063</b>	<b>203,932</b>	<b>222,155</b>

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	Six months ended September 30, 2004	Six months ended September 30, 2003	Year ended March 31, 2004
	Millions of yen	Millions of yen	Millions of yen
(Capital surplus)			
Capital surplus at beginning of period	15,281	15,281	15,281
Increase in capital surplus	0	-	-
Gain on sales of treasury stock	0	-	-
Capital surplus at end of period	18,282	15,281	15,281
(Retained earnings)			
Retained earnings at beginning of period	77,390	73,542	73,542
Increase in retained earnings	64	1,090	4,716
Net income	64	1,090	4,716
Decrease in retained earnings	495	468	868
Cash dividends	396	401	801
Bonuses to directors	99	66	66
Retained earnings at end of period	76,959	74,164	77,390

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended September 30, 2004	Six months ended September 30, 2003	Year ended March 31, 2004
	Millions of yen	Millions of yen	Millions of yen
Cash flows from operating activities			
Income before income taxes and minority interests	348	2,144	8,808
Depreciation and amortization	7,304	9,128	18,363
Gain on sales of fixed assets	(10)	(0)	(16)
Gain on sales of investment securities	(60)	(387)	(479)
Decrease in allowances	(238)	(136)	(263)
Decrease (increase) in accounts receivable-trade	16,453	21,650	(1,471)
Increase in inventories	(8,299)	(6,035)	(4,242)
Decrease in accounts payable-trade	(15,695)	(9,393)	(3,360)
Other-net	(25,571)	(5,585)	(1,578)
Subtotal	5,619	11,370	15,758
Interest and dividend received	135	137	206
Interest paid	(243)	(236)	(463)
Income taxes paid	(2,261)	(2,703)	(3,389)
Net cash provided by operating activities	3,248	8,568	12,112
Cash flows from investing activities			
Payments for purchases of property and equipment	(2,187)	(2,638)	(5,409)
Proceeds from sales of property and equipment	30	42	21
Payments for purchases of intangible fixed assets	(5,680)	(5,092)	(11,481)
Payments for purchases of investment securities	(40)	(66)	(451)
Proceeds from sales of investment securities	69	423	554
Other-net	(0)	104	95
Net cash used in investing activities	(7,808)	(7,228)	(16,671)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	16	(157)	(146)
Proceeds from long-term loans payable	-	100	5,900
Repayments of long-term loans payable	(3,939)	(1,677)	(5,629)
Net increase in commercial paper	8,000	-	6,000
Purchases of treasury stock	(0)	(476)	(1,433)
Proceeds from exercise of stock options	9	-	-
Cash dividends paid	(395)	(401)	(802)
Other-net	(78)	(101)	(255)
Net cash provided by (used in) financing activities	3,610	(2,712)	3,633
Net decrease in cash and cash equivalents	(949)	(1,372)	(925)
Cash and cash equivalents, beginning of period	25,983	26,909	26,909
Cash and cash equivalents, end of period	25,034	25,536	25,983

## **Summary of Significant Accounting Policies**

### 1. Scope of consolidation

- (1) The accompanying consolidated financial statements for the year ended September 30, 2005 include the accounts of Nihon Unisys, Ltd. (the "Company") and its 11 consolidated subsidiaries (together, the "Group"). Some of the most significant subsidiaries are as follows.

UNIADEX, Ltd.  
Nihon Unisys Solutions, Ltd.  
Nihon Unisys Excelutions, Ltd.

On September 2, 2005, G&U System Service, Ltd. was established and has been newly consolidated from the interim period ended September 30, 2005.

- (2) Number of non-consolidated subsidiaries: 3

Three subsidiaries (NUL System Service Corporation and others) 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

There is no unconsolidated subsidiary and affiliate accounted for by the equity method. Investments in three unconsolidated subsidiaries and four 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. Accounting policies

- (1) Valuation standard and method of significant assets

a. Securities

Available-for-sale 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.

Available-for-sale 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

Computers for sale:

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/amortization of 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, corresponding to the terms and conditions of rental and outsourcing.

b. Buildings and structures:

Depreciation of buildings and structures is computed by the declining-balance method. However, depreciation of some plants of Nihon Unisys Supply, Ltd., a consolidated subsidiary, and buildings

(excluding attached facilities) acquired after April 1, 1998 is computed by the straight-line method. Useful lives range from 6 to 50 years.

c. 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 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:

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

(3) Allowances

a. 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.

b. Allowance for retirement and severance benefits:

To prepare for the retirement and severance benefits for employees, the allowance for retirement and severance benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

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.

Prior service cost is amortized in expenses using the straight-line method over the average of the estimated remaining service period (10 years).

(4) Foreign currency translation

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 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

a. Method of hedge accounting:

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. 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.

b. Hedging instruments and hedged items:

The foreign currency forward contracts and the currency options 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.

c. Company's policy to use hedge:

The Company uses 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.

d. Hedge effectiveness assessment:

Hedge effectiveness is evaluated, in principle, comparing the cumulative changes (to date from inception of the hedge) in the hedging instrument's fair values or cash flows to the cumulative changes in the hedged item's fair value or hedged transaction's cash flows. The Company omits the assessment of hedge effectiveness for interest rate swaps which qualify for hedge accounting and meet specific matching criteria.

(7) Consumption taxes

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

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

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

## **Changes of Significant Accounting Policies Regarding the Preparation of Six-month Period Consolidated Financial Statements**

In the first half of fiscal year under review, the Company began to adopt the accounting standards for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets” issued by the Corporate Accounting Council on August 9, 2002) and the “Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets” (the Financial Accounting Standards Implementation Guidance No. 6 issued on October 31, 2003).

The above adoption has little effect on profits and losses.

### **Additional Information**

Since its foundation, Nihon Unisys, Ltd. has been acting as the sole agent for marketing Unisys Corporation’s computers in Japan, and both companies have signed a technical information/support and license fee agreement.

As it is time for renewal of consideration for license, etc. this fiscal year, we had reviewed terms of this agreement, taking into account recent changes in the Japanese market. Both parties agreed on the basic matters and the agreement was revised on October 6, 2005.

Revision is about onetime payment for license without termination period, and also about quarterly fixed amount payment for high-level technical information/support necessary for our clients’ support services.

The Company will have a cost burden of onetime payment for license fee in the year through March 2007, as in the current year, but there will be no such a cost burden in and after the year ending March 31, 2008.

#### <Details of Agreement Changes>

##### (a) License fee

Consideration :	Onetime payment of US\$225 million
Contract period :	Effective April 1, 2005 (without expiry)
Payment date :	October 2005: US\$112.5 million October 2006: US\$112.5 million

##### (b) Provision of high-level technical information/support necessary for support services

Consideration :	Annual fee of US\$20 million (renegotiation after 5 years)
Contract period :	5 years starting April 1, 2005 (renewal after 5 years)
Payment date :	Quarterly basis

(Accounting treatment related to revision of the agreement)

##### (a) Onetime payment of license fee

Treated as costs over two years starting April 1, 2005.

##### (b) Support services fee

Fees for lapsed period are treated as costs every quarter.

In association with the agreement, the following amounts were recorded on the Consolidated Statements of Income and the Consolidated Balance Sheets, both for the first six-month period of the term.

**(Consolidated Statements of Income)**

Cost of sales: ¥7,345 million (US\$66.25 million)

**(Consolidated Balance Sheets)**

## Current assets

Prepaid expenses: ¥12,592 million (US\$112.5 million)

## Investments and other assets

Other assets (Long-term prepaid expenses): ¥6,366 million (US\$56.25 million)

## Current liabilities

Notes payable and accounts payable: ¥26,304 million (US\$235 million)

**Notes to Consolidated Balance Sheets**

	<u>September 30, 2005</u>	<u>September 30, 2004</u>	<u>March 31, 2005</u>
	Millions of yen	Millions of yen	Millions of yen
1. Accumulated depreciation of property and equipment	79,532	98,658	80,563
2. Contingent liabilities	3,839	4,538	4,136

**Notes to Consolidated Statements of Cash Flows**

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

	<u>September 30, 2005</u>	<u>September 30, 2004</u>	<u>March 31, 2005</u>
	Millions of yen	Millions of yen	Millions of yen
Cash and time deposits	25,044	25,575	25,993
Time deposits with maturities over 3 months	(10)	(38)	(10)
Cash and cash equivalents	<u>25,034</u>	<u>25,536</u>	<u>25,983</u>

**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 there are no consolidated subsidiaries or branches overseas, there is no statement of geographic segment information.

**(3) Overseas sales**

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

**Leases**

The statement of leases is omitted as the Company makes filings on EDINET (Electronic Disclosure for Investors' NETwork).

## Securities

### I. The period ended September 30, 2005

(1) Available-for-sale securities whose fair value is readily determinable

	<u>Acquisition Cost</u>	<u>Carrying amount</u>	<u>Difference</u>
	Millions of yen	Millions of yen	Millions of yen
Equity securities	3,284	7,245	3,961

(2) Contents and carrying amount of available-for-sale securities whose fair value is not readily determinable

Available-for-sale securities	Millions of yen
Unlisted equity securities	1,395
Bond	100
Other	32

### II. The period ended September 30, 2004

(1) Available-for-sale securities whose fair value is readily determinable

	<u>Acquisition Cost</u>	<u>Carrying amount</u>	<u>Difference</u>
	Millions of yen	Millions of yen	Millions of yen
(1)Equity securities	3,298	6,459	3,160
(2)Bond	29	29	(0)
Total	3,328	6,489	3,160

(2) Contents and carrying amount of available-for-sale securities whose fair value is not readily determinable

Available-for-sale securities	Millions of yen
Unlisted equity securities	1,449

### III. The period ended March 31, 2005

(1) Available-for-sale securities whose fair value is readily determinable

	<u>Acquisition Cost</u>	<u>Carrying amount</u>	<u>Difference</u>
	Millions of yen	Millions of yen	Millions of yen
(1)Equity securities	3,292	6,915	3,622
(2)Bond	100	100	-
Total	3,392	7,015	3,622

(2) Contents and carrying amount of available-for-sale securities whose fair value is not readily determinable

Available-for-sale securities	Millions of yen
Unlisted equity securities	1,471
Other	56

## Derivatives

The statement of derivatives is omitted as hedge accounting is applied to all the derivatives in this interim term, the previous interim term and the previous term.

## 5. Production, Orders Received and Sales

### (1) Production

	The term ended September 30, 2005	Percent change from the term ended September 30, 2004
	Millions of yen	%
System services	39,133	+2.9
Software	7,681	+0.5
Total	46,814	+2.5

### (2) Orders received

	Orders		Backlog	
	The term ended September 30, 2005	Percent change from the term ended September 30, 2004	The term ended September 30, 2005	Percent change from the term ended September 30, 2004
	Millions of yen	%	Millions of yen	%
Services	85,542	(7.9)	92,837	+6.7
Software	17,967	+11.6	17,293	(4.7)
Hardware	38,986	+26.4	16,884	(4.3)
Total	142,496	+1.9	127,015	+3.4

Notes) Backlog is the amount expected to be filled within a year.  
Orders and backlog are calculated on contracts.

### (3) Sales

	The term ended September 30, 2005	Percent change from the term ended September 30, 2004
	Millions of yen	%
Services	83,983	+6.9
Software	19,441	(17.4)
Hardware	31,104	(15.6)
Total	134,528	(3.2)



October 31, 2005

## Non-Consolidated Financial Report for the Six-Month Period Ended September 30, 2005 Nihon Unisys, Ltd.

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

--Representative: Katsuto Momii, President & CEO

--Date of the Meeting of the Board of Directors to Settle Interim Accounts: October 31, 2005

--Interim dividends plan: Exist

--The interim dividend will be paid starting from December 9, 2005.

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

### 1. Business Results for the Six-Month Period Ended September 30, 2005 (from April 1, 2005 to September 30, 2005)

#### (1) Results of operations

	Net Sales	Change	Operating Income	Change	Recurring Profit	Change
	millions of yen	%	millions of yen	%	millions of yen	%
Six Months Ended 9/30/05	103,186	(3.2)	(2,446)	-	(1,049)	-
Six Months Ended 9/30/04	106,586	(4.0)	2,632	701.1	3,693	9.4
Fiscal Year Ended 3/31/05	241,793		5,486		7,204	

	Net Income	Change	Earnings per Share	Diluted Earnings per Share
	millions of yen	%	yen	yen
Six Months Ended 9/30/05	(356)	-	(3.37)	-
Six Months Ended 9/30/04	1,651	(33.9)	15.43	-
Fiscal Year Ended 3/31/05	3,644		33.70	33.68

Notes) 1. Average number of shares outstanding  
 Current interim period: 105,660,498 shares  
 Previous interim period: 107,036,803 shares  
 Previous fiscal year: 106,523,292 shares

2. Change in accounting policies: None

3. Percentages above represent increase (decrease) over a year-ago period.

#### (2) Dividends

	Interim Dividend per Share	Annual Dividend per Share
	yen	yen
Six Months Ended 9/30/05	3.75	-
Six Months Ended 9/30/04	3.75	-
Fiscal Year Ended 3/31/05	-	7.50

#### (3) Financial standings

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	millions of yen	millions of yen	%	yen
September 30, 2005	210,370	87,617	41.6	829.18
September 30, 2004	174,438	87,287	50.0	818.85
March 31, 2005	195,739	88,185	45.1	834.11

Notes) 1. Number of shares outstanding  
 September 30, 2005: 106,666,331 shares  
 September 30, 2004: 106,598,761 shares  
 March 31, 2005: 105,658,036 shares

2. Number of treasury stocks  
 September 30, 2005: 3,997,193 shares  
 September 30, 2004: 3,064,763 shares  
 March 31, 2005: 4,005,488 shares

### 2. Earnings Forecast for the Fiscal Year Ending March 31, 2006 (from April 1, 2005 to March 31, 2006)

	Net Sales	Operating Income	Recurring Profit	Net Income	Annual Dividend per Share	
					Year-End	
	millions of yen	millions of yen	millions of yen	millions of yen	yen	yen
Full-year	250,000	(4,400)	(2,900)	(1,700)	3.75	7.50

Reference) Expected earnings per share (full-year basis): (16.09) 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 8.

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

## 6. Non-consolidated Financial Statements

### NON-CONSOLIDATED STATEMENTS OF INCOME

	Six months ended September 30, 2005	Six months ended September 30, 2004	Year ended March 31, 2005
	Millions of yen	Millions of yen	Millions of yen
Net sales	103,186	106,586	241,793
Cost of sales	84,422	79,979	185,772
Gross Profit	18,763	26,607	56,020
Selling, general and administrative expenses	21,209	23,974	50,534
Operating income (loss)	(2,446)	2,632	5,486
Non-operating income			
Interest and dividend income	1,290	808	1,296
Gain on sales of listed securities	60	119	207
Other	296	426	757
Non-operating expenses			
Interest expense	209	214	419
Other	40	78	124
Recurring profit (loss)	(1,049)	3,693	7,204
Extraordinary gains			
Gain on sales of fixed assets	17	64	65
Gain on sales of investment securities	-	268	268
Other	31	-	17
Extraordinary losses			
Loss on devaluation of investment securities	116	68	76
Special retirement expense	-	1,052	1,052
Write-down of telephone subscription right	-	216	216
Other	30	328	394
Income (loss) before income taxes	(1,146)	2,577	6,033
Income taxes-current	21	12	31
Income taxes-refunded	-	(203)	(203)
Income taxes-deferred	(812)	1,117	2,560
Net income (loss)	(356)	1,651	3,644
Retained earnings carried forward	50,033	46,474	46,474
Interim cash dividends	-	-	399
Unappropriated retained earnings	49,676	48,126	49,719

**NON-CONSOLIDATED BALANCE SHEETS**

	September 30, 2005	September 30, 2004	March 31, 2005
	Millions of yen	Millions of yen	Millions of yen
<b>(ASSETS)</b>			
<b>Current assets</b>			
Cash and time deposits	22,459	22,835	23,451
Notes receivable and accounts receivable-trade	55,596	46,614	67,701
Inventories	14,494	7,890	9,241
Prepaid expenses	14,583	2,068	1,612
Deferred tax assets	2,819	5,304	3,354
Short-term loans receivable	18,335	15,640	16,253
Other	2,364	1,573	1,868
Allowance for doubtful accounts	(60)	(60)	(77)
Total current assets	130,593	101,864	123,407
<b>Fixed assets</b>			
<b>Property and equipment</b>			
Computers for rental and outsourcing	12,776	17,061	14,694
Other	4,660	5,026	4,904
Total property and equipment	17,436	22,088	19,599
<b>Intangible fixed assets</b>			
Software	20,791	16,474	18,322
Other	26	32	29
Total intangible fixed assets	20,817	16,506	18,352
<b>Investments and other assets</b>			
Investment securities	11,208	10,109	10,908
Prepaid pension costs	6,744	8,228	7,394
Deferred tax assets	7,396	5,880	6,207
Lease deposits	8,583	8,610	8,691
Other	8,070	1,662	1,670
Allowance for doubtful accounts	(480)	(513)	(492)
Total investments and other assets	41,521	33,978	34,380
Total fixed assets	79,776	72,573	72,331
Total assets	210,370	174,438	195,739

	September 30, 2005	September 30, 2004	March 31, 2005
	Millions of yen	Millions of yen	Millions of yen
<b>( LIABILITIES )</b>			
<b>Current liabilities</b>			
Notes payable and accounts payable-trade	61,185	32,887	46,378
Current portion of long-term loans payable	5,244	7,891	8,446
Commercial paper	14,000	-	6,000
Income taxes payable	81	80	190
Accrued expenses	3,827	3,878	4,774
Allowances	681	745	755
Other	11,593	13,409	11,674
Total current liabilities	96,612	58,892	78,219
<b>Long-term liabilities</b>			
Bonds	8,000	8,000	8,000
Long-term loans payable	14,637	14,081	15,375
Allowances	371	343	356
Other	3,131	5,832	5,603
Total long-term liabilities	26,140	28,257	29,334
Total liabilities	122,753	87,150	107,553
<b>( SHAREHOLDERS' EQUITY )</b>			
Common stock	5,483	5,483	5,483
<b>Capital surplus</b>			
Additional paid-in capital	15,281	15,281	15,281
Other capital surplus	0	-	-
Total retained earnings	15,282	15,281	15,281
<b>Retained earnings</b>			
Legal reserve	1,370	1,370	1,370
Voluntary reserve	16,921	17,686	18,193
Unappropriated retained earnings	49,676	48,126	46,399
Total retained earnings	67,968	67,183	65,963
Net unrealized gain on securities	2,287	1,795	2,078
Deposit of the execution of stock option rights	0	-	-
Treasury stock-at cost	(3,406)	(2,455)	(3,413)
Total shareholders' equity	87,617	87,287	88,185
Total liabilities and shareholders' equity	210,370	174,438	195,739

(Notes)

	Millions of yen	Millions of yen	Millions of yen
1. Accumulated depreciation of property and equipment	71,907	91,338	72,981
2. Liabilities for guarantee	2,993	3,704	3,277