

Consolidated Financial Report for the Second Quarter of Fiscal Year Ending March 31, 2010

November 2, 2009

Nihon Unisys, Ltd.

Stock Listing: Tokyo Stock Exchange 1st section
 Stock Code: 8056
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 Scheduled Submission Date for Quarterly Report: November 12, 2009
 Scheduled Starting Date for Dividend Payments: December 8, 2009

(Amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results in FY2010 Q2 (from April 1, 2009 to September 30, 2009)

(1) Consolidated Results of Operations

(Percentage below represents increase (decrease) from the same period of previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
FY2010 Q2	125,869	(14.3)	1,401	(66.0)	1,266	(67.0)	(237)	—
FY2009 Q2	146,890	—	4,117	—	3,844	—	1,668	—

	Earnings Per Share		Diluted Earnings Per Share	
	Yen		Yen	
FY2010 Q2	(2.48)		—	
FY2009 Q2	17.40		17.35	

(2) Consolidated Financial Position

	Total Assets		Net Assets		Shareholders' Equity Ratio		Net Assets Per Share	
	Millions of Yen		Millions of Yen		%		Yen	
FY2010 Q2 (As of September 30, 2009)	212,243		74,012		34.3		758.32	
FY2009 (As of March 31, 2009)	233,546		75,464		31.7		771.94	

(Reference) Shareholders' Equity FY2010 Q2: 72,731 Million Yen FY2009: 74,038 Million Yen

2. Dividends

	Dividends per Share				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2009	—	7.50	—	7.50	15.00
FY2010	—	7.50			
FY2010 (Forecast)			—	7.50	15.00

(Note) Revision of dividend forecast for this quarter: None

3. Consolidated Earnings Forecast for FY2010 (from April 1, 2009 to March 31, 2010)

(Percentage below represents increase (decrease) from the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Earnings Per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
FY2010	300,000	(3.3)	16,000	0.7	15,500	2.5	7,600	—	79.24

(Note) Revision of consolidated earnings forecast for this quarter: Yes

4. Others

- (1) Change in the scope of consolidation (change of condition of significant consolidated subsidiaries): None
- (2) Adoption of simplified accounting methods and adoption of accounting methods inherent in the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting principles, procedures, presentation methods, and other factors with respect to the preparation of quarterly consolidated financial statements (Set out within "Changes of Material Matters that are the Basis of Presenting Quarterly Consolidated Financial Statements")
1. Changes associated with revision in accounting standards: None
 2. Other changes: Yes
- (4) Number of shares outstanding (common stock)
- | | | | | |
|--|-----------|-------------|-----------|-------------|
| 1. Number of shares outstanding (including treasury stock) | FY2010 Q2 | 109,663,524 | FY2009 | 109,663,524 |
| 2. Number of shares of treasury stock | FY2010 Q2 | 13,751,202 | FY2009 | 13,750,874 |
| 3. Average number of shares outstanding during the period (cumulative) | FY2010 Q2 | 95,912,517 | FY2009 Q2 | 95,886,696 |

Comment regarding appropriate usage of Earnings Forecast, and other special notes

The above forecast relies on judgments and assumptions based on information available as of the date of announcement of this material, and is subject to changes in risks, uncertainties, and economy, and other factors that could cause actual results to be materially different from expectations.

Qualitative Information/Financial Statements

1. Qualitative Information on the Consolidated Operating Results

During the six-month period under review, despite signs of a partial economic recovery, the outlook for the Japanese economy remained harsh, with uncertainties given risk factors such as the effects of the global financial crisis and concerns about a global slowdown.

In the information service market, the weakening performance of the corporate sector meant that companies were less willing to invest in information systems, maintaining a cautious attitude as shown in postponed spending, budget cuts, and the limiting of outlays to those yielding a high return on investment (ROI). As a consequence, the business climate became more difficult.

In this business environment, Nihon Unisys Group (the “Group”) is seeking to strengthen our systems integration business, one of our core businesses. We also plan to expand our business in the information and communication technology (ICT) market, and reinforce our corporate structure, aiming to achieve our vision of becoming a high-growth corporate group under a management concept of sharing value with customers (U&U[®]: Users&Unisys).

To expand our business, the Group has been creating higher value-added businesses led by a newly established planning department of each business division. Specifically, in the domain of battery charging infrastructure for electric vehicles (EVs) and plug-in hybrid vehicles (pHVs), we have provided “smart oasis[®],” capable of user ID recognition amongst other functions, which is taking part in demonstration projects implemented by the Ministry of Economy, Trade and Industry and Osaka Prefecture. Also, we have been providing the “Accident-Free Program DRTM (drive recorders),” an ICT service that helps reduce auto accidents and encourages environmentally-friendly driving. We have received many inquiries about these new businesses that we are actively working on.

In addition to our core system integration business, the Group continued to focus on expanding our utilization-type service businesses, such as outsourcing and SaaS (Software as a Service) through the ICT Services division in collaboration with other divisions.

As part of these efforts, the Group began to provide “iSECURE[®] Print Management Service,” which strengthens printing security, reduces printing costs, and realizes environmentally friendly measures; “LearningCastTM,” an educational platform which supports companies broadly in their training operations and can reduce the operating costs of training systems by up to 90% as compared with conventional training servers; and a service package that supports measures against new strains of influenza. Furthermore, we have drastically enhanced the structure of our sales force for our “SASTIK[®] Service,” which enables users to securely access their intracompany website services from anywhere by inserting a dedicated USB authentication key into personal computers connected to the Internet. We have been proactively expanding the business for this service, which has been proven by major trading companies.

In addition, the Company has announced a strategy to provide a Wide-Area Administrative ICT Service, which consists of a service that provides SaaS-type solutions for local governments (local government ICT service) and an ICT service that enables local governments, NPOs, and other organizations to jointly solve local problems (public ICT service).

Under this strategy, in the third quarter we would release the “UniCity[®] Comprehensive Document Management System - SaaS Edition,” which improves the efficiency of document management operations by local governments, and “SAVEaidTM,” a SaaS-type crisis management/information sharing system which enables local governments and companies to effectively carry out initial restoration activities in case of disaster.

To strengthen our corporate structure, the Group unified technology divisions and developed technical strategies that are associated with our business and merchandise strategies. The Group also developed an environment that allows us to use and

apply our technologies more promptly. These initiatives have helped unveil new business opportunities.

The newly established Software Inspection division contributes to the improvement of our quality of service and profitability by inspecting deliverables in the upstream process of system development to detect failures early.

Looking at the consolidated operating results for the six-month period under review, net sales were ¥125,869 million, down 14.3% from the corresponding period of the previous fiscal year, primarily due to a decrease in sales of system services, network integration, and hardware.

In terms of profits, although profit margins of system services and outsourcing improved, gross profit declined due to a fall in sales. However, because selling, general and administrative expenses dropped, operating income was ¥1,401 million, down 66.0% from the previous year, and ordinary income was ¥1,266 million, down 67.0%. The Group posted a net loss of ¥237 million, compared with a net income of ¥1,668 million for the same period of the preceding year, reflecting ¥652 million, a loss on valuation of investment securities as an extraordinary loss.

* SASTIK is a trademark of Saslite Corporation.

2. Qualitative Information on Consolidated Financial Position

At the end of the six-month period under review, total assets were ¥212,243 million, down ¥21,302 million from the end of the previous fiscal year, because of a decrease in accounts receivable-trade and cash and deposits despite an increase in merchandise and finished goods and work in process.

Liabilities totaled ¥138,231 million at the end of the six-month period under review, a fall of ¥19,849 million from the end of the previous fiscal year, mainly because of a decline in accounts payable-trade, the redemption of commercial papers, and repayments of loans payable.

Net assets were ¥74,012 million. The shareholders' equity ratio was 34.3%, up 2.6 percentage points from the end of the previous fiscal year.

(Cash Flows)

With respect to cash and cash equivalents, cash generated by operating activities was allocated to the purchase of software and repayment of loans payable.

As a result, cash and cash equivalents was ¥29,958 million as of the end of the six-month period under review, down ¥6,087 million from the end of the previous fiscal year.

Net cash provided by operating activities was ¥9,246 million (down 52.3% year on year), reflecting a decrease in accounts receivable-trade.

Net cash used in investing activities was ¥6,190 million (down 22.7%), mainly because we acquired noncurrent assets in the form of computers for outsourcing and software development.

Net cash used in financing activities amounted to ¥9,184 million (up 13.6%), chiefly owing to the repayment of loans payable and the redemption of commercial papers.

3. Qualitative Information on Consolidated Financial Forecast

A recovery in IT investment by companies is forecast to take some time even in and after the second half of the current fiscal year due to the deterioration of the domestic business environment caused by the economic downturn that has been ongoing since last year.

Given this situation, the Company will revise our consolidated earnings forecasts for the current fiscal year (from April 1, 2009 to March 31, 2010), which we announced on May 11, 2009, as shown below.

(Full fiscal year)

	Net sales (Millions of yen)	Operating income (Millions of yen)	Ordinary income (Millions of yen)	Net income (Millions of yen)	Earnings per share (Yen)
Previously announced forecast (A)	310,000	16,000	15,000	8,200	85.49
Revised forecast (B)	300,000	16,000	15,500	7,600	79.24
Change (B - A)	(10,000)	—	500	(600)	—
Percentage change (%)	(3.2)	—	3.3	(7.3)	—
Results for previous fiscal year	310,127	15,883	15,116	(8,819)	(91.96)

4. Others

(1) Changes in the scope of consolidation (change of condition of significant consolidated subsidiaries)

There is no applicable item.

(2) Adoption of simplified accounting methods and adoption of accounting methods inherent in the preparation of quarterly consolidated financial statements:

There is no applicable item.

(3) Changes in accounting principles, procedures, presentation methods, and other factors with respect to the preparation of quarterly consolidated financial statements:

(Additional information)

▪ Change in the scope of the application of the percentage of completion method

We previously adopted the percentage of completion method for software development contracts which cost ¥100 million or more and were deemed to be certain of achievement at the end of the fiscal year, and adopted the inspection basis for other contracts. Meanwhile, we reviewed the project management systems of the Company and certain consolidated subsidiaries so that the progress of smaller software development contracts or construction contracts that started in the first quarter of the current fiscal year can be managed accurately. As such, we are applying the percentage of completion method to contracts of the Company and certain consolidated subsidiaries that cost ¥50 million or more and that are deemed to be certain of achievement during the six-month period under review.

With this change, consolidated net sales for the six-month period increased ¥557 million, and operating income, ordinary income, and income before income taxes and minority interests each increased ¥192 million.

▪ Change of the asset grouping method in impairment accounting

In principle, the Group previously implemented the grouping of business assets in order to understand signs of impairment in noncurrent assets for business use and recognizing and assessing impairment losses based on the revenue segment by contract types.

However, as a result of reviewing the units for managing the profitability of noncurrent assets holdings during the second quarter of the current fiscal year, with a view to expanding the outsourcing business we decided to change the method of grouping assets held for providing services from the conventional method based on the revenue segment by contract types to one based on a contract group that uses the same noncurrent assets. We also decided to change the method of grouping noncurrent assets used in the lease equipment business from the previous one based on revenue segment by contract types to one that groups by customer.

The change in the asset grouping method has had no effect on consolidated financial statements.

5. Quarterly Consolidated Financial Statements

(1) CONSOLIDATED BALANCE SHEETS

Millions of Yen

	FY2010 Q2 (As of September 30, 2009)	FY2009 (As of March 31, 2009)
ASSETS		
Current assets		
Cash and deposits	29,958	36,146
Notes and accounts receivable-trade	51,130	66,285
Short-term investment securities	30	-
Merchandise and finished goods	8,575	6,797
Work in process	6,080	4,709
Raw materials and supplies	237	227
Deferred tax assets	11,198	10,389
Other	10,271	9,614
Allowance for doubtful accounts	(209)	(481)
Total current assets	117,271	133,687
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	4,423	4,565
Machinery, equipment and vehicles, net	8,776	10,354
Other, net	4,983	4,932
Total property, plant and equipment	18,182	19,852
Intangible assets		
Goodwill	3,625	3,733
Software	22,243	21,472
Other	69	69
Total intangible assets	25,939	25,275
Investments and other assets		
Investment securities	14,453	15,505
Deferred tax assets	15,387	16,307
Prepaid pension cost	9,444	12,089
Other	12,150	11,463
Allowance for doubtful accounts	(584)	(636)
Total investments and other assets	50,849	54,729
Total noncurrent assets	94,972	99,858
Total assets	212,243	233,546

Millions of Yen

	FY2010 Q2 (As of September 30, 2009)	FY2009 (As of March 31, 2009)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	17,841	24,927
Short-term loans payable	10,558	12,779
Current portion of long-term loans payable	16,071	15,033
Commercial papers	7,000	11,000
Income taxes payable	811	2,350
Allowance for restructuring charges	4,213	6,161
Other allowances	604	776
Other	29,266	30,247
Total current liabilities	86,367	103,275
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	37,453	40,620
Deferred tax liabilities	819	1,035
Allowance for retirement benefits	1,315	1,308
Other allowances	232	225
Negative goodwill	46	54
Other	1,996	1,561
Total noncurrent liabilities	51,863	54,805
Total liabilities	138,231	158,081
NET ASSETS		
Shareholders' equity		
Capital stock	5,483	5,483
Capital surplus	15,475	15,475
Retained earnings	71,975	72,932
Treasury stock	(19,260)	(19,260)
Total shareholders' equity	73,674	74,631
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(952)	(626)
Deferred gains (losses) on hedges	(43)	20
Foreign currency translation adjustment	53	13
Total valuation and translation adjustments	(942)	(592)
Subscription rights to shares	674	600
Minority interests	606	825
Total net assets	74,012	75,464
Total liabilities and net assets	212,243	233,546

(2) CONSOLIDATED STATEMENTS OF INCOME

Millions of Yen

	FY2009 Q2	FY2010 Q2
Net sales	146,890	125,869
Cost of sales	110,530	92,807
Gross profit	36,360	33,062
Selling, general and administrative expenses	32,242	31,660
Operating income	4,117	1,401
Non-operating income		
Interest income	101	76
Dividends income	248	188
Other	158	209
Total non-operating income	508	474
Non-operating expenses		
Interest expenses	633	540
Other	147	68
Total non-operating expenses	781	609
Ordinary income	3,844	1,266
Extraordinary income		
Gain on sales of investment securities	10	–
Reversal of allowance for doubtful accounts	–	294
Gain on reversal of subscription rights to shares	–	65
Settlement received	423	–
Other	0	22
Total extraordinary income	433	381
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	42	43
Loss on valuation of investment securities	62	652
Provision of allowance for office transfer expenses	166	–
Provision of allowance for doubtful accounts	36	7
Other	27	439
Total extraordinary loss	335	1,142
Income before income taxes and minority interests	3,942	506
Income taxes-current	852	631
Income taxes-deferred	1,552	336
Total income taxes	2,404	967
Minority interests in loss	(130)	(223)
Net income (loss)	1,668	(237)

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions of Yen

	FY2009 Q2	FY2010 Q2
Operating activities:		
Income before income taxes and minority interests	3,942	506
Depreciation and amortization	7,173	6,739
Amortization of goodwill	54	107
Amortization of negative goodwill	(8)	(7)
Increase (decrease) in allowance for retirement benefits	(43)	6
Increase (decrease) in allowance for restructuring charges	–	(1,948)
Increase (decrease) in other allowances	(1,228)	(486)
Interest and dividends income	(349)	(265)
Interest expenses	633	540
Decrease (increase) in notes and accounts receivable-trade	23,919	15,155
Decrease (increase) in inventories	(4,379)	(3,159)
Increase (decrease) in notes and accounts payable-trade	(9,494)	(7,087)
Other, net	2,353	1,755
Subtotal	22,571	11,859
Interest and dividends income received	350	270
Interest expenses paid	(641)	(553)
Income taxes paid	(2,899)	(2,330)
Net cash provided by operating activities	19,380	9,246
Investing activities:		
Purchase of short-term investment securities	–	(30)
Purchase of property, plant and equipment	(3,448)	(1,407)
Proceeds from sales of property, plant and equipment	169	26
Purchase of intangible assets	(4,479)	(4,380)
Purchase of investment securities	(296)	(505)
Proceeds from sales of investment securities	15	8
Other, net	33	98
Net cash used in investing activities	(8,005)	(6,190)
Financing activities:		
Net increase (decrease) in short-term loans payable	(2,218)	(2,185)
Proceeds from long-term loans payable	–	2,500
Repayment of long-term loans payable	(3,775)	(4,628)
Increase (decrease) in commercial papers	(1,500)	(4,000)
Purchase of treasury stock	(1)	(0)
Proceeds from exercise of stock option	40	–
Payment of dividends	(575)	(718)
Payment of dividends for minority interests	(36)	(5)
Other, net	(21)	(145)
Net cash used in financing activities	(8,087)	(9,184)
Effect of exchange rate change on cash and cash equivalents	0	40
Net increase (decrease) in cash and cash equivalents	3,288	(6,087)
Cash and cash equivalents, beginning of period	21,603	36,046
Cash and cash equivalents, end of period	24,891	29,958