

Analysis of Results of Operations and Financial Condition

Business Results

Net Sales

For the year ended March 31, 2009, businesses reacted to the global financial crisis by postponing, drastically reducing or freezing their IT investment, and by limiting investment to projects with proven profitability. This situation was reflected in a substantial decline in sales of system services, software and hardware. Net sales were ¥27,632 million, or 8.2%, below the previous year's level at ¥310,127 million.

Net Sales by Business Category

(1) Services

Sales of support services remained strong, but there were significant falls in sales of system services and network integration services. Total net sales in this category were ¥9,873 million, or 4.0%, lower year-on-year at ¥234,913 million.

(2) Software

Net sales declined by ¥7,012 million, or 17.9%, year on year to ¥32,207 million. In addition to the impact of the economic recession, which caused a sharp decline in sales of major projects, the lower figure also reflects the fact that a number of major projects were included in the sales for the previous year.

(3) Hardware

As in the software category, hardware sales were significantly eroded by the recession, and lease revenues were also lower. As a result, net sales in this segment were ¥10,747 million, or 20.0%, below the previous year's figure at ¥43,007 million.

Services accounted for 75.7% of total net sales, compared with 72.5% in the previous year. The contribution from software sales fell from 11.6% in the previous year to 10.4% in the current year. Hardware sales contributed 13.9%, down from 15.9%.

Note: The figures cited above do not include consumption tax.

Operating Income

Despite improved margins on system services, gross profit was ¥5,922 million, or 6.9%, lower year on year at ¥80,109 million in the fiscal year. Reasons for the lower figure include the completion of major outsourcing projects and an increase

in depreciation. Gross profit was also lower because of reduced software and hardware sales.

Selling, general and administrative expenses were ¥2,156 million, or 3.2%, lower year on year at ¥64,226 million. On this basis, operating income amounted to ¥15,883 million, a year-on-year decline of ¥3,766 million, or 19.2%.

Net Income

There was a ¥21,586 million impairment loss on assets that are used to provide outsourcing services to regional banks. We also recorded a ¥6,161 million provision for restructuring charges that is to be incurred from the operation and maintenance/support of the outsourcing business in the following years. The result was a net loss of ¥8,819 million, a year-on-year decline of ¥11,365 million from the previous year's net income of ¥2,546 million.

Financial Condition

Balance Sheet

At the end of fiscal year, the total assets of the Nihon Unisys Group amounted to ¥233,546 million, a year-on-year reduction of ¥24,912 million. Despite a ¥14,443 million increase in cash and cash equivalents, total current assets were ¥12,473 million lower, mainly because of a ¥22,378 million reduction in accounts receivable-trade. Total non-current assets were ¥12,439 million lower than the end of previous year. Reasons for this decline included a ¥14,646 million reduction in software, which resulted in part from an impairment loss on outsourcing resources for regional banks.

Despite a provision for restructuring charges, we continued to repay debt. This helped to reduce liabilities by ¥14,036 million from the position at the end of previous year to ¥158,081 million.

Total equity declined by ¥10,876 million year on year to ¥75,465 million. The shareholders' equity ratio was 1.2 points lower at 31.7%.

Cash Flows

Cash and cash equivalents (hereinafter referred to as "cash") for the fiscal year under review increased by ¥14,443 million to a balance of ¥36,046 million as of the end of fiscal year. This reflects the fact that cash provided by operating activities was used to acquire fixed assets, such as computers for business use, and retire debt.

Cash Flows from Operating Activities

Net cash provided by operating activities increased by ¥27,708 million year on year to ¥46,300 million. Compared with an income before income tax and minority interests of ¥10,216 million in the previous year, there was a loss before income tax and minority interests of ¥13,023 million in the fiscal year. Depreciation and amortization was ¥448 million lower year on year at ¥14,722 million. There was non-cash expenditure, including impairment loss of ¥21,586 million and a provision for restructuring charges of ¥6,161 million. Accounts payable-trade declined by ¥4,656 million year on year to ¥9,768 million, but inventories also increased by ¥1,056 million year on year to ¥5,835 million. In addition, accounts receivable-trade increased by ¥20,027 million, year on year to ¥22,417 million, due to the collection of accounts. These and other factors were reflected in higher operating funds.

Cash Flows from Investing Activities

Net cash used in investing activities declined by ¥8,855 million year on year to ¥20,248 million. Expenditure on the acquisition of property, plant and equipment, such as computers for business use, was ¥1,459 million lower year on year at ¥6,792 million. Expenditure on the acquisition of software for outsourcing purposes among others was ¥3,411 million lower at ¥11,391 million. Other expenditure items included ¥2,157 million for the acquisition of shares in AFAS Inc., compared with expenditure of ¥6,677 million for the acquisition of shares in NETMARKS INC. in the previous year.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥11,600 million, compared with the ¥8,815 million in net cash provided by financing activities in the previous year. There was a ¥1,771 million net decrease in short-term debt, compared with the previous year's net reduction of ¥10,500 million. Proceeds from long-term debt declined by ¥38,325 million year on year to ¥1,825 million, while repayments of long-term debt were ¥10,075 million lower at ¥8,750 million.

Working Capital Requirements

The Nihon Unisys Group needs operating capital to pay for outsourced system and support services, and for the purchase of computer software for sales, leasing and outsourcing purposes. Operating capital is also required to meet manufacturing costs and selling, general and administrative expenses.

Operating expenses consist primarily of personnel costs, business support costs and R&D expenditure. The main components of operating support costs and R&D expenditure are personnel costs for systems engineers. The Group's policy is to meet its operating capital requirements for these purposes mainly from net cash provided by operating activities.

To ensure reliable, flexible access to funds and improve its financial efficiency, the Group has established commitment lines with five banks. The unused balance of these commitment lines as of March 31, 2009 stood at ¥15,000 million.