



November 21, 2002

**Consolidated Interim Financial Results
for the Fiscal Year Ending 31st March 2003
(Six months ended September 30, 2002)**

Company name: ELMIC SYSTEMS, INC.

Stock code: 4770

Stock market listing: Tokyo Stock Exchange, Mothers Market

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Date of board meeting for approving financial results: November 21, 2002

SEC accounting standards: The Company does not apply SEC accounting standards

1. Consolidated Interim Financial Results (From April 1, 2002 to September 30, 2002)

(1) Financial results

	Net sales		Operating Income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Interim ended Sep. 2002	741	(7.1)	(109)	-	(113)	-
Interim ended Sep. 2001	798	(11.6)	(120)	-	(116)	-
Fiscal year ended March 2002	1,906	(6.9)	(230)	-	(196)	-

	Net income		Net income per share, (basic)	Net income per share, (diluted)
	¥ millions	%	¥	¥
Interim ended Sep. 2002	(147)	-	(28.80)	-
Interim ended Sep. 2001	(142)	-	(26.84)	-
Fiscal year ended March 2002	(235)	-	(44.45)	-

(Notes) 1. Equity in earnings of unconsolidated subsidiaries:

Interim ended September 2002: 6 ¥millions

Interim ended September 2001: 2 ¥millions

Fiscal year ended March 2002: 6 ¥millions

2. Average number of shares outstanding:

Interim ended September 2002: 5,115,162 shares

Interim ended September 2001: 5,306,925 shares

Fiscal year ended March 2002: 5,307,072 shares

3. Changes in accounting principles applied: None

4. The percentages shown for sales, operating income, ordinary income, and net income represent changes from the corresponding of the previous year.

(2) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
As of Sep. 30, 2002	¥ millions 3,410	¥ millions 2,953	% 86.6	¥ 604.69
As of Sep. 30, 2001	3,907	3,440	88.0	648.22
As of March 31, 2002	3,902	3,415	87.5	643.49

(Notes) Number of shares outstanding

Interim ended September 2002:	4,883,720 shares
Interim ended September 2001:	5,307,680 shares
Fiscal year ended March 2002:	5,307,220 shares

(3) Cash flows position

	Net cash provided by (used in) operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at end of period
Interim ended September 2002	¥ millions 113	¥ millions (138)	¥ millions (210)	¥ millions 1,432
Interim ended September 2001	(120)	(252)	(40)	1,677
Fiscal year ended March 2002	(327)	(49)	(42)	1,682

(4) Scope of consolidation and the application of equity method

Consolidated subsidiaries: 2

Unconsolidated subsidiaries accounted for under the equity method: None

Affiliates accounted for under the equity method: 1

(5) Changes in the scope of consolidation and affiliates accounted for under the equity method

Consolidated subsidiaries:

New: None

Excluded: None

Affiliates accounted for under the equity method:

New: None

Excluded: None

2. Forecast for the Fiscal Year ending March 2003 (From April 1, 2002 to March 31, 2003)

	Net sales	Ordinary income	Net income
Fiscal Year ending March 2003	¥ millions 2,180	¥ millions 22	¥ millions 12

(Reference): Estimated net income per share for the fiscal year ending March 2003: ¥ 2.34

The above-stated forecast for the fiscal year ending March 2003 is an outlook which the management made based on the information available on the day of this report. Readers should be aware that actual future results may naturally vary from it due to various affecting factors, and requested to be cautious enough not to rely on this forecast excessively in investment decision. Those factors include the economic environments of major markets, developments of the demands of our products as well as their price movements, fluctuations of foreign exchange rates, revisions of regulations, accounting principles, trade

practices which may take place in and outside Japan, and so on.

1. Corporate Group

The ELMIC SYSTEMS Group, which includes ELMIC SYSTEMS, Inc. (the Company) and its affiliates companies, is made up of the Company, Elmic Systems USA, Inc., a wholly owned subsidiary, AIRFOLC Corporation, which is 78% owned by the Company, and WESCOM Inc., which is 25% owned by the Company.

Elmic Systems USA sells IPv4 TCP/IP in Europe and North America. To prepare for the requirements of high-speed Internet connections, the software development division of Elmic Systems USA is working on the creation of a next-generation IPv6 TCP/IP, which is generally referred to as an IPv6 protocol stack. As work has advanced to the prototype stage, this technology is expected to be commercialized in the second half of the current fiscal year.

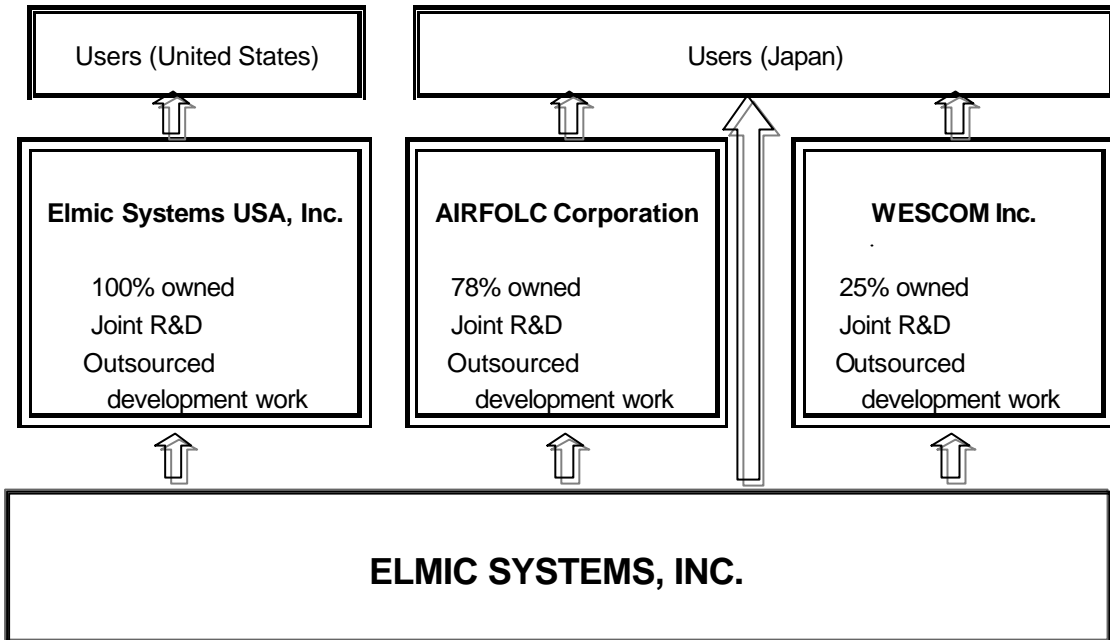
AIRFOLC Corporation is an organization of engineers engaged primarily in the development of VoIP-related software that will enable the transmission of voice and visual data over the Internet.

WESCOM Inc. is a software and systems developer that was established in 1982 by its president Kazuya Murashima, who serves as deputy chairman of the Japan System House Association. The company is involved in a broad range of software development activities, extending from microcomputers to general-purpose computers, and from stand-alone units to large-scale computing systems.

The major products are as follows.

Product Category		Description	Participation of Group Companies			
			ELMIC SYSTEMS	Elmic Systems USA	AIRFOLC	WESCOM
Internally Produced	Communications	Software and hardware for wired and wireless communications Internet				
	Internet	TCP/IP modules for embedded applications (using the KASAGO brand in Japan and the Turbo Treck brand in the U.S. and Europe) and related optional products				
	Windows	Windows embedded solutions (Accel- μ) for communications devices				
	RTOS	Exclusive RTOS (ELX), ITRON and other existing RTOS products, Linux products				
Purchased Products	System Integration Software, PCs and other merchandise	Products and system development projects using proprietary ELMIC SYSTEMS technology Products for Windows, Linux and TCP/IP, semiconductor-related products				

[Business Flowchart]



Only companies that are either consolidated or accounted for using the equity-method of accounting are shown here.

2. Management Policies

(1) Basic Management Policy

The ELMIC SYSTEMS Group is guided by the management philosophy of “justice and logic.” The basic code of behavior is “speedy, compact, perfect.” In accordance with these precepts, the Group aims to be an organization capable of meeting the expectations of customers. The Group is mainly involved in the provision of real-time OS (RTOS) products for embedded systems, the commercialization of software, and customized (or system integration) services that meet specific customer needs. Consequently, the Group depends heavily on expertise in the field of software. As the experience and skills of employees are critical to the Group’s ability to serve customers, management places priority on realizing the full potential of all employees and retaining personnel.

(2) Basic Policy Regarding Distribution of Earnings

As a software company, ELMIC SYSTEMS must maintain sufficient funds to pursue a medium- to long-term business plan and conduct an aggressive R&D program. Accordingly, the basic policy is to return earnings to shareholders in the form of a stable dividend while preserving sound operating and financial bases.

(3) Key Performance Indicators

The Company and its consolidated subsidiaries are working to draw on their collective resources to maximize earnings, with the goal of returning to consolidated profitability as quickly as possible.

(4) Mid-Range Strategy

By 2005, many home electronics appliances other than the PC will be linked to the Internet along with all other types of electric products (devices built into other products). To capitalize on the resulting opportunities, the Group is placing priority on the research and development targeting the necessary software. Particular emphasis is being placed on IPv6, the next-generation of the TCP/IP software that is essential for all Internet links. Development work is taking place primarily at the U.S. subsidiary. In addition, the Group is determined to begin selling Internet-related products at precisely the right times. For this purpose, the Group is accumulating the necessary funds (to establish affiliated companies and invest in partners) and engineers to bolster its technical capabilities. The Group is also enhancing its financial position by amortizing R&D expenditures in a suitable manner.

Sales

The ELMIC SYSTEMS Group is an independent organization having no affiliations with other companies. As such, the Group sells its products to numerous major producers of electrical products as well as to companies in many other industries. To serve this diverse customer base, the Group is upgrading its ability to conduct sales that seamlessly link expertise in marketing and the development of new technology. Sales target strategic customers and the introduction of new products that reflect market needs.

Development

The Group’s core products are RTOS, communications software and other items that are distinguished by their technology and broad market coverage. From this base, the Group is developing new products and building systems (system integration) using those products to meet

customers' demands. The pace of technological progress in embedded systems is extremely rapid. It is imperative that ELMIC SYSTEMS be prepared to offer the embedded products and services for next-generation equipment as well as products for the subsequent generation. For this purpose, the Group is focusing on acquiring new technology, fostering its engineers and many other necessary measures.

1) Communications Software

In the IT arena, the Group is working together with large manufacturers of electronics products in the development of Bluetooth, IEEE802.11 and other next-generation wireless communication protocols. The Group is also forming business alliances in its drive to acquire knowledge involving new technologies.

The Company has been supplying manufacturers of semiconductor devices with communications boards equipped with software based on a U.S. system. Recently, the Company developed and began selling the SoftCOM package system, which completely replaces this system with software. SoftCOM is fully compatible with SEMI (a U.S. standard), making it easy to use for customers while generating a high gross profit margin.

2) Internet Software

There are widespread concerns about the availability of IP addresses within a few more years under the present IPv4 TCP/IP. In response, ELMIC SYSTEMS is working with Elmic Systems USA to develop a next-generation IPv6 protocol for embedded systems. The first product is to be introduced in the second half of the current fiscal year. Called KASAGO Pv6, the new protocol will be sold as a single package (a dual-mode protocol stack) with the KASAGO TCP/IP (IPv4), which has a proven record of reliability. Currently, the new IPv6 product is undergoing evaluations by large customers. The final version of this protocol will incorporate exclusive ELMIC SYSTEMS design specifications to meet the demands of a broad range of applications, extending from high-performance information terminals to home appliances.

The ELMIC SYSTEMS Group is also conducting its own research in many other areas. Examples include the H.323 protocol, which will make possible VoIP (for audio and video), IPsec for maintaining secure communications links, and router protocol for connecting many terminals at once.

3) Windows

ELMIC SYSTEMS' expertise has been leveraged to create Accel- μ , which facilitates a seamless link between Windows CE and ITRON, and develop automotive systems (car navigation, others) that operate within a Windows environment.

4) Real-Time OS (RTOS)

In the RTOS market, open source is becoming increasingly common, as is the case with ITRON and Linux for embedded systems. ELMIC SYSTEMS is focusing on system integration services based on these kinds of RTOS. In addition, ELMIC SYSTEMS has developed Accel-Linux (Linux on ITRON), a system that offers the advantages of both systems: the unrestricted development environment of Linux and the fast processing speed of ITRON. Furthermore, ELMIC SYSTEMS has on its own developed Hyper ITRON (with specifications that differ from those released by the TRON Association), which adds object protection, memory protection and other functions demanded by an ITRON development environment.

5) System Integration

The ELMIC SYSTEMS Group offers its consulting services, a particular ELMIC SYSTEMS strength that links core technology and products, and system development services to enhance the total performance of systems used in embedded systems (finished products). With regard to embedded systems, the operation of software within a particular physical environment, such as the hardware, is critical. The experience of engineers is essential to delivering the needed performance. With expertise gained over its 25-year history, ELMIC SYSTEMS can offer customers a valuable advantage in this regard.

6) Others

ELMIC SYSTEMS' ELX, the first RTOS developed in Japan, was used in many PCs. The ELX286 was embedded in the PC98 system of NEC and other industrial PCs. With NEC having announced that it will stop selling the PC98 after two years, ELMIC SYSTEMS on its own developed an industrial PC called iNHERITOR for the purpose of allowing the continued use of the huge volume of software developed on the ELX286 platform. Deliveries will begin during the second half of the current fiscal year.

During this year's second half and the next fiscal year, the Group intends to develop more new products to further solidify its prominent position in its industry. This drive will be backed by the core technologies, products, highly experienced team of engineers and resources of Group companies, as has been outlined above.

The ELMIC SYSTEMS Group's product strategy will continue in the same basic direction as that outlined above. The Group is placing particular emphasis on the upcoming post-PC era. Embedded systems, such as phones and other mobile terminals, automotive systems, IT home appliances, kitchen appliances and all other electrical products, will be controlled via the Internet and exchange information. The TCP/IP will be at the nucleus of these systems. IPv6 will open the way to a virtually unlimited number of addresses. Both image processing (H.323) and security (IPSec) will be needed. In addition, as broadband communications take hold, the importance will grow not only of wired networks, but also of wireless networks and routers that facilitate communications within a limited scope. The Group is conducting development projects both internally and through alliances.

Along with the above measures, the Group plans to upgrade products for industrial applications, an existing market that includes systems for semiconductor manufacturing equipment.

Management of Sales and Development Activities

Management systems are being strengthened from the standpoint of corporate governance. The Group is building a more clearly defined structure for submitting reports and directives and performing other management-related tasks covering sales, gross profit, delivery times, cost of sales, quality assurance, support services and other operating items.

(5) Key Management Issues

- (a) Bolstering alliances
- (b) Maintaining stable relationships with reliable vendors
- (c) Training personnel

- (d) Upgrading risk management
- (e) Refining management systems
- (f) Improving marketing capabilities

With market expansion foreseen in the industry where the ELMIC SYSTEMS Group is active, the Group must seek to maximize earnings while minimizing risk. To accomplish this, the Group is working on cutting fixed costs (reducing selling, general and administrative expenses) and direct costs (cost of sales). At the same time, the Group must upgrade marketing capabilities to develop and sell products that accurately target market demands of the future.

(6) Measures to Improve Corporate Governance

The Group believes that the ability to effectively deal with management issues is essential to succeed in today's challenging operating environment. This demands a rapid and suitable decision-making system and a system of checks to ensure that businesses are conducted in a highly transparent manner. For this purpose, the corporate executive officer system was introduced in the fiscal year's second half (October 1), following preparations made during the first half.

Furthermore, in accordance with revisions to the Commercial Code, the corporate auditors, who were increased to three members, attend the monthly board meetings to ensure that all management actions are legal and appropriate.

(7) Basic Policy Regarding Related-Party (Parent Company) Transactions

As networks switch over to broadband technology, Elmic Systems USA, AIRFOLC and WESCOM are working to help create a new age in which embedded systems are linked via Internet. Each company is using its technology to offer products and services of an even higher quality. For this purpose, these companies share information on specific projects and hold monthly information meetings attended by directors.

(8) Other Important Management Issues

Not applicable

3. Other Significant Items

Listed below are major factors that could become sources of risk with regard to the Group's business development. Furthermore, from the standpoint of maintaining a policy of full disclosure of information to investors, this section also includes factors that could be regarded as important for reaching investment decisions even though these factors are not necessarily significant sources of risk. The Group is aware of these possible sources of risk and is taking measures to prevent the occurrence of such risk and deal with this risk if necessary. However, to reach a decision regarding an investment in the Company's stock, investors should carefully examine this section, all other information in this publication and other sources of information.

Items Involving Business Activities

Risk Related to the Communications Field

The Group is working to gain expertise in new technology primarily through joint research and other types of business alliances. As the Group could have difficulty acquiring new technology if these alliances had to be terminated, the dissolution of alliances could have a material impact on operating results.

Risk Related to the Internet Field

KASAGO IPv6 has been developed by using the widely used KASAGO TCP/IP(IPv4) as its base. Sales of the new KASAGO TCP/IP are to begin in the second half of the current fiscal year. The Group is currently in phase 2 of this project, which involves the development of optional IPv6 software and other products. Any delay in this development work could have a material impact on operating results.

Risk Related to System Integration

The Group works to hire skilled personnel and preserve the stability of system integration profitability and orders by maintaining sound relationships with vendors. The inability to maintain such relationships could have a material impact on results of operations.

The "Fables Policy"

ELMIC SYSTEMS designs hardware but has no manufacturing facilities of its own. Development and manufacturing activities are outsourced mainly to the companies listed below. To avoid the risk of holding excessive inventories of parts and production facilities, the Group is considering the use of new outsourcing partners that have flexible design and production capabilities. The development and manufacturing facilities of these partners are used under outsourcing contracts, and every effort is made to prevent problems regarding quality. Items that are developed are the assets of the Group and can be manufactured continuously at the factories of other outsourcing partners.

Reliance on Specific Outsourcing Partners (Orders to Vendors)

During the six-month period ended September 30, 2002, orders submitted to vendors totaled ¥205 million. Orders for major vendors were as follows.

(thousand yen)

Vendor	Product or task	Orders		Notes
		First half	Share (%)	
RockHand Technology	Specialty development	21,016	10.2	
Yamaki Electric Corporation	All types of hardware	17,448	8.5	
WESCOM Inc.	Specialty software	13,565	6.6	
MDK	Communications boards	10,517	5.1	
Raisey Systems	Specialty development	9,135	4.5	
Other (18 companies)		133,814	65.1	
Total		205,495	100.0	

Note: Above amounts do not include consumption and other taxes.

The Group does business with the above companies while closely monitoring management issues, the supervision of products and manufacturing, quality assurance and other items. Orders are submitted so as to spread out risk, avoiding an undue reliance on any particular company. Despite these precautions, management problems at one or more partners could have an impact on the Group's ability to supply products to customers. Consequently, the inability to ship products at the necessary time due to design, manufacturing and/or quality management issues at a development and manufacturing partner could have a material impact on results of operations.

Human Resources

Personnel involved in marketing and development activities will be critical to the Group's ability to grow. However, partially due to the small size of the industry, there is only a limited number of talented individuals. Competition among companies to hire these individuals is fierce, creating the risk that the Group may not be able to hire the necessary people. ELMIC SYSTEMS has hired new personnel professionals and is revising its personnel system with the aims of helping attract talented individuals and motivating the workforce. In the previous fiscal year, the remuneration framework was revised with the adoption of a management by Object System based on each individual's capabilities. In the event that the Group cannot hire sufficient numbers of qualified individuals or loses such individuals to other companies, the Group may have difficulty implementing its medium- and long-term strategies. This could have a material impact on results of operations.

Loans and Investments

The Group has concentrated investments in its core businesses through the years. Looking ahead, the Group plans to aggressively expand a broad scope of businesses that are based on existing products and services. This will entail the establishment of subsidiaries, formation of alliances and other steps in Japan and overseas.

Future investments, loans and other outlays may be substantial in relation to the current size of the Group and could result in greater risks associated with the Group's financial position and all operating activities. However, it is impossible to accurately project the effect that companies receiving such investments and loans could have on the Group's results of operations. It is possible that the Group will not be able to recover certain investments and/or loans.

Important Alliances

Important contracts entered into during the first half of the current fiscal year are as follows.

To gain expertise in new technology, the Group enters into a diverse range of business alliances. Most involve systems that will be commercialized in the future. The release of this information outside the Group would have a direct and negative impact on customers. For this reason, the Group enters into Non Disclosure Agreements with its customers and vendors in addition to sales and purchasing contracts. The list below includes only an alliance that can be revealed without violating Non Disclosure Agreements.

(1) Fujitsu LSI

- Purpose: Inclusion of KASAGO TCP/IP in Fujitsu's custom LSI for home routers
- Personnel exchange: None

Five-Year Summary

(1) The following table presents a summary of results of operations for the five-year period ended March 31, 2002.

(thousand yen)

Years ended March 31	1998	1999	Change (%)	2000	Change (%)	2001	Change (%)	2002 (previous year)	Change (%)
Net sales	2,109,655	1,115,334	52.9	1,719,550	154.2	2,005,663	116.6	1,906,922	95.1
Ordinary income (loss)	467,786	(175,987)	-	207,058	-	222,622	107.5	(196,983)	-
Ordinary income/Sales (%)	22.2	(15.8)	-	12.0	-	11.1	-	(10.3)	-

Note Regarding Significant Change in Results

Net sales were down 47.1% in the fiscal year ended March 31, 1999 compared with the previous fiscal year. This was due to the drop in demand for production equipment among major client industries for the group, including manufacturers of semiconductor production equipment, machine tools and signals. The Group's sales and earnings are susceptible to fluctuations in capital expenditures by producers of semiconductor production equipment and other manufacturers. These fluctuations could therefore have a material impact on results of operations.

The Group's engineers have been assigned to the development of major products for the next fiscal year and subsequent years. The Group will continue to assign as many engineers as the Group's resources will allow to the development of future products

(2) Regarding seasonal fluctuations in sales, demand exists throughout the year for products and services in the system integration, Windows and Internet businesses. Within these businesses, special development projects have the following characteristics.

- 1) Completions of development themes of users tend to occur mainly at the end of fiscal periods, causing sales to rise in the final months of each six-month fiscal period.
- 2) Due to the tendency for the end of user development themes to coincide with fiscal periods, second-half sales tend to be higher than in the first half.

(thousand yen)

Six months ended	Sept. 30 2000	March 31, 2001	Sept. 30. 2001	March 31, 2002	Sept. 30. 2002
Period-end month	Sept. 2000	March 2001	Sept. 2001	March 2002	Sept. 2002
Sale in period-end month	275,841	338,096	258,741	404,256	247,953
Share of total interim sales (%)	30.34	30.65	36.88	42.39	40.01
Share of total annual sales (%)	13.66	16.85	15.63	24.42	-

Stock Dilution and Granting of Stock Options

Stock Options

The success of the Group depends greatly on its ability to attract and keep talented individuals. Directors and employees receive stock options to provide a means of incentive pay, and plans call for continuing to grant these options in the future. These options could dilute the value of stock already held by investors.

In accordance with its Articles of Incorporation and Article 280-19-1 of the Commercial Code of Japan, an extraordinary shareholders meeting was held on March 22, 2000 for the purpose of asking shareholders for approval to grant stock options to directors and employees. A summary of these options follows.

Item	Stock acquisition rights
Type of shares	Common stock
Number of shares to be issued	181,000
Issue price	¥700/share
Exercise period	March 22, 2002 through March 31, 2005
Eligible individuals	1 director, 35 employees

The remaining number of shares to be issued may change if any options are no longer valid because a director or employee who has received options ceases to work for the Group prior to the beginning of the time when options can be exercised.

Related Party Transactions

Seichi Nobuhara, who is an external director of the Company, is the representative director of IBT Corporation, a company that does business with the Group. IBT serves the Company by constantly providing information on events and trends at the Japanese Ministry of Economy, Trade and Industry and in the IT industries of Japan and the U.S., as well as reports on upcoming trends and strategies at prominent companies.

(thousand yen)

Category	Name	Address	Monetary ties	Business or position	Voting rights and share	Relationship		Products and services provided	Transaction amount	Account	Period-end balance
						Joint director etc.	Business ties				
Director or close relative	Seichi Nobuhara			Director of Elmic Systems, Representative Director IBT Corp.	None			Comprehensive proposal and consulting service for sales activities in Japan and overseas (see note 2)	1,800	Accounts payable-Other	315

Notes:

1. All amounts shown do not include consumption and other taxes.
2. Contract terms are determined through negotiations and on the basis of contract terms used by companies that have no relationship with the ELMIC SYSTEMS Group.

4. Results of Operations

(1) Results of Operations for First Half of Fiscal Year (Six months ended September 30, 2002)

During the first half of the current fiscal year, Japan's economy continued to deteriorate, with stock prices reaching a new post-bubble low. Among the reasons were the lingering effects of the terrorist attacks in the U.S., bankruptcies at U.S. companies caused by improper management practices and lackluster consumer spending in Japan and overseas. Delays in dealing with problem loans also impacted Japan's economy. Japan's GDP is expected to post negative growth and the reluctance of financial institutions to extend loans and other factors are raising corporate bankruptcies to a post-war high. Uncertainty about the government's measures to stimulate the economy and other concerns are making the operating environment even more challenging amid a lack of any signs of a recovery.

First-half sales and earnings were about the same as the projections at the beginning of the fiscal year. As is customary in the Group's industry, orders were high in the first half of the fiscal year. The second half is normally a period for deliveries and the posting of sales. Accordingly, there are no changes in the forecast for the full fiscal year.

Results by Product Category

In the markets where the ELMIC SYSTEMS Group is active, conditions were challenging due to the aftermath of the bursting of the IT bubble. Investments in the semiconductor manufacturing industry declined and there was a steep drop in orders for equipment using semiconductors. At ELMIC SYSTEMS, the decline in communication-related sales (boards) that began in the previous fiscal year continued.

On the other hand, there is a rising need for embedded systems that are linked to the Internet as the growth of broadband networks causes a shift in demand. In response, ELMIC SYSTEMS launched the KASAGO IPv6. This software has been sent at no cost to large manufacturers for evaluation. Synergies are beginning to appear between this new version and the current version, KASAGO TCP/IP IPv4 and its optional software, and sales are rising as a result. Acceptance of IPv6 is particularly noteworthy for use in high-volume communications applications, such as those for broadcasting devices, video monitoring devices and networks for AV equipment, and in standardized communications equipment.

In Windows-related products, technical collaboration with Microsoft Corp. was enhanced for Windows CE for car navigation systems. In the automobile industry, the trend toward automotive networks is rapidly gaining momentum. To serve this market, the Group is offering consulting services for automotive systems (Windows CE for automotive applications) and other services. These achievements attest to the solid reputation of ELMIC SYSTEMS' technology and point to more growth ahead.

In the real-time OS (RTOS) field, ELMIC SYSTEMS' ELX and Linux for embedded systems performed well, backed by solid ITRON-based development activity. Drawing on its strengths in both Linux and ITRON, ELMIC SYSTEMS introduced Accel-Linux. Development of Hyper ITRON, an ITRON that includes protection functions, was completed in the first half and will go on sale in the fiscal year's second half.

In system integration, unit prices were weak due to deflationary forces. Despite this, there was an increase in specialty projects that tap the Group's skill in products and technology. However, due to the length of these projects, orders received will not contribute to sales until the second half of the fiscal year. Most orders involve the development of new products for introduction in the following fiscal year or the year afterward, demonstrating the strong demand among users for ELMIC SYSTEMS' skills in technology, project management and consulting. As even higher levels of quality in products and services will be required in the future, the Group is concentrating on acquiring skills in new technology and hiring talented individuals.

Consolidated subsidiary Elmic Systems USA is working on development of the Group's IPv6 products and handling sales in North America and Europe. This company has captured several large orders. In June,

the company established its first base in Europe by setting up a sales office in France, the first step in the full-scale implementation of the Group's global strategy. Results at this subsidiary improved dramatically compared with the previous fiscal year, which was its first year of operations.

Due to the above factors, first-half consolidated net sales decreased 7.1% year-on-year to ¥741 million, there was an ordinary loss of ¥113 million and a net loss of ¥147 million.

Sales by product category				Six months ended Sept. 30, 2002	
Category	Product			Sales (thousand yen)	Share
Manufactured products	1	Comm.	Standard communications boards	131,913	17.8
			ISDN boards	37,284	5.0
		(Subtotal)			169,198
	2	Internet Products		231,770	31.3
	3	Windows Products		63,037	8.5
	4	RTOS Products		45,702	6.2
	5	SI Products		172,870	23.3
(Total Manufactured Products)				682,578	92.1
Purchased Products	6	Others		58,812	7.9
Total				741,391	100.0

Due to seasonal factors involving the nature of the Group's business activities, sales tend to be recorded mainly in the second half of each fiscal year, resulting in substantial differences between first- and second-half sales.

In the current fiscal year, first-half sales were ¥741 million, compared with ¥798 million in the first half of the previous fiscal year, when consolidated net sales amounted to ¥1,906 million for the full fiscal year.

Results by geographic segment were as follows.

(a) Japan

Net sales in Japan decreased 12.4% to ¥619 million and there was an operating loss of ¥89 million.

(b) North America

Sales totaled ¥121 million and operating income was ¥1 million.

(2) Cash Flows

During the first half of the current fiscal year, there was a net decline of ¥250,365 thousand in cash and cash equivalents to ¥1,432,042 thousand as of September 30, 2002. The main reasons were the loss before income taxes of ¥124,038 thousand, payments of ¥101,500 thousand for the purchase of securities and payments of ¥169,390 thousand for the repurchase of stock.

A summary of first-half cash flows follows.

Operating Activities

Net cash provided by operating activities was ¥113,266 thousand, compared with ¥233,488 thousand one year earlier. The major reason was an increase of ¥234,699 thousand in trade receivables.

Investing Activities

Net cash used in investing activities was ¥138,761 thousand, compared with net cash used of ¥113,965

thousand one year earlier. The largest use of cash was ¥101,500 thousand for the purchase of securities.

Financing Activities

Net cash used in financing activities was ¥210,509 thousand, compared with net cash used of ¥170,003 thousand one year earlier. The largest use of cash was ¥169,390 thousand for the repurchase of Company stock.

Forecast for Current Fiscal Year (Year ending March 31, 2003)

(Forecast by Product Category)

As the economies of Japan and the U.S. softened, there has been a decline in capital investments among manufacturers compared with the previous fiscal year, notably among semiconductor manufacturers. This situation caused a steep drop in sales by manufacturers of semiconductor production equipment, a major source of demand for the Group's products. There was a sharp decline in sales of standard boards that are embedded in various types of equipment, and an absence of any signs of an upturn during the fiscal year's first half. Demand for ISDN boards was also severely impacted, including a downturn in replacement demand for POS equipment. In the semiconductor sector, the history of the silicon cycle indicates that conditions will eventually improve. The Group is preparing for this upturn by continuing to conduct software development activities (for SoftComGEM and others), but second-half contributions to sales by such new products will be minimal.

In the Internet sector, orders are climbing, primarily for software development. As the bottom of the IT depression becomes visible, manufacturers are moving ahead with concrete plans for new mobile phones, car navigation systems, home appliances and other products that incorporate IT capabilities. Expectations are thus high for IPv6 and optional software, which will begin generating orders and sales in the fiscal year's second half, in the coming fiscal year.

In the Windows sector, the decision of DENSO CORPORATION to use Windows CE in its car navigation systems led to the receipt of a consulting contract from this customer, as was announced in newspapers on February 4, 2002. This development points to a promising future for Windows-related activities.

In RTOS, ELMIC SYSTEMS' exclusive ELX OS and ITRON, which has a high market share, have been the focus of new product development activities. As a result, the Group introduced Accel-Linux, which draws on its strengths in Linux for embedded systems and ITRON. Interest in this product is steadily climbing. Another promising development is Hyper ITRON, which adds object-protection and memory protection functions to the ITRON multitasking monitor. The Company will begin accepting orders in the fiscal year's second half.

In system integration, the Group is concentrating on capturing orders for customized systems by utilizing its powerful product lineup and skilled team of technicians. The goal is producing even more profitable software. However, this software targets devices that will be commercialized several years from now and highly intricate devices. Consequently, projects are becoming larger and completion times longer. To deal with this trend, the Group is working on refining the skills of its technicians to increase sales by making development work more efficient.

ELMIC SYSTEMS regards itself as a software producer that has its own products rather than merely as a software house that takes on projects from users. The Group's strategy is to identify protocols and software products that are highly promising from the standpoint of marketing, and then to develop and produce those products itself. This strategy naturally entails risks related to investments for development activities. Mitigating this risk is the Group's many years of experience in the industry, its base of prominent customers and its central role in numerous industry organizations. These strengths will be used to evaluate the potential of new software products. By offering its own products, the ELMIC SYSTEMS Group can build an even more profitable sales system and use customization to add more value to its

products and services.

Software products developed during the fiscal year's first half are as follows.

1. Internet-related Software

Phase 2 of TCP/IP IPv6 and optional software were, developed jointly with Elmic Systems USA. A video-compatible version of H.323 was developed jointly with AIRFOLC.

2. Real-time OS

The Group began development in the previous fiscal year of Accel-Linux, a hybrid OS that brings together Linux and ITRON. This OS is now operational on all types of CPUs. Additionally, Hyper ITRON was developed, offering object protection and memory protection, two functions that were not possible with the conventional ITRON.

In response to NEC's decision to phase out the PC98, the iNHERITOR industrial PC was developed.

3. Communications

Development is under way of SoftComGEM (to replace U.S. software that the Group currently resells), a communications protocol for semiconductor production equipment.

Due to the above factors, the Group aims to fulfill its initial forecast for the current fiscal year: net sales of ¥2,180 million, ordinary income of ¥22 million and net income of ¥12 million.

Consolidated forecasts for the fiscal year ending March 31, 2003 are based on the judgments of management in accordance with information currently available. Actual results may differ materially from these forecasts for numerous reasons. Consequently, investors are cautioned not to make investment decisions based solely on these forecasts. Factors that may affect results include, but are not limited to, economic conditions in major markets, changes in demand for products and product prices, rapid technological advances, fluctuations in foreign exchange rates, various regulations and restrictions in Japan and overseas, and changes in accounting standards.