

**Nihon Unisys, Ltd.**  
**Earnings Announcement**  
**for the Second Quarter of the Fiscal Year Ending March 2019**  
**held on November 6, 2018**

**Principal Questions and Answers**

(with certain details modified in an attempt to provide readers with a deeper understanding)

(Note) The expression 'FY/Fiscal Year' utilized in this document indicates a fiscal year which finishes at the end of March of the following year.

Example: The expression of FY 2018 refers to the fiscal year ending March in 2019.)

[Questioner A]

Q :

Net sales for the first half (1H) of the fiscal year ending March 2019 (FY2018) increased by ¥2.0 billion compared with FY2017 Q2. Gross profit increased by ¥1.7 billion.

The increase in gross profit is high in contrast to the increase in net sales. Can I ask why?

A :

It is attributable to an increase in Outsourcing. Its improved operational efficiency made a significant contribution to the increase in gross profit

It is also ascribable to a continued strength of System Services.

We intentionally suppressed an operation rate of internal engineers up to the previous fiscal year. However, we plan to increase the rate slightly for the next three years as indicated in the mid-term management plan that we launched in this fiscal year.

Although we did not make successful bids for all software projects as we had expected to post in Q2, there were orders that we received unexpectedly. Some of them were highly profitable, and they helped drive gross profit.

Q :

How much of the gross profit increase of the first half was enabled by temporary factors?

A :

There were a few highly profitable product sales. They are two software sales worth approx.¥ 1.0 billion in total and one hardware sales worth approx.¥0.5 billion.

Q :

May I ask if those sales should have been posted in the second half (2H)? Did you post them ahead of schedule? If so, do I correctly think that there will be no impacts on the full-year forecast?

A :

Their postings had not been scheduled for 2H. We did not post them ahead of schedule.

[Questioner B]

Q :

You said that support services costs had been incurred in consolidating technical support offices in Q2. May I have an itemization?

A :

We have been making preparations in order to enable future-proof support services on the basis of our assumptions about cloud computing and IoT becoming further introduced and enhanced. Our preparatory efforts include those at some regional technical support offices. We have been more dependent upon partner companies in performing support services rather than our group companies. We paid costs for the duty transfer in Q2.

Q :

May I ask how much you paid for the business transfer in Q2?

Do you plan to enable a flexible cost structure through transforming support costs into variable costs (variabilization) in the future?

A :

We paid approx. a few hundred million yen for the transfer in Q2. We assume that further introduction and enhancements of cloud computing and IoT will promote real-time remote supports, rather than on-site supports. Accordingly, we will consolidate our technical support offices by the end of the next period. We will provide our on-site support services through partner companies.

Q :

I am aware of a decrease in the system services order of Q2 (down by 11.9% compared with Q2 of the previous fiscal year) and I remember an increase in Q1 (by 29.1%).

Does it mean that you posted in Q1 the increase that should have been posted in Q2?

Please confirm that there is nothing to be concerned about when it comes to the decrease in system services.

A :

System services of FY2018 Q2 look smaller in contrast to Q2 of the previous fiscal year.

Looking back upon FY2017 Q2, we received a system development order worth approx.¥2.0 billion from its 11th participant bank in the scheme of BankVision open core-banking system for financial institutions. Furthermore, we received an order for creating a mail-order business system.

We have continued to receive many small and medium-sized orders mainly from financial, power, and distribution businesses. However, none of them were comparable to those that we had experienced during Q2 of the previous fiscal year. As a result, we suffered a decrease in order

amount in Q2 this year.

Having said that, order backlogs of system services increased by ¥1.8 billion at the end of September compared with the same period of the previous fiscal year. Thus, the situation poses no concerns for 2H.

Q :

Can I have your opinions about sales results of the focal areas in 1H, from the viewpoint of progress in light of the full-year forecast? The sales amount of fee-for-service business stays at the same level as FY2017 Q2. What do you think is needed in order to increase the sales in the future?

A :

The sales amount of fee-for-service business in the focal areas is expected to remain almost unchanged in 2H. Having said that, we have conducted POCs in the areas where we have made attempts to digitize customer interaction solutions for our customers and optimize labor productivity through digitization in the area of workstyle reform. We have seen some of the projects gradually entering a phase of commercial viability. We aim to achieve our full-year forecast through an increase in such projects.

Our fee-for-service business net sales are mainly comprised of those of a prepaid card business and services about an EV charging station network that we have continuously provided. We are watching the situations of our prepaid card business in an environment where electric money is becoming a dominant payment means for consumers. In future, we aim to promote our electronic payment/settlement business by further increasing issuers and member shops. Furthermore, we will increase sales of our focal areas by bearing in mind when a charging stand network system and sharing economy such as carsharing operations based on the system become prevalent in Japan.

[Questioner C]

Q :

You have received many enquiries about system services. Please specify in which areas you are busy.

A :

We have witnessed a significant change in the quality of system services projects. In the past, we used to spend two years in developing a large-scale core system. Recently, we have come to deal with small to mid-sized projects such as those in the areas of customer interaction solutions, front office solutions and RPA (Robotic Process Automation). We are seeing our strengths through these projects. We think that this tendency will continue, and we will lay the groundwork by receiving all orders without fail.

Q :

May I have the actual operation rate of system engineers in the first half?

A :

I mentioned that the operation rate for Q1 of the fiscal year was 84% when we announced our Q1 results. It was 83% for the first half, at the same level as the average of the previous full fiscal year (81% for FY2017 1H)

Q :

You said that outsourcing order for FY2018 1H decreased compared with the first half of the previous fiscal year when a long-term large-scale project had been posted. Please itemize and detail the decrease.

A :

Looking back on 1H of the previous fiscal year, a large-scale BankVision renewal project worth more than ¥7.0 billion had been posted. Furthermore, we had posted a shinkin bank project worth approx. ¥5.0 billion. In the first half of this fiscal year as well, we posted a shinkin bank project worth approx. ¥7.0 billion and many small-sized projects. However, the outsourcing order in this 1H suffered a decrease of ¥4.9 billion, compared with the same period of the previous fiscal year.

Q :

You have been making efforts to use more of cloud computing for core-banking system, as exemplified in attempting to operate BankVision on Microsoft Azure. May I ask about enquiries from users in response?

A :

On-premises operation will doubtlessly be replaced by cloud-computing operation in the future. We need slightly more research about cloud-computing for our services before ensuring commercial viability. Operating cloud services will enable financial institutions to control costs of core systems and easily connect with other types of services in light of Fintech. We will see more demands from financial institutions. Core-banking systems should not be out of operation, and thus we would like to absolutely ensure that our cloud solutions will be capable of satisfying their technical and operational requirements.

Q :

May I ask if you will be able to receive orders from BankVision's existing users and also new users as well once you satisfy technical requirements?

A :

Financial institutions tend to invest in strategic areas (such as front office solutions), rather than cost areas (such as core-banking system). Accordingly, we did not set an aim to obtain new users for the existing BankVision scheme when we established the mid-term management plan. We know that there are some financial institutions continuously using mainframe core-banking systems. We will perform sales activities well-timed with their system renewal schedules. We will not dare to engage in price competitions in order to receive orders.

[Questioner D]

Q :

Net sales of the focal areas increased by ¥2.6 billion in 1H. Please itemize and detail.

A :

We posted projects of digitizing customer interaction solutions and those related to Fintech and digital transformation in 1H of the fiscal year. Resonatex, an open API sharing platform for financial institutions and solutions capable of reforming bank branch offices have been becoming capable of making cognizable sales contributions. Sales of Smart Campaign, our new marketing solution, are small but they have been gradually increasing, as well.

Q :

You forecast a ¥5.4 billion increase in sales of the focal areas in 2H. Will the sales increase be comprised of different contributors than it was in 1H?

A :

We focused on increasing issuers in the area of electronic payment/settlement business. In the future, we plan to increase member shops. We expect that we will begin to see small positive signs in 2H. Furthermore, we have already received orders for bank branch office reformation solutions in the customer interaction areas. We aim to achieve our plan by posting the orders in 2H.

Q :

May I have operating margin for your priority business areas?  
Can I expect a further increase in the future?

A :

We perform several PoCs and R&Ds in the focal areas. Therefore, the operating margin for all the focal areas is at the same level as that of our conventional businesses. However, some businesses such as pay-per-use business and fee-for-service business have already exceeded a break-even point, and their operating margins are in the range of 20% to 30%.

We would like to make efforts to increase further businesses capable of prevailing in communities and exceeding a break-even point likewise, and we have already confident with our attempts. Pay-per-use businesses and fee-for-service businesses do not increase costs even if their transactions increase. Therefore, their profitability will increase in accordance with an increase in transaction volume, after exceeding a break-even point.

(Note)

Forecasts in this document rely on judgments and assumptions based on information available at present. Actual results may differ from the forecasts due to changes in risks, uncertainties, economy and other factors. Thus, the certainty of these forecast is not guaranteed by our Group.

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