

**Earnings Announcement
for the First Quarter of the Fiscal Year Ending March 2021
held on August 6, 2020**

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 FY2020 refers to the fiscal year ending March in 2021.)

[Questioner A]

Q : May I ask your take on your actual order results for this first quarter?

The orders level of the first quarter (Q1) of the previous fiscal year was high and tough to beat. However, the orders of the second quarter (Q2) of FY2019 decreased by 11.5% on a year-over-year comparison. If we take this into consideration, do you think that you can ensure an increase in orders for Q2 of FY2020?

A : It was difficult for us in April and May when we could not launch some projects. However, an increase in orders in June eventually conducted to an increase in net sales for Q1.

Although the quantity of order backlogs indicates a tight number, the project pipeline is more filled than the previous fiscal year with projects including those that are unofficially approved and await a contract document being signed and exchanged and that significantly increased. Therefore, we think that we can see orders recover to a certain extent in Q2.

We need to allow leeway in thinking whether all of the projects will be posted in the first half (H1) or the second half (H2). However, we are sufficiently confident about a quantity of full-year orders.

Q : It seems that other SIers have seen some of their customers reduce ICT budgets and prolong related procedures due to earnings deterioration. I would like to confirm your situations. You go through lengthy procedures at customers before launching projects. You have suffered difficulties in your sales activities. However, your customers have not reduced ICT investments, have they?

A : We have seen some of our customers strongly susceptible to the COVID-19 pandemic. First of all, businesses related to inbound tourism suffer a devastating blow. Eventually, their situations had strongly negative consequences on our fee-for-service business net sales. We have many customers who are major players in the transportation industry. They have suspended ICT projects. Be that as it may, we serve customers of other industries through DX-related projects that absorbed the negative performance and added up to the actual result of this Q1. We are not different from other SIers. We have had a hard time performing business for customers in the industries impacted by the COVID-19 pandemic. Against this background, we are in a situation where: we are forced to limit our activities to receive orders; we have not moved forward further for enabling a physical exchange of contract documents; we have not been able to launch a project as soon as we wish. Accordingly, we give ourselves leeway in deciding what timing to post sales.

[Questioner B]

Q : May I ask about trends of orders that you receive from your customers of each industry?

A : Our customers of the airline industry and railroad industry are impacted much by the COVID-19 pandemic. Part of our customers in the manufacturing industry show signs of impact. On the other hand, businesses related to energy and distribution are keen on investments.

Q : If you foresee a decrease in demands, even though you can recover an order quantity in and after Q2 in the fiscal year, do you think that we might not expect a quantity comparable to the level of the previous fiscal year? Or, do you think that your business in high demand can outperform and absorb your poor performing sections?

A : We would like to ask you to allow leeway in thinking about our situations. We expect that we will have an empty pipeline of orders from some industries where customers have been already afflicted for the fiscal year. On the other hand, we have come to see order pipelines filled gradually in excess of FY2019 with orders from other business sectors and industries. Furthermore, we have seen projects such as those related to GIGA School concept piling up for which there were no pipelines before. We hope that these pipelines will help us meet the forecast for this fiscal year.

Q : Can we safely assume that your business structures described in the mid-term management plan will not be skewed or even damaged under stress from the COVID-19 pandemic?

A : We are not concerned with signs of the pandemic impacts on us such as the operating rate of our engineers which was down by no more than 1%. We would like to be considerate in listening to our customers who are affected by the pandemic and ask for our understandings about their performance partly by discounting costs. We have made efforts to visualize costs with our cost structures kept in mind for the past few years. We are most concerned with achieving an operating margin of '8% or more' amongst all the targets that we listed in the mid-term management plan. We achieved the target in the previous fiscal year. We would like to repeat the achievement for this fiscal year partly by controlling costs.

[Questioner C]

Q : You referred to a project suffering a cost overrun worth ¥0.5 billion in Q1. I would like to ask you to summarize the project.

A : The project is for a customer of the distribution industry. We have known the high risk of developing a system from scratch since the very beginning of the project. Our subcontractors as well as we have had a hard time in coping with developing a subsystem under the pandemic stress. The project should have already been in the production operation phase. However, we decided to postpone the operation phase, and we provided for the necessary costs worth ¥0.5 billion. We think that the operation phase will be in the next fiscal year.

Q : I would like to know situations of your fee-for-services businesses. Can I ask about your Japanese QR code/bar code settlement services?

A : We have seen a steady growth of our Japanese QR code/bar code settlement services under the circumstances where a cashless economy has been promoted partly due to a point return campaign issued by the Japanese government and partly due to the COVID-19 pandemic. The growth outperforms unfavorable businesses related to inbound tourism and sharing economy. As a result, the net sales of our fee-for-services business segment increased on a year-over-year basis. We think that we made a sufficient growth of the business segment.

Q : May I ask about the quantity of your handling Japanese QR code/bar code settlement services? Has it been steadily increasing, not decreasing, even after the end of point return campaign?

A : More users were enticed by the campaign and became first users of QR code settlement services. We think that upon using once, they would appreciate the comfort of use and became users of QR code payment services in general. We expect a certain level of use to continue in the future.

[Questioner D]

Q : In a case where your sales and orders are less likely to meet your expectations, how much more cost savings can you make?

A : We keep the full-year forecast that we set in the beginning of the fiscal year. The forecast is predicated on a plus or minus less than 10% deviation. We think that we can achieve an 8% operating margin targeted in the mid-term management plan by controlling variable costs. Furthermore, we are considering a contingency plan partly based on controlling fixed costs. In this connection, we finished identifying all cost items partly through reviewing office facilities. We will keep an eye on the situations for a while. We will weigh the option of controlling fixed costs against the option of improving productivity.

Q : May I ask about the situations of business inquiries that you receive about the GIGA School concept?

A : The GIGA School concept business is part of the business segment where UNIADDEX, Ltd. of our group company has strengths. The business segment mainly comprises: businesses related to networks in coordination with telecommunications carriers; and security-related businesses; and products sales. This segment size is broadly variable based on situations of bidding projects. We are now examining the business pipeline in order to have clues to estimating the business size.

[Questioner A]

Q : Profitability would have been improved if you had no impacts from an unprofitable project in Q1. Operating income would have been further driven. Can I safely assume that you can improve profitability decently in Q2?

A : The service-type businesses will show a high profitability. Although we could not launch small and medium-size service-type projects in April and May, the pipeline is filled with many service-type businesses. We can expect a decent income if we launch them in August and September. We can expect promising net sales from the hardware business. However, the hardware business profit is subject to combinations with support services. Therefore, the gross profit of hardware is not so promising from a short-term perspective. The sales mix of these businesses will eventually add up to a performance result of the first half. Our standard for revising and announcing the net sales and income forecast uses the actual results of the previous fiscal year as the baselines. It stipulates that if the net sales of the first half is likely to deviate up to a plus/minus 10% from the baseline, and if the income of H1 deviates up to a plus/minus 30%, we need to revise the forecasts and announce accordingly. However, we think that our actual deviation will not be that much.

Q : Do you mean that you may suffer a drop in earnings for the first half?

A : We think that we have enabled sufficient cost controls, and therefore we can achieve our income at the same level as the previous fiscal year. However, it is possible that large-scale projects may be pushed back. Although we do not think that it is highly possible that income will make a downturn, we give ourselves leeway in carefully looking at the situation.

(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. Also, the information is subject to change without prior notice in future. Information in this document is intended to provide further understanding of Nihon Unisys, Ltd. and is not intended to solicit investment. This Company shall not be held responsible for any damages whatsoever incurred as a result of utilizing the information provided in this document.