Q&A at the Conference on Financial Results for First Quarter FY2018

Question	Answer
Q1 : What is your outlook of the overseas LNG tanks construction project going forward?	A1 : Although we claimed all damages which did not cause from our responsibility, there is a possibility to claim additionally because we continue to discuss it with our legal counsel. In terms of the future schedule, we negotiate with an overseas subcontractor first and take legal actions against them unless we reach agreement. It is the opinion of our legal counsel that it takes at least one year to settle, and in some cases it takes two to three years.
Q2 : Why is the decrease in the operating income margin in Precision Machinery & Robot segment and what is your outlook going forward?	A2 : <Hydraulic components> Production has not kept up with demand since fiscal year 2017 because order received from China has been growing significantly. Developing a supply chain is an urgent issue and we are taking measures ,such as supporting our suppliers, so SG&A expenses has been increasing. However, in order to solve bottlenecks, we are increasing overseas procurement and enhancing production capacity. Therefore, we believe that operating income margin is gradually recovered to expected level through the narrowing of demand supply imbalance. <Robots> Because of expanding the applications of robots, fixed costs are increasing. However, operating income tends to increase towards the end of fiscal year 2018, so we believe that operating income margin is gradually improve.

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Question	Answer
Q3 : Reasons for the increase of 2.3 billion yen in SG&A expenses are as follows. 1. Recording provisions for bad debt to an overseas distributor in Motorcycle & Engine segment 2. Increase in cost to boost our production volume in Precision Machinery & Robot segment 3. Increase in R&D expenses in Hydrogen project How much is each amount and are these temporary factors?	A3 : More than half of 2.3 billion yen is due to No.1. The impact of No.2 is not significant. No.1 and No.2 are temporary factors, but No.3 and increase in R&D expense in robot business will continue to increase. We think that they move above fiscal year 2017.
Q4 : Have you incorporated recording provisions for bad debt to an overseas distributor in Motorcycle & Engine segment within the forecast announced on April 26, 2018?	A4 : Although it has been a cause for concern, we have not incorporated it. However, we believe that we are able to absorb the temporary negative impact caused by recording provisions for bad debt because motorcycle sales are steadily growing mainly in developed countries. For this reason we understand that it is possible to achieve the forecast.
Q5 : What is the breakdown of the decrease in equity income of unconsolidated subsidiaries and affiliates? Do you forecast that it will also decrease on a full fiscal year basis?	A5 : The decrease in Ship & Offshore Structure joint ventures in China was significant. We think that it does not temporally issue but continue during fiscal year 2018, because the sales for this term are comprised of projects received when shipbuilding market conditions deteriorated. In addition, Medicaroid, which is developing medical robots, and Plant Engineering joint ventures in China decreased as well. However, these decreases are to be expected.

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Question	Answer
Q6 : Why is the tax rate exceptionally high and how is it on a full fiscal year basis?	A6 : Since tax expenses for full fiscal year are allocated to a quarterly period based on accounting standard, quarterly profit before tax is not always matching with quarterly tax expenses. Tax rate for the current first quarter is exceptionally high, but we believe that it is gradually converging to conventional level towards the end of fiscal year 2018.
Q7 : In Ship & Offshore Structure segment, if there is no additional provision for loss on construction contracts, will operating income exceed the forecast announced on April 26, 2018?	A7 : We are going to record additional retirement benefit expenses due to reorganization of subsidiaries performed within the restructuring of Ship & Offshore Structure segment, so we think that operating income is in line with the forecast, 1.0 billion yen.