Q&A at the Conference on Financial Results for Q2 FY2021

Q	A
Q1 : What was the impact and background of the loss at the shipbuilding joint ventures in China that worsened the equity in earnings of affiliates in FY2021 Q2?	A1 : Most of the equity in losses of unconsolidated subsidiaries and affiliates in FY2021 Q2 (-7 billion yen) was attributable to losses at a shipbuilding joint ventures in China. This is because (1) the steel prices have risen sharply since the summer of 2021, (2) the cost of purchasing steel in dollar-denominated transactions has increased due to the depreciation of the yen, and (3) there is a large backlog of orders due to the recent rise in demand for ships, which made the impact of (1) and (2) significant.
Q2 : Why did you revise down the operating profit forecast for Aerospace Systems from - 6 billion yen to - 10.5 billion yen for FY2021?	A2 : The main factor is a decrease in sales due to a decrease in production of Boeing 787s.
Q3 : Why both sales and operating profit for Aerospace Systems in the second half of FY21 are expected to improve significantly compared to the first half? sales : (1H) ¥133.3bn → (2H) ¥186.7bn operating profit : (1H) ¥ -9.1bn → (2H) ¥-1.4bn	A3 : In Aerospace business, sales to the Ministry of Defense are expected to increase in the second half. In Aero Engine business, sales of new engines are expected to increase and profitability is also expected to improve as operating hours recover.
Q4 : Is there any possibility of loss caused by the derailment incident of Washington Metropolitan Area Transit Authority (WMATA) railcar on October12, 2021?	A4 : We do not assume any loss risk attributable to our company at present. We were offered party status by National Transportation Safety Board and have been participating in the investigation into the cause. All cars were confirmed to have met the technical specifications when delivered to WMATA.
Q5 : With demand for construction machinery in China showing signs of abating, why did you revise up the sales forecast for the Hydraulic Components & Systems business from 160 billion yen to 165 billion yen for FY2021?	A5 : Orders from Chinese construction machinery manufacturers have started to recover, and we expect that demand in China will remain at a high level for the time being, although it will not reach the level of fiscal 2020. Demand from developed countries other than China is also expected to recover.

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Q	A
Q6 : Why did operating profit in FY2021 Q2 (June through September) for Motorcycle & Engine drop significantly from the Q1 (from ¥14.8 billion to ¥3.7 billion)?	A6 : This was due to a decrease in wholesales due to a shortage of semiconductors (net sales of ¥93.3 billion, down from ¥113.5 billion), as well as an increase in costs due to rising raw material prices and logistics disruptions.
Q7 : In the forecast for Motorcycle & Engines in FY 2021, how did you account for the risk of increasing expenses due to logistics disruptions, higher raw material prices, and shortages of semiconductors and plastics?	A7 : Risks have not been resolved, and we reflect these risks, particularly in terms of operating profits, in the full-year forecasts for FY 2021.
Q8 : Why the "Elimination and corporate " in operating profit was revised down from - 3.5 billion yen to - 7 billion yen in the full year forecast in FY2021?	A8 : In addition to increased costs from investments related to digital transformation (DX), costs for coping with risks arising from changes in the external environment are included.
Q9 : Why the balance of cash and deposits at the end of September 2021 had halved from the end of March 2021 (from 126.7 billion yen to 60.5 billion yen) due to repayment of interest-bearing debt, while interest-bearing debt had increased (from 593.3 billion yen to 651.9 billion yen)?	A9 : Cash and deposits at the end of March 2021 were higher than in previous years as we secured ample cash reserves through the issuance of corporate bonds and commercial paper to prepare for contingencies caused by the COVID-19. As the risk of outflow of funds due to unforeseen events had diminished, we used surplus cash on hand to repay interest-bearing debt. On the other hand, due to the nature of our company's business, free cash flow deteriorated in the Q2 and interest-bearing debt tended to increase. As a result, interest-bearing debt at the end of September 2021 was higher than that at the end of March 2021 due to borrowings exceeding repayments. Cash and deposits as a percentage of total assets at the end of September 2021 were at an average level, and there were no special factors during the first half of FY 2021.