

Summary of Questions and Answers at Briefing on Financial Results for 1Q FY2018

August 9, 2018

<FY18 1Q results>

Q: What about the results as compared to the internal plan?

A: It is difficult to judge looking just at the 1Q results, but both orders and profits were reasonably good, and in general things appear to be within the range set out by the internal plan.

Q: What about any recent trends, such as orders by region?

A: We are not aware of any major changes, but regarding CAPEX investment, etc., there appear to be signs of recovery in investment mindsets on some customers.

Q: What about the profit levels of the control segments in Japan and overseas?

A: Currently, Life innovation business, etc., are in a transitional period as they attempt to establish themselves, so profits of the control segments are difficult to analyze by looking only at the Q1 results. Domestically, last year saw several projects with low profitability temporary, so the profit has been an improvement at the Q1 results. On the other hand, although there are factors such as, in addition to our usual investment, the scheduled payment of strategic investment costs (in the order of several hundred million yen), including moves to strengthen information systems, we expect a slight improvement on the previous year's results. With control business overseas, by contrast, due to increased sales in China, coupled with the expansion of services and decreases in goodwill, we expect substantial improvements. In any case, we ask for some time to provide formal disclosure.

Q: How does the reduction of over 700 million yen in SG&A expenses relate to the increase of 100 million yen in SG&A expenses in the operating profit analysis (p.6 of the explanatory documents)?

A: The main reason for this is that, as part of the changes in accounting methods, SG&A and sales costs were reclassified, with the amount transferred between items coming to approximately 600 million yen.

Q: What about the Q1 results for KBC group?

A: While it does not have a significant impact in financial terms, they have shown a slow start, and we will make efforts to ensure the completion of the plan.

There is no change to the forecasts for FY18 disclosed in May. There are plans to extend orders by around 10%, but sales are expected to flatten out as the orders backlog is reduced. Operating profit is expected to be an improvement compared to last year, excluding special factors such as the provision of allowance for doubtful accounts.

Q: What about LNG-related business?

A: We expect an increase in CAPEX investment due to increased demand for gas. There are a number of projects, and as the company with the largest share of the market across the supply chain as a whole, we are paying attention to regions such as North America and Russia. We also have hopes for LNG-related business in China. Please be aware, however, that it takes some time for an investment decision on the part of our customers to lead to orders and sales for us.

Q: What about the impact of trade friction between the United States and China?

A: While at this point it is difficult to make any concrete financial estimates, we have not heard of any significant changes in bidding conditions, etc. Rather than a direct impact, we fear that trade friction will have an adverse effect on developing countries, resource-rich countries, and the world economy.

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Q: What are the conditions in the OPEX business?

A: We do not have precise figures for OPEX, but we perceive a slight increase in small project orders.

In terms of a specific ratio for OPEX, we are currently investigating this, including how it should be defined, so we would like to give a full explanation after Q2.

Note: The information pertaining to our business plans and forecasts that has been provided in this presentation and at analyst meetings contains forward-looking statements that are based on our management's current knowledge and require the making of assumptions about future events. As such, it cannot be guaranteed that these statements will not differ materially from actual results. Some of the text in this document has been modified to aid understanding.