Q&A Session at Results Briefing Meeting for FY 2015/3

Time and Date: From 10:00 a.m. to 10:50 a.m., Wednesday, May 13, 2015

Venue: 17th floor, Daiwa Conference Hall

[Q&A Session]

(Group-wide basis)

Q: Please explain the breakdown of the "Increase in SG&A expenses, etc." stated in the analysis of operating income for the fiscal year ended March 31, 2015.(Slide P6)

A: It consists of increases of 500 million yen in R&D expenses, 400 million yen in advertisement expenses, 300 million yen in IT-related expenses, improvement of overseas business bases with the purpose of expanding MRO (Maintenance, Repair & Overhaul) sales, and so on.

Q: Do you expect that the upward trend of SG&A expenses will continue after FY 2016?

A: There are two kinds of SG&A expenses—one is temporary and the other is permanent. In particular, we are prioritizing the improvement of overseas sales base networks for the automatic door business and the precision reduction gears business. Our budget for the automatic door business in Europe and the United States amounts to approximately 1 billion yen, but this budget was formulated last October. Therefore, it is likely to decrease on the back of our actions including revision of the business reflecting changes in the environment such as fluctuations in Swiss franc valuation with regard to expenses for Gilgen.

With respect to the precision reduction gear business, the sales offices in Europe were relocated and expanded and now can meet simple demand from customers, including repairs and sales. We anticipate an increase in expenses of approximately 400 million yen, which is considered as permanent SG&A expenses.

In Japan, we will make investments, for example, in the sales expansion of the stereolithograph lithography business (CMET Corp.). The amount of investment is relatively large compared to the business scale, but the absolute amount is small.

Q: Please explain whether the increase in the temporary SG&A expenses for the fiscal year under review is attributable to overseas business.

A: With respect to our business in North America, SG&A expenses, to which only a part of contribution by M&A were recorded in the fiscal year ended March 2015, are expected to increase in the fiscal year ending December 2015 when such contributions will continue through the whole year.

In Europe, we expect SG&A expenses increase, but need to revise the plan. SG&A expenses will be around 400 million yen, excluding the effects of foreign exchange.

As for the hydraulic equipment business in China, we will reduce expenses accordingly in line with the shrinking market. However, we will keep investing in growing businesses such as precision reduction gears.

(Concerning Hyest Corporation, the Company acquired in April 2015)

Q: I understand that net sales of Hyest Corporation remained at about 5 billion yen for the fiscal year ended March 2015, and that operating income was in the red. What are the necessary conditions for Hyest to turn profitable in the next fiscal year and thereafter? And, what is the target level for its profit margin?

A. In the next fiscal year ending December 2015, operating income in the aircraft equipment business is expected to turn profitable while “the increase in SG&A expenses” will also affect operating income in the aircraft and hydraulic equipment segment. Although our target for operating margin in hydraulic equipment is 0%, including a cost reduction, we are prepared to face negative results. We anticipate that profitability will be achieved in 2016 if the business reorganization is completed by the end of this year. But the amount of operating income depends on the status of the Chinese market.

There are two important points regarding the acquisition of Hyest. One is whether it is possible for us to implement marketing activities by the end of FY 2015 for existing customers (China, in particular) who have not used Hyest’s products. And the other point is when we will be able to begin sales of modularized products that we expect as part of the synergy of the acquisition. We will begin by modularizing our products for smaller sizes with stable market conditions.

Q. In the Business Plan for the fiscal year ending December 2015, which is shown as a reference, what are your target levels for net sales in the new energy business and railroad vehicle equipment for China?

A. Net sales for our new energy business represent only the sales of wind turbines, and target sales amount to 2 billion yen. At the same time, net sales of railroad vehicle equipment for the Chinese market are targeted at 13.5 billion yen.