

**(CMP segment)**

Question	Answer
<p>Could you please explain how much production capacity you have for precision reduction gears?</p>	<p>As of December 2017, we had a total production capacity of 700,000 units per year (under regular operations): 640,000 units in Japan and 60,000 units in China. In January 2018, we increased the total production capacity to 760,000 units per year: 680,000 units in Japan and 80,000 units in China. We will raise production capacity in China to 160,000 units per year by the end of 2018, bringing the total production capacity to 840,000 units per year. Furthermore, we aim to boost the total production capacity to 1.2 million units per year by FY 2020: 1.0 million units in Japan and 200,000 units in China.</p>
<p>Could you please explain why you decided such capacity expansion plan as you mentioned?                      In addition, what is the Company's estimate on the growth rate of the robot market?</p>	<p>In the first six-month period of FY 2017, we revised upward our sales plan for the CMP segment. This was due to the sharp growth in demand in the robot market. To get the jump on competitors, we decided to enhance our production capacity (under regular operations) from 1.0 million units per year to 1.2 million units per year by FY 2020.</p> <p>We have not changed our estimate on the growth rate of the robot market that we revealed when we announced the Medium-term Management Plan: "The compound annual growth rate (CAGR) of the Robot market (including all sizes from small to large) is around 15.0% (see the IFR report). The CAGR of the medium and large robot market is around 10.0%."</p>

Q&A session of the Analyst Meeting for FY December 2017

Date: Monday, February 19, 2018; 10:00 -11:30

Question	Answer
Orders for precision reduction gears decreased 3.0% in November and 30.0% in December on a MoM basis. It seems that the market has lost momentum. What is the Company's view on the market environment?	The market environment has not changed significantly. Orders for precision reduction gears declined 5.0% in the 4th quarter of FY 2017 on a QoQ basis. However, since it remains within the range of normal fluctuation, we do not consider it as a sign of a sharp fall in or a slowdown of demand. We believe that demand in the robot market is still on a growth path.
In the precision reduction gears business, does the Company selectively take orders?	No, we do not selectively take orders. In the past, we created some problems for customers. Since we gave priority to delivery to robot manufacturers, we sometimes failed to deliver products to general industry customers by the delivery dates. After such incidents, we were determined not to repeat the same mistake. Therefore, we have steadily built up our production capacity to meet the promised delivery dates 100% of the time.
Is there any change in market share and competitive environment?	We are paying attention to see if there is any change in competition in the Japanese and Chinese markets. We do not think competitors have caught up with us yet. We do not see any change in market share or competitive environment at the moment.

**(TRS segment)**

Question	Answer
<p>What is the Company's forecast for the railroad vehicle equipment business related to the Chinese high-speed railway? In addition, could you please explain how the Company sees the trend of the business?</p>	<p>Since domestic production of high-speed railway vehicles increased in China in FY 2017, we estimate that almost all the 350-km/h trains are now domestically manufactured. Consequently, our railroad vehicle equipment business decreased. Although our business related to the 250-km/h trains is also likely to diminish, we include some amount of sales in our plan for FY 2018. Meanwhile, we will continue the after-sales-services business (MRO). In response to such changes in the market of the Chinese high-speed railway, we plan to obtain demand in the subway business in China.</p>
<p>Could you please explain the sales plan for railroad vehicle equipment in China and give us the breakdown of sales? In addition, could you please explain the difference in profitability between the OEM and MRO businesses?</p>	<p>Annual sales of railroad vehicle equipment in China were 8,000 million yen in FY 2017 (high-speed railway: 45.0%; and subway: 55.0%). In FY 2018, we plan to achieve annual sales of 10,000 million yen. The portion of subway is projected to increase over FY 2017. We do not individually disclose the profitability of the OEM and MRO businesses.</p>
<p>When comparing the results of the TRS segment in FY 2017 with those in the revised plan in July 2017, the decline in operating profit was larger than net sales. Could you please explain why this happened?</p>	<p>The railroad vehicle equipment business related to the Chinese high-speed railway is one of our most profitable businesses. Furthermore, MRO in the aircraft equipment business also fell short of the plan. Consequently, the decline in operating profit was larger than net sales.</p>
<p>If sales of the TRS segment do not reach the target in FY 2018, do you think there is a possibility that the decline in operating profit will be larger than net sales, falling short of the planned figure?</p>	<p>If sales of the TRS segment do not reach the target in FY 2018, there is a possibility that operating profit will decrease due to a decline in net sales. However, we do not think there is a possibility that operating profit will substantially fall below the planned figure, since we have improved productivity.</p>

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Could you please explain what synergies the alliance with Ovalo that the Company acquired in January 2017 generated?	Since we have just started joint development in which the Technology Headquarters is mainly engaged, our alliance with Ovalo has not yet generated synergies in the form of new products or sales. However, we have gradually absorbed Ovalo's European style development method.
Could you please explain the results of MRO and the progress against the plan?	In FY 2017, MRO accounted for around 30.0% of the TRS segment's sales. We do not disclose the plan of MRO sales.

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<b>(General notes)</b>	
Question	Answer
<p>When undertaking the allotment of subscription rights to shares of Harmonic Drive Systems, the Company raised the share of equity. Is the capital increase related to the allotment included in cash flow in FY2018?</p>	<p>The undertaking of the allotment of subscription rights to shares of Harmonic Drive Systems, around 600 million yen, is included in cash flow in FY 2018. Most parts of cash flow from investing activities are related to capital expenditures.</p>
<p>Could you please explain what synergies the alliance with Harmonic Drive Systems generated?</p>	<p>Since Harmonic Drive Systems and the Company jointly invest in Harmonic Drive LLC in the United States, we have learned many things about the small robot market environment in the United States. Furthermore, we would like to jointly develop technology in Japan.</p>
<p>Is the expansion of production capacity to 1.2 million units per year by FY 2020 in the precision reduction gears business included in the capital expenditure plan for FY 2018 that the Company is formulating? In addition, in FY 2018, the Company plans to double capital expenditure from FY 2017. Does the Company think it can harvest its investment?</p>	<p>The capital expenditure plan for FY 2018 includes the expansion of production capacity to 1.2 million units per year by FY 2020 in the precision reduction gears business. The operation rate, particularly in the Tsu Plant, was high in FY 2017. This seems to go against the government's work style reform. Therefore, we plan capital expenditure including labor-saving investment. Consequently, capital expenditure may not directly contribute to sales growth. We ask for your kind understanding on the background to our capital expenditure.</p>