Summary of Q&A at FY2016 1Q Financial Results Briefing

August 12, 2016

Q  Were there any change in the market?
A  There were no major changes. Orders and sales continued to be solid in regions including the Middle East and Japan and in industry sectors such as oil & gas downstream. The upstream business was struggling, but the market conditions were better year on year.

Q  What is the reason that orders and sales were better than your competitors despite the reduced CAPEX and OPEX investment by customers?
A  Orders and sales were solid in the Middle East and ASEAN, and were getting better in China. Our strength in the downstream industry also contributed to the better results.

Q  How were orders outside Japan going?
A  Orders outside Japan that excluded the impact of exchange rate and the acquisition of KBC was down 4.3 billion yen year on year, mainly because we received orders for large projects in the Middle East in FY15 1Q. But the orders were mostly in line with our plan and we did not change the annual plan. As the quarterly orders depend on the number of large projects, we need to judge the figures on a yearly basis.

Q  How were Japan orders going?
A  Large project orders decreased year on year, but small project orders were solid. We changed our Japan sales organization from industry based to geographical location based in order to more focus on the customers. Our activities with our sales distributors are producing good results, and we think that we are doing well in the solution business in the Japan market.

Q  What is the reason that sales exceeded the plan?
A  The Japan sales were solid due to the large backlog. Sales outside Japan increased in ASEAN and China. The Middle East sales were nearly unchanged.
Q Your cost reduction target for FY16 is about 4.3 billion yen. How much cost reduction did you achieve in the 1Q?
A It was about 0.6 billion yen (COGS 0.3 billion yen and SG&A 0.3 billion yen). We expect that the effect of the cost reduction in global logistics and other items will come out in or after the 2Q.

Q The gross profit decreased by about 1 billion yen in the 1Q due to strategic projects. Will it continue to decrease?
A No. Expenses for strategic projects were concentrated in FY16 1Q. On the other hand, no expenses were recorded for strategic projects in FY15 1Q. The annual budget for strategic project expenses in FY16 (almost 1 billion yen) are not changed, and we think gross profit will improve in the 2Q-4Q of FY16.

Q How do you execute strategic projects?
A We carefully choose strategic projects based on various reasons, so the impact of strategic projects for the profit is slight. Our business model generates profits throughout the lifecycle after the installation and the strategic projects will also become profitable finally. Additionally, strategic projects have no big impact on our future profitability even if they are unprofitable when the orders are received because the profitability is improved while we execute the projects.

Q What was the impact of Brexit after the acquisition of KBC?
A The impact was not big. KBC orders and sales only account for about 2% of total. When sales are dollar-based and the cost is pound-based, operating income increases but the impact is also small.

Q Why did your tax rate increase?
A Taxable income of companies in Japan was down by the impact of the exchange rate.

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.