

Q&A at the Conference on Financial Results for Second Quarter FY2018

Question	Answer
<p>Q1 :</p> <p>What is the root cause of the deterioration in the Rolling Stock business?</p>	<p>A1 :</p> <p>The domestic market is saturated and strong competition continues, so we need to maintain overseas markets, especially the US market where we have been in business for about 40 years, to sustainably grow the Rolling Stock business. Overseas projects have various risks, so we need highly sophisticated risk management and capability to execute contracts. However, we suppose that our risk management may have become loose as we expanded business in US.</p>
<p>Q2 :</p> <p>What kind of matters will be actually considered in Rolling Stock Business Restructuring Committee?</p>	<p>A2 :</p> <p>We assign experts in each field from Energy System & Plant Engineering segment where we are carrying out advanced projects, and Aerospace Systems segment where we possess high-level capabilities in design, manufacturing, and quality assurance, to Rolling Stock Business Restructuring Committee. With these experts, we review and find how to continue this business in this committee. If we can rebuild it by ourselves, we will continue, but if not, we are considering all options including alliance with other companies and withdrawal. The criterion for that is basically whether ROIC reaches 8% or not. First of all, we would like to seek a way how to continue our business through self-help efforts by supporting from each segment.</p>
<p>Q3 :</p> <p>What is the schedule for consideration of Rolling Stock business restructuring?</p>	<p>A3 :</p> <p>We would like to find a conclusion of restructuring this business by the end of FY2018.</p>

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<p>Q4 :</p> <p>What is the future policy for new orders received in Rolling Stock business?</p>	<p>A4 :</p> <p>Now, We are aiming to acquire new projects that do not require impracticable cost reduction. Specifically, we are aiming to receive orders for customers with whom we have ongoing business relationship from the past or repeat orders. That is because we often have some difficulties in new design and other matters when we receive orders form new customers. In addition, we are working on sales promotion so that we can receive orders for maintenance and other businesses in US where we delivered 4,500 railcars. We are shifting our policy to receiving orders that we can secure profits with low risk.</p>
<p>Q5 :</p> <p>Is there any possibility that similar losses are recorded in R211 which was received recently?</p>	<p>A5 :</p> <p>Beginning with receiving orders for R62 in 1982, we have been participating in various projects of New York City Transit (NYCT) and we have been executing them relatively smoothly. We delivered over 2,100 railcars to NYCT and we have the top share of the NYCT's market. If all options are exercised, it follows that our railcars account for a majority of NYCT.</p> <p>We could secure appropriate levels of profit in previous projects and we suppose that we also secure a profit in R211 because we received orders for it in appropriate prices and conditions.</p>

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<p>Q6 :</p> <p>How do you think about the potential for Rolling Stock business to find a way out of these circumstances?</p>	<p>A6 :</p> <p>We suppose that Rolling Stock business has future opportunity. In order to expand the scale of business, realignment of rolling stock industry including signal and system manufacturers is in progress throughout the world.</p> <p>However, an economy of scale does not mean advantage in this business because we manufacture railcars based on the specification of each customer. We focus on manufacturing railcars and work together with suppliers of signal and communication systems and other businesses in each project. As a result, we have the top share in US, Singapore and Taiwan. Going forward, Japan's ODA loan projects of procuring about 2,000 railcars are expected in Asia. We believe that we can continue to grow in US and Asia markets with our technical and aftersales service capabilities. Therefore, we suppose that our primary goal is restructuring this business on our own.</p>
<p>Q7 :</p> <p>In Rolling Stock and Ship & Offshore Structure segments, big signs of recovery are not expected. Do you have any businesses or events that bolster the performance for FY2019 and later?</p>	<p>A7 :</p> <p>There are some segments that can be expected to earn profits in FY2020 and FY2021. Until then, Precision Machinery & Robot segment serves as a growth engine and Jet Engine business and Energy System & Plant Engineering segment will follow suit. We expect Motorcycle & Engine segment to secure stable profit.</p>
<p>Q8 :</p> <p>In Motorcycle & Engine segment, operating income was -4.6 billion yen in the first half and will be 21.6 billion yen in the second half. Why will the operating income increase suddenly in the second half?</p>	<p>A8 :</p> <p>We are going to present new models for FY2019, pick up the pace of production and have sales distributors purchase them in preparation for sales in the spring of FY2019. Therefore, most of the profits are always recorded in 4Q.</p>

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<p>Q9 :</p> <p>How did you calculate the losses related to Trent 1000 which was recorded in 2Q?</p> <p>In addition, is there any possibility that additional losses are recorded?</p>	<p>A9 :</p> <p>Basically, we calculated the losses based on the figure that Rolls Royce announced in financial results for the first half. They recorded 554 million pounds as temporary expenses, which is their burden charge, and we recorded the corresponding amount as our burden charge in 2Q. We recorded huge temporary expenses this time only and will recognize these expenses as part of Total Care Package going forward.</p>