

February 18, 2020

FY 2019 3Q Results Briefing: Gist of Questions and Answers Session

- 1. While AP in China has been performing strongly, what kind of impacts are there at the Shanghai plant because of the new coronavirus? How much of its impact have you anticipated for the fourth quarter of this fiscal year? I also would like to ask its impact on procurement in Japan.**

-> The local subsidiary in China (Nikko Shanghai) has not resumed production as of February 18 and there are no prospects of resuming it. Even if there is an impact in the future, Nikko Shanghai's sales in the January-March period are more or less zero every year. Therefore, it will give almost no impact on the earnings for fiscal year 2019.

->The impact on Nikko Shanghai in fiscal year 2020 will be substantial if this situation continues for one or two more months. The January-March period is a slow season for sales activities partly due to the Chinese New Year. However, we have a certain volume of order backlog as of the end of December last year. But since we cannot manufacture at all due to the suspension of the plant operations, everything including manufacturing to clear the order backlog and installation works will be delayed. That means delivery and sales will be delayed from the initial plan. Although it is difficult to say the significance of the impact as of now, we expect to see it in fiscal year 2020.

-> As for procurement in Japan, there are not many items we directly purchase from China, and there is nothing lacking in the supply chains that would affect manufacturing as of now. If this situation continues for long, we will be affected, but if it ends in two to three weeks, we think there will be no problem given the sufficient stock.

- 2. Regarding the result of BP, orders have improved. You mentioned that the company would win orders by adjusting prices slightly in the sluggish market. Have you been successful in acquiring the anticipated market share? Currently you are winning orders but profitability is worsening. I would like to know whether operating margin would worsen in the next fiscal year.**

->First of all, we have been capturing the anticipated market share for BP. For this fiscal year, overall operating income was brought down by a large-scale special project which was unprofitable. To be sure, anticipated margins of the project orders which we received in this fiscal year and whose sales will be recorded in the next fiscal year are higher than this fiscal year.

Has the sales of the special project been fully recorded in this fiscal year?

->It has been reflected in the results.

- 3. I would like to ask about the improvement in cost of sales in the analysis of factors of changes in ordinary income. While it was up 250 million yen in the first half, it was up 180 million yen in the nine months through the third quarter, which means it worsened in the third quarter. I would like to know whether this was due to the low level of maintenance services.**

-> Sales of maintenance services were extremely low in the third quarter and that is why the improvement in cost of sales worsened in the third quarter compared with the second quarter. Fluctuation in cost-of-sales ratio at our company is caused more by the change in net sales composition rather than procurement prices or production efficiency.

- 4. You have said that the company would recover the decline from maintenance services up to the third quarter in the fourth quarter. Are there customer needs in the fourth quarter?**

-> In the fourth quarter, there are two peaks of maintenance services in January and March. Works during the year end and new year period in January have recorded results in line with the plan. By looking at the order situation for March as of now, we think we can sufficiently achieve the target figure.

- 5. I believe that there are basically more used products in the Thai AP market. I would like to know if the Thai subsidiary plans to sell brand-new products.**

->We described the revenue plan for the Thai subsidiary in the bottom part of slide 5 of this briefing material, and we calculate one new AP product as 100 million yen. The figures are based on one used product calculated at 43 million yen. In other words, we plan to sell 10 new products and four used products in the next five years. Our strategy is to primarily sell new products.

Customers so far have bought only used AP products. Do they have enough leeway to buy a new product, even if it is somewhat more expensive, or do you plan to take time and convince customers with the advantages of new products? What do you plan to do to switch the customers' mindset from used products to new products?

->The Thai economy is currently slightly weak, but the country's economic power has obviously improved compared with 10 or 20 years ago and it also sets aside good budget for road

improvement. Customers have become more cash-rich compared with other Southeast Asian countries and their purchasing power is growing compared with the past. With more cash, customers who were only able to afford used Nikko products 10 years ago are rich enough to buy a new one when they want to replace it next, if the price difference is roughly double the used products. If a used product lasts for 20 years and a new one lasts for 40 years, the new product will be a sufficiently worthwhile purchase for the customers even if it is twice as expensive. So I do not think it would be difficult and would not take long to convince them.

Note: This summary of the question and answer session was created in part to provide information to those who did not attend the results briefing. Please note that some parts of the text have been edited to improve clarity and enhance understanding.

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