

March 9, 2017

Dear Investors:

We released Q & A on this issue on January 13, 2017. Based on the subsequent communication with shareholders, we added Q7 - Q10 as below.

Q&A concerning Disposal, Repurchase and Cancellation of Treasury Stock to Support Mori Manufacturing Research and Technology Foundation's (hereinafter "the Foundation") Social Contribution Activities

Q1 : Please share the specific activities conducted by the Foundation thus far.

A : As support activities for R&D and human resource development related to machine tool technology, the Foundation has made donations to University of California, Berkeley; University of California, Davis; Kyoto University; and Nagoya University. Furthermore, as support activities related to the construction of cultural environments in local regions, the Foundation makes donations in the form of financial assistance to events held by multiple municipalities.

Q2 : Please share specifically how the social contribution activities of the Foundation connect to the Company's profit.

A : By supporting research activities of universities and research institutions within Japan and overseas, we believe we are contributing to technological development and the expansion of the horizons of industry through the knowledge gained in the research, while also promoting the development of human resources. We believe the technology and human resources acquired as a result of these activities provide a stronger base upon which the Company can grow sustainably and stably. Furthermore, we believe support activities related to the construction of cultural environments in local regions strengthen the Company's cooperation with the local society, further deepening its trustworthiness as a company and building good relationships with the stakeholders surrounding the Company, thus contributing to a smoother, more stable business operation and enhancing its corporate value.

Q3 : What is the difference between the Company's past cash donations and the activities conducted through the Foundation?

A : This change means that the source of funding for the Company's social contribution activities conducted thus far will transition from cash donations to stock dividends from the Company's stock received by the Foundation. Last fiscal year, the Company contributed around 200 million JPY to universities to support basic R&D related to machine tool technology, etc. We believe the appropriate management and stable utilization of these funds at the universities contributes to the Company's technological development. Going forward, by providing these donations from the Foundation, donation expenditures on the part of the Company will be reduced, creating a positive effect on the Company's income.

Q4 : What is the reason for the quantity of 3,500,000 trust shares?

A : This is the number of shares required to deliver stock dividends at a scale that matches the funding required for the activities planned by the Foundation. At the level of the forecasted annual dividends per share paid in this fiscal year of 30 JPY (the year ended 31st December 2017), this would total 105 million JPY, a scale we believe matches the annual activities funds of 100 million JPY.

Furthermore, we believe that if dividends increase going forward due to improvement in the Company's performance, the activities funds of the Foundation will also increase, in turn enhancing the Company's corporate value and again connecting to improved performance, thus creating a positive cycle.

Q5 : What are your thoughts on a dilution of net income per share arising from this disposal of treasury stock (third-party allotment to a trust bank)?

A : To avoid dilution of share value triggered by the disposal of treasury stock, and to effect capital efficiency and agile capital policy in view of the management environment, we plan for the number of own shares to be acquired from the market to be the same number as the 3,500,000 shares of treasury stock in this disposal. Furthermore, to relieve concern over dilution of the share value triggered by the future release of treasury stock, we plan for the number of shares to be cancelled to be equal to the 3,500,000 shares of treasury stock in this disposal.

Q6 : What is the reason for the adoption of the plan to entrust the shares to a trust bank?

A : A trust plan was introduced for the preservation and efficient management of the assets of the Foundation. In this plan, by allotting the treasury stock through advantageous placement to a trust bank, upon the separation of the voting rights, the Foundation will receive the trust proceeds through dividends. This will allow the voting rights of the shareholders to be exercised from the standpoint of long-term enhanced corporate value by the trust bank.

Q7 : The Company says that they will purchase treasury shares to limit the dilution of stock value, are not they inconsistent with their focus to reduce interest-bearing debt?

A : In order to reduce the dilution of the stock value, we decided to buy treasury stock up to 3,500,000 shares, equal to the number of shares allocated, up to 5,250 million yen. As explained at the IR Conference on 10th February, temporary expenses and losses no longer occur later this year; the Company will steadily create free cash flow of 15 to 20 billion yen per year, so that interest-bearing debt can be reduced.

Q8 : How is the voting right of third-party allotment shares exercised?

A : In accordance with the trust agreement scheduled to be concluded, Mitsui Sumitomo Trust and Banking Co., Ltd., as trustee of trust, decides to exercise voting rights, and Japan Trustee Services Trust Bank, as sub-trustee of trust, exercises voting rights. In the trust agreement scheduled to conclude, we stipulate that neither the Company nor the Foundation can order directions for exercising voting rights. Neither the Company nor the Foundation intends to change this provision in the future.

Regarding the exercise of voting rights, Mitsui Sumitomo Trust and Banking plans to

decide the exercise of voting rights in accordance with the company's guidelines. We are receiving explanation about the system to ensure the transparency of the voting rights from Mitsui Sumitomo Trust and Banking, such as the independence of supervising the conflicts of interest and the independence of the consigning business executive officer. Refer to the website of the following link of Mitsui Sumitomo Trust and Banking Co., Ltd. as "Proxy Voting".

<http://www.smtb.jp/tools/english/asset/proxy.html>

Q9 : Is there any option not to exercise voting rights?

A : If we decide it as non-exercisable, we assume that shareholders lose the opportunity to express their intention to pros or cons, especially the right to deny. We assume we should avoid this kind of situation.

Q10 : Please let me know the change in profit and loss and cash out due to transition of CSR activities by conventional cash donation to dividends.

A : See following example. While the donation allowance limit of the current donation is about 50 million yen, as mentioned above, the contribution to Universities etc. is around 200 million yen per year. The portion exceeding the limit is not deductible but taxable. Therefore, even if the pre-tax profit increases due to the transfer of the donation for the part exceeding the limit amount to the dividend, the total tax payment amount does not change. Earning before Tax and net income increases by the amount transferred to dividends. While the amount of donation declined, the total amount of dividends has not changed due to the purchase of treasury stock, so cash out will be reduced by the amount transferred to dividends.

[A] Donate a total of 200 million yen for social contribution in cash		[B] Dividend (105 million JPY) about half of social contribution 200 million JPY, donate the rest in cash (95 million yen)	
	(million JPY)		(million JPY)
Donation amount	200 A	Donation amount	95 A
Earning before Tax	10,000 B	Earning before Tax	10,105 B
Donation that is taxable	150 C	Donation that is taxable	45 C
Taxable income B+C	10,150	Taxable income B+C	10,150
Income Taxes	3,045 D	Income Taxes	3,045 D
Net Profit B-D	6,955	Net Profit B-D	7,060
			(105 million JPY increase)
Dividend	3,600 E	Dividend	3,600 E
		※) Because the Company purchase treasury stock, the total amount of dividends has not fluctuated	
Total cash out A+D+E	6,845	Total cash out A+D+E	6,740
			(105 million JPY decrease)

[an Example]	
Corporate tax rate	30 %
Deductible limit for donation	50 million JPY
Total amount of social contribution	200 million JPY
Number of treasury shares allocated	3,500,000 shares
Annual dividend per share	30 JPY
Total number of shares (excluding treasury shares)	
Before the transactions	120,000,000 Shares
After the transactions	120,000,000 Shares (Total number does not fluctuate due to purchase of treasury stock)