

Outline of Answers to Main Questions at Explanatory Meeting for the Second Quarter Ended September 30, 2017

Q: In the second quarter, it seems revenue and adjusted operating income outperformed the company projections. Which region and segments have outperformed?

A: The demand increases in Japan, China and Europe have largely contributed to the performance. In Japan, the last-minute demands in anticipation of the new emissions regulations were stronger than expected. Regarding China, we initially took a cautious approach, anticipating a slowdown of strong demand for infrastructure investment however, the growth in demand for hydraulic excavators remained as high as the first quarter. Similarly, despite our concern about political risk, demand in Europe also exceeded our expectations. These are the main factors for the outperformance in the second quarter.

Q: Regarding the revenue forecast for the Chinese market, while the actual revenue in the first half doubled year-on-year, the revenue is forecasted to decrease in the second half. Setting aside the foreign exchange fluctuations, what are the factors behind the downward forecast?

A: Although the National Congress of the Communist Party of China has ended in October, there are no specific signs of a sudden decrease in demand for construction machinery. However, we are taking a cautious approach considering the anticipated operation control of construction machinery in 2 cities and 4 provinces in reaction to the tightening of environmental regulations and the risk of slowdown in fixed asset investment, including infrastructure investment.

Q: Please tell us the actual amount of amortization by PPA (Purchase Price Allocation, asset revaluation) of the two companies in the solution business segment and the full-year outlook.

A: In the second quarter, we recorded a total amortization amount of approximately ¥1.1 billion, consisting of ¥0.7 billion for lump-sum amortization of inventory assets and ¥0.4 billion for amortization of intangible fixed assets of H-E Parts. For the full year, we plan to amortize a total of ¥6 billion, including ¥4.6 billion for PPA amortization of Bradken planned in the third quarter. The ¥6 billion consists of ¥4 billion for lump-sum amortization of inventory assets and ¥2 billion for amortization of tangible and intangible fixed assets.

Q: Revenue forecasts for the solution business and mining parts service in the second half show a decrease compared to the first half. What are the factors behind the downward forecasts?

A: The downward forecasts for both business segments are due to the difference between the assumed exchange rate for the second half and the actual exchange rate in the first half. We forecast that the handling volume will be equivalent.