

Answers to Main Questions for the First Quarter Ended June 30, 2018

Q: How would you summarize the business performance for the first quarter of FY2018?

A: For the first quarter of FY2018, revenue increased by ¥28.7 billion (+14%) year-on-year, and adjusted operating income was also up by ¥10.8 billion from the previous year (+65%). The growth in revenue was driven by higher sales in new machine sales and the value chains for parts services, etc. In addition to the increase in sales volume, the value chain for parts services and other business contributed to a significant improvement in income.

Looking at the financials, initiatives for higher efficiency continue to be implemented. The number of days of inventories on hand increased by 7 days compared to the end of the previous fiscal year due to an increase in completed machines in response to strong mining demand and refilling of inventories depleted at the end of previous term, but this still marked an improvement of 10 days compared to the same quarter of the previous year. Also, trade payables dropped by ¥23.9 billion, and this is due to installation of a policy for faster payment to suppliers within Japan. For the cash flow, net cash provided by (used in) operating activities was a negative ¥26.8 billion, and free cash flow was a negative ¥31.6 billion, but these were due to the increase in inventories and reduction in trade payables mentioned above.

Q: How would you summarize the business forecast for FY2018?

A: Our business forecast for FY2018 remains unchanged from our forecast at the beginning of the fiscal year. The business climate looks to have a 4% increase in worldwide hydraulic excavator demand and a 10% increase in mining machinery demand, which are expected to lead to higher sales volume. As announced in the Mid-term Management Plan, we will deepen our value chain to improve our management efficiency as well as advance our development of cutting-edge technologies and IoT-related R&D. The necessary investment and overhead expenses to carry out these measures will be determined and implemented while ensuring a favorable balance with the sales income growth rate.

Q: Can you describe in more detail how you expect the demand for construction machinery to be?

A: Global demand in FY2018 for hydraulic excavators, our flagship product, is expected to see higher demand in China, India, North America, and other regions, but lower demand is forecast for Japan, Russia CIS, Central and South America, and the Middle East, resulting in an increase of 4% overall. While the rate of increase for this demand is smaller than the previous year, we expect the demand to be comparable to that in FY2010, which is, so far, the year with the highest level of demand ever, and sales volume is also expected to increase in tandem.

Q: How do you expect the demand for mining machinery to be?

A: The demand for our ultra-large hydraulic excavators and 150-ton class and larger dump trucks is expected to increase by 10% year-on-year for FY2018. Notably the demand for 100-ton class ultra-large hydraulic excavators that are not always used for mining has already been increasing

since FY2015, and demand is still expected to remain high through FY2018. The demand for 250-ton class and larger ultra-large hydraulic excavators and dump trucks that are mainly used for mining, the clear upward trend which appeared during FY2017 is expected to continue through FY2018. In light of these conditions, orders and inquiries for our ultra-large excavators for mining and dump trucks for mining, which are our core business areas, are currently intensifying.