Hitachi Construction Machinery Co., Ltd.
55th Annual Shareholder's Meeting
Summary of Question and Answer Session

The following is a summary of the main questions received from the shareholders and the Company's responses at the 55th Annual Shareholder's Meeting which was held on June 24, 2019.

1. What was the reason for establishing a rental company in the UK?

Response: Business in the UK has been disrupted by Brexit, and although we regard the impact on new machinery sales as a matter of concern, we believe that, while new machinery sales may fall, there will likely be an increased demand for rental services in the UK in the future. Also, the UK is the largest rental market in Europe and, based on the concept of "deepening the value chain", set forth in our mid-term management plan, we want to reinforce our rental business in that market. These are the reasons that we decided to set up the rental company Synergy Hire in the UK.

2. In sales amount by region, what was the reason for the year on year decrease in China, Africa and the Middle East?

Response: Sales in Africa decreased due to a fall in demand. In China, while there was no fall in demand, our sales have been affected by the fact that Chinese competitors are selling machinery there very cheaply. We will continue our sales activities, prioritizing revenue and terms of sale. There were at once many cases where Chinese construction companies were bringing their machineries from China to do work in Africa, but there seems to have been situations where the work did not progress as planned, and we do not believe that there will be a significant impact on our sales at this time.

3. Outlook for FY2019 and beyond

Response: As explained in the financial results, the sales forecast for fiscal 2019 is 950 billion yen, with an adjusted operating income ratio of 9.1% and ROE of 9%. These forecasts are lower than the results for fiscal 2018, but they have been prepared based on the expectation of tougher foreign exchange conditions, with the US$ at 100 yen, the Euro at 110 yen, and the Chinese yuan 15 yen. In terms of demand also, the demand for hydraulic excavators last fiscal year was 230,000 units worldwide. This year the demand is expected to be slightly lower at 220,000 units, and our forecasts include this premise. In terms of the forecast for fiscal 2020 and beyond, because fiscal 2019 is the final year of our mid-term management plan, the plans for fiscal 2020 and beyond are still being formulated for the next mid-term management plan. We will be announcing our business outlook and the measures we plan to implement on finalizing it.

4. In terms of crisis management, what measures are being taken in response to the Tonankai earthquake predictions?

Response: We have formulated a BCP to be implemented in the event of a major earthquake, or the outbreak of a new strain of influenza, for example. Firstly, in the event of a major earthquake, the first thing is to confirm the safety of our employees and their families, and we have implemented a system for that. Also, we have an emergency contact network so that we can confirm the situation at our business sites, etc. In the event of some kind of incident, the system calls for the establishment of an emergency headquarters, headed by the President, to confirm damage to buildings, etc., and to work out a plan for the restoration of business. Risk assessment is carried out on each site to judge the risk from tsunami damage, for example, according to the location, and we will review them starting from the most urgent and high priority locations.

5. It has been reported that at the time of the earthquake on March 11, 2011, some employees could not get to work because there was not enough gasoline. How about setting up self-service gas station within the Company's factories?

Response: Our factory employees commute not only by car but also by train and/or bus, so we need to consider what to do taking all of these commuting methods into consideration. Based on your suggestion, we will also look into how the reserves of gasoline stored at the factories could be most effectively used in such a situation.

6. There is a negative operating cash flow, but what is the background to the increases in receivables and inventories?

Response: The negative cash flow was particularly affected by the increase in inventories in fiscal 2018. As to the causes, the first one is the sudden change in the business environment in China. In China we have begun inventory adjustment, but there has been a drop in sales. Also, in China there is usually an increase in demand after the Lunar New Year holiday, from mid-February to April, so from the preceding December to January we increase the inventory in anticipation of increased demand. However, in fiscal 2018, against the backdrop of the deceleration of the Chinese economy and intensified sales competition, the Company refused to lower prices or change conditions of sale, which meant that we were left with increased inventory. On this point, concerning the level of demand in the Chinese market, there is information to suggest that infrastructure investment is growing, and the Company plans to respond to such situation by carrying out production adjustment and inventory adjustment.

The second cause is that, along with orders for large-sized machinery for the mining industry, production and delivery have been doing very well. In anticipation of deliveries in fiscal 2019, we had to begin assembly from fiscal 2018, which meant that, in a positive sense, our inventory in fiscal 2018 increased, and this had an impact on cash flow. Further, from fiscal 2018, the terms of payment from the Company and our domestic Group companies to our major trading partners were shortened significantly compared to what they were in the past, and payments are now made in the following month.

These factors have had an adverse effect on operating capital, but the cash flow from profits is very strong. In fiscal 2019, the terms of payment will be the same, and with regard to inventory, we are planning to grow sales and thereby improve cash flow.