

## Answers to Main Questions for the Fiscal Year Ended March 31, 2018

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### **Q: How would you summarize the business performance of FY2017?**

A: The financial results for FY2017 beat the previous forecast announced at the third quarter result in January 2018 in terms of revenue and income figures. The increase in revenue is due to better performance than expected in the construction machinery and parts service. The increase in income is based on the increase in unit sales as well as improvements in parts service, utilization, and differences by geographic region.

Looking at the financials, the number of days of inventories on hand decreased by 15 days while the number of days of net working capital on hand was also reduced by 26 days, to 125 days. Regarding cash flow, we recorded a positive ¥47 billion free cash flow despite the ¥17.6 billion of outlay for acquisition of 100% shares of the Bradken Group.

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

A: Our business forecast for FY2018 is a general slowdown, including reduced revenue and net income. This can be derived from an assumed exchange rate with a stronger yen compared to the actual exchange rate in FY2017. Even with a conservative view, the business climate looks to have a 4% increase in worldwide hydraulic excavator demand and a 10% increase in mining machinery demand, which are estimated to bring an increase in sales volume. On the basis of the actual exchange rate in FY2017, the rate of growth in sales income is expected to be 5%, and that in operating income is expected to be approximately 20%. 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 to carry out the measures will be determined and implemented while ensuring a good balance with the sales income growth rate.

### **Q: How do you expect the demand for construction machinery to be?**

A: We estimate the global demand for hydraulic excavators, our flagship product, to have increased in FY2017 compared to the previous year for areas other than the Middle East and have increased by 25% in the world in total. For FY2018, even with a conservative outlook, we are expecting a continuing positive trend in markets other than Japan, Europe, and Russia, specifically a 4% increase. While the rate of increase is smaller compared to 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. The sales volume is also expected to increase alongside this trend.

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

A: Our ultra-large hydraulic excavators and mining dump trucks recorded a drastic increase of 74% year-on-year for FY2017, and we expect the positive trend to continue in FY2018. Notably the demand for 100-ton class ultra-large hydraulic excavators that are not for mining has already been increasing since FY2015 and is still expected to remain high through FY2018. A clear upward trend arose in ultra-large hydraulic excavators in the over-250 ton class for mining and dump trucks during FY2017 and this trend is expected to continue into FY2018. Orders and inquiries for our ultra-large excavators for mining and dump trucks, which are our core business areas, are intensifying.