

Answers to Main Questions for the Third Quarter Ended December 31, 2018

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

A: For the third quarter of FY2018, we recorded ¥743.2 billion (+9% year-on-year increase) in terms of revenue and ¥85.1 billion (+29% year-on-year increase) in adjusted operating income. The increase in revenue is due to the increase both in the sale of new machines and provision of parts services, which is at the core of our value chain, mainly in the Asia-Pacific region, North America, Europe, and China. The significant increase in income comes from the parts services and mining business.

Looking at the financials, the number of days of inventories on hand increased by 20 days, which accounts for ¥325.9 billion, compared to that from the end of the previous fiscal year. This owes to the increase in local mining machinery inventories that are scheduled to be delivered in the fourth quarter and an accumulation of hydraulic excavators to meet the post-Chinese New Year demand in February in China, which are policy-based increases in inventory. The number of days of operating payables on hand decreased by 17 days, which is largely due to the implementation of the early supplier payment policy in Japan. As a result, over-expenditures were recorded in cash flow: ¥49.2 billion in operating cash flow and ¥69 billion in free cash flow. This is due to the aforementioned increase in inventory and the decrease in trade accounts payable.

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

A: We have revised downward the FY2018 market forecast, made in October, for global hydraulic excavator demand to a 2% year-on-year increase and the mining machine demand to a slight increase over the previous year. On the other hand, we have revised our business outlook upward from the previously announced estimates, considering the business performance of the consolidated cumulative third quarter. Comparing to the previously announced estimated figures, we currently expect an increase of ¥20 billion yen (totaling ¥1,000 billion) in revenue and ¥9 billion (totaling ¥100 billion) in adjusted operating income. Our income for this fiscal year that is attributable to our parent company shareholders is expected to be ¥58 billion. We are expecting the currency exchange rate during and after the fourth quarter to stay mostly the same. 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 expenditures to carry out these measures will be determined and implemented while ensuring a good balance with sales income growth rate.

Q: How do you expect the demand for construction machinery to be, in detail?

A: We estimate the global demand for hydraulic excavators, our flagship product, to decrease in Japan, the Middle East, Africa, and Central and South America for fiscal 2018. On the other hand, we expect growing demand in other regions, which include India, North America, and Asia. Collectively, we expect an overall 2% year-on-year increase, to 225,000 unit sales. While the rate of increase in demand is smaller compared to the previous year, we expect the demand to be comparable to that in FY2010 (unit sales of 230,000, which is the highest level of demand ever), and the sales volume is also expected to

remain high in keeping with this trend.

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

A: The FY2018 demand for over-100 ton class ultra-large hydraulic excavators and over-150 ton class mining dump trucks—which we categorize as mining machinery—is expected to slightly increase compared to the previous year. Notably the demand for the relatively small 100-ton class hydraulic excavators have been seeing a steady increase since FY2015 and is expected to sustain at a steady level. A clear upward trend has been observed during FY2017 in the relatively larger, over-200 ton class ultra-large hydraulic excavators and over-150 ton class dump trucks, which are generally used in large-scale mines. This trend still continues in FY2018.

Reflecting such a business climate, we have been receiving a good number of orders particularly from the beginning of this fiscal year for our flagship range of products, namely the relatively larger ultra-large hydraulic excavators and dump trucks. As a result, we have already fulfilled the fourth-quarter sales forecast.