Q&A on the business results for the 4th quarter of FY2017

Q1: Tell us about the effects of foreign exchange rates on operating income.

A1: In the case of FY2018, structurally speaking, when the Japanese yen changes by one, it will translate into JPY5.4 billion in the US dollar, JPY0.6 billion in the euro and JPY0.1 billion in Australian dollar. Concerning the renminbi, when the Japanese yen changes by 0.1, it will translate into JPY0.5 billion in the renminbi. However, instantaneous effects of foreign exchange rates are very limited, as affected by inventories and the like. In the case of the US dollar, we estimate about JPY3.5 billion by one yen change.

Q2: Please describe the current market conditions and outlook of construction equipment in China.

A2: As in the case of FY2016, demand for construction expanded dynamically in FY2017 by 80% from FY2016. This was driven by increased construction projects in infrastructure and real estate development, thanks to economic stimulus measures through the government's public spending. In FY2018, we anticipate that demand will continue to grow, and as of now, we estimate a growth rate of 20 to 30% from FY2017.

Q3: How about the market conditions of mining equipment?

A3: Demand for parts remains strong. Orders for small and medium-sized mining equipment are also brisk. We see some signs of recovery in orders for super-large dump trucks. Concerning demand for other super-large mining equipment and KMC's products, we are continuing to monitor the market closely.

Q4: Please update the progress of integration with KMC.

A4: In our integration efforts, we hold the basic premise that we will never lower the level of our service support to customers. We have formed task forces on service & marketing, production, and development, and under their leadership we have been making steady progress according to the respective plans. In addition, we have already confirmed more-than-expected synergy effects in the first year of integration by taking full advantage of customer bases of Komatsu and KMC to expand sales. We have also reduced costs through consolidation of back-office operations of the two and joint purchase. We are expecting larger synergy effects in FY2018.

Q5: We understand that you anticipate growing demand for construction equipment in FY2018. How about your production capacity?

A5: While we will experience the adverse effects of labor shortage, mainly in Japan, we are well prepared to take full advantage of cross sourcing with our overseas plants to increase our production volume. With respect to our global production capacity, we are maintaining the peak level of the past, so we don't think we will need any new big investment to increase our production capacity.

Q6: Please tell us about your dividend policy and plan.

A6: Concerning the policy for cash dividends to shareholders, we redistribute profits by considering consolidated business results and set the goal of a consolidated payout ratio of 40% or higher and no decrease of dividends, as long as the consolidated payout ratio does not surpass 60%. In FY2017, we plan to increase the year-end dividend by JPY12 per share and pay annual dividends of JPY84 per share, including the interim dividend of JPY36 per share. This annual dividend amount translates into a consolidated payout ratio of 40.3%. In FY2018, we plan to pay annual dividends of JPY96 per share by increasing each share by JPY12. This annual dividend amount translates into a consolidated payout ratio of 40.1%.

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