

1Q 2018 Earning Release

HYUNDAI CONSTRUCTION EQUIPMENT



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Table of Contents

1. Company Profile
 2. 2017: Year of Change
 3. 1Q 2018 Earnings
 4. Market Outlook
- Appendix. Ownership Structure

Chapter 1.

Company Profile

1. Company Introduction
2. Product Portfolio
3. The Story of our Business Growth Over the past 30 years
4. Key Competitiveness



1. Company Introduction

Global synthesized machine manufacturer with over 30 years of history

General Information

Corporate Name	Hyundai Construction Equipment
Date of Establishment	1987
Sales	2.5311 trillion KRW (2017) (abt. 2.3655 billion USD)
No. of Employees	1,329
Key Business	Construction equipment, industrial vehicle and parts

Global Operations Network

Manufacture branches in three new core markets and market coverage through America/EU sales basis

- Ulsan Plant : Mother plant & new product development
- Global plants focus on local strategic model production



2. Product Portfolio

Wide range of product line-up from medium & large excavators to industrial vehicles

Product portfolio

• Medium & large excavators



Use: Excavation, crush, load

Main industry: Mine, construction

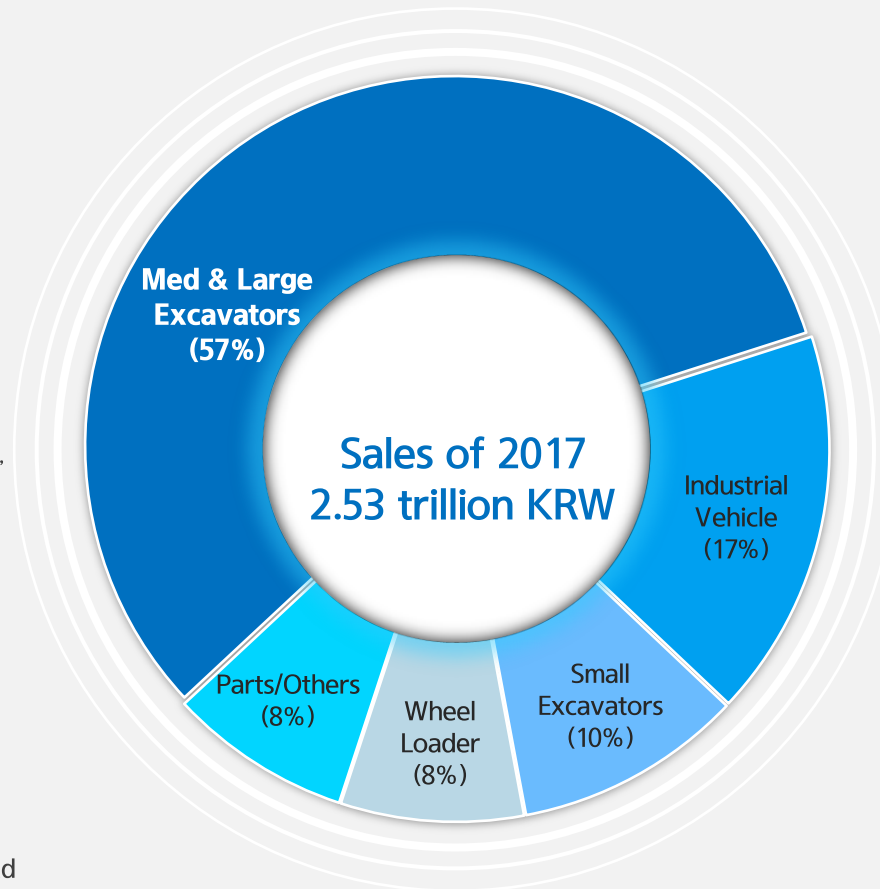
- 16 models of line-up for 8~120 t.
- Sole possession of 120t line in Korea
- Highly reliable with powerful performance, great performance for the price

• Small excavators



Use: City/small sized excavation & load

Main industry: Housing, construction



• Industrial vehicle



Use: Cargo, transportation

Main industry: Shipping and logistics

• Wheel loader

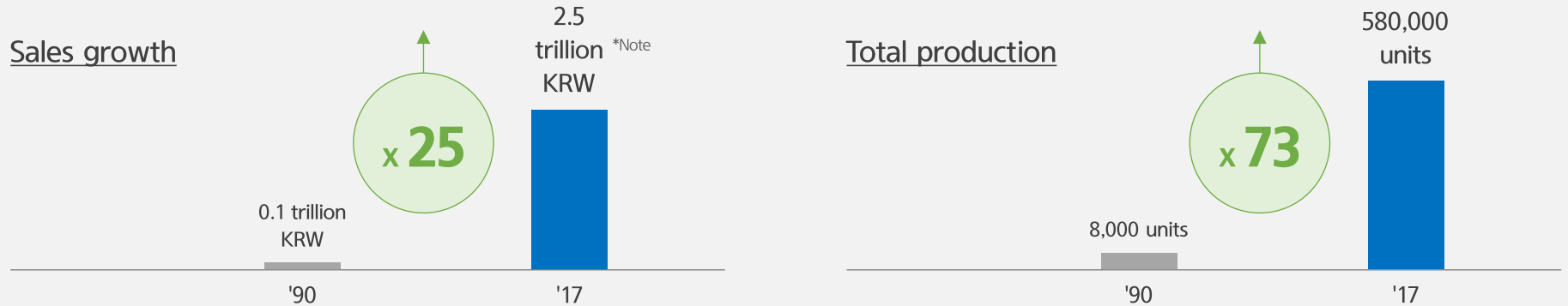


Use: Load

Main industry: Mine, construction

3. The Story of our Business Growth Over the past 30 years

Growth history



'87~'90

'91~'04

'05~Present

Established independent business base within HHI

Established global business infrastructure

A second leap through preemptive expansion in emerging markets

- Established Construction Equipment Division ('87)
- Developed original model for mid-size excavator ('88)
- Original development of wheel-loader and exported to the EU ('90)

- Established overseas corporation at Chicago, USA ('91)
- Opened local office in Rotterdam, Netherland ('92)
- Built a plant in Changzhou, China ('96)
- Established a joint venture corporation in Beijing ('02)

- Established overseas corporations in India and China ('07)
- Established arts center in Dubai ('11)
- Built a construction equipment plant in Brazil ('13)
- Over 0.5 million units of construction equipment manufactured ('15)
- Spin-off as an independent corp. ('17)

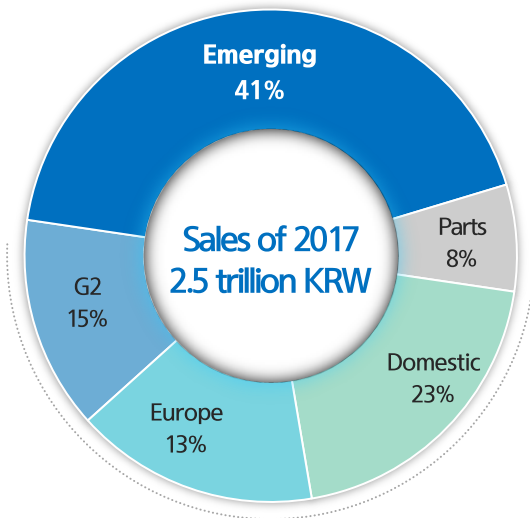
Sales: 0.1 trillion KRW('90)

Sales: 1 trillion KRW('04)

Sales: 2.5 trillion KRW('17)

4. Key Competitiveness (1) Leading market position in emerging markets

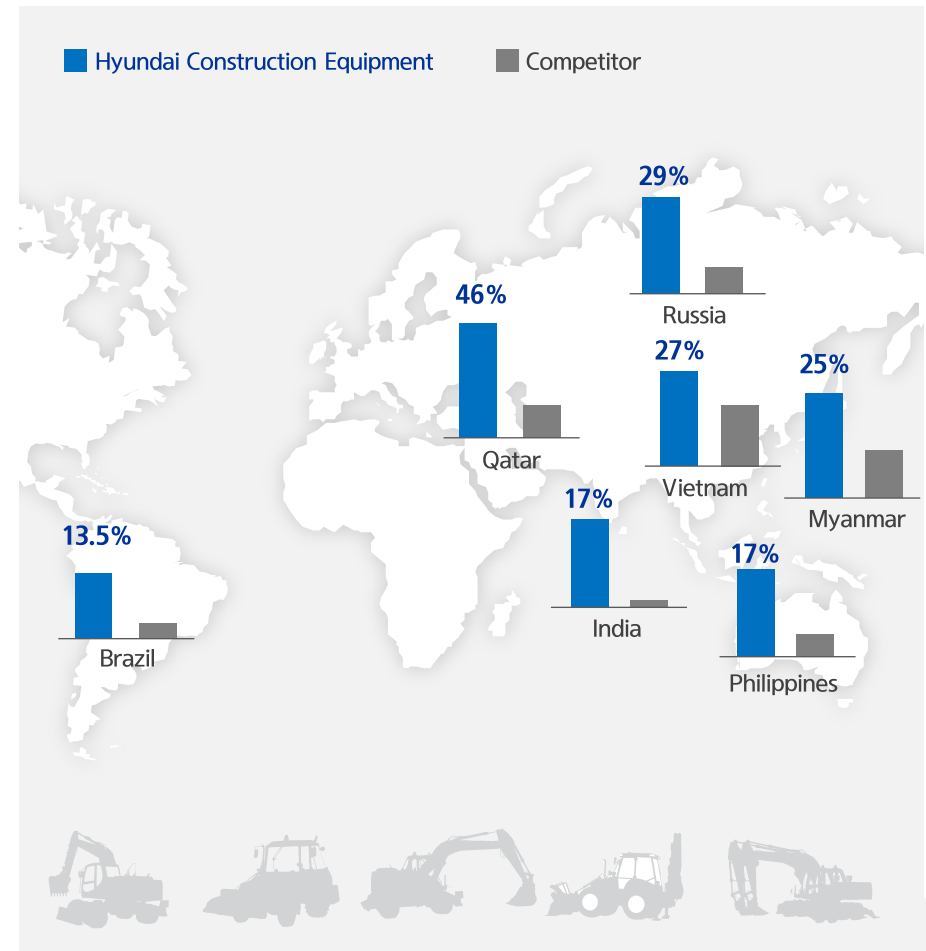
Emerging market position and competitiveness



Global HYUNDAI brand	<ul style="list-style-type: none"> • “Hyundai” brand has huge awareness in emerging market including Hyundai Construction Equipment, Hyundai Motors Company, Hyundai Construction etc.
Preemptive entry	<ul style="list-style-type: none"> • Earlier market entrance (China: 1995, India : 2007) • Establishment of local production infra
Excellent product competitiveness	<ul style="list-style-type: none"> • Global Top7[*] in mid-large excavator sector • Powerful performance and high cost-effectiveness

* mid-large excavator : operating weight over 8 tons

Emerging market M/S (2017)



Reference: ISC, KITA

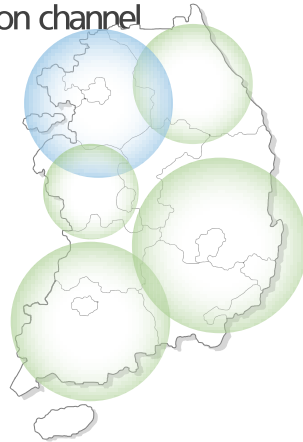
4. Key Competitiveness (2) Reorganization of the domestic sales system

Domestic market network reinforcement

- Enlargement/Specialization of distribution channel

Agency integration in Capital area

Agency integration in provinces (planned)



- Used equipment distribution support center

Auction for used machine
(the first in Korea)



Refurbish



Marketing & Sales

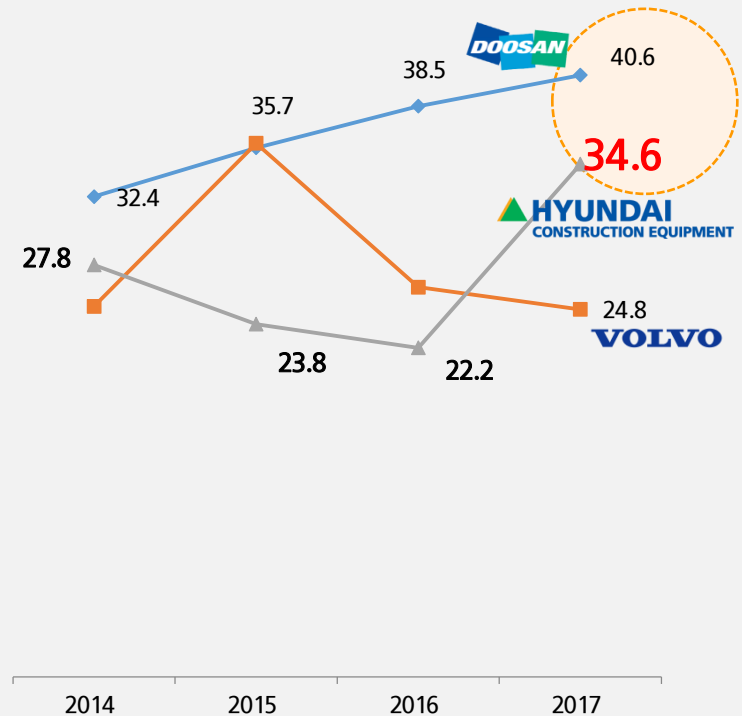
- Build used machine circulation environment

- Guiding price and sales increase of new machine

Domestic market M/S

unit: %

M/S 34.6% (Y o Y 8%p ↑)



Reference : Korea Construction Equipment Manufacturers Association

Chapter 2.

2017 : Year of Change

1. Highlights 2017
2. Changes After Spin Off
3. Future Highlights



1. Highlights 2017



China

4,013 units sales
M/S 3.1%
(10th)

Establishing
Global R&D Center
Collaboration System

Parts Modularity
& Productivity
Improvement

Debt Ratio 90%
(end of 2017)

India

3,149 units Sales
M/S 16.6%
(2nd)

Launching
New Model specialized
for emerging market

OEM Production
(Forklift,
Wheel Excavator)



2. Changes After Spin Off (1)

Establishing Technology Based Management & Converting to OEM Production

Reinforcement of Quality and Technology

- Operating China/India R&D Center & North America/Europe Research Center

Global R&D System

Product Standardization & Modularity

- Improve product quality and production efficiency by modularity expansion

[Modularity Item]

2016 : 10 items, 2017 : 10 items were completed.
2018 : 8 items will be added on a plan



Core Components Internalization

- Acquisition hydraulic motor business Cheonbuk factory (group subsidiary)
 - Product quality improvement by main hydraulic components internalization

OEM production model expansion

- OEM for forklift, wheel excavator, backhoe loader.
 - manufacturing cost reduction
 - mid & large excavator (high profit model) production in Ulsan factory

2. Changes of After Spin Off (2)

Achieved financial strength by acquisition of overseas corporations through rights offering

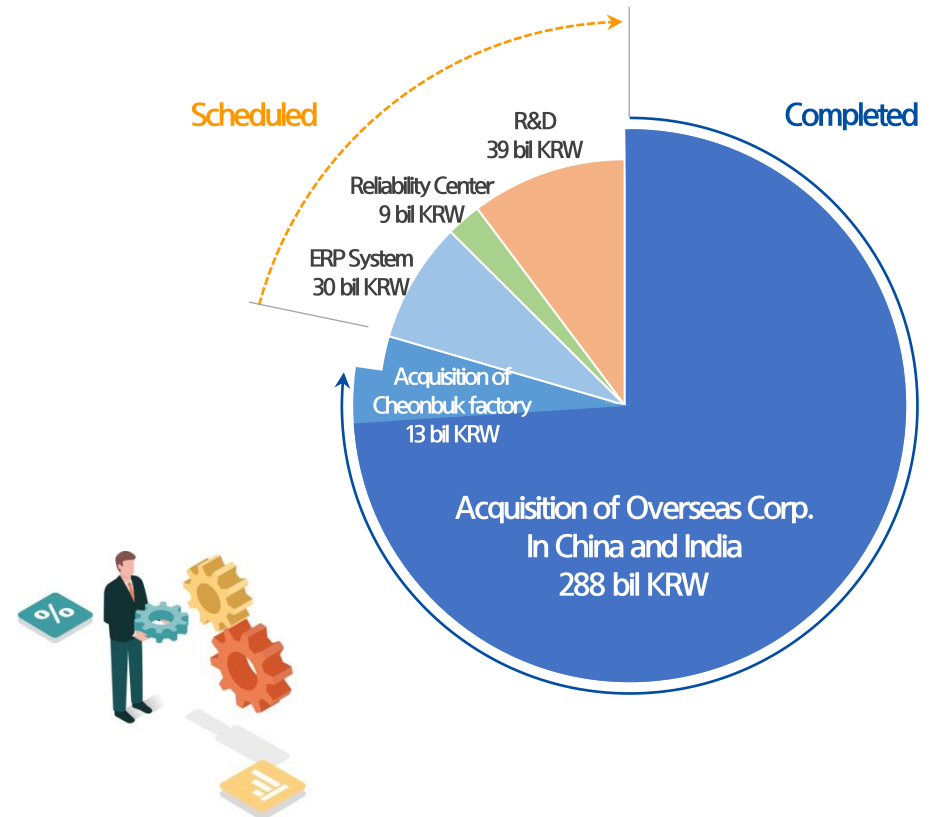
Expected Effects of Capital Increase

Sales growth in China and India Corporations
According to global construction equipment market recovery

Improving financial structure & company image by sales & profit increase
Having Low Debt ratio (90%) compared to competitor
(2017. 4Q consolidated financial statements basis)

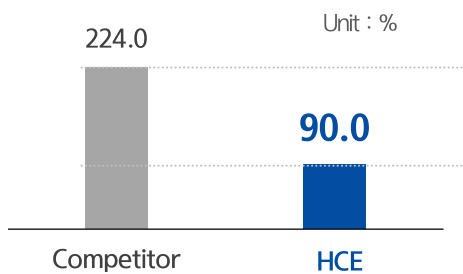
Increasing investment in R&D
(main components internalization and building reliability center)

Size and details of capital expansion



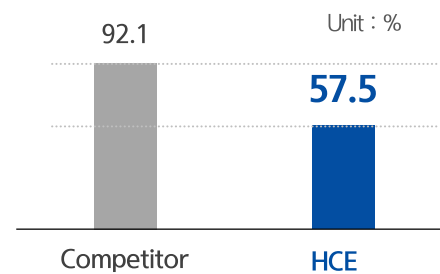
Key financial index analysis

• Debt ratio



(2017 year basis)

• Borrowing ratio

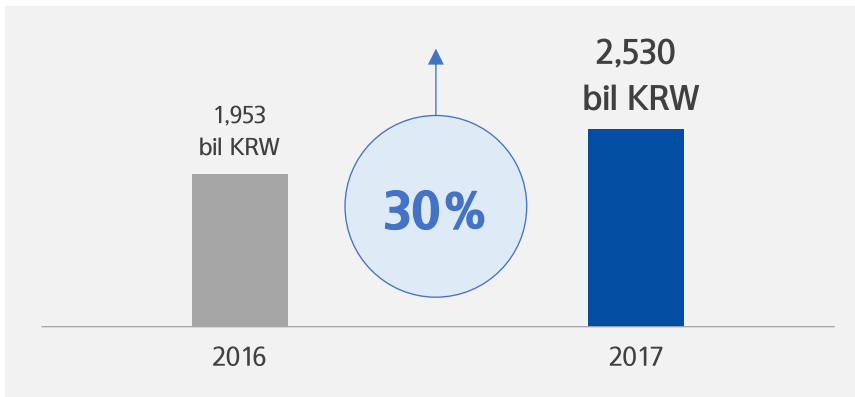


3. Future Highlights

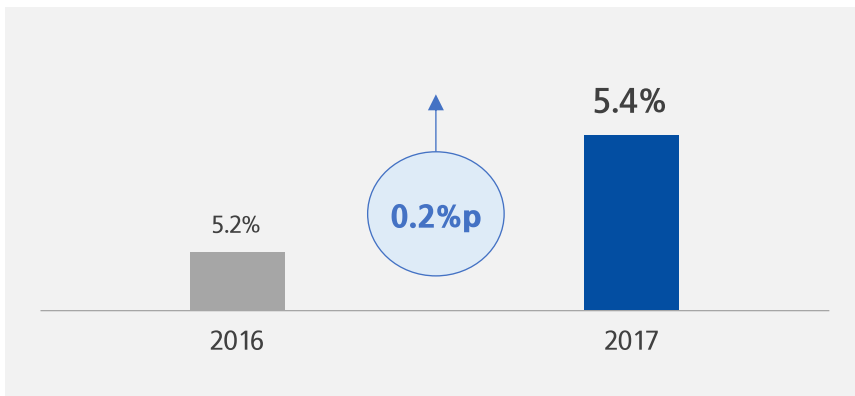
HCE achieved sales growth after spin off and now focuses on increasing profit.

Business Stabilization for Independent Management

• Sales Growth



• Operating Profit Growth



2018 Target :

Value management with profitability

- ✓ Manufacturing products to meet market needs with proper price.
- ✓ Raising product ASP to minimize the decrease in operating profit caused by exchange rate decline.
- ✓ Expanding localized item in overseas factories
- ✓ Focusing on Med/Large excavator production (high profit) and transferring OEM production for forklift and wheel excavator
- ✓ Diversification of purchasing source by establishing global purchasing sourcing system



Chapter 3.

1Q 2018 Consolidated Earning Release

1. Summary of Consolidated Financial Results
2. Sales Performance Analysis by products
3. Sales Performance Analysis by region
4. Sales Record of Overseas Production Corporation (China, India)
5. Operating Profit Analysis
6. Consolidated Financial Statement



1. Summary of Consolidated Financial Results

Achieved 44.4% Y o Y growth in sales and 6.6% operating profit margin due to improved market conditions in emerging countries and internal cost reduction efforts

Consolidated Financial Results

Unit : Billion KRW

		'18.1Q		'17.4Q	'17.1Q
		QoQ	YoY		
Sales	931	57.6%	44.4%	590	644
Cost of Sales	780	58.7%	49.7%	491	521
Gross Profit	150	52.1%	22.1%	99	123
Operating Profit	62	306.6%	45.1%	15	43
O/P Margin	6.6%	4.0%p	-%p	2.6%	6.6%
Net Income	50	Turn Around (+)	96.8%	-13	25
Net Income Margin	5.4%	7.6%p	1.5%p	-2.17%	3.9%

- **Sales KRW 931 billion**

- Sales increased by 57.6% QoQ
- Sales increased by 44.4% YoY

- **Operating Income KRW 62 billion**

- Operating Income increased by 306.6%QoQ
- Operating Income increased by 45.1% YoY

- **Analysis**

- Sales volume increase by consolidation of overseas corporations in China and India.
- Sales growth in highly profitable Med/Large excavators for Mining Industry due to the rebound in raw material price.

※ 1Q 2018 : K-IFRS consolidated financial statements basis (consolidated with Belgium, Atlanta, Holding company and subsidiaries in China, India and Indonesia Corporation)
1Q 2017 : K-IFRS consolidated financial statements basis (consolidated with Belgium, Atlanta Corporation)

2. Sales Performance Analysis (by Products)

Comparing to 1Q of year 2017, HCE achieved 44.4% sales growth
 Construction Equipment : 56.9%, Forklift : 3.7%, Parts 19.0%

Sales by Products

Unit : Billion KRW

	'18.1Q	'18.1Q		'17.4Q	'17.1Q
		QoQ	YoY		
CE	751	72.7%	56.9%	435	478
FL	120	12.3%	3.7%	107	116
Parts	60	22.8%	19.0%	49	50
Total	931	57.6%	44.4%	590	644

Analysis

CE
(56.9% ▲)

- **Med-Large Equipment Sales Growth by Infrastructure Projects increase in China and Emerging Market**

- China '18. 1Q : 2,536 units (YoY 106% growth), M/S 4.5%
- India '18. 1Q : 1,247 units (YoY 44% growth), M/S 18.9%
- Russia '18. 1Q : 298 units (YoY 71% growth)
- Asia '18. 1Q : 416 units (YoY 28% growth)

FL
(3.7% ▲)

- **Sales Growth in North America by Corporate Tax Reduction and Manufacture Business Boom**

Parts
(19.0% ▲)

- **Demand Increase according to sales growth of CE and FL**

3. Sales Performance Analysis (by Region)

Comparing to 1Q of year 2017, HCE achieved 29.2% sales growth
 Direct Export : 21.7%, Overseas Corp : 54.8%, Domestic : -13.7%

Sales by Region

Unit : Billion KRW

Category		'18.1Q		'17.4Q	'17.1Q	
		QoQ	YoY			
Direct Export	Russia/CIS	39	51.1%	29.5%	26	30
	Latin America	37	19.5%	91.6%	30	19
	Asia	41	42.1%	17.4%	29	35
	Oceania	22	38.9%	-16.8%	16	27
	CNHi	28	-1.1%	6.9%	28	26
	Others	118	16.2%	21.8%	102	97
	Sum	285	23.3%	21.7%	231	234
Overseas Corp	NA(Sales)	94	19.9%	10.0%	79	86
	Europe(Sales)	105	19.5%	17.4%	87	89
	China(Production)	242	147.9%	152.0%	98	96
	India (Production)	101	29.9%	27.6%	78	79
	Sum	542	58.7%	54.8%	342	350
Domestic		142	37.4%	-13.7%	104	165
*Others		2	-37.5%	-31.8%	2	2
**Total		971	43.0%	29.2%	679	751

Analysis

Direct Export

- Med/Large Equipment Sales Growth for Mining Industry, Resource Development along with the rebound in raw material prices and Civil Engineering Projects.

Overseas Corp

- Sales Growth in China and India as they raised large size infrastructure project investments.

Domestic

- Slow down of market growth caused by deduction of Government SOC budget.

* Others : CKD technology transfer fee and etc

**Total : Direct Exports + Overseas Corporations + Domestic (Simple Sum) / Not include the internal transaction.

4. Sales Record of Overseas Corporation (China, India)

(China) '18. 1Q : 2,563 units, M/S 4.5% (YoY : + 106%)

(India) '18. 1Q : 1,247 units, M/S 18.9% (YoY : + 44%)

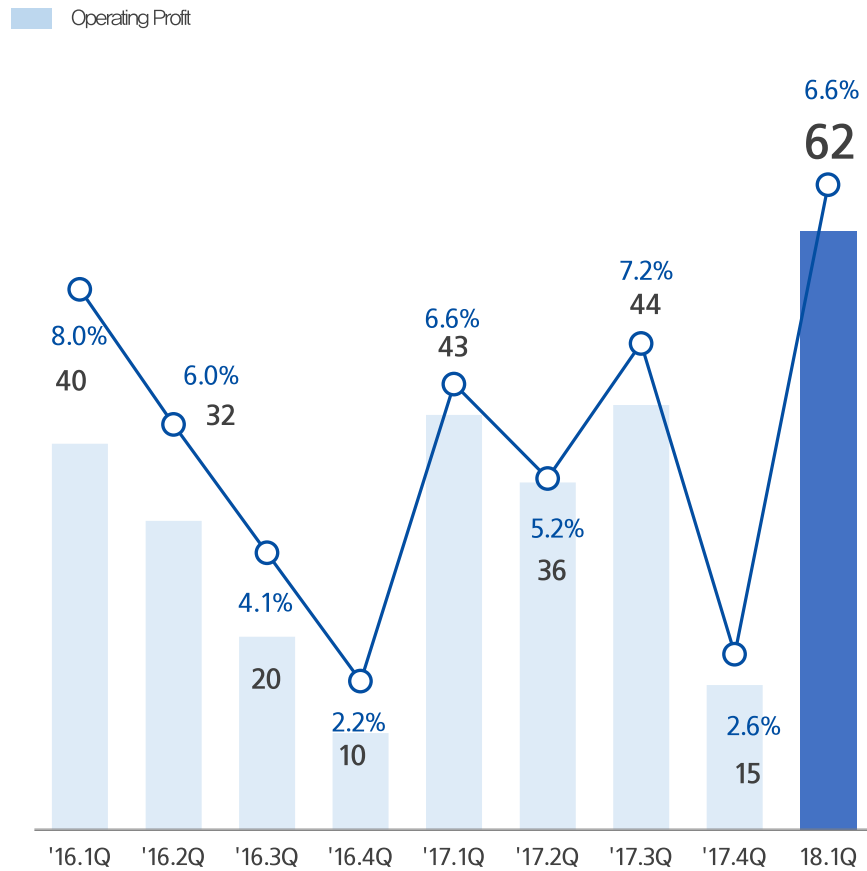
Unit : unit

		2018												2017											
		Jan			Feb			Mar			Jan			Feb			Mar								
		Market	Sales		M/S	Market	Sales		M/S	Market	Sales		M/S	Market	Sales		M/S	Market	Sales		M/S				
		yoy (%)	yoy (%)	yoy (%)		yoy (%)	yoy (%)	yoy (%)		yoy (%)	yoy (%)	yoy (%)		yoy (%)	yoy (%)	yoy (%)		yoy (%)							
China	HCE		541	275.7	5.7		666	33.2	6.9		1,329	125.6	3.6		144	3.6		500	3.6		589	2.9			
	Doosan	9,550	142	710	140.7	7.4	9,720	-30.2	1,018	-15.3	10.5	36,654	78.0	3,288	93.3	9.0	3,947	295	7.5	13,918	1,202	8.6	20,589	1,701	8.3
	SANY		1,813	131.0	19.0		1,933	-42.2	19.9		7,819	85.3	21.3		785	20		3,343	24		4,220	20.5			
*India	HCE		400	42.3	17.4		433	53.5	20.6		414	36.6	19.0		281	16.7		282	17.8		303	17.3			
	Hitachi	2,300	36.7	726	29.2	31.6	2,107	33	665	31.4	31.6	2,181	24.6	677	10.6	31.0	1,683	562	33.4	1,588	506	31.9	1,750	612	35.0
	Komatsu		343	48.5	14.9		247	5.6	11.7		300	13.2	13.8		231	13.7		234	14.7		265	15.1			

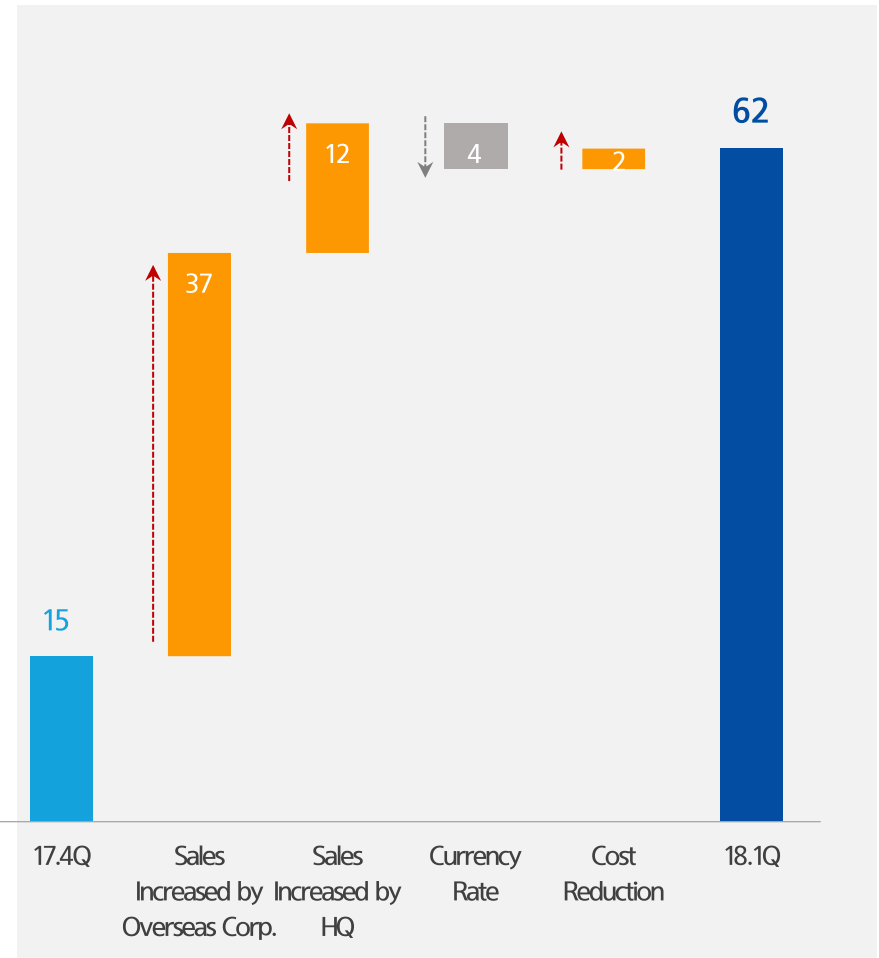
5. Operating Profit Analysis

Operating Profit

Unit : Billion KRW



Operating Profit Analysis



6. Consolidated Financial Statement

Consolidated Financial Statement

Unit : Billion KRW

	2018.03	2017.12	2017.04
Total Assets	2,803	2,229	1,830
Current Assets (accounts receivable and other bonds)	1,933 (748)	1,554 (426)	1,196 (408)
Cash and Cash Equivalents	170	426	296
Non-current Assets	870	675	634
Total Liabilities	1,293	1,058	1,068
Current Liabilities (accounts payable and others)	897 (427)	786 (279)	575 (218)
Non-current liabilities	396	272	493
Borrowings	721	674	767
Net borrowings	552	248	471
Total Equity	1,510	1,171	762

Analysis

	2018.03	2017.12
Current Ratio (Current Assets / Current Liabilities)	215%	198%
Debt Ratio (Total Liabilities / Total Assets)	85.6%	90.3%
Borrowing Ratio (Borrowings / Total Equity)	47.7%	57.5%

Chapter 4.

Market Outlook

1. Global Market Outlook
2. Regional Market Outlook



1. Global Market Outlook

Positive

- Advanced Market : Solid Growth
- Emerging Market : Growth Momentum Increase
- Construction Equipment Market is expected to be grown thanks for continuance for global economy recovery and raw material price increase.
- The demand for new equipment will increase from Large-scale investments plan for infrastructure in key countries including USA, China, India

(Unit : thousand units) :

	NA	China	India	Europe	Others	Total
2017	92	207	24	124	161	607
2018	103	234	28	124	163	653
Growth Rate	12.1%	16.8%	19.5%	0.7%	7.6%	10.1%

※ Excavator, Wheel Loader category basis / reference : Off-highway (2018.4)

Negative

- Global Economic Slowdown is concerned due to protectionism increase
- Trade War between U.S.A and China
- Exchange rate volatility increase due to geopolitical risk arise
- Korean market demand is expected to decrease due to gov budget cut for SOC and construction investment decrease.
- Raw material price sharp rise

2. Regional Market Outlook

Advanced Market

North America

- Expansion of Energy & Infrastructure investment by Trump Gov't
- Steady increase of investment is expected considering labor market improvement, favorable consumer confidence and etc.
- Protective trade policies could be risk in the market.

Europe

- Consumer expenditure and investment will increase thanks for improvement of employment situation and consumer confidence.
- Fiscal spending increase in Germany and Dutch will make favorable impact on future market growth.
- Uncertain risks still exist such as Brexit negotiation.

Emerging Market

Middle East / Africa

- Emerging market is expected to be increased slightly by oil price increase, fiscal expansion policy and steady growth in non-oil sector.
- Shale oil production increase and geopolitical issue remain as uncertain risk.
- Major market in Africa (Algeria, South Africa) will be on recovery.

Asia / Oceania / Russia

- Large excavator demand is expected to be increased in accordance with the recovery of mining industry.
- 'One Belt & One Road' of China is expected to be a positive sign for infrastructure investment in major Asian countries. (Vietnam, Myanmar, Pakistan)

China & India

China

- Chinese Gov't selected stable and qualitative economic growth as policy basis.
- Investment for infrastructure is expected to increase such as One Belt, One Road and Free Trade Port in Shanghai.
- Housing price will be rising in long term.

India

- The economic growth is to be kept at the solid rate level as 7%.
- Market demand is expected to increase due to the improvement of consumer consumption and expansion of fiscal spending.

Domestic

Domestic

- Construction equipment market is expected to be slow down resulting from Gov't SOC budget decrease.

Appendix.

Ownership Structure



Ownership Structure

